

*Translation from Danish by The Bank of Greenland of a memorandum dated 1.september 2016 from the Danish Financial Supervisory Authority ( finansstilsynet). In case of discrepancies, the Danish version prevails.*

Danish Financial Supervisory Authority

1 September 2016

Report on Inspection of

Grønlandsbanken A/S

## **Introduction**

In May-June 2016, the Danish Financial Supervisory Authority paid an inspection visit to Grønlandsbanken A/S. The inspection was an ordinary examination as part of the ongoing supervision of the Bank.

During the inspection, the most significant areas of the Bank were reviewed according to a risk-based approach.

## **Summary and risk assessment**

The Bank differs significantly from Danish banks in view of its geographical location, which entails that the Bank is particularly exposed to the development in Greenland's economy, and in particular the development in Greenland's fisheries.

The Bank's business model is based on traditional deposit and loan products, primarily to customers in Greenland. Lending is distributed as 45.8 per cent to private clients (compared to an average of 54.2 per cent in group-3 banks) and 54.2 per cent to commercial clients (compared to an average of 45.8 per cent in group-3 banks). The Bank dominates the market for private clients and small and medium-sized enterprises in Greenland. The Bank has no branches outside Greenland.

In the examination, the Danish Financial Supervisory Authority reviewed the Bank's 53 largest loans, 253 loans selected on a random sample basis, and all loans to the Board of Directors and Executive Management. In total, the Danish Financial Supervisory Authority reviewed almost 60 per cent of the Bank's total lending.

The review of the Bank's exposures showed that, in terms of credit standing, the Bank's large customers lie above the average for comparable Danish banks.

The Bank received a few compulsory orders concerning the administrative procedures, including that the Bank must ensure a correct compilation of its exposures, and that the Bank must ensure that there is adequate documentation of the controls performed in the credit area.

In the liquidity area, the Bank received a compulsory order to ensure correlation between the liquidity policy and the Board of Directors' instructions to the Executive Management,

including that LCR is an integrated part of the Bank's work and risk management in the liquidity area.

Within the near future, the Bank is expected to be designated as a systemically important financial institution (SIFI) for Greenland. As a systemically important financial institution, the Bank will be required to fulfil a higher capital adequacy requirement than the current requirement, just as higher requirements are made of the process for the compilation of liquidity, as well as higher requirements of the preparation of restoration plans.

It could be noted that the Bank is reliant on key persons.

On the basis of the examination, the Financial Supervisory Authority has compiled the solvency requirement as at the end of March 2016 at 10.4 per cent. The Bank's own calculation was 10.1 per cent. The actual solvency ratio as at the end of March 2016 was compiled at 19.8 per cent.