

November 2022

# Introduction and Credit Update



# Executive summary

- Arbejdernes Landsbank initiates issuance of Non-Preferred Senior for the purpose of meeting the bank's MREL requirement resulting from the Danish SIFI designation.
- The expected DKK 9bn MREL requirement will be phased-in evenly until year-end 2025.
- Issuance of Non-Preferred Senior will take place under Arbejdernes Landsbank's DKK 10bn MTN Programme and will be listed on Nasdaq Copenhagen.
- A Non-Preferred Senior from Arbejdernes Landsbank will offer exposure towards:
  - A robust Danish SIFI bank focusing on private costumers and local business
  - A bank with a stable and committed ownership structure
  - A strong market position – ranked as the Danes' preferred bank 13 years in a row
  - A strong loan book – well-diversified in terms of sectors and industries with low levels of impairments
  - Robust A2/P-1 rating from Moody's – Baa1 exp. for Non-Preferred Senior
  - Well-capitalised bank with a strong and stable funding profile



# Agenda

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Introduction to  
**Arbejdernes  
Landsbank  
Group**

# Arbejdernes Landsbank A/S

**A robust Danish retail bank focusing  
on private customers and local business**

- Established in 1919
- Providing full-service and financial solutions for private customers, associations and companies
- Our goal is to remain a responsible, serious and competitive retail bank - with the customers in focus
- Strong reputation and #1 in customer satisfaction
- Majority owner of Vestjysk Bank in 2021
- Designated as SIFI-bank in 2021
- Strong credit quality

Arbejdernes  
Landsbank



**NO.1** DANES'  
PREFERRED BANK  
**13TH SUCCESSIVE  
YEAR**



EQUITY (DKK)  
**11.9 bn.**



**132,263**  
NEW CUSTOMERS OVER  
THE PAST **10 YEARS**



**LOW**  
IMPAIRMENTS



**6TH LARGEST**  
DANISH BANK



**344,045**  
CUSTOMERS

# Arbejdernes Landsbank Group

## Arbejdernes Landsbank

- The 6<sup>th</sup> largest bank\* operating in Denmark
- Offering finance solutions to personal customers, corporates and unions
- 70 branches
- 1,100 employees
- More than 340,000 customers

(100%)

## al finans

- A finance company operating in Denmark
- Offering finance solutions to personal and corporate customers
- 85 employees
- More than 27,000 customers

(73%)

## vestjysk BANK

- The 10<sup>th</sup> largest bank\* operating in Denmark
- Offering finance solutions to personal and corporate customers
- 35 branches
- 660 employees
- More than 200,000 customers

(100%)

## Ejendomsselskabet **SLUSEHOLMEN A/S**

- Construction of a new domicile

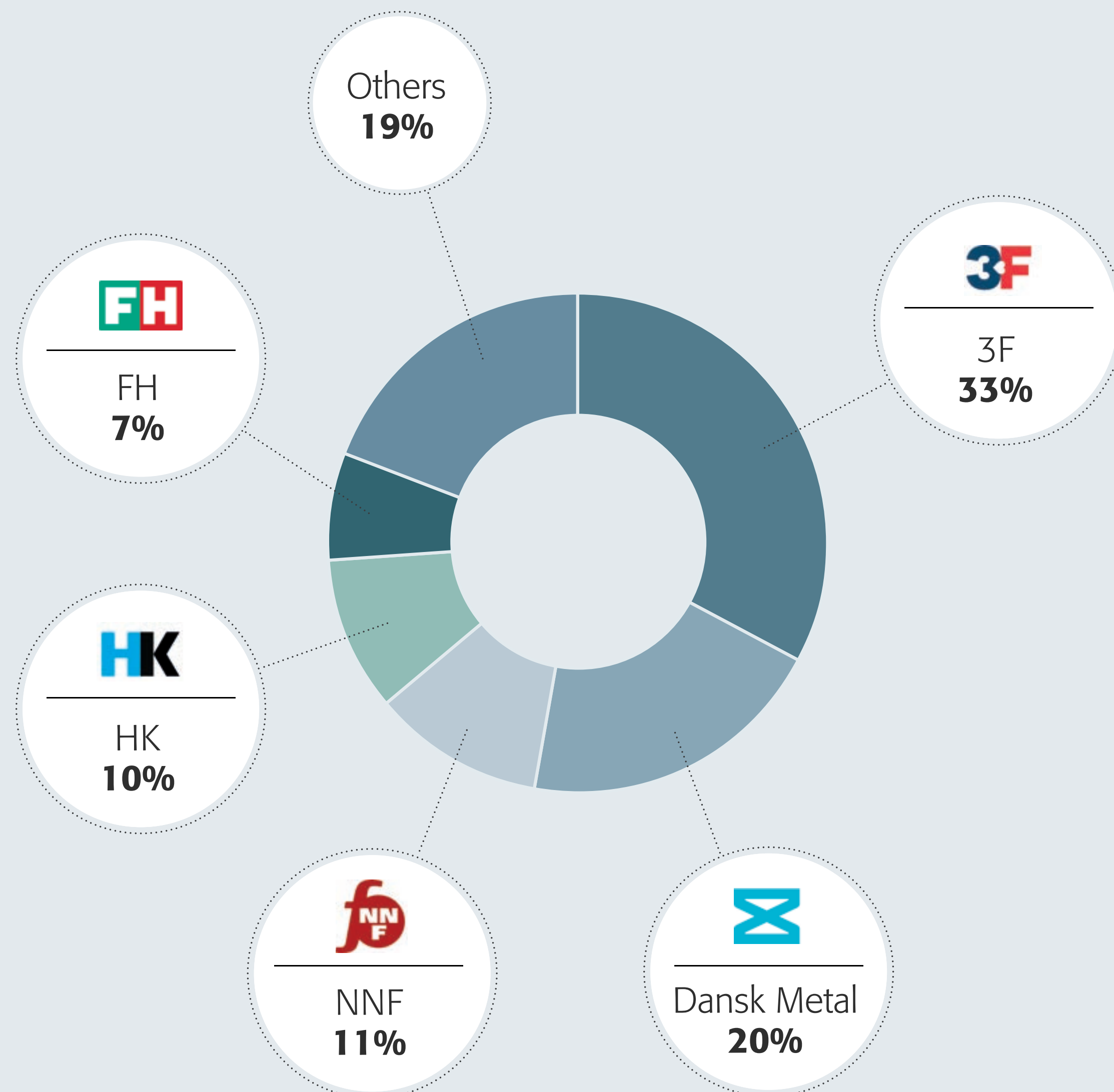
\*) Source: Finanstilsynets calculation of working capital 2022

# Shareholders

Arbejdernes Landsbank was founded in 1919 by 62 Danish trade union confederations and cooperatives.

Today, more than 80 % of the shares are owned by the trade union confederations and cooperatives in Denmark:

- 3F is the largest shareholder with 33% and Dansk Metal holds 20%
- Others consists of 22,000 private shareholders. All members of an approved workers union i.e. the articles of association of Arbejdernes Landsbank
- The five largest shareholders are represented in the Board of Directors



# A strong brand

- the Danes' preferred bank 13 years in a row

Arbejdernes Landsbank is ranked as the preferred Danish bank in the largest Danish bank survey for 13 consecutive years.

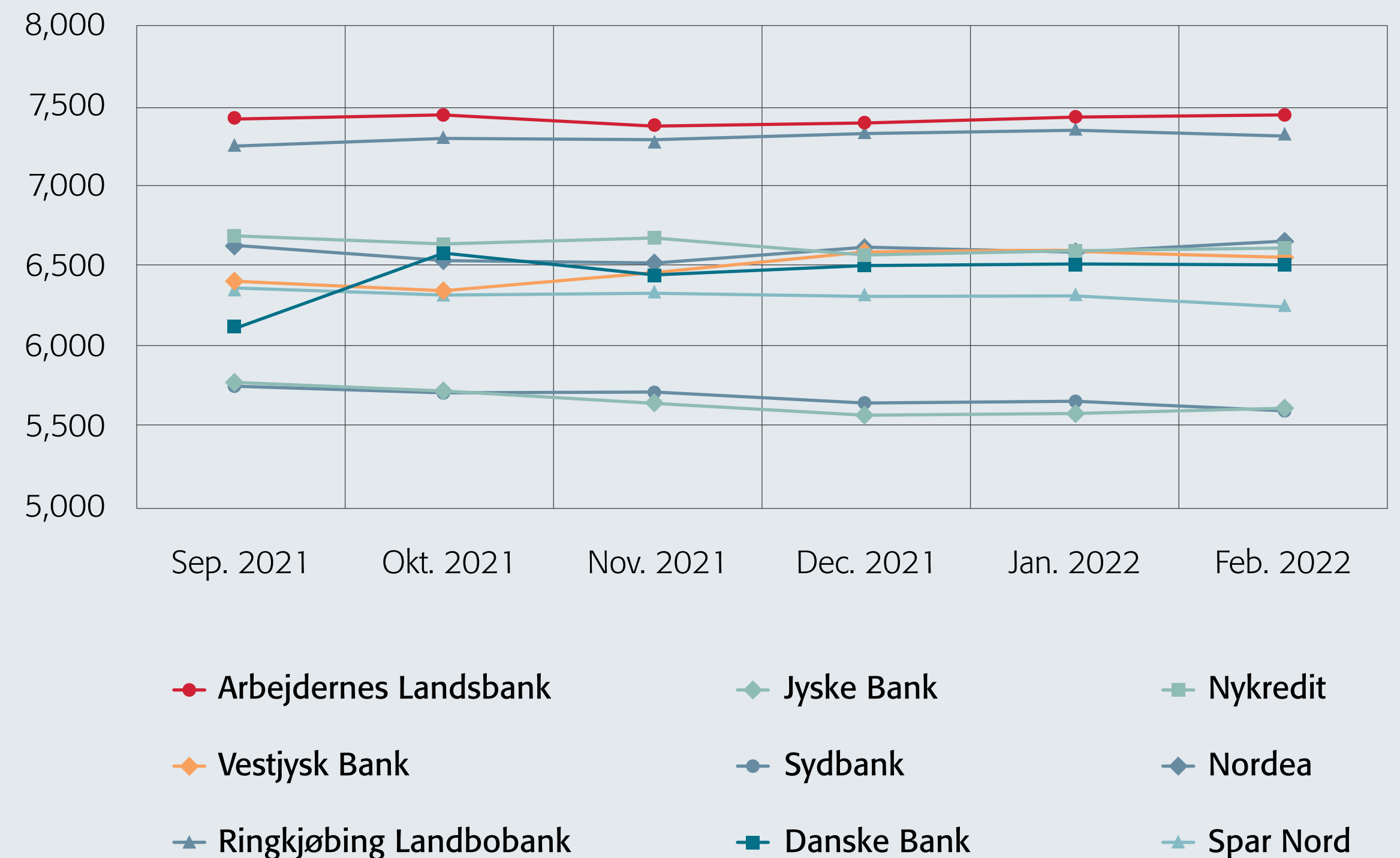
The survey, that is conducted by Voxmeter, is based on the testimonials of 60,000 bank clients chosen at random and ranks banks according to client satisfaction based on advisory, service, products, image ect.

## Customers highlight:

- A credible bank
- Provider of the best solutions in the market
- Advisors – not salespersons



## Strong market position: Highest customer satisfaction score (CEM) compared to our competitors





# Customer value position is supported **by a strategic collaboration model**

The core business and the customer journey is supported and improved through:

- Strategic partnerships
- Joint solutions
- Acquisition and investment



nøerpension

BANKINVEST

Sparinvest



alka



Totalkredit

dlr-kredit

bec  
FINANCIAL  
TECHNOLOGIES



MobilePay

nets  
Merchant Services  
All you need to get paid

TESTAVIVA



VALIFIED

**Focus on creating more satisfied customers**  
 is core to future success



# Strategic goals

focus on three challenges



## Strong value propositions

- Focus on separation of private and business segments
- Focus on new customer offers and an agile customer organization in order to maintain the relevance of the bank



## Digital empathic bank

- Focus on digital readiness as response to an increasing demand on self-help solutions
- Focus in efficient customer management and an accessible and present bank



## Group interaction

- Focus on ensuring that SIFI requirements are met
- Focus on group management
- Focus on utilizing potential synergies across the group

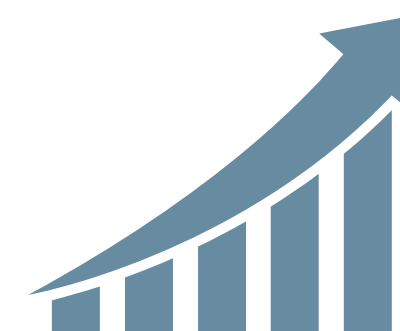
# Majority owner of **Vestjysk Bank in 2021**

- In first half of 2021 we acquired the majority of shares in Vestjysk Bank as part of our strategy to become a nationwide bank and to be stronger represented in the corporate segment
- Today we own 73% of the shares in Vestjysk Bank
- Arbejdernes Landsbank has no plans to increase the ownership in Vestjysk Bank



# Vestjysk Bank

## – Strategic objectives



Vestjysk Bank will continue to operate under its own brand with an independent branch network to maintain a good market position and relationship with customers in the local area.

It is Arbejdernes Landsbank's ambition to create the foundation for a nationwide bank with a solid platform to serve private and corporate customers.

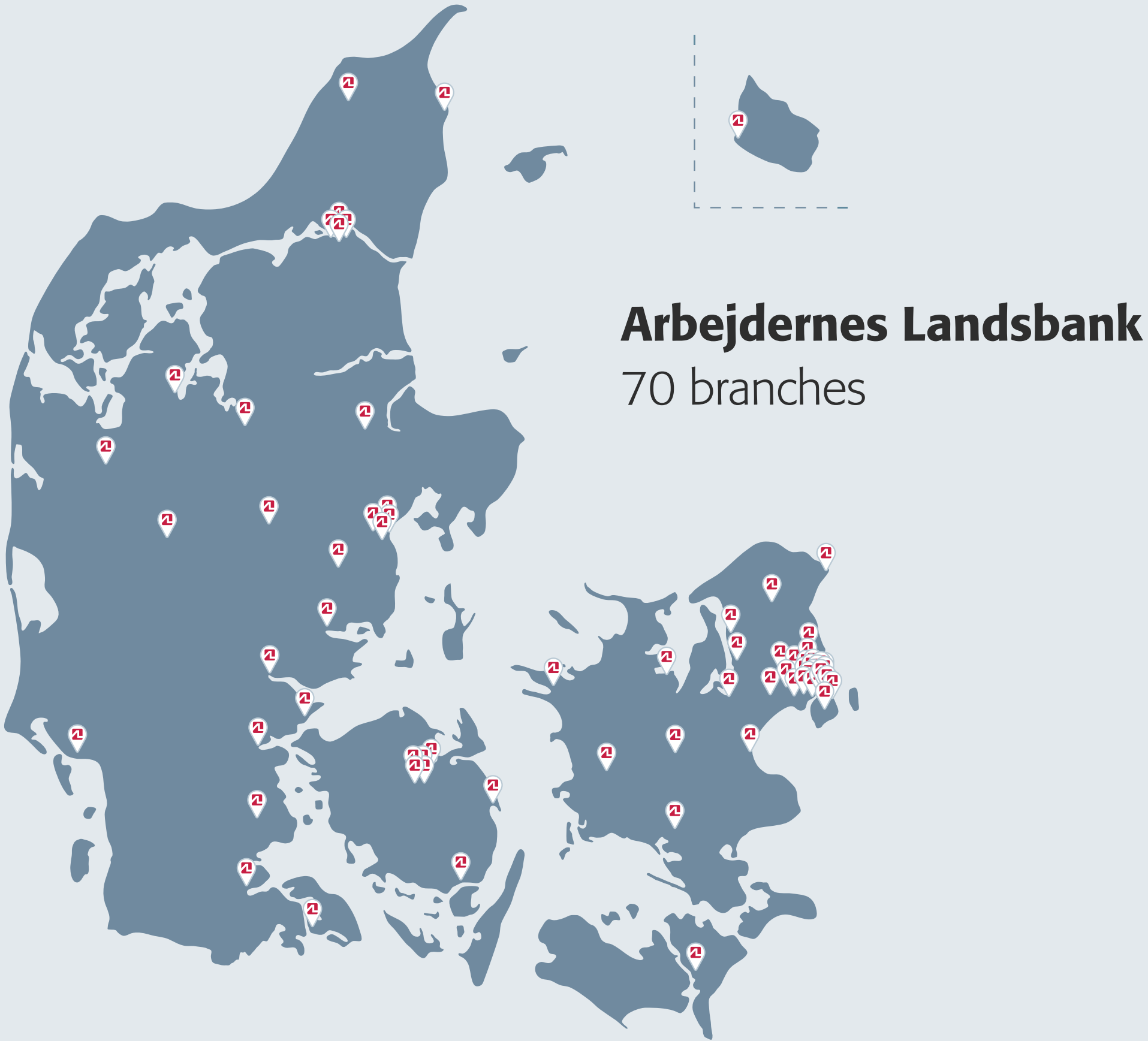
The acquisition of Vestjysk Bank leads to a better balance in business volume. Arbejdernes Landsbank is predominantly a private customer bank. Vestjysk Bank has the majority of its business with corporate customers.

We expect that the new larger banking group can achieve efficiency improvements through continued investments in IT and optimization of staff and support functions.

We expect that the Group can realise some synergy potential and value creation over time by developing and increasing cooperation within the Group. Further more, create broader competence centers in larger cities over time, where both banks are present

# Nation wide retail network

– Focus on larger cities and perfect match to Vestjysk Bank



# Group interaction and SIFI

## The acquisition of Vestjysk Bank has resulted in:

- AL Bank Group has been appointed to SIFI
- Vestjysk Bank is a subsidiary of the group

## And that AL Bank meets a number of regulatory requirements, including:

- Group management and organization
- Risk and capital management across AL and Vestjysk Bank
- Close collaboration in areas such as Compliance, Internal Audit and AML (Group responsibility)



## Need for a new management setup

### Group interaction and SIFI:

- Ensure that SIFI requirements are met
- Ensure access to sufficient capital
- Exploits potentials from stronger banking group by increased collaboration on non-customer facing features

### Key focus:

- Organizational SIFI requirements
- Group management (risk, credit, etc.)
- Capital requirements, recovery and liquidation
- Rating, investor relations and market issues
- IT security

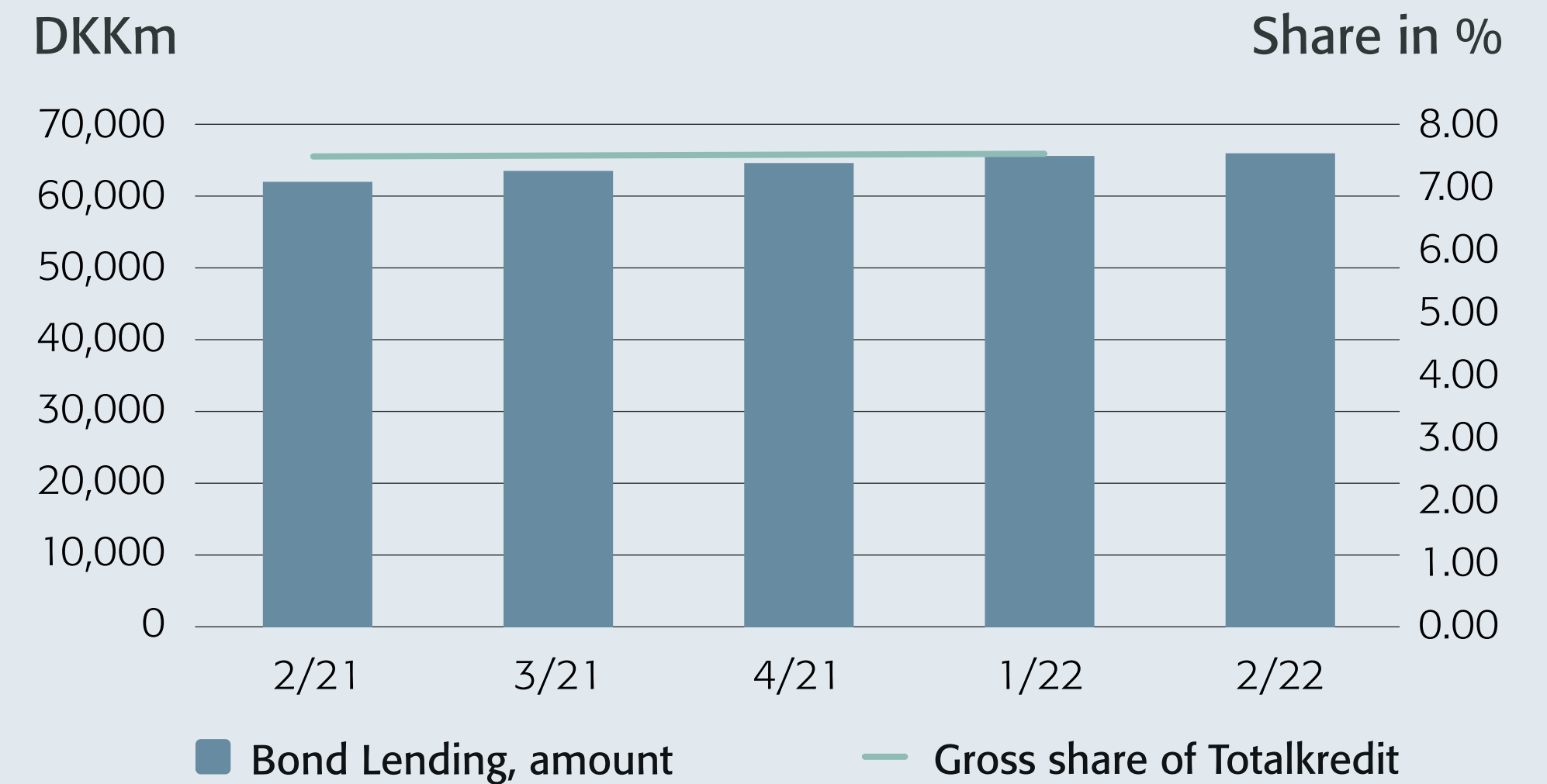
# Group position in the Danish retail banking market

- Market share for the Arbejdernes Landsbank Group is 4.6% for domestic deposits among all banks in Denmark in 2021. And 2.8 % for domestic loans.
- Arbejdernes Landsbank's share of Totalkredit loans is 7.5%
- Vestjysk Bank's share of Totalkredit is 4.6%

Market share 2021	Arbejdernes Landsbank Group
Domestic deposits	4.6%
Domestic loans	2.8%

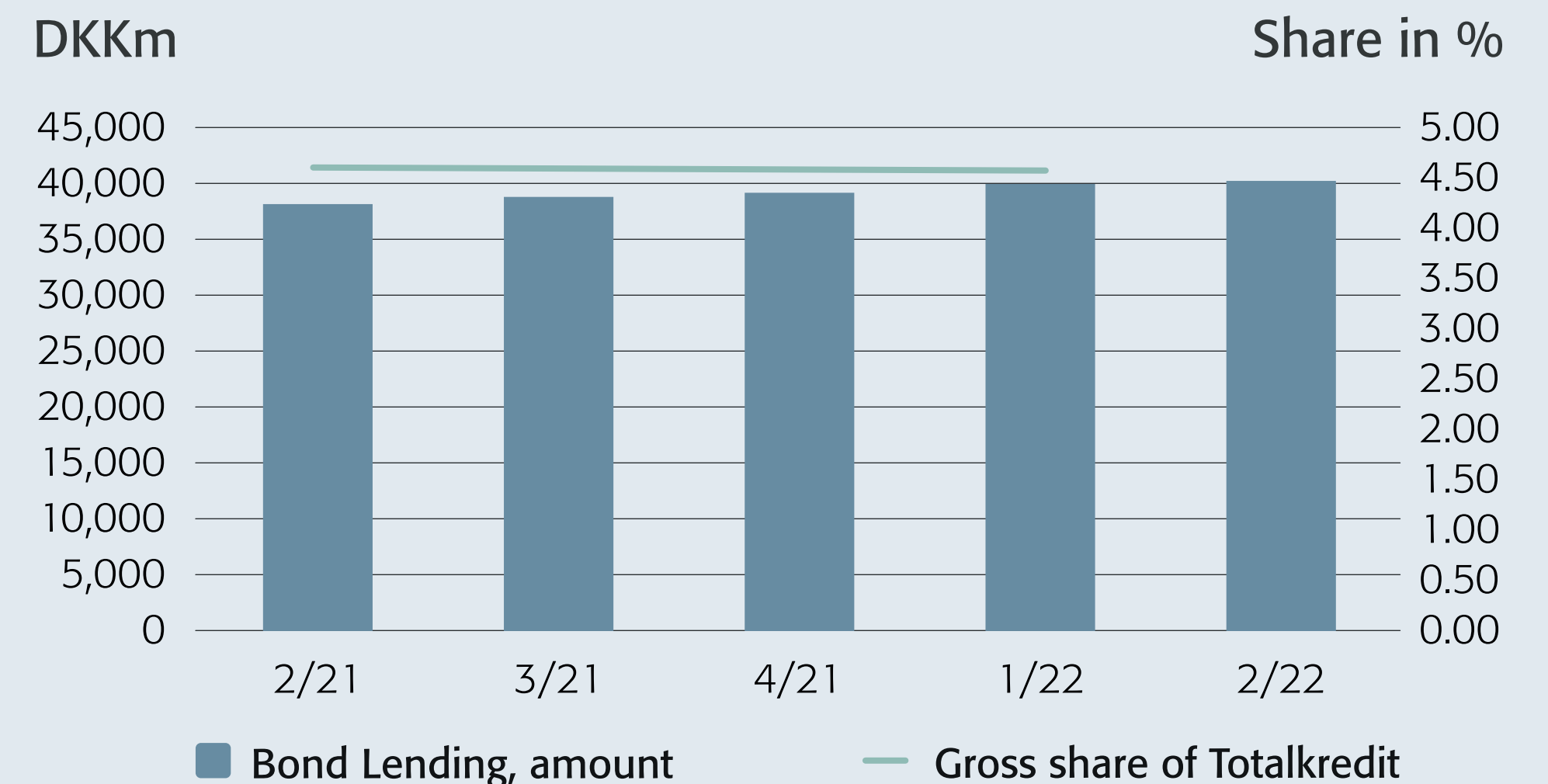
## Arbejdernes Landsbank

Share of Totalkredit loans 7.5%



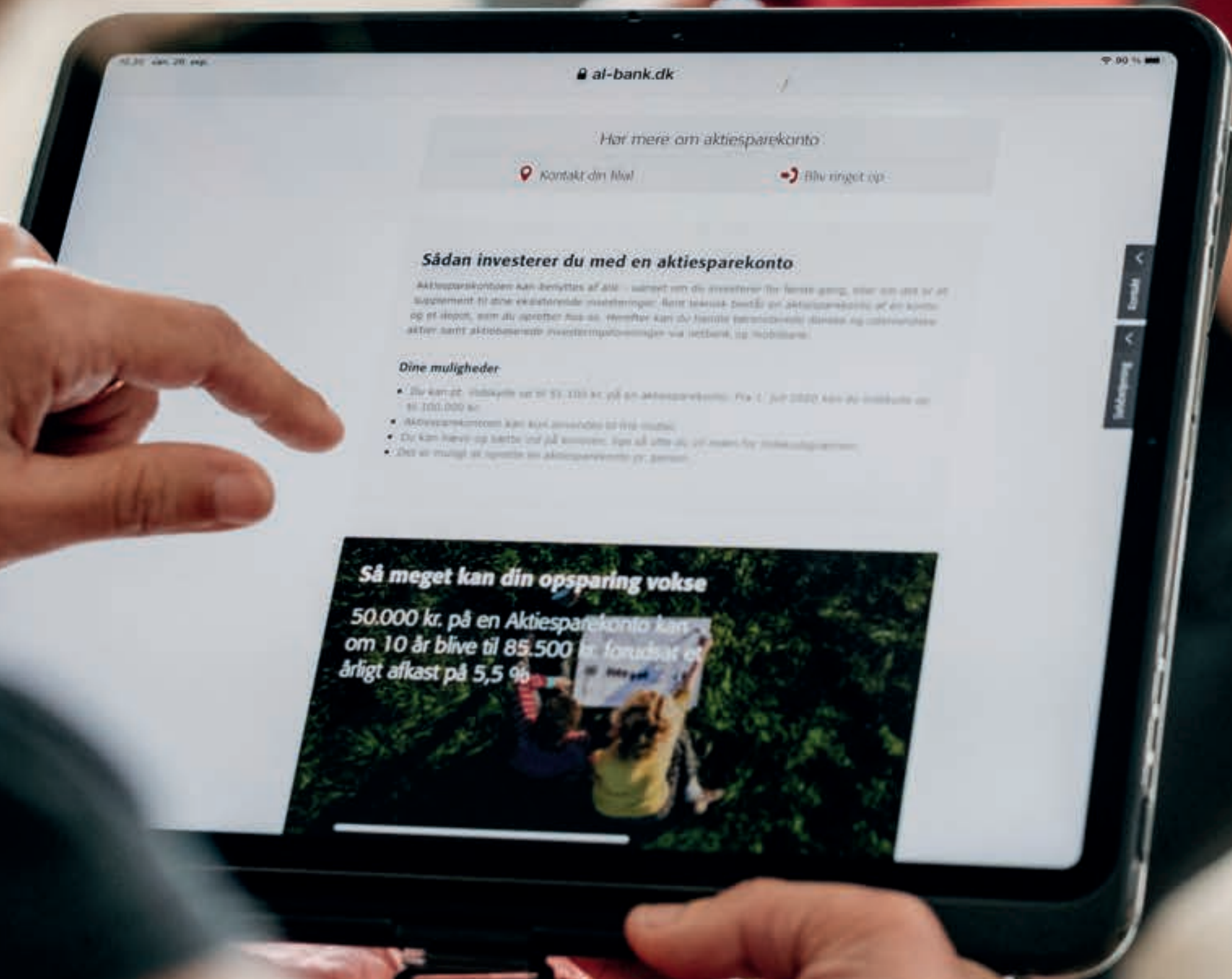
## Vestjysk Bank

Share of Totalkredit loans 4.6%





# Update on **financial performance**



# Stable financial performance

- Cost increase related to regulatory and IT related investments
- 2021 impacted by one-off related to acquisition of Vestjysk Bank

## Group Financial Performance – five-year comparison

	2017	2018	2019	2020	2021	2022 H1
<b>DKKm</b>						
Net interest income	1,194	1,104	1,075	1,070	1,643	1,010
Net fees, charges and commissions	556	580	688	700	1,197	790
Market value adjustments and dividends	945	46	342	285	293	-275
Other income	91	69	94	173	508	54
<b>Core income</b>	<b>2,785</b>	<b>1,799</b>	<b>2,198</b>	<b>2,228</b>	<b>3,640</b>	<b>1,579</b>
Costs and expenses	-1,466	-1,530	-1,663	-1,767	-2,424	-1,425
Impairments of loans and advances, etc.	-14	70	54	-79	162	63
<b>Profit before tax</b>	<b>1,305</b>	<b>339</b>	<b>588</b>	<b>382</b>	<b>1,378</b>	<b>217</b>
Tax	-149	-40	-44	-52	-49	-41
<b>Profit</b>	<b>1,156</b>	<b>299</b>	<b>545</b>	<b>330</b>	<b>1,329</b>	<b>176</b>

# Management focus

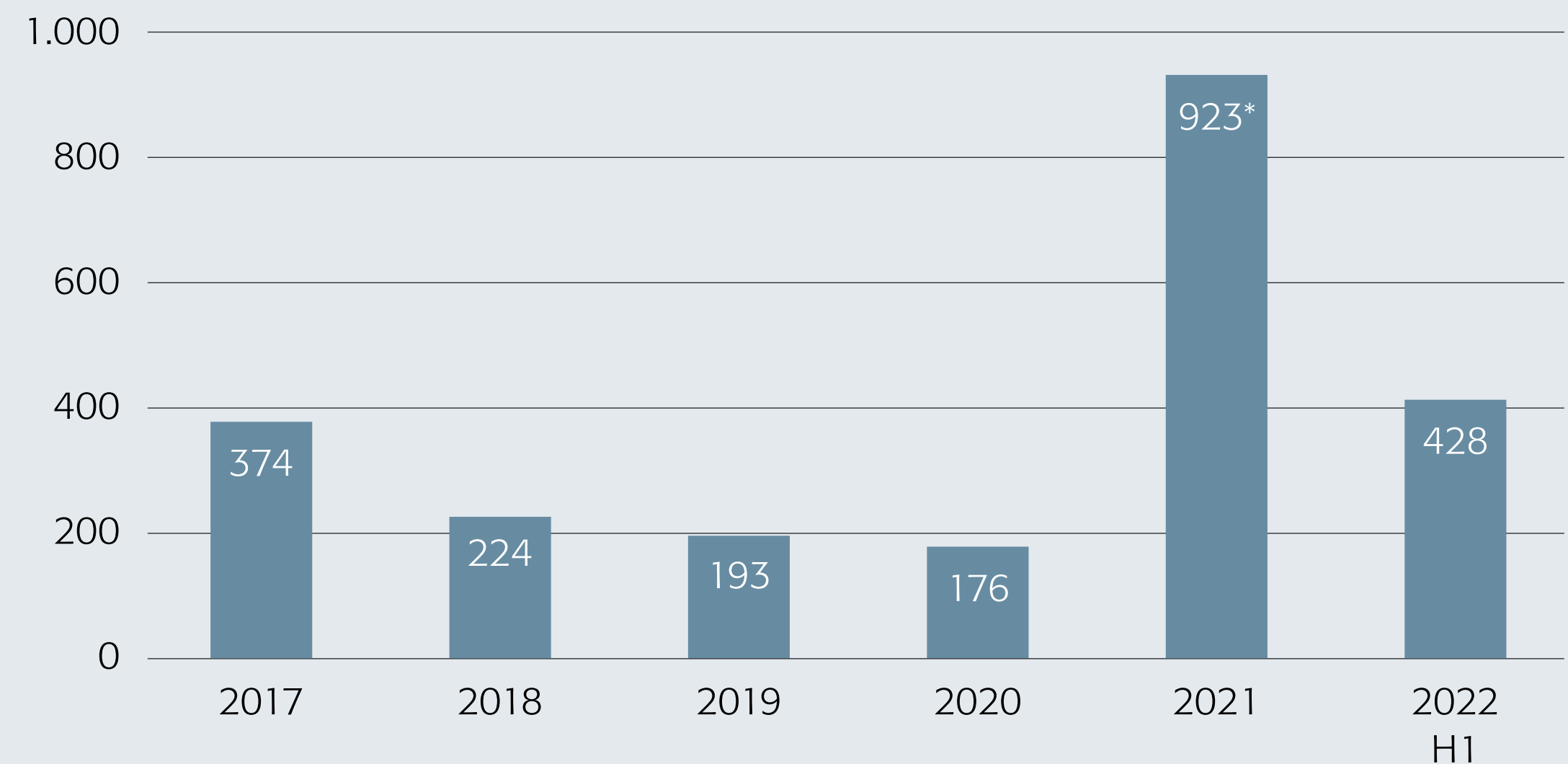
Management is focused on improving core earnings with specific actions.

- Normalization of market interest levels will improve profitability
- Development of new product-bundles (Kundekoncepter) to customers with increased profitability
- Economies of scale will provide a better starting point for increased profitability

## Group core earnings

Core earnings are earnings before financial income, capital gains and impairments.

DKKm



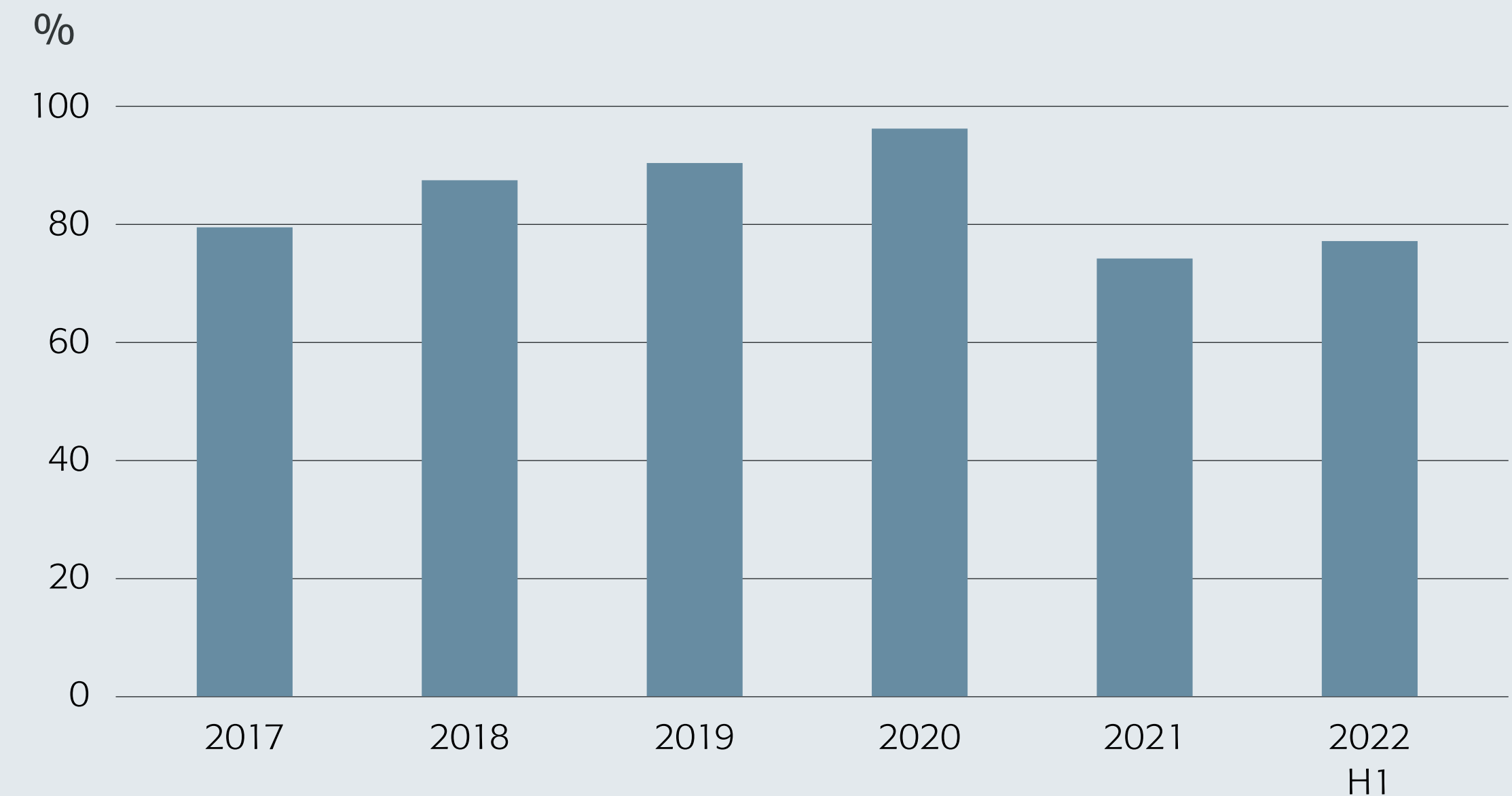
\* One-off income of 329 mDKK related to the acquisition of Vestjysk Bank

# Strategic focus on cost efficiency

– target for cost-ratio  
at 75 pct.

- Customer growth in line with recent years trend
- Focus on increasing revenue and core earnings
- Investment in IT etc., while reducing costs by restructuring the branch-structure

## Group cost ratio percentage

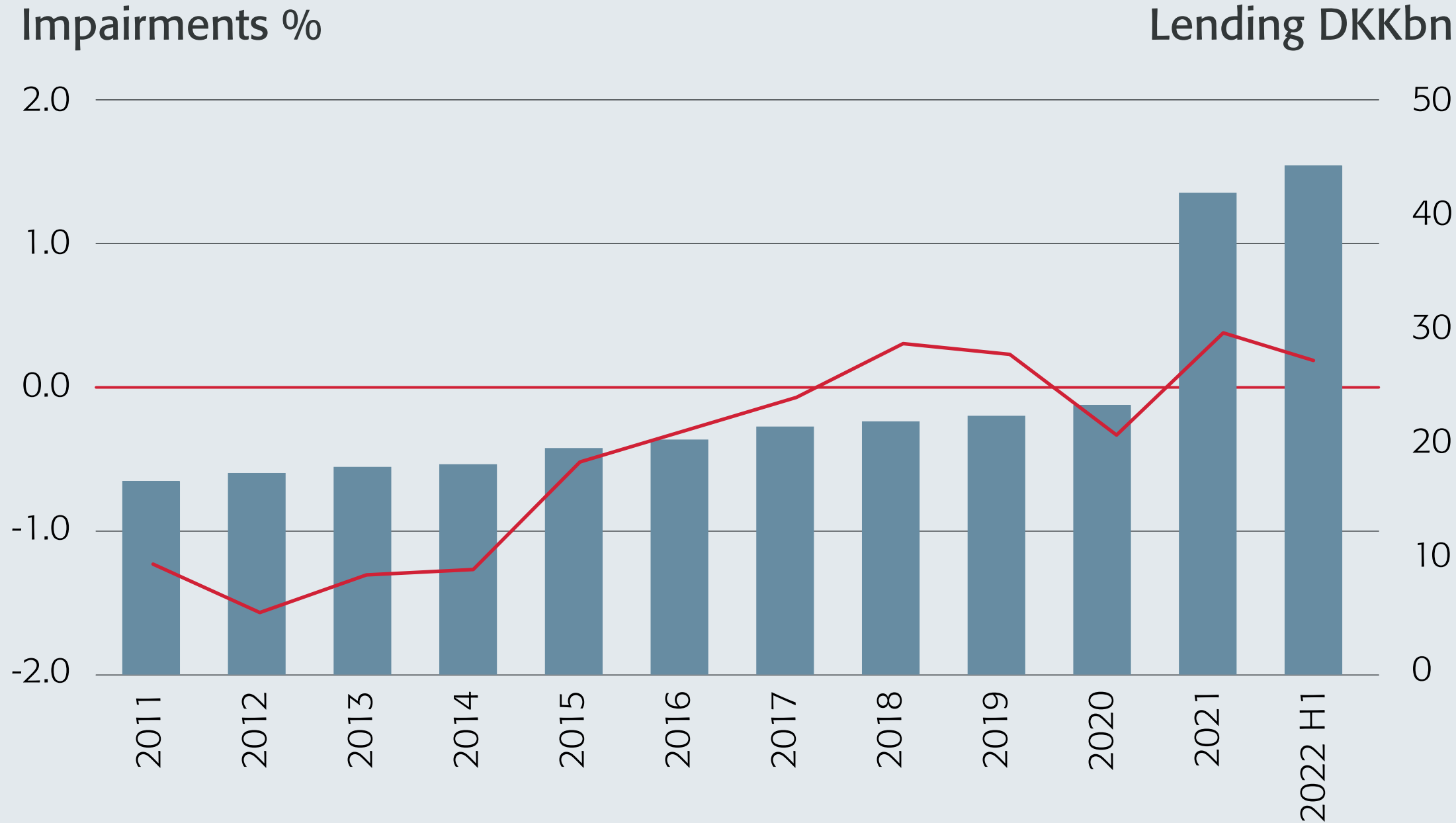


# High credit-standards

- proved by low level of impairments during the last decade

- Primary lending to residential customers with security in real estate

## Group



# Management judgement

- AL Group has 430 DKKm in management judgement covering the uncertainty from the macro economic environment as well as uncertainty related to the agricultural sector
- During 2022 management judgement is reduced – mainly related to COVID-19

## Group balance

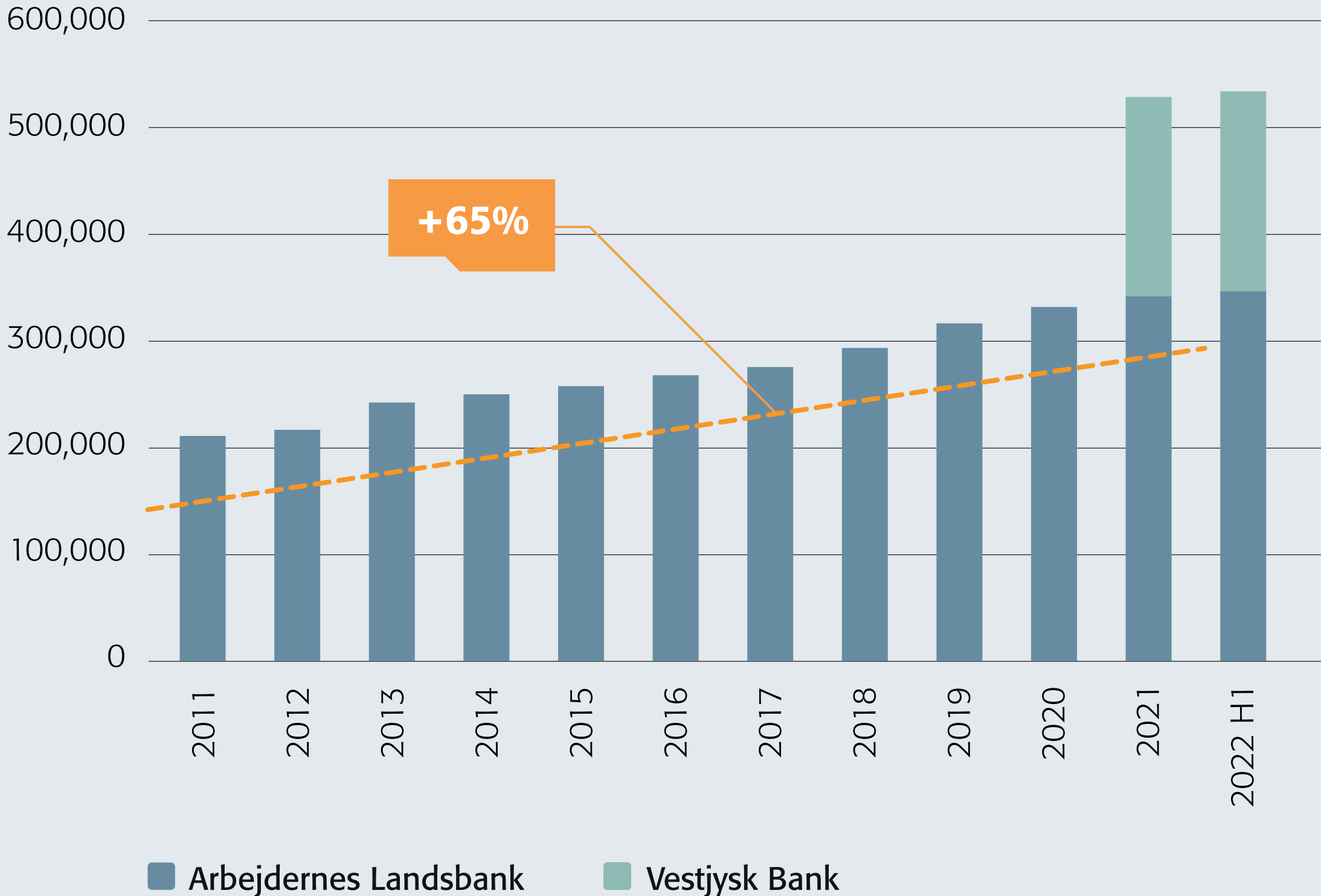
	2021	2022-H1
<b>DKKm</b>		
Management jugements	443.5	430.5
- Hereoff macro economic factors	322.1	294.6



# Continuous customer growth due to strong value proposition and excellent brand

- Strong organic growth enables economies of scales

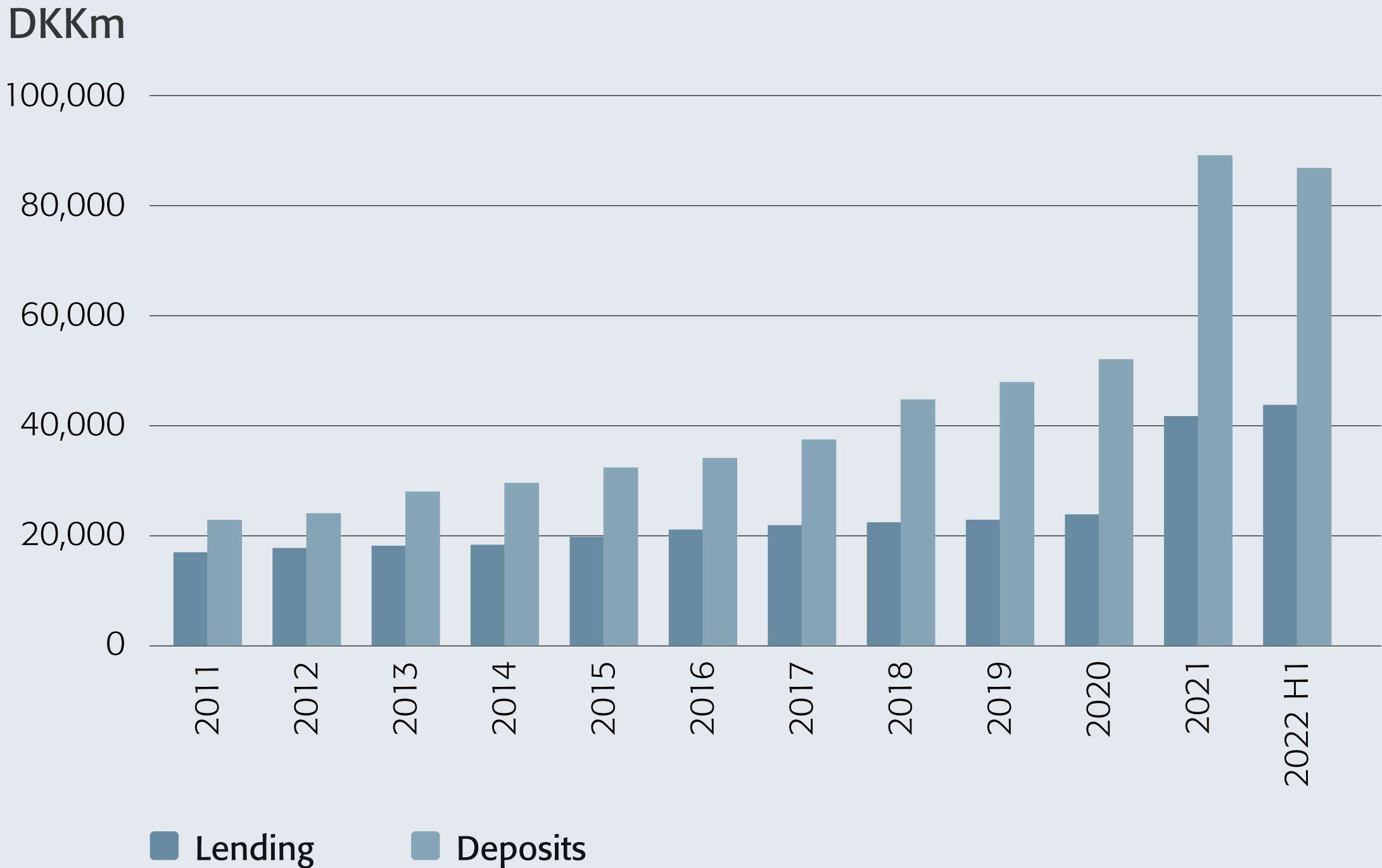
### Number of customers



# Growth in lending and deposits

- Deposits has increased significantly
  - Potential up-side with increasing market interest levels as Arbejdernes Landsbank will introduce margins on deposit-rates

## Group balance







## Outlook 2022

- In 2022 the Group anticipates continued customer growth, increase in core income from customer activities and low level of impairments, thus improving core earnings
- The Group also expects increased spending on SIFI related tasks as well as IT security investments and ongoing development in digital customer services
- Uncertainty related to Covid-19 is reduced, however the development in Ukraine, rising interest levels and possible recession adds a new uncertainty to the 2022 Outlook
- Thus the Group anticipates that profit before tax will be in the range of 700-900 mDKK



# Credit **update**

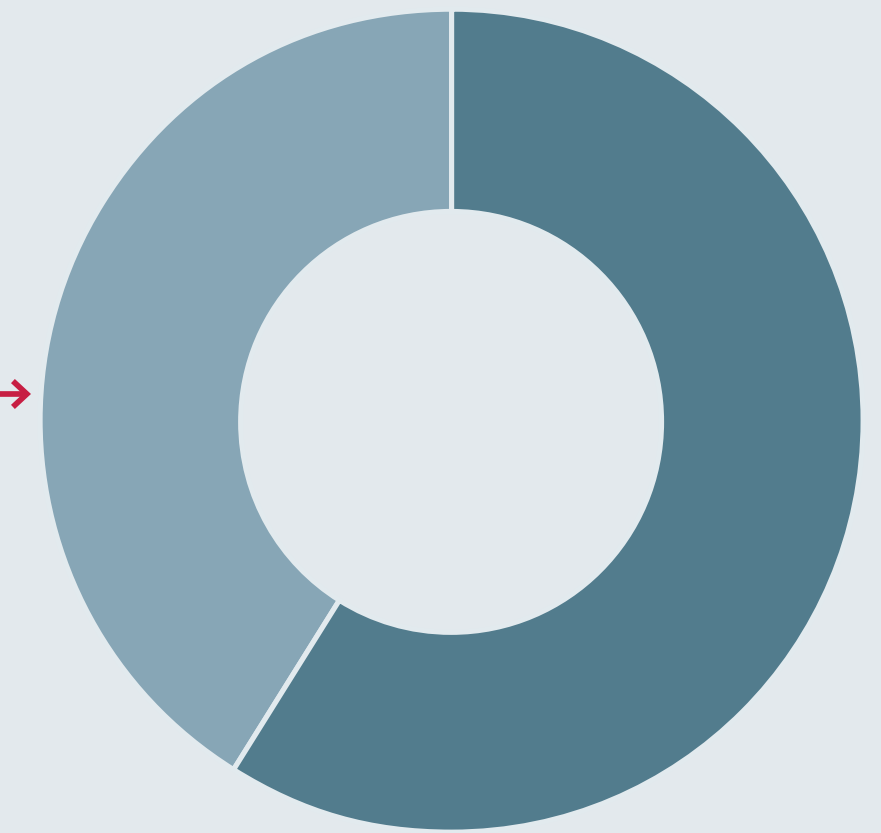
# Well-diversified loan book in terms of industries

- The group has a loan exposure of 42 billion DKK of which 17 billion DKK is located in Vestjysk Bank. Guarantees amount to 18 billion in the Group ledger
- Traditionally focus on Private Retail Customers
- The acquisition of Vestjysk Bank has increased the business segment of the loan book to over 40%
- The acquisition contributed to:
  - A strong position on the market for Corporate Customers
  - A well diversified portfolio in sectors and industries

## Gross credit exposures for the group (before impairment) by sector and industry

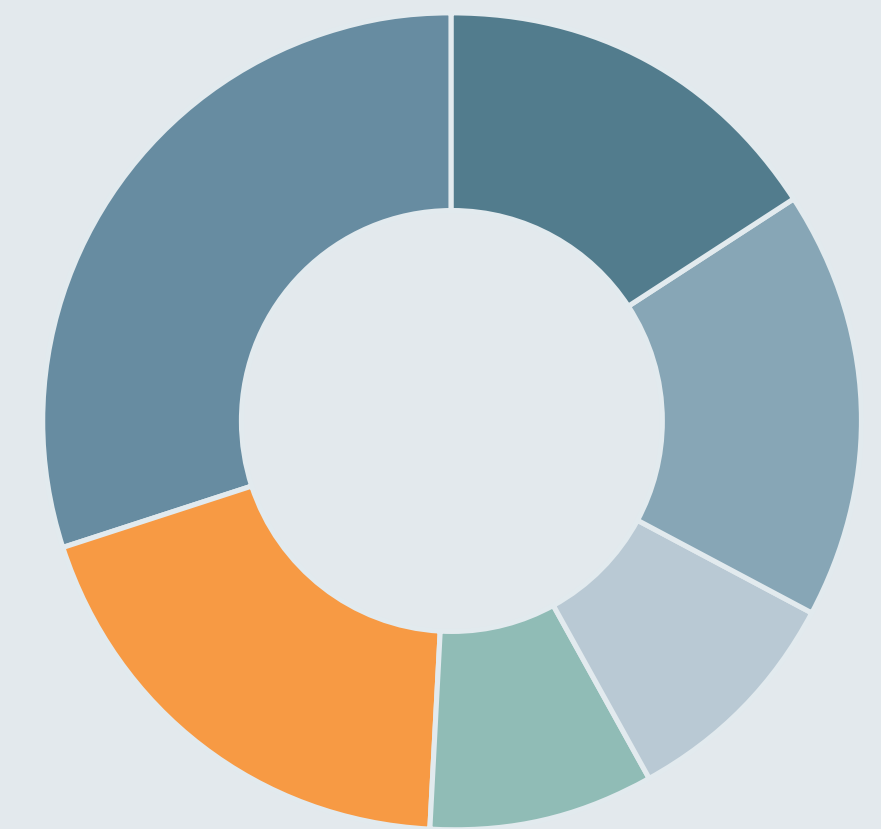
60% of loan book focused on private customers

- Private **59%**
- Business **41%**



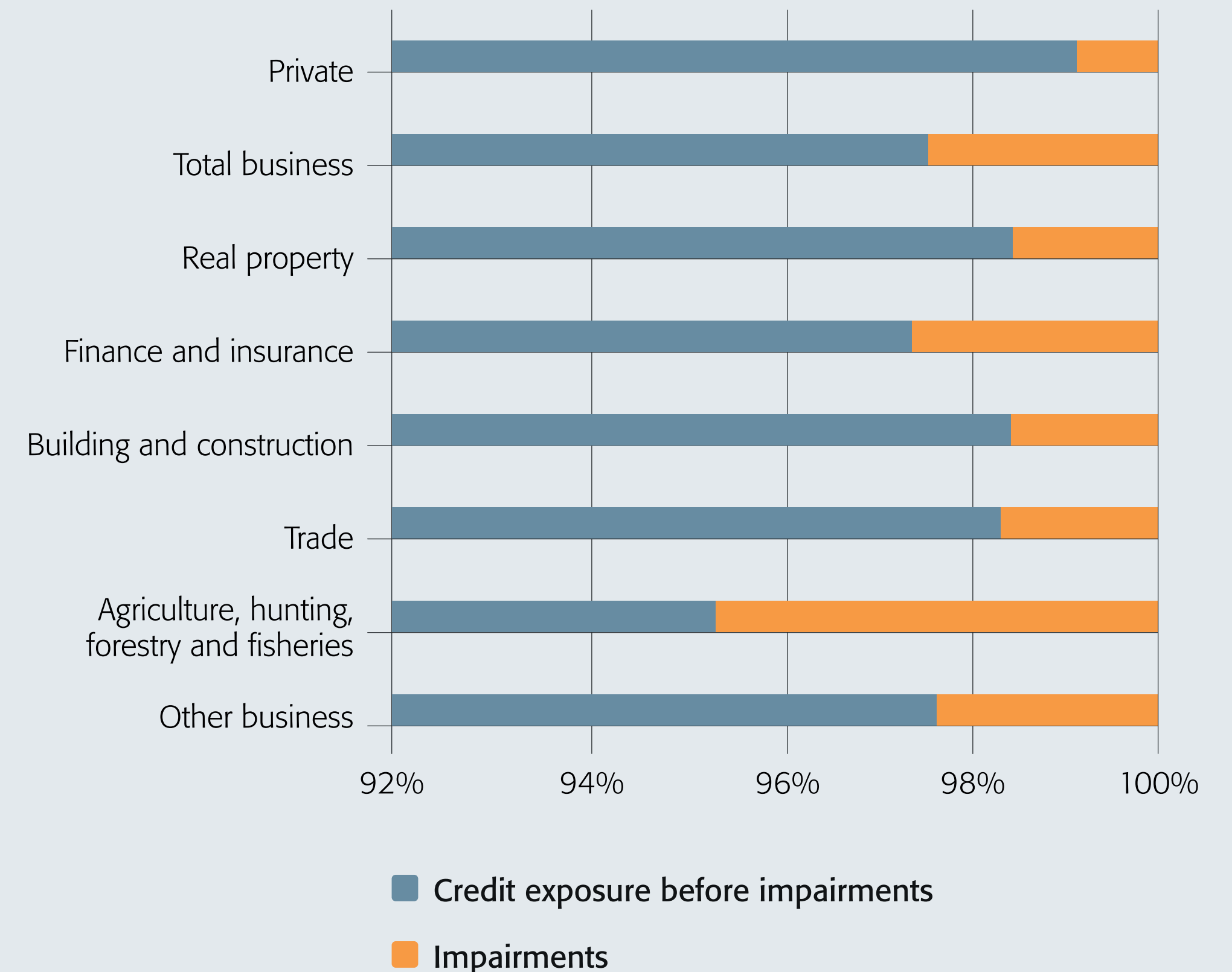
## A well diversified business loan book

- Agriculture and fisheries **16%**
- Trade **16%**
- Finance and insurance **11%**
- Building and construction **8%**
- Real property **18%**
- Other **31%**



# High proportion of lending to private retail customers **keeps impairment percentage low**

- Low total share of impairments over the gross credit exposure: 1.5%
- The impairment levels in the Business segment is higher and amounts to 2.5% of the gross credit exposure
- This level is driven by impairments in the agricultural segment which is part of Vestjysk Bank's portfolio
- As of 2nd quarter 2022, AL Bank has reduced the management estimates due to reduced risk of COVID 2019 impairments, however the Bank has increased estimates in relation to the development in macroeconomic trends pertaining to increases in inflation, interest rates and energy prices



# Credit Quality

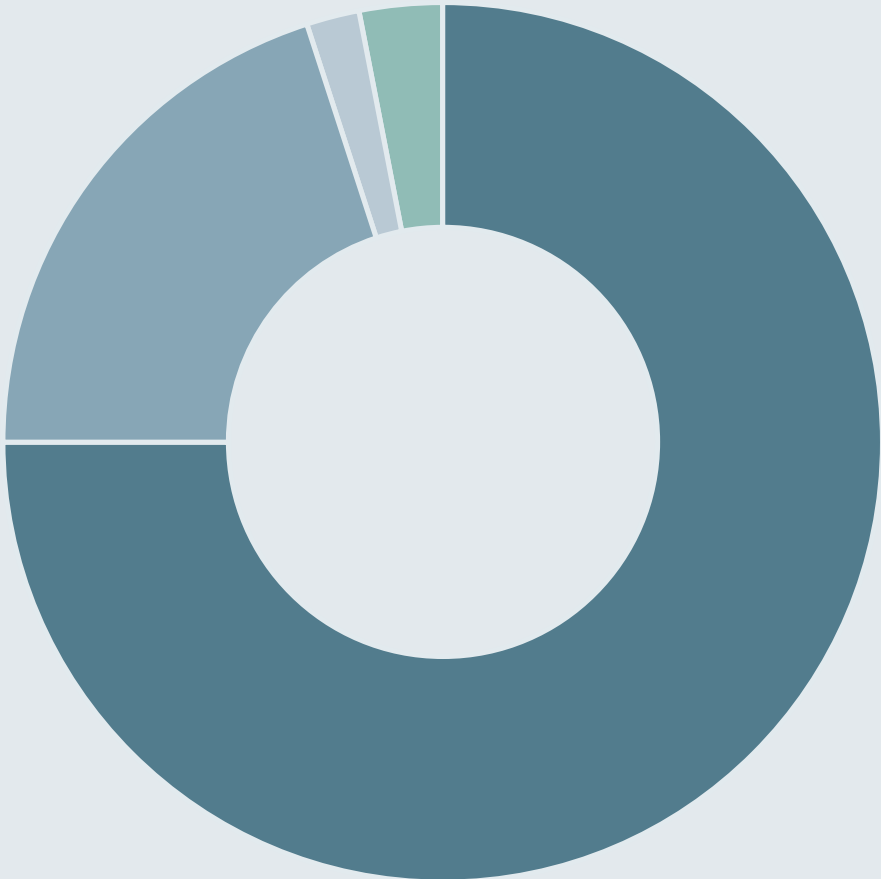
## – A Strong Retail Loan Book

- 65% of Group exposures is classified in the best group indicating a normal/good credit quality
- Exposure to retail customers has a better classification than the group's corporate customers
- The Group's corporate exposure is characterized by Vestjysk Bank's corporate lending, where a significant part of the portfolio experienced financial difficulties in the early 2010s

### Group's gross exposures to private and corporate customers divided into the Danish FSA's scoring system

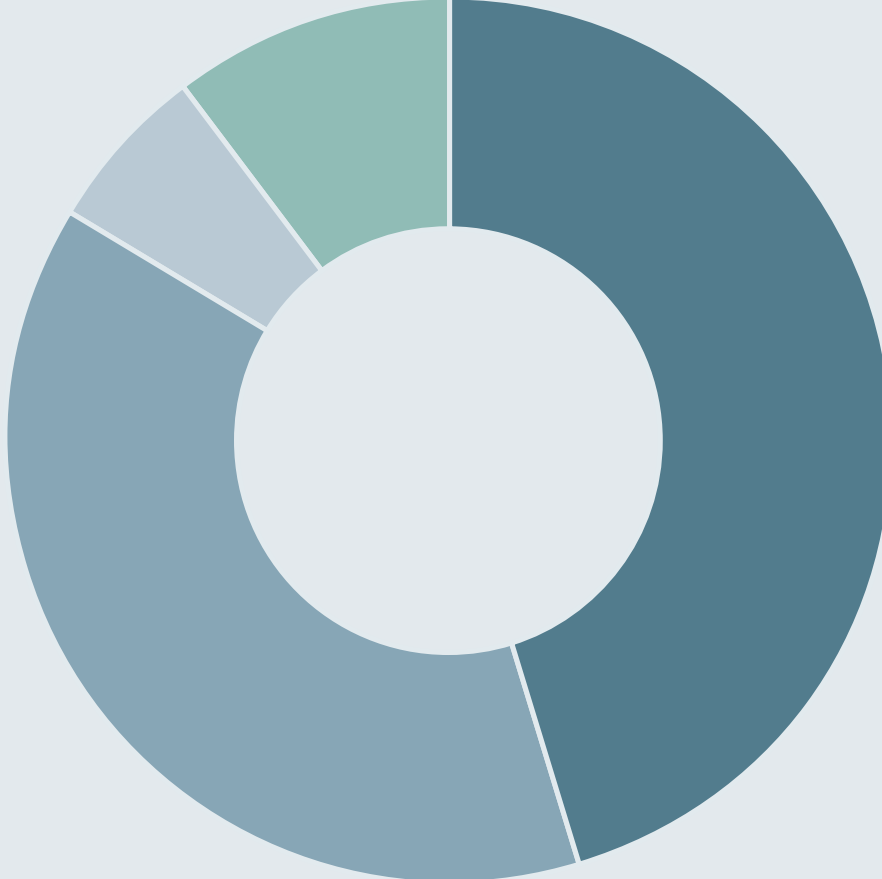
#### Private

- 3/2a: Good/normal credit quality **76%**
- 2b: Certain signs of weakness **20%**



#### Corporate

- 3/2a: Good/normal credit quality **45%**
- 2b: Certain signs of weakness **38%**



# Vestjysk Bank's loan book has improved significantly

- After facing financial difficulties in the wake of the financial crisis Vestjysk Bank has managed to improve credit quality significantly
- Loans to customers with good quality has increased to more than 50% of the portfolio
- Loans to impaired customers or customers with significant signs of weakness is now below 20%



# Vestjysk Bank has managed to improve credit quality significantly

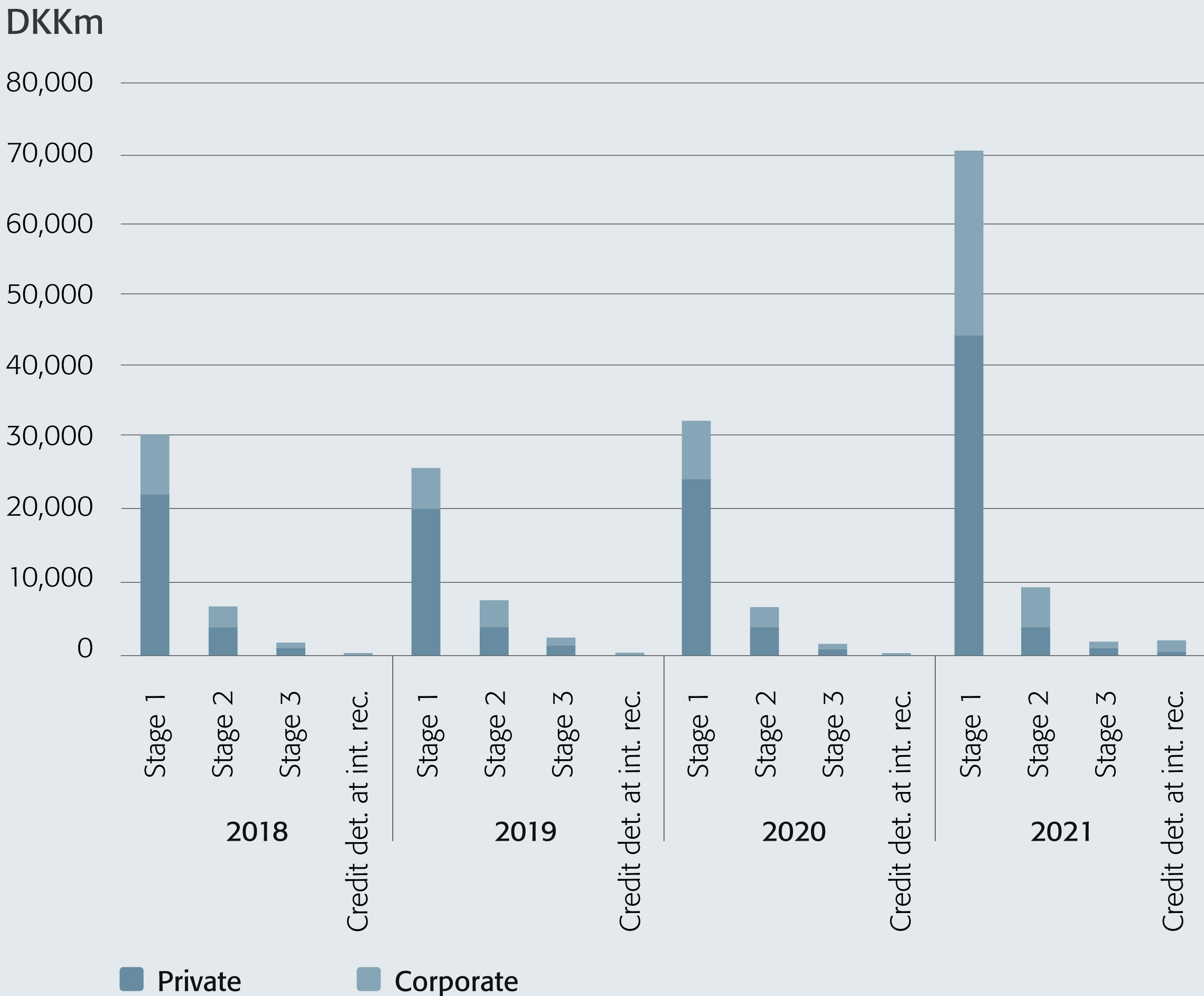


# Development in Credit Quality

from 2018 til 2021  
at Group Level

- The main part of the Group portfolio (85%) is in Stage 1, where the credit quality has not deteriorated significantly since origination. Most of the exposures in Vestjysk Bank's portfolio is included in stage 1 in the Group Accounts upon acquisition
- 11% of the portfolio is in stage 2 where the credit quality has deteriorated significantly since origination. This is the case for a bigger share of corporate exposures (18%) than private exposures (8%)
- 4% of the portfolio is in stage 3 (objective evidence of a credit loss) or credit deteriorated at initial recognition. This is the case for 8% of corporate exposures and only for 2% of the private exposures

## Groups exposure divided into the three stages defined in the accounting standard IFRS 9





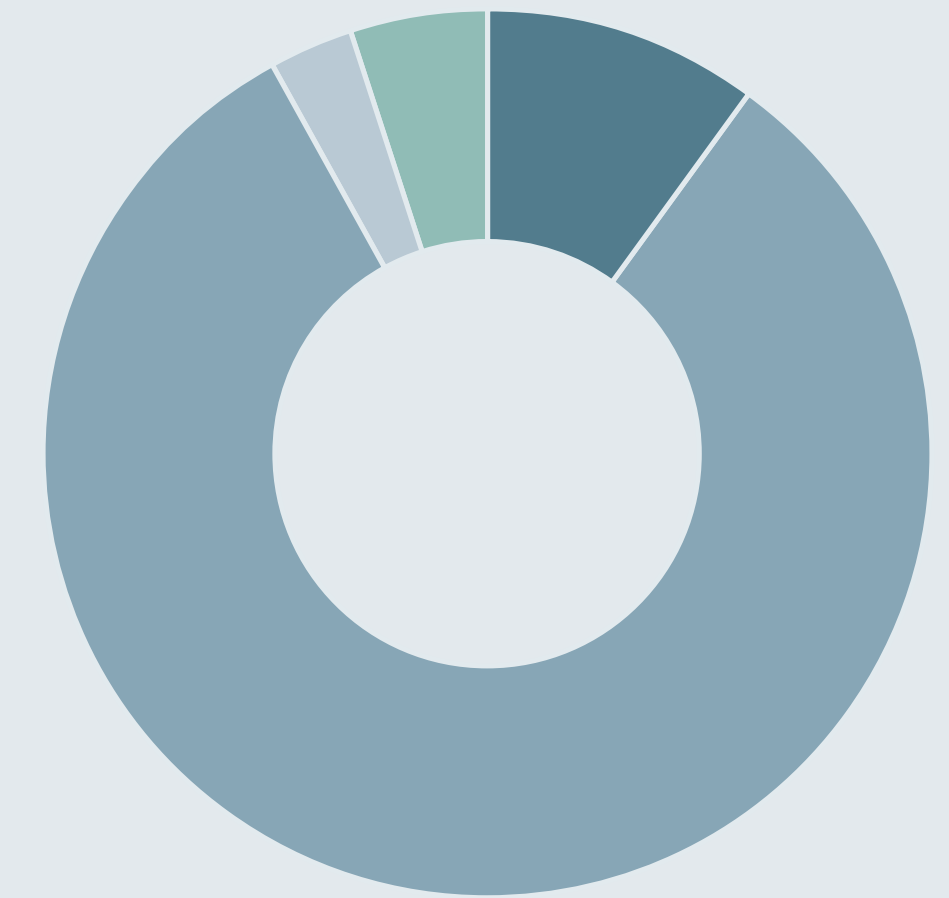
# Bond portfolio

– highly liquid and strong average rating

- Issuer segmentation is highly concentrated in covered bonds accounting for more than 82% of the total bond portfolio
- The Group's bond portfolio is highly concentrated in AAA-rated instruments and issuers. Only a small fraction of the Group's total portfolio is invested in non-investment grade and non-rated bonds

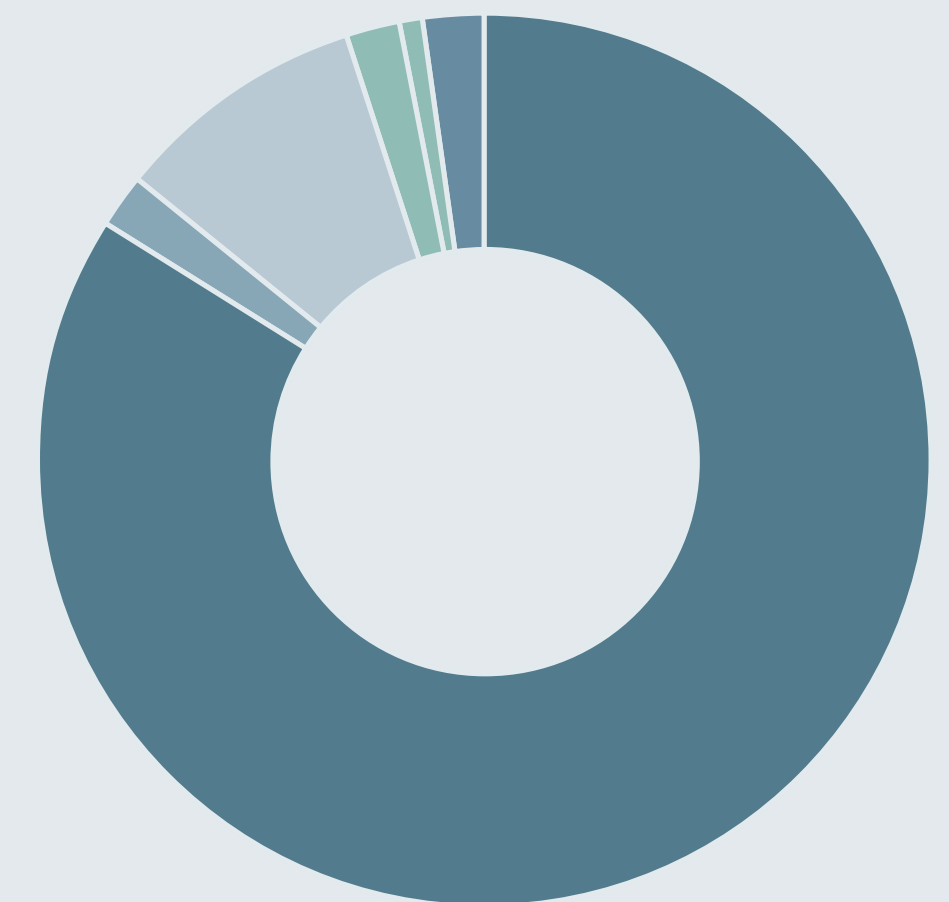
## Issuer Distribution - Group Bond Portfolio

- Government 10%
- Covered 82%
- Non-Financials 3%
- Financials 5%



## Rating Distribution - Group Bond Portfolio

- >AA+ 84%
- AA- to AA+ 2%
- A- to A+ 9%
- BBB- to BBB+ 2%
- Rating < BBB- 1%
- No Rating 2%



# Capital and **liquidity update**



# Regulatory requirements and capital targets

- The Group's capital target at 30 June 2022 has been set as the solvency need plus capital conservation buffer and an excess cover of 5.0 percentage points
- Arbejdernes Landsbank applies the standardised approach for calculation of credit and market risk as well as CVA risk.
- The designation of Arbejdernes Landsbank as a SIFI means that the Group will be subject to a SIFI capital buffer of 1.0 percentage point from the end of 2022, which is already included in current capital targets



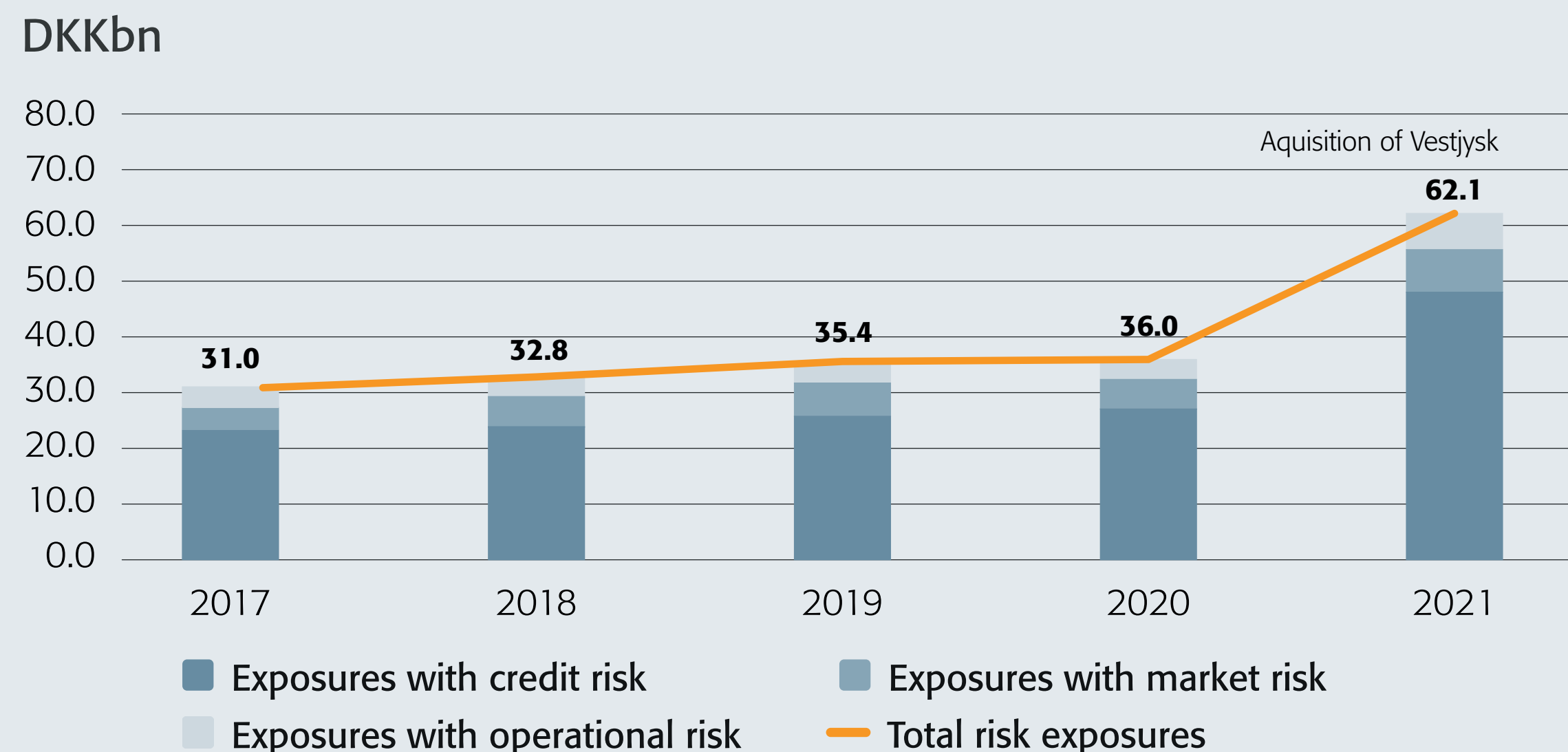
	Capital ratios	Capital target	Reg. requirement incl. buffers	Surplus/ requirement
	%	%	%	%
CET1	14.9	13.4	8.1	6.8
Tier 1 capital	16.0	15.1	10.0	6.0
Total capital	18.2	17.4	12.5	5.7
Total capital incl. MREL	18.2	17.6	15.6	2.6

# Vestjysk Bank acquisition

- impact on capital and risk exposure amount

- Acquisition of majority stake in Vestjysk Bank A/S in 2021 (72,7%)
- Acquisition partly funded by issuance of 1,8 bn. DKK worth of rights issues and partly via own funds
  - Reduced capital ratios as a result of increased REA
  - Minority shareholders share of the capital in Vestjysk Bank cannot be recognized in the group's capital base, corresponding to DKK 658 million in Q2 2022
  - but still well above regulatory requirements cf. previous slide

## Group Risk Exposure Amount (REA) 2017-2021



	2017	2018	2019	2020	2021
<b>Capital ratios</b>	%	%	%	%	%
CET1	16.2	17.6	16.2	17.0	14.9
Tier 1 capital	18.3	20.0	17.3	18.1	16.0
Total capital	18.3	20.0	19.8	20.6	18.2
Total capital incl. MREL	-	-	19.8	20.6	18.2

# MREL requirement fully phased in from the beginning of 2026

- Current forecasts indicates total MREL issuances around DKK 9 billion, depending on future risk-weighted assets and size of actual countercyclical capital buffer (CCyB). MREL requirement change 1:1 with CCyB.
- Forecast of DKK 9 billion is incl. estimated CCyB of 2 pct.
- Internal buffer to address regulatory guidance on refinancing risk
- Plan to issue semi-annually with roughly same size pr. issuance through newly established MTN programme

	31.12.2021	01.01.2026
<b>MREL requirement - Group level</b>	%	%
Solvency need	10.0	10.0
<b><i>Requirement for loss absorption</i></b>	<b>10.0</b>	<b>10.0</b>
Solvency need	10.0	10.0
Capital conservation buffer	2.5	2.5
SIFI buffer	0.0	1.0
<b><i>Requirement for recapitalisation</i></b>	<b>12.5</b>	<b>13.5</b>
Phase-in	-9.4	0.0
<b><i>MREL requirement</i></b>	<b>13.1</b>	<b>23.5</b>
Capital conservation buffer	2.5	2.5
Countercyclical buffer	0.0	0.0
SIFI buffer	0.0	1.0
<b><i>Total MREL and combined buffer requirement</i></b>	<b>15.6</b>	<b>27.0</b>



# Rating

Moody's announced May 31th 2022 a first rating decision on Arbejdernes Landsbank, assigning the following ratings:

- Baseline credit rating: Baa2
- Bank deposit rating: A2/P-1
- Outlook: Stable

## **Key strength and challenges from the Credit Opinion:**

Credit strengths:

- Popular retail franchise across Denmark, now also catering to corporates through Vestjysk Bank
- Strong capitalization
- Very strong funding

Credit challenges:

- High asset risk, which increased with consolidation of Vestjysk Bank
- Modest profitability with risk of being volatile

# Strong and stable funding profile

- Primary funding source is stable household deposits with a household/corporate deposit ratio of roughly 70/30 – based on a large and solid customer base
- Deposits make up around 85% of total funding base currently – around 75% after full MREL issuance
- Bond issuances to ensure proper capital base and MREL targets – not due to liquidity concerns/needs

	Funding 2021	0-1 mth	1-3 mth	3-12 mth	1Y-2Y	2Y-5Y	>5Y
<b>DKKm</b>							
Deposits	71,720	69,649	27	171	166	486	1,221
Credit institutions	381	347	33				
Senior non-preferred	350				60	290	
Tier 2	1,500			225	250	1,025	
Additional Tier 1	730			155	50	96	429
Own Funds	11,123						11,123
<b>Total funding</b>	<b>85,804</b>	<b>69,996</b>	<b>60</b>	<b>551</b>	<b>526</b>	<b>1,897</b>	<b>12,773</b>

Market funding  
~ 15%

New AT1 issued Jan-22  
(replacing equivalent AT1)

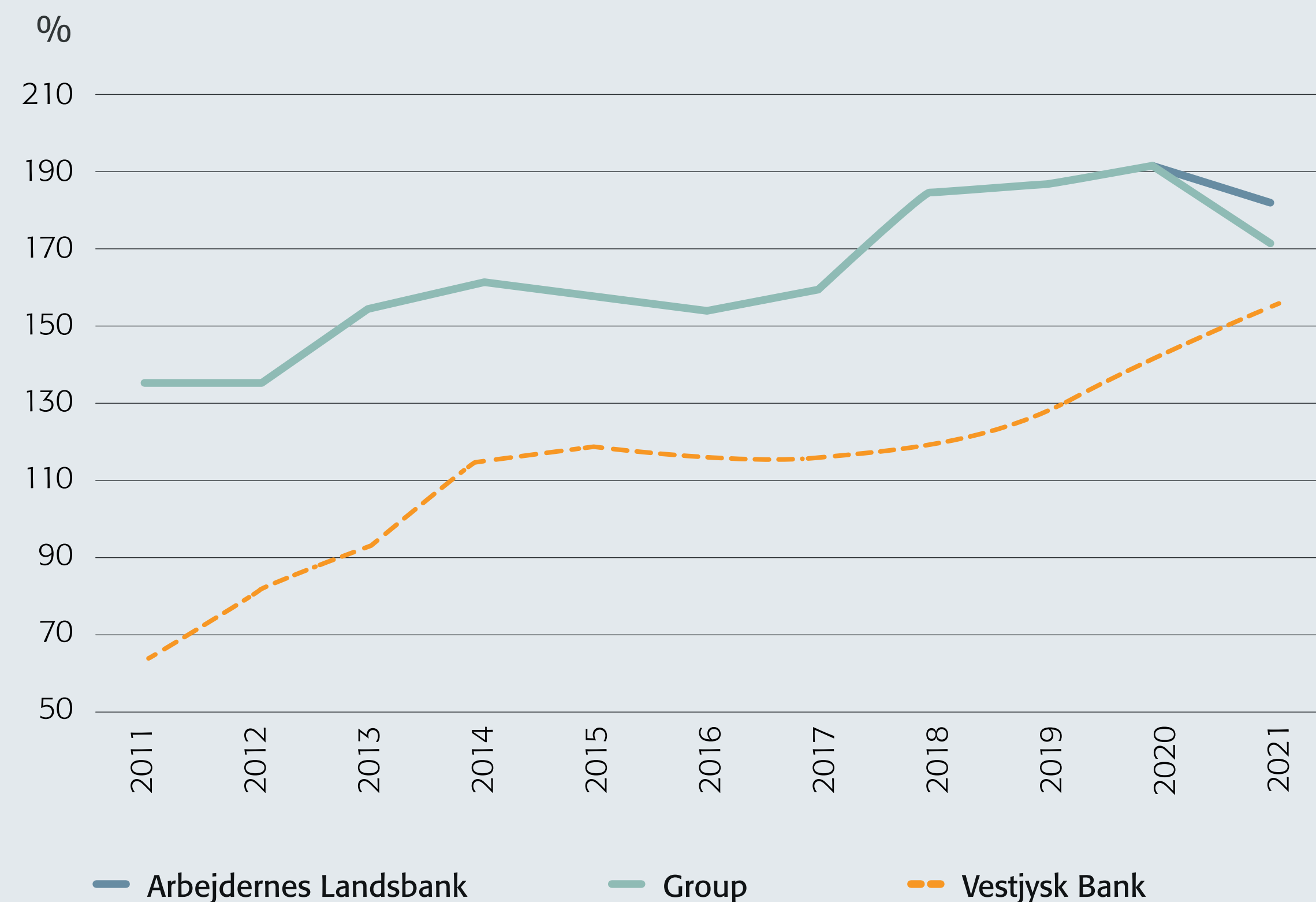
# Strong and stable funding profile (continued)

Significant deposit surplus ensures strong and stable funding base

Leverage ratio at 7.8% end of 2021 – well above regulatory requirements – underlining the conservative profile

- Internal min. target 6%
- Regulatory requirement min. 3%

## Deposit surplus ratio (deposits ex. AUM/net lending)





# Very strong liquidity risk profile

## Strong liquidity position with conservative risk profile

- Acquisition of Vestjysk Bank has not altered the liquidity risk profile materially
- Substantial liquidity buffer and a large share of (very) stable deposits – 66.5% categorized as stable in LCR-methodology
  - Deposit base well diversified, consisting primarily of smaller household customers

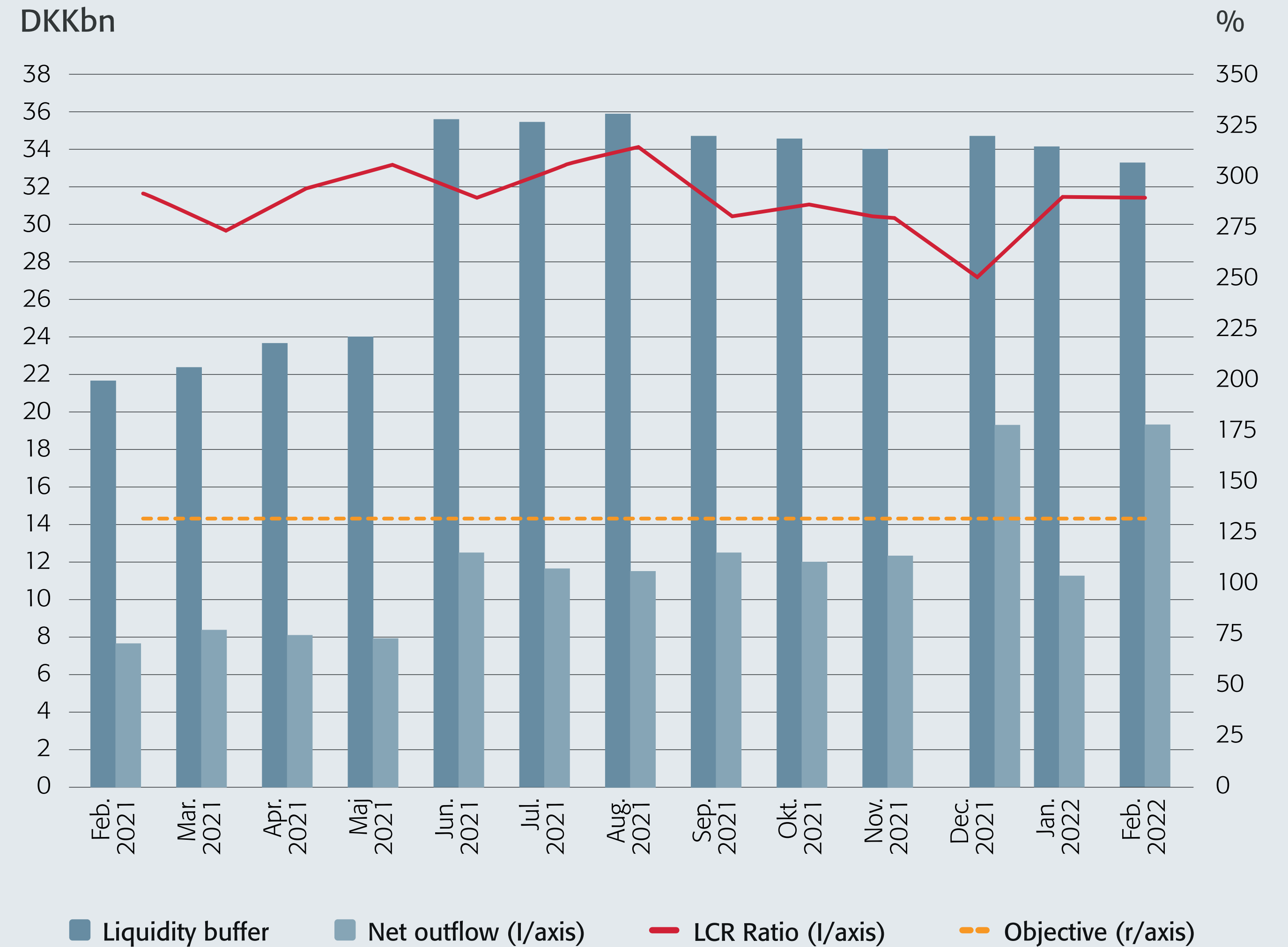
## Strong liquidity metrics well above internal targets and regulatory requirements

- LCR ranging roughly between 250-300%, with internal target of 130% and regulatory requirement of 100%
- NFSR at 137% end 2021 (implemented Q2 2021)
  - Internal target 110%
  - Regulatory requirement 100%



**Very strong**  
liquidity risk profile  
(continued)

### Group LCR-Ratio



A close-up photograph of a person's hands writing in a lined notebook on a wooden desk. The person is holding a black pen with a silver band that has the text 'Arbejdernes Landsbank' on it. In the background, another person's hands are visible typing on a laptop. The scene is brightly lit, suggesting an office or workspace environment.

**ESG**

# Sustainability strategy



### **Ambitious sustainability strategy**

Launched in 2020 with a vision of being recognized as one of the most sustainable banks in 2025. Strategic direction has been set for all business areas and functions.

### **Anchored in top management**

A Sustainability Committee with Executive Management members is responsible for the implementation of the sustainability strategy.

### **Guided by UN principles**

In 2021 we signed and reported to UN Principles for Responsible Banking, UN Principles for Responsible Investments and UN Global Compact.

### **Integrated through policies**

A distinct CSR and Sustainability policy has been signed by the board and Sustainability and ESG considerations has been integrated in policies for business areas and functions.

# Sustainability strategy (continued)

## Sustainability Strategy 2025

**Policy**

**Supporting UN SDG's**



Sustainable Loans and Credits	Sustainable Asset Management	Sustainable Own Portfolio	Sustainable Operations
<b>Policy</b>	<b>Policy</b>	<b>Policy</b>	<b>Policy</b>
Motivating our customers to make sustainable choices by integrating ESG and sustainability in advisory, products and services.	Integrating ESG and climate risks as fundamental parts of every investment we do on behalf of our customers and circle of owners.	Implementing ESG and climate risks in investment processes – allocating capital & increasing investments in sustainable activities.	Integrating sustainability in the physical surroundings, the affected environment and the mental space.

**Signatory of UN Principles**



**Measurement and Reporting**

**Governance**

**Regulation**

Source: The Responsibility & Sustainability Report 2021 that comprises Arbejdernes Landsbank and AL Finans and accounts for the Group's work and progress within sustainable financing, green sustainability, social sustainability and sustainable management.

# Sustainability initiatives



## Sustainable Loans and Credits

### ESG is integrated in the credit policy

- The credit rating of relevant business customers include ESG-risks and sustainability factors.

### Electric and hybrid vehicles financing

- DKK 1.6 bn. loans making up more than 30% of the total car loan portfolio.

### Home energy improvement financing

- Loan with favorable conditions for small and large home renovations.

### ESG tool for business customers

- Business customers get free access to a digital ESG tool to support their sustainability journey.



## Sustainable Asset Management

### Policy for responsible investments

- Declaring our sustainability ambitions and requirements to service providers and suppliers.

### ESG screening

- 90% of AUM in 2021 has been ESG screened.

### SFDR article 8 eligibility

- 85% of AUM in 2021 is estimated to be eligible to article 8 in the EU SFDR.

### Nordic Swan Ecolabel

- 20% of AUM in 2021 is placed in Nordic Swan Ecolabel funds with strict ESG requirements.



## Sustainable Own Portfolio

### Responsible investments

- Long historical focus on responsible investments.

### Green bonds

- DKK 413 mill. invested in green bonds – ambition to grow share as supply of green bonds increases.

### Green energy investments

- Private Equity investments in companies that develop and produce green energy solutions.

### Social impact investments

- Anchor investor in social impact bond fund with focus on both social and financial return.



## Sustainable Operations

### Climate impact report

- Analysis of direct and indirect CO<sub>2</sub>e-emissions based on GHG-protocol made publicly available.

### Energy efficiency improvements

- Reduced power consumption in own buildings with 16,2% in 1 year.

### Responsible employer

- High job satisfaction levels and employee engagement scores above sector average.

### Best sustainable brand

- Rated best sustainable brand in the industry in 2021 by Sustainable Brand Index™.



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