



2012

ANNUAL REPORT

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THE BOARD OF DIRECTORS' REPORT

The West Nordic Foundation's Activities:

In 2012, the West Nordic Foundation paid out new loans for 15.5 MDKK. In 2011, the amount was 16 MDKK.

The West Nordic Foundation's cash flow enables an annual loan pay-out of, on average, 20 MDKK. Due to the low economic activity in Greenland and the Faroe Islands, it has been possible, in 2012 and in recent years, to grant all loan applications received by the West Nordic Foundation, which were for the financing of economically sustainable investments.

It continues to be important to the Board that the West Nordic Foundation's loan activity contributes to the maintenance and development of employment in Greenland and the Faroe Islands. This includes, not least, apprentice positions, since there is a great need for educating the young particularly in Greenland, but also in the Faroe Islands.

Those businesses, which have loans from the West Nordic Foundation represent, at the end of 2012, approx. 200 full-time positions in Greenland and 300 full-time positions in the Faroe Islands, totalling approx. 500 full-time positions. This is the same as a corresponding report made in 2011. For some of the businesses, estimated figures have been used for the report.

The report on the number of full-time positions does not show the full effect of the loans from the West Nordic Foundation since a number of the businesses, financed by the West Nordic Foundation over the years, are now financed in other ways. In addition, the report does not show the knock-on effect on employment created by those businesses, financed by the West Nordic Foundation. For example, employment has been generated in the building sector due to the construction of a business' production building and sub-contracting in the form of trades etc. in the production phase as well as the usual increase in the economic activity in the local communities.

The Faroese economy is highly dependent on development within the fishing industry i.e. both the changes in available amounts of fish and the prices on the world market.

In 2012, exports in the Faroes, except for the export of ships, increased by 1.3% compared to 2011, while imports, excluding ships, increased by 16.5%. The largest part of exports continues to be pelagic fish and farmed salmon. In 2012, as in 2010 and 2011, the Faroe Islands allocated a mackerel quota, which was considerably larger than in previous years. In recent years, the salmon-farming industry has been growing and, in 2012, the value of exports reached an all-time high and exceeded one third of total Faroese exports. It must also be mentioned that several land-based businesses within the fishing sector had an unsatisfactory result in 2012.

In 2011, unemployment was 6.8%. In 2012 it dropped to 5.5%. The number of people who are unemployed is 1,662. At the end of 2012, the total work force in the Faroe Islands was 27,060. From 2010 to 2012, the work force decreased by 402.

The public sectors' budgets show considerable losses. The Faroese Exchequer's loss will be financed by issuing bonds. Should the international rate of interest rise or the Faroe Islands' credit rating fall, the increase in payable interest could limit the possibility of the national economy being able to contribute to the total growth in the community.

The Greenlandic economy is mainly based on an annual State grant from Denmark and the utilization of renewable resources, particularly shrimps.

The State grant, which was 3,585 MDKK in 2012, is regulated according to prices and pay levels in the national budget. Shrimps are the most significant of the fish resources. Based on the recommendation of biologists, Naalakkersuisut (the Greenlandic Government) has decided to decrease the maximum amount of allowable catches. Since export prices for shrimps were high in 2012, the economy in shrimp fishing was good even though the amounts were less.

In 2012, there was a decline in the Greenlandic economy compared to the year before. The GNP is expected to fall.

In 2012, the Self-government passed a law, which outlines the conditions for the establishment of large scale projects within mineral extraction in Greenland. The law makes it possible for projects over a certain size to be completed using foreign work forces, which can be paid according to an international rate of pay and, thus, contributing to greater profitability. It will be during the construction phase that there will be a need for foreign work forces, which will be paid according to special conditions.

Should larger projects within mineral extraction be established as planned and, as the new law is to facilitate, this could lead to greater activity in small and medium-sized businesses, which will service the companies responsible for the mining. Similarly, a certain effect can be expected due to a greater need for hotel accommodation. Thus, a quick and significant positive effect on the economy and employment can be expected.

Meanwhile, should no such large projects be established, there is, in the short term, no prospect of economic growth in Greenland. This will, in the long term, put pressure on the national economy due to the change in the population i.e. a larger part will be pensioners and, therefore not normally part of the work force.

In Greenland, in 2012, the West Nordic Foundation financed 2 projects with 2 loans totalling 7.5 MDKK. One loan was for 5 MDKK and granted to a hotel and the other was for 2.5 MDKK and granted to a tourist boat.

In the Faroe Islands, the West Nordic Foundation financed 4 projects with 4 loans totalling 8 MDKK. 3 MDKK was paid out to two businesses within the fishing industry and 5 MDKK was paid to two businesses. One was a skilled trade business and the other a business within the service sector. The West Nordic Foundation's net income from interest decreased in 2012 to 3.375 MDKK (4.169 MDKK in 2011). The total operating expenditure for administration was 3.164 MDKK (3.131 MDKK in 2011). The amount appropriated to offset on loans and expenses in connection with offset bought to cover debts fell to 0.204 MDKK (1.050 MDKK in 2011). The operating net income for 2012, before the contribution to NORA was 66,915 DKK (46,577 DKK in 2011). After the contribution to

NORA, it was 0 DKK (0 DKK in 2011). The result before appropriations fell to 0.271 MDKK (1.096 MDKK in 2011). Thus, in 2012, the result before appropriations was 0.825 DKK less than in 2011. According to the articles of association, a profit of up to 1.5 MDKK shall be allotted to NORA. For this purpose, 66,915 DKK has been allocated in the accounts.

The board of directors considers it less satisfactory that the interest income, which decreased even more in 2012 compared to the previous year, does not provide the basis to achieve a significantly positive operational result. It is, therefore, mainly because of a reduction in the amount appropri-

ated to offset on loans, that, despite the decrease in interest income, a modest positive operational result was achieved. However, on the whole, the board of directors considers it satisfactory that a positive operational result, which is close to that in 2011, was achieved.

Offices and staff:

The West Nordic Foundation has offices in Reykjavik, Nuuk and the Faroes. The Foundation had 2 employees. The office in the Faroes is run from Nuuk. The total capacity was two man-year.

LOANS PAID OUT

Two loans were paid out to two Greenlandic projects in the tourism sector:

Hotel Avannaq	• hotel	5,000,000 DKK	15 years
Arne Niemann	• tourist boat	2,500,000 DKK	10 years

Four loans were paid out to 4 projects in the Faroe Islands:

P/F Grafia	• graphic workshop	1,000,000 DKK	10 years
P/F JT Electric	• electrician	4,000,000 DKK	15 years
P/F Norðís 201 I	• fishing industry	1,000,000 DKK	8 years
Sp/F Glyggur	• fishing industry	2,000,000 DKK	10 years

Total loans paid out to projects in the West Nordic countries: 15,500,000 DKK

PROSPECTS

The economic development in the European countries has been negatively affected by the credit crisis in several countries. During 2012, steps have been taken to reduce the debt problem in several countries, but low economic growth is to be expected for several years to come in the European countries.

The social economy in Greenland and the Faroes has been seen to be robust and less affected by the negative economic development in The European countries. Therefore, the Board does not expect the economic situation in Greenland and the Faroes in 2013 to differ significantly from the situation in 2012.

The Board believes that the prospects for the economic development in Greenland and the Faroes will not significantly change the preconditions on which the West Nordic Foundation has based its activities' plan for 2012 – 2015. The Board has not noted any crucial weakness in the West Nordic Foundation's borrowers' ability to pay back the acquired loans. Therefore, in 2013, the Board will review new loan applications according to the activities' plan.

The Board still feels, as was the case in 2012, that there is a risk that the decline in the fishing industry in the Faroes can lead to a loss on the West Nordic Foundation's loans in that sector. Similarly, there is also still a risk that the tourism sector in Greenland can be negatively affected by the economic development in Western Europe and also by rising fuel prices, which can amongst other things cause a rise in air fares, thus hindering the development of tourism. Therefore, the Board will continue to carefully assess the risk of loss on the West Nordic Foundation's loans and, if it is deemed necessary, to make appropriations accordingly.

At the end of 2012, the West Nordic Foundation has a liquidity, which provides the basis for an increase in loan activity in 2013 up to a level, which significantly exceeds the average of 15–20 MDKK as laid out in the Board's activities' plan for 2012-2015. Therefore, the West Nordic Foundation will strive to use the available funds to benefit trade and industry in Greenland and the Faroe Islands. Since conditions on the investment market are generally difficult, the Board has limited expectations of the demand for loans from the West Nordic Foundation increasing significantly in 2013.

Should there be an opportunity to assist in collaborative projects between the various three West Nordic countries, then the West Nordic Foundation will be favourably disposed to such projects.

Both in Greenland and in the Faroes, the West Nordic Foundation will work towards spreading the loans over several sectors of industry.

The Board expects the current low rate of interest to continue for the whole of 2013. Since the interest changed during 2012, the current low interest has not affected the whole year. Therefore, the income from interest in 2013 is expected to be lower than in 2012. The administrative expenditure is expected to show a limited increase in 2013. Due to the low rate of interest, it is still difficult for the West Nordic Foundation's business to achieve a profit. Based on this, the Board expects the result before loss and appropriations in 2013 to be less than in 2012.

Since the articles of association with regards to the contribution to NORA of up to 1.5 MDKK of an annual profit came into force, 9.8 MDKK has been paid to NORA in the

period from 1998 to 2012. This has been a crucial factor in the stagnation of the West Nordic Foundation's equity. Thus, during the last 10 years, the equity has only increased by 1.1 MDKK. As a result, the real value of the West Nordic Foundation's loan possibilities has decreased over

several years. The Board feels that this is unsatisfactory and, therefore, looks forward to this problem being discussed during the evaluation of the West Nordic Foundation, which the Nordic Council of Ministers has arranged.

SIGNATURES OF THE BOARD AND THE MANAGING DIRECTOR

Today, the Board and the Managing Director discussed and approved the Annual Report for 1st January to 31st December 2012 for the West Nordic Foundation.

We consider the applied accounting policies to be appropriate and also that the Annual Report provides a true and fair representation of the West Nordic Foundation's assets, liabilities, financial situation and result along with the cash flow statement for the financial year from 1st January to 31st December 2012.

Jens Erik Magnussen
Faroe Islands - Chairman

Jørn Birk Olsen
Greenland - Vice-chairman

John Bernhard
Denmark

Elina Selinheimo
Finland

Haukur Halldórsson
Iceland

Mattias Moberg
Sweden

Bjørn Normann Hansen
Norway

Signed at the Board meeting in Helsinki, on 11th. March 2013:

Sverri Hansen
Managing Director

AUDITORS' REPORT

The Independent Auditors' Report

To the Board of Directors and the owners of the West Nordic Foundation

We have audited the Annual Report of the West Nordic Foundation for the financial year from 1st January to 31st December 2012.

The Annual Report comprises the signatures of the Board and the Managing Director, the Board of Directors' Report, the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the applied accounting policies and the notes.

The Board of Directors' responsibility for the Annual Financial Statement

The Board of Directors is responsible for the preparation and presentation of the Annual Financial Statement in accordance with the law in Iceland. This responsibility includes the design, implementation and maintenance of internal controls, which are relevant to the preparation and presentation of an Annual Financial Statement, which gives a fair representation without significant misstatement, whether due to fraud or error. The Board of Directors' responsibility also includes the selection and application of appropriate accounting policies and the making of accounting estimates, which, in the circumstances, are reasonable.

The Auditor's responsibility

Our responsibility is to draw a conclusion about the Annual Financial Statement based on our audit. We have conducted our audit according to international auditing standards. These standards demand that we meet ethical requirements as well as plan and perform the audit in such a way as to reach a high degree of assurance for the annual financial statement not containing any significant misstatement. An audit involves procedures which will produce

audit evidence of the figures and disclosures in the Annual Financial Statement. The selected procedures depend on the auditors' judgement, including the assessment of the risk of significant misstatement in the Annual Financial Statement, whether due to fraud or error. While making these risk assessments, the auditors consider the internal controls relevant to the preparation and presentation of an annual financial statement, which gives a fair representation. This is done in order to design audit procedures, which are appropriate in the circumstances, but not for the purpose of drawing a conclusion about the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used by the management, whether the accounting estimates made by the management are reasonable and, also, evaluating the overall presentation of the Annual Financial Statement.

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

Conclusion

In our opinion, the Annual Financial Statement provides a true and fair view of the West Nordic Foundation's operation in 2012, its assets and liabilities at the end of 2012 and its cash flow statement for the financial year from 1st January to 31st December 2012 in accordance with the Icelandic Financial Statements Act.

Reykjavík, on 11th. March 2013

Ásbjörn Björnsson
Certified Public Accountant
Ernst & Young - Iceland

Sveinn Arason
Auditor General

PROFIT AND LOSS ACCOUNT *from 1st. January to 31st. December 2012*

	Note	2012 DKK	2011 DKK
<i>INCOME FROM INTEREST</i>			
Interest from bank deposits and bond holdings		182,246	216,109
Interest from loans	3	3,310,853	4,017,717
Exchange and currency adjustments		(118,293)	(64,798)
		3,374,806	4,169,028
<i>OTHER INCOME</i>			
Other income		59,775	58,020
		59,775	58,020
Total operating revenue		3,434,581	4,227,048
<i>OPERATING EXPENSES</i>			
Pay etc. for administration and management	5	1,831,617	1,765,165
Administration		1,280,109	1,313,599
Depreciation, apartment		51,972	51,972
Total administrative expenses		3,163,698	3,130,736
Loss and appropriations for the year	4	203,968	1,049,735
Total loss and appropriations		203,968	1,049,735
Total operating expenses		3,367,666	4,180,471
<i>OPERATIONAL PROFIT</i>		66,915	46,577

BALANCE SHEET *as at 31st. December 2012*

Assets	Note	2012 DKK	2011 DKK
LIQUID ASSETS			
Cash in bank		27,340,009	24,840,814
Total liquid assets		27,340,009	24,840,814
LOANS			
Loans	3	91,593,214	93,164,224
Total loans		91,593,214	93,164,224
FIXED ASSETS			
Apartment	6	2,679,456	2,731,428
Total fixed assets		2,679,456	2,731,428
OTHER ASSETS			
Debtors		64,362	887,822
Total other assets		64,362	887,822
TOTAL ASSETS		121,677,041	121,624,288
Liabilities			
OTHER DEBTS			
Creditors		263,673	231,258
Appropriated to NORA		66,915	46,577
Total other debts		330,588	277,835
LOANS			
Loan - apartment	7	567,000	567,000
Total loans taken		567,000	567,000
EQUITY			
Capital stock	8	91,284,091	91,284,091
Legal reserve, opening balance		29,495,362	29,495,362
Total equity		120,779,453	120,779,453
TOTAL LIABILITIES		121,677,041	121,624,288

CASH FLOWS STATEMENT *for 2012*

	2012 DKK	2011 DKK
<i>CASH FLOW FROM OPERATING ACTIVITIES</i>		
Profit for the year	66,915	46,577
Items without influence	295,878	2,245,880
Adjustments from operating activities	362,793	2,292,457
<i>CASH FLOW FROM INVESTMENTS</i>		
Loan repayments	16,827,104	18,660,047
Loan disbursements	(15,500,000)	(16,000,000)
Redeemed securities	0	100,000
Debtors	823,460	66,682
Adjustments in investments	2,150,564	2,826,729
<i>CASH FLOW FROM FINANCING</i>		
Creditors	32,415	(33,944)
NORA	(46,577)	(81,906)
Adjustments in financing	(14,162)	(115,850)
Cash flow for year from operation, investments and financing	2,499,195	5,003,336
Cash and cash equivalents, opening balance	24,840,814	19,837,478
Cash and cash equivalents, year end	27,340,009	24,840,814

NOTES

1. Information about the West Nordic Foundation

The West Nordic Foundation's business is to lend money to businesses in Greenland and the Faroe Islands and, under certain circumstances, also in Iceland. The West Nordic Foundation has its head office at Kringlan 4, 103 Reykjavik, Iceland.

2. Summary of significant accounting policies

Basis of preparation and statement of compliance

This Annual Report has been prepared in accordance with the Icelandic Financial Statements Act. The accounting policies adopted are consistent with those of the previous financial year. The Annual Report is presented in Danish crowns (DKK).

Use of estimates and judgement

The preparation of the financial statements requires management to make judgements. These judgements are made by the Foundation's management according to accounting policy and on the basis of past experience, together with conditions, which the management deems secure and realistic. Actual valuations can differ from estimated valuations. Accrued interest and index pricing of loans are shown in the income in the Annual Financial Statement. All assets and liabilities are shown in Danish crowns (DKK). Differences due to changes in the rate of exchange are shown in the Profit and Loss Account.

Fixed assets

Fixed assets are shown at cost value less depreciation.

Loans

Loans are calculated at nominal value and include appropriations made to cover expected, but not yet ascertained losses. Depreciation of loans is made individually and collectively.

Allowance for doubtful loans

Appropriations regarding loans reflect the risk related to loaning operations. This is not a final write off. Changes in the appropriations and final write offs are shown in the profit and loss account and the notes.

Cash and cash equivalents

The cash and cash equivalents shown in the balance sheet and the cash flows statement consist of cash in hand and cash in bank.

Income

Income i.e. interest from the loans paid out by the West Nordic Foundation is posted on the settlement dates.

3. Loans

Loans divided between the countries:

	Faroe Islands	Greenland	Iceland	Total
Total loans	36,307,308	54,458,239	827,667	91,593,214
Interest income from loans	1,199,322	1,968,435	143,096	3,310,853

The West Nordic Foundation's loans divided between business sectors:

	2012	2011
Hotels and tourism	38.70%	34.10%
Trade and light industry	28.20%	27.50%
Fishing industry	12.20%	12.40%
Other sectors	20.90%	26.00%
	100%	100%

Maturities of the West Nordic Foundation's loans are specified as follows:

	2012	2011
Less than 1 year	17,287,385	20,130,150
1 to 5 years	41,288,133	37,063,780
Over 5 years	33,017,696	35,970,294
	91,593,214	93,164,224

4. Appropriations' account for loans

	2012	2011
Appropriations, opening balance	16,881,102	17,021,195
Appropriations for the year	203,968	1,049,735
Written off loans for the year	(47,885)	(1,189,828)
Appropriations year end	17,037,185	16,881,102
Appropriations as a percentage of total loans	15.68%	15.34%

5. Salaries and related expenditure

Total salaries and related expenditure were 1,831,617 DKK. These are the salaries and benefits of the director, the staff and the board. There are 2 full-time positions in the West Nordic Foundation. The board's fees are 10,000 DKK annually for each board member and 20,000 DKK for the chairman or in total 80,000 DKK annually. Over and above this, each board member receives a fee for each meeting. Total salaries and related expenditure in 2011 was 1,765,165 DKK.

6. Fixed assets

	2012	2011
Cost price	2,887,344	2,887,344
Depreciation opening balance	(155,916)	(103,944)
Written off during the year	(51,972)	(51,972)
Book value at year end	2,679,456	2,731,428
Rate of depreciation	2%	2%

7. Loans - apartment

The repayment of the loans taken by the West Nordic Foundation starts in 2028 and they will be repaid over 15 years. The loans are interest-free until 2028, when the repayments start. The interest- and repayment-free loans have been provided by Greenland's Self Government and the County of Sermersooq each with the same amount.

8. Equity

Equity account:

	Capital stock	Legal reserve	Profit for year	Total
Equity opening balance	91,284,091	29,495,362	0	120,779,453
Profit for the year	0	0	66,915	66,915
Contribution to NORA	0	0	(66,915)	(66,915)
Equity at year end	91,284,091	29,495,362	0	120,779,453