

Corporate Governance at The BANK of Greenland

"Corporate Governance" is a natural and essential element in The BANK of Greenland's efforts to meet the bank's objectives. We believe that corporate governance is quite naturally a question of continually improving our interaction with all of the bank's stakeholders.

The BANK of Greenland is listed on Nasdaq OMX Copenhagen A/S as a SmallCap company. Among other things, this listing means that the bank decides whether and to what extent it wishes to comply with the recommendations of the Committee on Corporate Governance. These recommendations are a guideline for listed companies which may choose not to comply with a recommendation, but it must then explain why.

Furthermore, credit institutions are required to decide whether and to what extent they wish to comply with the Danish Bankers Association's "Recommendations on Corporate Governance and External Auditing".

The Recommendations from the Committee on Corporate Governance (most recently revised in August 2011) are divided into nine main sections.

- I. The role of the shareholders and their interaction with the management of the company
- II. The role of stakeholders and their importance to the company and the company's corporate social responsibility
- III. Openness and transparency
- IV. The tasks and responsibilities of the supreme and the central governing bodies
- V. Composition and organization of the supreme governing body
- VI. Remuneration of members of the governing bodies
- VII. Financial reporting
- VIII. Risk management and internal control
- IX. Audit

You will find a description of The BANK of Greenland's approach to these recommendations below in accordance with the principle of "comply or explain".

I. Shareholders' role and interaction with the management

The BANK of Greenland follows the recommendations (partially).

The BANK of Greenland seeks openness in its activities and is continually expanding its communication with all stakeholders by making relevant and updated material available on the bank's web site www.banken.gl. Among other things, this site offers the option to download quarterly reports and audiocasts.

The annual general meeting is the bank's highest authority. The bank notifies its shareholders of general meetings at least 14 days and no more than four weeks before such meetings take place. Such a notice gives the shareholders the opportunity to make decisions about the subjects on the agenda for the general meeting. The invitation to the general meeting are published in the Danish Erhvervs- og Selskabsstyrelsen's (The Danish Commerce and Companies Agency) IT information system and selected newspapers in accordance with the bank's by-laws. The Board of Directors does not find it necessary and practicable to hold the annual general meeting electronically. All the members of The Board of Directors participated in the 2011 annual general meeting of The BANK of Greenland.

Powers-of-attorney are used for voting at a specific general meeting (but not for every specific point on the agenda) with an agenda that has been published beforehand. We have thus decided that it was most appropriate to create powers-of-attorney that do not mention each point on the agenda. The reason for this is a wish to balance concern for efficient running of the general meeting and a judgment that, if there is disagreement on a single point, the individual shareholder, or his/her proxy, can bring

the question up at the general meeting and demand a response according to the rules set down in the Greenlandic law on limited companies.

The Board of Directors has determined that the share and capital structure of The BANK of Greenland remain satisfactory for the company as well as its shareholders.

The bank has only one class of shares. According to the by-laws of the bank, all shareholders (when abiding by a few simple formalities) have the right to make proposals, participate, speak and vote at the general meeting.

All points on the agenda are decided upon at the general meeting by simple majority, unless legislation or the bank's own by-laws stipulate otherwise. To pass a proposal about changes in the bank's bylaws, which cannot be passed by the Board of Directors because of legislation, or where there is no basis for making stricter demands, such a proposal must be passed by at least a two-thirds majority of both the votes passed and the eligible share capital represented at the general meeting.

In the event of a takeover bid for the bank, the management will notify the shareholders.

Apart from committed credit facilities, The BANK of Greenland has not entered into any important agreements that influence, change or expire if control of the bank changes as the result of a successful takeover bid.

II. The role of stakeholders and their significance to the company as well as social responsibility

The BANK of Greenland follows the recommendations.

Every year, the Board of Directors adopts a strategy, which includes an account of the bank's relation to its most important stakeholders. This strategy plan is thus also the bank's written guidelines for its relation to stakeholders.

The BANK of Greenland wishes to establish and maintain sound and lasting relations with its customers and with the public in general. We do our utmost to keep our stakeholders – customers, potential customers, shareholders, political decision makers and the media – informed of developments in the bank. The bank's web site, TV spots, advertisements and a wide range of publications enable customers and the general public to keep abreast of the bank's activities. The bank's intranet ensures that its employees are kept well informed of the bank's objectives and activities.

Because of The BANK of Greenland's importance to the community at large, the bank's greatest social responsibility is to run a healthy bank. In essence, this means that the bank, through its operations, acts to ensure a balance between stability and growth in the society of which it is part.

Our commercial objectives are to improve the bank's reputation, increase customer satisfaction and loyalty and to increase employee satisfaction. These factors, combined with positive socio-economic developments, will ensure a financial yield in the long-run.

The Board of Directors implements the bank's CSR strategy and policies once a year. The BANK of Greenland's CSR policy has been described in more detail in the management's report found in the annual report. You can find the CSR report on the bank's website www.banken.gl.

III. Openness and transparency

The BANK of Greenland follows the recommendations.

Annual and periodical reports, as well as other announcements to the stock exchange, are published immediately on the bank's web site in both Danish and English. Moreover, the annual report, as well as a great deal of the bank's other informational material is also available in Greenlandic. The language policy at The BANK of Greenland, which is stipulated in Greenlandic law, is described in more detail in

the bank's communication strategy. External communication is handled either by, or in cooperation with, the Board of Management cf. the communication policy approved by The Board of Directors. The Corporate Governance report is also available on the bank's English website, www.banken.gl, at the link entitled "Investor Relations, Corporate Governance".

The Board of Directors believes that, to the extent that it is relevant, The BANK of Greenland gives an adequate account of its relations with its stakeholders. Supplementary reporting is, at the present time, not being considered.

IV. The tasks and responsibilities of the Board of Directors

The BANK of Greenland follows the recommendations partially.

The BANK of Greenland is managed on the basis of Greenlandic and Danish legislation, including special financial legislation.

The Board of Directors is the bank's supreme management body and approves decisions of strategy and principle. The chairman organizes and chairs the meeting in order to assure the best possible outcome of the Board's tasks. Moreover, the Board of Directors is responsible for ensuring that the bank's business risks are defensible, for setting up the framework for the total risks run by the bank and for setting up the basis on which monitoring activities take place and to ensure that such activities do, in fact, take place. The BANK of Greenland strives to achieve diversity at all levels within the bank's organization, but it has no formal action plans to ensure diversity on management levels. In general, this decision is based on the difficulty to recruit employees in Greenland, The BANK of Greenland's small organization and the bank's wish to ensure an on-going development within its management levels.

The Board of Directors hires the Board of Management and the chief of internal auditing. The Board of Management is responsible for the executive daily operations of the bank and refers to the Board of Directors.

The Board of Directors has written a business procedure outlining in detail the manner in which it performs its duties. This procedure, which is re-assessed at least once a year, has been written in accordance with valid legislation and the Danish Financial Supervisory Authority's regulations. It contains detailed guidelines for the work of the Board of Directors including the work of the chairman and the chairmanship.

Furthermore, this procedure regulates the Board of Management's competence and the interaction between the Boards of Management and Direction, including the Management's obligation to submit concrete issues to the Board of Director's under a number of conditions. These conditions include applications for conducting particular forms of business with the bank and matters of an unusual nature or size. Moreover, this procedure contains rules concerning ongoing reporting to the Board of Directors on matters of significance. It also contains reporting on the development of the balance and operations of the bank as well as credit and market risks seen in relation to the principles and limits delineated by the Board of Directors.

V. The composition and organization of the Board of Directors

The BANK of Greenland follows the recommendations partially

Danish financial legislation makes a number of demands on the management of a credit institution concerning fit and proper behaviour. It is the ambition of the Board of Directors that recruitment to the Board of Directors at The BANK of Greenland is based on the desire to ensure that the members of the Board, as a whole, represent broad financial and accounting know-how, business acumen and comprehensive insight into Greenlandic society. The Board of Directors considers diversity of age and gender within the Board of Directors when choosing new members. The bank's activities are based mainly in Greenland; therefore, there is no particular need for international experience on the Board of

Directors. It is on these criteria that new members of the Board are recruited and not on a formalised procedure. Therefore, no description of the competencies nor of the demands to competencies on the Board of Directors are published on the bank's website.

A description of the candidates' background is included in the invitation to the general meeting.

Once a year, detailed descriptions of the competencies held by the Board members are published. These appear in the management's report in the annual report. Upon joining the Board of Directors, new Board members are introduced to the bank and to the work of the Board of Directors. At this time, an evaluation is made to determine the need for supplementary training; the need for supplementary training for the Board of Directors in general is also evaluated.

The number of Board members elected by the general meeting is at the present time six, and this number is considered appropriate for the time being. At least half of the members elected by the general meeting are considered independent. At the annual general meeting, it is announced which Board members are considered independent and which new Board members are also considered independent.

The annual report contains information about the individual members of the Board of Directors as well as their positions and other Board or Management positions.

The bank's employees elect a number of members to the Board equal to half of the members elected by the general meeting at the time of the employee elections. Apart from the direct election of Board members, the bank's employees also elect the same number of alternates who are elected for a similar length of time. The Board members elected by the employees have the same rights, obligations and responsibility as the Board members chosen by the general meeting. Employee elections take place every four years; next time in 2015.

Meetings of the Board of Directors are held at least six times a year according to a schedule fixed for each year. In 2011, eight meetings of the Board of Directors were held including the Constitutive Meeting held after the general meeting. The age limit for participation in the Board of Directors is 70. The members of the Board of Directors are elected by the general meeting except for those members elected in accordance with legislative rules on representation of employees on the Board.

Half of the members of the Board of Directors elected by the general meeting are up for election each year. This procedure ensures continuity in the work of the Board of Directors. Thus, the Board of Directors sees no reason to choose an election period of one year.

An auditing committee was set up in 2009, and a remuneration committee set up in 2010. Because of the size of the Board and the relative simplicity of the bank's business, the Board of Directors has chosen not to set up a nominating committee.

The auditing committee consists of all members of the Board. Therefore, it was found most appropriate to maintain the same structure as in the Board itself with the chairman of the Board of Directors chairing the auditing committee.

Essentially, the auditing committee's jobs consist of the following: Monitoring of the account submission process, monitoring that the bank's internal system of checks and risk systems function efficiently, monitoring of the statutory auditing of the annual report as well as monitoring and check of the auditor's independence. In this connection, the bank's monitoring environment for evaluating the most important accounting estimates are reviewed and evaluated. The committee meets right before the meetings of the Board of Directors.

The remuneration committee consists of the chairman and the deputy chairman.

Based on an evaluation of the Board's size and the members' competencies, the Board of Directors sees no need for schematic evaluations of the Board of Directors or Management and the cooperation that exists between them. Once a year, a discussion takes place of the degree to which communication within the Board of Directors is satisfactory. There is an on-going dialogue between the Chairman of the Board of Directors and the Board of Management. Starting in 2012, a structured evaluation of the Boards of Directors and Management will be implemented.

Please note that Greenland is not covered by the Danish rules governing the setting up of auditing committees. However, these rules are adhered to in practice.

VI. The remuneration of the Boards of Directors and Management

The BANK of Greenland follows the recommendations.

The remuneration committee consists of the chairman and the deputy chairman of the Board of Directors.

The Board of Directors receives a fixed annual remuneration. For the time being, it is Dkr 100,000. The chairman receives the double and the deputy chairman receives 1½ times the normal remuneration. The remuneration is submitted for approval at the general meeting in connection with the presentation of the annual report. The remuneration policy has been approved by the general meeting, and amendments to it will be submitted to the general meeting for approval.

The Board of Management is remunerated with a fixed annual salary including a pension, free car, free telephone, and one annual holiday trip paid for by the bank.

The BANK of Greenland has no incentive programmes for either the Boards of Directors or Management.

The Board of Management is employed on a contract basis. Among other things, this contract stipulates that there is a reciprocal notice of 12 months. The Board of Management must retire no later than at the end of the calendar year in which they turn 62. If the Board of Directors dismisses the Board of Management, severances pay amounting to between 12 and 24 months' salary will be paid.

VII. Financial Reporting

The BANK of Greenland follows the recommendations.

The Board of Directors and the Board of Management are responsible for seeing that the annual report and other financial reporting are written in compliance with current legislation, standards, etc.

In accordance with the Statement from the Boards of Directors and Management, both the Boards of Directors and Management believe that the Statement from the Boards of Directors and Management contains a true and fair view of the circumstances with which the annual report deals including the future prospects for the bank and that the financial report for 2011 is presented on the assumption that operations are ongoing

VIII. Risk management and internal monitoring

The BANK of Greenland follows the recommendation.

At least once a year, the Board of Directors maintains an ongoing and watchful eye on the aggregate risk and on the individual risk factors associated with the bank's activities. The Board of Directors institutes guidelines for the central areas of risk, follows developments and ensures the presence of plans to manage individual risk factors including commercial and financial risk.

The BANK of Greenland is exposed to a variety of financial risks which are managed at various levels within the bank. The bank's financial risks consist of:

- Credit risk is the risk of loss resulting from the bank's counterpart's failure to live up to previously entered into agreements to pay.
- Market risk is the risk of loss resulting from a change in the fair value for the bank's activities or commitments resulting from changes in market conditions.
- Liquidity risk is the risk of loss resulting from an unusually disproportionate increase in financing expenses,
- The risk that the bank is cut off from entering into new activities resulting from inadequate financing or, in the final instance, the bank's inability to honour its previously entered commitments to pay at maturity resulting from inadequate financing.

On an ongoing basis, the Board of Directors receives reports on how the different risk areas evolve and how the established guidelines for risk management are being met.

Due to its limited size and significance for the community, The BANK of Greenland has not established a whistleblower-system.

The bank's policies and objectives for managing financial risk appear in a special section of the annual report entitled "Financial risks and the policies and goals for managing financial risk." On an ongoing basis, The BANK of Greenland publishes updates of its "Risk Report concerning capital adequacy" on its website. In 2011, an actual risk report was submitted to the Board for its consideration.

IX. Auditing

The BANK of Greenland follows the recommendations.

When presenting accounts and periodic reports to the Board of Directors, the bank's internal auditors must evaluate the degree to which the reporting procedures ensure that the Board of Directors receives correct information.

Accounting policies in important areas and important accounting estimates are subject to ongoing discussions with the internal as well as external auditors.

The audit report is gone through with the internal as well as external auditors at the Board of Directors' meetings.

An auditing agreement exists, and a fee budget has been sent to the Board of Management. This agreement has also been presented at a meeting of the Board of Directors. When going through the auditing agreement annually, the overriding and general framework for non-auditing services is approved in order to ensure the independence of the external auditor.

In concert with each other, the Boards of Management and Directors make a concrete and critical evaluation of the external auditor's independence and competence. This evaluation forms the basis of their recommendation to the general meeting.

At least once a year, The Board of Directors meets both the internal and external auditors without the Board of Management being present.

Board of Directors
February 2012