Grønlandsbanken A/S
CVR-nr. 80050410

The BANK of Greenland

Risk Report 2021

GrønlandsBANKEN

Table of Contents

Risk management

Risk management in general

The BANK of Greenland works with a balanced risk profile.

The Bank's Board of Directors continuously monitors the Bank's risks and follows up on this on a regular basis.

On the basis of the Bank's business model, the Board of Directors has laid down an overall framework and principles within the various risk areas. The Bank is continuously developing its tools for the identification and management of risks.

The Board of Directors has appointed an Audit Committee and a Risk Committee. Both the Audit Committee and the Risk Committee consist of the full Board of Directors, and it has therefore been found most appropriate to maintain the same structure as in the Board of Directors, so that the Chairman of the Board of Directors is also the Chairman of the Audit Committee and the Risk Committee.

The tasks of the Audit Committee mainly concern the monitoring of:

- the presentation of accounts process;
- the effective functioning of the Bank's internal control system;
- the effective functioning of the Bank's risk management systems;
- monitoring of the internal audit;
- the statutory audit of the Annual Report; and
- control of the independence of the auditor.

The tasks of the Risk Committee mainly concern the monitoring of:

- the Bank's current and future risk profile and strategy;
- the implementation of the Board of Directors' risk strategy in the organization;
- ensuring that the Bank's products and services are in accordance with the business model and risk profile, etc.;
- whether the incentives in the Bank's remuneration structure take account of the Bank's risks, etc.

In this respect, the Bank's control environment for the calculation of the significant accounting estimates is reviewed and assessed.

The committees meet immediately prior to the meetings of the Board of Directors.

The risk management function is anchored in the Executive Management. The day-to-day risk management is undertaken by the Bank's Credit Office/International Department, with independent control thereof by the Accounting Department.

The BANK of Greenland applies the standard method to credit and market risks, and the basic indicator method to operational risks.

The most significant risks related to the operation of the BANK of Greenland, and which are of significance to the Bank's growth, earnings and financial position, are the following:

Credit risk:: Risk of loss as a consequence of customers or counterparties defaulting on payment obligations.

Market risk:: Risk of loss as a consequence of fluctuation in the fair value of financial instruments and derivative financial instruments, due to changes in market prices. The BANK of Greenland classifies three types of risk within the market risk area: interest rate risk, currency risk and share risk.

Liquidity risk: Risk of loss as a consequence of the financing costs increasing disproportionately, the risk that the Bank is prevented from maintaining the adopted business model as a consequence of a lack of financing/funding, or ultimately, the risk that the Bank cannot fulfil agreed payment commitments when they fall due, as a consequence of the lack of financing/funding.

Operational risk:: The risk that the Bank in full or in part incurs financial losses as a consequence of inadequate or inappropriate internal procedures, human errors, IT systems, compliance or other business risks, etc.

Risk on the capital base: The risk that the Bank is unable to fulfil the minimum statutory requirement of the capital ratio or to fulfil the individual solvency requirement and other capital requirements, including buffer requirements and MREL-requirement.

Gearing risk: If there is a risk of excessive gearing, the risk is understood to be a result of the Bank's vulnerability as a consequence of gearing or possible gearing, which may require unforeseen corrective measures in the Bank's business plan, including emergency sale of assets, which could entail losses or adjustments to the value of the remaining assets.

Credit risk

The BANK of Greenland's objective in the credit area is to limit losses on lending, credits and guarantees. The limitation of losses is, however, subject to the consideration that the credit area is the Bank's most significant earnings area, so that earnings and risk are subject to continuous assessment.

The BANK of Greenland's management of credit risks takes place via the policies and procedures drawn up, as determined by the Bank's Board of Directors, in order to ensure that lending is to customers who, via solvency and earnings, ensure good credit quality in relation to the margin paid.

Credits, loans and guarantees are authorized at various levels in the Bank, depending on the size and risk of the exposure. There is continuous follow-up of all lending and guarantees above a fixed limit, to ensure that any signs of a customer's payment failure are identified as early as possible, thereby making it possible to avoid a loss, in dialogue with the customer.

Concentration risk

The Bank's risk concentration in lending and guarantees is an element of the credit risk management. The Bank seeks appropriate distribution on lending and guarantees to the business and private segments, respectively. A balanced sectoral distribution of lending and guarantees to the business sector is also aimed for. The distribution is assessed to be appropriate in view of the possible sectoral diversification in the Bank's market area.

In accordance with the Supervisory Diamond, the Bank's objective is that lending and guarantee debtors concerning “real property” and “execution of construction projects” may at no time exceed 25% of the Bank's total lending and guarantees.

The BANK of Greenland has a policy that the sum of the 20 largest exposures may not exceed 175% of the capital base.

Market risk

The Bank's objective is to minimise the losses which may arise as a consequence of e.g. unforeseen development in the financial markets.

Policy The BANK of Greenland's market risk is managed by fixed limits for a large number of risks.

Equity and currency positions are fixed within a framework in relation to core capital after deductions.

The share portfolio in 2021 amounts to TDKK. 138,902, of which sector equities of TDKK 111,564.

Fixed-income positions must be held within a given interest rate risk of maximum 3%. At the end of 2021, the total interest rate risk amounted to 1.8% of the core capital after deductions. The Bank has outsourced the portfolio management of the Bank's bond holdings to an external portfolio manager. The portfolio manager is subject to a risk framework with a duration of 0.5-1.5 years.

The BANK of Greenland has a limited position in foreign currency. The currency exposure at the end of 2021, measured by currency indicator 1, is TDKK 9,799, which is equivalent to 0.8% of the core capital after deductions.

Compilation and monitoring take place on a daily basis and the Executive Management and Board of Directors receive ongoing reports based on the guidelines laid down.

Liquidity risk

The BANK of Greenland's objective is to ensure adequate and stable liquid reserves, and that the LCR ratio compiled according to the rules in CRR, Articles 411-428, is at least 140 percentage points at any time. The Bank has the objective, however, that the constant LCR ratio is at the level of 175-225%. At the end of 2021, the Bank's LCR is 238.6%.

Policy: The liquidity reserve is compiled is accordance with the rules in CRR, or other applicable regulatory liquidity requirements.

The Bank's liquid reserves are managed by maintaining sufficient liquid assets, ultra-liquid securities, and level 1A, level 1B, and 2A and 2 B assets, and the ability to close market positions and utilise lines and committed lines.

The BANK of Greenland's funding is based primarily on deposits.

Compilation and monitoring take place on a daily basis and the Executive Management and Board of Directors receive ongoing reports based on the guidelines laid down.

Operational risk

The BANK of Greenland's objective is that operational risks are continuously limited, with due consideration of the related costs.

The BANK of Greenland has drawn up policies and emergency plans for physical disasters and IT outages. The Bank's IT operations take place at Bankernes EDB Central (BEC). The Bank closely follows the instructions and recommendations received from BEC, just as the Bank does not undertake independent development of IT systems. The bank continuously assesses ICT risks internally and uses external consultants to assess the bank’s IT risks.

Internal procedures are based on written processes and work descriptions, just as controls are performed across the organization.

The Bank continuously assesses the outsourcing of operational areas that are not of significance to the Bank's competitiveness.

As at the end of 2021, the Bank had outsourced the following areas:

Internal audit

Partly international payments

Partly fund customer orders

Capital base

Risk concerning the capital base

The capital is compiled in accordance with the rules in CRR. The BANK of Greenland has a strong capital base and a capital ratio of 24.4% at end 2021 against 23.5% in 2020.

Compilation and monitoring take place on a monthly basis and the Executive Management and Board of Directors receive quarterly reports based on the guidelines laid down.

The BANK of Greenland was designated as an SIFI institution in 2017. On 4 October 2021, an MREL requirement was determined for the BANK of Greenland at 30.4% of the Bank's risk-weighted assets at end-2020. The MREL requirement is being phased in during 2022 to 2027. Based on the requirements concerning impairment liabilities determined in 2021, the Board of Directors expects that the total capital reserves must be increased during the coming years. The aim of the Board of Directors is that there must be sufficient capital for growth in the Bank's business activities, just as there must be sufficient capital to cover ongoing fluctuations in the risks assumed by the Bank. On 15 December 2021, the Bank's Board of Directors therefore issued an amended capital objective. In this instance, a target for CET1 of 24% was determined. The BANK of Greenland's capital ratio was 24.4 at year-end 2021.

Pursuant to the determination of the MREL requirement in October 2021, the Bank issued DKK 50 million Senior-Non-Preferred for the purpose of targeted fulfilment of the MREL requirement. The MREL requirement is being phased in as from 1 January 2022 on a linear basis over 6 years. This entails that the Bank must fulfil an MREL requirement of 2.53% as from 1 January 2022.

Capital statement	**2021**	**2020**
Equity	1,267,911	1,176,917
Proposed dividend, accounting effect	-52,920	-33,075
Framework for ratio of own shares	-10,764	-5,310
Deductions for prudent valuation	-1,490	-1,247
Deductions for Non-Performing Exposures	-1,379	0
Actual core capital	**1,201,358**	**1,137,285**
Capital base	**1,201,358**	**1,137,285**
Actual core capital ratio	24.4	23.5
Capital ratio	24.4	23.5
Statutory requirement of actual core capital ratio (excluding capital reserve buffer)	4.5	4.5
Statutory capital ratio requirements	8.0	8.0

Capital requirement	**2021**	**2020**
Pillar I	8.00%	8.00%
Pillar II	2.70%	3.20%
Solvency requirement	**10.70%**	**11.2%**
SIFI buffer requirement	1.50%	1.50%
Capital reserve buffer requirement	2.50%	2.50%
Capital requirement	**14.70%**	**15.2%**
MREL requirement (phased in linearly as from 1 January 2022)	0.00%	0.00%
Total capital requirement	**14.70%**	**15.2%**
Capital base, cf. above	1,201,358	1,137,285
SNP issue	50,000	0
MREL capital base	**1,251,358**	1,137,285
MREL capital ratio/capital ratio	25.50%	23.50%
Surplus capital cover	10.80%	8.3%

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 observes the template below when calculating the internal capital (solvency need)

	DKK 1.000	%
1) The Pillar I requirement (8 per cent of the total risk exposure)		8
+ 2) Earnings (capital to cover risk as a result of weak earnings)		
+ 3) Loan growth (capital to cover organic growth in business volume)		
+ 4) Credit risks, of which 4a) Credit risks on large customers with financial problems 4b) Other credit risks 4c) Single name concentration risk 4d) Sector concentration risk		
+ 5) Market risks, of which 5a) Interest rate risks 5b) Share risks 5c) Currency risks		
+ 6) Liquidity risks (capital to cover more expensive liquidity)		
+ 7) Operational risks (capital to cover operational risks apart from Pillar I)		
+ 8) Gearing (capital to cover risks as a result of high gearing)		
+ 9) Additions, if any, as a result of statutory requirements		
Total = capital requirements/solvency needs - Of which credit risks (4) - Of which market risks (5) - Of which operational risks (7) - Of which other risks (2+3+6+8) - Of which additions as a result 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's calculated capital and solvency requirement according to the 8+ model

	2021		2020	
	Capital requirement	**Solvency requirement**	**Capital requirement**	**Solvency requirement**
Pillar I requirement	393,339	8.0%	387,576	8.0%
Credit risk	98,663	2.0%	97,538	2.0%
Market risk	21,910	0.4%	18,149	0.4%
Operational risk	10,117	0.2%	23,179	0.5%
Other risk	4,046	0.1%	17,887	0.3%
Capital and solvency requirement	**528,075**	**10.7%**	**544,329**	**11.2%**

The bank has on the basis of the capital requirement calculated an immediate excess cover of TDKK 673,283, which constitutes the difference between the present capital requirement (solvency need) and the actual capital (capital ratio).

Excess cover at the end 2021

DKK 1,000

Capital base	1,201,358
Sufficient capital	528,075
Excess cover	673,283
Capital ratio	24.4 %
Internal capital requirement (solvency need)	10.7 %
Solvency excess cover as a percentage point	13.7 %
Solvency excess cover as above (percentage point)	13.7 %
SIFI buffer requirement	1.5 %
Capital reserve buffer requirement	2.5 %
Solvency excess cover hereafter	9.7 %

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 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	1,427	5,231
Exposures to companies	121,162	152,171
Retail exposures	81,142	71,883
Exposures secured by real estate mortgages	51,105	53,929
Exposures on default	9,576	5,505
Exposures related to a particularly high risk	20,762	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	8,917	8,091
Other items	31,570	26,570
Credit- and counterpart risks in total	325,661	327,993

Credit risks: Risk of losses because debtors or counterparties commit a breach of their payment obligations over and above the cover in Pillar I, including major customers with financial problems. Concentration risk on individual commitments and sectors.

Market risks: Risk of losses because of potential changes in interest rates, share prices and exchange rates over and above what is covered in Pillar I. The basis is comprised og the maximum risks the bank can assume, within the limits on the management's powers, as set by the Board og Directors, to take market risks in accordance with the Danish Financial Business Act.

Operational risk: Risk that the bank incurs a complete or partial financial loss as a result of inadequate or inappropriate internal procedures, human error, IT systems, etc. and external events, including legal risks, over and above the cover in

Pillar I. The bank uses the basic indicator method to calculate the solvency requirement for the operational risk.

Other risk: Possible capital for risk hedging because of weak earnings, possible capital to cover growth in business volume and possible capital to cover costlier liquidity from professional investors.

Other risk areas that are assessed relation to the determination of the solvency need:

- Retail segmentation
- External risks related to legislation and compliance
- Other matters - recruitment, method risk, etc.

The determination of the impact these areas have on the solvency need ratio is either calculated directly from supplementary calculations or assessed on a discretionary basis by the management as impacting the determination of the solvency need.

The risk factors included in the model are, in the opinion of The BANK of Greenland, sufficient to cover all the risk areas that the bank's management is required by legislation to take into account when determining the solvency need as well as the risks that the management finds that The BANK of Greenland has taken on. Furthermore, the Board of Directors and the Board of Management must assess whether the capital base is sufficient to support coming activities.

Risk-weighted exposures DKK 1.000	**2021**	**2020**
Credit risk	4,070,758	4,099,907
Market risk	204,615	126,259
Operational risk	639,644	615,611
CVA risk	1,720	2,928
Total risk-weighted exposures	4,916,737	4,844,705

Market risk

Calculation of solvency risks in the area of market risks

Risk related to the trading portfolio DKK 1.000	2021	2020
Debt instruments	199,861	123,684
Shares	0	0
Foreign exchange risk	4,754	2,575
Total items with market risk	**204,615**	**126,259**

Counterpart risk - derivatives

The BANK of Greenland employs the market value method to calculate counterpart risk in order to calculate the size of an exposure and the risk-weighting of derivatives.

The market value method is described below, and it follows the description in CRR article 274.

The market value method includes the market value of contracts with a positive market value and the principal of all contracts in the Executive Order on Capital Adequacy. The market value of the contracts is included with the weights of the terms of these contracts and with the weight of the counterparts in question. Since The BANK of Greenland only uses derivatives to cover open items on fixed-interest loans, the positive market value of the derivatives has no impact on the determination of the adequate capital base.

In the bank's process of granting a loan and during the ordinary process of monitoring exposures, the calculated exposure value of the loan is taken into account so that it is ensured that it does not exceed the credit line granted to the counterpart.

The value of the bank's total counterpart risk, calculated according to the standard method in CRR, is TDKK 1,720 at the end of 2021.

Exposures in shares, etc. not included in the bank's trading portfolio

In cooperation with other credit institutions, the BANK of Greenland has acquired shares in a number of sector companies. The purpose of these sector companies is to support the business of the credit institutions within the fields of payment transfers, IT, pension, investment, etc. The BANK of Greenland has no plans to sell these shares since participation in these sector companies is considered a necessity for operating a local bank. Their shares are therefore held outside of the bank's trading portfolio.

In several of the sector companies the shares are redistributed so that the shares of the credit institutions always reflect the individual credit institution's volume of business with the sector company. Typically, the redistribution is effected on the basis of the equity value of the sector company. In the light of this, The BANK of Greenland adjusts the carrying value of these assets quarterly, semi-annually or annually depending on the frequency of new information from the individual sector company. The ongoing adjustment is booked in accordance with the rules via the income statement.

In other sector companies, the shares are not redistributed, but are, on the other hand, typically measured based on the most recent known trading; alternatively the value is calculated on the basis of an accepted valuation method. Adjustments of the carrying value of the shares in these companies are also booked via the income statement.

The BANK's total position in sector shares amounts to TDKK 111,564.

Apart from shares in sector companies, The BANK of Greenland owns unlisted shares in a enterprise in Greenland with which the bank has entered into collaboration. These shares are measured at net book value less any impairment losses. As with the shares in sector companies, the bank has no plans to sell these shares.

The bank's total position in these shares amounts to TDKK 1,410.

Exposures to interest rate risk in positions not included in the bank's trading portfolio

The bank's interest rate risk for exposures in positions outside the trading portfolio consists of fixed-rate assets:

Loans, advances and accounts receivable from credit institutions and fixed-rate deposits

Deposits and debt to credit institutions

At the end of 2021, The BANK of Greenland has an interest rate risk in positions outside the trading protfolio of TDKK 2,698. The interest rate risk is calculated daily.

Gearing risk

Leverage and the leverage ratio are calculated as a capital target for the core capital as a ratio of the unweighted exposures.

In the policy for the risk of excessive gearing, the Bank has determined that the leverage ratio may not be lower than 10%. The Bank thereby assesses that excessive leverage occurs at a leverage ratio below 10%.

Leverage according to CRR

Referencedate	31.12.2021
Name of entity	BANK of Greenland
Application level	

Summary reconciliation of accounting assets and leverage ratio exposures (DKK 1,000)

		Amount
1	Total assets as per published financial statement	7,226,988
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 “CRR”	
4	Adjustments for derivative financial instruments	
5	Adjustments for securities financing transactions “SFTs”	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,781,465
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	
7	Other adjustments	
8	**Total leverage ratio exposure**	9,008,453

Leverage ratio common disclosure (DKK 1,000)

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	7,228,478
2	(Asset amounts deducted in determining Tier 1 capital)	-1,490
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	7,226,988

Leverage ratio common disclosure (DKK 1,000)

Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	
EU-5a	Exposure determined under Original Exposure Method	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	Total derivative exposures (sum of lines 4 to 10)	
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1,781,465
18	(Adjustments for conversion to credit equivalent amounts)	
19	Other off-balance sheet exposures (sum of lines 17 to 18)	1,781,465
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
Capital and total exposures		
20	Tier 1 capital	1,201,358
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	9,008,453
22	Leverage ratio	13.34
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

Leverage ratio common disclosure (DKK 1,000)

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (DKK 1,000)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	7,226,988
EU-2	Trading book exposures	1,215,367
EU-3	Banking book exposures, of which:	
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	1,461,436
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	64,758
EU-7	Institutions	57,293
EU-8	Secured by mortgages of immovable properties	808,318
EU-9	Retail exposures	1,182,634
EU-10	Corporate	1,908,627
EU-11	Exposures in default	67,403
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	459,662

Information on other qualitative elements

1	Description of the procedure to control the risk against leverage.	Monitoring of the leverage risk is included in the BANK of Greenlands ongoing risk monitoring, and is reported quarterly to the Board of Directors.
2	Description of factors that impacted the leverage ratio in the period regarding the published leverage ratio.	Leverage ratio has not changed significantly in the period.

Credit risks

The most significant risks at the BANK of Greenland concern credit risks. The Bank's risk management policies are therefore arranged in order to ensure that transactions with customers and credit institutions always lie within the framework adopted by the Board of Directors, and the expected level of security. Policies have furthermore been adopted to limit the exposure in relation to any credit institution with which the Bank has activities.

Credit granting

The Bank's Board of Directors has set a framework to ensure that the Bank's lending takes place to customers that, in view of their solvency, earnings and liquidity, are able to fulfil their obligations to the Bank. It is sought to maintain credit quality at a high level, to ensure a stable basis for the future development, and it is sought to achieve a balance between assumed risks and the return achieved by the Bank.

Credit granting is based on responsible risk taking and risk diversification, whereby risk exposure is matched to the borrower's circumstances.

Among other things:

- As a general rule, loans, etc. are only granted to customers that are full customers of the Bank;
- As a general rule, loans, etc. to business customers are only granted to customers with business activities in Greenland;
- As a general rule, loans, etc. to private customers are only granted to customers resident in Greenland, or to customers formerly resident in Greenland; and
- Loans, etc. to both private and business customers are solely to customers with satisfactory creditworthiness. Credit granting to customers with OIK (objective indication of credit deterioration) or material indications of weakness will only take place in exceptional cases. The BANK of Greenland is, however, aware of its size and importance to the local area and contributes to a minor extent to the new establishment of small business enterprises with a somewhat higher risk profile, and also supports existing customers where it is assessed that the financial challenges are of a temporary nature.
- Some financing, such as financing of activities abroad, project financing and financing of investment products, is subject to tighter monitoring, and may only be granted by the Bank's managing director or deputy managing director.

DKK 1,000	**2021**	**2020**
Maximum credit exposure		
Cash balances and demand deposits at central banks	1.434.027	192.107
Receivables from credit institutions and central banks	57.293	1.686.361
Loans and other receivables at amortised cost	3.783.681	4.006.248
Bonds at fair value	1.100.975	885.752
Shares, etc.	138.902	122.763
Other assets, including derivative financial instruments	93.798	82.241
Off-balance-sheet items		
Guarantees	1.781.465	1.621.831
Drawn facilities	2.022.428	1.823.231
Exposure specification		
Lending, cf. Note 13 in the Annual Report	3.783.681	4.006.248
Guarantees, cf. Note 25 in the Annual Report	1.781.465	1.621.831
Write-downs and provisions on guarantees, cf. Note 13 in the Annual Report	182.042	181.883
Other adjustments	-31.993	-24.251
Gross exposure, cf. below	5.715.195	5.785.711

Risk diversification

The BANK of Greenland wishes to diversify its credit risk between lending to private customers and lending to business customers. The exposure to business customers may thus not exceed 60% of the total exposure.

Risk diversification to industries with a reasonable spread across sectors is also required. Lending to individual sectors exceeding 15% is thus not deemed to be required, with the exception of "Real estate and completion of construction projects", to which the overall exposure may amount to up to 25%.

Standard terms

Business customers: Exposures can typically be terminated without notice by the Bank. The customer is normally required to provide the Bank with financial information on an ongoing basis.

Private customers: The typical term of notice from the Bank is two months. Financial information is normally required for new loans, and changes to existing loans.

Figure 1

Lending and guarantee debtors by industries under business

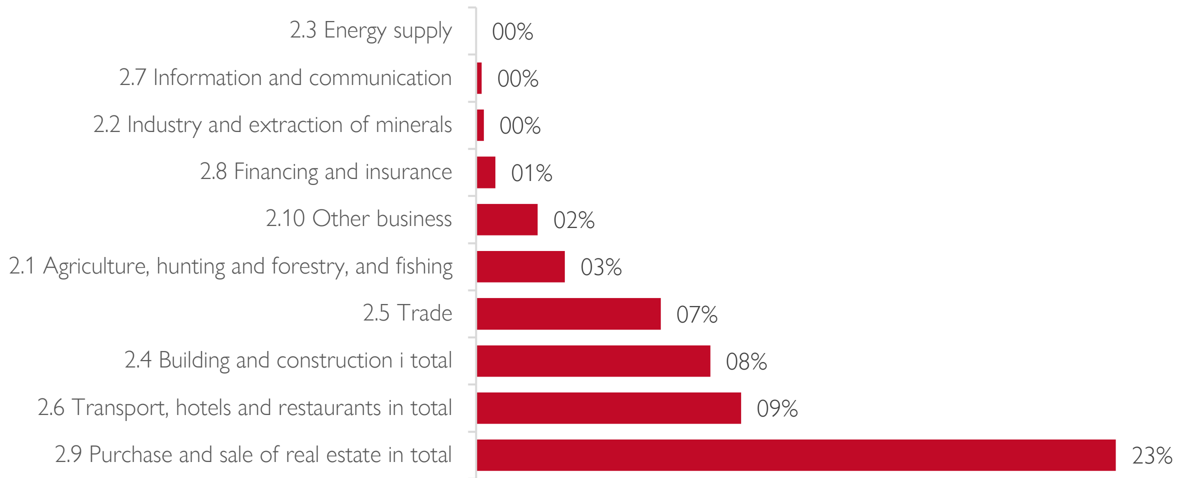
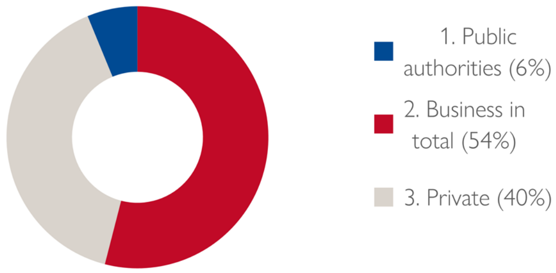


Figure 2

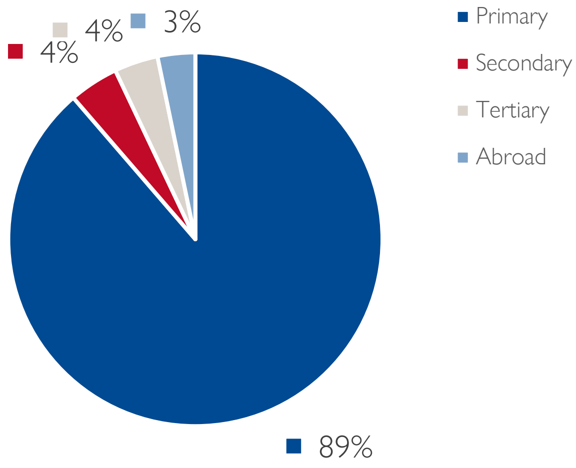
Lending and guarantee debtors by sectors



The geographical spread of the Bank's lending and guarantees in Greenland is distributed on the five main municipal towns (primary), smaller towns (secondary), settlements and villages (tertiary) and abroad (other), cf. Figure 3. According to the Bank's business model, lending and guarantees outside Greenland are maximised at 10% of total lending and guarantees.

Figure3

Geographical spread of lending and guarantees



Authorisation procedures

Credits, loans and guarantees are authorised at various levels in the Bank, depending on the exposures' size, risk and type. On financing a number of separate activities and on authorisation for customers subject to value adjustment, the authorisation procedure is stricter and, irrespective of size, authorisations can only be made in the Bank's central credit department, and in some cases solely by the Bank's managing director or deputy managing director. Large exposures are authorised by the Bank's Board of Directors.

Monitoring

Management and monitoring of credit granting and compliance with the Bank's credit policy take place on a centralised basis in the Bank's credit department.

The Bank's credit policy is complied with via review of the authorisations at credit department level and higher, and via random sample controls in the individual departments.

Collateral security

The BANK of Greenland wishes to have adequate collateral security for its credit granting.

For financing, the collateral security primarily consists of:

- Mortgages on private residential properties, primarily in Greenland;
- Mortgages on commercial properties for own use;
- Mortgages on rental properties (residential and commercial);
- Mortgages on movable property, cars, boats, snow scooters, operating equipment, etc.;
- Mortgages on fishing vessels;
- Mortgages on fishing rights;
- Mortgages on easily negotiable securities;
- Surety pledges;
- Assignments; and
- Charges on units/shares in the companies to which credit facilities have been granted

The valuation of the collateral security is in principle based on fair value.

- Mortgages on private residential properties located in the towns in which the Bank has branches are estimated at 75% of fair value;
- Mortgages on commercial properties located in the towns in which the Bank has branches are estimated at 60% of fair value;
- In the case of large property exposures, mortgages on rental properties are assessed on the basis of rental conditions, yield requirements, location, maintenance standard, etc. The mortgage value is set at 60-75% of fair value.
- Mortgages on properties outside the towns in which the Bank has branches are not subject to valuation as collateral;
- Mortgages on movable property are generally assessed at between 60 and 75% of fair value;
- Mortgages on fishing vessels are assessed at maximum 60% of fair value;
- Mortgages on fishing rights are assessed at maximum 60% of fair value;
- Mortgages on negotiable securities are assessed at between 50-90% of the official market value;
- Surety pledges from public authorities are subject to valuation as collateral at nominal value; and
- Other security is not subject to valuation as collateral.

The "haircuts" made for the individual collateral are assessed to be sufficient to cover the costs of acquisition and realization of the individual security.

There is no public property valuation in Greenland, and the assessed valuations are therefore based on the Bank's current experience of market values for the trades completed.

The BANK of Greenland is involved in 70-80% of all property transactions in Greenland and therefore has a large body of experience on which to base this assessment.

The Bank continuously assesses whether there have been changes in the quality of security and other conditions as a consequence of impairment or changes in practice concerning collateral security. There have been no changes during the year in the practice for the valuation of security, or the practice for handling security.

Write-down of loans and other receivables and provisions for guarantees and loan undertakings

The calculation of the expected credit loss depends on whether there has been a significant increase in the credit risk since initial recognition. The calculation of write-downs adheres to a model with three stages:

- Stage1 concerns assets for which there has been no significant increase in credit risk. In this stage, the write-downs equivalent to the expected 12-month credit loss are calculated.
- Stage 2 concerns assets for which there has been a significant increase in credit risk. In this stage, the write-downs equivalent to the expected credit loss in the asset's lifetime are calculated.
- Stage 3 concerns credit-impaired assets. In this stage, the write-downs are calculated on the basis of an individual assessment of the credit loss in the asset's lifetime.

During the accounting period there have been no changes in significant assumptions and assessment methods applied to the compilation in connection with the transition to the new impairment rules on 1 January 2018.

Write-downs on loans and receivables are carried to an adjustment account that is set off under lending, and provisions for guarantees and non-utilised credit undertakings are recognised as a liability. In the statement of income, write-downs and provisions on guarantees and credit undertakings are recognised collectively as write-downs on loans.

Division into stages

The division into stages is based on the BANK of Greenland's rating models in the form of PD models developed by BEC and internal credit management. The following principles are the basis for the division into stages 2 and 3.

Significant increase in credit risk (Stage 2)

Lending and other receivables are categorised according to whether the probability of default (PD) within 12 months on initial recognition is either under 1.0%, or 1.0% and above.

On assessment of the development in credit risk, it is assumed that there has been a significant increase in the credit risk in relation to the date of initial recognition when:

Under 1%
The probability of default (PD) during the remaining maturity increases by 100%, and 12-month PD increases by 0.5 percentage point when PD on initial recognition was below 1%.

1% and higher
The probability of default (PD) during the remaining term to maturity increases by 100% or the 12-month PD increases by 2.0 percentage points when PD on initial recognition was above 1%. In addition, the credit risk is assessed to have increased considerably if the borrower has been in arrears for more than 30 days, without any special circumstances allowing this to be disregarded.

If the relevant 12 months' PD exceeds 5%, the exposure will move to stage 2.

Financial assets for which a significant increase in the credit risk has occurred are, however, placed in the weak part of stage 2 in the following situations:

An increase in PD for the expected remaining maturity of 100%, or an increase in 12-month PD of 0.05 percentage point, when 12-month PD on initial recognition was below 1%, and the relevant 12-month PD is 5% or more. An increase in PD for the expected remaining term to maturity of

100%, or an increase in 12 months' PD of 2.0% points, when 12 months' PD on initial recognition was above 1% and the current 12 months' PD is 5% or higher.

The financial asset has been overdrawn for more than 30 days and the current 12-month PD is 5% or higher.

Credit-impaired assets (Stage 3)

Lending and other receivables measured at amortised cost, and guarantees and credit undertakings, may be credit-impaired if one or several or the following events have occurred:

- The borrower is in considerable financial difficulties.
- The borrower is in breach of contract, for example due to failure to fulfil payment obligations for repayments and interest.
- When the Bank or other lenders grant the borrower an easement of terms that would not have been considered if the borrower was not in financial difficulties.
- When it is probable that the borrower will file for bankruptcy or be subject to other financial restructuring.
- Lapse of an asset.

Furthermore, the loan is at the latest assessed to be credit-impaired if the borrower has been in arrears for more than 90 days.

Significant lending is assessed individually for any indication of credit impairment at each closure of the accounts. The Bank reviews all exposures with write-downs exceeding DKK 100,000, which are treated individually, while other exposures are subject to model calculation.

Definition of default

The determination of when a borrower has defaulted on its obligations is decisive to the compilation of the expected credit loss. The Bank considers a borrower to have defaulted on its obligations if

- the borrower is in more than 90 days' arrears for significant elements of their obligations.
- It is unlikely that the borrower can repay the obligations in full.

The assessment of whether a borrower is in arrears concerns both overdrafts exceeding the fixed lines and failure to pay either instalments or interest. The assessment of whether it is unlikely that a borrower can fulfil its payment obligations is based on both qualitative and quantitative indicators. A qualitative indicator for business loans might be, for example, whether there is any breach of covenants. Quantitative indicators might, for example, be an assessment of whether a borrower can fulfil its obligations for other loans, or is in arrears for other loans.

Depreciation and write-downs

Write-downs in stages 1 and 2:

Calculation of the expected credit loss in stages 1 and 2 is based on a write-down model. The write-down model is based on the probability of default (PD), expected credit exposure at default (EAD) and expected share of loss given default (LGD). The model incorporates historical observations for the individual inputs and also forward-looking information, including macroeconomic conditions.

Determination of input to the write-down model

Input to the write-down model is based on the historical information developed by the Bank's data centre using statistic models.

The probability of default (PD) is determined on the basis of observed defaults over a period of time, reflecting an economic cycle, after which the observed defaults are converted to an estimated probability applying to a specific time (12-month PD). Lifetime PD is compiled on the basis of 12-month PD according to mathematical models and projections of 12-month PD. This is based on expectations of the future and the development in the loans.

The determination of credit exposure at default (EAD) is based on the expected change in the exposure after the balance sheet date, including the payment of interest and instalments, and further drawing on the credit undertaking. Bankens EDB Central's determination of EAD is based on historical information concerning expected changes in exposures during the loans' lifetime within the individual loan's limits. Account is thereby taken of the redemption profile, early redemptions and changes in the use of credit facilities.

The expected loss given default (LGD) is estimated on the basis of the difference between the contractual cash flows and the cash flows which the Bank expects to receive after default, including cash flows on realisation of security. The determination of LGD is based on the expected collateral values less costs of sales, as well as cash flows that a borrower might pay in addition to collateral. Account is also taken of any price reduction if the collateral is to be realised within a shorter period. The expected cash flows are discounted at present value. The present value is calculated for fixed-interest-rate loans and receivables based on the originally-fixed effective interest rate. For variable-interest-rate loans and receivables, the current effective interest rate on the loan or receivable is used.

Forward-looking macroeconomic scenarios

Forward-looking information is included in the calculation of expected losses in the form of macroeconomic prognoses and projections. The Bank uses a model that is developed and maintained by LOPI – the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark.

The model is based on the determination of historical relations between write-downs within a number of sectors and industries, and a number of explanatory macroeconomic variables. These relations are then subject to estimates of the macroeconomic variables, based on prognoses from consistent sources such as the Economic Council, Danmarks Nationalbank, et al. whereby the prognoses generally extend two years ahead, and include such variables as the increase in public consumption, increase in GDP, interest, etc. The prognoses are based on Danish figures. Currently, the economic future scenarios in Greenland and Denmark do not differ significantly and until further, it is believed that the Danish prognoses can be applied to conditions in Greenland.

The expected write-downs are thereby calculated for up to two years ahead within the individual sectors and industries, while for maturities beyond two years linear interpolation is made between the write-down ratio for year 2 and the write-down ratio in year 10, where in model-related terms a "long-term equilibrium" is assumed to occur, compiled as a structural level from the prognoses. Maturities beyond ten years are in model-related terms assigned the same write-down ratio as the long-term equilibrium in year 10. Finally, the calculated write-down ratios are transformed into adjustment factors that correct the data centre's estimates in the individual sectors and industries. The institution makes adjustments to these, based on own expectations of the future, and according to the composition of the loans.

Managerial estimates

On each balance sheet date the institution assesses the need for adjustments to the expected credit losses, calculated on the basis of the models applied in stages 1 and 2. This takes place on the basis of the calculated write-downs. The managerial estimate is primarily based on uncertainties concerning the model calculations, risk assessment at sector level and differences between the macroeconomic scenarios in Greenland and Denmark.

As a consequence of Covid-19 the BANK of Greenland has continuously noted OIK (objective indication of credit deterioration) for individual exposures assessed to be affected by Covid-19. Furthermore, on a discretionary basis, the Bank has written down DKK 21 million at year-end 2021, distributed at sector level, with particular weight given to the hotel, transport, real estate and private segments. This includes a general cyclical addition.

Write-downs in stage 3:

Write-downs on credit-impaired loans are compiled as the expected loss based on a number of possible outcomes for the borrower's situation and the Bank's credit handling. The expected loss is calculated by weighting together the calculated loss related to each scenario, based on the probability of the scenario occurring. For each scenario, the write-down is compiled on the basis of the difference between the accounting value before write-down and the present value of the expected future payments on the loan.

For the calculation of current value, fixed-interest-rate loans and receivables are subject to the effective interest rate originally determined. For variable-interest-rate loans and receivables, the current effective interest rate on the loan or receivable is used.

The general rule is that the write-down comprises the exposure, less calculated security.

Write-offs

Financial assets are written off in full or in part if there is no longer any reasonable expectation that the outstanding amount will be paid. On write-off, the asset will cease to be carried to the balance sheet in full or in part.

The time at which there is no longer assessed to be any reasonable expectation that outstanding amounts will be paid in, is based on the concrete circumstances of the individual borrower. This might be a lack of earnings, equity, etc.

Before write-off is made, the borrower will have been subject to an extended collection process, with attempts to achieve voluntary payment arrangements, realisation of assets, etc.

After write-off has taken place, the debt collection process will continue. For companies, this is typically until the borrower has completed bankruptcy proceedings, schemes of arrangement, etc. For private individuals, it will still be sought to enter into voluntary payment schemes and to take any legal collection steps.

Exposure and write-downs by sector

	Gross exposure	Ratio of total gross exposure	Total write-downs	Ratio of total write-downs
	DKK 1,000		DKK 1,000	
2021				
Public	355,524	6	1,915	1
Business:				
Agriculture and fisheries	181,997	3	5,628	3
Industry and extraction of minerals	15,874	0	1,472	1
Energy supply	500	0	266	0
Construction and civil engineering	479,672	8	29,685	16
Trade	378,224	7	12,002	7
Transport, restaurants and hotels	542,656	10	20,509	11
Information and communication	11,518	0	308	0
Financing and insurance	39,768	1	479	0
Real estate	1,310,079	23	17,533	9
Other business	126,285	2	19,976	11
Business in total	3,086,573	54	107,858	58
Private	2,273,098	40	77,070	121
In total	**5,715,195**	**100**	**186,843**	**100**

	Gross exposure	Ratio of total gross exposure	Total write-downs	Ratio of total write-downs
	DKK 1,000		DKK 1,000	
2020				
Public	425,961	7	2,292	1
Business:				
Agriculture and fisheries	177,111	3	11,501	6
Industry and extraction of minerals	55,852	1	2,198	1
Energy supply	388	0	201	0
Construction and civil engineering	374,884	7	15,787	9
Trade	351,576	6	12,524	7
Transport, restaurants and hotels	531,953	9	16,690	9
Information and communication	23,422	0	484	0
Financing and insurance	41,251	1	160	0
Real estate	1,343,374	23	27,023	15
Other business	168,990	3	21,092	11
Business in total	3,068,801	53	107,660	58
Private	2,290,949	40	77,228	121
In total	**5,785,711**	**100**	**187,180**	**100**

Credit exposure distributed on classification, creditworthiness and stages

Classification The Bank of Greenland	Classification Danish Financial Supervisory Authority	Stage 1 TDKK	Stage 2 TDKK	Stage 2WEAK TDKK	Stage 3 TDKK	In total TDKK
Rating 1 – 3	3/2A	3,069,550	11,757	0	2,094	3,083,401
Rating 4 – 8	2B	1,342,853	563,276	348,966	299	2,255,394
Rating 9 – 10	2C	0	0	209,522	169	209,691
Rating 11	1	0	3,063	3,938	159,708	166,709
In total		**4,412,403**	**578,096**	**562,426**	**162,270**	**5,715,195**

Classification BANK of Greenland

- Ratings 1-3 correspond to the Danish FSA's creditworthiness scale 3/2A – Customers with undoubtedly good creditworthiness and customers with normal creditworthiness.
- Ratings 4-8 correspond to the Danish FSA's creditworthiness scale 2B – Customers that do not fulfil the criteria in 1-3, but which on the other hand do not have significant signs of weakness. The debt servicing ability is good, although the key financial indicators may be weak.
- Ratings 9-10 concern customers with significant signs of weakness, and without OIK occurring. The customer's debt servicing ability is less satisfactory and the customer is economically vulnerable/has weak key indicators.
- Rating 11 Customers with OIK. Customers with and without loss risk compilation (write-down). The debt servicing ability is poor or non-existent, and there is a risk of losses.

Credit exposure to industries broken down by stages:

	Stage 1 TDKK	Stage 2 TDKK	Stage 2WEAK TDKK	Stage 3 TDKK	In total TDKK
Public	355,420	104	0	0	355,524
Business:					
Agriculture and fisheries	156,735	4,354	14,073	6,834	181,996
Industry and extraction of minerals	11,994	856	1,254	1,770	15,874
Energy supply	225	0	0	274	499
Construction and civil engineering	213,511	176,713	61,194	28,255	479,673
Trade	304,525	5,281	65,512	2,906	378,224
Transport, restaurants and hotels	392,961	83,199	58,812	7,683	542,655
Information and communication	9,259	1,532	728	0	11,519
Financing and insurance	38,523	626	619	0	39,768
Real estate	1,081,288	89,401	137,319	2,070	1,310,078
Other business	61,839	7,765	44,035	12,648	126,287
Business in total	2,270,860	369,727	383,546	62,440	3,086,573
Private	1,786,123	208,265	178,880	99,830	2,273,098
In total	**4,412,403**	**578,096**	**562,426**	**162,270**	**5,715,195**

Reason for value adjustment of exposures in stage 3

	Credit exposures before write-downs	Write-downs	Accounting value	Collateral security	Maximum credit risk
2021					
Bankruptcy	268	268	0	0	0
Collection	20,609	15,665	4,944	3,918	1,026
Financial difficulties	141,393	74,029	67,364	51,300	16,064
In total	**162,270**	**89,962**	**72,308**	**55,218**	**17,090**
2020					
Bankruptcy	1,548	1,370	178	178	0
Collection	31,463	25,051	6,412	6,349	63
Financial difficulties	190,445	68,434	122,011	94,442	27,569
In total	**223,456**	**94,855**	**128,601**	**100,969**	**27,632**

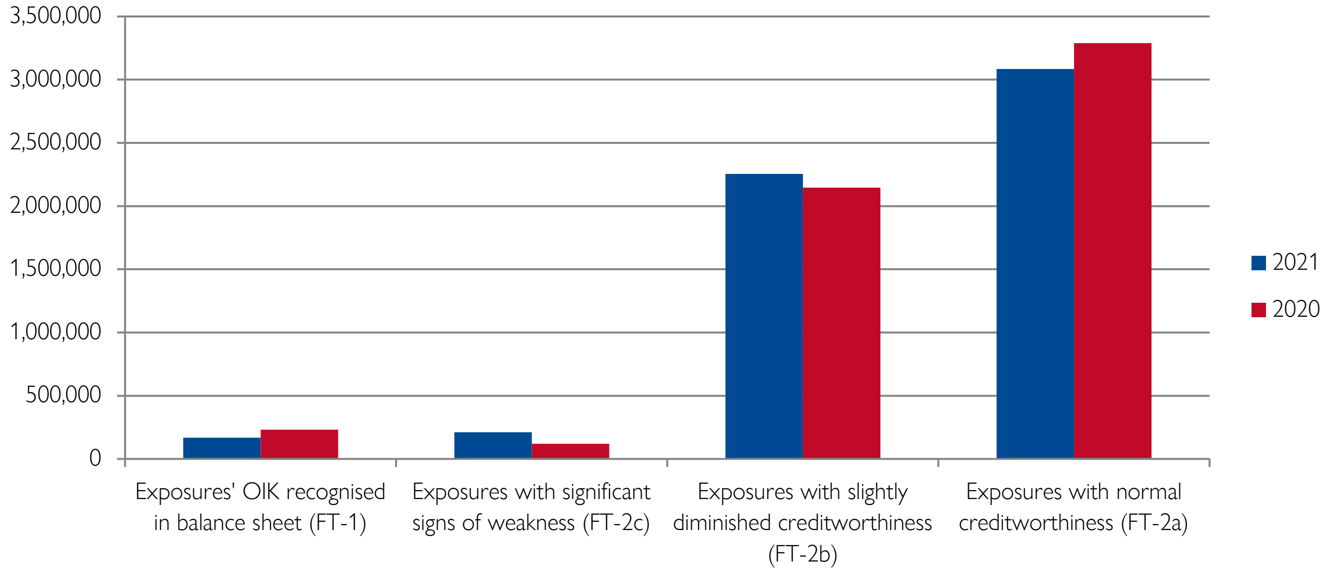
Credit quality of exposures in general
Exposures with arrears or overdrafts > DKK 1,000

In DKK 1,000	2021	2020
0-30 days	1,284	5,532
31-60 days	743	428
61-90 days	203	196
> 90 days	229	405
In total	**2,459**	**6,561**

The BANK of Greenland applies a rating model that divides borrowers into 11 categories. The division is according to criteria such as the borrower's earnings, assets, account behaviour, etc. The 11 categories are then assigned to the Danish FSA's creditworthiness scale.

Credit exposures before write-downs distributed by creditworthiness

Creditworthiness distributed on the Danish FSA's categories from 3 to 1, where category 3 is included in 2a.
DKK 1,000



The BANK of Greenland has no “non-impaired loans or guarantees” for which the loan terms have been eased as a consequence of a borrower’s financial difficulties.


In Fashion