Group Risk Report 2020

Arbejdernes Landsbank

Aktieselskabet Arbejdernes Landsbank | CVR no. 31 46 70 12 | Copenhagen, Denmark

Group Risk Report 2020
for Arbejdernes Landsbank

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Overall risk management

The aim of the Group Risk Report is to provide an insight into internal risk management at Arbejdernes Landsbank and into the approach to reviewing and managing risk.

The Risk Report has been prepared in accordance with Regulation no. 575/2013/EU of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) no. 648/2012, EEA relevant text (CRR), Articles 431-455, as well as the Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need.

The Group Risk Report covers:

- Strategies and procedures for risk management
- The structure and organisation of risk management
- The scope and nature of risk reporting and risk measurement systems
- Policies for hedging, reducing and monitoring risk.

Furthermore, the report includes information about risks and risk management in the annual report of Arbejdernes Landsbank. Reporting pursuant to the disclosure requirements is performed in connection with presentation of the financial statements, whereas the individual solvency need is published quarterly.

The strategy for managing risk is that Arbejdernes Landsbank is to remain a strong financial enterprise for owners and customers alike. Arbejdernes Landsbank focusses on being aware of the risks to which it is exposed and on managing these appropriately.

The information in the Group Risk Report covers the Arbejdernes Landsbank Group (Arbejdernes Landsbank). The Group includes the following companies:

- A/S Arbejdernes Landsbank (parent company)
- AL Finans A/S (subsidiary)
- Ejendomsselskabet Sluseholmen A/S (subsidiary)

Both subsidiaries are fully owned by the parent company A/S Arbejdernes Landsbank. There are no differences between the consolidation basis for accounting purposes and consolidation in accordance with the CRR. Unless otherwise explicitly stated in the report, the information pertains to the whole Group.

The basis for the overall structure of risk management at Arbejdernes Landsbank is as follows:

- The risk appetite established by the Board of Directors and the derived risk policies and guidelines for the Executive Management.
- The Audit and Risk Committee established by the Board of Directors assessing whether the internal-control, audit, risk and security systems are working effectively, including an assessment of the internal audit function, the statutory audit and the financial reporting process.
- Internal risk committees at Executive Management level.
- Risk reports and monitoring, including compliance with policies and guidelines.

Arbejdernes Landsbank has a Risk Department managed by the Chief Risk Officer (CRO). The Risk Department is the 2nd line in the risk-management organisation, and it monitors risk management across Arbejdernes Landsbank, including correct identification, measurement, handling and reporting of all significant risks.

At least three times a year, the Risk Department prepares a report to the Board of Directors and the Executive Management regarding risk at Arbejdernes Landsbank, and the report includes assessments by the CRO as well as selected recommendations. The Risk Department includes an independent compliance unit managed by the Head of Compliance. This unit is responsible for independent reporting to the Executive Management and the Board of Directors. Monitoring IT security also falls under the Risk Department.

The credit departments in the Bank and in the Bank's subsidiary AL Finans A/S, respectively, are responsible for day-to-day risk management (1st line) of credit risk in the Bank's branches and in AL Finans A/S. The credit departments ensure compliance with the credit strategy as well as the credit policy. The credit departments also coordinate branch contact and credit advisory services for processing individual cases.

The Treasury & Finance Department is responsible for day-to-day risk management of the Bank's market risk. Treasury is responsible for the Bank's own portfolio, and Markets is responsible for servicing customers and for the derived market risks. The units are responsible for complying with relevant policies and instructions, while the Risk Department is responsible for calculating and reporting on utilisation of the framework.

The Treasury & Finance Department is responsible for day-to-day risk management of the Bank's liquidity risk. Liquidity management can be divided into a control task and a more operational task. The operational task is managed by the Liquidity Group in the Settlement unit at the Treasury & Finance Department, which, in close cooperation with the Bank's Currency and Money Market Group, manages the daily hedging of the Bank's liquidity utilisation. The control task is managed by the Bank's Treasury unit, which is responsible for ensuring a sufficient liquidity reserve and asset outflow profile in order to meet future payment obligations. The Bank's Risk Department calculates and reports on statutory liquidity targets, including the liquidity coverage ratio (LCR) and liquidity benchmark.

Management of operational risk is rooted in the individual business units in order to ensure efficient handling of events which have caused, or may potentially cause, operational losses. Arbejdernes Landsbank has systems to identify risk events of an operational nature and, other than reporting for managerial purposes, these systems are used to implement continuous improvements of procedures and contingency plans. The CFO area is responsible for management reporting, updating risk assessments and following up on compliance with policies.

Measures to protect Arbejdernes Landsbank from being abused for money laundering and/or financing of terrorism are anchored in an independent department to ensure a high-level vigilance (the AML Department). The Risk Department also monitors foreign transactions in the Bank's subsidiary AL Finans A/S. Monitoring of other transactions in the Bank's subsidiary is carried out by the person responsible for the anti-money laundering area in AL Finans A/S.

The Board of Directors and the Executive Management receive regular reports on developments in risk at Arbejdernes Landsbank. At least once a year, the Board of Directors assesses whether the risk policies need to be changed.

If activities in new areas are under consideration, the nature and scope of these will be discussed by a forum comprising the Executive Management and Deputy Bank Directors. A risk analysis is prepared before any recommendation is made to the Board of Directors to enter into specific business or to adjust previously completed instructions. The CRO will be involved if the decisions concern acceptance of new or significant risks for Arbejdernes Landsbank. The Board of Directors has adopted a product policy and governance in the area to ensure that new products and services are considered by the Bank's Prices and Products Committee before they are recommended to the Board of Directors.

There is focus on maintaining up-to-date IT systems in order to support risk management in significant business areas, and to quantify the size of the risks to which Arbejdernes Landsbank is exposed at any time.

Internal Audit (3rd line) is responsible for carrying out independent audit of risk management by Arbejdernes Landsbank, including the internal controls and monitoring of the risk area. Internal Audit reports on its activities and results to the Board of Directors as well as the Audit and Risk Committee.

Management declaration

Pursuant to Article 435(1) of the Capital Requirements Regulation (CRR), on 16 February 2021, the Board of Directors and the Executive Management of Arbejdernes Landsbank approved Arbejdernes Landsbank‘s Group Risk Report for 2020.

In the assessment of the Board of Directors, the risk management of Arbejdernes Landsbank comply with current regulations and standards and provide assurance that the risk management systems put in place are adequate with regard to the profile and strategy of Arbejdernes Landsbank.

In the assessment of the Board of Directors, the description of Arbejdernes Landsbank and the Group‘s overall risk profile associated with the business strategy, business model and financial ratios and key figures provides a comprehensive view of the risk management, including how the risk profile interacts with the risk appetite set by the Board of Directors.

The assessment by the Board of Directors was carried out on the basis of the business model, strategy and reporting adopted and presented to the Board of Directors by the Executive Management, internal and external audit, the CRO, and the Head of Compliance, as well as on the basis of any supplementary information or statements obtained by the Board of Directors.

The overall requirements for individual risk areas associated with Arbejdernes Landsbank‘s business model are realised through the individual risk policies.

A review of the Board of Directors‘ guidelines and the authority transferred to the Executive Management shows that the actual risks are within the limitations laid down in the individual policies. The underlying guidelines and the authority transferred onward by the Executive Management are within the limitations of this authorisation.

Thus, the Board of Directors assesses that the business model, policies, guidelines and the actual risks within the individual areas of activity are in alignment.

The business model describes who Arbejdernes Landsbank's customers are, what Arbejdernes Landsbank wants to offer them, and how, commercially and organisationally, Arbejdernes Landsbank intends to realise long-term strategic goals, thus creating value for customers, employees and owners.

Arbejdernes Landsbank aims at profitable earnings based on product pricing which reflects the risk and the capital commitments accepted by Arbejdernes Landsbank as well as an overall assessment of the scope of business with customers and counterparties. Arbejdernes Landsbank aims to maintain appropriately robust own funds to support the business model.

Arbejdernes Landsbank's objective is that the capital buffers at Bank level as well as Group level compared with the calculated solvency need amount to at least 6.5 percentage points. At the end of 2020, the excess cover amounted to 7.8 percentage points for the Group and 7.5 percentage points for the Bank.

The risk appetite of the Board of Directors is managed via the limits laid down in the individual policies and in the Board of Directors' instructions to the Executive Management.

Moreover, the Board of Directors considers the limits set in the supervisory diamond from the Danish FSA, see table 1, which shows the limit values allowed as well as the Bank's compliance at the end of 2020.

Table 1
Benchmarks from the Danish FSA at the end of 2020

	The supervisory diamond	Bank compliance
Large exposures	< 175%	57.0%
Lending growth	< 20%	4.7%
Commercial property expo-sure	< 25%	2.9%
Funding ratio	< 100%	40.5%
Liquidity benchmark	> 100%	285.7%

Disclosure requirements regarding management systems, see Article 435(2), points a-d of the CRR, are described on pp. 24-32 of the 2020 Annual Report, and on Arbejdernes Landsbank's website, https://www.al-bank.dk/om-banken/fakta-og-historik/corporate-governance/ (in Danish).

Risk management organisation

The Board of Directors has overall responsibility for defining and managing Arbejdernes Landsbank's risks, see figure 1. This is done on the basis of a business model, a strategy, risk appetite, risk policies and contingency plans. Based on reporting, the Board of Directors regularly follows up on risk management to ensure that it is satisfactory and that Arbejdernes Landsbank is operated responsibly and in accordance with guidelines and policies. The Audit and Risk Committee established by the Board of Directors contributes to preparing the Board's discussions and decisions with regard to accounting and auditing, and to ensuring the effectiveness of internal control systems and risk management systems.

In order to ensure effective risk management across Arbejdernes Landsbank, the Executive Management has set up a Risk Committee. The Risk Committee follows up on risk appetite, discusses the overall risk profile, follows up on the Bank's risk reporting and discusses risk policies before they are considered by the Audit and Risk Committee. The Executive Management and the CRO are members of the Committee.

A Credit Committee has been set up, tasked to authorise exposures of a certain size, approve impairment levels, approve credit management tools and deal with any other credit-related issues. The Committee consists of the CEO and the Director of Credit. The CRO is also a member of the Committee, but has no authority to grant loans.

An Operational Risk Committee has also been established to monitor compliance with policies for operational risk and to support the Audit and Risk Committee in assessing operational risk. The Committee includes the Executive Management, the Bank's CFO, the CRO, the Head of Compliance and the IT Director.

A Balance Sheet and Capital Committee has been set up. The aim of the Committee is to ensure efficient capital management. The Committee includes the Executive Management, the Deputy Bank Directors and the CRO.

The purpose of the IT Security Committee is to review and provide input on topics and tasks related to IT security and to ensure coordination and knowledge-sharing about IT security initiatives across the Bank. The Committee includes the CRO, the Bank's DPO, the IT Director, the Head of IT Operations and the Head of IT Security.

The Investment Committee consists of the Executive Bank Director responsible for the Treasury & Finance Department, the Bank's CFO and the Head of Treasury. The Bank's CRO participates on an ad hoc basis. The Committee follows up on the Bank's investment within and outside the trading portfolio and reconciles future tactical positioning.

The Case Committee discusses credit cases of a principle nature, but it does not authorise cases. The Committee consists of the CEO, the Deputy Bank Director responsible for Business, the Director of Credit, the CRO and a business director.

The Prices and Products Committee is composed of the Bank's Deputy Bank Directors, the Director of Credit, the CRO, the Head of Compliance and the Head of Markets. The Committee approves new products and services and the closure of existing products and services. The CRO and the Head of Compliance have no authority to grant approval.

The committee for coordination of 2nd line and 3rd line discusses compliance and risk issues as well as coordination and sharing of risk assessments. The committee is composed of the CRO, the Chief Audit Executive and the Head of Compliance.

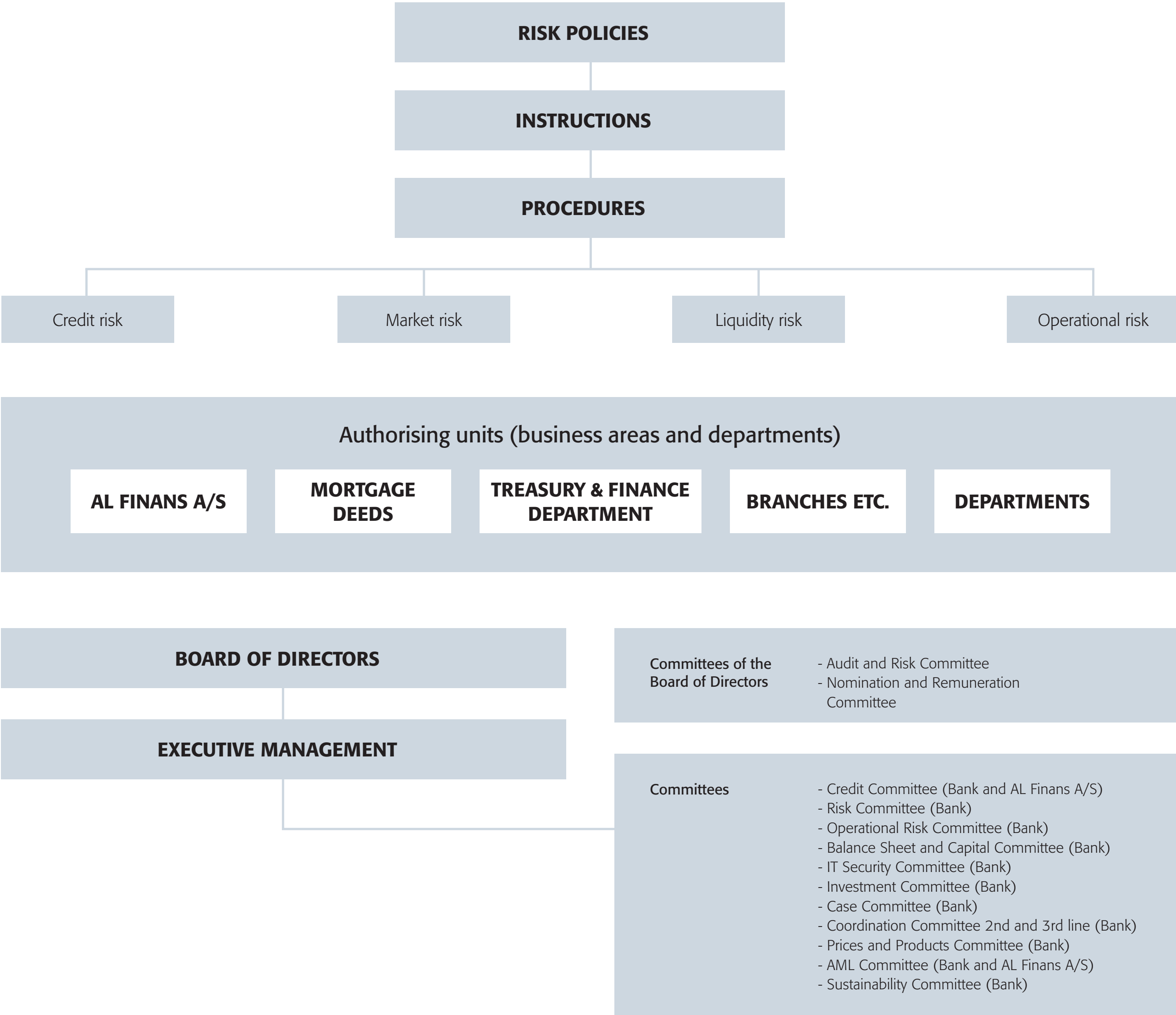
The aim of the AML Committee is to ensure coordination and planning of activities across Arbejdernes Landsbank within the anti-money laundering area, including ensuring that Arbejdernes Landsbank's procedures comply with legislative requirements. The Committee includes the Executive Management, the CEO of AL Finans A/S, the person responsible for the anti-money laundering area at the Bank, the person responsible for the anti-money laundering area at AL Finans A/S, the CRO and the Head of Compliance.

The Sustainability Committee is composed of the Executive Management, the Deputy Bank Directors, the CRO as well as the Bank's Chief Sustainability Officer. The aim of the Committee is to ensure that the Bank's sustainability strategy is implemented across the Bank.

The Executive Management as well as the Deputy Bank Director for Business and the Director of Credit are represented on the Board of Directors of the Bank's subsidiary AL Finans A/S, and they help to ensure that the risk policies of the Group are implemented. The Bank's CRO participates as an observer at Board of Directors meetings in AL Finans A/S.

Organisation chart for risk management

Figure 1



1ST LINE OF DEFENCE	2ND LINE OF DEFENCE	3RD LINE OF DEFENCE
Credit Department/Credit Secretariat (Credit risk – Bank)	Risk Department (Group)	Internal Audit (Group)
Credit Department (Credit risk – AL Finans A/S)	Compliance (Group)	
Treasury & Finance Department (Market and liquidity risks – Bank)	Compliance and Risk (AL Finans A/S)	
The individual areas, business areas and departments (Operational risk and ICT risk* – Group)		
AML (Risk related to money laundering and terrorist financing – Group)		

*) Information and communication technology.

Reporting overview

Annual reporting/approval	Quarterly reporting/approval
Individual solvency need, ICAAP Assessment and approval of model for calculating solvency need. **Risk policies** Review of risk policies for the individual risk areas and assessment of the need for adjustments. Follow-up on compliance with risk policy. **Contingency plans** Review of contingency plans (capital conservation plans, capital ratio improvement plans, IT contingency plans, and recovery plans). **Projections** Projection of the Bank's capital, solvency, and earnings in different macro-economic scenarios (half-yearly). **Benchmark analysis** Benchmarking against comparable banks in selected areas/ratios and key figures. **Calculation and assessment of liquidity position and liquidity risk (ILAAP)** Overall calculation and assessment of liquidity position and liquidity risk. **Risk report by the CRO** Report about the work of the risk function (three times a year) and overall assessment of the Group's risks and risk management. Follow-up on the year's risk action plan and review of next year's action plan. **Recovery plan** Confirmation that the Group itself can initiate compensatory measures if selected risk indicators exceed set limit values. **Responsibility & Sustainnability Report** The Responsibility & Sustainnability Report accounts for the Group's corporate social responsibility. **Compliance Report** Report on the compliance function's work and the Group's general compliance (half-yearly). **Budget and projections** Business and strategic risks are identified through the process of preparing the Group budget and projections. **Annual and interim financial statements** Developments in earnings, business activity etc. **Outsourcing** Reporting on key outsourcing agreements.	**Individual solvency need** Assessment of risk profile and calculation of adequate own funds. **Solvency and capital** Solvency and capital statements (monthly). **Credit risks** Developments in loans and guarantees broken down by customer segment, rating code, overdraft, etc., as well as (half-yearly) checks of compliance with credit policy goals and requirements established in the credit policy. **Market risks** Developments in interest-rate risks and credit-spread risks, as well as share and currency risks compared with frameworks and investment strategy (monthly). **Liquidity risks** Developments in excess coverage in relation to the LCR requirement (monthly). Analysis of liquidity in the short and the long terms, including liquidity stress tests (monthly). **Operational risk** Review and assessment of standalone incidents with significance in terms of value. Reporting on IT security forms part of this reporting. **The supervisory diamond** Developments in the Bank's ratios and key figures in relation to the limits in the supervisory diamond (monthly). **Follow-up on risk indicators** Follow-up on yellow-light and red-light indicators in the recovery plan. Indicators concerning capital and liquidity (monthly). **AML reporting** Review and reporting of incidents. Annual reporting on AML risk assessment.

Capital and solvency need

Capital management

Capital management is based on the calculation methods and ratios and key figures prepared by the Basel Committee and implemented in the CRR. As part of capital management, Arbejdernes Landsbank has drawn up a capital plan to ensure that the Group has sufficient capital to comply with current legislation and meet its own solvency targets at all times. The legislation concerns:

- Calculation of capital, risk exposures and capital requirements (8% capital requirement)
- Calculation of individual solvency need
- Combined capital buffer requirement

The individual solvency need is described in the Danish Financial Business Act and encompasses any additional capital requirements to cover risks which are not adequately covered by the 8% minimum requirement according to the CRR. The combined capital buffer requirement is stated in CRD IV and entails that the Group must have a capital preservation buffer of 2.5%. Moreover, the Minister for Industry, Business and Financial Affairs may decide to activate a countercyclical capital buffer of up to 2.5%. The Group's solvency need was calculated at 10.3% at the end of 2020, and the combined capital buffer requirement was 2.5% at the end of 2020, as the Minister for Industry, Business and Financial Affairs has not activated the countercyclical capital buffer. The Group's total capital requirement was calculated at 12.8% at the end of 2020.

The Group's capital plan has been supplemented by a recovery plan comprising a number of relevant risk and capital indicators for the Bank with associated limit values, stress test scenarios and recovery measures to ensure that the Group is able to identify problems in time and implement measures to ensure the viability of the Bank. The Group regularly monitors developments in risk indicators.

Based on legal requirements and the limit values for capital indicators set in the recovery plan, the Group has set a capital target covering the solvency need, the maximum combined capital buffer requirement of 5.0% as well as an additional buffer of 1.5%. The target corresponds to the yellow-light indicator in the recovery plan and means that the Group can live through severe stress scenarios without violating the statutory capital requirements. The target capital ratio is calculated as at least 16.8%, and with a capital ratio of 20.6% at the end of 2020, the Group fully meets this target. In relation to the capital requirement at the end of 2020, the Group's excess cover is 7.8 percentage points.

The long-term capital planning of the Group is based on economic projections taking account of the Bank's vision and different macro-economic stress scenarios. The capital plan also includes the expected effect of upcoming legislation.

Own funds

Overall, Group own funds consist of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Own funds are calculated with a view to calculating capital ratios that help to express the Group's capital excess cover in relation to the Group's targets and regulatory capital requirements.

Table 2
Calculation of Group own funds

	2020 DKK mill.	2019 DKK mill.
Share capital	300.0	300.0
Revaluation reserves	405.7	385.3
Retained earnings	5,973.4	5,723.8
Proposed dividend	0.0	-45.0
Intangible assets	-15.5	-19.3
Deductions for prudent valuation	-23.6	-22.5
Capital instruments in financial entities <10%	-179.2	-155.9
Capital instruments in financial entities >10%	-343.0	-443.6
Common Equity Tier 1 capital	*6,117.8*	*5,722.9*
Additional Tier 1 capital issued	429.0	429.0
Capital instruments in financial entities <10%	-25.4	-31.2
Capital instruments in financial entities >10%	0.0	0.0
Tier 1 capital	*6,521.4*	*6,120.7*
Tier 2 capital issued	900.0	900.0
Capital instruments in financial entities <10%	-8.3	-7.3
Own funds	*7,413.1*	*7,013.4*

During 2020, own funds increased by DKK 400 mill. to DKK 7,413.1 mill. The development in own funds is mainly attributable to the Group's retained earnings from the profit for the year and to a decrease in the Group's deductions from own funds for investments in financial entities of DKK 82.0 mill.

Currently, the Bank has issued Additional Tier 1 capital of DKK 429.0 mill. and Tier 2 capital of DKK 900.0 mill. The Additional Tier 1 capital complies with the requirements in Articles 52-54 of the CRR and has been recognised as part of equity.

Table 3
Additional Tier 1 capital issued

	2020	2019
Type	Additional Tier 1 capital	Additional Tier 1 capital
Principal amount (DKK mill.)	429.0	429.0
Own portfolio (DKK mill.)	0.0	0.0
Carrying amount (DKK mill.)	429.0	429.0
Currency	DKK	DKK
Interest rate (%)	9.1	9.1
Received	2014	2014
Maturity	Indefinite	Indefinite
Possibility for redemption before maturity	22.01.2021	22.01.2021
Subsequent interest rate	CIBOR-6M + 7.25%	CIBOR-6M + 7.25%
Interest on subordinated debt (DKK mill.)	38.9	38.9
Subordinated debt included when calculating Tier 1 capital/own funds (DKK mill.)	429.0	429.0

Tier 2 capital issued

	2020	2019
Type	Tier 2 capital	Tier 2 capital
Principal amount (DKK mill.)	900.0	900.0
Own portfolio (DKK mill.)	0.0	0.0
Carrying amount (DKK mill.)	900.0	900.0
Currency	DKK	DKK
Interest rate	CIBOR-6M + 3.5%	CIBOR-6M + 3.5%
Received	2019	2019
Maturity	21.05.2031	21.05.2031
Possibility for redemption before maturity	21.05.2026	21.05.2026
Subsequent interest rate	CIBOR-6M + 3.5%	CIBOR-6M + 3.5%
Interest on Tier 2 capital (DKK mill.)	31.1	18.5
Tier 2 capital included when calculating Tier 1 capital/own funds (DKK mill.)	900.0	900.0

Capital requirement (8%)

The total risk exposure amount (REA) is used to set the minimum capital requirement and to calculate the Group's capital ratios, capital buffers and individual solvency needs. In accordance with the CRR, Arbejdernes Landsbank calculates the risk-weighted exposures for both the Group and the Bank.

The total risk exposure of the Group has increased by DKK 541.8 mill. at the end of 2020 compared with the end of 2019. The development is attributable to an increase in credit risk of DKK 1,306.4 mill. and a decrease in market risk of DKK 649.4 mill.

The Group's capital ratio was 20.6% at the end of 2020 compared with 19.8% at the end of 2019. The increase of 0.8 percentage points is primarily attributable to the increase in the Group's own funds.

The Group uses the following methods to calculate the capital ratio:

- The standard method to calculate credit risk
- The standard method to calculate market risk
- The market value method to calculate counterparty risk
- The Basic Indicator Approach to calculate operational risk
- Collateral in the form of securities according to the extended method
- Collateral in the form of mortgages on real property and cash deposits with the Bank

Table 4
Capital requirement (8%)

	2020 DKK mill.	2019 DKK mill.
Exposures with credit risk etc.		
Exposures to institutions	26.6	38.8
Exposures to companies	370.3	373.3
Retail exposures	1,183.2	1,108.7
Exposures secured by mortgages on real property	171.3	151.4
Exposures in default	44.6	43.2
Exposures with particularly high risk	25.0	26.2
Investment associations	0.4	0.9
Share exposures	186.7	158.2
Other exposures	147.4	147.7
CVA risk	3.9	6.5
Total exposures with credit risk etc.	*2,159.4*	*2,054.8*
Exposures with market risk		
Debt instruments, specific risk	287.7	301.5
Debt instruments, interest-rate risk	119.0	146.0
Position risk for shares	18.0	26.8
Currency risk	5.2	7.4
Total exposures with market risk	*429.9*	*481.8*
Operational risk	288.4	297.6
Total capital requirement	*2,877.6*	*2,834.3*
Own funds for compliance with capital requirement	7,413.1	7,013.4

The capital requirement according to pillar 1 (8% of risk exposures) amounted to DKK 2,877.6 mill. at the end of 2020 against DKK 2,834.3 mill. in the previous year. The market risk capital requirement fell by DKK 51.9 mill. Conversely, the credit risk capital requirement increased by DKK 104.5 mill., which reflects growth in the Group's loan and guarantee portfolio.

Solvency need

Model

Arbejdernes Landsbank sets an individual solvency need for both the Group and the Bank.

Arbejdernes Landsbank uses the 8+ model which is based on a minimum requirement of 8% of the total risk exposure (pillar 1 requirement). Normal risks are assumed to be covered by the 8% capital requirement. Furthermore, the Bank assesses the extent to which additional capital is needed to cover risk areas not included in the 8% requirement (pillar 2). The total capital need is obtained by adding together the capital need according to pillar 1 and pillar 2.

The model is based on the "Guidelines on adequate own funds and solvency need for credit institutions" from the Danish FSA, which lists benchmarks and methods of calculation for any pillar 2 supplements within a number of risk areas.

Solvency need is calculated as the total capital need as a percentage of total risk exposure in accordance with the provisions of the CRR.

Adequate capital and solvency need

The Group's total solvency need was calculated at 10.3% at the end of 2020 against 10.0% at the end of 2019. The increase is attributable to the Group's coverage of credit risk and other risks, including the Group's earnings risk. Adequate own funds amounted to DKK 3,718.9 mill. Calculation of adequate own funds and solvency need can be broken down into the following categories:

Table 5
Solvency need

	2020 DKK mill.	2020 %	2019 DKK mill.	2019 %
Capital to cover credit risk	2,465.6	6.9	2,285.9	6.5
Capital to cover market risk	848.4	2.4	936.3	2.6
Capital to cover operational risk	313.5	0.9	297.6	0.8
Capital to cover other risks	91.5	0.3	24.4	0.1
Adequate own funds/solvency need	*3,718.9*	*10.3*	*3,544.3*	*10.0*

Capital to cover credit risk
Capital to cover credit risk is calculated as 8% of the risk exposures relating to credit risk as well as capital to cover the following specific risks:

- Concentration risk on large exposures
- Large exposures with financial problems
- Concentration risk on sectors
- Shares etc. outside the trading portfolio
- Other credit risks

Capital to cover market risk
Capital to cover market risk is calculated as 8% of the risk exposures relating to market risk as well as capital to cover the following specific risks:

- Credit spread
- General interest-rate risk
- Interest-rate risk outside the trading portfolio.
- Other market risks

Capital to cover operational risk
Capital to cover operational risk is equivalent to the solvency requirement according to the basic indicator approach set out in Articles 315-316 of the CRR. The Group makes its own calculations of operational risk based, for example, on historical losses, and risks associated with information and communication technology are also assessed.

Capital to cover other risks
Capital to cover other risks includes assessments of capital requirements for the level of earnings, lending growth, leverage, risk of falling prices on owner-occupied and investment properties, as well as other aspects, including statutory requirements.

Process
Assessment of the solvency need is an integrated part of the Group's routine budget process, in which the Board of Directors annually approves the budget and the solvency need. In addition, there will be quarterly adjustments and adaptations, and these are also subject to approval by the Board of Directors.

The Risk Department is responsible for the statement of solvency need, and this takes place in a coordinated process involving all relevant departments. Risk calculations, assessments and documentation are completed by entities with expertise within the individual risk areas. The individual units are responsible for establishing controls to ensure that the calculations are correct and documented. The Risk Department and the CFO area monitor developments in the solvency need.

Combined capital buffer requirement

As a result of implementation of CRD IV in the Danish Financial Business Act, the Group is obliged to comply with the combined capital buffer requirement, which for Arbejdernes Landsbank consists of a capital preservation buffer and the countercyclical capital buffer. The capital buffer requirement can only be met through Common Equity Tier 1 capital. Non-compliance with the capital buffer requirement will result in restrictions on the Group's possibilities to pay dividends and make other distributions.

The capital preservation buffer helps to ensure a more robust financial sector in terms of capital, and it amounts to 2.5% of the total risk exposure.

The countercyclical capital buffer will be activated by the Minister for Industry, Business and Financial Affairs and can amount to up to 2.5% of total risk exposure. The countercyclical capital buffer will be activated in individual countries in the EU/EEA area, if supervisory authorities in these countries assess that systemic risks are developing in the financial sector. On 12 March 2020, in response to COVID-19, the Minister for Industry, Business and Financial Affairs decided to reduce the countercyclical capital buffer rate in Denmark to 0%.

The institution-specific countercyclical capital buffer for Arbejdernes Landsbank is calculated on the basis of the Bank's geographical distribution of credit exposures. For countries in which credit exposures exceed 2% of total credit exposures, the Bank must reserve capital that matches the level of the countercyclical capital buffer in the country in question.

Table 6
Geographical distribution of credit exposures at the end of 2020

	General credit exposures DKK mill.	Exposures in the trading portfo DKK mill.	Total DKK mill.	%
Denmark	44,374.9	19,933.6	64,308.6	93.3
Germany	261.2	1,661.6	1,922.8	2.8
Other countries *)	337.7	2,385.0	2,722.7	3.9
Total	*44,973.9*	*23,980.2*	*68,954.0*	*100.0*

*) "Other countries" refers to all exposures which amount to less than 2% of total general credit exposures and exposures in the trading portfolio. These are ascribed to Denmark when calculating the institution-specific countercyclical capital buffer.

Table 7
Geographical distribution of own funds requirement at the end of 2020

	General credit exposures	Exposures in the trading portfolio	Total	
	DKK mill.	DKK mill.	DKK mill.	%
Denmark	2,106.5	193.7	2,300.1	94.1
Germany	17.7	25.2	43.0	1.8
Other countries *)	21.5	78.4	100.0	4.1
Total	*2,145.7*	*297.3*	*2.443,1*	*100,0*

*) "Other countries" refers to all exposures which amount to less than 2% of total general credit exposures and exposures in the trading portfolio. These are ascribed to Denmark when calculating the institution-specific countercyclical capital buffer.

Apart from Denmark, Arbejdernes Landsbank only has credit exposures exceeding 2% in Germany. Germany has not yet activated its countercyclical capital buffer. Consequently, the countercyclical capital buffer amounts to 0.0% for Arbejdernes Landsbank, as the countercyclical capital buffer in both Denmark and Germany is set at 0.0%.

Table 8
Combined capital buffer requirement

	2020	2019
Total risk exposure (DKK mill.)	35,970.5	35,428.7
Capital preservation buffer rate (%)	2.500	2.500
Institution-specific countercyclical capital buffer rate (%)	0.000	0.982
Capital preservation buffer rate (DKK mill.)	899.3	885.7
Institution-specific countercyclical capital buffer rate (DKK mill.)	0.0	347.9
Combined capital buffer requirement	*899.3*	*1,233.6*

In 2020, the combined capital buffer requirement was reduced by DKK 334.3 mill. to DKK 899.3 mill. This decrease is attributable to the reduction of the countercyclical capital buffer to 0.0% in Denmark.

Excess cover in relation to the total capital requirement

The Group's capital ratio was 20.6% at the end of 2020, corresponding to an excess cover of 7.8 percentage points relative to the total capital requirement of 12.8%, comprising the minimum capital requirement of 8.0%, the solvency supplement of 2.3% and the combined capital buffer requirement of 2.5%.

The minimum capital requirement of 8% must be covered by at least 4.5% Common Equity Tier 1 capital, while at least 6% of the minimum capital requirement must be covered by Tier 1 capital. Tier 2 capital may account for up to 2.0%. Corresponding relative quality requirements for capital apply to the solvency supplement. The combined capital buffer requirement can only be covered by Common Equity Tier 1 capital.

Table 9
Capital composition in relation to capital requirement at the end of 2020

	Capital requirement	Capital requirement	Capital	Surplus capital
	%	DKK mill.	DKK mill.	DKK mill.
Common Equity Tier 1 capital	8.3	2,991.2	6,117.8	3,126.7
Tier 1 capital	10.3	3,688.5	6,521.4	2,833.0
Own funds	12.8	4,618.2	7,413.1	2,795.0

Table 9 shows that at the end of 2020, the Group had an excess cover of DKK 3,126.7 mill. relative to Common Equity Tier 1 capital, and an excess cover of DKK 2,833.0 mill. relative to the Tier 1 capital requirement. The excess cover for the Group's overall capital requirement is DKK 2,795.0 mill. The Group's largest excess cover is thus in relation to Common Equity Tier 1 capital.

MREL requirement

According to the Danish Financial Business Act, the Danish FSA and Finansiel Stabilitet are responsible for preparing resolution plans for banks in distress. These plans state that a minimum requirement for own funds and eligible liabilities (MREL) must be determined for the individual bank. The MREL will ensure that a bank in distress has sufficient eligible liabilities to cover losses in the bank and to recapitalise the bank so that critical functions can be continued without using public funds.

The MREL requirement is composed of the individual solvency need plus a MREL add-on, as notified by the Danish FSA to the individual institution. The MREL add-on requirement for Arbejdernes Landsbank set by the Danish FSA most recently in November 2020 is 8.0% of the risk-weighted exposures. The MREL add-on will be phased in over a 4-year period: 1.9% in 2020, 3.1% in mid-2021, 4.4% in mid-2022 and 8.0% in mid-2023. The requirement is for the Group.

The MREL requirement can be met by the capital items included in own funds and non-preferred senior debt with a maturity of more than 1 year. Common Equity Tier 1 capital used to meet the combined capital buffer requirement cannot simultaneously be used to meet the MREL requirement.

Future capital adequacy rules

In December 2017, the Basel Committee published its final recommendations on amended regulations for calculations of capital requirements. These are known as Basel IV and will be implemented in the EU in CRR II/CRR III and CRD V/CRD VI. Arbejdernes Landsbank uses the standard method to calculate risks and has noted that substantial changes to credit risk and market risk have been recommended under the standard method, including stricter capital requirements for unutilised credit facilities and exposures secured by mortgages in real property. The Group's projections and impact analyses of the effect of implementing Basel IV indicate an increase in risk-weighted exposures of 16%, and a reduction of the solvency supplement of 0.7 percentage points. The Group's projections show that, also after phasing in Basel IV, the Group will meet its capital requirement.

Leverage ratio

The leverage ratio is calculated as Tier 1 capital in relation to the total exposure. Based on its business model, Arbejdernes Landsbank has set a goal of a leverage ratio >7%.

Leverage risk is defined in the CRR, and CRR II stipulates that a bank must have a leverage ratio of at least 3%. At the end of 2020, Arbejdernes Landsbank had a leverage ratio of 9.0% and thus meets its leverage target by a solid margin.

Table 10
Leverage at the end of 2020

DKK mill.

Leverage-weighted exposures	
Total assets	62,913.3
Adjustments for derivatives	99.0
Adjustments for repo/reverse transactions	0.0
Adjustments for exposures not recognised in the balance sheet	10,334.9
Other adjustments	-586.7
Total leverage-weighted exposures	*72,760.5*
Exposures recognised in the balance sheet, excluding derivatives and repo/reverse transactions	
Assets excl. derivatives and repo/reverse transactions	62,859.7
Assets deducted in Tier 1 capital	-586.7
Total exposures recognised in the balance sheet, excluding derivatives and repo/reverse transactions	*62,273.0*
Derivative exposures	
Positive market value	53.7
Potential risk	99.0
Total derivative exposures	*152.6*
Repo/reverse transactions	
Gross exposures	0.0
Counterparty risk	0.0
Total repo/reverse transactions	*0.0*
Exposures not recognised in the balance sheet	
Gross exposures	16,469.1
Adjustments	-6,134.2
Total exposures not recognised in the balance sheet	*10,334.9*
Capital and leverage-weighted exposures	
Tier 1 capital requirement	6,521.4
Leverage-weighted exposures	72,760.5
Leverage ratio (%)	9.0

DKK mill.

Total exposures recognised in the balance sheet (excl. derivatives, repo/reverse transactions and non-recognised exposures)	
Exposures outside the trading portfolio	
Exposures treated as exposures to central governments	4,613.8
Institutions	771.5
Exposures secured by collateral in the form of mortgages on real property	2,838.8
Retail exposures	16,713.9
Companies	4,099.8
Exposures in default	440.0
Other exposures (e.g. share exposures, securitisation and other assets which are not debt obligations)	4,244.4
Total exposures outside the trading portfolio	*33,722.2*
Exposures in the trading portfolio	29,137.5
Total exposures recognised in the balance sheet	*62,859.7*

Overview of capital, risk exposures and ratios and key figures

Table 11
Capital, risk exposures and ratios and key figures

	2020 DKK mill.	2019 DKK mill.
Common Equity Tier 1 capital		
Share capital	300.0	300.0
Revaluation reserves	405.7	385.3
Retained earnings from previous years	5,802.9	5,248.7
Transferred from profit for the year less proposed dividend	170.5	430.2
Common Equity Tier 1 capital before statutory adjustments	*6,679.1*	*6,364.2*
Statutory adjustments - Common Equity Tier 1 capital		
Intangible assets	-15.5	-19.3
Deductions for prudent valuation	-23.6	-22.5
Capital instruments in financial entities (Common Equity Tier 1 capital) <10%	-179.2	-155.9
Capital instruments in financial entities (Common Equity Tier 1 capital) >10%	-343.0	-443.6
Total statutory adjustments of Common Equity Tier 1 capital	*-561.3*	*-641.3*
Total Common Equity Tier 1 capital	*6,117.8*	*5,722.9*
Additional Tier 1 capital		
Additional Tier 1 capital issued	429.0	429.0
Statutory adjustments - Additional Tier 1 capital		
Capital instruments in financial entities (Additional Tier 1 capital) <10%	-25.4	-31.2
Capital instruments in financial entities (Tier 2 capital) >10%	0.0	0.0
Total statutory adjustments of Additional Tier 1 capital	*-25.4*	*-31.2*
Total Additional Tier 1 capital	*403.6*	*397.8*
Tier 1 capital	*6,521.4*	*6,120.7*
Tier 2 capital		
Tier 2 capital issued	900.0	900.0
Capital instruments in financial entities (Tier 2 capital) <10%	-8.3	-7.3
Total Tier 2 capital	*891.7*	*892.7*
Own funds	*7,413.1*	*7,013.4*

Overview of capital, risk exposures and ratios and key figures (continued)

Table 11
Capital, risk exposures and ratios and key figures

	2020 DKK mill.	2019 DKK mill.
Amounts under the thresholds for deduction		
Capital instruments in financial entities <10%	876.9	826.6
Capital instruments in financial entities >10%	646.1	616.6
Deferred tax assets	0.0	0.0
Risk-weighted exposures		
Exposures with credit risk	26,992.0	25,685.6
Exposures with market risk	5,373.4	6,022.8
Exposures with operational risk	3,605.1	3,720.4
Total risk-weighted exposures	*35,970.5*	*35,428.7*
Ratios and key figures		
Common Equity Tier 1 capital ratio (%)	17.0	16.2
Tier 1 capital ratio (%)	18.1	17.3
Capital ratio (%)	20.6	19.8
Requirements for institution-specific countercyclical capital buffer (%)	0.0	1.0
Common Equity Tier 1 capital available for the combined capital buffer requirement (%)	11.2	10.5
Leverage ratio (%)	9.0	9.0

Credit risk

Credit risk

Credit risk is the risk that a counterparty is wholly or partly unable to make payments, or fails to make payments. Arbejdernes Landsbank's credit policy is to conduct business transactions with customers with the ability and willingness to repay their loans.

Credit risk is the largest risk item in the risk statement and amounted to 66.3% of the solvency need at the end of 2020 (64.5% at the end of 2019). Thus, Arbejdernes Landsbank has allocated most funds to this item in order to meet unforeseen losses.

Credit policy

The overall credit risk is managed in accordance with policies and frameworks adopted and stipulated by the Board of Directors. Authorisation guidelines are established by the Board of Directors and passed on to the Executive Management and then further on in the organisation.

A central element in Arbejdernes Landsbank's business model is to advise on, and grant loans, credits and other financial products to private individuals, associations and businesses, including financing solutions for car loans, leasing and factoring through the Bank's subsidiary AL Finans A/S.

The primary target group of the Bank is private customers, associations, as well as small and medium-sized Danish business customers where full-scale customer relationships are formed. Full-scale customer relationships provide a better insight into the overall financial situation of the customer, and this insight forms the basis for providing the best advisory services possible, and makes it easier to assess the risk of the individual exposure. Furthermore, the Bank aims at ensuring that the Bank's group of owners has the opportunity to conduct various forms of banking. In the Bank's subsidiary, AL Finans A/S, the target group also includes private customers as well as small and medium-sized Danish enterprises.

Generally, Arbejdernes Landsbank does not participate in geared investment transactions, nor does it wish to finance projects of a speculative nature. When providing credit, the assessment is based on an ethical profile and a desire to diversify risk over sectors, as well as the size of the exposure. Moreover, the assessment includes a desire to help customers to reduce greenhouse gas emissions, support greener solutions, and focus on social responsibility. This is important for the establishment of a sustainable foundation for Arbejdernes Landsbank's further development.

Credit organisation

Arbejdernes Landsbank has 70 branches and six independent business centres as well as the Bank's subsidiary, AL Finans A/S.

The authority to grant loans is structured such that the branches, business centres and AL Finans A/S may authorise loans in the majority of cases, but in larger and more complex cases, as well as cases deviating from the general rule for credit risk profile, the branches, business centres or AL Finans A/S make a recommendation for authorisation to the Bank's Credit Department, Credit Committee or the Board of Directors.

Arbejdernes Landsbank has a structural separation between customer functions and the control and monitoring function.

The Credit Department is responsible for day-to-day credit management, controlling, monitoring and reporting to the branch network.

Rating

For several years, the Bank has been using its own internally developed rating models for private as well as business customers to support assessment of credit risk.

The rating models are based on a combination of payment behaviour as well as objective information about the customer, including financial statements for business customers and financial information about private customers. Rating categories are from 1-11, where rating 1 is the best and rating 11 is the poorest.

- Rating categories 1-5: Customers with exposures of good/normal credit quality
- Rating categories 6-8: Customers starting to show weakness/certain signs of weakness
- Rating class 9: Customers with significant signs of weakness, without objective evidence of impairment (OEI)
- Rating categories 10-11: Customers with OEI, with and without individual impairment

Regardless of the customer's rating, the individual credit decision will always be based on a total assessment of the customer.

The Bank's rating of customers is a central tool in ongoing monitoring and credit management and monitoring of the portfolio and in the Bank's model for impairments. Ranking of exposures into stages is based on Bankernes EDB Central's

(BEC) PD values, supplemented with the Bank's internal rating and various other criteria for credit weakness.

Rating distribution and rating development are monitored on an ongoing basis at portfolio as well as individual customer level.

Internally developed rating models are not used in the Bank's subsidiary AL Finans A/S. In AL Finans A/S, customers are generally dealt with on the basis of individual assessments.

Credit risk management and monitoring

Arbejdernes Landsbank has ongoing focus on improving processes and tools that can contribute to more effective management and monitoring of credit risk.

With regard to the Bank, the branch network is responsible for collecting, registering and documenting the basis for authorising loans and for ongoing follow-up on customer relationships. This includes updating the credit basis and registrations used by the business, in the Bank's various follow-up tools, and in the Bank's rating model.

The branch management is responsible for ensuring that the employees have the required expertise, insight and detailed knowledge about the Bank's credit policy and their authorisations. The branch management is also responsible for ensuring that authorisation of credit that goes beyond the authority of the branch is recommended for authorisation by the Bank's credit department.

The Credit Department is responsible for ensuring that the branches comply with the credit strategy as well as the credit policy. Furthermore, the Credit Department carries out branch contact, including credit advisory services and authorisation/recommendations on cases from branches and cases of a more complex nature that exceed the branch management's authority to grant loans.

The Credit Department carries out ongoing inspection of branches, including credit reviews of branches, where samples of new loan authorisations are reviewed, focusing on the basis for authorising the loans and on data quality. In addition, the quality of the branch's management of weak customers and selected management controls are assessed. There is a rotation system which ensures that all branches are reviewed every three to five years. Where assessed necessary, the branch will then be required to prepare action plans for follow-up by the Credit Department. Segregation of duties ensures that employees in the Credit Department cannot control branches for which they have authority to grant loans.

There is also an annual asset review of Arbejdernes Landsbank's exposures on the basis of a materiality approach. Current and future risks on selected exposures are assessed, and checks are conducted on compliance with the credit policy and the authority to grant loans, satisfactory credit management and fair risk classification and impairment. The conclusions are reported to the Board of Directors.

Overdrafts are processed daily at the branches. The Credit Department monitors the processing of overdrafts on an ongoing basis.

Weak customers are dealt with on an ongoing basis, and each quarter, customers classified as stage 3 customers and stage 2 weak customers are examined individually, based on selected materiality criteria, in order to prepare action plans, and to assess whether the customer is credit-impaired and whether there is a need for impairment. The selected materiality criteria ensure that weak customers exceeding a certain threshold are reviewed at least once a year. Impairments concerning the part of the portfolio that is not credit-impaired, are calculated on the basis of a model calculation. The Bank's subsidiary, AL Finans A/S, has a procedure for reviewing loans with signs of weakness and making individual impairments. For other loans in AL Finans, the impairment calculation is based on a model calculation.

Arbejdernes Landsbank validates the calculation of expected losses. The purpose of the validation is to ensure that the allowance account is sufficient to cover the risk of losses on Arbejdernes Landsbank's loan and guarantee portfolio, and possibly to make additional impairment charges representing management estimates for areas in which the model does not adequately reflect the default risk. The validation includes both a quantitative and a qualitative validation.

All large lending exposures are regularly reassessed, and, at least once a year, on the basis of the customer's financial statements etc. If developments in objective indicators are assessed to warrant individual impairments, impairment charges are made according to regulations laid down for this purpose.

In practice, major lending exposures are reassessed more frequently, for example, in connection with the ongoing customer contact or the quarterly statement of the individual solvency need, when all the lending exposures exceeding 1% of own funds are assessed. For weak exposures exceeding 2% of own funds, a further assessment is made to determine whether there are increased risks that call for an addition to the solvency need.

Credit risk is reported to the Risk Committee and the Credit Committee as well as the Executive Management, the Audit and Risk Committee and the Board of Directors. The report includes more detailed comments on developments in risk ratios and key figures, sectors and customer segments, and on achievement of, and compliance with, credit policy goals and requirements stipulated in the credit policy.

Moreover, various management reports are prepared to provide additional monitoring of credit quality as well as relevant analyses to support credit monitoring.

The Risk Department monitors that credit management as well as internal controls are adequate. The Risk Department is also responsible for credit risk reports to the Risk Committee and the Credit Committee and to the Executive Management, the Audit and Risk Committee and the Board of Directors.

Risk hedging and risk reduction

To reduce risk, as a minimum, the assets financed by Arbejdernes Landsbank are used fully or partly as collateral.

Arbejdernes Landsbank applies prudent collateral values on all significant asset types. This implies that, for reasons of prudence, some assets are calculated at a reduced value, and therefore the real collateral value is assessed to be higher than the value calculated. To ensure an independent assessment and necessary competences, the valuation of properties has been outsourced to Totalkredit. Focus is on ensuring that assessments of mortgaged assets are updated and documented. The most common collateral is in the form of mortgages on real property, cooperative housing and cars.

For individually assessed exposures, collateral is calculated in impairment calculations at estimated fair value according to rules from the Danish FSA, while recognition of collateral values for model impairments is more prudent.

See table 15 on page 26 for total collateral used at Arbejdernes Landsbank.

Credit risk on Group customer loans

Arbejdernes Landsbank's loan portfolio is described in the sections below, whereas impairments and provisions are described in more detail in "Impairments and provisions on loans and guarantees", see page 28.

Loans and guarantees

Total exposure at Arbejdernes Landsbank, expressed as gross loans and guarantees, as presented in the 2020 Financial Statements, was DKK 32.9 bn., see table 12.

Historically, the private portfolio of Arbejdernes Landsbank has been relatively large compared with its business portfolio. The private segment percentage of total gross loans and guarantees amounted to 78.5%, see table 12.

The business segment percentage of total gross loans and guarantees at the end of 2020 amounted to 21.5%, see table 12. In 2020, the Bank launched a business strategy with a goal to increase the Bank's activities aimed at the business segment. Apart from a few large corporate exposures, the business segment in Arbejdernes Landsbank is characterised by a large number of small and medium-sized, primarily owner-managed, enterprises.

As a result of the basic philosophy and historical foundation at Arbejdernes Landsbank, the Bank has a certain exposure to associations, including trade unions and social housing organisations. These form part of the business segment.

Table 12
Group gross and net loans and guarantees broken down by stages at the end of 2020

	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.
Private					
Loans before impairments	14,534.6	3,000.6	688.0	32.4	18,255.6
Guarantees before provisions	6,882.5	570.8	86.5	0.0	7,539.8
Total loans and guarantees before impairments etc.	*21,417.1*	*3,571.5*	*774.6*	*32.4*	*25,795.5*
Total impairments etc.	85.1	92.6	270.5	13.9	462.0
Total loans and guarantees after impairments etc.	*21,332.0*	*3,478.8*	*504.1*	*18.5*	*25,333.4*
Business					
Loans before impairments	3,953.5	1,951.2	492.5	3.3	6,400.4
Guarantees before provisions	568.4	82.7	25.1	0.0	676.3
Total loans and guarantees before impairments etc.	*4,521.9*	*2,033.9*	*517.6*	*3.3*	*7,076.7*
Total impairments etc.	75.4	77.8	243.8	1.9	398.8
Total loans and guarantees after impairments etc.	*4,446.5*	*1,956.1*	*273.8*	*1.4*	*6,677.9*
Total					
Loans before impairments	18,488.1	4,951.8	1,180.5	35.7	24,656.1
Guarantees before provisions	7,450.9	653.5	111.7	0.0	8,216.1
Total loans and guarantees before impairments etc.	*25,939.0*	*5,605.4*	*1,292.2*	*35.7*	*32,872.2*
Total impairments etc.	160.5	170.4	514.2	15.7	860.9
Total loans and guarantees after impairments etc.	*25,778.5*	*5,435.0*	*777.9*	*19.9*	*32,011.3*

Note: The statement excludes receivables from credit institutions.

The private and business segments are primarily ranked as stage 1 and stage 2, accounting for 96.9% and 92.6%, respectively, of segment loans and guarantees before impairments etc., see table 12.

Loans are geographically distributed across all the regions of Denmark, though predominantly in the Capital Region of Denmark, followed by the Central Denmark Region and the Region of Southern Denmark. The Capital Region of Denmark accounts for 54.2% of total gross loans and guarantees at Arbejdernes Landsbank, see table 13.

If the private segment and the business segment are considered separately, the distribution is the same, see table 13. With regard to the private segment, this is due to the relatively large share of housing loans secured against owner-occupied properties and cooperative housing, where cooperative housing in particular is typically concentrated in major cities.

Table 13
Group gross loans and guarantees broken down by regions at the end of 2020

	Private DKK mill.	Business DKK mill.	Total DKK mill.
Capital Region of Denmark	13,140.1	4,679.1	17,819.3
Region Zealand	2,908.8	419.8	3,328.6
Region of Southern Denmark	4,031.4	689.1	4,720.5
North Denmark Region	1,241.0	278.8	1,519.8
Central Denmark Region	4,474.2	1,009.8	5,484.0
Total	*25,795.5*	*7,076.7*	*32,872.2*

Note: The statement excludes receivables from credit institutions.

Of Arbejdernes Landsbank's total gross loans and guarantees, 93.4% are in low-risk rating categories (rating 1-5) or medium-risk rating categories (rating 6-8), see table 14. Rating is calculated at individual customer level and does not take into account that Group members with higher credit quality can support customers in the Group with lower credit quality.

Considering the private and business segments separately, 94.8% and 88.3%, respectively, of gross loans and guarantees are in rating categories with low or medium risk, see table 14.

Table 14
Group gross loans and guarantees broken down by ratings at the end of 2020

	Private DKK mill.	Business DKK mill.	Total DKK mill.
Rating 1	28.0	33.8	61.8
Rating 2	738.6	441.5	1,180.1
Rating 3	3,589.4	969.6	4,559.1
Rating 4	6,201.4	1,387.5	7,588.9
Rating 5	8,010.3	1,489.6	9,499.9
Rating 6	2,405.1	531.3	2,936.4
Rating 7	2,544.7	1,120.1	3,664.7
Rating 8	930.1	277.6	1,207.7
Rating 9	352.7	185.9	538.5
Rating 10	195.3	185.2	380.5
Rating 11	799.8	454.7	1,254.5
Total	*25,795.5*	*7,076.7*	*32,872.2*

Note: The statement excludes receivables from credit institutions.

Collateral and security

The most important collateral received by Arbejdernes Landsbank is mortgages in properties, which account for 65.1% of total collateral. This high percentage is attributable to the private segment, where mortgages in property alone account for 76.8%, see table 15.

The relatively high percentage of collateral in cars for the private and business segment, amounting to 24.1%, is due to the Bank's subsidiary, AL Finans A/S.

Table 15
Group collateral broken down by type of collateral at the end of 2020

	Private DKK mill.	Business DKK mill.	Total DKK mill.
Properties	9,795.4	713.8	10,509.2
Securities, bonds, cash deposits, etc.	286.8	146.5	433.3
Cars	2,633.2	1,253.8	3,886.9
Warranties and guarantees	1.4	26.5	27.9
Other collateral	29.7	1,255.2	1,284.8
Total	*12,746.4*	*3,395.8*	*16,142.2*

Note: Collateral used is calculated at collateral values in accordance with Group procedures, and excludes the value of surplus collateral.

The total unsecured exposure for Arbejdernes Landsbank amounts to 49.6%, see table 16. However, with the prudent collateral values applied by Arbejdernes Landsbank, the actual unsecured exposure is assessed to be lower.

For the Bank's subsidiary AL Finans A/S, by far the majority of all loans have collateral in the form of the mortgaged asset.

Table 16
Group net loans and guarantees, collateral and unsecured exposures at the end of 2020

	Private DKK mill.	Business DKK mill.	Total DKK mill.
Loans and guarantees after impairments etc.	25,333.4	6,677.9	32,011.3
Collateral	12,746.4	3,395.8	16,142.2
Unsecured exposures (%)	49.7	49.1	49.6
Percentage of total loans (%)	79.1	20.9	100.0

Note: Impairments include impairment charges and provisions at all stages. The figures exclude receivables from credit institutions.

Arrears and loans in arrears
Arrears at Arbejdernes Landsbank amount to DKK 35.2 mill. and primarily have a duration of less than 30 days. Of Arbejdernes Landsbank's total arrears, arrears for the private segment account for 59.7%. and arrears for the business segment account for 40.3%, see table 17.

Table 17
Arrears broken down by age of arrears at the end of 2020

	Private DKK mill.	Business DKK mill.	Total DKK mill.
2 - 30 days	14.3	7.1	21.4
31 - 60 days	2.2	4.0	6.2
61 - 90 days	0.8	1.0	1.7
91 - days	3.8	2.2	5.9
Total	***21.0***	***14.2***	***35.2***
Percentage of total arrears (%)	59.7	40.3	100.0

Note: The figures are excluding credit institutions.

Loans in arrears totalled 1.1% of Arbejdernes Landsbank's total net loans and guarantees at the end of 2020. Of this, loans less than 30 days in arrears accounted for 0.9%, see table 18.

Arbejdernes Landsbank has "early warning" procedures to reduce the number of customers with long-term arrears.

Generally, targeted work is carried out in collaboration with the customer to reduce the level by finding lasting solutions to any financial challenges.

Table 18
Loans in arrears broken down by age of arrears at the end of 2020

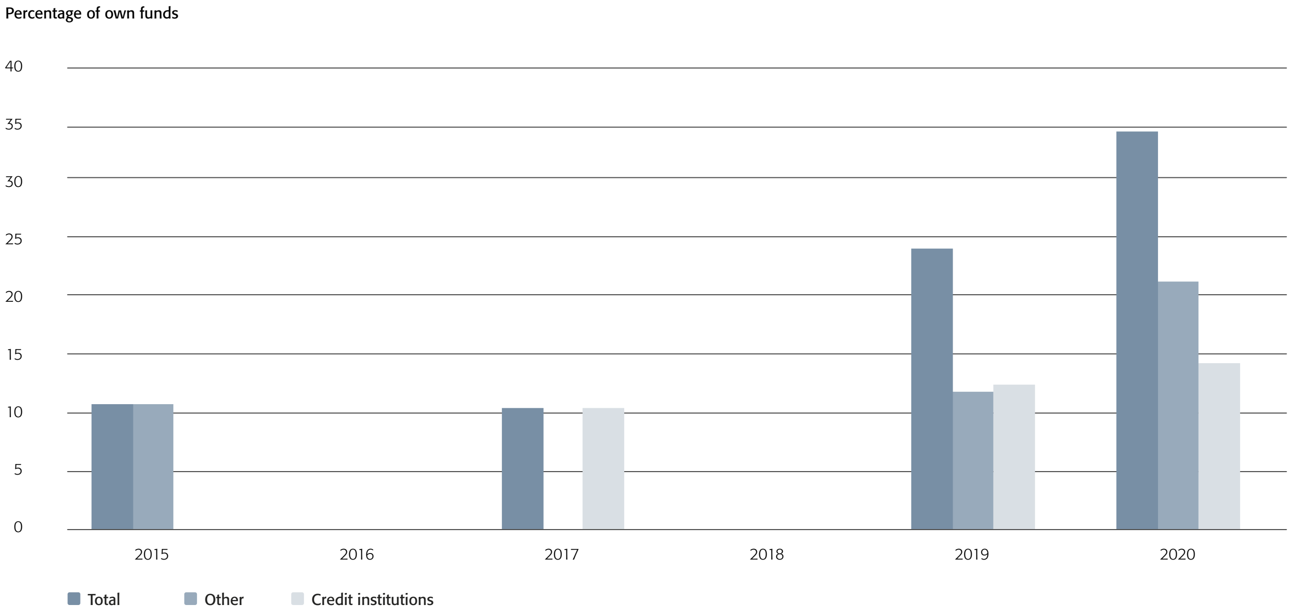
	Private DKK mill.	Business DKK mill.	Total DKK mill.
2 - 30 days	219.0	64.2	283.2
31 - 60 days	16.9	14.5	31.3
61 - 90 days	4.7	3.7	8.4
91 - days	21.7	12.3	34.0
Total	***262.2***	***94.7***	***356.9***

Note: The figures are excluding credit institutions.

Largest credit exposure risks
Arbejdernes Landsbank wants to avoid dependence on single exposures and seeks to maintain a low percentage of large exposures.

The sum of consolidated exposures after deductions which are greater than or equal to 10% of own funds at group level is calculated at 34.6% of own funds at the end of 2020, including exposures to credit institutions.

Figure 2
Development in the "Sum of large exposures"



Note: The figures are calculated on the basis of consolidated exposures after deductions greater than or equal to 10% of own funds.

Credit risk on credit institutions

Credit risk on credit institutions is the risk of suffering a loss as a consequence of credit institutions defaulting on their obligations. Credit risk on credit institutions is calculated on the basis of a worst-case estimate and reflects the Bank's potential maximum loss when using the credit institution as correspondent bank. The risk is managed in accordance with policies and lines adopted by the Board of Directors.

Arbejdernes Landsbank follows developments in the creditworthiness of the credit institution, and at least once annually, or in connection with establishing new lines, an analysis is carried out of the credit institutions' creditworthiness. As a point of departure, credit is only granted to credit institutions with ongoing business activity or a natural cooperation potential with Arbejdernes Landsbank within other business areas.

Impairments on loans and provisions for guarantees

Arbejdernes Landsbank's statement of impaired exposures follows sections 51-52 of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. Arbejdernes Landsbank's model for impairments for expected credit losses is described in the accounting policies section in the annual report.

Impairments, provisions and losses show a net charge of DKK 80.4 mill. in 2020, see table 19, against a net credit of DKK 48.3 mill. in 2019[1].

The calculations in tables 19 and 20 include credit institutions and unutilised credit lines and commitments.

After this, accumulated impairments and provisions at Arbejdernes Landsbank amounted to DKK 940.5 mill. at the end of 2020.

The Group's NPL ratio amounted to DKK 4.2% at the end of 2020 against 4.6% at the end of 2019 and indicates the proportion of non-performing loans relative to total lending, including receivables from central banks and credit institutions.

[1] Net recognition as a credit or charge does not include reversed reserves for losses on loans that were credit-impaired on initial recognition.

Table 19
Breakdown by sector for credit-impaired exposures at the end of 2020

	Credit exposure before impairments DKK mill.	Of which credit-impaired/ defaulted exposures DKK mill.	Impairment charge/provision DKK mill.	Impairment charge/ provision and loss recognised in the income statement DKK mill.
Public authorities	129.9	0.4	3.7	2.0
Business				
Agriculture, hunting, forestry and fisheries	45.5	7.2	2.0	-11.9
Industry and extraction of raw materials	981.4	55.1	39.8	11.5
Energy supply	18.0	0.0	0.1	0.0
Building and construction	820.5	74.8	56.4	42.2
Trade	2,893.2	133.0	65.4	24.9
Transport, hotels and restaurants	450.1	59.6	23.9	1.7
Information and communication	101.3	17.4	4.7	2.3
Financing and insurance	6,005.4	118.9	111.7	42.3
Real property	1,485.3	70.9	56.8	0.8
Other business	3,805.9	134.4	96.2	32.5
Total business	***16,606.6***	***671.3***	***457.0***	***146.3***
Private	29,049.5	836.1	479.8	-67.9
Total	***45,785.9***	***1,507.8***	***940.5***	***80.4***

Table 20
Changes in the allowance account at the end of 2020

	Impairments on credit institutions DKK mill.	Impairments on loans DKK mill.	Provisions on guarantees DKK mill.	Provisions on other items with credit risk DKK mill.	Total DKK mill.
Accumulated impairment charges/provisions brought forward	9.6	808.7	20.5	51.4	890.2
Impairments/provisions during the year (gross)	2.1	398.6	10.6	49.6	461.0
Reversal of impairment charges (gross)	-1.2	-319.5	-8.5	-32.0	-361.3
Other changes	0.0	11.3	0.0	0.0	11.3
Actual loss (written off) previously subject to individual impairment charges/provisions	0.0	-60.8	0.0	0.0	-60.8
Accumulated impairment charges/ provisions carried forward	*10.5*	*838.3*	*22.5*	*69.1*	*940.5*
Actual loss (written off) not previously subject to individual impairment charges/provisions	0.0	-24.5	0.0	0.0	-24.5
Recognised in claims previously written off	0.0	15.2	0.0	0.0	15.2

Counterparty risk

Counterparty risk is the risk of suffering a loss as a consequence of financial counterparties or customers defaulting on their obligations in connection with trade in money market loans and derivative financial instruments. Counterparty risk is managed in accordance with policies and lines adopted by the Board of Directors. Counterparty risk is divided into pre-settlement risk and repayment risk at Arbejdernes Landsbank.

Management of pre-settlement risk is based on calculations of the gross or net value of transactions in which the market value is positive for Arbejdernes Landsbank, with the addition of a risk premium. Furthermore, the repayment risk is calculated, which indicates the risk of Arbejdernes Landsbank's counterparties defaulting on their obligations in connection with settling transactions. The risk is monitored daily, as is compliance with lines granted.

Arbejdernes Landsbank endeavours to reduce counterparty risk by entering into framework agreements and by demanding, wherever possible, a cash collateral in connection with derivative financial instruments in the form of margin settlement as stated in the table below.

Counterparty risk is reported to the Executive Management and the Board of Directors on a monthly basis together with reporting on compliance with requirements laid down in associated policies and instructions. Furthermore, there is daily risk reporting and follow-up on instructions to the Executive Management and the relevant business areas.

Table 21
Derivative financial instruments at the end of 2020

	Carrying amount before offsetting	Financial instruments set off	Carrying amount after offsetting	Offsetting possibility according to master netting agreement	Collateral	Net value
	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.
Offsetting possibilities *)						
2020						
Derivative financial instruments with positive market value	56.2	0.0	56.2	8.4	0.4	47.4
Derivative financial instruments with negative market value	341.4	0.0	341.4	8.4	304.9	28.1
2019						
Derivative financial instruments with positive market value	53.6	0.0	53.6	4.2	0.5	48.9
Derivative financial instruments with negative market value	399.7	0.0	399.7	4.2	356.9	38.7

*) The Bank has master netting agreements with a number of financial counterparties, and this entitles the Bank to further offsetting in relation to a counterparty in default, but does not meet the conditions for offsetting in the balance sheet.

Assets provided as collateral for own debt obligations with Danmarks Nationalbank, clearing centres and credit institutions with which the Bank has entered into CSA agreements are all based on standard agreements conventionally used between financial market participants. These agreements define the terms on which collateral is transferred between the counterparties in order to reduce risk. With regard to collateral concerning fair value of derivative financial instruments, the CSA agreements stipulate daily exchange of collateral (cash).

ECAI

Arbejdernes Landsbank has appointed Standard & Poor's Ratings Services as its credit rating agency (ECAI). Arbejdernes Landsbank uses external ratings via Bankernes EDB Central (BEC), which receives external credit ratings from Standard & Poor's Ratings Services.

BEC converts the credit rating categories of Standard & Poor's Ratings Services to credit quality steps using the conversion table from the Danish FSA. The individual credit quality steps are linked to a weight by which the exposures in the individual credit quality steps are to be weighted when calculating risk-weighted exposures according to the standard method for credit risk pursuant to Articles 111-134 of the CRR. External ratings are used for the exposure classes "Institutions" and "Companies".

Table 22
Exposure classes for which credit ratings from Standard & Poor's Ratings Services are used

	2020 DKK mill.	2019 DKK mill.
Institutions:		
Exposure value prior to risk weighting	470.8	550.6
Exposure value after weighting with credit quality step	152.9	259.5
Companies:		
Exposure value prior to risk weighting	64.1	84.5
Exposure value after weighting with credit quality step	64.1	79.5

Market and liquidity risk

Market risk

Arbejdernes Landsbank regularly accepts various forms of market risk, primarily as interest-rate risk, credit-spread risk, share-price risk or currency risk. Market risks arise partly as a result of servicing customers' needs, and partly from Arbejdernes Landsbank's positions in financial instruments. The primary tool to hedge and manage market risks is derivative financial instruments.

Market risk covers positions, the market value of which depends on developments in the general levels of a number of market variables such as interest rates, share prices, and currency rates, as well the volatility related to these. Furthermore, with respect to bonds and instruments related to bonds, market risk covers more specific risks linked to market assessments of credit risks on individual issuers of bonds (credit spread risk). The calculations include market risks on both balance-sheet items and off-balance-sheet items, and the calculations also include positions in the trading portfolio and transactions outside the trading portfolio.

Market risk is the second-largest risk item in the risk statement for Arbejdernes Landsbank and amounted to 22.8% of the solvency need at the end of 2020 (26.4% at the end of 2019).

Management of market risks

The overall market risk is managed in accordance with policies and frameworks adopted and stipulated by the Board of Directors. Measures are taken to ensure a well-defined segregation of responsibility for risk assumption at all levels by stipulating frameworks for the Executive Management and sub-delegating responsibility to the authorising business units under the Treasury & Finance Department.

Market risk is reported to the Executive Management and the Board of Directors on a monthly basis together with reporting on compliance with requirements laid down in the market risk policy and associated instructions. Furthermore, there is daily risk reporting and follow-up on instructions to the Executive Management and the relevant business areas.

Short-term positions, primarily in relation to servicing the Bank's customers, are managed by the Bank's trading function within set limits that are continuously monitored.

Strategic positions are assessed on the basis of both the returns and the risk, taking into account Arbejdernes Landsbank's overall risk appetite, as well as ongoing maintenance of a cash resource in the form of liquid assets.

In addition to daily calculations of the overall market risk, periodic stress tests of the portfolio are performed.

Interest-rate risk is the risk of losses as a result of interest-rate fluctuations. The interest-rate risk of the trading portfolio primarily derives from the bond portfolio in which the selected level of hedging of interest-rate risk primarily concerns trade in futures and interest-rate swaps. The interest-rate risk is calculated as the change in market value of an instrument in the event of a change in the market interest rate of +/-1 percentage point for various duration intervals on the yield curve. Risks on convertible mortgage-credit bonds and bonds with an interest ceiling, etc. are based on information obtained from leading market participants on the option-adjusted interest-rate risk. Other types of interest-rate-related option risks are based on a delta valuation calculation. The calculations are made in individual currencies and for each time interval on the yield curve.

Arbejdernes Landsbank's exposure is primarily in DKK, EUR and USD, while the net interest-rate risk across currencies is relatively limited.

The calculation of interest-rate risk is supplemented by a number of stress scenarios aimed at measuring yield curve risk and convexity risk.

The calculation of interest-rate risk distinguishes between interest-rate risk inside and outside the trading portfolio. Table 23 shows Arbejdernes Landsbank's total interest-rate risk.

Table 23
Interest-rate risk

	1 percentage-point increase	1 percentage-point fall
	DKK mill.	DKK mill.
Broken down by type of business		
Bonds etc.	-357.8	298.8
Derivative financial instruments	296.7	-314.5
Mortgage deeds	-66.2	71.5
Other items	-22.5	22.3
Total	*-149.9*	*78.1*
Broken down by currency		
DKK	-156.0	87.7
EUR	9.8	-13.4
USD	-2.7	2.8
Amount in GBP	-0.1	0.1
CHF	0.0	0.0
SEK	-0.4	0.4
NOK	-0.5	0.5
Other	0.0	0.0
Total	*-149.9*	*78.1*

Share-price risk is the risk of losses as a result of changes in share prices. The calculation of share-price risk distinguishes between share-price risk inside and outside the trading portfolio. The latter is described in the section “Shares etc. outside the trading portfolio”.

Shares inside the trading portfolio are shares acquired for trading. The share-price risk inside the trading portfolio is calculated according to a risk target stating how much Arbejdernes Landsbank can expect to lose in the event of a general fall/increase in the stock markets of 10%. The risk target at the end of 2020 was DKK 10.9 mill.

Currency risk reflects the risk of losses on positions as a result of changes in currency exchange rates. Currency risk is calculated according to currency indicator 1 as well as currency indicator 2 (currency indicator 2 is including currency risk from investment associations), and is furthermore calculated as a weighted sum of net positions in the individual currencies, where weighting takes volatility into account.

Credit-spread risk associated with the bond portfolio and instruments related to bonds is the risk of losses as a result of changes in credit spread, reflecting the market pricing of the (underlying) bond-issuers’ credit worthiness as well as the seniority and liquidity of the bond. Credit-spread risk is not only relevant for credit bonds, but also for mortgage-credit and government bonds.

Most of the bonds in the bond portfolio at Arbejdernes Landsbank are investment-grade (rating BBB- or higher) and the portfolio primarily consists of mortgage-credit bonds and government bonds.

A smaller part of the bond portfolio consists of corporate bonds and bonds issued by banks (financial bonds). At the end of 2020, these accounted for 5.2% and 9.2%, respectively, of the total bond portfolio and are primarily denominated in DKK and EUR.

Credit-spread risk is calculated daily. To ensure sound risk management, a framework has been set for government bonds, mortgage-credit bonds and corporate bonds as well as for financial bonds on the basis of the risk-weighted credit-spread exposures. The risk weights are based on historically observed volatilities.

Table 24
Bond portfolio broken down by rating

	2020	2019
	%	%
Rating		
AAA	75.6	59.2
AA+, AA, AA-	2.2	14.7
A+, A, A-	5.3	7.5
BBB+	2.6	1.7
BBB	5.0	5.9
BBB-	1.8	2.0
Rating < BBB-	1.7	1.9
No rating	5.9	7.0
Total	*100.0*	*100.0*

Interest-rate risk outside the trading portfolio

Interest-rate risk outside the trading portfolio primarily arises from customers' fixed-interest loans and deposits (including the mortgage deed portfolio). Arbejdernes Landsbank uses derivative financial instruments to hedge interest-rate risk. Interest-rate risk outside the trading portfolio is calculated according to the same principles as for interest-rate risk inside the trading portfolio, but the interest-rate scenarios are more severe due to the lower negotiability/liquidity in the transactions.

Arbejdernes Landsbank does not have fixed-interest deposits with indefinite maturity. To a limited extent, loans have been offered at fixed interest with the possibility of early redemption.

Interest-rate risk is part of the Risk Department's daily risk calculations and it is managed within set limits.

Interest-rate risk outside the trading portfolio calculated as the estimated maximum loss by parallel shifts and terms structure shifts amounted to DKK 65.7 mill. at the end of 2020.

Shares etc. outside the trading portfolio

Shares etc. outside the trading portfolio are shares not acquired for trading. Along with other credit institutions, Arbejdernes Landsbank holds equity investments in a number of sector companies. These equity investments are part of the investment securities, and serve to support Arbejdernes Landsbank's business within mortgage credit, IT, money transmission services and investment associations.

Furthermore, Arbejdernes Landsbank has established a share portfolio outside the trading portfolio, including shares acquired for long-term investment.

Table 25
Shares outside the trading portfolio

	2020 DKK mill.	2019 DKK mill.
Fair value brought forward	896.1	1,346.9
Realised capital gain	7.4	183.6
Unrealised capital gain *)	143.3	3.8
Capital gain on shares reclassified as associated companies	0.0	104.3
Other disposals **)	0.0	-483.0
Net purchases ***)	-38.1	-259.5
Fair value carried forward	*1,008.7*	*896.1*

*) Of which listed shares accounted for DKK 136.1 mill. in 2020.
**) The Bank's ownership interest in Vestjysk Bank exceeded 20% in 2019, and the ownership interest was therefore classified under "Equity investments in associated companies".
***) Includes sale of shares in LR Realkredit in 2019.

Table 26
Share exposures outside the trading portfolio at the end of 2020

	Listed DKK mill.	Unlisted DKK mill.	Total DKK mill.
Banks, credit institutions and insurance	187.8	8.2	196.0
Investment firm	0.0	297.0	297.0
Investment association	0.0	16.7	16.7
Private equity	0.0	0.0	0.0
Industry	62.4	1.0	63.4
Trade and service	74.7	361.0	435.6
Total	*324.8*	*683.9*	*1,008.7*

Liquidity risk

Liquidity risk is the risk of losses resulting from higher financing costs to meet Arbejdernes Landsbank's liquidity need, or the risk that the Group is ultimately unable to fulfil its obligations due to a lack of liquidity in a situation where the Group itself, or the sector as a whole, is affected by extraordinary circumstances.

Most of Arbejdernes Landsbank's liquidity risk is in DKK, while the rest of the risk is concentrated in major currencies, i.e. EUR and USD.

This section is based on the Bank's liquidity ratios because the Bank's liquidity items account for by far the majority of the liquidity risk. Consequently, the ratios and key figures are practically the same at Bank and Group level.

The liquidity policy sets the overall framework for liquidity transactions and management as well as the financing structure. The liquidity policy supports liquidity management and ensures that Arbejdernes Landsbank is able to meet its payment obligations and comply with current legislation at any time.

Generally, Arbejdernes Landsbank maintains a very prudent liquidity policy in order to ensure that any requirements or needs for liquidity facing Arbejdernes Landsbank can be met at any time. Another aim of the liquidity policy is to ensure compliance with statutory requirements and to provide a basis for the future development of Arbejdernes Landsbank.

Liquidity risk is reported to the Executive Management and the Board of Directors on a monthly basis together with reporting on compliance with requirements laid down in the liquidity policy and associated instructions. Furthermore, there is daily risk reporting and follow-up on instructions to the Executive Management and the relevant business areas.

Arbejdernes Landsbank must comply with common European Liquidity Coverage Ratio (LCR) requirements for credit institutions. The requirement was fully phased in from 1 January 2018 and constitutes an important part of liquidity management.

Operational responsibility for compliance with current legal requirements has been delegated to the Treasury & Finance Department, which constitutes the liquidity management function at Arbejdernes Landsbank. The Risk Department calculates and monitors liquidity on a daily basis in relation to set frameworks.

The Treasury & Finance Department is responsible for short-term liquidity transactions and management, and for operational management of Arbejdernes Landsbank's liquidity so as to ensure compliance with all statutory requirements, internal policies and objectives. The Risk Committee and the Balance Sheet and Capital Committee assess short-term and long-term liquidity developments in relation to the general commercial development of Arbejdernes Landsbank in the capital-market area as well as in deposits and lending.

In addition to regular liquidity forecasts and calculations of the excess liquidity cover, stress tests of Arbejdernes Landsbank's liquidity in the long term are carried out in order to reveal sensitivity to significant changes in ongoing needs for funding.

The Board of Directors has adopted a financial resources plan which defines initiatives to be launched if liquidity deteriorates relative to the adopted liquidity policy.

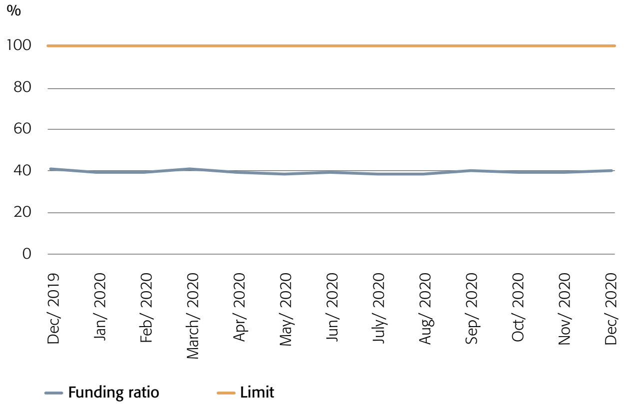
Arbejdernes Landsbank's LCR was 277% at the end of 2020 and remained stable at a high level, and considerably higher than the statutory requirement of 100%, throughout 2020. Based on Arbejdernes Landsbank's liquidity forecast, it is expected that the Group's current liquidity reserve is sufficient to cover the liquidity need throughout 2021.

Table 27
LCR liquidity statement 2020

	Q1	Q2	Q3	Q4
LCR liquidity statement weighted average in DKK bn.				
Total liquidity buffer	20.8	21.7	21.5	22.2
Net outflow	7.6	7.3	7.3	7.9
LCR (%)	275%	297%	295%	280%

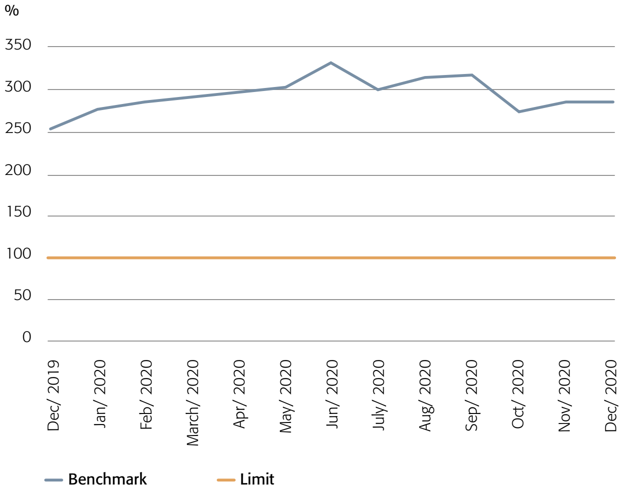
The funding ratio included in the supervisory diamond forms part of Arbejdernes Landsbank's management of its funding structure. Arbejdernes Landsbank is at a stable level comfortably below the requirement of 1, as illustrated in Figure 3.

Figure 3
Funding ratio in the supervisory diamond



The liquidity benchmark also forming part of the supervisory diamond was implemented in June 2018, and Arbejdernes Landsbank meets the benchmark with a considerable margin, and has done so since it was introduced.

Figure 4
Liquidity benchmark of the supervisory diamond



Future regulations on the Net Stable Funding Ratio (NSFR) seek to ensure stable funding profiles in individual banks, and future reporting requirements will enter into force at the end of Q2 2021. Arbejdernes Landsbank already calculates and reports NSFR as part of its internal liquidity reporting and has done so throughout 2020 to ensure compliance with the upcoming legal requirements when they enter into force.

Encumbered assets

To a certain extent, Arbejdernes Landsbank has encumbered assets in connection with market-risk-taking and liquidity transactions, including assets pledged as collateral at Danmarks Nationalbank for securities clearing and retail clearing.

Arbejdernes Landsbank uses collateralisation with other credit institutions for developments in the market value of Arbejdernes Landsbank's OTC derivative transactions and margin deposits in connection with derivatives traded on the stock market. Furthermore, Arbejdernes Landsbank pledges collateral with CCPs (central clearing counterparties).

To a lesser extent, Arbejdernes Landsbank uses repurchase agreements in bonds as part of interest-rate-risk and liquidity management.

Table 28
Encumbered assets

	Carrying amount 2020 DKK mill.	Fair value 2020 DKK mill.	Carrying amount 2019 DKK mill.	Fair value 2019 DKK mill.
Assets				
Encumbered assets				
Shares	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0
Other assets *)	1,265.9	1,265.9	1,328.5	1,328.5
Total encumbered assets	*1,265.9*	*1,265.9*	*1,328.5*	*1,328.5*
Unencumbered assets				
Shares	1,179.4	1,179.4	1,060.4	1,060.4
Bonds	21,902.5	21,902.5	20,859.8	20,859.8
Other assets	38,565.5	38,685.3	35,775.3	35,882.2
Total unencumbered assets	*61,647.4*	*61,767.2*	*57,695.5*	*57,802.4*
Collateral received, available for encumbrance				
Bonds at fair value				
Encumbered collateral	0.0	0.0	87.7	87.7
Unencumbered collateral	0.0	0.0	132.9	132.9
Total bonds at fair value	*0.0*	*0.0*	*220.6*	*220.6*
Encumbered assets/collateral received				
Encumbered assets and collateral	1,265.9	1,265.9	1,416.2	1,416.2
Counterpart liabilities	328.0	328.0	477.6	477.6

*) Encumbrance related to VP settlement and derivative transactions.

Other risks

Operational risk

Operational risk means the risk of loss as a consequence of inappropriate or incomplete internal procedures, human errors and systems failure, or as a consequence of external events, including legal risks.

Operational risks are categorised according to the seven types of risk defined by the CRR:

- Employment practices and workplace safety
- External fraud
- Business disruption and system failures
- Internal fraud
- Clients, products, and business practice
- Execution, delivery and process management
- Damage to physical assets

Policies

The Board of Directors has laid down a policy for operational risk, the purpose of which is to create an overview of operational risks, minimise the number of errors, and reduce losses at Arbejdernes Landsbank due to operational errors, taking into account related costs.

Arbejdernes Landsbank wants an open culture among its employees aimed at increasing the awareness of operational risks and ensuring knowledge-sharing among employees.

To maintain an acceptable operational risk level, the policy includes a definition of risk appetite as determined by the Board of Directors. Risks exceeding the defined risk appetite are assessed by the Board of Directors every six months.

Management and monitoring

All activities in the organisation are associated with operational risks. In order to reduce the risk of operational events leading to significant losses, Arbejdernes Landsbank monitors and manages operational risks.

Follow-up and reporting on operational risk, including the role as risk facilitator, is anchored in the CFO area, while general issues concerning operational risk are managed by the Operational Risk Committee.

The business managers are responsible for day-to-day risk management.

The risk identification process, which is carried out at least once a year, is prepared in collaboration with the business managers. An evaluation is performed of the risk scenarios and the risk exposures identified, and this evaluation includes an assessment of probability and financial impact.

The risk identification process supports risk reduction, and at the same time it contributes to stronger awareness of operational risks in the organisation.

Developments in operational risk are monitored continuously to provide the best possible foundation for operational risk management.

Loss events

Arbejdernes Landsbank registers and categorises loss-making events of more than DKK 5,000, both with respect to actual losses and potential loss situations. Each event report must include a description of the event and state the cause of the error and the source of loss. The systematic registration and classification are used to manage the operational risks and create a record of experience and knowledge-sharing in the organisation.

Depending on the specific operational event, management of losses comprises an assessment and, if necessary, an adjustment of Arbejdernes Landsbank's organisation and operations in the form of segregation of duties, controls, employee competences, business procedures, physical security, etc.

The majority of loss events occurring at Arbejdernes Landsbank in 2020 were events with minor financial consequences, and they were primarily in the categories external fraud; clients, products and business practices; and business disruption and system failures.

Reporting

There is ongoing registration and categorisation of identified events, with reports to the CRO, the Executive Management and the Board of Directors, according to more detailed criteria stated in the risk policy. Any loss event exceeding DKK 1 mill. is reported separately to the Executive Management.

The reports on developments in operational loss events are sent quarterly to the Executive Management and the Board of Directors.

The business managers can access a list of registered events within their areas of responsibility.

Fraud

External fraud primarily concerns abuse of credit card schemes and online banking fraud, for example in the form of phishing for customer information through fraudulent emails and text messages. Arbejdernes Landsbank is aware that increased digitisation, with ever more communication taking place online, may add to the risk of external fraud online in the form of cyber-crime. Most cases of attempted fraud are prevented by Arbejdernes Landsbank's IT supplier, BEC, and through internal control environments and alert employees.

IT security

In the assessment of Arbejdernes Landsbank's operational risk, IT constitutes a significant area. IT is essential to support business activities at Arbejdernes Landsbank, and consequently, it is vital to protect the IT environment at Arbejdernes Landsbank against loss of availability, integrity and confidentiality. In particular, the growing cyber threat has led to increased focus on IT security. The Head of IT Security at Arbejdernes Landsbank is part of the 2nd line in the organisation. The Management also regularly considers IT security.

The 1st line for IT security is a part of the IT Department where several members have been allocated to work only on IT security. Responsibility for procedures is placed in the individual areas, for example, the IT area, the Credit Department, etc.

Arbejdernes Landsbank's work with IT security is based on various standards and best practice guidelines. This includes increased focus on safeguarding the critical systems managed by BEC, through ongoing supplier management ensuring that the IT systems at Arbejdernes Landsbank maintain the required level of security.

In order to protect Arbejdernes Landsbank from the growing threat against cyber security, in 2020, the Head of IT Security conducted awareness activities for employees at the Bank.

General Data Protection Regulation (GDPR)

The Bank has employed a Data Protection Officer (DPO) to ensure compliance with data protection regulations.

The function of the DPO is to advise the Bank, and to monitor compliance with data protection regulations.

The DPO at Arbejdernes Landsbank is part of the 2nd line in the organisation and reports to the Executive Management and the Board of Directors.

Compliance

Operational risk includes compliance risks, which means the risk that Arbejdernes Landsbank is not operated according to legal and statutory requirements, standards on the market and good business ethics.

Arbejdernes Landsbank has an independent Compliance Department anchored in the Risk Department. The Compliance Department reports directly to the Board of Directors, the Audit and Risk Committee and the Executive Management, and consequently it is independent, also of the Risk Department.

The aim of the Compliance Department is to assist the Management in ensuring compliance with current legislation, market standards and internal rules, thus identifying and reducing the risk of Arbejdernes Landsbank being ordered to take restrictive measures, suffering loss of reputation, or the risk that Arbejdernes Landsbank or its customers suffer significant financial losses. The Compliance Department regularly reviews critical business procedures in order to assess risks and recommendations for limiting each risk.

The Risk Department, including the Compliance Department, is subject to special conditions in which variable remuneration components within the framework of the collective agreement are not affected by changes in the results of Arbejdernes Landsbank and depend exclusively on the performance of the department and the individual employee.

Money laundering risks

Arbejdernes Landsbank has strong focus on anti-money laundering (AML), including risk mitigation measures to be implemented in order to prevent abuse of Arbejdernes Landsbank for money laundering and financing of terrorism.

Under the management of the person responsible for anti-money laundering, the task of the AML Department is to ensure that Arbejdernes Landsbank complies with the Act on Measures to Prevent Money Laundering and Financing of Terrorism as well as EU regulations on transfers of funds and combating terrorism. The person responsible for anti-money laundering issues refers directly to the Executive Management.

Products and services

Risks associated with implementing new products and services are identified and assessed in accordance with internal procedures prior to approval by the Bank's Executive Management and/or Board of Directors.

This process includes risk analyses and statements by relevant business units at the Bank, including the Bank's CFO area, the Legal Department, as well as the CRO and the Head of Compliance. The process ensures that risks are identified, assessed and managed. The Bank has set up a Prices and Products Committee to ensure adequate analysis, decision-making and involvement before changing the Bank's range of products and services.

The approval procedure is regulated by the Group's product policy.

Other risks

Business risk

Business risk is the risk of losses due to changes in external conditions or events which may harm the image of Arbejdernes Landsbank, or the operating income, including strategic risks.

The risk becomes apparent in unexpected falls in revenues or unexpected rises in costs.

Examples of reasons are:

- Sharpened competitive pricing leading to a drop in business volume or falling revenues on the existing volume of business.
- Increasing product-development costs to match new products from competitors.
- Increasing marketing costs arising from negative press coverage.
- Incorrect estimates of revenues from new activities.
- Customer relationships involving a risk of Arbejdernes Landsbank being used for money laundering or other criminal activity.

Arbejdernes Landsbank continually assesses this type of risk, and always when setting the individual solvency need.

Property risk

Property risk is the risk of losses on Arbejdernes Landsbank's portfolio of properties, arising from a general drop in property prices.

Arbejdernes Landsbank had a portfolio of properties of DKK 1,179.2 mill. at the end of 2020. The properties are primarily used for operation of the Bank. In addition, small parts of certain properties are rented out as residential properties or to businesses.

The properties are located throughout Denmark, although in terms of carrying amount there is an overweight in Greater Copenhagen.

The sensitivity of measurements regarding Arbejdernes Landsbank's properties is expressed by a positive change in the return on properties of 0.5 percentage points, which will reduce the value of the properties by approx. DKK 117.5 mill.

Remuneration risk

Among other things, the pay policy contains guidelines for remuneration to the Board of Directors and the Executive Management of Arbejdernes Landsbank. The management makes regular assessments, at least once a year, that this is the case.

The pay policy stipulates that the Management must be paid remuneration in conformity with the market and which reflects the Management's work for Arbejdernes Landsbank. The pay policy also stipulates that the remuneration paid to the Board of Directors and the Executive Management must be a fixed remuneration, such that no form of incentive pay and conflict of interest is included. The same applies to Heads of Division, Deputy Bank Directors, the Group's Chief Audit Executive, the AML Director (the person responsible for the anti-money laundering area), the CRO and the Head of Compliance.

Employees at Internal Audit and the Risk Department are subject to special conditions in which variable remuneration components within the framework of the collective agreement are not affected by changes in the results of Arbejdernes Landsbank and depend exclusively on the department's and the employee's own performance.

Similarly, other risk takers and employees in control functions are not paid variable remuneration components outside the framework of the collective agreement.

Page 25 of the Annual Report for 2020 describes the basis for the Nomination and Remuneration Committee established by the Board of Directors. Pages 27-31 as well as note 9 describe the remuneration etc. paid to the Board of Directors, the Executive Management and other risk takers etc. who significantly influence the risk profile.

The group of employees (risk takers) with significant influence on the risk profile is adjusted when employees leave and are replaced by new ones, and/or based on an assessment of employees' functions and job content.

Appendices

Exposure classes

Table B1
Development and average for exposures with credit risk

	Average 2020 DKK mill.	Status 31.12.2020 DKK mill.	Status 30.09.2020 DKK mill.	Status 30.06.2020 DKK mill.	Status 31.03.2020 DKK mill.	Status 31.12.2019 DKK mill.
Exposures to central governments and central banks	4,172.9	4,613.8	4,188.3	3,596.5	4,790.8	3,675.1
Exposures to institutions	1,857.4	1,350.7	1,935.7	2,826.9	1,663.1	1,510.6
Exposures to companies	6,547.8	6,949.9	6,645.3	6,032.0	6,610.0	6,501.6
Retail exposures	25,795.5	26,342.7	26,075.1	25,846.5	25,467.2	25,246.2
Exposures secured by mortgages on real property	5,728.0	6,211.8	5,755.5	5,565.0	5,606.3	5,501.2
Exposures in default	481.4	484.8	464.6	481.3	501.4	475.0
Exposures with particularly high risk	223.4	208.0	226.0	219.4	223.4	239.9
Investment associations	8.9	4.9	9.9	9.7	9.0	10.9
Share exposures	1,762.1	1,915.0	1,789.7	1,720.0	1,702.8	1,683.3
Other exposures	2,243.6	2,235.6	2,199.3	2,180.7	2,441.7	2,160.5
Total exposures with credit risk	*48,820.9*	*50,317.3*	*49,289.4*	*48,477.9*	*49,015.7*	*47,004.2*

Table B2
Items recognised in the balance sheet *)
broken down by remaining maturity, end of 2020

	On demand DKK mill.	0 - 3 months DKK mill.	3 months to 1 year DKK mill.	1 - 5 years DKK mill.	More than 5 years DKK mill.
Exposures to central governments and central banks	732.2	3,879.3	0.4	1.1	0.7
Exposures to institutions	294.0	477.5	0.0	0.0	0.0
Exposures to companies	73.3	1,809.1	1,117.6	826.7	273.1
Retail exposures	81.5	835.3	1,697.5	4,991.7	9,108.0
Exposures secured by mortgages on real property	23.2	133.8	233.7	785.0	1,663.2
Exposures in default	46.1	8.8	78.5	104.9	201.8
Exposures with particularly high risk	0.0	31.5	37.1	0.0	89.1
Investment associations	0.0	0.0	0.0	0.0	4.9
Share exposures	0.0	0.0	0.0	0.0	1,915.0
Other items	382.4	331.7	26.1	104.4	1,322.2
Total items recognised in the balance sheet	*1,632.8*	*7,506.9*	*3,190.8*	*6,813.8*	*14,578.0*

*) Items recognised in the balance sheet are calculated according to the standard method in the CRR.

End of 2019

	On demand DKK mill.	0 – 3 months DKK mill.	3 months to 1 year DKK mill.	1 - 5 years DKK mill.	More than 5 years DKK mill.
Exposures to central governments and central banks	692.3	2,981.3	0.5	0.9	0.0
Exposures to institutions	605.8	338.9	0.0	105.2	0.4
Exposures to companies	619.8	1,261.4	1,130.3	508.9	667.4
Retail exposures	157.5	881.0	1,942.7	6,426.7	6,679.0
Exposures secured by mortgages on real property	52.1	146.4	376.7	930.2	1,040.8
Exposures in default	55.5	29.1	97.0	169.9	95.5
Exposures with particularly high risk	74.2	7.5	39.5	14.9	23.8
Investment associations	0.0	0.0	0.0	0.0	10.9
Share exposures	0.0	0.0	0.0	0.0	1,683.3
Other items	200.9	440.5	18.1	111.0	1,291.4
Total items recognised in the balance sheet	*2,458.1*	*6,086.2*	*3,604.8*	*8,267.7*	*11,492.5*

*) Items recognised in the balance sheet are calculated according to the standard method in the CRR.

Table B3
Distribution by sector of exposure classes at the end of 2020

	Central governments and central banks	Institu-tions	Com-panies	Retail	Mortgage on real property	Default	Parti-cularly high risk	Invest-ment associa-tions	Shares	Other items	Total	- of which SMEs
	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.
Public authorities	2.5	0.0	117.6	0.0	0.0	1.0	0.0	0.0	0.0	0.0	121.2	
Business												
Agriculture, hunting, forestry and fisheries	0.0	0.0	0.1	54.5	2.9	0.9	0.0	0.0	0.0	0.0	58.5	55.5
Industry and extraction of raw materials	0.0	0.0	630.3	312.8	7.5	7.5	0.0	0.0	6.2	0.0	964.4	673.0
Energy supply	0.0	0.0	36.5	17.8	0.6	0.0	0.0	0.0	0.1	0.0	55.0	37.6
Building and construction	0.0	0.0	208.6	577.2	41.0	13.8	0.0	0.0	1.0	0.0	841.5	796.4
Trade	0.0	0.0	1,521.2	1,287.2	51.8	32.0	0.0	0.0	1.5	0.0	2,893.6	1,940.3
Transport, hotels and restaurants	0.0	0.0	99.1	285.3	32.0	18.5	0.0	0.0	0.0	0.0	434.9	335.2
Information and communication	0.0	0.0	351.4	145.8	16.5	7.6	0.0	0.0	15.8	0.0	537.2	164.1
Financing and insurance	4,611.3	1,350.7	692.6	169.9	21.8	57.0	127.4	2.8	1,598.4	1,846.9	10,478.8	316.2
Real property	0.0	0.0	752.9	347.9	77.4	51.3	68.6	0.0	15.2	0.0	1,313.2	810.0
Other business	0.0	0.0	2,302.2	1,440.7	100.2	63.0	12.0	2.2	276.9	0.0	4,197.2	2,120.5
Total business	*4,611.3*	*1,350.7*	*6,594.8*	*4,600.1*	*351.7*	*251.8*	*208.0*	*4.9*	*1,915.0*	*1,846.9*	*21,735.3*	*7,248.7*
- of which SMEs			2,700.6	4,222.5	325.7						*7,248.7*	
Private	0.0	0.0	237.5	21,703.6	5,860.1	231.9	0.0	0.0	0.0	0.0	28,033.1	
Other items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	388.7	388.7	
Total	*4,613.8*	*1,350.7*	*6,949.9*	*26,342.7*	*6,211.8*	*484.8*	*208.0*	*4.9*	*1,915.0*	*2,235.6*	*50,317.3*	

Table B4
Credit risk broken down by exposure category

	2020 DKK mill.	2019 DKK mill.
Exposures to companies	123.8	117.1
Retail exposures	267.5	352.5
Exposures secured by mortgages on real property	5.4	11.2
Exposures in default	2.0	5.9
Exposures with particularly high risk	0.0	0.0
Total items with credit risk	*398.6*	*486.8*

Table B5
Exposures with counterparty risk

	2020 DKK mill.	2019 DKK mill.
Exposures with counterparty risk		
Currency contracts		
Forward contracts/futures	71.5	79.6
Interest-rate contracts		
Forward contracts/futures/repo/reverse	21.5	17.6
Interest-rate swaps and swaptions	59.7	82.3
Total	*152.6*	*179.4*

EHRHORN HUMMERSTON

AKTIESELSKABET

Arbejdernes Landsbank

CVR. no. 31 46 70 12, Copenhagen, Denmark,

Panoptikonbygningen

Vesterbrogade 5 · DK-1502 Copenhagen V
Phone +45 38 48 48 48 · www.al-bank.dk