



Annual Report

2014



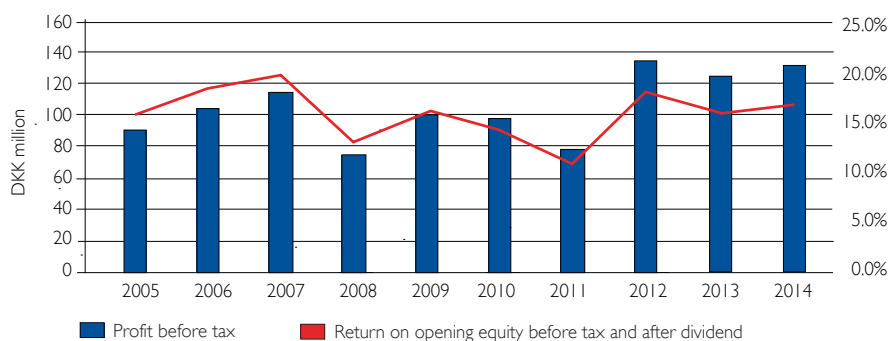
The BANK of Greenland

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### Second best result in The BANK of Greenland in 2014 - Return on equity of 16.3% per annum

The BANK of Greenland continues the series of solid profits. The result in 2014 was the second-best in the Bank's history with DKK 131.4 million before tax. The result is only outperformed by the record result 2012 with DKK 135.5 million before tax.



The result before value adjustments and write-downs of DKK 148.6 million is the Bank's best basis result so far. This is of course satisfactory. It is at the same time above the last announced results expectation of a result before value adjustments and write-downs in the upper end of the range DKK 125-145 million.

The result before tax returns 16.3% on year-start equity after dividend.

### Good basic operation

In The BANK of Greenland we are in general satisfied with the development in the course of the year. Increase in loans and guarantees in the first half of the year gave a good start of the year, while the general economic decline in Greenland could be seen in a weakened loan demand from corporate clients in the second half of the year.

A stable development of the Bank's private clients has resulted in an increase in loans, and with an increase in trade with securities and busyness with conversions of loans, this has in total led to a substantial increase of income. Basis income has also been helped by larger interest income primarily from corporate bonds. In total this means an increase in net interest and fees income of approx. 6% compared with 2013.

The total costs including depreciation have increased by 3% in relation to 2013. The increase is as budgeted and, among other things, a result of the first half-year's investments in establishing a branch in Aasiaat, renovation in Ilulissat, and a large training program.

### Limited losses and write-downs

Even though the economic decline depresses the loans amount more than expected at the beginning of the year, the development has only to a very limited extent affected the Bank's losses and write-downs on the clients' loans. Write-downs and provisions, however, increase from 15.2 to 24.8 million, but these cover a slightly lower level of individual write-downs while the Bank has chosen to increase group writedowns further with an increase in the Bank's management reserve, which in total means an increase of this item. In the light of the weak economic cycle we believe that an increase of the write-down reserve is appropriate and sound. The total write-downs for the year, despite the increase, are still a moderate 0.7% of the Bank's loans and guarantees, and are at an absolute manageable level in relation to the Bank's other operation.

### 2014 - a year with fluctuations

As mentioned above, the Bank saw a fall in loans in the last part of the year, which was larger than expected. Most of the Greenlandic enterprises have good operation, but the uncertainty about economic cycles and the country's political and

economic direction caused, by our assessment, a certain reticence with investments. Conversely, the Bank saw a stable development with private clients in all larger towns resulting in a solid increased volume of business.

Large capital gains in the first half was replaced by a fall in prices of the Bank's securities in the last part of the year, so this item in the accounts was reduced, still with a total fine surplus. At the same time the extremely low level of interest impacted the operation significantly. All in all, the year was dominated by these fluctuations but on a high operational level.

Internally, entry into service of branch buildings in Aasiaat and Ilulissat in the spring of 2014 was substantial initiatives which are already well on the way to contribute to the Bank's robust basic business.

### **Balance sheet, solvency, and dividends**

By the end of 2014 the Bank has loans of approx. DKK 2.8 billion, deposits of DKK 3.7 billion and guarantees of DKK 1.1 billion. In total a business volume which constitutes DKK 7.6 billion.

The board of directors recommends that, unchanged and for the third year in a row, dividends can be paid of DKK 55 per share or a total of DKK 99 million, as the Bank does not expect a large growth in loans in 2015. Once again this is the sector's highest dividend rate.

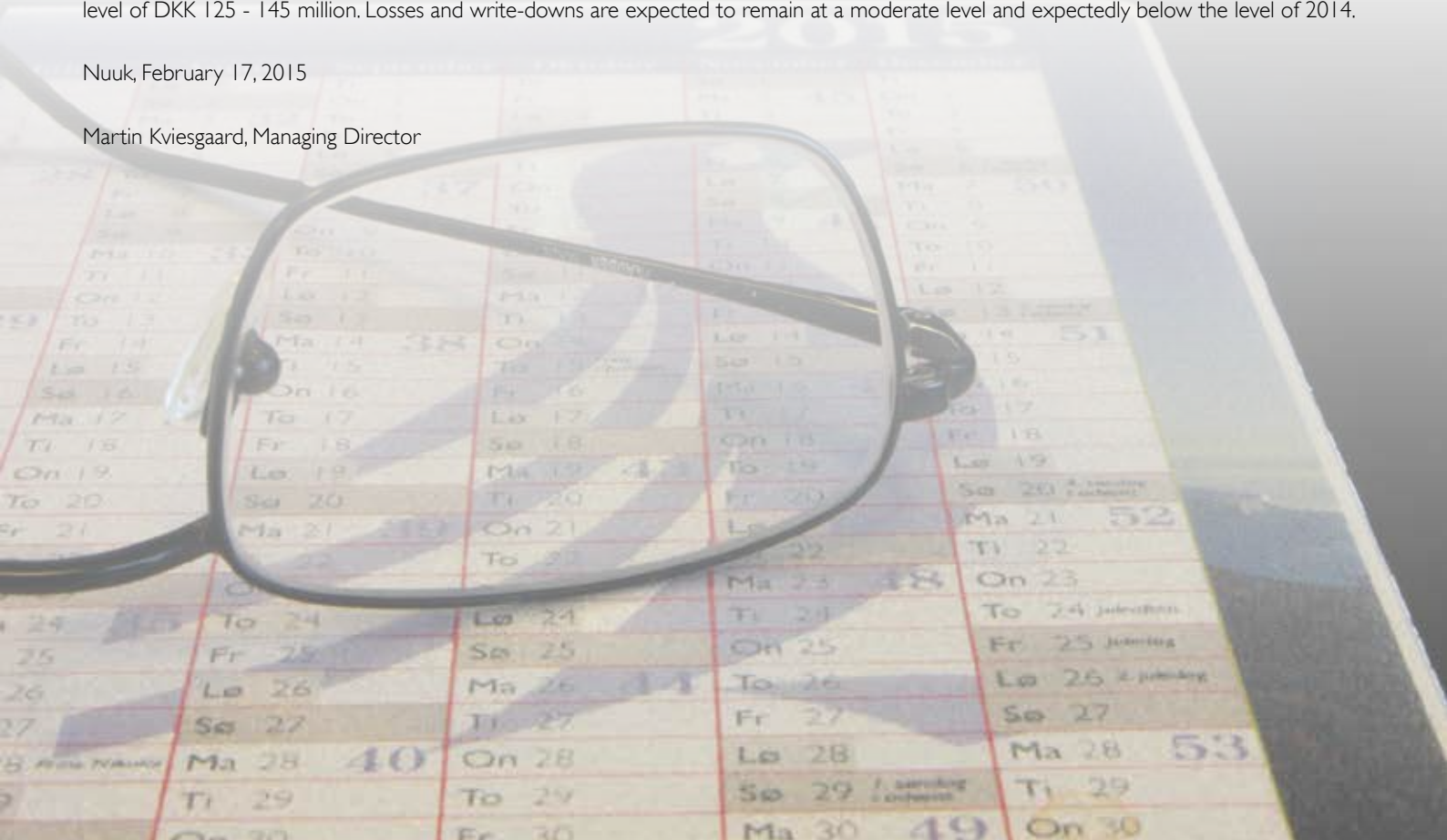
In spite of the considerable dividends, the Bank's capital ratio and core capital percentage can be made up to 20.3%. The BANK of Greenland has made up the individual solvency requirement to 10.2% and the solvency coverage thus represents 10.1%. It should be noted that with the new rules governing the revaluation reserve, solvency in the first quarter will rise with approx. 0.4 percentage points. The Bank's solvency and solvency over absorption are thus very significant.

### **Developments in 2015**

The economic development in Greenland is expected to continue to be weak, but probably not with a negative development in terms of GDP. It is The BANK of Greenland's expectations that uncertainty will remain in 2015 on the development, including developments in currencies and interest rates. Against this background, and with respect to the effects of the negative interest rate on certificates of deposit at Danmarks Nationalbank, we also are cautious in the forecast for the year with the expectation of a result before value adjustments and write-downs in the level of DKK 125 - 145 million. Losses and write-downs are expected to remain at a moderate level and expectedly below the level of 2014.

Nuuk, February 17, 2015

Martin Kviesgaard, Managing Director

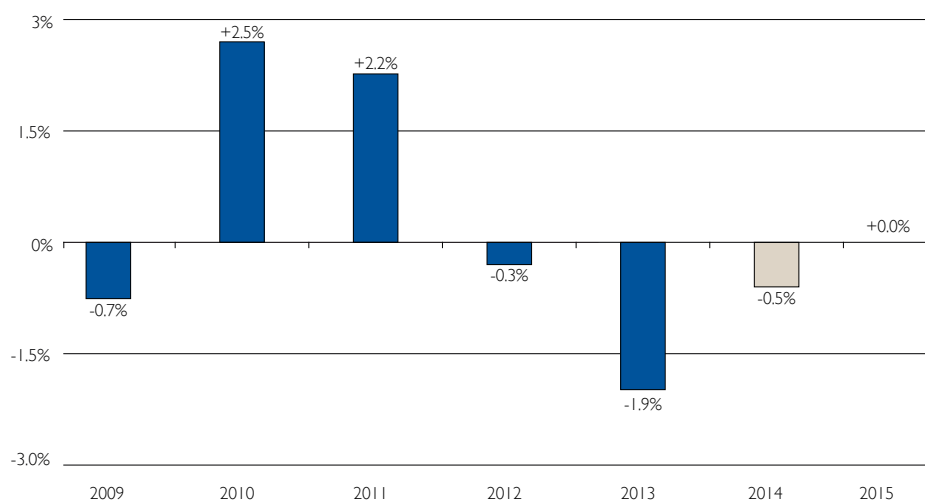






After a significant decline in the Greenlandic economy in 2013 The BANK of Greenland estimates, that there was a decline of about 0.5% in 2014. This is a more positive evaluation than the Economic Council's most recent evaluation from September 2014. The change is a.o. based on a positive effect from fishing for mackerel. The BANK of Greenland expects zero growth in 2015, see Figure 1.

Figure 1 - The greenlandic society and economy



Note: The figure shows real growth of GDP. The figures for 2012 and 2013 are provisional. 2014 and 2015 show The BANK of Greenland's estimates.

Source: Greenland's Statistics and The BANK of Greenland.

Estimates for 2015 are in the light of new information a sharp adjustment of estimated growth compared to the Economic Council's most recent estimation of + 1.5% from September. This is due to the clarity of the future shrimp quota in West Greenland being reduced with 14% compared to 2014. The Bank expects, however, that this decrease is partially offset by a.o. a progress in building compared to 2014. The development from 2014 to 2015 will also be influenced by the forthcoming finance act for 2015.

Greenland's Statistics have for 2011 lowered the growth from 4% to 2.2%. For 2012 the development of GDP is raised from previously -0.9% to only -0.3%. In 2013 the decline in particularly building and transport industries meant that the GDP fell by 1.9% compared to the year before. The large fall is Greenland Statistics' interim estimation of the development in 2013. The large uncertainties in Greenland Statistics' current estimations make assessments of the economic situation similarly difficult.

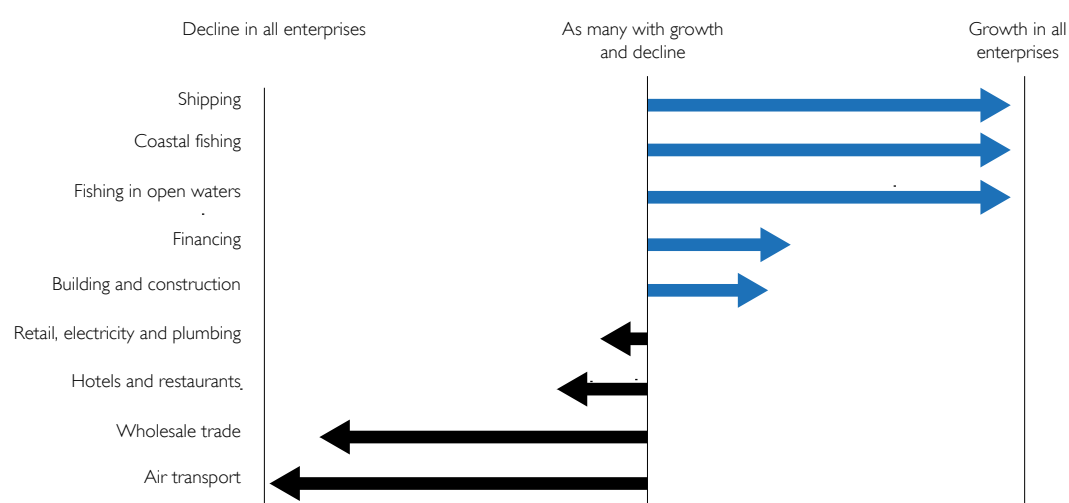




Several factors indicate that the decline stopped in 2014. The biggest single factor for the progress of 2014 was the development of fishing for mackerel. After a significant decline since the summer 2013, building and construction industry experienced a certain degree of progress in the second half of 2014, which could also be felt in the cargo industry, see Figure 2.

In a survey conducted in the fourth quarter 60% of the 65 largest Greenland enterprises indicate that their turnover increased in 2014 compared to 2013, while only 28% experienced a decline.

Figure 2 Development in the economic life in 2014 compared to 2013



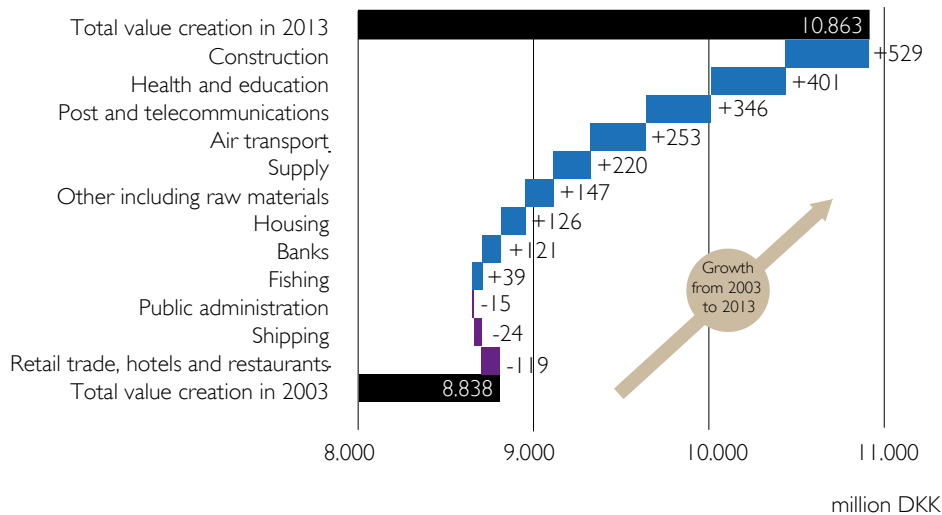
**Note:** A blue arrow in the figure means that several of the responding enterprises have indicated a progress rather than a decline. The indicator does not tell anything the size of the progress. Each quarter 350 Greenland enterprises are asked about the latest development in the enterprise. The economic cycle situation is measured as the enterprises' assessment of the development in the recent quarter and the expectations for the next quarter. The figure shows the total economic cycle indicator as an average for questions about 'Realized turnover', 'Expected turnover' and 'Investment plans' and must be interpreted as the tendency for the development. In the calculation the enterprises are weighted according to their size in terms of employment. The enterprises are expected to take into account the usual seasonal variations in their responses. It should be noted that in some industries there are very few participants.

**Source:** Copenhagen Economics for The BANK of Greenland.

Despite the decline in the last few years, the growth rates are high over a ten-year period. Growth can in particular be attributed to the resident industries, see Figure 3. Despite decreasing shrimp quota and the absence of a raw material breakthrough, Greenland as society has become richer in the past 10 years. On average the income of each citizen was approx. DKK 35,000 higher in 2013 than in 2003. In Denmark the income level is higher but in the period the growth has only been approx. DKK 4,000.

The added value is found in the building, telecommunication and air transport industries, in health care and in education. The growth can be caused by cost-effective investments, an increased education and competency level, technological progress, and the redistribution of public funds. Increased integration with the surrounding world in the form of foreign direct investment and labor force in Greenland has also influenced the development. At the same time the adverse effects of the financial crisis has been significantly larger in Denmark than in Greenland.

Figure 3 Growth during the last 10 years



Note: The figure shows gross added value (BVT) in 2005 prices.

Source: Copenhagen Economics based on Greenland Statistics.

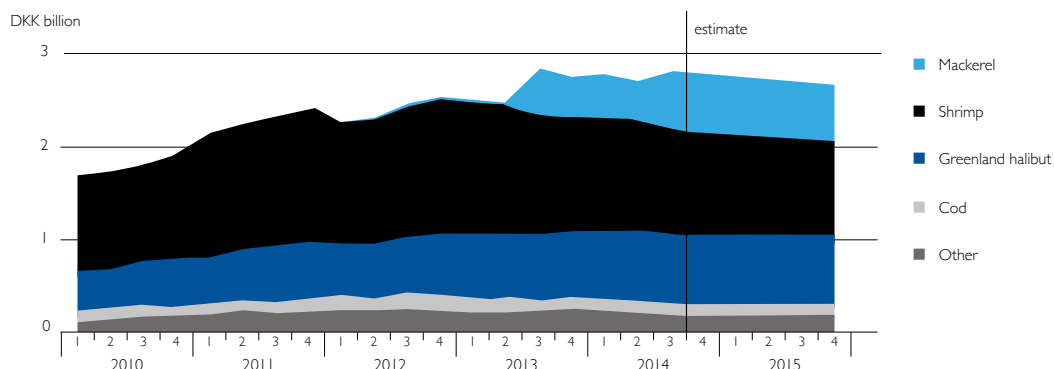
### Fishing:

Fishing is by far the largest export business and thus decisive for the total economic development. Despite continuing decline in shrimp quota, 2014 was another good year in the industry. In 2013/2014 Royal Greenland thus achieved the largest profit of DKK 199 million in the company's history. The reduction of quotas in shrimp fishing was compensated for by an increase in prices, a fine fishing of Greenland halibut, lower oil prices, and an increase of the fishing for mackerel.

In 2015 the shrimp quota in West Greenland will be reduced with 14% from 85,000 tons to 73,000 tons. The fall in quota is on its own estimated to be able to reduce GDP with up to 2 percentage points.

The main participants in the fishing industry have made or would like to make significant investments in the modernization of the fishing fleet, in particular with a view to fishing and processing of mackerel. It is, however, an essential requirement for investments of several hundred million that resources are managed sustainably. It is also significant that enterprises can expect to have access to a stable share of the TAC, and to fish and process the catch in a cost effective manner. If there is uncertainty about e.g. purchase requirements and the allocation of quotas continue, this will be obstacles to investment in the Greenlandic fishing.

Figure 4 Annual value of fishing export



Note: The figure shows the average of the last 4 quarters. The estimate is made by expectation of maintained quantities and prices compared to 2014. Included is the reduction of 14% of the shrimp quota in 2015.

Source: Greenland's Statistics and The BANK of Greenland.



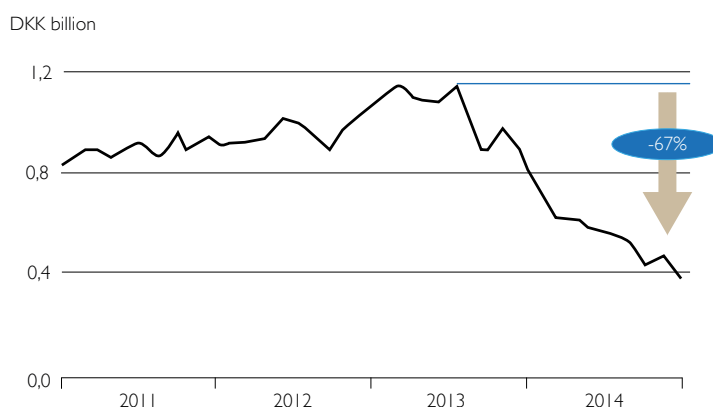
### Building and construction industry

The building and construction industry is one of the most cyclical industries in Greenland. The developments in the industry are very much politically determined, as approx. 12% of the total building activities are contracted out from the municipalities and 38% from the Self-Government. Measured as the sum of the most recent 12 months, payments from Construction and Renovation Fund have fallen with two-thirds since the middle of 2013, see Figure 5.

The decrease was especially found in Nuuk. According to the industry, expenses on maintenance on the existing housing stock have been cut, which means that the buildings fall into disrepair and that there is a lack of training places. Naalakkersuisut launched extraordinary renovation and construction works for DKK 174.2 million in 2014. These funds have particularly helped the smaller contractors. It is, however, The BANK of Greenland's estimation that these funds primarily will affect the industry and GDP positively in 2015.

In the next years two large construction projects will start in Nuuk. A new prison and a new harbor. The prison has a capital sum of estimated DKK 350 million, financed by the Kingdom of Denmark. The highest activity will be from mid-year 2015 to the end of 2016. Including the necessary infrastructure investments, the construction of the harbor will probably cost approx. DKK 500-700 million. The harbor is financed by a harbor enterprise owned by the Greenland's Self-Government, while other infrastructure is financed by Kommuneqarfik Sermersooq. When the increase in capital investments in Kommuneqarfik Sermersooq is included, these projects will mean a heavy increase in the activity level in the building and construction industry in Nuuk.

Figure 5 Payments from the Construction and Renovation Fund



Note: Each point in the figure shows the sum of the last 12 months' payments from the Construction and Renovation Fund.

Source: The Department of Finance.

The increased activity level will make heavy demands on the labor force in the industry. If there are not sufficient skilled workers available, this may mean that the jobs go to outsiders, or that wages are increased. It is therefore important that the fiscal policy and public invitation to tender are adapted to the current economic cycle situation of the industry, the municipal construction projects, and other large construction projects. The Self-Government has already taken action in this area, in particular with the adoption of a new budget cooperation agreement with the municipalities in January 2014. Better planning, execution, and management of funds in the Construction and Renovation Fund can also increase the Self-Government's possibilities to pursue a more active fiscal policy.

### Raw material

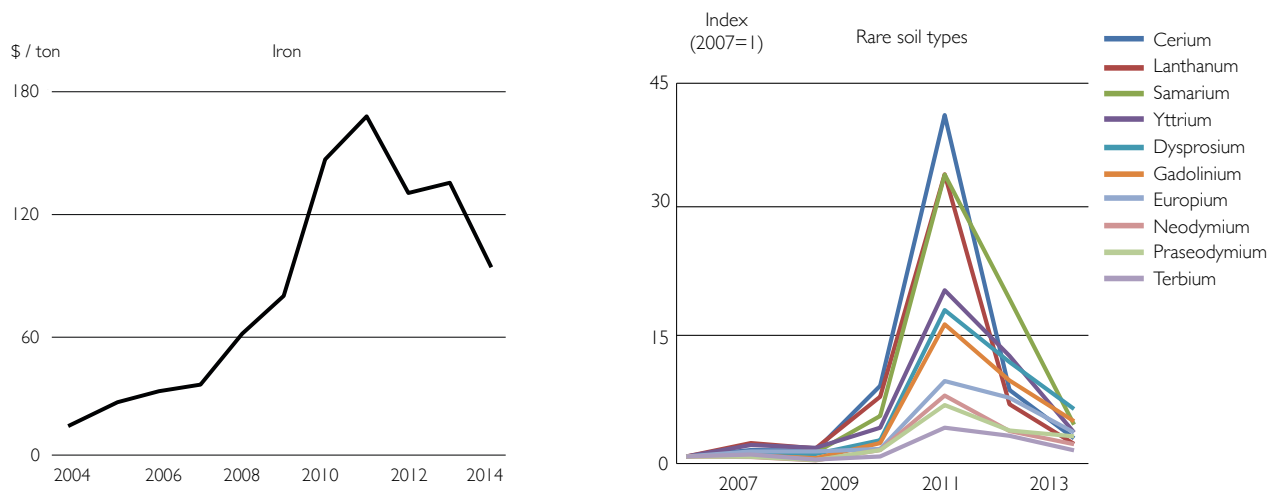
The Self-Government's Oil and Mineral Strategy has as its objective that three to five mines will be opened in Greenland before 2018. The first is now about to become a reality as True North Gems A/S in October 2014 began construction of a ruby mine at Fiskerasset south of Nuuk. The mine will have a positive local significance, but contribution to the overall growth in 2015 is expected to be limited. A large part of the economic footprint will be from the use of local subcontractors and local work places.



The next mining project could be Hudson Resources' - 'White Mountain' - anorthosite deposit at Kangerlussuaq. The enterprise has applied for development permission, which is expected to be approved before the end of 2015. Just like the ruby mine, it is a small construction work. The 'White Mountain' project will therefore primarily contribute with growth locally but may, like the ruby mine, pave the way for future large projects. Both through the experience gained by local subcontractors and the public administration, but also through the projects' signal value to foreign investors. This is not least because White Mountain has been an unusually fast process.

It is positive that the projects mentioned are advanced in spite of international recession. The prospects in the raw materials area are inseparably linked with recent years' negative development in the world market's prices. Demand has fallen and the prices of e.g. iron have fallen since 2011, see Figure 6.

Figure 6 Raw material prices



Note: Prices of rare soil types are Chinese export prices.

Source: Index Muni (iron) and Arafura Resources (rare soil types)

Although the mining concession on the iron occurrence at Nuuk has now been taken over by a Chinese enterprise, the project is far in the future. The raw material prices typically move in cycles over several decades, and this means, it could be decades from when the prices peaked as in 2011, before they reach the same level again.

That the investment climate is at freezing point in comparison to Greenlandic raw material projects is not unique. The development in Greenland follows the development, which is seen in all raw material countries, where liquidations among junior enterprises and shutdown of otherwise promising projects are everyday occurrences.

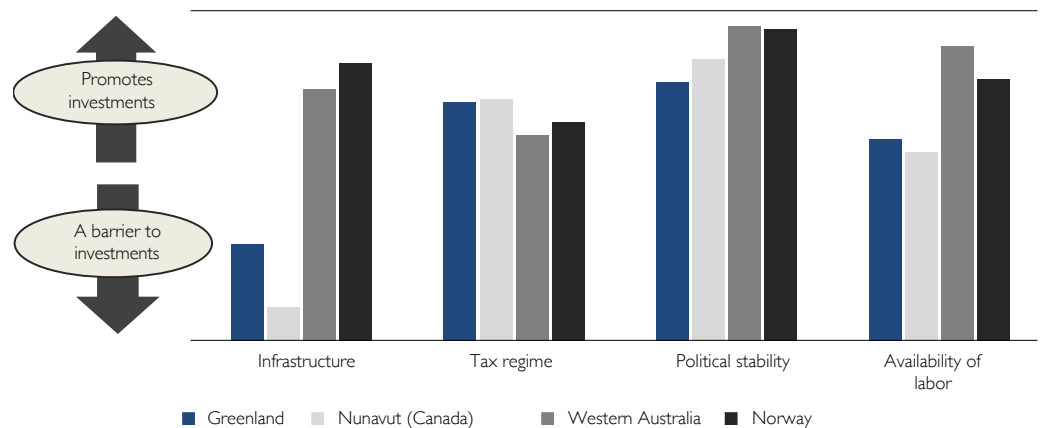
Better raw material prices and proof of at least one project in Greenland with good returns to investors will certainly be important when future investors assess projects in Greenland. In this perspective the value of the current smaller mining projects in Greenland cannot be overestimated.

Among the larger projects, it has become obvious that virtually only Chinese investors continue to show a certain interest. The BANK of Greenland considers it likely and quite naturally, that the funding can come from China. Chinese enterprises are often the leaders in processing for further use in either Chinese, American, or European industry. That Greenland is looking for investors in China is therefore logic. At the same time Chinese enterprises have a strong commercial interest in long-term agreements in the raw material area. If Chinese enterprises are looking for financing in e.g. China Development Bank counterclaims must be expected for Chinese participation during the construction phase. None of these are unnatural or new to Greenland. For example, the construction of the hydroelectric power station in Buksefjorden in 1990s took place with funding from a.o. Nordic Investment Bank and Norway's export financing institute with counterclaims for Norwegian and other Nordic participation in the construction.

To make Greenland into a mining country can take decades. Of the previous mines in Greenland only a few have been successful for investors but resulted in both jobs and income to the public funds. The investors' interest in Greenland is very sensitive to political announcements. They

quickly apply the hand brake, but release it slowly again. At the same time mining is more expensive in Greenland. The costs for wages, infrastructure, and plants are high compared to other mining nations. The investors consider these costs to be barriers to investments in Greenland, see Figure 7.

Figure 7 Mining enterprises' views on the Greenlandic framework conditions



Note: The figure shows the proportion of 690 mining enterprises, which have given the answer 'favorable to investments' or 'not a barrier for investments' to the questions. The investigation also asks for a number of other framework conditions, and Greenland is at the top of all the other parameters.

Source: Fraser Institute's Survey of Mining Companies 2013.

It is therefore not enough just to benchmark against other countries on e.g. tax rules. If Greenland wants a mining breakthrough, it must be financially attractive and the regulatory framework must be predictable and clear. At the same time it is necessary to ensure an effective and strong administrative structure in the Self-Government or to ensure similar strong backing from competent advisors. In this connection it is positive that Naalakkersuisut will establish an international team of advisory experts. It is of course significant that there is no compromise on environmental standards compared to e.g. other developed mining countries.

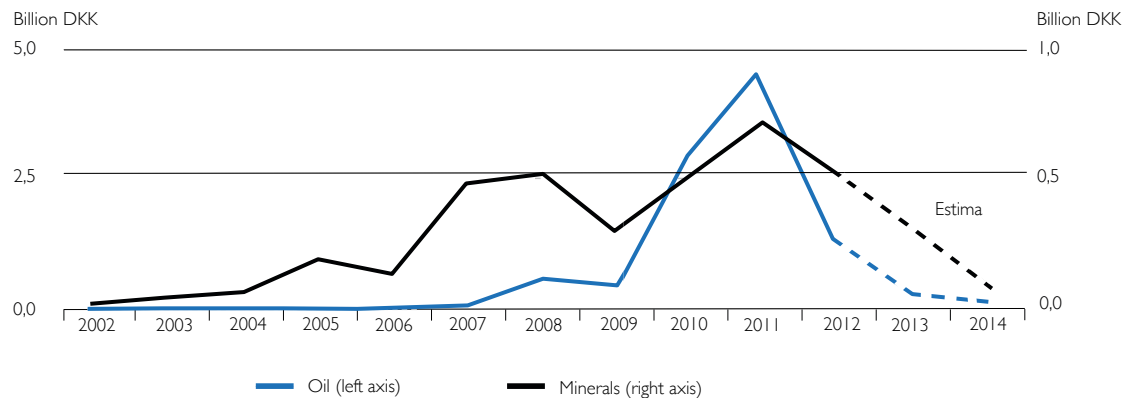
At the same time it must be clear that raw materials only have value if they are extracted, and that the persons doing this also have to make money on it. Professor Minik Rosing described this very aptly on November 26, 2014 in a chronicle of a Danish newspaper: "However, there are real examples that enterprises have extracted poor countries' natural resources without creating value to the countries' populations, but there are many more examples that private enterprises' extraction of mineral raw materials has created work places and economic prosperity. There are, however, no examples that natural resources have created value for the society without anyone has made money to develop the industry".



### Investigative activities

The prospects of the oil area are more dismal than of the mineral area. After Cairns' test drilling in 2010 and 2011, oil exploration in Greenland is now greatly reduced, see Figure 8.

Figure 8 Exploration expenditures



Source: Bureau of Minerals and Petroleum (BMP) up to 2012, hereafter own estimates based on interviews with the industry.

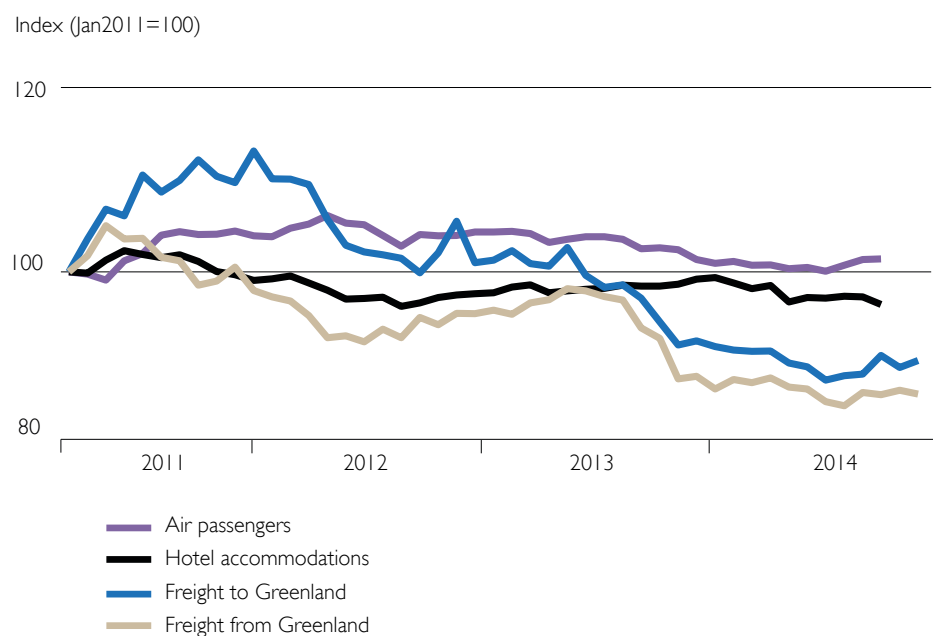
The stagnation of the exploration in both the oil and the mineral area is expected to continue over the next few years, even though new licenses have been issued and the preparatory work is continuing in 2014 as well. The declining interest in oil exploration is a.o. due to large oil and gas discoveries in other places, and the fall in the oil price. Of importance can possibly also be the administration and regulation of the area so far have not been regarded as sufficient by several persons in the industry.

### Transport and tourism

The decline in oil exploration has affected Air Greenland's earnings from charter business in 2013 and 2014. There has been no growth in the route market since 2011, see Figure 9.

Royal Arctic Line is affected yet harder by economic recession. The decline in building from mid-year 2013 to mid-year 2014 resulted in smaller amounts of goods to Greenland. The outbound volumes also went down in 2013 as a result of lower fishing quotas. The quantities are probably stabilized in the course of 2014. As is the case for the number of air passengers, this is also the case for the number of overnight stays in the country's hotels, that there has not been growth for several years.

Figure 9 Freight volumes, air passengers, and hotel accommodation



Note: The figure shows 12 months' backward moving average. 'Air passengers' indicates the number of people flying from Greenland.

Source: Greenland's Statistics and Royal Arctic Line

One of the possibilities of changing this tendency is Add on-tourism to the already large Icelandic tourism. The idea is that Icelandic tourists will spend some of the holiday in Greenland. During recent years several new routes have opened from Iceland, and it is a positive sign that Air Iceland in this connection uses many resources marketing Greenland abroad. Increased tourism must, however, be attracted by investments in facilities and tourism products.

Building of airports and extensions of runways is another way to increase the accessibility to Greenland. The plans for building airports take up much space in the coalition agreement. The BANK of Greenland considers it positive that there is openness to foreign investment in this area. It is of vital importance that the investments are both economically sound and do not increase the risk of the fiscal tenability.

In Ilulissat, for example, investments in the runway will also require investment in hotels, restaurants, and other infrastructure in order to realize the potential. The public funds should not be required to assume liabilities in this connection or in any other commercial projects.

The construction projects, which should be given priority over a ten-year period through funds from Landskassen, such as harbor, airport, or hydroelectric power stations, are among the most important decisions to be made in the Self-Government. It is essential that you hit the mark on a socio-economic informed and attractive basis. This has previously been formulated in the Self-Government's debt and investment strategy, and it is essential that the principles of this are followed.

### **Housing market**

The Greenlandic housing market continues to be divided into a still larger market in Nuuk and to a certain extent in the main coastal towns. In small towns and villages there is in fact no actual market, which makes for example long-term mortgage credit financing impossible. In these small towns and villages the purchase of real estate will mainly be based either on public loan facilities or banks' loans based on the family's ability to pay and not on the asset's (the house's) value. On the other hand, there is also access to financing, and The BANK of Greenland is also giving financing in these places.

In Nuuk and the larger towns the housing market is affected by general supply and demand conditions. It is the Bank's assessment that market fluctuations for a number of years have been quite modest. This has contributed to an increased desire to be a homeowner in the large towns and, in particular, in Nuuk.

The most significant reasons for this relatively stable development in the past 10 or 15 years are attractive forms of loans from the authorities, access to a cheap mortgage credit system, as well as a very small sensitivity among homeowners to unemployment. In addition, mortgage loans in Greenland mainly take place with fixed interest rate and repayment. Housing prices and homeowners' ability to pay are thus minimally affected by interest rate fluctuations.

The BANK of Greenland agrees with Naalakkersuisut on the importance of increasing the number of families living in their own homes. In this respect it is important that the authorities who rent out do not rent out at rental prices under the real price. If the authorities want to consider weak income groups, this must be done through housing benefit or similar and not by artificially low house rents.

It is also important that the public house building takes place where the need is the largest, and that house building is not made, where population growth is negative, and where there are already vacant houses. At the same time it is essential that the authorities do not suddenly make significant changes in the housing market, e.g. massive sales of houses. Also in this area, stable framework conditions are essential, even if the Bank also supports the need for a balanced housing reform, which inevitably will affect the situation of both the current and future tenants and owners of houses.

### **Consumption and public finances**

In recent years many things indicate a change in the private consumption. Sale of major consumption good, as e.g. in Nuuk, is progressing slowly. Car dealers sell a bit more, but primarily the cheapest models. Retail trade has felt a decline in the top brands and a progress in the discount goods, and at the same time sale of tobacco and alcohol has fallen. The total consumption is therefore unchanged or has fallen slightly. The changed consumption pattern can be an expression of recent years' recession, but also that a larger proportion of income especially in Nuuk is used to own homes. The most recent collective bargaining furthermore did not give any rise in real wages, which on the other hand is a benefit for the country's competitiveness. But of even more importance for the private consumption can be an increased uncertainty about the future for the individual person.



A high risk of unemployment is a typical explanation of modest consumption. In relation to recent years, the unemployment has fallen in the second half of 2014.

Apart from the introduction of monthly quotas and the increase of quotas in fishing of Greenland halibut, the extraordinary advance of construction funds in the summer 2014, which had control of unemployment as principal objective, may have played a role in the recent positive development. There has furthermore been some moving away from Greenland, which has also meant a reduction in the number of job seekers.

Tax and welfare systems are designed to take the economically disadvantaged into consideration and compensate for the differences in people's economic performance. This compensation, however, reduces the economic incentives to seek employment in such a way, that the effective marginal tax rates on work today are 100% for more low-income groups in the population. The coalition agreement paves the way for reform of the tax and welfare area through the introduction of a employment allowance and changed requirements for public services. The BANK of Greenland finds the initiatives interesting as they increase the incentive to work, but at the same time they may be expensive.

The lower unemployment benefits the public finances, but advance of the construction funds also had an impact on the public balance in 2014. At budget follow-up in September the expected Operation, Construction and Loan balance (DAU) showed a significantly larger deficit for the whole of 2014 of approx. DKK 250 million against a budgeted profit of DKK 46.5 million.

The increased construction costs are granted by Inatsisartut and are thus a deliberate political choice. The other part of the deficit can be explained by lower than budgeted income from import duties on alcohol and tobacco, mackerel duty, and from the country tax, as well as a.o. less proceeds than expected from the sale of houses. A part of the deficit shows, that budgeting, which took place in May 2013, was too optimistic. At the same time it is worrying that the provincial treasury in 2014 has been positively influenced by very large one-off payments from a.o. Royal Greenland. Payments affecting the provincial treasury's accounts in a positive way, but which will not return again.

That said, the expected deficit of the DAU balance in 2014 of almost 2% of the GDP is manageable. For comparison (although the figures are not 100% comparable) the Danish State has had an annual deficit of 2.4% of GDP in average since 2009. At the same time municipalities' and Self-Government's gross debt in Greenland is 6% (net debt is 0%), and including public enterprises in 2014 in total estimated 27-30% of GDP compared to an average in the Euro area of 91% and a Danish level of 45% of the GDP (2013). It is therefore not possible, on the basis of the size of the deficit or the debt of the public funds, to determine that Greenland has significant economic problems.

There is, however, a considerable need for reforms to ensure fiscal sustainability, and this is where the challenges - among others - lie. In future it will be more difficult to create a coherent finance act in line with many people leaving the labor market as a result of old age, and that the block grant from Denmark being eroded. At the same time income from Thule Air Base from 2016 onwards is reduced. A warning of postponing reforms must therefore be made.

At the same time the municipalities' economy is not doing well. Through continuous monitoring of the municipalities in recent years, Naalakkersuisut found significant reductions in local cash. As part of a recovery plan Kommuneqarfik Sermersooq has reduced operating costs by streamlining workflow and closing down or restructuring 75 positions. The other municipalities have also had to dismiss employees. In Sermersooq a more realistic construction portfolio than earlier is followed, but we expect to continue investing in house building.

#### **New Naalakkersuisut**

In the coalition agreement of December increased subsidization of utility services is planned in order to lower the high Greenlandic cost level. The BANK of Greenland considers, in a socio-economic context, that this is a disturbing way to go. It requires a



Morten F. Jensen

more analytical process to determine whether the socio-economic benefits from a lower price level exceed the direct costs of increased subsidization. Even more worrying is the fact that subsidization freezes sectors and restricts future competition, innovation, etc. as the technology and the outside world are changing.

In the coalition agreement a more competitive corporate income tax and depreciation rules are planned that match the Nordic countries. The proposal can increase private investments but must determine an assessment of the impact and a specific plan for funding of the initiatives.

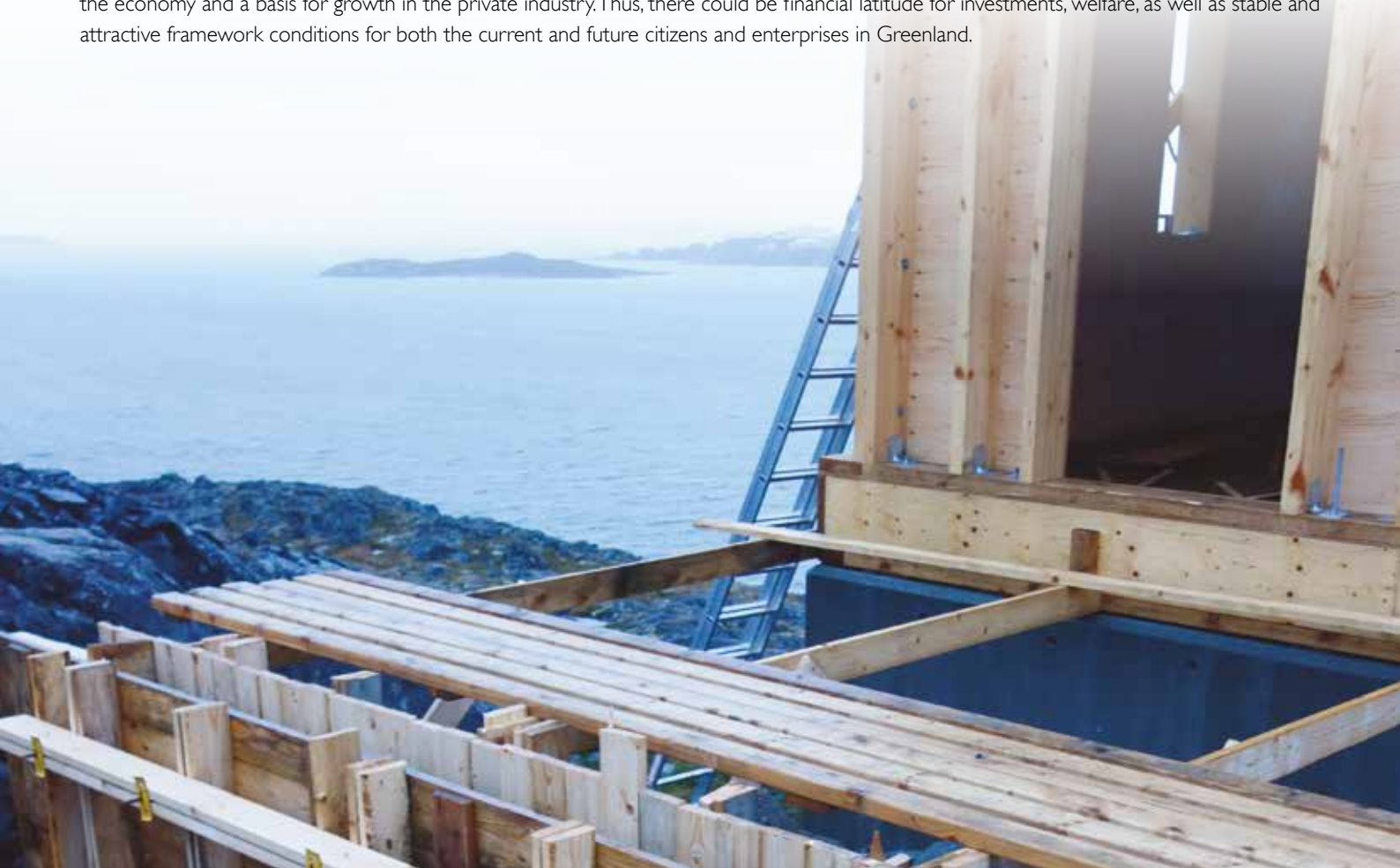
The fundamentally important educational area is also dealt with in the coalition agreement, and The BANK of Greenland has noted that Naalakkersuisut will await the current evaluation. It is positive if evaluation is used to raise the level of ambition for primary schools, ensure higher quality, and that far more children go through primary school at a high level.

A review of the coalition agreement shows approx. 120 concrete proposals for action. Of these the Bank estimates, that up to 70 proposals will result in a direct cost for the public funds, while less than 10 will improve the public funds.

Danish Economic Councils and the Tax and Welfare Commission have previously strongly recommended a number of reform areas. The coalition agreement states that it is the intention to implement reforms. Content of reforms is not directly specified, just as it is not clear if the schedule for reforms, referred to in "Political-Economic Report 2014", will continue to be followed.

The BANK of Greenland is aware of the fact that the legislative work takes time and that the new Naalakkersuisut in these months is in the process of this, just like a finance act for 2015 must be presented. It remains, however, that with so many costly measures, as mentioned in the coalition agreement, it seems too impossible economically, administratively, or politically complete these in one election period. For this reason, it will in the coming sessions in Inatsisartut be of the utmost importance, which of the many measures in the coalition agreement really will be prioritized.

The BANK of Greenland requests that the prioritization starts with broad political agreements on reforms with a view to create a balance in the economy and a basis for growth in the private industry. Thus, there could be financial latitude for investments, welfare, as well as stable and attractive framework conditions for both the current and future citizens and enterprises in Greenland.



### The BANK of Greenland in Brief

In 1967, a group of Danish banks founded The BANK of Greenland. Its first annual general meeting was held on 26 May 1967 at the offices of the Association of Danish Banks in Copenhagen. The first bank in Greenland was thus a reality. The bank opened for business on 1 July 1967.

Nine months previously, Bikuben (re-established as Nuna Bank in 1985) had established a branch office in Nuuk. In 1997, The BANK of Greenland and Nuna Bank merged.

### The Mission of The BANK of Greenland

The BANK of Greenland operates banking business in Greenland in open competition with domestic and foreign credit institutions. The BANK of Greenland supplies consultancy and financial services to all the inhabitants of Greenland. The BANK of Greenland works to create efficient and up-to-date payment and capital transfers throughout Greenland with a view to ensuring the bank's shareholders a long-term, uninsured and competitive return on their investment.

The bank's mission must be seen in a broad perspective whereby The BANK of Greenland is perceived as The Bank of All Greenland. Such a predicate leads to an expanded sense of responsibility to participate positively and actively in developing the society. It also leads to efforts to create opportunities in Greenland while, at the same time, to ensure a robust financial enterprise. The BANK of Greenland is extremely aware of its role here.

### The Values of The BANK of Greenland

The values of The BANK of Greenland are solidly based in the bank and its employees. These values are Commitment, Room for Diversity, Decency and Competency. These values act as a guide for the manner in which we wish to be perceived within and outside the bank.

### The Strategy, Vision and Objectives of The BANK of Greenland

Every year, The BANK of Greenland formulates a strategy to support its vision and objective of being "The best company in Greenland". In 2013, systematic employment of scenario-thinking became part of this strategy, including analyses and approaches for the bank in extreme growth or low-growth scenarios. This strategy, discussed by the Board of Directors, establishes the bank's main focus areas for the coming year, and formulates a comprehensive action plan. The bank seeks to involve all its employees in contributing to efforts to lift the bank on its way towards achieving its stated objectives of being "The best company in Greenland."



The BANK of Greenland thus wishes to ensure on-going positive development of its activities through a balanced focus on four main areas: **customers, employees, social responsibility and finances**. These main goals are measured annually, and are continually adjusted.

The BANK of Greenland's focus on **customers** will be reflected in the bank's efforts to ensure optimal customer satisfaction and image. These two factors are measured every year by means of independent studies. Customer service and consultancy are kept up-to-date by means of proactive behavior in the bank's consultancy services, availability, customer service, customer meetings, and marketing.



The BANK of Greenland wishes to develop its **employees** and to foster their involvement, loyalty and stability so that The BANK of Greenland will, in future, remain an attractive employer. We achieve this goal by focusing on conditions of employment, skill development, on-going employee involvement and other initiatives that will increase employee satisfaction at The BANK of Greenland. Employee satisfaction, as is our customers', is measured every year.

**The social responsibility** of The BANK of Greenland is becoming more visible and well-developed in these years. This has been demonstrated by the bank's co-founding of CSR Greenland, an association that has contributed to ensuring continued focus on, among other areas, cooperation on environment e.g. the Saligaatsoq project. Furthermore, CSR Greenland's commitment has been secured through dialogue with major players in the Greenlandic business community. In addition to its involvement in CSR Greenland, the BANK of Greenland's own social responsibility program, Pakkusineq, has also specifically focused on the banks' core competencies; dedicated employees with a willingness to share their skills on a voluntary basis, professional financial consultancy services and an objective to improve access to advisory services and loan financing. This work will continue and expand into new areas. In 2013, The BANK of Greenland became a member of the UN Global Compact (UNGC). This membership will contribute to the bank's efforts to set an agenda for the work that must be done in order to create complete compliance with the ten principles of UNGC.

The BANK of Greenland's social responsibility is described in more detail later in this report as well as in a separate annual report "The Social Responsibility of The BANK of Greenland 2014".

The BANK of Greenland keeps a close watch on its operations and **finances**. Our main goals are continued efficient operations measured as "earnings per expense krone" and base earnings that meet the sector's benchmark.

By means of balanced control of objectives within each of the four main areas: **customers, employees, social responsibility and finances**, The BANK of Greenland will ensure that we continue to be the preferred bank for our customers, shareholders and employees. If the milestones for each main area are met, we believe that The BANK of Greenland will be able to live up to its vision as "the best company in Greenland".

As previously mentioned in 2013, the Board of Directors at The BANK of Greenland has made an analysis of which possible scenarios the society of Greenland can develop into. The purpose of this analysis was to set markers for which initiatives the bank should take in order to achieve the best possible yield from each particular scenario.

The stagnation in the Greenlandic economy requires that initiatives must be taken to maintain the Bank's market position and opportunities, being a continued player in Greenland. This means that the Bank must take full advantage of all the options locally and create the possibilities themselves. A decision to work in a more structured way with innovation in order to become better at getting good ideas and working structured with these has been made. The goal of innovation is to future-proof the Bank. Innovation in The BANK of Greenland means that new ideas must contribute to the Bank continuing to match the customers' increasing needs, but also to create solutions to new needs.







# Summary of the financial highlights

(DKK 1,000)

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	2014	2013	2012	2011	2010
Net interest and fee income	293,457	275,750	277,818	253,475	235,234
Value adjustments	7,687	4,039	11,247	-28,976	3,237
Other operating income	3,750	3,148	3,464	2,725	7,033
Expenses for employees and administration	136,440	130,422	126,636	118,194	109,904
Depreciation and write-downs of tangible assets	9,160	10,385	10,838	12,422	12,318
Other operating expenses	3,054	3,443	2,192	5,283	11,224
Write-downs on loans etc.	24,807	15,186	17,322	12,470	14,581
<b>Result before tax</b>	<b>131,433</b>	<b>123,501</b>	<b>135,541</b>	<b>78,855</b>	<b>98,761</b>
Tax	41,776	39,251	43,093	24,894	31,570
<b>The year's result</b>	<b>89,657</b>	<b>84,250</b>	<b>92,448</b>	<b>53,961</b>	<b>67,191</b>
<b>Selected balance sheet items:</b>					
Loans	2,814,547	2,874,931	3,044,942	3,063,171	2,925,287
Deposits	3,739,768	3,996,169	3,777,449	3,748,395	3,419,185
Net capital	909,872	876,235	850,954	793,859	759,974
Balance sheet total	4,849,621	5,057,050	4,826,104	4,815,877	4,536,269
Contingent liabilities	1,093,349	873,112	889,344	836,399	908,820
<b>Official key figures:</b>					
Capital ratio	20.3	21.0	20.2	20.1	19.8
Core capital ratio	20.3	20.6	19.7	19.5	19.2
Return on equity before tax	14.7	14.3	16.5	10.1	13.6
Return on equity after tax	10.0	9.8	11.2	6.9	9.2
Income per cost krone	1.76	1.77	1.86	1.53	1.65
Interest rate risk	1.3	0.6	1.2	1.0	1.2
Foreign exchange position	3.1	4.2	7.1	3.0	1.2
Loans plus write-downs in relation to deposits	77.5	73.6	82.3	83.3	87.2
Loans in relation to equity	3.1	3.3	3.6	3.9	3.8
The year's loan growth	-2.1	-5.6	-0.6	4.7	4.6
Excess capital base compared to legal requirement for liquidity	190.7	219.5	198.0	201.1	231.2
The sum of large exposures	40.0	58.7	93.2	110.7	115.4
Share of amounts receivable with reduced interest rate	0.7	0.9	1.4	1.7	0.9
The year's write-down percentage	0.7	0.4	0.5	0.4	0.4
Cumulative write-down percentage	2.4	2.0	1.6	1.5	1.7
Rate of return	1.9	1.7	1.9	1.1	1.5
Result for the year per share	49.8	46.8	51.3	29.9	37.3
Book value per share	505	494	482	450	425
Dividend per share	55	55	55	30	10
Stock exchange quotation/the year's result per share (PE)	12.3	14.1	11.1	9.9	12.7
Stock exchange quotation/book value per share.	1.2	1.3	1.2	0.7	1.1



### Income statement

Net interest income has risen in 2014 with DKK 9.798m to DKK 213.865m. The Bank's investment in more bonds in the beginning of 2014 and slightly lower funding costs are the primary reason for the increase. During the first half of 2014, we have seen a slight increase in loans, but by the end of 2014 we have seen an overall fall in loans compared to the end of 2013.

Fees and commission income also show an appreciable increase of DKK 8.268m to DKK 79.324m. Increases are found in all items in 2014. Guarantee commissions have increased due to higher volumes, and clients' trades with securities have also increased in 2014. A decent increase is seen in fees on loan cases mainly due to loan conversions in Q4 2014.

Value adjustment on securities and currency represent a profit of DKK 7.687m against a profit of DKK 4.039m in 2013. The gain is primarily due to profit on shares with DKK 14.268m, where a capital gain on the Bank's holding of shares in Sparinvest Holding was recognized with DKK 7.607m in Q2. Furthermore, a gain of DKK 5.514m has been recognized for the Bank's sale of shares in Nets. The Bank's holding of bonds has during Q4 2014 resulted in a large capital loss which at the end of 2014 in total for the year constitutes DKK 9.756m.

Other operating income is DKK 3.750m against DKK 3.148m in 2013.

Selected main and key figures (figures not audited).

(DKK 1,000)	4th quarter	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	2014	2014	2014	2014	2013	2013	2013	2013
Net interest and fee income	73,324	75,724	75,867	68,542	69,477	67,934	69,866	68,473
Costs and depreciation	37,258	35,546	37,114	38,736	38,724	35,160	35,426	34,940
Other operating income	878	1,295	794	783	507	929	592	1,120
Result before value adjustments and write-downs	36,944	41,473	39,547	30,589	31,260	33,703	35,032	34,653
Value adjustment	-10,295	1,226	8,987	7,769	4,088	2,314	-2,935	572
Write-downs on loans etc.	10,768	5,513	4,807	3,719	4,304	2,186	5,564	3,132
Pre-tax result	15,881	37,186	43,727	34,639	31,044	33,831	26,533	32,093

The total costs and writing off are increased with DKK 4.404m or 3.1% to DKK 148.654m. The increase is primarily on other administrative costs which have increased with DKK 4.721m. Hereof DKK 2.220m is an increase of IT costs. The cost of advertising and marketing has increased with DKK 1.241m. Employee expenses have increased with DKK 926m and are primarily due to increase obtained through collective agreements, as well as a.o. the full effect of the establishment of the Asiaat branch. Depreciation on buildings and furniture and equipment has fallen with DKK 1.225m. This is primarily caused by fewer depreciation of furniture and equipment, where the Bank's large investment in 2009 now has been fully depreciated.

Write-downs on loans etc. are DKK 24.807m, which is an increase of DKK 9.621m in relation to 2013. The increase should be seen in the light of the fact, that the Bank's management has increased management reserve of the group write-downs. In the light of the weak economic cycles, we believe that an increase of the write-down reserve is appropriate and sound. The level of write-downs and provisions is still limited with 0.7% of the Bank's loans and guarantees. Furthermore, it is positive that the individual write-downs fall compared to 2013.

Result before value adjustments and write-downs have increased to DKK 148.553m against DKK 134.648m in 2013.

The result thus ends up a bit higher than the Bank's expectation in October 2014, where the Bank expected a result in the high end of the previously announced interval of DKK 125 - 145 million.

Result before tax shows DKK 131.433m against DKK 123.501m in 2013.

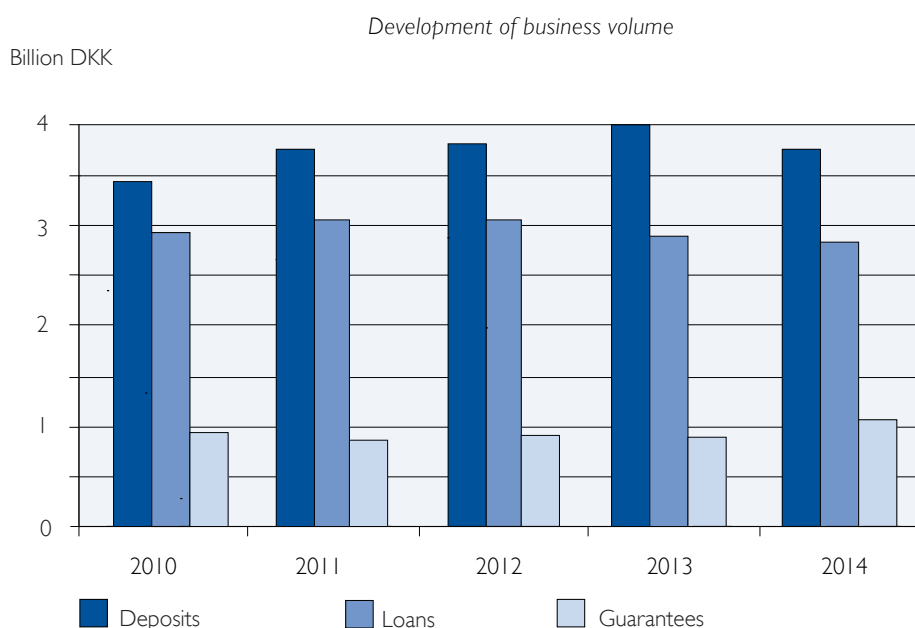
Tax is calculated with 31.8% of the result before tax adjusted for non taxable income and non deductible expenses, and the result hereafter constitutes DKK 89.657m in 2014.

### Balance sheet and net capital

The BANK of Greenland's balance sheet constitutes DKK 4,849.621m which is a fall of DKK 207.429m in relation to 2013. Deposits have fallen from an exceptionally high level in 2013. Deposits have fallen with DKK 256.401m in 2014 to DKK 3,739.768m. The dominant part of the Bank's deposits is on demand funds. The BANK of Greenland sees a very stable deposit base and the excess of deposits remains comfortable.

Loans have fallen during the year with DKK 60.384m to DKK 2,814.547m after a small increase in the first half of the year. The fall is primarily due to smaller withdrawal from business clients' credits at the end of 2014. In addition, the Bank has in 2014 continued reducing the sum of large exposures.

The guarantees, on the other hand, have risen significantly with DKK 220.747m to DKK 1,091.502m.



The total business volume then shows a fall of DKK 96.038m to DKK 7,645.564m.

Net capital is made up to DKK 909.872m against DKK 876.235m at the end of 2013. Share capital is DKK 180.000m. The Bank has not taken out additional, state hybrid, or other liable loan capital.

Capital percentage, which is calculated to 20.3 against 21.0 in 2013, is in 2014 reduced with 0.4% due to amended rules for revaluation reserves, which in 2014 cannot be included in the capital base. Revaluation reserves will in 2015 again be included in the capital base.

### Uncertainty of recognition and measurement

The main uncertainties of recognition and measurement are related to write-downs on loans, provisions on guarantees, as well as valuation of unlisted securities, properties, and financial instruments. The management estimates that the uncertainty at presentation of accounts for 2014 is at a level that is sound.

### Financial risks

The BANK of Greenland is exposed to various financial risks, which are controlled at different levels in the organization. The Bank's financial risks are made up of the following:

Credit risk: Risk of loss as a result of debtors' or counter-parties' default on signed payment liabilities.

Market risk: Risk of loss as a result of the market value of financial instruments and derivative financial instruments fluctuating as a result of changes in market prices. The BANK of Greenland reckons three types of risks to the market risk area: interest rate risk, foreign exchange risk, and shares risk.

Liquidity risk: Risk of loss as a result of the financing costs increasing disproportionately, the risk that the Bank is prevented from maintaining the agreed business model as a result of the lack of financing/funding, or ultimately the risk that the Bank cannot meet agreed payment liabilities when due as a result of the lack of financing/funding.

### Capital requirement

In accordance with the legislation The BANK of Greenland must have a capital base supporting the risk profile. The Bank of Greenland has chosen to make up the credit and market risk according to the standard method and operational risk according to the basis indicator method. It is still the Bank's assessment that there is no need for the use of more sophisticated methods. As regards risk management, reference is made to note 2.

With the introduction of the new rules to capital in financial institutions as per January 1, 2014, there has been an increase of the level of net capital, just as further requirements for liquidity and gearing will be made in the long term. The new capital rules are based on CRD IV and CRR. As The BANK of Greenland's capital base mainly consists of pure core capital, the intensification will not have significant impact on the Bank. The BANK of Greenland already now lives up to the fully implemented requirements in 2019.

In accordance with the Danish Financial Business Act the board of directors and the executive management must ensure that the Bank has an adequate capital base. The capital base is the capital which, according to the management's assessment, as a minimum is needed to cover all risks.

The estimation of the solvency need is based on statutory order on estimation of risk exposures, capital base, and solvency requirement, and on the Danish Financial Supervisory Authority's instructions hereof. On the background of the calculated capital requirement, the Bank has estimated an immediate over absorption of DKK 411.302m, which makes up the difference between the existing capital requirements (solvency requirement) and the actual capital (capital percentage).

The Bank has estimated the solvency requirement according to a 8+ approach similar to the Danish Financial Supervisory Authority's preferred method.

#### The BANK of Greenland's estimated capital and solvency requirement according to the 8+ model

In DKK 1,000	2014		2013	
	Capital requirement	Solvency requirement	Capital requirement	Solvency requirement
Column I risk	325,338	8.00%	308,743	8.00%
Credit risk	62,556	1.54%	64,424	1.67%
Market risk	10,078	0.25%	0	0.00%
Operational risk	5,000	0.12%	10,000	0.26%
Other conditions	11,533	0.28%	19,014	0.49%
<b>Capital and solvency requirement</b>	<b>414,505</b>	<b>10.19%</b>	<b>402,181</b>	<b>10.42%</b>

It is the management's assessment that the capital is sufficient to cover the risk associated with the Bank's activities.

The BANK of Greenland thus expects to be able to fully live up to the requirements, why the financial statements are presented as a going-concern.

Reference is made to The BANK of Greenland's website for a description and elaboration of the capital requirement, as well as the method of accounting for 2014. Reference is also made to the Bank's statement on risk management 2014 on <http://www.banken.gl/report/>.

### Liquidity

The BANK of Greenland has for many years had a comfortable excess of deposits, and with a liquidity over absorption, based on the current requirements, at 190.7% at the end of 2014 corresponding to DKK 963.027m. The Bank thus still has a solid funding structure.

The BANK of Greenland has since Q1 2014 reported the new requirements for liquidity (LCR) in accordance with the new rules for capital funding, but must first comply with these from October 1, 2015, when they are phased in over time to 2018. The BANK of Greenland already now complies with the requirements.

### The supervisory diamond

The BANK of Greenland has taken a position on the benchmarks in the Danish FSA's supervisory diamond. The diamond indicates five milestones for banking, and it is the Bank's objective to live up to these.

The Bank's business model determines that the sum of large exposures should not exceed 100% of the capital base. The sum of large exposures is 40.0% as per December 31, 2014.

The BANK of Greenland has property related exposures with publicly-owned companies (part of public authorities in industrial distribution of the bank's loans). These involvements are not included in the statement of property exposures in the supervisory diamond.

#### Sum of large exposures

(less than 125% of the capital base)  
The BANK of Greenland 40.0%

#### Loans growth

(less than 20% per year)  
The BANK of Greenland -2.1%

#### Property exposure

(less than 25% of loans and guarantees)  
The BANK of Greenland 14.3%

#### Liquidity excess capital base

(larger than 50%)  
The BANK of Greenland 190.7%



#### Stable funding

(loans/working capital minus bonds with a residual maturity less than 1 year)  
Limit value: less than 1  
The BANK of Greenland 0.6

### Shareholders

The BANK of Greenland's overall financial objective is to realize a competitive return on investment to the shareholders.

The price of The BANK of Greenland's shares has during 2014 fallen from 662 to 612. The BANK of Greenland recommend to the general meeting, that payment of dividends for 2014 will be as in the previous two years, so that DKK 55 per share will be paid or a total of DKK 99 million. It should be noted that in Greenland tax deduction is given for dividends to the paying enterprise.

At the end of the year The BANK of Greenland had 2,771 shareholders, of which 1,082 are resident in Greenland. Six shareholders have notified shareholdings of more than 5% in accordance with the Companies Act section 28a, see (page 62).

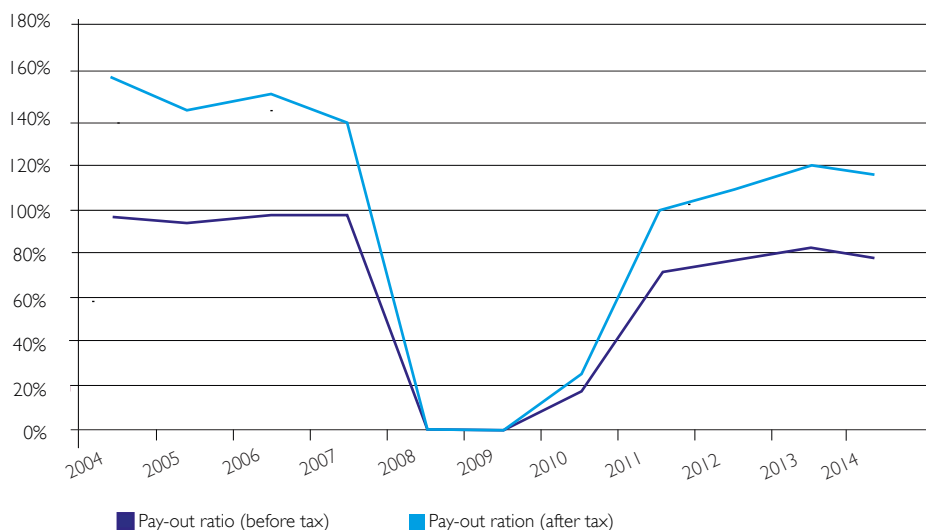
### Dividend policy

The BANK of Greenland has an objective of continually distributing dividends to its shareholders proportionate to the Bank's expected operating and balance development, tax optimization, regulatory requirements for solvency, and the shareholders' expectation of cash flow. It is still



the board of directors' objectives, that The BANK of Greenland's capital percentage is approx. 8 to 10 percentage points above the Bank's individual solvency requirement. Due to the expectation of SIFI-designation, the board of directors estimates that an over absorption of 10.1 is acceptable until new requirements are implemented.

**Historic pay-out ratio \*)**



\*) according to Greenlandic tax legislation, the distribution of dividend is fully deductible

### Events after the close of the books

As of the balance-sheet date and until today, circumstances have not materialized which move the assessment of the annual report.

### Expected development 2015

After probably 3 years with negative GDP development in Greenland, the Bank expects zero growth in 2015. Read more in the society section page 5 in this annual report.

With the expectation of a moderate rise in loans in 2015, an unchanged to slightly decreasing interest margin, an uncertainty combined with expectation of a continued extremely low interest level, as well as continued investment in corporate bonds, the total income is expected to be on a slightly lower level.

The total costs including depreciation are expected to increase slightly in 2015, as large maintenance work on some of the Bank's employee homes is planned, as well as an expectation that all positions should be kept filled.

It is the bank's assessment that the quality of the loan portfolio is satisfactory. Losses and write-downs are expected to remain at a moderate level and expected below the level of 2014.

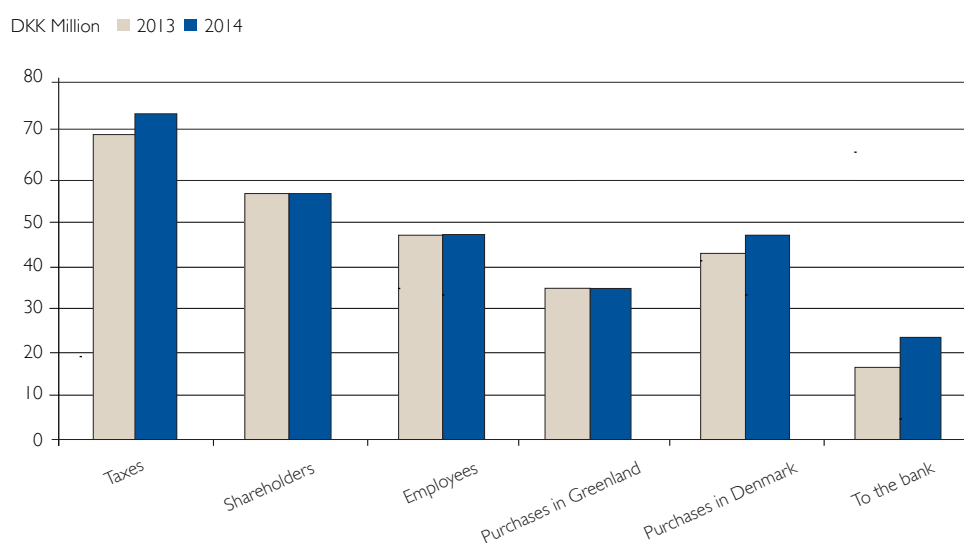
Result before value adjustments and write-downs is expected to continue in the level of DKK 130 - 150 million.

### The Bank and the society

The daily business has in the course of the year with the Bank's clients' added income of a total of DKK 280.1 million against DKK 267.8 million in the year 2013. The income is calculated as the sum of net interest and fee income, other operating income, value adjustment, and with deduction of write-downs on loans.

Greenland's Self-Government and the municipalities receive corporate income tax, dividend tax, and payroll tax. Employees have received wages and supplementary pension, etc. with deduction of A-tax. The purchases, the Bank makes at Danish suppliers, are mainly it-services at the Bank's IT-central, and Nets.

The BANK of Greenland provides a not insignificant society contribution. During the last three years the Bank has contributed with tax payments of no less than approx. DKK 215 million.



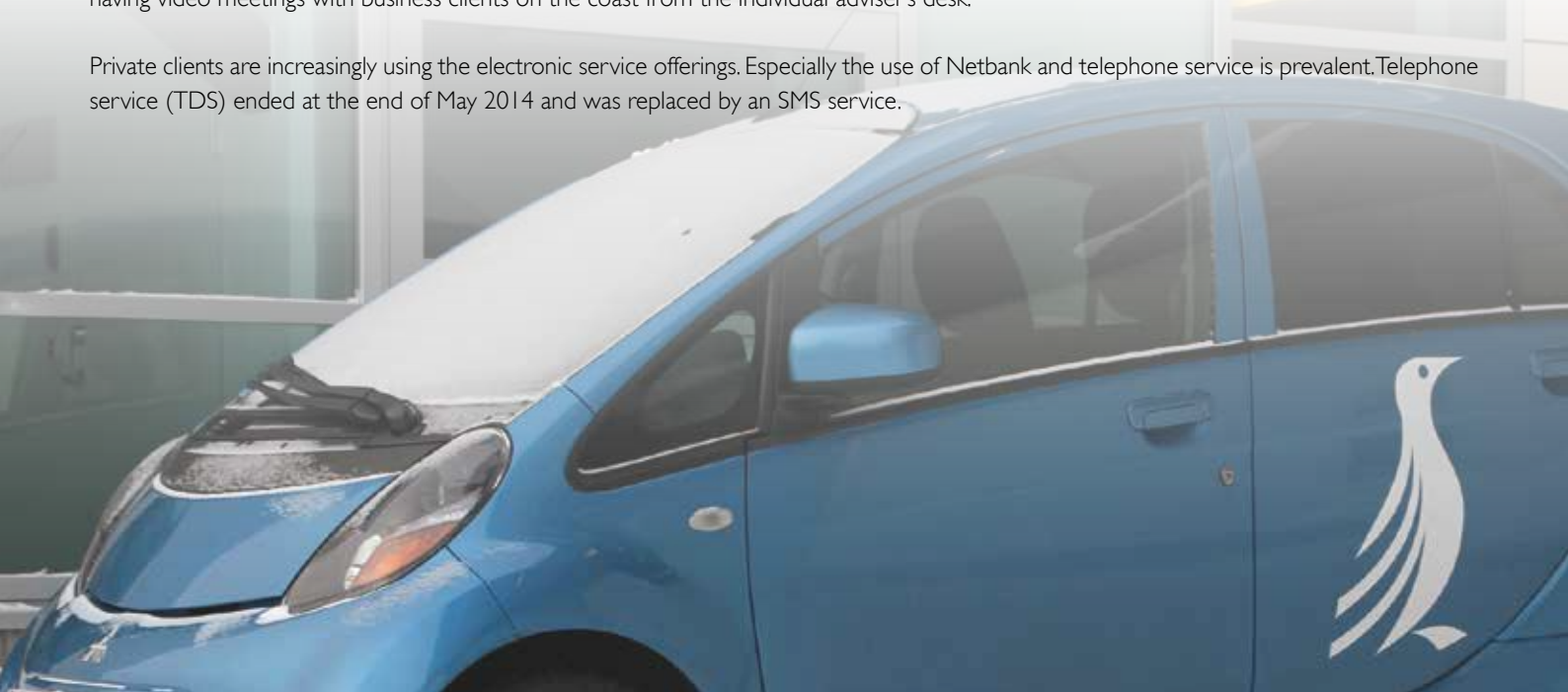
Distribution of resources on stakeholders can be measured as the above.

### Clients

The Bank is a professional partner for enterprises in all of Greenland. The ongoing contact with clients takes place from and to client advisers in the business department in Nuuk. It is the same advisers who - through regular travels to coastal towns - have the necessary local knowledge of business conditions in the town in question. The client adviser is also the link to the Bank's specialist functions.

In addition to the personal advice, the enterprises are offered a number of self-service systems, of which the most widely used are Netbank Erhverv (Netbanking business). The Bank has in the course of 2014 implemented Lync (Skype) in the business department, which is used for having video meetings with business clients on the coast from the individual adviser's desk.

Private clients are increasingly using the electronic service offerings. Especially the use of Netbank and telephone service is prevalent. Telephone service (TDS) ended at the end of May 2014 and was replaced by an SMS service.



In the course of 2014 the Bank introduced "Kontokig" (looking at your account) which is primarily for clients without private Netbank. The process is still in progress and will end up with significantly less paper; as statements of account, annual surveys, etc. in future will be sent electronically.

The BANK of Greenland's branch in Aasiaat, which was opened in autumn 2013 in temporary premises, moved in spring 2014 to permanent premises with a better arrangement. The clients have embraced the new branch and the new and improved premises. The branch is staffed with four employees.

The Bank's branch in Ilulissat has just like the branch in Sisimiut completed a renovation, and with the inauguration in spring 2014 the branch was ready with new and improved premises.

The Bank has a strong focus on the client's availability and has also in 2014 prioritized the response times in both the Call center and in other client contact.

The BANK of Greenland has a strong focus on client satisfaction, which each year is measured in a client satisfaction survey. The Bank looks into the surveys, and each year initiatives are made where clients believe that the Bank can do better. The general picture is a very fine client satisfaction with a substantial improvement in especially the business client area, also seen in relation to the general sector measurements.

### Employees

The employees are the Bank's face to the outside world, and it is the employee who on a daily basis creates and maintains the close relationship to the Bank's clients.

The BANK of Greenland still has much focus on skills development through trainee education, trainee courses, supplementary education, leadership development, and "on the job training". Education must be seen as a part of the employee's development and career planning, and in the context of the Bank's need for the right skills.

The BANK of Greenland considers it important to ensure recruitment of bank-professional labor, and has at present eight finance trainees. Four trainees are in the head office and four trainees are in the branches.

In addition to the trainee education, the Bank has great success with the establishment of trainee positions for young people with a background as financial economist. Until now, four trainees are trained to be advisers, and one trainee is in a trainee course.

As related to the financial trainee education, this ensures a broad recruitment of new employees and training places in the society.

In 2014 it was possible to have 98.3% of the positions in the Bank filled through active HR work, job applicant portal on the Bank's website, and a focus on employee development.

By the end of 2014, the total number of employees is 118. The average age is approx. 44 years, and the average seniority is 9 years and 5 months. 82 women and 36 men are employed. Of all employees, 73 employees have a financial or high-level education.

### Partners

The BANK of Greenland is a full-service Bank in Greenland. Through cooperation agreements with the best players within financial IT systems, mortgage credit, insurance, transaction of payments, and investments, the Bank wants to continue to offer a broad, flexible, and competitive product range. The BANK of Greenland participates in the Danish payment infrastructure.

In Greenland the cooperation also includes payments with the AKILIUT card in Dankort payment card terminals, and an agreement has been made with Danish Bank on the use of AKILIUT cards in their approx. 1000 card machines in Denmark.

According to a service contract with Greenland's Self-Government, the Bank helps ensuring that the service level for payment system, required by the Self-Government, is established at the places in Greenland, where there is no commercial background to the establishment of bank branches.

### **Board of directors and executive management**

Information must be presented of the executive functions, the Bank's members of the board of directors and executive management have in other commercial enterprises. Reference is made to pages 63-65.

### **Audit**

The Bank's previous internal head of audit resigned in late summer 2014. The new internal head of audit started on January 1, 2015 and will therefore not express an opinion on the financial statements 2014. The head of audit will in future express an opinion on the Bank's financial statements.

### **Statement of social responsibility**

Because of its size on the Greenland market, the Bank's most important social task is to operate a sound and long-term sustainable banking enterprise. Basically, the Bank will, through its activities, help to ensure a balance between stability and growth in the society, which it is a part of.

### **Policy for strategy and social responsibility**

The BANK of Greenland's board of directors has adopted The BANK of Greenland's strategy and policy for social responsibility. The overall objective of the Bank's action is that the Bank will contribute to solving social challenges in order to create sustainable growth in Greenland. The social responsibility is based on the vision of being "The Best Company in Greenland", on the existing values: commitment, room for diversity, decency and competency, on the corporate culture and the wish to use the core competencies to make a difference, as well as on the Bank's reputation as a credible and stable financial institution.

The business objectives are to improve the Bank's reputation, increase client satisfaction and loyalty, and to increase employees' satisfaction in order to ensure a good level of economic development.

Analyses of stakeholders made in the preliminary work of the policy, as compared to the Bank's strategic objectives, form the basis of the three focal points, on which the Bank will focus its social efforts:

- **financial skills** of the population in order to help more families to the possibility of a better personal finances,
- **access to consultancy and lending financing** also outside of the Bank's primary market area,
- to promote the employees' **social and voluntary activities** by a.o. making working time available.

Overall, the Bank is **The Bank of All Greenland**. This has also been the title of many of the activities which have been carried out since the adoption of the policy.

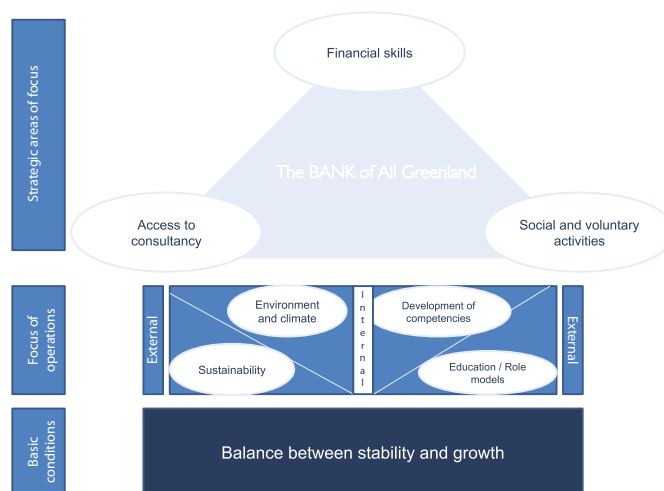
Working groups have been made across the Bank for each of the three strategic focus areas. Apart from the three strategic focus areas, operating focus will continually exist on sustainability, environment and climate, skills development, and the education of employees in the Bank.

The administrative director has the overall responsibility of the Bank's social efforts.

Implementation of the strategy is ongoing and has included a major activity, primarily internally in the Bank, but also for the external world. Implementation has been based in an overall steering group consisting of the administrative director, the mainly responsible persons of the working groups on the strategic focus areas, as well as the HR manager, communications employee, and an additional employee representative.

Pakkussineq - involve - has been chosen as the name of social responsibility in The BANK of Greenland.





The figure above illustrates the Bank's policy of social responsibility.

In March 2013 The BANK of Greenland joined UN Global Compact, which is UN's program for enterprises' and organizations' social responsibility. The program includes ten principles, which the members undertake to comply with. The principles relate to human rights, employment rights, anti-corruption, and the environment. Each year the members must make an annual report on the progress of their efforts to observe and comply with the ten principles. The BANK of Greenland's first reporting was in March 2014.

Before joining the UN Global Compact, a gap analysis was made of The BANK of Greenland's position in respect of the ten principles. The analysis showed that The BANK of Greenland with a limited effort could be compliant with the demands made to the members.

In continuation of joining the UN Global Compact, several initiatives have been started in 2013 which focus on anti-corruption and employment rights, while policies on the environment were drawn up in 2014, where after we will report on the implementation and results hereof. Human rights policy will be drawn up in 2015.

The BANK of Greenland's statutory statement of social responsibility, as defined in the statutory order on financial reports for credit institutions and investment services companies, etc. sections 135 and 135 a are available on the Bank's website <http://www.banken.gl/csr/>.

### Evaluation of the board of directors

Each year The BANK of Greenland's board of directors makes an evaluation of the board of directors with external assistance. The evaluation of the board of directors forms the basis of an assessment of several conditions in the board of directors: method of working, cooperation internally and with the executive management, the chairman's arranging of meetings, and the quality of the board of director's material. The most recent evaluation was at a high level and determined that the board of directors uses each other's knowledge to ensure understanding of special circumstances. In addition, it was concluded, that there is a fine overall composition of competences in the board of directors in relation to the Bank's business model.

### Corporate governance - and statutory statement of corporate governance

It is The BANK of Greenland's objective, at any time and to the greatest possible extent, to follow the recommendations. The Corporate Governance statement can be found on the Bank's website <http://www.banken.gl/corporate/>.

### Policy and target levels for the under-represented sex

In August 2013 The BANK of Greenland's board of directors adopted "policy and target levels for the under-represented sex". The gender distribution among the member of the board of directors elected by the Bank's general meeting constitutes at the

end of 2014 respectively 16.67% women and 83.33% men. It is the board of directors' objective that the percentage of female member of the board of directors elected by the Bank's general meeting will be increased to 33% no later than in 2017.

On the other levels of management, the Bank's overall objective is to provide and maintain a suitably uniform distribution of men and women in the management. The Bank's employees must, regardless of gender, experience that they have the same possibilities for career advancement and leadership positions. The percentage of leaders is at the end of 2014 distributed almost equally with 47% women and 53% men. It is the Bank's objectives that the percentage of leaders with the under-represented sex at any time must be kept on at least 40%. The BANK of Greenland employs leaders under the premise that the person best qualified is always recruited/appointed regardless of gender.

### **Audit and risk committee**

The audit and risk committee consists of the entire board of directors, why it is found to be most appropriate to maintain the same structure as on the board of directors, so that the chairman of the board of directors is also the chairman for the audit and risk committee.

The audit and risk committee's tasks essentially include monitoring of:

- the presentation of accounts process,
- if the Bank's internal control system, internal audit, and risk systems work effectively,
- the Bank's risk profile,
- the statutory audit of annual report,
- control of auditor's independence.

In this connection, the Bank's control environment for making up the main accounting estimates is reviewed and assessed.

The committee meets immediately prior to the board meetings.

It should be noted that Greenland is not covered by the Danish rules on establishment of audit and risk committee, but that the rules in practice are followed.

Terms of reference for the audit and risk committee can be found here <http://www.banken.gl/auditandriskcommittee/>.

### **Remuneration committee**

The remuneration committee consists of the board of directors' chairman, deputy chairman, and a member of the board of directors elected by the employees.

The remuneration committee establishes the remuneration policy which is approved by the general meeting. Terms of Reference for the remuneration committee can be found here <http://www.banken.gl/remunerationcommittee/>.

### **Nomination committee**

The nomination committee consists of the board of directors' chairman, deputy chairman, and an external member.

The board of directors has adopted terms of reference for the committee, which contain provisions on the establishment of the committee, objective, members, meetings, authorities, tasks, reporting, and self-evaluation.

The nomination committee holds at least one meeting per year and will inform the board of directors regularly.

In 2014 the work of the nomination committee was further formalized, as the terms of reference are specified in relation to the meeting structure in the committee - including use of annual cycle. In 2014 the committee held two meetings, and the work with the description and composition of the competences of the executive management and of the board of directors, as well as recommendation of new candidates for election to the board of directors. It is the Bank's assessment that the board of directors' composition reflects the objective of the diversity policy.

Terms of reference for the nomination committee can be found here <http://www.banken.gl/nominationcommittee>

The board of directors and the executive management have today discussed and approved the annual report for the financial year January 1 - December 31, 2014 for The BANK of Greenland, private limited company.

The annual report has been presented in accordance with the Danish Financial Business Act. The annual report has furthermore been prepared in accordance with Danish disclosure requirements for financial institutions quoted on the stock exchange.

It is our opinion that the financial statements give a true and fair view of the Bank's assets, liabilities, and financial position as per December 31, 2014, and of the results of the Bank's activities and cash flows for the financial year January 1 - December 31, 2014

The management's report contains, in our opinion, a true and fair presentation of the development of the Bank's activities and financial conditions, as well as a description of the main risks and uncertainties that the Bank may be influenced by.

The annual report is recommended to the approval of the ordinary general meeting.

Nuuk, February 17, 2015

### **Executive Management**

Martin Kviesgaard

### **Board of Directors**

Gunnar í Liðá  
*chairman*

Kristian Lennert  
*deputy chairman*

Frank Bagger

Anders Brøns

Allan Damsgaard

Yvonne Kyed

Lida Skifte Lennart

Jette Radich

Vagn T. Raun

## **Statement of the independent auditor**

### **To the shareholders of The BANK of Greenland, private limited company**

#### **Endorsement on the financial statements**

We have audited the financial statements of The BANK of Greenland, private limited company, for the financial year 1 January - December 31, 2014, which include profit and total loss and gains statement, balance sheet, statement of changes in equity, cash flow statement, and notes, including applied accounting policies. The financial statements are prepared according to the Danish Financial Business Act and Danish disclosure requirements for financial enterprises quoted on the stock exchange.

#### **The management's responsibility for the financial statements**

The management is responsible for the preparation of financial statements giving a true and fair view in accordance with the Danish Financial Business Act and Danish disclosure requirements for financial enterprises quoted on the stock exchange. The management is also responsible for the internal control, considered by the management to be necessary to draw up the annual accounts without significant misinformation, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express a conclusion of the annual account on the basis of our audit. We have carried out the audit in accordance with international standards on auditing and additional requirements according to Danish accountant legislation. These standards require that we live up to ethical requirements and plan and perform the audit in order to achieve high degree of assurance that the financial statements do not contain significant misinformation.

A review includes performance of audit work carried out in order to obtain audit evidence for the amounts and information in the annual account. The selected auditor's actions depend on the auditor's assessment, including the assessment of the risk of significant misinformation in the annual accounts, whether or not the misinformation is due to fraud or error. During risk assessment the auditor considers internal control, which is relevant to the Bank's preparation of financial statements giving a true and fair view. The purpose of this is to develop audit work appropriate under the circumstances, but not to express a conclusion on the effectiveness of the Bank's internal control. An audit also includes assessing if the management's decisions of accounting practice are appropriate, if the management's accounting estimates are reasonable, as well as the overall presentation of the annual accounts.

It is our view that the audit evidence obtained is sufficient and appropriate as the basis for our conclusion.  
The audit has not given rise to comments.

#### **Conclusion**

It is our view that the financial statements give a true and fair view of the Bank's assets, liabilities, and financial position at December 31, 2014, and of the results of the Bank's activities and cash flow for the financial year January 1 - December 31, 2014 in accordance with the Danish Financial Business Act and Danish disclosure requirements for financial enterprises quoted on the stock exchange.

#### **Opinion on management report**

According to the Danish Financial Business Act we have reviewed the management report. We have not carried out further actions in addition to the revision of the annual accounts.

Against this background it is our opinion that the information contained in the management report is in accordance with the financial statements and Danish disclosure requirements for financial enterprises quoted on the stock exchange.

Nuuk, February 17, 2015

Deloitte  
Statsautoriseret Revisionspartnerselskab

Jens Ringbæk  
State-Authorized Public Accountant





# Income Statement

## Statement of total gains and losses

(DKK 1,000)

Notes		2014	2013
<b>Income statement</b>			
3	Interest income	227,264	218,700
4	Interest expenses	13,399	14,633
	<b>Net interest income</b>	<b>213,865</b>	<b>204,067</b>
	Dividend of shares etc.	1,821	2,048
5	Fees and commission income	79,324	71,056
	Given fees and commissions payable	1,553	1,421
	<b>Net interest and fee income</b>	<b>293,457</b>	<b>275,750</b>
6	Value adjustment	7,687	4,039
	Other operating income	3,750	3,148
7,8	Expenses for employees and administration	136,440	130,422
	Depreciation and write-downs of tangible assets	9,160	10,385
	Other operating expenses	3,054	3,443
11	Write-downs on loans and amounts receivable, etc.	24,807	15,186
	<b>Result before tax</b>	<b>131,433</b>	<b>123,501</b>
9	Tax	41,776	39,251
	<b>The year's result</b>	<b>89,657</b>	<b>84,250</b>
<b>Proposed allocation of the results</b>			
	The year's result	89,657	84,250
	Taxation value of marketed yield	31,482	31,482
	<b>Total amount available</b>	<b>121,139</b>	<b>115,732</b>
	Proposed dividend	99,000	99,000
	Transferred to the next year	22,139	16,732
	<b>Total spent</b>	<b>121,139</b>	<b>115,732</b>
<b>Statement of comprehensive income</b>			
	The year's result	89,657	84,250
	Revaluation of domicile property	1,100	1,007
	Reversed revaluation of domicile property	-1,435	-1,585
	Tax from other comprehensive income	-156	-184
	<b>The year's total income</b>	<b>89,166</b>	<b>83,488</b>

## Balance sheet (end of year)

(DKK 1,000)

Notes		2014	2013
	Cash balance and demand deposit with central banks.	547,362	696,491
10	Amounts receivable from credit institutions and central banks	297,493	496,620
11	Loans and other receivables at amortized cost	2,814,547	2,874,931
12	Bonds at market value	834,807	654,533
13	Shares, etc.	61,509	47,826
14	Land and buildings total, domicile property	187,591	189,271
15	Other tangible assets	7,899	6,438
	Other assets	95,583	88,125
	Accruals and deferred expenses	2,830	2,815
	<b>Assets total</b>	<b>4,849,621</b>	<b>5,057,050</b>
16	Liabilities to credit institutions and central banks	44,254	48,412
17	Deposits and other liabilities	3,739,768	3,996,169
	Current tax liabilities	11,490	10,855
	Other liabilities	64,253	48,350
	Accruals and deferred expenses	5,095	3,132
	<b>Debt in total</b>	<b>3,864,860</b>	<b>4,106,918</b>
18	Provisions for deferred tax	55,908	57,393
	Provisions for losses on guarantees	11,761	8,615
	Other provisions	7,220	7,889
	<b>Total provisions</b>	<b>74,889</b>	<b>73,897</b>
	Net capital		
19	Share Capital	180,000	180,000
	Revaluation reserves	16,547	16,882
	Transferred result	713,325	679,353
	<b>Equity total</b>	<b>909,872</b>	<b>876,235</b>
	<i>Proposed dividend</i>	-99,000	-99,000
	<i>Taxation value of proposed dividends</i>	31,482	31,482
	<b>Liabilities total</b>	<b>4,849,621</b>	<b>5,057,050</b>
1	<b>Applied accounting policies</b>		
2	<b>Financial risks and policies</b>		
20-27	<b>Other notes, including contingent liabilities</b>		

# Statement of changes in Equity for 2014

(DKK 1,000)

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	Share capital	Nondis- tributable reserves	Transferred result	In total
<b>Equity January 1, 2013</b>	<b>180,000</b>	<b>18,467</b>	<b>584,969</b>	<b>783,436</b>
Trade own shares			10,134	10,134
Revaluation of domicile property		1,007		1,007
Reversed revaluation of domicile property		2,592		2,592
The year's result			84,250	84,250
<b>Equity December 31, 2013</b>	<b>180,000</b>	<b>16,882</b>	<b>679,353</b>	<b>876,235</b>
<b>Equity January 1, 2014</b>	<b>180,000</b>	<b>16,882</b>	<b>679,353</b>	<b>876,235</b>
Proposed dividend			-99,000	-99,000
Taxation value of dividend			31,482	31,482
Trade with own shares			11,833	11,833
Revaluation of domicile property		1,100		1,100
Reversed revaluation of domicile property		1,435		1,435
The year's result			89,657	89,657
<b>Equity December 31, 2014</b>	<b>180,000</b>	<b>16,547</b>	<b>713,325</b>	<b>909,872</b>



## Capital Position and Solvency 2014

(DKK 1,000)

	2014	2013
<b>Capital Ratio</b>		
Capital adequacy	825,807	808,717
Core capital	825,807	791,835
Credit risk	3,396,490	3,070,198
Market risk	117,360	288,863
Operational risk	552,871	500,229
<b>Risk exposure</b>	<b>4,066,721</b>	<b>3,859,290</b>
Core capital ratio	20.3	20.6
<b>Capital Ratio</b>	<b>20.3</b>	<b>21.0</b>
<b>Legal requirements to capital percentage</b>	<b>8</b>	<b>8</b>
<b>CAPITAL BASE</b>		
Net capital	909,872	876,235
Revaluation reserves	-16,547	-16,882
Accounting impact of proposed dividend	-67,518	-67,518
<b>Core capital</b>	<b>825,807</b>	<b>791,835</b>
Revaluation reserves	0	+16,882
<b>Capital adequacy</b>	<b>825,807</b>	<b>808,717</b>

# Cash Flow Statement

(DKK 1,000)

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	2014	2013
The year's result	89,657	84,250
Write-downs on loans	24,807	15,186
Depreciation and write-downs of tangible assets	9,160	10,385
Accruals and deferred expenses, net	1,948	-875
Tax effect of deductibility for dividends	31,482	31,482
<b>The year's result regulated for non-cash operating items</b>	<b>157,054</b>	<b>140,428</b>
Liabilities to credit institutions and central banks	-4,158	-2,074
Deposits	-256,401	218,720
Loans	35,577	154,822
Other working capital	-74,494	-53,820
Other liability items	17,685	-9,757
<b>Change in working capital</b>	<b>-281,791</b>	<b>307,891</b>
<b>CASH FLOW FROM OPERATING ACTIVITY</b>	<b>-124,737</b>	<b>448,319</b>
Sale of tangible assets	0	0
Purchase, etc. of tangible assets	-9,431	-12,121
<b>CASH FLOW FROM INVESTMENT ACTIVITY</b>	<b>-9,431</b>	<b>-12,121</b>
Dividends paid	-99,000	-99,000
Trade with own shares	11,833	10,134
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-87,167</b>	<b>-88,866</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-221,335</b>	<b>347,332</b>
Cash and cash equivalents at beginning of period	1,696,638	1,349,306
<b>Cash and cash equivalents at end of period</b>	<b>1,475,303</b>	<b>1,696,638</b>
Cash balance	60,760	55,748
Demand deposit at the Danish Central Bank	486,602	640,743
Fully secure and liquid cash and cash equivalents in credit institutions	297,493	446,620
Not mortgaged securities	630,448	553,527
<b>Cash and cash equivalents at end of period</b>	<b>1,475,303</b>	<b>1,696,638</b>

## Note I

**Applied accounting policies**

The financial statements have been prepared in accordance with the Danish Financial Business Act, hereunder the statutory order on financial reports for credit institutions and investment service companies, etc. The financial statements have furthermore been prepared in accordance with additional Danish disclosure for financial statements for financial companies quoted on the stock exchange.

The annual accounts are presented in Danish kroner and rounded off to the nearest DKK 1,000. The applied accounting policies are unchanged compared to the annual report for 2013.

**In general on recognition and measurement**

Assets are included in the balance sheet when it, as a consequence of a previous incident, is likely that future economic benefits will accrue to the Bank and the asset value can be measured reliably.

Liabilities are included in the balance sheet when the Bank, as a consequence of a previous incident, has a legal or actual liability, and it is likely that future economic benefits will be deducted from the Bank, and the value of the liability can be measured reliably.

At the first recognition, assets and liabilities are measured at market value. Tangible assets are, however, measured at market price at the time of first recognition. Measurement after the first recognition takes place as described for each item of the account below.

At recognition and measurement, foreseeable losses and risks must be taken into account, that appears before the presentation of the annual report, confirming or denying conditions existing on the balance sheet day.

Revenue is included in the profit and loss account as earned, while costs are included with the amounts relating to the financial year. Appreciations are, however, included in domicile property, which do not correspond to previous depreciation, directly in the statement of total gains and losses.

Purchases and sales of financial instruments are included on the trade date, and the recognition will cease when the right to receive/give cash flows from the financial asset or liability has expired, or if it has been transferred, and the Bank has essentially transferred all the risks and returns associated with ownership. The BANK of Greenland do not apply the rule on the reclassification of certain financial assets from market value to amortized cost price.

**Significant accounting estimates, assumptions, and uncertainties**

The financial statements are prepared on certain specific conditions, which result in use of accounting estimates. These estimates are made by the Bank's management in accordance with accounting policies and in the light of historical experience, as well as preconditions, which the management considers reasonable and realistic.

The conditions may be incomplete, and unexpected future events or circumstances may occur; as well as others will be able to reach other estimates. The areas, which involve a higher degree of assessments or complexity, or areas where assumptions and estimates are significant to the accounts, are listed below.

- Write-downs on loans are carried out in accordance with accounting policies and are based on a number of conditions. If these conditions are changed, the presentation of accounts can be affected, and the impact can be significant. Changes can occur in case of a change in practice on the part of the authorities, as well as any changes in principles of management.



Najannguaq D. Lennert

- Group write-downs continue to contain a degree of uncertainty. In the calculation of group write-downs, The BANK of Greenland applies different models. As the models do not affect all the relevant circumstances, and as there continue to be limited historical data basis as a starting point of the calculations, the calculations are supplemented by a managerial estimate.
- Provisions for losses on guarantees, where there are significant estimates related to quantification of the risk, that payment will be made on the given guarantee.
- Noted financial instruments that can be priced in markets with low turnover; which may have a degree of uncertainty in the application of stock market prices in the measurement of market value.
- Unlisted financial instruments where significant estimates are associated with the measurement of market values.
- For provisions significant estimates are associated with the establishment of future employee rate of turnover, as well as establishing obligation to pay interest on tax-favored savings accounts.
- Valuation of the Bank's domicile property is also involved with significant estimates.

### **Determination of market value**

Market value is the amount that an asset can be converted to, or an obligation to be fulfilled by a trade under normal circumstances between qualified, willing, and mutually independent parties.

Market value of financial instruments, for which there is an active market, is set at closing rate on the balance-sheet date or, if this is not present, another published rate, which is assumed to correspond the best hereto.

For financial instruments where there is no active market, market value is determined using generally accepted valuation techniques based on observable current market data. The BANK of Greenland uses an internal model to the valuation of market value as regards the owner's share in BEC.

### **Accounting hedging**

The Bank applies the special rules on accounting hedging in order to avoid the inconsistencies that arise by certain financial assets or financial liabilities (the hedged items) being measured at amortized cost price, while derivatives (hedging instruments) are measured at market value.

When the criteria for the application of the rules on accounting guarantee have been met, the accounting value of the hedged assets and liabilities to the income statement for the day value changes regarding the hedged risks (day value hedging) are regulated. In the Bank the hedging conditions are established for fixed-interest loans.

### **Derivative financial instruments**

Derivative financial instruments are measured at market value, which in general is based on quoted market prices. To the extent that the instruments are not registered, market value is made up according to ordinary recognized principles. Derivative financial instruments are included in other assets, other liabilities respectively.

Changes in market value of derivative financial instruments, which are classified as and meet the conditions for hedging of market value of a included asset or a calculated obligation, are included in the profit and loss account together with changes in the value of the hedged asset or the hedged obligation. Other changes are included in the profit and loss account as financial items.

### **Conversion of foreign currency**

Transactions in foreign currency are converted to the rate of exchange on the transaction date at first recognition. Amounts receivable, liabilities, and other monetary items in foreign currency, which are not settled on the balance-sheet date, are measured to balance sheet date's closing rate of exchange. Currency rate differences, which arise between the transaction date's rate of exchange and the rate of exchange on the date of payment, respectively the balance sheet date's rate of exchange, are included in the profit and loss account as value adjustments.

### **Setting off**

The Bank sets off amounts receivable and liabilities, when the Bank has a legal right to set off the included amounts, and at the same time intends to net set off or realize the asset, and fulfill the obligation at the same time.



## Income statement

### Interest, fees and commissions

Interest income and interest expenses are included in the profit and loss account in the period they relate to. Commissions and fees, which are an integral part of the effective interest rate of a loan, are included as a part of amortized cost price and thus as an integral part of the financial instrument (loans) under interest income.

Commissions and fees that are part of a continuous payment are periodized during the term. Other fees (e.g. foundation fees) are included in the profit and loss account on the transaction date.

For a loan, which is written down, the result item "Interest income" reflects the effective interest rate of the loan's written down value.

### Expenses for employees and administration

Expenses for employees include wages and salaries, as well as social costs, pensions, employee homes, etc. Costs to payments and benefits to employees, including anniversary bonus, are included in line with the employees' performance of the work services, which give the right to the benefits and advantages in question. Costs for incentive programs are included in the profit and loss account in the year the cost can be referred to.

### Pension schemes

The Bank has entered into defined contribution schemes with all employees. In the defined contribution schemes fixed contribution is paid to an independent pension institution. The Bank has no obligation to pay further contributions.

### Other operating income

Other operating income includes income of secondary nature in relation to the Bank's activities, including profits and losses on sales of the Bank's property.

### Other operating expenses

Other operating expenses include costs of secondary nature in relation to the Bank's activities, including contributions to sectorial solutions.

### Tax

The year's tax, which consists of the current tax of the year and changes in deferred tax, is included in the profit and loss account with the part, that can be assigned to the year's result, and in other total income or directly on the net capital with the part, that can be assigned to postings respectively in other total income and directly on the net capital.

Estimating the taxable income, Greenland has a deductibility for pay out dividends. The tax value of this is therefore added to the equity at the time of the general assembly's approval of the dividends.

Deferred tax is included of all temporary differences between accounting values and tax values of assets and liabilities.



## Balance Sheet

### **Cash balance cash and demand deposits at central banks**

Include cash balance and demand deposits at central banks, and are measured at first inclusion at market value and subsequently measured at amortized cost price.

### **Amounts receivable and liabilities from credit institutions and central banks**

Include amounts receivable at other credit institutions, as well as time deposits in central banks. Liabilities owed to credit institutions and central banks include debt to other credit institutions and central banks.

Amounts receivable are measured at market value. Liabilities are measured at amortized cost price.

### **Loans and other receivables at amortized cost price**

Loans are measured at amortized cost price, which generally corresponds to nominal value with deduction of foundation fees, etc., and write-downs to meet occurred but not yet realized losses.

Write-downs on loans and amounts receivable are made individually as well as in groups. In the assessment of write-downs, the latest clarification of the rules is taken into consideration, which has been carried out in annex 10 to the Danish Executive Order on the Preparation of Financial Statements of March 30, 2012, as well as instruction on individual write-downs and provisions of March 17, 2014.

Write-downs of loss are made when there is objective indication for depreciation. For individual write-downs objective indication is considered to have occurred when

- the borrower has considerable financial difficulties,
- the borrower is in breach of contract, for example in the form of non-compliance with liability to pay repayment and interest,
- when the Bank provides the borrower with modifications in terms, which would not have been considered, if the borrower did not have financial difficulties,
- when it is probable that the borrower will go bankrupt or be the subject of other economic reconstruction.

Write-down is made with the difference between the book value before write-down and the present value of the expected future payments on loans.

For loans which have not individually been written down, a group assessment is made if indication for depreciation/appreciation has occurred for the group, including realization value of any securities.

For the calculation of the present value, the original effective interest rate is used for fixed-interest loans and amounts receivable. For variably interest-bearing loans and amounts receivable, the current effective interest rate on loans or outstanding amount is used. Write-down is calculated as the difference between the book value and the discounted value of the expected future payments on loans.

The group assessment is made on groups of loans and amounts receivable, which have similar characteristics with regard to credit risk. Three groups are used distributed in one group of public authorities, one group of private clients, and one group of corporate clients.

The group assessment is made by a segmentation model, developed by the association local financial institutions, which are responsible for the ongoing maintenance and development. The segmentation model determines the consistency of the individual groups between found losses and a number of significant explanatory macroeconomic variables via a linear regression analysis. Among the explanatory macroeconomic variables are included unemployment, housing prices, interest rates, the number of bankruptcies and foreclosures, etc.

The macroeconomic segmentation model is basically calculated on the basis of loss data for the entire banking sector in Denmark. The Bank has therefore assessed if the model estimates are to be adapted to the credit risk for the Bank's own loan portfolio.

This assessment has led to the adaptation of model estimates to own circumstances, where after it is the custom estimates which form the basis for the calculation of the group write-down. For each group of loans and amounts receivable an estimate appears which expresses the percentage depreciation which is related to a given group of loans and amounts receivable on the balance-sheet date. By comparison with the individual loan's initial loss risk and the loan's loss risk at the end of the current accounting period, the individual loan's contribution to the group write-down appears. Write-down is calculated as the difference between the book value and the discounted value of the expected future payments.

A management estimate has also been made of whether the calculated model estimates have given rise to further corrections.

Write-downs on loans are made in a corrective account, which is set off during loans. In the income statement, write-downs are included under the item write-downs on loans.

### **Bonds at market value**

Bonds traded on active markets are measured at market value. Market value is estimated after closing rate for the market in question on the balance-sheet date. Bonds that are drawn are measured at the present value.

If the market for one or more bonds is illiquid, or if a publicly recognized price is not found, the Bank market sets the market value by the use of recognized valuation techniques. These techniques include the use of similar recent transactions between independent parties, and analyzes of discounted cash flows and other models based on observable market data.

### **Shares, etc.**

Shares are measured at market value. Market value of shares traded on active markets is estimated after closing price on the balance-sheet date.

Market value for unlisted and illiquid shares is based on available information on trades and similar, or alternatively capital value calculations. Illiquid and unlisted equity interests, where it cannot be assessed to estimate a reliable market value, are measured at cost price.

### **Tangible fixed assets**

All of the Bank's property is defined as domicile property, including employee homes. Employee homes are considered to be necessary in order to ensure recruitment of employees.

The properties are measured after the first recognition at revalued value. Revaluation is made so frequently, that there are no significant differences in market value.

At the end of 2014 an independent assessment of the market value of the Bank's domicile property in Nuuk was obtained.

Increases in domicile properties' revalued value are included in revaluation reserves under the net capital. Fall in the value is included in the profit and loss account, unless it is reversals of previous year's writing-up.

Linear depreciation is made over 25 years on bank buildings and 50 years on employee homes. On domicile property and new bank buildings and employee home, depreciation is made to a salvage value.

Machinery and furniture and equipment are measured at cost price less accumulated depreciations. Depreciation is made linearly over the assets' life expectancy, however, a maximum of five years.

**Other assets**

Other assets include other assets that do not belong to other asset items. The item includes positive market value of derivative financial instruments and income, which is only due to be paid after the end of the financial year, including outstanding interest. Apart from derivative financial instruments, which have a positive value on the balance-sheet date and which are measured at market value, the item is measured at the first inclusion at cost price and subsequently at amortized cost price.

**Accruals and deferred expenses**

Accruals and deferred expenses included under assets include paid costs regarding subsequent financial years. Accruals and deferred expenses are measured at cost price.

**Deposits and other liabilities**

Deposits and other liabilities include deposits with counterparties that are not credit institutions or central banks. Deposits and other liabilities are measured at first inclusion at market value, and subsequently at amortized cost price.

**Other liabilities**

Other liabilities include other liabilities, which do not fall under other liabilities items. The item includes negative market value of derivative financial instruments and expenses, which are first due for payment after the end of the financial year, including interest payable. Apart from derivative financial instruments, which have a negative value on the balance-sheet date and which are measured at market value, the item is measured at the first inclusion at cost price and subsequently at amortized cost price.

**Accruals and deferred expenses**

Accruals and deferred expenses included under liabilities include revenues that are received before balance sheet date, but which relate to a later accounting period, including prior received interest and commission. Accruals and deferred expenses are measured at cost price.

**Provisions**

Liabilities and guarantees, that are insecure with regard to size or time of execution, are included as provisions, when it is probable that the liability will result in a withdrawal on the Bank's financial resources, and the liability can be measured reliably. The liability is measured at the present value of the costs, which are necessary for fulfillment. Discounting is made of liabilities in respect of employees, which are payable more than 36 months after the period in which they are earned.

**Dividend**

Dividends are included as a liability at the time of adoption at the general meeting. The proposed dividends for the financial year are shown as a separate item associated with the net capital.

**Own shares**

Acquisition and compensations as well as proceeds from own shares are included directly in transferred result under net capital.

**Cash flow statement**

Cash flow statement is presented using the indirect method and shows cash flows regarding operation, investments, and financing, as well as the Bank's cash and cash equivalents at the beginning and end of the year.

Cash and cash equivalents include cash balance and demand deposits with the central banks, and amounts receivable at credit institutions as well as not mortgaged securities which can be realized immediately to cash.

**Main and key figures**

Main and key figures are drawn up in accordance with the Danish Executive Order on the Preparation of Financial Statements on this.



## Note 2

**Financial risks and policies and objectives for the management of financial risks****In general**

Pursuant to section 19 of the statutory order on management and governance of financial institutions, etc., financial institutions must appoint a risk manager to be responsible for risk management in The BANK of Greenland. The BANK of Greenland is not covered by the statutory order, as this is not yet in force for Greenland. The BANK of Greenland has, however, decided to follow the statutory order's principles in relation to the reporting of the Bank's risks to the board of directors.

The board of directors in The BANK of Greenland has assessed that the Bank's size, simple structure, as well as straightforward activities do not justify a separate risk management function. The risk management function is rooted in the executive management.

The BANK of Greenland is exposed to various types of risks. The purpose of the Bank's policies for risk management is to minimize the losses that may occur as a result of a.o. unpredictable development on the financial markets. The Bank works with a balanced risk profile, both as regards credit and on the financial markets. The Bank only uses derivative financial instruments (derivatives) to identify risks in connection with client transactions or to reduce the Bank's interest rate risk.

The BANK of Greenland continually develops its tools for identification and management of the risks that affect the Bank on a daily basis. The board of directors defines the general framework and principles for risk and capital control, and receives regular reports on the development of risks and the use of the allocated risk framework. The day-to-day management of risks is carried out by the Credit Office, while an independent control hereof is made in the Accounting Department.

**Credit risk**

The main risks in The BANK of Greenland relate to credit risks. The Bank's risk management policies are therefore designed to ensure, that transactions with clients and credit institutions constantly are within the framework adopted by the board of directors and expected security. Policies have also been adopted that limit exposure in relation to any financial institution, the Bank has business with.

The Bank's board of directors has established a framework to ensure that the Bank's lending business is for clients who through solidity and profitability ensure a good credit quality in relation to the price.

Credits and loans are granted at different levels in the Bank depending on size and risk of the exposure. There is a continuous follow-up in order to ensure that any signs of client's falling earnings and liquidity are identified as early as possible, and thus allowing for a dialog with the client to prevent loss.

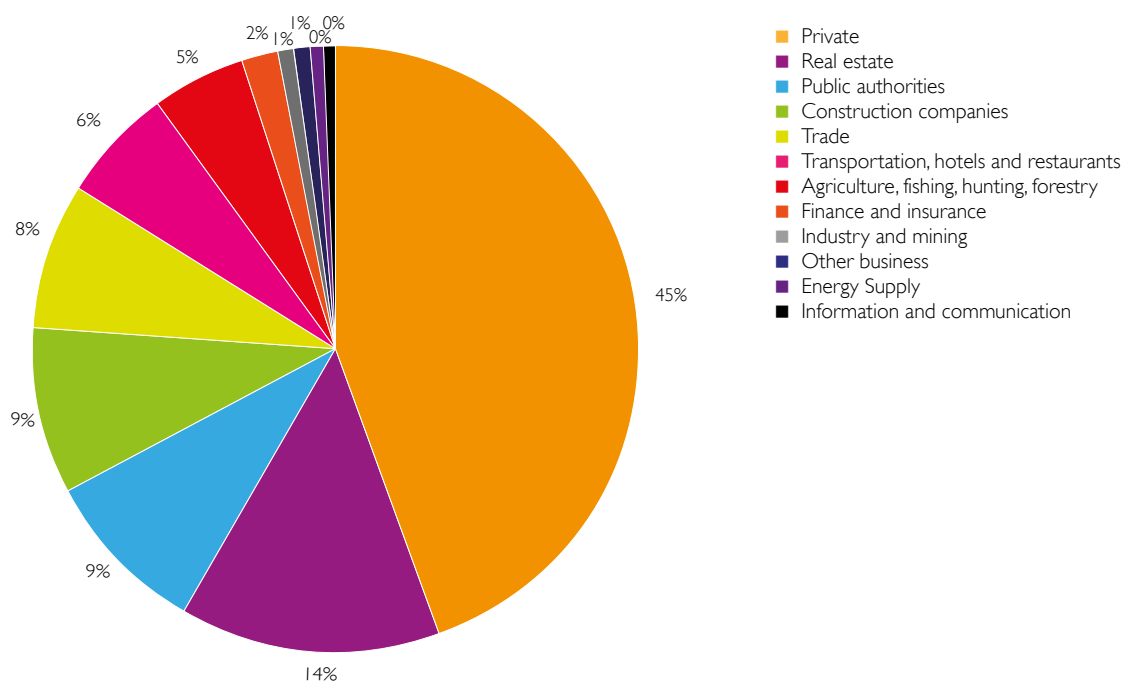
The BANK of Greenland continually follows all loans and guarantees on specific limits on an individual basis. Other loans and guarantees are monitored on a group basis, however, so that when objective indicators show that there may be an increased risk, these will also be assessed individually.

The BANK of Greenland classifies clients into six groups on the basis of the risk, which is considered to be connected with loans for the specific client. Private clients constitute one group, while business clients are classified on the basis of net capital (solvency), security, and earnings.

The sectoral distribution of the Bank's lending before write-downs very much reflects the need for finance and opportunities in the various industries of Greenland.

The Bank has Greenland as the main business area, and less than 5% of Bank's loans are granted to clients outside of Greenland.

**Loans and guarantee debtors distributed by sector and lines of business in % as of 31 December 2014**



The BANK of Greenland grants loans to the industry group Agriculture, hunting, and fishing with approx. 5% of the total loans. Loans in this segment are only to fisheries. The BANK of Greenland do not have loans to the agricultural segment.



**Maximum credit exposures**

	2014	2013
Cash balance and demand deposits at central banks	547,362	696,491
Amounts receivable from credit institutions and central banks	297,493	496,620
Loans and other receivables at amortized cost	2,814,547	2,874,931
Bonds at market value	834,807	654,533
Shares, etc.	61,509	47,826
Other assets, including derivative financial instruments	95,583	88,125
Items not balanced		
Guarantees	1,091,249	870,502
Advance Commitment	2,100	2,610

The distribution of the item 'loans and other receivables at amortized cost price' and 'guarantees' is shown in note 11.

**Description of securities:**

For the majority of The BANK of Greenland's loans, security is made in the form of a mortgage in real estate (private homes, office buildings, and other industrial properties), mortgage on movables (cars, machinery and equipment, and other), mortgage in fishing rights, mortgage in securities (shares, bonds, and investment certificates), mortgage in cash deposits, guarantees from other financial institutions or public authorities, as well as at exposures with enterprises and also guarantees from the enterprises' owners.

Securities are in principle valued from an assessed market value with the following percentage rates, unless significant indicators of a lower valuation are present:

- Private residential properties - approx. 75% depending on the condition of the property, geographic location, and evaluated marketability.
- Industrial properties approx. 60% depending on the type property, state of repair, location, and evaluated marketability.
- Easily realizable securities - 50-90% of official market value.
- Movables cars, boats, etc. - approx. 75% depending on type, age, and state of repair.
- Fishing vessels - approx. 60% depending on the type, age, and use.
- Fishing rights - 0 - 60%, depending on the right's residual term and fish species.

There is an ongoing assessment of the value of securities made.

The total risk exposure is not reduced by the value of securities in real estate, as public valuations of property are not available in Greenland.

### Credit quality on loans which are not in arrears or written down:

For loans where no individual depreciation write-down or group write-downs are made. The group write-downs are made on the basis of a model drawn up by the association of local financial institutions. Apart from the calculated write-down, a further write-down is made as part of a managerial estimate. The total write-down is considered to display the value adjustment, which is needed to make the value of the loans that have not been individually written down.

An ongoing assessment is made of the value of the credit exposures, which would be in arrears or written down, if the related conditions were not renegotiated. If the Bank has estimated that the value of the credit exposure was impaired, value adjustment is made. There is therefore no reason to reassess the value of the credit exposure, which in advance are value adjusted by individual assessment.

### Outstanding amounts for loans that have not been written down

	2014	2013
0-90 days	12,568	12,656
> 90 days	877	1,382
In total	13,445	14,038
Value of securities for loans in arrears	0	2,905

### Written down loans

Distribution of loans, which have individually been written down (percentage distribution)	2014	2013
Public authority	0	0
Industry	51.6	51.7
Private	48.4	48.3

Write-down is made on individually assessed loans, when there is objective indication for depreciation, which has an effect on the expected future payments. Objective indication for depreciation is at least considered to have occurred, when 1) the borrower is having considerable financial difficulties, 2) the borrower is in breach of contract, for example in the form of non-compliance with the liability of repayment and interest, 3) the borrower has been granted modification of the conditions, which would not have been considered, if it was not because of the borrower's financial difficulties, or 4) it is likely that the borrower will go bankrupt or be subject to other economic reconstruction. Most of the individually made write-downs are because of the debtor's considerable financial difficulties.



**The value of loans and guarantees, where individual write-down has been made**

Reason for the write-down	2014			2013		
	Credit exposure before write-downs	Write-downs	Securities	Credit exposure before write-downs	Write-downs	Securities
Bankruptcy	2,586	2,086	500	4,342	3,270	800
Debt collection	18,818	17,086	250	23,122	19,162	3,960
Financial difficulties	150,516	59,253	54,953	150,313	43,675	50,469
<b>In total</b>	<b>171,920</b>	<b>78,425</b>	<b>55,703</b>	<b>177,777</b>	<b>66,107</b>	<b>55,229</b>

**Concentration risk:**

The Bank's risk concentration of loans and guarantees is an integral part of the credit risk management. The Bank is seeking an appropriate distribution of loans and guarantees for the industry and private clients respectively, with a maximum of 65% for the industry. Furthermore, a balanced industry sector distribution of loans and guarantees is sought for the industry, where no sector is larger than 15%. The distribution is considered to be appropriate in view of the possible sectoral spread of the Bank's market area.

Exposures with a client or group of connected clients must, after deduction of special guaranteed requirements, not exceed 25% of the capital base in accordance with the Danish Financial Business Act section 145. Quarterly reporting is made to the Danish Financial Supervisory Authority in this respect.

**Credit exposures that constitute 10% or more of the capital base:**

	2014	2013
Large exposures - number	3	5
Larger than 20% of capital base	0	0
15 - 20% of the capital base	0	0
10 - 15% of the capital base	3	5
Percentage of the capital base	40.0	58.7

**Loans and other receivables with occurred indication for depreciation included in the balance sheet at book value larger than zero**

In DKK 1,000	2014	2013
Loans before write-downs	133,445	188,655
Write-downs	66,664	57,359
Balance of loans after write-downs	66,781	131,296

**Market risk**

The BANK of Greenland's market risk is controlled by laid down limits for a large number of risk targets. Monitoring of market risk, and of compliance with the stipulated framework is done on a daily basis by the Bank's Markets Department. The executive management receives daily reporting, if risks are close to limits. The board of directors receives reporting on development of market risks on a monthly basis. The reporting contains the month's end value and is prepared by the Bank's Accounting Department. The Accounting Department also prepares reporting on a random day of the month, which is reported to executive management.

*Interest rate risk*

A maximum of the interest rate risk the Bank must undertake is built into the board of directors' guidelines to the executive management. It is the Bank's objective to keep the interest rate risk lower than 1.5%. The interest rate risk is calculated in accordance with the Danish Financial Supervisory Authority's instructions.

The Bank has set a smaller frame of DKK 25 million for unpaid fixed-interest loans. Furthermore, all of the Bank's fixed-interest loans are hedged.

The BANK of Greenland has outsourced portfolio management of the Bank's holding of bonds to an external manager. The manager is subject to the above risk framework and works with a duration of 1.5 years. The Bank has entered into interest rate swap of a total of DKK 35 million to partially cover the interest rate risk on the Bank's bond holding. Reference is made to notes 22 and 24.

#### *Share price risk*

A maximum of a shareholding (exclusive of sector shares) for the risk, the Bank must undertake, is built into the board of directors' guidelines to the executive management. The holding is generally placed in cash share-based investment associations. Reference is made to note 13.

#### *Exchange risk*

The BANK of Greenland has adopted guidelines for the currencies in which it is allowed to have an exposure, as well as the maximum exposure for each currency. All significant currency involvements are covered. The Bank has entered into currency swap of a total of DKK 86 million to partially cover the currency risk on foreign corporate bonds. Reference is made to note 21 for further information on currency risks.

### **Liquidity risk**

The BANK of Greenland's liquid readiness is controlled by maintaining sufficient cash and cash equivalents, ultra liquid securities, credit facilities in the form of committed and non-committed lines, and the ability to close market positions. The liquid readiness is determined from an objective of ensuring a stable liquid readiness. The Bank aims to have an over absorption in relation to the requirements of the Danish Financial Business Act of 125%. Reference is made to key figures for over absorption in liquidity, as well as key figures for loans in relation to deposits on page 19.

### **Operational risk**

The Bank has, in order to reduce losses as a result of operational risk, developed policies and written procedures. The Bank's policy is that the operational risks constantly are limited, and the following are examples of this.

The Bank's procedures will be reviewed and re-evaluated at least once every second year, unless there are changes in a procedure as a result of e.g. amendment to an act, procedural change, internal rules, etc.

By ensuring clear organizational responsibilities with necessary and sufficient separation of functions, the operational risks are limited.

Dependence on key employees is considered to be a focus area by The BANK of Greenland. Written procedures have been prepared with a view to minimizing dependence on individuals. There is ongoing work to reduce dependence on individuals in important positions in the Bank, and the Bank is continuously evaluating outsourcing of operating areas, which are not important for the Bank's competitiveness. The Bank also has much focus on constantly improving the basis of recruitment internally and externally.

The BANK of Greenland wants a strong control environment and has therefore also prepared a number of standards for how controls are to be carried out.

The BANK of Greenland has prepared policy and contingency plan for physical disasters and IT critical failures. As a general rule IT critical failures will result in a stop of operations. If it is a geographically limited failure in the branches, it will be possible to continue the operation of the other branches. In case of failure in the head office, emergency plans and preparedness have been prepared, and it will be possible to establish temporary operation within a short time from a backup center (Center II), which is established in external premises. Center II was established in 2012 and this has reduced the risk of vital failure significantly. Client-oriented temporary operation can be established within one day.

The Bank's IT operation takes place at Bankernes EDB Central - BEC (the banks' IT center). The Bank is closely following the instructions and recommendations received from BEC, just like the Bank does not perform independent development of IT systems.

The BANK of Greenland has entered into cooperation about internal audit with the Danske Andelskassers Bank A/S, and the Bank has furthermore employed a legal employee as compliance officer. This will help to ensure that the Bank at any time lives up to external as well as internal requirements.

## Notes to the income statement

(DKK 1,000)

		2014	2013
3	<b>Interest income</b>		
	Amounts receivable from credit institutions and central banks	591	325
	Loans and other receivables	208,341	209,002
	Bonds	23,093	13,999
	Currency, interest, share, raw material, and other contracts as well as derivative financial instruments	-4,761	-4,626
	<b>Interest income total</b>	<b>227,264</b>	<b>218,700</b>
4	<b>Interest expenses</b>		
	Credit institutions and central banks	479	518
	Deposits and other liabilities	12,920	14,115
	<b>Total interest expenses</b>	<b>13,399</b>	<b>14,633</b>
5	<b>Fees and commission income</b>		
	Securities and deposits	6,372	4,108
	Funds transfer	31,884	30,596
	Loan case fees	12,474	9,864
	Guarantee commission	15,630	14,831
	Other fees and commissions	12,964	11,657
	<b>Fees and commission income total</b>	<b>79,324</b>	<b>71,056</b>
6	<b>Value adjustment of</b>		
	Loans to market value	4,527	10,704
	Bonds	-9,756	-519
	Shares	14,268	3,073
	Currency	4,990	1,540
	Currency, interest, share, raw material, and other contracts as well as derivative financial instruments	-6,342	-10,759
	<b>Value adjustments total</b>	<b>7,687</b>	<b>4,039</b>

	2014	2013
<b>7 Expenses for employees and administration</b>		
Employee expenses		
Wages	54,329	52,564
Other employee expenses	2,452	3,689
Pensions	6,815	6,557
Expenses for social security	512	494
<b>Total</b>	<b>64,108</b>	<b>63,304</b>
Other administration expenses	68,210	63,489
<b>Number of employees</b>		
The average number of persons employed during the financial year converted to full time employees	116.1	114.0
Wages and salaries for the board of directors and the executive board		
Board of Directors		
Chairman, Gunnar í Liða	200	200
Deputy chairman, Kristian Lennert	150	150
Member of the board of directors, Frank Bagger	100	100
Member of the board of directors, Anders Brøns	100	100
Member of the board of directors, Allan Damsgaard	100	100
Member of the board of directors, Yvonne Kyed	100	100
Member of the board of directors, Jette Radich	100	100
Member of the board of directors, Vagn T. Raun	100	100
Member of the board of directors, Lida Skifte Lennart	100	75
<b>Total</b>	<b>1,050</b>	<b>1,025</b>
The board of directors' remuneration is fixed		
Executive management		
Managing Director, Martin Kviesgaard		
Fixed remuneration	3,138	2,670
<b>Total board of directors and executive management</b>	<b>4,188</b>	<b>3,695</b>

The Deputy Managing Director is the only other significant risk taker and therefore, no individual salary information is given.



# Notes to the income statement

(DKK 1,000)

		2014	2013
8	<b>Auditors' fee</b>		
	Statutory audit of the financial statements	714	564
	Other declarations with security	15	0
	Tax advice	25	20
	Other services	92	37
	<b>Total fee to the accountancy firm , elected by the general meeting, performing the statutory audit</b>	<b>846</b>	<b>621</b>
9	<b>Tax of the result for the year</b>		
	Tax of the result for the year is calculated as follows:		
	Current tax	11,819	10,195
	Deferred tax	-1,525	-2,426
	Taxation value of dividend paid	31,482	31,482
	<b>Total</b>	<b>41,776</b>	<b>39,251</b>
	Tax of the result of the year can be explained as follows:		
	Calculated 31.8% tax of the result before tax	41,795	39,273
	Other adjustments	-19	-22
	<b>Total</b>	<b>41,776</b>	<b>39,251</b>
	Effective tax rate	31.8 %	31.8 %
	Paid corporate and dividend taxes in 2014 is DKK 52.435m.		

(DKK 1,000)

	2014	2013
10		
<b>Amounts receivable from credit institutions and central banks</b>		
Demand deposits	297,493	446,620
Up to and including 3 months	0	50,000
<b>Total</b>	<b>297,493</b>	<b>496,620</b>
Amounts receivable from credit institutions	297,493	496,620
<b>Total</b>	<b>297,493</b>	<b>496,620</b>
11		
<b>Loans</b>		
Write-downs on loans and dues		
Loans	21,796	7,279
Guarantees	3,011	7,907
<b>Total written down during the year</b>	<b>24,807</b>	<b>15,186</b>
Hereof lost not previously written down	410	331
Loans at amortized cost price	2,814,547	2,874,931
Total loans distributed according to residual maturity		
Demand	466,290	438,112
Up to and including 3 months	152,979	217,717
More than 3 months and up to and including one year	423,940	541,247
More than one year and up to and including 5 years	1,200,091	1,143,671
More than 5 years	571,247	534,184
<b>Total</b>	<b>2,814,547</b>	<b>2,874,931</b>
<b>Write-downs on loans</b>		
<b>Individual write-downs</b>		
Beginning of period	57,359	49,248
Write-downs in the course of the year	24,945	22,999
Reversal of write-downs in previous financial years	7,156	9,920
Final loss (depreciated) previously individually depreciated	7,687	5,390
Other movements	-797	422
<b>Total individual write-downs on loans</b>	<b>66,664</b>	<b>57,359</b>
<b>Group write-downs</b>		
Beginning of period	10,626	14,528
Write-downs in the course of the year	8,527	4,162
Reversal of write-downs in previous financial years	436	8,064
Other movements	-166	0
<b>Total group write-downs on loans</b>	<b>18,551</b>	<b>10,626</b>

## Notes to Balance Sheet

(DKK 1,000)

11

**Loans****Standard terms**

Corporate clients: Typically, commitments can be terminated without notice on the part of the Bank. Requirement is made that the client regularly gives economic information to the Bank.

Private clients: Typically there is a three months' notice on the part of the Bank. There are usually requirements for financial information at new loans, as well as amendments to existing loans.

**2014****2013**
**Loans and clients' liabilities for guarantees before write-downs  
and provisions distributed on industries in percentage end-of-year**

<b>Public authorities</b>	<b>9</b>	<b>9</b>
<b>Industries</b>		
Agriculture, hunting, forestry, and fishing	5	3
Industry and raw material mining	1	1
Energy supply	0	0
Building and construction	9	9
Trade	8	8
Transport, hotels, and restaurants	6	7
Information and communication	0	1
Financing and insurance	2	2
Real estate	14	14
Other industries	1	2
<b>Total industries</b>	<b>46</b>	<b>47</b>
<b>Private</b>	<b>45</b>	<b>44</b>
<b>Total</b>	<b>100</b>	<b>100</b>

12

**Bonds at market value**

Mortgage credit bonds	677,671	562,525
Other bonds	156,936	92,008
<b>Total</b>	<b>834,807</b>	<b>654,533</b>

Hereof deposited nominally DKK 50.000m as security for liabilities to the National Bank

13

**Shares, etc.**

Shares/investment association certificates listed on NASDAQ OMX Copenhagen

	16,758	16,145
Unlisted shares at market value	43,751	30,681
Unlisted shares carried at cost price	1,000	1,000
<b>Total</b>	<b>61,509</b>	<b>47,826</b>

		2014	2013
14	<b>Domicile property</b>		
	Revalued value at beginning of period	189,271	187,447
	Additions in the course of the year, including improvements	4,912	10,790
	Disposals in the course of the year	0	0
	Depreciation	-4,548	-5,143
	Value changes included in other total income	-491	-2,323
	Value changes included in the income statement	-1,553	-1,500
	<b>Revalued value at end of period</b>	<b>187,591</b>	<b>189,271</b>
	Public valuations of property are not made in Greenland.		
15	<b>Other tangible assets</b>		
	Cost at the beginning of the year, without depreciations or write-downs	37,318	35,986
	Additions in the course of the year, including improvements	4,519	1,331
	<b>Cost price at end of period</b>	<b>41,837</b>	<b>37,318</b>
	Depreciations and write-downs at the beginning of the period	30,880	27,139
	Depreciations of the year	3,058	3,741
	<b>Depreciations and write-downs at the end of the period</b>	<b>33,938</b>	<b>30,880</b>
	<b>Book value at the end of the period</b>	<b>7,899</b>	<b>6,438</b>
16	<b>Liabilities to credit institutions and central banks</b>		
	Demand	19,254	23,412
	More than one year and up to and including 5 years	25,000	0
	More than 5 years	0	25,000
	<b>Total</b>	<b>44,254</b>	<b>48,412</b>
	Liabilities to central banks	19,220	23,350
	Liabilities to credit institutions	25,034	25,062
	<b>Total</b>	<b>44,254</b>	<b>48,412</b>

## Notes to Balance Sheet

(DKK 1,000)

	2014	2013
17 <b>Deposits and other liabilities</b>		
Demand	3,554,945	3,585,630
Up to and including 3 months	92,885	290,222
More than 3 months and up to and including one year	15,315	44,404
More than one year and up to and including 5 years	64,216	61,978
More than 5 years	12,407	13,935
<b>Total</b>	<b>3,739,768</b>	<b>3,996,169</b>
Demand	3,214,899	3,193,056
With term of notice	273,979	287,401
Time deposits	149,101	416,201
Special deposits	101,789	99,511
<b>Total</b>	<b>3,739,768</b>	<b>3,996,169</b>
18 <b>Provisions for deferred tax</b>		
The year's movements in deferred tax are composed as follows:		
Deferred tax at beginning of period	57,393	56,291
The year's deferred tax included in the year's income statement	-1,525	-2,427
Adjustment of deferred tax regarding shareholders' net capital postings	40	3,529
<b>Total</b>	<b>55,908</b>	<b>57,393</b>
Deferred tax regarding:		
Domicile property	55,119	56,800
Machinery and equipment	789	788
Own shares	0	-195
<b>Total</b>	<b>55,908</b>	<b>57,393</b>



**Share capital**

The Bank's share capital consists of 1,800,000 shares each DKK 100. The shares have been fully paid. The shares are not divided into classes, and there are no special rights attached to the shares. There has been no change in the share capital in recent years.

**Own shares**

	2014	2013
Beginning of period		
Number of own shares	18,327	39,475
Face value in DKK 1,000	1,833	3,948
Percentage of the share capital	1.01	2.19
Additions		
Number of own shares	50	215
Face value in DKK 1,000	5	22
Percentage of the share capital	0.00	0.01
Total purchase price	32	138
Disposals		
Number of own shares	18,377	21,363
Face value in DKK 1,000	1,838	2,136
Percentage of the share capital	1.01	1.18
Total sales price	10,595	13,550
End of the period		
Number of own shares	0	18,327
Face value in DKK 1,000	0	1,833
Percentage of the share capital	0.00	1.01

In the course of the year the Bank only acquires own shares in connection with client's purchases and sales through the Bank and to cover trades as part of a marketmaker agreement.

The following own more than 5% of the Bank's share capital:

TF Holding P/F	Kongabrugvin, Torshavn	14.58 %
Nuna Fund	Nuuk	13.33 %
Greenland's Self-Government	Nuuk	8.38 %
AP Pension Life Assurance Company	Copenhagen	8.00 %
Greenland Holding A/S	Nuuk	6.24 %
Investment Association Nielsen Global Value	Copenhagen	5.56 %

According to large shareholder information February 1, 2012, Wellington Management Company, USA, on behalf of a number of shareholders, manages shares in The BANK of Greenland equivalent to 9.85% of the share capital. None of these shareholders own 5% or more of the Bank's share capital.

## Additional notes

(DKK 1,000)

		2014	2013
20	<b>Contingent liabilities</b>		
	Financial guarantees	455	9,071
	Mortgage finance guarantees	550,127	531,686
	Registration and conversion guarantees	173,853	86,571
	Other guarantees	366,814	243,174
	<b>Total</b>	<b>1,091,249</b>	<b>870,502</b>
	<b>Other binding agreements</b>		
	Irrevocable loan commitments	2,100	2,610
	<b>Total</b>	<b>2,100</b>	<b>2,610</b>
21	<b>Currency exposure</b>		
	Assets in foreign currency in total	158,290	60,097
	Liabilities in foreign currency in total	30,630	30,048
	Rate of exchange indicator 1	25,294	32,210
	Rate of exchange indicator 1 in percent of core capital	3.07	4.02
	Rate of exchange indicator 2	291	76
22	<b>Interest rate risk</b>		
	The Bank only has fixed-interest assets in Danish kroner:		
	Interest rate risk on debt instruments, etc.	10,657	4,495

**Related parties:****2014****2013**

Related parties include the Bank's board of directors and the executive management, as well as their related parties. The BANK of Greenland has no related parties with controlling interest.

All transactions with related parties, including credit facilities, have been on market-based terms.

The size of loans and mortgage, collateral or guarantees made for Members of the Bank's:

The executive management:	Mastercard	200	200
Board of directors, including employee elected (Interest rates 2014 2.0 – 4.0%)		3,717	3,404
All commitments are granted on market conditions, including both interest-rate and guarantee commission rates.			
Collateral securities from members in the Bank's:			
Executive management		0	0
Board of directors, including employee elected		1,923	2,002

The board of directors' and the executive management's holding of shares in The BANK of Greenland A/S  
Stated according to the insider rules

	December 31, 2014	December 31, 2013
Board of directors:		
Kristian Lennert	10	10
Frank Bagger	25	25
Anders Brøns	12,687	12,687
Vagn T. Raun	200	150
Allan Damsgaard	363	363
Jette Radich	12	12
Yvonne Kyed	10	0
Executive management:		
Martin Kviesgaard	726	680

**Derivative financial instruments****Fixed-rate loans hedged with interest rate swap**

The BANK of Greenland uses derivatives to ensure the interest-rate risk on fixed-rate assets and liabilities, which are measured at amortized cost price. When certain criteria are met, the security is financially treated as security of market value. Interest-rate risk on the secured assets and liabilities are included at market value as a value adjustment of the insured items. If the criteria for security are no longer fulfilled, the cumulative value adjustments of the insured item are amortized of the remainder of the duration.

**Loans**

Amortized/nominal value	110,089	120,682
Book value	136,835	142,965

**Hedged with interest rate swaps**

Synthetic principal amount/nominal value	104,783	114,461
Book value	15,230	10,704

**Fixed-interest loans without hedging**

Amortized nominal value	15,869	14,712
Book value	19,554	17,698

Furthermore, The BANK of Greenland has entered into interest rate swaps for a total of DKK 35 million to partially cover the interest-rate risk on the Bank's bond holding.

**Derivative financial instruments**

	<b>Nominal value</b>	<b>Positive market value</b>	<b>Negative market value</b>	<b>Net</b>
<b>2014</b>				
<b>Bond spot</b>				
Purchases	0	0	0	0
Sales	2,378	0	41	41
<b>Total</b>	<b>2,378</b>	<b>0</b>	<b>41</b>	<b>41</b>
<b>Share spot</b>				
Purchases	97	-6	1	-5
Sales	97	-1	6	5
<b>Total</b>	<b>194</b>	<b>-7</b>	<b>7</b>	<b>0</b>
<b>Currency contracts</b>				
Swaps	86,115	0	3,487	3,487
<b>Total</b>	<b>88,687</b>	<b>-7</b>	<b>3,535</b>	<b>3,528</b>
<b>2013</b>				
<b>Bond spot</b>				
Purchases	0	0	0	0
Sales	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Share spot</b>				
Purchases	17	0	1	1
Sales	17	-1	0	-1
<b>Total</b>	<b>34</b>	<b>-1</b>	<b>1</b>	<b>0</b>
<b>Currency contracts</b>				
Swaps	0	0	0	0
<b>Total</b>	<b>34</b>	<b>-1</b>	<b>1</b>	<b>0</b>

**Market value of financial assets and liabilities**

Financial instruments are measured in the balance sheet at market value or amortized cost price.

Market value is the amount which a financial asset can be traded for, or the amount a financial liability can be realized for, between willing independent parties. For financial assets and liabilities, which are priced on active markets, market value is calculated on the basis of observed market prices on the balance-sheet date. For financial instruments that are not priced on active markets, market value is calculated on the basis of generally accepted pricing methods.

Shares, etc. and derivative financial instruments are measured at market value in the accounts so that included values correspond to market values. Unlisted equity interests are measured at cost price less write-downs.



For loans, write-downs are assessed to correspond to changes in credit quality. The difference to market values is considered to be received fees and commissions, which are only due to payment after the end of the financial year; and as well as for fixed-rate loans also the interest rate independent value adjustment, which is calculated by comparing the current market interest rate with the loans' nominal interest rate.

The market value of amounts receivable at credit institutions and central banks is determined in accordance with the same method as for loans, as the Bank, however, does not at present has made write-downs on amounts receivable at credit institutions and central banks.

For variable interest-bearing financial liabilities in the form of deposits and liabilities to credit institutions measured at amortized cost price, the difference to market values is estimated to be payable interest, which only is due to be paid after the end of the financial year.

Financial instruments included at amortized cost price:

	2014	2014	2013	2013
	Amortized cost price	Market value	Amortized cost price	Market value
Amounts receivable from credit institutions and central banks	297,493	297,651	496,620	496,715
Loans and other amounts receivable	2,814,547	2,825,918	2,874,931	2,886,304
Liabilities to credit institutions and central banks	44,254	44,348	48,412	48,522
Deposits and other liabilities	3,739,768	3,741,043	3,996,169	3,997,303

## 27 Sensitivity information

In connection with the Bank's monitoring of market risk and the estimation of the adequate capital base, a number of sensitivity analyses are made, which include the following market risk variables:

### Interest rate risk:

The sensitivity analysis in relation to the Bank's interest rate risk is based on the interest rate risk key figure which is reported to the Danish Financial Supervisory Authority. This ratio shows the effect on the core capital after deduction by a change in interest rate of 1 percentage point corresponding to 100 basis points. The analysis shows that if the average interest rate on December 31, 2014 had been 100 basis points higher, the result of the year would all things equal be DKK 10.657m lower (2013 DKK 4.495m lower) mainly as a result of a negative market value adjustment of the Bank's holding of fixed-interest bonds.

### Exchange risk:

The sensitivity analyses in relation to the Bank's exchange risk is based on the currency indicator 1 key figure, which is reported to the Danish Financial Supervisory Authority. Currency indicator 1 expresses a simplified objective of the extent of the Bank's positions in foreign currency, and is calculated as the maximum of the sum of all the short exchange positions and the sum of all the long exchange positions. If the Bank on December 31, 2014 had experienced a loss of the currency positions of 2.5% of currency indicator 1, the result of the year before tax would all things equal be DKK 632m lower (2013 DKK 805m lower) mainly as a result of exchange rate adjustment on the Bank's holding of currency.

### Share risk:

If the value of the Bank's shareholding on December 31, 2014 had been 10% lower, the result of the year before tax all things equal would be DKK 6.151m lower (2013 DKK 4.783m lower) as a result of a negative market value adjustment of the share holdings. Among the unlisted shares are shares with right of repurchase, but not the obligation, of DKK 15.000m. The right of repurchase can be used once a year for a period of 14 days and expires in Q3 2019. The BANK of Greenland cannot sell the shares to a third party before expiration of the right of repurchase in 2019.

### Property risk:

If the value of the Bank's property on December 31, 2014 had been 10% lower, the negative value adjustment of property would all things equal be DKK 18.759m before tax (2013 DKK 18.927m lower).

According to the Danish Executive Order on the Preparation of Financial Statements section 132 a, the annual report must include information on the executive functions, that the members of the board of directors and executive management in financial institutions quoted on the stock exchange hold in commercial enterprises.

According to the Danish Financial Business Act section 80 (8), the Bank must at least once a year publish information about the duties, which the board of directors has approved for persons, who according to the law or articles of association are employed by the board of directors, see the act's section 80 (1). These conditions will be stated on [www.banken.gl](http://www.banken.gl).

About the member of the board of directors and the executive management in The BANK of Greenland, the following information is given at the time of publication of the annual report.

## **Director Gunnar í Liða**

*Born on April 13, 1960.*

*Joined the board of directors on April 6, 2005. Latest re-elected in 2013*

Member of the board of directors in:

- TF Holding P/F (chairman)
- Tryggingarfelagið Føroyar P/F (chairman)
- Eik Bank P/F (deputy chairman)
- Hotel Føroyar P/F (chairman)

Gunnar í Liða is a graduate of economics and has from 1988 to 2010 been employed in the financial sector on the Faroe Islands - until the end of 2010 as director of the Faroe Island's largest insurance enterprise, where he resigned the position. Furthermore, Gunnar í Liða has much experience from board assignments in Faroese enterprises and a special insight into North Atlantic economy and financing.

## **Director Kristian Lennert INUPLAN A/S**

*Born on November 30, 1956.*

*Joined the board of directors on April 8, 2003. Latest re-elected in 2014*

Director of:

Ejendomsselskabet Issortarfik ApS

Kristian Lennert is Master of Engineering (civil engineer in building construction) and has since 1984 been employed in INUPLAN A/S and since 2002 as a director of the enterprise. Kristian Lennert also has experience from board assignments in Greenlandic enterprises and has through his employments achieved insight into Greenland's economic relationships and social conditions, including in particular the building and construction area.

**Director Frank Olsvig Bagger****Ilulissat TV & Radio ApS**

*Born on April 22, 1970.*

*Joined the board of directors on April 2, 2008. Latest re-elected in 2014*

Member of the board of directors and director of:

Tankeeraq Aps

Ilulissat Marine Service ApS

In 1994 Frank Olsvig Bagger founded Ilulissat Radio & TV. Since then Frank Olsvig Bagger has been active within business life in Greenland, mainly within retail trade, but also within other industries.

**Director Anders Brøns****Polar Seafood Greenland A/S**

*Born on December 22, 1949.*

*Joined the board of directors on April 10, 1997. Latest re-elected in 2014*

Member of the board of directors and director of:

Polar Seafood Greenland A/S

Nilak ApS

Member of the board of directors in:

Minikka A/S (chairman)

Polar Raajat A/S (chairman)

Polar Seafood Denmark A/S

Polar Salmon A/S

Imartuneq Trawl A/S

Qalut Vónin A/S

Sigguk A/S (chairman)

Uiloq Trawl A/S (chairman)

Narsaq Seafood A/S (chairman)

Qajaq Trawl A/S (chairman)

Maniitsoq Raajat Aps (chairman)

Nuuk Fish Aps (chairman)

Polar Pelagic A/S (chairman)

Brdr. Siegstad Aps

Ejerforeningen B2216

Anders Brøns is commercially trained and has since 1984 worked for primarily the sea-going part of the Greenlandic fishing industry, both as active businessman on the director post in the Polar Seafood-group since 1984, and partly within the fisheries' organizations since 1977.

**Client Manager Allan Damsgaard****The BANK of Greenland A/S**

*Born on November 13, 1951.*

*Joined the board of directors on March 23, 2011*

**Client Adviser Yvonne Kyed**  
**The BANK of Greenland A/S**

*Born on January 29, 1970.*

*Joined the board of directors on March 23, 2011*

**Controller Jette Radich**  
**The BANK of Greenland A/S**

*Born on January 26, 1953.*

*Joined the board of directors on March 28, 2007. Latest re-elected in 2011*

**Director Vagn T. Raun**

*Born on April 23, 1950.*

*Joined the board of directors on March 23, 2011. Latest re-elected in 2013*

Vagn T. Raun is graduate in economics from Aarhus University and has in the period 1973 to 1977 been employed in Danske Bank. From 1977 to 2011 Vagn T. Raun has been employed in Danske Andelskassers Bank and the Association of Danske Andelskasser - latest as managing director until August 1, 2011. By the end of 2011, Vagn T. Raun retired on pension. Furthermore, Vagn T. Raun held a number of directorships in Danish financial enterprises. Vagn T. Raun has over the years built up a considerable expertise in the financial sector and the sector's specific challenges.

**Minister Counselor Lida Skifte Lennert**

*Born on December 2, 1971.*

*Joined the board of directors on March 20, 2013*

Lida Skifte Lennert is educated master of law from Copenhagen University in 1998 and has since 2008 been Minister Counselor at the Greenland Self-Government's representative office in Brussels. Lida Skifte Lennert has a.o. achieved significant insight in the raw materials' sector and in Greenland's international relations through board assignments in Nunaoil A/S and in her experience from Råstofdirektoratet, where she a.o. worked for DONG A/S and Phillips Petroleum's legal departments, as well as through her Master of Laws at the Center for Energy, Petroleum and Mineral Law and Policy at the University of Dundee in Scotland.

**Bank Director Martin Kviesgaard**  
**The BANK of Greenland A/S**

*Born on May 23, 1966.*

*Joined the executive management on March 1, 2006*

Member of the board of directors in:

Posthuset A/S

BEC a.m.b.a.

Fugleværnsfonden

# Financial calendar and stock exchange announcements

## Financial calendar for 2015

Annual Report 2014	February 17
General meeting in Nuuk	March 25
Interim report for Q1 2015	April 28
Interim report for first half-year 2015	August 12
Interim report for Q1 - Q3 2015	October 28

## Stock exchange announcements in 2014

February 19	Annual Report 2013
February 28	Notice of ordinary general meeting
March 5	Presentation of general meeting proxies to the board of directors
March 17	Presentation of general meeting proxies to the board of directors 2
March 19	Progress of ordinary general meeting in The BANK of Greenland
March 24	Sale of Nets shares
April 23	Report for Q1 2014
June 10	Reporting of insider trading
August 12	Large shareholder information - Greenland Self-Government
August 12	Large shareholder information - Greenland Holding A/S
August 13	Interim report first half-year 2014
August 13	Financial calendar 2015
October 22	Report for Q3 2014



## The BANK of Greenland

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Registered municipality Nuuk/Sermersooq

## Board of directors

Director  
Gunnar í Liða  
Chairman



Director  
Kristian Lennert  
Deputy chairman



Director  
Frank Olsvig Bagger



Director  
Anders Brøns



Client Manager  
Allan Damsgaard\*



Client Adviser  
Yvonne Kyed\*



Minister Counselor  
Lida Skifte Lennart



Controller  
/ Accounting supporter  
Jette Radich\*



Director  
Vagn T. Raun



\* Employee representatives

## Executive Management

Bank Director  
Martin Kviesgaard



## Audit and risk committee

Consists of the entire board of directors.

## Remuneration committee

Consists of the board of directors' chairman, deputy chairman, and a member of the board of directors elected by the employees.

## Nomination committee

The nomination committee consists of the board of directors' chairman, deputy chairman, and an external member.

## Audit

Deloitte  
Statsautoriseret Revisionspartnerselskab  
Imaneq 33, Nuuk

## Fotografer:

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**The BANK of Greenland**