The English text below is a translation carried out by a professional translation agency on behalf of Arbejdernes Landsbank. You can see the original Danish report here: [Redegørelse Arbejdernes Landsbank (finanstilsynet.dk)]

28 October 2022

Statement Arbejdernes Landsbank

In May-June 2022, the Danish FSA performed an on-site inspection at Aktieselskabet Arbejdernes Landsbank. The inspection was an ordinary on-site inspection, in which the most important risk areas were reviewed on the basis of a risk-based assessment, and most emphasis was on the areas with the highest risk.

Arbejdernes Landsbank is a nationwide bank with two important subsidiaries: Vestjysk Bank and AL Finans. Acquisition of the majority shareholding in Vestjysk Bank has led to a higher degree of complexity in the group and material risk exposure in large exposures, agriculture and customers with poor credit ratings.

The bank is in the process of establishing group risk management. There is still a lot of work ahead to standardise methods of calculation and to consolidate risks in the group.

The Danish FSA reviewed 100 bank loans. Besides this, 75 new loan grants for private customers to purchase homes in growth areas were reviewed.

The review led to further impairments of approximately DKK 0.5 million. These additional impairments were recognised in the bank's financial statements as at 30 June 2022. Before the inspection, the bank had made impairments of DKK 11.8 mill. on the loans sampled.

The Danish FSA also extracted a sample of the bank's owner-occupied properties. The review of these revealed a need for value adjustments totalling DKK 11.4 mill.

The Danish FSA reviewed 18 new business loans from the Bank, several of which were already in distress at the time of the report, and some were ascertained as credit-impaired or weak after the review. This development is unusual.

The Danish FSA ascertained several deficiencies in the control environment in the credit area and the bank has been ordered to implement systematic, regular, internal controls of corporate exposures.

The bank has not previously performed systematic controls or reporting to the board of directors on derogations and deviations from the credit policy. The bank has therefore received an order to ensure adequate controls and reporting of derogations and deviations from the credit policy.

Furthermore, the bank has been ordered to have the auditors conduct a sample review of the controls in the credit area.

Among other things, in order to enhance the quality of credit processes, the bank is implementing a number of organisational changes in important risk areas. The Danish FSA considers it important that the management have constant focus on ensuring that there are no weaknesses in the existing control environment in connection with the transition, and that robust processes are secured in which all the parties are involved.

The review of housing loans gave rise to an order to ensure that customer robustness is adequate for home loans, including ensuring that a customer's assets are not weak, without compensatory measures.

The review by the Danish FSA of material from meetings of the board of directors of the bank showed that the minutes regarding resolutions by the board on recommendations for credit and other proposals were often very brief. The bank received an order to ensure that all the board of directors have sufficient basis to make decisions.

On the basis of the on-site inspection, the Danish FSA assesses that the solvency need of 10.0% as at 30 June 2022 calculated by the group is not sufficient to cover the risks of the group. The group will increase the solvency need by 0.2 percentage points to a total of 10.2%. This increase is due to an addition to cover operational risks related to shortcomings in the control environment in the Credit area, as well as reorganisations in material risk areas. The Danish FSA assesses that this is adequate.

The capital ratio of the group was 17.8% as at 30 June 2022. The Danish FSA ascertained that the group's capital buffers in relation to the total capital requirement, including the combined buffer requirement, is low compared with other non-IRB banks. The group must have focus on consolidating the existing business activities.