Annual Report 2018

BANKNORDIK

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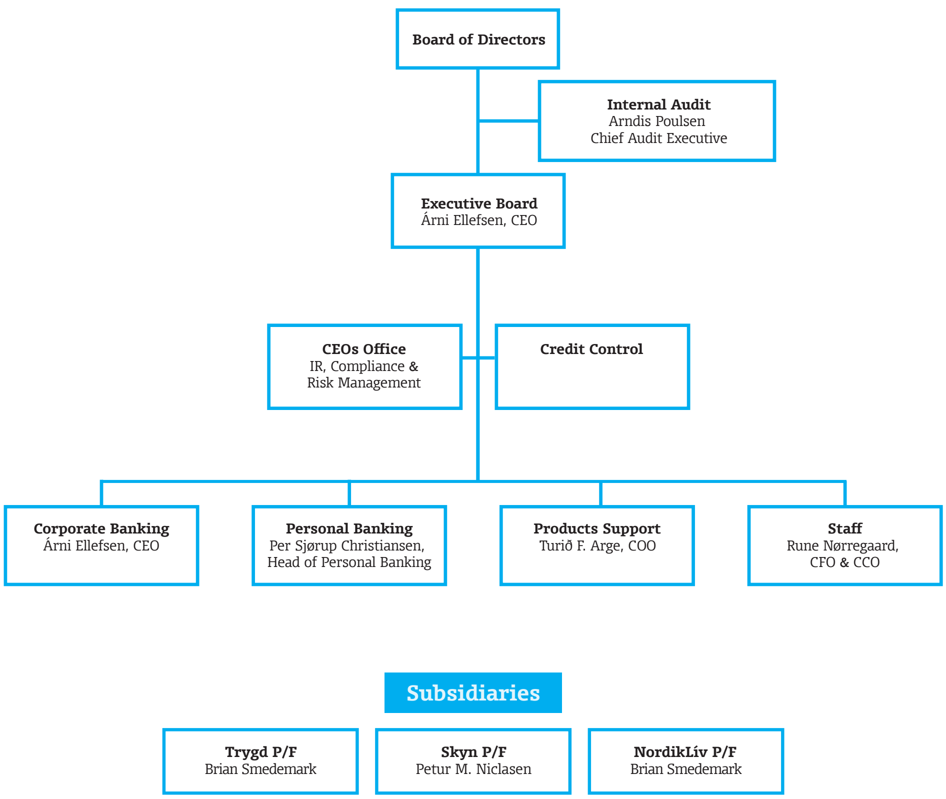
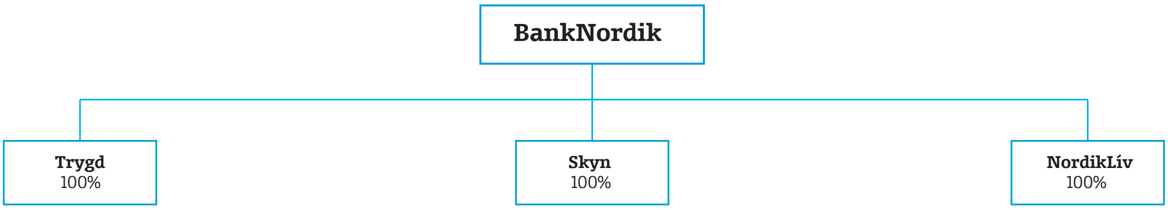
Contents

BankNordik Organisation

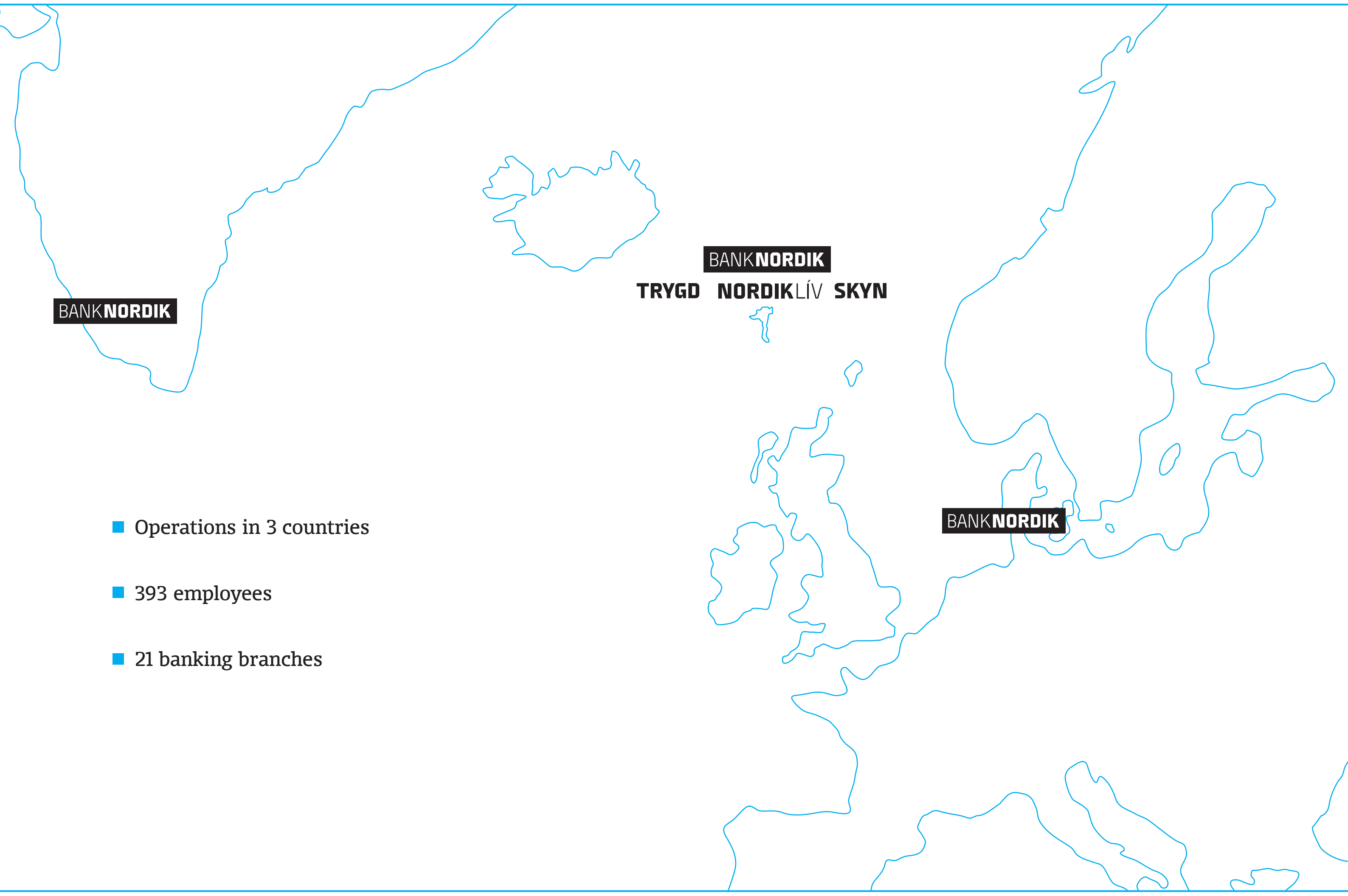


Overview of the Group



Banking is the principal business activity under the BankNordik brand in the Faroe Islands, Denmark and Greenland. The Group has non-life and life insurance operations in the Faroe Islands under the Trygd and NordikLív brands.

Other activities include Skyn, a Faroese estate agency.



- Operations in 3 countries
- 393 employees
- 21 banking branches

Highlights, ratios, and key figures - BankNordik Group

Highlights	Full year 2018	Full year 2017	Index 18/17	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Net interest income	374,143	387,216	97	92,349	94,286	93,235	94,273	95,086
Dividends from shares and other investments	11,396	5,400	211	83	77	10,962	275	102
Net fee and commision income	172,213	190,425	90	42,477	42,741	43,015	43,979	47,081
Net interest and fee income	557,752	583,041	96	134,909	137,104	147,212	138,527	142,269
Net insurance income	43,751	43,367	101	12,598	12,999	6,156	11,997	12,160
Interest and fee income and income from insurance activities, net	601,503	626,407	96	147,507	150,103	153,369	150,524	154,429
Market value adjustments	7,113	20,131	35	-5,538	4,330	-16,133	24,455	-3,921
Other operating income	19,947	33,534	59	2,311	-4,728	17,149	5,216	14,401
Staff costs and administrative expenses	459,247	453,630	101	114,145	115,025	112,077	118,000	110,358
Impairment charges on loans and advances etc.	-110,782	-35,107	316	-18,033	-45,736	-18,989	-28,023	-38,825
Net profit	262,097	189,078	139	32,763	60,050	50,832	118,452	77,103
Loans and advances	9,956,478	9,537,425	104	9,956,478	10,007,984	9,742,046	9,607,365	9,537,425
Bonds at fair value	4,565,087	4,262,730	107	4,565,087	4,558,273	4,622,270	4,490,952	4,262,730
Assets held for sale	20,364	6,302	323	20,364	4,861	4,911	5,775	6,302
Total assets	16,700,158	15,784,953	106	16,700,158	16,716,361	16,719,006	16,348,558	15,784,953
Due to credit institutions and central banks	298,610	360,497	83	298,610	320,950	440,414	385,384	360,497
Deposits and other debt	13,432,228	12,632,463	106	13,432,228	13,162,921	13,147,427	13,082,937	12,632,463
Total shareholders' equity	1,986,752	1,820,092	109	1,986,752	1,948,568	1,890,899	1,853,133	1,820,092

Ratios and key figures	Dec. 31 2018	Dec. 31 2017	Dec. 31 2018	Sept. 30 2018	June 30 2018	March 31 2018	Dec. 31 2017
Solvency							
Solvency ratio, %	19.8	19.7	19.8	17.6	18.5	18.9	19.7
Core capital ratio, %	17.7	17.5	17.7	15.5	16.3	16.7	17.5
Core capital ratio excl. hybrid core capital, end of period, %	17.7	17.5	17.7	15.5	16.3	16.7	17.5
Risk-weighted Items, DKK mill	10,621	9,895	10,621	10,634	10,219	10,058	9,895
Profitability							
Return on equity after tax, %	13.8	10.1	1.7	3.1	2.7	6.4	4.3
Cost / income, %	48.6	65.5	73.9	47.7	61.7	17.8	44.3
Cost / income, % (excl. value adjustm. and impairments)	67.0	72.8	83.2	80.5	67.0	38.6	66.3
Return on assets	1.6	1.2	0.2	0.4	0.3	0.7	0.5
Market risk							
Interest rate risk, %	1.7	1.6	1.7	2.2	1.8	1.7	1.6
Foreign exchange position, %	1.3	0.9	1.3	1.9	1.6	1.7	0.9
Liquidity							
Excess cover relative to statutory liquidity requirements, %	212.5	205.1	212.5	218.6	225.4	217.9	205.1
Credit risk							
Change in loans and advances, %	4.4	4.3	-0.5	2.7	1.4	0.7	-0.1
Gearing of loans and advances	5.0	5.2	5.0	5.1	5.2	5.2	5.2
Impairment and provisioning ratio, end of period, %	4.5	4.0	4.5	3.8	4.2	4.4	4.0
Write-off and provisioning ratio, %	-0.8	-0.3	-0.1	-0.3	-0.1	-0.2	-0.3
Share of amounts due on which interest rates have been reduced, end of period, %	0.8	0.4	0.8	0.4	0.4	0.4	0.4
Shares							
Earnings per share after tax (nom. DKK 20), DKK	27.1	19.5	3.4	6.1	5.2	12.2	7.9
Market price per share (nom. DKK 20), DKK	108.5	106.0	108.5	113.0	110.0	110.5	106.0
Book value per share (nom. DKK 20), DKK	207.2	187.2	207.2	202.1	195.7	190.9	187.2
Other							
Number of full-time employees, end of period	393	400	393	385	390	387	400

CEO's letter to shareholders

2018 was another year of progress for BankNordik as we continued to transform our Group into a customer-centric and efficient business creating enduring value for its stakeholders.

Strong financial results

BankNordik successfully delivered strong financial results in 2018. We continued expanding our business volumes and customer activity remained high, but pressure on net interest income persisted due to compressed interest margins. On the expenditure side, we managed to keep costs in check and improve the Group's cost structure. Impairment charges were reversed in the amount of DKK 111m and one-off gains netted out to DKK 72m. As a result, BankNordik recorded net profit of DKK 262m (DKK 27.1 per share outstanding) and delivered a return on equity of 13.8% in 2018. These results paved the way for a considerable return on capital to our shareholders. In addition to buying back shares for a transactional value of DKK 15m in 2018, a dividend of DKK 70m (DKK 7 per share) will be proposed at the upcoming AGM.

Building a customer-centric bank

Over the past year, we maintained our focus on improving the customer experience and strengthening our customer relationships. Our ongoing efforts to redesign the digital user interface form part of this process. The first step was taken in April, when we launched our new website. The next step, expected to be accomplished by 2020, is to fully integrate online banking, mobile banking and the Group's website into one single platform from which our customers can manage their finances with ease. These investments will render us capable of staying ahead of our customers' evolving digital needs.
Despite an ongoing change in consumer behaviour towards digital services, our experience tells us that building personal relationships remains a vital element in earning our customers' trust and loyalty for the long term. In 2018, we engaged more closely with the peripheral part of our customer base - customers with low volumes or little banking activity - by reaching out to over 10,000 customers to establish more personalised relations and assert confidence that BankNordik is a viable and worthy financial partner for the future. We believe these activities have contributed to recent improvements in satisfaction rates as discussed in greater detail in the management review section.

Operational efficiency and automation

The ongoing transformation of BankNordik necessitates that processes are streamlined and technology is put to use to enhance efficiency. In February, we carried out another round of centralisation by transferring administrative tasks from customer service to back-office operations to leverage the specialist skills of our people. Similarly, in September, we centralised all our investment services activities in the Faroe Islands to create a single strong unit capable of serving our clients across markets in a more financially sound manner. Another significant element in our efforts to drive efficiency is the use of technology. Through our cutting-edge data warehouse, we have gathered and organised a significant amount of data in recent years. This has laid the groundwork for the Group to start automating tasks through the use of statistics and robotics technology. A series of tasks are already being executed automatically on a daily basis, and we expect to further advance this agenda in the upcoming year.

Awaiting final MREL outcome

Due to our designation as a SIFI-bank in the Faroe Islands, the MREL add-on is yet to be announced. The add-on will be phased in gradually in 2020-2025 and expected to be covered by issuing Tier 3 capital. In the meantime, we will continue strengthening the Group's capital position: our year-end total capital ratio was 19.8%, up from 19.7% in 2017.

The year ahead

In 2019, we will continue to drive efficiency and deepen customer relationships. Technology will be applied to drive automation and improve digital capabilities, while rigorous cost discipline and process streamlining remain focal points in driving efficiency. At the same time, our hard-working team members at BankNordik stand well prepared to further expand the Group's collective capabilities and unite as a team to deliver superior customer experiences across the North Atlantic region. We look forward to another exciting year ahead.

Árni Ellefsen
Chief Executive Officer

Financial Review

Income statement, Group										
DKKm	**2018**	**2017**	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**
Net interest income	374	387	92	94	93	94	95	97	97	98
Net fee and commission income	172	190	42	43	43	44	47	39	53	51
Net insurance income	44	43	13	13	6	12	12	13	9	9
Other operating income (less reclassification)	45	28	9	10	15	12	8	7	7	5
Operating income	**635**	**649**	**156**	**160**	**157**	**162**	**162**	**156**	**166**	**164**
Operating costs[1]	-456	-462	-115	-111	-116	-115	-112	-114	-120	-116
Sector costs	-1	0	-0	-0	-0	-0	2	-1	-1	-1
Profit before impairment charges	**179**	**187**	**42**	**49**	**42**	**47**	**52**	**42**	**46**	**47**
Impairment charges, net	**111**	60	**18**	39	23	31	51	4	5	-0
Operating profit	**289**	**246**	**60**	**88**	**65**	**77**	**103**	**46**	**51**	**47**
Non-recurring items[2]	72	-18	-10	-6	12	76	-1	-17	0	0
Profit before value adjustments and tax	**361**	**228**	**50**	**81**	**76**	**154**	**101**	**29**	**51**	**47**
Market value adjustments[3]	-38	6	-12	-3	-17	-6	-10	1	4	11
Profit before tax	**323**	**235**	**38**	**78**	**59**	**148**	**92**	**30**	**55**	**57**
Operating cost/income, %	72	71	73	69	73	71	69	73	72	71
Number of FTE, end of period	393	400	393	385	390	387	400	407	407	416

[1] Comprises staff costs, administrative expenses and amortisation, depreciation and impairment charges (less reclassification to non-recurring items).

[2] Reclassified from Other operating income, Staff costs and administrative expenses and from Amortisation, depreciation and impairment charges.

[3] Incl. net income from investments accounted for under the equity method (excl. sector shares).

Please refer to page 17 for further information regarding the Income statement

"We are pleased to deliver strong profit in 2018, driven by a significant reversal of impairment charges and the sale leaseback of BankNordik's head office property both products of the Group's devotion to creating long-term value for our shareholders. Even though our top line was challenged by enduring interest margin compression, we were able to attract new business and build volumes," said BankNordik CEO, Árni Ellefsen.

The following comments relate to the adjusted figures and are generally stated relative to 2018.

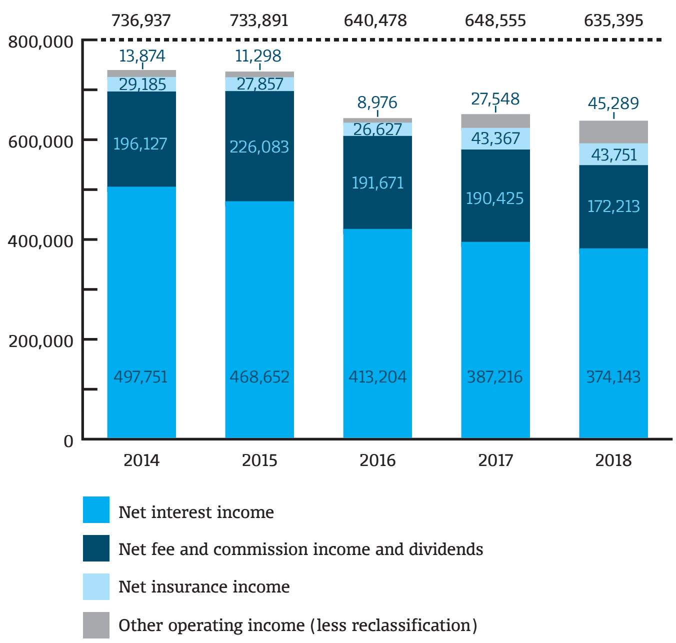
Income statement

Operating income

Net interest income amounted to DKK 374m in 2018 compared to DKK 387m in 2018. Tighter interest margins remained a challenge but the adverse effect on income was to some degree offset by an increase in both corporate and personal lending. Net fee and commission income declined by DKK 18m, from DKK 190m in 2017 to DKK 172m in 2018. This sharp drop was mainly due to a restructuring of asset management activity related to the implementation of MiFID II. Other operating income, on the other hand, increased by DKK 18m to DKK 45m in 2018. While insurance premiums grew notably in 2018, higher claims put a damper on net insurance income growth, resulting in net insurance income of DKK 44m in 2018 compared to DKK 43m in 2017. In total, the Group recognised operating income in the amount of DKK 635m in 2018, down 2% from 2017.

Operating income

(DKK 1,000)

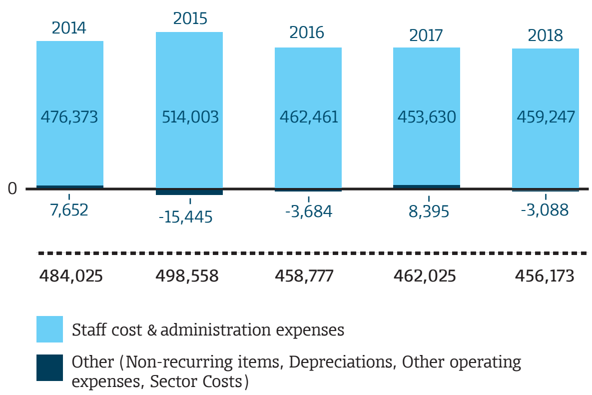


Operating costs

Operating costs fell by DKK 6m to DKK 456m in 2018 from DKK 462m in 2017, which was fully in line with the Group's aim of keeping expenditures flat until 2020. In spite of general wage pressures and a notable amount of resources devoted to implementing MiFID II and GDPR in 2018, BankNordik managed to keep costs below last year's level. This was achieved by applying persistent cost discipline and by taking continuous measures to drive efficiency, such as centralising operations, streamlining processes and automating tasks by using technology. Heading into 2019, BankNordik will continue to work towards improving its cost structure.

Operating costs

(DKK 1,000)

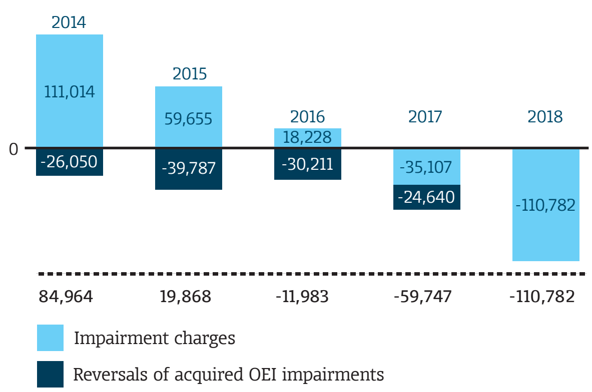


Net impairment charges

The Group once again recognised net impairment charge reversals, mirroring not only the current market environment but also the sound credit quality of the Group's portfolio. Net impairment charges amounted to a reversal of DKK 111m in 2018 relative to a reversal of DKK 60m in 2017. Considering the Group's low-risk approach, its strong loan-to-value private sector exposure accounting for about two thirds of the total loan portfolio and its corporate portfolio carrying only modest exposure towards historically risky industries, BankNordik expects to be able to sustain below industry average impairments going forward.

Impairments

(DKK 1,000)



(see also Note 14)

Operating profit

Operating profit came in at DKK 289m in 2018 compared to DKK 246m in 2017, an increase of DKK 43m due to the substantial reversal of impairment charges.

Non-recurring items

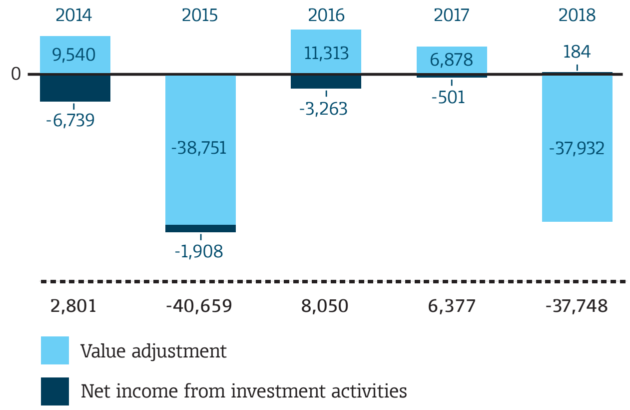
Non-recurring items amounted to DKK 72m in 2018, compared to a net expense of DKK 18m in 2017. The main item was the sale and leaseback of the Group's head office property, which triggered a gain of DKK 70m. A revaluation gain of DKK 21m was also recognised as a one-off item related to BankNordik's equity position in BI Holding A/S, while severance costs related to organisational adjustments amounted to DKK 11m and other non-recurring costs amounted DKK 8m.

Market value adjustments

Market value adjustments amounted to a loss of DKK 38m in 2018, compared to a profit of DKK 6m in 2017. These adjustments primarily reflect the spread risk widening in the Danish bond market in 2018 and to a lesser extent changes in interest rates.

Market value adjustments

(DKK 1,000)



Profit before tax

Profit before tax amounted to DKK 323m in 2018, up DKK 88m from DKK 235m in 2017, mainly attributable to extraordinarily large reversals of impairment charges and a gain on the sale and leaseback of the Group's head office property.

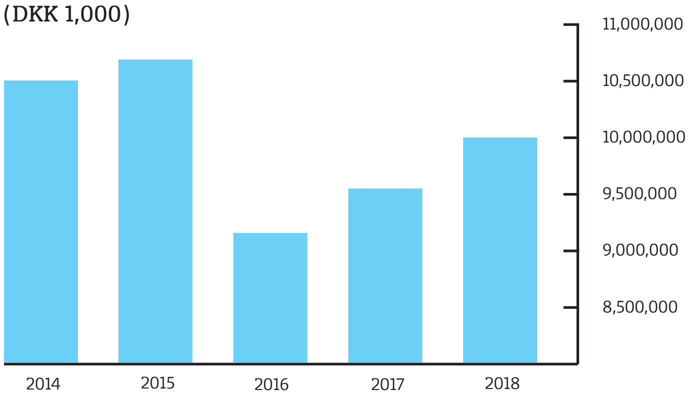
Balance sheet

Lending

Loans and advances amounted to DKK 9,956m in 2018 compared to DKK 9,537m in 2017. Corporate lending volumes increased by DKK 289m, while personal lending volumes increased by DKK 130m. In addition, the Group increased its brokered mortgage volumes by DKK 371m in 2018.

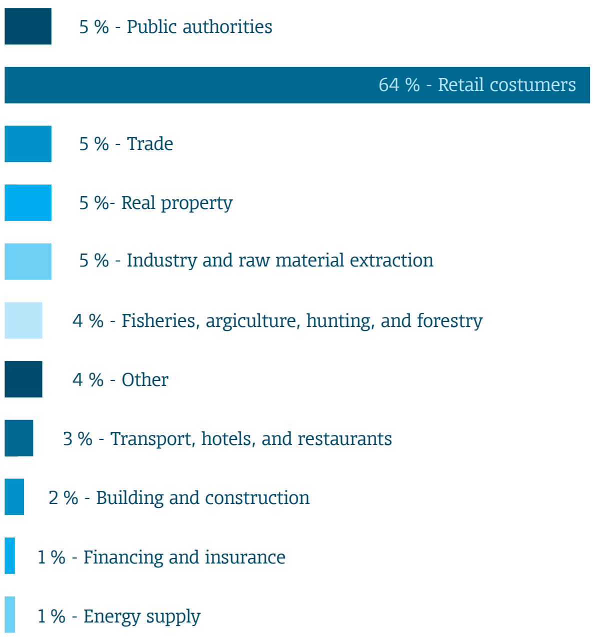
Loans and advances

(DKK 1,000)



BankNordik has placed great emphasis on maintaining sound credit policy guidelines to ensure that growth in lending does not come at the expense of sustainability. Two thirds of the loan portfolio is allocated to personal lending, while the remaining one third is allocated to a well-diversified corporate sector, as shown in the figure below. No single corporate customer represents more than 5% of the total portfolio.

Loans and advances specified by sector

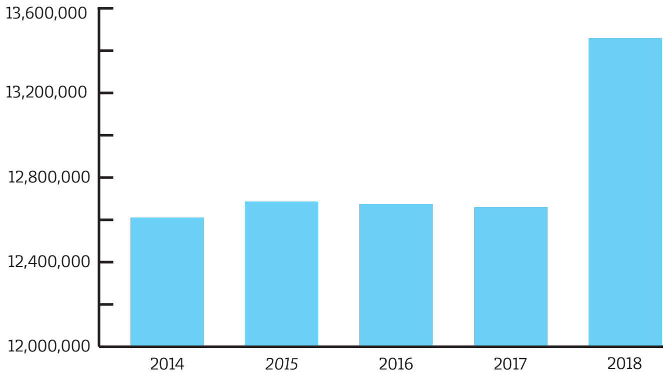


Deposits

Total deposits amounted to DKK 13,432m at the end of 2018, an increase of 6% from DKK 12,632m in 2017. Deposits have grown at a fairly stable pace in recent years as businesses and households in general have consolidated their finances.

Deposits

(DKK 1,000)



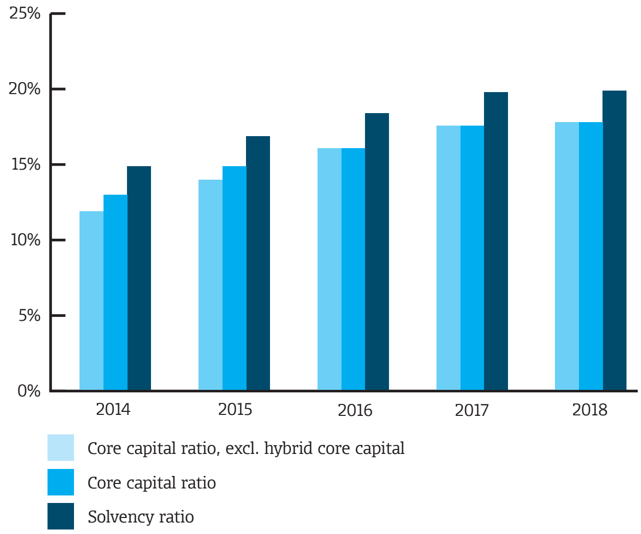
Solvency and liquidity

BankNordik held total capital of DKK 2,098m at 31 December 2018 compared to 1,954m at 31 December 2017. Subordinated capital was stable at DKK 223m, net of deductions, while core capital amounted to DKK 1,875m at 31 December 2018, which was an increase of 143m from DKK 1,731m at 31 December 2017.

The Group's solvency requirement increased to 9.7% at the end of 2018 from 9.3% at year-end 2017. The total capital ratio increased to 19.8% in 2018 from 19.7% in 2017, while the CET1 ratio was 17.7% vs. 17.5% in 2017. The Group's total capital includes DKK 11m worth of subordinated debt (0.1 percentage point) not eligible to be included in the solvency surplus. As such, the solvency surplus at the end of 2018 was 10.0 percentage points compared to 10.2 percentage points in 2017. Compared to the external capital requirements, incl. buffer requirements totalling 13.7% at the end of 2018, BankNordik had a solvency surplus of 6.1 percentage points.

The Group's liquidity indicator was 266% at year-end 2018, well above the requirement of 100% due to a large deposit surplus. The LCR requirement, on the other hand, calls for a liquidity buffer of at least 100%. By the end of 2018, BankNordik's LCR was 266% compared to 209% in 2017.

Solvency



Financial results for Q4 2018

Net interest income in Q4 2018 was DKK 92m, a slight decrease from DKK 94m in Q3 2018 due to margin pressure and lower average volumes during the period. Net fee and commission income was DKK 42m in Q4 compared to DKK 43m in Q3, while insurance income was DKK 13m in Q4, flat compared to the previous quarter.

Operating costs amounted to DKK 115m in Q4 compared to DKK 111m in Q3. The increase was mainly due to higher marketing costs related to BankNordik's digital marketing campaign in Denmark, launched in October 2018. Impairment charges were a reversal of DKK 18m in Q4 vs. a reversal of DKK 39m in Q3.

As a result, profit before tax amounted to DKK 38m in Q4 2018 compared to a profit of DKK 78m in Q3 2018.

The Supervisory Diamond

Sum of large exposures < 175 %

2018	2017
122.2%	119.2%

Loan growth <20 %

2018	2017
4.7%	4.3%

Funding-ratio < 1.0

2018	2017
0.63	0.64

Property exposure < 25%

2018	2017
5.6%	5.6%

Liquidity indicator >100%

2018	2017
266.0%	N/A

Other

Supervisory Diamond

The Supervisory Diamond is used to measure a bank's risk profile. The model identifies five areas that if not within certain limits are considered to be indicators of increased risk. As shown in the figure, the Bank meets all criteria by a comfortable margin (large exposures, exposures towards property, excess liquidity, stable funding and lending growth). The sum of large exposures increased from 119.2% to 122.2%, well below the limit of 175%, and all large exposures are of good quality. The liquidity indicator was 266% at year-end compared to the minimum requirement of 100%.

Share buy-back programme

During 2018, the Group bought back own shares for a transactional value of DKK 15m and held 4.11% of the total share capital at 31 December 2018. The current buyback programme runs until March 2019. Although BankNordik on a regular basis will reconsider buying back additional shares, there is no such programme planned for the immediate future.

Dividends proposed

At the upcoming Annual General Meeting, to be held on 21 March 2019, the Board will propose total dividend payments of DKK 70m for 2018 (DKK 7 per share). Dividends of DKK 40m were paid in 2018 in respect of the 2017 financial year.

More information on the dividend policy is available at our website at www.banknordik.com/dp

Application of IFRS 9

Effective from 1 January 2018, the Group began to implement the new standards for impairment of financial assets and guarantees as directed by IFRS 9. The equity impact was DKK 52.6m and was recognised as a reduction in the shareholders' equity at 1 January 2018.

BankNordik has decided not to make use of the transitional arrangements, thereby recognising the full impact of the implementation of IFRS 9 on capital ratios from 1 January 2018. As a result, the net effect of DKK 52.6m on shareholders' equity at 1 January 2018 reduced the Group's total capital ratio by 0.5 of a percentage point.

Outlook

In 2019, BankNordik expects to continue growing its lending volumes – both personal and corporate. In the personal banking segment, the Group will continue to build on the progress of previous years by establishing stronger relationships and enhancing the user experience to attract new customers. Faroese households have historically funded their housing by way of traditional bank loans, but in recent years BankNordik has observed a gradual increase in household preferences towards the traditional Danish financing model of 80% mortgage funding and the residual in 2nd lien bank lending. BankNordik therefore expects a larger share of future growth in personal lending in the Faroe Islands to come in the form of increased mortgage broking. Personal lending in Denmark is expected to increase as BankNordik continues to gain market share. On the corporate side, the Group sees an opportunity to increase volumes in 2019 through high investment activity in both the Faroe Islands and Greenland. However, interest margins are expected to remain under pressure in 2019 and to continue the drag on net interest income, albeit at a slightly lesser degree than observed in 2018.

Fee and commission income is expected to increase moderately in line with higher customer activity, although BankNordik anticipates tighter profit margins on its investment management activities due to an increased preference for passive investment strategies. Insurance premiums are expected to continue growing, while claims might vary widely from one year to the next. The Group has kept its operating costs flat since 2016 and is expecting to continue doing so in 2019. Impairment charges on loans and advances are expected to remain low in 2019.

As a result, BankNordik expects operating profit before impairment charges in the range of DKK 160 - 200m in 2019 (2018: DKK 179m) and net profit in the range of DKK 100 - 150m in 2019 (2018: DKK 262m).

This outlook is subject to uncertainty, including impairments on loans and advances, market value adjustments, and macroeconomic developments.

Advancing on costumer satisfaction

Placing the customer at the centre of our business to further enhance the consumer experience and attract new partnerships was our top priority in 2018. On the operational side, we continued to invest in the automation of processes and in creating a single, strong back-office unit to effectively serve our clients across markets.

Improving the banking experience

The Group's vision revolves around the aspiration to retain our existing customers for the long term and to attract new customers by being proactive, competent, and fully committed. At the centre of this premise is the endeavour to improve the customer experience and strengthen BankNordik's relationships across the board. In 2018, several new initiatives were launched and the Group made solid progress in advancing this customer-centric growth strategy.

In April, BankNordik took the first step towards redesigning its digital user interface by launching a new website. What's different about the website is the holistic approach to customer needs, intended to minimise the distance between the Bank and the consumer. Rather than focusing only on presenting the entire product range, BankNordik provides guidance on typical life situations that are relevant to consumers seeking financial advice and services. This transmits to anything from starting a family, buying a home, planning for retirement or even providing financial guidance relating to various hardships in life. The well-rounded combination of layout and content quality is what creates value for BankNordik's customers and contributes to strengthening the customer experience.

A common challenge facing financial institutions in today's user-friendly digital environment is the need for banks to communicate in a simple and more comprehensible manner. This transformation is long overdue, as banks have been struggling to keep up with other industries. At the centre of this development is the need for traditional banking institutions to alter their ways of communicating, as consumers are ever more inclined to demand providers of financial services to convey their messages in clear and concise terms. Acknowledging the need to reconsider the ways in which the Group interacts with its customers, BankNordik's written communication, such as marketing materials, legal papers, guidelines, etc. are currently being reviewed and, where applicable, alterations are being made to simplify paragraphs, eliminating what may appear to be banking gibberish. Internally, there has been great emphasis on the benefits of improved communication and employees have cultivated an awareness of reducing the use of banking lingo when communicating with customers in person. Going forward, simplicity will remain an integral component of BankNordik's objective to deliver an improved customer experience, not only by eliminating the use of complex parlance but also in terms of improved relevance, preferred methods of communication, less hassle and easier access to the right body of knowledge for more complicated financial issues.

In extension of the Group's efforts to limit the use of banking jargon, BankNordik launched its biggest online marketing campaign to date in October of 2018. The satirical narrative behind the campaign portrays a fictional BankNordik employee, Lars, who struggles with excessive use of financial jargon to the detriment of both his professional and personal relationships. Lars enrols at the treatment centre for gibberish to better his ability to communicate and slowly recovers from his hardship of talking too much nonsense. The campaign plot is to shed light on BankNordik's efforts to simplify the banking experience by limiting the use of jargon and communicating in terms that everyone can relate to. What separates this campaign from others is the honest self-examination mixed with irony to get the message across. BankNordik's exposure has exceeded all expectations and the commercial has reached more than a million people through social media. Feedback has been overwhelmingly positive and by all parameters the campaign has contributed to strengthening BankNordik's image and improving the brand awareness.

Customer satisfaction on the rise

It has become evident in recent years that the Group has been facing a challenge concerning personal customer satisfaction in the Danish market. Ongoing third-party surveys carried out in the Danish market typically rank BankNordik at the low end of its Danish peer group. It should be noted that these issues are only prevalent in Denmark – not in the Faroe Islands or Greenland, where BankNordik enjoys high customer satisfaction ratings. The Bank has scrutinised the root causes of the subpar performance in Denmark, and a pattern of disparity amongst different customer segments has emerged. As it turns out, a notable share of dissatisfied customers belong to the peripheral sphere of BankNordik's customer base - typically customers with low banking volumes or activity and customers who had not actively selected BankNordik, but were part of the Group's acquisitions in 2010 and 2011. In numbers, these customers amount to a great many, but they make up a relatively small share of BankNordik's overall business volume. Having acknowledged the issue at hand, BankNordik reached out to over 10,000 customers within this category in 2018 to establish more personalised relations. In some instances, relationships have been restored and strengthened. In others, expectations have been managed on a personal level and disgruntled customers have been addressed in a constructive manner.

Taking the above-mentioned initiatives to improve the customer experience into consideration, it is no coincidence that the Group's satisfaction ratings improved in 2018. Surveys carried out by third party research firms as well as the Group's own Net Promoter Score system confirm a general improvement in BankNordik's customer satisfaction rates. On Trustpilot, an online user review platform, BankNordik has received more than a thousand reviews from customers familiar with the Bank. Given BankNordik's commitment to strengthening its relationships and improving the customer experience, it is encouraging to note that these efforts are now leading to improved customer feedback and ratings. This provides reassurance that BankNordik is on the right path and adds momentum for continued progress.

Operational efficiency

Improving operational efficiency is an ongoing process, driven by changing consumer preferences, competition, and the adoption of technology. At BankNordik, we continue to execute on the strategy laid out in 2015 to become more focused and efficient in serving our customers across markets. Having refocused the Group's activities by divesting insurance company Vørður and winding-up the Danish corporate lending activities in 2016, the Group has since continually taken steps to centralise functions, streamline processes and leverage the use of technology to drive efficiency and enhance the user experience.

In recent years, the Group has gradually transformed its business by unifying operations across countries into single, strong units and creating a solid platform based on standardised processes and systems. In 2018, administrative tasks previously carried out by customer service were transferred to the back-office unit, enhancing the specialisation of staff and freeing up resources, which subsequently have been ploughed into customer care and sales activities. The Group's investment activities were also centralised in the Faroe Islands in 2018 – both sales and back-office operations.

Concurrently, the Group's investment program was revised so that previously discretionary investment accounts below a certain threshold value were pooled into collective investment schemes, reducing the resources needed to handle individual accounts. As a consequence, BankNordik's operations needed less space for its Copenhagen operations and moved its Copenhagen head branch to a new location, while at the same time reducing rental costs. These organisational initiatives will add value by contributing to an improved cost structure going forward.

Leveraging the use of technology

Robotics technology played an important role in the Group's efforts to drive efficiency and user experience in 2018. By robotics we mean the automation of tasks and processes that otherwise would be taking up human resources, but instead can be carried out in either a completely or a partly automated process. Thousands of actions are currently executed daily in areas such as customer unboarding, credit scoring, AML, managing the loyalty program and the NPS system, etc. In 2019, the Group expects to launch new automations on a regular basis.

When the Group's online banking platform becomes able to support customer applications for financial services in 2020, and the automated credit application system is fully implemented, expected in 2019, the Group is planning to extend its service delivery to include end-to-end fully automated, prompt, and accurate processing of loan and credit applications.

These advancements have the potential to free up resources, enhance user experiences, and raise BankNordik's overall business performance. Leveraging the use of technology will therefore be a focal point in the Group's efforts to drive efficiency going forward.

Preparing for upcoming capital requirements

BankNordik strengthened its capital position in 2018. The total capital ratio was 19.8% compared to 19.7% in 2017, while the CET1 ratio was 17.7% compared to 17.5% in 2017. As such, the Group is currently on track to achieve its long-term capital objectives.

In June, the Minister for Industry, Business and Financial affairs announced an increase in the systemic risk buffer related to domestic Faroese exposures from 1% to 2% in 2019 and to 3% in 2020 based on a recommendation from the Systemic Risk Council in April 2018. As approximately 60% of BankNordik's exposures are domestic, the fully phased-in systemic risk buffer of 3% will weigh at around 1.8% of the Group's total exposures. Around the same time, in June 2018, the Danish FSA published a set of preliminary principles for the MREL add-on related to Faroese institutions. With regards to Faroese SIFI-institutions, the FSA expects to exclude the systemic risk buffer discussed above as well as the countercyclical buffer relating to Danish exposures in applying the MREL add-on for these institutions. The final outcome is expected to be announced by the Danish FSA in the first half of 2019 and gradually phased-in during the period 2020-2025. Management intends to meet the requirement by issuing Tier 3 capital. In conjunction with forthcoming requirements, the Group intends to explore the option of issuing hybrid bonds in order to optimise its capital structure.

For the 2018 financial year, the Board of Directors intends to propose a dividend in the amount of DKK 70m (DKK 7 per share). The Group also acquired own shares for a transactional value of DKK 15m in 2018 and is likely to have repurchased another DKK 7m when the current program expires on 30 March 2019. Although BankNordik on a regular basis will reconsider buying back additional shares, there is no such programme planned for the immediate future.

Conclusion

The current business environment, characterised by low interest rates and tough competition, is pressuring the Group's top line. However, after several years of transformation, BankNordik is now a less complex and more agile financial institution capable of attracting new customers and expanding its business volumes while keeping a tight grip on costs. These developments have been crucial in the positioning of BankNordik to benefit from new opportunities and strengthen its market position in the North Atlantic region in the years ahead. In 2019, the Group intends to build upon the tangible progress made in 2018 and create sustainable long-term value for our shareholders through efficient execution, superior customer experience and persistent continuous strong risk discipline.

The economy

The Group's activities are based in three interrelated economies with different drivers of growth. As such, management discusses each of them in terms of economic development and the potential impact on the Group's activities.

Driven by progress in salmon farming and pelagic fisheries, the economic progress seen in the past decade in the Faroe Islands is unparalleled amongst western economies. Exports have doubled since the great financial crisis, contributing to increased activity and overall welfare. This level of growth, however, is unlikely to continue, and BankNordik believes that economic progress going forward will be more in line with that of its neighbouring economies.

The emergence of the salmon farming as a leading exporting industry has contributed to the beneficial effect of diversifying the Faroese economy and making it less dependent on fisheries. Although salmon production volumes have remained stable since 2013, prices have increased in line with growing demand. Farmers are now investing in larger hatchery facilities aimed at increasing the average weight of smolt before it is released to sea, thereby shortening the production cycle and reducing the risk of decease. Another contender with the potential to further diversify the Faroese economy is the tourism industry. While still a minor component of the economy, the export value has grown at a CAGR of 10% since 2011. The surge of tourists has also attracted new investments to the hotel industry, and hotel room capacity is expected to double by 2022. In spite of these positive developments, it is only within the past two years – a period of increasing consumption - that lending demand has surpassed the willingness and propensity of Faroese households and businesses to amortise. During this period, domestic lending has grown by around 5% a year amid high consumer activity, housing prices on the rise and positive net immigration into the Faroe Islands. The Group expects the current level of loan demand to carry on into 2019.

The Danish economy has been growing at a more tempered rate of around 2%, while employment has risen quite substantially in the past five years largely owing to a structural increase in the workforce. This upturn has not, however, rubbed off on domestic bank lending to households, whose aggregate volumes have contracted year by year since 2014, falling by a further 2% in 2018. On the other hand, mortgage lending to Danish households grew by approximately 2% in 2018. On this background, management finds it satisfactory that BankNordik added 3% to its Danish lending volumes in 2018, excluding the remaining Danish corporate loan book, and 4% to its brokered mortgage volumes. This should come as no surprise given BankNordik's determination and efforts to increase its presence in the Danish personal banking market.

The Greenlandic economy has also been in an upward trajectory in recent years with average growth rates in the range of 3.0-3.5%. Large catches and attractive prices have been at the forefront of this development, which is now stimulating private consumption and investment. After a few years with no occurrence of mineral extraction activity, mining recommenced in 2017 with ruby production in the Qeqertarsuatsiaat area. A second ruby project is expected to start extraction in 2019, while a third ilmenite mining project is currently under construction. The economic contribution from mining activities is still relatively minor but any renewed interest is welcomed due to its potential to lessen the dependency on the fisheries industry. In line with the positive economic development in Greenland, lending demand has also picked up and the Group increased its lending volumes by 5% in 2018. Greenland remains an attractive case as BankNordik continues to establish itself as a qualified and competent full-service banking alternative for the people of Greenland.

Applied calculation methods and alternative performance measures

Alternative performance measures

The Bank applies a number of alternative performance measures. These measures are applied where they provide greater informational value about, e.g. the Bank's earnings, or a common denomination for several items. The Bank is aware of the need for applying calculations consistently and with comparative figures. The alternative performance measures applied are defined below.

Definitions

Operating income

Sum of Net interest income, Net fee income, Net insurance income and Other operating income.

Profit before impairment charges

Profit before value adjustments, Impairment charges on loans etc. and Non-recurring costs.

Operating profit

Profit before non-recurring costs and Market value adjustments.

Other operating income

Other operating income. Dividends. Value adjustments of sector shares. Profit or loss from currency transactions.

Operating costs

Sum of Staff costs and administrative expenses and Other operating expenses apart from contributions to the Resolution Fund etc. and Amortisation, depreciation and impairment charges on intangible assets and property, plant and equipment.

Sector costs

Contributions to the Resolution Fund etc., which is a subset of the item Other operating expenses.

Impairments

Sum of Impairment charges on loans and reversed impairment charges on loans taken over.

Non-recurring items

Non-recurring staff costs and administrative expenses and extraordinary impairment charges on tangible assets.

Value adjustments

Value adjustments less value adjustments of sector shares and less of profit or loss from currency transactions. Income from holdings in associates.

Reversals of acquired OIE impairments (2017)

The Bank has acquired loans from other banks at a discount, as impairment charges had been recognised for such loans prior to acquisition. Regarding 2017 reversals of impairment charges for this loan portfolio are recognised under Other operating income in the statutory financial statements and are reclassified to Impairment charges on loans in the restated financial statements.

Adjusted results

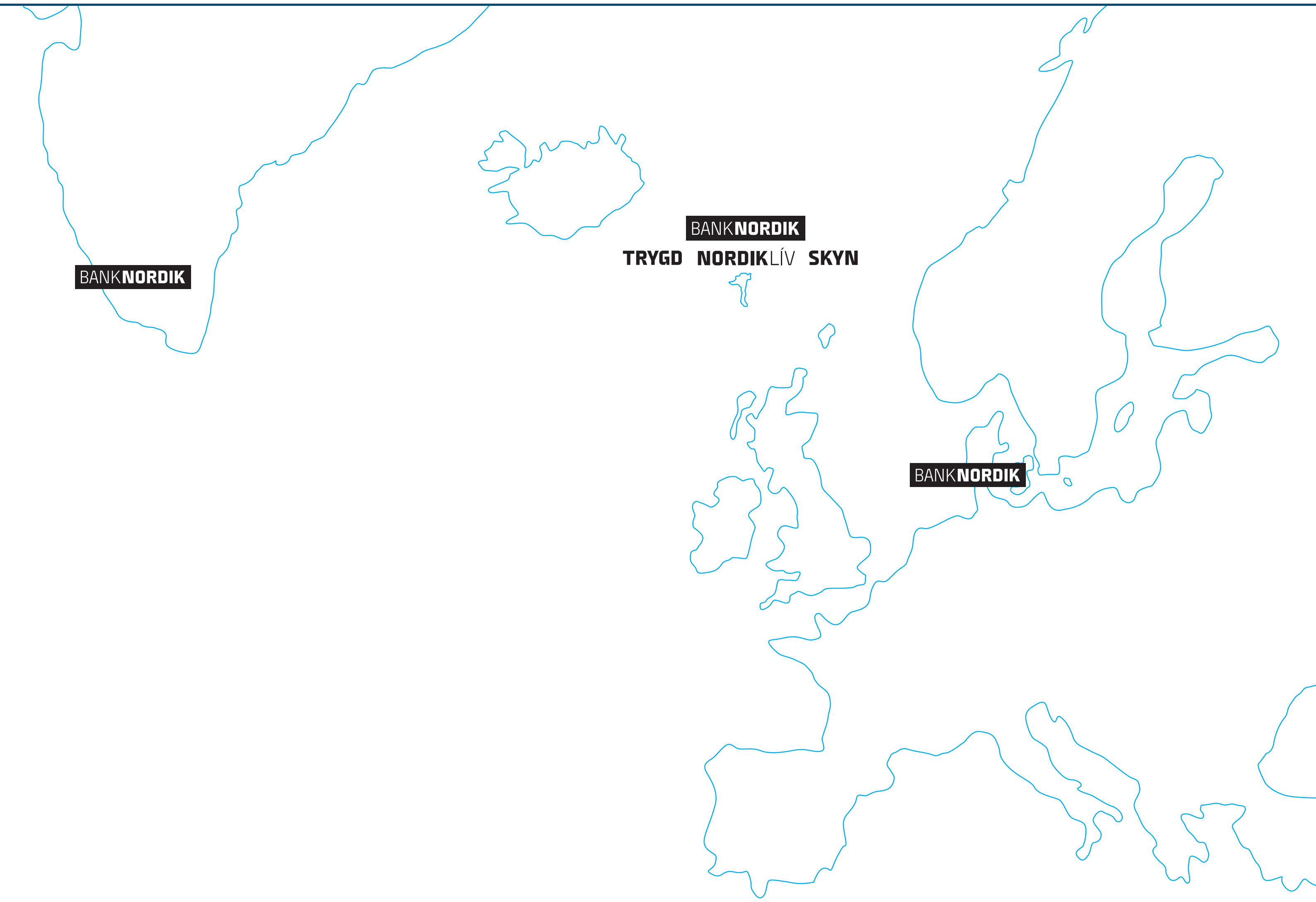
Adjustments made to the income statement are shown below.

Note	Income statement 2018, Group, DKK 1,000	Income statement	Restatement	Restated income statement
	Net interest income	374,143		374,143
1	Net fee and commission income	183,609	-11,396	172,213
	Net insurance income	43,751		43,751
1, 4, 5	Other operating income	19,947	25,341	45,289
	Operating income	**621,450**	**13,945**	**635,395**
2, 3	Operating costs	415,440	40,719	456,159
3	Sector costs	793	-117	676
	Profit before impairment charges	**205,217**	**-26,657**	**178,560**
	Impairment charges	-110,782	0	-110,782
	Operating profit	**315,998**	**-26,657**	**289,342**
2, 4, 5	Non-recurring items	0	71,702	71,702
	Profit before value adjustments and tax	**315,998**	**45,045**	**361,043**
4	**Market value adjustments**	**7,297**	**-45,045**	**-37,748**
	Profit before tax	**323,295**	**0**	**323,295**

Note	Income statement 2017, Group, DKK 1,000	Income statement	Restatement	Restated income statement
	Net interest income	387,216		387,216
1	Net fee and commission income	195,825	-5,400	190,425
	Net insurance income	43,367		43,367
1, 4	Other operating income	33,534	-5,987	27,548
	Operating income	**659,942**	**-11,387**	**648,555**
2, 3	Operating costs	481,847	-19,822	462,025
3	Sector costs	-1,800	**1,800**	0
	Profit before impairment charges	**179,894**	**6,635**	**186,530**
1	Impairment charges	-35,107	-24,640	-59,747
	Operating profit	**215,002**	**31,275**	**246,277**
2, 4	Non-recurring items	0	-18,022	-18,022
	Profit before value adjustments and tax	**215,002**	**13,253**	**228,255**
4	**Market value adjustments**	**19,630**	**-13,253**	**6,377**
	Profit before tax	**234,632**	**0**	**234,632**

Note	Restatements made to the income statement, DKK 1,000	2018	2017
1	Reversals of acquired OEI impairments reclassified from Other operating income to Impairment charges.	0	-24,640
1	Dividends reclassified from Net fee and commission income to Other operating income.	11,396	5,400
2	Reclassification of severeance and other costs from Operating costs to Non-recurring items.	-19,580	-18,022
2	Reclassification of reversals of impairment charges regarding the Group's head-office from Operating costs to Non-recurring items.	-60,181	0
3	Reclassification of other operating expenses (excl. sector costs) from Other operating expenses to Operating costs.	-117	1,800
4	Reclassification of value adjustments related to sector shares and of profit or loss from currency transactions from Market value adjustments to Other operating income.	-24,045	-13,253
4	Reclassification of value adjustments related to sector shares from Market value adjustments to Non-recurring items (regarding revaluation of the groups holdings of shares in the sector company Bankinvest).	-21,000	0
5	Reclassification of capital gains related to the sale of the Groups domicil from Other operating income to Non-recurring items.	-10,100	0

Segments



Personal Banking	2018	2017
Loans and advances	DKK 6.5bn	DKK 6.3bn
Deposits	DKK 10.1bn	DKK 9.7bn
Cost/Income(Operating cost/income)	38%	40%
Operating profit	DKK 336m	DKK 285m

Corporate Banking	2018	2017
Loans and advances	DKK 3.5bn	DKK 3.2bn
Deposits	DKK 3.4bn	DKK 3.0bn
Cost/Income(Operating cost/income	11%	11%
Operating profit	DKK 174m	DKK 179m

Trygd	2018	2017
Premium, net of insurance	DKK 105m	DKK 95m
Combined ratio	91%	84%
Claims ratio	69%	59%
Profit before tax	DKK 8m	DKK 15m

Banking

Income statement, Banking DKKm	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	373	386	92	94	93	94	95	97	96	97
Net fee and commission income	182	199	45	45	45	46	49	41	55	54
Other operating income	39	23	8	8	13	10	7	6	6	5
Operating income	**594**	**608**	**145**	**147**	**152**	**150**	**151**	**144**	**158**	**156**
Operating cost	-435	-439	-109	-106	-110	-110	-106	-108	-112	-112
Sector costs	-1	0	0	0	0	0	2	-1	-1	-1
Profit before impairment charges	**159**	**169**	**35**	**42**	**42**	**40**	**47**	**35**	**45**	**43**
Impairment charges, net	111	60	18	39	23	31	51	4	5	-0
Operating profit	**269**	**229**	**54**	**81**	**65**	**71**	**98**	**38**	**50**	**43**
Non-recurring items	72	-18	-10	-6	12	76	-1	-17	0	0
Profit before value adjustments and tax	**341**	**211**	**44**	**75**	**76**	**147**	**96**	**22**	**50**	**43**
Market value adjustments	-36	9	-11	-3	-17	-5	-9	2	5	11
Profit before tax	**306**	**220**	**32**	**72**	**59**	**142**	**87**	**24**	**55**	**54**
Loans and advances *	9,956	9,537	9,956	10,008	9,742	9,607	9,537	9,549	9,428	9,159
Deposits and other debt	13,452	12,654	13,452	13,184	13,168	13,107	12,654	13,000	13,498	12,696
Operating cost/income, %	73	72	75	72	72	73	70	75	71	72
Number of FTE, end of period	355	367	360	355	358	356	367	372	376	384

* The Group implemented IFRS 9 effective from 1 January 2018. Implementation affected lending adversely by DKK 52.6m

Although the Group added 4% to its lending volumes in 2018, net interest margins were further squeezed by competitive pricing, causing a drag on net interest income of 3% compared to 2017. Net fee and commission income fell mainly due to the restructuring of asset management activity related to the implementation of MiFID II. Other operating income, on the other hand, notably increased in 2018. When combining these two line items for the purpose of year-on-year comparison, BankNordik's non-interest income fell by DKK 1m. Operating costs fell by 1%, which is consistent with the Group's ongoing efforts to drive operational efficiency. The fall in expenditures is particularly pleasing when taking into account general wage increases and the significant amount of resources devoted to the implementation of the MiFID II and GDPR regulations in 2018. Profit before impairment charges came in at DKK 159m compared to DKK 169m in 2017.

BankNordik's pertinent credit policy guidelines in conjunction with the current benign economic environment have led to large reversals of impairment charges. In 2018, BankNordik reversed an additional DKK 111m of previously impaired loans that were either repaid or reversed due to improved company-specific conditions. As a result, operating profit increased by DKK 40m to 269m in 2018.

Non-recurring items amounted to an income of DKK 72m in 2018, including the gain on the sale and leaseback of the Group's head office, a revaluation gain on BI Holding A/S as well as one-off expenditures related to operational restructuring. Value adjustments amounted to a loss of DKK 36m in 2018, compared to a gain of DKK 9m in 2017.

Personal Banking

Income statement, Personal banking

DKKm	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net interest income	258	263	63	65	65	66	68	66	65	64
Net fee and commission income	169	184	44	41	41	43	45	37	53	49
Other operating income	31	18	7	5	11	8	4	6	5	3
Operating income	**459**	**461**	**114**	**111**	**117**	**116**	**116**	**109**	**119**	**116**
Operating cost	-176	-184	-43	-44	-44	-45	-51	-43	-45	-45
Sector costs	-1	0	0	0	0	0	1	0	0	0
Profit before impairment charges	**282**	**278**	**70**	**67**	**73**	**71**	**67**	**66**	**74**	**71**
Impairment charges, net	54	7	8	22	10	15	4	-1	1	3
Operating profit	**336**	**285**	**78**	**89**	**83**	**86**	**70**	**65**	**75**	**74**
Profit before value adjustments and tax	336	**285**	**78**	**89**	**83**	**86**	**70**	**65**	**75**	**74**
Profit before tax	**336**	**285**	**78**	**89**	**83**	**86**	**70**	**65**	**75**	**74**
Loans and advances	6,455	6,325	6,455	6,481	6,382	6,368	6,325	6,274	6,123	6,017
Deposits and other debt	10,096	9,669	10,096	9,928	10,027	9,804	9,669	9,802	10,282	9,530
Operating cost/income, %	38	40	38	40	38	38	44	39	38	38
Number of FTE, end of period	208	212	208	206	201	207	212	208	214	211

Lending to personal customers increased by 2% in 2018, whereas net interest income was down 2% owing to margin pressure. Net fee and commission income fell by DKK 15m in 2018, mainly due to the restructuring of asset management activity related to MiFID II. Other operating income, on the other hand, increased by DKK 13m. Combining these two line items for year-on-year comparison highlights an increase of DKK 3m in non-interest income.

Operating costs fell by DKK 8m year-on-year, which was well in line with the Group's aim of keeping expenditures flat until 2020. The improvement was made possible by ongoing process streamlining, the automation of tasks, and persistent cost discipline. The Group reversed DKK 54m of impairment charges relating to personal customers in 2018, owing to increased value of collateral and improved financial capacity of weaker customers. As a result, operating profit was DKK 336m compared to DKK 285m in 2017.

Given the Group's progress in 2018 in strengthening its customer relationships and improving the customer experience, BankNordik is well positioned to capitalise on a favorable economic outlook for the North Atlantic region in 2019. In the Faroe Islands, BankNordik expects to increase its activities in line with growth in aggregate demand in 2019, while in Denmark and Greenland, the Bank will be pursuing an active growth strategy to win market share.

Corporate Banking

Income statement, Corporate Banking										
DKKm	**2018**	**2017**	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**
Net interest income	113	122	27	29	29	28	30	31	30	31
Net fee and commission income	14	15	4	3	3	3	4	4	4	4
Other operating income	6	3	1	2	1	3	1	1	0	1
Operating income	**133**	**140**	**32**	**34**	**34**	**33**	**34**	**35**	**34**	**36**
Operating cost	-15	-15	-4	-4	-4	-4	-5	-4	-3	-3
Profit before impairment charges	**118**	**125**	**29**	**30**	**30**	**29**	**30**	**31**	**31**	**33**
Impairment charges, net	57	54	10	17	13	16	49	5	4	-3
Operating profit	**174**	**179**	**39**	**47**	**43**	**45**	**79**	**36**	**35**	**30**
Profit before value adjustments and tax	**174**	**179**	**39**	**47**	**43**	**45**	**79**	**36**	**35**	**30**
Profit before tax	**174**	**179**	**39**	**47**	**43**	**45**	**79**	**36**	**35**	**30**
Loans and advances	3,502	3,212	3,502	3,527	3,360	3,240	3,212	3,276	3,305	3,142
Deposits and other debt	3,356	2,985	3,356	3,257	3,141	3,303	2,985	3,198	3,216	3,166
Operating cost/income, %	11	11	11	12	11	12	14	11	9	9
Number of FTE, end of period	16	18	16	17	17	18	18	17	17	17

The squeeze in interest margins due to hardened competition was particularly evident in lending to corporations. Net interest income fell by DKK 9m to DKK 113m in 2018, despite a 9% increase in corporate lending volumes. Net fee and commission income was down by DKK 1m while other operating income increased by DKK 3m in 2018. In total, operating income fell by DKK 7m to DKK 133m in 2018.

For the second consecutive year, corporate loan reversals were recognised due to previously impaired loans being repaid or due to previously challenged firms improving their financial situation. Impairment charge reversals amounted to DKK 57m in 2018 compared to a reversal of DKK 54m in 2017. As a result, operating profit came in at DKK 174m in 2018 compared to DKK 179m in 2017.

Danish corporate loans of DKK 45m were wound up in 2018, leaving only DKK 94m on the books by year-end. BankNordik has a positive outlook for its corporate lending activities in 2019 due to high investment activity. If economic conditions remain intact, BankNordik expects to continue increasing its corporate lending volumes in 2019.

The Group's corporate portfolio is well diversified and exposure towards historically riskier industries such as fisheries, agriculture and commercial property is limited to 5% of the loan portfolio. In line with the winding up of the Danish corporate activities in 2015-2016, risk was further reduced as only one third of the Group's portfolio was allocated to corporate lending in 2018. For this reason, BankNordik expects to be in a position to sustain below-average impairment charges going forward.

Insurance

Income statement, Trygd DKKm	2018	2017	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Premium income, net of reinsurance	105	95	27	27	26	25	25	24	23	23
Claims, net of reinsurance	-72	-57	-17	-17	-23	-15	-15	-12	-14	-15
Net insurance income	**33**	**39**	**10**	**10**	**3**	**11**	**10**	**12**	**9**	**7**
Net income from investment activities	-1	0	0	0	0	0	0	0	0	0
Operating income	**32**	**39**	**10**	**9**	**3**	**11**	**10**	**12**	**9**	**8**
Operating cost	-24	-24	-6	-6	-6	-6	-6	-6	-6	-5
Profit before tax	**8**	**15**	**4**	**3**	**-4**	**5**	**3**	**6**	**3**	**2**
Combined ratio	91	84	85	87	114	80	87	73	88	90
Claims ratio	69	59	63	64	90	58	60	49	60	68
Number of FTE, end of period	25	27	25	23	25	25	27	27	26	26

The Group's insurance company, Trygd, reported another year of double-digit growth in insurance premiums. Net premiums grew by 10% in 2018 to DKK 105m due to stronger demand and an ongoing inflow of new customers. Claims were DKK 72m in 2018, up DKK 15m compared to 2017 when claims were at a relatively low level. Operating costs were flat at DKK 24m in 2018 compared to 2017 as the headcount decreased by 2 FTE. As a result, profit before tax came in at DKK 8m in 2018 compared to DKK 15m in 2017.

Trygd has steadily gained market share in recent years by offering competitive prices and delivering superior customer experiences.

Trygd expects to continue to attract new customers and to grow premium income in 2019. No dividends will be paid to BankNordik for the 2018 financial year.

Other activities

Skyn

Due to the low interest rate environment, economic growth and net positive immigration, the Faroese housing market has experienced strong activity in recent years. Housing prices have increased and transaction volumes have increased significantly. The Group's estate agency, Skyn, has performed well during this period, being involved in a total of 234 transactions in 2018 compared to 189 in 2017. Skyn's revenues amounted to DKK 7.5m compared to DKK 5.7m in 2017, while profit before tax amounted to DKK 3m in 2018 compared to 0.4m in 2017.

NordikLív

NordikLív is a life insurance company established in 2015 and wholly owned by BankNordik. The company began operations in 2016 by issuing regular life, disability and critical illness insurance cover in the Faroese market. In 2018, the premium income amounted to DKK 14m compared to DKK 13m in 2017, while profit before tax amounted to DKK 7m in 2018 compared to DKK 1m in 2017. NordikLív is expected to pay a dividend of DKK 5m to BankNordik for the 2018 financial year.

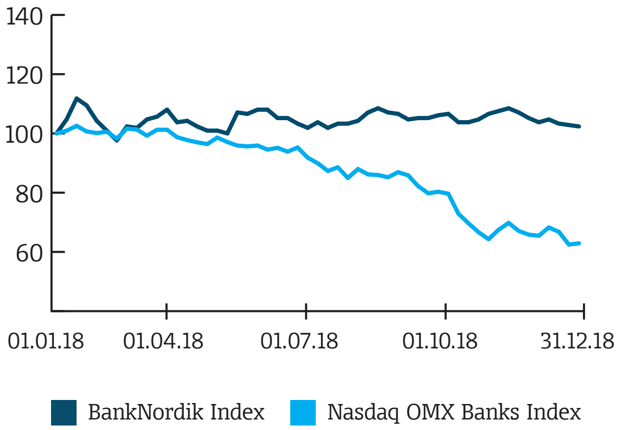
Shareholders

BankNordik share performance

The closing price of BankNordik's shares at 31 December 2018 on Nasdaq Copenhagen was DKK 108.5 compared to a closing price of 106.0 at 31 December 2017. This is an increase of 2.4% compared to a fall of 37.1% for the Copenhagen Bank index. The turnover in BankNordik's shares on Nasdaq Copenhagen was DKK 104m in 2018 compared to 182m in 2017.

Developments in the BankNordik share and the Nasdaq Copenhagen Banks on Nasdaq Copenhagen in 2018:

BankNordik share vs. Copenhagen Bank Index



Shareholder structure

At the time of publication of the Annual Report 2018, the following shareholders had notified the relevant authorities that they held 5% or more of the Bank's shares:

- Fíggingargrunnurin frá 1992 (Faroese Government), Tórshavn, holds 33% of the shares.
- Lind Invest, Aarhus, holds 12% of the shares.
- Protector Forsikring, Oslo, holds 6% of the shares.

By year-end 2018, BankNordik had approximately 8.500 shareholders. The Faroese government held 33% of the share capital, institutional and other large investors held 51%, while private investors held 16%. The majority of shareholders are based in the Faroe Islands.

Country	% of nominal shareholdings
Faroe Islands	57.4
Denmark	23.3
Iceland	10.0
Others	9.3
Total	**100**

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 annual general meeting in 2019. On 31 December 2018, BankNordik held 4.1% of the share capital.

BankNordik´s investor relations policy can be found on the bank's webpage www.banknordik.com/ir

Organisation and management

Corporate governance at BankNordik
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. Strong corporate governance is about having clear and systemic decisionmaking processes, thus providing clarity about responsibilities, avoiding conflicts of interest and ensuring satisfactory internal control, risk management and transparency. Commitment to BankNordik's mission and vision requires the integration of sound corporate governance with the framework under which the Bank is governed and managed.

BankNordik is a Faroese public limited company listed on Copenhagen Stock Exchange – NASDAQ Copenhagen A/S. Corporate governance at BankNordik follows generally adopted principles of corporate governance. The external framework that governs the Bank's corporate governance work includes the rules of NASDAQ -Copenhagen A/S, relevant legislation and instructions and guidance's issued by the Financial Supervisory Authority or other legislative authorities, and the rules and principles of the Code -Corporate Governance Recommendations. For further information regarding the Bank's compliance with the Corporate Governance Recommendations, see the Bank's Corporate Governance Report which is available on www.banknordik.com/cg.

General meeting
The general meeting is the Bank's highest decision-making authority. The Annual General Meeting shall be held within 3 months of the financial year-end. In 2019, the meeting will be held on the 21st of March in Tórshavn, Faroe Islands. The minutes of the meeting will be available at www.banknordik.com.

Voting rights
All shareholders have equal voting rights and each share carries one vote. However, no shareholder may, neither in respect of his own shares nor when acting as proxy for other shareholders, cast votes representing more than 10% (ten per cent) of the total share capital, regardless of the shareholding. Proxy votes given to the board of directors are not subject to these restrictions.

Any resolution to amend the Articles of Association or to wind up the Bank by voluntary liquidation or to adopt a merger is subject to no less than two-thirds of the share capital being represented at the general meeting and the proposed resolution being adopted by two-thirds of the votes cast and of the voting share capital represented at the general meeting.

Any proposal to amend or revoke the quorum requirement may be adopted by two-thirds of both the votes cast and of the share capital represented at the general meeting. For the purpose of voting on such proposals, restrictions on voting rights and voting by proxy do not apply.

The Bank's Articles of Association are available at www.banknordik.com/aa

Board of Directors
The Board currently comprises eight members, for which five have been elected by the General Meeting and three by and among the employees. Board members elected by the General Meeting hold office until the next annual General Meeting. As described by statutory provisions on employee representation in Faroese legislation, members elected by and among the employees serve on the Board of Directors for four-year terms, with the next election to be held in 2022. The age limit for election and re-election of board members is 70 years.

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. Each year a performance evaluation of the members of the board takes place, including questionnaires, personal dialogue, and individual feedback from the Chairman. The findings and results are then presented and discussed by the board.

In the fourth quarter, the Board of Directors carried out the annual evaluation of the Board of Directors, including its composition, the work on the Board, the Board structure, the leadership of the Board chairman and the individual performance of the Board members. All members of the Board of Directors answered questionnaires relating to their competences within relevant subjects. The findings and conclusions were subsequently presented to and discussed by the Board of Directors. The aim of the evaluation was to ensure, among other things, that the composition of the Board of Directors as well as the special competencies of each Board member enable the Board of Directors to perform its tasks. As the Board of Directors operates as a collegial body, its overall competencies and experience are the sum of the individual board members' competencies and experience. The composition of the Board of Directors aims to ensure the stable and satisfactory development of BankNordik for the benefit of its shareholders, customers, employees and other stakeholders. The competencies of the Board of Directors collectively are described in the Competency profile, which is available on BankNordik.com. Please refer to page 116 for information on the competencies of the individual Board members. The results of the 2018 evaluation were generally positive, but with some areas of improvement, which the Board of Directors will explore further.

Executive Board
The Executive Board consists of Árni Ellefsen, Chief Executive Officer, Rune Nørregaard Chief Credit Officer, Turið F. Arge Chief Operating Officer and Per Sjørup Christiansen, Head of Personal Banking.

Remuneration
The Board Remuneration Committee is responsible for preparing and presenting proposals to the Board of Directors on remuneration issues. This duty includes proposals regarding the Bank's Remuneration Policy and underlying instructions to be decided by the General Meeting.

The Bank's remuneration policy reflects the Bank's objectives of good governance and supports the Bank's ability to recruit, develop and retain competent, high-performing and highly motivated employees in a competitive market.

The General Meeting annually decides on remuneration for the Board of Directors. Members of the Board of Directors receive a fixed salary only. They are not covered by incentive programmes and do not receive variable or performance-based remuneration or pension contribution.

The remuneration of the CEO and executive officers is determined by the Board of Directors. Remuneration in line with market levels constitutes the overriding principle for compensation for the CEO and executive officers. Compensation for the CEO and executive officers shall be consistent with and promote sound and effective risk management and not encourage excessive risk-taking or counteract the Bank's long term interests. Remuneration of the CEO and executive officers consists of fixed salary and a variable salary consisting of a bonus scheme that rewards pre-determined targets at Group, business area/group function and individual level. The effect on long term result is to be considered when determining the targets.

Performance-based remuneration is limited to 25% of the members' fixed remuneration. Additional information on the remuneration of the Board of Directors, the CEO and executives officers can be found in note 11. For further information regarding the Bank's remuneration policy, see www.banknordik.com/rp

Risk management
The Board of Directors always give full attention to the Bank's various risks as well as the aggregated risk profile, and follows up on risks on a regular basis. Risk appetite within the Bank is defined as the level and nature of risk that the Bank is willing to take in order to pursue the articulated strategy on behalf of shareholders, and is defined by constraints reflecting the views of shareholders, debt holders, regulators and other stakeholders. The Board of Directors is ultimately responsible for the Group's overall risk appetite, and for setting principles regarding how risk appetite is managed.

The Group's Risk Manager is responsible for the risk management framework and processes, including identifying; controlling and monitoring the Bank's various risks with the object to make risk assessments on both individual and aggregated level. For further information on the Bank's risk management, see the Group's Risk Management Report 2018 at: www.banknordik.com/rmr

Corporate responsibility

Complying with the law and adhering to international principles for responsible business conduct is a fundamental and integral part of BankNordik's strategy. We are driven by an ambition to create value for all our stakeholders and use our expertise to drive sustainable progress and make a positive impact in the societies we are a part of. In addition to long-term economic value creation through responsible business conduct; through the benefits that our products bring the customer; and through our skillsets and expertise in banking, we aim to create social value through community involvement. It is our assertion that CSR initiatives will yield the best results if there is a natural connection between such activities and our business strategy and core competences. Therefore, our initiatives are strategically rooted in the Group's vision, strategy, and values.

BankNordik reports on corporate social responsibility in the 2018 CSR Report, which has been developed in compliance with the Group's CSR-policy and the Danish FSA's requirements on corporate responsibilities reporting.

The report is available at www.banknordik.dk/csr

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 2018.

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.

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, equity and financial position at 31 December 2018 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 2018. 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 general meeting for approval.

Tórshavn, 28 February 2019

Executive Board

Árni Ellefsen
CEO

Board of Directors

Stine Bosse Chairman	Barbara Pállsdóttir Vang Deputy Chairman	Jógvan Jespersen
Kim Jacobsen	John Hendrik Holm	Kenneth M. Samuelsen
Dan Rasmussen	Alexandur Johansen	

Internal Auditors' Report

Report on the Consolidated and Parent Company Financial Statements

Opinion

In our opinion, the Consolidated Financial Statements and the Financial Statements of P/F BankNordik give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the Consolidated Financial Statements and in accordance with the Faroese Financial Business Act in respect of the Parent Company's financial statements.

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

Basis for opinion

We have audited the Consolidated Financial Statements and the Financial Statements of P/F BankNordik for the financial year 1 January – 31 December 2018. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU. The Parent Company's Financial Statements have been prepared in accordance with the Faroese Financial Business Act.

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

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

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

Statement on Management's Review

Management is responsible for the Management's Review.

Our opinion on the Consolidated Financial Statements and the Parent Company's Financial Statements does not cover the Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements and the Parent Company's Financial Statements, our responsibility is to read the Management's Review and, in doing so, consider whether the Management's Review is materially inconsistent with the Consolidated Financial Statements or the Parent Company's Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, it is our responsibility to consider whether the Management's Review provides the information required under the Faroese Financial Business Act.

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

Tórshavn, 28 February 2019

Arndis Poulsen
Chief Audit Executive, BankNordik

Independent auditors' report

To the shareholders of BankNordik P/F

Our opinion

In our opinion the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Faroese Financial Business Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2018 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2018 in accordance with the Faroese Financial Business Act.

What we have audited

The Consolidated Financial Statements and the Parent Company Financial Statements of BankNordik P/F for the financial year 1 January to 31 December 2018 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies for the Group as well as for the Parent Company and cash flow statement for the Group. Collectively referred to as the "Financial Statements".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in the Faroe Islands. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark and the Faroe Islands. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2018. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Loan impairment charges Loans are measured at amortised cost less impairment charges. As a result of the implementation of IFRS 9, as from 1 January 2018, impairment charges are made on expected credit losses instead of, as previously, only on incurred losses. The accumulated effect of the change compared to previous years has been recognised in equity at 1 January 2018, whereas impairment charges for the year 2018 have been currently recognised in the income statement.	We reviewed and assessed the accumulated effect of the Group's impairment charges at 1 January 2018 recognised in equity as well as current impairment charges recognised in the income statement in 2018. Our review included an assessment of the impairment model applied prepared by SDC, including division of responsibilities between the

Loan impairment charges represent Management's best estimate of expected losses on loans at the balance sheet date in accordance with the provisions of IFRS 9 as incorporated in the Executive Order for the Faroe Islands on the Presentation of Financial Statements of Credit Institutions and Stockbroker Companies, etc. Reference is made to the detailed description of accounting policies in note 1.

Loan impairment charges are a key area of focus as Management performs material estimates of whether write-down for impairment should be made and of the size of such impairment charges.

The following areas are central to the calculation of loan impairment charges:

- Determination of credit classification on initial and subsequent recognition.
- Model-based impairment charges in stages 1 and 2, including Management's determination of model variables adapted to the Group's loan portfolio.
- The Group's procedures to ensure completeness of the registration of credit-impaired loans (stage 3) or loans with significant increase in credit risk (weak stage 2).
- Most significant assumptions and estimates applied by Management in the calculations of impairment charges, including principles for the assessment of various outcome of the customer's financial position (scenarios) and for the assessment of collateral values of eg ships and properties included in the calculations of impairment.
- Management's assessment of expected credit losses at the balance sheet date as a result of possible changes in market conditions and which are not included in the model-based calculations or individually assessed impairment charges.

Reference is made to note 1 of the Parent Company Financial statements and the Consolidated Financial Statements, "Estimates and assumptions", "IFRS 9, Financial Instruments" and "Impairment charges", note 14, "Control of credit risks", "Increase in credit risk and decrease in credit risk" and "Calculation of expected credit risk (indication of impairment) as well as note 49, "Risk management", addressing matters that may affect loan impairment charges.

data centre and the Group. SDC's independent auditor has provided the model with a reasonable assurance report as to whether the descriptions comply with the interpretation options regarding the impairment principles according to IFRS 9, and whether the model calculates in accordance with the model descriptions.

We assessed and tested the Group's calculation of impairment charges in stages 1 and 2, including assessment of Management's determination and adaptation of model variables to own issues.

Our review and assessment moreover included the Group's methods applied for the calculation of expected credit losses as well as the procedures designed, including the involvement of the credit department and Management, and internal controls established to ensure that credit-impaired loans in stage 3 and in weak stage 2, are identified and recorded on a timely basis.

We assessed and tested the principles applied by the Group for the determination of impairment scenarios and for the measurement of collateral values of eg ships and properties included in the calculations of impairment of credit-impaired loans in stage 3 and in weak stage 2.

We tested a sample of credit-impaired loans in stage 3 and in weak stage 2, by testing the calculations of impairment charges and applied data to underlying documentation.

We tested a sample of other loans by making an assessment ourselves of stage and credit classification. This included an increased sample of major loans, loans within segments with generally increased risks as well as a randomly selected sample.

We reviewed and challenged Management's estimates of expected credit losses not included in the model-based calculations or individually assessed impairment charges based on our knowledge of the portfolio, our trade knowledge and knowledge of current market conditions.

Statement on Management's Review

Management is responsible for Management's Review.

Management is responsible for Management's Review. Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Faroese Financial Business Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Faroese Financial Business Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

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

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

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in the Faroe Islands will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements. As part of an audit in accordance with ISAs and the additional requirements applicable in the Faroes Islands, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Tórshavn, 28 February 2019

PRICEWATERHOUSECOOPERS
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Heidi Brander
State Authorised Public Accountant
mne33253

JANUAR P/F
Løggilt grannskodanarvirki
Company reg. no. 5821

Heini Thomsen
State Authorised Public Accountant
mne33274

Financial statement BankNordik

Contents

Income statement - BankNordik

		Group		BankNordik	
Note	DKK 1,000	2018	2017	2018	2017
3, 4	Interest income	393,429	412,488	391,982	410,891
3, 5	Interest expenses	19,287	25,273	19,288	25,279
	Net interest income	**374,143**	**387,216**	**372,694**	**385,612**
3	Dividends from shares and other investments	11,396	5,400	11,396	5,400
6	Fee and commission income	185,071	204,302	195,067	213,244
6	Fee and commissions paid	12,858	13,877	12,858	13,877
	Net dividend, fee and commission income	**183,609**	**195,825**	**193,605**	**204,767**
	Net interest and fee income	**557,752**	**583,041**	**566,299**	**590,378**
7	Premium income, net of reinsurance	118,148	107,183		
8	Claims, net of reinsurance	74,397	63,816		
	Interest and fee income and income from insurance activities, net	**601,503**	**626,407**	**566,299**	**590,378**
3, 9	Market value adjustments	7,113	20,131	9,531	21,952
10	Other operating income	19,947	33,534	13,940	29,174
11, 12	Staff costs and administrative expenses	459,247	453,630	438,578	431,121
27, 28, 29	Amortisation, depreciation and impairment charges	-43,807	28,217	-44,379	27,599
13	Other operating expenses	793	-1,800	793	-1,800
14	Impairment charges on loans and advances etc.	-110,782	-35,107	-110,782	-35,107
24, 25	Income from investments accounted for under the equity method	184	-501	14,565	12,160
	Profit before tax	**323,295**	**234,632**	**320,125**	**231,852**
15	Tax	61,199	45,553	58,029	42,774
	Net profit	**262,097**	**189,078**	**262,097**	**189,078**
	Portion attributable to				
	Shareholders of BankNordik P/F	262,097	189,078	262,097	189,078
	Net profit	**262,097**	**189,078**	**262,097**	**189,078**
	EPS Basic for the perdiod, total, DKK	27.11	19.45	27.11	19.45
	EPS Diluted for the perdiod, total, DKK	27.11	19.45	27.11	19.45

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

Statement og comprehensive income - BankNordik

	Group		BankNordik	
DKK 1,000	**2018**	**2017**	**2018**	**2017**
Net profit	262,097	189,078	262,097	189,078
Other comprehensive income				
Revaluation of domicile property	13,718	0	13,718	0
Tax on other comprehensive income	-2,749	0	-2,749	0
Total other comprehensive income	10,968	0	10,968	0
Total comprehensive income	**273,065**	**189,078**	**273,065**	**189,078**
Portion attributable to				
Shareholders of BankNordik P/F	273,065	189,078	273,065	189,078
Total comprehensive income	**273,065**	**189,078**	**273,065**	**189,078**

Balance Sheet - BankNordik

Note	DKK 1,000	Group 2018	Group 2017	BankNordik 2018	BankNordik 2017
	Assets				
16	Cash in hand and demand deposits with central banks	180,051	250,509	179,956	250,426
17, 18	Due from credit institutions and central banks	914,420	616,813	914,420	616,813
14, 19, 20	Loans and advances at fair value	519,638	431,017	519,638	431,017
14, 19, 20	Loans and advances at amortised cost	9,436,840	9,106,408	9,436,840	9,106,408
21	Bonds at fair value	4,565,087	4,262,730	4,374,064	4,091,177
22	Shares, etc.	304,003	248,811	304,003	248,811
23, 47	Assets under insurance contracts	5,850	8,575	0	0
24	Holdings in associates	6,082	5,898	6,082	5,898
25	Holdings in subsidiaries	0	0	123,651	115,270
26	Assets under pooled schemes	445,241	450,335	445,241	450,335
27	Intangible assets	6,678	0	6,678	0
	Total land and buildings	98,649	169,217	96,705	167,253
28	Domicile property	98,649	169,217	96,705	167,253
29	Other property, plant and equipment	23,814	28,552	22,760	27,770
	Current tax assets	6,814	6,894	6,814	6,894
30	Deferred tax assets	18,527	44,707	18,496	44,553
31	Assets held for sale	20,364	6,302	20,364	6,302
32	Other assets	77,907	73,336	73,361	70,858
	Prepayments	70,194	74,851	68,629	73,273
	Total assets	**16,700,158**	**15,784,953**	**16,617,701**	**15,713,057**

Balance Sheet - BankNordik

Note	DKK 1,000	Group 2018	Group 2017	BankNordik 2018	BankNordik 2017
	Shareholders' equity and liabilities				
	Liabilities other than provisions				
33, 34	Due to credit institutions and central banks	298,610	360,497	298,610	360,497
35, 36	Deposits and other debt	13,432,228	12,632,463	13,452,242	12,653,510
	Deposits under pooled schemes	445,572	450,863	445,572	450,863
37, 47	Liabilities under insurance contracts	89,064	81,197	0	0
	Current tax liabilities	17,441	34,800	14,394	31,929
38	Other liabilities	170,164	147,883	160,240	139,985
	Deferred income	4,044	4,177	3,609	3,434
	Total liabilities other than provisions	**14,457,124**	**13,711,880**	**14,374,667**	**13,640,216**
	Provisions for liabilities				
14	Provisions for losses on guarantees etc	27,443	23,640	27,443	23,640
	Provisions for other liabilities	5,361	6,472	5,361	6,240
	Total provisions for liabilities	**32,805**	**30,112**	**32,805**	**29,880**
	Subordinated debt				
39	Subordinated debt	223,477	222,868	223,477	222,868
	Total liabilities	**14,713,406**	**13,964,861**	**16,630,949**	**13,892,964**
	Shareholders' equity				
	Share capital	200,000	200,000	200,000	200,000
	Revaluation reserve	10,968	0	10,968	0
	Retained earnings	1,705,783	1,580,092	1,705,783	1,580,092
	Proposed dividends	70,000	40,000	70,000	40,000
	Total shareholders' equity	**1,986,752**	**1,820,092**	**1,986,752**	**1,820,092**
	Total liabilities and equity	**16,700,158**	**15,784,953**	**16,617,701**	**15,713,057**

Statement of capital - Group

Changes in shareholders' equity:	Shareholders of P/f BankNordik Group				
DKK 1,000	Share capital	Revaluation Reserve	Proposed dividends	Retained earnings	Total
Shareholders' equity at December 31, 2017	**200,000**	**0**	**40,000**	**1,580,093**	1,820,092
Changes in accounting policies for impairment under IFRS 9				-70,056	-70,056
Tax on changes regarding the implementation af IFRS 9[1]				17,407	17,407
Adjusted equity at January 1, 2018	**200,000**	**0**	**40,000**	**1,527,444**	**1,767,444**
Revalution of assets		13,718			13,718
Tax on entries on income recognised as Other comprehensive income		-2,749			-2,749
Net profit			70,000	192,097	262,097
Total comprehensive income		**10,968**	**70,000**	**139,448**	**220,417**
Acquisition of own shares				-14,935	-14,935
Sale of own shares				7	7
Dividends payed			-40,000	1,171	-38,829
Shareholders' equity December 31, 2018	**200,000**	**10,968**	**70,000**	**1,705,783**	**1,986,752**

[1] The calculation is based on local tax-rates in the Faroe Islands, in Denmark and in Greenland.

DKK 1,000	Share capital	Revaluation Reserve	Proposed dividends	Retained earnings	Total
Shareholders' equity at January 1, 2017	**200,000**	**0**	**300,000**	**1,422,035**	**1,922,035**
Net profit			40,000	149,078	189,078
Total comprehensive income		**0**	**40,000**	**149,078**	**189,078**
Acquisition of own shares				-1,665	-1,665
Sale of own shares				2,276	2,276
Dividends payed			-300,000	8,368	-291,632
Shareholders' equity at December 31, 2017	**200,000**	**0**	**40,000**	**1,580,093**	**1,820,092**

Statement of capital - BankNordik P/F

Changes in shareholders' equity:

	Shareholders of P/f BankNordik Group					
DKK 1.000	Share capital	Revaluation Reserve	Equity method reserve	Proposed dividends	Retaines earnings	**Total**
Shareholders' equity at December 31, 2017	**200,000**	**0**	**0**	**40,000**	**1,580,092**	**1,820,092**
Changes in accounting policies for impairment under IFRS 9					-70,056	-70,056
Tax on changes regarding the implementation af IFRS 9[1]					17,407	17,407
Adjusted equity at January 1, 2018	**200,000**	**0**	**0**	**40,000**	**1,527,444**	**1,767,444**
Revalution of assets		13,718				13,718
Tax on entries on income recognised as Other comprehensive income		-2,749				-2,749
Net profit			0	70,000	192,097	262,097
Total comprehensive income		**10,968**	**0**	**70,000**	**139,448**	**220,417**
Acquisition of own shares					-14,935	-14,935
Sale of own shares					7	7
Dividends payed				-40,000	1,171	-38,829
Shareholders' equity at December 31, 2018	**200,000**	**10,968**	**0**	**70,000**	**1,705,783**	**1,986,752**

[1] The calculation is based on local tax-rates in the Faroe Islands, in Denmark and in Greenland.

DKK 1.000	Share capital	Revaluation Reserve	Equity method reserve	Proposed dividends	Retaines earnings	**Total**
Shareholders' equity at January 1, 2017	**200,000**	**0**	**0**	**300,000**	**1,422,035**	**1,922,035**
Net profit				40,000	149,078	189,078
Total comprehensive income		**0**	**0**	**40,000**	**149,078**	**189,078**
Acquisition of own shares					-1,665	-1,665
Sale of own shares					2,276	2,276
Dividends payed				-300,000	8,368	-291,632
Shareholders' equity at December 31, 2017	**200,000**	**0**	**0**	**40,000**	**1,580,092**	**1,820,092**

Statement of capital - P/F BankNordik

Solvency	**Dec. 31**	**Dec. 31**
DKK 1,000	**2018**	**2017**
Core capital	1,874,689	1,731,404
Total capital	2,098,167	1,954,272
Risk-weighted items not included in the trading portfolio	8,248,858	7,575,236
Risk-weighted items with market risk etc.	1,176,636	1,022,062
Risk-weighted items with operational risk	1,195,955	1,298,065
Total risk-weighted items	10,621,449	9,895,363
Core capital rato, excl. hybrid core capital	17.7%	17.5%
Core capital ratio	17.7%	17.5%
Solvency ratio	19.8%	19.7%
Core Capital and Shareholders' equity		
Share capital	200,000	200,000
Reserves	10,968	0
Net profit	262,097	189,078
Retained earnings, previous years	1,557,762	1,460,582
Shareholders' equity, before deduction of holdings of own shares	**2,030,828**	**1,849,660**
Deduction of dividend	70,000	40,000
Deduction due to access holdings of shares in the financial sector	5,740	0
Deduction of holdings of own shares	44,076	29,568
Deduction of intangible assets	6,678	0
Deductions regarding planned purchase of own shares	6,713	0
Deduction of deferred tax assets	18,496	44,553
Deduction regarding prudent valuation of financial instruments	4,436	4,136
Core capital exclusive of hybrid core capital	**1,874,689**	**1,731,404**
Hybrid core capital before deductions	0	0
Core capital	**1,874,689**	**1,731,404**
Total capital		
Core capital	1,874,689	1,731,404
Subordinated loan capital, before deductions	223,477	222,868
Total capital	**2,098,167**	**1,954,272**

The BankNordik Group holds a license to operate as a bank and is therefore subject to a capital requirement under the Faroese Financial Business Act and to CRR. The Faroese provisions on capital requirements apply to both the Parent Company and the Group. The capital requirementprovisions 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 to the carrying amount of equity, after deductions of holdings of own shares, deffered tax assets and other minor deductions.

Cash flow statement - Group

DKK 1,000	2018	2017
Cash flow from operations		
Profit before tax	323,295	234,632
Depreciation and impairment charges of tangible assets	-43,807	28,096
Impairment of loans and advances/guarantees	-110,782	-26,773
Paid tax	-36,727	-46,256
Other non-cash operating items	-18.711	-29,363
Total	**113.268**	**160,336**
Changes in operating capital		
Change in loans at fair value	-88.620	86,521
Change in loans at amortised cost	-289.707	-466,016
Change in holding of bonds	-300.825	411,077
Change in holding of shares	-55.193	10,493
Change in deposits	799,765	-36,234
Due to credit institutions and central banks	-61,886	18,821
Change in other assets / liabilities	17.689	-8,981
Assets/liabilities under insurance contracts	10.592	-5,783
Prepayments	4.291	-37,046
Cash flow from operations	**149.374**	**133,187**
Cash flow from investing activities		
Dividends received	11,396	5,400
Acquisition of intangible assets	-6.678	0
Acquisition of tangible assets	-13.127	-20,382
Sale of tangible assets	139,942	6,350
Cash flow from investing activities	**131.533**	**-8,633**
Cash flow from financing activities		
Acquisition of own shares	-14,935	-1,665
Sale of own shares	7	2,276
Payment of dividends	-40,000	-300,000
Payment of dividends, own shares	1,171	8,368
Cash flow from financing activities	**-53,757**	**-291,020**
Cash flow	**227.150**	**-166,467**
Cash in hand and demand deposits with central banks, and due from		
Credit institutions, etc. at the beginning of the year	767,321	933,788
Cash flow	227.150	-166,467
Cash and due etc.	**994,471**	**767,321**
Cash and due etc.		
Cash in hand and demand deposits with central banks	180,051	250,509
Due from credit institutions, etc.	814,420	516,813
Total	**994,471**	**767,321**

Notes

Note 1

Accounting policies

Contents

1. Basis of preparation

The BankNordik Group presents its consolidated financial statements in accordance with IFRSs as adopted by EU and issued by the International Accounting Standards Board (IASB). Furthermore, the consolidated financial statements comply with the requirements for annual reports formulated by 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.

Changes and effects from implementation of new standards and amendments are explained in the following under the heading Adoption of new standards in 2018.

Notes

Note 1 (cont'd)

1) 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 domicile properties
- Fair value of financial instruments

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.

A) 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 the expected credit loss model as further described under the section "Loans and advances at amortised cost".

In order to determine impairments on financial instruments as stipulated by IFRS 9 and IAS 39, the Bank is required to make use of estimations and assumptions. In particular, BankNordik is mandated to estimate future cash flows and loan-to-value when assessing significantly increased credit risks and impairments. These projections are based on a number of parameters and the outcome is subject to various stages of impairments or provisions.

BankNordik's expected credit loss model based on a series of variable inputs – requires a loss allowance to be recognised on all credit exposures. Impairments within stage 1 and stage 2 are based purely on the output of the model, whereas impairments within the weaker part of stage 2 and stage 3 are recognised based on a combination of individual assessment and model output.

The following components of the model are considered accounting estimations and assessments:

- BankNordik's internal credit score system, which assigns PD values on a loan-by-loan basis and classifies exposures into stages.
- BankNordik's criteria to determine significant increases in credit risk, which would demand a transfer from one stage of impairment to another.
- Model development, including input parameters and formulas.
- Determining macroeconomic scenarios and economic data input, as well as the effect of these on PD values, EAD values and LGD values.
- Determining forward-looking microeconomic scenarios.

Note 14 provides details on the amounts recognized and note 49 also provides further details on impairment charges on loans and advances

B) Fair value of domicile properties

The income based approach is used to measure fair value of properties. For domicile properties the fair value is estimated on the basis of various assumptions and a major parameter is the potential rental income. The potential rental income is 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. 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 domicile properties.

Notes

Note 1 (cont'd)

C) Fair value of financial instruments

The Group measures a number of financial instruments at fair value, including all derivative instruments as well as 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 14 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 for an equity instrument, the investment will be valued at cost less any write-downs for impairment. Details on the amounts recognised are provided in note 23.

D) Fair value of 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 non-performing loan agreements and domicile property held for sale. Assets held for sale not expected to be sold within 12 months 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. Details on the amounts recognised are provided in note 32.

2) Adoption of new standards in 2018

The following new standards and amendments to standards and interpretations which are relevant for the Group are mandatory for the first time for the financial year beginning 1 January 2018:

IFRS 9, Financial Instruments

IFRS 9 comprises a new impairment model for loans and other financial assets measured at amortised cost, based on expected credit losses. The guidance applies to financial guarantees and loan commitments as well. Impairment is determined by the extent of changes in credit risk since initial recognition. As the IFRS 9 impairment model is developed and based on a statistical approach and certain general assumptions it is as such subject to a level of uncertainty.

If credit risk has not increased significantly, the loss allowance will consist of an amount equal to 12 month expected credit losses – stage 1. If the credit risk has increased significantly since initial recognition, the loss allowance will consist of an amount equal to lifetime expected credit losses – stage 2. If the financial asset is considered to be credit impaired, the asset moves on to stage 3, in which (in principle unchanged relative to stage 2) the bank recognises an impairment allowance equal to lifetime expected credit losses.

Notes

Note 1 (cont'd) The calculation of impairment allowance in stages 1 and 2 to a some extent replaces the calculation of impairment on collective OEI under the previous rules ("collective impairment"), while the calculation of impairment allowance in stage 3 more or less replaces the calculation of impairment on individual OEI according to IAS 39.

In accordance with the transitional provisions of IFRS 9, the Group has chosen not to apply the changes retrospectively. As such, the cumulative effect of the changes has been recognised as an adjustment to equity in the opening balance of 2018, while comparable figures for 2017 have not been restated. The impact on the Group's balance sheet, i.e. the effects on financial instruments, provisions for liabilities and on equity, is shown in the table below.

As illustrated in the table the total negative effect of the implementation of IFRS 9 on the Group's equity as of January 1, 2018 is DKK 52.6m.

Further, IFRS 9 introduces a new classification model for financial assets,. Debt instruments are classified on the basis of the business model within which they are held and their contractual cash flow characteristics.

Financial assets held in order to collect contractual cash flows that are solely payments of principal and interest on the principal amount are measured at amortised cost. This comprises BankNordik's loan portfolio.

Financial assets held in a mixed business model, of which some are sold and others are held to collect contractual cash-flows that solely relate to interest and instalments on the amount outstanding, are after initial recognition typically measured at fair value. BankNordik's investment strategy, which comprise bond investments, is based upon fair value measures and appear as such in the Group's internal management reports. Management has therefore assessed that these instruments do not meet the criteria of the business model in relation to the measurement categories amortised cost and fair value through other comprehensive income. Consequently, bond investments are classified as fair value through profit or loss.

IFRS 9 has an accounting option to designate upon initial recognition equity investment, which do not form part of the trading portfolio at fair value through other comprehensive income. Under this option, all unrealised as well as realised gains or losses are reocognised in other comprehensive income. The option is relevant for BankNordiks investments in sector shares. BankNordik does not elect this option and therefore sector shares are measured at fair value through profit or loss.

All other financial assets are measured at fair value through profit or loss. This comprises BankNordik's derivative financial instruments.

Balance Sheet as of January 1 2018 due to changes in accounting policies

Note	DKK 1.000	**Group January 1 2018**	**BankNordik January 1 2018**	**Effects of IFRS 9**	**Group Dec. 31 2017**	**BankNordik Dec. 31 2017**
	Assets					
9	Financial instruments at amortised cost	9.054.524	9.054.524	-51.884	9.106.408	9.106.408
	Shareholders' equity and liabilities					
	Provisions for losses on unused credits	4.136	4.136	4.136	0	0
	Provisions for losses on guarantees	37.677	37.677	14.037	23.640	23.640
	Current tax liabilities	17.393	14.521	-17.407	34.800	31.929
	Equity	1.767.444	1.767.444	-52.649	1.820.092	1.820.092

Notes

Note 1 (cont'd)

IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' is a comprehensive standard on revenue recognition. IFRS 15 applies to recognition of BankNordik's fee income other than fee income related to loans measured at amortised cost and financial guarantee fees. The impact on the Groups Income statement is insignificant as timing of recognition of fees within the scope of IFRS 15 in all material respects remains unchanged.

3) Changes in IFRSs not yet applied by BankNordik

The following New standards, amendments and interpretations issued and endorsed by EU are relevant for the BankNordik Group:

IFRS 16 'Leases'

IFRS 16 'Leases' introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The effective date is January 1, 2019. On adoption of IFRS 16, the Group's leased assets which mainly comprise the Thorshavn domicile will be recognised in the balance sheet. The Group expects to apply the modified retrospective approach under which the lease liability as of 1 January 2019 and the related right of use asset is recognised in the opening balance sheet 1 January 2019 without restatement of comparative figures. The lease liability as of 1 January 2019 is estimated to amount to DKK 91.4m of which the Thorshavn domicile amounts to DKK 73.7m.

IFRC 23 'Uncertainty over income tax treatments'

The interpretation comprises guidance regarding recogntion and measurement of uncertain income tax positions. The interpretation becomes effective on 1 January 2019. Management expects no signficant impact from adoption of the interpretation.

The following New standards, amendments and interpretations issued and not yet endorsed by EU are relevant for the BankNordik Group:

IFRS 17 'Insurance contracts'

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts

The standard is effective for annual periods beginning on or after 1 January 2021. Management has not yet assessed the impact of IFRS 17.

Amends to IAS 1 and IAS 8, 'Definition of material'

The changes comprise extended guidance regarding application of the "material" notion in respect of recogni-

Notes

Note 1 (cont'd)

tion, measurement and disclosure. The changes become effective on 1 January 2020. Management expects no significant Impact from adoption of these changes.

4) Consolidation

The consolidated financial statements comprise the parent company, P/F BankNordik and its subsidiaries. Subsidiaries are entities over which BankNordik has power, is exposed to variability in returns, and has the ability to use its power to affect the return. 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.

5) 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. 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 financial information is available. Operating segments are not aggregated. Amounts presented In the segment reporting are recognised and measured in accordance 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.

Impairment charges, net are reported including reversals of aquired OEI impairments during the year. The aquired impairments are reclassified from other income in the Income Statement.

6) Foreign currency translation

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.

7) 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.

Notes

Note 1 (cont'd)

2. Critical accounting policies

1. Income statement

1) 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.

2) 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. For financial assets in stage 1 and 2 of the impairment model, interest income is determined on the basis of the gross carrying amount. For financial assets in stage 3, interest income is determined based on the carrying amount after impairment.

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.

3) 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 annual general meeting.

4) 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 arising from the execution of a significant act is recognized when the act is executed.

5) 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.

6) 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.

7) 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.

Notes

Note 1 (cont'd)

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 reinsurance coverage.

8) Market value adjustments

Market value adjustments comprise all value adjustments of financial assets and liabilities that are measured at fair value through profit or loss and investment property. Excluded are adjustments on loans and advances at fair value, recorded as fair value adjustments under Impairment charges on loans and advances and provisions for guarantees etc. note 14.

9) 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.

10) Staff costs

Salaries and other remuneration the Group expects to pay. Remuneration is recognized along with delivery of service and are classified as staff costs. This item includes salaries, bonuses, holiday allowances, anniversary bonuses, pension costs and other remuneration.

11) Pension obligations

The Group's contributions to defined contribution plans are recognised in the income statement as they are earned by the employees. Changes in the capitalised value of the few defined benefit pension contracts that exist are recognised continuously as Other comprehensive income.

12) 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.

13) Other operating expenses

Other operating expenses include other expenses that are not ascribable to other income statement items, including expenses from the company's investment property activities.

14) 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.

15) 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 to the elements that can be attributed to profit for the year and in other comprehensive income and directly in equity as regards to the elements that can be attributed to items recognised In other comprehensive income and directly in equity respectively.

Notes

Note 1 (cont'd)

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".

2. Balance sheet – Assets

1) 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.

2) Financial instruments – general
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.

3) Financial instruments – 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

3.1) 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 according to the requirements from IFRS 9.

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 charges
Impairment charges on loans, financial guarantee contracts and loan commitments is based on a staged model under which the impairment charge on instruments which have not been subject to a significant increase in credit risk is determined at the credit loss from loss events expected to take place within the next 12 months. For Instruments with a significant increase in credit risk since initial recognition and instruments which are credit impaired, the impairment charge is the lifetime expected credit loss.

The method of determining whether the credit risk has increased significantly, is mainly based on the probability of default reflecting past events as well as current conditions and forecasts at the reporting date.

Notes

Note

1 (cont'd) The method of forecasting at the reporting date, is based on a distribution of the bank's personal customers by geography and of its corporate customers by industry. For each category, the bank considers the future forecast relative to the past events on which the probability of default is based.

The method of calculating the expected credit loss in stage 1 and a part of stage 2 is primarily a model-based individual assessment based on a probability of default, a loss in case of default and exposure at the default date. For large, weak stage 2 customers/facilities and stage 3 customers/facilities, the calculation of impairment allowance is expected to be made using a manual, individual assessment of the financial assets rather than a model-based calculation.

For exposures categorised as stage 1 or stage 2, the expected credit loss (ECL) is calculated as a function of the probability of default (PD) * the expected exposure at default (EAD) * the expected loss given default (LGD). Where the PD for exposures in stage 1 reflects the probability of default in the next 12-month period (PD12), the probability of default over the entire life of the exposure is applied to exposures placed in stage 2 (PDLife).

As regards the portion of stage 2 exposures consisting of the weakest exposures, the largest of these are reviewed individually, and the average impairment ratio calculated for them is used to calculate the expected credit loss for the weakest of the stage 2 exposures not individually reviewed.

As regards exposures in stage 3, the expected credit loss is calculated individually.

PD12 is calculated based on the Bank's behavioural credit score methodology for exposures to retail customers and small business customers, whereas the Bank's accounting-based credit score model is applied to the Bank's exposures to large corporate customers.

PDLife is calculated based on PD12, but is adjusted for any identified annual migrations between various fixed PD12 stages. Furthermore, the calculated PDLife is adjusted for changes in a number of forward-looking factors, which as regards the Bank's Danish and Greenlandic exposures are based on information from, e.g., the Danish central Bank and the Danish Economic Council, whereas factors of relevance to Faroese exposures are based on the current impairment ratio relative to a historical average impairment ratio.

EAD is calculated as the actual amount of exposure with due consideration for non-executed loan commitments and unutilised, executed loan commitments as well as any guarantees provided, which factors are calculated as a function of predetermined coefficients.

LGD is calculated as the ratio between the historically identified loss rate for the portion of the exposures that are not secured.

The expected useful life of an exposure is calculated as the expected maturity of the exposure in question.

All significant variables and calculations made are validated at least annually, primarily based on sample testing and, for model-based variables, supplemented by back-testing and the use of statistical targets for explanatory values.

Since calculations are made in all stages of an expected credit loss, i.e. expectations as to the future, all statements and calculations reflect the Bank's best estimates and assessments as to future events. These estimates and assessments may therefore result in the calculation of a higher or lower credit loss than the

Notes

Note 1 (cont'd)

credit losses actually incurred. Please refer to note 14 for further information.

3.2) 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. Some securities and 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.

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 within market value adjustments.

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.

3.3) 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 securities

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

Notes

Note 1 (cont'd)

4) 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.

5) Holdings in associates

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 under-takings are written-down according to the impairment loss risk.

Profits on divested 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.

6) Holdings in subsidiaries

Subsidiaries are recognised according to the equity method in the Financial Statement of the Parent Company. Consequently the net profit of the Group and the Parent Company are identical. The accounting policy described to the consolidated financial statements is therefore also valid for the parent company.

Profits on divested subsidiaries 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.

7) Land and buildings

On acquisition land and buildings are recognised at cost. The cost price includes the purchase price and costs directly attributable to the purchase until the date when the asset is ready for use.

7.1) 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 income based model that includes the property's estimated rental income If rented to a third party, operating expenses, as well as management and maintenance. Maintenance costs are calculated

Notes

Note 1 (cont'd)

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.

At least once a year value adjustments according to revaluations are recognised in other comprehensive income. Depreciation and impairments are recognised in the income statement under the item "Amortisation, depreciation on fixed assets and impairment charges". Impairments are only recognised in the income statement to the extent that it cannot be offset in former period's revaluations.

8) 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.

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

Assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets related to disposal groups are presented in the item 'Assets in disposal groups classified as held for sale'. Liabilities related to disposal groups are presented in the item 'Liabilities directly associated with assets in disposal groups classified as assets held for sale'. An asset is not depreciated or amortised from the time when it is classified as held for sale. Assets held for sale not expected to be sold within 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.

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

Notes

Note 1 (cont'd)

3. Balance sheet – Liabilities, provisions and equity

1) Financial instruments – general

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.

2) 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

3) Due to credit institutions and central banks and deposits measured at amortised cost

Initial recognition of amounts due to credit institutions and central banks and 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.

4) Trading portfolio measured at fair value

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 within market value adjustments.

5) 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.

6) 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 coverage 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.

Notes

Note 1 (cont'd)

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

7) 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.

8) 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.

9) Subordinated debt

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.

Subordinated debt is recognised at the date of borrowing, at the proceeds received less directly attributable transaction cost. Subsequently the subordinated debt is measured at amortised cost.

Fair value hedging transactions for the issuances of part of the subordinated debt were structured at inception to partially mirror fair value adjustments of the subordinated debt. These value adjustments are recognised under market value adjustments in the Income Statement.

10) 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.

11) 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.

Notes

Note 1 (cont'd)

4. Cash flow statement

The Group prepares its cash flow statement according to the indirect method. The statement is based on the pre-tax 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.

3. 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). Investments in subsidiaries are recognised using the equity method.

Notes

Note 2

Operating segments

The Group consists of two 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 and Non-life insurance.

Banking comprises Personal Banking and Corporate Banking. Personal Banking comprises private customers in the Faroe Islands, in Denmark and in Greenland. Corporate Banking comprises corporate customers mainly in the Faroe Islands and in Greenland. The corporate segment also comprises a few remaining corporate customers from Denmark.

Non-life insurance comprises the insurance company P/F TRYGD based The Faroe Islands. TRYGD is responsible for the Group's non-life insurance products. TRYGD target personal and corporate customers with a full range of property and casualty products. 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 and the life insurance company NordikLív. These companies are very small and immaterial in an overall Group context. Overhead Costs are allocated according to resource requirements. Liquidity balances are posted between the segments using an internal required rate of return. Other costs are allocated according to deposit balances in each segment. Other comprises asstets not allocated to the business segments i. e. the Groups portefolio of bonds, shares and other assets.

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

Notes - BankNordik Group

Note	Operating segments 2018	Banking				Non-life Insurance	Elimination	Group
2	**DKK 1.000**	**Private**	**Corporate**	**Other**	**Total**	**Faroe Islands**		**Total**
(cont'd)	External interest income, Net	250,022	114,107	8,777	372,906	1,237		374,143
	Internal interest	8,461	-1,113	-7,348	0	0		0
	Net interest income	258,483	112,994	1,429	372,906	1,237		374,143
	Net Fee and dividends income	179,552	15,341	-4,562	190,331	-6,722		183,609
	Premium income, net of reinsurance	0	0	14,028	14,028	105,026	-906	118,148
	Net premium income of reinsurance and claims	0	0	11,681	11,681	32,976	-906	43,751
	Other income	19,914	680	10,085	30,679	-2,024	-1,410	27,245
	Total income	**457,949**	**129,015**	**18,632**	**605,596**	**25,467**	**-2,316**	**628,747**
	Total operating expenses	177,006	15,470	208,811	401,286	17,263	-2,316	416,233
	Profit before impairment charges on loans	**280,943**	**113,546**	**-190,179**	**204,310**	**8,204**		**212,514**
	Impairment charges	-54,228	-56,554	0	-110,782	0	0	-110,782
	Profit before tax	**335,171**	**170,100**	**-190,179**	**315,092**	**8,204**	**0**	**323,295**
	Total assets	**6,706,139**	**3,666,528**	**6,149,696**	**16,522,363**	**177,796**		**16,700,158**
	of which Loans and advances	6,454,928	3,501,550	0	9,956,478	0		9,956,478
	Total liabilities	**10,095,824**	**3,356,419**	**1,083,368**	**14,535,610**	**177,796**		**14,713,406**
	of which Deposits	10,095,824	3,356,419	0	13,452,242	0	-20,014	13,432,228
	of which Insurance liabilities			914		88,150	0	89,064

Operating segments 2017	Banking				Non-life Insurance	Elimination	Group
DKK 1.000	**Private**	**Corporate**	**Other**	**Total**	**Faroe Islands**		**Total**
External interest income, Net	253,040	123,434	9,693	386,168	1,048		387,216
Internal interest	10,437	-1,446	-8,991	0	0		0
Net interest income	263,478	121,988	702	386,168	1,048		387,216
Net Fee and dividends income	165,114	15,185	21,507	201,806	-5,980		195,825
Premium income, net of rein-surance	0	0	12,766	12,766	95,391	-975	107,183
Net premium income of rein-surance and claims	0	0	5,533	5,533	38,808	-975	43,367
Other income	2,590	0	28,409	30,999	-1,251	-1,223	28,525
Total income	**431,181**	**137,173**	**56,151**	**624,505**	**32,625**	**-2,198**	**654,932**
Total operating expenses	183,534	14,978	265,756	464,268	17,976	-2,198	480,047
Profit before impairment charges on loans	**247,647**	**122,194**	**-209,606**	**160,236**	**14,649**		**174,884**
Impairment charges, incl. reversals of aquired OEI impair-ments	-6,927	-54,267	1,447	-59,747	0	0	-59,747
Profit before tax	**254,574**	**176,461**	**-211,052**	**219,983**	**14,649**	**0**	**234,632**
Total assets	**6,568,953**	**3,454,697**	**5,593,271**	**15,616,921**	**168,031**		**15,784,953**
of which Loans and advances	6,325,147	3,212,278	0	9,537,425	0		9,537,425
Total liabilities	**9,668,610**	**2,984,900**	**1,143,320**	**13,796,830**	**168,031**		**13,964,861**
of which Deposits	9,668,610	2,984,900	0	12,653,510	0	-21,047	12,632,463
of which Insurance liabilities			1,693		79,504	0	81,197

Notes - BankNordik Group

Note (DKK 1,000)

2 (cont'd) **BankNordik Group - Geografical revenue information**

	Total income		Non.current assets		Additions to tangible assets		Additions to intangible assets	
Geografical segments	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Faroe Islands	328,084	324,402	46,037	108,922	-113,319	9,513	6,678	
Denmark	254,406	278,384	84,564	48,144	35,767	1,661		
Greenland	46,257	52,147	4,621	46,602	-41,562	1,017		
Total	**628,747**	**654,932**	**135,222**	**203,667**	**-119,115**	**12,191**	**6,678**	**0**

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

	Total income		Profit before tax		Tax		FTE	
Operational segments	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Faroe Islands, Banking, Other	302,618	291,777	220,934	100,194	57,042	35,175	197	178
Faroe Islands, Insurance	25,467	32,625	8,204	14,649	1,488	2,637	25	27
Denmark, Banking	254,406	278,384	75,227	93,422	1,789	1,512	154	175
Greenland, Banking	46,257	52,147	18,930	26,368	881	6,229	18	20
Total	**628,747**	**654,932**	**323,295**	**234,632**	**61,199**	**45,553**	**393**	**400**

Notes

BankNordik Group

Note	DKK 1.000	Interest income[2]	Interest expenses	Net interest	Market value adjustment	Dividend	Total
3	**Net income, financial instruments 2018[1]**						
	Financial instruments at amortised cost	**362,506**	**19,287**	**343,220**			**343,220**
	Financial instruments at fair value:						
	Held for trading	28,756		28,756	-8,856	11,396	31,296
	Loans and Advances Designated	14,419		14,419	4,293		18,711
	Derivatives Designated	-12,251		-12,251	11,677		-574
	Financial instruments at fair value total	**30,923**	**0**	**30,923**	**7,113**	**11,396**	**49,433**
	Total net income from financial instruments	**393,429**	**19,287**	**374,143**	**7,113**	**11,396**	**392,653**
	Net income, financial instruments 2017						
	Financial instruments at amortised cost	**372,183**	**25,273**	**346,910**			**346,910**
	Financial instruments at fair value:						
	Held for trading	33,899		33,899	12,553	5,400	51,851
	Loans and Advances Designated[3,4]	21,208		21,208	-9,481		11,727
	Derivatives Designated	-14,802		-14,802	17,060		2,258
	Financial instruments at fair value Total	**40,305**	**0**	**40,305**	**20,131**	**5,400**	**65,836**
	Total net income from financial instruments	**412,488**	**25,273**	**387,216**	**20,131**	**5,400**	**412,747**

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

2 Interest income recognised on impaired financial assets amounts to DKK 13,9m (2017: DKK 16,8m)

3 Net gain/loss recognised on loans and advances amount to DKK 18,2m (2017 DKK 31,3m). Of which DKK 14,4m relate to interest income (2017 DKK 21,2m), and DKK 3,8m relate to Value adjustments(2017 DKK 10,1m).

4 Net gain/loss recognised on interest rate swaps amount to DKK -12,1m (2017 DKK -34,7m) Of which DKK -12,6m relate to interest expenses (2017 DKK -15,1m, and DKK 0,5m relate to Value adjustments (2017 DKK -19,6m).

Notes

Note	DKK 1,000	Group		BankNordik	
		2018	2017	2018	2017
4	**Interest income and premiums on forwards**				
	Credit institutions and central banks	2,033	2,572	2,033	2,572
	Loans and advances	369,307	388,253	369,307	388,253
	Deposits	5,165	2,017	5,165	2,017
	Bonds	29,057	33,899	27,519	32,851
	Total derivatives of which:	-14,729	-13,852	-14,729	-13,852
	Interest rate contracts	-14,729	-13,852	-14,729	-13,852
	Other interest income	2,597	-401	2,687	-950
	Total interest income	**393,429**	**412,488**	**391,982**	**410,891**
5	**Interest expenses**				
	Credit institutions and central banks	1,181	1,033	1,181	1,033
	Deposits	5,206	11,750	5,206	11,750
	Subordinated debt	12,300	12,194	12,300	12,194
	Other interest expenses	600	296	601	302
	Total interest expenses	**19,287**	**25,273**	**19,288**	**25,279**
6	**Net fee and commission income**				
	Fee and commission income				
	Securities trading and custody accounts	29,267	56,882	29,267	56,882
	Credit transfers	23,362	22,264	23,362	22,264
	Loan commissions	7,075	6,921	7,075	6,921
	Guarantee commissions	19,592	18,127	19,592	18,127
	Other fee and commissions of which:	105,774	100,108	115,771	109,049
	Mortage broking services	*60,586*	*65,816*	*60,586*	*65,816*
	Total fee and commission income	**185,071**	**204,302**	**195,067**	**213,244**
	Fee and commissions paid				
	Securities trading and custody accounts	12,858	13,877	12,858	13,877
	Net fee and commission income	**172,213**	**190,425**	**182,209**	**199,367**
7	**Premium income, net of reinsurance**				
	Regular premiums, life insurance	14,446	13,165		
	Reinsurance premiums paid	418	399		
	Total life insurance	**14,028**	**12,766**		
	Gross premiums, non-life insurance	117,015	106,521		
	Reinsurance premiums paid	10,105	8,015		
	Change in gross premium provisions	-2,789	-4,089		
	Total non-life insurance	**104,120**	**94,417**		
	Total	**118,148**	**107,183**		

Notes

Note	DKK 1,000	Group		BankNordik	
		2018	2017	2018	2017
8	**Claims, net of reinsurance**				
	Benefits paid	2,986	7,063		
	Change in life insurance provisions	-639	170		
	Total life insurance	**2,347**	**7,233**		
	Gross claims paid	59,543	82,746		
	Claims handling costs	7,079	7,515		
	Reinsurance received	-4,414	-23,577		
	Change in gross claims provisions	5,857	-29,198		
	Change in reinsurers' share relating to provisions	3,985	19,097		
	Total non-life insurance	**72,050**	**56,583**		
	Total	**74,397**	**63,816**		
9	**Market value adjustments**				
	Loans and advances	4,293	-9,481	4,293	-9,481
	Bonds	-47,965	-5,644	-45,547	-3,822
	Shares	39,114	18,199	39,114	18,199
	Foreign exchange	9,265	8,189	9,265	8,189
	Total derivatives of which:	-3,124	8,868	-3,124	8,868
	Currency contracts	*1,929*	*0*	*1,929*	*0*
	Interest Swaps	*-5,053*	*8,868*	*-5,053*	*8,868*
	Other Obligations	5,531	0	5,531	0
	Assets linked to pooled schemes	30,454	10,437	30,454	10,437
	Deposits in pooled schemes	-30,454	-10,437	-30,454	-10,437
	Total market value adjustments	**7,113**	**20,131**	**9,531**	**21,952**
10	**Other operating income**				
	Profit on sale of investment and domicile properties and assets held for sale	10,772	1,051	10,772	1,051
	- of which assets held for sale	*671*	*34*	*671*	*34*
	Profit on sale of operating equipment	12	264	12	264
	Reversals of acquiered OEI impairments	0	24,640	0	24,640
	Other income	8,304	6,589	886	1,005
	Operation of properties:				
	Rental income	964	1,170	2,374	2,393
	Operating expenses	-104	-178	-104	-178
	- of which investment properties	*0*	*-13*	*0*	*-13*
	- of which assets held for sale	*-104*	*-165*	*-104*	*-165*
	Total other operating income	**19,947**	**33,534**	**13,940**	**29,174**

As of 1. january 2018 reversals of acquired OEI impairments no longer are recognised as Other operating income.

Notes

Note	DKK 1,000	Group		BankNordik	
		2018	**2017**	**2018**	**2017**
11	**Staff costs and administrative expenses**				
	Staff costs:				
	Salaries	220,127	214,971	204,888	198,500
	Pensions	27,766	27,209	25,855	25,118
	Social security expenses	32,591	31,948	30,384	29,847
	Total staff costs	**280,483**	**274,128**	**261,127**	**253,466**
	Administrative expenses:				
	IT	99,094	102,086	95,348	98,539
	Marketing etc	18,937	16,948	18,049	15,864
	Education etc	2,925	4,049	2,274	2,956
	Advisory services	1,528	1,359	1,518	1,359
	Other expenses	63,359	62,575	60,263	58,936
	Total administrative expenses	**185,844**	**187,017**	**177,452**	**177,655**
	Total staff costs	280,483	274,128	261,127	253,466
	Staff costs incl. under the item “Claims, net of reinsurance”	-7,079	-7,515	0	0
	Total administrative expenses	185,844	187,017	177,452	177,655
	Total employee costs and administrative expenses	**459,248**	**453,630**	**438,578**	**431,121**
	Number of employees				
	Average number of full-time employees in the period	391	407	359	374
	Executive remuneration:				
	Board of Directors	2,275	2,075	2,275	2,075
	Executive Board:				
	Salaries	2,500	2,200	2,500	2,200
	- less fees received from directorships	218	183	218	183
	The Bank’s expense, salaries	2,282	2,017	2,282	2,017
	Pension	375	330	375	330
	Bonus	213	165	213	165
	Bonus, Share-based payment	213	165	213	165
	Total executive board	**3,082**	**2,677**	**3,082**	**2,677**
	Total executive remuneration	**5,357**	**4,752**	**5,357**	**4,752**

Notes

Note	Remuneration of the senior executives				
	DKK 1,000	Group		BankNordik	
11 (cont'd)		**2018**	**2017**	**2018**	**2017**
	The Board of Directors in P/F BankNordik				
	Stine Bosse,	625	625	625	625
	Rúni Vang Poulsen (until March 2018)	100	425	100	425
	Barbara Vang	350	175	350	175
	Jógvan Jespersen	250	200	250	200
	Kim Jacobsen	250	175	250	175
	John Henrik Holm (from March 2018)	150	0	150	0
	Tórhallur Olsen (until March 2018)	50	225	50	225
	Kenneth M. Samuelsen	200	200	200	200
	Alexander Johansen (from March 2018)	150	0	150	0
	Dan Sørensen (from March 2018)	150	0	150	0
	Súsanna Poulsen (until March 2017)	0	50	0	50
	Total	**2,275**	**2,075**	**2,275**	**2,075**

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

The Executive Board of P/F BankNordik				
Árni Ellefsen:				
Fixed salary	2,500	2,200	2,500	2,200
- less fees received from directorships	218	183	218	183
The Bank's expense, salaries	2,282	2,017	2,282	2,017
Pension	375	330	375	330
Bonus	213	165	213	165
Bonus, Share-based payment	213	165	213	165
Total	**3,082**	**2,677**	**3,082**	**2,677**

The number of shares in P/F BankNordik held by the Board of Directors and the Executive Board at the end of 2018 totalled 6.657 and 8.285 respectively (end of 2017: 4.097 and 6.361).

Remuneration of other executives				
Fixed salary	4,559	4,200	4,559	4,200
Pension	676	693	676	693
Bonus	216	263	216	263
Bonus, Share-based payment	216	263	216	263
Total	**5,667**	**5,420**	**5,667**	**5,420**

The executives included in this group are:

Rune Nørregaard, Chief Credit Officer

Turið F. Arge, Chief Commercial Officer

Per Sjørup Christiansen, Head of Personal Banking

Total remuneration of executives	**8,749**	**8,097**	**8,749**	**8,097**

Notes

Note DKK 1,000

11 (cont'd)

Variable/performance-based renumeration

Remuneration of members of the Executive Management Team consists of a fixed salary including pension contributions and any variable/performance-based remuneration based on business and value creation targets.

The yearly variable/performance-based remuneration to members of the Executive Management Team cannot exceed 25% of the yearly fixed salary excluding pension contributions.

The variable/performance-based remuneration of members of the Executive Management Team is determined on the basis of an assessment of the Group's financial results and a number of key performance indicators (KPIs) reflecting the Group's principal strategic, business and value creation priorities.

Variable/performance-based remuneration components to members of the Executive Management Team only consist of cash bonus payments and BankNordik shares.

Variable/performance-based remuneration components awarded to members of the Executive Management Team must at the calculation moment consist of not less than 50% BankNordik shares.

Shares allocated to the members of the Executive Management Team are allocated at a price corresponding to the average closing-rate for the BankNordik share on Nasdaq Copenhagen the last five trading days after the publication of the Group's Annual Report.

BankNordik reserves own shares corresponding to the outstanding shares comprised by the above mentioned variable performance-based remuneration, and thereby has eliminated the risk related to a possible increase in the price of the BankNordik share.

Notes

Note	DKK 1,000	Group		BankNordik	
		2018	2017	2018	2017
12	**Audit fees**				
	Fees to audit firms elected at the general meeting	1,884	1,207	1,590	913
	Total audit fees	**1,884**	**1,207**	**1,590**	**913**
	Total fees to the audit firms elected at the general meeting break down as follows:				
	Statutory audit	1,274	972	1,055	754
	- of which PricewaterhouseCoopers	*789*	*664*	*739*	*614*
	- of which Januar	*485*	*308*	*316*	*140*
	Other assurance engagements	130	120	54	44
	- of which PricewaterhouseCoopers	*93*	*83*	*54*	*44*
	- of which Januar	*37*	*37*	*0*	*0*
	Tax and VAT advice	96	94	96	94
	- of which PricewaterhouseCoopers	*96*	*94*	*96*	*94*
	- of which Januar	*0*	*0*	*0*	*0*
	Other services	384	22	384	22
	- of which PricewaterhouseCoopers	*384*	*22*	*384*	*22*
	- of which Januar	*0*	*0*	*0*	*0*
	Total fees to the audit firms elected at the general meeting	**1,884**	**1,207**	**1,590**	**913**
13	**Other operating expenses**				
	The Guarantee Fund for Depositors and Investors	676	-2,250	676	-2,250
	Other operating expenses	117	450	117	450
	Total operating expenses	**793**	**-1,800**	**793**	**-1,800**

Notes

Note	Impairment charges on loans and advances etc.	Group		BankNordik	
14	DKK 1.000	**2018**	**2017**	**2018**	**2017**
	Impairment charges on loans and advances and provisions for guarantees etc.				
	Impairment charges and provisions at 31 December 2017	511,470	678,636	511,470	678,636
	Changes in accounting policies for impairment under IFRS 9	204,848	0	204,848	0
	New and increased impairment charges and provisions	167.504	99,711	167.504	99,711
	Reversals of impairment charges and provisions	254.694	112,273	254.694	112,273
	Written-off, previously impaired	21,787	154,603	21,787	154,603
	Interest income on impaired loans	*13,846*	*17,440*	*13,846*	*17,440*
	Total impairment charges and provisions at 31 December	**607,341**	**511,470**	**607,341**	**511,470**
	Impairment charges and provisions recognised in the income statement				
	Loans and advances at amortised cost	-97,883	-24,613	-97,883	-24,613
	Loans and advances at fair value	1,470	-344	1,470	-344
	Guarantiees and loan commitments	-14,369	-10,270	-14,369	-10,270
	Assets held for sale	0	120	0	120
	Total individual impairment charges and provisions	**-110,782**	**-35,107**	**-110,782**	**-35,107**
	Individual impairment charges etc.				
	Individual impairment charges etc. at 31 December 2017	409,440	592,106	409,440	592,106
	Changes in accounting policies for impairment under IFRS 9	-409,440	0	-409,440	0
	New and increased impairment charges	0	71,207	0	71,207
	Reversals of impairment charges	0	99,270	0	99,270
	Written-off, previously impaired	0	154,603	0	154,603
	Write-offs charged directly to the income statement	0	3,229	0	3,229
	Received on claims previously written off	0	8,334	0	8,334
	Interest income on impaired loans	*0*	*17,440*	*0*	*17,440*
	Individual impairment charges etc. at 31 December	**0**	**409,440**	**0**	**409,440**
	Total net impact recognised in the income statement	*0*	*-50,607*	*0*	*-50,607*
	Collective impairment charges				
	Collective impairment charges at 31 December 2017	78,390	52,620	78,390	52,620
	Changes in accounting policies for impairment under IFRS 9	-78,390	0	-78,390	0
	New and increased impairment charges	0	25,770	0	25,770
	Collective impairment charges at 31 December	**0**	**78,390**	**0**	**78,390**
	Total net impact recognised in the income statement	*0*	*25,770*	*0*	*25,770*

Notes

Note	DKK 1.000	Group		BankNordik	
		2018	2017	2018	2017
14 (cont'd)	**Stage 1 impairment charges**				
	Stage 1 impairment charges etc. at 31 December 2017	0	0	0	0
	Changes in accounting policies for impairment under IFRS 9	20,770	0	20,770	0
	New and increased Stage 1 impairment charges	12,924	0	12,924	0
	Reversals, net of Stage 1 impairment charges	19,111	0	19,111	0
	Stage 1 impairment charges at 31 December	**14,583**	**0**	**14,583**	**0**
	Total net impact recognised in the income statement	*-6,187*	*0*	*-6,187*	*0*
	Stage 2 impairment charges				
	Stage 2 impairment charges etc. at 31 December 2017	0	0	0	0
	Changes in accounting policies for impairment under IFRS 9	40,829	0	40,829	0
	New and increased impairment charges	60,663	0	60,663	0
	Reversals, net of impairment charges	56,647	0	56,647	0
	Stage 2 impairment charges at 31 December	**44,846**	**0**	**44,846**	**0**
	Total net impact recognised in the income statement	*4,017*	*0*	*4,017*	*0*
	Weak Stage 2				
	Weak Stage 2 impairment charges etc. at 31 December 2017	0	0	0	0
	Changes in accounting policies for impairment under IFRS 9	68,674	0	68,674	0
	New and increased impairment charges	26,999	0	26,999	0
	Reversals, net of impairment charges	37,806	0	37,806	0
	Weak Stage 2 impairment charges at 31 December	**57,867**	**0**	**57,867**	**0**
	Total net impact recognised in the income statement	*-10,807*	*0*	*-10,807*	*0*
	Stage 3 impairment charges				
	Stage 3 impairment charges etc. at 31 December 2017	0	0	0	0
	Changes in accounting policies for impairment under IFRS 9	544,232	0	544,232	0
	New and increased impairment charges	56,883	0	56,883	0
	Reversals of impairment charges	116,726	0	116,726	0
	Written-off, previously impaired	21,787	0	21,787	0
	Write-offs cahnged directly to the income statement	1,418	0	1,418	0
	Received on claims previosly written off	11,164	0	11,164	0
	Interest income on impaired loans	*13,846*	*0*	*13,846*	*0*
	Stage 3 impairment charges at 31 December	**462,602**	**0**	**462,602**	**0**
	Total net impact recognised in the income statement	*-83,435*	*0*	*-83,435*	*0*

Notes

Note		Group		BankNordik	
		2018	2017	2018	2017
14	**Purchased credit-impaired assets included in stage 3 above**				
(cont'd)	Changes in accounting policies for impairment under IFRS 9	153,357		153,357	
	Reversals of impairment charges	20,630		20,630	
	Write-offs charged directly to the income statement	6,354		6,354	
	Purchased credit-impaired assets at 31 December	**126,373**		**126,373**	
	Provisions for guarantees and undrawn credit lines				
	Individual provisions at 1 January	23,640	33,911	23,640	33,911
	Changes in accounting policies for impairment under IFRS 9	18,172	0	18,172	0
	New and increased provisions	10,036	2,733	10,036	2,733
	Reversals of provisions	24,405	13,004	24,405	13,004
	Provisions for guarantees etc at 31 December	**27,443**	**23,640**	**27,443**	**23,640**
	Total net impact recognised in the income statement	*-14,369*	*-10,270*	*-14,369*	*-10,270*
	Provisions for guarantees and undrawn credit lines				
	Stage 1 provisions	3,425	0	3,425	0
	Stage 2 provisions	4,672	0	4,672	0
	Weak Stage 2 provisions	3,400	0	3,400	0
	Stage 3 provisions	15,947	23,640	15,947	23,640
	Provisions for guarantees etc at 31 December	**27,443**	**23,640**	**27,443**	**23,640**

Credit risk management

The Bank manages credit risk in connection with the establishment of new exposures by making certain requirements in respect of the customer's ability to service loans, its general credit quality and by securing collateral in the asset(s) for which a customer seeks financing. In addition, the Bank has defined specific geographical areas in which it wishes to provide financing and a maximum proportion of its aggregate exposures to be allocated to corporate customers. As for exposures to corporate customers, the Bank has established maximum limits for the size of the aggregate exposure to each individual industry.

Credit risk movements are measured on the basis of the Bank's behavioural credit score model for private and small corporate customers and, as regards larger corpo¬rate customers, its accounting-based credit score model, both of which gauge and indicate the probability of default of each individual exposure in the next 12-month period.

The behavioural credit score model for private and small corporate customers primarily use the following parameters, which are updated on a monthly basis:

- Developments in the unsecured portion of exposures
- Developments in the size and duration of overdrafts and arrears
- The size of balances, including balances in transaction accounts, typically payroll and operating accounts
- Developments in debt
- Solvency ratio
- Changes in operational expenses and results
- Changes in the solvency ratio and the ratio between current assets and liabilities
- Changes in publicly available cyclical indicators

Note

14

(cont'd)

The accounting based credit score model for larger corporate customers primarily use the following parameters, which are updated on a yearly or monthly basis:

- Development in certain predefined key numbers and metrics calculated on the basis of the customer's most recent public available annual accounts
- Developments in the size and duration of overdrafts and arrears
- Changes in publicly available cyclical indicators

New customers, both personal and corporate, are categorised in accordance with the risk classification system provided by the Danish FSA. The system is based on traditional credit assessment indicators such as wealth, income, disposable income, etc. for personal customers and leverage, liquidity, solvency, etc. for corporate customers. The customers' risk classification is then converted into a probability of default. After a period of 6-12 months, the credit scoring model described above will start assessing the customer's credit worthiness. As per the Group's risk classification system, customers are assigned a credit score on a scale from 1-11. A score of 1 is given to customers with the lowest PD values and a score of 11 is given to customers in default.

As regards retail customers and small business customers, developments in credit risks for existing exposures are monitored based on a behavioural credit scoring model that, on a monthly basis, calculates and assigns to each exposure a behavioural score expressing the probability of default of each relevant customer within the next 12-month period. See the section "Changes to credit risks" below. Based on developments in the behavioural credit score, a number of signals are generated to the relationship manager, the credit department and the credit controllers. In case an adverse development is identified, the relationship manager must take action vis-à-vis the customer concerned. For large corporate customers, an accounting-based credit score is calculated monthly, however primarily based on developments in the corporate customer's financial situation, as reported in the customer's annual financial statements, adjusted for monthly developments in the customer's overdrafts and arrears, if any, as well as publicly available cyclical indicators. Based on the calculated accounting-based credit score and information otherwise available regarding large corporate customers, the Bank reviews the exposure at least once a year to establish whether or not to continue or discontinue the exposure, including the terms for continuing or discontinuing the exposure.

In order to support the credit management effort, default signals are generated on a daily basis to the customer adviser and, based on certain thresholds, also to the credit controllers. Furthermore, various reports on developments in credit risks, at both customer and portfolio level, are prepared and distributed on a monthly and quarterly basis.

Further, and as part of the quarterly impairment test all large exposures, existing exposures increased more than certain thresholds amounts and other exposures chosen against other predefined criteria are reviewed not only to determine the need for impairment, but also to determine whether the assigned risk classification is correct and whether risk mitigating actions have to be taken. The bank also aims to obtain and review periodic accounts from its corporate customers as part of its ongoing credit risk management.

To ensure compliance with the Bank's defined requirements in respect of a customer's ability to service a loan and its general credit quality as well as the requirement for collateral for security, the Bank uses a credit granting hierarchy according to which only customers deemed highly able to service their loans and demonstrating a high credit quality may be granted loans in the Bank's retail and commercial banking departments, whereas all other exposures, including exposures to all new corporate customers, must be recommended and granted either by the Bank's credit department, the credit committee or, as regards the largest exposures, by the Bank's Board of Directors.

In order to strike a reasonable balance between future earnings and the credit risks assumed that ensures the Bank's defined profitability targets are met, an expected, risk-adjusted return is calculated for each customer relationship when an exposure is established. Any departure from the Bank's pre-defined profitability targets must be approved by a member of the Bank's Executive Management.

Notes

Note **Changes to credit risks**

14 (cont'd)

To ensure that sufficient and timely impairment charges and provisions are recognised to cover expected credit losses on all of the Bank's exposures which, on initial recognition, are measured at amortised cost or fair value and on financial guarantees and loan commitments, movements in the credit risk relating to all these exposures are monitored on a monthly and quarterly basis.

Credit risk movements are measured on the basis of the Bank's behavioural credit score model and, as regards large corporate customers, its accounting-based credit score model, both of which gauge and indicate the probability of default of each individual exposure in the next 12-month period. The models primarily use the following parameters, which are updated on a monthly basis:

- Developments in the unsecured portion of exposures
- Developments in the size and duration of overdrafts and arrears
- The size of balances, including balances in transaction accounts, typically payroll and operating accounts
- Developments in debt
- Solvency ratio
- Changes in operational expenses and results
- Changes in the solvency ratio and the ratio between current assets and liabilities
- Changes in publicly available cyclical indicators

Based on the estimated probability of default in the next 12-month period, each exposure is placed in one of three stages: Stage 1 reflects that no significant increase in credit risk has been identified, stage 2 reflects a significant increase in credit risk and stage 3 reflects impairment of the exposure in question. Exposures are placed in either stage 1 or stage 2 on the basis of their estimated probability of default, meaning that all exposures are initially placed in stage 1, while the following scenarios require a stage 2 classification as a minimum:

- A 100% increase in the probability of default for the expected remaining term to maturity and a 0.5 percentage point increase when the probability of default was below 1% on initial recognition.
- A 100% increase in the probability of default for the expected term to maturity and a 2.0 percentage point increase when the probability of default was 1% or higher on initial recognition.

Stage 3 classifications are for pre-selected exposures for which an individual review has revealed indications of an increased risk of impairment. In such reviews, the following events are generally deemed to reflect impairment of an exposure:

- Significant financial difficulty of the borrower
- Breach of contract by the borrower, such as a default or past due event
- The Bank or other lenders granting concessions to the borrower for reasons relating to the borrower's financial difficulty that the Bank or lenders would not otherwise consider
- The borrower is likely to enter bankruptcy or become subject to other financial reconstruction
- Disappearance of an active market for that financial asset because of financial difficulties
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Notes

Note **Calculation of the expected credit loss (need for impairment write-down or provisioning)**

14 (cont'd)

For exposures categorised as stage 1 or stage 2, the expected credit loss (ECL) is calculated as a function of the probability of default (PD) * the expected exposure at default (EAD) * the expected loss given default (LGD). Where the PD for exposures in stage 1 reflects the probability of default in the next 12-month period (PD12), the probability of default over the entire life of the exposure is applied to exposures placed in stage 2 (PDLife).

As regards the portion of stage 2 exposures consisting of the weakest exposures, the largest of these are reviewed individually, and the average impairment ratio calculated for them is used to calculate the expected credit loss for the weakest of the stage 2 exposures not individually reviewed.

As regards exposures in stage 3, the expected credit loss is calculated individually.

PD12 is calculated based on the Bank's behavioural credit score methodology for exposures to retail customers and small business customers, whereas the Bank's accounting-based credit score model is applied to the Bank's exposures to large corporate customers.

PDLife is calculated based on PD12, but is adjusted for any identified annual migrations between various fixed PD12 stages. Furthermore, the calculated PDLife is adjusted for changes in a number of forward-looking factors, which as regards the Bank's Danish and Greenlandic exposures are based on information from, e.g., the Danish central Bank and the Danish Economic Council, whereas factors of relevance to Faroese exposures are based on the current impairment ratio relative to a historical average impairment ratio.

EAD is calculated as the actual amount of exposure with due consideration for non-executed loan commitments and unutilised, executed loan commitments as well as any guarantees provided, which factors are calculated as a function of predetermined coefficients.

LGD is calculated as the ratio between the historically identified loss rate for the portion of the exposures that are not secured.

The expected useful life of an exposure is calculated as the expected maturity of the exposure in question.

All significant variables and calculations made are validated at least annually, primarily based on sample testing and, for model-based variables, supplemented by back-testing and the use of statistical targets for explanatory values.

Since calculations are made in all stages of an expected credit loss, i.e. expectations as to the future, all statements and calculations reflect the Bank's best estimates and assessments as to future events. These estimates and assessments may therefore result in the calculation of a higher or lower credit loss than the credit losses actually incurred.

Notes

Note DKKm

14 (cont'd)

31 December 2018	Gross exposure			Expected credit loss			Net exposure			Net exposure deducted collateral		
Stage	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	**3**
Public authorities	**973**	**0**	**0**	**0**	**0**	**0**	**972**	**0**	**0**	**934**	**0**	**0**
Corporate sector:												
Fisheries, agriculture, hunting and forestry	438	43	93	1	5	30	437	38	63	78	5	14
Industry and raw material extraction	542	183	34	1	31	19	542	153	16	316	51	4
Energy supply	195	0	0	0	0	0	195	0	0	130	0	0
Building and construction	509	61	30	0	1	26	508	61	4	316	34	5
Trade	562	123	51	0	11	10	561	112	41	158	51	15
Transport, hotels and restaurants	348	56	56	0	0	37	348	55	19	129	15	2
Information and communications	242	7	23	0	0	5	242	6	18	220	3	2
Financing and insurance	84	26	7	0	1	4	83	25	2	36	5	0
Real property	442	123	210	1	5	96	441	118	113	128	24	13
Other industries	521	57	34	3	5	47	518	52	-13	270	22	1
Total corporate sector	**3.883**	**679**	**538**	**7**	**60**	**274**	**3.877**	**619**	**263**	**1.780**	**210**	**55**
Retail customers	**7.184**	**1.997**	**448**	**11**	**51**	**204**	**7.173**	**1.946**	**244**	**2.504**	**637**	**29**
Total	**12.039**	**2.675**	**986**	**17**	**111**	**479**	**12.022**	**2.565**	**507**	**5.218**	**847**	**84**
Credit institutions and central banks	1.320	0	0	1	0	0	1.319	0	0	1.319	0	0
Total	**13.359**	**2.675**	**986**	**18**	**111**	**479**	**13.341**	**2.565**	**507**	**6.536**	**847**	**84**
Faroe Islands	7.892	1.461	436	8	42	164	7.884	1.419	272	3.984	314	41
Denmark	4.381	978	483	8	40	281	4.373	938	202	1.878	448	33
Greenland	1.086	237	67	2	29	33	1.084	208	34	675	86	11
Total	**13.359**	**2.675**	**986**	**18**	**111**	**479**	**13.341**	**2.565**	**507**	**6.536**	**847**	**84**
Purchased credit-impaired assets included in stage 3												
Denmark	0	0	136	0	0	126	0	0	10	0	0	0
Greenland	0	0	1	0	0	1	0	0	0	0	0	0
Total	**0**	**0**	**136**	**0**	**0**	**126**	**0**	**0**	**10**	**0**	**0**	**0**

Notes

Note 14 (cont'd)

DKKm

31 December 2018	Gross exposure			Expected credit loss			Net exposure			Net exposure deducted collateral		
Stage	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	**3**
Rating category												
1	4.239	0	0	1	0	0	4.238	0	0	2.903	0	0
2	2.039	0	0	0	0	0	2.039	0	0	695	0	0
3	2.496	60	0	1	0	0	2.495	60	0	1.223	36	0
4	1.217	139	0	1	0	0	1.216	139	0	415	29	0
5	1.045	388	0	1	2	0	1.043	386	0	350	124	0
6	1.617	450	0	6	7	3	1.611	443	-3	752	147	0
7	313	565	0	1	10	0	312	556	0	114	208	0
8	203	451	0	1	13	0	202	438	0	43	172	0
9	13	108	0	0	3	0	13	105	0	2	29	0
10	159	212	0	4	29	0	154	182	0	30	42	0
11	19	301	986	1	46	476	17	255	510	7	61	84
Total	**13.359**	**2.675**	**986**	**18**	**111**	**479**	**13.341**	**2.565**	**507**	**6.536**	**847**	**84**

DKKm	Stage 1	Stage 2	Stage 3	Total
Impairment charges as at 1 january 2018	**24**	**131**	**561**	**716**
Transferred to stage 1 during the period	22	-21	-1	0
Transferred to stage 2 during the period	-3	27	-24	0
Transferred to stage 3 during the period	-1	-5	7	0
ECL on new assets	7	13	14	34
ECL on assets derecognised	-3	-11	-48	-62
Impact of net remeasurement of ECL	-28	-23	-8	-58
Write offs	0	0	-22	-22
Impairment charges as at 31 december 2018	**18**	**111**	**479**	**607**

DKKm	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 1 January 2018	11.581	3.636	1.141	16.358
Transferred to stage 1 during the period	1.904	-1.897	-7	0
Transferred to stage 2 during the period	-997	1.069	-72	0
Transferred to stage 3 during the period	-30	-48	78	0
New assets	2.871	437	59	3.367
ECL on assets derecognised	-1.734	-404	-159	-2.297
Other changes	-237	-117	-53	-408
Gross carrying amount as at 31 December 2018	**13.359**	**2.675**	**986**	**17.021**

Notes

Note	DKK 1,000	Group		BankNordik	
		2018	**2017**	**2018**	**2017**
15	**Tax**				
	Tax on profit for the year	61,199	45,553	58,029	42,774
	Total tax	**61.199**	**45,553**	**58,029**	**42,774**
	Tax on profit for the year				
	Profit before tax	323,295	234,632	320,125	231,852
	Current tax charge	35.261	34,056	32.107	31,215
	Change in deferred tax	23.325	10,973	23.308	11,034
	Adjustment of prior-year tax charges	2.613	524	2.613	524
	Total	**61,199**	**45,553**	**58.029**	**42,774**
	Effective tax rate				
	Faroese tax rate	18.0%	18.0%	18.0%	18.0%
	Deviation in foreign entities tax compared to Faroese tax rate	0.5%	1.3%	0.5%	1.3%
	Non-taxable income and non-deductible expenses	-0.4%	-0.1%	-1.2%	-1.1%
	Tax on profit for the year	18.1%	19.2%	17.3%	18.2%
	Adjustment on prior-year tax charges	0.8%	0.2%	0.8%	0.2%
	Effective tax rate	**18.9%**	**19.4%**	**18.1%**	**18.4%**
16	**Cash in hand and demand deposits with central banks**				
	Cash in hand	94,522	105,865	94,426	105,782
	Demand deposits with central banks	85,529	144,643	85,529	144,643
	Total	**180,051**	**250,509**	**179,956**	**250,426**
17	**Due from credit institutions and central banks specified by institution**				
	Credit instistutions	411,704	497,813	411,704	497,813
	Central banks	502,717	119,000	502,717	119,000
	Total	**914,420**	**616,813**	**914,420**	**616,813**
18	**Due from credit institutions and central banks specified by maturity**				
	On demand	311.420	290,525	311,420	290,525
	3 months and below	503,000	112,177	503,000	112,177
	Over 1 year to 5 years	100,000	214,111	100,000	214,111
	Total	**914,420**	**616,813**	**914,420**	**616,813**

Notes

Note	DKK 1,000	Group		BankNordik	
		2018	**2017**	**2018**	**2017**
19	**Loans and advances specified by sectors**				
	Public authorities	5%	4%	5%	4%
	Corporate sector:				
	Fisheries, agriculture, hunting and forestry	4%	5%	4%	5%
	Industry and raw material extraction	5%	5%	5%	5%
	Energy supply	1%	1%	1%	1%
	Building and construction	2%	2%	2%	2%
	Trade	5%	5%	5%	5%
	Transport, hotels and restaurants	3%	3%	3%	3%
	Information and communications	0%	0%	0%	0%
	Financing and insurance	1%	1%	1%	1%
	Real property	5%	5%	5%	5%
	Other industries	4%	5%	4%	5%
	Total corporate sector	31%	31%	31%	31%
	Retail customers	64%	65%	64%	65%
	Total	**100%**	**100%**	**100%**	**100%**
20	**Loans and advances specified by maturity**				
	On demand	114,005	71,522	114,005	71,522
	3 months and below	367,884	721,665	367,884	721,665
	3 months to 1 year	1,179,020	1,253,986	1,179,020	1,253,986
	Over 1 year to 5 years	3,605,962	3,480,172	3,605,962	3,480,172
	Over 5 years	4,689,606	4,010,080	4,689,606	4,010,080
	Total loans and advances	**9,956,478**	**9,537,425**	**9,956,478**	**9,537,425**
21	**Bonds at fair value**				
	Mortgage credit bonds	3,742,674	2,949,304	3,558,836	2,784,937
	Government bonds	577,856	619,305	570,671	612,120
	Other bonds	244,557	694,120	244,557	694,120
	Bonds at fair value	**4,565,087**	**4,262,730**	**4,374,064**	**4,091,177**
	All bonds form part of the Group's trading portfolio				
22	**Shares etc.**				
	Shares/unit trust certificates listed on the Copenhagen Stock Exchange	52,338	25,420	52,338	25,420
	Shares/unit trust certificates listed on other stock exchanges	0	19,241	0	19,241
	Other shares at fair value	251,665	204,150	251,665	204,150
	Total shares etc.	**304,003**	**248,811**	**304,003**	**248,811**

Notes

Note	DKK 1.000	Group 2018	Group 2017	BankNordik 2018	BankNordik 2017
23	**Assets under insurance contracts**				
	Non-life insurance				
	Reinsurers' share of claims provisions	2,399	6,383		
	Receivables from insurance contracts	3,451	2,191		
	Total non-life insurance	**5,850**	**8,575**		
	Maturity within 12 months	5,850	8,575		
24	**Holdings in associates**				
	Cost at 1 January	8,845	8,845	8,845	8,845
	Cost at 31 December	**8,845**	**8,845**	**8,845**	**8,845**
	Revaluations at 1 January	-2,946	-2,445	-2,946	-2,445
	Share of profit	184	-501	184	-501
	Revaluations at 31 December	**-2,762**	**-2,946**	**-2,762**	**-2,946**
	Carrying amount at 31 December	**6,082**	**5,898**	**6,082**	**5,898**

Holdings in associates 2018	Income	Net profit	Total assets	Total lia-bilities	Total equity	Owner-ship %	The Groups share of equity
P/F Elektron	47,231	536	56,135	37,600	17,715	34%	6,082
Holdings in associates 2017							
P/F Elektron	46.504	544	61.858	42.756	17,180	34%	5,898

The information disclosed is extracted from the companies' most recent annual report (2017).

Notes

Note	DKK 1.000	Group 2018	Group 2017	BankNordik 2018	BankNordik 2017
25	**Holdings in subsidiaries**				
	Cost at 1 January			144,000	144,000
	Cost at 31 December			**144,000**	**144,000**
	Revaluations at 1 January			-28,730	-37,891
	Share of profit			14,381	12,661
	Dividends			6,000	3,500
	Revaluations at 31 December			**-20,349**	**-28,730**
	Carrying amount at 31 December			**123,651**	**115,270**

Holdings in subsidiaries	Owner-ship %	Share capital end of year	Share-holders equity for the year	Profit/loss for the year
P/F Trygd	100%	40,000	80,636	6,716
P/F Skyn	100%	1,000	6,102	2,067
P/F NordikLív	100%	20,000	36,913	5,598
Sp/f Íbúðir undir Gráasteini (at the end of 2017)	0%	125	-	-

The information disclosed is extracted from the companies' most recent annual reports (P/F Trygd, P/F Skyn, P/F NordikLív annual reports 2018 the other 2017).

Notes

Note	DKK 1.000	Group		BankNordik	
		2018	**2017**	**2018**	**2017**
26	**Assets under pooled schemes**				
	Assets:				
	Cash deposits	1,632	1,656	1,632	1,656
	Bonds	212,692	217,077	212,692	217,077
	Shares	227,762	231,217	227,762	231,217
	Other assets	3,155	385	3,155	385
	Total assets	**445,241**	**450,335**	**445,241**	**450,335**
	Total liabilities	**445,572**	**450,863**	**445,572**	**450,863**
27	**Intangible assets**				
	Fair value at 1 January	0	0	0	0
	Additions	6,678	0	6,678	0
	Fair value at 31 December	**6,678**	**0**	**6,678**	**0**

The depreciation period is 4 years.

The additions to the intangible assets refer to acquired IT systems during the year

Notes

Note	DKK 1.000	Group		BankNordik	
		2018	**2017**	**2018**	**2017**
28	**Domicile property**				
	Cost at 1 January	235,576	212,000	233,531	209,955
	Additions	10,504	9,135	10,504	9,135
	Reclassification from investment property		19,982		0
	Reclassification to held for sale	15,930	0	15,930	0
	Disposals	131,183	5,541	131,183	5,541
	Cost at 31 December	**98,967**	**235,576**	**96,922**	**233,531**
	Adjustments at 1 January	-66,359	-45,082	-66,277	-45,021
	Depreciation charges during the year	725	21,646	704	21,625
	Reversal of depreciation charges on disposals during the year	0	369	0	369
	Revaluations recognised in other comprehensive income	13,718	0	13,718	0
	Impairments recognised in the income statement	8,476	0	8,476	0
	Reversal of impairment on disposals during the year	61,523	0	61,523	0
	Adjustments at 31 December	**-319**	**-66,359**	**-217**	**-66,277**
	Carrying amount at 31 December	**98,649**	**169,217**	**96,705**	**167,253**

Tangible assets include domicile property of DKK 99m (2017: DKK 169m). Carrying amount at 31 December if the property had not been revalued is DKK 85m (2017: DKK 155m).

If indications of impairment exist, domicile property is written down to the lower of the carrying amount and its value in use. The fair value is assessed by the group's internal valuers at least once a year on 31th December on the basis of an income based approach. Valuations rely substantially on non-observable input, i.e. level 3 measures. Valuations are based on cash flow estimates and on the required rate of return calculated for each property that reflects the price at which the property can be exchanged between knowledgeable, willing parties under current market conditions. The cash flow estimates are determined on the basis of the market rent for each property. The required rate of return on a property is determined on the basis of its location, type, possible uses, layout and condition.

At the end of 2018, the fair value of domicile property was DKK 117.0m (2017: DKK 204.0m). The required rate of return is ranged between 5,0%-10,0% (2017: 5.0-9.0%). The depreciation period is 50 years. A decrease in rental rates of DKK 100 pr m2 would reduce fair value at end-2018 by DKK 11.0m. An increase in the required rate of return of 1,0 percentage point, would reduce fair value at the end of 2018 by DKK 15,3 m. Disposals in 2018 refer to the sale of the Groups head office in Tórshavn.

29	**Other property, plant and equipment**				
	Cost at 1 January	87,616	80,890	81,891	75,707
	Additions	2,284	11,247	1,612	10,706
	Disposals	478	4,522	0	4,522
	Cost at 31 December	**89,422**	**87,616**	**83,503**	**81,891**
	Depreciation and impairment charges at 1 January	59,064	57,243	54,121	52,600
	Depreciation charges during the year	6,999	6,278	6,623	5,978
	Reversals of depreciation and impairment charges	454	4,457	0	4,457
	Depreciation and impairment charges at 31 December	**65,609**	**59,064**	**60,743**	**54,121**
	Carrying amount at 31 December	**23,814**	**28,552**	**22,760**	**27,770**

The depreciation period is 3-10 years.

Notes

Note	DKK 1,000	Group	
		2018	2017
30	**Deferred tax**		
	Deferred tax assets	21.577	44,707
	Deferred tax liabilities	3,050	0
	Deferred tax, net	**18.527**	**44,707**

Change in deffered tax

2018	At 1 Jan.	Included in profit for the year	Included in shareholders' equity	At 31 Dec.
Intangible assets	36,034	-15.042		20.992
Tangible assets	7,827	-8.128	-2.749	-3.050
Tax loss carryforwards	84	-84		0
Other	762	-177		585
Total	**44,707**	**-23.431**	**-2.749**	**18.527**
2017				
Intangible assets	49,999	-13,966		36.034
Tangible assets	4,578	3,249		7.827
Tax loss carryforwards	0	84		84
Other	1,071	-309		762
Total	**55,648**	**-10,941**		**44.707**

	BankNordik	
	2018	2017
Deferred tax		
Deferred tax assets	21.510	44.553
Deferred tax, net	3.014	0
Deferred tax, net	**18.496**	**44.553**

	At 1 Jan.	Recognised in profit for the year	Recognised in shareholders' equity	At 31 Dec.
Change in deferred tax				
2018				
Intangible assets	36,290	-15.042		21.248
Tangible assets	7.863	-8.128	-2.749	-3.014
Other	401	-138		262
Total	**44,553**	**-23.308**	**-2.749**	**18.496**
2017				
Intangible assets	50,255	-13,966		36,290
Tangible assets	4,629	3,233		7,863
Other	702	-302		401
Total	**55,587**	**-11,034**		**44,553**

Notes

Note	DKK 1,000	Group		BankNordik	
		2018	**2017**	**2018**	**2017**
31	**Assets held for sale**				
	Total purchase price at 1 January	10,998	17,095	10,998	17,095
	Additions	105	360	105	360
	Reclassification from domicile properties	15,930	0	15,930	0
	Disposals	2,324	6,457	2,324	6,457
	Total purchase price at 31 December	**24,709**	**10,998**	**24,709**	**10,998**
	Impairment at 1 January	4,696	5,121	4,696	5,121
	Impairment charges for the year	50	120	50	120
	Reversal of impairment on disposals and write offs during the year	401	545	401	545
	Impairment at 31 December	**4,345**	**4,696**	**4,345**	**4,696**
	Total assets held for sale at 31 December	**20,364**	**6,302**	**20,364**	**6,302**
	Specification of assets held for sale				
	Real property taken over in connection with non-performing loans	4,434	6,302	4,434	6,302
	Domicile property for sale	15,930	0	15,930	0
	Total	**20,364**	**6,302**	**20,364**	**6,302**

The item “Assets held for sale” comprises assets taken over in connection with non-performing loans. Furthermore the Group has reclassified domicile property to this item.

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 are recognised under the item “Other operating income”. The Group’s real estate agency is responsible for selling the real property.

Notes

Note	DKK 1,000	Group		BankNordik	
		2018	2017	2018	2017
32	**Other assets**				
	Interest and commission due	47,202	47,064	45,889	46,396
	Derivatives with positive fair value	1,510	3,810	1,510	3,810
	Other amounts due	29,195	22,462	29,962	20,652
	Total	**77,907**	**73,336**	**73,361**	**70,858**
33	**Due to credit institutions and central banks specified by institution**				
	Due to central banks	33,425	43,000	33,425	43,000
	Due to credit institutions	265,185	317,497	265,185	317,497
	Total	**298,610**	**360,497**	**298,610**	**360,497**
34	**Due to credit institutions and central banks specified by maturity**				
	On demand	70,960	132,847	70,960	132,847
	3 months to 1 year	27,273	0	27,273	0
	Over 1 year to 5 years	200,377	190,909	200,377	190,909
	Over 5 years	0	36,741	0	36,741
	Total	**298,610**	**360,497**	**298,610**	**360,497**
35	**Deposits specified by type**				
	On demand	10,884,768	9,830,616	10,898,710	9,845,590
	At notice	1,254,278	1,374,856	1,254,278	1,374,856
	Time deposits	194,440	316,243	194,440	316,243
	Special deposits	1,098,741	1,110,748	1,104,814	1,116,821
	Total deposits	**13,432,228**	**12,632,463**	**13,452,242**	**12,653,510**
36	**Deposits specified by maturity**				
	On demand	11.662.206	9.794.978	11.682.221	9.816.025
	3 months and below	1.351.483	1.732.362	1.351.483	1.732.362
	3 months to 1 year	15.278	41.735	15.278	41.735
	Over 1 year to 5 years	55.258	234.922	55.258	234.922
	Over 5 years	348.003	828.465	348.003	828.465
	Total deposits	**13.432.228**	**12.632.463**	**13.452.242**	**12.653.510**
37	**Liabilities under insurance contracts Non-life insurance**				
	Provisions for unearned premiums	38,814	36,025		
	Claims provisions	49,336	43,479		
	Total	**88,150**	**79,504**		
	Life insurance				
	Life insurance provisions	914	1,693		
	Total provisions for insurance contracts	**914**	**1,693**		
	Total	**89,064**	**81,197**		

Notes

Note	DKK 1,000	Group		BankNordik	
38	**Other liabilities**				
	Sundry creditors	66,505	52,904	58,021	47,120
	Accrued interest and commission	6,495	6,662	5,954	5,447
	Derivatives with negative value	27,635	30,035	27,635	30,035
	Accrued staff expenses	53,390	50,150	52,491	49,251
	Other obligations	16,139	8,131	16,139	8,131
	Total	**170,164**	**147,883**	**160,240**	**139,985**

39 **Subordinated capital**

	Currency	Borrower	Principal	Interest rate	Year of issue	Maturity	Step-up clause	Redemption price	2018	2017
Subordinated capital	DKK	P/F BankNordik	225,000	5.1%	2016	6/24/2026	No	100	223,477	222,868
At 31 December			225,000						223,477	222,868

Interest rate:	**Principal (not hedged)**	**Until 23.6.2021**	**From 24.6.2021**
Subordinated capital	225m	5.1%	CIBOR 3M + 4.75%

Subordinated capital is included in the capital base in accordance with section 128 of the Faroese Financial Business Act and applicable executive orders.

The subordinated capital can not be converted into share capital. Early redemption of subordinated debt must be approved by the Danish FSA. In the event of BankNordiks voluntary or compulsory winding-up, this liability will not be repaid until claims of ordinary creditors have been met. Fair value adjustment of subordinated debt is valued on the basis of other observable input. Se note 45 for further information regarding valuation of the Subordinated capital.

Notes

Note	DKK 1,000	BankNordik 2018	BankNordik 2017
40	**BankNordik Shares**		
	Net profit	262,097	189,078
	Average number of shares outstanding	9,666	9,721
	Average number of shares outstanding, including dilutive shares diluted	9,666	9,721
	Earnings per share, DKK	27.1	19.5
	Diluted net profit for the period per share, DKK	27.1	19.5

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

	2018	2017
Average number of shares outstanding:		
Issued shares at 1 January, numbers in 1.000	10,000	10,000
Issued shares at end of period	10,000	10,000
Shares outstanding at end of period	9,666	9,721
Group's average holding of own shares during the period	334	279
Average shares outstanding	**9,666**	**9,721**

Holding of own shares	Number 2018	Number 2017	Value 2018	Value 2017
Investment portfolio	27,245	27,245	2,915	2,888
Trading portfolio	384,679	251,696	41,161	26,680
Total	**411,924**	**278,941**	**44,076**	**29,568**

	Investment portfolio	Trading portfolio	Total 2018	Total 2017
Holding at 1 January	2,888	26,680	29,568	37,947
Acquisition of own shares	0	14,935	14,935	2,284
Sale of own shares	0	7	7	1,673
Value adjustment	27	-447	-420	-8,991
Holding at 31 December	**2,915**	**41,161**	**44,076**	**29,568**

Share buy-back programme

In 2018 the Group initiated a share buy-back programme. The program will run until March 2019 In 2018 the Group had accumulated a total of 132,983 shares, amounting to a transaction value of DKK 14,5m.

BankNordik now holds a total of 301.275 of treasury shares, excluding investments made on behalf of customers and shares held for trading purposes, corresponding to 3,01% of the share capital.

Notes

Note	DKK 1.000	Group		BankNordik	
		2018	**2017**	**2018**	**2017**
41	**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 on the balance sheet.				
	Guarantees				
	Financial guarantees	447,542	318,943	447,542	318,943
	Mortgage finance guarantees	1,357,052	1,282,808	1,357,052	1,282,808
	Registration and remortgaging guarantees	680,152	733,798	680,152	733,798
	Other guarantees	361,248	309,005	361,248	309,005
	Total	**2,845,994**	**2,644,554**	**2,845,994**	**2,644,554**

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 2018, such unused credit facilities amounted to DKK 2,2bn (2017: DKK 2,4bn). Furthermore the Group has granted irrevocable loan commitments amounting to DKK 65m (2017: DKK 217m).

In total operational leasing (rent) liabilities amount to 86,7m (2017: DKK 10,9). Renting contracts for an amount of DKK 9,9m (2017: DKK 8,0) have a 12 months term of notice. Renting contracts for an amount of DKK 24,9m (2017: DKK 2,7m) have a term of notice from 1 to 5 years. Renting contracts for an amount of DKK 52,0m (2017: DKK 0,2m) have a term of notice of more than 5 years.

In 2018 the Group in total has recognised DKK 12.6m as renting costs under the item Staff costs and administrative expenses.

42 **Assets deposited as collateral**

At the end of 2018 the Group had deposited bonds at a total market value of DKK 33m (2017: DKK 43m) with Danmarks Nationalbank (the Danish Central Bank) primarily in connection with cash deposits.

At the end of 2018 the Group had deposited bonds and cash at a total market value of DKK 31m (2017: DKK 37m) in connection with negative market value of derivatives.

Notes

Note DKK 1.000

43 Related parties	Parties with significant influence		Associated undertakings		Board of Directors		Excecutive Board	
DKK 1,000	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Assets								
Loans			15,321	15,336	99	68,406	201	402
Total			**15,321**	**15,336**	**99**	**68,406**	**201**	**402**
Liabilities								
Deposits	9,482	8,669	29,633	31,687	46,949	69,727	2,928	176
Total	**9,482**	**8,669**	**29,633**	**31,687**	**46,949**	**69,727**	**2,928**	**176**
Off-balance sheet items								
Guarantees issued								
Guarantees and collateral received			15,207	13,371	14,610	85,407	0	671
Income Statement								
Interest income	0	0	822	766	124	1,763	3	21
Interest expense	0	0	0	9	48	117	5	1
Fee income	2	1	15	14	8	17	1	0
Total	**2**	**1**	**837**	**771**	**84**	**1,664**	**-1**	**20**

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 25 lists associated undertakings.

In 2018 interest rates on credit facilities granted to associated undertakings were between 4,5%-14,5% (2017: 4,4%-14,5%).

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. The decline in loans to the Board of Directors in 2018 is due to individual changes in the board compared to 2017.

In 2018 interest rates on credit facilities granted to members of the Board of Directors and the Executive Board were between 2,7%-14,5% (2017: 3,1%-14,5%). Note 11 specifies the remuneration and note 44 specifies shareholdings of the management.

P/F BankNordik acts as the bank of 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 shares (5% or more of BankNordiks share capital) on the basis of the most recent reporting of holdingt to the Bank.

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

Notes

BankNordik shares held by the Board of Directors and the Executive Board

44

Holdings of the Board of Directors and the Executive Board	Beginning of 2018	Additions	Disposals	End of 2018
Board of directors				
Stine Bosse	1,830	1,750		3,580
Barbara P. Vang	2			2
Kim Jacobsen	0			0
John Henrik Holm	324			324
Jógvan Jespersen	32			32
Dan Rasmussen	100			100
Kenneth M. Samuelsen	2,419			2,419
Alexandur Johansen	200			200
Total	**4,907**	**1,750**		**6,657**
Executive Board				
Árni Ellefsen	6,361	1,924		8,285
Total	**6,361**	**1,924**		**8,285**

Notes

Note DKK 1,000

45 **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.

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 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.

2018

Financial assets and liabilities at fair value	**Quoted prices**	**Observable input**	**Non-observable input**	**Total**
Financial assets held for trading				
Bonds at fair value	4,565,087			4,565,087
Shares, etc.	52,338			52,338
Derivatives with positive fair value		1,510		1,510
Total	**4,617,425**	**1,510**		**4,618,935**
Financial assets designated at fair value				
Loans and advances at fair value			519,638	519,638
Shares, etc.		239,080	12,585	251,665
Total		239,080	532,223	771,303
Finansial assets at fair value	**4,617,425**	**240,590**	**532,223**	**5,390,237**
Financial liabilities held for trading				
Derivatives with negative fair value		27,635		27,635
Total		**27,635**		**27,635**

2017

Financial assets and liabilities at fair value	**Quoted prices**	**Observable input**	**Non-observable input**	**Total**
Financial assets held for trading				
Bonds at fair value	4,262,730			4,262,730
Shares, etc.	44,661			44,661
Derivatives with positive fair value		3,810		3,810
Total	**4,307,390**	**3,810**		**4,311,200**
Financial assets designated at fair value				
Loans and advances at fair value			431,017	431,017
Shares, etc.		201,866	2,284	204,150
Total		201,866	433,301	635,167
Finansial assets at fair value	**4,307,390**	**205,676**	**433,301**	**4,946,367**
Financial liabilities held for trading				
Derivatives with negative fair value		30,035		30,035
Total		**30,035**		**30,035**

Notes

Note 45 (cont'd)

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 input category. The category covers derivatives and subordinated debt, valued on the basis of observable yield curves or exchange rates. Furthermore the category covers sector shares with price-fixing-agreements according to the articles of association. Other financial assets are recognised in the Non-observable input. This category covers unlisted shares, loans and advances at fair value and domicile property (se note 28 for further information on Domicile property).

At 31 December 2018 financial assets valued on the basis of non-observable input comprised unlisted shares and loans and advances of DKK 532.2m (2017: DKK 433.3m) In 2018, the Group recognised unrealised value adjustments of unlisted shares and loans and advances valued on the basis of non-observable input in the amount of DKK 3.4m (2017: DKK -11.3m). A 10% increase or decrease in fair value of unlisted shares and loans and advances would amount to DKK 52.1m (2017: DKK 43.3m).

	2018	2017
Financial instruments at fair value valued on the basis of non-observable input		
Fair value at 1 January	433,301	531,119
Value adjustments through profit or loss	3,356	-11,297
Acquisitions	95,566	0
Disposals	0	86,521
Fair value at 31 December	**532,223**	**433,301**

Value adjustments of unlisted shares and loans and advances at fair value are recognised under the item "Market value adjustments" in the income statement.

Notes

45 **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 of the Bank is not listed

Financial instruments at amortised cost

	Carrying amount	Fair value	Carrying amount	Fair value
	2018	**2018**	**2017**	**2017**
Financial assets				
Cash in hand and demand deposits with central banks	180,051	180,051	250,509	250,509
Due from credit institutions and central banks	914,420	914,420	616,813	616,813
Loans and advances at amortised cost	9,436,840	9,436,840	9,106,408	9,106,408
Assets under insurance contracts	5,850	5,850	8,575	8,575
Total	**10,537,161**	**10,537,161**	**9,982,304**	**9,982,304**
Financial liabilities				
Due to credit institutions and central banks	298,610	298,610	360,497	360,497
Deposits and other debt	13,432,228	13,432,228	12,632,463	12,632,463
Deposits under pooled schemes	445,572	445,572	450,863	450,863
Liabilities under insurance contracts	89,064	89,064	81,197	81,197
Subordinated debt	223,477	223,477	222,868	222,868
Total	**14,488,952**	**14,488,952**	**13,747,888**	**13,747,888**

Loans and advances at amortised cost are measured at non-observable input, i.e. level 3 measures. The remaining items are measured at nom. value

Notes

Note DKK 1.000

46	Group holdings and undertakings	Share capital	Functional currency	Net profit	Shareholders' equity	Share capital %
	P/F BankNordik	200,000	DKK	262,097	1,986,752	100%
	Insurance companies					
	P/F Trygd	40,000	DKK	6,716	80,636	100%
	P/F NordikLív	20,000	DKK	5,598	36,913	100%
	Real estate agency					
	P/F Skyn	1,000	DKK	2,067	6,102	100%
	Group holdings recognised under assets held for sale and investment properties					
	Sp/f Íbúðir undir Gráasteini (at the end of 2017)	125	DKK			0%

Notes

47 **Reconciliations of changes in insurance liabilities**

	2018			2017		
	Non-life	**Life**	**Total**	**Non-life**	**Life**	**Total**
Unearned premium provisions	38,814	0	38,784	36,025	0	36,025
Outstanding claims provisions	49,336	914	50,250	43,479	1,693	45,172
Liabilities under insurance contracts, year-end	**88,150**	**914**	**89,034**	**79,504**	**1,693**	**81,197**
Unearned premium provisions						
Beginning of year	36,025	0	36,025	31,936	0	31,936
Premiums received	117,951	14,446	132,367	107,496	13,265	120,761
Premiums recognised as income	-115,161	-14,446	-129,608	-103,407	-13,265	-116,672
Unearned premium provisions, year-end	**38,814**	**0**	**38,784**	**36,025**	**0**	**36,025**
Outstanding claims provisions						
Beginning of year	43,479	1,693	45,172	72,678	1,060	73,738
Claims paid regarding current year	-37,350	-2,926	-40,275	-71,076	-6,500	-77,576
Claims paid regarding previous years	-22,194	-200	-22,394	-19,185	-100	-19,285
Change in claims regarding current year	42,717	2,347	45,064	56,244	7,233	63,477
Change in claims regarding previous years	22,683	0	22,683	4,819	0	4,819
Outstanding claims provisions, year-end	**49,336**	**914**	**50,250**	**43,479**	**1,693**	**45,172**

Reconciliations of changes in insurance assets

DKK 1,000	2018			2017		
	Non-life	**Life**	**Total**	**Non-life**	**Life**	**Total**
Reinsurers' share of premium provisions	0	0	0	0	0	0
Reinsurers' share of claims provisions	2,399	0	2,399	6,383	0	6,383
Receivables from insurance contracts and reinsurers	3,451	0	3,451	2,191	0	2,191
Reinsurers' share of insurance contracts, year-end	**5,850**	**0**	**5,850**	**8,575**	**0**	**8,575**
Reinsurers' share of premium provisions						
Beginning of year	0	0	0	0	0	0
Premiums ceded	-10,105	-418	-10,524	-8,015	-399	-8,414
Payments to reinsurers	10,105	418	10,524	8,015	399	8,414
Reinsurers' share of premium provisions, year-end	**0**	**0**	**0**	**0**	**0**	**0**
Reinsurers' share of claims provisions						
Beginning of year	6,383	0	6,383	25,480	0	25,480
Claims ceded	429	0	429	4,479	0	4,479
Payments received from reinsurers	-4,414	0	-4,414	-23,577	0	-23,577
Reinsurers' share of claims provisions, year-end	**2,399**	**0**	**2,399**	**6,383**	**0**	**6,383**

Notes

Note

Implementation of IFRS 16 Leases

48 Changes and impact on the Group's financial statements due to IFRS 16.

On 1 January 2019, the Group will adopt IFRS 16 Leases issued by IASB in January 2016. The standard provides revised principles for lessees, which are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, there are no changes to the Groups accounting principles for lessor accounting.

For lease agreements, where the Group is the lessee, the Group will use the "simplified transition approach", and comparative information will not be restated. Lease liabilities will be measured at the present value of the remaining lease payments, discounted, using the Groups required rate of return at 1 January 2019. The lease asset are set equal to the lease liability.

Impact assessment
The Group´s existing lease agreements will result in a recognition of right of use assets and lease liabilities of DKK 91m.

There will be no implementation impact on shareholders´ equity. Compared to IAS 17, the costs under IFRS 16 are front loaded, but will, accumulated over the lease period, be the same. Because of the front loading, the expected impact on profit before tax in 2019 is a reduction of around DKK 2m.

The impact on the Group's solvency is expected to be 0.2 percentage points.

IFRS 16 requires the application of judgements and estimates. A key judgement has been to evaluate the reasonable certainty of extension and termination options, which has effect on the lease term. The operating lease commitment as of 31 December 2018, disclosed in note 41, includes solely minimum lease payments under the non-cancellable period. The increase in the balance sheet due to the implementation of IFRS 16 includes further lease payments for periods where the Group is reasonable certain to remain in the lease agreement.

Notes

Risk Management

Note 49

The BankNordik Group is exposed to a number of risks, which it manages at different organizational 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
- **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.
- **Insurance risk:** All types of risk in the non-life insurance company Trygd and the life insurance company NordikLív, including market risk, life insurance risk, business risk and operational risk

The Risk Management Report 2018 contain further information about the Group's approach to risk management.

Capital Management

P/F BankNordik is a licensed financial services provider and must therefore comply with the capital requirements of the Faroese Financial Business Act. Faroese as well as Danish capital adequacy rules are based on the CRD IV requirements stipulated in the regulation (EU) No 575/2013 of the European parliament and of the Council of 26 June 2013.

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 proposed dividends, deferred tax assets etc. The solvency presentation in the section Statement of Capital in P/F BankNordik 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 Total capital. Note 39 to the financial statements show the P/F BankNordik's subordinated debt. At year-end 2017, the Bank's core capital and solvency ratios were 17.5% and 19.7%, respectively. At the end of 2018, the core capital and solvency ratio were 17.7% and 19.8%, respectively.

Credit risk

The Group's credit exposure consists of selected on and off-balance sheet items, including loans and advances, credits, unused credits and guarantees. The figures below are before deduction of impairments. Specification of impairments is shown in tables 7 and 9.

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.

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. Credit exposures include loans and advances, unused credits and guar-

Risk exposure concentrations

Table 1

	2018		2017	
(DKKm)	**DKKm**	**In %**	**DKKm**	**In %**
Public authorities	973	6.2%	641	4.1%
Corporate sector:				
Agriculture and farming, others	67	0.4%	64	0.4%
Aquaculture	35	0.2%	8	0.1%
Fisheries	521	3.3%	490	3.2%
Manufacturing industries, etc.	409	2.6%	394	2.5%
Energy and utilities	203	1.3%	207	1.3%
Building and construction, etc.	542	3.5%	473	3.1%
Trade	766	4.9%	796	5.1%
Transport, mail and telecommunications	446	2.8%	396	2.6%
Hotels and restaurants	37	0.2%	32	0.2%
Information and communication	180	1.1%	162	1.0%
Property administration, etc.	831	5.3%	811	5.2%
Financing and insurance	117	0.8%	114	0.7%
Other industries	941	6.0%	802	5.2%
Total corporate sector	**5,099**	**32.6%**	**4,748**	**30.8%**
Personal customers	9,628	61.3%	10,076	65.2%
Total	**15,700**	**100.0%**	**15,466**	**100.0%**
Credit institutions and central banks	1,320		867	
Total incl. credit institutions and central banks	**17,021**		**16,333**	

antees. 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

Table 1 breaks down the Group's credit exposure in its core banking activities by asset class. Exposures include loans and advances, credits, unused credits and guarantees.

Exposures in fisheries were DKK 521m. This represents 3.3% of total exposures. Property administration is represented by 5.3% of total exposures (DKK 831m) and DKK 35m was related to the aquaculture industry. This represents 0.2% of total exposures. No single industry exceeded 10% of total exposures.

Credit exposure broken down by geographical area

The Bank's loans are mainly granted to domestic customers in the Faroe Islands, Denmark and Greenland. Table 2 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 2a – Portfolio without weakness
- Portfolio with some weakness
- 2c – Portfolio with significant weakness
- 1 – Portfolio with impairment/provision (OEI)

Credit exposure by geographical area

Table 2

(DKKm)	2018					2017				
	Exposures	in%	Loan/ Credits	Guarantees	Unused credits	Exposures	in%	Loan/ Credits	Guarantees	Unused credits
Faroe Islands	8,509	54%	6,774	873	1,010	8,263	53%	6,405	784	1,074
Denmark	5,802	37%	3,174	1,447	1,191	5,841	38%	3,023	1,346	1,472
Greenland	1,390	9%	637	434	408	1,361	9%	596	431	334
Total	**15,700**	**100%**	**10,586**	**2,754**	**2,610**	**15,466**	**100%**	**10,024**	**2,562**	**2,880**

As shown in table 3, above 99% 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, and according to CRR, exposure to a single customer or a group of related customers, after deduction of particularly secure claims, may not exceed 25% of the Total capital. The Group submits quarterly reports to the Danish FSA on its compliance with these rules. In 2018, none of the Group's exposures exceeded these limits.

The Group's overall target is for no industry to make up more than 10% of the Group's total exposure, see table 1, except for the industry group "Trade" which may be up 15%. In special cases, exposures may be above 10%, but only for customers of a high credit quality, and where the Group has accepted collateral. In addition, the Group's long-term target is for no single exposure (on a Group basis) to make up more than 10% of the Group's Total capital. The Group has a few customers with exposures exceeding 10% of the base capital all of which are classified 2a or 3.

Quality of loan portfolio excl. financial institutions 2018

Table 3

		> 7.5m	< 7.5m	Total
Portfolio without weakness (3, 2a)	Exposure in DKKm	2,917	3,490	6,407
Portfolio with some weakness (2b)	Exposure in DKKm	1,407	6,452	7,860
Portfolio with significant weakness (2c)	Exposure in DKKm	247	264	511
	Unsecured	86	65	151
Portfolio with OEI (1)	Exposure in DKKm	237	615	852
	Unsecured	151	326	478
	Impairments/provisions	200	405	605
Portfolio without individual classification	**Exposure in DKKm**	**26**	**45**	**71**
Total	**Exposure in DKKm**	**4,834**	**10,866**	**15,700**

Quality of loan portfolio excl. financial institutions 2017

		> 7.5m	< 7.5m	Total
Portfolio without weakness (3, 2a)	Exposure in DKKm	2,595	3,600	6,195
Portfolio with some weakness (2b)	Exposure in DKKm	1,366	6,074	7,439
Portfolio with significant weakness (2c)	Exposure in DKKm	144	297	441
	Unsecured	36	88	124
Portfolio with OEI (1)	Exposure in DKKm	482	769	1,251
	Unsecured	226	419	645
	Impairments/provisions	117	312	430
Portfolio without individual classification	**Exposure in DKKm**	**0**	**139**	**139**
Total	**Exposure in DKKm**	**4,587**	**10,879**	**15,466**

Credit exposure and collateral for 2018

Table 4

(DKKm)	Personal	Corporates	Personal & Corporate	Public	Total
Exposure	9,628	5,099	14,727	973	15,700
Loans, advances and guarantees	8,620	3,575	12,195	487	12,682
Collateral	6,374	2,786	9,161	39	9,200
Unsecured (of exposures)	3,254	2,313	5,566	934	6,500
Unsecured (loans, advances and guarantees)	2,266	797	3,064	448	3,512
Unsecured ratio	34%	45%	38%	96%	41%
Unsecured ratio, loans and advances	26%	22%	25%	92%	28%

Credit exposure and collateral for 2017

(DKKm)	Personal	Corporates	Personal & Corporate	Public	Total
Exposure	10,076	4,748	14,825	641	15,466
Loans, advances and guarantees	8,273	3,434	11,707	392	12,099
Collateral	5,893	2,657	8,550	2	8,552
Unsecured (of exposures)	4,183	2,092	6,275	639	6,914
Unsecured (loans, advances and guarantees)	2,401	786	3,186	390	3,576
Unsecured ratio	42%	44%	42%	100%	45%
Unsecured ratio, loans and advances	29%	23%	27%	99%	29%

* Before deductions of impairments and provisions

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, as further described in Liquidity risk p. 107 Collateral provided by the Group. Table 4 shows collateral for exposures excluding exposures with impairment or past due exposures. Collateral amounts to DKK 9.2bn. The types of collateral most frequently provided are real estate (77%), ships/ aircraft (8%) and motor vehicles (4%) in addition to guarantees provided by owners or, in the Faroese market, by floating charge.

Collateral

Table 5

(in %)	2018	2017
Cars	4%	4%
Real Estate	77%	72%
Aircrafts & Ships	8%	7%
Other	11%	17%
Total	100%	100%

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. For real estate, haircuts reflect the expected costs of a forced 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 4 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 34% of personal exposures and 45% of corporate exposures. The largest part of the Bank's credit is granted against collateral in real estate.

As shown in table 6, DKK 4m is more than 90 days past due.

Distribution of past due amount

Table 6

(DKKm)	2018 Exposure	2018 Past due total	2018 Past due > 90 days	2018 Total balance with past due	2017 Exposure	2017 Past due total	2017 Past due > 90 days	2017 Total balance with past due
Portfolio without weakness (3, 2a)	6,407	37	0	670	6,195	18	0	542
Portfolio with some weakness (2b, 2b)	7,860	65	0	1,488	7,439	42	1	1,495
Portfolio with significant weakness (2c)	511	14	0	239	441	2	0	104
Portfolio with impairment/provision (1)	852	17	3	241	1,251	13	4	328
Portfolio without individual classification	71	1	0	3	139	4	0	17
Total	**15,700**	**134**	**4**	**2,641**	**15,466**	**77**	**6**	**2,486**
Past due in % of exposure		0.84%	0.02%			0.50%	0.04%	

The Group tests the entire loan portfolio for impairment four times per year.

From 1 January 2018, the Group's impairments reflect the expected credit loss impairment model in IFRS 9 and Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. as valid in the Faroe Islands. The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). All expected credit loss impairments are allocated to individual exposures. For all exposures with objective indication of being subject to an impairment in creditworthiness, stage 3 exposures, the Group determines the expected credit losses individually.

If a loan, advance or amount due is classified to stage 3, 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 value of collateral, in three weighted scenarios – the basecase, upside and downside scenario. Loans and advances not classified as stage 3 are classified in stage 1 or stage 2 and the expected credit loss is calculated in accordance with the function described above and then impaired. Table 9 provides a breakdown of individual impairments, stage 3, and statistical based impairments, stage 1 and 2.

In connection with the acquisition of Sparbank (2010) and Amagerbanken (2011), the Group took over some of the exposures that were individually impaired. These impairments are recognised as part of the purchase price for the acquired exposures. In 2018 DKK 113.1m of the impairments reflected in the table below are individual impairments recognised up to 12 months after the acquisition of the relevant exposure.

A further breakdown by maturity of loans and advances can be found in table 8. There are no aggregated data on the collateral behind matured loans and advances.

Loans & guarantees, individual impairments, collateral and unsecured by sector

Table 7

(DKKm)	2018 Loans and Guarantees	2018 Impairments/ Provisions	2018 Collateral	2018 Blanco	2017 Loans and Guarantees	2017 Impairments/ Provisions	2017 Collateral	2017 Blanco
Public								
Private	358	204	99	7	314	199	111	4
Corporate	610	274	174	85	372	233	116	24
Total	**968**	**479**	**273**	**91**	**686**	**432**	**227**	**27**

Loans and advances specified by maturity		Table 8
(DKKm)	**2018**	**2017**
On demand	114	72
3 months and below	368	722
3 months to 1 year	1.179	1.254
Over 1 year to 5 years	3.606	3.480
Over 5 years	4.690	4.010
Total loans and advances	**9,956**	**9,537**

Market Risk

Organisation

The Bank has established an Investment Working Group to monitor the financial markets and continuously update its view on the financial markets. The Investment Working Group meets once a month to discuss the outlook for the financial markets and make an update containing a recommendation on tactical asset allocation to the Investment Group.

The Investment Working Group refers to the Investment Group. Participants in the Investment Group are the CEO, the CFO, the COO, the CIO, the Financial Manager and Treasury. Based on the recommendation, the Investment Group decides whether to retain or revise the Bank's official outlook.

The Investment Group's decisions are communicated throughout the organization and form the basis for all advice provided to customers and included in the Bank's official Markets Update.

Reporting of Market risk

	Board of Directors
Monthly	Overview of – Interest risk – Exchange risk – Equity market risk – Liquidity risk
	Executive Board
Monthly	Overview of – Interest risk – Exchange risk – Equity market risk – Liquidity risk
Daily	**Overview of** – Interest risk – Equidity market risk – Liquidity risk

Definition

The Group defines market risk as the risks taken in relation to price fluctuations in the financial markets. Several types of risk may arise and the Bank manages and monitors these risks carefully.

BankNordik's market risks are

- Interest rate risk: risk of loss caused by a 1% upward change 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

Specification of individual and statistic impairments

Table 9

	2018		2017		
DKKm	**Loans gross**	**Individual impairments**	**Loans gross**	**Individual impairments**	**Impairments from acquired portfolio**
Individual impairments:					
Faroe Islands	369	164	263	196	
Denmark	422	268	344	185	135
Greenland	72	31	33	27	0
Total	**862**	**463**	**640**	**408**	**135**
Statistic impairments*:					
Faroe Islands	6,391	46	6,038	40	0
Denmark	2,839	45	3,346	38	0
Greenland	558	26			0
Total	**9,788**	**117**	**9,384**	**78**	**0**

In 2018 the IFRS 9 implementation has caused a change in calculation of impairments. The 2017 comparison figures are based on group impairments, and not on statistic impairments.

Likely effects from changes in markets value

Table 10

DKKm	Change	2018	% of Core Capital	2017	% of Core Capital
Equity risk DKKm (+/-)	10%	30	1.6%	25	1.4%
Exchange risk DKKm (+/-) EUR	2.25%	0	0.0%	0	0.0%
Exchange risk DKKm (+/-) Other currencies	10%	1	0.0%	1	0.0%
Interest rate risk DKKm (parallel shift)	100 bp	31	1.7%	27	1.6%

Market Risk Management

	Board of Directors	Executive Board	CFO	Financial Manager	Treasury
Objective	Defines the overall market risk				
Tactical		Delegating risk authorities to relevant divisions		Managing the Bank's market risk	Implementing
Operational			Controlling & reporting	Monitoring	Trading

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 the overall risk limits. The limits on market risks are set with consideration of 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. Historically, lines have mainly been granted to Treasury.

Treasury is responsible for monitoring and handling the Bank's market risks and positions. Markets have been granted small market risk lines for its daily operations. The Finance Department reports market risks to the Executive Board on a monthly basis.

Control and management

The stringent exchange rate risk policies support 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.

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

Market risk

Table 10 shows the likely effects on the Bank's share capital from likely market changes.

- All equity prices fall by 10%.
- All currencies change by 10% (EUR by 2.25%)
- Upwards parallel shift of the yield curve of 100 bp.

The calculations show the potential losses for the Group deriving from market volatility.

Interest rate risk

The Group's policy is to invest most of its excess liquidity in LCR compliant bonds. As a consequence, BankNordik holds a large portfolio of bonds, and most of the Group's interest rate risk stems from this portfolio.

The Group's interest rate risk is calculated according to the requirements of the Danish FSA. The interest rate risk is defined as the effects of a one percentage point parallel shift of the yield curve. BankNordik offers fixed rate loans to corporate customers. The interest rate risk from these loans is hedged with interest rate swaps on a one-to-one basis.

Interest rate risk broken down by Currency

Table 11

(DKKm)	2018	2017
DKK	22	21
EUR	9	7
Interest rate risk	31	28

Table 11 shows the Group's overall interest rate risk measured as the expected loss on interest rate positions that would result from a parallel upward shift of the yield curve. Interest rate risk in EUR is mainly from corporate bonds.

Exchange rate risk

BankNordik's base currency is DKK and assets and liabilities in other currencies therefore imply an extra risk as they may vary in value 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 currency risk.

The Group's exchange rate risk mainly stems from:

- Customer loans / deposits in foreign currency
- Treasury's positions in foreign currency

Foreign exchange position Table 12

(DKKm)	2018	2017
Assets in foreign currency	12	15
Liabilities and equity in foreign currency	0	0
Exchange rate indicator 1	12	15

Equity market risk

BankNordik's stringent risk policy restricts equity positions to listed and liquid shares and shares related to the Danish banking sector. The Group occasionally holds unlisted shares, for example in connection with taking over and reselling collateral from defaulted loans.

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 in question.

Equity risk Table 13

DKKm	2018	2017
Shares/unit trust certificates listed on the Copenhagen Stock Exchange	52	22
Shares/unit trust certificates listed on other stock exchanges		19
Other shares at fair value based on the fair-value option	252	207
Total shares etc.	**304**	**248**

Exposures related to trading and investment activities Table 14

(DKKm)	2018	2017
Bonds at fair value	4,565	4,263
Derivatives with positive fair value	2	4
Equity	304	249
Total	**4,871**	**4,516**

Liquidity Risk

Definition

Liquidity risk is defined as the risk of loss resulting from

- 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. The Danish FSA designated BankNordik as a systematically important financial institution (SIFI) in 2015. With a liquidity coverage ratio (LCR) of 266 % at 31. December 2018 BankNordik's liquidity position remains robust.

Control and management

Liquidity risk is a fundamental part of the Group's business strategy. The Group's liquidity is monitored and managed by Treasury on a daily basis 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 a monthly basis. Treasury has the operational responsibility for investment of the liquidity, while Finance Department is responsible for reporting and monitoring liquidity. The Group has implemented contingency plans to ensure that it is ready to respond to unfavorable liquidity conditions.

Remaining maturity

Table 15

DKK 1,000

2018	0-1 months	1-3 months	3-12 months	More than 1 year	Without fixed maturity	Total
Cash in hand and demand deposits with central banks	179,573					179,573
Due from Credit institution	430,270	166,135		317,100		913,506
Loans and advances	114,364	370,202	1,205,025	12,059,490		13,749,081
Bonds and Shares	62,809	80,341	575,040	3,984,526	251,665	4,954,381
Derivatives	1,510					1,510
Other Assets	94,375	58,834		486,408	266,027	905,644
Total assets	**882,902**	**675,512**	**1,780,064**	**16,847,525**	**517,692**	**20,703,696**
Due to credit institutions and central banks			70,960	246,945		317,905
Deposits	11,682,224	1,351,483	15,278	403,265		13,452,250
Derivatives						
Other liabilities	571,453	70,644	1,898	3,629	105,980	753,605
Subordinated debt	954	1,908	6,680	282,731		292,274
Equity					**2,104,088**	**2,104,088**
Total	**12,254,631**	**1,424,036**	**94,817**	**936,570**	**2,210,069**	**16,920,122**
Off-balance sheet items						
Financial Guarantees	447,542					447,542
Other commitments	105,600					105,600
Total	**553,142**					**553,142**

2017	0-1 months	1-3 months	3-12 months	More than 1 year	Without fixed maturity	Total
Cash in hand and demand deposits with central banks	250,509					250,509
Due from Credit institution	290,234	112,065		213,897		616,196
Loans and advances	71,769	726,656	1,284,338	11,219,854		13,302,618
Bonds and Shares	51,011	4,709	504,293	3,833,655	204,150	4,597,818
Derivatives	3,810					3,810
Other Assets	98,252	56,808		503,971	205,825	864,856
Total assets	**765,586**	**900,238**	**1,788,631**	**15,771,377**	**409,975**	**19,635,807**
Due to credit institutions and central banks	31,361			348,628		379,989
Deposits	9,816,643	1,732,581	41,754	1,065,798		12,656,776
Derivatives						
Other liabilities	576,971	70,644	1,898	39,104	380	688,998
Provisions for liabilities				29,880		29,880
Subordinated debt	952	1,903	6,662	281,968		291,484
Equity					**1,935,362**	**1,935,362**
Total	**10,425,927**	**1,805,128**	**50,314**	**1,735,498**	**1,935,742**	**15,952,609**
Off-balance sheet items						
Financial Guarantees	318,943					318,943
Other commitments	157,480					157,480
Total	**476,423**					**476,423**

Liquidity Management

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

Operational liquidity risk
The objective of the Group's operational liquidity risk management is to ensure that the Group has sufficient liquidity at all times to handle customer transactions and changes in liquidity. BankNordik complies with LCR requirements and therefore closely monitors the bond portfolio with regards to holding sufficient LCR compliable bonds.

Liquidity stress testing
BankNordik has incorporated a liquidity stress testing model based on LCR. This model is used at least monthly to forecast developments in the Bank's liquidity on a 3-month and a 3-12-month horizon. The test is based on the business-as-usual situation with outflows from undrawn committed facilities and further stress measures. If the 3-month target is not met, the Executive Board must implement a contingency plan.

Twelve-month liquidity
The Bank's 12-month funding requirements are based on projections for 2019, which were revised in December taking the market outlook into account.

Structural liquidity risk
Deposits are generally considered a secure source of funding. Deposits are generally short term but their historical stability enables BankNordik to grant customer loans with much longer terms e.g. 25 years to fund residential housing. 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. Table 15 shows assets and liabilities by a maturity structure.

In order to minimize liquidity risk, BankNordiks policy is to have strong liquidity from different funding sources. It is therefore the Bank's policy to further diversify the deposit base in terms of maturity.

Funding sources
The Group monitors its funding mix to make sure that there is a satisfactory diversification between deposits, equity, hybrid capital, and loans from the financial markets.

Collateral provided by the Group
As customarily used by financial market participants BankNordik has entered into standard CSA agreements with other banks. These agreements commit both parties to provide and daily adjust collateral for negative market values. The bank with negative value exposure receives collateral. Thereby reducing counterparty risk to daily market fluctuations of derivatives and pledged amount. As a consequence of these agreements BankNordik at yearend 2018 had pledged bonds and cash deposits valued at DKK 31m under these agreements. End of period BankNordik had negative market value to all counterparties and has therefore not received any collateral yearend 2018.

BankNordik also provides collateral to the Danish central bank to give the Bank access to the intraday draft facility with the central bank as part of the Danish clearing services for securities. At yearend 2018, this collateral amounted to DKK 33m.

Insurance Risk

Insurance risk in the Group consists mostly of non-life insurance risk. The Group has a non-life insurance company, Trygd and a life insurance company, NordikLív.

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 in extreme cases make it unable to meet its liabilities. Risks for

Likely effects from changes in markets value

Table 16

DKKm	Change	2018	2017
Equity risk DKKm (+/-)	10%		
Exchange risk DKKm (+/-) in euro	2.25%		
Exchange risk DKKm (+/-) others currency	10%		
Interest rate risk DKKm (parallel shift) - Trygd	100 bp	1.2	0.66
Interest rate risk DKKm (parallel shift) Total	**100 bp**		

an insurance operation are typically categorized as insurance risk and market risk. Among other risks are currency exchange risk, liquidity risk, counterparty and concentration risk and operational 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 and Trygd's equity. This is done with statistical spread of risks and accumulation of funds, quantified by statistical methods, to meet these obligations.

The Group has defined internal procedures to minimise the possible loss regarding insurance liabilities. Trygd 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 is well diversified in personal and commercial lines (see table 17).

Financial assets linked to insurance risk

Table 18

(mDKK)	2018	2017
Listed securities on stock exchange	154	140
Accounts receivable (total technical provisions)	3	2
Cash and cash equivalents	13	16
Total	170	158

Distrubution of portfolio of Trygd

Table 17

(in %)	2018	2017
Commercial lines	65%	67%
Personal lines	35%	33%

Insurance risk

Trygd covers the insurance liabilities through a portfolio of securities and investment assets exposed to market risk.

Trygd has invested in investment securities and cash and cash equivalents in the effort to balance the exposure to market and currency risk (see table 18).

Capital requirements

The effects on BankNordiks solvency, due to the ownership of the insurance company's Trygd and NordikLív, are considered low.

Trygd non-life insurance

The Board of Directors and Executive Management of Trygd must ensure that the company has an adequate capital base and internal procedures for risk measurement and risk management to assess the necessary capital base applying a spread appropriate to cover Trygd's risks.

In order to meet these requirements Trygd´s policies and procedures are regularly updated. Risk management at Trygd is based on a number of policies, business procedures and risk assessments which are reviewed and must be approved by the Board of Directors annually.

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

Run-off gains/losses in Trygd

Table 19

(mDKK)

Sector:	2018	2017	2016	2015	2014
Industry	-0.68	1.25	2.5	1.12	1.95
Private	-0.10	0.46	0.43	0.64	-0.18
Accidents	-1.05	0.19	-0.32	0.27	-0.07
Automobile	3.11	2.93	3.39	2.3	0.99
Total	1.28	4.82	6.00	4.33	2.69

Contractual maturity for the insurance segment

Table 20

2018	On demand	0-12 months	1-5 years	Over 5 years	No stated maturity	Total
Assets						
Securities	191,023					191,023
Reinsurance assets		2,399				2,399
Accounts receivables		3,451				3,451
Restricted cash						
Cash and cash equivalents	17,089					17,089
Total financial assets	**208,111**	**5,850**				**213,961**
Liabilities						
Technical provision		90,243				90,243
Account payable		7,133				7,133
Total financial liabilities		**97,377**				**97,377**
Assets - liabilities	**208,111**	**-91,527**				**116,584**

Contractual maturity for the insurance segment

2017	On demand	0-12 months	1-5 years	Over 5 years	No stated maturity	Total
Assets						
Securities	171,553					171,553
Reinsurance assets		6,383				6,383
Accounts receivables		2,191				2,191
Restricted cash						
Cash and cash equivalents	19,846					19,846
Total financial assets	**191,399**	**8,574**				**199,973**
Liabilities						
Technical provision		81,736				81,736
Account payable		5,445				5,445
Total financial liabilities		**87,182**				**87,182**
Assets - liabilities	**191,399**	**-78,608**				**112,791**

Assets and liabilities are offset when the Group and the counterparty have a legally enforceable right to offset recognised amounts and have agreed to settle the balances on a net basis or to realise the asset and settle the liability simultaneously. Master netting agreements or similar agreements give the right to additional offset in the event of default.

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 the handling process of the corporate department.

Reinsurance is an important aspect of managing insurance risk. The Group must protect itself against dramatic fluctuations in technical results by entering into agreements on reinsurance so as to make the risk of the Group having to pay claims from its own funds reasonable in relation to the size of the risk assumed, the risk composition and Trygd´s equity.

Trygd has organised a reinsurance programme which ensures that e.g. large natural disasters and significant individual claims do not compromise 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 strong ratings and financial positions.

Trygd's Claims Department is responsible for handling all claims and only claims employees may deal with claims matters or advise claimants in specific claim cases. Technical 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.

The board of directors of Trygd applies a low risk investment policy. The company´s main investments are in bonds and deposits. There is no exchange rate risk, as all investements are based in DKK.

NordikLív – Life insurance
NordikLív is a life insurance company established in 2015 and wholly owned by BankNordik. The company began operations in 2016.

NordikLív issues regular life, disability and critical illness insurance covers in the Faroese market and in 2018 the total premiums amounted to DKK 14.4m compared to DKK 13.2m in 2017.

The primary risks of NordikLív are financial risks, insurance risks, operational risks and commercial risks.

NordikLív's investment policy is restrictive and at present NordikLív only holds government bonds and Danish mortgaged backed bonds limiting the primary financial risk to interest rate risk.

In respect of insurance risks these are, due to the company's limited product portfolio, mainly related to disability, costs and the occurrence of a catastrophe. To mitigate these risks NordikLív's under-writing policy is aimed at securing that only risks that can be characterized as normal for the relevant area of insurance are accepted. Further, NordikLív reinsures it's against larger claims, e.g. because of the occurrence of a catastrophe.

Operational risks are the risks of suffering an economic loss due insufficient or the complete lack of internal procedures, human or system based errors or due to external events, including a change in legislation. In respect of the latter, besides an expected minor increase in the minimum capital requirement defined by law, the proposed upcoming Solvency II inspired Faroese regulation is not expected to have any major influence on NordikLív.

Commercial risks are related to the uncertainty of the development of the Faroese life insurance market, change in customer behaviour and demands, a shift in technology and reputational risk.

In order to mitigate operational and commercial risks NordikLív has entered into a cooperation agreements with Forenede Gruppeliv and BankNordik providing the company with expert resources within production, administration, internal audit, risk management and compliance.

Note

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

50 **Hightlights**

DKK 1,000	2018	2017	Index 18/17	2016	2015	2014
Net interest income	374,143	387,216	97	413,204	468,652	497,751
Net fee and commision income	172,213	190,425	90	182,202	216,839	189,190
Net interest and fee income	557,752	583,041	96	604,875	694,735	693,878
Net insurance income	43,751	43,367	101	26,627	27,857	29,185
Interest and fee income and income from insurance activities, net	601,503	626,407	96	631,502	722,593	723,063
Market value adjustments	7,113	20,131	35	11,313	-38,751	9,540
Other operating income	19,947	33,534	59	39,187	58,499	43,703
Staff cost and administrative expenses	459,247	453,630	101	462,461	514,003	476,373
Impairment charges on loans and advances etc.	-110,782	-35,107	316	18,228	59,655	111,014
Net profit	262,097	189,078	139	221,874	-221,009	-127,411
Loans and advances	9,956,478	9,537,425	104	9,140,637	10,675,180	10,491,509
Bonds at fair value	4,565,087	4,262,730	107	4,677,230	3,398,816	3,534,678
Intangible assets	6,678	0	N/A	0	0	529,730
Assets held for sale	20,364	6,302	323	11,974	35,402	51,771
Assets in disposals groups classified as held for sale	0	-0		-0	581,280	0
Total assets	16,700,158	15,784,953	106	15,552,094	16,230,078	16,535,501
Due to credit institutions and central banks	298,610	360,497	83	341,676	574,791	591,347
Deposits and other debt	13,432,228	12,632,463	106	12,668,697	12,680,157	12,603,533
Total shareholders' equity	1,986,752	1,820,092	109	1,922,035	1,766,335	1,999,195

Ratios and key figures

Solvency	Dec. 31 2018	Dec. 31 2017	Dec. 31 2016	Dec. 31 2015	Dec. 31 2014
Solvency ratio, %	19.8	19.7	18.3	16.8	14.8
Core capital ratio, %	17.7	17.5	16.0	14.8	12.9
Core capital ratio excl. hybrid core capital, end of period, %	17.7	17.5	16.0	13.9	11.8
Risk-weighted Items, DKK mill	10,621	9,895	9,790	11,463	11,943
Profitability					
Return on equity before tax, %	17.0	12.5	15.0	-19.6	-5.5
Return on equity after tax, %	13.8	10.1	12.0	-11.7	-6.1
Income / Cost ratio	2.1	1.5	1.4	0.7	0.9
Cost / income, % (excl. value adjustm. and impairments)	67.0	72.8	71.0	134.7	101.7
Return on assets	1.6	1.2	1.4	-1.4	-0.8
Market risk					
Interest rate risk, %	1.7	1.6	1.1	2.2	3.0
Foreign exchange position, %	1.3	0.9	4.8	9.5	8.6
Liquidity					
Loans and advances plus impairment charges as % of deposits	78.4	79.4	77.2	89.5	88.2
Excess cover relative to statutory liquidity requirements, %	212.5	205.1	241.7	166.8	182.2
Credit risk					
Large exposures as % of capital base	10.5	13.7	44.3	65.0	81.1
Impairment and provisioning ratio, %	4.5	4.0	5.5	4.9	4.8
Write-off and impairments ratio, %	-0.8	-0.3	0.1	0.4	0.8
Growth on loans and advances, %	4.4	4.3	-14.4	1.8	0.3
Gearing of loans and advances, %	5.0	5.2	4.8	6.0	5.2
Shares					
Earnings per share after tax, DKK	27.1	19.5	22.6	-22.4	-12.9
Book value per share, DKK	0.2	187.2	197.7	179.1	202.7
Proposed dividend per share DKK	7.0	4.0	30.0	2.0	2.0
Market price per share, DKK	108.5	106.0	135.5	127.6	104.5
Market price / earnings per share DKK	4.0	5.4	6.0	-5.7	-8.1
Market price / book value per share DKK	0.5	0.6	0.7	0.7	0.5
Other					
Number of full-time employees, end of period	393	400	415	446	506

Highlights, ratios and key figures - BankNordik Group

Hightlights

DKK 1,000	Full year 2018	Full year 2017	Index 18/17	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Net interest income	374,143	387,216	97	92,349	94,286	93,235	94,273	95,086
Dividends from shares and other investments	11,396	5,400	211	83	77	10,962	275	102
Net fee and commision income	172,213	190,425	90	42,477	42,741	43,015	43,979	47,081
Net interest and fee income	557,752	583,041	96	134,909	137,104	147,212	138,527	142,269
Net insurance income	43,751	43,367	101	12,598	12,999	6,156	11,997	12,160
Interest and fee income and income from insurance activities, net	601,503	626,407	96	147,507	150,103	153,369	150,524	154,429
Market value adjustments	7,113	20,131	35	-5,538	4,330	-16,133	24,455	-3,921
Other operating income	19,947	33,534	59	2,311	-4,728	17,149	5,216	14,401
Staff costs and administrative expenses	459,247	453,630	101	114,145	115,025	112,077	118,000	110,358
Impairment charges on loans and advances etc.	-110,782	-35,107	316	-18,033	-45,736	-18,989	-28,023	-38,825
Net profit	262,097	189,078	139	32,763	60,050	50,832	118,452	77,103
Loans and advances	9,956,478	9,537,425	104	9,956,478	10,007,984	9,742,046	9,607,365	9,537,425
Bonds at fair value	4,565,087	4,262,730	107	4,565,087	4,558,273	4,622,270	4,490,952	4,262,730
Assets held for sale	20,364	6,302	323	20,364	4,861	4,911	5,775	6,302
Total assets	16,700,158	15,784,953	106	16,700,158	16,716,361	16,719,006	16,348,558	15,784,953
Due to credit institutions and central banks	298,610	360,497	83	298,610	320,950	440,414	385,384	360,497
Deposits and other debt	13,432,228	12,632,463	106	13,432,228	13,162,921	13,147,427	13,082,937	12,632,463
Total shareholders' equity	1,986,752	1,820,092	109	1,986,752	1,948,568	1,890,899	1,853,133	1,820,092

Ratios and key figures

Solvency	Dec. 31 2018	Dec. 31 2017	Dec. 31 2018	Sept. 30 2018	June 30 2018	March 31 2018	Dec. 31 2017
Solvency ratio, %	19.8	19.7	19.8	17.6	18.5	18.9	19.7
Core capital ratio, %	17.7	17.5	17.7	15.5	16.3	16.7	17.5
Core capital ratio excl. hybrid core capital, end of period, %	17.7	17.5	17.7	15.5	16.3	16.7	17.5
Risk-weighted Items, DKK mill	10,621	9,895	10,621	10,634	10,219	10,058	9,895
Profitability							
Return on equity after tax, %	13.8	10.1	1.7	3.1	2.7	6.4	4.3
Cost / income, %	48.6	65.5	73.9	47.7	61.7	17.8	44.3
Cost / income, % (excl. value adjustm. and impairments)	67.0	72.8	83.2	80.5	67.0	38.6	66.3
Return on assets	1.6	1.2	0.2	0.4	0.3	0.7	0.5
Market risk							
Interest rate risk, %	1.7	1.6	1.7	2.2	1.8	1.7	1.6
Foreign exchange position, %	1.3	0.9	1.3	1.9	1.6	1.7	0.9
Liquidity							
Excess cover relative to statutory liquidity requirements, %	212.5	205.1	212.5	218.6	225.4	217.9	205.1
Credit risk							
Change in loans and advances, %	4.4	4.3	-0.5	2.7	1.4	0.7	-0.1
Gearing of loans and advances	5.0	5.2	5.0	5.1	5.2	5.2	5.2
Impairment and provisioning ratio, end of period, %	4.5	4.0	4.5	3.8	4.2	4.4	4.0
Write-off and provisioning ratio, %	-0.8	-0.3	-0.1	-0.3	-0.1	-0.2	-0.3
Share of amounts due on which interest rates have been reduced, end of period, %	0.8	0.4	0.8	0.4	0.4	0.4	0.4
Shares							
Earnings per share after tax (nom. DKK 20), DKK	27.1	19.5	3.4	6.1	5.2	12.2	7.9
Market price per share (nom. DKK 20), DKK	108.5	106.0	108.5	113.0	110.0	110.5	106.0
Book value per share (nom. DKK 20), DKK	207.2	187.2	207.2	202.1	195.7	190.9	187.2
Other							
Number of full-time employees, end of period	393	400	393	385	390	387	400

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

Hightlights					
DKK 1,000	**2018**	**2017**	**2016**	**2015**	2014
Net interest income	372,694	385,612	411,671	467,107	495,505
Net fee and commision income	182,209	199,367	191,414	216,839	189,190
Net interest and fee income	566,299	590,378	612,554	693,190	691,632
Market value adjustments	9,531	21,952	11,954	-37,067	9,438
Other operating income	13,940	29,174	118,583	51,535	39,386
Staff cost and administrative expenses	438,578	431,121	442,584	490,696	458,249
Depreciation and impairment of property, plant and equipment	-44,379	27,599	8,515	513,677	270,855
Impairment charges on loans and advances etc.	-110,782	-35,107	18,228	59,655	111,014
Income from associated and subsidiary undertakings	14,565	12,160	4,500	40,583	7,320
Net profit	262,097	189,078	221,874	-221,009	-127,411
Loans and advances	9,956,478	9,537,425	9,140,637	10,675,180	10,491,509
Bonds at fair value	4,374,064	4,091,177	4,509,287	3,274,870	3,237,238
Intangible assets	6,678	0	0	0	520,672
Assets held for sale	20,364	6,302	11,974	35,402	51,771
Assets in disposals groups classified as held for sale				187,904	0
Total assets	16,617,701	15,713,057	15,455,187	15,825,630	16,197,909
Due to credit institutions and central banks	298,610	360,497	341,676	574,791	591,347
Deposits and other debt	13,452,242	12,653,510	12,691,224	12,739,229	12,690,011
Total shareholders' equity	1,986,752	1,820,092	1,922,035	1,759,575	1,991,582

Ratio and key figures					
Solvency	**Dec. 31 2018**	**Dec. 31 2017**	**Dec. 31 2016**	**Dec. 31 2015**	**Dec. 31 2014**
Solvency ratio, %	19.8	19.7	18.3	16.8	14.8
Core capital ratio, %	17.7	17.5	16.0	14.8	12.9
Core capital ratio excl. hybrid core capital, end of period, %	17.7	17.5	16.0	13.9	11.8
Risk-weighted Items, DKK mill	10,621	9,895	9,790	11,463	11,943
Profitability					
Return on equity before tax, %	16.8	12.4	15.0	-18.0	-5.7
Return on equity after tax, %	13.8	10.1	12.1	-11.8	-6.2
Income / Cost ratio	2.1	1.5	1.6	0.7	0.9
Cost / income, % (excl. value adjustm. and impairments)	66.4	72.3	61.6	130.6	102.2
Return on assets	1.6	1.2	1.4	-1.4	-0.8
Market risk					
Interest rate risk, %	1.6	1.5	1.1	1.1	2.0
Foreign exchange position, %	1.3	0.9	4.8	9.5	8.6
Liquidity					
Loans and advances plus impairment charges as % of deposits	78.3	79.2	77.1	88.8	87.3
Excess cover relative to statutory liquidity requirements, %	201.9	195.7	233.3	138.7	159.0
Credit risk					
Large exposures as % of capital base	10.5	13.7	44.3	65.0	81.1
Impairment and provisioning ratio, %	4.5	4.0	5.5	4.9	4.8
Write-off and impairments ratio, %	-0.8	-0.3	0.1	0.4	0.8
Growth on loans and advances, %	4.4	4.3	-14.4	1.8	0.3
Gearing of loans and advances	5.0	5.2	4.8	6.1	5.3
Shares					
Earnings per share after tax, DKK	27.1	19.5	22.6	-22.4	-12.9
Book value per share, DKK	207.2	187.2	197.7	178.4	201.9
Proposed dividend per share DKK	7.0	4.0	30.0	2.0	2.0
Market price per share, DKK	108.5	106.0	135.5	127.6	104.5
Market price / earnings per share DKK	4.0	5.4	6.0	-5.7	-8.1
Market price / book value per share DKK	0.5	0.6	0.7	0.7	0.5
Other					
Number of full-time employees, end of period	360	367	385	363	412

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 out standing 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.
Net profit for the year divided by average shareholders' equity during the year.	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, 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.
Total capital	The total capital 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 total capital.
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 for the year divided by the number of shares in issue 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 in issue 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.

Management and directorships

Board of directors

The current members of P/F BankNordik's Board of Directors are the following:

Stine Bosse (Chairman)

Date of birth:	21 December, 1960
Gender:	Female
Nationality:	Danish
First time elevted to the Board:	2015
Most recently re-elected:	2018
Term expires:	2019
Educational background:	MSc of Law, University of Copenhagen, Strategic Agility program, Harvard Business School, USA, LinKS Wharton University of Pennsylvania, USA; LinKS, INSEAD, France
Competencies:	Extensive experience and knowledge of strategy and operation of major companies due to extensive executive and board experience within the financial sector.
Principal occupation:	Self-employed. Former CEO of Tryg A/S
Board positions held that are relevant to banking and insurance:	Chairman of the board of: TELE-POST and P/F BankNordik. Board Member of: Allianz Group Germany, Assistantbolaget AB, Sweden. Former Boardmember of Nordea and TDC A/S.

Barbara Pállsdóttir Vang (Deputy Chairman)

Date of birth:	16 April, 1972
Gender:	Female
Nationality:	Faroese
First time elected to the Board:	2017
Most recently re-elected:	2018
Term expires:	2019
Competencies:	Broad and in-depth knowledge of financial companies' regulatory issues.
Educational background:	MSc in Law, University of Copenhagen
Principal occupation:	Legal Advisor at Tórshavn Municipality
Board positions held:	Board member of: P/F BankNordik

Jógvan Jespersen

Date of birth:	4 December, 1955
Gender:	Male
Nationality:	Faroese
First time elected to the Board:	1994-2006, and again in 2015
Most recently re-elected:	2018
Term expuires:	2019
Educational background:	HD – Finance and accounting from School of Business and Social Sciences, Aarhus University
Competencies:	Broad and extensive knowledge of the Faroese economy as well as in-depth knowledge of the operation of Faroese companies.
Principal occupation:	Managing Director of Faroese Pelagic organization
Board positions held that are relevant to banking and insurance:	Chairman of the board of: Forskerparken P/F iNOVA. Board member of: P/F BankNordik, Faroe Shipowners Association and Security Fund for fisheries

Kim Jacobsen

Date of birth:	3 February, 1952
Gender:	Male
Nationality:	Danish
First time elected to the Board:	2017
Most recently re-elected:	2018
Term expires:	2019
Educational background:	Bank education supplemented with different advanced banking and sale & management courses; INSEAD, Paris
Competencie:	Broad experience and in-depth knowledge of financial services business - mainly relating to credit and risk management.
Principal occupation:	Self-employed
Board positions held that are relevant to banking and insurance:	Board member of: P/F BankNordik, Charteau d'Azzans A/S

John Henrik Holm

Date of birth:	23 May, 1970
Gender:	Male
Netionality:	Faroese
First time elected to the Board:	2019
Term expires:	2022
Educational background:	Graduate diploma in business administration (HD-FR)
Competencies:	Broad experience within the financial sector. In-depth insight into Faroese buciness community - in particular regading rural areas. Board experience from both private and public companies.
Principal occupation:	Principal of Elementary School in Vágur, Faroe Islands
Board positions held:	Board member of: P/F BankNordik

Alexander Johansen	
Date of borth:	7 June, 1979
Gender:	Male
Nationality:	Faroese
First time elected to the Board:	2018
Term expires:	2022
Educational background:	Financial education abd subsequent continuing education within financial and insurance aspects.
Competencies:	In-depth understanding of insurance aspects. All-round advisory services.
Principal occupation:	P/F Trygd - Commercial Insurance - leader of corporate department.
Board positions held:	Board member of: P/F BankNordik

Kenneth Samuelsen	
Date of birth:	21 July, 1966
Gender:	Male
Nationality:	Faroese
First time elected to the Board:	2010
Most recently re-elected:	2018
Term expires:	2022
Educational background:	Financial education
Competencies:	Advising personal customers. Customer and employer satisfaction. Customer focus and all-round advisory services.
Principal occupation:	BankNordik – IT & Analyses department – unit Faroe Islands
Board positions held:	Board member of: P/F BankNordik

Dan Rasmussen	
Date of birth:	14 May, 1954
Gender:	Male
Nationality:	Danish
First time elected to the Board:	2018
Term expires:	2022
Educational background:	Bank education supplemented with different banking, sales and credit courses - and Merconom.
Competencies:	Advising personal customers. Customer and employer satisfaction. Customer focus and all-round advisory services.
Principal occupation:	BankNordik - Retail Customer advisor - unit Denmark.
Board positions held:	Board member of: P/F BankNordik

Executive Board

Árni Ellefsen (CEO)	
Date of birth:	6 January, 1966
Gender:	Male
Nationality:	Faroese
Year of joining the Executive Board:	2015
Educational background:	MSc in Business Management and Accounting State Authorized Public Accountant.
Principal occupation:	CEO of P/F BankNordik
Board positions held:	Chairman of the Board of: Faroese Association of Employers in the Financial Sector (Arbeiðsgevarafelagið fyri fíggjarstovnar) Board member of: BI Holding A/S, SDC A/S, P/F Trygd, P/F Skyn, P/F NordikLív Lívstryggingarfelag, Faroese Banking Association (Felagið Føroyskir Peningastovnar) and the Faroese Association of Employers (Føroya Arbeiðsgevarafelag)

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

The company is listed on Nasdaq Copenhagen.

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