Annual Report 2017

BANKNORDIK

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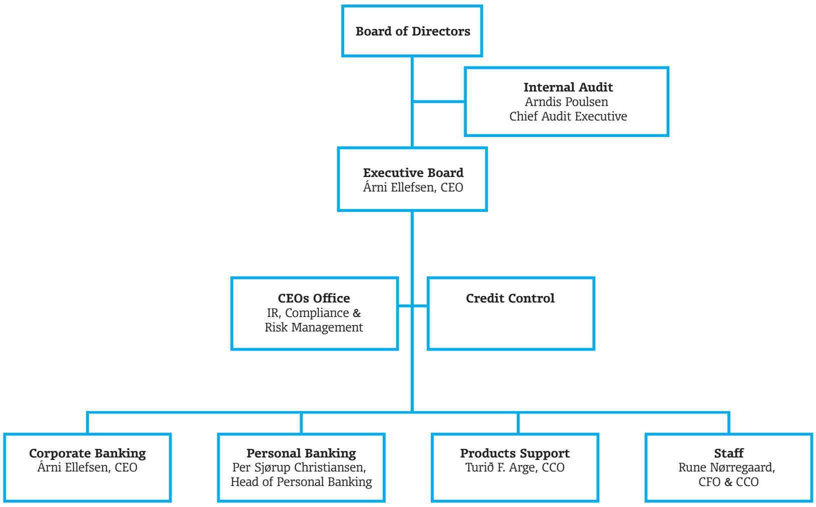
BankNordik Organisation



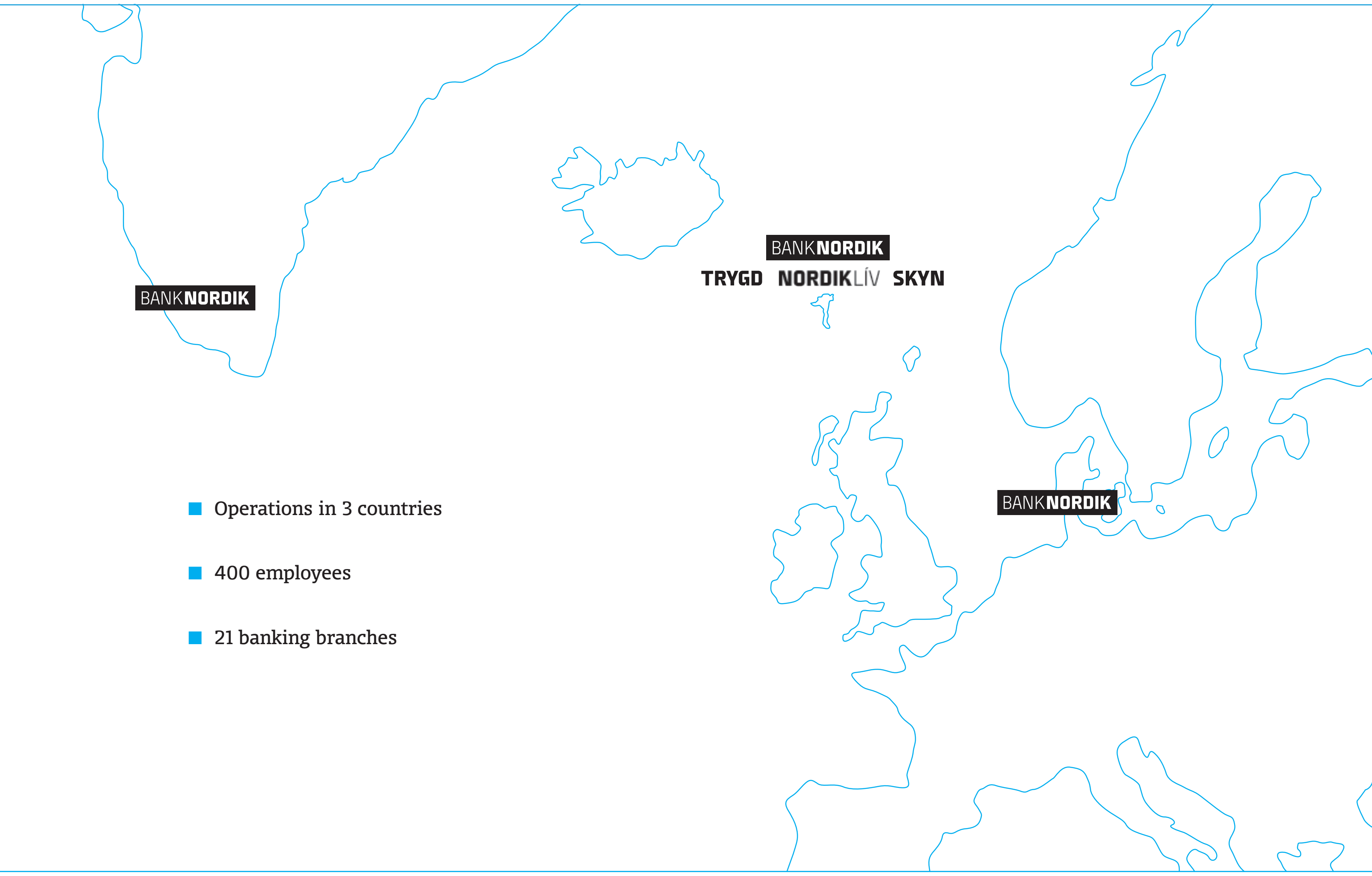
Subsidiaries

Overview of the Group

BankNordik

- **Trygd** 100%
- **Skyn** 100%
- **NordikLív** 100%

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
- 400 employees
- 21 banking branches

Highlights, ratios and key figures – BankNordik Group

Highlights DKK 1,000	Full year 2017	Full year 2016	Index 17 / 16	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	387,216	413,204	94	95,086	97,240	96,950	97,939	100,037
Dividends from shares and other investments	5,400	9,469	57	102	80	4,482	735	84
Net fee and commission income	190,425	182,202	105	47,081	38,685	53,246	51,413	51,025
Net interest and fee income	583,041	604,875	96	142,269	136,005	154,679	150,088	151,146
Net insurance income	43,367	26,627	163	12,160	12,851	9,328	9,028	-6,782
Interest and fee income and income from insurance activities, net	626,407	631,502	99	154,429	148,855	164,007	159,116	144,364
Market value adjustments	20,131	11,313	178	-3,921	5,342	4,678	14,032	-10,232
Other operating income	33,534	39,187	86	14,401	7,509	5,209	6,416	16,559
Staff cost and administrative expenses	453,630	462,461	98	110,358	111,720	117,291	114,262	111,724
Impairment charges on loans and advances etc.	-35,107	18,228		-38,825	296	-1,767	5,189	10,263
Net profit continued operations	189,078	149,171	127	77,103	23,588	43,152	45,236	20,532
Net profit discontinued operations	0	72,703	0	0	0	0	0	0
Net profit	189,078	221,874	85	77,103	23,588	43,152	45,236	20,532
Loans and advances	9,537,425	9,140,637	104	9,537,425	9,549,256	9,427,627	9,159,436	9,140,637
Bonds at fair value	4,262,730	4,677,230	91	4,262,730	4,446,548	4,479,960	4,770,380	4,677,230
Assets held for sale	6,302	11,974	53	6,302	13,276	10,034	10,283	11,974
Total assets	15,784,953	15,552,094	101	15,784,953	16,058,764	16,117,793	15,578,746	15,552,094
Due to credit institutions and central banks	360,497	341,676	106	360,497	322,011	326,367	297,019	341,676
Deposits and other debt	12,632,463	12,668,697	100	12,632,463	12,982,550	13,472,482	12,678,890	12,668,697
Total shareholders' equity	1,820,092	1,922,035	95	1,820,092	1,742,990	1,718,381	1,674,667	1,922,035

Ratios and key figures	Dec. 31 2017	Dec. 31 2016	Dec. 31 2017	Sept. 30 2017	June 30 2017	March 31 2017	Dec. 31 2016
Solvency							
Solvency ratio, %	19.7	18.3	19.7	18.2	17.9	18.4	18.3
Core capital ratio, %	17.5	16.0	17.5	15.9	15.7	16.1	16.0
Core capital ratio excl. hybrid core capital, end of period, %	17.5	16.0	17.5	15.9	15.7	16.1	16.0
Risk-weighted Items, DKK mill	9,895	9,790	9,895	9,942	10,071	9,810	9,790
Profitability							
Return on equity after tax, %	10.1	12.0	4.3	1.4	2.5	2.5	1.1
Cost / income, %	65.5	72.5	44.3	81.2	68.2	68.1	81.7
Cost / income, % (excl. value adjustm. and impairments)	72.8	71.0	66.3	73.1	71.2	70.7	70.1
Return on assets	1.2	1.4	0.5	0.1	0.3	0.3	0.1
Market risk							
Interest rate risk, %	1.6	1.1	1.6	1.6	2.0	1.7	1.1
Foreign exchange position, %	0.9	4.8	0.9	1.1	1.0	1.3	4.8
Liquidity							
Excess cover relative to statutory liquidity requirements, %	205.1	241.7	205.1	218.7	245.5	239.1	241.7
Credit risk							
Growth on loans and advances, %	4.3	-14.4	-0.1	1.3	2.9	0.2	-2.5
Gearing of loans and advances	5.2	4.8	5.2	5.5	5.5	5.5	4.8
Impairment and provisioning ratio, end of period, %	4.0	5.5	4.0	5.0	5.1	5.4	5.5
Write-off and provisioning ratio, %	-0.3	0.1	-0.3	0.0	0.0	0.0	0.1
Share of amounts due on which interest rates have been reduced, end of period, %	0.4	0.7	0.4	0.5	0.6	0.6	0.7
Shares							
Earnings per share after tax (nom. DKK 20), DKK	19.5	22.6	7.9	2.4	4.4	4.7	2.1
Market price per share (nom. DKK 20), DKK	106.0	135.5	106.0	119.5	123.0	139.5	135.5
Book value per share (nom. DKK 20), DKK	187	198	187	179	177	172	198
Other							
Number of full-time employees, end of period	400	415	400	407	407	416	415

Building a customer-centric financial group

Despite consistently challenging market conditions, 2017 was a year of progress for BankNordik. We strengthened our market position in the retail segment, delivered financial results in line with guidance, and continued on the path of building a focused, customer-oriented, low-risk financial services provider in the North Atlantic region.

Satisfactory financial performance

The low interest rate environment persisted throughout 2017, which put further pressure on the Group's net interest income. Fee and commission income was up slightly, while income from insurance activities was markedly higher due fewer claims and a sizeable increase in premiums. I am particularly pleased to note that we have successfully managed our expenses and nearly kept operating costs flat compared to 2016. As a result, the Group's net profit before impairment charges came in at DKK 173m, in the mid-range of our guidance. The return on equity – supported by a substantial reversal of impairment charges – came in at 10.1%, slightly higher than the Group's target return of 10% by 2020.

Strengthened customer relationships

The refocusing of the Group's business activities and the targeted effort to strengthen the quality of our customer relationships paid off in 2017. Our customer satisfaction rating improved notably by the measure of a net promoter score and enrolment in our loyalty programme increased by 13%. A recurring theme throughout the year was to engage more directly with our customers and use their feedback to improve the overall customer experience. We also increased accessibility through the use of digital communication channels and extended our customer service outside of normal opening hours. These measures undoubtedly contributed to the strengthening of the Group's position within the personal banking market in 2017.

Improving efficiency

In recent years, BankNordik has effectively implemented a series of initiatives aimed at improving efficiency and curbing expenditure growth. In 2017, we automated a series of administrative tasks related to our customer loyalty programme, so our consultants can now spend more of their time attending to customers. The use of our automated credit scoring system gradually increased during the year. In 2018, several new administrative tasks are expected to be automated, laying the groundwork for a further improvement of our cost structure. Furthermore, we are in the process of transforming our customer service unit by transferring administrative tasks and processes to the branch support unit, which will allow for increased efforts from customer service to proactively engage with customers. We are confident that over time these measures will create shareholder value in terms of improved operational efficiency.

Adapting to new capital requirements

The Group's capital ratio targets have been revised in response to stricter capital regulations. We now target a solvency ratio of 20% and a CET1 ratio of 17%. Even though the Group partially met the revised capital targets already by year-end 2017, we will continuously strive to create shareholder value by optimising the Group's capital structure through a combination of retained earnings, bond issuances, dividend payments and share buybacks. We are also adjusting the Group's dividend policy from a target pay-out ratio of 40% to 20-40%. Investors should, however, rest assured that we remain as firmly committed to rewarding our shareholders as before, circumstances permitting. For the upcoming Annual General Meeting, the Board will propose an ordinary dividend payment of DKK 40 (DKK 4 per share). In addition, we will recommence share buybacks in 2018.

Looking ahead

2018 will undeniably be characterised by a continuously challenging and competitive business climate, amplified by regulatory pressure and technology innovation. All the same, having completed a successful strategic refocusing of activities, BankNordik is now a stronger and less complex organisation that is well placed to benefit from new opportunities and strengthen its market position in the North Atlantic region. We will therefore remain committed to the Group's strategy and are determined to further accelerate the planned steps of action, in particular with regards to facilitating growth in the personal customer segment. The management at BankNordik and our talented and hard-working employees all look forward to another exciting year.

Árni Ellefsen
Chief Executive Officer

Financial Review

Income statement, Group

DKKm	2017	2016	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	387	413	95	97	97	98	100	103	98	113
Net fees, commission income & dividends	196	192	47	39	58	52	51	46	50	44
Net insurance income	43	27	12	13	9	9	-7	12	12	9
Other operating income (less reclassification)	9	9	2	3	2	1	2	2	3	2
Operating income	**635**	**640**	**157**	**152**	**166**	**160**	**146**	**163**	**163**	**168**
Operating costs[1]	-462	-459	-112	-114	-120	-116	-114	-113	-115	-117
Sector costs	0	-2	2	-1	-1	-1	1	-1	-1	-1
Profit before impairment charges	**173**	**179**	**46**	**38**	**46**	**43**	**33**	**49**	**47**	**49**
Impairment charges, net	60	12	51	4	5	0	4	4	3	1
Operating profit	**233**	**191**	**97**	**42**	**51**	**43**	**38**	**53**	**50**	**50**
Impairment charges, intangible assets	0	0	0	0	0	0	0	0	0	0
Non-recurring items[2]	-18	-12	-1	-17	0	0	0	0	0	-12
Profit before value adjustments and tax	**215**	**179**	**96**	**25**	**51**	**43**	**38**	**53**	**50**	**38**
Market value adjustments[3]	20	8	-4	5	4	14	-10	12	9	-3
Profit before tax, continuing operations	**235**	**187**	**92**	**30**	**55**	**57**	**28**	**64**	**60**	**35**
Profit before tax, discontinued operations (Vörður)	0	90	0	0	0	0	0	99	1	-10
Profit before tax, total	**235**	**277**	**92**	**30**	**55**	**57**	**28**	**164**	**61**	**25**
Operating cost/income, %	73	72	72	75	72	73	78	69	70	70
Number of FTE, end of period	400	415	400	407	407	416	415	416	464	477

1 Comprises Staff costs, administrative expences and amortization, depreciation and impairment charges (less reclassification to non-recurring items).

2 Reclassified from Staff costs and administrative expences and from Amortisation, depreciation and impairment charges.

3 Incl. net income from investments accounted for under the equity method.

Please refer to page 16 for further information regarding the mentioned income statement.

The BankNordik group recorded a profit before impairment charges, non-recurring costs, value adjustments and tax of DKK 173m for 2017, a decrease of DKK 6m compared to 2016 (DKK 179m). The profit was in line with the full-year guidance of DKK 150 – 190m. Net interest income was down by DKK 26m year-on-year due to squeezed interest margins and the controlled run-off of corporate lending in Denmark.

Profit before tax amounted to DKK 235m (2016 DKK 277m), a decrease of DKK 42m mostly due to the sale of Vørður, the group's Icelandic insurance company which contributed DKK 90m to the net profit in 2016. Profit before tax from continuing operations was DKK 235m compared to DKK 187m in 2016, an increase of DKK 48m. The profit before tax was higher than anticipated, especially due to the reversals of impairment reversals of DKK 60m, compared to the DKK 20m in net impairments guided for.

Loans and advances were DKK 9,537m in 2017 compared to DKK 9,141m in 2016. Personal lending was up by DKK 365m year-on-year, while lending to corporate customers increased by DKK 31m, despite Danish corporate loans in the amount of approximately DKK 100m being wound up during the period. Deposits were DKK 12,654m 2017, nearly flat compared to 2016.

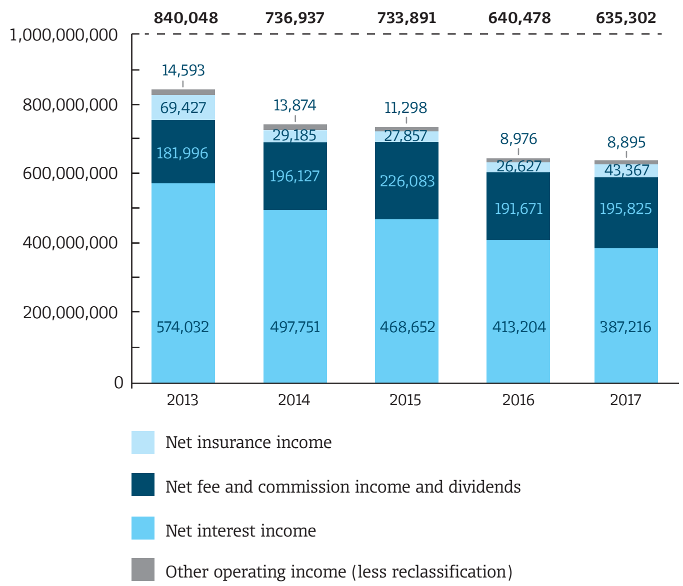
The following comments relate to the adjusted figures and are generally stated relative to 2016.

Income statement

Operating income

Net interest income amounted to DKK 387m in 2017 compared to DKK 413m in 2016. The decline was due to further pressure on interest margins, the main reason for the lower net interest income, as well as the winding up of corporate loans in Denmark. Net fee and commission income and dividends increased by DKK 4m, from DKK 192m in 2016 to DKK 196m in 2017, mainly due to higher Investment and trading income as well as increased mortgaged broking activity. Net insurance income was DKK 16m higher in 2017 compared to 2016, due to fewer claims and a sizeable increase in premiums. Other operating income amounted to DKK 9m in 2017 unchanged from 2016.

(DKK 1,000)

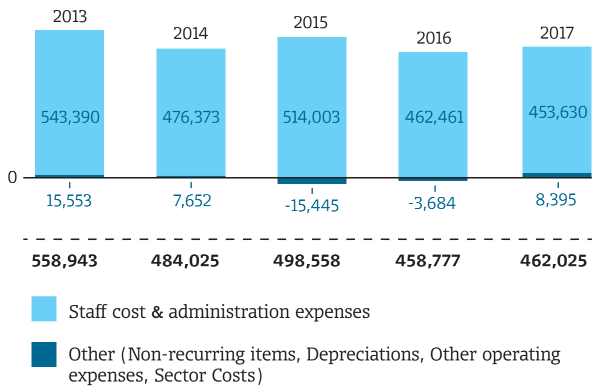


Operating costs

Operating costs increased by DKK 3m to DKK 462m in 2017 from DKK 459m in 2016. The increase was partly related to severance payments and IT costs. The Group reduced its employee headcount (FTE) from 415 in 2016 to 400 at year-end 2017. The Group intends to keep a tight grip on expenditure growth going forward by improving operational efficiency through process streamlining and automation.

Operating costs

(DKK 1,000)



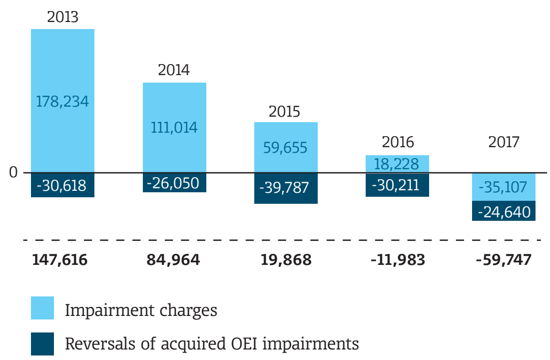
(See also Income Statement, Page 36)

Net impairment charges

Net impairment charges amounted to a reversal of DKK 60m in 2017 relative to a reversal of DKK 12m in 2016. The substantial reversal of impairment charges in 2017 was in particular related to corporate loans previously written off that were either repaid during the year or reversed due to improved company-specific conditions. The private sector now accounts for 65% of the loan portfolio in 2017, compared to 63% in 2016, and the Group's corporate portfolio is well-diversified, with no single sector accounting for more than 10% of the total loan portfolio.

Impairments

(DKK 1,000)



(See also Income Statement, Page 36)

Operating profit

Operating profit was DKK 233m in 2017 compared to DKK 191m in 2016, an increase of DKK 42m related to the substantial reversal of impairment charges.

Non-recurring items

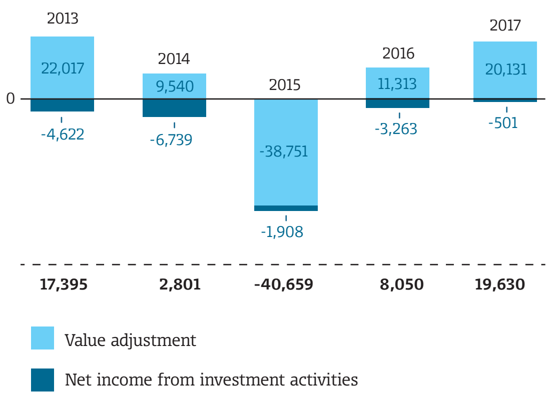
Non-recurring items amounted to a net expense of DKK 18m in 2017, compared to a net expense of DKK 12m in 2016. The non-recurring items in 2017 relate to a DKK 20m write-down of the Group's head office and to reversed sector costs of DKK 2m, netting out at DKK 18m.

Market value adjustments

Market value adjustments amounted to a profit DKK 20m in 2017 compared to a profit of DKK 11m in 2016. Net investment activities were a loss of DKK 0.5m compared to a loss of DKK 3m in 2016. The value adjustments reflect developments in the financial markets.

Market Value Adjustments

(DKK 1,000)



(See also Income Statement, Page 36)

Profit before tax

Profit before tax was DKK 235m in 2017 compared to DKK 277m in 2016. The 2016 profit included a DKK 90m profit before tax from discontinued operations (Vørður)

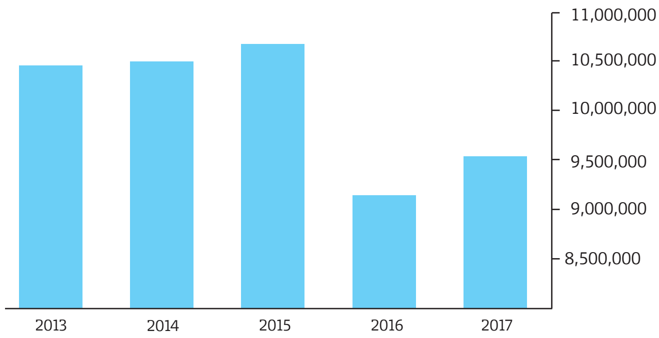
Balance sheet

Lending

Loans and advances amounted to DKK 9,537m in 2017 compared to DKK 9,141m in 2016. The increase in lending was mostly driven by demand for new loans in the Faroe Islands and Denmark, whereas lending volumes declined in Greenland in particular due to two large corporate customers repaying their loans.

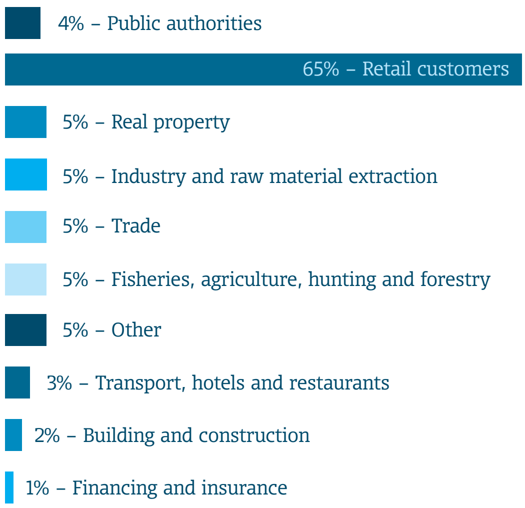
Loans and advances

(DKK 1,000)



Part of the Group's strategy is to maintain a well-diversified, low-risk loan portfolio. As shown in the figure below, no single corporate sector represents more than approximately 5% of the total portfolio.

Loan and advances specified by sectors

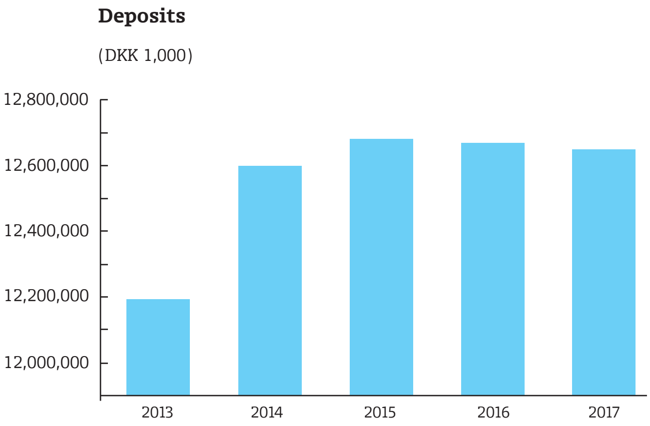


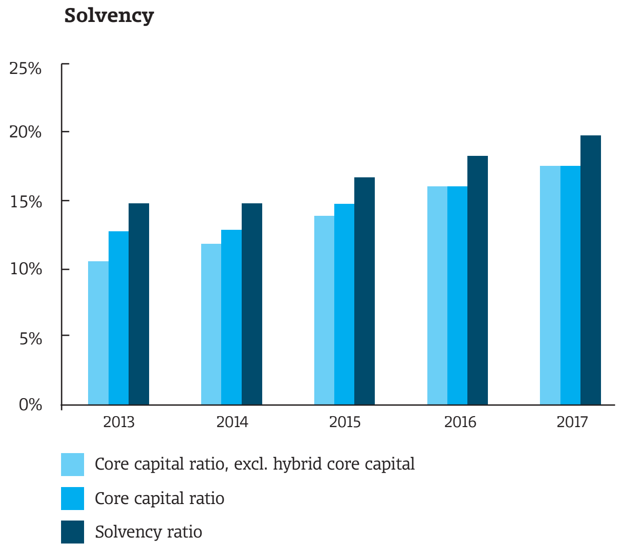
Deposits

Total deposits amounted to DKK 12,654m at the end of 2017, a slight decrease of 0.1% from DKK 12,691m in 2016. Deposits have been fairly stable in recent years.

Solvency and liquidity

BankNordik had total capital of DKK 1,954m at 31 December 2017 compared to 1,789m at 31 December 2016, an increase of DKK 166m. Core capital amounted to





DKK 1,731m at 31 December 2017, an increase of 165m from DKK 1,566m at 31 December 2016. The Board will propose dividends of DKK 40m at the upcoming annual general meeting. Dividends of DKK 300m, DKK 30 pr. share, were paid in 2017. Subordinated capital amounted to DKK 223m net.

The solvency requirement increased to 9.3% at the end of 2017 from 8.8% at year-end 2016. The Group's solvency increased to 19.7% in 2017 from 18.3% in 2016, while the CET1 ratio was 17.5% vs. 16.0% in 2016. The Group's total capital includes DKK 25m worth of subordinated debt (0.2 percentage points) not eligible to be included in the solvency surplus. As such, the solvency surplus at the end of 2017 was 10.2% points compared to 9.2% points in 2016. Compared to external capital requirements, incl. buffer requirements totalling 11.8% at the end of 2017, the solvency surplus was 8.0% percentage points.

The Group targets an excess liquidity cover relative to statutory requirements of 100%. Due to its large deposit surplus, BankNordik has a sound liquidity position with a surplus coverage at year-end 2017 of 205.1% above the required level. This compares to 241.7% at the beginning of the year.

The LCR requirements call for a liquidity buffer of at least 100%. By the end of 2017, BankNordiks liquidity coverage ratio was 209% compared to 257% in 2016.

Financial results for Q4

Profit before tax amounted to DKK 92m in Q4 2017 compared to a profit of DKK 30m in Q3 2017, in particular due the large reversal of impairment charges in Q4 and the write-down taken on the Group's head office and recognised in Q3.

Operating income

Net interest income in Q4 was DKK 95m, a slight decrease from DKK 97m in Q3. Net fee and commission income was DKK 47m in Q4 compared to DKK 39m in Q3. Insurance income was DKK 12m in Q4 compared to DKK 13m in Q3 2017.

Operating costs

Operating costs amounted to DKK 112m in Q4 compared to DKK 114m in Q3.

Lending

At the end of Q4 2017, loans and advances amounted to DKK 9,537m compared to DKK 9,549m in Q3, a decrease of DKK 12m.

Net impairment charges

Net reversals of DKK 51m were recognised in the fourth quarter compared to reversals of DKK 4m in Q3 2017.

Deposits

Deposits fell by DKK 346m to DKK 12,654m in Q4 from DKK 13,000m in Q3. The decrease was to some extent linked to the repayment of loans but also to seasonal factors.

The Supervisory Diamond

Sum of large exposures < 125%

2017	2016
13.7%	44.3%

Loan growth < 20%

2017	2016
4.3%	-14.4%

Funding-ratio < 1.0

2017	2016
0.64	0.61

Property exposure < 25%

2017	2016
5.6%	7.7%

Excess liquidity > 50%

2017	2016
205.1%	241.7%

Other

Obligations towards the Danish Resolution Fund

Contributions to the Depositor and Investor Guarantee Scheme were replaced by expected contributions to the Danish Resolution Fund that have been recognised, but not yet paid due to a delay in the implementation of the BRRD regulation in the Faroe Islands. The Bank reversed sector-related provisions amounting to DKK 2m in 2017 relating to 2016, as the new regulations only became effective in 2018.

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 areas by a wide margin (large exposures, exposures towards property, excess liquidity, stable funding and lending growth). The sum of large exposures decreased from 44.3% to 13.7%. This is well below the limit of 125%. All large exposures are of good quality. Excess liquidity was 205.1% at year-end; the requirement is a margin of 100%.

Share buy-back programme

In Q1 2018, the Group will recommence buying back shares for up to a total of DKK 7m nominal value. Further share repurchases will be considered during the year.

Dividends proposed

At the upcoming Annual General Meeting, to be held on 23 March 2018, the Board will propose total dividend payment of DKK 40m for 2017 (DKK 4 per share). Dividends of DKK 300m were paid in 2017 in respect of the 2016 financial year.

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

Application of IFRS 9

Beginning on 1 January 2018, the Group implemented the new standards for impairments of loans and guarantees as directed by IFRS 9. The effect has been recognised as a reduction in shareholders' equity at 1 January 2018.

The existing standards stipulated that a loan or a guarantee was to be impaired when a risk of loss was identified or incurred. IFRS 9 stipulates that impairments are to be based on expected credit losses.

Regarding the application of IFRS 9 BankNordik estimates a negative effect on the total capital in the range of DKK 30m – 50m after tax.

BankNordik will not make use of the transitional arrangements, thereby recognizing the full impact of the implementation of IFRS 9 on capital ratios from 1 January 2018.

Provided the reduction amounts to DKK 30m – 50m after tax, this would amount to a reduction of the Groups total capital ratio by 0.3 – 0.5 percentage points. See note 49 for further information.

Upcoming changes to the adjusted reporting methodology

In 2018, BankNordik will make the following changes to the adjusted income statement methodology:

- Value adjustments related to sector shares will be recognised under other operating income.
- Profit and loss from foreign currency transactions, previously recognised under market value adjustments, will be recognised under other operating income.

Hence, going forward, the Group's adjusted profit before impairment charges according to the new methodology will include value adjustments from sector shares and profit and loss from foreign currency transactions. If applied to the Group's adjusted income statement for 2017, profit before impairment charges would increase by DKK 14m from DKK 173m to DKK 187m.

These changes to the adjusted income statement will be applied retrospectively, and are considered to provide greater informational value regarding the Group's core earnings.

Outlook in accordance with the new methodology

In 2018, BankNordik expects the moderate growth in lending to personal and corporate customers to continue, while pressure on interest margins is expected to endure. Fee and commission income is also expected to increase moderately in line with higher customer activity. Income from insurance activities is expected to be less than in 2017 due to a normalisation of claims. Operating costs are expected to stay flat compared to 2017.

The BankNordik Group projects the adjusted profit before impairment charges, non-recurring items, value adjustments (excl. sector shares and foreign currency transactions) and tax to be in the range of DKK 160 – 200m in 2018 (2017: DKK 187m).

Impairment charges on loans and advances are expected to remain low in 2018.

Net profit is expected to be in the range of DKK 100 – 150m in 2018.

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

Management review

The customer at the centre of business

In line with the accelerated focus on the personal banking market in 2017, BankNordik delivered on its strategy to attract and build new personal customer relationships. At the centre of this development was the Group's dedicated focus on improving customer experience, which has facilitated an increase in customer satisfaction rates and a surge in the amount of customers enrolling in the Nordik360 loyalty programme.

Improving customer experience

One of BankNordik's main hallmarks as a trusted financial partner through more than 100 years has been its close relationships with its customers. However, acknowledging that the acquisition of branches in 2010 – 2011 and the subsequent strategic adjustments, including branch consolidations and customer segmentation, took its toll on customer satisfaction in Denmark, the Group was determined to step up its efforts in 2017 to improve customer experience. In February, BankNordik started measuring customer satisfaction through a Net Promoter Score system, which on a daily basis provides updates on customer experiences based on regularly incoming feedback from customers across the Group's branches and segments. The feedback is used to gain critical insights into how BankNordik is perceived and to identify areas of subpar performance. It also opens up an opportunity for direct engagement with customers to better understand their needs. The aggregate scores – broken down by geography and branches – are communicated to all employees. In general, the scores have improved notably since February 2017 and the Group improved a great deal in terms of customer relationships over the course of the year. This has undoubtedly facilitated the positive development in lending to personal customers in 2017. Collecting customer feedback and utilising it to improve customer experience will remain a cornerstone of the Group's commitment to reach its long-term financial objectives by 2020. Additionally, the Group is in the process of redesigning its entire digital user interface by integrating applications and the website into one single platform. This will enhance customer experience and open up new opportunities to better target content to our customers. The first part of the project is expected to be launched in the first half of 2018.

Operational efficiency still on the agenda

Heading into 2018, management will continue to direct its efforts towards improving operational efficiency along with a commitment to maintain the Group's strong loan book. In this respect, the Group will increase the use of its statistically-based and automated credit scoring system. The system considers customer behaviour along with certain predefined economic measures when estimating the probability of default. The advantages are three-fold: determining a customer's creditworthiness takes less time, the statistical use of historical data to assist in the analysis improves the quality of credit ratings, and the use of behavioural customer data secures an always up-to-date measure of a customer's credit quality.

The Group is currently undergoing a transformation to streamline and relocate processes from the customer service units to the branch support unit. This is in effect a continuation of the Group's previously successful efforts to create a single strong and consolidated back office setup in the Faroe Islands that now supports the entire North Atlantic branch network. Besides improving the Group's workflow, the transformation is intended to release resources previously tied up in administrative tasks and engage these in more proactive customer care that will reinforce the Group's customer service units as contributing sales channels. In parallel with the optimisation of the process workflow, BankNordik has undertaken an initiative to fully automate a series of selected administrative tasks. In 2017, these tasks were in particular related to the Group's loyalty customer programme. Heading into 2018, the automation of administrative tasks will be continuously prioritised in order to improve the Group's cost structure and redirect more resources towards customer care.

Differing growth in domestic bank lending

The BankNordik Group has activities in the Faroe Islands, Denmark and Greenland – three interrelated economies with different drivers of growth. Despite the various levels of economic development in the post-financial crisis era, all three markets have experienced weak growth in bank lending.

Gaining market share in the Faroe Islands

The Faroese economy continued to grow at a fast pace in 2017, highlighting the fifth consecutive year of high growth rates, driven primarily by salmon farming and pelagic fisheries. However, this expansion has not touched off a proportional increase in domestic lending, but as the service and manufacturing industries have slowly caught up and private consumption has been on the rise, demand for new loans has gradually surpassed customers' willingness and propensity to amortise. This has resulted in growth in domestic bank lending of approximately 5% in 2017. It is therefore encouraging to note that BankNordik experienced 9% lending growth in the Faroe Islands, effectively gaining market share in 2017.

Looking ahead, the Group is expecting activity from both businesses and households in the Faroe Islands to remain strong. The new fisheries reform is still gradually unfolding in line with several upcoming new regulations that will influence the future industry framework. As such, the Group expects increased investment activity in the fishing industry as firms are attaining a clearer picture of their operations in the new regulatory environment. Furthermore, the Group is optimistic about the tourist industry. The annual number of visitors to the Faroe Islands has been growing at a steady rate and tourism now accounts for approximately 7.3% of total export value, contributing to economic diversification. Capacity expansions will therefore be necessary as the industry continues to grow. All the same, considering the ongoing net positive immigration into the Faroe Islands, low unemployment figures, and real wage growth, the Group expects to further increase lending to households in 2018.

Strengthened position on the Danish market

In Denmark, the economy has picked up and the country's Economic Council estimates a 2.25% growth rate in 2017, supported by positive global growth and growth in investment and consumption. However, this upturn has not rubbed off on domestic bank lending, whose aggregate volumes were down by around 3% in 2017, excluding financials. In spite of the generally unfavourable market conditions, BankNordik managed to increase its lending volumes in Denmark by 5% in 2017. Add to that the Danish corporate loans in the amount of approximately DKK 100m that the bank wound-up during the period. This positive development was undoubtedly facilitated by the Group's dedicated focus on customer experience, which has strengthened the quality of its customer relationships. Going forward, improving the customer experience will remain a focal point in the Group's strategy to gain market share in Denmark.

Lending volumes down in Greenland

Larger shrimp quotas and attractive fish prices are the main drivers of the economic growth observed in Greenland during the last two years. Employment is up and private consumption has increased. In addition, mining activity has recommenced albeit the scope of the operations is yet too minor to have a material economic impact. This positive economic landscape in Greenland has prompted an increase in domestic bank lending. As such, BankNordik has experienced renewed demand for loans, but due to two large corporate customers repaying their loans in 2017, volumes in Greenland were considerably down at year end. Nevertheless, Greenland remains an attractive case and BankNordik is determined to grow its Greenlandic activities over the long-term.

Adjusting the Group's longterm financial objectives

Early in 2016, the Group announced a set of financial objectives to be met by 2020. The targets were communicated both internally and externally in order to reinforce the Group's commitment to delivering longterm growth. It is evident that by now some of the targets are due for a revision to reflect the reality of stricter capital regulations and tougher market conditions.

The Group's CET1 capital ratio target of 13% and a total capital ratio of 16.5% have been rendered obsolete by the recent introduction of new regulatory capital buffers. Management is therefore revising the CET1 target to 17% and the total capital ratio target to 20% by 2020 to better reflect the impending capital requirements. In this regard, entering into a sale and leaseback agreement on the Group's head office building is currently being considered, which would provide an immediate capital relief equivalent to an increase in the total capital ratio of approximately 0.3 – 0.6%. In addition, management intends to explore the option of issuing hybrid bonds with a view to optimising the Group's capital structure as the forthcoming requirements are phased in. The BRRD directive was adopted by the Faroese parliament in December 2017, which provides the legal framework for implementing the minimum requirement for eligible liabilities (MREL). BankNordik is therefore anticipating that the relevant authorities are close to finalising the Group's individual MREL add-on. The Group is expecting to meet the MREL add-on solely by issuing Tier 3 capital.

Although operational efficiency has improved considerably in recent years, top-line growth has been absent in an unfavourable macroeconomic environment characterised by low interest rates, subdued loan demand, and competitive market conditions. In hindsight, a target cost/income ratio of 62% by 2020 seems overly ambitious and management therefore revises its target to 65% by 2020. In consideration of the Group's cost/income ratio of 73% in 2017 and the fact that lending to personal customers accounts for two thirds of the Group's total loan portfolio, this is still an ambitious objective to be met within three years' time.

The Group delivered a return on equity after tax of 10.1% in 2017, which is slightly above the target return of 10% by 2020. However, given the fact that the return on equity in 2017 was affected by a relatively large reversal of impairment charges, management finds it pertinent to reconfirm its target return on equity of 10% by 2020.

The key priorities for BankNordik in meeting these targets by 2020 will be to continuously improve customer experience, enhance operating efficiency and follow through on maintaining a focused, low-risk business that is able to gain a competitive edge in a business climate being challenged on several fronts.

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 and dividends, 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 less reversed impairment charges on loans taken over.

Profit before tax, continuing operations

Profit before tax exclusive of profit from the subsidiary Vørður and exclusive of capital gains from the sale of the subsidiary Vørður.

Profit before tax, discontinued operations (Vørður)

Profit before tax from the subsidiary Vørður and capital gains from the sale of the subsidiary Vørður.

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

Sum of Value adjustments and income from holdings in associates.

Reversals of acquired OIE impairments

The Bank has acquired loans from other banks at a discount, as impairment charges had been recognised for such loans prior to acquisition. 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

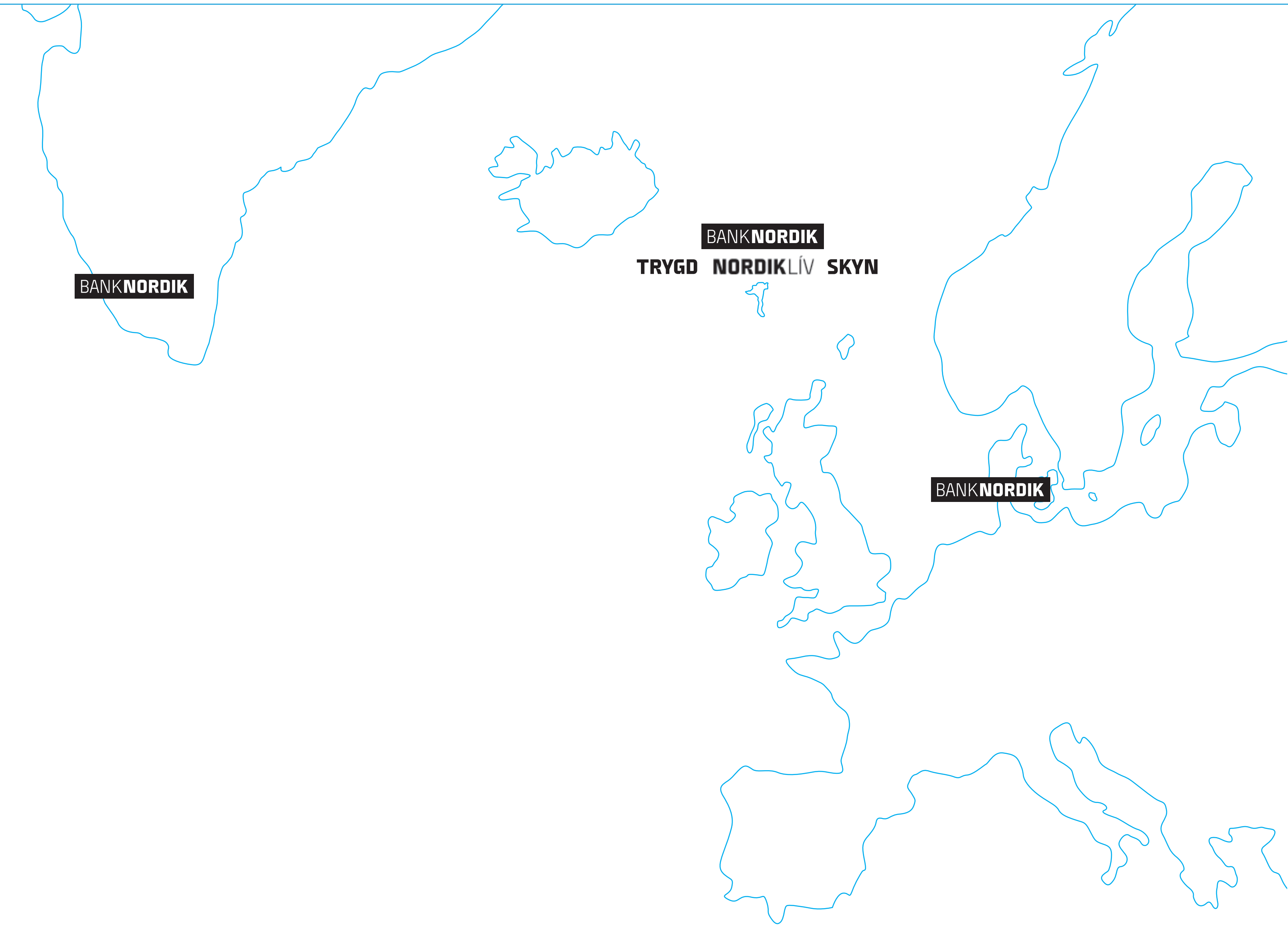
Adjustments made to the income statement are shown below.

Note	Income statement 2017, Group, DKKm	Income statement	Restatement	Restated income statement
	Net interest income	387,216		387,216
	Net fees, commission income & dividends	195,825		195,825
	Net insurance income	43,367		43,367
1	Other operating income	33,534	-24,640	8,895
	Operating income	**659,942**	**-24,640**	**635,302**
2, 3	Operating costs	481,847	-18,022	462,025
			-1,800	
3	Sector costs	-1,800	1,800	0
	Profit before impairment charges	**179,894**	**-6,618**	**173,277**
1	Impairment charges	-35,107	-24,640	-59,747
	Operating profit	**215,002**	**18,022**	**233,024**
2	Non-recurring items	0	-18,022	-18,022
	Profit before value adjustments and tax	**215,002**	**0**	**215,002**
	Market value adjustments	19,630		19,630
	Profit before tax, continuing operations	**234,632**	**0**	**234,632**
	Profit before tax, discontinued operations (Vörður)	**0**		**0**
	Profit before tax, total	**234,632**	**0**	**234,632**

Note	Income statement 2016, Group, DKKm	Income statement	Restatement	Restated income statement
	Net interest income	413,204		413,204
	Net fees, commission income & dividends	191,671		191,671
	Net insurance income	26,627		26,627
1	Other operating income	39,187	-30,211	8,976
	Operating income	**670,689**	**-30,211**	**640,478**
2, 3	Operating costs	471,370	-12,283	459,397
			310	
3	Sector costs	2,310	-310	2,000
	Profit before impairment charges	**197,008**	**-17,928**	**179,081**
1	Impairment charges	18,228	-30,211	-11,983
	Operating profit	**178,780**	**12,283**	**191,063**
2	Non-recurring items	0	-12,283	-12,283
	Profit before value adjustments and tax	**178,780**	**0**	**178,780**
	Market value adjustments	8,050		8,050
	Profit before tax, continuing operations	**186,830**	**0**	**186,830**
	Profit before tax, discontinued operations (Vörður)	**90,049**		**90,049**
	Profit before tax, total	**276,879**	**0**	**276,879**

Note	Restatements made to the income statement, DKKm	2017	2016
1	Reversals of acquired OEI impairments reclassified from the item Other operating income to the item Impairment charges.	-24,640	-30,211
2	Reclassification from the item Operating costs to Non-recurring items. Regarding 2016 the reclassification is due to severance costs in Q1 and regarding 2017 the reclassification is due to impairment charges on the Groups head office in Q3.	-18,022	-12,283
3	Reclassification of other operating expenses (excl. sector costs) from the item Other operating expenses to the item Operating costs.	1,800	-310

Segments



Personal Banking	2017	2016
Loans and advances	DKK 6.3bn	DKK 6.0bn
Deposits	DKK 9.7bn	DKK 9.5 bn
Cost/Income (Operating cost/income)	43%	38%
Operating profit	DKK 255m	DKK 296m

Corporate Banking	2017	2016
Loans and advances	DKK 3.2bn	DKK 3.2bn
Deposits	DKK 3.0bn	DKK 3.2bn
Cost/Income (Operating cost/income)	11%	10%
Operating profit	DKK 176m	DKK 140m

Trygd	2017	2016
Premium, net of reinsurance	DKK 95m	DKK 85m
Combined ratio	84%	101%
Claims Ratio	59%	75%
Profit before tax	DKK 15m	DKK 0m

Banking

Income statement, Banking										
DKKm	**2017**	**2016**	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**
Net interest income	386	412	95	97	96	97	99	103	97	112
Net fees, commission income & dividends	205	201	50	41	60	54	55	48	52	46
Other operating income	5	4	1	2	1	1	1	1	2	1
Operating income	**595**	**617**	**145**	**140**	**157**	**152**	**155**	**151**	**151**	**159**
Operating cost	-439	-439	-106	-108	-112	-112	-108	-108	-110	-113
Sector costs	0	-2	2	-1	-1	-1	1	-1	-1	-1
Profit before impairment charges	**156**	**176**	**41**	**31**	**45**	**40**	**49**	**42**	**40**	**45**
Impairment charges, net	60	12	51	4	5	0	4	4	3	1
Operating profit	**216**	**188**	**92**	**35**	**50**	**40**	**53**	**46**	**43**	**45**
Non-recurring items	-18	-12	-1	-17	0	0	0	0	0	-12
Profit before value adjustments and tax	**198**	**175**	**91**	**18**	**50**	**40**	**53**	**46**	**43**	**33**
Market value adjustments	22	12	-3	6	5	14	-9	12	12	-3
Profit before tax	**220**	**187**	**87**	**24**	**55**	**54**	**44**	**58**	**55**	**30**
Loans and advances	9,537	9,141	9,537	9,549	9,428	9,159	9,141	9,372	9,395	9,961
Deposits and other debt	12,654	12,691	12,654	13,000	13,498	12,696	12,691	12,829	13,006	12,589
Operating cost/income, %	74	71	73	78	71	74	69	71	73	71
Number of FTE, end of period	367	385	367	372	376	384	385	386	370	381

The 2017 financial year was another year of depressed interest margins as interest income fell 6% despite a 4% increase in lending volumes. The controlled run-off of corporate lending in Denmark also contributed to reducing net interest income. On the other hand, net fee, commission, and dividend income was marginally higher in 2017, as overall customer activity held up well during the year. Operating costs were flat due to further consolidation and process streamlining. Profit before impairment charges came in at DKK 156m compared to DKK 176m in 2016.

Impairment charges have been remarkably low in recent years. In 2017, the Group reversed impairment charges of DKK 60m, most of which was related to previously written-off corporate loans that were either repaid during the year or reversed due to improved company-specific conditions. As a result, operating profit increased by DKK 28m to DKK 216m in 2017.

Non-recurring items were an expenditure of DKK 18m, mostly related to an impairment loss on the Group's head office, which was written down from DKK 82m to DKK 62m. Value adjustments related to banking operations amounted to a gain of DKK 22m in 2017 against a gain of DKK 12m in 2016.

Personal Banking

Income statement, Personal banking										
DKKm	**2017**	**2016**	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**
Net interest income	263	276	68	66	65	64	67	70	68	70
Net fees, commission income & dividends	165	170	42	38	41	43	51	44	38	37
Other operating income	3	3	0	2	0	0	1	1	0	0
Operating income	**431**	**449**	**110**	**107**	**107**	**108**	**119**	**115**	**107**	**108**
Operating cost	-184	-170	-51	-43	-45	-45	-45	-42	-45	-38
Sector costs	0	-2	1	0	0	0	1	-1	-1	-1
Profit before impairment charges	**248**	**277**	**60**	**64**	**62**	**63**	**75**	**72**	**61**	**69**
Impairment charges, net	7	18	4	-1	1	3	-2	8	12	1
Operating profit	**255**	**296**	**64**	**63**	**63**	**66**	**73**	**80**	**73**	**70**
Non-recurring items	**0**	**-2**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-2**
Profit before value adjustments and tax	**255**	**294**	**64**	**63**	**63**	**66**	**73**	**80**	**73**	**68**
Market value adjustments	0	0	0	0	0	0	0	0	0	0
Profit before tax	**255**	**294**	**64**	**63**	**63**	**66**	**73**	**80**	**73**	**68**
Loans and advances	6,325	5,960	6,325	6,274	6,123	6,017	5,960	5,852	5,716	5,766
Deposits and other debt	9,669	9,538	9,669	9,802	10,282	9,530	9,538	9,722	9,742	9,382
Operating cost/income, %	43	38	47	40	42	41	38	34	44	36
Number of FTE, end of period	212	215	212	208	214	211	215	207	203	196

Lending to personal customers increased by 6% in 2017, whereas net interest income was down 4% owing to margin pressure. Likewise, net fee, commission income and dividends fell by DKK 5m compared to last year, in part due to the restructuring of asset management activity in preparation for MiFID II. Operating costs increased by DKK 14m, in particular due to severance payments but also due to higher IT expenditures. Impairment charges were a reversal of DKK 7m in comparison to DKK 18m for the same period of last year. As a result, operating profit was DKK 255m compared to DKK 296m in 2016.

In 2018, BankNordik expects to continue to increase lending volumes by means of increased aggregate demand in the Faroe Islands and by gaining market share in Denmark and Greenland.

Corporate Banking

Income statement, Corporate Banking DKKm	2017	2016	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	122	148	30	31	30	31	32	34	36	45
Net fees, commission income & dividends	15	17	4	4	4	4	5	4	4	4
Operating income	**137**	**164**	**33**	**34**	**34**	**36**	**38**	**38**	**40**	**49**
Operating cost	-15	-17	-5	-4	-3	-3	-4	-3	-4	-6
Profit before impairment charges	**122**	**147**	**29**	**30**	**31**	**32**	**34**	**35**	**36**	**42**
Impairment charges, net	54	-6	49	5	4	-3	6	-2	-11	1
Operating profit	**176**	**140**	**78**	**35**	**35**	**29**	**40**	**32**	**24**	**43**
Profit before value adjustments and tax	**176**	**140**	**78**	**35**	**35**	**29**	**40**	**32**	**24**	**43**
Profit before tax	**176**	**140**	**78**	**35**	**35**	**29**	**40**	**32**	**24**	**43**
Loans and advances	3,212	3,181	3,212	3,276	3,305	3,142	3,181	3,520	3,678	4,195
Deposits and other debt	2,985	3,153	2,985	3,198	3,216	3,166	3,153	3,107	3,264	3,207
Operating cost/income, %	11	10	14	11	9	9	10	8	10	13
Number of FTE, end of period	18	17	18	17	17	17	17	18	22	21

Net interest income from corporate banking activities fell from DKK 148m in 2016 to DKK 122m in 2017. The reduction was partly due to the controlled run-off of corporate activities in Denmark and partly due to tighter interest margins.

Impairment charges were a reversal of DKK 54m in 2017 compared to net charges of DKK 6m in 2016. In particular, the substantial reversal of impairment charges in 2017 was due to the redemption of a few written down corporate loans as well as due to materially improved financial conditions of a few previously weak corporate customers. As a result, operating profit came in at DKK 176m in 2017 compared to DKK 140m in 2016.

Although BankNordik experienced an increase in demand for corporate lending in 2017, two large corporate customers in Greenland repaid their loans, which put a damper on year-on-year lending growth. Danish corporate loans in the amount of approximately DKK 100m were also wound up during the period. If economic conditions remain intact in the Faroe Islands and Greenland, BankNordik expects to increase its corporate lending volumes in 2018 due to high investment activity.

Insurance

Income statement, Trygd										
DKKm	**2017**	**2016**	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**
Premium income, net of reinsurance	95	85	25	24	23	23	21	22	21	21
Claims, net of reinsurance	-57	-64	-15	-12	-14	-15	-30	-12	-10	-12
Net insurance income	**39**	**22**	**10**	**12**	**9**	**7**	**-8**	**9**	**12**	**9**
Net income from investment activities	0	1	0	0	0	0	0	0	1	0
Operating income	**39**	**22**	**10**	**12**	**9**	**8**	**-8**	**9**	**12**	**9**
Operating cost	-24	-22	-6	-6	-6	-5	-6	-6	-5	-5
Profit before tax	**15**	**0**	**3**	**6**	**3**	**2**	**-15**	**4**	**7**	**4**
Combined ratio	84	101	87	73	88	90	168	77	64	75
Claims ratio	59	75	60	49	60	68	139	57	46	57
Number of FTE, end of period	27	24	27	27	26	26	24	24	23	25

The Group's insurance company Trygd reported another year of consecutive growth in insurance premiums in 2017. Premiums increased by 12% in 2017 to DKK 95m, in particular owing to an inflow of new customers. Claims were DKK 7m lower than in 2016 due to fewer large claims than normally seen given the often harsh weather conditions in the Faroes. Operating costs increased by DKK 2m as the number of FTE increased by 3 in 2017. As a result, profit before tax came in at DKK 15m compared to DKK 0m in 2016.

Competition has toughened in the Faroese insurance market in recent years, and Trygd has been at the forefront, steadily gaining market share. In particular, the Nordik360 loyalty programme has facilitated cross-selling by providing incentives for customers to gather their insurances with Trygd. Trygd expects to continue to attract new customers and to grow premium income in 2018. No dividends will be paid to BankNordik for the 2017 financial year.

Other activities

Skyn

Skyn is the largest real estate agency in the Faroe Islands in terms of transactions. Skyn employs 6 FTE and is wholly owned by the BankNordik group. There is a close cooperation within the group.

Skyn´s total number of transactions in 2017 was 189.

Skyn had a turnover of DKK 6.3m in 2017, a decrease of 0.2m compared to 2016 (DKK 6.5m). The profit before tax in 2017 was DKK -0.4m, compared to DKK 1.4m in 2016 due to extraordinary severance costs.

NordikLív

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 cover in the Faroese market and in 2017 the total premiums amounted to DKK 13.2m. The profit before tax was DKK 1.0m as compared to DKK 0.5m in 2016.

Shareholders

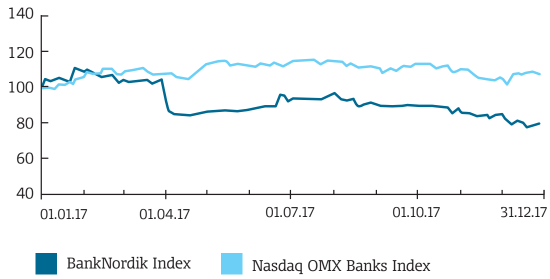
BankNordik share performance

The closing price of BankNordik's shares at 31 December 2017 on Nasdaq Copenhagen was DKK 106.0 compared to a closing price of 135.5 at 31 December 2016. This is a decrease of 20% compared to a 8% increase for the Copenhagen Bank index. However, BankNordik paid a dividend of DKK 30 per share in 2017.

The turnover in BankNordik's shares on Nasdaq Copenhagen was DKK 182m in 2017 compared to 114m in 2016.

Developments in the BankNordik share and the Nasdaq Copenhagen Banks on Nasdaq Copenhagen in 2017:

BankNordik share vs. Copenhagen Bank Index



Shareholder structure

At the time of publication of the Annual Report 2017, 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.
- The majority of shareholders are based in the Faroe Islands.

Country	% of nominal shareholdings
Faroe Islands	52
Denmark	22
Iceland	8
Luxembourg	6
Others	12
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 next annual general meeting. On 31 December 2017, BankNordik held 2.8% 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 decision-making 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 2018, the meeting will be held on the 23rd of March in Tórshavn. 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 seven members, for which five have been elected by the general meeting and two by the employees. Board members elected by the shareholders at the AGM hold office until the next annual general meeting, while the statutory provisions on employee representation in Faroese legislation entitles employees to elect representatives to serve on the Board of Directors for four-year terms. 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.

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 AGM.

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 AGM 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 2017 at www.banknordik.com/rm

Corporate social responsibility
Corporate social responsibility remains an integral part of BankNordik's strategy and efforts to create value for all stakeholders. 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, the Group aims 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 the Group's 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 2017 CSR Report, which has been developed in compliance with the Danish FSA's requirements on corporate responsibilities reporting. The report is available at www.banknordik.com/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 2017.

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 2017 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 2017. 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, 27 February 2018

Executive Board

Árni Ellefsen
CEO

Board of Directors

Stine Bosse Chairman	Rúni Vang Poulsen Deputy Chairman	Jógvan Jespersen
Barbara Pállsdóttir Vang	Kim Jacobsen	Tórhallur Olsen
Kenneth M. Samuelsen		

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 2017 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 2017 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 2017. 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, 27 February 2018

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 2017 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2017 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 2017 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2017 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 2017 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 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 2017. 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 or at fair value. Impairment charges on loans are Management's best estimate of the losses expected to be incurred at the balance sheet date based on events that have taken place. Management assess individual loans to determine whether objective evidence of impairment exists. All loans not individually charged for impairment are included in	We reviewed and assessed the procedures arranged by the Group, including the involvement of the credit department and Management, established to ensure that loans with objective evidence of impairment are identified on a timely basis and that impairment charges are calculated in accordance with the accounting rules.

groups, which are collectively subject to an impairment assessment. If, when assessing a loan, Management notes an objective evidence of impairment based on events that have taken place (eg non-payment when due), and it is assessed that it will affect the size of the amounts expected paid by the customer, impairment charges are made in respect of such a loan. The collective assessment is made using a statistical segmentation model developed by the Association of Local Banks, Savings Banks and Cooperative Savings Banks in Denmark with statistics for Denmark and the Faroe Islands based on historical figures.

The loans of the Group are broken down into three geographical areas: the Faroe Islands, Denmark and Greenland where market conditions and the strategy applied by the Group differ.

The Group grant loans to a number of industries, and the fishing industry is very important in the Faroe Islands.

We focused on this area because Management performs material estimates of whether impairment charges should be made and of the size of such impairment charges.

Our audit focused on the following impairments:

- The Group's procedures to ensure completeness of the registration of loans with objective evidence of impairment.
- Significant assumptions and estimates applied by Management in the calculations of impairment charges including principles of the assessment of collateral values of eg real estate and ships.
- The Group's statement of collective impairment charges, including procedures for identification and assessment of the effect of events in relation to customers who may have faced financial difficulties at the balance sheet date which have not yet materialised in late payments or in any other objective evidence of impairment. This includes Management's assessment of the effect of current market conditions at the balance sheet date.

We refer to note 50 for a description of the Group's and the Parent Company's credit risks. We moreover refer to the description of estimates and uncertainties in note 50 in respect of the assessment of collateral.

We assessed and tested the principles applied by Management at the measurement of collateral values of eg real estate and ships included in the calculations of impairment charges of loans with objective evidence of impairment.

Based on the total exposure (loans, guarantees and financial framework), we selected a sample of the Group's exposures. The sample was based on risks and thus included the largest loans of the Group, loans which showed signs of weakness and loans with objective evidence of impairment. Our sample moreover included randomly selected loans.

When determining the sample, we moreover focused on loans in the three geographical areas of the Group.

In respect of individual impairment charges, we tested whether the objective evidence of impairment had been identified in a timely manner. We furthermore assessed whether loans registered with no objective evidence of impairment showed signs of objective evidence of impairment.

In respect of loans registered with objective evidence of impairment, we also assessed the valuation of collateral, other future cash flows as well as the reduction for sales cost and uncertainties included in the calculations of impairment charges. We challenged Management's assumptions and estimates eg through comparison with external data.

We reviewed the Group's statement of collective impairment charges, including Management's individualized charges. We challenged Management's estimates based on our knowledge of the portfolio, our industry knowledge and knowledge of current market conditions.

Statement on 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.

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, 27 February 2018

PRICEWATERHOUSECOOPERS
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

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

Christian Fredensborg Jakobsen
State Authorised Public Accountant
mne16539

Heini Thomsen
State Authorised Public Accountant
mne33274

Financial statement BankNordik

Contents

Income statement – BankNordik

Note	DKK 1,000	Group 2017	Group 2016	BankNordik 2017	BankNordik 2016
3, 4	Interest income	410,471	461,858	408,873	460,328
3, 5	Interest expenses	23,255	48,654	23,262	48,657
	Net interest income	**387,216**	**413,204**	**385,612**	**411,671**
3	Dividends from shares and other investments	5,400	9,469	5,400	9,469
6	Fee and commission income	204,302	196,605	213,244	205,817
6	Fee and commissions paid	13,877	14,403	13,877	14,403
	Net dividend, fee and commission income	**195,825**	**191,671**	**204,767**	**200,883**
	Net interest and fee income	**583,041**	**604,875**	**590,378**	**612,554**
7	Premium income, net of reinsurance	107,183	95,268		
8	Claims, net of reinsurance	63,816	68,641		
	Interest and fee income and income from insurance activities, net	**626,407**	**631,502**	**590,378**	**612,554**
3, 9	Market value adjustments	20,131	11,313	21,952	11,954
10	Other operating income	33,534	39,187	29,174	118,583
11, 12	Staff costs and administrative expenses	453,630	462,461	431,121	442,584
29, 30	Amortisation, depreciation and impairment charges	28,217	8,909	27,599	8,515
13	Other operating expenses	-1,800	2,310	-1,800	2,310
14	Impairment charges on loans and advances etc.	-35,107	18,228	-35,107	18,228
25, 26	Income from investments accounted for under the equity method	-501	-3,263	12,160	4,500
	Profit before tax	**234,632**	**186,830**	**231,852**	**275,954**
15	Tax	45,553	37,659	42,774	54,080
	Net profit from continuing operations	**189,078**	**149,171**	**189,078**	**221,874**
16	Profit on discontinued operations, net of tax	0	72,703	0	0
	Net profit	**189,078**	**221,874**	**189,078**	**221,874**
	Portion attributable to				
	Shareholders of BankNordik P/F	189,078	221,874	189,078	221,874
	Net profit	**189,078**	**221,874**	**189,078**	**221,874**
	EPS Basic for the period, discontinuing operations, DKK*	0.0	7.4	0.0	7.4
	EPS Diluted for the period, discontinuing operations, DKK*	0.0	7.4	0.0	7.4
	EPS Basic for the period, continuing operations, DKK*	19.5	15.1	19.5	15.1
	EPS Diluted for the period, continuing operations, DKK*	19.5	15.1	19.5	15.1
	EPS Basic for the perdiod, total, DKK*	19.5	22.5	19.5	22.5
	EPS Diluted for the perdiod, total, DKK*	19.5	22.5	19.5	22.5

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

Statement of comprehensive income – BankNordik

	Group		BankNordik	
DKK 1,000	**2017**	**2016**	**2017**	**2016**
Net profit	189,078	221,874	189,078	221,874
Other comprehensive income				
Items which will subsequently be recycled to the income				
Statement if certain conditions are met:				
Translation of non-Faroese subsidiaries	0	-22,642	0	-22,988
Total other comprehensive income	0	-22,642	0	-22,988
Total comprehensive income	**189,078**	**199,233**	**189,078**	**198,887**
Portion attributable to				
Shareholders of BankNordik P/F	189,078	199,233	189,078	198,887
Total comprehensive income	**189,078**	**199,233**	**189,078**	**198,887**

Balance Sheet – BankNordik

		Group		BankNordik	
Note	DKK 1,000	2017	2016	2017	2016
	Assets				
17	Cash in hand and demand deposits with central banks	250,509	216,915	250,426	216,820
18, 19	Due from credit institutions and central banks	616,813	816,872	616,813	816,872
14, 20, 21	Loans and advances at fair value	431,017	527,019	431,017	527,019
14, 20, 21	Loans and advances at amortised cost	9,106,408	8,613,618	9,106,408	8,613,618
22	Bonds at fair value	4,262,730	4,677,230	4,091,177	4,509,287
23	Shares, etc.	248,811	241,105	248,811	241,105
24, 48	Assets under insurance contracts	8,575	27,267	0	0
25	Holdings in associates	5,898	6,399	5,898	6,399
26	Holdings in subsidiaries	0	0	115,270	106,108
27	Assets under pooled schemes	450,335	0	450,335	0
	Total land and buildings	169,217	190,148	167,253	188,163
28	Investment property	0	23,229	0	23,229
29	Domicile property	169,217	166,918	167,253	164,934
30	Other property, plant and equipment	28,552	23,648	27,770	23,107
	Current tax assets	6,894	6,015	6,894	6,015
31	Deferred tax assets	44,707	55,648	44,553	55,587
32	Assets held for sale	6,302	11,974	6,302	11,974
33	Other assets	73,336	99,984	70,858	96,159
	Prepayments	74,851	38,252	73,273	36,954
	Total assets	**15,784,953**	**15,552,094**	**15,713,057**	**15,455,187**

Balance Sheet – BankNordik

Note	DKK 1,000	Group 2017	Group 2016	BankNordik 2017	BankNordik 2016
	Shareholders' equity and liabilities				
	Liabilities other than provisions				
34, 35	Due to credit institutions and central banks	360,497	341,676	360,497	341,676
36, 37	Deposits and other debt	12,632,463	12,668,697	12,653,510	12,691,224
	Deposits under pooled schemes	450,863	0	450,863	0
38, 48	Liabilities under insurance contracts	81,197	105,673	0	0
	Current tax liabilities	34,800	46,265	31,929	45,807
39	Other liabilities	147,883	200,995	139,985	189,663
	Deferred income	4,177	3,921	3,434	2,886
	Total liabilities other than provisions	**13,711,880**	**13,367,227**	**13,640,216**	**13,271,256**
	Provisions for liabilities				
14	Provisions for losses on guarantees	23,640	33,910	23,640	33,910
	Provisions for other liabilities	6,472	6,663	6,240	5,727
	Total provisions for liabilities	**30,112**	**40,573**	**29,880**	**39,638**
	Subordinated debt				
40	Subordinated debt	222,868	222,259	222,868	222,259
	Total liabilities	**13,964,861**	**13,630,060**	**13,892,964**	**13,533,153**
	Shareholders' equity				
	Share capital	200,000	200,000	200,000	200,000
	Retained earnings	1,580,092	1,422,035	1,580,092	1,422,035
	Proposed dividends	40,000	300,000	40,000	300,000
	Total shareholders' equity	**1,820,092**	**1,922,035**	**1,820,092**	**1,922,035**
	Total liabilities and equity	**15,784,953**	**15,552,094**	**15,713,057**	**15,455,187**

Statement of capital – Group

Changes in shareholders' equity:	Shareholders of P/f BankNordik Group				
DKK 1,000	Share capital	Foreign currency translation reserve	Proposed dividends	Retained earnings	Total
Shareholders' equity at Jan. 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**

Regarding 2017: Proposed dividend per share DKK 4. Dividend payed out per share DKK 30.

DKK 1,000	Share capital	Foreign currency translation reserve	Proposed dividends	Retained earnings	Total
Shareholders' equity at Jan. 1, 2016	**200,000**	**22,642**	**20,000**	**1,523,694**	**1,766,335**
Translation of foreign units		-22,642		0	-22,642
Other comprehensive income			0	-7,107	-7,107
Net profit			300,000	-78,126	221,874
Total comprehensive income		**-22,642**	**300,000**	**-85,232**	**192,126**
Acquisition of own shares				-31,373	-31,373
Sale of own shares				14,671	14,671
Dividends payed			-20,000	274	-19,726
Shareholders' equity at December 31, 2016	**200,000**	**0**	**300,000**	**1,422,035**	**1,922,035**

Regarding 2016: Proposed dividend per share DKK 30. Dividend payed out per share DKK 2.

Statement of capital – BankNordik P/F

Changes in shareholders' equity:

DKK 1,000	Share capital	Foreign currency translation reserve	Equity method reserve	Proposed dividends	Retained earnings	Total
	Shareholders of P/f BankNordik (The Parent Company)					
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**

DKK 1,000	Share capital	Foreign currency translation reserve	Equity method reserve	Proposed dividends	Retained earnings	Total
Shareholders' equity at January 1, 2016	**200,000**	**22,988**	**115,548**	**20,000**	**1,401,038**	**1,759,575**
Translation of foreign units		-22,988				-22,988
Net profit			4,500	300,000	-82,626	221,874
Total comprehensive income		**-22,988**	**4,500**	**300,000**	**-82,626**	**198,887**
Acquisition of own shares					-31,373	-31,373
Sale of own shares					14,671	14,671
Dividends payed				-20,000	274	-19,726
Dividends received			-79,603		79,603	0
Dissolution of revaluation reserves in group enterprises			-40,445		40,445	0
Shareholders' equity at December 31, 2016	**200,000**	**0**	**0**	**300,000**	**1,422,035**	**1,922,035**

Statement of capital – P/F BankNordik

Solvency

DKK 1,000	2017	2016
Core capital	1,731,404	1,566,448
Total capital	1,954,272	1,788,707
Risk-weighted items not included in the trading portfolio	7,575,236	7,305,193
Risk-weighted items with market risk etc.	1,022,062	1,065,709
Risk-weighted items with operational risk	1,298,065	1,419,571
Total risk-weighted items	9,895,363	9,790,474
Core capital rato, excl. hybrid core capital	17.5%	16.0%
Core capital ratio	17.5%	16.0%
Solvency ratio	19.7%	18.3%
Core Capital and Shareholders' equity		
Share capital	200,000	200,000
Net profit	189,078	221,874
Retained earnings, previous years	1,460,582	1,537,957
Shareholders' equity, before deduction of holdings of own shares	**1,849,660**	**1,959,831**
Deduction of dividend	40,000	300,000
Deduction of holdings of own shares	29,568	37,797
Deduction of deferred tax assets	44,553	55,587
Other deductions	4,136	0
Core capital exclusive of hybrid core capital	**1,731,404**	**1,566,448**
Core capital	**1,731,404**	**1,566,448**
Total capital		
Core capital	1,731,404	1,566,448
Subordinated loan capital, before deductions	222,868	222,259
Total capital	**1,954,272**	**1,788,707**

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 requirement provisions stipulate a minimum capital of 8% of the identified risks. A detailed body of rules determines the calculation of capital as well as risks (risk-weighted items). The capital comprises core capital and subordinated loan capital. The core capital corresponds to the carrying amount of equity, after deductions of holdings of own shares, tax assets and other minor deductions.

Cash flow statement – Group

DKK 1,000	2017	2016
Cash flow from operations		
Profit before tax	234,632	186,830
Depreciation and impairment charges of tangible assets	28,096	8,906
Impairment of loans and advances/guarantees	-26,773	13,955
Paid tax	-46,256	-21,323
Other non-cash operating items	-29,363	-21,426
Total	**160,336**	**166,942**
Changes in operating capital		
Change in loans at fair value	86,521	128,060
Change in loans at amortised cost	-466,016	1,376,671
Change in holding of bonds	411,077	-1,269,817
Change in holding of shares	10,493	-2,324
Change in deposits	-36,234	-27,169
Due to credit institutions and central banks	18,821	-233,115
Change in other assets / liabilities	-8,981	92,283
Assets/liabilities under insurance contracts	-5,783	10,500
Prepayments	-37,046	-3,612
Cash flow from operations	**133,187**	**238,421**
Cash flow from investing activities		
Capital increase in associates	0	-4,120
Dividends received	5,400	9,469
Sale af group undertakings	0	192,742
Acquisition of tangible assets	-20,382	-12,757
Sale of tangible assets	6,350	8,382
Cash flow from investing activities	**-8,633**	**193,715**
Cash flow from financing activities		
Change in subordinated debt	0	-229,917
Acquisition of own shares	-1,665	-31,373
Sale of own shares	2,276	14,671
Payment of dividends	-300,000	-20,000
Payment of dividends, own shares	8,368	274
Cash flow from financing activities	**-291,020**	**-266,344**
Cash flow	**-166,467**	**165,792**
Cash in hand and demand deposits with central banks, and due from		
Credit institutions, etc. at the beginning of the year	1,033,788	867,996
Cash flow	-166,467	165,792
Cash and due etc.	**867,321**	**1,033,788**
Cash and due etc.		
Cash in hand and demand deposits with central banks	250,509	216,915
Due from credit institutions, etc.	616,813	816,872
Total	**867,321**	**1,033,788**

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 2017.

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 investment and 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 a combination of individual and collective impairment and are subject to a number of estimates, including assessments of the loans and portfolio of loans where objective evidence of impairment exists, expected future cash flows and the value of collateral. Note 14 provides details on the amounts recognised and note 49 also provides more details on impairment charges for loans and advances.

B) Fair value of investment and 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. Valuations from the Group's internal valuation experts are obtained to support such estimates regarding the investment properties. A number of these assumptions and estimates have a major impact on the calculations and include such parameters as developments in rent, costs and required rate of return. Any changes to these parameters as a result of changed market conditions will affect the expected return, and thus the fair value of the investment and domicile properties. Please refer to note 29 for further information.

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

Notes

Note 1 (cont'd)

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. Assets held for sale not expected to be sold within in 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 2017

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 2017:

- Part of Annual Improvements 2014 – 2016 cycle comprising minor amendments to a number of existing standards.

- Amendments to IAS 7, Cash flow statements as part of Disclosure initiative

- Changes to IAS 40, Investment property regarding transfers to and from investment properties

The new and amended standards have no impact on recognition and measurement in the financial statements.

3) Changes in IFRSs not yet applied by BankNordik

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

- IFRS 9 – Financial Instruments (EU endorsed)
- IFRS 15 – Revenue from contracts with customers (EU Endorsed)
- IFRS 16 – Leases (EU Endorsed)
- IFRS 17 – Insurance contracts (Not yet EU endorsed)

Notes

Note 1 (cont'd)

IFRS 9, Financial Instruments

In July 2014 IASB issued International Financial Reporting Standard IFRS 9, which supersedes IAS 39. The standard sets out principles for the classification and measurement of financial assets and liabilities, derecognition, impairment of financial assets and hedge accounting. IFRS 9 was endorsed by the EU under the Commission Regulation dated 22 November 2016.

IFRS 9 is mandatory for financial years beginning on or after 1 January 2018 with an early adoption option. The bank is adopting IFRS 9 when it becomes mandatory.

IFRS 9 Classification and measurement

Under IFRS 9, financial assets 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. Examples of assets in this measurement category are loans.

Financial instruments 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 measured at fair value through other comprehensive income. BankNordik's risk management system and investment strategy, which comprise the bank's bond portfolio, are based upon fair value measures and appear as such in the Group's internal management reports. Regardless of the fact that some instrument may be held for a longer term, such reporting is in Management's view inconsistent with hold to collect and hold to collect and sell business models. Therefore, BankNordik has determined that the bond portfolio shall be classified into the fair value through profit or loss category.

IFRS 9 has an accounting option to designate upon initial recognition shares 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. Examples of assets in this measurement category are financial assets in a trading portfolio.

The principles applying to financial liabilities are largely unchanged. Financial liabilities are still generally measured at amortised cost, while instruments held for trading such as derivative financial instruments are measured at fair value through profit or loss.

The concept of embedded derivatives has been maintained in respect of financial liabilities.

IFRS 9 Impairment allowance for expected credit losses

Whether an impairment allowance should be recognised for expected credit losses on financial assets measured at amortised cost through profit or loss, on loan commitments and on financial guarantees depends on whether the credit risk has increased significantly since initial recognition.

Notes

Note 1 (cont'd)

If the credit risk has not increased significantly, the loss allowance will consist of an amount equal to 12 month expected credit losses – stage 1. However, if the credit risk has increased significantly, the loss allowance will consist of an amount equal to lifetime expected credit losses – stage 2. If the financial asset is considered to be 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

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.

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.

IFRS 15, 'Revenue from contracts with customers'
IFRS 15, 'Revenue from contracts with customers' is a comprehensive standard on revenue recognition. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2018. The impact on the Groups Income statement is estimated to be insignificant.

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. The impact on the Groups Balance sheet is estimated to be insignificant, due to the currently small portfolio.

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
- Aa contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

Notes

Note 1 (cont'd)

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.

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.

Notes

Note 1 (cont'd)

6) Foreign currency translation

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

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

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

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

2 Critical accounting policies

1
(cont'd)

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.

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 life insurance and non-life insurance, net of reinsurance

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

7) Claims incurred related to life insurance and 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 premiums paid and reinsurance coverage received.

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.

Returns (interest income and fair value changes) on assets under pooled schemes and the crediting of these returns to customer accounts are recognised under Market value adjustments.

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.

Notes

Note
1
(cont'd)

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.

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.

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

Notes

Note 1 (cont'd)

Impairment charges

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

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

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

If objective evidence of impairment of a loan, an advance or an amount due exists, and the impairment event or events effects the expected cash flow from the asset and the effects on the expected cash flow is reliably measurable, the Group determines the impairment charge individually. The impairment charge equals the difference between the carrying amount and the present value of the most likely future cash flow from the asset, including the net realisable value of any collateral.

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

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

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

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

An estimate appears for each group of loans and advances which expresses the impairment as a percentage attached to a specific group of loans and advances at the balance sheet date. By comparing the individual loans current risk of loss with the loans original risk of loss and the loans risk of loss at the start of the current accounting period, the contribution of the individual loan to the group impairment charge

Notes

Note 1 (cont'd)

appears. The impairment charge is calculated as the difference between the book value and the discounted value of the expected future payments.

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

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

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

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.

Assets in the trading portfolio comprise shares and bonds held by the Group's trading department.

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.

Notes

Note 1 (cont'd)

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 loans and advances at fair value and valuation relies on extrapolation of yield curves, correlations or other model input of material importance to valuation

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 undertakings 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.

Notes

Note 1 (cont'd)

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) Assets under pooled schemes

Assets earmarked for customer savings are measured at fair value and recognised under Assets under pooled schemes. Deposits made by customers are recognised under Deposits under pooled schemes. These deposits are measured at the value of savings, corresponding to the fair value of the assets.

8) 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.

8.1) Investment property

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

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

The fair value is assessed based on the income based model. The section on domicile property below explains the income based model.

8.2) 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 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.

Notes

Note 1 (cont'd)

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.

9) 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.

10) 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.

11) 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.

Notes

Note 1 (cont'd)

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

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

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.

Notes

Note 1 (cont'd)

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.

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).

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.

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

Notes – BankNordik Group

Note

2 (cont'd)

Operating segments 2017	Banking				Non-life Insurance	Elimination	Continuing operations	Discontinued operations	Group
DKK 1,000	**Private**	**Corporate**	**Other**	**Total**	**Faroe Islands**		**Total**	**Iceland**	**Total**
External interest income, Net	253,040	123,434	9,693	386,168	1,048		387,216	0	387,216
Internal interest	10,437	-1,446	-8,991	0	0		0	0	0
Net interest income	263,478	121,988	702	386,168	1,048		387,216	0	387,216
Net Fee and dividends income	165,114	15,185	21,507	201,806	-5,980		195,825	0	195,825
Premium income, net of reinsurance	0	0	12,766	12,766	95,391	-975	107,183	0	107,183
Net premium income of reinsurance and claims	0	0	5,533	5,533	38,808	-975	43,367	0	43,367
Other income	2,590	0	28,409	30,999	-1,251	-1,223	28,525	0	28,525
Total income	**431,181**	**137,173**	**56,151**	**624,505**	**32,625**	**-2,198**	**654,932**	**0**	**654,932**
Total operating expenses	183,534	14,978	265,756	464,268	17,976	-2,198	480,047	0	480,047
Profit before impairment charges on loans	**247,647**	**122,194**	**-209,606**	**160,236**	**14,649**		**174,884**	**0**	**174,884**
Impairment charges, incl. reversals of aquired OEI impairments	-6,927	-54,267	1,447	-59,747	0	0	-59,747	0	-59,747
Profit before tax	**254,574**	**176,461**	**-211,052**	**219,983**	**14,649**	**0**	**234,632**	**0**	**234,632**
Total assets	**6,568,953**	**3,454,697**	**5,593,271**	**15,616,921**	**168,031**		**15,784,953**	**0**	**15,784,953**
of which Loans and advances	6,325,147	3,212,278	0	9,537,425	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**	**0**	**13,964,861**
of which Deposits	9,668,610	2,984,900	0	12,653,510	0	-21,047	12,632,463	0	12,632,463
of which Insurance liabilities			1,693		79,504	0	81,197	0	81,197

Operating segments 2016	Banking				Non-life Insurance	Elimination	Continuing operations	Discontinued operations	Group
DKK 1,000	**Private**	**Corporate**	**Other**	**Total**	**Faroe Islands**		**Total**	**Iceland**	**Total**
External interest income, Net	257,055	152,298	2,777	412,130	1,074		413,204	9,475	422,679
Internal interest	18,672	-4,456	-14,216	0	0		0	0	0
Net interest income	275,727	147,842	-11,439	412,130	1,074		413,204	9,475	422,679
Net Fee and dividends income	170,162	16,538	10,182	196,882	-5,212		191,670	-12,096	179,575
Premium income, net of reinsurance	0	0	10,854	10,854	85,360	-946	95,268	258,347	353,615
Net premium income of reinsurance and claims	0	0	6,054	6,054	21,519	-946	26,627	29,054	55,680
Other income	2,757	86	15,968	18,812	-147	-1,638	17,026	103,959	120,986
Total income	**448,646**	**164,466**	**20,766**	**633,878**	**17,234**	**-2,584**	**648,527**	**130,392**	**778,919**
Total operating expenses	173,073	17,646	268,634	459,352	16,912	-2,584	473,680	40,225	513,905
Profit before impairment charges on loans	**275,573**	**146,820**	**-247,869**	**174,525**	**322**	**0**	**174,847**	**90,167**	**265,014**
Impairment charges, incl. reversals of aquired OEI impairments	-18,427	6,444		-11,983	0	0	-11,983	118	-11,865
Profit before tax	**294,000**	**140,376**	**-247,869**	**186,508**	**322**	**0**	**186,830**	**90,049**	**276,879**
Total assets	**6,149,427**	**3,427,199**	**5,795,250**	**15,371,876**	**180,218**		**15,552,094**	**0**	**15,552,094**
of which Loans and advances	5,960,015	3,180,622		9,140,637	0		9,140,637	0	9,140,637
Total liabilities	**9,537,878**	**3,153,346**	**758,618**	**13,449,842**	**180,218**		**13,630,060**	**0**	**13,630,060**
of which Deposits	9,537,878	3,153,346		12,691,224	0	-22,527	12,668,697	0	12,668,697
of which Insurance liabilities					104,613	0	104,613	0	104,613

Notes – BankNordik Group

Note DKK 1,000

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

	Total income		Non.current assets		Additions to tangible assets	
Continuing operations	2017	2016	2017	2016	2017	2016
Faroe Islands	324,402	297,531	108,922	123,701	9,513	3,999
Denmark	278,384	301,909	48,144	50,280	1,661	-152
Greenland	52,147	49,089	46,602	46,213	1,017	0
Total	**654,932**	**648,528**	**203,667**	**220,194**	**12,191**	**3,847**

Income from external customers are divided into activities related to the customers's domiciles.

Assets include all non-current assets, i.e. material assets, investment properties and holdings in associates.

	Total income		Profit before tax		Tax		FTE	
Continuing operations	2017	2016	2017	2016	2017	2016	2017	2016
Faroe Islands, Banking, Other	291,777	280,297	100,194	91,683	35,175	30,525	178	188
Faroe Islands, Insurance	32,625	17,234	14,649	322	2,637	58	27	24
Denmark, Banking	278,384	301,909	93,422	72,954	1,512	3,723	175	186
Greenland, Banking	52,147	49,089	26,368	21,871	6,229	3,352	20	17
Total	**654,932**	**648,528**	**234,632**	**186,830**	**45,553**	**37,659**	**400**	**415**

Notes

Note DKK 1,000

3 **BankNordik Group**

DKK 1,000	Interest income [2]	Interest expenses	Net interest	Market value adjustment [3]	Dividend	Total
Net income, financial instruments 2017 [1]						
Financial instruments at amortised cost	**385,302**	**11,061**	**374,242**			**374,242**
Financial instruments at fair value:						
Held for trading	33,899	0	33,899	12,553	5,400	51,854
Loans and Advances Designated [4]	6,072	0	6,072	-9,481	0	-3,410
Derivatives Designated	-14,802		-14,802	17,060		2,258
Subordinated debt Designated		12,194	-12,194	0		-12,194
Financial instruments at fair value total	**25,168**	**12,194**	**12,974**	**20,131**	**5,400**	**38,507**
Total net income from financial instruments	**410,471**	**23,255**	**387,216**	**20,131**	**5,400**	**412,747**
Net income, financial instruments 2016						
Financial instruments at amortised cost	**424,086**	**34,280**	**389,806**			**389,806**
Financial instruments at fair value:						
Held for trading	40,554	0	40,554	8,466	9,469	58,488
Loans and Advances Designated [4]	8,942	0	8,942	-15,856	0	-6,914
Derivatives Designated	-11,724		-11,724	14,443		2,719
Subordinated debt Designated		14,374	-14,374	4,261		-10,113
Financial instruments at fair value Total	**37,772**	**14,374**	**23,398**	**11,313**	**9,469**	**44,180**
Total net income from financial instruments	**461,858**	**48,654**	**413,204**	**11,313**	**9,469**	**433,986**

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

2 Interest income recognised on impaired financial assets amounts to DKK 16.8m (2016: DKK 23m).

3 Net gain/loss recognised on loans and advances amount to DKK 31.3m (2016 DKK 12.4m). Of which DKK 21.2m relate to interest income (2016 DKK 24.8m), and DKK 10.1m relate to Value adjustments(2016 DKK -12.4m).

4 Net gain/loss recognised on interest rate swaps amount to DKK -34.7m (2016 DKK -19.3m) Of which DKK -15.1m relate to interest expenses (2016 DKK -15.9m, and DKK -19.6m relate to Value adjustments (2016 DKK -3.4m).

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
4	**Interest income and premiums on forwards**				
	Credit institutions and central banks	2,572	2,975	2,572	2,975
	Loans and advances	388,253	429,594	388,253	429,594
	Bonds	33,899	40,566	32,851	39,483
	Total derivatives of which:	-13,852	-11,825	-13,852	-11,825
	Interest rate contracts	*-13,852*	*-11,825*	*-13,852*	*-11,825*
	Other interest income	-401	548	-950	548
	Total interest income	**410,471**	**461,858**	**408,873**	**460,328**
5	**Interest expenses**				
	Credit institutions and central banks	1,033	1,923	1,033	1,923
	Deposits	9,732	17,559	9,732	17,559
	Subordinated debt	12,194	28,661	12,194	28,661
	Other interest expenses	296	511	302	515
	Total interest expenses	**23,255**	**48,654**	**23,262**	**48,657**
6	**Net fee and commission income**				
	Fee and commission income				
	Securities trading and custody accounts	56,882	52,673	56,882	52,673
	Credit transfers	22,264	22,005	22,264	22,005
	Loan commissions	6,921	11,040	6,921	11,040
	Guarantee commissions	18,127	17,940	18,127	17,940
	Other fees and commissions	100,108	92,947	109,049	102,159
	Total fee and commission income	**204,302**	**196,605**	**213,244**	**205,817**
	Fee and commissions paid				
	Securities trading and custody accounts	13,877	14,403	13,877	14,403
	Net fee and commission income	**190,425**	**182,202**	**199,367**	**191,414**
7	**Premium income, net of reinsurance**				
	Regular premiums, life insurance	13,165	11,241		
	Reinsurance premiums paid	399	388		
	Total life insurance	**12,766**	**10,854**		
	Gross premiums, non-life insurance	106,521	96,278		
	Reinsurance premiums paid	8,015	8,827		
	Change in gross premium provisions	-4,089	-3,037		
	Total non-life insurance	**94,417**	**84,414**		
	Total	**107,183**	**95,268**		

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
8	**Claims, net of reinsurance**				
	Benefits paid	7,063	3,740		
	Change in life insurance provisions	170	1,060		
	Total life insurance	**7,233**	**4,800**		
	Gross claims paid	82,746	51,066		
	Claims handling costs	7,515	7,805		
	Reinsurance received	-23,577	-1,307		
	Change in gross claims provisions	-29,198	31,143		
	Change in reinsurers' share relating to provisions	19,097	-24,866		
	Total non-life insurance	**56,583**	**63,841**		
	Total	**63,816**	**68,641**		
9	**Market value adjustments**				
	Loans and advances	-9,481	-15,856	-9,481	-15,856
	Bonds	-5,644	8,597	-3,822	9,238
	Shares	18,199	-1,214	18,199	-1,214
	Foreign exchange	-230	3,434	-230	3,434
	Total derivatives of which:	*17,288*	*12,091*	*17,288*	*12,091*
	Currency contracts	*8,419*	*7,718*	*8,419*	*7,718*
	Interest Swaps	*8,868*	*4,373*	*8,868*	*4,373*
	Other Obligations	0	4,261	0	4,261
	Assets linked to pooled schemes	10,437	0	10,437	0
	Deposits in pooled schemes	-10,437	0	-10,437	0
	Total market value adjustments	**20,131**	**11,313**	**21,952**	**11,954**
10	**Other operating income**				
	Profit on sale of investment and domicile properties and assets held for sale	1,051	1,768	1,051	1,768
	– of which assets held for sale	*34*	*217*	*34*	*217*
	Profit on sale of operating equipment	264	794	264	794
	Profit on sale of subsidiary	0	0	0	84,088
	Reversals of acquiered OEI impairments	24,640	30,505	24,640	30,505
	Other income	6,589	6,408	1,005	77
	Operation of properties:				
	Rental income	1,170	578	2,393	2,216
	Operating expenses	-178	-865	-178	-865
	– of which investment properties	*-13*	*-667*	*-13*	*-667*
	– of which assets held for sale	*-165*	*-198*	*-165*	*-198*
	Total other operating income	**33,534**	**39,187**	**29,174**	**118,583**

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
11	**Staff costs and administrative expenses**				
	Staff costs:				
	Salaries	214,971	223,902	198,500	209,885
	Pensions	27,209	26,492	25,118	24,681
	Social security expenses	31,948	30,013	29,847	28,253
	Total staff costs	**274,128**	**280,407**	**253,466**	**262,819**
	Administrative expenses:				
	IT	102,086	95,913	98,539	91,586
	Marketing etc	16,948	16,418	15,864	15,124
	Education etc	4,049	4,523	2,956	4,072
	Advisory services	1,359	2,255	1,359	2,255
	Other expenses	62,575	70,750	58,936	66,727
	Total administrative expenses	**187,017**	**189,859**	**177,655**	**179,764**
	Total staff costs	274,128	280,407	253,466	262,819
	Staff costs incl. under the item "Claims, net of reinsurance"	-7,515	-7,805	0	0
	Total administrative expenses	187,017	189,859	177,655	179,764
	Total employee costs and administrative expenses	**453,630**	**462,461**	**431,121**	**442,584**
	Number of employees				
	Average number of full-time employees in the period	407	407	374	377
	Executive remuneration:				
	Board of Directors	2,075	1,875	2,075	1,875
	Executive Board:				
	Salaries	2,200	2,234	2,200	2,234
	– less fees received from directorships	183	78	183	78
	The Bank's expense, salaries	2,017	2,156	2,017	2,156
	Pension	330	333	330	333
	Bonus	165	187	165	187
	Bonus, Share-based payment	165	187	165	187
	Total executive board	**2,677**	**2,863**	**2,677**	**2,863**
	Total executive remuneration	**4,752**	**4,738**	**4,752**	**4,738**
	Remuneration of the senior executives				
	The Board of Directors in P/F BankNordik				
	Stine Bosse	625	625	625	625
	Rúni Vang Poulsen	425	425	425	425
	Súsanna Poulsen (until March 2017)	50	200	50	200
	Jógvan Jespersen	200	200	200	200
	Kim Jacobsen (from March 2017)	175	0	175	0
	Barbara Vang (from March 2017)	175	0	175	0
	Tórhallur Olsen	225	225	225	225
	Kenneth M. Samuelsen	200	200	200	200
	Total	**2,075**	**1,875**	**2,075**	**1,875**

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
11 (Cont'd)	**The Executive Board of P/F BankNordik**				
	Árni Ellefsen:				
	Fixed salary	2,200	2,234	2,200	2,234
	– less fees received from directorships	183	78	183	78
	The Bank's expense, salaries	2,017	2,156	2,017	2,156
	Pension	330	333	330	333
	Bonus	165	187	165	187
	Bonus, Share-based payment	165	187	165	187
	Total	**2,677**	**2,863**	**2,677**	**2,863**

The number of shares in P/F BankNordik held by the Board of Directors and the Executive Board at the end of 2017 totalled 6,329 and 6,361 respectively (end of 2016: 6,322 and 5,010).

	Group		BankNordik	
	2017	2016	2017	2016
Remuneration of other executives				
Fixed salary	4,200	4,088	4,200	4,088
Pension	693	606	693	606
Bonus	263	168	263	168
Bonus, Share-based payment	263	168	263	168
Total	**5,420**	**5,030**	**5,420**	**5,030**

The executives included in this group are:

Rune Nørregaard, Chief Credit Officer

Henrik Jensen, Chief Investment Officer (Until 30th of August 2017)

Turið F. Arge, Chief Commercial Officer

Per Sjørup Christiansen, Head of Personal Banking (from 1st of September 2017)

Total remuneration of executives	**8,096**	**7,893**	**8,096**	**7,893**

Notes

Note DKK 1,000

11 **Variable/performance-based renumeration**
(Cont'd) 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	
		2017	2016	2017	2016
12	**Audit fees**				
	Fees to audit firms elected at the general meeting	1,170	1,848	913	1,595
	Total audit fees	**1,170**	**1,848**	**913**	**1,595**
	Total fees to the audit firms elected at the general meeting break down as follows:				
	Statutory audit	972	1,327	754	1,136
	– of which PricewaterhouseCoopers	*664*	*907*	*614*	*857*
	– of which Januar	*308*	*420*	*140*	*279*
	Other assurance engagements	83	106	44	43
	– of which PricewaterhouseCoopers	*83*	*69*	*44*	*43*
	– of which Januar	*37*	*37*	*0*	*0*
	Tax and VAT advice	94	122	94	122
	– of which PricewaterhouseCoopers	*94*	*94*	*94*	*94*
	– of which Januar	*0*	*27*	*0*	*27*
	Other services	22	294	22	294
	– of which PricewaterhouseCoopers	*22*	*204*	*22*	*204*
	– of which Januar	*0*	*90*	*0*	*90*
	Total fees to the audit firms elected at the general meeting	**1,170**	**1,848**	**913**	**1,595**
13	**Other operating expenses**				
	Reversals of The Guarantee Fund for Depositors and Investors	-2,250	2,310	-2,250	2,310
	Other operating expenses	450	0	450	0
	Total operating expenses	**-1,800**	**2,310**	**-1,800**	**2,310**

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	**2016**	**2017**	**2016**
14	**Impairment charges on loans and advances and provisions for guarantees etc.**				
	Impairment charges and provisions at 1 January	678,636	682,482	678,636	682,482
	New and increased impairment charges and provisions	99,711	176,566	99,711	176,566
	Reversals of impairment charges and provisions	112,273	122,327	112,273	122,327
	Written-off, previously impaired	154,603	58,085	154,603	58,085
	Interest income on impaired loans	*17,440*	*23,403*	*17,440*	*23,403*
	Total impairment charges and provisions at 31 December	**511,470**	**678,636**	**511,470**	**678,636**
	Impairment charges and provisions recognised in the income statement				
	Loans and advances at amortised cost	-24,613	21,117	-24,613	21,117
	Loans and advances at fair value	-344	2,473	-344	2,473
	Guarantiees and loan commitments	-10,270	-5,974	-10,270	-5,974
	Assets held for sale	120	613	120	613
	Total impairment charges and provisions	**-35,107**	**18,228**	**-35,107**	**18,228**
	Individual impairment charges etc.				
	Individual impairment charges etc. at 1 January	592,106	588,929	592,106	588,929
	New and increased impairment charges	71,207	147,838	71,207	147,838
	Reversals of impairment charges	99,270	86,576	99,270	86,576
	Written-off, previously impaired	154,603	58,085	154,603	58,085
	Write-offs charged directly to the income statement	*3,229*	*-8,335*	*3,229*	*-8,335*
	Received on claims previously written off	*8,334*	*4,273*	*8,334*	*4,273*
	Interest income on impaired loans	*17,440*	*23,403*	*17,440*	*23,403*
	Individual impairment charges etc. at 31 December	**409,440**	**592,106**	**409,440**	**592,106**
	Total net impact recognised in the income statement	*-50,607*	*25,251*	*-50,607*	*25,251*
	Collective impairment charges				
	Collective impairment charges at 1 January	52,620	53,669	52,620	53,669
	New and increased impairment charges	25,770	9,082	25,770	9,082
	Reversals of impairment charges	0	10,131	0	10,131
	Collective impairment charges at 31 December	**78,390**	**52,620**	**78,390**	**52,620**
	Total net impact recognised in the income statement	*25,770*	*-1,049*	*25,770*	*-1,049*
	Individual provisions on guarantees				
	Individual provisions at 1 January	33,911	39,884	33,911	39,884
	New and increased provisions	2,733	19,646	2,733	19,646
	Reversals of provisions	13,004	25,620	13,004	25,620
	Individual provisions on guarantees at 31 December	**23,640**	**33,911**	**23,640**	**33,911**
	Total net impact recognised in the income statement	*-10,270*	*-5,974*	*-10,270*	*-5,974*

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
14	**Loans and advances**				
(Cont'd)	Loans and advances at amortised cost	9,594,237	9,258,344	9,594,237	9,258,344
	Impairment charges	487,830	644,726	487,830	644,726
	Total loans and advances at amortised cost	**9,106,408**	**8,613,618**	**9,106,408**	**8,613,618**
	Loans and advances at fair value	409,364	495,857	409,364	495,857
	Fair value adjustments	21,653	31,162	21,653	31,162
	Total loans and advances at fair value	**431,017**	**527,019**	**431,017**	**527,019**
	Total loans and advances	**9,537,425**	**9,140,637**	**9,537,425**	**9,140,637**
	Total loans and advances with objective evidence of impairment				
	Individual	623,243	1,008,532	623,243	1,008,532
	Carrying amount net of impairment charges	*213,803*	*416,427*	*213,803*	*416,427*
	Collective	*8,914,182*	*7,908,681*	*8,914,182*	*7,908,681*
	Carrying amount net of impairment charges	*8,835,792*	*7,856,061*	*8,835,792*	*7,856,061*
15	**Tax**				
	Tax on profit for the year	45,553	37,659	42,774	54,080
	Total tax	**45,553**	**37,659**	**42,774**	**54,080**
	Tax on profit for the year				
	Profit before tax	234,632	186,830	231,852	275,954
	Current tax charge	34,056	23,045	31,215	39,614
	Change in deferred tax	10,973	10,839	11,034	10,691
	Adjustment of prior-year tax charges	524	3,774	524	3,774
	Total	**45,553**	**37,659**	**42,774**	**54,080**
	Effective tax rate				
	Faroese tax rate	18.0%	18.0%	18.0%	18.0%
	Deviation in foreign entities tax compared to Faroese tax rate	1.3%	0.8%	1.3%	0.5%
	Non-taxable income and non-deductible expenses	-0.1%	-0.7%	-1.1%	-0.3%
	Tax on profit for the year	19.2%	18.1%	18.2%	18.2%
	Adjustment on prior-year tax charges	0.2%	2.0%	0.2%	1.4%
	Effective tax rate	**19.4%**	**20.2%**	**18.4%**	**19.6%**

Notes

Note	DKK 1,000	Group	
		2017	2016
16	**Discontinued operations**		
	As a part of the Group's intentions to reduce its geographic span, the Group announced on 22 June 2015 that it had initiated an active program to identify a buyer for the Icelandic insurance group Vörður. The sale of Vørður was completed 30. September 2016 consequently discontinued operations in this note are presented at that date.		
	Net profit from discontinued operations	0	5,961
	Gain on disposal	0	84,088
	Discontinued operations, total	**0**	**90,049**
	Sales price	0	255,030
	Carrying amount of net assets	0	191,729
	Disposal gain	**0**	**63,301**
	Recycling of cumulative currency translation adjustments	0	20,787
	Disposal gain incl. translation adjustments	**0**	**84,088**
	Tax	0	16,912
	Disposal gain, net	**0**	**67,176**
	Income statement		
	Net interest income	0	9,475
	Fee and commissions	0	-12,096
	Net interest, dividend, fee and commission income	**0**	**-2,621**
	Premium income, net of reinsurance	0	258,347
	Claims, net of reinsurance	0	229,293
	Income and income from insurance activities, net	**0**	**29,054**
	Market value adjustments	0	19,871
	Staff costs and administrative expenses	0	40,343
	Profit before tax	**0**	**5,961**
	Tax	0	434
	Net profit from discontinued operations	**0**	**5,527**
	Total, discontinued operations	**0**	**72,703**
	Effect of disposal on the financial position of the Group		
	Cash in hand and demand deposits with central banks	0	62,288
	Bonds at fair value	0	263,617
	Shares, etc.	0	247,573
	Assets under insurance contracts	0	124,303
	Intangible assets	0	1,903
	Other property, plant and equipment	0	5,585
	Deferred tax assets	0	8,580
	Other assets	0	9,255
	Assets in disposal groups classified as held for sale		
	Total assets	**0**	**723,105**

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
16	**Liabilities under insurance contracts**	0	519,005		
(Cont'd)	Other liabilities	0	16,067		
	Total liabilities	**0**	**535,071**		
	Net assets and liabilities	**0**	**-188,033**		
	Consideration received, satisfied in cash	0	255,030		
	Cash and cash equivalents disposed of	0	-62,288		
	Net cash inflow	**0**	**192,742**		
17	**Cash in hand and demand deposits with central banks**				
	Cash in hand	105,865	125,434	105,782	102,811
	Demand deposits with central banks	144,643	91,482	144,643	114,009
	Total	**250,509**	**216,915**	**250,426**	**216,820**
18	**Due from credit institutions and central banks specified by institution**				
	Credit instistutions	497,813	566,872	497,813	566,872
	Central banks	119,000	250,000	119,000	250,000
	Total	**616,813**	**816,872**	**616,813**	**816,872**
19	**Due from credit institutions and central banks specified by maturity**				
	On demand	290,525	366,540	290,525	366,540
	3 months and below	112,177	250,304	112,177	250,304
	Over 1 year to 5 years	214,111	200,029	214,111	200,029
	Total	**616,813**	**816,872**	**616,813**	**816,872**
20	**Loans and advances specified by sectors**				
	Public authorities	4%	3%	4%	3%
	Corporate sector:				
	Fisheries, agriculture, hunting and forestry	5%	5%	5%	5%
	Industry and raw material extraction	5%	3%	5%	3%
	Energy supply	1%	0%	1%	0%
	Building and construction	2%	2%	2%	2%
	Trade	5%	5%	5%	5%
	Transport, hotels and restaurants	3%	6%	3%	6%
	Information and communications	0%	1%	0%	1%
	Financing and insurance	1%	1%	1%	1%
	Real property	5%	7%	5%	7%
	Other industries	4%	4%	4%	4%
	Total corporate sector	31%	34%	31%	34%
	Retail customers	65%	63%	65%	63%
	Total	**100%**	**100%**	**100%**	**100%**

Notes

Note	DKK 1,000	Group 2017	Group 2016	BankNordik 2017	BankNordik 2016
21	**Loans and advances specified by maturity**				
	On demand	1,054	19,391	1,054	19,391
	3 months and below	727,038	235,924	727,038	235,924
	3 months to 1 year	1,263,321	1,353,584	1,263,321	1,353,584
	Over 1 year to 5 years	3,506,080	3,458,438	3,506,080	3,458,438
	Over 5 years	4,039,932	4,073,300	4,039,932	4,073,300
	Total loans and advances	**9,537,425**	**9,140,637**	**9,537,425**	**9,140,637**
22	**Bonds at fair value**				
	Mortgage credit bonds	2,949,304	3,733,811	2,784,937	3,610,167
	Government bonds	619,305	718,185	612,120	673,886
	Other bonds	694,120	225,234	694,120	225,234
	Bonds at fair value	**4,262,730**	**4,677,230**	**4,091,177**	**4,509,287**
	All bonds form part of the Group's trading portfolio.				
23	**Shares etc.**				
	Shares/unit trust certificates listed on the Copenhagen Stock Exchange	25,420	26,209	25,420	26,209
	Shares/unit trust certificates listed on other stock exchanges	19,241	20,103	19,241	20,103
	Other shares at fair value using the fair-value option	204,150	194,793	204,150	194,793
	Total shares etc.	**248,811**	**241,105**	**248,811**	**241,105**
24	**Assets under insurance contracts**				
	Non-life insurance				
	Reinsurers' share of claims provisions	6,383	25,480		
	Receivables from insurance contracts	2,191	1,787		
	Total non-life insurance	**8,575**	**27,267**		
	Maturity within 12 months	2,191	1,787		

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
25	**Holdings in associates**				
	Cost at 1 January	8,845	4,725	8,845	4,725
	Additions	0	4,120	0	4,120
	Cost at 31 December	**8,845**	**8,845**	**8,845**	**8,845**
	Revaluations at 1 January	-2,445	818	-2,445	818
	Share of profit	-501	-2,095	-501	-2,095
	Impairment charges, goodwill	0	-1,168	0	-1,168
	Revaluations at 31 December	**-2,946**	**-2,445**	**-2,946**	**-2,445**
	Carrying amount at 31 December	**5,898**	**6,399**	**5,898**	**6,399**

Holdings in associates 2017	Income	Net profit	Total assets	Total liabilities	Total equity	Owner-ship %	The Groups share of equity
P/F Elektron	46,504	544	61,858	42,756	17,180	34%	5,898
Holdings in associates 2016							
P/F Elektron	37,611	-7,338	68,206	49,568	18,638	34%	6,399

The information disclosed is extracted from the companies' most recent annual report (2016).

Note		Group 2017	Group 2016	BankNordik 2017	BankNordik 2016
26	**Holdings in subsidiaries**				
	Cost at 1 January			144,000	144,000
	Cost at 31 December			**144,000**	**144,000**
	Revaluations at 1 January			-37,891	-38,092
	Corrections			0	-36
	Share of profit			12,661	2,237
	Dividends			3,500	2,000
	Revaluations at 31 December			**-28,730**	**-37,891**
	Carrying amount at 31 December			**115,270**	**106,109**

Holdings in subsidiaries	Owner-ship %	Share capital end of year	Shareholders' equity for the year	Profit/loss for the year
P/F Trygd	100%	40,000	79,920	12,012
P/F Skyn	100%	4,000	4,035	-348
P/F NordikLív	100%	30,000	31,315	998
Sp/f Íbúðir undir Gráasteini (at the end of 2016)	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 2017 the other 2016).

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
27	**Assets under pooled schemes**				
	Assets:				
	Cash deposits	1,656	0	1,656	0
	Bonds	217,077	0	217,077	0
	Shares	231,217	0	231,217	0
	Other assets	385	0	385	0
	Total assets	**450,335**	**0**	**450,335**	**0**
	Total liabilities	**450,863**	**0**	**450,863**	**0**
28	**Investment property**				
	Fair value at 1 January	23,229	25,299	23,229	25,299
	Additions	0	1,177	0	1,177
	Reclassification to assets held for sale	0	3,247	0	3,247
	Disposals	3,247	0	3,247	0
	Reclassification to Domicile property	19,982	0	19,982	0
	Fair value at 31 December	**0**	**23,229**	**0**	**23,229**

In 2017 all Investment properties are reclassified to domicile property.

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
29	**Domicile property**				
	Cost at 1 January	212,000	207,968	209,955	205,923
	Additions	9,135	9,969	9,135	9,969
	Reclassification from investment property	19,982	0	19,982	0
	Disposals	5,541	5,937	5,541	5,937
	Cost at 31 December	**235,576**	**212,000**	**233,531**	**209,955**
	Adjustments at 1 January	-45,082	-43,790	-45,021	-43,749
	Depreciation charges during the year	21,646	1,564	21,625	1,543
	Reversal of depreciation charges on disposals during the year	369	272	369	272
	Adjustments at 31 December	**-66,359**	**-45,082**	**-66,277**	**-45,021**
	Carrying amount at 31 December	**169,217**	**166,918**	**167,253**	**164,934**

Tangible assets include domicile property of DKK 169m (2016: DKK 167m). Carrying amount at 31 December if the property had not been revalued is DKK 155m (2016: DKK 153m).

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 2017, the fair value of domicile property was DKK 204,0m (2016: DKK 223,7m, incl. investment property). The required rate of return is ranged between 5.0% – 9.0% (2016: 4,25 – 8,0%). The depreciation period is 50 years. A decrease in rental rates of DKK 100 per m2 would reduce fair value at end-2017 by DKK 17,5m. An increase in the required rate of return of 1.0 percentage point, would reduce fair value at the end of 2017 by DKK 24.1m.

Note	DKK 1,000	Group 2017	Group 2016	BankNordik 2017	BankNordik 2016
30	**Other property, plant and equipment**				
	Cost at 1 January	80,890	80,534	75,707	75,412
	Additions	11,247	2,770	10,706	2,708
	Disposals	4,522	2,413	4,522	2,413
	Cost at 31 December	**87,616**	**80,890**	**81,891**	**75,707**
	Depreciation charges at 1 January	57,243	51,894	52,600	47,558
	Depreciation charges during the year	6,278	7,247	5,978	6,940
	Reversals of depreciation charges	4,457	1,898	4,457	1,898
	Depreciation charges at 31 December	**59,064**	**57,243**	**54,121**	**52,600**
	Carrying amount at 31 December	**28,552**	**23,648**	**27,770**	**23,107**

The depreciation period is 3 – 10 years.

Notes

Note	DKK 1,000	Group	
		2017	2016
31	**Deferred tax**		
	Deferred tax assets	44,707	55,648
	Deferred tax, net	**44,707**	**55,648**

Change in deferred tax
2017

	At 1 Jan.	Included in profit for the year	At 31 Dec.
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**

2016

	At 1 Jan.	Included in profit for the year	At 31 Dec.
Intangible assets	59,771	-9,772	49,999
Tangible assets	4,984	-406	4,578
Tax loss carryforwards	0	0	0
Other	1,565	-493	1,071
Total	**66,320**	**-10,671**	**55,648**

	BankNordik	
	2017	2016
Deferred tax		
Deferred tax assets	44,553	55,587
Deferred tax, net	**44,553**	**55,587**

Change in deferred tax
2017

	At 1 Jan.	Recognised in profit for the year	At 31 Dec.
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**

2016

	At 1 Jan.	Recognised in profit for the year	At 31 Dec.
Intangible assets	60,027	-9,772	50,255
Tangible assets	5,056	-427	4,629
Other	1,195	-493	702
Total	**66,278**	**-10,691**	**55,587**

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
32	**Assets held for sale**				
	Total cost at 1 January	17,095	41,020	17,095	41,020
	Additions	360	6,922	360	6,922
	Reclassification from investment properties	0	3,247	0	3,247
	Disposals	6,457	34,094	6,457	34,094
	Total cost at 31 December	**10,998**	**17,095**	**10,998**	**17,095**
	Impairment at 1 January	5,121	5,617	5,121	5,617
	Impairment charges for the year	120	613	120	613
	Reversal of impairment on disposals and write offs during the year	545	1,109	545	1,109
	Impairment at 31 December	**4,696**	**5,121**	**4,696**	**5,121**
	Total assets held for sale at 31 December	**6,302**	**11,974**	**6,302**	**11,974**
	Specification of assets held for sale				
	Real property taken over in connection with non-performing loans	6,302	11,974	6,302	11,974
	Total	**6,302**	**11,974**	**6,302**	**11,974**

The item “Assets held for sale” comprises only assets taken over in connection with non-performing loans.

The Group's policy is to dispose off the assets as quickly as possible.

Profit on the sale of real property and tangible assets taken over in connection with non-performing loansis 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	
		2017	2016	2017	2016
33	**Other assets**				
	Interest and commission due	47,064	51,955	46,396	51,149
	Derivatives with positive fair value	3,810	31,852	3,810	31,852
	Other amounts due	22,462	16,177	20,652	13,158
	Total	**73,336**	**99,984**	**70,858**	**96,159**
34	**Due to credit institutions and central banks specified by institution**				
	Due to central banks	43,000	37,525	43,000	37,525
	Due to credit institutions	317,497	304,151	317,497	304,151
	Total	**360,497**	**341,676**	**360,497**	**341,676**
35	**Due to credit institutions and central banks specified by maturity**				
	On demand	132,847	114,026	132,847	114,026
	Over 1 year to 5 years	190,909	136,364	190,909	136,364
	Over 5 years	36,741	91,286	36,741	91,286
	Total	**360,497**	**341,676**	**360,497**	**341,676**
36	**Deposits specified by type**				
	On demand	9,830,616	9,489,636	9,845,590	9,506,091
	At notice	1,374,856	1,452,153	1,374,856	1,452,153
	Time deposits	316,243	534,039	316,243	534,039
	Special deposits	1,110,748	1,192,869	1,116,821	1,198,941
	Total deposits	**12,632,463**	**12,668,697**	**12,653,510**	**12,691,224**
37	**Deposits specified by maturity**				
	On demand	9,794,978	9,441,651	9,816,025	9,464,179
	3 months and below	1,732,362	1,678,994	1,732,362	1,678,994
	3 months to 1 year	41,735	76,503	41,735	76,503
	Over 1 year to 5 years	234,922	569,161	234,922	569,161
	Over 5 years	828,465	902,388	828,465	902,388
	Total deposits	**12,632,463**	**12,668,697**	**12,653,510**	**12,691,224**
38	**Liabilities under insurance contracts**				
	Non-life insurance				
	Provisions for unearned premiums	36,025	31,936		
	Claims provisions	43,479	72,678		
	Total	**79,504**	**104,613**		
	Life insurance				
	Life insurance provisions	1,693	1,060		
	Total provisions for insurance contracts	**1,693**	**1,060**		
	Total	**81,197**	**105,673**		

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
39	**Other liabilities**				
	Sundry creditors	52,904	63,081	47,120	55,728
	Accrued interest and commission	6,662	8,951	5,447	5,001
	Derivatives with negative value	30,035	60,868	30,035	60,868
	Accrued staff expenses	50,150	54,996	49,251	54,966
	Other obligations	8,131	13,101	8,131	13,101
	Total	**147,883**	**200,995**	**139,985**	**189,663**

40 **Subordinated capital**

	Currency	Borrower	Principal	Interest rate	Year of issue	Maturity	Step-up clause	Redemption price	2017	2016
Subordinated capital	DKK	P/F BankNordik	225,000	5.1%	2016	6/24/2026	No	100	222,868	222,259
At 31 December			**225,000**						**222,868**	**222,259**

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.

Notes

Note	DKK 1,000	BankNordik 2017	BankNordik 2016
41	**BankNordik Shares**		
	Net profit	189,078	221,874
	Average number of shares outstanding	9,721	9,810
	Average number of shares outstanding, including dilutive shares diluted	9,721	9,810
	Earnings per share, DKK	19.5	22.6
	Diluted net profit for the period per share, DKK	19.5	22.6

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.

Average number of shares outstanding:	2017	2016
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	9,721	9,810
Group's average holding of own shares during the period	279	190
Average shares outstanding	**9,721**	**9,810**

Holding of own shares	Number 2017	Number 2016	Value 2017	Value 2016
Investment portfolio	27,245	27,245	2,888	3,692
Trading portfolio	251,696	252,809	26,680	34,256
Total	**278,941**	**280,054**	**29,568**	**37,947**

	Investment portfolio	Trading portfolio	Total 2017	Total 2016
Holding at 1 January	3,692	34,256	37,947	17,512
Acquisition of own shares	0	2,284	2,284	31,373
Sale of own shares	0	1,673	1,673	14,671
Value adjustment	-804	-8,187	-8,991	3,734
Holding at 31 December	**2,888**	**26,680**	**29,568**	**37,947**

Share buy-back programme

On 30 May 2016, the Group initiated a share buy-back programme. The program ran until year-end 2016, when the Group had accumulated a total of 144.264 shares, amounting to a transaction value of DKK 18m.

BankNordik now holds a total of 246,541 of treasury shares, excluding investments made on behalf of customers and shares held for trading purposes, corresponding to 2.47% of the share capital.

Notes

Note	DKK 1,000	Group		BankNordik	
		2017	2016	2017	2016
42	**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	318,943	366,671	318,943	366,671
	Mortgage finance guarantees	1,282,808	1,221,379	1,282,808	1,221,379
	Registration and remortgaging guarantees	733,798	643,841	733,798	643,841
	Other guarantees	309,005	262,987	309,005	262,987
	Total	**2,644,554**	**2,494,879**	**2,644,554**	**2,494,879**

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 2017, such unused credit facilities amounted to DKK 2.4bn (2016: DKK 2.9bn). Furthermore the Group has granted irrevocable loan commitments amounting to DKK 217m (2016: DKK 339m).

In total operational leasing (rent) liabilities amount to 10.9m (2016: DKK 15.5). Renting contracts for an amount of DKK 8.0m (2016: DKK 8.8) have a 12 months term of notice. Renting contracts for an amount of DKK 2.7m (2016: DKK 6.7m) have a term of notice from 1 to 5 years. Renting contracts for an amount of DKK 0.2m (2016: DKK 0.0m) have a term of notice of more than 5 years.

43 **Assets deposited as collateral**

At the end of 2017 the Group had deposited bonds at a total market value of DKK 43m (2016: DKK 37m) with Danmarks Nationalbank (the Danish Central Bank) primarily in connection with cash deposits.

At the end of 2017 the Group had deposited bonds and cash at a total market value of DKK 37m (2016: DKK 39m) in connection with negative market value of derviatives.

Notes

Note DKK 1,000

44 **Related parties**

DKK 1.000	Parties with significant influence 2017	Parties with significant influence 2016	Associated undertakings 2017	Associated undertakings 2016	Board of Directors 2017	Board of Directors 2016	Excecutive Board 2017	Excecutive Board 2016
Assets								
Loans			15,336	13,321	68,406	74,962	402	909
Total			**15,336**	**13,321**	**68,406**	**74,962**	**402**	**909**
Liabilities								
Deposits	8,669	4,607	31,687	30,246	58,651	53,641	176	191
Total	**8,669**	**4,607**	**31,687**	**30,246**	**58,651**	**53,641**	**176**	**191**
Off-balance sheet items								
Guarantees issued								
Guarantees and collateral received			13,371		68,897	82,476	671	2,035
Income Statement								
Interest income	0	0	766	728	1,669	1,858	21	33
Interest expense	0	4	9	16	11	2	1	1
Fee income	1	1	14	16	18	14	0	1
Total	**1**	**-3**	**771**	**728**	**1,676**	**1,870**	**20**	**34**

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 2017 interest rates on credit facilities granted to associated undertakings were between 4.4% – 14.5% (2016: 5.3% – 10.3%).

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

In 2017 interest rates on credit facilities granted to members of the Board of Directors and the Executive Board were between 3.1% – 14.5% (2016: 3.1% – 14.5%). Note 11specifies the remuneration and note 45 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

Note DKK 1,000

45 **Holdings of the Board of Directors and the Executive Board of directors**

	Beginning of 2017	Additions	Disposals	End of 2017
Stine Bosse	1,830			1,830
Rúni Vang Poulsen	164	5		169
Kim Jacobsen (from March 2017)	0			0
Barbara Vang (from March 2017)	2			2
Jógvan Jespersen	32			32
Tórhallur Olsen	1,877			1,877
Kenneth M. Samuelsen	2,419			2,419
Total	**6,324**	**5**		**6,329**
Executive Board				
Árni Ellefsen	5,010	1,351		6,361
Total	**5,010**			**6,361**

46 **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 using the fair value option in IAS 39 and are measured in accordance with shareholders agreements and using generally accepted estimations and valuation techniques. The valuation of unlisted shares is based substantially on non-observable input.

Notes

Note DKK 1,000

46 **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**
Financial liabilities designated at fair value				
Subordinated debt		0		0
Finansial liabilities at fair value		**30,035**		**30,035**

2016

Financial assets and liabilities at fair value	Quoted prices	Observable input	Non-observable input	Total
Financial assets held for trading				
Bonds at fair value	4,677,230			4,677,230
Shares, etc.	46,312			46,312
Derivatives with positive fair value		31,852		31,852
Total	**4,723,542**	**31,852**		**4,755,394**
Financial assets designated at fair value				
Loans and advances at fair value			527,019	527,019
Shares, etc.		190,693	4,100	194,793
Total		190,693	531,119	721,812
Finansial assets at fair value	**4,723,542**	**222,545**	**531,119**	**5,477,206**
Financial liabilities held for trading				
Derivatives with negative fair value		60,868		60,868
Total		**60,868**		**60,868**
Financial liabilities designated at fair value				
Subordinated debt		0		0
Finansial liabilities at fair value		**60,868**		**60,868**

Notes

Note DKK 1,000

46 Financial instruments valued on the basis of quoted prices in an active market are recognised in the Quoted prices category.
(Cont'd) 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 29 for further information on Domicile property).

At 31 December 2017 financial assets valued on the basis of non-observable input comprised unlisted shares and loans and advances of DKK 433.3m (2016: DKK 531.1m) In 2017, 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 -11.3m (2016: DKK -28.3m). A 10% increase or decrease in fair value of unlisted shares and loans and advances would amount to DKK 43.3m (2016: DKK 53.1m).

	2017	2016
Financial instruments at fair value valued on the basis of non-observable input		
Fair value at 1 January	531,119	688,876
Value adjustments through profit or loss	-11,297	-28,312
Acquisitions	0	776
Disposals	86,521	130,221
Fair value at 31 December	**433,301**	**531,119**

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

Note DKK 1,000

46 **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 and is recognised at amortised cost, because there is no real market for this product.

46 **Financial instruments at amortised cost**

(Cont'd)

	Carrying amount	Fair value	Carrying amount	Fair value
	2017	**2017**	**2016**	**2016**
Financial assets				
Cash in hand and demand deposits with central banks	250,509	250,509	216,915	216,915
Due from credit institutions and central banks	616,813	616,813	816,872	816,872
Loans and advances at amortised cost	9,106,408	9,106,408	8,613,618	8,613,618
Assets under insurance contracts	8,575	8,575	27,267	27,267
Total	**9,982,304**	**9,982,304**	**9,674,673**	**9,674,673**
Financial liabilities				
Due to credit institutions and central banks	360,497	360,497	341,676	341,676
Deposits and other debt	12,632,463	12,632,463	12,668,697	12,668,697
Deposits under pooled schemes	450,863	450,863	0	0
Liabilities under insurance contracts	81,197	81,197	105,673	105,673
Subordinated debt	222,868	222,868	222,259	222,259
Total	**13,747,888**	**13,747,888**	**13,338,306**	**13,338,306**

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

47	Group holdings and undertakings	Share capital	Functional currency	Net profit	Shareholders' equity	Share capital %
	P/F BankNordik	200,000	DKK	189,078	1,820,092	100%
	Insurance companies					
	P/F Trygd	40,000	DKK	12,012	79,920	100%
	P/F NordikLív	30,000	DKK	998	31,315	100%
	Real estate agency					
	P/F Skyn	4,000	DKK	-348	4,035	100%
	Group holdings recognised under assets held for sale and investment properties					
	Sp/f Íbúðir undir Gráasteini (at the end of 2016)	125	DKK	0	0	0%

Notes

Note DKK 1,000

48 **Reconciliations of changes in insurance liabilities**

	2017			2016		
	Non-life	Life	Total	Non-life	Life	Total
Unearned premium provisions	36,025	0	36,025	31,936	0	31,936
Outstanding claims provisions	43,479	1,693	45,173	72,678	1,060	73,738
Liabilities under insurance contracts, year-end	**79,504**	**1,693**	**81,197**	**104,613**	**1,060**	**105,673**
Unearned premium provisions						
Beginning of year	31,936	0	31,936	28,899	0	28,899
Premiums received	107,496	13,165	120,761	97,224	11,240	108,465
Premiums recognised as income	-103,407	-13,165	-116,672	-94,187	-11,240	-105,428
Unearned premium provisions, year-end	**36,025**	**0**	**36,025**	**31,936**	**0**	**31,936**
Outstanding claims provisions						
Beginning of year	72,678	1,060	73,738	41,534	0	41,534
Claims paid regarding current year	-71,076	-6,500	-76,616	-38,679	-3,740	-42,419
Claims paid regarding previous years	-19,185	-100	-20,245	-20,192	0	-20,192
Change in claims regarding current year	56,244	7,233	63,477	84,011	4,800	88,811
Change in claims regarding previous years	4,819	0	4,819	6,003	0	6,003
Outstanding claims provisions, year-end	**43,479**	**1,693**	**45,173**	**72,678**	**1,060**	**73,738**

Reconciliations of changes in insurance assets	2017			2016		
DKK 1.000	Non-life	Life	Total	Non-life	Life	Total
Reinsurers' share of premium provisions	0	0	0	0	0	0
Reinsurers' share of claims provisions	6,383	0	6,383	25,480	0	25,480
Receivables from insurance contracts and reinsurers	2,191	0	2,191	1,787	0	1,787
Reinsurers' share of insurance contracts, year-end	**8,575**	**0**	**8,575**	**27,267**	**0**	**27,267**
Reinsurers' share of premium provisions						
Beginning of year	0	0	0	0	0	0
Premiums ceded	-8,015	-399	-8,414	-8,827	-388	-9,215
Payments to reinsurers	8,015	399	8,414	8,827	388	9,215
Reinsurers' share of premium provisions, year-end	**0**	**0**	**0**	**0**	**0**	**0**
Reinsurers' share of claims provisions						
Beginning of year	25,480	0	25,480	615	0	615
Claims ceded	4,479	0	4,479	26,173	0	26,173
Payments received from reinsurers	-23,577	0	-23,577	-1,307	0	-1,307
Reinsurers' share of claims provisions, year-end	**6,383**	**0**	**6,383**	**25,480**	**0**	**25,480**

Notes

Note

Effects of IFRS 9

49 The expected effects on the impairment account of the impairment rules under IFRS 9 amount to DKK 30 – 50m after tax and are fully recognised in the opening balance sheet at 1 January 2018. The expected effect on BankNordik's common equity tier 1 capital ratio and on its total capital ratio is 0.3 – 0.5 percentage points.

In order to prevent an unintended effect on total capital and thus on banks' ability to support credit-granting, the European Commission has proposed, as an element of the reform package presented by the Commission on 23 October 2016 (the risk reduction package, also called CRR II/CRD V/BRRD II), a five-year transition scheme so that an adverse effect of the new IFRS 9 impairment rules will not have full effect on total capital until after five years. The transition scheme has now been approved, and it takes effect concurrently with IFRS 9, i.e. on 1 January 2018.

BankNordik has resolved not to apply the transition scheme.

Accordingly, the effects of IFRS 9 on total capital when the rules take effect in 2018 will correspond to the increase in the allowance account at 1 January 2018 adjusted for the tax effect.

Significant increase in credit risk

In 2017 as in previous years BankNordik has applied the Danish Financial Supervisory Authority's risk classification methodology as its primary measure of credit risk in its internal credit risk management setup. BankNordik has, however, for several years supplemented this methodology with its own more granulated credit rating methodology measuring PD for its personal and commercial customers. These PD's are used as the basis for measuring significant increase in credit risk under IFRS 9. In order to align measures of credit risk applied under IFRS 9 with BankNordik's general internal credit risk management setup BankNordik plan to enter into a transition in 2018 making its own credit rating methodology its primary measure of credit risk.

The assessment of the change in credit risk assumes a significant increase in credit risk relative to the initial recognition in the following situations:

- A 100% increase in the lifetime PD of the financial asset and a 0.5 percentage point increase in the 12-month PD if the 12-month PD was below 1% on initial recognition.

- A 100% increase in the lifetime PD of the financial asset or a 2.0 percentage point increase in the 12-month PD if the 12-month PD was 1% or higher on initial recognition.

If the credit risk of the financial asset is considered to be low at the balance sheet date, the asset will remain at stage 1, characterised by no significant increase in credit risk. The credit risk is considered to be low when a customer's 122 month PD is less than 0.2%

Definition of default

Loans and guarantees are defined as being in default when they meet at least one of the following criteria:

Personal customers:

- More than 90 days overdrawn and currently > DKK 500 overdrawn
- Account impaired
- Interest accrual suspended
- Customer submitted for debt collection
- Individual (stage 3) impairment > 0 (including loans taken over)
- Customer in bankruptcy, suspension of payments, in liquidation, debt rescheduling or composition

Commercial customers:

- More than 90 days overdrawn and currently > DKK 10,000 overdrawn
- Account impaired
- Interest accrual suspended
- Customer submitted for debt collection
- Individual (stage 3) impairment > 0 (including loans taken over)
- Customer in bankruptcy, suspension of payments, in liquidation, debt rescheduling or composition

With the definition of default applied, the definition of default of the Capital Requirement Regulation (CRR) is very similar to the accounting definition of default, and the definition is consistent with the definition of default applied for BankNordik's internal credit risk management purposes.

BankNordik's use of forward-looking information in calculating expected losses

Under the new IFRS 9 impairment rules, forward-looking information is a component in the calculation of expected loss by way of macroeconomic forecasts and projections anchored in a macroeconomic module developed and maintained by LOPI, the Association of Local Banks in Denmark.

The macroeconomic module consists of a number of regression models that establish the historical correlation between impairment for the year in a number of sectors and industries and a number of explanatory macroeconomic variables. Data is then fed to the regression models based on forecasts from consistent sources, such as the Danish Economic Council, the Danish central bank and others, providing forecasts that generally look two years ahead and comprise variables such as increases in public spending, increases in GDP, interest rates, etc. That allows for the calculation of anticipated impairment in individual sectors and industries up to two years ahead while calculations beyond two years are based on a linear interpolation between the impairment rate in year 2 and the impairment rate in year 10, at which time a long-term equilibrium, calculated as a structural forecast level, is assumed for modelling purposes. The impairment rate applied for long-term equilibrium in year 10 is also applied beyond 10 years for modelling purposes. Lastly, the calculated impairment rates are transformed into adjustment factors and used to correct the data centre's "raw" estimates for the individual sectors and industries.

BankNordik's business models relative to the classification of financial assets

BankNordik applies three business models (business targets) relative to the classification and measurement of financial assets.

1) Financial assets which BankNordik holds for the purpose of generating contractual payments from financial assets (investment portfolio). The portfolio is measured at amortised cost.

2) Financial instruments 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 measured at fair value through other comprehensive income.

BankNordik's risk management system and investment strategy, which comprise the bank's bond portfolio, are based upon fair value measures and appear as such in the Group's internal management reports. Regardless of the fact that some instrument may be held for a longer term, such reporting is in Management's view inconsistent with hold to collect and hold to collect and sell business models. Therefore, BankNordik has determined that the bond portfolio shall be classified into the fair value through profit or loss category.

3) Financial assets not forming part of the above two business models are classified in a residual category that includes financial assets held for trading. The portfolio is measured at fair value through profit and loss.

Note

Risk Management

50

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

- **Credit risk:** Risk of loss as a result of counterparties failing to meet their payment obligations to the Group
- **Market risk:** Risk of loss as a result of changes in the fair value of the Group's assets or liabilities due to changes in market conditions
- **Liquidity risk:** Risk of loss as a result of a disproportionate increase in financing costs, the Group possibly being prevented from entering into ventures due to a lack of financing or in extreme cases being unable to pay its dues as a result of a lack of financing
- **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

Management's Report and the Risk Management Report 2017 contain further information about the Group's approach to risk management. The Risk Management Report 2017 is available on the Group's website: www.banknordik.com/rm

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 of 27 August 2014. 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 40 to the financial statements show the P/F BankNordik's subordinated debt.

At year-end 2016, the Bank's core capital and solvency ratios were 16.0% and 18.3%, respectively. At the end of 2017, the core capital and solvency ratio were 17,5% and 19.7%, respectively.

Credit risk

The Group's credit exposure consists of selected on and offbalance sheet items, including loans and advances, credits, unused credits and guarantees. The figures below are before deduction of individual and collective impairments. Specification of impairments is shown in tables 8 and 10.

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

Risk exposure concentrations

Table 1

DKKm	2017 DKKm	2017 In %	2016 DKKm	2016 In %
Public authorities	641	4.1%	350	2.3%
Corporate sector:				
Agriculture and farming, others	64	0.4%	81	0.5%
Aquaculture	8	0.1%	17	0.1%
Fisheries	490	3.2%	480	3.2%
Manufacturing industries, etc.	394	2.5%	298	2.0%
Energy and utilities	207	1.3%	133	0.9%
Building and construction, etc.	473	3.1%	533	3.5%
Trade	796	5.1%	806	5.3%
Transport, mail and telecommunications	396	2.6%	912	6.0%
Hotels and restaurants	32	0.2%	30	0.2%
Information and communication	162	1.0%	177	1.2%
Property administration, etc.	811	5.2%	1,013	6.7%
Financing and insurance	114	0.7%	114	0.8%
Other industries	802	5.2%	662	4.4%
Total corporate sector	**4,748**	**30.8%**	**5,256**	**34.7%**
Personal customers	10,076	65.2%	9,596	63.1%
Total	**15,466**	**100.0%**	**15,203**	**100.0%**
Credit institutions and central banks	867		1,034	
Total incl. credit institutions and central banks	**16,333**		**16,236**	

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 guarantees.

Exposures related to trading and investment activities

Table 2

DKKm	2017	2016
Bonds at fair value	4,263	4,677
Derivatives with positive fair value	4	32
Total credit risk	4,267	4,709
Equity	249	241
Total	**4,515**	**4,950**

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 includes loans and advances, credits, unused credits and guarantees.

Exposures in fisheries were DKK 490m. This represents 3.2% of total exposures. Property administration is represented by 5.2% of total exposures (DKK 811m) and DKK 8m was related to the aquaculture industry. This represents 0.1% of total exposures.

Credit exposure by geographical area

Table 3

DKKm	2017 Exposures	2017 in%	2017 Loan/Credits	2017 Guarantees	2017 Unused credits	2016 Exposures	2016 in%	2016 Loan/Credits	2016 Guarantees	2016 Unused credits
Faroe Islands	8,263	53%	6,405	784	1,074	7,777	51%	5,923	748	1,106
Denmark	5,841	38%	3,023	1,346	1,472	5,814	38%	3,187	1,230	1,398
Greenland	1,361	9%	596	431	334	1,611	11%	867	454	290
Total	**15,466**	**100%**	**10,024**	**2,562**	**2,880**	**15,203**	**100%**	**9,977**	**2,432**	**2,793**

Quality of loan portfolio excl. financial institutions 2017

Table 4

		> 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**

Quality of loan portfolio excl. financial institutions 2016

		> 7.5m	< 7.5m	Total
Portfolio without weakness (3, 2a)	Exposure in DKKm	2,632	3,790	6,422
Portfolio with some weakness (2b)	Exposure in DKKm	1,120	5,436	6,556
Portfolio with significant weakness (2c)	Exposure in DKKm	89	391	480
	Unsecured	22	151	173
Portfolio with OEI (1)	Exposure in DKKm	674	928	1,602
	Unsecured	358	563	921
	Impairments/provisions	243	383	626
Portfolio without individual classification	**Exposure in DKKm**	**0**	**143**	**143**
Total	**Exposure in DKKm**	**4,515**	**10,687**	**15,203**

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 3 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)

As shown in table 4, above 99% of total exposures are individually classified.

For further information on impaired portfolios, see table 8 to 10.

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 2017, 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 10, 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

Credit exposure and collateral for 2017

Table 5

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%

Credit exposure and collateral for 2016

DKKm	Personal	Corporates	Personal & Corporate	Public	Total
Exposure	9,596	5,256	14,852	350	15,203
Loans, advances and guarantees	7,770	3,515	11,285	288	11,573
Collateral	5,518	2,911	8,429	10	8,439
Unsecured (of exposures)	4,078	2,345	6,423	340	6,763
Unsecured (loans, advances and guarantees)	2,252	603	2,855	278	3,134
Unsecured ratio	42%	45%	43%	97%	44%
Unsecured ratio, loans and advances	29%	17%	25%	97%	27%

** Before deductions of impairments and provisions*

(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 2b, 2a or 3.

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. 98 Collateral provided by the Group.

Collateral

Table 6

(in %)	2017	2016
Car	4%	3%
Real estate	72%	72%
Aircrafts & Ships	7%	6%
Other	18%	19%
Total	**100%**	**100%**

Table 6 shows collateral for exposures excluding exposures with impairment or past due exposures. Collateral amounts to DKK 8.3bn. The types of collateral most frequently provided are real estate (72%), ships/aircraft (7%) and motor vehicles (4%) in addition to guarantees provided by owners or, in the Danish market, by floating charge.

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

Distribution of past due amount

Table 7

	2017				2016			
DKKm	Exposure	Past due total	Past due › 90 days	Total balance with past due	Exposure	Past due total	Past due › 90 days	Total balance with past due
Portfolio without weakness (3, 2a)	6,195	18	0	542	6,422	13	3	786
Portfolio with some weakness (2b, 2b)	7,439	42	1	1,495	6,556	62	1	1,251
Portfolio with significant weakness (2c)	441	2	0	104	480	4	0	155
Portfolio with impairment/provision (1)	1,251	13	4	328	1,602	30	11	584
Portfolio without individual classification	139	4	0	17	143	5	1	34
Total	**15,466**	**77**	**6**	**2,486**	**15,203**	**114**	**17**	**2,810**
Past due in % of exposure		0.50%	0.04%			0.75%	0.11%	

Loans & guarantees, individual impairments, collateral and unsecured by sector								Table 8
DKKm	2017				2016			
	Loans and Guarantees	Impairments/ Provisions	Collateral	Unsecured	Loans and Guarantees	Impairments/ Provisions	Collateral	Unsecured
Public								
Private	314	199	111	4	697	385	285	26
Corporate	372	233	116	24	369	241	125	4
Total	**686**	**432**	**227**	**27**	**1,066**	**626**	**410**	**30**

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 5 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 42% of personal exposures and 44% of corporate exposures. The largest part of the Bank's credit is granted against collateral in real estate.

As shown in table 7, DKK 6m is more than 90 days past due.

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

If OEI of a loan, advance or amount due exists, the Group determines the individual impairment charge. The charge equals the difference between the carrying amount and the present value of the estimated future cash flow from the asset, including the realisation value of collateral. The Group estimates the future cash flow on the basis of the most likely scenario.

Loans and advances specified by maturity		Table 9
DKKm	2017	2016
On demand	1	19
3 months and below	727	236
3 months to 1 year	1,263	1,354
Over 1 year to 5 years	3,506	3,458
Over 5 years	4,040	4,073
Total loans and advances	**9,537**	**9,141**

The total impairment charges above for 2017 do not reflect the impairments made at the date of the Bank's acquisition of exposures from Sparbank and Amagerbanken, or which should have been made at such date, but was not identified before in the period of 12 months following the relevant acquisition. Impairment charges of the acquired exposures from Sparbank (2010) and Amagerbanken (2011) are recognised as either part of the booked value of the aquired exposures or as goodwill. If such impairments are reversed, they will be recognised as other income.

Specification of individual and collective impairments						Table 10
	2017			2016		
DKKm	Loans gross	Individual impairments	Impairments from acquired portfolio	Loans gross	Individual impairments	Impairments from acquired portfolio
Individual impairments:						
Faroe Islands	263	196	0	477	252	0
Denmark	344	185	135	589	313	191
Greenland	33	27	0	42	27	0
Total	**640**	**408**	**135**	**1,108**	**592**	**191**
Collective impairments:						
Faroe Islands	6,038	40	0	5,446	26	0
Denmark and Greenland	3,346	38	0	3,422	27	0
Total	**9,384**	**78**	**0**	**8,868**	**53**	**0**

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

A further breakdown by maturity of loans and advances can be found in table 15. There are no aggregated data on the collateral behind matured loans and advances.

Market Risk

Organisation

The Bank has established an Investment Working Group to monitor the financial markets and continuously update its expectations for 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 strategic asset allocation on about a 12-month horizon to the Investment Group.

The Investment Working Group refers to the Investment Group. Participants in the Investment Group are employees responsible for Market Risk. Based on the recommendation, the Investment Group decides whether to retain or revise the Bank's official outlook.

The Investment Groups decisions are communicated throughout the organization and forms the basis for all advice provided to customers and included in the Bank's official Markets Update, which is forwarded by e-mail to a wide range of recipients and published on the Bank's website.

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

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

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.

Market Risk Management

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

Likely effects from changes in markets value					Table 11
DKKm	Change	2017	% of Core Capital	2016	% of Core Capital
Equity risk (+/-)	10%	25	1.4%	24	1.6%
Exchange risk (+/-) EUR	2.25%	0	0.0%	0	0.0%
Exchange risk (+/-) Other currencies	10%	1	0.0%	7	0.5%
Interest rate risk (parallel shift)	100 bp	27	1.6%	18	1.1%

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.

The Financial Manager/Treassury 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. The CFO is responsible for controlling of the market risk.

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. The control of market risk lies with the CFO.

Market risk

Table 11 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.

Interest rate risk broken down by Currency		Table 12
DKKm	2017	2016
DKK	21	13
EUR	7	5
Interest rate risk	27	18

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.

Table 12 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 13
DKKm	2017	2016
Assets in foreign currency	15	75
Exchange rate indicator 1	15	75

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 14

DKKm	2017	2016
Shares/unit trust certificates listed on the Copenhagen Stock Exchange	25	30
Shares/unit trust certificates listed on other stock exchanges	19	20
Other shares at fair value based on the fair-value option	204	191
Total shares etc.	**249**	**241**

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 has designated BankNordik as a systematically important financial institutions (SIFI). With a liquidity coverage ratio (LCR) of 209 % at 31. December 2017 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 CFO is responsible for controlling. The Group has implemented contingency plans to ensure that it is ready to respond to unfavorable liquidity conditions.

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 2018, which were revised in December taking the market outlook into account.

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

Remaining maturity

Table 15

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	1,058	732,066	1,293,899	11,303,379		13,330,402
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	**694,874**	**905,648**	**1,798,192**	**15,854,902**	**409,975**	**19,663,590**
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
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
Loan Commitments	157,480					157,480
Total	**476,423**					**476,423**
2016						
Cash in hand and demand deposits with central banks	216,915					216,915
Due from Credit institution	366,637	250,498	876	201,197		819,209
Loans and advances	19,463	237,692	1,389,091	11,596,097		13,242,344
Bonds and Shares*	105,156	31,729	895,260	3,740,858	194,793	4,967,797
Derivatives	31,852					31,852
Other Assets	146,912	54,120		2,206	224,245	427,483
Total assets	**886,936**	**574,040**	**2,285,228**	**15,540,358**	**419,039**	**19,705,600**
Due to credit institutions and central banks	42,000	648	2,914	337,879		383,440
Deposits	9,465,261	1,679,378	76,565	1,477,607		12,698,810
Derivatives						
Other liabilities	165,432	61,986	2,816	3,629	55,633	289,495
Subordinated debt	941	1,881	6,584	278,697		288,103
Equity					**2,028,143**	**2,028,143**
Total	**9,673,633**	**1,743,893**	**88,878**	**2,097,811**	**2,144,644**	**15,748,859**
Off-balance sheet items						
Financial guarantees	366,671					366,671
Loan Commitments	206,881					206,881
Total	**573,624**					**573,624**

* In this table, bonds are calculated based on closing maturity. Bonds are traded daily, and therefore this is not an expression of the relative maturity.

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 2017 had pledged bonds and cash deposits valued at DKK 37m under these agreements. End of period BankNordik had negative market value to all counterparties and has therefore not received any collateral yearend 2017.

BankNordik also provides collateral to the Danish central bank to give the Bank access to the intra-day draft facility with the central bank as part of the Danish clearing services for securities. At year-end 2017, this collateral amounted to DKK 43m.

Operational Risk

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

Definition
According to the Basel Committee, operational risk is defined as follows:

"Risk of loss resulting from inadequate or faulty internal procedures, human errors and system errors, or because of external events, including legal risks."

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

Policy
The Bank seeks to minimise its operational risks throughout the organisation by means of an extensive system of policies and control arrangements, which are designed to optimise procedures.

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

Although the Bank has implemented risk controls and taken loss-mitigating actions, and substantial resources have been devoted to developing efficient procedures and training staff, it is not possible to implement procedures that are fully effective in controlling all operational risks. The Bank has therefore taken out insurance in respect of property, office equipment, vehicles and employee compensation as well as general liability and directors' and officers' liability. In addition, the Bank has taken out insurance against theft, robbery, amounts lost in cash transports or in the post up to a reasonable figure. The Bank believes that the type and relative amounts of insurance that it holds are in accordance with customary practice in its business area.

The Bank has not been involved in any governmental, legal or arbitration proceedings (nor is the Bank aware of any such proceedings pending or being threatened) during a period covering at least the preceding 12 months, which may have, or have had in the recent past a material adverse impact on the Bank's financial position or profitability.

Pursuant to the executive Order in Capital Adequacy and the Danish FSA's guidelines, the Bank is required to perform a qualitative assessment of its control environment. Control environment is a collective term for the resources the bank applies to minimise the risks involved in carrying on the financial business. Such resources would include an assessment of the scope of internal business procedures, the degree of functional segregation, and whether the necessary management and control tools are in place in all relevant business areas.

Long-term goals in operational risk management
In addition to monitoring the level of risk for assessing the capital requirement for operational risk, the Bank's monitoring system is designed to gather new statistics on operational risk. The long-term objective is for the monitoring system monitoring the level of operational risk in the Bank's branches on a monthly basis to have a preventive effect and to help to minimise the Bank's operational risk.

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 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.

Likely effects from changes in markets value — Table 16

DKKm	Change	2017	2016
Equity risk (+/-)	10%		
Exchange risk (+/-) in euro	2.25%		
Exchange risk (+/-) others currency	10%		
Interest rate risk (parallel shift) – Trygd	100 bp	0.7	0.7
Interest rate risk (parallel shift) Total	**100 bp**		

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

Distrubution of portfolio of Trygd — Table 17

	2017	2016
Commercial lines	67%	69%
Personal lines	33%	31%

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)	2017	2016
Listed securities on stock exchange	140	136
Accounts receivable (total technical provisions)	2	2
Cash and cash equivalents	16	13
Total	**158**	**151**

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.

Capital requirements
The effects on BankNordiks solvency, due to the ownership of the insurance company's Trygd and NordikLív, are considered low. According to CRR the risk weighted assets has increased DKK 283m. The negative effect on the solvency thus is 0.6% points.

Trygd 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.

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.

Run-off gains/losses in Trygd — Table 19

mDKK

Sector:	2017	2016	2015	2014	2013
Industry	1.25	2.5	1.12	1.95	-1.31
Private	0.46	0.43	0.64	-0.18	0.96
Accidents	0.19	-0.32	0.27	-0.07	-0.10
Automobile	2.93	3.39	2.3	0.99	0.86
Total	**4.82**	**6.00**	**4.33**	**2.69**	**0.41**

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 good 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 business is done 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 2017 the total premiums amounted to DKK 13.2m compared to DKK 11.2m in 2016, and the individual solvency requirement was much lower than the minimum capital requirement defined by law, leaving NordikLív with a capital requirement of DKK 26.1m compared to a capital of DKK 31.3m.

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

Table 20

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**

Contractual maturity for the insurance segment

2016	On demand	0 – 12 months	1 – 5 years	Over 5 years	No stated maturity	Total
Assets						
Securities	167,943					167,943
Reinsurance assets		25,480				25,480
Accounts receivables		1,787				1,787
Restricted cash						
Cash and cash equivalents	15,299					15,299
Total financial assets	**183,242**	**27,267**				**210,509**
Liabilities						
Technical provision		105,673				105,673
Account payable		10,213				10,213
Total financial liabilities		**115,886**				**115,886**
Assets – liabilities	**183,242**	**-88,618**				**94,623**

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

51 **Highlights**

DKK 1,000	2017	2016	Index 17/16	2015	2014	2013
Net interest income	387,216	413,204	94	468,652	497,751	574,032
Net fee and commission income	190,425	182,202	105	216,839	189,190	174,265
Net interest and fee income	583,041	604,875	96	694,735	693,878	756,028
Net insurance income	43,367	26,627	163	27,857	29,185	69,427
Interest and fee income and income from insurance activities, net	626,407	631,502	99	722,593	723,063	825,455
Market value adjustments	20,131	11,313	178	-38,751	9,540	22,017
Other operating income	33,534	39,187	86	58,499	43,703	63,547
Staff cost and administrative expenses	453,630	462,461	98	514,003	476,373	543,390
Impairment charges on loans and advances etc.	-35,107	18,228	-193	59,655	111,014	178,234
Net profit continued operations	189,078	149,171	127	-254,562	-145,934	
Net profit discontinued operations	0	72,703	0	33,553	18,523	
Net profit	189,078	221,874	85	-221,009	-127,411	92,396
Loans and advances	9,537,425	9,140,637	104	10,675,180	10,491,509	10,460,299
Bonds at fair value	4,262,730	4,677,230	91	3,398,816	3,534,678	3,493,271
Intangible assets	0	0	0	0	529,730	798,141
Assets held for sale	6,302	11,974	53	35,402	51,771	58,168
Assets in disposals groups classified as held for sale	0	0		581,280	0	0
Total assets	15,784,953	15,552,094	101	16,230,078	16,535,501	17,084,562
Due to credit institutions and central banks	360,497	341,676	106	574,791	591,347	1,290,408
Deposits and other debt	12,632,463	12,668,697	100	12,680,157	12,603,533	12,192,748
Total shareholders' equity	1,820,092	1,922,035	95	1,766,335	1,999,195	2,155,998

Ratios and key figures	**Dec. 31**	**Dec. 31**	**Dec. 31**	**Dec. 31**	**Dec. 31**
Solvency	**2017**	**2016**	**2015**	**2014**	**2013**
Solvency ratio, %	19.7	18.3	16.8	14.8	14.7
Core capital ratio, %	17.5	16.0	14.8	12.9	12.8
Core capital ratio excl. hybrid core capital, end of period, %	17.5	16.0	13.9	11.8	10.6
Risk-weighted Items, DKK mill	9,895	9,790	11,463	11,943	11,511
Profitability					
Return on equity before tax, %	12.5	15.0	-19.6	-5.5	5.4
Return on equity after tax, %	10.1	12.0	-11.7	-6.1	4.4
Income / Cost ratio	1.5	1.4	0.7	0.9	1.1
Cost / income, % (excl. value adjustm. and impairments)	72.8	71.0	134.7	101.7	69.0
Return on assets	1.2	1.4	-1.4	-0.8	0.5
Market risk					
Interest rate risk, %	1.6	1.1	2.2	3.0	4.8
Foreign exchange position, %	0.9	4.8	9.5	8.6	7.1
Liquidity					
Loans and advances plus impairment charges as % of deposits	79.4	77.2	89.5	88.2	89.6
Excess cover relative to statutory liquidity requirements, %	205.1	241.7	166.8	182.2	178.0
Credit risk					
Large exposures as % of capital base	13.7	44.3	65.0	81.1	52.2
Impairment and provisioning ratio, %	4.0	5.5	4.9	4.8	4.1
Write-off and impairments ratio, %	-0.3	0.1	0.4	0.8	1.4
Growth on loans and advances, %	4.3	-14.4	1.8	0.3	-7.5
Gearing of loans and advances, %	5.2	4.8	6.0	5.2	4.9
Shares					
Earnings per share after tax, DKK	19.5	22.6	-22.4	-12.9	9.4
Book value per share, DKK	187.2	197.7	179.1	202.7	218.6
Proposed dividend per share DKK	4.0	30.0	2.0	2.0	1.5
Market price per share, DKK	106.0	135.5	127.6	104.5	128.0
Market price / earnings per share DKK	5.4	6.0	-5.7	-8.1	13.7
Market price / book value per share DKK	0.6	0.7	0.7	0.5	0.6
Other					
Number of full-time employees, end of period	400	415	459	506	523

Highlights, ratios and key figures – BankNordik Group

Highlights	Full year	Full year	Index	Q4	Q3	Q2	Q1	Q4
DKK 1,000	2017	2016	17 / 16	2017	2017	2017	2017	2016
Net interest income	387,216	413,204	94	95,086	97,240	96,950	97,939	100,037
Dividends from shares and other investments	5,400	9,469	57	102	80	4,482	735	84
Net fee and commission income	190,425	182,202	105	47,081	38,685	53,246	51,413	51,025
Net interest and fee income	583,041	604,875	96	142,269	136,005	154,679	150,088	151,146
Net insurance income	43,367	26,627	163	12,160	12,851	9,328	9,028	-6,782
Interest and fee income and income from insurance activities, net	626,407	631,502	99	154,429	148,855	164,007	159,116	144,364
Market value adjustments	20,131	11,313	178	-3,921	5,342	4,678	14,032	-10,232
Other operating income	33,534	39,187	86	14,401	7,509	5,209	6,416	16,559
Staff cost and administrative expenses	453,630	462,461	98	110,358	111,720	117,291	114,262	111,724
Impairment charges on loans and advances etc.	-35,107	18,228		-38,825	296	-1,767	5,189	10,263
Net profit continued operations	189,078	149,171	127	77,103	23,588	43,152	45,236	20,532
Net profit discontinued operations	0	72,703	0	0	0	0	0	0
Net profit	189,078	221,874	85	77,103	23,588	43,152	45,236	20,532
Loans and advances	9,537,425	9,140,637	104	9,537,425	9,549,256	9,427,627	9,159,436	9,140,637
Bonds at fair value	4,262,730	4,677,230	91	4,262,730	4,446,548	4,479,960	4,770,380	4,677,230
Assets held for sale	6,302	11,974	53	6,302	13,276	10,034	10,283	11,974
Total assets	15,784,953	15,552,094	101	15,784,953	16,058,764	16,117,793	15,578,746	15,552,094
Due to credit institutions and central banks	360,497	341,676	106	360,497	322,011	326,367	297,019	341,676
Deposits and other debt	12,632,463	12,668,697	100	12,632,463	12,982,550	13,472,482	12,678,890	12,668,697
Total shareholders' equity	1,820,092	1,922,035	95	1,820,092	1,742,990	1,718,381	1,674,667	1,922,035

Ratios and key figures	Dec. 31 2017	Dec. 31 2016	Dec. 31 2017	Sept. 30 2017	June 30 2017	March 31 2017	Dec. 31 2016
Solvency							
Solvency ratio, %	19.7	18.3	19.7	18.2	17.9	18.4	18.3
Core capital ratio, %	17.5	16.0	17.5	15.9	15.7	16.1	16.0
Core capital ratio excl. hybrid core capital, end of period, %	17.5	16.0	17.5	15.9	15.7	16.1	16.0
Risk-weighted Items, DKK mill	9,895	9,790	9,895	9,942	10,071	9,810	9,790
Profitability							
Return on equity after tax, %	10.1	12.0	4.3	1.4	2.5	2.5	1.1
Cost / income, %	65.5	72.5	44.3	81.2	68.2	68.1	81.7
Cost / income, % (excl. value adjustm. and impairments)	72.8	71.0	66.3	73.1	71.2	70.7	70.1
Return on assets	1.2	1.4	0.5	0.1	0.3	0.3	0.1
Market risk							
Interest rate risk, %	1.6	1.1	1.6	1.6	2.0	1.7	1.1
Foreign exchange position, %	0.9	4.8	0.9	1.1	1.0	1.3	4.8
Liquidity							
Excess cover relative to statutory liquidity requirements, %	205.1	241.7	205.1	218.7	245.5	239.1	241.7
Credit risk							
Growth on loans and advances, %	4.3	-14.4	-0.1	1.3	2.9	0.2	-2.5
Gearing of loans and advances	5.2	4.8	5.2	5.5	5.5	5.5	4.8
Impairment and provisioning ratio, end of period, %	4.0	5.5	4.0	5.0	5.1	5.4	5.5
Write-off and provisioning ratio, %	-0.3	0.1	-0.3	0.0	0.0	0.0	0.1
Share of amounts due on which interest rates have been reduced, end of period, %	0.4	0.7	0.4	0.5	0.6	0.6	0.7
Shares							
Earnings per share after tax (nom. DKK 20), DKK	19.5	22.6	7.9	2.4	4.4	4.7	2.1
Market price per share (nom. DKK 20), DKK	106.0	135.5	106.0	119.5	123.0	139.5	135.5
Book value per share (nom. DKK 20), DKK	187	198	187	179	177	172	198
Other							
Number of full-time employees, end of period	400	415	400	407	407	416	415

Note

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

51 **Highlights**

DKK 1,000	2017	2016	2015	2014	2013
Net interest income	385,612	411,671	467,107	495,505	561,639
Net fee and commission income	199,367	191,414	216,839	189,190	181,777
Net interest and fee income	590,378	612,554	693,190	691,632	750,842
Market value adjustments	21,952	11,954	-37,067	9,438	11,704
Other operating income	29,174	118,583	51,535	39,386	60,656
Staff cost and administrative expenses	431,121	442,584	490,696	458,249	491,852
Depreciation and impairment of property, plant and equipment	27,599	8,515	513,677	270,855	25,083
Impairment charges on loans and advances etc.	-35,107	18,228	59,655	111,014	178,234
Income from associated and subsidiary undertakings	12,160	4,500	40,583	7,320	22,638
Net profit	189,078	221,874	-221,009	-127,411	92,396
Loans and advances	9,537,425	9,140,637	10,675,180	10,491,509	10,460,299
Bonds at fair value	4,091,177	4,509,287	3,274,870	3,237,238	3,187,351
Intangible assets	0	0	0	520,672	788,695
Assets held for sale	6,302	11,974	35,402	51,771	58,168
Assets in disposals groups classified as held for sale			187,904	0	0
Total assets	15,713,057	15,455,187	15,825,630	16,197,909	16,752,832
Due to credit institutions and central banks	360,497	341,676	574,791	591,347	1,290,408
Deposits and other debt	12,653,510	12,691,224	12,739,229	12,690,011	12,284,672
Total shareholders' equity	1,820,092	1,922,035	1,759,575	1,991,582	2,148,388

Ratios and key figures	Dec. 31 2017	Dec. 31 2016	Dec. 31 2015	Dec. 31 2014	Dec. 31 2013
Solvency					
Solvency ratio, %	19.7	18.3	16.8	14.8	14.7
Core capital ratio, %	17.5	16.0	14.8	12.9	12.8
Core capital ratio excl. hybrid core capital, end of period, %	17.5	16.0	13.9	11.8	10.6
Risk-weighted Items, DKK mill	9,895	9,790	11,463	11,943	11,511
Profitability					
Return on equity before tax, %	12.4	15.0	-18.0	-5.7	5.1
Return on equity after tax, %	10.1	12.1	-11.8	-6.2	4.4
Income / Cost ratio	1.5	1.6	0.7	0.9	1.1
Cost / income, % (excl. value adjustm. and impairments)	72.3	61.6	130.6	102.2	67.2
Return on assets	1.2	1.4	-1.4	-0.8	0.6
Market risk					
Interest rate risk, %	1.5	1.1	1.1	2.0	3.7
Foreign exchange position, %	0.9	4.8	9.5	8.6	7.1
Liquidity					
Loans and advances plus impairment charges as % of deposits	79.2	77.1	88.8	87.3	88.9
Excess cover relative to statutory					
liquidity requirements, %	195.7	233.3	138.7	159.0	154.9
Credit risk					
Large exposures as % of capital base	13.7	44.3	65.0	81.1	52.2
Impairment and provisioning ratio, %	4.0	5.5	4.9	4.8	4.1
Write-off and impairments ratio, %	-0.3	0.1	0.4	0.8	1.4
Growth on loans and advances, %	4.3	-14.4	1.8	0.3	-7.5
Gearing of loans and advances	5.2	4.8	6.1	5.3	4.9
Shares					
Earnings per share after tax, DKK	19.5	22.6	-22.4	-12.9	9.4
Book value per share, DKK	187.2	197.7	178.4	201.9	217.8
Proposed dividend per share DKK	4.0	30.0	2.0	2.0	1.5
Market price per share, DKK	106.0	135.5	127.6	104.5	128.0
Market price / earnings per share DKK	5.4	6.0	-5.7	-8.1	13.7
Market price / book value per share DKK	0.6	0.7	0.7	0.5	0.6
Other					
Number of full-time employees, end of period	367	385	363	412	431

Definitions of key financial ratios

Key financial ratio	Definition
Earnings per share (DKK)	Net profit for the year divided by the average number of shares outstanding during the year.
Diluted earnings per share (DKK)	Net profit for the year divided by the average number of shares outstanding during the year, including the dilutive effect of share options and conditional shares granted as share-based payments.
Return on average shareholders' equity (%)	Net profit for the year divided by average shareholders' equity during the year.
Cost/income ratio (%) excl. value adjustm. and impairments	Operating expenses divided by total income (excl. value adjustments and impairments).
Cost/income ratio (%)	Operating expenses divided by total income.
Income/cost ratio (%)	Total income divided by operating expenses.
Solvency ratio	Total capital, 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)

Educational background:	Strategic Agility program, Harvard Business School, USA; LinKS Wharton University of Pennsylvania, USA; LinKS, INSEAD, France, MSc of Law, University of Copenhagen
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, TDC A/S. Former Boardmember of Nordea.
First elected to the Board in:	2015
Address:	Nationernes Allé 26, DK-3000 Helsingør, Denmark

Rúni Vang Poulsen (Deputy Chairman)

Educational background:	MSc in Business Management and Accounting
Principal occupation:	CEO of Smyril Line P/F and Sp/f Smyril Line Agency
Board positions held that are relevant to banking and insurance:	Vice chairman of the board of: P/F BankNordik. *Board member of:* P/F Visit Faroe Islands
First elected to the Board in:	2015
Address:	Hvítanesvegur 17, FO-188 Hoyvík, Faroe Islands.

Jógvan Jespersen

Educational background:	HD – Finance and accounting from School of Business and Social Sciences, Aarhus University
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
First elected to the Board in:	1994 – 2006 and 2015
Address:	Smærugøta 2, FO-100 Tórshavn, Faroe Islands

Kim Jacobsen

Educational background:	Bank education supplemented with different advanced banking and sale & management courses; INSEAD, Paris
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
First elected to the Board in:	2017
Address:	Skellebækvej 1, DK-3070 Snekkersten, Denmark

Barbara Pállsdóttir Vang

Educational background:	MSc in Law, University of Copenhagen
Principal occupation:	Legal Advisor at Tórshavn Municipality
Board positions held:	*Board member of:* P/F BankNordik
First elected to the Board in:	2017
Address:	Dánjalstrøð 2, FO-100 Tórshavn, Faroe Islands

Kenneth Samuelsen	
Educational background:	Financial education
Principal occupation:	BankNordik – IT & Analyses department – unit Faroe Islands
Board positions held:	*Board member of:* P/F BankNordik
First elected to the Board in:	2010
Address:	Áarrás 8, 160 Argir, Faroe Islands

Tórhallur Olsen	
Educational background:	Financial education and subsequent continuing education within financial aspects.
Principal occupation:	Employed at BankNordik's Credit department, Faroe Islands, as Senior Advisor.
Board positions held:	*Board member of:* P/F BankNordik
First elected to the Board in:	2014
Address:	Undir Hamri 20, Hvalvík, Faroe Islands

Executive Board

Árni Ellefsen (CEO)	
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 Peninga-stovnar) and the Faroese Association of Employers (Føroya Arbeiðsgevarafelag)
Year of joining the Executive Board:	2015
Address:	Ægishædd 6, FO-100 Tórshavn, Faroe Islands.

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www.banknordik.fo

P/F skr. nr. 10, Tórshavn
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BankNordik is a limited liability company incorporated and domiciled in the Faroe Islands.

The company is listed on Nasdaq Copenhagen.

IR contact

Carl Herup Olsen
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Tel. +298 330 380

Branches

Faroe Islands

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Tel. +298 330 330

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700 Klaksvík
Tel. +298 330 330

Tvøroyri
Sjógøta 2
800 Tvøroyri
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Miðvágur
Jatnavegur 26
370 Miðvágur
Tel. +298 330 330

Saltangará
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600 Saltangará
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100 Tórshavn
Tel. +298 330 330

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2791 Dragør
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Greenland

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SENDISTOVAN