Annual Report 2011

BANKNORDIK

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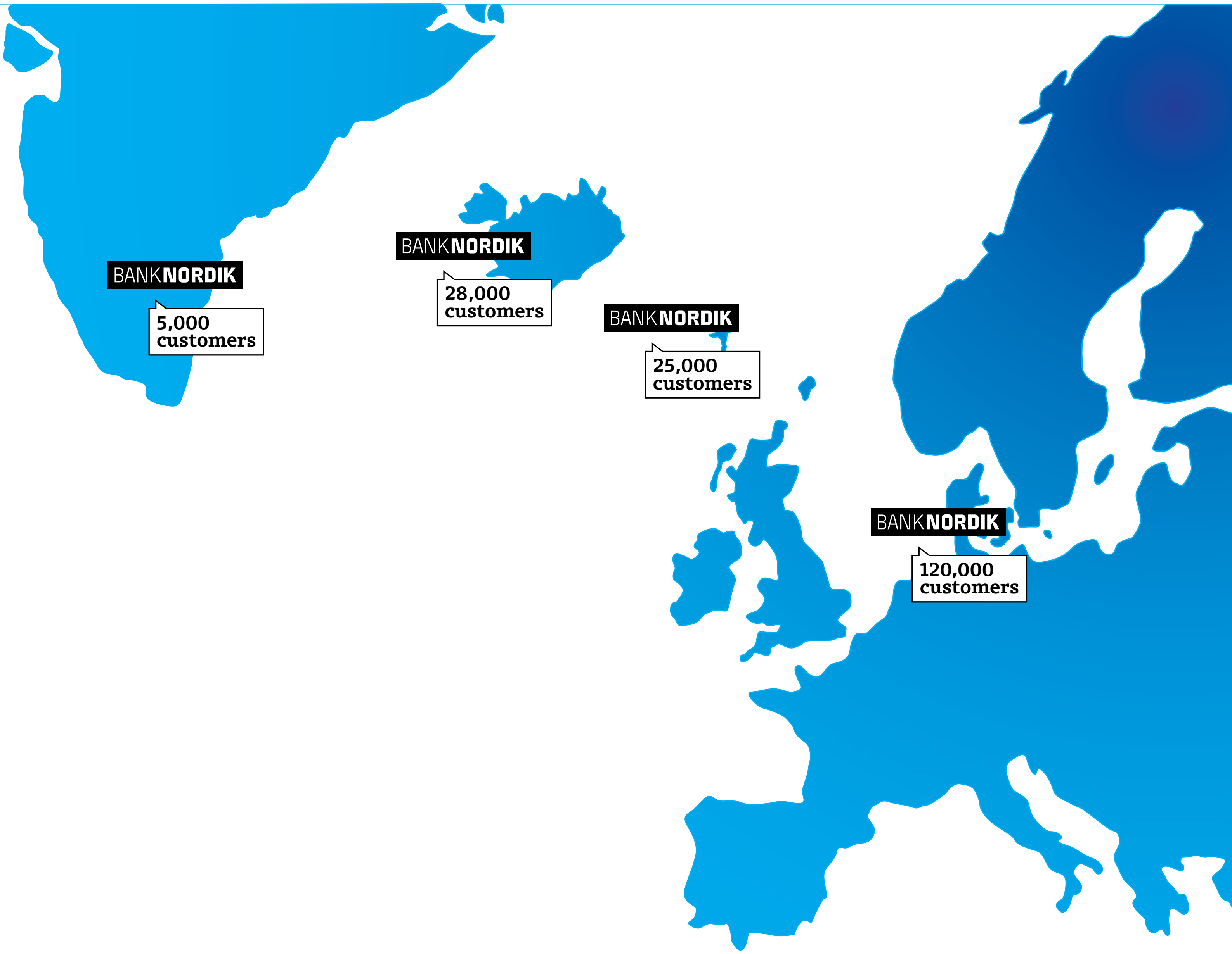
BANKNORDIK
5,000 customers
BANKNORDIK
28,000 customers
BANKNORDIK
25,000 customers
BANKNORDIK
120,000 customers

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BankNordik Group

BankNordik is a strong and profitable banking and insurance group operating in the Nordic region, founded in 1906 in the Faroe Islands.

Today, the Group provides financial services to approx. 180,000 private, commercial and corporate customers, its activities encompassing

- banking and insurance business in the Faroe Islands;
- banking in Denmark and Greenland; and
- insurance in Iceland.

In addition to the overarching BankNordik brand the Group operates insurance activities under the Trygd (Faroe Islands) and Vörður (Iceland) brands as well as a Faroese real estate brokerage under the Skyn brand.

As a trusted financial partner for more than 100 years, BankNordik's hallmark has been its close relationships with its customers, its tight credit control and its operational efficiency. The Group aims to be recognized as competent, committed, and proactive in every aspect and activity. These values form the backbone of all interaction with customers, shareholders, employees and other stakeholders and support BankNordik's financial objective – generation of value to its diversified group of some 9.700 shareholders.

The BankNordik Group has 600 employees. It is incorporated in the Faroe Islands and is listed on NASDAQ OMX.

After the acquisitive expansion of banking activities in Denmark and Greenland during 2010 and 2011, current key management priorities are the efficient integration of the new activities, attaining synergies and winning new market shares based on the significantly wider presence and a proven business model.

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John Rajani (Deputy CEO) and Janus Petersen (CEO)

Letter from the CEO

BankNordik growing stronger in 2011

In 2011 BankNordik acted further on its strategy to build a strong financial company in our markets in the North Atlantic area and Denmark with the acquisitions of the healthy parts of Amagerbanken in Denmark. The acquisition completed BankNordik's new platform as a Nordic bank and insurance group in major growth areas with a healthy credit quality and stable funding with a sizeable deposit surplus. Thus the main task going forward will be to reap the benefits from the platform through organic growth and efficient operations.

Only eight months after the acquisition we have successfully integrated the Amagerbanken branches into the Group. In June 2011 we established the organisational structure, in July 2011 we reduced the number of Amagerbanken branches from 25 to 12, in November 2011 we rebranded the branches into the BankNordik brand and in February 2012 we converted the IT-platform from the Amagerbanken systems to our own systems at Scandinavian Data Center, SDC. Hence all our 24 branches in the Faroes, Denmark and Greenland are covered by the BankNordik brand, run the same modern IT system and are managed by one management.

The Group's profit before tax amounting to DKK 31m is not satisfactory. But we must bear in mind that we were building a company for the future in 2011. The integration process during 2011 involved one off costs amounting to DKK 99m and we had the costly phase of concurrently running two banks in Denmark in second half of 2011. The integration of the acquired business has facilitated further rationalisations, and we have decided to downsize the organisation by 6% or 30 employees by the end of Q1 2012. We regret having to say goodbye to good and hardworking employees but unfortunately this is a necessary move towards building a strong and efficient company.

Thus our financial results leave room for improvement. We forecast a pre-tax profit of DKK 150–200m before value adjustments and nonrecurring items in 2012, and aim at a pre-tax return on equity of around 12% in 2013 and 2014. The fact that the Group recorded a pre-tax profit of DKK 134m before nonrecurring items in 2011 shows that we are on track to meet these targets.

We can manage this because the recent growth and acquisitions have provided the Group with a business platform solely in growth areas that can generate annual revenues of close to DKK 1bn, and with the capital and funding needed to compete in the market. We have a track record of implementing efficiency measures and creating fewer but stronger branches. In the Faroe Islands we have reduced the number of branches from 16 to 5 during the last 5 years, in Denmark we went from 33 acquired branches in the last two years to 19 branches, and in Greenland we went from three to one branch. And most importantly the bank has managed to keep credit losses under control during the recession at a historical average loss ratio of 0.85%.

Stronger business base

The main pillars of our strategy are to develop close partnerships with our customers, to stick solely to

growth areas in Denmark and the North Atlantic, to maintain a low credit risk and balanced deposit funding and to operate our business activities in an efficient and profitable manner.

During the spring, we identified an attractive opportunity to expand our business base in Denmark, when the healthy parts of Amagerbanken became available for sale. After completing a thorough analysis of the acquisition case, we resolved to pursue the opportunity and successfully acquired a large, attractive group of customers on reasonable terms. As a result, BankNordik was pleased to welcome 90,000 new customers based in Denmark's major growth areas. The transaction served to expand our platform for further business development and to significantly increase efficiency. At the same time, it enabled us to strengthen the geographical and industry composition of our operations. Finally, it lifted our deposit surplus – an essential and key factor for any bank in the current industry environment – by a significant margin.

We constantly endeavour to consider the best interests of our customers in order that they may predominantly perceive the benefits of integrating the acquired activities. This has required a significant effort from our 600 employees and it will continue to do so. On behalf of the management I would like to thank everyone for their very professional and successful contribution.

Generating strong earnings in a difficult market

The anticipated organic growth failed to materialise in 2011. Holding back on investments is a natural reaction in times of receding demand. This is also a setting in which loans are repaid as per agreements. However, following a natural and expected reduction in connection with the take-over of the Amagerbanken activities mid-year, BankNordik nearly managed to maintain its lending in the last months of 2011.

Fee-based income, such as fees from securities trading, greatly increased due to the acquisition of Amagerbanken. In the insurance business, developments in premium income were satisfactory, but large claims after the Faroe Islands were hit by a couple of severe windstorms caused a poor performance in this business area.

Thanks to a healthy and closely monitored credit portfolio, we managed to keep write-downs on loans and advances at the forecast levels despite the difficult economic conditions.

Focus on consolidation

Although there are early signs of recovery, we can only expect the economy to remain weak. At the same time, the market is becoming increasingly competitive.

This setting makes us expect that the banking industry in our markets will suffer a decline in lending. At BankNordik, we expect to maintain loans and advances at a largely unchanged level by marginally winning market share. We expect fee income, commission income and interest margins to be stable, but deposit rates may come under pressure. We will also have to expect write-downs on loans and advances in 2012, but we assume that we can maintain them at last year's level, in relative terms.

The work to integrate the banking activities acquired in Denmark requires the management's full attention.

» In 2010 and 2011, we built a bigger and stronger platform. Now is the time to put it to good use, for the benefit of our customers, our shareholders and the communities we serve. «

The successful integration of the IT systems during February and March 2012 now enables us to reduce the number of positions in the Group by about 30. In Greenland, we have consolidated all activities in Nuuk.

In 2012 and beyond, we will continue the work to develop BankNordik building on our strategic focus points, proximity to customers, good quality in credit handling, stable funding and focus on profitability. In 2010 and 2011, we built a bigger and stronger platform. Now is the time to put it to good use, for the benefit of our customers, our shareholders and the communities we serve.

We look forward to continuing our good and fruitful partnership.

Janus Petersen
CEO

Key events in 2011:

- In May, BankNordik acquired the healthy parts of Amagerbanken. The acquisition received regulatory approval in June and took effect on 1 July.
- BankNordik successfully raised DKK 600m in hybrid core capital and subordinated loan capital in June.
- BankNordik reinforced its organisation. Management assignments were divided into four business units and three cross-functional support units, and the executive management team was strengthened.
- The number of Amagerbanken branches was reduced from 25 to 12 in connection with the take-over by the turn of the half-year.
- Three branches in the Faroe Islands and one in Denmark were merged with other branches.
- In June, the Danish Financial Supervisory Authority (DFSA) assessed BankNordik's credit quality to be above average.
- The integration of the Amagerbanken activities began in the second half of the year, including building a new organisation, rebranding, and making plans for shared IT systems.
- Due to the abundance of liquidity, which was substantially above the required level, BankNordik gradually reduced its funding in January, March and September by a total of DKK 2.1bn.
- Powerful windstorms in the Faroe Islands in November and December brought substantial claims and impacted insurance profits.
- In December, BankNordik announced positive guidance for 2012 and three-year financial targets.

Management's report


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Financial overview

Year 2011

- Pre-tax profit amounted to DKK 31m
- Pre-tax profit DKK 134m before nonrecurring costs of DKK 103m due to the integration of Amagerbanken
- Net interest and fee income increased 16% to DKK 681m, and Loans and advances 36% to DKK 11.8bn due to Amagerbanken
- Net income from insurance activities suffered from exceptionally bad weather on Faroe Islands in November and December
- Staff cost and administrative expenses increased 8% from 2010 to 2011 – excluding DKK 103m in non-recurring costs in 2012.
- Staff will be reduced by 30 FTE's by the end of Q1 2012 compared to yearend 2011
- Loan impairment charges amounted to DKK 101m and is at the historical average loss ratio of 0,85% of loans
- The solvency ratio was 15,6% compared to a solvency requirement of 9.5% at the end of 2011
- Deposits increased by DKK 4.1bn – and a deposit surplus of DKK 1,3bn
- External loans of DKK 2,1bn have been repaid
- Outlook for Pretax profits before non recurring items and value adjustments in 2012 is DKK 150–200m
- The Board of Directors is recommending that no dividend will be paid for 2011

Fourth quarter 2011

- The Group posted a pre-tax loss of DKK 33m in Q4 2011
- Positive trend in net interest income, as a result of higher lending rates
- Insurance income in Faroe Islands affected by claims of DKK 20–25m from exceptionally bad weather
- Non-recurring expenses due to the integration of Amagerbanken amounted to DKK 55m

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

Highlights

DKK 1,000	2011	2010	2009	2008	2007 Previous GAAP, the parent company
Net interest and fee income	680,654	589,019	455,049	381,326	339,188
Interest and fee income and income from insurance activities, net	735,006	643,679	496,928	400,790	339,188
Market value adjustments	9,761	16,914	23,915	-73,397	23,589
Other operating income	26,862	420,528	-10,756	91,638	1,521
Staff cost and administrative expenses	597,263	456,629	210,778	203,546	206,164
Impairment charges on loans and advances etc.	100,806	200,233	128,162	104,902	-25,072
Net profit	31,971	312,743	111,047	87,727	144,003
Loans and advances	11,768,892	8,674,663	6,937,560	7,626,975	7,513,009
Bonds at fair value	2,508,938	3,497,466	1,252,056	940,201	894,284
Intangible assets	801,957	407,732	39,312	0	0
Assets held for sale	168,980	160,794	175,908	134,769	0
Total assets	17,086,357	14,243,358	10,267,021	10,066,685	9,620,969
Due to credit institutions and central banks	329,316	245,249	1,498,499	2,317,290	2,645,515
Deposits and other debt	13,032,047	8,843,972	5,496,550	5,494,199	5,452,073
Issued bonds at amortised cost	98,276	2,199,843	999,843	500,000	0
Total shareholders' equity	1,957,695	2,013,480	1,663,122	1,524,042	1,344,522

Ratios and key figures

	2011	2010	2009	2008	2007
Solvency					
Solvency ratio, %	15.6	17.0	26.2	20.6	17.8
Core capital ratio, %	12.4	17.2	26.6	20.8	18.0
Risk-weighted Items, DKK mill	12,313	10,080	6,648	7,201	7,403
Profitability					
Return on equity before tax, %	1.56	20.9	8.5	6.7	13.9
Return on equity after tax, %	1.63	17.0	7.0	5.8	11.1
Income / Cost ratio	1.04	1.5	1.36	1.31	1.95
Cost / income, % (excl. value adjustm. and impairments)	84.0	47.1	50.5	43.8	62.1
Market risk					
Interest rate risk %	2.3	3.1	1.3	2.2	2.7
Foreign exchange position %	8.7	24.6	1.5	1.3	15.6
Liquidity					
Loans and advances plus impairment charges as % of deposits	92.9	101.9	131.4	148.2	142.7
Excess cover relative to statutory liquidity requirements, %	115.3	292.9	275.7	193.0	103.2
Credit risk					
Large exposures as % of capital base	23.3	22.8	22.8	84.7	123.4
Impairment and provisioning ratio, %	2.7	3.2	3.8	3.5	3.2
Write-off and impairments ratio, %	0.7	1.9	1.4	0.4	-0.3
Share of amounts due on which interest rates have been reduced, %	1.9	1.6	3.8	2.7	0.3
Growth in loans and advances, %	35.7	25.0	-9.0	2.4	38.9
Gearing of loans and advances %	6.0	4.4	4.2	5.0	5.6
Shares (nom. DKK 100)					
Earnings per share after tax (nom. DKK 100)	16.1	160.8	57.3	44.3	72.0
Book value per share (nom. DKK 100)	992	1,050	859	769	672
Proposed dividend per share, DKK	0	20	0	0	23
Market price per share (nom. DKK 100)	394	720	657	600	893
Market price / earnings per share DKK	24.4	4.5	11.5	13.6	12.4
Market price / book value per share DKK	0.40	0.69	0.76	0.78	1.33
Other					
Number of full-time employees, end of period	612	433	288	243	263

Macroeconomic environment

At the end of 2011 the BankNordik Group is active in four different markets and these macroeconomic considerations are made for each individual market.

Global economy

The expectations for 2012 are no better than 2011 proved to be. The advanced economies remain severely impacted by the economic downturn. This has led to slower than anticipated growth and the ensuing debt burden resulting from sluggish finances in general and explicitly expansive measures taken by most governments since the beginning of the crisis. Many emerging economies have enjoyed high growth rates, but are now experiencing slowing demand and exports, which to a large extent have otherwise fuelled their economies so far.

Ongoing increases in oil prices in 2011 and so far in 2012 can also affect global outlook negatively.

Global economic growth is projected to be 3.5% in 2012, with the advanced economies growing by 1.3% (2011: 1.6%) and the emerging economies growing by 5.6% (2011: 6.3%). US economic growth was 1.8% in 2011 with a similar rate expected for 2012. The EU economies are lagging behind, delivering 1.4% economic growth in 2011, which is expected to drop to 0.2% in 2012. Emerging economies will experience slowing growth, the rate being forecast to drop from 6.3% in 2011 to 5.6% in 2012, partly as a result of slower export growth and partly because several of these markets have been growing above trend. However domestic demand is on the rise and China and India have increased their imports from developed countries, which could contribute to increasing growth in the West.

The challenge to the global economy in the current weak growth environment is to raise productivity without losing employment opportunities. To facilitate this, private demand needs to recover, which again depends strongly on confidence or the lack of same in the current situation of many sovereigns struggling to cope with high debts. This leaves much of the prerequisite for stability and growth to political and economic cooperation on a regional and international scale.

Faroe Islands experiencing slow growth

After reaching 3% in 2010, nominal economic growth is expected to be largely unchanged in 2011 at around 3%, but with inflation at about 2.6% real growth was less than 1%.

Wages increased by 0.8%, most of which was attributable to the successful aquaculture and fisheries industries. Mackerel catches made a particularly big contribution to fisheries compared to 2010. Salmon production increased strongly in quantity, although prices have plunged since peaking and remaining high until the first half of 2011.

Economic growth was also well supported by public sector services such as administrative and municipal expenses. Economic activity generally seems to have stabilised, but while private consumption is increasing, private investment remains low.

Nevertheless, the population of the Faroe Islands declined for the third year in a row after having seen consecutive population growth almost every year since 1996 (2006 being the one exception). At the end of 2011 the population was 48,400 compared to 48,525 at the end of 2010.

Unemployment was generally on a downward trend in 2011 but so was the workforce. After peaking at 7.9% in February, unemployment reached a low point in September at 5.8%, but at the end of December it was back up to 6.5%. The average for the year was 6.8% compared to 5.7% in 2010. The high unemployment at the beginning of the year was caused by a bankruptcy in the fish processing industry.

In 2011 the value of caught fish increased by DKK 322m (7%). In particular, the increase in mackerel exports compared to last year boosted the export value.

The successful aquaculture industry also contributed greatly, increasing exports by around 16% in volume terms and by DKK 274m or 34% in value terms compared to 2010. Farmed fish now accounts for 30% of export value, but only for 13% of exported weight. Total value of exports not including vessels increased to DKK 4.7bn (7%) in 2011.

Imports were up by 20% (10% excluding vessels) and as in 2010 increasing oil prices accounted for 39% of the increase. The other significant contributor to imports was the 20% increase in salmon feed. In general, consumption is on the rise again after being stagnant in 2010 and leaving many other groups slightly declining.

The trade balance remained positive in 2011, but deteriorated to a surplus of DKK 107m from DKK 274m in 2010 – the second positive trade balance figure since 2002.

With a high level of wage income from outside the Faroes and more than DKK 600m in subsidies from Denmark, the balance of payments shows a large surplus but it is projected to be somewhat less than last year's figure of DKK 1.2bn.

Households seem to have increased their spending somewhat and with asset prices slowly increasing; Faroese households are generally well consolidated. Household loans account for only about 47% of present house values and in June 2011 household debts corresponded to around 73% of GDP as compared with 78% in 2008.

The public sector budget deficit for 2011 is expected to have been DKK 480m (3.7% of GDP) which is DKK 200m less than in 2009. The goal is to reach a balanced budget by 2015. The government gross debt is now DKK 5.2bn.

The municipalities do not have the same structural problems as the government and had a net surplus in 2011.

The general economic outlook is slightly positive and expectations for nominal GDP growth of around 3% in 2012.

Stable recovery in Denmark

Although the projected growth in private demand failed to replace lower government expenditure, export-driven production proved to be a decisive factor in Denmark achieving modest growth of 1% in 2011. Yet, despite decreasing public sector expenditure the deficit increased from 2.8% to 3.8% of GDP, which was less than expected.

Due to the government moving forward planned public investments, investment in 2012 will be record high and is expected to increase the budget deficit to 5.1% of GDP.

Private demand decreased in each of the four quarters of 2011 by a total of 0.9%. In spite of significantly increasing real wages in recent years, property prices falling 15% since 2007, generally lower asset prices and previous concerns about higher interest rates have had a negative influence on consumer confidence, triggering an increase in savings rather than in consumption. A slight recovery of 1.5% is expected in, private demand in 2012, but private investment has also suffered and will continue to do so in 2012.

Unemployment in 2011 fell from 6.3% to 6.1%, but increased somewhat towards the end of the year. This is expected to continue to some extent in 2012.

Because of rising raw material prices especially on oil, inflation rose to 2.8% in 2011 from 2.3% in 2010, but it is expected to fall back to 1.7% in 2012.

Exports of goods and services increased by 7% in 2011 securing a record high balance of payments surplus of about DKK 100bn or 5.3% of GDP. Recent years' BOP surpluses have also secured Denmark historically high currency reserves, which have strengthened the position of the Danish Krone and brought interest rates to their lowest level ever.

Export demand in 2012 is expected to decrease and the projected increase in domestic private demand will increase imports, which will in turn have a negative effect on the balance of payments in 2012.

Since the export-driven growth is not expected to continue, domestic and public sector demand will be the drivers behind the projected 1.2% GDP growth in 2012, but the private sector will soon have to assume responsibility in order to alleviate the fast growing public sector debt.

Greenland largely stagnant

The Greenland economy consists mainly of fisheries, tourism, commodeties and DKK 3.5bn in subsidies from Denmark (25% of GDP and 55% of total government income). Real economic growth was stagnant in 2010 but did reach 1% in 2011. Mainly due to Danish subsidies, the economy remained largely resilient to the global crisis.

The public and private sectors are experiencing increasing debt from having net assets of DKK 1bn in 2005, to having net liabilities of DKK 700m in 2011. The deficit is expected to increase further in the next couple of years. At the same time, mortgage lending has increased from DKK 1.1bn in 2005 to DKK 2.5bn in 2011.

The two banks in Greenland hold loans amounting to DKK 3.7bn and Danish mortgage-credit institutions have about DKK 2.6bn. In addition some public companies have loans with banks abroad. BankNordik's total exposure to Greenland amounts to approximately DKK 0.8bn or just over 20% of the local bank loan market.

The main species fished in Greenland, shrimp, will experience a 25% reduction of quotas in 2012 and 2013, which will cause a decline in the industry.

» The challenge to the global economy in the current weak growth environment is to raise productivity without losing employment opportunities. «

The pursuit of oil and other minerals in the subsoil has been substantial in the last two years with exploration continuing in the coming years. These activities support employment and will increase exports and hence diversify the economy at large in the long term.

Unemployment in 2011 was 5.3%, rising by 0.4 p.p. over last year. Unemployment is predominantly seen in peripheral areas, whereas in the capital of Nuuk it remains stable because of higher building activity resulting from the urbanisation effect and the need to renovate older buildings.

Greenland is facing many challenges, of an economic nature as well as other issues. The economy has been stagnant for the past three years and this trend is projected to continue with unemployment rising slowly. The low gearing of the Greenland economy, at less than 40% of GDP, is a positive factor, but the demographic outlook with an aging population is a challenge. Reforms are needed in the coming years in order to address the negative implications on the government budget.

Iceland stabilising

The Icelandic economy is improving slowly, but gradually. After a severe economic decline in 2009 and 2010 – growth in 2011 in terms of GDP turned positive again starting with nominal growth of 2.5%.

Given the tough economic policies and monetary measures, public investments are low, which is why growth is mainly based on increasing private investment, up by 2.3% in the first half of 2011. Private consumption is also increasing, by 3.1%, partly due to increasing real wages, increasing employment and export-driven growth. As a consequence, housing prices have started to rise again.

Unemployment stabilised in 2011 at just over 7% and is projected to drop below 7% in 2012. Exported goods and services have increased by 22% in the two last years, improving the balance of payments and facilitating a strengthened currency situation. Foreign investment has been slow in recent years, but the Icelandic currency has nonetheless regained some of its previous strength and Iceland's rating is also on the up.

The government incurred a fiscal deficit amounting to 5.4% of GDP in 2011. This is partly reflected in public debt going from 30% to 127% of GDP over the past three years. However, the policies have started to bear fruit, as a budget surplus is expected for 2012.

Economic growth for 2012 is projected at 2.2%, which is a little lower than in 2011, but still more positive than what was seen during the crises. The global outlook hampers investment and lowers export expectations. The inflation rate has fallen to 5.7% in 2011 and is expected to drop further in 2012.

Financial review

The financial statements for 2011 were strongly affected by the mid-year acquisition of Amagerbanken as well as significant integration and restructuring costs, primarily related to the acquisition. In order to provide an understanding of the financial development, the non-recurring items have been extracted from the aggregate accounts to be measured and discussed separately, followed by adjusted figures for the underlying business.

Non-recurring items

The extra costs associated with the acquisition of activities and branches from Sparbank early 2010 and from Amagerbanken mid-2011 include the preparation before takeover involving due diligence and bidding processes; the restructuring involving integration of employees in a new organisation structurally and socially; the harmonization of policies, procedures and routines, prices, products; and most of all transition and transfer costs of the IT area to a new context – especially since it involves moving to a new IT provider. All of the above are included in the costs recognised under staff costs and administrative expenses, which will be addressed in more detail subsequently.

In 2011 the integration and restructuring costs, primarily related to the Amagerbanken acquisition, affected administrative expenses negatively by DKK 99m which are expensed under staff cost and administrative expenses. The intermediate IT and administrative service expenses due to the Financial Stability Company and the costs for the transfer to SDC which was implemented on 17 February 2012, made up most of these payments.

Sector-related expenses are recognised under other operating expenses and reversals of earlier expensed are booked under other operating income. In 2011 BankNordik paid DKK 14m to the Depositors Guarantee Fund in relation to banks going into financial distress. This was DKK 11m less than in 2010.

With Bank package IV in place the Deposits Guarantee Fund is now being used to solve future banking problems. Consequently, further expenses in line with those experienced after the failures of Amagerbanken, Fjordbank Mors and Max Bank earlier in 2011 may arise again in 2012 through the Guarantee Fund. Max Bank was the first and so far the only bank to be settled within the new framework. In that comnection BankNordik recognised DKK 4m under Other Operating Expenses.

Due to higher than expected dividends from the collapsed Amagerbanken, BankNordik in Q3 2011 recognized DKK 7m in reversals of the originally expensed amount of DKK 17m, leaving total costs for the participation in this operation at DKK 10m. Thus sector costs in 2011 amounted to net DKK 14m.

The shares in Bakkafrost, sold in 2010, generated an income of DKK 380m.

Non-recurring items in 2011 and 2010 are summarised in the opposite table:

The largest non-recurring item in 2011 was the integration and restructuring costs, whereas by far the largest item in 2010 was the income from the disposal of Bakkafrost.

DKKm	Q1 11	Q2 11	Q3 11	Q4 11	2011	2010
Integration and restructuring costs	-3	-6	-35	-55	-99	-79
Market value adjustments	-17	-5	5	27	10	17
Sector costs	0	-17	3	0	-14	-33
Adjustment of external funding	-7	-7	-4	-1	-19	-22
Bakkafrost disposal (2010)	0	0	0	0	0	380
Other items	11	3	1	4	19	49
Total	**-16**	**-32**	**-30**	**-25**	**-103**	**312**

DKKm	Q1 11	Q2 11	Q3 11	Q4 11	2011	2010
Operating income	157	173	232	192	754	666
Operating costs	103	107	152	157	519	393
Profit before impairment charges	54	66	80	35	235	273
Impairment charges	28	11	19	43	101	200
Operating profit	26	55	61	-8	134	73
Non-recurring items	-16	-32	-30	-25	-103	312
Profit before tax (as reported)	**10**	**23**	**30**	**-33**	**31**	**385**

Adjusted income statements

The key figures for 2011 and 2010 are adjusted for Non-recurring items in the table above.

The following comments relate to these adjusted figures.

Income statement

Interest income

The large increase in business volume is apparent in the increased in net interest income from DKK 480m to DKK 547m (14%). Lower interest rates at the beginning of the year reduced both income and expenses, but the high decrease in the Bank's external funding, facilitated by the increasing deposits surplus, reduced expenses even more.

On the other hand, the subordinated debt increase in the summer pushed interest expenses up again due to a significantly higher relative interest cost.

Fees and commissions

Fees and commissions increased substantially in 2011. As part of the Amagerbanken acquisition BankNordik significantly increased the volume of its assets under management expanding net fee and commission income by DKK 35m (38%) over last year. Compared to H1 2011 the largely Markets-generated income amounts to DKK 88m corresponding to 224% growth. The amount derived mainly from trading fees and mortgage commissions.

Insurance income

Over the three last years the contribution from the

Group's insurance businesses has been steadily rising, but the net insurance income in 2011 was stagnat compared to 2010. Until Q4 2011, the insurance segment was set to deliver a higher net contribution to the Group. However due to a severe storm hitting the Faroe Islands in November, insurance claims rose at the end of 2011 have risen so the net insurance income amounted to DKK 54m in 2011 compared to DKK 55m in 2010.

Operating income
Banking is the major business unit in the BankNordik Group and this is even more so the case after the acquisition of the Amagerbanken activities. Although the results vary considerably from quarter to quarter, banking on the present platform will remain the crucial segment. While insurance has been steadily increasing in recent years it turned negative, in the fourth quarter for the first time in many years, leaving 2011 to perform worse than 2010.

Operating costs
The major change in the income statement of 2011 compared to last year was the strongly increasing staff costs and administrative expenses, going from DKK 457m in 2010 to DKK 597m in 2011. As these costs only include six months consolidation from the Amagerbanken branches a 31% increase is much higher than what can be justified from the increase in employee numbers or volume of activity alone.

There has been a relative increase in staff costs and administrative expenses since the Bank began expending in the Danish market in 2010 explained by cost/income ratios in the acquired activities being higher than previously experienced in BankNordik.

In order to counter the high cost ratio by reducing the operating costs, the number of employees in the Group was reduced in 2011 and after the integration of the IT systems in February and March 2012. In Greenland, the Bank has consolidated all activities in Nuuk.

Profit before impairment charges
Core earnings before impairments have in general been stable over the last two years, but after the expansion of the loan portfolio at the beginning of Q3 2011 interest and fee and income from insurance activities increased significantly due to the increasing interest and fee income.

However, in Q4 2011 core earnings declined by DKK 45m. Interests and fees have remained stable, but the decline is caused by a DKK 35m lower core earnings contribution from the insurance business – basically due to higher claims in the Faroese insurance company.

Despite the lower core earnings in Q4 2011, the basic trend remains in line with the cost saving initiatives introduced through 2011, resulting in higher net interest income going forward. The initiatives that have lifted core earnings over the last year are the cost cutting initiatives carried out early in 2011 when branches in the Faroe Islands and Denmark were merged, secondly the integration of Amagerbanken finalized in Q1 2012 and thirdly, the increased interest margins as a result of the interest and fee changes in August and November 2011 and January 2012.

Impairment charges

BankNordik's impairment charges in 2011 amounted to DKK 101m of which DKK 43m (43%) were recognised in the fourth quarter. Compared to the DKK 200m in 2010, the charges fell by DKK 99m (-50%).

The write-off level corresponds to 0.86% of total loans and was thus in line with the average of the last 15 years. Charges amounting to DKK 78m were related to the Danish market, corresponding to 78% of the total.

Operating profit

The BankNordik Group delivered an adjusted operating profit for 2011 of DKK 134m compared to DKK 73m in 2010. The main triggers behind the improved performance for 2011 compared to 2010 were the DKK 99m (50%) drop in impairment charges in 2011.

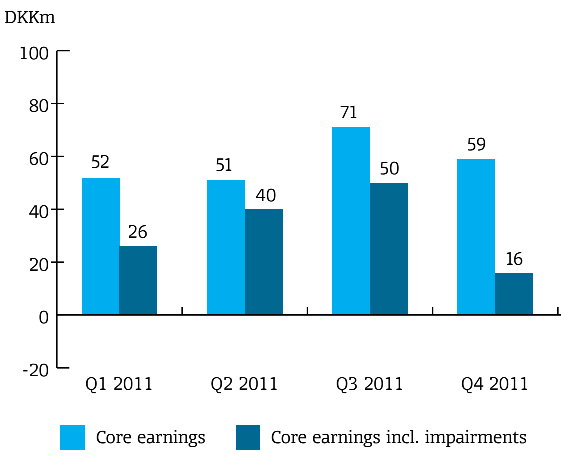
Profit before tax

BankNordik delivered a 2011 pre-tax profit of DKK 31m compared to DKK 385m.

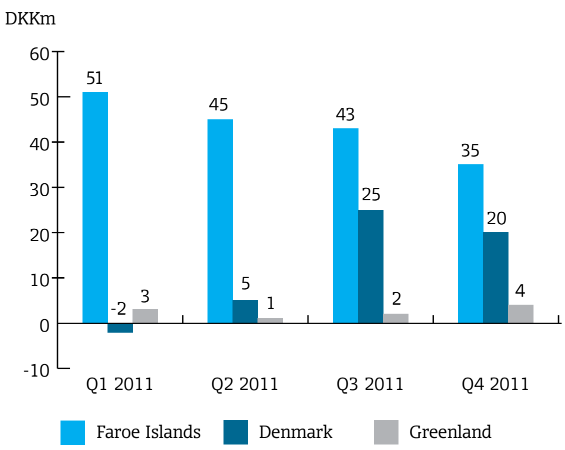
The banking operations in 2011 returned a pre-tax profit of DKK 10m compared to DKK 35m loss in 2010. When looking at the core earnings incl. impairments the 2011 surplus is DKK 132m compared to DKK 40m in 2010. The higher core income supports the notion that the banking business stands to harvest significant income improvements from the increased volume in Denmark. As the integration process is completed, the pre-tax result is expected to become significantly better as well.

The pre-tax results broken down by banking market in 2011 shows that the Faroe Islands delivered a profit of DKK 102m, Denmark a deficit of DKK 106m and Greenland a profit of DKK 14m. The result for Denmark was very much affected by extraordinary expenses.

Core earnings, Banking



Core earnings, Banking



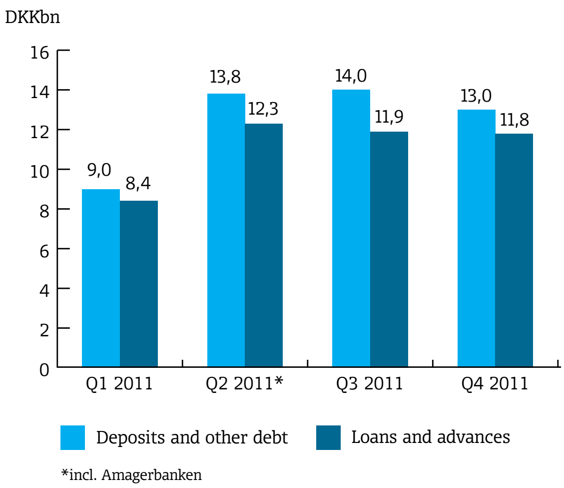
Balance sheet

BankNordik's total assets increased by DKK 2.8bn (20%) in 2011.

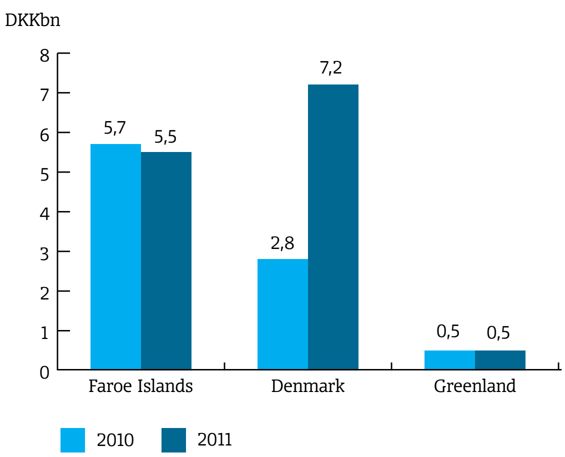
With the takeover of the healthy parts of Amagerbanken from 1 July 2011, the BankNordik Group increased its loans and advances by about 36% and deposits by about 47%.

Income generation has shifted from the Faroe Islands by far being the most prominent contributor of volume and income, to a more equal position with Denmark. So far the effects have not materialised, but the prospects and potential for growth are set to improve going forward.

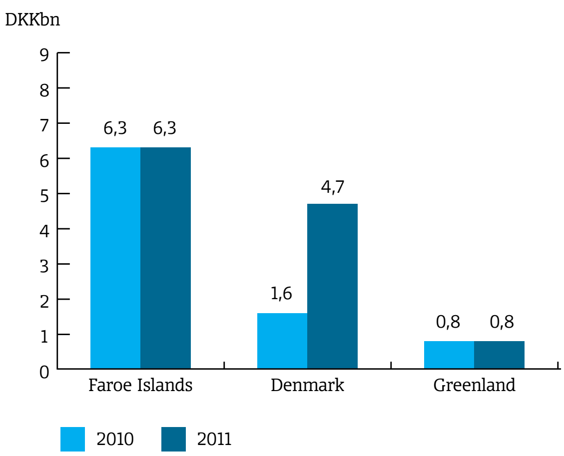
Total banking



Deposits and other debt



Loans and advances



» BankNordik has been determined to reduce its very high surplus liquidity ratio to the new market situation and thereby cut its funding costs «

Assets

From the beginning of H2 2011 BankNordik's asset composition changed significantly. In particular, loans and advances were boosted by DKK 3.5bn (41%) from the acquisition. In Q4 2011 loans and advances fell by DKK 197m (2%) due to low activity and demand. This is a trend that has largely prevailed for the organic loan portfolio in all markets since the crisis began in 2008.

Assets composing the liquidity reserves amounted to DKK 3.6bn which is DKK 0.9bn less than at the beginning of 2011 and DKK 1.5bn less than in Q3 2011, reflecting the Bank's strategic decisions to lower its excess liquidity coverage to the Bank's long-term goal of 100% above the statutory requirement. This translates into surplus liquidity coverage of 115% at the end of 2011 compared to 149% at the end of Q3 2011 and 293% at the end of 2010.

It is the Group's view that its deposits base is now so strong that it is appropriate to pursue a lower surplus liquidity, targeting a surplus level of 100%. Now that the Bank is close to this liquidity goal more attention will be on the options available for managing the daily liquidity fluctuations.

In the Amagerbanken transaction BankNordik paid a goodwill and customer relations fee amounting to DKK 391m. This amount has been recognised in the consolidated goodwill of DKK 802m, of which the acquisition of the Sparbank branches and Vörður makes up most of the rest.

Liabilities

Because the healthy parts of Amagerbanken held surplus deposits amounting to DKK 1.4bn, BankNordik gained a significant improvement in its deposits surplus which at the end of 2011 amounted to DKK 1.3bn, corresponding to a deposits/loan ratio of 1.11%. Total deposits at the end of 2011 amounted to 13bn which was 47% more than a year earlier, but 7% less than at the end of Q3 2011.

The lower deposits are mostly a consequence of the Bank's efforts to reduce its most unstable and expensive deposits on the backdrop of a substantial deposit surplus as well as – although to a much smaller extent – natural and expected customer withdrawals following the takeover of Amagerbanken.

With the high increase in deposits during 2010 and 2011 and the subsequent lower funding risk, BankNordik determined to align its very high surplus liquidity ratio to the new market situation, thereby cutting its funding costs. Over the last year the Group's issued bonds have decreased from DKK 2.2bn to DKK 0.1bn.

Outlook

In 2010, BankNordik acquired nine Danish and three Greenland branches from Sparbank, and on 1 July 2011, theBank acquired the healthy parts of Amagerbanken. The business expansion in Denmark is expected to contribute significantly to the earnings performance in the years ahead. Integration costs relating to the acquired activities and sector expenses have impacted the Bank's financial results. The merger of IT systems, which is the most expensive part of the integration, was completed in February 2012. The next step is to optimise operations, and the resulting financial benefits will begin to feed through from the second half of 2012, taking full effect from the 2013 financial year.

Net interest and fee income is expected to remain at the same level as in second half 2011. Net income from insurance activities is expected to be at a higher level than in 2011, since 2011 was negatively influenced by exceptionally bad weather.

Earnings are expected to improve in 2012. In the second half of the year, the Bank will begin to harvest economies of scale and synergies, preparing to enhance profitability further over the next couple of years.

Outlook 2012

- Income from banking and insurance operations totalling DKK 880–930m (2011: DKK 735)
- Operating profit before value adjustments, non-recurring items and tax of DKK 150–200m (2011: DKK 134m)
- Non-recurring costs are expected to amount to 30-50m (2011: DKK 103m)
- Profit before value adjustments, tax and sector costs in 2012 DKK 100-170m (2011: DKK 42m)
- Return on equity excluding non-recurring costs is forcast at 8–10%
- Impairment write-downs on loans, etc. are expected to amount to DKK 80–120m (2011: DKK 101m), corresponding to 0.7–1.0% of total loans and advances (2011: 0.85%)
- Loans and advances are expected to be at the level recorded at 31 December 2011

According to agreements the Bank has entered into regarding hybrid loan capital, any dividend paid by BankNordik is capped at 10% of the profit for the year up to an amount of DKK 10 million, as long as the core capital ratio (ie excluding hybrid core capital) is less than 10%. Earnings generated over the next three years will to a large extent be applied towards repaying hybrid capital.

Three-year financial targets

In December 2011, BankNordik defined the following financial targets for the intermediate term, ie for the three-year period ending in 2014:

- No decline in risk-weighted assets (RWA) relative to end-2011
- Cost/Income ratio to be capped at 60%
- Return on equity of 12% before value adjustments, non-recurring items and tax
- Solvency ratio of 13–16%
- Core capital (excluding hybrid capital) of at least 12%
- Excess liquidity cover of 100%, ie double the statutory requirement

Disclaimer

The forward-looking statements in this announcement are subject to risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements. Factors of risk and uncertainty include, but are not limited to, developments in interest margins, the size of the loan portfolio, development in impairment charges, the return on the bank's proprietary portfolio, fee and commission income and the level of claims in the insurance operations. The principal factors of risk and uncertainty are also described in BankNordik's Annual report.

A 0.1 percentage point change in lending rates would imply a change in profit of approximately DKK 12 million, whereas a DKK 0.1 billion change in the lending portfolio would imply a change in profit of approximately DKK 5 million, all else being equal.

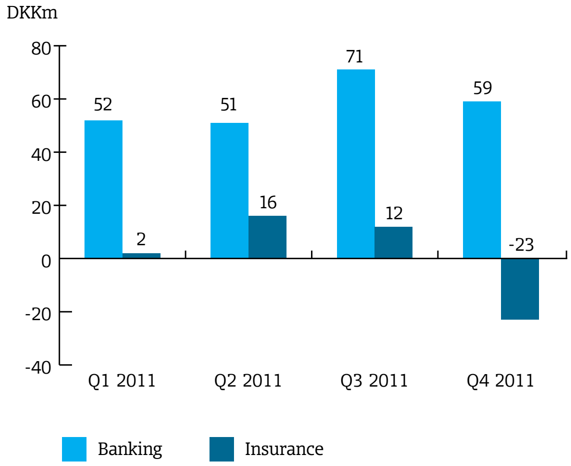
BankNordik Group by segment

Banking

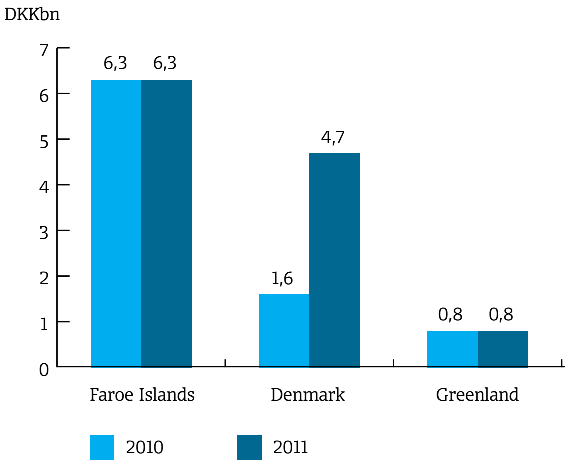
With the takeover of the healthy parts of Amagerbanken on 1 July 2011, the BankNordik Group increased loans and advances by about 40% and deposits by about 49%. Income generation has also shifted from the Faroe Islands being by far the most prominent contributor of assets and income, to now sharing this position with Denmark. So far, the effect has not fed through to the bottom line, but prospects and the growth potential are set to improve going forward.

The combined banking operations returned a pre-tax profit of DKK 10m for 2011, compared to a DKK 35m

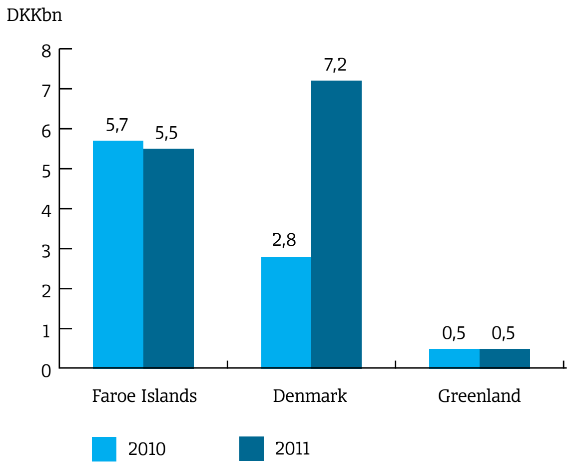
Core earnings



Loans and advances



Deposits and other debt

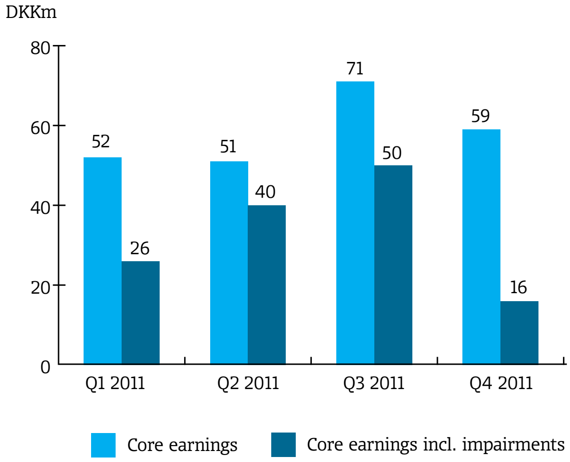


loss (excluding proceeds from Bakkafrost) in 2010. The pre-tax results for 2011 broken down by banking market shows that the Faroe Islands delivered a profit of DKK 102m, Denmark a loss of DKK 106m and Greenland a profit of DKK 14m. Denmark was strongly affected by extraordinary expenses and impairment charges.

Core earnings produced a more positive picture, as the 2011 surplus was DKK 233m compared to DKK 193m in 2010. The higher core income level shows the effects of the increased lending and supports the notion that the banking business stands to harvest significant income improvements from the greater business volume in Denmark. The pre-tax results are expected to become significantly better as well when the integration process and related initiatives have been completed.

With core earnings of DKK 174m the Faroes still contributed the most to the core earnings, while Denmark delivered DKK 48m and Greenland DKK 10m. After starting off the year on a decline, partly as a result of the reduced loan portfolio and lower interest rates in H1, earnings began to recover after H1 2011.

Core earning, Banking



Faroe Islands

Highlights 2011

- Pre-tax profit DKK 102m (2010 : DKK 28m loss)
- Net interest and fee income DKK 355m (2010 : DKK 402m)
- Staff costs and administrative expenses DKK 193m (2010 : DKK 265m)
- Impairment charges on loans and advances DKK 23m (2010 : DKK 173m)
- Loans and advances DKK 6.3bn (2010 : DKK 6.3bn)
- Deposits 5.5bn (2010 : DKK 5.7bn)
- 203 full-time employees (2010 : 216 FTE) at 31 December 2011

Overview

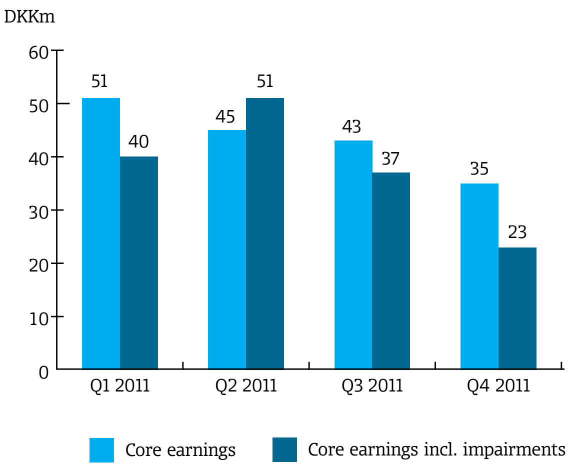
The banking activities in the Faroe Islands returned a pre-tax profit of DKK 102m for 2011 compared to a DKK 28m loss for 2010. The performance was largely due to reasonable core earnings and much lower impairment charges of DKK 23m compared to DKK 181m in 2010.

The core activities in 2011 produced earnings of DKK 179m compared to DKK 147m in 2010.

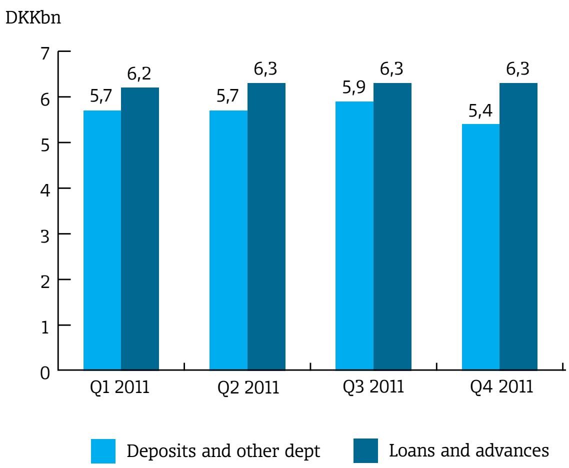
There was a minor fall in net interest income from DKK 346m in 2010 to DKK 310m to 2011 as a combination of lower average interest rates and higher average deposits in addition to higher expenses on subordinated debt.

The outlook for the Faroese banking segment is stable, but loans are not expected to increase while net interest income is expected to be higher because of the higher interest rates.

Core earnings, Faroe Island



Deposits and loans, Faroe Islands



Private customers

Prudence prevailed among Faroese private customers in 2011 and there was a change in consumption patterns with a tendency to focus on paying down on debts, instead of investing in consumables and maintenance expenses or making investments in general. The average consumption ratio which normally is around 90% of income has for the time being declined to around 85%.

Market conditions in 2011

2011 was a test of the repercussions after the bankruptcy of Eik Bank and Faroe Seafood in late 2010 – a bankruptcy with a huge financial and psychological impact on Faroese society. Nevertheless, there was an increase in the volume of private lending compared to 2010. The higher lending primarily stems from an increase in mortgage financing for both new and old houses. The increase in private deposits reflects the above-mentioned decrease in consumption.

In May 2011, the Bank reduced the number of branches in the Faroe Islands from 9 to 5. Customers increasingly use the Bank's self-service facilities and therefore do not require branches for their daily banking needs. In addition, in order to achieve its target of providing high quality services to customers, the Bank needs bigger units with well-qualified staff.

Outlook

The outlook for 2012 is for a minor reduction in loans, primarily because of limited demand for new housing construction around the islands. As in 2011, deposits are expected to increase marginally, although this will depend on customers' preferences for investing in securities.

In 2012, the Bank will seek to strike a better balance between interest and commission income. This is a process requiring more direct relations with customers in order to convey the new business opportunities and provide advisory services. This includes income products such as investments, pensions, insurance and payment systems, as well regular loans and deposits.

Changes to tax regulations are currently having a negative impact on pension savings. Time will tell if the authorities manage to put a new pension reform in place effective from 1 January 2013, and what impact it will have on private customers.

BankNordik intends to continue to leave its mark on the Faroese private market in 2012 by setting high standards for its products and the quality of its services.

Corporate customers

Market conditions in 2011
Overall, 2011 was challenging for most industries in the Faroese corporate sector. The global crisis has had a negative impact on investments, as the corporate sector is still trimming business operations and as it is difficult to generate organic growth. Mergers and acquisitions have been put on hold and business confidence points to an uncertain future. As a result, investment rates are low, and there are still no significant signs of growth in the markets.

During 2011, BankNordik's total loans and advances to the corporate and public sectors in the Faroes decreased by 4.2% from DKK 3.533bn to DKK 3.390bn.

Salmon farming
For the salmon farming industry 2011 was another good year, despite a fall in salmon prices. Although prices fell quite dramatically in the final quarter of 2011, the industry has performed very well. It is estimated, that salmon prices will stay at this lower level during 2012, implying lower profit margins in the industry. However, the lower prices are expected to have a positive effect on the market and trigger rising demand for salmon products. Total salmon production in 2011 was around 50,000 tonnes. The outlook for the salmon industry is positive.

Pelagic fisheries
Pelagic fisheries have become of great importance for the Faroese economy. In spite of the ongoing dispute between the Faroes and Iceland on one side, and the EU and Norway on the other, as to the distribution of mackerel quotas, it is estimated, that the Faroes, having had about 5% of the total TAC of the mackerel fisheries, can anticipate greater rights in the future. In 2011, the Faroese industry caught about 125,000 tonnes of mackerel, corresponding to some 15% of the total TAC, which is estimated at a value of some DKK 800-900m. By comparison this is about equal to the total catch value of traditional fisheries in Faroese waters. The outlook for the industry is positive.

Fisheries in Faroese waters
The fisheries industry operating in Faroese waters had a challenging year in 2011. The volume of fish catches was lower than expected, and oil prices were high. Fish prices, however, were higher than expected, which to some extent offset the effects of the lower quantities and the high oil prices. The outlook is uncertain as oil prices seem to be on a rising trend.

Fish processing plants
The fish processing industry performed acceptably in 2011, as the number of plants operating has been lower than before, which has led to higher average quantities of raw material for the plants in operation. There has been some consolidation among fishing vessels and plants into larger and stronger compa-

nies, and the Bank expects the structure of the industry is changing and will continue to change, which could lead to financially stronger companies with a stronger basis for profitable production. The outlook for this industry is fair.

Service and construction industries

The service industry has had some challenging years and the trend continued in 2011. The economic situation remains stagnant, and it is difficult for the service sector to generate growth. Thus, the sector is still focused on costs, and is still to some extent downsizing businesses. The outlook for 2012 is weak.
Demand in the construction and real estate industries was probably close to an all-time low in 2011, as both private and public sectors were very reluctant to make any investment. The outlook for 2012 is weak.

Strategy and focus

BankNordik remains focused on strengthening relationships with customers and the goal is to do so through partnership relations. This is a proactive customer approach spotlighting customer expectations to BankNordik.

Outlook

The low demand for lending from customers continued in 2011 and is expected to continue in 2012 as well. The Bank foresees that corporate lending in the Faroese market will be at the level of 2011.

Corporate Finance

The core business areas of the Corporate Finance division are mergers and acquisitions, equity and debt capital markets and financial consultancy, including general venture management and research, services that are crucial to customers in their decision-making.

BankNordik Corporate Finance acted as joint financial adviser to salmon producer Bakkafrost in the acquisition of the Faroese feed-, meal- and oil producer Havsbrún.

The main market for BankNordik Corporate Finance has been the Faroe Islands. The division is now exploring opportunities in BankNordik's new markets.

Denmark

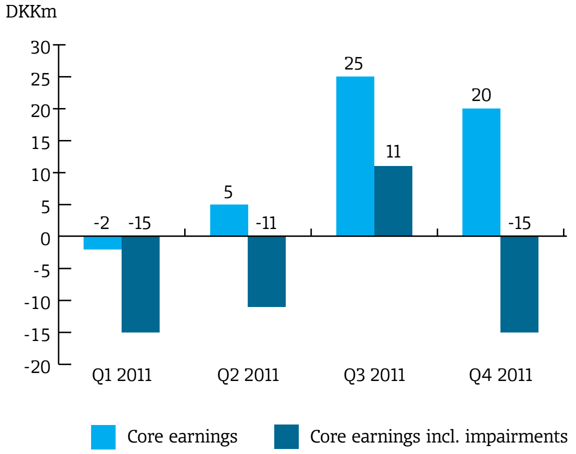
Highlights 2011

- Pre-tax loss of DKK 106m (2010 : DKK 18m profit)
- Net interest and fee income DKK 264m (2010 : DKK 109m)
- Staff costs and administrative expenses DKK 310m (2010 : DKK 101m)
- Impairment charges on loans and advances DKK 78m (2010 : DKK 20m profit)
- Loans and advances DKK 4.7bn (2010 : DKK 1.6bn)
- Deposits 7.2bn (2010 : DKK 2.8bn)
- 297 full time employees at 31 December 2011 (2010 : 110 FTE)

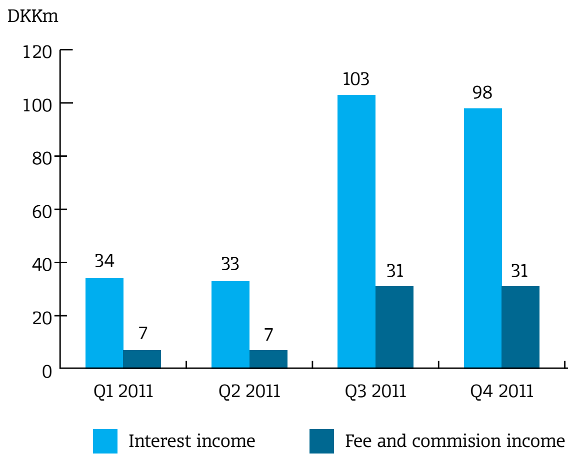
Overview

The Group's banking operations in Denmark were greatly expanded in 2011 by the acquisition of Amagerbanken. In the transaction DKK 5.0bn of deposits and

Core earnings, Denmark



Intrest and fee's, Denmark



DKK 3.5bn of loans were added to the Group's balance sheet. In addition, assets under management were boosted by extra DKK 6bn.

Accordingly, intrest income trebled in the second half of 2011 and fee and commission income more than quadrupled. Expenses were equally influenced by the takeover and the subsequent transitional activities, which have also influenced the entire BankNordik organisation.

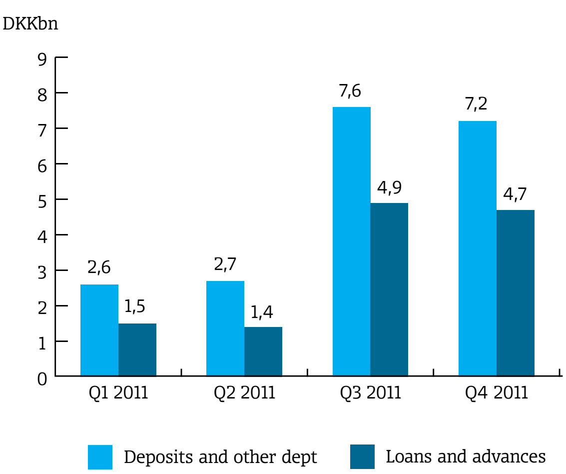
For the Banking activities in Denmark, internal integration was a big priority in 2011, and the income statement was strongly influenced by non-recurring transition-related net expenses leading to a 2011 pre-tax loss of DKK 105m compared to a profit of DKK 18m in 2010. In addition to the assessed DKK 99m in transitional expenses in 2011 attributed to intermediate IT services, preparations for and implementation of IT transfer, re-branding etc., high impairments

charges amounting to DKK 78m (2010: 20m) weighed down the annual results. These costs will continue to affect the Danish business in the first half of 2012, after wich things are expected to ease up and Denmark will be able to contribute significantly to BankNordik's consolidated performance.

The core activities in 2011 produced earnings of DKK 40m compared to DKK 28m in 2010. Both net interest income and net fee income have more than tripled since Q2 2011 and with the higher interest margins in the second half of 2011 and Q1 2012 this trend is expected to improve core earnings considerably in 2012.

The outlook for the Danish economy improved slightly at the beginning of 2012 and with historically low level of interest rates, the pressure on private and corporate customers has eased somewhat. With a well diversified high quality loan portfolio, BankNordik does not expect impairment charges to increase.

Deposits and loans, Denmark



Private customers

Overview

Due to the crisis, private customers are still generally cautious and reluctant to demand banking services in Denmark and, naturally, this has also affected BankNordik's business.

The housing sector is declining and relatively few properties are being traded in Denmark, despite the historically low interest rates. Consumers are cautious due to unemployment fears, higher taxes, and the higher cost of living in general.

Following the takeover of the healthy parts of Amagerbanken, the Bank gained about 80,000 new private customers distributed on the Copenhagen area, the growth areas of Jutland and Odense on the island of Funen. A significant part of the customers are part-service customers who can be turned into full-service customers in the longer term.

BankNordik has a much diversified loan portfolio and continues to pursue a conservative credit policy. The portfolios of the acquired branches generally reflect the Bank's way of doing business and treating its customers.

A rebranding of the branches in November 2011 was completed and all branches now carry the name BankNordik. This offers some advantages in terms of the Bank's future branding and pricing. Also, customers now recognise the branches everywhere.

Market conditions in 2011

The market conditions remain under pressure in Denmark, as customers reduce facilities with their banks, thus creating pressure on interest margins. However, the Bank has managed to retain its margins, among other things by increasing margins in the private market three times during the year. The propensity to save remains intact and hence deposits per customer are increasing. Due to changes to tax rules, pension savings are declining, although not by as much as expected.

Unemployment remains stable on average, but customers are reluctant to raise new loans, and therefore, the Bank has worked to establish cross-sales of the Bank's and its business partners' products in order to build greater loyalty.

Organisational changes

In the spring of 2011, the branches in Varde and Esbjerg were merged and in the autumn of 2011, the branches in Skanderborg and Aarhus were merged, all without any major outflow of customers.

The takeover of the healthy parts of Amagerbanken led to a substantial increase in the Bank's business volume. For this reason, a new organisation has been introduced and in the summer of 2011, a management group was established in Denmark. This group is in charge of private as well as corporate customer service and of business development in Denmark.

Outlook

It is expected that private customers in Denmark will remain cautious in 2012 and for this reason, there will be a continued focus on pricing, loyalty programmes (partnerships), and on introducing a structure to invite the customers to meetings at regular intervals.

The IT platform has been converted from BEC to SDC and in this respect, attention is on the customers' reactions as they have to get used to a new online bank, new cards, and not least new account numbers.

BankNordik will continue the work to enhance customer service efficiency – without compromising its standards for good customer service.

BankNordik will continue to train the employees to meet the challenges of the future and to carry out training programmes over the year, beginning with the managers. The aim is to enable all employees to face customers with professional skills, openness and not least empathy – thereby contributing to BankNordik fulfilling its mission to make it financially possible for customers to achieve their full potential.

Corporate customers

The number of corporate customers and the size of balance sheet were substantially boosted by the takeover of the healthy parts of Amagerbanken in mid-2011. Following the takeover, the branches are now located in several of the growth areas in Denmark, which provides a foundation for further expansion in the corporate area.

Market conditions in 2011

Our portfolio of corporate customers has good risk diversification in terms of sectors as well as loan sizes. Hence, the Bank is not dependent on, or vulnerable to, developments in individual sectors and most of the corporate customers are small enterprises within production, trade and service.

The market conditions and the continued crisis affect customers' revenues, earnings and their propensity to invest. Many enterprises have seen several rounds of cost savings and their main challenge is lack of revenue growth. This typically results in enterprises postponing new capital investments. Often their liquidity comes under pressure because their customers demand longer credit.

The outlook for medium-sized enterprises, mainly in the exporting sectors, is much more optimistic. In this segment, the Bank has seen progress and a greater propensity to invest and it is believed that this picture will also prevail in 2012 and in the years ahead.

Corporate banking strategy and focus

Our strategy for the coming period is to be more focused on gaining market share in the segment for medium-sized enterprises. The Bank will use its partnership model to create long-term relationships with more corporate customers.

Hence, the Bank has chosen to upgrade its resources and add skills to the two central corporate branches in Copenhagen and Kolding. The small, local corporate customers will still be served from the branches while the expertise in terms of advisory services to those customers demanding specialised services will be concentrated in the central corporate branches.

Outlook

As a natural consequence of the corporate strategy and investment in new employees, the Bank expects extended collaboration with existing and new corporate customers in 2012. Growth will be aligned with market conditions and will be consistent with the Bank's credit policy.

Greenland

Highlights 2011

- Pre-tax profit DKK 14m (2010 : DKK 16m)
- Net interest and fee income DKK 52m (2010 : DKK 56m)
- Staff costs and administrative expenses DKK 42m (2010 : DKK 38m)
- Impairment charges on loans and advances DKK 0m (2010 : DKK 8m)
- Loans and advances DKK 756m (2010 : DKK 816m)
- Deposits 460m (2010 : DKK 482m)
- 30 full-time employees at the end of 2011 (2010 : 28 FTE)

Overview

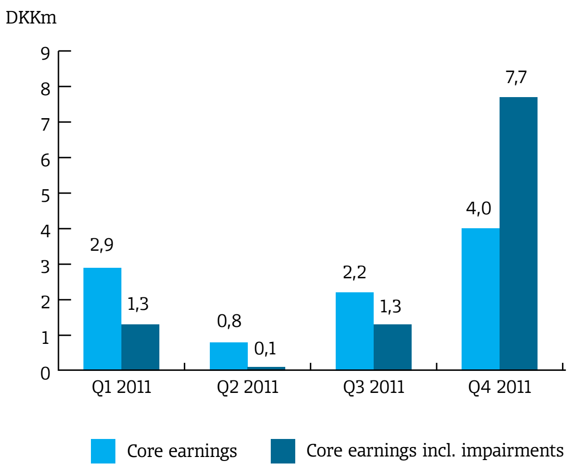
BankNordik Greenland delivered a pre-tax profit of DKK 14m for 2011 compared to 16m for 2010. The decline was mostly due to higher staff costs and administrative expenses amounting to DKK 42m compared to DKK 38m in 2010, but income also fell due to a 7% drop in the loan portfolio and an increase in interest expenses.

Core earnings at the end of 2011 were DKK 9m compared to DKK 19m in 2010, but with no impairments in 2011 compared to DKK 8m in 2010. Impairment charges and, secondarily, interest expenses were the reasons for the drop in earnings.

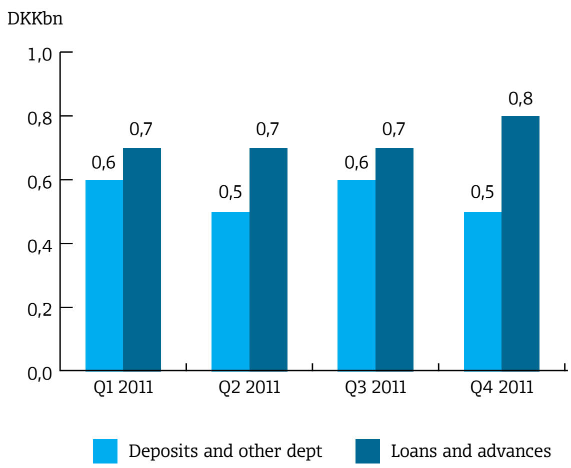
Loans and advances increased in the last quarter of 2011, reaching DKK 756m compared to DKK 816m at the end of 2010 and implying a fall in the average loan portfolio in 2011. Deposits fell from DKK 482m in 2010 to DKK 460m in 2011, but stood at DKK 511m at the end of Q3 2011.

The outlook for the banking activities in Greenland is mainly positive, with prospects of an increase in loans and advances and continued activity in construction and exploration.

Core earnings, Greenland



Deposits and loans, Greenland



Private customers

Overview
BankNordik Greenland had a satisfactory year in 2011. The bank previously had three branches in Greenland: in the capital of Nuuk, in Ilulissat and in Sisimiut. For the purpose of enhancing growth and concentrating skills and resources, the Bank decided on 10 January 2012 to consolidate all Greenland activities in Nuuk. As a result, the branches in Ilulissat and Sisimiut will be closed effective 1 May 2012.

Loans and advances fell slightly relative to 2010. However, the trend reversed around 1 July and developments in loans and advances and in earnings were very satisfactory in the second half of the year. There were no net write-downs in 2011, and the quality of the lending portfolio is considered to be good.

Market conditions in 2011
Since acquiring Sparbank's branches in February 2010, BankNordik has become a recognised provider of financial services in Greenland. The Bank has a prudent and respectful market approach, and initiatives have been concentrated on creating financial dynamics with due consideration for risk and stability.

Private customers constitute an attractive market segment going forward, and while housing markets are falling elsewhere, this is a market functioning well in Greenland. The same applies to the markets for cars and boats. The number of private customers is largely unchanged from 31 December 2010.

Outlook
Private customers will still have an appetite for investment in 2012, and the goal is to capture a growing share of a market that remains attractive through a proactive, competent and committed approach. BankNordik's priorities will be to enhance skills and establish high professional standards. The Bank expects the private customer lending portfolio to grow in 2012.

Corporate customers

Overview
The portfolio of corporate customers is well diversified on the various industry segments. BankNordik's corporate customers are based throughout Greenland. The current attractive financial situation means that the Bank is in a good position to start up new, lasting partnerships with new or existing customers and to grow with medium-sized and large customers.

Market conditions
BankNordik's strategy is to focus on growth in the private and corporate segments and the objective is to grow the Bank's market share in Greenland in 2012. The Bank will endeavour to build on existing relationships and to start up new, lasting partnerships with the customers. Increasing competency levels and giving customers competent, professional advice will be a priority in order to strengthen the dynamic and professional environment at the central location in Nuuk.

Outlook
In reference to the growth strategy, it is expected to increase corporate lending portfolio. Growth will be consistently and carefully managed to comply with the Bank's prudent credit policy.

BankNordik – Markets

Highlights 2011

- Total assets in client portfolio's increased from DKK 2bn to DKK 8bn
- Markets integrated to cover the entire BankNordik organisation
- New portfolio management concept is the main source of growth going forward

The acquisition of the Amagerbanken activities in Denmark has meant a substantial increase of about DKK 6bn in Markets' total business volume. Assets under Portfolio Management have increased to DKK 1,8bn. Markets staff is now based in two offices, one in Tórshavn and one in Copenhagen.

The Markets division's professional skills are concentrated on the business areas of Financial instruments trading and advisory services, Portfolio management, International banking (including international payments), Trade finance and Commercial currency and fixed income transactions.

The offering of investment products for investment and pension services will be reviewed and adjusted regularly.

By concentrating its professional skills, the Markets division is able to offer the best products, and given BankNordik's local presence, the customers will have access to the right solutions.

With constantly changing financial markets, Markets makes good use of the several years of solid experience in the markets in which BankNordik operates and seeks to adapt its products and advisory services to such changes as and when they occur. The greater staff resources combined with the several new product concepts in the pipeline for 2012, means that the Markets division will give customers better alternatives to use its product offering.

In the first six months of 2011, the main focus was on optimising the operations of the market and business area, while in the last six months adapting to the Bank's new, larger business volume was a big priority. These efforts resulted in a considerable organisational and business integration for the Markets division.

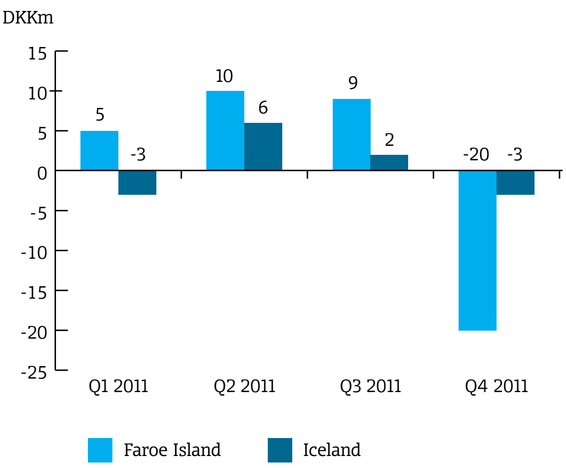
Outlook

2012 will see additional adjustments of the product range, and the activities planned over the year are expected to produce a substantial increase in the number of customers, in assets under management and other business targets, all producing enhanced business results for BankNordik.

BankNordik – Insurance

The BankNordik Group's insurance business, consisting of Trygd in the Faroe Islands and Vörður in Iceland, returned a pre-tax profit of DKK 20m in 2011 compared to DKK 30m in 2010. The profit consisted of an improving Icelandic business delivering an extra DKK 6m in 2011 reaching a profit of DKK 15m, while the Faroese business contributing with a profit of DKK 5m compared to DKK 20m in 2010 due to extensive claims in Q4 2011.

Core earnings, Insurance



Due to differences in investment policies, Vörður's core business, unlike Trygd's, is strongly driven by value adjustments. Vörður's core earnings in 2011 thus were DKK 2m while value adjustments added DKK 13m to the bottom line.

The outlook for the insurance companies is good, with Trygd delivering a profit even in a year of abnormal claims levels and Vörður continuing to improve its results.

Trygd

Highlights 2011

- Pre-tax profit of DKK 4.6m
- Claims ratio of 79.1
- Operating costs under control with gross expense ratio of 20.6%
- Stable market situation – overall number of customers and policies stable
- Return on investment activities of DKK 2.8m reflects a very low-risk investment policy
- Return on equity of 4.1% after tax

Company background

Trygd is a wholly owned non-life insurance subsidiary of BankNordik operating on the Faroe Islands. Trygd is a full service company, offering all kind of non-life insurance products to private households and corporate businesses. Approximately 50% of earned premiums are motor-related and 40% are related to property and content. Trygd has a market share on the Faroe Islands of around 25–27% of private property and content, and a 28–30% of the motor hull and liability market. Trygd had 25 full-time employees at year end 2011.

Trygd has a commission-based distribution agreement with BankNordik making Trygd's insurance products available to private customers. These mainly involve property, content, motor and accident policies.

Review of 2011

Earned premiums declined by 1.6% to DKK 81m in 2011, as a continuing stagnant market with weak growth and rising unemployment led to low selling rates for vehicles and houses. This In turn had a negative effect on new business written as well as on opportunities to access potential new customers.

After having experienced a very low level in claims frequencies and expenses in the last few years, both claims frequency and expenses hit an all-time high for Trygd in 2011. The first three quarters were very good, but in the fourth quarter severe storms hit the islands. Especially on 24–25 November, but to a minor degree again on 25 December, devastating storms hit the Faroes and the damages proved to be costly. Though Trygd has reinsurance against storms/catastrophes, the cost for own account amounted to DKK 20–25m.

Outlook

Trygd expects the level of premium income net of reinsurance to be on the same level as in 2011.

Vörður

Highlights 2011

- Pre-tax profit of DKK 15m
- Claims ratio of 81.0
- Operating costs under control with gross expense ratio of 17.1%
- Market situation improving – overall number of customers and policies slowly increasing

Company background

BankNordik owns 51% of Vörður but the financial statement is fully consolidated in BankNordik Group's financial statement.

In 2011 as in the year before, Vörður's main priority was to improve its financial performance through improved customer selection and general portfolio management. The severe recession in the Icelandic economy in 2008 has led to a market focus of reducing expenses where possible. This is one of the reasons why Vörður has directed even more attention on improving its underwriting results rather than continuing on a course of strong growth in operations.

In 2011, Vörður managed to reach most of the full-year KPIs it had budgeted for. At the same time, the performance relative to last year was favourable.

Premium income net of reinsurance amounted to DKK 183m an increase of 14% from the previous year. At the same time, the inflation rate for the year was 5.6% but some tariffs are indexed and closely follow the inflation rate. Vörður generated growth in both the private and corporate customer segments.

Investment income amounted to DKK 24m, a reduction of 16% from the extremely high yield of 2010, but at the same time the figure for 2011 was 29% ahead of the budget. Vörður's investment mandate is restricted to the Icelandic economy and mainly to government issued or backed bonds.

Overall income was DKK 208m, an increase of 9.5% from last year which was quite acceptable considering the circumstances.

On the expense side, claims for own account amounted to DKK 148m. Claims incurred were lower than in the previous two years but claims for own account grew 5% from 2010. The combined ratio continued to improve in 2011 but was still a bit off target. It is expected that the combined ratio will fall below 100 in 2012.

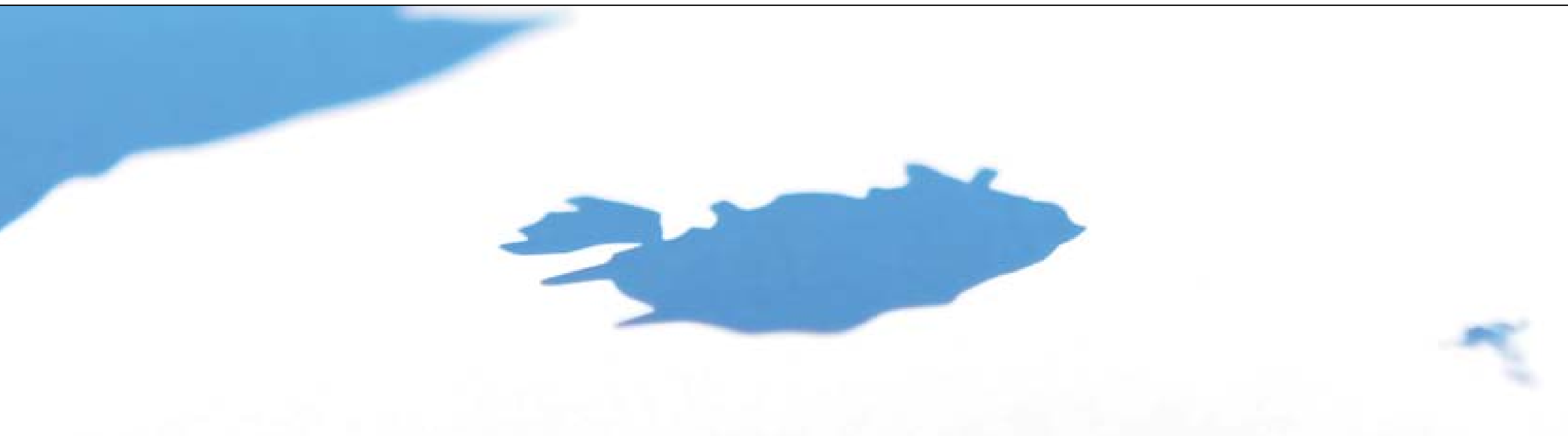
Operating expenses amounted to DKK 45m an increase of 10% over last year, but acquisition costs related to prior years' weighed quite heavily on expenses. Most of the acquisition costs relating to past years' sales have now been amortised resulting in a more favourable expense ratio in 2012.

Underwriting results continue to strengthen, 2011 being the fifth consecutive year of improvement.

The pre-tax profit for 2011 was DKK 15m an increase of 58% from 2010 and 166% from 2009.

Outlook

Uncertainty regarding an economic recovery makes it even more difficult for most Icelandic companies to forecast and budget for the coming twelve month



period than it is under normal circumstances. For Vörður, the intention is to keep on improving underwriting results with all possible means. The company expects another profit improvement in 2012.

The insurance market is competitive. One of the competitors has recently been sold, one is expected to be sold in 2012 and a change in ownership is expected in the country's largest insurer in the near future. New owners and new management teams will be focused on improving results but the market will remain very competitive.

Vörður Líf

The year 2011 was Vörður Líf's fourth year in operation. The company has experienced good growth and has returned a profit every year but 2008. The product portfolio is basically the same as is provided by other Icelandic life insurance providers or term life and critical illness policies.

Other

Skyn

In 2011, BankNordik's real estate agents Skyn experienced a strong revenue improvement and produced a profit for the first time since starting up in 2006.

In 2011, Skyn boosted the number of properties sold in the Faroe Islands from 56 to 103 at a total value of DKK 132m. The number of houses for sale has steadily increased through the years to 150 listings through out 2011.

Skyn has four employees and is by now the largest real estate agent in the Faroe Islands in terms of number of deals made.

P/f Løkir

Løkir is an investment company founded by BankNordik, P/f Krúnborg and P/f Tjaldur in 2006. The objective of the company is to acquire businesses with a potential for further development and subsequent divestment. The company has three investments in its portfolio. At the end of 2011, Løkir had recognised equity of DKK 66m.

P/f Birting

Birting is a seed capital fund owned by BankNordik. The fund was founded in mid 2010 and has made one investment – in P/f Greensteam, a company offering advanced fuel saving systems for vessels. Since inception, Birting has received several applications and is actively searching for new investment opportunities. At the end of 2011, Birting had recognised equity of DKK 10m.


BANKNORDIK
Konta

Other issues

Change in Executive Board at BankNordik
In early March 2011, John Rajani, joined the Executive Board as Deputy CEO of BankNordik replacing Súni Schwartz Jacobsen.

Mr John Rajani joined BankNordik in 2006 as Head of BankNordik's Corporate Finance and from 2010 as Head of BankNordik's Corporate Lending. John Rajani has demonstrated a strong record in management and customer relations at BankNordik. John Rajani is 43 years old and holds an MBA from Lancaster University and a BSc. degree in Economics from Copenhagen Business School.

Acquisition Amagerbanken
On 6 February 2011 the Danish bank Amagerbanken announced that it no longer was able to meet its solvency requirement and that the bank would be liquidated by the government owned company Finansiel Stabilitet A/S. The activities of Amagerbanken were then transferred to Amagerbanken af 2011 A/S, a subsidiary of Finansiel Stabilitet A/S, that immediately began to separate the healthy parts in order to prepare it for a sales process.

After completing a due diligence and negotiations with Finansiel Stabilitet A/S and Amagerbanken af 2011 A/S the Bank entered into to a conditional agreement on 18 May 2011 with Amagerbanken af 2011 A/S on the transfer of the healthy parts of Amagerbanken to the Bank.

The transaction was completed on 1 July 2011 and by the acquisition of the healthy parts of Amagerbanken the Bank had completed its strategic ambition to expand its activities to the Danish market.

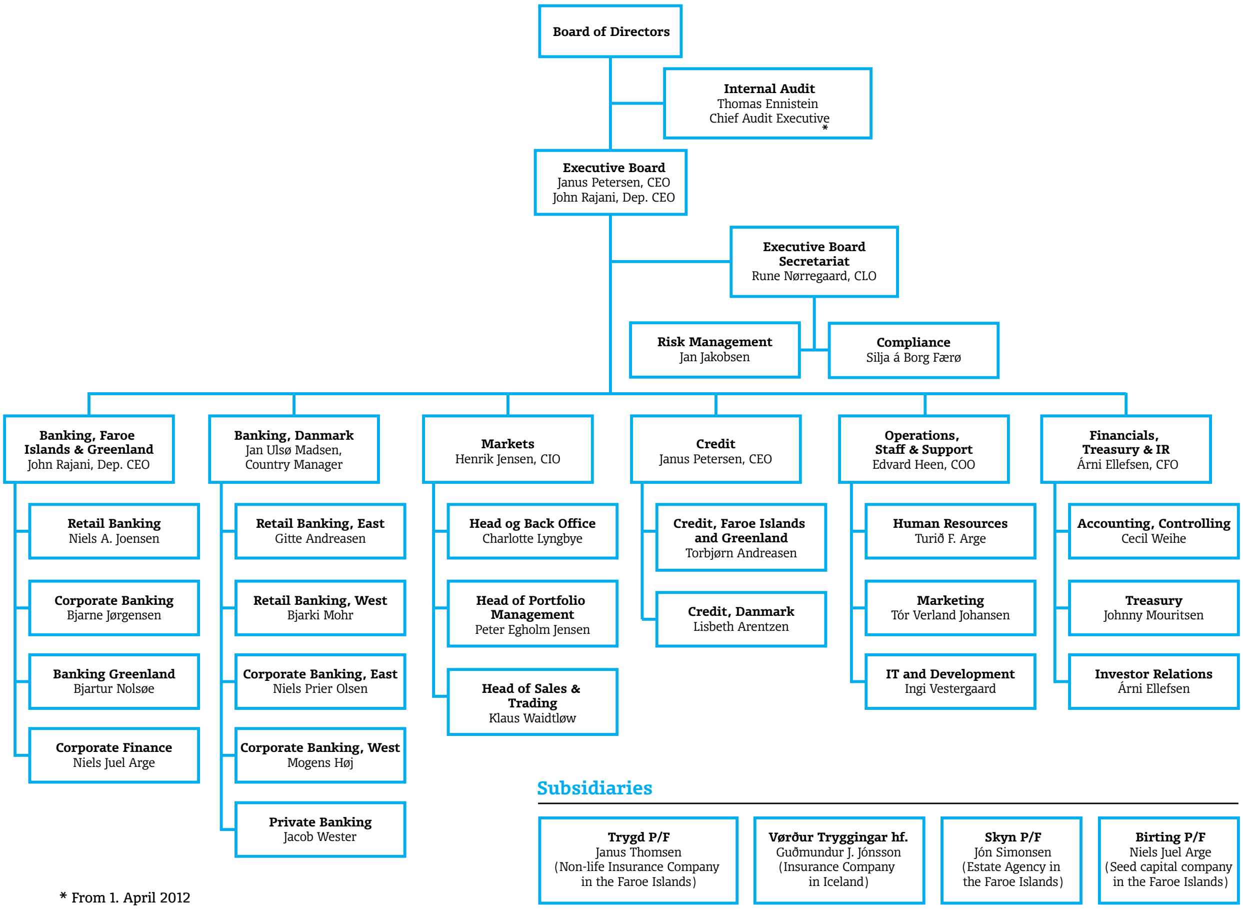
The activities taken over by the Bank were mainly credit exposures, including loans and guaranties, deposits and securities accounts with approximately 80,000 private customers and approximately 10,000 corporate customers, 13 branch offices, 200 employees, inventory related to the employees and branch offices, 6 branch properties, branch leaseholds and intellectual property and other matters related to the before mentioned activities.

The Bank acquired the credit exposures at amortised cost price per 1 July 2011 however; the individual impairments were fixed at the booked levels per 28 February 2011 with addition of DKK 156m in additional impairments. In accordance with the conditional agreement with Amagerbanken af 2011 A/S the Bank paid a goodwill amount of DKK 350m less DKK 115m which should cover the impairments estimated by the Bank to be made in addition to the impairments included in the amortised cost price as described above. Per 31 December 2011 goodwill ads up to DKK 391m. Per 1 July 2011 the Bank took over total assets of DKK 4.9bn of which DKK 4.7bn where credit exposures, and total liabilities of DKK 5bn of which DKK 4.9bn where deposits. In addition around DKK 6bn of custody accounts were included in the takeover.

Subordinated debt and hybrid capital increased
On 24th June 2011 BankNordik in conjunction with the expansion in Denmark, issued DKK 180m of hybrid core capital, and DKK 420m subordinated loan capital in order to strengthen the capital base after the takeover of Amagerbanken.

On 20 October 2011 BankNordik listed these bond issues on NASDAQ OMX Copenhagen and the first day of trading was 24 October 2011.

BankNordik Group



* From 1. April 2012

Strengthening of executive management in 2011

Due to Group's recent expansion, primarily in 2010 and 2011 on the Danish and Greenlandic markets, the Bank in 2011 strengthened its executive management team and reorganized business and staff units.

The Executive Board comprices Janus Petersen CEO and John Rajani, Dep. CEO.

At the chief operational level the Group is divided into three main business units:

- Banking operations in the Faroe Islands and Greenland, headed by John Rajani, BankNordik's Deputy CEO
- Banking operations in Denmark, headed by Jan Ulsø Madsen, Country Manager
- Markets, headed by Henrik Jensen, Chief Investment Officer

The pension and life insurance activeties are headed by Johnny í Grótinum. The Faroese and Icelandic non-life insurance activities report to Janus Petersen, Chief Executive Officer.

The business units are supported by three Group-wide staff units:

- Credit, headed by Janus Petersen, BankNordik's Chief Executive Officer
- Operations & Support (including HR, marketing, IT and Development), headed by Edvard Heen, Chief Operations Officer
- Finance, Treasury & Investor Relations, headed by Árni Ellefsen, Chief Financial Officer

The Executive Secretariat is headed by Rune Nørregaard, Chief Legal Officer. The Group's risk officer and compliance officer are both part of the Executive Secretariat.

The Country Manager, Chief Investment Officer, General Manager Insurance and Pension, Chief Operations Officer, Chief Financial Officer, Chief Legal Officer and the Group's Executive Board constitute the Group Executive Management Team.

The Group Executive Management Team have established various sub-committees, including Credit and Risk Committees.

Change in internal auditor

I 2011 the Group's chief audit officer Mr Petur Anfinn Johannesen informed the Board of Directors that he wanted to pursue new challenges outside of the Group, and according to an agreement with the Board of Directors Mr Johannesen resigned on 31 December 2011.

Immediately after having received Mr Johannesen's notice of resignation the Board of Directors initiated the search for a new chief audit officer and on 13 February 2012 the Board of Directors announced that Thomas Ennistein, a 36 years old Danish state authorised auditor with 12 years working experience at Deloitte Denmark, has been appointed as the Group's new chief audit officer.

As Mr Johannesen resigned on 31 December 2011 and Mr Ennistein is not able to take on the position as the Group's new chief audit officer before 1 April 2012 the Group's annual accounts 2011 does not include an internal auditor's report.

Rating

During 2011 BankNordik experienced to be downgraded twice after having its rating confirmed in September 2010 with stable outlook. On February 16 Moody's downgraded BankNordik from A3/C- with stable outlook to Baa1/C- rating with negative outlook.

In the aftermath of the acquisition of the healthy parts of Amagerbanken A/S on 19 May 2011, Moody's again on 21 September 2011 downgraded BankNordik's long- and short-term ratings to Baa3 and Prime -3, from Baa2 and Prime -2, respectively; yet the stand-alone bank financial strength rating (BFSR) was confirmed at D+, the outlook for all ratings being negative.

With the acquisition of the healthy parts of Amagerbanken in 2011 in addition the activities from Sparbank in 2010, BankNordik has a deposit surplus of DKK 2 billion. Therefore, the Bank has chosen to gradually redeem all its bond loans, totalling DKK 2.7 billion, before maturity. Against this background, BankNordik has decided to save the direct and indirect costs associated with the credit rating and terminate the rating with Moody's Investor Service.

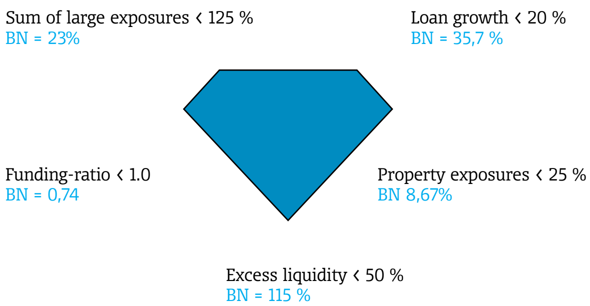
Supervisory diamond

The Danish Financial Supervisory Agency has introduced the Supervisory Diamond "Tilsynsdiamanten" for measuring the risk profile of banks. The model identifies five areas considered to be indicators of increased risk if not within certain limits. The model will be fully implemented as a part of the Danish FSA's supervision by year-end 2012.

The Bank meets by a wide margin the limits for large exposures, exposures towards property, excess liquidity and stable funding. Regarding loan growth the

The Supervisory Diamand

2011



Bank does not presently meet the limits due the acquisition of the healthy parts of Amagerbanken in July 2011. However, excluding the loans from the acquisition of Amagerbanken the organic development of BankNordik's loans in 2011 would have been negative by 3.5 per cent.

Greatly reduced external funding

Throughout 2011 BankNordik has reduced its external funding including state-guaranteed debt almost entirely. In January 2011, DKK 900m were prepaid and later another DKK 200m in February. Then again in March DKK 400m were prepaid to Eksportfinans. The last prepayments of loans were in August and November, each amounting to DKK 500m. Consequently, external funding has been reduced by a total of DKK 2.5bn in 2011.

Consequently, BankNordik is almost self-sufficient regarding funding of its loans and its legal liquidity requirement based on deposits and equity alone. This is facilitated by the return to more market-based conditions, the solid capital strength, in addition to the increasing subordinated debt.

Obligations towards the Depositors Guarantee Fund

In the enacted Bank package IV the Deposits Guarantee Fund is responsible for solving future banking problems. Because depositors now are covered by a minimum guarantee on deposits up to € 100,000, depositors of the bankrupt entities are entitled to have their deposits up to this amount refunded by the Depositors Guarantee Fund. Financial institutions, which are members of the fund, are liable to pay their proportionate share of total deposits under the guarantee, when depositors incur a loss on guaranteed deposits.

Expenses related to the bankruptcies in Amagerbanken, Fjordbank Mors and Max Bank in 2011, have been booked to net DKK 14m, recognized as DKK 21m in Other Operating Expenses and DKK 7m under other operating income.

Events after the balance sheet date

Since the end of 2011, the following events have occurred which are deemed to have a significant impact on the Group's business and relations.

Acquisition of Vörður

The non-controlling shareholder of Vörður Tryggingar hf has informed BankNordik that it will exercise its option to require BankNordik to acquire the non-controlling shareholders' 416,500,000 shares in Vörður Tryggingar hf. BankNordik has accepted the exercise of the option, however, BankNordik and the non-controlling shareholder do not agree of the exercise price and, therefore, the acquisition has not been completed. The parties agree that the exercise price will be in the range of ISK 1,100,000,000 and ISK 1,600,000,000. Translated in to DKK using closing rate at year end 2011 the exercise price will be in the range of DKK 51.5m and DKK 74.9m. Following a completion of the transaction, BankNordik will hold 100% of the shares in Vörður Tryggingar hf.

BankNordik has not experienced other significant events after the end of the reporting period.

Shareholders

IR policy

BankNordik´s Investor Relations policy is to engage openly and professionally with the Bank's shareholders and all other IR stakeholders by providing reliable, precise and timely information at any given time.

BankNordik´s aim is to provide transparent and clear information on results, performance, strategy and development in order to sustain an efficient pricing of its shares. The objective is also to support the principles of corporate governance, and in terms of information, at any time strive to place itself on a par with the best companies of its peer group.

This entails that BankNordik:

- provides information about all relevant matters through Nasdaq OMX in a professional, timely and accurate manner; and
- distributes information in a structured and planned manner which ensures that all investors have equal access to information liable to influence the price of the shares

In continuation hereof, it is BankNordik's policy to:

- issue quarterly, semi-annual and annual financial statements;
- issue annual reports including a detailed management report;
- respond promptly and appropriately to all inquiries from investors and other stakeholders;
- proactively seek to inform all investors and other stakeholders about relevant events and developments regarding the Bank; and
- regularly host conference calls, produce audio and webcasts and keep the IR website current with all relevant information

The IR policy was approved by the Bank's Board of Directors on 23 February 2012. BankNordik has implemented its Investor Relations policy in an internal directive, defining the distribution of services and procedures in relation thereto, ensuring that the Bank's general practice at any time meets the ethical exchange regulations and the VMF/ICEX and OMX/Nastaq OMX Copenhagen requirements and guidelines.

The Bank's CFO is Head of IR and responsible for upholding the standards described in this policy. IR can be contacted by e-mail: ir@banknordik.fo or phone +298 330 330.

IR activities

In 2011, the Executive Board attended investor meetings and roadshows in the following cities: Tórshavn, Copenhagen and Reykjavik. Roadshows were primarily held in connection with the publication of the Bank's interim and annual reports and the issue of hybrid core capital and subordinated loan capital in June 2011.

In order to ensure liquidity in the BankNordik share, the Bank has entered into a market-making agreement with Danske Bank regarding trading in the Bank's shares on Nasdaq OMX Copenhagen.

BankNordik share

Share capital

BankNordik shares are listed on Nasdaq OMX Iceland and Nasdaq OMX Copenhagen. The BankNordik share is part of the MidCap+ index in Copenhagen and of the OMXI6 index in Iceland. BankNordik's share capital consists of 10,000,000 shares of DKK 20 each for a total nominal value of DKK 200m. At the share price of DKK 81 at year-end 2011, the Bank's total market capitalisation was DKK 810m.

Voting restrictions

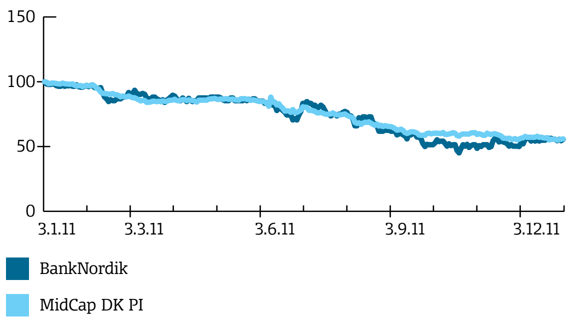
According to the Bank's Articles of Association, shareholders are entitled to attend as well as to speak, vote and have specific issues considered at general meetings, provided they observe a few simple formalities. The Bank has only one class of shares and no restrictions on shareholdings. However, no shareholder may, whether in respect of his own shares or when acting as a proxy for other shareholders, cast votes representing more than 10% of the total share capital, regardless of the shareholding. Proxy votes given to the Board of Directors are not subject to restrictions. Shareholders of the same group, as defined by applicable law, may not cast votes representing more than 10% in aggregate of the total share capital, regardless of their shareholdings.

Share price performance

The closing price of BankNordik's shares at 30 December 2011 on Nasdaq OMX Iceland was DKK 81 or about 44% lower than the closing price of DKK 144 at 30 December 2010. Turnover in the Bank's shares fell to DKK 53m in 2011 on Nasdaq OMX Copenhagen and to DKK 92m in 2011 on Nasdaq OMX Iceland compared to the 2010 turnover of DKK 372m on Nasdaq OMX Copenhagen and of DKK 280m on Nasdaq OMX Iceland.

Developments in the BankNordik share and the MidCap Index, excluding financial Institutions leaving the index during 2011, on OMX Nasdaq Copenhagen in 2011:

**BankNordik share vs.
OMX Copenhagen Bank Index**



Shareholder structure

In 2011, no changes were reported by shareholders holding 5% or more of the Bank's shares, and at the time of publication of the Annual Report 2011, the following shareholders had notified the relevant authorities that they held 5% or more of the Bank's shares:

- Fíggingargrunnurin frá 1992
  (Faroese Government)
- Wellington Management Company (US)

The Board of Directors has been authorised to allow the Bank to acquire up to 10% of the Bank's nominal share capital in the period until the next annual general meeting. On 31 December 2011, BankNordik held 1.37% of the share capital.

Country	% of nominal shareholdings
Faroe Islands	52
Iceland	21
U.S.A.	14
Denmark	8
Other	5
Total	**100**

On 31 December 2011, the Financing Fund of 1992 ("The Fund"), which is controlled by the Faroese Government (Føroya Landstýri), held 33.42% of the Bank's shares. Apart from the Fund, the Bank's shareholders included a number of institutional investors, primarily based in Iceland, Denmark and the U.S.

Dividend

Dividend policy

Pursuant to the Faroese Companies Act, a general meeting must authorise the distribution of dividends on the basis of the adopted annual financial statements for the most recent financial year. The shareholders in general meeting cannot authorise a payment of dividends exceeding the amount recommended by a company's board of directors.

It is the Group's general dividend policy to pay out 30% of earnings as dividends.

However, the Bank has invested considerably in acquisitions in order to build up a stronger and bigger business platform that will be able to produce better profits in the future and this has affected dividend payments. The acquisitions have increased the Group's capital requirement and the Group issued DKK 180m of hybrid core capital and DKK 420m of subordinated loan capital in June 2011 when acquiring the healthy parts of the Danish bank Amagerbanken. In this connection the Bank agreed to limit its dividend payments to 10% of the annual net profit up to a maximum of DKK 10 million per year, as long as the core capital ratio, excluding hybrid core capital, is less than 10%. At the end of 2011, the Bank's core capital ratio excluding hybrid core capital was 9%.

It is important to improve the Bank's core capital ratio and in the announcement from 13th Decem-

Financial calendar 2012

February 28 – March 20 2012	Silent period*
March 20, 2012	**Announcement of Annual Report 2011**
March 30, 2012	**Annual general meeting**
April 25 – May 15, 2012	Silent period*
May 15, 2012	**Announcement of Interim Report – First Quarter 2012**
July 27 – August 17, 2012	Silent period*
August 17, 2011	**Announcement of Interim Report - First Half 2012**
October 23 – November 13, 2012	Silent period*
November 13, 2012	**Announcement of Interim Report – First nine months 2012**

*A period of three weeks prior to announcement

> The Group however maintains a firm dividend policy going forward, but in the comming years priority will be given to redeem the hybrid and subordinated capital

ber 2011 the target for the core capital (exclusive of hybrid loan capital) was set at 12 per cent. It is the Group's intention to build up the core capital through retained earnings and to utilize a large part of the coming years profits to redeem the hybrid core capital and subordinated loan capital issued in June 2011 along with the DKK 203m hybrid core capital obtained from the Danish State in 2009. Paying down the debt will furthermore improve the Group's earnings in the years to come, since the interest on the hybrid and subordinated capital is more than 9% on average.

The Group will maintain a firm dividend policy going forward, but in the coming years priority will be given to redeeming the hybrid and subordinated capital. For the next three to five years, the Bank expects the dividend pay-out ratio to be well below 30%.

Actual future dividend payments will depend on a number of factors, including, but not limited to, BankNordik's future earnings, capital requirements, financial position and prospects, applicable restrictions on the payment of dividends under Faroese law and relevant sector legislation, as well as other factors that the Bank's Board of Directors may consider relevant. There can be no assurance that dividends will be proposed or declared in any given year.

Recent dividend payments
The Bank has paid the following dividends in recent years: DKK 40m in 2011, DKK 0 in 2010, DKK 0 in 2009, DKK 45m in 2008, DKK 0 in 2007 and DKK 600m in 2006.

Dividend payments in 2012
With reference to the above, the Board of Directors will propose at the forthcoming Annual General Meeting that no dividends be paid in 2012.

Annual general meeting

The Articles of Association and statutory provisions set the framework for the management of the Bank and the general meeting. Any amendment to the Articles of Association must be adopted by the shareholders in general meeting.

The Board of Directors considers a minimum of 8 days and a maximum of 4 weeks to be reasonable notice of general meetings to the shareholders, but in order to comply with the new Faroese Companies Act, the Board of Directors will increase the minimum notice to 3 weeks and the maximum notice to 5 weeks with effect for general meetings held after the annual general meeting of 2012. Notifications on general meetings are published by announcement through the Nasdaq OMX News System and the Faroese Company Registration Authority's website respectively, as well as in Dimmalætting (Faroese newspaper) and in one or more other Faroese newspapers.

Amendment of the Articles of Association
Resolutions to amend the Articles of Association or dissolve the Bank require the proposal to be adopted by at least two thirds of both the votes cast and the share capital represented at a general meeting.

Annual general meeting 2012
The annual general meeting will be held on 30 March 2012 in Tórshavn, Faroe Islands.

At the annual general meeting, the Board of Directors

Corporate governance statement

Corporate governance recommendations
The overall aim of BankNordik's corporate governance policy is to ensure responsible corporate management and to safeguard the interests of the Bank's shareholders, customers and employees. Corporate governance at BankNordik provides the framework under which the Bank is directed and managed, and the relationships between the Bank's Executive Board, Board of Directors, its shareholders and other stakeholders.

BankNordik has a dual listing on Nasdaq OMX, in Iceland and Copenhagen, respectively; with Iceland as the primary listing. Accordingly, the corporate governance principles comply with the Icelandic corporate governance recommendations as issued by Nasdaq OMX Iceland and which can be found on www.nasdaqomx.com/listingcenter/nordicmarket/surveillance/iceland/. The Bank follows most of the recommendations. Where the Bank does not comply, the reasons for the deviations are explained according to the guidelines set out in the recommendations.

Management structure
The Bank's management structure reflects the statutory requirements governing Faroese companies in general and financial institutions in particular. The shareholders in general meeting elect the members of the Board of Directors and the independent auditors. The Board of Directors appoints the Executive Board, the internal Chief auditor and determines their remuneration. According to the Faroese Financial Business Act, members of the Executive Board may not serve on the Board of Directors.

Recruitment and assessment of Board members
The Board of Directors currently comprises six members. According to the Articles of Association, four to six members of the Board of Directors are elected by the shareholders at the annual general meeting to hold office until the next annual general meeting. The age limit for election and re-election to the Board of Directors is 70 years. Pursuant to the statutory provisions on employee representation in Faroese legislation, the employees are entitled to elect a number of representatives to serve on the Board of Directors for four-year terms. The two current employee representatives on the Board were elected by the Bank's employees in the Faroe Islands, Denmark and Greenland in May 2010, which implies that their term of office expires immediately after the annual general meeting to be held in 2014.

The Board of Directors assesses the work of the Board of Directors. The Board members possess the necessary qualifications to be able to fulfil their duties and they complement each other in terms of expertise, qualifications and skills.

The Board of Directors, the Executive Board and sub-committees of the Board of Directors
According to the division of decision-making powers, the Board of Directors outlines the overall principles governing the affairs of BankNordik, whereas the Executive Board is in charge of day-to-day management and reports to the Board of Directors. The rules of procedure for the Board of Directors and the written instructions from the Board of Directors to the Executive Board stipulate the exact division of duties and responsibilities. The rules of procedure of the Board of Directors or the written instructions from the Board of Directors to the Executive Board are not available to the public.

The Board of Directors has established an Audit Com-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mittee consisting of the entire Board of Directors. The Audit Committee primarily evaluates the Bank's procedures in respect of preparing financial statements.

Further, the Board of Directors has established a Remuneration Committee consisting of the chairman and deputy chairman of the Board of Directors.

Due to the high frequency of Board meetings and the close collaboration with the Executive Board, the Board of Directors has not found it necessary or relevant to establish any further sub-committees.

The Board of Directors convenes for at least ten regular meetings per year, the Audit Committee convenes at least four meetings per year and the Remuneration Committee convenes at least one meeting per year. In 2011, the Board of Directors held 21 meetings, the Audit Committee four and the Remuneration Committee one meeting. One week prior to the Board and Audit Committee meetings, the Board and Committee members receive the relevant material for the upcoming meeting, including for information on financial matters and recent developments in the Bank. In addition, two strategy seminars are conducted annually, the most recent one of which was held in November 2011.

For detailed information on each member of the Board of Directors and Executive Board and on the attendance of each Board and sub-committee member, see "Management and directorship".

The Board of Directors recognizes the need for a regular assessment of the Board of Directors and Executive Management and their interaction. Therefore, the Board of Directors carries out a self evaluation and evaluations of the Executive Board on annual basis, and through regular meetings and close collaboration, including by working with the Executive Board, the Board of Directors on a regular basis discusses results achieved and obtains a clear picture of the Bank's operations, financial situation and outlook.

Independence of Board members

The Board of Directors has considered whether the Board members are independent of the Bank or major shareholders and has concluded that the following members are not considered independent for the following reasons:

- Nils S. Sørensen: Is a member of the board of Fíggingargrunnurin frá 1992
- Mette Dahl Christensen: Is an employee of the Bank
- Kenneth Samuelsen: Is an employee of the Bank

Remuneration

The members of the Board of Directors and Executive Board of BankNordik receive a fixed fee and do not share in any incentive or performance-related payments. In addition, the members of the Executive Board are part of a pension scheme.

Additional information on the remuneration of the Board of Directors, the Executive Board, and other executives can be found in note 9 to the Groups financial statements.

For more information on the Bank's remuneration policy, see the Bank's website www.banknordik.fo.

Risk Management

The Board of Directors always gives the Bank's diverse risks and the aggregated risk profile its full at-

tention, and follows up on risks on a regular basis. The Board of Directors maintains a steady and close cooperation with the Bank's internal and external auditors. The Bank's current external auditors are NOTA P/F and PricewaterhouseCoopers. For further information on the Bank's risk management, see the Group's Risk Management Report 2011 on www.banknordik.fo.

Values, code of ethics and corporate social responsibility policy

'Proactive, competent and committed' are the core values upon which the Bank conducts its business, and the Bank aims to act as a responsible party towards all stakeholders. Due to the Bank's size no written code of ethics or social responsibility policy has been prepared.

The Group, however, focuses on its social responsibility as set out in "Corporate Social Responsibility" below.

Information on violations of laws and regulations as determined by the appropriate supervisory or ruling body

The Danish Financial Supervisory Authority ("FSA") conducted an ordinary inspection of BankNordik during the period from 20 June to 1 July 2011, i.e. after the publication on 19 May 2011 of the agreement regarding the acquisition of the healthy parts of Amagerbanken, but prior to the implementation of the acquisition effective 1 July 2011.

The FSA found the quality of credits of BankNordik to be above average among the medium-sized banks (category 2). This applied to all three geographic areas of activity: The Faroe Islands, Denmark and Greenland. Only in respect of one single exposure did the FSA find it necessary to increase impairment charges, by an amount of DKK 1.6 million.

In addition, the FSA pointed out various errors and misunderstandings regarding the Bank's previous calculations of the solvency requirement. The issues identified were corrected in connection with the publication on 22 August 2011 of the Interim Report for the second quarter of 2011. The FSA also issued various orders and risk notifications to the Bank regarding management, credit control and IT security.

In 2011, the FSA also performed an accounting review of the Group's Annual Report 2010 resulting in the following corrections to the Group's Annual Report 2010:

- a correction to the presentation of impairment charges in connection with the acquisition of the Sparbank branches as the impairment charges are not part of "Impairment charges on loans and advances etc." in the balance sheet but must be classified as a reduction of amortised cost. Accordingly, reversals of impairment charges will be classified as "Other operating income" in the 2010 income statement and not as part of "Impairment charges on loans and advances etc.";
- a correction to the cash flow statement disclosing the dividends received; and
- a correction of the disclosure of transactions with related parties to include transactions with subsidiaries.

Communication between shareholders and the Board

Shareholders can communicate with the Board of Directors via ordinary mail or if accepted by the shareholder via e-mail through the head office of the Bank in Tórshavn, Faroe Islands.

Corporate social responsibility

With more than 600 employees on 26 locations in four countries and a variety of financial services and loan engagements, the BankNordik Group plays an important role to many stakeholders. The Management of the Group fully acknowledges the accompanying responsibility, and is constantly focusing on conducting the Company's business activities in accordance to its corporate social responsibility towards customers, employees, investors, business partners and the societies it operates in.

Leading by values

The Group's CSR initiatives have not yet been formalised in a Corporate Social Responsibility policy, The strategic foundation for the BankNordik Group's business and CSR activities is the Group's vision to be the best to create financial partnerships, it's mission to make it financially possible for its customers to utilize their full potential and its three core values: Proactive, competent and committed, and the Group aims to act as a responsible party towards all stakeholders in accordance to this.

In recent years, the BankNordik Group has mainly focused on two key areas in its CSR activities; support of local community activities and employee care.

Support of local community activities

Active local partnerships
The Group focuses on being an active partner in local and regional associations, upcoming businesses, sporting and cultural life in communities in which the Group's branches and activities are situated.

BankNordik has always been strongly anchored in the Faroese community throughout its more than 100-year history, and it is a natural part of the Group's business to support local development in the Faroe Islands. With the expansion of operations in Denmark in 2011, BankNordik has become even more focused on supporting local events in the communities in which we operate. Therefore, it is the Group's firm determination to expand this concept of support to the local communities to its new markets in Denmark, Greenland and Iceland.

Sports and cultural activities
During the past year, BankNordik has sponsored community initiatives through a range of sports and cultural activities. In recognition of sports clubs being vital for community cohesion, BankNordik has chosen to support a wide range of local sports initiatives. These range from volleyball, handball and football to swimming, gymnastics, cycling and running. In determining which areas to support, BankNordik have prioritized supporting sports clubs which have a broad appeal, ranging from young children to senior citizens.

Business entrepreneurship
In order to encourage entrepreneurship in its early stages, a three-year sponsorship contract was signed with the Faroese Entrepreneurship House in 2010. This organisation offers free guidance, expert advice and support to entrepreneurs who have an ambition

to grow or expand internationally. BankNordik is keen to support various initiatives aimed at improving business conditions and business competencies within a range of industries. Such initiatives include supporting conferences and seminars.

Employee care

BankNordik's core values play a large role in the HR strategy and are practiced on a day-to-day basis by the Group when recruiting, developing, retaining and phasing out employees.

A healthy workplace

In 2011, the Group conducted a workplace assessment survey for all banking units. The results will be analysed in the spring of 2012, after which the focal areas for 2012 will be determined for the bank in general and for the individual units. It is of great importance that the working environment is aligned with individual employee needs for general safety, spacing, lighting, level of noise, ergonomic considerations and complies with corresponding regulations.

Flexibility for senior employees

In 2012, the Bank aims to review and implement a new, updated senior policy in order to give the Bank's senior employees greater working flexibility during their final years on the labour market in preparation for life as a pensioner.

Focus on employee satisfaction

The Group focuses on organizing events that enhance employee motivation and engages them in a meaningful way. Every year, except 2011, the Group conducts an employee satisfaction survey in which the values are integrated. Initiatives are monitored and measured on a regular basis in order to provide the management with information on how employees thrive. The survey is also used to plan corrective measures in case developments do not match the desired results.

Our goal is to maintain and improve the satisfaction values amongst our staff. We want our employees to thrive, to be proactive and committed in order that they can maintain and improve a positive customer relations. In the efforts to support employee satisfaction, the Bank arranges employee days, where the agenda typically spans activities of both a professional and a social nature.

Company announcements 2011

1	4. Jan. 11	BankNordik - Stock exchange announcement
2	21. Jan. 11	BankNordik has indicated an interest in acquiring 50% of the share capital of the Faroese life assurance company P/F Føroya Lívstrygging
3	28. Jan. 11	BankNordik repays loans before due date
4	7. Feb. 11	Buying of Shares
5	15. Feb. 11	Pimco reduce their holding in BankNordik below 5%
6	16. Feb. 11	Moody´s downgrades a number of Danish banks' senior ratings following reduction of systemic support
7	28. Feb. 11	BankNordik - Annual Report 2010 and Conference Call
8	2. Mar. 11	Change in Executive Board at BankNordik
9	7. Mar. 11	Annual Report 2010
10	15. Mar. 11	Annual General Meeting 2011 - P/F BankNordik
11	16. Mar. 11	BankNordik - Proposed dividend 2011 - Payment details
12	23. Mar. 11	Insider's dealing
13	23. Mar. 11	Insider's dealing
14	23. Mar. 11	Insider's dealing
15	25. Mar. 11	Annual General Meeting of P/F BankNordik
16	31. Mar. 11	BankNordik repays issued bonds before due date
17	12. Apr. 11	Insiders dealing
18	5. May. 11	BankNordik acquires 50% of a life insurance company
19	16. May. 11	BankNordik bids on healthy parts of Amagerbanken
20	17. May. 11	Cautiousness among the customers resulted in limited credit demands and lower core earnings for BankNordik in the first quarter
21	18. May. 11	BankNordik acquires healthy parts of Amagerbanken
22	19. May. 11	On February 16th 2011 Moody's initiated a review for possible down grade of the Danish Bank sector incl. BankNordik following the use of the Bank Package III on Amagerbanken
23	31. May. 11	Moody's puts ratings under review
24	6. Jun. 11	BankNordik strengthens its executive management
25	20. Jun. 11	BankNordik strengthens the capital by DKK 600 million
26	28. Jun. 11	Permission to P/F BankNordik acquisition of branches of Amagerbanken 2011 A/S
27	28. Jun. 11	Correction: Acquisition of Amagerbanken approved by Danish FSA
28	30. Jun. 11	BankNordik repays DKK 500 millions in loans with Government Guarantee - ISIN code DK0030245121
29	1. Jul. 11	Amagerbanken is now a part of BankNordik
30	15. Aug. 11	H1 2011 Interim Report and Conference Call
31	22. Aug. 11	BankNordik maintains half-year result at DKK 49 million
32	22. Aug. 11	Insiders dealing
33	15. Sep. 11	Insiders dealing
34	21. Sep. 11	Moody´s has concluded its review of BankNordik's ratings following the acquisition of the healthy parts of Danish bank Amagerbanken
35	27. Sep. 11	BankNordik repays DKK 500 millions in loans with Government Guarantee - ISIN code DK0030245121
36	30. Sep. 11	Correction to announcement "BankNordik repays DKK 500 millions in loans with Government Guarantee - ISIN code DK0030245121"
37	7. Oct. 11	Change in Outlook 2011
38	9. Oct. 11	Correction to change in Outlook 2011
39	20. Oct. 11	Announcement of prospectuses in respect of listing of hybrid core capital and subordinated loan capital issued by P/F BankNordik
40	9. Nov. 11	Q3 2011 Interim Report - meeting and conference call
41	13. Nov. 11	Supplementary / corrective disclosures regarding the annual report 2010
42	14. Nov. 11	BankNordik achieved an interim result of DKK 71m
43	23. Nov. 11	Moody's credit opinion following Q3 2011
44	24. Nov. 11	Change of Internal Audit Manager in BankNordik
45	9. Dec. 11	The Danish FSA's ordinary inspection of BankNordik
46	13. Dec. 11	BankNordik announces positive outlook for 2012 and financial goals for the next three years
47	16. Dec. 11	BankNordik's Financial Calendar 2012


BANKNORDIK

Management and directorships

Board of directors

Klaus Rasmussen (Chairman)	
Educational background:	MSc Business Management and Accounting and MSc in Economics State Authorized Public Accountant
Principal occupation:	Self-employed
Principal board positions held:	Chairman of the board of: P/F BankNordik, P/F Effo, P/F Effo Bunkers, P/F Vónin, P/F VON and Refa Frøystad Group Board member of Qalut Vónin A/S
First elected to the Board in:	2008
Address:	Øresundsvej 126 B, 2. sal, 2300 Copenhagen S, Denmark
Attendency in board meetings/ Audit committee meetings/ remuneration committee meetings:	21/4/1

Jens Erik Christensen (Deputy Chairman)	
Educational background:	MSc Actuarial Science
Principal occupation:	Self-employed, works with business development through the Investment Company Sapere Aude A/S
Principal board positions held:	Chairman of the board of: Dansk Merchant Capital A/S, SPEAS Scandinavian Private Equity A/S, EcsAct A/S, Core Strategy A/S, Casa Invest Retail 1, Nemi Forsikring A/S, Doctorservice A/S, Sapere Aude ApS, Vörður Tryggingar hf, Vörður Líftryggingar hf, Alpha Holding A/S, Your Pension Management Luxembourg SA, Your Pension Savings Association ASSEP, Tower Group A/S and K/S Habro-Reading Board member of: P/F BankNordik, P/F TRYGD, SAS AB (Audit Committee), Andersen & Martini A/S (Audit Committee), Lægernes Pensionsbank, Lægernes Pensionskasse, Nordic Corporate Investments Hugin Expert A/S, mBox A/S, AON Denmark A/S (Advisory Board), Skandia Liv AB, TK Development A/S, Nordic Insurance Management A/S, Mermaid (eksekutivkomiteen), Trition Management AS, Corporate Investments, A/S Amrop A/S, Hugin Expert A/S, mBox A/S.
First elected to the Board in:	2007
Address:	Maglevænget 7, 2920 Charlottenlund, Denmark
Attendency in board meetings/ Audit committee meetings/ remuneration committee meetings:	16/2/1

Keld Søndergaard Holm	
Educational background:	MSc Economics and a Graduate Diploma Programme in Finance (HD-F)
Principal occupation:	Managing director and partner of Adverti Consulting
Board positions held:	Board member of P/F BankNordik, Public Affairs Group A/S, the Copenhagen Institute for Future Studies and the Danish Acadamy for Future Studies
First elected to the Board in:	2008
Address:	Holmegårdsvej 5, 2920 Charlottenlund, Denmark
Attendency in board meetings/ Audit committee meetings:	19/4

Nils Sørensen	
Educational background:	BSc. from Copenhagen Business School and a MBA from Lancaster University
Principal occupation:	Managing director of Greenland Oil Company A/S and Faroe Petroleum (Føroya Kolvetni P/F)
Board positions held:	Board member of: P/F BankNordik, Greenland Oil Company A/S, Finansieringsfonden af 1992 and Føroya Kolvetni P/F (Faroe Petroleum, Faroes)
First elected to the Board in:	2010
Address:	Birnugøta 41, 100 Tórshavn, Faroe Islands
Attendency in board meetings/ Audit committee meetings:	19/2

Kenneth Samuelsen	
Educational background:	Financial traineeship
Principal occupation:	Employed at BankNordik's Business Development unit, Faroe Islands
Board positions held:	Board member of: P/F BankNordik
First elected to the Board in:	2010
Address:	Áarrás 8, 160 Argir, Faroe Islands
Attendency in board meetings/ Audit committee meetings:	16/4

Mette Dahl Christensen	
Educational background:	Financial traineeship and various internet counsel programmes
Principal occupation:	Employed at BankNordik's Danish Staff and Support unit
Board positions held:	Board member of: P/F BankNordik
First elected to the Board in:	2010
Address:	Tordrupvej 17, Vester Nebel, 6040 Egtved, Denmark
Attendency in board meetings/ Audit committee meetings:	19/4

Executive board

Janus Petersen (CEO)	
Educational background:	Master Degree in Law, LL.M, and a MSc in Economics from the University of Copenhagen
Principal occupation:	CEO of P/F BankNordik
Board positions held:	Chairman of the board of: P/F Trygd Board member of: Vörður Tryggingar hf, Vörður Líftryggingar hf, P/F Elektron, Skandinavisk Datacenter A/S and BI Holding A/S Chairman of the Faroese Association of Employers in the Financial Sector (Arbeiðsgevara-Felagið fyri fíggjarstovnar) and vice chairman Faroese Banking Association (Felagið Peningastovnar)
Date of joining the Executive Board:	1994
Address:	Varðabú 1, 100 Tórshavn, Faroe Islands

John Rajani (Deputy CEO)	
Educational background:	MBA from Lancaster University and BSc. in Economics from Copenhagen Business School
Principal occupation:	Deputy CEO of P/F BankNordik
Board position held	Chairman of the board of: P/F Skyn
Date of joining the executive board:	2011
Address:	Áarrás 6, 160 Argir, Faroe Islands

Employees

2011 was a year of extensive changes for the organization.

As mentioned on page 48, the Bank made some changes in the executive board in March 2011. Managing director, Súni Schwartz Jacobsen, left the company and John Rajani was appointed new Deputy CEO.

As from 1st of July the overall organization structure was reorganized and the management team strengthened (regarding the organizational structure, see page 49).

In July 2011 the Bank acquired 20 branches in Denmark from former Amagerbanken and thereby increased the number of employees by 200. The total number of employees within the Group was 612 FTE at the end of 2011.

In the Faroe Islands, the branch structure was reorganized through 2011, and the number of branches was reduced from 9 to 5.

As shown in the table the number of employees in the Faroe Islands has decreased in 2011. Even though the growth in the total number of employees in the group in 2011 comes from the acquisition in Denmark other changes in the Danish branch structure in 2011 resulted in fewer employees in the areas affected by the changes. The total number of employees in the other areas in the group has been stable throughout 2011.

The acquisition of branches in 2011 didn't change the average age and the average seniority of the employees in the Group as the table indicates. However, the Group has now a larger share of younger employees and the share of male employees has increased a bit.

As in 2010, when the Bank first acquired some branches in Denmark and Greenland, the new employees in Denmark have now been introduced to new colleagues, cultures and business processes.

One of HR's main focus areas in 2011 has been the integration process of the new employees. In the past six months the banks corporate values – to be competent, committed and proactive –, together with our vision and mission statement, has been explained and interpreted to the employees.

Going forward, the integration of the employees will continue to be one of HR's main focus areas where the plan for 2012 includes educational and social activities as well as continued focus on business processes and a cost effective organization.

An important condition in the course of reaching the group's main goals is satisfied employees. We want our employees to be proactive and committed and thereby contribute to positive customer relations and good results. The employees' thrive is therefore continually in focus and the bank has implemented two annual tools in order to monitor this: the employee job satisfaction survey and the annual employee interview.

BankNordik is now a Nordic bank with activities in four different countries. This gives the employees the opportunity to work in another country for a shorter or longer period, while still being employed in the same bank. An opportunity that will develop the individual employee and at the same time being a benefit to the integration and the employees' feeling of being part of one bank, one culture.

» An important condition in the course of reaching the group's main goals is satisfied employees «

Number of employees, by area

Full-time equivalents (FTE)	Year-end 2011	Year-end 2010
BankNordik Faroe Islands	203	216
BankNordik Denmark	297	110
BankNordik Greenland	29	27
Trygd	24	24
Skyn	4	4
Vörður	55	52
Group in total	612	433

HR Fact sheet

Employees in banking, insurance and real estate*

	Group year-end 2011	Group year-end 2010
Age and seniority		
Average age	43.2	43.8
Average seniority	11.9	11.74
Staff mix		
<30	18%	16%
30-39	22%	19%
40-49	27%	33%
>50	33%	32%
Gender distribution		
Male, %	41.2	38.7
Female, %	58.8	61.3

*Vörður excl.

Financial statement BankNordik Group

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Income statement – BankNordik Group

Note	DKK 1,000	2011	2010
3	Interest income	749,462	673,994
3	Interest expenses	202,457	194,474
	Net interest income	**547,005**	**479,520**
3	Dividends from shares and other investments	5,749	16,653
4	Fee and commission income	143,950	96,368
4	Fee and commissions paid	16,050	3,522
	Net interest and fee income	**680,654**	**589,019**
5	Premium income, net of reinsurance	266,065	243,311
6	Claims, net of reinsurance	211,714	188,651
	Interest and fee income and income from insurance activities, net	**735,006**	**643,679**
3	Market value adjustments	9,761	16,914
7	Other operating income	26,862	420,528
8, 9, 10	Staff costs and administrative expenses	597,263	456,629
11	Amortisation, depreciation and impairment charges	21,178	15,451
12	Other operating expenses	20,695	32,823
13	Impairment charges on loans and advances etc.	100,806	200,233
	Income from associated undertakings	-998	8,646
	Profit before tax	**30,689**	**384,632**
14	Tax	-1,283	71,890
	Net profit	**31,971**	**312,743**
	Portion attributable to		
	Shareholders of BankNordik P/F	31,671	307,484
	Non-controlling interests	300	5,258
	Net profit	**31,971**	**312,743**
	EPS Basic for the period, DKK*	3.23	32.17
	EPS Diluted for the period, DKK *	3.23	32.17

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

Statement of comprehensive income – BankNordik Group

DKK 1,000	2011	2010
Net profit	31,971	312,743
Other comprehensive income		
Translation of non-Faroese subsidiaries	-5,177	12,910
Corrections	-36,906	-2,393
Tax on other comprehensive income	-255	1,066
Total other comprehensive income	**-42,338**	**9,451**
Total comprehensive income	**-10,367**	**322,194**
Portion attributable to		
Shareholders of BankNordik P/F	26,425	323,596
Non-controlling interests	-36,792	-1,402
Total comprehensive income	**-10,367**	**322,194**

Balance Sheet – BankNordik Group

Note	DKK 1,000	2011	2010
	Assets		
15	Cash in hand and demand deposits with central banks	308,951	242,382
	Due from credit institutions and central banks	461,091	513,959
16	Loans and advances at fair value	1,022,408	1,013,704
17	Loans and advances at amortised cost	10,746,484	7,660,959
18	Bonds at fair value	2,508,938	3,497,466
19	Shares, etc.	365,334	308,490
20	Assets under insurance contracts	93,558	90,321
21	Holdings in associates	32,586	33,471
22	Intangible assets	801,957	407,732
42	Assets under pooled schemes	121,210	53,651
	Total land and buildings	217,281	140,396
23	investment property	2,500	2,500
24	domicile property	214,781	137,896
25	Other property, plant and equipment	31,446	16,362
	Current tax assets	6,356	6,452
26	Deferred tax assets	22,105	27,153
27	Assets held for sale	168,980	160,794
28	Other assets	155,363	58,683
	Prepayments	22,309	11,383
	Total assets	**17,086,357**	**14,243,358**

Balance Sheet – BankNordik Group

Note	DKK 1,000	2011	2010
	Shareholders' equity and liabilities		
	Liabilities other than provisions and subordinated debt		
	Due to credit institutions and central banks	329,316	245,249
	Deposits and other debt	12,910,837	8,790,321
42	Deposits under pooled schemes	121,210	53,651
	Issued bonds at amortised cost	98,276	2,199,843
29, 43	Liabilities under insurance contracts	353,324	321,833
	Current tax liabilities	10,247	71,977
30	Other liabilities	410,515	302,684
	Deferred income	18,517	13,843
	Total liabilities other than provisions and subordinated debt	**14,252,243**	**11,999,400**
	Provisions for liabilities		
26	Provisions for deferred tax	14,192	18,953
31	Provisions for losses on guarantees	31,516	8,285
	Total provisions for liabilities	**45,707**	**27,238**
	Subordinated debt		
32	Subordinated debt	830,711	203,240
	Total liabilities	**15,128,662**	**12,229,878**
	Shareholders' equity		
	Share capital	200,000	200,000
	Foreign currency translation reserve	13,274	18,520
	Retained earnings	1,744,422	1,754,960
	Proposed dividends	0	40,000
	Shareholders' equity	**1,957,695**	**2,013,480**
	Shareholders of the Parent Company	1,952,013	1,971,006
	Non-controlling interests	5,682	42,474
	Total shareholders' equity	**1,957,695**	**2,013,480**
	Total liabilities and equity	**17,086,357**	**14,243,358**

Statement of capital – BankNordik Group

Changes in shareholders' equity:

DKK 1,000	Share capital	Foreign currency translation reserve	Proposed dividends	Retained earnings	Total	Minority interests	Total
	Shareholders of P/F BankNordik (the Parent Company)						
Shareholders' equity at January 1, 2011	200,000	18,520	40,000	1,712,486	1,971,006	42,475	2,013,480
Corrections	0	0	0	0	0	-36,906	-36,906
Translation of foreign units	0	-4,991	0	0	-4,991	-187	-5,177
Tax on entries on income recognised as Other comprehensive income	0	-255	0	0	-255	0	-255
Income recognised directly on shareholders' equity	0	-5,246	0	0	-5,246	-37,092	-42,338
Net profit	0	0		31,671	31,671	300	31,971
Total comprehensive income	**0**	**-5,246**	**0**	**31,671**	**26,425**	**-36,792**	**-10,367**
Acquisition of own shares	0	0	0	-34,769	-34,769	0	-34,769
Sale of own shares	0	0	0	28,839	28,839	0	28,839
Dividends payed	0	0	-40,000	512	-39,488	0	-39,488
Shareholders' equity at December 31, 2011	**200,000**	**13,274**	**0**	**1,738,739**	**1,952,013**	**5,682**	**1,957,695**

Shareholders' equity at January 1, 2010	200,000	14	0	1,419,230	1,619,245	43,877	1,663,122
Corrections	0	0	0	-2,393	-2,393	0	-2,393
Translation of foreign units	0	19,571	0	0	19,571	-6,661	12,910
Tax on entries on income recognised as Other comprehensive income	0	-1,066	0	0	-1,066	0	-1,066
Income recognised directly on shareholders' equity	0	18,505	0	-2,393	16,112	-6,661	9,451
Net profit	0	0	40,000	267,484	307,484	5,258	312,743
Total comprehensive income	**0**	**18,505**	**40,000**	**265,091**	**323,596**	**-1,402**	**322,194**
Acquisition of own shares	0	0	0	-221,607	-221,607	0	-221,607
Sale of own shares	0	0	0	249,772	249,772	0	249,772
Dividends payed	0	0	0	0	0	0	0
Shareholders' equity at December 31, 2010	**200,000**	**18,520**	**40,000**	**1,712,486**	**1,971,006**	**42,475**	**2,013,480**

Statement of capital – BankNordik Group

Shares

DKK 1,000	2011	2010
Net profit	**31,971**	**312,743**
Average number of shares outstanding	9,910	9,723
Number of dilutive shares issued	0	0
Average number of shares outstanding, including dilutive shares	**9,910**	**9,723**
Earnings per share, DKK	3.2	32.2
Diluted earnings per share, DKK	**3.2**	**32.2**

The share capital is made up of shares of a nominal value of DKK 20 each.
All shares carry the same rights. Thus there is only one class of shares.

Average number of shares outstanding:		
Issued shares at 1 January, numbers in 1,000	10,000	10,000
Increase in share capital	0	0
Issued shares at end of period	10,000	10,000
Shares outstanding at end of period	9,863	9,913
Group's average holding of own shares during the period	90	277
Average number of shares outstanding	**9,910**	**9,723**

Holding of own shares	Number 2011	Number 2010	Value 2011	Value 2010
Investment portfolio	27,245	27,245	2,147	3,923
Trading portfolio	110,027	60,030	8,672	8,644
Total	**137,272**	**87,275**	**10,820**	**12,568**

	Investment portfolio	Trading portfolio	Total 2011	Total 2010
Holding at 1 January	3,923	8,644	12,568	37,961
Acquisition of own shares	0	34,769	34,769	221,607
Sale of own shares	0	28,839	28,839	249,772
Value adjustment	-1,771	-5,907	-7,678	2,772
Holding at 31 December	**3,923**	**8,644**	**10,820**	**12,568**

Statement of capital – BankNordik Group

Solvency

DKK 1,000	2011	2010
Core capital	1,522,756	1,736,743
Base capital	1,921,288	1,715,597
Risk-weighted items not included in the trading portfolio	9,827,802	7,974,767
Risk-weighted items with market risk etc.	1,406,647	1,394,961
Risk-weighted items with operational risk	1,078,250	710,588
Total risk-weighted items	12,312,700	10,080,316
Core capital ratio	12.4%	17.2%
Solvency ratio	15.6%	17.0%
Core Capital and Shareholders' eguity		
Share capital	200,000	200,000
Reserves	56,472	48,814
Net profit	24,560	307,484
Retained earnings	1,666,845	1,414,708
Shareholders' equity	**1,947,877**	**1,971,006**
Deduction of net profit	0	0
Deduction of Foreign currency translation reserve	16,373	18,520
Deduction of intangible assets	779,964	397,977
Deduction of deferred tax assets	4	4
Deduction of insurance subsidiaries	30,520	21,074
Core capital exclusive of hybrid core capital	**1,121,016**	**1,533,504**
Hybrid core capital	**401,739**	**203,240**
Core capital	**1,522,756**	**1,736,743**
Base capital		
Core capital	1,522,756	1,736,671
Subordinated capital	429,052	0
Deduction of insurance subsidiaries	30,520	21,074
Base capital	**1,921,288**	**1,715,597**

The BankNordik Group holds a licence to operate as a bank and is therefore subject to a capital requirement under the Faroese Financial Business Act. The Faroese provisions on capital requirements apply to both the Parent Company and the Group. The capital requirement provisions stipulate a minimum capital of 8% of the identified risks. A detailed body of rules determines the calculation of capital as well as risks (risk-weighted items). The capital comprises core capital and subordinate capital. The core capital corresponds largely to the carrying amount of the equity, not including intangible assets, investments in insurance subsidiaries, holdings in credit institutions etc.

The difference between the carrying amount of equity and the core capital appears from the solvency statement below. Subordinate investments may, in certain circumstances, be included in the capital base. For details, see sections 124, 132 and 136 of the Faroese Financial Business Act. The subordinate capital is described in note 33. The capital management policy aims to ensure efficient use of capital in relation to risk tolerance and general business trends. The Group must have sufficient capital to meet the statutory capital requirements.

Cash flow statement – BankNordik Group

DKK 1,000	2011	2010
Cash flow from operations		
Net profit for the period	31,971	312,743
Result from associates	885	-8,646
Amortisation and impairment charges for intangible assets	13,657	7,706
Depreciation and impairment charges of tangible assets	7,521	7,744
Impairment of loans and advances/guarantees	101,328	129,299
Other adjustments	-5,749	-16,653
Paid tax	-58,207	-10,933
Other non-cash operating items	-98,567	19,014
Total	**-7,160**	**440,273**
Changes in operating capital		
Tax charged to the income statement	-1,283	71,890
Change in loans at fair value	32,802	-141,798
Change in loans at amortised cost	-3,615,103	-1,695,171
Change in holding of bonds	1,022,214	-2,220,815
Change in holding of shares	-73,668	-207,167
Change in deposits	4,182,337	3,357,422
Due to credit institutions and central banks	84,067	-1,253,279
Change in other assets / liabilities	-65,740	65,888
Assets/liabilities under insurance contracts	38,727	30,613
Prepayments	-9,681	-4,076
Cash flow from operations	**2,054,753**	**-1,556,221**
Cash flow from investing activities		
Sale of group undertakings and other business units	0	51,374
Dividends received	5,749	16,653
Acquisition of own shares	-34,769	-221,607
Sale of own shares	28,839	249,772
Acquisition of intangible assets	-391,100	-335,832
Acquisition of tangible assets	-102,403	-14,827
Sale of tangible assets	1,985	799
Cash flow from investing activities	**-491,700**	**-253,669**
Cash flow from financing activities		
Issue of bonds	0	1,200,000
Increase in subordinated debt	593,358	-45
Payment of dividends	-39,684	0
Repayment of issued bonds	-2,101,567	0
Cash flow from financing activities	**-1,547,893**	**1,199,955**
Change in cash and cash equivalents	**15,161**	**-609,935**
Cash in hand and demand deposits with central banks, and due from credit institutions, etc. at the beginning of the year	756,340	1,355,719
Foreign currency translation	-1,459	10,556
Cash flow	15,161	-609,935
Cash and cash equivalents at 31 December	**770,042**	**756,340**
Cash and cash equivalents at 31 December		
Cash in hand and demand deposits with central banks	**308,951**	**242,382**
Due from credit institutions, etc.	**461,091**	**513,959**
Total	**770,042**	**756,340**

Notes – BankNordik Group

Note

Significant accounting policies

1 **General**

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

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

Prior period adjustments

Certain items have been treated as prior period adjustments. These are described below.

IT operating costs classified as software in 2010

IT costs amounting to 40,381 TDKK were by error recognized as software in 2010. After depreciation of 8,390 TDKK, the carrying amount of the intangible assets reported as of 31 December 2010 was 31,991 TDKK.

Share of profit from associates

Income from associates has been calculated wrongly in 2010. income amounts to 8,646 TDKK whereas the reported amount is a loss of 3.519 TDKK

Other adjustments

Due to errors on data conversion various errors arose in 2010. The errors affect various income statement line items and result in a reduction in net profit of 11.284 TDKK and an additional effect directly on shareholders' equity regarding own shares of 2.393 TDKK

Notes – BankNordik Group

Note

1

(cont'd)

The impact of the 2010 comparative figures are as follows (is an additional expense or a decrease in income):

Income statement	
Market value adjustments	-3.124
Staff costs and administrative expenses	48.541
Depreciation and amortization	8.390
Income from associates	12.165
Profit before tax	-31.109
Tax	4.417
Profit for the year	**-26.692**
Reported profit for the year	339.435
Profit for the year, adjusted	312.743
Correction to earnings per share	- 2.74
Reported earnings per share, basic and diluted	34.91
Earnings per share basic and diluted, adjusted	**32.17**
Total comprehensive income as reported	351.279
Adjustment directly on shareholders' equity	-2.393
Adjustment to income statement	-26.692
Total comprehensive income, adjusted	**322.194**
Balance sheet	
Investments in associates	12.165
Intangible assets	-31.991
Deferred tax	4.417
Other liabilities	-13,677
Group equity and equity attributable to shareholders of the parent company	29.086
Total equity as reported	2,042,566
Group equity, adjusted	2,013,480

Classification of impairment losses and reversal of impairment losses on acquired loan portfolio

As a response to a draft to Decision of the Danish Securities Council BankNordik elected to issue supplementary/corrective disclosures regarding the annual report 2010 regarding classification of impairment losses and reversal of impairment losses related to the loan portfolio acquired as part of the Sparbank acquisition. The reclassifications have no impact on reported profit for 2010. The amounts are reclassified as follows: (- is an increase in an expense line item)

Other operating income	DKK	41,119
Impairment charges on loans and advances etc.	DKK	-33,119
Other operating expenses	DKK	-8,000
Net	**DKK**	**0**

Notes – BankNordik Group

Note A further description of the adjustments is set out in a separate document issued 12 November 2011.

1 (cont'd)

Estimates and assumptions

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

- impairment charges of loans and advances
- fair value of investment and domicile properties
- fair value of financial instruments
- business acquisitions
- 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.

Impairment charges of loans and advances

The Group makes impairment charges to account for impairment of loans and advances that occur after initial recognition. Impairment charges are based on a combination of individual and collective impairment and are subject to a number of estimates, including assessments of the loans and portfolio of loans where objective evidence of impairment exists, expected future cash flows and the value of collateral. The notes 13 and 17 provide details on the amounts recognised and the notes on risk management also provide more details on impairment charges for loans and advances.

Fair value of investment and domicile properties

The asset return model is used to measure real property at fair value. The future cash flows are based on the Group's best estimate of the future profit on ordinary operations and the required rate of return for each individual property when taking into account such factors as location and maintenance. Valuations from the Group's internal valuation experts are obtained to support such estimates regarding the investment properties. A number of these assumptions and estimates have a major impact on the calculations and include such parameters as developments in rent, costs and required rate of return. Any changes to these parameters as a result of changed market conditions will affect the expected return, and thus the fair value of the investment and domicile properties. The notes 23 and 24 provide details on the amounts recognised.

Fair value of financial instruments

The Group measures a number of financial instruments at fair value, including all derivative instruments as well as loans, 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

Notes – BankNordik Group

Note

1

(cont'd)

- assessing which market parameters are to be taken into account
- making estimates of future cash flows and return requirements for unlisted shares

The Group's loans and advances are not traded in an active market. Therefore there is no market price to determine the loans fair value. The fair value has to be determined using a valuation technique, which estimates the market price between qualified, willing and independent parties. The valuation technique has to include all the relevant elements such as credit risk, market rates etc. Note 3 and 16 provide details on the amounts recognised for loans measured at fair value.

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

If a reliable fair value cannot be identified, the investment will be valued at cost less any writedowns for impairment. Note 19 provide details on the amounts recognised.

Business acquisitions

When taking over parts of another company, the acquisition method must be applied for recognizing the assets, liabilities and contingent liabilities of the acquired company. There are no effective markets that can be used to determine the fair value of some of the acquired assets and liabilities. Consequently, the management makes estimates in connection with determining the fair values of the acquired assets, liabilities and contingent liabilities. The determination may be subject to uncertainty, depending on the nature of the item.

The unallocated purchase price (positive amounts) is recognised in the balance sheet as goodwill, which is allocated to the cash- generating units which are expected to benefit from the synergies. In this connection, the management makes an estimate of the cash-flow generating units acquired and the consequent goodwill allocation. Management believes that the allocation is based on documented estimates, taking into consideration the uncertainty attaching to the calculation of the acquired cash-flow generating units.

The difference between the carrying amounts stated in the preacquisition balance sheet of the acquired companies and the fair value of the identifiable assets and liabilities appears from note 38.

Goodwill is tested for impairment annually, based on an estimate of the future cash flows that is expected to be generated by the respective cash generating units. The basis for determining those cash flows is described in note 38.

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 nonperforming loan agreements.

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.

Notes – BankNordik Group

Note

New standards and interpretations in 2011 and new standards and interpretations not yet in force

1 (cont'd)

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011:

- Revised IAS 24 (revised), 'Related party disclosures',
- Annual Improvements 2010 containing minor amendments to a number of existing standards. Among others, IFRS 7 regarding disclosure of financial instruments has been amended.

The amended standards have no impact on recognition and measurement and limited impact on disclosure.

The following interpretations and amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2011 but are currently not relevant to the Group:

- Amendment to IAS 32, 'Classification of rights issues'
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments',

New standards, amendments and interpretations issued and endorsed by EU but not effective for the financial year beginning 1 January 2011 and not early adopted:

- Amendments to IFRS 7: "Disclosures – Transfers of Financial Assets"

The Group expects no significant impact on its accounting policies from adoption of these standards, amendments and interpretations.

New standards, amendments and interpretations issued and not yet endorsed by EU which are relevant for the Bank Nordic Group:

- IFRS 9, 'Financial instruments', issued in November 2009 and October 2010. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities.
- IFRS 10, Consolidated financial statements: The new standard replaces IAS 27's guidance regarding determination of when control over another entity exists.
- IFRS 12, Disclosure about interests in other entities: The new standard replaces and extends the disclosure requirements of IAS 27 on investments in subsidiaries, IAS 28 on investments in associates.
- IFRS 13, Fair value measurement: A general standard on determination of value which replaces current guidance in specific standard. The basic principle is that an asset is measured at the transaction price between a buyer and a seller whereas a liability is measured at the amount which a third party would charge as payment for undertaking the liability.
- Amendment to IFRS 7, "Disclosures – Offsetting Financial Assets and Financial Liabilities" introducing additional disclosure requirements regarding financial assets and liabilities which are offset in the financial statements and which can are not presented net but can be offset contingent on bankruptcy etc.
- Amendment to IAS 32, "Offsetting Financial Assets and Financial Liabilities" providing additional guidance regarding whether the criteria for offsetting financial assets and liabilities are met.

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

Note

Consolidation

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(cont'd)

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

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

Acquired subsidiaries are included from the date of acquisition.

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

Goodwill is recognised as follows:

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

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

The non-controlling shareholder of Vörður Tryggingar hf has informed BankNordik that it will exercise its option to require BankNordik to acquire the non-controlling shareholders' 416,500,000 shares in Vörður Tryggingar hf. BankNordik has accepted the exercise of the option, however, BankNordik and the non-controlling shareholder do not agree of the exercise price and, therefore, the acquisition has not been completed. The parties agree that the exercise price will be in the range of ISK 1,100,000,000 and ISK 1,600,000,000. Translated in to DKK using closing rate at year end 2011 the exercise price will be in the range of DKK 51.5m and DKK 74.9m. Following a completion of the transaction, BankNordik will hold 100% of the shares in Vörður Tryggingar hf.

The arrangement is accounted for as acquisition of the full share capital of Vörður Tryggingar hf, The obligation under the put option is recognised as a financial liability and treated as part of the cost price resulting in recognition of goodwill for the share of Vörður Tryggingar hf currently owned by non-controlling shareholders. A re-assessment of the expected purchase price is treated as contingent consideration under IFRS 3 (2004) resulting in adjustment to goodwill

Notes – BankNordik Group

Note Subsidiaries disposed off are included until the date of disposal.

1 (cont'd)

Segment information

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

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.

Foreign currency translation

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

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

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

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

Translation of foreign subsidiaries

Assets and liabilities of subsidiaries outside Faroe Islands and Denmark are translated into DKK at the exchange rates at the balance sheet date. Income and expenses are translated at the exchange rates at the date of transaction. Exchange rate gains and losses arising at the translation of net investments in foreign subsidiaries are recognised in other comprehensive income. Net investments include the net assets and goodwill of the units.

Offsetting

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

Notes – BankNordik Group

Note **Assets**

1 **Due from credit institutions and central banks**

(cont'd) 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.

Financial instruments – general (assets)

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.

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

Loans and advances measured at amortised cost

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

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

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

Impairment

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

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

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

Notes – BankNordik Group

Note

1

(cont'd)

If objective evidence of impairment of a loan, an advance or an amount due exists, and the impairment event or events effects the expected cash flow from the asset, and the effects on the expected cash flow is reliably measurable, the Group determines the impairment charge individually. The impairment charge equals the difference between the carrying amount and the present value of the most likely future cash flow from the asset, including the net realisable value of any collateral. The present value of fixed-rate loans and advances is calculated by discounting with the original effective interest rate, where as the present value of loans and advances with a variable rate of interest is calculated by discounting with the current effective interest rate.

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

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

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

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

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

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

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

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

Notes – BankNordik Group

Note

1 (cont'd)

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. All derivatives are part of the trading portfolio.

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

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

Determination of fair value

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

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

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

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

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

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

Determination of fair value of fixed-rate loans

The fair value of fixed-rate loans and loans capped is based on the fair value of related bonds adjusted for the credit risk on borrowers. When the loans are established a certain bond is related to the loan. If the borrower wants to prepay before the loan is due, the amount is determined by the market rate or the change in the market value on the related bond since the establishment of the loan.

Notes – BankNordik Group

Note

1

(cont'd)

The fair value adjustment of the loans and the related swaps is recognised under the item "Market value adjustments" except for the part of the adjustment that concerns the credit risk on the loans, which is recognised under the item "Impairment charges on loans and advances etc".

Determination of fair value of shares

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

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

Insurance activities – general

The Group's insurance activities comprise non-life insurance and life insurance. Non-life insurance is the material part of the insurance activities. The life-insurance part does not offer any savings products.

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.

Holdings in subsidiaries and associates

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

Subsidiaries are consolidated in the consolidated financial statements.

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.

Notes – BankNordik Group

Note

1

(cont'd)

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

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

Intangible assets

Goodwill

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

Goodwill on associated undertakings is recognised under Holdings in associates.

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

Customer relations

Customer relations taken over in connection with company acquisitions are recognised at cost and are amortised on a straight-line basis over the expected useful life, which does not exceed ten years. The expected useful life depends on customer loyalty.

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

Other intangible assets

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

Long-term cost are sale costs due to new insurances policies issued in the period. The objective is to match income and costs and the amount is amortised over three years according to the straight-line method.

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

Assets and deposits under pooled schemes

These items include assets and deposits under pooled schemes. Assets earmarked for customer savings are measured at fair value and recognised under "Assets under pooled schemes". Similarly deposits made

Notes – BankNordik Group

Note

by customers are recognised under "Deposits under pooled schemes". These deposits are measured at the value of savings.

1 (cont'd)

Land and buildings

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

Investment property

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

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

The fair value is assessed based on the asset return model. Also a valuation assessment is obtained by the Group's valuation experts once a year. The section on domicile property below explains the asset return model.

Domicile property

Domicile property is real property occupied by the Group's administrative departments, branches and other service units. Real property with both domicile and investment property elements is allocated proportionally to the two categories if the elements are separately sellable. If that is not the case, such real property is classified as domicile property, unless the Group occupies less than 10% of the total floorage.

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

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.

Value adjustments according to revaluations are recognised directly in equity. Depreciation and impairments are recognised in the income statement under the item "Depreciation and impairment of property, plant and equipment". Impairments are only recognised in the income statement to the extent that it cannot be offset in former period's revaluations.

Note

1

(cont'd)

Domicile property which, according to a publicly announced plan, is expected to be sold within twelve months is recognised as an asset held for sale. Real property taken over as part of the settlement of debt, not qualifying for recognising under assets held for sale, is recognised under Other assets.

Other property, plant and equipment

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

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

Assets held for sale

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

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.

Other assets

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

Liabilities and provisions

Financial instruments – general (liabilities)

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.

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

Due to credit institutions and central banks, issued bonds and deposits measured at amortised cost

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

Notes – BankNordik Group

Note

1

(cont'd)

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.

Trading portfolio measured at fair value

The trading portfolio includes financial liabilities acquired which the Group intends to sell or repurchase in the near term. All derivatives are part of the trading portfolio.

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.

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.

Liabilities under insurance contracts

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

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

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

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

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.

Notes – BankNordik Group

Note

1 (cont'd)

Provisions

Provisions include provisions for deferred tax, guarantees and other provisions for liabilities. Initial recognition of financial guarantees is at fair value which is often equal to the guarantee premium received. Subsequent measurement of financial guarantees is at the higher of the guarantee premium received amortised over the guarantee period and any provisions made.

A provision for a guarantee or an onerous contract is recognised if claims for payment under the guarantee or contract are probable and the liability can be measured reliably. Provisions are based on the management's best estimates of the size of the liabilities. Measurement of provisions includes discounting when significant.

Bonds issued / Subordinated debt

Bonds issued comprise the Group's issued bonds. 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.

Bonds issued and subordinated debts are recognised at the issue date or the date of borrowing, at the proceeds received less directly attributable transaction cost. Subsequently issued bonds and subordinated debt are measured at amortised cost as described under "Due to credit institutions and central banks, issued bonds and deposits measured at amortised cost".

Non closely related embedded derivatives are treated as described under "Due to credit institutions and central banks, issued bonds and deposits measured at amortised cost".

Equity

Foreign currency translation reserve

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

Non controlling interests

Non controlling interests' share of shareholders' equity equals the carrying amounts of the net assets in subsidiaries not owned by P/F BankNordik.

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.

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.

Notes – BankNordik Group

Note **Income statement**

1 **Income criteria**

(cont'd) 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.

Interest income and expenses

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

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

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

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 company's annual general meeting.

Fees and commission income

Fees and commission income comprises fees and commission income that is not included as part of the amortised cost of a financial instrument. The income is accrued during the service period. The income includes fees from securities dealing, money transmission services and loans as well as guarantee commission. Income from carrying out a given transaction is recognised as revenue once the transaction is complete.

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.

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.

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

Claims incurred comprise the claims incurred for the year adjusted for changes in provisions for claims corresponding to known and expected claims incurred for the year. In addition, the item includes run-off results regarding previous years.
Amounts to cover internal and external costs for inspecting, assessing and containing claims and other direct and indirect costs associated with the handling of claims incurred are included in this item.

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

Notes – BankNordik Group

Note

Market value adjustments

1 (cont'd)

Market value adjustments comprise all value adjustments of assets and liabilities that are measured at fair value, and exchange rate adjustments which are included in the income statement. Excluded is own credit risk on loans at fair value.

Other operating income

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

Staff costs

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

Pension obligations

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

Depreciation and impairment of property, plant and equipment

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

Other operating expenses

Other operating expenses include other expenses that are not ascribable to other income statement items.

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.

Tax

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

Tax for the year includes tax on taxable profit for the year, adjustment of deferred tax as well as adjustment of tax for previous years. Tax for the year is recognised in the income statement as regards the elements that can be attributed to profit for the year and directly in equity as regards the elements that can be attributed to items recognised directly in equity.
Current tax liabilities and current tax assets are recognised in the balance sheet as calculated tax on taxable profit for the year, adjusted for tax on taxable profit of previous years.

Provisions for deferred tax or deferred tax assets are based on the balance sheet liability method and include temporary differences between the carrying amounts and tax bases of the balance sheets of each consolidated entity

Notes – BankNordik Group

Note 1 (cont'd)

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 liabilities”.

Contingent liabilities

Cash flow statement

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

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

Notes – BankNordik Group

Note

Operating segments

2 As a consequence of the expansion to Denmark and Greenland the Group has decided to change the segment reporting from business reporting to geographical reporting. As a consequence of the change in the Group's segment reporting the comparative figures in 2010 have been changed accordingly.

The Group consists of three 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, Non-life insurance and Other.

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

Non-life insurance comprises the insurance companies Vörður Tryggingar hf and P/F TRYGD situated in Iceland and Faroe Islands respectively. Vörður and TRYGD are responsible for the Group's insurance products that relates to non-life insurance. Vörður and TRYGD targets individual and corporate customers with a full range of property and casualty products. Vörður distributes its operations through agreement with Lansbankin and through other independent brokerages in Iceland. 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, the venture company P/F Birting and the Icelandic life-insurance company Vörður Líftryggingar hf. These companies are very small and immaterial compared to the rest of the Group.

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

Notes – BankNordik Group

Note	Operating segments	Banking							
		Faroe Islands		Denmark		Greenland		Total	
2	DKK 1,000	2011	2010	2011	2010	2011	2010	2011	2010
	Interest income	465,345	501,328	268,168	124,455	56,250	55,843	789,763	681,626
	of wich internal interest income	0	0	48,620	18,258	0	0	48,620	18,258
	Interest expence	155,688	155,202	79,168	45,581	16,950	13,717	251,806	214,500
	of wich internal interest expence	45,369	15,906		0	5,055	4,140	50,424	20,046
	Net interest income	309,658	346,126	188,999	78,874	39,300	42,126	537,957	467,125
	Dividends from shares and other investments	1,340	6,937	0	0	0	0	1,340	6,937
	Net fee income	45,457	48,921	75,479	28,997	13,097	14,149	134,033	92,067
	Premium income, net of reinsurance	0	0	0	0	0	0	0	0
	Claims, net of reinsurance	0	0	0	0	0	0	0	0
	Market value adjustments	-15,534	4,373	10,336	1,092	-541	430	-5,740	5,895
	Income from associates	0	0	0	0	0	0	0	0
	Other operating income	8,724	-4,464	10,680	35,558	4,249	5,865	23,654	36,959
	Total income	**349,645**	**401,893**	**285,493**	144,521	**56,105**	**62,570**	**691,243**	**608,983**
	Staff costs and administrative expenses	192,862	264,722	310,364	105,161	41,963	38,151	545,189	408,034
	Dep. and imp. of property, plant and equipment	11,056	3,941	2,635	1,335	440	613	14,131	5,890
	Other operating expenses	20,631	28,822	64	0	0	0	20,695	28,822
	Total operating expenses	224,549	297,485	313,063	106,496	42,403	38,765	580,015	442,746
	Profit before impairment charges on loans	**125,096**	**104,408**	**-27,570**	**38,024**	**13,702**	**23,805**	**111,228**	**166,237**
	Impairment charges on loans and advances etc.	23,034	173,277	78,153	19,731	-400	7,800	100,787	200,807
	Profit before tax	**102,062**	**-68,869**	**-105,722**	**18,293**	**14,102**	16,005	**10,441**	**-34,570**
	Loans and advances	6,329,001	6,295,435	4,683,581	1,562,385	756,129	816,187	11,768,711	8,674,007
	Holdings in associates	32,586	33,471	0	0	0	0	32,586	33,471
	Other assets	4,046,779	4,102,074	3,443,612	1,862,433	173,371	185,393	7,663,761	6,149,900
	Total assets	10,408,366	**10,430,980**	**8,127,193**	**3,424,818**	**929,499**	**1,001,580**	**19,465,058**	**14,857,378**
	Deposits	5,459,271	5,662,751	7,203,670	2,799,139	459,734	482,489	13,122,675	8,944,378
	Other liabilities	3,901,562	3,338,249	148,329	270,790	344,616	333,698	4,394,506	3,942,737
	Shareholders equity	1,047,533	1,429,981	775,194	354,889	125,149	185,393	1,947,877	1,970,263
	Total liabilities and equity	**10,408,366**	10,430,980	**8,127,193**	3,424,818	**929,499**	1,001,580	**19,465,058**	**14,857,378**
	Internal interest inc./exp. split on operating seg.	1,4-2,6%	1,4-2,2%	1,4-2,6%	1,4-2,2%	1,4-2,6%	1,4-2,2%	1,4-2,6%	1,4-2,2%
	Cost/income ratio (%)	71%	117%	137.0%	86%	74.9%	74%	98.5%	106%
	Cost/income ratio (excl. value adjustments and impairments on loans and advances etc.) (%)	61%	75%	113.8%	72%	74.9%	62%	83.2%	73%

Banking activities returned a profit before tax DKK 10m compared to a loss of DKK 35m in 2010. Bankin in the Faroe Islands rendered a pre-tax profit of DKK 102m in 2011, compared to a loss of DKK 69m in 2010. The main reason is sTable core earnings, lover impairment charges and decreasing staff and administrative costs. Banking in Denmark rendered a pre-tax loss of DKK 106m comared to DKK 18m. The 2011 result is heavily influenced by non-recurring transition related to internal integration and high impairment charges. Banking in Greenland delevered a pre-tax profit of DKK 14m compaired to DKK 16m in 2010. The decline is mainly due to a increase in staff and administrative costs.

Insurance activities returned a pre-tax of DKK 20m compared to DKK 30m last year. Profit before tax stayed at a satisfying level considering the extensive claimes in Faroe Islands Pre-tax result for insurance in Faroe Islands was DKK 5m compaired to DKK 20m influenced by extensive claimes in 4Q. Insurance pre-tax profit in Iceland amounted to DKK 15m from DKK 9m last year is mainly due to a 15% increase in premium income.

Other operations showed a significant decrease in profit. The main reason is the divestment of BankNordik's large shareholding in the salmon producing company Bakkafrost reaping a capital gain of DKK 380m in 2010.

Insurance						Other		Elimination		BankNordik Group	
Faroe Islands		Iceland		Total							
2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
3,702	3,647	6,063	8,394	9,765	12,041	358	372	-50,424	-20,046	749,462	673,994
1,804	1,789	0	0	1,804	1,789	0	0	0	0	50,424	20,046
0	0	0	8	0	8	1,075	11	-50,424	-20,046	202,457	194,474
0	0	0	0	0	0	0	0	0	0	50,424	20,046
3,702	3,647	6,063	8,386	9,765	12,033	-717	361	0	0	547,005	479,519
0	0	4,316	9,537	4,316	9,537	93	178	0	0	5,749	16,653
0	0	-5,672	877	-5,672	877	0	262	-460	-360	127,901	92,846
80,910	82,184	182,847	159,625	263,756	241,809	3,371	2,668	-1,062	-1,167	266,065	243,311
62,734	47,149	148,082	140,535	210,817	187,685	898	966	0	0	211,714	188,651
12	260	13,241	10,172	13,253	10,433	2,248	586	0	0	9,761	16,914
0	0	0	0	0	0	-998	8,646	0	0	-998	8,646
-11	-12	425	1,200	413	1,188	3,350	383,008	-556	-627	26,862	420,528
21,878	**38,931**	**53,137**	**49,262**	**75,014**	**88,193**	**6,450**	**394,745**	**-2,078**	**-2,154**	**770,630**	**1,089,767**
17,303	18,283	32,369	28,279	49,671	46,563	4,480	4,185	-2,078	-2,154	597,263	456,629
4	304	5,710	8,161	5,714	8,465	1,332	1,096	0	0	21,178	15,451
0	0	0	4,001	0	4,001	0	1	0	0	20,695	32,823
17,307	18,587	38,079	40,441	55,385	59,028	5,812	5,282	-2,078	-2,154	639,135	504,902
4,571	**20,344**	**15,058**	**8,821**	**19,629**	**29,165**	**637**	**389,463**	**0**	**0**	**131,494**	**584,865**
0	0	1	-575	1	-575	17	0	0	0	100,806	200,233
4,571	**20,344**	**15,057**	**9,396**	**19,628**	**29,739**	**620**	**389,463**	**0**	**0**	**30,689**	**384,632**
0	0	181	656	181	656	0	0	0	0	11,768,892	8,674,663
0	0	3,549	3,482	3,549	3,482	0	0	-3,549	-3,482	32,586	33,471
189,879	173,678	362,793	346,425	552,671	520,103	33,754	30,186	-2,965,308	-1,164,965	5,284,879	5,535,224
189,879	**173,678**	**366,523**	**350,564**	**556,401**	**524,242**	**33,754**	**30,186**	**-2,968,857**	**-1,168,447**	**17,086,357**	**14,243,358**
0	0	0	0	0	0	0	0	-90,628	-100,406	13,032,047	8,843,972
100,893	73,431	277,027	271,726	377,919	345,156	11,411	8,006	-2,687,222	-909,993	2,096,614	3,385,906
88,986	100,247	89,496	78,838	178,482	179,085	22,344	22,180	-191,008	-158,048	1,957,695	2,013,480
189,879	**173,678**	**366,523**	**350,564**	**556,401**	**524,242**	**33,754**	**30,186**	**-2,968,857**	**-1,168,447**	**17,086,357**	**14,243,358**
79.1%	48%	71.7%	81%	73.8%	66%	90%	1%			96.0%	64.7%
79%	48%	95.4%	103%	89.7%	76%	138%	1%			84.0%	47.1%

Notes – BankNordik Group

Note **BankNordik Group – Geografical information**

2

(Cont'd)

DKK 1,000	Total income		Non current assets		Additions on material assets		Additions on immaterial assets	
	2011	2010	Dec. 31 2011	Dec. 31 2010	2011	2010	Dec. 31 2011	Dec. 31 2010
Faroe Islands	371,449	830,265	160,718	596,447	-2,344	982	0	0
Denmark	285,493	144,521	708,156	8,894	47,573	6,294	391,108	240,574
Iceland	57,583	52,413	45,279	15,929	-251	435	17,296	0
Greenland	56,105	62,570	172,666	0	46,991	0	0	125,678
Total	**770,630**	**1,089,768**	**1,086,820**	**621,269**	**91,969**	**7,712**	**408,404**	**366,252**

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

BankNordik Group - Revenues from external customers

Revenues from external customers	**2011**	**2010**
Banking	689,166	606,830
Insurance products	75,014	88,193
Other	6,450	394,745
Total revenue	**770,630**	**1,089,768**

The Groupe's external revenue is organized into different business areas according to how the Group's revenue is obtained. The different areas are Banking products that includes interest- and fee income from activities, i.e. loans and advances and deposits, with private, corporate and public customers. Insurance products includes insurance products from non-life insurance. Other include revenue from life insurance and other associates.

Notes – BankNordik Group

Note	DKK 1,000	Interest income 2)	Interest expenses	Net interest	Market-value adjustment	Dividend	Total
3	**Net income, financial instruments 2011**						
	Financial instruments at amortised cost:						
	Due to and from credit institutions and central banks	12,739	1,349	11,390	0	0	11,390
	Loans and advances and deposits	637,973	127,901	510,072	0	0	510,072
	Issued bonds	0	22,803	-22,803	0	0	-22,803
	Subordinated debt	0	46,820	-46,820	-34,114	0	-80,934
	Other financial instruments	0	0	0	0	0	0
	Other	2,173	3,584	-1,410	0	0	-1,410
	Total	**652,886**	**202,457**	**450,429**	**-34,114**	**0**	**416,315**
	Financial instruments at fair value:						
	Bonds, shares and derivatives etc	51,442	0	51,442	7,007	5,749	52,396
	Loans and advances at fair value	45,135	0	45,135	36,868	0	82,002
	of which recognised as impairment charges	0	0	0	0	0	0
	Assets and deposits under pooled schemes	0	0	0	0	0	0
	Total	**96,576**	**0**	**96,576**	**43,874**	**5,749**	**134,399**
	Total net income from financial instruments	**749,462**	**202,457**	**547,005**	**9,761**	**5,749**	**562,514**
	Net income, financial instruments 2010						
	Financial instruments at amortised cost:						
	Due to and from credit institutions and central banks	18,568	12,199	6,369	0	0	6,369
	Loans and advances and deposits	520,775	126,216	394,559	0	0	394,559
	Issued bonds	0	29,927	-29,927	0	0	-29,927
	Subordinated debt	0	20,914	-20,914	0	0	-20,914
	Other financial instruments	4,621	0	4,621	0	0	4,621
	Other	0	5,219	-5,219	-3,124	0	-8,342
	Total	**543,963**	**194,474**	**349,490**	**-3,124**	**0**	**346,366**
	Financial instruments at fair value:						
	Bonds, shares and derivatives etc	46,578	0	46,578	5,295	16,653	68,525
	Loans and advances at fair value	83,453	0	83,453	14,596	0	106,718
	Assets and deposits under pooled schemes and unit-linked	0	0	0	-8,668	0	-8,668
	investment contracts	0	0	0	146	0	146
	Total	**130,030**	**0**	**130,030**	**20,037**	**16,653**	**166,721**
	Total net income from financial instruments	**673,994**	**194,474**	**479,520**	**16,914**	**16,653**	**513,087**

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

2) Interest income recognised on impaired financial assets amounts to DKK 16m (2010: DKK 10m)

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
4	**Net fee and commission income**		
	Fee and commission income		
	Securities trading and custody accounts	17,412	6,583
	Credit transfers	20,452	19,724
	Loan commissions	14,958	24,045
	Guarantee commissions	26,687	19,659
	Life insurance	0	262
	Other fees and commissions	64,442	26,094
	Total fee and commission income	**143,950**	**96,368**
	Fee and commissions paid		
	Securities trading and custody accounts	16,050	3,522
	Total fee and commission paid	**16,050**	**3,522**
	Net fee and commission income	**127,901**	**92,846**
5	**Premium income, net of reinsurance**		
	Regular premiums, life insurance	5,765	4,796
	Reinsurance premiums paid	-2,179	-1,786
	Total life insurance	3,371	3,010
	Gross premiums, non-life insurance	285,083	267,992
	Reinsurance premiums paid	18,163	25,157
	Change in gross premium provisions	-4,248	-2,871
	Change in reinsurers' share of premiums	22	336
	Total non-life insurance	262,694	240,300
	Total	**266,065**	**243,311**
6	**Claims, net of reinsurance**		
	Benefits paid	956	691
	Reinsurers' share received	-588	-505
	Change in outstanding claims provisions	530	1,578
	Change in life insurance provisions	0	-798
	Total life insurance	898	966
	Gross claims paid	175,601	169,855
	Claims handling costs	6,722	6,354
	Reinsurance received	-6,691	-9,984
	Change in gross claims provisions	34,654	22,769
	Change in reinsurers' share relating to provisions	532	-1,308
	Total non-life insurance	210,817	187,685
	Total	**211,714**	**188,651**

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
7	**Other operating income**		
	Profit/loss on sale of shares and equity investments in associates and group enterprises	0	380,575
	Profit on sale of investment and corporate properties and temporary properties	-91	-581
	Profit on sale of operating equipment	755	0
	Reversals of acquiered OEI impairments	14,402	41,119
	Other income	16,283	3,627
	Operation of properties:		
	Rental income	411	362
	Operating expenses	-1,041	-187
	Maintenance	-3,858	-4,387
	Total other operating income	**26,862**	**420,528**
	DKK 380m concerns the divestment of Bakkafrost (2010)		
8	**Staff costs and administrative expenses**		
	Staff costs:		
	Salaries	239,285	182,903
	Pensions	27,149	17,547
	Social security expences	33,508	22,818
	Total staff costs	**299,942**	**223,269**
	Other administrative expenses:		
	IT	78,609	67,531
	Marketing etc	28,226	24,688
	Education etc	6,698	5,262
	Advisory services	13,566	10,621
	Other expenses	176,944	144,292
	Total administrative expenses	**304,043**	**252,394**
	Total staff costs	299,942	223,269
	Staff costs incl. under the item "Claims, net of reinsurance"	-6,722	-19,034
	Other administrative expenses	304,043	252,394
	Total employee and administrative expenses	**597,263**	**456,629**
	Number of employees		
	Average number of full-time employees in the financial year	519	431
	Executive remuneration:		
	Board of Directors	1,605	1,635
	Executive Board:		
	salaries	4,267	4,538
	pension	617	657
	Total	**6,489**	**6,830**

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
9	**Remuneration of the senior executives**		
	The Board of Directors in P/F BankNordik		
	Klaus Rasmussen, chairman of the board	540	540
	Jens Erik Christensen, vice chairman	360	360
	Keld Søndergaard Holm	180	180
	Nils Sørensen (from 29 March 2010)	180	135
	Mette Dahl Christensen (from 27 April 2010)	180	120
	Vilhelm Petersen (until 29 March 2010)	0	45
	Kenneth M. Samuelsen (from 27 April 2010)	165	135
	Sigmar Jacobsen (until 27 April 2010)	**0**	60
	Olav Enomoto (until 27 April 2010)	**0**	60
	Total	**1,605**	**1,635**

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

	2011	2010
The Executive Board of P/F BankNordik		
Janus Petersen*:		
Fixed salary	2,537	2,539
Pension	375	375
Directors' emolument Vörður Trygging hf.	61	90
Total	**2,974**	**3,004**
John Rajani* (from march 2011):		
Fixed salary	1,355	0
Pension	195	0
Total	**1,550**	**0**
Súni S. Jacobsen* (until february 2011):		
Fixed salary	313	1,910
Pension	47	282
Total	**360**	**2,192**
Total	**4,884**	**5,196**

* To which must be added employer-paid car and telephone with a tax value of DKK 96 (2010: DKK 95)

Pension and termination conditions:	Janus Petersen	John Rajani
Age at which the Executive Board member is entitled to retire	62	62
Notice of termination by the Bank, months	36	24
Notice of termination by the Executive Board member, months	12	12
Type of pension plan	Defined contribution through pension fund	Defined contribution through pension fund
Annual contribution	Bank contributes 15% of salary	Bank contributes 15% of salary

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
9	**Shareholdings**		
(cont'd)	The number of shares in P/F BankNordik held by the Board of Directors and the Executive Board at the end of 2011 totalled 45,122 and 18,518 respectively (end of 2010: 8,203 and 25,756). Note 39 contains details on related parties.		
	Remuneration of other executives		
	Fixed salary	4,958	9,293
	Bonus	80	1,063
	Pension	697	758
	Total	**5,736**	**11,114**

In the table above the number of executives are reduced from 14 in 2010 to 6 in 2011.

The executives included in this group are:

Árni Ellefsen CFO
Edvard Heen COO
Rune Nørregaard CLO
Jan Ulsø Madsen CM Denmark
Henrik Jensen CIO Denmark
Johnny í Grótinum CIO Faroe Island

The Group does not use bonus programmes.

Shareholdings

The number of shares in P/F BankNordik held by other executives at the end of 2011 totalled 3,605 (2010: 11,952). Note 38 contains details on related parties.

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
10	**Audit fees**		
	Fees to audit firms elected at the general meeting	4,015	2,093
	Fees to other firms for service other than audit	0	0
	Total audit fees	**4,015**	**2,093**
	Total fees to the audit firms elected at the general meeting break down as follows:		
	Statutory audit	2,333	1,621
	Other assurance engagements	724	68
	Tax and VAT advice	56	124
	Other services	902	280
	Total fees to the audit firms elected at the general meeting	**4,015**	**2,093**
11	**Amortisation, depreciation and impairment charges**		
	Amortisation charges for intangible assets	13,657	8,711
	Depreciation charges for tangible assets	7,521	6,739
	Total	**21,178**	**15,451**
12	**Other operating expenses**		
	The Deposits Guarantee Fund	20,695	8,000
	The Danish Banking Sector Emergency Fund	0	20,813
	Other operating expenses	0	4,010
	Total	**20,695**	**32,823**

		2011	2010
13	**Impairment charges on loans and advances etc.**		
	Loans and advances at amortised cost	71,851	150,296
	Loans and advances at fair value	9,136	8,668
	Private Contingency Association (Det private beredskab)	0	15,466
	Guarantiees and loan commitments	4,636	8,285
	Assets held for sale	15,183	17,518
	Total	**100,806**	**200,233**

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
13	**Individual impairment charges etc.**		
(cont'd)	Interest income on impaired loans is offset in impairments by	11,237	10,392
	New and increased impairment charges	139,876	225,049
	Reversals of impairment charges	38,696	31,932
	Write-offs charged directly to the income statement	959	482
	Received on claims previously written off	542	2,295
	Total individual impairment charges	**101,597**	**191,304**
	Collective impairment charges		
	New and increased impairment charges	5,148	8,928
	Reversals of impairment charges	5,940	0
	Total collective impairment charges	**-792**	**8,928**
	Total impairment charges	**100,806**	**200,233**

Note		Faroes	Iceland	Denmark	Greenland	Total
14	**Tax 2011**					
	Tax on profit for the year	21,203	2,218	-28,256	3,552	-1,283
	Change in deferred tax, equity	0	0	0	0	0
	Tax on changes in shareholders' equity	4,162	0	0	0	4,162
	Total tax	**25,364**	**2,218**	**-28,256**	**3,552**	**2,879**
	Tax on profit for the year					
	Profit before tax	107,253	15,057	-105,722	14,102	30,689
	Current tax charge	23,689	3,201	-49,048	-8,027	-30,185
	Change in deferred tax	-2,616	-983	20,793	11,579	28,773
	Adjustment of prior-year tax charges	130	0	0	0	130
	Total	**21,203**	**2,218**	**-28,256**	**3,552**	**-1,283**
	Effective tax rate					
	Tax rate	18.0%	20.0%	25.0%	30.0%	3.4%
	Non-taxable income and non-deductible expenses	-1.3%	-6.1%	-0.0%	0.8%	-8.1%
	Tax on profit for the year	16.7%	13.9%	-25.0%	30.8%	-4.2%
	Adjustment on prior-year tax charges	0.1%	0.0%	0.0%	0.0%	0.4%
	Effective tax rate	**16.8%**	**13.9%**	**-25.0%**	**30.8%**	**-3.8%**
	Tax on other comprehensive income					
	Tax on foreign currency translation reserve	**18.0%**	**18.0%**	**0.0%**	**0.0%**	**18.0%**

Notes – BankNordik Group

Note	DKK 1,000	Faroes	Iceland	Denmark	Greenland	Total
14	**Tax 2010**					
(cont'd)	Tax on profit for the year	62,134	-558	5,223	5,090	71,890
	Change in deferred	0	0	0	0	0
	Tax on changes in shareholders' equity	1,066	0	0	0	1,066
	Total tax	**63,200**	**-558**	**5,223**	**5,090**	**72,955**
	Tax on profit for the year					
	Profit before tax	340,938	9,396	18,293	16,005	384,632
	Current tax charge	55,246	1,831	5,223	5,090	67,390
	Change in deferred tax	6,966	0	0	0	6,966
	Change in deferred tax due to changed tax rate, avg. exchange rate	0	-2,389	0	0	-2,389
	Adjustment of prior-year tax charges	-78	0	0	0	-78
	Total	**62,134**	**-558**	**5,223**	**5,090**	**71,890**
	Effective tax rate					
	Tax rate	18.0%	18.0%	25.0%	31.8%	19.0%
	Non-taxable income and non-deductible expenses	-1.0%	-23.4%	0.0%	0.0%	-0.6%
	Tax on profit for the year	17.0%	-5.4%	25.0%	31.8%	18.4%
	Adjustment on prior-year tax charges	0.0%	0.0%	0.0%	0.0%	0.0%
	Effective tax rate	17.0%	-5.4%	25.0%	31.8%	18.4%
	Tax on other comprehensive income					
	Tax on foreign currency translation reserve	18.0%	0.0%	0.0%	0.0%	18.0%

Note		2011	2010
15	**Cash in hand and demand deposits with central banks**		
	Cash in hand	120,797	89,853
	Demand deposits with central banks	188,154	152,529
	Total	**308,951**	**242,382**
16	**Loans and advances at fair value**		
	Nominal value	939,452	991,922
	Fair value adjustment	82,956	21,782
	Total	**1,022,408**	**1,013,704**

Of the total adjustment for credit risk on loans and advances at fair value, changes in 2011 were recognised as an expense of DKK 9m (2010: DKK 9m).
The changes in credit risk on borrowers are calculated on the same basis as described in the accounting policies regarding loans at amortised cost.

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
17	**Loans and advances**		
	Loans and advances	12,110,617	9,016,045
	Impairment charges	341,906	341,382
	Total	**11,768,711**	**8,674,663**
	Impairment charges		
	Individual impairment charges etc.		
	At 1 January	315,453	268,838
	Additions on acquisitions	0	0
	New and increased impairment charges	135,632	219,975
	Reversals of impairment charges	37,216	31,932
	Written-off, previously impaired	97,012	139,264
	Foreign currency translation	-59	0
	Other additions and disposals	0	-2,164
	At 31 December	**316,798**	**315,453**
	Collective impairment charges		
	At 1 January	25,928	17,000
	New and increased impairment charges	5,148	8,928
	Reversals of impairment charges	5,940	0
	At 31 December	**25,137**	**25,928**
	Total at 31 December	**341,935**	**341,382**

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
18	**Bonds at fair value**		
	Mortgage credit bonds	1,916,917	2,890,892
	Government bonds	387,831	530,858
	Other bonds	204,190	75,716
	Bonds at fair value	**2,508,938**	**3,497,466**
	Of which, subordinated receivables	0	0
	All bonds form part of the Group's trading portfolio.		
19	**Shares etc.**		
	Shares/unit trust certificates listed on the Copenhagen Stock Exchange	45,144	59,658
	Shares/unit trust certificates listed on other stock exchanges	181,535	143,172
	Total shares etc.	**226,679**	**202,829**
	Other shares at fair value using the fair-value option		
	Total purchase price at 1 January	124,467	29,445
	Adjustment transferred from shares listed	0	51,459
	Transferred to assets hold for sale	0	0
	Additions	26,641	43,557
	Disposals	0	0
	Foreign currency translation	0	7
	Total purchase price at 31 December	**151,108**	**124,467**
	Revaluations at 1 January	-18,807	-5,721
	Adjustment transferred from shares listed	0	-7,271
	Revaluations for the year	6,353	-5,357
	Reversal of revaluations previous years	0	-458
	Revaluations at 31 December	**-12,454**	**-18,807**
	Book portfolio, at 31 December	**138,655**	**105,660**
	Trading portfolio	226,679	202,829
	Other shares at fair value based on the fair-value option	138,655	105,660
	Total shares	**365,334**	**308,490**

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
20	**Assets under insurance contracts**		
	Non-life insurance		
	Reinsurers' share of provisions for unearned premiums	49,153	1,238
	Reinsurers' share of claims provisions	30,378	31,271
	Receivables from insurance contracts	14,027	57,812
	Total non-life insurance	**93,558**	**90,321**
	Maturity within 12 months	**14,027**	**57,812**
21	**Holdings in associates**		
	Cost at 1 January	22,300	22,300
	Additions	0	0
	Additions on acquisitions	0	0
	Disposals	0	0
	Cost at 31 December	**22,300**	**22,300**
	Revaluations at 1 January	11,171	2,525
	Share of profit	-885	-3,519
	Dividends	0	0
	Revaluations	0	12,165
	Foreign currency translation	0	0
	Revaluations at 31 December	**10,286**	**11,171**
	Carrying amount at 31 December	**32,586**	**33,471**

	Ownership %	Total assets	Total liabilities	Income	Net profit
Holdings in associates 2011					
P/F Løkir	30%	78,877	5,268	-57	947
P/F Elektron	34%	85,819	53,486	52,632	-3,404
Holdings in associates 2010					
P/F Løkir	30%	82,429	9,768	-326	-7,826
P/F Elektron	34%	99,150	63,198	52,897	931

The information disclosed is extracted from the companies' most recent annual reports.

Notes – BankNordik Group

Note	DKK 1,000	Goowill	Customer Relations	Software	Longterm cost	Total
22	**Intangible assets**					
	2011					
	Cost at 1 January	360,560	40,000	0	25,230	425,790
	Additions	308,526	82,574	0	882	391,982
	Disposals	0	0	0	0	0
	Adjustments	17,296	0	0	0	17,296
	Foreign currency translation	-1,038	0	0	-864	-1,903
	Cost at 31 December	**685,343**	**122,574**	**0**	**25,248**	**833,165**
	Amortisation and impairment charges at 1 January	0	-1,000	0	-17,058	-18,058
	Amortisation charges during the year	0	-8,129	0	-5,606	-13,734
	Impairment charges during the year	0	0	0	0	0
	Reversals of amortisation and impairment charges	0	0	0	0	0
	Foreign currency translation	0	0	0	584	584
	Amortisation and impairment charges at 31 December	**0**	**-9,129**	**0**	**-22,079**	**-31,208**
	Carrying amount at 31 December	**685,343**	**113,446**	**0**	**3,169**	**801,957**
	Amortisation period	Annual impairment test	10 years	5 years	3 years	

Intangible assets					
2010	Goodwill	Relations	Software	cost	Total
Cost at 1 January	24,474	0	4,748	18,240	47,462
Additions	330,250	40,000	35,632	3,650	409,532
Disposals	0		0	0	0
Corrections	0		-40,381	0	-40,381
Foreign currency translation	5,836		0	3,341	9,177
Cost at 31 December	**360,560**	**40,000**	**0**	**25,230**	**425,790**
Amortisation and impairment charges at 1 January	0	0	0	-8,841	-8,841
Amortisation charges during the year	0	-1,000	-8,390	-7,313	-16,703
Corrections	0		8,390		8,390
Impairment charges during the year	0		0	0	0
Reversals of amortisation and impairment charges	0		0	0	0
Foreign currency translation	0		0	-904	-904
Amortisation and impairment charges at 31 December	**0**	**-1,000**	**0**	**-17,058**	**-18,058**
Carrying amount at 31 December	**360,560**	**39,000**	**0**	**8,172**	**407,732**
Amortisation period	Annual impairment test	10 years	5 years	3 years	

Notes – BankNordik Group

Note

22

(cont'd)

In 2009 BankNordik acquired goodwill in connection with the acquisition of the icelandic company Vörður. In 2010 BankNordik acquired 12 branches in Denmark and Greenland from Sparbank. In 2011 BankNordik acquired 13 branches in Denmark from Amagerbanken. The goodwill is calculated to DKK 309m. An assesment of the goodwill is shown in note 38.

Vörður Tryggingar hf. and Vörður Líftryggingar hf. have capitalized long term cost that are sale costs due to new insurances policies issued in the period. The amount is expensed over three years. Management views this capitalization as matching income and costs.

The remaining amortization periods are eight to nine years for customer relations (2010: ten years), longterm cost one to two years (2010: two to three years) and goodwill had an indefinite useful life in both 2011 and 2010.

IMPAIRMENT TEST

The BankNordiks Groups goodwill with an indefinite useful life an customer relations with an expected useful life of ten years are tested annually for impairment. The activities are tested on the identified cash-generating unit to wich the assets have been allocated. Goodwill is allocated to the cashj-generating areas Denmark, Greenland and Iceland. Customer relations are allocated to Denmark and Greenland.

The impairment test compares the carrying amount with the estimated present value of the anticipated future cash flows. The special debt structure in financial groups means that the calculation basis for the present value of future cash flows is based on a simplified equity model. The equity model is based on approved strategies and earnings estimates for the cash-generating business areas for the next three to five years.

The impairment test of goodwill, customer relations, and longterm costs shows no need for impairment charges to be recognised in 2011.

Management assesses whether probable changes in basic assumptions will lead the carrying amount of goodwill to exceed its recoverable amount. Sensitivity analysis show that both the goodwill relating to the branches (Denmark and Greenland) and Vörður (Iceland) and the goodwill relating to customer relations (Denmark and Greenland) are very robust to changes in assumptions. In terms of the required rate of return after tax the tolerance regarding Denmark and Greenland is 2.7% and regarding Iceland 11%.

Impairment test:	**Denmark**	**Greenland**	**Iceland**
Carrying amount:			
Goodwill, branches	525m	113m	
Goodwill, Vörður			51m
Customer relations	101m	12m	
Budgetting assumptions:			
Interest margin	Unchanged	Unchanged	
Fees	Growing	Growing	
Costs/income	Declining	Declining	Declining
Impairments on loans and guarantees	0.6%	0.6%	
Loans	Minor Growth	Growth	
Deposits	Stable	Stable	
Growth: Insurance income, net			2.5%
Impairment test:			
Budgetting period	**5 years**	**5 years**	**3 years**
Required rate of return after tax	8.7%	8.7%	8.7%
Growth rate, terminal period	2.5%	2.5%	2.5%
NPV, budgetting period (required rate of return after tax 8.7%)	362m	56m	39m
NPV, terminal period (required rate of return after tax 8.7%)	1317m	227m	183m
Tolerance of the impairment test	2.7%	2.7%	11.0%
Required impairment of goodwill and customer relations	None	None	None

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
23	**Investment property**		
	Fair value at 1 January	2,500	2,500
	Additions	0	0
	Property improvement expenditure	0	0
	Disposals	0	0
	Fair value adjustment	0	0
	Fair value at 31 December	**2,500**	**2,500**

Rental income from investment property amounted to DKK 0.1m in 2011 (2010: DKK 0.4m). Expenses directly attributable to investment property generating rental income amounted to DKK 2,502 in 2011 (2010: DKK 0.1m).

There is one property registred as investment property. The fair value of the investment property is estimated by the Groups valuation expert on the basis of location, maintenance, market rent etc.

Note	DKK 1,000	2011	2010
24	**Domicile property**		
	Cost at 1 January	138,515	137,790
	Additions	78,611	1,505
	Disposals	1,192	780
	Transferred to real property held for sale	0	0
	Foreign currency translation	0	0
	Cost at 31 December	**215,934**	**138,515**
	Adjustments at 1 January	-619	-409
	Depreciation charges during the year	-540	-210
	Reversal of depreciation charges on disposals during the year	6	0
	Revaluations recognised directly in equity	0	0
	Impairments recognised directly in equity	0	0
	Impairments recognised in the income statement	0	0
	Reversal of impairment on disposals during the year	0	0
	Reversal of revaluations on disposals during the year	0	0
	Foreign currency translation	0	0
	Adjustments at 31 December	**-1,154**	**-619**
	Revalued amount at 31 December	**214,781**	**137,896**

The depreciation period is 50 years
Required rate of return used in calculating the revalued value, 6%–7%
The value of the properties has not changed significantly. Consequently the fair value does not differ materially from the carrying amount at year end 2011.

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
25	**Other property, plant and equipment**		
	Cost at 1 January	59,636	44,812
	Additions on acquisitions, Vörður	0	0
	Additions	23,405	13,322
	Disposals	2,320	19
	Foreign currency translation	-92	1,520
	Cost at 31 December	**80,629**	**59,636**
	Depreciation and impairment charges at 1 January	43,274	35,647
	Depreciations on acquisitions, Vörður	0	0
	Depreciation charges during the year	7,267	6,493
	Reversals of depreciation and impairment charges	1,359	0
	Foreign currency translation	0	1,134
	Depreciation and impairment charges at 31 December	**49,183**	**43,274**
	Carrying amount at 31 December	**31,446**	**16,362**

The depreciation period is 3-5 years.

Note		2011	2010
26	**Deferred tax**		
	Deferred tax assets	22,105	27,153
	Deferred tax liabilities	14,192	18,953
	Deferred tax, net	**-7,913**	**-8,200**

Change in deferred tax	At 1. Jan.	Foreign currency translation	Additions on acquisitions	Included in profit for the year	Included in shareholders' equity	At 31. Dec.
2011						
Intangible assets	6,821	0	0	-5,812	0	1,010
Tangible assets	11,942	0	0	567	0	12,509
Securities	-514	0	0	0	0	-514
Provisions for obligations	-278	0	0	77	0	-201
Tax loss carryforwards	-23,499	0	0	4,337	0	-19,162
Foreign currency translation	-3,597	0	0	0	928	-2,668
Transition to IFRS	-184	0	0	0	0	-184
Other	1,108	0	0	429	-255	1,297
Total	**-8,200**	**0**	**0**	**-401**	**673**	**-7,913**

Adjustment of prior-year tax charges included in preceding item.

	At 1. Jan.	Foreign currency translation	Additions on acquisitions	Included in profit for the year	Included in shareholders' equity	At 31. Dec.
2010						
Intangible assets	0	0	0	6,821	0	6,821
Tangible assets	11,921	0	0	21	0	11,942
Securities	-514	0	0	0	0	-514
Provisions for obligations	-348	0	0	71	0	-278
Tax loss carryforwards	-20,983	0	0	-2,517	0	-23,499
Foreign currency translation	0	0	0	0	-3,597	-3,597
Transition to IFRS	-184	0	0	0	0	-184
Other	-10	0	0	49	1,062	1,108
Total	**-10,117**	**0**	**0**	**4,445**	**-2,535**	**-8,200**

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
27	**Assets held for sale**		
	Total purchase price, beginning of year	183,494	181,090
	Additions	44,629	97,265
	Disposals and write off	20,659	94,861
	Total purchase price, end of year	**207,464**	**183,494**
	Impairment, beginning of year	22,700	5,182
	Impairment charges for the year	15,783	17,518
	Negative changes in value recognized in the income statement		
	Reversal of impairment on revaluations during the year		
	Reversal of impairment on disposals and write offs during the year		
	Impairment, end of year	38,483	22,700
	Total assets held for sale, end of year	**168,980**	**160,794**
	Specification of assets held for sale		
	Real property taken over in connection with non-performing loans	167,721	144,836
	Other tangible assets taken over in connection with non-perf. loans	1,259	78
	Shares in subsidiaries and associates and other companies	0	15,880
	Total	**168,980**	**160,794**

The item "Assets held for sale" comprises only assets taken over in connection with non-performing loans. The Group's policy is to dispose off the assets as quickly as possible.

Profit on the sale of real property and tangible assets taken over in connection with non-performing loans is recognised under the item "Other operating income", and under the segment retail and corporate banking. It is the Group's real estate agency that is responsible for selling the real property.

In 2008 BankNordik obtained control of the company Sp/f 25.04.2008 according to an agreement with the companys only shareholder. The shares in Sp/f 25.04.2008 are pledged to the Bank.

The companys only activity is to own 100% of the shares in another company Sp/f Íbúðir Undir Gráasteini. The agreement was accepted to ensure the completion of a building project which the Bank is financing. The agreement was accepted to ensure the completion of a building project which the Bank is financing. It is Sp/f Íbúðir Undir Gráasteini who owns the building project. The Group's real estate agency is responsible for the sale of the flats.

The building project mentioned is at the end of 2011 nearly finished and the selling proces has began.

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
28	**Other assets**		
	Interest and commission due	42,542	52,235
	Derivatives with positive fair value	80,070	6,448
	Other amounts due	32,751	0
	Total	**155,363**	**58,683**
29	**Liabilities under insurance contracts**		
	Non-life insurance		
	Provisions for unearned premiums	105,727	104,111
	Claims provisions	241,863	213,500
	Total	**347,590**	**317,610**
	Life insurance		
	Life insurance provisions	2,372	1,736
	Other technical provisions	3,362	2,487
	Total provisions for insurance contracts	5,734	4,223
	Total	**353,324**	**321,833**
30	**Other liabilities**		
	Sundry creditors	114,196	137,085
	Accrued interest and commission	64,015	48,485
	Derivatives with negative value	110,391	43,330
	Other staff commitments	2,717	0
	Other obligations	119,197	73,783
	Total	**410,515**	**302,684**
31	**Provisions for losses on guarantees**		
	At 1 January	8,285	22,236
	New and increased provisions	31,231	23,049
	Transferred to other liabilities	0	37,000
	Reversals of provisons	8,000	0
	At 31 December	**31,516**	**8,285**

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

Notes – BankNordik Group

Note DKK 1,000

32 **Subordinated debt**

		Currency	Borrower	Principal	Interest rate	Year of issue	Maturity	Step-up clause	Redemption price	2011	2010
Subordinated loan capital	a	DKK	P/F BankNordik	420,000	8.4%	2011	24 June 2025	No	100	430,989	0
Hybrid core capital	b	DKK	P/F BankNordik	204,000	10.3%	2009	Perpetual	Yes	100	203,240	203,240
Hybrid core capital	c	DKK	P/F BankNordik	180,000	10.4%	2011	Perpetual	No	100	196,483	0
At 31 December				**804,000**						**830,711**	**203,240**
Of which fair value hedging of interest rate risk										**34,114**	**0**

Step-up clause:

Hybrid core capital, DKK 204,000 (b)	**Optional redemption date**	**Price**
	28.9.2014	105
	28.9.2015	110

Interest rate:		**Until 23.6.2016**	**From 24.6.2016**
Subordinated loan capital	a	8.4%	CIBOR 3M + 7,5%
Hybrid core capital	c	10.4%	CIBOR 3M + 7,5%

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

The subordinated debt can not be converted into share capital. Early redemption of subordinated debt must be approved by the Danish FSA.

In the event of BankNordiks voluntary or compulsory winding-up, this liability will not be repaid until claims of ordinary creditors have been met.

Notes – BankNordik Group

Note DKK 1,000

Balance sheet items broken down by expected due date	2011		2010	
	< 1 year	> 1 year	< 1 year	> 1 year
33 Assets				
Cash in hand and demand deposits with central banks	308,951	0	242,382	0
Due from credit institutions and central banks	461,091	0	513,959	0
Loans and advances at fair value	245,708	776,700	118,839	894,865
Loans and advances at amortised cost	3,544,862	7,201,622	887,684	6,773,275
Bonds at fair value	1,386,324	1,122,614	1,420,085	2,077,382
Shares, etc.	226,679	138,655	202,899	105,591
Assets under insurance contracts	68,701	24,857	63,223	27,099
Holdings in associates	0	32,586	0	33,471
Intangible assets	0	801,957	5,010	402,722
Assets under pooled schemes	0	121,210	0	53,651
Total land and buildings	0	217,281	0	140,396
investment property	0	2,500	0	2,500
domicile property	0	214,781	0	137,896
Other property, plant and equipment	0	31,446	1,003	15,359
Current tax assets	6,356	0	6,452	0
Deferred tax assets	3,766	18,339	3,386	23,767
Assets held for sale	168,980	0	160,794	0
Other assets	155,364	0	58,683	0
Prepayments	22,309	0	11,383	0
Total	**6,599,090**	**10,487,267**	**3,695,780**	**10,547,579**
Liabilities				
Due to credit institutions and central banks	329,316	0	245,249	0
Deposits and other debt	11,062,462	1,848,375	7,078,098	1,712,223
Deposits under pooled schemes	0	121,210	0	53,651
Issued bonds at amortised cost	98,276	0	0	2,199,843
Liabilities under insurance contracts	183,728	169,595	186,249	135,584
Current tax liabilities	10,247	0	71,977	0
Other liabilities	410,515	0	289,007	0
Deferred income	18,517	0	13,843	0
Provisions for deferred tax	0	14,192	0	18,953
Provisions for losses on guarantees	31,516	0	8,285	0
Other provisions for liabilities	0	0	0	0
Subordinated debt	0	830,711	0	203,240
Total	**12,144,578**	**2,984,084**	**7,892,706**	**4,323,494**

Deposits include fixed-term deposits and demand deposits. Fixed-term deposits are recognised at the maturity date. Demand deposits have short contractual maturities but are considered a relatively stable financing source with expected maturities exceeding one year.

Notes – BankNordik Group

Note DKK 1,000

Contractual due dates of financial liabilities

Note		0-1 months	1-3 months	3-12 months	1-5 years	> 5 years
34	**2011**					
	Due to credit institutions					
	and central banks	251,974	0	77,342	0	0
	Deposits	8,678,300	2,231,972	248,793	661,098	1,305,137
	Derivatives settled on anet basis	114	229	952	4,388	3,951
	Issued bonds	106	98,489	0	0	0
	Subordinated debt	6,243	12,485	56,184	502,886	869,478
	Other liabilities	0	0	0	0	0
	Provisions for losses on guarantees	0	0	31,516	0	0
	Total	**8,936,737**	**2,343,175**	**414,787**	**1,168,372**	**2,178,567**
	Off-balance sheet items					
	Guarantees, etc.	19,257	126,253	364,426	611,575	959,061
	Other commitments	0	0	0	0	0
	Total	19,691	126,253	368,335	632,424	979,910
	Total liabilities and off-balance					
	sheet items	**8,955,994**	**2,469,429**	**779,212**	**1,779,947**	**3,137,628**
	2010					
	Due to credit institutions					
	and central banks	235,163	0	10,086	0	0
	Deposits	4,354,731	2,711,960	17,058	690,196	1,241,645
	Derivatives settled on a net basis	377	754	3,141	14,477	24,580
	Issued bonds	3,165	205,518	25,638	2,031,131	0
	Subordinated debt	1,810	3,444	16,054	225,505	0
	Other liabilities	0	0	0	0	0
	Provisions for losses on guarantees	0	0	8,285	0	0
	Total	**4,595,245**	**2,921,676**	**80,262**	**2,961,308**	**1,266,225**
	Off-balance sheet items					
	Guarantees, etc.	9,511	140,705	461,386	600,444	644,314
	Other commitments	0	0	0	0	0
	Total	9,511	140,705	461,386	600,444	644,314
	Total liabilities and off-balance					
	sheet items	**4,604,756**	**3,062,381**	**541,648**	**3,561,752**	**1,910,540**

The maturity analysis is based on the earliest date on which the Group can be required to pay. Disclosures comprise agreed payments, including principal and interest. For liabilities with variable cash flows, for example variable rate financial liabilities, disclosure is based on the contractual conditions at the balance sheet date. Derivatives disclosures include the contractual cash flows for all derivatives, irrespective of whether the fair value at the balance sheet date is negative or positive and whether derivatives are held for trading or hedging purposes. Subordinated debt is included at the date when BankNordik Group has a choice of redeeming the debt or paying increased interest expenses/price. The Group has not had any defaults of principal, interest or other braches with respect to the liability during the periode (2010;nil). Provisions for losses on guarantees are due if a number of predetermined conditions are met and included at the contractual due date of agreements.

Notes – BankNordik Group

Note	DKK 1,000	2011	2010
35	**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	120,485	22,179
	Mortgage finance guarantees	652,781	429,626
	Registration and remortgaging guarantees	281,771	848,473
	Other guarantees	682,391	556,082
	Total	**1,737,429**	**1,856,360**

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 2011, such unused credit facilities amounted to DKK 3.1bn (2010: DKK 1.0bn). The Group has not granted any irrevocable loan commitments.

The agreement with the Bank's new IT-provider SDC has a notice of termination of 3 years, and the Bank can be obligated to pay a compensation amounting to maximum DKK 152m.

36 **Assets deposited as collateral**

At the end of 2011 the Group had deposited bonds at a total market value of DKK 110m with Danmarks Nationalbank (the Danish Central Bank) in connection with clearing. (2010: DKK 60m).

At the end of 2011 the Group had deposited bonds at a total market value of DKK 26m as a collateral with Nordea Bank and DKK 4m as a cash deposit vit Nykredit. (2010: DKK 50m)

Notes – BankNordik Group

Note DKK 1,000

37 **Acquisitions of branches and Group enterprises**

2011

On 18 May 2011, P/F BankNordik concluded an agreement with the Finansial Stability Company regarding the acquisition of all retail and most commercial customers from Amagerbanken. The acquisition date was 1 July 2011. Upon acquisition BankNordik payed DKK 235m in cash.

At the acquisition date only the largest loans were reviewed in detail. Based on this management preliminary assessed that the fair value of the loans taken over corresponded to the carrying amount immediately prior to the acquisition. But based on the due dilligence performed, the management was aware of the possibility for further impairment charges on loans at amortised cost. After having reviewed part of the loan portfolio additional impairment charges have been made amounting to DKK 156m.

Therefore the acquisition of the Amagerbank customers is calculated preliminary and the amounts are provisional.

DKK 1,000	**1 July 2011**
Fair value of net assets	-73,526
Goodwill acquired	308,526
Total purchase price	**235,000**

DKK 1,000	Preliminary fair value at the time of acquisition
Net assets acquired:	
Cash balances and demand deposits with central banks	63,800
Due from credit institutions	955,300
Loans and advances at fair value	101,214
Loans and advances at amortised cost:	3,641,586
Loans and advances at amortised cost, before acquisition	4,093,224
Fair value adjustments	-451,638
Intangible assets:	
customer relations	82,574
leasehold improvements	0
Property, plant and equipment	41,600
Other assets	52,400
Total assets	**4,938,474**
Deposits and other debt	4,940,200
Other liabilities	71,800
Total liabilities	**5,012,000**
Net assets acquired	-73,526
Purchase price	235,000
Goodwill	**308,526**

In connection with the acquisition BankNordik Group also has accepted contingent liabilities in the form of guarantees amounting to DKK 321m. The value of these guarantees is not considdered significant.

Due to insufficient information about earnings prior to the acquisition, it is not possible to calculate the total income and results for 2011 with any degree of reliability in the event that the net assets had been acquired as from 1 January 2011.

Contribution to total net interest and fee income in H2 2011 amounts to DKK 147m. It is not possible to calculate the the estimated total result prior to the acquisition with any degree of liability because BankNordik has purchased net assets and not independent businesses

Goodwill represents the value of the expected earning capacity of the acquired net assets that cannot be reliably attributed to the individual assets, including the value of staffs, the branches' know-how and position in the local community and expected synergies from merging with the BankNordik Group. Furthermore the liquidity surplus in the purchased branches has a significant positive inpact on Goodwill.

The acquired goodwill is deductible for tax purposes

Notes – BankNordik Group

Note DKK 1,000

37 **2010**

(Count'd) On 5 February 2010, P/F BankNordik concluded an agreement regarding the acquisition of 12 of Sparbank's branches in Jutland, on Funen and in Greenland. The acquisition date was 1 February 2010. Upon acquisition BankNordik payed DKK 335m in cash.

DKK 1,000	
Fair value of net assets	11,032
Goodwill acquired	330,250
Total purchase price	**341,282**

DKK 1,000	Fair value at the time of acquisition
Net assets acquired:	
Cash balances and demand deposits with central banks	20,084
Due from credit institutions	962,353
Loans and advances at fair value	234,967
Loans and advances at amortised cost	2,241,919
Intangible assets:	
customer relations	40,000
Property, plant and equipment	6,191
Other assets	8,440
Total assets	**3,513,953**
Deposits and other debt	3,498,106
Other liabilities	4,815
Total liabilities	**3,502,921**
Net assets acquired	11,032
Purchase price	**341,282**
Goodwill	**330,250**

It is not possible to calculate the total income and results for 2010 with any degree of reliability in the event that the net assets had been acquired as from 1 January 2010.This is because of the acquisition of net assets and not an independent business.

Contribution to total net interest and fee income in 2010 amounts to DKK 164m. It is not possible to calculate the result for 2010 with any degree of liability because the branches are not independent businesses.

The acquired goodwill is deductible for tax purposes

At the acquisition date management preliminary assessed that the fair value of the loans taken over corresponded to the carrying amount immediately prior to the acquisition, DKK 2,512m, because the Bank had returned loans having a lower value. At the acquisition date the management was aware of the possibility for further impairment charges on loans at amortised cost and after having reviewed all exposures an additional impairment charge has been made amounting to DKK 50m. Furthermore the loans and advances at fair value have been reviewed and the value at the aquisition date has been reassessed to DKK 15m higher than earlier. Therefore goodwill is adjustet by net DKK 35m during 2010.

Notes – BankNordik Group

Note DKK 1,000

38 **Related parties**

	Parties with significant influence		Associated undertakings		Board of Directors		Excecutive Board		Subsidiaries	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Assets										
Loans	0	0	21,480	24,599	1,866	1,969	2,069	2,768	0	0
Total	**0**	**0**	**21,480**	**24,599**	**1,866**	**1,969**	**2,069**	**2,768**	**0**	**0**
Liabilities										
Deposits	2,289	13,199	3,106	7,520	2,361	3,651	1,008	3,165	91,683	100,406
Total	**2,289**	**13,199**	**3,106**	**7,520**	**2,361**	**3,651**	**1,008**	**3,165**	**91,683**	**100,406**
Off-balance sheet items										
Guarantees issued	0	0	0	0	0	0	0	0	12,010	12,010
Guarantees and collateral received	0	0	13,749	13,749	1,389	1,389	0	0	172,900	177,900
Income Statement										
Interest income	1	3	1,493	1,240	9	108	113	71	925	11
Interest expense	214	774	4	34	42	53	10	54	1,804	1,778
Fee income	0	0	0	0	0	0	0	0	460	385
Other operating income	0	0	0	0	0	0	0	0	556	621
Administrative expenses	0	0	0	0	0	0	0	0	1,062	925
Total	**-212**	**-771**	**1,489**	**1,206**	**-33**	**55**	**102**	**17**	**-926**	**-1,686**

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 22 list associated undertakings.
In 2011, the interest rates on credit facilities granted to associated undertakings were between 4.75%-10.8% (2010: 5.2%-9.4%).
The Board of Directors and Executive Board columns list the personal facilities, deposits, etc., held by members of the Board of Directors and the Executive Board and their deposits, etc., held by members of the Board of Directors and the Executive Board and their dependants and facilities with businesses in which these parties have a controlling or significant interest.
In 2011, the interest rates on credit facilities granted to members of the Board of Directors and the Executive Board were between 3.25%-13,0% (2010: 5.8%-13.0%). Note 9 specifies the remuneration and 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's shares (5% or more of BankNordik's share capital) on the basis of the most recent reporting of holdingt to the Bank.
Transactions with related parties are settled on an arm's-length basis.

Notes – BankNordik Group

Note DKK 1,000

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

	Beginning of 2011	Additions	Disposals	End of 2011
Board of directors				
Klaus Rasmussen	3,570	10,792	0	14,362
Jens Erik Christensen	1,161	827	0	1,988
Keld Søndergaard Holm	700	1,900	0	2,600
Nils Sørensen	302	0	0	302
Mette Dahl Christensen	51	0	0	51
Kenneth M. Samuelsen	2,419	0	0	2,419
Total	**8,203**	**13,519**	**0**	**21,722**
Executive Board				
Janus Petersen	15,756	0	290	15,466
John Rajani (from 1 March 2011)	0	3,052	0	3,052
Súni Schwartz Jacobsen (until february 2011)	10,000	0	10,000	0
Total	**25,756**	**3,052**	**10,290**	**18,518**

40 **Fair value information**

Financial instruments are carried on the balance sheet at fair value or amortised cost. The table below breaks down for each item financial instruments by valuation method.

Financial instruments, 2011 classification and measurement

DKK 1,000	Fair value through profit and loss		Amortised cost		
	Held for trading	Designated	Loans and advances	Liabilities	Total
Assets					
Cash in hand and demand deposits with central banks	0	0	308,951	0	308,951
Due from credit institutions and central banks	0	0	461,091	0	461,091
Loans and advances at fair value	0	0	0	0	0
Loans and advances at amortised cost	0	1,022,408	10,746,484	0	11,768,892
Bonds at fair value	2,508,938	0	0	0	2,508,938
Shares, etc.	226,679	138,655	0	0	365,334
Assets under insurance contracts	0	0	93,558	0	93,558
Assets under pooled schemes	121,210	0	0	0	121,210
Derivatives with positive fair value	80,070	0	0	0	80,070
Total financial assets	**2,936,896**	**1,161,063**	**11,610,083**	**0**	**15,708,042**
Liabilities					
Due to credit institutions and central banks	0	0	0	329,316	329,316
Deposits and other debt	0	0	0	12,910,837	12,910,837
Deposits under pooled schemes	0	0	0	121,210	121,210
Issued bonds at amortised cost	0	0	0	98,276	98,276
Liabilities under insurance contracts	0	0	0	353,324	353,324
Derivatives with negative fair value	110,391	0	0	0	110,391
Subordinated debt	0	0	0	830,711	830,711
Total financial liabilities	**110,391**	**0**	**0**	**14,643,675**	**14,754,065**

Notes – BankNordik Group

Note DKK 1,000

40 **Financial instruments, 2010 classification and measurement**

(cont'd)

Assets	Fair value through profit and loss: Held for trading	Fair value through profit and loss: Designated	Amortised cost: Loans and advances	Amortised cost: Liabilities	Total
Cash in hand and demand deposits with central banks	0	0	242,382	0	242,382
Due from credit institutions and central banks	0	0	513,959	0	513,959
Loans and advances at fair value	0	1,013,704	0	0	1,013,704
Loans and advances at amortised cost	0	0	7,660,959	0	7,660,959
Bonds at fair value	3,497,466	0	0	0	3,497,466
Shares, etc.	202,829	105,660	0	0	308,490
Assets under insurance contracts	0	0	90,321	0	90,321
Assets under pooled schemes	53,651	0	0	0	53,651
Derivatives with positive fair value	6,448	0	0	0	6,448
Total financial assets	**3,760,395**	**1,119,364**	**8,507,621**	**0**	**13,387,380**
Liabilities					
Due to credit institutions and central banks	0	0	0	245,249	245,249
Deposits and other debt	0	0	0	8,790,321	8,790,321
Deposits under pooled schemes	0	0	0	53,651	53,651
Issued bonds at amortised cost	0	0	0	2,199,843	2,199,843
Liabilities under insurance contracts	0	0	0	321,833	321,833
Derivatives with negative fair value	43,330	0	0	0	43,330
Subordinated debt	0	0	0	203,240	203,240
Total financial liabilities	**43,330**	**0**	**0**	**11,814,137**	**11,857,467**

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.

Generally, the Group applies valuation techniques to OTC derivatives, unlisted trading portfolio assets and liabilities and unlisted investment securities recognised at fair value. The most frequently used valuation and estimation techniques include the pricing of transactions with future settlement and swap models that apply present value calculations, credit pricing models and options models, such as Black & Scholes models. In most cases, valuation is based substantially on observable input.

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

Notes – BankNordik Group

Notes DKK 1,000

40 (Cont'd)

2011	Quoted prices	observable input	Non-observable input	Total
Financial assets				
Loans and advances at fair value	0	1,022,408	0	1,022,408
Bonds at fair value	2,508,938	0	0	2,508,938
Shares, etc.	226,679	0	138,655	365,334
Assets under pooled schemes	121,210	0	0	121,210
Derivatives with positive fair value		80,070	0	80,070
Total	**2,856,826**	**1,102,478**	**138,655**	4,097,959
Financial liabilities				
Derivatives with negative fair value	0	110,391	0	110,391
Total	**0**	**110,391**	**0**	**110,391**

2010	Quoted prices	observable input	Non-observable input	Total
Financial assets				
Loans and advances at fair value	0	1,013,704	0	1,013,704
Bonds at fair value	3,497,466	0	0	3,497,466
Shares, etc.	202,829	0	105,660	308,490
Assets under pooled schemes	53,651	0	0	53,651
Derivatives with positive fair value	0	6,448	0	6,448
Total	**3,753,947**	**1,020,152**	**105,660**	4,879,759
Financial liabilities				
Derivatives with negative fair value	0	43,330	0	43,330
Total	0	43,330	0	43,330

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

At 31 December 2011 financial instruments valued on the basis of non-observable input comprised unlisted shares of DKK 139m (2010: DKK 106m).

In 2011, the Group recognised unrealised value adjustments of unlisted shares valued on the basis of non-observable input in the amount of DKK 6m (2010: DKK -6m).

Financial instruments at fair value valued on the basis of non-observable input	**2011**	**2010**
Fair value at 1 January	105,660	23,723
Value adjustments through profit or loss	6,353	-5,807
Value adjustments through other comprehensive income	0	0
Acquisitions	26,641	43,557
Sale	0	0
Transferred from quoted prices and observable input	0	44,187
Transferred to quoted prices and observable input	0	0
Fair value at 31 December	**138,655**	**105,660**

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

Notes – BankNordik Group

Note DKK 1,000

40 **Financial instruments at amortised cost**

(cont'd) The vast majority of amounts due to the Group, loans, advances, and deposits may not be assigned without the consent of customers, and an active market sdoes not exist for such financial instruments. Consequently, the Group basis its fair value estimates on data showing changes in market conditions after the initial recognition of the individual instrument and affecting the price that would have been fixed if the terms had been agreed at the balance sheet data. Other people may make other extimates. 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 the development in the market interest rate
- the fair value assessment of loans is assessed based on an informed estimate built on 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 basis off the market interest rate on the balance sheet day
- the subordinated equity (hybrid capital) 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 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
Financial assets				
Cash in hand and demand deposits with central banks	308,951	308,951	242,382	242,382
Due from credit institutions and central banks	461,091	461,091	513,959	513,959
Loans and advances at amortised cost	10,746,484	10,746,484	7,660,959	7,660,959
Assets under insurance contracts	93,558	93,558	90,321	90,321
Total	11,610,083	11,610,083	8,507,621	**8,507,621**
Financial liabilities				
Due to credit institutions and central banks	329,316	329,316	245,249	245,249
Deposits and other debt	12,910,837	12,910,837	8,790,321	8,790,321
Deposits under pooled schemes	121,210	121,210	53,651	53,651
Issued bonds at amortised cost	98,276	98,276	2,199,843	2,199,843
Liabilities under insurance contracts	353,324	353,324	321,833	321,833
Subordinated debt	830,711	830,711	203,240	203,240
Total	14,643,675	14,643,675	11,814,137	**11,814,137**

Notes – BankNordik Group

Note DKK 1,000

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Group holdings and undertakings	Shared capital DKK		Net profit DKK 1.000	Shareholders' equity DKK 1.000	Share capital %
P/F BankNordik	200,000,000	DKK	24,560	1,949,388	100%
Insurance companies					
P/F Trygd	40,000,000	DKK	3,739	88,986	100%
Vörður Tryggingar hf	39,780,971	ISK	13,175	89,496	51%
Vörður Líftryggingar hf	12,636,308	ISK	612	11,596	51%
Real estate agency					
P/F Skyn	4,000,000	DKK	238	1,098	100%
Venture company					
P/F Birting	10,000,000	DKK	-297	9,650	100%
Group holdings recognised under assets held for sale					
Sp/f 25.04.2008	80,000	DKK	-31,724	-130,097	0%
Sp/f Íbúðir undir Gráasteini	125,000	DKK	-31,654	-122,341	0%

42 **Assets under pooled schemes**

	2011	2010
Assets:		
Bonds	75,888	27,066
Shares	34,019	19,496
Unit trust certificates	12,864	4,559
Cash deposits	-1,562	2,529
Total assets	**121,210**	**53,651**
Liabilities	121,210	53,651
Total liabilities	**121,210**	**53,651**

Notes – BankNordik Group

Note DKK 1.000

43 **Reconciliations of changes in insurance liabilities**

	2011		2010	
	Non-life	Life	Non-life	Life
Unearned premium provisions	103,032	2,304	104,111	2,005
Outstanding claims provisions	235,512	3,286	213,500	2,218
Liabilities under insurance contracts, year-end	**338,544**	**5,589**	**317,610**	**4,223**
Unearned premium provisions				
Beginning of year	101,416	1,936	101,751	1,284
Foreign currency translation	-2,695	-69	0	0
Premiums received	85,849	0	86,172	0
Premiums recognised as income	-81,538	437	-83,812	720
Unearned premium provisions, year-end	**103,032**	**2,304**	**104,111**	**2,005**
Outstanding claims provisions				
Beginning of year	207,149	2,142	187,024	556
Foreign currency translation	-6,351	-76	0	0
Claims paid regarding current year	-88,760	-672	-163,552	-728
Claims paid regarding previous years	-10,445	0	-10,734	0
Change in claims regarding current year	140,349	2,861	184,849	2,390
Change in claims regarding previous years	-6,430	-969	15,912	0
Outstanding claims provisions, year-end	**235,512**	**3,286**	**213,500**	**2,118**

Reconciliations of changes in insurance assets	**2011**		**2010**	
DKK 1.000	Non-life	Life	Non-life	Life
Reinsurers' share of premium provisions	259	1,186	236	1,002
Reinsurers' share of claims provisions	28,527	1,762	30,153	1,118
Receivables from insurance contracts and reinsurers	60,450	1,374	56,700	1,113
Reinsurers' share of insurance contracts, year-end	**89,236**	**4,322**	**87,088**	**3,233**
Reinsurers' share of premium provisions				
Beginning of year	236	968	241	642
Foreign currency translation	0	-34	0	0
Premiums ceded	-5,195	218	-5,023	360
Payments to reinsurers	5,217	0	5,018	0
Reinsurers' share of premium provisions, year-end	**259**	**1,152**	**236**	**1,002**
Reinsurers' share of claims provisions				
Beginning of year	29,123	1,080	28,741	278
Foreign currency translation	-950	-10	0	0
Claims ceded	-1,189	-596	-10,433	-532
Payments received from reinsurers	593	1,278	11,845	1,373
Reinsurers' share of premium provisions, year-end	**27,577**	**1,753**	**30,153**	**1,118**

Note

Risk Management

44 The BankNordik Group is exposed to a number of risks, which it manages at different organisational levels. The categories of risk 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
- Insurance risk: All types of risk in the insurance company TRYGD and Vörður Tryggingar hf, including market risk, life insurance risk (for Vörður Tryggingar hf subsidiary), business risk and operational risk
- Operational risk: Risk of loss as a result of inadequate or ineffective internal procedures, human errors or system errors, or because of external events, including legal risks.

Management's Report and the Risk Management Report 2011 contain further information about the Group's approach to risk management. The Risk Management Report 2011 is available on the Group's website: www.banknordik.fo/ir

Capital base

P/F BankNordik is a licensed financial services provider and must therefore comply with the capital requirements of the Faroese Financial Business Act of 30 August 2009. Faroese as well as Danish capital adequacy rules are based on the EU capital requirement directives and apply to both the parent company and the Group.

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

Core capital largely corresponds to the carrying amount of shareholders' equity less goodwill and other intangible assets, etc. The solvency presentation in the section Statement of Capital shows the difference between the carrying amount of shareholders' equity and the core capital. BankNordik's subordinated debt may, subject to certain conditions, be included in the capital base. Sections 124, 132 and 136 of the Faroese Financial Business Act specify these conditions. Note 33 to the financial statements describes P/F BankNordik's subordinated debt.

At the beginning of 2011, the Group's core capital and solvency ratios were 17.2% and 17%, respectively. At the end of 2011, the core capital and solvency ratio were 12.4% and 15.6%, respectively. The Group's long-term target is to have a solvency ratio in the range of 13–16%. In 2012 the target is 13%, This is 3.5% higher than the individual solvency ratio. The individual solvency ratio is not audited.

BankNordik has been rated by the international rating agency Moody's since 2008. The rating has been a part of the Group's capital targets. With the acquisition of the healthy parts of Amagerbanken in 2011 and the activities from Sparbank in 2010, BankNordik had a deposit surplus of DKK 1.3 billion, 31 December 2011. As a result, the Bank gradually prepaid all its bond loans, totalling DKK 2.7 billion. Against this background, BankNordik has decided to eliminate the direct and indirect costs associated with the credit rating. This was announced to the market on 16 February 2012.

Credit risk

The Group's credit exposure consists of selected on-balance sheet and off-balance sheet items. The figures below are inclusive of individual and group impairments. Specification of impairments are shown in tables 9 to 12.

Table 1

(DKKm)	2011	2010
Credit institutions and central banks	726	756
Public	717	701
Private	8,900	5,772
Corporate	7,408	5,573
Custumers total	17,025	12,046
Total	**17,751**	**12,802**

Exposures related to trading and investment activities		Table 2
(DKKm)	2011	2010
Bonds at fair value	2,509	3,497
Equity	365	308
Derivates with positive fair value	80	6
Total	**2,954**	**3,811**

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 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 has changed. Each facility must reasonably match the customer's credit quality and financial position. Furthermore, the customer must be able, with all probability, to demonstrate his ability to repay the debt. The Group exercises prudence when granting credit facilities to businesses and individuals when it is obvious that it will be practically difficult for the Group to maintain contact with the customer. The Group is particularly careful in granting credit to businesses in troubled or cyclical industries. The Group's target is not to have any industry sector exceeding 10% of the Bank's total loans and advances and in the long term not to have exposures exceeding 10% of the Bank's capital base (see tables 4 and 7).

Figures for loans and guarantees are adjusted to various accounting terms in the annual report. The table below shows the correlation between customer loans and guarantees provided to customers and total loans and guarantees in the financial statements.

Table 3 Link between customer exposures and loans and guarantees reported in the Annual Report

Credit exposure

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

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

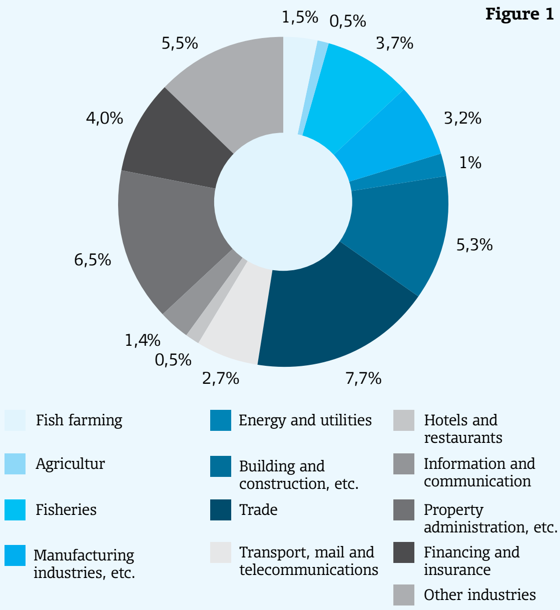
Adjustment of loans and guarantees 2011			Table 3
	Loans	Guarantees	Loans and Guarantees total
Total Exposures	15,279	1,746	17,025
Undrawn facilities	3,131	0	3,131
Loan and guarantees (balance)	12,148	1,746	13,894
Individual Impairments	320	0	320
Group Impairments	25	0	25
Net loans and guarantees after Impairments	11,803	1,746	13,549
Adjustments total net	-34	-9	-43
Loans and guarantees adjusted	11,769	1,737	13,506
Jf. Annual Report 2011	11,769	1,737	13,506

Credit exposure relating to lending activities

The table below breaks down the Group's credit exposure in core banking activities by asset class. The Bank has revised the industry distribution to comply with the sectors defined by Danish Standards in 2011. Accordingly, the corporate sector categories are not directly comparable from 2010 to 2011.

Risk exposure concentrations				Table 4
	2011		2010	
(DKKm)	DKKm	In %	DKKm	In %
Public authorities	717	4.2%	701	5.8%
Corporate sector:				
Fish farming	250	1.5%	98	0.8%
Agricultur	79	0.5%	63	0.5%
Fisheries	630	3.7%	520	4.3%
Manufacturing industries, etc.	539	3.2%	422	3.5%
Energy and utilities	174	1.0%	47	0.4%
Building and construction, etc.	895	5.3%	710	5.9%
Trade	1,319	7.7%	954	7.9%
Transport, mail and telecommunications	461	2.7%	590	4.9%
Hotels and restaurants	91	0.5%	46	0.4%
Information and communication	243	1.4%	176	1.5%
Property administration, etc.	1,103	6.5%	826	6.9%
Financing and insurance	683	4.0%	407	3.4%
Other industries	943	5.5%	713	5.9%
Total corporate sector	7,408	43.5%	5,573	46.3%
Private customers	8,900	52.3%	5,772	47.9%
Total	**17,025**	**100.0%**	**12,046**	**100.0%**

As shown in the table above exposures to the private sector increased from 47,9% in 2010 to 52,3% in 2011. This is a result of the acquisition of Amagerbanken. In the fisheries, agriculture and fish farming sector,



DKK 630m was related to the fishing industry. This represents 3.7% of the total exposures. DKK 79m was related to agricultur industry. This represents 0,5% of total exposures.

The industry diversification figure on next page breaks down the Group's credit exposure by sector.

No single industry exceeded 8% 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. The table below provides a geographical breakdown of the total exposures.

As shown in the table below the Faroes account for about 46%, the Danish market in total is 45% and Greenland is approx. 8% of the 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 conducted in conjunction with the quarterly impairment testing of the loan portfolio. All customers that meet a few objective criteria are classified at these sessions. The classification is also used as a means of determining the Bank's solvency requirement. The classification is divided as follows:

- Portfolio without weakness
- Portfolio with some weakness
- Portfolio with weakness
- Portfolio with impairment/provision

As shown in the table 53% of total exposures are individually classified.

Quality of loan portfolio excl. Financial institutions — Table 6

(DKKm)	2011	2010
Portfolio without individual classification	8,041	2,182
Portfolio without weakness	5,091	8,173
Portfolio with some weakness	2,381	622
Portfolio with weakness	492	127
Portfolio with impairment/provision	1,020	942
Total	**17,025**	**12,046**
Portefolio classified in % of total portefolio	53%	82%

Unclassified customers are assumed to be of good credit quality, since they are not comprised by the bank's write-down procedure. All customers who are selected in relation to impairment review are classified. For further information regarding portfolios with impairment/provision, see table 9 to 12.

Concentration risk

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

Under section 145 of the Faroese Financial Business Act, exposure to a single customer or a group of related customers, after deduction of particularly secure claims, may not exceed 25% of the capital base. More-

Credit exposure by Geographical area — Table 5

(DKKm)	2011				2010			
	Exposures	in%	Loan/Credits	Garanties	Exposures	In %	Loan/Credits	Garanties
Faroe Islands	7,872	46%	6,631	535	7,221	60%	6,522	238
Denmark	7,732	45%	4,746	789	3,303	27%	1,753	956
Greenland	1,422	8%	771	422	1,422	12%	837	402
Other	0	0	0	0	99	1%	80	3
Total	**17,025**	**100%**	**12,148**	**1,746**	**12,046**	**100%**	**9,191**	**1,599**

over, after deduction of particularly secure claims, the sum of all exposures that individually exceed 10% of the capital base may not exceed 800% of the capital base. The Group submits quarterly reports to the Danish FSA on its compliance with these rules. In 2011, none of the Group's exposures exceeded these limits.

The table abov shows credit exposures to groups totalling 10% or more of the Group's capital base. The table does not include intra-group balances.

Large exposures — Table 7

	2011	2010
Exposures > 10% of Capital base (%)	23%	23%
Exposures > 10% of Capital base (DKKm)	448	390
Max. exposures of 800% af Capital base (DKKm)	15,376	13,696
Utilisation (in % of max.)	3%	3%
Base capital (DKKm)	1,922	1,712

Large exposures are limited and are found in the aquaculture and the building and construction industries. The Bank's long-term goal is to have no exposures in excess of 10% of the Bank's base capital. In special cases, such exposures may occur, but only for customers of a high credit quality, and where the Bank has accepted collateral.

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. The types of collateral most frequently provided are real estate, ships/aircraft and motor vehicles In addition to guarantees provided by owners or, in the Danish market, by floating charge (Virksomhedspant).

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, see table 8. For real estate, haircuts reflect the expected costs of a forced sale and a margin of safety. This margin 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, guarantees by third party (exclusive of guarantees from public authorities and banks) and collateral in movables, the haircut is 100%.

Table shows the Bank's total credit exposure and the collateral for the loans granted divided into private, corporate and the public sector. Unsecured exposures accounted for 45% of private exposures and 51% of corporate exposures. The largest part of the Bank's credit is granted against collateral in real estate.

As shown in table above, DKK 102m is more than 90 days past due. Of this, exposures amounting to DKK

Credit exposure and collateral for 2011 — Table 8

(DKKm)	Private	Corporates	Private & Corporate	Public	Total
Exposure	8,900	7,408	16,308	717	17,025
Loan balance and guarantees	6,636	6,753	13,389	505	13,894
Collateral	4,879	3,610	8,489	258	8,748
Unsecured (of Exposures)	4,021	3,798	7,819	458	8,277
Unsecured (Loan balance and Guarantees)	1,757	3,143	4,900	247	5,146
Unsecured ratio	45%	51%	48%	64%	49%
Unsecured ratio balance	26%	47%	37%	49%	37%

Credit exposure and collateral for 2010

(DKKm)	Private	Corporates	Private & Corporate	Public	Total
Exposure	5,772	5,573	11,345	701	12,046
Loan balance and guarantees	5,112	5,071	10,184	607	10,790
Collateral	2,900	2,827	5,727	246	5,973
Unsecured (of Exposures)	2,872	2,746	5,618	455	6,073
Unsecured (Loan balance and Guarantees)	2,240	2,325	4,565	152	4,717
Unsecured ratio	50%	49%	50%	65%	50%
Unsecured ratio balance	44%	46%	45%	25%	44%

Distribution of past due amount

Table 9

(DKKm)	2011			2010		
	Exposure	Past due total	Past due > 90 days	Exposure	Past due total	Past due > 90 days
Portfolio without individual classification	8,041	56	16	2,182	32	5
Portfolio without weakness	5,091	27	4	8,173	119	9
Portfolio with some weakness	2,381	35	12	622	29	3
Portfolio with weakness	492	18	9	127	13	1
Portfolio with impairment/provision	1,020	89	60	942	65	11
Total	**17,025**	**225**	**102**	**12,046**	**258**	**28**
Past due in % of Exposure		1.32%	0.60%		2.14%	0.24%

50m from Amagerbanken are provisioned for by collateral or impairment. The balance of accounts with overdraft / past due amounts to DKK 1,7 bn (exclusive overdraft/past due from Amagerbanken).

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

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

Exposures and individual impairments by sector

Table 10

(DKKm)	2011		2010	
	Exp.	Impair.	Exp.	Impair.
Public	717	0	701	0
Private	8,9 00	62	5,772	53
Corporate	7,408	257	5,573	321
Total	**17,025**	**320**	**12,046**	**374**
In % of Total Exp.		1.9%		3.1%

The total Impairment charges above for 2011 reflect not the acquisition of Amagerbanken and Spanbank. Impairment charges of the acquired exposures from Sparbank (2010) and Amagerbanken (2011) are recognised as goodwill.

In connection with the acquisition of Sparbank (2010) and Amagerbanken (2011), the bank has taken over the exposures that were individually impaired. These impairments have been included in the determination of the purchase price paid for the exposures and are, therefore, recorded as goodwill. Total is recorded DKK 477 m on this account (see Table 11).

These impairments will be recorded as other income, if they should be redeemed.

The table on next page provides an overview of BankNordik's credit portfolio in 2011 and 2010. In the 2010 table, the "OEI" column indicates exposures classified as "Portfolio with weakness". In the 2011 table, the "OEI" column indicates exposures with impairments (see table 9) for more details about "Portfolio with impairment/provision.

Specification of individual and group Impairments

Table 11

DKKm	Individual Impairments	Impairments from acquired portefolio
Faroe Islands	230	0
Denmark	74	474
Greenland	15	3
Other	0	0
Total individual impairments	**320**	**477**
Group impairments:		
Faroe Islands	20	0
Denmark and Greenland	5	5
Group impairments total	25	5
Total impairments	**345**	**482**

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

Credit portfolio 2011

Table 12

(DKKm)	Exposure	Balance*	Guarantee	Impair-ments	With Weakness (Balanced loans/ Guarantee)	OEI (Bal-anced)	Past due
Public authorities	717	505	0	0	0	0	4
Corporate sector:	0						
Fisheries, agricultur and fish farming	250	152	1	0	0	0	23
Agricultur	79	53	13	5	4	30	
Fisheries	630	585	12	13	13	78	
Manufacturing industries, etc.	539	406	22	31	25	66	9
Energy and utilities	174	152	14	0	0	0	3
Building and construction, etc.	895	475	178	43	50	198	11
Trade	1,319	822	159	11	52	31	12
Transport, mail and telecommunications	461	375	33	17	8	21	5
Hotels and restaurants	91	64	9	0	4	6	2
Information and communication	243	201	7	0	6	2	3
Property administration, etc.	1,103	810	133	8	57	65	6
Financing and insurance	683	297	317	18	12	48	6
Other industries	943	620	114	110	27	192	36
Total corporate sector	7,408	5,012	1,011	257	257	738	114
Private customers	8,900	6,631	736	62	208	212	106
Total	**17,025**	**12,148**	**1,746**	**320**	**465**	**950**	**225**
In % of Total Esposure		71.35%	10.26%	1.88%	2.73%	5.58%	1.32%

Credit portfolio 2010

Table 12

(DKKm)	Exposure	Balance*	Guarantee	Impair-ments	Some weakness	OEI	Past due
Public authorities	701	575	27	0	3	5	7
Corporate sector:							
Fishing industry	644	614	11	68	119	3	29
Manufacturing industries, etc.	563	490	33	56	34	8	32
Building and construction, etc.	767	443	199	33	29	6	17
Trade, hotels and restaurants	1,113	860	144	40	106	10	26
Transport, mail and telecommunications	820	712	52	27	10	4	8
Property administration, etc.	1,080	714	170	45	138	21	16
Other industries	587	563	70	53	61	40	24
Total corporate sector	5,573	4,396	679	321	497	91	151
Private customers	5,772	4,219	893	53	122	31	100
Total	**12,046**	**9,191**	**1,599**	**374**	**622**	**127**	**258**

*Loans and advances (incl. impairments)

mented. Following the acquisition of branches of Spar Bank (in 2010) and Amagerbanken (in 2011), the Bank has further strengthened its credit controls.
A further breakdown by maturity of loans and advances can be found in Table 18. There are no aggregated data on the collateral behind matured loans and advances.

The Danish Financial Supervisory Agency (DFSA) has introduced a new model for measuring whether a bank has a high risk profile – the so called Supervisory Diamond ("Tilsynsdiamanten"). The model identifies five areas considered to be indicators of increased risk if not within certain limits. The model will be fully implemented as a part of the Danish FSA's supervision by year end 2012.

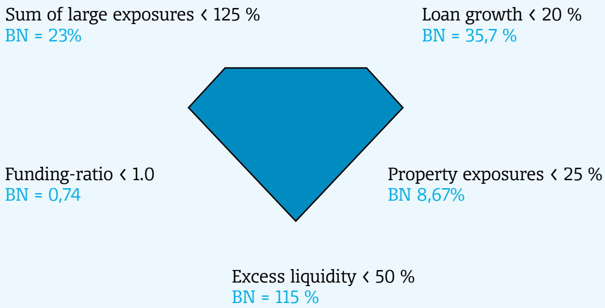
The Bank meets by a wide margin the limits for large exposures, exposures towards real estate, excess liquidity and stable funding. But the limits for lending growth are exceeded by a margin of 16.7% due to the acquisition of the Danish activities of Amagerbanken.

The Group's total property exposure is 6.5% (see Figure 1). The FSA has announced in an update of the diamond, that the sector has to include costumers with property-related activities from the segment "Building and construction" in its "Property exposures". As a result, BankNordik's total "Property exposures" amounted 8.67% according the new requirements, still well within the range.

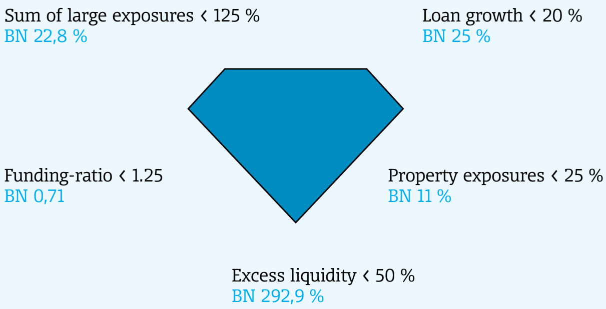
The Supervisory Diamand

Figure 2

2011



2010



Market risk

The Group defines market risk as risk related to price fluctuations in the financial markets.

Several types of risk may arise and the Bank manages and monitors these closely.

In 2011, the Bank's market risk was back to more normal levels compared to previous years. The above-normal market risk in 2010, was due to the Bank's strong liquidity and bond placements. The Bank's expansion has not had any significant impact on its exposure to market risk.

Policy and responsibility

The Group's market risk management relates to the Group's assets, liabilities and off-balance-sheet items.

BankNordik's markets risks are:

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

The Board of Directors defines the overall policies/limits for the Group's market risk exposures, including overall risk limits. The limit on market risk has been defined in consideration of the risk implid, and 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.

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

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

Markets risk appétit

Factors:	Limit	Year end 2011
Interest rate risk	4% of Base Capital	1,8% of Base Capital
Exchange rate risk	15% of Base Capital	6,9% of Base Capital
Equity market risk	Listed equities < 10% of Base Capital	5,4% of Base Capital

Market risk

The Bank reviews its market risk exposure on a regular basis, and the likely effect a market change will have on the Bank's results. The likely changes are revised on an ongoing basis and may be assessed in the context of historic or anticipated market fluctuations. Table 13 shows the calculated loss expected by a likely change in market values

Market Risk Management

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

Likely effects from changes in markets value					Table 13
	Change	2011	% of Base Capital	2010	% of Base Capital
Equity risk DKKm (+/-)	10%	36.5	1.8%	30.8	1.5%
Exchange risk DKKm (+/-) EUR	2.25%	0.3	0.0%	8.2	0.4%
Exchange risk DKKm (+/-) Other currencies	10%	2.0	0.1%	6.2	0.3%
Interest rate risk DKKm (parallel shift)	100 bp	35.0	1.8%	64.0	3.1%

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

The calculation is based on all factors developing in an unfavourable direction for the Bank.

Interest rate risk

Table 14 shows the Group's total interest rate risk defined as the expected loss that would result from a parallel 1% upward shift of the interest rate specified by currency.

The major contributor to the group's interest rate risk is the bank's portfolio of Danish Government and mortgage bonds. The exposure in ISK comes from the Groups Icelandic subsidiaries. To a smaller extent loans are also offered with fixed or capped interest. Corporate loans are generally hedged on a one-to-one basis while private loans are hedged in portfolios significantly reducing the interest risk on these loans.

Interest rate risk broken down by Currency		Table 14
(DKKm)	2011	2010
DKK	20	53
ISK	13	10
EUR	1	1
JPY	0	0
USD	0	0
CHF	0	0
GBP	0	0
Interest rate risk	35	64

The Bank now offers fixed-rate mortgage loans to private customers in the Faroese market in cooperation with DLR Realkredit. In the Danish and Greenland markets, mortgage loans are distributed in cooperation with Totalkredit and DLR.

Exchange risk

BankNordik's base currency is DKK and assets/liabilities in other currencies therefore imply an extra risk as these may vary 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

Exchange rate indicator 1 is calculated as the highest position – short or long – in every currency including hedging. The exchange rate risk is monitored on a daily basis with respect to the limits defined for each currency.

The exchange rate risk indicator was significantly lower at year end 2011 than at year end 2010 and below our strategic target of 15% of Base Capital.

Foreign exchange risk		Table 15
(DKKm)	2011	2010
Assets in foreign currency	98	426
Liabilities and equity in foreign currency	133	50
Exchange rate indicator 1	133	426

Equity risk

BankNordik's stringent risk policy restricts equity positions to listed and liquid shares and shares related to the Danish banking sector, but occasionally the Bank holds unlisted shares if they are part of an enforcement of a defaulted loan.

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.

The increase in sector equity is due to an increased investment in DLR and a new investment in Bankinvest, a leading independent asset manager in the Nordic region.

Equity risk		Table 16
DKKm	2011	2010
Unlisted	7	6
Listed	104	107
Sector	132	99
Total	**243**	**213**

The difference between equities in table 16 and table 2 is due to a reclassification of Unit trust certificates investings in bonds. The difference is mainly due to Vörður's investment's in Unit trust certificates investing in Icelandic bonds only.

Liquidity

Liquidity risk is defined as the risk of loss as a result of

- 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

Liquidity risk is a fundamental part of the Group's business strategy.

The Bank's liquidity is managed by Treasury in accordance with the limits set by the Board of Directors and reported to the Executive Board by the Finance department. Liquidity has been much in focus in recent years, and BankNordik has managed to maintain a prudent liquidity buffer throughout the financial crises. In 2011, the Group deliberately reduced its liquidity in order to comply with the Board of Directors' policy of holding an excess liquidity of 100% of the statutory requirements. At year-end, the liquidity reserve was 114% above the statutory requirement. The Bank is presently working on further diversifying the liquidity reserves.

A liquidity report with stress tests is submitted to the Executive Board and the Group Risk Committee on a monthly basis. The Group has implemented contingency plans to ensure that it is ready to respond to unfavourable liquidity conditions.

Liquidity management in the Group is based on the ongoing monitoring and management of the Bank's short-term and long-term liquidity risk and builds on four pillars: operational liquidity risk, liquidity stress testing, 12-month liquidity management and structural liquidity risk.

Operational liquidity risk

The organisation of the Group's operational liquidity risk management is set to ensure that the Group always has sufficient liquidity to handle customer transactions and changes in liquidity.

Rating af bonds		Table 17
	2011	2010
AAA	84%	73%
AA1-A2	13%	26%
Other	3%	1%

BankNordik's bond portfolio forms a major part of the liquidity - se table 2. Therefore, it is essential that the portfolio can be traded at fair prices at any time. BankNordik believes that a solid rating is one of the conditions for ensuring a fair price in the market. Hence, it is BankNordik's policy to invest in bonds with high ratings and thereby minimise the liquidity risk of the Bank's bond portfolio. Most of these bonds are also accepted by the Danish central bank for repo transactions.

Liquidity Management

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

In 2009, BankNordik entered into an agreement where Finansiel Stabilitet guarantees the bank's bond issues of up to DKK 4bn. The bank issued bonds totalling DKK 2.2bn under this guarantee, but at year-end 2011 the Bank had prepaid DKK 2.1bn, bringing bonds issued under agreement with Finansiel Stabilitet down to DKK 100m.

Liquidity stress test

BankNordik has incorporated a liquidity stress testing model. This model is used at least monthly to forecast developments in the Bank's liquidity on a 12-month horizon and to forecast whether, on a 6-month horizon, the Bank will comply with the Board of Directors' policy that excess liquidity should equal at least 100% of the statutory requirement. The test is based on the business-as-usual situation with outflows from undrawn committed facilities and further stress measures. If the six-month target is not met, the Executive Board shall implement a contingency plan.

Part of the stress test is to monitor and diversify the Bank's funding sources. It is also relevant that the Group has a significant portfolio of bonds that can be used as collateral with the Danish central bank.

12-month liquidity

The Bank's 12-month funding requirements are based on projections for 2012, which were revised in December taking the current market outlook into account. The projections show similar volume growth in deposits and loans. Therefore, the Bank's lending growth will be fully funded internally. The refinancing need for 2012 has been addressed and hence the Group can fulfil its requirements without having to go to the capital markets in 2012.

Structural liquidity risk

Deposits are generally considered a secure source of funding. Deposits are generally short term but their historical stability makes it possible for BankNordik to grant customer loans with much longer terms, e.g. 25 years to fund residential houses. 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.

Loans and advances specified by maturity — Table 18

(DKKm)	2011	2010
On demand	42	163
3 months or less	1,963	226
3 months to 1 year	1,786	617
1-5 years	3,577	2,591
Over 5 years	4,401	5,077
Total	**11,769**	**8,674**

Deposit by maturity — Table 19

(DKKm)	2011	2010
On demand	8,709	4,355
3 months or less	2,228	2,660
3 months to 1 year	247	17
1-5 years	640	663
Over 5 years	1,208	1,149
Total	**13,032**	**8,844**

External medium to long-term funding in the international credit markets has proven uncertain and cannot be relied on. Hence, the Board of Directors has previously defined a strategic goal of reducing the dependence on external funding. With the acquisition of branches from Sparbank in 2010 and Amagerbanken in 2011, the Bank has reached this goal.

To avoid a run on the bank, it is BankNordik's policy always to have strong liquidity from many different sources. Therefore, it is the Bank's policy to further diversify the deposit base in terms of amounts, products and, to an increasing extent, geographically.

For this purpose, BankNordik has entered into cooperation with DLR Kredit on becoming an intermediary distributor of mortgage loans in Faroe Islands and Greenland. BankNordik provides the mortgage loans in accordance with guidelines agreed upon by the parties. Similar agreements have been made with Totalkredit for mortgage loans in Denmark.

Funding sources

The Group monitors its funding mix to make sure, that there is a satisfactory diversification between deposits, equity, subordinated debt and long-term loans from the financial markets.

Funding sources — Table 20

(DKKm)	2011	2010
Due to credit institutions and central banks	329	245
Issued bonds	98	2,200
Deposits	13,032	8,844
Subordinated debt (fair value)	831	203
Total	**14,290**	**11,492**

In 2011, the Bank issued subordinated debt of a nominal value of DKK 600m in connection with the acquisition of the Amagerbanken branches. The issued capital together with the increased deposit base made it possible to prepay the issued bonds.

Insurance risk

Other risk types are measured and assessed under Pillar II. These include insurance risk, although insurance risk is not included in the calculation of the minimum capital requirements.

Insurance risk in the Group consists mostly of non-life insurance risk. The Group owns two non-life insurance companies: Trygd, which is wholly owned, and Vörður, which at year end 2011 is 51% owned. At year end Vörður held a 30%-stake and BankNordik a 21%-stake in the life insurance company Vörður Life. In 2012 the non-controlling shareholder of Vörður has informed BankNordik that it will exercise its option to require BankNordik to acquire the non-controlling shareholders' 49%-stake in Vörður. BankNordik has accepted the exercise of the option, however, BankNordik and the non-controlling shareholder do not agree of the exercise price and, therefore, the acquisition has not been completed. In addition BankNordik, Vörður, the other shareholder of Vörður Life and Vörður Life have agreed on a transaction whereby Vörður becomes the sole shareholder of Vörður Life. This transaction awaits approval from the Icelandic Financial Supervisory Authority and have, therefore, not been completed yet.

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, credit and market risk, operational risk, currency exchange risk and investment risk.

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

Distrubution of portefolio of Vörður and Trygd — Table 21

(in %)	2011	2010
Commercial lines	30%	25%
Personal lines	70%	75%

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

The table shows the main insurance risk elements in Trygd and Vörður.

Financial assets linked to insurance risk — Table 22

(mDKK)	2011	2010
Listed securities on stock exchange	301	247
Accounts receivable (total tecknical provisions)	60	55
Cash and cash equivalents	122	128
Total	**482**	**431**
Incurance contracts, short term, net	314	275

Insurance risk

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

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

The bank reviews its market risk exposure on a regular basis, and the likely effect of market changes on the Bank's results. The likely changes are revised on

Likely effects from changes in markets value	Change	2011	2010
			Table 23
Equity risk DKKm (+/-)	10%	1.84	1.25
Exchange risk DKKm (+/-) in euro	2.25%	0	0
Exchange risk DKKm (+/-) others currency	10%	0	0
Interest rate risk DKKm (parallel shift) - Trygd	100 bp	0.81	1.15
Interest rate risk DKKm (parallel shift) - Vörður	100 bp	12.39	9.18
Interest rate risk DKKm (parallel shift) - Total	100 bp	13.20	10.33

an ongoing basis and may be assessed in the context of historic or anticipated market fluctuations.

Markets risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and equity prices affecting the Company´s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Trygd holds shares, bonds and cash in DKK only and Vörður is only exposed in ISK.

The Board of Directors sets out the instructions under which the companies operate. The Executive Management's role is to have internal procedures to monitor any risk on an ongoing basis to ensure compliance with the framework and to be able to meet future obligations.

TRYGD insurance

Insurance for individuals is primarily sold by the Group´s employees at TRYGD and through BankNordik's branches, and secondarily through selected collaboration partners. Insurance to commercial customers is mainly sold by employees at TRYGD.

The size of provisions for claims is based on individual assessments of the final costs of individual claims, supplemented by 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 instructions to the corporate department.

Insurance 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.

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

TRYGD has organised a reinsurance programme which ensures that e.g. large natural disasters and significant individual claims do not compromise TRYGD´s ability to meet its obligations. For large natural disasters, the total cost to TRYGD will amount to a maximum of DKK 15m. The reinsurance program is reviewed once a year and approved by the Board of Directors. TRYGD uses reputable reinsurance companies with good ratings and financial positions.

The Board of Directors at TRYGD has agreed on a low-risk investment policy. In compliance with the legal requirements, Trygd holds reserves in respect of its liabilities under insurance contracts and these reserves are invested in Danish bonds, with at least 60% being placed in government bonds. TRYGD's strategy for safe investment in Danish bonds makes the company's exchange rate risk negligible. Trygd does not hold positions in equities.

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. If this is not possible according to the terms of the insurance policy, in exceptional circumstances ex-gratia compensation may be granted if this is deemed appropriate following an overall assessment of the claim, the history of the claim, and the customer's relationship with the Group.

Insurance 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.

Run-off gains/losses in Trygd (mDKK) — Table 24

Sector:	2011	2010	2009	2008	2007
Industry	1.66	0.92	-1.35	0.81	1.25
Private	0.63	-0.59	-0.04	0.25	1.51
Accidents	0.02	-0.09	0.01	0.01	0.01
Automobile	2.54	1.30	-1.00	0.90	2.37
Total	**4.84**	**1.53**	**-2.38**	**1.97**	**5.13**

Statistical figures for the last 5 years are shown in the table above.

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 on a low risk investment policy. The company´s main investments are in bonds and deposits. There are no exchange risk, as all business is done in DKK.

Vörður insurance

Vörður tryggingar hf. was established in Iceland in 2002 but can trace its roots back to 1926 as a small marine mutual operating in Akureyri, Iceland. Vörður tryggingar hf. is headquartered in Reykjavik and operates three offices and four agencies outside the Reykjavik area. Vörður tryggingar hf. is 51%-owned by BankNordik and 49%-owned by Eignarhaldsfélagið ehf.

Vörður tryggingar hf. sells all classes of non-life insurance except aviation.

Vørdur tryggingar hf. operates risk management under the supervision and guidelines of the Icelandic FSA and according to recognised best practices within the insurance industry. The responsibility of risk management lies with the board of directors and the CEO of the company.

The current investment strategies are extremely conservative with a predetermined diversification of investments and in terms of type of assets. Furthermore, the companies are bound by regulation that determines allowable investments and how they are diversified.

Run-off gains/losses in Vörður (DKKm) — Table 25

Sector:	2011	2010	2009	2008	2007
Automobile	4.85	-3.54	-12.29	-12.30	-5.60
Other sectors	-2.98	-9.75	-7.95	-1.81	-1.05
Total	**1.87**	**-13.29**	**-20.23**	**-14.11**	**-6.65**

The current investment strategy is based on investments which ensure stable and reliable returns, such as government and mortgage bonds with high ratings or deposits. Furthermore, the company is very conservative in its operational planning in respect of expected investment income.

A monthly report is issued and presented to the Board of Directors of all outstanding default premiums. As a result, the default rate is carefully monitored. In addition, a procedure has been applied to ensure that the company gets off risk if premiums are not paid within 90 days of the due date.

Vörður only deals with reinsurance companies with an S&P A-rating or better for long-tail business and at least BBB or better for short tail business. Current reinsurers of the company are all A-rated or better with the exception for one small marine line for which the reinsurer is rated BBB. The risk of each reinsurance treaty is also spread on 2-10 different reinsurance companies according to the capacity of the treaty, spreading the risk of reinsurance default. The company sends quarterly reports of assets to the Icelandic Financial Supervisory Authority as required.

The non-controlling shareholder of Vörður Tryggingar hf has informed BankNordik that it will exercise its option to require BankNordik to acquire the non-controlling shareholders' 416,500,000 shares in Vörður Tryggingar hf. BankNordik has accepted the exercise of the option, however, BankNordik and the non-controlling shareholder do not agree of the exercise price and, therefore, the acquisition has not been completed. The parties agree that the exercise price will be in the range of ISK 1,100,000,000 and ISK 1,600,000,000. Translated in to DKK using closing rate at year end 2011 the exercise price will be in the range of DKK 51.5m and DKK 74.9m. Following a completion of the transaction, BankNordik will hold 100% of the shares in Vörður Tryggingar hf.

Operational risk

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

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

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

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

Policy
The Bank seeks to minimise its operational risks throughout the organization by an extensive system of policies and control arrangements set up for the purpose of optimising procedures.

Measurement and control
At the organisational level, banking activities are kept separate from the control function. Independent auditors perform the internal auditing in order to ensure that principles and procedures are complied with at all times. Disaster recovery plans are in place for all of the Bank's core systems, all of which have been tested satisfactorily. The Bank has a back-up system for all of its core systems and other critical systems at a location different from the primary system, with full back-up of the primary system every 24 hours. Although the Bank has implemented risk controls and taken loss-mitigating actions, and substantial resources have been devoted to developing efficient procedures and training staff, it is not possible to implement procedures, which are fully effective in controlling all operational risks. The Bank therefore holds insurance policies in respect of property, office equipment, vehicles and employee compensation as well as general liability and directors' and officers' liability. In addition, the Bank holds insurance policies in respect of theft, robbery, transportation between branches and conveyance by post of amounts below a reasonable figure. The Bank believes that the type and relative amounts of insurance that it holds are in accordance with customary practice in its business area. The Bank has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), during a period covering at least the preceding 12 months, which may have, or have had in the recent past, significant effects on the Bank's financial position or profitability.

The Conversion of Amagerbanken´s IT System
The conversion from Amagerbanken's IT system, which was operated by BEC, to BankNordik's IT system, which is operated by SDC took place in the weekend of 17–19. February. The bank was well prepared for the transition, and substantial effort was put into mitigating the bank's operational risks. The conversion was executed according to plan.

Some undesirable challenges were subsequently discovered, but the task force organisation managed to resolve these challenges quickly.

Definitions of key financial ratios

Key financial ratio	Definition
Earnings per share (DKK)	Net profit for the year divided by the average number of shares outstanding during the year
Diluted earnings per share (DKK)	Net profit for the year divided by the average number of shares outstanding during the year, including the dilutive effect of share options and conditional shares granted as share-based payments.
Return on average shareholders' equity (%)	Net profit for the year divided by average shareholders' equity during the year
Cost/income ratio (%)	Operating expenses divided by total income
Solvency ratio	Total capital base, 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
Capital base	The capital base 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 capital base
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 of the net profit for the year divided by the number of issued shares at the end of the year.
Share price at December 31	Closing price of Føroya Banki shares at the end of the year
Book value per share (DKK)	Shareholders' equity at December 31 divided by the number of shares Outstanding 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

Highlights, ratios and key figures – BankNordik Group

Highlights

DKK 1,000	2011	2010	Index '11/10	Unaudited Q4 2011	Unaudited Q3 2011	Unaudited Q2 2011	Unaudited Q1 2011
Net interest and fee income	680,654	589,019	116	203,021	204,206	136,394	137,033
Interest and fee income and income from insurance activities, net	735,006	643,679	114	191,671	227,952	165,792	149,592
Market value adjustments	9,761	16,914	58	26,533	4,744	-4,623	-16,893
Other operating income	26,862	420,528	6	11,093	387	4,145	11,237
Staff cost and administrative expenses	597,263	456,629	131	203,832	184,217	107,941	101,272
Impairment charges on loans and advances etc.	100,806	200,233	50	43,075	18,856	10,868	28,006
Net profit	31,971	312,743	10	-24,572	27,536	19,414	9,593
Loans and advances	11,768,892	8,674,663	136	11,768,892	11,948,508	8,445,637	8,376,167
Bonds at fair value	2,508,938	3,497,466	72	2,508,938	2,424,773	2,436,928	2,524,378
Intangible assets	801,957	407,732	197	801,957	771,013	451,728	456,181
Assets held for sale	168,980	160,794	105	168,980	174,111	165,646	209,732
Total assets	17,086,357	14,243,358	120	17,086,357	18,902,089	13,289,427	13,502,317
Due to credit institutions and central banks	329,316	245,249	134	329,316	181,904	146,334	316,445
Deposits and other debt	13,032,047	8,843,972	147	13,032,047	13,954,669	8,740,515	8,943,328
Issued bonds at amortised cost	98,276	2,199,843	4	98,276	701,927	1,199,843	1,199,843
Total shareholders' equity	1,957,695	2,013,480	97	1,957,695	2,017,495	1,993,015	1,977,107

Ratios and key figures

	Des. 31 2011	Des. 31 2010	Des. 31 2011	Sept. 30 2011	June 30 2011	March 31 2011
Solvency						
Solvency ratio, %	15.6	17.0	15.6	15.0	20.3	17.1
Core capital ratio, %	12.4	17.2	12.4	12.0	19.4	17.3
Risk-weighted Items, DKK mill	12,313	10,080	12,313	13,068	9,743	9,849
Profitability						
Return on equity after tax, %	1.6	17.2	-1.2	1.4	1.0	0.5
Cost / income, %	96.0	64.7	114.3	87.0	86.0	92.9
Cost / income, % (excl. value adjustm. and impairments)	84.0	47.1	108.0	80.6	77.3	65.7
Liquidity						
Excess cover relative to statutory liquidity requirements, %	115.3	292.9	115.3	148.6	210.7	163.3
Credit risk						
Growth on loans and advances, %	35.7	25.0	35.7	37.7	0.8	-3.4
Gearing of loans and advances	6.0	4.3	6.0	5.9	4.2	4.2
Shares						
Earnings per share after tax (nom. DKK 20), DKK	3.2	32.2	-2.5	2.8	2.0	1.0
Market price per share (nom. DKK 20), DKK	79	144	79	74	111	127
Book value per share (nom. DKK 20), DKK	198	210	200	205	201	199
Other						
Number of full-time employees, end of period	612	433	612	604	421	432

Financial statement P/F BankNordik

Contents

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 orderon financial reports of credit institutions etc of the Danish FSA as applied in the Faroe Islands. The valuation principles are identical to the Group's valuation principles under the International Financial Reporting Standards (IFRSs).

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

The company has made prior period adjustments. Please refer to note 1 to the consolidated financial statements for a detailed decription.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Income Statement – P/F BankNordik

Note	DKK 1,000	2011	2010
1	Interest income	741,143	663,369
2	Interest expenses	203,187	196,243
	Net interest income	**537,957**	**467,125**
3	Dividends from shares and other investments	1,340	6,937
4	Fee and commission income	143,617	95,589
4	Fee and commissions paid	9,584	3,522
	Net interest and fee income	**673,330**	**566,130**
5	Market value adjustments	-5,740	5,895
	Other operating income	23,654	417,534
6	Staff costs and administrative expenses	545,189	408,034
8	Amortisation, depreciation and impairment charges	14,131	5,890
	Other operating expenses	20,695	28,822
9	Impairment charges on loans and advances etc.	100,787	200,807
	Income from associated and subsidiary undertakings	9,733	30,426
	Profit before tax	**20,174**	**376,431**
10	Tax	-4,386	68,947
	Net profit	**24,560**	**307,484**
	Proposed profit allocation		
	Equity method reserve	9,733	30,426
	Dividends for the year	0	40,000
	Retained earnings	14,827	237,059
	Total	**24,560**	**307,484**

Statement of comprehensive income - P/F BankNordik

DKK 1,000	**2011**	**2010**
Net profit	24,560	307,484
Other comprehensive income		
Translation of non-Faroese subsidiaries	-1,892	19,571
Corrections	0	-2,393
Tax on other comprehensive income	-255	-1,066
Total other comprehensive income	**-2,147**	**16,112**
Total comprehensive income	**22,413**	**323,596**

Balance Sheet – P/F BankNordik

Note	DKK 1,000	2011	2010
	Assets		
	Cash in hand and demand deposits with central banks	308,951	242,382
11	Due from credit institutions and central banks	417,553	471,358
12, 13	Loans and advances at fair value	1,022,408	1,013,704
12, 14	Loans and advances at amortised cost	10,746,303	7,660,303
16	Bonds at fair value	2,340,034	3,343,661
17	Shares, etc.	215,410	195,565
18	Holdings in associates	32,586	33,471
19	Holdings in subsidiaries	149,490	155,309
38	Assets under pooled schemes	121,210	53,651
20	Intangible assets	779,964	397,977
	Total land and buildings	215,297	138,408
21	investment property	19,823	19,823
22	domicile property	195,474	118,585
23	Other property, plant and equipment	28,528	13,034
	Current tax assets	6,356	6,380
24	Deferred tax assets	4	4
25	Assets held for sale	168,980	160,794
26	Other assets	149,630	52,140
	Prepayments	20,932	10,134
	Total assets	**16,723,635**	**13,948,275**

Balance Sheet – P/F BankNordik

Note	DKK 1,000	2011	2010
	Shareholders' equity and liabilities		
	Liabilities other than provisions		
27, 28	Due to credit institutions and central banks	329,316	245,249
29, 30	Deposits and other debt	13,001,465	8,890,727
38	Deposits under pooled schemes	121,210	53,651
31	Issued bonds at amortised cost	98,276	2,199,843
	Current tax liabilities	9,379	66,398
32	Other liabilities	335,597	288,207
	Deferred income	4,096	2,717
	Total amounts due	**13,899,339**	**11,746,791**
	Provisions for liabilities		
24	Provisions for deferred tax	14,192	18,953
34	Provisions for losses on guarantees	31,516	8,285
	Total provisions	**45,707**	**27,238**
	Subordinated debt		
35	Subordinated debt	830,711	203,240
	Total liabilities	**14,775,758**	**11,977,269**
	Shareholders' equity		
	Share capital	200,000	200,000
	Foreign currency translation reserve	16,373	18,520
	Reserve, Equity Method	40,099	30,294
	Retained earnings	1,691,405	1,682,192
	Proposed dividends	0	40,000
	Total shareholders' equity	**1,947,877**	**1,971,006**
	Total liabilities and equity	**16,723,635**	**13,948,275**

Statement of capital – P/F BankNordik

DKK 1,000

Changes in shareholders' equity	Share capital	Foreign currency translation reserve	Equity method reserve	Proposed dividends	Retained earnings	Total
Shareholders' equity at January 1, 2011	200,000	18,520	30,366	40,000	1,682,120	1,971,006
Translation of foreign units	0	-1,892	0	0	0	-1,892
Tax on entries on income recognised as Other comprehensive income	0	-255	0	0	0	-255
Income recognised directly on shareholders' equity	0	-2,147	0	0	0	-2,147
Net profit	0	0	9,733	0	14,827	24,560
Total comprehensive income	**0**	**-2,147**	**9,733**	**0**	**14,827**	**22,413**
Acquisition of own shares	0	0	0	0	-34,769	-34,769
Sale of own shares	0	0	0	0	28,839	28,839
Dividends payed	0	0	0	-40,000	388	-39,612
Shareholders' equity at December 31, 2011	**200,000**	**16,373**	**40,099**	**0**	**1,691,405**	**1,947,877**
Shareholders' equity at January 1, 2010	200,000	14	14,869	0	1,404,362	1,619,245
Corrections	0	0	72	0	-2,466	-2,393
Translation of foreign units	0	19,571	0	0	0	19,571
Proposed dividends subsidiaries	0	0	-15,000	0	15,000	0
Tax on entries on shareholders' equity	0	-1,066	0	0	0	-1,066
Income recognised directly on shareholders' equity	0	18,505	-14,928	0	12,534	16,112
Net profit	0	0	30,426	40,000	237,059	307,484
Total comprehensive income	**0**	**18,505**	**15,498**	**40,000**	**249,593**	**323,596**
Acquisition of own shares	0	0	0	0	-221,607	-221,607
Sale of own shares	0	0	0	0	249,772	249,772
Shareholders' equity at 31 December 2010	**200,000**	**18,520**	**30,366**	**40,000**	**1,682,120**	**1,971,006**

Statement of capital – P/F BankNordik

DKK 1,000	2011	2010
Share:		
Liabilities other than provisions		
Net profit	**31,971**	**312,743**
Average number of shares outstanding	9,910	9,723
Number of dilutive shares issued	0	0
Average number of shares outstanding, including dilutive shares	**9,910**	**9,723**
Earnings per share, DKK	3.23	32.17
Diluted earnings per share, DKK	**3.23**	**32.17**

The share capital is made up of shares of a nominal value of DKK 20 each.
All shares carry the same rights. Thus there is only one class of shares.

Average number of shares outstanding:		
Issued shares at the beginning of the year, numbers in 1,000	10,000	10,000
Increase in share capital	0	0
Issued shares at 31 December	10,000	10,000
Group's average holding of own shares during the year	9,863	9,913
Average number of shares outstanding	**90**	**277**
Shares outstanding at 31 December	**9,910**	**9,723**

	Number	**Number**	**Value**	**Value**
Holding of own shares	**2011**	**2010**	**2011**	**2010**
Investment portfolio	27,245	27,245	2,147	3,923
Trading portfolio	110,027	60,030	8,672	8,644
Total	**137,272**	**87,275**	**10,820**	**12,568**

	Investment	**Trading**	**Total**	**Total**
	Portfolio	**Portfolio**	**2011**	**2010**
Holding at 1 January	3,923	8,644	12,568	37,961
Acquisition of own shares	0	34,769	34,769	221,607
Sale of own shares	0	28,839	28,839	249,772
Value adjustment	-1,771	-5,907	-7,678	2,772
Total	**3,923**	**8,644**	**10,820**	**12,568**

Cash flow statement – P/F BankNordik

DKK 1,000	2011	2010
Cash flow from operations		
Net profit for the periode	24,560	307,484
Adjustment of non-cash operating items		
Result from investments in subsidiaries	-10,915	-21,779
Result from associates	885	-8,646
Amortisation and impairment charges for intangible assets	8,129	-3,500
Depreciation of tangible assets	6,003	9,390
Impairment of loans and advances/guarantees	101,328	129,299
Other adjustments	-1,340	-6,937
Paid tax	-54,625	-5,684
Other non-cash operating items	-79,838	35,891
Total	**-5,814**	**435,517**
Changes in operating capital		
Tax charged to the income statement	-4,386	68,947
Change in loans at fair value	32,802	-141,798
Change in loans at amortised cost	-3,615,555	-1,695,722
Change in holding of bonds	1,041,801	-2,202,420
Change in holding of shares	-52,398	-145,128
Change in deposits	4,172,558	3,346,663
Due to credit institutions and central banks	84,067	-1,253,084
Change in other assets / liabilities	-71,576	54,021
Prepayments	-9,419	-902
Cash flow from operations	**2,039,322**	**-1,533,906**
Cash flow from investing activities		
Sale of group undertakings and other business units	0	51,374
Dividends received	16,340	18,937
Acquisition of own shares	-34,769	-221,607
Sale of own shares	28,839	249,772
Acquisition of intangible assets	-391,100	-332,182
Acquisition of tangible assets	-99,960	-12,854
Sale of tangible assets	1,985	799
Cash flow from investing activities	**-478,665**	**-245,761**
Cash flow from financing activities		
Issue of bonds	0	1,200,000
Increase in subordinated debt	593,358	-45
Payment of dividends	-39,684	0
Repayment of issued bonds	-2,101,567	0
Cash flow from financing activities	**-1,547,893**	**1,199,955**
Change in cash and cash equivalents	**12,764**	**-579,712**

Cash flow statement – P/F BankNordik

DKK 1,000

	2011	2010
Cash and cash equivalents at 1 January	713,740	1,293,451
Change in cash and cash equivalents	12,764	-579,711
Cash and cash equivalents at 31 December	**726,504**	**713,740**
Cash and cash equivalents at 31 December		
Cash in hand and demand deposits with central banks	308,951	242,382
Amounts due from credit institutions and central banks within three months	417,553	471,358
Total	**726,504**	**713,740**

Notes – P/F BankNordik

Note	DKK 1,000	2011	2010
1	**Interest income and premiums on forwards**		
	Credit institutions and central banks	9,753	12,635
	Loans and advances	683,072	605,889
	Bonds	67,367	65,294
	Total derivatives of which:	-19,418	-13,789
	Currency contracts	192	0
	Interest rate contracts	-19,610	-13,789
	Other transactions	0	0
	Other interest income	369	-6,660
	Total interest income	**741,143**	**663,369**
	Of which accounted for by income from genuine sale and repurchase transactions:		
	Credit institutions and central banks	0	0
2	**Interest expenses**		
	Credit institutions and central banks	274	12,179
	Deposits	129,705	128,005
	Issued Bonds	22,803	29,927
	Subordinated debt	46,820	20,914
	Other interest expenses	3,584	5,219
	Total interest expenses	**203,187**	**196,243**
	Of which interest expenses on genuine sale and repurchase transactions are carried under:		
	Credit institutions and central banks	0	18
	Dividends from		
3	Shares	1,340	6,937
	Subsidiaries	0	0
	Associates	0	0
	Total dividends	**1,340**	**6,937**
4	**Net fee and commission income**		
	Fee and commission income		
	Securities trading and custody accounts	17,412	6,583
	Credit transfers	20,452	19,724
	Loan commissions	14,958	24,045
	Guarantee commissions	19,659	19,659
	Other fees and commissions	64,108	25,578
	Total fee and comission income	**143,617**	**95,589**
	Fee and commissions paid		
	Securities trading and custody accounts	9,584	3,522
	Net fee and commission income	**134,033**	**92,067**

Notes - P/F BankNordik

Note	DKK 1,000	2011	2010
5	**Market value adjustments**		
	Loans and advances at fair value	44,337	14,596
	Bonds	-15,214	-15,660
	Shares	-4,547	14,382
	Foreign exchange	-6,159	16,413
	Total derivatives of which:	9,634	-20,859
	Currency Swaps	3,583	920
	Interest Swaps	-1,881	-21,545
	Other contracts	7,932	-234
	Other obligations	-33,792	-3,124
	Investments properties		
	Assets under pooled schemes	-2,756	146
	Deposits under pooled schemes	2,756	0
	Total market value adjustments	**-5,740**	**5,895**
6	**Staff costs and administrative expenses**		
	Executive remuneration:		
	Board of Directors	1,605	1,635
	Executive Board	4,884	5,195
	Total	**6,489**	**6,830**
	Note 9 Of the consolidated financial statements contains additional information about the renumeration of the Executive Board and the Board of Directors		
	Staff costs:		
	Salaries	216,550	155,299
	Pensions	23,991	15,016
	Social security expences	28,384	17,864
	Total staff costs	**268,926**	**188,178**
	Total administrative expenses	276,264	219,856
	Total staff costs and administrative expenses	**545,189**	**408,034**
	Number of employees		
	Average number of full-time employees in the financial year	438	353
	Further information regarding remuneration etc. on executives Group note no. 9		
7	**Audit fees**		
	Fees to audit firms elected at the general meeting	3,201	1,540
	Fees to other firms for service other than audit	0	0
	Total audit fees	**3,201**	**1,540**
	Total fees to the audit firms elected at the general meeting break down as follows:		
	Statutory audit	1,625	1,197
	Other assurance engagements	653	0
	Tax and VAT advice	56	112
	Other services	868	231
	Total fees to the audit firms elected at the general meeting	**3,201**	**1,540**

Notes - P/F BankNordik

Note	DKK 1,000	2011	2010
8	**Amortisation, depreciation and impairment charges**		
	Amortisation charges for intangible assets	8,129	1,000
	Depreciation charges for tangible assets	6,003	4,890
	Total	**14,131**	**5,890**
9	**Impairment charges on loans and advances etc.**		
	Loans and advances at amortised cost	71,832	150,870
	Loans and advances at fair value	9,136	8,668
	Private Contingency Association (Det private beredskab)	0	15,466
	Guarantiees and loan commitments	4,636	8,285
	Assets held for sale	15,183	17,518
	Total	**100,787**	**200,807**
	Individual impairment charges etc.		
	New and increased impairment charges	139,469	225,049
	Reversals of impairment charges	38,308	31,498
	Write-offs charged directly to the income statement	959	274
	Received on claims previously written off	542	1,946
	Total individual impairment charges	**101,578**	**191,879**
	Collective impairment charges		
	New and increased impairment charges	5,148	8,928
	Reversals of impairment charges	5,940	
	Total collective impairment charges	-792	8,928
	Total impairment charges	**100,787**	**200,807**
10	**Tax**		
	Calculated tax charge for the year	-34,266	61,980
	Change in deferred tax	29,760	6,964
	Adjustment of prior-year tax charges	120	3
	Total	**-4,386**	**68,947**
	Effective tax rate		
	Tax rate	-15.1%	18.9%
	Non-taxable income and non-deductible expenses	-6.6%	-0.9%
	Adjustment on prior-year tax charges	0.1%	0.0%
	Effective tax rate	**-21.6%**	**18.0%**

Notes – P/F BankNordik

Note	DKK 1,000	2011	2010
11	**Due from credit institutions etc. specified by maturity**		
	On demand	417,553	471,358
	3 months and below	0	0
	3 months to 1 year	0	0
	Total	**417,553**	**471,358**
12	**Loans and advances specified by sectors**		
	Public authorities	6%	6%
	Corporate sector:		
	Fisheries. agriculture, hunting and forestry	6%	8%
	Industry and raw material extraction	3%	5%
	Energy supply	1%	2%
	Building and construction	3%	4%
	Trade	7%	10%
	Transport, hotels and restaurants	3%	4%
	Information and communications	2%	2%
	Financing and insurance	3%	3%
	Real property	7%	6%
	Other industries	4%	6%
	Total corporate sector	**39%**	**48%**
	Retail customers	56%	46%
	Total	**100%**	**100%**
13	**Loans and advances at fair value specified by maturity**		
	On demand	2,613	20,960
	3 months and below	130,947	27,726
	3 months to 1 year	112,148	70,153
	Over 1 year to 5 years	312,013	275,804
	Over 5 years	464,686	619,061
	Total loans and advances	**1,022,408**	**1,013,704**
14	**Loans and advances at amortised cost specified by maturity**		
	On demand	39,461	142,184
	3 months and below	1,831,528	198,110
	3 months to 1 year	1,673,691	547,173
	Over 1 year to 5 years	3,265,410	2,315,154
	Over 5 years	3,936,212	4,457,683
	Total loans and advances	**10,746,303**	**7,660,303**

Notes – P/F BankNordik

Note DKK 1,000

15 **Impairment charges for loans, advances and guarantees, etc**

	Loans and advances individual impaiment	Loans and advances collective impaiment	Guarantees etc individual impaiment	Total
Impairment charges at 1 January 2011	314,977	25,928	8,285	349,190
Impairment charges during the year	135,632	5,148	23,655	164,436
Reversals of impairment charges	36,828	5,940	3,811	46,579
Written-off, previously impaired	97,012	0	0	97,012
Other changes	0	0	0	0
Impairment charges at 31 December 2011	**316,769**	**25,137**	**28,129**	**370,035**
Impairment charges at 1 January 2010	267,928	17,000	21,535	306,463
Impairment charges during the year	219,975	8,928	23,750	252,653
Reversals of impairment charges	31,498	0	37,000	68,498
Written-off, previously impaired	139,264	0	0	139,264
Other changes	-2,164	0	0	-2,164
Impairment charges at 31 December 2010	314,977	25,928	8,285	349,191

	2011		2010	
	Individual	Collective	Individual	Collective
Total loans, advances and other amounts due (including portfolios) with objective evidence of impairment before impairment charges (the amount does not include loans, advances and other amounts due recognised at nil)	822,743	11,325,015	854,129	7,568
Carrying amount net of impairment charges	**505,974**	**11,299,878**	**539,152**	**7,540**

Note		2011	2010
16	**Bonds at fair value**		
	Mortgage credit bonds	1,871,701	2,865,273
	Government bonds	267,559	404,215
	Other bonds	200,774	74,173
	Bonds at fair value	**2,340,034**	**3,343,661**
17	**Shares etc.**		
	Shares/unit trust certificates listed on the Copenhagen Stock Exchange	45,144	91,537
	Shares/unit trust certificates listed on other stock exchanges	34,427	438
	Total shares etc.	**79,571**	**91,974**

Notes – P/F BankNordik

Note	DKK 1,000	2011	2010
17	**Other shares at fair value using the fair-value option**		
(cont'd)	Total purchase price at 1 January	122,398	29,403
	Adjustment transferred from shares listed	0	0
	Transferred to assets hold for sale	0	51,459
	Additions	25,961	41,536
	Disposals	0	0
	Foreign currency translation	0	0
	Total purchase price at 31 December	**148,359**	**122,398**
	Revaluations, at 1 January	-18,807	-5,721
	Adjustment transferred from shares listed	0	-7,271
	Revaluations for the year	6,287	-5,357
	Reversal of revaluations previous years	0	-458
	Revaluations, at 31 December	**-12,520**	**-18,807**
	Book portfolio, at 31 December	**135,839**	**103,591**
	Trading portfolio	79,571	91,974
	Other shares at fair value based on the fair-value option	135,839	103,591
	Total shares	**215,410**	**195,565**
18	**Holdings in associates**		
	Cost at 1 January	22,300	22,300
	Additions	0	0
	Additions on acquisitions	0	0
	Disposals	0	0
	Cost at 31 December	**22,300**	**22,300**
	Revaluations at 1 January	11,171	2,525
	Share of profit	-885	-3,519
	Dividends	0	0
	Revaluations	0	12,165
	Foreign currency translation	0	0
	Revaluations at 31 December	**10,286**	**11,171**
	Carrying amount at 31 December	**32,586**	**33,471**

	Ownership %	Total assets	Total liabilities	Income	Net profit
Holdings in associates 2011					
P/F Løkir	30%	78,877	5,268	-57	947
P/F Elektron	34%	85,819	53,486	52,632	-3,404
Holdings in associates 2010					
P/F Løkir	30%	82,429	9,768	-326	-7.826
P/F Elektron	34%	99,150	63,198	52,897	931

The information disclosed is extracted from the companies' most recent annual reports.

Notes – P/F BankNordik

Note	DKK 1,000	2011	2010
19	**Holdings in subsidiaries**		
	Cost at 1 January	144,119	134,619
	Additions	0	10,000
	Additions on acquisitions	0	0
	Disposals	0	-500
	Cost at 31 December	**144,119**	**144,119**
	Revaluations at 1 January	11,262	-28,882
	Corrections	-90	12,354
	Share of profit	10,362	21,779
	Dividends	-15,000	0
	Reversals of revaluations	0	0
	Foreign currency translation	-1,163	6,011
	Revaluations at 31 December	**5,372**	**11,262**
	Carrying amount at 31 December	**149,490**	**155,381**

	Ownership %	Share capital end of year	Shareholders' equity for the year	Profit/loss for the year
Holdings in subsidiaries				
P/F Trygd	100%	40,000	88,986	3,739
P/F Skyn	100%	4,000	1,098	238
Vörður Tryggingar hf	51%	39,781	89,496	13,175
Vörður Líftryggingar hf	21%	12,636	11,596	612
P/F Birting	100%	10,000	9,650	-297
Sp/f 25.04.2008 (at the end of 2010)	0%	80	-130,097	-31,724
Sp/f Íbúðir undir Gráasteini (at the end of 2010)	0%	125	122,341	-31,654

The information disclosed is extracted from the companies' most recent annual reports (P/F Trygd, P/F Skyn, P/F Birting, Vörður tryggingar hf and Vörður líftryggingar hf annual reports 2011 the others 2010).

The Bank holds 21% of the share capital in Vörður Líftryggingar hf and Vörður Tryggingar hf holds 30%.

Regarding the subsidiaries Sp/f 25.04.2008 and Sp/f Íbúðir undir Gráasteini a disclosure is made in note 28 of the consolidated financial statements.

Notes – P/F BankNordik

Note	DKK 1,000	Goodwill	Customers Relations	Software	Total
20	**Intangible assets 2011**				
	Cost at 1 January	358,977	40,000	0	398,977
	Additions	308,526	82,574	0	391,100
	Disposals	0	0	0	0
	Foreign currency translation	-984	0	0	-984
	Cost at 31 December	666,518	122,574	0	**789,093**
	Amortisation and impairment charges at 1 January	0	-1,000		-1,000
	Amortisation charges during the year	0	-8,129	0	-8,129
	Impairment charges during the year	0	0	0	0
	Reversals of amortisation and impairment charges	0	0	0	0
	Foreign currency translation	0	0	0	0
	Amortisation and impairment charges at 31 December	**0**	**-9,129**	**0**	**-9,129**
	Carrying amount at 31 December	**666,518**	**113,446**	**0**	**779,964**
	Amortisation period	Annual impairment test	10 years	5 years	

	Goodwill	Customer Relations	Software	Total
Intangible assets 2010				
Cost at 1 January	23,109	0	4,748	27,857
Additions	330,250	40,000	35,632	405,882
Disposals	0	0	0	0
Corrections	0	0	-40,381	-40,381
Foreign currency translation	5,618	0	0	5,618
Cost at 31 December	**358,977**	**40,000**	**0**	**398,977**
Amortisation and impairment charges at 1 January	0	0	0	0
Amortisation charges during the year	0	-1,000	-8,390	-9,390
Corrections	0	0	8,390	8,390
Impairment charges during the year	0	0	0	0
Reversals of amortisation and impairment charges	0	0	0	0
Foreign currency translation	0	0	0	0
Amortisation and impairment charges at 31 December	**0**	**-1,000**	**0**	**-1,000**
Carrying amount at 31 December	**358,977**	**39,000**	**0**	**397,977**
Amortisation period	Annual impairment test	10 years	5 years	

In 2009 BankNordik acquired goodwill in connection with the acquisition of the icelandic company Vörður. In 2010 BankNordik acquired 12 branches in Denmark and Greenland from Sparbank. In 2011 BankNordik acquired 13 branches in Denmark from Amagerbanken. An impairment test has been performed of the goodwill as of the end of 2011. The impairment test shows that there is no need for impairments to be recognised at 31 december 2011.

Note 23 of the consolidated Financial statements contains information of BankNordiks impairment test of goodwill, customer relations and software.

Notes – P/F BankNordik

Note	DKK 1,000	2011	2010
21	**Investment property**		
	Fair value at 1 January	19,823	19,823
	Additions	0	0
	Property improvement expenditure	0	0
	Disposals	0	0
	Fair value adjustment	0	0
	Fair value at 31 December	**19,823**	**19,823**

Required rate of return for calculation of fair value/revaluation (6–7% per annum)

Note	DKK 1,000	2011	2010
22	**Domicile property**		
	Cost at 1 January	119,193	118,467
	Additions	78,611	1,505
	Disposals	1,192	780
	Transferred to real property held for sale	0	0
	Foreign currency translation	0	0
	Cost at 31 December	**196,611**	**119,193**
	Adjustments at 1 January	-607	-401
	Depreciation charges during the year	-536	-206
	Reversal of depreciation charges on disposals during the year	6	0
	Revaluations recognised directly in equity	0	0
	Impairments recognised directly in equity	0	0
	Depreciation and impairments recognised in the income statement	0	0
	Reversal of depreciation and impairment on disposals during the year	0	0
	Reversal of revaluations on disposals during the year	**0**	**0**
	Foreign currency translation	0	0
	Adjustments at 31 December	**-1,138**	**-607**
	Revalued amount at 31 December	**195,474**	**118,585**

Required rate of return for calculation of fair value/revaluation, 6%–7%

Note	DKK 1,000	2011	2010
23	**Other property, plant and equipment**		
	Cost at 1 January	43,989	32,660
	Additions	21,681	11,348
	Disposals	2,008	19
	Additions on acquisitions	0	0
	Foreign currency translation	0	0
	Cost at 31 December	**63,663**	**43,989**
	Depreciation and impairment charges at 1 January	30,955	26,386
	Depreciation charges during the year	5,388	4,569
	Reversals of depreciation and impairment charges	1,209	0
	Foreign currency translation	0	0
	Depreciation and impairment charges at 31 December	**35,134**	**30,955**
	Carrying amount at 31 December	**28,528**	**13,034**

Depreciation period 3-10 years

Notes – P/F BankNordik

Note	DKK 1,000	2011	2010
24	**Deferred tax**		
	Deferred tax assets	4	4
	Deferred tax liabilities	14,192	18,953
	Deferred tax, net	**14,188**	**18,949**

Change in deferred tax	At 1 Jan.	Other adjust-ments	Recognised in profit for the year	Recognised in other compre-hensive income	At 31 Dec.
2011					
Intangible assets	6,859		-5,441	0	1,418
Tangible assets	11,817		602	0	12,420
Securities	-514		0	0	-514
Provisions for obligations	-278		77	0	-201
Tax loss carryforwards	0		0	0	0
Other	1,065		255	-255	1,065
Total	**18,949**		**-4,506**	**-255**	**14,188**

Adjustment of prior-year tax charges included in preceding item

	At 1 Jan.	Other adjust-ments	Recognised in profit for the year	Recognised in other compre-hensive income	At 31 Dec.
2010					
Intangible assets	0		6,859	0	6,859
Tangible assets	11,783		34	0	11,817
Securities	-514		0	0	-514
Provisions for obligations	-348		71	0	-278
Tax loss carryforwards	0		0	0	0
Other	3		0	1,062	1,065
Total	**10,924**		**6,964**	**1,062**	**18,949**

Adjustment of prior-year tax charges included in preceding item

25 Assets held for sale

Note 27 of the consolidated financial statements contains information on the Bank's assets held for sale.

Notes – P/F BankNordik

Note	DKK 1,000	2011	2010
26	**Other assets**		
	Interest and commission due	42,542	45,692
	Derivatives with positive fair value	80,070	6,448
	Other amounts due	27,018	0
	Total	**149,630**	**52,140**
27	**Due to credit institutions and central banks specified by institution**		
	Due to central banks	35,877	185,654
	Due to credit institutions	293,438	59,595
	Total	**329,316**	**245,249**
28	**Due to credit institutions and central banks specified by maturity**		
	On demand	251,974	235,100
	3 months and below	0	0
	3 months to 1 year	77,342	10,148
	Over 1 year to 5 years	0	0
	Over 5 years	0	0
	Total	**329,316**	**245,249**
29	**Deposits specified by type**		
	On demand	8,632,036	4,329,569
	At notice	1,732,851	2,935,301
	Time deposits	821,631	623,207
	Special deposits	1,814,948	1,002,650
	Total deposits	**13,001,465**	**8,890,727**
30	**Deposits specified by maturity**		
	On demand	8,678,300	4,354,731
	3 months and below	2,227,489	2,706,513
	3 months to 1 year	247,300	16,854
	Over 1 year to 5 years	640,474	663,490
	Over 5 years	1,207,901	1,149,139
	Total deposits	**13,001,465**	**8,890,727**
31	**Issued bonds at amortised cost**		
	3 months and below	98,276	200,000
	3 months to 1 year	0	0
	Over 1 year to 5 years	0	1,999,843
	Total issued bonds	**98,276**	**2,199,843**

Notes – P/F BankNordik

Note	DKK 1,000	2011	2010
32	**Other liabilities**		
	Negative fair value of derivatives	109,432	43,330
	Other liabilities	226,164	244,877
	Total	**335,597**	**288,207**

		Subsidiaries	Subsidiaries
33	**Related parties**		
	DKK 1,000	**2011**	**2010**
	Assets		
	Loans	0	0
	Assets held for sale	170,991	108,643
	Total	**170,991**	**108,643**
	Liabilities		
	Deposits	91,683	100,406
	Other liabilities	0	147
	Total	**91,683**	**100,553**
	Off-balance sheet items		
	Guarantees issued	12,010	12,010
	Guarantees and collateral received	172,900	177,900
	Income Statement		
	Interest income	925	11
	Interest expense	1,804	1,778
	Fee income	460	385
	Other operating income	556	621
	Administrative expenses	1,062	925
	Total	**-926**	**-1,685**

Notes – P/F BankNordik

Note DKK 1,000

34 **Provisions for losses on guarantees**

Note 31 of the consolidated financial statements specifies the Bank's provisions for losses on guarantees

35 **Subordinated debt**

Note 32 of the consolidated financial statements specifies the Bank's subordinated debt

37 **Contingent liabilities**

Note 35 of the consolidated financial statements specifies the Bank's contingent liabilities

36 **Assets deposited as collateral**

Note 36 of the consolidated financial statements specifies the Bank's assets deposited as collateral.

38 **Assets under pooled schemes**

Note 42 of the consolidated financial statements specifies the Bank's assets under pooled schemes.

39 **Risk Management**

The Risk Management section in note 44 in the consolidated financial statements specifies the Bank's risk management.

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

Highlights					BankNordik P/F Previous GAAP
DKK 1,000	**2011**	**2010**	**2009**	**2008**	**2007**
Net interest and fee income	673,330	566,130	449,235	374,989	339,188
Market value adjustments	-5,740	5,895	23,009	-73,596	23,589
Other operating income	23,654	417,534	-11,611	90,655	1,521
Staff costs and administrative expenses	545,189	408,034	191,534	188,108	206,164
Impairment charges on loans and advances etc.	100,787	200,807	128,120	104,902	-25,072
Net profit	24,560	307,484	110,661	87,727	144,003
Loans and advances	11,768,711	8,674,007	6,936,530	7,627,626	7,513,009
Bonds at fair value	2,340,034	3,343,661	1,157,063	893,988	894,284
Intangible assets	779,964	397,977	27,857	0	0
Assets held for sale	168,980	160,794	175,908	134,769	0
Total assets	16,723,635	13,948,347	10,035,538	10,088,479	9,620,968
Due to credit institutions and central banks	329,316	245,249	1,498,333	2,317,290	2,645,515
Deposits and other debt	13,122,675	8,944,378	5,597,715	5,585,422	5,452,073
Issued bonds at amortised cost	98,276	2,199,843	999,843	500,000	0
Total shareholders' equity	1,947,877	1,971,078	1,619,245	1,524,042	1,344,522

Ratios and key figures:

Solvency					
Solvency ratio, %	15.6	17.0	26.2	20.6	17.8
Core capital ratio, %	12.4	17.2	26.6	20.8	18.0
Risk-weighted Items, DKK mill	12,313	10,080	6,648	7,201	7,403
Profitability					
Return on equity before tax, %	1.0	21.0	8.2	6.8	13.9
Return on equity after tax, %	1.3	17.1	7.0	6.1	11.1
Income / cost ratio, DKK	1.03	1.58	1.37	1.32	1.95
Cost / income, % (excl. value adjustm. and impairments)	82.1	43.7	48.8	42.1	62.1
Market risk					
Interest rate risk, %	1.4	3.1	1.3	2.2	2.7
Foreign exchange position, %	8.7	24.6	1.5	1.3	15.6
Liquidity					
Loans, advances and impairments					
in relation to deposits, %	92.3	100.8	129.0	144.0	142.7
Excess cover relative to statutory					
liquidity requirements, %	99.8	280.6	275.7	193.0	103.2
Credit risk					
Large exposures as a percentage of equity, %	23.3	22.8	22.8	84.7	123.4
Impairment and provisioning ratio, %	2.7	3.2	3.8	3.5	3.2
Write-off and impairments ratio, %	0.7	1.9	1.4	0.4	-0.3
Growth on loans and advances, %	35.7	25.0	-9.1	2.4	38.9
Gearing of loans and advances	6.0	4.3	4.3	5.0	5.6
Shares nom. DKK 100)					
Earnings per share after tax (nom. DKK 100), DKK	12.4	158.1	57.1	44.3	72
Book value per share (nom. DKK 100), DKK	987	994	836	769	672
Proposed dividend per share DKK	0	20	0	0	23
Market price per share (nom. DKK 100), DKK	394	720	657	600	893
Market price / earnings per share DKK	31.8	4.6	11.5	13.6	12.4
Market price / book value per share DKK	0.4	0.7	0.8	0.8	1.3
Other					
Average number of full-time employees	529	353	205	206	215

These ratios and key figures have been prepared in correspondence with regulations from the Danish Financial Supervisory Authority.

As of 01.01.2009 The Bank complies with the Faroese Banking act. issued August 30 2009. Consequently, according to section 89 in the executive order, the comparative figures in 2008 are prepared according the new Banking act. It has not been practically possible to prepare the comparative figures in 2007 according the new Banking act., thus these figures are not fully comparable with the figures in 2008, 2009, 2010 and 2011.

(1) In accordance with the guidelines from the Danish Financial Supervisory Authority the denomination of the shares has been converted from DKK 20 to DKK 100. The conversion affects the figures from 1 January 2007.

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 2011.

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

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, equity and financial position at 31 December 2011 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 2011. 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, 20 March 2012

Executive Board

Janus Petersen CEO	John Rajani Deputy CEO

Board of Directors

Klaus Rasmussen Chairman	Jens Erik Christensen Deputy Chairman	Keld Søndergaard Holm
Nils Sørensen	Mette Dahl Christensen	Kenneth M. Samuelsen

Independent auditors' report

To the shareholders of BankNordik

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

We have audited the consolidated financial statements, pp. 70–146, and the Parent Company's financial statements of BankNordik P/F, pp. 148–171, for the financial year 2011. The consolidated financial statements and the Parent Company's financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of capital and notes for the Group as well as for the Parent Company and consolidated cash flow statement. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Faroese Financial Business Act. Furthermore, the consolidated financial statements and the Parent Company's financial statements have been prepared in accordance with Faroese disclosure requirements for listed financial institutions.

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

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

Auditors' responsibility

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

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

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

Our audit did not result in any qualification.

Opinion

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and Parent Company's assets, liabilities, shareholders' equity and financial position at December 31, 2011, and of the results of the Group's and Parent Company's operations and consolidated cash flows for the financial year 2011 in accordance with the International Financial Reporting

Standards as adopted by the EU in respect of the consolidated financial statements, in accordance with the Faroese Financial Business Act in respect of the Parent Company's financial statements, and in accordance with Faroese disclosure requirements for listed financial institutions.

Statement on Management's Report

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

Tórshavn, 20 March 2012

NOTA, P/F
Løggilt grannskoðanarvirki

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Bjarni Arnason
state authorised public accountant

H.C. Krogh
state authorised public accountant

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

The company is listed on the Nasdaq OMX Iceland and Nasdaq OMX Copenhagen.

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