betri

Betri Banki P/F

# Risk Report 2017

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# Risk Report
Betri Banki P/F

## 1 Introduction

The aim of this risk report is to provide an insight into Betri Banki P/F's capital and risk management practices.

The report has been prepared in accordance with the legal disclosure requirements in *Executive Order No 900 of 13 July 2015 for the Faroe Islands on Calculation of Risk Exposures, Own Funds and Solvency Need* and the Capital Requirements Regulation (CRR) *(Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms)*. Betri Banki is part of the Betri Group and is therefore included in Betri P/F's risk report. As a SIFI institute of material significance in the local market, the bank has chosen to publish an individual risk report for the bank.

The risk report is published annually when the bank's annual report is released. The risk report is available on the bank's webpage www.betri.fo.

The information in this risk report relates to Betri Banki P/F. The risk report is a separate unaudited document.

The risk report is also available in Faroese. In the event of any discrepancy between the Faroese and the English version, the Faroese version shall prevail.

## 2 Risk Management

Betri Banki assumes risk based on the business model and the strategic objectives set by the Board of Directors.

The Board of Directors approves risk management policies for the various areas in the bank based on the business model and the strategic objectives. The Board of Directors also gives authorities to the Executive Board within these risk areas.

The purpose of Betri Banki's risk management is to ensure that the bank does not take on more risks than stipulated by the Board of Directors, and that the risk profile is appropriate in relation to the bank's own funds.

### 2.1 Risk Statement

The risk report was approved by the Board of Directors on 23 February 2018.

The Board of Directors finds that Betri Banki's risk management is appropriate in relation to the bank's business model and business strategy. Also, the Board of Directors considers the description below of the bank's overall risk profile associated with the business strategy, to give an accurate view of the risk management in the bank.

The statement from the Board of Directors is based on the business model, material and reports submitted to it by the Executive Board, Internal Audit, Risk Manager and Compliance Officer.

A review of the business model and policies shows that the overall requirements for the individual risk areas are reflected in policies and carefully specified limits in e.g. instructions from the Board of Directors to the Executive Board in addition to authorities passed on to other organisational units. The carefully specified limits are constructed so that they are transparent and easily monitored.

Betri Banki's business model is based on the bank's vision and mission. Betri Banki strives to be the preferred banking choice of the Faroese people and to create opportunities and secure financial affairs for its customers. The bank also wants to offer customers a wide range of traditional banking services. Sensible risk management and healthy business operations are important factors in managing the bank soundly. The Board of Directors wishes growth to be steady in order to manage risks on sustainable and safe foundations. Risk diversification ensures that risks are not concentrated on individual customers or branches.

Betri Banki wants to maintain safe and robust own funds that support the business model and ensure independence at all times.

The review also shows that the actual risks are within the limits laid down in policies and delegated authorities, and based on this the Board of Directors finds that there is consistency between the business model, policies, guidelines and the actual risks within the individual areas.

*Further information and key ratios regarding the risk profile can be found in this risk report and the bank's annual report.*

## 2.2 Risks

In the daily operations Betri Banki is exposed to the following risks:

**Credit risk,** defined as the risk of financial losses arising from counterparties or debtors failing to meet all or part of their payment obligations.

**Market risk,** defined as the risk of the market value of assets and liabilities, as well as off-balance items, being affected as a result of changing market conditions. Betri Banki's market risk is divided into interest rate risk, equity risk, foreign exchange risk and other price risks.

**Liquidity risk,** defined as the risk that arises from differences in scheduled outgoing and incoming cash flows in the bank.

**Operational risk,** defined as the risk arising from inadequate and inefficient internal processes, human errors, IT-failures and external factors, including legal risks.

## 2.3 Division of responsibility

The Board of Directors approves risk policies for the various risk areas based on the business model and the strategic objectives of the bank. The Board of Directors also determines guidelines for management and control of risks in the bank. The individual risk policies are reviewed and approved by the Board of Directors annually.

The Board of Directors is responsible for ensuring that the bank is organised appropriately and risk policies and limits being established for all important risk areas. In addition, all major credit facilities must be submitted to the Board of Directors for approval. The Board of Directors receives regular reports enabling it to check compliance with risk policies and pre-defined limits.

The Executive Board is responsible for the day-to-day management of the bank, and must ensure that the bank is managed according to approved policies, guidelines, and authorities that have been granted in relation to the different risk areas.

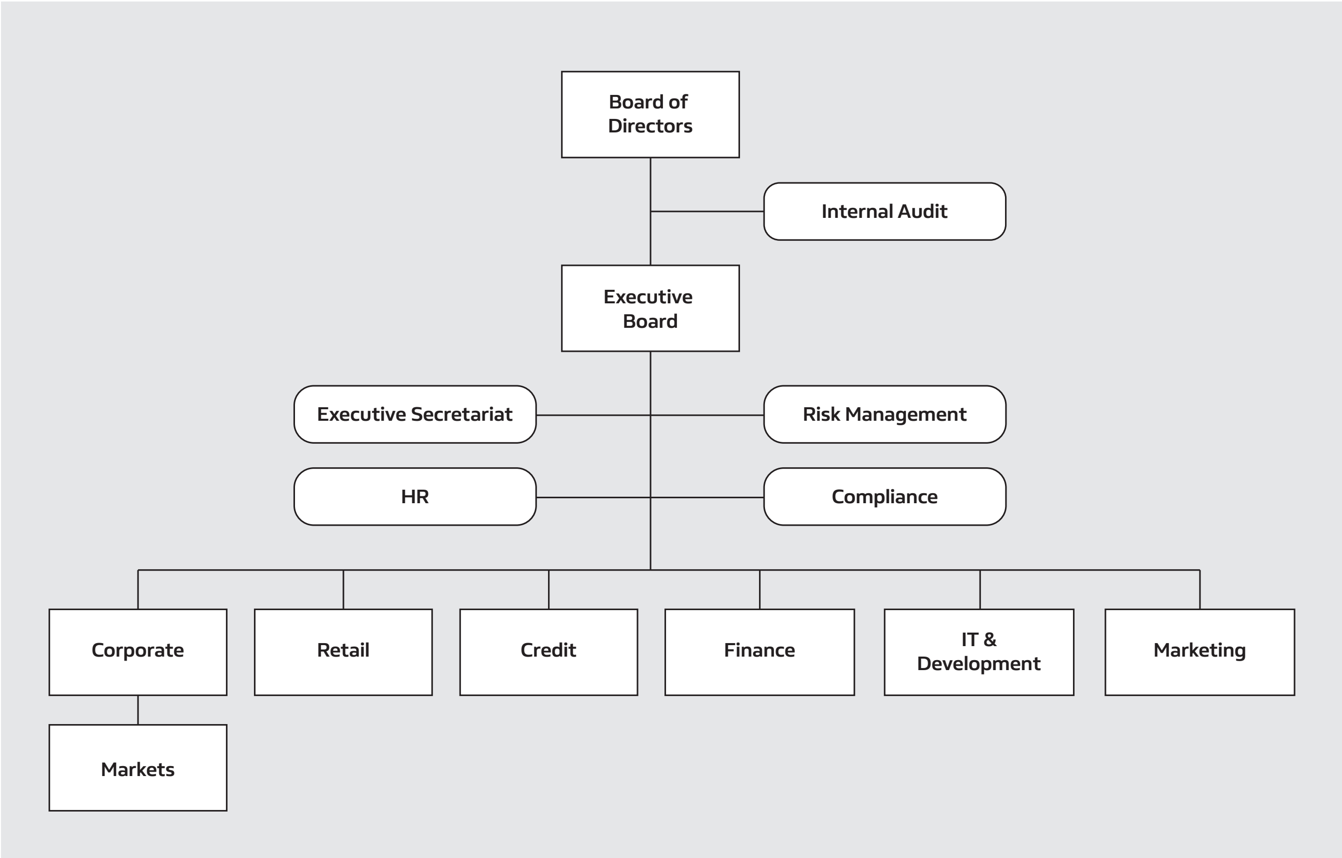
The Executive Board reports regularly to the Board of Directors on the development of risk exposures and pre-defined limits.

General management and control of risks is centralised with organised reporting to the Executive Board and Board of Directors. Daily management, control and reporting are carried out in separate business units in the bank.

Further information regarding governance arrangements cf. CRR Article 435 (2) and remuneration policy cf. CRR Article 450 can be found in the bank's annual report and on the bank's webpage.

Betri Banki's organisational structure is illustrated below.

**Table 1: Organisational structure**




*Some administrative functions have been outsourced to the parent company, but the bank has retained the managerial right to the employees in these functions.*

## 2.3.1 Risk Management function

The bank has a separate risk management function. The Risk Manager heads the risk management function and reports to the Executive Board.

Risk Management monitors credit risk, market risk, liquidity risk and operational risk on behalf of the Executive Board. This also includes monitoring risks across various risk areas and organisational units, in addition to risks deriving from outsourced functions. Risk monitoring is performed in accordance with the tasks of the risk management function as stipulated in the *Financial Business Act, section 71, and Executive Order No. 902 of 13 July 2015 for the Faroes on the management and control of banks etc.*

Each year Risk Management prepares a plan for the coming year's activities. The annual plan is approved by the Executive Board.

Risk Management reports to the Executive Board every quarter on the risks that are associated with the bank's operations. In addition to this, Risk Management reports to the Board of Directors annually and attends meetings in the Risk Committee. In 2017, the Risk Committee met twice.

# 3 Capital and solvency requirement

In 2015 the common European capital requirement rules became effective for Faroese credit institutions. CRD IV and CRR are the European implementation of the Basel III rules. The rules contain comprehensive transitional and phase-in provisions regarding capital and liquidity requirements.

In November 2015 the Danish FSA identified Betri Banki as a systemically important financial institution (SIFI) in the Faroe Islands. SIFI institutions are subject to more rigorous supervision by the FSA. SIFI institutions are also subject to additional requirements, e.g. additional solvency requirements. For Betri Banki this entailed a SIFI buffer to the capital requirement of 1.2% in 2017, increasing annually to 2% in 2019.

Banks in the Faroe Islands have also been subject to a capital conservation buffer, which was 1.25% in 2017, increasing annually to 2.5% in 2019. In addition to this, banks may also be required to reserve capital for countercyclical fluctuations in the economy, as well as requirements that will serve as collateral for special fluctuations.

For this purpose, the "Det systemiske risikoråd" has, in consultation with the Faroese authorities, imposed an additional requirement of 1%, which will serve as collateral for special fluctuations. This additional requirement is effective as of 1 January 2018 and is reviewed annually.

The countercyclical buffer for the Faroes, which is fixed every quarter by the Danish Minister for Business, Industry and Financial Affairs, has so far been fixed at 0%.

The table below shows the buffers that Betri Banki must comply with.

**Table 2: Buffer requirements**

| | 2016 | 2017 | 2018 | 2019 | Present |
|---|---|---|---|---|---|
| SIFI-buffer | 0.80% | 1.20% | 1.60% | 2.00% | 1.60% |
| Capital conservation buffer | 0.63% | 1.25% | 1.88% | 2.50% | 1.88% |
| Buffer - special fluctuations, maximum | - | - | 3.00% | 3.00% | 1.00% |
| Countercyclical buffer, maximum | 1.00% | 1.50% | 2.00% | 2.50% | 0.00% |
| **Buffer total, maximum** | **2.43%** | **3.95%** | **8.48%** | **10.00%** | **4.48%** |

As of 1 January 2018 Betri Banki was subject to buffers amounting to 4.48%, which are added to the solvency requirement.

## 3.1 Own funds and solvency

Own funds are calculated in accordance with the Financial Business Act in addition to guidelines on adequate capital base and solvency requirement for credit institutions *(Vejledning om tilstrækkeligt kapitalgrundlag og solvensbehov for kreditinstitutter)* issued by the Danish FSA.

Solvency is calculated as own funds as a percentage of the risk-weighted assets. Own funds are determined in accordance with the requirements in chapter 10 of the *Financial Business Act*, while the weighted assets are calculated in accordance with *Executive Order for the Faroe Islands on Calculation of Risk Exposures, Own Funds and Solvency Need*. The risk-weighted assets are divided into three main categories: credit risk, market risk and operational risk.

The table below shows the bank's solvency statement.

**Table 3: Solvency statement as of 31 December 2017 (DKK 1,000).**

| | |
|---|---|
| Tier 1 Capital | 1,564,274 |
| Total capital | 1,564,274 |
| | |
| Credit risk - weighted assets not included in trading portfolio including off-balance items | 4,670,832 |
| Market risk - weighted items | 730,987 |
| Operational risk | 561,015 |
| **Total risk weighted assets** | **5,962,834** |
| | |
| Total capital ratio | 26.23% |
| T1 Capital ratio | 26.23% |
| | |
| **Capital demand** | |
| Core Capital before statutory deductions | 1,582,347 |
| Proposed dividend | 15,000 |
| Intangible assets | 0 |
| Tax assets | 0 |
| Value adjustments due to the requirements for prudent valuation | 3,073 |
| **Tier 1 Capital** | **1,564,274** |
| | |
| **Supplementary capital** | |
| Share capital, not included in Core capital | 0 |
| **Own Funds** | **1,564,274** |

## 3.2 Solvency requirement

The solvency requirement is calculated using the bank's risk profile, external factors and budget assumptions for the coming year, in addition to other factors such as increased provisions for poor and non-performing customers.

The calculation of the bank's solvency requirement is based on a model developed by the Association of Local Banks (The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) and on guidelines on adequate capital base and solvency requirement for credit institutions issued by the Danish FSA.

The model developed by the Association of Local Banks and the guidelines from the Danish FSA are both based on the 8+ approach (table 4), where the basis is a minimum requirement of 8% of the risk-weighted items (Pillar I). A supplement is added for risks and circumstances, which are not fully reflected in the calculation of the risk-weighted items.

Through the use of the abovementioned model and the guidelines issued by the Danish FSA, the management considers the bank's calculated solvency requirement to be fair.

The method applied by Betri Banki for its calculation of the solvency requirement reserves capital within four main risk areas; credit risk, market risk, operational risk and other risks.

The purpose of calculating the solvency requirement is to determine the size of adequate own funds in the event of adverse developments in the bank's operations.

Table 4 shows the 8+ approach that is used when calculating the solvency requirement.

**Table 4: Solvency requirement based on the 8+ approach**

| |
|---|
| 1) Pillar I requirement (8% of the risk-weighted items) |
| + 2) Earnings (capital for risk coverage due to weak earnings) |
| + 3) Growth in lending (capital to cover organic growth in business volume) |
| + 4) Credit risk, of which: |
| 4a) Credit risk on major customers with financial problems |
| 4b) Other credit risks |
| 4c) Concentration risk on individual exposures |
| 4d) Concentration risk on industries |
| + 5) Market risk, of which |
| 5a) Interest rate risk |
| 5b) Equity risk |
| 5c) Foreign exchange risk |
| + 6) Liquidity risk (capital to cover more expensive liquidity) |
| + 7) Operational risk (capital to cover operational risk in excess of Pillar I) |
| + 8) Leverage (capital to cover risk related to excessive leverage) |
| + 9) Possible supplement caused by regulatory maturity of capital instruments |
| + 10) Possible supplement due to statutory requirements |
| Total = Capital requirement and solvency requirement |
| - of which credit risk (4) |
| - of which market risk (5) |
| - of which operational risk (7) |
| - of which other risks (2+3+6+8+9) |
| - of which supplement due to statutory requirements (1+10) |

The management considers the risk factors included in the model to be adequate to cover all risk areas, which the bank's management is required by law to take into account when determining the solvency requirement, as well as the risks that the management finds that the bank has assumed.

In addition, the Board and management must assess whether own funds are adequate to support future activities. In Betri Banki, this assessment is part of the assessment of the solvency requirement. An annual assessment is made to determine how expected growth affects the calculation of the solvency requirement. Stress factors are chosen based on the Association of Local Banks' model, in addition to guidelines on adequate capital base and solvency requirement for credit institutions issued by the Danish FSA.

The conditions that have to be present for using the model are based on sector information, the bank's performance, in addition to e.g. conditions in the coming year's budget.

Credit risk is calculated using the guidelines from the Danish FSA on adequate capital base and solvency requirement for credit institutions. For customers with OEI and weak customers (rating category 1 and rating category 2c, – see 4.1.6) where the exposure is larger than 2% of the bank's own funds, the unsecured exposure is fully reserved. Analyses are also made to determine how much to reserve for exposures smaller than 2% of own funds.

Market risk is calculated using stress factors related to the maximum risks that the bank can assume within the authorities that the Board of Directors has granted to the Executive Board.

The bank uses the basic indicator approach for calculating operational risk.

To calculate other risks the bank mainly uses the Danish FSA's guidelines on adequate capital base and solvency requirement for credit institutions.

**Table 5: Adequate own funds and solvency requirement as of 31.12.2017**

| Risk area | Adequate own funds DKK 1,000 | Solvency requirement |
|---|---|---|
| Statutory requirements | 477,027 | 8.00% |
| Credit risk | 167,903 | 2.82% |
| Market risk | 39,632 | 0.66% |
| Operational risk | 0 | 0.00% |
| Other risks | 0 | 0.00% |
| **Total** | **684,562** | **11.48%** |

At year-end 2017, Betri Banki's solvency ratio was 26.23% (DKK 1,564 million) and the solvency requirement was 11.48%, as well as buffer requirements of 2.45%-points.

## 3.3 Leverage ratio

The leverage ratio is calculated as the Tier 1 capital divided by the total unweighted exposures. The leverage ratio is monitored and reported regularly to the Board of Directors.

As yet, a final statutory leverage target has not been determined. In a proposal for a revision of the CRD IV and CRR the European Commission has proposed a limit of 3%, equal to a maximum leverage of 33 times the Tier 1 capital.

At the end of 2017, the bank's leverage ratio was 14.96%.

The leverage ratio disclosure template pursuant to CRR Article 451 is included in appendix 1.

# 4 Credit Risk

In this section Betri Banki's credit risk is described, including objective, policy and actual credit risk exposures.

## 4.1 Objective and risk policy

Betri Banki offers loans, credits, guarantees and other services as part of its business model and thereby incurs credit risk. Credit risk is defined as the risk of financial losses arising from counterparties or debtors failing to meet all or part of their payment obligations.

The Board of Directors has approved a credit policy, which is prepared in accordance with the *Financial Business Act* and *Executive Order No. 902 of 13 July 2015 for the Faroes on the management and control of banks etc*. The credit policy defines the principles that apply to the bank's managing of credit risks, taking into account the bank's business organisation, area of operation and the framework established by the Danish FSA.

The credit policy is updated, if the bank wishes to change the credit terms in order to take into account external or internal changes that could affect the creditworthiness of customers. Such factors may be that the bank changes its terms in regards to financing certain customer groups.

The credit policy is submitted to and approved by the Board of Directors annually.

### 4.1.1 Authority and division of responsibility

Lending authorities are provided according to competence and needs, and with regard to the bank's risk profile. The Board of Directors has provided the Executive Board with lending authorities, which have, in part, been delegated to the Head of Credit, who in turn delegates lending authorities to relevant employees.

Betri Banki's credit granting is overseen by the Credit Department, which regularly checks compliance with the credit policy and lending authorities.

The Credit Department is responsible for day-to-day credit granting. This includes developing credit management tools, such as ratings, drawing up procedures for credit granting and value assessment of collateral. The Credit Department must also ensure compliance with limits regarding e.g. customer concentration and industry concentration. The Credit Department is responsible for the bank's valuation of loans and impairment procedures, in addition to credit risk management, including monitoring the development in overdrafts and arrears.

The Credit Department reports to the Executive Board on developments in the bank's credit risk and whether the respective branches operate within their lending authorities and comply with the bank's credit policy. The Executive Board presents this report to the Board of Directors on a quarterly basis.

### 4.1.2 Credit management and control

Credit is granted on the basis of the individual customer's financial situation with regard to the ability and attitude to repay the loan, as well as collaterals. As a general rule, credit is not granted solely on the basis of collateral.

The Credit Department supervises the bank's credit systems and credit granting processes. The Credit Department has higher lending authorities than the individual branches and is therefore involved in the granting of larger credit facilities, as well as more complicated exposures.

Customer advisers, together with their branch manager, are responsible for the daily credit control.

Credit exposures above a certain size are submitted to the Board of Directors for renewal annually. Credit applications must include the customer's financial situation and the conditions for the exposure to be continued by the bank.

The bank's Credit Department must ensure that the annual renewal is performed on time and properly, however, the respective branches, where the customer is registered, are responsible for the exposures being submitted for renewal.

The quality of the overall loan portfolio is assessed during the annual review of assets carried out by the Credit Department. This review is presented to the Executive Board and Board of Directors.

### 4.1.3 Collaterals

Credit is granted on the basis of willingness and ability to repay. In addition to this, the bank wants to limit lending risk by requiring collaterals. The types of collateral most frequently provided are real estate, ships, financial collateral and personal property. The value of the collateral is estimated using set procedures, thus ensuring uniform estimations. The bank regularly assesses the value of the collateral provided. The value of the collateral is calculated as the price that would be obtained in a sale.

The bank's agreements with customers on collateral ensure that the bank can realise the collateral in the event of customers defaulting on their payment obligations.

The bank uses the financial collateral comprehensive method as its credit risk mitigation technique for computing its capital ratio. This means that the bank can reduce a commitment's strain on the capital by accepting certain financial items as collateral.

The CRR specifies which items are eligible to the banks as collateral under the financial collateral comprehensive method. To be eligible the financial collateral must be issued by a company or country with a particularly good rating.

Under the limitations of the CRR, the bank obtains the following main categories of financial collateral: deposits, bonds/debt securities and equities

### 4.1.4 Risk concentration

In order to ensure diversification in the loan portfolio, the credit policy stipulates that no single exposure, with deduction of certain guaranteed claims and collaterals received, must generally be higher than 10% of the bank's own funds. Additionally, it is the bank's aim that the total amount of these exposures does not exceed 125% of own funds.

In addition to these limits, the bank aims for an even distribution between retail and corporate lending and no single industry should account for more than 10% of the bank's total gross loans, except for local authorities and the public sector, where the limit is 20%.

### 4.1.5 Impairments

The bank adheres to the Executive Order for the Faroes on Financial Reports for Credit Institutions etc. and uses the accounting definition of non-performing and impaired exposures as defined in sections 51-54.

Individual impairments are made in accordance with section 52 of the Executive Order for the Faroes on Financial Reports for Credit Institutions etc.; this applies to all loans. Group impairments are made in accordance with section 53 of the above mentioned executive order; this applies to loans without individual impairment charges.

The need for impairment charges is assessed on a quarterly basis. Impairment charges are based on individual estimations and group estimations. The Credit Department is responsible for making impairment evaluations together with the branches concerned. Clear procedures have been adopted for selecting customers and evaluating possible impairments to ensure quality and uniform criteria in the evaluations of customers.

If the bank registers an objective evidence of impairment on a loan (OEI), an assessment is made of the impairment charge. An objective evidence of impairment is assessed to be present, if one or more of the following events have occurred:

- The borrower is in financial difficulties
- The borrower does not comply with the terms of contract
- The bank has relaxed loan conditions due to the debtor experiencing financial difficulties
- High probability of the debtor going bankrupt or being in need of financial restoration

The impairment charge is calculated as the difference between the carrying amount and the discounted value of the expected cash-flows, including the realization value of any collateral. Any subsequent increase of this discounted value of the expected cash-flows results in full or partial reversal of impairments. For fixed interest rate loans and advances, the original effective interest rate is used to calculate the discounted value, while the current effective interest rate is used for floating rate loans and advances.

Loans and other advances that are not impaired on an individual basis are classified into categories to assess the need for impairment by group.

Exposures above a certain size are subjected to individual review on a quarterly basis, regardless of the customer's financial situation.

### 4.1.6 Rating of customers

The bank uses a rating model to describe the credit quality of individual customers. The rating model is used for credit granting, selection of customers to be reviewed for impairments and conditions for the frequency in single customer follow-ups.

The bank uses the following rating categories:

| | |
|---|---|
| 3 | Unconditionally good customers |
| 2a | Good customers |
| 2b | Average customers |
| 2c | Weak customers |
| 1 | Customers with OEI (objective evidence of impairment) |

### 4.1.7 Customers

The bank's market segment is Faroese retail, corporate and public sector customers with good repayment abilities.

### 4.1.8 Circumstances that are considered when granting credit

The bank considers credit applications based on an assessment of the individual customer's financial situation.

**Retail customers:** Credit granting is based on the customer's personal income and assets, in addition to disposable income, debt factor etc.

**Corporate customers:** Credit granting is based on the company's revenues, solidity, state of collateral, in addition to the owner's experience and willingness to repay the loan.

**BRF:** Betri Banki collaborates with BRF-Kredit providing mortgage credit loans for Faroese homeowners. The agreement stipulates that Betri Banki handles all customer communication, conducts customer ratings and forwards loan applications to BRF-Kredit. BRF-Kredit provides financing for up to 80% of the market value of the properties.

## 4.2 Actual credit risk

This section shows credit risk exposures, risk-weighted items and capital requirements as of 31.12.2017.

### 4.2.1 Risk-weighted exposures and capital requirements

The table below shows risk-weighted items and capital requirements for credit risk, broken down by exposure groups.

**Table 6: Risk-weighted exposures in relation to credit risk (DKK 1,000).**

| Exposure group | Risk-weighted items | Capital req. 8% |
|---|---|---|
| Central governments or central banks | 0 | 0 |
| Local authorities | 0 | 0 |
| Public sector entities | 176,189 | 14,095 |
| Financial institutions | 59,624 | 4,770 |
| Retail customers[1] | 767,151 | 61,372 |
| Corporate customers | 1,705,403 | 136,432 |
| Exposures secured by mortgage in real estate | 901,129 | 72,090 |
| Exposures with arrears or overdrafts | 716,305 | 57,304 |
| Exposures in other items, including assets without counterparties | 209,532 | 16,763 |
| Covered bonds | 12,309 | 985 |
| Equity exposures | 123,190 | 9,855 |
| **Total** | **4,670,832** | **373,667** |

[1] Includes exposures ≤ DKK 7.5 million.

### 4.2.2 Credit risk exposures

Total value of the exposures after value adjustments and before considering credit risk reduction was DKK 8,814 million as of 31.12.2017.

The table below shows the exposures after value adjustments before credit risk reduction.

**Table 7: Exposures after value adjustments before credit risk reduction (DKK 1,000)**

| Exposure group | Exposure after value adjustment | Average exposure during the year after value adjustment |
|---|---|---|
| Governments or central banks | 90,740 | 210,792 |
| Local authorities | 439,397 | 494,026 |
| Public sector entities | 360,216 | 320,618 |
| Financial institutions | 298,127 | 285,783 |
| Retail customers[1] | 1,461,015 | 1,419,494 |
| Commercial customers | 2,374,397 | 2,114,237 |
| Exposures secured by mortgage in real estate | 2,588,491 | 2,537,971 |
| Exposures with arrears or overdrafts | 702,756 | 730,054 |
| Exposures in other items, including assets without counterparties | 253,002 | 234,723 |
| Covered bonds | 123,087 | 135,283 |
| Equity Exposures | 123,190 | 115,206 |
| **Total** | **8,814,418** | **8,598,188** |

[1] Includes exposures ≤ DKK 7.5 million.

As more than 95% of the bank's credit exposure is to the Faroese market, the bank has chosen not to provide information on the geographical spread of the loan portfolio.

The table below shows the exposures in accordance with CRR regulations, broken down by industry. The table also shows the breakdown between retail customers and corporate customers.

**Table 8: Exposures after value adjustments broken down by industry (DKK 1,000).**

| Industries | Central governments or central banks | Local authorities | Public sector entities | Financial institutions | Retail customers[1] | Commercial customers | Exposures secured by mortgage in real estate | Exposures with arrears or overdrafts | Exposures in other items, including assets without counterparties | Covered bonds | Equity Exposures | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Public authorities** | **202** | **439,397** | **360,215** | **0** | **3,842** | **0** | **0** | **0** | **0** | **0** | **0** | **803,656** |
| Agriculture, hunting, forestry and fishing | 0 | 0 | 0 | 0 | 17,176 | 428,543 | 2,195 | 37,503 | 0 | 0 | 0 | 485,416 |
| Industry and raw materials extraction | 0 | 0 | 0 | 0 | 42,425 | 699,639 | 1,335 | 105,548 | 0 | 0 | 0 | 848,947 |
| Energy supply etc. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Building and construction | 0 | 0 | 0 | 0 | 110,846 | 181,526 | 10,747 | 21,133 | 0 | 0 | 0 | 324,252 |
| Trade | 0 | 0 | 0 | 0 | 89,210 | 436,950 | 11,882 | 76,649 | 0 | 0 | 0 | 614,691 |
| Transport, hotels and restaurants | 0 | 0 | 0 | 0 | 38,366 | 331,780 | 8,186 | 142,347 | 0 | 0 | 0 | 520,678 |
| Information and communication | 0 | 0 | 0 | 0 | 2,703 | 60,869 | 1,099 | 18,518 | 0 | 0 | 0 | 83,188 |
| Finance and insurance | 86,762 | 0 | 0 | 298,127 | 23,070 | 28,729 | 0 | 782 | 0 | 0 | 0 | 437,469 |
| Real estate | 0 | 0 | 0 | 0 | 68,802 | 135,813 | 6,815 | 25,602 | 0 | 0 | 0 | 237,032 |
| Other industries | 3,776 | 0 | 0 | 0 | 234,627 | 68,799 | 12,070 | 19,275 | 253,002 | 123,087 | 123,190 | 837,827 |
| **Total corporate** | **90,538** | **0** | **0** | **298,127** | **627,225** | **2,372,647** | **54,328** | **447,357** | **253,002** | **123,087** | **123,190** | **4,389,502** |
| **Retail** | **0** | **0** | **0** | **0** | **829,948** | **1,750** | **2,534,163** | **255,399** | **0** | **0** | **0** | **3,621,260** |
| **Total** | **90,740** | **439,397** | **360,216** | **298,127** | **1,461,015** | **2,374,397** | **2,588,491** | **702,756** | **253,002** | **123,087** | **123,190** | **8,814,418** |

[1] Includes exposures ≤ DKK 7.5 million.

The table below shows the residual maturity of credit exposures.

**Table 9: Credit exposures after value adjustments broken down by residual maturity (DKK 1,000).**

| Exposure group | On demand | 0-3 months | 3 months – 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Central governments or central banks | 86,964 | 0 | 0 | 3,776 | 0 | 90,740 |
| Local authorities | 781 | 134,001 | 60,000 | 8,304 | 236,310 | 439,397 |
| Public sector entities | 105 | 0 | 5,000 | 262,500 | 92,611 | 360,216 |
| Financial institutions | 294,486 | 351 | 143 | 690 | 2,457 | 298,127 |
| Retail customers[1] | 268,162 | 52,029 | 83,172 | 264,765 | 792,886 | 1,461,015 |
| Commercial customers | 595,500 | 55,522 | 297,238 | 305,434 | 1,120,702 | 2,374,397 |
| Exposures secured by mortgage in real estate | 432,807 | 4,747 | 12,795 | 167,516 | 1,970,626 | 2,588,491 |
| Exposures with arrears or overdrafts | 138,525 | 4,103 | 52,460 | 69,732 | 437,936 | 702,756 |
| Exposures in other items, including assets without counterparties | 49,971 | 0 | 0 | 34,861 | 168,171 | 253,002 |
| Covered bonds | 0 | 16,549 | 0 | 77,595 | 28,943 | 123,087 |
| Equity Exposures | 19,080 | 0 | 0 | 0 | 104,110 | 123,190 |
| **Total** | **1,886.382** | **267,303** | **510,810** | **1,195,173** | **4,954,752** | **8,814,418** |

[1] Includes exposures ≤ DKK 7.5 million.

## 4.2.3 Past due and impaired claims

This section shows past due exposures and impaired claims.

The table below shows exposures that are more than 90 days past due and impaired claims. The exposures are broken down by industry. The table also shows the breakdown between retail customers and corporate customers.

**Table 10: Past due exposures and impaired claims broken down by industry (DKK 1,000).**

| Industries | Past due exposures (>90 days) | Impaired claims | Impairments/ provisions end of year | Amounts booked as costs concerning value adjustments and impairments/ provisions during the period |
|---|---|---|---|---|
| **Public authorities** | **0** | **0** | **0** | **0** |
| Agriculture, hunting, forestry and fishing | 960 | 23,983 | 10,742 | -3,041 |
| Industry and raw materials extraction | 3,209 | 162,401 | 116,142 | -29,666 |
| Energy supply etc. | 0 | 0 | 0 | 0 |
| Building and construction | 542 | 25,911 | 19,842 | 6,104 |
| Trade | 2,236 | 17,517 | 17,486 | -2,884 |
| Transport, hotels and restaurants | 2,255 | 70,879 | 51,437 | -9,431 |
| Information and communication | 96 | 2,919 | 2,337 | 28 |
| Finance and insurance | 0 | 661 | 298 | -251 |
| Real estate | 9 | 11,295 | 6,577 | -5,377 |
| Other industries | 6,949 | 10,351 | 8,776 | -1,208 |
| **Total corporate** | **16,256** | **325,916** | **233,637** | **-45,726** |
| **Retail** | **25,018** | **115,247** | **69,653** | **-3,809** |
| **Total** | **41,274** | **441,164** | **303,290** | **-49,535** |

As more than 95% of the bank's credit exposure is to the Faroese market, the bank has chosen not to provide geographical information on past due exposures and impaired claims.

The table below shows movements on impaired claims caused by value adjustments and impairment charges. These are divided into individual and group impairments.

**Table 11: Movements on impaired claims as a consequence of value adjustments and impairment charges (DKK 1,000).**

| | Individual impairments/provisions | | Group impairments | |
|---|---|---|---|---|
| | Loans | Guarantee debtors | Loans | Guarantee debtors |
| Accumulated impairments/provisions on loans and guarantee debtors at the beginning of the year | 333,053 | 12,345 | 42,107 | |
| Impairments/provisions during the year | 17,772 | 7,611 | 7,804 | |
| Reversal of impairments/provisions from previous years, where there is no longer OEI or the impairment has been reduced | -67,303 | -299 | -8,095 | |
| Other changes | 12,197 | 0 | 820 | 0 |
| Value adjustment of acquired assets | -3,542 | 0 | 0 | 0 |
| Loss (written off), previously individually impaired/ provisions made | -51,178 | 0 | 0 | |
| **Total impairments/provisions on loans and guarantee debtors at year end** | **240,999** | **19,656** | **42,636** | |
| **Total loans and guarantee debtors, where there have been made individual impairments/provisions (calculated before impairments/ provisions)** | **415,483** | **25,681** | **4,032,806** | **0** |

## 4.2.4 Financial collateral

The bank uses the financial collateral comprehensive method as its credit risk mitigation technique for computing its capital ratio.

The table below shows exposure groups, where financial collateral is used for credit risk mitigation.

**Table 12: Financial collateral (DKK 1,000).**

| Exposure group | Exposure after value adjustment | Financial collateral comprehensive method | Guarantees and credit derivatives |
|---|---|---|---|
| Governments or central banks | 90,740 | 0 | 0 |
| Local authorities | 439,397 | 0 | 0 |
| Public sector entities | 360,216 | 1 | 0 |
| Financial institutions | 298,127 | 0 | 0 |
| Retail customers[1] | 1,461,015 | 62,821 | 0 |
| Commercial customers | 2,374,397 | 236,553 | 0 |
| Exposures secured by mortgage in real estate | 2,588,491 | 0 | 0 |
| Exposures with arrears or overdrafts | 702,756 | 42,214 | 0 |
| Exposures in other items, including assets without counterparties | 253,002 | 0 | 0 |
| Covered bonds | 123,087 | 0 | 0 |
| Equity Exposures | 123,190 | 0 | 0 |
| **Total** | **8,814,418** | **341,590** | **0** |

[1] Includes exposures ≤ DKK 7.5 million.

## 4.3 Counterparty risk - derivatives

Counterparty risk is the risk of loss resulting from a financial counterparty defaulting on its obligations under a financial contract.

Betri Banki uses the mark-to-market method when calculating the size of the exposure and risk-weights for derivatives.

The exposure value, using the mark-to-market method for counterparty risk, is derived from the procedure below:

1) All contracts are computed at market value and all contracts with a positive value are included.

2) The contracts' nominal principals or the underlying values are multiplied by percentages fixed in the CRR to establish the potential future credit exposure.

3) The counterparty exposure value is calculated as the sum of positive market values and potential future credit exposures.

The bank does not apply netting in the statement of risks on items with counterparty risk.

When Betri Banki enters into an agreement with a counterparty regarding derivatives, credit limits must be observed.

No extra capital has been allocated to cover counterparty risk in the calculation of adequate own funds except for what is included in the Pillar I requirement under the 8+ model.

At the end of 2017, the positive fair value of derivatives etc. was DKK 3.8 million. The bank's total counterparty risk calculated using the mark-to-market method cf. CRR Article 274 was DKK 4 million.

## 4.4 ECAI

Betri Banki has appointed Standard & Poor's Ratings Services as its external credit assessment institution (ECAI). The bank uses Skandinavisk Data Center (SDC), which receives external credit ratings from Standard & Poor's Ratings Services via SIX Financial. Regular IT updates are undertaken in relation to the credit ratings from Standard & Poor's Ratings Services.

SDC has converted Standard & Poor's Ratings Services' credit rating classes to credit quality steps using the conversion table from the Danish FSA. Each individual credit quality step is given a weight to be applied to the exposures in the individual steps, when calculating risk-weighted exposures according to the standard approach for credit risk pursuant to Articles 111-134 of the CRR.

The table below shows the Danish FSA's conversion of Standard & Poor's Ratings Services' credit assessment categories to credit quality steps.

**Table 13: Conversion table from the Danish FSA**

| Credit quality step | Standard & Poor's credit rating categories | Exposure to corporates | Exposure to central governments or central banks |
|---|---|---|---|
| 1 | AAA to AA- | 20% | 0% |
| 2 | A+ to A- | 50% | 20% |
| 3 | BBB+ to BBB- | 100% | 50% |
| 4 | BB+ to BB- | 100% | 100% |
| 5 | B+ to B- | 150% | 100% |
| 6 | CCC+ and lower | 150% | 150% |

The table below shows exposure groups where ratings from Standard & Poor's Ratings Services have been used.

**Table 14: ECAI exposures (DKK 1,000).**

| Exposure group | Exposure before risk weighting | Exposure after weighting with credit quality steps |
|---|---|---|
| Governments or central banks | 0 | 0 |
| Local authorities | 259,479 | 0 |
| Public sector entities | 183,158 | 176,189 |
| Financial institutions | 298,121 | 59,624 |
| Retail customers[1] | 0 | 0 |
| Commercial customers | 22,723 | 21,175 |
| Exposures secured by mortgage in real estate | 0 | 0 |
| Exposures with arrears or overdrafts | 0 | 0 |
| Exposures in other items, including assets without counterparties | 0 | 0 |
| Covered bonds | 123,087 | 12,309 |
| Equity Exposures | 3,132 | 3,132 |
| **Total** | **889,699** | **272,429** |

[1] Exposures ≤ DKK 7.5 million.

# 5 Market Risk

Market risk is described below, including objective, policy and actual market risk exposures.

## 5.1 Objective and risk policy

Market risk is defined as the risk of the market value of assets and liabilities, as well as off-balance items, being affected as a result of changing market conditions.

Taking on market risk is an integral part of banking. The market risk in Betri Banki is divided into interest rate risk, equity risk, foreign exchange risk and other price risks.

The Board of Directors has approved a market risk policy, which is prepared in accordance with the *Financial Business Act and Executive Order No. 902 of 13 July 2015 for the Faroes on the management and control of banks etc.* The policy defines the principles that apply to the bank's managing of market risks, taking into account the bank's business organisation, area of operation and the framework established by the Danish FSA.

The market risk policy and the limits defined in the policy are reviewed annually.

### 5.1.1 Interest rate risk

Interest rate risk is the risk of loss caused by changes in market rates.

As a rule, interest rate risk on fixed interest loans is hedged. The largest interest rate risk is in the portfolio of fixed interest rate bonds. This risk is managed within certain limits in relation to the interest rate outlook.

### 5.1.2 Equity risk

Equity risk is the risk of loss caused by changes in share prices. Equity risk is managed by managing and monitoring the portfolio of shares closely.

### 5.1.3 Foreign exchange risk

Foreign exchange risk is the risk of loss caused by fluctuating exchange rates.

As a rule, Betri Banki hedges foreign exchange risk. The exception is foreign exchange risk between Danish kroner and Euros, which is only hedged under special circumstances.

Foreign exchange risk is calculated as the higher figure of foreign exchange assets or debt and is determined as a percentage of the core capital corresponding to the Danish FSA's currency indicator 1.

### 5.1.4 Other price risks

Other price risk is the risk of loss caused by fluctuating market prices of other assets than those mentioned above, e.g. changes in commodity prices.

At year-end 2017, Betri Banki had no risks in this category.

### 5.1.5 Reporting and division of responsibility

The market risk policy stipulates the division of responsibility concerning risk taking, monitoring and reporting to the Executive Board and Board of Directors.

The Board of Directors and Executive Board receive regular reports on the market risk and compliance with the limits defined in the policy and instructions from the Board of Directors to the Executive Board.
The Finance Department is responsible for these reports.

Betri Markets has day-to-day responsibility for the bank's liquidity, securities portfolio and foreign exchange deposits, on behalf of the Executive Board. Thus, Betri Markets is also responsible for ensuring that the market risk is within the limits that are specified in the instructions from the Board of Directors to the Executive Board.

This is conducted by regularly calculating the interest rate risk on the bank's bond portfolio, a weekly statement on the currency positions and continuous monitoring of the bank's equity portfolio. These calculations and statements are then compared to the limits for market risk that have been authorised to the Executive Board and the authorisation provided to Betri Markets in this area.

## 5.2 Actual market risk

The sections below show market risk exposures as of 31.12.2017. These concern risk-weighted exposures with market risk, exposures in securities not included in the trading book, and interest rate risk not included in the trading book.

### 5.2.1 Risk-weighted exposures with market risk

The solvency requirements for the various risks that constitute market risk are detailed in the table below.

**Table 15: Risk-weighted exposures with market risk (DKK 1,000).**

| | Risk-weighted items | Capital requirement 8% |
|---|---|---|
| Bonds | 541,901 | 43,352 |
| Shares | 110,090 | 8,807 |
| Currency position | 78,996 | 6,320 |

### 5.2.2 Exposures in securities not included in the trading book

Exposures in securities that are not included in the trading book include shares relating to the bank's suppliers and securities held without trading intent.

The bank has acquired shares in a number of sector companies in partnership with other banks. The purpose of these sector companies is to support financial institutions within IT, payment services, etc. The bank does not intend to sell these shares as participation in these sector companies is considered necessary for a bank's operations.

The table below shows exposures in securities not included in the trading book.

**Table 16: Exposures in securities not included in the trading book (DKK 1,000).**

| | Sector companies | Corporate bonds |
|---|---|---|
| Portfolio beginning of period | 20,753 | 175,786 |
| Additions, purchases | 0 | 69 |
| Additions, reclassification | 0 | 0 |
| Unrealised gains/losses | 440 | -1,993 |
| Realised gains/losses | 40 | -4,983 |
| Disposals, sales | -2,155 | -138,572 |
| **Portfolio end of period** | **19,080** | **30,308** |

### 5.2.3 Interest rate risk not included in the trading book

Interest rate risk not included in the trading book primarily derives from fixed-interest deposits and loans. Interest rate risk or the modified duration is measured as the expected capital loss, when the interest curve is displaced in parallel by one percentage point.

At year-end 2017, interest rate risk not included in the trading book was DKK 7.7 million.

# 6 Liquidity Risk

Liquidity risk is described below, including objective and policy.

## 6.1 Objective and risk policy

Betri Banki's liquidity risk can be defined as the risk that arises from differences in scheduled outgoing and incoming cash flows in the bank.

The Board of Directors of Betri Banki has approved a liquidity risk policy, which is prepared in accordance with the *Financial Business Act and Executive Order No. 902 of 13 July 2015 for the Faroes on the management and control of banks etc.* The policy defines the principles that apply to the bank's managing of liquidity risks, taking into account the bank's business organisation, area of operation and the framework established by the Danish FSA.

Clear requirements have been set for daily liquidity and statement of liquidity risks. Further, requirements for the liquidity management are detailed in the instructions from the Board of Directors to the Executive Board. The bank also has a contingency plan, which lists initiatives to be taken, if liquidity falls below specific limits.

Betri Banki identifies the following as liquidity risks:

- Significant increases in funding expenses
- Lack of funding preventing the bank from maintaining its approved business model
- The bank being unable to fulfil its payment obligations due to a lack of funding

The bank's liquidity policy is to maintain liquidity, which is at least 50% above the statutory minimum requirement. Betri Banki's excess liquidity at the end of 2017 was 257.5% when compared to the statutory minimum requirement.

The implementation of CRD IV and CRR and the LCR and NSFR requirements entail stricter requirements for the management of liquidity in the bank. For most banks the LCR requirements have been gradually phased in during the period until 2018. However, the fully phased-in LCR requirements became effective for Betri Banki, when the bank was identified as a systemically important financial institution (SIFI) in November 2015.

The bank has reported the LCR to the Danish FSA since October 2015. At year-end 2017, Betri Banki had a LCR of 148.

### 6.1.1 Reporting and division of responsibility

The liquidity policy determines the division of responsibility regarding risk taking, control and reporting to the Executive Board and the Board of Directors.

The Board of Directors and the Executive Board receive a monthly statement on the bank's liquidity situation from the Finance Department. The statement is prepared in accordance with section 152 in the *Financial Business Act*, which stipulates that the total liquidity must be at least 10% of the bank's debt and guarantee obligations and at least 15% of the bank's total debt, which has a term to maturity less than one month. Moreover, the report contains a statement on liquidity risk. This is determined by conducting a 12 month projection of the liquidity under normal market conditions and a 12 month projection of the liquidity under stressed conditions. The LCR is also included in the monthly statement on the bank's liquidity.

Betri Markets has been given day-to-day responsibility of liquidity by the Executive Board. Betri Markets is also responsible for the daily monitoring of liquidity and liquidity projections. This is done on the basis of known future cash flows.

The Finance Department is responsible for reporting on daily and monthly liquidity; this also includes checking that the bank has sufficient liquidity.

## 6.2 Encumbered assets

Betri Banki has, to a certain extent, encumbered assets in connection with collateral agreements with other financial institutions. Since November 2015 Betri Banki has reported data regarding encumbered assets to the Danish FSA.

The table below shows the specifications regarding encumbered assets.

**Table 16: Encumbered assets at year-end 2017 (DKK 1,000).**

| Assets | | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of non-encumbered assets | Fair value of non-encumbered assets |
|---|---|---|---|---|---|
| | | 010 | 040 | 060 | 090 |
| 010 | **Assets of reporting institution** | 96,691 | | 9,296,924 | |
| 030 | Equity instruments | 0 | 0 | 173,685 | 173,685 |
| 040 | Debt securities | 96,691 | 96,691 | 2,927,836 | 2,937,836 |
| 050 | of which: covered bonds | 96,691 | 96,691 | 2,387,939 | 2,387,938 |
| 060 | of which: asset-backed securities | 0 | 0 | 0 | 0 |
| 070 | of which: issued by general governments | 0 | 0 | 509,589 | 509,589 |
| 080 | of which: issued by financial corporations | 96,691 | 96,691 | 2,387,939 | 2,387,939 |
| 090 | of which: issued non-financial corporations | 0 | 0 | 27,176 | 27,176 |
| 120 | Other assets | 0 | | 226,645 | |

| Collateral received - off balance | | Fair value of encumbered collateral received | Fair value of non-encumbered collateral received |
|---|---|---|---|
| | | 010 | 040 |
| **130** | **Collateral received by the reporting institution** | 0 | 0 |
| 150 | Equity instruments | 0 | 0 |
| 160 | Debt securities | 0 | 0 |
| 230 | Other collateral received | 0 | 0 |
| **240** | **Own debt securities issued** | 0 | 0 |

| Liabilities for encumbered assets | | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued |
|---|---|---|---|
| | | 010 | 030 |
| **010** | **Carrying amount of selected financial liabilities** | 385,072 | 96,691 |

# 7 Operational Risk

Operational risk is described below, including objective, policy and actual operational risks.

## 7.1 Objective and risk policy

Operational risk is defined as the risk arising from inadequate and inefficient internal processes, human errors, IT-failures and external factors, including legal risks.

The Board of Directors has approved a policy for operational risks, which is prepared in accordance with the *Financial Business Act and Executive Order No. 902 of 13 July 2015 for the Faroes on the management and control of banks etc.* The policy defines the principles that apply to the bank's managing of operational risks, taking into account the bank's business organisation, area of operation and the framework established by the Danish FSA.

Betri Banki identifies the following as possible operational risks. The risk of financial loss due to:

- operational risks in the areas of credit, liquidity, securities, markets and real estate
- operational risks in relation to advising retail, corporate and public sector customers
- operational risks in staff functions and management
- manual procedures, guidelines and/or quality of these
- ineffective internal controls
- insufficient integration, stability, and usability of IT-systems
- operational risks of hosted services
- inadequate insurance
- insufficient employee competences in relation to diversity of tasks
- inadequate security in premises

Increased risk may also be a result of new services, products as well as external factors.

### 7.1.1 Reporting and division of responsibility

The operational risk policy stipulates procedures, registration and reporting obligations.

Operational risk is managed through business procedures and internal control measures developed to ensure optimal working procedures. Operational risks are reduced by among other things separating the execution and control of activities.

Employees are responsible for reporting all risk events to their nearest manager and Risk Management. Risk Management registers risk events and briefs the Executive Board every quarter.

## 7.2 Actual operational risk

Operational risk can be limited but not eliminated. Regular processes are in place to check for risks that may have a negative impact on Betri Banki. The bank continuously focuses on developing and improving the management of risks, e.g. by strengthening and reviewing procedures and controls, ensuring documentation, controlling changes and registering, reporting and reassessing risks.

Betri Banki's IT-systems are hosted by Skandinavisk Data Center (SDC). A risk analysis of significant IT-systems is made annually in order to determine what business impact the risk has on Betri Banki. This is conducted in accordance with the Business Impact Assessment framework from ISF, International Security Forum. The latest risk analysis was carried out in February 2018.

The capital needed to cover Betri Banki's operational risk is calculated using the basic indicator approach. At year end 2017 operational risk was DKK 561 million, which amounts to a capital requirement of DKK 45 million. The bank assesses the capital requirement for operational risks on a regular basis. If the requirement is assessed to be higher than stated above, this will be taken into account in the calculation of the solvency requirement.

# Appendix 1: Leverage ratio – disclosure template

## Summary reconciliation of accounting assets and leverage ratio exposures

| | | Applicable amounts |
|---|---|---|
| 1 | Total assets as per published financial statement | 9,393,614,991 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 0 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR") | 0 |
| 4 | Adjustments for derivative financial instruments | 4,220,278 |
| 5 | Adjustments for securities financing transactions "SFTs" | 0 |
| 6 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 1,078,936,489 |
| EU-6a | (Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013) | 0 |
| EU-6b | (Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013) | 0 |
| 7 | Other adjustments | -18,072,543 |
| **8** | **Total leverage ratio exposure** | **10,458,699,215** |

## Leverage ratio common disclosure

| | | CRR leverage ratio exposures |
|---|---|---|
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 9,393,614,991 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | -18,072,543 |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)** | **9,375,542,449** |
| **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 0 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 4,220,278 |
| EU-5a | Exposure determined under Original Exposure Method | 0 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 |
| **11** | **Total derivative exposures (sum of lines 4 to 10)** | **4,220,278** |

| | | CRR leverage ratio exposures |
|---|---|---|
| **SFT exposures** | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 0 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 |
| 14 | Counterparty credit risk exposure for SFT assets | 0 |
| EU-14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013 | 0 |
| 15 | Agent transaction exposures | 0 |
| EU-15a | (Exempted CCP leg of client-cleared SFT exposure) | 0 |
| **16** | **Total securities financing transaction exposures (sum of lines 12 to 15a)** | **0** |
| **Other off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposures at gross notional amount | 2,348,400,912 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | -1,269,464,414 |
| **19** | **Other off-balance sheet exposures (sum of lines 17 to 18)** | **1,078,936,498** |
| **Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)** | | |
| EU-19a | (Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| **Capital and total exposures** | | |
| 20 | Tier 1 capital | 1,564,274,461 |
| **21** | **Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)** | **10,458,699,224** |
| **Leverage ratio** | | |
| **22** | **Leverage ratio** | **14.96%** |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013 | 0 |

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

| | | CRR leverage ratio exposures |
|---|---|---|
| EU-1 | Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | |
| EU-2 | Trading book exposures | 2,960,672,068 |
| EU-3 | Banking book exposures, of which: | |
| EU-4 | Covered bonds | 123,086,881 |
| EU-5 | Exposures treated as sovereigns | 90,546,236 |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns | 385,983,784 |
| EU-7 | Institutions | 281,530,619 |
| EU-8 | Secured by mortgages of immovable properties | 2,198,396,434 |
| EU-9 | Retail exposures | 1,024,136,384 |
| EU-10 | Corporate | 1,458,817,444 |
| EU-11 | Exposures in default | 540,327,672 |
| EU-12 | Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 330,117,469 |

**Betri Banki P/F**
Yviri við Strond 2
Postsmoga 34
110 Tórshavn

Tel +298 348 000
banki@betri.fo
www.betri.fo