Annual Report 2016

BANKNORDIK

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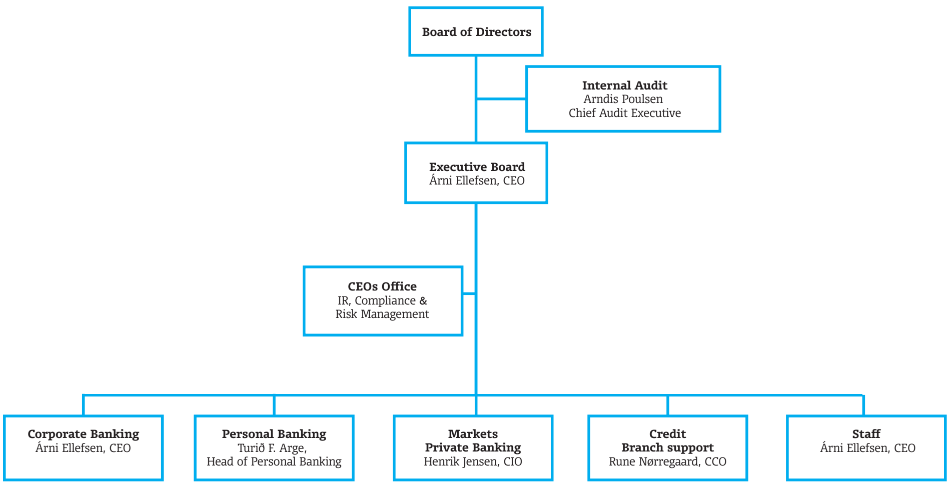
BankNordik Organisation



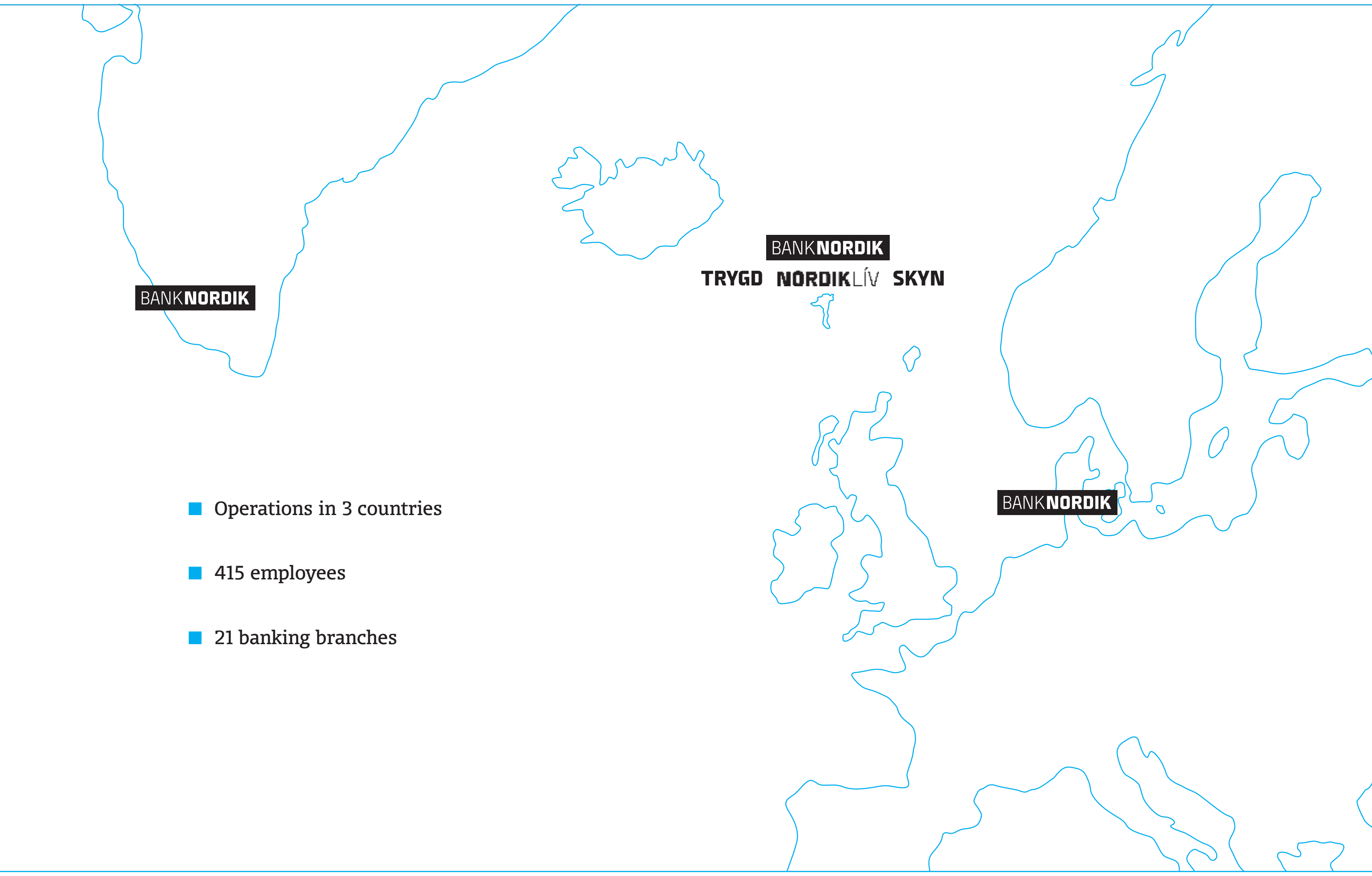
Subsidiaries

Overview of the Group

BankNordik

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

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



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

Highlights, ratios and key figures – BankNordik Group

Highlights	Full year	Full year	Index	Q4	Q3	Q2	Q1	Q4
DKK 1,000	2016	2015	16 / 15	2016	2016	2016	2016	2015
Net interest income	413,204	468,652	88	100,037	103,055	97,581	112,531	110,945
Dividends from shares and other investments	9,469	9,244	102	84	30	9,140	214	62
Net fee and commision income	182,202	216,839	84	51,025	44,798	41,706	44,674	52,014
Net interest and fee income	604,875	694,735	87	151,146	147,883	148,427	157,419	163,021
Net insurance income	26,627	27,857	96	-6,782	13,486	11,496	8,426	7,788
Interest and fee income and income from insurance activities, net	631,502	722,593	87	144,364	161,370	159,922	165,845	170,809
Market value adjustments	11,313	-38,751		-10,232	11,673	12,585	-2,712	-4,432
Other operating income	39,187	58,499	67	16,559	4,081	13,379	5,168	26,494
Staff cost and administrative expenses	462,461	514,003	90	111,724	111,242	112,198	127,298	127,629
Impairment charges on loans and advances etc.	18,228	59,655	31	10,263	-1,642	6,974	2,633	26,091
Net profit continued operations	149,171	-254,562		37,444	34,541	48,423	28,764	-323,829
Net profit discontinued operations	72,703	33,553	217	0	79,549	1,346	-8,192	15,819
Net profit	221,874	-221,009		20,532	131,002	49,769	20,572	-308,010
Loans and advances	9,140,637	10,675,180	86	9,140,637	9,371,948	9,394,601	9,961,083	10,675,180
Bonds at fair value	4,677,230	3,398,816	138	4,677,230	4,509,844	4,343,250	3,895,295	3,398,816
Assets held for sale	11,974	35,402	34	11,974	32,266	32,755	35,435	35,402
Assets in disposals groups classified as held for sale				0				581,280
Total assets	15,552,094	16,230,078	96	15,552,094	15,936,796	16,419,074	16,213,273	16,247,814
Due to credit institutions and central banks	341,676	574,791	59	341,676	494,502	615,761	592,015	574,791
Deposits and other debt	12,668,697	12,680,157	100	12,668,697	12,804,917	12,949,228	12,532,321	12,680,157
Total shareholders' equity	1,922,035	1,766,335	109	1,922,035	1,910,554	1,811,544	1,767,240	1,766,335

Ratios and key figures	Dec. 31 2016	Dec. 31 2015	Dec. 31 2016	Sept. 30 2016	June 30 2016	March 31 2016	Dec. 31 2015
Solvency							
Solvency ratio, %	18.3	16.8	18.3	19.0	17.1	17.2	16.8
Core capital ratio, %	16.0	14.8	16.0	17.0	15.1	15.2	14.8
Core capital ratio excl. hybrid core capital, end of period, %	16.0	13.9	16.0	17.0	15.1	14.4	13.9
Risk-weighted Items, DKK mill	9,790	11,463	9,790	10,500	10,577	10,984	11,463
Profitability							
Return on equity after tax, %	12.0	-11.7	1.1	7.0	2.8	1.2	-16.0
Cost / income, %	72.5	149.8	81.7	63.7	67.3	79.2	340.9
Cost / income, % (excl. value adjustm. and impairments)	71.0	134.7	70.1	69.2	68.1	76.4	320.1
Return on assets	1.4	-1.4	0.1	0.8	0.3	0.1	-1.9
Market risk							
Interest rate risk, %	1.1	2.2	1.1	1.3	1.7	2.7	2.2
Foreign exchange position, %	4.8	9.5	4.8	13.6	9.6	8.8	9.5
Liquidity							
Excess cover relative to statutory liquidity requirements, %	241.7	166.8	241.7	227.6	254.3	207.3	166.8
Credit risk							
Growth on loans and advances, %	-14.4	1.8	-2.5	-0.2	-5.7	-6.7	0.1
Gearing of loans and advances	4.8	6.0	4.8	4.9	5.2	5.6	6.0
Impairment and provisioning ratio, end of period, %	5.5	4.9	5.5	5.4	5.4	5.1	4.9
Write-off and provisioning ratio, %	0.1	0.4	0.1	0.1	0.1	0.0	0.2
Share of amounts due on which interest rates have been reduced, end of period, %	0.7	1.1	0.7	0.8	0.9	0.9	1.1
Shares							
Earnings per share after tax (nom. DKK 20), DKK	22.6	-22.4	2.1	13.3	5.1	2.1	-31.2
Market price per share (nom. DKK 20), DKK	135.5	127.6	135.5	127.0	113.5	114.0	127.6
Book value per share (nom. DKK 20), DKK	198	179	198	195	185	179	179
Other							
Number of full-time employees, end of period	415	459	415	416	464	477	459

BankNordik delivered on strategy in 2016

I am pleased to report that 2016 was another year of progress and improvement for BankNordik in our efforts to shape a more costumer-friendly and effective financial institution. Our financial performance was in line with our guidance and we successfully executed on our strategy to create a simpler business model by refocusing BankNordik.

Successful strategic executions
The strategy we announced in 2015 to refocus our business activities was successfully completed in 2016. In September, BankNordik reached an important milestone by completing the sale of insurance company Vørður, recognising a gain on the sale of DKK 84m, while the winding up of the corporate loan portfolio in Denmark was nearing completion by year-end. In addition, we consolidated our branch network in Jutland from six to four banking centres and closed the branch support unit in Copenhagen, relocating its functions to the Faroe Islands. The latter means that all of the Group's back-office operations are now run from the Faroe Islands, which has led to increased operational efficiency.

Satisfactory financial results
The challenging economic environment, characterised by weak growth in lending and interest margins under pressure, persisted in 2016. The Bank's corporate lending volume declined notably due to the winding up of our corporate activities in Denmark, whereas personal lending remained flat for the year. This had a material impact on operating income and costs, which fell in line with the winding up of corporate loans in Denmark. Impairment charges, nonetheless, were lower than in the previous year and contributed to maintaining operating profit at close to last year's level – quite a satisfactory accomplishment considering the controlled run-off of corporate loans.

Accelerated focus on the personal banking market
Accompanying the execution of the abovementioned strategic initiatives, BankNordik undertook a series of customer-oriented initiatives in 2016 to address the challenge of technological transformation and the changes in the way our customers interact with us. We acknowledge that the acquisition of branches in 2010 – 2011 and the subsequent strategic adjustments, including customer segmentation and branch consolidation, has taken its toll on our personal customer satisfaction rates in Denmark. That is why we are working hard to improve the customer experience, especially in Denmark. Some of the initiatives implemented in 2016 to address this challenge include considerable investment in employee development, increased digital capabilities, and the recent launch of a new youth program to better serve our younger customers and nurture long-term customer loyalty. Accessibility was also upscaled by means of new communication channels and enhanced customer service outside of normal opening hours. We believe these initiatives will strengthen the Group's position within its core business areas, in particular the personal banking market.

Strengthened capital position
The Group's capital position was strengthened considerably in 2016, in particular by the sale of Vørður and the winding up of the corporate activities in Denmark. A large part of the capital improvements related to these strategic adjustments will be proposed paid out as extraordinary dividends in the amount of DKK 240m, in addition to ordinary dividends of DKK 60m. Even with the upcoming dividend payments, the Group's core capital ratio still increased by 2.1 percentage points year-on-year to 16.0% at the end of 2016, driven by our regular business operations. Going forward, we will continuously assess the Group's capital structure as we monitor the regulatory landscape to anticipate and adapt to impending capital requirements.

Expectations for 2017
In 2017, we will continue on the path of building a focused, customer-oriented, and low risk Nordic bank with a strong foothold in the North Atlantic. We are now directing all our efforts towards creating a better customer experience, facilitating growth, and improving operational efficiency in order to bring us closer to our target of a 10% return on shareholders' equity and a cost/income ratio of 62% by 2020.

BankNordik enters 2017 as a more focused financial institution that is well capitalised and highly liquid. We are in a position of strength given our low-risk approach, focused activities, and market positioning, which makes us confident about our ability to generate sustainable value for our shareholders and our customers. I, along with my talented and hardwoking colleagues, look forward to an exciting year ahead.

Árni Ellefsen
Chief Executive Officer

Financial Review

Income statement, Group

DKKm	2016	2015	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net interest income	413	469	100	103	98	113	111	116	122	120
Net fees, commission income & dividends	192	226	51	46	50	44	52	52	67	55
Net insurance income	27	28	-7	12	12	9	8	10	10	-0
Other operating income (less reclassification)	9	11	2	2	3	2	4	2	3	2
Operating income	**640**	**734**	**146**	**163**	**163**	**168**	**175**	**180**	**203**	**176**
Operating costs*	-459	-499	-114	-113	-115	-117	-122	-122	-128	-127
Sector costs	-2	-21	1	-1	-1	-1	-5	-5	-6	-5
Profit before impairment charges	**179**	**214**	**33**	**49**	**47**	**49**	**47**	**54**	**69**	**43**
Impairment charges	-18	-60	-10	4	-10	-3	-26	-12	0	-22
Reversals of acquired OEI impairments (Reclassified from Other operating income)	30	40	15	-1	14	3	15	18	5	2
Impairment charges, net	12	-20	4	4	3	1	-11	7	5	-20
Operating profit	**191**	**194**	**38**	**53**	**50**	**50**	**36**	**60**	**74**	**23**
Impairment charges, intangible assets	0	-468	0	0	0	0	-468	0	0	0
Non-recurring items (Reclassified from Staff costs and administrative expences)	-12	-54	0	0	0	-12	-29	-11	-14	0
Profit before value adjustments and tax	**179**	**-328**	**38**	**53**	**50**	**38**	**-461**	**49**	**60**	**23**
Market value adjustments**	8	-41	-10	12	9	-3	-4	-20	-50	34
Profit before tax, continuing operations	**187**	**-369**	**28**	**64**	**60**	**35**	**-465**	**29**	**10**	**57**
Profit before tax, discontinued operations (Vörður)	**90**	**37**	**0**	**99**	**1**	**-10**	**18**	**13**	**2**	**4**
Profit before tax, total	**277**	**-332**	**28**	**164**	**61**	**25**	**-447**	**42**	**12**	**61**
Operating cost/income, %	72	68	78	69	70	70	70	67	63	72
Number of FTE, end of period	415	459	415	416	464	477	459	478	490	504

* Comprises Staff costs and administrative expences and Amortisation, depreciation and impairment charges (less reclassification to non-recurring items)

** Incl. Net income from investments accounted for under the equity method

The BankNordik group recorded a profit before impairment charges, non-recurring costs, value adjustments and tax of DKK 179m for 2016, a decline of 35m compared to 2015 (DKK 214m). The profit was consistent with both the original full-year guidance of DKK 150–190m and the revised guidance of DKK 165–180m. Net interest income was down by DKK 56m year-on-year primarily due to the controlled unwinding of corporate lending in Denmark but also due to pressure on interest margins and the lower investment portfolio income.

Profit before tax amounted to DKK 277m. The sale of Vørður, the group's Icelandic insurance company, which was completed in Q3 2016, contributed DKK 84m. On the other hand, the insurance business in the Faroe Islands was negatively affected by major storms in December 2016 resulting in extraordinary claims of approximately DKK 20m.

Loans and advances were DKK 9,141m in 2016 compared to DKK 10,675m in 2015. The decline was mainly due to the controlled unwinding of corporate lending in Denmark. Loans and advances in the Faroese market remained flat.

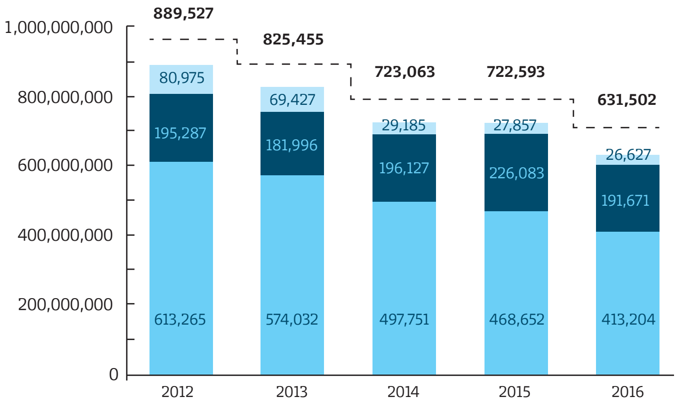
The following comments relate to the adjusted figures and are generally stated relative to 2015.

Income statement

Vørður was classified as assets held for sale in 2015 as a result of the sale to Arion Banki, which was completed in 2016 . Vørður's activities are presented as a single-line item. See note 16 for further information.

Operating income

Net interest income amounted to DKK 413m in 2016 compared to DKK 469m in 2015. The unwinding of the corporate activities in Denmark and the continuing pressure on interest margins is the main reason for the reduction in net interest income. Net fee and commission income and dividends decreased by DKK 34m, from DKK 226m in 2015 to DKK 192m in 2016. Fee and commission income and dividends from corporate operations in Denmark was reduced, which was consistent with the controlled run-off, remortgaging activity has normalised following the high level of activity in 2015 and income from asset management has been reduced. Net insurance income declined slightly due to extraordinary harsh weather conditions in the Faroe Islands in December 2016.



Net insurance income

Net fee and commision income and dividends

Net interest income

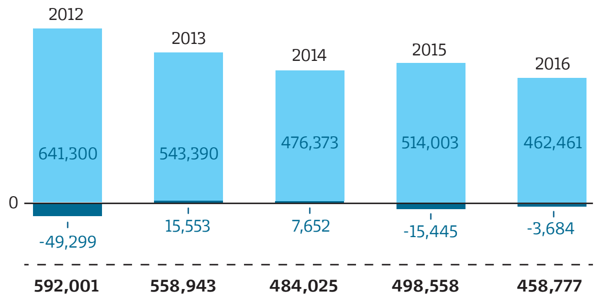
(See also Income Statement, Page 32)

Operating costs

Operating costs decreased to DKK 459m in 2016 from DKK 499m in 2015. The decrease is a reflection of the strategic initiatives taken to streamline processes and refocus the organisation. The Group has reduced its employee headcount (FTE) from 459 in 2015 to 415 at year-end 2016. Staff costs and administrative expenses amounted to DKK 462m in 2016, a reduction of DKK 52m compared to 2015 (DKK 514m). This is in line with the Group's strategy to increase operational efficiency

Operating costs

(DKK 1,000)



Staff cost & administration expenses

Other (Non-recurring items, Depreciations, Other operating expenses, Sector Costs)

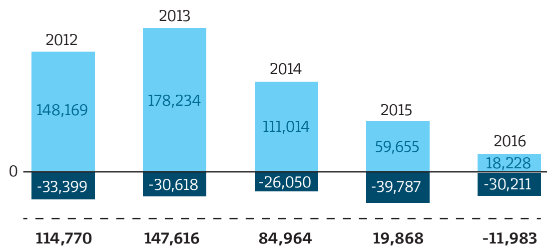
(See also Income Statement, Page 32)

Net impairment charges

Net impairment charges amounted to a reversal of DKK 12m in 2016 relative to a charge of DKK 20m in 2015. Net impairment charges remained at a low level, reflecting the current low level of impairment charges in the market and the Bank's conservative portfolio. The private sector accounts for 63% of the loan portfolio, compared to 55% in 2015, as the unwinding of

Impairments

(DKK 1,000)



Impairment charges

Reversals of acquired OEI impairments

(See also Income Statement, Page 32)

the Danish corporate portfolio is nearing completion. The corporate portfolio is well-diversified, with no single sector accounting for more than 10% of the total loan portfolio. In addition, BankNordik provides 1st lien mortgage loans to the private sector in the Faroe Islands.

Operating profit

Operating profit was DKK 191m in 2016 compared to DKK 194m in 2015. The decrease was a combination of a decrease in operating income, the decrease in the operating costs and by a decrease in net impairment charges.

Non-recurring costs

Non-recurring items were an income of DKK 12m in 2016, compared to an expense of DKK 54m in 2015. The costs in 2016 amounting DKK 12m relate to severance costs recognized in Q1.

Market value adjustments

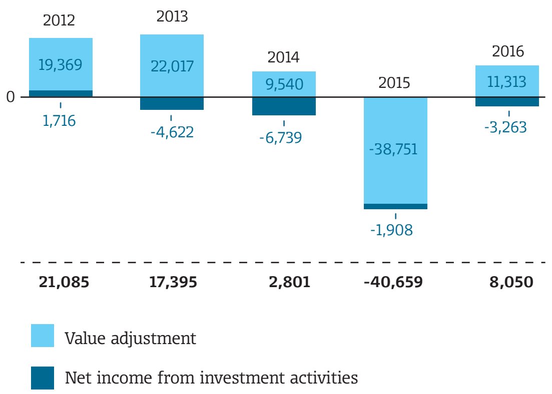
Market value adjustments amounted to DKK 11m in 2016 compared to an expense of DKK 39m in 2015. Net investment activities were a loss of DKK 3m. The value adjustments are a reflection of the financial market developments.

Discontinued operations

On 30 September 2016, BankNordik completed the sale of all shares in Vørður to Arion Banki. The proceeds before transaction costs were DKK 300m. However, transaction costs amounted to DKK 45m and were mainly related to fees imposed by the Icelandic government under its restrictive rules on capital movements and foreign exchange transactions. Accordingly, a capital gain before tax of DKK 84m has been recognised in the income statement under the item discontinued operations. The capital gain after tax was 67m. The capital gain included an amount equal to DKK 23m linked to favourable currency fluctuations during the period of ownership, which was previously recognised under the foreign currency translation reserve.

Market Value Adjustments

(DKK 1,000)



(See also Income Statement, Page 32)

Profit before tax

Profit before tax was DKK 277m in 2016 compared to a loss of DKK 332m in 2015 (Profit before tax in 2015 was affected by goodwill impairments amounting to DKK 468m). The 2016 profit was partly due to the sale of Vørður, which produced a profit of DKK 84m. The decline in operating income was partially offset by lower operating costs and partially by lower loan losses.

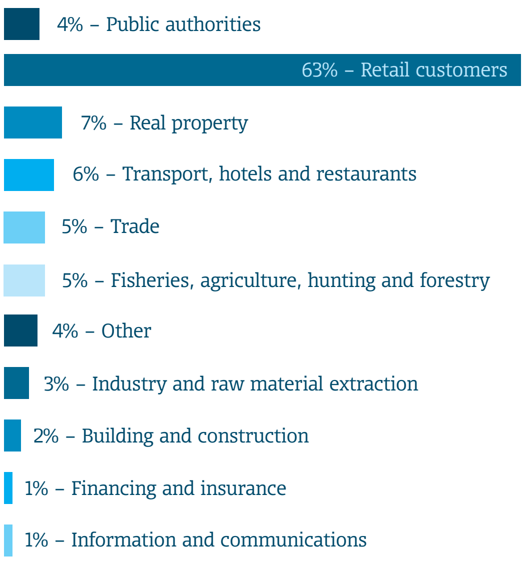
Balance sheet

Lending

Loans and advances amounted to DKK 9,141m in 2016 compared to DKK 10,675m in 2015. The decrease was related to the controlled unwinding of the Danish corporate portfolio, 85% of which has now been successfully run off.

The loans and advances portfolio is well diversified. As shown in the figure below, no single corporate sector represents more than 10% of the total portfolio, which in line with the Group's policy.

Loan and advances specified by sectors

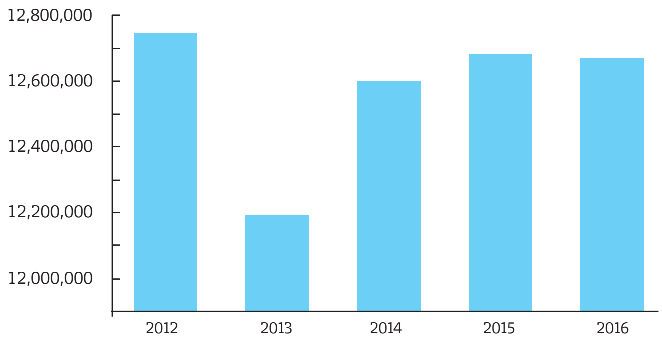


Deposits

Total deposits amounted to DKK 12,669m at the end of 2016, a slight increase of 0.1% from DKK 12,680 in 2015. Deposits have been fairly stable during the past 5 years.

Deposits

(DKK 1,000)



Capital and solvency

BankNordik's total capital was DKK 1,789m at 31 December 2016 compared to 1,921m at 31 December 2015, a decrease of DKK 133m. The core capital was DKK 1,566m at 31 December 2016, a 126m decrease from DKK 1,692m at 31 December 2015. In addition to ordinary dividends of DKK 60m, the Board will propose extraordinary dividends of DKK 240m at the upcoming annual general meeting, relating to the sale of Vørður and the controlled winding up of corporate activities in Denmark. On 24 June 2016, BankNordik redeemed its outstanding bonds in the amount of DKK 450m and issued new subordinated capital in the amount of DKK 225m.

The Group's solvency requirement was 8.8% at year-end 2016, unchanged from 31 December 2015. The Group's solvency was 18.3% in 2016 compared to 16.8% in 2015. The CET1 ratio was 16.0% compared to 13.9% in 2015. The Total capital comprises subordinated debt amounting DKK 26.4m (0.3 percentage points) not allowed to be included in the solvency surplus. Therefore the Bank's solvency surplus at the end of 2016 was 9.2% compared to 7.9% in 2015.

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 2016 of 241.7% above the required level compared to 166.8% at the beginning of the year.

The LCR requirements are demanding liquidity buffer of 100%. At the end of 2016 the banks liquidity coverage ratio (LCR) was 257% compared to 141% in 2015.

Financial Results for Q4

Profit before tax amounted to DKK 28m compared to a profit of DKK 164m in Q3 2016. The extraordinary insurance claims of 20m had a negative effect on the Q4 results, while the sale of Vørður contributed DKK 84m to the Q3 profit.

Operating income

Net interest income in Q4 was DKK 100m, a slight decrease from DKK 103m in Q3. Net fee and commission income was DKK 51m in Q4 compared to DKK 46m in Q3. Insurance activities produced a net loss of DKK 7m in Q4 compared to an income of DKK 12m in Q3 2016, the aforementioned extraordinary claims adversely affecting insurance income by DKK 20m.

Operating costs

Operating costs amounted to DKK 114m in Q4 compared to DKK 113m in Q3, a decrease of DKK 8m compared to Q4 2015 (DKK 122m), which was in line with the cost-efficiency strategy.

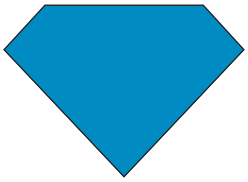
The Supervisory Diamond

Sum of large exposures < 125%

2016	2015
44.3%	65.0%

Loan growth < 20%

2016	2015
-14.4%	1.8%



Funding-ratio < 1.0

2016	2015
0.61	0.70

Property exposure < 25%

2016	2015
7.7%	7.9%

Excess liquidity > 50%

2016	2015
241.7%	166.8%

Lending

At the end of Q4 2016, loans and advances amounted to DKK 9,141m compared to DKK 9,372m in Q3, a decrease of DKK 231m, which can be linked to individual corporate loans in the Faroe Islands and the run-off of the Danish corporate portfolio.

Net impairment charges

Net reversals of DKK 4m were recognised in the fourth quarter, the same as in Q3 2016. This was a DKK 15m improvement on Q4 2015 (DKK 11m in net impairments).

Deposits

Deposits fell by DKK 136m to DKK 12,669m in Q4 from DKK 12,805m in Q3. The decrease was to some extent linked to the repayment of loans but also to seasonal factors.

Other

Obligations towards the Danish Resolution Fund

Contributions to the Depositor and Investor Guarantee Scheme were replaced by expected contributions to the Danish Resolution Fund that have been recognized, but not yet paid due to a delay in the implementation of the BRRD regulative in the Faroe Islands. These sector-related costs are recognised under other operating expenses and amounted to DKK 2m in 2016 compared to DKK 20m in 2015.

Supervisory Diamond

The Supervisory Diamond is used to measure a bank's risk profile. The model identifies five areas that if not within certain limits are considered to be indicators of increased risk. As shown in the figure, the Bank meets by a wide margin all areas (large exposures, exposures towards property, excess liquidity, stable funding and lending growth). The sum of large exposures decreased from 65% to 44.3%. This is well below the limit of 125%. All large exposures are of good quality. Excess liquidity was 241.7% at year-end; the requirement is a margin of 100%.

Share buy-back programme

On 30 May 2016, the Group initiated a share buy-back programme. The program ran until year-end 2016, when the Group had accumulated a total of 144,264 shares, amounting to a transaction value of DKK 18m.

Dividends proposed

BankNordik has previously anticipated extraordinary dividends in the amount of DKK 300m related to the Group's strategic adjustments in 2016. However, in light of the preliminary considerations recently published by the Danish FSA regarding the upcoming MREL-rules, this amount has been reduced to DKK 240m as a means to retain earnings in preparation for stronger capital requirements in the future, in particular due to BankNordik's designation as a SIFI-institute.

Hence, at the upcoming Annual General Meeting, to be held on 31 March 2017, the Board will propose a total dividend payment of DKK 300m for 2016 (DKK 30 per share). The amount includes ordinary dividends of DKK 60m driven by regular business operations and extraordinary dividends of DKK 240m related to the sale of Vørður and the controlled run-off of corporate loans in Denmark.

In spite of proposing a total dividend payment of DKK 300m, the Group's CET1 capital ratio still increased by 2.1 percentage points year-on-year to 16.0% on 31 December 2016.

Total capital ratio was 18.3% relative to the Bank's capital requirement of 8.8%.

Going forward, BankNordik will continuously monitor the regulatory landscape to anticipate and adapt to impending capital requirements. As such, the Group is likely to re-evaluate its dividend policy and capital ratio targets once the require-ments related to the MREL will be known.

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

Outlook

In 2017, BankNordik expects a modest increase in private and corporate lending volumes, while the pressure on margins is expected to flatten out after a few years of tightening. Fee and commission income is also expected to increase modestly in 2017, while income from the investment portfolio is expected to be close to the 2016 level. Likewise, operating costs are expected to stay flat compared to 2016.

The BankNordik Group projects profit before impairment charges, value adjustments and tax to be in the range of DKK 150–190m in 2017 (2016: DKK 177m).

Impairment charges on loans and advances, including reversal of acquired OEI impairments, are estimated to be less than DKK 20m in 2017 (2016: reversal of DKK 12m).

Management review

A milestone year for BankNordik

BankNordik completed its remaining strategic initiatives in 2016 and accelerated the planned action steps for the personal customer segment. In comparison to last year, BankNordik is now a stronger and simpler financial institution, entering 2017 with a clear strategy of dealing with future economic conditions and achieving its long-term financial objectives.

Strategy

BankNordik's strategic priorities are to continuously improve the customer experience, become more efficient, and deliver sustainable value to our shareholders. In 2016, BankNordik concentrated its skills and expertise at fewer locations, upsized the personal customer business in all three countries, applied more stringent customer segmentation, and increased accessibility. A new youth concept was introduced to specifically target younger people between the ages of 18 and 28 for the purpose of providing tailored solutions and building customer loyalty from an early age. In addition, the Bank's presence in social media was strengthened in 2016 to better engage with our customers.

In 2017, BankNordik will step up efforts to improve customer satisfaction and deliver great customer experiences across all segments and branches. In this regard, the Bank is planning to survey its customers in order to gain critical insights into how BankNordik is perceived, receive direct feedback from customers, and track our customer satisfaction performance. These measures will allow BankNordik to address areas of possible subpar performance. Other initiatives in the pipeline for 2017 include the automation of advisors' internal processes and the development of an improved data-driven credit score system.

Measures such as these will not by themselves bring BankNordik to the finish line, but they are a step in the right direction. Add to this our relentless commitment to building a simple and focused business model that places our customers at the core, and the Group's long-term financial objectives will be within reach. These are BankNordik's key priorities in the efforts to gain a competitive advantage in a business landscape that is currently being reshaped by digital transformation and the pace of change in customer behaviour.

Challenging economic environment

While BankNordik operates in three seemingly interrelated economies, their drivers of growth are notably different from one another. Lending volumes, however, were continuously challenged throughout BankNordik's geographical exposure in 2016 due to muted demand for loans and borrowers' high propensity to amortise.

The Faroese economy has experienced significant growth since the financial crisis, fuelled by pelagic fisheries and salmon farming. However, this upturn has not played to the advantage of the banking sector in terms of increased domestic lending. One probable reason is the relatively high degree of self-funding in the prosperous parts of the resource sectors as well as the capacity of these firms to draw financing from foreign creditors.. Another reason is undoubtedly the pending fisheries reform that will take effect in 2018, which determines the method of allocating fishing rights. Political divisions have so far hindered an agreement and caused uncertainty in the fishing industry. As a result, firms have been cautious to invest, waiting for details on the upcoming reform.

BankNordik expects investment activity in the fishing industry to pick up when firms learn more about the reform.

All the same, positive elements are being observed in the Faroese tourism industry. Strong marketing campaigns have increased awareness of the Faroe Islands and people are increasingly looking for adventurous travel destinations. The annual number of visitors is growing at a steady rate and BankNordik expects growing activity in this segment in the future.

In Denmark, the economy saw another year of weak growth and flat lending volumes. Housing prices have gone up in recent years, contributing to an increase in private consumption, but growth in mortgage lending is relatively modest and bank lending is flat. Despite unfavourable market conditions, BankNordik has set its sight on growing the personal business segment in Denmark by acquiring market share. In addition to being amongst the most competitive in the market, at BankNordik, we are committed to improving customer care and satisfaction in our efforts to attract new customers.

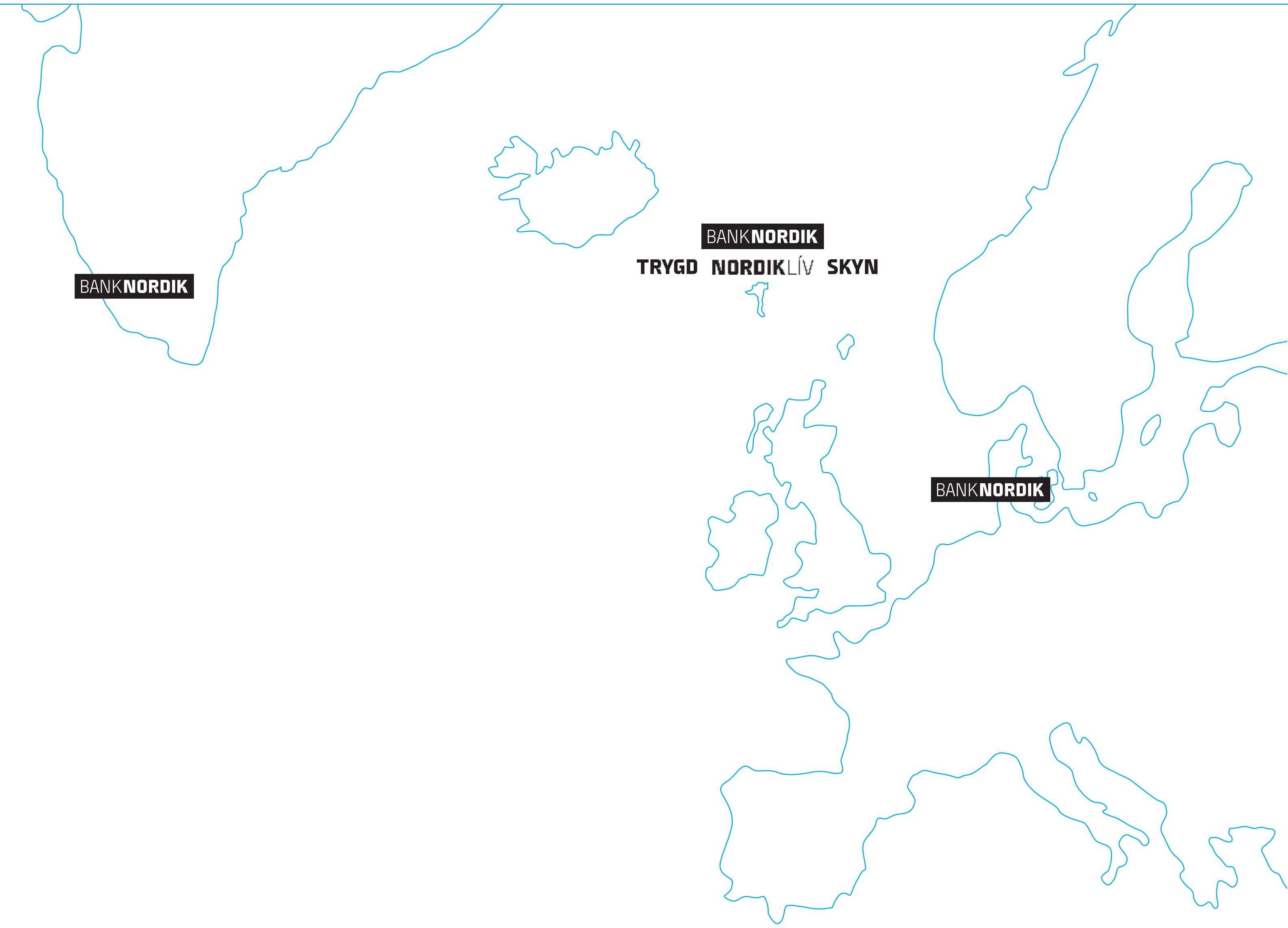
After years of zero to negative growth in Greenland, the economy is estimated to grow by 4 – 5% in 2016, due to the larger shrimp catches and favourable fish prices. Although beneficial, this expansion cannot be interpreted as a decisive and sustainable turn for the economy. Greenland faces structural challenges that hinder economic growth and some of the previous expectations for the tourism and mining industries have not been realised. Developments in the mining industry depend on mineral prices, which have been in a downward trend since 2012, although a reversal in prices could spark renewed interest from mining businesses. Likewise, the tourism industry was affected by the financial crisis and the recovery has been slow but not insignificant. Vast geographical distances remain an impediment because it makes travel difficult and expensive. In Greenland, BankNordik is effectively operating in a duopoly market, offering Greenlanders an alternative full-service banking connection. The size of the market is limited, but it is an attractive case for BankNordik.

Low-risk loan portfolio Impairment charges on loans have fallen in recent years as household and businesses have consolidated their balance sheet. This is true not only for BankNordik but for the industry as a whole. Still, BankNordik has placed great emphasis on maintaining its credit policy standards during this period. The loan portfolio is well diversified and exposure towards historically riskier industries such as fisheries, agriculture and commercial real estate is relatively limited. Additionally, risk has been further reduced by the reduction of corporate lending to make up only one-third of the total volume. Hence, there is reason to believe BankNordik will be able to sustain relatively low impairment charges in 2017.

Conclusion

BankNordik plans to reach its target return on shareholders' equity of 10% (2016: 8.1%, excl. Vørður) and a cost/income ratio of 62% (2016: 72%) by 2020 through a combination of top-line growth and improved operational efficiency. Accordingly, a series of strategic and operational initiatives have been, and are currently being, implemented to create a simple and effective financial institution that offers competitive pricing and is able to deliver great value to customers. BankNordik's positioning in the North Atlantic is unlike that of its peers and provides beneficial exposure to a set of different drivers of economic growth. This North Atlantic branch network is being effectively supported by a single strong and consolidated back-office setup in the Faroe Islands. Moreover, the Group's low-risk portfolio-characterised by strong credit quality and a relatively large allocation to personal lending – will likely deliver stable returns in the future. These conditions form the groundwork for BankNordik's commitment to create sustainable value for our shareholders and reach its long-term financial objectives.

Segments



Personal Banking	2016	2015
Loans and advances	DKK 6.0bn	DKK 6.0bn
Deposits	DKK 9.5bn	DKK 9.5 bn
Cost/Income (Operating cost/income)	38%	35%
Operating profit	DKK 296m	DKK 303m

Corporate Banking	2016	2015
Loans and advances	DKK 3.2bn	DKK 4.9bn
Deposits	DKK 3.2bn	DKK 3.2bn
Cost/Income (Operating cost/income)	10%	15%
Operating profit	DKK 140m	DKK 187m

Trygd	2016	2015
Premium, net of reinsurance	DKK 85m	DKK 82m
Combined ratio	101%	90%
Claims Ratio	75%	65%
Profit before tax	DKK 0m	DKK 8m

Banking

Income statement, Banking										
DKKm	**2016**	**2015**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**
Net interest income	412	467	99	103	97	112	111	116	122	119
Net fees, commission income & dividends	201	226	55	48	52	46	52	52	67	55
Other operating income	4	4	1	1	2	1	2	1	2	0
Operating income	**617**	**698**	**155**	**151**	**151**	**159**	**164**	**168**	**190**	**174**
Operating cost	-439	-475	-108	-108	-110	-113	-115	-115	-123	-122
Sector costs	-2	-21	1	-1	-1	-1	-5	-5	-6	-5
Profit before impairment charges	**176**	**201**	**49**	**42**	**40**	**45**	**44**	**48**	**62**	**47**
Impairment charges, net	12	-20	4	4	3	1	-11	7	5	-20
Operating profit	**188**	**181**	**53**	**46**	**43**	**45**	**33**	**55**	**67**	**26**
Impairment charges, intangible assets	0	-468	0	0	0	0	-468	0	0	0
Non-recurring items	-12	-54	0	0	0	-12	-29	-11	-14	0
Profit before value adjustments and tax	**175**	**-341**	**53**	**46**	**43**	**33**	**-464**	**44**	**53**	**26**
Market value adjustments	12	-37	-9	12	12	-3	-5	-19	-47	34
Profit before tax	**187**	**-378**	**44**	**58**	**55**	**30**	**-469**	**24**	**6**	**61**
Loans and advances	9,141	10,675	9,141	9,372	9,395	9,961	10,675	10,669	10,680	10,630
Deposits and other debt	12,691	12,739	12,691	12,829	13,006	12,589	12,739	12,829	12,935	12,411
Operating cost/income, %	71	68	69	71	73	71	70	68	64	70
Number of FTE, end of period	385	363	385	386	370	381	363	383	389	411

The financial year of 2016 was to a large extent affected by the winding up of DKK 1.5bn in corporate loans and advances in Denmark. Operating income and costs from banking operations came in notably lower compared to last year as corporate loans in Denmark were wound up. However, net interest income was also negatively affected by a continuous pressure on interest margins in 2016 and lower income from the investment portfolio due to a risk-off positioning compared to 2015. Likewise, net fees and commission income and dividends were affected by lower asset management activity and a pull-back in income from mortgage broking compared to last years' high remortgaging activity. Operating costs fell by 8% in 2016, which is in line with the refocusing of BankNordik's core activities. Sector costs also came down in 2016, as payments to the deposit guarantee scheme were replaced by lower payments to the Danish Resolution Fund. Altogether, operating income and costs from banking operations were in line with expectations, as BankNordik refocused its core business activities in 2016.

In contrast, the Group experienced remarkably low impairment charges in 2016. Compared to net charges of DKK 20m last year, the Group reversed impairment charges of DKK 12m in 2016. As such, operating profit from banking operations was DKK 188m in 2016, a DKK 7m improvement compared to last year. Value adjustments related to banking operations amounted to a gain of DKK 12m against a loss of DKK 37m in 2016.

Personal Banking

Income statement, Personal banking										
DKKm	**2016**	**2015**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**
Net interest income	276	305	67	70	68	70	76	81	75	73
Net fees, commission income & dividends	170	186	51	44	38	37	48	38	55	44
Other operating income	3	1	1	1	0	0	1	1	-1	0
Operating income	**449**	**492**	**119**	**115**	**107**	**108**	**125**	**120**	**128**	**118**
Operating cost	-170	-173	-45	-42	-45	-38	-40	-45	-44	-44
Sector costs	-2	-16	1	-1	-1	-1	-4	-3	-4	-4
Profit before impairment charges	**277**	**303**	**75**	**72**	**61**	**69**	**82**	**72**	**79**	**70**
Impairment charges, net	18	0	-2	8	12	1	-5	2	7	-4
Operating profit	**296**	**303**	**73**	**80**	**73**	**70**	**76**	**74**	**86**	**67**
Non-recurring items	**-2**	**-11**	**0**	**0**	**0**	**-2**	**-7**	**0**	**-4**	**0**
Profit before value adjustments and tax	**294**	**291**	**73**	**80**	**73**	**68**	**69**	**74**	**82**	**67**
Profit before tax	**294**	**291**	**73**	**80**	**73**	**68**	**69**	**74**	**82**	**67**
Loans and advances	5,960	5,961	5,960	5,852	5,716	5,766	5,961	5,984	5,943	5,898
Deposits and other debt	9,538	9,534	9,538	9,722	9,742	9,382	9,534	9,441	9,691	9,140
Operating cost/income, %	38	35	38	34	44	36	32	37	35	37
Number of FTE, end of period	202	203	202	206	203	196	203	203	146	133

BankNordik's personal lending volumes decreased in the first half of 2016 but picked up again in the second half, ending the year flat relative to 2015. Contributing to this pattern was the consolidation of branches in Jutland in early 2016, which had a negative impact on the personal lending portfolio, as well as the winding up of corporate activities in Denmark due to an affiliation between some of the Private Banking customers and corporate customers. In addition, interest margins were further squeezed in 2016. The result was a decrease in net interest income of DKK 29m to DKK 276m in 2016 compared to 2015.

Last year's (2015) interest rate environment caused a spike in customer remortgaging activity, which added to BankNordik's fee and commission income and dividends. In 2016, mortgage-broking activity pulled back to normal levels, reducing fee and commission income and dividends relative to the year before. Similarly, asset management activity pulled back in 2016 compared to 2015.

Operating costs were reduced by 2% in 2016, while sector costs fell significantly due to a change in contribution from the deposit guarantee scheme to the resolution fund. Impairment charges were a reversal of DKK 18m in 2016 compared to none last year. As a result, operating profit decreased 2% to DKK 296m in 2016 from DKK 303m in 2015.

In 2017, focus will be on delivering a greater customer experience and improving customer satisfaction. BankNordik expects moderate growth in income from the personal banking segment.

Corporate Banking

Income statement, Corporate Banking										
DKKm	**2016**	**2015**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**
Net interest income	148	196	32	34	36	45	47	53	49	47
Net fees, commission income & dividends	17	20	5	4	4	4	4	6	5	5
Operating income	**164**	**216**	**38**	**38**	**40**	**49**	**51**	**59**	**54**	**52**
Operating cost	-17	-33	-4	-3	-4	-6	-8	-8	-9	-8
Sector costs	0	-5	0	0	0	0	-1	-2	-1	-1
Profit before impairment charges	**147**	**178**	**34**	**35**	**36**	**42**	**42**	**50**	**44**	**42**
Impairment charges, net	-6	8	6	-2	-11	1	16	9	-5	-11
Operating profit	**140**	**187**	**40**	**32**	**24**	**43**	**58**	**58**	**39**	**31**
Profit before value adjustments and tax	**140**	**187**	**40**	**32**	**24**	**43**	**58**	**58**	**39**	**31**
Profit before tax	**140**	**187**	**40**	**32**	**24**	**43**	**58**	**58**	**39**	**31**
Loans and advances	3,181	4,924	3,181	3,520	3,678	4,195	4,924	4,685	4,743	4,714
Deposits and other debt	3,153	3,170	3,153	3,107	3,264	3,207	3,170	3,388	3,244	3,271
Operating cost/income, %	10	15	10	8	10	13	17	13	16	16
Number of FTE, end of period	18	29	18	18	22	21	29	29	29	33

The Group's corporate banking activities in Denmark were wound-up in 2016 and lending volumes fell accordingly. Additionally, a few large corporate loans in the Faroe Islands were also settled in 2016, reducing the lending volume by an additional DKK 290m. These factors, combined with pressured interest margins, contributed to a DKK 48m decrease in net interest income in 2016 compared with 2015. Similarly, fee and commission income and dividends fell by DKK 3m to DKK 17m in 2016, while operating costs were halved compared to 2015. Net impairment charges amounted to DKK 6 in 2016, up DKK 14m compared to a net reversal of DKK 8m in 2015. The combined effect of these changes were an operating profit of DKK 140m in 2016, down by DKK 47m relative to 2015.

Going forward, BankNordik is committed to develop its corporate activities in the Faroe Islands and Greenland. Increased lending volumes are expected in 2017 through increased demand in the Faroe Islands and by taking market share in Greenland.

Insurance

Income statement, Trygd										
DKKm	**2016**	**2015**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**
Premium income, net of reinsurance	85	82	21	22	21	21	20	21	21	20
Claims, net of reinsurance	-64	-54	-30	-12	-10	-12	-12	-11	-11	-20
Net insurance income	**22**	**29**	**-8**	**9**	**12**	**9**	**8**	**10**	**10**	**0**
Net income from investment activities	1	0	0	0	1	0	0	0	-1	0
Operating income	**22**	**29**	**-8**	**9**	**12**	**9**	**8**	**10**	**10**	**1**
Operating cost	-22	-21	-6	-6	-5	-5	-5	-6	-5	-5
Profit before tax	**0**	**8**	**-15**	**4**	**7**	**4**	**3**	**4**	**5**	**-4**
Combined ratio	101	90	168	77	64	75	88	79	73	123
Claims ratio	75	65	139	57	46	57	61	51	51	99
Number of FTE, end of period	24	25	24	24	23	25	25	25	25	25

During the final quarter of 2016, Trygd experienced extraordinarily high claims that were mostly related to harsh weather conditions in the Faroe Islands during the Christmas period. As such, claims amounted to DKK 66m in 2016, up from DKK 54m in 2015.

Nevertheless, Trygd's underlying performance improved in 2016. Net premium income was up by DKK 3m in 2016 due to an inflow of customers as well as an increase in policies from existing customers, while operating costs increased by DKK 1m.

Although competition has toughened in the Faroese insurance market, Trygd has steadily gained market share in recent years. In particular, the Nordik360 loyalty programme has facilitated cross-selling by providing incentives for customers to gather their insurances with Trygd.

Trygd expects to continue to attract new customers and to grow premium income in 2017. No dividends will be paid to BankNordik for the year 2016.

Other activities

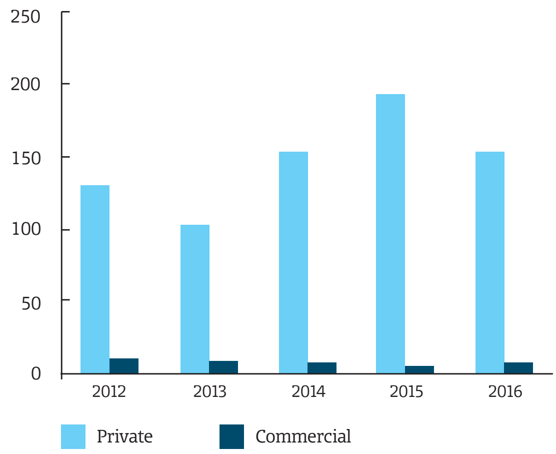
Skyn

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

There are two large competitors in the market, Skyn and Inni, and competition is fierce. Total transactions in 2016, as registered by real estate agencies, was 162 in 2016, a decrease of 37 compared to 2015. It is estimated that approximately half of all transactions take place without the involvement of brokers.

Skyn had a turnover of DKK 6.3m in 2016, a decrease of 1.3m compared to 2015 (DKK 7.9m) which was a record year in terms of transactions. The profit before tax in 2016 was DKK 1.7m, compared to DKK 3.3m in 2015.

Number of real estate transactions



NordikLív

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

NordikLív issues regular life, disability and critical illness insurance cover in the Faroese market and in 2016 the total premiums amounted to DKK 10.8m. The profit before tax was DKK 0.5m.

Shareholders

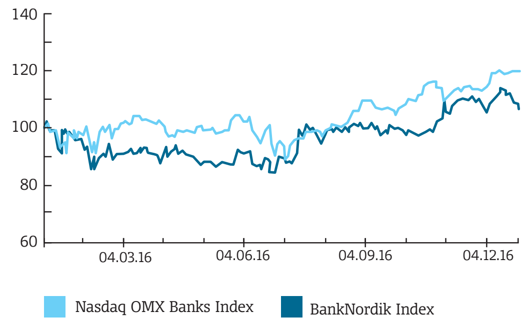
BankNordik share performance

The closing price of BankNordik's shares at 30 December 2016 on Nasdaq Copenhagen was DKK 135,5 compared to a closing price of DKK 127,5 at 30 December 2015. This is a 6% increase compared to a 9% increase for the Copenhagen Bank index.

The turnover in BankNordik's shares on Nasdaq Copenhagen was DKK 114m in 2016 compared to 199m in 2015. Turnover on Nasdaq Iceland was 11m in 2016 compared to 23m in 2015.

BankNordik removed its shares from trading on Nasdaq Iceland in February 2017. This decision was made in light of a continued listing on Nasdaq Copenhagen, and was primarily motivated by the relatively low trading volume of the BankNordik share on Nasdaq Iceland, and the discontinuation of the BankNordik Group's permanent business activities in Iceland. Developments in the BankNordik share and the Nasdaq Copenhagen Banks on Nasdaq Copenhagen in 2015:

BankNordik share vs. Copenhagen Bank Index



Shareholder structure

At the time of publication of the Annual Report 2016, the following shareholders had notified the relevant authorities that they held 5% or more of the Bank's shares:

- Fíggingargrunnurin frá 1992 (Faroese Government), Tórshavn, holds 33% of the shares
- Lind Invest, Aarhus, holds 10% of the shares

The majority of shareholders are based in the Faroe Islands.

Country	% of nominal shareholdings
Faroe Islands	52
Denmark	23
Iceland	11
Luxembourg	5
Others	10
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 2016, BankNordik held 2.8% of the share capital.

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

Organisation and management

Corporate governance at BankNordik

The overall aim of BankNordik's corporate governance policy is to ensure responsible corporate management and to safeguard the interests of the Bank's shareholders, customers and employees. Strong corporate governance is about having clear and systemic decision-making processes, thus providing clarity about responsibilities, avoiding conflicts of interest and ensuring satisfactory internal control, risk management and transparency. Commitment to BankNordik's mission and vision requires the integration of sound corporate governance with the framework under which the Bank is governed and managed.

BankNordik is a Faroese public limited company listed on the Nasdaq stock exchange in Copenhagen. Corporate governance at BankNordik follows generally adopted principles of corporate governance. The external framework that regulates corporate governance work includes the Nasdaq Copenhagen's rules, the Faroese Companies Act, the Banking and Financing Business Act, the Annual Accounts Act, the Annual Accounts Act of Credit Institutions and Securities Companies, rules issued by the relevant financial supervisory authority, and the rules and principles of the Code – Corporate Governance Recommendations. For further information regarding the Bank's compliance with the Corporate Governance Recommendations, see the Bank's Corporate Governance Report which is available on www.banknordik.com/cg

General meeting

The general meeting is the Bank's highest decision-making body. The Annual General Meeting shall be held within 3 months of the financial year-end. In 2017, the meeting will be held on the 31st of March in Tórshavn. The minutes of the meeting will be available at www.banknordik.com.

Voting rights

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

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

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

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

Board of Directors

The Board currently comprises six members, for which four have been elected by the general meeting and two by the employees. Board members elected by the shareholders at the AGM hold office until the next annual general meeting, while the statutory provisions on employee representation in Faroese legislation entitles employees to elect representatives to serve on the Board of Directors for four-year terms. The age limit for election and re-election of board members is 70 years.

The primary duty of the Bank's board of Directors is to determine the strategic framework for the Bank and its activities. The Bank places emphasis on ensuring that the Board of Directors possesses the necessary and relevant experience and qualifications to adequately fulfil its duties as a Board of Directors. Each year a performance evaluation of the members of the board takes place, including questionnaires, personal dialogue, and individual feedback from the chairman. The findings and results are then presented and discussed by the board.

Remuneration

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

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

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

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

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

Risk management

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

The Group's Risk Manager is responsible for the risk management framework and processes, including identifying; controlling and monitoring the Bank's various risks with the object to make risk assessments on both individual and aggregated level. For further information on the Bank's risk management, see the Group's Risk Management Report 2016 at www.banknordik.com/rm.

Corporate social responsibility

Corporate social responsibility remains an integral part of BankNordik's strategy and efforts to create value for all stakeholders. In addition to long-term economic value creation through responsible business conduct; through the benefits that our products bring the customer; and through our skillsets and expertise in banking, the Group aims to create social value through community involvement. It is our assertion that CSR initiatives will yield the best results if there is a natural connection between such activities and the Group's business strategy and core competences. Therefore, our initiatives are strategically rooted in the Group's vision, strategy, and values.

BankNordik reports on corporate social responsibility in the 2016 CSR Report, which has been developed in compliance with the Danish FSA's requirements on corporate responsibilities reporting. The report is available at www.banknordik.com/csr

Statement by the Management

The Board of Directors and the Executive Board (the management) have today considered and approved the annual report of P/F BankNordik for the financial year 2016.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Faroese Financial Business Act.

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, equity and financial position at 31 December 2016 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 2016. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

The management will submit the annual report to the general meeting for approval.

Tórshavn, 27 February 2017

Executive Board

Árni Ellefsen
CEO

Board of Directors

Stine Bosse Chairman	Rúni Vang Poulsen Deputy Chairman	Súsanna Poulsen
Jógvan Jespersen	Tórhallur Olsen	Kenneth M. Samuelsen

Adopted by the General meeting at / 2017

Chairman of the meeting

Internal Auditors’ Report

To the shareholders of BankNordik P/F

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group’s assets, liabilities, equity and financial position at 31 December 2016, and of the results of the Group’s operations and cash flows for the financial year 1 January—31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Faroese Financial Business Act.

Furthermore in our opinion, the Parent Company’s Financial Statements give a true and fair view of the Parent Company’s assets, liabilities, equity and financial position at 31 December 2016 and of the results of the Parent Company’s operations for the financial year 1 January to 31 December 2016 in accordance with the Faroese Financial Business Act.

Basis of opinion

We have audited BankNordik P/F’s Consolidated Financial Statements and Parent Company Financial Statements for the financial year 1 January—31 December 2016 comprising income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements, including summary of significant accounting policies for the Group as well as for the Parent Company. Collectively referred to as the “financial statements”.

We conducted our audit in accordance with International Standards on Auditing and additional requirements under Faroese audit regulation on how to plan and perform the audit.

We planned and performed the audit to obtain reasonable assurance that the Consolidated Financial Statements and the Parent Company Financial Statements are free from material misstatements. We participatet in the audit of all the material areas and risk areas.

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

Statement on Management’s Review

The management is responsible for the Management’s Review.

Our opinion on the financial statements does not cover the Management’s Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the Management’s Review and in that relation consider whether the Management’s Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or whether it otherwise appears to be materially misstated.

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

Based on the work we have performed, we believe, that the Management’s Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Faroese Financial Business Act.

We did not find any material misstatement in the Management’s Review.

Tórshavn, 27 February 2017

Arndis Poulsen
Chief Audit Executive, BankNordik

Independent auditors' report

To the shareholders of BankNordik P/F

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2016 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Faroese Financial Business Act.

Furthermore in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2016 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2016 in accordance with the Faroese Financial Business Act.

What we have audited

BankNordik P/F's Consolidated Financial Statements and Parent Company Financial Statements for the financial year 1 January to 31 December 2016 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements, including summary of significant accounting policies for the Group as well as for the Parent Company. Collectively referred to as the "financial statements".

Basis for Opinion

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

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

Independence

We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Denmark and Faroe. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How our audit addressed the Key Audit Matters
Loan impairment charges Loans are measured at amortised cost less impairment charges or at fair value. Impairment charges on loans are Management's best estimate of the losses expected to be incurred at the balance sheet date based on events that have taken place. Management individually access loans to determine whether objective evidence of impairment exists. All loans not individually charged for	We have reviewed and assessed the procedures arranged by the Group, including the involvement of the credit department and Management, established to ensure that loans with objective evidence of impairment are identified in time and that impairment charges are calculated in accordance with the accounting rules. We moreover assessed and tested the

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

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

Market conditions, for example, are positive in the Faroe Islands and, other things being equal, loans are less likely to show any objective evidence of impairment. The Group grant loans to a number of industries, and the fishing industry is very important in the Faroe Islands.

The Group changed the strategy for the activities in Denmark in 2015 and want to close down their corporate exposures in Denmark.

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

Our audit focused on the following impairments:

- The Group's procedures to ensure completeness of the registration of loans with objective evidence of impairment.

- Significant assumptions and estimates applied by Management in the calculations of impairment charges including principles of the assessment of collateral values of eg real estate and ships.

- Management's adjustments of collective impairment charges due to timing or model-related limitations.

- The Group's statement of collective impairment charges, including procedures for identification and assessment of the effect of earlier events in relation to customers who may have faced financial difficulties at the balance sheet date which have not yet materialised in payments past due or in any other objective evidence of impairment. This includes Management's assessment of the effect of current market conditions at the balance sheet date.

We refer to note 49 for a description of the Group's and the Parent Company's credit risks. We moreover refer to the description of estimates and uncertainties in note 49 in respect of the assessment of collateral.

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

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

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

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

In respect of loans registered with objective evidence of impairment, we also assessed the valuation of collateral, other future cash flows as well as the haircuts included in the calculations of impairment charges. We challenged Management's assumptions and estimates eg through comparison with external data.
We specifically discussed and tested the Group's remaining corporate loans in Denmark and whether due regard had been paid to the risk in the measurement in the impairment charges made.

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

Statement on Management's Review

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

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

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

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

Management's Responsibility for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs and the additional requirements applicable in The Faroes Islands, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Tórshavn, 27 February 2017

PRICEWATERHOUSECOOPERS
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

JANUAR P/F
Løggilt grannskodanarvirki

H.C. Krogh
State Authorised Public Accountant

Heini Thomsen
State Authorised Public Accountant

Christian Fredensborg Jakobsen
State Authorised Public Accountant

Financial statement BankNordik

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Income statement – BankNordik

Note	DKK 1,000	Group 2016	Group 2015	BankNordik 2016	BankNordik 2015
3, 4	Interest income	461,858	549,388	460,328	547,946
3, 5	Interest expenses	48,654	80,736	48,657	80,839
	Net interest income	**413,204**	**468,652**	**411,671**	**467,107**
3	Dividends from shares and other investments	9,469	9,244	9,469	9,244
6	Fee and commission income	196,605	232,418	205,817	232,418
6	Fee and commissions paid	14,403	15,579	14,403	15,579
	Net dividend, fee and commission income	**191,671**	**226,083**	**200,883**	**226,083**
	Net interest and fee income	**604,875**	**694,735**	**612,554**	**693,190**
7	Premium income, net of reinsurance	95,268	81,438		
8	Claims, net of reinsurance	68,641	53,580		
	Interest and fee income and income from insurance activities, net	**631,502**	**722,593**	**612,554**	**693,190**
3.9	Market value adjustments	11,313	-38,751	11,954	-37,067
10	Other operating income	39,187	58,499	118,583	51,535
11, 12	Staff costs and administrative expenses	462,461	514,003	442,584	490,696
27, 29, 30	Amortisation, depreciation and impairment charges	8,909	514,151	8,515	513,677
13	Other operating expenses	2,310	21,478	2,310	21,478
14	Impairment charges on loans and advances etc.	18,228	59,655	18,228	59,655
25, 26	Income from investments accounted for under the equity method	-3,263	-1,908	4,500	40,583
	Profit before tax	**186,830**	**-368,854**	**275,954**	**-337,266**
15	Tax	37,659	-114,293	54,080	-116,257
	Net profit from continuing operations	**149,171**	**-254,562**	**221,874**	**-221,009**
16	Profit on discontinued operations, net of tax	72,703	33,553	0	0
	Net profit	**221,874**	**-221,009**	**221,874**	**-221,009**
	Portion attributable to				
	Shareholders of BankNordik P/F	221,874	-221,009	221,874	-221,009
	Net profit	**221,874**	**-221,009**	**221,874**	**-221,009**
	EPS Basic for the period, discontinuing operations, DKK*	7.4	3.4	7.4	3.4
	EPS Diluted for the period, discontinuing operations, DKK*	7.4	3.4	7.4	3.4
	EPS Basic for the period, continuing operations, DKK*	15.2	-25.8	15.2	-25.8
	EPS Diluted for the period, continuing operations, DKK*	15.2	-25.8	15.2	-25.8
	EPS Basic for the perdiod, total, DKK*	22.6	-22.4	22.6	-22.4
	EPS Diluted for the perdiod, total, DKK*	22.6	-22.4	22.6	-22.4

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

Statement of comprehensive income – BankNordik

Note	DKK 1,000	Group 2016	Group 2015	BankNordik 2016	BankNordik 2015
	Net profit	221,874	-221,009	221,874	-221,009
	Other comprehensive income				
	Items which will subsequently be recycled to the income statement if certain conditions are met:				
	Translation of non-Faroese subsidiaries	-22,642	7,208	-22,988	8,060
	Total other comprehensive income	-22,642	-1,612	-22,988	-760
	Total comprehensive income	**199,233**	**-222,621**	**198,887**	**-221,769**
	Portion attributable to				
	Shareholders of BankNordik P/F	199,233	-222,621	198,887	-221,769
	Total comprehensive income	**199,233**	**-222,621**	**198,887**	**-221,769**

Balance Sheet – BankNordik

Note	DKK 1,000	Group 2016	Group 2015	BankNordik 2016	BankNordik 2015
	Assets				
17	Cash in hand and demand deposits with central banks	216,915	360,872	216,820	360,824
18, 19	Due from credit institutions and central banks	816,872	410,550	816,872	410,550
14, 20, 21	Loans and advances at fair value	527,019	670,936	527,019	670,936
14, 20, 21	Loans and advances at amortised cost	8,613,618	10,004,244	8,613,618	10,004,244
22	Bonds at fair value	4,677,230	3,398,816	4,509,287	3,274,870
23	Shares, etc.	241,105	239,995	241,105	239,995
24, 48	Assets under insurance contracts	27,267	2,527	0	0
25	Holdings in associates	6,399	5,543	6,399	5,543
26	Holdings in subsidiaries	0	0	106,108	105,908
	Total land and buildings	190,148	189,477	188,163	187,473
28	investment property	23,229	25,299	23,229	25,299
29	domicile property	166,918	164,178	164,934	162,173
30	Other property, plant and equipment	23,648	28,640	23,107	27,854
	Current tax assets	6,015	3,720	6,015	3,667
31	Deferred tax assets	55,648	66,320	55,587	66,278
32	Assets held for sale	11,974	35,402	11,974	35,402
33	Other assets	99,984	194,370	96,159	191,318
	Prepayments	38,252	37,386	36,954	35,990
16	Assets in disposal groups classified as held for sale	0	581,280	0	204,778
	Total assets	**15,552,094**	**16,230,078**	**15,455,187**	**15,825,630**

Balance Sheet – BankNordik

Note	DKK 1,000	Group 2016	Group 2015	BankNordik 2016	BankNordik 2015
	Shareholders' equity and liabilities				
	Liabilities other than provisions				
34, 35	Due to credit institutions and central banks	341,676	574,791	341,676	574,791
36, 37	Deposits and other debt	12,668,697	12,680,157	12,691,224	12,739,229
38, 48	Liabilities under insurance contracts	105,673	70,433	0	0
	Current tax liabilities	46,265	17,778	45,807	15,405
39	Other liabilities	200,995	245,840	189,663	233,912
	Deferred income	3,921	6,667	2,886	4,347
16	Liabilities directly associated with assets in Disposal groups classified as assets held for sale	0	369,705	0	0
	Total liabilities other than provisions	**13,367,227**	**13,965,371**	**13,271,256**	**13,567,684**
	Provisions for liabilities				
14	Provisions for losses on guarantees	33,910	39,884	33,910	39,884
	Provisions for other liabilities	6,663	6,312	5,727	6,312
	Total provisions for liabilities	**40,573**	**46,196**	**39,638**	**46,196**
	Subordinated debt				
40	Subordinated debt	222,259	452,177	222,259	452,177
	Total liabilities	**13,630,060**	**14,463,743**	**13,533,153**	**14,066,056**
	Shareholders' equity				
	Share capital	200,000	200,000	200,000	200,000
	Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale	0	22,642	0	22,988
	Reserve, Equity Method	0	0	0	115,548
	Retained earnings	1,422,035	1,523,694	1,422,035	1,401,038
	Proposed dividends	300,000	20,000	300,000	20,000
	Total shareholders' equity	**1,922,035**	**1,766,335**	**1,922,035**	**1,759,575**
	Total liabilities and equity	**15,552,094**	**16,230,078**	**15,455,187**	**15,825,630**

Statement of capital – Group

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

DKK 1,000	Share capital	Foreign currency translation reserve	Revaluation Reserve	Proposed dividends	Retained earnings	Total
Shareholders' equity at Jan. 1, 2015	**200,000**	**15,434**	**8,820**	**20,000**	**1,754,941**	**1,999,195**
Revalution of assets			-10,756		10,756	0
Translation of foreign units		7,208				7,208
Other comprehensive income			1,936	0	-1,936	0
Net profit				20,000	-241,009	-221,009
Total comprehensive income		**7,208**	**-8,820**	**20,000**	**-232,189**	**-213,801**
Acquisition of own shares					-27,190	-27,190
Sale of own shares					27,190	27,190
Share-based remuneration-programme					667	667
Dividends payed				-20,000	274	-19,726
Shareholders' equity at December 31, 2015	**200,000**	**22,642**	**0**	**20,000**	**1,523,694**	**1,766,335**

Statement of capital – BankNordik P/F

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

DKK 1,000	Share capital	Foreign currency translation reserve	Revaluation Reserve	Equity method reserve	Proposed dividends	Retained earnings	Total
Shareholders' equity at January 1, 2015	**200,000**	**14,928**	**8,820**	**114,486**	**20,000**	**1,633,347**	**1,991,582**
Translation of foreign units		8,060					8,060
Net profit			0	40,583	20,000	-281,592	-221,009
Total comprehensive income		**8,060**	**-8,820**	**40,583**	**20,000**	**-272,772**	**-212,949**
Acquisition of own shares						-27,190	-27,190
Sale of own shares						27,190	27,190
Share-based remuneration-programme						667	667
Dividends payed					-20,000	274	-19,726
Dividends received				-39,521		39,521	0
Shareholders' equity at December 31, 2015	**200,000**	**22,988**	**0**	**115,548**	**20,000**	**1,401,038**	**1,759,575**

Statement of capital – P/F BankNordik

Solvency

DKK 1,000	Full year 2016	Full year 2015
Core capital	1,566,448	1,691,998
Total capital	1,788,707	1,921,252
Risk-weighted items not included in the trading portfolio	7,305,193	8,951,646
Risk-weighted items with market risk etc.	1,065,709	1,006,711
Risk-weighted items with operational risk	1,419,571	1,504,345
Total risk-weighted items	9,790,474	11,462,702
Core capital rato, excl. hybrid core capital	16.0%	13.9%
Core capital ratio	16.0%	14.8%
Solvency ratio	18.3%	16.8%
Core Capital and Shareholders' equity		
Share capital	200,000	200,000
Reserves	15,470	138,536
Net profit	221,874	-221,009
Retained earnings, previous years	1,484,690	1,642,047
Shareholders' equity	**1,922,035**	**1,759,575**
Deduction of dividend	300,000	20,000
Deduction of holdings of own shares and significant investments in entities in the financial sector	0	38,244
Deduction of intangible assets	0	41,275
Deduction of deferred tax assets	55,587	66,278
Core capital exclusive of hybrid core capital	**1,566,448**	**1,593,777**
Hybrid core capital before deductions	0	180,903
Deductions in Hybrid core capital	0	82,683
Core capital	**1,566,448**	**1,691,998**
Total capital		
Core capital	1,566,448	1,691,998
Subordinated loan capital, before deductions	222,259	271,273
Deductions in Subordinated loan capital	0	42,019
Total capital	**1,788,707**	**1,921,252**

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.

Cash flow statement – Group

DKK 1,000	2016	2015
Cash flow from operations		
Profit before tax	186,830	-368,854
Amortisation and impairment charges for intangible assets	0	480,126
Depreciation and impairment charges of tangible assets	8,906	35,604
Impairment of loans and advances/guarantees	13,955	62,476
Paid tax	-21,323	-11,239
Other non-cash operating items	-21,151	770
Total	**167,216**	**210,121**
Changes in operating capital		
Change in loans at fair value	128,060	73,933
Change in loans at amortised cost	1,376,671	-331,281
Change in holding of bonds	-1,267,453	-37,403
Change in holding of shares	-2,324	-64,204
Change in deposits	-27,169	73,294
Due to credit institutions and central banks	-233,115	-16,556
Change in other assets / liabilities	92,408	-57,894
Assets/liabilities under insurance contracts	10,500	33,056
Prepayments	-3.612	667
Cash flow from operations	**238,695**	**-116,267**
Cash flow from investing activities		
Capital increase in associates	-4,120	0
Dividends received	9,469	9,244
Disposal of group undertakings	192,742	0
Acquisition of tangible assets	-12,757	-44,205
Sale of tangible assets	8,382	68,633
Cash flow from investing activities	**193,715**	**33,671**
Cash flow from financing activities		
Change in subordinated debt	-229,917	0
Acquisition of own shares	-31,373	-27,190
Sale of own shares	14,671	27,190
Payment of dividends	-20,000	-20,000
Cash flow from financing activities	**-266,618**	**-20,000**
Cash flow	**165,792**	**-102,596**
Cash in hand and demand deposits with central banks, and due from		
credit institutions, etc. at the beginning of the year	867,996	960,768
Foreign currency translation	0	9,824
Cash flow	165,792	-102,596
Cash and due etc.	**1,033,788**	**867,996**
Cash and due etc.		
Cash in hand and demand deposits with central banks	216,915	457,446
Due from credit institutions, etc.	816,872	410,550
Total	**1,033,788**	**867,996**

In 2015 Cash and due etc. include cash from Vørður, DKK 96.6m, see also note 16.

Notes

Note
1

Accounting policies

Contents

1 Basis of preparation

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

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

The accounting policies, basis for calculations and presentation are, in all material aspects, unchanged in comparison with the 2015 Annual Report, with the exception that pre-billed insurance premiums, which are not due before the end of the year, are not included in the financial report. This has no effect on neither the company's income or equity. The corresponding figures have been changed for previous years.

Notes

Note 1 (cont'd)

Changes and effects from implementation of new standards and amendments are explained in the following under the heading Adoption of new standards in 2016.

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
- 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 14 provides details on the amounts recognised and note 49 also provides more details on impairment charges for loans and advances.

B) Fair value of investment and domicile properties

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

C) Fair value of financial instruments

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

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

- Choosing valuation method
- Determining when available listed prices do not reflect the fair value
- Calculating fair-value adjustments to provide for relevant risk factors, such as credit
- Model and liquidity risks
- Assessing which market parameters are to be taken into account
- Making estimates of future cash flows and return requirements for unlisted shares

Notes

Note 1 (cont'd)

The Group's loans and advances are not traded in an active market. Therefore there is no market price to determine the loans fair value. The fair value has to be determined using a valuation technique, which estimates the market price between qualified, willing and independent parties. The valuation technique has to include all the relevant elements such as credit risk, market rates etc. Note 3 and 14 provide details on the amounts recognised for loans measured at fair value.

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

If a reliable fair value cannot be identified for an equity instrument, the investment will be valued at cost less any write-downs for impairment. Details on the amounts recognised are provided in note 23.

D) Fair value of assets held for sale

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

Such assets are measured at the lower of their carrying amount at the time of reclassification and their fair value less expected costs to sell and are no longer depreciated. Details on the amounts recognised are provided in note 32.

2) Adoption of new standards in 2016

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 2016:

- Annual Improvements 2012 – 2014 cycle comprising minor amendments to a number of existing standards.

- Amendments to IAS 1, Presentation of financial statements comprising guidance regarding the use of subtotals, assessment of materiality and structure of notes.

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 not yet endorsed by EU are relevant for the BankNordik Group:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from contracts with customers
- IFRS 16 – Leases

IFRS 9, Financial Instruments

In July 2014 IASB issued International Financial Reporting Standard IFRS 9, which supersedes IAS 39.

Note
1
(cont'd)

The standard sets out principles for the classification and measurement of financial assets and liabilities, derecognition, impairment of financial assets and hedge accounting. IFRS 9 was endorsed by the EU under the Commission Regulation dated 22 November 2016.

Since the spring of 2016, the bank has carried out the necessary development work in the areas affected by IFRS 9, particularly in respect of loan impairment, in collaboration with the bank's data centre. In collaboration with the data centre, the bank has initiated an analysis of the consequences of the new rules. The project is expected to continue over the course of the coming financial year and is currently not sufficiently advanced to provide any preliminary results as to the financial reporting effects.

IFRS 9 is mandatory for financial years beginning on or after 1 January 2018 with an early adoption option. The bank does not expect to adopt IFRS 9 early.

IFRS 9 Classification and measurement

Under IFRS 9, financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics.

Financial assets held in order to collect contractual cash flows that are solely payments of principal and interest on the principal amount are measured at amortised cost. Examples of assets in this measurement category are loans and bonds in an investment portfolio.

Financial assets held in order both to collect contractual cash flows that are payments of principal and interest on the principal amount and to sell the asset should be measured at fair value through other comprehensive income. Fair value through other comprehensive income means that financial assets are recognised in the balance sheet at fair value and in profit or loss at amortised cost. An example of assets in this measurement category is a bond portfolio that is part of the day-to-day liquidity management. For presentation purposes, however, the use of a combined business model for bonds used in the day-to-day liquidity management means that unrealised fair value adjustment will in future be reported in other comprehensive income rather than through profit or loss, as is the case under the existing accounting policies. Upon disposal, the cumulative gain or loss is recycled to profit/loss. The impact on profit/loss will depend on the size of the bond portfolio and the related value adjustment of the portfolio.

IFRS 9 has an accounting option to designate upon intial recognition shares which do not form part of the trading portfolio at fair value through other comprehensive income. Under this option, all unrealised as well as realised gains or losses are reocognised in other comprehensive income. The option is relevant for BankNordiks investmens in sector shares [BankNordik does not expect to elect this option].

All other financial assets are measured at fair value through profit or loss. Examples of assets in this measurement category are financial assets in a trading portfolio.

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

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

Notes

Note 1 (cont'd)

The use of the IFRS 9 measurement categories for financial assets on the basis of business model and on the basis of characteristics of the contractual cash flows is expected to lead to insignificant changes in measurement principles compared with those applied in the bank's existing financial reporting, except for the use of a mixed business model for bonds included in the day-to-day liquidity management.

IFRS 9 Impairment allowance for expected credit losses

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

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

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

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

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

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

IFRS 15, 'Revenue from contracts with customers'

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

IFRS 16 'Leases'

IFRS 16 'Leases' introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased

Notes

Note 1 (cont'd)

asset and a lease liability representing its obligation to make lease payments. The effective date is January 1, 2019. The impact on the Groups Balance sheet is estimated to be insignificant, due to the currently small portfolio.

4) Consolidation

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

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

Acquired subsidiaries are included from the date of acquisition.

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

5) Segment information

The Group consists of a number of business units and resource and support functions. The business units are segmented according to legislation, product and services characteristics. The information provided on operating segments is regularly reviewed by the management making decisions about resources to be allocated to the segments and assessing their performance, and for which discrete financial information is available. Operating segments are not aggregated. Segment reporting complies with the Group's significant accounting policies.

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

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

6) Foreign currency translation

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

Notes

Note 1 (cont'd)

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. In connection with the sale of Vørður Tryggingar the accumulated exchange rate gain, previously recognised in the equity reserve Translation of foreign units, has been recycled in the Income Statement.

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.

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.

Notes

Note

2 Critical accounting policies

1
(cont'd)

1 Income statement

1) Income criteria

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

2) Interest income and expenses

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

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

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

3) Dividends on shares

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

4) Fees and commission income

Fees and commission income comprises fees and commission income that is not included as part of the amortised cost of a financial instrument. The income is accrued during the service period. The income includes fees from securities dealing, money transmission services and loans as well as guarantee commission. Income arising from the execution of a significant act is recognized when the act is executed.

5) Fees and commission expenses incurred

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

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

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

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

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

Notes

Note 1 (cont'd)

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

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

8) Market value adjustments

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

9) Other operating income

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

10) Staff costs

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

11) Pension obligations

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

12) Depreciation and impairment of property, plant and equipment

Depreciation and write-downs of tangible assets comprise the depreciation and write-downs on tangible assets for the period.

13) Other operating expenses

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

14) Impairment charges on loans and advances etc.

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

15) Tax

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

Tax for the year includes tax on taxable profit for the year, adjustment of deferred tax as well as adjustment of tax for previous years. Tax for the year is recognised in the income statement as regards the

Note 1 (cont'd)

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.

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

Notes

Note 1 (cont'd)

determine whether objective evidence of impairment exists. Significant loans and advances are also assessed individually to determine whether objective evidence of impairment exists.

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

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

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

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

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

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

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

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

Notes

Note 1 (cont'd)

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.

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

Notes

Note 1 (cont'd)

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

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

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

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

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

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

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

6) 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

Notes

Note 1 (cont'd)

most of the risk. Control may be exercised through agreements about the undertaking's activities whereby BankNordik controls its operating policy decisions. Potential voting rights that are exercisable on the balance sheet date are included in the assessment of whether P/F BankNordik controls an undertaking.

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

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

7) Land and buildings

On acquisition land and buildings are recognised at cost. The cost price includes the purchase price and costs directly 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 calculated on the basis of a standard budget. The fair value of the property is determined based on the expected cash flow from operations and a rate of return assessed for the individual property. The return rate is determined on the basis on the location of the individual property, potential use, the state of maintenance, quality, etc. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the amount which would be determined using fair value at the balance sheet date.

Notes

Note 1 (cont'd)

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

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

8) Other property, plant and equipment

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

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

9) Assets held for sale

Assets held for sale include property, plant and equipment and disposal groups held for sale. Assets held for sale also include assets taken over under non-performing loan agreements. Assets are classified as held for sale when the carrying amount is expected to be recovered principally through a sale transaction within 12 months in accordance with a formal plan rather than through continuing use. Assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell. An asset is not depreciated or amortised from the time when it is classified as held for sale. Assets held for sale not expected to be sold within 12 months on an active marked are reclassified to other items for example investment properties.

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

Assets related to disposal groups are presented in the item 'Assets in disposal groups classified as held for sale'. Liabilities related to disposal groups are presented in the item 'Liabilities directly associated with assets in disposal groups classified as assets held for sale'. An asset is not depreciated or amortised from the time when it is classified as held for sale. Assets held for sale not expected to be sold within 12 months on an active marked are reclassified to other items for example investment properties.

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

10) Other assets

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

Notes

Note 1 (cont'd)

3 Balance sheet – Liabilities, provisions and equity

1) Financial instruments – general

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

2) Classification

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

- Due to credit institutions and central banks, issued bonds and deposits measured at amortised cost
- Trading portfolio measured at fair value
- Other financial liabilities measured at cost

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

Initial recognition of amounts due to credit institutions and central banks and deposits is at fair value net of transaction costs.

Subsequently they are measured at amortised cost, according to the effective interest method, by which the difference between net proceeds and nominal value is recognised in the income statement under the item "Interest expenses" over the loan period.

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

4) Trading portfolio measured at fair value

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

5) Determination of fair value

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

6) Liabilities under insurance contracts

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

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

Notes

Note 1 (cont'd)

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

10) 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.

Notes

Note 1 (cont'd)

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.

3 Accounting Policies – P/F BankNordik

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

Notes

Note 2

Operating segments

The Group consists of two business units and support functions. The Group's activities are segmented into business units according to legislative requirements and product and service characteristics. The Group's business units are Banking and Non-life insurance. Compared to previous years the presentation of the Operating segments relating to Banking has changed from a geographical focus to a business level focus. Banking is now divided between Private Banking, Corporate Banking and Other.

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

Non-life insurance comprises the insurance company P/F TRYGD based The Faroe Islands. TRYGD is responsible for the Group's non-life insurance products. TRYGD target personal and corporate customers with a full range of property and casualty products. TRYGD's operations are handled by its own sales team and distributed through Group's banking units.

BankNordik has sold its Icelandic insurance company Vørður to Arion Bank in Q3 2016. Consequently, Vørður has been classified as discontinued operations. Its activities have been retrospectively extracted from the consolidated income statement and appear as a single-line item instead. See note 16 for further information.

Other covers expenses for the Group's support functions and the real estate agency P/F Skyn and the newly established life insurance company NordikLív. These companies are very small and immaterial in an overall Group context.

Overhead Costs are allocated according to resource requirements. Liquidity balances are posted between Denmark, Greenland and 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 DKK 1,000

2 **Operating segments 2016**

Operating segments 2016	**Banking**				**Non-life Insurance**	**Elimination**	**Continuing operations**	**Discontinued operations**	**Group**
	Private	**Corporate**	**Other**	**Total**	**Faroe Islands**		**Total**	**Iceland**	**Total**
External interest income, Net	257,055	152,298	2,777	412,130	1,074		413,204	9,475	422,679
Internal interest	18,672	-4,456	-14,216	0	0		0	0	0
Net interest income	275,727	147,842	-11,439	412,130	1,074		413,204	9,475	422,679
Net Fee and dividends income	170,162	16,538	10,182	196,882	-5,212		191,670	-12,096	179,575
Premium income, net of reinsurance	0	0	10,854	10,854	85,360	-946	95,268	258,347	353,615
Net premium income of reinsurance and claims	0	0	6,054	6,054	21,519	-946	26,627	29,054	55,680
Other income	2,757	86	15,968	18,812	-147	-1,638	17,026	103,959	120,986
Total income	**448,646**	**164,466**	**20,766**	**633,878**	**17,234**	**-2,584**	**648,527**	**130,392**	**778,919**
Total operating expenses	173,073	17,646	268,634	459,352	16,912	-2,584	473,680	40,225	513,905
Profit before impairment charges on loans	**275,573**	**146,820**	**-247,869**	**174,525**	**322**	**0**	**174,847**	**90,167**	**265,014**
Impairment charges, incl. reversals of aquired OEI impairments	-18,427	6,444		-11,983	0	0	-11,983	118	-11,865
Profit before tax	**294,000**	**140,376**	**-247,869**	**186,508**	**322**	**0**	**186,830**	**90,049**	**276,879**
Total assets	**6,149,427**	**3,427,199**	**5,795,250**	**15,371,876**	**180,218**		**15,552,094**	**0**	**15,552,094**
of which Loans and advances	5,960,015	3,180,622		9,140,637	0		9,140,637	0	9,140,637
Total liabilities and equity	**8,857,118**	**3,146,846**	**3,367,912**	**15,371,876**	**180,218**		**15,552,094**	**0**	**15,552,094**
of which Deposits	9,537,878	3,153,346		12,691,224	0	-22,527	12,668,697	0	12,668,697
of which Insurance liabilities					104,613	0	104,613	0	104,613

Operating segments 2015	**Banking**				**Non-life Insurance**	**Elimination**	**Continuing operations**	**Discontinued operations**	**Group**
	Private	**Corporate**	**Other**	**Total**	**Faroe Islands**		**Total**	**Iceland**	**Total**
External interest income, Net	268,563	210,982	-12,406	467,139	1,514		468,652	11,395	480,047
Internal interest	36,171	-14,873	-21,298	0	0		0	0	0
Net interest income	304,734	196,108	-33,704	467,138	1,514		468,652	11,395	480,047
Net Fee and dividends income	186,044	20,100	19,939	226,083	0		226,083	-8,899	217,183
Premium income, net of reinsurance	0	0	0	0	82,437	-999	81,438	279,030	360,468
Net premium income of reinsurance and claims	0	0	0	0	28,856	-999	27,857	34,059	61,916
Other income	1,061	128	-20,466	-19,278	-1,663	-1,006	-21,946	45,826	23,880
Total income	**491,839**	**216,336**	**-34,232**	**673,943**	**28,707**	**-2,005**	**700,646**	**82,380**	**783,026**
Total operating expenses	200,031	38,210	792,594	1,030,836	20,801	-2,005	1,049,632	45,255	1,094,887
Profit before impairment charges on loans	**291,808**	**178,126**	**-826,826**	**-356,892**	**7,907**	**0**	**-348,986**	**37,125**	**-311,861**
Impairment charges, incl. reversals of aquired OEI impairments	492	-8,473	27,851	19,869	0	0	19,869	0	19,869
Profit before tax	**291,316**	**186,599**	**-854,677**	**-376,761**	**7,907**	**0**	**-368,855**	**37,125**	**-331,729**
Total assets	**6,162,675**	**4,948,225**	**4,359,114**	**15,470,014**	**178,784**		**15,648,798**	**581,280**	**16,230,078**
of which Loans and advances	5,864,931	4,810,248		10,675,180	0		10,675,180		10,675,180
Total liabilities and equity	**9,010,293**	**3,147,041**	**3,312,681**	**15,470,014**	**178,784**		**15,648,798**	**581,280**	**16,230,078**
of which Deposits	9,434,932	3,304,297		12,739,229	0	-59,072	12,680,157		12,680,157
of which Insurance liabilities					70,433	0	70,433	369,705	440,138

Notes – BankNordik Group

Note DKK 1,000

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

	Total income		Non.current assets		Additions to tangible assets		Additions to intangible assets	
	2016	2015	2016	2015	2016	2015	2016	2015
Faroe Islands	297,531	270,930	123,701	122,284	3,999	-19,597		
Denmark	301,909	384,250	50,280	54,420	-152	-7,873		
Greenland	49,089	45,466	46,213	46,956	0	1,773		
Total	**648,528**	**700,646**	**220,194**	**223,660**	**3,847**	**-25,697**	**0**	**0**

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

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

	Total income		Profit before tax		Tax		FTE	
Continuing operations	2016	2015	2016	2015	2016	2015	2016	2015
Faroe Islands, Banking, Other	280,297	242,223	91,683	-18,138	47,437	-81,949	188	225
Faroe Islands, Insurance	17,234	28,707	322	7,907	58	1,423	24	25
Denmark, Banking	301,909	384,250	72,954	-301,624	3,723	-21,553	186	194
Greenland, Banking	49,089	45,466	21,871	-56,999	3,352	-12,214	17	15
Total	**648,528**	**700,646**	**186,830**	**-368,854**	**54,571**	**-114,293**	**415**	**459**

Notes

Note DKK 1,000

3 **BankNordik Group**

	Interest income [2]	Interest expenses	Net interest	Market value adjustment [3]	Dividend	Total
Net income, financial instruments 2016 [1]						
Financial instruments at amortised cost	**424,086**	**34,280**	**389,806**			**389,806**
Financial instruments at fair value:						
Held for trading	28,830	0	28,830	22,909	9,469	61,207
Loans and Advances Designated [4, 5]	8,942	0	8,942	-15,856	0	-6,914
Subordinated debt Designated	0	14,374	-14,374	4,261	0	-10,113
Financial instruments at fair value total	**37,772**	**14,374**	**23,398**	**11,313**	**9,469**	**44,180**
Total net income from financial instruments	**461,858**	**48,654**	**413,204**	**11,313**	**9,469**	**433,986**
Net income, financial instruments 2015						
Financial instruments at amortised cost	**495,898**	**51,988**	**443,910**			**443,910**
Financial instruments at fair value:						
Held for trading	37,422	0	37,422	-34,835	9,244	11,830
Loans and Advances Designated [4, 5]	16,068	0	16,068	-11,201	0	4,867
Subordinated Debt designated	0	28,748	-28,748	7,285	0	-21,463
Financial instruments at fair value Total	**53,490**	**28,748**	**24,742**	**-38,751**	**9,244**	**-4,765**
Total net income from financial instruments	**549,388**	**80,736**	**468,652**	**-38,751**	**9,244**	**439,145**

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

2 Interest income recognised on impaired financial assets amounts to DKK 23m (2015: DKK 27m)

3 Market value adjustments on Subordinated debt relate to fair value adjustments . Please refer to note 40 for further information.

4 Net gain/loss recognised on loans and advances amount to DKK 12.4m (2015 DKK 23.6m). Of which DKK 24.8 relate to interest income (2015 DKK 35.0m), and DKK -12.4m relate to Value adjustments(2015 DKK -11.4m).

5 Net gain/loss recognised on interest rate swaps amount to DKK -19.3m (2015 DKK -18.8m) Of which DKK -15.9 relate to interest expenses (2015 DKK -19.0m), and DKK -3.4m relate to Value adjustments (2015 DKK 0.2m).

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
4	**Interest income and premiums on forwards**				
	Credit institutions and central banks	2,975	1,565	2,975	1,565
	Loans and advances	429,594	510,370	429,594	510,370
	Bonds	40,566	47,059	39,483	45,617
	Total derivatives of which:	-11,825	-9,482	-11,825	-9,482
	Interest rate contracts	*-11,825*	*-9,482*	*-11,825*	*-9,482*
	Other interest income	548	-125	102	-125
	Total interest income	**461,858**	**549,388**	**460,328**	**547,946**
5	**Interest expenses**				
	Credit institutions and central banks	1,923	2,812	1,923	2,812
	Deposits	17,559	36,781	17,559	36,781
	Subordinated debt	28,661	41,919	28,661	41,919
	Other interest expenses	511	-775	515	-673
	Total interest expenses	**48,654**	**80,736**	**48,657**	**80,839**
6	**Net fee and commission income**				
	Fee and commission income				
	Securities trading and custody accounts	52,673	58,022	52,673	58,022
	Credit transfers	22,005	24,300	22,005	24,300
	Loan commissions	11,040	12,433	11,040	12,433
	Guarantee commissions	17,940	19,326	17,940	19,326
	Other fees and commissions	92,947	118,337	102,159	118,337
	Total fee and commission income	**196,605**	**232,418**	**205,817**	**232,418**
	Fee and commissions paid				
	Securities trading and custody accounts	14,403	15,579	14,403	15,579
	Net fee and commission income	**182,202**	**216,839**	**191,414**	**216,839**
7	**Premium income, net of reinsurance**				
	Regular premiums, life insurance	11,241	0		
	Reinsurance premiums paid	388	0		
	Total life insurance	**10,854**	**0**		
	Gross premiums, non-life insurance	96,278	90,520		
	Reinsurance premiums paid	8,827	6,544		
	Change in gross premium provisions	-3,037	-2,538		
	Total non-life insurance	**84,414**	**81,438**		
	Total	**95,268**	**81,438**		

Notes

Note	DKK 1,000	Group 2016	Group 2015	BankNordik 2016	BankNordik 2015
8	**Claims, net of reinsurance**				
	Benefits paid	3,740	0		
	Change in life insurance provisions	1,060	0		
	Total life insurance	**4,800**	**0**		
	Gross claims paid	51,066	43,062		
	Claims handling costs	7,805	7,648		
	Reinsurance received	-1,307	-68		
	Change in gross claims provisions	31,143	3,427		
	Change in reinsurers' share relating to provisions	-24,866	-488		
	Total non-life insurance	**63,841**	**53,580**		
	Total	**68,641**	**53,580**		
9	**Market value adjustments**				
	Loans and advances	-15,856	-11,201	-15,856	-11,201
	Bonds	8,597	-72,639	9,238	-70,956
	Shares	-1,214	20,575	-1,214	20,575
	Foreign exchange	3,434	26,198	3,434	26,198
	Total derivatives of which:	*12,091*	*-8,956*	*12,091*	*-8,956*
	Currency contracts	*7,718*	*-12,485*	*7,718*	*-12,485*
	Interest Swaps	*4,373*	*3,529*	*4,373*	*3,529*
	Other Obligations	4,261	7,273	4,261	7,273
	Total market value adjustments	**11,313**	**-38,751**	**11,954**	**-37,067**
10	**Other operating income**				
	Profit on sale of investment and domicile properties and assets held for sale	1,768	8,215	1,768	8,215
	– of which assets held for sale	*217*	*140*	*217*	*140*
	Profit on sale of operating equipment	794	349	794	349
	Profit on sale of subsidiary	0	0	84,088	0
	Reversals of acquiered OEI impairments	30,505	40,788	30,505	40,788
	Other income	6,408	9,282	77	1,312
	Operation of properties:				
	Rental income	578	1,484	2,216	2,489
	Operating expenses	-865	-1,618	-865	-1,618
	– of which investment properties	*-667*	*-1,580*	*-667*	*-1,580*
	– of which assets held for sale	*-198*	*-38*	*-198*	*-38*
	Total other operating income	**39,187**	**58,499**	**118,583**	**51,535**

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
11	**Staff costs and administrative expenses**				
	Staff costs:				
	Salaries	223,902	250,011	209,885	234,846
	Pensions	26,492	28,642	24,681	26,742
	Social security expenses	30,013	30,236	28,253	28,493
	Total staff costs	**280,407**	**308,888**	**262,819**	**290,081**
	Administrative expenses:				
	IT	95,913	95,641	91,586	92,176
	Marketing etc	16,418	15,935	15,124	14,713
	Education etc	4,523	3,094	4,072	2,346
	Advisory services	2,255	10,972	2,255	10,972
	Other expenses	70,750	87,122	66,727	80,408
	Total administrative expenses	**189,859**	**212,763**	**179,764**	**200,615**
	Total staff costs	280,407	308,888	262,819	290,081
	Staff costs incl. under the item “Claims, net of reinsurance”	-7,805	-7,648	0	0
	Total administrative expenses	189,859	212,763	179,764	200,615
	Total employee costs and administrative expenses	**462,461**	**514,003**	**442,584**	**490,696**
	Number of employees				
	Average number of full-time employees in the period	407	418	377	388
	Executive remuneration:				
	Board of Directors	1,875	1,800	1,875	1,800
	Executive Board:				
	Salaries	2,242	4,110	2,242	4,110
	Pension	333	605	333	605
	Bonus	187	0	187	0
	Bonus (share-based payment)	187	489	187	489
	Termination benefits, former CEO, Janus Petersen	0	9,640	0	9,640
	Termination benefits, former deputy CEO, John Rajani	0	4,366	0	4,366
	Total executive board	**2,949**	**19,210**	**2,949**	**19,210**
	Total executive remuneration	**4,824**	**21,010**	**4,824**	**21,010**
	Remuneration of the senior executives				
	The Board of Directors in P/F BankNordik				
	Stine Bosse (From March 2015)	625	450	625	450
	Rúni Vang Poulsen (From March 2015)	425	300	425	300
	Súsanna Poulsen (From March 2015)	200	150	200	150
	Jógvan Jespersen (From March 2015)	200	150	200	150
	Klaus Rasmussen (Until March 2015)	0	150	0	150
	Jens Erik Christensen (Until March 2015)	0	100	0	100
	Niels Vestermark (Until March 2015)	0	50	0	50
	Nils Sørensen (Until March 2015)	0	50	0	50
	Tórhallur Olsen	225	200	225	200
	Kenneth M. Samuelsen	200	200	200	200
	Total	**1,875**	**1,800**	**1,875**	**1,800**

Notes

Note		Group 2016	Group 2015	BankNordik 2016	BankNordik 2015
11 (Cont'd)	In all the consolidated companies, the remuneration of the Board of Directors is a fixed monthly salary.				
	The Executive Board of P/F BankNordik				
	Árni Ellefsen (from september 2015):				
	Fixed salary	2,242	620	2,242	620
	Pension	333	93	333	93
	Bonus	187	0	187	0
	Bonus (share-based payment)	187	0	187	0
	Total	**2,949**	**713**	**2,949**	**713**
	Janus Petersen (Until september 2015):				
	Fixed salary	0	1,920	0	1,920
	Pension	0	281	0	281
	Share-based payment	0	293	0	293
	Termination benefits, former CEO, Janus Petersen	0	9,640	0	9,640
	Total	**0**	**12,134**	**0**	**12,134**
	John Rajani (Until november 2015):				
	Fixed salary	0	1,570	0	1,570
	Pension	0	231	0	231
	Share-based payment	0	196	0	196
	Termination benefits, former deputy CEO, John Rajani	0	4,366	0	4,366
	Total	**0**	**6,363**	**0**	**6,363**
	Total Executive Board	**2,949**	**19,210**	**2,949**	**19,210**

The number of shares in P/F BankNordik held by the Board of Directors and the Executive Board at the end of 2016 totalled 6,322 and 5,010 respectively (end of 2015: 3,542 and 5,010).

	Group 2016	Group 2015	BankNordik 2016	BankNordik 2015
Remuneration of other executives in the management team				
Fixed salary	4,088	3,747	4,088	3,747
Bonus	168	0	168	0
Bonus (share-based payment)	168	0	168	0
Pension	606	525	606	525
Total	**5,030**	**4,272**	**5,030**	**4,272**

Notes

Note DKK 1,000

11 (Cont'd) **Other executives in the management team are:**

Árni Ellefsen, CFO (until 30 september 2015)
Rune Nørregaard, CCO
Henrik Jensen, CIO
Turið F. Arge, Head of personal banking (from 1 october 2015)

Variable/performance-based renumeration

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

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

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

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

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

In general the principals in section 77 a in the Financial Company's Act applies for the variable/performance-based remuneration to the members of the Executive Management Team.

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

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
12	**Audit fees**				
	Fees to audit firms elected at the general meeting	1,848	4,935	1,595	4,720
	Total audit fees	**1,848**	**4,935**	**1,595**	**4,720**
	Total fees to the audit firms elected at the general meeting break down as follows:				
	Statutory audit	1,327	1,108	1,136	930
	– of which PricewaterhouseCoopers	*907*	*613*	*857*	*613*
	– of which Januar	*420*	*494*	*279*	*316*
	Other assurance engagements	106	61	43	24
	– of which PricewaterhouseCoopers	*69*	*24*	*43*	*24*
	– of which Januar	*37*	*37*	*0*	*0*
	Tax and VAT advice	122	425	122	425
	– of which PricewaterhouseCoopers	*94*	*425*	*94*	*425*
	– of which Januar	*27*	*0*	*27*	*0*
	Other services	294	3,342	294	3,342
	– of which PricewaterhouseCoopers	*204*	*3,342*	*204*	*3,342*
	– of which Januar	*90*	*0*	*90*	*0*
	Total fees to the audit firms elected at the general meeting	**1,848**	**4,935**	**1,595**	**4,720**
13	**Other operating expenses in the management team**				
	The Guarantee Fund for Depositors and Investors	2,310	21,128	2,310	21,128
	Other operating expenses	0	350	0	350
	Total operating expenses	**2,310**	**21,478**	**2,310**	**21,478**

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
14	**Impairment charges on loans and advances and provisions for guarantees etc.**				
	Impairment charges and provisions at 1 January	682,482	641,781	682,482	641,781
	New and increased impairment charges and provisions	176,566	176,658	176,566	176,658
	Reversals of impairment charges and provisions	122,327	99,813	122,327	99,813
	Written-off, previously impaired	58,085	36,143	58,085	36,143
	Interest income on impaired loans	*23,403*	*26,479*	*23,403*	*26,479*
	Total impairment charges and provisions at 31 Dec	**678,636**	**682,482**	**678,636**	**682,482**
	Impairment charges and provisions recognised in the income statement				
	Loans and advances at amortised cost	21,117	67,051	21,117	67,051
	Loans and advances at fair value	2,473	-2,065	2,473	-2,065
	Guarantiees and loan commitments	-5,974	-5,331	-5,974	-5,331
	Assets held for sale	613	0	613	0
	Total impairment charges and provisions	**18,228**	**59,655**	**18,228**	**59,655**
	Individual impairment charges etc.				
	Individual impairment charges etc. at 1 January	588,929	556,125	588,929	556,125
	New and increased impairment charges	147,838	150,498	147,838	150,498
	Reversals of impairment charges	86,576	81,550	86,576	81,550
	Written-off, previously impaired	58,085	36,143	58,085	36,143
	Write-offs charged directly to the income statement	*-8,335*	*12,110*	*-8,335*	*12,110*
	Received on claims previously written off	*4,273*	*2,820*	*4,273*	*2,820*
	Interest income on impaired loans	*23,403*	*26,479*	*23,403*	*26,479*
	Individual impairment charges etc. at 31 December	**592,106**	**588,929**	**592,106**	**588,929**
	Total net impact recognised in the income statement	*25,251*	*51,759*	*25,251*	*51,759*
	Collective impairment charges				
	Collective impairment charges at 1 January	53,669	40,441	53,669	40,441
	New and increased impairment charges	9,082	15,553	9,082	15,553
	Reversals of impairment charges	10,131	2,325	10,131	2,325
	Collective impairment charges at 31 December	**52,620**	**53,669**	**52,620**	**53,669**
	Total net impact recognised in the income statement	*-1,049*	*13,228*	*-1,049*	*13,228*
	Individual provisions on guarantees				
	Individual provisions at 1 January	39,884	45,216	39,884	45,216
	New and increased provisions	19,646	10,607	19,646	10,607
	Reversals of provisions	25,620	15,938	25,620	15,938
	Individual provisions on guarantees at 31 December	**33,911**	**39,884**	**33,911**	**39,884**
	Total net impact recognised in the income statement	*-5,974*	*-5,331*	*-5,974*	*-5,331*

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
14	**Loans and advances**				
(Cont'd)	Loans and advances at amortised cost	9,258,344	10,646,842	9,258,344	10,646,842
	Impairment charges	644,726	642,598	644,726	642,598
	Total loans and advances at amortised cost	**8,613,618**	**10,004,244**	**8,613,618**	**10,004,244**
	Loans and advances at fair value	495,857	695,189	495,857	695,189
	Fair value adjustments	31,162	-24,254	31,162	-24,254
	Total loans and advances at fair value	**527,019**	**670,936**	**527,019**	**670,936**
	Total loans and advances	**9,140,637**	**10,675,180**	**9,140,637**	**10,675,180**
	Total loans and advances with objective evidence of impairment				
	Individual	1,008,532	1,175,014	1,008,532	1,175,014
	Carrying amount net of impairment charges	*416,427*	*586,085*	*416,427*	*586,085*
	Collective	*7,908,681*	*9,250,760*	*7,908,681*	*9,250,760*
	Carrying amount net of impairment charges	*7,856,061*	*9,197,091*	*7,856,061*	*9,197,091*
15	**Tax**				
	Tax on profit for the year	37,659	-114,293	54,080	-116,257
	Tax on changes in other comprehensive income	0	0	0	0
	Total tax	**37,659**	**-114,293**	**54,080**	**-116,257**
	Tax on profit for the year				
	Profit before tax	186,830	-368,855	275,954	-337,266
	Current tax charge	23,045	17,432	39,614	15,405
	Change in deferred tax	10,839	-132,309	10,691	-132,245
	Adjustment of prior-year tax charges	3,774	584	3,774	584
	Total	**37,659**	**-114,293**	**54,080**	**-116,257**
	Effective tax rate				
	Faroese tax rate	18.0%	18.0%	18.0%	18.0%
	Deviation in foreign entities tax compared to Faroese tax rate	0,8%	2.7%	0,5%	3.1%
	Non-taxable income and non-deductible expenses	-0,7%	10.6%	-0,3%	13.6%
	Tax on profit for the year	18.1%	31.3%	18.2%	34.7%
	Adjustment on prior-year tax charges	2.0%	-0.2%	1.4%	-0.2%
	Effective tax rate	**20.1%**	**31.1%**	**19.6%**	**34.5%**

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
16	**Discontinued operations**				
	As a part of the Group's intentions to reduce its geographic span, the Group announced on 22 June 2015 that it had initiated an active program to identify a buyer for the Icelandic insurance group Vörður. Consequently, Vörður's financial performance for 2015, the associated assets and liabilities, and cash flow information for the period are presented as discontinued operations. The sale of Vørður was completed 30. September 2016 consequently discontinued operations in this note are presented at that date.				
	See on page 8 in the Financial Review for further information.				
	Net profit from discontinued operations	5,961	0		
	Gain on disposal	84,088	0		
	Discontinued operations, total	**90,049**	**0**		
	Sales price	255,030	0		
	Carrying amount of net assets	191,729	0		
	Disposal gain	**63,301**	**0**		
	Recycling of cumulative currency translation adjustments	20,787	0		
	Disposal gain incl. translation adjustments	**84,088**	**0**		
	Tax	16,912	0		
	Disposal gain, net	**67,176**	**0**		
	Income statement				
	Net interest income	9,475	11,395		
	Dividends from shares and other investments	0	2,090		
	Fee and commissions	-12,096	-10,989		
	Net interest, dividend, fee and commission income	**-2,621**	**2,495**		
	Premium income, net of reinsurance	258,347	279,030		
	Claims, net of reinsurance	229,293	244,971		
	Income and income from insurance activities, net	**29,054**	**34,059**		
	Market value adjustments	19,871	45,826		
	Staff costs and administrative expenses	40,343	45,255		
	Profit before tax	**5,961**	**37,125**		
	Tax	434	3,572		
	Net profit from discontinued operations	**5,527**	**33,553**		
	Total, discontinued operations	**72,703**	**33,553**		

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
16	**Effect of disposal on the financial position of the Group**				
(Cont'd)	Cash in hand and demand deposits with central banks	62,288	96,574		
	Bonds at fair value	263,617	149,819		
	Shares, etc.	247,573	195,090		
	Assets under insurance contracts	124,303	74,863		
	Intangible assets	1,903	49,574		
	Other property, plant and equipment	5,585	3,760		
	Deferred tax assets	8,580	7,006		
	Other assets	9,255	4,595		
	Assets in disposal groups classified as held for sale			0	204,778
	Total assets	**723,105**	**581,280**	**0**	**204,778**
	Liabilities under insurance contracts	519,005	349,831		
	Other liabilities	16,067	19,874		
	Total liabilities	**535,071**	**369,705**		
	Net assets and liabilities	**-188,033**	**369,705**		
	Consideration received, satisfied in cash	255,030			
	Cash and cash equivalents disposed of	-62,288			
	Net cash inflow	**192,742**	**13,372**		
17	**Cash in hand and demand deposits with central banks**				
	Cash in hand	125,434	170,102	102,811	110,982
	Demand deposits with central banks	91,482	190,770	114,009	249,842
	Total	**216,915**	**360,872**	**216,820**	**360,824**
18	**Due from credit institutions and central banks specified by institution**				
	Credit instistutions	566,872	298,550	566,872	298,550
	Central banks	250,000	112,000	250,000	112,000
	Total	**816,872**	**410,550**	**816,872**	**410,550**
19	**Due from credit institutions and central banks specified by maturity**				
	On demand	366,540	102,364	366,540	102,364
	3 months and below	250,304	108,186	250,304	108,186
	Over 1 year to 5 years	200,029	200,000	200,029	200,000
	Total	**816,872**	**410,550**	**816,872**	**410,550**

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
20	**Loans and advances specified by sectors**				
	Public authorities	3%	4%	3%	4%
	Corporate sector:				
	Fisheries, agriculture, hunting and forestry	5%	5%	5%	5%
	Industry and raw material extraction	3%	5%	3%	5%
	Energy supply	0%	2%	0%	2%
	Building and construction	2%	3%	2%	3%
	Trade	5%	10%	5%	10%
	Transport, hotels and restaurants	6%	4%	6%	4%
	Information and communications	1%	0%	1%	0%
	Financing and insurance	1%	2%	1%	2%
	Real property	7%	6%	7%	6%
	Other industries	4%	4%	4%	4%
	Total corporate sector	34%	41%	34%	41%
	Retail customers	63%	55%	63%	55%
	Total	**100%**	**100%**	**100%**	**100%**
21	**Loans and advances specified by maturity**				
	On demand	19,391	353,329	19,391	353,329
	3 months and below	235,924	191,477	235,924	191,477
	3 months to 1 year	1,353,584	1,833,981	1,353,584	1,833,981
	Over 1 year to 5 years	3,458,438	4,295,953	3,458,438	4,295,953
	Over 5 years	4,073,300	4,000,439	4,073,300	4,000,439
	Total loans and advances	**9,140,637**	**10,675,180**	**9,140,637**	**10,675,180**
22	**Bonds at fair value**				
	Mortgage credit bonds	3,733,811	2,778,993	3,610,167	2,682,488
	Government bonds	718,185	421,760	673,886	394,319
	Other bonds	225,234	198,063	225,234	198,063
	Bonds at fair value	**4,677,230**	**3,398,816**	**4,509,287**	**3,274,870**
	All bonds form part of the Group's trading portfolio				
23	**Shares etc.**				
	Shares/unit trust certificates listed on the Copenhagen Stock Exchange	26,209	32,928	26,209	32,928
	Shares/unit trust certificates listed on other stock exchanges	20,103	17,341	20,103	17,341
	Other shares at fair value using the fair-value option	194,793	189,725	194,793	189,725
	Total shares etc.	**241,105**	**239,995**	**241,105**	**239,995**
24	**Assets under insurance contracts**				
	Non-life insurance				
	Reinsurers' share of claims provisions	25,480	615		
	Receivables from insurance contracts	1,787	1,912		
	Total non-life insurance	**27,267**	**2,527**		
	Maturity within 12 months	1,787	1,912		

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
25	**Holdings in associates**				
	Cost at 1 January	4,725	4,725	4,725	4,725
	Additions	4,120	0	4,120	0
	Cost at 31 December	**8,845**	**4,725**	**8,845**	**4,725**
	Revaluations at 1 January	818	2,726	818	2,726
	Share of profit	-2,095	-1,908	-2,095	-1,908
	Impairment charges, goodwill	-1,168	0	-1,168	0
	Revaluations at 31 December	**-2,445**	**818**	**-2,445**	**818**
	Carrying amount at 31 December	**6,399**	**5,543**	**6,399**	**5,543**

Holdings in associates 2016	Income	Net profit	Total assets	Total liabilities	Total equity	Owner-ship %	The Groups share of equity
P/F Elektron	37,611	-7,338	63,739	49,568	10,036	34%	3,446
P/F Conseco	-17	-17	0	140	-140	25%	-35
Holdings in associates 2015							
P/F Elektron	49,147	-5,557	62,666	46,681	15,985	34%	5,488
P/F Conseco	-15	-16	0	122	-122	25%	-31

The information disclosed is extracted from the companies' most recent annual report (2015).

Note		Group 2016	Group 2015	BankNordik 2016	BankNordik 2015
26	**Holdings in subsidiaries**				
	Cost at 1 January			144,000	188,252
	Additions			0	30,000
	Disposals			0	74,252
	Cost at 31 December			**144,000**	**144,000**
	Revaluations at 1 January			-38,092	49,365
	Corrections			-36	0
	Share of profit			2,237	42,491
	Dividends			2,000	39,521
	Reversals of revaluations			0	97,051
	Foreign currency translation			0	6,625
	Revaluations at 31 December			**-37,891**	**-38,092**
	Carrying amount at 31 December			**106,109**	**105,908**

Holdings in subsidiaries	Owner-ship %	Share capital end of year	Shareholders' equity for the year	Profit/loss for the year
P/F Trygd	100%	40,000	67,907	264
P/F Skyn	100%	4,000	7,883	1,412
P/F NordikLív	100%	30,000	30,318	561
Sp/f Íbúðir undir Gráasteini (at the end of 2015)	0%	125	-	-

The information disclosed is extracted from the companies' most recent annual reports (P/F Trygd, P/F Skyn, P/F NordikLív annual reports 2016 the other 2015).

Notes

Note DKK 1,000

27 **Impairment test**

At the end of 2015 the impairment test of the allocated Goodwill and Customer relations related to the operating segments in Denmark and Greenland demanded impairment charges to be made. Thus for 2015, BankNordik's management made impairment charges of DKK 398m relating to Denmark and DKK 70m relating to Greenland

The impairment charges where induced by the challenged macroeconomic development across the Bank's geographical exposure, subject to extremely low interest rates. Another factor contributing to the impairments was the reduced business volume resulting from the un-winding of the Danish corporate portfolio. Furthermore the higher capital requirements imposed on the Bank also had an impact on the impairments.

	Group		BankNordik	
	2016	**2015**	**2016**	**2015**
28 **Investment property**				
Fair value at 1 January	25,299	64,863	25,299	64,863
Additions	1,177	0	1,177	0
Reclassification to assets held for sale	3,247	22,000	3,247	22,000
Disposals	0	17,563	0	17,563
Fair value at 31 December	**23,229**	**25,299**	**23,229**	**25,299**

Rental income from investment property amounted to DKK 0.3m in 2016 (2015: DKK 0.5m). Expenses directly attributable to investment property generating rental income amounted to DKK 0.7m (2015: DKK 1.6m).

The fair value is assessed by the group's internal valuers at least once a year on 31th December on the basis of an income based approach. Valuations rely substantially on non-observable input, i.e. level 3 measures. Valuations are based on cash flow estimates and on the required rate of return calculated for each property that reflects the price at which the property can be exchanged between knowledgeable, willing parties under current market conditions.
The cash flow estimates are determined on the basis of the market rent for each property. The required rate of return on a property is determined on the basis of its location, type, possible uses, layout and condition. The required rate of return ranged between 5.9% – 7.5% (2015: 5.9% – 7.5%) and averaged 6.0% (2015: 6.4%). An increase in the required rate of return of 1.0 percentage point, would reduce fair value at end-2016 by DKK 1.8m. A decrease in rental rates of DKK 100 pr m2 would reduce fair value at end-2016 by DKK 1.2m.

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
29	**Domicile property**				
	Cost at 1 January	207,968	226,504	205,923	224,459
	Additions	9,969	29,533	9,969	29,533
	Disposals	5,937	48,069	5,937	48,069
	Cost at 31 December	**212,000**	**207,968**	**209,955**	**205,923**
	Adjustments at 1 January	-43,790	-11,022	-43,749	-11,001
	Depreciation charges during the year	1,564	965	1,543	944
	Reversal of depreciation charges on disposals during the year	272	843	272	843
	Reversed revaluations recognised in other comprehensive income	0	10,756	0	10,756
	Impairments recognised in the income statement	0	21,891	0	21,891
	Adjustments at 31 December	**-45,082**	**-43,790**	**-45,021**	**-43,749**
	Carrying amount at 31 December	**166,918**	**164,178**	**164,934**	**162,173**

Tangible assets include domicile property of DKK 167m (2015: DKK 164m). Carrying amount at 31 December if the property had not been revalued is DKK 194m (2015: DKK 191m).

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 goups internal valuers on the basis of the rate of return used for investment property disclosed in note 28. At the end of 2016, the fair value of domicile property was DKK 174.7m (2015: DKK 173m). The required rate of return is ranged between 4.25%–8.0% (2015: 5,0 – 9,0%). The depreciation period is 50 years. A decrease in rental rates of DKK 100 pr m2 would reduce fair value at end-2016 by DKK 16.8m.

30	**Other property, plant and equipment**				
	Cost at 1 January	80,534	90,075	75,412	85,243
	Adjustment previous years	0	19,943	0	19,943
	Additions	2,770	12,282	2,708	11,993
	Disposals	2,413	1,880	2,413	1,880
	Cost at 31 December	**80,890**	**80,534**	**75,707**	**75,412**
	Depreciation and impairment charges at 1 January	51,894	62,257	47,558	58,300
	Adjustment previous years	0	19,943	0	19,943
	Depreciation charges during the year	7,247	11,219	6,940	10,840
	Reversals of depreciation and impairment charges	1,898	1,639	1,898	1,639
	Depreciation and impairment charges at 31 December	**57,243**	**51,894**	**52,600**	**47,558**
	Carrying amount at 31 December	**23,648**	**28,640**	**23,107**	**27,854**

The depreciation period is 3-5 years.

Notes

Note	DKK 1,000	Group	
		2016	2015
31	**Deferred tax**		
	Deferred tax assets	55,648	66,320
	Deferred tax, net	**55,648**	**66,320**

Change in deferred tax

2016	At 1 Jan.	Included in profit for the year	At 31 Dec.
Intangible assets	59,771	-9,772	49,999
Tangible assets	4,984	-406	4,578
Other	1,565	-493	1,071
Total	**66,320**	**-10,671**	**55,648**

Adjustment of prior-year tax charges included in preceding item

2015			
Intangible assets	-119,397	179,168	59,771
Tangible assets	-4,913	9,897	4,984
Tax loss carryforwards	64,452	-64,452	0
Other	1,100	464	1,565
Total	**-58,758**	**125,077**	**66,320**

Adjustment of prior-year tax charges included in preceding item

	BankNordik	
	2016	2015
Deferred tax		
Deferred tax assets	55,587	66,278
Deferred tax, net	**55,587**	**66,278**

Change in deferred tax

2016	At 1 Jan.	Recognised in profit for the year	At 31 Dec.
Intangible assets	60,027	-9,772	50,255
Tangible assets	5,056	-427	4,629
Other	1,195	-493	702
Total	**66,278**	**-10,691**	**55,587**

Adjustment of prior-year tax charges included in preceding item

2015			
Intangible assets	-119,141	179,168	60,027
Tangible assets	-5,136	10,192	5,056
Tax loss carryforwards	55,418	-55,418	0
Other	1,054	142	1,195
Total	**-67,805**	**134,083**	**66,278**

Adjustment of prior-year tax charges included in preceding item

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
32	**Assets held for sale**				
	Total purchase price at 1 January	41,020	54,322	41,020	54,322
	Additions	6,922	10,459	6,922	10,459
	Reclassification from investment properties	3,247	22,000	3,247	22,000
	Disposals	34,094	45,762	34,094	45,762
	Total purchase price at 31 December	**17,095**	**41,020**	**17,095**	**41,020**
	Impairment at 1 January	5,617	2,551	5,617	2,551
	Impairment charges for the year	613	3,163	613	3,163
	Reversal of impairment on disposals and write offs during the year	1,109	97	1,109	97
	Impairment at 31 December	**5,121**	**5,617**	**5,121**	**5,617**
	Total assets held for sale at 31 December	**11,974**	**35,402**	**11,974**	**35,402**
	Specification of assets held for sale				
	Real property taken over in connection with non-performing loans	11,974	35,402	11,974	35,402
	Total	**11,974**	**35,402**	**11,974**	**35,402**

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

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

Profit on the sale of real property and tangible assets taken over in connection with non-performing loansis recognised under the item “Other operating income”. The Group's real estate agency is responsible for selling the real property.

Notes

Note	DKK 1,000	Group 2016	Group 2015	BankNordik 2016	BankNordik 2015
33	**Other assets**				
	Interest and commission due	51,955	62,510	51,149	62,510
	Derivatives with positive fair value	31,852	39,240	31,852	39,240
	Other amounts due	16,177	92,620	13,158	89,568
	Total	**99,984**	**194,370**	**96,159**	**191,318**
34	**Due to credit institutions and central banks specified by institution**				
	Due to central banks	37,525	261,228	37,525	261,228
	Due to credit institutions	304,151	313,563	304,151	313,563
	Total	**341,676**	**574,791**	**341,676**	**574,791**
35	**Due to credit institutions and central banks specified by maturity**				
	On demand	114,026	274,791	114,026	274,791
	Over 1 year to 5 years	136,364	81,818	136,364	81,818
	Over 5 years	91,286	218,182	91,286	218,182
	Total	**341,676**	**574,791**	**341,676**	**574,791**
36	**Deposits specified by type**				
	On demand	9,489,636	9,147,887	9,506,091	9,202,104
	At notice	1,452,153	1,423,744	1,452,153	1,423,744
	Time deposits	534,039	747,557	534,039	747,557
	Special deposits	1,192,869	1,360,969	1,198,941	1,365,824
	Total deposits	**12,668,697**	**12,680,157**	**12,691,224**	**12,739,229**
37	**Deposits specified by maturity**				
	On demand	9,441,651	9,017,901	9,464,179	9,076,973
	3 months and below	1,678,994	1,661,925	1,678,994	1,661,925
	3 months to 1 year	76,503	284,924	76,503	284,924
	Over 1 year to 5 years	569,161	662,239	569,161	662,239
	Over 5 years	902,388	1,053,169	902,388	1,053,169
	Total deposits	**12,668,697**	**12,680,157**	**12,691,224**	**12,739,229**
38	**Liabilities under insurance contracts**				
	Non-life insurance				
	Provisions for unearned premiums	31,936	28,899		
	Claims provisions	72,678	41,534		
	Total	**104,613**	**70,433**		
	Life insurance				
	Life insurance provisions	1,060	0		
	Total provisions for insurance contracts	**1,060**	**0**		
	Total	**105,673**	**70,433**		

Notes

Note	DKK 1,000	Group 2016	Group 2015	BankNordik 2016	BankNordik 2015
39	**Other liabilities**				
	Sundry creditors	63,081	67,272	55,728	55,343
	Accrued interest and commission	8,951	28,003	5,001	28,003
	Derivatives with negative value	60,868	74,872	60,868	74,872
	Accrued staff expenses	54,996	45,784	54,966	45,784
	Debt regarding sale of investment assets	0	14,047	0	14,047
	Other obligations	13,101	15,862	13,101	15,862
	Total	**200,995**	**245,840**	**189,663**	**233,912**

40 **Subordinated capital**

		Currency	Borrower	Principal	Interest rate	Year of issue	Maturity	Step-up clause	Re-demption price	2016	2015
Subordinated capital	a	DKK	P/F BankNordik	270,000	8.4%	2011	6/24/2025	No	100	0	271,273
Hybrid core capital	b	DKK	P/F BankNordik	180,000	10.4%	2011	Perpetual	No	100	0	180,903
Subordinated capital	c	DKK	P/F BankNordik	225,000	5.1%	2016	6/24/2026	No	100	222,259	0
At 31 December				**225,000**						**222,259**	**452,177**
Of which fair value adjustment										0	4,274

Interest rate:		**Hedged with interest swaps**	**Until 23.6.2016**	**From 24.6.2016**
Subordinated capital	a	120m	8.4%	CIBOR 3M + 7,0%
Hybrid core capital	b	180m	10.4%	CIBOR 3M + 7,5%

Interest rate:		**Principal (Not hedged)**	**Until 23.6.2021**	**From 24.6.2021**
Subordinated capital	c	225m	5.1%	CIBOR 3M + 4,75%

The Group redeemed it's outstanding subordinated debt in june 2016, and issues new subordinated capital. The new subordinated capital is not hedged. Fair value adjustments of hedged capital are at year-end 2016 DKKt 0 (year-end 2015: DKKt 4,274). Of the redeemed subordinated capital 150m was not hedged.

Term of maturity of the hedging instruments was June 2016

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

The subordinated capital can not be converted into share capital. Early redemption of subordinated debt must be approved by the Danish FSA. In the event of BankNordiks voluntary or compulsory winding-up, this liability will not be repaid until claims of ordinary creditors have been met. Fair value adjustment of subordinated debt is valued on the basis of other observable input. Se note 46 for further information regarding valuation of the Subordinated capital.

Notes

Note	DKK 1,000	BankNordik 2016	BankNordik 2015
41	**BankNordik Shares**		
	Net profit	221,874	-221,009
	Average number of shares outstanding	9,810	9,863
	Average number of shares outstanding, including dilutive shares diluted	9,810	9,863
	Earnings per share, DKK	22.6	-22,4
	Diluted net profit for the period per share, DKK	22.6	-22,4

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:	2016	2015
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	9,810	9,863
Group's average holding of own shares during the period	190	137
Average shares outstanding	**9,810**	**9,863**

Holding of own shares	Number 2016	Number 2015	Value 2016	Value 2015
Investment portfolio	27,245	27,245	3,692	3,476
Trading portfolio	252,809	109,997	34,256	14,036
Total	**280,054**	**137,242**	**37,947**	**17,512**

	Investment portfolio	Trading portfolio	Total 2016	Total 2015
Holding at 1 January	3,476	14,036	17,512	14,342
Acquisition of own shares	0	31,373	31,373	27,190
Sale of own shares	0	14,671	14,671	27,190
Value adjustment	216	3,518	3,734	3,170
Holding at 31 December	**3,692**	**34,256**	**37,947**	**17,512**

Share buy-back programme

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

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

BankNordik has bought 255,491 own shares and sold 138,817 own shares during the year.

Notes

Note	DKK 1,000	Group		BankNordik	
		2016	2015	2016	2015
42	**Contingent liabilities**				
	The Group uses a variety of loan-related financial instruments to meet the financial requirements of its customers. These include loan offers and other credit facilities, guarantees and instruments that are not recognised on the balance sheet.				
	Guarantees				
	Financial guarantees	366,671	317,347	366,671	317,347
	Mortgage finance guarantees	1,221,379	1,233,408	1,221,379	1,233,408
	Registration and remortgaging guarantees	643,841	557,980	643,841	557,980
	Other guarantees	262,987	319,774	262,987	319,774
	Total	**2,494,879**	**2,428,508**	**2,494,879**	**2,428,508**

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 2016, such unused credit facilities amounted to DKK 2.8bn (2015: DKK 2.6bn). Furthermore the Group has granted irrevocable loan commitments amounting to DKK 339m (2015: DKK 145m).

In total operational leasing (rent) liabilities amount to 15.5m (2015: DKK 19.4). Renting contracts for an amount of DKK 8.8m (2015: DKK 8.0) have a 12 months term of notice. Renting contracts for an amount of DKK 6.7m (2015: DKK 11.4m) have a term of notice from 1 to 5 years.

43 **Assets deposited as collateral**

At the end of 2016 the Group had deposited bonds at a total market value of DKK 37m (2015: DKK 38m) with Danmarks Nationalbank (the Danish Central Bank) primarily in connection with cash deposits.

At the end of 2016 the Group had deposited bonds and cash at a total market value of DKK 39m (2015: DKK 22.8m) in connection with negative market value of derviatives.

Notes

Note DKK 1,000

44 **Related parties**

	Parties with significant influence		Associated undertakings		Board of Directors		Excecutive Board	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Assets								
Loans			13,321	13,745	74,962	86,439	909	2,400
Total			**13,321**	**13,745**	**74,962**	**86,439**	**909**	**2,400**
Liabilities								
Deposits	4,607	7,221	30,246	20,073	53,641	32,521	191	225
Total	**4,607**	**7,221**	**30,246**	**20,073**	**53,641**	**32,521**	**191**	**225**
Off-balance sheet items								
Guarantees issued								
Guarantees and collateral received					82,476	82,476	2,035	2,035
Income Statement								
Interest income	0	0	728	637	1,858	205	33	46
Interest expense	4	12	16	0	2	3	1	1
Fee income	1	1	16	4	14	2	1	1
Total	**-3**	**-11**	**728**	**640**	**1,870**	**204**	**34**	**47**

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

Note 25 lists associated undertakings.

In 2016 interest rates on credit facilities granted to associated undertakings were between 5.3% – 10.13% (2015: 3.1% – 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 2016 interest rates on credit facilities granted to members of the Board of Directors and the Executive Board were between 2.0% – 14.5% (2015: 3.1% – 14.5%). Note 11specifies the remuneration and note 45 specifies shareholdings of the management.

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

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

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

Notes

Note DKK 1,000

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

	Beginning of 2016	Additions	Disposals	End of 2016
Board of directors				
Stine Bosse (From March 2015)	0	1,830		1,830
Rúni Vang Poulsen (From March 2015)	164			164
Súsanna Poulsen (From March 2015)	0			0
Jógvan Jespersen (From March 2015)	32			32
Tórhallur Olsen	927	950		1,877
Kenneth M. Samuelsen	2,419			2,419
Total	**3,542**	**2,780**		**6,322**
Executive Board				
Árni Ellefsen (From 30 November 2015)	5,010			5,010
Total	**5,010**			**5,010**

46 **Financial instruments at fair value**

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

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

Notes

Note DKK 1,000

46	2016 Financial assets and liabilities at fair value	Quoted prices	Observable input	Non-observable input	Total
	Financial assets held for trading				
	Bonds at fair value	4,677,230			4,677,230
	Shares, etc.	46,312			46,312
	Derivatives with positive fair value		31,852		31,852
	Total	**4,723,542**	**31,852**		**4,755,394**
	Financial assets designated at fair value				
	Loans and advances at fair value		527,019		527,019
	Shares, etc.		190,693	4,100	194,793
	Total		717,712	4,100	721,812
	Finansial assets at fair value	**4,723,542**	**749,564**	**4,100**	**5,477,206**
	Financial liabilities held for trading				
	Derivatives with negative fair value		60,868		60,868
	Total		**60,868**		**60,868**
	Financial liabilities designated at fair value				
	Subordinated debt		0		0
	Finansial liabilities at fair value		**60,868**		**60,868**

2015 Financial assets and liabilities at fair value	Quoted prices	Observable input	Non-observable input	Total
Financial assets held for trading				
Bonds at fair value	3,398,816			3,398,816
Shares, etc.	50,270			50,270
Derivatives with positive fair value		39,240		39,240
Total	**3,449,086**	**39,240**		**3,488,326**
Financial assets designated at fair value				
Loans and advances at fair value		670,936		670,936
Shares, etc.		171,785	17,940	189,725
Total		842,721	17,940	860,661
Finansial assets at fair value	**3,449,086**	**881,961**	**17,940**	**4,348,987**
Financial liabilities held for trading				
Derivatives with negative fair value		74,872		74,872
Total		**74,872**		**74,872**
Financial liabilities designated at fair value				
Subordinated debt		304,274		304,274
Finansial liabilities at fair value		**379,146**		**379,146**

Notes

Note DKK 1,000

46 (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, loans and advances at fair value and subordinated debt, valued on the basis of observable yield curves or exchange rates. Furthermore the category covers sector shares with price-fixing-agreements according to the articles of association. Other financial assets are recognised in the Non-observable input. This category covers unlisted shares, investment properties (se note 28 for further information on Investment properties), and domicile property (se note 29 for further information on Domicile property).

At 31 December 2016 financial assets valued on the basis of non-observable input comprised unlisted shares of DKK 4.1m (2015: DKK 18m) In 2016, the Group recognised unrealised value adjustments of unlisted shares valued on the basis of non-observable input in the amount of DKK -12.5m (2015: DKK -10m). A 10% increase or decrease in fair value of unlisted shares would amount to DKK 0.4m (2015: DKK 1.8m).

	2016	2015
Financial instruments at fair value valued on the basis of non-observable input		
Fair value at 1 January	17,940	33,822
Value adjustments through profit or loss	-12,456	-10,000
Acquisitions	776	643
Disposals	2,161	6,525
Fair value at 31 December	**4,100**	**17,940**

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

Notes

Note DKK 1,000

46 **Financial instruments at amortised cost**

(Cont'd) The vast majority of amounts due to the Group, loans, advances, and deposits may not be assigned without the consent of customers, and an active market does not exist for such financial instruments. Consequently, the Group bases its fair value estimates on data showing changes in market conditions after the initial recognition of the individual instruments, and thus affecting the price that would have been fixed if the terms had been agreed at the balance sheet data. Other people may make other estimates. The Group discloses information about the fair value of financial instruments at amortised cost on the basis of the following assumtions:

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

46 (Cont'd)

Financial instruments at amortised cost	Carrying amount **2016**	Fair value **2016**	Carrying amount **2015**	Fair value **2015**
Financial assets				
Cash in hand and demand deposits with central banks	216,915	216,915	360,872	360,872
Due from credit institutions and central banks	816,872	816,872	410,550	410,550
Loans and advances at amortised cost	8,613,618	8,613,618	10,004,244	10,004,244
Assets under insurance contracts	27,267	27,267	20,263	20,263
Total	**9,674,673**	**9,674,673**	**10,795,930**	**10,795,930**
Financial liabilities				
Due to credit institutions and central banks	341,676	341,676	574,791	574,791
Deposits and other debt	12,668,697	12,668,697	12,680,157	12,680,157
Liabilities under insurance contracts	105,673	105,673	70,433	70,433
Subordinated debt	222,259	222,259	147,902	147,902
Total	**13,338,306**	**13,338,306**	**13,473,283**	**13,473,283**

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

Notes

Note DKK 1,000

Note		Share capital	Functional currency	Net profit	Shareholders' equity	Share capital %
47	**Group holdings and undertakings**					
	P/F BankNordik	200,000	DKK	221,874	1,922,035	100%
	Insurance companies					
	P/F Trygd	40,000	DKK	264	67,907	100%
	P/F NordikLív	30,000	DKK	561	30,318	100%
	Vörður Tryggingar hf	0	ISK	5,527	0	100%
	Real estate agency					
	P/F Skyn	4,000	DKK	1,412	7,883	100%
	Group holdings recognised under assets held for sale and investment properties					
	Sp/f Íbúðir undir Gráasteini (at the end of 2012)	125	DKK	-	-	0%

Notes

Note DKK 1,000

48 **Reconciliations of changes in insurance liabilities**

	2016			2015		
	Non-life	Life	Total	Non-life	Life	Total
Unearned premium provisions	31,936	0	31,936	28,899	0	28,899
Outstanding claims provisions	72,678	1,060	73,738	41,534	0	41,534
Liabilities under insurance contracts, year-end	**104,613**	**1,060**	**105,673**	**70,433**	**0**	**70,433**
Unearned premium provisions						
Beginning of year	28,899	0	28,899	26,361	0	26,361
Premiums received	97,224	11,240	108,465	91,519	0	91,519
Premiums recognised as income	-94,187	-11,240	-105,428	-88,981	0	-88,981
Unearned premium provisions, year-end	**31,936**	**0**	**31,936**	**28,899**	**0**	**28,899**
Outstanding claims provisions						
Beginning of year	41,534	0	41,534	38,108	0	38,108
Claims paid regarding current year	-38,679	-3,740	-42,419	-37,830	0	-37,830
Claims paid regarding previous years	-20,192	0	-20,192	-12,880	0	-12,880
Change in claims regarding current year	84,011	4,800	88,811	49,805	0	49,805
Change in claims regarding previous years	6,003	0	6,003	4,332	0	4,332
Outstanding claims provisions, year-end	**72,678**	**1,060**	**73,738**	**41,534**	**0**	**41,534**

Reconciliations of changes in insurance assets

	2016			2015		
	Non-life	Life	Total	Non-life	Life	Total
Reinsurers' share of premium provisions	0	0	0	0	0	0
Reinsurers' share of claims provisions	25,480	0	25,480	615	0	615
Receivables from insurance contracts and reinsurers	1,787	0	1,787	1,912	0	1,912
Reinsurers' share of insurance contracts, year-end	**27,267**	**0**	**27,267**	**2,527**	**0**	**2,527**
Reinsurers' share of premium provisions						
Beginning of year	0	0	0	0	0	0
Premiums ceded	-8,827	-388	-9,215	-6,544	0	-6,544
Payments to reinsurers	8,827	388	9,215	6,544	0	6,544
Reinsurers' share of premium provisions, year-end	**0**	**0**	**0**	**0**	**0**	**0**
Reinsurers' share of claims provisions						
Beginning of year	615	0	615	127	0	127
Claims ceded	26,173	0	26,173	557	0	557
Payments received from reinsurers	-1,307	0	-1,307	-68	0	-68
Reinsurers' share of claims provisions, year-end	**25,480**	**0**	**25,480**	**615**	**0**	**615**

Note

Risk Management

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

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

Management's Report and the Risk Management Report 2016 contain further information about the Group's approach to risk management. The Risk Management Report 2016 is available on the Group's website: www.banknordik.com/rm

Capital Management

P/F BankNordik is a licensed financial services provider and must therefore comply with the capital requirements of the Faroese Financial Business Act of 27 August 2014. Faroese as well as Danish capital adequacy rules are based on the CRD IV requirements stipulated in the regulation (EU) No 575/2013 of the European parliament and of the Council of 26 June 2013.

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

Core capital largely corresponds to the carrying amount of shareholders' equity less proposed dividends, deferred tax assets etc. The solvency presentation in the section Statement of Capital in P/f BankNordik shows the difference between the carrying amount of shareholders' equity and the core capital. BankNordik's subordinated debt may, subject to certain conditions, be included in the Total capital. Note 40 to the financial statements show the P/F BankNordik's subordinated debt.

At year-end 2015, the Bank's core capital and solvency ratios were 14.8% and 16.8%, respectively. At the end of 2016, the core capital and solvency ratio were 16,0% and 18.3%, respectively.

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

Risk exposure concentrations

Table 1

(DKKm)	2016 DKKm	2016 In %	2015 DKKm	2015 In %
Public authorities	350	2.3%	528	3.1%
Corporate sector:				
Agriculture and farming, others	81	0.5%	59	0.4%
Aquaculture	17	0.1%	116	0.7%
Fisheries	480	3.2%	522	3.1%
Manufacturing industries, etc.	298	2.0%	725	4.3%
Energy and utilities	133	0.9%	291	1.7%
Building and construction, etc.	533	3.5%	659	3.9%
Trade	806	5.3%	1,496	8.8%
Transport, mail and telecommunications	912	6.0%	642	3.8%
Hotels and restaurants	30	0.2%	34	0.2%
Information and communication	177	1.2%	191	1.1%
Property administration, etc.	1,013	6.7%	1,168	6.9%
Financing and insurance	114	0.8%	266	1.6%
Other industries	662	4.4%	721	4.3%
Total corporate sector	**5,256**	**34.7%**	**6,891**	**40.8%**
Personal customers	9,596	63.1%	9,520	56.2%
Total	**15,203**	**100.0%**	**16,939**	**100.0%**
Credit institutions and central banks	1,034		771	
Total incl. credit institutions and central banks	**16,236**		**17,850**	

repay the debt. The Group exercises prudence when granting credit facilities to businesses and individuals when there is an indication that it will be practically difficult for the Group to maintain contact with the customer. The Group is particularly careful when granting credit to businesses in troubled or cyclical industries.

Credit exposure

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

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

Credit exposure relating to lending activities

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

Exposures in fisheries were DKK 480m. This represents 3.2% of total exposures. Property administration is represented by 6.7% of total exposures (DKK 1,013m) and DKK 17m was related to the aquaculture industry. This represents 0.1% of total exposures.

No single industry exceeded 10% of total exposures.

Exposures related to trading and investment activities

Table 2

(DKKm)	2016	2015
Bonds at fair value	4,677	3,399
Derivatives with positive fair value	32	39
Total credit risk	4,709	3,438
Equity	241	240
Total	**4,950**	**3,678**

Credit exposure by geographical area

Table 3

(DKKm)	2016 Exposures	2016 in%	2016 Loan/Credits	2016 Guarantees	2016 Unused credits	2015 Exposures	2015 in%	2015 Loan/Credits	2015 Guarantees	2015 Unused credits
Faroe Islands	7,777	51%	5,923	748	1,106	7,722	46%	6,189	739	794
Denmark	5,814	38%	3,187	1,230	1,398	7,870	46%	4,743	1,151	1,976
Greenland	1,611	11%	867	454	290	1,346	8%	668	462	216
Total	**15,203**	**100%**	**9,977**	**2,432**	**2,793**	**16,939**	**100%**	**11,600**	**2,352**	**2,986**

Quality of loan portfolio excl. financial institutions 2016

Table 4

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

Quality of loan portfolio excl. financial institutions 2015

		> 7.5m	< 7.5m	Total
Portfolio without weakness (3, 2a)	Exposure in DKKm	3,574	4,230	7,804
Portfolio with some weakness (2b)	Exposure in DKKm	1,510	4,743	6,252
Portfolio with significant weakness (2c)	Exposure in DKKm	127	458	584
	Unsecured	54	221	274
Portfolio with OEI (1)	Exposure in DKKm	719	1,085	1,804
	Unsecured	357	678	1,035
	Impairments/provisions	208	409	617
Portfolio without individual classification	**Exposure in DKKm**	**24**	**470**	**494**
Total	**Exposure in DKKm**	**5,953**	**10,985**	**16,939**

Credit exposure broken down by geographical area

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

Classification of customers

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

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

- 3 and 2a – Portfolio without weakness
- Portfolio with some weakness
- 2c – Portfolio with significant weakness
- 1 – Portfolio with impairment/provision (OEI)

As shown in table 4, 99.1% of total exposures are individually classified.

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

Concentration risk

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

Under section 145 of the Faroese Financial Business Act, and according to CRR, exposure to a single customer or a group of related customers, after deduction of particularly secure claims, may not exceed 25% of the Total capital. The Group submits quarterly reports to the Danish FSA on its compliance with these rules. In 2016, none of the Group's exposures exceeded these limits.

The Group's overall target is for no industry to make up more than 10% of the Group's total exposure, see table 10, except for the industry group "Trade" which may be up 15%.

In special cases, exposures may be above 10%, but only for customers of a high credit quality, and where the Group has accepted collateral. In addition, the

Credit exposure and collateral for 2016

Table 5

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

Credit exposure and collateral for 2015

(DKKm)	Personal	Corporates	Personal & Corporate	Public	Total
Exposure	9,520	6,891	16,411	528	16,939
Loans and advances and guarantees*	7,635	4,981	12,616	424	13,040
Collateral	5,280	4,063	9,343	13	9,356
Unsecured (of exposures)	4,240	2,827	7,067	515	7,582
Unsecured (Loans and advances and guarantees)	2,355	918	3,273	411	3,684
Unsecured ratio	45%	41%	43%	98%	45%
Unsecured ratio (Loans and advances and guarantees)	31%	18%	26%	97%	28%

** Before deductions of impairments and provisions*

Group's long-term target is for no single exposure (on a Group basis) to make up more than 10% of the Group's Total capital. The Group has a few customers with exposures exceeding 10% of the base capital all of which are classified 2b, 2a or 3.

Collateral

The Group applies various instruments available to reducing the risk on individual transactions, including collateral in the form of tangible assets, netting agreements and guarantees. The most important instruments that can be used to reduce risk are charges on tangible and intangible assets, guarantees and netting agreements under derivative master agreements, as further described in Liquidity risk p. 98 Collateral provided by the Group.

The types of collateral most frequently provided are real estate (72%), ships/aircraft (6%) 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

Distribution of past due amount

Table 6

(DKKm)	2016				2015			
	Exposure	Past due total	Past due > 90 days	Total balance with past due	Exposure	Past due total	Past due > 90 days	Total balance with past due
Portfolio without weakness (3, 2a)	6,422	13	3	786	7,804	19	0	1,121
Portfolio with some weakness (2b)	6,556	62	1	1,251	6,252	77	1	1,496
Portfolio with significant weakness (2c)	480	4	0	155	584	7	1	203
Portfolio with impairment/provision (1)	1,602	30	11	584	1,804	75	7	725
Portfolio without individual classification	143	5	1	34	494	8	1	74
Total	**15,203**	**114**	**17**	**2,810**	**16,939**	**186**	**10**	**3,618**
Past due in % of exposure		0.75%	0.11%			1.10%	0.06%	

Exposures and individual impairments by sector

Table 7

(DKKm)	2016		2015	
	Exposure	Impairments./ Provisions	Exposure	Impairments./ Provisions
Public	350	0	528	0
Private	9,596	241	9,520	270
Corporate	5,256	385	6,891	348
Total	**15,203**	**626**	**16,939**	**617**
In % of total exposure		4.1%		3.6%

authorities and banks) and collateral in movables, the haircut is 100%.

Table 5 shows the Bank's total credit exposure and the collateral for the loans granted divided into personal, corporate and the public sector. Unsecured exposures accounted for 42% of personal exposures and 45% of corporate exposures. The largest part of the Bank's credit is granted against collateral in real estate.

As shown in table 6, DKK 17m is more than 90 days past due.

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

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

Loans and advances specified by maturity

Table 8

(DKKm)	2016	2015
On demand	19	353
3 months and below	236	191
3 months to 1 year	1,354	1,834
Over 1 year to 5 years	3,458	4,296
Over 5 years	4,073	4,000
Total loans and advances	**9,141**	**10,675**

The total impairment charges above for 2016 do not reflect the impairments made at the date of the Bank's acquisition of exposures from Sparbank and Amagerbanken, or which should have been made at such date, but was not identified before in the period of 12 months following the relevant acquisition. Impairment charges of the acquired exposures from Sparbank (2010) and Amagerbanken (2011) are recognised as either part of the booked value of the aquired exposures or as goodwill. If such impairments are reversed, they will be recognised as other income.

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

A further breakdown by maturity of loans and advances can be found in table 14. There are no aggregated data on the collateral behind matured loans and advances.

Specification of individual and collective impairments

Table 9

DKKm	2016			2015		
	Loans gross	Individual impairments	Impairments from acquired portfolio	Loans gross	Individual impairments	Impairments from acquired portfolio
Individual impairments:						
Faroe Islands	477	252	0	454	231	0
Denmark	589	313	191	773	320	289
Greenland	42	27	0	38	26	0
Total	**1,108**	**592**	**191**	**1,264**	**577**	**289**
Collective impairments:						
Faroe Islands	5,446	26	0	5,735	36	0
Denmark and Greenland	3,422	27	0	4,601	18	0
Total	**8,868**	**53**	**0**	**10,337**	**54**	**0**

Market Risk

Organisation

The Bank has established an Investment Working Group to monitor the financial markets and continuously update its expectations for the financial markets. The Investment Working Group meets once a month to discuss the outlook for the financial markets and make an update containing a recommendation on strategic asset allocation on about a 12-month horixon to the Investment Group.

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

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

Definition

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

BankNordik's 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

BankNordik's market risks are

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

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

Market Risk Management

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

Likely effects from changes in markets value					Table 10
	Change	2016	% of Core Capital	2015	% of Core Capital
Equity risk DKKm (+/-)	10%	24	1.6%	24	1.4%
Exchange risk DKKm (+/-) EUR	2.25%	0	0.0%	1	0.0%
Exchange risk DKKm (+/-) Other currencies	10%	7	1.6%	27	1.6%
Interest rate risk DKKm (parallel shift)	100 bp	18	1.1%	36	2.1%

risk to the Board of Directors and the Executive Board on a monthly basis.

Market risk

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

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

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

Interest rate risk

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

Interest rate risk broken down by Currency		Table 11
(DKKm)	2016	2015
DKK	13	16
ISK	0	16
EUR	5	4
Other	0	0
Interest rate risk	18	36

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. Interest rate risk in EUR is mainly from corporate bonds.

Exchange rate risk

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

The Group's exchange rate risk mainly stems from:

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

Foreign exchange position		Table 12
(DKKm)	2016	2015
Assets in foreign currency	75	160
Liabilities and equity in foreign currency	0	0
Exchange rate indicator 1	75	160

Equity market risk

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

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

Equity risk		Table 13
DKKm	2016	2015
Shares/unit trust certificates listed on the Copenhagen Stock Exchange	26	33
Shares/unit trust certificates listed on other stock exchanges	20	17
Other shares at fair value based on the fair-value option	195	190
Total shares etc.	**241**	**240**

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. In December 2015 the Danis FSA designated BankNordik as a systematically important financial institutions (SIFI). As a consequence of the designation to SIFI institution the LCR requirements are fully implemented at the end of 2015. With a liquidity coverage ratio (LCR) of 257 % at 31. December 2016 BankNordik's liquidity position remains robust.

Control and management
Liquidity risk is a fundamental part of the Group's business strategy. The Group's liquidity is monitored and managed by Treasury on a daily basis in accordance with the limits set by the Board of Directors and reported to the Executive Board by the Finance Department. A liquidity report with stress tests is submitted to the Executive Board and the Group Risk Committee on a monthly basis. Treasury has the operational responsibility for investment of the liquidity, while Finance Department is responsible for reporting and monitoring liquidity. The Group has implemented contingency plans to ensure that it is ready to respond to 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 complies with LCR requirements and therefore closely monitores the bond portfolio with regards to holding sufficient LCR compliable bonds.

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

Twelve-month liquidity
The Bank's 12-month funding requirements are based on projections for 2017, 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.

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. For further information see note 40 in the annual report 2016.

Liquidity Management

	Board of Directors	Executive Board	Financial Manager	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 14

2016	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	216,915	0	0	0	0	216,915
Due from Credit institution	366,637	250,498	876	201,197	0	819,209
Loans and advances	19,463	237,692	1,389,091	11,596,097	0	13,242,344
Bonds and Shares	105,156	31,729	895,260	3,740,858	194,793	4,967,797
Derivatives	31,852	0	0	0	0	31,852
Other Assets	146,912	54,120	0	2,206	224,245	427,483
Total assets	**886,936**	**574,040**	**2,285,228**	**15,540,358**	**419,039**	**19,705,600**
Due to credit institutions and central banks	42,000	648	2,914	337,879	0	383,440
Deposits	9,465,261	1,679,378	76,565	1,477,607	0	12,698,810
Derivatives						
Other liabilities	165,432	61,986	2,816	3,629	55,633	289,495
Provisions for liabilities	0	0	0	45,807	0	45,807
Subordinated debt	941	1,881	6,584	278,697	0	288,103
Equity					**2,028,143**	**2,028,143**
Total	**9,673,633**	**1,743,893**	**88,878**	**2,143,618**	**2,144,644**	**15,794,666**
Off-balance sheet items						
Guarantees, etc.	47,985	341,228	363,341	1,742,325	0	2,494,879
Other commitments						
Total	**47,985**	**341,228**	**363,341**	**1,742,325**	**0**	**2,494,879**
2015						
Cash in hand and demand deposits with central banks	419,944	0	0	0	0	419,944
Due from Credit institution	102,461	108,381	876	201,168	0	412,886
Loans and advances	354,677	192,937	1,882,944	11,220,089	0	13,650,647
Bonds	4,352	449	632,964	2,885,607	0	3,523,372
Shares	50,270	0	0	189,725	0	239,995
Bonds and Shares	54,622	449	632,964	3,075,333	0	3,763,367
Derivatives	11,982	25,881	1,377	0	0	39,240
Other Assets	191,586	99,506	0	-343,623	566,731	514,200
Total assets	**1,135,272**	**427,154**	**2,518,161**	**14,152,967**	**566,731**	**18,800,285**
Due to credit institutions and central banks	275,114	648	2,914	337,879	0	616,554
Deposits	9,078,563	1,662,507	285,273	1,726,225	0	12,752,567
Derivatives	13,774	29,856	654	1,162	0	45,446
Other liabilities	112,563	64,850	21,444	64,993	82,258	346,108
Provisions for liabilities	0	0	0	136,552	0	136,552
Subordinated debt	3,443	6,887	30,991	539,864	180,903	762,089
Equity	**0**	**0**	**0**	**0**	**1,766,335**	**1,766,335**
Total	**9,483,457**	**1,764,748**	**341,276**	**2,806,674**	**2,058,924**	**16,455,079**
Off-balance sheet items						
Guarantees, etc.	48,980	102,356	405,576	1,871,596	0	2,428,508
Other commitments						
Total	**48,980**	**102,356**	**405,576**	**1,871,596**	**0**	**2,428,508**

Collateral provided by the Group
As customarily used by financial market participants BankNordik has entered into standard CSA agreements with other banks. These agreements commit both parties to provide and daily adjust collateral for negative market values. The bank with negative value exposure receives collateral. Thereby reducing counterparty risk to daily market fluctuations of derivatives and pledged amount. As a consequence of these agreements BankNordik at yearend 2016 had pledged bonds and cash deposits valued at DKK 37m under these agreements. End of period BankNordik had negative market value to all counterparties and has therefore not received any collateral yearend 2016.

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 2016, this collateral amounted to DKK 39m.

Operational Risk

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

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

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

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

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

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

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

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

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

Long-term goals in operational risk management
In addition to monitoring the level of risk for assessing the capital requirement for operational risk, the Bank's monitoring system is designed to gather new statistics on operational risk. The long-term objective is for the monitoring system monitoring the level of

operational risk in the Bank's branches on a monthly basis to have a preventive effect and to help to minimise the Bank's operational risk.

Insurance Risk

Insurance risk in the Group consists mostly of non-life insurance risk. The Group has a non-life insurance company, Trygd and a life insurance company, Nordiklív, which was established in 2015.

BankNordik sold of the shares in Vörður, an Icelandic non-life insurance company in Q3 2016.

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 consentration risk and operational risk.

Likely effects from changes in markets value — Table 15

	Change	2016	2015
Equity risk DKKm (+/-)	10%		
Exchange risk DKKm (+/-) in euro	2.25%		
Exchange risk DKKm (+/-) others currency	10%		
Interest rate risk DKKm (parallel shift) - Trygd	100 bp	0.7	1.1
Interest rate risk DKKm (parallel shift) Total	**100 bp**		

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

Distrubution of portfolio of Trygd — Table 16

(in %)	2016	2015
Commercial lines	69%	69%
Personal lines	31%	31%

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

Financial assets linked to insurance risk — Table 17

(mDKK)	2016	2015
Listed securities on stock exchange	136	124
Accounts receivable (total technical provisions)	2	2
Cash and cash equivalents	13	18
Total	**151**	**144**
Technical provisions, short term	107	70

8.1 Insurance risk

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

Trygd has invested in investment securities and cash and cash equivalents in the effort to balance the exposure to market and currency risk.

8.2 Trygd insurance

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

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

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

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

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

Run-off gains/losses in Trygd Table 18

(mDKK)

Sector:	2016	2015	2014	2013	2012
Industry	2.5	1.12	1.95	-1.31	-4.9
Private	0.43	0.64	-0.18	0.96	0.48
Accidents	-0.32	0.27	-0.07	-0.10	0
Automobile	3.39	2.3	0.99	0.86	2.8
Total	**6.00**	**4.33**	**2.69**	**0.41**	**-1.62**

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

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

Technical provisions to cover future payments for claims arising are calculated using appropriate and generally recognised methods. Insurance provisions are made to cover the future risk on the basis of experience from previous and similar claims. These methods and analyses are subject to the natural uncertainty inherent in estimating future payments, both in terms of size and date of payment.

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

8.3 NordikLív – Life insurance

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

NordikLív issues regular life, disability and critical illness insurance covers in the Faroese market and in 2016 the total premiums amounted to DKK 10.8m, and the individual solvency requirement was much lower than the minimum capital requirement defined by law, leaving NordikLív with a capital requirement of DKK 26.3m compared to a equity of DKK 30.3m.

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

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

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

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

Contractual maturity for the insurance segment

Table 19

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

Contractual maturity for the insurance segment

2015	On demand	0 – 12 months	1 – 5 years	Over 5 years	No stated maturity	Total
Assets						
Securities	123,946					123,946
Reinsurance assets		615				615
Accounts receivables		1,912				19,648
Restricted cash						
Cash and cash equivalents	18,428					18,428
Total financial assets	**142,374**	**20,263**				**162,637**
Liabilities						
Technical provision		70,433				70,433
Account payable		7,867				6,438
Total financial liabilities		**76,871**				**76,871**
Assets – liabilities	**142,374**	**-56,608**				**85,766**

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

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

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

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Highlights

DKK 1,000	2016	2015	Index 16/15	2014	2013	2012
Net interest income	413,204	468,652	88	497,751	574,032	613,265
Net fee and commision income	182,202	216,839	84	189,190	174,265	184,893
Net interest and fee income	604,875	694,735	87	693,878	756,028	808,552
Net insurance income	26,627	27,857	96	29,185	69,427	80,975
Interest and fee income and income from insurance activities, net	631,502	722,593	87	723,063	825,455	889,527
Market value adjustments	11,313	-38,751	-29	9,540	22,017	19,369
Other operating income	39,187	58,499	67	43,703	63,547	39,029
Staff cost and administrative expenses	462,461	514,003	90	476,373	543,390	641,300
Impairment charges on loans and advances etc.	18,228	59,655	31	111,014	178,234	148,169
Net profit continued operations	149,171	-254,562	-59	-145,934		
Net profit discontinued operations	72,703	33,553	217	18,523		
Net profit	221,874	-221,009	-100	-127,411	92,396	103,073
Loans and advances	9,140,637	10,675,180	86	10,491,509	10,460,299	11,302,702
Bonds at fair value	4,677,230	3,398,816	138	3,534,678	3,493,271	2,881,904
Intangible assets	0	0	0	529,730	798,141	807,268
Assets held for sale	11,974	35,402	34	51,771	58,168	25,811
Assets in disposals groups classified as held for sale	0	581,280		0	0	0
Total assets	15,552,094	16,230,078	96	16,535,501	17,084,562	17,608,966
Due to credit institutions and central banks	341,676	574,791	59	591,347	1,290,408	1,288,052
Deposits and other debt	12,668,697	12,680,157	100	12,603,533	12,192,748	12,745,653
Total shareholders' equity	1,922,035	1,766,335	109	1,999,195	2,155,998	2,053,362

Ratios and key figures

	Dec. 31	Dec. 31	Dec. 31	Dec. 31	Dec. 31
Solvency	**2016**	**2015**	**2014**	**2013**	**2012**
Solvency ratio, %	18.3	16.8	14.8	14.7	14.8
Core capital ratio, %	16.0	14.8	12.9	12.8	12.9
Core capital ratio excl. hybrid core capital, end of period, %	16.0	13.9	11.8	10.6	9.6
Risk-weighted Items, DKK mill	9,790	11,463	11,943	11,511	11,902
Profitability					
Return on equity before tax, %	15.0	-19.6	-5.5	5.4	6.1
Return on equity after tax, %	12.0	-11.7	-6.1	4.4	5.1
Income / Cost ratio	1.4	0.7	0.9	1.1	1.1
Cost / income, % (excl. value adjustm. and impairments)	71.0	134.7	101.7	69.0	73.1
Return on assets	1.4	-1.4	-0.8	0.5	0.6
Market risk					
Interest rate risk, %	1.1	2.2	3.0	4.8	1.5
Foreign exchange position, %	4.8	9.5	8.6	7.1	17.3
Liquidity					
Loans and advances plus impairment charges as % of deposits	77.2	89.5	88.2	89.6	91.5
Excess cover relative to statutory liquidity requirements, %	241.7	166.8	182.2	178.0	152.6
Credit risk					
Large exposures as % of capital base	44.3	65.0	81.1	52.2	36.3
Impairment and provisioning ratio, %	5.5	4.9	4.8	4.1	3.0
Write-off and impairments ratio, %	0.1	0.4	0.8	1.4	1.1
Growth on loans and advances, %	-14.4	1.8	0.3	-7.5	-4.0
Gearing of loans and advances, %	4.8	6.0	5.2	4.9	5.5
Shares nom. DKK 100)					
Earnings per share after tax, DKK	22.6	-22.4	-12.9	9.4	10.5
Book value per share, DKK	197.7	179.1	202.7	218.6	208.2
Proposed dividend per share DKK	30.0	2.0	2.0	1.5	1.0
Market price per share, DKK	135.5	127.6	104.5	128.0	76.0
Market price / earnings per share DKK	6.0	-5.7	-8.1	13.7	7.3
Market price / book value per share DKK	0.7	0.7	0.5	0.6	0.4
Other					
Number of full-time employees, end of period	415	459	506	523	550

Highlights, ratios and key figures – BankNordik Group

Highlights	Full year	Full year	Index	Q4	Q3	Q2	Q1	Q4
DKK 1,000	2016	2015	16 / 15	2016	2016	2016	2016	2015
Net interest income	413,204	468,652	88	100,037	103,055	97,581	112,531	110,945
Dividends from shares and other investments	9,469	9,244	102	84	30	9,140	214	62
Net fee and commision income	182,202	216,839	84	51,025	44,798	41,706	44,674	52,014
Net interest and fee income	604,875	694,735	87	151,146	147,883	148,427	157,419	163,021
Net insurance income	26,627	27,857	96	-6,782	13,486	11,496	8,426	7,788
Interest and fee income and income from insurance activities, net	631,502	722,593	87	144,364	161,370	159,922	165,845	170,809
Market value adjustments	11,313	-38,751		-10,232	11,673	12,585	-2,712	-4,432
Other operating income	39,187	58,499	67	16,559	4,081	13,379	5,168	26,494
Staff cost and administrative expenses	462,461	514,003	90	111,724	111,242	112,198	127,298	127,629
Impairment charges on loans and advances etc.	18,228	59,655	31	10,263	-1,642	6,974	2,633	26,091
Net profit continued operations	149,171	-254,562		37,444	34,541	48,423	28,764	-323,829
Net profit discontinued operations	72,703	33,553	217	0	79,549	1,346	-8,192	15,819
Net profit	221,874	-221,009		20,532	131,002	49,769	20,572	-308,010
Loans and advances	9,140,637	10,675,180	86	9,140,637	9,371,948	9,394,601	9,961,083	10,675,180
Bonds at fair value	4,677,230	3,398,816	138	4,677,230	4,509,844	4,343,250	3,895,295	3,398,816
Assets held for sale	11,974	35,402	34	11,974	32,266	32,755	35,435	35,402
Assets in disposals groups classified as held for sale				0				581,280
Total assets	15,552,094	16,230,078	96	15,552,094	15,936,796	16,419,074	16,213,273	16,247,814
Due to credit institutions and central banks	341,676	574,791	59	341,676	494,502	615,761	592,015	574,791
Deposits and other debt	12,668,697	12,680,157	100	12,668,697	12,804,917	12,949,228	12,532,321	12,680,157
Total shareholders' equity	1,922,035	1,766,335	109	1,922,035	1,910,554	1,811,544	1,767,240	1,766,335

Ratios and key figures	Dec. 31 2016	Dec. 31 2015	Dec. 31 2016	Sept. 30 2016	June 30 2016	March 31 2016	Dec. 31 2015
Solvency							
Solvency ratio, %	18.3	16.8	18.3	19.0	17.1	17.2	16.8
Core capital ratio, %	16.0	14.8	16.0	17.0	15.1	15.2	14.8
Core capital ratio excl. hybrid core capital, end of period, %	16.0	13.9	16.0	17.0	15.1	14.4	13.9
Risk-weighted Items, DKK mill	9,790	11,463	9,790	10,500	10,577	10,984	11,463
Profitability							
Return on equity after tax, %	12.0	-11.7	1.1	7.0	2.8	1.2	-16.0
Cost / income, %	72.5	149.8	81.7	63.7	67.3	79.2	340.9
Cost / income, % (excl. value adjustm. and impairments)	71.0	134.7	70.1	69.2	68.1	76.4	320.1
Return on assets	1.4	-1.4	0.1	0.8	0.3	0.1	-1.9
Market risk							
Interest rate risk, %	1.1	2.2	1.1	1.3	1.7	2.7	2.2
Foreign exchange position, %	4.8	9.5	4.8	13.6	9.6	8.8	9.5
Liquidity							
Excess cover relative to statutory liquidity requirements, %	241.7	166.8	241.7	227.6	254.3	207.3	166.8
Credit risk							
Growth on loans and advances, %	-14.4	1.8	-2.5	-0.2	-5.7	-6.7	0.1
Gearing of loans and advances	4.8	6.0	4.8	4.9	5.2	5.6	6.0
Impairment and provisioning ratio, end of period, %	5.5	4.9	5.5	5.4	5.4	5.1	4.9
Write-off and provisioning ratio, %	0.1	0.4	0.1	0.1	0.1	0.0	0.2
Share of amounts due on which interest rates have been reduced, end of period, %	0.7	1.1	0.7	0.8	0.9	0.9	1.1
Shares							
Earnings per share after tax (nom. DKK 20), DKK	22.6	-22.4	2.1	13.3	5.1	2.1	-31.2
Market price per share (nom. DKK 20), DKK	135.5	127.6	135.5	127.0	113.5	114.0	127.6
Book value per share (nom. DKK 20), DKK	198	179	198	195	185	179	179
Other							
Number of full-time employees, end of period	415	459	415	416	464	477	459

Note

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

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Highlights

DKK 1,000	2016	2015	2014	2013	2012
Net interest income	411,671	467,107	495,505	561,639	601,721
Net fee and commision income	191,414	216,839	189,190	181,777	190,253
Net interest and fee income	612,554	693,190	691,632	750,842	793,974
Market value adjustments	11,954	-37,067	9,438	11,704	14,431
Other operating income	118,583	51,535	39,386	60,656	34,891
Staff cost and administrative expenses	442,584	490,696	458,249	491,852	589,620
Depreciation and impairment of property, plant and equipment	8,515	513,677	270,855	25,083	25,083
Impairment charges on loans and advances etc.	18,228	59,655	111,014	178,234	148,460
Income from associated and subsidiary undertakings	4,500	40,583	7,320	22,638	41,284
Net profit	221,874	-221,009	-127,411	92,396	103,099
Loans and advances	9,140,637	10,675,180	10,491,509	10,460,299	11,302,698
Bonds at fair value	4,509,287	3,274,870	3,237,238	3,187,351	2,697,873
Intangible assets	0	0	520,672	788,695	797,779
Assets held for sale	11,974	35,402	51,771	58,168	25,811
Assets in disposals groups classified as held for sale		187,904	0	0	0
Total assets	15,455,187	15,825,630	16,197,909	16,752,832	17,324,821
Due to credit institutions and central banks	341,676	574,791	591,347	1,290,408	1,288,052
Deposits and other debt	12,691,224	12,739,229	12,690,011	12,284,672	12,861,466
Total shareholders' equity	1,922,035	1,759,575	1,991,582	2,148,388	2,046,255

	Dec. 31	Dec. 31	Dec. 31	Dec. 31	Dec. 31
Ratios and key figures	**2016**	**2015**	**2014**	**2013**	**2012**
Solvency					
Solvency ratio, %	18.3	16.8	14.8	14.7	14.8
Core capital ratio, %	16.0	14.8	12.9	12.8	12.9
Core capital ratio excl. hybrid core capital, end of period, %	16.0	13.9	11.8	10.6	9.6
Risk-weighted Items, DKK mill	9,790	11,463	11,943	11,511	11,902
Profitability					
Return on equity before tax, %	15.0	-18.0	-5.7	5.1	5.7
Return on equity after tax, %	12.1	-11.8	-6.2	4.4	5.2
Income / Cost ratio	1.6	0.7	0.9	1.1	1.1
Cost / income, % (excl. value adjustm. and impairments)	61.6	130.6	102.2	67.2	71.6
Return on assets	1.4	-1.4	-0.8	0.6	1.0
Market risk					
Interest rate risk, %	1.1	1.1	2.0	3.7	0.4
Foreign exchange position, %	4.8	9.5	8.6	7.1	17.3
Liquidity					
Loans and advances plus impairment charges as % of deposits	77.1	88.8	87.3	88.9	90.7
Excess cover relative to statutory liquidity requirements, %	233.3	138.7	159.0	154.9	132.7
Credit risk					
Large exposures as % of capital base	44.3	65.0	81.1	52.2	36.3
Impairment and provisioning ratio, %	5.5	4.9	4.8	4.1	3.0
Write-off and impairments ratio, %	0.1	0.4	0.8	1.4	1.1
Growth on loans and advances, %	-14.4	1.8	0.3	-7.5	-4.0
Gearing of loans and advances	4.8	6.1	5.3	4.9	5.5
Shares nom.					
Earnings per share after tax, DKK	22.6	-22.4	-12.9	9.4	10.5
Book value per share, DKK	197.7	178.4	201.9	217.8	207.5
Proposed dividend per share DKK	30.0	2.0	2.0	1.5	1.0
Market price per share, DKK	135.5	127.6	104.5	128.0	76.0
Market price / earnings per share DKK	6.0	-5.7	-8.1	13.7	7.3
Market price / book value per share DKK	0.7	0.7	0.5	0.6	0.4
Other					
Number of full-time employees, end of period	385	363	412	431	469

Definitions of key financial ratios

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

Management and directorships

Board of Directors

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

Stine Bosse (Chairman)

Educational background:	Strategic Agility program, Harvard Business School, USA; LinKS Wharton University of Pennsylvania, USA; LinKS, INSEAD, France, MSc of Law, University of Copenhagen
Principal occupation:	Self-employed. Former CEO of Tryg A/S
Board positions held that are relevant to banking and insurance:	Chairman of the board of: TELE-POST and P/F BankNordik. Board Member of: Allianz Group Germany, TDC A/S. Former Boardmember of Nordea.
First elected to the Board in:	2015
Address:	Nationernes Allé 26, DK-3000 Helsingør, Denmark

Rúni Vang Poulsen (Deputy Chairman)

Educational background:	MSc in Business Management and Accounting
Principal occupation:	CEO of Smyril Line P/F.
Board positions held that are relevant to banking and insurance:	Chairman of the board of: Smyril Line Transport A/S. Vice chairman of the board of: P/F BankNordik. Board member of: The Financing Found from 1992
First elected to the Board in:	2015
Address:	Hvítanesvegur 17, FO-188 Hoyvík, Faroe Islands.

Jógvan Jespersen

Educational background:	HD – Finance and accounting from School of Business and Social Sciences, Aarhus University
Principal occupation:	Managing Director of Faroese Pelagic organization
Board positions held that are relevant to banking and insurance:	Chairman of the board of: Forskerparken P/F iNOVA. Board member of: P/F BankNordik, Faroe Shipowners Association, Security Fund for fisheries
First elected to the Board in:	1994 – 2006 and 2015
Address:	Smærugøta 2, FO-100 Tórshavn, Faroe Islands

Súsanna Poulsen

Educational background:	Authorized insurance and financial advisor
Principal occupation:	CEO of Hjelmeland Sparebank, Norway.
Board positions held that are relevant to banking and insurance:	Chairman of the Board of: Ryfylke Ejendomsmegling AS. Board member of: P/F BankNordik
First elected to the Board in:	2015
Address:	Prestegarden 76, NO-4130 Hjelmeland, Norway.

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

Árni Ellefsen (CEO)

Educational background:	MSc in Business Management and Accounting, State Authorized Public Accountant.
Principal occupation:	CEO of P/F BankNordik.
Board positions held:	Chairman of the board of: P/F NordikLív Lívstryggingarfelag, P/F Skyn and the Faroese Banking Association (Felagið Peningastovnar) Board member of: BI Holding A/S, P/F Trygd and the Faroese Association of Employers in the Financial Sector (Arbeiðsgevara-felagið fyri fíggjarstovnar)
Year of joining the Executive Board:	2015
Address:	Ægishædd 6, FO-100 Tórshavn, Faroe Islands.

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www.banknordik.fo

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

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

The company is listed on Nasdaq Copenhagen.

IR contact

Carl Herup Olsen
E-mail: ir@banknordik.fo
Tel. +298 330 380

Branches

Faroe Islands

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100 Tórshavn
Tel. +298 330 330

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Klaksvíksvegur
700 Klaksvík
Tel. +298 330 330

Tvøroyri
Sjógøta 2
800 Tvøroyri
Tel. +298 330 330

Miðvágur
Jatnavegur 26
370 Miðvágur
Tel. +298 330 330

Saltangará
Heiðavegur 54
600 Saltangará
Tel. +298 330 330

Customer Service
Oknarvegur 5
100 Tórshavn
Tel. +298 330 330

Corporate Banking
Oknarvegur 5
100 Tórshavn
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Markets
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8000 Aarhus C
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2770 Kastrup
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2300 København S
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2300 København S
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Greenland

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SENDISTOVAN