Group Risk Report 2011

AKTIESELSKABET

Arbejdernes Landsbank

CVR-nr. 31 46 70 12, Copenhagen

Group Risk Report for Arbejdernes Landsbank 2011

Overall risk management

The aim of the Group Risk Report is to provide an insight into the internal risk management of Arbejdernes Landsbank on the basis of the Group's method of reviewing and managing risks, as well as the underlying risk organisation. Arbejdernes Landsbank wants to ensure that the Group remains a strong financial unit for the owners of the Bank as well as its customers, and accordingly, it is important that the Bank is aware of and controls the various risks to which the Group is exposed.

The basis for overall risk management at Arbejdernes Landsbank is:

- Written instructions from the Board of Directors, including "Instructions for segregation of responsibilities between the Board of Directors and the Executive Management of Aktieselskabet Arbejdernes Landsbank" (Instruks for arbejdsfordelingen mellem bestyrelsen og direktionen i Aktieselskabet Arbejdernes Landsbank) with the associated "Instructions for reporting to the Board of Directors of Aktieselskabet Arbejdernes Landsbank" (Instruks for rapportering til bestyrelsen i Aktieselskabet Arbejdernes Landsbank),
- An Audit Committee established by the Board of Directors which assesses whether the company's internal control system, and its internal audit, risk and security systems are working effectively,
- Meetings of the Executive Management, where instructions on specific corporate decisions are specified, and other risks that the Bank is affected by are assessed, and
- Frequent reports on results, business areas, financial ratios, as well as relevant risk targets.

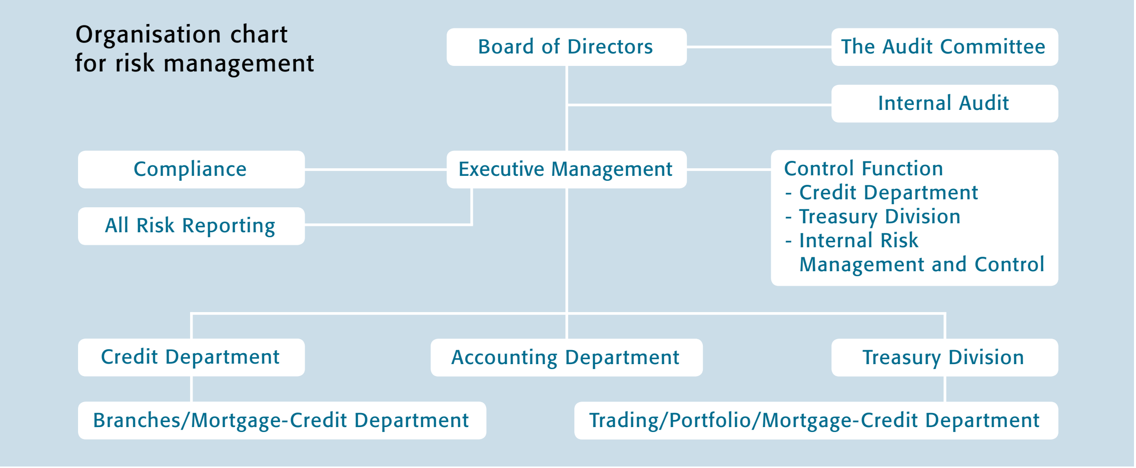
In 2011, the Bank set up an all risk reporting function under the auspices of the Accounting Department, aimed at ensuring that management receive relevant risk information about all the Bank's business activities. This function is to ensure that reporting is carried out on a consistent foundation, simultaneously and at frequent intervals.

The Bank systematically reports on risks for relevant business activities in order to be able to act in the event of changed business developments, if required, and to ensure that risks accepted are in accordance with resolutions adopted.

Risk management of core business activities, such as Credit and Holdings/Liquidity is carried out in close dialogue with the units in which banking operations are managed. The Bank's Credit Department (credit risk analysis) regularly follows up on guarantees, loans and credits in the Bank's branches, prepares risk analyses, and develops and maintains credit monitoring tools. Internal Risk Management and Control under the auspices of the Bank's Treasury Division (LIFI) performs regular monitoring of the Bank's compliance with section 152 of the Financial Business Act, which stipulates a number of requirements for the Bank's liquidity. In addition, monitoring is to ensure compliance with instructions and guidelines covering counterparty and market risks. The Board of Directors receives monthly and quarterly reports on the extent of risks accepted for the period. Internal Risk Management and Control and the Treasury Division refer directly to the Executive Management of the Bank.

The Credit Department ensures compliance with the credit policy and coordinates branch contact as well as credit advisory services for processing individual cases.

Figure 1



The Treasury Division ensures compliance with the investment strategy and coordinates branch contact and advisory services on complicated business transactions.

Operational risk is rooted in the individual business units and aims at ensuring procedures and measures are carried out immediately after ascertaining events which may trigger or have triggered operational risks. The Bank has systems to collect risk events of an operational nature which, other than reporting for managerial purposes, are used for continuous improvement of procedures and contingency plans.

The Bank's Accounting Department follows up the operating financial developments arising from business decisions.

Arbejdernes Landsbank's funding is primarily from deposits, which remain larger than our lending. In order to satisfy our desire for around 100 per cent excess coverage of the liquidity requirement mentioned in the Danish Financial Business Act, bank funding is supplemented by liquidity from domestic and foreign cooperation partners. To ensure adequate funding for the Bank, Arbejdernes Landsbank has in 2010 applied for and been granted a state-guarantee under "Bank Package II" for funding in addition to the equity and capital base of up to DKK 5.6 bn. or EUR 750 mill., of which about DKK 5 bn. has been utilised.

If exposures in new areas are under consideration, the nature and scope of these are discussed at the daily meetings of the Executive Management before a recommendation is made to the Board of Directors, either to enter into specific business or to adjust previously completed instructions.

Every endeavour is made to maintain up-to-date IT systems in order to be able to support risk management and quantify the size of risks to which the Group is exposed at any time.

Assessment of the effects of the total Group risks is carried out at least once a year in connection with preparation of proposals for the Board of Directors of the Bank on the annual budget, solvency need as well as stipulation of the level of adequate capital base.

Credit risk on loans to customers

Credit risk is the risk that a counterparty is wholly or partly unable to, or fail to make payments. The risk covers the entire spectrum, from a customer being unable to pay on time, to a customer ultimately being declared bankrupt. For each loan the Bank must consider a customer's ability to meet his or her commitments. The Bank enters into loan agreements with customers for whom there is a very small probability of failure to make payments.

Credit risk is the largest risk item in the Bank's risk statement and amounted to 68 per cent (75 per cent in 2010) of the Bank's solvency requirement at the end of 2011, see table 27: "Solvency requirement broken down by exposure categories". The Bank has allocated the most funds to this item in order to meet unforeseen losses. Overall, the credit risks of the Bank have increased as a result of the current economic situation, and this is recognised in the Bank's solvency need. However, the quality of the loans is still deemed to be satisfactory, partly due to the large spread within the portfolio. The following is a description of the Bank's practice in the credit area and the composition of the loan portfolio.

Strategies and procedures to manage customer credit risks

The Bank provides all types of advice on loans, credits and guarantees for private customers, associations as well as small and medium-sized Danish enterprises. Today the Bank has a large private customer base and with "Vision 2015" it wants to instigate sustainable growth, particularly within corporate customer areas. In order to provide the best advice, it is a matter of course that the Bank has good insight into the overall financial situation of its customers. Insight into customers' finances is also necessary to enable assessment of the risks in the individual exposure.

The Bank's practice with regard to credit is based on a number of policies, instructions and business procedures to measure and manage credit risks. Approval by the Bank of a loan or credit is given on the basis of an assessment of the customer's financial ability and desire to manage the repayment terms of the loan/credit. Approval of a loan is limited by authorities documented in authorisation instructions for individual employees for the respective lending areas. Authorisation to grant loans is built on a hierarchical framework so that larger exposures are always approved by the Credit Department and/or the Bank management.

Since 2010 the Bank has been using its own internally developed rating model to support the assessment of the risk of the individual customer exposure. The rating classes are objective credit rating classes which are used as a control tool in regular monitoring of exposures. The rating is used as an indication of the extent to which the Bank wishes to expand its exposures with the relevant customer. The rating is based on point intervals where customers are awarded points on the basis of objective customer data and repayment behaviour. The rating classes are compatible with the credit rating categories of the Danish Financial Supervisory Authority (Danish FSA). Ratings classes are from 1-10, where rating 1 is the best and rating 10 is the poorest.

- Rating classes 1-4 are customers with exposures of good credit quality.

- Rating classes 5-8 are customers with exposures that require stricter monitoring, and where customers should only, to a very limited extent, be allowed to take up more loans.

- Rating classes 9-10 are customers with poor credit rating. These customers are partly written down.

Regardless of the customer's rating class, each credit decision, whether it is a new loan or a reassessment of an existing loan, will always be based on the Bank's overall assessment of the customer. Accordingly, individual credit ratings will always consist of an objective and a subjective part. The basis for the decision depends on the type, scope and complexity of the loan.

The risk environment

- In 2012 major turbulence in parts of the international economy began to reveal a more realistic recession scenario. New EU requirements for extra capital for banks imply that banks need to raise lending margins considerably in order to survive. Recently several Danish banks adjusted their lending rate upwards, which denotes higher costs for their customers. Banks have also started adjusting their costs to the markets and have notified/carried out several rounds of redundancies.

- The current European debt crisis and subsequent expectations of falling growth may lead to decreasing demand for oil, and prices may start declining. A collapse in the Euro countries may affect the Danish economy significantly; however, a political solution could be on the way.

- The economic downturn in the Danish economy is caused by lower consumption, which affects private households as well as enterprises. Consequently, companies with solid financial resources are strengthened whilst those without solid financial resources will have ever more difficulties. The fear of further collapse in banking markets may give rise to further tightening for customers, as in the future banks will try to cover increasing losses, incurred through bank packages, through their customers.

- Falling housing prices have eroded equity in property, and households' excessive spending can no longer be refinanced. Many people are mortgaged to the hilt, and falling property prices mean stagnation in "mobility". Increasing interest rates will influence people's ability to repay loans. A large group of people are in for a tough landing when reality hits the fan in the coming years. Even though interest rates on adjustable rate mortgage loans are historically low, even a modest increase is a threat to the financial stability of households. Realistically, such conditions might give rise to several defaults in the loan portfolio.

In 2011, the number of bankruptcies in Denmark fell by 15 per cent after the record-high number in 2010, and they are expected to remain unchanged in 2012. The number of compulsory sales dropped slightly in 2011 compared with 2010, due to low interest rates which help keep down the actual number of compulsory sales. For 2012 this figure is expected to remain at the 2011 level. Unemployment has risen but remains low compared with previous periods of economic recession. Unemployment is expected to increase in 2012.

Increasing unemployment is a direct threat to the ability of private borrowers to repay their loans and an indirect threat to individual companies' ability to pay because, all else being equal, demand will drop off. In contrast, historically low interest rates are giving a large number of private customers better financial flexibility than previously.

The Bank expects the negative trend to continue affecting the credit quality of our loan portfolio negatively, but not quite as seriously as in 2011.

The Bank's total exposure expressed as gross loans and guarantees before write-downs, as presented in the 2011 annual financial statements, is at par with end-2010, whereas net loans and guarantees after write-downs at the end of 2011 are less due to increased write-downs and provisions in 2011, see table 1.

Table 1

The Bank's loans and guarantees before and after write-downs broken down by main customer segments

	Private DKK '000	Corporate DKK '000	Total 2011 DKK '000	Total 2010 DKK '000
Loans before write-downs	11,049,125	6,751,535	17,800,660	17,604,599
Guarantees before write-downs	844,494	1,171,859	2,016,353	2,255,107
Total loans and guarantees before write-downs, etc.	*11,893,619*	*7,923,394*	*19,817,013*	*19,859,706*
Individual write-downs on loans	382,981	416,669	799,650	626,823
Group write-downs on loans	37,960	14,932	52,892	60,346
Provided for the Private Contingency Association (written off in 2011)	0	0	0	109,470
Individual provisions for other guarantees	2,675	2,891	5,566	5,808
Group provisions for other guarantees	760	3,499	4,259	4,592
Total loans and guarantees after write-downs, etc.	*11,469,243*	*7,485,403*	*18,954,646*	*19,052,667*

Note: The figures are excluding loans to credit institutions. The breakdown into the "Private" and "Corporate" customer segments is the Bank's own.

The Bank's portfolio has been organised in the main segments "Private" and "Corporate" and the breakdown follows the Bank's own criteria. Total gross loans and guarantees continue to be assessed as having satisfactory credit quality with a sound risk-spread where 67 per cent of gross loans and guarantees are in rating classes 1-4. Until now the total portfolio has been only slightly affected by the negative general economic development, see tables 2 and 3.

Historically, the Bank's private portfolio has been relatively large compared with its corporate portfolio. At the end of 2011 the private portfolio accounted for 60 per cent of the total loan volume. Viewed separately, the private as well as the corporate portfolio have a solid risk-spread, and there were only minor negative shifts from end-2010 to end-2011, see tables 2 and 3.

Table 2

The Bank's loans and guarantees broken down by main customer segments and rating classes at the end of 2011

Rating	Private DKK '000	Corporate DKK '000	Total, Bank DKK '000
1	62,771	999,509	1,062,280
2	742,833	801,441	1,544,274
3	1,836,780	821,330	2,658,110
4	4,967,644	2,958,878	7,926,521
5	2,047,539	709,279	2,756,817
6	1,042,972	328,289	1,371,260
7	384,201	261,851	646,051
8	143,356	7,368	150,724
9	418,423	843,460	1,261,883
10	247,101	191,991	439,092
Total	*11,893,619*	*7,923,394*	*19,817,013*

Note: The calculation is based on gross loans and guarantees. The breakdown into the "Private" and "Corporate" customer segments is the Bank's own. The figures are excluding loans to credit institutions.

Table 3

The Bank's loans and guarantees broken down by main customer segments and rating classes at the end of 2010

Rating	Private DKK '000	Corporate DKK '000	Total, Bank DKK '000
1	63,859	588,260	652,119
2	775,123	1,139,013	1,914,136
3	1,827,733	966,496	2,794,229
4	5,144,577	3,055,976	8,200,553
5	1,923,631	713,360	2,636,991
6	1,055,536	255,720	1,311,256
7	405,968	300,649	706,617
8	213,816	14,938	228,754
9	291,375	731,585	1,022,960
10	203,302	188,789	392,091
Total	*11,904,920*	*7,954,786*	*19,859,706*

Note: The calculation is based on gross loans and guarantees. The breakdown into the "Private" and "Corporate" customer segments is the Bank's own. The figures are excluding loans to credit institutions.

The Bank's loan portfolio is further described below, whereas write-downs and provisions are described in "write-downs and provisions analysed by loans and guarantees", see page 21.

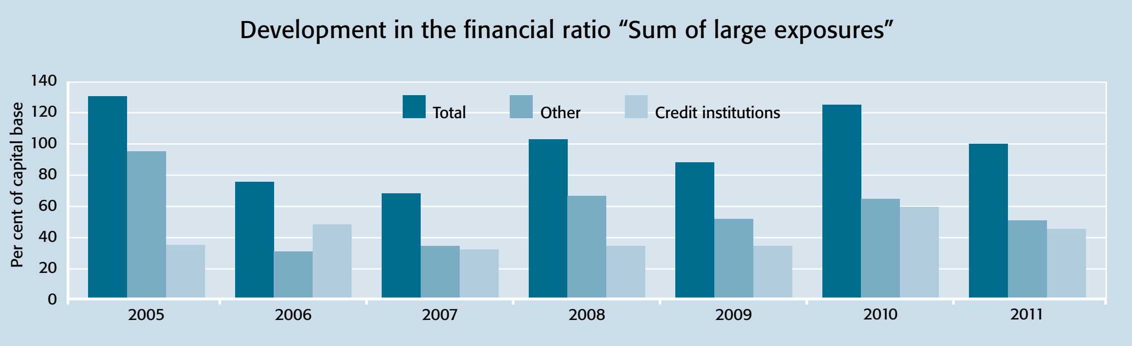
Largest customer credit risks

The bank focuses on avoiding concentrations of risk, and Group credit policy is to minimise the risk of large single exposures.

Sum of large exposures

The Bank tries to keep exposures of 10 per cent or more of the Bank's capital base before deductions at a low level. The Bank's current and previous large loans

Figure 2



Note: The figures are calculated on the basis reported values of section 145 exposures greater than or equal to 10 per cent of the capital base before deduction and follow all relevant legislation.

have primarily been loans to credit institutions, see figure 2.

The financial ratio "Sum of large exposures", i.e. the sum of section 145 exposures after deductions greater than or equal to 10 per cent of the capital base, is calculated at 100.1 per cent of the capital base at the end of 2011 at group level, including loans to credit institutions. This corresponds to an overall exposure totalling DKK 3.3 bn which is a reduction of just over 10 per cent since the end of 2010.

The sum of large exposures, excl. credit institutions which, after deductions, individually exceed 10 per cent of the Group's capital base was reduced to 53.7 per cent in 2011, broken down by four exposures. These exposures are between 10-16 per cent of the Group's capital base, and have been established after a thorough evaluation of whether there is acceptable risk and collateralisation.

For more information on credit institutions, see "Credit risk on credit institutions", see page 20.

Exposures over DKK 10 mill.

Main customer exposures over DKK 10 mill., excl. credit institutions, account for 25 per cent of total gross loans and guarantees at the end of 2011 and are spread over 116 main customers; this is a reduction of 4 percentage points compared with the end of 2010. Main customer exposures of more than DKK 100 mill. account for the largest share, amounting to 16 per cent of the Bank's total loan portfolio, see table 4. Impairment of main customer exposures of more than DKK 10 mill. is mainly a result of individual write-downs on already known risks. Arrears are mainly limited to main customers with exposures of less than DKK 50 mill. and account for a total of 36 per cent of the Bank's overall arrears at the end of 2011. The breakdown on gross loans and guarantees, write-downs and arrears on main customer exposures of more than DKK 10 mill. is shown in table 4.

Table 4

Gross loans and guarantees, write-downs and arrears analysed by section 145 exposures of more than DKK 10 mill.

	Gross loans and guarantees DKK '000	Write-downs on loans DKK '000	Arrears DKK '000	Number of section 145 customers
Section 145 exposure intervals, end-2011				
DKK 10-25 mill.	772,923	90,933	19,158	63
DKK 25-50 mill.	763,456	96,408	11,653	26
DKK 50-100 mill.	216,769	697	62	5
> DKK 100 mill.	3,240,290	187,714	185	22
Total	*4,993,438*	*375,751*	*31,058*	*116*

Note: Write-downs include the sum of individual and group write-downs and provisions. Arrears are calculated as in the notes to the annual financial statements on page 52. The figures are excluding loans to credit institutions and loans to the Bank's subsidiary companies.

The Bank's large exposures are focused in the sectors "Finance and Insurance", "Real Property" and "Other Corporate", see table 5. It should be noted that the Bank's exposure to large cooperative housing associations is included in the category "Real Property". A total of 63 per cent of the loan portfolio on main customer exposures of more than DKK 100 mill. belong to single customers in rating classes 1-4 and credit quality is therefore generally considered good, see table 5.

Table 5

Section 145 exposures of more than DKK 10 mill. analysed by sectors and rating classes

	Rating 1-4 DKK '000	Rating 5-8 DKK '000	Rating 9-10 DKK '000	Total DKK '000
Sector breakdown end-2011				
Public authorities	*34,994*	*0*	*30,046*	*65,040*
Corporate				
Agriculture, hunting, forestry and fisheries	0	0	0	0
Industry and extraction of raw materials	594	165,412	4,083	170,090
Building and construction	160,435	57,962	76,891	295,289
Trade	251,161	8,410	33,093	292,663
Transport, hotels and restaurants	217,679	83,601	10,377	311,658
Information and communication	4,000	29	9,302	13,331
Financing and insurance	943,156	101,367	167,417	1,211,940
Real property	419,188	303,114	512,804	1,235,106
Other corporate	1,043,892	148,077	82,159	1,274,129
Total corporate	*3,040,106*	*867,972*	*896,126*	*4,804,205*
Private	*82,613*	*20,154*	*21,427*	*124,193*
Total	*3,157,713*	*888,126*	*947,599*	*4,993,438*

Note: The calculation is based on gross loans and guarantees. The sector breakdown is in accordance with section 93 of the Executive Order on Capital Adequacy and is allocated to single customers included in section 145 exposures > DKK 10 mill. CPR-customers (Civil Registration System) with sector code are classified under the sectors for Corporate, and therefore the table is not comparable to the Bank's own customer segmentation of "Private" and "Corporate". The figures are excluding loans to credit institutions and excluding loans to the Bank's subsidiary companies.

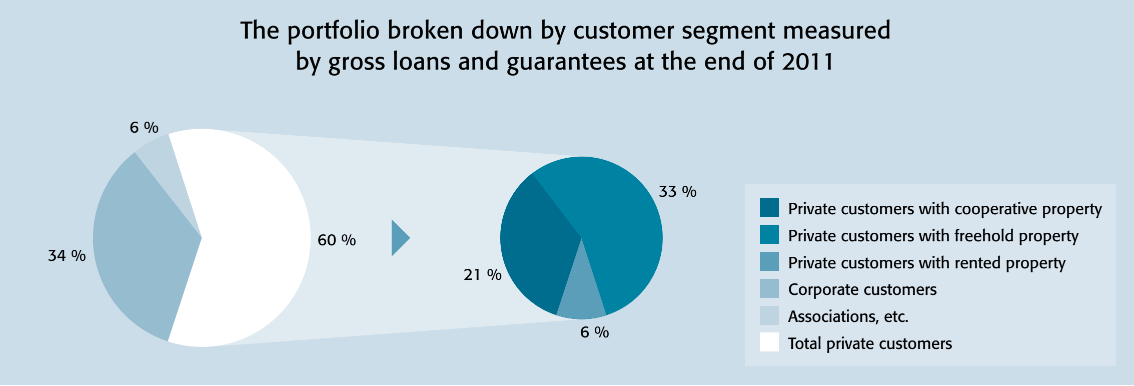
Customer credit risk broken down by segment

The overall credit risk is managed in accordance with policies and frameworks adopted and stipulated by the Bank's Board of Directors and Executive Management. The Bank's Credit Department establishes procedures and internal controls, as well as authorisation guidelines on implementation of policies and frameworks for risk and collateralisation in day-to-day credit management.

Credit authorisation is delegated so that most decisions regarding private customers can be made by the individual branches. Large and particularly complicated credit relations are dealt with in close cooperation with the Credit Department.

Figure 3 below shows the Bank's exposure on significant customer segments, measured as gross loans and guarantees at the end of 2011. The Bank is characterised by holding a lower share of "Corporate customers", a higher share of "Private customers with cooperative property" and a higher share of "Associations, etc." than comparative banks. Other than a small increase in exposures on the segment "Corporate customers", the breakdown of the portfolio is largely unchanged compared with the previous year.

Figure 3



Note: The breakdown on the main segments private and corporate follows the Bank's own calculations, and accordingly corporate is broken down as "Corporate customers" and "Associations, etc". Public authorities are included in the group "Corporate customers".

Private customers

In "Vision 2012", the Bank had a strategy to create sustainable growth mainly within the private customer area and this was achieved with a share of 60 per cent, see figure 3.

The exposure on "Private" is characterised by a considerably wider spread as well as significant collateral, see tables 6 and 7. This means that individual losses can be considered insignificant unless there is a large number of simultaneous losses, such as in the event of a serious recession in the entire economy.

Creditworthiness of private households is assessed on the basis of the customer's rating and an individual assessment of the customer's general financial situation, job situation, age, etc. The assessment is based on the customer's pay slips, annual tax returns, account behaviour, budgets and knowledge about the customer, which provide an overall view of the customer's financial situation.

In view of unemployment developments, in future, the Bank will continue focusing on e.g. private customers who despite tax cuts and low interest rates still have problems paying off their debt, and who are not able to satisfy their repayment obligations in the event of interest-rate rises.

The exposure on the Bank's private customers is further broken down by customer segments, depending on the debtor's status on the housing market, see table 8. Each of the three customer segments, "Customers with freehold property", "Customers with cooperative property" and "Customers with rented property" are managed according to separate guidelines. The segments "Freehold property" and "Cooperative property" account for 54 per cent of the Bank's overall loans at the end of 2011. The Bank's collateral for the private segment mainly consists of mortgages in real property; however, despite the negative trends on housing markets, the unsecured part on the private segment is still at a satisfactory level.

Breakdown on the three private customer segments by gross loans and guarantees, net loans and guarantees, collateral, unsecured part and arrears is shown in table 6.

Table 6

Gross loans and guarantees, net loans and guarantees, unsecured part and arrears analysed by private customer segments "Freehold property", "Cooperative property" and "Rented property"

	Freehold property DKK '000	Cooperative property DKK '000	Rented property DKK '000	Total DKK '000
End-2011				
Gross loans and guarantees (before write-downs, etc.)	6,570,569	4,123,337	1,199,713	11,893,619
Net loans and guarantees (after write-downs, etc)	6,345,793	4,046,305	1,077,145	11,469,243
Collateral	3,559,084	3,556,271	165,821	7,281,176
Unsecured part (%)	44	12	85	37
Arrears	26,045	4,066	7,724	37,835

Note: Write-downs include individual and group write-downs and provisions. Arrears are calculated as in the notes to the annual financial statements on page 52.

Table 7

Net loans and guarantees for the private customer segment broken down by exposure intervals and rating classes

	Rating 1-4 DKK '000	Rating 5-8 DKK '000	Rating 9-10 DKK '000	Total DKK '000
Exposure intervals, end-2011				
0 - DKK 500	2,723,942	1,487,704	81,615	4,293,261
500 - DKK 2,000	4,197,415	1,814,611	128,627	6,140,653
2,000 - DKK 4,000	423,909	190,097	33,786	647,792
4,000 - DKK 10,000	218,112	88,962	21,721	328,795
10,000 - DKK 25,000	39,485	5,675	13,582	58,742
> DKK 25,000	0	0	0	0
Total	*7,602,863*	*3,587,049*	*279,331*	*11,469,243*

Note: The calculation is based on net loans and guarantees.

Table 8

Gross loans and guarantees analysed by the private customer segments "Freehold property", "Cooperative property" and "Rented property" and rating classes

	Rating 1-4 DKK '000	Rating 5-8 DKK '000	Rating 9-10 DKK '000	Total DKK '000
Private customer segments, at the end of 2011				
Freehold property	4,429,167	1,783,649	357,753	6,570,569
Cooperative property	2,818,713	1,146,156	158,468	4,123,337
Rented property	362,148	688,262	149,303	1,199,713
Total	*7,610,028*	*3,618,067*	*665,524*	*11,893,619*

Note: The calculation is based on gross loans and guarantees.

A. Customers with freehold property

Exposures to private customers owning freehold property amounted to 33 per cent of the loan portfolio measured by gross loans and guarantees at the end of 2011. Customer's equity in freehold property has fallen as a result of falling house prices, but the unsecured part is still at a good level.

The number of weakly financed or technically insolvent home owners, who cannot sustain a significant drop in income, is limited to owners who have not been on the housing market for very long in the parts of the market where prices have fallen the most and/or owners who are highly geared, possibly due to excessive consumption. There is only a relatively modest proportion of this type of customer because of the good spread in the portfolio of customers owning freehold property. Further to this, losses typically only occur when customers are forced to sell properties.

The Bank provides loans against collateral in the financed asset. In this connection, please note that generally the Bank does not get involved in speculation based on mortgaging of real property.

The number of compulsory sales rose from 84 in 2010 to 87 in 2011, which is more than double the years 2008 and 2009. The Bank expects the number of compulsory sales in 2012 to be at 2011 level.

Significantly increasing unemployment for a long period and/or a long-term interest-rate increase is assessed to be the largest risk in this segment, as a large part of the customers in this segment have floating-rate loans. However, a great deal of the floating-rate loans has an interest ceiling. The significantly falling and now historically low interest rates are expected to compensate for any income drops in this customer segment. In 2011 repayment discipline for freehold property customers worsened slightly compared with 2010 but not to the extent expected. This is primarily attributable to low interest rates and tax cuts in 2010. Accordingly, this segment did not give rise to more problems than anticipated. The credit quality of this segment is considered good which is underpinned by the fact that 67 per cent of gross loans and guarantees in the freehold property segment were in rating classes 1-4 at the end of 2011, see table 8.

B. Customers with cooperative property

Exposures to private customers with cooperative property are due to a legislative amendment in 2005 which makes it possible to take out a mortgage in cooperative property. The Bank's focus on this area meant that the share is at 21 per cent of the total portfolio measured by gross loans and guarantees, see figure 3 However, the growth rate on the cooperative property segment has been dropping since 2009. Loans in the cooperative property area are expected to continue to grow, though not at the same rate as observed in 2009.

The market for cooperative housing is less transparent than that for freehold housing, and price changes in the cooperative market have been less uniform because of differing price-setting practices between individual cooperative housing associations. The drop in prices seen during the period 2008-2011 has lagged behind that seen for owner-occupied flats and houses. The portfolio of loans for cooperative property at Arbejdernes Landsbank is deemed to be relatively resilient and less sensitive than the freehold property segment, despite its concentration in the Greater Copenhagen region. This is because of individual assessments of the individual cooperative housing associations in the Bank's portfolio. In general, this involves the Bank choosing more cautious valuation principles when setting the maximum legal value of a cooperative share. The disproportionate weight of loans in older housing stock further reduces risk compared with, e.g. loans for new building and freehold properties.

In order to reduce the risk on this segment, the Bank has developed special business procedures and tools to assess the financial situation of private borrowers as well as the financial situation of the underlying cooperative housing associations. The valuation is tested using comparisons with the prices of similar cooperative housing in the same area. Furthermore, valuations are compared with prices per square meter of freehold property in the same area and similarly gross/net payments are compared with comparable freehold residences. In connection with the valuation of cooperative housing is a requirement that both prices per square meter and gross/net payments are minimum 20 per cent under comparable freehold residences. The differential in price per square meter for cooperative property and the reference prices for the freehold housing market has been reduced over the past year, but it is still less than the minimum differential of 20 per cent.

The repayment discipline for 2011 deteriorated slightly compared with 2010 and the unsecured part has risen. Arrears in this segment account for merely 5 per cent of the Bank's overall arrears and just 0.1 per cent of the overall loans for cooperative property. In 2011 the cooperative property segment saw falling market values and consequent slight increases in the unsecured part. Combined with the continued interest-rate risk and increasing uncertainty about the negotiability of cooperative property, this has led to a need for increasing group write-downs in this segment.

This development continues to be monitored closely as interest-rate sensitivity for these customers is also assessed to be a significant factor. The credit quality of the cooperative property segment continues to be assessed as good, which is also reflected in the rating, where 68 per cent of gross loans and guarantees are in rating classes 1-4 at the end of 2011, see table 8.

C. Customers with rented property

Exposures to private customers with rented property amounted to 6 per cent measured by gross loans and guarantees at the end of 2011 and are therefore relatively less significant than for the freehold property and cooperative property segments.

Clearly this segment has not experienced the same drop in wealth as the freehold property market, but neither has it benefited from the massive increases in the value of freehold housing in previous years. Typically, loans to this segment are not as large as for the two other groups, and therefore interest-rate sensitivity is generally not as pronounced. The repayment discipline worsened slightly in 2011 and not surprisingly, the rented property segment has the highest arrears in per cent measured in relation to the segment's gross loans and guarantees, see table 6. The negative societal developments, triggered especially by the rise in unemployment, were expected to affect this segment to a much greater extent than in 2010. However, uncertainty remains as to the extent to which a rise in unemployment in 2012 will affect this segment. The credit quality in the segment is less good; 70 per cent of gross loans and guarantees at the end of 2011 are in rating classes 5-10, see table 8.

Corporate customers

Exposure to corporate customers is limited in comparison with banks of a similar size. The corporate segment accounts for 34 per cent of total gross loans and guarantees at the end of 2011, see figure 3. Apart from a few larger corporate exposures, the segment is characterised by a large number of small and medium-sized, primarily owner-managed, enterprises. There is also a good spread between sectors (see sector breakdown at Group level in table 19.

Table 9

Gross loans and guarantees, net loans and guarantees, collateral, unsecured part and arrears analysed by corporate customer segments "Corporate" and "Associations"

	Corporate DKK '000	Associations DKK '000	Total DKK '000
End-2011			
Gross loans and guarantees (before write-downs, etc.)	6,757,872	1,165,522	7,923,394
Net loans and guarantees (after write-downs, etc.)	6,354,407	1,130,996	7,485,403
Collateral	1,111,562	732,962	1,844,524
Unsecured part (%)	83	35	75
Arrears	32,834	15,612	48,446

Note: Write-downs include individual and group write-downs and provisions. Arrears are calculated as in the notes to the annual financial statements on page 52. The figures are excluding loans to credit institutions.

Table 10

Net loans and guarantees for the corporate customer segment analysed by exposure intervals and rating classes

	Rating 1-4 DKK '000	Rating 5-8 DKK '000	Rating 9-10 DKK '000	Total DKK '000
Exposure intervals, end-2011				
0 - DKK 500	59,783	143,066	7,567	210,416
500 - DKK 2,000	202,932	198,660	19,126	420,718
2,000 - DKK 4,000	202,475	101,598	17,550	321,623
4,000 - DKK 10,000	299,354	145,956	25,085	470,395
10,000 - DKK 25,000	395,185	224,601	102,501	722,287
> DKK 25,000	4,411,589	484,599	443,776	5,339,964
Total	***5,571,318***	***1,298,480***	***615,605***	***7,485,403***

Note: The calculation is based on net loans and guarantees. The figures are excluding loans to credit institutions.

Table 11
Gross loans and guarantees analysed by the corporate segments "Corporate" and "Associations" and rating classes

	Rating 1-4 DKK '000	Rating 5-8 DKK '000	Rating 9-10 DKK '000	Total DKK '000
Corporate customer segment, end-2011				
Corporate	4,850,438	957,095	950,338	6,757,871
Associations	730,720	349,691	85,112	1,165,523
Total	*5,581,158*	*1,306,786*	*1,035,450*	*7,923,394*

Note: The calculation is based on gross loans and guarantees. The figures are excluding loans to credit institutions.

According to "Vision 2015", the Bank's strategy is to increase lending to smaller and medium-sized enterprises, primarily owner-managed enterprises. The Bank's policy is that a significant part of corporate commitments must be covered by collateral in the assets of the company, possibly supplemented with collateral from the business owner. Several years ago, the Bank decided to limit lending to enterprises which are dependent upon changes in the property market, and the Bank's policy is not to engage in financing projects with no guarantees of the necessary operating income to service the total indebtedness. The Bank wishes only to participate in financing business which the Bank understands and is able to manage in relation to advisory services, and where the risk is not too great. The Bank's policy is also not to lend to fisheries and agriculture, as well as sectors and enterprises with great political dependence.

Creditworthiness is assessed on the basis of a review of an enterprise's ability to manage its debt commitments. The basis for approval includes the rating and strength profile of the enterprise. The basis for processing and managing corporate customer exposures is described in the internal business procedures. Typically the assessment is based on the Bank's philosophy, financial statements, budgets, business plans and insights into the business owner's private financial situation. The Bank's credit policy prepares the ground for corporate exposures to also be based on entire customer relationships, including bank exposures of the owner. This is done not just with the wish to provide the best possible advice, but also to maintain overall economic insight into the Bank's exposures with customers.

Repayment discipline in the corporate segment has not directly worsened since 2010. Arrears in the segment account for 34 per cent of the Bank's total arrears, corresponding to the lending share of the segment. In 2010, the negative societal trend affected the Bank's largest corporate customers to a much greater extent. The greatest difficulties consist in decrease in sales and problems with quick cost adaptation. Small corporate customers remain affected by the negative societal development but are under less strain as reported in 2008 and 2009. Continued decreasing demand is assessed to be the largest risk in this segment. The credit rating continues to be good; at the end of 2011, 72 per cent of the Bank's gross loans and guarantees are in rating classes 1-4.

Associations etc.

As a result of its basic philosophy and historical foundation, the Bank has a certain exposure to associations, including trade unions and charitable housing companies. Therefore, the Bank has specialist experience in credit assessment of these segments. During 2011, the Bank regularly worked on strengthening cooperation with associations and has come significantly closer to decision-makers in the associations. The basis for approval includes the individual association's foundation and articles of association, its assets and collateral, as well as its operations and management.

The exposure to associations accounted for 6 per cent of total gross loans and guarantees at the end of 2011, see figure 3. Generally, a small but not insignificant part of the portfolio of customer loans is characterised by a relatively good spread. Repayment discipline in the associations segment did not worsen in 2011, but arrears in this segment accounted for 18 per cent of the Bank's total arrears. The credit quality is still considered good, as 63 per cent of the Bank's gross loans and guarantees to the segment are in rating classes 1-4.

Systems for risk reporting, measurement and monitoring

The basis for credit assessment is reassessed at least once a year, provided the exposure is more than a specific limit. In practice the basis is often updated more frequently, for example in connection with ongoing contact with a customer.

Each quarter, the Board of Directors reviews the development in the loan portfolio, providing a brief summary of the most significant risks and focus areas as well as a report describing developments in the most recent quarters. The report includes detailed specifications on balances, general levels of overdraft, 90-day overdrafts, lending segments, sectors, migration to rating classes, etc. In addition, each month the Board of Directors reviews the development in the Bank's monthly balance sheet and loans granted over a certain amount.

The credit quality of the overall portfolio is also assessed during the annual review of assets by the Credit Department, and during the subsequent presentation of the review to the Board of Directors and the Bank's internal and external auditors.

Customers with objective evidence of impairment (OEI) are mainly selected mechanically on the basis of selected criteria and the customer's rating class. All these customers are reviewed at least quarterly by their branch advisors in order to prepare action plans and make calculations/assessments of any need for write-downs. The Credit Department subsequently reviews the work of the branches.

Repayment discipline is monitored continuously using lists of overdrawn accounts, which are processed by advisors every day. Overdrafts of more than DKK 50,000 or DKK 10,000 with a term of more than 90 days are commented weekly by the branch manager and sent to the Bank's Credit Department. Using samples and lists of accounts in arrears, the Bank's Credit Department checks whether branches' action plans and follow-ups are adequate.

The Credit Department carries out ongoing credit reviews, where branches undergo an extraordinary review of their credit-weak customers and a physical review of the contents of their customer files. There is a fixed rotation arrangement, so that all branches are reviewed within a period of 3-4 years, and more often if prompted by statistical analyses.

Finally, credit monitoring is supported by ad hoc analyses on the basis of developments in the portfolio as well as fixed exercises such as calculations of quarterly solvency needs and quarterly assessments of the need for individual and group write-downs.

Loans in arrears

The bank's net loans in arrears are focused on arrears with short duration, broken down on the private customer segment, see table 12.

Table 12

Loans in arrears analysed by age of the arrears and loan segment

	Private customers			Corporate customers		
	Freehold property DKK '000	Cooperative property DKK '000	Rented property DKK '000	Corporate DKK '000	Associations DKK '000	Total DKK '000
Days in arrears, end-2011						
1-30 days	664,558	457,110	77,600	259,122	53,704	1,512,094
31-60 days	48,648	22,001	10,816	76,368	4	157,837
61-90 days	22,743	9,173	3,620	9,754	0	45,289
91+ days	19,889	6,731	4,327	6,842	26,113	63,902
Total	*755,838*	*495,015*	*96,363*	*352,084*	*79,822*	*1,779,122*

Note: The calculation is based on the loans balance on customers in arrears, presented in the notes to the annual financial statements on page 52. The figures are excluding loans to credit institutions but including the Bank's loans to subsidiary companies.

In terms of loans in arrears, the sectors "Other corporate" and "Real Property" account for the highest share. Loans in arrears of more than 90 days are mainly related to a few overdrafts on individual large exposures. Loans in arrears totalled 9.4 per cent of the Bank's total net loans at the end of 2011. Of this, loans more than 90 days in arrears accounted for 0.3 per cent, see table 13.

The Bank has implemented "early warning" lists, which are to reduce the number of customers with 90-day overdrafts. The Bank has an objective to reduce the level by finding lasting solutions to possible problems, collaboratively with the customer, rather than temporary solutions. This approach is expected to ensure that the number of customers on which the Bank will lose money is reduced in the long term. Arrears on loans of more than 90 days are at the 2010 level.

Table 13
Loans in arrears broken down by sectors and age of arrears

	1-30 days DKK '000	31-60 days DKK '000	61-90 days DKK '000	91+ days DKK '000	Total DKK '000
Sector breakdown, end-2011					
Public authorities	*2,051*	*0*	*0*	*0*	*2,051*
Corporate					
Agriculture, hunting, forestry and fisheries	3,486	1,281	0	2,003	6,771
Industry and extraction of raw materials	28,032	1,963	228	0	30,222
Building and construction	52,912	1,931	1,265	3,911	60,020
Trade	87,985	2,542	4,306	4,452	99,284
Transport, hotels and restaurants	57,088	3,535	3,026	705	64,355
Information and communication	29,394	1,634	80	770	31,879
Financing and insurance	35,408	105	32	370	35,914
Real property	71,216	68,588	1,992	26,121	167,918
Other corporate	167,936	10,314	3,344	4,590	186,185
Total corporate	*533,457*	*91,894*	*14,273*	*42,924*	*682,548*
Private	*976,586*	*65,943*	*31,016*	*20,979*	*1,094,523*
Total	*1,512,094*	*157,837*	*45,289*	*63,902*	*1,779,122*

Note: The calculation is based on the loans balance on customers in arrears presented in the notes to the annual financial statements on page 52. CPR customers (Civil Registration System) with a sector code are grouped under the sectors for Corporate. The figures are excluding loans to credit institutions.

Policies to hedge and reduce customer risks

The Bank uses its possibilities to reduce risk by generally securing collateral in the objects that it finances. The value of the collateral is calculated according to a prudence principle. This implies that, for reasons of prudence, some assets are calculated at a reduced value or the value 0, and therefore the real collateral value is significantly higher than the value calculated in tables 14 and 15.

An assessment of the value of the collateral is a significant factor in determining the Bank's risks. All large exposures are regularly reassessed and at least once a year on the basis of the customer's financial statements/accounts, budgets, business plan, etc. If the developments in objective indicators are assessed to warrant write-downs of the value of the exposures, write-downs are made according to regulations laid down for this purpose. Calculations of mortgaging values are based on the Bank's procedure for this. When assessing payment rows of exposures, collateral is calculated at estimated fair values.

- As far as possible, loans for private customers are hedged using different forms of collateral. This is usually by taking a registered mortgage deed in freehold and cooperative property. Moreover cars etc. are used as collateral.
- Loans to corporate customers in owner-managed (limited) companies (A/S and ApS) as a rule require full or part personal guarantees, supplemented by various forms of collateral.
- Loans to associations are frequently granted in return for collateral in the form of members' fees, or alternatively members accepting joint and several liability, or real collateral.

Furthermore, the Bank makes regular assessments of the value of the collateral calculated as the expected net proceeds on realisation. In each case of default, the Bank assesses whether compulsory realisation of collateral will best serve the Bank in relation to minimising the Bank's risk of losses. The economic cycle and market conditions for realisation of assets may vary considerably. Therefore, sometimes the Bank takes over assets which the Bank has set as collateral.

Broken down by types of collateral for private customers with freehold or cooperative property, properties also make up the largest part of total collateral, see table 14 below. Properties show falling values as a consequence of more cautious valuation of freehold and cooperative properties and generally, the unsecured part has risen due to reduced collateral values, see tables 14 and 15.

Table 14
The Bank's collateral for private customers

	Freehold property DKK '000	Cooperative property DKK '000	Rented property DKK '000	Total, end-2011 DKK '000	Total, end-2010 DKK '000
Collateral for Private customers, end-2011					
Net loans and guarantees	*6,345,793*	*4,046,305*	*1,077,145*	*11,469,243*	*11,583,137*
Properties	2,918,275	3,525,055	4,819	6,448,148	6,821,941
Securities, bonds, etc.	152,967	4,944	32,710	190,622	206,200
Cars	200,557	17,243	120,518	338,318	357,958
Boats and aircraft	7,156	2,224	6,004	15,384	14,502
Transports, etc.	1,020	151	856	2,027	2,906
Warrants and guarantees	0	0	740	740	800
Chattels	469	0	173	642	927
Other collateral	278,641	6,654	0	285,295	325,502
Total collateral	*3,559,084*	*3,556,271*	*165,821*	*7,281,176*	*7,730,736*

Note: Calculated mortgaging values on collateral deposited according to the Bank's procedures.

Table 15
The Bank's collateral for corporate customers

	Corporate DKK '000	Associations DKK '000	Total, end-2011 DKK '000	Total, end-2010 DKK '000
Collateral for Corporate customers				
Net loans and guarantees	*6,354,407*	*1,130,996*	*7,485,403*	*7,469,530*
Properties	751,854	377,461	1,129,315	1,259,567
Securities, bonds, etc.	263,102	310,133	573,235	499,971
Cars	32,022	1,300	33,322	44,085
Boats and aircraft	814	280	1,094	1,466
Transports, etc.	2,851	11,074	13,925	4,180
Warrants and guarantees	500	0	500	2,000
Chattels	10,030	0	10,030	9,544
Other collateral	50,389	32,714	83,103	116,408
Total collateral	*1,111,562*	*732,962*	*1,844,524*	*1,937,220*

Note: Calculated mortgaging values on collateral deposited according to the Bank's procedures.

The Bank does not use instruments such as credit default swaps or other types of insurance to hedge its risks on loans to customers.

Development of credit portfolio tools

Tools to measure and assess the Bank's credit risks are constantly being developed and improved. In 2011, the Bank's rating model was further integrated into credit management. At the beginning of 2011, the rating was incorporated as a more essential parametre in the selection of customers with an objective evidence of impairment (OEI), and this rating is also an important part of both the Bank's model for solvency need and its model for group write-downs.

The Bank regularly focuses on improving data quality, as wrong or inadequate information may provide an incorrect basis for decision-making and a possible misleading rating.

In 2011 the Bank's branch management gained access to a number of quarterly reports which are to contribute to providing branch management with a better insight into the loan portfolio risk and thus enable them to identify any action areas.

With "Vision 2015", the Bank's new corporate concept was launched in 2011. Together with this rating and a new standardised strength profile model, this ensures that the Bank will achieve better and more uniform processing of corporate customers. This will lower the number of incorrect registrations, whilst also giving customer advisors much better possibilities to provide assessments of customers in a uniform manner.

Furthermore, the Bank is represented in projects with Bankernes EDB Central (ECB), including projects on management and monitoring of credit risks. In 2011, the Bank expects to commence using a new method for reporting credit risks at portfolio level, and a new statistically based rating model for the private customer segment is expected to be taken into use in 2012-2013.

Activities in AL Finans A/S

The activities of the subsidiary company, AL Finans A/S, are spread over three business areas

1. Car loans
2. Leasing (primarily automobiles)
3. Factoring

AL Finans has no internal rating or scoring systems in its authorisation process, but it has great experience within all the product-specific business activities.

Quarterly manual reviews are carried out of all customers with signs of weakness based on segments analysed by product. Once a year an active review is carried out where credit risk is assessed for large exposures, and write-downs are made to the extent that there is objective evidence of impairment (OIE). The majority of all loans have collateral in the form of the leased asset, for which there are public catalogues to assess the asset value. Furthermore, as in 2010, for 97 per cent of the car loans portfolio an initial payment of 20 per cent or more has been made, see table 16. These are relatively easily valued and sold. Due to the current market imbalance, there will be an increased risk that assets will no longer cover the unpaid balance in the future. A total of 94 per cent of the Bank's financed assets are cars, of which unsecured loans only account for 1 per cent. The credit quality is expected to improve and group write-downs on customers in arrears have fallen in the period 2009-2011.

Table 16
Breakdown of repayment percentages on car loans for AL Finans

	2011		2010	
	DKK '000	%	DKK '000	%
Repayment percentages on car loans				
0-9 %	19,222	2	26,250	2
10-19 %	6,572	1	7,943	1
20-29 %	882,636	76	790,962	76
30-39 %	146,232	13	132,980	13
40-99 %	86,554	8	80,312	8
Total	*1,141,217*	*100*	*1,038,447*	*100*

The risk on car loans and leasing is mainly related to whether the value of underlying assets can be realised at the values estimated, see the high collateral coverage in tables 17 and 18. One of the material risk factors in AL Finans A/S is therefore declining realisation values on cars in particular. In 2010, prices of used cars rose considerably compared to the extraordinarily low prices in 2009, and in 2011, prices of cars were good compared to residual values. However, the price level for private passenger cars was under pressure at the end of 2011. The current level of trading is considered realistic for the next half year. Despite this, used car segments, in which AL Finans may be exposed, may see further price reductions. This will mean significant risk for AL Finans on cars returned after leasing (operating agreements) and on cars returned after defaults on both leasing and loan repayments. A change of the registration fee may also affect AL Finans and have immediate and negative consequences in 2012 regardless of whether there is a long "transitional period".

There are two levels of repayment obligations in factoring. Debtor level is the first level, and if a debtor is unable to pay, then client level is the next level. In addition, claims are typically mortgaged by 80 per cent, which in normal circumstances provides good cover for repayment obligations. A growing number of bankruptcies among customers and debtors increases the risk of loss. To hedge this, an increasing number of exposures have now been hedged with credit insurance through guarantee insurance companies. Furthermore, the Bank has taken out crime insurance, which insures the entire Group against major losses due to fraud. Invoices of DKK 140 mill., corresponding to just over 30 per cent of factoring exposures, are covered by debtor insurance through guarantee insurance companies.

The exposures are broken down by the respective business activities in tables 17 and 18.

Table 17
Loans before write-downs and breakdown of collateral in the private portfolio in AL Finans

	2011 Balance DKK '000	2011 Collateral DKK '000	2011 Number of customers	2010 Balance DKK '000	2010 Collateral DKK '000	2010 Number of customers
Business activities, Private						
Car loans (debt instruments)	157,078	111,763	1,468	157,842	119,774	1,569
Car loans (purchase contracts)	824,862	783,336	7,964	654,993	589,494	6,829
Financial Leasing	2,419	2,177	15	1,312	1,181	10
Operational leasing	3,043	2,743	24	1,519	1,367	13
Factoring	***987,402***	***900,019***	***9,471***	***815,666***	***711,816***	***8,421***
Total						

Note: Calculated mortgaging values of deposited collateral, see procedures for AL Finans.

Table 18
Loans before write-downs and breakdown of collateral in the corporate portfolio in AL Finans

	2011 Balance DKK '000	2011 Collateral DKK '000	2011 Number of customers	2010 Balance DKK '000	2010 Collateral DKK '000	2010 Number of customers
Business activities, Corporate						
Car loans (debt instruments)	37,081	33,334	328	51,026	41,615	375
Car loans (purchase contracts)	122,196	156,349	1,402	174,585	151,935	1,236
Financial Leasing	359,279	324,882	1,994	361,141	325,027	936
Operational leasing	121,576	108,556	720	104,230	93,807	130
Factoring	448,136	448,136	200	450,117	450,117	205
Total	***1,088,268***	***1,071,258***	***4,644***	***1,141,099***	***1,062,501***	***2,882***

Note: Calculated mortgaging values of deposited collateral, see procedures for AL Finans.

In recent years, the number of cars returned has been stagnant, whilst the average loss per unit has fallen in 2011 compared with 2010. Car prices have stabilised and a large part of the portfolio has changed in recent years and is thus geared for new current prices. However, there was a fall in the price of cars which are currently put up for auction. The level in 2012 is expected to be the same as in 2011 for redelivered cars as well as for average losses.

Credit risk on credit institutions

General conditions

The "Instructions on segregation of responsibilities between the Board of Directors and the Executive Management of the Aktieselskabet Arbejdernes Landsbank" contain guidelines for managing counterparty risks as well as allocation of authority that the Executive Management may expose the Bank to credit risk on credit institutions and others.

In general the Bank adopts a tight practice for authorising exposures. In day-to-day trading, financial frameworks are only established with credit institutions known to the Bank. Authorisations of frameworks for Danish credit institutions are based on the most recent financial statements as well as the Bank's knowledge about the counterparty. Frameworks for foreign credit institutions are granted primarily to large first-class credit institutions with an international rating equal to or above level A1 (Moody's Long Term Ratings). Authorisations of frameworks are also based on the same principles as mentioned above for Danish credit institutions.

Binding credit commitments

Arbejdernes Landsbank bases lending on business relationships, and as a point of departure credit is only granted to credit institutions having a natural cooperation potential with Arbejdernes Landsbank within other business areas.

In addition to obtaining knowledge about conditions relating to business counterparties, prior to entering into any commitment, the Bank carries out an analysis of the most recent interim financial statements, and the credit institution is interviewed on any issues arising. This analysis work is carried out by the Credit Department.

At least once a year, the Bank follows up all exposures and conducts a quality test for all commitments, often with a follow-up meeting with the counterparty. It is also routine practice that these credit institutions visit Arbejdernes Landsbank after publication of annual reports and provide more detailed information about developments.

Follow-up work is performed at management level in Arbejdernes Landsbank, and the Bank's Credit Department is involved in specific situations in order to complete a follow-up analysis of the previous decision base.

All those with contact to the credit institutions involved may have access to potentially market-sensitive information about the credit institution. These persons are primarily from the management group at the Bank and they are subject to more rigid internal regulations on transactions with the relevant credit institution using personal assets.

Ordinary undisclosed financial frameworks (Credit Lines)

This type of commitment is granted internally by the Bank on the basis of two main criteria:

1. A size criteria – whereby a credit line for credit institutions is measured according to objective criteria pursuant to internal instructions on segregation of responsibilities ("Instruks for arbejdsfordelingen mellem bestyrelsen og direktionen i A/S Arbejdernes Landsbank"). The size of a credit line is measured as both a specific percentage of Arbejdernes Landsbank's equity and as a percentage of the credit institution's equity.

2. A subjective assessment, whereby reviews of financial statements, market information, cooperation experience etc. are combined into a conclusion drawn by the Bank's management.

Grants of credit lines to credit institutions are decided collaboratively between the head of the Credit Department and the Bank's Board of Directors and Executive Management.

Risk assessment

The risk on Danish credit institutions is assessed to be primarily on specific product outstandings (share capital and capital base). Here, the Bank's policy is not to provide loans in the form of capital base, and there is no loan portfolio of capital base to credit institutions. On the basis of this, risk is assessed to be limited.

The Bank is exposed to a few credit institutions in other countries but the risk is assessed to be limited and capital provisions have been made which the Bank deems necessary in a worst-case scenario.

Write-downs and provisions on loans and guarantees

The Group's statement of impairment losses on receivables is pursuant to sections 51-54 of the Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

Write-downs, provisions and losses recognised in the income statement in 2011 amounted to DKK 217 mill. against DKK 231 mill. in 2010, see table 19.

The calculations in tables 19 and 20 include credit institutions. Please note that DKK 109 mill. were written off on the Private Contingency Association in 2011. After this, accumulated write-downs and provisions amounted to DKK 894 mill. at the end of 2011, compared with DKK 847 mill. at the end of 2010. Write-downs/provisions on "Real property" are related to individual large exposures in the Bank which are monitored closely. The increase in write-downs and provisions is primarily due to the negative trends in the economic cycle.

With expectations that the economic crisis will continue in 2012, the Bank expects the level of total write-downs and provisions to continue to be at a high level, with a fall, however, compared with 2011.

Table 19

Sector breakdown for impairment losses, including group write-downs and group provisions, at the end of 2011 (Group)

	Exposures DKK '000	Exposures which have been written down/ provided DKK '000	Write-down/ provisions DKK '000	Write-downs/ provisions and losses recognised in 2011 DKK '000
Public authorities	*95,341*	*49,169*	*5,464*	*-1,217*
Corporate				
Agriculture, hunting, forestry and fisheries	52,397	33,039	550	678
Industry and extraction of raw materials	534,392	346,227	4,539	20,290
Energy supply	1,124	17,133	13	440
Building and construction	565,922	314,387	67,211	-45
Trade	1,012,276	511,685	66,020	18,253
Transport, hotels and restaurants	706,619	408,049	36,977	2,996
Information and communication	1,209,186	129,455	28,711	4,422
Financing and insurance	2,820,424	766,358	109,006	24,018
Real property	1,379,764	1,200,627	140,873	-124,473
Other corporate	2,324,287	505,712	77,170	-60,473
Total corporate	*10,606,391*	*4,232,672*	*531,070*	*-113,894*
Private	*11,314,058*	*6,121,557*	*357,042*	*-102,107*
Total	*22,015,790*	*10,403,398*	*893,576*	*-217,218*

Note: CPR customers (Civil Registration System) with a sector code are grouped under the sectors for Corporate.

Table 20
Changes in impairment losses on receivables (Group), 2011

	Individually written down, credit institution DKK '000	Individually written down loans and other items with credit risk DKK '000	Individually provided guarantees DKK '000	Group written down loans and other items with credit risk DKK '000	Group provided guarantees DKK '000
Accumulated write-downs/ provisions brought forward on loans and guarantee debtors	17,233	648,117	115,278	61,897	4,592
Write-downs/provisions for the year	0	355,238	571	14,931	138
Reversal of write-downs	32	151,049	813	25,371	471
Other movements	0	17,129	0	2,772	0
Actual loss (written off) previously written down/provided	0	57,114	109,470	0	0
Accumulated write-downs/ provisions carried forward on loans and guarantee debtors	17,201	812,321	5,566	54,229	4,259
Actual loss (written off) not previously Individually written down/provided	0	24,077			
On previously written off claims	0	6,826			

Note: The calculation is made according to note 13 in the annual financial statements.

Counterparty risk

Counterparty risk includes the Group's management of risks of losses on derivative financial instruments. Risks of losses on derivative financial instruments are included in the management of credit risk in both the authorisation process and in general exposure monitoring, see the relevant sections on this matter.

Table 21
Derivative financial instruments and spot transactions carried forward 2011

	Nominal value DKK '000	Net market value DKK '000	Positive market value DKK '000	Negative market value DKK '000
Currency contracts				
Spot transactions, purchase	76,186	1	2	1
Spot transactions, sale	33,191	23	37	14
Forward transactions/futures, purchase	445,907	-7,788	40	7,828
Forward transactions/futures, sale	741,220	7,341	7,472	131
Options, acquired	1,304,283	3,681	3,681	0
Options, issued	125,993	-5,674	0	5,674
Currency swaps	2,862,029	-18,586	0	18,586
Interest-rate contracts				
Spot transactions, purchase	553,781	471	895	424
Spot transactions, sale	610,595	-515	459	974
Forward transactions/futures, purchase	442,739	2,070	2,096	26
Forward transactions/futures, sale	6,884,630	-50,214	19	50,233
Options, issued	223,026	-67	0	67
Swaps	700,000	9,316	12,650	3,334
Interest-rate swaps	3,180,145	-88,947	10,313	99,260
Share contracts				
Spot transactions, purchase	103,239	521	628	107
Spot transactions, sale	106,653	-509	133	642
Total	*18,393,617*	*-148,876*	*38,425*	*187,301*

Note: The Bank does not apply netting in the statement of risks on items with counterparty risk.

Market risk

The Arbejdernes Landsbank Group regularly accepts various forms of market risk, primarily as interest-rate risk, share-price risk or currency risk, as well as securities-related credit risks in the form of investments in credit bonds.

Market risks arise partly as a result of servicing customers' needs and partly from the Bank's positions in financial instruments. The Bank utilises derivative financial instruments to manage and adjust market risks.

In general the Bank is prudent in the size of its exposure to market risk. The Bank puts high priority on managing business with market risk because of the increasing scope of its business in this area and the increasing complexity of a number of the products in recent years.

The current financial crisis has further underscored the need for active and tight management of this area.

Market risk covers positions, the market value of which depends on developments in the general levels of a number of market variables such as interest rates, share prices, and currency rates. Moreover, risks of a more specific nature on specific market securities are included, if these risks can be traded explicitly. The statement includes market risk on both balance-sheet items and non-balance-sheet items and calculations also include positions in the trading portfolio and business outside the trading portfolio which could have market risks.

Under normal market conditions, general market risks are determined by macroeconomics, national and international political conditions, etc., as well as actions by central banks, which are independent of type of instrument and specific counterparties in a transaction.

Interest-rate risk is calculated on the basis of the modified duration and indicates the expected loss on positions with interest-rate risk in the event of a parallel change in the yield curve of 100 basis points. For convertible mortgage-credit bonds and bonds with an interest ceiling etc. correction factors issued by the Danish FSA and information obtained from leading market participants on modified duration are used. The calculations are made in the individual currencies and in duration intervals. The Bank's exposure is primarily in DKK interest.

Table 22

Group interest-rate risk at the end of 2011

Broken down by modified duration (D)	DKK '000
0 < D <= 3 months	14,888
3 < D <= 6 months	736
6 < D <= 9 months	4,362
9 < D <= 12 months	4,725
1 < D <= 2 years	34,519
2 < D <= 3.6 years	-95,705
3.6 years < D	44,458
Total	*7,983*

Broken down by currency	DKK '000
DKK	103,856
EUR	-102,401
GBP	2,914
NOK	1,863
SEK	1,457
USD	213
Other currencies	81
Total	*7,983*

Note: Interest-rate risk has been calculated for a change in interest rates of 100 basis points.

Share-price risk is the risk of losses as a result of changes in share prices. The share price risk covers the net position in shares as well as share-related instruments in the individual share or share index. The share-price risk is calculated as weighted positions across share instruments.

Sensitivity to general changes in the stock markets is concentrated in the relatively small part of share holdings held in the trading portfolio, and the holdings are spread over as many companies as possible so that a general fall in the stock markets of 10 per cent would lead to a loss of DKK 10.2 mill. On the other hand, investment securities are more specifically affected by developments in the individual companies, which cannot be assumed to be influenced correspondingly by market fluctuations.

Exchange-rate risk reflects the Bank's risk of losses on positions in currency as a result of changes in currency exchange rates. The risk is calculated in part according to the Currency indicator 2 method, and in part as a weighted sum of net positions in the individual currencies, by which the weighting takes into account volatility.

Securities-related credit risks reflect the Bank's risk of losses as a result of changes in market demands for returns on credit bonds not attributable to general changes in the market interest rate.

Management of market risks

The Group's overall market risk is managed centrally by the Treasury Division.

The Bank ensures distinct segregation of responsibility in risk-taking at all levels of the Bank through setting maximum authorization frameworks for both the Executive Management and the management of the Treasury Division. On the basis of this, narrower frameworks are delegated to the individual authorising employees in the Treasury Division.

The individual risk areas are monitored continuously in relation to the frameworks set. Daily follow-up on this is via reports to the Executive Management and there are regular reports to the Board of Directors. The staff function, Internal Risk Management, monitors how much of the individual frameworks are used by the position takers and reports direct to the Executive Management.

The Bank's market risks are a result of customer trading or arising from the Bank's position-taking on the basis of tactical and strategic assessments of market developments, and partly from consideration of the scope of the bank's other business, including transactions with interest-rate risk, but outside the trading portfolio.

In order to be able to deal with customers' trading activities, the Bank has a holding of securities which cancels out the differences between the size of customer trading and standard transactions on the professional market.

The market risk linked to this is kept within well defined limits both in total and on the individual securities ID. These limits are included in the frameworks set by the Board of Directors and they are continually monitored.

Tactical, short-term investments are managed by the Bank's trading function within relatively narrow limits which are continually monitored.

Strategic positions are decided by the Executive Management on the basis of an assessment of potential returns compared with the risk involved, and taking into account the Bank's overall appetite for risk, other risks of the Bank, as well as ongoing maintenance of a liquidity resource in the form of liquid assets.

In addition to daily calculations of the Bank's total market risks according to standard financial ratios, stress tests are sometimes performed on the portfolio.

Liquidity risk

Liquidity risk is the risk of losses resulting from the Bank having to pay more for the liquidity required to cover its payment obligations and to maintain normal liquidity reserves in a situation where the Bank itself or the sector as a whole is affected by extraordinary circumstances. Liquidity risk thus reflects a mismatch in the Bank's balance between maturity of the assets and liabilities, where the loan portfolio generally has a longer duration than deposits and other financial transactions.

Most of the Bank's liquidity risk is in Danish kroner (DKK), while the rest of the risk is concentrated in the major currencies.

The Bank generally has a very prudent liquidity policy. The Bank has an objective to have excess liquidity of 100 per cent in relation to the 10 per cent and 15 per cent stipulated in section 152 of the Danish Financial Business Act. Liquidity resources are monitored daily and at the same time assessed in a long-term perspective in relation to business developments at the Bank and in the capital markets, as well as levels of deposits and loans. The Bank also has a policy that liquidity forecasts, which are prepared at least once a month, must demonstrate similar excess cover for at least three months ahead, and 12 months ahead there must be excess cover of at least 75 per cent.

In addition to regular calculation of the excess liquidity cover, occasional stress tests of the Bank's liquidity in the long term are carried out in order to reveal the Bank's sensitivity to significant changes in its ongoing terms of funding.

The Bank's Board of Directors has adopted a Financial Resources Plan which defines efforts to be launched if liquidity deteriorates relative to the adopted liquidity strategy.

Interest-rate risk outside the trading portfolio

The Bank's interest-rate risk arises to a certain extent outside the trading portfolio in the form of fixed-interest loans or deposits for customers or variable interest loan products with built-in option elements. Interest-rate risk is calculated according to the same principles for interest-rate risk within the trading portfolio.

Arbejdernes Landsbank does not have fixed-interest deposits with indefinite maturity. Certain loans are offered at fixed interest with the possibility of early redemption.

The interest-rate risk outside the trading portfolio is part of the Treasury Division's calculations of the Group's overall interest-rate risk and it is managed within set limits. The interest-rate risk is calculated daily assuming stipulated settlement agreements on the activities. There is mainly a risk in DKK with very short duration. Some large business activities are hedged separately in terms of interest-rate risk.

Shares etc. outside the trading portfolio

In cooperation with other banks, Arbejdernes Landsbank has acquired holdings in a number of sector companies. The object of these companies is to support the banks' business within mortgage credit, IT, money transmission services and investment associations. The holdings are not included in the trading portfolio, as participation in the sector companies is very important for the Bank's goal of being able to offer customers a broad range of financial services at competitive prices.

Table 23
Shares etc. outside the trading portfolio

	DKK '000
Portfolio at carrying amount carried forward 2011	765,225
Realised capital gains in the income statement	126
Unrealised capital gains in the income statement	8,705
Net purchase	33,942
Other disposals *)	-167,378
Total carrying amount brought forward 2011 **)	***631,915***

**) In 2011 the Bank invested additional capital in Bankernes EDB Central (BEC) The investment has meant that the equity interest exceeds 20 per cent and that Bankernes EDB Central (ECB) can be grouped as an associate.*

***) of which, DKK 350.6 mill. amount to more than 10 per cent in the given company. This amount has been deducted in the calculation of the Group's capital base, and 50 per cent, corresponding to DKK 175.3 mill., has been deducted from the core capital.*

Holdings in sector companies are unlisted and are valued at fair value.

Operational risk

Table 24
Operational risk is the risk of losses because of:

Type	Description
Internal fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Bank policy, and which involve at least one Bank employee.
External fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.
Employment practices and workplace safety	Losses arising from acts inconsistent with employment, health or safety legislation. Payment of claims arising from personal injury or from discrimination events.
Clients, products, and business practice	Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients, or losses arising from the nature or design of a product.
Damage to physical assets	Losses arising from loss or damage to physical assets from natural disaster or other events
Business disruption and systems failures	Losses arising from disruption of business or system failures.
Execution, delivery and process management	Losses from failed transaction processing or process management.

Note: As a rule, operational risk can be linked to specific individual events.

The organisation

In order to assist the management at the Bank with matters relating to operational risk, work in this area is based in the following departments:

- Legal Department with regard to compliance.
- IT Department with regard to following up IT security and emergency plans for transferring operations. In this connection, note that the majority of the Bank's IT development and operations have been outsourced to Bankernes EDB Central (BEC) in Roskilde and JN Data in Silkeborg and thus BEC and JN Data deal with the operational risk on development and operations.
- HR Department with regard to physical security relating to personnel and buildings.
- The individual business areas with regard to their own exposures.

Tasks

All operational losses exceeding DKK 5,000 are reported and commented by the individual business areas.

Reports from the Internal Audit department are dealt with by the Board of Directors and the Executive Management. In relation to operational risk with special focus on relevant areas.

Reports from public inspection authorities are processed by the Board of Directors and Executive Management.

Reports are made to the Executive Management in the event of critical exposures from individual business areas when the management of a business area deems that reporting and follow up is necessary.

Management information is prepared in the form of descriptions of IT security, compliance and contingency plans.

On the basis of reports on current losses data from business areas, the IT Department calculates total operational risk every quarter.

Business risk

Business risk is defined as the risk of losses from changes in external conditions which influence banks, or incorrect assessments of the consequences of strategies adopted.

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

Examples of reasons are:

- Fierce price competition arising from 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.

The Group continually assesses this type of risk, and always when setting the solvency need.

Property risk

Property risk is defined as the risk of losses on the portfolio of properties, arising from a general drop in property prices.

A/S Arbejdernes Landsbank has a portfolio of its own owner-occupied properties of DKK 609 mill. and investment properties of DKK 55 mill.

The properties are primarily used for the operation of the Bank. In addition parts of individual properties are rented out as dwellings or as professional offices.

The properties are widely located throughout Denmark, although on the basis of carrying amount there is an overweight in Greater Copenhagen.

Owner-occupied properties are measured annually at 31 December to ”revalued amount” which is the fair value on the date of valuation.

Investment properties are measured at fair value according to the returns method.

Consolidation

A/S Arbejdernes Landsbank

Consolidation includes the subsidiary companies,

- AL Finans A/S
- Handels ApS Panoptikon,

which are both fully owned by A/S Arbejdernes Landsbank. There are no differences between the consolidation bases for accounting purposes, and consolidation is in accordance with part 12 of the Danish Financial Business Act.

The activities of subsidiary companies are based on funding from the parent company.

Alka Forsikring A/S and Bankernes EDB Central (BEC) are associates. These companies are not part of the consolidation.

Capital base

Table 25

Calculation of Group capital base as at 31 December 2011

	DKK '000
Share capital	300,000
Reserves	360,865
Retained earnings	2,310,154
Core capital	*2,971,019*
Proposed dividend	24,000
Intangible assets	10,992
Deferred tax assets	58,482
Core capital after primary deductions	*2,877,545*
Hybrid core capital	390,620
Core capital including hybrid core capital after primary deductions	*3,268,165*
50 per cent of capital requirement in associates, operating insurance business *)	46,026
50 per cent of equity investments >10 per cent in credit and finance companies **)	209,387
Core capital including hybrid core capital after dedeuctions	*3,012,752*
Subordinated debt	328,000
Revaluation reserves	186,241
Capital base before deductions	*3,526,993*
50 per cent of capital requirement in associates operating insurance business *)	46,026
50 per cent of equity investments >10 per cent in credit and finance companies **)	209,387
Capital base	*3,271,580*

**) Deduction according to section 28(1), no. 10 of the Executive Order on Calculation of Capital Base.*
***) Deduction according to section 28(1), no. 12 of the Executive Order on Calculation of Capital Base.*

The Group capital composition mainly consists of core capital. Thus core capital, including hybrid core capital less deductions accounts for 92 per cent of Group capital base at the end of 2011.

In 2011, the Bank issued hybrid core capital of DKK 400 mill., of which DKK 390.6 mill. has been sold. The hybrid core capital meets the requirements laid down in sections 10-12 of the Executive Order on Calculation of Capital Base.

Group deductions under "Equity investments >10 per cent in credit and financing companies" are primarily attributable to the Bank's ownership interest in LR Realkredit, which accounted for DKK 350.6 mill. of total deduction at the end of 2011 of which 50 per cent are deducted core capital.

Group deductions under "percentage of capital requirement in associates operating insurance business" are attributable to the Bank's ownership interest in Alka Forsikring A/S, which at the end of 2011, amounted to DKK 92.1 mill., of which 50 per cent are deducted from core capital.

Group revaluation reserves of DKK 186.2 mill. are attributable to value increases in the Bank's owner-occupied properties.

The Bank's capital base received of DKK 328 mill. matures on 3 December 2018 and may be redeemed before maturity on 1 December 2015. According to existing rules on capital adequacy, capital base can be included in full in the Group's capital statement up to and including 2 December 2015. The percentage is then reduced by 25 per cent per annum.

Solvency need

Model

An individual solvency need for both the Group and the Bank is set by Arbejdernes Landsbank.

A model is used, where the solvency need is built on the basis of 0 per cent, after which capital is allocated for each risk area. The total capital need is obtained by adding the capital need for each risk area. Thus the model takes no account of correlations between the individual risk areas.

The model is based on own data and risk assessments as far as possible. However, the Bank's historical database is limited, and therefore external data and methods for calculating risks are used to a large extent. In several risk areas, risk calculations have been made for own and external data/methods. The highest calculated risk is used in these cases.

Solvency need is calculated as the total capital need as a percentage of the weighted items calculated according to the provisions of the Executive Order on Capital Adequacy. Pursuant to the Executive Order on Capital Adequacy, the Bank calculates weighted items for both the Group and the Bank. The lowest calculated weighted items are used in the calculation of the solvency need.

This model was selected to ensure a high degree of prudence, clarity and transparency.

Adequate capital base and solvency need

Bank and Group solvency need calculated according to section 124(4) of the Financial Business Act is at 8.7 per cent. According to this provision, adequate capital base amounts to DKK 2,098.9 mill. Calculation of adequate capital base and solvency need can be broken down into the following categories:

Table 26
Adequate capital base and solvency need
as at 31 December 2011

	DKK '000	%
Capital to cover credit risk	1,074,665	4.4
Capital to cover market risk	740,860	3.1
Capital to cover operational risk	216,400	0.9
Capital to cover other risks	66,999	0.3
Adequate capital base/solvency need	*2,098,924*	*8.7*
Weighted items 31.12.2011	24,278,264	

Capital to cover credit risk

Capital to cover credit risk is calculated by stress testing the Group's loan and guarantee portfolio with the sector's historical worst case loss rates broken down into sectors. In some situations higher loss rates are used, when the Group's historical data indicates a higher risk. The average loss rate used is 2.9. A separate assessment of loss risk is also provided on unutilised credit facilities, weak exposures, large exposures, receivables from credit institutions, concentration of collateral and sectors as well as geographic concentration.

Capital to cover market risk

Capital to cover market risk is calculated on the basis of stress factors for market risk given by the Danish FSA for guidance. A separate assessment of loss risk is also provided on special bonds, liquidity risk, counterparty risk, settlement risk and share and interest-rate risk outside the trading portfolio.

Capital to cover operational risk

Capital to cover operational risk is equivalent to the solvency need according to the base indicator of the Executive Order on Capital Adequacy. The Group makes its own calculations of the operational risk, in part based on historical losses. These calculations show a significantly lower risk than the solvency requirement.

Capital to cover other risks

Capital to cover other risks includes assessments of capital requirements for growth, fluctuations in the level of earnings, strategic and reputation risks, concentration of customer segments and risk on own properties.

Process

Assessment of the solvency need is an integrated part of the Bank's routine budget process, in which the Board of Directors approves annually the Group budget and the solvency need. In addition, the budget and solvency need are adjusted and corrected every quarter, and this is also presented to the Board of Directors.

Preparation of the annual budget and solvency need as well as quarterly adjustment is a coordinated process in the Group with the Accounting Department, including the all risk reporting function as the coordinating unit.

Solvency requirement

The Group solvency ratio at the end of 2011 was 13.5 compared with 13.1 at the end of 2010.

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

- Standard method to calculate credit risk
- Standard method to calculate market risk
- Market value method to calculate counterparty risk
- Base indicator method to calculate operational risk
- Collateral in the form of securities in accordance with the extended method
- Collateral in the form of mortgages in real property and cash deposits with the bank

The solvency requirement according to column 1 (8 per cent of weighted items) was DKK 1,942.3 mill. at the end of 2011 against DKK 1,759.4 mill. the previous year.

According to legislation, as a minimum the Bank must have capital corresponding to the least of either the minimum statutory requirement of 8 per cent of risk-weighted items (solvency requirement), or the individual solvency need laid down by the Board of Directors. The Group has calculated its individual solvency need at 9 per cent, and this is therefore the basis for requirements for the size of the Group capital.

Table 27

Solvency requirement according to column 1 (8 per cent) broken down on exposure categories

	Solvency requirement 31.12.2011 DKK '000	Solvency requirement 31.12.2010 DKK '000	Solvency requirement, average *) 2011 DKK '000
Exposure categories:			
Items with credit risk etc.			
Exposures to credit institutions	31,937	48,364	39,765
Exposures to businesses, etc.	405,855	400,583	403,483
Exposures to retail customers	747,395	746,558	743,236
Exposures secured by mortgages in real property	57,769	54,166	54,750
Exposures in arrears	24,703	14,391	32,362
Exposures in other items	61,101	60,407	59,367
Group write-downs	-4,679	-5,319	-4,935
Total items with credit risk, etc.	***1,324,081***	***1,319,150***	***1,328,029***
Items with market risk			
Debt instruments, specific risk	188,334	145,374	164,742
Debt instruments, interest-rate risk	149,430	57,986	113,399
Position risk for shares	32,921	13,537	23,112
Position risk for collective investment schemes	14,188	6,463	14,375
Currency risk	16,907	17,020	14,884
Other items	0	860	172
Total items with market risk	***401,780***	***241,240***	***330,685***
Operational risk	216,400	199,045	202,516
Total solvency requirement	***1,942,261***	***1,759,435***	***1,861,230***
Capital base for meeting the solvency requirement	3,271,580	2,890,443	3,094,689

**) The average is calculated on the basis of reports to the Danish FSA in the period from 31 December 2010 to 31 December 2011.*

Exposure categories

Exposure categories calculated using the standard method for credit risk pursuant to section 9 of the Executive Order on Capital Adequacy. Exposures are stated after individual write-downs and before taking account of the effects of credit reductions.

Table 28

Development and average in 2011 for items with credit risk

	Average 2011 DKK '000	Status 31.12.2011 DKK '000	Status 30.09.2011 DKK '000	Status 30.06.2011 DKK '000	Status 31.03.2011 DKK '000	Status 31.12.2010 DKK '000
Eksposure categories:						
Exposures to central banks and central governments	158,047	147,619	431,251	66,381	39,306	105,681
Exposures to credit institutions	3,635,403	3,292,181	2,923,972	3,868,132	4,265,260	3,827,470
Exposures to businesses, etc.	7,115,700	7,063,458	7,128,928	6,994,552	7,139,651	7,251,914
Exposures to retail customers	15,978,594	15,894,424	16,014,248	15,923,151	16,045,670	16,015,476
Exposures secured by mortgages in real property	1,864,897	1,949,600	1,891,013	1,793,985	1,847,070	1,842,816
Exposures in arrears	322,855	249,900	404,989	543,098	265,193	151,094
Exposures in other items	1,069,351	1,094,072	1,015,559	1,032,326	1,112,747	1,092,050
Total items with credit risk etc.	*30,144,847*	*29,691,254*	*29,809,960*	*30,221,625*	*30,714,897*	*30,286,501*

Table 29

Balance-sheet items *), broken down by remaining term as at 31 December 2011

	Demand DKK '000	0-3 months DKK '000	3 months-1 year DKK '000	1-5 years DKK '000	Over 5 years DKK '000
Exposure categories:					
Exposures to central banks and central governments	80,488	3,064	1,272	62,664	7
Exposures to credit institutions	1,135	414,113	249,785	167,908	141
Exposures to businesses, etc.	1,359,047	363,641	1,341,088	781,527	524,301
Exposures to retail customers	432,755	2,836,694	1,404,602	4,333,364	2,584,480
Exposures secured by mortgages in real property	161,794	74,671	232,773	713,371	742,878
Exposures in arrears	75,868	31,910	42,279	55,567	15,251
Exposures in other items	458,021	26,934	0	0	609,117
Total items with credit risk etc.	*2,569,108*	*3,751,027*	*3,271,799*	*6,114,401*	*4,476,175*

**) Balance-sheet items are defined according to the provisions of the Executive Order on Capital Adequacy.*

Table 30

Sector breakdown of exposure category as at 31 December 2011

	Central govern-ments and central banks DKK '000	Institutions DKK '000	Enterprises DKK '000	Retail customers DKK '000	Mortgages in real property DKK '000	Arrears or overdrafts DKK '000	Other items DKK '000
Public authorities	*62,599*	*0*	*91,742*	*38,207*	*7,616*	*0*	*0*
Corporate							
Agriculture, hunting, forestry and fisheries	0	0	10,400	49,569	8,442	5,062	0
Manufacturing and extraction of raw materials	0	0	161,698	369,697	44,847	7,682	0
Energy	0	0	0	1,325	0	0	0
Building and construction	0	0	296,369	311,522	61,906	23,576	0
Retailers	0	0	419,473	720,087	53,251	29,321	0
Transport, hotels and restaurants	0	0	410,259	347,845	53,216	11,210	0
Information and communication	0	0	5,000	242,257	10,466	7,168	0
Credit and finance business as well as insurance business	80,809	3,292,181	2,600,198	149,244	24,423	5,092	475
Property administration, estate agency, and business services	0	0	1,000,829	905,670	327,095	37,668	0
Other corporate	0	0	1,728,076	951,651	161,328	51,739	0
Total corporate	*80,809*	*3,292,181*	*6,632,302*	*4,048,867*	*744,974*	*178,518*	*475*
Private	*4,211*	*0*	*339,414*	*11,807,350*	*1,197,010*	*71,382*	*0*
Other items	*0*	*0*	*0*	*0*	*0*	*0*	*1,093,597*
Total	*147,619*	*3,292,181*	*7,063,458*	*15,894,424*	*1,949,600*	*249,900*	*1,094,072*

Table 31

Credit-risk reduction broken down by exposure categories as at 31 December 2011

	Central govern-ments and central banks DKK '000	Institutions DKK '000	Enterprises DKK '000	Retail customers DKK '000	Mortgages in real property DKK '000	Arrears or overdrafts DKK '000	Other items DKK '000
Adjusted value of the collateral	0	783,108	204,624	102,604	6	22,292	0

AKTIESELSKABET
Arbejdernes Landsbank
CVR-nr. 31 46 70 12, København (Copenhagen)

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

advance.dk