

Annual Report 2020



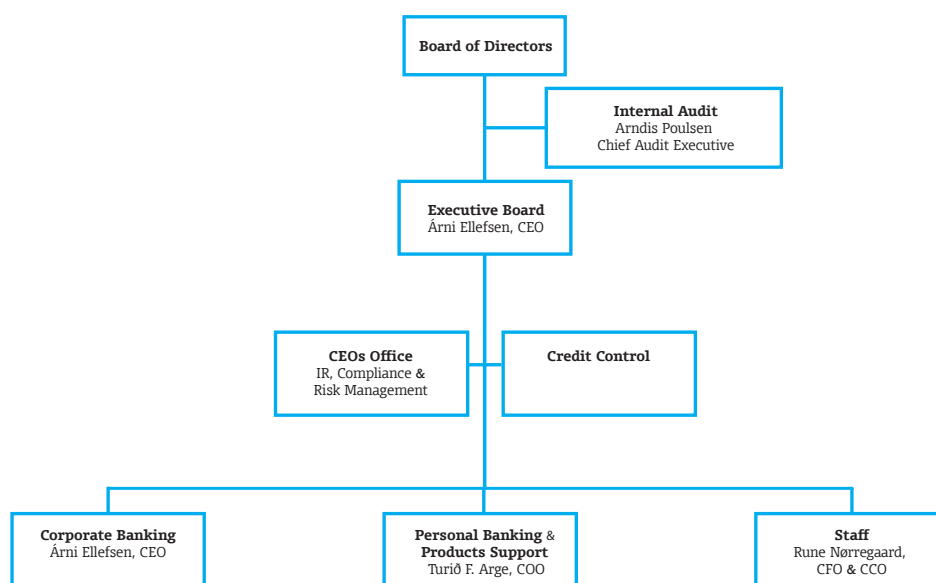
BANK NORDIK

Annual Report 2020

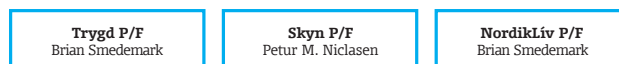
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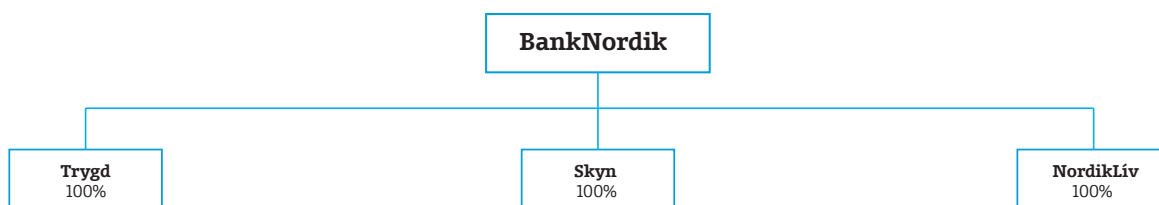
BankNordik Organisation



Subsidiaries

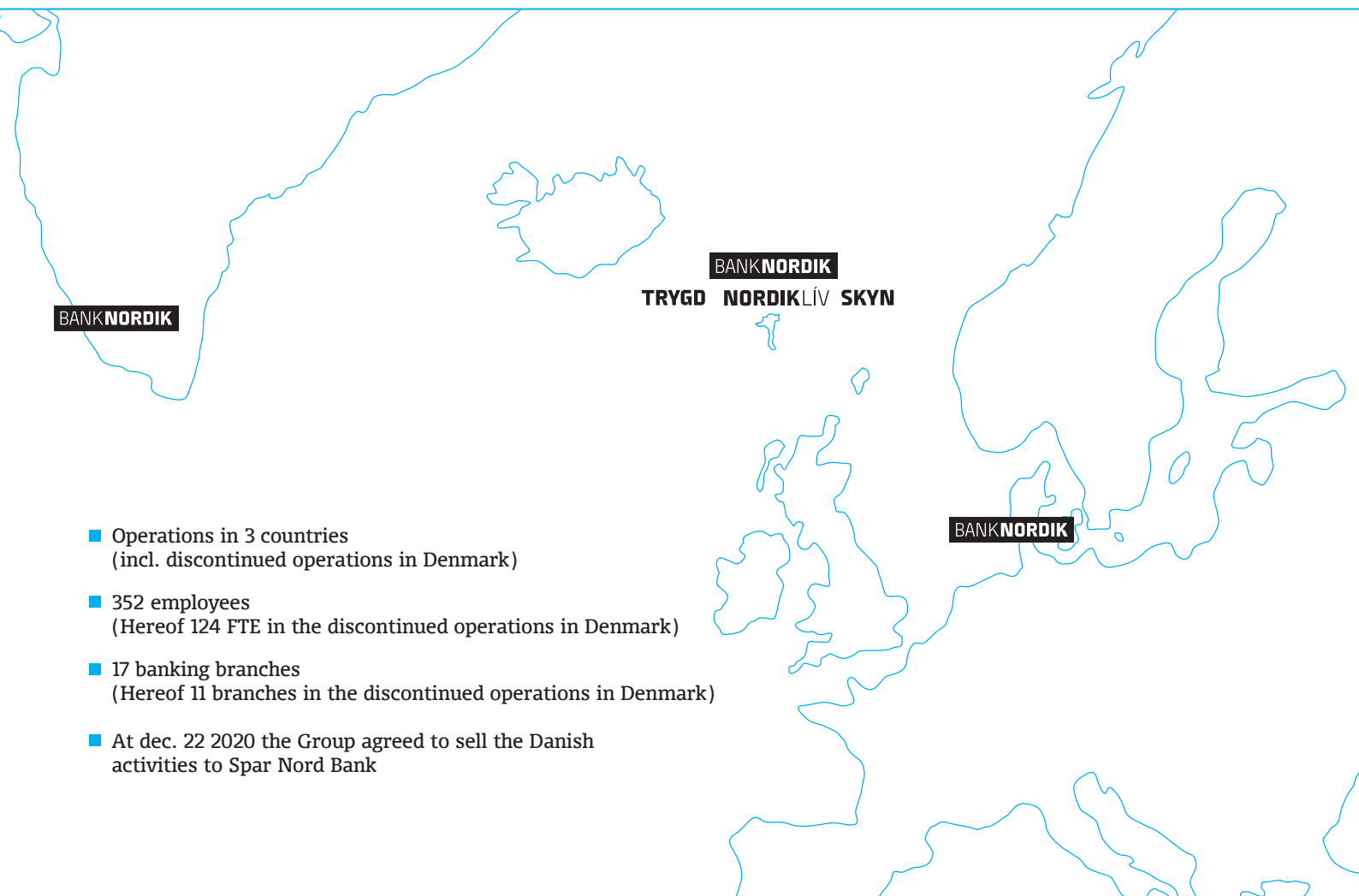


Overview of the Group



Banking is the principal business activity under the BankNordik brand in the Faroe Islands, Denmark and Greenland. The Group has non-life and life insurance operations in the Faroe Islands under the Trygd and NordikLív brands.

Other activities include Skyn, a Faroese estate agency.



Discontinued operations in Denmark

A note on the sale of

BankNordik's Danish operations

On 22 December 2020, BankNordik entered into a conditional agreement with Spar Nord on the sale of its Danish operations at the carrying amount and the addition of goodwill of DKK 255m. The agreement was subject to regulatory approval, which was given on 25 January 2021, allowing the final completion of the sale to take place on 1 February.

Spar Nord acquired an efficient and profitable business with dedicated and competent employees to which the satisfactory sale price attests. Despite the fact that it had become untenable to maintain the competitiveness of a relatively small Danish banking operation while being designated a SIFI in the Faroe Islands, BankNordik is heartened by the fact that its hard work building its Danish business has not gone unrecognised.

Continuing and discontinued operations

Although the sale was completed after the end of the 2020 financial year, the sale affects the financial presentation in this Annual Report. Due to IFRS regulations, which regulate the formal financial statement, the presentation of the financial figures will not always appear consistent, and therefore a brief guide to the figures is laid out here:

Financial review and Segments

- All figures relate to the Group's continuing operations unless otherwise stated. This applies to income statement and balance sheet figures for 2020 and 2019, allowing for consistent comparison.
- Figures related to the Group's discontinued operations appear as a net figure before tax in the income statement.
- Figures relating to the Group's solvency, liquidity, and the Supervisory Diamond are not restated and as such relate to the Group's combined continuing and discontinued operations

Financial statement, Notes and Highlights

- The income statement relates to the Group's continuing operations for the 2020 and 2019 financial years along with a net figure the Group's discontinued operations
- Balance sheet figures for 2020 are stated for the Group's continuing operations along with a net figure for the Group's discontinued operations. Historical figures, however, have not been restated and represent the Group's combined continuing and discontinued operations, which means that historical balance sheet figures are not directly comparable to the 2020 figures.
- Capital and liquidity figures have not been restated and therefore relate to the Group's combined continuing and discontinued operations

Highlights, ratios, and key figures - BankNordik Group

Highlights¹

	Full year 2020	Full year 2019	Index 20/19	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
DKK 1,000								
Net interest income	278,220	258,853	107	68,893	69,392	70,614	69,321	68,327
Dividends from shares and other investments	3,272	3,690	89	0	0	2,479	793	0
Net fee and commission income	59,892	55,765	107	15,979	14,819	13,423	15,671	15,019
Net interest and fee income	341,384	318,307	107	84,872	84,211	86,516	85,785	83,346
Net insurance income	45,152	52,327	86	11,583	18,325	11,693	3,551	13,630
Interest and fee income and income from insurance activities, net	386,535	370,634	104	96,455	102,536	98,209	89,336	96,976
Market value adjustments	-16,968	1,370		2,389	45,312	-46,905	-17,763	2,194
Other operating income	7,086	12,470	57	3,103	1,456	2,145	383	3,978
Staff costs and administrative expenses	244,335	262,513	93	64,063	58,715	60,709	60,849	73,294
Impairment charges on loans and advances etc.	-4,962	-68,962	7	-9,557	2,298	-15,660	17,956	-20,654
Net profit continued operations	103,150	144,159	72	36,448	68,233	6,714	-8,244	40,252
Net profit discontinued operations	63,035	62,471	101	6,839	-3,379	75,604	-16,029	8,166
Net profit	166,186	206,631	80	43,287	64,853	82,318	-24,272	48,418
Loans and advances	7,607,901	9,908,886	77	7,607,901	7,470,650	7,479,595	7,458,026	9,908,886
Bonds at fair value	4,472,621	5,599,529	80	4,472,621	4,080,854	4,461,308	4,952,913	5,599,529
Intangible assets	2,432	9,957	24	2,432	12,096	11,326	10,818	9,957
Assets held for sale	4,466	1,500	298	4,466	2,363	2,405	2,514	1,500
Assets in disposals groups classified as held for sale	3,217,940	0		3,217,940	0	0	0	0
Total assets	17,290,303	18,173,399	95	17,290,303	16,746,992	16,868,303	16,940,493	18,173,399
Amounts due to credit institutions and central banks	27,954	54,922	51	27,954	47,148	51,963	482,266	54,922
Deposits and other debt	7,733,408	14,367,685	54	7,733,408	7,476,585	7,578,031	7,491,785	14,367,685
Liabilities directly associated with assets in disposal groups classified as held for sale	6,520,004	0		6,520,004	0	0	0	0
Total shareholders' equity	2,271,024	2,112,335	108	2,271,024	2,229,699	2,167,057	2,086,980	2,112,335
	Dec. 31 2020	Dec. 31 2019		Dec. 31 2020	Sept. 30 2020	June 30 2020	March 31 2020	Dec. 31 2019
Ratios and key figures								
Solvency								
Total capital ratio, %	26.4	22.3		26.4	24.9	24.0	23.4	22.3
Core capital ratio, %	24.1	20.2		24.1	22.6	21.8	21.3	20.2
CET 1 capital	22.6	18.8		22.6	21.1	20.3	19.8	18.8
Risk-weighted Items, DKK mill	9,774	10,764		9,774	9,883	10,286	10,405	10,764
Profitability								
Return on shareholders' equity after tax, %	7.6	10.1		1.9	3.0	3.9	-1.2	2.3
Cost / income, %	65.7	52.4		55.3	42.0	88.3	112.7	52.8
Cost / income, % (excl. value adjustm. and impairments)	64.1	70.5		66.2	58.1	62.7	70.3	74.4
Return on assets	1.0	1.1		0.3	0.4	0.5	-0.1	0.3
Market risk								
Interest rate risk, %	0.5	1.8		0.5	0.4	1.6	1.0	1.8
Foreign exchange position, %	1.0	1.4		1.0	1.1	1.5	1.2	1.4
Foreign exchange risk, %	0.0	0.1		0.0	0.0	0.0	0.0	0.1
Liquidity								
Excess cover relative to statutory liquidity requirements, %	195.6	215.7		195.6	184.4	185.9	159.4	215.7
Credit risk								
Change in loans and advances, %	-23.2	-0.5		1.8	-0.1	0.3	-24.7	-0.7
Gearing of loans and advances	3.3	4.7		3.3	3.4	3.5	3.6	4.7
Impairment and provisioning ratio, end of period, %	5.1	3.7		5.1	3.8	4.0	4.0	3.7
Write-off and provisioning ratio, %	-0.1	-0.5		-0.1	0.0	-0.2	0.2	-0.2
Share of amounts due on which interest rates have been reduced, end of period, %	0.7	0.8		0.7	0.7	0.7	0.8	0.8
Shares								
Earnings per share after tax (nom. DKK 20), DKK	17.4	21.8		4.5	6.8	8.6	-2.5	5.1
Market price per share (nom. DKK 20), DKK	152.0	109.0		152.0	110.0	101.0	99.0	109.0
Book value per share (nom. DKK 20), DKK	237.3	221.6		237.3	233.5	227.3	218.9	221.6
Other								
Number of full-time employees, end of period	352	377		352	361	363	359	377

1) The highlights in 2019 are not comparable due to reclassification of discontinued operations in 2020

CEO's letter to shareholders

The spread of COVID-19 made 2020 a highly unusual year for economies, societies and businesses the world over, and it was also a special year for us at BankNordik. Despite the challenges posed by the pandemic, we were able to lift our core earnings, and at the end of the year we divested the Group's Danish personal customer activities.

Core earnings improvement driven by strategic initiatives

We were pleased to see how the initiatives we implemented in December 2019 to strike a better balance between our costs and earnings produced results in 2020. Our operating costs fell by 5% and fee and commission income was up by 7% over 2019. Coupled with our relentless focus on maintaining cost-efficient operations, the initiatives had a greater overall impact than we had originally expected. Our profit after tax was DKK 166 million (DKK 17,4 per share). We expect to recommend a dividend payout of 29% at the Annual General Meeting to be held on 26 March (equal to DKK 5 per share).

Limited effect of the pandemic on the Group's financial results

The Q1 financial results were strongly affected by the COVID-19 pandemic, and in April we lowered our guidance for the full-year net profit due to the widespread uncertainty at the time. We were able to support customers facing financial difficulties during the crisis, but despite the very volatile economic environment, the pandemic had a limited impact on our financial results. Uncertainty remains as to the ramifications of the healthcare crisis, as reflected in the management estimate of a DKK 60 million contingent provision to cover potential losses.

Divestment of the Group's Danish operations

We had made strong progress in the Danish market in recent years, but due to the challenges to our future competitive strength in the Danish market posed by the high capital requirements we made the decision in December to sell the Danish operations to Spar Nord at a price equal to the carrying amount plus a goodwill amount of DKK 255 million. We are very pleased with the sales agreement, and we expect the divestment to increase our core capital ratio and total capital ratio to a level equalling an excess coverage of DKK 700 million over our CET1 ratio of 23% going forward. Of this amount, we expect to pay DKK 450 million in extraordinary dividends later this year and the remaining DKK 250 million in 2022 and 2023.

Staying focused on improving the customer experience

Going forward, we will keep focusing on our business in Greenland and in the Faroes based on our position as a significant and proactive player in both these mar-

kets. In 2020, we applied a lot of resources to implement our new approach to advisory services, which will ensure that our customers get the necessary 360-degree advisory services and that we get more diversified sales of our products. We intend to maintain this focus and firmly believe that an improved digital and physical customer experience along with consistent efforts to provide straightforward advisory services will have a positive effect on both customer satisfaction and our revenue.

Increasing profitability through efficiency enhancements and automation

In order to make our organisation as efficient as possible, we are committed to consistently improving and simplifying our processes and the way we handle tasks internally in the Group. Thanks to robotic technology, we nearly doubled the number of automated tasks from 2019 to 2020, and we intend to continue our efforts to become more efficient and increase automation going forward.

Sustainability – an ever more integral part of our business

As part of the 2020 Annual Report, we have begun to disclose ESG ratios in order to increase transparency with respect to the Group's footprint in society. The ESG ratios form part of our ESG reporting, in which we explain about our work on corporate responsibility, including on the United Nations' Sustainable Development Goals.

An exciting year ahead

I would like to take this opportunity to thank our employees for their willingness to embrace change and for their excellent efforts during an extraordinary year, while also thanking our customers and shareholders for their support. We are a leaner organisation following the divestment of the Danish activities, but we still have a notable potential for growth and improvements, and I look forward to continuing our strong developments in 2021 for the benefit of our shareholders, customers, employees and our local communities.

Árni Ellefsen

Chief Executive Officer

Financial Review

Income statement, Group											
DKKm			Index	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2020	2019	20/19	2020	2020	2020	2020	2019	2019	2019	2019
Net interest income	258	230	112	65	65	65	63	61	56	56	56
Net fee and commission income	60	56	107	16	15	13	16	15	13	13	14
Net insurance income	45	52	86	12	18	12	4	14	15	15	9
Other operating income (less reclassification)	24	33	75	8	6	5	5	10	9	7	7
Operating income	387	371	104	101	104	95	87	99	94	92	86
Operating costs ¹	-238	-250	95	-62	-57	-59	-59	-67	-61	-63	-59
Sector costs	-1	0		0	0	0	0	0	0	0	0
Profit before impairment charges	149	120	124	38	47	36	28	33	33	29	26
Impairment charges, net	5	69	7	10	-2	16	-18	21	5	33	10
Operating profit	154	189	81	48	44	52	10	53	38	62	36
Non-recurring items ²	0	-5		0	0	0	0	-5	0	0	0
Profit before value adjustments and tax	154	184	83	48	44	52	10	48	38	62	36
Investment portfolio earnings ³	-2	-3		1	3	15	-21	-3	-4	-6	11
Profit before tax, continuing operations	152	182	84	49	48	66	-11	46	34	56	47
Profit before tax, discontinued operations	54	78	70	1	35	37	-18	14	16	30	18
Profit before tax, total	206	260	79	51	82	103	-30	59	50	86	65
Tax	40	53	76	7	17	21	-5	11	10	20	12
Net profit	166	207	80	43	65	82	-24	48	40	66	52
Operating cost/income, %	61	67		62	55	62	68	67	65	68	69
Number of FTE, end of period	228	238	96	228	232	228	228	238	238	242	245

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

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

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

We are pleased that we were able to deliver a strong financial performance in 2020 despite the challenges posed by the pandemic. We are especially proud to see the positive impact of the initiatives we implemented in December 2019 to strike a better balance between our costs and earnings. At the end of the year we divested the Group's Danish operations, and going forward we will keep focusing on our business in Greenland and in the Faroes creating long term value for all our stakeholders," said BankNordik CEO, Árni Ellefsen.

The following comments relate to the adjusted figures and are generally stated relative to 2019.

Income statement

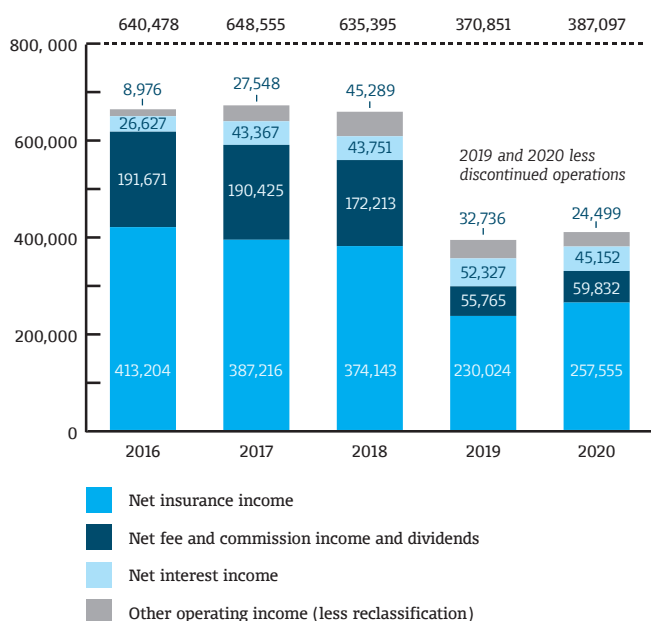
Operating income

Net interest income amounted to DKK 258m in 2020 compared to DKK 230m in 2019. The 12% increase was driven by overall growth in lending as well as improved income from the Bank's negative interest rate brackets. Net fee and commission income grew by DKK 4m year on year to DKK 60m in 2020, mainly due to mortgage broking activity increasing and the resegmentation of personal customers. Net insurance income fell from DKK 52m in 2019 to DKK 46m in 2020. The reason for the fall in net insurance income was a significant increase in claims expenses that was mainly due to a

severe windstorm in March 2020 and an increase in travel cancellation insurance claims due to COVID-19. Other operating income came in at DKK 24m in 2020 compared to DKK 33m in 2019. The Group therefore recognised total operating income of DKK 387m in 2020, a 4% increase on 2019.

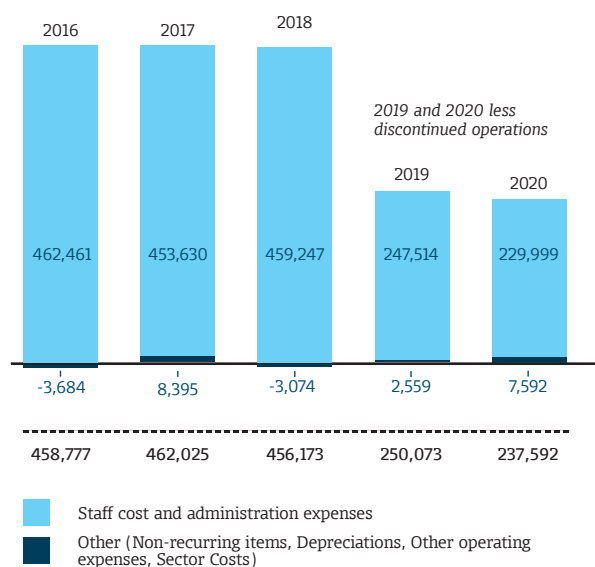
Operating income

(DKK 1.000)



Operating costs

(DKK 1.000)



Operating costs

Operating costs in 2020 fully reflected the organisational changes announced in December 2019. Operating costs overall fell by 5%, or DKK 12m, to DKK 238m. Cost discipline remains a focus for the Group, and the drive towards operational efficiency and automation will continue in 2021 the goal being to further reduce the Group's cost/income ratio, which has already seen a significant improvement in 2020 compared to 2019.

Profit before impairments

(DKK 1.000)



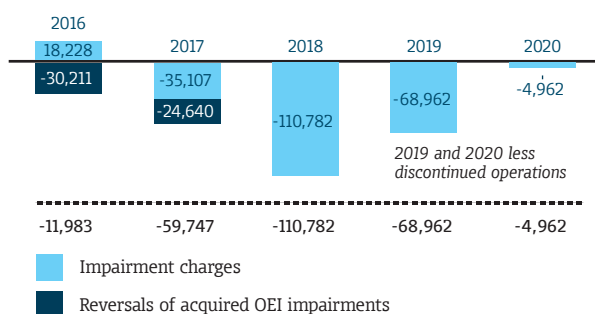
Net impairment charges

The BankNordik Group's low-risk approach to credit evaluation was tested in 2020 as the COVID-19 situation affected the markets in which the Bank operates. Even though the full effects of the pandemic have likely not yet materialised, the Group is pleased that it was able to reverse impairment charges of DKK 5m on a net basis in 2020. This net reversal includes the DKK 52m provision taken by management against future impairments due to COVID-19. It is worth noting that the Group had taken total provisions of DKK 60m at 31 December 2020.

The net impairment reversal of DKK 5m in 2020 is, for good reason, lower than the reversal of DKK 69m realised in 2019. However, looking forward, the Group maintains its through-the-cycle credit policy as well its healthy lending portfolio. Strong loan-to-value private sector exposure makes up about half of the Group's loans and advances in its continuing operations, and on the corporate side, the Group remains only modestly exposed to historically risky industries as well as the industries most affected by the COVID-19 pandemic. As a result, BankNordik expects to be able to keep impairments below the industry average going forward.

Impairments

(DKK 1.000)
Operating profit



(see also Note 14)

The Group's operating profit in 2020 came in at DKK 154m, DKK 36m less than in 2019.

Non-recurring items

No non-recurring items were recognised in 2020 compared to non-recurring expenses of DKK 5m in 2019, which related to severance costs in connection with organisational changes.

Investment portfolio earnings

Investment portfolio earnings amounted to a loss of DKK 2m in 2020 compared to a loss of DKK 3m in 2019.

Profit before tax

Driven mainly by impairment provisions and reduced net insurance income, the Group's continuing operations produced a profit before tax for 2020 of DKK 152m, a 16% reduction from DKK 182m in 2019. The Group's discontinued operations contributed DKK 54m in profit before tax in 2020 compared to DKK 78m in 2019. As a result, total profit before tax for the BankNordik Group was DKK 206m in 2020, down DKK 53m compared to 2019.

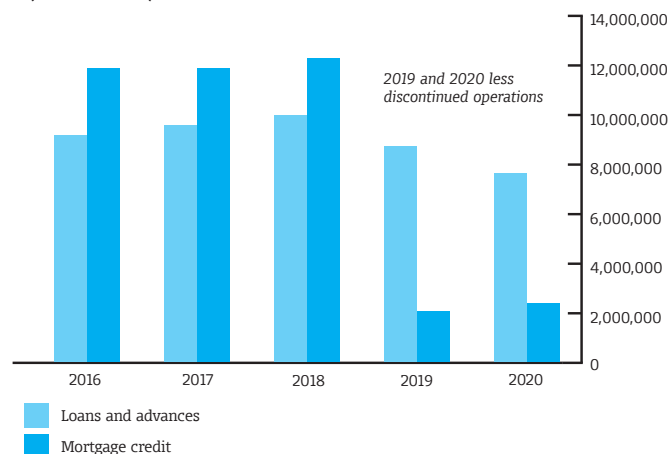
Balance sheet

Lending

Loans and advances amounted to DKK 7.608m in 2020 compared to DKK 7.363m in 2019. Corporate lending volumes increased by DKK 372m, while personal lending volumes decreased by DKK 109m. In addition, the Group increased its brokered mortgage volumes by DKK 339m in 2020.

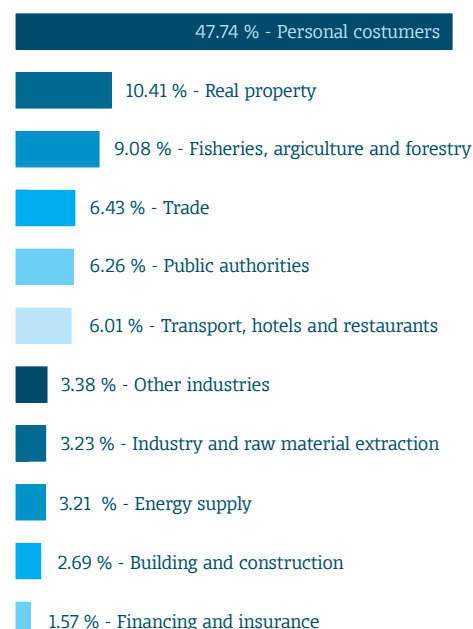
Loans and mortgage credit

(DKK 1.000)



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

Loans and advances specified by sector

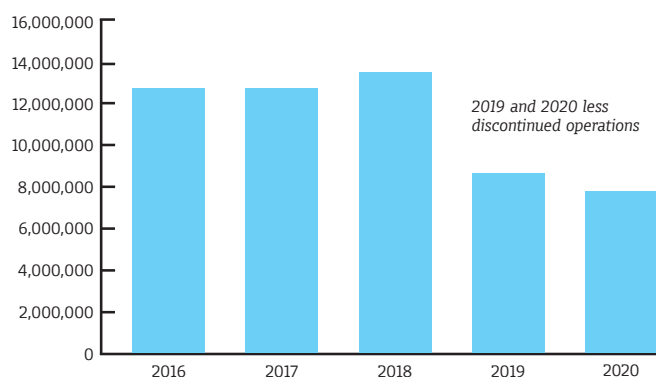


Deposits

Total deposits amounted to DKK 7.733m at the end of 2020, a decrease of 11% from DKK 8.621m in 2019.

Deposits

(DKK 1.000)



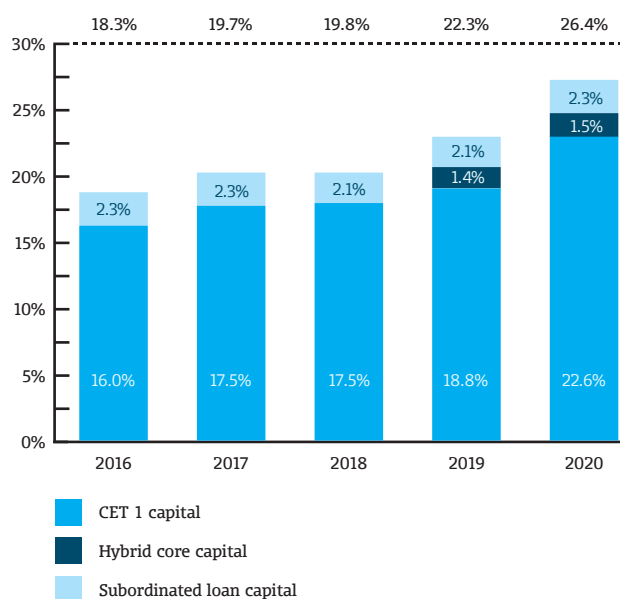
Solvency and liquidity (incl. discontinued operations)

BankNordik held total capital of DKK 2.581m at 31 December 2020 compared to 2.397m at 31 December 2019. Subordinated capital was stable at DKK 225m and hybrid core capital was stable at DKK 151m. Core capital amounted to DKK 2.357m at 31 December 2020, which was an increase of 183m from DKK 2.173m at 31 December 2019. CET 1 capital amounted to DKK 2.206m at 31 December 2020, which was an increase of 183m from DKK 2.023m at 31 December 2019.

The Group's solvency requirement increased to 9,8% at the end of 2020 from 9,4% at year-end 2019. The total capital ratio increased to 26,4% at the end of 2020 from 22,3% at the end of 2019. The core capital ratio increased to 24,1% at the end of 2020 from 20,2% at the end of 2019, while the CET 1 ratio increased to 22,6% at the end of 2020 from 18,8% at the end of 2019. The Group's total capital includes DKK 27,8m worth of subordinated debt (0,3 percentage point), which is not eligible to be included in the solvency surplus. As such, the solvency surplus at the end of 2020 was 16,3 percentage points compared to 12,8 percentage points in 2019. Compared to the external capital requirements, incl. buffer requirements totalling 17,9% at the end of 2020, Bank-Nordik had a solvency surplus of 8,5 percentage points.

The Group's liquidity indicator was 240% at year-end 2020, well above the requirement of 100%. The LCR requirement, on the other hand, calls for a liquidity buffer of at least 100%. At the end of 2020, BankNordik's LCR was 231% compared to 230% in 2019.

Solvency



Financial results for Q4 2020

Net interest income in Q4 2020 was DKK 65m, flat compared to Q3 2019. Net fee and commission income was DKK 16m in Q4 compared to DKK 15m in Q3, while insurance income was DKK 12m in Q4 compared to DKK 18m in the previous quarter.

Operating costs amounted to DKK 62m in Q4 compared to DKK 57m in Q3. Impairment charges were a reversal of DKK 10m in Q4 vs. DKK 2m in Q3. As a result, profit before tax for continuing operations amounted to DKK 49m in Q4 2020 compared to a profit of DKK 48m in Q3 2019. The Group's discontinued operations produced a profit before tax of DKK 1m in Q4 compared to a profit before tax of DKK 35m in Q3. The resulting total profit before tax was DKK 51m in Q4 2020 vs DKK 82m in the third quarter.

The Supervisory Diamond (incl. discontinued operations)

Sum of large exposures < 175 %

2020	2019
124,2%	126,5%

Loan growth <20 %

2020	2019
-0,7%	-0,5%

Funding-ratio < 1,0

2020	2019
0,61	0,59

Property exposure < 25%

2020	2019
8,5%	6,4%

Liquidity indicator >100%

2020	2019
240,0%	252,3%

Other

Supervisory Diamond (incl. discontinued operations)

The Supervisory Diamond is used to measure a bank's risk profile. The model identifies five areas that if not within certain limits are considered to be indicators of increased risk. As shown in the figure, the Bank meets all criteria by a comfortable margin (large exposures, exposures towards property, excess liquidity, stable funding and lending growth). The sum of large exposures decreased from 126,5% to 124,4%, well below the limit of 175%, and all large exposures are of good quality. The liquidity indicator was 240% at year-end compared to the minimum requirement of 100%.

Dividends proposed

At the upcoming Annual General Meeting, to be held on 26 March 2021, the Board intends to propose total dividend payments of DKK 48m for 2020 (DKK 5 per share).

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

Debt issuance

Following the divestment of the Danish activities, which included the divestment of a large deposit surplus, and the continuous focus on optimizing the capital structure, BankNordik plans to refinance its subordinated loan capital (T2) along with the issuing of senior non-preferred (T3) and/or senior preferred loan capital in 2021.

Events after the balance sheet date

On 22 December 2020, BankNordik entered into a conditional agreement with Spar Nord on the sale of BankNordik's Danish operations. The agreement was subject to approval by the Danish FSA and the Danish Competition and Consumer Authority. The approval was received in January 2021, allowing the final completion of the sale to take place on 1 February.

Outlook 2021

Note that the following outlook is related to the Group's continuing operations only.

BankNordik expects to continue growing its overall lending and mortgage volumes in 2021 – both personal and corporate. In the personal banking segment, the Group will continue to build on the progress of previous years by establishing stronger relationships and enhancing the user experience to attract new customers, for example by migrating its online and mobile banking systems to a brand new platform with enhanced functionality. BankNordik expects the trend of Faroese household preferences shifting towards the traditional Danish financing model of 80% mortgage funding and the residual in 2nd lien bank lending to continue, and as such its mortgage credit business is expected to outgrow its direct lending business to personal customers. In Greenland, BankNordik expects to grow its lending to existing customers as well as attracting new customers, thereby growing its market share.

On the corporate side, the Group sees an opportunity to increase volumes in 2021 due to continued investment activity in both the Faroe Islands and Greenland. To help manage its capital position as MREL requirements are being phased in, BankNordik has made good use of European and Danish government guarantee programmes to reduce the risk weighting of part of its corporate exposure in 2020, and the Group expects to continue utilising available programmes in 2021.

Fee and commission income is expected to increase slightly in 2021, as the Group's customers continue to take up more mortgage credit and as its awareness campaign on pension savings and investment leads to an increase in the take-up of these services. Insurance premiums are expected to continue to grow both due to customer acquisition and general price increases, but it is difficult to predict the level of net insurance income due to significant variations in claims levels from year to year.

The Group's operating costs fell in 2020, resulting in a operating cost/income ratio of 61% (2019: 67%). The operating costs in 2020 were affected by lower activity levels due to the COVID-19 situation, but the Group expects operating costs in 2021 to come in at around

the same level. The Group's impairment levels for 2021 are subject to more uncertainty than usual. Based on management's current knowledge, however, the Group expects impairment charges to remain low in 2021.

Due to the sale of its Danish business, the BankNordik Group will be able to increase its focus on delivering in the Faroese and Greenlandic markets. It remains the largest player in the Faroe Islands and a strong challenger in Greenland. In addition to the sale having an impact on pre-tax profits of DKK 70-90m in 2021 (net profit: DKK 55-70m), the Group expects to deliver a strong financial performance and higher returns longer run with its focus solely on business units in markets where it remains competitive. Focus will remain on increasing efficiency and reducing operating costs while consistently offering market-leading service and strong asset quality. In 2021, BankNordik expects to achieve a net profit in the range of DKK 150-200m (2020: DKK 166m).

This outlook is subject to uncertainty, including impairments on loans and advances, market value adjustments, and macroeconomic developments, including developments in the COVID-19 situation affecting the markets in which the Group operates.



Board of Directors' Review

Positive performance driven by strategic initiatives

In 2020, we began harvesting the benefits of the strategic initiatives we implemented in December 2019. That is also the reason our business was in good shape in the spring when the COVID-19 pandemic swept across the world and our customers raising unprecedented challenges. Fortunately, we have been able to support our customers through what has been an extraordinary year, and we are happy to report that our customers and the BankNordik Group successfully navigated the challenges of 2020. We closed the year making a successful divestment of the Group's Danish activities, and we now look forward to creating value in the coming years for our shareholders, customers, employees and local communities by concentrating our resources on providing relevant full-service advice and improved customer experience in the Faroe and Greenlandic markets.

Better customer experience to improve customer satisfaction and our top line

In order to attract and retain customers, it is crucial that we are constantly able to develop and meet the needs of our customers in terms of financial products and advisory services, while at the same time pursuing our mission of striving to guide our customers, making it easy for them to make the right choices. To that end, we have placed particular emphasis on improving our communication efforts by rephrasing complex banking jargon into plain language and communicating with our customers in a more accessible and straightforward manner.

It is our firm belief that individuals need to gain an in-depth understanding of their personal finances in order to make good financial decisions. In 2020, therefore, we focused particularly on implementing a new approach to our customer advisory services. This new approach means that we will assume even greater responsibility for our customers' personal finances by making sure they get the necessary 360-degree advisory services and an in-depth understanding of their own finances. Specifically, the new approach means that we have moved away from classic sales campaigns and the sales targets by which customer advisers are usually

measured. Instead, we will be measuring our advisers' performance on the satisfaction of their customers and their ability to provide comprehensive advice in plain, straightforward language. Our intention is to make our customers better equipped at making financial decisions and to improve our ratings in customer satisfaction surveys, which we believe will result in more diversified sales of our products and, by extension, increased earnings.

Strong financial results despite the pandemic

We are very aware of the importance that we continuously maintain the cost-efficiency of our operations and that we consistently make the adjustments required to optimise our business. In December 2019, we launched a number of strategic initiatives with a view to striking a more favourable balance between our Group's costs and its earnings. The strategic initiatives reduced our costs of operation and led to higher commission income. As a result, we have harvested the benefits of these measures in 2020, and combined with our persistent focus on efficient cost management, the introduction of negative deposit rates and a drop in staff and administrative expenses, we have been able to tackle

the unforeseen challenges posed by the pandemic during 2020. The strategic initiatives have also created the basis for enhanced results in the years ahead.

COVID-19 had a severe impact on our first-quarter results, and the expectation was that the ramifications of the pandemic would extend to the rest of the year and likely even longer. On account of the widespread uncertainty as to how the healthcare crisis would affect the economies where we operate, we lowered our guidance for the full-year net profit in April. However, the pandemic had only a limited impact on our financial results for 2020, and the actual impairment charges turned out to be lower than we had anticipated at the beginning of the year. As a result, we revised and upgraded our full-year guidance on four occasions, in June, July, October and January 2021. Our conservative approach to credit risk proved its worth once again during these turbulent times, as we recognised fewer losses than expected.

Satisfactory sales agreement in light of high capital requirements

Being categorised as a SIFI for the Faroes, BankNordik is required to meet higher capital requirements than our Danish peers. Although our operations in Denmark have seen positive developments in recent years, we could not ignore the challenges to our future competitive strength in the Danish market posed by the high capital requirements we face. As a result, we decided in December to conclude a sales agreement with Spar Nord for the sale of our Danish activities at the carrying amount plus a goodwill amount of DKK 255 million. The sale produced a net gain of between DKK 70 and DKK 90 million after transaction costs, including a withdrawal refund from our data-processing centre. We are very pleased with the divestment, and when it takes effect on 1 February 2021, Spar Nord will take over a profitable and efficient Danish banking operation.

A significant player in two attractive markets

The capital requirements do not pose a challenge to our business in the Faroes or in Greenland. We operate on largely equal terms with the competition there and the divestment will not affect our business in those two markets. Going forward, we will focus on our business in Greenland and in the Faroes and on our low-risk loan portfolio with limited exposure to historically risky sectors. We are a significant and proactive player in both

of these markets, and while we have built a solid foothold in the Faroes over the years, we see healthy potential for maintaining the profitable growth in Greenland and in the pensions and insurance field. We aim to achieve that goal by consistently pursuing our strategic focus of improving the customer experience, providing 360-degree advisory services and ensuring efficient cost management.

An efficient digital organisation

Although we are a leaner organisation after the divestment, it will not change our basic strategy of building strong, long-term customer relations by providing 360-degree advisory services and offering our customers relevant products and self-serve tools. The upcoming launch of our new online banking service to personal and commercial customers is part of our ongoing efforts to make it easy to bank with BankNordik by offering a cohesive, straightforward and easily accessible digital customer experience in which the customer may opt in or out of receiving personal financial advice. We are also making strides to simplify the processes and task management in the BankNordik Group. In 2021, we plan to apply robotic technology in our ongoing efforts to automate more administrative tasks and improve profitability.

Adjusting our financial targets

The divestment of the Danish activities changes the overweight of personal customers in our customer base to a more equal distribution between commercial and personal customers, and it also makes it necessary to adjust the Group's financial targets. As a result, we have revised the target for our common equity tier 1 (CET1) from 19,5% to 23,0% and the operating cost/income ratio target from 65% to 55%. The overall capital target including our 2025 MREL requirement is now fixed at 33,0%, while we will keep the return on equity target unchanged at 8% despite the higher capital target. In other words, the new financial targets reflect continued ambitious targets for the BankNordik Group's business.

Corporate responsibility and sustainable transition

For more than a century, we have helped people and businesses realise their ambitions and achieve financial security and growth, while also emphasising the impor-

tance of creating value for the communities in which we operate. Staying true to our heritage, we are firmly committed at BankNordik to making a positive difference for our customers, employees and local communities, and we intend to continue to work with corporate responsibility and the five of the 17 UN Sustainable Development Goals we have carefully selected.

As a financial services group, we have a unique opportunity to contribute to the transition to a sustainable society and a sustainable economy, and this is a responsibility we take very seriously. For example, we exert our influence by giving our customers the choice of green products that support sustainable developments. In our 2020 financial statements, we have included for the first time standard ESG ratios for our environmental, social and governance performance, and we will endeavour to implement initiatives to improve on these ESG ratios going forward.

Looking back at the extraordinary year that was 2020, we successfully delivered strong financial results despite a challenging and volatile economic climate, while also supporting customers facing financial difficulties during the crisis. We have emerged strongly from the effects of the pandemic, while also taking account of the uncertainty still prevailing in terms of the long-term economic consequences of the healthcare crisis. We stand well prepared to embark on a new and exciting year, in which our leaner organisation and team of highly skilled and dedicated employees will continue working and collaborating on a daily basis to create results of value to all of BankNordik's stakeholders.

Our external environment

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

The following analysis covers the Faroese and Greenlandic economies only due to its forward-looking nature and the fact that the BankNordik Group completed the sale of its Danish business on 1 February 2021.

Like all other countries, the Faroe Islands and Greenland are affected by developments on the global economic stage. In 2020 and 2021, the most significant factor affecting global economic developments was undoubtedly the COVID-19 pandemic. The pandemic turned previous growth forecasts for the world economy from a reasonably healthy 3% to a staggering fall of 4,2% – and even a fall of 7,5% in the Eurozone, according to the OECD's Economic Outlook. The WTO estimates

that global trade fell by a less than initially feared, but still by a very significant 9,2% in 2020. The Faroese and Greenlandic economies were thus negatively affected by global developments in 2020, most notably by the effects on fisheries and aquaculture exports as prices were well below pre-COVID levels.

Looking ahead at the overarching, global risks potentially impacting BankNordik, the picture is similar to what we saw a year ago, although most risks are to some extent affected by the COVID-19 situation. The threat of cybercrime, for example, remains elevated, and the fact that organisations are now more spread out because people are working from home has raised the risk of a security breach. Geopolitical risks remain and may be enhanced by economic stagnation, weakened public finances and a race to secure COVID-19 vaccines. The global push towards sustainability remains high on the agenda for many of the Faroe Islands' and Greenland's export partners, and this means that sustainable management of fish stocks is only becoming

more important, especially when considering the fall in prices in 2020. Of course, Brexit also remains a large factor of uncertainty, especially with regards to Faroese pelagic fisheries.

When comparing the two economies, which are now home to BankNordik's activities, there are a number of similarities. The Faroe Islands and Greenland are both North Atlantic states and part of the Danish Realm. Both countries are relatively isolated geographically and have vast resources in the oceans that surround them, fisheries thus naturally being far and away the largest export for both. The populations of the two countries are of a similar size, at just under 53.000 in the Faroe Islands and slightly above 56.000 in Greenland. Economic growth in recent years has been significant and higher than in other Western economies, and both economies are trying to diversify away from their reliance on fisheries with tourism having grown significantly in recent years. House prices in both countries have risen steadily for years, which makes for a healthy housing market with a large number of properties being bought and sold, although price levels are becoming increasingly prohibitive for first-time buyers. Both the Faroe Islands and Greenland have been much less impacted directly by the COVID-19 health crisis than most other countries. This has allowed large parts of the economies as well as individuals' personal finances to avoid the worst economic effects of the pandemic. Looking ahead, this puts the two countries in a good position on which to continue building once the world economy returns to some form of normality after the vaccine rollouts later this year.

There are, however, some significant differences between the Faroe Islands and Greenland. The most notable, perhaps, being their size, with Greenland being the world's largest island and having the world's twelfth largest land mass at 2,2 million km². The Faroe Islands are tiny at only 1,399 km², meaning that the population density in Greenland is less than one thousandth of that in the Faroe Islands. This naturally makes infrastructure development much more costly in Greenland and has hampered economic development, although the country has implemented several large infrastructure projects in the last few decades and is in the process of significantly expanding its airport capacity. The Faroe Islands, by contrast, have been able to bring the

country together in a literal sense over the past twenty years with three sub-sea tunnels completed and a fourth planned for completion in 2023. The Faroese telecommunication companies have built one of the fastest wireless internet connections in the world, with coverage in Greenland overall being considerably slower and more differentiated between central and provincial areas and prices much higher. In terms of education and employment, the Faroese are generally highly educated, and unemployment has consistently been about as low as anywhere in the world. Before COVID-19, unemployment was below 1%, and it never reached 2% in 2020, instead falling back to 1,3% in October. Greenland has long worked to increase the educational attainment of its population, and although unemployment has fallen significantly in recent years, structural unemployment remains high and is largely concentrated in the portion of the population with only a primary school education as well as in provincial towns.

GDP per capita in the Faroe Islands reached a significant milestone in 2019 when it surpassed that of Denmark by 9%. Greenland's GDP per capita is 9% lower than Denmark's. Greenland's public finances, however, are stabilised by a much larger block grant from the Danish government, which accounts for about 30% of the country's annual budget. Greenland also has a large underutilised potential in an area that is fairly unique to it as a Western economy – its landmass houses large amounts of valuable minerals. With shrewd management of these resources, they could potentially be a big leap forward for Greenland's economic development, although it also carries substantial risks, both environmental and political.

Looking at BankNordik's prospects in the two countries, demand for finance has risen in recent years. Lending to personal customers has grown steadily over the past four years at average rates of around 2,5% in Greenland and just over 3% in the Faroe Islands. Demand for finance from corporate customers is more volatile, but the growth rate in overall commercial lending has been higher than lending to personal customers. As such, BankNordik is optimistic that sticking to its current strategic focus of maintaining market share in the Faroe Islands and securing profitable growth in Greenland will allow the Group to remain sustainably profitable going forward.

Applied calculation methods and alternative performance measures

Alternative performance measures

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

Definitions

Operating income

Sum of Net interest income (less interest income from the Groups bond portfolio), Net fee income, Net insurance income and Other operating income.

Profit before impairment charges

Profit before Investment portfolio earnings, Impairment charges and Non-recurring costs.

Operating profit

Profit before non-recurring costs and before Investment portfolio earnings.

Other operating income

Other operating income, Dividends related to sector shares, Value adjustments related to sector shares, and Profit or loss from currency transactions.

Operating costs

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

Sector costs

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

Impairments

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

Non-recurring items

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

Investment portfolio earnings

Interest income from the bond portfolio, value adjustments less value adjustments of sector shares and less of profit or loss from currency transactions. Dividends less dividends related to sector shares, Income from holdings in associates.

Discontinued operations

The profit before tax is calculated after incl. allocated income and costs to the Danish segment.

Adjusted results

Adjustments made to the income statement are shown below.

Note	Income statement Q1-Q4 2020, Group, DKK 1,000	Income statement	Restatement	Restated income statement
1, 6	Net interest income	278,220	-20,665	257,555
2	Net fee and commission income	63,164	-3,272	59,892
	Net insurance income	45,152		45,152
2, 4	Other operating income	7,086	17,412	24,498
	Operating income	393,622	-6,525	387,097
3, 5	Operating costs	251,928	-14,327	237,601
	Sector costs	659	0	659
	Profit before impairment charges	141,035	7,802	148,838
	Impairment charges	-4,962	0	-4,962
	Operating profit	145,997	7,802	153,799
3	Non-recurring items	0	0	0
	Profit before investment portfolio earnings and tax	145,997	7,802	153,799
1, 4, 7	Investment portfolio earnings	-16,631	14,860	-1,771
	Profit before tax, continuing operations	129,366	22,662	152,028
5, 6, 7	Profit before tax, discontinued operations	77,075	-22,662	54,413
	Profit before tax, total	206,441	0	206,441
Note	Income statement Q1-Q4 2019, Group, DKK 1,000			
1, 6	Net interest income	258,853	-28,829	230,024
2	Net fee and commission income	59,454	-3,690	55,765
	Net insurance income	52,327	0	52,327
2, 4	Other operating income	12,470	20,267	32,736
	Operating income	383,103	-12,252	370,852
3, 5	Operating costs	270,003	-19,930	250,073
	Sector costs	400	0	400
	Profit before impairment charges	112,700	7,679	120,379
	Impairment charges	-68,962	0	-68,962
	Operating profit	181,662	7,679	189,340
3	Non-recurring items	0	-4,931	-4,931
	Profit before investment portfolio earnings and tax	181,662	2,747	184,409
1, 4, 7	Investment portfolio earnings	1,653	-4,309	-2,657
	Profit before tax, continuing operations	183,315	-1,562	181,753
5, 6, 7	Profit before tax, discontinued operations	76,460	1,562	78,022
	Profit before tax, total	259,775	0	259,775
Note	Restatements made to the income statement, DKK 1.000		2020	2019
1	Reclassification of interest income from bonds from the item Interest income to Investment portfolio earnings.		25,517	31,144
2	Dividends reclassified from Net fee and commission income to Other operating income.		3,272	3,690
3	Reclassification of severance and other costs from Operating costs to Non-recurring items.		0	4,931
4	Reclassification of value adjustments related to sector shares and of profit or loss from currency transactions to Other operating income.		14,140	16,577
5	Operating costs allocated to the Danish segment		14,327	14,999
6	Interests allocated to the Danish segment		4,852	2,315
7	Value adjustments allocated to the Danish segment		3,483	18,876

Management and directorships

Board of directors

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

Ben Arabo (Chairman)

Elected by the General Meeting

Date of birth: 1 September, 1973
 Gender: Male
 Nationality: Faroese
 First time elected to the Board: 2020
 Term expires: 2021
 Independent
 Educational background: Cand.merc (Foreign Trade) from Aarhus Business School
 Ha(Int) English/German from Aarhus Business School
 Competencies: In-dept knowledge of the Faroese business environment and the financial sector.
 International working experience as well as manager and board member of financial as well as listed companies in Greenland and the Faroe Islands.
 Principal occupation: Self-employed consultant
 Directorships and other offices: Grønlandsbanken (Former Board member)
 P/F Atlantic Petroleum (Chairman)
 P/F Vest Pack (Chairman)

John Henrik Holm (Vice Chairman)

Elected by the General Meeting

Date of birth: 23 May, 1970
 Gender: Male
 Nationality: Faroese
 First time elected to the Board: 2019
 Most recently re-elected: 2020
 Term expires: 2021
 Independent
 Educational background: Graduate diploma in business administration (HD-FR)
 Competencies: Broad experience within the financial sector. In-depth insight into Faroese business community - in particular regarding rural areas. Board experience from both private and public companies
 Principal occupation: Principal of Elementary School in Vágur, Faroe Islands
 Directorships and other offices: None

Jógvan Jespersen

Elected by the General Meeting

Date of birth: 4 December, 1955
 Gender: Male
 Nationality: Faroese
 First time elected to the Board: 1994-2006, and again in 2015
 Most recently re-elected: 2020
 Term expires: 2021
 Independent
 Educational background: HD – Finance and accounting from School of Business and Social Sciences, Aarhus University
 Competencies: Broad and extensive knowledge of the Faroese economy as well as in-depth knowledge of the operation of Faroese companies
 Principal occupation: Managing Director of Faroese Pelagic organization
 Directorships and other offices: Forskerparken P/F iNOVA (Chairman)
 Faroe Shipowners Association and Security Fund for fisheries (Board member)

Barbara Pállsdóttir Vang

Elected by the General Meeting

Date of birth: 16 April, 1972
 Gender: Female
 Nationality: Faroese
 First time elected to the Board: 2017
 Most recently re-elected: 2020
 Term expires: 2021
 Independent
 Educational background: MSc in Law, University of Copenhagen and Banking Education
 Competencies: Broad and in-depth knowledge of financial companies' regulatory issues
 Principal occupation: Legal Advisor at Tórshavn Municipality
 Directorships and other offices: Board member of: P/F BankNordik

Gunnar Nielsen

Elected by the General Meeting

Date of birth: 28 May, 1977
 Gender: Male
 Nationality: Faroese
 First time elected to the Board: 2019
 Most recently re-elected: 2020
 Term expires: 2021
 Independent
 Educational background: MSc. in Business Economics and Auditing, Copenhagen Business School
 Graduate Diploma in Business Administration and Accounting (HD-R), Aarhus School of Business,
 Competencies: Broad and in-depth knowledge of international business environment, and extensive knowledge of strategy, finance, business development and investor relations issues in the international financial markets. Furthermore a broad knowledge of the Faroese business environment.
 Principal occupation: CFO and deputy CEO of P/F Reyni Service and P/F Auto Service
 Directorships and other offices: CEO and Boardmember of P/F 2

Hans Arni Bjarnason Thomsen
Elected by the General Meeting

Date of birth: 9 July 1986
Gender: Male
Nationality: Faroese
First time elected to the Board: 2020
Term expires: 2021

Independent

Educational background: Master in Business Administration from Heriot-Watt University / Edinburgh Business School, MSc in Financial Management from Heriot-Watt University / Edinburgh Business School, HD in Finance and Accounting from Aarhus Business School, Banking Education

Competencies: Broad experience within the financial sector. Extensive knowledge of the Faroese business environment as well as in-depth knowledge of the operation and management of companies

Principal occupation: CEO at P/F J. F. Kjølbros Heilsøla, Sp/f Kjølbros, Sp/f Silikal Føroyar and Sp/f BEE Invest

Directorships and other offices: None

Alexandur Johansen
Elected by the employees

Date of birth: 7 June, 1979
Gender: Male
Nationality: Faroese
First time elected to the Board: 2018
Term expires: 2022

Independent

Educational background: Financial education and subsequent continuing education within financial and insurance aspects

Competencies: In-depth understanding of insurance aspects. All-round advisory services

Furthermore a broad knowledge of the Faroese business environment

Principal occupation: P/F Trygd - Commercial Insurance - leader of corporate department

Directorships and other offices: None

Kenneth Samuelsen
Elected by the employees

Date of birth: 21 July, 1966
Gender: Male
Nationality: Faroese
First time elected to the Board: 2010
Most recently re-elected: 2018
Term expires: 2022

Independent

Educational background: Financial education

Competencies: Broad knowledge of sector and labour market relationships. Customer and employer satisfaction Experience within and knowledge of IT.

Principal occupation: BankNordik – IT & Analyses department – unit Faroe Islands

Directorships and other offices: None

Rúna Hentze
Elected by the employees

Date of birth: 17 February, 1966
Gender: Female
Nationality: Faroese
First time elected to the Board: 2021
Term expires: 2022

Independent

Educational background: Financial education supplemented with different banking related courses

Competencies: Broad knowledge and experience within different aspects of Banking services

Experience within trade union work within the financial sector

Principal occupation: BankNordik - Backoffice - unit Faroe Islands

Directorships and other offices: None

Executive Board

Árni Ellefsen (CEO)

Date of birth: 6 January, 1966
Gender: Male
Nationality: Faroese
Year of joining the Executive Management: 2015

Educational background: MSc in Business Management and Accounting

State Authorized Public Accountant.

Principal occupation: CEO of P/F BankNordik

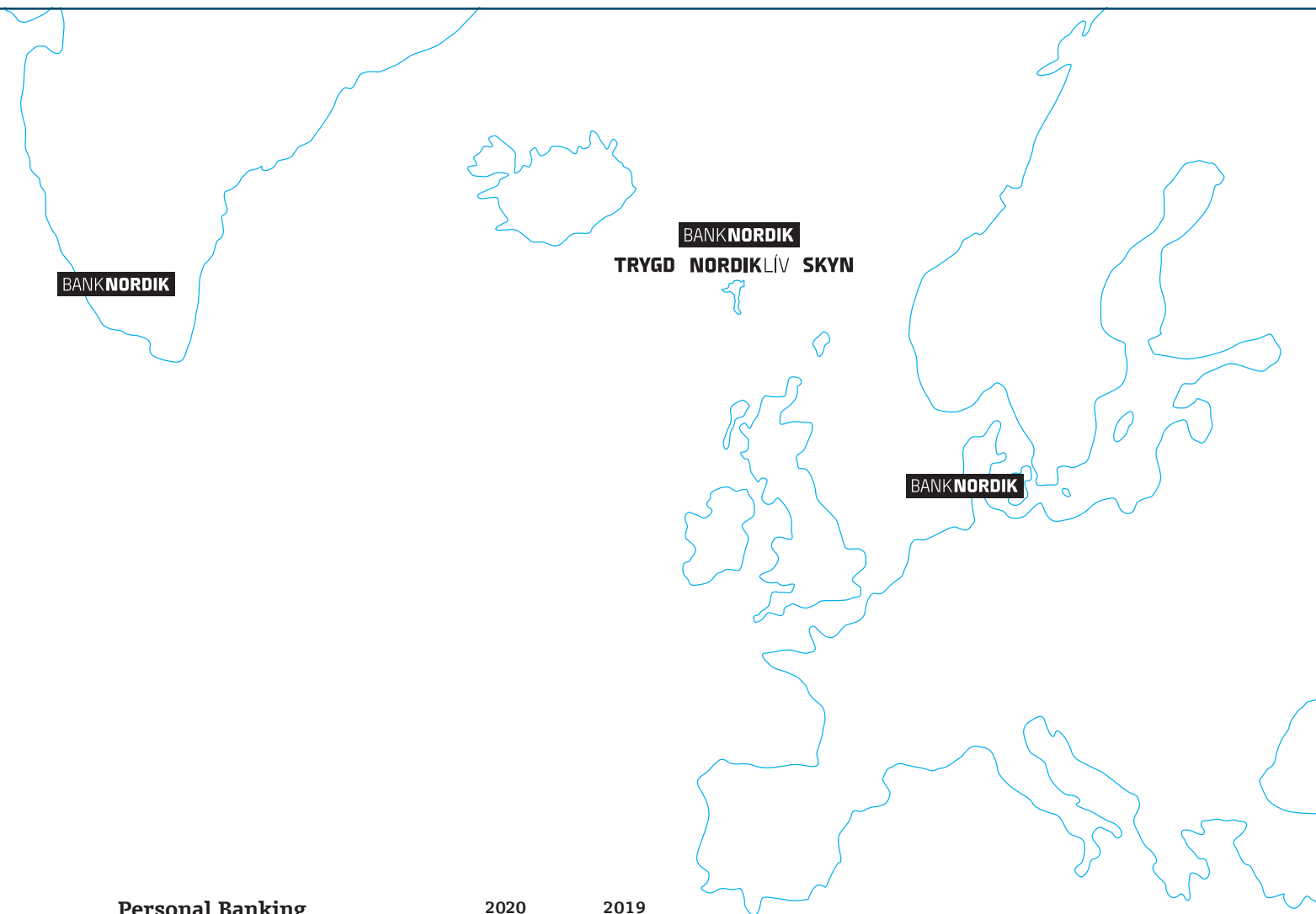
Board positions held that are relevant to banking and insurance:

Faroese Association of Employers in the Financial Sector.

BI Holding A/S, P/F Trygd (Chairman), P/F Skyn (Chairman), P/F NordikLív Lívstryggingarfelag (Chairman),

Faroese Employers Association, and the Faroese Banking Association (Chairman)

Segments



Personal Banking

	2020	2019
Loans and advances	DKK 3,6bn	DKK 3,7bn
Deposits and other debt	DKK 5,1bn	DKK 4,9bn
Mortgage credit	DKK 2,1 bn	DKK 1,8 bn
Operating cost/income, %	26%	33%
Operating profit	DKK 158m	DKK 149m

Corporate Banking

	2020	2019
Loans and advances	DKK 4,0bn	DKK 3,6bn
Deposits and other debt	DKK 2,6bn	DKK 3,8bn
Mortgage credit	DKK 0,3bn	DKK 0,2bn
Operating cost/income, %	12%	10%
Operating profit	DKK 148m	DKK 184m

Trygd

	2020	2019
Premium, net of insurance	DKK 121m	DKK 113m
Net insurance income	DKK 37m	DKK 44m
Profit before tax	DKK 12m	DKK 18m
Combined ratio	89%	84%
Claims ratio	70%	61%

Banking

Income statement, Banking											
DKKm	2020	2019	Index 20/19	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net interest income	258	228	113	65	65	65	63	61	56	56	56
Net fee and commission income	71	67	107	19	18	16	18	18	16	16	17
Other operating income	20	27	76	7	5	4	5	8	7	5	6
Operating income	349	322	109	91	87	85	86	87	80	77	78
Operating cost	-218	-227	96	-58	-52	-53	-55	-60	-56	-57	-55
Sector costs	-1	0		0	0	0	0	0	0	0	0
Profit before impairment charges	130	94	138	33	35	32	31	27	24	21	23
Impairment charges, net	5	69	7	10	-2	16	-18	21	5	33	10
Operating profit	135	163	83	43	32	48	13	48	29	53	33
Non-recurring items	0	-5		0	0	0	0	-5	0	0	0
Profit before investment portfolio earnings and tax	135	158	85	43	32	48	13	43	29	53	33
Investment portfolio earnings	0	0		2	4	15	-20	-2	-4	-6	11
Profit before tax, continuing operations	135	158	85	44	36	62	-8	41	25	48	44
Profit before tax, discontinued operations	54	78	70	1	35	37	-18	14	16	30	18
Profit before tax, total	189	236	80	46	71	99	-26	55	42	78	62
Loans and advances	7,608	7,363	103	7,608	7,501	7,479	7,416	7,363	7,262	7,256	7,178
Deposits and other debt	7,756	8,701	89	7,756	7,531	7,581	7,468	8,701	7,947	8,416	8,358
Mortgage credit	2,375	2,036	117	2,375	2,284	2,121	2,057	2,036	2,116	2,032	2,028
Operating cost/income, %	62	71		63	60	62	64	69	70	73	70
Number of FTE, end of period	196	206	95	196	199	197	195	206	208	210	211

Driven by growth in lending volumes and the application of negative interest rates on certain levels of deposits, the Group's net interest income grew by DKK 29m over the 2019 figure to DKK 258m in 2020. Net fee and commission income rose slightly to DKK 71m in 2020, a DKK 5m increase year on year. Other operating income fell by DKK 7m relative to 2019 to DKK 20m. As a result, the Bank's non-interest income fell by DKK 2m year on year in 2020, and operating income as a whole rose by DKK 27m. Operating costs fell by DKK 9m, or 4%, in 2020 compared to 2019, mainly due to the organisational changes announced in December 2019. As a result, profit before impairment charges rose by DKK 36m compared to 2019 to DKK 130m in 2020, a strong performance in a challenging year.

BankNordik maintains its through-the-cycle credit policy, and although the Bank made reservations of DKK 52m against future losses during the year, 2020 saw an overall reversal of impairment charges of DKK 5m. In 2019, the Bank reversed DKK 69m of previously impaired loans, which naturally was significantly higher than in 2020, however the reversals in 2020 are testi-

ment to the resilience of both the Faroese and Greenlandic economies as well as to BankNordik's thorough approach to evaluating customer creditworthiness. The resulting operating profit for the Banking segment in 2020 was DKK 135m, 28m less than in 2019.

No non-recurring items were recognised in 2020, whereas the 2019 figure amounted to an expense of DKK 5m, resulting in a profit before tax on continuing operations of DKK 135m in 2020 compared to DKK 158m in 2019. Profit before tax from discontinued operations came in at DKK 54m in 2020, DKK 24m less than in 2019, and as a result, the Bank's total profit before tax in 2020 was DKK 189m compared to DKK 236m in 2019.

Loans and advances to customers in the Bank's continuing operations rose by DKK 245m in 2020 to DKK 7.608m, and the portfolio of the Bank's brokered mortgage credit rose by DKK 339m to DKK 2.375m. Customer deposits fell by DKK 944m to DKK 7.756m, driven by a fall in corporate deposits, mainly from a handful of Greenlandic corporates.

Personal Banking

Income statement, Personal Banking											
DKKm	2020	2019	Index 20/19	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net interest income	136	131	104	34	34	34	33	33	33	32	33
Net fee and commission income	70	59	119	15	17	14	23	12	14	16	17
Other operating income	16	17	98	4	4	2	6	4	4	4	4
Operating income	222	206	108	53	55	51	63	49	51	52	54
Operating cost ¹	-58	-67	87	-15	-13	-16	-15	-20	-16	-16	-16
Sector costs	0	0		0	0	0	0	0	0	0	0
Profit before impairment charges	163	139	118	38	42	35	48	29	35	37	38
Impairment charges, net	-5	11	-46	3	-4	-2	-2	0	1	10	-1
Operating profit	158	149	106	41	38	33	46	30	36	46	37
Non-recurring items	0	-1		0	0	0	0	-1	0	0	0
Profit before investment portfolio earnings and tax	158	148	107	41	38	33	46	28	36	46	37
Profit before tax, continuing operations	158	148	107	41	38	33	46	28	36	46	37
Profit before tax, discontinued operations	147	177	83	32	48	39	28	54	38	46	40
Profit before tax, total	305	325	94	73	86	72	74	82	74	92	77
Loans and advances	3,587	3,696	97	3,587	3,581	3,636	3,628	3,696	3,690	3,667	3,654
Deposits and other debt	5,140	4,858	106	5,140	5,144	5,112	4,625	4,858	4,890	4,904	4,670
Mortgage credit	2,074	1,828	114	2,074	2,003	1,872	1,861	1,828	1,743	1,667	1,644
Operating cost/income, %	26	33		28	24	31	24	40	31	30	30
Number of FTE, end of period	80	94	85	80	79	82	79	94	105	104	92

1) Other costs than direct costs are not included.

BankNordik's operating income from personal banking customers increased by 8% in 2020, driven by stable lending volumes, increased income from negative interest rates as well as strong mortgage-broking activity. Both net interest income and non-interest income grew year on year. Net interest income was up by DKK 5m to DKK 136m in 2020, and net fee and commission income grew by DKK 11m year on year to DKK 70m, mainly due to increased mortgage-broking activity. Other operating income fell to 16m in 2020 from DKK 17m in 2019, resulting in operating income as a whole increasing from DKK 206m in 2019 to DKK 222m in 2020.

Operating costs fell to DKK 58m in 2020 from DKK 67m in 2019, driven by organisational changes that took effect in early 2020. As a result, profit before impairment charges was up by DKK 24m year on year in 2020 to DKK 163m.

Impairment charges came in at DKK 5m in 2020 compared to a reversal of DKK 11m in 2019, mostly due to the impairment provisions taken by the Bank's management during the year. There were no non-recurring items 2020, whereas 2019 saw non-recurring expenses of DKK 1m. Profit before tax for continuing operations were thus up by 7%, or DKK 10m, in 2020, at DKK 158m. Profit before tax from discontinued operations fell from DKK 177m in 2019 to DKK 147m in 2020. This resulted in total profit before tax for the personal banking segment falling from DKK 325m in 2019 to DKK 305m in 2020.

The DKK 109m fall in direct lending to personal customers in the Bank's continuing operations in 2020 to DKK 3,587m was more than offset by an increase of DKK 247m in brokered mortgage credit to DKK 2,074m.

Corporate Banking

Income statement, Corporate Banking											
DKKm	2020	2019	Index 20/19	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net interest income	137	119	115	35	34	35	33	31	30	29	29
Net fee and commission income	17	17	102	5	4	4	4	4	4	4	4
Other operating income	4	6	73	1	1	1	1	2	1	1	1
Operating income	158	141	112	41	40	39	38	37	35	34	35
Operating cost ¹⁾	-18	-14	128	-5	-4	-5	-4	-4	-4	-3	-3
Sector costs	0	0		0	0	0	0	0	0	0	0
Profit before impairment charges	140	127	110	36	36	34	34	33	31	31	31
Impairment charges, net	8	58	14	4	2	17	-15	20	4	24	11
Operating profit	148	184	80	40	38	51	19	54	35	54	42
Non-recurring items	0	0		0	0	0	0	0	0	0	0
Profit before investment portfolio earnings and tax	148	184	80	40	38	51	19	54	35	54	42
Profit before tax	148	184	80	40	38	51	19	54	35	54	42
Loans and advances	3,974	3,602	110	3,974	3,847	3,831	3,819	3,602	3,534	3,573	3,565
Deposits and other debt	2,607	3,770	69	2,607	2,347	2,469	2,892	3,770	3,018	3,498	3,715
Mortgage credit	301	209	144	301	281	249	196	209	372	364	384
Operating cost/income, %	12	10		12	10	13	11	10	11	10	10
Number of FTE, end of period	16	16	100	16	17	17	17	16	16	16	16

1) Other costs than direct costs are not included.

Developments on the income side of corporate banking were positive in 2020. Net interest income rose by 15% to DKK 137m year on year, while net fee and commission income was flat at DKK 17m and other operating income fell by DKK 2m to DKK 4m.

Operating costs rose from DKK 14m in 2019 to DKK 18m in 2020, resulting in profit before impairment charges coming in at DKK 140m, an increase of DKK 13m compared to 2019.

Impairments charges were a net reversal of DKK 8m, compared to a reversal of DKK 58m in 2020. The difference was mainly due to the provisions taken to cover potential future COVID-19 related losses, and the fact that the Bank was able to reverse impairments on a net basis in 2020 is testament to the strength and resil-

ience of its corporate customers as well as the Bank's through-the-cycle approach to credit evaluation. Due to the higher impairment provisions taken in 2020, profit before tax was down 20% year on year in 2020, at DKK 148m compared to DKK 184m in 2019.

The corporate lending portfolio grew by 10% for the year and was at DKK 3.974m at 31 December 2020. It remains well diversified and not overly exposed to either historically riskier sectors or the sectors most heavily affected by the COVID-19 situation. Corporate deposits were down by DKK 1.163m at DKK 2.607m, driven mainly by handful of Greenlandic customers reducing their deposits at the start of 2020 and the Bank charging negative interest rates on all corporate deposits in 2020.

Insurance

Income statement, Trygd											
DKKm	2020	2019	Index 20/19	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Premium income, net of reinsurance	121	113	107	30	31	30	30	28	29	28	27
Claims, net of reinsurance	-84	-69	122	-23	-14	-18	-29	-17	-17	-15	-19
Net insurance income	37	44	84	7	16	12	1	11	12	13	8
Net income from investment activities	-1	-1		0	0	0	-1	0	0	0	0
Operating income	35	43	83	7	16	12	0	11	11	13	8
Operating cost	-23	-25	91	-5	-6	-6	-6	-7	-6	-7	-6
Profit before tax	12	18	70	2	11	6	-6	4	6	6	2
Combined ratio	89	84		93	65	81	116	85	80	78	93
Claims ratio	70	61		76	46	60	97	60	60	54	72
Number of FTE, end of period	25	25	100	25	25	24	25	25	22	24	26

The Group's insurance company, Trygd, reported another year of strong growth in insurance premiums. Net premiums grew by 7% in 2020 to DKK 121m due to stronger demand and a continued inflow of new customers.

Claims, which vary significantly from year to year due to Faroese weather conditions, were DKK 84m in 2020, an increase of DKK 15m compared to 2019. The high level of claims was the result of claims in excess of the company's reinsurance limit following a severe windstorm in early March as well as a jump in travel cancellation insurance claims resulting from travel restrictions due to COVID-19. Operating costs were down

by 9%, or DKK 2m, relative to 2019 and came in at DKK 23m although the headcount was unchanged. As a result, profit before tax came in at DKK 12m in 2020 compared to DKK 18m in 2019.

Trygd continues to grow its market share by offering competitive prices and delivering superior customer experiences. Trygd expects to continue to attract new customers and to grow premium income in 2021, as it has done for the past several years.

Dividends totalling DKK 44m are expected to be paid to BankNordik for the 2020 financial year.

Other activities

Skyn

Due to the low interest rate environment, economic growth and net positive immigration, the Faroese housing market has experienced strong activity in recent years and is now at its highest ever. However, like the rest of the Faroese economy, the housing market was also somewhat affected by the COVID-19 situation in 2020.

Despite the challenging conditions, housing prices continued to increase, and transaction volumes maintained the high level seen in 2019. The Group's estate agency, Skyn, performed well during the period, being involved in a total of 234 transactions in 2020 compared to 240 in 2019. Skyn's revenues amounted to DKK 7,8m compared to DKK 7,9m in 2019, while profit before tax amounted to DKK 0,7m compared to DKK 1,6m in 2019. Skyn is expected to pay a dividend of DKK 1m to BankNordik for the 2020 financial year.

NordikLív

NordikLív is a life insurance company established in 2015 and wholly owned by BankNordik. The company began operations in 2016 by issuing regular life, disability and critical illness insurance cover in the Faroese market. In 2020, premium income was DKK 15m flat compared to 2019, while profit before tax amounted to DKK 4m in 2020, the same level achieved in 2019.

NordikLív is expected to pay a dividend of DKK 3m to BankNordik for the 2020 financial year.

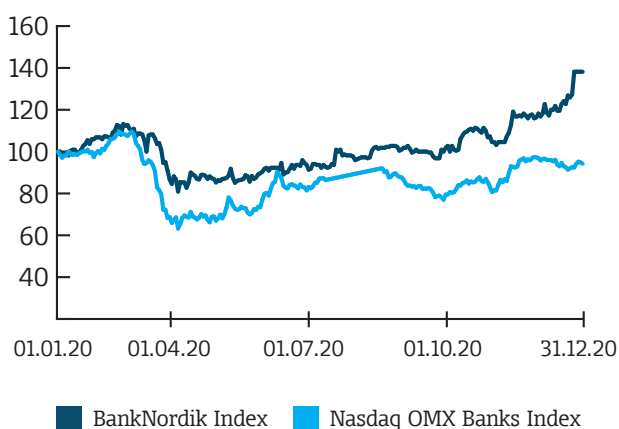
Shareholders

BankNordik share performance

The closing price of BankNordik’s shares on Nasdaq Copenhagen at 31 December 2020 was DKK 152 compared to a closing price of DKK 109 at 31 December 2019. This is an increase of 39,4% compared to a flat Copenhagen Bank Index. The turnover in BankNordik’s shares on Nasdaq Copenhagen was DKK 106m in 2020 compared to 191m in 2019.

Performance of BankNordik shares vs the Nasdaq Copenhagen Bank Index in 2020:

BankNordik share vs. Copenhagen Bank Index



Shareholder structure

At the time of publication of the Annual Report 2020, the following shareholders had notified the relevant authorities that they held 5% or more of the Bank’s shares:

- Fíggjargrunnurin frá 1992 (Faroese Government), Tórshavn, holds 35% of the shares.
- Lind Invest, Aarhus, holds 15% of the shares.
- Protector Forsikring ASA, Oslo, holds 9% of the shares.
- P/F Tjaldur, Tórshavn, holds 5% of the shares.
- Sp/f Framherji, Fuglafjørður, holds 5% of the shares.

At 31 December 2020, BankNordik had approximately 7.800 shareholders. The Faroese government held 35% of the share capital, institutional and other large investors held 51%, private investors held 14%, while the Bank held 0,3% as treasury shares. The majority of shareholders are based in the Faroe Islands.

Country	% of nominal shareholdings
Faroe Islands	59
Denmark	22
Norway	10
Others	9
Total	100

The Board of Directors has been authorised to allow the Bank to acquire up to 10% of the Bank’s nominal share capital in the period until 1 March 2024.

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

Organisation and management

Corporate governance at BankNordik

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

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

General meeting

The general meeting is the Bank's ultimate decision-making authority. An annual general meeting shall be held within three months of the end of a financial year. In 2021, the meeting will be held on 26 March in Tórshavn, Faroe Islands. The minutes of the meeting will be available at www.banknordik.com

Voting rights

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

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

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

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

Board of Directors

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

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

The primary duty of the Bank's Board of Directors is to determine the strategic framework for the Bank and its activities. The Bank places emphasis on ensuring that the Board of Directors possesses the necessary and relevant experience and qualifications to adequately perform its duties as a board of directors. Each year,

members of the Board are subject to a performance evaluation, which includes questionnaires, personal dialogue, and individual feedback from the Chairman. The findings and results are then presented and discussed by the Board.

In the second quarter, the Board of Directors carried out the annual evaluation of the Board of Directors, including its composition, the work on the Board, the Board structure, the leadership of the Board chairman and the individual performance of the Board members. All members of the Board of Directors answered questionnaires relating to their competences within relevant subjects. The findings and conclusions were subsequently presented to and discussed by the Board of Directors. The aim of the evaluation was to ensure, among other things, that the composition of the Board of Directors as well as the special competencies of each Board member enable the Board of Directors to perform its duties. As the Board of Directors operates as a collegial body, its overall competencies and experience are the sum of the individual board members' competencies and experience. The composition of the Board of Directors is intended to ensure the stable and satisfactory development of BankNordik for the benefit of its shareholders, customers, employees and other stakeholders. The competencies of the Board of Directors are described collectively in the competency profile, which is available at BankNordik.com. Please refer to page 20 for information on the competencies of the individual Board members. The results of the 2020 evaluation were generally positive, but with some areas of in need of improvement, which the Board of Directors will explore further.

Executive Board

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

Diversity

We recognise gender diversity as a driving force for other diversity aspects, and we have achieved a 40/60 gender split in senior positions as well as across the organisation. Measures include targeted recruitment where there is always at least one woman in the final field of candidates for the various positions. At board level, we aim to achieve a 40/60 gender split in 2025.

Remuneration

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

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

Remuneration for the Board of Directors is approved and adopted at each year's annual general meeting. Members of the Board of Directors receive a fixed salary only. They are not covered by incentive programmes and do not receive variable or performance-based remuneration or pension contributions.

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

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

Risk management

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

The Group's Risk Manager is responsible for the risk management framework and processes, including identifying; controlling and monitoring the Bank's various risks for the purpose of making risk assessments at both individual and aggregated levels. For further information on the Bank's risk management, see the Group's Risk Management Report 2020 at www.banknordik.com/rmr

Corporate responsibility

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

BankNordik reports on corporate social responsibility in the 2020 CSR Report, which has been prepared in compliance with the Group's CSR policy and the Danish FSA's requirements on corporate responsibility reporting.

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

Statement by the Management

The Board of Directors and the Executive Board (the management) have today considered and approved the annual report of P/F BankNordik for the financial year 2020.

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

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Com-

pany's assets, liabilities, equity and financial position at 31 December 2020 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 2020. 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, 25 February 2021

Executive Board

Árni Ellefsen
CEO

Board of Directors

Ben Arabo
Chairman

John Hendrik Holm
Deputy Chairman

Barbara Pállsdóttir Vang

Jógvan Jespersen

Gunnar Nielsen

Hans Arni Bjarnason Thomsen

Kenneth M. Samuelsen

Rúna Hentze

Alexandur Johansen

Internal Auditors' Report

Report on the Consolidated and Parent Company Financial Statements

Opinion

In our opinion, the Consolidated Financial Statements and the Financial Statements of P/F BankNordik give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2020 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2020 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the Consolidated Financial Statements and in accordance with the Faroese Financial Business Act in respect of the Parent Company's financial statements.

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

Basis for opinion

We have audited the Consolidated Financial Statements and the Financial Statements of P/F BankNordik for the financial year 1 January – 31 December 2020. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU. The Parent Company's Financial Statements have been prepared in accordance with the Faroese Financial Business Act.

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

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

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

Statement on Management's Review

Management is responsible for the Management's Review.

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

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

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

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

Tórshavn, 25 February 2021

Arndis Poulsen

Chief Audit Executive, BankNordik

Independent auditors' report

To the shareholders of BankNordik P/F

Our opinion

In our opinion the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2020 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Faroese Financial Business Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2020 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2020 in accordance with the Faroese Financial Business Act.

What we have audited

The Consolidated Financial Statements and the Parent Company Financial Statements of BankNordik P/F for the financial year 1 January to 31 December 2020 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies for the Group as well as for the Parent Company and cash flow statement for the Group. Collectively referred to as the "Financial Statements".

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2020. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Loan impairment charges

Loans are measured at amortised cost less impairment charges.

Loan impairment charges represent Management's best estimate of expected losses on loans at the balance sheet date in accordance with the provisions of IFRS 9 and as incorporated in the Executive Order for the Faroe Islands on the Presentation of Financial Statements of Credit Institutions and Stockbroker Companies, etc. Reference is made to the detailed description of accounting policies in note 1.

Due to the covid19 situation management has made a substantial provision to impairment charges as

How our audit addressed the key audit matter

We reviewed and assessed the impairment charges recognised in the income statement in 2020 and the accumulated impairment charges recognised in the balance sheet at 31 December 2020.

Our review included an assessment of the applied impairment model prepared by SDC, including division of responsibilities between the data centre and the Group. An independent auditor appointed by SDC has provided the model with a reasonable assurance report as to whether the descriptions comply with the interpretation options regarding

an accounting estimate (management judgement). The consequences of the covid-19 situation for the Group's customers are unknown for now, and therefore there is an increased estimation uncertainty regarding this accounting estimate.

Loan impairment charges are a key area of focus as Management performs material estimates in an area that is complex and subjective in nature. Estimates are made both in relation to whether a write-down for impairment should be made and of the size of such impairment charges.

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

- Determination of credit classification on initial and subsequent recognition.
- Model-based impairment charges in stages 1 and 2, including Management's determination of model variables adapted to the Group's loan portfolio.
- The Group's procedures to ensure completeness of the registration of credit-impaired loans (stage 3) or loans with significant increase in credit risk (stage 2, underperforming).
- Most significant assumptions and estimates applied by Management in the calculations of impairment charges, including principles for the assessment of various outcomes of the customer's financial position (scenarios) and for the assessment of collateral values of e.g. ships and real estate included in the calculations of impairment.
- Management's assessment of expected credit losses at the balance sheet date as a result of possible changes in market conditions and which are not included in the model-based calculations or individually assessed impairment charges including in particular the consequences for the Groups customers of the covid-19 situation.

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

the impairment principles according to IFRS 9, and whether the model calculates in accordance with the model descriptions. We assessed whether the assurance report identified a need for adjustments to the Group's application of the model.

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

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

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

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

We tested a sample of other loans by making our own assessment of stage and credit classification. This included an increased sample of major loans, loans within segments with generally increased risks including segments particularly affected by the covid-19 situation.

We reviewed and challenged Management's estimates of expected credit losses not included in the model-based calculations or individually assessed impairment charges based on our knowledge of the portfolio, industry knowledge and knowledge of current market conditions. Among other things, we had a special focus on the Group's calculation of the management estimates to cover expected credit losses as a result of the covid-19 situation.

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

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

Management's responsibilities for the Financial Statements

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that

a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Herning, 25 February 2021

PRICEWATERHOUSECOOPERS

Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Heidi Brander

State Authorised Public Accountant
mne33253

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

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

Tórshavn, 25 February 2021

JANUAR P/F

Løggilt grannskodanarvirki
Company reg. no. 5821

Heini Thomsen

State Authorised Public Accountant
mne33274



Financial statement BankNordik

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Income statement - BankNordik

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
3, 4	Interest income	297,909	280,682	296,379	278,985
	- of which interest income from deposits	30,695	7,408	30,695	7,408
3, 5	Interest expenses	19,689	21,830	19,689	21,799
	- of which interest expenses from assets	4,157	4,674	4,157	4,674
	Net interest income	278,220	258,853	276,691	257,186
3	Dividends from shares and other investments	3,272	3,690	3,272	3,690
6	Fee and commission income	64,559	59,627	76,072	70,514
6	Fee and commissions paid	4,666	3,862	4,666	3,862
	Net dividend, fee and commission income	63,164	59,454	74,678	70,342
	Net interest and fee income	341,384	318,307	351,369	327,527
7	Premium income, net of reinsurance	135,276	126,504		
8	Claims, net of reinsurance	90,124	74,177		
	Interest and fee income and income from insurance activities, net	386,535	370,634	351,369	327,527
3.9	Market value adjustments	-16,968	1,370	-13,923	3,918
10	Other operating income	7,086	12,470	2,978	6,679
11, 12	Staff costs and administrative expenses	244,335	262,513	225,740	240,146
28, 29, 30	Amortisation, depreciation and impairment charges	7,592	7,490	6,941	6,971
13	Other operating expenses	659	400	659	400
14	Impairment charges on loans and advances etc.	-4,962	-68,962	-4,962	-68,962
25, 26	Income from investments accounted for under the equity method	337	283	14,285	19,501
	Profit before tax from continuing operations	129,366	183,315	126,331	179,071
15	Tax	26,215	39,155	23,180	34,911
	Net profit from continuing operations	103,150	144,159	103,150	144,159
16	Discontinued operations, net of tax	63,035	62,471	63,035	62,471
	Net profit	166,186	206,631	166,186	206,631
	Portion attributable to				
	Shareholders of BankNordik P/F	166,186	206,631	166,186	206,631
	Net profit	166,186	206,631	166,186	206,631
	EPS Basic for the period, discontinuing operations, DKK*	6.61	6.58	6.61	6.58
	EPS Diluted for the period, discontinuing operations, DKK*	6.61	6.58	6.61	6.58
	EPS Basic for the period, continuing operations, DKK*	10.82	15.20	10.82	15.20
	EPS Diluted for the period, continuing operations, DKK*	10.82	15.20	10.82	15.20

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

Statement of comprehensive income - BankNordik

DKK 1,000	Group		BankNordik	
	2020	2019	2020	2019
Net profit	166,186	206,631	166,186	206,631
Other comprehensive income				
Items which will not subsequently be recycled:				
Revaluation of domicile property	0	-1,735	0	-1,735
Tax on other comprehensive income	0	660	0	660
Changes in accounting policies, Trygd	0	615	0	615
Total other comprehensive income	0	-460	0	-460
Total comprehensive income	166,186	206,171	166,186	206,171
Portion attributable to				
Shareholders of BankNordik P/F	159,280	204,432	159,280	204,432
Additional Tier 1 capital holders	6,906	1,739	6,906	1,739
Total comprehensive income	166,186	206,171	166,186	206,171

Balance Sheet - BankNordik

Note	DKK 1,000	Group		BankNordik	
		Dec. 31 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
	Assets				
17	Cash in hand and demand deposits with central banks	208,010	252,059	207,843	252,000
18, 19	Amounts due from credit institutions and central banks	1,177,515	877,825	1,177,515	877,825
14, 20, 21	Loans and advances at fair value	473,357	509,864	473,357	509,864
14, 20, 21	Loans and advances at amortised cost	7,134,544	9,399,022	7,134,544	9,399,022
22	Bonds at fair value	4,472,621	5,599,529	4,255,519	5,404,445
23	Shares, etc.	309,443	312,175	309,443	312,175
24, 49	Assets under insurance contracts	9,556	6,176	0	0
25	Holdings in associates	6,706	6,369	6,706	6,369
26	Holdings in subsidiaries	0	0	143,086	133,438
27	Assets under pooled schemes	0	795,822	0	795,822
28	Intangible assets	2,432	9,957	2,432	9,957
	Total land and buildings	144,688	212,559	142,043	209,886
29	Domicile property	73,253	104,424	70,608	101,751
29	Domicile property (lease asset)	71,436	108,135	71,436	108,135
30	Other property, plant and equipment	7,543	19,985	6,439	19,060
	Current tax assets	13,604	10,705	13,604	10,705
31	Deferred tax assets	195	5,008	0	4,960
32	Assets held for sale	4,466	1,500	4,466	1,500
33	Other assets	69,190	87,188	67,297	81,669
	Prepayments	38,491	67,657	37,412	66,584
16	Assets in disposal groups classified as held for sale	3,217,940	0	3,217,940	0
	Total assets	17,290,303	18,173,399	17,199,646	18,095,281

Balance Sheet - BankNordik

Note	DKK 1,000	Group		BankNordik	
		Dec. 31 2020	Dec. 31 2019	Dec. 31 2020	Dec. 31 2019
		Shareholders' equity and liabilities			
		Liabilities other than provisions			
34, 35	Amounts due to credit institutions and central banks	27,954	54,922	27,954	54,922
36, 37	Deposits and other debt	7,733,408	14,367,685	7,755,724	14,399,292
	Deposits under pooled schemes	0	795,832	0	795,832
38, 49	Liabilities under insurance contracts	98,231	92,922	0	0
	Current tax liabilities	31,136	36,107	28,060	32,828
39	Other liabilities	205,995	309,825	195,264	297,822
	Deferred income	4,198	5,471	3,263	3,951
16	Liabilities directly associated with assets in Disposal groups classified as assets held for sale	6,520,004	0	6,520,004	0
	Total liabilities other than provisions	14,620,926	15,662,763	14,530,269	15,584,648
		Provisions for liabilities			
31	Provisions for deferred tax	3,093	2	3,093	0
14	Provisions for losses on guarantees etc	16,015	18,446	16,015	18,446
	Provisions for other liabilities	3,641	5,012	3,641	5,012
	Total provisions for liabilities	22,749	23,461	22,749	23,459
		Subordinated debt			
41	Subordinated debt	224,695	224,086	224,695	224,086
	Total liabilities	14,868,370	15,910,311	14,777,713	15,832,193
		Equity			
	Share capital	192,000	192,000	192,000	192,000
	Revaluation reserve	9,243	9,243	9,243	9,243
	Retained earnings	2,021,781	1,843,891	2,021,781	1,843,891
	Proposed dividends	48,000	67,200	48,000	67,200
	Shareholders of the Parent Company	2,271,024	2,112,335	2,271,024	2,112,335
40	Additional tier 1 capital holders	150,909	150,754	150,909	150,754
	Total equity	2,421,933	2,263,088	2,421,933	2,263,088
	Total liabilities and equity	17,290,303	18,173,399	17,199,646	18,095,281

Statement of capital - Group

Changes in equity:	Shareholders equity						Additional tier 1 capital	Total
	Share capital	Revaluation Reserve	Proposed dividends	Retained earnings	Total			
DKK 1.000								
Shareholders' equity at January 1, 2020	192,000	9,243	67,200	1,843,891	2,112,335	150,754	2,263,088	
Net profit			48,000	111,280	159,280	6,906	166,186	
Total comprehensive income		0	48,000	111,280	159,280	6,906	166,186	
Paid interest on additional tier 1 capital				0	0	-6,750	-6,750	
Acquisition of own shares				-591	-591		-591	
Suspended dividend payment			-67,200	67,200	0		0	
Shareholders' equity at December 31, 2020	192,000	9,243	48,000	2,021,781	2,271,024	150,909	2,421,933	

Regarding 2020: Proposed dividend per share DKK 5. Dividend paid out per share DKK 0.

DKK 1.000	Shareholders equity						Additional tier 1 capital	Total
	Share capital	Revaluation Reserve	Proposed dividends	Retained earnings	Total			
Shareholders' equity at December 31, 2018	200,000	10,968	70,000	1,705,783	1,986,752		1,986,752	
Changes in accounting policies, subsidiaries				-6,109	-6,109		-6,109	
Tax on changes in accounting policies, subsidiaries				1,100	1,100		1,100	
Adjusted equity at January 1, 2019	200,000	10,968	70,000	1,700,774	1,981,742		1,981,742	
Revaluation of assets		-3,000		1,265	-1,735		-1,735	
Tax on entries on income recognised as Other comprehensive income		660			660		660	
Revaluation of assets, subsidiaries		615			615		615	
Net profit			67,200	137,691	204,891	1,739	206,631	
Total comprehensive income		-1,725	67,200	138,957	204,432	1,739	206,171	
Issuance of additional tier 1 capital, net of transaction costs					0	149,014	149,014	
Cancellation of own shares	-8,000			8,000	0		0	
Acquisition of own shares				-7,054	-7,054		-7,054	
Dividends paid			-70,000	3,215	-66,785		-66,785	
Shareholders' equity at December 31, 2019	192,000	9,243	67,200	1,843,891	2,112,335	150,754	2,263,088	

Statement of capital - BankNordik P/F

Changes in equity:	Shareholders equity						
	Share capital	Revaluation Reserve	Proposed dividends	Retained earnings	Total	Additional tier 1 capital	Total
DKK 1.000							
Shareholders' equity at January 1, 2020	192,000	9,243	67,200	1,843,891	2,112,335	150,754	2,263,088
Net profit			48,000	111,280	159,280	6,906	166,186
Total comprehensive income		0	48,000	111,280	159,280	6,906	166,186
Paid interest on additional tier 1 capital				0	0	-6,750	-6,750
Acquisition of own shares				-591	-591		-591
Suspended dividend payment			-67,200	67,200	0		0
Shareholders' equity at December 31, 2020	192,000	9,243	48,000	2,021,781	2,271,024	150,909	2,421,933

Regarding 2020: Proposed dividend per share DKK 5. Dividend payed out per share DKK 0.

DKK 1.000	Shareholders equity						
	Share capital	Revaluation Reserve	Proposed dividends	Retained earnings	Total	Additional tier 1 capital	Total
Shareholders' equity at December 31, 2018	200,000	10,968	70,000	1,705,783	1,986,752		1,986,752
Changes in accounting policies, subsidiaries				-6,109	-6,109		-6,109
Tax on changes in accounting policies, subsidiaries				1,100	1,100		1,100
Adjusted equity at January 1, 2019	200,000	10,968	70,000	1,700,774	1,981,742		1,981,742
Revaluation of assets		-3,000		1,265	-1,735		-1,735
Tax on entries on income recognised as Other comprehensive income		660			660		660
Revaluation of assets, subsidiaries		615			615		
Net profit			67,200	137,691	204,891	1,739	206,631
Total comprehensive income		-1,725	67,200	138,957	204,432	1,739	206,171
Issuance of additional tier 1 capital, net of transaction costs					0	149,014	149,014
Cancellation of own shares	-8,000			8,000	0		0
Acquisition of own shares				-7,054	-7,054		-7,054
Dividends paid			-70,000	3,215	-66,785		-66,785
Shareholders' equity at December 31, 2019	192,000	9,243	67,200	1,843,891	2,112,335	150,754	2,263,088

Statement of capital - P/F BankNordik

Solvency DKK 1,000	Dec. 31 2020	Dec. 31 2019
Core capital	2,356,719	2,173,404
Total capital	2,581,414	2,397,490
Risk-weighted items not included in the trading portfolio	8,120,941	8,374,072
Risk-weighted items with market risk etc.	584,300	1,299,559
Risk-weighted items with operational risk	1,068,984	1,090,091
Total risk-weighted items	9,774,225	10,763,722
CET 1 capital ratio	22.6%	18.8%
Core capital ratio	24.1%	20.2%
Total capital ratio	26.4%	22.3%
Core Capital and Shareholders' equity		
Share capital	192,000	192,000
Reserves	9,243	8,628
Net profit	166,186	206,631
Retained earnings, previous years	1,908,332	1,712,623
Shareholders' equity, before deduction of holdings of own shares	2,275,762	2,119,882
Deduction of dividend	48,000	68,939
Deduction of holdings of own shares	4,738	7,547
Deduction of intangible assets	12,572	9,957
Deduction of deferred tax assets	0	4,960
Deduction regarding prudent valuation of financial instruments	4,642	5,828
CET 1 capital	2,205,809	2,022,650
Hybrid core capital	150,909	150,754
Core capital	2,356,719	2,173,404
Total capital		
Core capital	2,356,719	2,173,404
Subordinated loan capital	224,695	224,086
Total capital	2,581,414	2,397,490

The BankNordik Group holds a license to operate as a bank and is therefore subject to a capital requirement under the Faroese Financial Business Act and to CRR. The Faroese provisions on capital requirements apply to both the Parent Company and the Group. The capital 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 CET 1 capital, hybrid core capital and subordinated loan capital. The CET 1 capital corresponds to the carrying amount of equity, after deductions of holdings of own shares, tax assets and other minor deductions.

Cash flow statement - Group

DKK 1,000	2020	2019
Cash flow from operations		
Profit before tax	206,441	259,775
Interest expense on leasing liabilities	3,299	2,924
Depreciation and impairment charges of tangible assets	17,754	14,923
Impairment of loans and advances/guarantees	-12,241	-104,928
Paid tax	-40,537	-21,272
Other non-cash operating items	-4,796	-20,973
Total	170,573	130,449
Changes in operating capital		
Change in loans at fair value	40,878	9,774
Change in loans at amortised cost	45,998	242,746
Change in holding of bonds	1,100,638	-1,032,634
Change in holding of shares	12,519	-8,172
Change in deposits	-1,004,537	935,456
Due to credit institutions and central banks	-26,631	-16,038
Change in other assets / liabilities	-7,023	16,794
Assets/liabilities under insurance contracts	1,929	-3,791
Prepayments	1,946	3,963
Cash flow from operations	336,290	278,548
Cash flow from investing activities		
Dividends received	12,559	13,984
Acquisition of intangible assets	-3,268	-3,828
Acquisition of tangible assets	-4,014	-10,358
Sale of tangible assets	30	16,922
Cash flow from investing activities	5,307	16,719
Cash flow from financing activities		
Change in loans from central banks and credit institutions	0	-227,650
Issued additional hybrid tier 1 capital	0	148,962
Paid interest on additional hybrid tier 1 capital	-6,750	0
Acquisition of own shares	-591	-7,054
Payment of dividends	0	-70,000
Payment of dividends, own shares	0	3,215
Principal portion of lessee lease payments	-10,505	-7,328
Cash flow from financing activities	-17,846	-159,855
Cash flow	323,751	135,412
Cash in hand and demand deposits with central banks, and due from credit institutions, etc. at the beginning of the year	1,129,884	994,471
Cash flow	323,751	135,412
Cash and due etc.	1,453,635	1,129,884
Cash and due etc.		
Cash in hand and demand deposits with central banks	223,320	252,059
Due from credit institutions, etc.	1,230,315	877,825
Total	1,453,635	1,129,884

Total cash include cash from Discontinued operations, DKK 68.lm.

Notes

Note **Accounting policies**

1

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1. Basis of preparation

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

The preparation of the consolidated financial statements requires, in some cases, the use of estimates and assumptions by management. The estimates are based on past experience and assumptions that management believes are fair and reasonable but that are inherently uncertain and unpredictable. These estimates and the judgement behind them affect the reported amounts of assets, liabilities and off balance sheet items, as well as income and expenses in the financial statements presented. Changes and effects from implementation of new standards and amendments are explained in the following under the heading Adoption of new standards in 2020.

Notes

Note 1) Estimates and assumptions

1 Estimates and assumptions of significance to the financial statements include the determination of:
(cont'd)

- A. Impairment charges of loans and advances
- B. Fair value of domicile properties
- C. Fair value of financial instruments
- D. Fair value of assets held for sale

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

A) Impairment charges of loans and advances

The Group makes impairment charges to account for impairment of loans and advances that occur after initial recognition. Impairment charges are based on the expected credit loss model as further described under the section "Loans and advances at amortised cost".

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

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

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

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

Note 14 provides details on the amounts recognized and note 50 also provides further details on impairment charges on loans and advances.

B) Fair value of domicile properties

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

Notes

Note C) Fair value of financial instruments

1 The Group measures a number of financial instruments at fair value, including all derivative instruments as well as shares, bonds and certain loans.
(cont'd)

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

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

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

As part of its day-to-day operations, the Group has acquired strategic equity investments. These shares are measured at fair value based on the information available about trading in the relevant company's equity investments.

Details on the amounts recognised are provided in note 23.

D) Fair value of assets held for sale

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

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

2) Adoption of new standards in 2020

The following new standards and amendments to standards and interpretations which are relevant for the Group are mandatory for the first time for the financial year beginning 1 January 2020.

Amends to IAS 1 and IAS 8, 'Definition of material'

The changes comprise extended guidance regarding application of the "material" notion in respect of recognition, measurement and disclosure. The adoption has had no significant impact on the financial statements.

3) Changes in IFRSs not yet applied by BankNordik

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

Notes

Note **IFRS 17 'Insurance contracts'**

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

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

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

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts. The standard is effective for annual periods beginning on or after 1 January 2021. Management has not yet assessed the impact of IFRS 17.

IFRS 17 is mandatory for accounting periods beginning on or after 1 January 2023

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies and Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

The amendments comprise improved accounting policy disclosure requirements for the purpose of providing more useful information and additional guidance changes in accounting estimates from changes in accounting policies

The amendments are mandatory for accounting periods beginning on or after 1 January 2023

4) Consolidation

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

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

Acquired subsidiaries are included from the date of acquisition.

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

5) Segment information

The Group consists of a number of business units and resource and support functions. The business units are segmented according to legislation, product and services characteristics. The information provided on operating segments is regularly reviewed by the management making decisions about resources to be allocated to the

Notes

Note 1 segments and assessing their performance, and for which discrete financial information is available. Operating segments are not aggregated. Amounts presented in the segment reporting are recognised and measured in accordance with the Group's significant accounting policies.

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

6) Foreign currency translation

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

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

7) Offsetting

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

2. Critical accounting policies

1. Income statement

1) Income criteria

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

2) Interest income and expenses

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

Interest income and expenses also includes interest on financial instruments measured at fair value with the exception of interest relating to assets and deposits under pooled schemes which are recognized under marketvalue 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.

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

Notes

Note Furthermore interest income comprises income originated from liabilities and interest expenses comprise
1 expenses originated from assets.

(cont'd)

3) Dividends on shares

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

4) Fees and commission income

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

5) Fees and commission expenses incurred

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

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

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

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

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

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

In addition, the item covers reinsurance coverage.

8) Market value adjustments

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

9) Other operating income

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

10) Staff costs

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

11) Pension obligations

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

Notes

Note 12) Depreciation and impairment of intangible assets, property, plant and equipment

1 Depreciation and write-downs comprise the depreciation and write-downs on intangible and tangible assets (cont'd) for the period. Furthermore depreciation of property comprises depreciations on the Groups holdings of leased assets.

13) Other operating expenses

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

14) Impairment charges on loans and advances etc.

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

15) Tax

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

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

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

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

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

2. Balance sheet – Assets

1) Due from credit institutions and central banks

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

2) Financial instruments – General

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

Notes

Note 1 3) Financial instruments – Classification

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

(cont'd)

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

3,1) Loans and advances measured at amortised cost

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

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

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

Impairment charges

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

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

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

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

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

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

Notes

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

1

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

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

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

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

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

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

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

Write-off policy

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

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

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

Notes

Note 3,2) Trading portfolio measured at fair value

1 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.

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

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

Determination of fair value

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

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

Determination of fair value hierarchy

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

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

3,3) Financial assets designated at fair value with value adjustments through profit and loss

Financial assets designated at fair value through profit and loss comprise fixed-rate loans, loans capped and shares, including sector shares, which are not a part of the trading portfolio.

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.

Notes

Note 4) Assets under insurance contracts

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

5) Holdings in associates

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

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

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

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

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

6) Holdings in subsidiaries

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

7) Intangible assets

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

8) Land and buildings

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

8,1) Domicile property

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

Subsequently, domicile property is measured at a revalued amount corresponding to the fair value at the date of the revaluation less depreciation and impairment. The fair value is calculated on the basis of current market data according to an income based model that includes the property's estimated rental income if rented to

Notes

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

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

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

8,2) Leased domicile property

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

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

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

9) Other property, plant and equipment

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

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

10) Assets held for sale

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

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

Notes

Note 1 (cont'd) A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

Assets related to disposal groups are presented in the item 'Assets in disposal groups classified as held for sale'. Liabilities related to disposal groups are presented in the item 'Liabilities directly associated with assets in disposal groups classified as assets held for sale'.

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

11) Other assets

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

3. Balance sheet – Liabilities, provisions and equity

1) Financial instruments – General

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

2) Classification

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

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

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

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

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

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

4) Trading portfolio measured at fair value

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

Notes

Note **5) Determination of fair value**

1 The determination of the fair value is identical with the determination of the fair value of assets. Please refer (cont'd) to this section under financial assets.

6) Liabilities under insurance contracts

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

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

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

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

7) Other liabilities

This item includes sundry creditors, derivatives with negative market values and other liabilities. Wages and salaries, payroll tax, social security contributions and compensated absences are recognised in the financial year in which the associated service has been rendered by the Group's employees. Costs relating to the Group's long-term employee benefits are accrued and follow the service rendered by the employees in question.

Pension contributions are paid into the employees' pension plans on a continuing basis and are charged to the income statement.

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

8) Provisions

Provisions include provisions for deferred tax, financial guarantees and other provisions for liabilities. Initial recognition of financial guarantees is at fair value which is often equal to the guarantee premium received. Subsequent measurement of financial guarantees is at the higher of the guarantee premium received amortised over the guarantee period and any provisions made for credit losses. Such provisions are determined applying the same approach as for loans issued.

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

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

Notes

Note 9) Subordinated debt

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

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

10) Hybrid Capital (AT1 capital)

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

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

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

11) Own shares

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

12) Dividends

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

4. Cash flow statement

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

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

Notes

Note 3. Accounting Policies – P/F BankNordik

1

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

The Executive Order no. 1597 of 9. November 2020 for the Faroe Islands on financial reports for financial institutions and brokerage companies has effect from 1. January 2021. According to its section 150 (2) the bank has selected to implement the Executive order in the Annual Report 2020.

Deviation from section 188 (1) in the Faroese Financial Business act.

In December 2020, the Bank signed an agreement with Spar Nord under which Spar Nord acquired the Bank's Danish activities. As a result, the Bank will discontinue all operations in Denmark. The transaction has received approval from all relevant authorities, and the transaction is thus expected to be completed as planned.

The Danish activities have been recognized in the consolidated financial statements as discontinued operations in accordance with IFRS 5. Accordingly, profit after tax from the Danish activities for 2020 and 2019 are presented in a separate line item in the income statement. The individual items relating to the discontinued activities are listed in a note. All assets and liabilities of the discontinued activities are classified in a separate line under assets or liabilities respectively.

The parent company financial statements have been prepared in accordance with the provisions of the Faroese Financial Business Act, including the Executive Order on financial reports for credit institutions and investment firms, etc. The rules of this legislation do not specifically address the presentation of discontinued operations in the income statement, whereas the presentation in the balance sheet is identical to the presentation in the consolidated financial statements.

As a result of the abovementioned difference in the rules on the presentation of discontinued operations in the income statement, items in the parent company income statement will be significantly higher than the corresponding items in the consolidated income statement.

Management believes applying different accounting policies in the consolidated and the parent company financial statements for the presentation of discontinued operations will fail to give a true and fair view of the Bank's activities, as the higher values appearing in the parent company income statements would expectedly cause doubts and uncertainty with readers of the financial statements as to the correlation between the parent company and the Group. Management has therefore resolved to deviate from section 196(1) of the Faroese Financial Business Act on format requirements, cf. section 188(1) of the Faroese Financial Business Act in order to ensure a true and fair view of the Company's circumstances. As a result, the discontinued operations are presented according to the same principles as applied in the consolidated financial statements. The deviation has no effect on the net profit for the year or on shareholders' equity and is being made solely for presentation purposes.

Notes

Note **Operating segments**

2

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

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

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

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

Discontinued operations comprise the planned selling of the Danish activities. As a consequence the discontinued operations no longer are a part of the Banking activities.

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

Notes - BankNordik Group

Note	Operating segments 2020	Banking			Total	Non-life Insurance	Elimina- tion	Continuing operations	Dis- continued operations	Group
		Private	Corporate	Other		Faroe Islands				
2 (cont'd)	DKK 1,000									
	External interest income, Net	137,080	137,386	2,176	276,643	1,577		278,220	101,815	380,035
	Internal interest	0	0	0	0	0		0	0	0
	Net interest income	137,080	137,386	2,176	276,643	1,577		278,220	101,815	380,035
	Net Fee and dividends income	57,308	17,370	-3,623	71,055	-7,891		63,164	146,767	209,931
	Premium income, net of reinsurance	0	0	15,329	15,329	120,786	-840	135,276	0	135,276
	Net premium income of reinsurance and claims	0	0	9,463	9,463	36,529	-840	45,152	0	45,152
	Other income	12,993	3,683	-19,888	-3,212	-2,682	-3,652	-9,545	3,354	-6,191
	Total income	207,381	158,439	-11,871	353,949	27,533	-4,492	376,991	251,936	628,927
	Total operating expenses	60,763	18,568	162,670	242,002	15,077	-4,492	252,587	182,141	434,728
	of which depreciation and amortisation	2,743	0	4,432	7,174	418		7,593	10,815	18,407
	Profit before impairment charges on loans	146,618	139,871	-174,541	111,947	12,457		124,404	69,795	194,199
	Impairment charges	4,903	-8,009	-1,856	-4,962	0	0	-4,962	-7,280	-12,241
	Profit before tax	141,714	147,880	-172,686	116,909	12,457	0	129,365	77,075	206,440
	Total assets	3,785,613	4,070,959	6,008,298	13,864,870	207,493		14,072,363	3,217,940	17,290,303
	of which Loans and advances	3,611,083	3,996,818		7,607,901	0		7,607,901	2,230,722	9,838,623
	Total liabilities	5,144,118	2,611,606	592,642	8,348,366	0		8,348,366	6,520,004	14,868,370
	of which Deposits	5,144,118	2,611,606		7,755,724	0	-22,316	7,733,408	5,629,740	13,363,147
	of which Insurance liabilities			3,535		94,696	0	98,231	0	98,231

Operating segments 2019	Banking			Total	Non-life Insurance	Elimina- tion	Continuing operations	Dis- continued operations	Group
	Private	Corporate	Other		Faroe Islands				
DKK 1,000									
External interest income, Net	129,362	119,153	8,771	257,286	1,566		258,852	107,839	366,691
Internal interest	4,760	-115	-4,645	0	0		0	0	0
Net interest income	134,122	119,038	4,126	257,286	1,566		258,852	107,839	366,691
Net Fee and dividends income	53,516	16,826	-3,490	66,851	-7,397		59,454	144,004	203,458
Premium income, net of reinsurance	0	0	14,820	14,820	112,512	-828	126,504	0	126,504
Net premium income of reinsurance and claims	0	0	9,621	9,621	43,534	-828	52,327	0	52,327
Other income	12,587	5,351	472	18,411	-2,179	-2,110	14,122	5,053	19,175
Total income	200,225	141,216	10,728	352,169	35,525	-2,938	384,755	256,895	641,651
Total operating expenses	65,705	14,492	175,344	255,541	17,801	-2,938	270,404	216,401	486,805
of which depreciation and amortisation	491	0	6,690	7,182	308		7,490	7,433	14,923
Profit before impairment charges on loans	134,520	126,724	-164,615	96,628	17,724		114,352	40,494	154,846
Impairment charges	-10,654	-57,693	-615	-68,962	0	0	-68,962	-35,966	-104,928
Profit before tax	145,174	184,417	-164,001	165,591	17,724	0	183,315	76,460	259,775
Total assets	6,491,153	3,626,477	7,861,726	17,979,357	194,042		18,173,399	0	18,173,399
of which Loans and advances	6,297,010	3,611,876		9,908,886	0		9,908,886	0	9,908,886
Total liabilities	10,616,286	3,783,006	1,408,236	15,807,528	102,783		15,910,311	0	15,910,311
of which Deposits	10,616,286	3,783,006		14,399,292	0	-31,608	14,367,685	0	14,367,685
of which Insurance liabilities			3,668		89,254	0	92,922	0	92,922

Notes - BankNordik Group

Note (DKK 1.000)

2 BankNordik Group - Geographical revenue information (cont'd)

Geographical segments	Total income		Non.current assets		Additions to tangible assets		Additions to intangible assets	
	Q1-Q4 2020	Q1-Q4 2019	Q4 2020	Q4 2019	Q4 2020	Q4 2019	Q4 2020	Q4 2019
Faroe Islands	309,504	344,062	118,976	124,822	-1,309	84,942	280	2,151
Denmark	6,356	-8,817	0	78,317	0	40,114	0	7,806
Greenland	61,131	49,510	45,360	45,731	79	-51	0	0
Total, continuing operations	376,991	384,755	164,336	248,870	-1,230	125,005	280	9,957
Denmark, discontinued operations	251,936	256,895	72,711	0	16,006	0	2,335	0
Total	628,927	641,651	237,047	248,870	14,776	125,005	2,615	9,957

Geographical segments	Impairments		Investment portfolio earnings	
	Q1-Q4 2020	Q1-Q4 2019	Q1-Q4 2020	Q1-Q4 2019
Faroe Islands	-2,237	35,776	-16,631	1,653
Denmark	27,111	19,034	0	0
Greenland	-19,912	14,153	0	0
Total, continuing operations	4,962	68,962	-16,631	1,653
Denmark, discontinued operations	7,280	35,966	0	0
Total	12,241	104,928	-16,631	1,653

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

Geographical segments	Total income		Profit before tax		Tax		FTE	
	Q1-Q4 2020	Q1-Q4 2019	Q1-Q4 2020	Q1-Q4 2019	Q1-Q4 2020	Q1-Q4 2019	Q4 2020	Q4 2019
Faroe Islands, Banking, Other	281,971	308,538	85,256	137,096	20,974	30,839	181	192
Faroe Islands, Insurance	27,533	35,525	12,457	17,724	2,220	3,211	25	25
Denmark, Banking	6,356	-8,817	18,156	-6,090	0	0	1	1
Greenland, Banking	61,131	49,510	13,497	34,586	3,022	5,105	21	20
Total, continuing operations	376,991	384,755	129,366	183,315	26,215	39,155	228	238
Denmark, Banking, discontinued operations	251,936	256,895	77,075	76,460	14,039	13,989	124	139
Total	628,927	641,651	206,441	259,775	40,255	53,144	352	377

Notes

BankNordik Group							
Note	DKK 1,000	Interest income ²	Interest expenses	Net interest	Market value adjustment	Dividend	Total
3	Net income, financial instruments 2020¹						
	Financial instruments at amortised cost	258,227	8,437	249,790			249,790
	Financial instruments at fair value:						
	Held for trading	27,228	1,990	25,237	-38,765	3,272	-10,256
	Loans and Advances Designated ³	12,454	0	12,454	4,371	0	16,825
	Derivatives ⁴	0	9,262	-9,262	-4,210		-13,472
	Other		0	0	21,636		21,636
	Financial instruments at fair value total	39,682	11,252	28,430	-16,968	3,272	14,734
	Total net income from financial instruments	297,909	19,689	278,220	-16,968	3,272	264,524
	Net income, financial instruments 2019						
	Financial instruments at amortised cost	255,678	18,498	237,181	168	0	237,349
	Financial instruments at fair value:						
	Held for trading	34,238	3,332	30,906	-15,336	3,690	19,260
	Loans and Advances Designated ³	4,361	0	4,361	17,442		21,803
	Derivatives ⁴	0	-13,595	-13,595	-21,585		-35,180
	Other		0	0	20,681		20,681
	Financial instruments at fair value Total	25,004	3,332	21,672	1,202	3,690	26,563
	Total net income from financial instruments	280,682	21,830	258,853	1,370	3,690	263,912

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

2 Interest income recognised on impaired financial assets amounts to DKK 4.7m (2019: DKK 4.3m)

3 Net gain/loss recognised on loans and advances designated amount to DKK 16.8m (2019 DKK 21.8m). Of which DKK 12.5m relate to interest income (2019 DKK 4.4m), and DKK 4.4m relate to Value adjustments (2019 DKK 17.4m).

4 Total value adjustments according to IFRS 7, including interest expenses on derivatives, amount to DKK -13.5m (2019 DKK -35.2m)

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
4	Interest income and premiums on forwards				
	Credit institutions and central banks	440	486	440	486
	Loans and advances	249,341	251,457	249,669	251,457
	Deposits	30,695	7,408	30,695	7,408
	Bonds	27,507	34,475	25,650	32,672
	Total derivatives of which:	-9,262	-12,999	-9,262	-12,999
	<i>Interest rate contracts</i>	-9,262	-12,999	-9,262	-12,999
	Other interest income	-813	-144	-813	-38
	Total interest income	297,908	280,682	296,379	278,985
5	Interest expenses				
	Credit institutions and central banks	1,705	1,485	1,705	1,485
	Deposits	1,133	1,632	1,133	1,632
	Subordinated debt	12,226	12,195	12,226	12,195
	Bonds	1,990	3,332	1,990	3,332
	Lease liabilities	2,302	2,379	2,302	2,379
	Other interest expenses	332	808	332	778
	Total interest expenses	19,689	21,830	19,689	21,799
6	Net fee and commission income				
	Fee and commission income				
	Securities trading and custody accounts	5,116	5,110	5,116	5,110
	Credit transfers	14,698	12,567	14,698	12,567
	Loan commissions	4,825	3,974	4,825	3,974
	Guarantee commissions	21,406	21,477	21,406	21,477
	Other fees and commissions	18,515	16,498	30,028	27,386
	Total fee and commission income	64,559	59,627	76,072	70,514
	Fee and commissions paid				
	Securities trading and custody accounts	4,666	3,862	4,666	3,862
	Net fee and commission income	59,892	55,765	71,406	66,652
7	Premium income, net of reinsurance				
	Regular premiums, life insurance	15,843	15,372		
	Reinsurance premiums paid	514	552		
	Total life insurance	15,329	14,820		
	Gross premiums, non-life insurance	134,977	126,178		
	Reinsurance premiums paid	12,663	11,894		
	Change in gross premium provisions	-2,955	-2,600		
	Change in reinsurers' share of premiums	587	0		
	Total non-life insurance	119,946	111,683		
	Total	135,276	126,504		

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
8	Claims, net of reinsurance				
	Benefits paid	6,150	5,084		
	Change in life insurance provisions	-283	115		
	Total life insurance	5,867	5,199		
	Gross claims paid	78,369	70,692		
	Claims handling costs	8,381	7,835		
	Reinsurance received	-4,780	-2,583		
	Change in gross claims provisions	4,226	-7,096		
	Change in reinsurers' share relating to provisions	-1,938	130		
	Total non-life insurance	84,258	68,978		
	Total	90,124	74,177		
9	Market value adjustments				
	Loans and advances	4,371	17,442	4,371	17,442
	Bonds	-31,633	-16,443	-28,588	-13,895
	Shares	9,788	15,096	9,788	15,096
	Foreign exchange	4,716	6,860	4,716	6,860
	Total derivatives of which:	-4,210	-21,585	-4,210	-21,585
	Currency contracts	2,982	2,658	2,982	2,658
	Interest Swaps	-7,192	-24,243	-7,192	-24,243
	Total market value adjustments	-16,968	1,370	-13,923	3,918
10	Other operating income				
	Profit on sale of investment and domicile properties and assets held for sale	37	4,242	37	4,242
	- of which assets held for sale	37	2,764	37	2,764
	Profit on sale of operating equipment	4	158	4	158
	Other income	8,513	7,962	753	62
	Operation of properties:				
	Rental income	-1,400	157	2,252	2,267
	Operating expenses	-68	-50	-68	-50
	- of which assets held for sale	-68	-50	-68	-50
	Total other operating income	7,086	12,470	2,978	6,679

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
11	Staff costs and administrative expenses				
	Staff costs:				
	Salaries	125,169	131,102	109,809	115,032
	Pensions	17,793	18,231	15,746	16,219
	Social security expenses	19,994	19,526	17,977	17,474
	Total staff costs	162,956	168,859	143,532	148,724
	Administrative expenses:				
	IT	52,890	55,898	48,582	51,413
	Marketing etc	7,063	9,191	6,259	7,565
	Education etc	861	1,745	746	1,032
	Advisory services	882	108	882	100
	Other expenses	28,064	34,582	25,739	31,311
	Total administrative expenses	89,761	101,523	82,208	91,421
	Total staff costs	162,956	168,859	143,532	148,724
	Staff costs incl. under the item "Claims, net of reinsurance"	-8,381	-7,868	0	0
	Total administrative expenses	89,761	101,523	82,208	91,421
	Total employee costs and administrative expenses	244,335	262,513	225,740	240,146
	Number of employees				
	Average number of full-time employees in the period	228	240	196	208
	Executive remuneration:				
	Board of Directors	2,550	2,500	2,550	2,500
	Executive Board:				
	Árni Ellefsen:				
	Salaries	2,650	2,500	2,650	2,500
	- less fees received from directorships	333	263	333	263
	The Bank's expense, salaries	2,317	2,237	2,317	2,237
	Pension	398	375	398	375
	Bonus	199	213	199	213
	Bonus, Share-based payment	199	213	199	213
	Total executive board	3,112	3,037	3,112	3,037
	Total executive remuneration	5,662	5,537	5,662	5,537

The number of shares in P/F BankNordik held by the Board of Directors and the Executive Board at the end of 2020 totalled 5,361 and 11,996 respectively (end of 2019: 6,757 and 10,172).

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
	Remuneration of the senior executives				
11	The Board of Directors in P/F BankNordik				
(cont'd)	Stine Bosse (until March 2020)	125	650	125	650
	Ben Arabo (from March 2020)	500	0	500	0
	Barbara Vang	250	400	250	400
	Jógvan Jespersen	250	250	250	250
	Kim Jacobsen (until March 2020)	50	250	50	250
	John Henrik Holm	375	200	375	200
	Hans A. Thomsen (from March 2020)	175	0	175	0
	Kenneth M. Samuelsen	200	200	200	200
	Alexander Johansen	200	200	200	200
	Dan Rasmussen (Until January 2021)	200	200	200	200
	Gunnar Nielsen (from March 2019)	225	150	225	150
	Rúna Hentze (from February 2021)	0	0	0	0
	Total	2,550	2,500	2,550	2,500

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
	Remuneration of other executives				
11					
(cont'd)	Fixed salary	3,307	3,604	3,307	3,604
	Pension	487	531	487	531
	Bonus	114	150	114	150
	Bonus, Share-based payment	114	150	114	150
	Total	4,022	4,435	4,022	4,435

The executives included in this group are:

Rune Nørregaard, Chief Credit Officer

Turið F. Arge, Chief Commercial Officer

Per Sjørup Christiansen, Head of Personal Banking (Until March 2019)

	Group		BankNordik	
	2020	2019	2020	2019
Total remuneration of executives				
Total	7,135	7,471	7,135	7,471

Variable/performance-based remuneration

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

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

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

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

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

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

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
12	Audit fees				
	Fees to audit firms elected at the general meeting	1,619	1,780	1,274	1,417
	Total audit fees	1,619	1,780	1,274	1,417
	Total fees to the audit firms elected at the general meeting				
	break down as follows:				
	Statutory audit	1,394	1,383	1,088	1,132
	- of which PricewaterhouseCoopers	936	814	799	710
	- of which Januar	458	569	289	422
	Other assurance engagements	59	95	51	55
	- of which PricewaterhouseCoopers	51	55	51	55
	- of which Januar	8	40	0	0
	Tax and VAT advice	135	110	135	110
	- of which PricewaterhouseCoopers	135	110	135	110
	Other services	31	193	0	121
	- of which PricewaterhouseCoopers	0	113	0	113
	- of which Januar	31	80	0	9
	Total fees to the audit firms elected at the general meeting	1,619	1,780	1,274	1,417
13	Other operating expenses				
	The Guarantee Fund for Depositors and Investors	659	400	659	400
	Total operating expenses	659	400	659	400

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
14	Continuing operations				
	Impairment charges on loans and advances and provisions for guarantees etc.				
	Impairment charges and provisions at 31 December	347,113	424,353	347,113	424,353
	New and increased impairment charges and provisions	98,090	44,884	98,090	44,884
	Reversals of impairment charges and provisions	92,244	104,821	92,244	104,821
	Written-off, previously impaired	25,137	17,304	25,137	17,304
	Interest income on impaired loans	4,718	6,387	4,718	6,387
	Total impairment charges and provisions at 31 December	327,822	347,113	327,822	347,113
	Impairment charges and provisions recognised in the income statement				
	Loans and advances at amortised cost	-5,643	-60,254	-5,643	-60,254
	Loans and advances at fair value	0	-1,557	0	-1,557
	Guarantees and loan commitments	682	-7,150	682	-7,150
	Total individual impairment charges and provisions	-4,962	-68,962	-4,962	-68,962
	Stage 1 impairment charges				
	Stage 1 impairment charges etc. at 31 December	7,878	7,431	7,878	7,431
	New and increased Stage 1 impairment charges	29,984	5,438	29,984	5,438
	Reversals, net of Stage 1 impairment charges	4,018	4,992	4,018	4,992
	Stage 1 impairment charges at 31 December	33,844	7,878	33,844	7,878
	<i>Total net impact recognised in the income statement</i>	<i>25,966</i>	<i>447</i>	<i>25,966</i>	<i>447</i>
	Stage 2 impairment charges				
	Stage 2 impairment charges etc. at 31 December	17,159	15,609	17,159	15,609
	New and increased impairment charges	33,680	13,361	33,680	13,361
	Reversals, net of impairment charges	14,330	11,811	14,330	11,811
	Stage 2 impairment charges at 31 December	36,509	17,160	36,509	17,160
	<i>Total net impact recognised in the income statement</i>	<i>19,349</i>	<i>1,551</i>	<i>19,349</i>	<i>1,551</i>
	Weak Stage 2				
	Weak Stage 2 impairment charges etc. at 31 December	35,663	51,934	35,663	51,934
	New and increased impairment charges	18,588	12,490	18,588	12,490
	Reversals, net of impairment charges	14,703	28,761	14,703	28,761
	Weak Stage 2 impairment charges at 31 December	39,548	35,663	39,548	35,663
	<i>Total net impact recognised in the income statement</i>	<i>3,884</i>	<i>-16,271</i>	<i>3,884</i>	<i>-16,271</i>

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
14	Continuing operations				
(cont'd)					
	Stage 3 impairment charges				
	Stage 3 impairment charges etc. at 31 December	271,079	326,895	271,079	326,895
	New and increased impairment charges	11,329	10,008	11,329	10,008
	Reversals of impairment charges	55,363	48,521	55,363	48,521
	Written-off, previously impaired	25,137	17,304	25,137	17,304
	<i>Write-offs charged directly to the income statement</i>	858	200	858	200
	<i>Received on claims previously written off</i>	6,948	2,837	6,948	2,837
	<i>Interest income on impaired loans</i>	4,718	6,387	4,718	6,387
	Stage 3 impairment charges at 31 December	201,907	271,079	201,907	271,079
	<i>Total net impact recognised in the income statement</i>	-54,843	-47,538	-54,843	-47,538
	Purchased credit-impaired assets included in stage 3 above				
	Purchased credit-impaired assets at 31 December 2019	72,964	81,195	72,964	81,195
	Reversals of impairment charges	15,488	8,230	15,488	8,230
	Purchased credit-impaired assets at 31 December	57,476	72,964	57,476	72,964
	Provisions for guarantees and undrawn credit lines				
	Individual provisions at 31 December	15,333	22,483	15,333	22,483
	New and increased provisions	4,510	3,586	4,510	3,586
	Reversals of provisions	3,828	10,736	3,828	10,736
	Provisions for guarantees etc at 31 December	16,015	15,333	16,015	15,333
	<i>Total net impact recognised in the income statement</i>	682	-7,150	682	-7,150
	Provisions for guarantees and undrawn credit lines				
	Stage 1 provisions	1,828	1,415	1,828	1,415
	Stage 2 provisions	2,948	2,301	2,948	2,301
	Weak Stage 2 provisions	200	1,200	200	1,200
	Stage 3 provisions	11,039	10,417	11,039	10,417
	Provisions for guarantees etc at 31 December	16,015	15,333	16,015	15,333

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
14	Discontinued operations				
(cont'd)					
	Impairment charges on loans and advances and provisions for guarantees etc.				
	Impairment charges and provisions at 31 December	149,178	182,938	149,178	182,938
	New and increased impairment charges and provisions	45,884	38,850	45,884	38,850
	Reversals of impairment charges and provisions	45,123	66,779	45,123	66,779
	Written-off, previously impaired	9,203	5,832	9,203	5,832
	Interest income on impaired loans	3,333	4,318	3,333	4,318
	Total impairment charges and provisions at 31 December	140,736	149,178	140,736	149,178
	Impairment charges and provisions recognised in the income statement				
	Loans and advances at amortised cost	-6,722	-31,480	-6,722	-31,480
	Guarantees and loan commitments	-557	-1,847	-557	-1,847
	Total individual impairment charges and provisions	-7,280	-35,966	-7,280	-35,966
	Stage 1 impairment charges				
	Stage 1 impairment charges etc. at 31 December	6,527	7,152	6,527	7,152
	New and increased Stage 1 impairment charges	4,613	3,958	4,613	3,958
	Reversals, net of Stage 1 impairment charges	3,904	4,583	3,904	4,583
	Stage 1 impairment charges at 31 December	7,235	6,527	7,235	6,527
	Total net impact recognised in the income statement	709	-625	709	-625
	Stage 2 impairment charges				
	Stage 2 impairment charges etc. at 31 December	15,853	29,187	15,853	29,187
	New and increased impairment charges	8,045	9,650	8,045	9,650
	Reversals, net of impairment charges	10,698	22,984	10,698	22,984
	Stage 2 impairment charges at 31 December	13,199	15,853	13,199	15,853
	Total net impact recognised in the income statement	-2,654	-13,334	-2,654	-13,334
	Weak Stage 2				
	Weak Stage 2 impairment charges etc. at 31 December	5,637	5,933	5,637	5,933
	New and increased impairment charges	14,607	3,679	14,607	3,679
	Reversals, net of impairment charges	2,726	3,975	2,726	3,975
	Weak Stage 2 impairment charges at 31 December	17,518	5,637	17,518	5,637
	Total net impact recognised in the income statement	11,881	-296	11,881	-296

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
14	Stage 3 impairment charges				
(cont'd)	Stage 3 impairment charges etc. at 31 December	118,048	135,706	118,048	135,706
	New and increased impairment charges	17,696	20,099	17,696	20,099
	Reversals of impairment charges	26,314	31,926	26,314	31,926
	Written-off, previously impaired	9,203	5,832	9,203	5,832
	<i>Write-offs charged directly to the income statement</i>	1,464	1,679	1,464	1,679
	<i>Received on claims previously written off</i>	6,172	5,399	6,172	5,399
	<i>Interest income on impaired loans</i>	3,333	4,318	3,333	4,318
	Stage 3 impairment charges at 31 December	100,227	118,048	100,227	118,048
	<i>Total net impact recognised in the income statement</i>	-16,658	-19,865	-16,658	-19,865
	Purchased credit-impaired assets included in stage 3 above				
	Purchased credit-impaired assets at 31 December 2019	26,018	33,464	26,018	33,464
	Reversals of impairment charges	8,230	7,446	8,230	7,446
	Purchased credit-impaired assets at 31 December	17,788	26,018	17,788	26,018
	Provisions for guarantees and undrawn credit lines				
	Individual provisions at 31 December	3,114	4,960	3,114	4,960
	New and increased provisions	923	1,465	923	1,465
	Reversals of provisions	1,480	3,311	1,480	3,311
	Provisions for guarantees etc at 31 December	2,556	3,114	2,556	3,114
	<i>Total net impact recognised in the income statement</i>	-557	-1,847	-557	-1,847
	Provisions for guarantees and undrawn credit lines				
	Stage 1 provisions	312	576	312	576
	Stage 2 provisions	86	792	86	792
	Weak Stage 2 provisions	0	0	0	0
	Stage 3 provisions	2,158	1,745	2,158	1,745
	Provisions for guarantees etc at 31 December	2,556	3,114	2,556	3,114

Notes

Note **Credit risk management**

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

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

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

- Gearing (total debt over total assets)
- Developments in the size and duration of overdrafts and arrears
- Average balances and credit transactions in transaction accounts, typically payroll and operating accounts
- Developments in debt
- Average liquid assets
- Changes in publicly available cyclical indicators

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

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

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

As regards retail customers and small business customers, developments in credit risks for existing exposures are monitored based on a behavioural credit scoring model that, on a monthly basis, calculates and assigns to each exposure a behavioural score expressing the probability of default of each relevant customer within the next 12-month period. See the section "Changes to credit risks" below. Based on developments in the behavioural credit score, a number of signals are generated to the relationship manager, the credit department and the credit controllers. In case an adverse development is identified, the relationship manager must take action vis-à-vis the customer concerned. For large corporate customers, an accounting-based credit score is calculated monthly, however primarily based on developments in the corporate customer's financial situation, as reported in the customer's annual financial statements, adjusted for monthly developments in the customer's overdrafts and arrears, if any, as well as publicly available cyclical indicators. Based on the calculated accounting-based credit score and information otherwise available regarding large corporate customers, the Bank reviews the exposure at least once a year to establish whether or not to continue or discontinue the exposure, including the terms for continuing or discontinuing the exposure.

Notes

Note 14 (cont'd) In order to support the credit management effort, default signals are generated on a daily basis to the customer adviser and, based on certain thresholds, also to the credit controllers. Furthermore, various reports on developments in credit risks, at both customer and portfolio level, are prepared and distributed on a monthly and quarterly basis.

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

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

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

Changes to credit risks

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

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

- Gearing (total debt over total assets)
- Developments in the size and duration of overdrafts and arrears
- Average balances and credit transactions in transaction accounts, typically payroll and operating accounts
- Developments in debt
- Average liquid assets
- Changes in publicly available cyclical indicators

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

- A 100% increase in the probability of default for the expected remaining term to maturity and a 0,5 percentage point increase when the probability of default was below 1% on initial recognition.
- A 100% increase in the probability of default for the expected term to maturity and a 2,0 percentage point increase when the probability of default was 1% or higher on initial recognition.

Notes

Note 14 (cont'd) Stage 3 classifications are for pre-selected exposures for which an individual review has revealed indications of an increased risk of impairment. In such reviews, the following events are generally deemed to reflect impairment of an exposure:

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

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

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

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

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

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

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

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

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

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

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

As the expected credit loss, especially for exposures categorised as stage 1 or 2, primarily are based on historical information, the Executive Management and the Board of Directors may add a discretionary increase in impairments to cover credit losses expected not to be covered by the calculations described above, e.g. due to an expected or emerging economic crises in one or more sectors and/or in one or more geographic locations.

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

Notes

Note DKKm

14 **Continuing operations**
31 December 2020

(cont'd)

Stage	Gross Exposure ¹			Expected Credit Loss			Net Exposure			Net Exposure Deducted Collateral		
	1	2	3	1	2	3	1	2	3	1	2	3
Public authorities	860			0			859			857		
Corporate sector:												
Fisheries, agriculture, hunting and forestry	987	174	106	4	10	31	983	164	76	426	6	27
Industry and raw material extraction	181	151	2	0	16	5	181	135	-2	98	29	0
Energy supply	383	0		1	0		383	0		318	0	
Building and construction	894	79	25	2	4	18	892	75	7	370	42	1
Trade	636	115	14	0	3	2	636	112	12	197	13	1
Transport, hotels and restaurants	504	125	33	11	9	20	493	116	13	147	9	2
Information and communications	13	3	16	0	0	3	13	3	13	4	1	0
Financing and insurance	97	36	3	0	4	1	96	32	1	54	31	0
Real property	979	176	78	8	9	74	971	167	4	250	26	2
Other industries	253	38	17	3	3	13	250	35	4	97	7	0
Total corporate sector	4,927	896	294	29	57	166	4,899	840	128	1,960	162	34
Retail customers	4,136	637	168	5	22	46	4,131	615	121	859	89	5
Total	9,923	1,533	462	34	78	213	9,889	1,455	249	3,675	251	39
Credit institutions and central banks	1,028	801		2	1		1,027	800		1,027	800	
Total	10,951	2,334	462	36	79	213	10,915	2,255	249	4,702	1,051	39
Faroe Islands	8,861	2,067	275	21	50	95	8,839	2,017	180	3,958	957	18
Denmark	44	38	99	0	4	92	44	34	7	8	15	3
Greenland	2,046	230	88	14	25	26	2,032	205	62	736	79	19
Total	10,951	2,334	462	36	79	213	10,915	2,255	249	4,702	1,051	39
Purchased credit-impaired assets included in stage 3 above												
Denmark			67			57			1			1
Total			67			57			1			1

1) Gross exposure comprises of loans and advances, guarantees and drawing rights.

Notes

Note DKKm

14 (cont'd)		Discontinued operations 31 December 2020											
Stage	Gross Exposure ¹			Expected Credit Loss			Net Exposure			Net Exposure Deducted Collateral			
	1	2	3	1	2	3	1	2	3	1	2	3	
Corporate sector:													
Fisheries, agriculture, hunting and forestry	2	2					2	2		1	1		
Building and construction	7	1					7	1		4			
Trade	6	2	1			1	6	2	1	3	1		
Transport, hotels and restaurants	2	1					2	1		2			
Information and communications	12	1					12	1		8	1		
Financing and insurance	8	7	1			1	8	7		7	3		
Real property	14	2					14	2		4	1		
Other industries	39	9	1			1	39	9		25	3		
Total Corporate sector	92	25	4		1	3	91	23	1	54	10		
Retail customers	4,066	329	181	7	30	99	4,058	299	82	1,548	105	15	
Total	4,157	353	185	8	31	102	4,150	323	83	1,602	115	15	
Credit institutions and central banks	53			0			53			53			
Total	4,210	353	185	8	31	102	4,203	323	83	1,655	115	15	
Denmark	4,210	353	185	8	31	102	4,203	323	83	1,655	115	15	
Total	4,210	353	185	8	31	102	4,203	323	83	1,655	115	15	
Purchased credit-impaired assets included in stage 3 above													
Denmark			25			18			5			0	
Total			25			18			5			0	

1) Gross exposure comprises of loans and advances, guarantees and drawing rights.

Notes

Note DKKm

14 (cont'd)	31 December 2019	Gross exposure ¹			Expected credit loss			Net exposure			Net exposure deducted collateral		
		1	2	3	1	2	3	1	2	3	1	2	3
	Stage												
	Public authorities	754						754			719		
	Corporate sector:												
	Fisheries, agriculture, hunting and forestry	439	261	80		2	39	439	260	40	61	25	7
	Industry and raw material extraction	180	174	8		16	7	180	158	1	91	29	
	Energy supply	460						460			395		
	Building and construction	481	55	30		3	24	481	52	7	245	29	1
	Trade	691	176	23	1	8	6	690	169	17	178	30	1
	Transport, hotels and restaurants	378	52	37			24	378	52	13	177	8	2
	Information and communications	34	9	20			5	34	9	15	9	2	
	Financing and insurance	119	18	5			3	119	18	2	53		
	Real property	715	186	99	2	8	95	712	178	4	351	53	2
	Other industries	455	37	23	1	3	19	454	34	4	326	14	1
	Total corporate sector	3,952	968	325	5	39	223	3,946	929	102	1,885	191	15
	Retail customers	8,304	1,586	384	9	40	178	8,294	1,547	206	2,385	448	18
	Total	13,010	2,554	710	15	79	401	12,995	2,476	308	4,990	639	33
	Credit institutions and central banks	1,165				2		1,164			1,307		
	Total	14,175	2,554	710	16	79	401	14,159	2,476	308	6,297	639	33
	Greenland	1,513	324	68	4	15	33	1,510	309	35	819	134	3
	Denmark	4,435	620	332	7	27	241	4,428	593	91	1,668	269	15
	Faroe Islands	8,226	1,611	309	5	36	127	8,221	1,574	182	3,809	236	15
	Total	14,175	2,554	710	16	79	401	14,159	2,476	308	6,297	639	33
	Purchased credit-impaired assets included in stage 3												
	Denmark	0	0	120	0	0	99	0	0	21	0	0	6
	Greenland	0	0	1	0	0	0	0	0	0	0	0	0
	Total	0	0	121	0	0	99	0	0	21	0	0	6

1) Gross exposure comprises of loans and advances, guarantees and drawing rights.

Notes

Note DKKm

14
(cont'd)

Continuing operations
31 December 2020

Rating category	Gross Exposure ¹			Expected Credit Loss			Net Exposure			Net Exposure Deducted Collateral		
	1	2	3	1	2	3	1	2	3	1	2	3
1	2,690	801		2	1		2,688	800		2,215	800	
2	1,888	6		3	0		1,885	6		466	0	
3	2,140	99		7	0		2,132	99		830	6	
4	1,230	63		2	0		1,228	62		291	1	
5	1,210	128		8	0		1,202	128		324	41	
6	1,072	166		9	10		1,062	157		383	57	
7	262	257		1	3		261	254		79	33	
8	390	199		2	8		388	191		103	49	
9	41	163		0	3		41	160		2	21	
10	20	346		1	42		19	304		8	35	
11	10	106	462	0	12	213	9	94	249	1	7	39
Total	10,951	2,334	462	36	79	213	10,915	2,255	249	4,702	1,051	39

Discontinuing operations
31 December 2020

Rating category	Gross Exposure			Expected Credit Loss			Net Exposure			Net Exposure Deducted Collateral		
	1	2	3	1	2	3	1	2	3	1	2	3
1	701	0		0	0		701	0		381	0	
2	1,026	0		1	0		1,025	0		354	0	
3	806	7		1	0		805	7		294	0	
4	538			1			538			196		
5	625	59		1	0		624	59		215	26	
6	339	52		1	0		338	52		151	20	
7	133	77		1	1		132	76		56	27	
8	14	71		0	4		14	67		4	31	
9	2	16		0	2		2	14		0	8	
10	20	51		1	18		20	33		3	3	
11	5	19	185	0	5	102	5	14	83	0	1	15
Total	4,210	353	185	8	31	102	4,203	323	83	1,655	115	15

31 December 2019, total

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

1) Gross exposure comprises of loans and advances, guarantees and drawing rights.

Notes

Note

14
(cont'd)

DKKm				
Continuing operations	Stage 1	Stage 2	Stage 3	Total
Impairment charges as at 1 January 2020	9	56	281	347
Transferred to stage 1 during the period	12	-12	-1	0
Transferred to stage 2 during the period	-1	4	-3	0
Transferred to stage 3 during the period	0	-3	3	0
ECL on new assets	12	15	0	28
ECL on assets derecognised	-1	-10	-47	-58
Impact of net remeasurement of ECL	4	28	4	36
Write offs	0	0	-25	-25
Impairment charges as at 31 December 2020	36	79	213	328

DKKm				
Continuing operations	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	9,972	1,944	505	12,420
Transferred to stage 1 during the period	764	-757	-7	0
Transferred to stage 2 during the period	-1,128	1,136	-8	0
Transferred to stage 3 during the period	-6	-45	50	0
New assets	3,461	169	1	3,631
Assets derecognised	-1,759	-289	-55	-2,103
Other changes	-352	177	-25	-200
Gross carrying amount as at 31 December 2020	10,951	2,334	462	13,748

DKKm				
Discontinued operations	Stage 1	Stage 2	Stage 3	Total
Impairment charges as at 1 January 2020	7	22	120	149
Transferred to stage 1 during the period	8	-6	-2	0
Transferred to stage 2 during the period	0	2	-2	0
Transferred to stage 3 during the period	0	-2	2	0
ECL on new assets	2	3	1	6
ECL on assets derecognised	-2	-5	-13	-20
Impact of net remeasurement of ECL	-7	16	5	14
Write offs	0	0	-9	-9
Impairment charges, as of 31 December 2020	8	31	102	141

DKKm				
Discontinued activities	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	4,349	610	204	5,162
Transferred to stage 1 during the period	273	-271	-3	0
Transferred to stage 2 during the period	-131	135	-4	0
Transferred to stage 3 during the period	-16	-17	33	0
New assets	1,391	94	3	1,489
Assets derecognised	-1,559	-190	-20	-1,769
Other changes	-97	-8	-28	-133
Gross carrying amount, as of 31 December 2020	4,210	353	185	4,749

Notes

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

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
15	Tax				
	Tax on profit for the year	26,215	39,155	23,180	34,911
	Total tax	26,215	39,155	23,180	34,911
	Tax on profit for the year				
	Profit before tax	129,366	183,315	126,331	179,071
	Current tax charge	18,218	23,183	15,127	18,955
	Change in deferred tax	7,997	13,553	8,053	13,536
	Adjustment of prior-year tax charges	0	2,420	0	2,420
	Total	26,215	39,155	23,180	34,911
	Effective tax rate				
	Faroese tax rate	18.0%	18.0%	18.0%	18.0%
	Deviation in foreign entities tax compared to Faroese tax rate	1.0%	0.9%	1.0%	0.9%
	Non-taxable income and non-deductible expenses	1.3%	1.6%	-0.7%	-0.3%
	Tax on profit for the year	20.3%	20.5%	18.3%	18.6%
	Adjustment on prior-year tax charges	0.0%	0.9%	0.0%	0.9%
	Effective tax rate	20.3%	21.4%	18.3%	19.5%

Notes

Note Discontinued operations

16 On 22 December 2020 BankNordik entered into a conditional agreement with Spar Nord on the sale of BankNordik's Danish activities. The sale has been approved by the Danish FSA and the Danish Competition and Consumer Authority, and the acquisition will be completed with 1 February 2021 as the takeover date.

DKK 1,000	Group		BankNordik	
	2020	2019	2020	2019
Interest income	104,501	112,706	104,501	112,706
- of which interest income from deposits	10,588	2,412	10,588	2,412
Interest expenses	2,686	4,867	2,686	4,867
Net interest income	101,815	107,839	101,815	107,839
Dividends from shares and other investments	9,287	10,294	9,287	10,294
Fee and commission income	145,376	143,056	145,376	143,056
Fee and commissions paid	7,897	9,345	7,897	9,345
Net dividend, fee and commission income	146,767	144,004	146,767	144,004
Net interest and fee income	248,581	251,843	248,581	251,843
Interest and fee income and income from insurance activities, net	248,581	251,843	248,581	251,843
Market value adjustments	2,082	3,025	2,082	3,025
Other operating income	1,272	2,028	1,272	2,028
Staff costs and administrative expenses	170,522	208,467	170,522	208,467
Amortisation, depreciation and impairment charges	10,815	7,433	10,815	7,433
Other operating expenses	804	501	804	501
Impairment charges on loans and advances etc.	-7,280	-35,966	-7,280	-35,966
Profit before tax	77,075	76,460	77,075	76,460
Tax	14,039	13,989	14,039	13,989
Net profit	63,035	62,471	63,035	62,471

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
16	Assets				
(cont'd)					
	Cash in hand and demand deposits with central banks	15,310	19,617	15,310	19,617
19	Amounts due from credit institutions and central banks	52,800	40,721	52,800	40,721
20, 21	Loans and advances at amortised cost	2,230,722	2,609,885	2,230,722	2,609,885
	Assets under pooled schemes	800,402	795,822	800,402	795,822
	Intangible assets	10,141	4,604	10,141	4,604
	Total land and buildings	59,386	54,063	59,386	54,063
	Other property, plant and equipment	6,544	15,491	6,544	15,491
	Other assets	15,537	52,393	15,537	52,393
	Prepayments	27,100	27,280	27,100	27,280
	Total assets	3,217,940	3,619,876	3,217,940	3,619,876
	Liabilities other than provisions				
35	Amounts due to credit institutions and central banks	338	67	338	67
37	Deposits and other debt	5,629,740	5,746,652	5,629,740	5,746,652
	Deposits under pooled schemes	800,402	795,832	800,402	795,832
	Current tax liabilities	1,158	1,008	1,158	1,008
	Other liabilities	83,380	127,475	83,380	127,475
	Deferred income	1,154	849	1,154	849
	Total liabilities other than provisions	6,516,171	6,671,883	6,516,171	6,671,883
	Provisions for liabilities				
14	Provisions for losses on guarantees etc	2,556	3,804	2,566	3,804
	Provisions for other liabilities	1,277	1,305	1,277	1,305
	Total provisions for liabilities	3,833	5,108	3,833	5,108
	Total liabilities	6,520,004	6,676,991	6,520,004	6,676,991
	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	297,636	274,744	297,636	274,744
	Mortgage finance guarantees	546,131	521,123	546,131	521,123
	Registration and remortgaging guarantees	537,481	546,256	537,481	546,256
	Other guarantees	53,158	55,111	53,158	55,111
	Total	1,434,406	1,397,234	1,434,406	1,397,234
	In 2021 the Group is obliged to pay approx. DKK 165m to the banks main IT provider SDC as a consequence of the sale of the Danish operations.				
	Cash flow statement				
	Cash flow from operations	9,138	-5,462	9,138	-5,462
	Cash flow from investing activities	4,199	2,398	4,199	2,398
	Cash flow from financing activities	-5,556	-2,437	-5,556	-2,437
	Cash flow	7,781	-5,501	7,781	-5,501

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
17	Cash in hand and demand deposits with central banks				
	Cash in hand	58,890	84,448	58,723	84,389
	Demand deposits with central banks	149,120	167,611	149,120	167,611
	Total	208,010	252,059	207,843	252,000
18	Due from credit institutions and central banks specified by institution				
	Credit institutions	377,256	336,172	377,256	336,172
	Central banks	800,259	541,652	800,259	541,652
	Total	1,177,515	877,825	1,177,515	877,825
19	Due from credit institutions and central banks specified by maturity				
	On demand	377,256	336,172	377,256	336,172
	3 months and below	800,259	541,652	800,259	541,652
	Total	1,177,515	877,825	1,177,515	877,825
	<i>Discontinued operations amounts to 52,800 (on demand)</i>				
20	Loans and advances specified by sectors				
	Public authorities	6%	5%	6%	5%
	Corporate sector:				
	Fisheries, agriculture, hunting and forestry	6%	4%	6%	4%
	Industry and raw material extraction	6%	5%	6%	5%
	Energy supply	3%	2%	3%	2%
	Building and construction	3%	2%	3%	2%
	Trade	6%	6%	6%	6%
	Transport, hotels and restaurants	6%	3%	6%	3%
	Financing and insurance	2%	1%	2%	1%
	Real property	11%	7%	11%	7%
	Other industries	3%	2%	3%	2%
	Total corporate sector	46%	32%	46%	32%
	Retail customers	47%	63%	47%	63%
	Total	100%	100%	100%	100%
	<i>Regarding discontinued operations. All customers are Retail customers.</i>				

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
21	Loans and advances specified by maturity				
	Continuing operations				
	On demand	87,113	113,461	87,113	113,461
	3 months and below	281,106	366,125	281,106	366,125
	3 months to 1 year	900,908	1,173,385	900,908	1,173,385
	Over 1 year to 5 years	2,755,372	3,588,726	2,755,372	3,588,726
	Over 5 years	3,583,401	4,667,190	3,583,401	4,667,190
	Total loans and advances	7,607,901	9,908,886	7,607,901	9,908,886
	Discontinued operations				
	On demand	25,543		25,543	
	3 months and below	82,423		82,423	
	3 months to 1 year	264,156		264,156	
	Over 1 year to 5 years	807,906		807,906	
	Over 5 years	1,050,693		1,050,693	
	Total loans and advances	2,230,722		2,230,722	
22	Bonds at fair value				
	Mortgage credit bonds	3,136,305	4,592,950	2,935,641	4,418,894
	Government bonds	1,330,316	773,400	1,313,878	752,373
	Other bonds	6,000	233,179	6,000	233,179
	Bonds at fair value	4,472,621	5,599,529	4,255,519	5,404,445
	All bonds form part of the Group's trading portfolio				
23	Shares etc.				
	Shares/unit trust certificates listed on the Copenhagen Stock Exchange	55,676	55,984	55,676	55,984
	Shares/unit trust certificates listed on other stock exchanges	390	15	390	15
	Other shares at fair value	253,378	256,176	253,378	256,176
	Total shares etc.	309,443	312,175	309,443	312,175
24	Assets under insurance contracts				
	Non-life insurance				
	Reinsurers' share of claims provisions	3,140	2,266		
	Receivables from insurance contracts	6,416	3,909		
	Total non-life insurance	9,556	6,176		
	Maturity within 12 months	9,556	6,176		

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
25	Holdings in associates				
	Cost at 1 January	8,845	8,845	8,845	8,845
	Cost at 31 December	8,845	8,845	8,845	8,845
	Revaluations at 1 January	-2,476	-2,763	-2,476	-2,763
	Share of profit	337	287	337	287
	Revaluations at 31 December	-2,139	-2,476	-2,139	-2,476
	Carrying amount at 31 December	6,706	6,369	6,706	6,369

	Income	Net profit	Total assets	Total liabilities	Total equity	Owner-ship %	The Groups share of equity
Holdings in associates 2020							
P/F Elektron	49,145	981	54,631	35,098	19,533	34%	6,706
Holdings in associates 2019							
P/F Elektron	47,040	1,507	57,952	39,400	18,552	34%	6,369

The information disclosed is extracted from the companies' most recent annual report (2019).

26	Group		BankNordik	
	2020	2019	2020	2019
	Holdings in subsidiaries			
	Cost at 1 January		144,000	144,000
	Cost at 31 December		144,000	144,000
	Revaluations at 1 January		-10,562	-25,359
	Corrections		0	579
	Share of profit		13,948	19,218
	Dividends		4,300	5,000
	Revaluations at 31 December		-914	-10,562
	Carrying amount at 31 December		143,086	133,438

Holdings in subsidiaries 2020	Ownership %	Share capital end of year	Shareholders' equity for the year	Profit/loss for the year
P/F Trygd	100%	40,000	101,495	10,236
P/F Skyn	100%	1,000	6,668	606
P/F NordikLív	100%	30,000	34,923	3,106

The information disclosed is extracted from the companies' annual reports 2020.

Holdings in subsidiaries 2019	Ownership %	Share capital end of year	Shareholders' equity for the year	Profit/loss for the year
P/F Trygd	100%	40,000	91,259	14,513
P/F Skyn	100%	1,000	7,361	1,297
P/F NordikLív	100%	30,000	34,818	3,408

The information disclosed is extracted from the companies' annual reports 2019.

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
27	Assets under pooled schemes				
	Assets:				
	Cash deposits	0	5,655	0	5,655
	Bonds	0	371,924	0	371,924
	Shares	0	417,853	0	417,853
	Other assets	0	390	0	390
	Total assets	0	795,822	0	795,822
	Total liabilities	0	795,832	0	795,832
28	Intangible assets				
	Cost at 1 January	10,506	6,678	10,506	6,678
	Additions	3,268	3,879	3,268	3,879
	Disposals	0	52	0	52
	Reclassification to Assets in disposal groups classified as held for sale	11,001	0	11,001	0
	Cost at 31 December	2,773	10,506	2,773	10,506
	Depreciation and impairment charges at 1 January	549	0	549	0
	Depreciation charges during the year	653	549	653	549
	Reclassification to Assets in disposal groups classified as held for sale	861	0	861	0
	Depreciation and impairment charges at 31 December	341	549	341	549
	Carrying amount at 31 December	2,432	9,957	2,432	9,957

The depreciation period is 4 years.

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
29	Domicile property				
	Cost at 1 January	106,900	100,946	104,855	98,901
	Additions	2,699	6,829	2,699	6,829
	Reclassification to held for sale	921	0	921	0
	Disposals	0	875	0	875
	Reclassification to Assets in disposal groups classified as held for sale	30,424	0	30,424	0
	Cost at 31 December	78,255	106,900	76,210	104,855
	Adjustments at 1 January	-2,476	-2,298	-3,104	-2,196
	Depreciation charges during the year	1,038	996	1,010	976
	Revaluations recognised in other comprehensive income	0	750	0	0
	Reversal of revaluations on disposals during the year	18	68	18	68
	Reclassification to Assets in disposal groups classified as held for sale	-1,507	0	-1,507	0
	Adjustments at 31 December	-5,002	-2,476	-5,602	-3,104
	Carrying amount at 31 December	73,253	104,424	70,608	101,751
	Lease assets				
	Cost at 1 January	114,551	0	114,551	0
	Impact from adoption of IFRS 16	0	114,551	0	114,551
	Reclassification to Assets in disposal groups classified as held for sale	35,148	0	35,148	0
	Cost at 31 December	79,403	114,551	79,403	114,551
	Adjustments at 1 January	-6,416	0	-6,416	0
	Depreciation charges during the year	9,245	6,416	9,245	6,416
	Reclassification to Assets in disposal groups classified as held for sale	7,693	0	7,693	0
	Adjustments at 31 December	-7,968	-6,416	-7,968	-6,416
	Carrying amount at 31 December	71,436	108,135	71,436	108,135
	Total land and buildings	144,688	212,559	142,043	209,886

Tangible assets include domicile property of DKK 73m (2019: DKK 104m). Carrying amount at 31 December if the property had not been revalued is DKK 72m (2019: 85m).

The fair value is assessed by the group's internal valuers at least once a year on 31st December on the basis of an income based approach. Valuations rely substantially on non-observable input, i.e. level 3 measures. Valuations are based on cash flow estimates and on the required rate of return calculated for each property that reflects the price at which the property can be exchanged between knowledgeable, willing parties under current market conditions. The cash flow estimates are determined on the basis of the market rent for each property. The required rate of return on a property is determined on the basis of its location, type, possible uses, layout and condition. At the end of 2020, the fair value of domicile property was DKK 114.8m (2019: DKK 117.6m). The required rate of return is ranged between 4.5%-9.0% (2019: 4.5-9.0%). The depreciation period is 50 years. A decrease in rental rates of DKK 100 pr m2 would reduce fair value at end of 2020 by DKK 9.0m. An increase in the required rate of return of 1.0 percentage point, would reduce fair value at the end of 2020 by DKK 13.4 m.

Notes

Note Leases

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

Leasing liabilities amounting DKK 73,9m are recognised within the balance sheet item Other liabilities. In the 2019 annual report the leasing liabilities were reported to be DKK 110m. The Group has included the option to extend the lease period of the headquarter with 5 years thus added DKK 17,0m to the leasing assets and leasing liabilities. Interests amounting DKK 2,3m due to leasing obligations are charged to the income statement as Interest expense. Depreciation of leasing assets amounting DKK 4,0m are recognised under the item Depreciation and impairment charges in the income statement. The annual payment in respect of the leasing liabilities is DKK 5,0m. The banks estimated borrowing rate used in the calculation of the leasing assets and leasing liabilities is 3%.

DKK 1,000	Group		BankNordik	
	2020	2019	2020	2019
30 Other property, plant and equipment				
Cost at 1 January	91,074	89,422	84,873	83,503
Additions	1,792	3,536	1,162	3,247
Disposals	424	1,885	424	1,878
Reclassification to Assets in disposal groups classified as held for sale	58,758	0	58,758	0
Cost at 31 December	33,684	91,074	26,853	84,873
Depreciation and impairment charges at 1 January	71,088	65,609	65,813	60,743
Depreciation charges during the year	7,299	6,716	6,848	6,305
Reversals of depreciation and impairment charges	33	1,236	33	1,236
Reclassification to Assets in disposal groups classified as held for sale	52,214	0	52,214	0
Depreciation and impairment charges at 31 December	26,141	71,088	20,414	65,813
Carrying amount at 31 December	7,543	19,985	6,439	19,060

The depreciation period is 3-10 years.

Notes

Note	DKK 1,000	Group	
		2020	2019
31	Deferred tax		
	Deferred tax assets	1,013	7,346
	Deferred tax liabilities	3,911	2,339
	Deferred tax, net	-2,898	5,008

Change in deferred tax 2020	At 1 Jan.	Included in profit for the year	Included in shareholders' equity	At 31 Dec.
Intangible assets	6,310	-7,772		-1,461
Tangible assets	-2,339	-259	148	-2,450
Other	1,036	-22		1,013
Total	5,008	-8,053	148	-2,898

Adjustment of prior-year tax charges included in preceding item

2019				
	At 1 Jan.	Included in profit for the year	Included in shareholders' equity	At 31 Dec.
Intangible assets	21,248	-14,938		6,310
Tangible assets	-1,869	611	-1,081	-2,339
Other	262	774		1,036
Total	19,641	-13,553	-1,081	5,008

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

DKK 1,000	BankNordik	
	2020	2019
Deferred tax		
Deferred tax assets	1,030	7,363
Deferred tax liabilities	4,124	2,403
Deferred tax, net	-3,093	4,960

Change in deferred tax 2020	At 1 Jan.	Recognised in profit for the year	At 31 Dec.
Intangible assets	6,310	-7,772	-1,461
Tangible assets	-2,403	-259	-2,662
Other	1,053	-22	1,030
Total	4,960	-8,053	-3,093

Adjustment of prior-year tax charges included in preceding item

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
32	Assets held for sale				
	Total purchase price at 1 January	5,112	24,089	5,112	24,089
	Additions	3,564	34	3,564	34
	Reclassification from domicile properties	902	0	902	0
	Disposals	5,112	19,011	5,112	19,011
	Total purchase price at 31 December	4,466	5,112	4,466	5,112
	Impairment at 1 January	3,612	3,725	3,612	3,725
	Reversal of impairment on disposals and write offs during the year	3,612	114	3,612	114
	Impairment at 31 December	0	3,612	0	3,612
	Total assets held for sale at 31 December	4,466	1,500	4,466	1,500
	Specification of assets held for sale				
	Real property taken over in connection with non-performing loans	3,564	1,500	3,564	1,500
	Domicile property for sale	902	0	902	0
	Total	4,466	1,500	4,466	1,500

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

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

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

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
33	Other assets				
	Interest and commission due	38,055	50,396	36,743	49,070
	Derivatives with positive fair value	12,345	3,497	12,345	3,497
	Other amounts due	18,790	33,295	18,209	29,103
	Total	69,190	87,188	67,297	81,669
34	Due to credit institutions and central banks specified by institution				
	Due to central banks	27,350	31,650	27,350	31,650
	Due to credit institutions	604	23,272	604	23,272
	Total	27,954	54,922	27,954	54,922
35	Due to credit institutions and central banks specified by maturity				
	On demand	27,954	54,922	27,954	54,922
	Total	27,954	54,922	27,954	54,922
	<i>The amount for discontinued operations (DKK 0.3m) is on demand</i>				
36	Deposits specified by type				
	On demand	7,155,279	13,041,817	7,147,079	13,057,845
	At notice	4,972	8,045	4,972	8,045
	Time deposits	109,839	181,217	109,839	181,217
	Special deposits	463,317	1,136,605	493,834	1,152,185
	Total deposits	7,733,408	14,367,685	7,755,724	14,399,292
37	Deposits specified by maturity				
	Continuing operations				
	On demand	7,457,665	13,820,064	7,479,981	13,851,671
	3 months and below	46,030	112,351	46,030	112,351
	3 months to 1 year	5,842	9,650	5,842	9,650
	Over 1 year to 5 years	26,342	58,750	26,342	58,750
	Over 5 years	197,530	366,871	197,530	366,871
	Total deposits	7,733,408	14,367,685	7,755,724	14,399,292
	Discontinued operations				
	On demand	5,429,583		5,429,583	
	3 months and below	33,412		33,412	
	3 months to 1 year	4,240		4,240	
	Over 1 year to 5 years	19,121		19,121	
	Over 5 years	143,383		143,383	
	Total deposits	5,629,740		5,629,740	
38	Liabilities under insurance contracts				
	Non-life insurance				
	Provisions for unearned premiums	44,369	41,414		
	Claims provisions	50,327	47,840		
	Total	94,696	89,254		
	Life insurance				
	Life insurance provisions	3,535	3,668		
	Total provisions for insurance contracts	3,535	3,668		
	Total	98,231	92,922		

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
39	Other liabilities				
	Sundry creditors	28,368	71,113	18,854	60,551
	Accrued interest and commission	8,138	7,671	7,597	7,129
	Derivatives with negative value	62,961	53,370	62,961	53,370
	Accrued staff expenses	21,989	53,017	21,313	52,118
	Lease liabilities	73,852	109,965	73,852	109,965
	Other obligations	10,688	14,688	10,688	14,688
	Total	205,995	309,825	195,264	297,822

40 Additional Tier 1 capital

	Currency	Borrower	Principal	Interest rate	Year of issue	Maturity	Step-up clause	Redemption price	2020	2019
Additional Tier 1 capital	DKK	P/F BankNordik	150,000	4.500%	2019	Perpetual	Yes	100	150,909	150,754
At 31 December			150,000						150,909	150,754
Interest rate:			Principal (not hedged)			Until 30,9,2024			From 1,10,2024	
Additional Tier 1 capital				150m		4.500%			CIBOR 3M + 4.812%	

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

The Notes are perpetual and the coupon is fixed at 4,500%, paid annually until 30 September 2024 (first call date) based on the 5-year Danish swap rate plus the margin of 4,812%. If the Notes are not redeemed on 30 September 2024, the interest rate will be reset based on the prevailing 3-months floating CIBOR rate plus the margin of 4,812%, paid quarterly.

41 Subordinated capital

	Currency	Borrower	Principal	Interest rate	Year of issue	Maturity	Step-up clause	Redemption price	2020	2019
Subordinated capital	DKK	P/F BankNordik	225,000	5.079%	2016	6/24/2026	No	100	224,695	224,086
At 31 December			225,000						224,695	224,086
Interest rate:			Principal (not hedged)			Until 23,6,2021			From 24,6,2021	
Subordinated capital				225m		5.079%			CIBOR 3M + 4.75%	

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

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

Notes

Note	DKK 1,000		2020	2019
42	BankNordik Shares			
Net profit			166,186	206,631
Average number of shares outstanding			9,546	9,487
Average number of shares outstanding, including shares diluted			9,546	9,487
Earnings per share, DKK			17.4	21.8
Diluted net profit for the period per share, DKK			17.4	21.8

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		9,600	10,000
Reduction of share capital		0	400
Issued shares at end of period		9,600	9,600
Shares outstanding at end of period		9,546	9,487
Group's average holding of own shares during the period		54	113
Average shares outstanding		9,546	9,487

	Number 2020	Number 2019	Value 2020	Value 2019
Holding of own shares				
Investment portfolio	27,245	27,245	4,141	2,970
Trading portfolio	3,923	41,997	596	4,578
Total	31,168	69,242	4,738	7,547

	Investment portfolio	Trading portfolio	Total 2020	Total 2019
Holding at 1 January	2,970	4,578	7,547	44,694
Acquisition of own shares	0	0	0	6,854
Reduction of own shares	0	0	0	44,694
Sale of own shares	0	2,460	2,460	429
Value adjustment	1,172	-1,521	-349	1,122
Holding at 31 December	4,141	597	4,738	7,547

BankNordik now holds a total of 31.168 of treasury shares, excluding investments made on behalf of customers and shares held for trading purposes, corresponding to 0,3% of the share capital.

Notes

Note	DKK 1,000	Group		BankNordik	
		2020	2019	2020	2019
43	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	285,623	522,188	285,623	522,188
	Mortgage finance guarantees	676,508	1,425,392	676,508	1,425,392
	Registration and remortgaging guarantees	241,742	750,225	241,742	750,225
	Other guarantees	271,696	322,774	271,696	322,774
	Total guarantees	1,475,570	3,020,579	1,475,570	3,020,579

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 2020, such unused credit facilities amounted to DKK 3,3bn (2019: DKK 2,4bn). Furthermore the Group has granted irrevocable loan commitments amounting to DKK 9.7m (2019: DKK 30,1m).

If the group decides to terminate the agreement with the banks main IT provider SDC, the group is obliged to pay DKK 94m i. e. the estimated next 4-years payment to SDC for IT-services.

44 Assets deposited as collateral

At the end of 2020 the Group had deposited bonds at a total market value of DKK 27m (2019: DKK 32m) with Danmarks Nationalbank (the Danish Central Bank) primarily in connection with cash deposits.

At the end of 2020 the Group had deposited bonds and cash at a total market value of DKK 67m (2019: DKK 69m) in connection with negative market value of derivatives.

Notes

Note DKK 1,000

45	Related parties	Parties with significant influence		Associated undertakings		Board of Directors		Executive Board	
		2020	2019	2020	2019	2020	2019	2020	2019
	DKK 1,000								
	Assets								
	Loans			11,928	13,624	601	413	684	723
	Total			11,928	13,624	601	413	684	723
	Liabilities								
	Deposits	5,935	2,754	63,295	51,100	2,431	12,523	2,090	3,280
	Total	5,935	2,754	63,295	51,100	2,431	12,523	2,090	3,280
	Off-balance sheet items								
	Guarantees issued							388	
	Guarantees and collateral received			14,674		965	350		1,017
	Income Statement								
	Interest income	0	0	696	776	12	5	18	17
	Interest expense	30	4	461	82	4	10	6	2
	Fee income	1	2	34	66	4	4	7	3
	Total	-29	-2	268	760	12	0	19	18

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

In 2020 interest rates on credit facilities granted to associated undertakings were between 4,60%-14,5% (2019: 4,5%-14,5%).

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

In 2020 interest rates on credit facilities granted to members of the Board of Directors and the Executive Board were between 1,00%-14,5% (2019: 2,7%-14,5%). Note 11 specifies the remuneration and note 46 specifies shareholdings of the management.

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

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

Transactions with related parties are settled on an arm's-length basis and recognised in the financial statements according to the same accounting policy as for similar transactions with unrelated parties.

Notes

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

46

Holdings of the Board of Directors and the Executive Board	Beginning of 2020	Additions	Disposals	End of 2020
Board of directors				
Ben Arabo	0	1,000		1,000
Barbara P. Vang	2			2
John Henrik Holm	324			324
Jógvan Jespersen	32			32
Hans Arni Bjarnason Thomsen	0			0
Dan Rasmussen	100			100
Kenneth M. Samuelsen	2,419			2,419
Alexandur Johansen	200			200
Gunnar Nielsen	100			100
Rúna Hentze	1,184			1,184
Total	4,361			5,361
Executive Board				
Árni Ellefsen	10,172	1,824		11,996
Total	10,172	1,824		11,996

Notes

Note DKK 1,000

47 Financial instruments at fair value

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

Unlisted shares recognised at fair value comprises unlisted shares who are not included in the Group's trading portfolio. Unlisted shares, other than Sector shares, are recognised at fair value and are measured in accordance with shareholders agreements and using generally accepted estimations and valuation techniques. The valuation of unlisted shares is based substantially on non-observable input. Sector shares are recognised at fair value using price-fixing-agreements according to the articles of association.

2020	Quoted prices	Observable input	Non-observable input	Total
Financial assets and liabilities at fair value				
Financial assets held for trading				
Bonds at fair value	4,472,621			4,472,621
Shares, etc.	56,065			56,065
Derivatives with positive fair value		12,345		12,345
Total	4,528,687	12,345		4,541,032
Financial assets designated at fair value				
Loans and advances at fair value			473,357	473,357
Shares, etc.		241,225	1,347	242,572
Total		241,225	474,704	715,930
Financial assets at fair value	4,528,687	253,570	474,704	5,256,961
Financial liabilities held for trading				
Derivatives with negative fair value		62,961		62,961
Total		62,961		62,961
2019				
Financial assets and liabilities at fair value				
Financial assets held for trading				
Bonds at fair value	5,599,529			5,599,529
Shares, etc.	55,999			55,999
Derivatives with positive fair value		3,497		3,497
Total	5,655,528	3,497		5,659,025
Financial assets designated at fair value				
Loans and advances at fair value			509,864	509,864
Shares, etc.		241,240	1,347	242,587
Total		241,240	511,211	752,451
Financial assets at fair value	5,655,528	244,737	511,211	6,411,476
Financial liabilities held for trading				
Derivatives with negative fair value		53,370		53,370
Total		53,370		53,370

Notes

Note 47 (cont'd) Financial instruments valued on the basis of quoted prices in an active market are recognised in the Quoted prices category. Financial instruments valued substantially on the basis of other observable input are recognised in the Observable input category. The category covers derivatives valued on the basis of observable yield curves or exchange rates. Furthermore the category covers sector shares with price-fixing-agreements according to the articles of association. Other financial assets are recognised in the Non-observable input. This category covers unlisted shares, loans and advances at fair value and domicile property (se note 29 for further information on Domicile property).

At 31 December 2020 financial assets valued on the basis of non-observable input comprised unlisted shares and loans and advances of DKK 474.7m (2019: DKK 511.2m). In 2020, the Group recognised unrealised value adjustments of unlisted shares and loans and advances valued on the basis of non-observable input in the amount of DKK 25.8m (2019: DKK 31.2m) and realised value adjustments of DKK 0.0m (2019: DKK 0.5m). Unlisted shares had a value adjustment of DKK 0.0m (2019: DKK 0.0m). A 10% increase or decrease in fair value of unlisted shares and loans and advances would amount to DKK 47.4m (2019: DKK 51.1m).

	2020	2019
Financial instruments at fair value valued on the basis of non-observable input		
Fair value at 1 January	511,211	532,223
Value adjustments through profit or loss	25,844	31,707
Acquisitions	0	4,682
Disposals	62,351	57,400
Fair value at 31 December	474,704	511,211

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

Notes

Note Financial instruments at amortised cost

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

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

Financial instruments at amortised cost	Carrying amount	Fair value	Carrying amount	Fair value
	2020	2020	2019	2019
Financial assets				
Cash in hand and demand deposits with central banks	208,010	208,010	252,059	252,059
Due from credit institutions and central banks	1,177,515	1,177,515	877,825	877,825
Loans and advances at amortised cost	7,134,544	7,134,544	9,399,022	9,399,022
Assets under insurance contracts	9,556	9,556	6,176	6,176
Total	8,529,625	8,529,625	10,535,081	10,535,081

Financial liabilities				
Due to credit institutions and central banks	27,954	27,954	54,922	54,922
Deposits and other debt	7,733,408	7,733,408	14,367,685	14,367,685
Deposits under pooled schemes	0	0	795,832	795,832
Liabilities under insurance contracts	98,231	98,231	92,922	92,922
Subordinated debt	224,695	224,695	224,086	224,086
Total	8,084,288	8,084,288	15,535,447	15,535,447

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

Discontinued operations	Carrying amount	Fair value
	2020	2020
Financial assets		
Cash in hand and demand deposits with central banks	15,310	15,310
Due from credit institutions and central banks	52,800	52,800
Loans and advances at amortised cost	2,230,722	2,230,722
Total	2,298,831	2,298,831

Financial liabilities		
Due to credit institutions and central banks	338	338
Deposits and other debt	5,629,740	5,629,740
Deposits under pooled schemes	800,402	800,402
Total	6,430,479	6,430,479

Notes

Note DKK 1,000

48	Group holdings and undertakings	<u>Share capital</u>	<u>Functional currency</u>	<u>Net profit</u>	<u>Shareholders' equity</u>	<u>Share capital %</u>
	P/F BankNordik	192,000	DKK	166,186	2,271,024	100%
	Insurance companies					
	P/F Trygd	40,000	DKK	10,236	101,495	100%
	P/F NordikLív	30,000	DKK	3,106	34,923	100%
	Real estate agency					
	P/F Skyn	1,000	DKK	606	6,668	100%

Notes

Note Risk Management

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

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

The Risk Management Report 2020 contain further information about the Group's approach to risk management.

Capital Management

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

The capital adequacy rules call for a minimum capital level of 8% of risk-weighted assets plus any additional capital needed. Detailed rules regulate the calculation of capital and risk-weighted assets. Capital comprises core capital, hybrid core capital and subordinated debt. Core capital largely corresponds to the carrying amount of shareholders' equity less proposed dividends, de-

ferred tax assets etc. The solvency presentation in the section Statement of Capital in P/F BankNordik shows the difference between the carrying amount of shareholders' equity and the core capital. Note 40 and note 41 to the financial statements show P/F BankNordik's hybrid core capital and subordinated debt. At year-end 2019, the Bank's CET 1 capital, core capital and solvency ratios were 18,8%, 20,2% and 22,3%, respectively. At the end of 2020, the Bank's CET 1 capital, core capital and solvency ratio were 22,6%, 24,1% and 26,4%, respectively.

Credit risk

The comments made in the following sections is made to the tables presenting figures and information related to the continued operations, while figures and information related to the discontinued operations are shown in **table 9**.

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

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

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

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

**Risk exposure concentrations
Continuing operations**
Table 1

	2020		2019	
	DKKmn	In %	DKKmn	In %
Public authorities	860	7.2%	754	4.6%
Corporate sector:				
Agriculture and farming, others	80	0.7%	66	0.4%
Aquaculture	139	1.2%	5	0.0%
Fisheries	1,048	8.8%	709	4.4%
Manufacturing industries, etc.	334	2.8%	362	2.2%
Energy and utilities	383	3.2%	460	2.8%
Building and construction, etc	998	8.4%	566	3.5%
Trade	765	6.4%	890	5.5%
Transport, mail and telecommunications	602	5.1%	435	2.7%
Hotels and restaurants	59	0.5%	33	0.2%
Information and communication	32	0.3%	62	0.4%
Property administration, etc.	1,233	10.3%	1,028	6.3%
Financing and insurance	136	1.1%	141	0.9%
Other industries	308	2.6%	494	3.0%
Total corporate sector	6,118	51.3%	5,251	32.3%
Personal customers	4,941	41.5%	10,268	63.1%
Total	11,918	100.0%	16,273	100.0%
Credit institutions and central banks	1,829		1,165	
Total incl. credit institutions and central banks	13,748		17,438	

**Risk exposure concentrations
Discontinued operations**
Table 2

	2020	
	DKKmn	In %
Public authorities	-	0.0%
Corporate sector:		
Agriculture and farming, others	3	0.1%
Aquaculture	0	0.0%
Fisheries	0	0.0%
Manufacturing industries, etc.	1	0.0%
Energy and utilities	0	0.0%
Building and construction, etc	8	0.2%
Trade	10	0.2%
Transport, mail and telecommunications	2	0.0%
Hotels and restaurants	1	0.0%
Information and communication	12	0.2%
Property administration, etc.	16	0.3%
Financing and insurance	16	0.3%
Other industries	39	0.8%
Total corporate sector	108	2.3%
Personal customers	4,588	97.7%
Total	4,696	100.0%
Credit institutions and central banks	53	
Total incl. credit institutions and central banks	4,749	

Credit exposure by geographical area

Table 3

(DKKm)	2020					2019, total				
Continuing operations	Exposures	in%	Loans/ Credits	Guarantees	Unused credits	Exposures	in%	Loan/ Credits	Guarantees	Unused credits
Faroe Islands	9,374	79%	6,824	736	1,754	9,022	55%	6,618	1,033	1,306
Denmark	181	2%	115	37	30	5,344	33%	2,880	1,441	1,003
Greenland	2,364	20%	971	627	766	1,908	12%	844	473	590
Total	11,918	100%	7,910	1,401	2,549	16,273	100%	10,342	2,947	2,890
Discontinued operations										
Denmark	4,696	100%	2,387	1,437	857					
Total	4,696	100%	2,387	1,437	857					

Credit exposure

The credit exposure generated by lending activities comprises items subject to credit risk that form part of the Group's core banking business. Credit exposures include loans and advances, unused credits and guarantees. The credit exposure generated by trading and investment activities comprises items subject to credit risk that form part of the Group's trading activities, including derivatives. The following tables list separate information for each of the two portfolios.

Credit exposure relating to lending activities

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

Exposures in fisheries were DKK 1.048m. This represents 8,8% of total exposures. Property administration DKK 1.233m representing by 10,3% of total exposures and DKK 139m was related to the aquaculture industry. This represents below 1,2% of total exposures. No single industry except property administration exceeded 10% of total exposures. Discontinued operations exposures were mainly personal customers i.e. 97,7% of total discontinued exposures.

Credit exposure broken down by geographical area

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

Classification of customers

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

The classification of customers is performed in connection with the quarterly impairment testing of the

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

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

As shown in table 4, app. 99% of total exposures are individually classified.

For further information on impaired portfolios, see table 9.

Concentration risk

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

Under section 145 of the Faroese Financial Business Act, and according to CRR, exposure to a single customer or a group of related customers, after deduction of particularly secure claims, may not exceed 25% of the Total capital. The Group submits quarterly reports to the Danish FSA on its compliance with these rules. In 2020, none of the Group's exposures exceeded these limits.

The Group's overall target is for no industry to make up more than 10% of the Group's total exposure, see table 1, except for the industry group "Trade" which may be up 15%. In addition, the Group's long-term target is for no single exposure (on a Group basis) to make up more than 10% of the Group's Total capital. In special cases, exposures may be above 10%, but only for customers of a high credit quality, and where the Group has accepted collateral. The Group has a few customers with exposures exceeding 10% of the total capital all, but one classified 2b15, of which are classified 2a or 3.

Quality of loan portfolio excl. financial institutions 2020					Table 4
Continuing operations		> 7,5m	< 7,5m	Total	
Portfolio without weakness (3, 2a)	Exposure in DKKm	4,139	1,365	5,504	
Portfolio with some weakness (2b)	Exposure in DKKm	1,752	3,737	5,488	
Portfolio with significant weakness (2c)	Exposure in DKKm	206	117	324	
	Unsecured	39	22	61	
Portfolio with OEI	Exposure in DKKm	211	286	496	
	Unsecured	109	128	236	
	Impairments/provisions	91	123	214	
Portfolio without individual classification	Exposure in DKKm	55	51	106	
Total	Exposure in DKKm	6,363	5,556	11,918	
Quality of loan portfolio excl. financial institutions 2020					
Discontinued operations		> 7,5m	< 7,5m	Total	
Portfolio without weakness (3, 2a)	Exposure in DKKm	33	1,777	1,810	
Portfolio with some weakness (2b)	Exposure in DKKm	45	2,519	2,564	
Portfolio with significant weakness (2c)	Exposure in DKKm	0	74	74	
	Unsecured	0	24	24	
Portfolio with OEI	Exposure in DKKm	0	202	202	
	Unsecured	0	109	109	
	Impairments/provisions	0	105	105	
Portfolio without individual classification	Exposure in DKKm	0	45	45	
Total	Exposure in DKKm	78	4,618	4,696	
Quality of loan portfolio excl. financial institutions 2019, total					
		> 7,5m	< 7,5m	Total	
Portfolio without weakness (3, 2a)	Exposure in DKKm	3,519	3,302	6,821	
Portfolio with some weakness (2b)	Exposure in DKKm	1,812	6,257	8,069	
Portfolio with significant weakness (2c)	Exposure in DKKm	209	242	451	
	Unsecured	49	56	105	
Portfolio with OEI	Exposure in DKKm	160	557	717	
	Unsecured	102	317	419	
	Impairments/provisions	99	303	399	
Portfolio without individual classification	Exposure in DKKm	127	88	215	
Total	Exposure in DKKm	5,827	10,446	16,273	

Collateral

The Group applies various instruments available to reducing the risk on individual transactions, including collateral in the form of tangible assets, netting agreements and guarantees. The most important instruments that can be used to reduce risk are charges on tangible and intangible assets, guarantees and netting agreements under derivative master agreements, as further described in Liquidity risk p. 109 Collateral provided by the Group. Table 5 shows collateral for exposures excluding exposures with impairment or past due exposures. Collateral amounts to DKK 7.691m. The

types of collateral most frequently provided are real estate (76%), ships/ aircraft (6%) and motor vehicles (3%) (see table 6) in addition to guarantees provided by owners or, in the Faroese market, by floating charge.

The Group regularly assesses the value of collateral provided in terms of risk management. It calculates the value as the price that would be obtained in a forced sale less deductions reflecting selling costs and the period during which the asset will be up for sale. To allow for the uncertainty associated with calculating the val-

Credit exposure and collateral for 2020

Table 5

Continuing operations

(DKKm)	Personal customers	Corporate sector	Personal & corporate	Public	Total
Exposure	4,941	6,118	11,059	860	11,918
Loans, advances & guarantees	3,698	3,736	7,434	476	7,910
Collateral	3,917	3,773	7,690	1	7,691
Impairments	73	252	325	0	326
Unsecured (of exposed)	1,024	2,378	3,401	857	4,258
Unsecured (loans, advances and guarantees)	737	1,110	1,847	0	1,847
Unsecured ratio	21%	39%	31%	100%	36%
Unsecured ratio, loans and advances	20%	30%	25%	0%	23%

Discontinued operations

(DKKm)	Personal customers	Corporate sector	Personal & corporate	Public	Total
Exposure	4,588	108	4,696		4,696
Loans, advances & guarantees	2,340	47	2,387		2,387
Collateral	2,787	50	2,837		2,837
Impairments	136	4	141		141
Unsecured (of exposed)	1,801	58	1,859		1,859
Unsecured (loans, advances and guarantees)	1,262	31	1,293		1,293
Unsecured ratio	39%	54%	40%		40%
Unsecured ratio, loans and advances	54%	66%	54%		54%

Credit exposure and collateral for 2019, total

(DKKm)	Personal customers	Corporate sector	Personal & corporate	Public	Total
Exposure	10,268	5,252	15,520	754	16,273
Loans, advances & guarantees	6,460	3,379	9,839	504	10,343
Collateral	7,227	2,907	10,134	35	10,169
Impairments	227	267	494	0	495
Unsecured (of exposed)	3,061	2,351	5,412	720	6,132
Unsecured (loans, advances and guarantees)	2,136	1,152	3,288	478	3,766
Unsecured ratio	30%	45%	35%	95%	38%
Unsecured ratio, loans and advances	33%	34%	33%	95%	36%

ue of collateral received, the Group reduces such value by way of haircuts. For real estate for residential purposes, haircuts reflect the expected costs of a forced sale and a margin of safety. This haircut is 20% of the expected market value. As a general rule, collateral for loans to public authorities is not calculated if there is no mortgage in real estate. For unlisted securities, third-party guarantees (exclusive of guarantees from public authorities and banks) and collateral in movables, the haircut is 100%.

Table 5 shows the Bank's total credit exposure and the collateral for the loans granted divided into personal,

Collateral	Continuing operations	Discontinued operations	Table 6
(in %)	2020	2020	2019
Cars	3%	3%	3%
Real Estate	76%	92%	74%
Aircrafts & Ships	6%		6%
Other	15%	5%	17%
Total	100%	100%	100%

corporate and the public sector. Unsecured exposures accounted for 21% of personal exposures and 39% of corporate exposures. The largest part of the Bank's credit is granted against collateral in real estate.

Distribution of past due amount								Table 7
Continuing operations		2020			2019, total			
(DKKm)	Exposure	Past due total	Past due > 90 days	Total balance with past due	Exposure	Past due total	Past due > 90 days	Total balance with past due
Portfolio without weakness (3, 2a)	5,504	9	0	482	6,821	10	0	944
Portfolio with some weakness (2b, 2b)	5,488	20	1	1,388	8,069	32	1	1,618
Portfolio with significant weakness (2c)	324	1	0	190	451	2	1	184
Portfolio with impairment/provision (1)	496	5	2	168	717	10	4	253
Portfolio without individual classification	106	0	0	6	215	1	0	4
Total	11,918	35	3	2,234	16,273	55	6	3,003
Past due in % of exposure		0.3%	0.0%			0.3%	0.0%	
Discontinued operations		2020						
(DKKm)	Exposure	Past due total	Past due > 90 days	Total balance with past due				
Portfolio without weakness (3, 2a)	1,810	3	0	160				
Portfolio with some weakness (2b, 2b)	2,564	5	0	384				
Portfolio with significant weakness (2c)	74	0	0	20				
Portfolio with impairment/provision (1)	202	1	0	52				
Portfolio without individual classification	45	0	0	6				
Total	4,696	9	0	621				
Past due in % of exposure		0.2%	0					

Loans and advances specified by maturity			Table 8
(DKKm)	Continuing operations	Discontinued operations	2019
	2020	2020	
On demand	87	26	113
3 months and below	281	82	366
3 months to 1 year	901	264	1,173
Over 1 year to 5 years	2,755	808	3,589
Over 5 years	3,583	1,051	4,667
	7,608	2,231	9,909

As shown in table 7, DKK 3m is more than 90 days past due.

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

The Group's impairments reflect the expected credit loss impairment model in IFRS 9 and Executive Order

on Financial Reports for Credit Institutions and Investment Firms, etc. as valid in the Faroe Islands. The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). All expected credit loss impairments are allocated to individual exposures. For all exposures with

objective indication of being subject to an impairment in creditworthiness, stage 3 exposures, the Group determines the expected credit losses individually.

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

As the expected credit loss, especially for exposures categorised as stage 1 or 2, primarily are based on historical information, the Executive Management and the Board of Directors may add a discretionary increase in impairments to cover credit losses expected not to be covered by the calculations described above, e.g. due

to an expected or emerging economic crisis in one or more sectors and/or in one or more geographic locations.

Table 9 provides a breakdown of individual impairments, stage 3, and statistical based impairments, stage 1 and 2 including DKK 52m impaired at the Executive Management's discretion.

In connection with the acquisition of Sparbank (2010) and Amagerbanken (2011), the Group took over some of the exposures that were individually impaired and some of these exposures are a part of the continued operation. These impairments are recognised as part of the purchase price for the acquired exposures. In 2020 DKK 214m of the impairments reflected in the table below are individual impairments recognised up to 12 months after the acquisition of the relevant exposure.

A further breakdown by maturity of loans and advances can be found in table 9. There are no aggregated data on the collateral behind matured loans and advances.

Specification of individual and statistic impairments					Table 9
Continuing operations	2020		2019, total		
DKKm	Loans gross	Individual impairments	Loans gross	Individual impairments	
Individual impairments:					
Faroe Islands	253	95	605	144	
Denmark	70	92	346	252	
Greenland	95	27	137	43	
Total	418	214	1087	439	
Statistic impairments:					
Faroe Islands	6,571	71	6,013	18	
Denmark	45	4	2,535	21	
Greenland	876	38	707	10	
Total	7,910	114	9,255	50	
Discontinued operations					
	2020				
DKKm	Loans gross	Individual impairments			
Individual impairments:					
Denmark	171	105			
Total	171	105			
Statistic impairments:					
Denmark	2,215	36			
Total	2,215	36			

Market Risk

Organisation

The Bank has established an Investment Working Group to monitor the financial markets and continuously update its view on the financial markets. The Investment Working Group meets once a month to discuss the outlook for the financial markets and make an update containing a recommendation on tactical asset allocation to the Investment Group. The Investment Working Group refers to the Investment Group. Participants in the Investment Group are the CEO, the CFO, the COO, the CIO, the Financial Manager and Treasury. Based on the recommendation, the Investment Group decides whether to retain or revise the Bank's official outlook. The Investment Group's decisions are communicated throughout the organization and form the basis for all advice provided to customers and included in the Bank's official Markets Update.

Definition

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

BankNordik's market risks are

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

Policy and responsibility

The Group's market risk management relates to the Group's assets, liabilities and off-balance-sheet items. The Board of Directors defines the overall policies / limits for the Group's market risk exposures, including the overall risk limits. The limits on market risks are set with consideration of the risk they imply, and how they match the Group's strategic plans. On behalf of the Executive Board, the Group Risk Committee is responsible for allocating the market risk to the Group's major business areas. Historically, lines have mainly been granted to Treasury. Treasury is responsible for monitoring and handling the Bank's market risks and positions. Markets have been granted small market risk lines for its daily operations. The Finance Department reports market risks to the Executive Board on a monthly basis.

Reporting of Market risk

	Board of Directors
Monthly	Overview of <ul style="list-style-type: none"> – Interest risk – Exchange risk – Equity market risk – Liquidity risk
	Executive Board
Monthly	Overview of <ul style="list-style-type: none"> – Interest risk – Exchange risk – Equity market risk – Liquidity risk
	Overview of
Daily	<ul style="list-style-type: none"> – Interest risk – Equity market risk – Liquidity risk

Control and management

The stringent exchange rate risk policies support the Group's investment policy of mainly holding listed Danish government and mortgage bonds. The Finance Department monitors and reports market risk to the Board of Directors and the Executive Board on a monthly basis.

Market risk

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

- All equity prices fall by 10%
- All currencies change by 10% (EUR by 2,25%)
- Foreign exchange risk
- Upwards parallel shift of the yield curve of 100 bp

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

Interest rate risk

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

The Group's interest rate risk is calculated according to the requirements of the Danish FSA. The interest rate risk is defined as the effects of a one percentage point parallel shift of the yield curve. BankNordik offers fixed rate loans to corporate customers. The interest rate risk from these loans is hedged with interest rate swaps on a one-to-one basis. Table 11 shows the Group's overall interest rate risk measured as the expected loss on interest rate positions that would result from a parallel upward shift of the yield curve.

Likely after tax effects from changes in markets value

Table 10

	Change	2020	% of Core Capital	2019	% of Core Capital
Equity risk DKKm (+/-)	10%	25	1.0%	25	1.1%
Exchange risk DKKm (+/-) EUR	2.25%	-	0.0%	0	0.0%
Exchange risk DKKm (+/-) Other currencies	10%	1	0.1%	2	0.1%
Foreign exchange risk, %		1	0.0%	1	0.1%
Interest rate risk DKKm (parallel shift)	100 bp	8	0.3%	31	1.4%

Market Risk Management

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

Exchange rate risk

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

Interest rate risk broken down by Currency

Table 11

DKKm	2020	2019
DKK	11	27
EUR	-	13
Interest rate risk	11	40

Foreign exchange position

Table 12

DKKm	2020	2019
Assets in foreign currency	23	30
Liabilities and equity in foreign currency	0	0
Exchange rate indicator 1	23	30
Exchange rate indicator 2	1	2

Equity risk

Table 13

DKKm	2020	2019
Shares/unit trust certificates listed on the Copenhagen Stock Exchange	56	56
Other shares at fair value based on the fair-value option	253	256
Total shares etc.	309	312

Equity market risk

BankNordik's stringent risk policy restricts equity positions to listed and liquid shares and shares related to the Danish banking sector. The Group occasionally holds unlisted shares, for example in connection with taking over and reselling collateral from defaulted loans. The Group has acquired holdings in a number of unlisted banking related companies. These are mainly investments in companies providing financial infrastructure and financial services to the Bank. For some of these investments, BankNordik's holding is rebalanced yearly according to the business volume generated by the Bank to the company in question.

Liquidity Risk

Definition

Liquidity risk is defined as the risk of loss resulting from

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

The Board of Directors has defined the Bank's liquidity limits for the daily operational level and for budgeting plans. The Danish FSA has designated BankNordik as a systematically important financial institution (SIFI). With a liquidity coverage ratio (LCR) of 231 % at 31. December 2020 BankNordik's liquidity position remains robust.

Control and management

Liquidity risk is a fundamental part of the Group's business strategy. The Group's liquidity is monitored and

Exposures related to trading and investment activities

Table 14

DKKm	2020	2019
Bonds at fair value	4,256	5,404
Derivatives with positive fair value	12	3
Equity	309	312
Total	4,577	5,719

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

Operational liquidity risk

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

Liquidity stress testing

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

Twelve-month liquidity

The Bank's 12-month funding requirements are based on projections – including sale of the Danish branches - for 2021, and takes the market outlook into account.

Structural liquidity risk

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

Funding sources

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

Collateral provided by the Group

As customarily used by financial market participants BankNordik has entered into standard CSA agreements with other banks. These agreements commit both parties to provide and daily adjust collateral for negative market values. The bank with negative value exposure receives collateral. Thereby reducing counterparty risk to daily market fluctuations of derivatives and pledged amount. As a consequence of these agreements BankNordik at yearend 2020 had pledged bonds and cash deposits valued at DKK 67m under these agreements. BankNordik also provides collateral to the Danish central bank to give the Bank access to the intraday draft facility with the central bank as part of the Danish clearing services for securities. At yearend 2020, this collateral amounted to DKK 27m.

Liquidity Management

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

Remaining maturity						Table 15
DKK 1,000						
2020	0-1 months	1-3 months	3-12 months	More than 1 year	Without fixed maturity	Total
Cash in hand and demand deposits with central banks	208,010	0	0	0		208,010
<i>Hereof discontinued operations</i>	15,310					15,310
Due from Credit institution	1,177,476					1,177,476
<i>Hereof discontinued operations</i>	52,800					52,800
Loans and advances	113,113	363,106	1,164,908	3,563,372	4,634,401	9,838,901
<i>Hereof discontinued operations</i>	25,646	82,325	264,113	807,905	1,050,733	2,230,722
Bonds	277,152	2,702,737	100,098	1,392,634	0	4,472,621
Shares	309,443	0	0	0	0	309,443
Bonds and Shares	586,595	2,702,737	100,098	1,392,634	0	4,782,064
Derivatives	12,345					12,345
Other Assets	996,935	66,014		0	202,606	1,265,555
Total assets	3,094,474	3,131,857	1,265,006	4,956,006	4,837,007	17,284,351
Due to credit institutions and central banks	28,292					28,292
Deposits	12,482,994	77,047	9,778	44,092	1,549,639	14,163,550
<i>Hereof discontinued operations</i>	5,667,183	34,979	4,439	20,017	703,524	6,430,142
Issued bonds						
Other liabilities	29,571	67,181	11,478	28,654	184,140	321,025
Lease liabilities	829	1,658	7,461	25,025	67,134	102,107
Provisions for liabilities				22,749		22,749
Subordinated debt					224,695	224,695
Equity					2,227,024	2,227,024
Total	12,541,686	145,885	28,717	120,521	4,296,633	17,089,442
Off-balance sheet items						
Financial Guarantees	583,259					583,259
<i>Hereof discontinued operations</i>	297,636					297,636
Other commitments	324,855					324,855
<i>Hereof discontinued operations</i>	53,158					53,158
Total	908,114					908,114
2019	0-1 months	1-3 months	3-12 months	More than 1 year	Without fixed maturity	Total
Cash in hand and demand deposits with central banks	263,198					263,198
Due from Credit institution	876,947					876,947
Loans and advances	94,597	562,711	1,267,692	11,677,021		13,602,020
Bonds	53,812	309,393	831,070	4,496,624		5,690,898
Shares	312,175					312,175
Bonds and Shares	365,987	309,393	831,070	4,496,624		6,003,073
Derivatives	3,497					3,497
Other Assets	942,144	58,434		9,542	223,321	1,233,440
Total assets	2,546,369	930,537	2,098,761	16,183,187	223,321	21,982,175
Due to credit institutions and central banks			16,477	57,741		74,217
Deposits	10,139,246	1,439,930	2,159,898	1,439,943		15,179,016
Derivatives						
Issued bonds						
Other liabilities	149,475	76,954	15,898	3,629	53,370	299,326
Lease liabilities	829	1,658	7,461	25,025	74,992	109,965
Provisions for liabilities				23,459		23,459
Subordinated debt	957	1,914	6,698	283,495		293,063
Equity					2,263,088	2,263,088
Total	10,290,507	1,520,456	2,206,430	1,809,833	2,391,450	18,218,676
Off-balance sheet items						
Financial Guarantees	522,188					522,188
Other commitments	322,774					322,774
Total	844,961					844,961

Insurance Risk

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

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

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

Likely effects from changes in markets value Table 16

	Change	2020	2019
Equity risk DKKm (+/-)	10%		
Exchange risk DKKm (+/-) in euro	2.25%		
Exchange risk DKKm (+/-) others currency	10%		
Interest rate risk DKKm (parallel shift) - Trygd	100 bp	1.0	0.8
Interest rate risk DKKm (parallel shift) Total	100 bp		

Distribution of portfolio of Trygd Table 17

(in %)	2020	2019
Commercial lines	35%	36%
Personal lines	65%	64%

The Group has defined internal procedures to minimise the possible loss in regard to insurance liabilities. The insurance companies evaluate their insurance risk on a regular basis for the purpose of optimising the risk profile. Risk management also involves holding a well-diversified insurance portfolio. The insurance portfolio of Trygd is well diversified in personal and commercial lines (see table 17).

Insurance risk

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

Trygd has invested in investment securities and cash and cash equivalents in the effort to balance the exposure to market and currency risk (see table 18).

Capital requirements

The effects on BankNordiks solvency, due to the ownership of the insurance company's Trygd and NordikLív, are considered low. According to CRR the risk weighted assets has increased DKK 342m. The negative effect on the solvency thus is 0,9% points.

Financial assets linked to insurance risk Table 18

DKKm	2020	2019
Listed securities on stock exchange	179	165
Accounts receivable (total technical provisions)	3	2
Cash and cash equivalents	13	18
Total	195	185

Run-off gains/losses in Trygd Table 19

DKKm					
Sector:	2020	2019	2018	2017	2016
Industry	0.67	1.04	-0.68	1.25	2.5
Private	0.34	-0.14	-0.10	0.46	0.43
Accidents	-5.55	-0.17	-1.05	0.19	-0.32
Automobile	3.31	3.56	3.11	2.93	3.39
Total	-1.23	4.28	1.28	4.82	6.00

Contractual maturity for the insurance segment						Table 20
(DKK 1,000)						
2020	On demand	0-12 months	1-5 years	Over 5 years	No stated maturity	Total
Assets						
Securities	179,405					179,405
Reinsurance assets		3,140				3,140
Accounts receivables		6,896				6,896
Restricted cash						
Cash and cash equivalents	13,012					13,012
Total financial assets	192,417	10,036				202,454
Liabilities						
Technical provision		94,696				94,696
Account payable		10,453				10,453
Total financial liabilities		105,149				105,149
Assets - liabilities	192,417	-95,113				97,304
Contractual maturity for the insurance segment						
(DKK 1,000)						
2019	On demand	0-12 months	1-5 years	Over 5 years	No stated maturity	Total
Assets						
Securities	201,773					201,773
Reinsurance assets		2,266				2,266
Accounts receivables		3,909				3,909
Restricted cash						
Cash and cash equivalents	21,691					21,691
Total financial assets	223,464	6,176				229,640
Liabilities						
Technical provision		91,347				91,347
Account payable		12,010				12,010
Total financial liabilities		103,357				103,357
Assets - liabilities	223,464	-97,181				126,283

Trygd non-life insurance

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

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

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

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

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

Trygd has organized a reinsurance program 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 6m. The reinsurance program is reviewed once a year and approved by the Board of Directors.

A significant change was made to the reinsurance programme in Trygd from the start of 2020. The change is in regards to the deductible on the Property program where it during 2019 was 10 DKKm for catastrophe and 5 DKKm for single risk, from 2020 there is a lower deductible of 3 DKKm on single and catastrophe risks and an annual aggregated deductible of additional 3 DKKm.

Trygd uses reputable reinsurance companies with strong ratings (A-class ratings at least on S&P or equivalent) and financial positions.

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

Trygd's investment policy is restrictive and at present Trygd only holds government bonds and Danish mortgaged backed bonds limiting the primary financial risk to interest rate risk. There is no exchange rate risk, as all investments are based in DKK.

NordikLív – Life insurance

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

NordikLív issues regular life, disability and critical illness insurance covers in the Faroese market.

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

NordikLív's investment policy is restrictive and at present NordikLív only holds government bonds and Danish mortgaged backed bonds limiting the primary financial risk to interest rate risk. There is no exchange rate risk, as all investments are based in DKK.

In respect of insurance risks these are, due to the company's limited product portfolio, mainly related to death, disability, costs and the occurrence of a catastrophe. To mitigate these risks NordikLív's underwriting policy is aimed at securing that only risks that can be characterized as normal for the relevant area of insurance are accepted.

Further, NordikLív reinsures it's against larger claims, e.g. because of the occurrence of a catastrophe in a Group reinsurance life policy together with the sister company Trygd. The combined deductible is DKK 3m with regards to reinsurance.

Operational risks are the risks of suffering an economic loss due insufficient or the complete lack of internal procedures, human or system based errors or due to external events, including a change in legislation.

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

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

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

Note Highlights¹

	2020	2019	Index 20/19	2018	2017	2016
DKK 1,000						
51 Net interest income	278,220	258,853	107	374,143	387,216	413,204
Net fee and commission income	59,892	55,765	107	172,213	190,425	182,202
Net interest and fee income	341,384	318,307	107	557,752	583,041	604,875
Net insurance income	45,152	52,327	86	43,751	43,367	26,627
Interest and fee income and income from insurance activities, net	386,535	370,634	104	601,503	626,407	631,502
Market value adjustments	-16,968	1,370		7,113	20,131	11,313
Other operating income	7,086	12,470	57	19,947	33,534	39,187
Staff cost and administrative expenses	244,335	262,513	93	459,247	453,630	462,461
Impairment charges on loans and advances etc.	-4,962	-68,962	7	-110,782	-35,107	18,228
Net profit continued operations	103,150	144,159	72	262,097	189,078	149,171
Net profit discontinued operations	63,035	62,471	101	0	0	72,703
Net profit	166,186	206,631	80	262,097	189,078	221,874
Loans and advances	7,607,901	9,908,886	77	9,956,478	9,537,425	9,140,637
Bonds at fair value	4,472,621	5,599,529	80	4,565,087	4,262,730	4,677,230
Intangible assets	2,432	9,957	24	6,678	0	0
Assets held for sale	4,466	1,500	298	20,364	6,302	11,974
Assets in disposals groups classified as held for sale	3,217,940	0		0	0	0
Total assets	17,290,303	18,173,399	95	16,703,555	15,784,953	15,552,094
Amounts due to credit institutions and central banks	27,954	54,922	51	298,610	360,497	341,676
Deposits and other debt	7,733,408	14,367,685	54	13,432,228	12,632,463	12,668,697
Liabilities directly associated with assets in Disposal groups classified as assets held for sale	6,520,004	0		0	0	0
Total shareholders' equity	2,271,024	2,112,335	108	1,981,742	1,820,092	1,922,035
Ratios and key figures	Dec. 31	Dec. 31		Dec. 31	Dec. 31	Dec. 31
Solvency	2020	2019		2018	2017	2016
Total capital ratio, %	26.4	22.3		19.8	19.7	18.3
Core capital ratio, %	24.1	20.2		17.7	17.5	16.0
Core capital ratio excl. hybrid core capital, end of period, %	22.6	18.8		17.7	17.5	16.0
Risk-weighted Items, DKK mill	9,774	10,764		10,621	9,895	9,790
Profitability						
Return on shareholders' equity before tax, %	9.4	12.7		17.0	12.5	15.0
Return on shareholders' equity after tax, %	7.6	10.1		13.8	10.1	12.0
Income / Cost ratio	1.5	1.9		2.1	1.5	1.4
Cost / income, % (excl. value adjustm. and impairments)	64.1	70.5		67.0	72.8	71.0
Return on assets	1.0	1.1		1.6	1.2	1.4
Market risk						
Interest rate risk, %	0.5	1.8		1.7	1.6	1.1
Foreign exchange position, %	1.0	1.4		1.3	0.9	4.8
Foreign exchange risk, %	0.0	0.1		0.1	0.1	0.4
Liquidity						
Loans and advances plus impairment charges as % of deposits	104.4	72.3		78.4	79.4	77.2
Excess cover relative to statutory liquidity requirements, %	195.6	215.7		212.5	205.1	241.7
Credit risk						
Large exposures as % of capital base	20.5	10.0		10.5	13.7	44.3
Impairment and provisioning ratio, %	5.1	3.7		4.5	4.0	5.5
Write-off and impairments ratio, %	-0.1	-0.5		-0.8	-0.3	0.1
Share of amounts due on which interest rates have been reduced, %	0.7	0.8		0.8	0.4	0.7
Growth on loans and advances, %	-23.2	-0.5		4.4	4.3	-14.4
Gearing of loans and advances, %	3.3	4.7		5.0	5.2	4.8
Shares						
Earnings per share after tax, DKK	17.4	21.8		27.1	19.5	22.6
Book value per share, DKK	237.3	221.6		0.2	187.2	197.7
Proposed dividend per share DKK	5.0	7.0		7.0	4.0	30.0
Market price per share, DKK	152.0	109.0		108.5	106.0	135.5
Market price / earnings per share DKK	8.7	5.0		4.0	5.4	6.0
Market price / book value per share DKK	0.6	0.5		0.5	0.6	0.7
Other						
Number of full-time employees, end of period	352	377		393	400	415

1) The highlights in 2016-2019 are not comparable due to reclassification of discontinued operations in 2020

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

Highlights¹

DKK 1,000	2020	2019	2018	2017	2016
Net interest income	276,691	257,186	372,694	385,612	411,671
Net fee and commission income	71,406	66,652	182,209	199,367	191,414
Net interest and fee income	351,369	327,527	566,299	590,378	612,554
Market value adjustments	-13,923	6,943	9,531	21,952	11,954
Other operating income	2,978	6,679	13,940	29,174	118,583
Staff cost and administrative expenses	225,740	240,146	438,578	431,121	442,584
Depreciation and impairment of property, plant and equipment	6,941	6,971	-44,379	27,599	8,515
Impairment charges on loans and advances etc.	-4,962	-68,962	-110,782	-35,107	18,228
Income from associated and subsidiary undertakings	14,285	19,501	14,565	12,160	4,500
Net profit continued operations	103,150	144,159	262,097	189,078	221,874
Net profit discontinued operations	63,035	62,471	0	0	0
Net profit	166,186	206,631	262,097	189,078	221,874
Loans and advances	7,607,901	9,908,886	9,956,478	9,537,425	9,140,637
Bonds at fair value	4,255,519	5,404,445	4,374,064	4,091,177	4,509,287
Intangible assets	2,432	9,957	6,678	0	0
Assets held for sale	4,466	1,500	20,364	6,302	11,974
Assets in disposals groups classified as held for sale	3,217,940	0	0	0	0
Total assets	17,199,646	18,095,281	16,612,691	15,713,057	15,455,187
Amounts due to credit institutions and central banks	27,954	54,922	298,610	360,497	341,676
Deposits and other debt	7,755,724	14,399,292	13,452,242	12,653,510	12,691,224
Liabilities directly associated with assets in Disposal groups classified as assets held for sale	6,520,004	0	0	0	0
Total shareholders' equity	2,271,024	2,112,335	1,981,742	1,820,092	1,922,035

Ratios and key figures

	Dec. 31 2020	Dec. 31 2019	Dec. 31 2018	Dec. 31 2017	Dec. 31 2016
Solvency					
Total capital ratio, %	26.4	22.3	19.8	19.7	18.3
Core capital ratio, %	24.1	20.2	17.7	17.5	16.0
Core capital ratio excl. hybrid core capital, end of period, %	22.6	18.8	17.7	17.5	16.0
Risk-weighted Items, DKK mill	9,774	10,764	10,621	9,895	9,790
Profitability					
Return on shareholders' equity before tax, %	9.3	12.6	16.8	12.4	15.0
Return on shareholders' equity after tax, %	7.6	10.1	13.8	10.1	12.1
Income / Cost ratio	1.6	2.0	2.1	1.5	1.6
Cost / income, % (excl. value adjustm. and impairments)	63.3	70.0	66.4	72.3	61.6
Return on assets	1.0	1.2	1.6	1.2	1.4
Market risk					
Interest rate risk, %	0.4	1.8	1.6	1.5	1.1
Foreign exchange position, %	1.0	1.4	1.3	0.9	4.8
Foreign exchange risk, %	0.0	0.1	0.1	0.1	0.4
Liquidity					
Loans and advances plus impairment charges as % of deposits	104.1	72.1	78.3	79.2	77.1
Excess cover relative to statutory liquidity requirements, %	185.3	206.5	201.9	195.7	233.3
Credit risk					
Large exposures as % of capital base	20.5	10.0	10.5	13.7	44.3
Impairment and provisioning ratio, %	4.9	3.7	4.5	4.0	5.5
Write-off and impairments ratio, %	-0.1	-0.5	-0.8	-0.3	0.1
Growth on loans and advances, %	-23.2	-0.5	4.4	4.3	-14.4
Gearing of loans and advances	3.3	4.7	5.0	5.2	4.8
Shares					
Earnings per share after tax, DKK	17.4	22.1	27.1	19.5	22.6
Book value per share, DKK	237.3	221.6	207.2	187.2	197.7
Proposed dividend per share DKK	5.0	7.0	7.0	4.0	30.0
Market price per share, DKK	152.0	109.0	108.5	106.0	135.5
Market price / earnings per share DKK	8.7	4.9	4.0	5.4	6.0
Market price / book value per share DKK	0.6	0.5	0.5	0.6	0.7
Other					
Number of full-time employees, end of period	320	345	360	367	385

1) The highlights in 2016-2019 are not comparable due to reclassification of discontinued operations in 2020

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

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