Group Risk Report 2014

Arbejdernes Landsbank

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

Group Risk Report 2014 for Arbejdernes Landsbank

Contents

Arbejdernes Landsbank

Overall risk management

According to Article 435(1) of the CRR Regulation, the Group shall publish

- the strategies and processes which form the basis for risk management
- the structure and organisation of risk management
- the scope and nature of risk management
- the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

Thus, the aim of the Group Risk Report is to provide an insight into the internal risk management of Arbejdernes Landsbank, and the Group's method of reviewing and managing risks in the underlying risk organisation.

Arbejdernes Landsbank's strategy regarding risk assumption is 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 the overall structure of risk management at Arbejdernes Landsbank is as follows:

- Written instructions from the Board of Directors, including "Instructions for segregation of responsibilities between the Board of Directors and the Executive Management of Aktieselskabet Arbejdernes Landsbank" (Instruks for arbejdsfordelingen mellem bestyrelsen og direktionen i Aktieselskabet Arbejdernes Landsbank) with the associated "Instructions for reporting to the Board of Directors of Aktieselskabet Arbejdernes Landsbank" (Instruks for rapportering til bestyrelsen i Aktieselskabet Arbejdernes Landsbank),
- An Audit and Risk Committee established by the Board of Directors which assesses whether the Bank'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 Finance, 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 is carried out consistently, promptly and frequently.

The Bank systematically reports on risks for relevant business activities in order to be able to act in the event of changes in business developments, if required, and to ensure 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 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.

Financial 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.

Management declaration

Pursuant to Article 435(1) of the Capital Requirements Regulation (CRR), on 17 February 2015 the Board of Directors and the Executive Management of Aktieselskabet Arbejdernes Landsbank approved the following declarations:

"The Board of Directors assesses that the risk management arrangements of the Bank and the Group are adequate and provide assurance that the risk management arrangements put in place are adequate with regard to the profile and strategy of the Bank and the Group.

The Board of Directors assesses that the description below of the Bank and the Group's overall risk profile associated with the business strategy, business model and financial ratios provides a relevant and comprehensive view of the risk management, including how the risk profile interacts with the risk tolerance set by the Board of Directors.

The assessment by the Board of Directors was carried out on the basis of the business model and strategy adopted by the Board of Directors, material and reporting presented to the Board of Directors by the Bank's Executive Management, internal audit function, the Bank's head of risk management and head of compliance as well as on the basis of any supplementary information or statements.

A review of the business model and policies shows that the overall requirements of the business model for the individual risk areas are fully and adequately implemented in the more specified limitations of the individual policies.

A review of the Board of Directors' guidelines for the Executive Management and authority transferred shows that the limitations laid down in the individual policies are fully and adequately implemented in the underlying guidelines to the Executive Management and authority transferred, and that the actual risks are within these limitations laid down in the individual policies and in the authority transferred.

Thus the Board of Directors assesses that business model, policies, guidelines and the actual risks within the individual areas of activity are in alignment.

The Group's business strategy arises from our vision and values with the objective to be a strong and attractive cooperation partner for private and business customers within our market area. The Group aims at profitable earnings based on product pricing which reflects the risk and the capital commitments accepted by the Group as well as an overall assessment of the scope of business with customers and counterparties. The Group aims to maintain an appropriately robust capital base which support the business model.

The Group's objective is that the solvency-related excess liquidity at Bank-level as well as Group-level with regard to the calculated solvency need must amount to at least 2.5 percentage points + the phasing-in requirement which applies to the capital preservation buffer up to 2019; i.e. excess liquidity of 5.0 percentage points in 2019. The excess liquidity is currently 6.2 percentage points.

The maximum risk tolerance decided by the Board of Directors is controlled via the limits laid down in the individual policies.

Moreover, the Board of Directors complies with the limits applicable in the supervisory diamond, see the table below, which shows the maximum limit values allowed by the supervisory diamond and the Bank's current figures for these limit values."

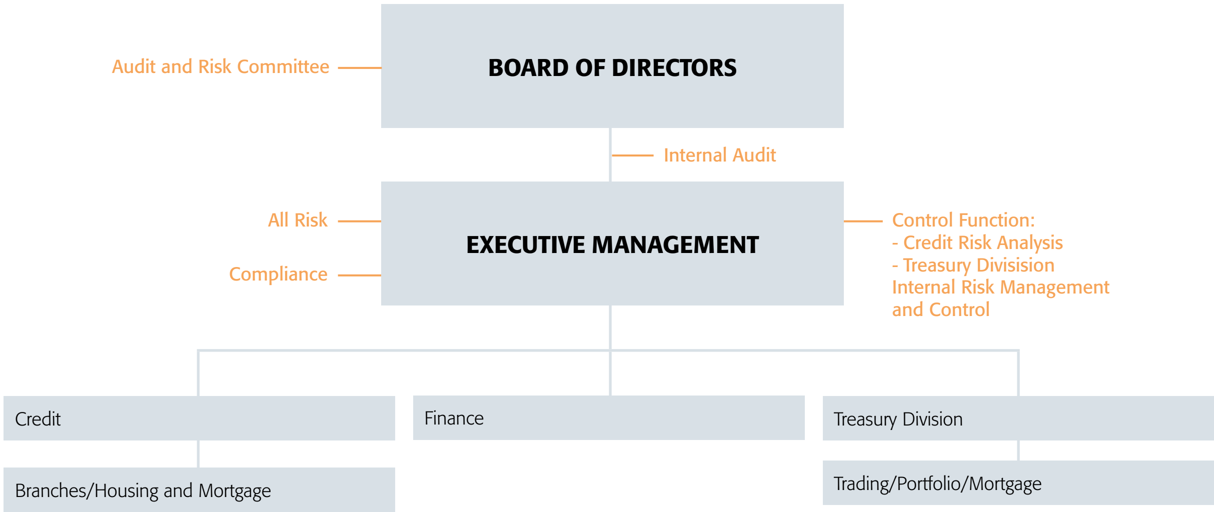
Table 1
Danish FSA benchmarks as at 31 December 2014

	The supervisory diamond	The Bank's compliance
Growth in loans	< 20 %	0.9 %
Large exposures	< 125 %	20.7 %
Excess liquidity	> 50 %	229.9 %
Funding ratio	< 1	0.6
Property exposures	< 25 %	8.7 %

Disclosure requirements regarding management systems, see Article 435(2), points a.-d. of the CRR Regulation, are described on pp. 17-20 of the annual report and on the Bank's website.

Organisation chart for risk management

Figure 1



Reporting overview

The Board of Directors regularly receives reports on all important risk areas.

Annual reporting/approval	Quarterly monthly reporting/approval
Individual solvency need Assessment and approval of model for calculating solvency need.	**Individual solvency need** Assessment of risk profile and calculation of adequate own funds.
Risk policies Review of risk policies for the individual risk areas (credit risk, market risk and operational risk) and assessment of the need for adjustments.	**Solvency and capital** Solvency and capital statements (monthly).
Contingency plans Review of contingency plans (capital conservation plans, solvency improvement plans and recovery plans).	**Projections** Projection of the Bank's capital, solvency, and earnings in different macro-economic scenarios.
Calculation and assessment of liquidity position and liquidity risk Overall calculation and assessment of liquidity position and liquidity risk.	**Credit risks** Analysis of developments in loans and guarantees broken down by rating code, size, customer segment, excessive withdrawals etc.
Risk report by the Executive Management Overall risk report for the Bank's risky activities across risk areas and organisational entities Follow-up on the year's risk action plan and review of next year's action plan.	**Assessment of new loans in the quarter** Assessment of composition of bond portfolio broken down by rating, issuer category, currency and methods of valuation (monthly).
Compliance Report on the compliance function's work and the Group's general compliance (half-yearly).	**Market risk** Developments in interest-rate risks as well as share and currency risks seen in relation to frameworks and investment strategy (monthly). Assessment of the Bank's portfolio of shares outside the trading portfolio (monthly).
IT risk Review and follow-up of the Bank's IT security and stability of the Group's IT systems, including outsourced IT solutions.	**Liquidity risk** Developments in excess liquidity in relation to section 152 of the Danish Financial Business Act (monthly) Analysis of liquidity in the short and the long terms, including liquidity stress test.
Annual budget Business and strategic risks are hedged in the Group budget preparation process.	**Operational risk** Review and assessment of standalone incidents with value significance of more than 0.1 % of the Bank's equity.
	The supervisory diamond Developments in the Bank's financial ratios in relation to the limits in the supervisory diamond.

Own funds

Table 2
Statement of Group own funds as at 31 December 2014

	DKK '000
Share capital	300,000
Reserve under the equity method	612,778
Revaluation reserves	263,634
Retained earnings from previous years	3,023,552
Proposed dividend	-45,000
Intangible assets	-28,977
Deduction for prudent valuation	-15,457
Capital instruments in financial entities <10 %	-29,160
Capital instruments in financial entities >10 %	-40,144
Common Equity Tier 1 capital	***4,041,226***
Additional Tier 1 capital issued	829,000
Own portfolio of Additional Tier 1 capital issued	-50
Capital instruments in financial entities <10 %	-196,612
Capital instruments in financial entities >10 %	-160,577
Tier 1 capital	***4,512,987***
Tier 2 capital	0
Own funds	***4,512,987***

The Group capital composition mainly consists of Tier 1 capital, of which Common Equity Tier 1 capital accounts for 93 %.

Group revaluation reserves of DKK 263,6 mill. are attributable to the Bank's owner-occupied properties.

Group deductions under "equity investments >10 % in financial entities" accounted for DKK 200,7 mill. after adjustment for the lower limit and transitional schemes and are primarily attributable to the Bank's ownership interest in LR Realkredit which, at the end of 2014, accounted for DKK 360,5 mill. and ALKA, which, at the end of 2014, accounted for DKK 763,3 mill.

The Bank issued Additional Tier 1 capital of DKK 829 mill., of which, DKK 0,05 mill. continues to be in the Bank's own portfolio. The Additional Tier 1 capital meets the requirements laid down in Articles 52-54 of CRR (the Capital Requirements Regulation).

Table 3
Additional Tier 1 capital issued as at 31 December 2014

Type	Additional Tier 1 capital
Principal amount (DKK '000)	400,000
Own portfolio (DKK '000)	50
Carrying amount (DKK '000)	399,950
Currency	DKK
Interest rate	CIBOR-6M + 6.75 %
Received	2011
Maturity	Infinite
Possibility of early repayment	23 May 2018
Interest rate subsequently	CIBOR-6M + 6.75 %
Interest on subordinated debt (DKK '000)	29,385
Subordinated loan capital included by calculating the Tier 1 capital/own funds (DKK '000)	399,950

Type	Additional Tier 1 capital
Principal amount (DKK '000)	429,000
Own portfolio (DKK '000)	0
Carrying amount (DKK '000)	429,000
Currency	DKK
Interest rate	9.059 %
Received	2014
Maturity	infinite
Possibility of early repayment	22 January 2021
Interest rate subsequently	CIBOR-6M + 7.25 %
Interest on subordinated debt (DKK '000)	36,613
Subordinated loan capital included by calculating the Tier 1 capital/own funds (DKK '000)	429,000

In connection with the issue of Additional Tier 1 capital of DKK 429 mill. in 2014, the Bank redeemed a subordinate loan of DKK 328 mill. which failed to comply with the requirements laid down in the Capital Requirements Regulation for subordinated debt which is part of the own funds.

Capital requirement (8 %)

The Group capital ratio at the end of 2014 was 15.6 % compared with 14.9 % at the end of 2013.

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

- The standard method for calculation of credit risk
- The standard method for calculation of market risk
- The market value method for calculation of counterparty risk
- The basic indicator approach for calculation of operational risk
- Collateral in the form of securities according to the comprehensive method
- Collateral in the form of mortgages in freehold property and cash deposits with the Bank

Table 4
Capital requirement (8 %) as at 31 December 2014

	DKK '000
Items with credit risk, etc.	
Exposures to institutions	24,620
Exposures to companies	283,464
Retail exposures	862,657
Exposures secured on mortgages in freehold property	49,237
Exposures on default	76,198
Share exposures	142,490
Other items	88,024
CVA risk	5,712
Total items with credit risk, etc.	***1,532,402***
Items with market risk	
Debt instruments, specific risk	268,387
Debt instruments, interest-rate risk	160,218
Position risk for shares	63,782
Currency risk	11,775
Total items with market risk	***504,162***
Operational risk	279,116
Total capital requirement	***2,315,680***
Own funds for observance of the capital requirement	4,512,987

The capital requirement according to pillar I (8 % of the weighted items) amounted to DKK 2,315,7 mill. at the end of 2014 against DKK 2,143,4 mill. in the previous year.

Furthermore, requirements are set for the composition of capital in that Additional Tier 1 capital and Tier 2 capital in 2014 were to account for a maximum of 1.5 and 2.5 percentage points, respectively, of the solvency requirement of 8 %.

Table 5
Capital composition in relation to the minimum requirement as at 31 December 2014

	Actual	Minimum require-ments	Minimum capital	Excess capital
Common Equity Tier 1 capital	4,041,226	4.0 %	1,157,840	2,883,386
Tier 1 capital	4,512,987	5.5 %	1,592,030	2,920,957
Own funds	4,512,987	8.0 %	2,315,680	2,197,307
Individual solvency need		9.4 %	2,725,966	1,787,021

The table above confirms the Group's solid excess liquidity of Common Equity Tier 1 capital and Tier 1 capital in relation to the minimum requirements.

Solvency need

Model

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

The 8+ model is utilised, and this is based on an assumption that the minimum capital requirement of 8 % of the risk-weighted items (Pillar I requirement) covers normal risks. In addition, Tier 2 capital needs 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 together the capital need according the 8 % model and the Tier 2 capital needs.

The model is based on the "Guidelines on adequate capital 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 Capital Requirements Regulation. In accordance with the Capital Requirements Regulation, 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

The Bank and Group solvency need calculated according to section 124(2) of the Danish Financial Business Act is 9.4 %. According to this provision, adequate own funds amount to DKK 2,726,0 mill. Calculation of adequate own funds and solvency need can be broken down into the following categories:

Table 6
Adequate own funds and solvency need as at 31 December 2014

	DKK '000	%
Adequate own funds and solvency need		
Capital to cover credit risk	1,856,430	6.4
Capital to cover market risk	590,420	2.0
Captial to cover operational risk	279,116	1.0
Capital to cover other risks	0	0.0
Adequate own funds/solvency need	*2,725,966*	*9.4*
Weighted items	28,945,994	

Capital to cover credit risk

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

- Concentration risk on large exposures
- 25 % limit for large exposures
- Customers with financial problems
- Receivables from credit institutions
- Concentration risk on sectors
- Concentration of collateral
- Geographical concentration

Capital to cover market risk

Capital to Capital to cover market risk is calculated as 8 % of the risk exposures relating to market risk plus Tier 2 capital to cover the following 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 corresponds to the solvency requirement according to the basic indicator approach in Articles 315-316 of the Capital Requirements Regulation. The Group makes its own calculations of operational risk based, among other things, on historical losses. These calculations show a significantly lower risk than the solvency requirement.

Capital for other risks

Capital to cover other risks includes assessments of capital requirements for the level of earnings, growth in loans, as well as other aspects, including statutory requirements.

Process

Assessment of the solvency need is an integral 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 Finance, including All Risk Reporting as the coordinating unit.

Solvency requirement

According to legislation, as a minimum the Group must have capital corresponding to the least of either the minimum statutory requirement of 8 % of the total risk exposure (capital 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.

Countercyclical buffer

Other than Denmark, the Arbejdernes Landsbank Group only has credit exposures in the United Kingdom which exceed 2 % of the total credit exposures. This is the limit value for providing capital for the countercyclical buffer.

The relevant rate for the countercyclical buffer for Denmark and the United Kingdom is 0 %, and as a result of this the countercyclical buffer requirement is 0.0 %.

Table 7
Credit exposures analysed by country as at 31 December 2014

Denmark	85.4 %
United Kingdom	2.3 %
United Arabic Emirates	1.3 %
Italy	1.3 %
Norway	1.3 %
France	1.1 %
The Netherlands	1.1 %
Germany	1.0 %
Belgium	0.9 %
Sweden	0.7 %
US	0.7 %
Finland	0.7 %
Spain	0.7 %
Other countries	1.4 %

Phasing-in of 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. The consequences can be illustrated by placing the Bank's current capital and risk-weighted assets in the setup which will apply in 2015 and 2019 when the Directive is fully phased in.

Table 8
Phasing-in of CRD IV regulations

	2014	2015	2019
Common Equity Tier 1 capital	14.0 %	13.2 %	11.1 %
Tier 1 capital ratio	15.6 %	13.8 %	13.7 %
Capital ratio	15.6 %	13.8 %	13.7 %

The most significant reason for the reduction in the capital ratios is attributable to the calculation of own funds, including in particular, deductions regulations for equity investments in insurance companies, whereas changes in the calculation of total risk exposure are less important.

The Bank has made projections under various macro-economic scenarios, in combination with capital preservation and solvency improvement plans, which confirm that the Bank has the required financial strength to meet our own objectives for excess solvency coverage.

Leverage ratio

The Arbejdernes Landsbank Group regularly considers its leverage risk and adapts this risk to keep the Bank well capitalised and also generate a sufficient return on equity.

Leverage risk is defined in the Capital Requirements Regulation and cannot become a Pillar I requirement until 2018. At the end of 2014, the Group's leverage ratio was calculated at 10.3 % according to the rules on the transitional scheme. According to the regulations on full phasing-in, the Group's leverage ratio is 8.8 %.

Consolidation

A/S Arbejdernes Landsbank

Consolidation includes the subsidiaries:

AL Finans A/S
Handels ApS Panoptikon

which are both fully owned by the parent company A/S Arbejdernes Landsbank. There are no differences between the consolidation basis for accounting purposes and consolidation in accordance with the Capital Requirements Regulation.

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

Forsikrings-Aktieselskabet ALKA is an associate and not included in this consolidation, but deducted from the own funds in accordance with Article 36(1)(i) of the Capital Requirements Regulation.

Exposure classes

Exposure classes calculated using the standard method for credit risk pursuant to Articles 111-141 of the Capital Requirements Regulation. Exposures are stated after write-downs and before taking account of the effects of credit risk reductions.

Table 9
Changes and average for exposures with credit risk

	Average 2014 DKK '000	Status 31 Dec. 2014 DKK '000	Status 30 Sept. 2014 DKK '000	Status 30 June 2014 DKK '000	Status 31 March 2014 DKK '000
Development and average for items with credit risk					
Exposures to central governments and central banks	269,937	91,293	380,069	438,070	170,316
Exposures to institutions	1,226,598	1,062,125	1,440,250	1,105,917	1,298,100
Exposures to companies	5,845,063	5,911,143	5,973,963	6,017,946	5,477,200
Retail exposures	17,973,202	18,224,468	17,972,270	18,084,643	17,611,429
Exposures secured by mortgages in real property	1,721,048	1,785,506	1,798,140	1,635,814	1,664,730
Exposures on default	900,001	890,058	881,258	907,902	920,786
Share exposures	1,834,323	1,583,989	1,874,673	1,931,447	1,947,185
Other items	1,451,470	1,506,836	1,415,431	1,444,585	1,439,026
Total items with credit risk	***31,221,642***	***31,055,418***	***31,736,054***	***31,566,324***	***30,528,772***

Table 10
Balance-sheet exposures *) analysed by remaining maturity as at 31 December 2014

	On demand DKK '000	0-3 mths. DKK '000	3 mths.-1 year DKK '000	1-5 years DKK '000	More than 5 years DKK '000
Exposures to central governments and central banks	88,614	305	823	1,422	18
Exposures to institutions	465,120	24,773	95,163	0	233
Exposures to companies	628,669	683,492	581,206	743,122	262,271
Retail exposures	164,010	708,494	1,285,297	6,310,636	4,637,583
Exposures secured by mortgages in real property	41,978	88,952	221,045	643,136	710,640
Exposures on default	137,553	47,615	131,312	434,493	75,857
Share exposures	1,562,827	8,162	13,000	0	0
Other items	1,449,858	56,919	0	0	0
Total balance-sheet-items	***4,538,629***	***1,618,712***	***2,327,846***	***8,132,809***	***5,686,602***

*) Balance-sheet items are defined in accordance with the standard approach in the CRR.

Table 11
Distribution by sector of exposures with credit risk as at 31 December 2014

	Central govern-ments and central banks DKK '000	Institu-tions DKK '000	Compa-nies DKK '000	Retail DKK '000	Mortgages in freehold property DKK '000	Default DKK '000	Shares DKK '000	Other items DKK '000	Total DKK '000	Of which SME
Distribution by sector on exposure categories										
Puplic institutions	29,465	0	0	31,001	0	0	0	0	***60,466***	0
Business										
Agriculture, hunting, forestry and fisheries	0	0	0	43,590	6,200	51,351	0	0	***101,141***	33,561
Industry and extraction of raw materials	0	0	509,318	345,291	36,893	19,428	0	0	***910,930***	135,104
Energy supply	0	0	0	24,217	199	0	0	0	***24,416***	23,186
Building and construction	0	0	358,748	414,063	63,390	43,632	0		***879,833***	524,556
Trade	0	999	586,022	829,369	64,250	35,444	0	0	***1,516,084***	489,157
Transport, hotels and restaurants	0	0	281,336	315,181	42,774	6,450	0	0	***645,741***	492,076
Information and com-munication	0	0	25	197,907	7,432	1,940	0	0	***207,304***	136,808
Financing and insurance	61,828	1,026,983	1,192,075	117,368	12,371	76,864	1,548,271	0	***4,035,760***	4,217,035
Real property	0	0	974,287	400,861	113,860	438,695	0	0	***1,927,703***	1,459,507
Other business	0	0	1,876,148	1,133,050	148,800	40,662	35,412	0	***3,234,072***	2,073,893
Total business	***61,828***	***1,027,982***	***5,777,959***	***3,820,897***	***496,169***	***714,466***	***1,583,683***	***0***	***13,482,984***	***9,584,883***
Of which SME			6,617,310	2,499,707	467,866				***9,584,883***	
Private	0	34,143	133,184	14,372,570	1,289,337	175,592	306	0	***16,005,132***	0
Other items								1,506,836	***1,506,836***	
Total	***91,293***	***1,062,125***	***5,911,143***	***18,224,468***	***1,785,506***	***890,058***	***1,583,989***	***1,506,836***	***31,055,418***	***9,584,883***

Table 12
Credit risk reduction and guarantees applied for exposures with credit risk as at 31 December 2014

	Adjusted value of collateral DKK '000	Guarantees applied DKK '000
Credit risk reduction and guarantees applied		
Exposures to companies	757,278	0
Retail exposures	154,673	771
Exposures secured by mortgages in real property	2,030	0
Exposures in default	14,787	0
Total items with credit risk	*928,768*	*771*

Table 13
Exposures with counterparty risk as at 31 December 2014

	DKK '000
Exposures with counterparty risk	
Currency contracts	
Forward contracts/futures	88,464
Options	1,840
Currency swaps	945
Interest-rate contracts	
Forward contracts/futures	6,793
Interest-rate swaps and swaptions	81,198
Share contracts	
Options	603
Total	*179,843*

Credit risk on loans to customers

Credit risk is the risk that a counterparty is wholly or partly unable to fulfil its loan obligations. The risk covers the entire spectrum, from a customer being unable to pay on time, to a customer ultimately being declared bankrupt. For each exposure, the Bank assesses the customer's ability to meet his or her obligations. Credit risk is the largest risk item in the Bank's risk statement and amounts to 66 % of the Bank's solvency need at the end of 2014 (68 % end of 2013). 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 satisfactory, partly due to extensive diversification. The following sections describe how the credit risk is monitored as well as the composition of the loan portfolio.

Strategies and procedures to manage credit

The Bank provides full scale advice on loans, credits and guarantees for private customers and 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 an overall insight of the financial situation of its customers. Insight into customers' financial situation is also necessary in order to make an assessment of the risks in the individual exposure. The Bank's customer base is primarily based in Denmark, as 98 % of the exposures have been granted to customers with a permanent address in Denmark. The maximum exposure, excluding the trading portfolio, in a country outside Denmark amounts to 0.5 %.

The Bank's practice at Credit follows the guidelines set out in the credit policy and a detailed specification of the policy on how to measure, manage and report credit risks. The specification also links together the credit policy and procedures as well as the internal control environment. This also describes how to handle specific areas of customer exposures, industries or portfolio composition. Lending facilities are granted after assessment of the customer's financial situation and willingness to fulfil the obligations. Approval of loan facilities is limited by the documented authority granted to specific employees for the relevant lending area. The authorisation to grant loans is built on a hierarchical framework so that larger exposures are always approved by the central Credit department and/or the Board of 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 it is as accurate and relevant as possible. The rating categories of the rating model are objectively determined and these are used as a control tool in regular monitoring of exposures. The rating is used as an indicator of the extent to which the Bank wishes to increase the exposure to a customer. The rating is based on a combination of the customer's payment behavior and key economic indicators. The rating classes are compatible with the credit rating categories from the Danish FSA. Rating classes are from 1-10, where rating 1 is the best and rating 10 is the poorest.

- Rating categories 1-4 are exposures of good/normal credit quality.
- Rating categories 5-6 are exposures with somewhat declining credit worthiness.
- Rating categories 7-8 are exposures where focus is on settlement and risk reduction.
- Rating categories 9-10 are exposures with poor credit quality. Mainly individually written down.

Regardless of the customer's rating category, each credit decision, whether it is a new loan or a reassessment of an existing loan, will always be based on the overall assessment of the customer. Accordingly, individual credit granting 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 macroeconomic outlook

- In 2014, the Eurozone economy disappointed following an otherwise good start. The recession during the spring was due to geopolitical unrest, which influenced enterprises as well as citizens in the Eurozone, and this meant that the business community was hesitant to make investments.

- A recent lending survey from the ECB shows that credit terms for customers have been relaxed during the past year. The survey also discloses a modest increase in the demand for loans.

- The Danish economy grew in 2014 after two years of decline. However, this recovery was weaker than expectations at the start of the year. This is very much due to the disappointing growth in Europe. The growth rate for 2014 ended at 1 %.

- Despite the weak growth, employment increased considerably and gross unemployment fell during 2014. These conditions may contribute to the high level of Danish consumer confidence.

- The positive development in the housing market has now spread to areas outside the large cities. However, there are still areas of Denmark in which the housing market is at a standstill.
- Forced sales are at the lowest level in six year, and this downwards trend is supported by home owners increasing repayment of their mortgages.

The Eurozone economy in 2015 is generally expected to continue on the same track as in 2014; i.e. at a moderate growth rate. The most important driving forces for economic growth in 2015 are low energy prices and low inflation, which increases purchasing power as well as the historically low interest rates. There is generally a good environment for further economic growth in Denmark. Competitiveness has been improving over several years, with low increases in salaries, and a more stable housing market benefitting from very low interest rate levels. Furthermore, the Bank expects the low oil prices to make a positive contribution to growth. In addition, employment and household income have risen, which will probably lift private consumption in 2015. The Bank expects overall growth of 1.5 % in 2015. The Bank expects that the positive conditions will have a positive effect on the Bank‘s loan portfolio in 2015, such that there will be signs of a general improvement compared with 2014.

The Bank’s total exposure, expressed as gross loans and guarantees, as presented in the 2014 Financial Statements, has increased by about DKK 1,5 bn. compared with the end of 2013. Loans to private customers increased in 2014, and guarantees in particular increased in 2014 for Private as well as Business customers. The increase in guarantees is due to a combination of a few large guarantees related to building projects and a significant increase in real estate sales and re-mortgaging. Net loans and guarantees at the end of 2014 also increased as a consequence of the increased gross exposures. However, this increase has been limited by increased write-downs in 2014, see table 14.

Write-downs are higher than expected. Conclusions from an ordinary inspection carried out by the Danish FSA in the spring led to adjustments on specific lending segments

Table 14
Loans and guarantees before and after write-downs and provisions broken down by customer segment

	Private	Business	Total	
	2014	2014	2014	2013
	DKK '000	DKK '000	DKK '000	DKK '000
Loans and guarantees				
Gross loans before write-downs	12,086,532	7,493,470	*19,580,002*	*19,309,445*
Gross guarantees before provisions	1,695,128	1,725,449	*3,420,576*	*2,176,920*
Total gross loans and guarantees before write-downs, etc.	*13,781,660*	*9,218,918*	*23,000,578*	*21,486,365*
Individual write-downs on loans	558,712	678,192	*1,236,905*	*1,180,457*
Collective write-downs on loans	126,997	14,171	*141,168*	*77,214*
Individual provisions on other guarantees	4,130	9,200	*13,329*	*9,077*
Collective provisions on other guarantees	5,211	2,023	*7,234*	*8,435*
Total net loans and guarantees after write-downs, etc.	*13,086,610*	*8,515,332*	*21,601,942*	*20,211,182*

Note: The figures are excluding loans to credit institutions. The break-down into customer segments “Private” and “Business” is based on the Bank’s internal customer groupings. “Business” includes associations.

The break down into the segments "Private" and "Business" follows the Bank's internal definition. Total gross loans and guarantees are still considered as having satisfactory credit quality with a sound risk diversification. 68 % of gross loans and guarantees are in rating categories 1-4, which is at a par with the end of 2013, see tables 15 and 16.

Historically, the Private portfolio has been relatively large compared with the Business portfolio. At the end of 2014, the Private portfolio was more or less unchanged at 60 % of total lending. Both Private and Business portfolios have a sound risk diversification, in which 68 % of gross loans and guarantees are in rating categories 1-4, see tables 15 and 16.

The development in rating categories indicates a small decline in credit quality from the better rating categories to rating categories 5-6. The change is mostly due to an adjustment in the Danish FSA's tightening approach to classification in credit-quality categories and not a change in the overall risk of the loan portfolio.

The loan portfolio is further described below, whereas write-downs and provisions are described in the section "Write-downs and provisions", see page 32.

Table 15

Bank loans and guarantees by rating category 2014

	Private 2014 DKK '000	Business 2014 DKK '000	Bank 2014 DKK '000
Rating			
1	86,552	606,054	692,606
2	814,069	1,437,444	2,251,512
3	2,224,635	764,998	2,989,634
4	6,186,890	3,429,630	9,616,520
5	2,095,592	651,860	2,747,452
6	1,057,154	399,005	1,456,159
7	303,174	393,105	696,279
8	79,961	148,546	228,508
9	583,054	1,137,096	1,720,150
10	350,577	251,181	601,758
Total	*13,781,660*	*9,218,918*	*23,000,578*

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

Table 16

Bank loans and guarantees by rating category 2013

	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	741,664	2,660,298
4	5,691,104	3,321,057	9,012,161
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 figures are based on gross loans and guarantees. The break-down into customer segments "Private" and "Business" is based on the Bank's internal customer groupings. The figures exclude loans to credit institutions.

Credit risk to largest customers

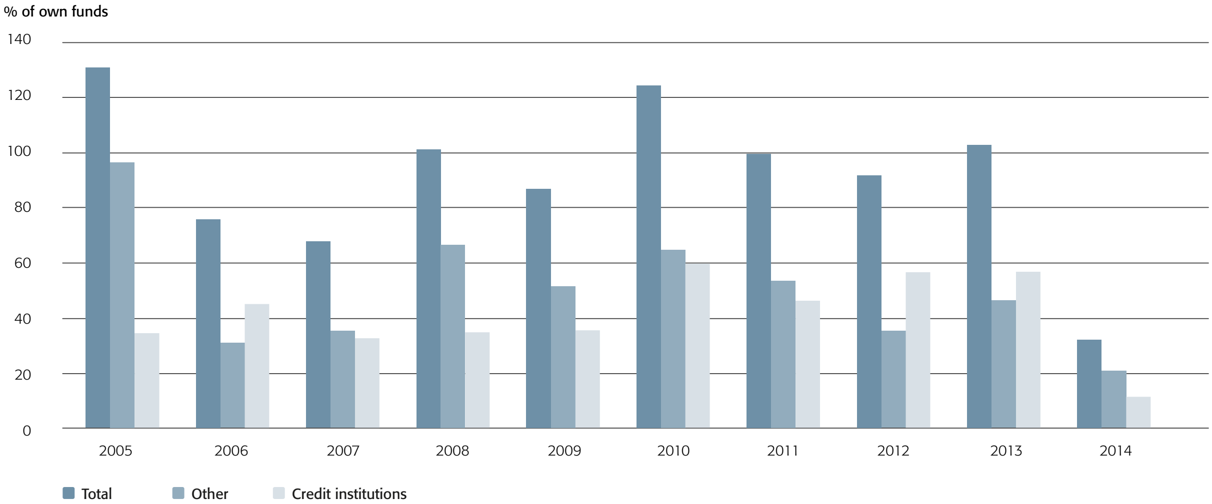
The Bank focuses on avoiding concentrations of risk, and Group credit policy is to minimise the risk of large single exposures.

The financial ratio "Sum of large exposures" which individually each comprise 10 % or more of the Group capital base, amounts to 20.8 % of the capital base at the end of 2014, excluding loans to credit institutions. This corresponds to an overall exposure of about DKK 0.9 bn., and this is a significant reduction compared with the end of 2013, see figure 2 on page 19. The reduction in loans to credit institutions is due to changed regulations on risk reducing measures with effect from 2014.

The sum of large exposures, excl. credit institutions which, less deductions, individually exceed 10 % of the Bank's capital base, was reduced to one exposure in 2014 totalling 17.5 % of the Group capital base,

These exposures are in the intervals 11-18 % of the Group's capital base, and have been established after a thorough evaluation of whether there is acceptable risk and collateralization. For more information on credit institutions, see "Credit risk on credit institutions", page 31.

Figure 2
Development in the financial ratio "Sum of large exposures"



Note: The figures are calculated on the basis of the reported values for the Group for consolidated exposures less deductions greater than or equal to 10 % of own funds, and they observe current legislation. There are new regulations for risk-reducing measures with effect from 2014.

Exposures more than DKK 10 mill.

Consolidated exposures more than DKK 10 mill., excl. credit institutions and loans to the Bank's subsidiaries, account for 22 % of total gross loans and guarantees at the end of 2014, which is at par with the end of 2013. These loans are distributed between 112 consolidated exposures. The exposure interval of more than DKK 100 mill., accounts for the largest share, comprising about 14 % of the Bank's total loan portfolio, see table 17.

Impairment of consolidated exposures of more than DKK 10 mill. is mainly a result of individual write-downs on already known risks. Arrears on consolidated exposures were halved compared to the end of 2013 and amounted to a total of 16 % of the Bank's total arrears at the end of 2014. This is an improvement of seven percentage points compared to the end of 2013. The breakdown of gross loans and guarantees, write-downs and arrears on consolidated exposures of more than DKK 10 mill. is shown in table 17.

Table 17
Gross loans and guarantees, write-downs and arrears broken down by consolidated exposures exceeding DKK 10 mill.

	Gross loans and guarantees DKK '000	Write-downs DKK '000	Arrears DKK '000	Number of consolidated exposures DKK '000
Consolidated exposure intervals, end-2014				
DKK 10-25 mill.	764,356	195,455	5,651	65
DKK 25-50 mill.	547,656	75,815	512	22
DKK 50-100 mill.	539,915	40,445	5,580	10
> DKK 100 mill.	3,268,792	321,578	289	15
Total	*5,120,720*	*633,294*	*12,032*	*112*

Note: Write-downs include the sum of individual and collective write-downs and provisions. Arrears as in the notes to the financial statements, see page 61. The figures exclude loans to credit institutions and loans to the Bank's subsidiaries.

The Bank's large exposures are concentrated in the industry sectors "Financing and insurance", "Real estate" and "Other business", see table 18. It should be noted that the exposures to large cooperative housing associations is included in the industry grouping "Real estate". A total of 52 % of the loan portfolio on consolidated exposures of more than DKK 10 mill., belongs to individual customers having a rating between 1 and 4, i.e. credit quality is generally considered to be at a satisfactory level, see table 18.

Table 18
Consolidated exposures exceeding DKK 10 mill. broken down by industry and rating category

	Rating 1-4 DKK '000	Rating 5-6 DKK '000	Rating 7-10 DKK '000	Total DKK '000
Industry at -2014				
Public institutions	38	0	0	*38*
Business				
Agriculture, hunting, forestry and fisheries	0	0	80,201	*80,201*
Industry and extraction of raw materials	114,615	0	49,226	*163,840*
Energy supply	0	0	0	*0*
Building and construction	92,105	85,584	81,668	*259,357*
Trade	60,894	47,585	84,708	*193,187*
Transport, hotels and restaurants	109,341	43,856	33,976	*187,173*
Information and communication	0	0	6,741	*6,741*
Financing and insurance	726,491	125,896	192,837	*1,045,224*
Real property	729,221	74,665	695,132	*1,499,018*
Other business	816,770	450,681	312,758	*1,580,209*
Total business	*2,649,437*	*828,266*	*1,537,246*	*5,014,949*
Private	16,528	27,411	61,794	*105,733*
Total	*2,666,003*	*855,677*	*1,599,040*	*5,120,720*

Note: The figures are based on gross loans and guarantees. The industry break-down is in accordance with section 93 of the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. and is has been allocated to individual customers included in consolidated exposures > DKK 10 mill. Private customers with a sector code are grouped under the industry for "Business", and therefore this table is not comparable with the Bank's internal customer groupings, "Private" and "Business". The figures exclude loans to credit institutions and loans to subsidiaries of the Bank.

Credit risk broken down by segment

The overall credit risk is managed in accordance with policies and frameworks set out by the Bank's Board of Directors and Executive Management. The Credit department establishes procedures and internal controls, as well as lending authorities in such a way that the daily monitoring and management is in accordance with the policies and frameworks.

The delegation of lending authorities ensures that granting credit approvals for Private customers to a large extent is delegated to the individual branches of the bank. Large and more complex credit relations are handled in close cooperation with the Credit department.

Figure 3 on page 21 shows the Bank's exposure on significant customer segments, measured as gross loans and guarantees at the end of 2014. The Bank is characterised by holding a lower share of "Business customers", a higher share of "Private customers with cooperative property" and a higher share of "Associations etc." than comparative banks. The breakdown of the portfolio is largely unchanged compared with the end of 2013.

Private customers

Exposures to "Private" customers are characterized by being well diversified as well as being well covered by collateral, see tables 19 and 20. 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 severe recession in the entire economy.

Creditworthiness of Private customers is assessed on the basis of rating category 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.

Looking ahead, the Bank will continue focusing on e.g. Private customers who despite the low interest rate level have problems repaying their debt, and customers who will not be able to full fill their repayment obligations in the event of increasing interest rate level. Furthermore, focus is on Private customers with with interest-only loans where repayment must start up within a few years and who at the same time have less disposable income.

Exposure to the Private customers is further broken down by customer segments, depending on the debtor's status on the housing market, see tables 19 and 21. Each of the three customer segments, "Customers with freehold property", "Customers with cooperative property" and "Customers with rented property" are managed according to separate guidelines, as the terms of the loans, behaviour and risks in the segments are different. The segments "Freehold property" and "Cooperative property" account for 54 % of the Bank's overall loan portfolio at the end of 2014.

Figure 3
The Bank's loan portfolio broken down by customer segment measured by gross loans and guarantees at the end of 2014

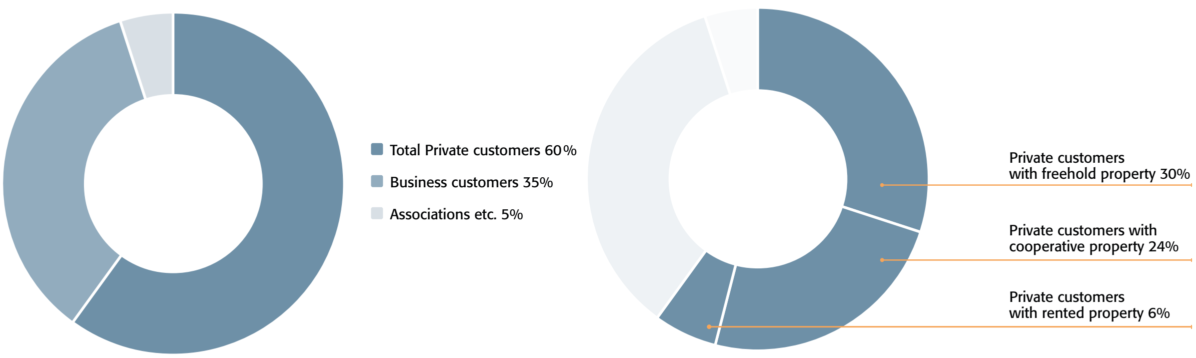


Table 19
Gross loans and guarantees, net loans and guarantees, collateral, unsecured part and arrears broken down by Private-customer-segments "Freehold property", "Cooperative property" and "Rented property"

	Freehold property DKK '000	Cooperative property DKK '000	Rented property DKK '000	Total DKK '000
End-2014				
Gross loans and guarantees (before write-downs etc.)	6,875,440	5,459,090	1,447,129	*13,781,660*
Net loans and guarantees (after write-downs etc.)	6,521,720	5,312,819	1,252,070	*13,086,610*
Collateral	2,107,925	4,381,055	255,719	*6,744,698*
Unsecured part	68 %	18 %	80 %	*48 %*
Arrears	24,278	6,905	9,635	*40,818*
Arrears, % of total arrears	33 %	9 %	13 %	*56 %*
Loans, % of total loans	30 %	24 %	6 %	*60 %*

Note: Write-downs include individual and collective write-downs and provisions. Arrears are calculated as in the note to the annual report, see page 61.

Loans to Private segment are largely concentrated in the best rating categories and smaller exposure intervals. Thus 63 % of net loans and guarantees for the private customer segment are exposures of less than DKK 2 mill. in rating categories 1-4, see table 20.

Collateral for the Private segment mainly consists of mortgages in freehold property. The housing market is showing progress and overall prices have risen at national level for houses as well as flats. However, this increase is driven by larger cities, as there are still areas of Denmark in which the housing market is at a standstill. The overall unsecured part for Private customers is at a satisfactory level, however the general strengthening in the housing market is not yet reflected in the unsecured part.

Breakdown on the three Private segments by gross loans and guarantees, net loans and guarantees, collateral, unsecured part and arrears is shown in table 19.

Table 20
Gross loans and guarantees for the Private segment broken down by exposure intervals and rating categories

	Rating 1-4	Rating 5-6	Rating 7-10	Total
	DKK '000	DKK '000	DKK '000	DKK '000
Exposure intervals, end-2014				
DKK 0 - 0,5 mill.	3,219,881	1,325,813	556,919	*5,102,613*
DKK 0,5 mill. - 2 mill.	5,113,212	1,483,857	542,479	*7,139,549*
DKK 2 mill. - 4 mill.	599,954	182,241	103,079	*885,275*
DKK 4 mill. - 10 mill.	360,611	112,390	66,836	*539,837*
DKK 10 mill. - 25 mill.	11,173	48,445	47,454	*107,072*
> DKK 25 mill.	7,315	0	0	*7,315*
Total	*9,312,146*	*3,152,746*	*1,316,767*	*13,781,660*

Note: Figures are based on gross loans and guarantees.

Table 21
Gross loans and guarantees broken down by Private segments: "Freehold property", "Cooperative property" and "Rented property" as well as rating categories

	Rating 1-4	Rating 5-6	Rating 7-10	Total
	DKK '000	DKK '000	DKK '000	DKK '000
Private segment, end-2014				
Freehold property	4,681,358	1,526,306	667,653	*6,875,317*
Cooperative property	4,175,886	992,515	290,689	*5,459,090*
Rented property	454,902	633,925	358,425	*1,447,252*
Total	*9,312,146*	*3,152,746*	*1,316,767*	*13,781,660*

Note: The figures are based on gross loans and guarantees.

A. Private with freehold property

Exposure to Private customers owning freehold property amounted to 30 % of the loan portfolio measured by gross loans and guarantees at the end of 2014, see figure 3. The unsecured part in this segment increased in 2014. However, this increase is mainly temporary, as it is related to property buying/selling and re-mortgaging. 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 purchased the property in areas where prices have decreased or where the level of debt gearing is high. The proportion of this type of customers is relatively modest, and in recent years the Bank has carried out activities targeted at this specific group of customers. Further to this, losses typically only occur when customers are forced to sell the property.

The Bank grants loans secured by collateral in the financed asset. Generally the Bank does not finance real property for speculative purposes.

Expiration of the non-repayment period for interest-only loans, unemployment for a long period and/or increase in the interest-rate level are the largest risk factors for this segment, as a large number of private customers have floating-rate loans. However, a large proportion of the floating-rate loans have an interest ceiling. The historically low interest rate level is expected to largely compensate for any income drops in this customer segment. Repayment discipline for customers with freehold property in 2014 improved compared with 2013. This is mainly because of the very low interest rate level. The credit quality of the segment is considered satisfactory, which is also seen from the fact that 68 % of gross loans and guarantees in the freehold property segment is in rating categories 1-4 at the end of 2014, see table 21 page 22.

B. Private with cooperative property

Exposure to Private customers with cooperative property amounted to 24 % of the overall portfolio measured by gross loans and guarantees, see figure 3. The percentage of the overall portfolio is slightly higher than at the end of 2013. The Bank's expectations for 2015 are continued growth in the housing lending actitivites for private customers with real estate property. This includes the cooperative property segment as well.

The market for cooperative property is less transparent than that for freehold property, and there are significantly differing price-setting practices among cooperative property associations, so changes in prices for the cooperative property market continue to be difficult to assess. The increase in prices seen for freehold property in the Greater Copenhagen area in 2014 were more modest for cooperative property, as prices of cooperative property have not yet coupled up with the large increases in prices of freehold flats. The portfolio of loans for cooperative property is deemed to be less sensitive than the freehold property segment, despite its concentration in the Greater Copenhagen region. This is because of the Bank performs individual assessments of each individual cooperative housing association in the loan 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 specific guidelines and tools to assess the financial situation of private borrowers as well as the financial situation of the underlying cooperative housing associations. The valuation is tested using comparisons with the prices of similar cooperative property in the same area. Furthermore, valuations are compared with prices per square meter of freehold property in the same area and similarly gross/net payments are compared with comparable freehold residences. In connection with the valuation of cooperative property, the Bank requires that both prices per square meter and gross/net payments are as a minimum 20 % less than comparable freehold properties.

The repayment discipline during 2014 has deteriorated compared with 2013, however the cooperative property segment still has the lowest arrears percentage measured in relation to the segment‘s share of lending, see table 19 on page 21. Arrears in this segment amount to just 9 % of the Bank's overall arrears. In 2014 market values in the cooperative property segment were stable and therefore the unsecured part was largely unchanged. The credit quality of the cooperative property segment has improved and is still considered to be at a satisfactory level. 76 % of gross loans and guarantees in the segment were in rating categories 1-4 at the end of 2014, see table 21.

C. Private with rented property

Exposure to Private customers with rented property only amounted to 6 % measured by gross loans and guarantees at the end of 2014

Clearly this segment has not experienced the same drop in wealth as the freehold property market, but neither has it benefited from the increases in the value of freehold property in previous years. Typically, exposures 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 slightly worse than at the end of 2013, however the arrears percentage measured in relation to the segment‘s gross loans and guarantees is almost unchanged. Credit quality in the segment is unchanged compared to the end of 2013 and is deemed less satisfactory, as 69 % of gross loans and guarantees at the end of 2014 are in rating categories 5-10, see table 21.

Business segment

Exposure to Business customers is smaller compared with comparable banks.

In "Vision 2015", the Bank's strategy is to create sustainable growth within the Business segment. The Business segment's percentage of total gross loans and guarantees at the end of 2014 was almost unchanged and amounts to 35 %, see figure 3. Apart from a few larger corporate exposures, the segment is characterised by a large number of small and medium-sized, primarily owner-managed, enterprises. There is also diversification between industries, see break down by industry at Group level in table 32 on page 32. The Bank's exposure towards small and medium-sized enterprises is shown in table 11 on page 14.

According to "Vision 2015", the Bank's strategy is, among other things, to increase lending to smaller and medium-sized enterprises; primarily owner-managed enterprises. To ensure the right competences to handle Business customers, the Bank has set up business centres and branches focusing on Business customers. 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 owner. Growth in loans to in the Business segment has contributed positively to this, as the overall unsecured part has decreased by four percentage points despite more conservative valuation methods. Several years ago, the Bank decided to limit lending to enterprises which are dependent upon the volatility of the real property market, and the Bank's policy is not to finance projects with no advance guarantees of the necessary operating income to service the total indebtedness. The Bank only wants to finance business which the Bank understands and is able to manage in relation to advisory services, and where the risk profile matches the credit policy. As a general rule, the Bank's policy is not to lend to industry sectors fisheries and agriculture, as well as industries and enterprises with which the Bank does not want to be compared in terms of ethics and politics.

Credit worthiness is based on a review of an enterprise's ability to service its debt obligations. The basis for credit approval includes the rating of the customer, a subjective evaluation of the enterprise as well as assessment of the financial statements, budgets, business plans and insights into the business owner's private financial situation. Policies for managing and monitoring Business customer exposures are described in internal written guidelines and procedures. The credit policy prepares the ground for Business customers also to be full scale customers, including the owner personally. This is done in order to provide the best possible advice, but also to maintain overall financial insight.

Arrears in the Business segment account for 42 % of the Bank's total arrears, an increase of four percentage points, see table 22. However, the arrears percentage measured in relation to the segment's total loans and guarantees has decreased.

Table 22
Gross loans and guarantees, net loans and guarantees, collateral, secured part and arrears broken down by Business segments: "Business" and "Associations"

	Business DKK '000	Associations DKK '000	Total DKK '000
End-2014			
Gross loans and guarantees (before write-downs etc.)	8,080,211	1,138,708	*9,218,918*
Net loans and guarantees (after write-downs etc.)	7,390,703	1,124,629	*8,515,332*
Collateral	1,804,365	795,424	*2,599,789*
Secured part	76 %	29 %	*69 %*
Arrears	30,674	1,765	*32,439*
Arrears, % of total arrears	42 %	2 %	*44 %*
Loans, % total	35 %	5 %	*40 %*

Note: Write-downs include "individual and collective write-downs". Arrears are calculated as in the notes to the financial statements on page 61. The figures are excluding loans to credit institutions.

Decreasing demand is still assessed to be the largest risk in this segment, as failing sales will typically lead to liquidity pressure on enterprises, and this is intensified if customers have difficulties in paying. Credit quality is still deemed to be satisfactory; at the end of 2014, 64 % of the segment's gross loans and guarantees are in rating category 1-4, see table 24.

Associations etc.

As a result of the Bank's philosophy and historical foundation, the Bank has a certain exposure volume 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 5 % of total gross loans and guarantees at the end of 2014, see figure 3. Repayment discipline in the associations segment improved in 2014, and arrears in this segment accounted for only 2 % of the Bank's total arrears. Moreover, the unsecured part was reduced to 29 %. The credit quality of the portfolio is deemed to be good; 92 % of the segment's gross loans and guarantees are in rating classes 1-4, see table 24.

Apart from the percentage of large exposures, loans for the Business segment have a good diversification in size, see table 23.

Table 23
Gross loans and guarantees for the Business segment broken down by exposure intervals and rating categories

	Rating 1-4 DKK '000	Rating 5-6 DKK '000	Rating 7-10 DKK '000	Total DKK '000
Exposure intervals, end-2014				
DKK 0 - 0,5 mill.	59,938	63,435	105,092	*228,465*
DKK 0,5 mill. - 2 mill.	189,680	122,348	185,014	*497,042*
DKK 2 mill. - 4 mill.	195,714	61,356	97,043	*354,113*
DKK 4 mill. - 10 mill.	248,802	57,123	213,779	*519,703*
DKK 10 mill. - 25 mill.	422,522	89,724	289,429	*801,676*
> DKK 25 mill.	5,121,470	656,879	1,039,570	*6,817,919*
Total	*6,238,126*	*1,050,864*	*1,929,928*	*9,218,918*

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

Table 24
Gross loans and guarantees broken down by Business segments: "Business", "Associations" as well as rating categories

	Rating 1-4 DKK '000	Rating 5-6 DKK '000	Rating 7-10 DKK '000	Total DKK '000
Business-customer segment, end-2014				
Business	5,189,518	979,124	1,911,568	*8,080,211*
Associations	1,048,608	71,740	18,360	*1,138,708*
Total	*6,238,126*	*1,050,864*	*1,929,928*	*9,218,918*

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

Systems for risk reporting, measurement and monitoring

The documentation for credit assessment is reassessed at least once a year for larger exposures. Moreover, all exposures of more than 1 % of the Bank's own funds are reassessed once every quarter. In practice all relevant information is updated more frequently, for example in connection with ongoing contact with a customer.

Each quarter, the Board of Directors reviews reports on the developments in the credit quality of the loan portfolio, providing a brief summary of the most significant risks and focus areas. The report includes a description of loans balance, overdrafts, business segments, industries, migration between rating categories, etc. In addition, each month the Board of Directors reviews a report on developments in the Bank's monthly balance sheet and loans granted exceeding a specific amount.

The quality of the overall portfolio is assessed during the annual review of assets carried out by the central Credit department with a subsequent presentation to the Board of Directors and the Bank's internal and external auditors.

Customers with objective evidence of impairment (OEI) are mainly automatically selected on the basis of a set of criteria as well as rating category. All these customers are reviewed at least quarterly by the branches in order to formulate action plans and make cash flow calculations of any need for write-downs and provisions. The central The Credit department subsequently reviews the work done by the branches.

In 2015, the Bank has planned activities which are to ensure even better action plans for customers of poor credit worthiness.

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

The Credit department reviews the loan book of the branches. Exposures with declining credit quality undergoes an extraordinary review, including a physical review of the customer files. There is a fixed rotation, so that all branches are reviewed within a period of 3-4 years, and more often if prompted by statistical analyses.

Finally, monitoring is supplemented by ad hoc analyses as well as fixed quarterly assessment of the solvency needs and quarterly assessments of the need for individual and collective write-downs.

Loans in arrears

The Bank's net lending in arrears is primarily concentrated in the Private segment, with only a short period past the due date, see table 25.

Table 25
Loans in arrears broken down by age of arrears and segment

	Freehold property DKK '000	Cooperative property DKK '000	Rented property DKK '000	Business DKK '000	Associations DKK '000	Total DKK '000
Days of arrears, end-2014						
1 - 30 days	512,714	408,562	63,463	359,900	19,470	*1,364,109*
31 - 60 days	40,999	30,464	10,405	11,752	44	*93,664*
61 - 90 days	6,781	4,922	2,151	814	7	*14,675*
91 + days	33,877	4,229	2,718	29,958	0	*70,783*
Total	*594,371*	*448,177*	*78,738*	*402,424*	*19,521*	*1,543,231*

Note: The figures are based on the loans balance for customers in arrears as calculated in the note to the annual report, see page 62. The figures are excluding loans to credit institutions, but including the Bank's loans to subsidiaries.

In terms of the industry breakdown for Business customers, loans in arrears are mainly concentrated in the industries of “Financing and insurance”, “Other business” and “Trade”. Loans in arrears totalled 7.1 % of the Bank‘s total net loans and guarantees at the end of 2014. Of this, loans more than 90 days in arrears accounted for 0.3 %, see table 26.

The Bank has “early warning” systems in order to reduce the number of customers with 90-days past due. The Bank has an objective to reduce the level by making lasting solutions to possible problems, in coorporation with the customer, rather than temporary solutions. This approach is expected to ensure that the number of customers on which the Bank will lose money is reduced in the long term.

Table 26
Loans in arrears analysed by industry 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
Industry, end-2014					
Public institutions	4,677	0	241	0	*4,918*
Business					
Agriculture, hunting, forestry and fisheries	3,824	1,133	0	6	*4,963*
Industry and extraction of raw minerals	9,775	751	3	579	*11,108*
Energy supply	0	0	0	0	*0*
Building and construction	55,111	3,633	220	6,603	*65,566*
Trade	91,637	4,291	12	1,453	*97,394*
Transport, hotels and restaurants	43,118	2,482	577	1,524	*47,701*
Information and communication	15,545	1,516	0	1,280	*18,341*
Financing and insurance	156,190	0	0	536	*156,726*
Real property	47,647	1,787	0	20,279	*69,713*
Other business	105,130	5,312	1,951	3,119	*115,513*
Total business	*527,977*	*20,906*	*2,763*	*35,379*	*587,025*
Private	831,455	72,758	11,670	35,405	*951,288*
Total	*1,364,109*	*93,664*	*14,675*	*70,783*	*1,543,231*

Note: The figures are based on the loan balance for customers in arrears as calculated in the notes to the annual report, see page 62. Private customers with indsutry code are grouped under the indsutry 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 conservative haircuts, which are described in more detail in the Bank‘s procedures and internal guidelines. This implies that some assets are calculated at a reduced value, and therefore the real collateral value is significantly higher than the value shown in tables 27 and 28.

Table 27
The Bank's collateral for Private customers

	Freehold property	Cooperative property	Rented property	Total 2014	Total 2013
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
The Bank's collateral for Private customers, end-2014					
Loans and guarantees					
Real property	1,778,649	4,346,132	141,595	*6,266,376*	*6,069,870*
Securities, bonds, cash deposits, etc.	115,397	9,875	14,369	*139,642*	*90,294*
Cars	156,453	14,093	87,672	*258,219*	*293,842*
Warrants and guarantees	2,190	763	3,050	*6,003*	*12,489*
Other collateral	55,235	10,191	9,033	*74,458*	*78,464*
Total	*2,107,925*	*4,381,055*	*255,719*	*6,744,698*	*6,544,959*

Note: Collateral values of deposited collateral, see the Bank's procedures.

Table 28
The Bank's collateral for Business customers

	Business	Associations	Total 2014	Total 2013
	DKK '000	DKK '000	DKK '000	DKK '000
The Bank's collateral for Business customers, end-2014				
Loans and guarantees				
Real property	818,414	124,496	*942,910*	*1,151,790*
Securities, bonds, cash deposits, etc.	797,439	611,402	*1,408,841*	*510,059*
Cars	17,627	116	*17,743*	*23,853*
Warrants and guarantees	16,034	847	*16,881*	*0*
Other collateral	154,851	58,563	*213,414*	*299,095*
Total	*1,804,365*	*795,424*	*2,599,789*	*1,984,797*

Note: Collateral values of deposited collateral, see the Bank's procedures.

An assessment of the value of the collateral is a significant factor in determining the risks. Therefore, the Bank is focusing on ensuring that assessments of mortgaged assets are updated and documented. When assessing cash flows of exposures, collateral is calculated at estimated fair value.

- As far as possible, loans for Private customers are hedged using different types of collateral. Usually by taking a registered mortgage deed in freehold and cooperative property. 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 types 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 default, the Bank assesses whether compulsory realisation of collateral will best serve the Bank in relation to minimising the Bank's risk of losses. The economic cycle and market conditions for realisation of assets may vary considerably. Therefore, sometimes the Bank takes over assets which the Bank has set as collateral.

Broken down by types of collateral for Private customers with freehold or cooperative property, make up the largest part of total collateral, see table 27 on page 28.

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.

For several years, the Bank‘s rating model has been an integrated part of credit processes and monitoring. The rating is an essential parameter in identifying customers with objective evidence of impairment (OEI). The rating is also a significant parameter used of both the model for solvency need and the model for collective write-downs. The Bank‘s rating model is continuously being improved, as it is important that it is as fair as possible.

The Bank focuses on ongoing follow-up on customers, so that risk management is on an updated and documented basis. Data quality is of the utmost importance, as incorrect or inadequate information may provide a misleading rating and thereby an incorrect basis for decision-making.

The Bank's branch management receives a number of quarterly and monthly reports in order to get an overview of the loan portfolio risk and thus enable them to identify action areas.

Furthermore, the Bank is represented in projects with Bankernes EDB Central (BEC), these include projects related to credit risk management and monitoring; both FINREP and COREP reporting.

Activities in AL Finans A/S

The activities of the subsidiary company, AL Finans A/S, cover three business units:

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 and assessment of need for write-downs to the extent that there is objective evidence of impairment (OEI). Furthermore, once a year an active review is carried out in which the credit risk is assessed for large exposures. The general credit quality is deemed to be at a satisfactory level. The majority of all loans are covered by collateral in the form of the mortgaged asset, for which there are public catalogues to assess the asset value.

As in 2013, for 98 % of the car loans portfolio an initial payment of 20 % or more has been made, see table 29. Cars covered by the business strategy in AL Finans are relatively easily valued and sold. Cars account for 95 % of the Bank‘s financed assets in the business activities loans and leasing.

Table 29
Breakdown of repayment percentages on car loans

	2014		2013	
	DKK '000	%	DKK '000	%
Repayment percentages on car loans				
0 - 9 %	29,159	2	28,026	2
10 - 19 %	9,970	1	9,583	1
20 - 29 %	1,343,129	77	1,290,943	77
30 - 39 %	221,828	13	213,210	13
40 - 99 %	131,300	7	126,198	7
Total	*1,735,386*	*100*	*1,667,960*	*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 30 and 31. One of the significant risk factors in AL Finans A/S is therefore declining realisation values on cars in particular.

In 2014, 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 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. 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 2015 due to the increasing car-loan portfolio. The loss per car is expected to be at par with 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 70-90 %, which in normal circumstances provides satisfactory cover for repayment obligations. Furthermore, a number of exposures have been hedged through guarantee insurance companies. Hedging amounts to about 28 % of outstanding debtor balances. In addition, 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 30 and 31.

Table 30
Loans before write-downs and breakdown of collateral in the private portfolio in AL Finans

	2014			2013		
	Balance DKK '000	Collateral DKK '000	Number of customers	Balance DKK '000	Collateral DKK '000	Number of customers
Business unit, Private customers						
Car loans (debt instruments)	189,246	128,426	1,619	182,724	121,275	1,590
Car loans (purchase contracts)	1,426,629	1,402,288	13,773	1,411,715	1,374,643	13,344
Finance leases	3,047	2,742	21	1,951	1,756	14
Operating leases	19,857	17,871	143	8,401	7,561	66
Total	*1,638,779*	*1,551,328*	*15,556*	*1,604,791*	*1,505,235*	*15,014*

Note: Collateral values of deposited collateral, see AL Finans procedures.

Table 31
Loans before write-downs and breakdown of collateral in the Private portfolio in AL Finans

	2014 Balance DKK '000	2014 Collateral DKK '000	Number of customers	2013 Balance DKK '000	2013 Collateral DKK '000	Number of customers
Business areas, business customers						
Car loans (debt instruments)	21,232	18,162	154	12,994	10,584	66
Car loans (purchase contracts)	98,280	97,329	819	60,526	60,227	360
Finance leases	579,450	521,461	2,177	394,041	354,648	1,366
Operating leases	87,606	78,845	247	99,419	89,478	267
Factoring	776,627	776,627	195	656,461	654,977	199
Total	*1,563,195*	*1,492,424*	*3,592*	*1,223,441*	*1,169,914*	*2,258*

Note: Collateral values of deposited collateral, see AL Finans procedures.

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

The Bank 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.

To obtain knowledge about the counterparties, the Credit department performs analysis on the interim financial statements and the counterparties are interviewed as well.

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

Follow-up is performed at management level in the Bank. The Credit department is involved in specific situations in order to complete a follow-up analysis of the previous decision base.

Employees involved in the credit granting process for credit institutions may have access to market-sensitive information. These persons are primarily from the Bank's management group and they are subject to tighter 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. Objective criteria pursuant to internal instructions on segregation of responsibilities ("Instruks for arbejdsfordelingen mellem bestyrelsen og direktionen i A/S Arbejdernes Landsbank"). The size of a credit line is measured as both a specific percentage of

Arbejdernes Landsbank's equity and as a percentage of the credit institution's equity.

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

Granting credit lines to credit institutions are decided collaboratively between the Executive Head of 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 facilities (shares and capital base) in the form of securities. 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 countries outside Denmark 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 exposures 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 2014 amounted to DKK 240 mill. against DKK 278 mill. in 2013, see table 32.

The figures in tables 32 and 33 include credit institutions.

The Group accumulated write-downs and provisions amounted to DKK 1,434 mill. at the end of 2014 against DKK 1,301 mill. in 2013. Write-downs on the "Real property" sector are related to individual large exposures of the Bank which are all monitored closely. The high level of write-downs is primarily due to macro-economic conditions well as more restrictive requirements from the Danish FSA.

The Bank's expectations for 2015 are that total write-downs and provisions will be less than in 2014.

Table 32
Industry breakdown for impaired exposures, including collective write-downs and provisions, at end of 2014 (Group)

	Exposures	Exposures which have been written down/ provided	Write-downs/ provisions	Write-down/ provision recognised and losses in 2014
	DKK '000	DKK '000	DKK '000	DKK '000
Public institutions	38,419	4,704	5	(4)
Business				
Agriculture, hunting, forestry and fisheries	95,114	105,381	32,797	(31,100)
Industry and minerals	797,859	202,845	43,519	(20,122)
Energy supply	3,963	3,725	877	(810)
Building and construction	617,081	263,769	77,727	(7,924)
Trade	1,313,788	363,343	94,172	8,750
Transport, hotels and restaurants	497,787	202,015	46,619	(2,324)
Information and communication	176,808	107,594	13,817	(1,076)
Financing and insurance	3,416,602	308,905	156,842	(27,470)
Real property	1,567,972	941,381	303,675	(41,044)
Other business	2,554,216	504,368	97,846	7,580
Total business customers	***11,041,190***	***3,003,326***	***867,891***	***(115,540)***
Private	13,731,512	9,252,412	566,180	(124,834)
Total	***24,811,121***	***12,260,442***	***1,434,076***	***-240,378***

Note: Private customers with industry code are grouped under the industries for Business.

Table 33
Development in impaired exposures (Group), 2014

	Individually written down, credit institutions	Individually written down loans and other items with credit risk	Individually provided on guarantees	Collectively written down loans and other items with credit risk	Collectively provided on guarantees
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Accumulated write-downs/provisions brought forward on loans and guarantee debtors	17,252	1,188,808	9,076	77,245	8,435
Write-downs/provisions carried forward on loans and guarantee debtors	0	483,268	9,546	81,456	1,905
Reversal of write-downs/provisions	-52	-353,497	-5,293	-21,498	-3,106
Other movements	0	60,063	0	4,854	
Final losses (written off) previously written down/provided	0	-124,385	0	0	0
Accumulated write-downs/provisions carried forward on loans and guarantee	17,200	1,254,257	13,329	142,057	7,234
Actual loss (written off), not previously written down/provided	0	-47,649	0	0	0
Recognised in claims previously written down		10,027			

Note: The figures are according to note 13 to the financial statements.

Counterparty risk

Counterparty risk includes the Group's management of risks of losses on derivative financial instruments entered into with customers as well as financial counterparties. 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.

The Bank endeavours to limit the risk on counterparties in connection with financial instruments by demanding a certain extent of collateralisation or by entering into netting agreements.

Management of the counterparty risk is based on calculation of the gross value of transactions with positive market values for the Bank plus risk premiums set on the basis of assessments of the volatility of the instrument. There is daily monitoring of this risk as well as compliance with lines granted.

The Bank is preparing to clear a larger part of the Bank's derivative agreements in future through CCP schemes in order to reduce the settlement risk.

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

Table 34
Derivative financial instruments, end 2014

	Nominal value	Net market value	Positive market value	Negative market value
	DKK '000	DKK '000	DKK '000	DKK '000
Currency contracts				
Forward contracts/futures, purchases	141,082	2,211	2,291	80
Forward contracts/futures, sales	8,292,239	-24,378	1,116	25,494
Options, acquired	180,879	-8	31	39
Currency swaps	18,900	0	0	0
Interest-rate contracts				
Forward contracts/futures, purchases	2,584,901	860	2,940	2,080
Forward contracts/futures, sales	5,455,449	-60,172	3,388	63,560
Swaptions	100,000	-10,838	0	10,838
Interest-rate swaps	5,593,073	-84,479	38,342	122,821
Share contracts				
Options, issued	24	-1,134	0	1,134
Total		***-177,938***	***48,108***	***226,046***

ECAI

The Bank has appointed the Standard & Poor Rating Services as its credit rating agency (ECAI). The Bank uses Bankernes EDB Central (BEC), which receives external credit ratings from the Standard & Poor Rating Services through SIX Financial. There are regular IT updates on the credit ratings from the Standard & Poor Rating Services.

The data centre has converted the credit rating classes of Standard & Poor Rating Services to credit quality steps through the conversion table from the Danish FSA.

The individual credit quality steps are linked to a weight by which the exposures in the individual credit quality steps are to be weighted when calculating risk-weighted exposures according to the standard method for credit risk pursuant to Articles 111-134 of CRR.

The Bank only has exposures to institutions which use credit ratings from the Standard & Poor Rating Services.

Table 35
Exposure classes using credit ratings from the Standard & Poor Ratings Services

	Exposure value before risk weighting	Exposure value after weighting with credit quality step
	DKK '000	DKK '000
Institutions	691,192	208,183

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 off-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. Other types of interest-rate-related option risks are based on the delta valuation calculation combined with modified duration of the underlying instruments. The calculations are made in the individual currencies and in duration intervals. The Bank's exposure is primarily in DKK, EUR and USD.

Table 36
Group interest-rate risk at the end of the year

	2014	2013
	DKK '000	DKK '000
Broken down by type of business		
Bonds etc.	395,001	166,329
Derivative financial instruments	-483,859	-293,777
Mortgage deeds	31,510	17,040
Other items	11,619	44,268
Total	*-45,729*	*-66,140*
Broken down by currency		
DKK	80,914	47,143
USD	-75,417	-8,199
EUR	-58,417	-111,048
GBP	5,463	2,584
NOK	923	1,482
CHF	590	63
SEK	220	1,843
Other	-5	-8
Total	*-45,729*	*-66,140*

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 25,5 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 10 % of the total bond portfolio has been invested in a very diversified portfolio of corporate bonds. Interest rate sensitivity represents DKK 48,8 mill., mainly in DKK and EUR bonds.

Investment in bonds issued by banks represents DKK 3,5 bn. and 24 % of the Bank's total bond portfolio. Interest rate sensitivity represents DKK 86,7 mill., mainly in banks with a BBB+ rating or higher and in EUR bonds.

Table 37
The bond portfolio is broken down by rating

	2014	2013
	DKK '000	DKK '000
Rating		
AAA	37 %	39 %
AA+, AA, AA-	9 %	2 %
A+, A, A-	23 %	17 %
BBB+	8 %	11 %
BBB	7 %	11 %
BBB-	4 %	0 %
Rating < BBB-	2 %	5 %
Not rated	10 %	15 %
Total	*100 %*	*100 %*

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

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.

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 etc. outside the trading portfolio

Arbejdernes Landsbank har i samarbejde med andre 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 38
Shares outside the trading portfolio

	2014 DKK '000	2013 DKK '000
Fair value, brought forward	744,435	651,383
Realised capital gains in the income statement *)	38,981	577
Unrealised capital gains in the income statement	18,466	10,136
Other Additions **)	55,505	0
Net purchases ***)	-51,059	82,339
*Total fair value, carried forward ****)*	*806,328*	*744,435*

*) Of which, DKK 38,6 mill. is attributable to the sale of shares in Nets Holding.

**) The Bank's ownership interest in BEC (Bankernes EDB Central) was reduced to less than 20 % in connection with an expansion of the group of owners. After this, the ownership interest in BEC has been grouped under the item "Shares, etc."

***) The Bank sold shares worth DKK 109 mill. in 2014. The Bank acquired DKK 60 mill. worth of shares in DLR Kredit in 2014 and DKK 85 mill. in 2013.

****) Of which, DKK 733 mill. account for shares in financial entities, of which DKK 405 mill. account for shares between 10 % and 20 % of the relevant enterprises.

Holdings in sector companies are unlisted and are valued at fair value. The percentage of listed shares amounted to DKK 6,7 mill. at the end of 2014 against DKK 20,2 mill. at the end of 2013.

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 assessed in a long-term perspective with regard to the commercial development of the Bank in the capital market area as well as in deposits and lending. The Bank also has a policy that the liquidity forecasts drawn up at least once a month show a corresponding excess coverage at least three months forward, excess coverage three to six months forward of at least 90 % and excess coverage six to 12 months forward of at least 75 %.

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 final regulations for calculation of LCR enter into force on 1 October 2015, and these were published in October 2014. The requirements include stricter requirements for the Bank's liquidity function and a need to reorganise the Bank's liquidity buffer.

Despite very large holdings of Danish mortgage bonds, the Bank's bond portfolio will be required to include a proportionally higher percentage of government bonds than previously, as the liquidity buffer must include a minimum of 30 % government bonds, etc.

The Bank has commenced calculating LCR and notifies the Danish FSA on a monthly basis. As at the end of 2014, the Bank's LCR was 55 %. A moderate change in the bond portfolio to government bonds would have resulted in LCR of more than 60 % at the end of 2014. As at 1 October 2015, LCR must be a minimum of 60 %, increasing to 70 % by 1 January 2016 and ending at 100 % by the beginning of 2019.

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

Encumbered assets

To a certain extent, the Bank has encumbered assets in connection with the Bank's market-risk-taking and liquidity transactions.

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

Furthermore, the Bank has a certain collateralisation to other banks in connection with various derivative agreements.

In connection with clearing of securities trading, the Bank sets collateral in the form of mortgaging, both for turnover and for default funds with CCPs etc.

Table 39
Encumbered assets as at 31 December 2014

	Carrying value DKK '000	Fair value DKK '000
Assets		
Encumbered assets	0	0
Shares	0	0
Bonds	587,168	587,168
Other assets	300,808	300,808
Total encumbered assets	887,976	887,976
Unemcumbered assets		
Shares	1,066,333	1,066,333
Bonds	13,979,463	13,979,463
Other assets	25,077,422	25,143,632
Total unemcumbered assets	***40,123,218***	***40,189,428***
Collateral received, available for encumberance		
Bonds at fair value		
Encumbered collateral	1,552,628	1,552,628
Unencumbered collateral	170,941	170,941
Encumbered assets/collateral received and liabilities attached		
Encumbered assets and collateral	2,139,796	2,139,796
Counterpart liabilities	2,363,978	2,363,978

Operational risk

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

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

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

Policies

Operational risks and losses can be limited but not removed. The Bank's policy is to limit operational risks by taking into account the costs related. The Bank wants an open culture among its employees aimed at increasing the awareness of operational risks and ensuring knowledge-sharing among employees.

Depending on the specific operational event, management of losses comprises an assessment and, if necessary, an adjustment of the Bank's organisation and operations in the form of segregation of duties, reviews, employee competences, procedures and internal control, physical security, etc.

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.

Aktieselskabet Arbejdernes Landsbank has a portfolio of owner-occupied properties of DKK 836 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.

Pay policy

Among other things, the pay policy contains guidelines for payments to the Board of Directors and the Executive Management of Arbejdernes Landsbank. The pay policy is reviewed regularly and at least once a year. In 2014, apart from expanding the previous definition of risk takers to cover persons who significantly influence risk management, including employees in control functions, the Bank deemed that no changes to the pay policy are necessary.

The pay policy stipulates that the management of the Bank must be paid with a remuneration which is in conformity with the market and which reflects the management's efforts for the Bank and the Group. The pay policy also stipulates that the remuneration of the Board of Representatives, the Board of Directors and the Executive Management must be a fixed salary, such that no form of incentive pay is included.

Moreover, variable components of the remuneration are not paid to other risk takers and employees in control functions outside the frameworks of the collective agreement.

Page 18 in the Annual Report for 2014 describes the premise for the Nomination and Remuneration Committee established by the Board of Directors. Pages 19-20 as well as note 11 describe the remuneration etc. paid to the Board of Representatives, the Board of Directors, the Executive Management and other risk takers etc. who significantly influence the risk profile.

In 2014, two employees from the group of risk takers who significantly influenced the risk profile resigned. These two persons have received redundancy pay adjusted according to their seniority and their contract, but their position as members of this group has not influenced the size of the amount whatsoever. A total of DKK 2.6 mill. was paid in redundancy pay to these two employees, of which the highest amount is DKK 1.4 mill.

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