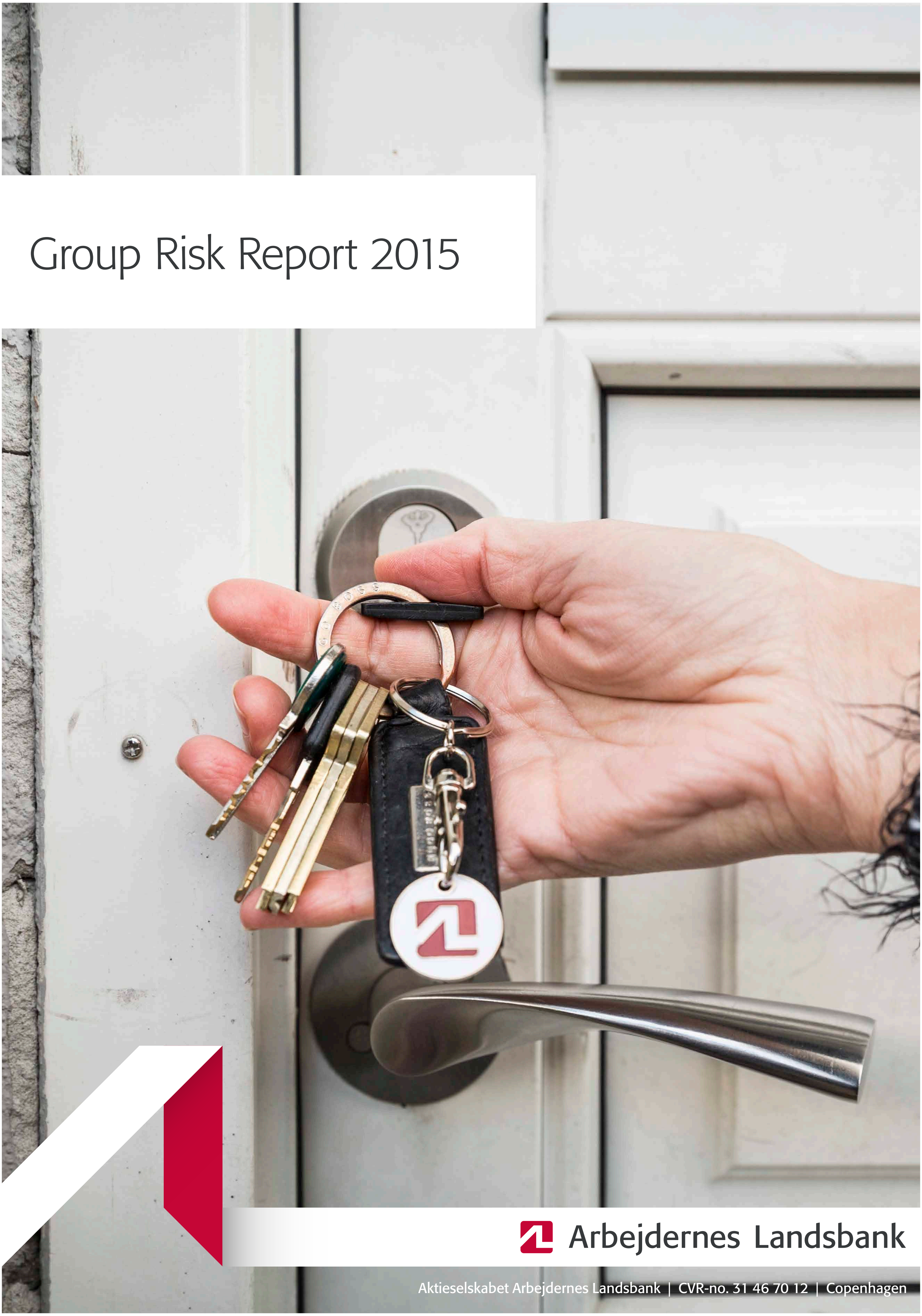
Group Risk Report 2015



Arbejdernes Landsbank

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

Group Risk Report 2015 for Arbejdernes Landsbank

Contents

Arbejdernes Landsbank

Overall risk management

According to article 435(1) of the CRR, the Group must 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 in the underlying risk organisation of reviewing and managing risks.

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 established, and other risks affecting the Bank are assessed
- Meetings in the Risk and Balance-Sheet Management Committee where risk aspects are discussed
- The frequent reports on results, business areas, ratios and key figures, as well as relevant risk targets

The Bank has an All Risk Reporting function under the Financial Department, 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 the risks in relevant business activities in order to ensure that the Bank can act, if necessary, to adjust business developments and to ensure that the risks incurred are in accordance with resolutions adopted.

Risk management of core business activities, such as Credit and Treasury/Liquidity is carried out in close dialogue with the units in which the banking operations are managed. The Bank's Credit Risk Analyses Department regularly follows up on guarantees, loans and credits granted by the Bank's branches, it prepares risk analyses, and it develops and maintains credit monitoring tools. Internal Risk Management and Control under the auspices of the Bank's Treasury Division (LIFI) regularly monitors compliance by the Bank with the LCR requirement, as well as section 152 of the Danish Financial Business Act, which stipulates a number of requirements for the Bank's liquidity. In addition, a number of stress tests are performed. Monitoring ensures 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 analyses function refer directly to the Executive Management of the Bank.

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

The Treasury Division ensures compliance with the investment strategy and the liquidity policy. In 2015 the Bank set up an Asset Department which coordinates branch contact and advisory services on complex business transactions.

Operational risk mitigation is rooted in the individual business units and aims at ensuring that procedures and measures are carried out immediately after ascertaining events which may trigger or have triggered operational risks. Under the auspices of the Financial Department, the Bank has systems to identify risk events of an operational nature which, other than reporting for managerial purposes, are applied to improve procedures and contingency plans.

The Financial Department monitors the operating financial developments arising from business decisions.

Bank funding is primarily from deposits, which remain larger than our lending. In order to meet our objective of satisfactory excess coverage of the statutory liquidity requirement, Bank funding from deposits is supplemented by liquidity from domestic and foreign cooperation partners.

If the Bank is considering exposures in new areas, the nature and scope of these exposures 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 issued instructions.

Every endeavour is made to maintain up-to-date IT systems in order to support risk management and quantify the size of the 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 regarding the annual budget, solvency and liquidity needs. Projections and stress tests ensure continuous establishment of the level of adequate capital.

Management declaration

Pursuant to Article 435(1) of the Capital Requirements Regulation (CRR), on 7 March 2016 the Board of Directors and the Executive Management of Aktieselskabet Arbejdernes Landsbank approved the following declaration:

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 systems 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 ratios and key figures 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 obtained by the Board of Directors.

A review of the business model and policies shows that the overall requirements of the business model for the individual risk areas have been fully and adequately implemented in the more specific limitations in 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 have been fully and adequately implemented in the underlying guidelines for the Executive Management and authority transferred, and that the actual risks are within the limitations laid down in the individual policies and in the authority transferred.

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

The Group's business strategy describes the Group's customers, what we want to offer them and how we commercially and organisationally realise our long term goals towards 2019 and thereby create value for the Group's customers, employees and group of owners.

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 supports the business model.

The Group's objective is that the solvency buffer at Bank-level as well as Group-level compared with the calculated solvency need must amount to at least 2.5 percentage points + the phase-in requirement which applies to the capital preservation buffer up to 2019; i.e. a buffer of 5.0 percentage points in 2019. As at 31 December 2015 the buffer is 3.9 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 figures as at 31 December 2015 for these limit values.

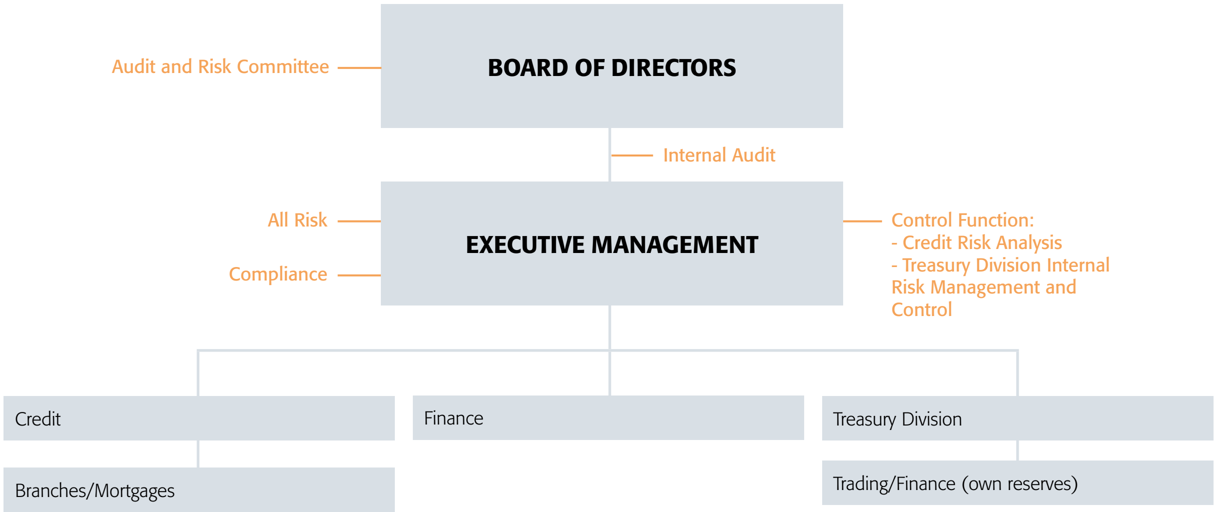
Table 1
Benchmarks from the Danish Financial Supervisory Authority at the end of 2015

	Supervisory diamond	Bank compliance
Stable funding	< 1	0.6
Excess liquidity	> 50%	199.4%
Large exposures	< 125%	10.6%
Growth in loans	< 20%	8.1%
Property exposures	< 25%	7.3%

Disclosure requirements regarding management systems, see Article 435(2), points a.-d. of the CRR, are described on pp. 15-23 of the annual report and on the Bank's website.

Organisation chart for risk management

Figure 1



Special issues of a cross-sectoral nature are treated by a Risk and Balance-Sheet Management Committee set up by the Executive Management and including the Executive Management as well as the experts responsible for risk.

Reporting overview

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

Own funds

Table 2
Calculation of Group own funds

	2015 DKK '000	2014 DKK '000
Share capital	300,000	300,000
Reserve under the equity method	690,535	612,779
Revaluation reserves	306,282	263,634
Retained earnings	3,133,811	3,023,551
Proposed dividend	-30,000	-45,000
Intangible assets	-13,813	-28,977
Deduction for prudent valuation	-16,454	-15,457
Capital instruments in financial entities <10%	-68,425	-29,160
Capital instruments in financial entities ≥10%	-332,589	-40,144
Common Equity Tier 1 capital	*3,969,348*	*4,041,226*
Additional Tier 1 capital issued	829,000	829,000
Own portfolio of Additional Tier 1 capital issued	0	-50
Capital instruments in financial entities <10%	-156,889	-196,612
Capital instruments in financial entities ≥10%	-498,883	-160,577
Tier 1 capital	*4,142,576*	*4,512,987*
Tier 2 capital	0	0
Own funds	*4,142,576*	*4,512,987*

The Group capital composition consists exclusively of Tier 1 capital, of which Common Equity Tier 1 capital accounts for 96%.

The reserve according to the equity method of DKK 690.5 mill. is attributable to an unrealised capital gain on the Bank's equity investment in the insurance company Alka, which is associate of the Bank. Revaluation reserves amounting to DKK 306.3 mill. relate to value increases on the Bank's owner-occupied properties.

Group deductions under “Equity investments >10% in financial entities” amounted to DKK 831.5 mill. after adjustment for the lower limit, and are primarily attributable to the Bank's ownership interests in LR Realkredit which, at the end of 2015, amounted to DKK 350.4 mill. and Alka which, at the end of 2015, amounted to DKK 841.0 mill. Compared with 2014, deductions increased by DKK 631.1 mill. which, to all intents and purposes, are due to the full phase-in, in 2015, of stricter capital requirements under the CRR for portfolios of equity investments in insurance companies.

The Bank has issued Additional Tier 1 capital worth DKK 829 mill., which has all been sold. The Additional Tier 1 capital complies with the requirements in Articles 52-54 of the CRR.

Table 3
Issued hybrid core capital

	2015	2014
Type	Hybrid core capital	Hybrid core capital
Principal amount (DKK '000)	400,000	400,000
Own portfolio (DKK '000)	0	50
Carrying amount (DKK '000)	400,000	399,950
Currency	DKK	DKK
Interest rate	CIBOR-6M + 6.75%	CIBOR-6M + 6.75%
Received	2011	2011
Maturity	Indefinite	Indefinite
Possibility for redemption before maturity	23 May 2018	23 May 2018
Subsequent interest rate	CIBOR-6M + 6.75%	CIBOR-6M + 6.75%
Interest on subordinated debt (DKK'000)	28,263	29,385
Subordinated debt recognised when calculating Tier 1 capital/own funds (DKK '000)	400,000	399,950
Type	Hybrid core capital	Hybrid core capital
Principal amount (DKK '000)	429,000	429,000
Own portfolio (DKK '000)	0	0
Carrying amount (DKK '000)	429,000	429,000
Currency	DKK	DKK
Interest rate	9.059%	9.059%
Received	2014	2014
Maturity	Indefinite	Indefinite
Possibility for redemption before maturity	22 January 2021	22 January 2021
Subsequent interest rate	CIBOR-6M + 7.25%	CIBOR-6M + 7.25%
Interest on subordinated debt (DKK'000)	38,863	36,613
Subordinated debt recognised when calculating Tier 1 capital/own funds (DKK '000)	429,000	429,000

Capital requirement (8%)

The group capital ratio and Tier 1 capital ratio at the end of 2015 were 13.4% compared with 15.6% at the end of 2014. The decrease of 2.2 percentage points is primarily attributable to the full phasing-in, in 2015, of the CRR concerning deduction in Tier 1 capital for share portfolios in insurance companies.

The Group uses the following methods to calculate the capital 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 extended method
- Collateral in the form of mortgages on freehold property and cash deposits with the Bank

Table 4
Capital requirement (8%)

	2015	2014
	DKK '000	DKK '000
Items with credit risk etc.		
Exposures to institutions	24,770	24,620
Exposures to companies	326,516	283,464
Retail exposures	975,255	862,657
Exposures secured by mortgage in real property	54,278	49,237
Exposures in the event of breach	62,643	76,198
Share exposures	105,451	142,490
Other items	97,104	88,024
CVA risk	17,240	5,712
Total items with credit risk etc.	***1,663,257***	***1,532,402***
Items with market risk		
Debt instruments, specific risk	266,264	268,387
Debt instruments, interest-rate risk	217,802	160,218
Position risk for shares	54,980	63,782
Exchange-rate risk	6,523	11,775
Total items with market risk	***545,569***	***504,162***
Operational risk	268,224	279,116
Total capital requirements	***2,477,050***	***2,315,680***
Own funds for compliance of capital requirement	4,142,576	4,512,987

The capital requirement according to pillar I (8% of the weighted exposures) amounted to DKK 2,477.1 mill. at the end of 2015 against DKK 2,315.7 mill. in the previous year.

According to the 8% requirement on the quality of capital, Common Equity Tier 1 capital must be at least 4.5%, Additional Tier 1 capital may account for up to 3.5%, and Tier 2 capital may account for up to 2.0% of the weighted exposures. Corresponding quality requirements for capital apply to the solvency need.

Table 5
Capital composition in relation to the minimum requirement at the end of 2015

	Capital	Minimum require-ments	Minimum capital	Surplus capital
	DKK 1.000	Percent	DKK 1.000	DKK 1.000
Common Equity Tier 1 capital	3,969,348	4.5	1,393,340	2,576,008
Tier 1 capital	4,142,576	6.0	1,857,787	2,284,789
Own funds	4,142,576	8.0	2,477,049	1,665,527
Individual solvency need		9.5	2,926,971	1,215,605

The table above confirms the Group's solid buffer 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 has been set by Arbejdernes Landsbank.

The 8+ model has been 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 CRR. In accordance with the CRR, the Bank calculates weighted items for both the Group and the Bank. The Group's weighted items are used in 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 9.5%. According to this provision, adequate own funds amount to DKK 2,927.1 mill. Calculation of adequate own funds and solvency need can be broken down into the following categories:

Table 6
Solvency need at the end of 2015

	2015		2014	
	DKK '000	%	DKK '000	%
Capital to cover credit risk	1,971,271	6.4	1,856,430	6.4
Capital to cover market risk	687,477	2.2	590,420	2.0
Capital to cover operational risk	268,224	0.9	279,116	1.0
Capital to cover other risks	0	0.0	0	0.0
Adequate own funds/solvency need	*2,926,971*	*9.5*	*2,725,966*	*9.4*
Total risk exposure	30,963,109		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
- Geographic concentration

Capital to cover market risk

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 is equivalent to the solvency requirement according to the Basic Indicator Approach set out in Articles 315-316 of the CRR. 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 annual 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 adjustments are a coordinated process in the Group with the Financial Department, 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 9.5%, and this is therefore the basis for requirements for the size of the Group capital.

Countercyclical buffer

Besides Denmark, the Arbejdernes Landsbank Group has relevant credit exposures above 2 in the USA and Germany.

As none of these countries have introduced a countercyclical buffer, the institution-specific countercyclical capital buffer rate and requirement for the institution-specific capital buffer are 0 percent.

Table 7
Geographical distribution of credit exposures by the end of 2015

	Exposures		Own funds requirement		
	General credit exposures	Exposures in the trading portfolio	General credit exposures	Exposures in the trading portfolio	Total
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Denmark	32,046,079	9,837,521	20,725,362	123,153	*20,848,514*
Germany	56,037	4,640,093	54,323	518,547	*572,870*
The USA	11,374	1,857,152	7,421	203,941	*211,362*
Other countries	214,824	5,729,754	135,858	153,257	*289,115*
Total	*32,328,315*	*22,064,520*	*20,922,964*	*998,898*	*21,921,862*

Phase-in of CRD IV

The Group has carried out an assessment of the consequences of fully phasing in the CRD IV regulations, according to which, the regulations on deduction for equity investments in financial entities are to be continuously tightened in the period up to 2019, such that deductions will increasingly reduce Common Equity Tier 1 capital, whilst own funds will only be affected to a lesser extent. The consequences can be illustrated by placing the Bank's current capital and risk-weighted assets in the setup which will apply in 2016 as well as in 2019, when the CRR is fully phased in.

Table 8
Phase-in of CRD IV

	2015	2016	2019
Common Equity Tier 1 capital ratio	12.8%	12.2%	10.8%
Tier 1 capital ratio	13.4%	13.4%	13.3%
Capital ratio	13.4%	13.4%	13.3%

The Bank has made projections under various macro-economic scenarios, and, in combination with capital preservation and solvency improvement plans, these confirm that the Bank has the required financial strength to meet its 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 while also generating a sufficient return on equity.

Leverage risk is defined in the CRR and cannot become a Pillar I requirement until 2018. At the end of 2015, the Group's leverage ratio was calculated at 8.8% according to the rules on the transitional scheme, as well as for full phase-in.

Table 9
Leverage

	2015 DKK '000	2014 DKK '000
Leverage-weighted exposures		
Total assets	41,978,320	40,060,265
Adjustments for derivatives	152,209	130,135
Adjustments for repo/reverse transactions	11,784	63,127
Adjustments for exposures not recognised in the balance sheet	5,593,122	4,816,039
Other adjustments	-754,683	-1,353,902
Total leverage-weighted exposures	*46,980,751*	*43,715,664*
Exposures recognised in the balance sheet, excl. derivatives and repo/reverse transactions		
Assets excluding derivatives and repo/reverse transactions	38,015,395	35,892,222
Assets less Tier 1 capital	1,087,052	455,471
Total exposures recognised in the balance sheet, excl. derivatives and repo/reverse transactions	*39,102,447*	*36,347,693*
Derivative exposures		
Positive market value	182,964	50,737
Potential risk	152,209	130,135
Total derivative exposures	*335,173*	*180,872*
Repo/reverse transactions	1,950,010	2,371,060
Exposures not recognised in the balance sheet		
Gross exposures	10,468,510	8,816,784
Adjustments	-4,875,388	-4,000,745
Total exposures not recognised in the balance sheet	*5,593,122*	*4,816,039*
Capital and leverage-weighted exposures		
Tier 1 capital	4,142,576	4,512,987
Leverage-weighted exposures	46,980,751	43,715,664
Leverage ratio	8.8%	10.3%

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 CRR.

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 CRR.

Furthermore, PR Ejendoms Holding A/S is an associate and not part of the consolidation. The undertaking is under liquidation and has been recognised with an amount of DKK 0.

Overview of capital, risk exposure and ratios and key figures

Table 10
Capital, risk exposure and ratios and key figures

	2015 DKK '000	2014 DKK '000
Common Equity Tier 1 capital		
Share capital	300,000	300,000
Reserve under the equity method	690,535	612,779
Revaluation reserves	306,282	263,634
Retained earnings from previous years	2,978,552	2,792,577
Transferred from profit for the year less proposed dividend	125,259	185,973
Common Equity Tier 1 capital before statutory adjustments	***4,400,628***	***4,154,963***
Statutory adjustments Common Equity Tier 1 capital		
Intangible assets	-13,813	-28,977
Deduction for prudent valuation	-16,454	-15,457
Capital instruments in financial entities (Common Equity Tier 1 capital) <10%	-171,062	-145,801
Capital instruments in financial entities (Common Equity Tier 1 capital) ≥10%	-831,471	-808,461
Transitional schemes concerning deduction for capital instruments in insurance companies	0	607,741
Transitional adjustments concerning distribution of deductions	601,520	277,218
Total statutory adjustments of Common Equity Tier 1 capital	***-431,280***	***-113,737***
Total Common Equity Tier 1 capital	***3,969,348***	***4,041,226***
Additional Tier 1 capital		
Additional Tier 1 capital issued	829,000	829,000
Statutory adjustments Additional Tier 1 capital		
Own portfolio of Additional Tier 1 capital issued	0	-50
Capital instruments in financial entities (Additional Tier 1 capital) <10%	-55,143	-67,572
Capital instruments in financial entities (Tier 2 capital) <10%	-14,154	-18,945
Transitional adjustments concerning distribution of deductions	-601,520	-277,218
Transitional adjustments concerning indirect and synthetical ownership interests	15,045	6,546
Total statutory adjustments of Additional Tier 1 capital	***-655,772***	***-357,239***
Total Additional Tier 1 capital	***173,228***	***471,761***
Tier 1 capital	***4,142,576***	***4,512,987***
Tier 2 capital	0	0
Own funds	***4,142,576***	***4,512,987***
Amounts under the thresholds for deduction		
Capital instruments in financial entities <10%	437,618	412,591
Capital instruments in financial entities ≥10%	430,792	409,694
Deferred tax assets	4,397	7,345

Overview of capital, risk exposure and ratios and key figures

Table 10, continued
Capital, risk exposure and ratios and key figures

	2015 DKK '000	2014 DKK '000
Risk-weighted exposures		
Exposures to credit risk	20,790,704	19,155,027
Exposures to market risk	6,819,611	6,302,021
Items with operational risk	3,352,794	3,488,946
Total risk-weighted exposures	***30,963,109***	***28,945,994***
Ratios and key figures		
Common Equity Tier 1 capital ratio	12.8%	14.0%
Tier 1 capital ratio	13.4%	15.6%
Capital ratio	13.4%	15.6%
Requirements for institution-specific buffer	0.0%	0.0%
Common Equity Tier 1 capital available for buffers	5.4%	7.6%
Leverage ratio	8.8%	10.3%

Exposure classes

Exposure classes calculated using the standard method for credit risk pursuant to articles 111-141 of the CRR. Exposures are stated after impairment charges and before taking account of the effects of credit risk reductions.

Table 11
Development and average for items with credit risk

	Average 2015 DKK '000	Status 31 December 2015 DKK '000	Status 30 September 2015 DKK '000	Status 30 June 2015 DKK '000	Status 31 March 2015 DKK '000	Status 31 December 2014 DKK '000
Exposures to central governments and central banks	368,037	440,567	86,426	1,148,198	73,702	91,293
Exposures to institutions	1,170,020	1,139,352	1,138,588	1,109,774	1,400,263	1,062,125
Exposures to companies	6,184,768	6,216,226	6,044,108	6,482,518	6,269,847	5,911,143
Retail exposures	19,827,151	21,095,034	20,667,710	20,224,592	18,923,951	18,224,468
Exposures secured by mortgage in real property	1,825,048	1,914,656	1,928,627	1,749,993	1,746,454	1,785,506
Exposures in the event of breach	760,222	728,782	664,476	755,853	761,939	890,058
Share exposures	1,628,780	1,666,432	1,661,689	1,633,018	1,598,772	1,583,989
Other items	1,556,695	1,582,826	1,520,271	1,567,923	1,605,621	1,506,836
Total items with credit risk	*33,320,721*	*34,783,875*	*33,711,895*	*34,671,869*	*32,380,549*	*31,055,418*

Table 12

Items recognised in the balance sheet *) broken down by remaining maturity at the end of 2015

	On demand DKK '000	0-3 mths DKK '000	3 mths to 1 year DKK '000	1 to 5 years DKK '000	More than 5 years DKK '000
Exposures to central governments and central banks	438,194	279	726	1,306	14
Exposures to institutions	417,896	29,857	91,118	254	311
Exposures to companies	442,988	820,282	976,643	1,910,175	-660,115
Retail exposures	140,383	873,283	1,858,379	6,633,674	4,790,930
Exposures secured by mortgage in real property	33,614	78,267	212,465	535,570	744,505
Exposures in the event of breach	101,553	31,768	138,587	351,431	37,630
Share exposures	1,653,428	0	3	13,000	0
Other items	1,479,944	90,151	0	0	0
Total items recognised in the balance sheet	*4,708,000*	*1,923,887*	*3,277,921*	*9,445,410*	*4,913,275*

Items recognised in the balance sheet *) broken down by remaining maturity at the end of 2015

	On demand DKK '000	0-3 mths DKK '000	3 mths to 1 year DKK '000	1 to 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 mortgage in real property	41,978	88,952	221,045	643,136	710,640
Exposures in the event of breach	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 items recognised in the balance sheet	*4,538,629*	*1,618,712*	*2,327,846*	*8,132,809*	*5,686,602*

*) Items recognised in the balance sheet calculated according to the standard method in the CRR.

Table 13
Distribution by sector of exposure categories at the end of 2015

	Central governments and central banks DKK '000	Banks DKK '000	Com-panies DKK '000	Retail DKK '000	Mortgage in real property DKK '000	Unful-filled DKK '000	Shares DKK '000	Other items DKK '000	Total DKK '000	Of which SMEs*) DKK '000
Public authorities	48,115	0	12,000	30,979	0	164	0	0	***91,258***	0
Business										
Agriculture, hunting, forestry and fisheries	0	0	0	61,548	8,457	40,776	0	0	***110,781***	67,431
Industry and extraction of raw materials	8	0	523,613	370,896	7,221	10,661	0	0	***912,399***	440,113
Energy supply	0	0	0	24,930	468	497	0	0	***25,895***	24,987
Building and construction	0	0	261,026	569,004	43,986	40,280	0	0	***914,296***	760,287
Trade	0	0	548,173	1,165,293	57,369	31,428	0	0	***1,802,263***	1,568,908
Transport, hotels and restaurants	0	0	209,418	359,781	37,647	19,154	0	0	***626,000***	548,204
Information and com-munication	0	0	339,303	258,052	11,792	4,804	47,843	0	***661,794***	256,186
Financing and insurance	392,444	1,118,454	968,815	86,063	3,861	71,506	1,572,830	1	***4,213,974***	976,986
Real property	0	0	946,109	379,245	307,738	298,426	3	0	***1,931,521***	1,630,395
Other business	0	0	2,012,953	1,327,833	105,043	28,671	45,431	0	***3,519,931***	2,711,127
Total business	***392,452***	***1,118,454***	***5,809,410***	***4,602,645***	***583,582***	***546,203***	***1,666,107***	***1***	***14,718,854***	***8,984,624***
Of which SMEs*)			3,969,289	4,484,616	583,365				***9,037,270***	
Private	0	20,898	394,816	16,461,410	1,331,074	182,415	325	0	***18,390,938***	0
Other items								1,582,825	***1,582,825***	
Total	***440,567***	***1,139,352***	***6,216,226***	***21,095,034***	***1,914,656***	***728,782***	***1,666,432***	***1,582,826***	***34,783,875***	***8,984,624***

*) SMEs: Small and medium sized enterprises.

Table 14
Credit risk reduction and guarantees for exposures with credit risk

	Adjusted value of the collateral		Guarantees used	
	2015	2015	2014	2014
	DKK '000	DKK '000	DKK '000	DKK '000
Credit risk reduction and guarantees used				
Exposures to companies	431,100	757,278	0	0
Retail exposures	192,871	154,673	603	771
Exposures secured by mortgage in real property	1,320	2,030	0	0
Exposures in the event of breach	12,628	14,787	0	0
Total items with credit risk	*637,919*	*928,768*	603	771

Table 15
Exposures to counterparty risk

	2015	2014
	DKK '000	DKK '000
Exposures to counterparty risk		
Currency contracts		
Forward contracts/futures	86,073	88,464
Options	1,371	1,840
Currency swaps	195	945
Interest-rate contracts		
Forward contracts/futures	94,870	6,793
Interest-rate swaps and swaptions	132,465	81,198
Share contracts		
Options	0	603
Total	*314,974*	*179,843*

Credit risk

Credit risk is the risk that a counterparty is wholly or partly unable to fulfil payment 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. The Group's policy is to enter into loan agreements with customers with the ability and willingness to repay their loans.

Credit risk is the largest risk item in the Group's risk statement and amounted to 67% of the solvency requirement at the end of 2015 (66% at the end of 2014). The Group has allocated the most funds to this item in order to meet unforeseen losses. The credit quality of the Group's loan portfolio is deemed to be satisfactory, partly due to extensive diversification.

Credit policy

The overall credit risk is managed in accordance with policies and frameworks which are adopted and laid down by the Board of Directors of the Bank and which by delegation ensure a lending system with a high degree of managerial involvement. Responsibility for monitoring, overall risk management and reporting to the Bank's management is embedded in the Bank's central credit area. Moreover, the Bank has a credit committee which examines exposures over a certain size.

An important part of the Group's activities is to advise on and grant loans, credits and other financial products to private individuals and enterprises, including financial services regarding lending, leasing and factoring in the Bank's subsidiary AL Finans A/S.

The primary target group of the Bank is private customers, associations, as well as small and medium-sized Danish business customers where full-scale customer relationships are formed. Full-scale customer relationships provide a better insight into the overall financial situation of the customer, and this insight forms the basis for providing the best advisory services possible, and makes it easier to assess the risk of the individual exposure. Furthermore, the Bank aims at ensuring that the Bank's group of owners has the opportunity to conduct various forms of banking.

Generally, the Bank does not participate in geared investment transactions nor does it wish to finance projects of a speculative nature. When providing credit, the Bank's assessment is made on the basis of an ethical profile with a desire to diversify risk over sectors, as well as the size of the exposure. This is important for the establishment of a sustainable foundation for the Bank's further development.

The Bank wants to significantly limit lending to enterprises which are dependent upon the volatility of the property market, and the Bank's policy is not to finance projects engaged in speculation.

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 Bank's credit policy.

Furthermore, it is the Bank's credit policy to minimise the credit risk in agriculture, as well as in sectors and enterprises which, for ethical or political reasons, the Bank does not wish to be associated with.

Credit organisation

The Bank is organised with 71 branches, of which 19 are business branches and 6 are business centres. The Bank's customers primarily live in Denmark, as 98% of the Bank's exposures have been granted to customers with a permanent address in Denmark. The maximum exposure excluding the trading portfolio in a country outside of Denmark amounts to 0.7%.

Approvals of loan facilities at the Bank are limited to the individual employee's authority to grant loans based on their competences and/or market area. The authority to grant loans is structured such that branches may grant loans in the majority of cases but, in larger and more complex cases, the branches must make a recommendation for authorisation to the central Credit department. If necessary the credit committee or Board of Directors will grant the loan.

The Bank's authorisation procedure is built on a hierarchical framework, as follow-up checks are performed at a higher organisational level than where the authorisation is granted. The follow-up checks, which also concern the basis for approval, are documented in the Bank's system and regular reports are submitted to the Bank's management.

In the Bank the customer functions and the control and monitoring function are organizationally separated. The Bank also has independent departments responsible for property assessments, debt collection and mortgage deeds.

The credit area is responsible for day-to-day sparring and monitoring of the branches, and is also in charge of portfolio monitoring and reporting to the Bank's management and Board of Directors.

Rating

Since 2010, the Bank has been using its own internally developed rating model for private and business customers to support assessment of the credit risk of individual customer exposures. As of March 2015, a new model was taken into use. Among other things, stricter financial legislation, imposed by guidelines and conclusions from the Danish Financial Supervisory Authority (Danish FSA) in 2014, is incorporated in the model.

The rating model is a hybrid model, which is based on a combination of payment behaviour and objective information about the customer, including financial statements for business customers and financial information about private customers. Rating categories are from 1-11, where rating 1 is the best and rating 11 is the poorest. The rating categories are compatible with the Danish FSA's credit quality classes.

- Rating categories 1-5: Customers with exposures of good/normal credit quality (Danish FSA credit quality 3/2a)
- Rating categories 6-8: Customers starting to show weakness/certain signs of weakness (Danish FSA credit quality 2b)
- Rating category 9: Customers with significant signs of weakness but without objective evidence of impairment (OEI) (Danish FSA credit quality 2c)
- Rating categories 10-11: Customers with OEI, with and without individual impairment losses (Danish FSA credit quality 1)

Regardless of the customer's rating, the individual credit decision will always be based on a total assessment of the customer. Accordingly, individual credit quality 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 Bank's rating is a management tool in ongoing exposure monitoring, including identification of customers starting to show signs of weakness, or customers with OEI. Furthermore the rating is used in the Bank's model for collective impairments.

A quantitative and qualitative assessment of the model is carried out annually. The rating model is continuously being improved, and it is important that it is as accurate as possible.

Moreover ongoing follow-up of customers has high priority, such that the rating is carried out on an updated and documented basis, as wrong or incomplete information may result in a misleading rating and, consequently, an incorrect basis for decisions.

Credit risk management and monitoring

Over the past years, the Group has increased its focus on processes and tools that contribute to better and more effective management and monitoring of credit risk. In 2015, several new tools were developed to support this. In 2016, credit risk management will continue to focus on management and monitoring of the Bank's lending balance and management of the Bank's impairment charges with a view to minimise the Bank's risk of losses.

The branch network is responsible for collecting, registering and documenting the basis for granting loans before the Bank branch takes on any credit risk. The branch network is also responsible for ongoing follow-up on customer relationships. This includes updating the credit basis and registrations used by the business, in the Bank's various follow-up tools, and in the Bank's rating model.

The branch management is responsible for ensuring that the employees have the required expertise, insight and detailed knowledge about the Bank's credit policy and the given authorisations. The branch management is also responsible for ensuring that any authorisation of credit that goes beyond the authorisation level of the branch is recommended for authorisation by the Bank's central Credit Department.

The central Credit Department must ensure that the credit strategy as well as credit policy is observed by the branches. Moreover, the central Credit Department carries out branch contact, including credit advisory services and sparring as well as objective case processing, and co-authorisation/recommendations on cases from branches and cases of a more complex nature that exceed the branch management's authority to grant loans.

The central Credit Department carries out ongoing credit reviews, in which branches undergo an extraordinary review of their credit-weak customers and newly authorised cases, focusing on general management of the exposure. There is a rotation system which ensures that all branches will be reviewed every 3 years. Where assessed necessary, the branch will be required to prepare action plans for follow-up by the Credit Department.

There is also an annual asset review of the Group's exposures on the basis of a materiality and risk-based approach. Current and future risks on selected exposures are assessed, and it is checked that indications of impairment comply with current regulations. The conclusions are reported to the Board of Directors.

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

Weak/distressed customers are identified on the basis of selected criteria, including the customer's rating. All these customers are reviewed individually at least quarterly by the branches in order to prepare action plans and make cash-flow calculations of any need for impairment. The central Credit Department subsequently reviews the work done by the branches.

All large lending exposures are regularly reassessed, and at least once a year, on the basis of the customer's financial statements etc. If the developments in objective indicators are assessed to warrant individual impairments, impairment charges are made according to regulations laid down for this purpose.

In practice, major lending exposures are reassessed more frequently, for example, in connection with the ongoing customer contact or the quarterly statement of the Bank's individual solvency need, where all the Group's lending exposures exceeding 1% of the Group's capital base is assessed. The solvency review also includes a calculation of the individual solvency need per exposure for exposures exceeding 2% of the Group's capital base with Danish FSA credit quality 1 or 2c.

The Bank's Credit Risk Analysis Department has overall responsibility for the quarterly calculation of the individual solvency need with regard to credit risks. When making this calculation, the Credit Risk Analysis Department also assesses the Bank's risk concentrations on e.g. collateral, sectors and large exposures.

The Credit Risk Analysis Department also carries out checks and monitoring on a sample basis of the Credit Department's management and authorisation of exposures, focusing particularly on weak/distressed exposures. Thematic controls are carried out, as considered necessary, e.g. developments in housing prices and leverage, insolvent homeowners with lapsing interest-only periods on their loans, double-house financing, developments in exposures and ratings for new business customers.

Members of the Board of Directors, the Board of Representatives, local council members and the Executive Management are subject to stricter control and monitoring, particularly with respect to overdrafts.

Credit risk is reported quarterly to the Board of Directors with more detailed comments on the development in rating classes/credit quality, overdrafts and unsecured parts, development in impairments as well as customer segments and sectors. Also developments in the credit quality of the Bank's portfolio are monitored through an internally developed credit barometer, as well as performance and compliance with credit-policy objectives and requirements laid down in the Bank's credit policy. In addition, each month the Board of Directors reviews developments in the Bank's monthly balance sheet and loans granted exceeding a specific amount.

The Credit Risk Analysis Department prepares various management reports for monitoring of the Bank's credit quality; these include distribution of rating, data quality and follow-up checks of loans granted. Separate reports are drawn up for the branch management and the Bank's management.

Furthermore, the Credit Risk Analysis Department contributes to the Bank's quarterly All Risk reporting with input for the Risk and Balance Sheet Management Committee, as well as the Board of Directors. This report includes developments in rating categories, developments in the mortgage portfolio, as well as the supplementary grants of the Board of Directors.

Finally, credit monitoring is supported by ad hoc analyses on the basis of developments in the portfolio as well as fixed quarterly assessments of the solvency needs and quarterly assessments of the need for individual and collective impairment charges. In addition, cross-sectoral analyses and reports are carried out for specific areas.

The Bank is represented in projects concerning management and monitoring of credit risks in Bankernes

EDB Central (BEC), including IFRS 9, FINREP, COREP and other credit based reporting, as well as development of rating models.

The Bank's subsidiary, AL Finans A/S, does not use internal rating systems to assess credit risks. However, the company is exceedingly experienced within the product-specific business areas. Risk groups from Experian A/S are used with regard to business customers, however.

AL Finans A/S carries out quarterly manual reviews of all customers with signs of weakness. These reviews are based on product-specific segments and assessments of the need for impairment charges 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.

Risk hedging and risk reduction

The Group uses all the options available to mitigate risk, and these generally involve securing collateral in the assets that the Group finances. The loan value of the collateral is based on conservative haircuts. This implies that, for reasons of prudence, some assets are calculated at a reduced value or DKK 0, and therefore the real collateral value is assessed significantly higher than the calculated value.

An assessment of the value of the collateral is a significant factor in determining the Group's risks. Therefore, the Group is focusing on ensuring that assessments of mortgaged assets are updated and documented.

- As far as possible, loans for private customers are hedged using different types of collateral. This is usually by taking a registered mortgage deed in residential property and cooperative housing. 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

In principle, the Bank's collateral is measured on the basis of the following points, unless significant indicators for other measurement exist:

- Private residential properties – up to 80%, of a conservatively assessed market value
- Cooperative housing is measured on the basis of the banks' "blue stamp programme"
- Commercial properties - about 60-80%, of a prudently assessed market value
- Cash and easily realisable securities - 70-95% of the official price
- Cars – 50-75% of current market value
- Chattels, other collateral – based on individual assessment
- The Bank does not approve collateral in unlisted shares unless there is a special reason

Within cashflows of individually assessed exposures, collateral is estimated at fair value, pursuant to regulations from the Danish FSA.

The Bank makes regular assessments of the value of the collateral, calculated as the expected net proceeds on realisation within six months. 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 Bank does not use instruments such as credit default swaps or other types of insurance to hedge credit risks on loans to customers.

The Group's total collateral is shown in table 20 on page 27.

Credit risk on Group customer loans

The Group's loan portfolio is further described below, whereas impairments and provisions are described in "Impairments and provisions on loans and guarantees", see page 31.

The breakdown into the "Private" and "Business" segments follows the Group's internal definition.

Loans and guarantees

The Group's total exposure, expressed as gross loans and guarantees, as presented in the 2015 Financial Statements, is DKK 25.3 bn., see table 16.

Historically, the Private portfolio of the Bank has been relatively large compared with the Business portfolio. This is reflected in the Group, where the percentage of the private segment of total gross loans and guarantees amounted to 69%, see table 16.

The business segment's percentage of total gross loans and guarantees at the end of 2015 amounted to 31%, see table 16. Apart from a few larger corporate exposures, the business segment in the Bank is characterised by a large number of small and medium-sized, primarily owner-managed, enterprises.

As a result of its basic philosophy and historical foundation, the Bank has a certain exposure volume to associations, including trade unions and charitable housing companies. These are also included in the Business segment.

Table 16
The Group's gross loans and guarantees, as well as net loans and guarantees broken down by main customer segments at the end of 2015

	Private DKK '000	Business DKK '000	Total DKK '000
Loans before impairments	14,703,883	6,475,755	*21,179,638*
Guarantees before provisions	2,771,157	1,344,986	*4,116,143*
Total loans and guarantees before impairments etc.	*17,475,040*	*7,820,741*	*25,295,781*
Individual impairments on loans	588,684	720,028	*1,308,712*
Collective impairments on loans	70,604	31,986	*102,590*
Individual provisions on guarantees	5,386	17,913	*23,299*
Collective provisions on guarantees	5,470	6,340	*11,810*
Total loans and guarantees after impairments etc.	*16,804,896*	*7,044,474*	*23,849,370*

Note: These figures are excluding loans to credit institutions. The breakdown into the customer segments "Private" and "Business" follows the Group's internal customer definition.

Group loans are geographically broken down between all the regions of Denmark, though most predominantly in the Greater Copenhagen area, followed by the Region of South Denmark and the Region of Central Jutland. The Capital Region of Denmark accounts for 56% of the Group's total gross loans and guarantees, see table 17.

If the private segment is considered separately, the distribution is the same, see table 17. Among other things, this is due to the segment's large exposure within owner-occupied properties and cooperative housing, where cooperative housing in particular is typically concentrated in major cities.

The business segment is concentrated in the Capital Region of Denmark, which accounts for 68% of the segment's total gross loans and guarantees. The other percentage of the segment's portfolio has a good, even diversification over the other regions of Denmark, however, see table 17.

Table 17
The Group's gross loans and guarantees, as well as net loans and guarantees broken down by main customer segments at the end of 2015

	Private DKK '000	Business DKK '000	Total DKK '000
Capital Region of Denmark	8,749,059	5,350,802	*14,099,861*
Region of Zealand	1,495,755	309,093	*1,804,848*
Region of South Denmark	3,099,447	736,000	*3,835,447*
Region of North Jutland	1,127,441	415,380	*1,542,821*
Region of Central Jutland	3,003,338	1,009,466	*4,012,804*
Total	*17,475,040*	*7,820,741*	*25,295,781*

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

Total gross loans and guarantees are considered as having satisfactory credit quality with a sound risk diversification in which 58% of gross loans and guarantees are in the Danish FSA credit quality 3/2a, see table 18.

Both Private and Business portfolios have a sound risk diversification, in which 59% and 57%, respectively, of gross loans and guarantees are in Danish FSA credit quality 3/2a, see table 18.

Table 18
The Group's gross loans and guarantees, broken down by Danish FSA credit quality at the end of 2015

	Private DKK '000	Business DKK '000	Total DKK '000
Danish FSA credit quality 3/2a	10,242,588	4,438,610	*14,681,198*
Danish FSA credit quality 2b	5,577,678	1,158,370	*6,736,048*
Danish FSA credit quality 2c	484,408	441,035	*925,443*
Danish FSA credit quality 1	1,170,366	1,782,726	*2,953,092*
Total	*17,475,040*	*7,820,741*	*25,295,781*

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

Total gross loans and guarantees are mostly concentrated in small exposure intervals. This concentration may be attributable to the private customer segment, where 86% of gross loans and guarantees are represented by exposures of less than DKK 2 mill., see table 19.

Danish FSA credit quality 3/2a accounts for half the gross loans and guarantees for the private customer segment in small exposure intervals, see table 19.

In addition to the percentage of large exposures, gross loans and guarantees to the business customer segment have a solid diversification on size, see table 19. For the business customer segment there is also a fairly good diversification between sectors, see breakdown by sector at Group level in table 25 on page 32.

The sector diversification for the Bank's business segment is in table 13 on page 18.

Table 19
The Group's gross loans and guarantees broken down by exposure intervals and Danish FSA credit quality at the end of 2015

	Danish FSA credit quality 3/2a DKK '000	Danish FSA credit quality 2b DKK '000	Danish FSA credit quality 2c DKK '000	Danish FSA credit quality 1 DKK '000	Total DKK '000
Private					
1. < DKK 500,000	4,085,914	1,805,766	192,739	425,551	*6,509,970*
2. DKK 500,000-2,000,000	4,647,762	3,208,858	254,720	479,323	*8,590,663*
3. DKK 2,000,000-4,000,000	893,820	428,662	27,140	102,332	*1,451,954*
4. DKK 4,000,000-10,000,000	547,629	128,247	9,810	66,347	*752,033*
5. DKK 10,000,000-35,000,000	34,281	5,546	0	76,745	*116,572*
6. > DKK 35,000,000	33,181	600	0	20,067	*53,848*
Total	*10,242,587*	*5,577,679*	*484,409*	*1,170,365*	*17,475,040*
Business					
1. < DKK 500,000	397,520	148,192	101,107	40,800	*687,619*
2. DKK 500,000-2,000,000	245,189	171,092	94,676	145,073	*656,030*
3. DKK 2,000,000-4,000,000	142,164	126,618	51,613	106,591	*426,986*
4. DKK 4,000,000-10,000,000	234,127	163,353	87,888	160,525	*645,893*
5. DKK 10,000,000-35,000,000	497,953	220,230	13,097	344,049	*1,075,329*
6. > DKK 35,000,000	2,921,657	328,885	92,655	985,687	*4,328,884*
Total	*4,438,610*	*1,158,370*	*441,036*	*1,782,725*	*7,820,741*
Group					
1. < DKK 500,000	4,483,434	1,953,958	293,846	466,351	*7,197,589*
2. DKK 500,000-2,000,000	4,892,951	3,379,950	349,396	624,396	*9,246,693*
3. DKK 2,000,000-4,000,000	1,035,984	555,280	78,753	208,923	*1,878,940*
4. DKK 4,000,000-10,000,000	781,756	291,600	97,698	226,872	*1,397,926*
5. DKK 10,000,000-35,000,000	532,234	225,776	13,097	420,794	*1,191,901*
6. > DKK 35,000,000	2,954,838	329,485	92,655	1,005,754	*4,382,732*
Total	*14,681,197*	*6,736,049*	*925,445*	*2,953,090*	*25,295,781*

Note: This calculation is based on gross loans and guarantees. The breakdown into the customer segments “Private” and “Business” follows the Group's internal customer definition. The figures are excluding loans to credit institutions.

Collateral and security

The most important collateral received by the Group is mortgages in real property, which alone account for 65% of the Group's total collateral. This high percentage is generated mainly from the private segment, where mortgages in real property alone account for 76%, see table 20.

The relatively high percentage of mortgages in cars for the private and business segment is due to the Bank's subsidiary, AL Finans A/S.

Table 20
Group collateral broken down by type of collateral at the end of 2015

	Private DKK '000	Business DKK '000	Total DKK '000
Properties	6,750,729	1,524,994	*8,275,723*
Securities, bonds, cash deposits, etc.	120,619	694,190	*814,809*
Cars	1,980,841	829,442	*2,810,283*
Warrants and guarantees	2,395	8,284	*10,679*
Other collateral	59,250	825,324	*884,574*
Total	*8,913,834*	*3,882,234*	*12,796,068*

Note: Calculated loan values of collateral deposited in accordance with the Group's business procedures. The breakdown into the customer segments "Private" and "Business" follows the Group's internal customer definition.

The total unsecured exposure for the Group makes up 46% and is assessed to be satisfactory, see table 21.

The Group's collateral in the private segment mainly consists of real property. The property market is favourable and overall prices have risen at national level for houses as well as flats. However, this increase is driven by larger urban municipalities, as there are still large areas of Denmark in which the property market is at a standstill. The overall unsecured part for the private segment is at a satisfactory level, however the general strengthening in the property market is not yet reflected in the unsecured part.

The Bank's policy is that a significant part of business exposures must be covered by collateral in the assets of the company and with personal guarantees from the business owner. The total unsecured exposure for the business segment is assessed to be satisfactory, see table 21.

Regarding AL Finans A/S, the majority of all loans have collateral in the form of the mortgaged asset.

Table 21
Net loans and guarantees, collateral and unsecured exposures at the end of 2015

	Private DKK '000	Business DKK '000	Total DKK '000
Loans and guarantees after impairments	16,804,896	7,044,475	*23,849,371*
Collateral	8,913,834	3,882,234	*12,796,068*
Unsecured exposures	47%	45%	*46%*
Total lending rate of loans	70%	30%	*100%*

Note: Impairment charges include individual and collective impairments and provisions. The breakdown into the customer segments "Private" and "Business" follows the Group's internal customer definition. The figures are excluding credit institutions.

Arrears and loans in arrears

Group arrears account for DKK 82.7 mill. and are concentrated on arrears with short duration. Out of the Group's total arrears, the private segment accounts for 64% and the business segment account for 36%, see table 22.

The Bank has calculated loans in arrears as the debtor's total lending and not only as the part of the debtor's loans in arrears. The level may therefore seem high compared with similar banks.

Table 22
Payment in arrears broken down by age of arrears at the end of 2015

	Private DKK '000	Business DKK '000	Total DKK '000
1-30 days	41,424	22,897	*64,321*
31-60 days	2,505	700	*3,205*
61-90 days	1,690	4,430	*6,120*
91 – days	7,384	1,696	*9,080*
Total	*53,003*	*29,723*	*82,726*
Rate of arrears of total arrears	64%	36%	*100%*

Note: Arrears are calculated as in the notes on page 60 of the financial statements. The breakdown into the customer segments “Private” and “Business” follows the Group's internal customer definition. The figures are excluding credit institutions.

Loans in arrears totalled 5.6% of the Group's total net loans and guarantees at the end of 2015. Of this, loans more than 90 days in arrears accounted for 0.2%, see table 23.

The Bank has “early warning” systems to reduce the number of customers with arrears of more than 90-days past the due date. In cooperation with the customers, the Bank has worked consistently on reducing the level by finding lasting solutions to any financial challenges.

Table 23
Loans in arrears broken down by age of arrears and segment at the end of 2015

	Private DKK '000	Business DKK '000	Total DKK '000
1-30 days	999,905	201,182	*1,201,087*
31-60 days	42,413	7,350	*49,763*
61-90 days	9,846	20,494	*30,340*
91 – days	41,485	7,156	*48,641*
Total	*1,093,649*	*236,182*	*1,329,831*

Note: The calculation is based on the loans balance on customers in arrears, as calculated in the notes on page 60 of the financial statements. The break-down into the customer segments "Private" and "Business" follows the Group's internal customer definition. The figures are excluding credit institutions.

Largest customer credit risks

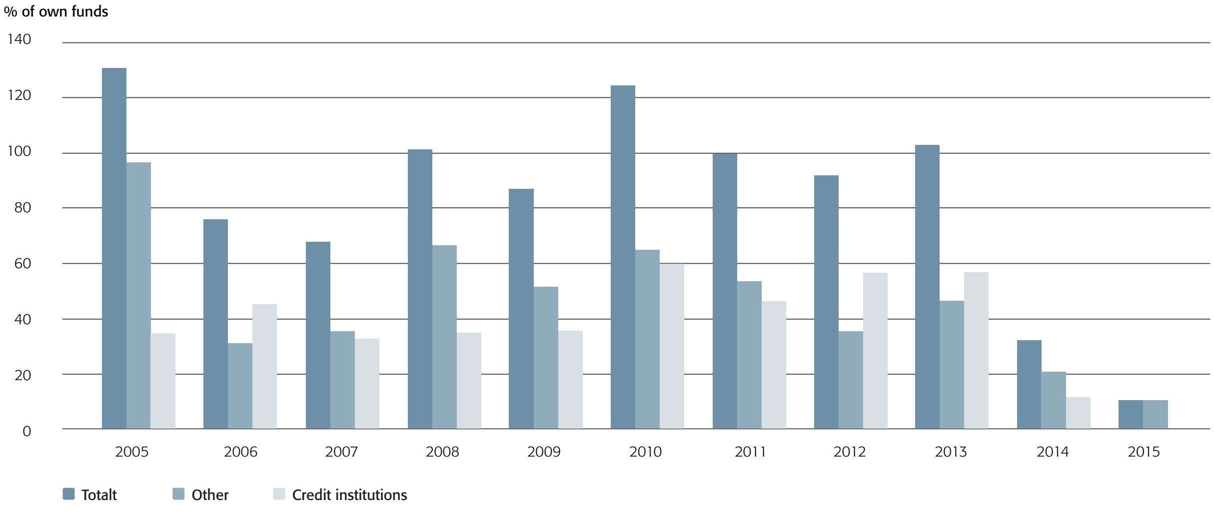
The Bank focuses on avoiding concentrations of risk, and Group credit policy is to minimise the risk of large single exposures.

The key ratio "Sum of large exposures", i.e. the sum of consolidated exposures after deductions which are greater than or equal to 10% of the Group's capital base, amounts to 10.6% of the Group's capital base at the end of 2015, excluding loans to credit institutions. This corresponds to an overall exposure of about DKK 0.4 bn. which is a reduction compared with 2014, see figure 2.

The sum of large exposures, excl. credit institutions which, less deductions, individually exceed 10% of the Group's capital base, was reduced to one exposure in 2015 totaling 10.6% of the Group's capital base. This is due to the fact that no loans to credit institutions exceed 10% of the Group's capital base individually after deduction.

For more information on credit institutions, see "Credit risk on credit institutions", page 30.

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



Note: The figures are calculated on the basis of the values notified for the Group for consolidated exposures after deduction which are greater than, or equal to 10% of the own funds, and follow current legislation at all times. There are changed regulations for risk-reducing measures with effect from 2014.

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 etc.

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 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 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 with a natural cooperation potential within other business areas.

In addition to obtaining knowledge about counterparties, prior to entering into any commitment, the Credit department carries out an analysis of the most recent interim financial statements, and the credit institution is interviewed. This analysis work is carried out by Credit.

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

Follow-up is performed at management level in the Bank, and 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 potentially market-sensitive information about the credit institution. These employees 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 exposure with financial counterparties is 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

Grants of 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 of 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.

Impairments on loans and provisions for guarantees etc.

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.

Impairment charges, provisions and losses recognised in the income statement in 2015 amounted to DKK 116 mill. against DKK 240 mill. in 2014, see table 24.

The calculations in tables 24 and 25 include credit institutions.

Group accumulated impairment charges and provisions amounted to DKK 1,490 mill. at the end of 2015 against DKK 1,434 mill. in 2014. Impairment charges/provisions on the "Real Property" sector are related to individual large exposures of the Bank which are all monitored closely.

The Bank's objective for the coming years is a normalisation of the impairment level at about 0.4-0.6% of total gross loans and guarantees. Continuous, sustainable focus on weaker customer exposures in the Bank, as well as quality assurance of the credit quality basis and collateralisation, together with a more stable property market and continued low level of interest rates, are expected to contribute to this objective.

Table 24
Distribution by sector for impaired exposures, including collective impairment charges and collective provisions at the end of 2015

	Exposures DKK '000	Exposures impaired/ provided DKK '000	Impairment charge/ provision DKK '000	Impairment charge/provision and loss recognised in the balance sheet DKK '000
Public authorities	41,065	5,512	39	-50
Business				
Agriculture, hunting, forestry and fisheries	100,875	116,139	49,534	-16,359
Industry and extraction of raw materials	963,989	453,609	36,613	5,057
Energy supply	6,111	5,366	327	587
Building and construction	724,071	484,314	84,809	-8,934
Trade	1,463,441	470,427	104,974	-16,247
Transport, hotels and restaurants	516,167	245,923	57,894	-12,803
Information and communication	225,253	155,481	21,412	-6,401
Financing and insurance	1,826,791	983,265	183,655	-31,142
Real property	1,496,779	1,416,268	311,803	-9,731
Other business	2,559,063	797,158	128,252	-40,591
Total business	***9,882,540***	***5,127,950***	***979,273***	***-136,564***
Private	15,540,053	6,927,312	511,104	20,653
Total	***25,463,658***	***12,060,774***	***1,490,416***	***-115,961***

Note: CPR customers with industry group code are grouped under the sectors for businesses.

Table 25
Changes in impaired exposures at the end of 2015

	Individual impairment charges on credit institutions DKK '000	Individually impaired loans and other items with credit risk DKK '000	Individual provisions on guarantees DKK '000	Collectively impaired loans and other items with credit risk DKK '000	Collective provisions on guarantees DKK '000
Accumulated impairment charges/provisions brought forward on loans and guarantee debtors	17,200	1,254,257	13,329	142,057	7,234
Impairment charges/provisions on loans and guarantee debtors	10,803	349,232	14,114	52,057	6,214
Reversal of impairment charges for the year	0	-239,884	-4,144	-94,877	-1,638
Other changes	0	36,042	0	3,353	0
Actual loss (written off) previously subject to impairment charges	0	-74,933	0	0	0
Accumulated impairment charges/provisions brought forward on loans and guarantee debtors	***28,003***	***1,324,714***	***23,299***	***102,590***	***11,810***
Actual loss (written off) not previously subject to impairment charges/provisions	0	24,084	0	0	0
Recognised in claims previously subject to impairment charges	0	13,061	0	0	0

Note: Opgørelsen følger årsregnskabets Note 13.

Counterparty risk

Counterparty risk includes management by the Group 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.

Management of 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. The risk is monitored daily, as is compliance with lines granted.

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

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

Table 26
Derivative financial instruments at the end of 2015

	Nominal value DKK '000	Net market value DKK '000	Positive market value DKK '000	Negative market value DKK '000
Currency contracts				
Forward transactions/futures, purchase	85,328	233	469	236
Forward transactions/futures, sale	6,142,058	13,781	21,299	7,518
Options, acquired	130,594	64	64	0
Currency swaps	3,900	0	0	0
Interest-rate contracts				
Forward transactions/futures, purchase	1,484,312	-366	2,309	2,675
Forward transactions/futures, sale	4,320,956	69,340	69,636	296
Interest-rate swaps	8,074,298	-114,842	46,062	160,904
Total		*-31,790*	*139,839*	*171,629*

ECAI

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

The data centre has converted the credit rating categories of Standard & Poor's Ratings Services to credit quality steps using 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.

Table 27
The Bank only has exposures for which credit ratings from Standard & Poor's Ratings Services are used against the institutions

	2015 DKK '000	2014 DKK '000
Banks		
Exposure value in risk weighting	661,812	691,192
Exposure value according to weighting with credit quality step	206,986	208,183

Market risk

The Arbejdernes Landsbank Group regularly accepts various forms of market risk, primarily as interest-rate risk, share 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 has a strategic approach to the size of its exposure to market risk. The Bank puts high priority on managing and monitoring business with market risk because of the increasing scope of its business in this area and the increasing complexity of a number of products in recent years.

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 addressed 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 transactions outside the trading portfolio which could have market risks.

Under normal market conditions, general market risks are determined by macro-economics, 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 almost exactly the expected loss on positions with interest-rate risk in the event of a parallel upwards change in the yield curve of 100 basis points. Risks on convertible mortgage-credit bonds and bonds with an interest ceiling etc. are based on correction factors issued by the Danish FSA and information obtained from leading market participants on modified duration. Other types of interest-rate-related option risks are based on the delta valuation calculation combined with modified durations for 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 28
Group interest-rate risk

	2015	2014
	DKK '000	DKK '000
Broken down by type of business		
Bonds etc.	701,048	395,001
Derivative financial instruments	-769,479	-483,859
Mortgage deeds	57,763	31,510
Other items	-33,124	11,619
Total	*-43,792*	*-45,729*
Broken down by currency		
DKK	106,230	80,914
USD	--93,122	-75,417
EUR	-63,781	-58,417
GBP	2,813	5,463
NOK	-5	923
CHF	2,569	590
SEK	1,505	220
Other	-1	-5
Total	*-43,792*	*-45,729*

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

Share risk is the risk of losses as a result of changes in share prices. The share 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 shareholdings held in the trading portfolio, and these holdings are diversified over as many companies as possible so that a general fall in the stock markets of 10% would lead to a loss of DKK 51.3 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, where weighting takes volatility into account.

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 government bonds, for example, credit bonds have become 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 diversification results in regular balancing of the portfolio with regard to the risk assessment.

Currently, DKK 1.8 bn., corresponding to 12% of the total bond portfolio, has been invested in a very diversified portfolio of corporate bonds. Interest-rate sensitivity represents DKK 54.6 mill., mainly in DKK and EUR bonds.

Investment in bonds issued by banks represents DKK 2.6 bn. and 17% of the Bank's total bond portfolio. Interest-rate sensitivity represents DKK 83.4 mill., mainly in banks with a BBB+ rating or higher and with a concentration in EUR bonds.

Table 29
The bond portfolio broken down by rating

	2015	2014
	DKK '000	DKK '000
Rating		
AAA	48%	37%
AA+, AA, AA-	5%	9%
A+, A, A-	19%	23%
BBB+	4%	8%
BBB	9%	7%
BBB-	4%	4%
Rating < BBB-	2%	2%
Not rated	9%	10%
Total	*100%*	*100%*

Figure: Distribution according to the rating scale of Standard & Poor based on Standard & Poor ratings or ratings from Moody converted to corresponding ratings in the Standard & Poor grouping.

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 the scope of the Bank's other business, including transactions with interest-rate risk taken 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 ratios and key figures, stress tests of the holdings are also performed.

Interest-rate risk outside the trading portfolio

To a certain extent, the Bank's interest-rate risk arises 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 as 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.

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 variation in interest-rate risk is modest, the risk is not calculated on a daily basis, but is included in the overall calculation at previously calculated risk levels.

Risks are primarily in DKK with short duration. Some large business activities are hedged separately for interest-rate risk.

Shares etc. outside the trading portfolio

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

Table 30
Shares etc. outside the trading portfolio

	2015 DKK '000	2014 DKK '000
Fair value brought forward	806,328	744,435
Realised capital gain in the income statement *)	6,231	38,981
Unrealised capital gain in the income statement	-6,870	18,466
Other additions **)	0	55,505
Net purchases ***)	7,747	-51,059
Total fair value carried forward	***813,436***	***806,328***

*) Of which, DKK 38.6 mill. is attributable to the sale of shares in Nets Holding in 2014.
**) The Bank's ownership interest in Bankernes EDB Central (BEC) was reduced to under 20% in 2014, and the ownership interest was then grouped under the item "Shares etc."
***) In 2014, the Bank sold shares in Nets Holding worth DKK 109 mill. and acquired shares in DLR Kredit worth DKK 60 mill.

Holdings in sector companies are unlisted and are valued at fair value. The percentage of listed shares amounted to DKK 10.7 mill. at the end of 2015 against DKK 6.2 mill. at the end of 2014. Of the equity investments in 2015, interests in financial entities account for DKK 755.8 mill., of which DKK 400.2 mill. account for shares between 10% and 20% of the relevant enterprises.

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 balance between maturity of assets and liabilities, in which 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 major currencies.

The Bank generally has a very conservative liquidity policy. The Bank has an objective of excess liquidity of 100% in relation to the 10% and 15% stipulated in section 152 of the Danish Financial Business Act. In relation to the recently introduced LCR requirements, the Bank is subject to a requirement of excess cover of 30 percentage points in 2016. The excess cover is expected to be maintained in relation to the increases in the required LCR ratio which will take place in the coming years.

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 in relation to the section 152 regulations 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-twelve months forward of at least 75%. The Bank is working on a forecast and stress test model in LCR.

In addition to regular calculation of the excess liquidity coverage, 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 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 entered into force on 1 October 2015 and entail stricter requirements for the Bank's liquidity management function and a need to reorganise the Bank's liquidity buffer. The Bank's bond portfolio must contain a proportionally higher percentage of government bonds than previously, as the liquidity buffer must include a minimum of 30% government bonds, etc., which led to a proportional reduction in the holdings of mortgage-credit bonds.

Encumbered assets

To a certain extent, the Bank has encumbered assets in connection with 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 of 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 31
Encumbered assets

	Carrying amount 2015 DKK '000	Fair value 2015 DKK '000	Carrying amount 2014 DKK '000	Fair value 2014 DKK '000
Assets				
Encumbered assets				
Shares	0	0	0	0
Bonds	2,529,094	2,529,094	587,168	587,168
Other assets	150,423	150,423	300,808	300,808
Total encumbered assets	***2,679,517***	***2,679,517***	***887,976***	***887,976***
Encumbered assets				
Shares	1,083,859	1,083,859	1,066,333	1,066,333
Bonds	12,992,438	12,992,438	13,979,463	13,979,463
Other assets	25,222,429	25,253,998	25,077,422	25,143,632
Total unencumbered assets	***39,298,726***	***39,330,295***	***40,123,218***	***40,189,428***
Collateral received, available for encumbrance				
Bonds at fair value				
Encumbered collateral	118,829	118,829	1,552,628	1,552,628
Unencumbered collateral	56,324	56,324	170,941	170,941
Total bonds at fair value	***175,153***	***175,153***	***1,723,569***	***1,723,569***
Encumbered assets/collateral received				
Encumbered assets and collateral	2,798,346	2,798,346	2,440,604	2,440,604
Counterpart liabilities	1,903,081	1,903,081	2,363,978	2,363,978

Operational risk

Operational risk means the risk of loss as a consequence of inappropriate or incomplete internal procedures, human errors and systems failure, or as a consequence of external events, including legal risks. All activities in the organisation are associated with operational risks.

Policies

Operational risks and losses can be limited but not eliminated. The Bank's Board of Directors has laid down a policy for operational risk, the purpose of which is to create an overview of Group operational risks, minimise the number of errors, and reduce Group losses due to operational errors, taking into account related costs. 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, business procedures, physical security, etc.

Governance, monitoring and reporting

Operational risk is managed across the Group through a comprehensive system of business procedures and control measures prepared in order to ensure an optimum process environment. Among other things, the aim is to minimise operational risks by segregation of function between implementation and control of the activity.

Responsibility for management of risks remains with the respective business units, “risk owners”. The Group registers and categorises loss-making events of more than DKK 5,000, and there is ongoing registration of identified risks, with reports to the Head of Risk Management, the Executive Management and the Board of Directors, according to more detailed criteria.

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

Management of operational risk, including the role as risk facilitator, is anchored in the Group's Financial Department.

Fraud

On the basis of regular reporting received by the Bank's Board of Directors and Executive Management, in the opinion of the Executive Management, the Bank has a satisfactory level of measures to counter the risk of fraud.

IT security

Information and information systems are of significant importance to Arbejdernes Landsbank and therefore IT security is vital for the company's credibility and continued existence. An IT security function has been established, and the Bank's Executive Management and Board of Directors continuously take a position on IT security.

The Bank's work on IT security is based on legislative conditions, as well as the ongoing operations. Operation of IT installations in the Group and with our permanent IT supplier, Bankernes EDB Central (BEC) is carried out according to documented operating plans and guidelines. Operations must be safe and stable and this is secured through the highest degree of atomization possible and through ongoing adjustment of capacity. At our suppliers, this is secured through written agreements. Work on IT security also involves preparing contingency and emergency plans to ensure that continued operations can be carried out at a satisfactory level despite any extraordinary events. Bankernes EDB Central (BEC) provides statements about security setups annually.

Compliance

Operational risk includes compliance risks, which means the risk that the Bank is not operated according to legal requirements, standards on the market and good business ethics.

Arbejdernes Landsbank has an independent compliance function aimed at assisting management in ensuring Group compliance with current legislation, market standards and internal rules, and thus in identifying and reducing the risk that the Bank is ordered to take restrictive measures, suffers loss of reputation, or the Bank or its customers suffer significant financial losses. Compliance regularly reviews the critical business procedures in order to assess risks and recommendations for limiting each risk.

The Compliance Function is undertaken by the Bank's legal director, and managed by the Head of Compliance (lawyer), who report to the Board of Directors. The Bank has a strategy and annual plan for the work of this function, approved by the Board of Directors.

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 901 mill. at the end of 2015.

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

The properties are located throughout Denmark, although in terms 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.

Remuneration policy

Among other things, the pay policy contains guidelines for payments to the Board of Directors and the Executive Management of Arbejdernes Landsbank. The management makes regular assessments, at least once a year, that this is the case. The remuneration policy has undergone minor changes in 2015.

The pay policy stipulates that the management of the Bank must be paid remuneration which is in conformity with the market and which reflects the management's work for the Bank and the Group. The pay policy also stipulates that the remuneration to the Advisory 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, other risk takers and employees in control functions are not paid variable remuneration components outside the framework of the collective agreement.

Page 17 in the Annual Report for 2015 describes the premise for the Nomination and Remuneration Committee established by the Board of Directors. Pages 19-23 as well as note 11 describe the remuneration etc. paid to the Board of Directors, the Executive Management and other risk takers etc. who significantly influence the risk profile.

In 2015, three employees from the group of risk takers who significantly influenced the risk profile have joined. These persons will be included with their percentage of remuneration, calculated from when their profiles were updated.

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