Group Risk Report 2013

Arbejdernes Landsbank

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

Contents

Arbejdernes Landsbank

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" with the associated "Instructions for reporting to the Board of Directors of 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 and of the Board of Directors, where instructions on specific business decisions are specified, and other risks affecting the Bank are assessed.
- Meetings of the Risk and Balance Sheet Management Committee at which risk aspects are discussed.
- The frequent reports on results, business areas, financial ratios and relevant risk targets.

The Bank has an All Risk Reporting function under Financial, the purpose of which is to ensure that management receive relevant risk information about all the Bank's business activities. This function is to ensure that reporting at bank level is carried out consistently, promptly and frequently.

Through the Risk and Balance Sheet Management Committee which is represented by the Executive Management, All Risk and the individual risk-managing units, as well as on the basis of systemic reports by the Bank on risks for relevant business activities, the Bank is able to act in the event of changes in business developments, if required, and this also ensures that the 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 risk analysis function 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 Danish Financial Business Act, which stipulates a number of requirements for the Bank's liquidity, including stress tests. 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 at retail level on the extent of risks accepted for the period. Internal Risk Management and Control, and the credit risk analysis function refer directly to the Executive Management of the Bank.

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

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.

Finance Department monitors the operating financial developments arising from business decisions.

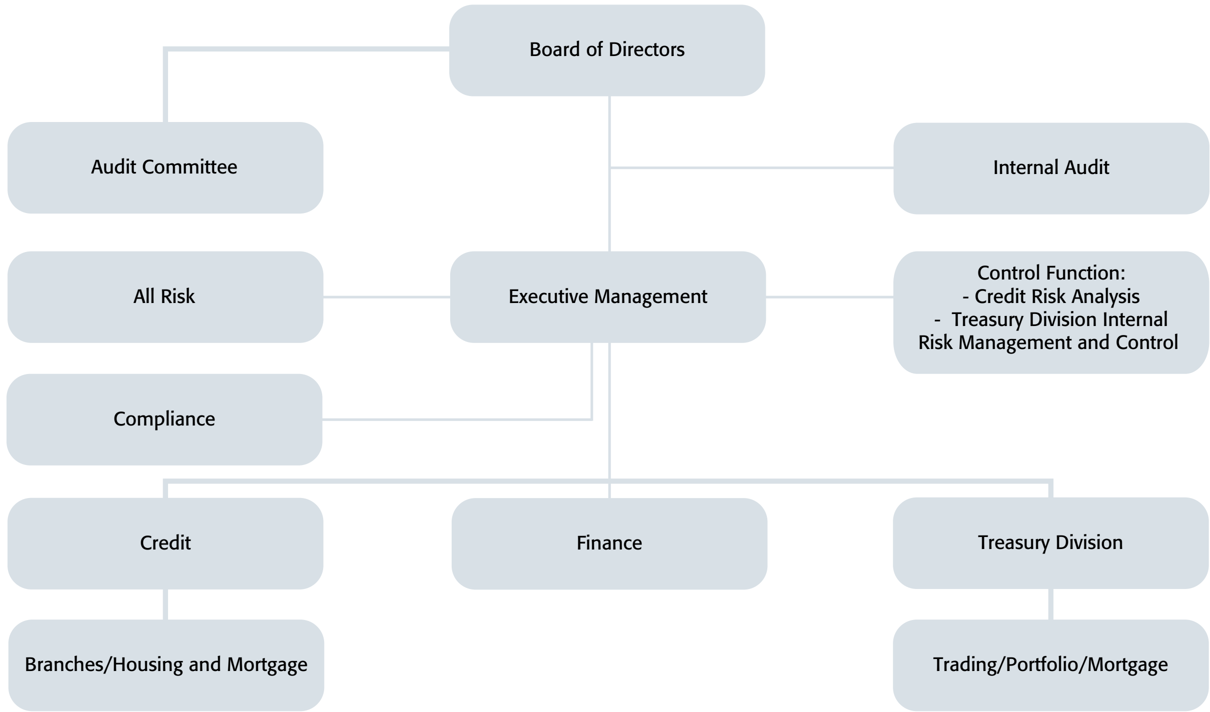
Bank funding is primarily from deposits, which remain larger than our lending. In order to satisfy our objective for excess coverage of the liquidity requirement mentioned in the Danish Financial Business Act, Bank funding is supplemented by liquidity from domestic and foreign cooperation partners.

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 Group's risks is carried out continuously in connection with the monthly All Risk reporting and in 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.

Organisation chart for risk management



Credit risk on loans to customers of the Bank

Credit risk is the risk that a counterparty is wholly or partly unable to, or fails 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 liabilities. The policy of the Bank is to enter into loan agreements with customers with the ability and willingness to make payments.

Credit risk is the largest risk item in the Bank's risk statement and amounted to 68% of the Bank's solvency requirement at the end of 2013 (70% at the end of 2012). The Bank has allocated the most funds to this item in order to meet unforeseen losses. The credit quality of the Bank's loan portfolio is still deemed to be very satisfactory, partly due to the well diversified loan portfolio. The following is a description of the Bank's practice at Credit and the composition of the loan portfolio.

Strategies and procedures to manage credit risks on loans to customers

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 the business customer area. 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 at Credit follows the guidelines in the Bank's credit policy and its strategy to measure, manage and report credit risks. The credit strategy functions as a link between the Bank's credit policy and procedures and internal control and provides in-depth treatment of individual areas within the Bank's credit policy approach to customer exposures, sectors and portfolio composition. Approval by the Bank of a loan or credit is given on the basis of an assessment of the customer's financial ability and willingness to manage the repayment terms of the claim. 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 assessment of the credit risk of individual customer exposures. The model is continuously being improved as it is important that the model is as fair and useful as possible. The rating classes are objective credit rating classes and these are used as a control tool in regular monitoring of exposures. The rating is based on point intervals in which customers are awarded points on the basis of customer data and their repayment behaviour. The rating classes are compatible with the credit rating categories of the Danish Financial Supervisory Authority. Rating classes are from 1-10, where rating 1 is the best and rating 10 is the poorest.

- Rating classes 1-3 are customers with exposures of good credit quality.
- Rating class 4 are customers with exposures of normal 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

- The Eurozone economy has moved forward from the recession and is expected to grow moderately, with private consumption and business investment as the most important driving forces for the progress in 2014.
- In recent years the bank crisis has had a negative influence on the macro-economy due to low lending activity, however the most recent lending surveys from the ECB suggest that the banks are currently relaxing their credit terms.
- Optimism is growing and the economies in the Euro countries have turned around, giving rise to hopes for increased lending activity in 2014.
- The Danish economy grew in the 2nd half year of 2013, although growth ended at a low level for the year as a whole and several financial ratios suggest only modest progress.
- In 2013 the number of bankruptcies in Denmark was the lowest since 2008, although still at a high level. There

was a slight decrease in the number of foreclosures in the housing market, and unemployment has been more or less stable since 2010.

- Danish consumer confidence is stable and interests are still historically low, which is helping support the housing market. Housing prices went up in the Greater Copenhagen area, but they are still decreasing in the more rural areas.

The outlook for the Danish economy in 2014 is relatively promising, and the Bank expects somewhat higher growth than in 2013. The outlook for growth in both the US and Europe is also better than it has been for a long time. The German economy is still strong, and this will support Danish exports and thus Danish enterprises. The loose European monetary policy will also support the Danish economy in 2014. The Danish National Bank interest rates are low, and both long-term and short-term rates on home loans are expected to stay low. This will help support the housing market. The Bank expects that the emerging optimism will have a positive influence on the Bank's loan portfolio in 2014 such that there will be signs of a general improvement compared with 2013.

The Bank's total exposure, expressed as gross loans and guarantees, as presented in the 2013 Financial Statements, has increased by about DKK 0.7 bn. compared with the end of 2012. This increase is primarily due to the Bank's takeover of three branches of Østjydsk Bank in the 2nd quarter of 2013. Net loans and guarantees at the end of 2013 also increased as a consequence of the increased gross exposures. However, this increase has been limited by increased write-downs and provisions in 2013, see table 1.

Table 1
The Bank's loans and guarantees before and after write-downs broken down by main customer segments

	Private 2013 DKK ,000	Business 2013 DKK ,000	Total 2013 DKK ,000	Total 2012 DKK ,000
Loans and guarantees				
Loans before write-downs	11,773,121	7,536,324	19,309,445	18,764,313
Guarantees before provisions	978,387	1,198,533	2,176,920	2,056,736
Total loans and guarantees before write-downs, etc.	*12,751,508*	*8,734,857*	*21,486,365*	*20,821,049*
Individual write-downs on loans	503,663	676,794	1,180,457	1,029,135
Groupwise write-downs on loans	54,634	22,580	77,214	48,007
Individual provisions for other guarantees	879	8,198	9,077	4,550
Group provisions for other guarantees	3,014	5,421	8,435	4,679
Total loans and guarantees after write-downs, etc.	*12,189,318*	*8,021,864*	*20,211,182*	*19,734,678*

Note: The figures are excluding loans to credit institutions. The breakdown into the "Private" and "Business" customer segments is based on the Bank's internal customer groupings. "Business" is including associations.

The Bank's portfolio has been organised in the main segments "Private" and "Business" and the breakdown follows the Bank's own criteria. Total gross loans and guarantees are still deemed as having satisfactory credit quality with a sound risk-spread in which 68% of gross loans and guarantees are in rating classes 1-4, which is at a par with the end of 2012, see tables 2 and 3.

Historically, the Bank's private portfolio has been relatively large compared with its business portfolio. At the end of 2013 the private portfolio accounted for 59% of the total loans volume. This is unchanged compared with the end of 2012. Viewed separately, the private as well as the business portfolio have a solid risk spread, in which 65% and 71% respectively of gross loans and guarantees are in rating classes 1-4, see tables 2 and 3.

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 tabel 18 on page 21.

Table 2
The Bank's loans and guarantees broken down by main customer segments and rating classes

	Private 2013 DKK ,000	Business 2013 DKK ,000	Total 2013 DKK ,000
Rating			
1	55,474	1,022,263	1,077,737
2	653,588	1,102,288	1,755,876
3	1,918,634	3,404,636	5,323,270
4	5,691,104	658,085	6,349,189
5	1,995,078	258,875	2,253,953
6	1,101,674	242,191	1,343,865
7	383,026	413,124	796,150
8	86,396	220,221	306,617
9	580,870	1,212,021	1,792,891
10	285,664	201,153	486,817
Total	*12,751,508*	*8,734,857*	*21,486,365*

Note: The calculation is based on gross loans and guarantees. The breakdown into the "Private" and "Business" customer segments is based on the Bank's internal customer groupings. 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

	Private 2012 DKK ,000	Business 2012 DKK ,000	Total 2012 DKK ,000
Rating			
1	325,822	1,141,117	1,466,939
2	707,016	1,219,148	1,926,164
3	1,793,894	974,612	2,768,506
4	5,217,967	2,897,842	8,115,809
5	1,996,717	380,213	2,376,930
6	939,165	265,024	1,204,189
7	358,135	175,704	533,839
8	94,029	324,948	418,977
9	485,955	1,072,626	1,558,581
10	272,267	178,848	451,115
Total	*12,190,967*	*8,630,082*	*20,821,049*

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

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.

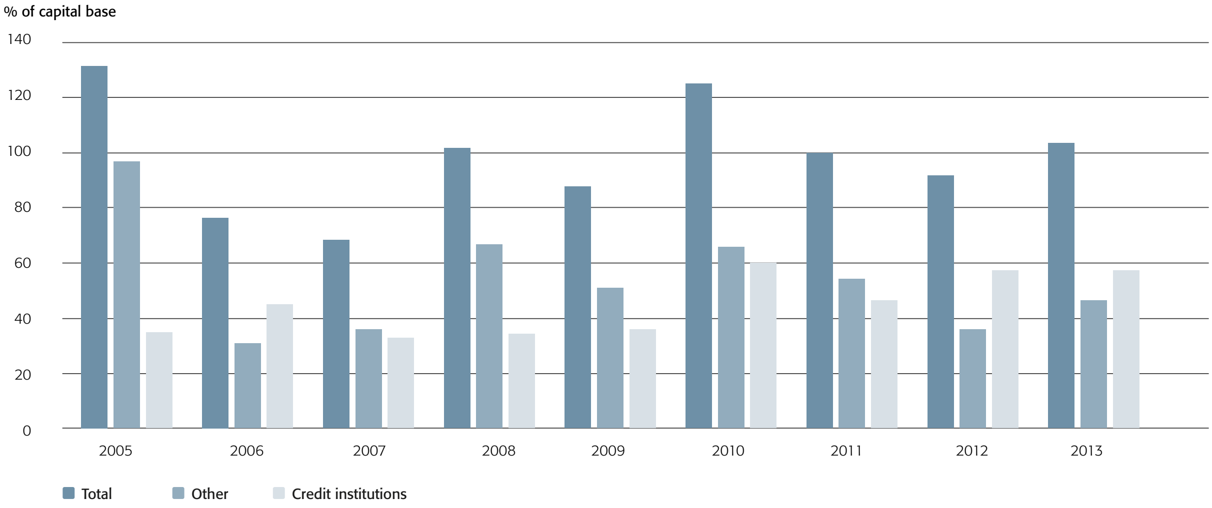
The financial ratio "Sum of large exposures", i.e. the sum of section 145 exposures after deductions, greater than or equal to 10% of the capital base, is calculated at 103.4% of the capital base at the end of 2013 at group level, including loans to credit institutions. This corresponds to an overall exposure totalling about DKK 4.1 bn, and this is an increase of DKK 0.7 bn. compared with the end of 2012.

The sum of large exposures excl. credit institutions, which individually exceed 10% of the Bank's capital base, increased in 2013 by 11.1 percentage points to 46.5%, spread over three exposures. However, the sum of large exposures for credit institutions is almost unchanged.

These exposures are in the intervals 11-21% 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", page 22.

The Bank's current and previous large exposures have primarily been loans to credit institutions, see figure 2, page 8.

Figure 2
Development in the financial ratio Sum of large exposures



Note: The figures have been calculated on the basis of reported values for the Group of section 145 exposures, after deductions greater than or equal to 10% of the capital base, and they comply with all relevant legislation.

Exposures over DKK 10 mill.

Section 145 customer exposures over DKK 10 mill., excl. credit institutions and loans to the Bank's subsidiaries, account for 23% of total gross loans and guarantees at the end of 2013, which is at par with the end of 2012. The loans are distributed between 115 section 145 customers. Section 145 customer exposures of more than DKK 100 mill. account for the largest share, amounting to 13% of the Bank's total loan portfolio, see table 4. Impairment of section 145 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 large customers with exposures of less than DKK 50 mill. Arrears on exposures between DKK 10 mill. and DKK 50 mill. account for a total of 23% of the Bank's overall arrears at the end of 2013. This is an improvement of eight percentage points compared to the end of 2012.The breakdown on gross loans and guarantees, write-downs and arrears on section 145 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	Write-downs on loans	Arrears	Number of section 145 customers
	DKK ,000	DKK ,000	DKK ,000	DKK ,000
Section 145 exposure intervals, end-2013				
DKK 10 - 25 mill.	633,328	145,428	3,487	61
DKK 25 - 50 mill.	940,724	155,293	16,593	32
DKK 50 - 100 mill.	439,012	18,499	405	7
> DKK 100 mill.	2,871,764	316,165	1,034	15
Total	*4,884,828*	*635,385*	*21,519*	*115*

Note: Write-downs include the sum of individual and groupwise write-downs and provisions. Arrears are calculated as in the notes to the financial statements on page 57 in the Annual Report. The figures are excluding loans to credit insitutions 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 Business", see table 5. A total of 60% of the loan portfolio on section 145 customer exposures of more than DKK 10 mill. belongs 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-2013				
Public authorities	0	30,509	0	30,509
Business				
Agriculture, hunting, forestry and fisheries	0	43,222	0	43,222
Industry and extraction of raw materials	137,415	3,554	26,003	166,972
Energy supply	0	0	0	0
Building and construction	192,525	48,654	82,260	323,439
Trade	228,544	24,795	70,271	323,610
Transport, hotels and restaurants	110,992	49,373	22,459	182,824
Information and communication	0	168	16,116	16,284
Financing and insurance	593,214	219,506	165,472	978,192
Real property	353,547	49,172	755,849	1,158,568
Other business	1,287,060	138,905	121,395	1,547,360
Total business	***2,903,297***	***577,349***	***1,259,825***	***4,740,471***
Private	41,994	24,811	47,043	113,848
Total	***2,945,291***	***632,669***	***1,306,868***	***4,884,828***

Note: The calculation is based on gross loans and guarantees. The sector breakdown is in accordance with section 93 of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. 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 "Business", and therefore the table is not comparable to the Bank's internal customer grouping into "Private" and "Business". The figures are excluding loans to credit institutions and excluding loans to the Bank's subsidiary companies.

Customer credit risks 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. Credit 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 Credit.

Figure 3 below shows the Bank's exposure on significant customer segments, measured as gross loans and guarantees at the end of 2013.The Bank is characterised by holding a lower share of "Business customers", a higher share of "Private customers with Housing cooperative" and a higher share of "Associations etc." than comparative banks. The breakdown of the portfolio is largely unchanged compared with the end of 2012.

Private customers

Exposures to "Private" are 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.

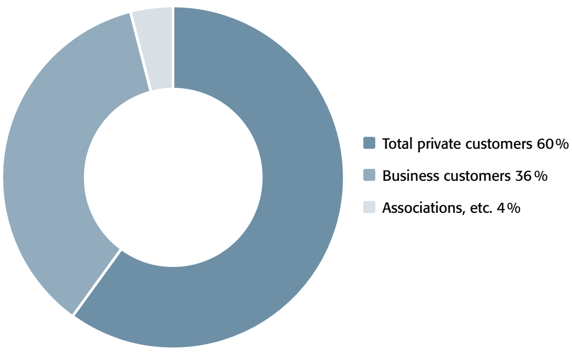
Creditworthiness of private customers is assessed on the basis of the customer's rating and an individual assessment of the customer's general financial situation, job situation, age, etc. The assessment is based on the customer's pay slips, annual tax returns, account behaviour, budgets and other knowledge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

In future the Bank will continue focusing on e.g. private customers who despite low interest rates still have problems paying off their debt, and customers who will not be able to satisfy their repayment obligations in the event of interest-rate rises. Furthermore, focus is on private customers with loans on which the non-repayment period will soon expire and who are also technically insolvent.

The exposure to the Bank's private customers is further broken down by customer segments, depending on the debtor's status on the housing market, see table 6, page 11 and table 8, page 12. Each of the three customer segments, "Customers with freehold property", "Customers with Housing cooperative" and "Customers with rented property" are managed according to separate guidelines as the terms of the loans, behaviour and risks in the segments are different. The segments "Freehold property" and "Housing cooperative" account for 53% of the Bank's overall loans at the end of 2013.

Figure 3

The Bank's loan portfolio broken down by customer segment measured by gross loans and guarantees at the end of 2013



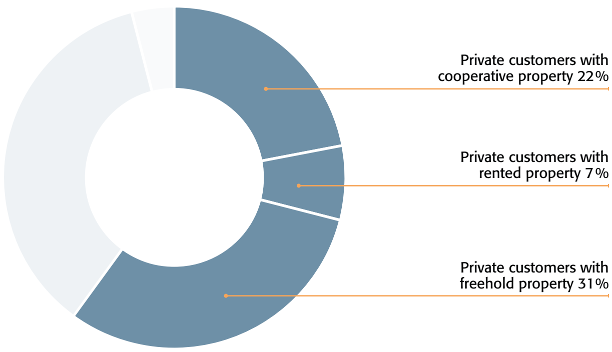


Table 6
Gross loans and guarantees, net loans and guarantees, collateral, unsecured part and arrears analysed by private customer segments "Freehold property", "Housing cooperative" and "Rented property"

	Freehold property DKK ,000	Housing cooperative DKK ,000	Rented property DKK ,000	Total DKK ,000
End-2013				
Gross loans and guarantees (before write-downs, etc.)	6,564,412	4,750,213	1,436,883	12,751,508
Net loans and guarantees (after write-downs, etc.)	6,256,820	4,673,323	1,259,175	12,189,318
Collateral	2,500,050	3,832,177	212,732	6,544,959
Unsecured part (%)	60%	18%	83%	46%
Arrears	31,902	4,729	9,012	45,643
Arrears in % of total arrears	38%	5%	10%	53%
Total loan rate	31%	22%	7%	60%

Note: Write-downs include individual and groupwise write-downs and provisions. Arrears are calculated as in the notes to the financial statements on page 57, in the Annual Report.

Loans for the private customer segment are largely concentrated in the best rating classes and smaller exposure intervals. Thus 63% of net loans and guarantees for the private customer segment are exposures of less than DKK 2 mill. with ratings 1-4, see table 7.

The Bank's collateral for the private segment mainly consists of mortgages in real property. Despite previous years' negative trends on housing markets and more cautious valuation by the Bank, the unsecured part 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 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-2013				
DKK 0 - DKK 500,000	2,973,784	1,570,167	105,680	4,649,631
DKK 500,000 - 2,000,000	4,677,079	1,695,523	162,109	6,534,711
DKK 2,000,000 - DKK 4,000,000	450,664	182,376	52,287	685,327
DKK 4,000,000 - DKK 10,000,000	172,791	57,890	29,895	260,576
DKK 10,000,000 - DKK 25,000,000	37,162	11,760	10,151	59,073
> DKK 25,000,000	0	0	0	0
Total	*8,311,480*	*3,517,716*	*360,122*	*12,189,318*

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

Table 8

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

	Rating 1-4 DKK ,000	Rating 5-8 DKK ,000	Rating 9-10 DKK ,000	Total DKK ,000
Privatkundesegmenter, ultimo 2013				
Freehold property	4,403,597	1,660,399	500,416	6,564,412
Housing cooperative	3,461,286	1,133,844	155,083	4,750,213
Rented property	453,917	771,932	211,034	1,436,883
Total	*8,318,800*	*3,566,175*	*866,533*	*12,751,508*

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

A. Customers with freehold property

Exposures to private customers owning freehold property amounted to 31% of the loan portfolio measured by gross loans and guarantees at the end of 2013, see figure 3, page 10. Equity in property has fallen as a result of previous years' falling freehold property prices, and a more cautious assessment by the Bank has increased the unsecured part. The unsecured part is still at a satisfactory level.

The number of customers with a weak capital base 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 freehold property market where prices have fallen the most and/or owners who are highly geared. There is only a relatively modest proportion of this type of customer.

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 real property.

Expiration of the non-repayment period for interest-only loans, unemployment for a long period and/or a long-term interest-rate increase are assessed to be the largest risks in this segment, as a large number of the customers have floating-rate loans. However, a large proportion of the floating-rate loans has an interest ceiling. The continued historically low interest rates are expected to largely compensate for any income drops in this customer segment. Repayment discipline for customers with freehold property was more or less unchanged in 2013 compared to 2012. This may be partly attributable to continued low interest rates. The credit quality of this segment is considered good and this is underpinned by the fact that 67% of gross loans and guarantees in the freehold property segment were in rating classes 1-4 at the end of 2013, see table 8.

B. Customers with Housing cooperative

Exposures to private customers with Housing cooperative are due to a legislative amendment in 2005 which makes it possible to take out a mortgage in Housing cooperative. The Bank's focus on this area meant that the share increased to 22% of the total portfolio, measured as gross loans and guarantees, see figure 3. The percentage of the overall portfolio is unchanged compared with the end of 2012. Given that the Bank saw overall growth in loans in 2013, in real terms there has been continued growth in loans in the Housing cooperative segment. The Bank's expectations for 2014 are continued growth in the housing area, including in the Housing cooperative segment.

The market for Housing cooperative is less transparent than that for freehold property, and there are significantly differing price-setting practices among Housing cooperative associations, so changes in prices for the Housing cooperative market continue to be difficult to assess. The increases traced in prices of freehold property in the Greater Copenhagen area in 2013 were more modest for Housing cooperative, as prices of Housing cooperative have not yet coupled up with the large increases in prices of freehold flats. The portfolio of loans for Housing cooperative 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 statutory 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.

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 Housing cooperative 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 Housing cooperative, there is a requirement that both prices per square meter and gross/net payments are as a minimum 20% less than comparable freehold properties.

Repayment discipline for 2013 improved compared with 2012. The Housing cooperative segment has the lowest arrears percentage measured in relation to the segment's share of lending, see table 6. Arrears in this segment account for just 5% of the Bank's overall arrears.In 2013 market values in the Housing cooperative segment were at a par with 2012 and therefore the unsecured part was largely unchanged. The credit quality of the Housing cooperative segment is still assessed as good, which is also reflected in the rating, where 72% of gross loans and guarantees in the segment were in rating classes 1-4 at the end of 2013, see table 8.

C. Customers with rented property

Exposures to private customers with rented property amounted to 7% measured by gross loans and guarantees at the end of 2013 and are therefore relatively less significant than for the freehold property and Housing cooperative 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 property 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. Repayment discipline is at par with the end of 2012 and so is the arrears percentage measured in relation to the segment's gross loans and guarantees. Credit quality in the segment is deemed poorer; 68% of gross loans and guarantees at the end of 2013 are in rating classes 5-10, see table 8. However, this is an improvement of two percentage points compared with the end of 2012.

Business customers

The exposure towards pure business customers was smaller compared with comparable banks.

In "Vision 2015", the Bank's strategy is to create sustainable growth within the business customer area. The business segment's percentage of total gross loans and guarantees at the end of 2013 was almost unchanged and accounted for 36%, see figure 3, page 10. Apart from a few larger business 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, page 23.

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 business exposures must be covered by collateral in the assets of the company and with personal guarantees from the business owner. Growth in loans in the business segment has contributed positively to this, as the overall unsecured part has dropped by two percentage points despite more cautious valuations and assessments of unsecured amounts. 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 advance guarantees of the necessary operating income to service the total indebtedness. The Bank only wants to participate in financing business which the Bank understands and is able to manage in relation to advisory services, and where the risk profile matches the Bank's credit policy. As a general rule, the Bank's policy is not to lend to fisheries and agriculture, as well as sectors and enterprises with which the Bank does not want to be compared in terms of ethics and politics.

Creditworthiness is assessed on the basis of a review of an enterprise's ability to service its debt commitments. The basis for approval includes the rating and strength profile of the enterprise as well as financial statements, budgets, business plans and insights into the business owner's private financial situation. The basis for processing and managing business customer exposures is described in the internal business procedures. The Bank's credit policy prepares the ground for business exposures also to be based on full customer relationships, including exposures of the Bank to the owner personally. This is done in order to provide the best possible advice, but also to maintain best overall financial insight into the Bank's exposures with customers.

Repayment discipline in the business segment has deteriorated since the end of 2012. Arrears in the segment account for 38% of the Bank's total arrears, which is a drop of ten percentage points. The arrears are at level with the lending share of the segment of 36%, see table 9. The drop is primarily due to overdrafts on already known risks.

Table 9
Gross loans and guarantees, net loans and guarantees, collateral, unsecured part and arrears analysed by business customer segments "Business" and "Associations"

	Business DKK ,000	Associations DKK ,000	Total DKK ,000
End-2013			
Gross loans and guarantees (before write-downs, etc.)	7,884,371	890,486	8,774,857
Net loans and guarantees (after write-downs, etc.)	7,167,569	854,295	8,021,864
Collateral	1,432,359	552,438	1,984,797
Unsecured part (%)	80%	35%	75%
Arrears	33,270	7,512	40,782
Arrears in % of total arrears	38%	9%	47%
Total loan rate	36%	4%	40%

Note: Write-downs include individual and groupwise write-downs and provisions. Arrears are calculated as in the notes to the financial statements on page 57 in the Annual Report. The figures are excluding loans to credit institutions.

Continued decreasing demand is still assessed to be the largest risk in this segment, as failing sales will typically lead to liquidity pressure on enterprises. Credit quality is still deemed to be good; at the end of 2013, 70% of the segment's gross loans and guarantees are in rating classes 1-4, see table 11, page 15.

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. The Bank has therefore specialised in credit rating in these segments. The Bank has worked regularly 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 4% of total gross loans and guarantees at the end of 2013, see figure 3, page 10. Repayment discipline in the associations segment improved in 2013, and arrears in this segment accounted for 9% of the Bank's total arrears. Moreover, the unsecured part was reduced to 35%. The credit quality of the portfolio is till deemed to be good; 82% of the segment's gross loans and guarantees are in rating classes 1-4, see table 11, page 15.

Apart from the percentage of large exposures, loans for the business customer segment have a good spread in size, with a smaller percentage in rating classes 9-10, see table 10, page 15.

Table 10

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

	Rating 1-4 DKK ,000	Rating 5-8 DKK ,000	Rating 9-10 DKK ,000	Total DKK ,000
Exposure intervals, end- 2013				
DKK 0 - DKK 500,000	84,186	139,909	8,741	232,836
DKK 500,000 - DKK 2,000,000	203,134	205,542	25,898	434,574
DKK 2,000,000 - DKK 4,000,000	185,812	131,958	26,820	344,590
DKK 4,000,000 - DKK 10,000,000	247,531	116,719	45,932	410,182
DKK 10,000,000 - DKK 25,000,000	397,335	161,955	111,305	670,595
> DKK 25,000,000	5,061,243	358,381	509,463	5,929,087
Total	*6,179,241*	*1,114,464*	*728,159*	*8,021,864*

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 business segments “Business”, “Associations” and rating classes

	Rating 1-4 DKK ,000	Rating 5-8 DKK ,000	Rating 9-10 DKK ,000	Total DKK ,000
Business customer segment, end-2013				
Business	5,458,088	1,030,836	1,355,447	7,844,371
Associations	729,184	103,575	57,727	890,486
Total	*6,187,272*	*1,134,411*	*1,413,174*	*8,734,857*

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

Systems for risk reporting, measurement and monitoring

The basis for credit rating is reassessed at least once a year for all larger exposures. Moreover, all exposures of more than 1% of the Bank’s capital base is reassessed once every quarter. In practice the basis is updated more frequently, for example in connection with ongoing contact with a customer.

Each quarter, the Board of Directors reviews the developments in the loan portfolio, providing a brief summary of the most significant risks and focus areas as well as a report describing developments. The report includes a description of loans balance, overdrafts, lending segments, sectors, migration between rating classes, etc. In addition, each month the Board of Directors reviews developments in the Bank’s monthly balance sheet and loans granted over a specific amount.

The quality of the overall portfolio is also assessed during the annual review of assets by Credit, 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 branches in order to prepare action plans and make calculations/assessments of any need for write-downs. Credit subsequently reviews the work of the branches.

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

Credit reviews are carried out by Credit. 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 groupwise write-downs.

Loans in arrears

The Bank's net lending in arrears is primarily concentrated to the consumer segment with only a short period of past due.

Table 12
Loans and guarantees in arrears by age and loan segment

	Freehold property	Housing cooperative	Rented property	Business	Associations	Total
	DKK ,000	DKK ,000	DKK ,000	DKK ,000	DKK ,000	DKK ,000
Days in arrears, end-2013						
1 - 30 days	629,676	427,128	76,497	570,385	42,652	1,746,338
31 - 60 days	29,546	14,190	5,105	6,202	151	55,194
61 - 90 days	38,323	9,821	7,327	37,957	0	93,428
91+ days	23,287	8,338	5,067	5,129	12	41,833
Total	*720,832*	*459,477*	*93,996*	*619,673*	*42,815*	*1,936,793*

Note: The calculation is based on the loans balance on customers in arrears, presented in the notes to the financial statements on page 57 in the Annual Report. The figures are excluding loans to credit institutions, but excluding the Bank's loans to subsidiary companies.

In terms of the sector breakdown for business customers, loans in arrears are mainly broken down by the sectors "Other business", "Real property", "Financing and insurance" and "Trade". Loans in arrears totalled 10% of the Bank's total net loans and guarantees at the end of 2013. Of this, loans more than 90 days in arrears accounted for 0.2%, see table 13.

The Bank has "early warning" lists, which are to reduce the number of customers with 90-days past due. 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 significantly reduced in the long term. On the basis of this, arrears on loans of more than 90 days have decreased considerably for business customers compared to the end of 2012, see table 13.

Table 13
Loans and guarantees in arrears 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-2013					
Public authorities	1,922	0	0	0	1,922
Business					
Agriculture, hunting, forestry and fisheries	47,361	3,191	0	0	50,552
Industry and extraction of raw materials	20,716	1,030	508	64	22,318
Energy supply	1,929	0	34	0	1,963
Building and construction	55,454	102	1,886	1,446	58,888
Trade	207,128	431	19,438	1,883	228,880
Transport, hotels and restaurants	64,226	401	394	2,051	67,072
Information and communication	15,174	7	0	1,565	16,746
Financing and insurance	163,267	0	14,244	0	177,511
Real property	58,819	2,596	0	33	61,448
Other business	126,287	3,022	4,770	2,766	136,845
Total business	***760,361***	***10,780***	***41,274***	***9,808***	***822,223***
Private	984,055	44,414	52,154	32,025	1,112,648
Total	***1,746,338***	***55,194***	***93,428***	***41,833***	***1,936,793***

Note: The calculation is based on the loans balance on customers in arrears, presented in the notes to the financial statements on page 57 in Annual Report. CPR-customers (Civil Registration System) with a sector code are grouped under the sectors for "Business". The figures are excluding loans to credit institutions.

Policies to hedge and reduce customer risks

The Bank uses all the options available to reduce risk, and these generally involve securing collateral in the assets that the Bank finances. The loan value of the collateral is based on a prudence principle, which is described in more detail in the Bank's procedures and internal controls. This implies that, for reasons of prudence, some assets are calculated at a reduced value, and therefore the real collateral value is significantly higher than the value calculated in tables 14 and 15.

Table 14
The Bank's collateral for private customers

	Freehold property	Housing cooperative	Rented property	Total 2013	Total 2012
	DKK ,000	DKK ,000	DKK ,000	DKK ,000	DKK ,000
Collateral for private customers, end-2013					
Net loans and guarantees					
Properties	2,190,165	3,809,982	69,723	6,069,870	6,020,791
Securities, bonds, cash deposits, etc.	70,279	2,789	17,226	90,294	111,018
Cars	173,311	14,630	105,901	293,842	307,300
Warrents and guarantees	2,187	55	10,247	12,489	13,453
Other collateral	64,108	4,721	9,635	78,464	78,828
Total	*2,500,050*	*3,832,177*	*212,732*	*6,544,959*	*6,531,390*

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

Table 15
The Bank's collateral for business customers

	Business	Associations	Total 2013	Total 2012
	DKK ,000	DKK ,000	DKK ,000	DKK ,000
Collateral for business customers, end-2013				
Net loans and guarantees				
Properties	984,992	166,798	1,151,790	1,256,499
Securities, bonds, cash deposits, etc.	169,197	340,862	510,059	341,949
Cars	23,853	0	23,853	23,482
Warrants and guarantees	0	0	0	3,307
Other collateral	254,317	44,778	299,095	95,650
Total	*1,432,359*	*552,438*	*1,984,797*	*1,720,887*

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

An assessment of the value of the collateral is a significant factor in determining the Bank's risks. When assessing Cash flows 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 Housing cooperative. Moreover cars and other chattels are used as collateral.
- Loans to business customers in owner-managed (limited) companies (A/S and Ltd.) 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 guarantees from members to pay fees, 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 breach, 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 Housing cooperative, properties make up the largest part of total collateral, see table 14, page 18.

The Bank does not use instruments such as credit default swaps or other types of insurance to hedge credit 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 recent years, the Bank's rating model has become an integrated part of credit management. The rating is an essential parameter in the selection of customers with 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 groupwise write-downs. The Bank's rating model is continuously being improved, as it is of the utmost importance that it is as fair as possible.

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

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

Furthermore, the Bank is represented in projects with Bankernes EDB Central (BEC), including projects on management and monitoring of credit risks. Moreover, the BEC is working on improving the reporting platform, a new notification platform to notify large exposures, as well as Basel III.

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. Financial and operating leases, primarily automobiles
3. Factoring

AL Finans has no automatic rating or scoring systems to assess credit risks, 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 in which 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 mortgaged asset, for which there are public catalogues to assess the asset value.

Furthermore, as in 2012, for 97% of the car loans portfolio an initial payment of 20% or more has been made, see table 16, page 20. Cars covered by the business strategy in AL Finans are relatively easily valued and sold. A total of 96% of the Bank's financed assets are automobiles, of which unsecured loans account for less than 1%. The credit quality is considered high and groupwise write-downs on customers in arrears have fallen from 2009 to 2013, particularly from 2012 to 2013 which can be attributed to the low credit margins.

Table 16
Breakdown of Initial payment percentages on car loans

	2013		2012	
	DKK ,000	%	DKK ,000	%
Repayment percentages on car loans				
0 - 9 %	28,026	2	23,781	2
10 - 19 %	9,583	1	8,131	1
20 - 29 %	1,290,943	77	1,095,433	76
30 - 39 %	213,210	13	180,919	13
40 - 99 %	126,198	7	107,086	8
Total	*1,667,960*	*100*	*1,415,350*	*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 when establishing the respective customer relationship, 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 2013, prices of used cars were pushed downwards by low prices for new small cars, while the situation was opposite for large cars. Overall prices for the assets of AL Finans are considered to be fairly stable. However, used car segments, in which AL Finans is be exposed, may see further price reductions. This will mean risk for AL Finans on cars returned after leasing (operating agreements) and on cars returned after defaults on both leasing and loan payments. A change in the registration fee may also affect AL Finans and have immediate and negative consequences regardless of whether there is a long “transitional period”.

In recent years, the number of cars returned has been falling, whilst the average loss per unit has been more or less stable, however slightly falling in 2013. Car prices have stabilised and a large part of the portfolio has been replaced in recent years and is thus geared for current prices. An increasing number of repayments of car loans is expected for 2014 due to the heavily increasing car-loan portfolio. Similarly the loss per car is expected to increase from DKK 25,000 to DKK 30,000, and therefore the Bank has budgeted with increasing write-downs in 2014.

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%, which in normal circumstances provides good cover for repayment obligations. Furthermore, a number of exposures have been hedged through guarantee insurance companies. Hedging amounts to about DKK 266 mill., corresponding to about 41% of outstanding debtor balances. Furthermore, the Bank has taken out crime insurance, which insures the entire Group against major losses due to fraud. 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 A/S

	2013			2012		
	Balance	Collateral	Number of customers	Balance	Collateral	Number of customers
	DKK ,000	DKK ,000		DKK ,000	DKK ,000	
Business activities, Private						
Car loans (debt instruments)	182,724	121,275	1,590	170,209	126,224	1,485
Car loans (purchase contracts)	1,411,715	1,374,643	13,344	1,182,638	1,146,311	11,286
Financial leasing	1,951	1,756	14	1,877	1,689	15
Operational leasing	8,401	7,561	66	5,802	5,222	43
Total	*1,604,791*	*1,505,235*	*15,014*	*1,360,526*	*1,279,446*	*12,829*

Note: Calculated mortgaging values of deposited collateral are according to the procedures for AL Finans.

Table 18
Loans before write-downs and breakdown of collateral in the business portfolio in AL Finans A/S

	2013			2012		
	Balance	Collateral	Number of customers	Balance	Collateral	Number of customers
	DKK ,000	DKK ,000		DKK ,000	DKK ,000	
Business activities, Corporate						
Car loans (debt instruments)	12,994	10,584	66	13,003	11,882	78
Car loans (purchase contracts)	60,526	60,227	360	49,500	48,927	307
Financial leasing	394,041	354,648	1,366	359,745	323,770	1,056
Operational leasing	99,419	89,478	267	113,258	101,932	258
Factoring	656,461	654,977	199	612,131	612,131	168
Total	***1,223,441***	***1,169,914***	***2,258***	***1,147,637***	***1,098,642***	***1,885***

Note: Calculated mortgaging values of deposited collateral are according to the procedures for AL Finans.

Credit risk on credit institutions

General conditions

The internal instructions on segregation of responsibilities (*"Instruks for arbejdsfordelingen mellem bestyrelsen og direktionen i A/S Arbejdernes Landsbank"*) contain guidelines for managing counterparty risks as well as delegation 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 their 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. Authorisations of frameworks are also based on the same principles as mentioned 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 the Bank 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. This analysis work is carried out by Credit.

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

Follow-up work is performed at management level in the Bank, and Credit 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 Bank's management group and they are subject to more rigid internal regulations on speculation.

Ordinary undisclosed financial frameworks (Credit Lines):

This type of exposures with financial counterparties are mainly granted for trading, money market deposits and acquisition of bonds.

The exposures are granted on the basis of two criteria which have to be met simultaneously:

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. 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 by the Bank's management.

Grants of credit lines to credit institutions are decided collaboratively between the head of the Credit 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 receivables (share capital and capital base). As a rule, the Bank's policy is not to provide loans in the form of capital base to credit institutions. On the basis of this, risk is assessed to be limited.

The Bank is exposed to a small number of 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 impaired receivables is pursuant to sections 51-54 of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

Write-downs and provisions and losses recognised in the income statement in 2013 amounted to DKK 278 mill. against DKK 286 mill. in 2012, see table 19.

The calculations in tables 19 and 20 include credit institutions.

After this, Group accumulated write-downs and provisions amounted to DKK 1,301 mill. at the end of 2013 versus DKK 1.121 mill. in 2012. Write-downs/provisions on the "Real Estate" sector are related to individual large exposures of the Bank which are all monitored closely. The continued high level of write-downs/provisions is primarily due to societal trends as well as increased requirements from the Danish Financial Supervisory Authority. For 2014 the Bank expects that total write-downs and provisions will be reduced compared with 2013.

Table 19
Sector breakdown for impaired receivables, including groupwise write-downs and group provisions, at the end of 2013 (Group)

	Exposures	Exposures which have been written down/ provided	Write-downs/ provisions	Write-downs/ provisions and losses recog-nised in 2013
	DKK ,000	DKK ,000	DKK ,000	DKK ,000
Public authorities	33,930	119	1	10,737
Business				
Agriculture, hunting, forestry and fisheries	81,891	16,640	1,591	(509)
Industry and extraction of raw materials	749,328	201,846	25,325	(16,589)
Energy supply	5,375	767	24	(22)
Building and construction	628,566	257,300	68,727	(4,606)
Trade	1,253,195	478,393	104,331	(37,538)
Transport, hotels and restaurants	496,683	216,008	49,706	(1,262)
Information and communication	182,270	93,431	12,747	(4,578)
Financing and insurance	3,494,209	422,300	159,454	(12,965)
Real property	1,160,932	1,048,284	301,391	(24,521)
Other business	2,426,055	491,658	107,207	(43,509)
Total business	***10,478,504***	***3,226,627***	***830,503***	***(146,100)***
Private	12,906,504	4,721,228	470,313	(142,739)
Total	***23,418,938***	***7,947,974***	***1,300,817***	***(278,101)***

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

Table 20
Changes in impaired receivables (Group), 2013

	Individually written down, credit institu-tion	Individually writ-ten down loans and other items with credit risk	Individually provided guarantees	Group written down loans and other items with credit risk	Group provided guarantees
	DKK ,000	DKK ,000	DKK ,000	DKK ,000	DKK ,000
Accumulated write-downs/provision brought forward on loans and guarantee debtors	17,252	1,045,652	4,550	48,581	4,679
Write-downs/provisions during the year	0	494,659	5,429	49,791	4,046
Reversal of write-downs	0	302,123	903	24,042	290
Other movements	0	52,538	0	2,916	0
Actual loss (written off) previously individually written down/provided	0	101,919	0	0	0
Accumulated write-downs/provisions brought forward on loans and guarantee debtors	17,252	1,188,807	9,076	77,246	8,435
Actual loss (written off) not previously individually written down/provided	0	20,052	0	0	0
On previously written off claims	0	11,126	0	0	0

Note: The calculation is made according to note 13 in the financial statements on page 70 in the Annual Report.

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, end-2013

	Nominal value DKK '000	Net market value DKK '000	Net market value DKK '000	Negative market value DKK '000
Currency contracts				
Spot transactions, purchase	26,800	-24	52	76
Spot transactions, sale	3,000	15	31	16
Forward transactions/Futures, purchase	142,046	4,381	4,391	10
Forward transactions/Futures, sale	7,050,551	-4,334	4,531	8,865
Options, acquired	138,968	-10	41	51
Options, issued	18,900	0	0	0
Currency swaps				
Interest-rate contracts	153,968	-12	35	47
Spot transactions, purchase	11,649	83	106	23
Spot transactions, sale	302,700	-1,677	118	1,795
Forward transactions/Futures, purchase	10,328,385	45,787	45,794	7
Forward transactions/Futures, sale	149,206	-1,000	0	1,000
Options, issued	200,000	-3,002	0	3,002
Swaptions	3,903,610	-57,853	14,910	72,763
Interest-rate swaps				
Share contracts	40,678	594	902	308
Spot transactions, purchase	46,803	-577	330	907
Spot transactions, sale	44	-422	0	422
Total	*22,517,308*	*-18,051*	*71,241*	*89,292*

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 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 as well as volatility. 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 the 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 upwards. 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 and EUR.

Table 22
Group interest-rate risk at the end of the year

	2013 DKK '000	2012 DKK '000
Broken down by modified duration (D)		
0 < D <= 3 mths.	26,564	15,454
3 < D <= 6 mths.	3,320	9,186
6 < D <= 9 mths.	7,235	2,590
9 < D <= 12 mths.	4,069	7,373
1 < D <= 2 years	-190,486	54,088
2 < D <= 3.6 years	33,756	-98,687
3.6 years < D	49,402	-24,960
Total	*-66,140*	*-34,956*
Broken down by currency		
DKK	47,143	36,621
EUR	-111,048	-76,264
USD	-8,199	610
GBP	2,584	1,523
SEK	1,843	1,122
NOK	1,482	1,452
Other currencies	55	-20
Total	*-66,140*	*-34,956*

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. Share options are included at the delta value.

Sensitivity to general changes in the share 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% would lead to a loss of DKK 41.7 mill. However, investment securities are more specifically affected by developments in the individual companies, which cannot be assumed to be influenced correspondingly by market fluctuations.

Currency 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, but which reflect changes in the market's pricing of credit bonds compared with instruments with significantly less credit risk.

In recent years, as a consequence of attractive prices in relation to investments in for example government bonds, credit bonds have become increasingly more important to the Bank's bond portfolio. Naturally, this has given rise to increased focus on risk monitoring in this area.

Credit bonds are included in the trading portfolio and are recognised at fair value in the financial statements. The limitation in the credit-risk spread results in regular balancing of the portfolio with regard to the risk assessment.

Currently, DKK 1.5 bn., corresponding to 11% of the total bond portfolio has been invested in a very diversified portfolio of corporate bonds. Interest rate sensitivity represents DKK 71.3 mill., mainly in DKK and EUR bonds.

Investment in bonds issued by banks represents DKK 3.5 bn. and 27% of the Bank's total bond portfolio. Interest rate sensitivity represents DKK 88.5 mill., mainly in banks with a BBB+ rating or higher and focused on EUR bonds issued by banks.

Table 23
Bond portfolio by rating

Rating	2013	2012
AAA	39%	50%
AA+, AA, AA-	2%	2%
A+, A, A-	17%	13%
BBB+	11%	8%
BBB	11%	2%
BBB-	0%	2%
Rating < BBB-	5%	7%
Not rated	15%	16%
Total	*100%*	*100%*

Figure: Distribution according to the S&P rating scale based on the S&P ratings or ratings from Moody converted to corresponding ratings in the S&P scale.

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. Internal Risk Management monitors how much of the individual frameworks are used by the position takers and reports directly to the Executive Management.

The Bank's market risks are a result of customer trading or arise from the Bank's position-taking on the basis of tactical and strategic assessments of market developments. Risks can also arise 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. Reports are made to the Executive Management in connection with breaches.

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 key figures, stress tests of the holdings are also performed occasionally.

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 its 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% in relation to the 10% and 15% stipulated in section 152 of the Danish Financial Business Act. Liquidity is 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 there must be excess cover of at least 75% 12 months ahead.

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.

The Bank has begun to prepare its liquidity management for the new regulations in the CRD IV Directive regarding LCR and NSFR.

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 is part of the Treasury Division's daily calculations of the Group's overall interest-rate risk and it is managed within set limits. To some extent, and where the interest-rate risk is modest, the risk is not calculated on a daily basis, but is included in the overall calculation with previously calculated risks.

There are mainly risks in DKK with short duration. Some large business activities are hedged separately in terms of interest-rate risk.

Shares 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 24
Shares outside the trading portfolio:

	2013 DKK '000	2012 DKK '000
Fair value carried forward	651,383	631,915
Realised capital gains in the income statement	577	2,716
Unrealised capital gains in the income statement	10,136	16,832
Net purchase *)	102,543	-80
*Total fair value brought forward **)*	*764,639*	*651,383*

*) In 2013 the Bank acquired DKK 85.0 mill. worth of shares in DLR Kredit.

**) Of which, DKK 411.7 mill. amount to more than 10% in the given companies. This amount has been deducted in the calculation of the Group's capital base, and 50%, corresponding to DKK 205.9 mill. has been deducted from the core capital.

Holdings in sector companies are unlisted and are valued at fair value. The percentage of listed shares amounted to DKK 20.2 mill. at the end of 2013 against DKK 0.0 mill. at the end of 2012.

Operational risk

Table 25
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 assessed by the individual business areas.

Reports from Internal Audit 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 are 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 691 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

Both are 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.

Forsikrings-Aktieselskabet ALKA and Foreningen Bankernes EDB Central are associates. These companies are not part of the consolidation.

Capital base

Table 26
Calculation of Group capital base

	2013 DKK '000	2012 DKK '000
Share capital	300,000	300,000
Reserves	569,405	476,160
Retained earnings	2,852,577	2,627,460
Core capital	***3,721,982***	***3,403,620***
Proposed dividend	60,000	105,000
Intangible assets	43,894	11,897
Deferred tax assets	5,811	10,887
Core capital after primary deductions	***3,612,277***	***3,275,836***
Hybrid core capital	397,950	392,951
Core capital including hybrid core capital after primary deductions	***4,010,227***	***3,668,787***
50% of capital requirement in associates, operating insurance business *)	45,643	43,939
50% of equity investments > 10% in credit and financing companies **)	236,552	223,119
Core capital including hybrid capital after deductions	***3,728,032***	***3,401,729***
Subordinated debt	328,000	328,000
Revaluation reserves	207,378	203,593
Capital base before deductions	***4,263,410***	***3,933,322***
50% of capital requirement in associates, operating insurance business *)	45,642	43,939
50% of equity investments > 10% in credit and financing companies **)	236,552	223,119
Capital base	***3,981,216***	***3,666,264***

*) Deductions according to section 31(1), no. 10 of the Danish Executive Order on Calculation of Capital Base.

**) Deductions according to section 31(1), no. 12 of the Danish Executive Order on Calculation of Capital Base.

The Group capital composition mainly consists of core capital, of which the actual core capital after primary deductions accounts for 91%.

The Bank has issued hybrid core capital of DKK 400 mill., of which DKK 2 mill. continues to be in the Bank's own portfolio. The hybrid core capital meets the requirements laid down in sections 10-12 of the Danish Executive Order on Calculation of Capital Base.

Group deductions under "Equity investments > 10% in credit and financing companies" are primarily attributable to the Bank's ownership interest in LR Realkredit, which accounted for DKK 355.9 mill. of the total deduction at the end of 2013, of which 50% has been deducted from 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 2013, amounted to DKK 91.3 mill., of which 50% has been deducted from core capital.

Group revaluation reserves of DKK 207.4 mill. are attributable to value increases on the Bank's owner-occupied properties.

The subordinated debt of DKK 328 mill. was redeemed before maturity in January 2014 in connection with a new issue of hybrid core capital of DKK 429 mill.

Solvency need

Model

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

The 8+ model is utilised, which is based on an assumption that the minimum capital requirement of 8% of the Risk weighted assets (Pillar I requirement) covers the normal risks. In addition, supplementary capital requirements for risk areas are calculated if they are deemed not to be covered by the 8% requirement. The total capital need is obtained by adding the capital need according the 8% model and the supplementary capital requirements.

The model is based on the "Guidelines on adequate capital base and solvency need for credit institutions" from the Danish Financial Supervisory Authority.

Solvency need is calculated as the total capital need as a percentage of the weighted items calculated according to the provisions of the Danish 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 Group's weighted items are used in the calculation of the solvency need.

Adequate capital and solvency need

Bank and Group solvency need calculated according to section 124(4) of the Danish Financial Business Act is 9.4%. According to this provision, adequate capital base amounts to DKK 2,500.4 mill. Calculation of adequate capital base and solvency need can be broken down into the following categories:

Table 27
Adequate capital base and solvency need as at 31 December 2013

	DKK '000	%
Capital to cover credit risk	1,661,565	6.2
Capital to cover market risk	580,004	2.2
Capital to cover operational risk	258,793	1.0
Capital to cover other risks	0	0.0
Adequate capital base/solvency need	*2,500,361*	*9.4*
Weighted items	26,706,474	

Capital to cover credit risk

Capital to cover credit risk is calculated as 8% of the weighted items relating to credit risk plus supplementary capital to cover the following special risks:

- Concentration risk on large exposures.
- The Section 145 limit for large exposures, see the Danish Financial Business Act.
- Customers with financial problems.
- Receivables from credit institutions.
- Concentration risk on sectors.
- Concentration of collateral.
- Geographical concentration.

Capital to cover market risk

Capital to cover market risk is calculated as 8% of the weighted items relating to market risk plus supplementary capital to cover the following special risks:

- Interest-rate risk outside the trading portfolio.
- Liquidity risks.
- Market risks which exceed the benchmarks set in guidelines from the Danish Financial Supervisory Authority.

Capital to cover operational risk

Capital to cover operational risk is equivalent to the solvency need according to the base indicator of the Danish 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 the level of earnings, growth in lending, as well as other aspects, including statutory requirements.

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 Financial, including All Risk Reporting as the coordinating unit.

Solvency requirement

The Group solvency ratio at the end of 2013 was 14.9% compared with 14.6% at the end of 2012.

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 pillar I (8% of weighted items) was DKK 2,136.5 mill. at the end of 2013 against DKK 2,009.7, mill. at the end of the previous year.

According to legislation, as a minimum the Group 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 9.4%, and this is therefore the basis for requirements for the size of the Group capital.

Table 28
Solvency requirement according to pillar I (8%)

	Solvency requirement 31.12.2013 DKK ,000	Solvency requirement 31.12.2012 DKK ,000	Solvency requirement Average *) 2013 DKK ,000
Items with credit risk etc.			
Exposures to credit institutions	42,847	50,675	47,568
Exposures to businesses, etc.	396,517	404,829	408,977
Exposures to retail customers	847,431	779,884	815,375
Exposures secured by mortgages in real property	51,031	56,433	56,509
Exposures in arrears	8,326	34,928	32,457
Exposures in other items	81,039	63,558	69,579
Groupwise write-downs	-6,854	-4,261	-4,984
Total items with credit risk, etc.	***1,420,337***	***1,390,307***	***1,430,464***
Items with market risk			
Debt instruments, specific risk	227,695	235,487	227,880
Debt instruments, interest-rate risk	153,569	93,551	135,924
Position risk for shares	43,180	33,940	40,285
Position risk for collective investment associations	19,678	14,744	18,748
Currency risk	13,267	8,951	11,334
Other items	0	0	0
Total items with market risk	***457,389***	***386,673***	***434,172***
Operational risk	258,793	232,758	237,965
Total solvency requirement	***2,136,519***	***2,009,738***	***2,102,601***
Capital base for meeting the solvency requirement	3,981,216	3,666,264	3,703,739

*) The average is calculated on the basis of reports to the Danish FSA in the period from 31 December 2011 to 31 December 2012.

CRD IV

The Group has made an assessment of the consequences of complete phase-in of the CRD IV regulations stipulating regular tightening of capital requirements and the quality of capital in the period up until 2019. This assessment is based on the solvency ratio as at the end of 2013 adjusted for redemption of a subordinate loan of DKK 328 mill., as well as the issue of new hybrid capital of DKK 429 mill. The solvency ratio of 15.3% after such adjustments is subsequently stressed according to a worst case scenario which will result in a fall of around 1.0 percentage point. More rigorous deduction regulations for equity investments in insurance companies in particular influence the Group negatively.

Exposure categories

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

Table 29
Development and average for items with credit risk

	Average 2013 DKK '000	Status 31.12.2013 DKK '000	Status 30.09.2013 DKK '000	Status 30.06.2013 DKK '000	Status 31.03.2013 DKK '000	Status 31.12.2012 DKK '000
Exposures to central banks and central governments	706,669	317,062	771,570	1,584,034	480,963	379,714
Exposures to credit institutions	3,245,122	3,069,871	3,112,712	2,854,416	3,262,359	3,926,254
Exposures to business, etc.	7,022,871	6,697,621	6,957,491	7,543,780	6,691,698	7,223,764
Exposures to retail customers	17,407,816	18,270,216	17,756,542	17,996,570	16,844,326	16,171,424
Exposures secured by mortgages in real property	1,909,625	1,753,103	2,012,031	2,003,468	1,886,889	1,892,634
Exposures in arrears	325,694	94,051	360,570	271,666	526,301	375,884
Exposures in other items	1,228,423	1,401,797	1,201,966	1,156,038	1,211,539	1,170,777
Total items with credit risk	*31,846,220*	*31,603,721*	*32,172,882*	*33,409,972*	*30,904,075*	*31,140,451*

Table 30
Balance-sheet items *) by remaining term as at 31 December 2013

	On demand DKK '000	0-3 months DKK '000	3 months - 1 year DKK '000	1 - 5 years DKK '000	Over 5 years DKK '000
Balance-sheet items*) broken down by remaining term					
Exposures to central banks and central governments	313,748	375	1,011	1,825	28
Exposures to credit institutions	823,821	8,273	104,162	8,125	13,000
Exposures to business, etc.	1,425,519	465,754	1,123,264	1,104,122	157,295
Exposures to retail customers	352,379	981,671	1,641,387	6,296,955	3,841,142
Exposures secured by mortgages in real property	47,933	78,741	154,487	822,067	603,558
Exposures in arrears	17,160	3,864	9,148	31,234	12,298
Exposures in other items	1,337,919	63,878	0	0	0
Total balance-sheet items	*4,318,479*	*1,602,556*	*3,033,459*	*8,264,328*	*4,627,321*

Balance-sheet items are defined pursuant to the Executive Order on Capital Adequacy.

Table 31
Sector breakdown of exposure categories at at 31 December 2013

	Central governments 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	Total DKK '000
Public authorities	5,811	0	70,000	3,475	0	0	0	79,286
Business								
Agriculture, hunting, forestry and fisheries	0	0	75,372	44,208	6,990	0	0	126,570
Industry and extraction of raw materials	0	0	442,776	396,338	38,430	1,359	0	878,903
Energy supply	0	0	0	8,187	392	0	0	8,579
Building and construction	0	0	502,239	398,050	58,262	9,319	0	967,870
Trade	0	0	558,317	835,038	58,539	11,505	0	1,463,399
Transport, hotels and restaurants	0	0	287,492	355,371	39,378	5,756	0	687,997
Information and communication	0	0	23,201	192,150	7,168	2,863	0	225,382
Financing and insurance	310,446	3,069,871	1,888,952	106,658	16,664	710	0	5,393,301
Real property	0	0	864,642	806,581	187,758	152	0	1,859,133
Other business	0	0	1,775,272	1,172,391	182,374	8,495	0	3,138,532
Total corporate	***310,446***	***3,069,871***	***6,418,263***	***4,314,972***	***595,955***	***40,159***	***0***	***14,749,666***
Private	805	0	209,358	13,951,769	1,157,148	53,892	70,118	15,443,090
Other items							1,331,679	1,331,679
Total	***317,062***	***3,069,871***	***6,697,621***	***18,270,216***	***1,753,103***	***94,051***	***1,401,797***	***31,603,721***

Table 32
Credit risk reduction as at 31 December 2013

	Central governments and central banks DKK '000	Institutions DKK '000	Enterprises DKK '000	Retail cus-tomers DKK '000	Mortgages in real property DKK '000	Arrears or overdraft DKK '000	Other items DKK '000	Total DKK '000
Adjusted value of the collateral	0	1,431,899	427,362	115,194	517	1,108	0	1,976,080

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