

Notification to Nasdaq OMX Copenhagen

1/2018

A large, stylized blue bird logo is positioned on the left side of the page. The bird is facing right, with a white circle representing its eye. Its wings and tail are depicted with several curved, parallel lines, suggesting motion or flight. The bird's body is a solid dark blue color.

**ANNUAL REPORT 2017**

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GER no. 80050410

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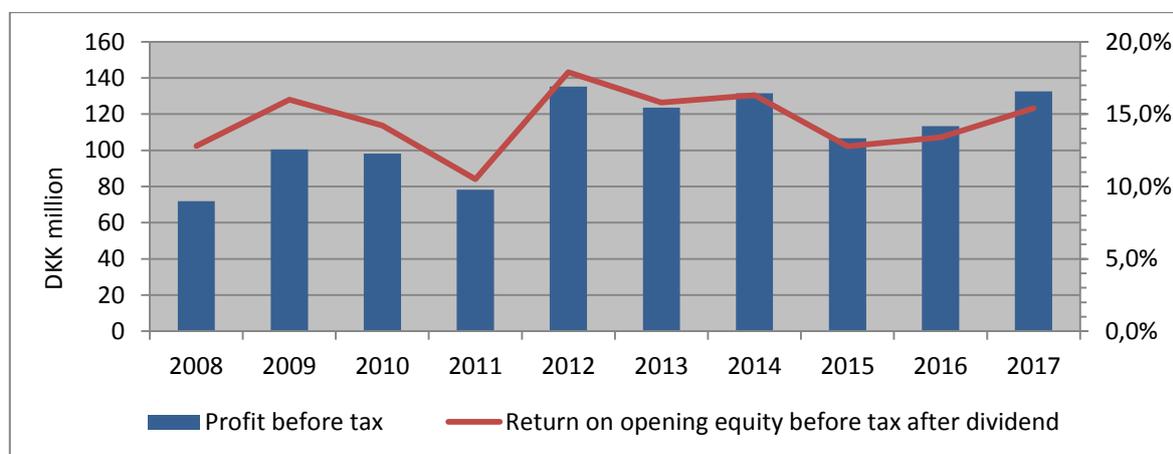
## ANNUAL REPORT IN BRIEF

### Next-best result ever for the BANK of Greenland in 2017 – Return on equity of 15.4% p.a.

The positive cyclical development in 2015 and especially in 2016 was followed by a 2017 with close to unchanged development in Greenland's economy.

The BANK of Greenland achieved a profit before tax of DKK 132.6 million for 2017, compared to DKK 113.4 million in 2016. The return on opening equity after dividend and before tax was 15.4% p.a., which is considered to be satisfactory.

The profit before value adjustments and write-downs was DKK 152.7 million, which is a significant increase of DKK 12.4 million compared to 2016. The result is thus at the high end of the latest adjusted estimate of DKK 145-155 million. The profit before value adjustments and write-downs is thus the highest in the Bank's history.



### Basic operations

From the start of the year, the Bank's basic operations were affected by lower share dividend and declining bond interest income, which for the full year was DKK 8.7 million lower than in 2016. At the same time, the negative interest rates in the money market and at Danmarks Nationalbank continued in 2017. Negative interest rates for the Bank's largest deposits have to some extent compensated for the loss on liquidity placed in the money market and at Danmarks Nationalbank.

On the other hand, the Bank has successfully increased its lending. Higher lending, an improved deposit margin and rising activity throughout the Bank have overall entailed revenue that on a quarter-by-quarter basis has significantly exceeded the level in 2016. Overall, there is a satisfactory increase in net interest and fee income of DKK 19.8 million, or 6.8% compared to 2016.

On the cost side, the Bank is affected by increasing IT expenses and a number of non-recurring costs related to the Bank's 50th anniversary and the development of the Bank's pension products.

### Limited losses and write-downs – reduced capital losses

Write-downs and provisions continue to be at a moderate level, which documents the considerable financial robustness of the Bank's private and business customers. It is particularly noteworthy that the Bank's written-off claims are at a minimal level. The change to IFRS 9 is therefore uncomplicated, and as described in the section of the Annual Report concerning IFRS 9, the Bank has booked the accounting impact in full, and does not use the transition scheme.

The Bank's liquidity is placed in the money market and in bonds, and in view of the prevailing negative interest rates, this leads to capital losses that are fully expected. Furthermore, in Q3 and Q4 the Bank made a write-down to the Bank's capital contribution to BEC. The write-down totalled DKK 13.0 million. As a consequence, the overall capital loss of DKK 6.4 million in 2017 is moderate and below the capital loss in 2016. Gains on the Bank's shareholdings and currency have therefore compensated to a considerable extent.

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## ANNUAL REPORT IN BRIEF

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### **A lot of success in 2017**

There is no doubt that 2017 was a busy year for the BANK of Greenland. The Bank's market position was clearly strengthened and the Bank succeeded in increasing the business volume very significantly. This is naturally very satisfactory, and emphasises the Bank's competitiveness and that we have an attractive offering for the Bank's customers.

In 2017, legislation was adopted in Greenland to allow for pension savings in banks. Saving for a pension was also made compulsory. As a consequence, the Bank made considerable investments in training, product and concept development, including cooperation with BEC on adapting pension systems. The Bank's achieved its business objectives for the pension area in 2017, but it will take some years for this to have the business impact seen in e.g. Danish banks.

The economic upswing in 2016 and the sustained favourable economic development in many areas in Greenland in 2017 have clearly generated activity for the Bank. Together with a sharper profile and strong business initiatives, this has led to high activity and resulted in the highest level of loans and guarantees in the Bank's history. The positive economic development, strong dedication of employees and effects of business initiatives have been clearly apparent.

### **50th anniversary**

The Bank's 50th anniversary was celebrated in 2017. There is no doubt that the Bank's activities over 50 years have been of great importance to society, and naturally, this anniversary was celebrated. There is no doubt either that the anniversary highlights the Bank's role in society and that the Bank's Strategy 2020, with the aim to be "For the benefit of Greenland", is logical and also makes sound business sense.

### **SIFI designation – balance sheet, capital and dividend**

In April 2017, the Bank was designated as an SIFI institution and is thereby also a systemically important bank in formal terms. The Bank's management naturally considers both the expectations and requirements of SIFI institutions, just as the coming MREL (Minimum Requirement of Eligible Liabilities) requirements must be considered. The Bank also expects that there can and should be business growth in the coming years, and in this light the Bank reviewed the capital structure in 2017. These considerations are continued in 2018 since the MREL requirements for the North Atlantic SIFIs are not yet known.

The Board of Directors therefore recommends payment of dividend of DKK 30 per share, which is below recent years' dividend rate of DKK 55 per share. We assess that the Bank has a high solvency ratio, and one of the sector's highest dividend rates, but also that the Bank's capital base should be increased further. After the consolidation for the year, the Bank has a capital ratio of 22.7 % and the aim is for the Bank's capital to be in place in good time before the deadline for phasing in the MREL requirements. Reference is also made to the relevant section of the Management's Review.

### **Outlook for 2018**

The economic development in Greenland is expected to improve moderately in 2018. The increase in activity in 2017 is expected to continue in 2018. We also expect various IT development costs, but in overall terms, very moderate development in costs is expected in 2018.

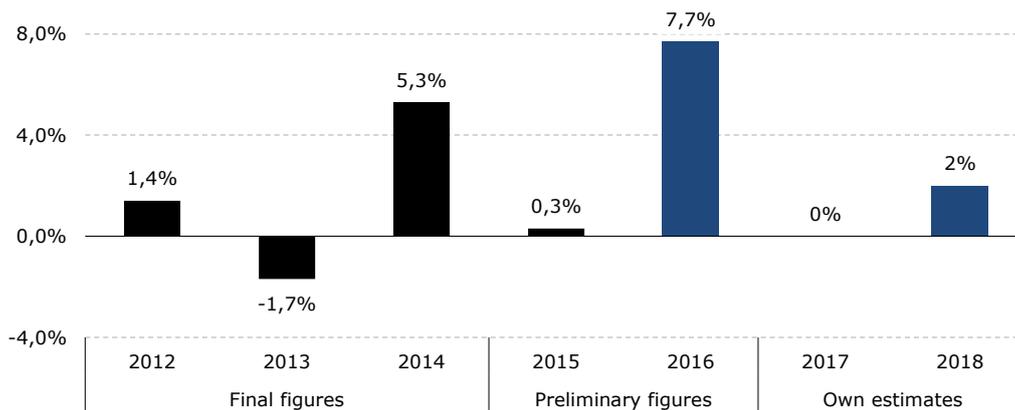
Continued uncertainty concerning the capital markets may affect the Bank's value adjustments, while a moderate to low level of losses and impairment is still expected. The Bank hereafter expects a profit before tax of DKK 120-140 million.

Nuuk, 22 February 2018  
Martin Birkmose Kviesgaard, Bank Director

## GREENLAND'S SOCIETY AND ECONOMY

After high growth in Greenland's economy in 2016, growth was subdued in 2017. The BANK of Greenland assesses that real GDP growth from 2016 to 2017 was approximately 0%, cf. Figure 1.

**Figure 1 The economic development in Greenland**



Note: The figure shows the real growth in GDP as a measure of value creation in Greenland. The real growth in GDP does not take account of income and transfers to and from abroad, or changes in purchasing power due to e.g. rising export prices compared to import prices. In January 2018, Statistics Greenland published a major revision of the national accounts. Consequently, real growth in 2014 is now compiled at +5.9% and not -0.8% as before.

Source: Statistics Greenland and own estimates.

Despite increasing prawn quotas in 2017, the BANK of Greenland assesses that there has been zero growth, primarily due to disappointing Greenland halibut fishing and declining prawn prices. Construction and private consumption maintained status quo or declined slightly from 2016, while tourism and public consumption make a positive contribution to the assessment of the economic development.

The growth estimate of 0% in 2017 is significantly below the Economic Council's latest growth estimate for 2017, at 3.9% from September 2017. The difference is primarily related to the latest statistics' more pessimistic assessment of the development in fisheries and private consumption in 2017. The zero growth must also be viewed in the positive light of the positive growth in the last couple of years.

In 2018, there is prospect of a small decline in construction activity. On the other hand, increasing prawn quotas will augment growth in 2018, and the Bank therefore expects real growth of approximately 1-3% in 2018.

Assessments of Greenland's economic development are based on e.g. statistics from Statistics Greenland. The recurring significant adjustments to both more recent and older data are problematic, jeopardise credibility and make it extremely difficult for e.g. Inatsisartut (the Greenland Parliament) to pursue a growth-based finance policy. The major fluctuations and errors in data are problematic and require decision makers to make extraordinary reservations when e.g. investment decisions are taken. This also means that Statistics Greenland's data is a less appropriate basis for assessment of the economic development, so that other reliable or possible indicators must be used to a greater extent.

Nonetheless, certain aspects of the economic development can be considered to be very certain. The finance policy must be described as expansionary, with budgeted increases in public consumption in both 2017 and 2018. The tendency for temporary income increases (e.g. from fisheries) to lead to increased expenses in the same period thus appears to be continued. The BANK of Greenland pointed to this tendency in the 2016 Annual Report. This tendency is unfortunate, since there is a risk that higher public-sector activity

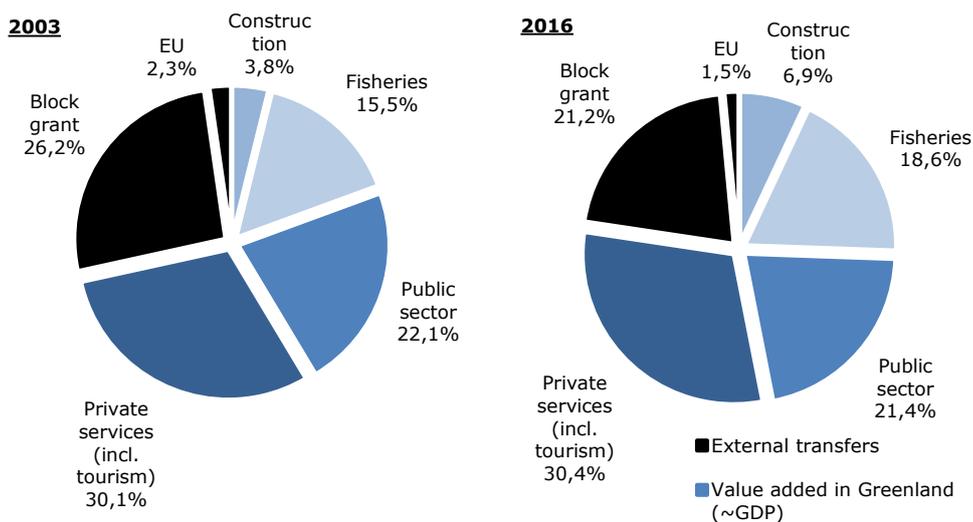
**GREENLAND'S SOCIETY AND ECONOMY**

will increase bottlenecks in the labour market at a time when companies, especially in Nuuk, are in need of qualified manpower.

An essential part of Greenland's total revenue is from the block grant from Denmark. The block grant is adjusted annually on the basis of price and wage development in Denmark, and the annual fluctuations are therefore limited. When such a large proportion of revenue is “fixed” in this way, the year-on-year fluctuations in total consumption are also limited. On the other hand, there may be considerable fluctuation in fisheries, construction and derived industries, which can influence overall revenue, even though these industries account for a small proportion of the total revenue.

As Greenland's economy expands, the block grant will become a smaller ratio of total revenue. The block grant has diminished from 28% of total disposable revenue in 2003, to 21% in 2016, cf. Figure 2.

**Figure 2 Distribution of revenue creation in 2003 and 2016**



Note: The figure shows the distribution of disposable GNI. The fisheries sector includes fisheries, the fishing industry and wholesale trading in fish. Private service industries primarily concern financing and business service, trade, hotels and restaurants, transport and supply. The figures for 2016 are provisional.

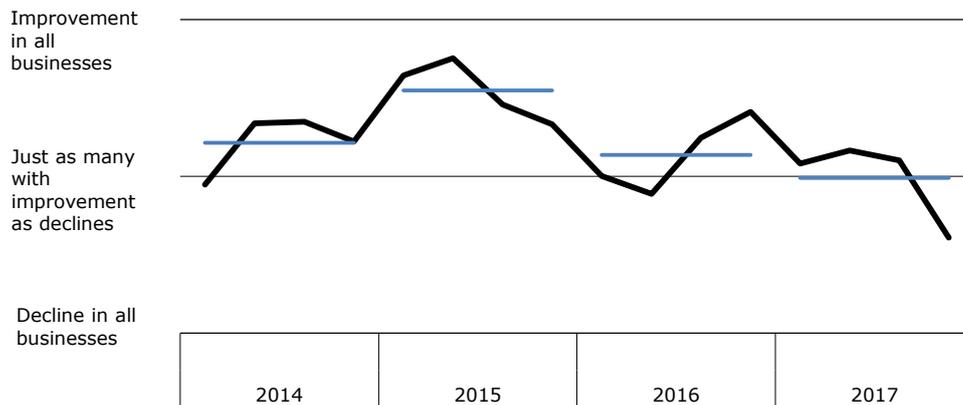
Source: Own calculations on the basis of Statistics Denmark.

**Fisheries**

During the year, the framework conditions for fisheries were keenly debated. This debate comes at a time when, in overall terms, this industry is slowing down after several years of good progress. Fisheries companies indicate that there has been no further progress in 2017 compared to 2016, cf. Figure 3.

GREENLAND'S SOCIETY AND ECONOMY

**Figure 3 Indicator of the development in the fisheries sector**



Note: A positive indicator means that several of the respondent companies indicated an improvement, rather than a reversal, in the current and coming quarter. The indicator does not show the extent of the improvement, but a higher figure implies that an increase was more probable. Every three months, 350 enterprises in Greenland are asked about the latest development in their activities. The indicator is calculated as an average of the net figures for the questions concerning the companies' "actual revenue", "expected revenue" and "investment plans". The net figure indicates the difference between the percentage figures for the "higher" and "lower" responses. In the calculation, the companies are weighted according to their size, measured in terms of employment, and the companies are requested to take customary seasonal fluctuations into consideration in their responses. The blue lines indicate the annual average.

Source: Copenhagen Economics for the BANK of Greenland.

The prawn quota of West Greenland was increased from 85,000 tonnes to 90,000 tonnes in 2017. The provisional statistics indicate, however, that export prices adjusted, and that the value of prawn exports therefore did not increase from 2016.

For 2018, the prawn quota has been increased further by 11,250 tonnes or 12.5%, and the industry expects that prices will stay at the current level.

There was a decline in inshore Greenland halibut fishing in 2017 by more than 20% compared to 2016. In the Disco Bay region, fisheries declined by 40%.

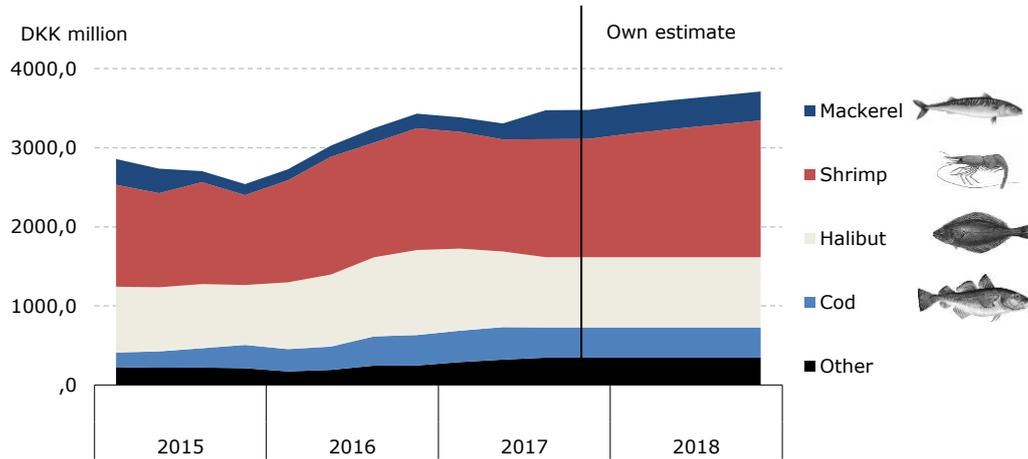
In overall terms, the value of exports in 2017 has been at the same level as in 2016, cf. Figure 4.

The decline in inshore Greenland halibut fishing does not come as a surprise. According to the Greenland Institute of Natural Resources, the weight per Greenland halibut caught in the Disco Bay fell from 3 kg in 2002-2006 to 1.7 kg in 2016, which is a clear sign of overfishing of the stock.

While prawns are caught on a biologically sustainable basis, the quotas for especially inshore Greenland halibut are set far beyond the biological advice, cf. Figure 5. There are also large areas of the Disco Bay that are not covered by the quotas. For cod fishing, the quotas are also set far beyond the recommended levels.

GREENLAND'S SOCIETY AND ECONOMY

**Figure 4 Annual value of exports of fish and shellfish**



Note: The figure shows the total for the last four quarters, measured in current prices. Mackerel fishing takes place in Q3. For prawn, the estimate is based on maintained prices and a volume increase of 6% in Q4 2017 from the same quarter of the previous year, and an increase of 13% from 2017 to 2018. For all others, the estimate is based on the expectation of retained volumes and prices compared to the same quarter of the previous year.

Source: Statistics Greenland and own estimates.

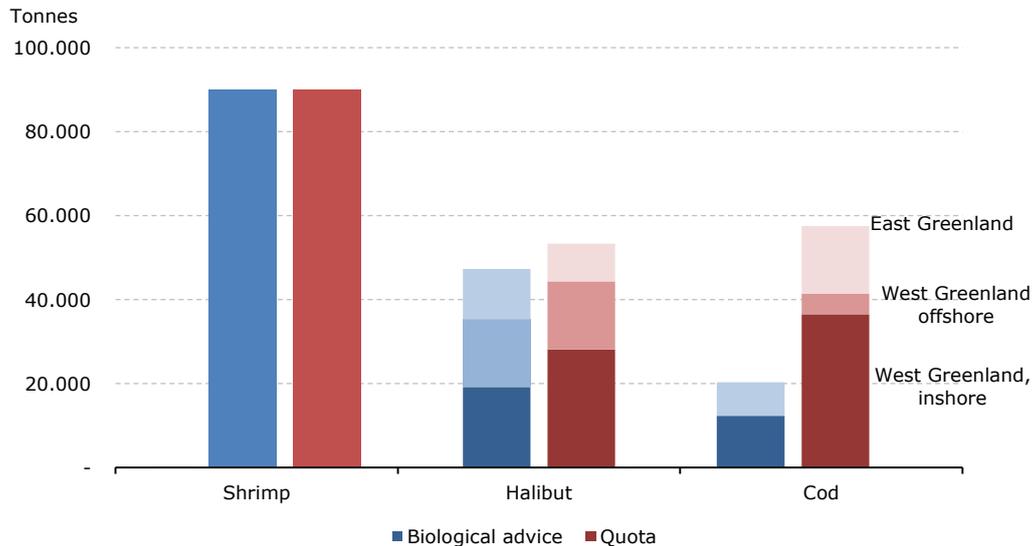
While inshore Greenland halibut fishing increased by 36% from 2013 to 2016, the number of licences increased by approximately 1,000, or 78%, during the same period. This significant increase in fisheries capacity is extremely concerning in view of the fact that resources have not increased during the same period, and the biological advice has been unchanged from 2013 to 2016.

As the number of licences has increased more rapidly than the fisheries resources, this development has led to a smaller ratio per fisherman. In addition, a larger proportion of Greenland's workforce is committed to fisheries without this creating extra value, together with higher imports of expensive auxiliary equipment such as small fishing boats and fuel. This committed workforce is lacking in other industries, in particular the fisheries industry.

The biological advice should be followed for each fish species. In addition, serious consideration should be given to introducing individual transferable quotas (ITQs) for fishing from small boats. This will be to the benefit of everyone – including the fishermen. There are no long-term sustainable arguments for Olympic fishing, large quotas and many fishermen.

## GREENLAND'S SOCIETY AND ECONOMY

**Figure 5 Advice and quotas in 2017**



Note: The Greenland halibut quota and the advice for West Greenland inshore comprise the Disco Bay, Uummannaq and Upernavik. Deep-sea fishing off West Greenland consists of the Baffin Bay and the Davis Strait, including parts of the southern inshore catches.

Source: Greenland Institute of Natural Resources.

ITQs would give fishermen greater freedom to plan when and how much they wish to fish. Fishermen who fall ill or suffer material damage, and are thus prevented from fishing for a period, will still be able to benefit from their quotas by selling volumes of fish. ITQs would also represent a value that can be pledged as security for loans, making it easier for fishermen to obtain financing. The quotas would also represent value when fishermen retire, e.g due to age. Finally, ITQs would prevent the increasing excess capacity we can see today. This would release manpower from the industry, to create revenue elsewhere in the economy. The most effective fishermen would remain in the fisheries industry, increasing its overall efficiency and revenue, while also providing better opportunities for planning in the fisheries industry.

At the autumn parliamentary session, an amendment to the Fisheries Act was proposed, comprising 1) tightening of the rules for ownership of quotas; 2) redistribution of the quota between inshore and deep-sea fishing from 43%-57% to 50%-50%; and 3) notice of termination for the withdrawal and reallocation of fisheries licences to new operators for at least five years. The objectives of the bill are not clear, but one political objective could be to diversify ownership.

The bill will reduce incomes in Greenland and public revenue from fisheries. There are three reasons for this:

*Firstly*, the 50-50 distribution of the quota may entail that to a greater extent the quota will be fished as relatively ineffective inshore fisheries, instead of relatively effective deep-sea fisheries. This will reduce fisheries' overall efficiency and total revenue.

*Secondly*, the Bill includes several elements that increase uncertainty in the industry. The increased uncertainty makes it less attractive to invest in new fisheries vessels. This entails a decline in efficiency and revenue in the longer term.

For example, quotas that are only secure for five years will make it extremely difficult to attract equity capital

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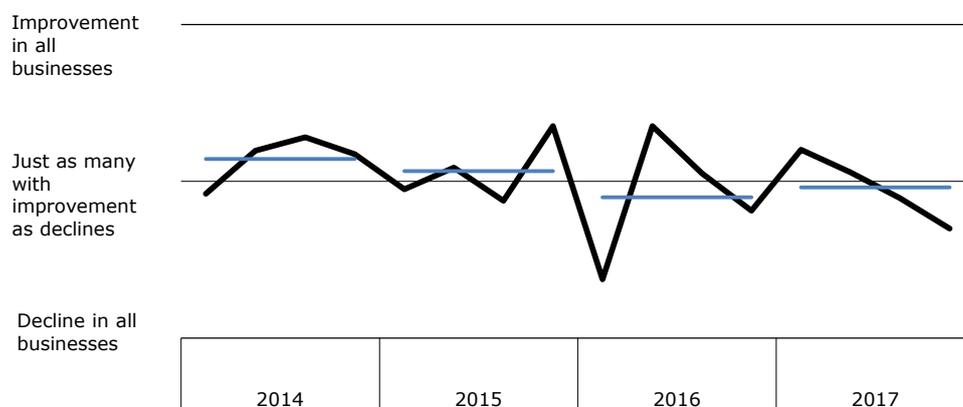
and foreign capital for the investments required in the industry.

*Thirdly*, an increase in fisheries employment reduces efficiency. When vessels become smaller and older, more employees are needed to fish the quota. Employment at the factories also increases if a larger share of the quota is fished as inshore fisheries and sold. The increased employment may be a political objective in itself and in the short term the increased employment can reduce unemployment. In the longer term, unemployment will not fall, however, but instead employment in other parts of Greenland's economy will be reduced. When employment declines in other areas of society, incomes are reduced. On the other hand, increased employment in fisheries does not generate extra income, since the quota does not increase. Overall value creation and welfare in Greenland will therefore decline.

### Construction

There are still a lot of construction cranes in Nuuk. The port has been completed, but housing construction is still underway, the building of the prison is continuing, and there are several projects in the pipeline. Construction activity can also be seen in Ilulissat, but construction activity along the coast otherwise appears to have been limited in 2017. In overall terms, construction companies indicate that 2017 has been at around the same level as 2016, cf. Figure 6.

**Figure 6 Indicator of the development in construction**



Note: A positive indicator means that several of the respondent companies indicated an improvement, rather than a reversal, in the current and coming quarter. The indicator does not show the extent of the improvement, but a higher figure implies that an increase was more probable. The blue lines indicate the annual average.

Source: Copenhagen Economics for the BANK of Greenland.

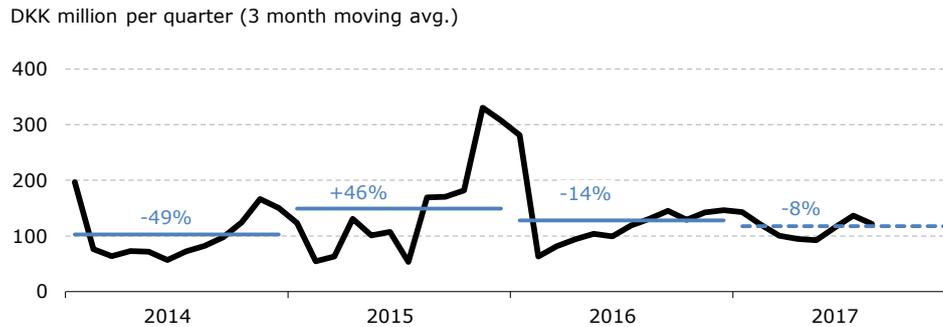
The Greenland Government's construction activity in 2017 was at the 2016 level. The consumption from the Civil Engineering and Renovation Fund in both 2016 and 2017 was below the 2015 level, cf. Figure 5.

The major projects such as port and prison construction, 126 homes, and the extension of the Greenland Institute of Natural Resources in Nuuk, and the construction of a school and upper secondary school in Ilulissat and Qaqortoq, respectively, either have been completed or are approaching completion. Looking ahead, there do not seem to have been sufficient public invitations to tender in 2017 to close the gap.

The challenge may lie with the authorities, as invitations to tender have excessively ambitious time schedules and conditions, as a consequence of political objectives. Yet the challenge is perhaps just as much that there are few major operators in Greenlandic construction, which is reflected in the small numbers of bids received. This is an example of one of several "small-scale disadvantages" in Greenlandic society. When there are scale economies, there is naturally only space for a few operators in each sector.

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**Figure 7 Consumption from the Construction and Renovation Fund**



Note: The figure shows the development in current prices. The blue lines indicate the annual average and the dashed line shows an annual average for 2017, if the development is level for the rest of the year.

Source: Statistics Greenland.

During the period from 2013 to 2015, the public sector accounted for around half of all construction in Greenland.<sup>1</sup>

However, there is currently a shift towards increased residential construction, initiated by private contractors. There is a particularly high propensity to invest in residential construction in Nuuk. However, these investments are to a great extent based on lease contracts with the municipality. The projects can be a good business proposition for the municipality, since the tax revenue from the construction activities falls to the municipality, and the shortage of housing is reduced. For the clients, the construction risk is also reduced, since the municipality guarantees the rental income for a period. Another positive development is the increase in cooperative housing complexes in coastal towns, creating a more diversified housing market.

Despite the new private initiatives, towards the summer of 2018 there is prospect of a downturn in construction activity, since an insufficient number of major projects was launched in 2017. Looking further ahead, there are, however, prospects of major construction activity and therefore a great need for qualified manpower.

Sermersooq's new urban development company, Siorarsiorfik, has laid plans for investments totalling DKK 5 billion in the course of the next 12 years, equivalent to just over DKK 400 million per year. Some of these funds will be taken from the existing construction budgets.

The Greenland Government's airport company, Kalaallit Airports A/S, expects total investment of around DKK 3.6 billion for the airports in Qaqortoq, Ilulissat and Nuuk. The construction work for Nuuk is expected to be subject to calls for tender in 2018, while calls for tender for Qaqortoq and Ilulissat will take place in 2019. The expected final year of the construction of all three airports has been deferred from 2021 to 2022 in order to increase the security that all construction costs will be held within the budget. During the spring of 2018, the financing plan and the projects' economic impact are expected to have been investigated. This is expected to have an impact on the final consideration of implementation, including the building rate.

A large element of the construction work is too extensive and specialised for the local contractors. However,

<sup>1</sup> The ratio is compiled as the Greenland Government's consumption from the Construction and Renovation Fund, plus the municipalities' budgeted capital expenditure, as well as repairs and maintenance, divided by the total capital expenditure in Greenland, as compiled in Statistics Greenland's national accounts. Port and prison construction in Nuuk is not included in the public-sector element of overall construction.

## GREENLAND'S SOCIETY AND ECONOMY

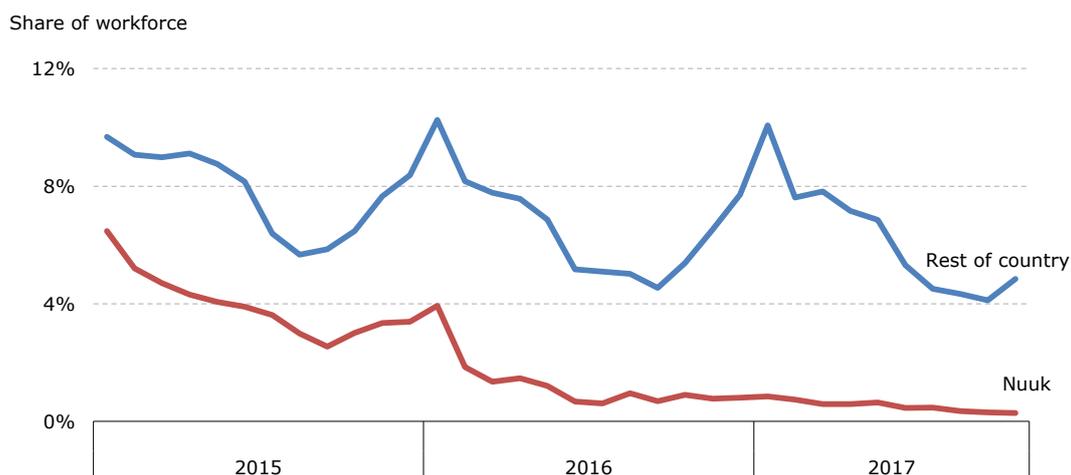
Greenlandic subcontractors can bid for sub-contracts such as buildings and roads. A number of consequential private and public investments must also be expected.

There should be great focus on organising educational and requalification activities to ensure the right match between skills and the future needs in the various public construction projects. If there is a lack of sufficiently qualified manpower, jobs may go to outsiders, pay levels will be pushed up, international competitiveness will be undermined, and construction prices will increase.

### Labour market

The need for requalification and labour-market initiatives is emphasised by the current situation in the labour market. Since 2016 there have been no idle hands in Nuuk, while elsewhere in society there is unemployment, cf. Figure 8.

**Figure 8 Number of job-seekers ready to work as a ratio of the workforce**



Note: The figure shows the number of registered job seekers compiled as ready to work (match group 1) at the relevant labour market offices, as a ratio of the workforce. The workforce is retained at the 2015 level, since so far there are no newer workforce statistics. This compilation deviates from Statistics Greenland's unemployment concept, among other things because job seekers in match groups 2 and 3 are included in Statistics Greenland's unemployment statistics. For comparison, unemployment according to Statistics Greenland's definition was 6% in Nuuk and 11% in the rest of the country in 2015. The statistics are uncertain, since practice can vary in the different labour market offices.

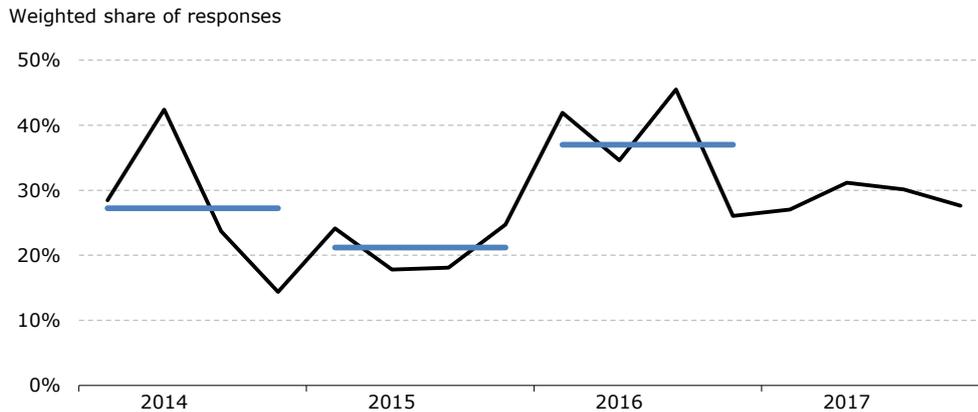
Source: Own calculations based on Statistics Greenland.

In 2017, just over 3,000 job seekers on average per month contacted the labour market offices. Of these, around 1,000 were registered as either ready for action (match group 2) or temporarily passive (match group 3). People in this group are not available to the labour market and require special social measures. To the extent that these persons can be included in the workforce, employment and public revenue can be increased and public expenditure reduced.

The low unemployment since 2015 is reflected in a great shorter of manpower for companies during the same period, cf. Figure 9.

## GREENLAND'S SOCIETY AND ECONOMY

**Figure 9 Companies' shortage of manpower**



Note: The figure shows the proportion of the companies (from all sectors) participating in Copenhagen Economics' quarterly questionnaire survey which state "Shortage of manpower" as a growth-limiting factor. The responses are weighted according to the companies' size, measured by the number employed. The blue lines indicate the annual average.

Source: Copenhagen Economics for the BANK of Greenland.

The shortage of manpower appears to be related to local conditions in such towns as Nuuk, Ilulissat and Aasiaat, but concerns a wide range of companies. Since 2014, e.g. 60% of fisheries enterprises and 40% of construction enterprises have specified a lack of manpower and management resources as barriers to growth.

The local shortage of qualified manpower impedes growth and has a negative impact on Greenland's international competitiveness. Furthermore, companies such as Royal Greenland lack stable manpower for their factories. The construction and civil engineering sector has a shortage of qualified manpower across the board, in particular managerial expertise.

Companies in every area of business and industry, but particularly in Nuuk, also report very high staff turnover levels in current years. A high rate of job rotation may have positive effects when knowledge and ideas are further disseminated in companies, but there can also be major costs related to administration, training and lost know-how. As a society, Denmark loses potential positive effects and is left with the costs of declining lengths of service.

Besides the fact that too few young people gain higher educational qualifications, compared to the Faroe Islands and Iceland, relatively few of the young Greenlanders who go abroad to study ever return once they have graduated or qualified. For as long as there is no improvement in the resident population's level of education, highly-trained manpower from abroad is a precondition for the level of welfare we know today. This makes it important to ensure that it is attractive to move to Greenland, settle down and make a permanent contribution to society.

Companies report that it has become far more difficult to attract manpower from abroad. There can be several reasons for this. The general cost of living may have changed, to Greenland's detriment,<sup>2</sup> and competition for manpower may have intensified in step with increasing employment in Denmark.

<sup>2</sup> A survey by Statistics Greenland shows that in 2016 the overall price level for households was 6.3% higher than in Denmark. An equivalent survey from 2015, which is not 100% comparable, however, showed a price level in 2014 that was 2.4% higher than in Denmark.

## GREENLAND'S SOCIETY AND ECONOMY

The increasing housing shortage in Nuuk, which among other things is reflected in longer waiting lists for rental housing, may also have made it more difficult for companies to attract skilled employees from outside and from the coast. The shortage of housing is a consequence of the significant direct and indirect subsidies that are currently given for all types of housing. The artificially low rent levels for some publicly-owned housing make it impossible in practice to maintain balance between supply and demand. So far, no significant steps have been taken towards prices for publicly-owned rental housing which more accurately reflect costs.

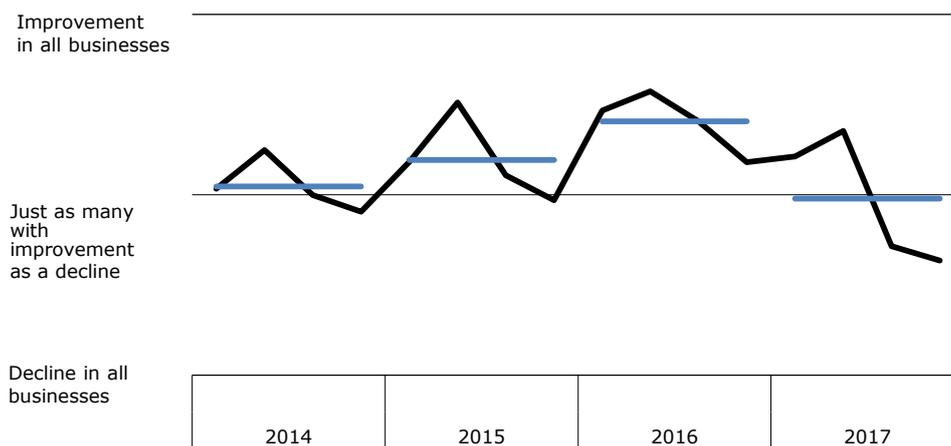
Core public services often determine whether people decide to settle in Greenland, irrespective of whether they are born here, or not. While all of these elements – net pay after tax, housing, schools, healthcare system – are preconditions for attracting skilled employees, an exciting and responsible job, a flourishing cultural life, a good social life and, not least, the sense of being a fixed and accepted part of society, are all vitally important elements of encouraging people to stay in Greenland, so that we do not just have a “transition society”.

### Private consumption and tourism

According to most indicators, there was no growth in private consumption from 2016 to 2017. Current settled income taxes, retail turnover and the value of imported consumer goods all show an unchanged or moderately declining level from 2016. According to Tele Greenland, the demand for telecom products was also unchanged from 2016 to 2017.

This unchanged consumption reflects how service companies did not indicate progress or a reversal in 2017, cf. Figure 10.

**Figure 10 Indicator of the development in the private service industries**



Note: Cf. the note to Figure 6. "Private service industries" concern utility supplies, trade, hotels and restaurants, transport, telecom, financing and insurance, leasing and property intermediation, and business service and consulting.

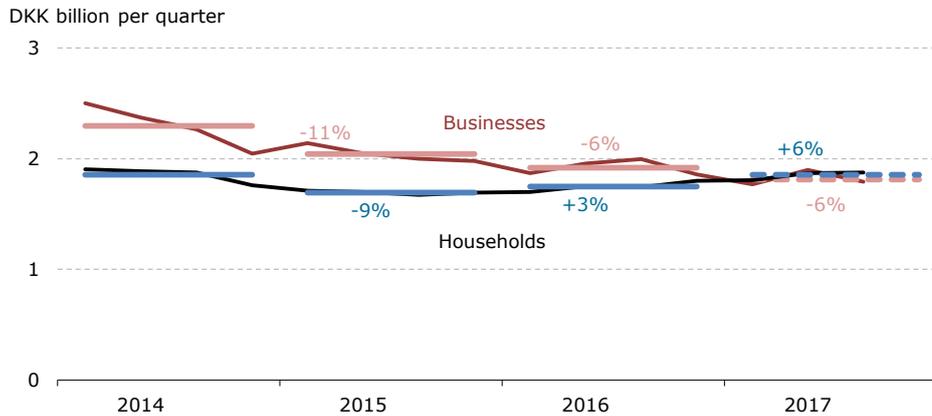
Source: Copenhagen Economics for the BANK of Greenland.

One area that has made significant progress, however, is the banks' lending to households, cf. Figure 11.

The BANK of Greenland has noted a greater propensity to invest among the households and companies. In view of good earnings and income, however, there is considerable repayment ability and indebtedness is therefore only increasing moderately.

## GREENLAND'S SOCIETY AND ECONOMY

**Figure 11 The banks' lending**



Note: The figure shows the development in current prices in lending to businesses (non-financial companies) and private residents in Greenland from banks in Denmark and Greenland. The horizontal lines indicate the annual average, while the dashed lines show the annual average for 2017, if the development is level for the rest of the year.

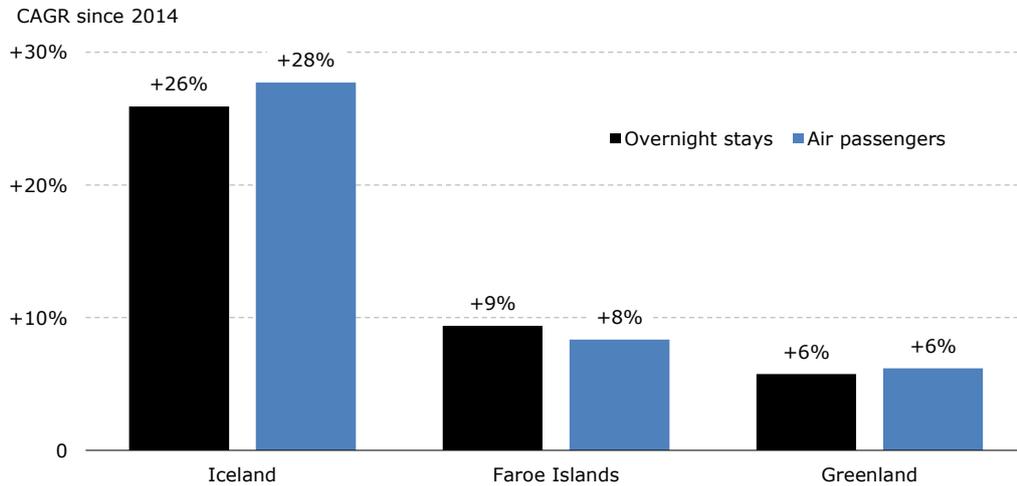
Source: Statistics Greenland.

There is strong global growth in tourism and aviation, and in Greenland too, this industry is expanding across the country. More tourists are coming to the east coast from Iceland. Ilulissat attracts many tourists, and tourism in Nuuk is also increasing. During the tourist season from October 2016 to September 2017, the number of passengers on international flights increased by 4% from the year before, and the number of foreign-visitor hotel stays increased by no less than 13%.

Compared to our neighbouring countries, this growth is not remarkable, however, which gives potential for even higher growth rates, cf. Figure 12.

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**Figure 12 Growth in tourism**



Note: The figure shows the average annual growth in the number of airline passengers on international routes and foreign-visitor hotel stays from the 2014 tourist season to the 2017 tourist season. The tourist season is from 1 October to 30 September. For the Faroe Islands, airline passenger growth is compiled from 2014 to 2016, however.

Source: Statistics Greenland, Statistics Faroe Islands and Statistics Iceland.

**New airports**

If new airports make it possible to fly directly from Copenhagen to Nuuk and Ilulissat, this will hopefully contribute to realising tourism’s potential. Eliminating the stopover in Kangerlussuaq will be to the benefit of the countries’ companies and citizens alike. Travel time, regularity and, not least, prices are of significance to the number of airline passengers and tourists. Today, the air ticket accounts for a large share of the price of a tourist’s trip to Greenland.

The new airports would lead to a greater supply of opportunities, as well as operational savings for airports, airlines and tourist operators, thereby increasing competition. In isolated terms, this would lead to lower ticket prices. Yet it is not certain that prices would fall significantly, since it has not yet been determined how the expansion and operation of airports would be financed. If airport taxes were to be raised, in isolated terms this would push up ticket prices. In such case, airline passengers would be footing more of the bill for the new airports. If not, the funds for the equity contribution to Kalaallit Airports and any future deficits would have to be obtained from elsewhere.

One proposal is to finance the airports with special dividends from e.g. Tele Greenland. In such case, mobile phone and Internet customers would ultimately end up paying for the new airports. This will make one infrastructure area cheaper at the expense of another.

Who is to the foot the bill is a political decision. From an economic viewpoint, however, it is most optimal to assign the bill to where the economic consequences in the form of *tax distortion* (i.e. changed behaviour) are lowest. It is doubtful whether higher mobile, Internet or air ticket prices would entail the fewest economic consequences.

Instead – from an economic viewpoint – the airports should either be financed by tax increases or by extending the tax base to the areas where taxes have the least possible distorting effect, or by reducing public expenditure in other areas.

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## GREENLAND'S SOCIETY AND ECONOMY

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The process towards reaching a decision has been planned well and correctly. Ahead lies clarification of the economic aspects and the various risks in the project. The economic analysis may prove to be positive and negative, and the bids received for the civil engineering projects may be more or less expensive than expected. The question is whether there is political decision-making power to change the political requirements, if these analyses have a negative outcome.

It is important, however, that the process does not become even more protracted. As in the case of fisheries, uncertainty about the future can, in itself, have economic costs. For example, Air Greenland and a number of hotel and tourist projects are awaiting final clarification, prior to investing.

There is no doubt that investing in e.g. new airports in Nuuk, Ilulissat and Qaqortoq is one of the biggest and most important political decisions of our time. The same applies to failing to do so. In this respect, it has been contested that this investment is enormous compared to Greenland's economic size, and comparisons with public investments in Denmark have been made in the media. Based on this comparison, infrastructure investments in Greenland would never be possible, since they would always be very large compared to the size of the overall economy. On the other hand, investment can justify a current deficit for a period, yet the calculations may naturally also show that this challenge is too daunting and that the project should be re-considered.

The BANK of Greenland assesses that this is the right time for an infrastructure investment that may mark a paradigm shift. Interest rates are historically low, there is minimal public indebtedness, and the stabilising effect of the block grant is still considerable. At the same time, the country will alternatively face the prospect of significant upgrading of the existing Atlantic airports, which will not improve the country's logistics, but essentially solely incur additional expenditure. Nonetheless, any investment in new airports must be based on rational economic considerations, so as to reduce the construction cost as far as possible. In this respect, operational optimisation of the existing infrastructure, which might contribute to paying the bill, must also be considered in the longer term.

This would enable Greenland to take an economic leap forward to create a significantly better starting point for e.g. investments in tourism and the natural resources industry, even though any decision would also be subject to uncertainty.

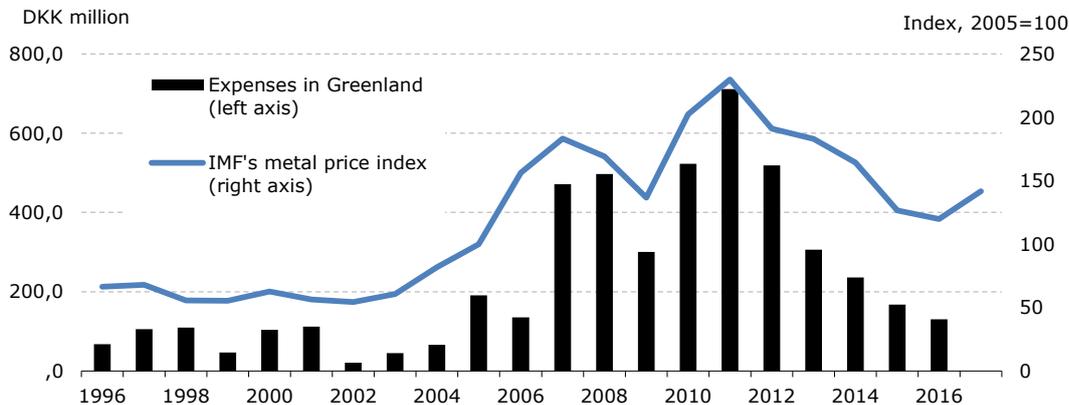
### **Natural resources**

In May 2017, the extraction commenced of rubies and sapphires from the LNS Greenland-owned ruby mine in Aappaluttoq, south of Nuuk. This was an important milestone in the journey to make Greenland a mining country. The fact remains, however, that the ruby mine is the only active mine in Greenland. This is far from the Greenland Government's ambition to have five to ten active mines in 2018, as it was described in the Oil and Mineral Strategy from 2014.

During the intervening period, the price development for minerals has been very unfavourable and led to a significant braking of exploration activities. This also affects Greenland, where exploration costs in 2015-2016 were at the lowest level in almost ten years, cf. Figure 13. Mineral prices are on the way up, however, and this should lead to an increase in exploration activities. Eight approved activities in 2016 and 25 in 2017 point in the right direction.

## GREENLAND'S SOCIETY AND ECONOMY

**Figure 13 Exploration for minerals in Greenland and world market prices**



Note: The figure shows the development in current prices.

Source: Statistics Greenland, Ministry of Mineral Resources and S&P Global Market Intelligence.

If Greenland is to have any hope of prospering from mining activities within the next ten years, it is vital that the Greenland Government successfully utilises the favourable price environment that we can probably begin to see now. This means that the Greenland Government must encourage exploration activities and succeed in working effectively towards achieving the necessary extraction licences for the companies whose exploration activities reveal economically viable projects.

Yet precisely here the Greenland Government has a challenge that needs to be addressed. The good news is that the problem is not the actual regulation, with its requirements of environmental and economic assessments, or the negotiations concerning local economic effects in the Impact and Benefit Agreement (IBA) contract. In many ways, Greenland actually has state-of-the-art regulation in this area.

The challenge lies in how good the Greenland Government is at applying the regulation in practice. Since Greenland is not a mining country yet, Greenland's public authorities quite naturally have only very limited experience from providing top-tuned official processing. In October 2017, the internationally recognised *Mining Journal* published the first edition of a global country benchmarking survey of the conditions for operating mining activities. This World Risk Report presents a very interesting conclusion for Greenland: out of 14 European countries, it is only in Greenland (and Bulgaria) that the legal regulation, measured by objective data, is better geared to promoting mining activities than its actual application in practice. The reverse applies to the other European mining countries: here, mining legislation is more stringent on paper than in practice. *Mining Journal* attributes this to the countries' longstanding mining experience. Experience has made it possible for the authorities in these countries to develop effective and solution-oriented workflows to ensure that projects operated by responsible companies will very often achieve approval of applications for development licences. This reduces the companies' risk and makes it easier to attract investors to finance exploration activities and actual mining operations.

For Greenland, however, the situation is the reverse. Here, legislation is good, but its application has shortcomings. This increases the companies' risk, which reduces investors' willingness to invest in exploration in Greenland.

The Greenland Government should therefore act to improve the processing by the authorities. It is important that the industry can see that this criticism is actually addressed by Naalakkersuisut (the Greenland Government), and that visible and real changes are made, to make it more attractive, transparent and credible to invest in Greenland. The report indicates four areas in which the Greenland Government can take

## GREENLAND'S SOCIETY AND ECONOMY

measures to ensure considerably better processing by the authorities, in order to make Greenland more attractive to investors and companies.

**Figure 14 Four action areas**

<p><b>1. Better problem solving</b></p> <p>Use seminars, workshops and decision-making meetings to drive progress with applicants. Do this at the expense of time-consuming and often ineffective exchanges of correspondence.</p>	<p><b>2. Rethink governance</b></p> <p>Processing by the authorities is affected by silo-thinking. This makes processing cross-disciplinary mining applications a cumbersome process. Develop a task-force approach for greater flexibility and effectiveness.</p>
<p><b>3. Reduce uncertainty</b></p> <p>It is a misunderstanding that a short case-processing time and few requirements are most important for the companies. It is more important that agreed time schedules are observed, so that investors have a basis to assess progress.</p>	<p><b>4. A new minerals strategy</b></p> <p>The current strategy expires in 2018. Design a new strategy setting out decisions which the Greenland Government will take to improve the conditions. Rather few promises that can be kept, than many that are not kept.</p>

### The national economy

In the Finance Act for 2018, a surplus of DKK 11 million on the Operation and Investment Balance is budgeted, cf. Table 1. For the 2018-2021 period, the Operation and Investment Balance is budgeted to break even, which is in harmony with Naalakersuisut's four-year objective.

**Table 1 OI Balance and the municipalities' budgets**

DKK million	2015	2016	2017	2018	2019	2020	2021	2015-2018	2018-2021
Greenland Government (OI Balance)	+137	+47	+22	+11	+11	-6	-16	+217	0
Municipalities	+94	+73	-6	-24	-67	+2	-	+137	-
<b>In total</b>	<b>+231</b>	<b>+120</b>	<b>+15</b>	<b>-13</b>	<b>-56</b>	<b>-4</b>	<b>-16</b>	<b>+354</b>	<b>-</b>

Note: Negative figures indicate a deficit. For the Greenland Government, the figures for 2015-2017 are actual figures, while the figures for 2018 are adopted for the year, and the figures for 2019-2021 are budget estimates. For the municipalities, the figures for 2015 are actual figures, while the figures for 2016-2020 are budget estimates, with the exception of Sermersooq, for which the figures for 2016 are also actual figures.

Sources: Finance Act 2018; Sermersooq, 2018 budget dossier and budget 2017; Qeqqata, 2017 budget report; Kujalleq, budget 2017 and budget 2016; and Kommunia Qaasuitsup, budget 2017.

Overall, the municipalities' budgets show a deficit in 2018. This gives rise to concern, in view of the current low unemployment. The surplus on the OI Balance is also alarmingly low, in view of the historically high

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## GREENLAND'S SOCIETY AND ECONOMY

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revenue from fisheries and a significant increase in the block grant from Denmark in 2018.<sup>3</sup>

Looking back on the 2015-2018 period, the OI Balance shows a large surplus. This is related among other things to how in the Finance Act for 2017, the budgeted deficit of DKK 57 million in 2016 was reversed to a surplus of DKK 47 million in the Treasury's accounts. The reversal of the deficit in 2016 to a surplus must be viewed in the light of an increase in fisheries volumes in 2016 for all of the commercially important species. This improvement resulted in historically high proceeds for the Treasury from fisheries taxes totalling DKK 269 million. For 2017, the proceeds from fisheries taxes are expected to amount to DKK 288 million, in step with the entry into force of new taxes on cod, haddock, pollack and redfish.

For the 2018-2021 period, annual proceeds totalling DKK 384 million from fisheries taxes are budgeted in the Finance Act for 2018. A significant improvement in volumes and world market prices is thus budgeted for, after the historically good years in 2016 and 2017. This expectation is optimistic and perhaps unrealistic. Since the proceeds from fisheries taxes are less predictable than the other taxes and duties, it is extra important that expectations are not overly optimistic. If the proceeds from fisheries taxes continue at the historically high 2017 level, the OI Balance will show an overall deficit of almost DKK 400 million for 2018-2021, which will have to be financed by other means. This risk is emphasised by the declining Greenland halibut fisheries in 2017.

On this basis alone, Naalakkersuisut's Finance Act and estimate years for 2018-2021 appear to show an alarmingly low surplus.

### **Fiscal-policy sustainability**

Since the Economic Council's first report from 2010, and the subsequent report from the Taxation and Welfare Commission, we have moved closer to the economic "death trap" in which revenue and expenditure move in opposite directions. In its first calculations of fiscal-policy sustainability, the Economic Council compiled the sustainability problem in Greenland at approximately DKK 1 billion. This indicated a need for a budget improvement of DKK 1 billion (or 7.9% of GDP) *every year* up to 2040, to ensure balance between revenue and expenditure, cf. the dashed lines in Figure 15. Without this budget improvement, the debt would run amok and the country would sooner or later go bankrupt.

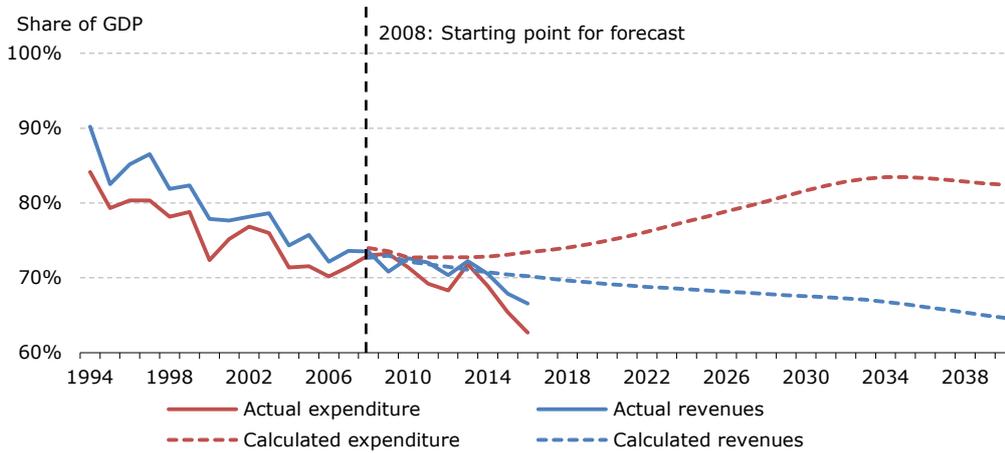
Eight years have now passed, during which economic balance has been achieved. How has it been possible to avoid the abyss up to now? Have we been lucky, saved by the fisheries revenue? It appears, however, that political prioritisation and cuts in public spending have ensured that expenditure has not yet exceeded revenue. While revenue has generally matched the Economic Council's calculations from 2010, contrary to the Economic Council's predictions expenditure as a ratio of GDP has declined by just over 6% points from 2008 to 2016, cf. Figure 15.

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<sup>3</sup> The revenue from the block grant from Denmark increases by DKK 100.5 million from 2017 to 2018. The increase is related to the price- and wage-adjustment of the block grant by 2.7% in 2018, while the Greenland Government's price and wage rate only increases by 0.95%. While there can be fluctuations between inflation rates in Greenland and Denmark from year to year, in the longer term inflation will be at the same level in the two countries, so that this must be considered to be non-recurring revenue.

GREENLAND'S SOCIETY AND ECONOMY

**Figure 15 Public revenue and expenditure**

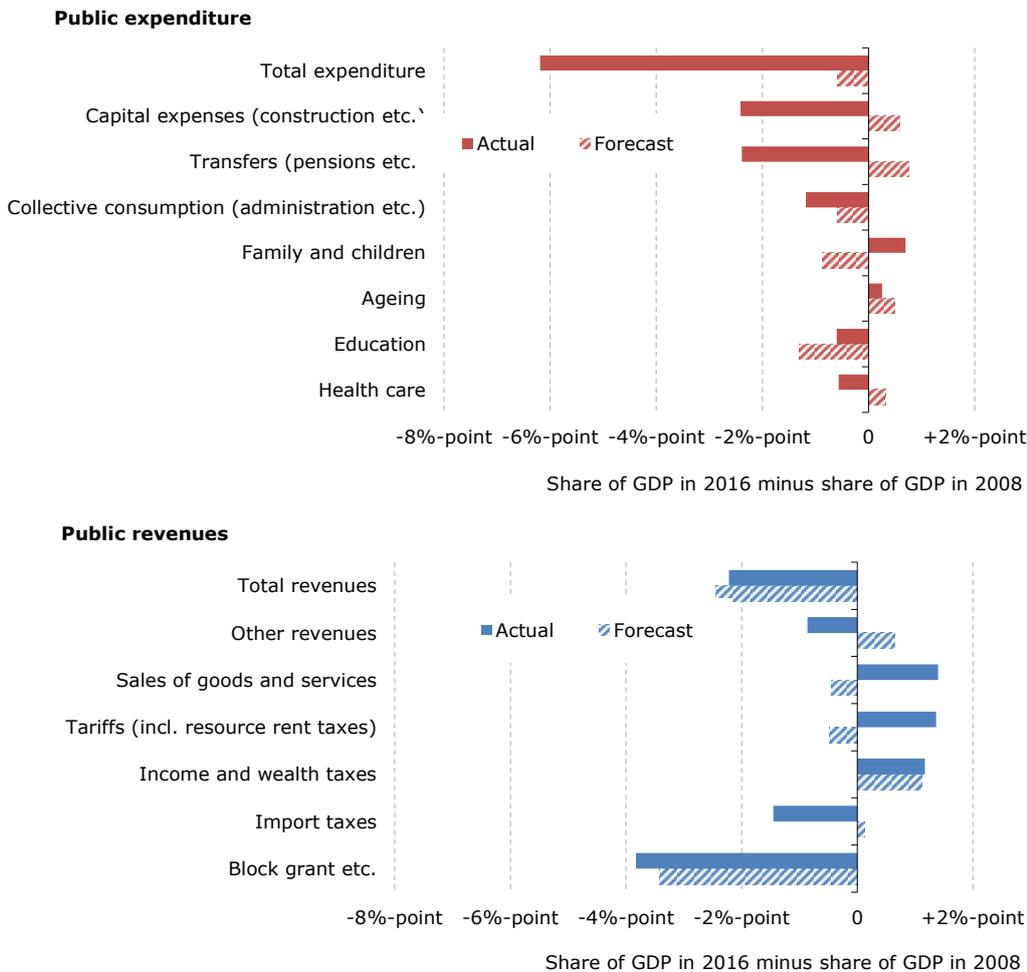


Source: Statistics Greenland and the Economic Council (2010).

The decrease in expenditure as a ratio of GDP concerns public capital expenditure, which primarily relates to construction expenditure, as well as public transfers, which concern pensions, housing benefit, public assistance, etc. On the revenue side, fisheries taxes *have* played a positive role, but not to the same extent as the reduced expenditure, cf. Figure 16. The revenue from taxes on tobacco and alcohol imports, on the other hand, has declined considerably as a ratio of GDP.

GREENLAND'S SOCIETY AND ECONOMY

Figure 16 Change in public revenue and expenditure from 2008 to 2016



Source: Own calculations based on Statistics Greenland and the Economic Council (2010).

Some of the decrease in public transfers can be attributed to how today there are fewer elderly people aged over 66 than in 2018, which was not forecast when the Economic Council made its calculations in 2010.<sup>4</sup>

The primary reason for the decline in public expenditure as a ratio of GDP is, however, that the objective each year is to ensure balanced public budgets during the Finance Act negotiations and among the municipalities. This means that overall, expenditure is never allowed to exceed revenue. The Economic Council's compilation of fiscal-policy sustainability is therefore *not* a prediction of how the future will look, but expresses how much adjustment is needed each year when politicians are to balance the budgets.

The “death trap” expresses the adjustments that must be made on either the expenditure or revenue side in the absence of reforms – it does not express how the future will look, or when we will reach the abyss.

<sup>4</sup> While the population projection in 2010 predicted that the number of +66 year-olds would be unchanged from 2008 to 2016, the actual number has fallen by 5%. The provider burden, measured as the number of 0-14 year-olds plus +66 year-olds, divided by the number of 15-65 year-olds, has declined from 41% in 2008 to 39% in 2016. The population projection in 2010 predicted that the provider burden would still be 41% in 2016.

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## GREENLAND'S SOCIETY AND ECONOMY

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Despite the positive development, there are still considerable structural challenges. A smaller workforce will gradually be required to provide for more people in the future, and many young people are still neither in employment nor education. If fisheries revenue declines, or e.g. airports require current deficits to be covered, the need for reforms will increase.

In the Greenland Government's Growth and Sustainability Plan, the largest contribution to closing the gap is a reduction of public consumption by DKK 650 million in 2030, from the current DKK 7,400 million. This requires a number of reforms and initiatives. The preparatory remarks to the bill for the 2018 Finance Act provide an extended status report on the reform work, but it is impossible to address this without concrete, quantitative objectives and impact assessments. Without continuous quantitative follow-up and concrete sub-goals, there is a risk of undermining the Growth and Sustainability Plan, like the plans laid after the Tax and Welfare Commission's report.

### **Should Greenland be richer or poorer?**

This question would seem easy to answer and most people, including politicians, naturally wish Greenland and thereby the Greenlandic population to be ensured stronger economic development, and thereby a more prosperous Greenland.

When the BANK of Greenland considers the political debate of current topics such as fisheries, natural resources, education and infrastructure, it does seem, however, as though there is insufficient focus on long-term sustainable economic development towards a more prosperous Greenland.

Each political initiative should prompt the question: "Does this proposal make Greenland richer or poorer?"

There is no doubt that Greenland is a wealthy country, yet the economic development (and thereby its population's economic development) has been slower than in the countries with which we usually compare ourselves. If Greenland's economy is to develop, this requires ensuring that the political initiatives are more focused on the long-term economic objective.

## ABOUT THE BANK OF GREENLAND

### About the BANK of Greenland

The BANK of Greenland was established in 1967 by a group of Danish banks. The founding general meeting was held on 26 May 1967 at Danske Bankers Fællesrepræsentation's premises in Copenhagen. This marked the birth of the first bank in Greenland. The Bank opened on 1 July 1967.

Nine months before, Bikuben (in 1985 restructured as Nuna Bank) established a branch in Nuuk. In 1997 the BANK of Greenland and Nuna Bank merged.

### The BANK of Greenland's mission

"The BANK of Greenland creates value through advisory services and other services in the financial area for all citizens of Greenland. We support society by promoting financial understanding, cooperating with educational institutions and the business community, and supporting sustainable local initiatives and development." The Bank's mission should thus be viewed in a broader perspective whereby the BANK of Greenland can be seen as the *Bank for all of Greenland*. This entails an enhanced responsibility to participate positively and actively in society's development and to help to create opportunities in Greenland, while also ensuring sound financial activities. The BANK of Greenland is extremely aware of this vital role.

### The BANK of Greenland's values

The BANK of Greenland's values are firmly anchored in the Bank and its employees. The values are **Commitment, Decency, Customer-oriented** and **Development-oriented**. These values serve as a guide for how we act and wish to be seen within and outside the Bank.

### The BANK of Greenland's strategy, vision and objectives

"Strategy 2020" supports the vision and objective to be "Greenland's best company – for the benefit of Greenland". The strategy determines the Bank's key development areas for the coming years, as well as setting out an overall action plan. The Bank seeks to involve all employees in supporting the Bank in achieving the specific goal of being "Greenland's best company – for the benefit of Greenland".

The BANK of Greenland hereby wishes to ensure continued favourable development of the Bank through balanced focus on the four main areas: **Greenland's best customer experience, best at employee development, best at business development, and we create growth in Greenland**. The main areas are annually included in objectives which are continuously adjusted.

The objectives are related to the long-term strategy and vision for 2020 and will therefore reflect balanced objectives based on the four traditional main areas: **customers** (*Greenland's best customer experience*), **employees** (*best at employee development*), **social responsibility** (*best at business development and growth in Greenland*) and **economic growth** (*we create growth in Greenland*). The BANK of Greenland will thereby ensure that we continue to give value to society and are the preferred bank for customers, shareholders and employees, and that we fulfil the vision to be "Greenland's best company – for the benefit of Greenland".

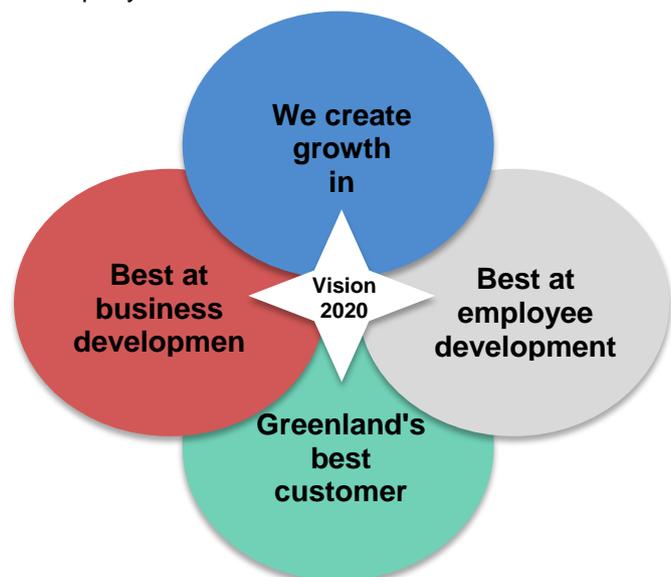


Figure 17 The Bank's vision 2020 – Greenland's best company – for the benefit of Greenland

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**SUMMARY OF FINANCIAL HIGHLIGHTS AND KEY FIGURES 2017**


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<b>Selected operating items:</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net interest and fee income	309,546	289,760	284,174	293,457	275,750
Value adjustments	-6,368	-12,899	-10,775	7,687	4,039
Other operating income	5,240	4,854	6,002	5,657	5,617
Staff and administration expenses	152,528	144,207	139,414	136,440	130,422
Depreciation and impairment of tangible	6,840	5,981	6,150	9,160	10,385
Other operating expenses	2,709	4,136	7,780	4,961	5,912
Write-downs on loans, etc.	13,734	13,971	19,432	24,807	15,186
<b>Profit before tax</b>	<b>133,607</b>	<b>113,420</b>	<b>106,625</b>	<b>131,433</b>	<b>123,501</b>
Tax	42,158	36,029	33,899	41,776	39,251
<b>Profit for the year</b>	<b>90,449</b>	<b>77,391</b>	<b>72,726</b>	<b>89,657</b>	<b>84,250</b>
<b>Selected balance sheet items:</b>					
Lending	3,335,119	3,073,861	2,822,572	2,814,547	2,874,931
Deposits	4,205,612	4,822,362	4,741,477	3,739,768	3,996,169
Equity	958,458	926,210	914,282	909,872	876,235
Balance sheet total	5,355,010	5,911,496	5,846,450	4,849,621	5,057,050
Guarantees	1,161,181	1,216,537	1,122,842	1,091,249	870,502
<b>Key figures for the Bank (in per cent)</b>					
The period's return on equity before tax and after dividend	15.4	13.4	12.7	16.3	15.8
The period's return on equity after tax and after dividend	10.5	9.1	8.6	11.1	10.8
Capital ratio	22.7	21.2	20.8	20.3	21.0
Individual solvency requirement	10.4	10.1	10.4	10.2	10.4
<b>Key ratios per share in DKK</b>					
Profit for the year per share, before tax	73.7	63.0	59.2	73.0	68.6
Profit for the year per share, after tax	50.3	43.0	40.4	49.8	46.8
Net book value per share	532	515	508	505	494
Dividend per share	30	55	55	55	55
Closing share price	649	614	625	612	662

## MANAGEMENT'S REVIEW

### Statement of income

On the basis of the favourable increase in lending in 2017, net interest income is TDKK 20,392 higher than in 2016. The positive effect of increasing lending more than sets off the expected decline in interest income from bond holdings. The Bank's largest deposits pay negative deposit interest rates, which contributes to reducing the effect of the negative interest on the Bank's certificates of deposit at Danmarks Nationalbank and on deposits with other banks.

Dividend on the Bank's shareholdings amounts to TDKK 807, compared to TDKK 3,634 in 2016. In 2016, the Bank received extraordinarily high dividend from Sparinvest Holding A/S.

Fee and commission income increased by TDKK 1,858 to TDKK 87,737. This reflects a strong increase in guarantee commission and in the payment settlements item. Loan case fees are at an unchanged level from 2016.

Other operating income, primarily rental income on the Bank's homes, amounted to TDKK 5,240, compared to TDKK 4,854 in 2016.

Staff and administration expenses increased by TDKK 8,321 to TDKK 152,528. This increase is as expected and primarily relates to administration expenses in Q4, and mainly concerns the development of digital solutions in the pension area, as well as higher costs to BEC (Bankernes EDB Central). The Bank's 50th anniversary in 2017 is also a significant reason for the increase. There were also salary adjustments in accordance with collective agreements.

Depreciation of property and fixtures and fittings increased by TDKK 859 to TDKK 6,840 from 2016.

Other operating expenses decreased by TDKK 1,427 to TDKK 2,709. The decrease is primarily related to the impact in 2016 of the renovation of branches in Qaqortoq and Maniitsoq.

### Selected Highlights and Key Figures (not audited)

(DKK 1,000)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2017	2017	2017	2017	2016	2016	2016	2016
Net interest and fee income	76,525	78,378	77,243	77,400	74,514	73,383	71,972	69,891
Costs, depreciation and amortisation	45,206	37,420	38,851	40,600	39,964	38,268	36,817	39,275
Other operating income	1,194	1,594	1,194	1,258	1,191	1,245	1,121	1,297
Profit before value adjustments and write-downs	32,513	42,552	39,586	38,058	35,741	36,360	36,276	31,913
Value adjustments	-1,460	-9,833	915	4,010	-2,779	1,399	-5,150	-6,369
Write-downs on loans, etc.	2,224	2,713	4,938	3,859	2,036	2,997	4,875	4,063
Profit before tax	28,829	30,006	35,563	38,209	30,926	34,762	26,251	21,481

The profit before value adjustments and write-downs thereby increased very satisfactorily by TDKK 12,419 to TDKK 152,709 from 2016. The profit before value adjustments and write-downs thus lies at the top end of the adjusted estimated range of DKK 145-155 million, and at the highest level in the Bank's history.

In isolated terms, net interest income in Q4 2017 amounted to TDKK 55,425, compared to TDKK 52,618 for the same period of 2016. Fee and commission income is at around the same level, at TDKK 21,099, compared to TDKK 21,897 for Q4 2016. Total costs, on the other hand, are rather higher, at TDKK 45,206, compared to TDKK 39,964 in Q4 2016, which as mentioned, is related to a number of non-recurring costs related to the Bank's 50th anniversary and the development of the Bank's pension products. Write-downs and provisions of

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## MANAGEMENT'S REVIEW

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TDKK 2,224 are at the level of the same period of 2016. The profit before tax in Q4 is thus DKK 28,829, compared to TDKK 30,926 in 2016.

For the overall year, value adjustment of securities and currencies resulted in a loss of TDKK 6,368, compared to a loss of TDKK 12,899 in 2016. The primary reason for the negative value adjustment in 2017 is, as stated on the presentation of the Q3 accounts, an extraordinary value adjustment of TDKK 13,002 concerning the Bank's capital contribution to BEC. The adjustment is related to BEC's write-down concerning BEC's development activities, as a consequence of which the Bank's capital contribution to BEC is written down. Holdings of the Bank's other shares show sound positive value adjustment.

Impairment of loans, etc. amounts to TDKK 13,734, which is by and large unchanged compared to 2016. The total impairment in 2017 thus amounts to a modest 0.3% of the Bank's loans and guarantees. Some of the impairment can be related to challenges for inshore Greenland halibut fishing, where the Bank's relatively moderate lending led to higher impairment in 2017 than seen before.

The profit before tax is satisfactory, at DKK 132,607, compared to TDKK 113,420 in 2016 and is thus the next-best result in the Bank's history. The profit before tax gives a return of 15.4% p.a. on opening equity before tax and after disbursement of dividend.

Tax is calculated at 31.8% of the profit before tax, adjusted for non-tax-liable income and non-deductible expenses. The profit before tax is TDKK 90,449 in 2017.

### **Balance sheet and net capital**

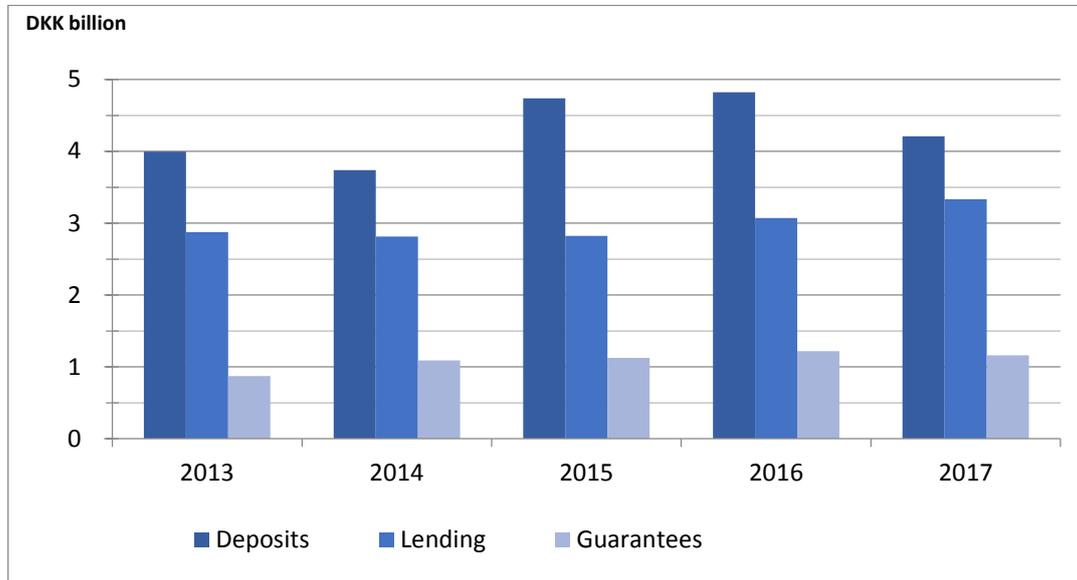
The BANK of Greenland's balance sheet at year-end 2017 totals TDKK 5,355,010, after a decrease of TDKK 556,486 from 2016. As expected, deposits declined in Q4 2017 and at year-end 2017 amount to TDKK 4,205,612, after a decrease of TDKK 616,750. The bank's deposits are mainly held on demand.

Lending increased again in Q4 and showed a very satisfactory increase in 2017, by TDKK 261,259 to TDKK 3,335,119, or 8.5%.

As expected, guarantees declined during the year, by TDKK 55,356 to TDKK 1,161,181.

Total loans and guarantees are thus at the highest-ever level.

## MANAGEMENT'S REVIEW



Net capital amounts to TDKK 958,458, compared to TDKK 926,210 at the end of 2016. Share capital amounts to TDKK 180,000. The Bank has no hybrid or other subordinate loan capital.

The capital ratio has increased significantly, to 22.7, compared to 21.2 in 2016.

### Uncertainty of recognition and measurement

The main uncertainties concerning recognition and measurement are related to write-downs on loans, provisions on guarantees, the valuation of financial instruments, and properties. The management believes that the presentation of the accounts for 2017 is subject to an appropriate level of uncertainty that is unchanged from previous years.

### Financial risks

The BANK of Greenland is exposed to various financial risks, which are managed at different levels of the organisation. The Bank's financial risks consist of:

**Credit risk:** Risk of loss as a consequence of debtors' or counterparties' default on actual 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, foreign exchange 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 due to 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 has financial losses as a consequence of inadequate or deficient internal procedures, human errors, IT systems, etc.

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## MANAGEMENT'S REVIEW

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### Capital requirement

By law, the BANK of Greenland must have a capital base that supports the risk profile. The BANK of Greenland compiles the credit and market risk according to the standard method and the operational risk according to the basic indicator method. It is still the Bank's assessment that there is no need for more sophisticated methods to be used. Concerning risk management, reference is made to Note 2.

In accordance with the Danish Financial Activities Act, the Board of Directors and the Executive Management must ensure that the BANK of Greenland has an adequate capital base. The capital adequacy requirement is the capital which, according to the management's assessment, as a minimum is needed to cover all risks.

The BANK of Greenland's capital ratio is 22.7 at year-end 2017.

The BANK of Greenland was designated as an SIFI institution in April 2017. In view of the new SIFI requirements of capital reserves and new requirements concerning impairment liabilities (MREL requirements), the Board of Directors has assessed that the capital ratio 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. This has led to lower dividend distribution in 2017, in order to strengthen the net capital.

The BANK of Greenland has not yet been informed of the Bank's MREL capital requirements, but expects clarification during the first half of 2018. Once this is known, more precise capital planning can take place, including possible use of other capital reserves than the Tier 1 capital.

The individual solvency requirement is compiled on the basis of the Order on the calculation of risk exposure, capital base and solvency requirement, as well as the Danish Financial Supervisory Authority's guideline in this respect. On the basis of the calculated capital requirement, the Bank has calculated immediate surplus cover of TDKK 495,887, which comprises the difference between the capital requirement (solvency requirement) and the actual capital (capital ratio). The management assesses that the capital is adequate to cover the risk related to the Bank's activities.

The Bank compiles the individual solvency requirement on the basis of the 8+ model. The calculation method for this model is based on 8%, as well as any additions calculated for e.g. customers in financial difficulties.

The BANK of Greenland meets the requirements in full, so that the annual financial statements are presented on a going-concern basis.

### The BANK of Greenland's calculated capital and solvency requirement according to the 8+ model

In DKK 1,000	2017		2016	
	Capital requirement	Solvency requirement	Capital requirement	Solvency requirement
Pillar I requirement	322,050	8.0 %	324,152	8.0 %
Credit risk	80,669	1.9 %	65,587	1.6 %
Market risk	10,350	0.3 %	12,212	0.3 %
Operational risk	3,800	0.1 %	5,500	0.1 %
Other risk	2,100	0.1 %	3,600	0.1 %
<b>Capital and solvency requirement</b>	<b>418,969</b>	<b>10.4 %</b>	<b>411,051</b>	<b>10.1 %</b>

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## MANAGEMENT'S REVIEW

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Reference is made to the BANK of Greenland's website for a description and amplification of the method of calculation of the capital and solvency requirement for 2017. Reference is also made to the Bank's risk management report for 2017 at <http://www.banken.gl/report/>. The report has not been audited.

### Liquidity

The BANK of Greenland has a comfortable deposit surplus, with liquidity according to the current Section 152 key figures of 105.4% at the end of 2017, equivalent to a total liquidity at TDKK 1,208,363. The Bank's funding is based solely on deposits.

Up to the end of 2018, new liquidity management rules, the liquidity coverage ratio (LCR), for credit institutions will be phased in. LCR is a minimum requirement of the ratio between short-term assets and liabilities, to ensure a satisfactory liquidity ratio. LCR in 2018 must be at least 100%.

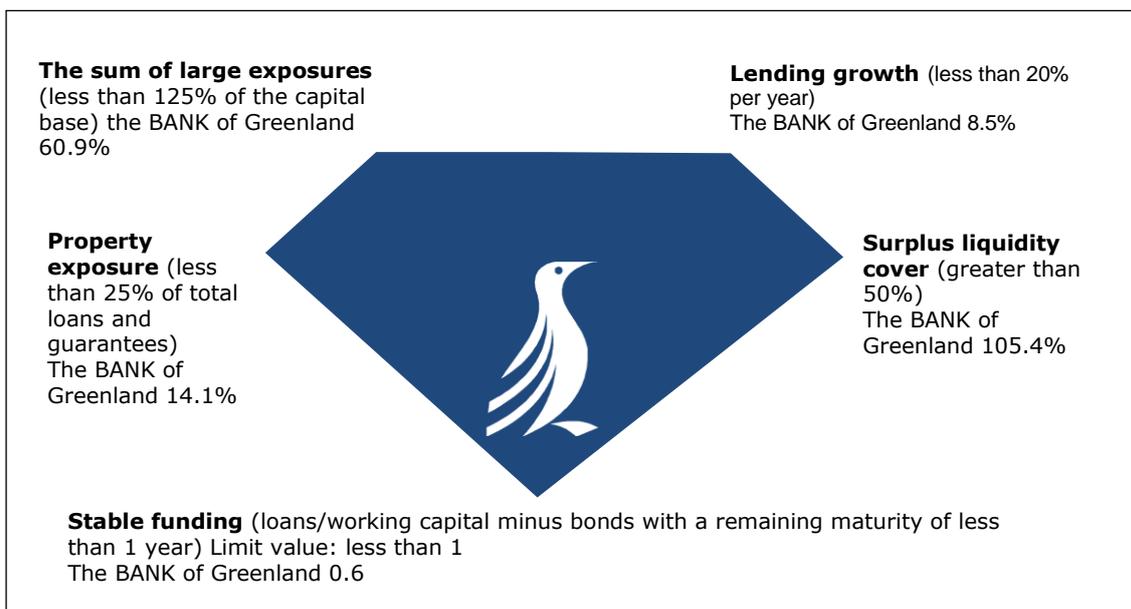
In Q2 2017, the BANK of Greenland was designated as an SIFI institution. At the end of 2017, the Bank had an LCR of 222.4% and thereby already fulfils the LCR requirement once it is fully phased in.

For Danish banks, as of 31 December 2016 the LCR replaced the Section 152 statutory requirement, with the latter requirement being phased out. For Greenland and the Faroe Islands, the liquidity requirement pursuant to Section 152(1)-(3) of the Danish Financial Activities Act still applies.

### The Supervisory Diamond

The BANK of Greenland has considered the benchmarks set out in the Danish Financial Supervisory Authority's Supervisory Diamond for banks. The Supervisory Diamond states five benchmarks for banking activities, which the Bank aims to fulfil. At the end of 2017, the BANK of Greenland lies within all of the threshold values in the Supervisory Diamond.

The Bank's business model states that the sum of large exposures should not exceed 100% of the capital base. The sum of large exposures was 60.9% at the end of 2017. As expected, the sum of large exposures was reduced in 2017. As of 1 January 2018, the benchmark for the calculation of large exposures was amended. The BANK of Greenland today already complies with the new benchmark.



## MANAGEMENT'S REVIEW

With effect from 1 January 2018, the Danish FSA has introduced a new benchmark which concerns large credit exposures. The Bank's calculation of this benchmark shows that the 20 largest exposures can be compiled at 168%, which is satisfactorily below the Danish FSA's new threshold of 175%.

### Shareholders

The BANK of Greenland's overall financial objective is to achieve a competitive return for the shareholders.

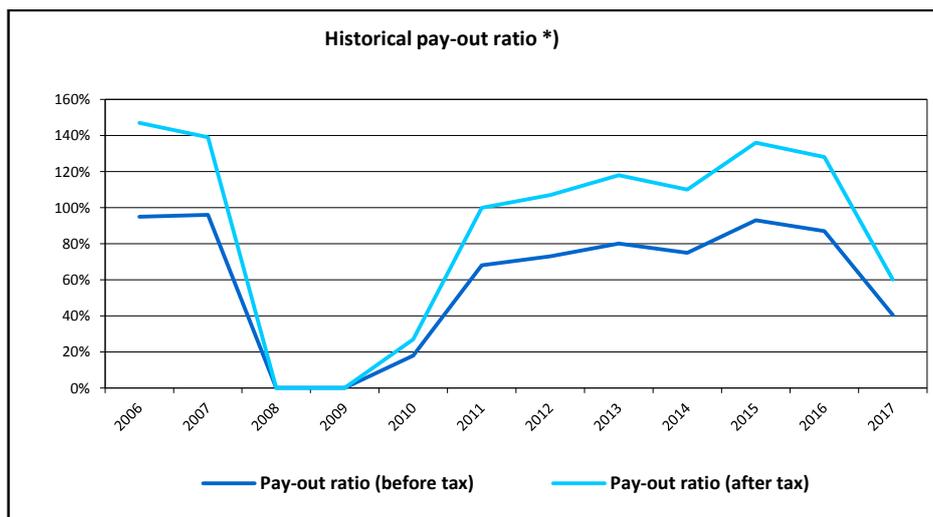
During 2017, the price of the BANK of Greenland's shares increased from 614 to 649, while dividend of DKK 55 per share was paid during the year. The BANK of Greenland recommends to the Annual General Meeting that the dividend payment for 2017 is DKK 30 per share, or a total of DKK 54 million. It should be noted that in Greenland dividend is tax deductible for the dividend-paying company.

At the end of the year, the BANK of Greenland had 2,888 shareholders, of whom 921 were resident in Greenland. In accordance with Section 28a of the Danish Companies Act, five shareholders have notified shareholdings exceeding 5%, see Note 22.

### Dividend policy

The BANK of Greenland's objective is to continue to distribute dividend to its shareholders, according to the expected development in the Bank's operations and balance sheet, tax optimisation, regulatory solvency requirements, and shareholders' cash-flow expectations. The dividend payment for 2017 recommended to the Annual General Meeting is DKK 30 per share. This is lower than in recent years and must be viewed in the light of the wish to strengthen the Net capital and thereby the Board of Directors' aim to comply with the maximum MREL capital requirements in reasonable time before the requirement of full phasing-in.

The MREL requirement for North Atlantic SIFI institutions has not yet been determined. The Board of Directors assesses that the Bank's capital ratio and consolidation are fully adequate in 2017. Once the final MREL capital requirement has been determined, a new capital adequacy target will be assessed. It is the Board of Directors' clear assessment, however, that that Bank's capacity for consolidation, after balanced dividend distribution, is fully adequate, also after the full phasing-in of the MREL capital requirement.



\*) In accordance with Greenland's tax legislation, the distribution of dividend is fully tax-deductible.

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## MANAGEMENT'S REVIEW

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### Events occurring after the close of the financial year

At the time of the publication of this Annual Report, the IFRS 9 accounting standard, which replaces the IAS 39 standard, had entered into force, with effect from 1 January 2018. The IFRS 9 accounting standard significantly changes the current rules for the classification and measurement of financial assets, the financial impairment rules and, to some extent, the hedge accounting rules.

The overall provisions of IFRS 9 will be incorporated in the Danish Accounting Order and supplemented with special Danish impairment rules in Annex 10 of the Accounting Order that fulfil the overall principles in IFRS 9.

The amended Danish Accounting Order will enter into force concurrently with IFRS 9, i.e. for accounting periods commencing on 1 January 2018.

The amended rules for the classification and measurement of financial assets are only expected to lead to insignificant changes in measurement principles compared to the measurement principles applied in the BANK of Greenland's 2017 Annual Report.

The expected effect of the IFRS 9 impairment rules on the impairment account amounts in the level of DKK 18 million before tax, which is fully recognised in the opening balance sheet as at 1 January 2018.

In order to counter an unintended effect on the capital base and thereby the banks' opportunities to support credit extension, as an element of the reform package presented by the European Commission on 23 October 2016 (the risk reduction package, also called CRR II/CRD V/BRRD II) the European Commission has proposed a five-year transition scheme, so that a negative effect of the new IFRS 9 impairment rules will not have a full impact on the capital base until after five years. The transition scheme has now been adopted and will enter into force concurrently with IFRS 9, i.e. on 1 January 2018.

The banks' use of the transition scheme is voluntary, but the banks must notify their decision to the Danish Financial Supervisory Authority and publish the decision.

The BANK of Greenland has decided not to use the transition scheme.

The effect of IFRS 9 on the capital base on the rules' entry into force in 2018 therefore corresponds to the increase in the correction account on 1 January 2018, adjusted for the taxation effect.

For a more detailed description of IFRS 9, see Note 1 "Accounting policies applied", under "Coming accounting rules".

### Expected development in 2018

After a relatively strong economic upswing in 2016, it is assessed that GDP will be almost unchanged in 2017. A moderate increase is expected in 2018, particularly on the basis of an increasing prawn quota. The Bank has seen a good increase in lending during 2017 and expects this to continue to a certain extent during 2018. Deposits are expected to be at the end-2017 level and thereby at an average lower level than in 2017.

With the expectation of a by and large unchanged interest rate margin, and a continued extremely low level of interest rates and unchanged bond interest income, total income is expected to increase slightly compared to 2017.

Total costs including write-offs are expected to be at the 2017 level, based on salary increases under collective agreements, a small increase in the number of employees, slightly lower IT and development costs.

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## MANAGEMENT'S REVIEW

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In 2018, the BANK of Greenland will continue the work of developing and expanding the pension area. This area is still only expected to make a small contribution to the Bank's earnings in 2018. In the longer term, however, the Bank considers pension savings to be a significant business area.

The Bank assesses that the quality of the loan portfolio is satisfactory. Write-downs on lending are therefore expected to continue to be at a moderate to low level.

In view of the continued low level of interest rates, capital losses on the Bank's bond portfolio must be expected.

In December 2017, the Danish FSA specified that notified result expectations must be related to a result stated directly in the income statement. Result expectations will therefore in future be related to the result before tax. Budgeting of write-downs and value adjustments of the securities portfolio is subject to considerable uncertainty, however, and may therefore affect the result before tax.

Therefore a profit before tax at the level of DKK 120-140 million is expected, compared to DKK 153 million in 2017.

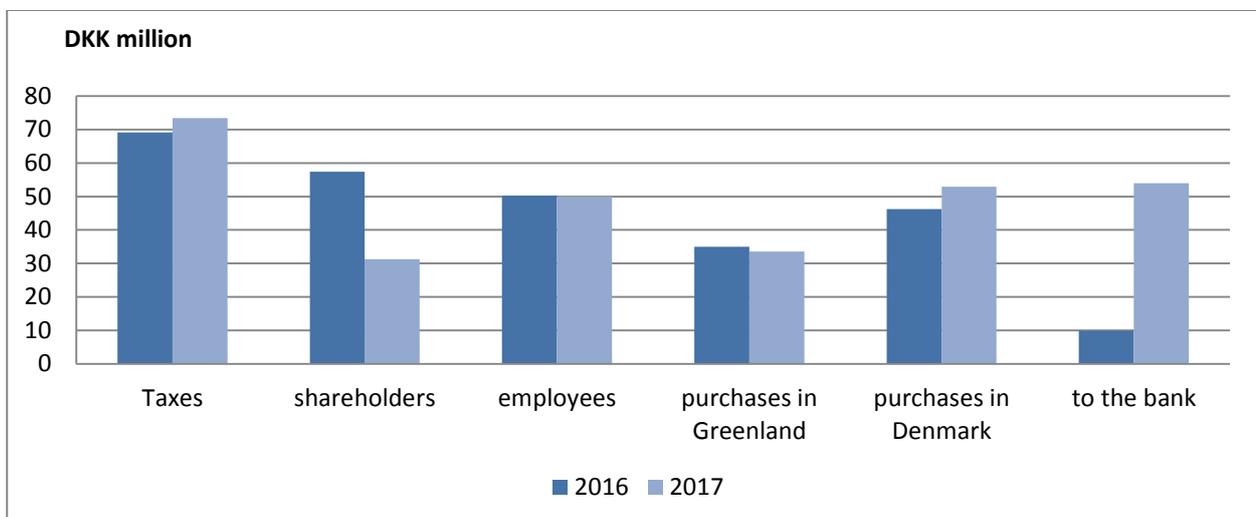
### **The Bank and society**

The day-to-day business with the Bank's customers in the course of the year gave income totalling DKK 295 million, compared to DKK 268 million in 2016. Income is the sum of net interest and fee income, other operating income and value adjustments, after deduction of write-downs on loans.

The Greenland Government and the municipalities receive corporate tax, dividend tax and tax on staff remuneration. Employees receive salary and pension contributions, etc., after deduction of PAYE tax. The purchases made by the Bank from Danish suppliers are mainly IT services from Bankens EDB-central and Nets.

The BANK of Greenland makes a significant contribution to society, with e.g. tax payments in recent years of around DKK 70 million per year.

The development in tax paid, net dividend to shareholders, salaries, etc. to employees, the Bank's consolidation, and procurement in Greenland and Denmark, respectively, are presented below.



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## MANAGEMENT'S REVIEW

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### Customers

The Bank is a professional partner to business enterprises throughout Greenland. Ongoing contact with customers takes place from and to the customer advisers in the Business Department in Nuuk. These advisers also - via frequent visits to coastal towns - have the necessary local knowledge of the business conditions in the town in question. The customer adviser is also the link to the Bank's specialist functions.

As a supplement to personal advisory services, business enterprises are offered a number of self-service systems, of which the most-used is Netbank Erhverv. The Bank has Lync (Skype) at each workstation in the Business Department. This technology is used to hold video meetings with business customers in coastal areas.

Private customers increasingly use the electronic services offered. Use of online and mobile banking, as well as digital solutions for loan/credit applications, establishment of new accounts and new cards, etc. is very common. The BANK of Greenland will continuously give customers greater access to use digital channels.

In 2017, the BANK of Greenland's branch in Aasiaat launched a major expansion and renovation project. This was a natural consequence of the increasing business volume and the need for better premises. All of the Bank's departments have thus undergone full refurbishing in recent years.

The BANK of Greenland has strong focus on customer satisfaction, which is measured by an annual customer satisfaction survey. On this basis, measures are being initiated in areas where customers believe that the Bank can do better. The general picture is of a continued high level of customer satisfaction.

The BANK of Greenland wishes to be seen as the BANK for All of Greenland and it is therefore extremely positive that customers to a great extent assess our presence in coastal areas to make a positive difference for the individual local area.

### Employees

Employees are part of the Bank's public image, and it is our employees who create and maintain close relationships with our customers on a day-to-day basis.

The BANK of Greenland has strong focus on competence development via trainee programmes, trainee courses, supplementary training, leadership development and "on the job training".

The BANK of Greenland considers it important to ensure the recruitment of qualified banking professionals, and as of 1 August 2017, seven financial trainees commenced their two-year training, Five of these trainees are located at the head office in Nuuk, one in Sisimiut and one in Ilulissat.

Besides the actual trainee programme, the Bank has very successfully created internships and trainee positions for young people with a background as financial economists or bachelors of finance. In 2017, the Bank had one trainee financial economist in Sisimiut, who is expected to complete the programme in May 2018. In 2017, the Bank for the first time had a bachelor of finance student in a five-month internship. In addition, two financial economists spent three months in internships as part of their education programme. In the Bank's Business Department, a newly qualified finance assistant commenced a business trainee course.

So far, five trainees have completed the Bank's adviser training programme, in addition to one trainee in the marketing area.

In 2017, it was possible to keep 98.7% of the positions in the Bank filled via active HR work, relevant online media, and sustained focus on employee development.

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## MANAGEMENT'S REVIEW

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The total number of employees was 118 at the end of 2017. The average age is just over 46, and the average length of service is 10 years and six months. 86 women and 32 men are employed. Of the total number of employees, 75 have financial or extended higher educational qualifications.

With regard to the Bank's strategic direction, there is still strong focus on employee development, for which a new "strategic development interview" concept is the basis for the requirements and development of employee qualifications.

### Partners

The Bank of Greenland is a full-service bank in Greenland. Via cooperation agreements with the best operators within financial IT systems, mortgage credit, insurance, payment settlement, pensions and investment, the Bank wishes to continuously offer a broad, flexible and competitive range of products.

The BANK of Greenland is part of the Danish and international payment infrastructure. In accordance with a service contract with the Greenland Government, the Bank contributes to ensuring that the service level for payment settlement required by the Greenland Government is established at the locations in Greenland where there is no commercial background for the establishment of bank branches.

On the basis of the adoption by Inatsisartut (Greenland's Parliament) of a Pension Savings Act to allow the establishment of tax-deductible pension savings schemes in banks, in 2017 the BANK of Greenland established a full pension concept for the Bank's customers, including insurance opportunities and opportunities for direct investment and via pool schemes. The concept has been established in cooperation with Nærpension and the Bank's business partners in the investment area.

### Corporate Social Responsibility Policy (CSR)

*"The basis for the Bank of Greenland's CSR activities is to create value for both society and the company. Via the Bank's commercial activities and CSR initiatives, we will support sustainable development in Greenland and contribute to Greenland achieving the new global development goals (Sustainable Development Goals), for the benefit of society and of the BANK of Greenland.*

*A key aspect is to live up to our fundamental social responsibility as Greenland's largest bank and the Bank for All of Greenland, by ensuring balance between development, growth and stability in Greenland's society.*

*On the basis of our stakeholders' requirements and expectations, and the Bank's strategic goals, we have chosen an overall focus area for our CSR initiatives, which is to create **financial understanding**.*

*Creating financial understanding for the individual customer, company or citizen opens up new opportunities and gives insights in order to make the best choices. This is the fundamental principle for our advisory services. Where possible and*

*relevant, we will enter into partnerships with the public sector and other companies, organisations and associations with the same interests."*

### Dialogue and access

*To ensure that the Bank fulfils our objectives we will continuously measure our activities and report on them in our Annual Report and on our website, in order to ensure that our stakeholders have access*

*to information on the Bank's CSR activities. We also have a number of procedures to ensure that we receive continuous input from our stakeholders that can influence our actions and initiatives."*

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## MANAGEMENT'S REVIEW

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### **CSR on a day-to-day basis**

The aforementioned are extracts from the BANK of Greenland's CSR policy. Pursuant to this, a new strategy and action plan for the coming years' activities have been drawn up. The overall responsibility for the Bank's CSR work lies with the managing director.

The BANK of Greenland's Statutory Corporate Social Responsibility Report, cf. Sections 135 and 135 a of the Order on the financial reporting of credit institutions and investment service companies, etc., is available on the Bank's website: <http://www.banken.gl/csr/>

### **Corporate governance – and statutory corporate governance statement**

The BANK of Greenland's objective is to adhere to the recommendations, at all times and to the greatest possible extent.

The Corporate Governance Statement can be found on the Bank's website: <http://www.banken.gl/corporate/>

### **Policy and target levels for the under-represented gender**

In August 2013, the BANK of Greenland's Board of Directors adopted "Policy and target levels for the under-represented gender". The gender distribution of the members of the Bank's Board of Directors elected by the Annual General Meeting at the end of 2017 was 17% women and 83% men, respectively. The Board of Directors' objective is for the ratio of female members of the Board of Directors elected by the Annual General Meeting to increase so that the ratio of the under-represented gender is minimum 33% by 2020.

At the other management levels, the Bank's overall objective is to achieve and maintain a suitably equal distribution of men and women in its management. Irrespective of gender, the BANK of Greenland's employees must experience that they have equal opportunities for career development and management positions. At the end of 2017, the distribution ratio for managerial employees was 47% women and 53% men. The Bank's objective is for the ratio of managers of the under-represented gender to be held at minimum 40% at any time.

### **Board of Directors and Executive Management Board**

Details must be given of the management positions in other business enterprises held by the members of the Bank's Board of Directors and Management Board. Reference is made to Note 33.

### **Authorisation of the Board of Directors concerning trading in own shares**

In accordance with an annual general meeting decision of 28 March 2017, up to 20 March 2018 the Board of Directors is authorised to allow the Bank to acquire own shares at a nominal value of up to 10% of the share capital, at the listed price on the date of acquisition, with upward or downward variation of 10%.

### **Evaluation of the Board of Directors**

The Board of Directors of the BANK of Greenland performs an annual evaluation of the Board. This evaluation is the basis for an assessment of several matters concerning the Board of Directors: working method, cooperation internally and with the Executive Management, the Chairman's planning of meetings, and the quality of the material for the Board of Directors. The latest evaluation was at a high level. It was also concluded that the Board of Directors has a good overall combination of competences in relation to the Bank's business model.

### **Audit and Risk Committee**

The Audit and Risk Committee consists of the overall Board of Directors, and therefore it has 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 and Risk Committee.

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## MANAGEMENT'S REVIEW

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

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

In this respect, the Bank's control environment for the calculation of the significant accounting estimates is reviewed and assessed. The committee meets immediately prior to the meetings of the Board of Directors.

It must be noted that Greenland is not subject to the Danish rules for the appointment of an audit committees, although the rules are observed in practice. Section 80 of the Danish Financial Activities Act specifies that the Bank must establish a risk committee.

The remit of the Audit and Risk Committee is presented here: <http://www.banken.gl/auditandriskcommittee/>

### **Remuneration Committee**

The Remuneration Committee consists of the Chairman and Vice Chairman of the Board of Directors and one member of the Board of Directors elected by the employees.

The Remuneration Committee determines the remuneration policy, which is approved by the Annual General Meeting.

The remit of the Remuneration Committee is presented here: <http://www.banken.gl/remunerationcommittee/>

### **Nomination Committee**

The Nomination Committee consists of the Chairman and Vice Chairman of the Board of Directors.

In 2017, the committee worked on a description, and the composition and evaluation of the competences of the Executive Management and Board of Directors, as well as the recommendation of new candidates for election to the Board of Directors. The Bank assesses that the composition of the Board of Directors reflects the objective of the diversity policy.

The remit of the Nomination Committee is presented here: <http://www.banken.gl/nominationcommittee/>

The numbers of meetings in 2017 and attendance of the meetings of the Board of Directors and all three committees can be seen here: [https://www.banken.gl/media/639267/Moedeoversigt-2017\\_ENG.pdf/](https://www.banken.gl/media/639267/Moedeoversigt-2017_ENG.pdf/)

### **General meeting**

The Board of Directors is authorised to make the changes and additions to the articles of association that are required by public authorities pursuant to the current legislation in force at any time. In addition, the BANK of Greenland's articles of association may be amended by a decision of the general meeting if the proposal is adopted by at least 2/3 of both the votes cast and the share capital with voting rights represented at the general meeting.

The members of the Board of Directors are elected by the general meeting, with the exception of the members who are elected in accordance with the statutory regulations concerning the representation of employees on the Board of Directors. The members of the Board of Directors elected by the general meeting comprise at least five and at most ten members. Each year, the three members of the Board of Directors elected by the general meeting who have served longest, calculated from the last election of the members

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## MANAGEMENT'S REVIEW

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concerned, will resign. If several members have served equally long, their resignation will be decided by drawing lots. The resigning members may be re-elected. No members over 70 years of age may be elected to the Bank's Board of Directors.

### **Significant agreements which will be amended or expire on a change of control of the company**

At the end of 2017, the BANK of Greenland had the following agreements that are assessed to be significant and will be amended or expire on a change of control of the Bank in conjunction with e.g. a merger.

- Data processing agreement with Bankernes EDB Central (BEC)
- Cooperation agreement with DLR Kredit

#### **BEC**

It is specified in BEC's articles of association that membership of BEC can be subject to five years' notice of termination, by either BEC or the BANK of Greenland, to the end of a financial year. If membership expires by other means related to the BANK of Greenland, the Bank will pay a withdrawal fee to BEC, as specified in the articles of association. If a bank is subject to a merger, and ceases to be a separate bank, membership of BEC will expire without notice, but with the opportunity for a transition scheme.

#### **DLR**

As a shareholder of DLR Kredit and in view of the Bank's membership of the Association of Local Banks, the BANK of Greenland has entered into a cooperation agreement with DLR concerning the intermediation of mortgage-credit loans to the Bank's customers.

The cooperation agreement is irrevocable for as long as the BANK of Greenland is a shareholder of DLR Kredit. If the BANK of Greenland divests or deposits its shareholding, the Bank will automatically be deemed to have withdrawn from the cooperation agreement with effect from the end of the calendar year in which the shareholding was divested/deposited. The cooperation agreement may be terminated by DLR Kredit, if this is adopted by DLR's Board of Directors, subject to three months' notice to the end of a calendar year.

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## MANAGEMENT STATEMENT

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The Board of Directors and Executive Management have today considered and approved the Annual Report for the financial year from 1 January to 31 December 2017 for the limited liability company, GrønlandsBANKEN A/S.

The Annual Report is presented in accordance with the Danish Financial Activities Act. The Annual Report is furthermore prepared in accordance with Danish disclosure requirements for listed financial companies.

It is our opinion that the Annual Financial Statements give a true and fair view of the Bank's assets, liabilities and financial position as at 31 December 2017, and of the result of the Bank's activities and cash flows for the financial year from 1 January to 31 December 2017.

It is our opinion that the Management's Review gives a true and fair review of the development in the Bank's activities and financial affairs, as well as a description of the significant risks and uncertainties to which the Bank is subject.

The Annual Report is submitted for approval by the Annual General Meeting.

Nuuk, 22 February 2018

### **Executive Management Board**

Martin Birkmose Kviesgaard

### **Board of Directors**

Gunnar í Liða  
Chairman

Kristian Frederik Lennert  
Vice Chairman

Frank Olsvig Bagger

Hans Niels Boassen

Anders Jonas Brøns

Christina Finderup Bustrup

Lars Holst

Yvonne Jane Poulsen Kyed

Elise Love Nicoline Zeeb

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## AUDIT STATEMENT

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### **The independent auditor's report**

#### **To the shareholders of the BANK of Greenland**

##### **Audit statement**

We have audited the annual financial statements of the BANK of Greenland, limited liability company, for the financial year from 1 January to 31 December 2017, which comprise the statement of income and the statement of comprehensive income, the balance sheet, statement of changes in equity, cash flow statement and notes, including the accounting policies applied. The annual financial statements are prepared in accordance with the Danish Financial Activities Act and Danish disclosure requirements for listed financial companies.

##### **The management's responsibility for the annual financial statements**

The management is responsible for the preparation of annual financial statements that present a true and fair view, in accordance with the Danish Financial Activities Act and the Danish disclosure requirements for listed financial companies. The management is also responsible for the internal control considered necessary by the management in order to prepare annual financial statements that are free of material misstatement, whether this is due to fraud or error.

##### **Responsibility of the auditor**

Our responsibility is to express an opinion on the annual financial statements, on the basis of our audit. We conducted our audit in accordance with international auditing standards and additional requirements under Greenland's auditing legislation. This requires that we comply with ethical requirements and plan and perform the audit to achieve a high degree of certainty that the annual financial statements are free of material misstatement.

An audit includes performing the audit procedures to obtain audit evidence of the amounts and information in the annual financial statements. The audit procedures chosen depend on the auditor's assessment, including assessment of the risks of material misstatement in the annual financial statements, whether this is due to fraud or error. On the risk assessment, the auditor considers internal controls that are relevant to the Bank's preparation and submission of annual financial statements that give a true and fair view. The purpose is to design audit procedures that are appropriate in the circumstances, but not to express any opinion concerning the effectiveness of the Bank's internal control. An audit also includes an assessment of the appropriateness of the management's choice of accounting policies, whether the management's accounting estimates are fair, and the overall presentation of the annual financial statements.

It is our view that the audit evidence obtained is an adequate and appropriate basis for our opinion.

The audit has not led to any qualifications.

##### **Opinion**

It is our opinion that the annual financial statements give a true and fair view of the Bank's assets, liabilities and financial position as at 31 December 2017, and of the result of the Bank's activities and cash flows for the financial year from 1 January to 31 December 2017, in accordance with the Danish Financial Activities Act and the Danish disclosure requirements for listed financial companies.

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## AUDIT STATEMENT

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### **Statement concerning the Management's Review**

The Management is responsible for the Management's Review.

Our opinion concerning the annual financial statements does not include the Management's Review, and we do not express any opinion concerning the Management's Review.

In connection with our audit of the annual financial statements our responsibility is to read the Management's Review and consider whether the Management's Review has significant inconsistencies with the annual financial statements or the knowledge we have obtained from the audit, or otherwise appears to contain material misstatements.

It is also our responsibility to consider whether the Management's Review includes the information required in accordance with the Financial Activities Act.

On this basis it is our view that the information in the Management's Review is in accordance with the annual financial statements and has been prepared in accordance with the requirements of the Financial Activities Act. We have not found any material misstatements in the Management's Review.

Nuuk, 22 February 2018

### **Deloitte**

Statsautoriseret Revisionspartnerselskab

CVR no. 33963556

Jens Ringbæk

State-Authorised Public Accountant

MNE-no. 27735

Jakob Lindberg

State-Authorised Public Accountant

MNE-no. 40824

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## AUDIT STATEMENT

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### Internal auditor's report

#### Audit statement

#### Opinion

It is our opinion that the Annual Financial Statements give a true and fair view of the Bank's assets, liabilities and financial position as at 31 December 2017, and of the result of the Bank's activities and cash flows for the financial year from 1 January to 31 December 2017, in accordance with the Danish Financial Activities Act and the Danish disclosure requirements for listed financial companies.

#### The audit performed

We have audited the annual financial statements of the BANK of Greenland, limited liability company, for the financial year from 1 January to 31 December 2017. The annual financial statements are prepared in accordance with the Danish Financial Activities Act.

Our audit is performed in accordance with the Danish Financial Supervisory Authority's Order on the auditing of financial enterprises, etc. and financial Groups, international auditing standards concerning the planning and execution of the audit, and additional requirements under Danish auditing legislation.

The audit was planned and performed in order to achieve a high degree of certainty and audit evidence that the annual financial statements are free of material misstatement, whether this is due to fraud or error. We took part in the audit of all significant and risk-entailing areas.

It is our view that the audit evidence obtained is an adequate and appropriate basis for our opinion.

#### Statement concerning the Management's Review

The Management is responsible for the Management's Review.

Our opinion concerning the annual financial statements does not include the Management's Review, and we do not express any opinion concerning the Management's Review.

In connection with our audit of the annual financial statements our responsibility is to read the Management's Review and consider whether the Management's Review has significant inconsistencies with the annual financial statements or the knowledge we have obtained from the audit, or otherwise appears to contain material misstatements.

It is also our responsibility to consider whether the Management's Review includes the information required in accordance with the Financial Activities Act.

On this basis it is our view that the information in the Management's Review is in accordance with the annual financial statements and has been prepared in accordance with the requirements of the Financial Activities Act. We have not found any material misstatements in the Management's Review.

Nuuk, 22 February 2018

Kristian Thorgaard Sørensen

Audit Manager

(DKK 1,000)

**STATEMENT OF INCOME**

Note		2017	2016
<b>3</b>	Interest income	227,068	212,965
<b>4</b>	Negative interest income	-11,741	-11,783
<b>5</b>	Interest expenses	1,871	2,611
<b>6</b>	Positive interest expenses	+8,460	+2,953
	<b>Net interest income</b>	<b>221,916</b>	<b>201,524</b>
	Share dividend, etc.	807	3,634
<b>7</b>	Fee and commission income	87,737	85,879
	Fees paid and commission expenses	914	1,277
	<b>Net interest and fee income</b>	<b>309,546</b>	<b>289,760</b>
<b>8</b>	Value adjustments	-6,368	-12,899
	Other operating income	5,240	4,854
<b>9, 10</b>	Expenses for employees and administration	152,528	144,207
	Depreciation and impairment of tangible assets	6,840	5,981
	Other operating expenses	2,709	4,136
<b>13</b>	Write-downs on loans and receivables, etc.	13,734	13,971
	<b>Profit before tax</b>	<b>132,607</b>	<b>113,420</b>
<b>11</b>	Tax	42,158	36,029
	<b>Profit for the year</b>	<b>90,449</b>	<b>77,391</b>
	<b>Proposed allocation of profit</b>		
	Profit for the year	90,449	77,391
	Taxation value of dividend allocated	17,172	31,482
	<b>In total available for allocation</b>	<b>107,621</b>	<b>108,873</b>
	Proposed dividend	54,000	99,000
	Retained profit	53,621	9,873
	<b>Total allocation</b>	<b>107,621</b>	<b>108,873</b>

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**BALANCE SHEET**  
**(Year-end)**

(DKK 1,000)

Notes

2017

2016

**Statement of comprehensive income**

Profit for the year	90,449	77,391
Other comprehensive income:		
Value adjustment of properties	13,681	3,013
Value adjustment of defined-benefit severance/pension scheme	-13	0
Adjustment of		
Tax on value adjustment of properties	-4,351	-958
<b>Other comprehensive income after tax</b>	<b>9,317</b>	<b>2,055</b>
<b>Comprehensive income for the year</b>	<b>99,766</b>	<b>79,446</b>



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**STATEMENT OF CHANGES IN EQUITY**


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(DKK 1,000)

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	Share capital	Re- valuation re- serves	Retained earnings	Proposed dividend, net	Equity total
<b>Equity, 01 January 2016</b>	<b>180,000</b>	<b>15,207</b>	<b>651,557</b>	<b>67,518</b>	<b>914,282</b>
Dividend paid	-	-	-	-99,000	-99,000
Taxation value of dividend paid	-	-	-	31,482	31,482
Other comprehensive income	-	2,239	-184	-	2,055
Profit for the year	-	-	-21,609	99,000	77,391
Taxation value of proposed dividend	-	-	31,482	-31,482	0
<b>Equity, 31 December 2016</b>	<b>180,000</b>	<b>17,446</b>	<b>661,246</b>	<b>67,518</b>	<b>926,210</b>
<b>Equity at the end of the preceding financial year</b>	<b>180,000</b>	<b>17,446</b>	<b>661,246</b>	<b>67,518</b>	<b>926,210</b>
Dividend paid				-99,000	-99,000
Taxation value of dividend paid				31,482	31,482
<b>Equity, beginning of 2017, after distribution of dividend</b>	<b>180,000</b>	<b>17,446</b>	<b>661,246</b>	<b>0</b>	<b>858,692</b>
Other comprehensive income	-	9,330	-13	-	9,317
Profit for the year	-	-	36,449	54,000	90,449
Taxation value of proposed dividend	-	-	17,172	-17,172	0
<b>Equity, 31 December 2017</b>	<b>180,000</b>	<b>26,776</b>	<b>714,854</b>	<b>36,828</b>	<b>958,458</b>

## CASH FLOW STATEMENT

(DKK 1,000)	2017	2016
Profit for the year	90,449	77,391
Write-downs on loans	13,734	13,971
Depreciation and impairment of tangible assets	6,840	5,981
Accruals and deferred expenses, net	416	-414
Tax effect of deductibility of dividend	31,482	31,482
<b>Profit for the year after adjustment for non-cash operating items</b>	<b>142,921</b>	<b>128,411</b>
Liabilities to credit institutions and central banks	1,432	-24,334
Deposits	-609,983	80,885
Loans	-274,992	-265,259
Other working capital	135,858	157,026
Other liabilities	14,968	-4,091
<b>Change in working capital</b>	<b>-732,717</b>	<b>-55,773</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>-589,796</b>	<b>72,638</b>
Sale of tangible assets	276	0
Purchase, etc. of tangible assets	-4,984	-4,795
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>	<b>-4,708</b>	<b>-4,795</b>
Dividend paid	-99,000	-99,000
Trade in own shares	0	0
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-99,000</b>	<b>-99,000</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-693,504</b>	<b>-31,157</b>
Cash and cash equivalents, beginning of year	1,901,867	1,933,024
<b>Cash and cash equivalents, end of year</b>	<b>1,208,363</b>	<b>1,901,867</b>
Cash balance	79,935	79,713
Demand deposits at Danmarks Nationalbank	98,855	74,037
Certificates of deposit with Danmarks Nationalbank	0	618,000
Fully secured and liquid cash and cash equivalents in credit institutions	181,624	287,240
Non-mortgaged securities	847,949	842,877
<b>Cash and cash equivalents, end of year</b>	<b>1,208,363</b>	<b>1,901,867</b>

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## NOTES

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### Note 1

#### **Accounting policies applied**

The annual financial statements are presented in accordance with the Danish Financial Activities Act, including the Order on financial reports for credit institutions and investment service companies, etc. The Annual Report is furthermore presented in accordance with additional Danish disclosure requirements for the annual reports of listed financial companies.

The Annual Report is presented in Danish kroner, rounded to the nearest DKK 1,000.

The accounting policies applied are unchanged compared to the Annual Report for 2016.

#### **About recognition and measurement in general**

Assets are recognised in the balance sheet when it is probable, due to a previous event, that future economic benefits will accrue to the Bank, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Bank, due to a previous event, has a legal or actual obligation, and it is probable that future economic benefits will divest from the Bank, and the value of the liability can be measured reliably.

On first recognition, assets and liabilities are measured at fair value. However, tangible assets are measured at cost price at the time of first recognition. Measurement after first recognition takes place as described for each accounting item below.

On recognition and measurement, account is taken of predictable risks and losses arising before the presentation of the Annual Report, and which confirm or refute conditions existing as of the balance sheet date.

Income is recognised in the income statement as it is earned, while costs are recognised at the amounts concerning the financial year. However, increases in the value of head office properties that do not match previous impairment are recognised directly to the statement of comprehensive income.

Purchase and sale of financial instruments is recognised on the trading date, and recognition ceases when the right to receive/cede cash flows from the financial asset or liability has expired, or has been assigned, and the Bank has in principle transferred all risks and yields related to the property ownership. The BANK of Greenland does not apply the rule on reclassification of certain financial assets from fair value to amortised cost.

#### **Significant accounting estimates, assumptions and uncertainties**

The annual financial statements are prepared on the basis of certain special assumptions which entail the use of accounting estimates. These estimates are made by the Bank's management in accordance with accounting policies, and on the basis of historical experience, as well as assumptions which the management considers to be responsible and realistic.

The assumptions may be incomplete, and unexpected future events or circumstances may arise, just as other parties might be able to make other estimates. The areas which entail a higher degree of assessment or complexity, or areas where assumptions and estimates are significant to the accounts, are stated below:

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## NOTES

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- Write-downs on loans are made in accordance with accounting policies and are based on a number of assumptions as stated in 'Loans and other receivables'. If these assumptions are changed, the presentation of the accounts may be affected, and this may be significant. Changes may arise as a change in practice by the authorities, and also on any changed principles from the management.
- Group write-downs are still subject to some uncertainty. On the calculation of group write-downs, the BANK of Greenland uses a model developed by the "Association of Local Banks". As the model does not include all relevant conditions and the calculations are still based on a limited historical data basis, the calculations are supplemented with a managerial estimate.
- Provisions for losses on guarantees where there are significant estimates related to the quantification of the risk that the given guarantee will be paid.
- Listed financial instruments that may be priced in markets with low turnover, which means that the use of the stock exchange prices when measuring fair value may be subject to some uncertainty.
- Unlisted financial instruments may involve significant estimates in connection with the measurement of fair value. See Notes 15 and 30.
- For provisions, there are significant estimates related to the determination of the future rate of employee turnover, as well as determining the interest obligation on tax-free savings accounts.
- The measurement of the fair value of head office properties is likewise subject to significant estimates and assessments, including expectations of the properties' future returns and the rates of return fixed. A change in the percentage yield of e.g. 0.5% would change the valuation by DKK 8 million. On the valuation of the Bank's head office property in Nuuk, different prices per square metre are used in relation to market rent and potential use.

### **Determination of fair value**

The fair value is the amount at which an asset can be traded or a liability can be redeemed, in a trade under normal conditions between qualified, willing and mutually independent parties.

The fair value of financial instruments for which there is an active market is determined at the closing price on the balance sheet date or, if not available, another published price that must be assumed to be most equivalent.

For financial instruments for which there is no active market, the fair value is determined with the help of generally recognised valuation techniques, which are based on observable current market data.

### **Hedge accounting**

The Bank applies the special hedge accounting rules to avoid the inconsistency which arises when certain financial assets or financial liabilities (the hedged items) are measured at amortised cost, while derivative financial instruments (the hedging instruments) are measured at fair value.

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## NOTES

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When the criteria for the application of the hedge accounting rules are fulfilled, the accounting value of the hedged assets and liabilities is subject to adjustment via the income statement for changes in fair value concerning the hedged risks (fair value hedging). Hedging is established by the Bank for lending at fixed interest rates.

### **Derivative financial instruments**

Derivative financial instruments are measured at fair value, which in principle is based on listed market prices. With regard to unlisted instruments, the fair value is compiled according to generally recognised principles. Derivative financial instruments are recognised under other assets, or other liabilities.

Changes in the fair value of derivative financial instruments which are classified as and fulfil the conditions for hedging the fair value of a recognised asset or liability, are recognised in the income statement together with changes in the value of the hedged asset or liability. Other changes are recognised in the income statement as financial items.

### **Translation of foreign currencies**

On first recognition, transactions in foreign currencies are translated at the exchange rate on the transaction date. Receivables, debt and other monetary items in foreign currency which are not settled as of the balance sheet date, are converted at the closing rate for the currency on the balance sheet date. Exchange-rate differences arising between the rate on the transaction date and the rate on the payment date, or the rate on the balance sheet date, are recognised as value adjustments in the income statement.

### **Set-offs**

The Bank sets off receivables and liabilities when the Bank has a legal right to set off the recognised amounts and also intends to net set off or realise the asset and redeem the liability at the same time.

### **Income statement**

#### **Interest, fees and commission**

Interest income and interest expenses are recognised in the statement of income for the period which they concern. Commission and fees which are an integrated element of the effective interest rate on a loan are recognised as part of the amortised cost and thereby as an integrated element of the financial instrument (lending) under interest income.

Commission and fees which are part of the ongoing servicing of the loan are accrued over the term to maturity. Other fees (e.g. establishment fees) are recognised in the income statement as of the transaction date.

Interest income from loans that are written down either in full or in part is included under 'Net write-downs on loans and receivables, etc.' with regard to the interest on the element of the loans which is written down.

#### **Staff and administration expenses**

Staff costs comprise salaries and social security expenses, pensions, staff accommodation, etc. Costs of services and benefits to employees, including anniversary bonuses, are recognised in step with the employees' performance of the work which entitles them to the services and benefits in question. Costs of incentive programmes are recognised in the statement of income in the financial year to which the cost can be attributed.

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## NOTES

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### **Pension schemes**

The Bank has established a defined benefit severance/pension scheme for the Bank's managing director. Under this scheme, the Bank is obliged to pay a fixed benefit for a period of time following the managing director's retirement. Obligations of this type are compiled as the present value of the amounts which, according to the best possible estimate, must be expected to be paid. This obligation, which is earned over the 2016-2024 period, may comprise 0-24 months' salary. See Note 9.

The Bank has established contribution-based pension schemes with all employees. Under the contribution-based pension schemes, fixed contributions are paid to an independent pension institution.

### **Other operating income**

Other operating income includes income of a secondary nature in relation to the Bank's activities, including external rent income, and profit and loss on sale of the Bank's properties.

### **Other operating expenses**

Other operating expenses include expenses of a secondary nature in relation to the Bank's activities, including operation and maintenance of the Bank's head office properties, and contributions to sector solutions.

### **Tax**

Tax for the year, which consists of current tax and changes in deferred tax, is recognised in the income statement when it relates to the result for the period, and in other comprehensive income or directly to equity when it relates to items recognised directly in other comprehensive income or directly to equity, respectively.

On calculating the taxable income, Greenland allows tax deduction of dividends for the dividend-paying company. The taxation value of this is therefore added to equity at the time of the Annual General Meeting's approval of the dividend.

Deferred tax is recognised on all temporary difference between accounting values and taxable values of assets and liabilities.

### **Balance sheet total**

#### **Cash balances and demand deposits at central banks**

Comprises cash balances and demand deposits at central banks and are measured at fair value on first recognition, and subsequently measured at amortised cost.

#### **Receivables and debt with credit institutions and central banks**

Comprises receivables from other credit institutions and time deposits with central banks. Debt to credit institutions and central banks comprises debt to other credit institutions and central banks. Receivables are measured at fair value. Debt is measured at amortised cost.

#### **Loans and other receivables at amortised cost**

Financial instruments that, after first recognition, are recognised on an ongoing basis at amortised cost must, however, on initial recognition be measured at fair value with addition of the transaction costs directly related to the acquisition or issue of the financial instrument, and deduction of the fees and commission received, which are an integral element of the effective interest rate. Loans are measured at amortised cost, which is usually equivalent to nominal value less establishment fees, etc., and write-

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## NOTES

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downs to meet losses that have arisen, but have not yet been realised.

Loans and receivables are written down either individually or on a group basis. If an objective indication of impairment is found on an individually assessed loan, an impairment charge is made to cover the bank's loss on the basis of expected future payments series based on an assessment of the most likely outcome.

For individual write-downs, objective indication is considered to have occurred when

- 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;
- the Bank grants the borrower an easement of terms that would not be considered if the borrower was not in financial difficulties; and
- when it is probable that the borrower will file for bankruptcy or be subject to other financial restructuring.

Write-down is made as the difference between the accounting value before write-down and the present value of the expected future payments on the loan.

When measuring security in fully or partly leased commercial properties or residential properties, the required rate of return is one of the assumptions applied. The value of properties is determined on the basis of an assessment of the required rate of return that an investor is likely to require for a property in the relevant category. The required return on these properties currently lies mainly in the range of 6% to 10%. The measurement of the required return depends among other things on geography, development opportunities (business/residential), maintenance standard and any re-letting risk and thereby the risk of standing vacant, etc. In the calculations, the collateral security is valued in accordance with the Danish FSA's practice, based on a price at which it is assumed that they can be sold within a short time (6 months). As a consequence of normal cyclical uncertainties, the valuation of the collateral security remains subject to uncertainty and the collateral security in commercial real estate is to a great extent affected by the current estimates of the required rates of return in the real estate market.

For loans that are not written down individually, a group assessment is made of whether for the group there is indication of impairment/appreciation.

The group assessment is made for groups of loans and receivables that have uniform characteristics in terms of credit risk. Three groups are used, as one group of public authorities, one group of private customers and one group of business customers.

The group-based assessment is made via a segmentation model developed by the Local Banks association, which undertakes ongoing the maintenance and development. The segmentation model determines the relation in the individual groups between actual losses and a number of significant explanatory macroeconomic variables. via a linear regression analysis. The explanatory macroeconomic variables include unemployment, housing prices, interest, number of failures and enforced sales, etc.

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## NOTES

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The macroeconomic segmentation model is in principle calculated on the basis of loss data for the entire banking sector in Denmark. The Bank has therefore assessed whether the model estimates must be adapted to the credit risk for the Bank's own loan portfolio.

This assessment has led to an adjustment of the model estimates to own conditions, according to which the adjusted estimates form the basis for the calculation of the group-based write-down. For each group of loans and receivables an estimate is found which expresses the percentage impairment related to a given group of loans and receivables on the balance sheet date. Due to the BANK of Greenland's primary market area, which is different from banks in Denmark, the calculated percentage loss ratio is generally increased by 33%. By comparison of the individual loan's original loss risk and the loan's loss risk at the end of the accounting period in question, the individual loan's contribution to the group-based write-down is found. Write-down is calculated as the difference between the accounting value and the discounted value of the expected future payments on the loan.

A management estimate has furthermore been made of whether the model estimates thereafter calculated have led to further corrections. The estimate is based on cyclical conditions, etc.

Write-downs on loans are made to a correction account that is set off under loans. Write-downs are recognised in the statement of income under "Write-downs on loans".

### **Bonds at fair value**

Bonds which are traded in active markets are measured at fair value. Fair value is calculated at the closing price for the market in question on the balance sheet date. Drawn bonds are measured at present value.

If the market for one or several bonds is not liquid, or if there is no publicly recognised price, the Bank determines the fair value by using recognised valuation techniques. These techniques include the use of equivalent recent transactions between independent parties, and analyses of discounted cash flows and other models based on observable market data.

### **Shares, etc.**

Shares are measured at fair value. The fair value of shares traded in active markets is compiled at the closing price on the balance sheet date.

The fair value of unlisted and non-liquid shares is based on the available information on trades and similar, or alternative capital value calculations. Non-liquid and unlisted capital investments for which it is not assessed to be possible to calculate a reliable fair value are measured at cost.

### **Head office properties**

All of the Bank's properties are defined as head office properties, including staff accommodation. Staff accommodation is assessed to be necessary, to ensure the recruitment of new staff.

Properties are measured according to first recognition at re-assessed value. Re-assessment is made sufficiently frequently to avoid significant differences from fair value.

Every second year (most recently in mid-2016) an independent assessment is obtained of the market value of the Bank's head office property in Nuuk.

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## NOTES

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Increases in head office properties' reassessed value are recognised in revaluation reserves under equity. Any decrease in value is recognised in the statement of income, except in the case of reversal of write-ups in previous years.

Straight-line depreciation over 25 years is applied to bank buildings, and over 50 years to staff accommodation.

The head office property and newer bank buildings and staff accommodation are written down to scrap value.

### **Other tangible assets**

Machinery and fixtures and fittings are measured at cost less accumulated depreciation. Depreciation is made on a straight-line basis over the assets' expected lifetime, but maximum five years.

### **Other assets**

Other assets are other assets not included under other asset items. The item includes the Bank's capital contribution to BEC, and the positive market value of derivative financial instruments and income that do not fall due for payment until after the end of the financial year, including interest receivable. With the exception of derivative financial instruments that have a positive value as of the balance sheet date, and which are measured at fair value, the accounting item is measured at cost on first recognition, and thereafter at amortised cost.

### **Accruals and deferred expenses**

Accruals and deferred expenses recognised under assets comprise defrayed costs concerning subsequent financial years. Accruals and deferred expenses are measured at cost.

### **Deposits and other liabilities**

Financial instruments that, after first recognition, are recognised on an ongoing basis at amortised cost must, however, on initial recognition be measured at fair value with addition of the transaction costs directly related to the acquisition or issue of the financial instrument, and deduction of the fees and commission received, which are an integral element of the effective interest rate.

Deposits and other liabilities comprise deposits with counterparties that are not credit institutions or central banks. Deposits and other liabilities are measured at fair value on first recognition, and are subsequently measured at amortised cost.

### **Other liabilities**

Other liabilities are other liabilities not included under other liability items. The item includes the negative market value of derivative financial instruments and expenses that do not fall due for payment until after the end of the financial year, including interest payable. With the exception of derivative financial instruments that have a negative value as of the balance sheet date, and which are measured at fair value, the accounting item is measured at cost on first recognition, and thereafter at amortised cost.

### **Accruals and deferred income**

Accruals and deferred income recognised under liabilities comprise income received prior to the balance sheet date, but which concerns a subsequent accounting period, including accrued interest and commission. Accruals and deferred income are measured at cost.

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## NOTES

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### Provisions

Obligations and guarantees which are uncertain in terms of size or time of settlement are recognised as provisions when it is probable that the obligation will lead to a claim on the Bank's financial resources, and the obligation can be measured reliably. The obligation is calculated at the present value of the costs that are necessary in order to redeem the obligation. Obligations concerning staff which fall due more than 36 months after the period in which they are earned are discounted.

### Dividend

Dividend is recognised as a liability at the time of its adoption by the Annual General Meeting. The proposed dividend for the financial year is shown as a separate item in relation to equity.

### Own shares

Acquisition and divestment amounts and dividend from own shares are recognised directly to retained earnings under equity.

### Cash flow statement

The cash flow statement is presented according to the indirect method and shows cash flows concerning operations, investments and financing, and the Bank's liquid assets at the beginning and end of the year.

Liquid assets comprise cash balances and demand deposits with central banks and receivables from credit institutions, as well as uncollateralised securities which can be immediately converted to cash funds.

### Financial highlights and key figures

Financial highlights and key figures are presented in accordance with the definitions and guidelines of the Danish Financial Supervisory Authority.

### Coming accounting regulations

The BANK's annual financial statements are presented in accordance with the Danish Financial Activities Act, including the Order on financial reports for credit institutions and investment service companies, etc. The overall provisions of IFRS 9 will be incorporated in the Danish Accounting Order and supplemented with special Danish impairment rules in Annex 10 of the Accounting Order that fulfil the overall principles in IFRS 9.

The amended Danish Accounting Order will enter into force concurrently with IFRS 9, i.e. for accounting periods commencing on 1 January 2018.

At the time of the publication of this Annual Report, the IFRS 9 accounting standard, which replaces the IAS 39 standard, had entered into force, with effect from 1 January 2018. The IFRS 9 accounting standard significantly changes the current rules for the classification and measurement of financial assets, the financial impairment rules and, to some extent, the hedge accounting rules.

The IFRS 9 rules concerning financial instruments, which are incorporated in the Danish Accounting Order, lay down the following concerning classification and measurement, and the impairment of financial assets.

#### *IFRS 9 classification and measurement:*

In accordance with IFRS 9, classification and measurement of financial assets take place on the basis

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## NOTES

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of the business model for the financial assets and the contractual payment flows related to the financial assets.

Financial assets which are held to generate the contractual payments, and where the contractual payments solely comprise interest and amortisation of the outstanding amount, are measured according to the time of the first recognition at amortised cost. The rules are not expected to have any impact on the Bank's accounts.

*IFRS 9 impairment:*

With IFRS 9, the current impairment model, based on incurred losses (the "incurred loss" model), is replaced by an impairment model based on expected losses (the "expected loss" model). The new, expected-loss based impairment model entails that on first recognition a financial asset is written down by an amount equivalent to the expected credit loss over 12 months (stage 1). On any subsequent significant increase in the credit risk from the time of first recognition, the asset is written down by an amount equivalent to the expected credit loss during the asset's expected remaining term to maturity (stage 2). If the asset is found to be impaired (stage 3), the asset is written down by an amount equivalent to the expected credit loss during the asset's remaining term to maturity that will be longer than in stage 2, and interest income is recognised in the income statement according to the effective interest rate method, on the basis of the impairment amount.

Impairment of customers/facilities in stages 1 and 2, apart from the weak part of stage 2, takes place on the basis of a portfolio-based model calculation, while impairment for weak stage 2 customers/facilities and stage 3 customers/facilities is based on manual, individual assessment.

The portfolio-based model calculation takes place on the basis of a simpler model that is based on the BANK of Greenland's categorisation of customers in different rating classes and an assessment of the risk for the individual rating classes. The calculation takes place in a set-up that is developed and maintained at the BANK of Greenland's data centre, supplemented with a forward-looking macroeconomic module developed and maintained by LOPI. The forward-looking macroeconomic module generates a number of adjustment factors which are multiplied to the data centre's "raw" estimates, which are thereby adjusted from the starting point. Reference is made to "Events occurring after the close of the financial year" in the Management's Review, in which the effect of the IFRS 9 impairment is described.

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## NOTES

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### Note 2

#### Financial risks and policies and targets for management of financial risks

##### General

In accordance with Section 19 of the Order on the management and control of banks, banks must e.g. designate a person responsible for risk management. The BANK of Greenland is not subject to the Order, since it has not entered into force for Greenland. However, the BANK of Greenland has decided to follow the Order's principles in relation to reporting the Bank's risks to the Board of Directors.

The Board of Directors of the BANK of Greenland has assessed that the Bank's size, simple structure and uncomplicated activities do not justify a separate risk management function. The risk management function is anchored in the Executive Management.

The BANK of Greenland is exposed to various types of risk. The objective of the Bank's risk management policies is to minimise the losses which may arise as a consequence of e.g. unforeseen development in the financial markets. The Bank works with a balanced risk profile, both in credit terms and on the financial markets. The Bank solely uses derivative financial instruments (derivatives) to cover risks on customer transactions, or to reduce the Bank's interest rate risk.

The BANK of Greenland continuously develops its tools for the identification and management of the risks which affect the Bank on a day-to-day basis. The Board of Directors determines the overall framework and principles for risk and capital management, and receives ongoing reports on the development in risks and use of the allocated risk framework. The day-to-day risk management is undertaken by the Credit Office, with independent control by the Accounting Department.

##### Maximum credit exposure (DKK 1,000)

	2017	2016
Cash balances and demand deposits at central banks	178,879	153,750
Amounts receivable from credit institutions and central banks	522,060	1,371,201
Loans and other receivables at amortised cost	3,335,119	3,073,861
Bonds at fair value	894,679	925,514
Shares, etc.	89,353	86,281
Other assets, including derivative financial instruments	109,137	93,401
Off-balance-sheet items		
Guarantees	1,161,181	1,216,537
Credit undertakings	0	50,000

The distribution of "Loans and other receivables at amortised cost" and "Guarantees" is shown in Notes 13 and 23.

##### 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

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## NOTES

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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, lending, etc. to business customers is only granted to customers with business activities in Greenland;
- as a general rule, lending, etc. to private customers is only granted to customers resident in Greenland, or to customers formerly resident in Greenland; and
- lending, etc. to both private and business customers is solely to customers with satisfactory creditworthiness. Credit granting to customers with OII 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, takes place subject to closer monitoring, and may only be granted by the Bank's managing director or deputy managing director.

### **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 and public authorities may thus not exceed 65% 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 required, with the exception of "Real estate and completion of construction projects", to which the overall exposure may amount to up to 25%

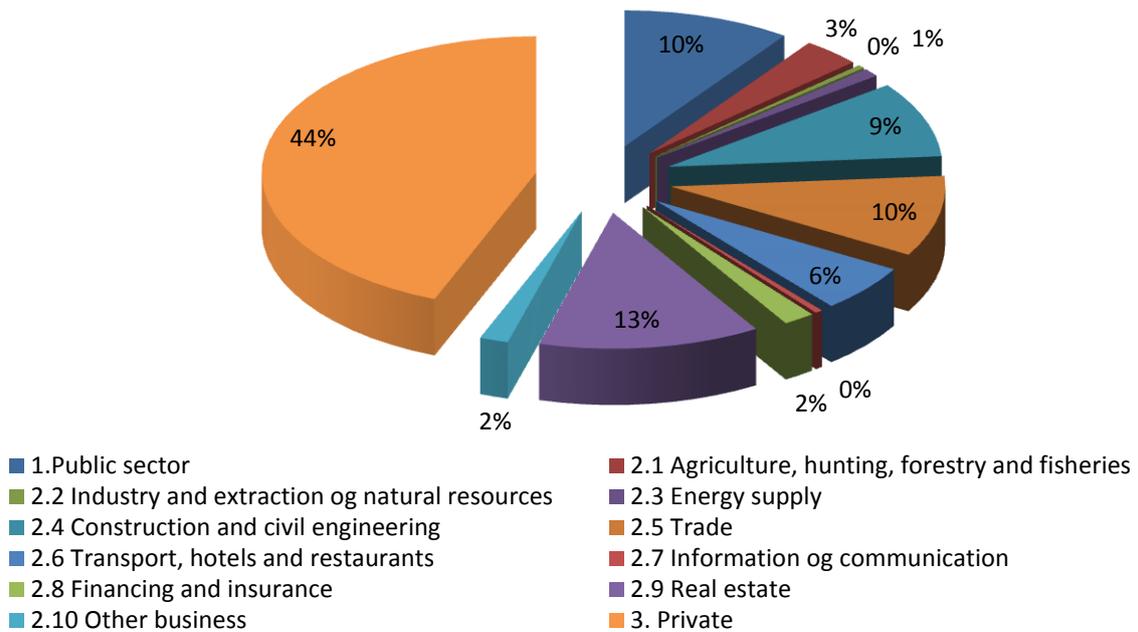
#### **Standard terms**

**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.

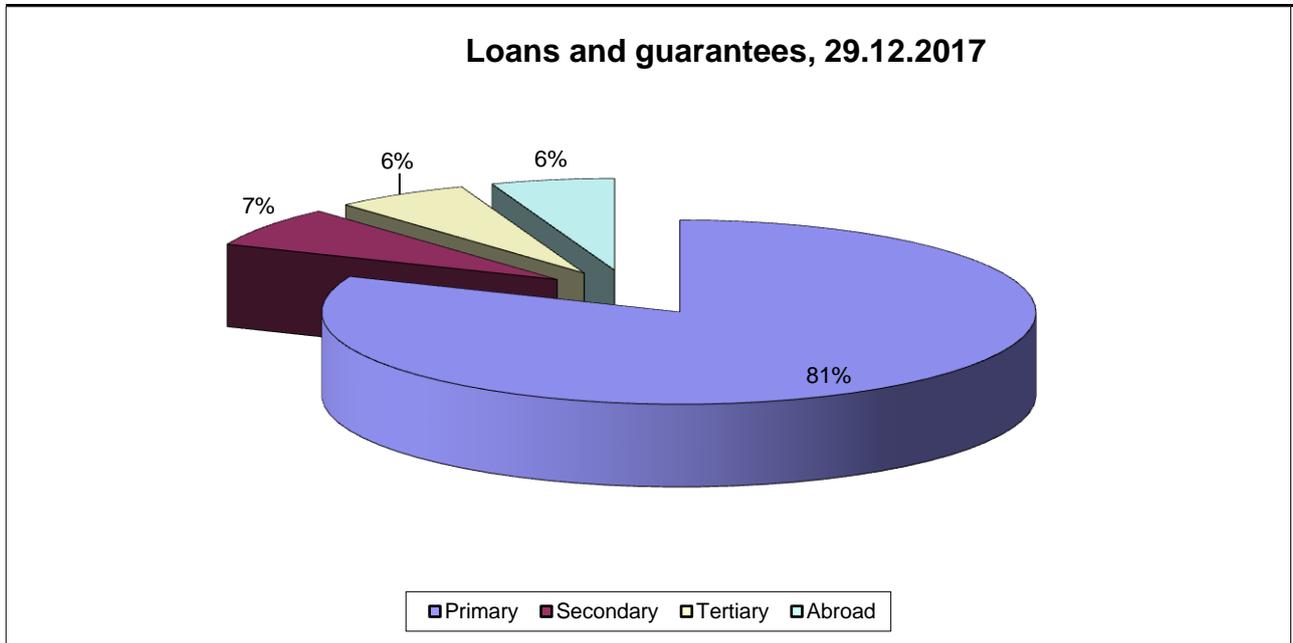
NOTES

**Lending and guarantee debtors by industries and sectors,  
29.12.2017**



The geographical diversification of the Bank's lending and guarantees is distributed on the four municipal main towns (primary), small towns (secondary), settlements and small towns (tertiary) and abroad (other). According to the Bank's business model, lending and guarantees outside Greenland are maximised to 10% of total lending and guarantees.

## NOTES



The Bank does not wish to have high exposure to outstandings which exceed 10% of the Bank's capital base. Due to the Bank's size and financial role in Greenland, however, a number of large exposures with large companies in Greenland are accepted. It can only in very exceptional cases be accepted that exposures exceed 15% of the Bank's capital base.

The total sum of "large exposures" may amount to maximum 100% of the Bank's capital base.

	2017	2016
Large exposures – number	5	8
Greater than 20% of the capital base	0	0
15-20% of the capital base	0	0
10-15% of the capital base	5	8
Per cent of the capital base	60.9	90.3

As from 2018, a new calculation method and threshold for "large exposures" have been introduced. Currently, this expected new threshold is observed.

### 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 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.

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## NOTES

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### 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 controls in the individual departments.

The creditworthiness of the exposures and the need for value adjustment are assessed on a quarterly basis. All exposures exceeding DKK 10,000 are subject to automatic selection, for the purpose of subsequent individual assessment. Irrespective of the automatic selection, all exposures exceeding DKK 1,000,000 and all exposures with large overdrafts, or overdrafts exceeding 90 days, are assessed individually.

The automatic selection is based on such criteria as few assets, unsatisfactory available funds, weak financial results, overdraft/default, etc.

### 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
- mortgages on shares in the companies to which credit has been granted.

The valuation of the collateral 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;
- mortgages on rental properties are assessed for large property exposures 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;

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## NOTES

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- mortgages on movable property are generally assessed at between 60 and 75% of fair value;
- mortgages in fishing vessels are assessed at maximum 60% of fair value;
- mortgages in fishing rights are assessed at maximum 60% of fair value;
- mortgages in negotiable securities are assessed at between 50-90% of fair 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 realisation 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.

### **Value adjustment**

All exposures greater than DKK 10,000 with objective indication of impairment (OII) are assessed individually in order to calculate the impairment/provision.

All exposures with an assessed OII where no value adjustment has taken place are transferred to group-based assessment together with other exposures. A model developed by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark is used for the calculation of group-based write-downs. The calculated gross loss ratios are increased by 33% to take account of geographical differences in the model's parameters. In addition to the calculated group-based write-downs, further write-downs are made as part of a managerial estimate, including reserves for losses on loans of less than DKK 10,000, for further losses on small consumer loans with a higher assessed risk, and reservation for individual sectors and geographical areas, where the risk is assessed to be higher than in the rest of the loan portfolio.

There is objective indication of impairment of an exposure if one or several of the following events has occurred:

- the borrower is in considerable financial difficulties;
- the borrower is in breach of contract, for example due to failure to fulfil payment obligations; and
- the borrower has been granted easier terms, which are only granted on the basis of the debtor's financial difficulties.
- It is likely that the debtor will file for bankruptcy or otherwise be subject to financial restructuring.

If the mortgageable limit for an exposure exceeds the maximum credit exposure, the excess mortgageable value is not included in the table.

## NOTES

<b>Exposure and write-downs, including group write-downs, by sector</b>				
<b>2017</b>	<b>Gross exposure DKK 1,000</b>	<b>Ratio, total gross exposures</b>	<b>Total write-downs DKK 1,000</b>	<b>Ratio, total write- downs</b>
Public	487,747	11%	694	0%
Business:				
Agriculture and fisheries	152,636	3%	13,170	9%
Industry and extraction of minerals	99,438	2%	8,929	6%
Energy supply	0	0%	0	0%
Construction and civil engineering	406,718	9%	26,373	19%
Trade	310,360	7%	6,832	5%
Transport, restaurants and hotels	259,416	6%	3,976	3%
Information and communication	10,862	0%	1,432	1%
Financing and insurance	111,749	2%	344	0%
Real estate	651,782	14%	5,729	4%
Other business	88,569	2%	2,519	2%
Business in total	2,101,531	45%	68,800	49%
Private	2,048,787	44%	72,362	51%
<b>In total</b>	<b>4,638,065</b>	<b>100%</b>	<b>141,766</b>	<b>100%</b>
Of which group-based			36,021	
<b>2016</b>	<b>Gross exposure DKK 1,000</b>	<b>Ratio, total gross exposures</b>	<b>Total write- downs DKK 1,000</b>	<b>Ratio, total write-downs</b>
Public	512,035	12%	266	0%
Business:				
Agriculture and fisheries	166,539	4%	8,052	7%
Industry and extraction of minerals	88,269	2%	6,779	5%
Energy supply	0	0%	0	0%
Construction and civil engineering	337,184	8%	18,473	15%
Trade	292,674	7%	9,256	7%
Transport, restaurants and hotels	241,975	5%	4,077	3%
Information and communication	16,778	0%	147	0%
Financing and insurance	68,026	1%	135	0%
Real estate	647,935	15%	5,326	4%
Other business	86,894	2%	2,456	2%
Business in total	1,946,274	44%	54,701	43%
Private	1,958,303	44%	71,248	57%
<b>In total</b>	<b>4,416,612</b>	<b>100%</b>	<b>126,215</b>	<b>100%</b>
Of which group-based			31,841	

## NOTES

### Distribution of lending and guarantees with OII by sector (DKK 1,000)

2017	Gross exposure	Value of collateral security	Unsecured	Individual write-downs	Maximum credit risk
Public	694	0	694	694	0
Business:					
Agriculture and fisheries	22,343	15,714	6,629	6,629	0
Industry and extraction of minerals	5,454	2,329	3,125	3,125	0
Energy supply	0	0	0	0	0
Construction and civil engineering	79,158	14,990	64,168	23,784	40,384
Trade	11,237	6,617	4,620	4,620	0
Transport, restaurants and hotels	9,546	8,564	982	982	0
Information and communication	2,196	944	1,252	1,252	0
Financing and insurance	0	0	0	0	0
Real estate	35,322	35,273	49	49	0
Other business	5,313	3,304	2,009	2,009	0
Business in total	170,569	87,735	82,834	42,450	40,384
Private	125,023	62,422	62,601	62,601	0
<b>Total</b>	<b>296,285</b>	<b>150,157</b>	<b>146,128</b>	<b>105,745</b>	<b>40,384</b>

2016	Gross exposure	Value of collateral security	Unsecured	Individual write-downs	Maximum credit risk
Public	266	0	266	266	0
Business:					
Agriculture and fisheries	14,460	10,834	3,626	3,626	0
Industry and extraction of minerals	15,435	12,450	2,985	2,581	404
Energy supply	0	0	0	0	0
Construction and civil engineering	51,446	10,881	40,565	17,791	22,774
Trade	12,734	5,746	6,988	6,240	748
Transport, restaurants and hotels	13,450	11,830	1,620	1,620	0
Information and communication	0	0	0	0	0
Financing and insurance	0	0	0	0	0
Real estate	40,377	40,377	0	0	0
Other business	12,138	10,103	2,035	2,035	0
Business in total	160,040	102,221	57,819	33,893	23,926
Private	121,458	58,324	63,134	60,215	2,919
<b>Total</b>	<b>281,764</b>	<b>160,545</b>	<b>121,219</b>	<b>94,374</b>	<b>26,845</b>

## NOTES

### Reason for value adjustment of exposures subject to individual write-down (DKK 1,000)

2017	Credit exposure before write-downs	Write-downs	Accounting value	Collateral security	Maximum credit risk
Bankruptcy	11,509	3,020	8,489	8,489	0
Collection	21,121	15,338	5,783	5,783	0
Financial difficulties	194,089	87,387	106,702	66,318	40,384
<b>Total</b>	<b>226,719</b>	<b>105,745</b>	<b>120,974</b>	<b>80,590</b>	<b>40,384</b>

2016	Credit exposure before write-downs	Write-downs	Accounting value	Collateral security	Maximum credit risk
Bankruptcy	15,981	4,340	11,641	11,641	0
Collection	17,103	15,399	1,704	1,704	0
Financial difficulties	146,013	74,635	71,378	47,452	23,926
<b>Total</b>	<b>179,097</b>	<b>94,374</b>	<b>84,723</b>	<b>60,797</b>	<b>23,926</b>

#### Credit quality of exposures in general

The BANK of Greenland has not developed scoring models to cover the entire lending portfolio.

Business exposures are subject to manual scoring on a scale from 1 to 5, with 1 as the best score.

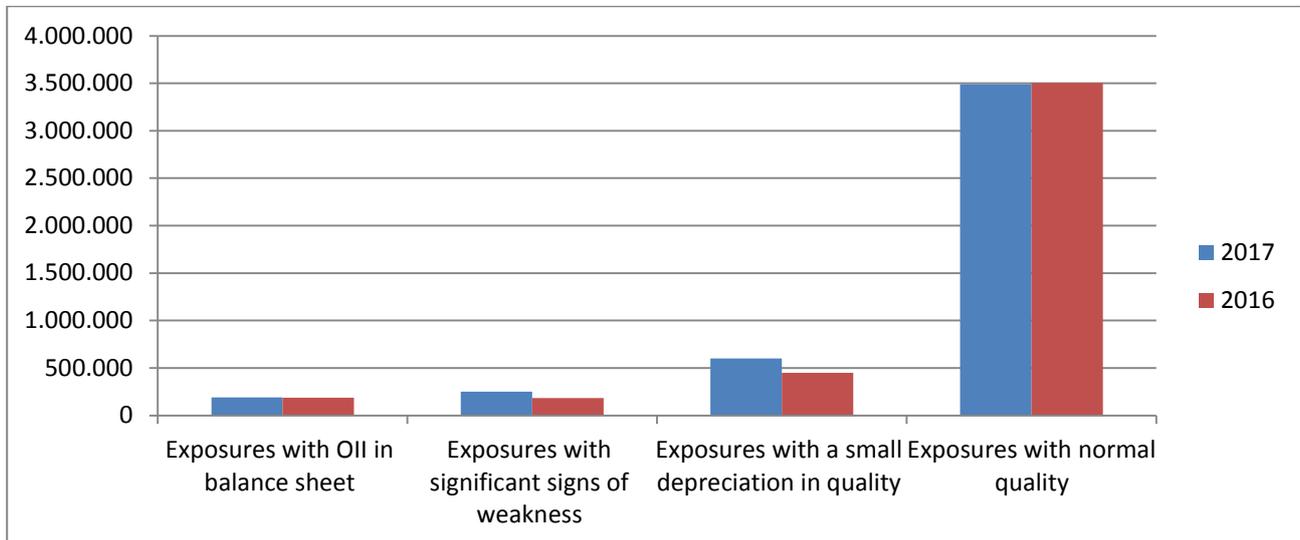
For private exposures, a score system with a scale from 1 to 11 is being implemented.

Exposures with arrears or overdrafts > DKK 1,000

In DKK 1,000	2017	2016
0-30 days	15,455	14,473
31-60 days	2,906	5,315
61-90 days	6,884	4,826
> 90 days	11,646	5,609
<b>Total</b>	<b>36,891</b>	<b>30,223</b>

## NOTES

### Credit exposure after write-downs distributed by creditworthiness (in 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.

#### Market risk

The BANK of Greenland's market risk is managed by fixed limits for a large number of risk measurements. Monitoring of market risk and of compliance with the adopted framework is undertaken on a daily basis by the Bank's Markets department. The Executive Management receives reports on a daily basis if risks are close to limits. The Board of Directors receives reports on the development in market risks on a monthly basis. The reports include the month-end value and are prepared by the Bank's Accounting Department. The Accounting Department also prepares reports on a random day of the month, which are reported to the Executive Management.

#### Interest rate risk

The Board of Directors' guidelines for the Executive Management include a maximum interest rate risk for the Bank. The Bank's objective is to hold the interest rate risk below 1.5%. The interest rate risk is calculated in accordance with the Danish Financial Supervisory Authority's guidelines.

The Bank has set a minor limit of DKK 25 million for uncovered lending at fixed interest rates. Besides this, all of the Bank's lending at fixed interest rates is covered.

The BANK of Greenland has outsourced the portfolio management of the Bank's bond holdings to an external portfolio manager. The portfolio manager is subject to the aforementioned risk framework and work on the basis of a duration of 1.5 years. The Bank has entered into interest rate swaps for a total of DKK 35 million to partly cover the interest rate risk on the Bank's bond holdings. Reference is made to Notes 27 and 29.

#### Share risk

The Board of Directors' guidelines for the Executive Management include a maximum shareholding (excluding sector shares) for the risk which the Bank may assume. The holdings are mainly placed in liquid equities-based investment funds. Reference is made to Note 15.

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## NOTES

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### Currency risk

The BANK of Greenland has adopted guidelines for the currencies in which exposure is permitted, and the maximum exposure for each currency. All significant currency exposures are covered. The Bank has no significant currency exposures at the end of 2017. Reference is made to Note 26 for further information on currency risks.

### Liquidity risk

The BANK of Greenland's liquidity reserves are managed by maintaining sufficient liquid funds, ultra-liquid securities, credit facilities as committed and uncommitted lines, and the ability to close market positions. The liquid reserves are determined on the basis of an objective to ensure stable liquid reserves. The Bank seeks to have surplus cover of 125-150% in relation to the requirements in the Danish Financial Activities Act. LCR for the BANK of Greenland is calculated at 222.4% as of the end of 2017. Reference also is made to key figures for surplus liquidity cover, as well as the key figures for lending as a ratio of deposits in Note 32.

### Operational risk

In order to reduce losses due to operational risks, the Bank has drawn up policies and written procedures. The Bank's policy is to continuously limit the operational risks, of which the following are examples.

The Bank's procedures are reviewed and reassessed at least once every other year, unless there are changes in a procedure due to e.g. legislative changes, procedural changes, internal rules, etc.

By ensuring a clear division of organisational responsibility, with the necessary and adequate separation of functions, the operational risks can be limited.

The BANK of Greenland considers dependence on key employees to be a focus area. Written procedures have been drawn up in order to minimise dependence on individuals. There is continuous focus on reducing dependence individual persons in key roles in the Bank, and the Bank continuously assesses the outsourcing of operating areas that are not important to the Bank's competitiveness. The Bank also has great focus on continuously improving the internal and external recruitment basis. The BANK of Greenland wishes to have a strong control environment and has therefore also drawn up a number of standards for how control is to take place.

The BANK of Greenland has drawn up policies and emergency plans for physical disasters and IT outages. IT outages may disrupt operations. In the case of a geographically limited outage in the branch network, the other branches will be able to continue operations. For any outage at the head office, emergency plans and contingency measures have been drawn up, and it will be possible to establish temporary operations within a short time from a back-up centre (Center II) established in external premises. Center II was established in 2012, which has significantly reduced the risk of vital outages. Customer-oriented temporary operations can be established within one day.

The Bank's IT operations take place at Bankernes EDB Central (BEC). The Bank closely follows the instructions and recommendations received, just as the Bank does not undertake independent development of IT systems.

In 2017, the BANK of Greenland commissioned a report on the Banks IT security and contingency measures. The report's recommendations have either already been, or are in the process of being, incorporated,

The BANK of Greenland cooperates on Internal Auditing with Danske Andelskassers Bank A/S and the Bank has also appointed a legal officer who is responsible for compliance. This will help to ensure that the Bank complies with both external and internal requirements at all times.

**NOTES TO THE STATEMENT OF INCOME**

(DKK 1,000)		2017	2016
<b>3</b>	<b>Interest income</b>		
	Credit institutions	181	63
	Lending and other receivables	217,006	197,133
	Bonds	9,881	15,769
	<b>Total interest income</b>	<b>227,068</b>	<b>212,965</b>
<b>4</b>	<b>Negative interest income</b>		
	Amounts receivable from credit institutions and central banks	-6,487	-6,001
	Foreign exchange, interest rate, equity, commodity and other contracts, as well as derivative financial instruments	-5,254	-5,782
	<b>Total negative interest</b>	<b>-11,741</b>	<b>-11,783</b>
<b>5</b>	<b>Interest expenses</b>		
	Credit institutions and central banks	148	170
	Deposits and other liabilities	1,723	2,441
	<b>Total interest expenses</b>	<b>1,871</b>	<b>2,611</b>
<b>6</b>	<b>Positive interest expenses</b>		
	Deposits and other liabilities	8,460	2,953
	<b>Total positive interest expenses</b>	<b>8,460</b>	<b>2,953</b>
<b>7</b>	<b>Fees commission income</b>		
	Securities and securities accounts	3,824	3,960
	Funds transfer	36,040	34,288
	Loan case fees	15,089	15,099
	Guarantee commission	18,481	17,763
	Other fees and commission	14,303	14,769
	<b>Total fee and commission income</b>	<b>87,737</b>	<b>85,879</b>
<b>8</b>	<b>Value adjustments</b>		
	Lending at fair value	-1,710	-218
	Bonds	-2,742	-14,103
	Shares	-6,540	-1,704
	Currency	2,805	3,446
	Foreign exchange, interest rate, equity, commodity and other contracts, as well as derivative financial instruments	1,819	-208
	Other assets	0	-112
	<b>Total value adjustments</b>	<b>-6,368</b>	<b>-2,899</b>

## NOTES TO THE STATEMENT OF INCOME

(DKK 1,000)	2017	2016
Notes 3-8		
The Bank has not distributed net interest and fee income and value adjustment on areas of activity and geographical markets. It is assessed that there are no significant deviations between the Bank's activities and geographical areas, and no segment data is therefore disclosed.		
<b>9 Staff and administration expenses</b>		
Employee expenses		
Salaries	60,578	58,759
Other staff expenses	2,190	2,028
Pensions	7,314	7,206
Social security expenses	582	538
<b>Total</b>	<b>70,664</b>	<b>68,531</b>
Other administration expenses	77,208	71,095
Number of employees		
The average number of employees in the financial year, converted to full-time employees	117.5	117.6
Salaries and remuneration to the Board of Directors and the Executive Management		
Board of Directors		
Chairman of the Board of Directors, Gunnar í Liða	270	270
Vice Chairman of the Board of Directors Kristian Frederik Lennert	183	183
Board member, Frank Olsvig Bagger	125	125
Board member, Jonas Brøns	125	125
Board member, Christina Finderup Bustrup	125	125
Board member, Allan Damsgaard, resigned in 2017	115	125
Board member, Lars Holst	125	125
Board member, Yvonne Jane Poulsen Kyed	135	135
Board member, Arne Ilannguaq Guldman Petersen, resigned in 2017	104	125
Board member, Elise Love Nicoline Zeeb, elected in 2017	21	0
Board member, Hans Niels Boassen, elected in 2017	10	0
<b>Total</b>	<b>1,338</b>	<b>1,338</b>

The remuneration of the Board of Directors is fixed

## NOTES TO THE STATEMENT OF INCOME

(DKK 1,000)	2017	2016
<b>Executive Management Board</b>		
Managing Director, Martin Birkmose Kviesgaard		
Contractual remuneration, including free car and other benefits	2,685	2,631
Pension	707	687
<p>The Bank has established a defined benefit severance/pension scheme for the Bank's managing director. Under this scheme, the Bank is obliged to pay a fixed benefit for a period of time following the managing director's retirement. The present value of the benefit as of 31 December 2017 is compiled at TDKK 259, which is recognised under Executive Management Board pensions. This obligation, which is earned over the 2016-2024 period, may comprise 0-24 months' salary.</p> <p>Two other employees whose activities have a significant influence on the Bank's risk profile</p>		
Contractual remuneration, including free car and other benefits	2,369	2,341
Pension	337	320
<b>10 Audit fees</b>		
Statutory audit of the annual financial statements	605	584
Other declarations with security	22	42
Tax advisory services	141	40
Other services	298	60
<b>Total remuneration to the auditors elected by the Annual General Meeting who perform the statutory audit</b>	<b>1,066</b>	<b>726</b>
<p>Non-auditing services are provided by Deloitte, Statsautoriseret Revisionspartnerselskab and comprise fees for various statutory declarations, various tax assistance, and actuarial advisory services concerning forecasting and advisory tools.</p>		
<b>11 Tax on the profit for the year</b>		
Tax on the profit for the year is calculated as follows:		
Current tax	11,143	4,741
Deferred tax	-467	-194
Taxation value of dividend paid	31,482	31,482
<b>Total</b>	<b>42,158</b>	<b>36,029</b>
Tax on the profit for the year is broken down as follows:		
Calculated 31.8% tax on the profit for the year	42,169	36,067
Other adjustments	-11	-38
<b>Total</b>	<b>42,158</b>	<b>36,029</b>
Effective tax rate	31.8%	31.8%
Corporate and dividend tax paid in 2017 amounts to TDKK 4,294		

**NOTES TO THE BALANCE SHEET**

(DKK 1,000)	2017	2016
<b>12 Amounts receivable from credit institutions and central banks</b>		
On-demand	181,624	487,241
Up to and including 3 months	340,436	883,960
<b>Total</b>	<b>522,060</b>	<b>1,371,201</b>
Receivables subject to terms of notice at central banks	0	618,000
Receivables from credit institutions	522,060	753,201
<b>Total</b>	<b>522,060</b>	<b>1,371,201</b>
<b>13 Loans</b>		
Write-downs on loans and receivables		
Lending	9,936	12,597
Guarantees	3,798	1,374
<b>Total write-downs during the year</b>	<b>13,734</b>	<b>13,971</b>
Of which losses not previously written down	247	299
Lending at amortised cost	3,335,119	3,073,861
Total lending by remaining term to maturity:		
On demand	365,871	268,665
Up to and including 3 months	253,865	236,040
Over 3 months and up to and including 1 year	515,417	480,409
Over 1 year and up to and including 5 years	1,409,906	1,313,637
Over 5 years	790,060	775,110
<b>Total</b>	<b>3,335,119</b>	<b>3,073,861</b>
<b>Write-downs on loans</b>		
<b>Individual write-downs:</b>		
Start of the period	85,380	77,423
Write-downs during the year	48,403	34,527
Reversal of write-downs in previous financial years	31,483	19,858
Final loss (depreciated) previously individually depreciated	4,898	5,542
Other movements	-4,449	-1,170
<b>Total individual write-downs on lending</b>	<b>92,953</b>	<b>85,380</b>
<b>Group write-downs:</b>		
Start of the period	31,841	27,126
Write-downs during the year	11,605	14,954
Reversal of write-downs in previous financial years	6,628	9,588
Other movements	-797	-651
<b>Total group write-downs on lending</b>	<b>36,021</b>	<b>31,841</b>

**NOTES TO THE BALANCE SHEET**

(DKK 1,000)	2017	2016
<b>14 Bonds at fair value</b>		
Mortgage-credit bonds	878,007	873,582
Other bonds	16,672	51,932
<b>Total</b>	<b>894,679</b>	<b>925,514</b>
Of which nominal TDKK 50,000 deposited as security for debt at Danmarks Nationalbank.		
<b>15 Shares, etc.</b>		
Shares/unit trust certificates listed on Nasdaq OMX Copenhagen	19,943	19,460
Unlisted shares included at fair value	69,410	66,821
<b>Total</b>	<b>89,353</b>	<b>86,281</b>
<b>16 Head office properties</b>		
Reassessed value, beginning of year	197,128	194,709
Additions during the year, including improvements	1,100	2,506
Disposals during the year	0	0
Depreciation	-4,337	-5,469
Value changes recognised in other comprehensive income	13,681	3,013
Value changes recognised in the statement of income	156	2,369
<b>Reassessed value, year-end</b>	<b>207,728</b>	<b>197,128</b>
<p>There is no public property valuation in Greenland.            In 2016, an independent expert assessment was obtained of the fair value of the Bank's head office property in Nuuk. No expert assessment was used in conjunction with the measurement of the Bank's other head office properties.</p>		
<b>17 Other tangible assets</b>		
Cost, beginning of year, without depreciation or write-downs	47,313	45,024
Additions during the year, including improvements	3,884	2,289
Disposals during the year	276	0
<b>Cost, year-end</b>	<b>50,921</b>	<b>47,313</b>
Depreciation and write-downs, beginning of year	39,870	36,988
Depreciation for the year	2,659	2,882
<b>Depreciation and write-downs, end of year</b>	<b>42,529</b>	<b>39,870</b>
<b>Accounting value, year-end</b>	<b>8,392</b>	<b>7,443</b>

## NOTES

(DKK 1,000)	2017	2016
<b>18 Assets related to pool scheme</b>		
Unit trusts	6,764	0
Non placed assets	3	0
<b>Total</b>	<b>6,767</b>	<b>0</b>
<b>19 Liabilities to credit institutions and central banks</b>		
On demand	22,670	21,238
Over 1 year and up to and including 5 years	0	0
<b>Total</b>	<b>22,670</b>	<b>21,238</b>
Debt to central banks	22,670	21,195
Debt to credit institutions	0	43
<b>Total</b>	<b>22,670</b>	<b>21,238</b>
<b>20 Deposits and other liabilities</b>		
On demand	4,113,307	4,727,995
Up to and including 3 months	4,224	2,796
Over 3 months and up to and including 1 year	7,163	57,630
Over 1 year and up to and including 5 years	56,276	22,748
Over 5 years	24,642	11,193
<b>Total</b>	<b>4,205,612</b>	<b>4,822,362</b>
On demand	3,774,589	4,175,603
On terms of notice	267,379	461,377
Fixed-term deposits	40,436	73,361
Special deposit conditions	123,208	112,021
<b>Total</b>	<b>4,205,612</b>	<b>4,822,362</b>
<b>21 Provisions for deferred tax</b>		
The year's changes in deferred tax can be summarised as follows:		
Deferred tax, beginning of year	55,824	55,060
The year's deferred tax recognised in the statement of income for	-467	-194
Adjustment of deferred tax concerning equity items	4,351	958
<b>Total</b>	<b>59,708</b>	<b>55,824</b>
Deferred tax concerns:		
Head office properties	58,814	54,985
Operating equipment	894	839
<b>Total</b>	<b>59,708</b>	<b>55,824</b>

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## NOTES

(DKK 1,000)

2017

2016

### 22 Share capital

The Bank's share capital consists of 1,800,000 shares of DKK 100. The shares are paid-up in full. The shares are not divided into classes, and no shares entail special rights. There have been no changes in the share capital in recent years.

#### Own shares

Number of own shares	0	0
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The following hold more than 5% of the Bank's share capital:

BETRI P/F	Kongabrugvin, Torshavn	14.58 %
Nuna Fonden	Nuuk	13.89 %
AP Pension Livsforsikringsaktieselskab	Copenhagen	12.87 %
Government of Greenland	Nuuk	8.38 %
Greenland Holding A/S	Nuuk	6.88 %

## NOTES

(DKK 1,000)

2017

2016

### 23 Capital Statement

Credit risk	3,375,435	3,384,094
Market risk	107,567	124,150
Operational risk	542,621	543,651
<b>Total risk exposure</b>	<b>4,025,623</b>	<b>4,051,895</b>
Equity	958,458	926,210
Proposed dividend, accounting effect	-36,828	-67,518
Framework for ratio of own shares	-5,840	0
Deductions for prudent valuation	-1,204	-1,224
<b>Actual core capital</b>	<b>914,586</b>	<b>857,468</b>
<b>Capital base</b>	<b>914,586</b>	<b>857,468</b>
Actual core capital ratio	22.7	21.2
Capital ratio	22.7	21.2
Statutory requirement of actual core capital ratio	4.5	4.5
Statutory capital ratio requirements	8.0	8.0

## NOTES

(DKK 1,000)

2017

2016

### 24 Contingent liabilities

Mortgage finance guarantees	674,335	638,316
Registration and remortgaging guarantees	47,371	201,952
Other guarantees	439,475	376,269
<b>Total</b>	<b>1,161,181</b>	<b>1,216,537</b>

#### Other binding agreements

Irrevocable loan commitments	0	50,000
<b>Total</b>	<b>0</b>	<b>50,000</b>

The Bank is a member of BEC (Bankernes EDB Central). On any withdrawal the Bank will be obliged to pay a withdrawal fee to BEC equivalent to the preceding three years' IT costs.

### 25 Legal cases

The Bank is a party in pending lawsuits and the outcome of these would not affect the Bank's financial position.

### 26 Currency exposure

Assets in foreign currency, in total	41,922	135,709
Liabilities in foreign currency, in total	26,973	85,150
Exchange-rate indicator 1	14,882	20,200
Exchange-rate indicator 1 as a ratio of core capital	1.63	2.36
Exchange-rate indicator 2	367	347

### 27 Interest rate risk

The Bank solely has fixed-interest-rate assets in Danish kroner.

Interest-rate risk for debt instruments, etc.	10,481	10,873
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## NOTES

(DKK 1,000)

2017

2016

### 28 Related parties

Related parties comprise the Bank's Board of Directors and Executive Management, and there related parties.

The BANK of Greenland has no related parties with a controlling influence.

The size of loans to, and mortgages, surety or guarantees and related pledges, for members of the Bank's Executive Management and Board of Directors

Executive Management: (Mastercard)	100	200
Board of Directors, including members elected by the employees	109,484	115,936
Pledges:		
Executive Management Board	0	0
Board of Directors, including members elected by the employees	60,527	50,392
Significant terms:		
Exposures with members of the Bank's Board of Directors are entered into on normal business terms.		
Exposures with staff representatives on the Bank's Board of Directors are entered into on personnel terms.		
For members of the Board of Directors elected at the Bank's Annual General Meeting, the interest rates in 2017 are in the range of 1.5%-3.75%		
The Board of Directors' and Executive Management's holdings of shares in GrønlandsBANKEN A/S compiled in accordance with the insider rules (number).		
Board of Directors		
Kristian Frederik Lennert	10	10
Frank Olsvig Bagger	25	25
Anders Jonas Brøns	14,249	14,249
Hans Niels Boassen	10	10
Yvonne Jane Poulsen Kyed	10	10
Executive Management:		
Martin Birkmose Kviesgaard	1,455	1,455

## NOTES

(DKK 1,000)

2017

2016

### 29 Derivative financial instruments

#### Loans at fixed interest rates covered with interest swaps

The BANK of Greenland uses derivatives to hedge the interest rate risk on fixed-interest assets and liabilities which are measured at amortised cost. On the fulfilment of certain criteria, the hedging is treated as hedging of fair value in the accounts. The interest rate risk on the hedged assets and liabilities is recognised at fair value as a value adjustment of the hedged items. If the criteria for hedging are no longer fulfilled, the accumulated value adjustment of the hedged item is amortised over the remaining term to maturity.

#### Lending

Amortised/nominal value	197,487	172,720
Accounting value	227,026	198,456

#### Covered with interest rate swap

Synthetic principal/nominal value	188,210	165,058
Accounting value	8,926	11,906

#### Lending at fixed interest rates without cover

Amortised/nominal value	16,789	20,425
Accounting value	19,111	24,015

In addition, the BANK of Greenland has entered into an interest rate swap totalling DKK 35 million, for partial cover of the interest rate risk on the Bank's bond portfolio.

## NOTES

(DKK 1,000)

### 29 Derivative financial instruments

2017	Nominal value	Positive market value	Negative market value	Net market value
<b>Currency contracts</b>				
Forward	0	0	0	0
<b>Interest rate contracts</b>				
Swaps	232,993	-60	11,879	11,819
<b>Share contracts</b>				
Spot, purchase	8	-3	0	-3
Spot, sale	8	0	3	3
<b>Total</b>	<b>16</b>	<b>-3</b>	<b>3</b>	<b>0</b>
<b>Total</b>	<b>232,993</b>	<b>-63</b>	<b>11,882</b>	<b>11,819</b>
<b>2016</b>				
<b>Currency contracts</b>				
Forward	35,545	-264	0	-264
<b>Interest rate contracts</b>				
Swaps	200,056	-184	14,191	14,007
<b>Share contracts</b>				
Spot, purchase	3	0	1	1
Spot, sale	3	-1	0	-1
<b>Total</b>	<b>6</b>	<b>-1</b>	<b>1</b>	<b>0</b>
<b>Total</b>	<b>235,607</b>	<b>-449</b>	<b>14,192</b>	<b>13,743</b>

## NOTES

(DKK 1,000)

### 28 Derivative financial instruments

Term structure by remaining term to maturity

2017	Up to and including	3 months	Over 3 months	Up to and including 1 year
	Nominal value	Net Market value	Nominal value	Net Market value
Interest rate contracts, Swaps	0	0	25,558	413
Currency contracts, swaps	0	0	0	0
<b>Share contracts</b>				
Spot, purchase	8	-3	0	0
Spot, sale	8	3	0	0
<b>Total</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>16</b>	<b>0</b>	<b>25,558</b>	<b>413</b>

	Over 1 years	Up to and including 5 months	Over 5 years	
	Nominal value	Net Market value	Nominal value	Net Market value
Interest rate contracts, swaps	46,863	2,453	160,572	8,953
Currency contracts, swaps	0	0	0	0
<b>Total</b>	<b>46,863</b>	<b>2,453</b>	<b>160,572</b>	<b>8,953</b>

2016	Up to and including	3 months	Over 3 months	Up to and including 1 year
	Nominal value	Net Market value	Nominal value	Net Market value
Interest rate contracts, swaps	0	0	0	0
Currency contracts, swaps	35,545	-264	0	0
<b>Share contracts</b>				
Spot, purchase	3	1	0	0
Spot, sale	3	-1	0	0
<b>Total</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>35,551</b>	<b>-264</b>	<b>0</b>	<b>0</b>

	Over 1 years	Up to and including 5 months	Over 5 years	
	Nominal value	Net Market value	Nominal value	Net Market value
Interest rate contracts, swaps	71,085	3,898	128,971	10,109
Currency contracts, swaps	0	0	0	0
<b>Total</b>	<b>71,085</b>	<b>3,898</b>	<b>128,971</b>	<b>10,109</b>

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## NOTES

(DKK 1,000)

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### 30 Fair value of financial instruments

Fair value is the amount at which a financial asset can be traded, or the amount at which a financial liability can be redeemed, between qualified, willing and independent parties. The fair value can be the net book value, if the net book value is calculated on the basis of underlying assets and liabilities measured at fair value.

The following three levels of valuation categories can be used to compile the fair value:

- Level 1: Listed prices in an active market for the same type of financial instruments, i.e. with no change in form or structure.
- Level 2: Listed prices in an active market for similar assets or liabilities, or other valuation methods in which all significant input is based on observable market data.
- Level 3: Valuation methods where any significant input is not based on observable market data.

Transfers are made between the categories if an instrument's classification on the balance sheet date differs from its classification at the beginning of the financial year.

For listed shares and bonds in levels 1 and 2, the fair value is set at the listed prices and market data on the balance sheet date.

Shares in level 3 comprise sector shares in companies with which there is cooperation concerning products, payment settlement and administration, and the shares are measured at estimated fair values. The estimated fair value is based primarily on the prices at which the capital interests could be traded in accordance with the shareholder agreements, if they were divested as at the balance sheet date. Determining these shares' fair value is subject to uncertainty. For other unlisted shares for which observable input is not immediately available, valuation is based on estimates which include information from the companies' accounts.

For loans, the write-downs are assessed to correspond to the changes in credit quality. Differences from fair values are assessed to be fees and commission received which do not fall due for payment until after the end of the financial year, and for fixed-interest-rate loans with the addition of the interest-rate-level dependent value adjustment, which is calculated by comparing the current market interest rate with the nominal interest rates for the loans.

The fair value for receivables from credit institutions and central banks is determined according to the same method as for loans, although the Bank has not currently made any write-downs for receivables from credit institutions and central banks.

For variable-interest-rate financial liabilities such as deposits and debt to credit institutions measured at amortised cost, the difference from fair values is assessed to be interest payable that does not fall due for payment until after the end of the financial year.

For fixed-interest-rate financial liabilities such as deposits and debt to credit institutions measured at amortised cost, the difference from fair values is assessed to be interest payable that does not fall due for payment until after the end of the financial year, and the interest-rate-level dependent value adjustment.

## NOTES

(DKK 1,000)

<b>2017</b>	Listed prices Level 1	Observable prices Level 2	Non- observable prices Level 3	In total
in DKK 1,000				
<b>Financial assets</b>				
Bonds	884,680	0	9,999	894,679
Shares	19,943	0	69,410	89,353
Head office properties	0	0	208,046	208,046
Positive market value of derivative financial instruments	0	63	0	63
<b>Total</b>	<b>904,623</b>	<b>63</b>	<b>287,455</b>	<b>1,192,141</b>
Financial liabilities:				
Negative market value of derivative financial instruments				
	0	11,882	0	11,882
<b>Total</b>	<b>0</b>	<b>11,882</b>	<b>0</b>	<b>11,882</b>
<b>2016</b>	Listed prices Level 1	Observable prices Level 2	Non- observable prices Level 3	In total
in DKK 1,000				
<b>Financial assets</b>				
Bonds	915,308	0	10,206	925,514
Shares	19,460	0	66,821	86,281
Head office properties	0	0	197,128	197,128
Positive market value of derivative financial instruments	0	450	0	450
<b>Total</b>	<b>934,768</b>	<b>450</b>	<b>274,155</b>	<b>1,209,373</b>
Financial liabilities:				
Negative market value of derivative financial instruments				
	0	14,191	0	14,191
<b>Total</b>	<b>0</b>	<b>14,191</b>	<b>0</b>	<b>14,191</b>
in DKK 1,000				
	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
Financial instruments recognised at amortised cost:	Amort. cost.	Fair value	Amort. cost.	Fair value
Amounts receivable from credit institutions and central banks	522,060	522,675	1,371,201	1,371,881
Lending and other receivables	3,335,119	3,344,106	3,073,861	3,083,153
Liabilities to credit institutions and central banks	22,670	22,670	21,238	21,238
Deposits and other liabilities	4,205,612	4,206,101	4,822,362	4,822,406
Derivative financial instruments				
Interest rate swaps	0	11,819	0	14,007

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## NOTES

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(DKK 1,000)

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### 31 Sensitivity calculations

With regard to the Bank's monitoring of market risks and calculation of the adequate capital base, a number of sensitivity calculations are performed, including the following market risk variables:

#### **Interest rate risk:**

The sensitivity calculation in relation to the Bank's interest rate risk is based on the interest rate risk key ratio that is reported to the Danish FSA. This key ratio shows the effect on the core capital after deductions on a change in interest rates of 1 percentage point, equivalent to 100 basis points. The calculation shows that if the average interest rate on 31 December 2017 had been 100 basis points higher, the profit for the year would, all other things being equal, have been TDKK 10,481 lower (2016: TDKK 10,873 lower) primarily as a consequence of a negative fair value adjustment of the Bank's holdings of fixed-interest-rate bonds.

#### **Currency risk:**

The sensitivity calculation in relation to the Bank's currency risk is based on the currency indicator 1 key ratio that is reported to the Danish FSA. Currency indicator 1 expresses a simplified measure of the extent of the Bank's positions in foreign currency, and is calculated as the largest of the sum of all of the short currency positions and the sum of all of the long currency positions. If the Bank on 31 December 2017 had experienced a loss on the currency positions of 2.5% of currency indicator 1, the profit for the year before tax, all other things being equal, would have been TDKK 372 lower (2016: TDKK 505 lower) primarily as a consequence of exchange-rate adjustment of the Bank's currency holdings.

#### **Share risk:**

If the value of the Bank's shareholdings on 31 December 2017 had been 10% lower, the profit for the year before tax, all other things being equal, would have been TDKK 8,886 lower (2016: TDKK 8,628 lower) as a consequence of negative fair value adjustment of the share portfolio.

The unlisted shares include shares with a repurchase right, but not obligation, of TDKK 18,773. The repurchase right can be utilised once a year for a period of 14 days, and expires in the third quarter of 2019. The BANK of Greenland may not sell the shares to any third party before the expiry of the repurchase right in 2019.

#### **Property risk:**

If the value of the Bank's properties on 31 December 2017 had been 10% lower, the negative value adjustment of properties, all other things being equal, would have been TDKK 20,805 before tax (2016 TDKK 19,713 lower).

**NOTES**

(DKK 1,000)

	2017	2016	2015	2014	2013
<b>32 Five-year financial highlights and key figures</b>					
Net interest and fee income	309,546	289,760	284,174	293,457	275,750
Value adjustments	-6,368	-12,899	-10,775	7,687	4,039
Other operating income	5,240	4,854	6,002	5,657	5,617
Staff and administration expenses	152,528	144,207	139,414	136,440	130,422
Depreciation and impairment of tangible assets	6,840	5,981	6,150	9,160	10,385
Other operating expenses	2,709	4,136	7,780	4,961	5,912
Write-downs on loans, etc.	13,734	13,971	19,432	24,807	15,186
<b>Profit before tax</b>	<b>132,607</b>	<b>113,420</b>	<b>106,625</b>	<b>131,433</b>	<b>123,501</b>
Tax	42,158	36,029	33,899	41,776	39,251
<b>Profit for the year</b>	<b>90,449</b>	<b>77,391</b>	<b>72,726</b>	<b>89,657</b>	<b>84,250</b>
<b>Selected balance sheet items:</b>					
Lending	3,335,119	3,073,861	2,822,572	2,814,54	2,874,931
Deposits	4,205,612	4,822,362	4,741,477	3,739,76	3,996,169
Equity	958,458	926,210	914,282	909,872	876,235
Balance sheet total	5,355,010	5,911,496	5,846,450	4,849,62	5,057,050
Contingent liabilities	1,161,181	1,266,537	1,123,022	1,093,34	873,112
<b>Official key figures:</b>					
Capital ratio	22.7	21.2	20.8	20.3	21.0
Core capital ratio	22.7	21.2	20.8	20.3	20.6
Return on equity before tax	14.1	12.3	11.7	14.7	14.3
Return on equity after tax	9.6	8.4	8.0	10.0	9.8
Rate of return	1.7	1.3	1.2	1.9	1.7
Income per cost krone	1.75	1.67	1.62	1.75	1.76
Interest rate risk	1.1	1.3	1.1	1.3	0.6
Foreign exchange position	1.6	2.4	5.6	3.1	4.2
Loans plus write-downs in relation to deposits	82.2	66.2	61.7	77.5	73.6
Loans in relation to equity	3.5	3.3	3.1	3.1	3.3
Growth in lending during the year	8.5	8.9	0.3	-2.1	-5.6
Excess capital base compared to statutory liquidity requirement	105.4	193.6	203.9	190.7	219.5
The sum of large exposures	60.9	90.3	69.9	40.0	58.7
Ratio of receivables at reduced interest rates	0.6	0.8	0.9	0.7	0.9
Write-down ratio for the year	0.3	0.3	0.6	0.7	0.4
Accumulated write-down percentage	3.1	2.9	2.8	2.4	2.0
Profit for the year per share	50.3	43.0	40.4	49.8	46.8
Net book value per share	532	515	508	505	494
Dividend per share	30	55	55	55	55
Listed price/Profit for the year per share (PE)	12.9	14.3	15.4	12.3	14.1
Stock exchange quotation/net book value per share	1.2	1.2	1.2	1.2	1.3

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## NOTES

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### 33 Management posts

In accordance with Section 132 a of the Accounting Order, the Annual Report must include details of the managerial posts held by listed banks' Board of Directors and Executive Management members in business enterprises.

In accordance with Section 80(8) of the Danish Financial Activities Act, once a year the Bank must publish details of the offices which the Board of Directors has approved for persons who in accordance with statutory provisions or articles of association are employed by the Board of Directors, cf. Section 80(1) of the Act. Information on this is presented at: [www.banken.gl](http://www.banken.gl)

Concerning the members of the Board of Directors and Executive Management of the BANK of Greenland, the following had been disclosed at the time of the publication of the Annual Report:

#### **Director Gunnar í Liða**

Born on 13 April 1960

Joined the Board of Directors on 6 April 2005. Last re-elected in 2017

Member of the Boards of Directors of:  
Gist and Vist P/F (Chairman)

Gunnar í Liða holds an MSc(Econ) and was employed in the Faroese financial sector from 1988 to 2010 – until the end of 2010 as the Director of the Faroe Islands' largest insurance company, when he resigned from this position. Gunnar í Liða also has substantial Board experience from Faroese companies and a special insight into North Atlantic economic affairs and financing.

#### **Director Kristian Lennert INUPLAN A/S**

Born on 30 November 1956

Joined the Board of Directors on 08 April 2003. Last re-elected in 2016

Managing Director of:  
Ejendomsselskabet Issortarfik ApS

Kristian Frederik Lennert holds an MSc in structural engineering and has been employed by INUPLAN A/S since 1984, and since 2002 as managing director of the company. Kristian Lennert also has experience from membership of the Boards of Directors of Greenlandic companies and during his career has gained insights into Greenland's economic and social conditions, especially in the building and construction area.

#### **Director Frank Olsvig Bagger Panasonic Center Ilulissat v/ Tankeeraq Aps**

Born on 22 April 1970

Joined the Board of Directors on 02 April 2008. Last re-elected in 2016

Member of the Board of Directors and Director of:  
Tankeeraq ApS  
Ilulissat Marine Service ApS

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## NOTES

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Frank Olsvig Bagger established Ilulissat Radio & TV (later Panasonic Center Ilulissat) in 1994. Since then, Frank Olsvig Bagger has been active in Greenland's business community, mainly in the retail sector, but also in other sectors.

**Director Anders Jonas Brøns**  
**Polar Seafood Greenland A/S**

Born on 22 December 1949  
Joined the Board of Directors on 10 April 1997. Last re-elected in 2016

Managing Director of:  
Polar Seafood Greenland A/S

Member of the Boards of Directors of:  
Minikka A/S (Chairman)  
Polar Raajat A/S (Chairman)  
Polar Seafood Denmark A/S  
Imartuneq Trawl A/S (Chairman)  
Qalut Vónin A/S  
Sigguk A/S (Chairman)  
Uiloq Trawl A/S (Chairman)  
Qajaq Trawl A/S (Chairman)  
Polar Pelagic A/S (Chairman)  
IKKA ApS (Chairman)  
Grønlands Skibs- og Entreprenørværksted ApS (Chairman)  
Polar Wine ApS (Chairman)

Anders Brøns is commercially trained and since 1984 has worked primarily in Greenland's deep-sea fishing business as managing director of the Polar Seafood Group since 1984 and as a member of the fishing industry's organisations since 1977.

**Managing Director Christina F. Bustrup**  
**Nærpension A/S**

Born on 16 August 1973  
Joined the Board of Directors on 25 March 2015

Christina F. Bustrup holds an MSc in actuarial science and also has executive management qualifications from IMD Business School, Franklin Covey and Center for Ledelse. Christina Finderup Bustrup is CEO of nærpension A/S. Since 31 December 2010, nærpension A/S has been a wholly-owned subsidiary in the AP Pension Group. Previously, Christina F. Bustrup served for many years as COO (Customer Director) in AP Pension.

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## NOTES

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### **Former Executive Vice President Lars Holst**

Born on 15 February 1952

Joined the Board of Directors on 25 March 2015

Member of the Boards of Directors of:

Vestjysk Bank A/S (Deputy Chairman)

Arkitektgruppen A/S

Vækstfonden (the Danish Growth Fund)

Lars Holst holds a degree in management accounting and an Executive MBA and has completed management programmes at Stanford University and IMD Business School. Lars Holst held positions at Nykredit from 1987 to 2014, and from 1995 until his retirement in 2014 served as credit director. Besides a number of Board positions in Danish financial enterprises and real estate companies, Lars Holst has been a member of the mortgage-credit sector's Greenland Committee (2004-2014), and the Danish Bankers Association's Credit Committee (2010-2014).

### **Customer Manager Hans Niels Boassen GrønlandsBANKEN A/S**

Born on 01 July 1963

Joined the Board of Directors on 06 December 2017

Member of the Boards of Directors of:

Fonden Nuummi Illorsuit Timersortarfiit – Godthåb-hallerne

### **Deputy Manager Yvonne Jane Poulsen Kyed GrønlandsBANKEN A/S**

Born on 29 January 1970

Joined the Board of Directors on 23 March 2011 and was most recently elected in 2015

### **Customer adviser Elise Love Nicoline Zeeb GrønlandsBANKEN A/S**

Born on 03 October 1960

Joined the Board of Directors on 01 November 2017

### **Managing Director Martin Kviesgaard GrønlandsBANKEN A/S**

Born on 23 May 1966

Joined the Executive Management on 1 March 2006

Member of the Boards of Directors of:

Posthuset A/S

BEC a.m.b.a.

Fugleværnsfonden

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## ABOUT THE BANK OF GREENLAND

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### **BANK of Greenland**

Imaneq 33  
Postbox 1033  
3900 Nuuk

Company reg. no. 39.070  
GER no. 80050410

Domicile municipality: Sermersooq

Tel. no.: +299 70 12 34  
Fax: +299 34 77 20

[www.banken.gl](http://www.banken.gl)  
[banken@banken.gl](mailto:banken@banken.gl)

### **Board of Directors**

Director Gunnar í Liða, Chairman  
Director Kristian Frederik Lennert, Deputy Chairman  
Director Frank Olsvig Bagger  
Customer Manager Hans Niels Boassen\*)  
Director Anders Jonas Brøns  
Managing Director Christina Finderup Bustrup  
Former Vice Director Lars Holst  
Deputy Manager Yvonne Jane Kyed\*)  
Customer adviser Elise Love Nicoline Zeeb\*)

\*) Employee representatives

### **Executive Management Board**

Managing Director Martin Birkmose Kviesgaard

### **Audit and Risk Committee**

Comprises the full Board of Directors

### **Remuneration Committee**

Comprises the Chairman and Vice Chairman of the Board of Directors and one member of the Board of Directors elected by the employees.

### **Nomination Committee**

The Nomination Committee consists of the Chairman and Deputy Chairman of the Board of Directors.

### **Audit**

#### **Deloitte**

Statsautoriseret Revisionspartnerselskab  
Imaneq 33, Nuuk

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## FINANCIAL CALENDAR AND STOCK EXCHANGE NOTIFICATIONS

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### Financial calendar for 2018

Annual Report 2017	22 February
Annual General Meeting in Nuuk	20 March
Interim Report, First Quarter 2018	25 April
Interim Report, First Half 2018	15 August
Interim Report, First Nine Months 2018	30 October

### Notifications to the stock exchange in 2017

28 February	Annual Report 2016 (1)
09 March	Notice convening the Annual General Meeting (2)
14 March	Flagging of Annual General Meeting powers of attorney to the Board of Directors (3)
27 March	Flagging of Annual General Meeting powers of attorney to the Board of Directors (4)
28 March	Annual General Meeting of the BANK of Greenland (5)
27 April	Interim Report, First Quarter 2017 (6)
31 May	Major shareholder notification – Nielsen Global Value (7)
31 May	Major shareholder notification – AP Pension (8)
22 June	Major shareholder notification – Wellington Management Group (9)
18 August	Interim Report, First Half 2017 (10)
13 September	Financial Calendar 2018 (11)
22 September	Change in the Board of Directors of the BANK of Greenland (12)
20 October	The BANK of Greenland upgrades its expectations of the results for 2017 (13)
31 October	Interim Report, First Nine Months 2017 (14)
06 December	Death of a member of the Board of Directors (15)