Group Risk Report 2021

Arbejdernes Landsbank

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

Group Risk Report 2021
for Arbejdernes Landsbank

Contents

The group risk report has been prepared in a Danish and an English version. In the event of discrepancy between the Danish-language original text and the English-language translation, the Danish text shall prevail.

Arbejdernes Landsbank

Risk management

Main activities of the Arbejdernes Landsbank Group

The Arbejdernes Landsbank Group includes the following companies:

- A/S Arbejdernes Landsbank (Parent Company)
- Vestjysk Bank A/S (subsidiary)
- AL Finans A/S (subsidiary)
- Ejendomsselskabet Sluseholmen A/S (subsidiary)

A/S Arbejdernes Landsbank holds almost 73% of the shares in Vestjysk Bank A/S, while AL Finans A/S and Ejendomsselskabet Sluseholmen A/S are fully owned by the Parent Company.

A/S Arbejdernes Landsbank

Arbejdernes Landsbank is a nationwide full-service bank for private individuals, associations and small and medium-sized enterprises. The Bank's business strategy is based on sound values.

Advisory services always take outset in the needs, values and dreams of the customer. This means that our approach is to look at the full financial situation of the customer, and responsible advice always comes before a sale. We make an extra effort to ensure in particular that no customer leaves a meeting without having understood what we have advised and what the point of our advice was.

Arbejdernes Landsbank works systematically and strategically to develop a dynamic and customer-oriented culture. The Bank's culture is crucial in retaining and developing our unique position – relative to our customers and to being an attractive workplace for our employees. We see a clear link between strategy and culture. We must practice what we preach. Throughout 2021, we have targeted strong efforts to ensure this.

Vestjysk Bank A/S

The strategic focus of Vestjysk Bank is to be Denmark's strongest local bank, offering advisory services to private and corporate customers, locally as well as regionally. Vestjysk Bank aims to be an attractive cooperation partner for both private and corporate customers.

In 2021, Vestjysk Bank successfully implemented a merger with Den Jyske Sparekasse, and the expected synergies are generally being realised as anticipated. Integration of IT systems was a major task, which has now been successfully completed.

Vestjysk Bank wants to strengthen its position as a bank appealing to the business community, and in the future, it will specifically target businesses in the bank's market area, taking into account the risks associated with this market, for example rising purchase prices for the bank's corporate customers in general.

Vestjysk Bank has extensive expertise in the fisheries and agricultural sectors, and aims to put even more focus on fisheries. On 3 January 2022, the bank opened a centre of expertise targeting the fisheries sector. Because of the bank's strong foundation in west Jutland, an area with a long tradition of fishing, Vestjysk Bank has developed strong expertise and a considerable customer portfolio in the fisheries sector over a number of years.

AL Finans A/S

AL Finans A/S is a finance company offering financing solutions to private individuals and businesses. For private individuals, the company mainly provides car loans and car leasing. For businesses, the company offers factoring,invoice purchasing and car leasing solutions. AL Finans A/S aims to establish strong customer relations through close dialogue and collaboration.

Ejendomsselskabet Sluseholmen A/S

Ejendomsselskabet Sluseholmen A/S is the property company that owns the site on which the Arbejdernes Landsbank Group will build its new headquarters.

Overall risk management

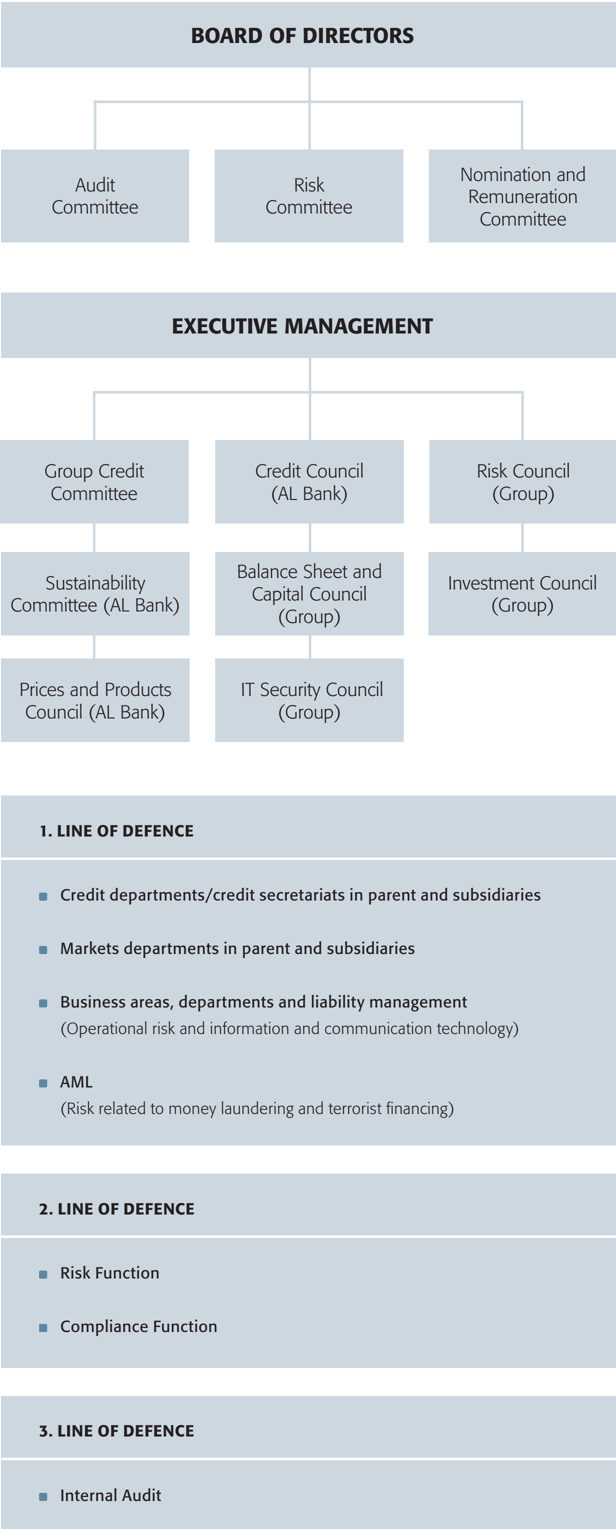
The strategic ambition for risk management at the Group is to remain a strong financial enterprise for owners, customers and society. In this connection, there is focus on the Group being aware of the risks to which the Group is exposed as a result of the business model, and on managing these appropriately. The following risks are considered as the most important:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk, including IT security and money laundering risk

The information in the Group Risk Report concerning risk management covers the Group. There are no differences between the consolidation basis for accounting purposes and consolidation in accordance with the CRR.

The governance structure is illustrated in the figure below and explained in detail on the following pages.

Figure 1
Organisation chart for risk management



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

- The business model for the Group includes Vestjysk Bank, which is operated as an independent listed financial institution with its own business model and board of directors, within the framework set by the Board of Directors of the Group.
- The Board of Directors of Arbejdernes Landsbank has formulated a risk strategy for the Group, setting the overall framework for risk management. The risk strategy formulated by the Board of Directors sets the framework for the Group's capital consumption and delegates capital to Arbejdernes Landsbank, Vestjysk Bank and AL Finans A/S.
- Group policies developed by the Board of Directors determine the risk appetite in all significant areas, and they delegate risk appetite to the individual companies in the Group.
- The Board of Directors has set up a Risk Committee to assess whether the internal control, risk management and security systems of the Group are effective.
- The Executive Management has established a Group Credit Committee to pre-process significant individual cases from Vestjysk Bank, and cases outside the scope of the business model of Vestjysk Bank, as these have to be authorised by the Board of Directors of Arbejdernes Landsbank.
- The Executive Management has set up a Risk Council to process both financial and non-financial risks potentially influencing the Group. Furthermore, the Executive Management has set up a number of councils, committees and coordination groups, including a legislation group, tasked with ensuring good governance for operational management of the Group's business activities.

Organisation of risk management

Committees of the Board of Directors

The Board of Directors has overall responsibility for defining and managing risks at the Group, 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 the Group is operated responsibly and in accordance with guidelines and policies.

Three committees have been set up under the Board of Directors to enhance the Board's work on governance and risk management: The Nomination and Remuneration Committee, the Audit Committee and the Risk Committee.

The **Nomination and Remuneration Committee** is responsible for setting and monitoring the remuneration policy, identifying significant risk takers and assessing the composition and competences of the Board of Directors.

The most important task of the **Audit Committee** is to monitor and control matters related to accounting and auditing. Among other things, the committee must inform the Board of Directors about the result of the statutory audit. Furthermore, the Audit Committee monitors effective functioning of the Bank's internal control system, Internal Audit and risk management systems in relation to financial reporting.

The **Risk Committee** is responsible for dealing with risk-related issues. The committee reviews and assesses the adequacy and efficiency of the Bank's risk management policies, instructions and systems and advises the Board of Directors on the current and future risk profile and risk strategy of the Group.

Committees and councils of the Executive Management

The boards of directors in each of the companies within the Group have appointed an executive management, which is responsible for day-to-day management, including that the companies are operated in accordance with the strategy, policies, etc. adopted by the boards of directors. The executive managements are responsible for ensuring organisation, processes, systems and competences that support sound risk management in the companies within the Group.

The Executive Management of Arbejdernes Landsbank has set up a number of councils and committees focusing on risk management in the Group and the Bank:

In order to ensure effective risk management across the Group, the Executive Management has set up a **Risk Council**. The Risk Council follows up on risk appetite, discusses the overall risk profile for financial and non-financial risks, follows up on the Group's risk reporting and discusses risk policies before they are considered by the Board of Directors Risk Committee. The Risk Council is headed by the Chief Executive Officer (CEO) of Arbejdernes Landsbank and also comprises the other members of the Executive Management. The Group Chief Risk Officer (CRO), the Deputy Group CRO and the Group Head of Compliance serve as observers.

As a consequence of acquiring a majority shareholding in Vestjysk Bank, a **Group Credit Committee** has been established.The purpose of the committee is to pre-process significant individual cases from Vestjysk Bank, and cases outside the scope of the business model of Vestjysk Bank, as these have to be authorised by the Board of Directors of Arbejdernes Landsbank. Furthermore, the committee ensures that the Board of Directors of Arbejdernes Landsbank receives adequate reports on credit risk in Vestjysk Bank. The CEO of Arbejdernes Landsbank is the chairman of the committee. The Group CRO serves as an observer.

Arbejdernes Landsbank also has a **Credit Council**. The task of the Credit Council is to authorise exposures of a certain size, approve impairment levels, approve credit management tools and deal with other credit-related issues at Arbejdernes Landsbank. The Credit Council also processes cases from AL Finans A/S, while Vestjysk Bank has its own credit council. The council is headed by the Bank's CEO and also comprises the Executive Bank Director for Business, the Executive Bank Director CFO, the Executive Bank Director for Business Development, HR and IT and the Director of Credit and Deputy Director of Credit. The Group CRO serves as an observer.

The role of the **Balance Sheet and Capital Council** is to ensure efficient capital management across the Group. The council is headed by the Executive Bank Director CFO at Arbejdernes Landsbank and moreover consists of the Deputy CEO at Arbejdernes Landsbank, the Head of Balance Sheet and Capital Management, as well as the director of credit and managing director and financial director at Vestjysk Bank. The Group CRO serves as an observer.

The **IT Security Council** is responsible for coordination and collaboration on IT security across the Group. The role of the council is to ensure a risk-based IT security level that meets business requirements, and to ensure that collaboration processes for handling IT security projects, tasks and incidents have been defined and work effectively across all stakeholders in the organisation. The council consists of the Executive Bank Director at Arbejdernes Landsbank responsible for Business Development, HR and IT, the Bank's Head of IT Department, the Head of IT Security, the Head of IT Security and Contingency in the 1st line of defence, the Head of Equipment and Operations and the Bank's Director for Business Development. The Deputy Group CRO serves as an observer.

The **Investment Council** is headed by the Deputy CEO at Arbejdernes Landsbank, and also comprises the Executive Bank Director CFO, the Head of Balance Sheet and Capital Management, the Senior Treasury Manager for the Bank and the executive bank director from Vestjysk Bank. The council follows up on the Bank's investments inside and outside the trading portfolio and reconciles future tactical positioning. The Group CRO serves as an observer.

The **Prices and Products Council** approves of new products and services within its own mandate at Arbejdernes Landsbank and shutting down existing products. The council is headed by the Executive Bank Director CFO of Arbejdernes Landsbank and also comprises the Executive Bank Director for Business, the Executive Bank Director for Business Development, HR and IT, the Director of Credit and AL-Markets' proxy. The Deputy Group CRO and the Group Head of Compliance serve as observers.

The **Sustainability Committee** holds managerial responsibility for implementing the social responsibility and sustainability policy, and the purpose of the committee is to make sure that the sustainability strategy is realised across business areas and units. The Sustainability Committee is headed by the CEO of Arbejdernes Landsbank and also comprises the other members of the Executive Management, the Branding and Communication Director, and the project manager for sustainability. The Group CRO serves as an observer.

1. line of defence

The credit departments at Arbejdernes Landsbank, Vestjysk Bank and AL Finans A/S, respectively, are responsible for day-to-day, 1st-line-of-defence risk management of credit risk in the Bank's branches, business centres and subsidiaries. The credit departments ensure compliance with both the credit strategy and the credit policies. Furthermore, they are in contact with the branches and provide credit advisory services in relation to processing individual cases, and they carry out control and monitoring.

The markets departments at Arbejdernes Landsbank and Vestjysk Bank are responsible for day-to-day, 1st-line-of-defence risk management of the Bank's market risk. The various Treasury functions at the Bank are responsible for the Bank's own portfolios. The units are responsible for complying with relevant policies and instructions.

AL Markets and the Bank's CFO area are responsible for day-to-day risk management of liquidity risk at Arbejdernes Landsbank. The Bank's Markets department is responsible for short-term, day-to-day liquidity management at the Bank, while overall management responsibility lies with the Bank's Treasury unit under the CFO area.

Management of operational risk (1st line of defence) is anchored 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. Other than reporting for managerial purposes, these systems are used to improve procedures and contingency plans. Vestjysk Bank monitors and reports on its own operational incidents to its own executive management and board of directors, and to the Group Chief Risk Officer (CRO).

An IT security unit has been set up in the 1st line of defence, responsible for drawing up contingency plans and safeguarding secure IT risk management as well as a sufficient level of IT security. The IT security unit has been set up at Group level.

The task of ensuring that Arbejdernes Landsbank is not exploited for money laundering or terrorist financing is anchored in the AML Department, which also has Group responsibility for the AML area. The person responsible for the AML area in each subsidiary is responsible for ensuring compliance by the subsidiary of the regulations in the Anti-Money Laundering Act. The persons responsible for the AML area in the Group's subsidiaries are subject to a dual reporting obligation, as they are to report both to the management of the subsidiary and to the person responsible for the AML area at Group level on matters of importance to the Group's compliance with the Anti-Money Laundering Act, Group policies etc.

The Board of Directors of Arbejdernes Landsbank has adopted a product policy and a governance structure to ensure that activities in new areas, as well as deliberations about new products and services, are considered by the Bank's Prices and Products Council before being recommended to the Board of Directors. Vestjysk Bank has a similar procedure for activities in new areas, and moreover, approval is required from the Board of Directors of the Group prior to any changes in Vestjysk Bank's business model.

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 the Group is exposed at any time.

2. line of defence

Arbejdernes Landsbank has a Risk Function managed by the Group Chief Risk Officer (CRO). The Risk Function monitors risk management across the Group and ensures correct identification, measurement, handling and reporting of all significant risks in the Parent Company and its subsidiaries. The Group CRO reports to the Board of Directors and the Executive Management of Arbejdernes Landsbank concerning the Group's risks. The report includes assessments and selected recommendations from the Group CRO. The Risk Function provides advice to the Board of Directors and the Executive Management with regard to risk issues. Vestjysk Bank has an independent Risk Function, which reports to the executive management and board of directors of Vestjysk Bank. The CRO at Vestjysk Bank coordinates monitoring with the Group CRO and reports to the Group's Risk Function. Monitoring IT security in the Group is also part of the responsibility of the Risk Function and is carried out by the Head of IT Security. The Group CRO reports to the CEO of Arbejdernes Landsbank, and reports independently to the Board of Directors.

The Group has a Compliance Function managed by the Group Head of Compliance. The Compliance Function is responsible for independent reporting to the Executive Management and the Board of Directors. The Compliance Function is responsible for assessing and checking compliance with current legislation, industry standards and internal rules. Furthermore, the Compliance Function provides advice on how to reduce compliance risks. Vestjysk Bank has an independent compliance function, which reports to the executive management and board of directors of Vestjysk Bank. The head of compliance at Vestjysk Bank coordinates monitoring with the Group Head of Compliance and reports to the Group's Compliance Function.

3. line of defence

Internal Audit is the 3rd line of defence and is responsible for carrying out independent audit of risk management by the Group, including the internal controls and monitoring of the risk area. The Chief Audit Executive at Arbejdernes Landsbank has Group responsibility, but Arbejdernes Landsbank and Vestjysk Bank each had their own internal auditors at the end of 2021.

Management declaration

Pursuant to article 435(1) of the Capital Requirements Regulation (CRR), on 17 February 2022, the Board of Directors and the Executive Management of Arbejdernes Landsbank approved Arbejdernes Landsbank's Group Risk Report for 2021. Arbejdernes Landsbank's subsidiary Vestjysk Bank prepares a separate risk report, which is available on Vestjysk Bank's website.

In the assessment of the Board of Directors, the risk management of Arbejdernes Landsbank complies 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'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 an appropriately robust capital base which supports the business model.

The Group has set a capital target covering the solvency need plus the capital conservation buffer of 2.5% and the SIFI capital buffer of 1.0%, as well as an additional excess cover of 5.0% covering a severe stress scenario. At the end of 2021, the Group's capital ratio was 18.2%, corresponding to an excess cover of 0.8% relative to the capital target.

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.

For information on management systems, cf. Article 435(2), points a-d of the CRR, see pp. 21-29 of the 2021 Annual Report and Arbejdernes Landsbank's website, https://www.al-bank.dk/om-banken/baeredygtighed-og-governance/corporate-governance.

Reporting overview

Annual 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 & Sustainability Report
The Responsibility & Sustainability Report accounts for the Group's corporate social responsibility.

Compliance
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 reports, interim reports and quarterly announcements
Developments in earnings, business activity etc.

Quarterly reporting/approval of group risk strategy, including group credit strategy

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).

Capital and solvency need

New Group structure in 2021

Arbejdernes Landbank's acquisition of Vestjysk Bank has had significant impact on developments in the Group's capital position 2021. On 31 May 2021, Arbejdernes Landsbank became the majority shareholder of Vestjysk Bank with an ownership interest of 72.7% of the share capital and voting rights in Vestjysk Bank. In order to raise capital for the acquisition of Vestjysk Bank, on 14 April 2021 Arbejdernes Landsbank launched an increase of its share capital by offering 1.8 bn. new shares of DKK 1 nominal value. Consequently, the total share capital of Arbejdernes Landsbank now amounts to DKK 2.1 bn.

As expected, in this connection the Group was designated as a SIFI (systemically important financial institution) by the Danish FSA in June 2021. The designation as a SIFI means that, from the end of 2022, the Group will subject to a SIFI capital buffer of 1.0 percentage point. The Group must meet the SIFI buffer requirement with Common Equity Tier 1 capital.

Capital management

Capital management is based on the EU Capital Requirements Regulation (CRR), which entered into force on 1 January 2014 and has direct legal effect in Denmark. As part of capital management, the Group 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
- Calculation of individual solvency need
- Disclosure requirements

The Group's capital plan has been supplemented by a recovery plan comprising a number of relevant risk and capital indicators for the Group 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 Group. 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 plus the capital conservation buffer and the SIFI buffer, as well as an additional excess cover of 5.0 percentage points. The target corresponds to the yellow light indicator in the recovery plan and ensures that the Group can absorb future capital requirements in the form of a fully phased-in countercyclical capital buffer.

Arbejdernes Landsbank has acquired an ownership interest of Vestjysk Bank of 72.7%. Thus, 27.3% of the shares in Vestjysk Bank are held by minority shareholders. Furthermore, minority interests in Vestjysk Bank include owners of Additional Tier 1 instruments amounting to DKK 300.7 mill. and Tier 2 instruments amounting to DKK 597.7 mill. Minority shareholders' and other minority interests' share of the capital in Vestjysk Bank may only be recognised in consolidated own funds at an amount corresponding to the minority interests' share of the total capital requirement in Vestjysk Bank. When determining the Group's capital targets, the Group recognises capital from minority interests corresponding to the minority interests' share of capital targets set for Vestjysk Bank. Due to the restrictions on recognising minority interest capital in consolidated own funds, Arbejdernes Landsbank expects to become the issuer of all Additional Tier 1 capital and Tier 2 capital in the Group, and to regularly fund Vestjysk Bank according to its capital need.

Senior Non-Preferred (SNP) instruments issued in Vestjysk Bank cannot be recognised in the consolidated MREL basis, and Arbejdernes Landsbank therefore similarly expects to become the issuer of SNP instruments in the Group, and to regularly fund Vestjysk Bank according to its MREL capital need.

The Group's capital ratio target has been calculated at 17.4%, after deduction for the minority interests' share in Vestjysk Bank. With a capital ratio of 18.2% as at 31 December 2021, the Group thus has an excess cover of 0.8 percentage points. Relative to the statutory requirement of 12.5%, the excess cover is 5.7 percentage points.

The Group's capital requirement comprises a solvency need of 10.0% and the combined capital buffer requirement of 2.5%, which currently only consists of the capital conservation buffer of 2.5%, as the reactivation of the countercyclical capital buffer will not be effective until 30 September 2022.

The long-term capital planning of the Group is based on economic projections taking account of the Group's vision, but under different macro-economic and idiosyncratic stress scenarios and recognising the anticipated effects of future 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 1
Calculation of Group own funds

	2021 DKK mill.	2020 DKK mill.
Transformation from equity to own funds		
Equity	11,852.9	7,125.2
Minority interests not included	-649.8	0.0
Additional Tier 1 capital, including interest payable	-754.5	-446.1
Proposed dividend	-525.0	0.0
Intangible assets	-249.9	-15.5
Deferred tax assets	-289.6	0.0
Deductions for prudent valuation	-31.2	-23.6
Deductions for non-performing exposures	-87.8	0.0
Capital instruments in financial entities	-18.9	-522.2
Common Equity Tier 1 capital	*9,246.1*	*6,117.8*
Additional Tier 1 capital	729.7	429.0
Minority interests not included	-50.3	0.0
Capital instruments in financial entities	0.0	-25.4
Tier 1 capital	*9,925.5*	*6,521.4*
Tier 2 capital	1,497.7	900.0
Minority interests not included	-153.1	0.0
Capital instruments in financial entities	0.0	-8.3
Own funds	*11,270.2*	*7,413.1*

Over the past year, the Group's own funds increased by DKK 3.9 bn. This can largely be explained by the increase in the shareholders' share of equity, of which DKK 1.8 bn. is attributable to the share increase at Arbejdernes Landsbank, DKK 1.4 bn. is attributable to recognition of minority shareholders in Vestjysk Bank, and DKK 1.2 bn. is attributable to provisions made from profits for the year.

Due to the acquisition of shares in Vestjysk Bank, equity investments in Vestjysk Bank are no longer to be deducted from own funds, as the company is now classified as a subsidiary and included in the consolidated capital statement. Consequently, the Group's capital deductions for capital instruments in financial entities have been reduced by DKK 0.5 bn. compared to last year.

The deduction for intangible assets increased from DKK 15.5 mill. in 2020 to DKK 249.9 mill. at the end of 2021. This increase is attributable to the capitalised value of customer lists in connection with the acquisition of Vestjysk Bank as well as the merger between Vestjysk Bank and Den Jyske Sparekasse.

A deduction for deferred tax assets has been incorporated, which is attributable to a recognised tax loss in Vestjysk Bank for carry forward.

In 2021, own funds were adjusted by a deduction for non-performing exposures. The deduction is a new requirement for banks' minimum coverage for losses stemming from non-performing exposures. If the minimum coverage of losses for a non-performing exposure is greater than the impairment charges and other reductions in own funds for this exposure, the Group must deduct the difference in Common Equity Tier 1 capital. At the end of 2021, the deduction for the Group was DKK 87 mill.

The increase in Additional Tier 1 capital of DKK 300.7 mill. compared to 2020 is attributable to recognition of issued Additional Tier 1 capital in Vestjysk Bank. The increase in Tier 2 capital of DKK 597.7 mill. is attributable to recognition of issued Tier 2 capital in Vestjysk Bank.

A total of DKK 853 mill. has been deducted for non-recognised minority interests. The deduction concerns the share of minority interests' capital not used to cover the capital requirement in Vestjysk Bank.

With respect to own funds at the end of 2021, the Group has retained DKK 525 mill. for future distribution. Total distributions, including interest on Additional Tier 1 capital issued, have been calculated at 43.4% of the profit after tax for the year. The expected distribution is within the framework of the Group's dividend policy.

Capital instruments issued

The Group has currently issued Additional Tier 1 capital amounting to DKK 729.9 mill., divided into five issues: three of DKK 429 mill., DKK 155 mill., and DKK 45.7 mill., respectively, as well as two issues of DKK 50 mill. each. Arbejdernes Landsbank has issued Additional Tier 1 capital at nominally DKK 429 mill., which was redeemed on 24 January 2022 and replaced by new capital of the same quality and at the same amount.

The Group has issued Tier 2 capital amounting to DKK 1,500 mill., divided into four issues of DKK 900 mill., DKK 250 mill., DKK 225 mill. and DKK 125 mill., respectively.

Additional Tier 1 capital and Tier 2 capital has been issued on terms that comply with the CRR requirements for recognition of own funds, and the Group has therefore recognised the capital issues in own funds.

Table 2
Additional Tier 1 capital

2021					
Type	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital
Issuer	Arbejdernes Landsbank	Vestjysk Bank A/S	Vestjysk Bank A/S	Vestjysk Bank A/S	Vestjysk Bank A/S
ISIN			DK0030484118	DK0030421466	DK0030401195
Principal amount (DKK mill.)	429.0	45.7	50.0	50.0	155.0
Currency	DKK	DKK	DKK	DKK	DKK
Interest rate	CIBOR 6m + 7.25%	5.25%	4.75%	7.50%	8.50%
Received	22 January 2014	25 January 2021	12 March 2021	26 June 2018	16 August 2017
Maturity	No due date	No due date	No due date	No due date	No due date
Possibility for redemption before maturity	22 January 2021	25 January 2026	12 March 2026	26 June 2023	16 August 2022
Subsequent interest rate	CIBOR 6m + 7.25%	5.25%	CIBOR 6m + 4.0%	CIBOR 6m + 7.0%	CIBOR 6m + 8.0%
Date of Subsequent early redemption	22 January and 22 July in subsequent years	At any time subject to 15 days' notice after 25 January 2026	At any time subject to 30 days' notice after 12 March 2026	At any time subject to 30 days' notice after 26 June 2023	At any time subject to 30 days' notice after 16 August 2022
Convertibility	Not convertible	Not convertible	Not convertible	Not convertible	Not convertible
Additional Tier 1 capital included when calculating Tier 1 capital/own funds (DKK mill.)	429.0	45.7	50.0	50.0	155.0
Link to terms and conditions for additional Tier 1 capital (in Danish)	https://www.al-bank.dk/media/133547/vil-kaar-for-kapitalbeviser-supplerende-kapital.pdf	https://www.vestjysk-bank.dk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fInvestor-relations%2fRegnskaber%2fRisikorapporter%2f2022%2fL%c3%a5neaftale+-Hybrid+Kernekapital+p%c3%a5+45_7+mio.(16271024.1).pdf	https://www.vestjysk-bank.dk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fInvestor-relations%2fRegnskaber%2fRisikorapporter%2f2022%2f50+mio.+Nykredit+Kapitalbeviser+hybrid+kernekapital+(AT1)-+Vestjysk+Bank.pdf	https://www.vestjysk-bank.dk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fInvestor-relations%2fRegnskaber%2fRisikorapporter%2f2022%2f2018+06+Hybrid+kernekapital+50+mio..pdf	https://www.vestjysk-bank.dk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fInvestor-relations%2fRegnskaber%2fRisikorapporter%2f2022%2f155+mio.+Nykredit+Hybrid+16.8.2017.pdf

Table 2 (continued)
Tier 2 capital issued

2021				
Type	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
Issuer	Arbejdernes Landsbank	Vestjysk Bank A/S	Vestjysk Bank A/S	Vestjysk Bank A/S
ISIN	DK0030442892	DK0030448311	DK0030401005	DK0030421540
Principal amount (DKK mill.)	900.0	125.0	225.0	250.0
Currency	DKK	DKK	DKK	DKK
Interest rate	CIBOR-6M + 3.5%	3.75%	6.50%	CIBOR 6m + 5.0%
Received	21 May 2019	28 August 2019	16 August 2017	26 June 2018
Maturity	21 May 2031	28 August 2029	16 August 2027	26 June 2028
Possibility for redemption before maturity	21 May 2026	28 August 2024	16 August 2022	26 June 2023
Subsequent interest rate	CIBOR-6M + 3.5%	CIBOR 6m + 4.0%	CIBOR 6m + 6.0%	CIBOR 6m + 5.0%
Date of subsequent early redemption	At any time, subject to 15-60 days' notice after 21 May 2026	At any time subject to 30 days' notice after 28 August 2024	At any time subject to 30 days' notice after 16 August 2022	At any time subject to 30 days' notice after 26 June 2023
Convertibility	Not convertible	Not convertible	Not convertible	Not convertible
Tier 2 capital recognised when calculating own funds (DKK mill.)	900.0	124.3	224.6	248.8
Link to terms and conditions for Tier 2 capital (in Danish)	https://www.al-bank.dk/media/133547/vil-kaar-for-kapitalbeviser-supplerende-kapital.pdf	https://www.vestjysk-bank.dk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fInvestor-relations%2fRegnskaber%2fRisikorapporter%2f2022%2f125+mio.+Nykredit+supplerende+kapital+28.08.2019.pdf	https://www.vestjysk-bank.dk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fInvestor-relations%2fRegnskaber%2fRisikorapporter%2f2022%2f225+mio.+Nykredit+supplerende+kapital++16.8.2017.pdf	https://www.vestjysk-bank.dk/Admin/Public/DWSDownload.aspx?File=%2fFiles%2fFiles%2fInvestor-relations%2fRegnskaber%2fRisikorapporter%2f2022%2f2018+06+Supplerende+kapital+250+mio..pdf

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.

The Group's total risk exposure amount grew by DKK 26 bn. in 2021, and at the end of the year, it amounted to DKK 62.1 bn. The considerable increase arises from the acquisition of shares in Vestjysk Bank, after which Vestjysk Bank is included in the consolidated statement of total risk exposure. In particular, the Group's credit risk has increased after recognition of the credit exposure from Vestjysk Bank. Thus, the credit exposure has grown to DKK 48 bn., i.e. an increase of 77%. The operational risk has increased by DKK 2.8 bn. as a result of the Group recognising Vestjysk Bank in full in the calculation of operational risk.

The Group's capital ratio was 18.2% at the end of 2021 compared with 20.6% at the end of 2020. The 2.4 percentage points decline is primarily attributable to the acquisition of Vestjysk Bank, causing the Group's total risk exposure to increase relatively more than the Group's own funds. The Group uses the following methods to calculate the capital ratio:

- The standardised approach for calculating credit risk
- The standardised approach for calculating 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 3
Capital requirement (8%) and risk exposure

	Capital requirement (8%)		Risk exposure	
	2021 DKK mill.	2020 DKK mill.	2021 DKK mill.	2020 DKK mill.
Exposures with credit risk etc.				
Exposures to central banks	0.1	0.0	1.4	0.0
Exposures to regional or local authorities	0.0	0.0	0.0	0.0
Exposures to institutions	24.5	26.6	306.0	331.9
Exposures to companies	880.5	370.3	11,006.4	4,629.0
Retail exposures	1,760.0	1,183.2	21,999.6	14,790.4
Exposures secured by mortgages on real property	372.3	171.3	4,653.9	2,141.4
Exposures in default	272.3	44.6	3,403.3	557.7
Exposures with particularly high risk	51.1	25.0	638.7	312.0
Investment associations	5.1	0.4	63.5	4.9
Share exposures	210.5	186.7	2,631.9	2,334.0
Other exposures	227.1	147.4	2,838.3	1,842.2
Counterparty risk	27.5	0.0	344.3	0.0
CVA risk	6.8	3.9	85.6	48.4
Total exposures with credit risk etc.	***3,837.8***	***2,159.4***	***47,973.0***	***26,992.0***
Exposures with market risk				
Debt instruments, specific risk	282.8	287.7	3,534.5	3,596.7
Debt instruments, interest-rate risk	227.7	119.0	2,845.9	1,486.9
Position risk for shares	86.0	18.0	1,075.0	224.5
Currency risk	23.2	5.2	290.0	65.1
Other risks	0.2	0.0	2.0	0.1
Total exposures with market risk	***619.8***	***429.9***	***7,747.5***	***5,373.4***
Operational risk	509.6	288.4	6,370.1	3,605.1
Total capital requirement	***4,967.2***	***2,877.6***	***62,090.6***	***35,970.5***
Own funds for compliance with capital requirement	11,270.2	7,413.1		

The capital requirement according to pillar 1 (8% of risk exposures) amounted to DKK 4,967.2 mill. at the end of 2021. The capital requirement for market risk amounted to DKK 12.5% of total risk exposure, while credit risk accounted for the largest share at 77.3%.

Solvency need

Model

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 Group applies the 8+ model, which is based on a minimum requirement of 8% of total risk exposure (pillar-1 requirement). Normal risks are assumed to be covered by the 8% capital requirement. Furthermore, the Group assesses the extent to which Tier 2 capital is needed to cover risk areas not covered by 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 for calculating any supplements to the individual solvency need (pillar 2 supplements) within a number of risk areas.

The Board of Directors determines adequate own funds and the individual solvency need for the Group. The individual solvency need is calculated as the total capital need as a percentage of the total risk exposure calculated according to the provisions of the CRR. The Group assesses that the calculation of the total capital need is sufficient to cover the risks assumed by the Group.

Adequate capital and solvency need

The Group's solvency need was calculated at 10.0% at the end of 2021 against 10.3% at the end of 2020. The decline is attributable to the Group's coverage of credit-spread risk and the Group's earnings risk. Adequate own funds amounted to DKK 6,179.8 mill. The increase in adequate own funds is largely attributable to the acquisition of Vestjysk Bank and the resulting increase in business activity. Calculation of adequate own funds and solvency need can be broken down into the following categories:

Table 4
Solvency need

	2021 DKK mill.	2021 %	2020 DKK mill.	2020 %
Capital to cover credit risk	4,353.5	7.0	2,465.6	6.9
Capital to cover market risk	1,140.6	1.8	848.4	2.4
Capital to cover operational risk	665.0	1.1	313.5	0.9
Capital to cover other risks	20.7	0.0	91.5	0.3
Adequate own funds/solvency need	*6,179.8*	*10.0*	*3,718.9*	*10.3*

Capital to cover credit risk

Capital to cover credit risk is calculated as 8% of the risk exposures relating to credit risk plus Tier 2 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 and liquidity risk

Capital to cover market risk is calculated as 8% of the risk exposures relating to market risk plus Tier 2 capital to cover the following specific risks:

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

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. Furthermore, risks associated with information and communication technology, as well as weaknesses in the internal control environment and outsourcing risk are also assesses. The calculations demonstrate the need for a supplement in addition to the capital requirement.

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 will also be presented to the Board of Directors for approval.

The Risk Function 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.

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 the Group currently consists of a capital conservation 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.

With the designation as a SIFI, the Group must meet a SIFI buffer requirement of 1.0% of the total risk exposure at the end of 2022. The SIFI buffer is set on the basis of the Group's systemic importance and must be met through Common Equity Tier 1 capital.

The capital conservation buffer aims to ensure a more robust financial sector in terms of capital, and constitutes a fixed capital requirement of 2.5% of the total risk exposure.

The countercyclical capital buffer will be activated by the Minister for Industry, Business and Financial Affairs and may be in the range of 0.0% to 2.5% of the 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 lending growth is causing higher macro-economic risks. In June 2021, the Minister for Industry, Business and Financial Affairs decided that the countercyclical capital buffer is to be reactivated at a rate of 1.0% from 30 September 2022. In December 2021, the Minister for Industry, Business and Financial Affairs decided to further increase the countercyclical capital buffer to 2.0% from the end of 2022.

The institution-specific countercyclical capital buffer for the Group is calculated on the basis of the Group's geographical distribution of credit exposures. For countries in which credit exposures exceed 2.0% of total credit exposures, the Group must reserve capital that matches the level of the countercyclical capital buffer in the country in question.

Table 5
Geographical distribution of credit exposures at the end of 2021

	General credit exposures	Exposures in the trading portfolio	Total	
	DKK mill.	DKK mill.	DKK mill.	%
Denmark	71,561.4	26,892.5	98,453.9	95.3
Germany	299.7	1,688.2	1,987.8	1.9
Other countries *)	365.2	2,477.1	2,842.3	2.8
Total	*72,226.3*	*31,057.8*	*103,284.1*	*100.0*

*) "Other countries" refers to all exposures which amount to less than 2.0% 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 6
Geographical distribution of own funds requirement at the end of 2021

	General credit exposures	Exposures in the trading portfolio	Total	
	DKK mill.	DKK mill.	DKK mill.	%
Denmark	3,741.9	275.3	4,017.2	96.7
Germany	22.2	12.4	34.6	0.8
Other countries *)	27.8	73.7	101.6	2.4
Total	*3,791.9*	*361.5*	*4,153.4*	*100.0*

*) "Other countries" refers to all exposures which amount to less than 2.0% of total general credit exposures and exposures in the trading portfolio. These are ascribed to Denmark when calculating the institution-specific countercyclical capital buffer.

The Group only has exposures exceeding 2.0% in Denmark. Denmark has not yet activated its countercyclical buffer. Consequently, the countercyclical capital buffer amounts to 0.0% for the Group.

Table 7
Combined capital buffer requirement

	2021	2020
Total risk exposure (DKK mill.)	62,090.6	35,970.5
Capital conservation buffer rate (%)	2.5	2.5
Institution-specific countercyclical capital buffer rate (%)	0.0	0.0
Capital conservation buffer rate (DKK mill.)	1,552.3	899.3
Institution-specific countercyclical capital buffer rate (DKK mill.)	0.0	0.0
Combined capital buffer requirement	*1,552.3*	*899.3*

At the end of 2021, the combined capital buffer requirement consisted of the capital conservation buffer and was calculated at DKK 1,552.3 mill. The capital conservation buffer was calculated at 2.5% of the Group's total risk exposure. The increase in the combined capital buffer requirement is attributable to the growth of total risk exposure, which has grown considerably after the acquisition by the Group of shares in Vestjysk Bank.

The Danish FSA will set an indicative level of additional own funds for all banks to supplement the solvency need of the banks and ensure that they have sufficient capital to absorb potential losses resulting from a stress scenario, without getting into conflict with the solvency need. The indicative level must be maintained in addition to the combined capital buffer requirement. The Danish FSA has informed the Group that the indicative level is covered by the Group's current own funds, and consequently, the indicative level of additional capital has been set at zero.

Excess cover in relation to the total capital requirement

The Group's capital ratio amounted to 18.2% at the end of 2021, corresponding to an excess cover of 5.7 percentage points relative to the total capital requirement of 12.5%, comprising the solvency requirement of 8.0%, the supplementary solvency need of 2.0% and the combined capital buffer requirement of 2.5%.

The solvency requirement of 8.0% must be covered by at least 4.5% Common Equity Tier 1 capital, while at least 6.0% of the solvency 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 supplementary solvency need. The combined capital buffer requirement can only be covered by Common Equity Tier 1 capital.

Table 8
Capital composition in relation to capital requirement at the end of 2021

	Capital requirement %	Capital requirement DKK mill.	Capital DKK mill.	Surplus capital DKK mill.
Common Equity Tier 1 capital	8.1	5,028.4	9,246.1	4,217.7
Tier 1 capital	10.0	6,187.1	9,925.5	3,738.4
Own funds	12.5	7,732.0	11,270.2	3,538.1

Table 8 shows that at the end of 2021, the Group had excess cover of DKK 4,217.7 mill. relative to the Common Equity Tier 1 capital requirement, and excess cover of DKK 3,738.4 mill. relative to the Tier 1 capital requirement. The excess cover for the Group's total capital requirement is DKK 3,538.1 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. For SIFIs, an individual resolution strategy will be drawn up. The overall aim of the strategy is to ensure that the Group can be returned to the market as a viable financial institution after restructuring. This will be through recapitalisation of the resolution group on a consolidated basis at resolution group level by writing down and converting creditors' claims.

The designation as a SIFI means that the Group will be subject to a MREL requirement corresponding to the sum of two times the solvency need, the capital conservation buffer and the SIFI buffer, which, with the current solvency need of 10.0%, corresponds to 23.5%. The MREL requirement will be linearly phased in up to 1 January 2026. At the end of 2021, the Group was subject to a MREL requirement of 13.1%.

The MREL requirement can be met by Common Equity Tier 1 instruments and Senior-Non-Preferred (SNP) instruments 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. The Group expects that the requirement for the MREL add-on will primarily be met by issuing SNP instruments. Up to the final phase-in of the MREL add-on on 1 January 2026, the Group expects to have to issue a minimum of DKK 9 bn. in SNP instruments to cover the MREL requirement, depending on changes in risk exposures, solvency need and requirements for the countercyclical capital buffer. The Group expects to commence issuing SNP instruments in Q2 2022. To support the future issues of SNP instruments, the Group has commenced a rating process in which the objective is for the Group to have an external rating during the first half of 2022.

Future capital adequacy rules

On 27 October 2021, the European Commission announced a proposal to amend the CRR and the CRD, also known as Basel IV. The proposal entails that the expected date of entry into force of the amendments will be pushed from 1 January 2023 to 1 January 2025.

The Group uses the standardised approach for calculating risks and has noted that substantial changes to credit risk and market risk have been proposed under the standardised approach. The Group's projections show that, also after phasing in Basel IV, the Group will meet its capital target.

Leverage ratio

The leverage ratio is calculated as Tier 1 capital according to the fully phased-in definition, in relation to the total exposure. Through its leverage policy, the Group has set a framework for managing and monitoring the risk of excessive leverage. The aim of the Group's leverage is set in accordance with the Group's risk strategy, and the Group assesses that a leverage ratio of more than 6.0% is appropriate in relation to the Group's business model.

Leverage risk is defined in the CRR, which stipulates that a bank must have a leverage ratio of at least 3.0%. At the end of 2021, the Group had a leverage ratio of 7.8% and thus meets both the minimum requirement and its leverage target by a solid margin. The leverage ratio is 1.2 percentage points lower than at the end of 2020. This is primarily due to the acquisition of Vestjysk Bank.

Table 9
Leverage at the end of 2021

	DKK mill.
Leverage-weighted exposures	
Total assets	107,249.1
Adjustments for derivatives	477.0
Adjustments for securities financing transactions	51.6
Adjustments for off-balance exposures	19,999.1
Other adjustments	-650.5
Total leverage-weighted exposures	*127,126.4*
Off-balance exposures excluding derivatives and repo/reverse transactions	
Assets excl. derivatives and repo/reverse transactions	107,306.2
Assets deducted in Tier 1 capital	-797.5
Total on-balance exposures excl. derivatives and repo/reverse transactions	*106,508.7*
Derivative exposures	
Positive market value	159.3
Potential risk	398.4
Total derivative exposures	*557.6*
Securities financing transactions	
Gross exposures	9.3
Cash payables and cash receivables	51.6
Total securities financing transactions	*61.0*
Off-balance exposures	
Gross exposures	42,383.5
Adjustments	-22,384.4
Total off-balance exposures	*19,999.1*
Capital and leverage-weighted exposures	
Tier 1 capital	9,925.5
Leverage-weighted exposures	127,126.4
Leverage ratio	7.8 pct.

Table 9
Leverage at the end of 2021 (continued)

	DKK mill.
Total on-balance exposures (excl. derivatives, security financing transactions, and non-recognised exposures)	
Exposures treated as exposures to central governments	12,046.4
Institutions	1,075.1
Exposures secured by collateral in the form of mortgages on real property	2,684.1
Retail exposures	24,505.5
Companies	11,323.8
Exposures in default	2,250.8
Other exposures (e.g. equity, securitisation and other non-credit obligation assets)	6,597.3
Exposures outside the trading portfolio	60,483.0
Exposures in the trading portfolio	46,823.2
Total exposures recognised in the balance sheet	*107,306.2*

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. The Group'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 70.4% of the solvency need at the end of 2021 (66.3% at the end of 2020). Consequently, the Group has allocated the most funds to this item in order to meet unforeseen losses.

Credit policy

The Group's companies have their own credit policies reflecting the individual company's business model, as well as the overall framework for managing credit risk established by the Board of Directors of Arbejdernes Landsbank. Authorisation guidelines are established by the board of directors and passed on to the executive management of the individual company and then further on down through the organisation.

A central element in the Group'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.

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 banking transactions. In the Bank's subsidiaries, AL Finans and Vestjysk Bank, the target group also includes private customers as well as small and medium-sized Danish enterprises. However, Vestjysk Bank's target group differs from that of the Bank, as Vestjysk Bank has particular focus on loans and financing for agriculture, fisheries and real property.

Generally, the Group 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. This is important for the establishment of a sustainable foundation for the Group's further development.

Credit organisation

Arbejdernes Landsbank has 70 branches and six independent business centres as well as the Bank's subsidiary, AL Finans. Furthermore, Vestjysk Bank has 29 branches and some specialist departments, including an agricultural centre, all of which are located in central, western and eastern Jutland.

The authority to grant loans is structured such that Arbejdernes Landsbank's 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 credit policy rules for credit risk profile, the Bank's branches, business centres or AL Finans A/S make a recommendation for authorisation to the Bank's Credit Department, Credit Council or the Board of Directors. Vestjysk Bank has its own credit organisation and associated hierarchy for authorisation of loans, as well as its own structure for processing larger and more complex cases, including cases deviating from the credit policy. Furthermore, the Group has set up a Group Credit Committee tasked with pre-processing significant individual cases from Vestjysk Bank as well as cases which, according to the Group's policies, are to be processed by the Arbejdernes Landsbank Board of Directors.

The Group has a structural separation between customer functions and the control and monitoring function.

The Credit Department at Arbejdernes Landsbank is responsible for day-to-day credit management, controlling and monitoring at the Bank. In Vestjysk Bank, the Credit Department is similarly responsible for day-to-day credit management, while controlling and monitoring are carried out by the credit secretariat.

Rating

For several years, Arbejdernes Landsbank 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 a 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 categories 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 credit management and monitoring of the portfolio and in the Bank's model for impairments. Ranking of exposures in stages is based on Arbejdernes Landsbank's own PD values, which are based on the Bank's rating, supplemented by 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. In AL Finans, customers are generally dealt with on the basis of individual assessments. The Bank's subsidiary Vestjysk Bank uses a rating model based on behaviour and developed by Bankernes EDB Central (BEC). For business customers, an internal segmentation model is used for day-to-day credit management.

For the purpose of the consolidated financial statements, the ratings of Arbejdernes Landsbank and Vestjysk Bank will be mapped to the Danish FSA credit quality categories.

Credit risk management and monitoring

The Group has focus on managing, controlling and monitoring credit risks, including compliance with policies and guidelines as well as ongoing reporting. Furthermore, there is ongoing focus on improving processes and tools that can contribute to more effective management and monitoring of credit risk.

The Board of Directors has set up a Risk Committee to assess whether the internal control, risk management and security systems of the Group are effective. Furthermore, the Executive Management has established a Group Credit Committee to pre-process significant individual cases from Vestjysk Bank, and cases outside the scope of the business model of Vestjysk Bank, as these have to be authorised by the Board of Directors of Arbejdernes Landsbank. Finally, the Executive Management has set up an internal Risk Council to process both financial and non-financial risks potentially influencing the Group.

Responsibility for day-to-day risk management of credit risk in the Bank's branches and subsidiaries lies with the 1st line of defence, which is composed of the credit departments at the Bank, Vestjysk Bank and AL Finans A/S, respectively. The Credit Departments ensure compliance with the credit strategy as well as the credit policies. The Credit Departments also coordinate branch contact and credit advisory services for processing individual cases.

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 and an assessment of any supplementary solvency need for weak exposures exceeding 2% of own funds are made according to regulations laid down for this purpose.

Furthermore, the Group makes an annual asset review of the Group's exposures on the basis of a materiality approach as well as themes. Current and future risks on selected exposures are assessed, and checks are conducted to ensure compliance with the credit policy and with the authority to grant loans, and to ensure satisfactory credit management and fair risk classification and impairment levels. The conclusions are reported to the Board of Directors.

Weak customers are dealt with on an ongoing basis in order to prepare action plans, and to assess whether the customer is credit-impaired and whether there is a need for impairment. Impairments concerning the part of the portfolio that is not credit-impaired, are calculated on the basis of model calculations.

The Group 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 the Group's loan and guarantee portfolio, and to make an impairment allowance, if relevant, 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.

The Group's Risk Function constitutes the 2nd line of defence and is managed by the Group Chief Risk Officer. The Risk Function monitors risk management across the Group, including correct identification, measurement, handling and reporting of all significant risks in the Bank and its subsidiaries. Vestjysk Bank has an independent risk function, which reports to the executive management and board of directors of Vestjysk Bank, and to the Group Chief Risk Officer.

The Group's credit risk is reported to the Executive Management 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.

Risk hedging and risk reduction

The Group uses all the options available to mitigate risk, and these generally involve securing collateral in the assets financed.

The Group sets 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. With regard to Group lending, work has been commenced to ensure a uniform approach to determining collateral value. This work is expected to be completed in mid-2022. To ensure independence and necessary competences, the valuation process of properties is outsourced to Totalkredit, while the Bank always makes a "blue-stamping" of the individual cooperative housing association and its associated valuation report as part of the valuation process. 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 chattels such as cars, operating equipment, ships, etc.

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

The Group's total collateral used is shown in table 13 on page 28.

Credit risk on Group customer loans

The Group'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 30.

Loans and guarantees

The Group's total exposure, expressed as gross loans and guarantees, as presented in the 2021 Financial Statements, was DKK 61.2 bn., see table 10.

Historically, the private portfolio of the Group has been relatively large compared with its business portfolio. This remains the case, but with the larger ownership interest in Vestjysk Bank, the Group has created a more even balance between the private portfolio and the business portfolio. Thus, the percentage of the private segment and the business segment of total gross loans and guarantees is 65.8% and 34.2%, respectively, see table 10.

Furthermore, in 2019, Arbejdernes Landsbank 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 the Bank 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 10

Group gross and net loans and guarantees broken down by stages at the end of 2021

	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	22,469.9	2,150.2	798.2	210.0	25,628.3
Guarantees before provisions	13,568.5	908.3	104.6	58.2	14,640.1
Total loans and guarantees before impairments etc.	*36,038.4*	*3,059.0*	*902.7*	*268.2*	*40,268.4*
Total impairments etc.	40.7	37.9	263.9	42.4	384.8
Total loans and guarantees after impairments etc.	*35,997.7*	*3,021.2*	*638.9*	*225.8*	*39,883.5*
Business					
Loans before impairments	11,935.4	3,585.1	570.9	1,265.5	17,356.9
Guarantees before provisions	3,027.3	264.9	64.7	197.8	3,554.8
Total loans and guarantees before impairments etc.	*14,962.8*	*3,850.0*	*635.6*	*1,463.4*	*20,911.7*
Total impairments etc.	144.1	135.3	192.9	206.0	678.3
Total loans and guarantees after impairments etc.	*14,818.6*	*3,714.7*	*442,7*	*1,257.3*	*20,233.4*
Total					
Loans before impairments	34,405.4	5,735.3	1,369.0	1,475.5	42,985.2
Guarantees before provisions	16,595.9	1,173.7	169.3	256.0	18,194.9
Total loans and guarantees before impairments etc.	*51,011.2*	*6,909.0*	*1,538.3*	*1,731.5*	*61,180.1*
Total impairments etc.	184.8	173.1	456.7	248.4	1,063.1
Total loans and guarantees after impairments etc.	*50,816.4*	*6,735.9*	*1,081.6*	*1,483.1*	*60,117.0*

Note: The statement excludes receivables from credit institutions.

The private and business segments are primarily ranked as stage 1 and stage 2, accounting for 97.1% and 90.0%, respectively, of segment loans and guarantees before impairments etc., see table 10.

Group loans are geographically distributed across all the regions of Denmark, though predominantly in the Capital Region of Denmark and the Central Denmark Region, followed by the Region of Southern Denmark. The Capital Region of Denmark and the Central Denmark Region account for 34.8% and 34.4%, respectively, of total Group gross loans and guarantees, see table 11.

If the private segment and the business segment are considered separately, the Central Denmark Region and the Capital Region of Denmark still account for the largest share of loans, see table 11. However, the Capital Region of Denmark accounts for a larger share in the private segment. This is partly 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. On the other hand, the Central Denmark Region accounts for a larger share in the business segment, which is due to the Bank's subsidiary, Vestjysk Bank.

Table 11
Group gross loans and guarantees broken down by regions at the end of 2021

	Private DKK mill.	Business DKK mill.	Total DKK mill.
Capital Region of Denmark	14,933.3	6,092.4	21,025.7
Region Zealand	3,438.6	904.3	4,342.9
Region of Southern Denmark	7,634.4	3,720.3	11,354.7
North Denmark Region	1,820.5	1,370.3	3,190.8
Central Denmark Region	12,441.6	8,824.4	21,266.0
Total	*40,268.4*	*20,911.7*	*61,180.1*

Note: The statement excludes receivables from credit institutions.

Of the Group's total gross loans and guarantees, 91.3% are in low-risk rating categories (rating 1-5) or medium-risk rating categories (rating 6-8), see table 12. 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, 95.3% and 83.6%, respectively, of gross loans and guarantees are in rating categories with low or medium risk, see table 12.

Table 12
Group gross loans and guarantees broken down by ratings at the end of 2021

	Private DKK mill.	Business DKK mill.	Total DKK mill.
Ratings 1-5	30,507.4	9,460.7	39,968.2
Ratings 6-8	7,853.6	8,026.4	15,880.0
Rating 9	665.3	1,343.3	2,008.6
Ratings 10-11	1,242.1	2,081.2	3,323.3
Total	*40,268.4*	*20,911.7*	*61,180.1*

Note: The statement excludes receivables from credit institutions.

Collateral and security

The most important type of collateral received by the Group is mortgages in properties, which account for 67.1% of total collateral. This high percentage is attributable to the private segment, where mortgages on real property alone account for 79.3%, see table 13.

The relatively high percentage of chattel mortgages, on cars, operating equipment, ships etc. in both the private segment and the business segment, accounting for 23.8%, is due to the Bank's subsidiaries, AL Finans and Vestjysk Bank.

Table 13
Group collateral broken down by type of collateral at the end of 2021

	Private DKK mill.	Business DKK mill.	Total DKK mill.
Properties	15,098.4	5,489.4	20,587.8
Securities, bonds, cash deposits, etc.	412.1	552.3	964.5
Chattels mortgages, on cars, operating equipment, ships etc.	3,483.3	3,826.4	7,309.7
Warranties and guarantees	0.0	58.1	58.1
Other collateral	36.8	1,744.0	1,780.8
Total	*19,030.6*	*11,670.3*	*30,701.0*

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

The Group's total unsecured exposure amounts to 48.9%, see table 14.

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

Table 14
Group net loans and guarantees, collateral and unsecured exposures at the end of 2021

	Private DKK mill.	Business DKK mill.	Total DKK mill.
Loans and guarantees after impairments etc.	39.883,5	20.233,4	60.117,0
Collateral	19.030,6	11.670,3	30.701,0
Unsecured exposures (%)	52,3	42,3	48,9
Percentage of total loans (%)	66,3	33,7	100,0

Not: Impairments include impairment charges and provisions at all stages. The figures exclude receivables from credit institutions.

Arrears and loans in arrears
Arrears at the Group amount to DKK 80.5 mill., of which arrears with a duration of less than 30 days account for 50.3%. The relatively high percentage of arrears with a duration of more than 90 days is primarily attributable to single customers who are being monitored closely. Of the Group's total arrears, arrears for the private segment account for 40.9%. and arrears for the business segment account for 59.1%, see table 15.

Table 15
Arrears broken down by age of arrears at the end of 2021

	Private DKK mill.	Business DKK mill.	Total DKK mill.
2-30 days	18.5	22.0	40.5
31-60 days	2.9	2.6	5.5
61-90 days	1.9	1.9	3.8
91-days	9.7	21.1	30.8
Total	*33.0*	*47.6*	*80.5*
Percentage of total arrears (%)	40.9	59.1	100.0

Note: The figures are excluding credit institutions.

Loans in arrears totalled 0.8% of the Group's total net loans and guarantees at the end of 2021. Of this, loans less than 30 days in arrears accounted for 0.6%.

The Group 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 16
Loans in arrears broken down by age of arrears at the end of 2021

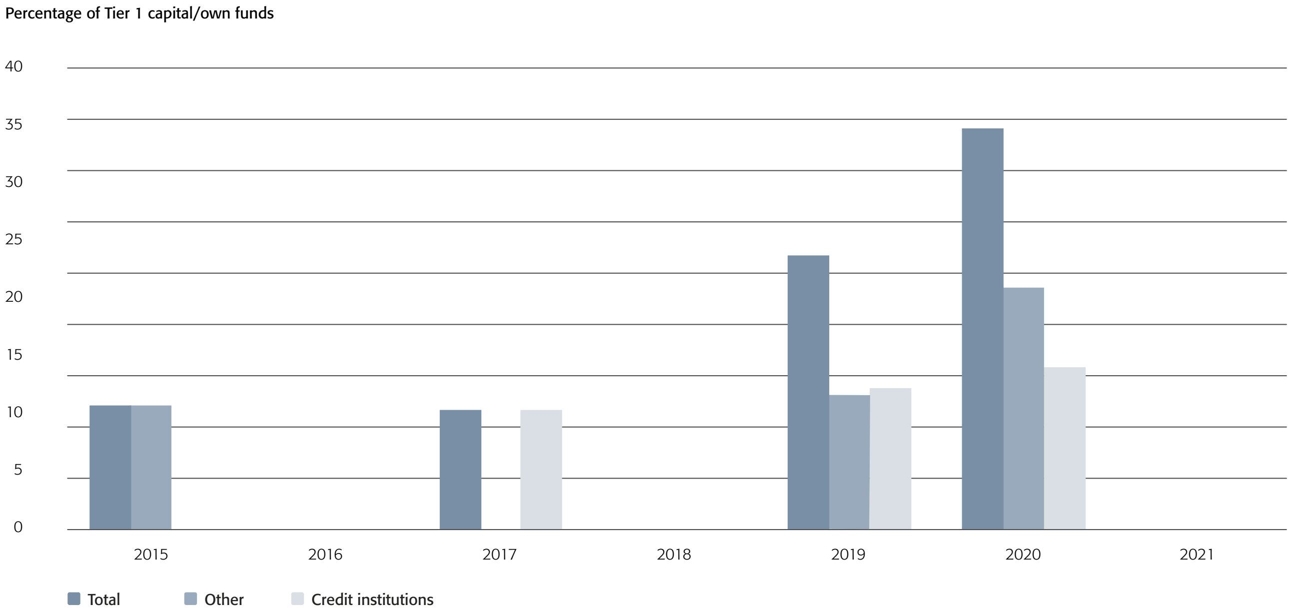
	Private DKK mill.	Business DKK mill.	Total DKK mill.
2-30 days	219.1	144.9	364.0
31-60 days	17.7	11.4	29.0
61-90 days	10.3	2.9	13.2
91-days	29.6	27.9	57.5
Total	*276.7*	*187.0*	*463.7*

Note: The figures are excluding credit institutions.

Largest credit exposure risks
The Group 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 Tier 1 capital at Group level was calculated at 0.0% of Tier 1 capital at the end of 2021, including exposures to credit institutions.

Figure 2
Development in the "Sum of large exposures"



Note: For 2015-2020, the figures are calculated on the basis of consolidated exposures after deductions greater than or equal to 10% of own funds. For 2021, the figure is calculated in the basis of consolidated exposures after deductions greater than or equal to 10% of own funds, see Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019.

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 in different ways in the Group. Arbejdernes Landsbank calculates credit risk on the basis of a worst-case estimate that reflects the Bank's potential maximum loss when using the credit institution as the correspondent bank. The risk is managed in accordance with policies and lines adopted by the Board of Directors.

At Vestjysk Bank, similar lines are used for correspondent banks, but the calculation is based on the net deposit in a credit institution.

Arbejdernes Landsbank continuously follows developments in the creditworthiness of credit institutions, 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

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

Impairments, provisions and losses show a net credit of DKK 162.3 mill. in 2021, see table 17, against a net charge of DKK 80.4 mill. in 2020.

The calculations in table 17 and table 18 include credit institutions and unutilised credit lines and commitments.

After this, the Group's accumulated impairments and provisions amounted to DKK 1,290.4 mill. at the end of 2021.

The Group's NPL ratio amounted to DKK 5.5% at the end of 2021 against 4.2% at the end of 2020 and indicates the proportion of non-performing loans relative to total lending, including receivables from central banks and credit institutions.

Table 17
Breakdown by sector for credit-impaired exposures at the end of 2021

	Credit exposures 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	106.8	0.2	1.9	-1.8
Business				
Agriculture, hunting, forestry and fisheries	5,591.1	1,069.6	274.0	60.5
Industry and extraction of raw materials	2,379.3	172.3	57.7	-1.0
Energy supply	1,269.0	67.6	38.9	26.1
Building and construction	2,920.5	106.2	45.8	8.5
Trade	5,661.7	367.9	94.4	-25.3
Transport, hotels and restaurants	1,287.7	184.3	37.5	-13.7
Information and communication	214.4	18.9	7.1	-1.7
Financing and insurance	4,013.9	172.4	106.5	-40.3
Real property	6,425.2	265.7	99.7	4.9
Other business	5,191.9	186.0	105.6	-22.8
Total business	*34,954.7*	*2,611.0*	*867.0*	*-5.0*
Private	49,724.5	1,213.6	421.6	-155.6
Total	*84,786.1*	*3,824.8*	*1,290.4*	*-162.3*

Table 18
Changes in the allowance account etc. at the end of 2021

	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	10.5	838.3	22.5	69.1	940.5
Impairments/provisions during the year (gross)	0.1	672.8	15.3	197.4	885.6
Reversal of impairment charges (gross)	-2.4	-401.6	-32.0	-94.7	-530.6
Other changes	0.0	9.1	30.3	47.3	86.6
Actual loss (written off) previously subject to individual impairment charges/provisions	0.0	-91.7	0.0	0.0	-91.7
Accumulated impairment charges/ provisions carried forward	*8.2*	*1,026.9*	*36.2*	*219.1*	*1,290.4*
Actual loss (written off) not previously subject to individual impairment charges/provisions	0.0	-65.9	0.0	0.0	-65.9
Recognised in claims previously subject to impairments	0.0	43.9	0.0	0.0	43.9

Note: See note 10 of the annual report for further details.

For information about the credit quality of non-performing exposures and exposures with credit relaxation, see the appendix to pillar 3 information available on the Arbejdernes Landsbank website.

Counterparty risk

Counterparty risk at the Group is defined as the risk of suffering a loss as a consequence of financial counterparties or customers defaulting on their obligations in connection with trading in money market loans, long-term securities and derivative financial instruments.

Currently, the Group has decentralised counterparty risk management. Calculation and monitoring of counterparty risk is institution-specific and based on independent policies related to counterparty risk and lines adopted by the boards of directors of Arbejdernes Landsbank and Vestjysk Bank. Vestjysk Bank and Arbejdernes Landsbank use largely the same financial counterparties, and consequently, the counterparty risk is largely aimed at the same financial counterparties in the Group.

The Group divides counterparty risk into pre-settlement risk and settlement risk (repayment risk). For derivative financial instruments, pre-settlement risk is based on the gross or net value of transactions in which the market value is positive for the Group, with the addition of a risk premium. For money market loans, pre-settlement risk is calculated on the basis of the principal amount approach.

The repayment risk is calculated on the basis of settlement of financial instruments specifically in the Bank. The repayment risk is calculated for non-CLS-cleared payments from settlement of FX derivatives, repayment of money market loans and settlement of net payments from derivative interest-rate instruments.

The risk is monitored daily, as is compliance with lines granted.

The Group endeavours to reduce counterparty risk by entering into framework agreements in the form of netting agreements and by demanding cash collateral.

The Group does not use rating-triggers in financial collateral arrangements, and the Group was not exposed to wrong-way-risk in 2021.

The Group uses the standardised approach for calculating capital requirements for counterparty credit risk (SA CCR) for derivative financial instruments, while the financial collateral comprehensive method is used for SFT (Repo).

The Group's statement of counterparty risk is shown in the table below.

Table 19
Derivative financial instruments at the end of 2021

	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 *)						
2021						
Derivative financial instruments with positive market value	151.8	0.0	151.8	23.3	11.1	117.4
Derivative financial instruments with negative market value	299.2	0.0	299.2	23.3	224.3	51.6
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

*) The Group 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

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

The data centre converts the credit rating categories of Standard & Poor's Ratings Services to credit quality steps using the conversion table from the European Banking Authority (EBA). 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 standardised approach for credit risk pursuant to Articles 111-134 of the CRR. External ratings are used for the exposure classes "Institutions" and "Companies".

Table 20
Exposure classes for which credit ratings from Standard & Poor's Ratings Services are used

	2021 DKK mill.	2020 DKK mill.
Institutions:		
Exposure value prior to risk weighting	859.4	470.8
Exposure value after weighting with credit quality step	262.1	152.9
Companies:		
Exposure value prior to risk weighting	73.4	64.1
Exposure value after weighting with credit quality step	73.4	64.1

Market and liquidity risks

Market risk

The Group 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 the Group's placements resulting from excess liquidity. The Group aims for active management of excess liquidity in order to secure a sufficient liquidity buffer, but also in order to optimise returns within the Group's lines in terms of market risks and liquidity risks.

The primary tool to hedge and manage interest-rate risk and currency risk is derivative financial instruments. The Group does not hedge credit-spread risk by means of credit derivatives.

The Group only has positions in relatively simple financial instruments and derivative financial instruments that allow for identifying and addressing the associated market risks.

Market risk covers positions where the market value 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 Group risk statement and amounted to 18.5% of the solvency need at the end of 2021 (22.8% at the end of 2020).

Management of market risks

The Group's market risks are calculated, monitored and reported. Calculation and measurement of market risks are primarily based on a system solution that is fully supported by Bankernes EDB Central (BEC).

The Group's overall market risk is managed according to a market risk policy with a risk appetite and Group lines adopted and determined by the Board of Directors. Both Arbejdernes Landsbank and Vestjysk Bank have been granted institution-specific lines, and the sum of these institution-specific lines may not exceed Group lines. Vestjysk Bank has a separate market-risk policy which defines the framework for market risk management at Vestjysk Bank.

A clearly defined division of responsibility for risk taking at all levels is ensured by granting institution-specific lines to the executive managements of Arbejdernes Landsbank and Vestjysk Bank, and passing these on to the authorising business units.

The individual market risk types are monitored regularly in relation to the institution-specific lines granted. Internal institution-specific lines are reported on daily.

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

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

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 bond 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 zero coupon yield curve of +/-1 percentage point for each defined duration interval. 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.

The Group'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 21 shows the Group's and the Bank's total interest-rate risk.

Table 21
Interest-rate risk

	1 percentage-point increase	1 percentage-point fall
	DKK mill.	DKK mill.
Broken down by type of business		
Bonds etc.	-392.3	360.2
Derivative financial instruments	287.6	-304.9
Mortgage deeds	-63.7	68.6
Other items	-16.4	16.4
Total	*-184.8*	*140.3*
Broken down by currency		
DKK	-229.7	187.3
EUR	45.5	-47.7
USD	-0.6	0.6
GBP	0.1	-0.1
CHF	0.0	0.0
SEK	0.0	0.0
NOK	-0.2	0.2
Other	0.1	-0.1
Total	*-184.8*	*140.3*

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 the Group 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 2021 was DKK 34.2 mill. (DKK 10.9 mill. in 2020).

Shares outside the trading portfolio are shares not acquired for trading, including shares in a number of sector companies.

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 (PD) as well as the seniority and liquidity of the bond (LGD). 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 in the Group are investment-grade (i.e. 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 2021, these accounted for 3.7% and 6.3%, respectively, of the total bond portfolio and are primarily denominated in DKK and EUR.

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. The credit-spread risk for institution-specific lines is monitored daily, while the consolidated lines are monitored quarterly.

Table 22
Bond portfolio broken down by rating

	2021	2020
	%	%
Rating		
AAA	82.5	75.6
AA+, AA, AA-	2.0	2.2
A+, A, A-	10.8	5.3
BBB+	1.8	2.6
BBB	0.2	5.0
BBB-	0.2	1.8
Rating < BBB-	0.8	1.7
No rating	1.8	5.9
I alt	*100.0*	*100.0*

Interest-rate risk outside the trading portfolio

Interest-rate risk outside the trading portfolio primarily arises from customers' fixed-interest and floating-interest rate loans and deposits (including the mortgage deed portfolio specifically at Bank level in Arbejdernes Landsbank). The Group uses derivative financial instruments to hedge interest-rate risk.

Interest-rate risk outside the trading portfolio in the Group 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. Interest-rate risk is measured daily for the Bank and quarterly for the Group. The Bank actively manages its yield curve risk and endeavours to limit hedging mismatches over the curve.

Specifically at the Bank, interest-rate risk is part of the daily risk monitoring, which includes controlling whether the Bank's transactions are within the lines granted. To some extent, and where the variation in interest-rate risk is modest, the risk is not calculated on a daily basis, but is included in the overall calculation at previously calculated risk levels. Vestjysk Bank similarly performs daily monitoring of internal lines for interest-rate risk outside the trading portfolio.

Interest-rate risk outside the trading portfolio (EVE) for the Group calculated as the estimated maximum loss in the event of parallel shifts and shifts in the yield curve amounted to DKK 15.4 mill. at the end of 2021. The table below presents the results of interest scenarios for 2021 and 2020.

Interest-rate risk on net interest income outside the trading portfolio (NII)

The Group has prepared an estimate for the sensitivity of net interest income on all interest-bearing instruments outside the trading portfolio over a three-year horizon. The sensitivity has been calculated for parallel shifts in the interest rate level of +/- 200 basis points with an interest floor rate of -1%. The calculations are based on a constant balance.

The commercial reactions assumed describe how the Bank expects to adapt its interest rates on deposits and loans for different customer segments.

As shown in the table below, the Group expects a significantly improved level of earnings in an interest-rate increase scenario of around DKK 300 mill. per year, due to expectations of a higher interest-rate differential from customer deposits.

In an interest-rate decrease scenario, the Bank expects the net interest income to remain largely unchanged based on an expected interest floor rate of -1.0%, but the Bank further expects that, in scenarios with further interest-rate decreases, the Bank will recognise an increased use of negative interest rates for both business customers and private customers.

Table 23
Interest-rate risk on net interest income outside the trading portfolio (NII)

Change in interest rates of +200 bps	2022	2023	2024
Expected changes in net interest income outside the trading portfolio in the event of a constant balance and parallel shifts in interest rate levels			
Net interest income	319.8	302.2	302.5

Change in interest rates of -200 bps	2022	2023	2024
Expected changes in net interest income outside the trading portfolio in the event of a constant balance and parallel shifts in interest rate levels			
Net interest income	-36.4	-6.2	-6.8

The Group assesses that the risk of a decline in income in the event of a further fall in interest rates is modest, and consequently, the Group has not allocated capital specifically for this purpose.

Table 24
Interest-rate risk outside the trading portfolio

	2021 DKK mill.	2020 DKK mill.
Yield curve scenarios		
Parallel up	-8.9	-65.7
Parallel down	1.6	7.6
Short-term interest rates down	-3.0	7.4
Short-term interest rates up	5.4	-13.2
Curve flattener	9.4	6.7
Curve steepener	-15.4	-30.9
EVE	***-15.4***	***-65.7***

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 Group holds equity investments in a number of sector companies (BEC, DLR Bankinvest and SparInvest). These equity investments are part of the investment securities, and serve to support the Group's business within mortgage credit, IT, money transmission services and investment associations.

Furthermore, the Group has established a share portfolio outside the trading portfolio that includes shares acquired for long-term investment.

Table 25
Shares outside the trading portfolio

	2021 DKK mill.	2020 DKK mill.
Fair value brought forward	1,008.7	896.1
Additions on acquisition of subsidiary	816.3	0.0
Realised capital gain	28.1	7,.4
Unrealised capital gain *)	51.5	143.3
Net purchases	-70.0	-38.1
Fair value carried forward	1,834.6	1,008.7

*) Of which listed shares accounted for DKK 136.1 mill. in 2020.

Table 26
Share exposures outside the trading portfolio at the end of 2021

	Listed DKK mill.	Unlisted DKK mill.	Total DKK mill.
Banks, credit institutions and insurance	114.6	468.8	583.5
Investment firm	0.0	500.6	500.6
Investment association	0.0	160.7	160.7
Private equity	0.0	0.0	0.0
Industry	75.0	37.6	112.7
Trade and service	80.3	396.8	477.1
Total	***269.9***	***1,564.7***	***1,834.6***

Liquidity risk

Liquidity risk is the risk of losses resulting from higher financing costs for the Group, from the Group being unable to fulfil its payment obligations or from the Group being unable to maintain its business model due to insufficient financing.

Most of the Group's liquidity risk is in DKK, while a smaller part of the risk is concentrated in major currencies, i.e. EUR and USD.

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

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

The Group must comply with common European Liquidity Coverage Ratio (LCR) requirements and Net Stable Funding Ratio (NSFR) requirements for credit institutions. The LCR requirement was fully phased in from 1 January 2018, while the NSFR requirement was introduced from 30 June 2021. Both liquidity ratios constitute an essential part of liquidity management in the Group. The Group's internal liquidity target is 130% for the LCR, while the Group's funding target is 110% for the NSFR.

At Arbejdernes Landsbank, responsibility for long-term day-to-day management lies with the Treasury Function, while the Markets area is responsible for short-term operational management. The Risk Function calculates, monitors and reports on liquidity risk on a daily basis in relation to the lines granted in the liquidity policy. At Vestjysk Bank, operational responsibility for the liquidity area has been delegated to the treasury function. Management reporting at Vestjysk Bank is handled by the finance department.

The Group currently uses an internally developed solution to calculate the daily LCR, while the Group's monthly calculation for statutory reporting takes place via a system solution supported by Bankernes EDB Central (BEC).

For the NSFR, the Group applies a BEC-supported system solution for NSFR calculation.

The Risk Council and the Balance Sheet and Capital Council monitor short-term and long-term liquidity developments in relation to the commercial development of the Group 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 the Group'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 cash resources contingency plan for the Group which defines initiatives to be launched if liquidity deteriorates relative to the liquidity policy adopted for the Group. The Group operates with liquidity initiatives with different expected time frames. Short time-frame initiatives concern, for example, loans against bonds and shares that cannot be included in the liquidity buffer, divestment of shares and bonds not included in the liquidity buffer, and raising money market loans. Initiatives with longer expected time frames concern, for example, mortgages on owner-occupied properties, raising loans in the capital market, and utilising irrevocable credit commitments.

The Group's LCR was 249% at the end of 2021 and remained stable at a high level throughout 2021, and considerably higher than the statutory requirement of 100%, and the Group's internal 130% liquidity target. Based on the Group's liquidity forecast, it is expected that the Group's current liquidity buffer is sufficient to cover the liquidity need throughout 2022.

Table 27
LCR calculation 2021

	Q1	Q2	Q3	Q4
LCR calculation weighted average in DKK bn.				
Total liquidity buffer	21.8	27.7	35.3	34.4
Net outflow	7.8	9.4	11.8	12.7
Outflow	8.8	10.5	13.00	13.8
Inflow	1.1	1.1	1.2	1.1
LCR (%)	*281.00*	*296.00*	*300.00*	*271.0*

The Group's liquidity buffer primarily consists of mortgage-credit bonds, government bonds and government-guaranteed bonds, including local government and shipping credit issues. At the end of 2021, total L1 securities accounted for 94% of the Group's liquidity buffer. Apart from the composition of the Group's liquidity buffer, the primary reason for the high and stable LCR development is the Group's deposits, where 66.5% are recognised as stable in accordance with the LCR regulation. The high degree of stable deposits result in a corresponding lower net outflow compared with non-stable deposits.

Minor quarterly fluctuations in net outflow are primarily due to changed short-term placement needs in the money market, while the changes in the liquidity buffer are attributable to fluctuations in the Group's placement needs.

Payments from derivative exposures represent an insignificant share of the Group's total net outflow, and cash collateral provided as a result of margin agreements with financial counterparties are not included in the Group's liquidity buffer.

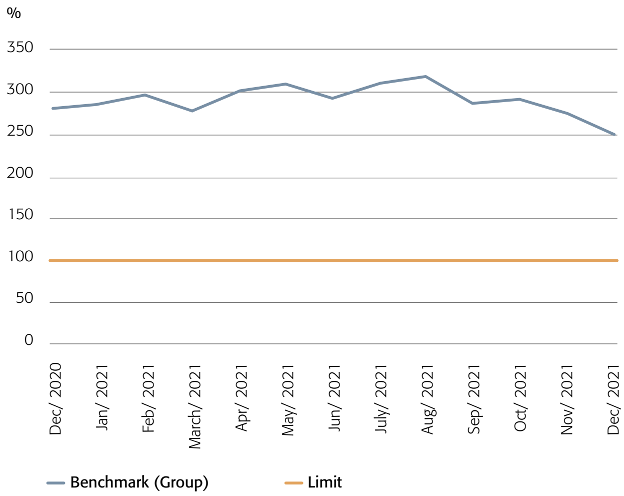
The Group's NSFR amounted to 137.25 % at the end of 2021, and, since the introduction of the liquidity ratio in June 2021, the NSFR has remained at a stable level above the 100% requirement, as illustrated in figure 28.

Table 28
NSFR funding calculation 2021

	Q1	Q2	Q3	Q4
NSFR funding calculation in DKK bn.				
Available Stable Funding (ASF)	-	88.99	88.60	90.22
Required Stable Funding (RSF)	-	62.05	63.18	65.73
NSFR (%)	-	143.41	140.24	137.25

Figure 3 shows the liquidity benchmark of the supervisory diamond. The Group meets the benchmark with a considerable margin, and has done so since it was introduced.

Figure 3
Liquidity benchmark of the supervisory diamond



Encumbered assets

To a certain extent, Arbejdernes Landsbank Group 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.

The Group utilises collateralisation with other credit institutions for developments in the market value of the Group's OTC derivative transactions and margin deposits in connection with derivatives traded on the stock market. Specifically, Arbejdernes Landsbank posts initial margin as collateral for qualifying central counterparties (QCCPs).

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

Table 29
Encumbered assets

	Carrying amount 2021 DKK mill.	Fair value 2021 DKK mill.	Carrying amount 2020 DKK mill.	Fair value 2020 DKK mill.
Assets				
Encumbered assets				
Shares	0.0	0.0	0.0	0.0
Bonds	646.7	646.7	0.0	0.0
Other assets *)	2,257.1	2,257.1	1,265.9	1,265.9
Total encumbered assets	*2,903.8*	*2,903.8*	*1,265.9*	*1,265.9*
Unencumbered assets				
Shares	1,981.2	1,981.2	1,179.4	1,179.4
Bonds	27,609.2	27,609.2	21,902.5	21,902.5
Other assets	74,966.4	75,135.6	38,565.5	38,565.5
Total unencumbered assets	*104,556.8*	*104,726.1*	*61,647.4*	*61,647.4*
Encumbered assets/collateral received				
Encumbered assets and collateral	2,903.8	2,903.8	1,265.9	1,265.9
Counterpart liabilities	266.5	266.5	328.0	328.0

*) 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

Follow-up on operational risk in the Group includes a number of underlying areas, the most important of which are: IT security, outsourcing, protection of personal data, compliance risks, money laundering risks, model risks and risks associated with implementing new products and services.

Policy for operational risk

The boards of directors of A/S Arbejdernes Landsbank and Vestjysk Bank A/S have laid down policies for operational risk, the purpose of which is to create an overview of operational risks, minimise the number of errors, and reduce losses at the Group 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.

Operational risks are assessed on the basis of the likelihood of the risk materialising in an operational incident, as well as the consequences of such incident. In Arbejdernes Landsbank and AL Finans, risks are classified on a four-step scale from insignificant to very high. 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 at least every six months.

Managing operational risks

All activities in the organisation are associated with operational risks. In order to reduce the risk of operational incidents leading to significant losses, the Group's companies monitor and manage operational risks.

Follow-up and reporting on operational risk, including the role as risk facilitator, is anchored in the 2nd line of defence, and the Risk Council continuously addresses operational risks and reports on these risks.

Responsibility for day-to-day operational risk management is decentralised and lies with the relevant business units. The mapping of operational risks in Arbejdernes Landsbank and AL Finans is based on identification and assessment by the individual units of their own risks. At least annually, the Risk Function holds risk identification meetings with the individual units to review the risks identified and evaluate the likelihood and consequences of the risks. The risk identification meetings support risk processing and increase awareness of operational risks in the organisation. Furthermore, the mapping of operational risks highlights particularly risky processes, systems, products or behaviour, and thereby represents an overall risk management tool. Vestjysk Bank has its own process for monitoring and reporting operational risks.

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

Operational incidents

In addition to identifying operational risks, systematic registration, classification and reporting takes place of all operational incidents causing a loss of DKK 5,000 or more. The subsidiaries, AL Finans and Vestjysk Bank, have set their own limit values for reporting, and report to Arbejdernes Landsbank in accordance with Group limit values. In addition, profitable operational incidents as well as incidents potentially resulting in a loss and incidents that could have resulted in a loss, but did not (near misses) are registered. Each incident report must include a description of the incident and state the cause of the error and the source of loss, as well as the time expenditure associated with handling the incident. Furthermore, any loss restoration related to the incident, including any insurance coverage, is registered. The systematic registration and classification is used to manage the operational risks and create a record of experience and knowledge-sharing in the organisation.

Depending on the specific operational incident, losses are addressed through an assessment and, if necessary, an adjustment of Arbejdernes Landsbank's organisation and operations, for example in the form of segregation of duties, controls, employee competences, business procedures or physical security measures. The majority of loss incidents occurring at the Group in 2021 were incidents with minor financial consequences, and they were primarily in the categories external fraud; clients, products and business practices; and business disruption and system failures. 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, or through phone calls where the fraudster claims to represent the Bank or a support team, and attempts to trick the customer into disclosing their password.

The Group 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 upfront by the Group's IT supplier, BEC, and through internal control environments and alert employees.

Reporting operational risks

Reporting to the Board of Directors and the Executive Management is on a quarterly basis and includes developments in operational incidents and information about major operational incidents. In addition to this, every six months, the Board of Directors and the Executive Management receive a summary of significant changes in the risk profile.

There is ongoing reporting to the CRO, the Executive Management and the Board of Directors, according to more detailed criteria stated in the risk policy.

IT security

The services provided by Arbejdernes Landsbank are very much based on digital services, and the use of IT systems, as well as data and IT security constitute a significant area when assessing operational risk at the Group. User-friendly, stable and secure IT systems are essential to support business activities at the Group, and consequently, protection against loss of accessibility, integrity and confidentiality is a vital issue. In particular, the growing cyber threat and the many attacks registered against Danish companies have led to increased focus on IT security.

The boards of directors at Arbejdernes Landsbank and Vestjysk Bank have drawn up IT security policies which set out and formulate the requirements for IT security management in the Group. Arbejdernes Landsbank's work with IT security is based on various standards, external statutory requirements and best practice guidelines. This includes increased focus on safeguarding the critical systems managed by BEC, through ongoing supplier management ensuring that the Group's IT systems maintain the required level of security.

The 1st line of defence for IT security is the IT Security and Contingency Department that is anchored in the IT Department. The Head of IT Security at Arbejdernes Landsbank is part of the 2nd line of defence in the organisation. The Head of IT Security, the Executive Management and the Board of Directors address IT security matters on an ongoing basis. The IT Security Council, with members from the Executive Management, the IT Department and the Risk Function, considers the IT risk profile and addresses IT security.

Arbejdernes Landsbank conducts regular penetration tests of the Bank's cyber defence, including the Bank's ability to handle security incidents. The tests are conducted by external collaboration partners. Potential risks identified in the tests are subsequently reduced by mitigating initiatives.

To make sure that all employees have adequate expertise in IT security, in 2021, all employees at Arbejdernes Landsbank acquired knowledge about IT security through a range of initiatives related to the Bank's awareness plan, onboarding procedure and a separate knowledge-sharing portal. In order to protect the Group from the ever more serious threat scenario, throughout 2021, the Head of IT Security conducted awareness activities for employees at the Bank, for example in the form of targeted phishing tests.

Outsourcing

The boards of directors at Arbejdernes Landsbank and Vestjysk Bank have drawn up policies for outsourcing, establishing the framework for outsourcing activities and defining the Board of Directors' risk appetite in relation to outsourcing activities.

Arbejdernes Landsbank's Legal Affairs Director has been assigned responsibility for outsourcing and has implemented a process for approval and assessment of outsourcing, as well as has established a register of outsourcing agreements. The person responsible for outsourcing at Arbejdernes Landsbank has assessed the outsourcing agreements and identified activities that can be classified as critical outsourcing. Vestjysk Bank A/S has its own employee with responsibility for outsourcing.

The person responsible for outsourcing is placed organisationally in the 1st line of defence, and assists the

Management in ensuring that outsourcing is satisfactory. The persons responsible for outsourcing are responsible for the management and monitoring of outsourcing, and for securing outsourcing documentation.

In 2022, additional efforts will be devoted to advance outsourcing monitoring, including critical outsourcing.

General Data Protection Regulation (GDPR)

The executive managements of Arbejdernes Landsbank and Vestjysk Bank have employed a Data Protection Officer (DPO) to ensure compliance with data protection regulations.

The function of the DPO is to advise the companies in the Group, and to monitor compliance with data protection regulations, including that business procedures have been developed and that processes have been established to ensure that the processing of personal data is in accordance with legislation.

At Arbejdernes Landsbank as well as at Vestjysk Bank, the DPO is placed organisationally in the Compliance Function and is thereby part of the 2nd line of defence and reports to the Executive Management and the Board of Directors.

Compliance risks

Operational risk includes compliance risks, which are identified by the Compliance Department. Compliance risk is the risk that sanctions are imposed on the Group, by law or by the authorities, or that the Group suffers a financial loss or a loss of reputation as a consequence of non-compliance with legislation, market standards or internal rules.

The aim of the Compliance Function is to assist the Management in ensuring compliance with current legislation, market standards and internal rules, thus identifying and reducing the risk of sanctions being imposed on the Group and its companies, that they suffer loss of reputation, or that the Group's customers or companies suffer significant financial losses. The Compliance Function regularly reviews critical business procedures in order to assess risks and recommendations for limiting each risk.

The Risk Function and the Compliance Function 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 performance of the department and the individual employee.

Money laundering risks

The Group has strong focus on anti-money laundering (AML), including risk mitigation measures to be implemented in order to prevent abuse of the Group's companies for money laundering and financing of terrorism.

Under the management of the person with group responsibility for anti-money laundering, the task of the AML Department is to ensure that the Group and its companies comply with the Act on Measures to Prevent Money Laundering and Terrorism Financing (the Anti-Money Laundering Act) as well as EU regulations on transfers of funds and combating terrorism. The person responsible for money laundering issues reports directly to the Executive Management.

Employee awareness and alertness plays an important role in protection from being abused for money laundering, financing of terrorism or violation of financial sanctions To ensure that employees have the necessary knowledge, in 2021, Arbejdernes Landsbank conducted a mandatory e-learning course on prevention of money laundering, financing of terrorism and violation of financial sanctions. All employees have completed the course, which includes passing a test. The number of employees working full-time with measures to prevent money laundering, financing of terrorism and violation of financial sanctions continued to increase in 2021.

Model risk

Operational risk includes model risk, which covers the risk of losses resulting from decisions primarily based on results from models. Operational risks arise due to errors in the development, implementation or use of models, and may be caused, for example, by errors or weaknesses in the data base behind a model.

Arbejdernes Landsbank applies internally developed models to calculate credit risk. The Risk Function carries out regular control and monitoring of model risk and prepares independent reports to the Board of Directors and the Executive Management.

In 2022, additional efforts will be devoted to advance management of model risk at Group level.

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.

The process ensures that risks are identified, assessed and managed. Arbejdernes Landsbank has set up a Prices and Products Council to ensure adequate analysis, decision-making and involvement before changing the Bank's range of products and services. Vestjysk Bank and AL Finans have established their own processes in the area.

The approval procedure is regulated in Group companies' policies on the area.

Capital need

The calculation of capital need to cover operational risk at Arbejdernes Landsbank is based on the basic indicator approach. At the end of 2021, the operational risk amounted to 10.3% of the total risk exposure, which results in a capital requirement (8% requirement) of DKK 509.6 mill.

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 assesses this type of risk on an ongoing basis, including when setting the individual solvency need.

Property risk

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

The Group had a portfolio of properties of DKK 1,962.1 mill. at the end of 2021. The properties are primarily used for operation of the Group. 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 the Group'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 157.2 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 pay policy is reviewed regularly, and at least once a year.

The pay policy stipulates that the Management must be paid remuneration in conformity with the market and reflecting 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 is included. The same applies to Heads of Division, Deputy Directors, the Group's Chief Audit Executive, the AML Director, the CRO and the Head of Compliance.

Employees in Internal Audit and the Risk Function 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 their collective agreement.

Page 23 of the Annual Report for 2021 includes a description of the premise for the Nomination and Remuneration Committee established by the Board of Directors. Page 23 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 employees, and/or based on an assessment of employees' functions and job content.

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