Annual Report 2012

BANKNORDIK

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BankNordik Group

BankNordik is a strong and profitable banking and insurance group operating in the Nordic region and founded in 1906 in the Faroe Islands.

The Group provides financial services to 187,000 private, commercial and corporate customers, and its activities encompass

- banking and insurance operations in the Faroe Islands
- banking operations in Denmark and Greenland
- insurance operations in Iceland.

In addition to the overarching BankNordik brand the Group operates insurance activities under the Trygd (Faroe Islands) and Vörður (Iceland) brands as well as a Faroese real estate brokerage under the Skyn brand.

As a trusted financial partner through more than 100 years, BankNordik's hallmark has been its close relations with its customers, its tight credit control and its operational efficiency. The Group aims to be recognised as competent, committed, and proactive in every aspect and activity. These values form the backbone of all interaction with customers, shareholders, employees and other stakeholders and support BankNordik's financial objective: to generate value to its shareholders.

The BankNordik Group has 550 employees. It is incorporated in the Faroe Islands and is listed on NASDAQ OMX.

Highlights, ratios and key figures, 5 year summary – BankNordik Group

Highlights

DKK 1,000	2012	2011	2010	2009	2008
Net interest and fee income	808,552	680,654	589,019	455,049	381,326
Interest and fee income and income from insurance activities, net	889,527	735,006	643,679	496,928	400,790
Market value adjustments	19,369	9,761	16,914	23,915	-73,397
Other operating income	39,029	26,862	420,528	-10,756	91,638
Staff cost and administrative expenses	641,300	597,263	456,629	210,778	203,546
Impairment charges on loans and advances etc.	148,169	100,806	200,233	128,162	104,902
Net profit	103,073	31,971	312,743	111,047	87,727
Loans and advances	11,302,702	11,768,892	8,674,663	6,937,560	7,626,975
Bonds at fair value	2,881,904	2,508,938	3,497,466	1,252,056	940,201
Intangible assets	807,268	801,957	407,732	39,312	0
Assets held for sale	25,811	168,980	160,794	175,908	134,769
Total assets	17,608,966	17,086,357	14,243,358	10,267,021	10,066,685
Due to credit institutions and central banks	1,288,052	329,316	245,249	1,498,499	2,317,290
Deposits and other debt	12,745,653	13,032,047	8,843,972	5,496,550	5,494,199
Issued bonds at amortised cost	0	98,276	2,199,843	999,843	500,000
Total shareholders' equity	2,053,362	1,957,695	2,013,480	1,663,122	1,524,042

Ratios and key figures

	2012	2011	2010	2009	2008
Solvency					
Solvency ratio, %	14.8	15.6	17.0	26.2	20.6
Core capital ratio, %	12.9	12.4	17.2	26.6	20.8
Core capital ratio excl. hybrid core capital, %	9.6	9.1	15.2	23.6	20.8
Risk-weighted Items, DKKm	11,902	12,313	10,080	6,648	7,201
Profitability					
Return on equity before tax, %	6.1	1.6	20.9	8.5	6.7
Return on equity after tax, %	5.1	1.6	17.0	7.0	5.8
Income / Cost ratio	1.1	1.0	1.5	1.4	1.3
Cost / income, % (excl. value adjustm. and impairments)	73.1	84.0	47.1	50.5	43.8
Market risk					
Interest rate risk %	1.5	2.3	3.1	1.3	2.2
Foreign exchange position %	17.3	8.7	24.6	1.5	1.3
Liquidity					
Loans and advances plus impairment charges as % of deposits	91.5	92.9	101.9	131.4	148.2
Excess cover relative to statutory liquidity requirements, %	152.6	115.3	292.9	275.7	193.0
Credit risk					
Large exposures as % of capital base	36.3	23.3	22.8	22.8	84.7
Impairment and provisioning ratio, %	3.0	2.7	3.2	3.8	3.5
Write-off and impairments ratio, %	1.1	0.7	1.9	1.4	0.4
Share of amounts due on which interest rates have been reduced, %	1.7	1.9	1.6	3.8	2.7
Growth in loans and advances, %	-4.0	35.7	25.0	-9.0	2.4
Gearing of loans and advances %	5.5	6.0	4.4	4.2	5.0
Shares					
Earnings per share after tax, DKK	10.5	3.2	32.2	11.5	8.9
Book value per share, DKK	208.2	198.5	210.0	171.8	153.8
Proposed dividend per share DKK	1.0	0.0	4.0	0.0	0.0
Market price per share, DKK	76.0	78.8	144.0	131.3	120.0
Market price / earnings per share DKK	7.3	24.4	4.5	11.5	13.6
Market price / book value per share DKK	0.4	0.4	0.7	0.8	0.8
Other					
Number of full-time employees, end of period	550	612	433	288	243

Financial Overview

Year 2012

- Pre-tax profit amounting to DKK 121m compared to DKK 31m in 2011
- Net interest and fee income up by 19% from DKK 681m to DKK 809m
- Pre-tax profit from insurance activities increased to DKK 47m from DKK 20m in 2011
- Staff costs and administrative expenses increased to DKK 641m in 2012 from DKK 597m in 2011
- The Group had a total of 550 employees (FTE) at 31 December 2012 compared to 612 at year-end 2011
- Net impairment charges amounting to DKK 115m, a loss ratio of 0.9%
- Loans and advances down 4% from DKK 11.8bn to DKK 11.3bn
- The solvency ratio was 14.8% compared to a solvency requirement of 8.6% at the end of 2012
- The Board of Directors recommends dividends of DKK 10m to be paid for 2012

Fourth quarter 2012

- The Group posted a pre-tax profit of DKK 42m in Q4 2012
- The positive trend in net interest income continued, supported by higher lending rates
- Net fee and commission income up by 22% from DKK 42m in Q3 to DKK 52m in Q4
- Non-recurring expenses amounting to DKK 16m
- Net impairment charges amounting to DKK 35m in Q4

Key events in 2012

- Acquired customers in Denmark transferred to BankNordik's IT systems
- Acquired the remaining capital in the insurance company Vörður
- The Danish FSA inspected the acquired portfolio from Amagerbanken and concluded that reservations were sufficient
- Organisational restructuring in order to optimise efficiency
- The number of branches in Denmark was reduced from 19 to 16

Letter from the CEO

Increased revenue, efficiency and good credit quality

The past year was a milestone in the strategic development of BankNordik. Our bottom line began to show positive effects of the many far-reaching decisions we have made in recent years.

Through our investments in Denmark, Greenland and Iceland, the BankNordik Group has more than doubled in size. At the same time, we have given the Bank a stronger base, adding new and more comprehensive skills and expertise as well as providing a platform from which it can continue to grow; with a reach beyond the Faroe Islands. This was the idea behind the strategy we devised a few years ago and which we have gradually turned into results as the right opportunities arose.

During the past year, we completed the integration of new activities and we were able to once again put profitability high on our agenda.

Sustainable enhancement of our profitability is one of the four strategic themes we are currently working on in BankNordik's management, the other three being customer service, credit quality and financial strength.

Focus on profitability

Our consolidated income has grown considerably as our business has expanded, but so have our costs.

To address that, we are now making a dedicated effort to enhance efficiency. We must maximise our economies of scale and the shared IT platform. We have simplified and streamlined our organisation, adapting it to individual customer needs and making the chains of command as short as possible. As we gradually completed the integration process, we also achieved synergies in our staff functions.

Organisational adjustments made in 2012 delivered annual cost savings of DKK 35m, and in early 2013 we made additional adjustments that will cut our costs by another DKK 15m per year.

Dedicated customer service

With our new organisational structure in place we aim to become better able to keep our existing customers satisfied and attract new ones while serving all of them profitably. We have adjusted the ways we serve our customers so as to accommodate the specific needs of our various customer groups. We aim to strengthen our ties with those customers that need – and wish to make use of – a competent and dedicated advisory bank. We are implementing efficient systems and service departments for customers that mainly engage with us online or those who only rarely need to talk with us.

Early in the new year, we applied these principles to reorganise our customer service. The transformation is profound and highly visible, and over the past few months we have made it our top priority to implement the changes so that we and our customers can enjoy the projected benefits while keeping any disadvantages to a minimum. The restructuring has produced cost savings that we can use to make new value propositions, offering better prices to customers.

The wider and more elaborate skill sets, achieved through in-house as well as acquired resources, are now being applied across our expanded Group and we expect they will enhance our income flows. The new strategy has already yielded promising results, including in the pension and investment fields.

Prudent management of loans and advances

Fortunately, the business cycle has now stabilised somewhat after the turmoil and negative developments of the last couple of years. Growth is still only recovering, but we sense a more upbeat mood; and one that rests on a healthier and more realistic foundation than the one in play prior to the severe events seen during the crisis.

We have a sound and systematic credit policy that normally keeps our loan losses at relatively manageable levels. That was also the case during the years of crisis, as the impairments have been only marginally above our average impairment ratio of the last 15 years at about 0.75%.

Our credit policy will remain prudent: We will be there for corporate and personal customers when they want to invest, but we will study the underlying plans carefully and ask the questions that need to be asked. We will also keep an eye on the industrial and geographical composition of our overall lending portfolio, thereby ensuring that our Bank remains financially strong.

Robust capital base

The Danish FSA has introduced new regulations for the calculation of a bank's individual solvency requirement, the so-called 8+ method. BankNordik uses this method to calculate its capital requirements. The solvency requirement for the bank amounted to 8.6% at year-end 2012 - only marginally above the minimum requirement of 8%. This is a good indicator of the Bank's low risk profile.

The Bank aims to have a solvency ratio that is at least 5 percentage points higher than the solvency requirement; the current solvency ratio of 14.8% means that this goal is being met. Preliminary calculations show that BankNordik already complies with the upcoming Basel III requirements.

The current solvency ratio breaks down into a core capital ratio excl. hybrid core capital of 9.6% and net subordinated loan capital and hybrid capital of 5.2%. The Group's goal is to repay the DKK 672m of subordinated loans over the next five years and for the solvency ratio to consist entirely of equity. In addition to improving the quality of the capital base, this would also improve operations, as these loans carry a rate of interest of around 9%.

In order to strengthen the equity and pay down the expensive subordinated loans over a relatively short period of time, the Bank will have to limit dividend distributions and similar pay-outs. More specifically, the Board of Directors intends to limit dividends to 10% of net profit as long as the Bank's core capital ratio excl. hybrid core capital is below 12% but not more than DKK 10m as long as ratio is below 10%. And a dividend of 20% of the net profit as long as the core capital ratio excl. hybrid core capital is in the range 12% to 14%, and 30% of the net profit as long as the core capital ratio excl. hybrid core capital is above 14%. Of course, the dividend policy is subject to the solvency requirements of the Bank.

In accordance with these principles the Board of Directors proposes to pay dividends of DKK 10m in respect of 2012.

Business performance

All major operations in Denmark were transferred to BankNordik's IT platform in the early months of 2012. The move simplified in-house operations considerably, but we were unable to shield the customers entirely from any inconvenience. We received a certain amount of customer complaints, and we did our best to remedy the problems. On that background, it was reassuring to see that only a small number of customers left the Bank and that we suffered only a small drop in deposits and loans and advances.

In the Faroe Islands, we won several major corporate loans, while retaining our share of the retail market. An intensified campaign that ran in both the Faroe Islands and Denmark during the autumn months attracted approximately DKK 350m for the Bank's new pension savings concept.

In Greenland, we successfully attracted a strong inflow of retail and corporate customers, and loans and advances to customers in Greenland grew by 23%.

Full-year results in line with expectations

Judging from our financial performance, our situation has improved nicely. We achieved a pre-tax profit of DKK 188m for 2012 before non-recurring items and unpredictable, externally-driven factors such as value adjustments and sector costs. In our guidance at the beginning of the year, we forecasted this result to be in the range of DKK 150–200m.

The profit before non-recurring costs of DKK 77m for integration and restructuring was DKK 111m compared to DKK 50m in 2011. That is within the forecast range of DKK 80–140m.

Our performance in terms of these two core items was satisfactory, considering our expectations as well as the market conditions.

On course to achieving our financial goals

The profit for 2012 before special items amounted to DKK 188 million. This indicates improved results for the Bank in the coming years since integration costs will cease and the costly subordinated loans will be repaid.

We have incurred some very large costs in recent years, but we have managed to lower them again with the recent initiatives.

Confidence in the Bank's financial strength must be retained. We are aiming for a solvency ratio of between 13% and 16% and at least 5% higher than the

» We have some of the most skilled and energetic employees and managers in the sector. They are the ones who turn our strategy into results «

solvency requirement; and for our liquidity to remain at twice the required level.

The pricing of the Bank's shares is determined in the equity market. A general sense of concern in society, the particular uncertainty pertaining to banks and the extensive changes implemented at BankNordik in recent years, have brought our share price to a level that is well below the Bank's net asset value. Management will do everything in its power to make existing shareholders and new investors see the upside potential in BankNordik shares reflecting a firmly anchored confidence in the Bank's earnings ability, profitability and capital policy.

Platform in place

BankNordik has a strong platform for continuing to prosper.

- Through major acquisitions we have expanded our operations considerably, in turn enhancing the potential for new business opportunities.
- We have a presence in those local markets where growth is the strongest.
- We have a good reputation among those who know us best.
- Step by step, we can achieve additional economies of scale.
- We have achieved a stronger geographic and industry composition in our operations.
- We have strengthened our deposit surplus – a crucial and essential factor in the prevailing environment that provides a basis for granting loans for productive purposes.
- We have the solvency and liquidity strength to pass a critical review.

Last, but not least: We have some of the most skilled and energetic employees and managers in the sector. They are the ones who turn our strategy into results. On behalf of the management, I would like to take this opportunity to thank all of my colleagues for their remarkable effort.

In the current financial year, which is already well underway, we will continue to develop the Bank in line with the defined strategy and on the basis of the Bank's standards. Our job is to create value; for the customers, whether retail or corporate; for the communities we serve and are a part of; for our employees, who devote their commitment and energy to developing our Bank; and for our shareholders, who make capital available for the Bank's operations.

We are united in continuing to address this exciting challenge.

Janus Petersen
CEO

Management's report

Financial review

Results improving in line with expectations

The BankNordik Group delivered a profit before tax of DKK 121m for 2012 against DKK 31m in 2011.

The main driver of the positive profit performance in 2012 was the lower integration and restructuring costs relating to Amagerbanken, and the consequential focus on earnings in Banking Denmark. Q3 2012 was the first quarter in which Banking Denmark contributed a profit, amounting to DKK 28m, to consolidated earnings. Among other notable items, the insurance business produced a profit before tax of DKK 47m compared to DKK 20m in 2011, net impairment charges and losses increased to DKK 115m from DKK 86m in 2011, and sector-related costs amounted to DKK 11m compared to DKK 21m in 2011.

In November 2012, BankNordik entered into an agreement with "Amagerbanken af 2011" to reduce the purchase price for Amagerbanken by DKK 30m. The reduction related to an adjustment of the closing balance sheet. Goodwill relating to the purchase of Amagerbanken was reduced accordingly. This was a pure balance sheet transaction and had no effect on the income statement.

In order to provide an understanding of the financial developments, special items have been extracted from the aggregate accounts to be measured and discussed separately, followed by adjusted figures for the underlying business.

Special items

The integration and restructuring costs, primarily relating to the Amagerbanken acquisition, affected administrative expenses negatively by DKK 77m, of which DKK 60m were related to H1 2012. These costs, expensed under staff costs and administrative expenses, consisted mainly of intermediate IT and administrative service expenses payable to Finansiel Stabilitet A/S and the costs of the transfer to SDC, which was implemented on 17 February 2012.

The Guarantee Fund for Depositors and Investors has been established under Bank Package IV to resolve solvency problems in the banking sector. Such sector-related costs are recognised under other operating expenses. In 2012, BankNordik paid DKK 11m to the Guarantee Fund for Depositors and Investors in relation to distressed banks. This was DKK 9m less than in 2011.

Two organisational restructuring rounds were carried out in 2012, in March and October. The combination of restructuring and natural attrition is estimated to lead to a reduction in staff and administrative costs of DKK 35m annually.

Adjusted income statements

The key figures for 2012 and 2011 have been adjusted for special items in the table appearing on page 13. As in 2011, the largest special item in 2012 was integration and restructuring costs.

Income Statement

Interest income

Net interest income amounted to DKK 613m compared to DKK 547m in 2011. The increase was mainly related to the loan portfolio acquired from Amagerbanken, which took full effect in 2012. Loans and advances declined in the Faroe Islands and Denmark, reducing

Income statement, Group

DKKm	Year 2012	Year 2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Operating income	895	754	236	224	219	217	192	232	173	157
Operating cost	592	519	143	145	153	151	157	152	107	103
Profit before impairment charges	**303**	**235**	**93**	**79**	**66**	**66**	**35**	**80**	**66**	**54**
Impairment charges	148	101	46	21	58	23	43	19	11	28
Reversals of acquired OEI impairments	-33	-15	-11	-7	-12	-4	-6	-2	-3	-4
Operating profit	**188**	**149**	**58**	**65**	**20**	**46**	**-2**	**63**	**58**	**31**
Special items	**-67**	**-119**	**-16**	**3**	**-17**	**-37**	**-31**	**-33**	**-35**	**-20**
Integration and restructuring costs	-77	-99	-16	-1	-11	-48	-55	-35	-6	-3
Sector costs	-11	-21	-7	0	1	-5	-7	3	-17	0
Market value adjustments	19	10	6	4	-7	17	27	5	-5	-17
Other items	2	-8	2	0	0	0	5	-6	-7	0
Profit before tax (as reported)	**121**	**31**	**42**	**68**	**2**	**10**	**-33**	**30**	**23**	**10**
Cost/Income (Operating cost/income), %	66	69	61	65	70	70	82	66	62	65
Number of FTE, end of period	550	612	550	577	583	582	612	604	421	431

interest income, while the higher interest margin had a positive effect. Furthermore, the Bank repaid DKK 150m of its subordinated debt in August 2012 increasing net interest income. Net interest income in Q4 amounted to DKK 154m compared to DKK 153m in Q3.

Fee and commission income

Net fee and commission income increased by DKK 57m from DKK 128m in 2011 to DKK 185m in 2012, mainly due to the full-year effect of the Amagerbanken portfolio. In the fourth quarter net fees and commission income increased to DKK 52m from DKK 42m in Q3 relating to a higher conversion activity in addition to an increase in asset management income.

Insurance business

The insurance business provided a profit before tax of DKK 47m compared to DKK 20m in 2011. In the Faroe Islands, claims were lower than in 2011, as a storm late in that year had a negative impact on the results. In Iceland, Vörður gained market share, increasing premium income by DKK 14m (8%).

Operating income

Operating income amounted to DKK 895m in 2012 compared to DKK 754m in 2011. The Q4 operating income was DKK 236m. Banking is the largest business unit of the BankNordik Group. Although the results vary from quarter to quarter, banking will continue to be the primary business segment. The insurance business has been growing steadily in recent years and has now become a significant contributor, accounting for 10% of total operating income.

Operating costs

Operating costs amounted to DKK 592m in 2012 compared to DKK 519m in 2011. The acquisition of Amagerbanken in 2011 significantly increased the number of employees and, consequently, staff costs. Since then there have been rounds of redundancies, reducing the number of employees to 550 at the end of 2012 from 612 at year-end 2011.

Profit before impairment charges

Profit before impairment charges amounted to DKK 303m, an increase of DKK 68m compared to 2011. In Q4 2012 profit before impairment charges amounted to DKK 93m. This is an improvement of DKK 14m (17%) relative to Q3 2012 resulting from an increase in interest and fee income and a reduction in operating costs.

At DKK 140m (2011: DKK 174m) the Faroese business was the largest contributor to profit before impairment charges, but the Danish segment has also become a significant contributor, delivering a profit before impairment charges of DKK 101m (2011: DKK 48m). Greenland also improved their profit before impairment charges, delivering DKK 19m (2011: DKK 10m).

Impairment charges

BankNordik's impairment charges for 2012 amounted to DKK 148m This marks an increase of DKK 47m from DKK 101m in 2011. The impairment ratio was 1.1%. Although higher than in 2011, this is in line with the average of the last 15 years.

Reversals of the OEI impairments related to acquired activities amounted to DKK 33m, thus net impairment charges were DKK 115m relative to DKK 86m in 2011. The net impairment ratio was 0.9%.

Net impairment charges amounting to DKK 67m (58%) were recognised in the Faroe Islands, and DKK 44m was related to the Danish market, corresponding to 38% of the total amount of net charges, while impairment charges in Greenland were DKK 5m. The net impairment charges of DKK 115m are in line with the Bank's guidance of DKK 80-100m for the year 2012.

Impairments of DKK 46m were recognised (31% of total) in the fourth quarter. This was DKK 25m higher than in Q3 (DKK 21m), and was mostly related to Denmark (DKK 30m).

Operating profit

Adjusted operating profit for 2012 amounted to DKK 188m compared to DKK 149m in 2011. The main reason for the improvement in 2012 over 2011 was the DKK 141m improvement in operating income in 2012, although operating costs and net impairment charges were higher in 2012.

Profit before tax

The BankNordik Group delivered a profit before tax of DKK 121m against DKK 31m in 2011.

Banking operations returned a pre-tax profit of DKK 72m for 2012 compared to DKK 10m in 2011. The Faroe Islands delivered a profit before tax of DKK 69m (DKK 102m in 2011), Denmark a DKK 11m loss (DKK 106m loss in 2011) and Greenland a profit of DKK 14m (DKK 14m in 2011). The results of the operations in Denmark were strongly affected by special items and impairments in the first half of the year. Denmark improved its performance significantly in the second half, reporting a pre-tax profit of DKK 24m, compared to DKK 35m loss in the first half of the year.

» The higher operating profit supports the expectations that the banking business stands to harvest significant income gains from the increased volume in Denmark. «

Quality of loan portfolio excl. financial institutions 2012

(DKKm)		> 50m	< 50m	Total
Portfolio without weakness (3, 2a5)	Exposure in DKKm	2,161	4,846	7,006
Portfolio with some weakness (2b15, 2b30)	Exposure in DKKm	399	4,344	4,743
Portfolio with weakness (2c50)	Exposure in DKKm	0	723	723
	Unsecured	0	372	372
Portfolio with impairment/provision (1)	Exposure in DKKm	135	970	1,105
	Unsecured	31	513	544
	Impairments/provisions	33	343	376
Portfolio without individual classification	Exposure in DKKm	0	2,642	2,642
Total	**Exposure in DKKm**	**2,695**	**13,524**	**16,219**

Balance sheet

BankNordik's total assets increased by DKK 0.5bn in 2012 from DKK 17.1bn in 2011 to DKK 17.6bn in 2012 (3%).

Assets

Loans and advances amounted to DKK 11.3bn in 2012 compared to DKK 11.8bn in 2011. This was a decline of 4%, resulting from the continued low level of activity in the lending market and generally subdued economic activity. In the fourth quarter of 2012, loans and advances were at the same level as in Q3, an indication that lending activity is stabilising.

Impairments and provisions amounted to a total of DKK 400m at the end of 2012, corresponding to a ratio of 3%. The table above shows credit exposures divided into classification and size. The classification is based on the methodology used by the Danish FSA.

The Danish FSA performed inspections in the Bank in 2011 and 2012. The outcome of the inspection was an extra impairment of DKK 7.4m, which is of course an insignificant amount, and their conclusion was that BankNordik's portfolio was above average compared to similar Danish banks.

The classification in the table above gives some important insights to the credit quality of the portfolio. 87% of all classified exposures are labelled without weakness or with less significant weakness. This is of importance bearing in mind that banks with high risk portfolios normally fail in their larger loans.

Another important insight is that BankNordik has a relatively low unsecured exposure in weak exposures (2c50). For exposures above DKK 50m there are no weak exposures, and in exposures smaller than DKK 50m only DKK 372m are unsecured. This would indicate a relatively low likelihood for new impairments coming from larger exposures. There is clearly a risk that a part of the weak exposures in retail will turn into impairments but because of the large number of exposures it must be expected that this will happen in the course of a longer timespan.

The profit before impairments and special items for 2012 was DKK 303m. Thus, the Group has a comparatively good ability to absorb losses in the future. Almost all unsecured weak exposures can be covered in one year's earnings.

Liquidity reserves amounted to DKK 4.2bn, which is DKK 0.7bn higher than at the beginning of 2012, and DKK 0.3bn less than in Q3 2012.

Liabilities
Total deposits amounted to 12.7bn at the end of 2012, a 2% fall compared to a year ago, and 3% less than at the end of Q3 2012.

BankNordik has resolved to reduce its very high surplus liquidity ratio and thereby cut its funding costs. The Bank targets an excess cover relative to statutory requirements of 100%. The excess cover was 153% at the end of the year compared to 115% at the beginning of the year.

Events after the balance sheet date

On 21 January 2013, BankNordik announced an organisational adjustment, reducing the number of full-time employees by 23. The reduced number of employees yields an estimated annual cost reduction of DKK 15m, bringing total cost reductions since the beginning of 2012 to DKK 50m.

No other events have occurred since the end of 2012 which are deemed to have a significant impact on the Group's financial position.

Outlook

In 2013, BankNordik will continue to develop the Bank in line with the corporate strategy and on the basis of the Bank's standards.

Interest rates are expected to remain low, and the economic growth in the market area is also expected to be subdued. Therefore, loan demand is expected to remain low. The Bank targets a gross loan growth to partly compensate for the repayment of loans, but still expects lending to decrease by 2% in 2013. In order to limit the reduction in lending the Bank will compete harder in the market, and hence expects that its interest margins will decrease somewhat.

The Bank therefore expects both net interest income and insurance income to decrease in 2013 compared with 2012. The net fee income is expected to grow marginally driven by growing activity in pensions, investments and mortgage lending.

Significant rationalisations were implemented in 2012 and in January 2013. Also, the integration of the healthy parts of Amagerbanken was finalised in 2012. The Bank therefore expects significant cost reductions in 2013 compared to 2012.

Impairments on loans including reversals of acquired OEI impairments in 2013 are estimated to be lower than in 2012 (DKK 115m).

In light of the expected development, the BankNordik Group projects 2013 pre-tax profit before value adjustments to be in the range of DKK 130-160m (2012: DKK 102m).

Segments

Faroe Islands:
- Customers = 25,000
- Loans and advances = DKK 6bn
- Deposits = DKK 5.2bn
- Cost/Income (Operating cost/income) = 58%
- Operating profit = DKK 73m

Denmark:
- Customers = 103,000
- Loans and advances = DKK 4.3bn
- Deposits = DKK 7.1bn
- Cost/Income (Operating cost/income) = 75%
- Operating profit = DKK 58m

Greenland:
- Customers = 4,000
- Loans and advances = DKK 0.9bn
- Deposits = DKK 0.5bn
- Cost/Income (Operating cost/income) = 65%
- Operating profit = DKK 14m

Iceland (Vörður):
- Customers = 30,000
- Premium, net of reinsurance DKK 201m
- Combined ratio = 97 %
- Claims Ratio = 76%
- Operating profit = DKK 19m

Trygd:
- Customers = 25,000
- Premium, net of reinsurance DKK 82m
- Combined ratio = 74%
- Claims Ratio = 52%
- Operating profit = DKK 24m


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Banking segments

Banking activities profitable again

Income statement, Banking

DKKm	Year 2012	Year 2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Operating income	796	693	207	194	194	201	202	208	142	141
Operating cost	536	460	129	131	139	137	142	137	91	89
Profit before impairment charges	**260**	**233**	**78**	**64**	**55**	**63**	**59**	**71**	**51**	**52**
Impairment charges	148	101	46	21	58	23	43	21	11	26
Reversals of acquired OEI impairments	-33	-15	-11	-7	-12	-4	-6	-2	-3	-4
Operating profit	**145**	**147**	**42**	**49**	**9**	**44**	**22**	**52**	**42**	**30**
Special items	**-73**	**-136**	**-18**	**1**	**-12**	**-45**	**-39**	**-33**	**-35**	**-29**
Integration and restructuring costs	-77	-99	-16	-1	-11	-48	-55	-35	-6	-3
Sector costs	-11	-21	-7	0	1	-5	-7	3	-17	0
Market value adjustments	14	-6	5	2	-2	10	18	4	-3	-24
Other items	0	-11	0	0	1	-1	5	-5	-8	-2
Profit before tax (as reported)	**72**	**10**	**24**	**50**	**-3**	**0**	**-17**	**19**	**7**	**1**
Loans and advances	11,303	11,769	11,303	11,271	11,430	11,376	11,769	11,949	8,446	8,376
Deposits and other debt	12,746	13,123	12,751	13,101	13,262	13,088	13,123	13,955	8,649	8,969
Cost/Income (Operating cost/income), %	67	66	62	67	72	68	71	66	64	63
Number of FTE, end of period	469	529	469	490	497	499	529	525	525	352

The level of interest rates continued to fall in 2012, putting the deposit margin under pressure. Demand for loans and advances continued to subside in 2012, and BankNordik raised lending rates along with other banks. The improved interest margin more than compensated for the loss of interest income from lower loan volumes. Loan volumes fell by 3% in Denmark and 4% in the Faroe Islands, while loans and advances to customers in Greenland grew by 23%.

Following the takeover of the healthy parts of Amagerbanken in 2011, integration of the acquired activities was a big priority in the first half-year of 2012. As part of these efforts, the Group incurred non-recurring costs of DKK 59m in the first and second quarters for rolling the new operations onto BankNordik's IT platform and restructuring the branch network. In the fourth quarter, BankNordik adjusted the organisational structure in order to streamline the management structure and reduce the number of staff in support functions. In connection with the organisational restructuring the number of full-time employees was reduced by 14. Combined with the reduction in the number of employees in the banking division in the course of this year, this brought the number of full-time employees in the banking division to 469, as compared to 529 at the beginning of the year.

In Q3, the Bank launched sales campaigns in all markets to strengthen its market position and improve sales. In Greenland, a sales campaign for the Bank's product offering led to a large inflow of new customers as well as improved cross selling to existing customers. In Denmark and the Faroe Islands, a campaign for the Bank's improved pension savings product produced an inflow of DKK 350m.

The combined banking operations returned a pre-tax profit of DKK 72m for 2012, compared to DKK 10m in 2011. A break-down of the 2012 pre-tax profit from banking activities by market shows that the Faroe Islands delivered a profit of DKK 69m, Denmark produced a loss of DKK 11m and Greenland reported a profit of DKK 14m. The results in Banking Denmark and Banking Faroe Islands were strongly affected by non-recurring costs.

The performance of the fourth quarter confirms the positive development of the Group's banking activities. All segments returned a profit, and the banking division's total pre-tax profit amounted to DKK 24m, including non-recurring costs of DKK 16m.

BankNordik in the Faroes

Faroese banking activities generate healthy earnings

Income statement, Faroe Islands

DKKm	Year 2012	Year 2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Operating income	336	376	93	82	82	79	87	91	100	98
Operating costs	196	201	46	49	53	48	52	48	55	47
Profit before impairment charges	**140**	**174**	**47**	**33**	**29**	**31**	**35**	**43**	**45**	**51**
Impairment charges	67	23	16	19	18	15	12	6	-6	11
Operating profit	**73**	**151**	**31**	**14**	**11**	**17**	**23**	**37**	**51**	**40**
Special items	-2	-49	-5	2	-1	2	5	-1	-26	-27
Integration and restructuring costs	-14	-2	-9	0	0	-5	-1	-1	-1	-1
Sector costs	-5	-21	-3	0	0	-2	-7	3	-17	0
Market value adjustments	14	-16	5	2	-3	10	8	1	0	-24
Other items	0	9	0	0	1	-1	6	-1	-1	5
Profit before tax (as reported)	**69**	**102**	**24**	**17**	**10**	**18**	**28**	**37**	**25**	**13**
Loans and advances	6,044	6,329	6,044	6,070	6,177	6,106	6,329	6,328	6,306	6,196
Deposits and other debt	5,217	5,459	5,217	5,406	5,384	5,506	5,459	5,864	5,583	5,718
Cost/Income (Operating cost/income), %	58	54	50	60	65	60	60	52	55	48
Number of FTE, end of period	177	203	177	186	190	189	203	203	209	214

Highlights 2012

- Pre-tax profit DKK 69m (2011 : DKK 102m)
- Operating income DKK 336m (2011 : DKK 376m)
- Operating costs DKK 196m (2011 : DKK 201m)
- Impairment charges on loans and advances DKK 67m (2011 : DKK 23m)
- Loans and advances DKK 6.0bn (2011 : DKK 6.3bn)
- Deposits 5.2bn (2011 : DKK 5.5bn)
- 177 full-time employees (2011 : 203) at 31 December 2012

Adverse market conditions

The macroeconomic environment of the Faroe Islands was relatively stable in 2012. The unemployment rate fell from 6.5% at the beginning of the year to below 5% at year-end. The reduction in unemployment can partly be explained by the greater level of activity in land-based fish production. The year also saw the implementation of a tax reform to reduce the marginal and average tax rates, much of which was financed by the upfront taxation of pension payments. The prices of residential housing were stagnant because of sluggish demand resulting from net emigration.

A low level of investment by both households and corporates led to a reduction in loan demand. As a result, deleveraging continued to set the agenda in the Faroese banking sector.

In the first quarter, BankNordik cancelled the planned acquisition of the Faroese life insurance company Føroya Lívstrygging, and the Bank has instead focused its efforts on selling its pension savings products in combination with life insurance products.

Retail Banking

Consumers continued to have a preference for increasing their savings, reducing their spending and residential investments. This is reflected in the demand for the Bank's products. Lending to retail customers fell, in part due to growth in mortgage lending provided to BankNordik's Faroese customers through the Bank's Danish partner DLR Kredit. Deposits from retail customers increased, although deposits on pension savings accounts were partly invested in the Bank's new pension savings product.

Lending to retail customers was down by 3% in 2012. This was primarily driven by customers switching from bank mortgage lending to mortgage financing from DLR Kredit distributed by the Bank, while types of lending other than mortgage lending grew. Deposits by retail customers fell by 2% in 2012, which is partly explained by increasing investments in securities by Faroese retail customers. This growth in assets under management was primarily fuelled by the sales campaign for the Bank's new pension savings product based on investments in unit trusts.

Corporate Banking

For Faroese corporates, 2012 was characterised by stability considering the challenging international environment. The exporting industries, led by the salmon producing sector, experienced growth in international demand, which drove up activity levels in this sector. Domestic demand was supported by large tax reductions in the higher income brackets - this was also reflected in for example a sharp increase in car imports.

In 2012, BankNordik's total loans and advances to the corporate and public sectors of the Faroe Islands decreased by 8%. This is primarily explained by the repayment of credits by some of the largest corporate customers, and not by the Bank losing customers.

Financial developments

The banking activities in the Faroe Islands returned a pre-tax profit of DKK 69m for 2012, compared with a DKK 102m profit for 2011. The drop in the operational income from DKK 376m to DKK 336m is mainly explained by a hike in the internal funding interest rate from 2.5% to 4.0%.

There was a fall in operating income from DKK 376m in 2011 to DKK 336m in 2012 caused by the higher funding interest rate on the deposit deficit. Impairments increased to DKK 67m corresponding to 1.3 % of loans and guarantees from the low level of DKK 23m in 2011.

Outlook

The sluggish demand for lending is expected to continue in 2013. The Bank forecasts the corporate lending in the Faroese market in 2013 to be at the level of 2012. Operational costs are forecast to decrease in 2013 as a consequence of the implemented rationalisations in 2012 and January 2013.

BankNordik in Denmark

Costly integration followed by profitable quarterly performances in Denmark

Income statement, Denmark

DKKm	Year 2012	Year 2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Operating income	407	264	101	100	99	107	101	104	30	30
Operating costs	305	216	74	74	77	80	80	79	25	32
Profit before impairment charges	**101**	**48**	**27**	**25**	**22**	**27**	**20**	**25**	**5**	**-2**
Impairment charges	77	78	30	3	38	6	35	14	16	13
Reversals of acquired OEI impairments	-33	-11	-11	-7	-12	-4	-4	0	-2	-4
Operating profit	**58**	**-19**	**7**	**29**	**-3**	**25**	**-11**	**12**	**-9**	**-11**
Special items	**-69**	**-87**	**-11**	**-1**	**-11**	**-46**	**-44**	**-33**	**-7**	**-2**
Integration and restructuring costs	-63	-97	-8	-1	-11	-43	-54	-35	-6	-3
Sector costs	-6	0	-4	0	1	-3	0	0	0	0
Market value adjustments	0	10	0	0	0	0	10	1	-2	0
Profit before tax (as reported)	**-11**	**-106**	**-4**	**28**	**-14**	**-21**	**-55**	**-22**	**-16**	**-13**
Loans and advances	4,332	4,684	4,332	4,325	4,410	4,532	4,684	4,899	1,437	1,490
Deposits and other debt	7,127	7,204	7,127	7,233	7,412	7,080	7,204	7,624	2,657	2,630
Cost/Income (Operating cost/income), %	75	82	73	74	78	75	80	76	83	107
Number of FTE, end of period	269	297	269	279	281	283	297	292	106	114

Highlights 2012

- Pre-tax loss of DKK 11m (2011 : DKK -106m)
- Operating income DKK 407m (2011 : DKK 264)
- Operating costs DKK 305 million (2011 : DKK 216)
- Impairment charges on loans and advances DKK 77 million (2011 : DKK 78)
- Loans and advances DKK 4.3bn (2011 : DKK 4.7bn)
- Deposits 7.1bn (2011 : DKK 7.2bn)
- 269 full-time employees at year-end 2012 (2011 : 297 FTE)

Adverse market conditions

Weak economic growth and deleveraging continued to set the agenda for the Danish banking sector in 2012. Corporate investment remained low and retail customers were cautious in their financial decision-making, and the propensity to save remained high, even though housing prices were declining. Therefore, customer demand for loans was low, which is reflected in the 5% decrease in loans and advances by Danish banking institutions to Danish customers. The record low level of interest rates also put bank earnings from lending and deposits under pressure and made Danish banks attempt to widen their interest margins.

Operational efficiency improved, while impairments were stable

Due to weak demand for loans, lending to retail customers decreased by 13%. Lending to corporate customers was stable at a small increase of 1%. Total

lending to Danish customers was down by 7%. Deposits were fairly stable, dropping by 1%. An analysis of the Bank's customer portfolio revealed that more than half of the customers are unprofitable because of low business volumes and low fees. This has two implications: a large potential for improved sales to each customer, and an opportunity to streamline the customer handling by segmenting the customer portfolio. This has been addressed by the organisational changes in late 2012 and early 2013, where the new organisation supports a more segment-driven handling of customers.

There is also a potential for increasing the Bank's portfolio of corporate customers, which has a good risk diversification in terms of sectors as well as loan sizes. Hence, the Bank does not rely on, nor is it vulnerable to, developments in individual sectors, and most of the corporate customers are small enterprises within the production, trade or service sectors. However, corporate customers are not shielded from the generally adverse business environment caused by the weak economic growth and the high number of defaults in Denmark. This is reflected in the weak demand for loans and the level of impairment charges.

Unemployment remains stable on average, but customers are reluctant to raise new loans, and therefore, the Bank has worked to establish cross-selling of the Bank's and its business partners' products in order to build greater loyalty.

Financial developments

Banking in Denmark has had to direct a lot of attention to internal integration and the income statement is heavily influenced by non-recurring restructuring costs leading to a 2012 pre-tax loss of DKK 11m, which is nevertheless an improvement from DKK -106m in 2011. Restructuring costs amounted to DKK 63m in 2012, which were primarily recognised in the first half of 2012. In the fourth quarter, organisational changes and the closing of two branches led to restructuring costs of DKK 5m.

Operating income amounted to DKK 407m in 2012 compared to DKK 264m in 2011. The growth was driven by the full-year effect of the acquisition of the healthy parts of Amagerbanken in July 2011.

Outlook

The outlook for the Danish economy remains dim. With a well-diversified loan portfolio, BankNordik does not expect to increase impairment charges.

The Bank has implemented organisational changes to focus its efforts on the most profitable retail customers, while making the handling of the less profitable customers more efficient. Although the Bank does not expect growth in lending to retail customers, the profitability is expected to improve because of these changes. The Bank has launched initiatives in the corporate segment intended to attract new customers and further develop the business with current customers. The Bank therefore expects a slight increase in lending to corporate customers in 2013.

BankNordik in Greenland

Broad growth in banking activities in Greenland

Income statement, Greenland

DKKm	Year 2012	Year 2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Operating income	53	52	13	12	13	15	14	12	12	14
Operating costs	34	42	9	7	8	9	10	10	12	11
Profit before impairment charges	**19**	**10**	**4**	**5**	**5**	**5**	**4**	**2**	**1**	**3**
Impairment charges	5	0	0	-1	3	2	-4	1	1	2
Reversals of acquired OEI impairments	0	-4	0	0	0	0	-2	-2	0	0
Operating profit	**14**	**15**	**4**	**5**	**2**	**3**	**5**	**4**	**0**	**1**
Special items	**0**	**-1**	**0**	**0**	**0**	**0**	**-1**	**2**	**-3**	**0**
Market value adjustments	0	-1	0	0	0	0	0	1	-2	0
Profit before tax (as reported)	**14**	**14**	**4**	**5**	**2**	**2**	**9**	**5**	**-1**	**2**
Loans and advances	927	756	927	876	843	738	756	722	702	690
Deposits and other debt	523	460	523	561	571	596	460	577	513	612
Cost/Income (Operating cost/income), %	65	81	67	62	64	64	72	82	93	78
Number of FTE, end of period	23	29	23	25	26	27	29	30	28	24

Highlights 2012

- Pre-tax profit DKK 14m (2011 : DKK 14m)
- Operating income DKK 53m (2011: DKK 52m)
- Operating costs DKK 34m (2011: DKK 42m)
- Impairment charges on loans and advances DKK 5m (2011: DKK 0m)
- Loans and advances DKK 927m (2011: DKK 756m)
- Deposits 523m (2011 : DKK 460m)
- 23 full-time employees at the end of 2012 (2011 : 29 FTE)

Stable market conditions

According to the latest report from the Greenland Economic Council, the general rate of economic growth fell in 2012 relative to the extraordinarily high growth rate of 2011. This is also reflected in the slightly higher unemployment rate. Housing prices in Nuuk were fairly stable in 2012. The growing mineral and energy exploration activities have boosted the general sentiment in society and could potentially lead to higher economic growth in the coming years.

Higher level of activity in retail banking

BankNordik Greenland had a satisfactory year in 2012. In order to improve efficiency and to enhance the growth opportunities in the capital of Greenland, the Bank decided on 10 January 2012 to consolidate all Greenland activities in Nuuk and, as a result, the branches in Ilulissat and Sisimiut were closed effective 1 May 2012. Loans grew by 23% in 2012, driven by

the large number of new customers won in a major sales campaign promoting the Bank's product offering.

The credit quality of the lending portfolio is considered to be good, as reflected in the low level of impairment charges.

Corporate banking attracting new customers
In 2011, BankNordik hired a new country manager and a team of advisors with a strong track record from the only large competitor in Greenland. In 2012, the Bank managed to attract a large number of new customers and to improve cross selling to existing customers. This is reflected in the growth in lending and commission income.

Financial developments
BankNordik Greenland delivered pre-tax profit of DKK 14m for 2012 compared to 14m for 2011. Operating costs were reduced to DKK 34m from DKK 42m in 2011, while income also improved thanks to the 22% growth in loans and advances.

Profit before impairment charges was DKK 19m compared with DKK 10m in 2011. Increased volumes and higher interest expenses were the reasons for the improvement in earnings.

Outlook
The outlook for the banking activities in Greenland is mainly positive with prospects of increased demand for loans and an improved general sentiment in society.

The Bank expects to increase the corporate lending portfolio further in 2013. Growth will be consistently and carefully managed to comply with the Bank's prudent credit policy.

Insurance segments

Satisfactory performance in the insurance segments

Income statement, Insurance

DKKm	Year 2012	Year 2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Operating income	98	62	28	29	24	16	-9	24	31	16
Operating costs	55	55	13	14	15	13	14	12	15	14
Profit before impairment charges	**42**	**6**	**15**	**15**	**9**	**3**	**-23**	**12**	**16**	**2**
Impairment charges	0	0	0	0	0	0	0	0	0	0
Operating profit	**42**	**16**	**15**	**15**	**9**	**3**	**-23**	**12**	**16**	**2**
Special items	4	13	0	1	-1	3	9	3	-2	4
Market value adjustments	5	13	1	1	-1	3	9	3	-2	4
Other items	-1	0	-1	0	0	0	0	0	0	0
Profit before tax (as reported)	**47**	**20**	**15**	**17**	**8**	**6**	**-14**	**14**	**13**	**6**
Combined ratio	91	101	85	83	93	102	96	84	80	102
Number of FTE, end of period	76	79	76	82	82	80	79	77	77	76

The BankNordik Group's insurance business, consisting of Trygd in the Faroe Islands and Vörður in Iceland, returned a pre-tax profit of DKK 47m in 2012 compared to DKK 20m in 2011. The profit before tax consisted of an improving Icelandic business delivering an extra DKK 9m in 2012 and reaching a pre-tax profit of DKK 24m, while the Faroese business contributed a pre-tax profit of DKK 23m compared to DKK 5m in 2011 due to extensive claims in Q4 2011.

Due to differences in investment policies and the volatile Icelandic bond market, Vörður's core business, unlike Trygd's, is strongly influenced by value adjustments. Vörður's core earnings in 2012 were DKK 19m while value adjustments added DKK 5m to the bottom line.

The outlook for the insurance companies is good. Both companies delivered record high profits last year, but the Group expects them to deliver yet another year of profit, although at a lower level in 2013.

TRYGD

Faroese insurance generated a healthy profit on a low level of claims

Income statement, Trygd

DKKm	Year 2012	Year 2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Operating income	44	22	9	14	9	12	-16	14	14	10
Operating costs	20	17	5	5	5	5	4	5	5	4
Profit before impairment charges	**24**	**5**	**4**	**9**	**3**	**7**	**-20**	**9**	**10**	**5**
Impairment charges	0	0	0	0	0	0	0	0	0	0
Operating profit	**24**	**6**	**4**	**9**	**3**	**7**	**-20**	**9**	**10**	**5**
Special items	-1	0	-1	0	0	0	0	0	0	0
Other items	-1	0	-1	0	0	0	0	0	0	0
Profit before tax (as reported)	**23**	**5**	**3**	**9**	**3**	**7**	**-20**	**10**	**10**	**5**
Combined ratio	74	99	82	60	86	69	84	61	57	77
Number of FTE, end of period	23	24	23	23	24	24	24	23	22	24

Highlights 2012

- Pre-tax profit of DKK 23m (2011: DKK 5m)
- Combined ratio of 74.2 % (2011: 99%)
- Claims Ratio of 52.2 % (2011: 79.1%)
- Operating costs under control with the gross expense ratio at 23% (2011: 20.6%)
- Stable market situation – overall number of customers and policies stable

Market conditions: Competitive pricing, but few claims

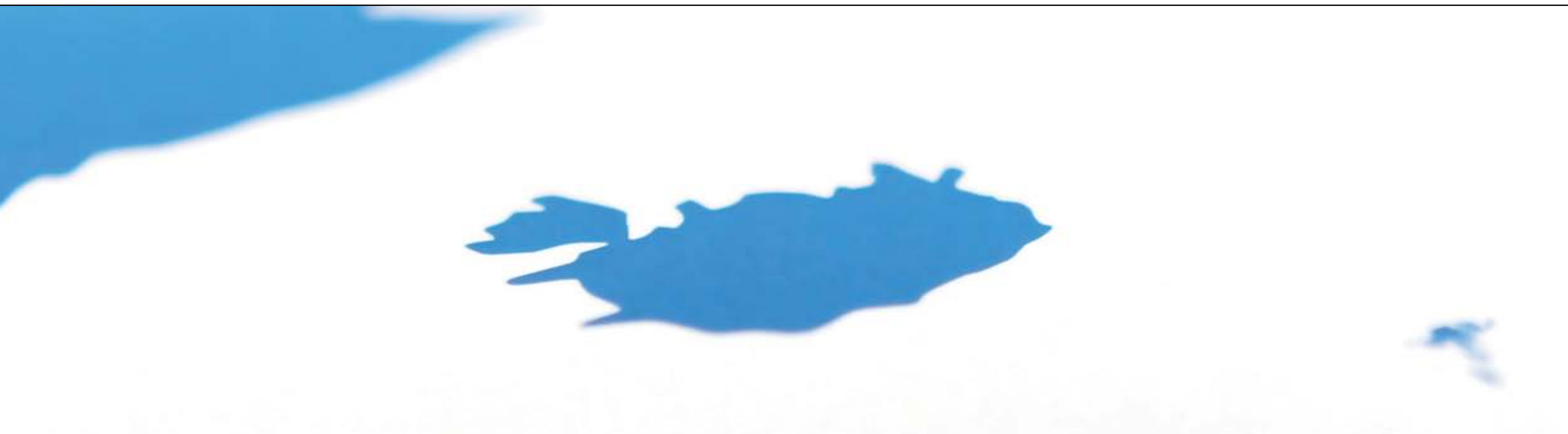
Trygd increased the number of policies sold to retail customers in 2012, but the downward pressure on tariffs was a constraint to growth in premiums. In the corporate segment, the company also managed to increase both the number of policies sold and the number of customers insured.

Trygd is a wholly owned non-life insurance subsidiary of BankNordik operating in the Faroe Islands. Trygd is a full service company, offering all types of non-life insurance products to private households and corporate businesses. Approximately 50% of earned premiums are motor-related and 40% are related to property and content. Trygd has a market share in the Faroe Islands of 25–27% of private property and content, and of 28–30% of the motor hull and liability market. Trygd had 23 full-time employees at year-end 2012.

Trygd's property, content, motor and accident insurance products are available to BankNordik's retail customers through a commission-based distribution agreement with the Bank.

Healthy profit with low combined ratio

Earned premiums were up by 2% to DKK 88m in 2012. The insurance market was stagnant, but due to a



sharp increase in car imports the churn rate in the car insurance business was higher in 2012 than in 2011. Trygd maintained its market share in the retail business, while sales to corporate customers remained sluggish.

Claims amounted to DKK 40.2m in 2012 compared with DKK 62.7m in 2011. The claims ratio was 52.2%. Operating costs increased by DKK 3m in 2012, the reason being the implementation of a new IT system. Implementation continues, implying higher costs in 2013. The combined ratio was 77.2 in 2012, which is considered satisfactory.

2012 was a better year than 2011, when both claims frequency and expenses hit an all-time high for Trygd. However, some of the large claims from the storm in late 2011 also influenced the results of 2012, because the claims turned out to be higher than originally expected.

The profit before tax was DKK 23m in 2012.

Outlook for 2013

The Faroese insurance market remains competitive. The economy was in slow recovery in 2012, as reflected by an increase in car imports. This development is expected to continue in 2013 providing opportunities to increase volumes.

Vörður

Icelandic insurance profitable on improved underwriting results

Income statement, Vörður

DKKm	Year 2012	Year 2011	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Operating income	53	40	19	15	16	4	7	10	17	6
Operating costs	35	38	8	9	10	8	10	8	11	9
Profit before impairment charges	**19**	**2**	**11**	**6**	**6**	**-4**	**-3**	**2**	**6**	**-3**
Impairment charges	0	0	0	0	0	0	0	0	0	0
Operating profit	**19**	**0**	**11**	**6**	**6**	**-4**	**-4**	**2**	**6**	**-3**
Special items	5	13	1	1	-1	4	9	2	-2	4
Market value adjustments	5	13	1	1	-1	4	9	2	-2	4
Profit before tax (as reported)	**24**	**15**	**12**	**8**	**5**	**-1**	**5**	**5**	**4**	**1**
Combined ratio	97	102	86	92	96	116	101	95	90	113
Number of FTE, end of period	53	55	53	59	58	56	55	54	52	52

Highlights 2012

- Pre-tax profit of DKK 24m (2011: DKK 15m)
- Combined ratio of 97.2% (2011: 101.9%)
- Claims ratio of 76.4% (2011: 81%)
- Operating costs under control with the gross expense ratio at 23.4% (2011: 17.1%)
- Market situation continues to strengthen

Market conditions

The Icelandic economy continued to improve in 2012. The unemployment rate has declined steadily since peaking at 9% in 2010, reaching 5% in Q4 2012. Economic growth has picked up and the Icelandic economy is expected to continue expanding in 2013.

Vörður has three large competitors in the Icelandic insurance market. In 2012, two of them had significant changes of ownership after being restructured following the financial meltdown in 2008. This change of ownership can be expected to make operational profitability a greater priority for these companies, which may be an advantage for Vörður going forward.

Operational review of 2012

Vörður's main priority in 2012 was to remain focused on improving its financial performance through improved customer selection and general portfolio management. After surging for some years, growth in insurance premiums has in the last couple of years dropped to a more moderate rate in line with inflation and the rate of market growth. This is a natural consequence of the company's decision to focus on improving profitability. Steps to achieve this have included improving underwriting procedures and constraining costs.

The sales activity in 2012 was directed towards improved cross-selling and increasing the number of products per customer, but also towards attracting new customers in selected segments. Underwriting processes have been improved by way of more stringent acceptance rules for both private and corporate customers. Pricing will be made to better reflect the risk and the general quality of customers.

Investment income amounted to DKK 5.5m. Vörður's investment mandate is restricted to the Icelandic economy and mainly to government issued or backed bonds. A relatively small portfolio of equities yielded a good return in 2012.

Operating expenses amounted to DKK 35m in 2012, an increase of 3% relative to 2011. The inflation rate for the year was close to 5%. Vörður has grown considerably in recent years, but during this period the company managed to keep growth in operating expenses under control. Going forward, the company expects to constrain costs by making full use of IT to increase productivity. In addition to careful recruitment of new employees, the company has a constant focus on training and developing the existing staff.

Claims for own account amounted to DKK 143m. The combined ratio stands at 97.2% at year-end 2012. The company targets a combined ratio of 95% by 2015.

Underwriting results continue to strengthen, 2012 being the fourth consecutive year of improvement.

The pre-tax profit for 2012 was DKK 24m corresponding to a return on equity of 21.5%.

Outlook

Since the meltdown in 2008, the Icelandic economy has been on a gradual course of recovery. Both households and corporations have faced difficult operating environments, and the main focus has been on lowering costs. Markets have been contracting rather than expanding so income growth has been difficult to achieve. For Vörður, the intention is to continue improving its underwriting results by all possible means. The company expects to further improve profit in 2013 and to secure a combined ratio of below 100.

Real estate agency in steady improvement with increasing profit

Skyn

In 2012, BankNordik's real estate agents Skyn experienced a strong revenue improvement and produced a healthy profit DKK 1m.

The improvement in revenue and profit in 2012 was driven by growth in the number of properties sold through Skyn. The number of brokered properties grew from 103 to 142. The number of houses for sale has steadily increased through the years to 160 listings on average in 2012.

Skyn has 5 employees and is the largest real estate agent in terms of number of deals made.

P/f Birting

Birting is a seed capital fund owned by BankNordik. The fund was founded in mid-2010 and has made one investment - in P/f Greensteam, a company offering advanced fuel saving systems for vessels. Since inception, Birting has received several applications and is actively searching for new investment opportunities. At the end of 2012, Birting had recognised equity of DKK 10m.

Other issues

Repayment of subordinated loan capital

On 2 August 2012, BankNordik repurchased DKK 150m of the bonds issued as subordinated loan capital on 24 June 2011. The bonds bought back were subsequently cancelled, leaving bonds issued as subordinated loan capital of DKK 270m in circulation.

Obligations towards the Guarantee Fund for Depositors and Investors

Under Bank Package IV, the Guarantee Fund for Depositors and Investors has been established to contribute to resolving solvency problems in the banking sector, and it covers bank customers' deposits of up to EUR 100,000 with distressed banks. Financial institutions that are members of the fund are liable to pay a proportionate share of their total deposits under the guarantee.

Costs relating to distressed banks in 2012 amounted to DKK 11.4m and are recognised under Other operating expenses.

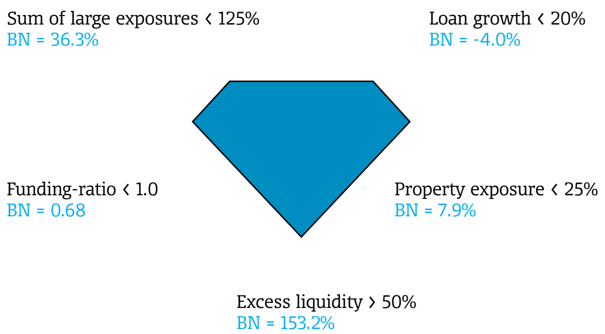
Contributions to be made by banks to the Guarantee Fund for Depositors and Investors were amended effective from 2012 and now make up 0.25% of the covered net deposits calculated at 1 October of the preceding year. If the assets of the banking department exceed 1% of covered net deposits, the banks' obligation to pay this contribution will cease. BankNordik's contribution for 2013 has been calculated at DKK 23.4 million.

Supervisory diamond

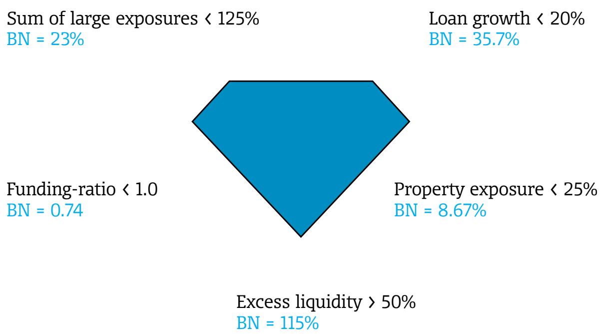
The Supervisory Diamond (Tilsynsdiamanten) measures the risk profile of banks. The model identifies five areas considered to be indicators of increased risk if not within certain limits.

The Bank meets by a wide margin all limits, large exposures, exposures towards property, excess liquidity, stable funding and loan growth.

The Supervisory Diamond **2012**
BankNordik (BN)



2011



Shareholders

IR policy

BankNordik´s investor relations policy is to engage openly and professionally with the Bank's shareholders and all other IR stakeholders by providing reliable, precise and timely information at any given time.

BankNordik´s aim is to provide transparent and clear information on results, performance, strategy and developments in order to sustain an efficient pricing of its shares. The objective is also to support the principles of corporate governance, and in terms of information, always to strive to place itself on a par with the best of its peer group.

This entails that BankNordik:

- provides information about all relevant matters through Nasdaq OMX in a professional, timely and accurate manner; and
- distributes information in a structured and planned manner which ensures that all investors have equal access to information liable to influence the price of the shares

In continuation hereof, it is BankNordik's policy to:

- issue quarterly, semi-annual and annual financial statements;
- issue annual reports including a detailed management report;
- respond promptly and appropriately to all inquiries from investors and other stakeholders;
- proactively seek to inform all investors and other stakeholders about relevant events and developments regarding the Bank; and
- regularly host conference calls, produce audio and web casts and keep the IR website current with all relevant information

The IR policy was approved by the Bank's Board of Directors on 23 February 2012. BankNordik has implemented its investor relations policy in an internal directive, defining the distribution of services and procedures in relation thereto, ensuring that the Bank's general operations meet the requirements and guidelines as well as the ethical standards of the VMF/ICEX and Nasdaq OMX CPH Stock Exchange at all times.

The Bank's CFO is Head of IR and responsible for upholding the standards described in this policy. The IR department can be contacted by e-mail: ir@banknordik.fo or by phone on +298 330 330.

IR activities

In 2012, the Executive Board attended investor meetings and roadshows in the following cities: New York, Tórshavn, Copenhagen and Reykjavik. Roadshows were primarily held in connection with the release of the Bank's interim and annual reports.

In order to ensure liquidity in the BankNordik share, the Bank has entered into a market-making agreement with ABG Sundal Collier regarding trading in the Bank's shares on Nasdaq OMX Copenhagen.

BankNordik share

Share capital

BankNordik shares are listed on Nasdaq OMX Iceland and Nasdaq OMX Copenhagen. The BankNordik share is a component of the SmallCap index in Copenhagen.

BankNordik's share capital consists of 10,000,000 shares of DKK 20 each aggregating a total nominal value of DKK 200m. At the share price of DKK 76 at year-end 2012, the Bank's total market capitalisation was DKK 760m.

Voting restrictions

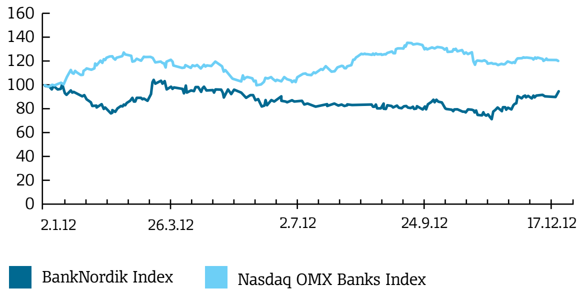
According to the Bank's Articles of Association, shareholders are entitled to attend as well as to speak, vote and have specific issues considered at general meetings, provided they observe a few simple formalities. The Bank has only one class of shares and no restrictions on shareholdings. However, no shareholder may, whether in respect of his own shares or when acting as a proxy for other shareholders, cast votes representing more than 10% of the total share capital, regardless of the shareholding. Proxy votes given to the Board of Directors are not subject to restrictions. Shareholders of the same group, as defined by applicable law, may not cast votes representing more than 10% in aggregate of the total share capital, regardless of their shareholdings.

Share price performance

The closing price of BankNordik's shares at 28 December 2012 on Nasdaq OMX Iceland was DKK 76 or about 6 pct. lower than the closing price of DKK 81 at 30 December 2011. The turnover in BankNordik's shares on Nasdaq OMX Copenhagen was stable at DKK 53m to the same as in 2011. On Nasdaq OMX Iceland, turnover fell in 2012 to DKK 22m compared to 92m in the 2011.

Developments in the BankNordik share and the Nasdaq OMX Banking Index on OMX Nasdaq Copenhagen in 2012:

BankNordik share vs. OMX Copenhagen Bank Index



Shareholder structure

At the time of publication of the Annual Report 2012, the following shareholders had notified the relevant authorities that they held 5% or more of the Bank's shares:

- Fíggingargrunnurin frá 1992 (Faroese Government)
- Lind Invest(DK)

Most of the shareholders are based in the Faroe Islands. The geographical spread of the shareholders in BankNordik is shown in the table below.

Country	% of nominal shareholdings
Faroe Islands	59
Denmark	17
Iceland	15
U.S.A.	3
Other	6
Total	**100**

» The Bank has invested considerably in acquisitions in order to build up a stronger and bigger business platform that will be able to produce better profits in the future «

The Board of Directors has been authorised to allow the Bank to acquire up to 10% of the Bank's nominal share capital in the period until the next annual general meeting. On 31 December 2012, BankNordik held 1.37% of the share capital.

On 31 December 2012, the Financing Fund of 1992 ("The Fund"), which is controlled by the Faroese Government (Føroya Landstýri), held 33.42% of the Bank's shares. Apart from the Fund, the Bank's shareholders included a number of institutional investors, primarily based in Iceland, Denmark and the U.S.

Dividend policy

Pursuant to the Faroese Companies Act, a general meeting must authorise the distribution of dividends on the basis of the adopted annual financial statements for the most recent financial year. The shareholders in general meeting cannot authorise a payment of dividends exceeding the amount recommended by a company's board of directors.

The Board of Directors has decided to target the following dividends in the coming years:

- A dividend of 10% of the net profit while the core capital ratio excluding hybrid core capital is below 12%, but not more than DKK 10m as long as this ratio is below 10%
- A dividend of 20% of the net profit when the core capital ratio excluding hybrid core capital is between 12 and 14%
- A dividend of 30% of the net profit when the core capital ratio excluding hybrid core capital is above 14%

Actual future dividend payments will depend on a number of factors, including, but not limited to, BankNordik's future earnings, capital requirements, financial position and prospects, applicable restrictions on the payment of dividends under Faroese law and relevant sector legislation, as well as other factors the Bank's Board of Directors may consider relevant. There can be no assurance that dividends will be proposed or declared in any given year.

Recent dividend payments

The Bank has paid the following dividends in recent years: DKK 0m for 2011, DKK 40m for 2010, DKK 0m for 2009, DKK 0m for 2008, DKK 45m for 2007, DKK 0m for 2006 and DKK 600m for 2005.

Dividend payments for 2012

With reference to the above, the Board of Directors will propose at the forthcoming Annual General Meeting that DKK 10m be paid out in dividends for 2012.

Annual general meeting

The Articles of Association and statutory provisions set the framework for how the Bank is managed and how the general meeting is conducted. The Articles of Association can only be amended at a general meeting.

According to the Faroese Companies Act and the Bank's Articles of Association the Board of Directors shall convene general meetings with a minimum of three weeks' and a maximum of five weeks' notice. Notifications to convene a general meeting, which shall include the agenda of the meeting and the main contents of any proposal requiring a qualified majority of votes in order to be adopted, are published by announcement through the Nasdaq OMX News System and the Faroese Company Registration Authority's website respectively, as well as in Dimmalætting (Faroese newspaper) and in one or more other Faroese newspapers.

Amendment of the Articles of Association
Resolutions to amend the Articles of Association or dissolve the Bank require the proposal to be adopted by at least two thirds of both the votes cast and the share capital represented at a general meeting.

Annual general meeting 2013
The annual general meeting will be held on 26 March 2013 in Tórshavn, Faroe Islands.

At the annual general meeting, the Board of Directors will submit its candidates for the Board of Directors.

Company announcements 2012

1.	2 January 2012	Acquisition of Life Insurance Company postponed
2.	6 February 2012	BankNordik announces preliminary results for 2012
3.	13 February 2012	BankNordik appoints new Chief Internal auditor
4.	16 February 2012	BankNordik no longer needs a Credit Rating
5.	16 March 2012	Annual Report 2011 – Conference Call
6.	16 March 2012	Annual General Meeting 2012
7.	20 March 2012	Annual Report 2011
8.	20 March 2012	BankNordik Risk Management Report 2011
9.	21 March 2012	Acquisition of the Faroese Life Insurance Company Lív cancelled
10.	21 March 2012	BankNordik expects to complete the Vörður transaction in Q2 2012
11.	30 March 2012	BankNordik borrows DKK 800m from Central Bank
12.	30 March 2012	Annual General Meeting 2012 of P/F BankNordik
13.	9 May 2012	Q1 2012 Interim Report – Conference Call
14.	15 May 2012	Interim Q1 2012 Report
15.	30 June 2012	Report from the Danish FSA published
16.	16 July 2012	BankNordik repays subordinated loan capital
17.	30 July 2012	BankNordik repurchases subordinated loan capital
18.	13 August 2012	H1 2012 Interim Report – Conference Call
19.	17 August 2012	H1 Interim Report 2012
20.	22 August 2012	Insiders' dealing
21.	22 August 2012	Insiders' dealing
22.	27 September 2012	Presentation of BankNordik at small cap seminar in Copenhagen
23.	29 October 2012	BankNordik streamlines the organizational structure
24.	9 November 2012	Q3 2012 Interim Report – Conference Call
25.	13 November 2012	BankNordik reporting Q3 2012 profit improvement
26.	13 November 2012	Investor Presentation of Interim Report Q3 2012
27.	13 November 2012	Adjustment of Amagerbanken closing balance
28.	14 November 2012	Market-making agreement with ABG Sundal Collier
29.	15 November 2012	Insiders' dealing
30.	16 November 2012	Insiders' dealing
31.	20 November 2012	Insiders' dealing

Corporate Social Responsibility

The Group has 550 employees in four countries and a variety of financial services and loan engagements, the BankNordik Group plays an important role to many stakeholders. Management fully acknowledges the accompanying responsibility and is committed to constantly conducting the Group's business activities taking into account the corporate social responsibility it has towards customers, employees, investors, business partners and the local and regional communities it operates in. The Group places great emphasis on its CSR initiatives having a real effect on the stakeholders they are directed at.

CSR policy

The Group's CSR initiatives are formalised in a Corporate Social Responsibility policy. The management believes that the Group's CSR initiatives will yield the best results if there is a natural connection between such activities and the Group's business strategy and core competences. Therefore, the BankNordik Group's CSR activities and initiatives are strategically rooted in the Group's vision, business strategy and core competencies.

Communication

In order to optimise value creation from the Group's CSR initiatives, effective and targeted communication of these initiatives to the relevant stakeholders is essential. Effective communication of these initiatives, both internally and externally, contributes positively to the Group's image and has a positive impact on retaining the existing customer base as well as on attracting new customers

The BankNordik Group is mainly focused on the following key areas in its CSR activities: support of local and regional community activities and employee care.

Support of local community activities

Active local and regional partnerships

The Group focuses on being an active partner in local and regional associations, upcoming businesses, sporting and cultural life in communities in which the Group's branches and activities are situated.

BankNordik has been strongly anchored in the Faroese community throughout its more than 100-year history, and it is therefore a natural part of the Group's business to support local development and establish mutually active partnerships in the Faroe Islands. With the expansion of the Bank's operations in the Nordic region, BankNordik has become even more focused on supporting local and regional events in the communities in which the Bank operates. Therefore, the Group is committed to further expanding this concept of support and building of partnerships in the local communities of its new markets in Denmark, Greenland and Iceland.

Sports and cultural activities

During the past year, BankNordik has sponsored community initiatives through a range of sports and cultural activities. In recognition of the vital role sports clubs play for community cohesion, BankNordik supports a wide range of local sports initiatives. In determining which areas to support, BankNordik prioritises supporting sports clubs with a broad appeal and

» The Group focuses on being an active partner in local and regional associations, upcoming businesses, sporting and cultural life in communities in which the Group's branches and activities are situated «

a membership base ranging from young children to senior citizens.

Business entrepreneurship

In order to encourage entrepreneurship in its early stages, a three-year sponsorship contract was signed with the Faroese Entrepreneurship House in 2010. This organisation offers free guidance, expert advice and support to entrepreneurs who have an ambition to grow or expand internationally. BankNordik is keen to support various initiatives aimed at improving business conditions and business skills within a range of industries. Such initiatives also include supporting conferences and seminars.

Employee care

BankNordik's core values play a significant role in its HR strategy and they are applied by the Group on a day-to-day basis when recruiting, developing, retaining or phasing out employees.

It is very important that the working environment is aligned with individual employee needs in terms of general safety, spacing, lighting, level of noise, ergonomic considerations and that it complies with corresponding regulations. In addition, the Group aims to continuously maintain a high level of job satisfaction among its employees. This is considered to be a requirement for retaining a proactive and engaged staff committed to maintaining existing as well as establishing new positive customer relations.

The Group has an objective to conduct an employee satisfaction survey each year based on the Group's core values. Initiatives are monitored and measured on a regular basis in order to provide management with information on how employees thrive. The survey is also used to plan corrective measures should the overall response not match the desired results. The survey was successfully carried out in 2011. In 2012, however, it was not possible to conduct the survey due to the extensive resources being used in the integration of Amagerbanken activities, including building a new organisation, rebranding and converting to a shared IT system.

As part of the efforts to further promote employee satisfaction, the Bank arranges employee days, where the agenda typically covers activities of both a professional and a social nature.

Corporate governance statement

Corporate governance recommendations

The overall aim of BankNordik's corporate governance policy is to ensure responsible corporate management and to safeguard the interests of the Bank's shareholders, customers and employees. Corporate governance at BankNordik provides the framework under which the Bank is directed and managed, and the relationships between the Bank's Executive Board, Board of Directors, its shareholders and other stakeholders.

BankNordik has a dual listing on Nasdaq OMX, in Iceland and Copenhagen, respectively; with Iceland as the primary listing. Accordingly, the corporate governance principles comply with the Icelandic corporate governance recommendations as issued by Nasdaq OMX Iceland and which can be found on www.nasdaqomx.com/listingcenter/nordicmarket/surveillance/iceland/. The Bank follows most of the recommendations. Where the Bank does not comply, the reasons for the deviations are explained according to the guidelines set out in the recommendations.

Management structure

The Bank's management structure reflects the statutory requirements governing Faroese companies in general and financial institutions in particular. The shareholders in general meeting elect the members of the Board of Directors and the independent auditors. The Board of Directors appoints the Executive Board, the internal chief auditor and determines their remuneration. According to the Faroese Financial Business Act, members of the Executive Board may not serve on the Board of Directors.

Recruitment and assessment of Board members

The Board of Directors currently comprises six members. According to the Articles of Association, four to six members of the Board of Directors are elected by the shareholders at the annual general meeting to hold office until the next annual general meeting. The age limit for election and re-election to the Board of Directors is 70 years. Pursuant to the statutory provisions on employee representation in Faroese legislation, the employees are entitled to elect a number of representatives to serve on the Board of Directors for four-year terms. The two current employee representatives on the Board were elected by the Bank's employees in the Faroe Islands, Denmark and Greenland in May 2010, which implies that their term of office expires immediately after the annual general meeting to be held in 2014.

The primary duty of the Bank's Board of Directors is to determine the strategic framework for the Bank and its activities. The Bank places emphasis on ensuring that the Board of Directors possesses the necessary and relevant experience and qualifications to adequately fulfil its duties as a board of directors. The assessment of whether the Board of Directors possesses the necessary experience and qualifications is based on the Bank's business model and associated risks. The Board of Directors' understanding of the fundamentals of the Bank's business model and associated risks is therefore of essential importance. Furthermore, the Bank believes it is important that the Board of Directors continually evaluates whether the Board of Directors possesses the necessary experience and qualifications to understand and appropriately address the risks and challenges which the Bank is exposed to, and handle these in an appropriate manner.

The Board of Directors, the Executive Board and sub-committees of the Board of Directors

According to the division of decision-making powers, the Board of Directors outlines the overall principles governing the affairs of BankNordik, whereas the Executive Board is in charge of the day-to-day management and reports to the Board of Directors. The rules of procedure for the Board of Directors and the written instructions from the Board of Directors to the Executive Board stipulate the exact division of duties and responsibilities. The rules of procedure of the Board of Directors or the written instructions from the Board of Directors to the Executive Board are not available to the public.

The Board of Directors has established an Audit Committee consisting of the entire Board of Directors. The Audit Committee primarily evaluates the Bank's procedures for preparing financial statements.

Further, the Board of Directors has established a Remuneration Committee consisting of the chairman and deputy chairman of the Board of Directors.

Due to the high frequency of Board meetings and the close collaboration with the Executive Board, the Board of Directors has not found it necessary or relevant to establish any other sub-committees.

The Board of Directors convenes for at least ten regular meetings per year, the Audit Committee convenes for at least four meetings per year and the Remuneration Committee convenes for at least one meeting per year. In 2012, the Board of Directors held 21 meetings, the Audit Committee 4 and the Remuneration Committee 1 meeting. One week prior to Board and Audit Committee meetings, the Board and Committee members receive the relevant material for the upcoming meeting, including information on financial matters and recent developments in the Bank. In addition, two strategy seminars are conducted annually, the most recent one of which was held in June 2012.

For detailed information on each member of the Board of Directors and Executive Board and on the attendance of each Board and sub-committee member, see "Management and directorships".

The Board of Directors recognizes the need for a regular assessment of the Board of Directors and Executive Management and their interaction. Therefore, the Board of Directors carries out a self-evaluation review and evaluation reviews of the Executive Board on an annual basis, and through regular meetings and close collaboration, including by working with the Executive Board, the Board of Directors on a regular basis discusses results achieved in order to obtain a clear picture of the Bank's operations, financial situation and outlook.

Independence of Board members

The Board of Directors has considered whether the Board members are independent of the Bank or any of its major shareholders and has concluded that the following members are not considered independent for the following reasons:

- Nils S. Sørensen: Serves on the board of Finansieringsfonden af 1992

- Mette Dahl Christensen: Is an employee of the Bank
- Kenneth Samuelsen: Is an employee of the Bank

Remuneration

The members of the Board of Directors and Executive Board of BankNordik receive a fixed fee and do not share in any incentive or performance-related payments. In addition, pension contributions are paid to the members of the Executive Board under a pension scheme.

Additional information on the remuneration of the Board of Directors, the Executive Board, and other executives, identified as key decision makers can be found in note 9 to the Group's financial statements.

For more information on the Bank's remuneration policy, see the Bank's website www.banknordik.fo.

Risk management

The Board of Directors always gives the Bank's various risks and the aggregated risk profile its full attention, and follows up on risks on a regular basis. The Board of Directors maintains steady and close cooperation with the Bank's internal and external auditors. The Bank's current external auditors are NOTA P/F and PricewaterhouseCoopers. For further information on the Bank's risk management, see the Group's Risk Management Report 2012 at www.banknordik.fo.

Values, code of ethics and corporate social responsibility policy

'Proactive, competent and committed' are the core values upon which the Bank conducts its business, and the Bank aims to act as a responsible party towards all stakeholders.

The Group focuses on its social responsibility as set out in "Corporate Social Responsibility" above.

Information on violations of laws and regulations as determined by the appropriate supervisory or ruling body

The Danish Financial Supervisory Authority ("FSA") conducted a credit portfolio inspection of BankNordik during the period 21-23 March 2012. The inspection was related to the credit portfolio which the Bank acquired from Amagerbanken af 2011 A/S effective from 1 July 2011, including an assessment of whether the Bank in calculating its solvency requirement had allocated sufficient capital to cover the related credit risks.

The FSA found that the Bank in the solvency requirement had allocated sufficient capital to cover the credit risks related to the acquired portfolio. Only in respect of one single exposure did the FSA find it necessary to increase impairment charges, by an amount of DKK 5.8m.

Communication between shareholders and the Board

Shareholders can communicate with the Board of Directors via ordinary mail or if accepted by the shareholder via e-mail through the Bank's head office in Tórshavn, Faroe Islands.

BankNordik streamlines its organisational structure

Following the acquisitions of activities from Amagerbanken in 2011 and branches from Sparbank in 2010, the Bank's focus has been on streamlining activities in order to enhance efficiency, whilst maintaining close contact with the customers.

The acquisition of the healthy parts of Amagerbanken in 2011 implied that in the ensuing period a lot of resources were spent on integrating branches, employees, products and the supporting IT systems. The preparations, re-training and change of IT platform put a strain on the organisation, but the changes were of strategic importance for the continual development of customer service and the on-going efforts to enhance efficiency.

In 2012 the Group has finalised the integration of the activities acquired from Amagerbanken has adjusted the management structure accordingly. The adjustment of the organisational structure was effected in order to streamline the management structure and reduce the number of staff in support functions. This is a natural next step in the Group's continuous efforts to operate efficiently and to improve profitability and its competitive strength.

The basic idea of the organisational restructuring is to introduce a more flat organisation model, eliminating layers of middle management, in order to promote a more decentralised decision-making process. The main focus should be on customer relations, and the anticipated consequence of the structural changes is that response to customer queriesbecomes more rapid.

As can be seen in the organisation chart below, the changes have simplified the group structure, establishing a centralised Branch Support and Customer Service Desk and a central Sales and Marketing unit supporting the branch network. The Head of IT and Development now reports to the CFO, Árni Ellefsen, while the Head of HR refers directly to the CEO.

In connection with the organisational restructuring in the fourth quarter, the number of full-time employees was reduced by 14. Combined with the reduction in the number of employees in the course of this year, this brought the number of full-time employees in the Group to 550, as compared with 583 at 30 June 2012 and 612 FTE at the beginning of 2012.

Employees

BankNordik's mission is to make it financially possible for our customers to achieve their full potential. Similarly, it is the HR department's mission to make it possible for our employees to achieve their full potential, in turn enabling the Bank to achieve its goals.

The BankNordik Group aims to secure persistently high competency levels among its employees through internal and external training and educational programs. The Bank needs employees with both specialised and general skills in order to enhance its capabilities. Therefore, the Group will continue to invest in the further development of its employees. Values and skills are key aspects when new employees are recruited.

An important prerequisite for achieving the Group's main goals is having satisfied employees. The Group want employees to be proactive and committed, so they can contribute to building and maintaining positive customer relations and good results. Having thriving employees is therefore an on-going priority, and the Bank has two tools with which to monitor this: the annual employee job satisfaction survey and the annual employee performance reviews.

BankNordik is now a Nordic bank with activities in four different countries. This gives the employees the opportunity to work in another country for shorter or longer periods of time, while still being employed with the same bank. This is an opportunity for personal and professional development open to each individual employee as well as a means of advancing integration and the employees' perception of being part of one bank, one culture.

Number of employees, by area

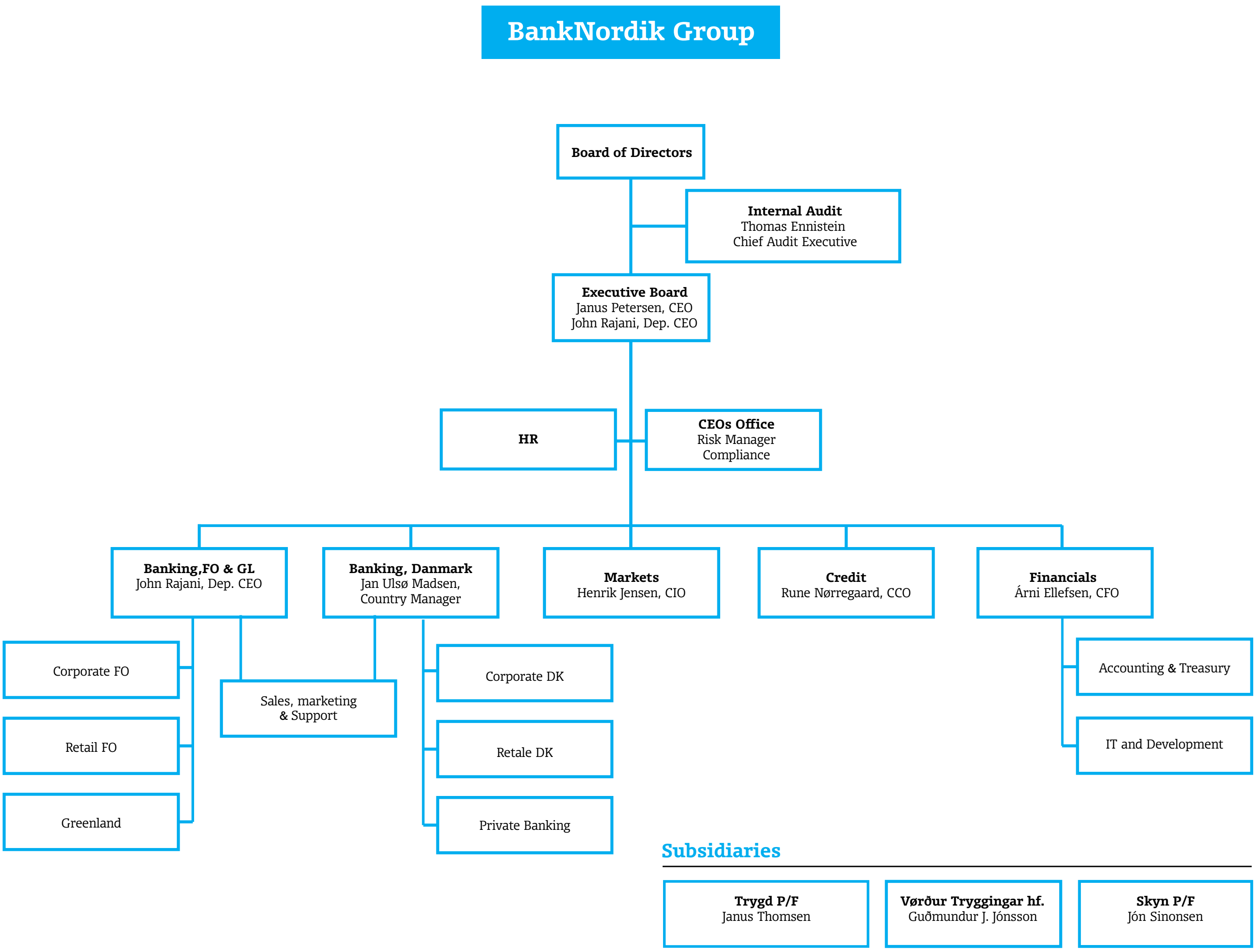
Full-time equivalents (FTE)	Year-end 2012	Year-end 2011
BankNordik Faroe Islands	177	203
BankNordik Denmark	269	297
BankNordik Greenland	23	29
Trygd	23	24
Skyn	5	4
Vörður	53	55
Group in total	550	612

HR Fact sheet

Employees in banking, insurance and real estate*

	Group year-end 2012	Group year-end 2011
Age and seniority		
Average age	44.1	43.2
Average seniority	12.9	11.9
Staff mix		
<30	15%	18%
30-39	21%	22%
40-49	29%	27%
>50	35%	33%
Gender distribution		
Male, %	44.1	41.2
Female, %	55.9	58.8

*Vörður excl.



BankNordik Group
Board of Directors
Internal Audit
Thomas Ennistein
Chief Audit Executive
Executive Board
Janus Petersen, CEO
John Rajani, Dep. CEO
HR
CEOs Office
Risk Manager
Compliance
Banking,FO & GL
John Rajani, Dep. CEO
Banking, Danmark
Jan Ulsø Madsen,
Country Manager
Markets
Henrik Jensen, CIO
Credit
Rune Nørregaard, CCO
Financials
Árni Ellefsen, CFO
Corporate FO
Retail FO
Greenland
Sales, marketing
& Support
Corporate DK
Retale DK
Private Banking
Accounting & Treasury
IT and Development
Subsidiaries
Trygd P/F
Janus Thomsen
Vørður Tryggingar hf.
Guðmundur J. Jónsson
Skyn P/F
Jón Sinonsen

Management and directorships

Board of Directors

Klaus Rasmussen (Chairman)

Educational background:	MSc in Business Management and Accounting and MSc in Economics State Authorized Public Accountant
Principal occupation:	Self-employed
Principal board positions held:	Chairman of the boards of: P/F BankNordik, P/F Effo, P/F Effo Bunkers, P/F Vónin, P/F VON, Investeringsselskabet af 5. oktober 2012, Norriq Holding A/S, Norriq A/S, Norriq 2 A/S, Norriq Communication A/S, Norriq Netpartner A/S and Refa Frøystad Group A/S. Board member of: P/F Krúnborg Offshore, Standby Net A/S, Limet Ejendomme A/S, Qalut Trawl A/S
First elected to the Board in:	2008
Address:	Øresundsvej 126 B, 2. sal, 2300 Copenhagen S, Denmark
Attendency in board meetings/Audit committee meetings/renumeration committee meetings:	22/4/1

Jens Erik Christensen (Deputy Chairman)

Educational background:	MSc Actuarial Science
Principal occupation:	Self-employed, works with business development through the Investment Company Sapere Aude A/S
Principal board positions held:	Chairman of the board of: Alpha Holding A/S, Core Strategy Consultants A/S, Ecs-Act A/S, Dansk Vejforening, K/S Habro-Reading, Husejernes Forsikring Assurance Agentur A/S, Mediaxes A/S, Skandia A/S, Scandinavian Private Equity A/S, Vörður Tryggingar hf, Vörður Líftryggingar hf, Dansk Merchant Capital A/S, Nordic Corporate Investment A/S, The Venture Creation Evergreen Fund A/S Vice chairman of the boards of: Hugin Expert Systemer A/S, P/F BankNordik. Board member of: Alpha Insurance A/S, Nemi Forsikring AS, Andersen & Martini A/S, mBox A/S, SAS AB, TKDevelopment A/S, P/F Trygd.
First elected to the Board in:	2007
Address:	Maglevænget 7, 2920 Charlottenlund, Denmark
Attendency in board meetings/Audit committee meetings/renumeration committee meetings:	21/4/1

Bent Naur

Educational background:	Graduate Diploma Programme in Finance (HD-F)
Principal occupation:	Professional board member. Former CEO of Ringkøbing Landbobank (1987-2012)
Board positions held:	Board member of P/F BankNordik and Finansiel Stabilitet A/S
First elected to the Board in:	2012
Address:	Fjord Allé 33, 6950 Ringkøbing
Attendency in board meetings/Audit committee meetings:	21/4

Nils Sørensen	
Educational background:	BSc. from Copenhagen Business School and a MBA from Lancaster University
Principal occupation:	Managing director of Faroe Petroleum (Faroe Islands) and Greenland Petroleum AS. Branch Manager for Faroe Petroleum Iceland.
Board positions held:	Board member of: P/F BankNordik, Greenland Oil Company A/S, Finansieringsfonden af 1992 and Føroya Kolvetni P/F (Faroe Petroleum, Faroe Island)
First elected to the Board in:	2010
Address:	Birnugøta 41, 100 Tórshavn, Faroe Islands
Attendency in board meetings/Audit committee meetings:	21/3

Kenneth Samuelsen	
Educational background:	Financial traineeship
Principal occupation:	Employed at BankNordik's Business Development unit, Faroe Islands
Board positions held:	Board member of: P/F BankNordik
First elected to the Board in:	2010
Address:	Áarrás 8, 160 Argir, Faroe Islands
Attendency in board meetings/Audit committee meetings:	22/4

Mette Dahl Christensen	
Educational background:	Financial traineeship and various internet counsel programmes
Principal occupation:	Employed at BankNordik's Danish Staff and Support unit
Board positions held:	Board member of: P/F BankNordik
First elected to the Board in:	2010
Address:	Tordrupvej 17, Vester Nebel, 6040 Egtved, Denmark
Attendency in board meetings/Audit committee meetings:	20/4

Executive Board

Janus Petersen (CEO)	
Educational background:	Master's Degree in Law, LL.M, and MSc in Economics from the University of Copenhagen
Principal occupation:	CEO of P/F BankNordik
Board positions held:	Chairman of the board of: P/F Trygd Board member of: Vörður Tryggingar hf, Vörður Líftryggingar hf, P/F Elektron, Skandinavisk Datacenter A/S and BI Holding A/S Chairman of the Faroese Association of Financial Sector Employers (Arbeiðsgev-arafelagið fyri fíggjarstovnar) and vice chairman of the Faroese Banking Association (Felagið Peningastovnar)
Date of joining the Executive Board:	1994
Address:	Varðabú 1, 100 Tórshavn, Faroe Islands

John Rajani (Deputy CEO)	
Educational background:	MBA from Lancaster University and BSc. in Economics from Copenhagen Business School
Principal occupation:	Deputy CEO of P/F BankNordik
Board position held	Chairman of the board of: P/F Skyn
Date of joining the executive board:	2011
Address:	Áarrás 6, 160 Argir, Faroe Islands

Statement by the Management

The Board of Directors and the Executive Board (the management) have today considered and approved the annual report of P/F BankNordik for the financial year 2012.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Faroese Financial Business Act. Furthermore, the consolidated financial statements and the parent company's financial statements have been prepared in accordance with requirements of NASDAQ OMX in Iceland/Copenhagen and additional Faroese disclosure requirements for listed financial undertakings.

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 pompany's assets, liabilities, equity and financial position at 31 December 2012 and of the results of the Group's and the parent company's operations and the consolidated cash flows for the financial year starting on 1 January and ending on 31 December 2012. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the parent company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the parent company.

The management will submit the annual report to the Annual General Meeting for approval.

Tórshavn, 5 March 2013

Executive Board

Janus Petersen CEO	John Rajani Deputy CEO

Board of Directors

Klaus Rasmussen Chairman	Jens Erik Christensen Deputy Chairman	Bent Naur
Nils Sørensen	Mette Dahl Christensen	Kenneth M. Samuelsen

Adopted by the General meeting at / 2013

Chairman of the meeting

Internal auditors' report

We have audited the Financial Statements for the Group, pp. 56–130, as well as the Parent of P/F BankNordik, pp. 131–153, for the financial year 2012. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent Financial Statements have been prepared in accordance with the Faroese Financial Business Act. In addition, the Financial Statements for the Group, as well as the Parent, have been prepared in accordance with requirements of NASDAQ OMX in Iceland/Copenhagen and additional Faroese disclosure requirements for listed financial institutions.

Basis of opinion
We have conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Undertakings etc. as well as Financial Groups and in accordance with Danish Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements for the Group, as well as the Parent, and the Management Review are free from material misstatement.

The audit has been performed in accordance with the division of duties agreed with the external auditors and has included an assessment of procedures and internal controls established, including the risk management organised by Management relevant to the entity's reporting processes and significant business risks. Based on materiality and risk, we have examined, on a test basis, the basis of amounts and other disclosures in the Financial Statements for the Group, as well as the Parent, and the Management Review, including evidence supporting amounts and disclosures. Furthermore, the audit has included evaluating the appropriateness of the accounting policies applied by Management and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements for the Group, as well as the Parent, and the Management Review.

We have participated in the audit of risk and other material areas and believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion
In our opinion, the procedures and internal controls established, including the risk management organised by Management relevant to the entity's reporting processes and significant business risks, are working satisfactorily.

Furthermore, in our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2012 and of its financial performance and its cash flows for the financial year 2012 in accordance with International Financial Reporting Standards as adopted by the EU and requirements of NASDAQ OMX in Iceland/Copenhagen and additional Faroese disclosure requirements for listed financial institutions.

In addition, in our opinion, the Parent's Financial Statements give a true and fair view of the Parent's financial position at 31 December 2012 and of its financial performance for the financial year 2012 in accordance with the Faroese Financial Business Act. requirements of NASDAQ OMX in Iceland/Copenhagen and additional Faroese disclosure requirements for listed financial institutions.

Statement regarding Management Review
Management is responsible for the preparation and fair presentation of the Management Review in accordance with the Faroese Financial Business Act.

Our audit has not comprised the Management Review but we have, in accordance with the Faroese Financial Business Act, read the Management Review. We have not conducted any additional procedures in connection with our audit of the Financial Statements for the Group, as well as the Parent.

On this basis, it is our opinion that the information presented in the Management Review is in accordance with the Financial Statements for the Group, as well as the Parent.

Tórshavn, 5 March 2013

Thomas Ennistein
Chief Audit Executive

Independent auditors' report

To the shareholders of BankNordik

Independent auditors' report on the consolidated financial statements and the Parent Company's financial statements

We have audited the consolidated financial statements, pp. 56–130, and the Parent Company's financial statements of BankNordik P/F, pp. 131–153, for the financial year 2012. The consolidated financial statements and the Parent Company's financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of capital and notes for the Group as well as for the Parent Company and consolidated cash flow statement. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Faroese Financial Business Act. Furthermore, the consolidated financial statements and the Parent Company's financial statements have been prepared in accordance with requirements of NASDAQ OMX in Iceland/Copenhagen and Faroese disclosure requirements for listed financial institutions.

Management's responsibility for the consolidated financial statements and the Parent Company's financial statements

Management is responsible for the preparation of consolidated financial statements and Parent Company financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU (the consolidated financial statements), the Faroese Financial Business Act (the Parent Company's financial statements) requirements of NASDAQ OMX in Iceland/Copenhagen and Faroese disclosure requirements for listed financial institutions and for such internal control that management determines is necessary to enable the preparation of consolidated financial statements and Parent Company financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements and the Parent Company's financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Faroese audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the Parent Company's financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the Parent Company's financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the Parent Company's financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the consolidated financial statements and the Parent Company's financial statements that give a true and fair view 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the Parent Company's financial statements.

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

Our audit did not result in any qualification.

Opinion

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 Parent Company's assets, liabilities, shareholders' equity and financial position at December 31, 2012, and of the results of the Group's and Parent Company's operations and consolidated cash flows for the financial year 2012 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the consolidated financial statements, in accordance with the Faroese Financial Business Act in respect of the Parent Company's financial statements, requirements of NASDAQ OMX in Iceland/Copenhagen and in accordance with Faroese disclosure requirements for listed financial institutions.

Statement on Management's Report

We have read Management's Report in accordance with the Faroese Financial Business Act. We have not performed any procedures additional to the audit of the consolidated financial statements and the Parent Company's financial statements. On this basis, in our opinion, the information provided in the Management's Report is consistent with the consolidated financial statements and the Parent Company's financial statements.

Tórshavn, 5 March 2013

NOTA, P/F
Løggilt grannskoðanarvirki

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Jørmann Petersen
state authorised public accountant

H.C. Krogh
state authorised public accountant

Financial statement BankNordik Group

Contents

Income statement – BankNordik Group

Note	DKK 1,000	2012	2011
3	Interest income	815,486	749,462
3	Interest expenses	202,221	202,457
	Net interest income	**613,265**	**547,005**
3	Dividends from shares and other investments	10,394	5,749
4	Fee and commission income	199,065	143,950
4	Fee and commissions paid	14,172	16,050
	Net interest and fee income	**808,552**	**680,654**
5	Premium income, net of reinsurance	281,260	266,065
6	Claims, net of reinsurance	200,285	211,714
	Interest and fee income and income from insurance activities, net	**889,527**	**735,006**
3	Market value adjustments	19,369	9,761
7	Other operating income	39,029	26,862
8, 9, 10	Staff costs and administrative expenses	641,300	597,263
11	Amortisation, depreciation and impairment charges	27,293	21,178
12	Other operating expenses	11,409	20,695
13	Impairment charges on loans and advances etc.	148,169	100,806
	Income from associated undertakings	1,716	-998
	Profit before tax	**121,470**	**30,689**
14	Tax	18,396	-1,283
	Net profit	**103,073**	**31,971**
	Portion attributable to		
	Shareholders of BankNordik P/F	103,073	31,671
	Non-controlling interests	0	300
	Net profit	**103,073**	**31,971**
	EPS Basic for the period, DKK*	10.31	3.20
	EPS Diluted for the period, DKK *	10.45	3.23

* Based on average number of shares outstanding, see the specification of shareholders' equity

Statement of comprehensive income – BankNordik Group

DKK 1,000	2012	2011
Net profit	103,073	31,971
Other comprehensive income		
Translation of non-Faroese subsidiaries	-1,727	-5,177
Corrections	0	-36,906
Tax on other comprehensive income	0	-255
Total other comprehensive income	**-1,727**	**-42,338**
Total comprehensive income	**101,347**	**-10,367**
Portion attributable to		
Shareholders of BankNordik P/F	101,347	26,425
Non-controlling interests	0	-36,792
Total comprehensive income	**101,347**	**-10,367**

Balance Sheet – BankNordik Group

Note	DKK 1,000	2012	2011
	Assets		
15	Cash in hand and demand deposits with central banks	644,335	308,951
	Due from credit institutions and central banks	839,116	461,091
16	Loans and advances at fair value	1,038,103	1,022,408
17	Loans and advances at amortised cost	10,264,599	10,746,484
18	Bonds at fair value	2,881,904	2,508,938
19	Shares, etc.	411,512	365,334
20	Assets under insurance contracts	85,683	93,558
21	Holdings in associates	14,875	32,586
22	Intangible assets	807,268	801,957
42	Assets under pooled schemes	0	121,210
	Total land and buildings	353,455	217,281
23	investment property	158,093	2,500
24	domicile property	195,362	214,781
25	Other property, plant and equipment	24,296	31,446
	Current tax assets	6,846	6,356
26	Deferred tax assets	43,407	22,105
27	Assets held for sale	25,811	168,980
28	Other assets	150,316	155,363
	Prepayments	17,440	22,309
	Total assets	**17,608,966**	**17,086,357**

Balance Sheet – BankNordik Group

Note	DKK 1,000	2012	2011
	Shareholders' equity and liabilities		
	Liabilities other than provisions and subordinated debt		
	Due to credit institutions and central banks	1,288,052	329,316
	Deposits and other debt	12,745,653	12,910,837
42	Deposits under pooled schemes	0	121,210
	Issued bonds at amortised cost	0	98,276
29, 43	Liabilities under insurance contracts	339,769	353,324
	Current tax liabilities	4,505	10,247
30	Other liabilities	386,811	410,515
	Deferred income	18,400	18,517
	Total liabilities other than provisions and subordinated debt	**14,783,190**	**14,252,243**
	Provisions for liabilities		
26	Provisions for deferred tax	56,433	14,192
31	Provisions for losses on guarantees	43,551	31,516
	Total provisions for liabilities	**99,983**	**45,707**
	Subordinated debt		
32	Subordinated debt	672,431	830,711
	Total liabilities	**15,555,604**	**15,128,662**
	Shareholders' equity		
	Share capital	200,000	200,000
	Foreign currency translation reserve	18,443	13,274
	Retained earnings	1,824,919	1,744,422
	Proposed dividends	10,000	0
	Shareholders' equity	**2,053,362**	**1,957,695**
	Shareholders of the Parent Company	2,053,362	1,952,013
	Non-controlling interests	0	5,682
	Total shareholders' equity	**2,053,362**	**1,957,695**
	Total liabilities and equity	**17,608,966**	**17,086,357**

Statement of capital – BankNordik Group

Changes in shareholders' equity:

DKK 1,000	Shareholders of P/F BankNordik (the Parent Company) Share capital	Foreign currency translation reserve	Proposed dividends	Retained earnings	Total	Minority interests	Total
Shareholders' equity at January 1, 2012	200,000	13,274		1,738,739	1,952,013	5,682	1,957,695
Translation of foreign units		5,169		-6,896	-1,727		-1,727
Tax on entries on income recognised as Other comprehensive income							
Income recognised directly in shareholders' equity		5,169		-6,896	-1,727		-1,727
Net profit			10,000	93,073	103,073		103,073
Total comprehensive income		**5,169**	**10,000**	**86,177**	**101,347**		**101,347**
Purchase of minority interests in Vørður						-5,682	-5,682
Acquisition of own shares				-17,425	-17,425		-17,425
Sale of own shares				17,428	17,428		17,428
Dividends paid							
Shareholders' equity at December 31, 2012	**200,000**	**18,443**	**10,000**	**1,824,919**	**2,053,362**	**0**	**2,053,362**
Shareholders' equity at January 1, 2011	200,000	18,520	40,000	1,712,486	1,971,006	42,475	2,013,480
Corrections						-36,906	-36,906
Translation of foreign units		-4,991			-4,991	-187	-5,177
Tax on entries on income recognised as Other comprehensive income		-255			-255		-255
Income recognised directly in shareholders' equity		-5,246			-5,246	-37,092	-42,338
Net profit				31,671	31,671	300	31,971
Total comprehensive income		**-5,246**		**31,671**	**26,425**	**-36,792**	**-10,367**
Acquisition of own shares				-34,769	-34,769		-34,769
Sale of own shares				28,839	28,839		28,839
Dividends paid			-40,000	512	-39,488		-39,488
Shareholders' equity at December 31, 2011	**200,000**	**13,274**	**0**	**1,738,739**	**1,952,013**	**5,682**	**1,957,695**

Statement of capital – BankNordik Group

Shares

DKK 1,000	2012	2011
Net profit	**103,073**	**31,971**
Average number of shares outstanding	9,863	9,910
Number of dilutive shares issued		
Average number of shares outstanding, including dilutive shares	**9,863**	**9,910**
Earnings per share, DKK	10.3	3.2
Diluted earnings per share, DKK	**10.5**	**3.2**

The share capital is made up of shares of a nominal value of DKK 20 each.
All shares carry equal rights and there is only one class of shares.

Average number of shares outstanding:		
Issued shares at 1 January, numbers in 1,000	10,000	10,000
Increase in share capital		
Shares in issue at end of period	10,000	10,000
Shares outstanding at end of period	9,863	9,910
Group's average holding of own shares during the period	137	90
Average number of shares outstanding	**9,863**	**9,910**

Holding of own shares	Number 2012	Number 2011	Value 2012	Value 2011
Investment portfolio	27,245	27,245	2,071	2,147
Trading portfolio	109,997	110,027	8,360	8,672
Total	**137,242**	**137,272**	**10,430**	**10,820**

	Investment portfolio	Trading portfolio	Total 2012	Total 2011
Holding at 1 January	2,147	8,673	10,820	12,568
Acquisition of own shares	0	17,425	17,425	34,769
Sale of own shares	0	17,428	17,428	28,839
Value adjustment	-76	-311	-387	-7,678
Holding at 31 December	**2,071**	**8,360**	**10,430**	**10,820**

Statement of capital – BankNordik Group

Solvency

DKK 1,000	2012	2011
Core capital	1,537,748	1,522,756
Base capital	1,764,115	1,921,288
Risk-weighted items not included in the trading portfolio	9,644,767	9,827,802
Risk-weighted items with market risk etc.	1,172,371	1,406,647
Risk-weighted items with operational risk	1,084,613	1,078,250
Total risk-weighted items	11,901,750	12,312,700
Core capital rato, excl. hybrid core capital	9.6%	9.1%
Core capital ratio	12.9%	12.4%
Solvency ratio	14.8%	15.6%
Core capital and shareholders' equity		
Share capital	200,000	200,000
Reserves	99,826	56,472
Net profit	103,099	24,560
Retained earnings	1,643,331	1,666,845
Shareholders' equity	**2,046,255**	**1,947,877**
Deduction of dividend	10,000	0
Deduction of foreign currency translation reserve	18,443	16,373
Deduction of intangible assets	797,779	779,964
Deduction of deferred tax assets	26,333	4
Deduction of insurance subsidiaries	51,008	30,520
Core capital exclusive of hybrid core capital	**1,142,692**	**1,121,016**
Hybrid core capital	**395,055**	**401,739**
Core capital	**1,537,748**	**1,522,756**
Base capital		
Core capital	1,537,748	1,522,756
Subordinated loan capital	277,375	429,052
Deduction of insurance subsidiaries	51,008	30,520
Base capital	**1,764,115**	**1,921,288**

The BankNordik Group holds a licence to operate as a bank and is therefore subject to a capital requirement under the Faroese Financial Business Act. The Faroese provisions on capital requirements apply to both the Parent Company and the Group. The capital requirement provisions stipulate a minimum capital of 8% of the identified risks. A detailed body of rules determines the calculation of capital as well as risks (risk-weighted items). The capital comprises core capital and subordinated loan capital. The core capital corresponds largely to the carrying amount of equity, not including intangible assets, investments in insurance subsidiaries, holdings in credit institutions etc.

Cash flow statement – BankNordik Group

DKK 1,000	2012	2011
Cash flows from operations		
Net profit for the period	103,073	31,971
Result from associates	-2,511	885
Amortisation and impairment charges for intangible assets	15,077	13,657
Depreciation and impairment charges for tangible assets	11,608	7,521
Impairment of loans and advances/guarantees	152,009	101,328
Other adjustments	-2,000	-5,749
Paid tax	-3,581	-58,207
Other non-cash operating items	-47,611	-98,567
Total	**226,065**	**-7,160**
Changes in operating capital		
Tax charged to the income statement	18,396	-1,283
Change in loans at fair value	-15,450	32,802
Change in loans at amortised cost	329,700	-3,147,862
Change in holding of bonds	-363,055	1,022,214
Change in holding of shares	-35,374	-73,668
Acquisition of Amagerbanken	30,000	-261,500
Change in deposits	-165,105	4,182,337
Due to credit institutions and central banks	-41,264	84,067
Change in other assets / liabilities	-17,056	-65,740
Assets/liabilities under insurance contracts	0	38,727
Prepayments	5,996	-9,681
Cash flows from operations	**-27,148**	**1,793,253**
Cash flow from investing activities		
Dividends received	2,000	5,749
Acquisition of intangible assets	-648	-171,200
Acquisition of tangible assets	-14,169	-60,803
Sale of tangible assets	4,422	1,985
Cash flows from investing activities	**-8,396**	**-224,270**
Cash flow from financing activities		
Increase in loans from central banks	1,000,000	0
Change in subordinated debt	-150,000	593,358
Acquisition of own shares	-17,425	-34,769
Sale of own shares	17,428	28,839
Payment of dividends	0	-39,684
Repayment of issued bonds	-98,276	-2,101,567
Cash flows from financing activities	**751,726**	**-1,553,823**
Cash flow	**716,182**	**15,161**

Cash flow statement – BankNordik Group

DKK 1,000	2012	2011
Cash in hand and demand deposits with central banks, and due from credit institutions, etc. at the beginning of the year	770,042	756,340
Foreign currency translation	-2,773	-1,459
Cash flows	716,182	15,161
Cash and cash equivalents at 31 December	**1,483,451**	**770,042**
Cash and cash equivalents at 31 December		
Cash in hand and demand deposits with central banks	644,335	308,951
Due from credit institutions, etc.	839,116	461,091
Total	**1,483,451**	**770,042**

Note

Significant accounting policies

1 **General**

The BankNordik Group presents its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the EU and with applicable interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Furthermore, the consolidated financial statements comply with the requirements for annual reports formulated by Nasdaq OMX Reykjavik and Nasdaq OMX Copenhagen and with the Faroese Financial Business Act and the executive order regarding the application of IFRS standards in financial institutions which applies for the Faroes issued by the Danish FSA.

The preparation of the consolidated financial statements requires, in some cases, the use of estimates and assumptions by management. The estimates are based on past experience and assumptions that management believes are fair and reasonable but that are inherently uncertain and unpredictable. These estimates and the judgement behind them affect the reported amounts of assets, liabilities and off balance sheet items, as well as income and expenses in the financial statements presented.

Estimates and assumptions

Estimates and assumptions of significance to the financial statements include the determination of:

- impairment charges of loans and advances
- fair value of investment and domicile properties
- fair value of financial instruments
- business acquisitions
- assets held for sale

The assumptions may be incomplete or inaccurate, and unexpected future events or situations may occur. Such estimates and assessments are therefore difficult to make and will always entail uncertainty, even under stable macroeconomic conditions, when they involve transactions with customers and other counterparties.

Impairment charges of loans and advances

The Group makes impairment charges to account for impairment of loans and advances that occur after initial recognition. Impairment charges are based on a combination of individual and collective impairment and are subject to a number of estimates, including assessments of the loans and portfolio of loans where objective evidence of impairment exists, expected future cash flows and the value of collateral. The notes 13 and 17 provide details on the amounts recognised and the notes on risk management also provide more details on impairment charges for loans and advances.

Fair value of investment and domicile properties

The asset return model is used to measure real property at fair value. The future cash flows are based on the Group's best estimate of the future profit on ordinary operations and the required rate of return for each individual property when taking into account such factors as location and maintenance. Valuations from the Group's internal valuation experts are obtained to support such estimates regarding the investment properties. A number of these assumptions and estimates have a major impact on the calculations and include such parameters as developments in rent, costs and required rate of return. Any changes to these parameters as a result of changed market conditions will affect the expected return, and thus the fair value of the investment and domicile properties. The notes 23 and 24 provide details on the amounts recognised.

Notes – BankNordik Group

Note

1

(cont'd)

Fair value of financial instruments

The Group measures a number of financial instruments at fair value, including all derivative instruments as well as loans, shares, bonds and certain loans.

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 taken into account
- making estimates of future cash flows and return requirements for unlisted shares

The Group's loans and advances are not traded in an active market. Therefore there is no market price to determine the loans fair value. The fair value has to be determined using a valuation technique, which estimates the market price between qualified, willing and independent parties. The valuation technique has to include all the relevant elements such as credit risk, market rates etc. Note 3 and 16 provide details on the amounts recognised for loans measured at fair value.

As part of its day-to-day operations, the Group has acquired strategic equity investments. These shares are measured at fair value based on the information available about trading in the relevant company's equity investments or, in the alternative, by using a valuation model based on generally accepted methods and current market data, including an assessment of expected future earnings and cash flows.

If a reliable fair value cannot be identified, the investment will be valued at cost less any writedowns for impairment. Note 19 provide details on the amounts recognised.

Business acquisitions

When taking over parts of another company, the acquisition method must be applied for recognizing the assets, liabilities and contingent liabilities of the acquired company. There are no effective markets that can be used to determine the fair value of some of the acquired assets and liabilities. Consequently, the management makes estimates in connection with determining the fair values of the acquired assets, liabilities and contingent liabilities. The determination may be subject to uncertainty, depending on the nature of the item.

The unallocated purchase price (positive amounts) is recognised in the balance sheet as goodwill, which is allocated to the cash- generating units which are expected to benefit from the synergies. In this connection, the management makes an estimate of the cash-flow generating units acquired and the consequent goodwill allocation. Management believes that the allocation is based on documented estimates, taking into consideration the uncertainty attaching to the calculation of the acquired cash-flow generating units.

The difference between the carrying amounts stated in the preacquisition balance sheet of the acquired companies and the fair value of the identifiable assets and liabilities appears from note 38.

Goodwill is tested for impairment annually, based on an estimate of the future cash flows that is expected to be generated by the respective cash generating units. The basis for determining those cash flows is described in note 38.

Notes – BankNordik Group

Note

1

(cont'd)

Assets held for sale

Assets held for sale are tangible assets and assets of group undertakings actively marketed for sale within 12 months, for example assets and businesses taken over under nonperforming loan agreements. Assets held for sale not expected to be sold whitin 12 months on an active marked are reclassified to other items for example investment properties.

Such assets are measured at the lower of their carrying amount at the time of reclassification and their fair value less expected costs to sell and are no longer depreciated.

New standards and interpretations in 2013 and new standards and interpretations not yet in force

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012:

- Revised IAS 24 (revised), 'Related party disclosures',
- Amendment to IFRS 7: Disclosures regarding transfer of financial assets
- Amendment to IAS 12 regarding measurement of deferred tax on investment property measured at fair value

- The amended standards have no impact on recognition and measurement and disclosure.
- New standards, amendments and interpretations issued and endorsed by EU which are relevant for the Bank Nordic Group:

Amendment to IAS 1: The amendment requires items of other comprehensive income are to beGrouped the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). IFRS 10, Consolidated financial statements: The new standard replaces IAS 27's guidance regarding determination of when control over another entity exists.

IFRS 12, Disclosure about interests in other entities: The new standard replaces and extends the disclosure requirements of IAS 27 on investments in subsidiaries, IAS 28 on investments in associates.

IFRS 13, Fair value measurement: A general standard on determination of value which replaces current guidance in specific standard. The basic principle is that an asset is measured at the transaction price between a buyer and a seller whereas a liability is measured at the amount which a third party would charge as payment for undertaking the liability.

Amendment to IFRS 7, "Disclosures – Offsetting Financial Assets and Financial Liabilities" introducing additional disclosure requirements regarding financial assets and liabilities which are offset in the financial statements and which can are not presented net but can be offset contingent on bankruptcy etc.

Amendment to IAS 32, "Offsetting Financial Assets and Financial Liabilities" providing additional guidance regarding whether the criteria for offsetting financial assets and liabilities are met.
The group is yet to assess the full impact on those new and amended standards.

Notes – BankNordik Group

Note 1 (cont'd)

New standards, amendments and interpretations issued and not yet endorsed by EU which are relevant for the Bank Nordik Group:

- IFRS 9, 'Financial instruments', issued in November 2009 and October 2010. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities.

The group is yet to assess the full impact on those new and amended standards.

Consolidation

The consolidated financial statements comprise the parent company, P/F BankNordik, as well as undertakings in which P/F BankNordik exercises control over financial and operating policy decisions. Control is said to exist if P/F BankNordik directly or indirectly holds more than half of the voting rights in an undertaking or otherwise has power to control management and operating policy decisions. Operating policy control may be exercised through agreements about the undertaking's activities. Potential voting rights that are exercisable on the balance sheet date are included in the assessment of whether P/F BankNordik controls an undertaking.

The consolidated financial statements combine the financial statements of the parent and the individual subsidiaries in accordance with the Group's accounting policies, in which intragroup income and costs, shareholdings, balances and dividends as well as realised and unrealised gains and losses on intragroup transactions have been eliminated.

Acquired subsidiaries are included from the date of acquisition.

The assets of acquired subsidiaries, including identifiable intangible assets, as well as liabilities and contingent liabilities, are recognised at the date of acquisition at fair value in accordance with the acquisition method.

Goodwill is recognised as follows:

- For acquisitions completed before 1 January 2010: The excess of the cost price including direct transaction costs over the fair value of the net assets acquired
- For acquisitions completed 1 January 2010 or later: The excess of the fair value of the consideration transferred over the fair value of the net assets acquired.

Goodwill is recognised at the functional currency of the undertaking acquired. Where the fair value of net assets exceeds the cost (negative goodwill), the difference will be recognised as income in the income statement at the date of acquisition. The portion of the acquisition that is attributable to non-controlling interests does not include goodwill.

Subsidiaries disposed off are included until the date of disposal.

Segment information

The Group consists of a number of business units and resource and support functions. The business units are segmented according to legislation, product and services characteristics and geographic. The information provided on operating segments is regularly reviewed by the management making decisions about resources to be allocated to the segments and assessing their performance, and for which discrete

Note

1 (cont'd)

financial information is available. Operating segments are not aggregated. Segment reporting complies with the Group's significant accounting policies.

Segment revenue and expenses as well as segment assets and liabilities comprise the items that are directly attributable to or reasonably allocable to a segment. Non-allocated items primarily comprise assets and liabilities, revenue and expenses relating to the Group's administrative functions as well as income taxes etc.

Foreign currency translation

The consolidated financial statements are presented in thousands DKK. The functional currency of each of the Group's units is the currency of the country in which the unit is domiciled, as most income and expenses are recognised in the currency of that country.

Transactions in foreign currencies are translated at the exchange rate of the functional currency at the transaction date. Gains and losses on exchange rate differences arising between the transaction date and the settlement date are recognised in the income statement.

Monetary assets and liabilities in foreign currency are translated at the exchange rates at the balance sheet date. Exchange rate adjustments of monetary assets and liabilities arising as a result of differences in the exchange rates applying at the transaction date and at the balance sheet date are recognised in the income statement.

Non-monetary assets and liabilities in foreign currency that are subsequently revalued at fair value are translated at the exchange rates at the date of revaluation. Exchange rate adjustments are included in the fair value adjustment of an asset or liability. Other non-monetary items in foreign currency are translated at the exchange rates at the date of transaction.

Translation of foreign subsidiaries

Assets and liabilities of subsidiaries outside Faroe Islands and Denmark are translated into DKK at the exchange rates at the balance sheet date. Income and expenses are translated at the exchange rates at the date of transaction. Exchange rate gains and losses arising at the translation of net investments in foreign subsidiaries are recognised in other comprehensive income. Net investments include the net assets and goodwill of the units. When several exchange rates exist, the rate used is the rate at which future dividend payments from the investment could have been settled, if they had occurred at the balance sheet date.

Offsetting

Amounts due to and from the Group are offset when the Group has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Assets

Due from credit institutions and central banks

Amounts due from credit institutions and central banks comprise amounts due from other credit institutions and time deposits with central banks and are measured at amortised cost, as described under Financial instruments / loans and advances at amortised cost.

Notes – BankNordik Group

Note

1 (cont'd)

Financial instruments – general (assets)

Purchases and sales of financial instruments are recognised and measured at their fair value at the settlement date. The fair value is usually the same as the transaction price. Changes in the value of financial instruments are recognised up to the settlement date.

Classification

The Group's financial assets are at initial recognition, divided into the following three categories:

- loans and advances measured at amortised cost
- trading portfolio measured at fair value
- financial assets designated at fair value with value adjustments through profit and loss

Loans and advances measured at amortised cost

Loans and advances consist of conventional loans and advances disbursed directly to borrowers. Initial recognition of amounts due from credit institutions and central banks as well as loans and advances is at fair value plus transaction costs and less origination fees and other charges received.

Subsequently they are measured at amortised cost, according to the effective interest method, less any impairment charges.

The difference between the value at initial recognition and the nominal value is amortised over the term to maturity and recognised under "Interest income"

Impairment

Amounts due from credit institutions and central banks at amortised cost are all assessed individually to determine whether objective evidence of impairment exists. Significant loans and advances are also all assessed individually to determine whether objective evidence of impairment exists.

Objective evidence of impairment of loans and advances exists if at least one of the following events has occurred:

- the borrower is experiencing significant financial difficulty
- the borrower's actions, such as default on interest or principal payments, lead to a breach of contract
- the Group, for reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the Group would not otherwise have granted
- it becomes probable that the borrower will enter bankruptcy or another type of financial reorganisation

If objective evidence of impairment of a loan, an advance or an amount due exists, and the impairment event or events effects the expected cash flow from the asset, and the effects on the expected cash flow is reliably measurable, the Group determines the impairment charge individually. The impairment charge equals the difference between the carrying amount and the present value of the most likely future cash flow from the asset, including the net realisable value of any collateral. The present value of fixed-rate loans and advances is calculated by discounting with the original effective interest rate, where as the present value of loans and advances with a variable rate of interest is calculated by discounting with the current effective interest rate.

Notes – BankNordik Group

Note

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(cont'd)

Loans and advances that are not individually charged for impairment are included in groups which are collectively subject to an impairment assessment.

The group assessment is based on groups of loans and receivables with similar credit risk characteristics. The Bank operates with a total of three groups, divided into one group of public authorities, one group of private customers and one group of corporate customers.

The group assessment is made using a statistical segmentation model developed by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (Lokale Pengeinstitutter), which is responsible for the ongoing maintenance and development. The segmentation model determines the correlation in the individual groups between losses identified and a number of significant explanatory macroeconomic variables via a linear regression analysis. The explaining macro-economic variables include interest rates, the industrial energy consumption, total payroll in the fishing industry, petrol price index etc.

This assessment has resulted in an adjustment of the estimates of the model to BankNordik's own loan portfolio situation. Therefore it is the adjusted estimates which form the basis of the calculation of the group impairment charge. The adjusted estimates may be further adjusted to reflect any events or circumstances incurred but not yet reflected in the model.

An estimate appears for each group of loans and advances which expresses the impairment as a percentage attached to a specific group of loans and advances at the balance sheet date. By comparing the individual loans current risk of loss with the loans original risk of loss and the loans risk of loss at the start of the current accounting period, the contribution of the individual loan to the group impairment charge appears. The impairment charge is calculated as the difference between the book value and the discounted value of the expected future payments.

The impairment charge is recognised on an allowance account and set off against the loans and advances. Changes in the allowance account are recognised in the Income Statement under the item "Impairment charges on loans and advances etc". If subsequent events show that impairment is not permanent, the impairment charge is reversed.

Loans and advances that are considered uncollectible are written off. Write-offs are debited to the allowance account. Loans and advances are written off once the usual collection procedure has been completed and the loss on the individual loan or advance can be calculated.

In accordance with the effective interest method, interest is recognised on the basis of the value of the loans and advances less impairment charges.

Trading portfolio measured at fair value
The trading portfolio includes financial assets acquired which the Group intends to sell or repurchase in the near term. The trading portfolio also contains financial assets managed collectively for which a pattern of short-term profit taking exists. All derivatives are part of the trading portfolio.

Assets in the trading portfolio comprise the shares, bonds and derivatives with positive fair value held by the Group's trading departments.

Notes – BankNordik Group

Note

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(cont'd)

At initial recognition, the trading portfolio is measured at fair value, excluding transaction costs. Subsequently, the portfolio is measured at fair value and the value adjustments are recognised in the Income Statement.

Determination of fair value

The fair value of financial assets is measured on the basis of quoted market prices of financial instruments traded in active markets. If an active market exists, fair value is based on the most recently observed market price at the balance sheet date.

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

If no active market for standard and simple financial instruments, such as interest rate and currency swaps and unlisted bonds, exists, generally accepted valuation techniques rely on market-based parameters for measuring fair value. The results of calculations made on the basis of valuation techniques are often estimates because exact values cannot be determined from market observations. Consequently, additional parameters, such as liquidity risk and counterparty risk, are sometimes used for measuring fair value.

Financial assets designated at fair value with value adjustments through profit and loss

Financial assets designated at fair value comprise fixed-rate loans, loans capped and shares which are not a part of the trading portfolio, including some sector shares managed on a fair value basis but without short-term profit-taking.

The interest rate risk on these loans is eliminated or significantly reduced by entering into interest rate swaps. The market value adjustment of these interest rate swaps generates immediate asymmetry in the financial statements if the fixed-rate loans and loans capped were measured at amortised cost. To eliminate the inconsistency recognising the gains and losses on the loans and related swaps the fixed rate loans and loans capped are measured at fair value with value adjustments through profit and loss.

Determination of fair value of fixed-rate loans

The fair value of fixed-rate loans and loans capped is based on the fair value of related bonds adjusted for the credit risk on borrowers. When the loans are established a certain bond is related to the loan. If the borrower wants to prepay before the loan is due, the amount is determined by the market rate or the change in the market value on the related bond since the establishment of the loan.

The fair value adjustment of the loans and the related swaps is recognised under the item "Market value adjustments" except for the part of the adjustment that concerns the credit risk on the loans, which is recognised under the item "Impairment charges on loans and advances etc".

Determination of fair value of shares

Fair value is determined according to the following order of priorities:

- Financial instruments valued on the basis of quoted prices in an active market are recognised in the Quoted prices category
- Financial instruments valued substantially on the basis of other observable input are recognised in the Observable and illiquid mortgage bonds valued by reference to the value of similar liquid bonds

Notes – BankNordik Group

Note

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(cont'd)

- Other financial instruments are recognised in the Non-observable input category. This category covers unlisted shares and derivatives, and valuation relies on extrapolation of yield curves, correlations or other model input of material importance to valuation

Insurance activities – general

The Group's insurance activities comprise non-life insurance and life insurance. Non-life insurance is the material part of the insurance activities. The life-insurance part does not offer any savings products.

Assets under insurance contracts

Assets under insurance contracts comprise reinsurance assets and receivables from insurance contracts. Reinsurance assets are measured by initial recognition at fair value and subsequently at amortised cost.

Holdings in subsidiaries and associates

Subsidiaries are undertakings in which the Group has control over financial and operating policy decisions. Control exists if P/F BankNordik directly or indirectly, holds more than half of the voting rights in an undertaking or otherwise has power to control management and operating policy decisions, provided that most of the return on the undertaking accrues to the Group and that the Group assumes most of the risk. Control may be exercised through agreements about the undertaking's activities whereby BankNordik controls its operating policy decisions. Potential voting rights that are exercisable on the balance sheet date are included in the assessment of whether P/F BankNordik controls an undertaking.

Subsidiaries are consolidated in the consolidated financial statements.

Associated undertakings are businesses, other than group undertakings, in which the Group has holdings and significant influence but not control. The Group generally classifies undertakings as associated undertakings if P/F BankNordik directly or indirectly holds 20-50% of the voting rights.

Holdings in associated undertakings are recognised at cost at the date of acquisition and are subsequently measured according to the equity method. The proportionate share of the net profit or loss of the individual associate undertaking is included under "Income from associated undertakings" and based on data from financial statements with balance sheet dates that differ no more than three months from the balance sheet date of the Group.

The proportionate share of the profit and loss on transactions between associated and group undertakings is eliminated.

Associates with negative net asset values are measured at DKK 0. Any legal or actual obligation to cover the negative balance of the undertakings is recognised in provisions. Any receivables from these undertakings are written-down according to the impairment loss risk.

Profit on divested subsidiaries and associates are calculated as the difference between the selling price and the book value inclusive of any goodwill on the divested holdings. Reserves recognised under the equity are reversed and recognised in the income statement.

Intangible assets

Goodwill

Goodwill arises on the acquisition of an undertaking and is calculated as set out in the section "Consolidation".

Notes – BankNordik Group

Note Goodwill on associated undertakings is recognised under Holdings in associates.

1 (cont'd) Goodwill is allocated to cash-generating units at the level at which the management monitors the investment. Goodwill is not amortised. Instead each cash-generating unit to which goodwill is allocated is tested for impairment at least once a year. Goodwill is written down to its recoverable amount through the income statement if 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 from the unit.

Customer relations

Customer relations taken over in connection with company acquisitions are recognised at cost and are 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.

The useful life is 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.

Other intangible assets

Software acquired is measured at cost, including the expenses incurred to make each software application ready for use. Software acquired is amortised over its expected useful life, which is usually three years, according to the straight-line method.

Long-term costs are sale costs due to new insurance policies issued in the period. The objective is to match income and costs and the amount is amortised over three years according to the straight-line method.

Other intangible assets to be amortised are tested for impairment if indications of impairment exist, and the assets are subsequently written down to their value in use.

Assets and deposits under pooled schemes

These items include assets and deposits under pooled schemes. Assets earmarked for customer savings are measured at fair value and recognised under "Assets under pooled schemes". Similarly deposits made by customers are recognised under "Deposits under pooled schemes". These deposits are measured at the value of savings.

Land and buildings

On acquisition land and buildings are recognised at cost. The cost price includes the purchase price and costs directly related to the purchase until the date when the asset is ready for use. The cost price also includes estimated costs of demounting the asset and re-establishment to the extent that such costs are included as an obligation.

Investment property

Investment property is real property, including real property let under operating leases that the Group own for the purpose of receiving rent and/or obtaining capital gains. The section on domicile property below explains the distinction between domicile and investment property.

Subsequently, investment property is measured at fair value. Fair value adjustments and rental income are recognised under "Market value adjustments" and under "Other operating income" respectively.

Notes – BankNordik Group

Note

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(cont'd)

The fair value is assessed based on the asset return model. Also a valuation assessment is obtained by the Group's valuation experts once a year. The section on domicile property below explains the asset return model.

Domicile property

Domicile property is real property occupied by the Group's administrative departments, branches and other service units. Real property with both domicile and investment property elements is allocated proportionally to the two categories if the elements are separately sellable. If that is not the case, such real property is classified as domicile property, unless the Group occupies less than 10% of the total floorage.

Subsequently, domicile property is measured at a revalued amount corresponding to the fair value at the date of the revaluation less depreciation and impairment. 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. Maintenance costs are calculated on the basis of the condition of the individual property, construction year, materials used, etc. Operating expenses are calculated on the basis of a standard budget. The fair value of the property is determined based on the expected cash flow from operations and a rate of return assessed for the individual property. The return rate is determined on the basis on the location of the individual property, potential use, the state of maintenance, quality, etc. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the amount which would be determined using fair value at the balance sheet date.

Depreciation is made on a straight-line basis over the expected useful life of 50 years, taking into account the expected residual value at the expiry of the useful life.

Value adjustments according to revaluations are recognised directly in equity. Depreciation and impairments are recognised in the income statement under the item "Depreciation and impairment of property, plant and equipment". Impairments are only recognised in the income statement to the extent that it cannot be offset in former period's revaluations.

Domicile property which, according to a publicly announced plan, is expected to be sold within twelve months is recognised as an asset held for sale. Real property taken over as part of the settlement of debt, not qualifying for recognising under assets held for sale, is recognised under Other assets.

Other property, plant and equipment

Other property, plant and equipment comprises equipment, vehicles, furniture and leasehold improvements and is measured at cost less depreciation and impairment. Assets are depreciated according to the straight-line method over their expected useful lives, which usually is three to five years.

Other tangible assets 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.

Assets held for sale

Assets held for sale include property, plant and equipment and disposal groups held for sale. Assets held for sale also include assets taken over under non-performing loan agreements. Assets are classified as held for sale when the carrying amount will be recovered principally through a sale transaction within 12 months in accordance with a formal plan rather than through continuing use. Assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell. An asset is

Notes – BankNordik Group

Note

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(cont'd)

not depreciated or amortised from the time when it is classified as held for sale. Assets held for sale not expected to be sold whitin 12 months on an active marked are reclassified to other items for example investment properties.

Impairment losses arising immediately before the initial classification of the asset as held for sale are recognised as impairment losses. Impairment losses arising at initial classification of the asset as held for sale and gains or losses at subsequent measurement at the lower of carrying amount and fair value less costs to sell are recognised in the income statement under the items they concern.

Other assets

Other assets includes interest and commissions due, derivatives with positive value and other amounts due.

Liabilities and provisions

Financial instruments – general (liabilities)

Purchases and sales of financial instruments are recognised and measured at their fair value at the settlement date. The fair value is usually the same as the transaction price. Changes in the value of financial instruments are recognised up to the settlement date.

Classification

The Group's financial liabilities are at initial recognition, divided into the following three categories:

- due to credit institutions and central banks, issued bonds and deposits measured at amortised cost
- trading portfolio measured at fair value
- other financial liabilities measured at cost

Due to credit institutions and central banks, issued bonds and deposits measured at amortised cost

Initial recognition of amounts due to credit institutions and central banks, issued bonds as well as deposits is at fair value net of transaction costs.
Subsequently they are measured at amortised cost, according to the effective interest method, by which the difference between net proceeds and nominal value is recognised in the income statement under the item "Interest expenses" over the loan period.

The effective interest rate is calculated on the expected cash flows estimated at inception of the loan. Non closely related embedded derivatives such as certain prepayment and extension options are separated from the loan treated as freestanding derivatives.

Trading portfolio measured at fair value

The trading portfolio includes financial liabilities acquired which the Group intends to sell or repurchase in the near term. All derivatives are part of the trading portfolio.

Liabilities in the trading portfolio comprise derivatives with negative fair value held by the Group's trading departments. At initial recognition, the trading portfolio is measured at fair value, excluding transaction costs. Subsequently, the portfolio is measured at fair value and the value adjustments are recognised under market value adjustments in the Income Statement.

Notes – BankNordik Group

Note

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(cont'd)

Determination of fair value

The determination of the fair value is identical with the determination of the fair value of assets. Please refer to this section under financial assets.

Liabilities under insurance contracts

Liabilities under insurance contracts consist of provisions for unearned premiums and claims provisions.

Premium provisions are calculated according to a best estimate of the sum of expected payments as a result of insurance events arising after the balance sheet date that are covered by agreed insurance contracts. Premium provisions include future direct and indirect expenses for administration and claims processing of agreed insurance contracts. A premium provision represents at least the part of the gross premium that corresponds to the part of the insurance period that comes after the balance sheet date.

Claims provisions are calculated according to a best estimate of the sum of expected payments as a result of insurance events until the balance sheet date, in addition to the amounts already paid as a result of such events. Claims provisions also include amounts which the Group, according to a best estimate, expects to pay as direct and indirect costs in connection with the settlement of the claims liabilities.

Claims provisions are discounted according to the expected settlement of the provisions on the basis of the discount rate issued by the Danish FSA.

Other liabilities

This item includes sundry creditors, derivatives with negative market values and other liabilities. Wages and salaries, payroll tax, social security contributions and compensated absences are recognised in the financial year in which the associated service has been rendered by the Group's employees. Costs relating to the Group's long-term employee benefits are accrued and follow the service rendered by the employees in question.

Pension contributions are paid into the employees' pension plans on a continuing basis and are charged to the income statement.

Provisions

Provisions include provisions for deferred tax, guarantees and other provisions for liabilities. Initial recognition of financial guarantees is at fair value which is often equal to the guarantee premium received. Subsequent measurement of financial guarantees is at the higher of the guarantee premium received amortised over the guarantee period and any provisions made.

A provision for a guarantee or an onerous contract is recognised if claims for payment under the guarantee or contract are probable and the liability can be measured reliably. Provisions are based on the management's best estimates of the size of the liabilities. Measurement of provisions includes discounting when significant.

Bonds issued / Subordinated debt

Bonds issued comprise the Group's issued bonds. Subordinated debt consists of liabilities in the form of subordinated loan capital which in case of the Group's voluntary or compulsory winding-up, will not be repaid until after the claims of its ordinary creditors have been met.

Notes – BankNordik Group

Note

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(cont'd)

Bonds issued and subordinated debts are recognised at the issue date or the date of borrowing, at the proceeds received less directly attributable transaction cost. Subsequently issued bonds and subordinated debt are measured partly at fair value and partly at amortised cost as described under "Due to credit institutions and central banks, issued bonds and deposits measured at amortised cost".

Non closely related embedded derivatives are treated as described under "Due to credit institutions and central banks, issued bonds and deposits measured at amortised cost".

Equity

Foreign currency translation reserve
The foreign currency translation reserve includes differences from the translation of the financial results of and net investments in units which functional currency is not DKK from their functional currencies into DKK.

Non controlling interests
Non controlling interests' share of shareholders' equity equals the carrying amounts of the net assets in subsidiaries not owned by P/F BankNordik.

Own shares
Purchase and sales amounts and dividend regarding holdings of own shares are recognised directly in the equity under the item "Retained earnings". Profits and losses from sale are not included in the income statement.

Dividends
The Board of Directors' proposal for dividends for the year submitted to the general meeting is included as a separate reserve in shareholders' equity. The dividends are recognised as a liability when the general meeting has adopted the proposal.

Income statement

Income criteria
Income and expenses are accrued over the periods to which they relate and are recognised in the Income Statement at the amounts relevant to the accounting period.

Interest income and expenses
Interest income and expenses arising from interest-bearing financial instruments measured at amortised cost are recognised in the income statement according to the effective interest method on the basis of the cost of the individual financial instrument. Interest includes amortised amounts of fees that are an integral part of the effective yield on a financial instrument, such as origination fees, and the amortisation of any other differences between cost price and redemption price.

Interest income and expenses also includes interest on financial instruments measured at fair value with the exception of interest relating to assets and deposits under pooled schemes which are recognized under market-value adjustments. The interests are recognised in the income statement according to the effective interest method on the basis of the cost of the individual financial instrument.

Interest on loans and advances subject to impairment is recognised on the basis of the impaired value.

Notes – BankNordik Group

Note 1 (cont'd)

Dividends on shares

Dividends on shares are recognised in the income statement on the date the Group is entitled to receive the dividend. This will normally be when the dividend has been approved at the company's annual general meeting.

Fees and commission income

Fees and commission income comprises fees and commission income that is not included as part of the amortised cost of a financial instrument. The income is accrued during the service period. The income includes fees from securities dealing, money transmission services and loans as well as guarantee commission. Income from carrying out a given transaction is recognised as revenue once the transaction is complete.

Fees and commission expenses incurred

Fees and commission expenses comprises fees and commission expenses paid that are not included as part of the amortised cost of a financial instrument. The costs include guarantee commissions and trading commissions.

Premium income from non-life insurance, net of reinsurance

Gross premium from non-life insurance comprises insurance premiums due. Net premium income from non-life insurance comprises gross premiums for the period adjusted for changes in premium provisions less reinsurance.

Claims incurred related to non-life insurance, net of reinsurance

Claims incurred comprise the claims incurred for the year adjusted for changes in provisions for claims corresponding to known and expected claims incurred for the year. In addition, the item includes run-off results regarding previous years.

Amounts to cover internal and external costs for inspecting, assessing and containing claims and other direct and indirect costs associated with the handling of claims incurred are included in this item.

In addition, the item covers premiums paid and reinsurance coverage received.

Market value adjustments

Market value adjustments comprise all value adjustments of assets and liabilities that are measured at fair value, and exchange rate adjustments which are included in the income statement. Excluded is own credit risk on loans at fair value.

Other operating income

Other operating income includes other income that is not ascribable to other income statements items, including income from the company's investment property activities.

Staff costs

Salaries and other remuneration that the Group expects to pay for work carried out during the year are expensed under Staff costs and administrative expenses. This item includes salaries, bonuses, holiday allowances, anniversary bonuses, pension costs and other remuneration.

Pension obligations

The Group's contributions to defined contribution plans are recognised in the income statement as they

Notes – BankNordik Group

Note

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(cont'd)

are earned by the employees. Changes in the capitalised value of the few defined benefit pension contracts that excist are recognised continuously in the Income Statement.

Depreciation and impairment of property, plant and equipment
Depreciation and write-downs of tangible assets comprise the depreciation and write-downs on tangible assets for the period.

Other operating expenses
Other operating expenses include other expenses that are not ascribable to other income statement items.

Impairment charges on loans and advances etc.
Impairment charges on loans etc. includes impairment losses on and charges for loans and advances and amounts due from credit institutions and other receivables involving a credit risk as well as provisions for guarantees and unused credit facilities.

Tax
Faroese consolidated entities are not subject to compulsory joint taxation, but can opt for joint taxation provided that certain conditions are complied with. P/F BankNordik has opted for joint taxation with the subsidiary P/F Skyn. Corporation tax on income subject to joint taxation is fully distributed on payment of joint taxation contributions between the consolidated entities.

Tax for the year includes tax on taxable profit for the year, adjustment of deferred tax as well as adjustment of tax for previous years. Tax for the year is recognised in the income statement as regards the elements that can be attributed to profit for the year and directly in equity as regards the elements that can be attributed to items recognised directly in equity.

Current tax liabilities and current tax assets are recognised in the balance sheet as calculated tax on taxable profit for the year, adjusted for tax on taxable profit of previous years.

Provisions for deferred tax or deferred tax assets are based on the balance sheet liability method and include temporary differences between the carrying amounts and tax bases of the balance sheets of each consolidated entity as well as tax loss carry forwards that are expected to be realised. Calculation of deferred tax is based on current tax law and tax rates at the balance sheet date.

Deferred taxes are recognised in the balance sheet under the items "Deferred tax assets" and "Provisions for deferred tax liabilities".

Cash flow statement
The Group prepares its cash flow statement according to the indirect method. The statement is based on the pretax profit for the year and shows the cash flows from operating, investing and financing activities and the increase or decrease in cash and cash equivalents during the year.

Cash and cash equivalents consist of cash in hand and demand deposits with central banks and amounts due from credit institutions and central banks with original maturities shorter than three months.

Notes – BankNordik Group

Note

Operating segments

2 The Group consists of three business units and support functions. The Group's activities are segmented into business units according to legislative requirements and product and service characteristics. The Group's business units are Banking, Non-life insurance and Other.

Banking comprises all types of retail and corporate customers, both large businesses and private retail customers in Denmark, Greenland and The Faroe Islands.

Non-life insurance comprises the insurance companies Vörður Tryggingar hf and P/F TRYGD based in Iceland and The Faroe Islands respectively. Vörður and TRYGD are responsible for the Group's non-life insurance products. Vörður and TRYGD targets personal and corporate customers with a full range of property and casualty products. Vörður distributes its operations through agreement with Lansbankin and through other independent brokerages in Iceland. TRYGD's operations are handled by its own sales team and distributed through Group's banking units.

Other covers expenses for the Group's support functions and the real estate agency P/F Skyn, the venture company P/F Birting and the Icelandic life-insurance company Vörður Líftryggingar hf. These companies are very small and immaterial in an overall Group context.

All transactions between segments are settled on an arm's-length basis.

Notes – BankNordik Group

Note	Operating segments	Banking							
		Faroe Islands		Denmark		Greenland		Total	
2	DKK 1,000	2012	2011	2012	2011	2012	2011	2012	2011
	Interest income	434,374	465,345	384,817	268,168	64,329	56,250	883,520	789,763
	of wich internal interest income	0	0	78,439	48,620	0	0	78,439	48,620
	Interest expence	158,674	155,688	100,250	79,168	22,875	16,950	281,799	251,806
	of wich internal interest expence	68,725	45,369		0	9,713	5,055	78,439	50,424
	Net interest income	275,700	309,658	284,568	188,999	41,453	39,300	601,721	537,957
	Dividends from shares and other investments	1,998	1,340	2	0	0	0	2,000	1,340
	Net fee income	57,622	45,457	121,267	75,479	11,364	13,097	190,253	134,033
	Premium income, net of reinsurance	0	0	0	0	0	0	0	0
	Claims, net of reinsurance	0	0	0	0	0	0	0	0
	Market value adjustments	14,431	-15,534	0	10,336	0	-541	14,431	-5,740
	Income from associates	0	0	0	0	0	0	0	0
	Other operating income	679	8,724	34,110	10,680	102	4,249	34,891	23,654
	Total income	**350,429**	**349,645**	**439,947**	**285,493**	**52,919**	**56,105**	**843,295**	**691,243**
	Staff costs and administrative expenses	207,273	192,862	350,657	310,364	31,690	41,963	589,620	545,189
	Dep. and imp. of property, plant and equipment	2,199	11,056	17,828	2,635	2,464	440	22,491	14,131
	Other operating expenses	4,517	20,631	5,817	64	498	0	10,832	20,695
	Total operating expenses	**213,989**	**224,549**	**374,301**	**313,063**	**34,652**	**42,403**	**622,942**	**580,015**
	Profit before impairment charges on loans	**136,440**	**125,096**	**65,645**	**-27,570**	**18,267**	**13,702**	**220,353**	**111,228**
	Impairment charges on loans and advances etc.	67,033	23,034	76,670	78,153	4,756	-400	148,460	100,787
	Profit before tax	**69,407**	**102,062**	**-11,025**	**-105,722**	**13,511**	**14,102**	**71,893**	**10,441**
	Loans and advances	6,043,865	6,329,001	4,331,783	4,683,581	927,050	756,129	11,302,698	11,768,711
	Holdings in associates	14,875	32,586	0	0	0	0	14,875	32,586
	Other assets	4,760,825	4,046,779	3,690,595	3,443,612	43,559	173,371	8,494,979	7,663,761
	Total assets	**10,819,565**	**10,408,366**	**8,022,377**	**8,127,193**	**970,609**	**929,499**	**19,812,551**	**19,465,058**
	Deposits	5,211,395	5,459,271	7,127,159	7,203,670	522,911	459,734	12,861,466	13,122,675
	Other liabilities	4,513,981	3,901,562	110,986	148,329	279,863	344,616	4,904,830	4,394,506
	Shareholders equity	1,094,189	1,047,533	784,232	775,194	167,834	125,149	2,046,255	1,947,877
	Total liabilities and equity	**10,819,565**	**10,408,366**	**8,022,377**	**8,127,193**	**970,609**	**929,499**	**19,812,551**	**19,465,058**
	Internal interest inc./exp. split on operating seg.	4.0%	1.4-2.6%	4.0%	1.4-2.6%	4.0%	1.4-2.6%	4.0%	1.4-2.6%
	Cost/income ratio (%)	80.2%	70.8%	102.5%	137.0%	74.5%	74.9%	91.5%	98.5%
	Cost/income ratio (excl. value adjustments and impairments on loans and advances etc.) (%)	63.7%	61.5%	85.1%	113.8%	65.5%	74.9%	75.2%	83.2%

Banking activities returned a profit before tax DKK 72m compared to a pre-tax profit of DKK 10m in 2011. Banking in the Faroe Islands rendered a pre-tax profit of DKK 69m in 2012, compared to a pre-tax profit of DKK 102m in 2011. The main reason is stabel core earnings, higher impairment charges and higher staff and administrative costs mainly due to one-off costs. Banking in Denmark rendered a pre-tax loss of DKK 11m comared to a pre-tax loss of DKK 106m in 2011. The 2012 result is heavily influenced by non-recurring transition costs related to internal integration. Banking in Greenland delevered a pre-tax profit of DKK 14m i. e. on the same level as in 2011.

Insurance activities returned a pre-tax of DKK 46m compared to DKK 20m last year. Profit before tax has been satisfying i both segments. Pre-tax result for insurance in Faroe Islands was DKK 23m compaired to DKK 5m while pre-tax profit in Iceland amounted to DKK 23m from DKK 15m in 2011.

Pre-tax profit from Other operations was 4m in 2012 compared to 1m in 2011.

Insurance						Other		Elimination		BankNordik Group	
Faroe Islands		Iceland		Total							
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
2,773	3,702	8,077	6,063	10,851	9,765	696	358	-79,581	-50,424	815,486	749,462
0	1,804	0	0	0	1,804	0	0	0	0	78,439	50,424
0	0	0	0	0	0	3	1,075	-79,581	-50,424	202,221	202,457
0	0	0	0	0	0	0	0	0	0	78,439	50,424
2,773	3,702	8,077	6,063	10,851	9,765	693	-717	0	0	613,265	547,005
0	0	8,277	4,316	8,277	4,316	118	93	0	0	10,394	5,749
0	0	-4,678	-5,672	-4,678	-5,672	5	0	-688	-460	184,893	127,901
81,613	80,910	196,872	182,847	278,485	263,756	3,946	3,371	-1,171	-1,062	281,260	266,065
40,159	62,734	158,721	148,082	198,880	210,817	1,405	898	0	0	200,285	211,714
-239	12	4,777	13,241	4,538	13,253	401	2,248	0	0	19,369	9,761
0	0	0	0	0	0	1,716	-998	0	0	1,716	-998
-16	-11	126	425	110	413	4,584	3,350	-556	-556	39,029	26,862
43,972	**21,878**	**54,731**	**53,137**	**98,703**	**75,014**	**10,058**	**6,450**	**-2,415**	**-2,078**	**949,641**	**770,630**
19,757	17,303	29,228	32,369	48,985	49,671	5,111	4,480	-2,415	-2,078	641,300	597,263
608	4	2,840	5,710	3,448	5,714	1,354	1,332	0	0	27,293	21,178
577	0	0	0	577	0	0	0	0	0	11,409	20,695
20,942	**17,307**	**32,068**	**38,079**	**53,010**	**55,385**	**6,465**	**5,812**	**-2,415**	**-2,078**	**680,002**	**639,135**
23,030	**4,571**	**22,663**	**15,058**	**45,693**	**19,629**	**3,593**	**637**	**0**	**0**	**269,639**	**131,494**
0	0	-299	1	-299	1	8	17	0	0	148,169	100,806
23,030	**4,571**	**22,962**	**15,057**	**45,992**	**19,628**	**3,585**	**620**	**0**	**0**	**121,470**	**30,689**
0	0	4	181	4	181	0	0	0	0	11,302,702	11,768,892
0	0	0	3,549	0	3,549	0	0	0	-3,549	14,875	32,586
199,333	189,879	388,917	362,793	588,250	552,671	60,549	33,754	-2,852,389	-2,965,308	6,291,389	5,284,879
199,333	**189,879**	**388,921**	**366,523**	**588,254**	**556,401**	**60,549**	**33,754**	**-2,852,389**	**-2,968,857**	**17,608,966**	**17,086,357**
0	0	0	0	0	0	0	0	-115,813	-90,628	12,745,653	13,032,047
91,386	100,893	278,507	277,027	369,894	377,919	49,020	11,411	-2,513,793	-2,687,222	2,809,951	2,096,614
107,947	88,986	110,414	89,496	218,361	178,482	11,530	22,344	-222,783	-191,008	2,053,362	1,957,695
199,333	**189,879**	**388,921**	**366,523**	**588,254**	**556,401**	**60,549**	**33,754**	**-2,852,389**	**-2,968,857**	**17,608,966**	**17,086,357**
47.6%	79.1%	58.0%	71.7%	53.4%	73.8%	64.4%	90.4%			87.2%	96.0%
47.4%	79.1%	64.2%	95.4%	56.3%	89.7%	66.9%	138.3%			73.1%	84.0%

Notes – BankNordik Group

Note **BankNordik Group – Geografical information**

2 (Cont'd)

DKK 1,000	Total income		Non current assets		Additions on material assets			
	2012	2011	Dec. 31 2012	Dec. 31 2011	2012	2011	Dec. 31 2012	Dec. 31 2011
Faroe Islands	401,249	371,449	335,810	160,718	132,208	-2,344	0	17,296
Denmark	439,947	285,493	681,513	708,156	-3,708	47,573	17,815	391,108
Iceland	55,526	57,583	11,919	41,730	-11	-251	-12,504	0
Greenland	52,919	56,105	170,652	172,666	535	46,991	0	0
Total	**949,641**	**770,630**	**1,199,894**	**1,083,271**	**129,024**	**91,969**	**5,311**	**408,404**

Income from external customers is divided into activities related to the customers' domicile. Assets include all non-current assets, i.e. intangible assets, material assets investment properties and holdings in associates.

BankNordik Group - Revenues from external customers

Revenues from external customers	**2012**	**2011**
Banking	840,880	689,167
Insurance products	98,703	75,014
Other	10,058	6,450
Total revenue	**949,641**	**770,630**

The Groupe's external revenue is organized into different business areas according to how the Group's revenue is obtained. The different areas are Banking products that includes interest- and fee income from activities, i.e. loans and advances and deposits, with private, corporate and public customers. Insurance products includes insurance products from non-life insurance. Other include revenue from life insurance and other associates.

Notes – BankNordik Group

Note	DKK 1,000	Interest income 2)	Interest expenses	Net interest	Market-value adjustment	Dividend	Total
3	**Net income, financial instruments 2012**						
	Financial instruments at amortised cost:						
	Due to and from credit institutions and central banks	8,098	342	7,756			7,756
	Loans and advances and deposits	713,826	126,875	586,951			586,951
	Subordinated debt		70,722	-70,722	-10,480		-81,202
	Other financial instruments	4,100		4,100			4,100
	Other	-461	4,282	-4,744			-4,744
	Total	**725,562**	**202,221**	**523,341**	**-10,480**		**512,861**
	Financial instruments at fair value:						
	Bonds, shares and derivatives etc	46,457		46,457	41,056	10,394	97,908
	Loans and advances at fair value	43,466		43,466	245		43,711
	of which recognised as impairment charges						
	Investment property				-11,400		-11,400
	Assets and deposits under pooled schemes				-53		-53
	Total	**89,924**		**89,924**	**29,849**	**10,394**	**130,167**
	Total net income from financial instruments	**815,486**	**202,221**	**613,265**	**19,369**	**10,394**	**643,028**
	Net income, financial instruments 2011						
	Financial instruments at amortised cost:						
	Due to and from credit institutions and central banks	12,739	1,349	11,390			11,390
	Loans and advances and deposits	637,973	127,901	510,072			510,072
	Issued bonds		22,803	-22,803			-22,803
	Subordinated debt		46,820	-46,820	-34,114		-80,934
	Other	2,173	3,584	-1,410			-1,410
	Total	**652,886**	**202,457**	**450,429**	**-34,114**		**416,315**
	Financial instruments at fair value:						
	Bonds, shares and derivatives etc	51,442		51,442	7,007	5,749	64,197
	Loans and advances at fair value	45,135		45,135	36,868		82,002
	Total	**96,576**		**96,576**	**43,874**	**5,749**	**146,199**
	Total net income from financial instruments	**749,462**	**202,457**	**547,005**	**9,761**	**5,749**	**562,514**

1) The Group does not have held-to-maturity investments

2) Interest income recognised on impaired financial assets amounts to DKK 14m (2011: DKK 16m)

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
4	**Net fee and commission income**		
	Fee and commission income		
	Securities trading and custody accounts	21,084	17,412
	Credit transfers	32,194	20,452
	Loan commissions	12,192	14,958
	Guarantee commissions	23,450	26,687
	Other fees and commissions	110,144	64,442
	Total fee and commission income	**199,065**	**143,950**
	Fee and commissions paid		
	Securities trading and custody accounts	14,172	16,050
	Total fee and commission paid	**14,172**	**16,050**
	Net fee and commission income	**184,893**	**127,901**
5	**Premium income, net of reinsurance**		
	Regular premiums, life insurance	6,593	5,765
	Reinsurance premiums paid	-2,457	-2,179
	Change in unearned premiums provisions	-189	-215
	Total life insurance	3,946	3,371
	Gross premiums, non-life insurance	300,401	285,083
	Reinsurance premiums paid	17,835	18,163
	Change in gross premium provisions	-5,282	-4,248
	Change in reinsurers' share of premiums	30	22
	Total non-life insurance	277,313	262,694
	Total	**281,260**	**266,065**
6	**Claims, net of reinsurance**		
	Benefits paid	2,573	956
	Reinsurers' share received	-1,399	-588
	Change in outstanding claims provisions	231	530
	Total life insurance	1,405	898
	Gross claims paid	190,762	175,601
	Claims handling costs	15,156	6,722
	Reinsurance received	-11,704	-6,691
	Change in gross claims provisions	-2,070	34,654
	Change in reinsurers' share relating to provisions	6,737	532
	Total non-life insurance	198,880	210,817
	Total	**200,285**	**211,714**

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
7	**Other operating income**		
	Profit on sale of investment and corporate properties and temporary properties	625	-91
	Profit on sale of operating equipment	0	755
	Reversals of acquired OEI impairments	33,002	14,402
	Other income	5,864	16,283
	Operation of properties:		
	Rental income	121	411
	Operating expenses	-430	-1,041
	- of which on investment properties		
	Maintenance	-152	-3,858
	- of which on investment properties	-152	-2,502
	Total other operating income	**39,029**	**26,862**
8	**Staff costs and administrative expenses**		
	Staff costs:		
	Salaries	307,104	239,285
	Pensions	34,234	27,149
	Social security expences	38,449	33,508
	Total staff costs	**379,787**	**299,942**
	Other administrative expenses:		
	IT	129,577	78,609
	Marketing etc	21,547	28,226
	Education etc	5,893	6,698
	Advisory services	8,541	13,566
	Other expenses	111,110	176,944
	Total administrative expenses	**276,668**	**304,043**
	Total staff costs	379,787	299,942
	Staff costs incl. under the item “Claims, net of reinsurance”	-15,156	-6,722
	Other administrative expenses	276,668	304,043
	Total employee and administrative expenses	**641,300**	**597,263**
	Number of employees		
	Average number of full-time employees in the financial year	567	519
	Executive remuneration:		
	Board of Directors	1,620	1,605
	Executive Board:		
	salaries	4,488	4,267
	pension	658	617
	Total	**6,765**	**6,489**

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
9	**Remuneration of senior executives**		
	The Board of Directors of P/F BankNordik		
	Klaus Rasmussen, chairman of the board	540	540
	Jens Erik Christensen, deputy chairman	360	360
	Bent Naur (from 30 March 2012)	135	0
	Keld Søndergaard Holm (Until 30 March 2012)	45	180
	Nils Sørensen	180	180
	Mette Dahl Christensen	180	180
	Kenneth M. Samuelsen	180	165
	Total	**1,620**	**1,605**

In all the consolidated companies, the remuneration of the Board of Directors is a fixed monthly salary.

	2012	2011
The Executive Board of P/F BankNordik		
Janus Petersen*:		
Fixed salary	2,668	2,537
Pension	394	375
Directors' emolument Vørður Trygging hf.	30	61
Total	**3,093**	**2,974**
John Rajani*:		
Fixed salary	1,789	1,355
Pension	264	195
Total	**2,053**	**1,550**
Total	**5,145**	**4,524**

* To which must be added employer-paid car and telephone with a tax value of DKK 97,000 (2011: DKK 96,000)

Pension and termination conditions:	Janus Petersen	John Rajani
Age at which the Executive Board member is entitled to retire	62	62
Notice of termination by the Bank, in months	36	24
Notice of termination by the Executive Board member, in months	12	12
Type of pension plan	Defined contribution through pension fund	Defined contribution through pension fund
Annual contribution	Bank contributes 15% of salary	Bank contributes 15% of salary

Notes – BankNordik Group

Note	DKK 1,000	2012	2011

9 **Shareholdings**

(cont'd) The number of shares in P/F BankNordik held by the members of the Board of Directors and the Executive Board at the end of 2012 totalled 20,343 and 18,518 respectively (end of 2011: 16,558 and 18,518). Note 39 contains details on related parties.

Remuneration of other executives (key decision makers)		
Fixed salary	5,357	4,958
Variable renumeration	0	80
Pension	724	697
Total	**6,082**	**5,736**

The executives included in this group are:

Árni Ellefsen, CFO
Rune Nørregaard, CCO
Jan Ulsø Madsen, CM Denmark
Henrik Jensen, CIO Denmark
Edvard Heen (until 30 September 2012)
Johnny í Grótinum (until 31 october 2012)

This group is defined as key decision makers of the Group, along with the Board of Directors and the Executive Board

The Group does not have bonus programmes.

Shareholdings
The number of shares in P/F BankNordik held by other executives at the end of 2012 totalled 5,370. (2011: 3,605) Note 39 contains details on related parties.

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
10	**Audit fees**		
	Fees to audit firms appointed at the general meeting	2,923	3,534
	Fees to audit firm regarding audit of Vørður	626	481
	Total audit fees	**3,550**	**4,015**
	Total fees to audit firms appointed at the general meeting break down as follows:		
	Statutory audit	1,333	1,853
	Other assurance engagements	825	724
	Tax and VAT advice	234	56
	Other services	532	902
	Total fees to audit firms appointed at the general meeting	**2,923**	**3,534**
11	**Amortisation, depreciation and impairment charges**		
	Amortisation charges for intangible assets	15,062	13,657
	Depreciation charges for tangible assets	12,231	7,521
	Total	**27,293**	**21,178**
12	**Other operating expenses**		
	Guarantee Fund for Depositors and Investors	10,828	20,695
	Other operating expenses	581	0
	Total	**11,409**	**20,695**
13	**Impairment charges on loans and advances etc.**		
	Loans and advances at amortised cost	111,826	71,850
	Loans and advances at fair value	11,352	9,136
	Guarantees and loan commitments	15,422	4,636
	Assets held for sale	9,569	15,183
	Total	**148,169**	**100,806**

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
13	**Individual impairment charges etc.**		
(cont'd)	Interest income on impaired loans is offset in impairments by	14,473	11,237
	New and increased impairment charges	176,742	139,876
	Reversals of impairment charges	43,226	38,696
	Write-offs charged directly to the income statement	20,091	959
	Received on claims previously written off	3,903	542
	Total individual impairment charges	**149,704**	**101,597**
	Collective impairment charges		
	New and increased impairment charges	1,168	5,148
	Reversals of impairment charges	2,703	5,940
	Total collective impairment charges	**-1,535**	**-792**
	Total impairment charges	**148,169**	**100,806**

Note		Faroes	Iceland	Denmark	Greenland	Total
14	**Tax 2012**					
	Tax on profit for the year	14,520	4,034	-4,210	4,053	18,396
	Total tax	**14,520**	**4,034**	**-4,210**	**4,053**	**18,396**
	Tax on profit for the year					
	Profit before tax	96,022	22,962	-11,025	13,511	121,470
	Current tax charge	4,455				4,455
	Change in deferred tax	12,194	4,034	-2,370	4,053	17,912
	Adjustment of prior-year tax charges	-3,972		0		-3,972
	Total	**12,678**	**4,034**	**-2,370**	**4,053**	**18,396**
	Effective tax rate					
	Tax rate	18.0%	20.0%	25.0%	31.8%	8.7%
	Non-taxable income and non-deductible expenses	-0.0%	16.4%	-3.5%	-1.8%	6.9%
	Tax on profit for the year	18.0%	16.4%	21.5%	30.0%	18.4%
	Adjustment on prior-year tax charges	-5.9%	0.0%	0.0%	0.0%	-3.4%
	Effective tax rate	**12.1%**	**16.4%**	**21.5%**	**30.0%**	**15.1%**

Notes – BankNordik Group

Note	DKK 1,000	Faroes	Iceland	Denmark	Greenland	Total
14	**Tax 2011**					
(cont'd)	Tax on profit for the year	21,203	2,218	-28,256	3,552	-1,283
	Tax on changes in shareholders' equity	4,162				4,162
	Total tax	**25,364**	**2,218**	**-28,256**	**3,552**	**2,879**
	Tax on profit for the year					
	Profit before tax	107,253	15,057	-105,722	14,102	30,690
	Current tax charge	23,689	3,201	-49,048	-8,027	-30,185
	Change in deferred tax	-2,616	-983	20,793	11,579	28,773
	Change in deferred tax due to changed tax rate, avg. exchange rate	130				130
	Total	**21,203**	**2,218**	**-28,256**	**3,552**	**-1,283**
	Effective tax rate					
	Tax rate	18.0%	20.0%	25.0%	30.0%	3.4%
	Non-taxable income and non-deductible expenses	-1.3%	-6.1%		0.8%	-8.1%
	Tax on profit for the year	16.7%	13.9%	-25.0%	30.8%	-4.2%
	Adjustment on prior-year tax charges	0.1%				0.4%
	Effective tax rate	16.8%	13.9%	-25.0%	30.8%	-3.8%

Note		2012	2011
15	**Cash in hand and demand deposits with central banks**		
	Cash in hand	113,882	120,797
	Demand deposits with central banks	530,453	188,154
	Total	**644,335**	**308,951**
16	**Loans and advances at fair value**		
	Nominal value	966,783	939,452
	Fair value adjustment	71,320	82,956
	Total	**1,038,103**	**1,022,408**

Of the total adjustment for credit risk on loans and advances at fair value, changes in 2012 were recognised as an expense of DKK 11m (2011: DKK 9m).

The changes in credit risk on borrowers are calculated on the same basis as described in the accounting policies regarding loans at amortised cost.

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
17	**Loans and advances, total**		
	Loans and advances	11,658,980	12,110,617
	Impairment charges	356,278	341,906
	Total	**11,302,702**	**11,768,711**
	Impairment charges		
	Individual impairment charges etc.		
	At 1 January	316,798	315,453
	New and increased impairment charges	190,913	135,632
	Reversals of impairment charges	39,649	37,216
	Written-off, previously impaired	135,647	97,012
	Foreign currency translation	2	-59
	At 31 December	**332,417**	**316,798**
	Collective impairment charges		
	At 1 January	25,137	25,928
	New and increased impairment charges	1,168	5,148
	Reversals of impairment charges	2,703	5,940
	At 31 December	**23,602**	**25,137**
	Total at 31 December	**356,019**	**341,935**

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
18	**Bonds at fair value**		
	Mortgage bonds	2,151,357	1,916,917
	Government bonds	389,457	387,831
	Other bonds	341,090	204,190
	Bonds at fair value	**2,881,904**	**2,508,938**
19	**Shares etc.**		
	Shares/unit trust certificates listed on the Copenhagen Stock Exchange	69,851	45,144
	Shares/unit trust certificates listed on other stock exchanges	171,100	181,535
	Total shares etc.	**240,951**	**226,678**
	Other shares at fair value using the fair-value option		
	Total purchase price at 1 January	151,108	124,467
	Additions	28,685	26,641
	Disposals	1,897	0
	Foreign currency translation	49	0
	Total purchase price at 31 December	**177,945**	**151,108**
	Revaluations at 1 January	-12,454	-18,807
	Revaluations for the year	5,069	6,353
	Revaluations at 31 December	**-7,385**	**-12,454**
	Book portfolio at 31 December	**170,561**	**138,655**
	Trading portfolio	240,951	226,679
	Other shares at fair value based on the fair-value option	170,561	138,655
	Total shares	**411,512**	**365,334**

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
20	**Assets under insurance contracts**		
	Non-life insurance		
	Reinsurers' share of provisions for unearned premiums	47,321	49,153
	Reinsurers' share of claims provisions	22,405	30,378
	Receivables from insurance contracts	15,957	14,027
	Total non-life insurance	**85,683**	**93,558**
	Maturing within 12 months	**15,957**	**14,027**
21	**Holdings in associates**		
	Cost at 1 January	22,300	22,300
	Additions	3,100	0
	Cost at 31 December	**25,400**	**22,300**
	Revaluations at 1 January	10,286	11,171
	Share of profit	1,716	-885
	Dividends	22,527	0
	Revaluations at 31 December	**-10,525**	**10,286**
	Carrying amount at 31 December	**14,875**	**32,586**

	Ownership %	Total assets	Total liabilities	Income	Net profit
Holdings in associates 2012					
P/F Løkir	30%	80,842	5,252	-164	2,203
P/F Elektron	34%	90,586	55,072	56,386	3,266
P/F Nema	28%	105,149	66,083	34,629	-1,257
Holdings in associates 2011					
P/F Løkir	30%	78,877	5,268	-57	947
P/F Elektron	34%	85,819	53,486	52,632	-3,404

The information disclosed is extracted from the companies' most recent annual reports (2011 and 2010).

Notes – BankNordik Group

Note DKK 1,000

22 **Intangible assets**

2012	Goodwill	Customer relations	Longterm cost	Total
Cost at 1 January	685,343	122,574	25,248	833,166
Additions			589	589
Re-assesment of fair value of loan acquired Amagerbanken	44,516			44,516
Adjustment to the purchase price Amagerbanken	-30,000			-30,000
Adjustment to contingent consideration Vørður	-3,086			-3,086
Foreign currency translation	8,359		-1,545	6,814
Cost at 31 December	**705,133**	**122,574**	**24,291**	**851,998**
Amortisation and impairment charges at 1 January		-9,129	-22,079	-31,208
Amortisation charges during the year		-12,257	-2,616	-14,874
Foreign currency translation			1,351	1,351
Amortisation and impairment charges at 31 December		**-21,386**	**-23,344**	**-44,730**
Carrying amount at 31 December	**705,133**	**101,188**	**947**	**807,268**
Amortisation period	Annual impairment test	10 years	3 years	

Intangible assets

2011	Goodwill	Customer Relations	Longterm Cost	Total
Cost at 1 January	360,560	40,000	25,230	425,790
Additions	308,526	82,574	882	391,982
Corrections	17,296			17,296
Foreign currency translation	-1,038		-864	-1,902
Cost at 31 December	**685,343**	**122,574**	**25,248**	**833,166**
Amortisation and impairment charges at 1 January		-1,000	-17,058	-18,058
Amortisation charges during the year		-8,129	-5,606	-13,734
Foreign currency translation			584	584
Amortisation and impairment charges at 31 December		**-9,129**	**-22,079**	**-31,208**
Carrying amount at 31 December	**685,343**	**113,446**	**3,169**	**801,958**
Amortisation period	Annual impairment test	10 years	3 years	

Notes – BankNordik Group

Note 22 (cont'd)

In 2009, BankNordik acquired goodwill in connection with the acquisition of the Icelandic company Vørður. In 2010, BankNordik acquired 12 branches in Denmark and Greenland from Sparbank. In 2011 BankNordik acquired 13 branches in Denmark from Amagerbanken. The goodwill is calculated at DKK 309m. An assessment of the goodwill is shown in note 37.

Vörður Tryggingar hf. and Vörður Líftryggingar hf. have capitalised long-term costs which are selling costs due to new insurance policies issued in the period. The amount is expensed over three years. Management considers this capitalisation as matching income and costs.

The remaining amortisation periods are seven to eight years for customer relations (2011: nine years), long-term cost nil to one year (2011: one to two years) and goodwill had an indefinite useful life in both 2012 and 2011.

IMPAIRMENT TEST

IMPAIRMENT TEST

The impairment test compares the carrying amount with the estimated present value of the anticipated future cash flows. 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 three to five years.

The impairment test of goodwill, customer relations, and longterm costs shows no need for impairment charges to be recognised in 2012.

Management assesses whether probable changes in basic assumptions will lead the carrying amount of goodwill to exceed its recoverable amount. Sensitivity analysis show that both the goodwill relating to the branches (Denmark and Greenland) and Vørður (Iceland) and the goodwill relating to customer relations (Denmark and Greenland) are very robust to changes in assumptions. In terms of the required rate of return after tax the tolerance regarding Denmark 2.1%, Greenland 3.0% and regarding Iceland 6.2%.

Impairment test:	**Denmark**	**Greenland**	**Iceland**
Carrying amount:			
Goodwill, branches	541m	113m	
Goodwill, Vørður			50m
Customer relations	90m	11m	
Budgetting assumptions:			
Interest margin	Stable	Stable	
Fees	Stable	Stable	
Costs/income	Declining	Declining	Declining
Impairments on loans and guarantees	0.9%	0.7%	
Loans	Minor Growth	Minor Growth	
Deposits	Stable	Stable	
Growth: Insurance income, net			2.5%
Impairment test:			
Budgetting period	**5 years**	**5 years**	**3 years**
Required rate of return after tax	8.3%	8.3%	13.9%
Growth rate, terminal period	2.5%	2.5%	2.5%
NPV, budgetting period (required rate of return after tax 8.3% and 13.9%)	308m	52m	52m
NPV, terminal period (required rate of return after tax 8.3% and 13.9%)	1172m	204m	119m
Tolerance of the impairment test	2.1%	3.0%	6.2%
Required impairment of goodwill and customer relations	None	None	None

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
23	**Investment property**		
	Fair value at 1 January	2,500	2,500
	Additions	16,633	0
	Reclassification from assets held for sale	134,016	0
	Reclassification from domicile property	16,344	0
	Fair value adjustment	-11,400	0
	Fair value at 31 December	**158,093**	**2,500**

Rental income from investment property amounted to DKK 0.1m in 2012 (2011: DKK 0.4m). Expenses directly attributable to investment property generating rental income amounted to DKK 0.2m (2011: DKK 2.5m).

The fair value of the investment property is estimated by the Groups valuation expert on the basis of location, maintenance, market rent and comparable market indicators.

Note	DKK 1,000	2012	2011
24	**Domicile property**		
	Cost at 1 January	215,934	138,515
	Additions	4,475	78,611
	Disposals	5,937	1,192
	Reclassification to investment property	16,344	0
	Cost at 31 December	**198,128**	**215,934**
	Adjustments at 1 January	-1,154	-619
	Depreciation charges during the year	-1,974	-540
	Reversal of depreciation charges on disposals during the year	361	6
	Adjustments at 31 December	**-2,766**	**-1,154**
	Revalued amount at 31 December	**195,362**	**214,781**

The depreciation period is 50 years
Required rate of return used in calculating the revalued value, 6%–7%
The value of the properties has not changed significantly. Consequently the fair value does not differ materially from the carrying amount at year end 2012. At year-end 2012 the carrying amount equals the revalued amount i e. DKK 193.3m. The group does not use external valuer when estimating the revaluated amount of the domiciel property.

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
25	**Other property, plant and equipment**		
	Cost at 1 January	80,629	59,636
	Additions	4,071	23,405
	Disposals	4,158	2,320
	Foreign currency translation	-796	-92
	Cost at 31 December	**79,746**	**80,629**
	Depreciation and impairment charges at 1 January	49,183	43,274
	Depreciation charges during the year	11,034	7,267
	Reversals of depreciation and impairment charges	4,121	1,359
	Foreign currency translation	-646	0
	Depreciation and impairment charges at 31 December	**55,450**	**49,183**
	Carrying amount at 31 December	**24,296**	**31,446**

The depreciation period is 3-5 years.

Note		2012	2011
26	**Deferred tax**		
	Deferred tax assets	43,407	22,105
	Deferred tax liabilities	56,433	14,192
	Deferred tax, net	**13,026**	**-7,913**

Change in deferred tax	At 1 Jan.	Foreign currency translation	Additions on acquisition	Included in profit for the year	Included in shareholders' equity	At 31 Dec.
2012						
Intangible assets	1,010			38,698		39,708
Tangible assets	12,509			-614		11,895
Securities	-514			-13		-527
Provisions for obligations	-201			201		
Tax loss carryforwards	-19,162			-17,814		-36,976
Foreign currency translation	-2,668			2,668		
Other	1,114			-2,187		-1,073
Total	**-7,913**			**20,939**		**13,026**

Adjustment of prior-year tax charges included in preceding item.

	At 1 Jan.	Foreign currency translation	Additions on acquisition	Included in profit for the year	Included in shareholders' equity	At 31 Dec.
2011						
Intangible assets	6,821			-5,812		1,010
Tangible assets	11,942			567		12,509
Securities	-514					-514
Provisions for obligations	-278			77		-201
Tax loss carryforwards	-23,499			4,337		-19,162
Foreign currency translation	-3,597				928	-2,668
Other	940			429	-255	1,114
Total	**-8,185**			**-401**	**673**	**-7,913**

Adjustment of prior-year tax charges included in preceding item.

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
27	**Assets held for sale**		
	Total purchase price, beginning of year	207,464	183,494
	Additions	6,606	44,629
	Disposals	46,029	0
	Reclassification to investment properties	134,016	20,659
	Total purchase price, end of year	**34,025**	**207,464**
	Impairment, beginning of year	38,483	22,700
	Impairment charges for the year	7,614	15,783
	Negative changes in value recognised in the income statement		
	Reversal of impairment on disposals and write offs during the year	-37,883	0
	Impairment, end of year	8,214	38,483
	Total assets held for sale, end of year	**25,811**	**168,980**
	Specification of assets held for sale		
	Real property taken over in connection with non-performing loans	25,200	167,721
	Other tangible assets taken over in connection with non-perf. loans	612	1,259
	Total	**25,811**	**168,980**

The item „Assets held for sale“ comprises only assets taken over in connection with non-performing loans.
The Group's policy is to dispose off the assets as quickly as possible.

Profit on the sale of real property and tangible assets taken over in connection with non-performing loans is recognised under the item „Other operating income“, and under the segment retail and corporate banking. The Group's real estate agency is responsible for selling the real property.
Under the assumption that the apartments in the real property project „Gráisteinur“ will not be sold within the next 12 months, the apartments have been reclassified from the item Total land and buildings to investment property, see note 23.

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
28	**Other assets**		
	Interest and commissions due	42,906	42,542
	Derivatives with positive fair value	37,554	80,070
	Other amounts due	69,856	32,751
	Total	**150,316**	**155,363**
29	**Liabilities under insurance contracts**		
	Non-life insurance		
	Provisions for unearned premiums	105,866	105,727
	Claims provisions	227,808	241,863
	Total non-life	333,674	347,590
	Life insurance		
	Life insurance provisions	2,561	2,372
	Other technical provisions	3,534	3,362
	Total life	6,094	5,734
	Total	**339,769**	**353,324**
30	**Other liabilities**		
	Sundry creditors	97,334	114,196
	Accrued interest and commissions	73,143	64,015
	Derivatives with negative value	89,603	110,391
	Other staff commitments	2,791	2,717
	Other obligations	123,940	119,197
	Total	**386,811**	**410,515**
31	**Provisions for losses on guarantees**		
	At 1 January	31,516	8,285
	Corrections	-3,386	0
	New and increased provisions	18,535	31,231
	Reversals of provisons	3,114	8,000
	At 31 December	**43,551**	**31,516**

The Group issues a number of guarantees in the ordinary course of its business. Such facilities are valued at the higher of the received premium amortised over the life of the individual guarantee and the provision made, if any. Provisions are made if it is likely that claims will be made under a guarantee and the amount payable can be reliably measured.

Notes – BankNordik Group

Note DKK 1,000

32 **Subordinated debt**

		Currency	Borrower	Principal	Interest rate	Year of issue	Maturity	Step-up clause	Redemption price	2012	2011
Subordinated loan capital	a	DKK	P/F BankNordik	270,000	8.4%	2011	9/24/2025	No	100	277,375	430,989
Hybrid core capital	b	DKK	P/F BankNordik	204,138	10.3%	2009	Perpetual	Yes	100	203,240	203,240
Hybrid core capital	c	DKK	P/F BankNordik	180,000	10.4%	2011	Perpetual	No	100	191,816	196,483
At 31 December 2012				**654,138**						**672,431**	**830,712**
Of which fair value hedging of interest rate risk										**23,634**	**0**

Step-up clause:

Hybrid core capital, DKK 204,138 (b)	**Optional redemption date**	**Price**
	28.9.2014	105
	28.9.2015	110

Interest rate:		**Until 23.6.2016**	**From 24.6.2016**
Subordinated loan capital	a	8.4%	CIBOR 3M + 7,5%
Hybrid core capital	c	10.4%	CIBOR 3M + 7,5%

Subordinated debt is included in the capital base in accordance with the Faroese Financial Business Act and applicable executive orders

The subordinated debt can not be converted into share capital. Early redemption of subordinated debt must be approved by the Danish FSA.

In the event of BankNordik's voluntary or compulsory winding-up, this liability will not be repaid until claims of ordinary creditors have been met.

Notes – BankNordik Group

Note DKK 1,000

Note	Balance sheet items broken down by expected due date	2012 < 1 year	2012 > 1 year	2011 < 1 year	2011 > 1 year
33	**Assets**				
	Cash in hand and demand deposits with central banks	644,335		308,951	
	Due from credit institutions and central banks	839,116		461,091	
	Loans and advances at fair value	204,067	834,036	245,708	776,700
	Loans and advances at amortised cost	1,604,064	8,660,535	3,544,862	7,201,622
	Bonds at fair value	1,224,175	1,657,729	1,386,324	1,122,614
	Shares, etc.	240,951	170,561	226,679	138,655
	Assets under insurance contracts	67,427	18,255	68,701	24,857
	Holdings in associates		14,875		32,586
	Intangible assets		807,268		801,957
	Assets under pooled schemes				121,210
	Total land and buildings		353,455		217,281
	investment property		158,093		2,500
	domicile property		195,362		214,781
	Other property, plant and equipment		24,296		31,446
	Current tax assets	6,846		6,356	
	Deferred tax assets		43,407	3,766	18,339
	Assets held for sale	25,811		168,980	
	Other assets	150,316		155,364	
	Prepayments	17,440		22,309	
	Total	**5,024,549**	**12,584,417**	**6,599,090**	**10,487,267**
	Liabilities				
	Due to credit institutions and central banks	288,052	1,000,000	329,316	
	Deposits and other debt	11,046,457	1,699,196	11,062,462	1,848,375
	Deposits under pooled schemes				121,210
	Issued bonds at amortised cost			98,276	
	Liabilities under insurance contracts	237,456	102,313	183,728	169,595
	Current tax liabilities	4,505		10,247	
	Other liabilities	386,811		410,515	
	Deferred income	18,400		18,517	
	Provisions for deferred tax		56,433		14,192
	Provisions for losses on guarantees	43,551		31,516	
	Subordinated debt		672,431		830,711
	Total	**12,025,232**	**3,530,372**	**12,144,578**	**2,984,084**

Deposits include fixed-term deposits and demand deposits. Fixed-term deposits are recognised at the maturity date. Demand deposits have short contractual maturities but are considered a relatively stable financing source with expected maturities exceeding one year.

Notes – BankNordik Group

Note DKK 1,000

Contractual due dates of financial liabilities

Note		0-1 month	1-3 months	3-12 months	1-5 years	> 5 years
34	**2012**					
	Due to credit institutions					
	and central banks	288,052			1,009,119	
	Deposits	8,825,000	1,901,544	213,412	399,772	1,512,997
	Derivatives settled on a net basis	3,021	865	579	17,688	-80,202
	Subordinated debt	20,914	10,381	46,715	452,387	656,609
	Provisions for losses on guarantees			43,551		
	Total	**9,136,987**	**1,912,790**	**304,257**	**1,878,965**	**2,089,403**
	Off-balance sheet items					
	Guarantees, etc.	39,562	135,046	147,101	242,996	1,257,265
	Total	39,562	135,046	147,101	237,442	1,257,265
	Total liabilities and off-balance					
	sheet items	**9,221,394**	**2,118,407**	**452,494**	**2,121,961**	**3,346,149**
	2011					
	Due to credit institutions					
	and central banks	251,974		77,342		
	Deposits	8,678,300	2,231,972	248,793	661,098	1,305,137
	Derivatives settled on a net basis	114	229	952	4,388	3,951
	Issued bonds	106	98,489			
	Subordinated debt	6,243	12,485	56,184	502,886	869,478
	Provisions for losses on guarantees			31,516		
	Total	**8,936,737**	**2,343,175**	**414,787**	**1,168,372**	**2,178,567**
	Off-balance sheet items					
	Guarantees, etc.	19,257	126,253	364,426	611,575	959,061
	Total	19,257	126,253	364,426	611,575	959,061
	Total liabilities and off-balance					
	sheet items	**8,955,994**	**2,469,429**	**779,212**	**1,779,947**	**3,137,628**

The maturity analysis is based on the earliest date on which the Group can be required to pay. Disclosures comprise agreed payments, including principal and interest. For liabilities with variable cash flows, for example variable rate financial liabilities, disclosure is based on the contractual conditions at the balance sheet date. Derivatives disclosures include the contractual cash flows for all derivatives, irrespective of whether the fair value at the balance sheet date is negative or positive and whether derivatives are held for trading or hedging purposes. Subordinated debt is included at the date when the BankNordik Group has a choice of redeeming the debt or interest rates liabilities increase. The Group did not have any defaults of principal, interest or other breaches with respect to the liability during the reporting period (2011:nil). Provisions for losses on guarantees are due if a number of predetermined conditions are met and included at the contractual due date of agreements.

Notes – BankNordik Group

Note	DKK 1,000	2012	2011
35	**Contingent liabilities**		
	The Group uses a variety of loan-related financial instruments to meet the financial requirements of its customers. These include loan offers and other credit facilities, guarantees and instruments that are not recognised in the balance sheet.		
	Guarantees		
	Financial guarantees	127,824	120,485
	Mortgage finance guarantees	507,446	652,781
	Registration and remortgaging guarantees	439,846	281,771
	Other guarantees	705,283	682,391
	Total	**1,780,400**	**1,737,429**

In addition, the Group has granted credit facilities related to credit cards and overdraft facilities that can be terminated at short notice. At the end of 2012, such unutilised credit facilities amounted to DKK 2.6bn (2011: DKK 3.1bn). The Group has not granted any irrevocable loan commitments.

Operational leasing (rent) liabilities amount to 20.3m. Renting contracts for an amount of DKK 14.1m have a 12 months term of notice, while renting contracts for DKK 6.2m have a term of notice from 1 to 5 years.

In connection with the acquisition of shares in Vørður Tryggingar hf. for a total nominal amount of ISK 2.406.328.750, BankNordik participated in two currency auctions conducted by the Icelandic central bank, at which foreign investors are allowed to buy ISK amounts at a discount. ISK amounts acquired at these auctions must be used for investments in Iceland, and if such investments are sold within five years of the date of the currency auction, the Icelandic central bank is entitled to claim one-third of the value of the investment at no consideration. On 30 March and 22 June 2012, BankNordik acquired ISK at an Icelandic central bank currency auction for the purpose of partially financing BankNordik's purchase of shares at nominal amounts of ISK 379,015,000 and of ISK 37,485,000, respectively in Vørður Tryggingar hf. Accordingly, the Icelandic central bank would be entitled to claim one third of the nominal value of ISK 379,015,000 and one third of the nominal value of ISK 37,485,000 of BankNordik's shares in Vørður Tryggingar hf. at no consideration, if BankNordik were to divest these shareholdings before 30 March 2017 and 22 June 2017, respectively. At the date of the currency auctions, the investments were valued at ISK 807,694,000 and ISK 120,050,000, respectively.

36 **Assets deposited as collateral**

At the end of 2012, the Group had deposited bonds at a total market value of DKK 227m with Danmarks Nationalbank (the Danish Central Bank) for clearing purposes (2011: DKK 110m). Furthermore, at the end of 2012 the Group has deposited at total of DKK 1.3bn of the Groups loan portfolio and deposited bonds at a total market value of DKK 165m as collateral with Danmarks Nationalbank in connection with the Group's borrowing of DKK 1 bn from Danmarks Nationalbank (2011: DKK nil).

At the end of 2012, the Group had deposited bonds at a total market value of DKK 56m as a collateral with Danske Bank and Nordea Bank and DKK 4m as a cash deposit with Nykredit. (2011: DKK 30m in total)

Notes – BankNordik Group

Note DKK 1,000

37 **Acquisitions of branches and Group enterprises**

2011

On 18 May 2011, P/F BankNordik concluded an agreement with Finansiel Stabilitet regarding the acquisition of all retail and most commercial customers from Amagerbanken. The acquisition date was 1 July 2011. Upon acquisition BankNordik paid DKK 235m in cash.

At the acquisition date, only the largest loans were reviewed in detail. As a result, in management's preliminary assessment the fair value of the loans taken over corresponded to the carrying amount immediately prior to the acquisition. However, based on the due diligence performed, management was aware that further impairment charges could be required on loans at amortised cost. In 2011, after having reviewed part of the loan portfolio, additional impairment charges were made amounting to DKK 156m. In 2012, after having reviewed the total portfolio, the Group has taken additional impairment charges amounting to DKK 45m, and other adjustments amounting to -30m. Thus, the Group adjusted the acquired goodwill by a total of DKK 15m, net, in 2012.

DKK 1,000	Preliminary 1 July 2011	Adjustments 2012	Final 1 July 2011
Fair value of net assets	-73,526	-14,516	-88,041
Goodwill acquired	308,526	14,516	323,041
Total purchase price	**235,000**	**0**	**235,000**

DKK 1,000	Preliminary fair value at the time of acquisition		Final fair value at the time of acquisition
Net assets acquired:			
Cash balances and demand deposits with central banks	63,800		63,800
Due from credit institutions	955,300		955,300
Loans and advances at fair value	101,214		101,214
Loans and advances at amortised cost:	3,641,586		4,093,224
Loans and advances at amortised cost, before acquisition	4,093,224	-14,516	4,078,708
Fair value adjustments	-451,638	-14,516	-466,154
Intangible assets:			
customer relations	82,574		82,574
Property, plant and equipment	41,600		41,600
Other assets	52,400		52,400
Total assets	**4,938,474**	**-14,516**	**4,923,959**
Deposits and other debt	**4,940,200**		**4,940,200**
Other liabilities	**71,800**		**71,800**
Total liabilities	**5,012,000**		**5,012,000**
Net assets acquired	-73,526	-14,516	-88,041
Purchase price	235,000		235,000
Goodwill	**308,526**		**323,041**

Notes – BankNordik Group

Note DKK 1,000

37 In connection with the acquisition BankNordik Group also has accepted contingent liabilities in the form of guarantees amounting to DKK 321m. The value of these guarantees is not considered significant.

(cont'd)

Due to insufficient information about earnings prior to the acquisition, it is not possible to calculate the total income and results for 2011 with any degree of reliability in the event that the net assets had been acquired as from 1 January 2011.

Contribution to total net interest and fee income in H2 2011 amounts to DKK 147m. It is not possible to calculate the the estimated total result prior to the acquisition with any degree of liability because BankNordik has purchased net assets and not independent businesses. Goodwill represents the value of the expected earning capacity of the acquired net assets that cannot be reliably attributed to the individual assets, including the value of staffs, the branches' know-how and position in the local community and expected synergies from merging with the BankNordik Group. Furthermore the liquidity surplus in the purchased branches has a significant positive inpact on Goodwill. The acquired goodwill is deductible for tax purposes.

Notes – BankNordik Group

Note DKK 1,000

38 **Related parties**

	Parties with significant influence		Associated undertakings		Board of Directors		Excecutive Board		Subsidiaries	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Assets										
Loans			53,640	21,480	634	1,866	3,059	2,069		
Investment properties									138,735	0
Total			**53,640**	**21,480**	**634**	**1,866**	**3,059**	**2,069**	**138,735**	**0**
Liabilities	2,533	2,289	1,933	3,106	2,184	2,361	1,010	1,008	117,657	91,683
Deposits										
Total	**2,533**	**2,289**	**1,933**	**3,106**	**2,184**	**2,361**	**1,010**	**1,008**	**117,657**	**91,683**
Off-balance sheet items										
Guarantees issued			2,115						10,942	12,010
Guarantees and collateral received			8,400	13,749	108	1,389	755		138,320	172,900
Income statement										
Interest income	2	1	4,049	1,493	10	9	105	113		925
Interest expense	26	214	2	4	28	42	13	10	1,142	1,804
Fee income	5		4		6		2		688	460
Other operating income									556	556
Administrative expenses									1,171	1,062
Total	**-19**	**-212**	**4,051**	**1,489**	**-12**	**-33**	**94**	**102**	**-1,070**	**-926**

Related parties with significant influence are shareholders with holdings exceeding 20% of P/F BankNordiks share capital. The shareholder Fíggingargrunnurin frá 1992 is the only party with significant influence.

Note 22 list associated undertakings.

In 2012, interest rates on credit facilities granted to associated undertakings were between 5.14%-14.5% (2011: 4.75%-10.8%).

The Board of Directors and Executive Board columns list the personal facilities, deposits, etc., held by members of the Board of Directors and the Executive Board and their deposits, etc., held by members of the Board of Directors and the Executive Board and their dependants and facilities with businesses in which these parties have a controlling or significant interest.

In 2012, interest rates on credit facilities granted to members of the Board of Directors and the Executive Board were between 2.28%-17.35% (2011: 3.25%-13.0%). Note 9 specifies the remuneration and shareholdings of the management.

P/F BankNordik acts as bank to a number of its related parties. Payment services, trading in securities and other instruments, investment and placement of surplus liquidity, endowment policies and provision of short-term and long-term financing are the primary services provided by the Bank.

Shares in P/F BankNordik may be registered by name. The management's report lists related parties' holdings of BankNordik's shares (5% or more of BankNordik's share capital) on the basis of the most recent holdings reported to the Bank.

Transactions with related parties are settled on an arm's-length basis.

Notes – BankNordik Group

Note **BankNordik shares held by members of the Board of Directors and the Executive Board**

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	Beginning of 2012	Additions	Disposals	End of 2012
Board of directors				
Klaus Rasmussen	14,362	2,785		17,147
Jens Erik Christensen	1,161			1,161
Bent Naur (from 30 March 2012)	0	1,000		1,000
Keld Søndergaard Holm (Until 30 March 2012)	2,600			2,600
Nils Sørensen	302			302
Mette Dahl Christensen	51			51
Kenneth M. Samuelsen	2,419			2,419
Total	**20,895**	**3,785**		**24,680**
Executive Board				
Janus Petersen	15,466			15,466
John Rajani	3,052			3,052
Total	**18,518**			**18,518**

Fair value information

Financial instruments are carried in the balance sheet at fair value or amortised cost. The table below breaks down for each item financial instruments by valuation method.

40 **Financial instruments, 2012 classification and measurement**

DKK 1,000	Fair value through profit and loss		Amortised cost		
	Held for trading	Designated	Loans and advances	Liabilities	Total
Assets					
Cash in hand and demand deposits with central banks			644,335		644,335
Due from credit institutions and central banks			839,116		839,116
Loans and advances at fair value					
Loans and advances at amortised cost		1,038,103	10,264,599		11,302,702
Bonds at fair value	2,881,904				2,881,904
Shares, etc.	240,951	170,561			411,512
Assets under insurance contracts			85,683		85,683
Derivatives with positive fair value	37,554				37,554
Total financial assets	**3,160,409**	**1,208,664**	**11,833,733**		**16,202,805**
Liabilities					
Due to credit institutions and central banks				1,288,052	1,288,052
Deposits and other debt				12,745,653	12,745,653
Liabilities under insurance contracts				339,769	339,769
Derivatives with negative fair value	89,603			0	89,603
Subordinated debt		319,313		353,118	672,431
Total financial liabilities	**89,603**	**319,313**		**14,726,592**	**15,135,508**

Notes – BankNordik Group

Note DKK 1,000

40 **Financial instruments, 2011 classification and measurement**

(cont'd) **Assets**	Fair value through profit and loss: Held for trading	Fair value through profit and loss: Designated	Amortised cost: Loans and advances	Amortised cost: Liabilities	Total
Cash in hand and demand deposits with central banks			308,951		308,951
Due from credit institutions and central banks			461,091		461,091
Loans and advances at fair value					
Loans and advances at amortised cost		1,022,408	10,746,484		11,768,892
Bonds at fair value	2,508,938				2,508,938
Shares, etc.	226,679	138,655			365,334
Assets under insurance contracts			93,558		93,558
Assets under pooled schemes	121,210				121,210
Derivatives with positive fair value	80,070				80,070
Total financial assets	**2,936,896**	**1,161,063**	**11,610,083**		**15,708,043**
Liabilities					
Due to credit institutions and central banks				329,316	329,316
Deposits and other debt				12,910,837	12,910,837
Deposits under pooled schemes				121,210	121,210
Issued bonds at amortised cost				98,276	98,276
Liabilities under insurance contracts				353,324	353,324
Derivatives with negative fair value	110,391			0	110,391
Subordinated debt		327,512		503,200	830,711
Total financial liabilities	**110,391**	**327,512**		**14,316,163**	**14,754,065**

Financial instruments at fair value

The fair value is the amount for which a financial asset can be exchanged between knowledgeable, willing and independent parties. If an active market exists, the Group uses a quoted price. If a financial instrument is quoted in a market that is not active, the Group bases its valuation on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance, by including transactions in similar financial instruments that are assumed to be motivated by normal business considerations. For a number of financial assets and liabilities, no market exists. In such cases, the Group uses recent transactions in similar instruments and discounted cash flows or other generally accepted estimation and valuation techniques based on market conditions at the balance sheet date to calculate an estimated value.

Generally, the Group applies valuation techniques to OTC derivatives, unlisted trading portfolio assets and liabilities and unlisted investment securities recognised at fair value. The most frequently used valuation and estimation techniques include the pricing of transactions with future settlement and swap models that apply present value calculations, credit pricing models and options models. In most cases, valuation is based substantially on observable input.

Unlisted shares recognised at fair value comprises unlisted shares who are not included in the Group's trading portfolio. Unlisted shares are recognised at fair value using the fair value option in IAS 39 and are measured in accordance with shareholders agreements and using generally accepted estimations and valuation techniques. The valuation of unlisted shares is based substantially on non-observable input.

Notes – BankNordik Group

Notes DKK 1,000

40 (Cont'd)

2012	Quoted prices	observable input	Non-observable input	Total
Financial assets				
Loans and advances at fair value		1,038,103		1,038,103
Bonds at fair value	2,881,904			2,881,904
Shares, etc.	240,951		170,561	411,512
Derivatives with positive fair value		37,554		37,554
Total	**3,122,855**	**1,075,657**	**170,561**	4,369,073
Financial liabilities				
Derivatives with negative fair value		89,603		89,603
Total		**89,603**		**89,603**

2011	Quoted prices	observable input	Non-observable input	Total
Financial assets				
Loans and advances at fair value		1,022,408		1,022,408
Bonds at fair value	2,508,938			2,508,938
Shares, etc.	226,679		138,655	365,334
Assets under pooled schemes	121,210			121,210
Derivatives with positive fair value		80,070		80,070
Total	**2,856,826**	**1,102,478**	**138,655**	4,097,959
Financial liabilities				
Derivatives with negative fair value		110,391		110,391
Total		110,391		110,391

Financial instruments valued on the basis of quoted prices in an active market are recognised in the Quoted prices category. Financial instruments valued mainly on the basis of other observable input are recognised in the Observable input category. The category covers derivatives valued on the basis of observable yield curves or exchange rates and illiquid mortgage bonds valued by reference to the value of similar liquid bonds. Other financial instruments are recognised in the Non-observable input category. This category covers unlisted shares and derivatives, and valuation relies on extrapolation of yield curves, correlations or other model input of material importance to valuation.

At 31 December 2012, financial instruments valued on the basis of non-observable input comprised unlisted shares of DKK 171m (2011: DKK 139m).

In 2012, the Group recognised unrealised value adjustments of unlisted shares valued on the basis of non-observable input in the amount of DKK 5m (2011: DKK 6m).

Financial instruments at fair value valued on the basis of non-observable input	**2012**	**2011**
Fair value at 1 January	138,655	105,660
Value adjustments through profit or loss	5,118	6,353
Acquisitions	28,685	26,641
Disposals	1,897	0
Fair value at 31 December	**170,561**	**138,655**

Value adjustments of unlisted shares are recognised under the item „Market value adjustments" in the income statement.

Notes – BankNordik Group

Note DKK 1,000

40 **Financial instruments at amortised cost**

(cont'd) The vast majority of amounts due to the Group, loans, advances, and deposits may not be assigned without the 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 instruments, and thus affecting the price that would have been fixed if the terms had been agreed at the balance sheet data. Other people may make other estimates. The Group discloses information about the fair value of financial instruments at amortised cost on the basis of the following assumtions:

- for many of the Group's deposits and loans, the interest rate is linked to developments in the market interest rate
- the fair value assessment of loans is assessed based on an informed estimate that the Bank in general regulates the loan terms in accordance with the prevailing market conditions
- the recognised impairment charges are expected to correspond to the day-to-day regulation of the specific credit risk, based on an estimation of the Bank's total individual and collective impairment charges
- the fair value assessment of fixed interest deposits is booked on the basis of the market interest rate on the balance sheet day
- the subordinated equity (hybrid capital) of the Bank is not listed and is recognised at amortised cost, because there is no real market for this product.

Financial instruments at amortised cost	Carrying amount 2012	Fair value 2012	Carrying amount 2011	Fair value 2011
Financial assets				
Cash in hand and demand deposits with central banks	644,335	644,335	308,951	308,951
Due from credit institutions and central banks	839,116	839,116	461,091	461,091
Loans and advances at amortised cost	10,264,599	10,264,599	10,746,484	10,746,484
Assets under insurance contracts	85,683	85,683	93,558	93,558
Total	11,833,733	11,833,733	11,610,083	**11,610,083**
Financial liabilities				
Due to credit institutions and central banks	1,288,052	1,288,052	329,316	329,316
Deposits and other debt	12,745,653	12,745,653	12,910,837	12,910,837
Deposits under pooled schemes			121,210	121,210
Issued bonds at amortised cost			98,276	98,276
Liabilities under insurance contracts	339,769	339,769	353,324	353,324
Subordinated debt	353,118	353,118	503,200	503,200
Total	14,726,592	14,726,592	14,316,163	**14,316,163**

Notes – BankNordik Group

Note DKK 1,000

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Group holdings and undertakings	Shared capital DKK	Func-tional currency	Net profit DKK 1.000	Shareholders' equity DKK 1.000	Share capital %
P/F BankNordik	200,000,000	DKK	103,099	2,046,255	100%
Insurance companies					
P/F Trygd	40,000,000	DKK	18,961	107,947	100%
Vörður Tryggingar hf	39,499,121	ISK	19,834	110,414	100%
Real estate agency					
P/F Skyn	4,000,000	DKK	974	2,072	100%
Venture capital company					
P/F Birting	10,000,000	DKK	-142	9,457	100%
Group holdings recognised under assets held for sale					
Sp/f 25.04.2008	80,000	DKK	-3,525	-133,622	0%
Sp/f Íbúðir undir Gráasteini	125,000	DKK	-3,878	-126,219	0%

42 **Assets under pooled schemes**

	2012	2011
Assets:		
Bonds	0	75,888
Shares	0	34,019
Unit trust certificates	0	12,864
Cash deposits	0	-1,562
Total assets	**0**	**121,210**
Liabilities	0	121,210
Total liabilities	**0**	**121,210**

Notes – BankNordik Group

Note DKK 1.000

43 **Reconciliation of changes in insurance liabilities**

	2012		2011	
	Non-life	Life	Non-life	Life
Unearned premium provisions	105,866	2,561	105,727	2,373
Outstanding claims provisions	227,808	3,534	241,863	3,362
Liabilities under insurance contracts, year-end	**333,674**	**6,094**	**347,590**	**5,735**
Unearned premium provisions				
Beginning of year	105,727	2,372	104,111	2,005
Foreign currency translation	-2,233	-76	-2,695	-69
Premiums received	289,038	6,220	85,849	0
Premiums recognised as income	-286,666	-5,956	-81,538	437
Unearned premium provisions, year-end	**105,866**	**2,561**	**105,727**	**2,373**
Outstanding claims provisions				
Beginning of year	241,863	3,362	213,500	2,218
Foreign currency translation	-4,875	-130	-6,351	-76
Claims paid regarding current year	-82,014	-1,879	-88,760	-672
Claims paid regarding previous years	-108,889	-651	-10,445	0
Change in claims regarding current year	153,062	1,998	140,349	2,861
Change in claims regarding previous years	28,662	835	-6,430	-969
Outstanding claims provisions, year-end	**227,808**	**3,534**	**241,863**	**3,362**

Reconciliation of changes in insurance assets	2012		2011	
DKK 1.000	Non-life	Life	Non-life	Life
Reinsurers' share of premium provisions	289	1,266	259	1,186
Reinsurers' share of claims provisions	20,593	1,812	28,527	1,762
Receivables from insurance contracts and reinsurers	60,369	0	60,450	1,374
Reinsurers' share of insurance contracts, year-end	**81,251**	**3,078**	**89,236**	**4,322**
Reinsurers' share of premium provisions				
Beginning of year	259	1,152	236	968
Foreign currency translation	0	-39	0	-34
Premiums ceded	-5,493	2,344	-5,195	218
Payments to reinsurers	5,523	-2,191	5,217	0
Reinsurers' share of premium provisions, year-end	**289**	**1,266**	**259**	**1,152**
Reinsurers' share of claims provisions				
Beginning of year	27,577	1,753	29,123	1,080
Foreign currency translation	-476	-97	-950	-10
Claims ceded	-1,682	-1,334	-1,189	-596
Payments received from reinsurers	2,714	1,492	593	1,278
Reinsurers' share of premium provisions, year-end	**28,134**	**1,813**	**27,577**	**1,753**

Note

Risk Management

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The BankNordik Group is exposed to a number of risks, which it manages at different organisational levels. The categories of risks are as follows:

- Credit risk: Risk of loss as a result of counterparties failing to meet their payment obligations to the Group
- Market risk: Risk of loss as a result of changes in the fair value of the Group's assets or liabilities due to changes in market conditions
- Liquidity risk: Risk of loss as a result of a disproportionate increase in financing costs, the Group possibly being prevented from entering into ventures due to a lack of financing or in extreme cases being unable to pay its dues as a result of a lack of financing
- Insurance risk: All types of risk in the insurance company TRYGD and Vörður Tryggingar hf, including market risk, life insurance risk (for Vörður Tryggingar hf subsidiary), business risk and operational risk
- Operational risk: Risk of loss as a result of inadequate or faulty internal procedures, human errors or system errors, or because of external events, including legal risks.

Management's Report and the Risk Management Report 2012 contain further information about the Group's approach to risk management. The Risk Management Report 2012 is available on the Group's website: www.banknordik.fo/ir

Capital Base

P/F BankNordik is a licensed financial services provider and must therefore comply with the capital requirements of the Faroese Financial Business Act of 16 March 2012. Faroese as well as Danish capital adequacy rules are based on the EU capital requirement directives and apply to both the parent company and the Group.

The capital adequacy rules call for a minimum capital level of 8% of risk-weighted assets plus any additional capital needed. Detailed rules regulate the calculation of capital and risk-weighted assets. Capital comprises core capital and subordinated debt.

Core capital largely corresponds to the carrying amount of shareholders' equity less goodwill and other intangible assets, etc.. The solvency presentation in the section Statement of Capital shows the difference between the carrying amount of shareholders' equity and the core capital. BankNordik's subordinated debt may, subject to certain conditions, be included in the capital base. Note 32 to the financial statements show the P/F BankNordik's subordinated debt.

At the beginning of 2012, the Group's core capital and solvency ratios were 12.4% and 15.6%, respectively. At the end of 2012, the core capital and solvency ratio were 12.9% and 14.8%, respectively. The Group's target is to have a solvency ratio at least 5 percentage points higher than the individual solvency ratio.

Credit risk

The Group's credit exposure consists of selected on and off-balance sheet items. The figures below are inclusive of individual and collective impairments. Specification of impairments are shown in tables 7 and 9.

Credit exposure — Table 1

(DKKm)	2012	2011
Credit institutions and central banks	816	726
Public	631	717
Personal	9,038	9,143
Corporate	6,550	7,166
Customers total	**16,219**	**17,025**
Total	**17,035**	**17,751**

Exposures related to trading and investment activities — Table 2

(DKKm)	2012	2011
Bonds at fair value	2,882	2,509
Derivates with positive fair value	38	80
Total credit risk	2,919	2,589
Equity	412	365
Total	**3,331**	**2,954**

Credit exposure in relation to lending activities includes items with credit risk that form part of the core banking operations.

Exposure in relation to trading and investment activities includes items with credit risk that form part of the Bank's trading-related activities, including derivatives. For details see the section "Market risk".

The Group extends credit on the basis of each individual customer's financial position, which is reviewed regularly to assess whether the basis for granting credit have changed. Each facility must reasonably match the customer's credit quality and financial position. Furthermore, the customer must be able to demonstrate, with all probability, his/her ability to repay the debt. The Group exercises prudence when granting credit facilities to businesses and individuals when there is an indication that it will be practically difficult for the Group to maintain contact with the customer. The Group is particularly careful when granting credit to businesses in troubled or cyclical industries. The Group's target is for individual industry sectors not to make up more than 10% of the Bank's total loans and advances and for long-term exposures in individual sectors not to exceed 10% of the Bank's capital base (see table 3).

Credit exposure
The credit exposure generated by lending activities comprises items subject to credit risk that form part of the Group's core banking business.

The credit exposure generated by trading and investment activities comprises items subject to credit risk that form part of the Group's trading activities, including derivatives. The following tables list separate information for each of the two portfolios.

Credit exposure relating to lending activities
The table below breaks down the Group's credit exposure in its core banking activities by asset class.

Exposures in fisheries was DKK 469m. This represents 3% of total exposures. DKK 146m was related to aquacultural industry. This represents 1% of total exposures.

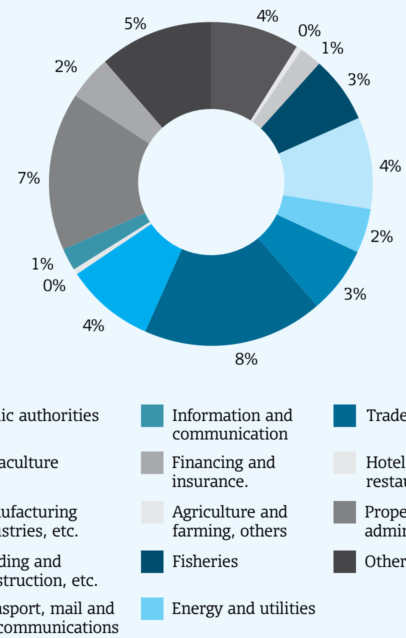
The industry diversification figure 1 breaks down the Group's credit exposure by sector.

No single industry exceeded 8% of total exposures.

Risk exposure concentrations — Table 3

(DKKm)	2012 DKKm	2012 In %	2011 DKKm	2011 In %
Public authorities	631	4%	717	4.2%
Corporate sector:				
Agriculture and farming, others	68	0%	79	0.5%
Aquaculture	146	1%	250	1.5%
Fisheries	469	3%	630	3.7%
Manufacturing industries, etc.	575	4%	539	3.2%
Energy and utilities	346	2%	174	1.0%
Building and construction, etc.	559	3%	895	5.3%
Trade	1,245	8%	1,319	7.7%
Transport, mail and telecommunications	616	4%	461	2.7%
Hotels and restaurants	24	0%	91	0.5%
Information and communication	173	1%	243	1.4%
Property administration, etc.	1,120	7%	1,103	6.5%
Financing and insurance	360	2%	441	2.6%
Other industries	850	5%	943	5.5%
Total corporate sector	6,551	40%	7,166	42.1%
Personal customers	9,038	56%	9,143	53.7%
Total	**16,219**	**100%**	**17,025**	**100.0%**

Risk exposure concentrations 2012 — Figure 1



Credit exposure broken down by geographical area
The Bank's loans are mainly granted to domestic customers in the Faroe Islands, Denmark and Greenland.

Credit exposure by Geographical area — Table 4

(DKKm)	2012 Exposures	2012 in%	2012 Loan/Credits	2012 Garanties	2011 Exposures	2011 in%	2011 Loan/Credits	2011 Garanties
Faroe Islands	7,568	47%	6,220	661	7,872	46%	6,631	535
Denmark	7,111	44%	4,503	676	7,732	45%	4,746	789
Greenland	1,540	9%	954	444	1,422	8%	771	422
Total	**16,219**	**100%**	**11,677**	**1,780**	**17,025**	**100%**	**12,148**	**1,746**

Quality of loan portfolio excl. financial institutions 2012				Table 5
(DKKm)		> 50m	< 50m	Total
Portfolio without weakness (3, 2a5)	Exposure in DKKm	2,161	4,846	7,006
Portfolio with some weakness (2b15, 2b30)	Exposure in DKKm	399	4,344	4,743
Portfolio with weakness (2c50)	Exposure in DKKm	0	723	723
	Unsecured	0	372	372
Portfolio with impairment/provision (1)	Exposure in DKKm	135	970	1,105
	Unsecured	31	513	544
	Impairments/provisions	33	343	376
Portfolio without individual classification	Exposure in DKKm	0	2,642	2,642
Total	**Exposure in DKKm**	**2,695**	**13,524**	**16,219**

Table 4 provides a geographical breakdown of total exposures.

Classification of customers

The Group monitors exposures regularly to identify signs of weakness in customer earnings and liquidity as early as possible. The processes of assigning and updating classifications on the basis of new information about customers form part of the Group's credit procedures.

The classification of customers is performed in connection with the quarterly impairment testing of the loan portfolio. All customers that meet a few objective criteria are classified in this exercise. The classification is also used as a means of determining the Bank's solvency requirement. The classification categories are as follows:

- 3 and 2a5 - Portfolio without weakness
- 2b15 and 2b30 - Portfolio with some weakness
- 2c50 - Portfolio with weakness
- 1 - Portfolio with impairment/provision

As shown in the table 5, 84% of total exposures are individually classified.

For further information on impaired portfolios, see table 7 to 9.

Concentration risk

In its credit risk management, the Group identifies concentration ratios that may pose a risk to its credit portfolio.

Under section 145 of the Faroese Financial Business Act, exposure to a single customer or a group of related customers, after deduction of particularly secure claims, may not exceed 25% of the capital base. The Group submits quarterly reports to the Danish FSA on its compliance with these rules. In 2012, none of the Group's exposures exceeded these limits.

The Bank has three customers with exposures exceeding 10% of the base capital. These three exposures are found in the aquaculture, energy sector and the property administration (owned by public authorities).

The Bank's long-term goal is to have no exposures in excess of 10% of the Bank's base capital. In special cases, such exposures may occur, but only for customers with a high credit quality, and where the Bank has accepted collateral.

Collateral

The Group applies various instruments available to reducing the risk on individual transactions, including collateral in the form of tangible assets, netting agreements and guarantees. The most important instruments that can be used to reduce risk are charges on tangible and intangible assets, guarantees and netting agreements under derivative master agreements.

The types of collateral most frequently provided are real estate, ships/aircraft and motor vehicles. In addition to guarantees provided by owners or, in the Danish market, by floating charge (virksomhedspant).

The Group regularly assesses the value of collateral provided in terms of risk management. It calculates the value as the price that would be obtained in a forced sale less deductions reflecting selling costs and the period during which the asset will be up for sale. To allow for the uncertainty associated with calculating the value of collateral received, the Group reduces such value by way of haircuts, see table 6. For real estate, haircuts reflect the expected costs of a forced

Credit exposure and collateral for 2012

Table 6

(DKKm)	Personal	Corporates	Personal & Corporate	Public	Total
Exposure	9,038	6,550	15,588	631	16,219
Loans, advances and guarantees, amount drawn	7,515	5,388	12,903	557	13,460
Collateral	5,398	3,771	9,169	185	9,354
Unsecured (of Exposures)	3,640	2,779	6,419	446	6,865
Unsecured (Loans, advances and guarantees, amount drawn)	2,117	1,617	3,733	372	4,105
Unsecured ratio	40%	42%	41%	71%	42%
Unsecured ratio balance	28%	30%	29%	67%	31%

Credit exposure and collateral for 2011

(DKKm)	Personal	Corporates	Personal & Corporate	Public	Total
Exposure	9,143	7,166	16,308	717	17,025
Loans, advances and guarantees, amount drawn	6,879	6,510	13,389	505	13,894
Collateral	5,122	3,610	8,732	258	8,990
Unsecured (of Exposures)	4,021	3,556	7,577	458	8,035
Unsecured (Loans, advances and guarantees, amount drawn)	1,757	3,143	4,900	247	5,146
Unsecured ratio	44%	50%	46%	64%	47%
Unsecured ratio balance	26%	48%	37%	49%	37%

Loan balance incl. impairments and guarantees.

sale and a margin of safety. This haircut is 20% of the expected market value. As a general rule, collateral for loans to public authorities is not calculated if there is no mortgage in real estate. For unlisted securities, third-party guarantees (exclusive of guarantees from public authorities and banks) and collateral in movables, the haircut is 100%.

Table 6 shows the Bank's total credit exposure and the collateral for the loans granted divided into personal, corporate and the public sector. Unsecured exposures accounted for 41% of personal exposures and 42% of corporate exposures. The largest part of the Bank's credit is granted against collateral in real estate.

As shown in table below, DKK 32m is more than 90 days past due.

According to IAS 39, OEI (Objective evidence of impairment) of a financial asset may appear before default, for example when a debtor is found to be in major financial difficulties or is likely to go bankrupt or enter into financial restructuring.

Exposures and individual impairments by sector

Table 7

(DKKm)	2012		2011	
	Exp.	Impair.	Exp.	Impair.
Public	631	0	717	0
Personal	9,038	116	9,143	62
Corporate	6,550	260	7,166	257
Total	**16,219**	**376**	**17,025**	**320**
In % of total exposure.		2.3%		1.9%

If OEI of a loan, advance or amount due exists, the Group determines the individual impairment charge. The charge equals the difference between the carrying amount and the present value of the estimated future cash flow from the asset, including the realisation val-

Distrubution of past due amount

Table 8

(DKKm)	2012 Exposure	2012 Past due total	2012 Past due > 90 days	2012 Total balance with past due	2011 Exposure	2011 Past due total	2011 Past due > 90 days
Portfolio without weakness	7,006	72	2	843	5,091	27	4
Portfolio with some weakness	4,743	51	6	769	2,381	35	12
Portfolio with weakness	723	14	4	164	492	18	9
Portfolio with impairment/provision	1,105	39	18	318	1,020	89	60
Portfolio without individual classification	2,642	21	1	228	8,041	56	16
Total	**16,219**	**197**	**32**	**2.322**	**17,025**	**225**	**102**
Past due in % of exposure		1.21%	0.20%			1.32%	0.60%

Specification of individual and collective Impairments				Table 9
	2012		2011	
DKKm	Individual impairments	Impairments from acquired portfolio	Individual impairments	Impairments from acquired portfolio
Faroe Islands	178	0	230	0
Denmark	181	469	74	474
Greenland	18	3	15	3
Total individual impairments	376	471	320	477
Collective impairments:				
Faroe Islands	17	0	20	0
Denmark and Greenland	6	3	5	5
Collective impairments total	24	3	25	5
Total impairments	**400**	**474**	**345**	**482**

ue of collateral. The Group estimates the future cash flow on the basis of the most likely scenario.

The total impairment charges above for 2012 do not reflect the impairments made at the date of the Bank's aquisition of exposures from Sparbank and Amagerbank, or wich should have been made at such date, but was not identified before in the period of 12 months following the relevant aquisition. Impairment charges of the acquired exposures from Sparbank (2010) and Amagerbanken (2011) are recognised as either part of the booked value of the aquired exposures or as goodwill. If such impairments are reversed, they will be recognised as other income.

Table 10 provides an overview of BankNordik's credit portfolio in 2012 and 2011.

According to IAS, the Bank determines the individual impairments when OEI is confirmed. An OEI does not necessarily result in impairment, if the Bank has adequate collateral. The amount is determined by the difference between the carrying amount and the present value of the estimated future cash flow from the asset, including the realisation value of collateral. Collateral values are reviewed on a regular basis. The Bank keeps tight control of all past due loans and advances and individual roadmaps are carefully implemented.

Credit portfolio 2012							Table 10
(DKKm)	Exposure	Balance*	Guarantee	Impairments	With Weakness (Balanced loans/ Guarantee)	OEI (Balanced)	Past due
Public authorities	631	557	-	-	-	-	15
Corporate sector:							
Fisheries, agriculture and fish farming	683	643	19	32	69	93	16
Aquaculture	146	140	2	-	-	-	-
Fisheries	469	443	7	17	65	60	15
Manufacturing industries, etc.	575	443	32	19	12	100	6
Energy and utilities	346	178	5	1	-	1	-
Building and construction, etc.	559	390	137	18	47	68	14
Trade	1,245	1,053	121	19	103	46	20
Transport, mail and telecommunications	616	515	25	6	11	16	6
Hotels and restaurants	24	22	-	3	1	7	-
Information and communication	173	154	6	2	1	4	1
Financing and insurance	360	280	11	19	15	52	3
Property administration, etc.	1,120	1,035	146	77	81	224	14
Other industries	850	676	242	64	30	137	14
Total corporate sector	6,551	5,389	742	260	370	746	93
Private customers	9,038	7,515	1,037	116	324	277	90
Total	**16,219**	**13,462**	**1,780**	**376**	**694**	**1.023**	**197**
In % of Total Exsposure		82.99%	10.98%	2.32%	4.28%	6.30%	1.22%

Credit portfolio 2011 (DKKm)	Exposure	Balance*	Guarantee	Impairments	With Weakness (Balanced loans/ Guarantee)	OEI (Bal- anced)	Past due
							Table 10
Public authorities	717	505	0	0	0	0	4
Corporate sector:	-	-	-	-	-	-	-
Fisheries, agriculture and fish farming	959	790	26	18	17	108	23
Aquaculture	79	53	13	5	4	30	-
Fisheries	630	585	12	13	13	78	-
Manufacturing industries, etc.	539	406	22	31	25	66	9
Energy and utilities	174	152	14	-	-	-	3
Building and construction, etc.	895	475	178	43	50	198	11
Trade	1,319	822	159	11	52	31	12
Transport, mail and telecommunications	461	375	33	17	8	21	5
Hotels and restaurants	91	64	9	0	4	6	2
Information and communication	243	201	7	0	6	2	3
Property administration, etc.	1,103	810	133	8	57	65	6
Financing and insurance	683	297	317	18	12	48	6
Other industries	943	620	114	110	27	192	36
Total corporate sector	7,408	5,012	1,011	257	257	738	114
Private customers	8,900	6,631	736	62	208	212	106
Total	**17,025**	**12,148**	**1,746**	**320**	**465**	**950**	**225**
In % of Total Esposure		71.35%	10.26%	1.88%	2.73%	5.58%	1.32%

A further breakdown by maturity of loans and advances can be found in table 11. There are no aggregated data on the collateral behind matured loans and advances.

Loans and advances, net specified by maturity (DKKm)	2012	2011
		Table 11
On demand	113	42
3 months or less	108	1,963
3 months to 1 year	1,384	1,786
1-5 years	3,712	3,577
Over 5 years	5,985	4,401
Total	**11,303**	**11,769**

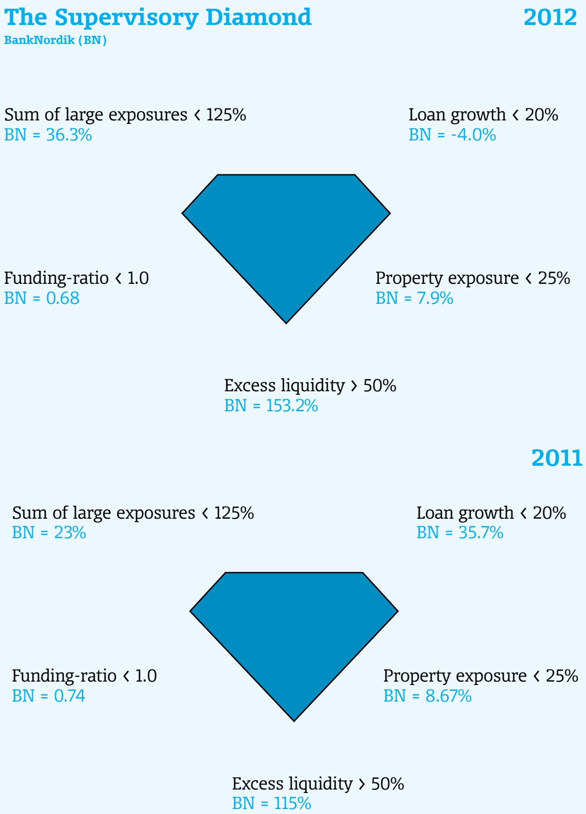
The Danish Financial Supervisory Agency (DFSA) applies a model for measuring whether a bank has a high-risk profile – the so called Supervisory Diamond ("Tilsynsdiamanten"). The model identifies five areas considered to be indicators of increased risk if not within certain limits.

The Bank meets by a wide margin the limits for large exposures, lending growth, exposures towards real estate, excess liquidity and stable funding.

Figure 2

The Supervisory Diamond

BankNordik (BN)



Market risk

The Group defines market risk as risk related to price fluctuations on the financial markets.

Several types of risk may arise and the Bank manages and monitors these closely.

BankNordik's markets risks are:

Interest rate risk:	Risk of loss caused by changes in interest rates
Exchange rate risk:	Risk of loss from positions in foreign currency when exchange rates change
Equity market risk:	Risk of loss from falling equity values

Policy and responsibility

The Group's market risk management relates to the Group's assets, liabilities and off-balance sheet items. The Board of Directors defines the overall policies/ limits for the Group's market risk exposures, including overall risk limits. The limit on market risk is set with consideration to the risk they imply, and how they match the Group's strategic plans.

On behalf of the Executive Board, the Group Risk Committee is responsible for allocating the market risk to the Group's major business areas. Historicaly, lines have mainly been granted to Treasury.

The stringent exchange risk policies supports the Group's investment policy of mainly holding listed Danish government and mortgage bonds, and to a lesser extent, investing in other markets and currencies.

Markets risk appétite

Factors:	Limits	Year end 2012
Interest rate risk	4% of Base Capital	1.3% of Base Capital
Exchange rate risk	16% of Base Capital	14.9% of Base Capital
Equity market risk	Listed equities < 20 % of Base Capital	13,7% of Base Capital

Finance Department monitors and reports market risk to the Board of Directors on a monthly basis and the Executive Board on a daily basis.

Market risk

The bank reviews its market risks exposure on a regular basis, and the likely amount market changes will have on the banks result. The likely changes are regularly revised and may be assessed on the basis of historic or anticipated market fluctuations.

Table 12 shows the likly effects on the Group's share capital from likly market changes to the Group's assets and liabilities:

- All Equities fall by 10%
- DKK falls 10% against other currencies (EUR by 2,25%)
- Upward parallel shift of yield curve of 100 bp

The calculation is basen on all factors developing in an unfavourable direction for the bank.

Interest rate risk

Table 13 shows the Group's total interest rate risk defines as the expected loss that would result from a parallel 1% upward shift of the interest rate specified by currency.

Market Risk Management

Level	Board of Directors	Executive Board	CFO	Treasury
Strategic	Defines the overall market risk			
Tactical		Delegating risk authorities to relevant divisions	Managing the Bank's market risk	Implementing
Operational			Controlling & Reporting	Trading

Likely effects from changes in markets value — Table 12

	Change	2012	% of Base Capital	2011	% of Base Capital
Equity risk DKKm (+/-)	10%	41.2	2.3%	39.1	2.0%
Exchange risk DKKm (+/-) EUR	2.25%	1.6	0.1%	0.3	0.0%
Exchange risk DKKm (+/-) Other currencies	10%	19.5	1.1%	15.5	0.8%
Interest rate risk DKKm (parallel shift)	100 bp	22.7	1.3%	35.0	1.8%

Interest rate risk broken down by Currency		Table 13
(DKKm)	2012	2011
DKK	6	20
ISK	16	13
EUR	1	1
Other	0	0
Interest rate risk	23	35

The major contributor to the groups interest rate risk is the bank's portfolio of Danish Government and mortgage bond. The exposure in ISK comes from the Groups Icelandic subsidiaries.

To a smaller extent loans are also offered with fixed or capped interest. Corporate loans are generally hedged on a one to one basis while personal loans are hedged in portfolios significantly reducing the interest risk on these loans.

Exchange risk

BankNordik's base currency is DKK and assets/liabilities in other currencies therefore imply an extra risk as these can vary over time relative to DKK. BankNordik's core business as a commercial bank makes it necessary to have access to foreign currencies and to hold positions in the most common currencies. Given the uncertainty of currency fluctuations, BankNordik's policy is to maintain a low currecncy risk.

The Group's exchange rate risk mainly stems from:

- customer loans/deposits in foreign currency
- Treasury's positions in foreign currency; and

Exchange rate indicator 1 is calculated as the highest position – short or long – in every currency includeing hedging. The exchange rate risk is monitored on a daily basis with respect to the limits defined for each currency.

Foreign exchange position		Table 14
(DKKm)	2012	2011
Assets in foreign currency	265	234
Liabilities and equity in foreign currency	0	133
Exchange rate indicator 1	265	234

Equity risk

BankNordik's stringent risk policy restricts equity positions to listed and liquid shares and shares related to the Danish banking sector, but occasionally the Bank holds unlisted shares if they are part of an enforcement of a defaulted loan.

The Group has acquired holdings in a number of unlisted banking-related companies. These are mainly investments in companies providing financial infrastructure and financial services to the Bank. For some of these investments, BankNordik's holding is rebalanced yearly according to the business volume generated by the Bank to the company.

Equity risk		Table 15
DKKm	2012	2011
Unlisted	31	7
Listed	242	252
Sector	138	132
Total	**411**	**391**

Liquidity

Liquidity risk is defined as the risk of losses as a result of

- increased funding costs
- a lack of funding of new activities
- a lack of funding to meet the Group's commitments

The Board of Directors has defined the bank's liquidity limits for the daily operational level and for budgeting plans.

Liquidity risk is a fundamental part of the Group's business strategy.

The Bank's liquidity is managed by Treasury In accordance with the limits set by the Board of Directors and reported to the Executive Board by the Finance department.

A liquidity report with stress tests is submitted to the Executive Board and the Group Risk Committee on

Liquidity Management

	Board of Directors	Executive Board	CFO	Treasury
Objective	Defines the objectives for liquidity policies			
Tactical		Sufficient and well diversified funding	Planning	Providing background materials
Operational			Monitoring	Establish contact

a monthly basis. The Bank has implemented contingency plans to ensure that it is ready to respond to unfavourable liquidity conditions.

Liquidity management in the Group is based on the ongoing monitoring and management of the Bank's short-tem and long-term liquidity risk and builds on four pillars: operational liquidity risk, liquidity stress testing, 12-month liquidity management and structural liquidity risk.

Operational liquidity risk

The organisation of the Group's operational liquidity risk management is set to ensure that the Group always has sufficient liquidity to handle customer's transactions and changes in liquidity.

BankNordik's bond portfolio forms a major part of the liquidity – see table 2. Therefore, it is essential, that the portfolio can be traded at fair prices at any time. BankNordik believes that a solid rating is one of the conditions for ensuring a fair price in the market. Hence, it is BankNordik's policy to invest in bonds with high ratings and thereby minimise the liquidity risk of the Bank's bond portfolio. These bonds are also accepted by the Danish central bank for repo transactions.

Rating of bonds — Table 16

	2012
Aaa	74%
Aa3	10%
Baa2	12%
Ba1	5%
B1	1%
Other / No rating	3%

Liquidity stress test

BankNordik has incorporated a liquidity stress testing model. This model is used at least monthly to forecast developments in the Bank's liquidity on a 12-month horizon and to forecast whether, on a 6-month horizon, the Bank will comply with the Board of Directors' policy that excess liquidity should equal approx. 100% of the statutory requirement. The test is based on the business-as-usual situation with outflows from undrawn committed facilities and further stress measures. If the 6-month forecast shows that liquidity surplus is below 80% of statutory requirements, the executive board implements the contingency plan.

Part of the stress test is to monitor and diversify the Bank's funding sources. It is also relevant, that the Group has a significant portfolio of bonds that can be used as collateral with the Danish central bank.

12 month liquidity

The Bank's 12-month funding requirements are based on projections for 2013, which were revised in December 2012 taking the current market outlook into account. The projections show similar volume growth in deposits and loans. Therefore, the Bank's lending growth will be fully funded internally.

Structural liquidity risk

Deposits are generally considered a secure funding source. Deposits are generally short term but the historical stability of them makes it possible for BankNordik to grant customers loans with much longer terms e.g. 20 years to fund residential houses. It is crucial for any bank to handle such maturity mismatch and associated risk, and therefore it is essential to have a reputation as a safe bank for deposits.

External medium to long-term funding in the international credit markets has proven uncertain and cannot be relied on. Hence, the Board of Directors has set strategic goal to reduce the dependence on external funding.

To avoid a run on the bank it is BankNordik's policy always to have strong liquidity from many different sources. Therefore, it is the Bank's policy to fur-

Loans and advances, net specified by maturity — Table 17

(DKKm)	2012	2011
On demand	113	42
3 months or less	108	1,963
3 months to 1 year	1,384	1,786
1-5 years	3,712	3,577
Over 5 years	5,985	4,401
Total	**11,303**	**11,769**

Deposit by maturity — Table 18

(DKKm)	2012	2011
On demand	8,825	8,709
3 months or less	1,899	2,228
3 months to 1 year	212	247
1-5 years	386	640
Over 5 years	1,424	1,208
Total	**12,746**	**13,032**

ther diversify the deposit base in terms of maturity amounts, products and, to an increasing extent, geographically.

Funding sources

The Group monitors its funding mix to make sure, that there is a satisfactory diversification between deposits, equity, hybrid capital, and long term loans from the financial markets. For furter information see note 32 in Annual Report 2012.

Funding sources Table 19

(DKKm)	2012	2011
Due to credit institutions and central banks	1,288	329
Issued bonds	0	98
Deposits	12,746	13,032
Subordinated debt (fair value)	672	831
Total	**14,706**	**14,290**

Insurance risk

Insurance risk in the Group consists mostly of non-life insurance risk. The Group has two non-life insurance companies: Trygd and Vörður, both wholly owned. Vörður holds a 100 %-stake in life insurance company Vörður Life.

Risk exposure for an insurance company can be defined as a contingency event, chain of events or bad management which can by itself, or by accumulation, seriously affect the annual results of the insurer and inextreme cases make it unable to meet its liabilities. Risks for an insurance operation are typically categorized as insurance risk, credit and market risk, operational risk, currency exchange risk and investment risk.

Careful and prudent risk management forms an integral part of any insurance operations. The nature of insurance is to deal with unknown future incidents resulting in a payment obligation. An important part of managing insurance risk is reinsurance. The Group must protect itself against dramatic fluctuations in technical results by entering into agreements on reinsurance so that the risk of the Group having to pay claims from its own funds is reasonable in relation to the risks assumed, their composition, TRYGD's and Vörður's equity.

This is done with statistical spread of risks and accumulation of funds, quantified by statistical methods, to meet these obligations.

Distrubution of portefolio of Vörður and Trygd Table 20

(in %)	2012	2011
Commercial lines	31%	30%
Personal lines	69%	70%

The Group has defined internal procedures to minimise the possible loss regarding insurance liabilities. TRYGD and Vörður evaluate their insurance risk on a regular basis for the purpose of optimising the risk profile. Risk management also involves holding a well diversified insurance portfolio. The insurance portfolio of TRYGD and Vörður is well diversified in personal and commercial lines (see table 20).

Insurance risk

The companies cover the insurance liabilities through portfolio of portfolio of securities and investment assets exposed to market risk.

The companies have invested in investment securities and cash and cash equivalents in the effort to balance the exposure to market and currency risk.

Financial assets linked to insurance risk Table 21

(mDKK)	2012	2011
Listed securities on stock exchange	120	301
Accounts receivable (total technical provisions)	62	60
Cash and cash equivalents	151	122
Total	**334**	**482**
Incurance contracts, short term, net	326	314

The Bank reviews its market risk exposure on a regular basis, and the likely effect of market changes on the Bank's results. The likely changes are revised on an ongoing basis and may be assessed in the context of historic or anticipated market fluctuations.

Markets risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and

Likely effects from changes in markets value

Table 22

	Change	2012	2011
Equity risk DKKm (+/-)	10%	12.7	1.8
Exchange risk DKKm (+/-) in euro	2.25%		
Exchange risk DKKm (+/-) others currency	10%		
Interest rate risk DKKm (parallel shift) - Trygd	100 bp	0.9	0.8
Interest rate risk DKKm (parallel shift) - Vörður Lif	100 bp	15.1	12.4
Interest rate risk DKKm (parallel shift) - Vörður	100 bp	1.1	0.5
Interest rate risk DKKm (parallel shift) Total	**100 bp**	**17.1**	**13.7**

equity prices affecting the Company´s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Trygd holds shares, bonds and cash in DKK only and Vörður is only exposed in ISK.

The Board of Directors sets out the instructions under which the companies operate. The Executive Management's role is to have internal procedures to monitor any risk on an ongoing basis to ensure compliance with the framework and to be able to meet future obligations.

TRYGD insurance

Insurance for individuals is primarily sold by the Group´s employees at TRYGD and in BankNordik's branches, and secondarily through selected collaboration partners. Insurance to commercial customers is mainly sold by employees at TRYGD.

The size of provisions for claims is based on individual assessments of the final costs of individual claims, supplemented by statistical analyses.

TRYGD policy

- Acceptance policy
- Business and service policy
- Reinsurance policy
- Claim policy
- Reserves policy

The Company's acceptance policy is based on a full customer relationship, which is expected to contribute to the overall profitability of the Group. In relation to acceptance of corporate insurance products the Board of Directors has approved a separate acceptance policy, which is implemented in protocol's in the corporate department.

Insurance provisions to cover future payments for claims arising are calculated using appropriate and generally recognised methods. Insurance provisions are made to cover the future risk on the basis of experience from previous and similar claims. These

Run-off gains/losses in Trygd

Table 23

(mDKK)

Sector:	2012	2011	2010	2009	2008
Industry	-4.9	1.66	0.92	-1.35	0.81
Personal	0.48	0.63	-0.59	-0.04	0.25
Accidents	0	0.02	-0.09	0.01	0.01
Automobile	2.8	2.54	1.30	-1.00	0.90
Total	**-1.62**	**4.84**	**1.53**	**-2.38**	**1.97**

methods and analyses are subject to the natural uncertainty inherent in estimating future payments, both in terms of size and date of payment.

An important part of managing insurance risk is reinsurance. The Group must protect itself against dramatic fluctuations in technical results by entering into agreements on reinsurance so that the risk of the Group having to pay claims from its own funds is reasonable in relation to the size of the risks assumed, their composition and TRYGD´s equity.

TRYGD has organised a reinsurance programme which ensures that large natural disasters and significant individual claims do not threaten TRYGD´s ability to meet its obligations. For large natural disasters, the total cost to TRYGD will amount to a maximum of DKK 10m. The reinsurance program is reviewed once a year and approved by the Board of Directors. TRYGD uses reputable reinsurance companies with good ratings and financial positions.

The Board of Directors at TRYGD has agreed on a low risk investment policy. In compliance with the legal requirements, Trygd holds reserves in respect of its liabilities under insurance contracts and these reserves are invested in Danish bonds, with at least 60% being placed in government bonds. TRYGD's strategy for safe investment in Danish bonds makes the company's exchange rate risk negligible. Trygd does not hold positions in equities.

TRYGD's Claims Function is responsible for handling all claims and only claims employees may deal with claims matters or advise claimants in specific claim cases. If this is not possible according to the terms of the insurance policy, in exceptional circumstances ex-gratia compensation may be granted if this is appropriate following an overall assessment of the claim, the history of the claim, and the customer's relationship with the Group.

Insurance provisions to cover future payments for claims arising are calculated using appropriate and generally recognised methods. Insurance provisions are made to cover the future risk on the basis of experience from previous and similar claims.

These methods and analyses are subject to the natural uncertainty inherent in estimating future payments, both in terms of size and date of payment.

Vörður insurance
Vörður operates risk management under the supervision and guidelines of the Icelandic FSA and according to recognized best practices within the insurance industry. The responsibility of risk management lies with the Board of Directors and the CEO.

The current investment strategies are extremely conservative with both predetermined spread of investments and with respect to type of assets. Furthermore, the companies are bound by regulation that determines allowable investments and how they are spread.

The current investment strategy is based on investments which ensure stable and reliable returns, such as government and mortgage bonds with high ratings, deposits and remotely in listed shares. Furthermore, the company applies prudent operational planning as regards expected investment income.

A monthly report is issued and presented to the Board of Directors of all outstanding default premiums. Accordingly, the default rate is carefully monitored. In addition, a procedure has been applied to ensure that the company gets off risk if premiums are not paid within 90 days of the due date.

Run-off gains/losses in Vörður (DKKm) — Table 24

Sector:	2012	2011	2010	2009	2008
Automobile	-6.45	4.85	-3.54	-12.29	-12.30
Other sectors	7.22	-2.98	-9.75	-7.95	-1.81
Total	**0.77**	**1.87**	**-13.29**	**-20.23**	**-14.11**

Vörður only deals with reinsurance companies with an S&P A-rating or better for long-tail business and at least BBB or better for short tail business. Current reinsurers of the company are all A rated or better with the exception for one small marine line for which the reinsurer is rated BBB. The risk of most reinsurance treaties is also spread on 2-8 different reinsurance companies according to the capacity of the treaty, spreading the risk of reinsurance default. The company sends quarterly reports of assets to the Icelandic Financial Supervisory Authority as required.

Operational risk

The capital adequacy regulation stipulates that banks must disclose all operational risks.

Definition
According to the Basel Committee, operational risk is defined as follows: I henhold til kapitaldækningsbekendtgørelsen skal pengeinstitutterne kapitalmæssigt afdække operationelle risici. Kapitalkravet til de operationelle risici skal dække: "Risiko for tab som følge af uhensigtsmæssige eller mangelfulde interne procedure, menneskelige fejl og systemmæssige fejl eller som følge af eksterne begivenheder, inklusive retslige risici".
"Risk of loss resulting from inadequate or faulty internal procedures, human errors and system errors, or because of external events, including legal risks."

Operational risk is thus often associated with specific and one-off events, such as clerical or record-keeping errors, defects or breakdowns of technical infrastructure, fraud by employees or outsiders, failure to comply with regulatory requirements, fire and storm damage, litigation or codes of conduct or adverse effects of external events that may affect the operations and reputation of the Bank.

Policy

The Bank seeks to minimise its operational risks throughout the organization by an extensive system of policies and control arrangements set up for the purpose of optimising procedures.

Measurement and control.

At the organisational level, banking activities are kept separate from the control function. Independent auditors perform the internal auditing in order to ensure that principles and procedures are complied with at all times.

Disaster recovery plans are in place for all of the Bank's core systems, all of which have been tested satisfactorily. The Bank has a back-up system for all of its core systems and other critical systems at a location different from the primary system, with full back-up of the primary system every 24 hours.

Although the Bank has implemented risk controls and taken loss-mitigating actions, and substantial resources have been devoted to developing efficient procedures and training staff, it is not possible to implement procedures, which are fully effective in controlling all operational risks.

The Bank therefore holds insurance policies in respect of property, office equipment, vehicles and employee compensation as well as general liability and directors' and officers' liability. In addition, the Bank holds insurance policies in respect of theft, robbery, transportation between branches and conveyance by post of amounts below a reasonable figure. The Bank believes that the type and relative amounts of insurance that it holds are in accordance with customary practice in its business area.

The Bank has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), during a period covering at least the previous 12 months, which may have, or have had in the recent past, significant effects on the Bank's financial position or profitability.

Note

Highlights, ratios and key figures, 5 year summary – BankNordik Group

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Highlights

DKK 1,000	2012	2011	2010	2009	2008
Net interest and fee income	808,552	680,654	589,019	455,049	381,326
Interest and fee income and income from insurance activities, net	889,527	735,006	643,679	496,928	400,790
Market value adjustments	19,369	9,761	16,914	23,915	-73,397
Other operating income	39,029	26,862	420,528	-10,756	91,638
Staff cost and administrative expenses	641,300	597,263	456,629	210,778	203,546
Impairment charges on loans and advances etc.	148,169	100,806	200,233	128,162	104,902
Net profit	103,073	31,971	312,743	111,047	87,727
Loans and advances	11,302,702	11,768,892	8,674,663	6,937,560	7,626,975
Bonds at fair value	2,881,904	2,508,938	3,497,466	1,252,056	940,201
Intangible assets	807,268	801,957	407,732	39,312	0
Assets held for sale	25,811	168,980	160,794	175,908	134,769
Total assets	17,608,966	17,086,357	14,243,358	10,267,021	10,066,685
Due to credit institutions and central banks	1,288,052	329,316	245,249	1,498,499	2,317,290
Deposits and other debt	12,745,653	13,032,047	8,843,972	5,496,550	5,494,199
Issued bonds at amortised cost	0	98,276	2,199,843	999,843	500,000
Total shareholders' equity	2,053,362	1,957,695	2,013,480	1,663,122	1,524,042

Ratios and key figures

	2012	2011	2010	2009	2008
Solvency					
Solvency ratio, %	14.8	15.6	17.0	26.2	20.6
Core capital ratio, %	12.9	12.4	17.2	26.6	20.8
Core capital ratio excl. hybrid core capital, %	9.6	9.1	15.2	23.6	20.8
Risk-weighted Items, DKKm	11,902	12,313	10,080	6,648	7,201
Profitability					
Return on equity before tax, %	6.1	1.6	20.9	8.5	6.7
Return on equity after tax, %	5.1	1.6	17.0	7.0	5.8
Income / Cost ratio	1.1	1.0	1.5	1.4	1.3
Cost / income, % (excl. value adjustm. and impairments)	73.1	84.0	47.1	50.5	43.8
Market risk					
Interest rate risk %	1.5	2.3	3.1	1.3	2.2
Foreign exchange position %	17.3	8.7	24.6	1.5	1.3
Liquidity					
Loans and advances plus impairment charges as % of deposits	91.5	92.9	101.9	131.4	148.2
Excess cover relative to statutory liquidity requirements, %	152.6	115.3	292.9	275.7	193.0
Credit risk					
Large exposures as % of capital base	36.3	23.3	22.8	22.8	84.7
Impairment and provisioning ratio, %	3.0	2.7	3.2	3.8	3.5
Write-off and impairments ratio, %	1.1	0.7	1.9	1.4	0.4
Share of amounts due on which interest rates have been reduced, %	1.7	1.9	1.6	3.8	2.7
Growth in loans and advances, %	-4.0	35.7	25.0	-9.0	2.4
Gearing of loans and advances %	5.5	6.0	4.4	4.2	5.0
Shares					
Earnings per share after tax, DKK	10.5	3.2	32.2	11.5	8.9
Book value per share, DKK	208.2	198.5	210.0	171.8	153.8
Proposed dividend per share DKK	1.0	0.0	4.0	0.0	0.0
Market price per share, DKK	76.0	78.8	144.0	131.3	120.0
Market price / earnings per share DKK	7.3	24.4	4.5	11.5	13.6
Market price / book value per share DKK	0.4	0.4	0.7	0.8	0.8
Other					
Number of full-time employees, end of period	550	612	433	288	243

Highlights, ratios and key figures – BankNordik Group

Highlights

DKK 1,000	Full year 2012	Full year 2011	Index 12 / 11	Unaudited Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net interest and fee income	808,552	680,654	119	208,052	197,435	198,425	204,641
Interest and fee income and income from insurance activities, net	889,527	735,006	121	225,818	226,120	219,032	218,556
Market value adjustments	19,369	9,761	198	6,099	3,605	-6,988	16,653
Other operating income	39,029	26,862	145	14,489	6,612	13,521	4,407
Staff cost and administrative expenses	641,300	597,263	107	146,624	140,585	159,413	194,678
Impairment charges on loans and advances etc.	148,169	100,806	147	45,812	21,104	58,059	23,194
Net profit	103,073	31,971	322	38,237	54,527	1,104	9,206
Loans and advances	11,302,702	11,768,892	96	11,302,702	11,271,249	11,429,708	11,375,544
Bonds at fair value	2,881,904	2,508,938	115	2,881,904	3,070,316	3,379,798	2,429,162
Intangible assets	807,268	801,957	101	807,268	832,968	834,424	807,341
Assets held for sale	25,811	168,980	15	25,811	40,199	60,412	189,490
Total assets	17,608,966	17,086,357	103	17,608,966	17,827,072	17,876,151	17,877,560
Due to credit institutions and central banks	1,288,052	329,316	391	1,288,052	1,287,746	1,024,008	1,119,571
Deposits and other debt	12,745,653	13,032,047	98	12,745,653	13,087,461	13,262,212	13,088,421
Issued bonds at amortised cost	0	98,276	0	0	0	0	98,276
Total shareholders' equity	2,053,362	1,957,695	105	2,053,362	2,012,716	1,957,252	1,968,803

Ratios and key figures

	Des. 31 2012	Des. 31 2011	Des. 31 2012	Sept. 30 2012	June 30 2012	March 31 2012
Solvency						
Solvency ratio, %	14.8	15.6	14.8	13.8	15.1	14.9
Core capital ratio, %	12.9	12.4	12.9	11.9	12.0	11.9
Core capital ratio excl. hybrid core capital, %	9.6	9.1	9.6	8.6	8.7	8.7
Risk-weighted Items, DKKm	11,902	12,313	11,902	11,940	12,032	12,504
Profitability						
Return on equity after tax, %	5.1	1.6	1.9	2.7	0.1	0.5
Cost / income, %	87.2	96.0	83.2	71.3	99.0	95.9
Cost / income, % (excl. value adjustm. and impairments)	73.1	84.0	66.4	63.3	71.1	92.7
Market risk						
Interest rate risk %	1.5	2.3	1.5	3.0	2.7	2.5
Foreign exchange position %	17.3	8.7	17.3	6.3	12.8	10.8
Liquidity						
Excess cover relative to statutory liquidity requirements, %	152.6	115.3	152.6	165.6	181.4	168.8
Credit risk						
Growth on loans and advances, %	-4.0	35.7	0.3	-1.4	0.5	-3.3
Gearing of loans and advances	5.5	6.0	5.5	5.6	5.8	5.8
Impairment and provisioning ratio, %	3.0	2.7	3.0	2.8	2.7	2.7
Write-off and provisioning ratio, %	1.1	0.7	0.4	0.2	0.4	0.2
Share of amounts due on which interest rates have been reduced, %	1.7	1.9	1.7	1.6	1.7	1.8
Shares						
Earnings per share after tax, DKK	10.5	3.2	3.9	5.5	0.1	0.9
Market price per share, DKK	76	79	76	67	69	77
Book value per share, DKK	208	198	208	204	198	199
Other						
Number of full-time employees, end of period	550	612	550	577	583	582

Definitions of key financial ratios

Key financial ratio	Definition
Earnings per share (DKK)	Net profit for the year divided by the average number of shares outstanding during the year
Diluted earnings per share (DKK)	Net profit for the year divided by the average number of shares outstanding during the year, including the dilutive effect of share options and conditional shares granted as share-based payments.
Return on average shareholders' equity (%)	Net profit for the year divided by average shareholders' equity during the year
Cost/income ratio (%) Excl. value adjustm. and impairments	Operating expenses divided by total income (Excl. value adjustments and impairments)
Cost/income ratio (%)	Operating expenses divided by total income
Income/cost ratio (%)	Total income divided by operating expenses
Solvency ratio	Total capital base, less statutory deductions, divided by risk-weighted assets
Core (tier 1) capital ratio	Core (tier 1) capital, including hybrid core capital, less statutory deductions, divided by risk-weighted assets
Core (tier 1) capital	Core (tier 1) capital consists primarily of paid-up share capital, plus retained earnings, less intangible assets
Hybrid core capital	Hybrid core capital consists of loans that form part of core (tier 1) capital. This means that hybrid core capital is used for covering losses if shareholders' equity is lost
Capital base	The capital base consists of shareholders' equity and supplementary capital, less certain deductions, such as deduction for goodwill. Supplementary capital may not account for more than half of the capital base
Supplementary capital	Supplementary capital consists of subordinated loan capital that fulfils certain requirements. For example, if the Group defaults on its payment obligations, lenders cannot claim early redemption of the loan capital
Risk-weighted assets	Total risk-weighted assets and off-balance-sheet items for credit risk, market Risk and operational risk as calculated in accordance with the Danish FSA's Rules on capital adequacy as applied in the Faroe Islands
Dividend per share (DKK)	Proposed dividend of the net profit for the year divided by the number of issued shares at the end of the year.
Share price at December 31	Closing price of BankNordik shares at the end of the year
Book value per share (DKK)	Shareholders' equity at December 31 divided by the number of shares outstanding at the end of the year
Number of full-time-equivalent staff At December 31	Number of full-time-equivalent staff (part-time staff translated into full-time staff) at the end of the year

Financial statement P/F BankNordik

Contents

Accounting Policies P/F BankNordik

The financial statements of the Parent Company, P/F BankNordik, are prepared in accordance with the Faroese Financial Business Act and with the executive order on financial reports of credit institutions etc of the Danish FSA as applied in the Faroe Islands. The valuation principles are identical to the Group's valuation principles under the International Financial Reporting Standards (IFRSs).

The only difference from IFRS is that the subsidiaries are recognised according to the equity method in the Financial Statements of the Parent Company. According to IFRS subsidiaries are recognised at cost or at fair value. The accounting policy described in note 1 to the consolidated financial statements is therefore also valid for the parent company.

Income statement – P/F BankNordik

Note	DKK 1,000	2012	2011
1	Interest income	805,081	741,143
2	Interest expenses	203,360	203,187
	Net interest income	**601,721**	**537,957**
3	Dividends from shares and other investments	2,000	1,340
4	Fee and commission income	198,240	143,617
4	Fee and commissions paid	7,987	9,584
	Net interest and fee income	**793,974**	**673,330**
5	Market value adjustments	14,431	-5,740
	Other operating income	34,891	23,654
6	Staff costs and administrative expenses	589,620	545,189
8	Amortisation, depreciation and impairment charges	22,491	14,131
	Other operating expenses	10,832	20,695
9	Impairment charges on loans and advances etc.	148,460	100,787
	Income from associated and subsidiary undertakings	41,284	9,733
	Profit before tax	**113,176**	**20,174**
10	Tax	10,078	-4,386
	Net profit	**103,099**	**24,560**
	Proposed profit allocation		
	Equity method reserve	41,284	9,733
	Dividends for the year	10,000	0
	Retained earnings	51,815	14,827
	Total	**103,099**	**24,560**

Statement of comprehensive income - P/F BankNordik

DKK 1,000	2012	2011
Net profit	103,099	24,560
Other comprehensive income		
Translation of non-Faroese subsidiaries	-4,723	-1,892
Tax on other comprehensive income	0	-255
Total other comprehensive income	-4,723	-2,147
Total comprehensive income	**98,376**	**22,413**

Balance Sheet – P/F BankNordik

Note	DKK 1,000	2012	2011
	Assets		
	Cash in hand and demand deposits with central banks	586,907	308,951
11	Due from credit institutions and central banks	815,856	417,553
12, 13	Loans and advances at fair value	1,038,103	1,022,408
12, 14	Loans and advances at amortised cost	10,264,594	10,746,303
16	Bonds at fair value	2,697,873	2,340,034
17	Shares, etc.	287,231	215,410
18	Holdings in associates	14,875	32,586
19	Holdings in subsidiaries	229,890	149,490
38	Assets under pooled schemes	0	121,210
20	Intangible assets	797,779	779,964
	Total land and buildings	351,419	215,297
21	investment property	175,416	19,823
22	domicile property	176,003	195,474
23	Other property, plant and equipment	21,491	28,528
	Current tax assets	6,846	6,356
24	Deferred tax assets	26,333	4
25	Assets held for sale	25,811	168,980
26	Other assets	144,678	149,630
	Prepayments	15,134	20,932
	Total assets	**17,324,821**	**16,723,635**

Balance Sheet – P/F BankNordik

Note	DKK 1,000	2012	2011
	Shareholders' equity and liabilities		
	Liabilities other than provisions		
27, 28	Due to credit institutions and central banks	1,288,052	329,316
29, 30	Deposits and other debt	12,861,466	13,001,465
38	Deposits under pooled schemes	0	121,210
31	Issued bonds at amortised cost	0	98,276
	Current tax liabilities	0	9,379
32	Other liabilities	351,620	335,597
	Deferred income	5,015	4,096
	Total amounts due	**14,506,152**	**13,899,339**
	Provisions for liabilities		
24	Provisions for deferred tax	56,433	14,192
33	Provisions for losses on guarantees	43,551	31,516
	Total provisions	**99,983**	**45,707**
	Subordinated debt		
35	Subordinated debt	672,431	830,711
	Total liabilities	**15,278,566**	**14,775,758**
	Shareholders' equity		
	Share capital	200,000	200,000
	Foreign currency translation reserve	18,443	16,373
	Reserve, equity method	81,383	40,099
	Retained earnings	1,736,429	1,691,405
	Proposed dividends	10,000	0
	Total shareholders' equity	**2,046,255**	**1,947,877**
	Total liabilities and equity	**17,324,821**	**16,723,635**

Statement of capital – P/F BankNordik

DKK 1,000

Changes in shareholders' equity	Share capital	Foreign currency translation reserve	Equity method reserve	Proposed dividends	Retained earnings	Total
Shareholders' equity at January 1, 2012	200,000	16,373	40,099		1,691,405	1,947,877
Translation of foreign units		2,070			-6,793	-4,723
Tax on entries on income recognised as Other comprehensive income						
Income recognised directly in shareholders' equity		2,070			-6,793	-4,723
Net profit			41,284	10,000	51,815	103,099
Total comprehensive income		**2,070**	**41,284**	**10,000**	**45,022**	**98,376**
Acquisition of own shares					-17,425	-17,425
Sale of own shares					17,428	17,428
Dividends payed						
Shareholders' equity at December 31, 2012	**200,000**	**18,443**	**81,383**	**10,000**	**1,736,429**	**2,046,255**

	capital	reserve	reserve	dividends	earnings	Total
Shareholders' equity at January 1, 2011	200,000	18,520	30,366	40,000	1,682,120	1,971,006
Translation of foreign units		-1,892				-1,892
Proposed dividends, subsidiaries						
Tax on entries in shareholders' equity		-255				-255
Income recognised directly in shareholders' equity		-2,147				-2,147
Net profit			9,733		14,827	24,560
Total comprehensive income		**-2,147**	**9,733**		**14,827**	**22,413**
Acquisition of own shares					-34,769	-34,769
Sale of own shares					28,839	28,839
Sale of own shares				-40,000	388	-39,612
Shareholders' equity at 31 December 2011	**200,000**	**16,373**	**40,099**	**0**	**1,691,405**	**1,947,877**

Statement of capital – P/F BankNordik

DKK 1,000	2012	2011
Share:		
Liabilities other than provisions		
Net profit	**103,073**	**31,971**
Average number of shares outstanding	9,863	9,910
Number of dilutive shares issued		
Average number of shares outstanding, including dilutive shares	**9,863**	**9,910**
Earnings per share, DKK	10.31	3.20
Diluted earnings per share, DKK	**10.45**	**3.23**

The share capital is made up of shares of a nominal value of DKK 20 each.
All shares carry equal rights, and there is only one class of shares.

	2012	2011
Average number of shares outstanding:		
Shares in issue at the beginning of the year, numbers in 1,000	10,000	10,000
Increase in share capital		
Shares in issue at 31 December	10,000	10,000
Group's average holding of own shares during the year	9,863	9,910
Average number of shares outstanding	**137**	**90**
Shares outstanding at 31 December	**9,863**	**9,910**

Holding of own shares	**Number 2012**	**Number 2011**	**Value 2012**	**Value 2011**
Investment portfolio	27,245	27,245	2,071	2,147
Trading portfolio	109,997	110,027	8,360	8,672
Total	**137,242**	**137,272**	**10,430**	**10,820**
Holding of own shares in per cent of total shares	1.4	1.4		

	Investment portfolio	**Trading portfolio**	**Total 2012**	**Total 2011**
Holding at 1 January	2,147	8,673	10,820	12,568
Acquisition of own shares	0	17,425	17,425	34,769
Sale of own shares	0	17,428	17,428	28,839
Value adjustment	-76	-311	-387	-7,678
Holding at 31 December	**2,071**	**8,360**	**10,430**	**10,820**

Cash flow statement – P/F BankNordik

DKK 1,000	2012	2011
Cash flows from operations		
Profit before tax	103,099	24,560
Adjustment of non-cash operating items		
Result from investments in subsidiaries	-39,568	-10,915
Result from associates	-1,716	885
Amortisation and impairment charges for intangible assets	12,272	8,129
Depreciation of tangible assets	10,219	6,003
Impairment of loans and advances/guarantees	152,009	101,328
Other adjustments	-2,000	-1,340
Paid tax	0	-54,625
Other non-cash operating items	-17,468	-79,838
Total	**216,846**	**-5,814**
Changes in operating capital		
Tax charged to the income statement	10,078	-4,386
Change in loans at fair value	-15,450	32,802
Change in loans at amortised cost	329,700	-3,148,314
Change in holding of bonds	-368,661	1,041,801
Change in holding of shares	-47,855	-52,398
Acquisition of Amagerbanken	30,000	-261,500
Change in deposits	-145,738	4,172,558
Due to credit institutions and central banks	-41,264	84,067
Change in other assets / liabilities	20,450	-71,576
Prepayments	6,716	-9,419
Cash flows from operations	**-5,177**	**1,777,821**
Cash flows from investing activities		
Dividends received	2,000	16,340
Acquisition of intangible assets	0	-171,200
Acquisition of tangible assets	-21,456	-58,360
Sale of tangible assets	4,474	1,985
Cash flows from investing activities	**-14,982**	**-211,235**
Cash flows from financing activities		
Acquisition of group undertakings and other business units/branches	-55,307	0
Increase in loans from central banks	1,000,000	0
Change in subordinated debt	-150,000	593,358
Acquisition of own shares	-17,425	-34,769
Sale of own shares	17,428	28,839
Payment of dividends	0	-39,684
Repayment of issued bonds	-98,276	-2,101,567
Cash flows from financing activities	**696,419**	**-1,553,823**
Cash flow	**676,259**	**12,763**

Cash flow statement – P/F BankNordik

DKK 1,000

	2012	2011
Cash and cash equivalents at 1 January	726,504	713,740
Change in cash and cash equivalents	676,259	12,763
Cash and cash equivalents at 31 December	**1,402,763**	**726,504**
Cash and cash equivalents at 31 December		
Cash in hand and demand deposits with central banks	586,907	308,951
Amounts due from credit institutions and central banks within three months	815,856	417,553
Total	**1,402,763**	**726,504**

Notes – P/F BankNordik

Note	DKK 1,000	2012	2011
1	**Interest income and premiums on forwards**		
	Credit institutions and central banks	2,293	9,753
	Loans and advances	758,423	683,072
	Bonds	57,464	67,367
	Total derivatives of which:	-12,637	-19,418
	Currency contracts	0	192
	Interest rate contracts	-12,637	-19,610
	Other interest income	-461	369
	Total interest income	**805,081**	**741,143**
2	**Interest expenses**		
	Credit institutions and central banks	339	274
	Deposits	128,017	129,705
	Issued Bonds	-56	22,803
	Subordinated debt	70,722	46,820
	Other interest expenses	4,339	3,585
	Total interest expenses	**203,360**	**203,187**
	Dividends from		
3	Shares	2,000	1,340
	Total dividends	**2,000**	**1,340**
4	**Net fee and commission income**		
	Fee and commission income		
	Securities trading and custody accounts	21,084	17,412
	Credit transfers	32,194	20,452
	Loan commissions	12,192	14,958
	Guarantee commissions	23,450	26,687
	Other fees and commissions	109,320	64,108
	Total fee and comission income	**198,240**	**143,617**
	Fee and commissions paid		
	Securities trading and custody accounts	7,987	9,584
	Net fee and commission income	**190,253**	**134,033**

Notes - P/F BankNordik

Note	DKK 1,000	2012	2011
5	**Market value adjustments**		
	Loans and advances at fair value	245	44,337
	Bonds	-10,286	-15,214
	Shares	23,967	-4,547
	Investment properties	-11,400	0
	Foreign exchange	4,555	-6,159
	Total derivatives of which:	-3,078	9,634
	Currency Swaps	16,548	3,583
	Interest Swaps	-21,014	-1,881
	Other contracts	1,388	7,932
	Other obligations	10,374	-33,792
	Assets under pooled schemes	-7,230	-2,756
	Deposits under pooled schemes	7,283	2,756
	Total market value adjustments	**14,431**	**-5,740**
6	**Staff costs and administrative expenses**		
	Executive remuneration:		
	Board of Directors	1,620	1,605
	Executive Board	5,055	4,884
	Total	**6,675**	**6,489**
	Note 9 to the consolidated financial statements contains additional information about the renumeration of the Executive Board and the Board of Directors		
	Staff costs:		
	Salaries	274,519	216,550
	Pensions	30,626	23,991
	Social security expences	32,199	28,384
	Total staff costs	**337,344**	**268,926**
	Total administrative expenses	252,276	276,264
	Total staff costs and administrative expenses	**589,620**	**545,189**
	As a consequence of the Bank's participation in Bank Package II a deduction is made in the taxable income relating to the remuneration of the executive board amounting to:	2,557	2,442
	Number of employees		
	Average number of full-time employees in the financial year	488	438
	For further information regarding remuneration etc. on executives, see note 9 to the consolidated financial statement		
7	**Audit fees**		
	Fees to audit firms appointed at the general meeting	2,628	3,201
	Fees to other firms for service other than audit	0	0
	Total audit fees	**2,628**	**3,201**
	Total fees to audit firms appointed at the general meeting		
	break down as follows:		
	Statutory audit	1,125	1,625
	Other assurance engagements	738	653
	Tax and VAT advice	234	56
	Other services	532	868
	Total fees to the audit firms appointed at the general meeting	**2,628**	**3,201**

Notes - P/F BankNordik

Note	DKK 1,000	2012	2011
8	**Amortisation, depreciation and impairment charges**		
	Amortisation charges for intangible assets	12,257	8,129
	Depreciation charges for tangible assets	10,233	6,003
	Total	**22,491**	**14,131**
9	**Impairment charges on loans and advances etc.**		
	Loans and advances at amortised cost	112,117	71,832
	Loans and advances at fair value	11,352	9,136
	Guarantees and loan commitments	15,422	4,636
	Assets held for sale	9,569	15,183
	Total	**148,460**	**100,787**
	Individual impairment charges etc.		
	New and increased impairment charges	176,731	139,469
	Reversals of impairment charges	43,112	38,308
	Write-offs charged directly to the income statement	19,924	959
	Received on claims previously written off	3,549	542
	Total individual impairment charges	**149,995**	**101,578**
	Collective impairment charges		
	New and increased impairment charges	1,168	5,148
	Reversals of impairment charges	2,703	5,940
	Total collective impairment charges	-1,535	-792
	Total impairment charges	**148,460**	**100,787**
10	**Tax**		
	Calculated tax charge for the year	0	-34,266
	Change in deferred tax	14,158	29,760
	Adjustment of prior-year tax charges	-4,081	120
	Total	**10,077**	**-4,386**
	Effective tax rate		
	Tax rate	18.0%	18.0%
	Non-taxable income and non-deductible expenses	-5.5%	-39.7%
	Adjustment on prior-year tax charges	-3.6%	0.1%
	Effective tax rate	**8.9%**	**-21.6%**

Notes – P/F BankNordik

Note	DKK 1,000	2012	2011
11	**Due from credit institutions etc. specified by maturity**		
	On demand	812,256	417,553
	3 months or less	3,600	0
	Total	**815,856**	**417,553**
12	**Loans and advances specified by sectors**		
	Public authorities	4%	6%
	Corporate sector:		
	Fisheries, agriculture and farming	5%	6%
	Industry and raw materials extraction	3%	3%
	Energy supply	1%	1%
	Building and construction	4%	3%
	Trade	8%	7%
	Transport, hotels and restaurants	4%	3%
	Information and communications	1%	2%
	Financing and insurance	6%	3%
	Real property	7%	7%
	Other industries	4%	4%
	Total corporate sector	**43%**	**39%**
	Retail customers	53%	56%
	Total	**100%**	**100%**
13	**Loans and advances at fair value specified by maturity**		
	On demand	0	2,613
	3 months or less	0	130,947
	3 months to 1 year	1,051	112,148
	Over 1 year to 5 years	160,720	312,013
	Over 5 years	876,332	464,686
	Total loans and advances	**1,038,103**	**1,022,408**
14	**Loans and advances at amortised cost specified by maturity**		
	On demand	113,112	39,461
	3 months or less	108,268	1,831,528
	3 months to 1 year	1,382,683	1,673,691
	Over 1 year to 5 years	3,551,475	3,265,410
	Over 5 years	5,109,056	3,936,212
	Total loans and advances	**10,264,594**	**10,746,303**

Notes – P/F BankNordik

Note DKK 1,000

15 **Impairment charges for loans, advances and guarantees, etc**

	Loans and advances individual impairment	Loans and advances collective impairment	Guarantees etc individual impairment	Total
Impairment charges at 1 January 2012	316,769	25,137	28,129	370,035
Impairment charges during the year	191,204	1,168	18,535	210,907
Reversal of impairment charges	39,649	2,703	3,114	45,466
Written-off, previously impaired	135,647			135,647
Impairment charges at 31 December 2012	**332,676**	**23,602**	**43,551**	**399,829**
Impairment charges at 1 January 2011	314,977	25,928	8,285	349,190
Impairment charges during the year	135,632	5,148	23,655	164,436
Reversal of impairment charges	36,828	5,940	3,811	46,579
Written-off, previously impaired	97,012			97,012
Impairment charges at 31 December 2011	**316,769**	**25,137**	**28,129**	**370,035**

	2012		**2011**	
	Individual	Collective	Individual	Collective
Total loans, advances and other amounts due (including portfolios) with OEI before impairment charges*	1,154,928	7,298,615	822,743	11,325,015
Carrying amount net of impairment charges	**822,251**	**7,275,014**	**505,974**	**11,301,413**

*(the amount does not include loans, advances and other amounts due recognised at nil)

Note		**2012**	**2011**
16	**Bonds at fair value**		
	Mortgage bonds	2,070,011	1,871,701
	Government bonds	310,769	267,559
	Other bonds	317,093	200,774
	Bonds at fair value	**2,697,873**	**2,340,034**
17	**Shares etc.**		
	Shares/unit trust certificates listed on the Copenhagen Stock Exchange	69,851	45,144
	Shares/unit trust certificates listed on other stock exchanges	51,185	34,427
	Total shares etc.	**121,036**	**79,571**

Notes – P/F BankNordik

Note	DKK 1,000	2012	2011
17	**Other shares at fair value using the fair-value option**		
(cont'd)	Total purchase price at 1 January	148,359	122,398
	Additions	27,185	25,961
	Disposals	1,897	0
	Total purchase price at 31 December	**173,647**	**148,359**
	Revaluations, at 1 January	-12,520	-18,807
	Revaluations for the year	5,069	6,287
	Revaluations, at 31 December	**-7,451**	**-12,520**
	Book portfolio, at 31 December	**166,196**	**135,839**
	Trading portfolio	121,036	79,571
	Other shares at fair value based on the fair-value option	166,196	135,839
	Total shares	**287,231**	**215,410**
18	**Holdings in associates**		
	Cost at 1 January	22,300	22,300
	Additions	3,100	0
	Cost at 31 December	**25,400**	**22,300**
	Revaluations at 1 January	10,286	11,171
	Share of profit	1,716	-885
	Dividends	22,527	0
	Revaluations at 31 December	**-10,525**	**10,286**
	Carrying amount at 31 December	**14,875**	**32,586**

	Ownership %	Total assets	Total liabilities	Income	Net profit
Holdings in associates 2012					
P/F Løkir	30%	80,842	5,252	-164	2,203
P/F Elektron	34%	90,586	55,072	56,386	3,266
P/F Nema	28%	105,149	66,083	34,629	-1,257
Holdings in associates 2011					
P/F Løkir	30%	78,877	5,268	-57	947
P/F Elektron	34%	85,819	53,486	52,632	-3,404

The information disclosed is extracted from the companies' most recent annual reports. (2011 and 2010)

Notes – P/F BankNordik

Note	DKK 1,000	2012	2011
19	**Holdings in subsidiaries**		
	Cost at 1 January	144,119	144,119
	Additions	50,220	0
	Disposals	6,087	0
	Cost at 31 December	**188,252**	**144,119**
	Revaluations at 1 January	5,372	11,262
	Corrections	0	-90
	Share of profit	39,738	10,362
	Dividends	0	-15,000
	Foreign currency translation	-3,472	-1,163
	Revaluations at 31 December	**41,638**	**5,372**
	Carrying amount at 31 December	**229,890**	**149,490**

	Ownership %	Share capital end of year	Shareholders' equity for the year	Profit/loss for the year
Holdings in subsidiaries				
P/F Trygd	100%	40,000	107,947	18,961
P/F Skyn	100%	4,000	2,072	974
Vørður Tryggingar hf	100%	39,499	110,414	19,834
P/F Birting	100%	10,000	9,457	-142
Sp/f 25.04.2008 (end-2011)	0%	80	-133,622	-3,525
Sp/f Íbúðir undir Gráasteini (end-2011)	0%	125	-126,219	-3,878

The information disclosed is extracted from the companies' most recent annual reports (P/F Trygd, P/F Skyn, P/F Birting and Vørður tryggingar hf for 2012, others for 2011). Regarding the subsidiaries Sp/f 25.04.2008 and Sp/f Íbúðir undir Gráasteini a disclosure is made in note 27 to the consolidated financial statements.

Notes – P/F BankNordik

Note DKK 1,000

20 **Intangible assets 2012**

	Goodwill	Customer relations	Total
Cost at 1 January	666,518	122,574	789,093
Additions	61,300		61,300
Adjustments	-36,748		-36,748
Foreign currency translation	5,520		5,520
Cost at 31 December	696,591	122,574	**819,165**
Amortisation and impairment charges at 1 January		-9,129	-9,129
Amortisation charges during the year		-12,257	-12,257
Foreign currency translation			
Amortisation and impairment charges at 31 December		**-21,386**	**-21,386**
Carrying amount at 31 December	**696,591**	**101,188**	**797,779**
Amortisation period	Annual impairment test	10 years	

Intangible assets 2011

	Goodwill	Customer relations	Total
Cost at 1 January	358,977	40,000	398,977
Additions	308,526	82,574	391,100
Foreign currency translation	-984		-984
Cost at 31 December	**666,518**	**122,574**	**789,093**
Amortisation and impairment charges at 1 January		-1,000	-1,000
Amortisation charges during the year		-8,129	-8,129
Amortisation and impairment charges at 31 December		**-9,129**	**-9,129**
Carrying amount at 31 December	**666,518**	**113,446**	**779,964**
Amortisation period	Annual impairment test	10 years	

In 2009, BankNordik acquired goodwill in connection with the acquisition of the Icelandic company Vørður. In 2010, BankNordik acquired 12 branches in Denmark and Greenland from Sparbank. In 2011, BankNordik acquired 13 branches in Denmark from Amagerbanken. An impairment test performed of the goodwill as of the end of 2012 shows no indication of impairment at 31 december 2012.

Note 22 to the consolidated financial statements contains information of BankNordik's impairment test of goodwill, customer relations and software.

Notes – P/F BankNordik

Note	DKK 1,000	2012	2011
21	**Investment property**		
	Fair value at 1 January	19,823	19,823
	Additions	16,633	0
	Reclassifications from Assets held for sale	134,016	0
	Reclassifications from Domicile property	16,344	0
	Fair value adjustment	-11,400	0
	Fair value at 31 December	**175,416**	**19,823**
	Required rate of return for calculation of fair value/revaluation (6–7% per annum)		
22	**Domicile property**		
	Cost at 1 January	196,611	119,193
	Additions	2,439	78,611
	Disposals	-3,937	1,192
	Reclassifications to investment property	-16,344	0
	Cost at 31 December	**178,769**	**196,611**
	Adjustments at 1 January	-1,138	-607
	Depreciation charges during the year	-1,990	-536
	Reversal of depreciation charges on disposals during the year	361	6
	Adjustments at 31 December	**-2,766**	**-1,138**
	Revalued amount at 31 December	**176,003**	**195,474**
	Required rate of return for calculation of fair value/revaluation, 5%–7%		
23	**Other property, plant and equipment**		
	Cost at 1 January	63,663	43,989
	Additions	2,384	21,681
	Disposals	537	2,008
	Cost at 31 December	**65,509**	**63,663**
	Depreciation and impairment charges at 1 January	35,134	30,955
	Depreciation charges during the year	9,395	5,388
	Reversals of depreciation and impairment charges	510	1,209
	Depreciation and impairment charges at 31 December	**44,019**	**35,134**
	Carrying amount at 31 December	**21,491**	**28,528**
	Depreciation period 3-10 years		

Notes – P/F BankNordik

Note	DKK 1,000	2012	2011
24	**Deferred tax**		
	Deferred tax assets	26,333	4
	Deferred tax liabilities	56,433	14,192
	Deferred tax, net	**30,099**	**14,188**

Change in deferred tax	At 1 Jan.	Other adjust-ments	Recognised in profit for the year	Recognised in other compre-hensive income	At 31 Dec.
2012					
Intangible assets	1,418		38,033		39,451
Tangible assets	12,420		-301		12,118
Securities	-514		463		-51
Provisions for obligations	-201		201		
Tax loss carryforwards			-20,345		-20,345
Other	1,065		-2,139		-1,074
Total	**14,188**		**15,911**		**30,099**
Adjustment of prior-year tax charges included in preceding item					
2011					
Intangible assets	6,859		-5,441		1,418
Tangible assets	11,817		602		12,420
Securities	-514				-514
Provisions for obligations	-278		77		-201
Other	1,065		255	-255	1,065
Total	**18,949**		**-4,507**	**-255**	**14,188**
Adjustment of prior-year tax charges included in preceding item					

25 Assets held for sale

Note 27 to the consolidated financial statement specifies the Bank's assets held for sale.

Notes – P/F BankNordik

Note	DKK 1,000	2012	2011
26	**Other assets**		
	Interest and commissions due	42,906	42,542
	Derivatives with positive fair value	37,554	80,070
	Other amounts due	64,218	27,018
	Total	**144,678**	**149,630**
27	**Due to credit institutions and central banks specified by institution**		
	Due to central banks	1,244,769	35,877
	Due to credit institutions	43,282	293,438
	Total	**1,288,052**	**329,316**
28	**Due to credit institutions and central banks specified by maturity**		
	On demand	288,052	251,974
	3 months to 1 year	0	77,342
	Over 1 year to 5 years	1,000,000	0
	Total	**1,288,052**	**329,316**
29	**Deposits specified by type**		
	On demand	8,869,902	8,632,036
	At notice	1,624,096	1,732,851
	Time deposits	487,096	821,631
	Special deposits	1,880,372	1,814,948
	Total deposits	**12,861,466**	**13,001,465**
30	**Deposits specified by maturity**		
	On demand	8,869,902	8,678,300
	3 months or less	1,969,253	2,227,489
	3 months to 1 year	212,231	247,300
	Over 1 year to 5 years	385,934	640,474
	Over 5 years	1,424,146	1,207,901
	Total deposits	**12,861,466**	**13,001,465**
31	**Issued bonds at amortised cost**		
	3 months or less	0	98,276
	Total issued bonds	**0**	**98,276**

Notes – P/F BankNordik

Note	DKK 1,000	2012	2011
32	**Other liabilities**		
	Negative fair value of derivatives	89,603	109,432
	Other liabilities	262,016	226,164
	Total	**351,620**	**335,597**

33	**Related parties**		
	DKK 1,000	**2012**	**2011**
		Subsidiaries	Subsidiaries
	Assets		
	Investment Properties	138,735	0
	Assets held for sale	0	170,991
	Total	**138,735**	**170,991**
	Liabilities		
	Deposits	117,657	91,683
	Total	**117,657**	**91,683**
	Off-balance sheet items		
	Guarantees issued	10,942	12,010
	Guarantees and collateral received	138,320	172,900
	Income Statement		
	Interest income	0	925
	Interest expense	1,142	1,804
	Fee income	688	460
	Other operating income	556	556
	Administrative expenses	1,171	1,062
	Total	**-1,070**	**-926**

Notes – P/F BankNordik

Note	DKK 1,000
34	**Provisions for losses on guarantees** Note 31 to the consolidated financial statements specifies the Bank's provisions for losses on guarantees
35	**Subordinated debt** Note 32 to the consolidated financial statements specifies the Bank's subordinated debt
36	**Contingent liabilities** Note 35 to the consolidated financial statements specifies the Bank's contingent liabilities
37	**Assets deposited as collateral** Note 36 to the consolidated financial statements specifies the Bank's assets deposited as collateral.
38	**Assets under pooled schemes** Note 42 to the consolidated financial statements specifies the Bank's assets under pooled schemes.
39	**Risk Management** The Risk Management section in note 44 to the consolidated financial statements specifies the Bank's risk management.

Note

Highlights, ratios and key figures, 5 year summary – P/F BankNordik

40

Highlights

DKK 1,000	**2012**	**2011**	**2010**	**2009**	**2008**
Net interest and fee income	793,974	673,330	566,130	449,235	374,989
Market value adjustments	14,431	-5,740	5,895	23,009	-73,596
Other operating income	34,891	23,654	417,534	-11,611	90,655
Staff costs and administrative expenses	589,620	545,189	408,034	191,534	188,108
Impairment charges on loans and advances etc.	148,460	100,787	200,807	128,120	104,902
Income from associated and subsidiary undertakings	41,284	9,733	30,426	20,827	12,132
Net profit	103,099	24,560	307,484	110,661	87,727
Loans and advances	11,302,698	11,768,711	8,674,007	6,936,530	7,627,626
Bonds at fair value	2,697,873	2,340,034	3,343,661	1,157,063	893,988
Intangible assets	797,779	779,964	397,977	27,857	0
Assets held for sale	25,811	168,980	160,794	175,908	134,769
Total assets	17,324,821	16,723,635	13,948,347	10,035,538	10,088,479
Due to credit institutions and central banks	1,288,052	329,316	245,249	1,498,333	2,317,290
Deposits and other debt	12,861,466	13,122,675	8,944,378	5,597,715	5,585,422
Issued bonds at amortised cost	0	98,276	2,199,843	999,843	500,000
Total shareholders' equity	2,046,255	1,947,877	1,971,078	1,619,245	1,524,042

Ratios and key figures:

Solvency					
Solvency ratio, %	14.8	15.6	17.0	26.2	20.6
Core capital ratio, %	12.9	12.4	17.2	26.6	20.8
Core capital ratio excl. hybrid core capital, end of period, %	9.6	9.1	15.2	23.6	20.8
Risk-weighted Items, DKKm	11,902	12,313	10,080	6,648	7,201
Profitability					
Return on equity before tax, %	5.7	1.0	21.0	8.2	6.8
Return on equity after tax, %	5.2	1.3	17.1	7.0	6.1
Income / cost ratio, DKK	1.1	1.0	1.6	1.4	1.3
Cost / income, % (excl. value adjustm. and impairments)	71.6	82.1	43.7	48.8	42.1
Market risk					
Interest rate risk, %	0.4	1.4	3.1	1.3	2.2
Foreign exchange position, %	17.3	8.7	24.6	1.5	1.3
Liquidity					
Loans, advances and impairments in relation to deposits, %	90.7	92.3	100.8	129.0	144.0
Excess cover relative to statutory liquidity requirements, %	132.7	99.8	280.6	275.7	193.0
Credit risk					
Large exposures as a percentage of equity, %	36.3	23.3	22.8	22.8	84.7
Impairment and provisioning ratio, %	3.0	2.7	3.2	3.8	3.5
Write-off and impairments ratio, %	1.1	0.7	1.9	1.4	0.4
Share of amounts due on which interest rates have been reduced, %	1.7	1.6	1.6	3.8	2.7
Growth on loans and advances, %	-4.0	35.7	25.0	-9.1	2.4
Gearing of loans and advances	5.5	6.0	4.3	4.3	5.0
Shares					
Earnings per share after tax, DKK	10.5	2.5	31.6	11.4	8.9
Book value per share, DKK	207.5	197.4	198.8	167.2	153.8
Proposed dividend per share DKK	1.0	0.0	4.0	0.0	0.0
Market price per share, DKK	76.0	78.8	144.0	131.4	120.0
Market price / earnings per share DKK	7.3	31.8	4.6	11.5	13.6
Market price / book value per share DKK	0.4	0.4	0.7	0.8	0.8
Other					
Average number of full-time employees	469	529	353	210	201

These ratios and key figures have been prepared in correspondence with regulations from the Danish Financial Supervisory Authority.

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BankNordik is a limited liability company incorporated and domiciled in the Faroe Islands.

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