

Annual Report 2014

BANKNORDIK

Annual Report 2014

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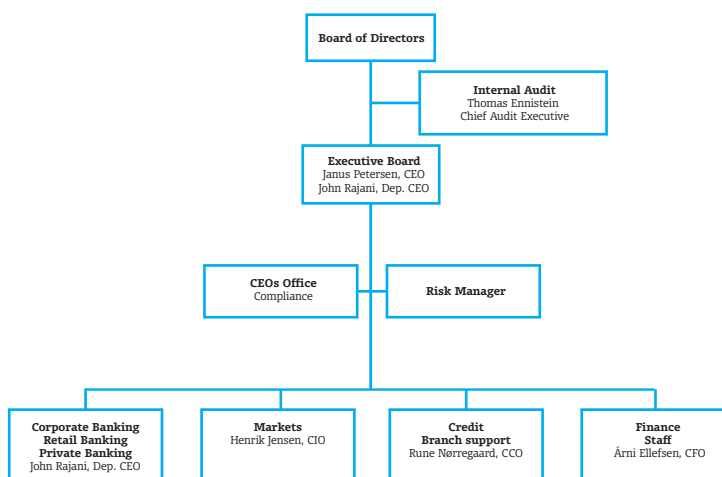
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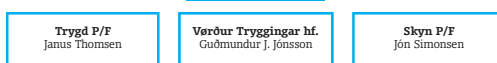
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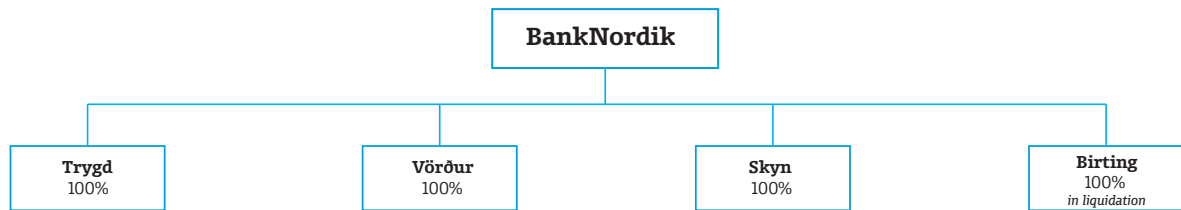
BankNordik Organisation



Subsidiaries



Overview of the Group



Banking is the principal business activity under the BankNordik brand in the Faroe Islands, Denmark and Greenland. The Group has insurance operations in the Faroe Islands under the Trygd brand and in Iceland under the Vörður brand. Other activities include Skyn, a Faroese estate agency.



Highlights, ratios and key figures - BankNordik Group

| Highlights | Full year | Full year | Index | Q4 | Q3 | Q2 | Q1 | Q4 |
|---|------------------|------------------|---------|----------------|-----------------|----------------|-----------------|----------------|
| DKK 1,000 | 2014 | 2013 | 14 / 13 | 2014 | 2014 | 2014 | 2014 | 2013 |
| Net interest income | 508,390 | 574,032 | 89 | 124,966 | 125,030 | 125,517 | 132,877 | 133,364 |
| Net fee and commission income | 182,831 | 174,265 | 105 | 50,024 | 44,289 | 44,921 | 43,597 | 47,360 |
| Dividends from shares and other investments | 7,487 | 7,731 | 97 | 1,821 | 213 | 5,453 | 0 | 4,180 |
| Net insurance income | 76,035 | 69,427 | 110 | 22,264 | 25,713 | 20,362 | 7,696 | 14,213 |
| Interest and fee income and income from insurance activities, net | 774,743 | 825,455 | 94 | 199,076 | 195,245 | 196,252 | 184,170 | 199,118 |
| Market value adjustments | 19,831 | 22,017 | 90 | -3,654 | -755 | 13,005 | 11,235 | -4,968 |
| Other operating income | 43,721 | 63,547 | 69 | 9,221 | 8,719 | 13,946 | 11,835 | 11,439 |
| Staff cost and administrative expenses | 514,152 | 543,390 | 95 | 134,090 | 120,103 | 132,047 | 127,912 | 132,771 |
| Amortisation, depreciation on fixed assets and impairment charges | 273,135 | 27,582 | 990 | 255,049 | 5,860 | 6,048 | 6,178 | 9,692 |
| Other operating expenses | 25,411 | 43,323 | 59 | 6,987 | 5,659 | 6,792 | 5,973 | 22,865 |
| Impairment charges on loans and advances etc. | 111,014 | 178,234 | 62 | 34,475 | 22,477 | 24,323 | 29,740 | 45,828 |
| Reversals of acquired OEI impairments | 26,050 | 30,618 | 85 | 5,817 | 5,793 | 5,796 | 8,645 | 4,000 |
| Profit before tax | -92,154 | 113,868 | -81 | -225,962 | 49,149 | 53,957 | 30,702 | -10,180 |
| Loans and advances | 10,491,509 | 10,460,298 | 100 | 10,491,509 | 10,314,706 | 10,207,310 | 10,392,442 | 10,460,298 |
| Bonds at fair value | 3,534,678 | 3,493,271 | 101 | 3,534,678 | 3,479,956 | 3,243,824 | 2,789,354 | 3,493,271 |
| Intangible assets | 529,730 | 798,141 | 66 | 529,730 | 781,643 | 783,552 | 782,533 | 798,141 |
| Assets held for sale | 51,771 | 58,168 | 89 | 51,771 | 18,253 | 23,706 | 21,325 | 58,168 |
| Total assets | 16,535,501 | 17,084,562 | 97 | 16,535,501 | 16,524,079 | 16,106,281 | 16,583,866 | 17,084,562 |
| Due to credit institutions and central banks | 591,347 | 1,290,408 | 46 | 591,347 | 630,389 | 340,263 | 939,147 | 1,290,408 |
| Deposits and other debt | 12,603,533 | 12,192,748 | 103 | 12,603,533 | 12,341,777 | 12,281,228 | 12,047,221 | 12,192,748 |
| Total shareholders' equity | 1,999,195 | 2,155,998 | 93 | 1,999,195 | 2,219,251 | 2,180,861 | 2,135,334 | 2,155,998 |
| Ratios and key figures | Full year | Full year | | Dec. 31 | Sept. 30 | June 30 | March 31 | Dec. 31 |
| | 2014 | 2013 | | 2014 | 2014 | 2014 | 2014 | 2013 |
| Total capital | 1,763,130 | 1,696,191 | | 1,763,130 | 1,658,454 | 1,653,229 | 1,709,495 | 1,696,191 |
| Core capital | 1,537,244 | 1,468,569 | | 1,537,244 | 1,432,434 | 1,426,691 | 1,482,797 | 1,468,569 |
| Solvency ratio, % | 14.8 | 14.7 | | 14.8 | 14.1 | 14.6 | 14.7 | 14.7 |
| Core capital ratio, % | 12.9 | 12.8 | | 12.9 | 12.2 | 12.6 | 12.7 | 12.8 |
| Return on equity after tax, % | -6.1 | 4.4 | | -10.9 | 1.8 | 1.8 | 1.1 | -0.2 |
| Cost / income, % | 111.1 | 87.4 | | 210.4 | 75.8 | 75.8 | 84.7 | 104.9 |
| Interest rate risk, % | 3.0 | 4.8 | | 3.0 | 3.5 | 4.6 | 4.5 | 4.8 |
| Excess cover relative to statutory liquidity requirements, % | 182.2 | 178.0 | | 182.2 | 166.0 | 155.9 | 159.4 | 178.0 |
| Growth on loans and advances, % | 0.3 | -7.5 | | 1.7 | 1.1 | -1.8 | -0.6 | -1.2 |
| Write-off and impairment ratio, % | 0.8 | 1.4 | | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 |
| Earnings per share after tax, DKK | -12.9 | 9.4 | | -23.3 | 3.9 | 4.0 | 2.4 | -0.5 |
| Proposed dividend per share, DKK | 2.0 | 1.5 | | 2.0 | | | | 1.5 |
| Market price per share (nom. DKK 20), DKK | 105 | 128.0 | | 105 | 114 | 114 | 110 | 128 |
| Number of full-time employees, end of period | 506 | 523 | | 506 | 513 | 510 | 512 | 523 |

Letter from the CEO

Customer focus paid off

We achieved an operating profit of DKK 157m for 2014. This was the result of improving cost efficiency and credit quality leading to decreasing costs and lower impairments. In the second half of 2014, we managed to grow our Danish operation, where lending grew by 12 per cent. Given the low economic growth in our markets, we consider the results achieved to be satisfactory. As a result of the low interest rates, we made goodwill impairments of DKK 250m.

Strengthening the trust of our most valuable customers was our first priority in 2014. Feedback from this crucial customer segment has been continuously improving, indicating that our dedication has paid off. The number of customers participating in our loyalty programme Nordik 360 increased significantly throughout 2014 and by the end of the year was up 50%. The loyalty programme introduced competitive pricing with lower fees for our services, but the greater demand outweighed the effect of the price reductions and is expected to improve our income going forward.

In 2014, we harvested some of the benefits of taking over a solid platform for our Markets business area through our acquisition of the healthy parts of Amagerbanken. Our new pension savings and asset management products have been well received and demand was further fuelled by the fact that the products were included in our loyalty programme. Assets under management from retail customers grew by 25%.

Banking relies on general macroeconomic trends. The Faroese economy has experienced growth, while the Danish and Greenlandic economies have been more stagnant. The boom in the Faroese export industries has fuelled economic growth and optimism, although demand for loans from our Faroese customers has not yet picked up. The Danish market is experiencing low growth, which is why our growth has to come from taking market share. This explains why we have strengthened our sales towards private banking and corporate customers.

We reached our target of maintaining the status quo in lending volumes by increasing our market share in Denmark, but the lending business became less profitable in the process driven by the lower interest margin in the market.

The banking environment has experienced fundamental changes in recent years. Over the last couple of years, our in-



terest margin has been reduced by 100 basis points reducing our interest income by DKK 100m. During the same period, however, we have managed to reduce our annual operating costs by DKK 70m. The reduction in the interest margin is partly explained by lower interest margins on new loans, but also by the floor effect on deposit margins. The level of interest rates has continued to decline and that poses a challenge to profitability in banking. We aim to grow our volumes and fees in order to compensate for the lower net interest rate income.

Operational efficiency has been at the top of our agenda in recent years. During that period, we have made significant cost reductions, mainly by streamlining our processes and adjusting our organization. We target a lower cost base in the next few years, as we believe the potential for cost reductions will more than outweigh cost inflation. Our current business platform provides us with the capacity to grow our business in the next few years while lowering our cost base.

Looking ahead to 2015, I am confident we will continue to execute on our strategy in terms of further developing customer relations and attracting new customers, working towards fully utilising our capacity. Executing our growth strategy is based on our strong and flat organization of skilled and customer-focused people delivering a full portfolio of competitively priced financial services to both retail and corporate customers. Half of our earnings now stem from activities outside the Faroe Islands, and the present growth momentum in our Danish banking operation gives reason for optimism with regards to achieving growth in the coming years.

Financial Review

| Income statement, Group | | | | | | | | |
|--|-------------|------------|----------------|-------------|------------|------------|------------|------------|
| DKK m | 2014 | 2013 | Index 14/13 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
| Net interest income | 508 | 574 | 89 | 125 | 125 | 126 | 133 | 133 |
| Net fee and commission income | 190 | 182 | 105 | 52 | 45 | 50 | 44 | 52 |
| Net insurance income | 76 | 69 | 110 | 22 | 26 | 20 | 8 | 14 |
| Other operating income* | 14 | 15 | 95 | 3 | 3 | 4 | 3 | 5 |
| Operating income | 789 | 840 | 94 | 202 | 198 | 201 | 187 | 204 |
| Operating costs | -523 | -559 | 94 | -130 | -125 | -136 | -132 | -139 |
| Sector costs | -23 | -26 | 88 | -5 | -6 | -6 | -6 | -4 |
| Profit before impairment charges | 242 | 255 | 95 | 68 | 67 | 58 | 49 | 61 |
| Impairment charges, net | -85 | -148 | 58 | -29 | -17 | -19 | -21 | -42 |
| Operating profit | 157 | 107 | 147 | 39 | 50 | 40 | 28 | 19 |
| Impairment charges, intangible assets | -250 | 0 | | -250 | 0 | 0 | 0 | 0 |
| Non-recurring items | -13 | -11 | 118 | -12 | 0 | 1 | -2 | -19 |
| Profit before value adjustments and tax | -105 | 96 | -109 | -222 | 50 | 41 | 26 | -0 |
| Market value adjustments*, ** | 13 | 17 | 75 | -4 | -1 | 13 | 4 | -9 |
| Profit before tax | -92 | 114 | -81 | -226 | 49 | 54 | 31 | -9 |
| Operating cost/income, % | 66 | 67 | | 64 | 62 | 66 | 70 | 68 |
| Number of FTE, end of period | 506 | 523 | 97 | 506 | 513 | 510 | 512 | 523 |

*DKK 6.3m restated from Other operating income to market value adjustments in 2013 relating to reclassification of dividends to value adjustments in subsidiary Vørður.

**Incl. Net income from investment activities

The BankNordik Group delivered profit before impairments, non-recurring costs, value adjustments and tax of DKK 242m for 2014 compared to DKK 255m for 2013, the decline caused mainly by lower interest income. The profit is in line with full-year guidance of DKK 200-240m, and the adjustment of DKK 220-240m in Q3 2014. Net impairments were DKK 85m compared to DKK 148m in 2013. This is in line with the target set out at year-end 2013, where impairments were expected to be lower than in 2013. Loans and advances were DKK 10,492m in 2014 compared to DKK 10,460 in 2013. The Bank had aimed for marginal lending growth in 2014, and that goal was achieved.

Lending to Danish customers grew by 8 per cent in 2014 driven by acquiring customers in a declining market. In Denmark BankNordik is thus increasing its market share while streamlining the operations and reducing costs.

Profit before tax and goodwill impairments was DKK 158m for 2014 against DKK 114m in 2013. The increase was mainly due to higher fee and commission income,

lower operating costs and lower impairments offsetting the drop in net interest income.

The figures in the summary income statement set out above have been adjusted for non-recurring items in each relevant quarter.

The following comments relate to the adjusted figures and are generally stated relative to 2013.

Income statement

Operating income

Net interest income amounted to DKK 508m in 2014 compared to DKK 574m in 2013. The decrease was a result of the growing competition, which affected interest margins, especially in the Faroe Islands and the continued fall in average loan volumes, especially during the first part of the year. There was however a small increase in loan demand in the latter part of the year, with a net lending increase of 0.3% at year-end 2014 compared to 2013.

Net fee and commission income increased by DKK 8m, from DKK 182m in 2013 to DKK 190m in 2014. The increase was driven by growth in asset under management which offset the anticipated decline from customers joining the Bank's loyalty bonus programmes and thus paying less in fees.

Net insurance income was up by DKK 7m from DKK 69m to DKK 76m. The main reasons for the increase were that no severe storms occurred in 2014 and cross-selling effects in the Faroe Islands.

Operating costs

Operating costs were down by 6% to DKK 523m in 2014 from DKK 559m in 2013. This is a reflection of the many initiatives taken to increase efficiency and centralising customer services in the restructuring process. The Group reduced its FTE headcount by 3% from 523 in 2013 to 506 at year-end 2014.

Net impairment charges

Net impairment charges were DKK 85m in 2014, a 43% drop from DKK 148m in 2013.

Operating profit

Operating profit was DKK 157m in 2014 compared to DKK 107m in 2013, an increase of 47%. Decline in revenue due to very low interest rates and continued weak demand for loans in the first part of the year were more than offset by lower costs and fewer loan losses, and a small increase in loan demand in the latter part of the year.

Non-recurring costs

Non-recurring costs are costs unrelated to ordinary operations and believed not to be recurring. Non-recurring costs related to the acquisition of Amagerbanken have been phased out. Due to changed market conditions goodwill impairments of DKK 250m were made relating to the activities in Denmark and Greenland. Non-recurring costs amounted to DKK 263m in 2014 compared to DKK 11m in 2013 and were mainly related to the goodwill impairments.

Market value adjustments

Market value adjustments were DKK 13m in 2014 compared to DKK 17m in 2013. Market value adjustments of DKK 6m were restated for 2013, as adjustments relating to Vörður were restated from operating income to market value adjustments.

Profit before tax and goodwill impairments

Profit before tax and goodwill impairments was DKK 158m in 2014 compared to DKK 114m in 2013, an increase of 39%. The decline in revenue resulting from the very low interest rates and continued weak demand for loans in the first part of the year was more than offset by lower costs and fewer loan losses, and a small increase in loan demand in the latter part of the year.

Balance sheet

Lending

Loans and advances amounted to DKK 10,492m in 2014 compared to DKK 10,460m in 2013, an increase of 0.3%. The down-ward trend in loans and advances has stabilised and the item increased slightly towards the end of the year, and was marginally higher at 0.3% higher at year-end 2014 than year-end 2013.

Deposits

Total deposits amounted to DKK 12,604m at the end of 2014 a 3% increase from DKK 12,193m in 2013.

Capital and solvency

BankNordik's total capital was DKK 1,763m at 31 December 2014 compared to 1,696m at 31 December 2013, an increase of DKK 67m. The core capital was DKK 1,537m at 31 December 2014, a 68m increase from DKK 1,469m at 31 December 2013.

The Group's solvency requirement was 9.0% at year-end 2014 compared to 8.9% at year-end 2013.

The Group's solvency was 14.8% in 2014 compared to 14.7% in 2013. The solvency would have been higher had it not been for the repayment of DKK 63m in subordinated capital which partially offset the profit for the year. Please note that the goodwill impairment amounting to DKK 250m has no effect on the Group's solvency as the carrying value of intangible assets is deducted in the core capital.

The Group targets an excess liquidity cover relative to statutory requirements of 100%. Due to its large deposit surplus BankNordik has a healthy liquidity with a surplus coverage at year-end 2014 of 182% above the required level compared to 178% at the beginning of the year.

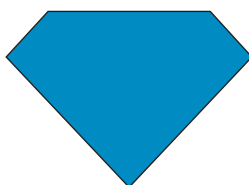
The Supervisory Diamond

Sum of large exposures < 125%

| 2014 | 2013 |
|-------|-------|
| 81.1% | 52.2% |

Loan growth < 20%

| 2014 | 2013 |
|------|-------|
| 0.3% | -7.5% |



Funding-ratio < 1.0

| 2014 | 2013 |
|------|------|
| 0.68 | 0.70 |

Property exposure < 25%

| 2014 | 2013 |
|------|------|
| 8.6% | 8.5% |

Excess liquidity > 50%

| 2014 | 2013 |
|--------|--------|
| 182.2% | 178.0% |

Financial Results for Q4

Profit before tax and goodwill impairments amounted to DKK 24m compared to a profit of DKK 49m in Q3 2014, partially caused by non-recurring costs of DKK 12m, and compared to a loss of DKK 9m in Q4 2013.

Operating income

Net interest income in Q4 was DKK 125m, which was unchanged from Q3. Net fee and commission income increased by DKK 7m to DKK 52m in Q4 compared to DKK 45m in Q3. Net insurance income was DKK 22m in Q4 compared to DKK 14m in Q4 2013.

Operating costs

Operating costs amounted to DKK 130m in Q4 compared to DKK 125 in Q3, and a decrease of 9m compared to Q4 2013 (DKK 139m).

Non-recurring costs

Non-recurring costs related to goodwill impairments amounted to 250m. Other non-recurring costs amounted to DKK 12m compared to DKK 19m in Q4 2013, and were mainly related to restructuring and severance costs.

Lending

In Q4 2014, loans and advances amounted to DKK 10,491m, an increase of DKK 176m from DKK 10,315m in Q3, reflecting that net lending has stabilised during the year, and picked up in the latter part of the year.

Net impairments charges

Net impairments of DKK 29m were recognised in the fourth quarter (34% of total). This was DKK 12m more than in Q3 (DKK 17m) and DKK 13m less than in Q4 2013 (DKK 42m).

Deposits

Deposits increased by DKK 262m to DKK 12,604m in Q4 from DKK 12,342m in Q3, indicating that customers remain focused on savings.

Other issues

Repayment of state-issued subordinated loan capital

On 8th of May 2014 BankNordik repaid DKK 63m of subordinated loan capital raised from the state.

Obligations towards the Guarantee Fund for Depositors and Investors

The Guarantee Fund for Depositors and Investors was established under Bank Package IV to resolve solvency problems in the banking sector. Such sector-related costs are recognised under other operating expenses. In 2014 BankNordik paid DKK 21.8m to the Guarantee Fund for Depositors and Investors in relation to distressed banks. Compared to 2013, the amount was largely unchanged. Costs relating directly to distressed banks in 2014 amounted to DKK 1.2m.

Supervisory Diamond

The Supervisory Diamond is used to measure the risk profile of banks. 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 by a wide margin all areas (large exposures, exposures towards property, excess liquidity, stable funding and loan growth). The sum of large exposures has increased from 52% to 81%. This is still well below the limit of 125%. All large exposures are of good quality.

Dividends proposed

The Board of Directors will propose at the forthcoming Annual General Meeting that DKK 20m, that is 2.0 per share, be paid out as dividends for 2014 compared to DKK 15m, or 1.5 per share in 2013. More information on the dividend policy is available by visiting the webpage www.banknordik.com/dp/.

Events after the balance sheet date

No events have occurred since the end of 2014 which are deemed to have a significant impact on the Group's financial position.

Outlook

In 2015, BankNordik continues to develop the Bank in line with the corporate strategy.

With the level of interest rates expected to remain low, and the economic growth in the Bank's market area expected to be low, but improving, demand for loans is also expected to remain low. The Bank targets an increase in gross lending that will more than offset loan repayment and thus projects an increase in lending in 2015. Given the currently very competitive banking market, the Bank's interest margin is expected to decrease somewhat.

Accordingly net interest income is also expected to decrease in 2015 compared with 2014. Net fee income is expected to grow marginally driven by growing activity in pensions, investments, and mortgage lending. As a result the operating income is expected to decrease marginally.

The Bank remains focused on reducing costs in 2015 while pursuing growth opportunities, especially in the Danish corporate lending market.

Combined, the BankNordik Group projects 2015 pre-tax profit before impairments, non-recurring items and value adjustments to be in the range of DKK 200-240m (2014: DKK 242m).

Loan impairments including reversals of acquired OEI impairments in 2015 are estimated to be approximately at the same level as in 2014.

Management Review

Supporting customer focus by being competitive

Customer segmentation at the forefront

The Bank successfully implemented more stringent customer segmentation criteria in 2013 and 2014. In 2014, the number of Nordik 360 customers grew by 50 per cent. The customer loyalty programme gives the BankNordik advisors a competitive platform that is attractive to new customers. With the new customer segmentation the Bank provides more efficiently produced services to those customers demanding less sophisticated and fewer services, while offering competitive pricing in the customer loyalty programme.

In 2014 the Bank strengthened the offering to private banking customers. A competent team of senior private banking advisors cooperate with the Markets division to develop a new set of financial services, including a very competitive savings instrument based on index tracking funds. The growth target for this business area is both ambitious and realistic.

To support the customer segmentation, the organisation has been adjusted with a flatter hierarchy and a shorter line of command from the executive management to the frontline staff, most recently through the organisational adjustment made in January 2015.

The sharper pricing of some of the core products has attracted new customers. In Denmark lending growth picked up during the year compensating for the drop in lending in the two other markets. The growth mainly derived from acquired customers in the larger corporate loan portfolio. Cross-selling of asset management services, insurance and pension products to this segment also improved.

Cost efficiency is a guiding principle

In order to stay competitive the Bank continuously improves its cost efficiency. In 2014, it lowered the cost base by 8% (6% for the Group) mainly by reducing the number of full-time employees. Cost efficiency was a guiding principle in the decision to simplify the organization as well the decision to relocate some of our branches from large costly physical locations.

Already in 2013 the manual handling of cash was discontinued at all branches in Denmark except for one in Copenhagen. The manual handling of cash was also phased out at several of the branches in the Faroes. In connection with the changes to the branch network, a few branches were relocated to more cost efficient locations in terms of both pricing and size, while other branches were redesigned to better support the focus on providing advice on complex financial decisions.

When relocating to the new head office in 2015, the Bank will centralise all support functions in the Faroe Islands and all customer functions of our banking and insurance operations at a single building in Tórshavn.

Diversified portfolio of loans

The business cycle has now stabilised after the turmoil and negative developments of the last few years. Deleveraging has nevertheless remained high on the agenda for both retail and corporate customers. Growth is recovering, but households and corporates seek a lower gearing than before the financial crisis. By attracting new customers, however, the Bank managed an increase in gross lending that outweighed loan repayments.

The credit policy focuses on minimizing risks. The Bank remains a partner to corporate and private customers seeking investment financing, but the underlying plans are studied carefully. The industrial and geographical composition of the overall lending portfolio monitored continuously to ensure that the loan portfolio remains financially strong and well diversified.

Robust total capital

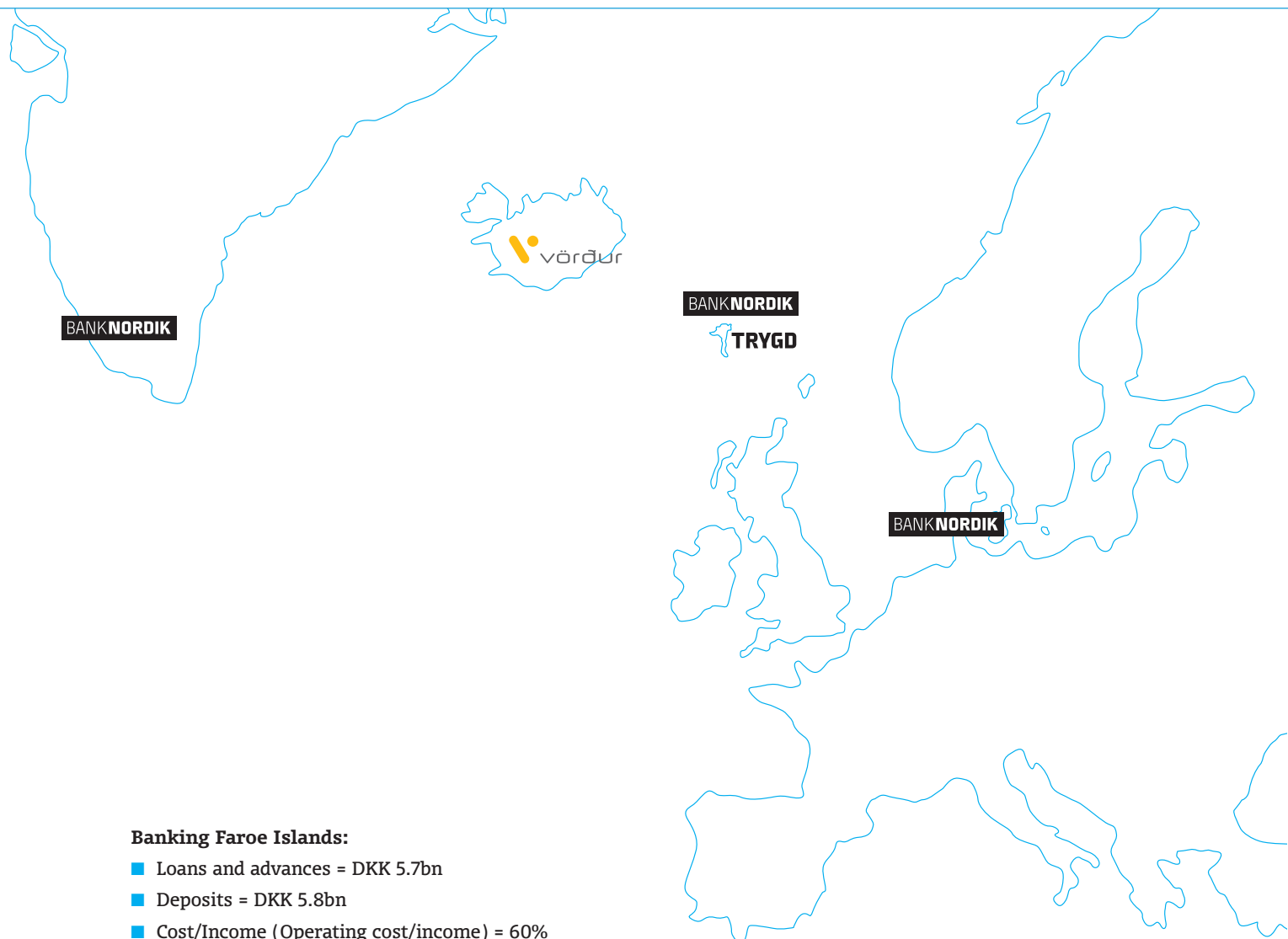
The minimum statutory solvency requirement amounts to 8 per cent, while the Group's calculated individual solvency requirement amounts to 9.0% per cent. The forthcoming CRD IV requirements stipulate a capital conservation buffer of 2.5 per cent and SIFI

requirements of 2.5 per cent. At year-end 2014 the Group had a core capital ratio of 12.9 per cent and targets 14 per cent covering the capital conservation buffer and SIFI requirements. The Group aims to cover the possible counter cyclical buffer of up to 2.5 per cent through subordinated loans.

In 2014, the Group prepaid the remaining DKK 63m in hybrid capital financed by earnings to optimise the capital structure and minimise capital costs.

According to the capital plan, the Group aims to refinance the subordinated debt of DKK 180m with CRD IV compliant capital within the next couple of years.

Segments



Banking Faroe Islands:

- Loans and advances = DKK 5.7bn
- Deposits = DKK 5.8bn
- Cost/Income (Operating cost/income) = 60%
- Operating profit = DKK 61m

Banking Denmark:

- Loans and advances = DKK 4.1bn
- Deposits = DKK 6.4bn
- Cost/Income (Operating cost/income) = 72%
- Operating profit = DKK 56m

Banking Greenland:

- Loans and advances = DKK 0.7bn
- Deposits = DKK 0.5bn
- Cost/Income (Operating cost/income) = 59%
- Operating profit = DKK 11m

Iceland (Vörður):

- Premium, net of reinsurance = DKK 239m
- Combined ratio = 97%
- Claims Ratio = 80%
- Profit before tax = DKK 22m

Trygd:

- Premium, net of reinsurance = DKK 79m
- Combined ratio = 84%
- Claims Ratio = 62%
- Profit before tax = DKK 15m

Banking

| Income statement, Banking | | | | | | | | |
|--|-------------|------------|----------------|-------------|------------|------------|------------|------------|
| DKKmn | 2014 | 2013 | Index 14/13 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
| Net interest income | 496 | 562 | 88 | 122 | 122 | 122 | 130 | 130 |
| Net fees, commission income & dividends | 196 | 189 | 104 | 51 | 46 | 52 | 47 | 54 |
| Other operating income | 10 | 12 | 82 | 3 | 2 | 3 | 2 | 5 |
| Operating income | 701 | 763 | 92 | 175 | 170 | 178 | 179 | 189 |
| Operating cost | -465 | -505 | 92 | -116 | -110 | -120 | -118 | -128 |
| Sector costs | -23 | -26 | 88 | -5 | -6 | -6 | -6 | -6 |
| Profit before impairment charges | 213 | 231 | 92 | 54 | 53 | 51 | 55 | 56 |
| Impairment charges, net | -85 | -148 | 58 | -29 | -17 | -19 | -21 | -41 |
| Operating profit | 128 | 84 | 153 | 26 | 36 | 33 | 34 | 14 |
| Impairment charges, intangible assets | -250 | 0 | | -250 | 0 | 0 | 0 | 0 |
| Non-recurring items | -13 | -11 | 118 | -12 | 0 | 1 | -2 | -19 |
| Profit before value adjustments and tax | -135 | 73 | -184 | -236 | 36 | 34 | 32 | -5 |
| Market value adjustments | 9 | 12 | 81 | -11 | -7 | 11 | 17 | -6 |
| Profit before tax | -125 | 85 | -148 | -247 | 29 | 45 | 48 | -10 |
| Loans and advances | 10,492 | 10,460 | 100 | 10,492 | 10,315 | 10,207 | 10,392 | 10,460 |
| Deposits and other debt | 12,690 | 12,285 | 103 | 12,690 | 12,421 | 12,364 | 12,132 | 12,285 |
| Operating cost/income, % | 66 | 66 | | 66 | 65 | 68 | 66 | 67 |
| Number of FTE, end of period | 412 | 431 | 96 | 412 | 420 | 420 | 420 | 431 |

At the beginning of the year the bank targeted new loans to compensate for repayments of current loans. This target has been achieved, since the loan volumes are at the same level at year-end. The activities in the different markets have varied however, since the growth in lending was primarily achieved by providing new loans to small and medium sized corporate customers in Denmark. In order to attract new loans and new customers the bank has been fiercely competitive, which has resulted in a lower average interest margin. This is the main explanation for the reduction in net interest income.

The successful sales campaigns for the new loyalty concepts resulted in a large growth in assets under management and cross-selling of insurance products.

Adding to the fees from the large rounds of converting housing loans this explains the improvement in the fee income.

As a consequence of the rationalisations executed in 2013 and in January 2014 the operating costs were reduced significantly in 2014 given the full year effect of the rationalisations.

Impairments were reduced significantly, which was in line with the expectations at the beginning of the year.

Due to lower interest rates goodwill impairments of DKK 250m were made relating to the activities in Denmark and Greenland.

Banking, Faroe Islands

| Income statement, Faroe Islands | | | | | | | | |
|--|------------|------------|----------------|-----------|-----------|-----------|-----------|------------|
| DKKmn | 2014 | 2013 | Index 14/13 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
| Net interest income | 212 | 257 | 82 | 53 | 52 | 51 | 56 | 59 |
| Net fees, commission income & dividends | 61 | 62 | 100 | 14 | 13 | 20 | 14 | 20 |
| Other operating income | 8 | 9 | 85 | 2 | 2 | 1 | 2 | 4 |
| Total Operating income | 281 | 327 | 86 | 70 | 67 | 72 | 72 | 83 |
| Operating cost | -167 | -185 | 91 | -42 | -41 | -43 | -42 | -50 |
| Sector costs | -10 | -11 | 90 | -2 | -3 | -2 | -3 | -2 |
| Profit before impairment charges | 104 | 132 | 79 | 27 | 23 | 27 | 27 | 30 |
| Impairment charges, net | -43 | -55 | 77 | -8 | -11 | -7 | -17 | -22 |
| Operating profit | 61 | 76 | 80 | 18 | 13 | 20 | 10 | 8 |
| Non-recurring items | -8 | -3 | 293 | -5 | 0 | -2 | -2 | -19 |
| Profit before value adjustments and tax | 53 | 74 | 71 | 14 | 13 | 19 | 8 | -11 |
| Market value adjustments | 9 | 12 | 81 | -11 | -7 | 11 | 17 | -6 |
| Profit before tax | 62 | 85 | 73 | 2 | 6 | 29 | 24 | -17 |
| Loans and advances | 5,707 | 5,813 | 98 | 5,707 | 5,727 | 5,763 | 5,759 | 5,813 |
| Deposits and other debt | 5,847 | 5,311 | 110 | 5,847 | 5,572 | 5,337 | 5,295 | 5,311 |
| Operating cost/income, % | 60 | 56 | | 60 | 61 | 59 | 58 | 61 |
| Number of FTE, end of period | 158 | 169 | 94 | 158 | 167 | 166 | 163 | 169 |

In 2014 the full effects of the fiercer competition introduced in 2013 were felt in terms of lower net interest income, which however also were affected by lower customer lending. The customer loyalty concepts has improved cross-selling of insurance and savings products, but has also lowered the interest margin. Operating costs continued to decline primarily explained by a reduced number of employees and lower administrative costs.

Lending decreased by 2% compared to 2013, but interest income decreased by even more driven by the lower margins on retail and corporate lending. During the year lending to households has stabilised and is expected to grow slowly. This can be explained partly by a growing optimism and partly by net immigration being positive in the Faroes for the first time in recent years.

Banking, Denmark

| Income statement, Denmark | | | | | | | | |
|--|-------------|------------|----------------|-------------|-----------|-----------|-----------|-----------|
| DKKmn | | | | | | | | |
| | 2014 | 2013 | Index 14/13 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
| Net interest income | 249 | 266 | 94 | 61 | 62 | 62 | 64 | 61 |
| Net fees, commission income & dividends | 125 | 118 | 106 | 34 | 31 | 30 | 31 | 32 |
| Other operating income | 1 | 2 | 41 | -0 | -1 | 1 | 0 | 0 |
| Total Operating income | 375 | 385 | 97 | 95 | 92 | 94 | 95 | 94 |
| Operating cost | -271 | -290 | 93 | -68 | -63 | -70 | -69 | -68 |
| Sector costs | -12 | -14 | 88 | -3 | -3 | -3 | -3 | -3 |
| Profit before impairment charges | 92 | 81 | 114 | 24 | 26 | 20 | 22 | 22 |
| Impairment charges, net | -36 | -84 | 43 | -18 | -6 | -10 | -2 | -19 |
| Operating profit | 56 | -4 | -1,590 | 5 | 20 | 10 | 20 | 3 |
| Impairment charges, intangible assets | -200 | 0 | | -200 | 0 | 0 | 0 | 0 |
| Non-recurring items | -4 | -8 | 55 | -7 | 0 | 3 | 0 | 0 |
| Profit before value adjustments and tax | -148 | -11 | 1,301 | -202 | 20 | 13 | 20 | 4 |
| Market value adjustments | 0 | 0 | - | 0 | 0 | 0 | 0 | 0 |
| Profit before tax | -148 | -11 | 1,301 | -202 | 20 | 13 | 20 | 4 |
| Loans and advances | 4,130 | 3,827 | 108 | 4,130 | 3,882 | 3,707 | 3,892 | 3,827 |
| Deposits and other debt | 6,376 | 6,541 | 97 | 6,376 | 6,371 | 6,501 | 6,407 | 6,541 |
| Operating cost/income, % | 72 | 75 | | 72 | 68 | 75 | 73 | 73 |
| Number of FTE, end of period | 234 | 248 | 94 | 234 | 232 | 236 | 238 | 248 |

In Denmark sales activities of the new customer loyalty programme continued to set the agenda, while corporate customer acquisition also was in focus. The achieved rationalisations in connection with the re-organisation in 2013 got full effect in terms of lower operating costs and lower number of employees. The achieved rationalisations financed improved customer offerings to the high volume customer segment.

The improved customer offering in the new customer loyalty programme turned out to be one of most com-

petitive offerings on the Danish market in a comparison by independent price portal. This led to a conversion of current customers to the loyalty programme and an inflow of retail customers. Also the strengthened acquisition of corporate customers has resulted in a significant loan growth. Total lending grew by 8%.

Due to lower interest rates goodwill impairments of 200m were made relating to the activities in Denmark.

Banking, Greenland

| Income statement, Greenland | | | | | | | | |
|--|------------|-----------|----------------|------------|-----------|-----------|-----------|-----------|
| DKKm | 2014 | 2013 | Index 14/13 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
| Net interest income | 35 | 39 | 89 | 8 | 8 | 9 | 10 | 10 |
| Net fees, commission income ff dividends | 9 | 10 | 96 | 2 | 2 | 2 | 3 | 2 |
| Other operating income | 1 | 1 | 106 | 0 | 0 | 0 | 0 | 0 |
| Total Operating income | 45 | 50 | 91 | 10 | 11 | 11 | 13 | 13 |
| Operating cost | -27 | -30 | 90 | -6 | -7 | -7 | -7 | -9 |
| Sector costs | -1 | -1 | 67 | -0 | -0 | -0 | -0 | -0 |
| Profit before impairment charges | 18 | 19 | 93 | 4 | 4 | 4 | 6 | 4 |
| Impairment charges, net | -6 | -8 | 76 | -2 | 0 | -2 | -2 | 0 |
| Operating profit | 11 | 11 | 107 | 2 | 4 | 2 | 3 | 4 |
| Impairment charges, intangible assets | -50 | 0 | | -50 | 0 | 0 | 0 | 0 |
| Non-recurring items | 0 | 0 | - | 0 | 0 | 0 | 0 | 0 |
| Profit before value adjustments and tax | -39 | 11 | -360 | -48 | 4 | 2 | 3 | 4 |
| Market value adjustments | 0 | 0 | - | 0 | 0 | 0 | 0 | 0 |
| Profit before tax | -39 | 11 | -360 | -48 | 4 | 2 | 3 | 4 |
| Loans and advances | 654 | 821 | 80 | 654 | 705 | 736 | 741 | 821 |
| Deposits and other debt | 467 | 433 | 108 | 467 | 478 | 526 | 429 | 433 |
| Operating cost/income, % | 59 | 60 | 99 | 57 | 64 | 62 | 54 | 69 |
| Number of FTE, end of period | 20 | 19 | 107 | 20 | 21 | 18 | 19 | 19 |

Business volumes continued to fall in our Greenland operation, which is primarily explained by the outflow of a few large corporate customers, while retail lending was stable and supported by the launch of the customer loyalty programme at the beginning of the year.

Operating costs were reduced significantly as a result of earlier rationalisations getting full year effect.

The stagnant macro economy put a damper on the optimism, wherefore loan demand also has been constrained. Impairments were lower resulting in an improved bottom line.

Due to lower interest rates goodwill impairments of 50m were made relating to the activities in Greenland

Insurance, Faroe Islands

| Income statement, Trygd | | | | | | | | |
|---------------------------------------|-----------|-----------|----------------|----------|-----------|----------|----------|-----------|
| DKKm | 2014 | 2013 | Index 14/13 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
| Premium income, net of reinsurance | 79 | 81 | 98 | 20 | 20 | 20 | 19 | 19 |
| Claims, net of reinsurance | -49 | -60 | 82 | -14 | -7 | -15 | -13 | -25 |
| Net insurance income | 30 | 21 | 143 | 6 | 13 | 5 | 6 | -5 |
| Net income from investment activities | 3 | 1 | 217 | 0 | 1 | 1 | 1 | 1 |
| Operating income | 33 | 23 | 147 | 6 | 13 | 6 | 8 | -5 |
| Operating cost | -18 | -17 | 107 | -4 | -5 | -5 | -4 | -4 |
| Profit before tax | 15 | 6 | 265 | 2 | 9 | 1 | 3 | -9 |
| Combined ratio | 84 | 95 | | 89 | 61 | 99 | 89 | 150 |
| Claims ratio | 62 | 74 | | 68 | 37 | 75 | 67 | 129 |
| Number of FTE, end of period | 25 | 26 | 96 | 25 | 26 | 25 | 25 | 26 |

In the Faroese market for insurance the full effect of the stiffened competition introduced in 2013 materialised in 2014. The twenty per cent reduction in prices for retail customers has however not resulted in a similar reduction in premium income, since the Faroese insurance operation has improved the market share significantly. Thus the premium income was only reduced by 2%.

Cross-selling through BankNordik's branches to retail customer continued to improve driven by the customer loyalty programme providing customers with an incentive to become insurance customers.

The claims ratio improved compared with the previous year, which is explained by extraordinary high number of storms and bad weather in 2013.

In 2014 the Group decided to change the capital structure of its insurance companies in order to lower the capital utilisation after the implementation of CRD IV. For Trygd this implied paying out a dividend of DKK 25m.

Insurance, Iceland

| Income statement, Vörður | | | | | | | | |
|---------------------------------------|-----------|-----------|----------------|-----------|-----------|-----------|------------|-----------|
| DKKm | 2014 | 2013 | Index 14/13 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
| Premium income, net of reinsurance | 239 | 216 | 111 | 62 | 61 | 60 | 57 | 57 |
| Claims, net of reinsurance | -193 | -166 | 116 | -46 | -48 | -44 | -55 | -37 |
| Net insurance income | 47 | 49 | 95 | 16 | 13 | 16 | 2 | 20 |
| Net income from investment activities | 15 | 15 | 102 | 13 | 7 | 2 | -7 | 2 |
| Operating income | 62 | 64 | 97 | 29 | 20 | 18 | -5 | 22 |
| Operating cost | -39 | -36 | 111 | -9 | -10 | -11 | -10 | -8 |
| Profit before tax | 22 | 29 | 79 | 19 | 10 | 7 | -15 | 14 |
| Combined ratio | 97 | 94 | | 90 | 94 | 91 | 114 | 79 |
| Claims ratio | 80 | 77 | | 74 | 78 | 74 | 97 | 65 |
| Number of FTE, end of period | 63 | 61 | 104 | 63 | 63 | 61 | 61 | 61 |

Premium income improved during the year resulting in a total growth of 11%, which however was more than matched by claims growing by 16%. Adding the investment income to the insurance income the total operating income was slightly lower than the year before.

The operating costs increased by the same growth rate as the premium income, wherefore the profit before tax declined somewhat. The combined ratio and the claims ratio are however at a satisfactory level relative to the Icelandic insurance industry.

Other activities

Skyn

Skyn is an estate agent fully owned by the BankNordik Group.

Profit before tax in 2014 was DKK 1.9m compared to DKK 0.3m in 2013.

Skyn has 5 employees and is the largest estate agent in the Faroe Islands in terms of transactions.

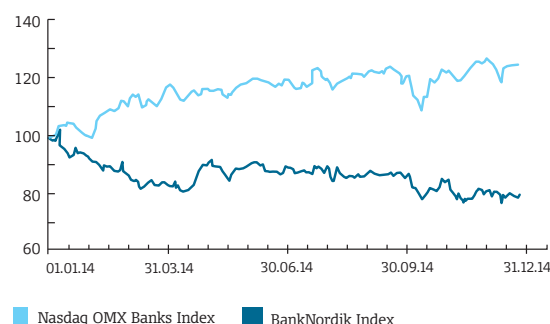
Shareholders

BankNordik share performance

The closing price of BankNordik's shares at 30 December 2014 on Nasdaq Copenhagen was DKK 104.5 which was 25% less than the closing price of DKK 128 at 30 December 2013. The turnover in BankNordik's shares on Nasdaq Copenhagen was DKK 133m in 2014 compared to 189m in 2013. Turnover on Nasdaq Iceland was DKK 8m in 2014 compared to DKK 34m in the 2013.

Developments in the BankNordik share and the Nasdaq Banking Index on Nasdaq Copenhagen in 2014:

BankNordik share vs. Copenhagen Bank Index



Shareholder structure

At the time of publication of the Annual Report 2014, the following shareholders had notified the relevant authorities that they held 5% or more of the Bank's shares:

- Fíggjargrunnurin frá 1992 (Faroese Government) holds 33% of the shares
- Lind Invest (DK) holds 10% of the shares

The majority of shareholders are based in the Faroe Islands.

| Country | % of nominal shareholdings |
|---------------|----------------------------|
| Faroe Islands | 57 |
| Denmark | 20 |
| Iceland | 17 |
| Luxembourg | 3 |
| Others | 4 |
| 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 2014, BankNordik held 1.37% of the share capital.

BankNordik's investor relations policy can be found on the Bank's website www.banknordik.com/irp/

Corporate Governance and Corporate Responsibility

Recommendations

The overall aim of BankNordik's corporate governance policy is to ensure responsible corporate management and to safeguard the interests of the Bank's shareholders, customers and employees. Corporate governance at BankNordik provides the framework under which the Bank is directed and managed, and the relationships between the Bank's Executive Board, Board of Directors, its shareholders and other stakeholders. BankNordik has a dual listing on Nasdaq Iceland and Nasdaq Copenhagen, respectively; with Iceland as the primary listing. Accordingly, the corporate governance principles comply with the Icelandic corporate governance recommendations, as issued by Nasdaq Iceland which can be found on www.nasdaqomx.com/listing/europe/rulesregulations/. 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/

Remuneration

The Bank's remuneration policy reflects the Bank's corporate governance objectives and is intended to enable the Bank to attract, develop and retain high-performing and highly motivated employees in a competitive market.

Members of the Board of Directors receive fixed remuneration only. They are not eligible for incentive programmes and do not receive performance-based remuneration or pension contribution. The remuneration of the Executive Board members is determined by the Board of Directors. It consists generally of a fixed salary, pension schemes and a share-based remuneration programme. Performance-based remuneration is limited to 15% of a member's fixed remuneration. Additional information on the remuneration of the Board of Directors, the Executive Board mem-

bers, and other executives, identified as key decision makers can be found in note 9 to the Group's financial statements.

For further information regarding the Bank's remuneration policy, go to www.banknordik.com/rp/

Risk management

The Board of Directors always gives the Bank's various risks and aggregate risk profile its full attention, and follows up on risks on a regular basis. Furthermore, the Board of Directors in association with the Risk Manager consistently supervise the Bank's various risks, and maintain a steady and close cooperation with the Bank's internal and independent auditors. The Bank's current independent auditors are P/F Januar and PwC. For further information on the Bank's risk management, see the Group's Risk Management Report 2014 at www.banknordik.com/rm/

FSA

The Danish Financial Supervisory Authority ("FSA") conducted an ordinary inspection of BankNordik during the period 21-29 August 2014 and 9-11 September 2014. The inspection was related to the Bank's central risk-related business activities, and focused particularly on credit, liquidity and capital adequacy respectively.

The FSA found that the credit quality of the Bank's portfolio of large exposures is sound, while a spot test of the Bank's small exposures showed some exposures of inferior credit quality. Based on these findings, the FSA found the Bank's impairment charges related to large exposures to be adequate, but found there was a need to increase impairment charges related to small exposures by a total amount of DKK 7.9m.

Corporate responsibility

Corporate responsibility remains an important part of BankNordik's strategy. The Group considers responsible corporate governance a prerequisite for long-term value creation.

The Group's CR initiatives are formalised in a Corporate Responsibility policy. Management believes that the Group's CR initiatives will yield the best results

if there is a natural connection between such activities and the Group's business strategy and core competences. Therefore, the BankNordik Group's CR activities and initiatives are strategically rooted in the Group's vision, business strategy, core competencies and business values. For the statutory report on the Bank's corporate governance and Corporate Responsibility policy, see 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 2014.

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

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, equity and financial position at 31 December 2014 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 2014. 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, 26 February 2015

Executive Board

Janus Petersen
CEO

John Rajani
Deputy CEO

Board of Directors

Klaus Rasmussen
Chairman

Jens Erik Christensen
Deputy Chairman

Niels Vestermark

Nils Sørensen

Tórhallur Olsen

Kenneth M. Samuelson

Internal auditors' report

We have audited the consolidated financial statements, pp. 27–98, and the Parent Company's financial statements of BankNordik P/F, pp. 99–117, for the financial year 2014. The consolidated financial statements and the Parent Company's financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of capital and notes for the Group as well as for the Parent Company and consolidated cash flow statement. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Faroese Financial Business Act. Furthermore, the consolidated financial statements and the Parent Company's financial statements have been prepared in accordance with requirements of NASDAQ in Iceland/Copenhagen and Faroese disclosure requirements for listed financial institutions.

Management is responsible for the preparation of consolidated financial statements and Parent Company financial statements. Our responsibility is to express an opinion on the consolidated financial statements and the parent Company financial statements.

Basis of opinion

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the Parent Company's financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the Parent Company's financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the consolidated financial statements and the Parent Company's financial statements that

give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the Parent Company's financial statements.

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

Our audit did not result in any qualification.

Opinion

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and Parent Company's assets, liabilities, shareholders' equity and financial position at December 31, 2014, and of the results of the Group's and Parent Company's operations and consolidated cash flows for the financial year 2014 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the consolidated financial statements, in accordance with the Faroese Financial Business Act in respect of the Parent Company's financial statements, requirements of NASDAQ in Iceland/Copenhagen and in accordance with Faroese disclosure requirements for listed financial institutions.

Statement on Management's Report

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

Tórshavn, 26 February 2015

Thomas Ennistein
Chief Auditor, Executive

Independent auditors' report

To the shareholders of BankNordik

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

We have audited the consolidated financial statements, pp. 27–98, and the Parent Company's financial statements of BankNordik P/F, pp. 99–117, for the financial year 2014. The consolidated financial statements and the Parent Company's financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of capital and notes for the Group as well as for the Parent Company and consolidated cash flow statement. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Faroese Financial Business Act. Furthermore, the consolidated financial statements and the Parent Company's financial statements have been prepared in accordance with requirements of NASDAQ in Iceland/Copenhagen and Faroese disclosure requirements for listed financial institutions.

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

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

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements and the Parent Company's financial statements based on our audit. We

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the Parent Company's financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the Parent Company's financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the consolidated financial statements and the Parent Company's financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the Parent Company's financial statements.

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

Our audit did not result in any qualification.

Opinion

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and Parent Company's assets, liabilities, shareholders' equity and financial position at December 31, 2014, and of the results of the Group's and Parent Company's operations and consolidated cash flows for the financial year 2014 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the consolidated financial statements, in accordance with

the Faroese Financial Business Act in respect of the Parent Company's financial statements, requirements of NASDAQ in Iceland/Copenhagen and in accordance with Faroese disclosure requirements for listed financial institutions.

Statement on Management's Report

We have read Management's Report in accordance with the Faroese Financial Business Act. We have not performed any procedures additional to the

audit of the consolidated financial statements and the Parent Company's financial statements. On this basis, in our opinion, the information provided in the Management's Report is consistent with the consolidated financial statements and the Parent Company's financial statements.

Tórshavn, 26 February 2015

JANUAR P/F
Løggilt grannskoðanarvirki

Heini Thomsen
state authorised public accountant

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

H.C. Krogh
state authorised public accountant

Christian F. Jakobsen
state authorised public accountant

Financial statement

BankNordik Group

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Income statement – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 |
|------------|--|-----------------|----------------|
| 3 | Interest income | 630,903 | 721,175 |
| 3 | Interest expenses | 122,513 | 147,143 |
| | Net interest income | 508,390 | 574,032 |
| 3 | Dividends from shares and other investments | 7,487 | 7,731 |
| 4 | Fee and commission income | 208,707 | 200,515 |
| 4 | Fee and commissions paid | 25,876 | 26,250 |
| | Net dividend, fee and commission income | 190,318 | 181,996 |
| | Net interest and fee income | 698,708 | 756,028 |
| 5 | Premium income, net of reinsurance | 317,710 | 295,285 |
| 6 | Claims, net of reinsurance | 241,675 | 225,857 |
| | Interest and fee income and income from insurance activities, net | 774,743 | 825,455 |
| 3 | Market value adjustments | 19,831 | 22,017 |
| 7 | Other operating income | 43,721 | 63,547 |
| 8, 9 | Staff costs and administrative expenses | 514,152 | 543,390 |
| 18, 20, 21 | Amortisation, depreciation on fixed assets and impairment charges | 273,135 | 27,582 |
| 10 | Other operating expenses | 25,411 | 43,323 |
| 11 | Impairment charges on loans and advances etc. | 111,014 | 178,234 |
| 17 | Income from associated undertakings | -6,739 | -4,622 |
| | Profit before tax | -92,154 | 113,868 |
| 12 | Tax | 35,257 | 21,472 |
| | Net profit | -127,411 | 92,396 |
| | Portion attributable to | | |
| | Shareholders of BankNordik P/F | -127,411 | 92,396 |
| | Net profit | -127,411 | 92,396 |
| | EPS Basic for the period, DKK* | -12.92 | 9.37 |
| | EPS Diluted for the period, DKK * | -12.92 | 9.37 |

* Based on average number of shares outstanding - see note 28

Statement of comprehensive income – BankNordik Group

| DKK 1,000 | 2014 | 2013 |
|--|-----------------|----------------|
| Net profit | -127,411 | 92,396 |
| Other comprehensive income | | |
| Items which will subsequently be recycled to the income statement if certain conditions are met: | | |
| Translation of non-Faroese subsidiaries | -14,779 | 11,410 |
| Items which will not subsequently be recycled: | | |
| Revaluation of property | 0 | 10,756 |
| Tax on other comprehensive income | 0 | -1,936 |
| Total other comprehensive income | -14,779 | 20,230 |
| Total comprehensive income | -142,190 | 112,626 |
| Portion attributable to | | |
| Shareholders of BankNordik P/F | -142,190 | 112,626 |
| Total comprehensive income | -142,190 | 112,626 |

Balance Sheet – BankNordik Group

| Note | DKK 1,000 | Dec. 31 2014 | Dec. 31 2013 |
|--------|---|-------------------|-------------------|
| | Assets | | |
| 13 | Cash in hand and demand deposits with central banks | 439,492 | 479,757 |
| | Due from credit institutions and central banks | 521,276 | 824,289 |
| 11 | Loans and advances at fair value | 756,070 | 681,617 |
| 11 | Loans and advances at amortised cost | 9,735,439 | 9,778,682 |
| 14 | Bonds at fair value | 3,534,678 | 3,493,271 |
| 15 | Shares, etc. | 354,797 | 334,677 |
| 16. 35 | Assets under insurance contracts | 78,403 | 78,434 |
| 17 | Holdings in associates | 7,451 | 14,186 |
| 18 | Intangible assets | 529,730 | 798,141 |
| | Total land and buildings | 280,345 | 291,386 |
| 19 | investment property | 64,863 | 120,358 |
| 20 | domicile property | 215,483 | 171,028 |
| 21 | Other property, plant and equipment | 30,598 | 25,455 |
| | Current tax assets | 3,896 | 4,533 |
| 22 | Deferred tax assets | 27,431 | 44,589 |
| 23 | Assets held for sale | 51,771 | 58,168 |
| 24 | Other assets | 152,188 | 161,382 |
| | Prepayments | 31,935 | 15,995 |
| | Total assets | 16,535,501 | 17,084,562 |

Balance Sheet – BankNordik Group

| Note | DKK 1,000 | Dec. 31 2014 | Dec. 31 2013 |
|--------|--|-------------------|-------------------|
| | Shareholders' equity and liabilities | | |
| | Liabilities other than provisions | | |
| | Due to credit institutions and central banks | 591,347 | 1,290,408 |
| | Deposits and other debt | 12,603,533 | 12,192,748 |
| 25. 35 | Liabilities under insurance contracts | 366,858 | 375,155 |
| | Current tax liabilities | 11,704 | 1,386 |
| 26 | Other liabilities | 349,348 | 374,714 |
| | Deferred income | 18,285 | 15,570 |
| | Total liabilities other than provisions | 13,941,074 | 14,249,980 |
| | Provisions for liabilities | | |
| 22 | Provisions for deferred tax | 86,189 | 79,129 |
| | Provisions for other liabilities | 5,148 | 17,499 |
| 11 | Provisions for losses on guarantees | 45,216 | 56,511 |
| | Total provisions for liabilities | 136,552 | 153,139 |
| | Subordinated debt | | |
| 27 | Subordinated debt | 458,680 | 525,445 |
| | Total liabilities | 14,536,306 | 14,928,564 |
| | Shareholders' equity | | |
| | Share capital | 200,000 | 200,000 |
| | Foreign translation reserve | 15,434 | 29,854 |
| | Revaluation reserve | 8,820 | 8,820 |
| | Retained earnings | 1,754,941 | 1,902,324 |
| | Proposed dividends | 20,000 | 15,000 |
| | Total shareholders' equity | 1,999,195 | 2,155,998 |
| | Total liabilities and equity | 16,535,501 | 17,084,562 |

Statement of capital – BankNordik Group

Statement of capital - BankNordik Group

| DKK 1,000 | Shareholders of P/f BankNordik (The Parent Company) | | | | | |
|--|---|--------------------------------------|---------------------|--------------------|-------------------|------------------|
| | Share capital | Foreign currency translation reserve | Revaluation Reserve | Proposed dividends | Retained earnings | Total |
| Shareholders' equity at Jan. 1, 2014 | 200,000 | 29,853 | 8,820 | 15,000 | 1,902,324 | 2,155,998 |
| Translation of foreign units | | -14,419 | | | -360 | -14,779 |
| Net profit | | | | 20,000 | -147,411 | -127,411 |
| Total comprehensive income | | -14,419 | 0 | 20,000 | -147,771 | -142,190 |
| Acquisition of own shares | | | | | -18,903 | -18,903 |
| Sale of own shares | | | | | 18,903 | 18,903 |
| Share-based remuneration-programme | | | | | 178 | 178 |
| Dividends payed | | | | -15,000 | 209 | -14,791 |
| Shareholders' equity at Dec. 31, 2014 | 200,000 | 15,434 | 8,820 | 20,000 | 1,754,941 | 1,999,195 |

| DKK 1,000 | Shareholders of P/f BankNordik (The Parent Company) | | | | | |
|---|---|--------------------------------------|---------------------|--------------------|-------------------|------------------|
| | Share capital | Foreign currency translation reserve | Revaluation Reserve | Proposed dividends | Retained earnings | Total |
| Shareholders' equity at Jan. 1, 2013 | 200,000 | 18,443 | | 10,000 | 1,824,919 | 2,053,362 |
| Revaluation of assets | | | 10,756 | | | 10,756 |
| Translation of foreign units | | 11,410 | | | | 11,410 |
| Tax on entries on income recognised as Other comprehensive income | | | -1,936 | | | -1,936 |
| Other comprehensive income | | 11,410 | 8,820 | | | 20,230 |
| Net profit | | | | 15,000 | 77,393 | 92,393 |
| Total comprehensive income | | 11,410 | 8,820 | 15,000 | 77,393 | 112,623 |
| Acquisition of own shares | | | | | -13,865 | -13,865 |
| Sale of own shares | | | | | 13,878 | 13,878 |
| Dividends payed | | | | -10,000 | | -10,000 |
| Shareholders' equity at Dec. 31, 2013 | 200,000 | 29,853 | 8,820 | 15,000 | 1,902,324 | 2,155,998 |

Regarding solvency statement for BankNordik Group we refer to the solvency statement for the Parent Company.

Cash flow statement – BankNordik Group

| DKK 1,000 | 2014 | 2013 |
|---|------------------|------------------|
| Cash flow from operations | | |
| Net profit for the period | -127,411 | 92,396 |
| Amortisation and impairment charges for intangible assets | 262,568 | 12,976 |
| Depreciation and impairment charges of tangible assets | 10,281 | 14,225 |
| Impairment of loans and advances/guarantees | 117,306 | 179,654 |
| Tax charged to the income statement | 35,257 | 21,472 |
| Other non-cash operating items | -13,557 | -26,217 |
| Total | 284,444 | 294,506 |
| Changes in operating capital | | |
| Change in loans at fair value | -63,039 | 309,557 |
| Change in loans at amortised cost | -74,063 | 306,258 |
| Change in holding of bonds | -49,602 | -624,735 |
| Change in holding of shares | 754 | 110,096 |
| Change in deposits | 410,785 | -552,956 |
| Due to credit institutions and central banks | 939 | 2,356 |
| Change in other assets / liabilities | 10,977 | 31,421 |
| Assets/liabilities under insurance contracts | -8,267 | 43,532 |
| Prepayments | -13,224 | -2,832 |
| Cash flow from operations | 499,705 | -82,798 |
| Cash flow from investing activities | | |
| Dividends received | 7,487 | 14,108 |
| Acquisition of tangible assets | -87,777 | -36,194 |
| Sale of tangible assets | 15,194 | 67,614 |
| Cash flow from investing activities | -65,096 | 45,528 |
| Cash flow from financing activities | | |
| Change in loans from central banks and credit institutions | -700,000 | 0 |
| Change in subordinated debt | -63,138 | -140,218 |
| Acquisition of own shares | -18,903 | -13,865 |
| Sale of own shares | 18,903 | 13,878 |
| Payment of dividends | -15,000 | -10,000 |
| Cash flow from financing activities | -778,138 | -150,206 |
| Cash flow | -343,530 | -187,476 |
| Cash in hand and demand deposits with central banks, and due from credit institutions, etc. at the beginning of the year | 1,304,047 | 1,483,451 |
| Foreign currency translation | 250 | 8,072 |
| Cash flow | -343,530 | -187,476 |
| Cash and due etc. | 960,768 | 1,304,047 |
| Cash and due etc. | | |
| Cash in hand and demand deposits with central banks | 439,492 | 479,757 |
| Due from credit institutions, etc. | 521,276 | 824,289 |
| Total | 960,768 | 1,304,047 |

Notes – BankNordik Group

Note Accounting policies

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1 Basis of preparation

The BankNordik Group presents its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the EU and with applicable interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Furthermore, the consolidated financial statements comply with the requirements for annual reports formulated by Nasdaq Reykjavik and Nasdaq 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 judgment 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.

The accounting policies, basis for calculations and presentation are, in all material aspects, unchanged in comparison with the 2013 Annual Report.

In the extent that financial assets in Icelandic Krona are bound to auctions arranged by Seðlabankinn, the relevant asset is measured at the exchange rate at auctions in 2014. Earlier the Group used the official exchange rate pub-

Notes – BankNordik Group

lished by Seðlabankinn to translate all Icelandic Krona. A further explanation of the changed accounting policy is found in the following under the heading Translation of foreign subsidiaries.

The effects of the changes in accounting estimates at 31 December 2014 are that both equity and the balance sheet total is DKK 20m lower. In addition the changes result in an expense in market value adjustments and a reduction of due from credit institutions amounting to DKK 4m. The effects regarding subsidiaries and goodwill are reported in other comprehensive income. There is no effect in comparative figures.

Changes and effects from implementation of new standards and amendments are explained in the following under the heading Adoption of new standards in 2014.

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
- goodwill
- assets held for sale

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

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. The note 11 provides details on the amounts recognised and note 36 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 real property at fair value. For domicile properties the fair value is estimated on the basis of various assumptions and a major parameter is the potential rental value. The future cash flows are based on the Group's best estimate of the future profit on ordinary operations and the required rate of return for each individual property when taking into account such factors as location and maintenance. Valuations from the Group's internal valuation experts are obtained to support such estimates regarding the investment properties. A number of these assumptions and estimates have a major impact on the calculations and include such parameters as developments in rent, costs and required rate of return. Any changes to these parameters as a result of changed market conditions will affect the expected return, and thus the fair value of the investment and domicile properties. The notes 19 and 20 provide details on the amounts recognised.

Notes – BankNordik Group

Note 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.

1
(cont'd)

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

- choosing valuation method
- determining when available listed prices do not reflect the fair value
- calculating fair-value adjustments to provide for relevant risk factors, such as credit
- model and liquidity risks
- assessing which market parameters are to be taken into account
- making estimates of future cash flows and return requirements for unlisted shares

The Group's loans and advances are not traded in an active market. Therefore there is no market price to determine the loans fair value. The fair value has to be determined using a valuation technique, which estimates the market price between qualified, willing and independent parties. The valuation technique has to include all the relevant elements such as credit risk, market rates etc. Note 3 and 11 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 15.

D) Goodwill

Goodwill on acquisition is tested for impairment once a year or more frequently if indications of impairment exist. Impairment testing requires management to estimate the future cash flows. A number of factors affect the value of such cash flows, including discount rates, changes in the economic outlook, interest rates, customer behavior and competition. The impairment test conducted in 2014 resulted in goodwill impairment charges of DKK 200m related to Denmark and DKK 50m related to Greenland, mainly because of the worsening of the long-term economic outlook and related decrease in interest rates. At 31 December 2014, the carrying amount of goodwill after impairment amounts to DKK 340m and DKK 63m respectively. Due to the fact that goodwill has been written down to its recoverable amount, changes in key assumptions may result in an additional impairment charge.

Refer to note 18 for a further discussion of the sensitivity to changes in key assumptions.

E) 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 on an active marked are reclassified to other items for example investment properties.

Notes – BankNordik Group

Note 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.

1 Details on the amounts recognised are provided in note 23.
(cont'd)

2) Adoption of new standards in 2014

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 2014:

Amendments to IAS 32, "Financial instruments, presentation" clarifying the criteria for offsetting financial assets and liabilities in the statement of financial position.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria.

IFRIC 21, "Levies" sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'.

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

3) Changes in IFRSs not yet applied by BankNordik

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

Annual Improvements 2010-2012 and 2011-2013 cycles comprising minor amendments to a number of existing standards. The amendments are effective for accounting periods beginning on or after 1 July 2014.

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

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The standard introduces an expected credit losses model that replaces the incurred loss impairment model used in IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018.

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 2017

Annual Improvements 2012-2014 cycle comprising minor amendments to a number of existing standards. The amendments are effective for accounting periods beginning on or after 1 January 2016.

Notes – BankNordik Group

Note
1
(cont'd)

Amendments to IAS 1: Disclosure Initiative. The amendment introduces guidance in respect of using sub-totals in the income statement and additional guidance in respect applying materiality. The amendments are effective for accounting periods beginning on or after 1 January 2016.

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

4) Consolidation

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

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

Acquired subsidiaries are included from the date of acquisition.

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

Goodwill is recognised as follows:

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

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

Disposed subsidiaries are included until the date of disposal.

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 and geographic. The information provided on operating segments is regularly reviewed by the management making decisions about resources to be allocated to the segments and assessing their performance, and for which discrete financial information is available. Operating segments are not aggregated. Segment reporting complies with the Group's significant accounting policies.

Notes – BankNordik Group

Note 1
(cont'd) 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.

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.

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

7) Translation of foreign subsidiaries

Income and expenses are translated at the exchange rates at the date of transaction. Exchange rate gains and losses arising at the translation of net investments in foreign subsidiaries are recognised in the equity reserve Translation of foreign units. Net investments include the net assets and goodwill of the units.

The Icelandic Krona is under a capital restriction and the currency is not floating against other currencies in a currency market. Instead, Seðlabankinn is publishing an official exchange rate for the Icelandic Krona against the Danish Krona. However, in some cases it is possible to exchange the Icelandic Krona by an auction arranged by Seðlabankinn and the exchange rate at these auctions is typically lower than the official exchange rate.

The Icelandic authorities have in Q1 2014 informed the Group that when exchanging the initial investment in the Icelandic subsidiaries the currency auction should be used but net results after the initial investment was carried out can be exchanged by the official exchange rate published by Seðlabankinn if net results are paid as dividends from the Icelandic subsidiaries to the Parent Company.

Hence, in the balance sheet the initial investment in the Icelandic subsidiaries is translated from Icelandic Krona to Danish Krona by using the latest exchange rate realized at a currency auction and the accumulated results from the Icelandic subsidiaries are translated from Icelandic Krona to Danish Krona by using the official exchange rate published by Seðlabankinn. In the income statement net results from the Icelandic subsidiaries are translated from Icelandic Krona to Danish Krona using the official exchange rate published by Seðlabankinn.

Notes – BankNordik Group

Note Earlier the Group used the official exchange rate published by Seðlabankinn to translate both the carrying amount in the balance sheet and net result from the Icelandic subsidiaries.

1

(cont'd)

8) 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.

2 Critical accounting policies

1 Income statement

1) Income criteria

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

2) Interest income and expenses

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

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 from carrying out a given transaction is recognised as revenue once the transaction is complete.

Notes – BankNordik Group

Note **5) Fees and commission expenses incurred**

¹
(cont'd) Fees and commission expenses comprises fees and commission expenses paid that are not included as part of the amortised cost of a financial instrument. The costs include guarantee commissions and trading commissions.

6) Premium income from non-life insurance, net of reinsurance

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

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

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

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 assets and liabilities that are measured at fair value, and exchange rate adjustments which are included in the income statement. Excluded are adjustments on loans and advances at fair value, recorded as fair value adjustments under Impairment charges on loans and advances and provisions for guarantees etc. note 11.

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

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 in the Income Statement.

Notes – BankNordik Group

Note **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.

1
(cont'd)

13) Other operating expenses

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

14) Impairment charges on loans and advances etc.

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

15) Tax

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

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

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

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

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

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.

Notes – BankNordik Group

Note 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"

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.

Notes – BankNordik Group

Note 1 Loans and advances that are not individually charged for impairment are included in groups which are collectively subject to an impairment assessment.

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

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

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

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

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

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

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

3.2) Trading portfolio measured at fair value

The trading portfolio includes financial assets acquired which the Group intends to sell or repurchase in the near term. The trading portfolio also contains financial assets managed collectively for which a pattern of short-term profit taking exists. Some securities and all derivatives are part of the trading portfolio.

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

Notes – BankNordik Group

Note 1
(cont'd)

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

Determination of fair value

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

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

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

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

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

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

Determination of fair value of shares

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

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

Notes – BankNordik Group

Note **4) Assets under insurance contracts**

Assets under insurance contracts comprise reinsurance assets and receivables from insurance contracts.

¹ Reinsurance assets are measured by initial recognition at fair value and subsequently at amortised cost.
(cont'd)

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.

6) Intangible assets

The item consists of Goodwill, Customer Relations and other intangible assets.

6.1) Goodwill

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

Goodwill on associated undertakings is recognised under Holdings in associates.

Goodwill is allocated to cash-generating units at the level at which the management monitors the investment. Goodwill is not amortised. Instead each cash-generating unit to which goodwill is allocated is tested for impairment at least once a year. Goodwill is written down to its recoverable amount through the income statement if the carrying amount of the net assets of the cash-generating unit exceeds the higher of the assets' fair value less costs to sell and their value in use, which equals the present value of the future cash flows expected from the unit.

6.2) Customer relations

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

Notes – BankNordik Group

Note 1
ortised on a straight-line basis over the expected useful life, which does not exceed ten years. The expected useful life depends on customer loyalty.

(cont'd) The useful life is reassessed annually. Any changes in amortisation as a result of changes in useful life are recognised in future reporting periods as a change in accounting estimates.

6.3) Other intangible assets

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

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

7) Land and buildings

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

7.1) 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.

7.2) 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 rental income, operating expenses, as well as management and maintenance. Maintenance costs are calculated on the basis of the condition of the individual property, construction year, materials used, etc. Operating expenses are

Notes – BankNordik Group

Note 1 (cont'd) calculated on the basis of a standard budget. The fair value of the property is determined based on the expected cash flow from operations and a rate of return assessed for the individual property. The return rate is determined on the basis on the location of the individual property, potential use, the state of maintenance, quality, etc. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the amount which would be determined using fair value at the balance sheet date.

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

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

8) Other property, plant and equipment

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

Other tangible assets are tested for impairment if indications of impairment exist. An impaired asset is written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

9) Assets held for sale

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

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

10) Other assets

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

Notes – BankNordik Group

Note 3 Balance sheet – Liabilities, provisions and equity

¹ 1) Financial instruments – general

(cont'd) 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

The trading portfolio includes financial liabilities acquired which the Group intends to sell or repurchase in the near term. 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.

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

Notes – BankNordik Group

Note 1
(cont'd)

contracts. Premium provisions include future direct and indirect expenses for administration and claims processing of agreed insurance contracts. A premium provision represents at least the part of the gross premium that corresponds to the part of the insurance period that comes after the balance sheet date.

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

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

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 fair value.

Fair value hedging transactions for the issuances of part of the subordinated debt were structured at in-

ception to partially mirror fair value adjustments of the subordinated debt. These value adjustments are recognised under market value adjustments in the Income Statement.

10) Foreign currency translation reserve

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

11) 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.

12) 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.

Notes – BankNordik Group

Operating segments

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

Banking comprises all types of retail and corporate customers, from large businesses to private retail customers in Denmark, Greenland and the Faroe Islands.

Non-life insurance comprises the insurance companies Vörður Tryggingar hf and P/F Trygd based in Iceland and the Faroe Islands respectively. Vörður and Trygd are responsible for the Group's non-life insurance products. Vörður and Trygd target personal and corporate customers with a full range of property and casualty products. Vörður distributes its operations through agreement with Landsbankin and other independent brokerages in Iceland as its distribution channel. Trygd has its own sales team and also distributes its products and services through the Group's banking units.

Other covers the Group's support functions, the estate agency P/F Skyn and the venture company P/F Birting. 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 Denmark, Greenland and the Faroe Islands 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 | Operating segments 2014 | Banking | | | | Insurance | | | Other | Elimination | Group |
|------|--|-------------------|------------------|----------------|-------------------|------------------|----------------|----------------|---------------|--------------------|-------------------|
| 2 | DKK 1,000 | Faroe Islands | Denmark | Greenland | Total | Faroe Islands | Iceland | Total | | | |
| | External interest income, Net | 272,355 | 182,757 | 40,393 | 495,505 | 2,162 | 10,639 | 12,802 | 84 | | 508,390 |
| | Internal interest | -60,261 | 66,038 | -5,777 | | | | | | | |
| | Net interest income | 212,094 | 248,795 | 34,615 | 495,505 | 2,162 | 10,639 | 12,802 | 84 | | 508,390 |
| | Net Fee and dividends income | 61,366 | 125,427 | 9,334 | 196,127 | | -5,809 | -5,809 | | | 190,318 |
| | Premium income, net of reinsurance | | | | | 79,407 | 239,364 | 318,770 | | -1,060 | 317,710 |
| | Net premium income of reinsurance and claims | | | | | 30,245 | 46,850 | 77,096 | | -1,060 | 76,035 |
| | Other income | 17,000 | 4,466 | 1,307 | 22,773 | 763 | 10,310 | 11,073 | -2,094 | -989 | 30,763 |
| | Total income | 290,460 | 378,688 | 45,257 | 714,405 | 33,170 | 61,991 | 95,161 | -2,010 | -2,050 | 805,506 |
| | Total operating expenses | 185,642 | 490,989 | 77,883 | 754,514 | 17,894 | 39,497 | 57,392 | 2,841 | -2,050 | 812,697 |
| | Profit before impairment charges on loans | 104,818 | -112,302 | -32,625 | -40,109 | 15,276 | 22,494 | 37,770 | -4,851 | | -7,191 |
| | Impairment charges, incl. reversals of aquired OEI impairments | 42,784 | 36,086 | 6,094 | 84,963 | | | | | | 84,963 |
| | Profit before tax | 62,034 | -148,387 | -38,719 | -125,073 | 15,276 | 22,494 | 37,770 | -4,851 | | -92,154 |
| | Total assets | 10,601,252 | 5,554,060 | 701,814 | 16,857,126 | 175,579 | 453,978 | 629,557 | 24,516 | -975,699 | 16,535,501 |
| | of which Loans and advances | 5,707,417 | 4,129,760 | 654,332 | 10,491,509 | | | | | | 10,491,509 |
| | Total liabilities and equity | 10,601,252 | 5,554,060 | 701,814 | 16,857,126 | 175,579 | 453,978 | 629,557 | 24,516 | -975,699 | 16,535,501 |
| | of which Deposits | 5,846,793 | 6,376,034 | 467,185 | 12,690,011 | | | | | -86,479 | 12,603,533 |
| | of which Insurance liabilities | | | | | 66,379 | 292,797 | 359,176 | | | 359,176 |
| | Operating segments 2013 | Banking | | | | Insurance | | | Other | Elimination | Group |
| | DKK 1,000 | Faroe Islands | Denmark | Greenland | Total | Faroe Islands | Iceland | Total | | | |
| | External interest income, Net | 315,521 | 198,329 | 47,789 | 561,639 | 2,374 | 9,965 | 12,339 | 54 | | 574,032 |
| | Internal interest | -58,378 | 67,289 | -8,910 | | | | | | | |
| | Net interest income | 257,143 | 265,618 | 38,878 | 561,639 | 2,374 | 9,965 | 12,339 | 54 | | 574,032 |
| | Net Fee and dividends income | 61,506 | 117,989 | 9,707 | 189,203 | | -830 | -830 | | | 188,372 |
| | Premium income, net of reinsurance | | | | | 80,811 | 215,615 | 296,426 | | -1,141 | 295,285 |
| | Net premium income of reinsurance and claims | 0 | 0 | 0 | 0 | 21,180 | 49,388 | 70,569 | | -1,141 | 69,427 |
| | Other income | 38,888 | 1,616 | 1,238 | 41,741 | -1,054 | 5,756 | 4,702 | -1,578 | -918 | 43,947 |
| | Total income | 357,536 | 385,223 | 49,824 | 792,583 | 22,500 | 64,279 | 86,779 | -1,524 | -2,059 | 875,779 |
| | Total operating expenses | 216,883 | 312,365 | 31,009 | 560,258 | 16,739 | 35,626 | 52,365 | 3,731 | -2,059 | 614,294 |
| | Profit before impairment charges on loans | 140,653 | 72,858 | 18,814 | 232,325 | 5,761 | 28,653 | 34,415 | -5,256 | | 261,484 |
| | Impairment charges, incl. reversals of aquired OEI impairments | 55,303 | 84,265 | 8,048 | 147,616 | | | | | | 147,616 |
| | Profit before tax | 85,350 | -11,407 | 10,766 | 84,709 | 5,761 | 28,653 | 34,415 | -5,256 | | 113,868 |
| | Total assets | 10,807,596 | 7,446,403 | 868,030 | 19,122,029 | 189,308 | 454,786 | 644,094 | 16,830 | -2,698,391 | 17,084,562 |
| | of which Loans and advances | 5,812,886 | 3,826,873 | 820,540 | 10,460,299 | | | | | | 10,460,299 |
| | Total liabilities and equity | 10,807,596 | 7,446,403 | 868,030 | 19,122,029 | 189,308 | 454,786 | 644,094 | 16,830 | -2,698,391 | 17,084,562 |
| | of which Deposits | 5,311,214 | 6,540,709 | 432,749 | 12,284,672 | | | | | -91,925 | 12,192,748 |
| | of which Insurance liabilities | | | | | 74,026 | 301,130 | 375,155 | | | 375,155 |

Notes - BankNordik Group

Note **BankNordik Group - Geographical revenue information**

| 2 | | Total income | | Non.current assets | | Additions on material assets | | Additions on immaterial assets | |
|----------|---------------|----------------|----------------|--------------------|------------------|------------------------------|----------------|--------------------------------|----------|
| | | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| (cont'd) | Faroe Islands | 319,570 | 376,453 | 248,853 | 268,239 | -5,323 | -50,441 | | |
| | Denmark | 378,688 | 385,223 | 418,608 | 677,530 | 208,371 | 10,843 | | |
| | Iceland | 61,991 | 64,279 | 11,838 | 12,747 | 808 | 2,304 | | |
| | Greenland | 45,257 | 49,824 | 168,833 | 170,652 | 50,735 | 4,083 | | |
| | Total | 805,506 | 875,779 | 848,131 | 1,129,167 | 254,591 | -33,211 | 0 | 0 |

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

Notes – BankNordik Group

| BankNordik Group | | Interest | Interest | Net | Market value | | |
|------------------|--|----------------|----------------|----------------|---------------|--------------|----------------|
| Note | DKK 1,000 | income 2) | expenses | interest | adjustment 3) | Dividend | Total |
| 3 | Net income, financial instruments 2014 1) | | | | | | |
| | Financial instruments at amortised cost | 544,781 | 122,513 | 422,268 | | | 422,268 |
| | Financial instruments at fair value: | | | | | | |
| | Held for trading | 49,821 | | 49,821 | 3,110 | 7,487 | 60,418 |
| | Designated | 36,301 | | 36,301 | 11,414 | | 47,715 |
| | Subordinated debt | | | | 5,307 | | 5,307 |
| | Financial instruments at fair value total | 86,122 | | 86,122 | 19,831 | 7,487 | 113,441 |
| | Total net income from financial instruments | 630,903 | 122,513 | 508,390 | 19,831 | 7,487 | 535,709 |
| | Net income, financial instruments 2013 | | | | | | |
| | Financial instruments at amortised cost | 640,180 | 147,143 | 493,037 | | | 493,037 |
| | Financial instruments at fair value: | | | | | | |
| | Held for trading | 44,694 | | 44,694 | 62,179 | 7,731 | 114,604 |
| | Designated | 36,301 | | 36,301 | -46,929 | | -10,628 |
| | Subordinated debt | | | | 6,767 | | 6,767 |
| | Financial instruments at fair value total | 80,995 | | 80,995 | 22,017 | 7,731 | 110,743 |
| | Total net income from financial instruments | 721,175 | 147,143 | 574,032 | 22,017 | 7,731 | 603,780 |

- 1) The Group does not have held-to-maturity investments
- 2) Interest income recognised on impaired financial assets amounts to DKK 28m (2013: DKK 23m)
- 3) DKK 6.3m restated from Other operating income to market value adjustments in 2013 relating to reclassification of dividends to value adjustments in subsidiary Vörður.

Notes – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 |
|------|--|----------------|----------------|
| 4 | Net fee and commission income | | |
| | Fee and commission income | | |
| | Securities trading and custody accounts | 52,384 | 40,012 |
| | Credit transfers | 26,718 | 29,319 |
| | Loan commissions | 11,284 | 10,758 |
| | Guarantee commissions | 20,484 | 22,061 |
| | Other fees and commissions | 97,837 | 98,365 |
| | Total fee and commission income | 208,707 | 200,515 |
| | Fee and commissions paid | | |
| | Securities trading and custody accounts | 25,876 | 26,250 |
| | Total fee and commission paid | 25,876 | 26,250 |
| | Net fee and commission income | 182,831 | 174,265 |
| 5 | Premium income, net of reinsurance | | |
| | Regular premiums, life insurance | 10,145 | 7,957 |
| | Reinsurance premiums paid | -3,602 | -3,052 |
| | Change in unearned premiums provisions | -638 | -365 |
| | Total life insurance | 5,906 | 4,541 |
| | Gross premiums, non-life insurance | 335,269 | 309,835 |
| | Reinsurance premiums paid | 18,092 | 15,744 |
| | Change in gross premium provisions | -5,361 | -3,071 |
| | Change in reinsurers' share of premiums | -12 | -276 |
| | Total non-life insurance | 311,804 | 290,744 |
| | Total | 317,710 | 295,285 |
| 6 | Claims, net of reinsurance | | |
| | Benefits paid | 1,433 | 2,160 |
| | Reinsurers' share received | -756 | -1,198 |
| | Change in outstanding claims provisions | 552 | -554 |
| | Total life insurance | 908 | 408 |
| | Gross claims paid | 222,686 | 200,446 |
| | Claims handling costs | 18,347 | 16,885 |
| | Reinsurance received | -3,561 | -18,302 |
| | Change in gross claims provisions | 4,982 | 12,917 |
| | Change in reinsurers' share relating to provisions | -1,688 | 13,503 |
| | Total non-life insurance | 240,767 | 225,449 |
| | Total | 241,675 | 225,857 |

Notes – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 |
|------|---|----------------|----------------|
| 7 | Other operating income | | |
| | Profit on sale of investment and domicile properties and assets held for sale | 919 | 18,252 |
| | - of which assets held for sale | 167 | 0 |
| | Profit on sale of operating equipment | 2,384 | 568 |
| | Reversals of acquired OEI impairments | 26,050 | 30,618 |
| | Other income | 14,915 | 12,272 |
| | Operation of properties: | | |
| | Rental income | 1,681 | 3,097 |
| | Operating expenses | -2,229 | -1,260 |
| | - of which investment properties | -2,198 | -258 |
| | - of which assets held for sale | -30 | -1,002 |
| | Total other operating income | 43,721 | 63,547 |
| 8 | Staff costs and administrative expenses | | |
| | Staff costs: | | |
| | Salaries | 260,394 | 270,281 |
| | Pensions | 31,013 | 31,073 |
| | Social security expenses | 35,889 | 39,071 |
| | Total staff costs | 327,296 | 340,425 |
| | Administrative expenses: | | |
| | IT | 81,145 | 89,473 |
| | Marketing etc | 21,025 | 24,107 |
| | Education etc | 4,105 | 5,966 |
| | Advisory services | 5,254 | 3,964 |
| | Other expenses | 93,674 | 96,339 |
| | Total administrative expenses | 205,203 | 219,849 |
| | Total staff costs | 327,296 | 340,425 |
| | Staff costs incl. under the item "Claims, net of reinsurance" | -18,347 | -16,884 |
| | Total administrative expenses | 205,203 | 219,849 |
| | Total employee costs and administrative expenses | 514,152 | 543,390 |
| | Number of employees | | |
| | Average number of full-time employees in the period | 511 | 528 |
| | Executive remuneration: | | |
| | Board of Directors | 1,800 | 1,755 |
| | Executive Board: | | |
| | Salaries | 4,557 | 4,690 |
| | Pension | 673 | 694 |
| | Share-based payment | 178 | 0 |
| | Total executive board | 5,408 | 5,384 |
| | Total executive remuneration | 7,208 | 7,139 |

Notes – BankNordik Group

Share-based payment

The Bank has introduced a share-based remuneration-programme for the Executive Board effective as of 1 September 2014. The Executive Board has been granted a total of 46,619 shares at an exercise price of DKK 112.90 per share. The fair value is expensed in the year in which the share options are earned, which is the vesting period of up to two years. Shareholders' equity will increase correspondingly as the obligation is met by settlement in BankNordik shares. An expense amounting to DKK 178 thousand is recognised in the income statement for 2014 relating share based-payment.

Issued options carry a right to buy BankNordik shares exercisable from 10 August 2018 to 10 December 2018. Hence the option life is from 1 September 2014 - 10 December 2018. The exercise price of DKK 112.90 per share is calculated as the average price of a share in P/F BankNordik the recent 5 trading days prior to the allocation date.

The fair value of the share options amounting to DKK 23.20 per share option is calculated according to a dividend-adjusted Black & Scholes formula. Calculation of the fair value at the end of 2014 is based on the following assumptions: Share price (spot rate): DKK 112.0 per share. Dividend payout in accordance with BankNordik's Dividend Policy (DKK 1.69 per share on average for the next four years). Rate of interest (zero-coupon Danish Government Bonds): 0.30%. Volatility: 29.80%. The volatility estimate is based on weekly observations of the historical volatility of app. 4 years which is the same timespan as the option life.

BankNordik has reserved own shares corresponding to the outstanding share options comprised by the above mentioned share-based remuneration programme and thereby has eliminated the risk related to an increase in the price of the BankNordik share.

| Share options | Number | Exercise price (DKK) |
|-------------------------|--------|----------------------|
| Granted in 2014 | 46,619 | 112.90 |
| Earned at year-end 2014 | 7,770 | 112.90 |

Holdings of the Executive Board at year-end 2014

| <i>Granted in 2014</i> | Number | Exercise price (DKK) |
|------------------------|--------|----------------------|
| Janus Petersen | 27,931 | 112.90 |
| John Rajani | 18,688 | 112.90 |

| <i>Earned at year-end 2014</i> | Number | Exercise price (DKK) |
|--------------------------------|--------|----------------------|
| Janus Petersen | 4,655 | 112.90 |
| John Rajani | 3,115 | 112.90 |

For further information regarding the Bank's remuneration policy, go to www.banknordik.com/rp/

Notes – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 |
|-----------|---|----------------|----------------|
| 9 | Audit fees | | |
| | Fees to audit firms elected at the general meeting | 4,068 | 2,720 |
| | Fees to audit firm regarding audit of Vörður | 270 | 345 |
| | Total audit fees | 4,338 | 3,065 |
| | Total fees to the audit firms elected at the general meeting break down as follows: | | |
| | Statutory audit | 1,085 | 1,350 |
| | - of which PricewaterhouseCoopers | 651 | 810 |
| | - of which Januar | 434 | 540 |
| | Other assurance engagements | 81 | 283 |
| | Tax and VAT advice | 274 | 469 |
| | Other services | 2,629 | 618 |
| | Total fees to the audit firms elected at the general meeting | 4,068 | 2,720 |
| 10 | Other operating expenses | | |
| | The Guarantee Fund for Depositors and Investors | 22,695 | 26,319 |
| | Liability regarding construction of new headquarters | 0 | 14,032 |
| | Other operating expenses | 2,716 | 2,972 |
| | Total operating expenses | 25,411 | 43,323 |
| 11 | Impairment charges on loans and advances and provisions for guarantees etc. | | |
| | Impairment charges and provisions at 1 January | 540,908 | 399,570 |
| | New and increased impairment charges and provisions | 220,135 | 251,495 |
| | Reversals of impairment charges and provisions | 84,084 | 62,742 |
| | Written-off, previously impaired | 44,945 | 47,415 |
| | Interest income on impaired loans | 27,551 | 22,818 |
| | Total individual impairment charges and provisions at 31 December | 632,013 | 540,908 |
| | Impairment charges and provisions recognised in the income statement | | |
| | Loans and advances at amortised cost | 119,525 | 159,536 |
| | Loans and advances at fair value | 984 | 4,846 |
| | Guarantees and loan commitments | -9,581 | 12,960 |
| | Assets held for sale | 86 | 892 |
| | Total impairment charges and provisions | 111,014 | 178,234 |
| | Individual impairment charges etc. | | |
| | Individual impairment charges etc. at 1 January | 457,562 | 332,417 |
| | New and increased impairment charges | 195,671 | 224,397 |
| | Reversals of impairment charges | 63,645 | 51,837 |
| | Written-off, previously impaired | 44,945 | 47,415 |
| | Write-offs charged directly to the income statement | 8,807 | 13,719 |
| | Received on claims previously written off | 6,292 | 1,420 |
| | Interest income on impaired loans | 27,551 | 22,818 |
| | Individual impairment charges etc. at 31 December | 544,643 | 457,562 |
| | Total net impact recognised in the income statement | 106,989 | 162,041 |

Notes – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 |
|----------|--|---------------|---------------|
| 11 | Collective impairment charges | | |
| (Cont'd) | Collective impairment charges at 1 January | 26,835 | 23,602 |
| | New and increased impairment charges | 14,412 | 3,938 |
| | Reversals of impairment charges | 806 | 705 |
| | Collective impairment charges at 31 December | 40,441 | 26,835 |
| | <i>Total net impact recognised in the income statement</i> | 13,606 | 3,233 |
| | Individual provisions on guarantees | | |
| | Individual provisions at 1 January | 56,511 | 43,551 |
| | New and increased provisions | 10,052 | 23,160 |
| | Reversals of provisions | 19,633 | 10,200 |
| | Individual provisions on guarantees at 31 December | 46,930 | 56,511 |
| | <i>Total net impact recognised in the income statement</i> | -9,581 | 12,960 |

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.

Loans and advances

| | | |
|---|-------------------|-------------------|
| Loans and advances at amortised cost | 10,320,522 | 10,240,261 |
| Impairment charges | 585,083 | 461,579 |
| Total loans and advances at amortised cost | 9,735,439 | 9,778,682 |
| Loans and advances at fair value | 725,527 | 662,488 |
| Fair value adjustments | 30,543 | 19,129 |
| Total loans and advances at fair value | 756,070 | 681,617 |
| Total loans and advances | 10,491,509 | 10,460,298 |

Of the total adjustment for credit risk on loans and advances at fair value, changes in 2014 were recognised as an expense of DKK 1m (2013: DKK 5m).

Total loans and advances with objective evidence of impairment

| | | |
|---|-----------|-----------|
| Individual | 1,250,251 | 1,419,614 |
| Carrying amount net of impairment charges | 705,608 | 984,870 |
| Collective | 7,898,570 | 6,815,386 |
| Carrying amount net of impairment charges | 7,858,130 | 6,788,551 |

Notes – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 |
|------|--|------------------|------------------|
| 12 | Tax | | |
| | Tax on profit for the year | 35,257 | 21,472 |
| | Tax on changes in other comprehensive income | 0 | 1,936 |
| | Total tax | 35,257 | 23,408 |
| | Tax on profit for the year | | |
| | Profit before tax | -92,154 | 113,868 |
| | Current tax charge | 11,743 | 1,270 |
| | Change in deferred tax | 23,514 | 18,622 |
| | Adjustment of prior-year tax charges | 0 | 1,580 |
| | Total | 35,257 | 21,472 |
| | Effective tax rate | | |
| | Tax rate | 20.7% | 18.9% |
| | Impairment intangible assets | -60.6% | 0.0% |
| | Non-taxable income and non-deductible expenses | 1.6% | -1.4% |
| | Tax on profit for the year | -38.3% | 17.5% |
| | Adjustment on prior-year tax charges | 0.0% | 1.4% |
| | Effective tax rate | -38.3% | 18.9% |
| | No tax asset has been capitalized relating to impairment of goodwill which has a material effect on calculation of the effective tax rate. | | |
| 13 | Cash in hand and demand deposits with central banks | | |
| | Cash in hand | 94,918 | 108,574 |
| | Demand deposits with central banks | 344,574 | 371,183 |
| | Total | 439,492 | 479,757 |
| 14 | Bonds at fair value | | |
| | Mortgage credit bonds | 2,543,591 | 2,601,986 |
| | Government bonds | 541,704 | 530,893 |
| | Corporate bonds etc. | 449,383 | 360,392 |
| | Bonds at fair value | 3,534,678 | 3,493,271 |
| | All bonds form part of the Group's trading portfolio | | |
| 15 | Shares etc. | | |
| | Shares/unit trust certificates listed on the Copenhagen Stock Exchange | 63,620 | 56,704 |
| | Shares/unit trust certificates listed on other stock exchanges | 112,848 | 100,990 |
| | Other shares at fair value using the fair-value option | 178,329 | 176,983 |
| | Total shares etc. | 354,797 | 334,677 |

Notes – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 | | | | | |
|------|---|---------------|---------------|--------------|-------------------|--------------|--------------|----------------------------|
| 16 | Assets under insurance contracts | | | | | | | |
| | Non-life insurance | | | | | | | |
| | Reinsurers' share of provisions for unearned premiums | 0 | 12 | | | | | |
| | Reinsurers' share of claims provisions | 9,063 | 8,157 | | | | | |
| | Receivables from insurance contracts | 62,470 | 65,103 | | | | | |
| | Total non-life insurance | 71,533 | 73,273 | | | | | |
| | Maturity within 12 months | 62,470 | 65,103 | | | | | |
| | Life insurance | | | | | | | |
| | Reinsurers' share of provisions | 4,777 | 3,284 | | | | | |
| | Other assets | 2,093 | 1,877 | | | | | |
| | Total life insurance | 6,870 | 5,161 | | | | | |
| | Total Assets under insurance contracts | 78,403 | 78,434 | | | | | |
| 17 | Holdings in associates | | | | | | | |
| | Cost at 1 January | 7,825 | 25,400 | | | | | |
| | Additions | 0 | 2,575 | | | | | |
| | Disposals | 3,100 | 20,150 | | | | | |
| | Cost at 31 December | 4,725 | 7,825 | | | | | |
| | Revaluations at 1 January | 6,361 | -10,525 | | | | | |
| | Share of profit | -6,736 | -13 | | | | | |
| | Impairment charges during the year | 0 | 3,100 | | | | | |
| | Reversals of revaluations | 3,100 | 20,000 | | | | | |
| | Revaluations at 31 December | 2,726 | 6,361 | | | | | |
| | Carrying amount at 31 December | 7,451 | 14,186 | | | | | |
| | | Income | Net profit | Total assets | Total liabilities | Total equity | Owner-ship % | The Groups share of equity |
| | Holdings in associates 2014 | | | | | | | |
| | P/F Elektron | 86,064 | -19,782 | 62,914 | 41,373 | 21,541 | 34% | 7,451 |
| | Holdings in associates 2013 | | | | | | | |
| | P/F Elektron | 96,500 | -40 | 72,054 | 38,231 | 33,823 | 34% | 11,611 |

The information disclosed is extracted from the companies' most recent annual report (2013 and 2012).

Notes – BankNordik Group

Note DKK 1,000

18 Intangible assets

| 2014 | Goodwill | Customer Relations | Longterm cost | Total |
|---|------------------------|--------------------|----------------|-----------------|
| Cost at 1 January | 708,913 | 122,574 | 26,020 | 857,508 |
| Foreign currency translation | -5,849 | | -1,566 | -7,415 |
| Cost at 31 December | 703,064 | 122,574 | 24,454 | 850,093 |
| Amortisation and impairment charges at 1 January | | -33,644 | -25,724 | -59,367 |
| Amortisation charges during the year | | -12,257 | -278 | -12,536 |
| Impairment charges during the year | -250,007 | | | -250,007 |
| Foreign currency translation | | | 1,548 | 1,548 |
| Amortisation and impairment charges at 31 December | -250,007 | -45,901 | -24,454 | -320,363 |
| Carrying amount at 31 December | 453,057 | 76,673 | 0 | 529,730 |
| Amortisation period | Annual impairment test | 10 years | 3 years | |
| Intangible assets | | | | |
| 2013 | Goodwill | Customer Relations | Longterm cost | Total |
| Cost at 1 January | 705,133 | 122,574 | 24,291 | 851,998 |
| Additions | 989 | | | 989 |
| Adjustment to contingent consideration Vörður | -838 | | | -838 |
| Foreign currency translation | 3,629 | | 1,729 | 5,358 |
| Cost at 31 December | 708,913 | 122,574 | 26,020 | 857,508 |
| Amortisation and impairment charges at 1 January | | -21,386 | -23,344 | -44,730 |
| Amortisation charges during the year | | -12,257 | -718 | -12,976 |
| Foreign currency translation | | | -1,661 | -1,661 |
| Amortisation and impairment charges at 31 December | | -33,644 | -25,724 | -59,367 |
| Carrying amount at 31 December | 708,913 | 88,931 | 296 | 798,141 |
| Amortisation period | Annual impairment test | 10 years | 3 years | |

Notes – BankNordik Group

18

(Cont'd) In 2009 BankNordik acquired goodwill in connection with the acquisition of the Icelandic company Vørður. In 2010 BankNordik acquired 12 branches in Denmark and Greenland from Sparbank. In 2011 BankNordik acquired 13 branches in Denmark from Amagerbanken.

The remaining amortization periods are five to six years for customer relations (2013: six to seven years) and goodwill had an indefinite life in both 2013 and 2014.

Impairment test

The BankNordik Groups goodwill with an indefinite life is at least tested annually for impairment. The Group performs an impairment test during the year if there are indications of impairment. The activities are tested on the identified cash-generating unit to which the assets have been allocated. Goodwill is allocated to the cash-generating areas Denmark, Greenland and Iceland. Customer relations are allocated to Denmark and Greenland. As discussed in note 1, the impairment test performed as of 31. December 2014 resulted in an impairment loss of DKK 200m and 50m for Denmark and Greenland respectively.

Distributable dividend model

The impairment test compares the carrying amount with the estimated present value of the anticipated future cash flows. The special debt structure in financial groups means that the calculation basis for the present value of future cash flows is based on a distributable dividend model. The distributable dividend model is based on approved strategies and earnings estimates for the cash-generating business areas for the next three to five years. Furthermore the model is based on solvency and liquidity requirements in the cash-generating business areas. The cash-generating business areas are treated as separate business areas and consequently any excess liquidity is settled with an internal interest rate.

At the end of 2014 the Group has tested goodwill allocated to the cash-generating areas shown below:

| Goodwill: | Denmark | Greenland | Iceland |
|-----------------------------------|----------------|------------------|----------------|
| Carrying amount: | | | |
| Goodwill, branches | 340m | 63m | |
| Goodwill, customer relations | 69m | 8m | |
| Goodwill, Vørður | | | 49m |
| Impairment test: | Denmark | Greenland | Iceland |
| Budgeting period | 5 years | 5 years | 3 years |
| Required rate of return after tax | 8.00 | 8.00 | 13.29 |
| Long-term growth rate | 2% | 2% | 3% |
| NPV, budgeting period | 150m | 32m | 57m |
| NPV, terminal period | 747m | 131m | 132m |

Sensitivity to changes in economic assumptions

Denmark

Due to the fact that goodwill has been written down to its recoverable amount, negative changes in assumptions will result in additional impairment. The key assumptions are the internal rate, interest margin and impairment on loans. Changes in those assumptions will result in additional impairment as set out below:

| | Change | Change impact on recoverable amount |
|-----------------------------------|---------------|--|
| Internal interest rate | +/- 0.5% | 95m |
| Interest margin | +/- 0.1% | 63m |
| Impairments on loans and advances | +/- 0.1% | 61m |

The internal interest rate applied in the budgetting period is 1,0% (2013: 2,5%).

The following assumptions may also affect the carrying amount of goodwill, but are less sensitive. A reasonably possible change to the assumptions will affect the excess value as set out below.

| | | |
|-----------------------|----------|-----|
| Fees, net | +/- 1m | 12m |
| Costs | +/- 1m | 12m |
| Loans and advances | +/- 50m | 23m |
| Long-term growth rate | +/- 0.1% | 13m |
| Discount rate | +/- 0.1% | 23m |

Greenland

Due to the fact that goodwill has been written down to its recoverable amount, negative changes in assumptions will result in additional impairment. The key assumptions are the internal rate, interest margin and impairment on loans. Changes in those assumptions will result in additional impairment as set out below:

| | Change | Change impact on recoverable amount |
|-----------------------------------|---------------|--|
| Internal interest rate | +/- 0.5% | 15m |
| Interest margin | +/- 0.1% | 9m |
| Impairments on loans and advances | +/- 0.1% | 9m |

The internal interest rate applied in the budgetting period is 1,0% (2013: 2,5%).

The following assumptions may also affect the carrying amount of goodwill, but are less sensitive. A reasonably possible change to the assumptions will affect the excess value as set out below.

| | | |
|-----------------------|----------|-----|
| Fees, net | +/- 1m | 10m |
| Costs | +/- 1m | 10m |
| Loans and advances | +/- 50m | 14m |
| Long-term growth rate | +/- 0.1% | 2m |
| Discount rate | +/- 0.1% | 4m |

Iceland

| | Change | Change impact on recoverable amount |
|---------------------------|---------------|--|
| Costs | +/- 1m | 7m |
| Insurance activities, net | +/- 1m | 7m |
| Long-term growth rate | +/- 0.1% | 2m |
| Discount rate | +/- 0.1% | 2m |

Management assesses whether probable changes in basic assumptions will lead the carrying amount of goodwill to exceed its recoverable amount.

Discount rate and long-term growth rate. pct.

| Discount rate | Denmark | Greenland | Iceland |
|--------------------------------------|----------------|------------------|----------------|
| Risk free rate, after tax | 0.85 | 0.85 | 6.15 |
| Specific market risk rate, after tax | 7.15 | 7.15 | 7.14 |
| Total discount rate, after tax | 8.00 | 8.00 | 13.29 |
| Long-term growth rate, pct.: | 2.0 | 2.0 | 3.0 |

Discount rate: the after tax discount rate used to discount the cash flows is based on the risk-free rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgment.

In addition, for the purposes of testing goodwill for impairment, management supplements this process by comparing the discount rates with cost of capital rates produced by external sources. The group uses externally-sourced cost of capital rates where, in management's judgment, these rates reflect more accurately the current market and economic conditions. For 2014 and 2013, internal costs of capital rates were consistent with externally-sourced rates.

Long-term growth rate: external data that reflects the market's assessment of GDP and inflation for the countries within which the CGU operates.

Key budgeting assumptions**Denmark**

| Budget area | Development | Basis for the assumption in the budget period | Change impact on recoverable amount |
|------------------------|--------------------|--|--|
| Interest margin | Decrease | Increasing competition estimated to result in a downward trend in the bank's lending rate relative to the deposits rate. | Negative |
| Fees, net | Increase | Increased focus on specific business areas estimated to result in higher income from fees, net. | Positive |
| Cost/income | Decrease | Continued focus on running a cost-effective business compared to estimated increase in core income. | Positive |
| Impairments, pct. | Decrease | Coming from a period with relatively high impairments on loans and guarantees the bank estimates a normalization of the impairments in the budgeting period. | Positive |
| Loans | Increase | Increased focus on growth on high quality loans estimated to result in a higher loans portfolio. | Positive |
| Internal interest rate | Decrease | The internal interest rate is linked to the trend in the general market rate. | Negative |

Greenland

| Budget area | Development | Basis for the assumption in the budget period | Change impact on recoverable amount |
|------------------------|--------------------|--|--|
| Interest margin | Stable | The competition is estimated to stay relatively stable during the budgeting period resulting in a stable interest margin. | None |
| Fees, net | Increase | Increased focus on specific business areas estimated to result in higher income from fees, net. | Positive |
| Cost/income | Decrease | Continued focus on running a cost-effective business compared to estimated increase in core income. | Positive |
| Impairments | Decrease | Coming from a period with relatively high impairments on loans and guaranties the bank estimates a normalization of the impairments in the budgeting period. | Positive |
| Loans | Increase | Increased focus on growth on high quality loans estimated to result in a higher loans portfolio. | Positive |
| Internal interest rate | Decrease | The internal interest rate is linked to the trend in the general market rate. | Positive |

Iceland

| Budget area | Development | Basis for the assumption in the budget period | Change impact on recoverable amount |
|-----------------------|--------------------|---|--|
| Cost/income | Decrease | Continued focus on running a cost-effective business compared to estimated increase in core income. | Positive |
| Insurance income, net | Increase | Continued focus on growth is estimated to result in further growth in the insurance income, net. | Positive |

Notes – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 |
|-----------|--|---------------|----------------|
| 19 | Investment property | | |
| | Fair value at 1 January | 120,358 | 158,093 |
| | Additions | 0 | 12,625 |
| | Reclassification to assets held for sale | 39,000 | 35,223 |
| | Disposals | 15,116 | 2,500 |
| | Fair value adjustment | -1,379 | -12,637 |
| | Fair value at 31 December | 64,863 | 120,358 |

Rental income from investment property amounted to DKK 0.5m in 2014 (2013: DKK 0.5m). Expenses directly attributable to investment property generating rental income amounted to DKK 2.2 (2013: DKK 0.3m).

The fair value is assessed by the group's internal valuers at least once a year on 31st 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. The required rate of return ranged between 5.9%-7.5% (2013: 5.0%-9.0%) and averaged 6.4% (2013: 5.8%). An increase in the required rate of return of 1.0 percentage point, would reduce fair value at end-2014 by DKK 1.8m.

| | | | |
|-----------|---|----------------|----------------|
| 20 | Domicile property | | |
| | Cost at 1 January | 167,495 | 198,128 |
| | Additions | 73,137 | 12,802 |
| | Disposals | 14,128 | 43,435 |
| | Cost at 31 December | 226,504 | 167,495 |
| | Adjustments at 1 January | 3,533 | -2,766 |
| | Depreciation charges during the year | 1,019 | 892 |
| | Reversal of depreciation charges on disposals during the year | 515 | 403 |
| | Revaluations recognised directly in equity | 0 | 10,756 |
| | Impairments, recognised as cost previous years | 14,050 | 3,968 |
| | Adjustments at 31 December | -11,022 | 3,533 |
| | Carrying amount at 31 December | 215,483 | 171,028 |

Tangible assets include domicile property of DKK 215m (2013: DKK 171m). The cost price of domicile property was revalued according to IFRS in 2008. Carrying amount at 31 December if the property had not been revalued is DKK 174m.

If indications of impairment exist, domicile property is written down to the lower of the carrying amount and its value in use. The properties are valued individually by the groups internal valuers on the basis of the rate of return used for investment property disclosed in note 22. At the end of 2014, the fair value of domicile property was DKK 230m (2013: DKK 174m). The required rate of return is 5.5%-9.0% (2013: 5-9%). The depreciation period is 50 years.

Notes – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 |
|-----------|---|----------------|---------------|
| 21 | Other property, plant and equipment | | |
| | Cost at 1 January | 89,978 | 79,746 |
| | Additions | 14,636 | 10,692 |
| | Disposals | 1,778 | 1,161 |
| | Foreign currency translation | -752 | 701 |
| | Cost at 31 December | 102,083 | 89,978 |
| | Depreciation and impairment charges at 1 January | 64,523 | 55,450 |
| | Depreciation charges during the year | 9,082 | 9,605 |
| | Reversals of depreciation and impairment charges | 1,566 | 1,060 |
| | Foreign currency translation | -554 | 528 |
| | Depreciation and impairment charges at 31 December | 71,485 | 64,523 |
| | Carrying amount at 31 December | 30,598 | 25,455 |

The depreciation period is 3-5 years.

| | | | |
|-----------|--------------------------|---------------|---------------|
| 22 | Deferred tax | | |
| | Deferred tax assets | 27,431 | 44,589 |
| | Deferred tax liabilities | 86,189 | 79,129 |
| | Deferred tax, net | 58,758 | 34,540 |

Change in deferred tax

| | At 1 Jan. | Foreign currency translation | Included in profit for the year | Included in shareholders' equity | At 31 Dec. |
|----------------------------|---------------|------------------------------------|---------------------------------------|--|---------------|
| 2014 | | | | | |
| Intangible assets | 78,454 | | 40,943 | | 119,397 |
| Tangible assets | 9,057 | | -4,144 | | 4,913 |
| Securities | -527 | | 0 | | -527 |
| Provisions for obligations | -63 | | -1 | | -64 |
| Tax loss carryforwards | -51,914 | 704 | -13,242 | | -64,453 |
| Other | -467 | | -42 | | -509 |
| Total | 34,540 | 704 | 23,514 | 0 | 58,758 |

Adjustment of prior-year tax charges included in preceding item

2013

| | | | | | |
|----------------------------|---------------|---------------|---------------|--------------|---------------|
| Intangible assets | 39,708 | | 38,746 | | 78,454 |
| Tangible assets | 11,895 | | -4,774 | 1,936 | 9,057 |
| Securities | -527 | | 0 | | -527 |
| Provisions for obligations | 0 | | -63 | | -63 |
| Tax loss carryforwards | -34,126 | -1,894 | -15,894 | | -51,914 |
| Other | -1,073 | | 607 | | -467 |
| Total | 15,876 | -1,894 | 18,622 | 1,936 | 34,540 |

Adjustment of prior-year tax charges included in preceding item

Notes – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 |
|------|---|---------------|---------------|
| 23 | Assets held for sale | | |
| | Total purchase price at 1 January | 66,073 | 34,025 |
| | Additions | 9,108 | 7,614 |
| | Reclassification from investment properties | 39,000 | 35,223 |
| | Disposals | 59,858 | 10,789 |
| | Total purchase price at 31 December | 54,322 | 66,073 |
| | Impairment at 1 January | 7,905 | 8,214 |
| | Impairment charges for the year | 86 | 1,870 |
| | Reversal of impairment on disposals and write offs during the year | 5,439 | 2,179 |
| | Impairment at 31 December | 2,551 | 7,905 |
| | Total assets held for sale at 31 December | 51,771 | 58,168 |
| | Specification of assets held for sale | | |
| | Real property taken over in connection with non-performing loans | 51,206 | 58,100 |
| | Other tangible assets taken over in connection with non-perf. loans | 565 | 68 |
| | Total | 51,771 | 58,168 |

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.

Profits from sale of real property and tangible assets taken over in connection with non-performing loans are recognised under the item "Other operating income". The Group's real estate agency is responsible for selling the real property.

Apartments in the real property project "Gráisteinur" are measured to sale price. Fair value of other assets is assessed by the group's internal valuers.

| | Fair value hierarchy for assets held for sale | 2014 | 2013 |
|----|---|----------------|----------------|
| | Quoted prices | 39,000 | 35,223 |
| | Observable inputs | 12,771 | 22,945 |
| | Non-observable inputs | 0 | 0 |
| 24 | Other assets | | |
| | Interest and commission due | 46,661 | 48,361 |
| | Derivatives with positive fair value | 49,640 | 53,956 |
| | Other amounts due | 55,887 | 59,065 |
| | Total | 152,188 | 161,382 |

Notes – BankNordik Group

| Note | DKK 1,000 | 2014 | 2013 |
|---|-----------|----------------|----------------|
| 25 Liabilities under insurance contracts | | | |
| Non-life insurance | | | |
| Provisions for unearned premiums | | 114,389 | 114,741 |
| Claims provisions | | 245,512 | 254,176 |
| Total | | 359,901 | 368,917 |
| Life insurance | | | |
| Life insurance provisions | | 3,090 | 2,748 |
| Other technical provisions | | 3,867 | 3,491 |
| Total provisions for insurance contracts | | 6,957 | 6,239 |
| Total | | 366,858 | 375,155 |
| Information regarding run-off gains and losses are illustrated in note 36 | | | |
| 26 Other liabilities | | | |
| Sundry creditors | | 83,682 | 93,363 |
| Accrued interest and commission | | 53,246 | 52,853 |
| Derivatives with negative value | | 97,486 | 69,431 |
| Accrued staff expenses | | 52,921 | 55,245 |
| Debt regarding sale of investment assets | | 38,037 | 52,355 |
| Other obligations | | 23,976 | 51,467 |
| Total | | 349,348 | 374,714 |

27 Subordinated capital

| | Cur- rency | Borrower | Principal | Interest rate | Year of issue | Maturity | Step-up clause | Redemption price | 2014 | 2013 |
|-----------------------|---------------|--------------------|----------------|------------------|------------------|-----------|-------------------|---------------------|----------------|----------------|
| Subordinated capital | a | DKK P/F BankNordik | 270,000 | 8.383% | 2011 | 6/24/2021 | No | 100 | 273,640 | 275,216 |
| Hybrid core capital | b | DKK P/F BankNordik | 63,138 | 10.295% | 2009 | Perpetual | Yes | 100 | 0 | 62,240 |
| Hybrid core capital | c | DKK P/F BankNordik | 180,000 | 10.383% | 2011 | Perpetual | No | 100 | 185,040 | 187,990 |
| At 31 December | | | 513,138 | | | | | | 458,680 | 525,445 |

| Interest rate: | | Hedged with interest swaps | Until 23.6.2016 | From 24.6.2016 |
|----------------------|---|----------------------------|-----------------|-----------------|
| Subordinated capital | a | 120m | 8.383% | CIBOR 3M + 7,0% |
| Hybrid core capital | c | 180m | 10.383% | CIBOR 3M + 7,5% |

Fair value adjustments of hedged capital are at year-end 2014 DKKt 11,560 (year-end 2013: DKKt 16,867). As the capital is hedged the fair value adjustments have no effect on the income statement. Of the subordinated capital 150m is not hedged.

Term of maturity of the hedging instruments is June 2016.

Subordinated capital is included in the total capital 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 – BankNordik Group

Note DKK 1,000

| | | | |
|----|---|-----------------|---------------|
| 28 | BankNordik shares | 2014 | 2013 |
| | Net profit | -127,411 | 92,396 |
| | Average number of shares outstanding | 9,863 | 9,863 |
| | Average number of shares outstanding, including dilutive shares diluted | 9,863 | 9,863 |
| | Earnings per share, DKK | -12.92 | 9.37 |
| | Diluted net profit for the period per share, DKK | -12.92 | 9.37 |

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:

| | | |
|---|--------------|--------------|
| 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 | 9,863 | 9,863 |
| Group's average holding of own shares during the period | 137 | 137 |
| Average shares outstanding | 9,863 | 9,863 |

| | Number 2014 | Number 2013 | Value 2014 | Value 2013 |
|-----------------------|----------------|----------------|---------------|---------------|
| Holding of own shares | | | | |
| Investment portfolio | 27,245 | 27,245 | 2,847 | 3,487 |
| Trading portfolio | 109,997 | 109,997 | 11,495 | 14,080 |
| Total | 137,242 | 137,242 | 14,342 | 17,567 |

| | Investment portfolio | Trading portfolio | Total 2014 | Total 2013 |
|-------------------------------|-------------------------|----------------------|---------------|---------------|
| Holding at 1 January | 3,487 | 14,080 | 17,567 | 10,430 |
| Acquisition of own shares | 0 | 18,903 | 18,903 | 13,865 |
| Sale of own shares | 0 | 18,903 | 18,903 | 13,878 |
| Value adjustment | -640 | -2,585 | -3,225 | 7,149 |
| Holding at 31 December | 2,847 | 11,495 | 14,342 | 17,567 |

Notes – BankNordik Group

| Note | | 2014 | 2013 |
|------|---|------------------|------------------|
| 29 | 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 | 286,094 | 149,765 |
| | Mortgage finance guarantees | 423,022 | 417,194 |
| | Registration and remortgaging guarantees | 469,335 | 242,915 |
| | Other guarantees | 836,636 | 917,556 |
| | Total | 2,015,087 | 1,727,430 |

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 2014, such unused credit facilities amounted to DKK 2.7bn (2013: DKK 2.6bn). Furthermore the Group has granted irrevocable loan commitments amounting to DKK 359m.

In total operational leasing (rent) liabilities amount to 31.0m (2013: DKK 36.1). Renting contracts for an amount of DKK 10.1m (2013: DKK 10.5) have a 12 months term of notice. Renting contracts for an amount of DKK 20.9m (2013: DKK 24.0m) have a term of notice from 1 to 5 years. Renting contracts for an amount of DKK 0.0m (2013: DKK 1.6m) have a term of notice of more than 5 years.

In connection with the acquisition of shares in Vörður Tryggingar hf. for a total nominal amount of ISK 2.406.328.750, (DKK 113m) BankNordik participated in two currency auctions conducted by the Icelandic central bank, at which foreign investors are allowed to buy ISK amounts at a discount. ISK amounts acquired at these auctions must be used for investments in Iceland, and if such investments are sold within five years of the date of the currency auction, the Icelandic central bank is entitled to claim one-third of the value of the investment at no consideration. On 30 March and 22 June 2012, BankNordik acquired ISK at an Icelandic central bank currency auction for the purpose of partially financing BankNordik's purchase of shares at nominal amounts of ISK 379,015,000 (DKK 18m) and of ISK 37,485,000 (DKK 2m), respectively in Vörður Tryggingar hf. Accordingly, the Icelandic central bank would be entitled to claim one third of the nominal value of ISK 379,015,000 (DKK 18m) and one third of the nominal value of ISK 37,485,000 (DKK 2m) of BankNordik's shares in Vörður Tryggingar hf. at no consideration, if BankNordik were to divest these shareholdings before 30 March 2017 and 22 June 2017, respectively. At the date of the currency auctions, the investments were valued at ISK 807,694,000 (DKK 38m) and ISK 120,050,000 (DKK 6m), respectively.

30 Assets deposited as collateral

At the end of 2014 the Group had deposited bonds at a total market value of DKK 24m (2013: DKK 289m) with Danmarks Nationalbank (the Danish Central Bank) primarily in connection with cash deposits.

At the end of 2014 the Group had deposited bonds and cash at a total market value of DKK 43m (2013: DKK 39m).

Notes – BankNordik Group

Note DKK 1,000

| 31 | Related parties | Parties with significant influence | | Associated undertakings | | Board of Directors | | Executive Board | |
|----|------------------------------------|------------------------------------|--------------|-------------------------|---------------|--------------------|--------------|-----------------|--------------|
| | | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | DKK 1.000 | | | | | | | | |
| | Assets | | | | | | | | |
| | Loans | | | 9,832 | 51,681 | 8,527 | 8,177 | 1,890 | 2,792 |
| | Total | | | 9,832 | 51,681 | 8,527 | 8,177 | 1,890 | 2,792 |
| | Liabilities | | | | | | | | |
| | Deposits | 4,739 | 2,971 | 963 | 2,668 | 997 | 1,518 | 457 | 1,281 |
| | Total | 4,739 | 2,971 | 963 | 2,668 | 997 | 1,518 | 457 | 1,281 |
| | Off-balance sheet items | | | | | | | | |
| | Guarantees issued | | | | 3,405 | | | | |
| | Guarantees and collateral received | | | 13,063 | | 8,362 | | 1,684 | 2,412 |
| | Income Statement | | | | | | | | |
| | Interest income | 0 | 0 | 549 | 3,766 | 378 | 338 | 83 | 157 |
| | Interest expense | 21 | 18 | 0 | 12 | 8 | 52 | 6 | 19 |
| | Fee income | 2 | 1 | 15 | 79 | 2 | 23 | 1 | 5 |
| | Total | -19 | -17 | 563 | 3,834 | 372 | 309 | 78 | 144 |

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

Note 17 lists associated undertakings.

In 2014 interest rates on credit facilities granted to associated undertakings were between 2.28%-17.35% (2013: 5.27%-14.5%).

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

In 2014 interest rates on credit facilities granted to members of the Board of Directors and the Executive Board were between 2.00%-17.35% (2012: 2.28%-17.35%). Note 8 specifies the remuneration and note 32 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 holdings to the Bank.

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

Notes – BankNordik Group

Note

32 Holdings of the Board of Directors and the Executive Board

| | Beginning of 2014 | Additions | Disposals | End of 2014 |
|---|-------------------|--------------|-----------|---------------|
| Board of directors | | | | |
| Klaus Rasmussen | 18,147 | 1,793 | | 19,940 |
| Jens Erik Christensen | 1,161 | | | 1,161 |
| Niels Vestermark | 500 | 500 | | 1,000 |
| Nils Sørensen | 302 | | | 302 |
| Mette Dahl Christensen (Until March 2014) | 51 | | | 51 |
| Tórhallur Olsen (From March 2014) | 927 | | | 927 |
| Kenneth M. Samuelsen | 2,419 | | | 2,419 |
| Total | 23,507 | 2,293 | | 25,800 |
| Executive Board | | | | |
| Janus Petersen | 15,756 | | | 15,756 |
| John Rajani (from 1 March 2011) | 3,052 | | | 3,052 |
| Total | 18,808 | | | 18,808 |

The executive board is participating in a shared-based programme with shareoption totalling 46.619 shares. Please refer to note 8 for further information

33 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 price-fixing-agreements according to the articles of association and using generally accepted estimations and valuation techniques. Sector shares with price-fixing-agreements are recognised in the Observable input category. The valuation of unlisted shares is based substantially on non-observable input.

Notes – BankNordik Group

Note DKK 1,000

| 2014 | Quoted prices | Observable input | Non-observable input | Total |
|--|----------------------|-------------------------|-----------------------------|------------------|
| 33 Financial assets and liabilities at fair value | | | | |
| Financial assets held for trading | | | | |
| (Cont'd) Bonds at fair value | 3,534,678 | | | 3,534,678 |
| Shares, etc. | 176,468 | | | 176,468 |
| Derivatives with positive fair value | | 49,640 | | 49,640 |
| Total | 3,711,146 | 49,640 | | 3,760,786 |
| Financial assets designated at fair value | | | | |
| Loans and advances at fair value | | 756,070 | | 756,070 |
| Shares, etc. | | 144,507 | 33,822 | 178,329 |
| Total | | 900,577 | 33,822 | 934,399 |
| Financial assets at fair value | 3,711,146 | 950,217 | 33,822 | 4,695,186 |
| Financial liabilities held for trading | | | | |
| Derivatives with negative fair value | | 97,486 | | 97,486 |
| Total | | 97,486 | | 97,486 |
| Financial liabilities designated at fair value | | | | |
| Subordinated debt | | 311,560 | | 311,560 |
| Total | | 311,560 | | 311,560 |
| Financial liabilities at fair value | | 409,045 | | 409,045 |
| 2013 | Quoted prices | Observable input | Non-observable input | Total |
| Financial assets and liabilities at fair value | | | | |
| Financial assets held for trading | | | | |
| Bonds at fair value | 3,493,271 | | | 3,493,271 |
| Shares, etc. | 157,694 | | | 157,694 |
| Derivatives with positive fair value | | 53,956 | | 53,956 |
| Total | 3,650,965 | 53,956 | | 3,704,922 |
| Financial assets designated at fair value | | | | |
| Loans and advances at fair value | | 681,617 | | 681,617 |
| Shares, etc. | | 143,022 | 33,961 | 176,983 |
| Total | | 824,638 | 33,961 | 858,600 |
| Financial assets at fair value | 3,650,965 | 878,594 | 33,961 | 4,563,521 |
| Financial liabilities held for trading | | | | |
| Derivatives with negative fair value | | 69,431 | | 69,431 |
| Total | | 69,431 | | 69,431 |
| Financial liabilities designated at fair value | | | | |
| Subordinated debt | | 316,867 | | 316,867 |
| Total | | 316,867 | | 316,867 |
| Financial liabilities at fair value | | 386,297 | | 386,297 |

Notes – BankNordik Group

Notes DKK 1,000

33 (Cont'd) Financial instruments valued on the basis of quoted prices in an active market are recognised in the Quoted prices category. Financial instruments valued substantially on the basis of other observable input are recognised in the Observable input category. The category covers derivatives and loans and advances at fair value, 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 other unlisted shares.

At 31 December 2014 financial assets valued on the basis of non-observable input comprised unlisted shares of DKK 34m (2013: DKK 34m). In 2014, the Group recognised unrealised value adjustments of unlisted shares valued on the basis of non-observable input in the amount of DKK 6m (2013: DKK 1m). A 10% increase or decrease in fair value of unlisted shares would amount to DKK 3m (2013: DKK 3m).

| | 2014 | 2013 |
|--|---------------|---------------|
| Financial instruments at fair value valued on the basis of non-observable input | | |
| Fair value at 1 January | 33,961 | 32,586 |
| Value adjustments through profit or loss | 5,952 | 1,375 |
| Acquisitions | 2,095 | 0 |
| Disposals | 8,186 | 0 |
| Fair value at 31 December | 33,822 | 33,961 |

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

Notes – BankNordik Group

Note DKK 1,000

33 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 assumptions:

- 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
- of the subordinated debt totalling 459m, subordinated debt of 147m is not hedged and is recognised at amortised cost

| Financial instruments at amortised cost | Carrying amount 2014 | Fair value 2014 | Carrying amount 2013 | Fair value 2013 |
|---|----------------------------|--------------------|----------------------------|--------------------|
| Financial assets | | | | |
| Cash in hand and demand deposits with central banks | 439,492 | 439,492 | 479,757 | 479,757 |
| Due from credit institutions and central banks | 521,276 | 521,276 | 824,289 | 824,289 |
| Loans and advances at amortised cost | 9,735,439 | 9,735,439 | 9,778,682 | 9,778,682 |
| Assets under insurance contracts | 78,403 | 78,403 | 78,434 | 78,434 |
| Total | 10,774,609 | 10,774,609 | 11,161,162 | 11,161,162 |
| Financial liabilities | | | | |
| Due to credit institutions and central banks | 591,347 | 591,347 | 1,290,408 | 1,290,408 |
| Deposits and other debt | 12,603,533 | 12,603,533 | 12,192,748 | 12,192,748 |
| Liabilities under insurance contracts | 366,858 | 366,858 | 375,155 | 375,155 |
| Subordinated debt | 147,120 | 147,120 | 208,579 | 208,579 |
| Total | 13,708,858 | 13,708,858 | 14,066,889 | 14,066,889 |

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 – BankNordik Group

Note DKK 1,000

| 34 | Group holdings and undertakings | Share capital | Functional currency | Net profit | Shareholders' equity | Share capital % |
|----|---|---------------|---------------------|------------|----------------------|-----------------|
| | P/F BankNordik | 200,000 | DKK | -127,411 | 1,991,582 | 100% |
| | Insurance companies | | | | | |
| | P/F Trygd | 40,000 | DKK | 12,521 | 88,160 | 100% |
| | Vörður Tryggingar hf | 39,764 | ISK | 18,523 | 137,847 | 100% |
| | Real estate agency | | | | | |
| | P/F Skyn | 4,000 | DKK | 1,578 | 3,810 | 100% |
| | Venture company | | | | | |
| | P/F Birting | 1,000 | DKK | -39 | 7,799 | 100% |
| | Group holdings recognised under assets held for sale and investment properties | | | | | |
| | Sp/f Íbúðir undir Gráasteini (at the end of 2013) | 125 | DKK | -19,692 | -61,537 | 0% |

Risk Management

Note

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

(cont'd)

- 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 insurance company Trygd and Vörður Tryggingar hf, including market risk, life insurance risk (for Vörður Tryggingar hf subsidiary), business risk and operational risk

Management's Report and the Risk Management Report 2014 contain further information about the Group's approach to risk management. The Risk Management Report 2014 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 16 March 2012. Faroese as well as Danish capital adequacy rules are based on the EU capital requirement directives and apply to both the parent company and the Group.

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

Core capital largely corresponds to the carrying amount of shareholders' equity less goodwill and oth-

er intangible 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 27 to the financial statements show the P/F BankNordik's subordinated debt.

At year-end 2013, the Bank's core capital and solvency ratios were 12.8% and 14.7%, respectively. At the end of 2014, the core capital and solvency ratio were 12.9% and 14.8%, respectively. The Group's target is to have a solvency ratio at least 5 percentage points higher than the individual solvency ratio.

Credit risk

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

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

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

The Group extends credit on the basis of each individual customer's financial position, which is reviewed regularly to assess whether the basis for granting credit have changed. Each facility must reasonably match the customer's credit quality and financial position. Furthermore, the customer must be able to demonstrate, with all probability, his/her ability to repay the debt. The Group exercises prudence when granting credit facilities to businesses and individuals when there is an indication that it will be practically difficult for the Group to maintain contact with the customer. The Group is particularly careful when granting credit to businesses in troubled or cyclical industries.

Credit exposure

The credit exposure generated by lending activities

| Risk exposure concentrations | | | | Table 1 | |
|--|---------------|---------------|---------------|----------------|--|
| (DKKm) | | 2014 | | 2013 | |
| | DKKm | In % | DKKm | In % | |
| Public authorities | 498 | 3.0% | 578 | 3.6% | |
| Corporate sector: | | | | | |
| Agriculture and farming, others | 89 | 0.5% | 115 | 0.7% | |
| Aquaculture | 153 | 0.9% | 142 | 0.9% | |
| Fisheries | 395 | 2.4% | 461 | 2.9% | |
| Manufacturing industries, etc. | 680 | 4.1% | 567 | 3.6% | |
| Energy and utilities | 287 | 1.7% | 322 | 2.0% | |
| Building and construction, etc. | 487 | 3.0% | 521 | 3.3% | |
| Trade | 1,637 | 10.0% | 1,361 | 8.6% | |
| Transport, mail and telecommunications | 676 | 4.1% | 570 | 3.6% | |
| Hotels and restaurants | 42 | 0.3% | 47 | 0.3% | |
| Information and communication | 103 | 0.6% | 98 | 0.6% | |
| Property administration, etc. | 1,256 | 7.6% | 1,202 | 7.6% | |
| Financing and insurance | 373 | 2.3% | 416 | 2.6% | |
| Other industries | 682 | 4.2% | 707 | 4.4% | |
| Total corporate sector | 6,860 | 41.9% | 6,529 | 41.0% | |
| Personal customers | 9,066 | 55.2% | 8,807 | 55.3% | |
| Total | 16,423 | 100.0% | 15,913 | 100.0% | |
| Credit institutions and central banks | 961 | | 1,304 | | |
| Total incl. credit institutions and central banks | 17,384 | | 17,217 | | |

comprises items subject to credit risk that form part of the Group's core banking business.

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

| Exposures related to trading and investment activities | | | Table 2 | |
|---|--------------|--------------|----------------|--|
| (DKKm) | 2014 | 2013 | | |
| Bonds at fair value | 3,535 | 3,493 | | |
| Derivatives with positive fair value | 50 | 54 | | |
| Total credit risk | 3,585 | 3,547 | | |
| Equity | 355 | 335 | | |
| Total | 3,939 | 3,882 | | |

Credit exposure relating to lending activities

Table 1 breaks down the Group's credit exposure in its core banking activities by sector.

Exposures in fisheries were DKK 395m. This represents 2.4% of total exposures. DKK 153m was related to the aquaculture industry. This represents 0.9% of total exposures.

No single industry exceeded 10% of total exposures.

Credit exposure broken down by geographical area

The Bank's loans are mainly granted to domestic customers in the Faroe Islands, Denmark and Greenland. Table 3 provides a geographical breakdown of total exposures.

| Credit exposure by geographical area | | | | | | | | | | Table 3 | |
|---|------------------|-------------|---------------------|-------------------|-----------------------|------------------|-------------|---------------------|-------------------|-----------------------|--|
| (DKKm) | 2014 | | | | | 2013 | | | | | |
| | Exposures | in% | Loan/Credits | Guarantees | Unused credits | Exposures | in% | Loan/Credits | Guarantees | Unused credits | |
| Faroe Islands | 7,475 | 46% | 5,967 | 703 | 805 | 7,344 | 46% | 6,035 | 642 | 667 | |
| Denmark | 7,734 | 47% | 4,843 | 907 | 1,984 | 7,114 | 45% | 4,476 | 641 | 1,997 | |
| Greenland | 1,214 | 7% | 680 | 336 | 198 | 1,455 | 9% | 837 | 363 | 255 | |
| Total | 16,423 | 100% | 11,489 | 1,947 | 2,988 | 15,913 | 100% | 11,348 | 1,646 | 2,919 | |

| Quality of loan portfolio excl. financial institutions 2014 | | | | | Table 4 |
|--|-------------------------|--------------|---------------|---------------|----------------|
| | | > 7.5m | < 7.5m | Total | |
| Portfolio without weakness (3, 2a5) | Exposure in DKKm | 2,781 | 4,679 | 7,460 | |
| Portfolio with some weakness (2b15, 2b30) | Exposure in DKKm | 2,031 | 3,777 | 5,808 | |
| Portfolio with weakness (2c50) | Exposure in DKKm | 200 | 427 | 627 | |
| | Unsecured | 96 | 227 | 323 | |
| Portfolio with OEI (1) | Exposure in DKKm | 609 | 1,164 | 1,773 | |
| | Unsecured | 326 | 784 | 1,110 | |
| | Impairments/provisions | 164 | 428 | 591 | |
| Portfolio without individual classification | Exposure in DKKm | 12 | 743 | 755 | |
| Total | Exposure in DKKm | 5,632 | 10,791 | 16,423 | |

| Quality of loan portfolio excl. financial institutions 2013 | | | | | |
|--|-------------------------|--------------|---------------|---------------|--|
| | | > 7.5m | < 7.5m | Total | |
| Portfolio without weakness (3, 2a5) | Exposure in DKKm | 3,029 | 4,140 | 7,168 | |
| Portfolio with some weakness (2b15, 2b30) | Exposure in DKKm | 1,338 | 3,527 | 4,865 | |
| Portfolio with weakness (2c50) | Exposure in DKKm | 194 | 483 | 677 | |
| | Unsecured | 73 | 275 | 347 | |
| Portfolio with OEI (1) | Exposure in DKKm | 659 | 1,194 | 1,852 | |
| | Unsecured | 355 | 799 | 1,153 | |
| | Impairments/provisions | 153 | 338 | 491 | |
| Portfolio without individual classification | Exposure in DKKm | 0 | 1,351 | 1,351 | |
| Total | Exposure in DKKm | 5,220 | 10,694 | 15,913 | |

Classification of customers

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

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

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

As shown in table 4, 95.4% of total exposures are individually classified.

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

Concentration risk

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

Under section 145 of the Faroese Financial Business Act, exposure to a single customer or a group of related customers, after deduction of particularly secure claims, may not exceed 25% of the total capital. The Group submits quarterly reports to the Danish FSA on its compliance with these rules. In 2014, none of the Group's exposures exceeded these limits.

The Bank has some customers with exposures exceeding 10% of the total capital all of which are classified 2a5 and 2b15.

The Bank's long-term goal is to have no exposures in excess of 10%. In special cases, such exposures may occur, but only for customers with a high credit quality, and where the Bank has accepted collateral, see table 5.

Collateral

The Group applies various instruments available to reducing the risk on individual transactions, including collateral in the form of tangible assets, netting

| Credit exposure and collateral for 2014 | | | | | Table 5 |
|--|----------|------------|----------------------|--------|----------------|
| (DKKmn) | Personal | Corporates | Personal & Corporate | Public | Total |
| Exposure | 9,066 | 6,860 | 15,926 | 498 | 16,423 |
| Loan balance and guarantees | 7,168 | 4,971 | 12,138 | 359 | 12,497 |
| Collateral | 5,042 | 3,942 | 8,984 | 17 | 9,000 |
| Unsecured (of exposures) | 4,024 | 2,918 | 6,942 | 481 | 7,423 |
| Unsecured (loan balance and guarantees) | 2,126 | 1,029 | 3,155 | 342 | 3,497 |
| Unsecured ratio | 44% | 43% | 44% | 97% | 45% |
| Unsecured ratio balance | 30% | 21% | 26% | 95% | 28% |

| Credit exposure and collateral for 2013 | | | | | |
|--|----------|------------|----------------------|--------|--------|
| (DKKmn) | Personal | Corporates | Personal & Corporate | Public | Total |
| Exposure | 8,807 | 6,529 | 15,336 | 578 | 15,913 |
| Loan balance and guarantees | 7,459 | 5,096 | 12,555 | 439 | 12,994 |
| Collateral | 4,680 | 3,683 | 8,363 | 47 | 8,410 |
| Unsecured (of exposures) | 4,127 | 2,846 | 6,973 | 530 | 7,503 |
| Unsecured (loan balance and guarantees) | 2,796 | 1,413 | 4,209 | 392 | 4,601 |
| Unsecured ratio | 47% | 44% | 45% | 92% | 47% |
| Unsecured ratio balance | 37% | 28% | 34% | 89% | 35% |

agreements and guarantees. The most important instruments that can be used to reduce risk are charges on tangible and intangible assets, guarantees and netting agreements under derivative master agreements.

The types of collateral most frequently provided are real estate (67%), ships/aircraft (7%) and motor vehicles (3%). 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 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 44% of personal exposures and 43% of corporate exposures. The largest part of the Bank's credit is granted against collateral in real estate.

As shown in table 6, DKK 20m 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 ma-

| Distribution of past due amount | | | | | | | | Table 6 |
|---|---------------|----------------|--------------------|-----------------------------|---------------|----------------|--------------------|-----------------------------|
| (DKKmn) | 2014 | | | | 2013 | | | |
| | 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, 2a5) | 7,460 | 26 | 1 | 1,150 | 7,168 | 30 | 2 | 1,535 |
| Portfolio with some weakness (2b15, 2b30) | 5,808 | 71 | 2 | 1,761 | 4,865 | 36 | 5 | 1,354 |
| Portfolio with weakness (2c50) | 627 | 8 | 5 | 178 | 677 | 8 | 2 | 275 |
| Portfolio with impairment/provision (1) | 1,773 | 40 | 11 | 645 | 1,852 | 42 | 9 | 752 |
| Portfolio without individual classification | 755 | 4 | 1 | 89 | 1,351 | 7 | 2 | 212 |
| Total | 16,423 | 149 | 20 | 3,822 | 15,913 | 124 | 19 | 4,127 |
| Past due in % of exposure | | 0.90% | 0.12% | | | 0.78% | 0.12% | |

| Exposures and individual impairments by sector | | | | | Table 7 |
|---|---------------|-------------------------|---------------|-------------------------|---------|
| (DKKmn) | 2014 | | 2013 | | |
| | Exposure | Impairments./Provisions | Exposure | Impairments./Provisions | |
| Public | 498 | - | 578 | - | |
| Private | 9,066 | 276 | 8,807 | 216 | |
| Corporate | 6,860 | 315 | 6,529 | 275 | |
| Total | 16,423 | 591 | 15,913 | 491 | |
| In % of total exposure | | 3.6% | | 3.1% | |

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.

The total impairment charges above for 2014 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 acquired exposures or as goodwill. If such impairments are reversed, they will be recognised as other income.

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.

| Loans and advances specified by maturity | | | Table 8 |
|---|---------------|---------------|---------|
| (DKKmn) | 2014 | 2013 | |
| On demand | 311 | 728 | |
| 3 months and below | 661 | 905 | |
| 3 months to 1 year | 1,630 | 1,437 | |
| Over 1 year to 5 years | 3,887 | 3,381 | |
| Over 5 years | 4,003 | 4,008 | |
| Total loans and advances | 10,492 | 10,460 | |

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

| Specification of individual and collective impairments | | | | | Table 9 |
|---|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|---------|
| DKKmn | 2014 | | 2013 | | |
| | Individual impairments/provisions | Impairments from acquired portfolio | Individual impairments/provisions | Impairments from acquired portfolio | |
| Individual impairments: | | | | | |
| Faroe Islands | 231 | | 202 | | |
| Denmark | 336 | 363 | 272 | 410 | |
| Greenland | 24 | 1 | 17 | 0 | |
| Total individual impairments | 591 | 364 | 491 | 410 | |
| Collective impairments: | | | | | |
| Faroe Islands | 24 | | 19 | | |
| Denmark and Greenland | 16 | 1 | 7 | 2 | |
| Total collective impairments | 40 | 1 | 27 | 2 | |
| Total impairments | 632 | 365 | 518 | 412 | |

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 determine the Bank's official position on strategic asset allocation.

The Investment Group refers to the Executive Management. The decisions are communicated throughout the organisation and forms the basis for all advice provided to customers. Participants in the Investment Group are the CFO, the CIO, Treasury and the Head of Portfolio Management.

Markets monitors developments in the financial markets on a daily basis, and at least bimonthly the Bank's Investment Working Group receives an update containing a recommendation on strategic asset allocation on about a 12-month horizon.

Based on the recommendation, the Investment Working Group then decides whether to retain or revise the Bank's official outlook. If the Working Group decides to change the outlook, the recommendation is submitted to the Executive Board. Decisions are announced internally 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.

Policy and responsibility

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

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

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

Control and management

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

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

Market risk

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

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

BankNordik's markets risks are:

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

Market Risk Management

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

Likely effects from changes in markets value

| | Change | 2014 | % of Core Capital | 2013 | % of Core Capital |
|---|--------|------|-------------------|------|-------------------|
| Equity risk DKKm (+/-) | 10% | 35 | 2.3% | 34 | 2.3% |
| Exchange risk DKKm (+/-) EUR | 2.25% | 0 | 0.0% | 0 | 0.0% |
| Exchange risk DKKm (+/-) Other currencies | 10% | 26 | 1.7% | 22 | 1.5% |
| Interest rate risk DKKm (parallel shift) | 100 bp | 47 | 3.0% | 68 | 4.6% |

Table 10

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 highly liquid bonds. As a consequence, BankNordik holds a large portfolio of bonds and most of the Group's interest rate risk stems from this portfolio. Furthermore, as can be seen from table 14, the credit quality of the bond portfolio is high.

BankNordik does not hold unlisted bonds.

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

Interest rate risk broken down by Currency

| (DKKm) | 2014 | 2013 |
|--------------------|------|------|
| DKK | 21 | 48 |
| ISK | 15 | 16 |
| EUR | 11 | 4 |
| Other | 0 | 0 |
| Interest rate risk | 47 | 68 |

Table 11

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. We have hedged most of the exchange risk in EUR, as can be seen in table 10. In contrast we do have an exposure in interest risk in EUR, as can be seen in table 11.

Foreign exchange position

| (DKKm) | 2014 | 2013 |
|--|------|------|
| Assets in foreign currency | 269 | 229 |
| Liabilities and equity in foreign currency | 0 | 0 |
| Exchange rate indicator 1 | 269 | 229 |

Table 12

The Group's exchange rate risk mainly stems from:

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

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.

Equity risk

| DKKm | 2014 | 2013 |
|--|------------|------------|
| Shares/unit trust certificates listed on the Copenhagen Stock Exchange | 64 | 57 |
| Shares/unit trust certificates listed on other stock exchanges | 113 | 101 |
| Other shares at fair value based on the fair-value option | 178 | 177 |
| Total shares etc. | 355 | 335 |

Table 13

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.

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.

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 in accordance with the limits set by the Board of Directors and reported to the Executive Board by the Finance Department. A liquidity report with stress tests is submitted to the Executive Board and the Group Risk Committee on a monthly basis. Treasury has the operational responsibility for investment of the liquidity, while Finance Department is responsible for reporting and monitoring liquidity. The Group has implemented contingency plans to ensure that it is ready to respond to unfavourable 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's bond portfolio forms a substantial part of the Bank's liquidity. It is therefore essential that the portfolio can be traded at fair prices at any time. Solid ratings are a prerequisite for ensuring a fair price in the market. Hence BankNordik's policy is to invest a

majority of the liquidity in bonds with high ratings and thereby minimise the liquidity risk of the Bank's bond portfolio. Most of these bonds are also accepted by the Danish central bank for repo transactions.

Liquidity stress testing

BankNordik has incorporated a liquidity stress testing model. This model is used at least monthly to forecast developments in the Bank's liquidity on a 12-month horizon and to forecast whether, on a 6-month horizon, the Bank will comply with the Board of Directors'

| Rating of bonds | Table 14 | |
|-----------------|----------|------|
| | 2014 | 2013 |
| Aaa | 62% | 72% |
| Aa1-A3 | 13% | 14% |
| Baa1-Baa3 | 16% | 9% |
| Other | 9% | 5% |

target that excess liquidity should equal at least 100% of the statutory requirement. The test is based on the business-as-usual situation with outflows from undrawn committed facilities and further stress measures. If the 6-month 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 2014, which were revised in December taking the market outlook into account.

Structural liquidity risk

Deposits are generally considered a secure source of funding. Deposits are generally short term but their historical stability enables BankNordik to grant customer loans with much longer terms e.g. 25 years to fund residential housing. It is crucial for any bank to handle such maturity mismatch and associated risk, and therefore it is essential to have a reputation as a safe bank for deposits. Table 14 shows assets and liabilities by a maturity structure.

Liquidity Management

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

Remaining maturity

Table 15

| 2014 | 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 | 339,128 | - | - | - | - | 339,128 |
| Due from Credit institution | 525,187 | 1,178 | 876 | 19,962 | | 547,203 |
| Loans and advances | 312,477 | 666,962 | 1,679,823 | 11,097,233 | | 13,756,495 |
| Bonds and Shares | 497,125 | 449 | 508,479 | 3,225,601 | | 4,231,654 |
| Derivatives | 2,578 | 11,447 | 24,991 | 2,634 | | 41,650 |
| Other Assets | 220,539 | 77,261 | - | 183,718 | 529,730 | 1,011,249 |
| Total assets | 1,897,034 | 757,297 | 2,214,169 | 14,529,149 | 529,730 | 19,927,379 |
| Due to credit institutions and central banks | 54,830 | 648 | 2,914 | 337,879 | | 396,270 |
| Deposits | 8,607,634 | 2,426,269 | 211,428 | 1,477,158 | | 12,722,489 |
| Derivatives | 3,121 | 6,199 | 71,282 | 13,947 | | 94,549 |
| Other liabilities | 187,057 | 146,821 | 119,034 | 217,615 | 131,481 | 802,008 |
| Provisions for liabilities | | | | 136,552 | | 136,552 |
| Subordinated debt | 3,443 | 6,887 | 30,991 | 542,231 | 185,040 | 768,593 |
| Equity | | | | | 1,999,195 | 1,999,195 |
| Total | 8,856,085 | 2,586,823 | 435,649 | 2,725,382 | 2,315,715 | 16,919,655 |
| Off-balance sheet items | | | | | | |
| Guarantees, etc. | 40,642 | 84,932 | 336,532 | 1,552,982 | | 2,015,087 |
| Other commitments | | | | | | |
| Total | 40,642 | 84,932 | 336,532 | 1,552,982 | | 2,015,087 |
| 2013 | | | | | | |
| Cash in hand and demand deposits with central banks | 479,757 | | | | | 479,757 |
| Due from Credit institution | 805,756 | 195 | 876 | 19,799 | | 826,626 |
| Loans and advances | 731,748 | 913,882 | 1,485,866 | 10,672,426 | | 13,803,921 |
| Bonds | 217,392 | 111,100 | 57,149 | 3,107,630 | | 3,493,271 |
| Shares | 161,807 | | | 172,871 | | 334,677 |
| Bonds and Shares | 379,198 | 111,100 | 57,133 | 3,191,220 | | 3,738,651 |
| Derivatives | | 3,568 | 8,101 | 42,287 | | 53,956 |
| Other Assets | 271,729 | 6,578 | 61,373 | 389,773 | 798,141 | 1,527,593 |
| Total assets | 2,668,188 | 1,035,323 | 1,613,366 | 14,404,785 | 798,141 | 20,519,802 |
| Due to credit institutions and central banks | 290,731 | 648 | 2,914 | 1,037,879 | | 1,290,408 |
| Deposits | 8,296,364 | 1,651,986 | 432,052 | 1,855,082 | | 12,192,748 |
| Derivatives | 3,054 | 9,441 | 56,936 | | | 69,431 |
| Other liabilities | 286,315 | 37,964 | 221,656 | 151,460 | | 697,394 |
| Provisions for liabilities | | | | 153,139 | | 153,139 |
| Subordinated debt | 3,443 | 6,887 | 30,991 | 543,807 | 250,230 | 525,445 |
| Equity | | | | | 2,155,998 | 2,003,037 |
| Total | 8,879,907 | 1,706,925 | 744,548 | 3,741,366 | 2,406,227 | 17,478,974 |
| Off-balance sheet items | | | | | | |
| Guarantees, etc. | 24,814 | 106,136 | 111,242 | 1,485,237 | | 1,727,430 |
| Other commitments | | | | | | |
| Total | 24,814 | 106,136 | 111,242 | 1,485,237 | | 1,727,430 |

In order to minimise liquidity risk, BankNordik's 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.

In 2014 the bank has made early repayment of Subordinated debt of 63m. For further information see note 27.

Collateral provided by the Group

BankNordik has entered into ISDA and CSA agreements with derivatives counterparties. These agreements commit both parties to provide collateral for negative market values. As a consequence of these arguments BankNordik at year-end 2014 had pledged bonds and cash deposits valued at DKK 43m under these agreements.

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 2014, this collateral amounted to DKK 24m.

In September 2012 the bank obtained a loan from the Danish Central bank of DKK 1bn with customer loans as collateral. BankNordik prepaid the loan in 2014, and hence there are no pledged loans at year end 2014.

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. The Risk manager ensures that all control and reporting is performed according to regulations and internal business orders.

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 en-

vironment. 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 two non-life insurance companies: Trygd and Vörður, both wholly owned. Vörður holds a 100 %-stake in life insurance company Vörður Life.

Risk exposure for an insurance company can be defined as a contingency event, chain of events or bad management which can by itself, or by accumulation, seriously affect the annual results of the insurer and 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.

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

The Group has defined internal procedures to minimise the possible loss regarding insurance liabilities. Trygd and Vörður evaluate their insurance risk on a regular basis for the purpose of optimising the risk profile. Risk management also involves holding a well-diversified insurance portfolio. The insurance portfolio of Trygd and Vörður is well diversified in personal and commercial lines, see table 16.

Insurance risk

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

Distribution of portfolio of Vörður and Trygd

Table 16

| (in %) | 2014 | 2013 |
|------------------|------|------|
| Commercial lines | 40% | 40% |
| Personal lines | 60% | 60% |

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

8.2 Trygd insurance

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

Financial assets linked to insurance risk

Table 17

| (mDKK) | 2014 | 2013 |
|--|------------|------------|
| Listed securities on stock exchange | 370 | 328 |
| Accounts receivable (total technical provisions) | 66 | 65 |
| Cash and cash equivalents | 153 | 151 |
| Total | 588 | 544 |
| Technical provisions, short term | 380 | 373 |

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.

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 15m. 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.

8.3 Vörður insurance

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

Risk exposure and sensitivity analysis

Careful analysis of insurance risk exposure is performed annually in connection with reinsurance renewals. The objective of this analysis is to identify possible worst case scenarios, especially in relation to property and marine risks with regards to known and unknown accumulation of risks which might involve a loss from a single event. Reinsurance placements are tailored to meet those risks. The company purchases

| Run-off gains/losses in Trygd (mDKK) | | | | | Table 18 |
|---|-------------|-------------|--------------|-------------|-------------|
| Sector: | 2014 | 2013 | 2012 | 2011 | 2010 |
| Industry | 1.95 | -1.31 | -4.9 | 1.66 | 0.92 |
| Private | -0.18 | 0.96 | 0.48 | 0.63 | -0.59 |
| Accidents | -0.07 | -0.10 | 0 | 0.02 | -0.09 |
| Automobile | 0.99 | 0.86 | 2.8 | 2.54 | 1.30 |
| Total | 2.69 | 0.41 | -1.62 | 4.84 | 1.53 |

"Clashes of Retention" reinsurance to meet possible worst case scenarios such as a major storm, affecting many different classes of insurance. Another factor of risk exposure is the number of risks underwritten by the company within different portfolios of insurance classes. These numbers are monitored and reported monthly to the management team.

Insurance risk

Correct pricing is set in rating tariffs based on analysis of historical experience within the relevant portfolio. The Claims Department issues a monthly report setting out both frequency and value of losses within the portfolios and enabling early warning of any adverse changes. Tariffs, deductibles and / or insurance conditions are adjusted to meet developments in losses.

The companies protect their balance sheet from large losses by purchasing reinsurance. Maximum losses payable by the companies are therefore fully known factors. The companies' own risk is determined by known recognised principles based on their own as-

sets, annual premiums of the relevant portfolio and actuarial calculations to ensure efficiency.

The reserving for outstanding losses is based on a case-by-case assessment of the final cost of each claim, supplemented by statistical and historical analysis and actuarial calculations. Reserves are adjusted individually as new information is gathered and the claim develops. In addition, a complete review is performed at least twice a year and by the end of each year an actuarial calculation is performed. A monthly report is issued and presented to the Board of Directors of all outstanding default premiums. Accordingly, the default rate is carefully monitored. In addition, a procedure has been applied to ensure that the company gets off risk if premiums are not paid within 90 days of the due date.

Natural disaster risk

Vörður Tryggingar hf. does write a few policies which include natural disaster risk. Vörður covers ships against natural catastrophes but that exposure is fully and specifically reinsured with a maximum exposure of approx. ISK 50 m.

| Run-off gains/losses in Vörður | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|---------------|
| (DKK m) | | | | | |
| Sector: | 2014 | 2013 | 2012 | 2011 | 2010 |
| Automobile | 6.13 | 2.43 | -2.38 | 4.85 | -3.54 |
| Other sectors | 2.76 | 3.72 | 3.16 | -2.98 | -9.75 |
| Total | 8.90 | 6.15 | 0.78 | 1.87 | -13.29 |

Table 19

As for storm coverage in relation to possible exposure, Vörður's standard property reinsurance with a limit of ISK 2,000 m is deemed sufficient to cover possible loss from a major storm, whereas the MPL (Maximum Probable Loss) is less than ISK 200m for such incidents based on current reinsurance contracts.

Currency risk

Vörður Tryggingar hf. operates only in ISK and only issues insurance policies in ISK. All reinsurance agreements prior to October 2008 were in ISK whereas premiums and claims are settled in ISK. Following the collapse of the Icelandic banking sector, this policy was changed effective from October 2008. Current reinsurance treaties are strictly in ISK, but a clause has been added to the treaties, under which it is agreed that the parties to the contract may exchange premiums as well as claims to EUR / ISK four times a year

applying the Icelandic Central Bank's official exchange rate prevailing at the date of payment. This means that Vörður does not carry any currency risk, as reinsurers are always obliged to pay ISK-denominated claims amounts in EUR at the Icelandic central bank's official exchange rate applying at the time of payment. Accordingly, Vörður always receives correct settlement in ISK.

Liquidity risk

The current investment policy ensures that sufficient funds are available. The aim is for two months' expenses, claims and costs to be available at all times. In addition, large share of investments are highly liquid market securities.

Contractual maturity of assets and expected maturity of liabilities, excluding interests, from insurance activities are shown in table 19. The table also illustrates the expected cash flow from insurance provisions.

Operational risk

The company applies a detailed operational plan, which is reviewed once a year and approved by the Board of Directors. Yearly reviews take into account recent changes and information to make all underlying factors as precise as possible.

A detailed security plan is in operation regarding the security of the IT systems and data banks. All data are backed-up at least once daily and kept in secure off-site locations.

Vörður has an emergency plan for how to react if the company's offices are hit by a natural disaster as well as security arrangements such as off-site access to the data banks storing the operational back-ups. This plan is reviewed once a year.

The Claims Department monitors court rulings in areas affecting the insurance operations for possible changes or clarification of legal principles which might result in added exposure for the company. The company is a member of the Icelandic Financial Services Association which monitors and reports to members any proposed changes of statutes relating to the insurance industry.

8.4 Vörður Life

Vörður Líftryggingar hf. is a small life insurance company established in 2007. The company began operations in early 2008. The company is 100% owned by Vörður Tryggingar hf.

Vörður Líftryggingar hf. conducts regular life and critical illness business in the Icelandic market. The insurance portfolio has grown slowly but steadily and the number of issued policies is now at just over 3,000.

| Contractual maturity for the insurance segment | | | | | | Table 20 |
|--|----------------|-----------------|-----------------|-----------------|--------------------|----------------|
| 2014 | On demand | 0-12 months | 1-5 years | Over 5 years | No stated maturity | Total |
| Assets | | | | | | |
| Securities | 380,260 | | | | | 380,260 |
| Reinsurance assets | | 4,255 | | | | 4,255 |
| Accounts receivables | | 65,694 | | | | 65,694 |
| Restricted cash | | 7,059 | 13,023 | | | 20,083 |
| Cash and cash equivalents | 152,799 | | | | | 152,799 |
| Total financial assets | 533,059 | 77,009 | 13,023 | | | 623,091 |
| Liabilities | | | | | | |
| Technical provision | 17,102 | 96,104 | 107,736 | 154,829 | 9,977 | 385,747 |
| Account payable | 5,032 | 11,571 | 3,659 | | | 20,262 |
| Total financial liabilities | 22,134 | 107,676 | 111,395 | 154,829 | 9,977 | 406,010 |
| Assets - liabilities | 510,925 | -30,667 | -98,372 | -154,829 | -9,977 | 217,081 |
| Contractual maturity for the insurance segment | | | | | | |
| 2013 | On demand | 0-12 months | 1-5 years | Over 5 years | No stated maturity | Total |
| Assets | | | | | | |
| Securities | 308,338 | 16,341 | | | 32,845 | 357,524 |
| Reinsurance assets | | 5,818 | 2,351 | | | 8,169 |
| Accounts receivables | | 66,980 | | | | 66,980 |
| Restricted cash | | 25,640 | 50 | | | 25,690 |
| Cash and cash equivalents | 157,070 | | | | | 157,070 |
| Total financial assets | 465,408 | 114,780 | 2,400 | | 32,845 | 615,433 |
| Liabilities | | | | | | |
| Technical provision | | 221,530 | 141,281 | 8,171 | | 370,983 |
| Account payable | | 22,455 | | | | 22,455 |
| Total financial liabilities | | 243,985 | 141,281 | 8,171 | | 393,438 |
| Assets - liabilities | 465,408 | -129,206 | -138,881 | -8,171 | 32,845 | 221,995 |

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

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

37 **Highlights**

| | 2014 | 2013 | Index 14/13 | 2012 | 2011 | 2010 |
|---|------------|------------|----------------|------------|------------|------------|
| DKK 1,000 | | | | | | |
| Net interest income | 508,390 | 574,032 | 89 | 613,265 | 547,005 | 479,520 |
| Net fee and commission income | 182,831 | 174,265 | 105 | 184,893 | 127,901 | 92,846 |
| Net interest and fee income | 698,708 | 756,028 | 92 | 808,552 | 680,654 | 589,019 |
| Net insurance income | 76,035 | 69,427 | 110 | 80,975 | 54,351 | 54,660 |
| Interest and fee income and income from insurance activities, net | 774,743 | 825,455 | 94 | 889,527 | 735,006 | 643,679 |
| Market value adjustments | 19,831 | 22,017 | 90 | 19,369 | 9,761 | 16,914 |
| Other operating income | 43,721 | 63,547 | 69 | 39,029 | 26,862 | 420,528 |
| Staff cost and administrative expenses | 514,152 | 543,390 | 95 | 641,300 | 597,263 | 456,629 |
| Amortisation, depreciation on fixed assets and impairment charges | 273,135 | 27,582 | 990 | 27,293 | 21,178 | 15,451 |
| Impairment charges on loans and advances etc. | 111,014 | 178,234 | 62 | 148,169 | 100,806 | 200,233 |
| Net profit | -127,411 | 92,396 | -138 | 103,073 | 31,971 | 312,743 |
| Loans and advances | 10,491,509 | 10,460,299 | 100 | 11,302,702 | 11,768,892 | 8,674,663 |
| Bonds at fair value | 3,534,678 | 3,493,271 | 101 | 2,881,904 | 2,508,938 | 3,497,466 |
| Intangible assets | 529,730 | 798,141 | 66 | 807,268 | 801,957 | 407,732 |
| Assets held for sale | 51,771 | 58,168 | 89 | 25,811 | 168,980 | 160,794 |
| Total assets | 16,535,501 | 17,084,562 | 97 | 17,608,966 | 17,086,357 | 14,243,358 |
| Due to credit institutions and central banks | 591,347 | 1,290,408 | 46 | 1,288,052 | 329,316 | 245,249 |
| Deposits and other debt | 12,603,533 | 12,192,748 | 103 | 12,745,653 | 13,032,047 | 8,843,972 |
| Issued bonds at amortised cost | 0 | 0 | | 0 | 98,276 | 2,199,843 |
| Total shareholders' equity | 1,999,195 | 2,155,998 | 93 | 2,053,362 | 1,957,695 | 2,013,480 |

Ratios and key figures

| | Dec. 31 2014 | Dec. 31 2013 | Dec. 31 2012 | Dec. 31 2011 | Dec. 31 2010 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Solvency | | | | | |
| Solvency ratio, % | 14.8 | 14.7 | 14.8 | 15.6 | 17.0 |
| Core capital ratio, % | 12.9 | 12.8 | 12.9 | 12.4 | 17.2 |
| Core capital ratio excl. hybrid core capital, end of period, % | 11.8 | 10.6 | 9.6 | 9.1 | 15.2 |
| Risk-weighted Items, DKKm | 11,943 | 11,511 | 11,902 | 12,313 | 10,080 |
| Profitability | | | | | |
| Return on equity before tax, % | -4.4 | 5.4 | 6.1 | 1.6 | 20.9 |
| Return on equity after tax, % | -6.1 | 4.4 | 5.1 | 1.6 | 17.0 |
| Income / Cost ratio | 0.9 | 1.1 | 1.1 | 1.0 | 1.5 |
| Cost / income, % (excl. value adjustm. and impairments) | 100.1 | 69.0 | 73.1 | 84.0 | 47.1 |
| Market risk | | | | | |
| Interest rate risk, % | 3.0 | 4.8 | 1.5 | 2.3 | 3.1 |
| Foreign exchange position, % | 8.6 | 7.1 | 17.3 | 8.7 | 24.6 |
| Liquidity | | | | | |
| Loans and advances plus impairment charges as % of deposits | 88.2 | 89.6 | 91.5 | 92.9 | 101.9 |
| Excess cover relative to statutory liquidity requirements, % | 182.2 | 178.0 | 152.6 | 115.3 | 292.9 |
| Credit risk | | | | | |
| Large exposures as % of capital base | 81.1 | 52.2 | 36.3 | 23.3 | 22.8 |
| Impairment and provisioning ratio, % | 4.8 | 4.1 | 3.0 | 2.7 | 3.2 |
| Write-off and impairments ratio, % | 0.8 | 1.4 | 1.1 | 0.7 | 1.9 |
| Share of amounts due on which interest rates have been reduced, % | 1.6 | 2.0 | 1.7 | 1.9 | 1.6 |
| Growth on loans and advances, % | 0.3 | -7.5 | -4.0 | 35.7 | 25.0 |
| Shares | | | | | |
| Earnings per share after tax, DKK | -12.9 | 9.4 | 10.5 | 3.2 | 32.2 |
| Book value per share, DKK | 202.7 | 218.6 | 208.2 | 198.5 | 210.0 |
| Proposed dividend per share, DKK | 2.0 | 1.5 | 1.0 | 0.0 | 4.0 |
| Market price per share, DKK | 104.5 | 128.0 | 76.0 | 78.8 | 144.0 |
| Market price / earnings per share, DKK | -8.1 | 13.7 | 7.3 | 24.4 | 4.5 |
| Market price / book value per share, DKK | 0.5 | 0.6 | 0.4 | 0.4 | 0.7 |
| Other | | | | | |
| Number of full-time employees, end of period | 506 | 523 | 550 | 612 | 433 |

Highlights, ratios and key figures – BankNordik Group

| Highlights | Full year | Unaudited | | | | |
|---|------------------|------------------|-------------|-------------|-------------|-------------|
| | | Q4 | Q3 | Q2 | Q1 | Q4 |
| DKK 1,000 | 2014 | 2014 | 2014 | 2014 | 2014 | 2013 |
| Net interest income | 508,390 | 124,966 | 125,030 | 125,517 | 132,877 | 133,364 |
| Net fee and commission income | 182,831 | 50,024 | 44,289 | 44,921 | 43,597 | 47,360 |
| Net interest and fee income | 698,708 | 176,811 | 169,532 | 175,891 | 176,474 | 184,904 |
| Net insurance income | 76,035 | 22,264 | 25,713 | 20,362 | 7,696 | 14,213 |
| Interest and fee income and income from insurance activities, net | 774,743 | 199,076 | 195,245 | 196,252 | 184,170 | 199,118 |
| Market value adjustments | 19,831 | -3,654 | -755 | 13,005 | 11,235 | -4,968 |
| Other operating income | 43,721 | 9,221 | 8,719 | 13,946 | 11,835 | 11,439 |
| Staff cost and administrative expenses | 514,152 | 134,090 | 120,103 | 132,047 | 127,912 | 132,771 |
| Amortisation, depreciation on fixed assets and impairment charges | 273,135 | 255,049 | 5,860 | 6,048 | 6,178 | 9,692 |
| Impairment charges on loans and advances etc. | 111,014 | 34,475 | 22,477 | 24,323 | 29,740 | 45,828 |
| Net profit | -127,411 | -229,966 | 38,547 | 39,883 | 24,124 | -5,260 |
| Loans and advances | 10,491,509 | 10,491,509 | 10,314,706 | 10,207,310 | 10,392,442 | 10,460,299 |
| Bonds at fair value | 3,534,678 | 3,534,678 | 3,479,956 | 3,243,824 | 2,789,354 | 3,493,271 |
| Intangible assets | 529,730 | 529,730 | 781,643 | 783,552 | 782,533 | 798,141 |
| Assets held for sale | 51,771 | 51,771 | 18,253 | 23,706 | 21,325 | 58,168 |
| Total assets | 16,535,501 | 16,535,501 | 16,524,079 | 16,106,281 | 16,583,866 | 17,084,562 |
| Due to credit institutions and central banks | 591,347 | 591,347 | 630,389 | 340,263 | 939,147 | 1,290,408 |
| Deposits and other debt | 12,603,533 | 12,603,533 | 12,341,777 | 12,281,228 | 12,047,221 | 12,192,748 |
| Total shareholders' equity | 1,999,195 | 1,999,195 | 2,219,251 | 2,180,861 | 2,135,334 | 2,155,998 |

Ratios and key figures

| | Full year | Dec. 31 | Sept. 30 | June 30 | March 31 | Dec. 31 |
|--|------------------|----------------|-----------------|----------------|-----------------|----------------|
| | 2014 | 2014 | 2014 | 2014 | 2014 | 2013 |
| Solvency | | | | | | |
| Solvency ratio, % | 14.8 | 14.8 | 14.1 | 14.6 | 14.7 | 14.7 |
| Core capital ratio, % | 12.9 | 12.9 | 12.2 | 12.6 | 12.7 | 12.8 |
| Core capital ratio excl. hybrid core capital, end of period, % | 11.8 | 11.8 | 11.1 | 11.5 | 11.1 | 10.6 |
| Risk-weighted Items, DKKm | 11,943 | 11,943 | 11,757 | 11,320 | 11,653 | 11,511 |
| Profitability | | | | | | |
| Return on equity after tax, % | -6.1 | -10.9 | 1.8 | 1.8 | 1.1 | -0.2 |
| Cost / income, % | 111.1 | 210.4 | 75.8 | 75.8 | 84.7 | 104.9 |
| Cost / income, % (excl. value adjustm. and impairments) | 100.1 | 190.2 | 63.5 | 67.7 | 73.0 | 79.6 |
| Market risk | | | | | | |
| Interest rate risk, % | 3.0 | 3.0 | 3.5 | 4.6 | 4.5 | 4.8 |
| Foreign exchange position, % | 8.6 | 8.6 | 5.7 | 6.4 | 7.8 | 7.1 |
| Liquidity | | | | | | |
| Excess cover relative to statutory liquidity requirements, % | 182.2 | 182.2 | 166.0 | 155.9 | 159.4 | 178.0 |
| Credit risk | | | | | | |
| Growth on loans and advances, % | 0.3 | 1.7 | 1.1 | -1.8 | -0.6 | -1.2 |
| Gearing of loans and advances | 5.2 | 5.2 | 4.6 | 4.7 | 4.9 | 4.9 |
| Impairment and provisioning ratio, end of period, % | 4.8 | 4.8 | 4.4 | 4.3 | 4.2 | 4.1 |
| Write-off and provisioning ratio, % | 0.8 | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 |
| Share of amounts due on which interest rates have been reduced, end of period, % | 1.6 | 1.6 | 1.7 | 1.7 | 1.7 | 2.0 |
| Shares | | | | | | |
| Earnings per share after tax (nom. DKK 20), DKK | -12.9 | -23.3 | 3.9 | 4.0 | 2.4 | -0.5 |
| Market price per share (nom. DKK 20), DKK | 105 | 105 | 114 | 114 | 110 | 128 |
| Book value per share (nom. DKK 20), DKK | 203 | 203 | 225 | 221 | 217 | 218 |
| Other | | | | | | |
| Number of full-time employees, end of period | 506 | 506 | 513 | 510 | 512 | 523 |

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 |

Financial statement

P/F BankNordik

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Accounting Policies P/F BankNordik

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

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

Holdings in subsidiaries

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

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.

Income statement – P/F BankNordik

| Note | DKK 1,000 | 2014 | 2013 |
|--------|---|-----------------|----------------|
| 1 | Interest income | 618,521 | 709,438 |
| 2 | Interest expenses | 123,016 | 147,799 |
| | Net interest income | 495,505 | 561,639 |
| 3 | Dividends from shares and other investments | 6,938 | 7,426 |
| 4 | Fee and commission income | 205,424 | 198,468 |
| 4 | Fee and commissions paid | 16,234 | 16,692 |
| | Net dividend, fee and commission income | 196,127 | 189,203 |
| | Net interest and fee income | 691,632 | 750,842 |
| 5 | Market value adjustments | 9,438 | 11,704 |
| | Other operating income | 39,386 | 60,656 |
| 6. 7 | Staff costs and administrative expenses | 458,249 | 491,852 |
| 8 | Amortisation, depreciation on fixed assets and impairment charges | 270,855 | 25,083 |
| | Other operating expenses | 25,411 | 43,323 |
| 29 | Impairment charges on loans and advances etc. | 111,014 | 178,234 |
| 16. 30 | Income from associated and subsidiary undertakings | 25,843 | 22,638 |
| | Profit before tax | -99,229 | 107,347 |
| 9 | Tax | 28,182 | 14,951 |
| | Net profit | -127,411 | 92,396 |
| | Proposed profit allocation | | |
| | Equity method reserve | 25,843 | 22,638 |
| | Dividends for the year | 20,000 | 15,000 |
| | Retained earnings | -173,255 | 54,758 |
| | Total | -127,411 | 92,396 |

Statement of comprehensive income - P/F BankNordik

| DKK 1,000 | 2014 | 2013 |
|---|-----------------|----------------|
| Net profit | -127,411 | 92,396 |
| Other comprehensive income | | |
| Translation of non-Faroese subsidiaries | -14,782 | 10,905 |
| Revaluation reserve | 0 | 10,756 |
| Tax on other comprehensive income | 0 | -1,936 |
| Total other comprehensive income | -14,782 | 19,725 |
| Total comprehensive income | -142,193 | 112,121 |

Balance Sheet – P/F BankNordik

| Note | DKK 1,000 | Dec. 31 2014 | Dec. 31 2013 |
|--------|---|-------------------|-------------------|
| | Assets | | |
| | Cash in hand and demand deposits with central banks | 359,475 | 404,083 |
| 10 | Due from credit institutions and central banks | 502,401 | 798,599 |
| 11. 12 | Loans and advances at fair value | 756,070 | 681,617 |
| 11. 13 | Loans and advances at amortised cost | 9,735,439 | 9,778,682 |
| 14 | Bonds at fair value | 3,237,238 | 3,187,351 |
| 15 | Shares, etc. | 284,821 | 279,029 |
| 30 | Holdings in associates | 7,451 | 14,186 |
| 16 | Holdings in subsidiaries | 237,616 | 244,882 |
| 17 | Intangible assets | 520,672 | 788,695 |
| | Total land and buildings | 278,320 | 289,340 |
| 18 | investment property | 64,863 | 120,358 |
| 19 | domicile property | 213,458 | 168,983 |
| 20 | Other property, plant and equipment | 26,943 | 21,239 |
| | Current tax assets | 3,896 | 4,533 |
| 21 | Deferred tax assets | 18,384 | 31,773 |
| 31 | Assets held for sale | 51,771 | 58,168 |
| 22 | Other assets | 146,925 | 155,993 |
| | Prepayments | 30,487 | 14,664 |
| | Total assets | 16,197,909 | 16,752,832 |

Balance Sheet – P/F BankNordik

| Note | DKK 1,000 | Dec. 31 2014 | Dec. 31 2013 |
|---|--|-------------------|-------------------|
| Shareholders' equity and liabilities | | | |
| Liabilities other than provisions | | | |
| 23. 24 | Due to credit institutions and central banks | 591,347 | 1,290,408 |
| 25. 26 | Deposits and other debt | 12,690,011 | 12,284,672 |
| | Current tax liabilities | 7,920 | 0 |
| 27 | Other liabilities | 317,241 | 348,047 |
| | Deferred income | 4,577 | 2,739 |
| | Total amounts due | 13,611,095 | 13,925,866 |
| Provisions for liabilities | | | |
| 21 | Provisions for deferred tax | 86,189 | 79,123 |
| | Provisions for other liabilities | 5,148 | 17,498 |
| 29 | Provisions for losses on guarantees | 45,216 | 56,511 |
| | Total provisions | 136,552 | 153,132 |
| Subordinated debt | | | |
| 32 | Subordinated debt | 458,680 | 525,445 |
| | Total liabilities | 14,206,327 | 14,604,444 |
| Shareholders' equity | | | |
| | Share capital | 200,000 | 200,000 |
| | Foreign currency translation reserve | 14,928 | 29,348 |
| | Revaluation reserve | 8,820 | 8,820 |
| | Reserve, Equity Method | 114,486 | 88,643 |
| | Retained earnings | 1,633,347 | 1,806,577 |
| | Proposed dividends | 20,000 | 15,000 |
| | Total shareholders' equity | 1,991,582 | 2,148,388 |
| | Total liabilities and equity | 16,197,909 | 16,752,832 |

Statement of capital – P/F BankNordik

Changes in shareholders' equity:

| DKK 1,000 | Share capital | Foreign currency translation reserve | Revaluation Reserve | Equity method reserve | Proposed dividends | Retained earnings | Total |
|------------------------------------|----------------|--------------------------------------|---------------------|-----------------------|--------------------|-------------------|------------------|
| Shareholders' equity at | | | | | | | |
| January 1, 2014 | 200,000 | 29,348 | 8,820 | 88,643 | 15,000 | 1,806,577 | 2,148,388 |
| Translation of foreign units | | -14,420 | | | | -362 | -14,782 |
| Net profit | | | | 25,843 | 20,000 | -173,255 | -127,411 |
| Total comprehensive income | | -14,420 | 0 | 25,843 | 20,000 | -173,617 | -142,193 |
| Acquisition of own shares | | | | | | -18,903 | -18,903 |
| Sale of own shares | | | | | | 18,903 | 18,903 |
| Share-based remuneration-programme | | | | | | 178 | 178 |
| Dividends payed | | | | | -15,000 | 209 | -14,791 |
| Shareholders' equity at | | | | | | | |
| December 31, 2014 | 200,000 | 14,928 | 8,820 | 114,486 | 20,000 | 1,633,347 | 1,991,582 |

| DKK 1,000 | Share capital | Foreign currency translation reserve | Revaluation Reserve | Equity method reserve | Proposed dividends | Retained earnings | Total |
|--|----------------|--------------------------------------|---------------------|-----------------------|--------------------|-------------------|------------------|
| Shareholders' equity at | | | | | | | |
| January 1, 2013 | 200,000 | 18,443 | 0 | 81,383 | 10,000 | 1,736,428 | 2,046,255 |
| Revaluation of assets | | | 10,756 | | | | 10,756 |
| Proposed dividends subsidiaries | | | | -20,000 | | 20,000 | 0 |
| Translation of foreign units | | 10,905 | | | | | 10,905 |
| Tax on entries on income recognised as | | | | | | | |
| Other comprehensive income | | 0 | -1,936 | | | | -1,936 |
| Other comprehensive income | | 10,905 | 8,820 | -20,000 | 0 | 20,000 | 19,725 |
| Net profit | | | | 27,260 | 15,000 | 50,136 | 92,396 |
| Total comprehensive income | | 10,905 | 8,820 | 7,260 | 15,000 | 70,136 | 112,121 |
| Acquisition of own shares | | | | | | -13,865 | -13,865 |
| Sale of own shares | | | | | | 13,878 | 13,878 |
| Dividends payed | | | | | -10,000 | | -10,000 |
| Shareholders' equity at | | | | | | | |
| December 31, 2013 | 200,000 | 29,348 | 8,820 | 88,643 | 15,000 | 1,806,577 | 2,148,388 |

Statement of capital – P/F BankNordik

Solvency

| DKK 1,000 | 2014 | 2013 |
|---|------------------|------------------|
| Core capital | 1,537,244 | 1,468,569 |
| Total capital | 1,763,130 | 1,696,191 |
| Risk-weighted items not included in the trading portfolio | 9,219,956 | 8,900,568 |
| Risk-weighted items with market risk etc. | 1,248,885 | 1,294,186 |
| Risk-weighted items with operational risk | 1,473,793 | 1,316,520 |
| Total risk-weighted items | 11,942,635 | 11,511,274 |
| Core capital ratio, excl. hybrid core capital | 11.8% | 11.1% |
| Core capital ratio | 12.9% | 12.8% |
| Solvency ratio | 14.8% | 14.7% |
| Core Capital and Shareholders' equity | | |
| Share capital | 200,000 | 200,000 |
| Reserves | 138,234 | 126,811 |
| Net profit | -127,411 | 92,396 |
| Retained earnings, previous years | 1,780,758 | 1,729,181 |
| Shareholders' equity | 1,991,582 | 2,148,388 |
| Deduction of dividend | 20,000 | 15,000 |
| Deduction of Foreign currency translation reserve | 14,928 | 29,348 |
| Deduction of intangible assets | 520,672 | 788,695 |
| Deduction of revaluation reserve | 8,820 | 8,820 |
| Deduction of deferred tax assets | 18,384 | 31,773 |
| Core capital exclusive of hybrid core capital | 1,408,777 | 1,274,753 |
| Deduction of insurance subsidiaries | 56,574 | 56,413 |
| Hybrid core capital | 185,040 | 250,230 |
| Core capital | 1,537,244 | 1,468,569 |
| Total capital | | |
| Core capital | 1,537,244 | 1,468,569 |
| Addition of revaluation reserve | 8,820 | 8,820 |
| Subordinated loan capital | 273,640 | 275,216 |
| Deduction of insurance subsidiaries | 56,574 | 56,413 |
| Total capital | 1,763,130 | 1,696,191 |

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

Notes – P/F BankNordik

| Note | DKK 1,000 | 2014 | 2013 |
|----------|--|----------------|----------------|
| 1 | Interest income and premiums on forwards | | |
| | Credit institutions and central banks | 1,035 | 1,386 |
| | Loans and advances | 569,324 | 665,070 |
| | Bonds | 56,828 | 60,331 |
| | Total derivatives of which: | -8,973 | -17,228 |
| | <i>Interest rate contracts</i> | -8,973 | -17,228 |
| | Other interest income | 307 | -121 |
| | Total interest income | 618,521 | 709,438 |
| 2 | Interest expenses | | |
| | Credit institutions and central banks | 1,026 | -121 |
| | Deposits | 76,528 | 87,961 |
| | Subordinated debt | 44,937 | 56,887 |
| | Other interest expenses | 525 | 3,072 |
| | Total interest expenses | 123,016 | 147,799 |
| 3 | Dividends from shares and other investments | | |
| | Shares | 6,938 | 7,426 |
| | Total dividends | 6,938 | 7,426 |
| 4 | Net fee and commission income | | |
| | Fee and commission income | | |
| | Securities trading and custody accounts | 52,384 | 40,012 |
| | Credit transfers | 26,718 | 29,319 |
| | Loan commissions | 11,284 | 10,758 |
| | Guarantee commissions | 20,484 | 22,061 |
| | Other fees and commissions | 94,554 | 96,318 |
| | Total fee and commission income | 205,424 | 198,468 |
| | Fee and commissions paid | | |
| | Securities trading and custody accounts | 16,234 | 16,692 |
| | Net fee and commission income | 189,190 | 181,777 |

Notes - P/F BankNordik

| Note | DKK 1,000 | 2014 | 2013 |
|----------|---|----------------|----------------|
| 5 | Market value adjustments | | |
| | Loans and advances | 11,414 | -46,929 |
| | Bonds | -8,207 | -13,380 |
| | Shares | 20,874 | 33,905 |
| | Investment properties | -1,379 | -12,637 |
| | Foreign exchange | 1,634 | -812 |
| | Total derivatives of which: | -20,181 | 44,790 |
| | <i>Currency contracts</i> | 5,122 | 14,225 |
| | <i>Interest Swaps</i> | -25,303 | 30,565 |
| | Other obligations | 5,307 | 6,767 |
| | Assets linked to pooled schemes | -25 | 0 |
| | Total market value adjustments | 9,438 | 11,704 |
| 6 | Staff costs and administrative expenses | | |
| | Executive remuneration: | | |
| | Board of Directors | 1,800 | 1,755 |
| | Executive Board | 5,408 | 5,384 |
| | Total | 7,208 | 7,139 |
| | Note 8 of the consolidated financial statements contains additional information about the remuneration of the Executive Board and the Board of Directors | | |
| | Staff costs: | | |
| | Salaries | 221,207 | 235,553 |
| | Pensions | 26,684 | 27,275 |
| | Social security expenses | 28,903 | 31,844 |
| | Total staff costs | 276,793 | 294,672 |
| | Total administrative expenses | 181,455 | 197,180 |
| | Total staff costs and administrative expenses | 458,249 | 491,852 |
| | As a consequence of the bank's participation in Bank Package II a deduction is made in the taxable income relating to the remuneration of the executive board amounting to: | 2,704 | 2,692 |
| | Number of employees | | |
| | Average number of full-time employees in the financial year | 418 | 449 |
| | Further information regarding remuneration etc. on executives Group note no. 8 | | |

Notes - P/F BankNordik

| Note | DKK 1,000 | 2014 | 2013 |
|-----------|---|----------------|----------------|
| 7 | Audit fees | | |
| | Fees to audit firms elected at the general meeting | 3,894 | 2,495 |
| | Fees to other firms for service other than audit | 0 | 0 |
| | Total audit fees | 3,894 | 2,495 |
| | Total fees to the audit firms elected at the general meeting break down as follows: | | |
| | Statutory audit | 911 | 1,125 |
| | - of which PricewaterhouseCoopers | 613 | 675 |
| | - of which Januar | 297 | 450 |
| | Other assurance engagements | 81 | 283 |
| | Tax and VAT advice | 274 | 469 |
| | Other services | 2,629 | 618 |
| | Total fees to the audit firms elected at the general meeting | 3,894 | 2,495 |
| 8 | Amortisation, depreciation and impairment charges | | |
| | Amortisation charges for intangible assets | 12,257 | 12,258 |
| | Depreciation charges for tangible assets | 8,590 | 12,825 |
| | Impairment charges for intangible assets | 250,007 | 0 |
| | Total | 270,855 | 25,083 |
| 9 | Tax | | |
| | Calculated tax charge for the year | 7,920 | 0 |
| | Change in deferred tax | 20,262 | 13,371 |
| | Adjustment of prior-year tax charges | 0 | 1,580 |
| | Total | 28,182 | 14,951 |
| | Effective tax rate | | |
| | Faroese tax rate | 18.0% | 18.0% |
| | Deviation in foreign entities tax compared to Faroese tax rate | 3.1% | -0.8% |
| | Impairment intangible assets | -47.1% | 0.0% |
| | Non-taxable income and non-deductible expenses | -2.4% | -4.1% |
| | Adjustment on prior-year tax charges | 0.0% | 1.0% |
| | Effective tax rate | -28.4% | 14.2% |
| | No tax asset has been capitalized relating to impairment of goodwill which has a material effect on calculation of the effective tax rate. | | |
| 10 | Due from credit institutions etc. specified by maturity | | |
| | On demand | 502,401 | 798,599 |
| | Total | 502,401 | 798,599 |

Notes – P/F BankNordik

| Note | DKK 1,000 | 2014 | 2013 |
|------|--|------------------|------------------|
| 11 | Loans, advances and guarantees specified by sectors | | |
| | Public authorities | 3% | 3% |
| | Corporate sector: | | |
| | Fisheries, agriculture, hunting and forestry | 4% | 5% |
| | Industry and raw material extraction | 5% | 4% |
| | Energy supply | 2% | 1% |
| | Building and construction | 3% | 4% |
| | Trade | 10% | 8% |
| | Transport, hotels and restaurants | 4% | 4% |
| | Information and communications | 1% | 1% |
| | Financing and insurance | 6% | 7% |
| | Real property | 7% | 7% |
| | Other industries | 3% | 3% |
| | Total corporate sector | 44% | 44% |
| | Retail customers | 53% | 53% |
| | Total | 100% | 100% |
| 12 | Loans and advances at fair value specified by maturity | | |
| | 3 months and below | 3,628 | 0 |
| | 3 months to 1 year | 41,644 | 44,572 |
| | Over 1 year to 5 years | 170,189 | 169,854 |
| | Over 5 years | 540,609 | 467,191 |
| | Total loans and advances at fair value | 756,070 | 681,617 |
| 13 | Loans and advances at amortised cost specified by maturity | | |
| | On demand | 311,090 | 728,246 |
| | 3 months and below | 657,480 | 905,177 |
| | 3 months to 1 year | 1,587,926 | 1,392,911 |
| | Over 1 year to 5 years | 3,716,559 | 3,211,349 |
| | Over 5 years | 3,462,383 | 3,540,999 |
| | Total loans and advances at amortised cost | 9,735,439 | 9,778,682 |
| 14 | Bonds at fair value | | |
| | Mortgage credit bonds | 2,488,271 | 2,512,689 |
| | Government bonds | 363,482 | 438,996 |
| | Corporate bonds etc. | 385,485 | 235,666 |
| | Bonds at fair value | 3,237,238 | 3,187,351 |
| 15 | Shares etc. | | |
| | Shares/unit trust certificates listed on the Copenhagen Stock Exchange | 63,620 | 56,704 |
| | Shares/unit trust certificates listed on other stock exchanges | 47,425 | 49,454 |
| | Other shares at fair value using the fair-value option | 173,775 | 172,871 |
| | Total shares etc. | 284,821 | 279,029 |

Notes – P/F BankNordik

| Note | DKK 1,000 | 2014 | 2013 |
|------|---------------------------------------|----------------|----------------|
| 16 | Holdings in subsidiaries | | |
| | Cost at 1 January | 188,252 | 188,252 |
| | Cost at 31 December | 188,252 | 188,252 |
| | Revaluations at 1 January | 56,630 | 41,638 |
| | Share of profit | 32,583 | 27,260 |
| | Dividends | 30,820 | 20,000 |
| | Foreign currency translation | -9,028 | 7,732 |
| | Revaluations at 31 December | 49,364 | 56,630 |
| | Carrying amount at 31 December | 237,616 | 244,882 |

| | Owner- ship % | Share capital end of year | Shareholders' equity for the year | Profit/loss for the year |
|---|------------------|------------------------------|---|-----------------------------|
| Holdings in subsidiaries | | | | |
| P/F Trygd | 100% | 40,000 | 88,160 | 12,521 |
| P/F Skyn | 100% | 4,000 | 3,810 | 1,578 |
| Vörður Tryggingar hf | 100% | 39,764 | 137,847 | 18,523 |
| P/F Birting | 100% | 1,000 | 7,799 | -39 |
| Sp/f Íbúðir undir Gráasteini (at the end of 2013) | 0% | 125 | -61,537 | -19,692 |

The information disclosed is extracted from the companies' most recent annual reports (P/F Trygd, P/F Skyn, P/F Birting and Vörður tryggingar hf annual reports 2014 the other 2013).

Notes – P/F BankNordik

Note DKK 1,000

| 17 Intangible assets 2014 | Goodwill | Customer | Total |
|---|------------------------|----------------|-----------------|
| | | Relations | |
| Cost at 1 January | 699,764 | 122,574 | 822,339 |
| Foreign currency translation | -5,758 | | -5,758 |
| Cost at 31 December | 694,006 | 122,574 | 816,581 |
| Amortisation and impairment charges at 1 January | | -33,644 | -33,644 |
| Amortisation charges during the year | | -12,257 | -12,257 |
| Impairment charges during the year | -250,007 | | -250,007 |
| Amortisation and impairment charges at 31 December | -250,007 | -45,901 | -295,908 |
| Carrying amount at 31 December | 443,999 | 76,673 | 520,672 |
| Amortisation period | Annual impairment test | 10 years | |
| Intangible assets | | | |
| 2013 | Goodwill | Customer | Total |
| | | Relations | |
| Cost at 1 January | 696,590 | 122,574 | 819,164 |
| Foreign currency translation | 3,175 | | 3,175 |
| Cost at 31 December | 699,764 | 122,574 | 822,339 |
| Amortisation and impairment charges at 1 January | | -21,386 | -21,386 |
| Amortisation charges during the year | | -12,258 | -12,258 |
| Amortisation and impairment charges at 31 December | | -33,644 | -33,644 |
| Carrying amount at 31 December | 699,764 | 88,931 | 788,695 |
| Amortisation period | Annual impairment test | 10 years | |

In 2009 BankNordik acquired goodwill in connection with the acquisition of the Icelandic company Vörður. In 2010 BankNordik acquired 12 branches in Denmark and Greenland from Sparbank. In 2011 BankNordik acquired 13 branches in Denmark from Amagerbanken. An impairment test has been performed of the goodwill as of the end of 2014. The test resulted in impairments of DKK 250m.

Note 18 of the consolidated Financial statements contains information of BankNordiks impairment test of goodwill, customer relations and software.

Notes – P/F BankNordik

| Note | DKK 1,000 | 2014 | 2013 |
|-----------|---|----------------|----------------|
| 18 | Investment property | | |
| | Fair value at 1 January | 120,358 | 175,416 |
| | Additions | 0 | 12,625 |
| | Reclassification to Assets held for sale | 39,000 | 35,223 |
| | Reclassification to Domicile property | 0 | 14,157 |
| | Disposals | 15,116 | 5,666 |
| | Fair value adjustment | -1,379 | -12,637 |
| | Fair value at 31 December | 64,863 | 120,358 |
| | Required rate of return for calculation of fair value/revaluation (5.9%-7.5% per annum) | | |
| 19 | Domicile property | | |
| | Cost at 1 January | 165,450 | 178,769 |
| | Additions | 73,137 | 12,793 |
| | Reclassifications from Investment property | 0 | 14,157 |
| | Disposals | 14,128 | 40,269 |
| | Cost at 31 December | 224,459 | 165,450 |
| | Adjustments at 1 January | 3,533 | -2,766 |
| | Depreciation charges during the year | 999 | 892 |
| | Reversal of depreciation charges on disposals during the year | 515 | 403 |
| | Revaluations recognised directly in equity | 0 | 10,756 |
| | Tax effect of revaluations | 0 | 3,968 |
| | Impairments, recognised as cost previous years | 14,050 | 0 |
| | Adjustments at 31 December | -11,001 | 3,533 |
| | Revalued amount at 31 December | 213,458 | 168,983 |
| | Required rate of return for calculation of fair value/revaluation, 5.5%-9.0% | | |
| 20 | Other property, plant and equipment | | |
| | Cost at 1 January | 72,848 | 65,509 |
| | Additions | 13,444 | 7,772 |
| | Disposals | 1,048 | 433 |
| | Cost at 31 December | 85,243 | 72,848 |
| | Depreciation and impairment charges at 1 January | 51,609 | 44,019 |
| | Depreciation charges during the year | 7,484 | 7,952 |
| | Reversals of depreciation and impairment charges | 793 | 362 |
| | Depreciation and impairment charges at 31 December | 58,300 | 51,609 |
| | Carrying amount at 31 December | 26,943 | 21,239 |
| | Depreciation period 3-10 years | | |

Notes – P/F BankNordik

| | | | | |
|------|--------------------------|--|---------------|---------------|
| Note | DKK 1,000 | | 2014 | 2013 |
| 21 | Deferred tax | | | |
| | Deferred tax assets | | 18,384 | 31,773 |
| | Deferred tax liabilities | | 86,189 | 79,123 |
| | Deferred tax, net | | 67,805 | 47,350 |

| | At 1 Jan. | Other adjustments | Recognised in profit for the year | Recognised in shareholders' equity | At 31 Dec. |
|-------------------------------|---------------|-------------------|-----------------------------------|------------------------------------|---------------|
| Change in deferred tax | | | | | |
| 2014 | | | | | |
| Intangible assets | 78,198 | | 40,943 | | 119,141 |
| Tangible assets | 9,280 | | -4,144 | | 5,136 |
| Securities | -51 | | 0 | | -51 |
| Provisions for obligations | -63 | | -1 | | -64 |
| Tax loss carryforwards | -39,546 | | -15,873 | | -55,418 |
| Other | -468 | 193 | -663 | 0 | -938 |
| Total | 47,350 | 193 | 20,262 | 0 | 67,805 |

Adjustment of prior-year tax charges included in preceding item

| | | | | | |
|----------------------------|---------------|------------|---------------|--------------|---------------|
| 2013 | | | | | |
| Intangible assets | 39,451 | | 38,746 | | 78,198 |
| Tangible assets | 12,118 | | -4,774 | 1,936 | 9,280 |
| Securities | -51 | | 0 | | -51 |
| Provisions for obligations | 0 | | -63 | | -63 |
| Tax loss carryforwards | -20,345 | | -19,200 | | -39,546 |
| Other | -1,074 | 364 | 242 | | -468 |
| Total | 30,099 | 364 | 14,951 | 1,936 | 47,350 |

Adjustment of prior-year tax charges included in preceding item

Notes – P/F BankNordik

| Note | DKK 1,000 | 2014 | 2013 |
|------|--|-------------------|-------------------|
| 22 | Other assets | | |
| | Interest and commission due | 46,661 | 48,361 |
| | Derivatives with positive fair value | 49,640 | 53,956 |
| | Other amounts due | 50,624 | 53,676 |
| | Total | 146,925 | 155,993 |
| 23 | Due to credit institutions and central banks specified by institution | | |
| | Due to central banks | 261,034 | 1,286,310 |
| | Due to credit institutions | 330,313 | 4,098 |
| | Total | 591,347 | 1,290,408 |
| 24 | Due to credit institutions and central banks specified by maturity | | |
| | On demand | 291,347 | 290,408 |
| | Over 1 year to 5 years | 0 | 1,000,000 |
| | Over 5 years | 300,000 | 0 |
| | Total | 591,347 | 1,290,408 |
| 25 | Deposits specified by type | | |
| | On demand | 8,557,407 | 8,194,603 |
| | At notice | 1,482,210 | 1,815,337 |
| | Time deposits | 1,269,224 | 688,332 |
| | Special deposits | 1,381,169 | 1,586,400 |
| | Total deposits | 12,690,011 | 12,284,672 |
| 26 | Deposits specified by maturity | | |
| | On demand | 8,603,475 | 8,291,941 |
| | 3 months and below | 2,423,926 | 1,650,226 |
| | 3 months to 1 year | 210,715 | 430,445 |
| | Over 1 year to 5 years | 711,955 | 739,132 |
| | Over 5 years | 739,939 | 1,172,928 |
| | Total deposits | 12,690,011 | 12,284,672 |

Notes – P/F BankNordik

| | | | |
|------|--|----------------|----------------|
| Note | DKK 1,000 | 2014 | 2013 |
| 27 | Other liabilities | | |
| | Sundry creditors | 54,782 | 69,657 |
| | Accrued interest and commission | 53,246 | 52,853 |
| | Derivatives with negative value | 97,486 | 69,431 |
| | Accrued staff expenses | 49,764 | 52,257 |
| | Debt regarding sale of investment assets | 38,037 | 52,355 |
| | Other obligations | 23,927 | 51,494 |
| | Total | 317,241 | 348,047 |
| 28 | Related parties | | |
| | DKK 1,000 | 2014 | 2013 |
| | | Subsidiaries | Subsidiaries |
| | Assets | | |
| | Investment properties | 16,659 | 96,192 |
| | Assets held for sale | 39,000 | 35,223 |
| | Total | 55,659 | 131,415 |
| | Liabilities | | |
| | Deposits | 86,389 | 94,090 |
| | Total | 86,389 | 94,090 |
| | Off-balance sheet items | | |
| | Guarantees and collateral received | 60,758 | 118,674 |
| | Income Statement | | |
| | Interest income | | |
| | Interest expense | 503 | 662 |
| | Other operating income | 989 | 918 |
| | Administrative expenses | 1,060 | 1,141 |
| | Total | -574 | -885 |

Notes – P/F BankNordik

Note DKK 1,000

- 29 **Impairment charges on loans and advances and provisions for guarantees etc.**
Note 11 to the consolidated financial statement specifies the Bank's impairment charges on loans and advances and provisions for guarantees etc.
- 30 **Holdings in associates**
Note 17 to the consolidated financial statement specifies the Bank's holdings in associates.
- 31 **Assets held for sale**
Note 23 of the consolidated financial statement specifies the Bank's assets held for sale.
- 32 **Subordinated debt**
Note 27 to the consolidated financial statements specifies the Bank's subordinated debt
- 33 **Contingent liabilities**
Note 29 to the consolidated financial statements specifies the Bank's contingent liabilities
- 34 **Assets deposited as collateral**
Note 30 to the consolidated financial statements specifies the Bank's assets deposited as collateral.
- 35 **Risk Management**
The Risk Management section in note 36 to the consolidated financial statements specifies the Banks risk management.

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

Highlights

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|------------|------------|------------|------------|------------|
| DKK 1,000 | | | | | |
| Net interest income | 495,505 | 561,639 | 601,721 | 537,957 | 467,125 |
| Net fee and commission income | 189,190 | 181,777 | 190,253 | 134,033 | 92,067 |
| Net interest and fee income | 691,632 | 750,842 | 793,974 | 673,330 | 566,130 |
| Market value adjustments | 9,438 | 11,704 | 14,431 | -5,740 | 5,895 |
| Other operating income | 39,386 | 60,656 | 34,891 | 23,654 | 417,534 |
| Staff cost and administrative expenses | 458,249 | 491,852 | 589,620 | 545,189 | 408,034 |
| Amortisation, depreciation on fixed assets and impairment charges | 270,855 | 25,083 | 22,491 | 14,131 | 5,890 |
| Impairment charges on loans and advances etc. | 111,014 | 178,234 | 148,460 | 100,787 | 200,807 |
| Income from associated and subsidiary undertakings | 25,843 | 22,638 | 41,284 | 9,733 | 30,426 |
| Net profit | -127,411 | 92,396 | 103,099 | 24,560 | 307,484 |
| Loans and advances | 10,491,509 | 10,460,299 | 11,302,698 | 11,768,711 | 8,674,007 |
| Bonds at fair value | 3,237,238 | 3,187,351 | 2,697,873 | 2,340,034 | 3,343,661 |
| Intangible assets | 520,672 | 788,695 | 797,779 | 779,964 | 397,977 |
| Assets held for sale | 51,771 | 58,168 | 25,811 | 168,980 | 160,794 |
| Total assets | 16,197,909 | 16,752,832 | 17,324,821 | 16,723,635 | 13,948,347 |
| Due to credit institutions and central banks | 591,347 | 1,290,408 | 1,288,052 | 329,316 | 245,249 |
| Deposits and other debt | 12,690,011 | 12,284,672 | 12,861,466 | 13,122,675 | 8,944,378 |
| Issued bonds at amortised cost | 0 | 0 | 0 | 98,276 | 2,199,843 |
| Total shareholders' equity | 1,991,582 | 2,148,388 | 2,046,255 | 1,947,877 | 1,971,078 |

Ratios and key figures

| | Dec. 31 2014 | Dec. 31 2013 | Dec. 31 2012 | Dec. 31 2011 | Dec. 31 2010 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Solvency | | | | | |
| Solvency ratio, % | 14.8 | 14.7 | 14.8 | 15.6 | 17.0 |
| Core capital ratio, % | 12.9 | 12.8 | 12.9 | 12.4 | 17.2 |
| Core capital ratio excl. hybrid core capital, end of period, % | 11.8 | 10.6 | 9.6 | 9.1 | 15.2 |
| Risk-weighted Items, DKKm | 11,943 | 11,511 | 11,902 | 12,313 | 10,080 |
| Profitability | | | | | |
| Return on equity before tax, % | -4.8 | 5.1 | 5.7 | 1.0 | 21.0 |
| Return on equity after tax, % | -6.2 | 4.4 | 5.2 | 1.3 | 17.1 |
| Income / Cost ratio | 0.9 | 1.1 | 1.1 | 1.0 | 1.6 |
| Cost / income, % (excl. value adjustm. and impairments) | 99.7 | 67.2 | 71.6 | 82.1 | 43.7 |
| Market risk | | | | | |
| Interest rate risk, % | 2.0 | 3.7 | 0.4 | 1.4 | 3.1 |
| Foreign exchange position, % | 8.6 | 7.1 | 17.3 | 8.7 | 24.6 |
| Liquidity | | | | | |
| Loans and advances plus impairment charges as % of deposits | 87.3 | 88.9 | 90.7 | 92.3 | 100.8 |
| Excess cover relative to statutory liquidity requirements, % | 159.0 | 154.9 | 132.7 | 99.8 | 280.6 |
| Credit risk | | | | | |
| Large exposures as % of total capital | 81.1 | 52.2 | 36.3 | 23.3 | 22.8 |
| Impairment and provisioning ratio, % | 4.8 | 4.1 | 3.0 | 2.7 | 3.2 |
| Write-off and impairments ratio, % | 0.8 | 1.4 | 1.1 | 0.7 | 1.9 |
| Share of amounts due on which interest rates have been reduced, % | 1.6 | 2.0 | 1.7 | 1.9 | 1.6 |
| Gearing of loans and advances | 5.3 | 4.9 | 5.5 | 6.0 | 4.3 |
| Shares nom. | | | | | |
| Earnings per share after tax, DKK | -12.9 | 9.4 | 10.5 | 2.5 | 31.6 |
| Book value per share, DKK | 201.9 | 217.8 | 207.5 | 197.4 | 198.8 |
| Proposed dividend per share DKK | 2.0 | 1.5 | 1.0 | 0.0 | 4.0 |
| Market price per share, DKK | 104.5 | 128.0 | 76.0 | 78.8 | 144.0 |
| Market price / earnings per share DKK | -8.1 | 13.7 | 7.3 | 31.8 | 4.6 |
| Market price / book value per share DKK | 0.5 | 0.6 | 0.4 | 0.4 | 0.7 |
| Other | | | | | |
| Number of full-time employees, end of period | 412 | 431 | 469 | 529 | 353 |

Management and directorships

Board of Directors

Klaus Rasmussen (Chairman)

| | |
|--|--|
| Educational background: | MSc in Business Management and Accounting and MSc in Economics State Authorized Public Accountant |
| Principal occupation: | Self-employed |
| Board positions held that are relevant to banking and insurance: | Chairman of the board of: P/F Effo, P/F Effo Bunkers, P/F Von, P/F Vónin, A/S Refa, A/S Investeringsselskabet af 5. oktober 2012, A/S Norriq Holding, A/S Norriq Danmark, P/F BankNordik. Board Member of: A/S Strandby Net, A/S Limet Ejendomme, A/S Vónin Ísland |
| First elected to the Board in: | 2008 |
| Address: | Øresundsvej 126 B, 2. sal, 2300 København S, Denmark |

Jens Erik Christensen (Deputy Chairman)

| | |
|--|--|
| Educational background: | MSc Actuarial Science |
| Principal occupation: | Self-employed, works with business development through the Investment Company Sapere Aude A/S |
| Board positions held that are relevant to banking and insurance: | Chairman of the board of: Husejernes Forsikring Assurance Agentur A/S, Vörður Tryggingar hf, Vörður Líftryggingar hf, Skandia A/S, Dansk Merchant Capital A/S, Nordic Corporate Investments A/S, EcsAct A/S, Alpha Holding A/S, Founders A/S, Mediaxes A/S. Vice chairman of the board of: P/F BankNordik, Hugin Experts A/S, Prime Office A/S. Board member of: Alpha Insurance A/S, Nemi Forsikring AS, P/F Trygd, Norriq A/S, Andersen E Martini A/S. |
| First elected to the Board in: | 2007 |
| Address: | Maglevænget 7, 2920 Charlottenlund, Denmark |

Niels Vestermark

| | |
|--|---|
| Educational background: | HD - Finance and accounting |
| Principal occupation: | Regional Manager, Sydbank |
| Board positions held that are relevant to banking and insurance: | Chairman of the board of: Stoff & Stil A/S. Board member of: P/F BankNordik and KPC Holding A/S |
| First elected to the Board in: | 2013 |
| Address: | Rosenvænget 5, 7400 Herning, Denmark |

Nils Sørensen

| | |
|--|--|
| Educational background: | BSc. from Copenhagen Business School and a MBA from Lancaster University |
| Principal occupation: | Managing director of Faroe Petroleum (Faroes). Branch Manager for Faroe Petroleum Iceland. |
| Board positions held that are relevant to banking and insurance: | Board member of: P/F BankNordik |
| First elected to the Board in: | 2010 |
| Address: | Birrugøta 41, 100 Tórshavn, Faroe Islands |

Kenneth Samuelsen

| | |
|--------------------------------|---|
| Educational background: | Financial education |
| Principal occupation: | Employed at BankNordik's Business Development unit, Faroe Islands |
| Board positions held: | Board member of: P/F BankNordik |
| First elected to the Board in: | 2010 |
| Address: | Áarrás 8, 160 Argir, Faroe Islands |

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

Janus Petersen (CEO)

Educational background:

Master Degree in Law, LL.M, and MSc in Economics from the University of Copenhagen

Principal occupation:

CEO of P/F BankNordik

Board positions held:

Chairman of the board of: P/F Trygd

Board member of: Vörður Tryggingar hf, Vörður Líftryggingar hf, and BI Holding A/S, Chairman of the Faroese Association of Employers in the Financial Sector (Arbeidsgevara-felagið fyri fíggjarstovnar) and chairman of the Faroese Banking Association (Felagið Peningastovnar)

Date of joining the Executive Board:

1994

Address:

Varðabú 1, 100 Tórshavn, Faroe Islands

John Rajani (Deputy CEO)

Educational background:

MBA from Lancaster University and BSc. in Economics from Copenhagen Business School

Principal occupation:

Deputy CEO of P/F BankNordik

Board position held

Chairman of the board of: P/F Skyn

Date of joining the executive board:

2011

Address:

Áarrás 6, 160 Argir, Faroe Islands

Head Office

P/F BankNordik
 Húsagøta 3
 P.O. Box 3048
 FO-110 Tórshavn
 Faroe Islands
 Tel. +298 330 330
 Fax +298 330 001
 E-mail: info@banknordik.fo
 www.banknordik.fo

P/F skr. nr. 10, Tórshavn
 SWIFT: FIFB FOTX

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

The company is listed on Nasdaq Iceland and Nasdaq Copenhagen.

IR contact

Johanny í Grótinum
 E-mail: ir@banknordik.fo
 Tel. +298 330 380

Branches

Faroe Islands

Tórshavn
 Niels Finsensgøta 15
 100 Tórshavn
 Tel. +298 330 330

Miðvágur
 Jatnavegur 26
 370 Miðvágur
 Tel. +298 330 330

Klaksvík
 Klaksvíksvegur
 700 Klaksvík
 Tel. +298 330 330

Saltangará
 Heiðavegur 54
 600 Saltangará
 Tel. +298 330 330

Tvøroyri
 Sjógøta 2
 800 Tvøroyri
 Tel. +298 330 330

Customer Service
 Niels Finsensgøta 15
 100 Tórshavn
 Tel. +298 330 330

Corporate Banking
 Húsagøta 3
 100 Tórshavn
 Tel. +298 330 330

Markets
 Húsagøta 3
 100 Tórshavn
 Tel. +298 330 330

Denmark

Amager
 Amagerbrogade 175
 2300 København S
 Tlf. +45 76 97 80 00

Dragør
 Dragørhjørnet 2
 2791 Dragør
 Tlf. +45 76 97 80 00

Kongelundsvej
 Kongelundsvej 267
 2770 Kastrup
 Tlf. +45 76 97 80 00

Frederiksberg
 Falkoner Allé 31
 2000 Frederiksberg
 Tlf. +45 76 97 80 00

Hvidovre
 Hvidovrevej 275
 2650 Hvidovre
 Tlf. +45 76 97 80 00

Lyngby
 Klampenborgvej 235-237
 2800 Kgs. Lyngby
 Tlf. +45 76 97 80 00

Østerbro
 Østerbrogade 43
 2100 København Ø
 Tlf. +45 76 97 80 00

Odense
 Vestergade 67
 5000 Odense C
 Tlf. +45 76 97 80 00

Esbjerg
 Stormgade 2
 6700 Esbjerg
 Tlf. +45 76 97 80 00

Haderslev
 Nørregade 32
 6100 Haderslev
 Tlf. +45 76 97 80 00

Horsens
 Sundvej 101
 8700 Horsens
 Tlf. +45 76 97 80 00

Kolding
 Bredgade 15
 6000 Kolding
 Tlf. +45 76 97 80 00

Vejle
 Dæmningen 34
 7100 Vejle
 Tlf. +45 76 97 80 00

Aarhus
 Åboulevarden 49
 8000 Aarhus C
 Tlf. +45 76 97 80 00

Customer Service
 Amager Landevej 56
 2770 Kastrup
 Telefon: +45 76 97 80 00

Private Banking
 Amagerbrogade 25
 2300 København S
 Telefon: +45 32 66 60 70

Markets
 Amagerbrogade 25
 2300 København S
 Telefon: +45 32 66 63 20

**Corporate Banking
 Region east**
 Amagerbrogade 25
 2300 København S
 Telefon: +45 32 66 61 38

**Corporate Banking
 Region west**
 Bredgade 15
 6000 Kolding
 Telefon: +45 76 97 80 00

Greenland

Nuuk
 Qullilerfik 2
 3900 Nuuk
 Tel. +299 34 79 00

Corporate Banking
 Qullilerfik 2
 3900 Nuuk
 Tel. +299 34 79 00