Annual Report 2019

BANKNORDIK

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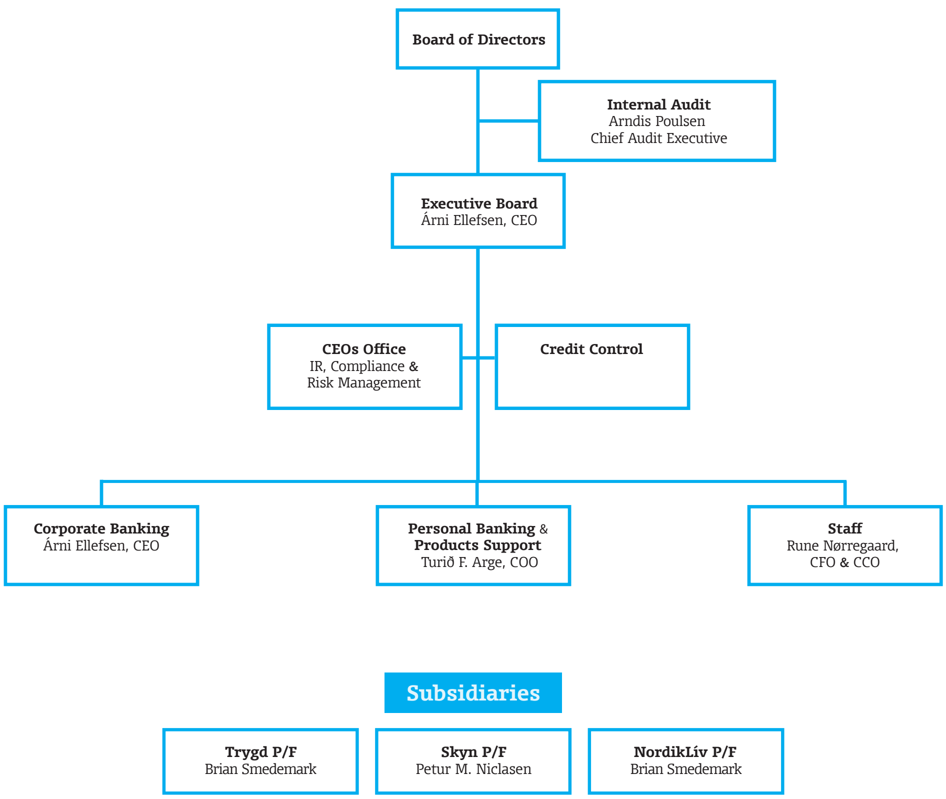
BankNordik Organisation



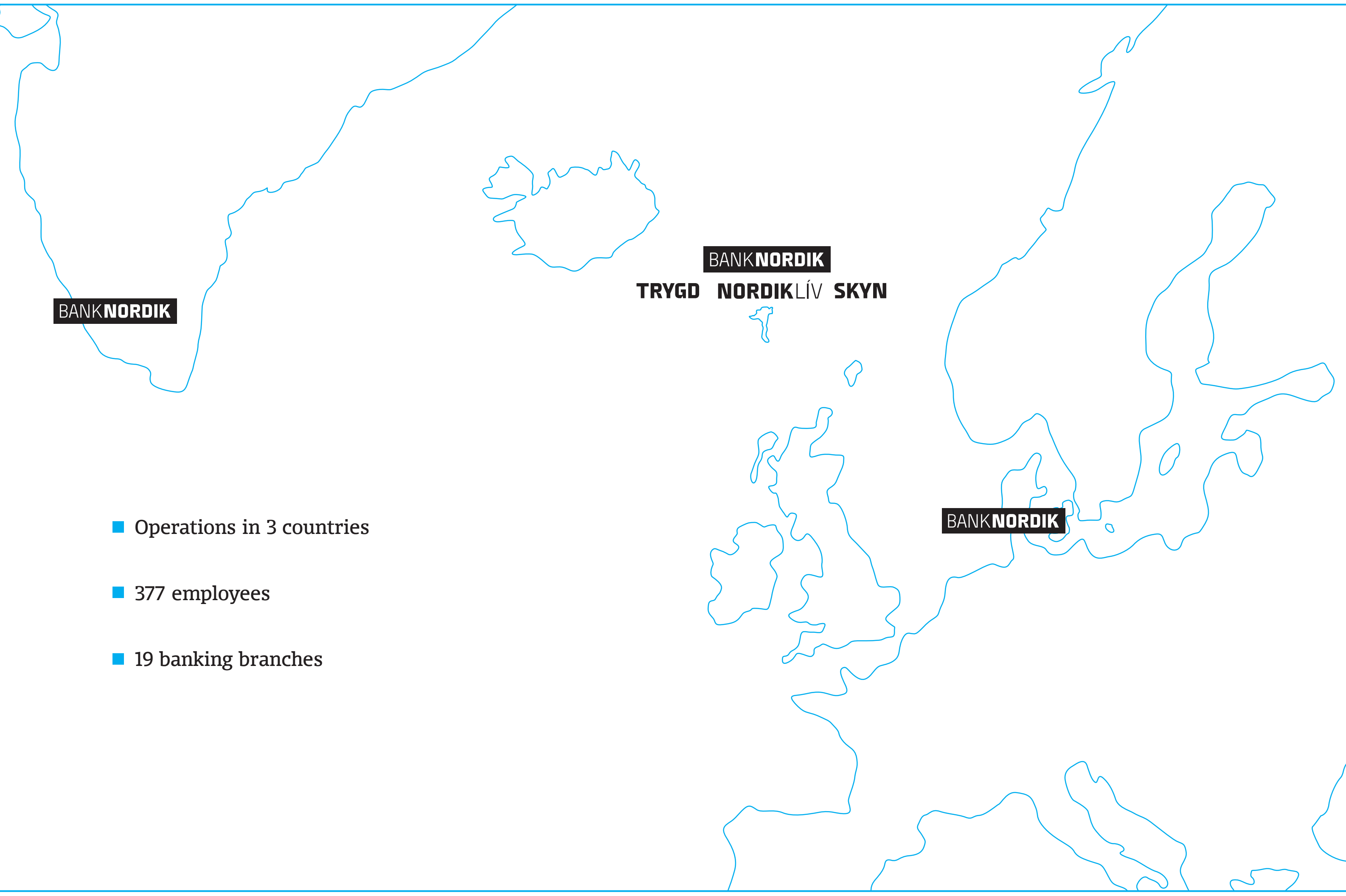
Overview of the Group

BankNordik

Trygd	Skyn	NordikLív
100%	100%	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
- 377 employees
- 19 banking branches

Highlights, ratios, and key figures - BankNordik Group

Highlights **DKK 1,000**	**Full year 2019**	**Full year 2018**	**Index 19/18**	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**	**Q4 2018**	**Q3 2018**
Net interest income	366,691	374,143	98	94,785	90,413	90,459	91,034	92,349	94,286
Dividends from shares and other investments	13,984	11,396	123	0	0	13,743	240	83	77
Net fee and commision income	189,475	172,213	110	48,993	47,126	45,479	47,876	42,477	42,741
Net interest and fee income	570,149	557,752	102	143,778	137,539	149,681	139,151	134,909	137,104
Net insurance income	52,327	43,751	120	13,630	14,875	15,305	8,517	12,598	12,999
Interest and fee income and income from insurance activities, net	622,476	601,503	103	157,408	152,414	164,987	147,668	147,507	150,103
Market value adjustments	4,395	7,113	62	3,172	749	-15,075	15,548	-5,538	4,330
Other operating income	14,497	19,947	73	3,172	5,612	2,922	2,791	2,311	-4,728
Staff costs and administrative expenses	470,980	459,247	103	124,754	113,734	115,784	116,707	114,145	115,025
Impairment charges on loans and advances etc.	-104,928	-110,782	95	-24,573	-8,566	-52,732	-19,057	-18,033	-45,736
Net profit	206,631	262,097	79	48,418	39,847	65,946	52,419	32,763	60,050
Loans and advances	9,908,886	9,956,478	100	9,908,886	9,982,999	10,052,620	10,006,218	9,956,478	10,007,984
Bonds at fair value	5,599,529	4,565,087	123	5,599,529	5,024,465	5,159,449	5,174,715	4,565,087	4,558,273
Intangible assets	9,957	6,678	149	9,957	9,043	8,122	7,511	6,678	2,421
Assets held for sale	1,500	20,364	7	1,500	3,865	19,795	19,795	20,364	4,861
Total assets	18,173,399	16,703,555	109	18,173,399	17,618,509	17,715,177	17,417,463	16,703,555	16,716,361
Amounts due to credit institutions and central banks	54,922	298,610	18	54,922	368,008	150,905	83,127	298,610	320,950
Deposits and other debt	14,367,685	13,432,228	107	14,367,685	13,528,109	14,131,224	14,003,644	13,432,228	13,162,921
Total shareholders' equity	2,112,335	1,981,742	106	2,112,335	2,064,175	2,031,275	1,965,329	1,981,742	1,948,568

Ratios and key figures	**Dec. 31 2019**	**Dec. 31 2018**	**Dec. 31 2019**	**Sept. 30 2019**	**June 30 2019**	**March 31 2019**	**Dec. 31 2018**	**Sept. 30 2018**
Solvency								
Solvency ratio, %	22.3	19.8	22.3	21.0	19.6	19.2	19.8	17.6
Core capital ratio, %	20.2	17.7	20.2	18.9	17.5	17.2	17.7	15.5
CET 1 capital ratio, %	18.8	17.7	18.8	17.5	17.5	17.2	17.7	15.5
Risk-weighted Items, DKK mill	10,764	10,621	10,764	10,664	10,720	10,907	10,621	10,634
Profitability								
Return on shareholders' equity after tax, %	10.1	13.8	2.3	1.9	3.3	2.7	1.7	3.1
Cost / income, %	59.5	48.6	63.9	68.6	43.7	61.1	73.9	47.7
Cost / income, % (excl. value adjustm. and impairments)	76.4	67.0	80.4	74.3	71.2	80.0	83.2	80.5
Return on assets	1.1	1.6	0.3	0.2	0.4	0.3	0.2	0.4
Market risk								
Interest rate risk, %	1.8	1.7	1.8	1.6	1.2	1.4	1.7	2.2
Foreign exchange position, %	1.4	1.3	1.4	1.0	2.1	1.9	1.3	1.9
Foreign exchange risk, %	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Liquidity								
Excess cover relative to statutory liquidity requirements, %	215.7	212.5	215.7	225.1	238.3	221.5	212.5	218.6
Credit risk								
Change in loans and advances, %	-0.5	4.4	-0.7	-0.7	0.5	0.5	-0.5	2.7
Gearing of loans and advances	4.7	5.0	4.7	4.8	4.9	5.1	5.0	5.1
Impairment and provisioning ratio, end of period, %	3.7	4.5	3.7	3.9	4.0	4.4	4.5	3.8
Write-off and provisioning ratio, %	-0.8	-0.8	-0.2	-0.1	-0.4	-0.1	-0.1	-0.3
Share of amounts due on which interest rates have been reduced, end of period, %	0.8	0.8	0.8	0.8	0.7	0.8	0.8	0.4
Shares								
Earnings per share after tax (nom. DKK 20), DKK	21.8	27.1	5.1	4.1	6.8	5.5	3.4	6.1
Market price per share (nom. DKK 20), DKK	109.0	108.5	109.0	102.5	109.0	108.0	108.5	113.0
Book value per share (nom. DKK 20), DKK	221.6	207.2	221.6	216.6	213.1	206.3	207.2	202.1
Other								
Number of full-time employees, end of period	377	393	377	383	390	393	393	385

CEO's letter to shareholders

I am pleased to report another year of financial and operational progress in which BankNordik delivered strong financial results, progressed well on operational efficiency, and raised the customer experience to a new level.

Income growth driven by strong customer activity

In spite of a continuously challenged business environment with persistent margin pressure, BankNordik increased its operating income in 2019 and delivered a strong return on equity of 10.1%. Customer activity was high and our insurance subsidiaries performed particularly well. Operating costs were up by 4% YoY mainly due to cost inflation, but are expected to drop notably in 2020 following recent cost-cutting initiatives. In line with previous years, we reversed impairment charges in the amount of DKK 105m in 2019, once again highlighting the sound quality of our credit portfolio. Net profit amounted to DKK 206.6m (DKK 21.8 per share). For the upcoming Annual General Meeting, the Board will propose an ordinary dividend payment of DKK 62.7m (DKK 7.0 per share).

Improved customer experiences

The targeted effort to strengthen the quality of our customer relationships paid off in 2019. Customer satisfaction improved notably as measured by a net promoter score and surveys performed by third parties have shown progressing results since the roll-out of last years' initiatives. In spite of our customers' evolving digital needs, our experience shows us that building personal relationships and providing service with a personal touch is still a vital element in earning our customers' trust and loyalty for the long term. We are therefore working hard to structure our services so that our customers get the best of both worlds – simple, accessible and digitised services for regular day-to-day banking activities, while at the same time providing personal and easy-to-understand advice when they need it. Further advancing this agenda will be one of our top priorities in 2020.

Moving ahead on increased efficiency through improvement and automation of processes

Two of the main pillars of driving operational efficiency are the improvement and automation of tasks and processes. Through a Lean-inspired approach we are consistently streamlining our tasks and processes, and by using robotics technology we will gradually automate more and more administrative functions. Over a million operational transactions previously carried out manually were executed automatically in 2019 and several processes have been significantly improved. We expect to accelerate our output in 2020 thanks to automation and the improvement of tasks and processes, which will contribute to the Group's profitability.

MREL requirement announced

In November, BankNordik's MREL requirement was announced to be twice the capital requirement, excluding the systemic risk buffer and the countercyclical buffer. We expect to cover the bulk of the MREL add-on by issuing Tier 3 capital, bringing the MREL capital ratio to the range of 31-34% in 2024. Although BankNordik is well positioned to meet the forthcoming MREL requirement, it will inevitably render fewer projects attractive for BankNordik to finance. This necessitates an intensified focus on optimising our risk-weighted assets and improving the risk-adjusted return for our shareholders rather than seeking persistent lending growth per se.

Narrowed strategic focus

In 2019, we took decisive steps to narrow the Bank's strategic focus and protect profitability. In addition to announcing negative interest rates for both personal and corporate customers, we consolidated our branch network in Denmark by closing two branches and discontinued offering private banking services to new customers. Changes were also made to the structure and pricing of our customer loyalty programme. These cost-cutting and income-enhancing initiatives are expected to increase the Group's operating profit by DKK 40m on an annual basis.

Creating value for all shareholders

In 2020, we will rededicate our efforts to deepen our customer relationships, simplify the banking experience, and enhance operational efficiency. We will do this in conjunction with a deep desire to make a real positive impact on the people we serve and employ, the communities we are a part of, and the environment we live in. BankNordik supports the UN Sustainable Development Goals and will be dedicating its focus and expertise on a few carefully selected goals. In this regard, I look forward to another year of progress for BankNordik for the benefit of our shareholders, customers, employees and the communities we serve.

Árni Ellefsen
Chief Executive Officer

Financial Review

Income statement, Group DKKm	2019	2018	Index 19/18	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	367	374	98	95	90	90	91	92	94	93	94
Net fee and commission income	189	172	110	49	47	45	48	42	43	43	44
Net insurance income	53	44	120	14	15	15	9	13	13	6	12
Other operating income (less reclassification)	49	45	109	14	13	11	11	9	10	15	12
Operating income	**658**	**635**	**104**	**172**	**165**	**163**	**158**	**156**	**160**	**157**	**162**
Operating costs1	-473	-456	104	-117	-116	-119	-120	-115	-111	-116	-115
Sector costs	-1	-1	133	0	-0	-0	-0	-0	-0	-0	-0
Profit before impairment charges	**185**	**179**	**103**	**54**	**49**	**43**	**38**	**42**	**49**	**42**	**47**
Impairment charges, net	**105**	111	95	**25**	9	53	19	18	39	23	31
Operating profit	**289**	**289**	**100**	**79**	**58**	**96**	**57**	**60**	**88**	**65**	**77**
Non-recurring items2	-14	72		-13	-0	0	0	-10	-6	12	76
Profit before value adjustments and tax	**276**	**361**	**76**	**65**	**58**	**96**	**57**	**50**	**81**	**76**	**154**
Market value adjustments3	-16	-38	43	-6	-8	-10	8	-12	-3	-17	-6
Profit before tax	**260**	**323**	**80**	**59**	**50**	**86**	**65**	**38**	**78**	**59**	**148**
Operating cost/income, %	72	72		68	70	73	76	73	69	73	71
Number of FTE, end of period	377	393	96	377	383	390	393	393	385	390	387

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

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

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

"We are pleased that we have delivered a strong financial performance in 2019. We are especially proud that it was driven by an increased top line despite challenging market conditions as well as a significant reversal of impairment charges. The Group continues to deliver on its commitment to create long term value for shareholders, and we are well positioned to meet future demands across all our stakeholders," said BankNordik CEO, Árni Ellefsen.

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

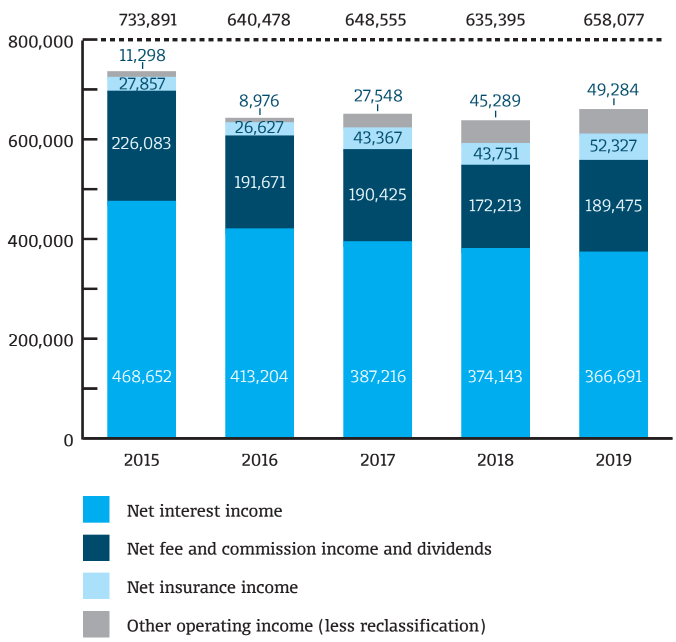
Income statement

Operating income

Net interest income amounted to DKK 367m in 2019 compared to DKK 374m in 2018. The decrease in net interest income was partly a result of tighter interest margins. Net fee and commission income increased DKK 17m, from DKK 172m in 2018 to DKK 189m in 2019 mainly due to mortgage-broking services increasing from DKK 61m in 2018 to DKK 74m in 2019. Other operating income increased DKK 4m to DKK 49m in 2019. While insurance premiums grew notably in 2019, claims remained stable, resulting in net insurance income of DKK 53m in 2019 compared to DKK 44m in 2018. The Group recognised total operating income of DKK 658m in 2019, up 4% from 2018.

Operating income

(DKK 1,000)

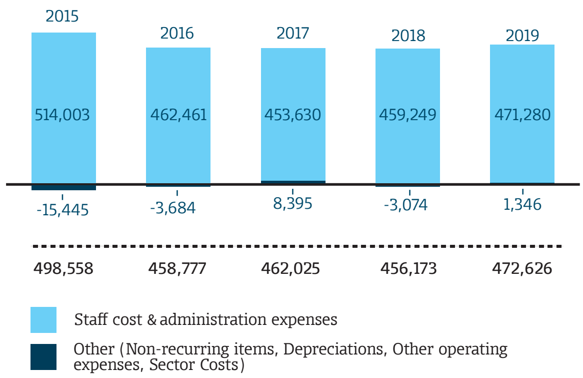


Operating costs

Operating costs were up by DKK 16m to DKK 473m in 2019 from DKK 456m in 2018, which is primarily due to cost inflation and increased IT costs. Cost discipline has been thoroughly maintained, however, and costs are expected to drop significantly in 2020, as cost-cutting exercises implemented during 2019 take effect along with the Group's continuous investment in operational efficiency. The amount of tasks that the Bank is able to automatically perform increased significantly in 2019 compared to the year before, and the group is continuing its drive to automate ever more complex and time consuming operations, which will lay a firm foundation under reaching our ambitious cost/income target in the years ahead.

Operating costs

(DKK 1,000)

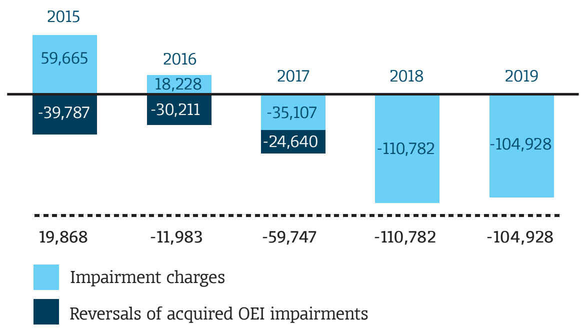


Net impairment charges

The Group once again recognised a net reversal of impairment charges, mirroring not only the current market environment but also the sound credit quality of the Group's portfolio. Net impairment charges amounted to a reversal of DKK 105m in 2019 relative to a reversal of DKK 111m in 2018. Considering the Group's low-risk approach, its strong loan-to-value private sector exposure accounting for about two thirds of the total loan portfolio and its corporate portfolio carrying only modest exposure towards historically risky industries, BankNordik expects to be able to sustain below industry average impairments going forward.

Impairments

(DKK 1,000)



(see also Note 14)

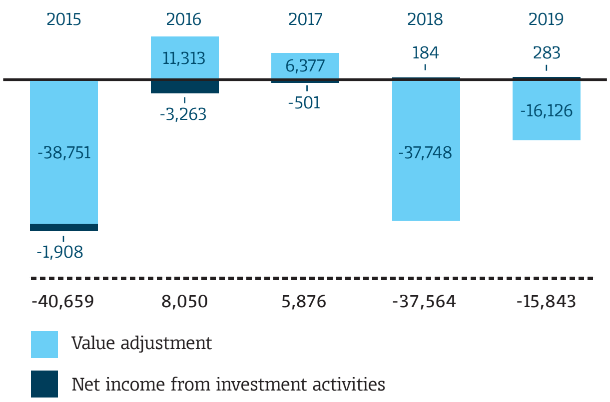
Operating profit
Operating profit came in at DKK 289m in 2019 flat compared to 2018.

Non-recurring items
Non-recurring items amounted to an expense of DKK 14m in 2019, compared to a net income of DKK 72m in 2018. The expense in 2019 related to severance costs due to organisational adjustments.

Market value adjustments
Market value adjustments amounted to a loss of DKK 16m in 2019, compared to a loss of DKK 38m in 2018. These adjustments primarily reflect the interest changes in the Danish bond market in 2019.

Market value adjustments

(DKK 1,000)



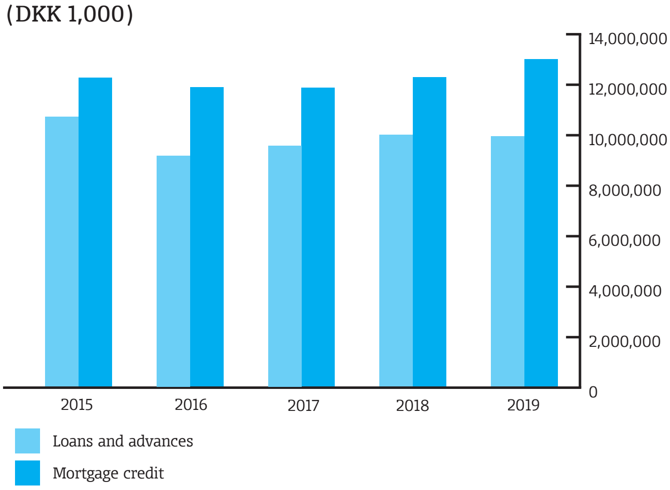
Profit before tax
Profit before tax amounted to DKK 260m in 2019, down DKK 64m from DKK 323m in 2018, mainly attributable to DKK 85m decrease in non-recurring items relative to 2018. Non-recurring items in 2018 mainly related to the sale and leaseback of the Group's head office property triggerring a gain of DKK 70m and a revaluation gain of DKK 21m related to BankNordik's equity position in BI Holding A/S. Other non-recurring items amounted to costs of DKK 19m in 2018.

Balance sheet

Lending
Loans and advances amounted to DKK 9,909m in 2019 compared to DKK 9,956m in 2018. Corporate lending volumes increased by DKK 101m, while personal lending volumes decreased by DKK 168m. In addition, the Group increased its brokered mortgage volumes by DKK 722m in 2019.

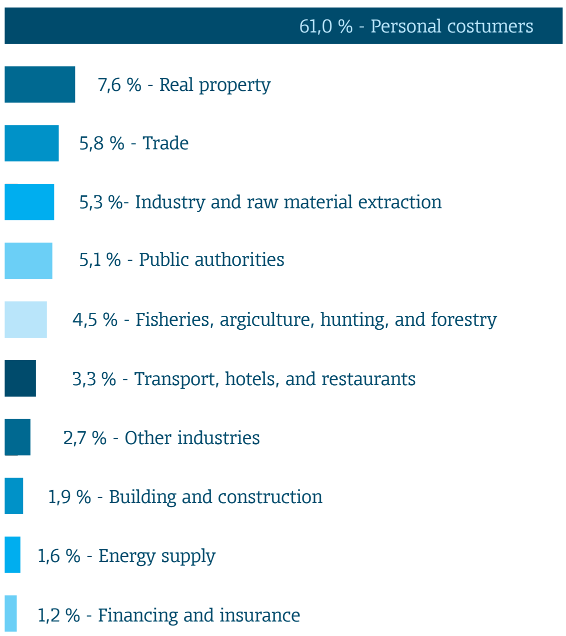
Loans and mortgage credit

(DKK 1,000)



BankNordik places great emphasis on maintaining sound credit policy guidelines to ensure that growth in lending does not come at the expense of sustainability. Two thirds of the loan portfolio is allocated to personal lending, while the remaining one third is allocated to a well-diversified corporate sector, as shown in the figure below.

Loans and advances specified by sector

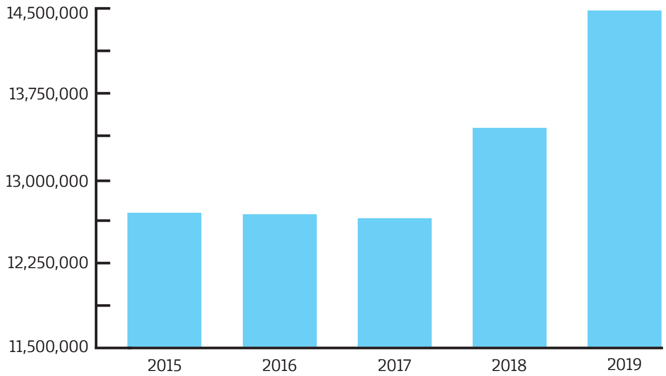


Deposits

Total deposits amounted to DKK 14,368m at the end of 2019, an increase of 7% from DKK 13,432m in 2018. Deposits have grown at a fairly stable pace in recent years as businesses and households in general have consolidated their finances.

Deposits

(DKK 1,000)

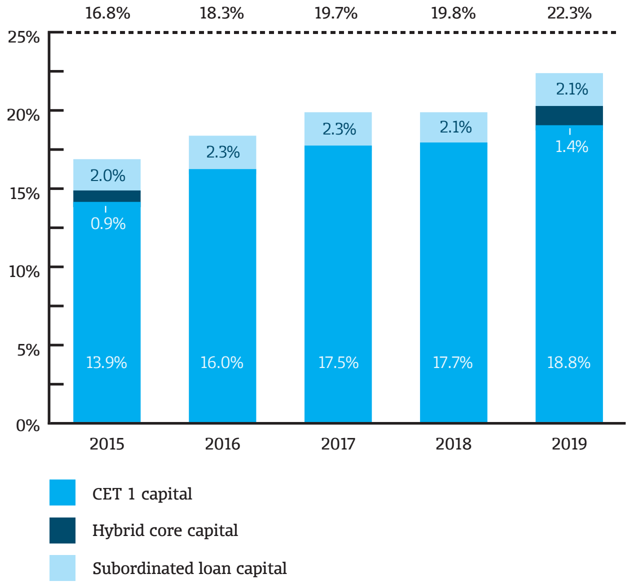


Solvency and liquidity

BankNordik held total capital of DKK 2.397m at 31 December 2019 compared to 2,098m at 31 December 2018. Subordinated capital was stable at DKK 224m. Hybrid core capital increased by DKK 151m in 2019 from nil in 2018. Core capital amounted to DKK 2,173m at 31 December 2019, which was an increase of 299m from DKK 1,875m at 31 December 2018. CET 1 capital amounted to DKK 2,023m at 31 December 2019, which was an increase of 148m from DKK 1,875m at 31 December 2018.

The Group's solvency requirement decreased to 9.4% at the end of 2019 from 9.7% at year-end 2018. The total capital ratio increased to 22.3% at the end of 2019 from 19.8% at the end of 2018. The core capital ratio increased to 20.2% at the end of 2019 from 17.7% at the end of 2018, while the CET 1 ratio increased to 18.8% at the end of 2019 from 17.7% at the end of 2018. The Group's total capital includes DKK 8.8m worth of subordinated debt (0.1 percentage point) not eligible to be included in the solvency surplus. As such, the solvency surplus at the end of 2019 was 12.8 percentage points compared to 10.0 percentage points in 2018. Compared to the external capital requirements, incl. buffer requirements totalling 15.3% at the end of 2019, BankNordik had a solvency surplus of 7.0 percentage points.

Solvency



The Group's liquidity indicator was 252% at year-end 2019, well above the requirement of 100% due to a large deposit surplus. The LCR requirement, on the other hand, calls for a liquidity buffer of at least 100%. At the end of 2019, BankNordik's LCR was 230% compared to 266% in 2018.

Financial results for Q4 2018

Net interest income in Q4 2019 was DKK 95m, an increase from DKK 90m in Q3 2019 due to higher interest margin during the period. Net fee and commission income was DKK 49m in Q4 compared to DKK 47m in Q3, while insurance income was DKK 14m in Q4 compared to DKK 15m in the previous quarter.

Operating costs amounted to DKK 117m in Q4 compared to DKK 116m in Q3. Impairment charges were a reversal of DKK 25m in Q4 vs. a reversal of DKK 9m in Q3.

As a result, profit before tax amounted to DKK 59m in Q4 2019 compared to a profit of DKK 50m in Q3 2019.

The Supervisory Diamond

Sum of large exposures < 175 %

2019	2018
126.5%	122.2%

Loan growth <20 %

2019	2018
-0.5%	4.7%

Funding-ratio < 1.0

2019	2018
0.59	0.63

Property exposure < 25%

2019	2018
6.4%	5.6%

Liquidity indicator >100%

2019	2018
252.3%	266.0%

Other

Supervisory Diamond

The Supervisory Diamond is used to measure a bank's risk profile. The model identifies five areas that if not within certain limits are considered to be indicators of increased risk. As shown in the figure, the Bank meets all criteria by a comfortable margin (large exposures, exposures towards property, excess liquidity, stable funding and lending growth). The sum of large exposures increased from 122.2% to 126.5%, well below the limit of 175%, and all large exposures are of good quality. The liquidity indicator was 252% at year-end compared to the minimum requirement of 100%.

Share buy-back programme

During 2019, the Group bought back own shares for a transactional value of DKK 6.9m. In 2019, the Group reduced the share capital by 400,000 shares acquired under BankNordiks share buy-back programmes and now holds 0.72% of the total share capital at 31 December 2019. While on a regular basis BankNordik will consider buying back additional shares, no such programme is currently planned for the immediate future.

Dividends proposed

At the upcoming Annual General Meeting, to be held on 26 March 2020, the Board will propose total dividend payments of DKK 67.2m for 2019 (DKK 7 per share). Dividends of DKK 70m were paid in 2019 in respect of the 2018 financial year.

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

Upcoming changes to the adjusted reporting methodology

In 2020, BankNordik will make the following change to the adjusted income statement methodology:

- Earnings from and expenses related to the group's investment portfolio will be recognised under the item investment portfolio earnings instead of under the items net interest income, other income and market value adjustments.

Hence, going forward, the Group's adjusted profit before impairment charges according to the new methodology will not include portfolio earnings. If applied to the Group's adjusted income statement for 2019, profit before impairment charges would decrease by DKK 29m from DKK 185m to DKK 155m.

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

Outlook in accordance with the new methodology

In 2020, BankNordik expects to continue growing its overall lending and mortgage volumes – both personal and corporate. In the personal banking segment, the Group will continue to build on the progress of previous years by establishing stronger relationships and enhancing the user experience to attract new customers. Faroese households have historically funded their housing by way of traditional bank loans, but in recent years BankNordik has observed a gradual increase in household preferences towards the traditional Danish financing model of 80% mortgage funding and the residual in 2nd lien bank lending. As expected, this trend took hold in the Faroese market in 2019, due to an awareness campaign initiated by BankNordik towards the end of 2018 as well as mortgage rates hitting their lowest ever level during the summer of 2019. We expect the tendency to continue in 2020 due to Faroese customers' increased awareness of the product's benefits. In Denmark, personal lending and mortgage brokerage as a whole is expected to increase as BankNordik continues to gain market share.

On the corporate side, the Group sees an opportunity to increase volumes in 2020 due to continued investment activity in both the Faroe Islands and Greenland. BankNordik's financing of corporate projects will be under pressure due to MREL requirements having been set and starting to be phased in, as corporate loans typically receive a higher risk weighting than loans to personal customers. The challenge is expected to be mitigated by the bank's usage of the InnovFin and EKF guarantees provided by the European Investment Fund and the Danish Export Credit Fund, respectively. This will result in the Bank not increasing its overall RWA level in 2020. Interest margins are expected to remain under pressure in 2020 and to continue their drag on net interest income, albeit to a slightly lesser extent than in 2019, as negative rates on customer deposits above certain levels are expected to largely mitigate the downward pressure on lending rates.

Fee and commission income is expected to increase slightly as mortgage volumes continue to increase and the Bank's resegmentation of its personal customers takes effect. BankNordik expects tighter profit margins on investment management activities to continue due to the increased preference for passive investment strategies, although volumes are expected to increase slightly due to the negative interest on deposits. Insurance premiums are expected to continue to grow while claims can vary significantly from one year to another. The Group has kept its operating costs largely flat since 2016 and expects that costs will fall slightly in 2020 compared to previous years. Impairment charges on loans and advances are expected to remain low in 2020, however the bank does not expect to continue to see write backs of levels seen in 2018 and 2019.

As a result of BankNordik's simple, low risk business model, we expect to deliver strong financial performance and healthy returns with a continued focus on lowering operating costs and investing in efficiency whilst maintaining our market leading service and strong asset quality. BankNordik expects to achieve a net profit in the range of DKK 100 - 150m in 2020 (2019: DKK 207m).

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

Board of Directors' Review

Delivering in changing market

BankNordik delivered healthy financial results in 2019 despite strengthening headwinds. We are proud of that achievement which comes at a time when we have also improved in terms of customer satisfaction with our offering for the third consecutive year. Looking ahead, we have repositioned our business in a number of tangible ways that will allow BankNordik to better meet the significant demands of both our regulators and wider stakeholders in the coming years.

Becoming best in class

A prerequisite for BankNordik's long-term success is being able to meet and exceed customer expectations of the service and product offering they receive. BankNordik has kept this aim firmly at the centre of the Group's mission, which is to make it easy for our customers to make the right choice when exploring how their financial needs can be met. We strive to combine detailed insights into customer needs and opinions with a responsive offering and jargon-free communications irrespective of service channel. This has, for example, resulted in improved customer satisfaction year by year in terms of Net Promoter Score since we began measuring it three years ago.

In 2019, we received a new level of detail in insights into our performance across our three geographical markets, and it was encouraging to see that our efforts have had a measurable effect. But as we have said in previous years, we are fully conscious of the fact that our work to improve customer satisfaction, especially in Denmark, if far from done. We are, however, heartened by the fact that our core customers are happy with the service they receive, and we were also thankful to see significant improvements in terms of our image in a large external Danish survey.

Driving digital innovation and operational efficiency

One of the insights gleaned from our extensive investigations into how our customers perceive the Bank was our customers telling us that our digital offering is still not quite on par with the overall market. We started work to remedy this situation in 2017 when we initiated a complete rebuild of our customer-facing digital offering. Our new website and online presence launched in 2018 and got great feedback from our customers. In 2019, we launched a children's savings app, which can form an integral part of improving financial literacy. BankNordik's customers were also given the option to make credit card payments with their smartphones and smartwatches though the launch of Apple Pay, Google Pay and Fitbit Pay.

2020 will be another important year in BankNordik's digital journey, as the Bank expects to launch an initial version of its new online banking platform. We have been a key partner to the platform provider in the development stage and will be at the forefront of the rollout. The new platform will be transformative for how customers can interact with the Bank digitally. Customers will have substantially better access to self-service solutions, and we are also developing the personalised user experience.

Internally at BankNordik, we are continuing our work to implement robotics and process efficiencies ever more widely. By using robotics to automate what were previously labour-intensive tasks for our advisors and back office staff, we are able to both free up valuable time and minimise errors. The amount of tasks the Bank is able to automatically perform increased significantly in 2019 compared to the year before. In 2020, the Bank plans to implement the automation of processes with a higher level of complexity. For example, customer onboarding will be made simple by the ability to automatically provide new customers with a personalised 'starter pack' of products such as accounts, online banking and payment cards. Our work on automation along with the continuous improvement of tasks and processes performed by the Bank's workforce is an important part of the foundation on which we will be building our future profitability.

Solid financial performance despite ever-growing margin pressure

BankNordik improved its top-line performance in 2019, a year in which the squeeze on interest margins only increased. The Bank accepts the current low interest rate environment as the new normal whilst operating in three highly competitive markets at the height of an economic upswing.

Maintaining past financial performance is, therefore, an achievement BankNordik is proud of, and the fact that impairment reversals were largely unchanged in 2019 compared to 2018 clearly shows that BankNordik has a high-quality portfolio of loans. The Bank has grown its lending to customers by about DKK 800m over the past three years, and although growth was flat in 2019, the figures belie the fact that the Bank's mortgage broking business has seen a high level of growth; volumes grew by DKK 722m in 2019 alone.

BankNordik has a clearly stated aim of growing sustainably. Creditworthiness is carefully assessed, and we believe that one of the Bank's strengths is the fact that we do not compromise on our credit policy when pursuing lending growth. In fact, the credit risk of the Bank's overall lending has improved by 30% since 2016 when measured as a weighted average probability of default across the entire portfolio.

Preparing to meet new capital requirements

Ahead of the Danish FSA announcing the final MREL requirements for BankNordik, the Bank tested the waters in 2019 by issuing additional Tier 1 capital. To our great satisfaction, the issue saw strong interest from investors and we secured a placement in the amount of DKK 150m at a fixed annual coupon of 4.5%, well below the level of comparable Danish banks. In the same manner, we will continuously seek to adjust the Group's capital structure to optimise shareholder value within the forthcoming capital requirement framework.

It should be noted, however, that ever increasing capital requirements are effectively limiting the amount of financeable projects that are attractive enough to add value for our shareholders. For this reason, the pursuit of lending growth is less likely to be value accretive going forward. We believe an intensified focus on efficient allocation of capital will create more value for our shareholders as opposed to focusing on top-line growth alone. As such, we plan to strengthen our partnership with the European Investment Fund's InnovFin programme as well as the Danish Export Credit Fund in the coming year. This will limit growth in our risk-weighted assets and improve our risk-adjusted return on our corporate portfolio, where risk weights typically are higher than for the personal portfolio.

Strengthened strategic focus

The Bank's decision to strengthen its strategic focus and ensure profitability going forward contained four separate elements. Our branch network in Denmark was consolidated, our private banking offering is not being extended to new clients, the segmentation and costs of our loyalty programme is being adjusted, and negative interest rates will be applied to customer deposits above a certain amount. This was not a decision taken lightly, as we are fully aware that it renders BankNordik vulnerable to public backlash. We nevertheless see it as crucial to keeping our business model sustainable, and the decision on negative rates in particular is vital to restoring the interest rate spread when accepting deposits.

We believe that the right balance has been struck in terms of improving profitability without jeopardising our competitiveness. The initiatives are, as mentioned, expected to improve the Group's operating profit by DKK 40m on an annual basis, and most of this will materialise in 2020. Against an increasingly difficult market backdrop, BankNordik has felt it necessary to make this difficult and unpopular, but nevertheless responsible decision.

Updating our financial targets

The environment in which BankNordik operates has changed in important ways since the Bank set its current targets for financial performance, cost/income level and capital ratios in 2016. The low interest rate environment along with the announced minimum requirement for own funds and eligible liabilities (MREL) for BankNordik means that our previous targets no longer adequately reflect the Bank's situation.

As a natural consequence of the changed external environment and regulatory requirements, the Bank is announcing a new target level of capital for when the MREL add-on is fully phased in at the start of 2025. The target total capital ratio incl. MREL for 2024 is adjusted to 32.1%. About 30% of this capital is expected to be made up of Tier 3 capital issued to cover the bulk of the MREL add-on. The target CET 1 ratio is consequently adjusted from 17% to 18.5%, and the target solvency excl. MREL ratio is adjusted from 20% to 22%.

In addition to the new capital targets, the Bank is adjusting its target cost/income ratio from 65% to 67% and its target return on equity from 10% to 6-8%. The targets thus remain ambitious given the circumstances under which BankNordik operates.

Creating value for our stakeholders

Having taken significant strategic steps in 2019 to create a more focused financial institution, BankNordik is rededicating its efforts in 2020 to deepen customer relationships, simplify the banking experience, practice rigorous cost discipline and enhance operational efficiency. The progress in all of these areas in the year ahead will contribute to BankNordik's sustained financial performance even when the business cycle begins to turn.

Furthermore, we do this in conjunction with a genuine determination to make a positive impact on the people we serve, the communities we are a part of and the environment we live in. With its deep roots in local society, BankNordik has played an important role in the resilience and cohesion of Faroese society for more than a century. Today, we face new challenges on a global scale whose effects will be felt by everyone. For this reason, we have joined forces with governments, organisations and individuals alike to combat some of the world's most pressing issues by supporting the UN's Sustainable Development Goals, focusing our efforts and expertise on goals no. 4, 5, 8, 11, and 13. This will see the Bank lend its support to issues ranging from sustainability and battling climate change across economic growth to gender equality and education.

The ambition and drive needed to succeed in delivering value for all of our stakeholders can only be realised through the tireless efforts of a united workforce with shared values and great competencies. Knowing there is no lack of talent and engagement at BankNordik, we look forward to another year of progress in which we harness these collective capabilities for the benefit of our shareholders, customers, and the communities we serve.

Our external environment

The macroeconomic environment has a significant impact on any financial institution. For a traditional retail and commercial bank such as BankNordik, the economic cycle, in addition to lending demand, affects its customers' credit quality and ability to repay as well as the value of the collateral that the Bank holds.

Being based in three interrelated economies, which nonetheless differ markedly in terms of their drivers of growth, BankNordik's management and board actively discuss each of them in order to assess where opportunities lie and where risks may appear. The Bank acknowledges the need to be attentive in the current upswing, recognising that it has lasted longer than previous cycles and that any decisions taken thus need to take into account the fact that an unexpected downturn can hit without much warning.

However, behind the narratives of the economic growth underpinning the economies in which BankNordik operates, there are a few interesting trends worth mentioning. Firstly, there is an increased global interest in the North Atlantic and especially the Arctic regions. Greenland is at the centre of a struggle between Russia, China and the United States for influence in the Arctic region. The interest surely represents significant opportunities, but the dynamics may also lead to unpredictable outcomes, such as when the Danish government intervened to stop Chinese financing of Greenlandic airport projects, or when the President of the United States offered to buy the country outright.

The threat of cybercrime is very high in most Western countries and is a fact of life in Denmark, the Faroe Islands and Greenland. The effects that a large incident might have are severe, as exemplified by the financial losses incurred by Danish companies as a result of cyberattacks, and when the Faroe Islands narrowly escaped all websites being shut down completely in late 2018 following a hack of the country's domain administrator.

These new types of risk along with other tail risks, such as the effect of climate change on financial stability and the increased regulatory focus on conduct risk, necessitate a new kind of 'risk thinking' for banks and the people who run them. Tail risks need to be taken into account when assessing the full risk profile of a financial institution, and the sometimes unintuitive ways in which the many risks facing banks are interrelated also needs close scrutiny.

The Faroese economy has experienced a welcome diversification over the past decade. The demersal fisheries industry, on which Faroese economic growth was almost wholly dependent in the past, is now only one out of three important industries. More important than demersal fisheries in terms of export value are pelagic fisheries and aquaculture. These two industries have been the main drivers of economic growth over the past decade and have lifted Faroese GDP per capita to a level on par with its Nordic neighbours. Further adding to the diversification, the tourism industry has seen double digit average percentage growth for several years now, and it is fast becoming a significant contributor to the overall economy. 2020 will be a key year for the industry, as the hotel capacity in Tórshavn is doubling with two new hotels and the significant expansion of a third hotel.

Importantly for the banking industry, overall lending in the Faroe Islands has been growing for the past three years. Growth in the past year was just below 4%, driven by house price inflation, large net immigration and healthy investment activity on the part of Faroese businesses. The Bank expects lending growth to continue into 2020, in part driven by increased investment in new fishing vessels following new fisheries legislation coming into effect at the start of 2020.

Danish economic growth over the past few years may very well be characterised as balanced. The economy has grown at an annual rate of just over 2% from 2015-2018 and seems to have been resilient to the slowdown seen by several of Denmark's largest trading partners during 2018 and 2019. The growth of the economy has been fuelled by growth in the labour supply and not credit growth. Bank lending has fallen each year since 2014, and it fell by almost 4% in the 12 months to November 2019. Mortgage lending, however, rose by the same percentage during 2019. BankNordik has targeted lending growth in its Danish business at two percentage points above the overall market growth, and this target was achieved in 2019.

The Greenlandic economy has seen a high, if volatile, rate of economic growth since 2014. The economy is heavily dependent on fisheries, and as such high catch and price levels have driven growth, which is expected to continue into 2020. Growth in 2020 will be further propelled by the commencement of three large airport expansion projects, adding pressure to an already tight labour market. The economic situation as a whole is different from other western countries, as public debt is at a very low level. And whilst the economy is vulnerable due to its dependence on a single industry, the large annual block grant from the Danish state has a stabilising effect. Tourism and mineral mining are two industries, which Greenland hopes can help diversify the economy going forward. The activity level in mineral mining is still relatively modest, but tourism has seen a reasonable level of growth since 2014. There is optimism that growth can be accelerated significantly once the airport expansions have been completed, although challenges remain in terms of the tight labour supply and a coordinated expansion of the tourism offering to meet the potentially increased demand. Lending growth to personal customers was muted in 2019, while lending to corporate customers grew by 13% in the ten months to September 2019. Over the period, BankNordik gained market share in the corporate space, growing its lending by 30% to corporate clients. The Bank remains of the view that its activities in Greenland remain an attractive case, and BankNordik is fully established as a capable full-service alternative to the Greenlandic incumbent.

Applied calculation methods and alternative performance measures

Alternative performance measures
The Bank applies a number of alternative performance measures. These measures are applied where they pro¬vide greater informational value about, e.g. the Bank's earnings, or as a common denominator for multiple items. The Bank is aware of the need for applying calculations consistently and with comparative figures. The alterna¬tive performance measures applied are defined below.

Definitions

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

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

Operating profit
Profit before non-recurring costs and Market value adjustments.

Other operating income
Other operating income, Dividends, Value adjustments of sector shares, and Profit or loss from currency transactionsns.

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

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

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

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

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

Adjusted results

Adjustments made to the income statement are shown below.

Note	Income statement 2019, Group, DKK 1.000	Income statement	Restatement	Restated income statement
	Net interest income	366,691		366,691
1	Net fee and commission income	203,458	-13,984	189,475
	Net insurance income	52,627		52,627
1, 4, 5	Other operating income	14,497	34,787	49,284
	Operating income	**637,274**	**20,803**	**658,077**
2	Operating costs	486,203	-13,577	472,626
	Sector costs	901	0	901
	Profit before impairment charges	**150,169**	**34,380**	**184,550**
	Impairment charges	-104,928		-104,928
	Operating profit	**255,097**	**34,380**	**289,478**
2, 5	Non-recurring items	0	-13,577	-13,577
	Profit before value adjustments and tax	**255,097**	**20,803**	**275,901**
4	**Market value adjustments**	**4,678**	**-20,803**	**-16,126**
	Profit before tax	**259,775**	**0**	**259,775**

Note	Income statement 2018, Group, DKK 1.000	Income statement	Restatement	Restated income statement
	Net interest income	374,143		374,143
1	Net fee and commission income	183,609	-11,396	172,213
	Net insurance income	43,751		43,751
1, 4, 5	Other operating income	19,947	25,341	45,289
	Operating income	**621,450**	**13,945**	**635,395**
2, 3	Operating costs	415,440	40,719	456,159
3	Sector costs	793	-117	676
	Profit before impairment charges	**205,217**	**-26,657**	**178,560**
1	Impairment charges	-110,782	0	-110,782
	Operating profit	**315,998**	**-26,657**	**289,342**
2, 4, 5	Non-recurring items	0	71,702	71,702
	Profit before value adjustments and tax	**315,998**	**45,045**	**361,043**
4	**Market value adjustments**	**7,297**	**-45,045**	**-37,748**
	Profit before tax	**323,295**	**0**	**323,295**

Note	Restatements made to the income statement, DKK 1.000	2019	2018
1	Dividends reclassified from Net fee and commission income to Other operating income.	13,984	11,396
2	Reclassification of severance and other costs from Operating costs to Non-recurring items.	13,577	-19,580
2	Reclassification of reversals of impairment charges regarding the Group's head office from Operating costs to Non-recurring items.	0	-60,181
3	Reclassification of other operating expenses (excl. sector costs) from Other operating expenses to Operating costs.	0	-117
4	Reclassification of value adjustments related to sector shares and of profit or loss from currency transactions from Market value adjustments to Other operating income.	20,803	-24,045
4	Reclassification of value adjustments related to sector shares from Market value adjustments to Non-recurring items (regarding revaluation of the group's holdings of shares in the sector company Bankinvest).	0	-21,000
5	Reclassification of capital gains related to the sale of the Group's head office and other domicile property from Other operating income to Non-recurring items.	0	-10,100

Management and directorships

Board of directors

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

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

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

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

Kim Jacobsen	
Date of birth:	3 February, 1952
Gender:	Male
Nationality:	Danish
First time elected to the Board:	2017
Most recently re-elected:	2018
Term expires:	2019
Educational background:	Bank education supplemented with different advanced banking and sale & management courses; INSEAD, Paris. People - IMD, Lusanne; Holder of a diploma in Specialised Business Studies, Accounting.
Competencie:	Broad experience and in-depth knowledge of financial services business - mainly relating to credit and risk management.
Principal occupation:	Self-employed
Directorships and other offices:	Board member of: P/F BankNordik,

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

Gunnar Nielsen	
Date of borth:	28 May, 1977
Gender:	Male
Nationality:	Faroese
First time elected to the Board:	2019
Term expires:	2020
Educational background:	MSc. in Business Economics and Auditing, Copenhagen Business School, Denmark. Graduate Diploma in Business Administration and Accounting (HD-R), Aarhus School of Business, Denmark
Competencies:	Broad and in-depth knowledge of international business environment, and extensive knowledge of strategy, finance, business development and investor relations issues in the international financial markets. Furthermore a broaf knowledge of the Fareoese business environment.
Principal occupation:	COO in P/F Tjaldur
Directorships and other offices:	Board member of: P/F 2 (altso CEO) and P/F BankNordik

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

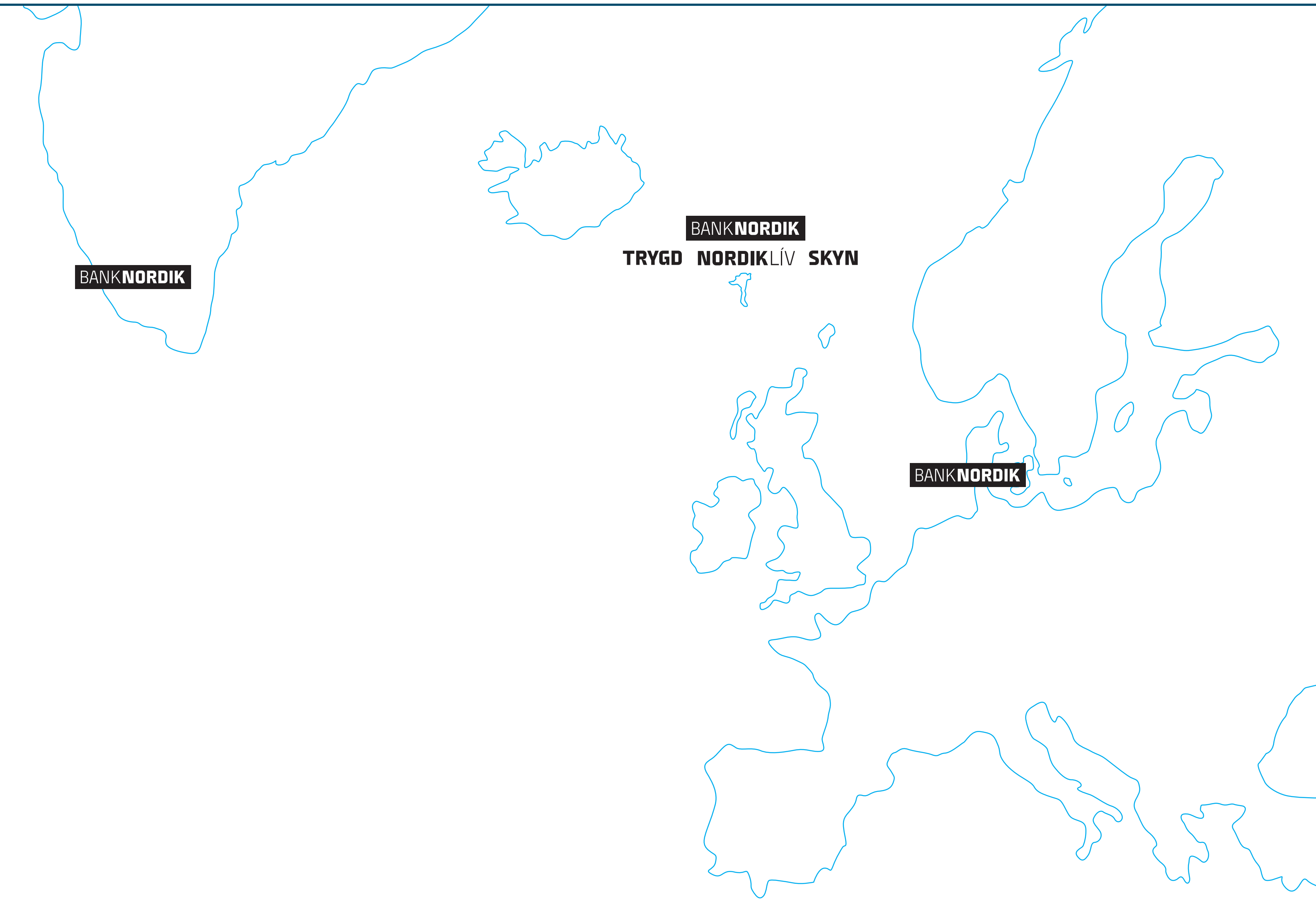
Kenneth Samuelsen	
Date of birth:	21 July, 1966
Gender:	Male
Nationality:	Faroese
First time elected to the Board:	2010
Most recently re-elected:	2018
Term expires:	2022
Educational background:	Financial education
Competencies:	Broad knowledge of sector and labour market relationships. Customer and employer satisfaction. Experience within and knowledge of IT.
Principal occupation:	BankNordik – IT & Analyses department – unit Faroe Islands
Directorships and other offices:	Board member of: P/F BankNordik

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

Executive Board

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

Segments



Personal Banking	2019	2018
Loans and advances	DKK 6.3bn	DKK 6.5bn
Deposits	DKK 10.6bn	DKK 10.1bn
Cost/Income(Operating cost/income)	37%	38%
Operating profit	DKK 326m	DKK 336m

Corporate Banking	2019	2018
Loans and advances	DKK 3.6bn	DKK 3.5bn
Deposits	DKK 3.8bn	DKK 3.4bn
Cost/Income(Operating cost/income	10%	11%
Operating profit	DKK 179M	DKK 174m

Trygd	2019	2018
Premium, net of insurance	DKK 113m	DKK 105m
Combined ratio	85%	92%
Claims ratio	61%	69%
Profit before tax	DKK 18m	DKK 8m

Banking

Income statement, Banking											
DKKm	**2019**	**2018**	**Index 19/18**	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**
Net interest income	365	373	98	94	90	90	91	92	94	93	94
Net fee and commission income	200	182	110	52	50	48	51	45	45	45	46
Other operating income	43	39	111	13	11	10	10	8	8	13	10
Operating income	**609**	**594**	**102**	**159**	**151**	**148**	**151**	**145**	**147**	**152**	**150**
Operating cost	-449	-435	103	-110	-111	-113	-116	-109	-106	-110	-110
Sector costs	-1	-1	133	0	-0	-0	-0	-0	-0	-0	-0
Profit before impairment charges	**159**	**159**	**100**	**49**	**41**	**34**	**35**	**35**	**42**	**42**	**40**
Impairment charges, net	105	111	95	25	9	53	19	18	39	23	31
Operating profit	**263**	**269**	**98**	**73**	**49**	**87**	**54**	**54**	**81**	**65**	**71**
Non-recurring items	-14	72		-13	-0	0	0	-10	-6	12	76
Profit before value adjustments and tax	**250**	**341**	**73**	**60**	**49**	**87**	**54**	**44**	**75**	**76**	**147**
Market value adjustments	-14	-36	38	-5	-7	-9	8	-11	-3	-17	-5
Profit before tax	**236**	**306**	**77**	**55**	**42**	**78**	**62**	**32**	**72**	**59**	**142**
Loans and advances	9,909	9,956	100	9,909	9,983	10,053	10,006	9,956	10,008	9,742	9,607
Deposits and other debt	14,399	13,452	107	14,399	13,557	14,156	14,027	13,452	13,184	13,168	13,107
Mortgage credit	12,960	12,238	106	12,960	12,918	12,644	12,477	12,238	12,050	11,890	11,852
Operating cost/income, %	74	73		69	73	77	77	75	72	72	73
Number of FTE, end of period	345	360	96	345	354	358	359	360	355	358	356

Although the Group's lending volume in 2019 was fairly stable compared to 2018, net interest income was down by DKK 8m to DKK 365m. The main reason was lower interest margins due to competitive pricing. Net fee and commission income was up by DKK 18m to DKK 200m, mainly due to added income from the Bank's growing mortgage-broking services. Other operating income of DKK 43m was a DKK 4m increase compared to 2018. When combining these two line items for the purpose of a year-on-year comparison, BankNordik's non-interest income increased by DKK 22m. Operating costs increased by 3%, which was primarily due to cost inflation and higher IT costs. Profit before impairment charges came in at DKK 159m and was flat relative to 2018.

BankNordik's pertinent credit policy guidelines in conjunction with the current benign economic environment have led to large reversals of impairment charges. In 2019, BankNordik reversed an additional DKK 105m of previously impaired loans that were either repaid or reversed due to improved company-specific conditions. In 2018 BankNordik reversed DKK 111m of previously impaired loans. As a result, operating profit decreased by DKK 6m to 263m in 2019.

Non-recurring items amounted to an expence of DKK 14m in 2019 compared to a gain of DKK 72m in 2018. Non-recurring items in 2018 mainly related to the sale and leaseback of the Group's head office property triggerring a gain of DKK 70m and a revaluation gain of DKK 21m related to BankNordik's equity position in BI Holding A/S. Other non-recurring items amounted to costs of DKK 19m in 2018.

Personal Banking

Income statement, Banking

DKKm	2019	2018	Index 19/18	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	242	258	94	61	60	60	61	63	65	65	66
Net fee and commission income	184	169	109	48	46	44	46	44	41	41	43
Other operating income	33	31	105	8	8	8	8	7	5	11	8
Operating income	**458**	**459**	**100**	**117**	**114**	**112**	**116**	**114**	**111**	**117**	**116**
Operating cost	-169	-176	96	-38	-42	-45	-43	-43	-44	-44	-45
Sector costs	-1	-1		0	0	0	0	0	0	0	0
Profit before impairment charges	**289**	**282**	**103**	**78**	**71**	**67**	**73**	**70**	**67**	**73**	**71**
Impairment charges, net	45	54	83	13	2	26	4	8	22	10	15
Operating profit	**334**	**336**	**99**	**91**	**74**	**92**	**77**	**78**	**89**	**83**	**86**
Non-recurring items	-9	0		-9	0	0	0	0	0	0	0
Profit before value adjustments and tax	**325**	**336**	**97**	**82**	**74**	**92**	**77**	**78**	**89**	**83**	**86**
Profit before tax	**325**	**336**	**97**	**82**	**74**	**92**	**77**	**78**	**89**	**83**	**86**
Loans and advances	6,287	6,455	97	6,287	6,402	6,451	6,429	6,455	6,481	6,382	6,368
Deposits and other debt	10,603	10,096	105	10,603	10,523	10,639	10,304	10,096	9,928	10,027	9,804
Mortgage credit	12,751	11,838	108	12,751	12,546	12,280	12,093	11,838	11,625	11,460	11,406
Operating cost/income, %	37	38		33	37	40	37	38	40	38	38
Number of FTE, end of period	202	208	97	202	213	212	200	208	206	201	207

Lending to personal customers decreased by 3% in 2019, offset by an 8% increase in mortgage credit in 2019. Lower lending volumes as well as lower interest margins resulted in a decrease in net interest income of DKK 17m to DKK 242m in 2019. Net fee and commission income on the other hand increased by DKK 15m in 2019 to DKK 184m, mainly due to increased mortgage-broking services. Other operating income was fairly stable, amounting to DKK 33m in 2019. Combining these two line items for a year-on-year comparison highlights an increase of DKK 16m in non-interest income.

Operating costs fell by DKK 8m year-on-year to DKK 169m in 2019, which was well in line with the Group's aim of keeping expenditures flat until 2020. The improvement was made possible by ongoing process streamlining, the automation of tasks, and reaping of synergies by centralising processes across geographical exposure. The Group reversed DKK 45m of impairment charges relating to personal customers in 2019, owing to the increased value of collateral and the improved financial capacity of weaker customers. The Group reversed DKK 54m in 2018. As a result, operating profit was DKK 334m compared to DKK 336m in 2018.

Corporate Banking

Income statement, Corporate Banking

DKKm	2019	2018	Index 19/18	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net interest income	119	113	105	31	30	29	29	27	29	29	28
Net fee and commission income	17	14	115	4	4	4	4	4	3	3	3
Other operating income	6	6	97	2	1	1	1	1	2	1	3
Operating income	**141**	**133**	**106**	**37**	**35**	**34**	**35**	**32**	**34**	**34**	**33**
Operating cost	-14	-15	94	-4	-4	-3	-3	-4	-4	-4	-4
Profit before impairment charges	**127**	**118**	**108**	**33**	**31**	**31**	**31**	**29**	**30**	**30**	**29**
Impairment charges, net	59	57	105	22	4	24	11	10	17	13	16
Operating profit	**186**	**174**	**107**	**55**	**35**	**54**	**42**	**39**	**47**	**43**	**45**
Non-recurring items	0	0		0	0	0	0	0	0	0	0
Profit before value adjustments and tax	**186**	**174**	**107**	**55**	**35**	**54**	**42**	**39**	**47**	**43**	**45**
Profit before tax	**186**	**174**	**107**	**55**	**35**	**54**	**42**	**39**	**47**	**43**	**45**
Loans and advances	3,602	3,502	103	3,602	3,534	3,573	3,565	3,502	3,527	3,360	3,240
Deposits and other debt	3,770	3,356	112	3,770	3,018	3,498	3,715	3,356	3,257	3,141	3,303
Mortgage credit	209	400	52	209	372	364	384	400	425	430	446
Operating cost/income, %	10	11		10	11	10	10	11	12	11	12
Number of FTE, end of period	**16**	**16**	**99**	**16**	**16**	**16**	**16**	**16**	**17**	**17**	**18**

Net interest income increased by DKK 6m to DKK 119m in 2019, supported by a 3% increase in corporate lending volumes. Net fee and commission income was up by DKK 2m to DKK 17m while other operating income was DKK 6m, stable compared to 2018. In total, operating income increased by DKK 8m to DKK 141m in 2019.

For the third consecutive year, corporate loan reversals were recognised due to previously impaired loans being repaid or due to previously challenged firms improving their financial situation. Impairment charge reversals amounted to DKK 59m in 2019 compared to a reversal of DKK 57m in 2018. As a result, operating profit came in at DKK 186m in 2019 compared to DKK 174m in 2018.

The Group's corporate portfolio is well diversified and exposure towards historically riskier industries such as fisheries, agriculture and commercial property is limited to 5% of the loan portfolio. In line with the winding up of the Danish corporate activities in 2015-2016, risk was further reduced as only one third of the Group's portfolio was allocated to corporate lending in 2019. For this reason, BankNordik expects to be in a position to sustain below-average impairment charges going forward.

Insurance

Income statement, Trygd DKKm	2019	2018	Index 19/18	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Premium income, net of reinsurance	113	105	107	29	29	28	27	27	27	26	25
Claims, net of reinsurance	-69	-72	96	-17	-17	-15	-19	-17	-17	-23	-15
Net insurance income	**44**	**33**	**133**	**12**	**12**	**13**	**8**	**10**	**10**	**3**	**11**
Net income from investment activities	-1	-1		0	0	0	0	0	0	0	0
Operating income	**43**	**32**	**134**	**11**	**11**	**13**	**8**	**10**	**9**	**3**	**11**
Operating cost	-25	-24	106	-7	-6	-7	-6	-6	-6	-6	-6
Profit before tax	**18**	**8**	**216**	**4**	**6**	**6**	**2**	**4**	**3**	**-4**	**5**
Combined ratio	85	92		85	80	78	93	85	87	114	80
Claims ratio	61	69		60	60	54	72	63	64	90	58
Number of FTE, end of period	25	25	98	25	22	24	26	25	23	25	25

The Group's insurance company, Trygd, reported another year of strong growth in insurance premiums. Net premiums grew by 7% in 2019 to DKK 113m due to stronger demand and an ongoing inflow of new customers. Claims were DKK 69m in 2019, down from DKK 72m in 2018 when claims were at a relatively high level. Operating costs were marginally up by DKK 1m to DKK 25m in 2019 compared to 2018 although the headcount was unchanged. As a result, profit before tax came in at DKK 18m in 2019 compared to DKK 8m in 2018.

In regards to personal customers, Trygd has steadily gained market share in recent years by offering competitive prices and delivering a superior customer experience, and the company had the highest satisfaction rate in a general market satisfaction survey of Faroese customers conducted in the autumn of 2019. Trygd expects to continue to attract new customers and to grow premium income in 2020.

Dividends totaling DKK 11m will be paid to BankNordik for 2019.

Other activities

Skyn

Due to the low interest rate environment, economic growth and net positive immigration, the Faroese housing market has experienced strong activity in recent years and is now at its higest ever. Housing prices have increased and transaction volumes have grown significantly. The Group's estate agency, Skyn, has performed well during this period, being involved in a total of 240 transactions in 2019 compared to 234 in 2018. Skyn's revenues amounted to DKK 7.9m compared to DKK 7.5m in 2018, while profit before tax amounted to DKK 1.6m compared to DKK 2.5m in 2018. Skyn is is expected to pay a dividend of DKK 1.3m to BankNordik for the 2019 financial year.

NordikLív

NordikLív is a life insurance company established in 2015 and wholly owned by BankNordik. The company began operations in 2016 by issuing regular life, disability and critical illness insurance cover in the Faroese market. In 2019, premium income amounted to DKK 15m compared to DKK 14m in 2018, while profit before tax amounted to DKK 4m in 2019 compared to DKK 7m in 2018.

NordikLív is expected to pay a dividend of DKK 3m to BankNordik for the 2019 financial year.

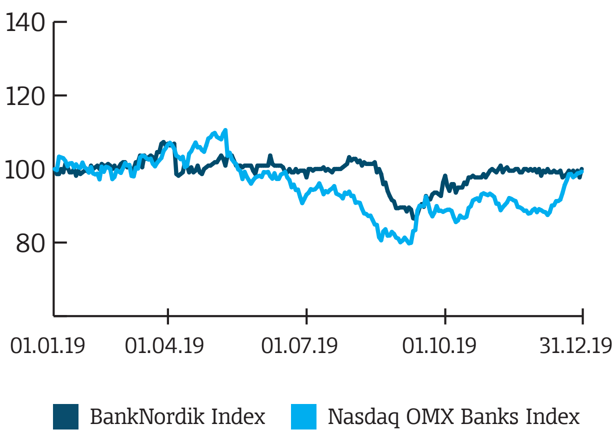
Shareholders

BankNordik share performance

The closing price of BankNordik's shares on Nasdaq Copenhagen at 31 December 2019 was DKK 109 compared to a closing price of DKK 108.5 at 31 December 2018. This is an increase of 0.5% compared to a flat Copenhagen Bank Index. The turnover in BankNordik's shares on Nasdaq Copenhagen was DKK 191m in 2019 compared to 104m in 2018.

Performance of BankNordik shares vs the Nasdaq Copenhagen Bank Index in 2019:

BankNordik share vs. Copenhagen Bank Index



Shareholder structure

At the time of publication of the Annual Report 2019, 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 35% of the shares.
- Lind Invest, Aarhus, holds 12% of the shares.
- Protector Forsikring ASA, Oslo, holds 7% of the shares.
- P/F Tjaldur, Tórshavn, holds 5% of the shares.
- Sp/f Framherji, Fuglafjørður, holds 5% of the shares.

At 31 December 2019, BankNordik had approximately 8,200 shareholders. The Faroese government held 35% of the share capital, institutional and other large investors held 48%, private investors held 16%, while the Bank held 1% as treasury shares. The majority of shareholders are based in the Faroe Islands.

Country	% of nominal shareholdings
Faroe Islands	58.7
Denmark	21.8
Norway	6.9
Others	12.7
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 1 March 2024.

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

Organisation and management

Corporate governance at BankNordik
The overall purpose 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 NASDAQ Copenhagen A/S. Corporate governance at BankNordik follows generally adopted principles of corporate governance. The external framework that governs the Bank's corporate governance approach to includes the rules of NASDAQ -Copenhagen A/S, relevant legislation and instructions and guidance issued by the Danish Financial Supervisory Authority or other legislative authorities, and the rules and principles of the recommendations on Corporate Governance. For further information about the Bank's compliance with the recommendations on Corporate Governance, see the Bank's Corporate Governance Report which is available at www.banknordik.com/cg

General meeting
The general meeting is the Bank's ultimate decision-making authority. An annual general meeting shall be held within three months of the end of a financial year. In 2020, the meeting will be held on 26 March in Tórshavn, Faroe Islands. The minutes of the meeting will be available at www.banknordik.com

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

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

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

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

Board of Directors
The Board currently comprises nine members, six of whom were elected at the General Meeting and three by and among the employees. Board members elected at the General Meeting hold office until the next annual general meeting. As prescribed by statutory provisions on employee representation in Faroese legislation, members elected by and among the employees serve on the Board of Directors for four-year terms, with the next election to be held in 2022. The age limit for the election or re-election of board members is 70 years.

The Nomination Committee operates as a preparatory committee for the Board of Directors with respect to the nomination of and appointment of candidates for the Board of Directors and the Executive Board. Candidates for the Board of Directors are nominated by the Board of Directors or the shareholders and are elected by the shareholders.

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 perform its duties as a board of directors. Each year, members of the Board are subject to a performance evaluation, which includes questionnaires, personal dialogue, and individual feedback from the Chairman. The findings and results are then presented and discussed by the Board.

In the fourth quarter, the Board of Directors carried out the annual evaluation of the Board of Directors, including its composition, the work on the Board, the Board structure, the leadership of the Board chairman and the individual performance of the Board members. All members of the Board of Directors answered questionnaires relating to their competences within relevant subjects. The findings and conclusions were subsequently presented to and discussed by the Board of Directors. The aim of the evaluation was to ensure, among other things, that the composition of the Board of Directors as well as the special competencies of each Board member enable the Board of Directors to perform its duties. As the Board of Directors operates as a collegial body, its overall competencies and experience are the sum of the individual board members' competencies and experience. The composition of the Board of Directors is intended to ensure the stable and satisfactory development of BankNordik for the benefit of its shareholders, customers, employees and other stakeholders. The competencies of the Board of Directors are described collectively in the competency profile, which is available at BankNordik.com. Please refer to page 116 for information on the competencies of the individual Board members. The results of the 2019 evaluation were generally positive, but with some areas of in need of improvement, which the Board of Directors will explore further.

Executive Board

The Executive Board consists of Árni Ellefsen, Chief Executive Officer, Rune Nørregaard, Chief Credit Officer and Turið F. Arge, Chief Operating Officer.

Remuneration

The Remuneration Committee operates as a preparatory committee for the Board of Directors with respect to remuneration issues. This duty includes proposals regarding the Bank's Remuneration Policy and underlying instructions to be approved and adopted at the General Meeting.

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

Remuneration for the Board of Directors is approved and adopted at each year's annual general meeting. 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 contributions.

The remuneration of the CEO and the executive officers is determined by the Board of Directors. Remuneration in line with market levels constitutes the overriding principle for for the remuneration of the CEO and the executive officers. Remuneration for the CEO and the 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 the executive officers consists of a fixed salary and a variable compoment consisting of a bonus scheme that rewards the achievement of pre-determined targets at Group, business area/group function and individual level. The effect on long-term financial results 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 the executive 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 gives 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 approved strategy on behalf of the 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 for 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 for the purpose of making risk assessments at both individual and aggregated levels. For further information on the Bank's risk management, see the Group's Risk Management Report 2019 at: www.banknordik.com/rmr

Corporate responsibility

Complying with the law and adhering to international principles for responsible business conduct is a fundamental and integral part of BankNordik's strategy. We are driven by an ambition to create value for all our stakeholders, to use our expertise to drive sustainable progress and to have a positive impact on the societies we are a part of. At BankNordik, we strive to build a relationship-centric bank that places the customer at the centre of business, provides tailored financial advice and makes the banking experience less complex. Our commitment to conduct responsible business revolves around a set of values consisting of "Competence, Commitment and Drive", which form the backbone of our efforts to create sustainable and shared value for the Group's stakeholders. In addition to creating economic value through responsible business conduct; through the benefits that our products bring to our customers; and through banking expertise, the Group aims to create social value through community involvement. As such, BankNordik's approach is centred on its customers, employees and the local community. It is our assertion that CSR initiatives will yield the best results if there is a natural connection between such activities and our business strategy and core competences. Therefore, our initiatives are strategically rooted in the Group's vision, strategy, and values.

BankNordik reports on corporate social responsibility in the 2019 CSR Report, which has been prepared in compliance with the Group's CSR policy and the Danish FSA's requirements on corporate responsibility reporting.

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

Statement by the Management

The Board of Directors and the Executive Board (the management) have today considered and approved the annual report of P/F BankNordik for the financial year 2019.

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

Furthermore, the annual report has been prepared in accordance with the Danish disclosure requirements for annual reports of listed financial institutions.

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 2019 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 2019. 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 2020

Executive Board

Árni Ellefsen
CEO

Board of Directors

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

Internal Auditors' Report

Report on the Consolidated and Parent Company Financial Statements

Opinion

In our opinion, the Consolidated Financial Statements and the Financial Statements of P/F BankNordik give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2019 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the Consolidated Financial Statements and in accordance with the Faroese Financial Business Act in respect of the Parent Company's financial statements.

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

Basis for opinion

We have audited the Consolidated Financial Statements and the Financial Statements of P/F BankNordik for the financial year 1 January – 31 December 2019. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU. The Parent Company's Financial Statements have been prepared in accordance with the Faroese Financial Business Act.

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

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

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

Statement on Management's Review

Management is responsible for the Management's Review.

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

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

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

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

Tórshavn, 27 February 2020

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 2019 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Faroese Financial Business Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2019 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2019 in accordance with the Faroese Financial Business Act.

What we have audited

The Consolidated Financial Statements and the Parent Company Financial Statements of BankNordik P/F for the financial year 1 January to 31 December 2019 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies for the Group as well as for the Parent Company and cash flow statement for the Group. Collectively referred to as the "Financial Statements".

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2019. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Loan impairment charges

Loans are measured at amortised cost less impairment charges.

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

How our audit addressed the key audit matter

We reviewed and assessed the impairment charges recognised in the income statement in 2019 and the accumulated impairment charges recognised in the balance sheet at 31 December 2019.

Our review included an assessment of the impairment model applied prepared by SDC, including division of responsibilities between the data centre is made to the detailed description of accounting policies in note 1.

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

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

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

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

and the Group. An independent auditor appointed by SDC has provided the model with a reasonable assurance report as to whether the descriptions comply with the interpretation options regarding the impairment principles according to IFRS 9, and whether the model calculates in accordance with the model descriptions. We assessed whether the assurance report identified a need for adjustments to Group's application of the model.

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

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

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

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

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

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

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

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

Management's responsibilities for the Financial Statements

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

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

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

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

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

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

Tórshavn, 27 February 2020

PRICEWATERHOUSECOOPERS
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Heidi Brander
State Authorised Public Accountant
mne33253

JANUAR P/F
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Company reg. no. 5821

Heini Thomsen
State Authorised Public Accountant
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Financial statement BankNordik

Contents

Income statement - BankNordik

Note	DKK 1,000	Group		BankNordik	
		2019	**2018**	**2019**	**2018**
3, 4	Interest income	393,388	393,429	391,691	391,982
	of which interest income from deposits	*9,820*	*5,165*	*9,820*	*5,165*
3, 5	Interest expenses	26,697	19,287	26,666	19,288
	of which interest expenses from assets	*4,674*	*0*	*4,674*	*0*
	Net interest income	**366,691**	**374,143**	**365,024**	**372,694**
3	Dividends from shares and other investments	13,984	11,396	13,984	11,396
6	Fee and commission income	202,683	185,071	213,570	195,067
6	Fee and commissions paid	13,208	12,858	13,208	12,858
	Net dividend, fee and commission income	**203,458**	**183,609**	**214,346**	**193,605**
	Net interest and fee income	**570,149**	**557,752**	**579,370**	**566,299**
7	Premium income, net of reinsurance	126,504	118,148		
8	Claims, net of reinsurance	74,177	74,397		
	Interest and fee income and income from insurance activities, net	**622,476**	**601,503**	**579,370**	**566,299**
3.9	Market value adjustments	4,395	7,113	6,943	9,531
10	Other operating income	14,497	19,947	8,707	13,940
11, 12	Staff costs and administrative expenses	470,980	459,247	448,613	438,578
27, 28, 29	Amortisation, depreciation and impairment charges	14,923	-43,807	14,404	-44,379
13	Other operating expenses	901	793	901	793
14	Impairment charges on loans and advances etc.	-104,928	-110,782	-104,928	-110,782
24, 25	Income from investments accounted for under the equity method	283	184	19,501	14,565
	Profit before tax	**259,775**	**323,295**	**255,531**	**320,125**
15	Tax	53,144	61,199	48,900	58,029
	Net profit	**206,631**	**262,097**	**206,631**	**262,097**
	Portion attributable to				
	Shareholders of BankNordik P/F	206,631	262,097	206,631	262,097
	Net profit	**206,631**	**262,097**	**206,631**	**262,097**
	EPS Basic for the perdiod, total, DKK*	21.78	27.11	21.78	27.11
	EPS Diluted for the perdiod, total, DKK*	21.78	27.11	21.78	27.11

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

Statement of comprehensive income - BankNordik

DKK 1,000	Group		BankNordik	
	2019	**2018**	**2019**	**2018**
Net profit	206,631	262,097	206,631	262,097
Other comprehensive income will not subseq. be recycled to the income statement				
Revaluation of domicile property	-1,735	13,718	-1,735	13,718
Tax on other comprehensive income	660	-2,749	660	-2,749
Revaluation of assets, subsidiaries	615	0	615	0
Total other comprehensive income	-460	10,968	-460	10,968
Total comprehensive income	**206,171**	**273,065**	**206,171**	**273,065**
Portion attributable to				
Shareholders of BankNordik P/F	204,432	273,065	204,432	273,065
Additional Tier 1 capital holders	1,739	0	1,739	0
Total comprehensive income	**206,171**	**273,065**	**206,171**	**273,065**

Balance Sheet - BankNordik

Note	DKK 1,000	Group		BankNordik	
		2019	**2018**	**2019**	**2018**
	Assets				
16	Cash in hand and demand deposits with central banks	252,059	180,051	252,000	179,956
17, 18	Amounts due from credit institutions and central banks	877,825	914,420	877,825	914,420
14, 19, 20	Loans and advances at fair value	509,864	519,638	509,864	519,638
14, 19, 20	Loans and advances at amortised cost	9,399,022	9,436,840	9,399,022	9,436,840
21	Bonds at fair value	5,599,529	4,565,087	5,404,445	4,374,064
22	Shares, etc.	312,175	304,003	312,175	304,003
23, 48	Assets under insurance contracts	6,176	5,847	0	0
24	Holdings in associates	6,369	6,082	6,369	6,082
25	Holdings in subsidiaries	0	0	133,438	118,641
26	Assets under pooled schemes	795,822	445,241	795,822	445,241
27	Intangible assets	9,957	6,678	9,957	6,678
	Total land and buildings	212,559	98,649	209,886	96,705
28	Domicile property	212,559	98,649	209,886	96,705
29	Other property, plant and equipment	19,985	23,814	19,060	22,760
	Current tax assets	10,705	6,814	10,705	6,814
30	Deferred tax assets	5,008	19,641	4,960	18,496
31	Assets held for sale	1,500	20,364	1,500	20,364
32	Other assets	87,188	80,194	81,669	73,361
	Prepayments	67,657	70,194	66,584	68,629
	Total assets	**18,173,399**	**16,703,555**	**18,095,281**	**16,612,691**

Balance Sheet - BankNordik

Note	DKK 1,000	Group		BankNordik	
		2019	**2018**	**2019**	**2018**
	Shareholders' equity and liabilities				
	Liabilities other than provisions				
33, 34	Amounts due to credit institutions and central banks	54,922	298,610	54,922	298,610
35, 36	Deposits and other debt	14,367,685	13,432,228	14,399,292	13,452,242
	Deposits under pooled schemes	795,832	445,572	795,832	445,572
37, 48	Liabilities under insurance contracts	92,922	96,261	0	0
	Current tax liabilities	36,107	17,441	32,828	14,394
38	Other liabilities	309,825	170,920	297,822	160,240
	Deferred income	5,471	4,499	3,951	3,609
	Total liabilities other than provisions	**15,662,763**	**14,465,532**	**15,584,648**	**14,374,667**
	Provisions for liabilities				
14	Provisions for losses on guarantees etc	18,446	27,443	18,446	27,443
	Provisions for other liabilities	5,012	5,361	5,012	5,361
	Total provisions for liabilities	**23,461**	**32,805**	**23,459**	**32,805**
	Subordinated debt				
40	Subordinated debt	224,086	223,477	224,086	223,477
	Total liabilities	**15,910,311**	**14,721,814**	**15,832,193**	**14,630,949**
	Equity				
	Share capital	192,000	200,000	192,000	200,000
	Revaluation reserve	8,628	10,968	8,628	10,968
	Retained earnings	1,844,506	1,700,773	1,844,506	1,700,773
	Proposed dividends	67,200	70,000	67,200	70,000
	Shareholders of the Parent Company	**2,112,335**	**1,981,742**	**2,112,335**	**1,981,742**
39	Additional tier 1 capital holders	150,754	0	150,754	0
	Total equity	**2,263,088**	**1,981,742**	**2,263,088**	**1,981,742**
	Total liabilities and equity	**18,173,399**	**16,703,555**	**18,095,281**	**16,612,691**

Statement of capital - Group

Changes in equity:

DKK 1,000	Shareholders equity: Share capital	Revaluation Reserve	Proposed dividends	Retained earnings	Total	Additional tier 1 capital	Total
Shareholders' equity at December 31, 2018	**200,000**	**10,968**	**70,000**	**1,705,783**	**1,986,752**		**1,986,752**
Changes in accounting policies, subsidiaries				-6,109	-6,109		-6,109
Tax on changes in accounting policies, subsidiaries				1,100	1,100		1,100
Adjusted equity at January 1, 2019	**200,000**	**10,968**	**70,000**	**1,700,774**	**1,981,742**		**1,981,742**
Revalution of assets		-3,000		1,265	-1,735		-1,735
Tax on entries on income recognised as Other comprehensive income.		660			660		660
Revalution of assets, subsidiaries		615			615		615
Net profit			67,200	137,691	204,891	1,739	206,631
Total comprehensive income		**-1,725**	**67,200**	**138,957**	**204,432**	**1,739**	**206,171**
Issuance of additional tier 1 capital, net of transaktion costs					0	149,014	149,014
Cancellation of own shares	-8,000			8,000	0		0
Acquisition of own shares				-7,054	-7,054		-7,054
Dividends paid			-70,000	3,215	-66,785		-66,785
Total equity at December 31, 2019	**192,000**	**9,243**	**67,200**	**1,843,891**	**2,112,335**	**150,754**	**2,263,088**

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

Statement of capital - BankNordik P/F

Changes in equity:

DKK 1,000	Shareholders equity: Share capital	Revaluation Reserve	Proposed dividends	Retained earnings	Total	Additional tier 1 capital	Total
Shareholders' equity at December 31, 2018	**200,000**	**10,968**	**70,000**	**1,705,783**	**1,986,752**		**1,986,752**
Changes in accounting policies, subsidiaries				-6,109	-6,109		-6,109
Tax on changes in accounting policies, subsidiaries				1,100	1,100		1,100
Adjusted equity at January 1, 2019	**200,000**	**10,968**	**70,000**	**1,700,774**	**1,981,742**		**1,981,742**
Revalution of assets		-3,000		1,265	-1,735		-1,735
Tax on entries on income recognised as Other comprehensive income.		660			660		660
Revalution of assets, subsidiaries		615			615		615
Net profit			67,200	137,691	204,891	1,739	206,631
Total comprehensive income		**-1,725**	**67,200**	**138,957**	**204,432**	**1,739**	**206,171**
Issuance of additional tier 1 capital, net of transaktion costs					0	149,014	149,014
Cancellation of own shares	-8,000			8,000	0		0
Acquisition of own shares				-7,054	-7,054		-7,054
Dividends paid			-70,000	3,215	-66,785		-66,785
Total equity at December 31, 2019	**192,000**	**9,243**	**67,200**	**1,843,891**	**2,112,335**	**150,754**	**2,263,088**

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

Statement of capital - P/F BankNordik

Solvency	**Dec. 31**	**Dec. 31**
DKK 1,000	**2019**	**2018**
Core capital	2,173,404	1,874,689
Total capital	2,397,490	2,098,167
Risk-weighted items not included in the trading portfolio	8,374,072	8,116,832
Risk-weighted items with market risk etc.	1,299,559	1,308,662
Risk-weighted items with operational risk	1,090,091	1,195,955
Total risk-weighted items	10,763,722	10,621,449
Core capital rato, excl. hybrid core capital	18.8%	17.7%
Core capital ratio	20.2%	17.7%
Solvency ratio	22.3%	19.8%
Core Capital and Shareholders' equity		
Share capital	192,000	200,000
Reserves	8,628	10,968
Net profit	206,631	262,097
Retained earnings, previous years	1,712,623	1,557,762
Shareholders' equity, before deduction of holdings of own shares	**2,119,882**	**2,030,828**
Deduction of dividend	68,939	70,000
Deduction due to excess holdings of shares in the fincial sector	0	5,740
Deduction of holdings of own shares	7,547	44,076
Deduction of intangible assets	9,957	6,678
Deductions regarding planned purchase of own chares	0	6,713
Deduction of deferred tax assets	4,960	18,496
Deduction regarding prudent valuation of financial instruments	5,828	4,436
Core capital exclusive of hybrid core capital	**2,022,650**	**1,874,689**
Hybrid core capital	150,754	0
Core capital	**2,173,404**	**1,874,689**
Total capital		
Core capital	2,173,404	1,874,689
Subordinated loan capital	224,086	223,477
Total capital	**2,397,490**	**2,098,167**

The BankNordik Group holds a license to operate as a bank and is therefore subject to a capital requirement under the Faroese Financial Business Act and to CRR. The Faroese provisions on capital requirements apply to both the Parent Company and the Group. The capital requirementprovisions stipulate a minimum capital of 8% of the identified risks. A detailed body of rules determines the calculation of capital as well as risks (risk-weighted items). The capital comprises core capital, hybrid capital and subordinated loan capital. The core capital corresponds to the carrying amount of equity, after deductions of holdings of own shares, tax assets and other minor deductions.

Cash flow statement - Group

DKK 1,000	2019	2018
Cash flow from operations		
Profit before tax	259,775	323,295
Interest expence on leasing liabilities	2,924	0
Depreciation and impairment charges of tangible assets	14,923	-43,807
Impairment of loans and advances/guarantees	-104,928	-110,782
Paid tax	-21,272	-36,727
Other non-cash operating items	-20,973	-18,711
Total	**130,449**	**113,268**
Changes in operating capital		
Change in loans at fair value	9,774	-88,620
Change in loans at amortised cost	242,746	-289,707
Change in holding of bonds	-1,032,634	-300,825
Change in holding of shares	-8,172	-55,193
Change in deposits	935,456	799,765
Due to credit institutions and central banks	-16,038	-61,886
Change in other assets / liabilities	16,794	17,689
Assets/liabilities under insurance contracts	-3,791	10,592
Prepayments	3,963	4,291
Cash flow from operations	**278,548**	**149,374**
Cash flow from investing activities		
Dividends received	13,984	11,396
Acquisition of intangible assets	-3,828	-6,678
Acquisition of tangible assets	-10,358	-13,127
Sale of tangible assets	16,922	139,942
Cash flow from investing activities	**16,719**	**131,533**
Cash flow from financing activities		
Change in loans from central banks and credit institutions	-227,650	0
Issued additional tier 1 capital	148,962	0
Acquisition of own shares	-7,054	-14,935
Sale of own shares	0	7
Payment of dividends	-70,000	-40,000
Payment of dividends, own shares	3,215	1,171
Principal portion of lessee lease payments	-7,328	0
Cash flow from financing activities	**-159,855**	**-53,757**
Cash flow	**135,412**	**227,150**
Cash in hand and demand deposits with central banks, and due from		
Credit institutions, etc. at the beginning of the year	994,471	767,321
Cash flow	135,412	227,150
Cash and due etc.	**1,129,884**	**994,471**
Cash and due etc.		
Cash in hand and demand deposits with central banks	252,059	180,051
Due from credit institutions, etc.	877,825	814,420
Total	**1,129,884**	**994,471**

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 in 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.

Changed accounting policies for the subsidiaries P/F Trygd and P/F NordikLív

As of 1 January 2019 the accounting policies have been changed due to implementation of the new Executive Order no. 4 of 27 Juni 2018. Due to the change of accounting policies the Group has changed the 2018 balance sheet accordingly. Regarding 2018 the assets and liabilities have increased by DKK 3.4m. Furthermore the equity has decreased by DKK 5.0m.

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 2019.

1) Estimates and assumptions

Estimates and assumptions of significance to the financial statements include the determination of:

A. Impairment charges of loans and advances
B. Fair value of domicile properties
C. Fair value of financial instruments
D. Fair value of 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 the expected credit loss model as further described under the section "Loans and advances at amortised cost".

In order to determine impairments on financial instruments as stipulated by IFRS 9, the Bank is required to make use of estimations and assumptions. In particular, BankNordik is mandated to estimate future cash flows and loan-to-value when assessing significantly increased credit risks and impairments.

BankNordik's expected credit loss model based on a series of variable inputs – requires a loss allowance to be recognised on all credit exposures. Impairments within stage 1 and stage 2 which are not classified as weak engagements are based purely on the output of the model, whereas impairments within the weaker part of stage 2 and stage 3 are recognised based on a combination of individual assessment and model output.

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

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

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

B) Fair value of domicile properties

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

Notes

Note 1 (cont'd)

C) Fair value of financial instruments

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

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

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

The Group's loans and advances are not traded in an active market. Therefore there is no market price to determine fair value of loans. 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.

Details on the amounts recognised are provided in note 22.

D) Fair value of assets held for sale

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

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

2) Adoption of new standards in 2019

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 2019

IFRS 16 'Leases'

IFRS 16 'Leases' introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The effective date is January 1, 2019. On adoption of IFRS 16, the Group's leased assets which mainly comprise the Thorshavn domicile was recognised in the balance sheet. The Group applied the modified retrospective approach under which the lease liability as of 1 January 2019 and the related right of use asset was recognised in the opening balance sheet 1 January 2019 without restatement of comparative figures. The recognition of lease assets and lease liabilities as of 1 January 2019 amounted to DKK 114.6m of which the Thorshavn domicile amounted to DKK 79.1m.

IFRC 23 'Uncertainty over income tax treatments'

The interpretation comprises guidance regarding recognition and measurement of uncertain income tax positions. There has been no significant impact from adoption of the interpretation.

Notes

Note 1 (cont'd)

Amendments to IFRS 9: Prepayment Features with Negative Compensation
The amendment comprises guidance for classification of loans with prepayment options under which the borrower may prepay the loan at below par value. There have been no significant impact from adoption of this change.

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

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

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

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

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

Amends to IAS 1 and IAS 8, 'Definition of material'
The changes comprise extended guidance regarding application of the "material" notion in respect of recognition, measurement and disclosure. The changes become effective on 1 January 2020. Management expects no significant Impact from adoption of these changes.

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

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.

Notes

Note 1 (cont'd)

5) Segment information

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

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

6) Foreign currency translation

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

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

7) Offsetting

Amounts due to and from the Group are offset when the Group has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2. Critical accounting policies

1. Income statement

1) Income criteria

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

2) Interest income and expenses

Interest income and expenses arising from interest-bearing financial instruments measured at amortised cost are recognised in the income statement according to the effective interest method on the basis of the cost of the individual financial instrument. Interest includes amortised amounts of fees that are an integral part of the effective yield on a financial instrument, such as origination fees, and the amortisation of any other differences between cost price and redemption price. For financial assets in stage 1 and 2 of the impairment model, interest income is determined on the basis of the gross carrying amount. For financial assets in stage 3, interest income is determined based on the carrying amount after impairment.

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

Notes

Note 1 (cont'd)

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

Interest expenses comprises interests on the groups leasing liabilities recognized as a consequence of the implementation of IFRS 16 'Leases'.

Furtermore interest income comprises income originated from liabilities and interest expences comprises expenses originated from assets.

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 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.

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

In addition, the item covers reinsurance coverage.

8) Market value adjustments

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

9) Other operating income

Other operating income includes other income that is not ascribable to other income statement line items.

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.

Notes

Note 1 (cont'd)

11) Pension obligations
The Group's contributions to defined contribution plans are recognised in the income statement as they are earned by the employees.

12) Depreciation and impairment of intangible assets, property, plant and equipment
Depreciation and write-downs comprise the depreciation and write-downs on intangible and tangible assets for the period. Furthermore depreciation of property comprises depreciations on the groups holdings of leased assets.

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

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

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

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

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

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

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

2. Balance sheet – Assets

1) Due from credit institutions and central banks
Amounts due from credit institutions and central banks comprise amounts due from other credit institutions and time deposits with central banks and are measured at amortised cost, as described under Financial instruments / loans and advances at amortised cost.

Notes

Note 1 (cont'd)

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

3) Financial instruments – Classification
The Group's financial assets are at initial recognition divided into the following three categories:

- Loans and advances measured at amortised cost
- Trading portfolio measured at fair value
- Financial assets designated at fair value with value adjustments through profit and loss

3.1) Loans and advances measured at amortised cost
Loans and advances consist of conventional loans and advances disbursed directly to borrowers. Initial recognition of amounts due from credit institutions and central banks as well as loans and advances is at fair value plus transaction costs and less origination fees and other charges received.

Subsequently they are measured at amortised cost, according to the effective interest method, less any impairment charges according to the requirements from IFRS 9.

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

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

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

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

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

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

Notes

Note 1 (cont'd)

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

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

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

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

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

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

The expected life of an exposure is calculated, unless the circumstances surrounding the exposure in question dictate otherwise, as the contractual maturity of the exposure in question.

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

Since calculations are made in all stages of an expected credit loss, i.e. expectations as to the future, all statements and calculations reflect the Bank's best estimates and assessments as to future events. These estimates and assessments may therefore result in the calculation of a higher or lower credit loss than the credit losses actually incurred. Please refer to note 14 for further information.

Write-off policy

Pursuant to the credit policy, the Bank will secure as much collateral as possible when entering into exposures. It is Group policy to write off, possibly on account, claims deemed to be lost, even if no collateral has been secured. The following principles apply for writing off bad debts:

- For personal customers, write-off is made prior to or immediately in connection with the exposure being transferred to the central debt collection department.
- For corporate customers, write-off will typically await the commencement or completion of active realisation.
- Non-performing loans where the interest rate has been reduced to zero are normally written off immediately.

Notes

Note 1 (cont'd)

The Bank will seek to collect all written-off exposures either through its debt collection department or through external assistance. In certain customer relationships, an agreement will be made on partial repayment of the exposures, and remaining exposures will be forfeited in connection with bankruptcy proceedings and agreements on debt rescheduling.

3.2) Trading portfolio measured at fair value

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

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

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

Determination of fair value

The fair value of financial assets is measured on the basis of quoted market prices of financial instruments traded in active markets. If an active market exists, fair value is based on the most recently observed market price at the balance sheet date. If a financial instrument is quoted in a market that is not active, the Group bases its measurement on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including transactions in similar financial instruments that are assumed to be motivated by normal business considerations.

If no active market for standard and simple financial instruments, such as interest rate 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.

Determination of fair value hierarchy

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

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

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

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

Notes

Note 1 (cont'd)

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

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 constructive obligation to cover the negative balance of the undertakings is recognised in provisions. Any receivables from these under-takings are written-down according to the impairment loss risk.

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

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

7) Intangible assets
Intangible assets consists of internally developed software. Developed software is amortised over its expected useful life, usually four years, according to the straight-line method.

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

8.1) 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.

Notes

Note 1 (cont'd)

Subsequently, domicile property is measured at a revalued amount corresponding to the fair value at the date of the revaluation less depreciation and impairment. The fair value is calculated on the basis of current market data according to an income based model that includes the property's estimated rental income If rented to a third party, operating expenses, as well as management and maintenance. Maintenance costs are calculated on the basis of the condition of the individual property, construction year, materials used, etc. Operating expenses are calculated on the basis of a standard budget. The fair value of the property is determined based on the expected cash flow from operations and a rate of return assessed for the individual property. The return rate is determined on the basis on the location of the individual property, potential use, the state of maintenance, quality, etc. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the amount which would be determined using fair value at the balance sheet date.

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.

8.2) Leased domicile property

A right of use asset and a liease liability is recognised in the balance sheet upon commencement of a lease.

On initial recognition, the right-of-use asset is measured at cost, corresponding to the value of the lease liability, adjusted for prepaid lease payments, plus any initial direct costs and estimated costs for dismantling, removing and restoring, or similar.

On subsequent recognition, the asset is measured at cost less any accumulated depreciation and impairment. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the asset. Depreciation charges are recognised in the income statement on a straight-line basis. The lease asset is presented in the balance sheet under the item Domicile property

9) Other property, plant and equipment

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

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

10) Assets held for sale

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

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

Notes

Note 1 (cont'd)

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

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

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

3. Balance sheet – Liabilities, provisions and equity

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

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

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

3) Due to credit institutions and central banks and deposits measured at amortised cost
Initial recognition of amounts due to credit institutions and central banks and deposits is at fair value net of transaction costs.

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

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

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

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

Notes

Note 1 (cont'd)

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

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

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

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.

On initial recognition, lease liabilities are measured at the present value of future lease payments, discounted using an alternative interest rate. On subsequent recognition, a lease liability is measured at amortised cost. Lease payments include payments during the minimum lease period plus lease payments during extension periods when it is reasonably certain that the option will be exercised. The lease liability is recognised under Other liabilities.

8) Provisions
Provisions include provisions for deferred tax, financial 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 for credit losses. Such provisions are determined applying the same approach as for loans issued.

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.

Provisions for financial guarantees are made according to the requirements from IFRS 9.

Notes

Note 1 (cont'd)

9) Subordinated debt
Subordinated debt consists of liabilities in the form of subordinated loan capital which in case of the Group's voluntary or compulsory winding-up, will not be repaid until after the claims of its ordinary creditors have been met.

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

10) Hybrid Capital (AT1 capital)
Additional Tier 1 (AT1) capital issued with a perpetual term and without a contractual obligation to make repayments of principal and pay interest (additional tier 1 capital under CRR) does not fulfil the conditions for being classified as a financial liability according to IAS 32. Therefore, any such issue of Additional Tier 1 (AT1) capital is considered equity.

The net amount at the time of issue is recognised as an increase in equity. The payment of interest is treated as dividend and recognised directly in equity at the time when the liability arises. Such interest payments are tax deductible and are claimed in the Group's tax statement.

Upon voluntary redemption or buyback of the instruments, shareholders' equity will be reduced by the redemption amount at the time of redemption. Cost and selling prices on the purchase and sale of Additional Tier 1 (AT1) capital under CRR are recognised directly in equity in the same way as the buying or selling of treasury shares.

11) Own shares
Purchase and sales amounts and dividend regarding holdings of own shares are recognised directly in the equity under the item "Retained earnings". Profits and losses from sale are not included in the income statement.

12) Dividends
The Board of Directors' proposal for dividends for the year submitted to the general meeting is included as a separate reserve in shareholders' equity. The dividends are recognised as a liability when the general meeting has adopted the proposal.

4. Cash flow statement

The Group prepares its cash flow statement according to the indirect method. The statement is based on the pre-tax profit for the year and shows the cash flows from operating, investing and financing activities and the increase or decrease in cash and cash equivalents during the year.

Cash and cash equivalents consist of cash in hand and demand deposits with central banks and amounts due from credit institutions and central banks with original maturities shorter than three months.

Notes

Note 1 (cont'd)

3. Accounting Policies – P/F BankNordik

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

Deviation from section 65 of Executive Order 1717 of 15 December 2017

The Parent Company accounts are presented in accordance with Executive Order no. 1721 of December 15, 2017 for the Faroe Islands on financial reports for financial institutions and brokerage companies. As opposed to the executive order in effect in Denmark, the Faroese executive order has not yet been updated to allow the new rules on leasing in IFRS 16 to be elected from 2019. The company's management finds that the parent company accounts based on the Faroese rules will thus not be comparable to other institutions' parent company accounts that present IFRS consolidated financial statements, which reduces comparability for users of the financial statements.

In the parent company's accounts, the Bank's management has therefore assessed that a deviation from the legal requirement regarding leasing agreements is necessary to give a true and fair view of the Bank's assets, liabilities, financial position as well as the Bank's financial performance, as per section 186 (3) of the Financial Business Act. Management considers the deviation necessary to ensure that readers of the accounts get a correct impression of the Bank's operating leases, which as a result of the deviation are now recognized in the annual report according to the same rules as in the consolidated financial statements (IFRS).

The deviation means that the Bank's assets are increased by DKK 108.1m, the Bank's debt obligations are increased by DKK 110.0m, and the Bank's operating profit is decreased by DKK 1.5m. The Bank's operating cash flow is increased by DKK 2.9m, while the effect on the Bank's cash flow from financing was a decrease of DKK 7.3m. The deviation has not affected the comparison figures, cf. the transition rule in IFRS 16. Reference is also made to note 28, where the Bank's leasing agreements are described in greater detail.

Notes

Note 2

Operating segments

The Group consists of two business units and support functions. The Group's activities are segmented into business units according to legislative requirements and product and service characteristics. The Group's business units are Banking and Non-life insurance.

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

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

Other covers expenses for the Group's support functions and the real estate agency P/F Skyn and the life insurance company NordikLív. These companies are very small and immaterial in an overall Group context. Overhead Costs are allocated according to resource requirements. Liquidity balances are posted between the segments using an internal required rate of return. Other costs are allocated according to deposit balances in each segment. Other comprises assets not allocated to the business segments i. e. the Groups portfolio of bonds, shares and other assets.

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

Notes - BankNordik Group

Note	Operating segments 2019	Banking				Non-life Insurance	Elimination	Group
2	DKK 1,000	Private	Corporate	Other	Total	Faroe Islands		Total
(cont'd)	External interest income, Net	237,201	119,153	8,771	365,125	1,566		366,691
	Internal interest	4,760	-115	-4,645	0	0		0
	Net interest income	241,961	119,038	4,126	365,125	1,566		366,691
	Net Fee and dividends income	**197,520**	**16,826**	**-3,490**	**210,855**	**-7,397**		**203,458**
	Premium income, net of reinsurance	0	0	14,820	14,820	112,512	-828	126,504
	Net premium income of reinsurance and claims	0	0	9,621	9,621	43,534	-828	52,327
	Other income	18,840	5,351	-728	23,463	-2,179	-2,110	19,175
	Total income	**458,321**	**141,216**	**9,528**	**609,065**	**35,525**	**-2,938**	**641,651**
	Total operating expenses	178,049	14,492	279,400	471,942	17,801	-2,938	486,804
	of which depreciation and amortisation	2,224	0	12,391	14,615	308		14,923
	Profit before impairment charges on loans	**280,271**	**126,724**	**-269,872**	**137,123**	**17,724**		**154,847**
	Impairment charges	-45,056	-59,278	-594	-104,928	0	0	-104,928
	Profit before tax	**325,328**	**186,001**	**-269,278**	**242,051**	**17,724**	**0**	**259,775**
	Total assets	**6,491,153**	**3,626,477**	**7,861,726**	**17,979,357**	**194,042**		**18,173,399**
	of which Loans and advances	6,297,010	3,611,876		9,908,886	0		9,908,886
	Total liabilities	**10,616,286**	**3,783,006**	**1,409,975**	**15,809,267**	**102,783**		**15,912,050**
	of which Deposits	10,616,286	3,783,006		14,399,292	0	-31,608	14,367,685
	of which Insurance liabilities			3,668		89,254	0	92,922

Operating segments 2018	Banking				Non-life Insurance	Elimination	Group
DKK 1,000	Private	Corporate	Other	Total	Faroe Islands		Total
External interest income, Net	250,022	114,107	8,777	372,906	1,237		374,143
Internal interest	8,461	-1,113	-7,348	0	0		0
Net interest income	258,483	112,994	1,429	372,906	1,237		374,143
Net Fee and dividends income	**179,552**	**15,341**	**-4,562**	**190,331**	**-6,722**		**183,609**
Premium income, net of reinsurance	0	0	14,028	14,028	105,026	-906	118,148
Net premium income of reinsurance and claims	0	0	11,681	11,681	32,976	-906	43,751
Other income	19,914	680	10,085	30,679	-2,024	-1,410	27,245
Total income	**457,949**	**129,015**	**18,632**	**605,596**	**25,467**	**-2,316**	**628,747**
Total operating expenses	177,006	15,470	208,811	401,286	17,263	-2,316	416,233
of which depreciation and amortisation	2,340	5	-46,448	-44,103	296		-43,807
Profit before impairment charges on loans	**280,943**	**113,546**	**-190,179**	**204,310**	**8,204**		**212,514**
Impairment charges, incl. reversals of aquired OEI impairments	-54,228	-56,554	0	-110,782	0	0	-110,782
Profit before tax	**335,171**	**170,100**	**-190,179**	**315,092**	**8,204**	**0**	**323,295**
Total assets	**6,706,139**	**3,666,528**	**6,153,093**	**16,525,760**	**177,796**		**16,703,555**
of which Loans and advances	6,454,928	3,501,550	0	9,956,478	0		9,956,478
Total liabilities	**10,095,824**	**3,356,419**	**1,091,776**	**14,544,018**	**177,796**		**14,721,814**
of which Deposits	10,095,824	3,356,419	0	13,452,242	0	-20,014	13,432,228
of which Insurance liabilities			914		88,150	0	89,064

Notes - BankNordik Group

Note (DKK 1,000)

2 (cont'd)

BankNordik Group - Geografical revenue information

	Total income		Non.current assets		Additions to tangible assets		Additions to intangible assets	
Geografical segments	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Faroe Islands	327,500	328,084	124,822	46,037	84,942	-113,319	9,957	6,678
Denmark	264,640	254,406	78,317	84,564	40,114	35,767		
Greenland	49,510	46,257	45,731	4,621	-51	-41,562		
Total	**641,651**	**628,747**	**248,870**	**135,222**	**125,005**	**-119,115**	**9,957**	**6,678**

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

	Total income		Profit before tax		Tax		FTE	
Operational segments	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Faroe Islands, Banking, Other	291,976	302,618	120,534	220,934	43,820	57,042	192	197
Faroe Islands, Insurance	35,525	25,467	17,724	8,204	3,211	1,488	25	25
Denmark, Banking	264,640	254,406	86,932	75,227	1,008	1,789	140	154
Greenland, Banking	49,510	46,257	34,586	18,930	5,105	881	20	18
Total	**641,651**	**628,747**	**259,775**	**323,295**	**53,144**	**61,199**	**377**	**393**

Notes

BankNordik Group

Note	DKK 1,000	Interest income[2]	Interest expenses	Net interest	Market value adjustment	Dividend	Total
3	**Net income, financial instruments 2019[1]**						
	Financial instruments at amortised cost	**368,384**	**23,365**	**345,018**			**345,018**
	Financial instruments at fair value:						
	Held for trading	34,238	3,332	30,906	-12,144	13,984	43,543
	Loans and Advances Designated[2, 3, 4]	4,361	0	4,361	17,442	0	21,803
	Derivatives[5]	-13,595	0	-13,595	-21,585		-35,179
	Other		0	0	20,681		9,885
	Financial instruments at fair value total	**25,004**	**3,332**	**21,672**	**4,395**	**13,984**	**40,051**
	Total net income from financial instruments	**393,388**	**26,697**	**366,691**	**4,395**	**13,984**	**385,069**
	Net income, financial instruments 2018						
	Financial instruments at amortised cost	**362,506**	**19,287**	**343,220**			**343,220**
	Financial instruments at fair value:						
	Held for trading	28,756	0	28,756	-49,105	11,396	31,296
	Loans and Advances Designated[2, 3, 4]	14,419	0	14,419	4,293	0	18,711
	Derivatives[5]	-12,251		-12,251	2,412		-9,839
	Other				49,514		9,265
	Financial instruments at fair value Total	**30,923**	**0**	**30,923**	**7,113**	**11,396**	**49,433**
	Total net income from financial instruments	**393,430**	**19,287**	**374,143**	**7,113**	**11,396**	**392,653**

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

2 Interest income recognised on impaired financial assets amounts to DKK 10.7m (2018: DKK 13.9m)

3 Net gain/loss recognised on loans and advances designated amount to DKK 19.6m (2018 DKK 18.2m). Of which DKK 2.2m relate to interest income (2018 DKK 14.4m), and DKK 17.4m relate to Value adjustments(2018 DKK 3.8m).

4 Net gain/loss recognised on interest rate swaps amount to DKK -22.0m (2018 DKK -12.1m) Of which DKK 2.2m relate to interest expenses (2018 DKK -12.6m), and DKK -24.2m relate to Value adjustments (2018 DKK 0.5m).

5 Total value adjustments according to IFRS 7, including interest income on derivatives, amount to DKK 9.2m (2018 DKK -5.1m)

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	2018	2019	2018
4	**Interest income and premiums on forwards**				
	Credit institutions and central banks	486	2,033	486	2,033
	Loans and advances	362,346	369,307	362,346	369,307
	Deposits	9,820	5,165	9,820	5,165
	Bonds	34,475	29,057	32,672	27,519
	Total derivatives of which:	-13,595	-14,729	-13,595	-14,729
	Interest rate contracts	*-13,595*	*-14,729*	*-13,595*	*-14,729*
	Other interest income	-144	2,597	-38	2,687
	Total interest income	**393,388**	**393,429**	**391,691**	**391,982**
5	**Interest expenses**				
	Credit institutions and central banks	1,399	1,181	1,399	1,181
	Deposits	6,039	5,206	6,039	5,206
	Subordinated debt	12,195	12,300	12,195	12,300
	Bonds	3,332	0	3,332	0
	Leasing liabilities	2,924	0	2,924	0
	Other interest expenses	808	600	778	601
	Total interest expenses	**26,697**	**19,287**	**26,667**	**19,288**
6	**Net fee and commission income**				
	Fee and commission income				
	Securities trading and custody accounts	27,037	29,267	27,037	29,267
	Credit transfers	23,609	23,362	23,609	23,362
	Loan commissions	6,277	7,075	6,277	7,075
	Guarantee commissions	22,279	19,592	22,279	19,592
	Other fees and commissions of which:	123,481	105,774	134,368	115,771
	Mortage broking services	*73,556*	*60,586*	*73,556*	*60,586*
	Total fee and commission income	**202,683**	**185,071**	**213,570**	**195,067**
	Fee and commissions paid				
	Securities trading and custody accounts	13,208	12,858	13,208	12,858
	Net fee and commission income	**189,475**	**172,213**	**200,362**	**182,209**
7	**Premium income, net of reinsurance**				
	Regular premiums, life insurance	15,372	14,369		
	Reinsurance premiums paid	552	418		
	Total life insurance	**14,820**	**13,951**		
	Gross premiums, non-life insurance	126,178	117,092		
	Reinsurance premiums paid	11,894	10,105		
	Change in gross premium provisions	-2,600	-2,789		
	Total non-life insurance	**111,683**	**104,198**		
	Total	**126,504**	**118,149**		

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	**2018**	**2019**	**2018**
8	**Claims, net of reinsurance**				
	Benefits paid	5,084	2,986		
	Change in life insurance provisions	115	-639		
	Total life insurance	**5,199**	**2,347**		
	Gross claims paid	70,692	59,543		
	Claims handling costs	7,835	7,079		
	Reinsurance received	-2,583	-4,414		
	Change in gross claims provisions	-7,096	5,857		
	Change in reinsurers' share relating to provisions	130	3,985		
	Total non-life insurance	**68,978**	**72,050**		
	Total	**74,177**	**74,397**		
9	**Market value adjustments**				
	Loans and advances	17,442	4,293	17,442	4,293
	Bonds	-16,443	-47,965	-13,895	-45,547
	Shares	15,096	39,114	15,096	39,114
	Foreign exchange	9,885	9,265	9,885	9,265
	Total derivatives of which:	-21,585	-3,124	-21,585	-3,124
	Currency contracts	*2,532*	*1,929*	*2,532*	*1,929*
	Interest Swaps	*-24,243*	*-5,053*	*-24,243*	*-5,053*
	Other Obligations	0	5,531	0	5,531
	Assets linked to pooled schemes	69,982	30,454	69,982	30,454
	Deposits in pooled schemes	-69,982	-30,454	-69,982	-30,454
	Total market value adjustments	**4,395**	**7,113**	**6,943**	**9,531**
10	**Other operating income**				
	Profit on sale of investment and domicile properties and assets held for sale	4,242	10,772	4,242	10,772
	- of which assets held for sale	*2,764*	*671*	*2,764*	*671*
	Profit on sale of operating equipment	308	12	308	12
	Other income	9,417	8,304	1,517	886
	Operation of properties:				
	Rental income	580	964	2,690	2,374
	Operating expenses	-50	-104	-50	-104
	- of which assets held for sale	*-50*	*-104*	*-50*	*-104*
	Total other operating income	**14,497**	**19,947**	**8,707**	**13,940**

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	2018	2019	2018
11	**Staff costs and administrative expenses**				
	Staff costs:				
	Salaries	219,641	220,127	203,571	204,888
	Pensions	29,597	27,766	27,585	25,855
	Social security expenses	33,858	32,591	31,806	30,384
	Total staff costs	**283,096**	**280,483**	**262,962**	**261,127**
	Administrative expenses:				
	IT	108,410	99,094	103,926	95,348
	Marketing etc	21,552	18,937	19,927	18,049
	Education etc	2,868	2,925	2,155	2,274
	Advisory services	1,238	1,528	1,230	1,518
	Other expenses	61,684	63,359	58,413	60,263
	Total administrative expenses	**195,752**	**185,844**	**185,651**	**177,452**
	Total staff costs	283,096	280,483	262,962	261,127
	Staff costs incl. under the item “Claims, net of reinsurance”	-7,868	-7,079	0	0
	Total administrative expenses	195,752	185,844	185,651	177,452
	Total employee costs and administrative expenses	**470,980**	**459,248**	**448,613**	**438,578**
	Number of employees				
	Average number of full-time employees in the period	387	391	355	359
	Executive remuneration:				
	Board of Directors	2,500	2,275	2,500	2,275
	Executive Board:				
	Árni Ellefsen:				
	Salaries	2,500	2,500	2,500	2,500
	- less fees received from directorships	263	218	263	218
	The Bank’s expense, salaries	2,237	2,282	2,237	2,282
	Pension	375	375	375	375
	Bonus	213	213	213	213
	Bonus, Share-based payment	213	213	213	213
	Total executive board	**3,037**	**3,082**	**3,037**	**3,082**
	Total executive remuneration	**5,537**	**5,357**	**5,537**	**5,357**

The number of shares in P/F BankNordik held by the Board of Directors and the Executive Board at the end of 2019 totalled 6,757 and 10,172 respectively (end of 2018: 6,657 and 8,285).

Notes

Note	DKK 1,000	Group		BankNordik	
	Remuneration of the senior executives	**2019**	**2018**	**2019**	**2018**
11 (cont'd)					
	The Board of Directors in P/F BankNordik				
	Stine Bosse	650	625	650	625
	Rúni Vang Poulsen (until March 2018)	0	100	0	100
	Barbara Vang	400	350	400	350
	Jógvan Jespersen	250	250	250	250
	Kim Jacobsen	250	250	250	250
	John Henrik Holm (from March 2018)	200	150	200	150
	Tórhallur Olsen (until March 2018)	0	50	0	50
	Kenneth M. Samuelsen	200	200	200	200
	Alexander Johansen (from March 2018)	200	150	200	150
	Gunnar Nielsen (from March 2018)	150	0	150	0
	Dan Rasmussen (from March 2018)	200	150	200	150
	Total	**2,500**	**2,275**	**2,500**	**2,275**

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

Notes

Note	DKK 1,000	Group		BankNordik	
	Remuneration of the senior executives	**2019**	**2018**	**2019**	**2018**
11 (cont'd)					
	Fixed salary	3,604	4,559	3,604	4,559
	Pension	531	676	531	676
	Bonus	150	216	150	216
	Bonus, Share-based payment	150	216	150	216
	Total	**4,435**	**5,667**	**4,435**	**5,667**
	The executives included in this group are:				
	Rune Nørregaard, Chief Credit Officer				
	Turið F. Arge, Chief Commercial Officer				
	Per Sjørup Christiansen, Head of Personal Banking (until March 2019)				
	Total	**7,471**	**8,749**	**7,471**	**8,749**

Variable/performance-based renumeration

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

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

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

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

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

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

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	**2018**	**2019**	**2018**
12					
	Audit fees				
	Fees to audit firms elected at the general meeting	1,780	1,884	1,417	1,590
	Total audit fees	**1,780**	**1,884**	**1,417**	**1,590**
	Total fees to the audit firms elected at the general meeting				
	break down as follows:				
	Statutory audit	1,383	1,274	1,132	1,055
	- of which PricewaterhouseCoopers	*814*	*789*	*710*	*739*
	- of which Januar	*569*	*485*	*422*	*316*
	Other assurance engagements	95	130	55	54
	- of which PricewaterhouseCoopers	*55*	*93*	*55*	*54*
	- of which Januar	*40*	*37*	*0*	*0*
	Tax and VAT advice	110	96	110	96
	- of which PricewaterhouseCoopers	*110*	*96*	*110*	*96*
	- of which Januar	*0*	*0*	*0*	*0*
	Other services	193	384	121	384
	- of which PricewaterhouseCoopers	*113*	*384*	*113*	*384*
	- of which Januar	*80*	*0*	*9*	*0*
	Total fees to the audit firms elected at the general meeting	**1,780**	**1,884**	**1,417**	**1,590**
13	**Other operating expenses**				
	The Guarantee Fund for Depositors and Investors	901	676	901	676
	Other operating expenses	0	117	0	117
	Total operating expenses	**901**	**793**	**901**	**793**

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	**2018**	**2019**	**2018**
14					
	Impairment charges on loans and advances and provisions for guarantees etc.				
	Impairment charges and provisions at 1 January	607,291	716,268	607,291	716,268
	New and increased impairment charges and provisions	83,734	167,504	83,734	167,504
	Reversals of impairment charges and provisions	171,599	254,694	171,599	254,694
	Written-off, previously impaired	23,135	21,787	23,135	21,787
	Interest income on impaired loans	*10,705*	*13,846*	*10,705*	*13,846*
	Total impairment charges and provisions at 31 December	**496,291**	**607,291**	**496,291**	**607,291**
	Impairment charges and provisions recognised in the income statement				
	Loans and advances at amortised cost	-94,374	-97,883	-94,374	-97,883
	Loans and advances at fair value	-1,557	1,470	-1,557	1,470
	Guarantiees and loan commitments	-8,997	-14,369	-8,997	-14,369
	Total individual impairment charges and provisions	**-104,928**	**-110,782**	**-104,928**	**-110,782**
	Stage 1 impairment charges				
	Stage 1 impairment charges etc. at 1 January	14,583	20,770	14,583	20,770
	New and increased Stage 1 impairment charges	9,396	12,924	9,396	12,924
	Reversals, net of Stage 1 impairment charges	9,575	19,111	9,575	19,111
	Stage 1 impairment charges at 31 December	**14,405**	**14,583**	**14,405**	**14,583**
	Total net impact recognised in the income statement	*-178*	*-6,187*	*-178*	*-6,187*
	Stage 2 impairment charges				
	Stage 2 impairment charges etc. at 1 January	44,796	40,779	44,796	40,779
	New and increased impairment charges	23,011	60,663	23,011	60,663
	Reversals, net of impairment charges	34,795	56,647	34,795	56,647
	Stage 2 impairment charges at 31 December	**33,012**	**44,796**	**33,012**	**44,769**
	Total net impact recognised in the income statement	*-11,784*	*4,017*	*-11,784*	*4,017*

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	**2018**	**2019**	**2018**
14	**Weak Stage 2**				
(cont'd)	Weak Stage 2 impairment charges etc. at 1 January	57,867	68,674	57,867	68,674
	New and increased impairment charges	16,169	26,999	16,169	26,999
	Reversals, net of impairment charges	32,735	37,806	32,735	37,806
	Weak Stage 2 impairment charges at 31 December	**41,301**	**57,867**	**41,301**	**57,867**
	Total net impact recognised in the income statement	*-16,566*	*-10,807*	*-16,566*	*-10,807*
	Stage 3 impairment charges				
	Stage 3 impairment charges etc. at 1 January	462,602	544,232	462,602	544,232
	New and increased impairment charges	30,107	56,883	30,107	56,883
	Reversals of impairment charges	80,447	116,726	80,447	116,726
	Written-off, previously impaired	23,135	21,787	23,135	21,787
	Write-offs charged directly to the income statement	*1,879*	*1,418*	*1,879*	*1,418*
	Received on claims previously written off	*8,237*	*11,164*	*8,237*	*11,164*
	Interest income on impaired loans	*10,705*	*13,846*	*10,705*	*13,846*
	Stage 3 impairment charges at 31 December	**389,126**	**462,602**	**389,126**	**462,602**
	Total net impact recognised in the income statement	*-67,403*	*-83,435*	*-67,403*	*-83,435*
	Purchased credit-impaired assets included in stage 3 above				
	Purchased credit-impaired assets at 1 January 2019	126,373	153,357	126,373	153,357
	Reversals of impairment charges	26,201	20,630	26,201	20,630
	Write-offs charged directly to the income statement	1,189	6,354	1,189	6,354
	Purchased credit-impaired assets at 31 December	**98,983**	**126,373**	**98,983**	**126,373**
	Provisions for guarantees and undrawn credit lines				
	Individual provisions at 1 January	27,443	41,813	27,443	41,813
	New and increased provisions	5,051	10,036	5,051	10,036
	Reversals of provisions	14,048	24,405	14,048	24,405
	Provisions for guarantees etc at 31 December	**18,446**	**27,443**	**18,446**	**27,443**
	Total net impact recognised in the income statement	*-8,997*	*-14,369*	*-8,997*	*-14,369*
	Provisions for guarantees and undrawn credit lines				
	Stage 1 provisions	1,991	3,425	1,991	3,425
	Stage 2 provisions	3,093	4,672	3,093	4,672
	Weak Stage 2 provisions	1,200	3,400	1,200	3,400
	Stage 3 provisions	12,163	15,947	12,163	15,947
	Provisions for guarantees etc at 31 December	**18,446**	**27,443**	**18,446**	**27,443**

Notes

Note **Credit risk management**

14 (cont'd)

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

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

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

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

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

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

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

As regards retail customers and small business customers, developments in credit risks for existing exposures are monitored based on a behavioural credit scoring model that, on a monthly basis, calculates and assigns to each exposure a behavioural score expressing the probability of default of each relevant customer within the next 12-month period. See the section "Changes to credit risks" below. Based on developments in the behavioural credit score, a number of signals are generated to the relationship manager, the credit department and the credit controllers. In case an adverse development is identified, the relationship manager must take action vis-à-vis the customer concerned. For large corporate customers, an accounting-based credit score is calculated monthly, however primarily based on developments in the corporate customer's financial situation, as reported in the customer's annual financial statements, adjusted for monthly developments in the customer's overdrafts and arrears, if any, as well as publicly available cyclical indicators. Based on the calculated accounting-based credit score and

Notes

Note 14 (cont'd)

information otherwise available regarding large corporate customers, the Bank reviews the exposure at least once a year to establish whether or not to continue or discontinue the exposure, including the terms for continuing or discontinuing the exposure.

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

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

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

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

Notes

Note **Changes to credit risks**

14 (cont'd)

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

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

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

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

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

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

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

Notes

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

14 (cont'd)

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

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

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

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

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

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

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

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

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

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

Notes

Note 14 (cont'd)

DKKm

31 December 2019

Stage	Gross Exposure 1	Gross Exposure 2	Gross Exposure 3	Expected Credit Loss 1	Expected Credit Loss 2	Expected Credit Loss 3	Net Exposure 1	Net Exposure 2	Net Exposure 3	Net Exposure Deducted Collateral 1	Net Exposure Deducted Collateral 2	Net Exposure Deducted Collateral 3
Public authorities	**754**			**0**			**754**			**719**		
Corporate sector:												
Fisheries, agriculture, hunting and forestry	439	261	80	0	2	39	439	260	40	61	25	7
Industry and raw material extraction	180	174	8	0	16	7	180	158	1	91	29	0
Energy supply	460	0	0	0	0	0	460	0	0	395	0	0
Building and construction	481	55	30	0	3	24	481	52	7	245	29	1
Trade	691	176	23	1	8	6	690	169	17	178	30	1
Transport, hotels and restaurants	378	52	37	0	0	24	378	52	13	177	8	2
Information and communications	34	9	20	0	0	5	34	9	15	9	2	0
Financing and insurance	119	18	5	0	0	3	119	18	2	53	0	0
Real property	715	186	99	2	8	95	712	178	4	351	53	2
Other industries	455	37	23	1	3	19	454	34	4	326	14	1
Total corporate sector	**3,952**	**968**	**325**	**5**	**39**	**223**	**3,946**	**929**	**102**	**1,885**	**191**	**15**
Retail customers	**8,304**	**1,586**	**384**	**9**	**40**	**178**	**8,294**	**1,547**	**206**	**2,385**	**448**	**18**
Total	**13,010**	**2,554**	**710**	**15**	**79**	**401**	**12,995**	**2,476**	**308**	**4,990**	**639**	**33**
Credit institutions and central banks	1,165	0	0	2	0	0	1,164	0	0	1,307	0	0
Total	**14,175**	**2,554**	**710**	**16**	**79**	**401**	**14,159**	**2,476**	**308**	**6,297**	**639**	**33**
Greenland	1,513	324	70	4	15	34	1,510	309	36	819	134	3
Denmark	4,435	620	330	7	27	240	4,428	593	90	1,668	269	15
Faroe Islands	8,226	1,611	309	5	36	127	8,221	1,574	182	3,809	236	15
Total	**14,175**	**2,554**	**710**	**16**	**79**	**401**	**14,159**	**2,476**	**308**	**6,297**	**639**	**33**
Purchased credit-impaired assets included in stage 3												
Denmark	0	0	120	0	0	99	0	0	21	0	0	6
Greenland	0	0	1	0	0	0	0	0	0	0	0	0
Total	**0**	**0**	**121**	**0**	**0**	**99**	**0**	**0**	**21**	**0**	**0**	**6**

Notes

Note DKKm

14 (cont'd)

31 December 2018	Gross exposure			Expected credit loss			Net exposure			Net exposure deducted collateral		
Stage	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	**3**
Public authorities	**973**	**0**	**0**	**0**	**0**	**0**	**972**	**0**	**0**	**934**	**0**	**0**
Corporate sector:												
Fisheries, agriculture, hunting and forestry	438	43	93	1	5	30	437	38	63	78	5	14
Industry and raw material extraction	542	183	34	1	31	19	542	153	16	316	51	4
Energy supply	195	0	0	0	0	0	195	0	0	130	0	0
Building and construction	509	61	30	0	1	26	508	61	4	316	34	5
Trade	562	123	51	0	11	10	561	112	41	158	51	15
Transport, hotels and restaurants	348	56	56	0	0	37	348	55	19	129	15	2
Information and communications	242	7	23	0	0	5	242	6	18	220	3	2
Financing and insurance	84	26	7	0	1	4	83	25	2	36	5	0
Real property	442	123	210	1	5	96	441	118	113	128	24	13
Other industries	521	57	34	3	5	47	518	52	-13	270	22	1
Total corporate sector	**3,883**	**679**	**538**	**7**	**60**	**274**	**3,877**	**619**	**263**	**1,780**	**210**	**55**
Retail customers	**7,184**	**1,997**	**448**	**11**	**51**	**204**	**7,173**	**1,946**	**244**	**2,504**	**637**	**29**
Total	**12,039**	**2,675**	**986**	**17**	**111**	**479**	**12,022**	**2,565**	**507**	**5,218**	**847**	**84**
Credit institutions and central banks	1,320	0	0	1	0	0	1,319	0	0	1,319	0	0
Total	**13,359**	**2,675**	**986**	**18**	**111**	**479**	**13,341**	**2,565**	**507**	**6,536**	**847**	**84**
Faroe Islands	7,892	1,461	436	8	42	164	7,884	1,419	272	3,984	314	41
Denmark	4,381	978	483	8	40	281	4,373	938	202	1,878	448	33
Greenland	1,086	237	67	2	29	33	1,084	208	34	675	86	11
Total	**13,359**	**2,675**	**986**	**18**	**111**	**479**	**13,341**	**2,565**	**507**	**6,536**	**847**	**84**
Purchased credit-impaired assets included in stage 3												
Denmark	0	0	136	0	0	126	0	0	10	0	0	0
Greenland	0	0	1	0	0	1	0	0	0	0	0	0
Total	**0**	**0**	**136**	**0**	**0**	**126**	**0**	**0**	**10**	**0**	**0**	**0**

Notes

Note DKKm

14 (cont'd)

31 December 2019

	Gross Exposure			Expected Credit Loss			Net Exposure			Net Exposure Deducted Collateral		
Rating category	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	3
1	4,057	1		1	0		4,056	1		2,786	0	
2	1,922	0		0	0		1,921	0		653	0	
3	2,497	88		1	0		2,496	88		968	28	
4	1,375	112		1	0		1,374	111		379	15	
5	1,292	304		2	1		1,291	304		403	81	
6	2,298	479		6	1		2,293	478		855	107	
7	329	496		1	7		328	490		108	159	
8	327	441		2	11		326	430		126	137	
9	7	123		0	4		7	118		2	38	
10	58	425		1	42		57	383		11	63	
11	16	84	710	1	12	401	15	72	309	5	11	33
Total	**14,175**	**2,554**	**710**	**16**	**79**	**401**	**14,159**	**2,476**	**308**	**6,297**	**639**	**33**

DKKm

31 December 2018

	Gross Exposure			Expected Credit Loss			Net Exposure			Net Exposure Eeducted Collateral		
Rating category	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	**3**	**1**	**2**	3
1	4,239	0	0	1	0	0	4,238	0	0	2,903	0	0
2	2,039	0	0	0	0	0	2,039	0	0	695	0	0
3	2,496	60	0	1	0	0	2,495	60	0	1,223	36	0
4	1,217	139	0	1	0	0	1,216	139	0	415	29	0
5	1,045	388	0	1	2	0	1,043	386	0	350	124	0
6	1,617	450	0	6	7	3	1,611	443	-3	752	147	0
7	313	565	0	1	10	0	312	556	0	114	208	0
8	203	451	0	1	13	0	202	438	0	43	172	0
9	13	108	0	0	3	0	13	105	0	2	29	0
10	159	212	0	4	29	0	154	182	0	30	42	0
11	19	301	986	1	46	476	17	255	510	7	61	84
Total	**13,359**	**2,675**	**986**	**18**	**111**	**479**	**13,341**	**2,565**	**507**	**6,536**	**847**	**84**

Notes

Note

14
(cont'd)

DKKm	Stage 1	Stage 2	Stage 3	Total
Impairment charges as at 1 january 2019	**18**	**111**	**479**	**607**
Transferred to stage 1 during the period	19	-16	-3	0
Transferred to stage 2 during the period	-1	3	-2	0
Transferred to stage 3 during the period	-0	-4	5	0
ECL on new assets	7	15	2	24
ECL on assets derecognised	-5	-37	-32	-75
Impact of net remeasurement of ECL	-20	8	-26	-38
Write offs	-0	-0	-22	-22
Impairment charges as at 31 december 2019	**16**	**79**	**401**	**496**

Based on a general improved credit quality, driven by a decrease in the probability of default, impairment charges have declined througout 2019 within all stages, except for exposures in stage 1, which have been stable.

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

DKKm	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 january 2019	12,924	3,115	981	17,021
Transferred to stage 1 during the period	1,263	-1,205	-58	0
Transferred to stage 2 during the period	-816	869	-53	0
Transferred to stage 3 during the period	-23	-38	61	0
New assets	3,881	483	8	4,372
Assets derecognised	-2,930	-557	-130	-3,617
Other changes	-123	-114	-99	-336
Gross carrying amount as at 31 december 2019	**14,175**	**2,554**	**710**	**17,439**

DKKm	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 1 January 2018	11,581	3,636	1,141	16,358
Transferred to stage 1 during the period	1,904	-1,897	-7	0
Transferred to stage 2 during the period	-997	1,069	-72	0
Transferred to stage 3 during the period	-30	-48	78	0
New assets	2,871	437	59	3,367
ECL on assets derecognised	-1,734	-404	-159	-2,297
Other changes	-237	-117	-53	-408
Gross carrying amount as at 31 December 2018	**13,359**	**2,675**	**986**	**17,021**

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	**2018**	**2019**	**2018**
15	**Tax**				
	Tax on profit for the year	53,144	61,199	48,900	58,029
	Total tax	**53,144**	**61,199**	**48,900**	**58,029**
	Tax on profit for the year				
	Profit before tax	259,775	323,295	255,531	320,125
	Current tax charge	37,172	35,261	32,945	32,107
	Change in deferred tax	13,553	23,325	13,536	23,308
	Adjustment of prior-year tax charges	2,420	2,613	2,420	2,613
	Total	**53,144**	**61,199**	**48,900**	**58,029**
	Effective tax rate				
	Faroese tax rate	18.0%	18.0%	18.0%	18.0%
	Deviation in foreign entities tax compared to Faroese tax rate	0.9%	0.5%	0.9%	0.5%
	Non-taxable income and non-deductible expenses	0.6%	-0.4%	-0.7%	-1.2%
	Tax on profit for the year	19.5%	18.1%	18.2%	17.3%
	Adjustment on prior-year tax charges	0.9%	0.8%	0.9%	0.8%
	Effective tax rate	**20.5%**	**18.9%**	**19.1%**	**18.1%**
16	**Cash in hand and demand deposits with central banks**				
	Cash in hand	84,448	94,522	84,389	94,426
	Demand deposits with central banks	167,611	85,529	167,611	85,529
	Total	**252,059**	**180,051**	**252,000**	**179,956**
17	**Due from credit institutions and central banks specified by institution**				
	Credit instistutions	336,172	411,704	336,172	411,704
	Central banks	541,652	502,717	541,652	502,717
	Total	**877,825**	**914,420**	**877,825**	**914,420**
18	**Due from credit institutions and central banks specified by maturity**				
	On demand	336,172	311,420	336,172	311,420
	3 months and below	541,652	503,000	541,652	503,000
	Over 1 year to 5 years	0	100,000	0	100,000
	Total	**877,825**	**914,420**	**877,825**	**914,420**

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	2018	2019	2018
19	**Loans and advances specified by sectors**				
	Public authorities	5%	5%	5%	5%
	Corporate sector:				
	Fisheries, agriculture, hunting and forestry	4%	4%	4%	4%
	Industry and raw material extraction	5%	5%	5%	5%
	Energy supply	2%	1%	2%	1%
	Building and construction	2%	2%	2%	2%
	Trade	6%	5%	6%	5%
	Transport, hotels and restaurants	3%	3%	3%	3%
	Information and communications	0%	0%	0%	0%
	Financing and insurance	1%	1%	1%	1%
	Real property	7%	5%	7%	5%
	Other industries	2%	4%	2%	4%
	Total corporate sector	32%	31%	32%	31%
	Retail customers	63%	64%	63%	64%
	Total	**100%**	**100%**	**100%**	**100%**
20	**Loans and advances specified by maturity**				
	On demand	113,461	114,005	113,461	114,005
	3 months and below	366,125	367,884	366,125	367,884
	3 months to 1 year	1,173,385	1,179,020	1,173,385	1,179,020
	Over 1 year to 5 years	3,588,726	3,605,962	3,588,726	3,605,962
	Over 5 years	4,667,190	4,689,606	4,667,190	4,689,606
	Total loans and advances	**9,908,886**	**9,956,478**	**9,908,886**	**9,956,478**
21	**Bonds at fair value**				
	Mortgage credit bonds	4,592,950	3,742,674	4,418,894	3,558,836
	Government bonds	773,400	577,856	752,373	570,671
	Other bonds	233,179	244,557	233,179	244,557
	Bonds at fair value	**5,599,529**	**4,565,087**	**5,404,445**	**4,374,064**
	All bonds form part of the Group's trading portfolio				
22	**Shares etc.**				
	Shares/unit trust certificates listed on the Copenhagen Stock Exchange	55,984	52,338	55,984	52,338
	Shares/unit trust certificates listed on other stock exchanges	15	0	15	0
	Other shares at fair value	256,176	251,665	256,176	251,665
	Total shares etc.	**312,175**	**304,003**	**312,175**	**304,003**
23	**Assets under insurance contracts**				
	Non-life insurance				
	Reinsurers' share of claims provisions	2,266	2,396		
	Receivables from insurance contracts	3,909	3,451		
	Total non-life insurance	**6,176**	**5,847**		
	Maturity within 12 months	6,176	5,847		

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	2018	2019	2018
24	**Holdings in associates**				
	Cost at 1 January	8,845	8,845	8,845	8,845
	Cost at 31 December	**8,845**	**8,845**	**8,845**	**8,845**
	Revaluations at 1 January	-2,762	-2,946	-2,762	-2,946
	Share of profit	287	184	287	184
	Revaluations at 31 December	**-2,475**	**-2,762**	**-2,475**	**-2,762**
	Carrying amount at 31 December	**6,369**	**6,082**	**6,369**	**6,082**

Holdings in associates 2019	**Income**	**Net profit**	**Total assets**	**Total lia-bilities**	**Total equity**	**Owner-ship %**	**The Groups share of equity**
P/F Elektron	47,040	1,507	57,952	39,400	18,552	34%	6,369
Holdings in associates 2018							
P/F Elektron	47,232	2,025	56,137	37,600	17,716	34%	6,082

The information disclosed is extracted from the companies' most recent annual report (2018).

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	2018	2019	2018
25	**Holdings in subsidiaries**				
	Cost at 1 January			144,000	144,000
	Cost at 31 December			**144,000**	**144,000**
	Revaluations at 1 January			-25,359	-28,730
	Change of accounting policies, previous years			0	-5.010
	Corrections			579	0
	Share of profit			19,218	14,381
	Dividends			5,000	6,000
	Revaluations at 31 December			**-10,562**	**-25,359**
	Carrying amount at 31 December			**133,438**	**118,641**

Holdings in subsidiaries	Ownership %	Share capital end of year	Shareholders' equity for the year	Profit/ loss for the year
P/F Trygd	100%	40,000	91,259	14,513
P/F Skyn	100%	1,000	7,361	1,297
P/F NordikLív	100%	20,000	34,818	3,408
Sp/f Íbúðir undir Gráasteini (at the end of 2018)	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 2019 the other 2018).

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	2018	2019	2018
26	**Assets under pooled schemes**				
	Assets:				
	Cash deposits	5,655	1,632	5,655	1,632
	Bonds	371,924	212,692	371,924	212,692
	Shares	417,853	227,762	417,853	227,762
	Other assets	390	3,155	390	3,155
	Total assets	**795,822**	**445,241**	**795,822**	**445,241**
	Total liabilities	**795,832**	**445,572**	**795,832**	**445,572**
27	**Intangible assets**				
	Cost at 1 January	6,678	0	6,678	0
	Additions	3,879	6,678	3,879	6,678
	Disposals	52	0	52	0
	Cost at 31 December	**10,506**	**6,678**	**10,506**	**6,678**
	Depreciation and impairment charges at 1 January	0	0	0	0
	Depreciation charges during the year	549	0	549	0
	Fair value at 31 December	**549**	**0**	**549**	**0**
	Carrying amount at 31 December	**9,957**	**6,678**	**9,957**	**6,678**

The depreciation period is 4 years.

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	2018	2019	2018
28	**Domicile property**				
	Cost at 1 January	100,946	235,576	98,901	233,531
	Additions	6,829	10,504	6,829	10,504
	Reclassification to held for sale	0	13,950	0	13,950
	Disposals	875	131,183	875	131,183
	Cost at 31 December	**106,900**	**100,946**	**104,855**	**98,901**
	Adjustments at 1 January	-2,298	-66,359	-2,196	-66,277
	Depreciation charges during the year	996	725	976	704
	Revaluations recognised in other comprehensive income	750	10,718	0	10,718
	Impairments recognised in the income statement	0	8,476	0	8,476
	Reversal of impairment on disposals during the year	0	61,523	0	61,523
	Reversal of revaluations on disposals during the year	68	1,021	68	1,021
	Adjustments at 31 December	**-2,476**	**-2,298**	**-3,104**	**-2,196**
	Carrying amount at 31 December	**104,424**	**98,649**	**101,751**	**96,705**
	Lease assets				
	Cost at 1 January	0	0	0	0
	Impact from adoption of IFRS 16	114,551	0	114,551	0
	Cost at 31 December	**114,551**	**0**	**114,551**	**0**
	Adjustments at 1 January	0	0	0	0
	Depreciation charges during the year	6,416	0	6,416	0
	Adjustments at 31 December	**-6,416**	**0**	**-6,416**	**0**
	Carrying amount at 31 December	**108,135**	**0**	**108,135**	**0**
	Total land and buildings	**212,559**	**98,649**	**209,886**	**96,705**

Tangible assets include domicile property of DKK 104m (2018: DKK 99m). Carrying amount at 31 December if the property had not been revalued is DKK 85m (2018: DKK 102m).

If indications of impairment exist, domicile property is written down to the lower of the carrying amount and its value in use. The fair value is assessed by the group's internal valuers at least once a year on 31th December on the basis of an income based approach. Valuations rely substantially on non-observable input, i.e. level 3 measures. Valuations are based on cash flow estimates and on the required rate of return calculated for each property that reflects the price at which the property can be exchanged between knowledgeable, willing parties under current market conditions. The cash flow estimates are determined on the basis of the market rent for each property. The required rate of return on a property is determined on the basis of its location, type, possible uses, layout and condition. At the end of 2019, the fair value of domicile property was DKK 117.6m (2018: DKK 114.8m). The required rate of return is ranged between 5.0%-10.0% (2018: 4.5%-9.0%). The depreciation period is 50 years. A decrease in rental rates of DKK 100 pr m2 would reduce fair value at end-2019 by DKK 5.8m. An increase in the required rate of return of 1.0 percentage point, would reduce fair value at the end of 2019 by DKK 6.4m.

Disposals in 2018 refer to the sale of the Groups head office in Tórshavn.

Notes

Note **Leases**

28 (cont'd)

Leasing agreements comprise the Bank's domicile property, including the Bank's headquarter in Tórshavn and branches in Denmark and the Faroe Islands. The notice period for terminating the lease agreements ranges from three months to 15 years. The leasing agreement regarding the Bank's headquarter includes an option for the lessee to extend the lease period by five years. Property where the Bank holds short term leases but intends and has the option to extend the contract is included in the calculation of Bank's leasing assets and obligations.

Leased assets amounting DKK 108.1m are recognised within the balance sheet item Domicile property. Leasing liabilities amounting DKK 110.0m are recognised within the balance sheet item Other liabilities. In the 2018 annual report the leasing liabilities were reported to be DKK 91m thus the addition in 2019 is 19m. The Group has included the option to extend the lease period of the headquarter with 5 years thus added DKK 17.0m to the leasing assets and leasing liabilities. Interests amounting DKK 2.9m due to leasing obligations are charged to the income statement as Interest expense. Depreciation of leasing assets amounting DKK 6.4m are recognised under the item Depreciation and impairment charges in the income statement. The annual payment in respect of the leasing liabilities is DKK 7.5m. The banks estimated borrowing rate used in the caluculation of the leasing assets and leasing liabilities is 3%.

Note	DKK 1,000	Group		BankNordik	
		2019	**2018**	**2019**	**2018**
29	**Other property, plant and equipment**				
	Cost at 1 January	89,422	87,616	83,503	81,891
	Additions	3,536	2,284	3,247	1,612
	Disposals	1,885	478	1,878	0
	Cost at 31 December	**91,074**	**89,422**	**84,873**	**83,503**
	Depreciation and impairment charges at 1 January	65,609	59,064	60,743	54,121
	Depreciation charges during the year	6,716	6,999	6,305	6,623
	Reversals of depreciation and impairment charges	1,236	454	1,236	0
	Depreciation and impairment charges at 31 December	**71,088**	**65,609**	**65,813**	**60,743**
	Carrying amount at 31 December	**19,985**	**23,814**	**19,060**	**22,760**

The depreciation period is 3-10 years.

Notes

Note	DKK 1,000	Group	
		2019	2018
30	**Deferred tax**		
	Deferred tax assets	8,532	22,696
	Deferred tax liabilities	3,524	3,055
	Deferred tax, net	**5,008**	**19,641**

Change in deferred tax 2019	At 1 Jan.	Change of accounting policies, previous years	Included in profit for the year	Included in sharholders' equity	At 31 Dec.
Intangible assets	20,992		-14,938		6,054
Tangible assets	-3,055		611	-1,081	-3,524
Other	1,704		774		2,478
Total	**19,641**		**-13,553**	**-1,081**	**5,008**

Adjustment of prior-year tax charges included in preceding item

2018	At 1 Jan.	Change of accounting policies, previous years	Included in profit for the year	Included in sharholders' equity	At 31 Dec.
Intangible assets	36,034		-15,042		20,992
Tangible assets	7,827		-8,128	-2,754	-3,055
Tax loss carryforwards	84		-84		0
Other	762	1,119	-177		1,704
Total	**44,707**	**1,119**	**-23,431**	**-2,754**	**19,641**

Adjustment of prior-year tax charges included in preceding item

	BankNordik	
	2019	2018
Deferred tax		
Deferred tax assets	7,363	21,510
Deferred tax liabilities	2,403	3,014
Deferred tax, net	**4,960**	**18,496**

Change in deferred tax 2019	At 1 Jan.	Recognised in profit for the year	Recognised in shareholders' equity	At 31 Dec.
Intangible assets	21,248	-14,938		6,310
Tangible assets	-3,014	611		-2,403
Other	262	791	0	1,053
Total	**18,496**	**-13,536**	**0**	**4,960**

Adjustment of prior-year tax charges included in preceding item

2018	At 1 Jan.	Recognised in profit for the year	Recognised in shareholders' equity	At 31 Dec.
Intangible assets	36,290	-15,042		21,248
Tangible assets	7,863	-8,128	-2,749	-3,014
Other	401	-138	0	262
Total	**44,553**	**-23,308**	**-2,749**	**18,496**

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	**2018**	**2019**	**2018**
31	**Assets held for sale**				
	Total purchase price at 1 January	22,730	10,998	22,730	10,998
	Additions	34	105	34	105
	Reclassification from domicile properties	0	13,950	0	13,950
	Disposals	19,011	2,324	19,011	2,324
	Total purchase price at 31 December	**3,752**	**22,730**	**3,752**	**22,730**
	Impairment at 1 January	2,366	4,696	2,366	4,696
	Impairment charges for the year	0	50	0	50
	Reversal of impairment on disposals and write offs during the year	114	2,380	114	2,380
	Impairment at 31 December	**2,252**	**2,366**	**2,252**	**2,366**
	Total assets held for sale at 31 December	**1,500**	**20,364**	**1,500**	**20,364**
	Specification of assets held for sale				
	Real property taken over in connection with non-performing loans	1,500	4,434	1,500	4,434
	Domicile property for sale	0	15,930	0	15,930
	Total	**1,500**	**20,364**	**1,500**	**20,364**

The item “Assets held for sale” comprises assets taken over in connection with non-performing loans. Furthermore in 2018 the Group has reclassified domicile property to this item.

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

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	2018	2019	2018
32	**Other assets**				
	Interest and commission due	50,396	49,489	49,070	45,889
	Derivatives with positive fair value	3,497	1,510	3,497	1,510
	Other amounts due	33,295	29,195	29,103	25,962
	Total	**87,188**	**80,194**	**81,669**	**73,361**
33	**Due to credit institutions and central banks specified by institution**				
	Due to central banks	31,650	33,425	31,650	33,425
	Due to credit institutions	23,272	265,185	23,272	265,185
	Total	**54,922**	**298,610**	**54,922**	**298,610**
34	**Due to credit institutions and central banks specified by maturity**				
	On demand	54,922	70,960	54,922	70,960
	3 months to 1 year	0	27,273	0	27,273
	Over 1 year to 5 years	0	200,377	0	200,377
	Total	**54,922**	**298,610**	**54,922**	**298,610**
35	**Deposits specified by type**				
	On demand	13,041,817	10,884,768	13,057,845	10,898,710
	At notice	8,045	1,254,278	8,045	1,254,278
	Time deposits	181,217	194,440	181,217	194,440
	Special deposits	1,136,605	1,098,741	1,152,185	1,104,814
	Total deposits	**14,367,685**	**13,432,228**	**14,399,292**	**13,452,242**
36	**Deposits specified by maturity**				
	On demand	13,820,063	11,662,206	13,851,671	11,682,221
	3 months and below	112,351	1,351,483	112,351	1,351,483
	3 months to 1 year	9,650	15,278	9,650	15,278
	Over 1 year to 5 years	58,750	55,258	58,750	55,258
	Over 5 years	366,871	348,003	366,871	348,003
	Total deposits	**14,367,685**	**13,432,228**	**14,399,292**	**13,452,242**
37	**Liabilities under insurance contracts Non-life insurance**				
	Provisions for unearned premiums	41,414	38,814		
	Claims provisions	47,840	54,827		
	Total	**89,254**	**93,641**		
	Life insurance				
	Life insurance provisions	3,668	2,620		
	Total provisions for insurance contracts	**3,668**	**2,620**		
	Total	**92,922**	**96,261**		

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	2018	2019	2018
38	**Other liabilities**				
	Sundry creditors	71,113	67,261	60,551	58,021
	Accrued interest and commission	7,671	6,495	7,129	5,954
	Derivatives with negative value	53,370	27,635	53,370	27,635
	Accrued staff expenses	53,017	53,390	52,118	52,491
	Leasing liabilities	109,965	0	109,965	0
	Other obligations	14,688	16,139	14,688	16,139
	Total	**309,825**	**170,920**	**297,822**	**160,240**

39 **Additional Tier 1 capital**

	Currency	Borrower	Principal	Interest rate	Year of issue	Maturity	Step-up clause	Redemp-tion price	2019	2018
Additional Tier 1 capital	DKK	P/F BankNordik	150,000	4.500%	2019	Perpetual	Yes	100	150,754	0
At 31 December			150,000						150,754	0

Interest rate:	Principal (not hedged)	Until 30.09.2024	From 1.10.2024
Additional Tier 1 capital	150m	4.500%	CIBOR 3M + 4.812%

Perpetual Additional Tier 1 Capital issued with no contractual obligation to pay interest or repay the principal amount does not meet the conditions for a financial liability under IAS 32. The issue is therefore equity-accounted and the net amount of the issue has been recognised as an increase in equity. Likewise, interest payments are accounted for as dividend payments to be recognised in the Group's equity at the moment the liability arises. Upon redemption of the notes, the Group's equity will be reduced by the redeemed amount. The issue and redemption price for the sale and purchase of AT1 capital under CRR have similar impact on the equity balance as the holding of own shares.

The Notes are perpetual and the coupon is fixed at 4.500%, paid annually until 30 September 2024 (first call date) based on the 5-year Danish swap rate plus the margin of 4.812%. If the Notes are not redeemed on 30 September 2024, the interest rate will be reset based on the prevailing 3-months floating CIBOR rate plus the margin of 4.812%, paid quarterly.

40 **Subordinated capital**

	Currency	Borrower	Principal	Interest rate	Year of issue	Maturity	Step-up clause	Redemp-tion price	2019	2018
Subordinated capital	DKK	P/F BankNordik	225,000	5.079%	2016	6/24/2026	No	100	224,086	223,477
At 31 December			225,000						224,086	223,477

Interest rate:	Principal (not hedged)	Until 24.6.2021	From 25.06.2021
Subordinated capital	225m	5.079%	CIBOR 3M + 4.75%

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

The subordinated capital can not be converted into share capital. Early redemption of subordinated debt must be approved by the Danish FSA. In the event of BankNordiks voluntary or compulsory winding-up, this liability will not be repaid until claims of ordinary creditors have been met. Subordinated debt is valued at amortized cost. See note 46 for further information regarding valuation of the Subordinated capital.

Notes

Note	DKK 1,000	2019	2018
41	**BankNordik Shares**		
	Net profit	206,631	262,097
	Average number of shares outstanding	9,487	9,666
	Average number of shares outstanding, including shares diluted	9,487	9,666
	Earnings per share, DKK	21.8	27.1
	Diluted net profit for the period per share, DKK	21.8	27.1

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:	2019	2018
Issued shares at 1 January, numbers in 1.000	10,000	10,000
Reduction of share capital	400	0
Issued shares at end of period	9,600	10,000
Shares outstanding at end of period	9,487	9,666
Group's average holding of own shares during the period	113	334
Average shares outstanding	**9,487**	**9,666**

Holding of own shares	Number 2019	Number 2018	Value 2019	Value 2018
Investment portfolio	27,245	27,245	2,970	2,915
Trading portfolio	41,997	384,679	4,578	41,161
Total	**69,242**	**411,924**	**7,547**	**44,076**

	Investment portfolio	Trading portfolio	Total 2019	Total 2018
Holding at 1 January	2,956	41,738	44,694	29,568
Acquisition of own shares	0	6,854	6,854	14,935
Reduction of own shares	0	44,694	44,694	0
Sale of own shares	0	429	429	7
Value adjustment	14	1,109	1,122	-420
Holding at 31 December	**2,970**	**4,578**	**7,547**	**44,076**

Share buy-back programme

In 2018 the Group initiated a share buy-back programme. The program was closed in March 2019. In 2019 the Group had accumulated a total of 62,412 shares, amounting to a transaction value of DKK 6.9m.

BankNordik now holds a total of 69,242 of treasury shares, excluding investments made on behalf of customers and shares held for trading purposes, corresponding to 0.7% of the share capital.

Notes

Note	DKK 1,000	Group		BankNordik	
		2019	2018	2019	2018
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	522,188	447,542	522,188	447,542
	Mortgage finance guarantees	1,425,392	1,357,052	1,425,392	1,357,052
	Registration and remortgaging guarantees	750,225	680,152	750,225	680,152
	Other guarantees	322,774	361,248	322,774	361,248
	Total guarantees	**3,020,579**	**2,845,994**	**3,020,579**	**2,845,994**

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 2019, such unused credit facilities amounted to DKK 2.4bn (2018: DKK 2.2bn). Furthermore the Group has granted irrevocable loan commitments amounting to DKK 30.1m (2018: DKK 65m).

In total operational leasing (rent) liabilities amount to 80.2m (2018: DKK 86.7m). Renting contracts for an amount of DKK 10.1m (2018: DKK 9.9m) have a 12 months term of notice. Renting contracts for an amount of DKK 23.4m (2018: DKK 24.9m) have a term of notice from 1 to 5 years. Renting contracts for an amount of DKK 46.7m (2018: DKK 52.0m) have a term of notice of more than 5 years. The operational leasing commitments are recognised in the Balance Sheet at 31. December 2019. Please refer to note 28 for further information on leasing assets and liabilities including the development from 1. January to 31. December 2019.

If the group desides to terminte the agreement with the banks main IT provider SDC, the group is obliged to pay DKK 330m i. e. the estimated next 5-years payment to SDC for IT-services plus the Groups relative share of SDC's intangible assets.

43 **Assets deposited as collateral**

At the end of 2019 the Group had deposited bonds at a total market value of DKK 32m (2018: DKK 33m) with Danmarks Nationalbank (the Danish Central Bank) primarily in connection with cash deposits.

At the end of 2019 the Group had deposited bonds and cash at a total market value of DKK 69m (2018: DKK 31m) in connection with negative market value of derivatives.

Notes

Note DKK 1,000

44 Related parties	Parties with significant influence		Associated undertakings		Board of Directors		Executive Board	
	2019	2018	2019	2018	2019	2018	2019	2018
Assets								
Loans			13,624	15,321	413	99	723	201
Total			**13,624**	**15,321**	**413**	**99**	**723**	**201**
Liabilities								
Deposits	2,754	9,482	51,100	29,633	12,523	46,949	3,280	2,928
Total	**2,754**	**9,482**	**51,100**	**29,633**	**12,523**	**46,949**	**3,280**	**2,928**
Off-balance sheet items								
Guarantees issued								
Guarantees and collateral received			14,674	15,207	350	14,610	1,017	0
Income Statement								
Interest income	0	0	776	822	5	124	17	3
Interest expense	4	0	82	0	10	48	2	5
Fee income	2	2	66	15	4	8	3	1
Total	**-2**	**2**	**760**	**837**	**-0**	**84**	**18**	**-1**

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 24 and 25 lists associated and subordinated undertakings.

In 2019 interest rates on credit facilities granted to associated undertakings were between 4.5%-14.5% (2018: 4.4%-14.5%).

The Board of Directors and Executive Board columns list the personal facilities, deposits, etc., held by members of the Board of Directors and the Executive Board and their deposits, etc., held by members of the Board of Directors and the Executive Board and their dependants and facilities with businesses in which these parties have a controlling or significant interest. The increase in loans to the Board of Directors in 2019 is due to individuals obtaining new loans compared to 2018.

In 2019 interest rates on credit facilities granted to members of the Board of Directors and the Executive Board were between 2.7%-14.5% (2018: 2.7%-14.5%). Note 11 specifies 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 and recognised in the financial statements according to the same accounting policy as for similar transactions with unrelated parties.

Notes

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

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

	Beginning of 2019	Additions	Disposals	End of 2019
Board of directors				
Stine Bosse	3,580			3,580
Barbara P. Vang	2			2
Kim Jacobsen	0			0
John Henrik Holm	324			324
Jógvan Jespersen	32			32
Dan Rasmussen	100			100
Kenneth M. Samuelsen	2,419			2,419
Alexandur Johansen	200			200
Gunnar Nielsen	100			100
Total	**6,757**			**6,757**
Executive Board				
Árni Ellefsen	8,285	1,887		10,172
Total	**8,285**	**1,887**		**10,172**

Notes

Note DKK 1,000

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, other than Sector shares, are recognised at fair value and are measured in accordance with shareholders agreements and using generally accepted estimations and valuation techniques. The valuation of unlisted shares is based substantially on non-observable input. Sector chares are recogniced at fair value using price-fixing-agreements according to the articles of association.

2019 **Financial assets and liabilities at fair value**	**Quoted prices**	**Observable input**	**Non-observable input**	**Total**
Financial assets held for trading				
Bonds at fair value	5,599,529			5,599,529
Shares, etc.	55,999			55,999
Derivatives with positive fair value		3,497		3,497
Total	**5,655,528**	**3,497**		**5,659,025**
Financial assets designated at fair value				
Loans and advances at fair value			509,864	509,864
Shares, etc.		241,240	1,347	242,587
Total		241,240	511,211	752,451
Finansial assets at fair value	**5,655,528**	**244,737**	**511,211**	**6,411,476**
Financial liabilities held for trading				
Derivatives with negative fair value		53,370		53,370
Total		**53,370**		**53,370**

2018 **Financial assets and liabilities at fair value**	**Quoted prices**	**Observable input**	**Non-observable input**	**Total**
Financial assets held for trading				
Bonds at fair value	4,565,087			4,565,087
Shares, etc.	52,338			52,338
Derivatives with positive fair value		1,510		1,510
Total	**4,617,425**	**1,510**		**4,618,935**
Financial assets designated at fair value				
Loans and advances at fair value			519,638	519,638
Shares, etc.		239,080	12,585	251,665
Total		239,080	532,223	771,303
Finansial assets at fair value	**4,617,425**	**240,590**	**532,223**	**5,390,237**
Financial liabilities held for trading				
Derivatives with negative fair value		27,635		27,635
Total		**27,635**		**27,635**

Notes

Note

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

At 31 December 2019 financial assets valued on the basis of non-observable input comprised unlisted shares and loans and advances of DKK 511.2m (2018: DKK 532.2m). In 2019, the Group recognised unrealised value adjustments of unlisted shares and loans and advances valued on the basis of non-observable input in the amount of DKK 31.2m (2018: DKK 1.8m) and realised value adjustments of DKK 0.5m (2018: DKK 1.6m). A 10% increase or decrease in fair value of unlisted shares and loans and advances would amount to DKK 51.1m (2018: DKK 53.2m).

	2019	2018
Financial instruments at fair value valued on the basis of non-observable input		
Fair value at 1 January	532,223	433,301
Value adjustments through profit or loss	31,707	3,356
Acquisitions	4,682	95,566
Disposals	57,400	0
Fair value at 31 December	**511,211**	**532,223**

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

Notes

Note 46 (cont'd)

Financial instruments at amortised cost

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.

Financial instruments at amortised cost	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	2019	**2019**	**2018**	**2018**
Financial assets				
Cash in hand and demand deposits with central banks	252,059	252,059	180,051	180,051
Due from credit institutions and central banks	877,825	877,825	914,420	914,420
Loans and advances at amortised cost	9,399,022	9,399,022	9,436,840	9,436,840
Assets under insurance contracts	6,176	6,176	5,850	5,850
Total	**10,535,081**	**10,535,081**	**10,537,161**	**10,537,161**
Financial liabilities				
Due to credit institutions and central banks	54,922	54,922	298,610	298,610
Deposits and other debt	14,367,685	14,367,685	13,432,228	13,432,228
Deposits under pooled schemes	795,832	795,832	445,572	445,572
Liabilities under insurance contracts	92,922	92,922	89,064	89,064
Subordinated debt	224,086	224,086	223,477	223,477
Total	**15,535,447**	**15,535,447**	**14,488,952**	**14,488,952**

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

Notes

Note DKK 1,000

47 Group holdings and undertakings	Share capital	Functional currency	Net profit	Shareholders' equity	Share capital %
P/F BankNordik	192,000	DKK	206,631	2,112,335	100%
Insurance companies					
P/F Trygd	40,000	DKK	14,513	91,259	100%
P/F NordikLív	20,000	DKK	3,408	34,818	100%
Real estate agency					
P/F Skyn	1,000	DKK	1,297	7,361	100%
Group holdings recognised under assets held for sale and investment properties					
Sp/f Íbúðir undir Gráasteini (at the end of 2018)	125	DKK	0	0	0%

Notes

Note	DKK 1,000	2019			2018		
		Non-life	Life	Total	Non-life	Life	Total
48	**Reconciliations of changes in insurance liabilities**						
	Unearned premium provisions	41,414	0	41,414	38,814	0	38,814
	Outstanding claims provisions	47,840	3,668	51,507	54,828	2,620	57,447
	Liabilities under insurance contracts, year-end	**89,254**	**3,668**	**92,922**	**93,642**	**2,620**	**96,261**
	Unearned premium provisions						
	Beginning of year	38,814	0	38,814	36,025	0	36,025
	Premiums received	127,006	15,372	142,378	117,951	14,446	132,397
	Premiums recognised as income	-124,406	-15,372	-139,778	-115,161	-14,446	-129,608
	Unearned premium provisions, year-end	**41,414**	**0**	**41,414**	**38,814**	**0**	**38,814**
	Outstanding claims provisions						
	Beginning of year	54,828	2,620	57,447	43,479	1,693	45,172
	Change of accounting policies, previous years				5,817	400	6,217
	Claims paid regarding current year	-42,145	-4,520	-46,665	-37,350	-2,926	-40,275
	Claims paid regarding previous years	-28,547	-564	-29,111	-22,194	-200	-22,394
	Change in claims regarding current year	32,545	6,132	38,677	42,391	3,653	46,044
	Change in claims regarding previous years	31,159	0	31,159	22,683	0	22,683
	Outstanding claims provisions, year-end	**47,840**	**3,668**	**51,507**	**54,828**	**2,620**	**57,447**

	2019			2018		
	Non-life	Life	Total	Non-life	Life	Total
Reconciliations of changes in insurance assets						
Reinsurers' share of premium provisions	0	0	0	0	0	0
Reinsurers' share of claims provisions	2,266	0	2,266	2,396	0	2,396
Receivables from insurance contracts and reinsurers	3,909	0	3,909	3,451	0	3,451
Reinsurers' share of insurance contracts, year-end	**6,176**	**0**	**6,176**	**5,847**	**0**	**5,847**
Reinsurers' share of premium provisions						
Beginning of year	0	0	0	0	0	0
Premiums ceded	-11,894	-552	-12,446	-10,105	-418	-10,524
Payments to reinsurers	11,894	552	12,446	10,105	418	10,524
Reinsurers' share of premium provisions, year-end	**0**	**0**	**0**	**0**	**0**	**0**
Reinsurers' share of claims provisions						
Beginning of year	2,396	0	2,396	6,383	0	6,383
Claims ceded	2,454	0	2,454	426	0	426
Payments received from reinsurers	-2,583	0	-2,583	-4,414	0	-4,414
Reinsurers' share of claims provisions, year-end	**2,266**	**0**	**2,266**	**2,396**	**0**	**2,396**

Notes

Note **Risk Management**

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

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

The Risk Management Report 2019 contain further information about the Group's approach to risk management.

Capital Management

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

The capital adequacy rules call for a minimum capital level of 8% of risk-weighted assets plus any additional capital needed. Detailed rules regulate the calculation of capital and risk-weighted assets. Capital comprises core capital, hybrid 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. Note 39 and note 40 to the financial statements show P/F BankNordik's hybrid core capital and subordinated debt. At year-end 2018, the Bank's CET 1 capital, core capital and solvency ratios were 17.7%, 17.7% and 19.8%, respectively. At the end of 2019, the Bank's CET 1 capital, core capital and solvency ratio were 18.8%, 20.2% and 22.3%, respectively.

Credit risk

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

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

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

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

Credit exposure

The credit exposure generated by lending activities comprises items subject to credit risk that form part of the Group's core banking business. Credit exposures include loans and advances, unused credits and guarantees. The credit exposure generated by trading and

Risk exposure concentrations

Table 1

	2019		2018	
	DKKm	**In %**	**DKKm**	**In %**
Public authorities	754	4.6%	973	6.2%
Corporate sector:				
Agriculture and farming, others	66	0.4%	67	0.4%
Aquaculture	5	0.0%	35	0.2%
Fisheries	709	4.4%	521	3.3%
Manufacturing industries, etc.	362	2.2%	409	2.6%
Energy and utilities	460	2.8%	203	1.3%
Building and construction, etc	566	3.5%	542	3.5%
Trade	890	5.5%	766	4.9%
Transport, mail and telecommunications	435	2.7%	446	2.8%
Hotels and restaurants	33	0.2%	37	0.2%
Information and communication	62	0.4%	180	1.1%
Property administration, etc.	1,028	6.3%	831	5.3%
Financing and insurance	141	0.9%	117	0.7%
Other industries	488	3.0%	941	6.0%
Total corporate sector	**5,245**	**32.3%**	**5,099**	**32.5%**
Personal customers	10,274	63.1%	9,628	61.3%
Total	**16,273**	**100.0%**	**15,700**	**100.0%**
Credit institutions and central banks	1,165		1,320	
Total incl. credit institutions and central banks	**17,438**		**17,021**	

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

Credit exposure relating to lending activities

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

Exposures in fisheries were DKK 709m. This represents 4.4% of total exposures. Property administration DKK 1,028m representing by 6.3% of total exposures and DKK 5m was related to the aquaculture industry. This represents below 0.1% of total exposures. No single industry exceeded 10% of total exposures.

Credit exposure broken down by geographical area

The Bank's loans are mainly granted to domestic customers in the Faroe Islands, Denmark and Greenland. Table 2 provides a geographical breakdown of total exposures.

Classification of customers

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

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

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

As shown in table 3, app. 99% of total exposures are individually classified.

Credit exposure by geographical area

Table 2

(DKKm)	2019					2018				
	Exposures	in%	Loans/ Credits	Guarantees	Unused credits	Exposures	in%	Loan/Cred-its	Guarantees	Unused credits
Faroe Islands	9,022	55%	6,618	1,033	1,306	8,509	54%	6,774	873	1,010
Denmark	5,344	33%	2,880	1,441	1,003	5,802	36%	3,174	1,447	1,191
Greenland	1,908	12%	844	473	590	1,390	9%	637	434	408
Total	**16,273**	**100%**	**10,342**	**2,947**	**2,890**	**15,700**	**100%**	**10,586**	**2,754**	**2,610**

For further information on impaired portfolios, see table 4 and 8.

Concentration risk
In its Credit risik 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 2019, none of the Group's exposures exceeded these limits.

The Group's overall target is for no industry to make up more than 10% of the Group's total exposure, see table 1, except for the industry group "Trade" which may be up 15%. In addition, the Group's long-term target is for no single exposure (on a Group basis) to make up more than 10% of the Group's Total capital. In special cases, exposures may be above 10%, but only for customers of a high credit quality, and where the Group has accepted collateral. The Group has a few customers with exposures exeeding 10% of the total capital, whereof all but one, classified as 2b15, are classified as 2a or higher.

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

Quality of loan portfolio excl. financial institutions 2019

Table 3

		> 7.5m	< 7.5m	Total
Portfolio without weakness (3, 2a)	Exposure in DKKm	3,519	3,302	6,821
Portfolio with some weakness (2b)	Exposure in DKKm	1,812	6,257	8,069
Portfolio with significant weakness (2c)	Exposure in DKKm	209	242	451
	Unsecured	49	56	105
Portfolio with OEI	Exposure in DKKm	160	557	717
	Unsecured	102	317	419
	Impairments/provisions	99	303	399
Portfolio without individual classification	**Exposure in DKKm**	**127**	**88**	**215**
Total	**Exposure in DKKm**	**5,827**	**10,446**	**16,273**

Quality of loan portfolio excl. financial institutions 2018

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

Credit exposure and collateral for 2019

Table 4

(DKKm)	Personal customers	Corporate sector	Personal & corporate	Public	Total
Exposure	10,268	5,252	15,520	754	16,273
Loans, advances & guarantees	6,460	3,379	9,839	504	10,343
Collateral	7,227	2.907	10,134	35	10,169
Impairments	227	267	494	0	495
Unsecured (of exposured)	3,061	2,351	5,412	720	6,132
Unsecured (loans, advances and guarantees)	2,136	1,152	3,288	478	3,766
Unsecured ratio	30%	45%	35%	95%	38%
Unsecured ratio, loans and advances	33%	34%	33%	95%	36%

Credit exposure and collateral for 2018

(DKKm)	Personal customers	Corporate sector	Personal & corporate	Public	Total
Exposure	9,628	5,099	14,727	973	15,700
Loans, advances and guarantees	8,620	3,575	12,195	487	12,682
Collateral	6,374	2,786	9,161	39	9,200
Impairments	204	274	478	0	478
Unsecured (of exposures)	3,254	2,313	5,566	934	6,500
Unsecured (loans, advances and guarantees)	2,266	797	3,063	448	3,511
Unsecured ratio	38%	43%	40%	95%	42%
Unsecured ratio, loans and advances	26%	22%	25%	92%	28%

further described in Liquidity risk p. 107 Collateral provided by the Group. Table 4 shows collateral for exposures excluding exposures with impairment or past due exposures. Collateral amounts to DKK 10.2bn. The types of collateral most frequently provided are real estate (74%), ships/ aircraft (6%) and motor vehicles (3%) in addition to guarantees provided by owners or, in the Faroese 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.

Collateral

Table 5

(in %)	2019	2018
Cars	3%	4%
Real Estate	74%	71%
Aircrafts & Ships	6%	7%
Other	17%	18%
Total	100%	100%

This haircut is 20% of the expected market value. As a general rule, collateral for loans to public authorities is not calculated if there is no mortgage in real estate. For unlisted securities, third-party guarantees (exclusive of guarantees from public authorities and banks) and collateral in movables, the haircut is 100%.

Table 4 shows the Bank's total credit exposure and the collateral for the loans granted divided into personal, corporate and the public sector. Unsecured exposures accounted for 30% 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 6m is more than 90 days past due.

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

From 1 January 2018, the Group's impairments reflect the expected credit loss impairment model in IFRS 9 and Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. as valid in the Faroe Islands. The expected credit loss is calculated for all individual facilities as a function of the probability

Distribution of past due amount

Table 6

(DKKm)	2019 Exposure	Past due total	Past due > 90 days	Total balance with past due	2018 Expo-sure	Past due total	Past due > 90 days	Total balance with past due
Portfolio without weakness (3, 2a)	6,821	10	0,1	944	6,407	37	0	670
Portfolio with some weakness (2b, 2b)	8,069	32	0,6	1,618	7,860	65	0	1,488
Portfolio with significant weakness (2c)	451	2	0,8	184	511	14	0	239
Portfolio with impairment/ provision (1)	717	10	4,2	253	852	17	3	241
Portfolio without individual classification	215	0,6	0,1	4	71	1	0	3
Total	**16,273**	**55**	**6**	**3,003**	**15,700**	**134**	**4**	**2,641**
Past due in % of exposure		0.34%	0.04%			0.84%	0.02%	

of default (PD), the exposure at default (EAD) and the loss given default (LGD). All expected credit loss impairments are allocated to individual exposures. For all exposures with objective indication of being subject to an impairment in creditworthiness, stage 3 exposures, the Group determines the expected credit losses individually.

Loans and advances specified by maturity

Table 7

(DKKm)	2019	2018
On demand	113	114
3 months and below	366	368
3 months to 1 year	1,173	1,179
Over 1 year to 5 years	3,589	3,606
Over 5 years	4,667	4,690
Total loans and advances	**9,909**	**9,956**

If a loan, advance or amount due is classified to stage 3, the Group determines the individual impairment charge. The charge equals the difference between the carrying amount and the present value of the estimated future cash flow from the asset, including the realisation value of collateral, in three weighted scenarios – the basecase, upside and downside scenario. Loans and advances not classified as stage 3 are classified in stage 1 or stage 2 and the expected credit loss is calculated in accordance with the function described above and then impaired. Table 8 provides a breakdown of individual impairments, stage 3, and statistical based impairments, stage 1 and 2.

A further breakdown by maturity of loans and advances can be found in table 7. There are no aggregated data on the collateral behind matured loans and advances.

Specification of individual and statistic impairments

Table 8

DKKm	2019 Loans gross	2019 Individual impairments	2018 Loans gross	2018 Individual impairments
Individual impairments:				
Faroe Islands	605	144	369	164
Denmark	346	252	422	268
Greenland	137	43	72	31
Total	**1,087**	**439**	**862**	**463**
Statistic impairments:				
Faroe Islands	6,013	18	6,391	46
Denmark	2,535	21	2,839	45
Greenland	707	10	558	26
Total	**9,255**	**50**	**9,788**	**117**

Market Risk

Organisation

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

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

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

Definition

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

BankNordik's market risks are

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

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.

Reporting of Market risk

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

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

Control and management

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

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

Market risk

Table 9 shows the likely after tax 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%)
- Foreign exchange risk
- 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.

Likely after tax effects from changes in markets value

Table 9

	Change	2019	% of Core Capital	2018	% of Core Capital
Equity risk DKKm (+/-)	10%	25	1.1%	24	1.3%
Exchange risk DKKm (+/-) EUR	2.25%	0	0.0%	0	0.0%
Exchange risk DKKm (+/-) Other currencies	10%	2	0.1%	1	0.0%
Foreign exchange risk, %		1	0.1%	2	0.1%
Interest rate risk DKKm (parallel shift)	100 bp	31	1.4%	24	1.3%

Market Risk Management

Level	Board of Directors	Executive Board	Financial mangar	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

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 10 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.

Interest rate risk broken down by Currency

Table 10

(DKKm)	2019	2018
DKK	27	22
EUR	13	9
Interest rate risk	40	31

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 11

(DKKm)	2019	2018
Assets in foreign currency	30	12
Liabilities and equity in foreign currency	0	0
Exchange rate indicator 1	30	12
Exchange rate indicator 2	2	2

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 12

DKKm	2019	2018
Shares/unit trust certificates listed on the Copenhagen Stock Exchange	56	52
Other shares at fair value based on the fair-value option	256	252
Total shares etc.	**312**	**304**

Exposures related to trading and investment activities		Table 13
DKKm	**2019**	**2018**
Bonds at fair value	5,404	4,565
Derivatives with positive fair value	3	2
Equity	312	304
Total	**5,719**	**4,871**

Liquidity Risk

Definition

Liquidity risk is defined as the risk of loss resulting from

- Increased funding costs
- A lack of funding of new activities
- A lack of funding to meet the Group's commitments

The Board of Directors has defined the Bank's liquidity limits for the daily operational level and for budgeting plans. The Danish FSA designated BankNordik as a systematically important financial institution (SIFI) in 2015. With a liquidity coverage ratio (LCR) of 230 % at 31. December 2019 BankNordik's liquidity position remains robust.

Control and management

Liquidity risk is a fundamental part of the Group's business strategy. The Group's liquidity is monitored and managed by Treasury on a daily basis in accordance with the limits set by the Board of Directors and reported to the Executive Board by the Finance Department. A liquidity report with stress tests is submitted to the Executive Board and the Group Risk Committee on a monthly basis. Treasury has the operational responsibility for investment of the liquidity, while Finance Department is responsible for reporting and monitoring liquidity. The Group has implemented contingency plans to ensure that it is ready to respond to unfavorable liquidity conditions.

Operational liquidity risk

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

Liquidity stress testing

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

Twelve-month liquidity

The Bank's 12-month funding requirements are based on projections for 2020, which were revised in December taking the market outlook into account.

Structural liquidity risk

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

Liquidity Management

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

Remaining maturity

Table 14

DKK 1,000

2019	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	263,198					263,198
Due from Credit institution	876,947					876,947
Loans and advances	94,597	562,711	1,267,692	11,677,021		13,602,020
Bonds	53,812	309,393	831,070	4,496,624		5,690,898
Shares	312,175					312,175
Bonds and Shares	365,987	309,393	831,070	4,496,624		6,003,073
Derivatives	3,497					3,497
Other Assets	942,144	58,434		9,542	223,321	1,233,440
Total assets	**2,546,369**	**930,537**	**2,098,761**	**16,183,187**	**223,321**	**21,982,175**
Due to credit institutions and central banks			16,477	57,741		74,217
Deposits	10,139,246	1,439,930	2,159,898	1,439,943		15,179,016
Derivatives						
Issued bonds						
Other liabilities	149,475	76,954	15,898	3,629	53,370	299,326
Lease liabilities	829	1,658	7,461	25,025	74,992	109,965
Provisions for liabilities				23,459		23,459
Subordinated debt	957	1,914	6,698	283,495		293,063
Equity					**2,263,088**	**2,263,088**
Total	**10,290,507**	**1,520,456**	**2,206,430**	**1,809,833**	**2,391,450**	**18,218,676**
Off-balance sheet items						
Financial Guarantees	522,188					522,188
Other commitments	322,774					322,774
Total	**844,962**					**844,962**

2018	0-1 months	1-3 months	3-12 months	More than 1 year	Without fixed maturity	Total
Cash in hand and demand deposits with central banks	179,573					179,573
Due from Credit institution	430,270	166,136		317,100		913,506
Shares	114,364	370,202	1,205,025	12,059,490		13,749,081
Bonds and Shares	62,809	80,341	575,040	3,984,526	251,665	4,954,381
Derivatives	1,510					1,510
Other Assets	94,375	58,834		486,408	266,027	905,644
Total assets	**882,902**	**675,512**	**1,780,064**	**16,847,525**	**517,692**	**20,703,696**
Due to credit institutions and central banks			70,960	246,945		317,905
Deposits	11,682,224	1,351,483	15,278	403,265		13,452,250
Derivatives						
Other liabilities	571,453	70,644	1,898	3,629	105,980	753,605
Subordinated debt	954	1,908	6,680	282,731		292,273
Equity					**1,981,742**	**1,981,742**
Total	**12,254,631**	**1,424,036**	**94,817**	**936,570**	**2,087,722**	**16,797,775**
Off-balance sheet items						
Financial Guarantees	447,542					447,542
Other commitments	105,600					105,600
Total	**553,142**					**553,142**

In order to minimize liquidity risk, BankNordiks policy is to have strong liquidity from different funding sources.

Funding sources

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

Collateral provided by the Group

As customarily used by financial market participants BankNordik has entered into standard CSA agreements with other banks. These agreements commit both parties to provide and daily adjust collateral for negative market values. The bank with negative value exposure receives collateral. Thereby reducing counterparty risk to daily market fluctuations of derivatives and pledged amount. As a consequence of these agreements BankNordik at yearend 2019 had pledged bonds and cash deposits valued at DKK 69m under these agreements.

BankNordik also provides collateral to the Danish central bank to give the Bank access to the intraday draft facility with the central bank as part of the Danish clearing services for securities. At yearend 2019, this collateral amounted to DKK 32m.

Insurance Risk

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

Risk exposure for an insurance company can be defined as a contingency event, chain of events or bad management which can by itself, or by accumulation, seriously affect the annual results of the insurer and in extreme cases make it unable to meet its liabilities. Risks for an insurance operation are typically categorized as insurance risk and market risk. Among other risks are currency exchange risk, liquidity risk, counterparty and concentration risk and operational risk.

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

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

Insurance risk

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

Trygd has invested in investment securities and cash and cash equivalents in the effort to balance the exposure to market and currency risk (see table 17).

Likely effects from changes in markets value — Table 15

	Change	2019	2018
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	0.8	1.2
Interest rate risk DKKm (parallel shift) Total	**100 bp**		

Distrubution of portfolio of Trygd — Table 16

(in %)	2019	2018
Personal lines	64%	65%
Commercial lines	36%	35%

Capital requirements

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

Trygd non-life insurance

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

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

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

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.

Financial assets linked to insurance risk

Table 17

(mDKK)	2019	2018
Listed securities on stock exchange	165	154
Accounts receivable (total technical provisions)	2	3
Cash and cash equivalents	18	13
Total	184	170

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

Trygd's Claims Department is responsible for handling all claims and only claims employees may deal with claims matters or advise claimants in specific claim cases. Technical provisions to cover future payments for claims arising are calculated using appropriate and generally recognised methods. Insurance provisions are made to cover the future risk on the basis of experience from previous and similar claims. These methods and analyses are subject to the natural uncertainty inherent in estimating future payments, both in terms of size and date of payment.

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

NordikLív – Life insurance

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

NordikLív issues regular life, disability and critical illness insurance covers in the Faroese market and in 2019 the total premiums amounted to DKK 14.8m compared to DKK 14.0m in 2018.

Run-off gains/losses in Trygd

Table 18

(mDKK)

Sector:	2019	2018	2017	2016	2015
Industry	1.04	-0.68	1.25	2.5	1.12
Private	-0.14	-0.10	0.46	0.43	0.64
Accidents	-0.17	-1.05	0.19	-0.32	0.27
Automobile	3.56	3.11	2.93	3.39	2.3
Total	4.28	1.28	4.82	6.00	4.33

Contractual maturity for the insurance segment

Table 19

2019	On demand	0-12 months	1-5 years	Over 5 years	No stated maturity	Total
Assets						
Securities	201,773					201,773
Reinsurance assets		2,266				2,266
Accounts receivables		3,909				3,909
Restricted cash						
Cash and cash equivalents	21,691					21,691
Total financial assets	**223,464**	**6,176**				**229,640**
Liabilities						
Technical provision		91,347				91,347
Account payable		12,010				12,010
Total financial liabilities		**103,357**				**103,357**
Assets - liabilities	**223,464**	**-97,181**				**126,283**

Contractual maturity for the insurance segment

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

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

The 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 against larger claims, e.g. because of the occurrence of a catastrophe.

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

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

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

Note

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

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Highlights

DKK 1,000	2019	2018	Index 19/18	2017	2016	2015
Net interest income	366,691	374,143	98	387,216	413,204	468,652
Net fee and commision income	189,475	172,213	110	190,425	182,202	216,839
Net interest and fee income	570,149	557,752	102	583,041	604,875	694,735
Net insurance income	52,327	43,751	120	43,367	26,627	27,857
Interest and fee income and income from insurance activities, net	622,476	601,503	103	626,407	631,502	722,593
Market value adjustments	4,395	7,113	62	20,131	11,313	-38,751
Other operating income	14,497	19,947	73	33,534	39,187	58,499
Staff cost and administrative expenses	470,980	459,247	103	453,630	462,461	514,003
Impairment charges on loans and advances etc.	-104,928	-110,782	95	-35,107	18,228	59,655
Net profit	206,631	262,097	79	189,078	221,874	-221,009
Loans and advances	9,908,886	9,956,478	100	9,537,425	9,140,637	10,675,180
Bonds at fair value	5,599,529	4,565,087	123	4,262,730	4,677,230	3,398,816
Intangible assets	9,957	6,678	149	0	0	0
Assets held for sale	1,500	20,364	7	6,302	11,974	35,402
Assets in disposals groups classified as held for sale	0	0		0	0	581,280
Total assets	18,173,399	16,703,555	109	15,784,953	15,552,094	16,230,078
Amounts due to credit institutions and central banks	54,922	298,610	18	360,497	341,676	574,791
Deposits and other debt	14,367,685	13,432,228	107	12,632,463	12,668,697	12,680,157
Total shareholders' equity	2,112,335	1,981,742	107	1,820,092	1,922,035	1,766,335

Ratios and key figures

Solvency	Dec. 31 2019	Dec. 31 2018	Dec. 31 2017	Dec. 31 2016	Dec. 31 2015
Solvency ratio, %	22.3	19.8	19.7	18.3	16.8
Core capital ratio, %	20.2	17.7	17.5	16.0	14.8
CET 1 capital ratio, %	18.8	17.7	17.5	16.0	13.9
Risk-weighted Items, DKK mill	10,764	10,621	9,895	9,790	11,463
Profitability					
Return on shareholders' equity before tax, %	12.7	17.0	12.5	15.0	-19.6
Return on shareholders' equity after tax, %	10.1	13.8	10.1	12.0	-11.7
Income / Cost ratio	1.7	2.1	1.5	1.4	0.7
Cost / income, % (excl. value adjustm. and impairments)	76.4	67.0	72.8	71.0	134.7
Return on assets	1.1	1.6	1.2	1.4	-1.4
Market risk					
Interest rate risk, %	1.8	1.7	1.6	1.1	2.2
Foreign exchange position, %	1.4	1.3	0.9	4.8	9.5
Foreign exchange risk, %	0.1	0.1	0.1	0.4	1.4
Liquidity					
Loans and advances plus impairment charges as % of deposits	72.3	78.4	79.4	77.2	89.5
Excess cover relative to statutory liquidity requirements, %	215.7	212.5	205.1	241.7	166.8
Credit risk					
Large exposures as % of capital base	10.0	10.5	13.7	44.3	65.0
Impairment and provisioning ratio, %	3.7	4.5	4.0	5.5	4.9
Write-off and impairments ratio, %	-0.8	-0.8	-0.3	0.1	0.4
Growth on loans and advances, %	-0.5	4.4	4.3	-14.4	1.8
Gearing of loans and advances, %	4.7	5.0	5.2	4.8	6.0
Shares					
Earnings per share after tax, DKK	21.8	27.1	19.5	22.6	-22.4
Book value per share, DKK	221.6	207.2	187.2	197.7	179.1
Proposed dividend per share DKK	7.0	7.0	4.0	30.0	2.0
Market price per share, DKK	109.0	108.5	106.0	135.5	127.6
Market price / earnings per share DKK	5.0	4.0	5.4	6.0	-5.7
Market price / book value per share DKK	0.5	0.5	0.6	0.7	0.7
Other					
Number of full-time employees, end of period	377	393	400	415	446

Highlights, ratios and key figures - BankNordik Group

Highlights **DKK 1,000**	**Full year 2019**	**Full year 2018**	**Index 19/18**	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**	**Q4 2018**	**Q3 2018**
Net interest income	366,691	374,143	98	94,785	90,413	90,459	91,034	92,349	94,286
Dividends from shares and other investments	13,984	11,396	123	0	0	13,743	240	83	77
Net fee and commision income	189,475	172,213	110	48,993	47,126	45,479	47,876	42,477	42,741
Net interest and fee income	570,149	557,752	102	143,778	137,539	149,681	139,151	134,909	137,104
Net insurance income	52,327	43,751	120	13,630	14,875	15,305	8,517	12,598	12,999
Interest and fee income and income from insurance activities, net	622,476	601,503	103	157,408	152,414	164,987	147,668	147,507	150,103
Market value adjustments	4,395	7,113	62	3,172	749	-15,075	15,548	-5,538	4,330
Other operating income	14,497	19,947	73	3,172	5,612	2,922	2,791	2,311	-4,728
Staff costs and administrative expenses	470,980	459,247	103	124,754	113,734	115,784	116,707	114,145	115,025
Impairment charges on loans and advances etc.	-104,928	-110,782	95	-24,573	-8,566	-52,732	-19,057	-18,033	-45,736
Net profit	206,631	262,097	79	48,418	39,847	65,946	52,419	32,763	60,050
Loans and advances	9,908,886	9,956,478	100	9,908,886	9,982,999	10,052,620	10,006,218	9,956,478	10,007,984
Bonds at fair value	5,599,529	4,565,087	123	5,599,529	5,024,465	5,159,449	5,174,715	4,565,087	4,558,273
Intangible assets	9,957	6,678	149	9,957	9,043	8,122	7,511	6,678	2,421
Assets held for sale	1,500	20,364	7	1,500	3,865	19,795	19,795	20,364	4,861
Total assets	18,173,399	16,703,555	109	18,173,399	17,618,509	17,715,177	17,417,463	16,703,555	16,716,361
Amounts due to credit institutions and central banks	54,922	298,610	18	54,922	368,008	150,905	83,127	298,610	320,950
Deposits and other debt	14,367,685	13,432,228	107	14,367,685	13,528,109	14,131,224	14,003,644	13,432,228	13,162,921
Total shareholders' equity	2,112,335	1,981,742	106	2,112,335	2,064,175	2,031,275	1,965,329	1,981,742	1,948,568

Ratios and key figures	**Dec. 31 2019**	**Dec. 31 2018**	**Dec. 31 2019**	**Sept. 30 2019**	**June 30 2019**	**March 31 2019**	**Dec. 31 2018**	**Sept. 30 2018**
Solvency								
Solvency ratio, %	22.3	19.8	22.3	21.0	19.6	19.2	19.8	17.6
Core capital ratio, %	20.2	17.7	20.2	18.9	17.5	17.2	17.7	15.5
CET 1 capital ratio, %	18.8	17.7	18.8	17.5	17.5	17.2	17.7	15.5
Risk-weighted Items, DKK mill	10,764	10,621	10,764	10,664	10,720	10,907	10,621	10,634
Profitability								
Return on shareholders' equity after tax, %	10.1	13.8	2.3	1.9	3.3	2.7	1.7	3.1
Cost / income, %	59.5	48.6	63.9	68.6	43.7	61.1	73.9	47.7
Cost / income, % (excl. value adjustm. and impairments)	76.4	67.0	80.4	74.3	71.2	80.0	83.2	80.5
Return on assets	1.1	1.6	0.3	0.2	0.4	0.3	0.2	0.4
Market risk								
Interest rate risk, %	1.8	1.7	1.8	1.6	1.2	1.4	1.7	2.2
Foreign exchange position, %	1.4	1.3	1.4	1.0	2.1	1.9	1.3	1.9
Foreign exchange risk, %	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Liquidity								
Excess cover relative to statutory liquidity requirements, %	215.7	212.5	215.7	225.1	238.3	221.5	212.5	218.6
Credit risk								
Change in loans and advances, %	-0.5	4.4	-0.7	-0.7	0.5	0.5	-0.5	2.7
Gearing of loans and advances	4.7	5.0	4.7	4.8	4.9	5.1	5.0	5.1
Impairment and provisioning ratio, end of period, %	3.7	4.5	3.7	3.9	4.0	4.4	4.5	3.8
Write-off and provisioning ratio, %	-0.8	-0.8	-0.2	-0.1	-0.4	-0.1	-0.1	-0.3
Share of amounts due on which interest rates have been reduced, end of period, %	0.8	0.8	0.8	0.8	0.7	0.8	0.8	0.4
Shares								
Earnings per share after tax (nom. DKK 20), DKK	21.8	27.1	5.1	4.1	6.8	5.5	3.4	6.1
Market price per share (nom. DKK 20), DKK	109.0	108.5	109.0	102.5	109.0	108.0	108.5	113.0
Book value per share (nom. DKK 20), DKK	221.6	207.2	221.6	216.6	213.1	206.3	207.2	202.1
Other								
Number of full-time employees, end of period	377	393	377	383	390	393	393	385

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

Highlights **DKK 1,000**	**2019**	**2018**	**2017**	**2016**	**2015**
Net interest income	365,024	372,694	385,612	411,671	467,107
Net fee and commision income	200,362	182,209	199,367	191,414	216,839
Net interest and fee income	579,370	566,299	590,378	612,554	693,190
Market value adjustments	6,943	9,531	21,952	11,954	-37,067
Other operating income	8,707	13,940	29,174	118,583	51,535
Staff cost and administrative expenses	448,613	438,578	431,121	442,584	490,696
Depreciation and impairment of property, plant and equipment	14,404	-44,379	27,599	8,515	513,677
Impairment charges on loans and advances etc.	-104,928	-110,782	-35,107	18,228	59,655
Income from associated and subsidiary undertakings	19,501	14,565	12,160	4,500	40,583
Net profit	206,631	262,097	189,078	221,874	-221,009
Loans and advances	9,908,886	9,956,478	9,537,425	9,140,637	10,675,180
Bonds at fair value	5,404,445	4,374,064	4,091,177	4,509,287	3,274,870
Intangible assets	9,957	6,678	0	0	0
Assets held for sale	1,500	20,364	6,302	11,974	35,402
Assets in disposals groups classified as held for sale					187,904
Total assets	18,095,281	16,612,691	15,713,057	15,455,187	15,825,630
Amounts due to credit institutions and central banks	54,922	298,610	360,497	341,676	574,791
Deposits and other debt	14,399,292	13,452,242	12,653,510	12,691,224	12,739,229
Total shareholders' equity	2,112,335	1,981,742	1,820,092	1,922,035	1,759,575

Ratios and key figures	**Dec. 31** **2018**	**Dec. 31** **2018**	**Dec. 31** **2017**	**Dec. 31** **2016**	**Dec. 31** **2015**
Solvency					
Solvency ratio, %	22.3	19.8	19.7	18.3	16.8
Core capital ratio, %	20.2	17.7	17.5	16.0	14.8
CET 1 capital ratio, %	18.8	17.7	17.5	16.0	13.9
Risk-weighted Items, DKK mill	10,764	10,621	9,895	9,790	11,463
Profitability					
Return on shareholders' equity before tax, %	12.5	16.8	12.4	15.0	-18.0
Return on shareholders' equity after tax, %	10.1	13.8	10.1	12.1	-11.8
Income / Cost ratio	1.7	2.1	1.5	1.6	0.7
Cost / income, % (excl. value adjustm. and impairments)	76.4	66.4	72.3	61.6	130.6
Return on assets	1.1	1.6	1.2	1.4	-1.4
Market risk					
Interest rate risk, %	1.8	1.6	1.5	1.1	1.1
Foreign exchange position, %	1.4	1.3	0.9	4.8	9.5
Foreign exchange risk, %	0.1	0.1	0.1	0.4	1.4
Liquidity					
Loans and advances plus impairment charges as % of deposits	72.1	78.3	79.2	77.1	88.8
Excess cover relative to statutory liquidity requirements, %	206.5	201.9	195.7	233.3	138.7
Credit risk					
Large exposures as % of capital base	10.0	10.5	13.7	44.3	65.0
Impairment and provisioning ratio, %	3.7	4.5	4.0	5.5	4.9
Write-off and impairments ratio, %	-0.8	-0.8	-0.3	0.1	0.4
Growth on loans and advances, %	-0.5	4.4	4.3	-14.4	1.8
Gearing of loans and advances	4.7	5.0	5.2	4.8	6.1
Shares					
Earnings per share after tax, DKK	21.8	27.1	19.5	22.6	-22.4
Book value per share, DKK	221.6	207.2	187.2	197.7	178.4
Proposed dividend per share DKK	7.0	7.0	4.0	30.0	2.0
Market price per share, DKK	109.0	108.5	106.0	135.5	127.6
Market price / earnings per share DKK	5.0	4.0	5.4	6.0	-5.7
Market price / book value per share DKK	0.5	0.5	0.6	0.7	0.7
Other					
Number of full-time employees, end of period	345	360	367	385	363

Definitions of key financial ratios

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

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

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