

Annual Report 2019

The Personal Bank in a Digital World 2.0



The Personal Bank in a Digital World

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

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Why invest in Spar Nord?



Strong financial performance

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



Ten years of growth

Spar Nord has experienced ten years of growth in both the retail and the business customer market. Customer volumes grew from 269,000 in 2010 to 391,000 in 2019, while credits arranged rose from DKK 78 billion to DKK 132 billion, and the total business volume from DKK 145 billion to DKK 270 billion. As a result, Spar Nord currently holds a market share of 4% of the total Danish market for bank and mortgage loans.



High customer satisfaction

Spar Nord enjoys a strong reputation and high customer satisfaction across customer segments. In a comparative analysis of the seven largest banks in Denmark, Spar Nord comes in at the top with respect to retail customers in the areas of reputation, competent advisory services and good overall service (Wilke 2019). In the business customer segment, Spar Nord was also given top marks by decision makers in small and mid-sized businesses (Aalund 2019).



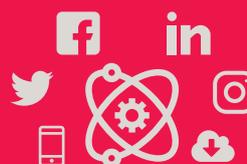
Strong credit quality

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



Strong capital position – preparing for IRB

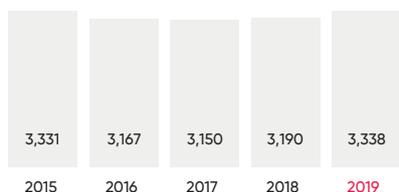
In recent years, Spar Nord has strengthened its capital position considerably. Our common equity tier 1 capital ratio has increased from 9.5% in 2010 to 14.6% in 2019 – primarily because the Bank's equity has grown from DKK 4.4 billion to DKK 8.9 billion. In order to ensure more optimum capital application, Spar Nord has launched a strategic project, which, over the course of four years, is to facilitate a transition from the standard method to internal ratings-based models (IRB).



Investing in digitalisation

Over the past few years, Spar Nord has invested substantial resources in new digital solutions – both in the form of direct customer-centric solutions, new tools for employees and systems to streamline production and compliance procedures.

Key results in 2019



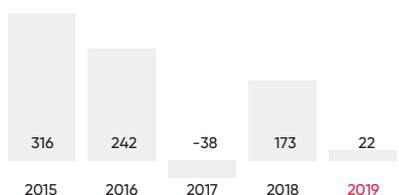
Core income

Spar Nord generated core income of DKK 3,338 million in 2019, which was an increase of DKK 148 million, or 5%, on 2018. Net interest income was DKK 1,573 million against DKK 1,548 million in 2018, net fee income was DKK 1,225 million against DKK 1,127 million, and market value adjustments and dividends were DKK 379 million against DKK 268 million in 2018.



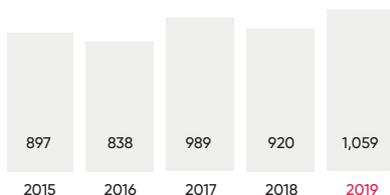
Costs and expenses

Spar Nord's total costs and expenses amounted to DKK 2,014 million in 2019 against DKK 1,924 million in 2018 – following a year in which payroll costs rose 6%, while other operating expenses increased by 3%.



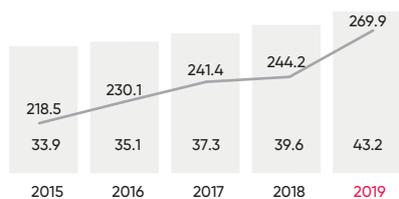
Loan impairments

Loan impairments amounted to DKK 22 million, against DKK 173 million in 2018, reflecting very robust credit quality and a strong ability among both retail and business customers to service a loan.



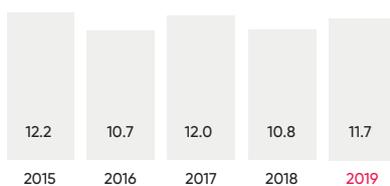
Profit/loss after tax

Spar Nord's profit before tax amounted to DKK 1,302 million in 2019 compared with DKK 1,094 million in 2018. Profit after tax was DKK 1,059 million, marking the first time ever that Spar Nord's earnings have exceeded one billion kroner.



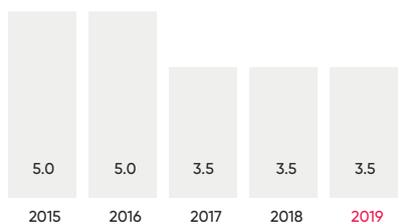
Growth in loans and business volume

Bank and leasing loans grew by 9% to DKK 43.2 billion, mortgage loans arranged rose 10% to DKK 88.6 billion, and the total business volume grew 11% to DKK 269.9 billion.



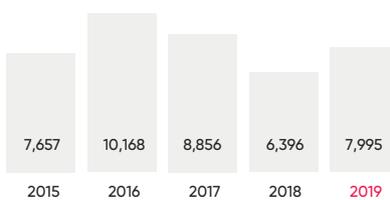
Return on equity

Return on equity after tax stood at 11.7% in 2019, up from 10.8% in 2018.



Dividend

The Board of Directors will recommend to the shareholders at the Annual General Meeting that a dividend of DKK 3.5 per share be distributed for 2019 – on a level with 2018.



Market capitalisation

Spar Nord's market capitalisation rose 25% in 2019 to DKK 8.0 billion at the end of the year.

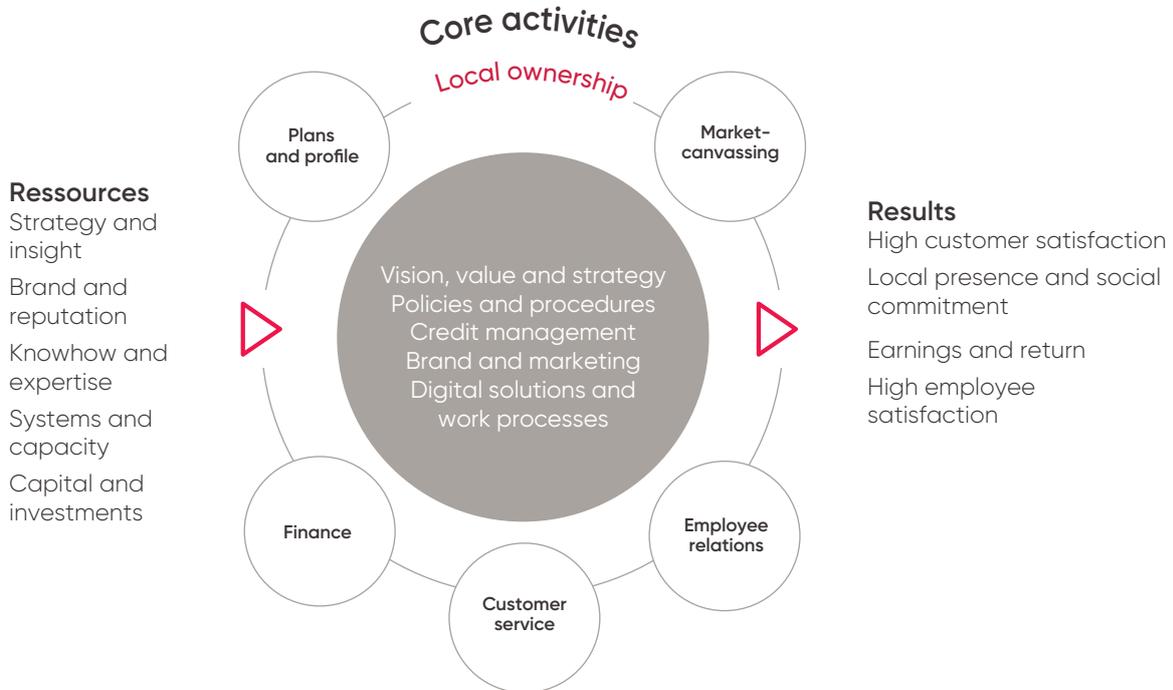


How we do business

Decentralised ownership and strong central support

The core driver of Spar Nord's business model is local commitment combined with strong central support. Spar Nord consists of local entities each with extensive decision-making powers in areas such as customer service, market canvassing and employee relations.

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



Letter to our shareholders

Dear shareholders

In prose and, not least, in numbers our annual report for 2019 tells a story of a highly satisfactory year for Spar Nord. Our core business developed favourably with strong volume growth and an exceptionally high level of activity, and our net profit of DKK 1,059 million and return on equity of 11.7% placed us among the top performers among Danish banks.

One of the principal explanations for our strong financial performance is that we managed in 2019 to maintain the satisfactory growth rates, we have continuously experienced for the past many years. As such, our lending and business volume outperformed the market again in 2019 with bank and leasing loans growing 9% and mortgage loans arranged rising 10%.

Lower for longer

A few years from now, 2019 will probably be remembered as the year when it became clear that the negative market interest rates in Denmark and the rest of Europe would not be a temporary but rather a longer-lasting phenomenon. Whereas many people started the year with expectations of rates moving higher in 2020 or 2021, most probably exited 2019 with an anticipation of "lower for longer".

As a result of the extreme interest rate setting, it has become the market standard in Denmark to charge negative interest rates on cash deposits by business customers and high-net-worth retail customers. It goes against everything we've learned about banking that you can in some cases get paid to borrow money, while you must pay money to deposit money, but this is the result of the monetary policies pursued in Europe right now.

On the part of the banks, the various deposit initiatives are an attempt at eliminating the imbalance created by the negative market rates. In popular terms, a bank which maintains a zero rate of deposit will lose DKK 7,500 for each DKK 1 million deposit we need to place. At Spar Nord, we have deposits totalling some DKK 53 billion, so we have to respond to this challenge.

A busy year for Spar Nord

On the lending side, 2019 was also to a large extent characterised by the extraordinary interest rate environment. In addition to the negative deposit rates, we will also remember 2019 for the 32,000 mortgage loans we helped our customers establish or remortgage. In other words, one can safely say that the low level of interest rates in the housing sector was positive for the customers, who were able to obtain attractive loans, and for the Bank, which experienced record-high activity-driven earnings.

The persistent decline in interest rates also resulted in fairly positive market value adjustments on our bond portfolio and not least in a very strong ability among both retail and business customers to service a loan. Looking at 2019 in isolation, low interest rates had more positive than negative consequences for our business and financial performance. Unfortunately, this will change when we look ahead towards 2020 and beyond – but we will revert to that shortly.

A good year for our shareholders

From a shareholder perspective, Spar Nord's performance in 2019 also forms a positive picture: A share price increase of 25% and a total return of 32% including dividend of DKK 3.5 per share. By comparison, the Danish banking index yielded a return of 15%, so Spar Nord was a very successful investment in 2019.

Moreover, we continued to generate results in 2019 that allow us to pay out decent dividends to our shareholders. On the basis of our results for 2019, the Board of Directors will recommend to the shareholders at the Annual General Meeting that a dividend of DKK 3.5 per share be distributed, equal to a payout ratio of 41% and a direct return of 5%.

First year as a SIFI bank – rating from Moody's

Speaking of capital requirements, 2019 was our first full year as a systemically important financial institution (SIFI) in Denmark. As expected, in a number of areas this changed our day-to-day operations and the basic conditions according to which we run our business. First and foremost, our new SIFI status resulted in increased awareness of our bank from the authorities and the general public. Fortunately, we were also given more market attention, and our SIFI status provided improved access to large corporate customers, including the public sector.

Being a SIFI bank, we face stricter capital buffer requirements, specifically the "minimum requirement for eligible liabilities", according to which, after a four-year phasing-in period, our total capital base must be at least 28%. To meet this requirement, in 2019 we began issuing MREL capital (Non-Preferred Senior). In the period 2019–21, our plan is to issue non-preferred senior debt to the tune of DKK 7 billion, and we were pleased to see that our first issuance went really well in terms of investor demand and the price we had to pay. The fact that we had been accorded a good rating from Moody's shortly before the issue undoubtedly supported the successful results.



IRB on the cards

In order to comply with the new capital requirements in the most expedient manner – and generally to be as competitive as possible – we launched a strategic project in 2018, which over the course of four years is to enable us to switch from the standard method to the so-called internal ratings-based (IRB) approach for calculating the risk weights of our loans. In other words, when we look at our financial performance and our return on equity of 11.7%, it is important to note that, being a “standard bank”, we currently hold more capital per krone lent than most of our peers.

New strategy plan and new targets

During 2019, the entire Spar Nord organisation was engaged in the efforts to prepare a strategy plan that will define our direction and overall priorities in the years ahead. Obviously, our new plan was defined to accommodate the major challenges that lie ahead in the form of persistently low interest rates, general top-line pressure and ever-growing IT and compliance costs. Fortunately, we had a strong outset from which to work with the new plan. We believe that we will have a robust foundation for our strategy and business model and that competent personal advisory services and good overall service will continue to be key to high customer satisfaction and, by extension, growing business volumes, also in the years ahead.

As described elsewhere in this annual report, we have therefore teamed up with our employees to define a plan for 2020-22, which involves maintaining our vision and overall strategic direction, further developing our important digitalisation projects by launching a number of new initiatives in our various product and advisory services areas, and not least placing emphasis on responsibility and sustainability.

With the new plan – in a highly challenging market – our goal is to be able to generate a return on equity of 7-9% after tax in the coming years. By doing so, we hope to be able to generate results that will put us among the top-performing banks in Denmark.

Kjeld Johannesen
Chairman

Lasse Nyby
CEO

Performance indicators and financial ratios – Group

Performance indicators

Income statement

DKKm	2019	2018	Change in %	2017	2016	2015
Net interest income *)	1,573	1,548	2	1,546	1,621	1,727
Net fee income	1,225	1,127	9	1,116	1,053	1,030
Market value adjustments and dividends	379	268	41	404	434	507
Other income	160	247	-35	83	59	66
Core income	3,338	3,190	5	3,150	3,167	3,331
Staff costs	1,218	1,152	6	1,165	1,142	1,098
Operating expenses	796	771	3	771	755	745
Costs and expenses	2,014	1,924	5	1,936	1,896	1,843
Core earnings before impairment	1,324	1,266	5	1,213	1,270	1,488
Impairment of loans, advances and receivables etc. *)	22	173	-87	-38	242	316
Core earnings	1,302	1,094	19	1,251	1,028	1,172
Contributions to sector-wide solutions	-	-	-	-	-	-99
Profit/loss before tax	1,302	1,094	19	1,251	1,028	1,074
Tax	243	174	40	262	190	177
Profit/loss for the year	1,059	920	15	989	838	897
Interest expenses to holders of additional tier 1 (AT1) capital	49	49	0	49	26	14

Balance sheet

DKKm	2019	2018	Change in %	2017	2016	2015
Total assets	93,113	82,793	12	80,367	78,473	76,357
Loans and advances	51,312	44,330	16	46,747	41,346	38,039
Lending, banking and leasing activities	43,157	39,551	9	37,272	35,092	33,884
Lending, reverse repo transactions	8,155	4,779	71	9,475	6,253	4,155
Deposits	70,602	65,545	8	64,266	61,006	58,116
Deposits, banking activities	53,279	50,773	5	48,668	46,464	44,366
Deposits, repo transactions	0	0	-	175	0	370
Deposits in pooled schemes	17,323	14,772	17	15,423	14,541	13,380
Issued bonds	2,637	0	-	0	0	0
Subordinated debt	1,322	1,332	-1	1,144	1,093	1,089
Additional tier 1 (AT1) capital	860	861	0	861	862	412
Shareholders' equity	8,901	8,380	6	8,114	7,765	7,475
Guarantees	14,766	12,092	22	11,961	12,334	9,585
Total risk exposure amount	55,963	53,858	4	49,546	47,486	46,500
Tier 1 capital	9,032	8,387	8	7,924	7,428	6,946
Impairment account and discount on commitments taken over **)	1,503	1,945	-23	1,616	1,994	1,998
Contractual interest-suspended loans	303	476	-36	341	443	514
Business volume	269,948	244,159	11	241,393	230,114	218,457

*) In the core earnings format in 2017 and earlier years, an amount was reclassified between the items Net interest income and Loan impairments, etc., which relates to the share of the discount, recognised as income, on commitments taken over.

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

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

Financial performance – core earnings

Financial ratios

Own funds		2019	2018	2017	2016	2015
Own funds ratio		18.5	18.0	18.2	17.7	17.0
Tier 1 capital ratio		16.1	15.6	16.0	15.6	14.9
Common equity tier 1 capital ratio		14.6	14.0	14.4	14.0	14.4
Earnings						
Return on equity before tax excl. additional tier 1 (AT1) capital *)	%	14.5	12.8	15.1	13.2	14.6
Return on equity after tax excl. additional tier 1 (AT1) capital *)	%	11.7	10.8	12.0	10.7	12.2
Cost share of core income	DKK	0.60	0.60	0.61	0.60	0.55
Cost share of core income - incl. loan impairments, etc.	DKK	0.61	0.66	0.60	0.68	0.65
Return on assets	%	1.1	1.1	1.2	1.1	1.2
Market risk and liquidity						
Interest rate risk	%	0.6	0.2	0.7	1.2	1.8
Foreign exchange position	%	1.0	1.4	3.3	3.2	3.4
Foreign exchange risk	%	0.1	0.1	0.1	0.1	0.1
Liquidity Coverage Ratio (LCR)	%	195	174	187	171	145
Bank and leasing loans relative to bank deposits	%	81.0	77.9	76.6	75.5	76.4
Credit risk						
Bank and leasing loans relative to shareholders' equity		4.8	4.7	4.6	4.5	4.5
Increase in loans and advances for the year	%	9.1	6.7	6.2	3.6	-4.5
Sum of large exposures **)	%	83.6	79.2	17.2	14.5	16.1
Impairment ratio		0.0	0.3	-0.1	0.4	0.6
Employees and branches						
Number of employees (full-time equivalents, end of period)		1,549	1,518	1,538	1,540	1,538
Number of branches		49	49	50	58	70
Spar Nord share						
DKK per share of DKK 10						
Share price, end of period		65	52	72	81	61
Net asset value (NAV) *)		72	68	66	63	60
Profit/loss for the year *)		8.2	7.2	7.8	6.6	7.1
Dividend	DKK	3.5	3.5	3.5	5.0	3.0
Extraordinary dividend	DKK	-	-	-	-	2.0
Return	%	32	-23	-5	38	11
Price/earnings *)		8	7	9	12	9

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

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

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

The Danish FSA's layout and ratio system is shown in note 6.11 to the consolidated financial statements.

A definition of financial ratios is provided in note 6.11.1 to the consolidated financial statements.

Performance indicators and financial ratios – Group

Performance indicators

Income statement

DKKm	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4
Net interest income	396	402	397	378	390
Net fee income	290	315	304	317	271
Market value adjustments and dividends	67	86	108	118	8
Other income	25	70	24	42	27
Core income	779	873	833	854	695
Staff costs	324	281	306	306	311
Operating expenses	215	185	184	212	195
Costs and expenses	539	466	491	518	506
Core earnings before impairment	239	407	342	336	189
Impairment of loans, advances and receivables etc.	12	9	-9	10	106
Profit/loss before tax	227	397	351	326	83
Tax	44	67	69	63	12
Profit/loss	182	331	283	263	71
Interest expenses to holders of additional tier 1 (AT1) capital	12	12	12	12	12

Balance sheet

DKKm					
Total assets	93.113	94.151	89.354	87.701	82.793
Loans and advances	51.312	48.982	47.023	45.249	44.330
Lending, banking and leasing activities	43.157	42.514	42.096	40.566	39.551
Lending, reverse repo transactions	8.155	6.468	4.928	4.683	4.779
Deposits	70.602	69.239	68.722	66.648	65.545
Deposits, banking activities	53.279	52.874	52.696	50.959	50.773
Deposits, repo transactions	0	0	201	37	0
Deposits in pooled schemes	17.323	16.365	15.825	15.652	14.772
Issued bonds	2.637	-	-	-	-
Subordinated debt	1.322	1.311	1.320	1.327	1.332
Additional tier 1 (AT1) capital	860	874	862	874	861
Shareholders' equity	8.901	8.743	8.424	8.625	8.380
Guarantees	14.766	16.070	13.867	12.421	12.092
Total risk exposure amount	55.963	57.157	56.152	54.543	53.858
Tier 1 capital	9.032	8.787	8.615	8.606	8.387
Impairment account	1.503	1.525	1.824	1.883	1.945
Contractual interest-suspended loans	303	337	528	521	476
Business volume	269.948	264.242	257.780	250.245	244.159

In accordance with the accounting policies, the comparative figures have not been restated in connection with the implementation of IFRS 16 on leases at 1 January 2019.

Financial performance – core earnings, quarterly

Financial ratios

		2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4
Own funds						
Own funds ratio		18,5	17,6	17,6	18,2	18,0
Tier 1 capital ratio		16,1	15,4	15,3	15,8	15,6
Common equity tier 1 capital ratio		14,6	13,9	13,8	14,2	14,0
Earnings						
Return on equity before tax excl. additional tier 1 (AT1) capital for the year *)	%	9,9	18,0	16,2	14,8	3,6
Return on equity after tax excl. additional tier 1 (AT1) capital for the year *)	%	7,9	14,9	12,9	11,8	3,2
Cost share of core income	DKK	0,69	0,53	0,59	0,61	0,73
Cost share of core income - incl. loan impairments, etc.	DKK	0,71	0,54	0,58	0,62	0,88
Return on assets	%	0,2	0,4	0,3	0,3	0,1
Market risk and liquidity						
Interest rate risk	%	0,6	0,3	1,0	1,0	0,2
Foreign exchange position	%	1,0	1,1	1,1	1,3	1,4
Foreign exchange risk	%	0,1	0,1	0,1	0,1	0,1
Liquidity Coverage Ratio (LCR)	%	195	159	137	160	174
Bank and leasing loans relative to bank deposits	%	81,0	80,4	79,9	79,6	77,9
Credit risk						
Bank and leasing loans relative to shareholders' equity		4,8	4,9	5,0	4,7	4,7
Increase in loans and advances for the year	%	1,5	1,0	3,8	2,6	1,0
Sum of large exposures	%	83,6	82,0	84,6	76,1	79,2
Impairment ratio		0,0	0,0	0,0	0,0	0,2
Employees and branches						
Number of employees (full-time equivalents, end of period)		1.549	1.539	1.534	1.531	1.518
Number of branches		49	49	49	49	49
Spar Nord share						
DKK per share of DKK 10						
Share price, end of period		65	62	58	58	52
Net asset value (NAV) *)		72	71	69	70	68
Profit/loss for the year *)		5,5	10,4	8,8	8,2	2,0

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

In accordance with the accounting policies, the comparative figures have not been restated in connection with the implementation of IFRS 16 on leases at 1 January 2019.

Results in 2019

Spar Nord achieved a net profit of DKK 1,059 million in 2019, which corresponds to an annualised return on equity of 11.7%. The profit was DKK 139 million, or 15%, higher than in 2018 and is considered by management to be highly satisfactory.

Income

Core income amounted to DKK 3,338 million, which was 5% higher than in 2018.

Net interest income was DKK 1,573 million in 2019, against DKK 1,548 million in 2018. Compared with 2018, interest income from loans to customers was DKK 37 million lower, while interest expenses from deposits were reduced by DKK 46 million. Interest income from bonds etc. was DKK 16 million higher than in 2018, while interest expenses for issuing bonds and subordinated debt were DKK 6 million lower.

Net interest income was favourably affected by continued growth in lending volumes with bank and leasing loans being DKK 3.6 billion (9%) higher at end-2019 than at end-2018. A continuing drop in the interest rate margin detracted from performance. From the end of 2018 to the end of 2019, the overall interest margin was thus reduced by 24 basis points, covering a fall in the lending margin of 37 basis points, which was partly offset by a fall in the deposit margin of 13 basis points. The pressure on lending margins was driven by a combination of product mix effects (stronger growth in lower-margin products) and generally mounting competition.

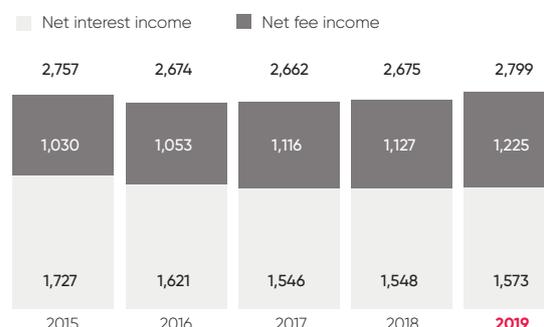
Net fee income was DKK 1,225 million in 2019, against DKK 1,127 million in 2018. Net fee income thus accounted for 44% of total net interest and fee income in 2019 (2018: 42%).

The highly satisfactory increase in net fee income was predominantly attributable to an exceptionally high level of activity in the mortgage credit area, including a high level of remortgaging activity. The effect of the large number of new loans and strong remortgaging activity was approximately DKK 130 million. Also adding to performance were positive developments in a number of other fee types (insurance, pension, etc.) driven by Spar Nord's consistently growing market share. Detracting from performance was a reduction in income from pension pools and unit trusts due to lower prices.

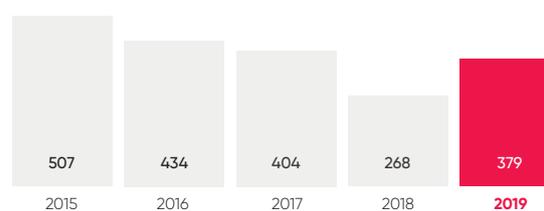
In 2019, Spar Nord changed its accounting for fees, charges and commissions received to the effect that a greater share of the Bank's loan transaction fees are now amortised. The change reduced net interest income for the year by DKK 21 million and increased net fee income for the year by DKK -25 million.

Market value adjustments and dividends totalled DKK 379 million in 2019, against DKK 268 million in 2018.

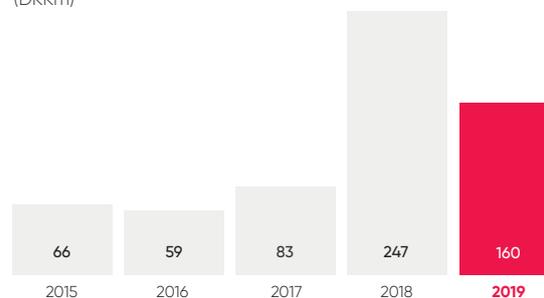
Net interest income and net fee income (DKKm)



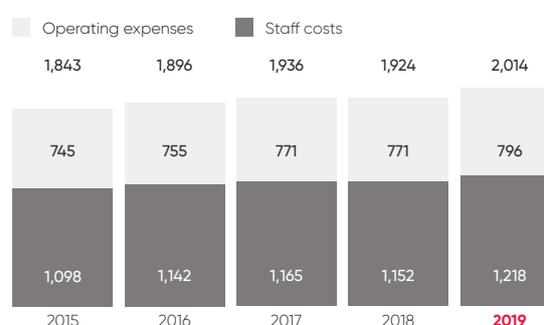
Market value adjustments and dividends (DKKm)



Other income (DKKm)



Total costs (DKKm)



The increase in market value adjustments is a reflection of very positive developments in the Bank's bond portfolio, which owing to falling interest rates and contracting credit spreads contributed income which was DKK 90 million higher than in 2018. In addition, 2019 was another year of positive equity market trends.

Financial review

Moreover, realised market value adjustments should be seen in the light of major positive adjustments in 2018 of Spar Nord's stake in BI Holding A/S (DKK 82 million).

Other income amounted to DKK 160 million, against DKK 247 million in 2018.

In 2019, the Bank recorded decent income from its stake in Danske Andelskassers Bank, including its share of the gain Danske Andelskassers Bank achieved from the sale of Sparinvest (DKK 51 million). Nevertheless, other income was DKK 86 million lower than last year mainly because of a non-recurring income in 2018 relating to the divestment of Value-invest Asset Management SA.

Costs and expenses

The Group's total costs and expenses amounted to DKK 2,014 million, against DKK 1,924 million in 2018.

Wages and salaries accounted for DKK 1,218 million of total costs and expenses, which means that realised payroll costs were DKK 65 million higher than in 2018. The increase was due to a combination of pay rises under collective agreements and the lack of positive one-off items that characterised payroll costs in 2018. Also, the strong remortgaging activity caused an increase in cost for overtime pay, and more employees were recruited for areas like IRB, compliance and AML.

At 31 December 2019, Spar Nord employed 1,549 people (FTE), which is 31 more than at end-2018.

Other operating expenses came to DKK 796 million, which is DKK 25 million higher than in 2018. Operating expenses were adversely affected by costs incurred early in the year for preparing the bid for Danske Andelskassers Bank and by costs incurred in Q4 relating to the implementation of a new strategy plan. On a positive note, operating expenses across cost types were generally slightly lower than anticipated.

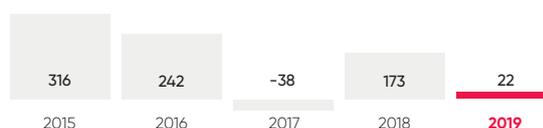
The realised core income and costs corresponded to a Cost/Income Ratio of 0.60, which is consistent with Spar Nord's strategic target.

Loan impairments

Loan impairments etc. was an expense of DKK 22 million, against an expense of DKK 173 million in 2018.

The DKK 22 million impact on profits breaks down into DKK 30 million attributable to business customers ex. agricultural customers, DKK -59 million to agricultural customers, DKK -5 million to retail customers and DKK 56 million to customers in the SparXpres consumer loan business. Of the latter amount, DKK 27 million was ascribable to write-off of all debt collection claims older than 18 months.

Impairments (DKKm)



NPL ratio developments

	2019	2018
NPL (DKKm)	2,004	3,300
Exposure (DKKm)	54,079	47,354
NPL ratio	3.7	7.0

In Q3 2019, Spar Nord performed a review of all loan exposures subject to individual impairment in order to ensure a better categorisation of exposures according to the stages set out in IFRS 9.

As a result of this process, a substantial number of stage 3 loans were recategorised to stage 2 or stage 1, while some loans were written off. Non-Performing Loans were reduced by a total of approximately DKK 1 billion. At the end of the year, the share of Non-Performing Loans (NPL ratio) at Spar Nord was 3.7%.

Over the course of the year, the Bank increased management estimates of impairment by DKK 263 million to DKK 303 million. The increase in management estimates primarily relates to a reduction of agricultural land values and model uncertainty.

The Group's loans, advances and guarantees *)

Breakdown by industry Line of business %	Loans, advances and guarantees		Impairment account	
	31.12.19	31.12.18	31.12.19	31.12.18
Public authorities	2.0	0.1	0.0	0.0
Agriculture, hunting and forestry	4.7	5.5	27.1	30.6
Fisheries	0.2	0.2	0.1	0.1
Industry and raw materials extraction	5.0	5.2	5.1	4.5
Energy supply	2.8	2.7	0.9	1.1
Building and construction	4.3	4.9	3.0	4.5
Trade	7.0	7.4	5.6	6.8
Transport, hotels and restaurants	4.4	4.0	5.8	5.4
Information and communication	0.5	0.4	0.6	0.3
Financing and insurance	5.7	6.4	4.7	6.1
Real estate	12.3	11.2	11.5	10.2
Other business areas	6.3	6.6	10.6	6.0
Business customers, total	53.2	54.8	74.7	75.6
Retail customers, total	44.8	45.1	25.3	24.4
Total	100.0	100.0	100.0	100.0

*) Excl. reverse repo transactions

Q4 2019 relative to Q3 2019

Spar Nord recorded a net profit of DKK 182 million in Q4 2019, against DKK 331 million in Q3 2019.

Net interest income amounted to DKK 396 million in Q4 2019, against DKK 402 million in Q3. The developments reflect a DKK 8 million decline in interest income on loans in from Q3 to Q4 despite a higher volume, while interest income on deposits was DKK 5 million higher in Q4 than in Q3. Lastly, income from reverse repo transactions was DKK 6 million lower in Q4.

Net fee income amounted to DKK 290 million, which was DKK 25 million lower than in the preceding quarter. The decline was especially due to slowing loan remortgaging activity in Q4, while there was an increase in income from securities trading and asset management.

Market value adjustments and dividends amounted to DKK 67 million, down from DKK 86 million in Q3. The decline was attributable to lower market value adjustments of the Bank's bond portfolio, while market value adjustments of equities were higher in Q4 than in Q3.

Total costs and expenses amounted to DKK 539 million, which was DKK 73 million higher than in the preceding quarter. Payroll costs were DKK 324 million, against DKK 281 million in Q3, attributable in particular to accrual of holiday pay obligations. Operating expenses amounted to DKK 215 million, against DKK 185 million in Q3, driven by costs of rating, projects and the implementation of a new strategy plan.

Loan impairments etc. in Q4 were an expense of DKK 12 million, against an expense of DKK 9 million in Q3.

Stage 3 impairments at 31 December 2019 were DKK 1,083 million (year-end 2018: DKK 1,531 million), while stage 1 and 2 impairments totalled DKK 420 million (year-end 2018: DKK 414 million).

Profit/loss for the year

The profit for the year before tax amounted to DKK 1,302 million compared with last year's DKK 1,094 million. The Group's effective tax rate was 19%, bringing the net profit to DKK 1,059 million, against DKK 920 million in 2018. For the first time ever, Spar Nord thus recorded a net profit of more than DKK 1.0 billion.

Business volume

DKKbn	2019	2018	2017	2016	2015
Lending, banking and leasing activities	43.2	39.6	37.3	35.1	33.9
Deposits banking activities	53.3	50.8	48.7	46.5	44.4
Deposits in pooled schemes	17.3	14.8	15.4	14.5	13.4
Guarantees	14.8	12.1	12.0	12.3	9.6
Loans and advances, mortgage loans	88.6	80.9	77.2	73.6	69.2
Custodianship accounts	52.8	46.1	50.9	48.1	48.0
Total business volume	269.9	244.2	241.4	230.1	218.5

Business volume

The Group's total business volume (deposits, loans, advances and guarantees, mortgage loans arranged and customers' custodianship accounts) amounted to DKK 269.9 billion at 31 December 2019, which was DKK 25.8 billion higher than at end-2018.

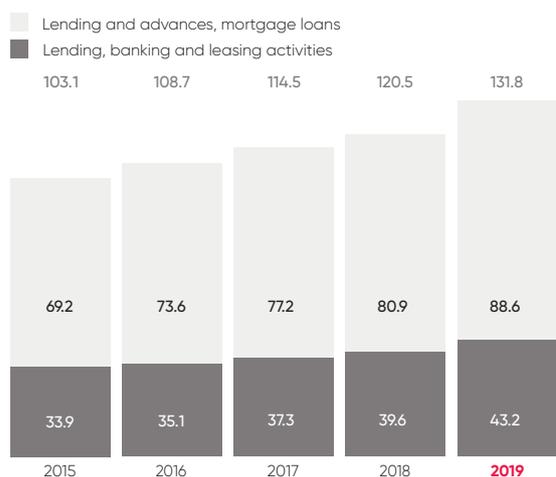
In 2019, the Bank recorded an increase in bank and leasing loans of DKK 3.6 billion, or 9%, to DKK 43.2 billion. Of the increase, DKK 2.5 billion was attributable to business customers, of which DKK 1.2 billion was for public-sector customers. Leasing loans grew DKK 0.9 billion, and loans to retail customers increased by DKK 0.2 billion.

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

During 2019, the volume of mortgage-credit loans arranged grew by DKK 7.8 billion to DKK 88.6 billion, equal to 10%. In total, the volume of mortgage loans arranged amounted to DKK 77.1 billion from Totalkredit and DKK 11.5 billion from DLR Kredit. The volume of loans arranged from Totalkredit makes Spar Nord the largest single distributor in the Totalkredit collaboration with a share of some 10% of total volume of loans arranged.

Deposits, banking activities increased during the year by DKK 2.5 billion, or 5%, to DKK 53.3 billion, resulting in a market share for Spar Nord in Denmark of 4%.

Total credits arranged (DKKbn)



Financial review

Deposits in pooled schemes rose by DKK 2.6 billion, or 17%, to DKK 17.3 billion, while customers' custodianship accounts rose by DKK 6.7 billion, or 14%, to DKK 52.8 billion.

As a result of developments in deposit and lending volumes, the loan-to-deposit ratio at end-2019 stood at 81.

Capital position

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

	2019	2018	2017	2016	2015
Common equity tier 1 capital ratio	14.6	14.0	14.4	14.0	14.4
Tier 1 capital ratio	16.1	15.6	16.0	15.6	14.9
Own funds ratio	18.5	18.0	18.2	17.7	17.0

At 31 December 2019, the common equity tier 1 (CET1) ratio was 14.6%, while the own funds ratio was 18.5%. This should be viewed relative to the individual solvency need calculated by Spar Nord at 9.5% plus the 4.0% combined buffer requirement, bringing the total capital requirement to 13.5%. Thus, at end-2019 Spar Nord has an excess capital coverage of 5.0 percentage points, equal to DKK 2.8 billion.

As a newly designated SIFI institution, Spar Nord must comply with the same requirements regarding eligible liabilities (MREL requirements) as other SIFIs. For Spar Nord, the requirements will be phased in from the beginning of 2019 to the beginning of 2022, and when they are fully phased in, Spar Nord will be required to have total capital of about 28% of the total risk exposure amount (REA).

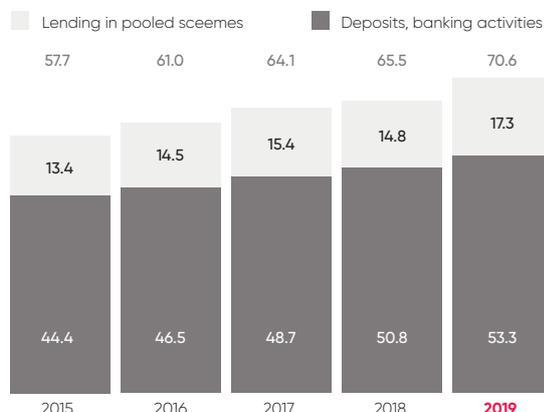
Over the coming years, the phasing in of the new requirements is expected to lead to a need for issuing MREL capital (senior non-preferred) to the tune of DKK 7 billion. The first issue took place in November 2019 for an amount of DKK 2.6 billion, and efforts will be made to ensure an even distribution of issues during the period until the MREL requirements have been fully phased-in. The requirements defined by the Danish FSA are 19.5% at 1 January 2020 and 27.9% at 1 January 2022.

In Q4, Moody's announced that the rating agency has started to rate Spar Nord, assigning a Base-line credit assessment of baa 1, a Banking deposit rating of A1/P-1 with a stable outlook. Spar Nord's first issue of Senior Non-Preferred was assigned an A3 rating by Moody's.

Liquidity

Spar Nord has defined strategic liquidity as the difference between bank and leasing loans and the long-term funding (bank deposits, senior loans, issued bonds, subordinated debt and equity).

Total deposits (DKKbn)



Calibrated MREL requirement

%	01.01.20	01.01.22
Solvency ratio	9.5	9.5
Capital conservation buffer requirement	2.5	2.5
SIFI buffer requirement	0.5	1.0
Countercyclical buffer requirement	1.0	2.0
Requirement for loss-absorption amount	13.5	15.0
Requirement for recapitalisation amount	6.1	13.0
Total MREL requirement	19.6	28.0

Excess coverage calibrated MREL requirement

DKKbn	01.01.20
Own funds	10,295
Non-preferred senior capital	2,620
Other non-MREL-eligible liabilities	0
Total MREL-eligible liabilities	12,915
MREL capital ratio	23.1
MREL requirement in %-points	19.6
MREL requirement	10,974
Excess coverage	1,941
Excess coverage in percentage points	3.5

Strategic liquidity *)

(DKKbn)	2019	2018	2017	2016	2015
Deposits, banking activities	53.3	50.8	48.7	46.5	44.4
Senior loans/bond issues	2.6	0.0	0.0	0.0	0.0
Equity and subordinated debt	11.1	10.6	10.1	9.7	9.0
Liquidity procurement	67.0	61.3	58.8	56.2	53.4
Lending, banking and leasing activities	43.2	39.6	37.3	35.1	33.9
Maturity, senior issued bonds, subordinated debt and additional tier 1 capital <1 year	0.4	0.0	0.7	0.4	0.0
Strategic liquidity, total	23.4	21.8	20.8	20.7	19.5

*) See note 5.3.2

Financial review

Subordinated debt, additional tier 1 capital, senior loans and issued bonds falling due within 12 months do not form a part of the Bank's strategic liquidity.

At the end of 2019, Spar Nord's strategic liquidity amounted to DKK 23.4 billion, up DKK 1.6 billion on end-2018. The increase was due primarily to an increase in deposits and issuance of bonds (MREL capital).

Spar Nord's LCR ratio at 31 December 2019 was 195.

Danske Andelskassers Bank

In the period from September 2018 to March 2019, Spar Nord acquired approximately 33% of the shares in Danske Andelskassers Bank ("DAB"). In March 2019, Spar Nord announced that it would pay up to DKK 9.00 per share for the remaining shares with a view to carrying out a merger. However, the board of directors of DAB opted not to consider this offer and instead to carry out a directed issue of shares at a price of DKK 8.30, which reduced Spar Nord's ownership interest to approximately 27%, and through additional share purchases this stake was increased to 28.5% at end-2019.

The stake in DAB added DKK 104 million to Spar Nord's core income in 2019 – DKK 37 million which is Spar Nord's share of DAB's expected net profit, DKK 51 million which is Spar Nord's share of DAB's gain from the sale of Sparinvest, and DKK 16 million which is a direct effect of the above-mentioned issue. Spar Nord has recognised the value of DAB shares at end-2019 at DKK 408 million.

The Supervisory Authority Diamond Test Model

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

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

In 2019, Spar Nord was comfortably within all the reference points, achieving the values shown below:

The Supervisory Authority Diamond Test Model		Threshold values	2019	2018
Sum of large exposures	%	<175	83.6	79.2
Growth in lending	%	<20	9.1	6.7
Property exposure	%	<25	11.5	11.7
Funding ratio		<1	0.5	0.5
Liquidity benchmark	%	>100	204	184

Outlook for 2020

Spar Nord expects socio-economic conditions in 2020 to be the same as those prevailing in 2019. Growth and demand for funding are expected to remain subdued, but owing to continuing growth in market share, Spar Nord expects to be able to generate growth in lending and business volumes above the sector average.

On the basis of expected growth in lending volumes combined with an expectedly reduced pressure on the overall interest margin, among other things due to already completed deposit initiatives, Spar Nord expects to generate a small improvement in net interest income.

With respect to fee income, Spar Nord does not expect to be able to maintain the record-high level of 2019. The primary reason is that the unusually high remortgaging activity witnessed in 2019 is not expected to continue and that many customers opted to remortgage to loans that generate lower regular earnings to the Bank than their previous loans did. On a positive note, the lower interest rates may prompt more customers to place their funds in various types of asset management products instead of in a deposit account.

Market value adjustments are expected to be substantially lower than in 2019 primarily because the high market value adjustments on the Bank's bond portfolio are not expected to be repeated in a year of consistently low interest rates. Moreover, equity market performances are expected to be somewhat less positive than in 2019.

Payroll costs are expected to rise due to pay rises under collective agreements. In addition, more resources will generally be required for the compliance area, but for the Group as a whole, the headcount is expected to stay unchanged.

Operating expenses will be marked by rising IT costs, while the Bank expects a small decline in other costs.

Overall, the above factors lead the Bank to project core earnings before impairment in the DKK 900 – 1,100 million range. Loan impairment charges are expected to be higher than in 2019, albeit still at a low level, and profit after tax is subsequently expected to be in the range of DKK 625–825 million.

Strategy plan 2020-22



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

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

The strategic direction evolved into a concrete plan for the years 2017-19 alongside three Must Win Battles and a number of strategic initiatives which were to ensure, among other things, a return on equity of 9-11% and a cost ratio of 60.

Today, three years later, many of the efforts that were a part of the 2017-19 plan have proven to be a success. Initiatives like The Good Customer Meeting and the Good Banking Experience have been successfully implemented and made a positive contribution to customer satisfaction levels and

customer inflows. Spar Nord has achieved decent growth in the business customer segment, and for three years in a row we have had the most satisfied business customers among the large banks (source: Aalund Research). Lastly, Spar Nord has positioned itself among the best banks in Denmark for high-net-worth customers (source: Prospera), creating a strong industry reputation as a pioneer in digital innovation.

Our financial performance was also satisfactory in the 2017-19 strategy period as Spar Nord ranked highly in a peer-group comparison in terms of growth in business volume, return on equity and cost efficiency. Spar Nord has won market share and been designated a systemically important financial institutions in Denmark. Summing up, management believes that THE PERSONAL BANK IN A DIGITAL WORLD has been a success over the past three years and that Spar Nord is well prepared to face coming years' challenges.



New strategy plan 2020-22

In 2019, the entire Spar Nord organisation was engaged in defining a new strategy plan, which will apply for 2020-22, and which is in many ways a natural continuation of the 2017-19 plan. The vision is still to become DENMARK'S MOST PERSONAL BANK, and the business model focusing on extensive decentralised ownership and on operating a retail bank with a combination of brick-and-mortar branches and digital services remains unchanged. Also, a number of the trends in the basic analysis of the market and the world around us are unchanged.

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

Four current themes

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

Theme 1 Weak growth and low interest rates

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

Theme 2 Digitalisation

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

Theme 3 Legislation and regulation

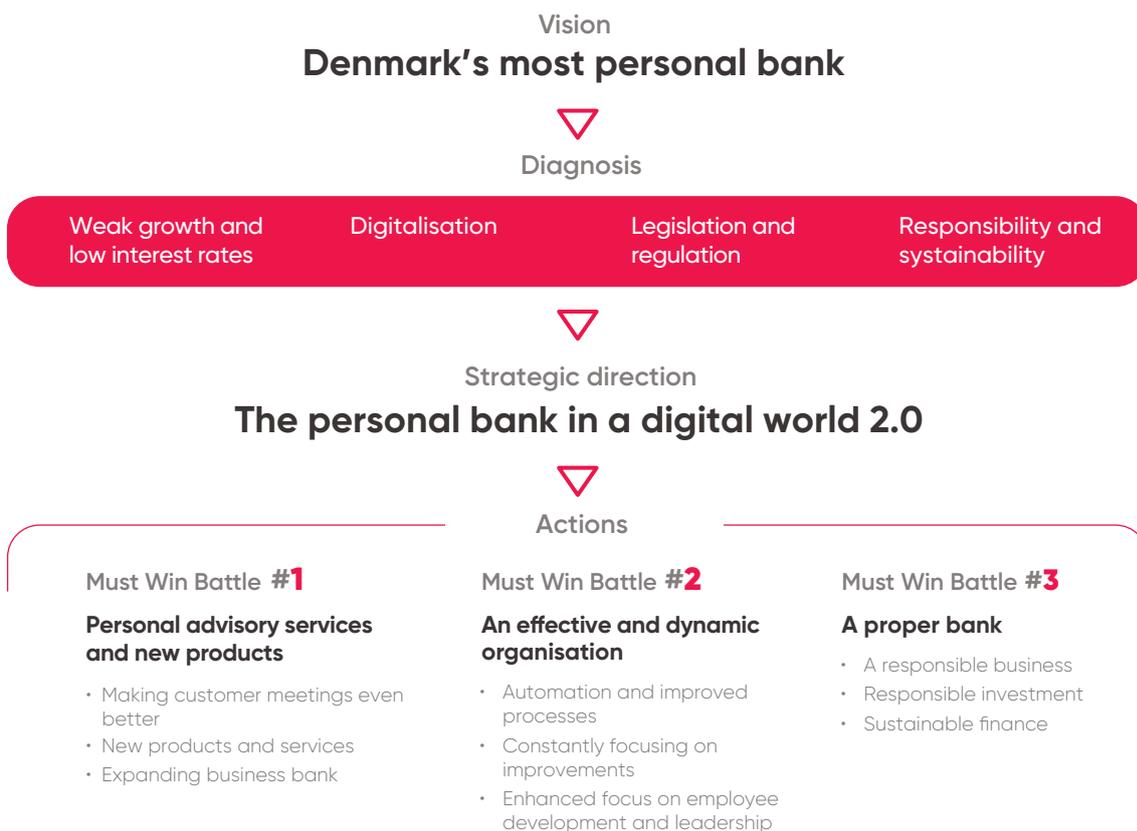
In recent years, a deluge of new rules and standards has flooded the banking sector. These regulatory measures call for many development and implementation resources, thus adding additional pressure on earnings at Spar Nord and other banks.

Theme 4 Responsibility and sustainability

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

Three Must Win Battles

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



MWB #1

Personal advisory services and new products

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

The most important initiatives are:

Making customer meetings even better

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

New products and services

In order to ensure up-to-date and relevant product offerings to the Bank's defined core target groups, Spar Nord will soon be launching a number of new products and solutions in areas such as wealth management, inheritance and wills, digital banking and cards and payments.

Expanding business bank

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

MWB #2

An effective and dynamic organisation

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

The most important initiatives are:

Automation and improved processes

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

Constantly focusing on improvements

Efforts will regularly be made to identify and realise efficiency enhancements in the Bank, including by setting up an entity with dedicated process and development resources to implement large and small everyday improvements.

Enhanced focus on employee development and leadership

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

MWB #3

A proper bank

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

The most important initiatives are:

A responsible business

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

Responsible investment

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

Sustainable finance

Under the "sustainable funding" heading, Spar Nord will regularly launch new products which, in addition to meeting customers' funding requirements, also address the challenges of our planet. Examples of such products include car loans which compensate for a car's climate footprint and loan pools for energy-efficient housing improvements, etc.

Strategic targets 2020-22

Return on equity

7-9%

after tax

Cost/Income Ratio

65

Dividend

30-50%

of profit for the year



Investor relations

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

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

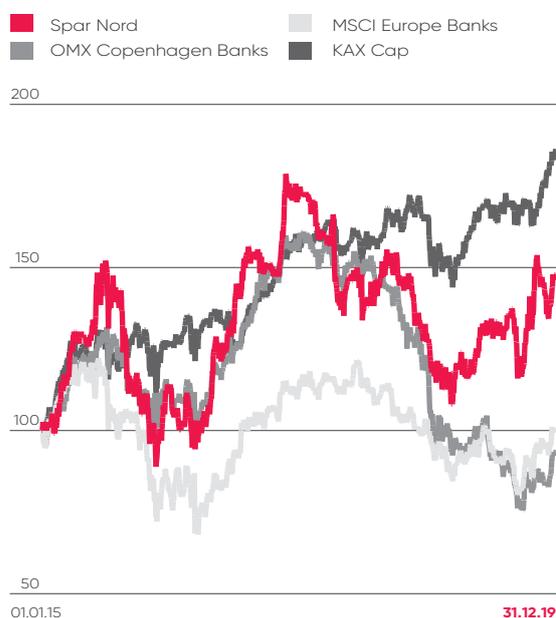
In 2019, analysts from six investment banks were covering the Spar Nord share (ABG Sundal Collier, Carnegie, Danske Bank, Handelsbanken, Nordea and SEB).

Spar Nord share

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

Price developments for the Spar Nord share 2015–2019

Index-linked - Jan. 2015 = 100



The Spar Nord share rose from a price of DKK 52 at end-2018 to DKK 65 at end-2019, equal to 25%.

At the end of the year, the market price was thus DKK 8.0 billion compared with DKK 6.4 billion at end-2018. By comparison, the Danish total index, OMX Copenhagen Cap, rose 24% in 2019, the Danish banking index rose 15%, while the European banking index, MSCI Europe Banks, rose 8%.

In 2019, the average daily trading volume amounted to about 89,000 shares compared with 103,000 in 2018.

Breakdown of shareholders

At end-2019, Spar Nord Bank had approximately 98,000 shareholders. The ten largest shareholders combined held about 52% of the share capital. About 68% of the share capital is held by foundations and institutional investors and other major shareholders, while 32% of the capital is held by shareholders who each own fewer than 20,000 shares. Geographically speaking, 71% of the share capital is owned by Danish investors and 29% by foreign investors.

The Bank has two shareholders who have announced that they each hold more than 5% of the share capital. The Spar Nord Foundation, Aalborg, is the largest shareholder, having an interest of 18.9%. Nykredit Realkredit A/S, Copenhagen, is the second largest shareholder, having an interest of 11.4%.

Dividend policy and expectations

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

From the financial year 2020, Spar Nord pursues the following dividend policy:

Spar Nord pursues the goal of generating a competitive return for its shareholders – by way of share price performance and dividends. Spar Nord aims to distribute 30–50% (previously 40–50%) of the net profit for the year as ordinary dividends with due consideration to meeting the Bank's capital targets. In case the Bank has extensive excess capital after the distribution of ordinary dividends, the Board of Directors will assess whether such capital can be returned to the shareholders in the form of extraordinary dividends or share buybacks.

In view of the profits reported for 2019, the Board of Directors recommends to the shareholders at the Annual General Meeting that a cash dividend of DKK 3.5 per share be distributed, equal to a dividend yield of about 5% and a payout ratio of 41%.

Spar Nord share	2019	2018
Share capital (DKKm)	1,230	1,230
Market price, year-end	65	52
Market capitalisation (DKKm)	7,995	6,396
Earnings per share for the year (DKK *)	8.2	7.2
Dividend per share (DKK)	3.5	3.5
Net asset value per share (DKK)	72	68
Market price/net asset value per share (DKK)	0.9	0.8

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

Financial calendar 2020

31 March	Annual General Meeting
30 April	Interim report for Q1
13 August	Interim report for H1
29 October	Interim report for Q1-Q3

Corporate responsibility



Spar Nord is a nationwide bank with approximately 391,000 customers, 1,550 employees and thousands of small and large suppliers. Spar Nord is also active in Danish associations and cultural life, acting as sponsor and donor across Denmark. As such, Spar Nord plays a role in the life of many people, making it crucial for the Bank to take joint responsibility and play an active part in relations with individuals and society at large.

This section of the report contains an introduction to Spar Nord's corporate responsibility initiatives. A more detailed description of the Bank's policies, activities and results in this area is provided in our CSR Report for 2019, which is available on our website sparnord.com/csr.

Responsibility a strategic focus area

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

Signatory to UN principles for responsibility and sustainability

From January 2020, Spar Nord has joined UN Global Compact (corporate responsibility), the UN PRI (responsible investment) and the UN PRB (responsible banking). Becoming a signatory is a natural part of our existing CSR initiatives, and it marks the beginning of intensive and more documented efforts in which our progress and initiatives from 2020 will be reported under the UN standard framework.





Goal no. 7 Affordable and Clean Energy

Using sustainable energy and achieving carbon neutrality by 2025.

Goal no. 8 Decent Work and Economic Growth

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

Goal no. 11 Sustainable Cities and Communities

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

Goal no. 12 Responsible Consumption and Production

Buying sustainably and recycling up to 100% of our waste while continuously implementing resource-saving initiatives across the organisation and fostering a sustainable corporate culture.

Goal no. 13 Climate Action

Bringing down direct and indirect climate impacts by reducing our own footprint, implementing sustainable investing criteria and developing sustainable banking products. Initiatives and progress in the defined focus areas are described in Spar Nord's CSR report 2019.

Responsible banking

Spar Nord intends to fulfil its contract with society in the broad sense. The Bank will do so by putting the customers' interests first with respect to advisory services and product innovation, by complying with applicable laws and regulations and by ensuring

that compliance and general conformity with the law form an integral part of the Bank's strategy and business. The requirements for responsible banking are intensified by the threat from cross-border financial crime and international terrorism, and the constant risk of being abused for purposes of money laundering and the financing of terrorism constantly places new demands on the Bank's employees and procedures.

Spar Nord wants to lift its share of the task of reducing the risk of money laundering and terrorist financing and has therefore implemented comprehensive policies, procedures and systems which are regularly adapted to legislation and the current threat scenario. The purpose of the initiatives is to ensure that financial transactions, customer relationships, employee matters and agreements are screened when entered into and are monitored on an ongoing basis.

Healthy and responsible employees

Spar Nord takes responsibility for creating a healthy and developing working environment in which all employees can unfold their professional and personal potential in the best possible way. However, Spar Nord is responsible not only for adjusting employee conditions in a socially responsible and fair manner, but also for promoting a culture in which employees consistently act responsibly towards customers, colleagues, the Bank and society in general. Spar Nord's policy for employee conduct and rights is based on the Bank's core values of prudence, competence, ambition and attentiveness in both human and business relationships.

Responsibility

Diversity

Spar Nord's Board of Directors has defined an ambition that the management should be composed with a view to ensuring diversity in terms of skills and background, including professional skills, business experience, gender and age. This ambition should be viewed in light of the fact that the Board considers diversity to be a quality that contributes positively to the Bank's development.

Currently, the Bank has defined a goal that women should represent at least 33% of board members. At the end of 2019, this goal was achieved with women representing 44% of board members.

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

Spar Nord has defined a goal that there should be at least five qualified applicants for managerial positions in the Bank, and that at least two of these should be women. The long-term objective of the Bank is to shift the gender breakdown at executive and executive mid-level towards a more equal distribution between men and women – from currently about 21% women in the Bank's executive team to 25% women by the end of 2020. As the above-mentioned goals were not fully achieved in 2019, the Bank will focus on HR initiatives to support the intended developments in 2020.

Environment and climate: Carbon-neutral by 2025

Climate and environmental impacts are a major challenge to our society, and Spar Nord takes an interest and joint responsibility for tackling this challenge. Accordingly, Spar Nord supports the UN's Sustainable Development Goals and takes local, national and global responsibility through ongoing reductions of impacts and the promotion of sustainable solutions. As a part of our new strategy plan, Spar Nord has launched a long-term goal of having carbon-neutral operations by 2025. Already in 2020, we aim to be carbon neutral in terms of the Bank's power consumption, vehicle transport and air travel.

Specific climate and environment initiatives launched in 2019 included:

- Reducing energy consumption at head office through building envelope improvements
- Power-saving light control systems and conversion to LED light sources
- 100% green power from Danish wind turbines from 1 January 2020
- Expansion of solar cell panels at Spar Nord's head office by another 500 sqm.
- Switch to energy-friendly servers.

- 100% paper waste recycling
- Reduction of canteen food waste through information campaigns
- Too Good to Go – selling surplus food production from the canteen

Responsible supply chain management

Spar Nord buys goods and services from hundreds of Danish and international suppliers. Consequently, Spar Nord takes joint responsibility for maintaining good and transparent supplier relationships, which underpin the Bank's good reputation, help attract good suppliers and retain and attract customers. We require our suppliers to maintain high environmental standards and that major suppliers comply with the UN's Sustainable Development Goals and the ten principles of the UN Global Compact. To ensure this, in 2019 Spar Nord launched a code of conduct for its suppliers, which from 2020 will form a natural part of the Bank's procurement processes and supply chain management.

Working to strengthen cohesion in Denmark

Spar Nord builds on a locally-rooted business model, and throughout our 200-year history, we have facilitated the creation of local cohesion through active participation in and support for local associations, initiatives and institutions. We want to continue and strengthen these initiatives as they contribute both financially and in terms of human value creation in society and in our bank.

We want to enhance the effect of our efforts to strengthen local cohesion, and to this end, in autumn 2019 we initiated a study of the social and health impacts of sponsorships and donations in the categories of sports, leisure activities and culture (including music and theatre). The results and conclusions of this study help us in our decision-making power and processes with respect to sponsorships and donations, and we get the opportunity to identify and strengthen the areas in which we do the most good.

Responsible investment and sustainable funding

Spar Nord offers and arranges investment products for retail and business customers. There, we have a joint responsibility for ensuring that the investments are responsible in relation to social issues and climate and environmental impacts. Wanting to help our customers invest responsibly, we have defined responsible investment requirements in our own investment policies and for investments made by our business partners.

Organisation and corporate governance

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

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

General Meeting

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

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

Board of Directors and board committees

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

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

Each year, the Spar Nord Board of Directors convenes 11 ordinary meetings and holds a strategy seminar and four meetings with the chairmen of the regional bank committees.

In 2019, the Board of Directors held a total of 23 physical meetings and telephone conferences.

In addition, 6 meetings were held in the Audit Committee, 4 meetings in the Risk Committee and 3 meetings in the Nomination and Remuneration Committee.

The total board member attendance rate was 96%. The attendance by each member of the Board of Directors is published on the Bank's website.

Evaluation and nomination process

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

Election to the Board of Directors

At the Annual General Meeting in March 2020, three of the members elected by the shareholders are up for election. Kjeld Johannesen and Morten Gaardboe have announced that they stand for re-election, and the Board of Directors recommends their re-election, while Laila Mortensen, after serving eight years on the Board, has announced that she will not be standing for re-election.

The Board of Directors recommends Henrik Sjøgreen, Copenhagen, as a new member. Henrik Sjøgreen has long-standing experience with directorships in the financial sector, serving since 2002 as a member of the Executive Board and since 2009 as CEO of FIH Erhvervsbank A/S. In addition to his expertise in areas like customer services and credit risk, Henrik Sjøgreen also possesses the key skills in financial business management which Laila Mortensen represented on the Board.

Executive Board

The Executive Board is appointed by the Board of Directors and is composed of Lasse Nyby, CEO, John Lundsgaard, Managing Director, and Lars Møller, Managing Director. The Executive Board is the supreme decision-making body as concerns the day-to-day affairs of the Bank, in compliance with the guidelines and directions issued by the Board of Directors. The more specific distribution of duties between the Board of Directors and the Executive Board appears from their rules of procedure.

Remuneration of the Board of Directors and the Executive Board

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

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

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



Board of Directors

Back row left to right: John Sørensen, Per Nikolaj Bukh (Deputy Chairman), Morten Bach Gaardboe, Laila Mortensen, Kjeld Johannesen (Chairman), Jannie Skovsen and Kaj Christiansen. Gitte Holmgaard Sørensen (absent) and Lene Aaen (absent).

Board of Directors

Kjeld Johannesen

Chairman of the Board of Directors

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

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

Up for reelection in 2020

Managing Director

CLK 2016 Holding ApS
 Kjeld Johannesen Holding ApS

Education

BCom (Marketing)

Chairman of the board of directors

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

Member of the board of directors

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

Areas of expertise

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

Shares held in Spar Nord

80,000

Independent

Per Nikolaj Bukh

Deputy Chairman of the Board of Directors

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

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

Up for reelection in 2021

Professor

Aalborg University

Managing Director

P. N. Bukh ApS

Education

Msc Econ.
 PhD
 Board of directors training from Bestyrelsesakademiet

Member of the board of directors

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

Areas of expertise

Finance and risk management
 Financial markets
 Public enterprises
 Utilities

Shares held in Spar Nord

27,200

Not independent

Lene Aaen

Member of the Board of Directors

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

Workplace representative, Spar Nord Bank

Up for reelection in 2020

Education

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

Member of the board of directors

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

Areas of expertise

HR
 Organisation

Shares held in Spar Nord

3,835

Not independent

Kaj Christiansen

Member of the Board of Directors

2012 Member of the Board of Directors of Spar Nord Bank A/S
 1955 Year of birth

Chairman of the Risk Committee

Up for reelection in 2021

Managing Director

Dokøen A/S

Education

State-Authorised Public Accountant

Member of the Board of Directors

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

Areas of expertise

Real property
 Marketing
 Finance and risk management

Shares held in Spar Nord

21,100

Independent

Morten Bach Gaardboe

Member of the Board of Directors

2016 Member of the Board of Directors of Spar Nord Bank A/S
 1968 Year of birth

Member of the Audit Committee

Up for reelection in 2020

Education

Financial services background

Chairman of the board of directors

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

Member of the board of directors

Sparekassen Nordjyllands Fond af 29. marts 1976

Areas of expertise

The SME segment

Shares held in Spar Nord

7,505

Independent

Laila Mortensen

Member of the Board of Directors

2012 Member of the Board of
Directors of Spar Nord Bank A/S
1965 Year of birth

Member of the Risk Committee

Up for reelection in 2020

Managing Director

IndustriPension Holding A/S
Industriens Pensionsforsikring A/S
Managing Director of
Industriens Pension Service A/S

Education

Graduate in insurance science
IMD business programme (PED)

Chairman of the board of directors

Insurance and Pension Denmark and
others
IP Alternative Investments Komplementar
ApS
IP Finans 1 ApS
IP Butendiek Wind K/S
IP Gode Wind II K/S
IP Ejendomme 2013 P/S
IP Infrastruktur P/S
IP Komplementar ApS
IP Infrastruktur Komplementar ApS
IP Sankt Petri P/S
IP Næstved Stråleterapi P/S
IP Europahuset ApS
IP Regina ApS
Fonden F&P Formidling
Forsikringsorganisationernes Fælles-
sekretariat F.M.B.A

Member of the board of directors

Kapitalforeningen Industriens Pension
Portfolio, deputy chairman
Statistics Denmark, deputy chairman
Sparekassen Nordjyllands Fond af
29. marts 1976

Areas of expertise

Experience in financial business man-
agement
Risk management, including
operational risk
IT and IT risk

Shares held in Spar Nord

0

Independent

Jannie Skovsen

Member of the Board of Directors

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

Senior workplace representative,
Spar Nord Bank A/S

Up for reelection in 2020

Education

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

Chairman of the board of directors

The Financial Services Union "Spar Nord
Kreds"

Board member

The Financial Services Union "Finans-
forbundet" executive committee
The Spar Nord Foundation
Sparekassen Nordjyllands Fond af
29. marts 1976

Areas of expertise

HR
Organisation

Shares held in Spar Nord

2,366

Not independent

Gitte Holmgaard Sørensen

Member of the Board of Directors

2012 Member of the Board of
Directors of Spar Nord Bank A/S
1965 Year of birth

Member of the Nomination and
Remuneration Committee

Workplace representative, Spar Nord
Bank

Up for reelection in 2020

Education

Board of Directors training for financial
companies
Financial services background
Financial post-graduate training
Business diploma (financing)

Chairman of the board of directors

The Personnel Foundation at Spar Nord

Member of the board of directors

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

Areas of expertise

HR
Organisation

Shares held in Spar Nord

3,960

Not independent

John Sørensen

Member of the Board of Directors

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

Member of the Audit Committee

Up for reelection in 2021

Managing Director

The Accounts Division of the Ministry of
Defence

Education

State-Authorised Public Accountant

Member of the Board of Directors

Sparekassen Nordjyllands Fond af
29. marts 1976
Sparekassen Søbys Fond

Areas of expertise

Accounting and auditing

Shares held in Spar Nord

5,160

Independent

Executive Board



Lasse Nyby

Managing Director

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

Education

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

Chairman of the board of directors

Aktieselskabet Skelagervej 15

Member of the board of directors

PRAS A/S, deputy chairman
AP Pension Livsforsikringsselskab
AP Pensionsservice
FinansDanmark
Foreningen AP Pension F.M.B.A.
FR I af 16. september 2015 A/S
Nykredit A/S
Totalkredit A/S
Sparekassen Nordjyllands Fond af
29. marts 1976
National Banks in Denmark

Shares held in Spar Nord

64,332



John Lundsgaard

Managing Director

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

Education

Financial services background
MBA

Chairman of the board of directors

Factor Insurance Brokers A/S

Member of the board of directors

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

Shares held in Spar Nord

79,499



Lars Møller

Managing Director

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

Education

Financial services background
Executive education from Insead

Chairman of the board of directors

BI Asset Management Fonds-
mæglerelskab A/S
BI Holding A/S (Bankinvest
Gruppen)
BI Management A/S

Member of the board of directors

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

Shares held in Spar Nord

82,406

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.

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

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

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

Risk management organisation

In accordance with Danish legislation, Spar Nord has established a two-tier management structure consisting of a Board of Directors and an Executive Board. Moreover, Spar Nord has established segregation of functions between entities entering into business transactions with customers or otherwise assuming risk on behalf of the Bank, and entities in charge of risk management.

The structure of Spar Nord's risk management organisation is shown in the figure on page 31.

Board of Directors

It is the duty of the Board of Directors to handle the overall and strategic management with a view to running a healthy and competitive bank, thus securing long-term value for the Bank's stakeholders.

Using Spar Nord's strategic objectives as its point of departure, the Board of Directors determines the Bank's risk profile, which describes the risk within the Bank's most important risk types that the Board of Directors is willing to undertake while meeting the objectives set forth in the strategy.

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

The Board of Directors has defined a number of risk policies that set out the overall handling and management of the Bank's risks. These policies are reviewed and approved by the Board of Directors at least once a year.

In order to underpin the management structure, the Board of Directors has drafted written guidelines for the Executive Board, specifying the areas of responsibility and scope of action. As required and at least once a year, the Board of Directors must assess and update these guidelines.

Executive Board

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

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

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

Board committees

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

Establishing these board committees help ensure a better utilisation of the special competences held by the board members, thus ensuring in-depth dealing with the board material. The sole purpose of the committees is to facilitate the transaction of business by the Board of Directors and they have no independent decision-making powers.

The terms of reference of the committees are available at www.sparnord.com/committees, which also provides a presentation of the members and their qualifications.

Risk Committee

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

The Risk Committee consists of three independent board members. The Committee held four meetings in 2019.

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 the Bank's risk management. The Committee also serves to facilitate work related to the process of board evaluation, nominating new board candidates, etc.

Risks

The Nomination and Remuneration Committee consists of three board members, a chairman, a deputy chairman and one member elected by the employees. The Committee held three meetings in 2019.

Audit Committee

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

The Audit Committee consist of three members, two of whom are independent. The Committee held six meetings in 2019.

Risk committees

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

Solvency and Risk Management Committee

The Solvency and Risk Management Committee is composed of a member of the Executive Board, Trading Division, Credit Rating, Finance & Accounts and Risk Management. The Committee meets every quarter and serves to formulate targets and principles for calculating adequate own funds and the individual solvency need. The Solvency and Risk Management Committee prepares a recommendation for the individual solvency need and passes it on to the Board of Directors for approval. The Committee handles input from the Market Risk, IT Security and Model Risk Committees 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, Trading Division, Finance & Accounts and Risk Management. The Committee meets every quarter to review developments in Spar Nord's positions, risks as well as the liquidity situation and expectations regarding market developments and future plans.

IT Security Committee

The IT Security Committee is composed of a member of the Executive Board, the IT department, Risk Management and selected heads of business areas. The Committee serves to advise on and deal with any issues that may arise in relation to the information policy and related rules, procedures and contingency plans.

Model Risk Committee

The Model Risk Committee is composed of a member of the Executive Board, Risk Management and Credit Rating. The Committee meets once every quarter to discuss and monitor Spar Nord's model risk management.

Credit Committee

The Credit Committee is composed of a member of the Executive Board, Credit Rating and Corporate Banking. The Committee deals with credit facilities that exceed Credit Rating's authorisation limits or involve a matter of principle. The Committee meets several times a week. Frequently, matters that have been dealt with by the Credit Committee will be prepared for subsequent discussion among all members of the Board of Directors.

1st line of defence

The business units Spar Nord's Local Banks and Trading Division together with the support and control functions represent the 1st line of defence. The Bank's day-to-day risk management is handled through risk policies, instructions, limits and a number of internal controls. The day-to-day management of the Bank's risks is carried out for all of the Bank's principal risk areas, including credit, market risk, liquidity and operational risk. In order to support the business units in relation to preventing money-laundering and terrorist financing, the Bank has also established an Anti-Money Laundering (AML) function, which is part of the 1st line of defence.

2nd line of defence

The Bank's 2nd line of defence is composed of several organisational entities, including the risk management function and the compliance function, which has key assignments of monitoring, controlling and reporting the Bank's risks and control environment.

Risk Management Function

The Risk Management Function is responsible for providing an overview of the Bank and its risk exposure to be able to assess whether such risk exposure is adequately addressed. The Risk Management Function's area of responsibility comprises the Bank's risk-prone activities across various risk areas and organisational units and risks deriving from outsourced functions. The Risk Management Function also serves as a secretariat to the Bank's Risk Committee and will assist the Risk Committee providing information about the Bank's risk exposure.

The Chief Risk Officer reports directly to the Bank's Executive Board. The Risk Management Function reports to the Board of Directors on a quarterly basis. The activities of the Risk Management Function are rooted in the annual plan adopted by the Board of Directors.

Dismissal of the Chief Risk Officer is subject to the prior approval of the Board of Directors.

Compliance Function

The Compliance Function is charged with assessing and checking Spar Nord's compliance with applicable legislation, banking sector standards and Spar Nord's internal guidelines, advising on how to reduce compliance risk.

The Head of Compliance reports directly to the Bank's Executive Board. The Compliance Function reports to the Executive Board on a quarterly basis and to the Board of Directors twice a year. The activities of the Compliance Function are rooted in the annual plan adopted by the Board of Directors.

Dismissal of the Compliance Officer is subject to the prior approval of the Board of Directors.

3rd line of defence

The Internal Audit Department serves as the 3rd line of defence and is responsible for planning and performing an audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement. The Internal Audit Department also serves as a secretariat to the Bank's Risk Committee.

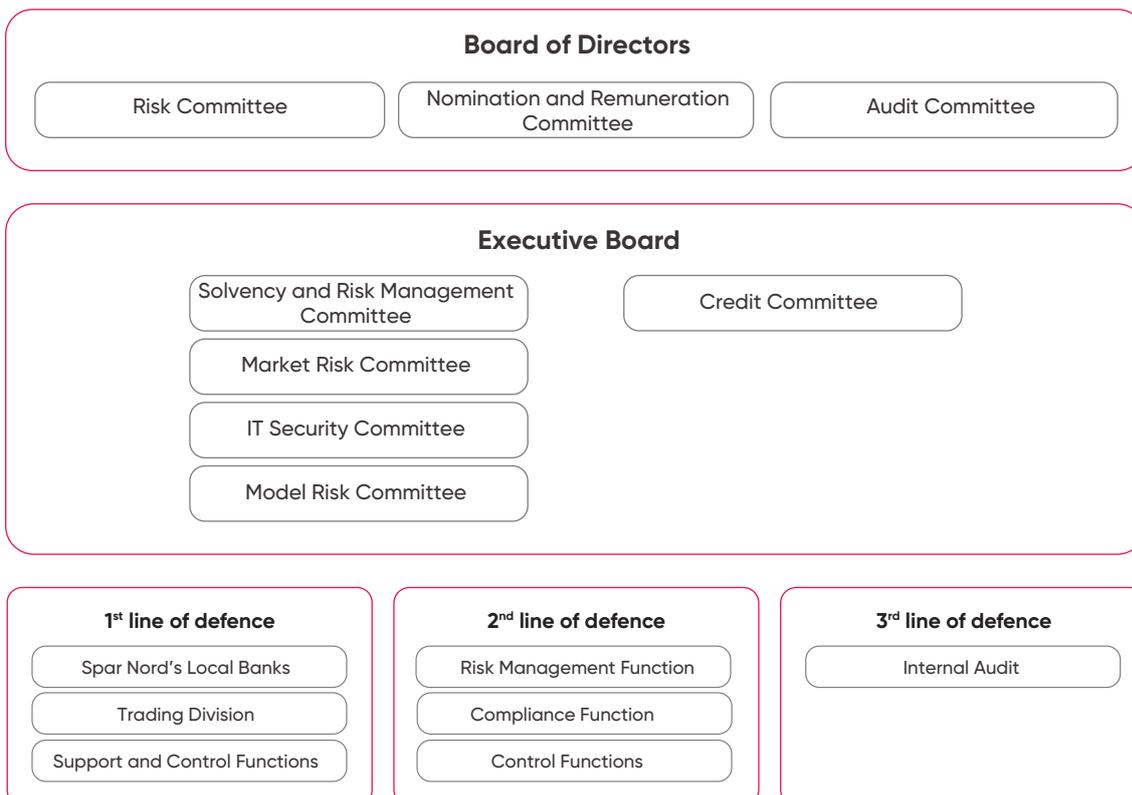
It reports directly to the Board of Directors and regularly reports on an ongoing basis to the Executive Board and the Board of Directors. The Internal Audit Department bases its activities on the annual plan adopted by the Board of Directors. These activities include test examinations of business procedures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

Dismissal of the Bank's head of internal audit is subject to the prior approval of the Board of Directors.

Reporting

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

Risk management organisation



Alternative performance measures

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

Throughout the Management's review, performance is assessed on the basis of the financial highlights and segment reporting, which represent the financial information regularly provided to Management. The differences between the financial highlights and the IFRS financial statements relate only to certain changes in the presentation. There are no adjusting items, which means that net profit is the same in the financial highlights and in the IFRS income statement. A reconciliation of the correlation between core income in the management commentary and the IFRS financial statements is shown in note 2.1 Business segments.

Spar Nord uses core earnings as a performance measure. Since 2018, there has been no difference between "Core earnings before impairment" in the core earnings format and "Profit/loss before loan impairments" in the IFRS financial statements, as there is no discount on commitments taken over. In the core earnings format, the recognised share of discount on commitments taken over was previously presented together with loan impairments, etc., whereas in the IFRS financial statements it was included in interest income.

In previous years, other items in the core earnings format comprised contributions to sector-wide solutions.

Defined below are the additional key indicators shown on pages 8-11 of the management commentary and in the other sections of the management commentary.

Return on equity before tax, excl. additional tier 1 (AT1) capital	Profit/loss before tax in per cent of shareholders' equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year. Profit/loss before tax and shareholders' equity are calculated as if the additional tier 1 (AT1) capital were treated as a liability.
Return on equity after tax excl. additional tier 1 (AT1) capital	Profit/loss after tax in per cent of shareholders' equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year. Profit/loss after tax and shareholders' equity are calculated as if the additional tier 1 (AT1) capital were treated as a liability.
Cost share of core income	Total costs/core income
Cost share of core income – incl. impairment of loans, advances and receivables, etc.	Total costs plus impairment of loans, advances and receivables, etc./core income
Bank and leasing loans relative to bank deposits	Bank and leasing loans as a percentage of bank deposits
Bank and leasing loans relative to shareholders' equity	Bank and leasing loans / shareholders' equity
Impairment ratio, %	Impairment for the year in per cent of loans and advances + guarantees + impairment of loans, advances and receivables etc. and provisions for unutilised credit lines.

Management's statement on the Annual Report

The Board of Directors and Executive Board have today reviewed and adopted the 2019 Annual Report of Spar Nord Bank A/S.

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

We consider the accounting policies applied to be appropriate, and in our opinion the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2019 and of the results of the Group's and the Parent Company's operations and cash flows for the 2019 financial year

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

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

Aalborg, 6 February 2020

Executive Board



Lasse Nyby

Chief Executive Officer



John Lundsgaard

Managing Director



Lars Møller

Managing Director

Board of Directors



Kjeld Johannesen

Chairman of the Board of

Directors



Per Nikolaj Bukh

Deputy Chairman of
the Board of Directors



Lene Aaen



Kaj Christiansen



Morten Bach

Gaardboe



Laila Mortensen



Jannie Skovsen



Gitte Holmgaard

Sørensen



John Sørensen

Report by the Internal Audit Department

Report on the consolidated and parent company financial statements

Opinion

In our opinion, the consolidated financial statements and the financial statements of Spar Nord Bank A/S give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2019 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial institutions in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the Parent Company's financial statements.

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

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

Basis for opinion

We have audited the consolidated financial statements and the financial statements of Spar Nord Bank A/S for the financial year 1 January – 31 December 2019. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial enterprises. The Parent Company's financial statements have been prepared in accordance with the Danish Financial Business Act.

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Statement on the Management's review

Management is responsible for the management's review.

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

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

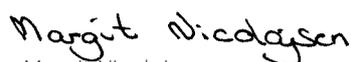
Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act.

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

Aalborg, 6 February 2020

Spar Nord Bank A/S

Internal Audit Department



Margit Nicolajsen

Head of Internal Audit Department

Independent auditor's report

To the shareholders of Spar Nord Bank A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Spar Nord Bank A/S for the financial year 01-01-2019 to 31-12-2019, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including the summary of significant accounting policies, for the Group as well as the Parent and the consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for financial companies, and the parent financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31-12-2019 and of its financial performance and cash flows for the financial year 01-01-2019 to 31-12-2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for financial companies.

Also, in our opinion, the parent financial statements give a true and fair view of the financial position of the Parent at 31-12-2019 and of its financial performance for the financial year 01-01-2019 to 31-12-2019 in accordance with the Danish Financial Business Act.

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

Basis for opinion

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

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

We were appointed auditors of Spar Nord Bank A/S for the first time on 10-04-2019 for the financial year 2019. 2019 has been our first year as auditors of the Group and the Parent, and we will be up for reelection at next year's Annual General Meeting.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 01-01-2019 to 31-12-2019. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report

Loan impairment charges and provisions for guarantees	How the matter was addressed in our audit
<p>Determining expected loan impairment charges and provisions for guarantees is subject to significant uncertainty and to some degree based on management judgement. Due to the significance of such management judgement and the loan volumes of the Group and the Parent, auditing loan impairment charges and provisions for guarantees is a key audit matter.</p> <p>The principles for determining loan impairment charges and provisions for guarantees are further described in Summary of significant accounting policies, and Management has described the management of credit risks and the review for impairment in notes 2.9, 3.2 and 5.1 to the consolidated financial statements.</p> <p>The areas of loans involving the highest level of management judgement, thus requiring greater audit attention, are:</p> <ul style="list-style-type: none"> • Identification of credit-impaired exposures • Parameters and management judgements in the calculation model used to determine Stage 1 and Stage 2 expected losses • Valuation of collateral and future cash flows, including management judgement involved in determining Stage 3 expected losses. 	<p>Based on our risk assessment, our audit comprised a review of the Group's relevant procedures, testing of relevant controls and analysis of the credit quality of loans, including the amount of impairment charges and provisions for guarantees.</p> <p>Our audit procedures included testing relevant controls regarding:</p> <ul style="list-style-type: none"> • Current assessment of credit risk • Assessment and validation of input and assumptions applied in calculating impairment charges and provisions for Stage 1 and Stage 2 guarantees • Determining management judgements in the model and Stage 3. <p>Our audit procedures also comprised:</p> <ul style="list-style-type: none"> • Reviewing, on a sample basis, exposures to ensure timely identification of credit-impaired loans and advances • Obtaining and evaluating the system auditor's report from the Bank's data centre which includes an assessment of the mass data import used by the Bank and of the correct allocation of collateral. • Challenging key parameters in the calculation model applied with particular focus on objectivity and the data used. • Challenging management judgements in the calculation model used with particular focus on management consistency and bias, including challenging documentation of the adequacy of management judgements. • Testing, on a sample basis for loans classified to be in Stage 3, the calculated impairment charges for consistency with legal and group guidelines to this effect. This included testing collateral values and definition of scenarios.

Independent auditor's report

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

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

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

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

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

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

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

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

Consolidated financial statements

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Group

Income statement

Note		2019 DKKm	2018 DKKm
	Interest income calculated under the effective interest method	1,640	1,632
	Other interest income	63	44
2.2 + 2.3.1	Interest income	1,702	1,676
2.2 + 2.3.2	Interest expenses	129	128
	Net interest income	1,573	1,548
2.4	Fees, charges and commissions received	1,395	1,285
2.4	Fees, charges and commissions paid	169	158
2.5	Market value adjustments and dividends	379	268
2.6	Other income	160	247
2.7	Staff costs	1,218	1,152
2.8	Operating expenses	796	771
	Profit/loss before loan impairments (core earnings before impairment)	1,324	1,266
2.9	Impairment of loans, advances and receivables etc.	22	173
	Profit/loss before tax	1,302	1,094
2.10	Tax	243	174
	Profit/loss for the year	1,059	920
	<i>Appropriation:</i>		
	The shareholders of the Parent Company Spar Nord Bank A/S	1,010	871
	Holders of additional tier 1 (AT1) capital instruments	49	49
	Profit/loss for the year	1,059	920
	Earnings per share for the year		
4.5	Earnings per share for the year (DKK)	8.2	7.2
4.5	Diluted earnings per share for the year (DKK)	8.2	7.2
	Proposed dividend per share (DKK)	3.5	3.5

Statement of comprehensive income

	Profit/loss for the year	1,059	920
	Other comprehensive income		
	Items that cannot be reclassified to the income statement		
	Adjustment relating to associates	-6	0
	Net revaluation of domicile property	-10	9
	Other comprehensive income after tax	-16	9
	Total comprehensive income	1,043	929
	<i>Appropriation:</i>		
	The shareholders of the Parent Company Spar Nord Bank A/S	994	880
	Holders of additional tier 1 (AT1) capital instruments	49	49
	Total comprehensive income	1,043	929

Balance sheet

Assets	2019 DKKm	2018 DKKm
Cash balances and demand deposits with central banks	1,152	1,029
3.1 Due from credit institutions and central banks	1,588	1,400
3.2 Loans, advances and other receivables at amortised cost	51,312	44,330
3.3.1 Bonds at fair value	16,498	16,160
3.3.2 Shares, etc.	1,740	1,768
3.4 Investments in associates	470	333
3.5 Assets linked to pooled schemes	17,323	14,772
3.6 Intangible assets	174	178
3.7.1 Land and buildings	788	683
3.7.2 Other property, plant and equipment	113	127
Current tax assets	54	130
3.7.3 Temporary assets	11	9
3.8 Other assets	1,780	1,761
Prepayments and deferred income	111	116
Total assets	93,113	82,793
Equity and liabilities		
Liabilities		
3.9 Due to credit institutions and central banks	4,062	2,466
3.10 Deposits and other payables	53,279	50,773
3.5 Deposits in pooled schemes	17,323	14,772
4.8 Issued bonds at amortised cost	2,637	0
3.3.3 Other non-derivative financial liabilities at fair value	960	1,018
3.11 Other liabilities	3,664	2,838
Prepayments and deferred income	30	20
3.12 Deferred tax	20	173
3.13 Provisions	54	160
4.7 Subordinated debt	1,322	1,332
Total liabilities	83,352	73,552
Equity		
Share capital	1,230	1,230
Revaluation reserves	92	103
Statutory reserves	116	0
Proposed dividend	431	431
Retained earnings	7,032	6,616
Shareholders' equity	8,901	8,380
4.6 Holders of additional tier 1 (AT1) capital instruments	860	861
Total equity	9,761	9,241
 Total equity and liabilities	 93,113	 82,793

Statement of changes in equity

	Share capital DKKm	Revaluation reserve DKKm	Statutory reserves DKKm	Proposed dividend DKKm	Retained earnings DKKm	Shareholders of Spar Nord Bank A/S DKKm	Additional tier 1 capital DKKm	Total equity DKKm
Equity at 31.12.18	1,230	103	0	431	6,616	8,380	861	9,241
Amortisation of additional fees and commissions received	-	-	-	-	-40	-40	0	-40
Equity at 01.01.19	1,230	103	0	431	6,577	8,340	861	9,201
Comprehensive income in 2019								
Profit/loss for the year	-	-	110	431	470	1,010	49	1,059
Other comprehensive income								
Adjustment relating to associates	-	-	6	-	-12	-6	-	-6
Net revaluation of properties	-	-10	-	-	0	-10	-	-10
Other comprehensive income, total	0	-10	6	0	-12	-16	0	-16
Total comprehensive income	0	-10	116	431	458	994	49	1,043
Transactions with owners								
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Dividends paid	-	-	-	-431	-	-431	-	-431
Dividends received, treasury shares	-	-	-	-	0	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-372	-372	-1	-373
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	369	369	-	369
Total transactions with owners	0	0	0	-431	-2	-433	-50	-483
Equity at 31.12.19	1,230	92	116	431	7,032	8,901	860	9,761
Equity at 31.12.17	1,230	94	0	431	6,359	8,114	861	8,975
Change in accounting policies, IFRS 9	-	-	-	-	-195	-195	0	-195
Equity at 01.01.18	1,230	94	0	431	6,164	7,919	861	8,780
Comprehensive income in 2018								
Profit/loss for the year	-	-	36	431	404	871	49	920
Other comprehensive income								
Adjustment relating to associates	-	-	-36	-	36	0	-	0
Net revaluation of properties	-	8	-	-	1	9	-	9
Other comprehensive income, total	0	8	-36	0	37	10	0	10
Total comprehensive income	0	8	0	431	442	880	49	929
Transactions with owners								
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Dividends paid	-	-	-	-431	-	-431	-	-431
Dividends received, treasury shares	-	-	-	-	0	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-295	-295	-	-295
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	294	294	0	295
Tax	-	-	-	-	11	11	-	11
Total transactions with owners	0	0	0	-431	11	-420	-49	-469
Equity at 31.12.18	1,230	103	0	431	6,616	8,380	861	9,241

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

The distribution of dividend to Spar Nord's shareholders has no tax consequences for Spar Nord.

Dividends of DKK 431 million have been proposed for 2019 (2018: DKK 431 million), corresponding to DKK 3.50 per share (2018: DKK 3.50 per share). Dividends paid in 2019 amounted to DKK 431 million (2018: DKK 431 million).

Cash flow statement

	2019 DKKm	2018 DKKm
Operations		
Profit/loss before tax	1,302	1,094
3,7 Fair value changes, investment properties and temporary assets	-1	0
2,8,2 Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	86	55
2,6 Gains and losses on the sale of intangible assets and property, plant and equipment	4	-3
2,6 Gains and losses on sale of associates	0	-155
5,1,6 Adjustment of loan impairments etc,	-442	64
Adjustment of subordinated debt, issued bonds etc,	31	18
3,13 Provisions	-127	64
3,4 Income from investments in associates	-110	-36
Corporate income tax paid	-309	-155
Operating activities, total	434	946
Working capital		
3,1+3,9 Movement in credit institutions and central banks, net	1,596	562
Movement in loans, advances and other receivables at amortised cost	-6,614	2,137
3,3,1 Movement in bonds at fair value	-338	-5,322
3,3,2 Movement in equity portfolio	28	-141
Movement in other assets and other liabilities, net	677	60
3,10 Movement in deposits and other payables	2,506	1,930
Working capital, total	-2,145	-774
Cash generated from operations, total	-1,711	172
Investments		
3,4 Acquisition of associates	-51	-266
3,4 Sale of associates	4	247
3,6 Acquisition of intangible assets	-2	-3
3,6 Sale of intangible assets	0	0
3,7 Acquisition of property, plant and equipment	-58	-113
3,7 Sale of property, plant and equipment	28	22
3,4 Dividends from associates	14	7
Investing activities, total	-66	-106
Financing		
4,7 Subordinated debt	-35	170
4,6 Additional tier 1 (AT1) capital included in equity	-50	-49
4,8 Issued bonds	2,630	0
Dividends paid, excluding dividends on treasury shares	-430	-430
Acquisition of treasury shares	-372	-295
Sale of treasury shares	369	294
3,11,1 Repayment of lease liabilities	-24	0
Financing activities, total	2,088	-310
Movements in cash and cash equivalents for the year	311	-244
Cash and cash equivalents, beginning of year	2,428	2,672
Movements in cash and cash equivalents for the year	311	-244
Cash and cash equivalents, end of year	2,740	2,428
Cash and cash equivalents, end of year		
Cash, cash equivalents and demand deposits with central banks	1,152	1,029
3,1 Due from credit institutions and central banks within less than 3 months	1,588	1,400
Total	2,740	2,428

Notes

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Section 1

Basis of preparation

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Main items

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

The most important changes to the accounting standards from 2018 to 2019 are:

- IFRS 16 Leases
- IAS 12 Income taxes (annual improvement project to IFRS standards 2015 - 2017)
- IFRIC 23 – Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments

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

- Loan impairments
- Fair value of financial instruments

Basis of preparation

1.1 Accounting policies

§ 1.1.1 Basis of preparation of the annual report

Spar Nord Bank A/S is a public limited company with its registered office in Denmark. The annual report for the year ended 31 December 2019 includes both the consolidated financial statements of Spar Nord and its subsidiary and separate financial statements of the Parent Company.

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

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

On 6 February 2020, the Board of Directors and Executive Board reviewed and adopted the 2019 Annual Report of Spar Nord. The Annual Report will be submitted for adoption by the shareholders at the Annual General Meeting on 31 March 2020.

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

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

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

The general accounting policies are described in the following.

Specific accounting policies are incorporated in the relevant notes.

Implementation of new accounting standards

Effective 1 January 2019, the Spar Nord Group implemented the IFRS standards and interpretations taking effect in the EU for 2019.

The following amendments to IFRS relevant to Spar Nord were implemented effective 1 January 2019:

- IFRS 16 Leases
- IAS 12 Income taxes (annual improvement project to IFRS standards 2015 – 2017)
- IFRIC 23 – Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments

The implementation of IFRS 16 and IAS 12 had an impact on recognition or measurement in the annual report for 2019, including earnings per share, diluted earnings per share and equity. The impact from the transition at 1 January 2019 for IFRS 16 and IAS 12 is described in note 1.1.3. IFRS 9 and IFRIC 23 did not affect recognition or measurement in the annual report for 2019. Other new and amended standards and interpretations have not had any impact on recognition or measurement in the annual report.

Recognition and measurement

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

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

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

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

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

Foreign currency translation

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

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

Offsetting

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

Consolidated financial statements

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

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

The group enterprise Aktieselskabet Skelagervej 15 is fully consolidated.

Section 1

Basis of preparation

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

Cash flow statement

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

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

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

1.1.2 Information about standards not yet effective

The International Accounting Standards Board (IASB) has published a number of new and amended financial reporting standards (IAS and IFRS) and interpretations (IFRIC), which Spar Nord is not required to observe in preparing the 2019 Annual Report. These are IFRS 17, amendments to IFRS 3 and IAS 1 and IAS 8.

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

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

1.1.3 Impact of implementation of IFRS 16 and IAS 12

IFRS 16 Leases

Spar Nord has opted to implement IFRS 16 by recognising the transitional effect in opening equity at 1 January 2019 without restating comparative figures.

In accordance with the transitional provisions of IFRS 16, the standard will be implemented by not recognising leases with a term of less than 12 months and determining a discount rate to a portfolio of leases with similar characteristics.

Under the standard, all leases, regardless of type – with a few exceptions – must be recognised in the group's balance sheet as an asset under the item land and buildings with a corresponding lease liability under the item other liabilities.

The consolidated income statement will also be affected as the annual leasing expense under IFRS 16 will consist of two elements: a depreciation charge and an interest expense, unlike the previous rules of IAS 17 where annual expenses in respect of operating leases were recognised under operating expenses.

When assessing the future lease payments, Spar Nord has reviewed the operating leases and identified the lease payments that relate to a lease component and which are fixed or variable. Spar Nord has opted to expense payments relating to service components as and when incurred. Payment for service components are thus not included in the lease liability.

When assessing the expected lease term, Spar Nord has identified the non-cancellable lease term of the agreement plus periods comprised by an extension option, which management with reasonable probability expects to exercise.

For leases with respect to domicile property, Spar Nord has assessed that the expected lease term represents the non-cancellable lease term in the leases and an extension option on leases with short notice periods so that lease terms for the individual leases are at least 4-6 years.

With respect to property leases, in its portfolio Spar Nord only has properties used as domicile property from which the Bank pursues banking activities.

On discounting of the lease payments to present value, Spar Nord has applied its alternative borrowing rate, which is the cost of raising external financing for a similar asset with a financing period equal to the term of the lease in the currency in which the lease payments are settled.

Impact of implementation of IFRS 16

The standard has no impact on the Group's lease activities in which Spar Nord is the lessor.

On implementation of IFRS 16, at 1 January 2019 Spar Nord recognised a lease asset in the amount of DKK 111 million and a lease liability of DKK 111 million. As a result, the equity impact is DKK 0 million.

Lease assets consist exclusively of properties which are depreciated on a straight-line basis over the expected lease term of 3-10 years.

When measuring the lease liability, the Group has applied an average alternative borrowing rate to discount future lease payments of 0.5% p.a.

The cash flow statement has not been affected by the amendment.

For a description of accounting policies at 1 January 2019, please see the individual notes.

	1 January 2019 DKK m
Operating lease liabilities at 31 December 2018 (IAS 17)	98
Discounted at alternative borrowing rate	-2
Lease payments for periods comprised by extension options which Spar Nord reasonably expects to exercise	27
Other *)	-12
Lease liability recognised at 1 January 2019 (IFRS 16)	111

*) Effect of VAT expense which at 1 January 2019 is not included in the lease liability but expensed, when the payment obligation arises.

Section 1

Basis of preparation

Impact of IAS 12

Effective 1 January 2019, Spar Nord implemented amendments to IAS 12 regarding income taxes, which is a part of the 2015-2017 improvement project.

The amendment concerns the accounting for all tax implications of dividend distributions. The Standard has implied a change in the classification of any tax effects of interest on the Group's additional tier 1 (AT1) capital, which from 1 January 2019 is recognised in the income statement and not in equity as previously.

Any tax effects must be recognised at the time when the obligation to distribute dividends is recognised.

Impact of implementation of IAS 12

Tax on the profit for 2019 was reduced by DKK 11 million due to the implementation of the amendment, thus positively impacting the profit after tax by a corresponding amount. The tax effect which is no longer required to be recognised in equity will be reduced by a corresponding DKK 11 million, meaning that equity at 1 January 2019 and thereafter will not, as such, be affected by the policy change going forward. The effect on profit for the year is immaterial.

The cash flow statement will not be affected by the amendment.

Compared to the previous practice, the effect on profit for the year is immaterial, and comparative figures have therefore not been restated.

1.1.4 Changed accounting for fees, charges and commissions received

Spar Nord has carried out a detailed analysis of the accounting treatment of fees, charges and commissions received in direct association with the establishment of loans, etc. The purpose of the analysis was to assess whether such amounts can be recognised as income immediately or whether they should be recognised as an integral part of the effective rate of interest and, thus, be amortised over the term of the loan. The analysis shows that Spar Nord must amortise additional fees and charges that were previously recognised as income immediately.

At 1 January 2019, the cumulative effect after tax is recognised in equity in the amount of DKK 40 million.

As it has not been possible to calculate the effect at 1 January 2018 and for 2018 without employing disproportionately many resources, the comparative figures for 2018 and the financial highlights for previous periods have not been restated. Spar Nord assesses that the effect at 1 January 2018 would have been at the same level as at 1 January 2019 and the profit for 2018 and the effect on the financial highlights for 2018, including the changed classification between interest income and fee income, would have been insignificant.

1.2 Significant accounting estimates and judgments

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

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

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

- Impairment of loans
- Fair value of financial instruments.

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

Section 2

Income statement

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Main items

Net interest income

DKK **1,573** million

2018: DKK **1,548** million

Impairment of loans and advances, etc.

DKK **22** million

2018: DKK **173** million

Net fee income

DKK **1,225** million

2018: DKK **1,127** million

Profit/loss before tax

DKK **1,302** million

2018: DKK **1,094** million

Costs and expenses

DKK **2,014** million

2018: DKK **1,924** million

Profit/loss after tax

DKK **1,059** million

2018: DKK **920** million

Profit/loss before loan impairments

DKK **1,324** million

2018: DKK **1,266** million

C/I ratio

0.60

2018: **0.60**

Section 2

Income statement

Business segments

2019		Spar Nord's Local Banks	Trading Division	Other areas	Core earnings *) and Group
DKK m					
Income statement					
Net interest income		1,431	80	62	1,573
Net fee income		1,217	3	5	1,225
Market value adjustments and dividends		197	169	13	379
Other income		23	0	138	160
Core income/revenue, total		2,867	252	219	3,338
Staff costs and operating expenses		1,560	53	401	2,014
Core earnings before impairment		1,308	199	-183	1,324
Impairment of loans, advances and receivables etc.		23	0	-1	22
Profit/loss before tax		1,285	199	-181	1,302

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

	Spar Nord's Local Banks	Trading Division	Other areas	Group Total
Balance sheet				
Loans, advances and other receivables at amortised cost	42,915	8,396	0	51,312
Investments in associates	0	0	470	470
Intangible assets and property, plant and equipment *)	258	0	816	1,074
Other assets **)	18,704	20,258	1,295	40,257
Allocated assets, total	61,878	28,654	2,582	93,113
Deposits and other payables	52,328	392	559	53,279
Equity (allocated capital)	7,420	1,200	1,142	9,761
Other liabilities	17,559	5,577	6,937	30,073
Allocated equity and liabilities, total	77,307	7,168	8,638	93,113

Disclosures – income/revenue, total

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

Disclosures, cash flow statement

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

Financial ratios

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

*) All assets are located in Denmark.

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

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

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

Section 2

Income statement

Business segments

2018	Spar Nord's Local Banks	Trading Division	Other areas	Core earnings *) and Group
DKKm				
Income statement				
Net interest income	1,411	48	89	1,548
Net fee income	1,128	-2	1	1,127
Market value adjustments and dividends	253	-14	29	268
Other income	25	1	221	247
Core income/revenue, total	2,818	33	340	3,190
Staff costs and operating expenses	1,538	64	321	1,924
Core earnings before impairment	1,279	-32	19	1,266
Impairment of loans, advances and receivables etc.	175	1	-3	173
Profit/loss before tax	1,104	-32	21	1,094

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

	Spar Nord's Local Banks	Trading Division	Other areas	Group Total
Balance sheet				
Loans, advances and other receivables at amortised cost	39,409	4,919	2	44,330
Investments in associates	0	0	333	333
Intangible assets and property, plant and equipment *)	245	0	741	987
Other assets **)	16,214	19,624	1,304	37,143
Allocated assets, total	55,868	24,543	2,381	82,793
Deposits and other payables	49,786	447	540	50,773
Equity (allocated capital)	5,660	1,040	2,541	9,241
Other liabilities	15,257	4,006	3,516	22,779
Allocated equity and liabilities, total	70,702	5,493	6,598	82,793

Disclosures – income/revenue, total

Internal income/revenue	-161	72	613	524
Internal income and eliminations, offset against costs	0	-48	-477	-524
Income/revenue, external customers	2,979	8	203	3,190
Income/revenue, total	2,818	33	340	3,190
Of which revenue from contracts with customers	607	96	31	734

Disclosures, cash flow statement

Depreciation, amortisation and impairment ***)	25	0	30	55
Additions, intangible assets and property, plant and equipment *)	26	0	89	115
Non-cash operating items excl. depr., amort. and impairment of int. assets and prop., plant & equipment	0	0	-127	-127
Impairment and reversal of loan impairments etc.	64	0	0	64

Financial ratios

Return on equity, % ****)	20.1	-3.1	-	-
Cost share of core income	0.55	1.96	-	-
Total risk exposure amount, end of period	43,500	8,002	2,357	53,858
Number of employees (full-time equivalents, end of period)	1,020	74	424	1,518

*) All assets are located in Denmark.

**) Temporary assets amount to DKK 9 million, of which DKK 7 million relates to lease activities and DKK 2 million relates to other areas.

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

****) The rate of return on equity per annum has been calculated on allocated capital, which amounts to 13% of the average total risk exposure amount.

Section 2

Income statement

2.2 Financial items

	Interest income DKKkM	Interest expenses DKKkM	Net interest DKKkM	Market value adjustments DKKkM	Dividend DKKkM	Total DKKkM
2019						
Net financials at amortised cost						
Due from and due to credit institutions and central banks	9	26	-18	-	-	-18
Lending and deposits, banking activities	1,547	-39	1,586	-	-	1,586
Repo and reverse repo transactions	-39	-14	-24	-	-	-24
Issued bonds	0	2	-2	3	-	1
Subordinated debt	0	34	-34	-	-	-34
Other interest	4	3	2	-	-	2
Total	1,521	11	1,510	3	-	1,513
Net financials at fair value						
Trading book	63	0	63	222	5	290
Other financial investment assets (shares acc. to fair-value option)	0	0	0	95	55	149
Total	63	0	63	317	60	439
Total net income from financials	1,584	11	1,573	320	60	1,952
2018						
Net financials at amortised cost						
Due from and due to credit institutions and central banks	10	16	-5	-	-	-5
Lending and deposits, banking activities	1,584	7	1,577	-	-	1,577
Repo and reverse repo transactions	-37	-11	-26	-	-	-26
Subordinated debt	0	42	-42	-	-	-42
Other interest	1	1	0	-	-	0
Total	1,559	54	1,504	-	-	1,504
Net financials at fair value						
Trading book	44	0	44	18	8	71
Other financial investment assets (shares acc. to fair-value option)	0	0	0	195	46	242
Total	44	0	44	214	55	312
Total net income from financials	1,603	54	1,548	214	55	1,817

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

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

Section 2

Income statement

2.3 Net interest

§ Accounting policies

Changed accounting for fees, charges and commissions received is described in note 1.1.4.

Interest income and expenses comprise:

- interest-bearing financial instruments measured at amortised cost, which are recognised in the income statement applying the effective interest method based on the cost of the financial instrument;
- amortisation of fees which are an integral part of the effective yield of the financial instrument, including origination fees and document-handling fees in connection with loan establishment etc., and amortisation of any additional difference between cost and redemption price;
- interest on financial instruments measured at fair value, but not interest on assets and deposits under pooled schemes, which is recognised under market value adjustments;
- interest on loans with credit impairment is made on the basis of the value after impairment;
- interest income which the lessor on finance leases and purchase contracts has recognised on the basis of the agreed effective interest rate;
- fees, etc. from operating and finance leases which the lessor has accrued over the remaining term of the leases and recognised on an ongoing basis under Interest income; and
- interest expenses on operating leases in which Spar Nord is the lessee.

2.3.1 Interest income

	2019 DKKm	2018 DKKm
Due from credit institutions and central banks	-2	0
Loans, advances and other receivables	1,519	1,557
Bonds	82	66
Foreign-exchange contracts	-12	9
Interest-rate contracts	-8	-31
Total derivatives	-19	-22
Other interest income	4	1
Total interest income after offsetting negative interest income	1,584	1,603
Negative interest income offset against interest income	39	37
Negative interest expenses offset against interest expenses	80	36
Total interest income before offsetting negative interest income	1,702	1,676
Of which, interest income from reverse repo transactions booked under		
Due from credit institutions and central banks	-11	-10
Loans, advances and other receivables	-28	-27

Negative interest income amounts to DKK 39 million (2018: DKK 37 million) and relates to repo transactions.

In addition, negative bond yields of DKK 17 million (2018: DKK 8 million) are offset in interest income from bonds.

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

2.3.2 Interest expenses

	2019 DKKm	2018 DKKm
Credit institutions and central banks	14	5
Deposits and other payables	-41	7
Issued bonds	2	0
Subordinated debt	34	42
Other interest expenses	3	1
Total interest expenses after offsetting negative interest expenses	11	54
Negative interest expenses offset against interest expenses	80	36
Negative interest income offset against interest income	39	37
Total interest expenses before offsetting negative interest expenses	129	128
Of which, interest expenses from repo transactions booked under		
Credit institutions and central banks	-12	-11
Deposits and other payables	-2	0

Negative interest expenses amount to DKK 80 million (2018: DKK 36 million) and relate partly to deposits, partly to repo transactions.

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

Section 2

Income statement

2.4 Fees, charges and commissions received

§ Accounting policies

Changed accounting for fees, charges and commissions received is described in note 1.1.4.

Fees, charges and commissions relating to services provided over a period of time are accrued over the service period, which includes guarantee commissions.

Income generated upon performing a given transaction, including securities and custodianship fees plus payment services fees, is recognised as income when the transaction has been performed.

Revenue from contracts with customers

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

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

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

Examples of revenue from contracts with customers:

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

	2019 DKKm	2018 DKKm
Securities trading and custody accounts	417	418
Payment services	168	171
Loan transaction fees	600	512
of which mortgage credit institutions	430	394
Guarantee commission	27	27
Other fees, charges and commissions	183	157
Total fees, charges and commissions received	1,395	1,285
Total fees, charges and commissions paid	169	158
Total net fees, charges and commissions received	1,225	1,127
Of which		
Transaction fees relating to financial instruments measured at amortised cost	600	512
Income from management activities and other fiduciary activities	229	267

	2019 DKKm	2018 DKKm
Revenue from contracts with customers		
Securities trading and custody accounts	312	312
Payment services	166	171
Loan fee	169	118
Other net fees and other operating income	145	133
Total revenue from contracts with customers	792	734

2.5 Market value adjustments and dividends

§ Accounting policies

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

	2019 DKKm	2018 DKKm
Other loans, advances and receivables at fair value	3	-2
Bonds	74	-16
Shares, etc.	141	168
Currency	58	56
Foreign exchange, interest, share, commodity and other contracts and derivatives	44	8
Assets linked to pooled schemes	1,926	-1,133
Deposits, pooled schemes	-1,926	1,133
Other liabilities	0	0
Total market value adjustments	320	214
Dividends on shares, etc.	60	55
Market value adjustments and dividends on shares, etc., total	379	268

Section 2

Income statement

2.6 Other income

§ Accounting policies

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

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

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

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

	2019 DKKkm	2018 DKKkm
Gain on sale of properties	0	0
Gain on sale of other property, plant and equipment	0	3
Gain on sale of investments in associates	0	155
Payments under operating leases and other rental income	9	12
Other income	27	25
Operation of investment properties	14	15
Total other operating income	51	211
Income from investments in associates	110	36
Other income, total	160	247

Section 2

Income statement

2.7 Staff costs

§ Accounting policies

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

	2019 DKKm	2018 DKKm
Salaries	975	919
Pensions	111	106
Social security costs	132	128
Total staff costs	1,218	1,152

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

Board of Directors

Number	9	9
Fixed remuneration	4.0	3.8
Pension	-	-
Total remuneration	4.0	3.8

Breakdown of remuneration to Board of Directors

Kjeld Johannesen	0.8	0.8
Per Nikolaj Bukh	0.6	0.6
Lene Aaen (took office on 19 April 2018)	0.3	0.2
Kaj Christiansen	0.4	0.4
Morten Bach Gaardboe	0.4	0.3
Laila Mortensen	0.4	0.4
Ole Skov (retired on 19 April 2018)	-	0.2
Jannie Skovsen	0.3	0.3
Gitte Holmgaard Sørensen	0.3	0.3
John Sørensen	0.4	0.4
Total remuneration earned and paid	4.0	3.8
Of which, committee fees	0.7	0.7

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

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

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

Material risk takers:

Number (avg. number of risk takers)	15	15
Fixed pay *)	18.5	18.6
Variable pay	0.7	1.3
Pension	2.7	2.6
Total remuneration earned and paid	21.8	22.6

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

In accordance with the Danish Financial Business Act, Spar Nord's remuneration policy defines the group of persons who are material risk takers. No variable remuneration components over and above the statutorily allowed lower threshold limit (DKK 100,000 per year) are paid to material risk takers. Variable pay of DKK 1.3 million in 2018 includes DKK 0.5 of severance payments. The remuneration paid to Group Management (Board of Directors and Executive Board) does not include any variable components or discretionary pension benefits. The remuneration policy was adopted at the Annual General Meeting on 10.04.2019. The remuneration policy is available at sparnord.com/investor-relations/organisation/governance/.

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

Section 2

Income statement

	2019 DKKm	2018 DKKm
Executive Board		
Number	3	3
Base salary	12.2	11.8
- less fees received from directorships	1.6	1.7
The Bank's expense, base salary	10.6	10.1
Pension	1.9	1.8
Total remuneration earned and paid	12.5	12.0
Breakdown of remuneration to Executive Board		
<i>Lasse Nyby</i>		
Base salary *)	4.6	4.4
- less fees received from directorships	0.6	0.7
The Bank's expense, base salary	3.9	3.7
Pension	0.7	0.7
Total remuneration earned and paid	4.6	4.4
<i>John Lundsgaard</i>		
Base salary	3.8	3.7
- less fees received from directorships	0.3	0.4
The Bank's expense, base salary	3.5	3.3
Pension	0.6	0.6
Total remuneration earned and paid	4.1	3.9
<i>Lars Møller</i>		
Base salary *)	3.8	3.7
- less fees received from directorships	0.7	0.6
The Bank's expense, base salary	3.2	3.1
Pension	0.6	0.6
Total remuneration earned and paid	3.8	3.7

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

The members of the Executive Board receive no variable pay.

Members of the Executive Board receive remuneration for their Group executive board duties based on the management agreement with the subsidiary.

Termination rules

The members of the Executive Board are entitled to a notice period of 12 months and will receive severance pay corresponding to two years' salary until their 64th birthday. Subsequently, the severance pay will be reduced gradually, and no severance pay will be paid when member of the Executive Board has reached the age of 67.

Pension obligation

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

Note 6.7 provides information on the Board of Directors and the Executive Board's loans, advances and loan commitments, deposits, collateral and interest rates.

Number of employees

Average number of employees in the financial year converted into full-time equivalents	1,535	1,524
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Section 2

Income statement

2.8 Operating expenses



Accounting policies

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

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

	2019 DKKm	2018 DKKm
IT costs	388	405
Marketing expenses	79	91
Cost of premises *)	58	86
Staff costs and travel expenses	64	60
Office expenses	16	19
Other administrative expenses	105	55
Operating expenses	711	716
Depreciation, amortisation and impairment *)	86	55
Total operating expenses	796	771

*) Change relating to IFRS 16. See note 1.1.3.

2.8.1 Audit fees

Fees to the audit firm appointed at the General Meeting	1.4	2.3
Fees to other audit firms for non-audit services	0.7	0.7
Total audit fees	2.1	3.0

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

Statutory audit	1.0	0.9
Other assurance engagements	0.2	0.5
Tax and VAT assistance	0.0	0.0
Non-audit services	0.3	0.8
Total fees to the audit firm appointed at the General Meeting	1.4	2.3

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

In 2018, the fee for non-audit services provided by Ernst & Young, godkendt revisionspartnerselskab to the Group amounted to DKK 0.8 million, consisting of other services which included a review of the quarterly financial statements with a view to recognising the profit for the period in capital and the arrangement of a workshop concerning IRB models.

2.8.2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

	2019 DKKm	2018 DKKm
Intangible assets		
Customer relations, amortisation	4	6
Other intangible assets, amortisation	3	2
Property, plant and equipment		
Domicile properties, depreciation	41	16
Domicile properties, net impairment	2	-6
Temporary property portfolio, impairment	0	1
Other property, plant and equipment, depreciation	36	36
Total amortisation, depreciation and impairment of intangible assets and property, plant and equipment	86	55

2.9 Impairment of loans, advances and receivables etc.

Impairment of loans at amortised cost	127	137
Write-downs on amounts due from credit institutions and central banks	0	0
Provision for losses on guarantees	-39	12
Provisions for losses on unutilised credit lines and loan commitments	-67	55
Loss without prior impairment	89	79
Amounts recovered on previously impaired receivables	65	77
Interest accrued on loans subject to impairments	21	33
Value adjustment of properties taken over	-1	0
Total	22	173

An additional specification of loan impairments etc. is provided in note 5.1 on credit risk.

Section 2

Income statement

2.10 Tax

§ Accounting policies

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

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

	2019 DKKkm	2018 DKKkm
Tax on profit/loss for the year	243	174
Tax on other comprehensive income	0	0
Tax on changes in equity	-11	-66
Total tax	232	108

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

Current tax	383	133
Deferred tax for the year	-141	34
Adjustment of deferred tax, prior years	-1	3
Adjustment of current tax for prior years	1	4
Tax on profit/loss for the year	243	174

Specification of the effective tax rate:

Current tax rate	22.0	22.0
Income from investments and market value adjustment of shares, %	-3.0	-4.1
Non-deductible expenses and non-taxable income, %	-0.4	-2.7
Adjustment of prior-year taxes, %	0.0	0.7
Total effective tax rate	18.6	15.9

Tax on other comprehensive income	Before tax	Tax	After tax	Before tax	Tax	After tax
	2019	income/ expense	2019	2018	income/ expense	2018
	DKKkm	DKKkm	DKKkm	DKKkm	DKKkm	DKKkm
Adjustment relating to associates	-6	0	-6	0	0	0
Net revaluation of properties	-10	0	-10	9	0	9
Tax on other comprehensive income, total	-16	0	-16	10	0	10

Tax on changes in equity

Change in accounting policies, IFRS 9	0	0	0	-250	55	-195
Amortisation, additional fees and and commissions received at 01.01.2019	-51	11	-40	0	0	0
Interest, additional tier 1 (AT1) capital *)	-49	0	-49	-49	11	-38
Tax on changes in equity	-100	11	-89	-299	66	-233

*) Tax on interest on additional tier 1 capital is from 2019 recognised in the income statement, cf. note 1.1.3.

Balance sheet

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Main items

Lending, banking and leasing activities

DKK **43,157** million

2018: DKK **39,551** million

Shares in the trading book

DKK **132** million

2018: DKK **134** million

Guarantees

DKK **14,766** million

2018: DKK **12,092** million

Shares in the banking book

DKK **1,607** million

2018: DKK **1,634** million

Bonds at fair value

DKK **16,498** million

2018: DKK **16,160** million

Deposits

DKK **53,279** million

2018: DKK **50,773** million

Deposits, pooled schemes

DKK **17,323** million

2018: DKK **14,772** million

Balance sheet

3.1 Due from credit institutions and central banks

§ Accounting policies

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

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

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

	2019 DKKm	2018 DKKm.
Due from credit institutions, reverse repo transactions	924	931
Due from credit institutions, other	663	469
Total due from credit institutions and central banks	1,588	1,400
Shown by term to maturity		
Demand deposits	279	172
Up to 3 months	1,309	1,228
Over 3 months and up to 1 year	0	0
Between 1 year and 5 years	0	0
Over 5 years	0	0
Total	1,588	1,400

3.2 Loans, advances and other receivables at amortised cost

§ Accounting policies

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

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

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

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

Section 3

Balance sheet

Significant accounting estimates and judgments, loan impairment

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

Under the Bank's expected credit loss model, a loss allowance must be recognised on all credit exposures. The expected credit loss model is based on a complex model involving a number of underlying assumptions concerning choice of variable input and their interdependence. Stage 1 and Stage 2 impairments are made on the basis of a model calculation, whereas the calculation in respect of exposures from the weak part of stage 2 as well as stage 3 is made as a combination of an individual assessment and a modal calculation. The following components of the model are considered accounting estimates and judgments:

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

Spar Nord has defined a list of risk events that indicate credit impairment. Some risks are registered automatically in the systems, while others are registered manually by customer advisers or credit staff members, including credit-quality flagging of customers. Credit-quality flagging is based on important Management estimates, particularly affected by such factors as property prices, unemployment rates and demand for various products and services. Credit-quality flagging has a direct impact on customer impairments as it affects customer PD values. See note 5.1.1 for a description hereof.

In accordance with an assessment of default, loan exposures of less than DKK 250,000 are subject to an automated process of credit-quality flagged customers based on customer data and characteristics.

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

The model calculation of the expected losses on impairments in stage 1 and 2 includes an add-on/deduction calculated on the basis of a weighting of the various scenarios with different approaches to macroeconomic developments in the coming years.

At end-2019, the Bank increased total impairments by DKK 303 million relating to management estimates. The increase in management estimates primarily relates to a reduction of agricultural land values (DKK 169 million). Moreover, the management estimates relate to model uncertainty pursuant to the Bank's PD models (DKK 82 million) and lack of discounting of collateral in the individual impairment charges (DKK 53 million).

From end-2018 to end-2019, the impairment account fell from DKK 1.9 billion to DKK 1.5 billion.

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

Loans and advances amounted to DKK 51,312 million, corresponding to about 55% of the Group's assets at end-2019.

	2019 DKKm	2018 DKKm
Lending, reverse repo transactions	8,155	4,779
Lending, banking and leasing activities	43,157	39,551
Loans, advances and other receivables at amortised cost, total	51,312	44,330
Broken down by category		
Loan contracts with access to variable utilisation	24,216	21,978
Lease agreements	4,634	3,754
Other lending	22,462	18,598
Total	51,312	44,330
Shown by term to maturity		
Demand deposits	1,297	1,126
Up to 3 months	9,464	5,731
Over 3 months and up to 1 year	19,057	16,734
Between 1 year and 5 years	8,494	8,048
Over 5 years	13,000	12,691
Total	51,312	44,330

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

Section 3

Balance sheet

Finance leases as lessee



Accounting policies

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

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

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

Lease payments broken down by contractual term to maturity	2019 DKKkm	2018 DKKkm
Year 1	1,109	842
Year 2	1,077	856
Year 3	905	788
Year 4	745	602
Year 5	462	441
Year 6 onwards	561	421
Total gross investments in finance leases	4,858	3,950
Of which, unearned, future financial income	225	196
Total net investments in finance leases	4,634	3,754
Year 1	1,028	771
Year 2	1,019	804
Year 3	866	755
Year 4	722	582
Year 5	450	431
Year 6 onwards	549	411
Total net investments in finance leases	4,634	3,754
Lease income is recognised in the income statement under the item "Interest income"	99	83
Average remaining term of the lease contracts (years)	3.2 years	3.3 years

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

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

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

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

Section 3

Balance sheet

3.3 Securities



Accounting policies

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

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

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

Strategic shares

Spar Nord's strategic shares that are not included in the Group's trading book are measured at fair value through profit and loss.

Strategic shares form part of a portfolio that is managed – and on which the returns are measured on the basis of fair value – in accordance with a documented risk management and investment strategy.

Acquired strategic shares, which are not included in the trading portfolio, are measured at fair value on the basis of available trading information or accepted valuation principles and current market data, including an assessment of future earnings and cash flows (Level 3). The fair value is also affected by co-ownership, trading with the relevant company and shareholders' agreements.



Significant accounting estimates and judgments, fair value of financial instruments

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

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

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

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

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

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

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

Financial instruments valued on the basis of non-observable input amounted to DKK 1,858 million, equal to 2% of Spar Nord's assets at year-end 2019.

3.3.1 Bonds at fair value

	2019 DKK m	2018 DKK m
Mortgage bonds	14,420	13,762
Government bonds	723	716
Other bonds	1,354	1,681
Bonds at fair value, total	16,498	16,160
Of which, subordinated receivables	41	47

All bonds form part of the Bank's trading book.

3.3.2 Shares, etc.

Shares/unit trust certificates listed on NASDAQ Copenhagen A/S	146	138
Shares/unit trust certificates listed on other stock exchanges	41	39
Unlisted shares at fair value	1,552	1,590
Total shares, etc.	1,740	1,768
Trading book	132	134
Banking book	93	89
Banking book, strategic shares	1,514	1,545
Total shares, etc.	1,740	1,768

Section 3

Balance sheet

3.3.3 Other non-derivative financial liabilities at fair value



Accounting policies

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

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

	2019 DKKm	2018 DKKm
Balancing item to negative bond portfolios in connection with reverse repo transactions	953	1,014
Balancing item to negative equity portfolios in connection with share loans	7	4
Total other non-derivative financial liabilities at fair value	960	1,018

3.3.4 Information on fair value of financial instruments



Accounting policies

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

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

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

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

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

Fair value measurement of financial instruments

Fair value is the amount at which a financial asset or liability may be traded between market participants at the measurement date in the principal market, or, in its absence, the most advantageous market to which Spar Nord has access at such time Spar Nord's bond trading takes place primarily directly between professional counterparties and not trading directly on the stock exchange.

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

- **Level 1 – Quoted market price:**
Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2 – Observable input:**
Valuation techniques based on inputs other than quoted prices at Level 1, observable either directly (prices) or indirectly (derived from prices). Observable input is obtained from recognised providers of price information, which is used in trading with financial counterparties. Spar Nord primarily uses Reuters.

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

- **Level 3 – Non-observable input:**
Valuation techniques based on inputs for valuing an asset or liability based on unobservable market data. For a number

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

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

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

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

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

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

Prices available via Reuters are real-time prices provided by large Danish and European banks, which means that end-prices take into account interest rate developments since the latest transactions. Spar Nord believes that these prices express the most correct fair value of the bond portfolios, which are mainly traded between professional counterparties and other large single transactions.

Section 3

Balance sheet

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

Shares are valued according to the following principles:

- In case of quoted prices, the fair value is fixed as a price quoted by a recognised exchange or an external party.
- In case of pricing based on observable inputs, the fair value is calculated based on available prices for shares that are not listed.
- In case of pricing based on non-observable inputs, the calculation includes shares valued according to generally accepted valuation principles, e.g., the discounting of expected future cash flows, market expectations as to required rate of return on equity and comparable transactions. Shares that are priced on the basis of the prices recommended by Lokale Pengeinstitutter (the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) are included as non-observable inputs.

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

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

Derivatives

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

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

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

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

Recognition of financial assets and financial liabilities

2019

	Amortised cost DKKm	Fair value through profit or loss DKKm
Cash balances and demand deposits with central banks	1,152	0
Due from credit institutions and central banks	1,588	0
Loans, advances and other receivables at amortised cost	51,312	0
Bonds at fair value	0	16,498
Shares, etc.	0	1,740
Assets linked to pooled schemes	0	17,323
Positive fair value of derivatives	0	828
Total financial assets	54,051	36,389

Due to credit institutions and central banks	4,062	0
Deposits and other payables	53,279	0
Deposits, pooled schemes	0	17,323
Issued bonds at amortised cost	2,637	0
Other non-derivative financial liabilities at fair value	0	960
Lease liabilities	132	0
Negative fair value of derivatives	0	555
Subordinated debt	1,322	0
Total financial liabilities	61,432	18,839

2018

	Amortised cost DKKm	Fair value through profit or loss DKKm
Cash balances and demand deposits with central banks	1,029	0
Due from credit institutions and central banks	1,400	0
Loans, advances and other receivables at amortised cost	44,330	0
Bonds at fair value	0	16,160
Shares, etc.	0	1,768
Assets linked to pooled schemes	0	14,772
Positive fair value of derivatives	0	862
Total financial assets	46,758	33,560

Due to credit institutions and central banks	2,466	0
Deposits and other payables	50,773	0
Deposits, pooled schemes	0	14,772
Other non-derivative financial liabilities at fair value	0	1,018
Negative fair value of derivatives	0	550
Subordinated debt	1,332	0
Total financial liabilities	54,571	16,339

Section 3

Balance sheet

Day 1 gains (customer margin)

When valuing unlisted derivative instruments, the initial customer margin, etc. is amortised over the remaining term to maturity. At the end of 2019, the customer margin, etc. not yet amortised amounted to DKK 68 million (2018: DKK 73 million).

In Day 1 gains, DKK 8 million (2018: DKK 9 million) was offset from CVA at end-2019, which is the credit value component of derivatives.

	2019 DKKm	2018 DKKm
Unamortised customer margin at 1 January	73	72
Net development in amortisation of customer margin	-5	1
Unamortised customer margin at 31 December	68	73

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

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

2018	Quoted prices Level 1 DKKm	Observable inputs Level 2 DKKm	Non-Observable inputs Level 3 DKKm	Total DKKm
Bonds at fair value	14,041	2,118	0	16,160
Shares, etc.	177	43	1,548	1,768
Assets linked to pooled schemes	11,152	3,290	330	14,772
Positive fair value of derivatives	0	848	13	862
Total financial assets	25,370	6,299	1,891	33,560
Deposits, pooled schemes	0	14,772	0	14,772
Other non-derivative financial liabilities at fair value	969	49	0	1,018
Negative fair value of derivatives	0	550	0	550
Total financial liabilities	969	15,370	0	16,339

In 2018, assets recognised under positive fair value of derivatives were transferred from observable inputs (Level 2) to non-observable inputs (Level 3). The adjustment to fair value is recognised in market value adjustments. For recategorisation from level 1 to level 2 for bonds at fair value, other non-derivative financial liabilities at fair value and assets linked to pooled schemes at 31.12.2019, reference is made to the description above.

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Balance sheet

Level 3	Fair value based on net asset value, cf. shareholders' agreements	Other	Fair value based on net asset value, cf. shareholders' agreements	Other
	2019 DKKm	2019 DKKm	2018 DKKm	2018 DKKm
Equities	1,148	368	1,181	367
Assets linked to pooled schemes	-	342	-	330
Positive fair value of derivatives	-	0	-	13



Sensitivities

Change in the fair value of shares if the profit/loss of the companies change by 10%	11	-	11	-
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A substantial portion of the shares included under "Other" are valued based on future expected cash, market expectations as to the required rate of return on equity and comparable transactions.

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

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

In 2019, the Bank recognised unrealised market value adjustments of DKK 81 million (2018: DKK 176 million) in respect of financial assets held on the balance sheet date valued on the basis of non-observable inputs.

	2019 DKKm	2018 DKKm
Carrying amount at 1 January	1,891	1,719
Value adjustments through profit or loss	110	180
Market value adjustments in other comprehensive income	0	0
Purchase	21	33
Sale	165	75
Transferred to/from Level 3	0	35
Carrying amount at 31 December	1,858	1,891
Value adjustments through profit or loss of assets held at the reporting date	81	176

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

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Balance sheet

Financial instruments recognised at amortised cost – information on fair value

	Carrying amount 2019 DKKm	Fair value 2019 DKKm	Carrying amount 2018 DKKm	Fair value 2018 DKKm
Cash balances and demand deposits with central banks *)	1,152	1,152	1,029	1,029
Due from credit institutions and central banks *)	1,588	1,588	1,400	1,400
Loans, advances and other receivables at amortised cost *)	51,312	51,483	44,330	44,457
Total financial assets	54,051	54,223	46,758	46,885
Due to credit institutions and central banks *)	4,062	4,062	2,466	2,466
Deposits and other payables *)	53,279	53,279	50,773	50,773
Issued bonds at amortised cost **)	2,637	2,639	0	0
Lease liabilities *)	132	132	0	0
Subordinated debt ***)	1,322	1,344	1,332	1,329
Total financial liabilities	61,432	61,456	54,571	54,568

*) Level 3 in the fair value hierarchy

**) Level 1 in the fair value hierarchy

***) Level 1 in the fair value hierarchy amounts to DKK 0 million (2018: DKK 438 million), and Level 3 in the fair value hierarchy amounts to DKK 1,344 million (2018: DKK 891 million).

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

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

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

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Balance sheet

3.4 Investments in associates

§ Accounting policies

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

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

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

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

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

	2019 DKKm	2018 DKKm
Total cost, beginning of year	311	86
Additions	51	266
Disposals	7	41
Total cost, end of year	354	311
Revaluations and impairment, beginning of year	22	42
Profit/loss for the year	110	36
Dividend	14	7
Other capital movements recognised in comprehensive income	-6	0
Reversal of revaluations and impairments	-4	50
Revaluations and impairment, end of year	116	22
Carrying amount, end of year	470	333

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

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

In 2018, Spar Nord sold shares in Valueinvest Asset Management SA, which produced a gain of DKK 154 million.

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

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

	2019 DKKm	2018 DKKm
Spar Nord's share of:		
Profit/loss for the year	5	30
Other comprehensive income	0	0
Total comprehensive income	5	30

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Balance sheet

Financial information for associates that are individually significant

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

The accounting figures in the 2019 column below are from the most recently published annual report for the 2018 financial year of Danske Andelskassers Bank A/S.

	2019 DKKm	2018 DKKm
	Danske Andels- kassers Bank A/S	Danske Andels- kassers Bank A/S
Registered office	Hammershøj	Hammershøj
Ownership interest (%)	28.5	30.1
Share of votes (%)	28.5	30.1
Statement of comprehensive income		
Revenue	557	577
Profit/loss for the year	122	84
Other comprehensive income	-1	-2
Total	121	82
Dividends received	0	0
Balance sheet		
Loans, advances and receivables etc.	6,247	6,132
Other assets	4,852	4,663
Total assets	11,099	10,795
Deposits and other payables	8,602	8,482
Other liabilities	1,071	897
Total liabilities	9,673	9,379
Equity	1,427	1,416
Spar Nord's share of equity in Danske Andelskassers Bank A/S according to the most recently published annual report	407	426

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

Based on the market price, Spar Nord's share of the fair value of Danske Andelskassers Bank A/S (Level 1 in the fair value hierarchy) was calculated at DKK 334 million (2018: DKK 254 million).

Reconciliation of carrying amount at 31 December

	2019 DKKm	2018 DKKm
Carrying amount of equity investments in individually significant associates	408	268
Goodwill relating to associates	0	0
Carrying amount of equity investments in individually non-significant associates	63	66
Total	470	333

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Balance sheet

3.5 Pooled schemes

§ Accounting policies

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

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

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

	Pension pools 2019 DKKm	Other pools 2019 DKKm	Total 2019 DKKm	Total 2018 DKKm
Cash deposits	676	7	684	659
Bonds	5,976	72	6,048	5,395
Shares, etc.	7,045	85	7,129	6,913
Unit trust certificates	3,385	44	3,429	1,765
Other assets	33	0	34	40
Total assets	17,115	208	17,323	14,772
Total deposits	17,115	208	17,323	14,772
Total equity and liabilities	17,115	208	17,323	14,772

3.6 Intangible assets

	2019 DKKm	2018 DKKm
Goodwill	159	159
Customer relations	9	13
Other intangible assets	6	6
Total intangible assets	174	178

3.6.1 Goodwill

§ Accounting policies

Acquired goodwill is recognised at cost less accumulated impairment writedowns, as described under Business combinations.

Goodwill is not amortised.

Goodwill on associates is recognised in Investments in associates.

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

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

	2019 DKKm	2018 DKKm
Total cost, beginning of year	160	160
Additions	0	0
Disposals	0	0
Total cost, end of year	160	160
Impairment, beginning of year	2	2
Impairment for the year	0	0
Reversal of impairment on disposals	0	0
Impairment, end of year	2	2
Carrying amount, end of year	159	159

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	Cost 01.01.19 DKKm	Additions/ disposals 2019 DKKm	Cost 31.12.19 DKKm	Impairment 01.01.19 DKKm	Impairment 2019 DKKm	Impairment on disposals 2019 DKKm	Impairment 31.12.19 DKKm	Carrying amount 31.12.19 DKKm
Banking activities, Roskilde Bank branches	87	0	87	0	0	0	0	87
Banking activities, Sparbank	35	0	35	0	0	0	0	35
Banking activities, branches, Other	38	0	38	2	0	0	2	37
Total goodwill	160	0	160	2	0	0	2	159

	Cost 01.01.18 DKKm	Additions/ disposals 2018 DKKm	Cost 31.12.18 DKKm	Impairment 01.01.18 DKKm	Impairment 2018 DKKm	Impairment on disposals 2018 DKKm	Impairment 31.12.18 DKKm	Carrying amount 31.12.18 DKKm
Banking activities, Roskilde Bank branches	87	0	87	0	0	0	0	87
Banking activities, Sparbank	35	0	35	0	0	0	0	35
Banking activities, branches, Other	38	0	38	2	0	0	2	37
Total goodwill	160	0	160	2	0	0	2	159

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

3.6.2 Customer relations

§ Accounting policies

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

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

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

	2019 DKKm	2018 DKKm
Total cost, beginning of year	65	65
Additions	0	0
Disposals	0	0
Total cost, end of year	65	65
Depreciation and impairment, beginning of year	52	46
Impairment for the year	4	6
Depreciation and impairment, end of year	55	52
Carrying amount, end of year	9	13

3.6.3 Other intangible assets

§ Accounting policies

Acquired software is recognised at cost, including installation expenses, and amortised according to the straight-line method over the expected useful life of a maximum of five years.

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

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

	2019 DKKm	2018 DKKm
Total cost, beginning of year	29	30
Additions	2	3
Disposals	0	3
Total cost, end of year	31	29
Depreciation and impairment, beginning of year	23	23
Depreciation for the year	3	2
Reversal of amortisation on disposals	0	3
Depreciation and impairment, end of year	25	23
Carrying amount, end of year	6	6

The remaining amortisation periods are 1-3 years (2018: 1-4 years) for customer relations and 1-5 years (2018: 1-5 years) for other intangible assets. Goodwill had an indefinite useful life in both 2019 and 2018.

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3.6.4 Impairment test

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

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

The share of equity has been fixed at 13.5% (2018: 13%) of total risk exposure amount.

The impairment test in 2019 did not give rise to any writedowns for impairment of intangible assets.

Goodwill

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

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

Principal assumptions

Cash flow during budget period

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

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

Growth during the budget period is projected at 1.5% (2018: 1.5%) The average annual growth reflects the targets incorporated into the Bank's outlook for the future.

Net interest income

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

The interest margin is estimated on the basis of current lending and borrowing rates and Management's expectations for future competition. The pressure on the Bank's interest rate margin is expected to abate, while the interest margin is expected to continue to trend lower.

Lending is expected to continue recent years' growth rates, while deposits are expected to increase slightly.

Net fee income

The expectations for income from fees, charges and commissions are based on historical data, adjusted to reflect the current situation. Fee income in 2020 is not expected to be maintained at the level achieved in 2019, which saw unusually strong remortgaging activity. From 2021 onwards, Spar Nord expects an increase in net fee income.

Market value adjustments

Market value adjustments are expected to be substantially lower than in 2019, when there were extraordinarily high market value adjustments of both shares and bonds.

Costs and expenses

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

Loan impairments

Expectations as to loan impairments are based on the Bank's estimate for the next few years. The expectations are based on historical data, adjusted to reflect the current situation. Loan impairment charges are expected to be higher than in 2019, albeit at a low level.

Cash flow during the terminal period

Cash flow during the terminal period represents earnings in the preceding years, growing at a constant rate. Growth is projected at 1.5% (2018: 1.5%).

Growth has been projected on the basis of expectations for macroeconomic growth.

Discount rate

The discount rate used to calculate the discounted value of future cash flows is 11.5% (2018: 11.5%) before tax at a tax rate of 22%.

After tax, the discount rate is 9.0% (2018: 9.0%).

The discount rate has been fixed on the basis of a CAPM model. The discount rate was unchanged from 2018 to 2019.

Primary assumptions; see above:

	2019	2018
Acquired goodwill, DKKm	159	159
Budget period	5 years	5 years
Average annual growth during the budget period	1.5%	1.5%
Average annual growth during the terminal period	1.5%	1.5%
Discount factor before tax	11.5%	11.5%
Discount factor after tax	9.0%	9.0%
Share of equity of total risk exposure amount	13.5%	13.0%

Sensitivity analysis

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

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

	2019	2018
The following matters do not lead to impairment		
Increase in the discount rate (pre-tax) up to	14%	18%
Reduction in pre-tax profit/loss (change in net interest income, fee income, cost ratio or impairment) up to	20%	38%
Negative growth in balance-sheet items possible	Yes	Yes

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Projections for the budget period mean that 70% of the present value of expected cash flows in Spar Nord's Local Banks relates to the terminal period (2018: 70%).

Customer relations

The carrying amount of customer relations recognised in connection with the merger with Sparbank amounted to DKK 9 million (2018: DKK 13 million).

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

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

Other intangible assets

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

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

3.7 Property, plant and equipment

3.7.1 Land and buildings



Accounting policies

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

The fair value is calculated on the basis of current market data according to an asset return model that includes the property's rental income, operating expenses, as well as management and maintenance, etc. Operating expenses and maintenance costs

are calculated on the basis of the condition of the individual property, construction year, materials used, etc. The fair value of the property is determined based on the calculated return on its operation and the individually determined rate of return. The return rate is fixed on the basis of the location of the individual property, potential use, the state of maintenance, credit quality, etc. The fair value of the individual property is reassessed once a year based on the current market and the interest level.

Land is not depreciated.

	2019 DKKm	2018 DKKm
Investment properties	136	135
Domicile properties	520	548
Domicile properties, leasing	132	-
Land and buildings, total	788	683

Investment properties



Accounting policies

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

Investment property is not depreciated.

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

	2019 DKKm	2018 DKKm
Fair value, beginning of period	135	135
Additions, incl. improvements	0	0
Disposals	0	0
Unrealised fair value adjustment	1	0
Fair value, end of year	136	135

Required rate of return used in calculating the fair value, %	5.5 - 9.0	5.8 - 9.0
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Unrealised fair value adjustment is recognised in the item other income in the consolidated financial statements.

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

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

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

0	0
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Balance sheet

Domicile property

S Accounting policies

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

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

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

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

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

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

	2019 DKKm	2018 DKKm
Total cost, beginning of year	692	631
Transferred to/from temporary assets	0	12
Additions	10	55
Disposals	18	6
Total cost, end of year	684	692
Value adjustment, beginning of year	144	144
Transferred to/from temporary assets	0	3
Depreciation for the year	17	16
Net impairment via the income statement	2	-5
Changes in value recognised in other comprehensive income	10	-10
Depreciation and impairment on disposals	9	4
Value adjustment, end of year	164	144
Fair value, end of year	520	548
Required rate of return used in calculating the fair value, %	5.8 - 9.0	5.8 - 9.0
Carrying amount if domicile properties were measured according to the depreciated cost method	427	445
Collateral provided to mortgage credit institutions in the form of mortgages on land and buildings has a carrying amount of	-	-

From the subsidiary Aktieselskabet Skelagervej 15, additions in 2019 include domicile property in the amount of DKK 0 million (2018: DKK 24 million) regarding a property under construction and DKK 1 million (2018: DKK 0 million) regarding refurbishment of properties.

No borrowing costs were recognised in 2019 and 2018.

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

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

The annual review of the Bank's investment and corporate properties did not give rise to any significant changes in the required rates of return. The required rates of return remained within the 5.8-9.0% range (2018: 5.8-9.0%) for domicile properties and the 5.5-9.0% range (2018: 5.8-9.0%) for investment properties.

Required rates of return

2019

Required rates of return in %

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

2018

Required rates of return in %

	Domicile properties		Investment properties	
	Number of properties	Fair value year-end	Number of properties	Fair value year-end
-> 7.00	11	196	1	16
7.00 - 8.00	13	250	3	90
8.00 - 9.00	7	101	6	29
Total	31	548	10	135

Required rates of return

-> 7.00
7.00 - 8.00
8.00 - 9.00
9.00 ->

Property characteristics

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

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Balance sheet

Sensitivity analyses

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

Other things being equal, an increase of the required rate of return of 0.5 percentage point will reduce the fair value by DKK 44 million (2018: DKK 44 million).

Other things being equal, a decrease of the rental level of 5% will reduce the fair value by DKK 30 million (2018: DKK 30 million).

Domicile properties, leasing

§ Accounting policies

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

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

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

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

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

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

⚡ Significant accounting estimates and judgments, leasing

Lease term

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

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

	Lease liabilities recognised in the balance sheet (discounted) DKKm	Potential future lease liability not recognised in the balance sheet (discounted) *) DKKm
Domicile properties	132	16

* Lease contracts not yet in force.

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Balance sheet

Alternative borrowing rate

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

	2019 DKKm	2018 DKKm
Balance, 1 January	0	-
Effects of transition, 1 January	111	-
Adjusted balance, beginning of year	111	-
Additions	0	-
Disposals	1	-
Remeasurement of lease liability	46	-
Depreciation for the year	24	-
Balance sheet at 31 December	132	-

3.7.2 Other property, plant and equipment



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

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

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

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

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

	2019 DKKm	2018 DKKm
Other property, plant and equipment	99	110
Operating lease assets	13	17
Other property, plant and equipment, total	113	127

Other property, plant and equipment

	2019 DKKm	2018 DKKm
Total cost, beginning of year	340	341
Additions	28	42
Disposals	28	42
Total cost, end of year	341	340
Depreciation and impairment, beginning of year	231	236
Depreciation and impairment for the year	35	32
Reversal of depreciation and impairment for the year	23	37
Depreciation and impairment, end of year	242	231
Carrying amount, end of year	99	110

The figures at end-2019 include various fully written-off assets used for the Spar Nord Group's operations. The original purchase price of these assets amounts to DKK 239 million (2018: DKK 203 million).

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Balance sheet

Operating lease assets

§ Accounting policies

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

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

	2019 DKKm	2018 DKKm
Total cost, beginning of year	25	43
Additions	9	7
Disposals	17	26
Total cost, end of year	16	25
Depreciation and impairment, beginning of year	8	30
Depreciation and impairment for the year	2	4
Reversal of depreciation and impairment for the year	7	26
Depreciation and impairment, end of year	3	8
Carrying amount, end of year	13	17
The contracts can be terminated during the lease term.		
Lease payments by term		
Year 1	2	4
Year 2	2	4
Year 3	2	4
Year 4	2	2
Year 5	3	1
Year 6	1	1
Total lease payments under operating leases	13	17
Income from operating leases in the form of variable lease payments that do not depend on an index or a rate under other income in the amount of	4	7

Section 3

Balance sheet

3.7.3 Temporary assets

§ Accounting policies

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

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

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

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

	2019 DKKm	2018 DKKm
Total cost, beginning of year	22	39
Transferred from/to domicile properties	0	-12
Additions	11	8
Disposals	12	14
Total cost, end of year	21	22
Depreciation and impairment, beginning of year	13	18
Transferred from/to domicile properties	0	-3
Movements during the year:	-4	-1
Depreciation and impairment, end of year	9	13
Carrying amount, end of year	11	9

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

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

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

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

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

3.8 Other assets

§ Accounting policies

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

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

Other items are measured at amortised cost.

	2019 DKKm	2018 DKKm
Positive fair value of derivatives, etc.	828	862
Miscellaneous receivables	376	373
Interest and commissions receivable	52	44
Capital contribution to Bankernes EDB Central a.m.b.a.	500	445
Other assets	24	37
Total other assets	1,780	1,761

Section 3

Balance sheet

3.9 Due to credit institutions and central banks

§ Accounting policies

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

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

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

	2019 DKKkm	2018 DKKkm
Due to central banks	94	35
Due to credit institutions, repo transactions	2,764	1,519
Due to credit institutions, other	1,204	912
Total due to credit institutions and central banks	4,062	2,466

Shown by term to maturity

Demand deposits	283	288
Up to 3 months	3,753	2,151
Over 3 months and up to 1 year	27	0
Between 1 year and 5 years	0	27
Over 5 years	0	0
Total	4,062	2,466

3.10 Deposits and other payables

§ Accounting policies

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

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

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

	2019 DKKkm	2018 DKKkm
Repo transactions	0	0
Demand deposits	48,509	45,851
Subject to notice	1,651	1,418
Time deposits, excluding repo business	40	299
Special types of deposits	3,078	3,204
Total deposits and other payables	53,279	50,773

Shown by term to maturity

Demand deposits	48,509	45,851
Up to 3 months	1,521	1,380
Over 3 months and up to 1 year	140	89
Between 1 year and 5 years	562	79
Over 5 years	2,547	3,374
Total	53,279	50,773

Section 3

Balance sheet

3.11 Other liabilities

Accounting policies

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

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

	2019 DKKm	2018 DKKm
Miscellaneous payables	2,606	1,943
Negative fair value of derivatives, etc.	555	550
Interest and commissions payable	24	18
Lease liabilities	132	-
Other liabilities	348	327
Total other liabilities	3,664	2,838

3.11.1 Lease liabilities

Accounting policies

A lease liability is recognised in the balance sheet when, in accordance with a lease entered into regarding a specific, identifiable asset, the asset is made available for use by the Group throughout the lease term and when the Group becomes entitled to obtain substantially all of the economic benefits from use of the identified asset and entitled to direct the use of the identified asset. For information on recognition and measurement of lease assets, including extension and termination options, please refer to note 3.7.1.

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

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

The lease liability is presented under other liabilities.

Spar Nord has opted to omit recognised short-term leases in the balance sheet if the lease term at the date of contract is 12 months or less or if it is a low-value asset. Instead, lease payments are recognised in the income statement on a straight-line basis.

	2019 DKKm	2018 DKKm
Total lease payments for the year concerning leases	24	-

Amount recognised in the income statement

Interest payments relating to lease liabilities	0	-
Variable lease payments not recognised as part of the lease liability	0	-
Costs relating to short-term leases (less than 12 months)	0	-
Costs relating to low-value leases	0	-

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

Lease liabilities, specification of cash flows

	2019 DKKm	2018 DKKm
Lease liabilities recognised at 1 January	0	0
Payments in respect of principal	24	0
Payments in respect of interest element	0	0
Lease payments in respect of short-term leases and low-value leases	0	0
Total cash outflows regarding leases	24	0
Of which financing activity	24	0
Of which operating activity	0	0
Total	24	0

Section 3

Balance sheet

3.12 Deferred tax

§ Accounting policies

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

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

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

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

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

Adjustment is made to deferred tax relating to eliminations of unrealised intra-group profits and losses.

Deferred tax is measured on the basis of the tax regulations and rates that, according to the rules in force at the balance sheet date, will apply at the time the deferred tax is expected to crystallise as current tax. Changes in deferred tax resulting from changes in tax rates are recognised in the income statement.

	2019 DKKm	2018 DKKm
Beginning of period	173	136
Deferred tax for the year recognised in profit/loss for the year	-142	37
Deferred tax for the year recognised in other comprehensive income	0	0
Deferred tax for the year recognised in changes in equity	-11	0
Deferred tax, end of year	20	173

	Beginning of period DKKm	Recognised in profit for the year DKKm	Recognised in other comprehensive income etc. DKKm	End of year DKKm
Changes in deferred tax in 2019				
Intangible assets	29	0	0	30
Property, plant and equipment, incl. leased assets	176	-151	0	25
Loans, advances and other receivables at amortised cost	-17	0	-11	-29
Payables and subordinated debt	3	9	0	12
Provisions	-13	0	0	-13
Claw-back loss	4	0	0	4
Miscellaneous	-8	0	0	-8
Total	173	-142	-11	20

Changes in deferred tax in 2018

Intangible assets	29	1	0	29
Property, plant and equipment, incl. leased assets	130	45	0	176
Loans, advances and other receivables at amortised cost	-18	1	0	-17
Payables and subordinated debt	15	-13	0	3
Provisions	-17	4	0	-13
Claw-back loss	4	0	0	4
Miscellaneous	-7	-1	0	-8
Total	136	37	0	173

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Balance sheet

	2019 DKKm	2018 DKKm
Shown by term to maturity		
Up to 3 months	0	0
Over 3 months and up to 1 year	4	8
Between 1 year and 5 years	-1	-10
Over 5 years	17	175
Total	20	173

Deferred tax assets not recognised in the balance sheet

	Beginning of period DKKm	Recognised in profit for the year DKKm	Additions and disposals DKKm	End of year DKKm
2019				
Deferred tax assets not recognised relate to:				
Losses on properties with deductibility restricted to gains from the same source	11	0	2	13
Tax loss abroad	4	0	0	4
Deferred tax assets not recognised, total	15	0	2	17

2018

Deferred tax assets not recognised relate to:				
Losses on properties with deductibility restricted to gains from the same source	9	0	2	11
Tax loss abroad	5	0	0	4
Deferred tax assets not recognised, total	13	0	2	15

All deferred tax liabilities are recognised in the balance sheet.

The temporary differences in 2019 and 2018 relating to losses on properties with deductibility restricted to gains from the same source arose on the sale of properties.

3.13 Provisions

Accounting policies

Provisions include mainly guarantee commitments, provisions for losses on unutilised credit lines and loan commitments, legal actions and any restructuring costs, etc.

Restructuring costs are recognised as liabilities, provided that a detailed, formal restructuring plan is available at the reporting date.

A provision is recognised when a legal or constructive obligation exists and when it is probable that the obligation will become effective and it can be measured reliably.

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

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

	2019 DKKm	2018 DKKm
Provision for losses on guarantees	40	80
Provisions for losses in connection with legal proceedings	0	0
Other provisions	4	4
Provisions for unutilised credit lines and loan commitments	9	76
Total provisions	54	160

Provisions recognised in the income statement

New provisions	25	109
Reversed provisions	130	44
Total provisions recognised in the income statement	-106	65

Provision for losses on guarantees

Beginning of period	80	41
Amendments IAS 39 to IFRS 9	0	27
New provisions	21	39
Reversed provisions	60	28
End of year	40	80

Losses on guarantees recognised in the income statement

New provisions	21	39
Reversed provisions	60	28
Recognised in the income statement	-39	12

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Balance sheet

	2019 DKKm	2018 DKKm
Other provisions		
Beginning of period	4	7
New provisions	1	0
Reversed provisions	0	2
Applied to cover liabilities	0	0
End of year	4	4

Other provisions recognised in the income statement		
New provisions	1	0
Reversed provisions	0	2
Recognised in the income statement	0	-2

Provisions for unutilised credit lines and loan commitments

Beginning of period	76	15
Amendments IAS 39 to IFRS 9	0	7
New provisions	3	69
Reversed provisions	70	15
End of year	9	76

Provisions for unutilised credit lines and loan commitments recognised in the income statement		
New provisions	3	69
Reversed provisions	70	15
Recognised in the income statement	-67	55

Provisions by term to maturity, shown by category

	Up to 3 months DKKm	3 months up to 1 year DKKm	Over 1 year and up to 5 years DKKm	Over 5 years DKKm	Total DKKm
2019					
Provision for losses on guarantees	3	4	13	20	40
Other provisions	0	0	2	2	4
Provisions for unutilised credit lines and loan commitments	9	0	0	0	9
Total provisions	12	4	14	23	54
2018					
Provision for losses on guarantees	6	12	44	18	80
Other provisions	0	0	2	3	4
Provisions for unutilised credit lines and loan commitments	76	0	0	0	76
Total provisions	82	12	46	20	160

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

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

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

Other provisions include provisions for anniversary lump sums.

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Balance sheet

3.14 Off-balance sheet items



Accounting policies

Contingent assets and liabilities consist of possible assets and liabilities arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Spar Nord.

Contingent assets are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are disclosed when an outflow of economic resources from Spar Nord is possible but not probable.

Disclosure also includes current liabilities which have not been recognised because it is not probable that the liability will entail an outflow of economic resources from Spar Nord or where the liability cannot be reliably measured.

3.14.1 Contingent assets

	2019 DKKm	2018 DKKm
Unrecognised deferred tax assets	17	15

For further information, see note 3.12.

Spar Nord is party to pending legal proceedings regarding tax and duties. If Spar Nord is successful in these proceedings, it will have a positive profit impact.

3.14.2 Contingent liabilities

	2019 DKKm	2018 DKKm
Guarantees	14,766	12,092
Other binding commitments	515	551
Total contingent liabilities	15,281	12,643

Guarantees

	2019 DKKm	2018 DKKm
Financial guarantees	5,482	4,184
Loss guarantees for mortgage loans	5,458	5,388
Registration and refinancing guarantees	3,121	1,708
Other contingent liabilities	705	812
Total guarantees	14,766	12,092

Financial guarantees largely consist of payment guarantees.

Loss guarantees for mortgage loans have been granted for the highest-risk portion of mortgage loans to personal customers and on business properties. There is a full right of set-off against future income concerning Totalkredit and DLR.

Registration and refinancing guarantees are furnished in connection with Land Registry processing upon the arrangement and refinancing of mortgage loans.

Other contingent liabilities relate mainly to performance bonds and letters of credit.

Reference is made to note 2.7 regarding the Executive Board's notice of termination and the associated compensation.

Spar Nord is taxed jointly with its Danish subsidiary in the Spar Nord Group. As management company, Spar Nord has unlimited, joint and several liability together with the subsidiary for the Danish corporate income tax payable. Due to the payment of tax on account, no tax was payable at 31.12.2019 and 31.12.2018. The corporate income tax receivable within the tax pool amounted to DKK 54 million at 31.12.2019 (2018: DKK 130 million). Any adjustments to the taxable income subject to joint taxation might entail an increase in the Parent Company's liability.

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Balance sheet

Spar Nord has made provisions for a deferred tax liability in respect of recaptured losses related to international joint taxation.

The Bank participates in the national restructuring and resolution scheme, with separate contributions being paid to the Guarantee Fund and the Resolution Fund.

The Guarantee Fund covers depositors' eligible deposits in the Bank under EUR 100,000 (see section 9(1) of the Danish Act on a Depositor and Investor Guarantee Scheme). The Bank made no contributions to the Guarantee Fund in 2019, as the Guarantee Fund's assets exceed its target level of 0.8% of the covered deposits in the sector. The Bank may be required to pay contributions in future if the Guarantee Fund's assets fall below 0.8% of the covered deposits in the sector.

The Resolution Fund covers the costs associated with the possible winding-up of financial institutions under the auspices of Finansiel Stabilitet (the Winding-Up Company). The Bank's contributions to the Resolution Fund are calculated based on the Bank's pro-rata share of the sector's total equity and liabilities less own funds and the deposits covered by the Guarantee Fund, adjusted by a risk factor. The Bank's contribution to the Resolution Fund for 2019 amounted to DKK 7 million (2018: DKK 8 million).

The amount of the contingent liabilities and the possible due dates are subject to uncertainty, for which reason this information has not been disclosed.

Other binding commitments

	2019 DKK m	2018 DKK m
Data-processing centre	500	452
Lease liabilities, Spar Nord as lessee	15	98
Other binding commitments, total	515	551

Data-processing centre

Spar Nord has entered into an agreement with Bankernes EDB Central a.m.b.a. regarding the provision of IT services.

Spar Nord's membership of Bankernes EDB Central a.m.b.a. means that in case of termination of the Bank's membership, it is liable to pay an exit fee. In addition, a capital contribution to Bankernes EDB Central a.m.b.a. has been recognised under Other assets.

The Spar Nord Group has no other significant binding agreements.

Lease liabilities, Spar Nord as lessee

In 2019, Spar Nord has disclosed lease liabilities for leases concluded at the balance sheet date but for which the lease asset has not yet been made available.

Reference is also made to note 3.7.1, domicile properties, leasing, and note 3.11.1, lease liabilities.

In 2018, lease liabilities in which Spar Nord is the lessee were disclosed under contingent liabilities. In 2018, the accounting item included operating leases where Spar Nord has the right of use of an asset for a specific period of time against lease payments without assuming the significant risks and rewards of ownership of the asset. The leases concern the lease of properties and are not recognised in the balance sheet.

Maturity distribution of minimum lease payments

	2019 DKK m	2018 DKK m
Up to 1 year	2	23
1-5 years	8	47
Over 5 years	6	28
Total operating lease liabilities	15	98
Lease payments recognised under operating expenses	-	23

Spar Nord has not entered into finance leases as a lessee.

Section 4

Capital

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Main items

Earnings per share for the year

DKK **8.2**

2018: DKK **7.2**

Dividend per share

DKK **3.5**

2018: DKK **3.5**

Target:

Common equity tier 1 capital ratio

13.5%

2018: **13.0%**

Common equity tier 1 capital ratio

14.6%

2018: **14.0%**

Target:

Own funds ratio

17.5%

2018: **16.5%**

Own funds ratio

18.5%

2018: **18.0%**

Section 4

Capital

4.1 Capital management

S Spar Nord's objectives of capital management are:

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

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

In connection with Spar Nord's designation in early 2019 as a systemically important financial institution (SIFI), the Bank raised its capital targets as follows:

- a common equity tier 1 capital ratio of 13.5% (2018: 13.0%); and
- an own funds ratio of 17.5% (2018: 16.5%)

Under its dividend policy, Spar Nord aims to distribute 30–50% of the net profit for the year as dividends (changed from 40–50% in connection with the 2019 financial statements).

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

During the year under review, Spar Nord's common equity tier 1 (CET1) ratio ranged from 13.8–14.6% (2018: 14.0–14.4%) and thus exceeded Spar Nord's internal target for the period of 13.5% (2018: 13.0%). Correspondingly, the internal target of an own funds ratio of 17.5% (2018: 16.5%) has been met, as it remained within the 17.6–18.5% band during the year (2018: 17.8–18.9%).

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

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

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

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

Note 4.2 provides more details about the capital requirement.

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

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

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

Section 4

Capital

4.2 Own funds

	2019 DKKm	2018 DKKm
Equity	9,761	9,241
Phasing in of IFRS 9	188	206
Additional tier 1 (AT1) capital included in equity	860	861
Proposed dividends	431	431
Intangible assets	143	146
Other primary deductions	47	48
Deduction – Holdings of insignificant CET1 instruments	205	376
Deduction – Holdings of significant CET1 instruments	71	35
Common equity tier 1 capital	8,192	7,549
Additional tier 1 (AT1) capital *)	843	843
Other deductions	3	5
Tier 1 capital	9,032	8,387
Subordinated debt, excl. additional tier 1 (AT1) capital *)	1,308	1,314
Other deductions	5	10
Own funds	10,335	9,691
Weighted risk exposure amount, credit risk etc.	47,068	44,029
Weighted risk exposure amount, market risk	3,340	4,125
Weighted risk exposure amount, operational risk	5,555	5,705
Total risk exposure amount	55,963	53,858
Common equity tier 1 capital ratio	14.6	14.0
Tier 1 capital ratio	16.1	15.6
Own funds ratio	18.5	18.0

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

4.3 Equity



Accounting policies

Revaluation reserves

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

Statutory reserves

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

Proposed dividend

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

Treasury shares and own bonds

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

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

4.4 Shares

Issued shares	Number of shares		Nominal value (DKKm)	
	2019	2018	2019	2018
1 January	123,002,526	123,002,526	1,230	1,230
31 December – fully paid	123,002,526	123,002,526	1,230	1,230

The share capital is divided into shares with a nominal value of DKK 10. The Bank has only one share class.

No shares carry any special rights. No shares are subject to restrictions on transferability or voting rights.

Section 4

Capital

	2019	2018
Number of shares in circulation		
Beginning of period	122,964,961	122,964,478
Acquisition/sale of treasury shares, trading book	-41,614	483
End of year	122,923,347	122,964,961
Shares issued, end of year	123,002,526	123,002,526
Group's portfolio of treasury shares, trading book	79,179	37,565
Outstanding shares in circulation	122,923,347	122,964,961

Treasury share portfolio		
Number of shares	79,179	37,565
Nominal value, DKKm	1	0
Fair value, DKKm	5	2
Percentage of share capital	0.1	0.0

Treasury share portfolio, fair value, DKKm		
Portfolio, beginning of year	2	3
Acquisition of treasury shares	372	295
Sale of treasury shares	369	294
Market value adjustments	1	-1
Portfolio, end of year	5	2

Treasury shares deposited as collateral		
Number of shares	1,030,690	1,165,696
Nominal value, DKKm	10	12
Fair value, DKKm	67	61
Percentage of share capital	0.8	0.9

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

The Bank uses treasury shares for trading with customers.

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

4.5 Earnings per share for the year

	2019 DKKm	2018 DKKm
The profit/loss of shareholders of the Parent Company, Spar Nord Bank A/S	1,011	872
Tax effect of interest on additional tier 1 (AT1) capital (see note 2.10)	0	11
Total	1,011	883
Number of shares, beginning of year	123,002,526	123,002,526
Average number of treasury shares	58,372	37,807
Average number of shares in circulation	122,944,154	122,964,719
Average dilutive effect of outstanding share options	0	0
Average number of outstanding shares (diluted)	122,944,154	122,964,719
Earnings per share for the year (DKK)	8.2	7.2
Diluted earnings per share for the year (DKK)	8.2	7.2

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

Section 4

Capital

4.6 Additional tier 1 (AT1) capital

§ Accounting policies

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

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

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

Currency	Note	Principal DKKm	Interest rate	Received	Maturity	2019 DKKm	2018 DKKm
DKK	a	400	6.052%	2015	Perpetual	412	413
DKK	b	450	5.50%	2016	Perpetual	449	449
Additional tier 1 (AT1) capital issued under CRR, total						860	861

- a** Issued on 10.06.2015, with an option of early redemption as from 10.06.2020. The loan carries interest at a rate of 6.052% p.a. until 10.06.2020, after which date interest will be fixed at CIBOR6 + a 5.40% margin.
- b** Issued on 06.12.2016, with an option of early redemption as from 06.12.2021. The loan carries interest at a rate of 5.50% p.a. until 06.12.2021, after which date interest will be fixed at CIBOR6 + a +5.166% margin.

If Spar Nord's common equity tier 1 (CET1) ratio falls below 5 1/8%, the loans will be written down. The loans can be written up again based on the rules laid down in CRR.

	2019 DKKm	2018 DKKm
Additional tier 1 (AT1) capital, specification of cash flows		
Issue of additional tier 1 (AT1) capital	-	-
Net transaction costs	-	-
Change in portfolio of own bonds	-1	0
Interest paid	-49	-49
Total cash flows for the year	-50	-49

Section 4

Capital

4.7 Subordinated debt

§ Accounting policies

Subordinated debt are liabilities in the form of tier 2 capital and other capital contributions which, in the event of the Company's voluntary or compulsory winding up, will not be repaid until after the claims of ordinary creditors have been met.

Subordinated debt is recognised at the raising of a loan at fair value less directly attributable external transaction costs. Subsequently, subordinated debt is measured at amortised cost using the effective interest method.

Premature redemption of subordinated debt is subject to the approval of the Danish FSA. Subordinated debt is included in own funds, etc. pursuant to the Danish Financial Business Act.

For further information on the issuing of additional tier 1 capital under CRR, see note 4.6.

Supplementary capital contributions

Currency	Note	Principal DKKm	Interest rate	Received	Maturity	2019 DKKm	2018 DKKm
DKK	a	350	CIBOR6 + 2.40%	2018	29.05.29	349	348
DKK	b	150	2.9298%	2018	29.05.29	149	149
DKK	c	400	2.5348%	2018	19.06.28	400	400
SEK	d	600	STIBOR3 + 2.50%	2017	18.10.27	428	434
Supplementary capital contributions, total						1,326	1,332
Portfolio of own bonds relating to subordinated debt						-5	0
Total subordinated debt						1,322	1,332
Interest on subordinated debt						33	40
Costs of raising subordinated debt						1	1

- a Redeemable as from 29.05.2024. If the loan is not redeemed, interest will be fixed at CIBOR6 + a 2.40% margin.
- b Redeemable as from 29.05.2024. If the loan is not redeemed, interest will be fixed at CIBOR6 + a 2.40% margin.
- c Redeemable as from 19.06.2023. If the loan is not redeemed, interest will be fixed at CIBOR3 + a 2.10% margin.
- d Redeemable as from 18.10.2022. If the loan is not redeemed, interest will be fixed at STIBOR3 + a 2.50% margin.

Subordinated debt, specification of cash flows

	2019 DKKm	2018 DKKm
New loans	0	900
Redeemed	0	-700
Net transaction costs	0	-2
Change in portfolio of own bonds	-5	7
Interest paid	-30	-35
Total cash flows for the year	-35	170

Section 4

Capital

4.8 Issued bonds at amortised cost

S Accounting policies

Issued bonds at amortised cost comprise Non-Preferred Senior debt issued to comply with the MREL requirement for SIFI institutions.

Issued bonds are recognised on issuance at fair value less directly attributable external transaction costs. Subsequently, issued bonds are measured at amortised cost using the effective interest method.

Currency	Note	Principal DKKm	Interest rate	Received	Maturity	2019 DKKm	2018 DKKm
SEK	a	1,250	STIBOR3 + 1.05%	2019	05.12.23	893	0
DKK	b	1,350	CIBOR 3 + 1.00%	2019	05.12.25	1,348	0
DKK	c	400	0.7290%	2019	05.12.25	397	0
Issued bonds, total						2,637	0
Portfolio of own bonds relating to subordinated debt						0	0
Issued bonds, total						2,637	0

- a The bonds are redeemable from 05.12.2022. If the bonds are not redeemed, interest will be fixed at STIBOR3 + a 1.05% margin.
- b The bonds are redeemable from 05.12.2024. If the bonds are not redeemed, interest will be fixed at CIBOR3 + a 1.00% margin.
- c The bonds are redeemable from 05.12.2024. If the bonds are not redeemed, interest will be fixed at CIBOR3 + a 1.00% margin. The loan is comprised by the rules on hedge accounting, see note 6.5.

Issued bonds at amortised cost, specification of cash flows

	2019 DKKm	2018 DKKm
New loans	2,635	0
Redeemed	0	0
Net transaction costs	-5	0
Change in portfolio of own bonds	0	0
Interest paid	0	0
Total cash flows for the year	2,630	0

	2019 DKKm	2018 DKKm
Shown by contractual term to maturity		
Up to 3 months	0	0
Over 3 months and up to 1 year	1	0
Between 1 year and 5 years	2,636	0
Over 5 years	0	0
Total	2,637	0

Risk management

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Main items

Credit exposure - loans, advances and guarantees
excl. reverse repo transactions

DKK **59,416** million

2018: DKK **53,511** million

Credit exposure - financial credit risk

DKK **18,286** million

2018: DKK **17,763** million

Credit exposure - retail/business

44.8% / 55.2%

2018: **45.1% / 54.9%**

Total impairment account

DKK **1,503** million

2018: DKK **1,945** million

Interest rate risk

DKK **52** million

2018: DKK **9** million

Equity portfolio

DKK **2,210** million

2018: DKK **2,101** million

Short-term liquidity LCR

195%

2018: **174%**

Long-term liquidity Strategic liquidity

DKK **23,442** million

2018: DKK **21,796** million

Section 5

Risk management

5 Risk management

Spar Nord is exposed to a number of risks in various categories.

The most important categories of risks are as follows:

- **Credit risk:** The risk of losses because counterparties fail to meet all or part of their payment obligations.
- **Market risk:** The risk of loss because the fair value of Spar Nord's assets and liabilities varies with changes in market conditions.
- **Liquidity risk:** The risk of loss because Spar Nord cannot meet its payment obligations via the ordinary liquidity reserves.
- **Operational risk:** The risk of financial loss owing to deficient or erroneous internal procedures and processes, human or system errors, or losses as a result of external events.

The following notes to the Annual Report contain qualitative and quantitative information regarding Spar Nord's credit, market, liquidity and operational risks.

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

5.1 Credit risk

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

In 2019, Spar Nord made no major changes in assumptions, objectives, policies, exposures and calculation methods, etc. as compared to the year before.

Overview of principal figures in the credit risk note	2019 DKKm	2018 DKKm
Credit exposure for financial reporting purposes		
Loans and guarantees	67,571	58,290
Loans and guarantees excl. reverse repo transactions	59,416	53,511
Loans and advances excl. reverse repo transactions	44,609	41,340
Lending growth (carrying amount, excl. reverse repo transactions)	9.1%	6.7%
Credit exposure to loans, advances and guarantees excl. reverse repo transactions		
Retail customers	44.8%	45.1%
Business customers	55.2%	54.9%
Recognised impairments		
Retail customers	51	54
Business customers excl. agriculture	30	13
Agriculture	-59	106
Total (positive amounts indicate a negative profit impact)	22	173
Impairment ratio, loans, advances and guarantees (impact on operations)	0.0%	0.3%
Impairment etc., end of year		
Stage 1, credit risk has not increased significantly	155	106
Stage 2, credit risk has increased significantly	265	308
Stage 3, credit-impaired	1,083	1,531
Total	1,503	1,945
Effect of transition to new impairment rules at 01.01.2018 (IFRS 9), recognised in equity	-	250
Total impairments in % of loans, advances and guarantees (excl. reverse repo transactions)	2.5%	3.6%

Section 5

Risk management

Overall comments on credit risk

Loan impairments etc. was an expense of DKK 22 million, against an expense of DKK 173 million in 2018.

The DKK 22 million impact on profits breaks down into DKK 30 million attributable to business customers ex. agricultural customers, DKK -59 million to agricultural customers, DKK -5 million to retail customers and DKK 56 million to customers in the SparXpres consumer loan business. Of the latter amount, DKK 27 million was ascribable to interim impairment of all debt collection claims older than 18 months.

In 2019, Spar Nord performed a review of loan exposures subject to individual impairment in order to ensure that exposures remain in the right stages in accordance with IFRS 9.

As a result of this process, a substantial number of stage 3 loans were transferred to stage 2 and stage 1, while some loans were written off. Non-performing loans were reduced by approximately DKK 1 billion. At the end of the year, the share of non-performing loans (NPL ratio) at Spar Nord was 3.7%

Over the course of 2019, Spar Nord increased the management estimates of impairment by DKK 263 million to DKK 303 million. The amount relates to three different issues:

- Due to the change in calculation method of individual impairments on agricultural customers, it has subsequently proved necessary to allocate an amount to the risk of declining land prices (DKK 169 million). The assessment offsets any valuation uncertainty. The management estimate is calculated as DKK 15,000 per hectare of eligible land.
- Recently, the Bank's rating model has underestimated the number of defaults, and therefore an amount is allocated to cover the increased risk (DKK 82 million).
- For system reasons, discounting of collateral values has not been performed in the individual impairment calculations, which has resulted in the impairment need being underestimated (DKK 53 million).

Stage 3 impairments at 31 December 2019 were DKK 1,083 million (year-end 2018: DKK 1,531 million), while stage 1 and 2 impairments totalled DKK 420 million (year-end 2018: DKK 414 million).

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Risk management

5.1.1 Accounting policies, credit policy, management, monitoring and reporting



Accounting policies

Impairment model

Spar Nord recognises a provision for expected credit losses pursuant to IFRS 9 for all financial assets recognised at amortised cost or at fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantees. For financial assets recognised at amortised cost, the impairment for expected credit losses is recognised in the income statement and set off against the asset in the balance sheet. Provisions for unutilised credit lines and loan commitments and financial guarantees are stated at expected credit losses in the income statement and recognised as a liability.

The above impairment model implies that provisions must be recognised on all Spar Nord's financial assets measured at amortised cost and certain loan commitments and financial guarantees based on statistically expected credit losses ("expected loss" model). Losses caused by regulation of a financial asset will be considered as having been written off.

Under the expected loss model, on initial recognition, a loss allowance will be recognised in an amount equivalent to the 12-month expected credit losses (stage 1). If, on measurement subsequent to initial recognition, the credit risk increases significantly, a loss allowance will be recognised in an amount equivalent to the lifetime expected credit losses of the exposure (stage 2). Where it is established that the exposure is credit-impaired (stage 3), a loss allowance will be recognised in an amount equivalent to the lifetime expected credit losses of the exposure, while revenue will be recognised in the income statement using the effective interest method relative to the recognised impairment loss.

The classification into stages and the calculation of expected credit losses are largely based on Spar Nord's rating models.

The expected credit loss is measured for each facility. Impairment models support the calculation of expected credit losses based on loss ratios and the concepts of PD (Probability-of-Default), LGD (Loss-Given-Default) and EAD (Exposure-at-Default).

The calculation of the expected credit losses on exposures in stages 1 and 2 is based on a model calculation, whereas the calculation in respect of exposures from the weak part of stage 2 as well as stage 3 exposures is made as a combination of an individual assessment and a modal calculation. For customer groups with total exposures exceeding DKK 250,000, the Bank performs an individual assessment of the expected credit losses and the pertaining probabilities. For customer groups with total exposures below DKK 250,000, model-based calculations will be used. The model calculation is based on the Bank's model, which has been part of the basis for Spar Nord's credit control for a number of years, supplemented by a macroeconomic module, which adjusts the calculated PD values. A smaller, delimited portfolio is classified as being exposed to low credit risk. Exposures to these customers are maintained in stage 1.

Substantial increase in risk

On transition from stage 1 to stage 2, a substantial increase in the credit risk is defined as follows:

For retail customers, credit-impaired exposures are identified when major negative events occur. More detailed provisions are set out in the Credit Policy.

For business customers, credit-impaired exposures are identified as material default or likely bankruptcy. More detailed provisions are set out in the Credit Policy.

If one of the customer's exposures are believed to be in default, all exposures of the customer in question will be transferred from stage 1 or 2 to stage 3. A customer's exposure is considered to be in default if:

- A 100% increase in the PD for the expected remaining life of the exposure and a 0.5% point increase in the 12-month PD where the 12-month PD was below 1% on initial recognition.
- A 100% increase in the PD for the expected remaining life of the exposure or a 2.0% point increase in the 12-month PD where the 12-month PD was 1% or higher on initial recognition.
- If the exposure has been in arrears for more than 30 days, the credit risk will be considered to have increased significantly as well.

Exposures with a substantial increase in the credit risk belonging to customers whose ability to pay shows considerable signs of weakness will be categorised as the weak part of stage 2. Generally, a customer's ability to pay in this category shows a 12-month PD that exceeds 5.0 per cent.

Improvement of credit risk

If the exposure that has been in arrears for more than 30 days ceases to exist or the customers' PD level is subsequently improved to the effect that there is no longer any significant credit risk (see above regarding time of initial recognition, the exposure will be transferred back to stage 1.

The credit quality department oversees changes in the credit quality of customers and undertakes systematic credit quality control of the credit portfolio. A "weak list" for high-risk customers is used for credit control purposes. If a customer is flagged as being "weak", the customer's PD will be re-calculated.

Transition to stage 3 (credit impairment)

For retail customers, credit-impaired exposures are identified when major negative events occur. More detailed provisions are set out in the Credit Policy.

For business customers, credit-impaired exposures are identified as material default or likely bankruptcy. More detailed provisions are set out in the Credit Policy.

If one of the customer's exposures is believed to be in default, all exposures of the customer in question will be transferred from stage 1 or 2 to stage 3. A customer's exposure is considered to be in default if:

- The customer's exposures are credit-impaired, and the customer is not considered to be able to settle its credit liabilities as calculated in the most likely scenario.
 - For retail customers, this may be due to a negative change in income, insufficient disposable income, listing in the Danish credit information agency RKI, material tax debt or substantial consumer loans.
 - For business customers, this may be due to negative results and negative equity, substantial negative equity or conversion of debt to subordinated capital.
 - For agricultural customers, this may be due to a negative change in income, substantial negative equity or non-compliance with the Bank's requirements for breakeven and solvency.
- The customer's payment obligations have been put on hold, or significantly relaxed terms have been granted with respect to interest rate, repayment profile or respite due to the customer's critical financial situation.

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Risk management

- The customer's exposure has for a long period of time (90 days) been in arrears or overdrawn.

The criteria for definition of default are determined on the basis of the Bank's credit management and credit policy, see note 5.1.1.

If none of the customer's exposures are considered to be in default any longer, each exposure will again be considered individually. Subsequently, the exposures will be assessed relative to a substantial increase in credit risk and subsequently place in stage 1 and 2 via using the model's stage motor.

Prospective information

The model calculation of the expected loss is based on, among other things, macroeconomic forecasts. The model is structured around a number of regression models determining the historical correlation between default and a number of explanatory macroeconomic variables relating to the various segments (retail, corporate and agriculture) in the impairment calculation.

The model calculation of expected losses is based, among other things, on the most likely scenario (base case), and worst and best case scenarios are also set up applying a more critical and a more positive approach, respectively, to macroeconomic developments in the coming years than in the base case scenario. A calculation is made for each of the three scenarios and subsequently a total weighted calculation of the expected loss based on an assessment of the probability of each scenario. The assessment of the probability for each scenario is made using macroeconomic variables and approved by the Credit Committee in consultation with the relevant specialists.

Scenario sensitivity

If either best-case or worst-case from the model calculation and the individual impairment calculations are exclusively applied, it would result in the following impairment distribution between the stages:

Scenarios	Stage 1	Stage 2	Stage 3	Total
Current	10	18	72	100
Best	9	14	60	83
Worst	11	25	96	132

The total current impairment amount is used as index 100. Best-case would reduce impairments by DKK 253 million, while worst-case would increase impairments by DKK 485 million. The calculation does not take into account any customers wishing to shift between model and individual calculations in the best and the worst case, respectively.

Credit losses

The lifetime expected credit losses cover the expected remaining lifetime of the facility. For most facilities, the expected lifetime is limited to the remaining contractual maturity, however, capped at five years. For facilities comprising both a loan and an undrawn loan commitment, Spar Nord's exposure to credit losses is not limited to the contractual notice period. For such facilities, the expected lifetime is assumed to be the period during which Spar Nord expects to be exposed to credit losses. For facilities, for which the expected lifetime is longer than the remaining contractual maturity, an expected maturity of one year has been applied. This includes for example credit cards and overdraft facilities.

Write-off policy

All write-offs are performed by the Debt Collection Department. When the exposure is handed over to Debt Collection, they assess any need for write-off or interim write-off on the unsecured part of the exposure. Exposures covered by collateral will remain on a zero-interest account until the collateral has been realised, and the final loss/write-off has been assessed.

Credit policy

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

It is Spar Nord's policy that credit must always be granted on the basis of insight into the customer's financial position and that credit quality – the customer's ability and intention to meet current and future obligations – is a key parameter in all customer relations.

Spar Nord aims to develop long-term relationships with customers and does not want to use risk appetite as a competitive parameter.

Spar Nord only wants to conclude transactions that conform to good banking practice and do not jeopardise the Bank's reputation and professional profile.

As a basic rule, Spar Nord does not grant loans and credit facilities based on collateral alone. Thus, the customer should show the intention and have the ability to repay loans without Spar Nord having to realise the collateral.

In its endeavours to ensure sound risk diversification of its credit exposure, Spar Nord has introduced a number of internal targets.

In order not to lose its freedom of action towards a customer, the Bank generally aims not to increase its exposure towards a customer to such an extent that the customer would not be creditworthy in other banks. Consequently, Spar Nord has introduced a cap on individual exposures of DKK 500 million, of which the unsecured share of credit exposure may not exceed DKK 250 million in respect of any facility.

Exposures to financial institutions under supervision and repo and reverse repo transactions are not comprised by this restriction.

In determining the amount of exposure, generally accepted credit risk adjustments are made, as appears from the section regarding Large exposures in the CRR Regulation. The statutory limitations apply to trading partners in the financial sector with an external credit rating at investment grade level. For other trading partners in the financial sector, an internally-fixed cap of DKK 700 million applies.

Spar Nord has set targets for the industry diversification of loans, advances and guarantees, which means that brackets have been fixed for the desired share of total exposure that major lines of industry may represent.

Section 5

Risk management

Targets for industry diversification

%	Maximum share of total exposure ^{*)}
Agricultural sector	10
Property sector	15
of which speculative ^{**}) property financing	5
Financing and insurance	10
Industry and raw materials development	10
Trade	15
Energy supply	8

* Excl. reverse repo transactions

** CRR 575/2013 Article 4(79)

Finally, in its credit policy Spar Nord has stipulated that it wants insight into any commitments that its customers may have towards other financial institutions.

Management, monitoring and reporting

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

As concerns new customers, the facility authorisation right is generally half of that for existing customers. The powers of authority in the credit area are governed by two factors: The individual local managers' ability and requirements and the wish that a certain share of authorisations from the local banks is dealt with by Credit Rating. Decentralised facility authorisation rights are maximised at DKK 10 million for existing customers.

Customer advisers, in consultation with local managers, handle the day-to-day management of Spar Nord's credit risks. If a credit facility exceeds the local loan approval limits, it will be passed on and dealt with by Credit Rating, the Credit Committee or the Board of Directors. Credit Rating may authorise credit lines up to DKK 50 million for existing customers and DKK 25 million for new customers. The Credit Committee may authorise exposures up to DKK 100 million, and up to DKK 50 million for new facilities. Exposures exceeding DKK 100 million and new exposures exceeding DKK 50 million are subject to approval by the Board of Directors. However, the Credit Committee may authorise credit facility extensions of up to DKK 50 million relative to the most recent authorisation given by the Board of Directors.

Overall monitoring of Spar Nord's credit risk exposure is managed by the Credit Quality Department. The department oversees changes in the credit quality of exposures and undertakes systematic credit quality control of the credit portfolio.

New retail customer exposures in excess of DKK 100,000 and business customer exposures in excess of DKK 300,000 are systematically screened with a view to being selected for a manual credit quality assessment. The selection is made on the basis of a combination of risk parameters, which combined, or separately, indicate an increased level of risk. New customers with weak credit quality are registered on an ongoing basis.

Spar Nord has developed IT tools for controlling and monitoring credit risks. Spar Nord's credit analysis system is used for monitoring purposes, and key data regarding credit exposures and customers' financial affairs are recorded in the system. This is done to detect danger signals at an early stage and also to monitor changes in the credit quality of portfolios and organisational units.

Every month a statistically-based rating of both retail and business customers is performed. Rating systems are used at the local level to grant credit facilities. Thus, customers in the rating 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 systems are also used for managing overdrafts and for pricing purposes to help ensure a correlation between the risk assumed by the customer and the price paid.

Risk classification – rating categories

As a component of Spar Nord's credit processing, all non-defaulting customers are risk-classified according to the probability that the individual customer defaults within the next 12 months. Customers are divided into categories 1 to 9, with category 9 containing customers subject to the highest risk. The probability of default is estimated statistically by means of Spar Nord's rating systems which are based on various models for the different customer segments.

The model applied to business customers employs three components: An accounting component used to risk-classify the customer based on its most recent financial statements. A behavioural component that classifies the customer based on its account behaviour and credit authorisation history. The third component is a cyclical component used to adjust the classification based on cyclical trends.

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

For retail customers, the model is exclusively based on a behavioural component and a cyclical component.

New retail customers are risk-classified according to an application scoring model that is based on classical credit performance indicators, such as assets, pay, disposable income, etc. This model is based on a combination of a statistical and an expert model. After six months, customers are subjected to a behavioural scoring scrutiny, and the results obtained using the two models are co-weighted in the transitional period until the twelfth month, after which the rating is based on the behavioural component exclusively.

For both retail and business customers, the behavioural score is based on information about factors like overdrafts, number of increases and leverage. In the accounting-based credit score for business customers, inputs include information on return on assets, solvency ratio and debt figures.

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

Section 5

Risk management

5.1.2 Credit exposure

	2019 DKKm	2018 DKKm
Credit risk, loans, advances and receivables		
Balance sheet items		
Loans, advances and other receivables at amortised cost	51,312	44,330
Impairment account for loans and other receivables	1,453	1,789
Off-balance sheet items		
Guarantees, etc.	14,766	12,092
Provisions for guarantees	40	80
Total credit exposure for financial reporting purposes, loans, advances and guarantees	67,571	58,290
Unutilised credit lines and loan commitments		
Unutilised credit lines and loan commitments	23,403	22,251
Impairment account for unutilised credit lines and loan commitments	9	76
Total credit exposure for financial reporting purposes, loans, advances and guarantees, incl. unutilised credit lines and loan commitments	90,983	80,618
Financial credit risk		
Bonds at fair value	16,498	16,160
Due from credit institutions and central banks	1,588	1,400
Impairment account for amounts due from credit institutions and central banks	1	0
Positive fair value of derivative instruments, financial enterprises	201	203
Total credit exposure for financial reporting purposes	18,286	17,763

Credit exposure relating to loans, advances and guarantees, gross, and impairment account by industry

Line of business	2019				2018			
	Loans and guarantees		Total impairments and provisions *)		Loans and guarantees		Total impairments and provisions *)	
	DKKm	%	DKKm	%	DKKm	%	DKKm	%
Public authorities	1,200	1.8	0	0.0	43	0.1	0	0.0
Agriculture, hunting, forestry and fisheries	2,932	4.3	414	27.6	3,094	5.3	597	30.7
Industry and raw materials extraction	2,964	4.4	85	5.7	2,795	4.8	88	4.5
Energy supply	1,712	2.5	15	1.0	1,577	2.7	21	1.1
Building and construction	2,525	3.7	55	3.6	2,618	4.5	87	4.5
Trade	4,175	6.2	96	6.4	3,978	6.8	132	6.8
Transport, hotels and restaurants	2,615	3.9	94	6.3	2,156	3.7	106	5.4
Information and communication	285	0.4	9	0.6	227	0.4	6	0.3
Financing and insurance	11,375	16.8	80	5.3	8,042	13.8	119	6.1
Real estate	7,310	10.8	195	13.0	6,019	10.3	198	10.2
Other business areas	3,737	5.5	79	5.2	3,551	6.1	117	6.0
Business customers, total	40,829	60.4	1,122	74.7	34,099	58.5	1,471	75.6
Total retail customers	26,742	39.6	381	25.3	24,191	41.5	474	24.4
Total loans and guarantees	67,571	100.0	1,503	100.0	58,290	100.0	1,945	100.0

*) incl. provisions for unutilised credit lines and loan commitments of DKK 9 million (2018: DKK 76 million).

Spar Nord's impairment balance amounted to DKK 1.5 billion, equal to 2.2% of Spar Nord's total loans, advances and guarantees at end-2019. The impairment balance fell by DKK 0.4 billion relative to end-2018.

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Gross credit exposure relating to loans, advances and guarantees, gross, by industry without reverse repo transactions

Line of business	2019				2018			
	Loans and guarantees		Total impairments and provisions *)		Loans and guarantees		Total impairments and provisions *)	
	DKKk	%	DKKk	%	DKKk	%	DKKk	%
Public authorities	1,200	2.0	0	0.0	43	0.1	0	0.0
Agriculture, hunting, forestry and fisheries	2,932	4.9	414	27.6	3,094	5.8	597	30.7
Industry and raw materials extraction	2,964	5.0	85	5.7	2,795	5.2	88	4.5
Energy supply	1,672	2.8	15	1.0	1,470	2.7	21	1.1
Building and construction	2,525	4.2	55	3.6	2,618	4.9	87	4.5
Trade	4,175	7.0	96	6.4	3,978	7.4	132	6.8
Transport, hotels and restaurants	2,615	4.4	94	6.3	2,156	4.0	106	5.4
Information and communication	285	0.5	9	0.6	227	0.4	6	0.3
Financing and insurance	3,385	5.7	80	5.3	3,451	6.4	119	6.1
Real estate	7,310	12.3	195	13.0	6,019	11.2	198	10.2
Other business areas	3,737	6.3	79	5.2	3,551	6.6	117	6.0
Business customers, total	32,799	55.2	1,122	74.7	29,401	54.9	1,471	75.6
Total retail customers	26,617	44.8	381	25.3	24,111	45.1	474	24.4
Total loans and guarantees	59,416	100.0	1,503	100.0	53,511	100.0	1,944	100.0

*) Incl. provisions for unutilised credit lines and loan commitments of DKK 9 million (2018: DKK 76 million).

Loans, advances and guarantees by exposure size *)

DKKk/%	2019	2018	2019	2018
	Number	Number	%	%
0 - 0.1	52,678	53,178	0.9	1.1
0.1 - 0.5	36,243	35,747	10.1	10.9
0.5 - 1.0	14,078	13,985	11.6	12.6
1.0 - 5.0	9,439	8,304	26.5	24.7
5.0 - 10.0	1,009	931	9.2	9.4
10.0 - 20.0	432	419	7.9	8.7
20.0 - 50.0	263	238	11.5	11.4
50.0 - 100.0	91	86	9.0	9.1
100.0 ->	48	47	13.3	12.1
Total	114,281	112,935	100.0	100.0

*) Excl. reverse repo transactions and SparXpres

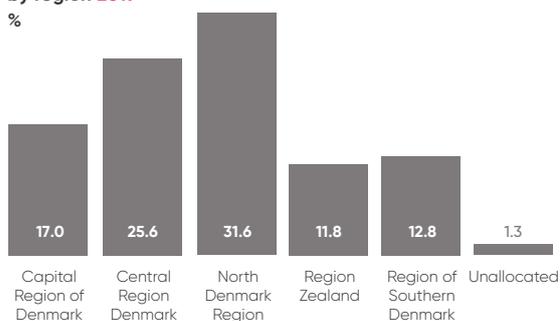
As concerns size of exposures, Spar Nord's credit portfolio is considered to be well-diversified, for one thing because 58.3% of the total exposure is attributable to exposures below DKK 10 million each, and because Spar Nord only has 48 exposures that exceed DKK 100 million.

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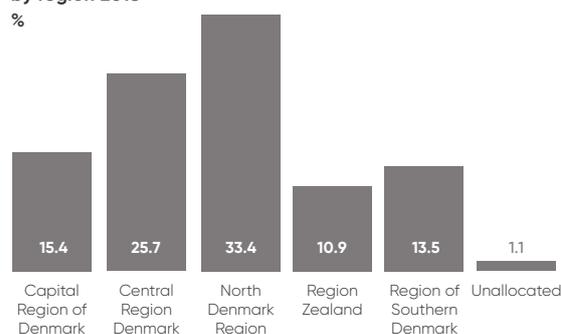
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Credit exposure to loans, advances and guarantees, gross, excl. reverse repo transactions and SparXpres by geography

Loans, advances and guarantees broken down by region 2019 %



Loans, advances and guarantees broken down by region 2018 %



Spar Nord's credit portfolio is considered to have an excellent geographical spread. At end-2019, the North Denmark Region accounted for 31.6% of Spar Nord's total loans, advances and guarantees, while the balance is spread over the other regions in Denmark.

5.1.3 Spar Nord's exposure by customer portfolios

Spar Nord's total loans, advances and guarantees before off-setting impairments were DKK 67.6 billion at end-2019, which is DKK 9.3 billion higher than in 2018.

Reverse repo loans increased by DKK 3.4 billion to DKK 8.2 billion at end-2019.

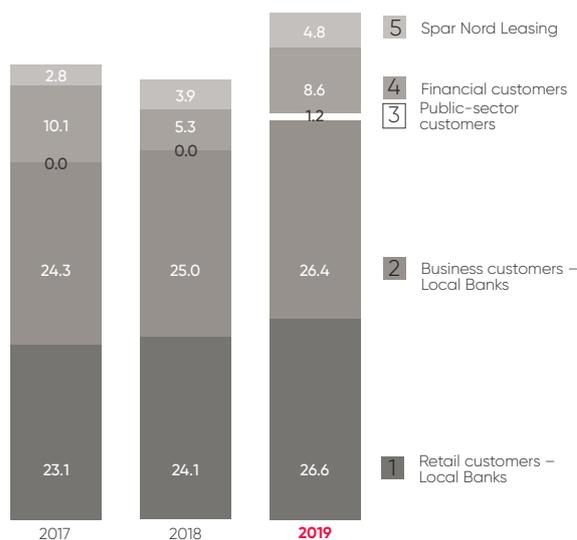
In addition, the Bank's loans and advances rose DKK 3.3 billion to DKK 44.6 billion at end-2019, corresponding to lending growth of 7.9% in 2019.

Furthermore, guarantees rose by DKK 2.6 billion to stand at DKK 14.8 billion at 31 December 2019.

Customers are categorised into five groups as part of the ongoing risk monitoring: 1) Retail customers – Local Banks, 2) Business customers – Local Banks, Public-sector customers, 4) Financial customers and 5) Spar Nord Leasing.

The development in these customer groups appears from the figure.

Exposures by category (DKKbn)



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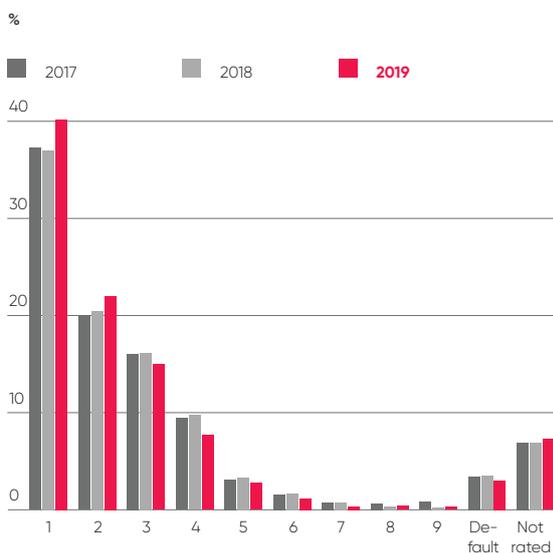
Retail customers with Spar Nord's Local Banks

The total credit exposure to retail customers at Spar Nord's Local Banks amounted to DKK 26.6 billion at end-2019 compared with DKK 24.1 billion at end-2018. The credit exposure to retail customers amounts to 39.4% of Spar Nord's total credit exposure. As appears from the figure below, the average credit quality of retail customers has developed favourably over the past few years and is currently at a very satisfactory level.

Retail customers' unauthorised overdrafts and past due exposures were at a low level from 2017-2019, showing a declining trend.

In the period from 2017 to 2019, there was a small improvement in retail customer credit quality.

Exposures to retail customers by rating category *)



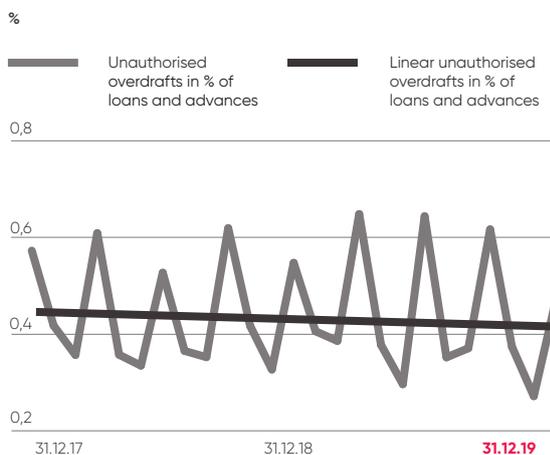
*) Excl. SparXpres.

Average rating category *)

	2019	2018	2017
Average rating category	2.4	2.6	2.6

*) Exposures after impairments

Retail customers - Local Banks - Developments in unauthorised overdrafts/arrears *)



*) Excl. SparXpres

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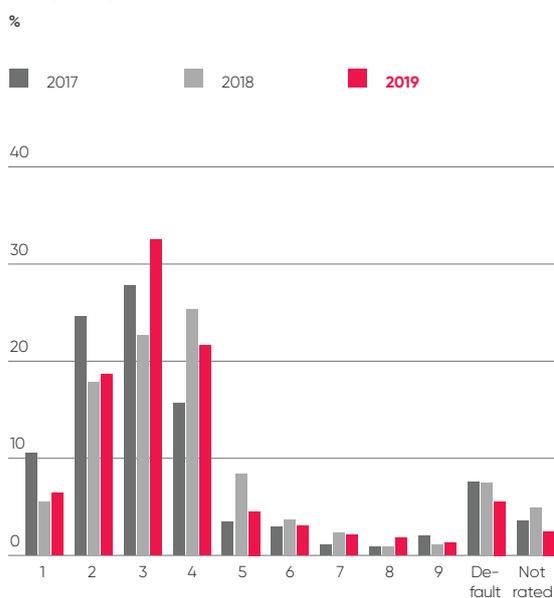
Business customers with Spar Nord's Local Banks

The total credit exposure to business customers at Spar Nord's Local Banks amounted to DKK 26.4 billion at end-2019 compared with DKK 25.0 billion at end-2018.

The credit exposure to business customers amounted to 39.0% of Spar Nord's total credit exposure.

The Bank's rating model for business customers includes a business cycle model, which has shown instability in specific variables ("consumption expectations"). This resulted in unintentional volatility in risk levels in recent years, and in 2019 there was a tendency to underestimate the risk. In 2018, the business cycle variable had a large negative impact, while in 2019 it had a large positive impact.

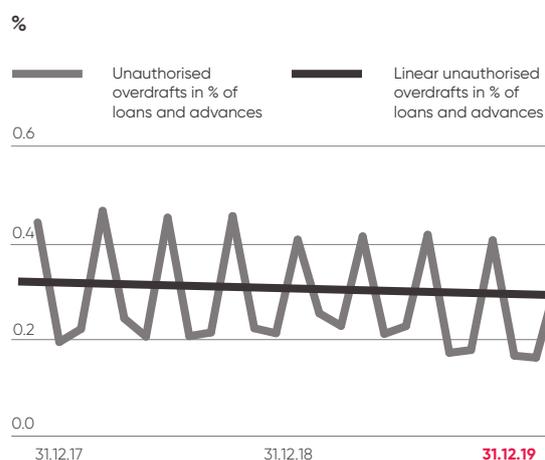
Exposures to business customers by rating category*)



The Bank is monitoring developments and has made a management estimate to address the uncertainty.

Business customers' unauthorised overdrafts and past due exposures remained at a stable, low level of below 0.4% in the period from 2017 to 2019.

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



Average rating category *)

	2019	2018	2017
Average rating category	3.7	3.9	3.5

*) Exposure after impairments, excl. public-sector customers.

Leasing loans by line of business	Impairment account			
	2019	2018	2019	2018
Public authorities	0.0	0.0	0.0	0.0
Agriculture, hunting and forestry	13.5	13.1	10.3	15.9
Fisheries	0.0	0.0	0.0	0.0
Industry and raw materials extraction	13.1	14.3	20.8	21.0
Energy supply	8.7	9.3	5.0	7.0
Building and construction	14.0	13.4	5.7	11.0
Trade	9.4	9.6	6.0	7.5
Transport, hotels and restaurants	22.9	22.7	22.5	20.8
Information and communication	0.8	0.3	0.3	0.3
Financing and insurance	1.7	1.2	0.8	0.8
Real estate	2.3	2.3	19.7	1.8
Other business areas	13.2	13.3	8.1	13.5
Business customers, total	99.5	99.7	99.2	99.5
Total retail customers	0.5	0.3	0.8	0.5
Total	100.0	100.0	100.0	100.0

Leasing activities

Spar Nord's total credit exposure in the leasing area amounted to DKK 4.8 billion at end-2019, which is DKK 0.9 billion, or 21.6%, more than at end-2018. Credit exposure in the leasing area equals 7.1% of Spar Nord's total loans, advances and guarantees.

Repossessed equipment

DKKm	2019	2018
Repossessed equipment, total	5	7

The volume of repossessed leasing equipment remains at a very low level below 0.10% of leasing loans.

In the context of risks, it is important to note that leasing lending is always backed by security in the assets, either through charges or ownership.

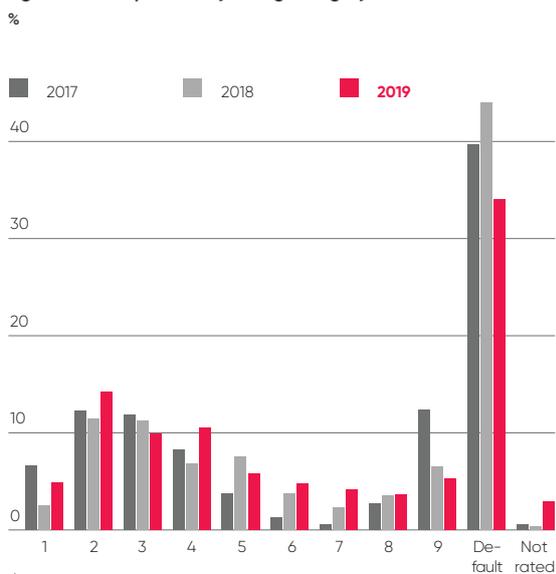
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Agriculture

Loans, advances and guarantees to agricultural customers amounted to DKK 2.8 billion, equal to 4.2%. Of this amount, leasing loans account for DKK 0.6 billion and guarantees for DKK 0.2 billion.

Agricultural exposures by rating category *)



*) Excl. leasing

Average risk level – agriculture *)

	2019	2018	2017
Average rating category	6.1	6.4	6.2

*) Exposures after impairments

As appears from the figures, the average credit quality of agricultural customers improved during 2019. The upward trend was ascribable to a decrease in the "Default" exposure category.

The impact on profits from impairment of agricultural loans amounted to an income of DKK 59 million in 2019 compared with a loss of DKK 106 million in 2018.

The agricultural sector generally developed favourably in 2019 after the 2018 challenges of drought, low settlement prices of pork and an unfavourable ratio of milk and pork prices to feed prices. The positive development resulted in satisfactory yields in plant cultivation and for milk farmers.

Pig farmers experienced a particularly positive development in settlement prices, which were quite low going into 2019, but which improved noticeably to a very high level in step with the escalation of swine fever in China and South-East Asia. Lower feed prices also improved the ratio of milk and pork prices to feed prices, which is now at a highly satisfactory level.

The mink farming industry was challenged and saw prices drop further to DKK 200 per fur against a production price of around DKK 270.

Spar Nord's total impairment of agricultural loans amounted to DKK 413 million at end-2019, equal to 14.7% of Spar Nord's total loans, advances and guarantees to the industry. At 31 December 2018, the corresponding figures were DKK 596 million and 20.1%.

The figures show Spar Nord's agricultural loans and impairment related to agricultural exposures, broken down by production lines.

Agricultural exposures by production line

2019 DKKm	Loans and guarantees	Non-performing loans	Of which impaired	Share impaired
Cattle farmers	616	8	203	33.0
Pig farmers	481	27	200	41.6
Plant cultivation	545	14	85	15.6
Mink farmers	113	2	46	40.3
Leasing	647	1	8	1.2
Miscellaneous	415	1	17	4.0
Total	2,818	52	559	19.8

2018 DKKm	Loans and guarantees	Non-performing loans	Of which impaired	Share impaired
Cattle farmers	725	17	462	63.7
Pig farmers	586	38	296	50.5
Plant cultivation	697	76	229	32.8
Mink farmers	111	0	46	41.1
Leasing	515	0	26	5.1
Miscellaneous	334	1	18	5.4
Total	2,969	132	1,077	36.3

Agricultural impairment by production line

2019 DKKm/%	Impairment account	Written off	Impairment for the year	Impairment ratio of exposure	Percentage impaired
Cattle farmers	177	5	-61	28,8	87.1
Pig farmers	113	50	-25	23,5	56.5
Plant cultivation	72	75	32	13,2	84.5
Mink farmers	28	2	4	25,0	61.9
Leasing	3	0	-9	0,5	42.1
Miscellaneous	20	0	1	4,7	116.8
Total	413	132	-59	14,7	74.0

2018 DKKm/%	Impairment account	Written off	Impairment for the year	Impairment ratio of exposure	Percentage impaired
Cattle farmers	249	60	-5	34.3	53.8
Pig farmers	192	6	32	32.7	64.8
Plant cultivation	104	3	59	14.9	45.6
Mink farmers	25	6	14	22.1	53.9
Leasing	13	0	4	2.5	49.4
Miscellaneous	14	2	2	4.2	77.5
Total	596	77	106	20.1	55.4

Spar Nord's total exposure to dairy and pig farmers was reduced by DKK 0.2 billion in 2019, equal to a reduction of 16.3%.

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Collateral accepted and type for stage 3

Collateral accepted	2019 DKKkm	2018 DKKkm
Carrying amount of loans, advances and guarantees	1,112	2,155
Value of collateral	1,175	1,895
Unsecured, total	-63	260
Types of collateral		
Real property	711	956
Custody accounts/securities	3	8
Guarantees/sureties	61	90
Vehicles	10	14
Cash	7	20
Other collateral	211	472
Collateral used, total	1,002	1,560
Specially secured transactions (mortgage credit institution guarantees)	135	213
Total collateral accepted, excl. leasing activities	1,138	1,773
Collateral accepted, leasing activities	37	122
Total	1,175	1,895

Mortgage on real property

Geographical breakdown of mortgages

%	2019	2018
Capital Region	16.8	15.9
Central Region	22.3	22.4
North Denmark Region	34.5	36.4
Zealand Region	12.9	11.4
Southern Denmark Region	12.5	12.6
International	1.0	1.3
Total	100.0	100.0

Mortgages broken down by property type

	2019 DKKkm	2019 %	2018 DKKkm	2018 %
Private housing	16,927	60.3	14,741	57.2
Holiday homes	1,051	3.7	1,000	3.9
Offices and businesses	4,419	15.7	3,890	15.4
Agriculture	2,141	7.6	2,130	8.3
International	3,541	12.6	4,003	15.3
Total	28,079	100.0	25,763	100.0

Spar Nord continuously monitors the value of the collateral furnished. If the risk exposure to a counterparty increases, the collateral is subjected to a particularly critical review. The value is assessed based on the expected price to be fetched in a compulsory sale of the collateral, less any expenses arising from its realisation.

Spar Nord's evaluation of mortgages on rental properties is based on the capacity of the properties to generate a return. Various requirements are made with regard to the rate of return, depending on the use of the property, the condition of the buildings and the physical location in Denmark. Residential rental property is valued on the basis of a required rate of return in the 4.25 to 10.0% range.

Unsecured shares

The table below shows that the total unsecured share at end-2019 was 35.3%. Net of reverse loans, the total unsecured share at end-2019 amounted to 40.1%. At end-2018, the unsecured share without reverse repo transactions was 42.3%.

Unsecured share of exposure

%	2019	2018
<10	46.3	42.1
10-50	20.8	21.0
50-75	7.6	9.2
>75	25.4	27.8
Average unsecured share	35.3	38.8

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The group's unsecured share of credit exposure

Line of business	2019		2018	
	DKKm	%	DKKm	%
Public authorities	1,200	100.0	43	99.8
Agriculture, hunting and forestry	644	22.8	884	29.8
Fisheries	41	35.7	44	35.2
Industry and raw materials extraction	926	31.2	912	32.6
Energy supply	614	35.9	614	38.9
Building and construction	928	36.8	828	31.6
Trade	1,556	37.3	1,547	38.9
Transport, hotels and restaurants	786	30.1	596	27.7
Information and communication	156	54.7	110	48.7
Financing and insurance	2,124	18.7	2,152	26.8
Real estate	2,686	36.7	2,471	41.1
Other business areas	1,644	44.0	1,654	46.6
Business customers, total	13,305	32.6	11,857	34.8
Total retail customers	10,519	39.3	10,772	44.5
Total	23,823	35.3	22,629	38.8

5.1.5 Forbearance

A loan facility is defined as being subject to forbearance if the conditions regarding interest payments and/or repayments have been relaxed on account of the borrower's financial difficulty or if the loan has been refinanced on more lenient terms. If the Bank finances payments on higher-ranking charges or wholly or partially repays the customer's creditors in order to avert bankruptcy or the like, this is also considered forbearance.

Forbearance must be approved by Credit Rating. Customers who have been granted forbearance must as a minimum be flagged as having a weak credit quality and also be assessed in relation to objective evidence of impairment (OEI).

In addition to decentralised registration, customers flagged as having a weak credit quality and OEI with an indication of credit impairment will be monitored centrally and reported on periodically.

Non-Performing

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

- the exposure has been in arrears (i.e. if any amount of interest, fees or instalments remains unpaid) for more than 90 days; or
- it is considered unlikely that the debtor will fully meet its payment obligations without realising collateral.

In addition, an exposure in IFRS 9 "stage 3" is always defined NPL even if the above criteria are not met.

	2018	2019
NPL (DKKm)	2,004	3,300
Exposure	54,079	47,354
NPL ratio	3.7	7.0

Loans and advances subject to forbearance in the year

2019 DKKm	Business customers	Agriculture	Retail cus- tomers	Total
Non-performing	204	59	129	392
Performing	10	7	10	28
Total	215	66	139	419

2018 DKKm	Business customers	Agriculture	Retail cus- tomers	Total
Non-performing	531	407	237	1,175
Performing	17	1	14	33
Total	549	409	251	1,208

Claims due, but not impaired

DKKm	2019		2018	
	Unau- thorised overdrafts	Collateral	Unau- thorised overdrafts	Collateral
0-30 days	141	167	207	129
31-60 days	5	10	11	2
61-90 days	1	14	4	0
> 90 days	0	0	6	3
Total	146	191	227	135

Collateral amounts are calculated on the basis of the Bank's collateral registration system. The collateral registration is based on a prudent valuation of all pledged/mortgaged assets.

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5.1.6 Exposures and impairments etc.

For a description of principles for loan impairments, see note 5.1.1.

Spar Nord's impairment account broken down by industry is shown in section 5.1.2.

Summary of carrying amount of exposures

	Exposure before impair- ment DKKm	Im- pairments DKKm	Carrying amount DKKm	Recognised impairments etc. total DKKm
2019				
Loans and advances at amortised cost (note 5.1.7)	52,764	1,453	51,312	128
Due from credit institutions and central banks (note 5.1.8)	1,588	1	1,588	0
Guarantees (note 5.1.9)	14,807	40	14,766	-39
Unutilised credit lines and loan commitments (note 5.1.7)	23,412	9	23,403	-67
Total	92,571	1,503	91,068	22
	DKKm	DKKm	DKKm	DKKm
2018				
Loans and advances at amortised cost (note 5.1.7)	46,118	1,789	44,330	107
Due from credit institutions and central banks (note 5.1.8)	1,400	0	1,400	0
Guarantees (note 5.1.9)	12,172	80	12,092	12
Unutilised credit lines and loan commitments (note 5.1.7)	22,327	76	22,251	55
Total	82,018	1,945	80,073	173

Recognised impairments etc. are specified in notes 5.1.6, 5.1.7, 5.1.8 and 5.1.9.

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

DKKm	2019	2018
Public authorities	0	0
Agriculture, hunting and forestry	-59	106
Fisheries	0	0
Industry and raw materials extraction	6	-14
Energy supply	-7	-10
Building and construction	-7	2
Trade	8	62
Transport, hotels and restaurants	42	-7
Information and communication	3	2
Financing and insurance	-18	14
Real estate	13	-52
Other business areas	-10	17
Business customers, total	-28	119
Total retail customers	51	54
Total	22	173

The impact on Spar Nord's profits from impairment amounted to an expense of DKK 22 million in 2019, equal to 0.03% of total loans, advances and guarantees.

The total impact on operations of DKK 22 million compared with an impact on operations of DKK 173 million in 2018 should primarily be seen in the context of the generally improved customer credit quality.

Retail customers without SparXpres represented an income of DKK 5 million, while SparXpres resulted in an expense of DKK 56 million. For business customers, there was an expense of DKK 30 million, while the impact on operations from agriculture was an income of DKK 59 million.

Exposures for which interest accrual has been suspended fell from DKK 476 million at end-2018 to DKK 303 million at end-2019.

Exposures before impairments and provisions by stages

	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
2019				
Loans and advances at amortised cost	43,773	6,992	1,999	52,764
Due from credit institutions and central banks	1,588	0	0	1,588
Guarantees	13,907	707	192	14,807
Unutilised credit lines and loan commitments	21,919	1,394	99	23,412
Total	81,188	9,093	2,290	92,571
2018				
Loans and advances at amortised cost	30,773	12,100	3,245	46,118
Due from credit institutions and central banks	1,400	0	0	1,400
Guarantees	11,028	772	373	12,172
Unutilised credit lines and loan commitments	19,970	2,180	178	22,327
Total	63,170	15,052	3,796	82,018

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Exposures before impairments and provisions by industry

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm	Recognised impairments etc. total DKKm
Public authorities	1,871	0	0	1,871	0
Agriculture, hunting and forestry	2,252	791	580	3,623	-59
Fisheries	104	30	8	143	0
Industry and raw materials extraction	3,078	925	143	4,146	6
Energy supply	2,215	100	19	2,334	-7
Building and construction	2,998	587	125	3,710	-7
Trade	4,979	1,296	116	6,391	8
Transport, hotels and restaurants	2,444	604	185	3,233	42
Information and communication	363	73	9	444	3
Financing and insurance	12,422	716	69	13,208	-18
Real estate	8,319	894	354	9,566	13
Other business areas	4,545	693	96	5,334	-10
Total business	45,591	6,709	1,703	54,003	-28
Total retail customers	34,009	2,384	587	36,980	51
Total	79,599	9,093	2,290	90,983	22
Total due from credit institutions	1,588	0	0	1,588	0
Total	81,188	9,093	2,290	92,571	22

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm	Recognised impairments etc. total DKKm
Public authorities	607	0	0	607	0
Agriculture, hunting and forestry	1,289	1,347	1,117	3,753	106
Fisheries	108	43	0	151	0
Industry and raw materials extraction	2,156	1,510	259	3,925	-14
Energy supply	1,429	522	22	1,973	-10
Building and construction	2,704	1,122	197	4,023	2
Trade	4,172	1,886	208	6,266	62
Transport, hotels and restaurants	1,199	1,302	268	2,769	-7
Information and communication	263	79	10	352	2
Financing and insurance	8,817	722	228	9,767	14
Real estate	6,004	1,342	462	7,808	-52
Other business areas	3,435	1,630	150	5,216	17
Total business	32,184	11,506	2,920	46,610	119
Total retail customers	29,586	3,545	876	34,007	54
Total	61,770	15,052	3,796	80,618	173
Total due from credit institutions	1,400	0	0	1,400	0
Total	63,170	15,052	3,796	82,018	173

Impairments and provisions by stages

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Loans and advances at amortised cost		134	258	1,061
Due from credit institutions and central banks		1	0	0
Guarantees		17	5	18
Unutilised credit lines and loan commitments		3	3	3
Total		155	265	1,083

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Loans and advances at amortised cost		89	298	1,402
Due from credit institutions and central banks		0	0	0
Guarantees		14	6	60
Unutilised credit lines and loan commitments		4	4	69
Total		106	308	1,531

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Individually impaired loans at amortised cost and guarantees

	2019 DKKm	2018 DKKm
Loans, advances and receivables		
Sum total of loans, advances and receivables for which individual impairment has been recognised	1,999	3,086
Individual impairment of loans and advances, receivables	1,061	1,373
Carrying amount	938	1,713
Guarantees		
Sum total of guarantees for which individual provisions have been made	192	338
Individual provisions for guarantees	18	59
Carrying amount	174	280
Model-calculated loans, advances and receivables		
Sum total of loans, advances and guarantees for which model-calculated impairment has been recognised	-	194
Model-based impairments and provisions	-	31
Carrying amount	-	163

Individually impaired loans at amortised cost and guarantees in Stage 3 by cause of impairment

	2019 Credit exposure before impairment DKKm	2019 Im- pairment DKKm	2018 Credit exposure before impairment DKKm	2018 Impairment DKKm
Insolvent liquidation and bankruptcy	106	40	66	48
Collection or suspension of payments	67	34	179	85
Other financial difficulty	2,018	1,009	3,179	1,367
Individual impairment of loans and advances, receivables and guarantees, total	2,191	1,083	3,424	1,500

Individual impairments at end-2019 of DKK 1,083 million include DKK 3 million in provisions for losses on unutilised credit lines and loan commitments.

In 2019, Spar Nord recorded a decline in credit exposure to customers with individual impairment of DKK 1,233 million.

At end-2019, the credit-impaired claims represented 3.2% of total credit exposure compared with 5.9% in 2018

The total impairment account fell DKK 442 million in 2019. Virtually all cases of insolvent liquidation and bankruptcy are attributable to business facilities.

The collateral for individually credit-impaired loans and for overdue loans that have not been individually impaired does not differ significantly from the Bank's other collateral

Contractually outstanding amounts for financial assets written off during the accounting period and for which collection efforts are still pursued

In the financial year 2019, DKK 546 million was written off (2018: DKK 213 million), of which DKK 522 million (2018: DKK 179 million) is still the object of collection efforts.

5.1.7 Loans at amortised cost and unutilised credit lines and loan commitments

	2019 DKKm	2018 DKKm
Loans and advances at amortised cost before impairments	52,764	46,118
Unutilised credit lines and loan commitments before impairments	23,412	22,327
Impairment of loans and advances and provisions on unutilised credit lines	1,462	1,865
Total	74,715	66,581

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Loans at amortised cost before impairments, by rating category

The table below shows the credit quality and exposures before impairments based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating categories and impairment model is provided in note 5.1.1.

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Rating category 1	7,967	17	0	7,985
Rating category 2	7,358	156	0	7,514
Rating category 3	8,180	1,592	0	9,772
Rating category 4	4,453	1,657	0	6,110
Rating category 5	1,014	698	0	1,711
Rating category 6	286	587	1	874
Rating category 7	153	452	0	605
Rating category 8	85	410	0	495
Rating category 9	0	432	8	440
Default	86	465	1,871	2,422
Unrated	1,249	1	0	1,250
Reverse repo transactions	8,155	0	0	8,155
SparXpres	533	38	70	641
Leasing	4,254	487	49	4,790
Total	43,773	6,992	1,999	52,764

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Rating category 1	5,816	23	0	5,839
Rating category 2	6,826	151	1	6,978
Rating category 3	5,517	1,834	1	7,352
Rating category 4	4,170	2,522	2	6,694
Rating category 5	1,357	1,204	0	2,560
Rating category 6	360	847	1	1,208
Rating category 7	73	659	0	731
Rating category 8	75	230	2	307
Rating category 9	2	165	11	179
Default	2	86	2,934	3,022
Unrated	1,796	33	0	1,830
Reverse repo transactions	4,779	0	0	4,779
SparXpres	0	558	142	700
Leasing	0	3,788	150	3,938
Total	30,773	12,100	3,245	46,118

Loans at amortised cost before impairments, by stages

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Gross exposure 1 January	30,773	12,100	3,245	46,118
New exposures and extension of existing exposures in the year	22,593	1,575	295	24,463
Repayments and reduction of existing exposures	-14,245	-2,686	-343	-17,275
Change in gross exposure, transfer to/from stage 1	-2,518	2,426	92	-
Change in gross exposure, transfer to/from stage 2	6,715	-6,912	197	-
Change in gross exposure, transfer to/from stage 3	472	501	-973	-
Gross exposure expensed	-18	-12	-513	-543
Gross exposure 31 December	43,773	6,992	1,999	52,764

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2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Gross exposure 1 January	35,592	9,667	3,078	48,337
New exposures and extension of existing exposures in the year	14,809	4,299	465	19,573
Repayments and reduction of existing exposures	-18,173	-2,734	-672	-21,579
Change in gross exposure, transfer to/from stage 1	-3,204	2,901	303	-
Change in gross exposure, transfer to/from stage 2	1,636	-2,147	511	-
Change in gross exposure, transfer to/from stage 3	142	122	-263	-
Gross exposure expensed	-28	-8	-177	-213
Gross exposure 31 December	30,773	12,100	3,245	46,118

The figures concerning new exposures and extension and re-payment and reduction include administrative movements in which the balance is moved between two accounts for the same customer.

Unutilised credit lines and loan commitments before impairments and provisions, by rating category

The rating breakdown of Spar Nord's unutilised credit lines and loan commitments before impairments and provisions generally follow the rating breakdown for loans at amortised cost before impairments shown above.

Unutilised credit lines and loan commitments before impairments and provisions, by stages

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Gross exposure 1 January	19,970	2,180	178	22,327
New exposures and extension of existing exposures in the year	7,852	534	39	8,424
Repayments and reduction of existing exposures	-6,430	-818	-90	-7,339
Change in gross exposure, transfer to/from stage 1	-853	839	14	-
Change in gross exposure, transfer to/from stage 2	1,360	-1,384	25	-
Change in gross exposure, transfer to/from stage 3	22	44	-66	-
Gross exposure 31 December	21,919	1,394	99	23,412

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Gross exposure 1 January	19,472	1,159	171	20,802
New exposures and extension of existing exposures in the year	2,584	169	9	2,763
Repayments and reduction of existing exposures	-1,255	45	-28	-1,237
Change in gross exposure, transfer to/from stage 1	-1,305	1,275	30	-
Change in gross exposure, transfer to/from stage 2	439	-477	37	-
Change in gross exposure, transfer to/from stage 3	34	7	-41	-
Gross exposure 31 December	19,970	2,180	178	22,327

The figures concerning new exposures and extension and re-payment and reduction include administrative movements in which the balance is moved between two accounts for the same customer.

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Impairments and provisions for losses

Analysis of changes in impairments and provisions for losses during the year broken down by stages and correlated to recognised impairments, etc. A summary of combined recognised impairments, etc. is provided in note 5.1.6.

It is not possible to separate movements during the year into impairments and provisions for losses on the exposure categories loans at amortised cost and unutilised credit lines and loan commitments.

	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm	Recognised impairments etc. DKKm
2019					
Impairments at 1 January, loans at amortised cost	89	298	1,402	1,789	-
Provisions at 1 January, unutilised credit lines and loan commitments	4	4	69	76	-
Impairments re. new exposures during the year, including new accounts to existing customers	46	51	150	247	247
Reversed impairments re. repaid accounts	-16	-37	-145	-199	-199
Change in impairments at 1 January, transfer to/from stage 1	195	-149	-46	-	-
Change in impairments at 1 January, transfer to/from stage 2	-15	157	-141	-	-
Change in impairments at 1 January, transfer to/from stage 3	-2	-8	10	-	-
Impairments during the year due to change in credit risk	-163	-25	208	19	19
Change in impairments due to model changes and risk parameters, net	0	-30	0	-30	-30
Previously impaired, now finally lost	0	0	-463	-463	-
Other movements (interest rate correction etc.)	0	0	21	21	-
Loss without prior impairment	-	-	-	-	88
Amounts recovered on previously impaired receivables	-	-	-	-	-65
Impairments and provisions for losses at 31 December	137	261	1,064	1,462	61
Impairments at 31 December, loans at amortised cost	134	258	1,061	1,453	128
Provisions at 31 December, unutilised credit lines and loan commitments	3	3	3	9	-67
Impairments and provisions for losses at 31 December	137	261	1,064	1,462	61
	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm	Recognised impairments etc. DKKm
2018					
Impairments at 01.01.18 under IFRS 9, loans at amortised cost	79	279	1,433	1,791	-
Provisions at 01.01.18 under IFRS 9, unutilised credit lines and loan commitment	4	5	12	21	-
Impairments re. new exposures during the year, including new accounts to existing customers	28	37	92	157	157
Reversed impairments re. repaid accounts	-10	-29	-82	-121	-121
Change in impairments at 1 January, transfer to/from stage 1	139	-63	-76	-	-
Change in impairments at 1 January, transfer to/from stage 2	-16	45	-28	-	-
Change in impairments at 1 January, transfer to/from stage 3	-9	-37	46	-	-
Impairments during the year due to change in credit risk	-122	65	181	124	124
Previously impaired, now finally lost	0	0	-139	-139	-
Other movements (interest rate correction etc.)	0	0	33	33	-
Loss without prior impairment	-	-	-	-	80
Amounts recovered on previously impaired receivables	-	-	-	-	-77
Impairments and provisions for losses at 31 December	92	302	1,470	1,865	162
Impairments at 31 December, loans at amortised cost	89	298	1,402	1,789	107
Provisions at 31 December, unutilised credit lines and loan commitments	4	4	69	76	55
Impairments and provisions for losses at 31 December	92	302	1,470	1,865	162

The change in portfolio impairments was driven by an increase in gross lending and movements between the stages as illustrated in the table, which is the result of a change in customers' credit risk. In addition, impairments are affected by changes in macroeconomic factors and improvements for the agricultural sector. See note 5.1.3.

The figures concerning impairments re. new exposures and reversed impairments re. repaid accounts include administrative movements in which the balance is moved between two accounts for the same customer.

Loss without prior impairment expresses Spar Nord's recognised loans for which the loss is greater than impairments at the beginning of the year.

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5.1.8 Due from credit institutions and central banks

	2019 DKKm	2018 DKKm.
Due from credit institutions and central banks before impairments	1,588	1,400
Impairments	1	0
Carrying amount	1,588	1,400

Due from credit institutions and central banks before impairments, by rating category

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Credit institutions	1,588	0	0	1,588
Central banks	0	0	0	0
Total	1,588	0	0	1,588

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Credit institutions	1,400	0	0	1,400
Central banks	0	0	0	0
Total	1,400	0	0	1,400

A breakdown by product type and rating category is shown in note 5.1.10.

Due from credit institutions and central banks before impairments by stages

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Gross exposure 1 January	1,400	0	0	1,400
New exposures and extension of existing exposures in the year	1,259	0	0	1,259
Repayments and reduction of existing exposures	-1,071	0	0	-1,071
Change in gross exposure, transfer to/from stage 1	0	0	0	-
Change in gross exposure, transfer to/from stage 2	0	0	0	-
Change in gross exposure, transfer to/from stage 3	0	0	0	-
Gross exposure 31 December	1,588	0	0	1,588

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Gross exposure 1 January	1,437	0	0	1,437
New exposures and extension of existing exposures in the year	981	0	0	981
Repayments and reduction of existing exposures	-1,018	0	0	-1,018
Change in gross exposure, transfer to/from stage 1	0	0	0	-
Change in gross exposure, transfer to/from stage 2	0	0	0	-
Change in gross exposure, transfer to/from stage 3	0	0	0	-
Gross exposure 31 December	1,400	0	0	1,400

The figures concerning new exposures and extension and repayment and reduction include administrative movements in which the balance is moved between two accounts for the same customer.

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Impairments

Analysis of changes in impairments for the period broken down by stages and correlated to recognised impairments, etc. A summary of combined recognised impairments, etc. is provided in note 5.1.6.

	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm	Recognised impairments etc. DKKm
2019					
Impairment, beginning of year	0	0	0	0	-
Impairments re. new exposures during the year, including new accounts to existing customers	1	0	0	1	1
Reversed impairments re. repaid accounts	0	0	0	0	0
Change in impairments at 1 January, transfer to/from stage 1	0	0	0	-	-
Change in impairments at 1 January, transfer to/from stage 2	0	0	0	-	-
Change in impairments at 1 January, transfer to/from stage 3	0	0	0	-	-
Impairments during the year due to change in credit risk	-1	0	0	-1	-1
2018					
Impairments at 1 January 2018 under IFRS 9	1	0	0	1	-
Impairments re. new exposures during the year, including new accounts to existing customers	1	0	0	1	1
Reversed impairments re. repaid accounts	-1	0	0	-1	-1
Change in impairments at 1 January, transfer to/from stage 1	0	0	0	-	-
Change in impairments at 1 January, transfer to/from stage 2	0	0	0	-	-
Change in impairments at 1 January, transfer to/from stage 3	0	0	0	-	-
Impairments during the year due to change in credit risk	-1	0	0	-1	-1
Impairment, end of year	0	0	0	0	0

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5.1.9 Guarantees

	2019 DKKm	2018 DKKm
Guarantees before provisions for losses	14,807	12,172
Provisions for losses	40	80
Carrying amount	14,766	12,092

Guarantees before provisions, by rating category

The table below shows the credit quality and exposures before impairments based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating categories and impairment model is provided in note 5.1.1.

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Rating category 1	5,825	1	0	5,826
Rating category 2	2,943	44	0	2,987
Rating category 3	1,824	172	0	1,996
Rating category 4	1,031	151	0	1,182
Rating category 5	208	70	0	279
Rating category 6	117	65	0	182
Rating category 7	31	18	0	49
Rating category 8	33	52	0	85
Rating category 9	0	32	0	32
Default	45	102	192	340
Unrated	1,850	0	0	1,850
Total	13,907	707	192	14,807

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Rating category 1	4,198	2	0	4,200
Rating category 2	2,334	43	4	2,382
Rating category 3	1,643	157	2	1,802
Rating category 4	962	294	0	1,256
Rating category 5	158	125	0	283
Rating category 6	105	94	0	199
Rating category 7	28	28	0	56
Rating category 8	4	6	0	10
Rating category 9	2	10	1	13
Default	0	6	366	372
Unrated	1,592	7	0	1,600
Total	11,028	772	373	12,172

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Guarantees, by stages

	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
2019				
Gross exposure 1 January	11,028	772	373	12,172
New exposures during the year	9,329	276	58	9,663
Reversed re. repaid exposures	-6,414	-458	-157	-7,028
Change in gross exposure, transfer to/from stage 1	-271	246	24	-
Change in gross exposure, transfer to/from stage 2	190	-200	10	-
Change in gross exposure, transfer to/from stage 3	45	71	-116	-
Gross exposure 31 December	13,907	707	192	14,807
2018				
Gross exposure 1 January	10,978	763	261	12,002
New exposures during the year	5,828	355	121	6,304
Reversed re. repaid exposures	-5,590	-457	-88	-6,135
Change in gross exposure, transfer to/from stage 1	-359	287	73	-
Change in gross exposure, transfer to/from stage 2	157	-182	26	-
Change in gross exposure, transfer to/from stage 3	15	6	-21	-
Gross exposure 31 December	11,028	772	373	12,172

Provisions for losses

Analysis of changes in provisions for losses during the period broken down by stages and correlated to recognised impairments, etc. A summary of combined recognised impairments, etc. is provided in note 5.1.6.

	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm	Recognised impairments etc. DKKm
2019					
Provisions for losses at 1 January	14	6	60	80	-
Provisions for losses re. new exposures during the year	20	0	6	26	26
Reversed provisions for losses re. repaid exposures	-13	-5	-52	-69	-69
Change in provisions for losses at 1 January, transfer to/from stage 1	4	-2	-2	-	-
Change in provisions for losses at 1 January, transfer to/from stage 2	-1	2	-1	-	-
Change in provisions for losses at 1 January, transfer to/from stage 3	0	0	0	-	-
Provisions for losses during the year due to change in credit risk	-7	3	7	3	3
Provisions for losses at 31 December	17	5	18	40	-39
2018					
Provisions for losses at 1 January 2018 under IFRS 9	13	7	48	68	-
Provisions for losses re. new exposures during the year	15	2	50	66	66
Reversed provisions for losses re. repaid exposures	-7	-7	-13	-27	-27
Change in provisions for losses at 1 January, transfer to/from stage 1	4	-3	-1	-	-
Change in provisions for losses at 1 January, transfer to/from stage 2	-1	1	0	-	-
Change in provisions for losses at 1 January, transfer to/from stage 3	-1	0	2	-	-
Provisions for losses during the year due to change in credit risk	-8	5	-25	-28	-28
Provisions for losses at 31 December	14	6	60	80	12

The change in portfolio impairments was driven by an increase in gross lending and movements between the stages as illustrated in the table, which is the result of a change in customers' credit risk. In addition, impairments are affected by changes in macroeconomic factors.

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5.1.10 Financial credit risk

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

Spar Nord's Management allocates lines for credit risk exposure to financial counterparties, based on the specific counterparty's risk profile, rating, amount of exposure and solvency. The risks and lines of financial instruments are monitored constantly.

Total financial credit risk	2019 Carrying amount DKKm	2018 Carrying amount DKKm	2019 Risk portfolio DKKm	2018 Risk portfolio DKKm
AAA	14,516	14,575	14,004	14,343
AA	601	586	601	586
A	2,057	1,577	2,057	1,577
BBB	759	795	759	795
BB	81	66	81	66
B	7	12	7	12
Not rated	266	151	266	150
Total	18,286	17,762	17,774	17,530

Overall, Management's assessment is that Spar Nord's credit risk exposure to financial counterparties remains at a moderate level, as 93.7% (2018: 94.2%) of the financial credit risk is attributable to counterparties with a rating of A or higher.

Bond portfolio

The Group's bond portfolio at fair value through profit or loss is the most significant source of financial credit risk.

Bond portfolio broken down by issuer type	2019 Carrying amount DKKm	2018 Carrying amount DKKm	2019 Risk portfolio DKKm	2018 Risk portfolio DKKm
Mortgage-credit institutions	14,420	13,762	14,026	13,598
Financial issuers	1,077	1,422	1,077	1,422
Credit bonds	277	259	277	259
Government bonds	723	716	604	648
Total	16,498	16,160	15,985	15,928

Bond portfolio broken down by rating

AAA	13,592	13,644	13,080	13,412
AA	425	439	425	439
A	1,551	1,151	1,551	1,151
BBB	590	713	590	713
BB	80	66	80	66
B	6	12	6	12
Not rated	254	135	254	134
Total	16,498	16,160	15,985	15,928

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Risk management

5.2 Market risk

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

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

In 2019, Spar Nord made no major changes in assumptions, objectives, policies, exposures and calculation methods, etc. as compared to the year before.

Spar Nord's interest rate risk, foreign exchange risk and equity risk are described below.

Market risk policy

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

The policy identifies and sets limits for the various types of market risk, setting out specific limits for how much risk Spar Nord is prepared to assume. Market risks for Spar Nord are the credit spread risk on the Bank's bond portfolio and the Bank's interest rate risk, equity risk in the banking book and the trading book

5.2.1 Interest rate risk

The interest rate risk is the risk of loss due to interest rate fluctuations. Most of Spar Nord's interest rate risks in the banking book derives from bank activities like deposits and lending, leases, repo and reverse repo transactions, strategic loans and possibly hedge operations in relation thereto. Interest rate risks in the trading book occur in connection with trading and position-taking in bonds and fixed-income derivatives like interest rate swaps, futures and standard interest rate options.

Spar Nord's interest-rate risk both within the trading book and the banking book is calculated on the basis of duration and agreed cash flow. For managing its portfolio of callable Danish mortgage bonds, Spar Nord uses model-based key risk indicators that provide for the embedded option component. As concerns interest rate options, the above-mentioned key indicators are supplemented by the most important risk factors expressing

and very limited foreign exchange, option and commodity risks. The policy establishes the methods to be used in calculating the various risk targets.

Management, monitoring and reporting

For its management of market risks, the Bank has established a three-tier instruction hierarchy. At the first tier, the Board of Directors issues the definition of the limits for Spar Nord, which are delegated to the Executive Board. At the second tier, the Executive Board delegates limits to the other entities of Spar Nord, with the Trading Division being the distinctly largest entity. At the third and last tier, the executives of the Trading Division are granted the limits within which they may operate.

The Finance & Accounts Department is responsible for estimating, monitoring, controlling and reporting market risks. Market risk is calculated for the following purposes:

- Daily follow-up on individual business units, both intraday and end of day
- Regular reporting to the Executive Board and the Board of Directors
- Reporting of regulatory capital

Market risks are controlled and monitored through an integrated risk management system, with day-to-day follow-up action taken with respect to all market risk categories for all units subject to instructions, and any failure to comply with instructions is reported upstream in the hierarchy.

sensitivity of the option premium on changes in the underlying parameters.

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

Shown below is the interest rate risk relative to duration and exchange rates. This shows the risk of changes for a given time interval on the yield curve. The table shows the interest rate risk broken down on the individual time intervals, given a 1 percentage point drop in interest rates.

Interest-rate risk shown by duration and currency (DKKm)

	Less than 3 months	3 months – 1 years	1-3 years	3-7 years	Over 7 years	Total
2019						
DKK	-6	19	23	12	11	60
EUR	3	-10	-5	0	-4	-15
Other	2	1	4	0	0	7
Total	-1	11	23	12	7	52
2018						
DKK	10	3	23	22	18	75
EUR	8	4	-20	-34	-32	-74
Other	3	3	1	1	0	7
Total	20	9	4	-11	-14	9

Spar Nord is exposed to a fall in DKK interest rates and an increase in EUR interest rates (2018: falling DKK interest rates and rising EUR interest rates). The interest rate risk amounted to DKK 52 million, which is a DKK 43 million increase of the positive net interest rate risk compared with end-2018.

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5.2.2 Foreign exchange risk

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

The foreign exchange risk is illustrated by the table below. The calculation is based on the assumption that all exchange rates develop unfavourably for Spar Nord by 2%.

Currency	Foreign exchange position		Currency risk	
	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm
EUR	53	37	1.1	0.7
SEK	1	2	0.0	0.0
USD	3	1	0.1	0.0
GBP	1	3	0.0	0.1
CHF	0	0	0.0	0.0
NOK	6	7	0.1	0.1
JPY	0	1	0.0	0.0
Other currencies	1	9	0.0	0.2
Foreign-exchange risk regarding financial instruments, etc., total	64	59	1.3	1.2

As appears from the table, the overall foreign exchange risk for Spar Nord was DKK 1.3 million at end-2019, representing an increase in risk of DKK 0.1 million compared with end-2018. The

change was caused by an increase in EUR and a reduction in the position of other currencies.

5.2.3 Equity risk

Equity risk is the risk of losses caused by changes in equity prices. Equity positions are the calculated net value of long and short equity positions and equity-related instruments. The calculation of equity positions is broken down by positions in the banking book and in the trading book.

Equity risk in the trading book

	2019 DKKm	2018 DKKm
Listed shares forming part of the trading book	106	106
Unlisted shares forming part of the trading book	26	28
Total shares in the trading book	132	134

Shares in the trading book are held for trading purposes.

Equity risk in the banking book

Shares in credit and financing institutions	1,245	1,285
Shares in unit trust management companies	193	197
Shares in pension institutions	2	2
Shares in data supplier	0	0
Shares in payment services business	8	0
Other equities	67	60
Total shares in strategic business partners	1,514	1,545
Realised gain	21	4
Unrealised gain	69	186
Total associates	470	333
Other shares in the banking book	93	89
Total shares not forming part of the trading book	2,078	1,967

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

Spar Nord's most significant equity investment recognised in associates at end-2019 was Danske Andelskasser Bank A/S (2018: Danske Andelskasser Bank A/S).

Shares in strategic partners in the financial sector are shares in companies whose purpose is to support financial institutions' business in the fields of mortgage credit, payment services, unit trusts, etc. Participation in the companies in question is considered a prerequisite for Spar Nord's operations.

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

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Risk management

5.2.4 Sensitivity analysis



The sensitivity information shows how Spar Nord's income statement will be impacted if interest rates change, if share prices fall or if all exchange rates develop unfavourably.

	Impact on operating profit		Impact on equity	
	2019 DKKm	2018 DKKm	2019 %	2018 %
Interest rate increase of 1 %-point	-32	-6	-0.4	-0.1
Interest rate decrease of 1 %-point	32	6	0.4	0.1
Share price decrease of 10% in the trading book	-10	-10	-0.1	-0.1
A fair value decrease of 10% for shares in the banking book	-197	-186	-2.2	-2.2
Unfavourable 2% exchange rate fluctuation	-1	-1	0.0	0,0

The sensitivity information shows the impact of isolated changes in interest rates in the trading book, while the impact of changes in exchange rates and the share portfolio is shown for positions both in the banking book and the trading book. The impact on the operating profit and the impact on equity are calculated after tax.

It appears from the table that the impact of an interest rate increase will be a loss equal to 0.4% of shareholders' equity. Furthermore, the effect of a 10% decline in the value of the share portfolio both in banking and trading book will be a loss equal to 2.3% of shareholders' equity.

5.3 Liquidity risk

In 2019, Spar Nord made no major changes in calculation methods, policies and exposures etc. as compared to the year before.

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

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

Liquidity policy

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

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

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

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.

Section 5

Risk management

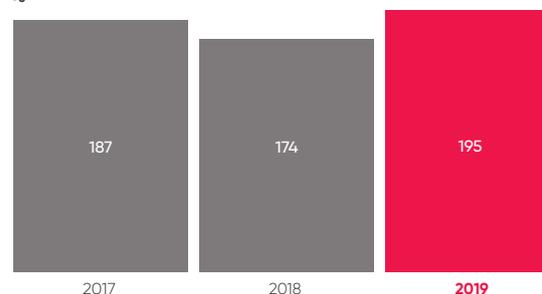
5.3.1 Short-term liquidity

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

At end-2019, LCR was calculated at 195% (2018: 174%), which is comfortably above Spar Nord's target LCR of at least 125% (2018: 125%). The excess coverage of 70 percentage points (2018: 49) corresponds to excess liquidity of DKK 6.8 billion (2018: DKK 4.7 billion). Calculated relative to the statutory requirement of 100%, the excess liquidity amounted to DKK 9.2 billion.

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

Liquidity coverage ratio (LCR)
%



Liquidity coverage ratio

DKKm	2019	2018
Liquidity resources	18,928	16,513
Liquidity Coverage Requirement	9,717	9,471
LCR (%)	195	174

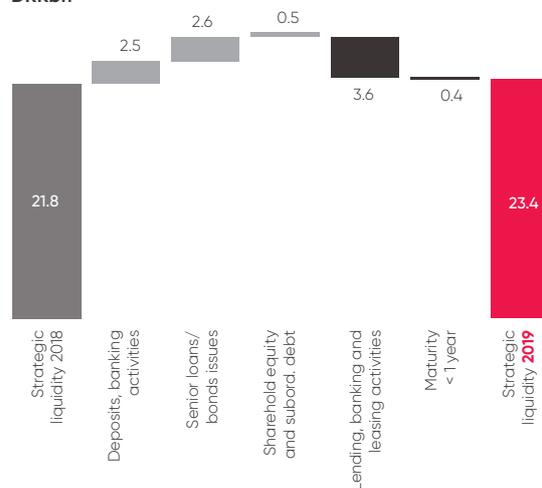
5.3.2 Long-term liquidity

Spar Nord calculates its strategic liquidity as deposits excl. repo transactions, senior loans, issued bonds, subordinated debt and equity less lending excl. reverse repo transactions. On the other hand, subordinated debt, additional tier 1 capital, senior loans and issued bonds due within 12 months are not included in the calculation of strategic liquidity.

At end-2019, Spar Nord had strategic liquidity of DKK 23.4 billion. This level reflects strengthened liquidity of DKK 1.6 billion relative to end-2018, when strategic liquidity was calculated at DKK 21.8 billion.

Compared with 2018, Spar Nord increased its loans and advances by DKK 3.6 billion, while deposits rose by DKK 2.5 billion in the same period. The recognition of MREL capital improves liquidity by DKK 2.6 billion, while a positive consolidation also contributes to a generally improved liquidity.

Strategic liquidity
DKKbn



	2019 DKKm	2018 DKKm
Deposits, banking activities	53,279	50,773
Senior loans and issued bonds	2,637	0
Subordinated debt	1,322	1,332
Equity	9,761	9,241
Liquidity procurement	66,999	61,346
Lending, banking and leasing activities	43,157	39,551
Senior loans, issued bonds, subordinated debt and additional tier 1 capital with a term to maturity of less than 12 months	400	0
Strategic liquidity	23,442	21,796

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5.3.3 Stress test

In accordance with the Executive Order on Management and Control of Banks etc., Spar Nord prepares internal liquidity stress tests based on LCR. The stress tests span a 12-month period and are calculated using three permanently defined scenarios: a business-specific, a market-specific and a mixed scenario, all of which are calculated without any management intervention. The stress tests prepared have lived up to Spar Nord's internal targets throughout the period.

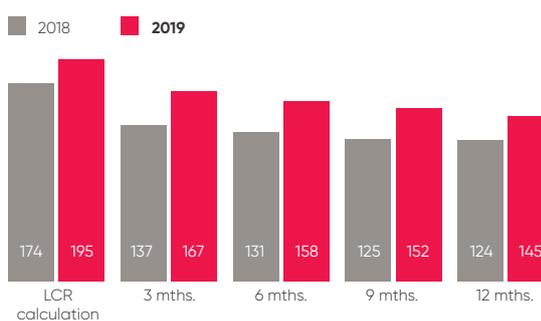
The table and figure below show the result of a liquidity projection in a severe stress scenario, in which Spar Nord operates with a 3-month survival period in its liquidity management. In addition to money and capital market funding falling due, the stress scenario includes a massive stress on the deposit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

At end-2019, the projection shows that Spar Nord's liquidity resources will be reduced by DKK 70 billion over the 12-month projection period, but also that in a severe stress scenario Spar Nord complies with the LCR statutory requirement in the full 12-month projection period.

Run-off of liquidity resources in a hard stress scenario

DKKm/%	Liquidity resources		Accumulated run-off	
	2019	2018	2019	2018
Calculation period	18,928	16,513		
3 months	14,880	12,414	-21	-25
6 months	13,642	11,507	-28	-30
9 months	12,748	10,668	-33	-35
12 months	11,914	9,863	-37	-40

LCR projected in a severe stress scenario

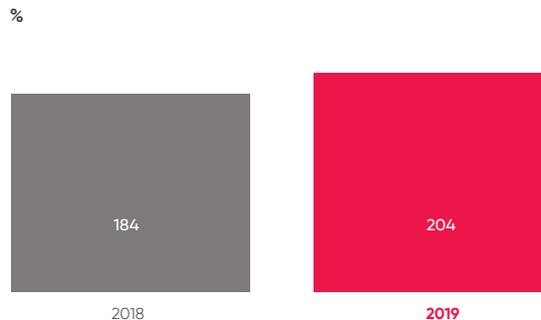


5.3.4 Liquidity benchmark

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

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

Liquidity indicator



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Risk management

5.3.5 Funding and maturity structure

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

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

From an overall perspective, Spar Nord's funding at end-2019 increased by DKK 7.2 billion to DKK 71.1 billion compared with 2018. The most important change in Spar Nord's funding structure is an increase in deposits and issuance of MREL capital like issued bonds. Deposits rose by DKK 2.5 billion, which was primarily driven by deposits on demand. In December 2019, Spar Nord issued MREL capital totalling DKK 2.6 billion. Lastly, an increase in the use of repos and repurchases and consolidation for the year contribute to overall developments in Spar Nord's funding at end-2019. Deposits remain Spar Nord's largest source of funding, and at end-2019 it represented 75.0% (2018: 79.6%) of Spar Nord's total funding.

At end-2019 Spar Nord's total long-term funding (deposits and funding with a term to maturity of more than 12 months) amounts to 91.9%, which is a small reduction compared with end-2018.

Funding structure

DKKm/%	2019	2018	2019	2018
Central banks and credit institutions	1,298	947	1.8	1.5
Repos and repurchases with central banks and credit institutions	2,764	1,519	3.9	2.4
Senior loans < 1 year	0	0	0.0	0.0
Issued bonds < 1 year	0	0	0.0	0.0
Deposits < 1 year	1,661	1,469	2.3	2.3
Deposits > 1 year and on demand	51,618	49,304	72.6	77.3
Senior loans > 1 year	0	0	0.0	0.0
Issued bonds > 1 year	2,637	0	3.7	0.0
Subordinated debt	1,322	1,332	1.9	2.1
Equity	9,761	9,241	13.7	14.5
Total	71,061	63,812	100.0	100.0

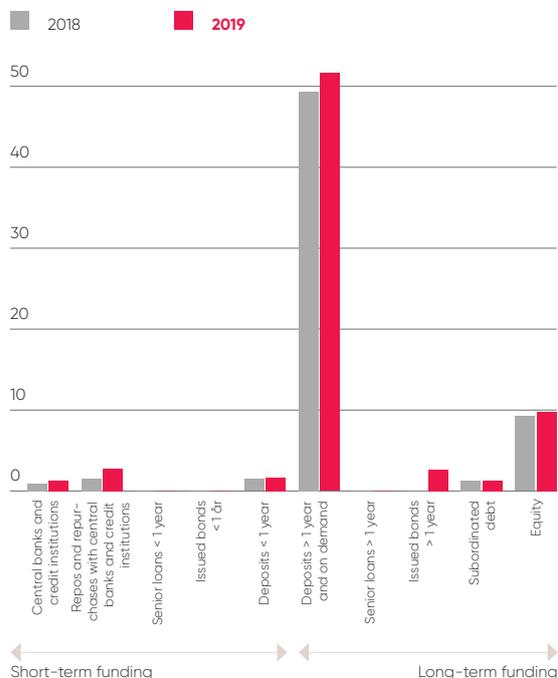
5.3.6 Liquidity contingency plan

Spar Nord has prepared a liquidity contingency plan pursuant to the Danish Executive Order on Management and Control of Banks. This plan contains a catalogue of possible courses of action for strengthening Spar Nord's liquidity in a critical situation. The catalogue contains a more detailed description of the expected impact and time span of the individual actions.

The liquidity contingency plan is applied if Spar Nord can only meet the predetermined liquidity instructions with difficulty and with resulting sharply increased funding costs.

Funding structure

(DKKbn)



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Risk management

5.3.7 Balance sheet breakdown, > 1 year/< 1 year

Breakdown of balance sheet items expected to be recovered or repaid after more than or within 12 months.

	2019		2018	
	< 1 year DKKm	> 1 year DKKm	< 1 year DKKm	> 1 year DKKm
Assets				
Cash balances and demand deposits with central banks	1,152	0	1,029	0
Due from credit institutions and central banks	1,588	0	1,400	0
Loans, advances and other receivables at amortised cost	29,818	21,494	23,591	20,739
Bonds at fair value	574	15,924	1,282	14,878
Shares, etc.	187	1,552	177	1,590
Investments in associates	0	470	0	333
Assets linked to pooled schemes	2,079	15,244	1,586	13,186
Intangible assets	6	167	9	169
Land and buildings	39	749	14	669
Other property, plant and equipment	37	76	36	90
Current tax assets	54	0	130	0
Temporary assets	11	0	9	0
Other assets	563	1,217	644	1,117
Prepayments and deferred income	111	0	116	0
Total	36,219	56,894	30,022	52,771
Liabilities				
Due to credit institutions and central banks	4,062	0	2,439	27
Deposits and other payables	50,170	3,109	47,321	3,453
Deposits, pooled schemes	2,079	15,244	1,586	13,186
Issued bonds at amortised cost	1	2,636	0	0
Other non-derivative financial liabilities at fair value	960	0	1,018	0
Other liabilities	2,923	741	2,276	562
Prepayments and deferred income	30	0	20	0
Deferred tax	3	17	8	165
Provisions	17	37	94	66
Subordinated debt	0	1,322	0	1,332
Total	60,247	23,105	54,761	18,791

Deposits comprise fixed-term deposits and demand deposits, etc. Fixed-term deposits are recognised at the maturity date. Contractually, demand deposits have ultra-short maturity and are therefore shown above with a term to maturity of less than 12 months.

Bonds are broken down by duration.

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Risk management

5.3.8 Contractual term to maturity of financial liabilities

	Carrying amount DKKm	Contractual cash flows DKKm	Within 1 years DKKm	1– 5 years DKKm	Over 5 years DKKm
2019					
Non-derivative instruments					
Due to credit institutions and central banks	4,062	4,062	4,062	0	0
Deposits and other payables	53,279	53,296	50,170	562	2,564
Deposits in pooled schemes	17,323	17,323	2,079	3,975	11,270
Issued bonds at amortised cost	2,637	2,731	22	2,709	0
Other non-derivative instruments	960	960	960	0	0
Lease liabilities	132	135	24	84	27
Other liabilities, excl. derivatives and lease liabilities	2,977	2,974	2,891	83	0
Subordinated debt	1,322	1,440	34	1,406	0
Guarantees	14,766	14,766	5,321	4,686	4,759
Derivatives					
Fair value of derivatives	555	479	61	133	285
Total	98,014	98,167	65,624	13,638	18,905

	Carrying amount DKKm	Contractual cash flows DKKm	Within 1 years DKKm	1– 5 years DKKm	Over 5 years DKKm
2018					
Non-derivative instruments					
Due to credit institutions and central banks	2,466	2,466	2,439	27	0
Deposits and other payables	50,773	50,813	47,321	79	3,413
Deposits, pooled schemes	14,772	14,772	1,586	3,481	9,705
Other non-derivative instruments	1,018	1,018	1,018	0	0
Other liabilities, excl. derivative instruments	2,288	2,288	2,208	80	0
Subordinated debt	1,332	1,482	33	950	500
Guarantees	12,092	12,092	4,543	3,126	4,424
Derivatives					
Fair value of derivatives	550	467	65	137	265
Total	85,291	85,398	59,212	7,879	18,307

The maturity analysis shows the contractual, undiscounted cash flows and comprises agreed payments, including principal and interest.

For liabilities with variable cash flow, such as floating-rate financial liabilities, the information is based on the conditions existing at the balance sheet date.

Subordinated debt is deemed to fall due at the time when the Spar Nord Group may choose between redeeming the debt or paying an increased interest rate/increased redemption price. If Spar Nord instead chooses to extend the loans, interest of DKK 34 million (2018: DKK 33 million) falls due for payment within 1 year, DKK 134 million (2018: DKK 131 million) within 1-5 years, and DKK 1,445 million including repayments of DKK 1,325 million (2018: DKK 1,487 million including repayments of DKK 1,336 million) after 5 years.

Issued bonds are deemed to fall due at the time when the Spar Nord Group may choose between redeeming the debt or paying a different interest rate. If Spar Nord instead chooses to extend the loans, interest of DKK 22 million (2018: DKK 0 million) falls due for payment within 1 year, DKK 970 million including repayments of DKK 895 million (2018: DKK 0 million including repayments of DKK 0 million) within 1-5 years, and DKK 1,760 million including repayments of DKK 1,750 million (2018: DKK 0 million including repayments of DKK 0 million) after 5 years.

As regards deposits in pension pools, only the customers' deposits in the pension pools are allocated, as future yields for pension pool participants depend on the return on pooled assets. The dates when the obligations fall due are correlated to the assets in the pension pools.

Payments regarding irrevocable credit commitments and guarantees fall due if a number of predetermined conditions have been met. Such payment obligations have been recognised at the time when the agreements expire.

Under the agreements made, customers can usually demand repayment of their deposits at short notice. However, in practice they are considered a stable funding source, as amounts disbursed largely equal deposits received.

The above-mentioned breakdown by term to maturity is based on the earliest date when a demand for payment can be made.

Risk management

5.4 Operational risk

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

Operational risk also comprises model risk, which is the risk of loss resulting from decisions primarily based on results of internal models. Operational risk arises due to errors in the development, execution or use of such models.

Operational risks are categorised on the basis of the seven event types defined by Basel III:

- employment practices and workplace safety
- external fraud
- business disruption and systems failures
- internal fraud
- clients, products and business practice
- execution, delivery and process management
- damage to physical assets

Operational risk policy

Spar Nord's Board of Directors has defined a policy for operational risk, the aim of which is to provide an overview of Spar Nord's operational risk and thus to minimise the number of errors and losses.

To ensure that operational risk is kept at an acceptable level, Spar Nord's Board of Directors has defined the Group's risk appetite. If risks are identified that exceed the defined risk appetite, scenario analyses are conducted and used to draw up risk mitigation proposals.

Management, monitoring and reporting

All of Spar Nord's activities are subject to operational risk, and therefore a key task is to limit the operational risk level as much as possible.

Operational risk is managed across Spar Nord through a comprehensive system of business procedures and control measures developed to ensure an optimum process environment.

Follow-up and reporting with respect to operational risk is anchored with Risk Management, while the unit responsible for the relevant business activities and, the risk owners, are responsible for handling the risks. This helps ensure a clear segregation of controlling and operational functions.

Throughout Spar Nord, events that result in a loss of more than DKK 10,000 are recorded and categorised, and identified risks are recorded on an ongoing basis, followed up by reporting to the Chief Risk Officer, the Executive Board and the Board of Directors.

Reporting to the Board of Directors, Executive Board and risk owners is done on a quarterly basis. The risk owners are informed about the loss events and new risks identified for the relevant business area during the period under review. The Board of Directors and the Executive Board receive a summary of significant new risks or any updates to existing risks. They also receive a statement of total loss events.

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

The systematic registration and categorisation of loss events provide an overview of sources of loss and the experience base which the Bank uses proactively in its management of operational risks.



Section 5

Risk management

5.4.1 Loss events and fraud

Spar Nord's operational loss events are primarily broken down on the risk types "external fraud", "clients, products and business practices" and "order execution and process management".

It appears from the figure showing no. of operational loss events broken down by risk type that external fraud in 2019 accounted for 59% of the events (2018: 55%), customers, products and business practice 30% (2018: 12%), while order execution and process management accounted for 11% (2018: 33%).

The majority of loss events consist of events with a small financial impact – primarily events concerning payment card abuse and online banking fraud. The rest of the loss events relate in particular to operational errors in traditional banking operations.

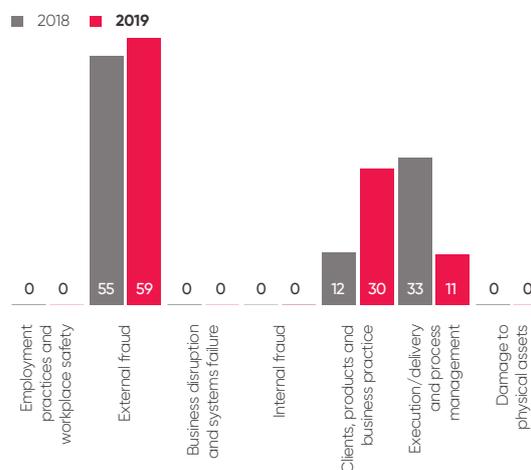
When calculating the Bank's operational events in terms of amounts, losses in 2019 break down as follows: external fraud accounted for 48% (2018: 86%), business disruption and system errors 10% (2018: 5%), internal fraud 0% (2018: 1%), customers, products and business practice 26% (2018: 5%) and order execution and process management 16% (2018: 3%).

The large fall in losses relating to external fraud was due to a single loss event in 2018, which resulted in a loss of approximately DKK 45 million, ascertained in January 2019 and recognised in the income statement under impairment of loans, advances and receivables in 2018.

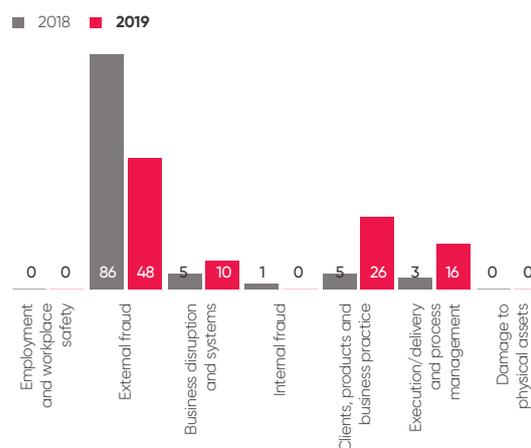
The total loss in 2019 amounted to DKK 12 million (2018: DKK 57 million), of which external fraud accounts for DKK 6 million (2018: DKK 49 million).

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

No. of operational loss events broken down by risk type %



Operational loss amounts broken down by risk type %



5.4.2 IT security

Information and information systems are vital to Spar Nord, and IT security is therefore essential to the Bank's credibility and continued existence. Spar Nord's IT security function, Executive Board and Board of Directors regularly review the Bank's IT security.

The work of the IT security function is based on a defined security and risk level aimed at ensuring that the Bank's day-to-day business and activities are consistently supported by a secure and reliable IT infrastructure. The IT security function is responsible for complying with the adopted IT security level and Spar Nord's IT contingency plan. The IT security function contributes to ensuring and controlling that Spar Nord's IT activities to the best possible extent are protected against internal and external threats. The IT security function is thus charged with ensuring compliance with legislative and sector-specific requirements, Spar Nord's own requirements and customer expectations in terms of Spar Nord's availability, confidentiality and integrity.

Spar Nord's activity in the area of IT security is based on regulatory requirements as well as considerations for day-to-day operations. All IT installations at Spar Nord and its service providers must operate according to documented schedules and guidelines. The operation must be secure and stable, a requirement ensured through the highest possible degree of automation and ongoing capacity adjustments. IT services run by external service providers must be based on written agreements. The Bank's IT security efforts include the preparation of contingency plans and recovery procedures and periodic test of such measures aimed to ensure continued operation at a satisfactory level in the case of extraordinary events.

In order to protect Spar Nord against the growing threat in the area of cyber security, the IT security function has regularly carried out awareness activities for employees and attended sector-specific collaboration to build internal knowledge about information security.

Risk management

5.4.3 Compliance risk

Operational risks also includes compliance risks identified via the compliance function.

The compliance function is an independent function which serves to assess and report on any non-compliance with applicable legislation, practice and market standards in the Bank. This helps mitigate the risk of sanctions being imposed on the Bank, a risk of loss of reputation or that the Bank or its customers suffer material financial losses.

The compliance function applies a risk-based approach to identifying areas to review. In 2019, the function focused on areas such as compliance with anti-money-laundering (AML) measures, the Market Abuse Regulation and MiFID II.

5.4.4 Money-laundering risk

The Bank retains a strong focus on anti-money-laundering (AML) measures, including the risk-mitigating measures that must be implemented to prevent the Bank from being used for money-laundering activities and terrorism financing purposes.

The AML function is charged with ensuring that the Bank complies with the Danish Act on Measures to Prevent Money Laundering and Financing of Terrorism, EU Funds Transfer Regulation and EU anti-terrorism regulations.

In 2018, the AML function continued to focus on optimising and providing system support to the Bank's existing processes. In addition, new staff was onboarded in the AML function.

The Bank continues to record an increase in filings with the State Prosecutor for Serious Economic and International Crime (SØIK), which is a trend witnessed in the rest of the Danish financial sector. In 2019, Spar Nord had 1,750 filings with SØIK as compared with 1,071 cases in 2018.

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

5.4.5 GDPR

2019 was characterised by a consistent focus on implementing new processes and raising the skills level in the organisation in the area of data protection to reduce operational risk.

The Bank's data protection adviser applies a risk-based approach to identifying areas to review. In 2019, the adviser focused on areas such as compliance with supervision of data processors.

The data protection adviser function is anchored in the Legal Department and reports directly to the Executive Board and Board of Directors.

5.4.6 Risk exposure

In 2019, the operational risk amounted to 9.9% (2018: 10.6%) of the total risk exposure amount, ending at DKK 5,555 million at end-2019 (2018: DKK 5,705 million).



Section 6

Other notes

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Section 6

Other notes

6.1 Transfer of financial assets

Spar Nord has transferred the following financial assets, which are still recognised in the balance sheet.

	2019 DKKm	2018 DKKm
Carrying amount of transferred financial assets		
Bonds in repo transactions	2,766	1,526
Carrying amount of related financial liabilities		
Due to credit institutions, repo transactions	2,764	1,519
Interest payable	1	0
Total	2,763	1,519
Net position	-3	-6

Spar Nord has entered into agreements regarding the sale of securities as genuine sale and repo transactions. When it lends or sells securities subject to a repurchase agreement, Spar Nord receives cash or other financial assets upon the transfer of the securities to the counterparty. The counterparty is entitled to sell or repledge the securities lent or sold according to the repurchase agreements, but the counterparty is obliged to return the securities upon expiry of the contract. If the value of the securities increases or decreases, Spar Nord may make or receive a demand for payment of additional cash collateral in specific

circumstances. Spar Nord has decided that it will essentially retain all the risks and benefits attaching to these securities, and therefore it has not ceased recognising them. In addition, Spar Nord recognises a financial liability for the cash received as collateral.

Spar Nord has not entered into agreements regarding the sale of assets where such assets cease to be recognised in the balance sheet, but where the seller has continued involvement after the sale.

6.2 Collateral accepted

In connection with reverse repo transactions and agreements regarding securities lending, collateral that can be sold or repledged pursuant to the terms of the appropriate agreement is accepted.

	2019 DKKm	2018 DKKm
Reverse repo transactions		
Collateral accepted that can be repledged or sold	9,220	5,705
Of which, repledged or sold	1,851	1,677
Agreements regarding securities lending		
Collateral accepted that can be repledged or sold	9	7
Of which, repledged or sold	5	4

6.3 Collateral provided and encumbered assets

Collateral provided through clearing systems, with central counterparties and other infrastructure institutions:

	2019 DKKm	2018 DKKm
Deposits, clearing	178	169
Collateral provided for the market value of derivatives transactions	345	296
Positive market value of derivative contracts subject to netting	180	193
Collateral provided as part of repo transactions	2,766	1,526
Total	3,470	2,184

Assets are treated as encumbered if they have been provided as collateral or if they are subject to any agreement to secure, act as collateral for or improve the credit quality of any on- or off-balance-sheet transaction from which they cannot be freely withdrawn. Assets that have been provided as collateral and are subject to restrictions as concerns withdrawal, e.g. assets for which prior approval is required to withdraw or replace them with other assets, are considered to be encumbered.

Assets placed in unutilised facilities and which can be freely withdrawn are not considered to be encumbered.

Securities sold as part of sale and repurchase agreements (repo transactions) remain in the balance sheet. The counterparty is entitled to sell the securities or deposit them as collateral for other loans.

Assets deposited as collateral for own liabilities towards Danmarks Nationalbank (the central bank), Danish and foreign clearing centres and banks with which the Bank has concluded CSA agreements are all based on standard agreements customarily used by financial market participants.

Section 6

Other notes

6.4 Offsetting financial assets and financial liabilities

Assets and liabilities are offset when Spar Nord and the counterparty have a legal right to offset, while at the same time having agreed to make a net settlement or realise the asset and redeem the liability at the same time. Positive and negative fair values of derivatives with the same counterparty are offset if the parties have agreed to make a net settlement of the contractual payments, and if cash payment or provision of collateral for changes in the fair value takes place on a daily basis. Master netting agreements and corresponding agreements provide a further right to offset when a counterparty is in default, which additionally reduces the exposure to a counterparty in default, but this does not meet the criteria for offsetting for accounting purposes according to IFRS.

	Recognised gross DKKm	Offset DKKm	Net amount recognised in the balance sheet DKKm	Related amounts not offset in the balance sheet		
				Financial collateral DKKm	Cash collateral DKKm	Net amount DKKm
2019						
Financial assets						
Derivatives	898	70	828	180	34	614
Reverse repo transactions	9,079	0	9,079	9,220	-	-141
Total	9,978	70	9,908	9,400	34	474
Financial liabilities						
Derivatives	833	278	555	180	336	39
Repo transactions	2,764	0	2,764	2,764	-	0
Total	3,598	278	3,320	2,945	336	39
2018						
Financial assets						
Derivatives	930	69	862	193	31	637
Reverse repo transactions	5,710	0	5,710	5,705	-	5
Total	6,641	69	6,572	5,898	31	643
Financial liabilities						
Derivatives	817	267	550	193	288	68
Repo transactions	1,519	0	1,519	1,526	-	-7
Total	2,336	267	2,069	1,719	288	62

In the balance sheet, reverse repo transactions are classified as Due from credit institutions and central banks or as Loans, advances and other receivables at amortised cost. Repo transactions are classified as Due to credit institutions and central banks or as Deposits and other payables in the balance sheet.

Repo transactions and reverse repo transactions are recognised in the balance sheet on a gross basis; see notes 6.1 and 6.2.

Section 6

Other notes

6.5 Hedge accounting



Accounting policies

Spar Nord uses derivative financial instruments to hedge the interest rate risk on fixed-rate assets and liabilities (fair value hedge) measured at amortised cost. Such hedging derivatives are measured at fair value through profit or loss.

When the hedge accounting criteria are fulfilled, the carrying amount of the hedged assets and liabilities is adjusted for changes in fair value regarding the hedged risks (fair value hedge). If the hedge criteria cease to be met, the accumulated value adjustments of the hedged items are amortised over the term to maturity.

	Carrying amount DKKm	Fair value DKKm	Nominal value DKKm
2019			
Liabilities			
Issued bonds at amortised cost	397	397	400
Interest risk-hedging financial instruments			
Derivatives (swap contracts)	-3	-3	400

There was no hedge accounting in 2018.

	Within 1 year DKKm	1– 5 years DKKm	Over 5 years DKKm
Nominal value by term to maturity			
Nominal value of issued bonds at amortised cost	0	400	0
Interest risk-hedging financial instruments, derivatives (synthetic principal)	0	400	0

Spar Nord pursues the strategy that interest rate risk on issued bonds at amortised cost is hedged using derivatives, which means that the level of Spar Nord's overall interest rate sensitivity is managed with due consideration to expected interest rate developments.

Financial liabilities meeting the criteria for hedged items are regularly monitored. For issued bonds at amortised cost/fair value, hedging is made at the time of issuance with an interest rate swap with the same yield/maturity profile.

The effectiveness of such hedging is measured on a continuing basis.

The table below shows the value adjustment of hedged assets and hedging derivatives recognised under market value adjustments.

	2019 DKKm	2018 DKKm
Hedging of fixed-interest assets		
Hedged issued bonds	3	-
Hedging derivatives	-3	-
Impact on profit/loss	0	-

6.6 Legal proceedings

Spar Nord is party to a number of legal proceedings. The proceedings are assessed regularly and necessary provisions are made based on an assessment of the risk of loss. The pending legal proceedings are not expected to materially affect the Group's financial position.

Section 6

Other notes

6.7 Related parties

	Parties exercising significant influence		Associates		Board of Directors		Executive Board	
	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm
Loans, advances and loan commitments	50	0	15	15	40	44	6	3
Deposits	73	70	31	32	22	26	7	6
Guarantees issued	-	-	-	-	0	4	-	-
Other binding commitments	-	-	-	-	6	15	0	0
Collateral accepted	151	-	-	-	12	10	-	-
Interest income	-	-	0	0	0	0	0	0
Interest expenses	0	0	0	0	0	0	0	0
Fees, charges and commissions received	0	0	0	0	1	2	0	0
Dividends received from equity investments	-	-	14	7	-	-	-	-
Other income	1	3	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	-	-
Dividend distributed	81	81	0	0	0	0	1	1

Related parties with significant influence are shareholders with holdings exceeding 20% of Spar Nord Bank A/S, or where significant influence is otherwise considered to exist.

There were no balances with associates in 2018 or 2019.

Commitments and transactions with members of the Board of Directors and Executive Board comprise personal commitments of such parties and of their related parties. Commitments and transactions with retired and new members of the Board of Directors and Executive Board have been recognised up to and including the date of retirement and as from the date of appointment, as the case may be.

Loans and loan commitments to parties with significant influence at 31 December 2019 comprised unutilised loan commitments of DKK 50 million, where Spar Nord has received full collateral if the commitment is exercised.

	Board of Directors		Executive Board	
	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm
Loans and advances	27	27	3	3
Unutilised loan and guarantee commitments	13	16	4	0
Guarantees issued	0	4	-	-
Total loans and advances, loan commitments and guarantees	40	48	6	3

Interest rate, loans	1.00 - 5.00	1.00 - 4.75	2.25 - 2.50	2.25 - 2.50
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No transactions were concluded during the year with members of the Board of Directors, the Executive Board or executive staff members, other than transactions involving salary, remuneration, etc., securities trading and loans and provision of collateral. More details regarding the remuneration of the Board of Directors, the Executive Board and executive staff members appear from note 2.7.

Employee-elected Directors are eligible for bank staff loans/credits. Mastercard debit balances are interest free for the Bank's customers, as well as for the Executive Board and Board of Directors.

The respective shareholdings of the Executive Board and the Board of Directors are shown in note 6.8.

Other related party transactions, including credit facilities, are concluded on an arm's length basis.

There were no credit-impaired exposures with related parties.

Related parties holding at least 5% of the Bank's share capital at end-2019 comprised the Spar Nord Foundation, Aalborg, with a holding of 18.9% (2018: 18.9%) and Nykredit Realkredit A/S, Copenhagen with a holding of 11.4% (2018: 11.4%).

The figures above do not include any bonds issued by Spar Nord that rank as debt or subordinated debt or additional tier 1 (AT1) capital, as such bonds are bearer securities. In such cases, Spar Nord Bank does not know the identity of the creditors. Spar Nord Bank shares may be registered in the name of the holder.

Section 6

Other notes

6.8 Spar Nord shares held by management

	2019	2018
	No. of shares	No. of shares
Board of Directors		
Kjeld Johannesen	80,000	80,000
Per Nikolaj Bukh	27,200	27,200
Lene Aaen	3,835	2,997
Kaj Christiansen	21,100	21,100
Morten Bach Gaardboe	7,505	3,620
Laila Mortensen	0	0
Jannie Skovsen	2,366	8,622
Gitte Holmgaard Sørensen	3,960	2,911
John Sørensen	5,160	5,160
Executive Board		
Lasse Nyby	64,332	53,704
John Lundsgaard	79,499	75,319
Lars Møller	82,406	71,931

6.9 Events after the balance sheet date

No significant events have occurred after 31.12.2019.

6.10 Group overview

	Activity	Share capital year-end DKKm	Equity year-end DKKm	Profit/loss for the year DKKm	Ownership interest %
Spar Nord Bank A/S	Banking	1,230	9,761	1,059	-
Subsidiary					
Aktieselskabet Skelagervej 15, Aalborg	Real property	27	327	11	100

Section 6

Other notes

6.11 Performance indicators and financial ratios (Danish FSA's layout and ratio system)



Accounting policies

The Group's performance indicators and financial ratios (core earnings) appearing from the Management's review may differ from the layout below. The relationship between Core earnings and the format below is shown in note 2.1, Business segments.

Ratio definitions are set out in note 6.11.1.

Performance indicators

DKKm	2019	2018	2017	2016	2015
Income statement					
Net interest and fee income	2,858	2,730	2,716	2,771	2,861
Market value adjustments	320	214	381	386	452
Staff costs and administrative expenses	1,917	1,859	1,863	1,789	1,768
Impairment of loans, advances and receivables etc.	22	173	-7	292	373
Income from investments in associates	110	36	32	30	28
Profit/loss for the year	1,059	920	989	838	897
Balance sheet					
Loans and advances	51,312	44,330	46,747	41,346	38,039
Equity	9,761	9,241	8,975	8,627	7,887
Total assets	93,113	82,793	80,367	78,473	76,357

Financial ratios

Own funds

Own funds ratio	18.5	18.0	18.2	17.7	17.0
Tier 1 capital ratio	16.1	15.6	16.0	15.6	14.9

Earnings

Return on equity before tax	%	13.7	12.1	14.2	12.5	14.4
Return on equity after tax	%	11.1	10.2	11.2	10.2	12.0
Income/cost ratio		1.64	1.52	1.65	1.47	1.46
Return on assets	%	1.1	1.1	1.2	1.1	1.2

Market risk and liquidity

Interest rate risk	%	0.6	0.2	0.7	1.2	1.8
Foreign exchange position	%	1.0	1.4	3.3	3.2	3.4
Currency risk	%	0.1	0.1	0.1	0.1	0.1
Liquidity Coverage Ratio (LCR)	%	195	174	187	171	145
Excess coverage relative to statutory liquidity requirement	%	-	-	326.4	308.3	296.1
Loans and advances as % of deposits	%	72.7	67.6	72.7	67.8	65.5

Credit risk

Loans and advances relative to equity		5.3	4.8	5.2	4.8	4.8
Increase in loans and advances for the year	%	9.1	6.7	6.2	3.6	-4.5
Sum of large exposures	%	83.6	79.2	17.2	14.5	16.1
Impairment ratio for the year		0.1	0.2	0.0	0.5	0.8

The Spar Nord Bank share

DKK per share of DKK 10

Profit/loss for the year	8.6	7.5	8.1	6.8	7.2
Net asset value (NAV)	72	68	66	63	60
Dividend	3.5	3.5	3.5	5.0	5.0
Share price/profit/loss for the period	7.6	6.9	9.0	11.9	8.5
Share price/NAV	0.9	0.8	1.1	1.3	1.0

Section 6

Other notes

6.11.1 Definition of financial ratios

Own funds ratio *)	Own funds in per cent of total risk exposure amount
Tier 1 capital ratio *)	Tier 1 capital in per cent of total risk exposure amount
Common equity tier 1 capital ratio *)	Common equity tier 1 capital in per cent of total risk exposure amount
Return on equity before tax *)	Profit/loss before tax in per cent of average equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year.
Return on equity after tax *)	Profit/loss after tax in per cent of average equity. The average equity is calculated as a simple average of the shareholders' equity at the beginning of the year and at the end of the year.
Income/cost ratio *)	Net interest and fee income, Market value adjustments, Other operating income and Profit/loss on equity investments in associates and group enterprises / Staff costs and administrative expenses, Depreciation, amortisation and impairment of intangible assets and property, plant and equipment, Other operating expenses and Impairment of loans, advances and receivables.
Return on assets *)	Profit/loss after tax in per cent of total assets.
Interest rate risk *)	Interest rate risk in per cent of tier 1 capital
Foreign exchange position *)	Foreign exchange indicator 1 in per cent of tier 1 capital
Foreign exchange risk *)	Foreign exchange indicator 2 in per cent of tier 1 capital
Loans and advances as % of deposits *)	Loans and advances in per cent of deposits.
Excess coverage relative to statutory liquidity requirement	Cash balances, Demand deposits with Danmarks Nationalbank (the central bank), Absolutely secure and liquid demand deposits with credit institutions and insurance companies, Uncollateralised certificates of deposit issued by Danmarks Nationalbank and Secure and marketable (listed) uncollateralised securities in per cent of 10 % of Reduced payables and guarantee commitments
Liquidity Coverage Ratio (LCR)	Liquid assets in per cent of the net value of cash inflows and cash outflows viewed over a 30-day period of heightened corporate financial stress.
Sum of large exposures *) (2017 and earlier years)	Sum of large exposures in per cent of own funds, adjusted for exposures to credit institutions, etc. below EUR 150 million after making allowance for credit risk reduction and exceptions, etc.
Sum of large exposures *) (from 2018)	Sum of large exposures (20 largest exposures below 175% of common equity tier 1 capital)
Impairment ratio for the year *)	Impairment of loans, advances and guarantees for the year in per cent of loans and advances + guarantees + impairment of loans, advances and receivables etc.
Increase in loans and advances for the year *)	Increase in loans and advances from the beginning of the year to the end of the year, excl. repos, in per cent.
Loans and advances relative to equity *)	Loans and advances/equity
Earnings per share for the year *)	Profit/loss for the year after tax/average number of shares in circulation excl. treasury shares. The average number of shares is calculated as a simple average of the shares at the beginning of the year and at the end of the year.
Net asset value per share *)	Shareholders' equity/number of shares excl. treasury shares Shareholders' equity is calculated as if the additional tier 1 (AT1) capital were treated as a liability.
Dividend per share *)	Proposed dividend/number of shares.
Share price relative to earnings per share for the year *)	Share price/earnings per share for the year.
Share price relative to net asset value (NAV) *)	Share price/NAV per share.
Return, %	Year-end price – year-end price the year before + dividend the year before + extraordinary dividend for the year in per cent of the year-end price the year before.
Price/earnings	Year-end price/Earnings per share for the year. Profit/loss for the year is calculated as if the additional tier 1 (AT1) capital were treated as a liability.
Earnings per share for the year	Profit/loss for the year after tax/average number of shares in circulation excl. treasury shares. The average number of shares is calculated as a simple average of the shares at the beginning of the year and at the end of the year. Profit/loss for the year after tax is calculated as if the additional tier 1 (AT1) capital were treated as a liability.
Diluted earnings per share for the year	Profit/loss for the year after tax/average number of shares in circulation incl. dilutive impact of share options and conditional shares.

*) Danish FSA's ratio definitions.

A definition of alternative performance measures is shown on page 34 of the consolidated financial statements.

Parent Company

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145 Income statement

145 Statement of comprehensive income

146 Balance sheet

147 Statement of changes in equity

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Income statement

Note		2019 DKKm	2018 DKKm
7.2	Interest income	1,702	1,676
7.3	Interest expenses	129	128
	Net interest income	1,573	1,548
	Dividends on shares, etc.	60	55
7.4	Fees, charges and commissions received	1,395	1,285
	Fees, charges and commissions paid	169	158
	Net interest and fee income	2,858	2,730
7.5	Market value adjustments	320	214
	Other operating income	42	202
7.6	Staff costs and administrative expenses	1,924	1,865
	Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	84	57
	Other operating expenses	12	9
	Income from investments in associates and group enterprises	120	50
7.2.2	Impairment of loans, advances and receivables etc.	22	173
	Profit/loss before tax	1,299	1,092
7.7	Tax	240	171
	Profit/loss for the year	1,060	921
	Appropriation:		
	The shareholders of the Parent Company Spar Nord Bank A/S	1,011	872
	Holders of additional tier 1 (AT1) capital instruments	49	49
	Profit/loss for the year	1,060	921
	Proposed dividend DKK 3.50 per share (2018: DKK 3.50 per share)	431	431
	Reserve for net revaluation according to the equity method	120	50
	Retained earnings	460	391
	Total distribution	1,011	872

Statement of comprehensive income

Profit/loss for the year	1,060	921
Other comprehensive income		
Items that cannot be reclassified to the income statement:		
Adjustment relating to associates	-6	0
Net revaluation of domicile property	-11	8
Other comprehensive income after tax	-17	8
Total comprehensive income	1,043	929
Appropriation:		
The shareholders of the Parent Company Spar Nord Bank A/S	994	880
Holders of additional tier 1 (AT1) capital instruments	49	49
Total comprehensive income	1,043	929

Parent Company

Balance sheet

Assets	2019	2018
	DKKm	DKKm
Cash balances and demand deposits with central banks	1,152	1,029
7.8 Due from credit institutions and central banks	1,588	1,400
7.9 Loans, advances and other receivables at amortised cost	51,312	44,330
7.10 Bonds at amortised cost	16,498	16,160
7.11 Shares, etc.	1,735	1,768
Investments in associates	470	333
Investments in group enterprises	327	317
7.14 Assets linked to pooled schemes	17,323	14,772
Intangible assets	174	178
Investment properties	71	70
Domicile properties	391	418
Domicile properties (leasing)	132	0
7.12 Land and buildings, total	594	489
7.13 Other property, plant and equipment	113	127
Current tax assets	57	132
Temporary assets	11	9
Other assets	1,780	1,754
Prepayments and deferred income	111	121
Total assets	93,246	82,917
Equity and liabilities		
7.15 Due to credit institutions and central banks	4,062	2,466
7.16 Deposits and other payables	53,420	50,897
Deposits, pooled schemes	17,323	14,772
7.17 Issued bonds at fair value	2,637	0
Other non-derivative financial liabilities at fair value	960	1,018
Other liabilities	3,661	2,837
Prepayments and deferred income	24	20
Total payables	82,088	72,010
7.18 Provisions for deferred tax	21	173
Provision for losses on guarantees	40	80
Other provisions	13	81
Total provisions	75	334
7.19 Subordinated debt	1,322	1,332
Total liabilities	83,484	73,676
Share capital	1,230	1,230
Revaluation reserves	86	97
Statutory reserves	0	0
Proposed dividends	431	431
Retained earnings	7,155	6,622
Shareholders' equity	8,901	8,380
Holders of additional tier 1 (AT1) capital instruments	860	861
Total equity	9,761	9,241
Total equity and liabilities	93,246	82,917
Off-balance sheet items		
Contingent assets	16	13
7.20 Contingent liabilities	14,766	12,092
7.21 Other binding commitments	515	578

Capital position

Statement of changes in equity

	Share capital DKKm	Revaluation reserve DKKm	Statutory reserves DKKm	Proposed dividend DKKm	Retained earnings DKKm	Share- holders of Spar Nord Bank A/S DKKm	Additional tier 1 (AT1) capital DKKm	Equity Total DKKm
Equity at 31.12.18	1,230	97	0	431	6,622	8,380	861	9,241
Amortisation, additional fees and commissions received	-	-	-	-	-40	-40	0	-40
Equity at 01.01.19	1,230	97	0	431	6,582	8,340	861	9,201
Comprehensive income in 2019								
Profit/loss for the year	-	-	120	431	460	1,011	49	1,060
Other comprehensive income								
Adjustment relating to associates	-	-	-110	-	104	-6	-	-6
Adjustment relating to group enterprises	-	-	-11	-	11	0	-	0
Net revaluation of properties	-	-11	-	-	0	-11	-	-11
Other comprehensive income, total	0	-11	-120	0	115	-17	0	-17
Total comprehensive income	0	-11	0	431	575	994	49	1,043
Transactions with owners								
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Dividends paid	-	-	-	-431	-	-431	-	-431
Dividends received, treasury shares	-	-	-	-	0	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-372	-372	-1	-373
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	369	369	-	369
Total transactions with owners	0	0	0	-431	-2	-433	-50	-483
Equity at 31.12.19	1,230	86	0	431	7,155	8,901	860	9,761
Equity at 31.12.17								
Equity at 31.12.17	1,230	90	0	431	6,364	8,114	861	8,975
Change in accounting policies, IFRS 9	-	-	-	-	-195	-195	0	-195
Equity at 01.01.18	1,230	90	0	431	6,169	7,919	861	8,780
Comprehensive income in 18								
Profit/loss for the year	-	-	50	431	391	872	49	921
Other comprehensive income								
Adjustment relating to associates	-	-	50	-	-49	0	-	0
Dividends received from group enterprises	-	-	-100	-	100	0	0	0
Net revaluation of properties	-	7	-	-	1	8	-	8
Other comprehensive income, total	0	7	-50	0	52	9	0	9
Total comprehensive income	0	7	0	431	443	880	49	929
Transactions with owners								
Interest paid on additional tier 1 (AT1) capital	-	-	-	-	-	-	-49	-49
Dividends paid	-	-	-	-431	-	-431	-	-431
Dividends received, treasury shares	-	-	-	-	0	0	-	0
Disposal upon acquisition of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	-295	-295	-	-295
Addition upon sale of treasury shares and additional tier 1 (AT1) capital	-	-	-	-	294	294	0	295
Tax	-	-	-	-	11	11	-	11
Total transactions with owners	0	0	0	-431	11	-420	-49	-469
Equity at 31.12.18	1,230	97	0	431	6,622	8,380	861	9,241

At the end of 2019, the share capital was made up of 123,002,526 shares of DKK 10 each (2018: 123,002,525 shares of DKK 10 each). The Bank has only one share class.

No shares carry any special rights. No shares are subject to restrictions on transferability or voting rights.

Parent Company

Capital position

Treasury shares	2019	2018
	DKKm	DKKm
Treasury share portfolio		
Number of shares	79,179	37,565
Nominal value, DKKm	1	0
Fair value, DKKm	5	2
Percentage of share capital	0.1	0.0

Treasury share portfolio, fair value, DKKm		
Portfolio, beginning of year	2	3
Acquisition of treasury shares	372	295
Sale of treasury shares	369	294
Market value adjustments	1	-1
Portfolio, end of year	5	2

The Bank uses treasury shares for trading with customers.

Own funds	2019	2018
	DKKm	DKKm
Equity	9,761	9,241
Phasing in of IFRS 9	188	206
Additional tier 1 (AT1) capital included in equity	860	861
Proposed dividends	431	431
Intangible assets	143	146
Other primary deductions	47	48
Deduction – Holdings of insignificant CET1 instruments	205	376
Deduction – Holdings of significant CET1 instruments	71	35
Common equity tier 1 capital	8,192	7,549
Additional tier 1 (AT1) capital *)	843	843
Other deductions	3	5
Tier 1 capital	9,032	8,387
Subordinated debt, excl. additional tier 1 (AT1) capital *)	1,308	1,314
Other deductions	5	10
Own funds	10,335	9,691
Weighted risk exposure amount, credit risk etc.	47,198	44,155
Weighted risk exposure amount, market risk	3,340	4,125
Weighted risk exposure amount, operational risk	5,519	5,639
Total risk exposure amount	56,057	53,919
Common equity tier 1 capital ratio	14.6	14.0
Tier 1 capital ratio	16.1	15.6
Own funds ratio	18.4	18.0

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

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Notes – Parent Company

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Section 7

Notes parent company

§ 7.1 Accounting policies

The financial statements of the Parent Company Spar Nord Bank A/S have been prepared in accordance with the provisions of the Danish Financial Business Act, including the Danish FSA's Executive Order on financial reports presented by credit institutions and investment companies (Executive Order on the presentation of financial statements).

The rules on recognition of lease assets in accordance with the Executive Order on the presentation of financial statements have been prospectively implemented with no recognition of intra-group lease assets (domicile properties, leasing).

Except for the above, the Parent Company's accounting policies are identical to those of the Group.

A description of the accounting practice and changes thereto is provided in accounting policies in the notes to the consolidated

financial statements, including the effect in connection with the transition to IFRS 16 at 1 January 2019 in note 1.1.3.

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

The difference between the equity and profit or loss in the Group and in the Parent Company is due to properties being classified as investment properties in subsidiaries and as domicile properties in the Group. The difference consists of net depreciation and impairment on such properties; see below:

	Profit/loss		Equity	
	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm
Spar Nord Group	1,059	920	9,761	9,241
Net depreciation and impairment, Group domicile properties	1	1	0	0
Spar Nord Parent Company	1,060	921	9,761	9,241

7.2 Interest income

	2019 DKKm	2018 DKKm
Due from credit institutions and central banks	-2	0
Loans, advances and other receivables	1,519	1,557
Bonds	82	66
Foreign-exchange contracts	-12	9
Interest-rate contracts	-8	-31
Total derivatives	-19	-22
Other interest income	4	1
Total interest income after offsetting negative interest income	1,584	1,603
Negative interest income offset against interest income	39	37
Negative interest expenses offset against interest expenses	80	36
Total interest income before offsetting negative interest income	1,702	1,676
Of which, interest income from reverse repo transactions booked under		
Due from credit institutions and central banks	-11	-10
Loans, advances and other receivables	-28	-27

Negative interest income amounts to DKK 39 million (2018: DKK 37 million) and relates to repo transactions.

For accounting policies, see note 2.3 to the consolidated financial statements.

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

7.3 Interest expenses

	2019 DKKm	2018 DKKm
Credit institutions and central banks	14	5
Deposits and other payables	-41	7
Issued bonds	2	0
Subordinated debt	34	42
Other interest expenses	2	1
Total interest expenses after offsetting negative interest expenses	10	54
Negative interest expenses offset against interest expenses	80	36
Negative interest income offset against interest income	39	37
Total interest expenses before offsetting negative interest expenses	129	128
Of which, interest expenses from repo transactions booked under		
Credit institutions and central banks	-12	-11
Deposits and other payables	-2	0

Negative interest expenses amount to DKK 80 million (2018: DKK 36 million) and relate partly to deposits, partly to repo transactions.

interest expenses are presented as interest income, and negative interest income is presented as interest expenses.

For accounting policies, see note 2.3 to the consolidated financial statements.

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7.4 Fees, charges and commissions received

	2019 DKKm	2018 DKKm
Securities trading and custody accounts	417	418
Payment services	168	171
Loan transaction fees	600	512
of which mortgage credit institutions	430	394
Guarantee commission	27	27
Other fees, charges and commissions	183	157
Total fees, charges and commissions received	1,395	1,285
Total fees, charges and commissions paid	169	158
Total net fees, charges and commissions received	1,225	1,127

For accounting policies, see note 2.4 to the consolidated financial statements.

7.5 Market value adjustments

	2019 DKKm	2018 DKKm
Other loans, advances and receivables at fair value	3	-2
Bonds	74	-16
Shares, etc.	141	168
Currency	58	56
Foreign exchange, interest, share, commodity and other contracts and derivatives	44	8
Assets linked to pooled schemes	1,926	-1,133
Deposits, pooled schemes	-1,926	1,133
Other liabilities	0	0
Total market value adjustments	320	214

For accounting policies, see note 2.5 to the consolidated financial statements.

7.6 Staff costs and administrative expenses

	2019 DKKm	2018 DKKm
Staff costs	1,218	1,152
Administrative expenses	706	712
Total staff costs and administrative expenses	1,924	1,865

Salaries	975	918
Pensions	111	106
Social security costs	132	128
Total staff costs	1,218	1,152

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

Board of Directors	4.0	3.8
Executive Board	12.5	12.0
Total remuneration	16.5	15.8

For additional information on remuneration to members of the Board of Directors, Executive Board and material risk takers, see note 2.7 to the consolidated financial statements.

Number of employees

Average number of employees in the financial year converted into full-time equivalents	1,535	1,524
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For a description of accounting policies, see notes 2.7 and 2.8 to the consolidated financial statements.

7.6.1 Audit fees

	2019 DKKm	2018 DKKm
Fees to the audit firm appointed at the General Meeting	1.4	2.2
Fees to other audit firms for non-audit services	0.7	0.7
Total audit fees	2.1	3.0

Total fees to the audit firm appointed at the General Meeting can be specified as follows:

Statutory audit	0.9	0.9
Other assurance engagements	0.2	0.5
Tax and VAT assistance	0.0	0.0
Non-audit services	0.3	0.8
Total fees to the audit firm appointed at the General Meeting	1.4	2.2

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7.7 Tax

	2019 DKKm	2018 DKKm
Tax on profit/loss for the year	240	171
Tax on other comprehensive income	0	0
Tax on changes in equity	-11	-66
Total tax	228	105

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

Current tax	380	130
Deferred tax for the year	-141	34
Adjustment of deferred tax, prior years	-1	3
Adjustment of current tax for prior years	1	4
Tax on profit/loss for the year	240	171

Specification of the effective tax rate:

Current tax rate, %	22.0	22.0
Income from investments and market value adjustment of shares, %	-3.2	-4.4
Non-deductible expenses and non-taxable income, %	-0.4	-2.7
Adjustment of prior-year taxes, %	0.0	0.7
Total effective tax rate	18.4	15.6

For accounting policies, see note 2.10 to the consolidated financial statements.

7.8 Due from credit institutions and central banks

	2019 DKKm	2018 DKKm
Due from credit institutions	1,588	1,400
Total due from credit institutions and central banks	1,588	1,400

Shown by term to maturity

Demand deposits	279	172
Up to 3 months	1,309	1,228
Over 3 months and up to 1 year	0	0
Between 1 year and 5 years	0	0
Over 5 years	0	0
Total	1,588	1,400

Repo transactions hereof	924	931
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For accounting policies, see note 3.1 to the consolidated financial statements.

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7.9 Loans, advances and other receivables at amortised cost	2019	2018
	DKK m	DKK m
Lending, reverse repo transactions	8,155	4,779
Lending, banking and leasing activities	43,157	39,551
Loans, advances and other receivables at amortised cost, total	51,312	44,330

Shown by term to maturity		
Demand deposits	1,297	1,126
Up to 3 months	9,464	5,731
Over 3 months and up to 1 year	19,057	16,734
Between 1 year and 5 years	8,494	8,048
Over 5 years	13,000	12,691
Total	51,312	44,330

Gross loans, advances and guarantees broken down by sectors and industries, %

Public authorities	1.8	0.1
Business customers		
Agriculture, hunting, forestry and fisheries	4.3	5.3
Industry and raw materials extraction	4.4	4.8
Energy supply	2.5	2.7
Building and construction	3.7	4.5
Trade	6.2	6.8
Transport, hotels and restaurants	3.9	3.7
Information and communication	0.4	0.4
Financing and insurance	16.8	13.8
Real estate	10.8	10.3
Other business areas	5.5	6.1
Business customers, total	58.6	58.4
Retail customers	39.6	41.5
Total	100.0	100.0

For accounting policies, see note 3.2 to the consolidated financial statements.

7.10 Bonds at fair value	2019	2018
	DKK m	DKK m
Mortgage bonds	14,420	13,762
Government bonds	723	716
Other bonds	1,354	1,681
Bonds at fair value, total	16,498	16,160

Of which, subordinated receivables	41	47
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All bonds form part of the Bank's trading book.

For accounting policies, see note 3.3 to the consolidated financial statements.

7.11 Shares	2019	2018
	DKK m	DKK m
Shares/unit trust certificates listed on NASDAQ Copenhagen A/S	146	138
Shares/unit trust certificates listed on other stock exchanges	41	39
Unlisted shares at fair value	1,548	1,590
Total shares, etc.	1,735	1,768

Securities that are not included in Spar Nord's trading book are measured at fair value through profit and loss using the fair value option.

For accounting policies, see note 3.3 to the consolidated financial statements.

The securities form part of a portfolio that is managed – and on which the returns are measured on the basis of fair value – in accordance with a documented risk management and investment strategy.

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7.12 Land and buildings

7.12.1 Investment properties

	2019 DKKm	2018 DKKm
Fair value, beginning of period	70	70
Additions during the year, including improvements	0	0
Disposals during the year	0	0
Unrealised fair value adjustment	1	0
Fair value, end of year	71	70

Required rate of return used in calculating the fair value, %	5.5 - 9.0	5.8 - 9.0
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The fair-value method (Level 3 in the fair-value hierarchy) has been chosen for measuring investment properties. Investment properties consist mainly of business leases. The periods of non-terminability for Spar Nord in the leases do not exceed 20 years.

For accounting policies, see note 3.7.1 to the consolidated financial statements.

7.12.2 Domicile properties

	2019 DKKm	2018 DKKm
Restated value beginning of year	418	384
Additions during the year, including improvements	9	31
Disposals during the year	18	6
Depreciation	15	14
Changes in value recognised in other comprehensive income	-11	8
Changes in value recognised in the income statement	-2	2
Other changes, incl. properties transferred to temporary assets	9	13
Restated value, year-end	391	418
Required rate of return used in calculating the fair value, %	5.8 - 9.0	5.8 - 9.0

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

For accounting policies, see note 3.7.1 to the consolidated financial statements.

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

7.12.3 Domicile properties, leasing

	2019 DKKm	2018 DKKm
Balance, 1 January	0	-
Effects of transition, 1 January	111	-
Adjusted balance, beginning of year	111	-
Additions	0	-
Disposals	1	-
Remeasurement of lease obligation	46	-
Depreciation for the year	24	-
Balance sheet at 31 December	132	-

For accounting policies, see note 3.7.1 to the consolidated financial statements.

7.13 Other property, plant and equipment

	2019 DKKm	2018 DKKm
Total cost, beginning of year	365	384
Additions	37	49
Disposals	45	68
Total cost, end of year	357	365
Depreciation and impairment, beginning of year	238	266
Depreciation and impairment for the year	36	36
Reversal of depreciation and impairment for the year	30	63
Depreciation and impairment, end of year	244	238
Carrying amount, end of year	113	127

For accounting policies, see note 3.7.2 to the consolidated financial statements.

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7.14 Pooled schemes

	Pension pools 2019 DKKm	Other pools 2019 DKKm	Total 2019 DKKm	2018 DKKm
Assets				
Cash deposits	676	7	684	659
Bonds	5,976	72	6,048	5,395
Shares, etc.	7,045	85	7,129	6,913
Unit trust certificates	3,385	44	3,429	1,765
Other assets	33	0	34	40
Total assets	17,115	208	17,323	14,772
Equity and liabilities				
Total deposits	17,115	208	17,323	14,772
Total equity and liabilities	17,115	208	17,323	14,772

For accounting policies, see note 3.5 to the consolidated financial statements.

7.15 Due to credit institutions and central banks

	2019 DKKm	2018 DKKm
Due to central banks	94	35
Due to credit institutions	3,968	2,431
Total due to credit institutions and central banks	4,062	2,466

Shown by term to maturity

Demand deposits	283	288
Up to 3 months	3,753	2,151
Over 3 months and up to 1 year	27	0
Between 1 year and 5 years	0	27
Over 5 years	0	0
Total	4,062	2,466

Repo transactions hereof	2,764	1,519
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For accounting policies, see note 3.9 to the consolidated financial statements.

7.16 Deposits and other payables

	2019 DKKm	2018 DKKm
Demand deposits	48,649	45,975
Subject to notice	1,651	1,418
Time deposits	40	299
Special types of deposits	3,078	3,204
Total deposits and other payables	53,420	50,897

Shown by term to maturity

Demand deposits	48,649	45,975
Up to 3 months	1,521	1,380
Over 3 months and up to 1 year	140	89
Between 1 year and 5 years	562	79
Over 5 years	2,547	3,374
Total	53,420	50,897

Repo transactions hereof	0	0
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For accounting policies, see note 3.10 to the consolidated financial statements.

7.17 Issued bonds at amortised cost

	2019 DKKm	2018 DKKm
Shown by contractual term to maturity		
Demand deposits	-	-
Up to 3 months	0	0
Over 3 months and up to 1 year	1	0
Between 1 year and 5 years	2,636	0
Over 5 years	0	0
Total	2,637	0

For accounting policies, see note 4.8 to the consolidated financial statements.

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7.18 Provisions for deferred tax

	2019 DKKk	2018 DKKk
Beginning of period	173	137
Deferred tax for the year recognised in profit/loss for the year	-142	37
Deferred tax for the year recognised in other comprehensive income	0	0
Deferred tax for the year recognised in changes in equity	-11	0
End of year	21	173

For accounting policies, see note 3.9 to the consolidated financial statements.

Changes in deferred tax	Beginning of period DKKk	Recognised in profit for the year DKKk	Recognised in other compre- hensive income DKKk	End of year DKKk
2019				
Intangible assets	29	0	0	30
Property, plant and equipment, incl. leased assets	176	-151	0	26
Loans, advances and other receivables at amortised cost	-17	0	-11	-29
Payables and subordinated debt	3	9	0	12
Provisions	-13	0	0	-13
Claw-back loss	4	0	0	4
Miscellaneous	-8	0	0	-8
Total	173	-142	-11	21
2018				
Intangible assets	29	1	0	29
Property, plant and equipment, incl. leased assets	131	45	0	176
Loans, advances and other receivables at amortised cost	-18	1	0	-17
Payables and subordinated debt	15	-13	0	3
Provisions	-17	4	0	-13
Claw-back loss	4	0	0	4
Miscellaneous	-7	-1	0	-8
Total	137	37	0	173

All deferred tax liabilities are recognised in the balance sheet.

For accounting policies, see note 3.12 to the consolidated financial statements.

The temporary differences in 2019 and 2018 relating to losses on properties with deductibility restricted to gains from the same source arose on the sale of properties.

7.19 Subordinated debt

Subordinated debt are liabilities in the form of tier 2 capital which, in the event of the Company's voluntary or compulsory winding up, will not be repaid until after the claims of ordinary creditors have been met. Premature redemption of subordinated debt is subject to the approval of the Danish FSA. Subordinated debt is included in own funds, etc. pursuant to the Danish Financial Business Act.

The issuance of additional tier 1 capital under CRR with a perpetual term and with voluntary payment of interest and repayments of principal is treated as equity for accounting purposes. For further details, please see note 4.6 to the consolidated financial statements.

Spar Nord Bank is the borrower with respect to all loans.

Currency	Note	Principal millions	Interest rate	Received	Maturity	2019 DKKk	2018 DKKk
DKK	a	350	CIBOR6 + 2,40%	2018	29.05.29	349	348
DKK	b	150	2,9298%	2018	29.05.29	149	149
DKK	c	400	2,5348%	2018	19.06.28	400	400
SEK	d	600	STIBOR3 + 2,50%	2017	18.10.27	428	434
Supplementary capital contributions, total						1,326	1,332
Portfolio of own bonds relating to subordinated debt						-5	0
Total subordinated debt						1,322	1,332
Interest on subordinated debt						33	40
Costs of raising subordinated debt						1	1

a Redeemable as from 29.05.24. If the loan is not redeemed, interest will be fixed at CIBOR6 + a 2.40% margin.

b Redeemable as from 29.05.24. If the loan is not redeemed, interest will be fixed at CIBOR6 + a 2.40% margin.

c Redeemable as from 19.06.23. If the loan is not redeemed, interest will be fixed at CIBOR3 + a 2.10% margin.

d Redeemable as from 18.10.22. If the loan is not redeemed, interest will be fixed at STIBOR3 + a 2.50% margin.

For accounting policies, see note 4.7 to the consolidated financial statements.

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7.20 Contingent liabilities

	2019 DKKm	2018 DKKm
Financial guarantees	5,482	4,184
Loss guarantees for mortgage loans	5,458	5,388
Registration and refinancing guarantees	3,121	1,708
Other contingent liabilities	705	812
Total contingent liabilities	14,766	12,092

Financial guarantees largely consist of payment guarantees.

Loss guarantees for mortgage loans have been granted for the highest-risk portion of mortgage loans to personal customers and on business properties. There is a full right of set-off against future income concerning Totalkredit and DLR.

Registration and refinancing guarantees are furnished in connection with Land Registry processing upon the arrangement and refinancing of mortgage loans.

Other contingent liabilities relate mainly to performance bonds and letters of credit.

Reference is made to note 2.7 to the consolidated financial statements regarding the Executive Board's notice of termination and the associated compensation.

Spar Nord is taxed jointly with its Danish subsidiary in the Spar Nord Group. As management company, Spar Nord has unlimited, joint and several liability together with the subsidiary for the Danish corporate income tax payable. Due to the payment of tax on account, no tax was payable at 31.12.2019 and 31.12.2018. The corporate income tax receivable within the tax pool amounted to DKK 54 million at 31 December 2019 (2018: DKK 130 million). Any adjustments to the taxable income subject to joint taxation might entail an increase in the Parent Company's liability.

Spar Nord has made provisions for a deferred tax liability in respect of recaptured losses related to international joint taxation.

The Bank participates in the national restructuring and resolution scheme, with separate contributions being paid to the Guarantee Fund and the Resolution Fund.

The Guarantee Fund covers depositors' eligible deposits in the Bank under EUR 100,000 (see section 9(1) of the Danish Act on a Depositor and Investor Guarantee Scheme). The Bank made no contributions to the Guarantee Fund in 2019, as the Guarantee Fund's assets exceed its target level of 0.8% of the covered deposits in the sector. The Bank may be required to pay contributions in future if the Guarantee Fund's assets fall below 0.8% of the covered deposits in the sector.

The Resolution Fund covers the costs associated with the possible winding-up of financial institutions under the auspices of Finansielt Stabilitet (the Winding-Up Company). The Bank's contributions to the Resolution Fund are calculated based on the Bank's pro-rata share of the sector's total equity and liabilities less own funds and the deposits covered by the Guarantee Fund, adjusted by a risk factor. The Bank's contribution to the Resolution Fund for 2019 amounted to DKK 7 million (2018: DKK 8 million).

The amount of the contingent liabilities and the possible due dates are subject to uncertainty, for which reason this information has not been disclosed.

For accounting policies, see note 3.14.2 to the consolidated financial statements.

7.21 Other binding commitments

Other binding commitments of DKK 515 million (2018: DKK 578 million) consist of lease obligations in which Spar Nord Bank is lessee, and the liability to pay a withdrawal fee on potential withdrawal from BEC. See note 3.14.2 to the consolidated financial statements for a description hereof.

For accounting policies, see note 3.14.2 to the consolidated financial statements.

7.22 Risk management

Spar Nord is exposed to a number of risks in various categories, the most important one being:

- **Credit risk:** The risk of losses because counterparties fail to meet all or part of their payment obligations.
- **Market risk:** The risk of loss because the fair value of Spar Nord's assets and liabilities varies with changes in market conditions.
- **Liquidity risk:** The risk of loss because Spar Nord cannot meet its payment obligations via the ordinary liquidity reserves.
- **Operational risk:** The risk of financial loss owing to deficient or erroneous internal procedures and processes, human or system errors, or losses as a result of external events.

Notes 5.1, 5.2, 5.3 and 5.4 to the consolidated financial statements provide a description of the financial risks and policies and targets for managing credit, market, liquidity and operational risks.

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7.23 Credit risk

7.23.1 Loans at amortised cost and unutilised credit lines and loan commitments

	2019 DKKm	2018 DKKm
Loans and advances at amortised cost before impairments	52,764	46,118
Unutilised credit lines and loan commitments before impairments	23,412	22,327
Impairment of loans and advances and provisions on unutilised credit lines	1,462	1,865
Carrying amount	74,715	66,581

The following tables show the credit quality and exposures before impairments based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating groups and impairment model is provided in accounting policies note 5.1.1 to the consolidated financial statements.

Loans at amortised cost before impairments, by rating group

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Rating category 1	7,967	17	0	7,985
Rating category 2	7,358	156	0	7,514
Rating category 3	8,180	1,592	0	9,772
Rating category 4	4,453	1,657	0	6,110
Rating category 5	1,014	698	0	1,711
Rating category 6	286	587	1	874
Rating category 7	153	452	0	605
Rating category 8	85	410	0	495
Rating category 9	0	432	8	440
Default	86	465	1,871	2,422
Unrated	1,249	1	0	1,250
Reverse repo transactions	8,155	0	0	8,155
SparXpres	533	38	70	641
Leasing	4,254	487	49	4,790
Total	43,773	6,992	1,999	52,764

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Rating category 1	5,816	23	0	5,839
Rating category 2	6,826	151	1	6,978
Rating category 3	5,517	1,834	1	7,352
Rating category 4	4,170	2,522	2	6,694
Rating category 5	1,357	1,204	0	2,560
Rating category 6	360	847	1	1,208
Rating category 7	73	659	0	731
Rating category 8	75	230	2	307
Rating category 9	2	165	11	179
Default	2	86	2,934	3,022
Unrated	1,796	33	0	1,830
Reverse repo transactions	4,779	0	0	4,779
SparXpres	0	558	142	700
Leasing	0	3,788	150	3,938
Total	30,773	12,100	3,245	46,118

Unutilised credit lines and loan commitments before impairments and provisions, by rating group

The rating breakdown of Spar Nord's unutilised credit lines and loan commitments before impairments and provisions generally follow the rating breakdown for loans at amortised cost before impairments shown above.

A description of Spar Nord's internal rating groups and impairment model is provided in note 5.1.1.

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Impairments and provisions for losses

Analysis of changes in impairments and provisions for losses during the period broken down by stages and correlated to recognised impairments, etc. A summary of combined recognised impairments, etc. is provided in note 5.1.6 to the consolidated financial statements.

	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm	Recognised impairments etc. DKKm
2019					
Impairments at 1 January, loans at amortised cost	89	298	1,402	1,789	-
Impairments at 1 January, unutilised credit lines and loan commitments	4	4	69	76	-
Impairments re. new exposures during the year, including new accounts to existing customers	46	51	150	247	247
Reversed impairments re. repaid accounts	-16	-37	-145	-199	-199
Change in impairments at 1 January, transfer to/from stage 1	195	-149	-46	-	-
Change in impairments at 1 January, transfer to/from stage 2	-15	157	-141	-	-
Change in impairments at 1 January, transfer to/from stage 3	-2	-8	10	-	-
Impairments during the year due to change in credit risk	-163	-25	208	19	19
Change in impairments due to model changes and risk parameters, net	0	-30	0	-30	-30
Previously impaired, now finally lost	0	0	-463	-463	-
Other movements (interest rate correction etc.)	0	0	21	21	-
Loss without prior impairment	-	-	-	-	88
Amounts recovered on previously impaired receivables	-	-	-	-	-65
Impairments and provisions for losses at 31 December	137	261	1,064	1,462	61
Impairments at 31 December, loans at amortised cost	134	258	1,061	1,453	128
Impairments at 31 December, unutilised credit lines and loan commitments	3	3	3	9	-67
Impairments and provisions for losses at 31 December	137	261	1,064	1,462	61
2018					
Impairments at 01.01.18 under IFRS 9, loans at amortised cost	79	279	1,433	1,791	-
Impairments at 01.01.18 under IFRS 9, unutilised credit lines and loan commitment	4	5	12	21	-
Impairments re. new exposures during the year, including new accounts to existing customers	28	37	92	157	157
Reversed impairments re. repaid accounts	-10	-29	-82	-121	-121
Change in impairments at 1 January, transfer to/from stage 1	139	-63	-76	-	-
Change in impairments at 1 January, transfer to/from stage 2	-16	45	-28	-	-
Change in impairments at 1 January, transfer to/from stage 3	-9	-37	46	-	-
Impairments during the year due to change in credit risk	-122	65	181	124	124
Previously impaired, now finally lost	0	0	-139	-139	-
Other movements (interest rate correction etc.)	0	0	33	33	-
Loss without prior impairment	-	-	-	-	80
Amounts recovered on previously impaired receivables	-	-	-	-	-77
Impairments and provisions for losses at 31 December	92	302	1,470	1,865	162
Impairments at 31.12.18 under IFRS 9, loans at amortised cost	89	298	1,402	1,789	107
Impairments at 31.12.18 under IFRS 9, unutilised credit lines and loan commitment	4	4	69	76	55
Impairments and provisions for losses at 31 December	92	302	1,470	1,865	162

The change in portfolio impairments was driven by an increase in gross lending and movements between the stages as illustrated in the table, which is the result of a change in customers' credit risk. In addition, impairments are affected by changes in macroeconomic factors and improvements for the agricultural sector. See note 5.1.3 to the consolidated financial statements.

The figures concerning newly established and repaid accounts may include administrative movements in which the balance is moved between two accounts for the same customer.

Loss without prior impairment expresses Spar Nord's recognised loans for which the loss is greater than impairments at the beginning of the year.

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7.23.2 Due from credit institutions and central banks

	2019 DKKm	2018 DKKm
Due from credit institutions and central banks before impairments	1,588	1,400
Impairments	1	0
Carrying amount	1,588	1,400

The following tables show the credit quality and exposures before impairments based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating groups and impairment model is provided in accounting policies note 5.1.1 to the consolidated financial statements.

Due from credit institutions and central banks before impairments

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Credit institutions	1,588	0	0	1,588
Central banks	0	0	0	0
Total	1,588	0	0	1,588

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Credit institutions	1,400	0	0	1,400
Central banks	0	0	0	0
Total	1,400	0	0	1,400

Impairments

Analysis of changes in impairments for the period broken down by stages and correlated to recognised impairments, etc. A summary of combined recognised impairments, etc. is provided in note 5.1.6 to the consolidated financial statements.

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm	Recognised impairments etc. DKKm
Impairment, beginning of year	0	0	0	0	-
Impairments re. new exposures during the year, including new accounts to existing customers	1	0	0	1	1
Reversed impairments re. repaid accounts	0	0	0	0	0
Change in impairments at 1 January, transfer to/from stage 1	0	0	0	-	-
Change in impairments at 1 January, transfer to/from stage 2	0	0	0	-	-
Change in impairments at 1 January, transfer to/from stage 3	0	0	0	-	-
Impairments during the year due to change in credit risk	-1	0	0	-1	-1
Impairment, end of year	1	0	0	1	0

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm	Recognised impairments etc. DKKm
Impairments at 01.01.2018 under IFRS 9	1	0	0	1	-
Impairments re. new exposures during the year, including new accounts to existing customers	1	0	0	1	1
Reversed impairments re. repaid accounts	-1	0	0	-1	-1
Change in impairments at 1 January, transfer to/from stage 1	0	0	0	-	-
Change in impairments at 1 January, transfer to/from stage 2	0	0	0	-	-
Change in impairments at 1 January, transfer to/from stage 3	0	0	0	-	-
Impairments during the year due to change in credit risk	-1	0	0	-1	-1
Impairment, end of year	0	0	0	0	0

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7.23.3 Guarantees

	2019 DKKm	2018 DKKm
Guarantees before provisions for losses	14,807	12,172
Provisions for losses	40	80
Carrying amount	14,766	12,092

The following tables show the credit quality and exposures before impairments based on Spar Nord's internal rating system divided into stages.

A description of Spar Nord's internal rating groups and impairment model is provided in accounting policies note 5.1.1 to the consolidated financial statements.

Guarantees before provisions, by rating category

2019	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Rating category 1	5,825	1	0	5,826
Rating category 2	2,943	44	0	2,987
Rating category 3	1,824	172	0	1,996
Rating category 4	1,031	151	0	1,182
Rating category 5	208	70	0	279
Rating category 6	117	65	0	182
Rating category 7	31	18	0	49
Rating category 8	33	52	0	85
Rating category 9	0	32	0	32
Default	45	102	192	340
Unrated	1,850	0	0	1,850
Total	13,907	707	192	14,807

2018	Stage 1 DKKm	Stage 2 DKKm	Stage 3 DKKm	Total DKKm
Rating category 1	4,198	2	0	4,200
Rating category 2	2,334	43	4	2,382
Rating category 3	1,643	157	2	1,802
Rating category 4	962	294	0	1,256
Rating category 5	158	125	0	283
Rating category 6	105	94	0	199
Rating category 7	28	28	0	56
Rating category 8	4	6	0	10
Rating category 9	2	10	1	13
Default	0	6	366	372
Unrated	1,592	7	0	1,600
Total	11,028	772	373	12,172

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Provisions for losses

Analysis of changes in impairments for the period broken down by stages and correlated to recognised impairments, etc. A summary of combined recognised impairments, etc. is provided in note 5.1.6 to the consolidated financial statements.

	Stage 1 2019 DKKm	Stage 2 2019 DKKm	Stage 3 2019 DKKm	Total 2019 DKKm	Recognised impairments etc. DKKm
Provisions for losses at 1 January	14	6	60	80	-
Provisions for losses re. new exposures during the year	20	0	6	26	26
Reversed provisions for losses re. repaid exposures	-13	-5	-52	-69	-69
Change in provisions for losses at 1 January, transfer to/from stage 1	4	-2	-2	-	-
Change in provisions for losses at 1 January, transfer to/from stage 2	-1	2	-1	-	-
Change in provisions for losses at 1 January, transfer to/from stage 3	0	0	0	-	-
Provisions for losses during the year due to change in credit risk	-7	3	7	3	3
Provisions for losses at 31 December	17	5	18	40	-39

	Stage 1 2018 DKKm	Stage 2 2018 DKKm	Stage 3 2018 DKKm	Total 2018 DKKm	Recognised impairments etc. DKKm
Provisions for losses at 01.01.2018 under IFRS 9	13	7	48	68	-
Provisions for losses re. new exposures during the year	15	2	50	66	66
Reversed provisions for losses re. repaid exposures	-7	-7	-13	-27	-27
Change in provisions for losses at 1 January, transfer to/from stage 1	4	-3	-1	-	-
Change in provisions for losses at 1 January, transfer to/from stage 2	-1	1	0	-	-
Change in provisions for losses at 1 January, transfer to/from stage 3	-1	0	2	-	-
Provisions for losses during the year due to change in credit risk	-8	5	-25	-28	-28
Provisions for losses at 31 December	14	6	60	80	12

The change in portfolio impairments was driven by an increase in gross lending and movements between the stages as illustrated in the table, which is the result of a change in customers'

credit risk. In addition, impairments are affected by impaired macroeconomic factors.

7.24 Hedge accounting

2019

	Carrying amount DKKm	Fair value DKKm	Nominal value DKKm
Liabilities			
Issued bonds at amortised cost	397	397	400
Interest risk-hedging financial instruments			
Derivatives (swap contracts)	-3	-3	400

There was no hedge accounting in 2018.

Nominal value by term to maturity

	Within 1 year DKKm	1- 5 years DKKm	Over 5 years DKKm
Nominal value of issued bonds at amortised cost	0	400	0
Interest risk-hedging financial instruments, derivatives (synthetic principal)	0	400	0

Spar Nord pursues the strategy that interest rate risk on issued bonds at amortised cost is hedged using derivatives, which means that the level of Spar Nord's overall interest rate sensitivity is managed with due consideration to expected interest rate developments.

Financial liabilities meeting the criteria for hedged items are regularly monitored. For issued bonds at amortised cost/fair value, hedging is made at the time of issuance with an interest rate swap with the same yield/maturity profile.

The effectiveness of such hedging is measured on a continuing basis.

The table below shows the value adjustment of hedged assets and hedging derivatives recognised under market value adjustments.

Hedging of fixed-interest assets

	2019 DKKm	2018 DKKm
Hedging of issued bonds	3	-
Hedging derivatives	-3	-
Impact on profit/loss	0	-

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7.25 Related parties

	Parties with significant influence		Associates		Group enterprises		Board of Directors		Executive Board	
	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm
Loans, advances and loan commitments	50	0	15	15	-	-	40	44	6	3
Deposits	73	70	31	32	141	124	22	26	7	6
Guarantees issued	-	-	-	-	-	4	0	4	-	-
Other binding commitments	-	-	-	-	-	-	6	15	0	0
Collateral accepted	151	-	-	-	48	65	12	10	-	-
Interest income	-	-	0	0	0	0	0	0	0	0
Interest expenses	0	0	0	0	-	-	0	0	0	0
Fees, charges and commissions received	0	0	0	0	0	0	1	2	0	0
Dividends received from equity investments	-	-	14	7	0	100	-	-	-	-
Other income	1	3	-	-	0	0	-	-	-	-
Other expenses	-	-	-	-	7	6	-	-	-	-
Dividend distributed	81	81	0	0	-	-	0	0	1	1

Related parties with significant influence are shareholders with holdings exceeding 20% of Spar Nord Bank A/S, or where significant influence is otherwise considered to exist.

Note 6.10 to the consolidated financial statements contains a list of group enterprises.

The Danish companies in the Group are jointly taxed, which means that the Parent Company is liable for the payment of Danish corporate income tax. In 2019, joint tax contributions in the amount of DKK 3 million (2018: DKK 4 million) were transferred between the companies.

There were no balances with associates in 2018 or 2019.

A demand balance exists between Aktieselskabet Skelagervej 15 and the Spar Nord Parent Company, carrying interest at the market rate.

Commitments and transactions with members of the Board of Directors and Executive Board comprise personal commitments of such parties and of their related parties. Commitments and transactions with retired and new members of the Board of Directors and Executive Board have been recognised up to and including the date of retirement and as from the date of appointment, as the case may be.

Loans and loan commitments to parties with significant influence at 31 December 2019 comprised unutilised loan commitments of DKK 50 million, where Spar Nord has received full collateral if the commitment is exercised.

	Board of Directors		Executive Board	
	2019 DKKm	2018 DKKm	2019 DKKm	2018 DKKm
Loans and advances	27	27	3	3
Unutilised loan and guarantee commitments	13	16	4	0
Guarantees issued	0	4	-	-
Total loans and advances, loan commitments and guarantees	40	48	6	3
Interest rate, loans	1.00 - 5.00	1.00 - 4.75	2.25 - 2.50	2.25 - 2.50

No transactions were concluded during the year with members of the Board of Directors, the Executive Board or executive staff members, other than transactions involving salary, remuneration, etc., securities trading and loans and provision of collateral. More details regarding the remuneration of the Board of Directors, the Executive Board and executive staff members appear from note 2.7.

Employee-elected directors are eligible for bank staff loans/credits. Mastercard debit balances are interest free for the Bank's customers, as well as for the Executive Board and Board of Directors.

The respective shareholdings of the Executive Board and the Board of Directors are shown in note 6.8 to the consolidated financial statements.

Other related party transactions, including credit facilities, are concluded on an arm's length basis.

Related parties holding at least 5% of the Bank's share capital at end-2019 comprised the Spar Nord Foundation, Aalborg, with a holding of 18.9% (2018: 18.9%) and Nykredit Realkredit A/S, Copenhagen with a holding of 11.4% (2018: 11.4%).

The figures above do not include any bonds issued by Spar Nord that rank as debt, subordinated debt or additional tier 1 (AT1) capital, as such bonds are bearer securities. In such cases, Spar Nord Bank does not know the identity of the creditors. Spar Nord Bank shares may be registered in the name of the holder.

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7.26 Performance indicators and financial ratios

Performance indicators

DKKm	2019	2018	2017	2016	2015
Income statement					
Net interest and fee income	2,858	2,730	2,711	2,736	2,810
Market value adjustments	320	214	379	340	450
Staff costs and administrative expenses	1,924	1,865	1,869	1,795	1,776
Impairment of loans, advances and receivables etc.	22	173	-7	292	373
Income from investments in associates and group enterprises	120	50	51	105	79
Profit/loss for the year	1,060	921	991	839	897
Balance sheet					
Loans and advances	51,312	44,330	46,747	41,219	37,912
Equity	9,761	9,241	8,975	8,627	7,887
Total assets	93,246	82,917	80,597	79,758	77,498

Financial ratios

Own funds

Own funds ratio	18.4	18.0	18.1	17.3	16.8
Tier 1 capital ratio	16.1	15.6	15.9	15.3	14.8

Earnings

Return on equity before tax	%	13.7	12.1	14.2	12.3	14.2
Return on equity after tax	%	11.2	10.2	11.3	10.2	12.0
Income/cost ratio		1.64	1.52	1.65	1.46	1.46
Return on assets	%	1.1	1.1	1.2	1.1	1.2

Market risk and liquidity

Interest rate risk	%	0.6	0.2	0.7	1.1	1.6
Foreign exchange position	%	1.0	1.4	3.3	3.2	3.4
Currency risk	%	0.1	0.1	0.1	0.1	0.1
Liquidity Coverage Ratio (LCR)	%	192	172	182	150	143
Excess coverage relative to statutory liquidity requirement	%	-	-	325.2	301.9	290.4
Loans and advances as % of deposits	%	72.5	67.5	72.4	66.1	63.9

Credit risk

Loans and advances relative to equity		5.3	4.8	5.2	4.8	4.8
Increase in loans and advances for the year	%	9.1	6.7	6.6	3.6	-4.5
Sum of large exposures	%	83.6	79.2	17.2	0.0	14.8
Impairment ratio for the year		0.1	0.2	0.0	0.5	0.8

The Spar Nord Bank share

DKK per share of DKK 10

Profit/loss for the year		8.6	7.5	8.1	6.8	7.2
Net asset value (NAV)		72	68	66	63	60
Dividend		3.5	3.5	3.5	5.0	5.0
Share price/profit/loss for the period		7.6	6.9	8.9	11.9	8.5
Share price/NAV		0.9	0.8	1.1	1.3	1.0

A definition of financial ratios is provided in note 6.11.1 to the consolidated financial statements.



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

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