The BANK of Greenland

ADEQUATE CAPITAL BASE AND SOLVENCY REQUIREMENT

Report Q3 2021

CVR no. 80050410

The BANK of Greenland

TABLE OF CONTENTS

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).

The BANK of Greenland

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 2021		End of 2020	
	Capital requirement	Solvency requirement	Capital requirement	Solvency requirement
Pillar 1 requirement	399,584	8.0 %	387,576	8.0%
Credit risk	96,472	1.9 %	97,538	2.0%
Market risk	18,199	0.4 %	18,149	0.4%
Operational risk	10,195	0.2 %	23,179	0.5%
Other risk	7,254	0.2 %	17,887	0.3%
Capital and solvency requirement	**531,704**	**10.7 %**	**544,329**	**11.2%**

The bank has on the basis of the capital requirement calculated an immediate excess cover of TDKK 599,825, which constitutes the difference between the present capital requirement (solvency need) and the actual capital (capital ratio).

Surplus liquidity cover, end of Q3 2021
In DKK 1,000

Capital base	1,131,529
Adequate capital	531,704
Surplus liquidity cover	**599,825**
Capital ratio	22.7%
Required internal capital (solvency requirement)	10.7%
Surplus solvency in % points	**12.0%**

The BANK of Greenland was designated as an SIFI institution in April 2017. In view of the SIFI requirements concerning capital reserves and the Danish Financial Supervisory Authority’s decision of 4 October concerning the requirement for own funds and eligible liabilities (MREL requirement) of 30.4% of the Bank’s risk-weighted assets as at the end of 2020, the Board of Directors expects the total capital reserves to be increased.

The MREL requirement will be phased in during the 2022-2027 period. The BANK of Greenland expects to cover most of the MREL requirement by issuing Tier 3 capital and to a lesser extent with Tier 1 and Tier 2 capital. On 13 October 2021, the BANK of Greenland entered into an agreement to issue DKK 50 million Senior Non-Preferred, as part of the ongoing process of optimising the structure of the Bank’s own funds and eligible liabilities (MREL). In the stock exchange announcement dated 4 October 2021, the Bank notified that, on the basis of the decision on the MREL requirement, new capital targets will be disclosed by no later than the submission of the report for 2021.

Solvency excess cover as above (percentage point)	12.0 %
SIFI buffer requirement	1.5 %
Capital reserve buffer requirement	2.5 %
Solvency excess cover hereafter	**8.0 %**

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.

The BANK of Greenland

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 Q3 2021**	**End of 2020**
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	4,746	5,231
Exposures to companies	139,214	152,171
Retail exposures	81,411	71,883
Exposures secured by real estate mortgages	50,013	53,929
Exposures on default	9,559	5,505
Exposures related to a particularly high risk	14,081	4,613
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	8,767	8,091
Other items	29,127	26,570
Credit- and counterpart risks in total	**336,918**	**327,993**

The BANK of Greenland

RISK-WEIGHTED EXPOSURES

In DKK 1,000

Risk-weighted exposures	End of Q3 2021	End of 2020
Credit risk	4,211,475	4,099,907
Market risk	166,978	126,259
Operational risk	615,611	615,611
CVA risk	738	2,928
Total risk-weighted exposures	**4,994,802**	**4,844,705**

Risk-weighted items for market risk	End of Q3 2021	End of 2020
Debt instruments	163,097	123,684
Shares	0	0
Exchange rate risk	3,881	2,575
Total items with market risk	**166,978**	**126,259**