The BANK of Greenland

ADEQUATE CAPITAL BASE AND SOLVENCY REQUIREMENT

Report Q2 2020

CVR no. 80050410

The BANK of Greenland

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METHOD TO CALCULATE ADEQUATE CAPITAL BASE

The Bank's method of assessing whether the internal capital is sufficient to support current and future activities (the solvency requirement) follows the Bank's ICAAP (Internal Capital Adequacy Assessment Process).

In the ICAAP, the risks to which the Bank is exposed are identified, in order to assess the risk profile. Once the risks have been identified, it is assessed how these risks can be reduced, for example via procedures, contingency plans, etc. It is also assessed which risks entail a capital requirement.

The internal capital (solvency requirement) is the Bank's own assessment of the capital requirement, as a consequence of the risks assumed by the Bank. On a quarterly basis, the Bank's Board of Directors discusses the determination of the internal capital (solvency requirement), in order to ensure that it is adequate to support current and future activities. The discussions are based on a recommendation from the Bank's Executive Management Board. The recommendation includes the proposed size of the internal capital (solvency requirement). Based on the discussions, the Board of Directors adopts the calculation of the Bank's internal capital (solvency requirement), which must be sufficient to cover the Bank's risks and support current and future activities.

In addition, once a year the Board of Directors exhaustively discusses the method of calculating the Bank's internal capital (solvency requirement), including the risk areas and benchmarks which should be taken into consideration on calculating the internal capital (solvency requirement).

The internal capital (solvency requirement) is compiled on the basis of an 8+ method, which includes the risk types for which capital is assessed to be required: credit risks, market risks, operational risks, other risks, and supplements for statutory requirements. The assessment is based on the Bank's risk profile, capital and forward-looking considerations that may be of significance, including the budget.

The Danish Financial Supervisory Authority has issued a "Guide concerning adequate capital base and solvency requirements for credit institutions". The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark has also issued a solvency requirement model. Both the FSA's guide and the Association of Local Banks' solvency requirement model, which the Bank uses, are based on the 8+ method, for which the starting point is the minimum requirement of 8% of the total risk-weighted exposures (pillar 1 requirement), with additions for risks and conditions that are not fully reflected in the calculation of the risk-weighted items.

In addition, the FSA's guide sets out benchmarks for when the FSA in principle assesses that pillar 1 is not adequate within the individual risk areas, so that supplements must be allocated in the solvency requirement. Furthermore, to an extensive extent methods have been set up for the calculation of the size of the supplement within the individual risk areas.

Even though the Danish FSA sets out benchmarks for most areas, for all areas the Bank assesses whether the stated benchmarks take sufficient account of the Bank's risks, and individual adjustments are made to the necessary extent. The Bank's own history is used for this purpose.

METHOD TO CALCULATE ADEQUATE CAPITAL BASE

The Bank applies the following template on compiling the internal capital (solvency requirement)

	(DKK 1,000)	%
1) Pillar 1 requirement (8% of the total risk exposure)		8
+ 2) Revenue (capital to cover risk as a consequence of weak revenue)		
+ 3) Growth in lending (capital to cover organic growth in the business volume)		
+ 4) Credit risks, of which 4a) Credit risks on major customers in financial difficulties 4b) Other credit risks 4c) Name concentration risks 4d) Sectoral concentration risks		
+ 5) Market risks, of which 5a) Interest rate risks 5b) Share risks 5c) Currency risks		
+ 6) Liquidity risks (capital to cover a higher cost of liquidity)		
+ 7) Operational risks (capital to cover operational risks in addition to pillar 1)		
+ 8) Gearing (capital to cover risks as a consequence of high gearing)		
+ 9) Any supplements as a consequence of statutory requirements		
Total = capital requirement/solvency requirement - Of which for credit risks (4) - Of which for market risks (5) - Of which for operational risks (7) - Of which for other risks (2+3+6+8) - Of which supplements as a consequence of statutory requirements (1+9)		
The total risk exposure		

In the view of the BANK of Greenland, the risk factors included in the model cover all of the risk areas which legislation requires the Bank's management to take into account on determining the internal capital (solvency requirement), and the risks which the management finds that the Bank has assumed.

In addition, the Board of Directors and Executive Management Board must assess whether the capital base is adequate to support coming activities. For the Bank, this assessment is part of the general determination of the internal capital (solvency requirement).

SOLVENCY REQUIREMENT AND ADEQUATE CAPITAL

In DKK 1,000

The BANK of Greenland's reported individual capital requirement

In DKK 1,000	End of Q2 2020		End of 2019	
	Capital requirement	Solvency requirement	Capital requirement	Solvency requirement
Pillar 1 requirement	367,364	8.0 %	368,576	8.0 %
Credit risk	122,165	2.6 %	132,315	2.9 %
Market risk	17,615	0.4 %	21,338	0.4 %
Operational risk	22,168	0.5 %	22,229	0.5 %
Other risk	3,365	0.1 %	2,100	0.1 %
Capital and solvency requirement	**532,677**	**11.6 %**	**546,558**	**11.9 %**

The bank has on the basis of the capital requirement calculated an immediate excess cover of TDKK 539,077, which constitutes the difference between the present capital requirement (solvency need) and the actual capital (capital ratio)

Surplus liquidity cover, end of Q2 2020
In DKK 1,000

Capital base	1,071,754
Adequate capital	532,677
Surplus liquidity cover	**539,077**

Capital ratio	23.3%
Required internal capital (solvency requirement)	11.6%
Surplus solvency in % points	**11.7%**

The BANK of Greenland was designated as an SIFI institution in Q2 2017. In view of the new SIFI requirements concerning capital reserves and new requirements concerning impairment liabilities (MREL requirements), the Board of Directors that the overall capital reserves must be increased. The aim of the Board of Directors is for the Bank to fulfil the maximum MREL capital requirements in full, in good time before the deadline for full phasing-in, and also that there must be sufficient capital for growth in the Bank's business activities. The BANK of Greenland has not yet been informed of the Bank's MREL capital requirements. When the final MREL capital requirements are known, more precise capital planning will be possible, including which capital instruments can be put to good use.

Solvency excess cover as above (percentage point)	11.7 %
SIFI buffer requirement	1.5 %
Capital reserve buffer requirement	2.5 %
Solvency excess cover hereafter	**7.7 %**

The Board of Directors has decided to maintain the surplus capital cover target at 8-10% excluding buffer requirements until final NEP capital requirements are determined.

SOLVENCY REQUIREMENT AND ADEQUATE CAPITAL

In DKK 1,000

Credit risk: Risk of loss as a consequence of debtors' or counterparties' default on actual payment obligations, in addition to what is covered by pillar 1, including major customers facing financial difficulties, and concentration risk on individual exposures and sectors.

Market risk: Risk of loss as a consequence of potential changes in interest rates, share prices and exchange rates, in addition to the risk covered by pillar 1. The starting point is the maximum risks which the Bank can assume within the limits set by the Board of Directors for the Executive Management Board's authority to assume market risks, in accordance with the Danish Financial Business Act.

Operational risk: Risk of loss as a consequence of inadequate or deficient internal procedures, human errors, IT systems, etc. and external events, including legal risks, in addition to those covered by pillar 1. The Bank applies the basic indicator method to compile the solvency requirement for the operational risk.

Other risk: Any capital to cover risk as a consequence of weak revenue, any capital to cover growth in the business volume, and any capital to cover a higher cost of liquidity from professional investors.

Other risk areas assessed in relation to determining the solvency requirement.

- External risks related to legislation and compliance
- Other factors – recruitment, method risk, etc.

The determination of the influence of these areas on the solvency requirement ratio is either calculated directly via supplementary calculations, the Bank's history, or by the management's estimated assessment of these risk areas' influence on the compilation of the solvency requirement.

Statutory requirement: Covers the 8% requirement in pillar 1, cf. Section 124(2) 1) of the Danish Financial Business Act, and any supplements in relation to the situations where the requirements in the Financial Business Act give a direct supplement to the solvency requirement. At the present time, the BANK of Greenland has not allocated further capital for this in addition to the 8% requirement, since the other requirements are not assessed to require a supplement at the present time.

MINIMUM CAPITAL REQUIREMENT OF 8% FOR EACH EXPOSURE CLASS

In DKK 1,000

Since the Bank uses the standard method to calculate the risk-weighted exposures, the minimum capital requirement of 8% is shown per exposure class.

Minimum capital requirement of 8%	**End of Q2 2020**	**End of 2019**
Exposures to central governments and central banks	-	-
Exposures to regional and local authorities	-	-
Exposures to public entities	-	-
Exposures to multilateral development banks	-	-
Exposures to international organisations	-	-
Exposures to institutions	6,566	5,328
Exposures to companies	127,969	118,117
Retail exposures	75,668	75,685
Exposures secured by real estate mortgages	52,600	52,226
Exposures on default	5,784	5,932
Exposures related to a particularly high risk	6,817	6,542
Exposures in the form of covered bonds and covered mortgage-credit bonds	-	-
Items representing securitisation positions	-	-
Exposures to institutions and companies with short-term credit assessment	-	-
Exposures which are units or shares in CIUs	-	-
Share exposures	355	341
Other items	34,675	37,619

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RISK-WEIGHTED EXPOSURES

In DKK 1,000

Risk-weighted exposures	End of Q2 2020	End of 2019
Credit risk	3,880,422	3,772,382
Market risk	107,498	229,745
Operational risk	600,646	600,646
CVA risk	3,481	4,432
Weighted items in total	**4,592,047**	**4,607,205**

Risk-weighted items for market risk	End of Q2 2020	End of 2019
Debt instruments	99,848	220,069
Shares	0	0
Exchange rate risk	7,650	9,676
Weighted items in total	**107,498**	**229,745**