

## CREDIT OPINION

24 August 2023

New Issue

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### RATINGS

#### Arbejdernes Landsbank A/S

Domicile	Copenhagen, Denmark
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	(P)A2
Type	Senior Unsecured MTN - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Arbejdernes Landsbank A/S

Update to credit analysis following assignment of senior unsecured MTN ratings

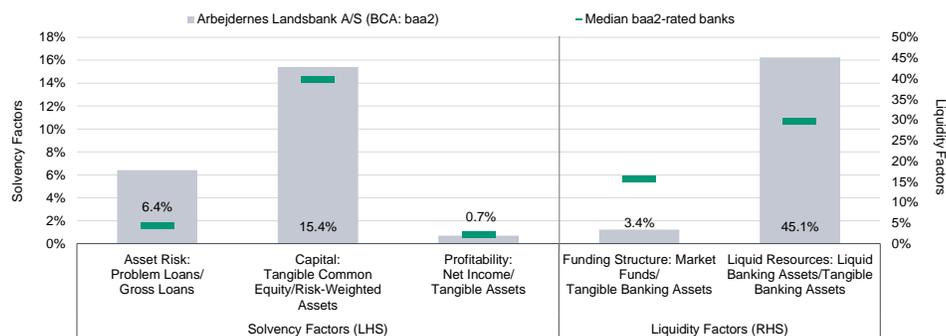
### Summary

The A2 deposit ratings and (P)A2 senior unsecured MTN program ratings assigned to [Arbejdernes Landsbank A/S](#) (AL Bank) incorporate the bank's Adjusted Baseline Credit Assessment (Adjusted BCA) of baa2, and Moody's forward-looking view of the bank's bail-inable debt issuance, which indicates an extremely low loss given failure as per Moody's Advanced Loss Given Failure (LGF) analysis. The Baa1 junior senior unsecured ratings reflect the BCA and one positive adjustment in accordance with LGF. The outlook on the long-term deposit ratings is stable.

AL Bank's baa2 BCA captures the bank's very strong capitalization, along with a stable deposit base and high liquidity buffers, balanced against elevated asset risks, stemming primarily from the majority stake in Vestjysk Bank A/S (Vestjysk Bank), and volatile profitability.

Exhibit 1

### Rating scorecard - Key financial ratios



Source: Moody's Investors Service

The metrics presented in the exhibit are our [Banks Methodology](#) scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average or the latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.

## Credit strengths

- » Popular retail franchise across Denmark
- » Strong capitalization
- » Very strong funding and liquidity profile

## Credit challenges

- » Increased asset risk due to the consolidation of Vestjysk Bank
- » Volatile profitability

## Rating outlook

The stable outlook reflects Moody's expectations that AL Bank will have a stable capitalisation and liquidity position, while working on gradually reducing the volumes of non-performing loans in Vestjysk Bank. Profitability will remain moderate with higher interest rate income being offset by increased investments in IT.

## Factors that could lead to an upgrade

- » The ratings could be upgraded due to an upgrade of the BCA. Factors that could lead to an upgrade of the BCA include: 1) evidence of strong governance control of Vestjysk Bank A/S by AL Bank, with an integrated risk management of the banks; or 2) meaningfully reduced asset risk combined with higher capitalization.
- » Furthermore, the junior senior unsecured MTN ratings could be upgraded if the volumes of senior non-preferred debt and subordinated debt increase notably above Moody's expectations.

## Factors that could lead to a downgrade

- » The ratings could be downgraded if the BCA was downgraded or if the LGF uplift was lowered. The BCA could be downgraded if: (i) problem loans increase rapidly; or (ii) capitalisation declines below 13%; or (iii) recurring profitability declines or if there is large volatility in profitability; or (iv) the liquidity position significantly deteriorates.
- » The LGF uplift could be reduced, if the bank issued significantly lower amounts of senior debt than Moody's estimates, with the bank expected to issue about DKK10 billion by the end of 2025.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key Indicators

Exhibit 2

### Arbejdernes Landsbank A/S (Consolidated Financials) [1]

	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (DKK Million)	107,859.0	107,365.8	62,842.6	58,957.3	55,097.7	18.3 <sup>4</sup>
Total Assets (USD Million)	15,479.5	16,359.8	10,330.0	8,856.4	8,440.3	16.4 <sup>4</sup>
Tangible Common Equity (DKK Million)	9,230.6	9,080.8	6,328.6	6,071.2	5,560.3	13.5 <sup>4</sup>
Tangible Common Equity (USD Million)	1,324.7	1,383.7	1,040.3	912.0	851.8	11.7 <sup>4</sup>
Problem Loans / Gross Loans (%)	6.4	6.6	4.9	5.4	8.8	6.4 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	15.4	14.6	17.6	17.1	16.9	16.3 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	27.6	28.1	17.0	18.4	29.7	24.2 <sup>5</sup>
Net Interest Margin (%)	2.1	1.8	1.8	1.9	1.9	1.9 <sup>5</sup>
PPI / Average RWA (%)	1.3	1.4	0.9	1.4	0.6	1.1 <sup>6</sup>
Net Income / Tangible Assets (%)	0.7	0.9	0.5	0.8	0.4	0.7 <sup>5</sup>
Cost / Income Ratio (%)	78.5	76.4	84.7	78.3	88.2	81.2 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	3.4	1.1	2.9	3.9	4.4	3.1 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	45.1	46.2	49.5	49.0	49.6	47.9 <sup>5</sup>
Gross Loans / Due to Customers (%)	62.3	59.9	54.7	55.8	57.2	58.0 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

## Profile

Arbejdernes Landsbank A/S (AL Bank) is a commercial bank established in 1919 by Danish Unions as a workers' bank. Headquartered in Copenhagen, it offers banking services through 61 branches across Denmark as of December 2022, targeting retail and corporate clients. It also offers vehicle financing through its subsidiary AL Finans A/S. AL Bank increased its ownership of Vestjysk Bank to 72.7% in 2021, as part of its expansion strategy for 2025, with the decision to maintain the two banks' franchises separate.

The bank held total assets of DKK108 million as of December 2022 and, with market shares of 2.4% of loans and 4% of deposits in Denmark as of end-December 2021, is recognized as a systemically important institution in Denmark since June 2021. The bank is majority owned and controlled by five large Danish trade-unions, with smaller unions, and around 22,000 individual shareholders owning the remainder of the bank's equity.

## Detailed credit considerations

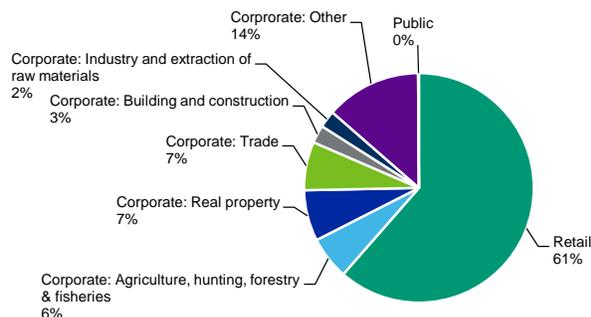
### High asset risk, considering consolidation of Vestjysk Bank

Our assigned ba2 Asset Risk score reflects Arbejdernes Bank's good track record, but also heightened asset risk following the acquisition of Vestjysk Bank in the first half of 2021, which has historically had a higher risk appetite. Our score also takes into account the loan portfolio's concentration with 7% to real estate and 6% to agriculture, forestry and fisheries of the total credit exposures as of year-end 2022 (Exhibit 3) and moderately high single name concentration with 17% of gross loans extended to the 20 largest borrowers.

Exhibit 3

**The loan portfolio is more diversified since the acquisition of Vestjysk Bank**

Loans and guarantees by sectors as of end-December 2022



Source: AL Bank's 2022 annual report

AL Bank has a comparatively high share of problem loans to gross loans at 6.4% of gross loans as of year-end 2022, a slight decrease from 6.6% at year-end 2021. The bank's problem loan ratio has been historically higher than its rated Danish peers' aggregate average of 1.7% (Exhibit 4). This relatively high share of problem loans to gross loans is driven by Vestjysk Bank, with a problem loan ratio of 15.4% as of year-end 2022, largely due to legacy loans within the agriculture sector.

Exhibit 4

**Problem loans increased and loan loss coverage decreased after consolidation of Vestjysk Bank**

Sources: AL Bank's financial statements, Moody's Investors Service

Provisioning coverage for the Group stood at 46% as of year-end 2022, an increase from 36% a year earlier. We expect that the share of problem loans will gradually decline as the group risk framework has been implemented.

**Strong capitalization**

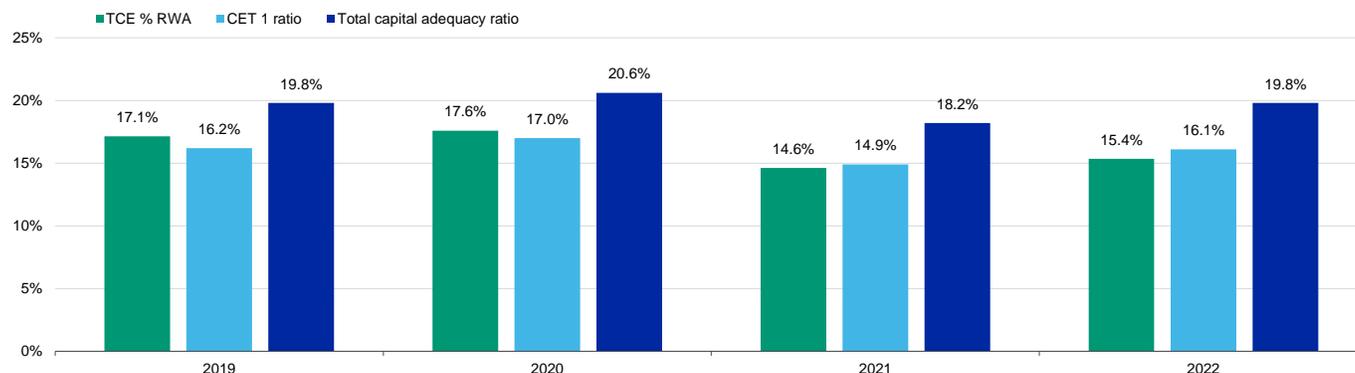
Arbejdernes Landsbank's capitalization is strong, reflected in the a1 assigned score. Ahead of the acquisition of Vestjysk Bank's majority share, AL Bank issued DKK1.8 billion of shares in 2021 to support the bank's expansion. Our assigned score also reflects the increase in risk-weighted assets over time and future dividends, which are expected to be in the range of 20%-40% of net income. The bank's tangible common equity (TCE)-to-RWA ratio increased to 15.4% at year-end 2022, from 14.6% a year earlier. The bank's TCE-to-RWA ratio is slightly higher than the 14.3% of global peers with a baa2 BCA and below the aggregate average of 18.7% for rated Danish peers.

The bank's Common Equity Tier 1 (CET1) capital ratio was 16.9% and the total capital ratio was 20.6% as of end of June 2023, a strengthening compared to end of 2022 (Exhibit 5), and comfortably above the regulatory requirements of 11.8% and 16.3%, respectively. The bank has been recognized as a systemically important financial institution since June 2021, following the acquisition of Vestjysk Bank, thereby requiring the bank to hold an additional buffer requirement of 1% from year-end 2022 onwards. The Ministry of

Industry, Business and Financial Affairs has also decided to increase the countercyclical buffer, as per the Danish FSA's recommendation, to 2.5% by March 2023.

Exhibit 5

#### Capitalisation is strong, but declined in 2021 due to acquisition of majority stake in Vestjysk Bank



Sources: AL Bank's financial statements, Moody's Investors Service

#### AL Banken achieved a very strong first half year 2023

We assess AL Bank's recurring profitability as moderate, with the assigned baa2 profitability score also reflecting the owners' targets of return on equity below 10%. AL Bank's profitability has been volatile over the past few years, mainly due to higher provisions taken amid the pandemic and merger costs. The very strong earnings during the first six months of 2023 are likely not sustainable, especially as the owners are large depositors with the bank and may require better terms.

AL Bank has lower profitability targets compared to other commercial banks, which translates to a moderate net income-to-tangible assets ratio. In 2022, the ratio declined to 0.7%, from 0.9% in 2021. The decline was mainly due to the bank's large investment portfolio that decreased in value as a result of increasing interest rates. We expect that the profitability ratio will recover to above 0.9% over the next 12-18 months as improving interest rate margins will outweigh negative valuation effects on the investment portfolio. Eventually, as the bank tends to hold securities until maturity, the valuation effect will reverse, driving temporary increases in net income. Indeed, during the first six months of 2022, net income improved significantly with annualised return on total assets surpassing 1.5% due to positive value adjustments, higher interest rate margins and further releases of loan loss reserves. Net income for the first six months of 2023 reached DKK874 million for the group, compared to DKK176 million for the same period in 2022. However, we see a risk that additional loan loss provisions are necessary to unwind legacy problem loans and that further IT investments are needed over the coming years. We also expect that interest rate margins will narrow as large depositors will require a better return on their assets.

#### Very strong funding and liquidity profile

Arbejdernes Landbank's operations are primarily funded through deposits, accounting for 74% of total liabilities as of year-end 2022, while the market funding is expected to increase with the bank issuing a considerable amount of senior debt in order to meet its 2026 minimum requirement for own funds and eligible liabilities (MREL) of 29.4% of REA including a counter cyclical buffer (CBR) of 2.5%. Market funds accounted for 3.4% of the bank's consolidated tangible banking assets as of year-end 2022. By the end of 2025, we expect that market funds ratio will be approximately 10% as MREL will require the bank to issue about DKK10 billion in senior debt. During the phase-in period, the market funds ratio will gradually increase.

As with other medium-sized Danish banks, Arbejdernes Landbank can secure mortgage financing through specialised mortgage lenders, for example, Totalkredit A/S or DLR Kredit A/S. Loans funded by these specialised lenders are transferred to these institutions and do not appear on the bank's balance sheet.

As part of the strategy set by its owners, consisting of Danish labour unions, AL Bank's liquidity buffers are very strong, with its liquid banking assets at 45% of tangible banking assets as of December 2022, and is likely to continue strengthening in the coming years as debt is issued. Liquid assets comprised of cash and equivalents (at 11% of total assets), interbank (0.5%) and trading securities (29%). Arbejdernes Landbank's liquidity coverage ratio is comfortably above the 100% minimum requirement, set by the Danish FSA.

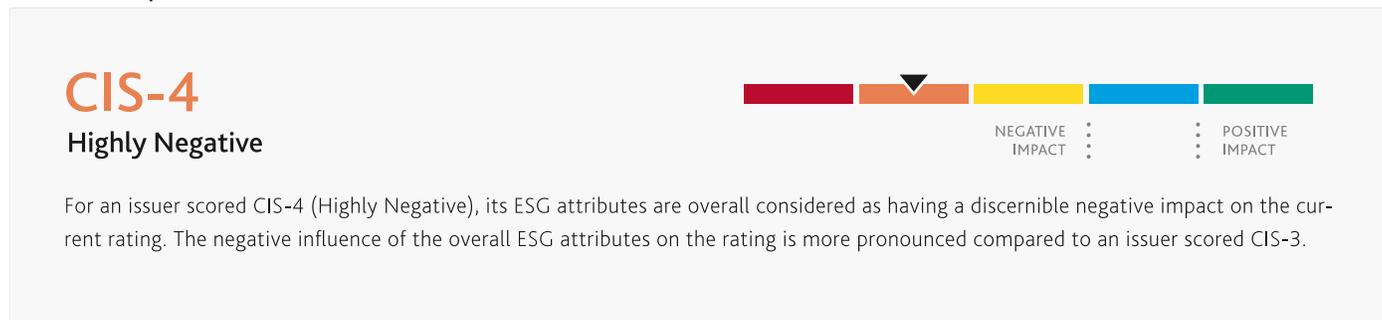
The bank's net loan-to-deposit ratio was 62% as of December 2022, up from 60% a year earlier.

## ESG considerations

### Arbejdernes Landsbank A/S' ESG Credit Impact Score is Highly Negative CIS-4

Exhibit 6

#### ESG Credit Impact Score



Arbejdernes Landsbank's ESG Credit Impact Score is highly negative (**CIS-4**), reflecting the negative credit impact of the bank's overall governance risk, incorporated in the one-notch negative adjustment of the rating for corporate behaviour. Environmental and social risk factors have a limited credit impact on the ratings to date.

Exhibit 7

#### ESG Issuer Profile Scores



### Environmental

Arbejdernes Landsbank faces moderately negative environmental risks primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, the bank is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Arbejdernes Landsbank is developing its climate risk and portfolio management capabilities.

### Social

Arbejdernes Landsbank faces high industry-wide social risks related to regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by the bank's strong IT framework.

### Governance

Arbejdernes Landsbank faces highly negative governance risks in terms of risk management. Arbejdernes Landsbank's BCA incorporates a one notch negative adjustment reflecting the increased governance and risk management risks due to the acquisition of the majority stake in Vestjysk Bank. The acquisition increases Arbejdernes Landsbank's governance and control risks due to its limited formal ability to impose its own risk appetite on Vestjysk Bank, given its limited presence on the Board of Directors. Vestjysk bank has historically demonstrated a higher risk appetite than its parent with a focus on SME lending in western Denmark. Arbejdernes Landsbank is working on mitigating these risks and has appointed a group risk manager for both risk management and compliance, and in practice all group policies have been adopted by Vestjysk Bank's Board of Directors.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Loss Given Failure (LGF) analysis

Arbejdernes Bank is subject to the EU's Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. Therefore, in accordance with our methodology, we apply our Advanced LGF analysis to the bank's liabilities, considering the risk exposures of the different debt and deposit classes across its liability structure if the group enters resolution.

Our Advanced LGF analysis is applied to the bank's consolidated group in line with the Danish FSA's single-point-of-entry resolution strategy. In our Advanced LGF analysis, we use our standard assumptions and assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets. We also assume a 25% run-off in "junior" wholesale deposits and a 5% runoff in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt.

Under these assumptions and using a forward-looking horizon, for Arbejdernes Landsbank's A2 deposit rating, our LGF analysis indicates an extremely low loss given failure, leading to three notches of rating uplift from the entity's baa2 Adjusted BCA. The (P)Baa1 junior senior unsecured ratings receive one notch uplift as indicated by LGF, reflecting a low loss given failure.

The forward looking LGF takes into account Moody's estimate of upcoming issuances of senior debt of about of DKK10 billion up until end of 2025, based on a fully phased in MREL of 29.4%, including a countercyclical capital buffer of 2.5%, and assumptions that own funds will trend toward 19%. Total risk exposure amount was DKK60 billion at end of 2022, and Moody's expects that the amount will expand by as much as 25% up until the end of 2025.

### Government support considerations

We consider a low probability of support from the Government of Denmark for Arbejdernes Landsbank, resulting in no uplift incorporated in its A2 long-term Deposit and Senior Unsecured ratings. This reflects that, although the bank is of systemic importance, with a market share of 4% in deposits as of year-end 2021, the bank is small in the context of the Danish banking system.

### Counterparty Risk Ratings (CRRs)

#### Arbejdernes Landbank's CRR is A2/P-1

The CRR, before government support, is three notches above the Adjusted BCA of baa2, reflecting a moderate loss given failure from the volume of instruments that will be subordinated to CRR liabilities. Further, the bank's CRR does not benefit from any rating uplift based on government support, in line with our support assumptions on senior debt.

### Counterparty Risk (CR) Assessment

#### Arbejdernes Landbank's CR Assessment is A2(cr)/P-1(cr)

The preliminary CR Assessment is three notches above the entity's baa2 Adjusted BCA, reflecting the buffer against default provided to more junior obligations represented by the CR Assessment. To determine the CR Assessment, we focus purely on subordination, taking no account of the volume of the instrument class. Finally, the bank's CR Assessment does not benefit from any government support uplift.

## Rating methodology and scorecard factors

Exhibit 8

### Arbejdernes Landsbank A/S

<b>Macro Factors</b>											
<b>Weighted Macro Profile</b>		<b>Strong +</b>		<b>100%</b>							
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>					
Solvency											
Asset Risk											
Problem Loans / Gross Loans	6.4%	ba1	↑	ba2	Quality of assets						
Capital											
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.4%	aa3	↔	a1	Expected trend						
Profitability											
Net Income / Tangible Assets	0.7%	baa2	↑	baa2	Earnings quality						
Combined Solvency Score		baa1		baa2							
Liquidity											
Funding Structure											
Market Funds / Tangible Banking Assets	3.4%	aa2	↓↓	a2	Expected trend						
Liquid Resources											
Liquid Banking Assets / Tangible Banking Assets	45.1%	aa3	↔	aa3	Expected trend						
Combined Liquidity Score		aa2		a1							
Financial Profile											
				baa1							
Qualitative Adjustments				Adjustment							
Business Diversification				0							
Opacity and Complexity				0							
Corporate Behavior				-1							
Total Qualitative Adjustments				-1							
Sovereign or Affiliate constraint				Aaa							
BCA Scorecard-indicated Outcome - Range				baa1 - baa3							
Assigned BCA				baa2							
Affiliate Support notching				0							
Adjusted BCA				baa2							
<b>Balance Sheet</b>											
		<b>in-scope (DKK Million)</b>	<b>% in-scope</b>	<b>at-failure (DKK Million)</b>	<b>% at-failure</b>						
Other liabilities		12,350	13.3%	19,787	21.4%						
Deposits		72,908	78.7%	65,471	70.7%						
Preferred deposits		53,952	58.3%	51,254	55.4%						
Junior deposits		18,956	20.5%	14,217	15.4%						
Junior senior unsecured bank debt		2,318	2.5%	2,318	2.5%						
Dated subordinated bank debt		1,275	1.4%	1,275	1.4%						
Preference shares (bank)		955	1.0%	955	1.0%						
Equity		2,777	3.0%	2,777	3.0%						
Total Tangible Banking Assets		92,583	100.0%	92,583	100.0%						
<b>Debt Class</b>											
		<b>De Jure waterfall</b>		<b>De Facto waterfall</b>		<b>Notching</b>		<b>LGF</b>	<b>Assigned</b>	<b>Additional</b>	<b>Preliminary</b>
		<b>Instrument</b>	<b>Sub-</b>	<b>Instrument</b>	<b>Sub-</b>	<b>De Jure</b>	<b>De Facto</b>	<b>Notching</b>	<b>LGF</b>	<b>Notching</b>	<b>Rating</b>
		<b>volume +</b>	<b>ordination</b>	<b>volume +</b>	<b>ordination</b>			<b>Guidance</b>	<b>notching</b>		<b>Assessment</b>
		<b>subordination</b>	<b>subordination</b>	<b>subordination</b>	<b>subordination</b>			<b>vs.</b>			
								<b>Adjusted</b>			
								<b>BCA</b>			
Counterparty Risk Rating	23.3%	23.3%	23.3%	23.3%	3	3	3	3	3	0	a2
Counterparty Risk Assessment	23.3%	23.3%	23.3%	23.3%	3	3	3	3	3	0	a2 (cr)
Deposits	23.3%	7.9%	23.3%	7.9%	2	2	2	3	3	0	a2
Senior unsecured bank debt	23.3%	7.9%	7.9%	7.9%	2	0	1	3	3	0	a2
Junior senior unsecured bank debt	7.9%	5.4%	7.9%	5.4%	0	0	0	1	3	0	baa1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	0	A2	A2
Counterparty Risk Assessment	3	0	a2 (cr)	0	A2(cr)	
Deposits	3	0	a2	0	A2	A2
Senior unsecured bank debt	3	0	a2	0	(P)A2	(P)A2
Junior senior unsecured bank debt	1	0	baa1	0	Baa1	Baa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

## Ratings

Exhibit 9

Category	Moody's Rating
<b>ARBEJDERNES LANDSBANK A/S</b>	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Senior Unsecured MTN	(P)A2
Junior Senior Unsecured	Baa1
Junior Senior Unsecured MTN	(P)Baa1

Source: Moody's Investors Service

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