

Chairman's Verbal Report

Annual General Meeting, 24 March 2021

Due to the special circumstances imposed by the Covid-19 restrictions, there is limited opportunity to attend the annual general meeting in person. Instead, we have for the first time made it possible to livestream the annual general meeting via the VP InvestorPortal. I would like to welcome everyone here at the bank, and also you who are with us via livestream.

The BANK of Greenland achieved a profit before tax of DKK 130.9 million in 2020. At the start of 2020, the BANK of Greenland expected a profit before tax in the interval of DKK 120-140 million, and in the light of Covid-19, the Board of Directors assesses the profit to be satisfactory. Managing Director Martin Kviesgaard will later review the Bank's annual report in more detail.

After several years of economic progress, Greenland's economy, like the rest of the global economy, saw a downturn in 2020, due to Covid-19. In our assessment, however, the level of activity in 2020 was by and large at the 2019 level, and Greenland was thus significantly less severely affected than most other countries in this respect.

Greenland's economy came through 2020 so favourably as a consequence of two mutually opposing factors, which overall equalised each other.

On the one hand, the tourism industry, particularly hotels, saw a strong downturn as a consequence of lockdowns and travel restrictions. Fisheries were also adversely affected, due to declining fish prices.

On the other hand, the level of activity in the building and construction sector increased in 2020. Moreover, some sectors prospered as a consequence of the reduced mobility, which increased demand for local goods and services. Our overall assessment is that the negative performance of tourism and fisheries was offset by positive growth in retail and construction.

To a significant extent, the relatively sound performance in 2020, despite the Covid-19 crisis, is due to the authorities' effective handling of the situation. Consistent measures to avoid new infection and strong collaboration between the Greenland Government and the labour market parties on the establishment and implementation of support measures were of critical importance. The economy was also stabilised by the block grant, which is independent of the crisis and was thereby unchanged at around 30% of the public sector's revenue.

We expect that growth in 2021 will depend on the course of the vaccination programme in Greenland, and particularly in the rest of the world. We have to say that we also switch between optimism and pessimism, but on the basis of increased construction, a larger prawn quota, and the expectation of moderately rising fish prices and a gradual resumption of flights to and from Greenland, we assess that there is a basis for positive GDP growth in 2021.

In 2020, the BANK of Greenland suffered losses on business customers who, due to the crisis, could no longer fulfil their obligations to the Bank, and this is expected to continue on a smaller scale in 2021. The Bank has therefore made a substantial provision for losses as a consequence of the crisis. This level of credit loss provisions reflects a precautionary approach, however, as the Bank generally finds that businesses fared well during the first year of Covid-19. Even though only a very small proportion of businesses face difficulties, the credit losses do reflect how the tourism industry, in particular, is affected.

In the light of the Covid-19 crisis, the Greenland Government adopted a number of support packages, which naturally increased public expenditure in 2020. The deficits in 2020 and 2021 are substantial, running to several hundred million kroner; but in view of how severely other countries' public finances are affected, and Greenland's low debt, they are not alarming.

With regard to the individual sectors, some of them "stand out" as particularly affected. Fisheries saw significant price declines for the most important species, but appear to have sold by and large the same volumes in 2020 as in 2019. As a consequence, catch landing could be held relatively unchanged from 2019. This is important for the local communities that are highly dependent on fisheries.

Greenland has only little influence on the price development for fisheries products, but we do determine how the resources are managed. The prawn quota increase of 5% is positive and in line with the biological advice. This will also ensure that this vital fishing activity achieves MSC certification, and thereby better sales prices.

The opposite applies to the quotas for cod and inshore Greenland halibut, where once again the quotas set significantly exceed the level of the biological advice. This is neither economically nor biologically sustainable.

This is a serious challenge, as the BANK of Greenland has highlighted for several years. The consequences are very clearly apparent. Every month, there are inshore fishermen who are unable to meet their current obligations and face financial difficulties. It is alarming that skilled, hardworking fishermen cannot make an adequate living from their hard work at sea. As a consequence, since 2019 the BANK of Greenland has declined credit finance applications from new inshore fishermen. This is due to the need to reduce the number of fishermen and the pressure on fish resources, and to protect the fishermen who are well-established in this industry. The BANK of Greenland has previously described the situation as a "gradual collapse" of inshore fishing, and the course of 2020 has not changed this assessment.

Covid-19 has had a severe impact on the tourism industry. After several years' progress, in 2020 tourism growth braked sharply. Lockdowns and travel restrictions significantly reduced the number of foreign visitors, and Greenland's entire foreign tourism season was more or less lost.

The decline in tourism is a setback for Greenland's tourism ambitions, and has led to the deferral of a number of tourism investments, while the players in the industry are severely affected financially. But when a crisis suddenly arises, it is necessary to think out of the box. One example of this innovation was Visit Greenland's "Nunarput Nuan – our wonderful Greenland" campaign, which encouraged many residents of Greenland to experience their own country. As a consequence, some tourism operators were able to maintain some of their activity in 2020.

Tourism is designated as one of the elements in establishing the foundations for a self-sufficient economy. It is therefore necessary for tourism to return to Greenland. Sustainability plays a key role in determining what future tourists would like to experience, and Visit Greenland also has sustainability as one of the fundamental principles in its strategy for 2020-2023.

In contrast to many other sectors, construction activity did not slow down in 2020 as a consequence of Covid-19. In other words, construction activity could continue by and large unchanged, despite the lockdowns in the spring, and was thereby also a key stabilising economic factor.

The level of activity is still high, which is reflected in Copenhagen Economics' cyclical indicator, in which all responding companies stated that they experienced a shortage of manpower.

The shortage of manpower has contributed to pushing up the prices of projects. On this basis, some projects were not initiated as planned in 2020. The BANK of Greenland assesses that the high level of construction activity will continue in the coming years. This is because some projects that should have been executed by now have been postponed until the following years.

Greenland's housing market has not been affected by the Covid-19 crisis, and the BANK of Greenland assesses that the market's performance is driven by local conditions. In the largest market, residential properties in Nuuk, sales levels were unchanged. After prices increased from 2018 to 2019, owner-occupied flats are sold at prices close to the 2019 level. In the other large towns, sales are limited by the market's modest size, yet the Bank nonetheless assesses that homes are sold at stable prices, while in Ilulissat there is a degree of upward pressure on housing prices.

So far, sustainability has had only little impact on residential construction and the housing market, but the green transformation of the energy sector, increasing energy optimisation and materials requirements, and the opportunities for e.g. environmental loans for energy optimisation, can be expected to gradually drive property values up or down, depending on the sustainability rating of the individual home.

Shareholders who have read the entire "Greenland's and Society" section of the Bank's annual report will hopefully be in no doubt that sustainability is a focus area that the Bank considers to be a vital factor in ensuring the future competitiveness of Greenland and our businesses.

Greenland's increased exposure puts our country in the spotlight, and what we have to sell will be assessed according to international standards. The sustainability agenda is already making its mark on fisheries and tourism, and we can expect that it will soon be applied to virtually every sector. The BANK of Greenland can identify two important steps on the path to ensuring that companies and society harvest the opportunities and avoid the risks:

First of all, we believe that the Government of Greenland must continue to adopt and communicate ambitions and, not least, strategies for the economy, under the common cause of *sustainability*. Solutions can be based on one sector at a time, but should preferably encompass both the public and private sectors.

Secondly, there is a need for companies to develop and change their business models, so that they can harvest the benefits and address the risks entailed by the sustainability agenda.

In all circumstances, the BANK of Greenland views this as a very exciting future, presenting unique opportunities.

Turning to ourselves, the BANK of Greenland achieved a profit before tax of DKK 130.9 million in 2020, which the Board of Directors considers to be satisfactory. The return on equity has decreased as a consequence of the lower profit than in 2019, which was a record year, and also as a consequence of higher equity since, in line with the authorities' expectations, the Bank did not pay out dividend for 2019. As stated, Managing Director Martin Kviesgaard will review the financial statements in greater detail, including the focus on core operations.

A considerable effort throughout the Bank, and loyal and enterprising customers, are the background to very positive growth in lending and guarantees of no less than DKK 390 million, to a record level of DKK 5,628 million. The increase in lending to just over DKK 4 billion primarily took place in the last part of the year, while the level of lending was rather lower in Q2 and Q3.

Lending growth and focus on e.g. pension advisory services and cooperative projects, together with Covid-19 handling of customers, meant that this was a very busy time for the Bank. In 2020, this required an extraordinary capacity for adjustment, and I know that our employees have made an impressive effort to be successful across the board.

Turning to a subject of interest to shareholders, the Board of Directors proposes payment of dividend at DKK 25 per share. Last year, this was not possible, due to the authorities' clear message to the financial sector to refrain from paying dividend. This year, there have also been clear guidelines from the Danish FSA for how banks should approach dividend distribution. The Bank has performed the required stress tests, and with dividend of DKK 25 per share, or approximately 47% of the profit after tax, we are within the limits set, and this is something we can also justify. I also believe that this is among the very highest dividend rates in the sector in 2020.

The Bank's solvency ratio is thereafter 23.5, compared to 23.4 in 2019. We believe that our capital position is strong, but we naturally also consider whether the capital structure should be different, going forward. This will depend on several circumstances, however, including official requirements, market conditions and the Bank's business growth expectations. The Bank is not yet subject to a requirement concerning impairment liabilities or a phasing-in rate, so that for the time being we will maintain the current capital level.

Greenland's economic course was clearly affected by Covid-19 in 2020 and this will continue in 2021. In the slightly longer term, increased activity related to the construction of new airports, for example, must be expected. The BANK of Greenland expects positive development in traditional banking activities once again in 2021.

The Bank will naturally be challenged by the continued low level of interest rates and increasing compliance-related costs. The Bank's value adjustments are affected by the customary capital market uncertainty. We nonetheless expect losses and write-downs at a sustained low level, and the Covid-19 risk for 2021 is assessed to be addressed with the impairment write-downs made in 2020. The Bank expects a profit before tax of DKK 115-135 million for 2021.

In 2019, the Bank received an award for its CSR reporting, chosen from among more than 600 reports. In 2020, our CSR report was once again on the list of fine reports from small and medium-sized enterprises. The latest CSR report can be read in "Report on the BANK of Greenland's corporate social responsibility in 2020" on the Bank's website. On the website there is also a description of how we relate to the "Recommendations for corporate governance".

To support our focus on good management and ethical responsibility, the Bank adheres to the rules for the bank to have a "Policy for a sound corporate culture". A sound corporate culture includes many things, ranging from CSR and the UN Global Compact, to measures to prevent money laundering and to comply with rules for good practice. The Bank has implemented the basis for a sound corporate culture as an integrated element of performance appraisals with employees. Furthermore, a whistleblower scheme has been established, and all employees attend an annual anti-money laundering course, while the Bank reports annually on its compliance with the anti-money laundering regulations.

In a subsequent item of the agenda, the Board of Directors has a proposal for amendment of the remuneration policy. It is specified who the Bank's significant risk takers are, and it is arranged for the vice chairman to receive 1.5 times the remuneration for membership of the risk and audit committees. There is a more detailed description of the Bank's various forms of remuneration and the purpose thereof, and of how the remuneration policy will now be submitted for approval by the annual general meeting, as a minimum every four years. The last-mentioned changes are based

on the implementation of the Shareholder Rights Directive by Danish banks. Since Greenland is not an EU member state, the Bank is not obliged to make these changes, but we have nonetheless chosen to comply with the standard. I must emphasise, however, that besides the remuneration to the vice chairman, no changes have been made to the underlying employment agreements, so that this solely concerns achieving greater transparency in the Bank's reporting of matters concerning remuneration.

The Board of Directors assesses that the remuneration policy has an appropriate balance in terms of motivating long-term value creation without supporting excessive risk taking.

The Board of Directors also proposes an amendment to the articles of association so that, based on specific assessment, the Board of Directors may choose to hold a fully online general meeting. Due to Covid-19, emergency legislation was passed in 2020 to make this legal in Denmark, even though it was not permitted pursuant to the Danish banks' articles of association. This Act has not been adopted in Greenland, so instead we propose that this be made possible under the Bank's articles of association.

In 2020, the BANK of Greenland's Executive Management comprised Managing Director Martin Kviesgaard. In accordance with the Danish Financial Activities Act, the Chairman's report must include a report on the remuneration of the company's executive management. This remuneration amounted to DKK 3,338 million in 2020, compared to DKK 3,254 million in 2019. The remuneration package comprises salary including pension, holiday travel and company car, and telephone and Internet according to applicable rules in Greenland. Besides the remuneration package, severance pay of DKK 278,000 has been calculated for the year. This will only be paid in certain specific circumstances and provided that the Managing Director continues to be employed for a number of years.

Before I conclude the report from the Board of Directors, I would like to take this opportunity to thank the Bank's many customers who have entrusted us with their financial business, and also to thank the many business partners and, not least, the Bank's shareholders, for good and constructive cooperation during the past year. I would also like to thank the Bank's employees for their extraordinary efforts in 2020, and in particular for the fine way they have handled the challenges related to Covid-19.

In accordance with the articles of association, Gunnar í Líða, Christina Finderup Bustrup and Lars Holst resign from the Board of Directors on the expiry of their election terms. The Board of Directors proposes the re-election of Gunnar í Líða and Lars Holst for a term of two years, and the new election of Ellen Dalsgaard Zdravkovic, CEO of Nærpension, for a term of two years. I would like to thank Christina Finderup Bustrup for her years as a member of the Board of Directors, and the rest of my colleagues on the Board of Directors for good and constructive cooperation during the past year.

Thank you for your attention!