Translation from Danish by The Bank of Greenland of a memorandum dated 12 March 2020 from the Danish Financial Supervisory Authority (finanstilsynet). In case of discrepancies, the Danish version prevails.

Danish Financial Supervisory Authority
12 March 2020

Report on inspection of GrønlandsBANKEN A/S

In November 2019, the Danish FSA inspected GrønlandsBANKEN A/S, where the most significant risk areas were reviewed according to a risk-based assessment, with greatest weight being given to the areas with the greatest risk.

In addition to BankNordik P/F, the BANK of Greenland is the only bank in Greenland and has a significant share of the Greenlandic banking market. In 2017, the bank was designated as an SIFI institution.

Due to its location in Greenland, the bank is exposed to the development in Greenland's economy, including the development in fisheries. In addition to the head office in Nuuk, the BANK of Greenland has five branches in Greenland. The bank wishes to grow in step with the economic growth in Greenland.

Compared to Danish banks, the bank has sound earnings and capital. The capital base solely comprises the actual core capital. The BANK of Greenland is also highly exposed to the property market, including the real estate and building and construction industries. The bank is thereby vulnerable to a downward change in the price development in the property market.

The bank also has a high concentration of large loans, which increases the bank's risk profile, since impairment of individual loans can have a great impact on the development in write-downs and the solvency requirement, for example.

In the inspection, the Danish FSA reviewed 75 loans, of which 25 large loans exceeding 2 per cent of the capital base, 25 loans with an enhanced credit risk, and 25 credit-impaired loans.

The review showed that the bank did not adequately consider the customers' credit quality, profitability and tied-up capital. The bank also lacked insight into capital conditions at Group level. In some large building loan cases, the authorisation basis was not adequate in terms of describing significant risks. The bank was therefore ordered to ensure that an adequate decision-making basis is prepared.

The bank was also ordered to strengthen its monitoring of weak customers, including by preparing operational action plans and impairment calculations for all customers for whom there are objective indicators of impairment (OII).

The bank's internal credit controls must be documented to a greater extent. Furthermore, the reporting of derogations and deviations from the credit policy must be increased, concerning which the bank received an order.

The bank also received an order to ensure that the risk officer's monitoring and independent control of the credit area is expanded, including the assessment of concentration risk.

The Danish FSA noted that the bank's compliance function also had tasks in the anti-money laundering area, including the handling of alarms in the event of unusual or suspicious behaviour. On this basis, the bank was ordered to ensure that the compliance function is independent.

The inspection gave reason to increase the bank’s write-downs by DKK 14.3 million. On the basis of the inspection, the Danish FSA assessed that the bank had not taken sufficient account of risks associated with large customers with financial problems, as well as operational risks. The bank increased the solvency requirement from 11.2 per cent to 11.9 per cent as of 30 September 2019, which the Danish FSA assesses to be adequate. Lastly, the bank was ordered to ensure responsible compilation of the individual solvency requirement.