

**Announcement: Moody's confirms A3/P-2/C- ratings of BankNordik (Faroe Islands)**

---

**Global Credit Research - 06 Sep 2010**

London, 06 September 2010 -- Moody's Investors Service has today confirmed the C- bank financial strength rating (BFSR) and A3 long-term and Prime-2 short-term local and foreign currency deposit ratings of BankNordik F/F (formerly Foroya Banki P/F). The outlook on all ratings is stable. Moody's says that its current assessment incorporates information from BankNordik's non-audited interim consolidated statements published on 16 August 2010.

**RATINGS RATIONALE**

Today's rating confirmation concludes the review for possible downgrade that Moody's initiated on 15 February 2010 in response to the bank's acquisition of nine Danish and three Greenland-based branches of Denmark's Sparbank A/S.

Moody's notes that the acquired branches accounted for approximately 25% of the bank's total loan book as of 30 June 2010. The review for possible downgrade was triggered by the execution risk embedded in this substantial operation and the uncertainty surrounding the combined bank's portfolio quality, growth strategy and cost management going forward. Moody's review focused on evaluating the execution and assessing the credit quality of the acquired portfolio as well as the earnings potential and risk management of the combined group.

In Moody's opinion, BankNordik has executed the integration of the newly acquired branches as planned in H1 2010. During the process, the bank implemented a new IT platform. The evaluation of the newly acquired loan book has not led to significant additional provisions being taken in the bank's H1 2010 results.

According to Moody's, BankNordik's rating continues to be underpinned by the bank's local franchise in the Faroe Islands where it reported a gross market share of 43% at year-end 2009. The rating is also supported by the bank's financial fundamentals, specifically its Tier-1 ratio, which, calculated under Basel II, was 17.9% at end-June 2010; as well as by its large deposit base, as reflected by the bank's deposit-to-loan ratio of 99% as of H1 2010.

BankNordik's BFSR reflects improvements in the bank's risk positioning over time, paired with uncertainties regarding the bank's ability to retain and grow its customer base in the new overseas branches in Denmark and Greenland, while at the same time maintaining an acceptable level of asset quality. Furthermore, the bank's short- and long-term deposit ratings reflect a moderate probability of regional support by the home government of the Faroe Islands and systemic support from the Danish government. The outlook on all ratings is stable.

The BFSR could be positively affected should the bank show an improvement in earnings and a continued stabilisation of asset quality levels.

The BFSR could be negatively affected by a deterioration in profitability and capital adequacy or a weakening of the risk profile. In addition, any problems with large exposures, deteriorating liquidity or eroding market share would exert downward pressure.

The deposit rating could be downgraded if: (i) the BFSR were to be downgraded; or (ii) if Moody's were to lower its assessment of external support, although we view this as unlikely.

The previous rating action on BankNordik was implemented on 26 July 2010, when Moody's said that it is continuing the review for possible downgrade which it had previously initiated on 15 February 2010.

The principal methodologies used in rating BankNordik were "Bank Financial Strength Ratings: Global Methodology" published in February 2007, and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" published in March 2007, which are available on [www.moodys.com](http://www.moodys.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Thorshavn, Faroe Islands, BankNordik reported total assets of DKK15 billion (EUR2 billion) at the end of June 2010.

**REGULATORY DISCLOSURES**

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, confidential and proprietary Moody's Investors Service's information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of maintaining a credit rating.

The rating has been disclosed to the rated entity or its designated agents and issued with no amendment resulting from that disclosure.

Moody's Investors Service may have provided Ancillary or Other Permissible Service(s) to the rated entity or its related third parties within the three years preceding the Credit Rating Action. Please see the ratings disclosure page [www.moodys.com/disclosures](http://www.moodys.com/disclosures) on our website for further information.

London  
Oscar Heemsker  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

London  
Simon Harris  
MD - Financial Institutions  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom



© 2010 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.