Group Risk Report 2016

Arbejdernes Landsbank

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

Group Risk Report 2016 for Arbejdernes Landsbank

Contents

The Group Risk Report has been prepared in a Danish and an English version. In the event of discrepancy between the Danish-language original text and the English-language translation, the Danish text shall prevail.

Arbejdernes Landsbank

Overall risk management

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

This risk report has been prepared in accordance with statutory disclosure requirements in articles 431-455 of the Capital Requirements Regulation (CRR), and the Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need.

The risk report covers:

- Strategies and procedures for risk management
- The structure and organisation of risk management
- The scope and nature of systems for risk reporting and measurement
- Policies for hedging and mitigating risk, and the strategies and procedures for monitoring the continuing effectiveness of hedges and mitigants

Furthermore, the report includes information about the Group's risks and risk management in the Annual Report of Arbejdernes Landsbank. Reporting pursuant to the disclosure requirements is performed annually in connection with presentation of the financial statements, whereas the individual solvency need is published quarterly.

Arbejdernes Landsbank's strategy in relation to risk taking is for the Group to remain a strong financial entity for the Bank's owners and customers alike. The Group has focus on being aware of the risks to which it is exposed and managing these appropriately.

The basis for the overall structure of risk management at Arbejdernes Landsbank is as follows:

- Risk policies and guidelines for the Executive Management established by the Board of Directors
- Audit and Risk Committees established by the Board of Directors assess whether the internal control system, and its internal audit, risk and security systems are working effectively
- Internal risk committees at Executive Management level
- Risk reports, including compliance with policies and guidelines

In 2016, the Bank established an independent Risk Department managed by the Chief Risk Officer ("CRO"). The department is the second line in the risk-management organisation at the Bank, and it monitors risk management across the Group, including correct identification, measurement, handling and reporting of all significant risks. At least once a year, the Risk Department prepares a report regarding the Group's risks which includes assessments by the CRO as well as any concerns arising from these.

The Credit Department is responsible for day-to-day management (first line) of credit risk in the Banks's branches, and ensures compliance with credit strategy as well as credit policy. The Credit Department also coordinates branch contact and credit advisory for processing individual cases. The same structure applies to the Banks subsidiary, AL Finans A/S.

The Treasury Department is responsible for day-to-day management of market risk, liquidity and credit risk associated with financial counterparties. Internal Risk Management and Control, which is part of the Treasury Department, is responsible for calculating, reporting, analysing and assessing the Bank's risks, and controlling, authorities and guidelines (first line).

Operational risk is rooted in the individual business units in order to ensure efficient handling of events which have caused or may potentially cause operational losses. The Bank has systems to collect risk events of an operational nature which, other than reporting for managerial purposes, are used for continuous improvements of procedures and contingency plans. The Financial Department is responsible for following up on compliance with policies established in this area.

The Board of Directors and the Executive Management receive regular reports on developments in the Group's risks. The Board of Directors assesses whether the Group's risk policies need to be changed at least once a year.

If exposures in new areas are under consideration, the nature and scope of these are discussed at meetings of the Executive Management before a recommendation is made to the Board of Directors, either to enter into specific business transactions or to adjust previously completed instructions. The CRO and the Risk Department are consulted prior to making any decisions involving acceptance of new or significant risks for the Bank.

The objective is to maintain up-to-date IT systems in order to support risk management in significant business areas, and quantify the size of the risks to which the Group is exposed at any time.

Risk management declaration

Pursuant to article 435(1) of the Capital Requirements Regulation (CRR), the Board of Directors and the Executive Management of Aktieselskabet Arbejdernes Landsbank approved the Group Risk Report 2016 on March 10, 2017.

In the assessment of the Board of Directors, the risk management of the Bank and the Group comply with current regulations and standards and provide assurance that the risk management systems put in place are adequate with regard to the profile and strategy of the Bank and the Group.

In the assessment of the Board of Directors, the description of the Bank and the Group‘s overall risk profile associated with the business strategy, business model and financial 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, the internal audit function, the Bank‘s CRO 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 and the authority transferred to the Executive Management shows that the actual risks are within the limitations laid down in the individual policies. The underlying guidelines and the authority transferred onward by the Executive Management are within the limitations of this authorisation.

Consequently, according to the assessment of the Board of Directors, there is alignment between the business model, policies, guidelines and the actual risks within the individual areas of activity.

The business model describes who the Group’s customers are, what the Group wants to offer them, and how, commercially and organisationally, the Group intends to realise long-term strategic goals moving towards 2019, thus creating value for the Group’s customers, employees and owners.

The Group aims at profitable earnings based on product pricing which reflects the risk and the tied-up capital 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 excess cover at Bank-level as well as Group-level compared with the calculated solvency need must amount to at least 3.5 percentage points + the phase-in requirement which applies to the capital preservation buffer up to 2019; i.e. an excess cover of 6.0 percentage points in 2019. As at 31 December 2016 the excess cover amounts to 4.75 percentage points.

The maximum risk tolerance decided by the Board of Directors is managed 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 for these limit values as at 31 December 2016.

Table 1

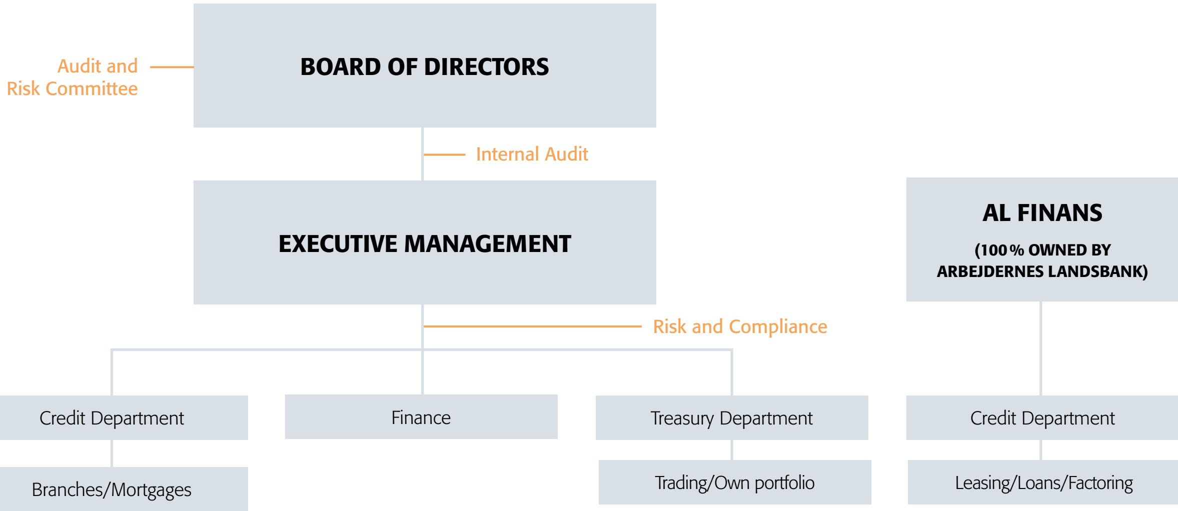
Benchmarks from the Danish FSA at the end of 2016

	Supervisory diamond	Bank compliance
Funding ratio	< 1	0,6
Excess liquidity coverage	> 50%	191,8%
Sum of large exposures	< 125%	0,0%
Lending growth	< 20%	6,2%
Commercial property exposure	< 25%	5,0%

Disclosure requirements regarding management systems, see article 435(2), points a.-d. of the CRR, are described on pp. 21-28 of the Annual Report 2016, and on the Bank‘s website, www.al-bank.dk/en/in-english/about-the-bank/financial-statements-etc/.

Organisation chart for risk management

Figure 1



Special issues of a cross-sectoral nature are treated by a Risk and Liability Management Committee set up by the Executive Management and including the Executive Management as well as the CRO.

The tasks of the Credit Committee are to authorise exposures, determine impairment levels, approve credit management tools and any other credit-related issues.

The Credit Committee consists of the Executive Management, the Director of Credit and the CRO.

The Executive Management of the Bank is represented on the Board of Directors of the Bank's subsidiary, AL Finans A/S and helps to ensure that the risk policies of the Bank are converted into the risk policies of the Group.

Reporting overview

Annual reporting/approval

Individual solvency need
Assessment and approval of model for calculating solvency need

Risk policies
Review of risk policies for the individual risk areas and assessment of the need for adjustments

Follow-up on compliance with risk policy

Contingency plans
Review of contingency plans (capital conservation plans, capital ratio improvement plans and recovery plans)

Projections
Projection of the Bank's capital, solvency, and earnings in different macro-economic scenarios (half-yearly)

Calculation and assessment of liquidity position and liquidity risk
Overall calculation and assessment of liquidity position and liquidity risk

Risk report by the CRO
Overall assessment of the Group's risks and risk management

Report on the risk function's work (half-yearly)

Follow-up on the year's risk action plan and review of next year's action plan

Compliance
Report on the compliance function's work 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

Financial statements
Earnings development

Quarterly reporting/approval

Individual solvency need
Assessment of risk profile and calculation of adequate own funds

Solvency and capital
Solvency and capital statements (monthly)

Benchmark analysis
Benchmarking against comparable banks in selected areas/ratios and key figures

Credit risks
Developments in loans and guarantees broken down by customer segment, rating code, overdraft, etc.

Market risks
Developments in interest-rate risks and credit-spread risks, as well as share and currency risks compared with frameworks and investment strategy

Assessment of the Bank's portfolio of shares and bonds (monthly)

Liquidity risks
Developments in excess cover in relation to 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 in terms of value

The supervisory diamond
Developments in the Bank's ratios and key figures in relation to the limits in the supervisory diamond (monthly)

Recovery plan
Follow-up on yellow-light and red-light indicators in the recovery plan. Indicators concerning capital and liquidity (monthly)

Capital management

Capital management in the Arbejdernes Landsbank Group is described in plans which must ensure compliance, at any time, with current legislation and realisation of the Group's own targets for the capital ratio and actual Tier 1 capital ratio. The legislation concerns:

- Calculation of capital, risk exposures and capital requirement (8% capital requirement)
- Calculation of individual solvency need
- Combined buffer requirement

The individual solvency need is described in the Danish Financial Business Act and encompasses any additional capital requirement designed to cover risks which are not adequately covered by the 8% minimum requirement according to the Capital Requirements Regulation. Furthermore, the combined buffer requirement derives from the CRR and entails that towards 2019, the Group must generate a capital preservation buffer of 2.5% simultaneously with introducing a cyclical buffer of up to 2.5%, which can be effected by the supervisory authorities.

In addition to objectives pursuant to current legislation, the Arbejdernes Landsbank Group has set up its own capital targets to ensure that the Group has sufficient capital at its disposal to support longer-term goals for growth and risk profile. Furthermore, the capital targets should bolster the Group to resist economic recession and absorb considerable unexpected credit losses and price fluctuations on the financial markets.

The Group has made projections under various macro-economic scenarios, and, in combination with capital preservation plans and capital ratio improvement plans, these confirm that the Group has the required financial strength to meet internal objectives for capital ratio improvements. The Group's objective is an excess cover of at least 3.5 percentage points relative to the solvency need and the phased-in capital preservation buffer, which totalled 10.8% at the beginning of 2017, corresponding to a capital ratio of at least 14.3%.

Own funds

Table 2
Calculation of Group own funds

	2016 DKK '000	2015 DKK '000
Share capital	300,000	300,000
Reserve under the equity method	0	690,535
Revaluation reserves	365,689	306,282
Retained earnings	4,167,084	3,133,812
Proposed dividend	-30,000	-30,000
Intangible assets	-12,713	-13,813
Deductions for prudent valuation	-16,232	-16,454
Capital instruments in financial entities <10%	0	-68,425
Capital instrument in financial entities ≥10%	-113,657	-332,589
Common Equity Tier 1 capital	***4,660,171***	***3,969,348***
Additional Tier 1 capital issued	829,000	829,000
Capital instruments in financial entities <10%	0	-156,889
Capital instrument in financial entities ≥10%	-75,772	-498,883
Tier 1 capital	***5,413,399***	***4,142,576***
Tier 2 capital	0	0
Own funds	***5,413,399***	***4,142,576***

During 2016, own funds increased by DKK 1,270.8 mill. to DKK 5,413.4 mill. This improvement primarily relates to profit for the year transferred to the reserves as well as divestments of equity instruments in ALKA and other financial entities, which reduced the levels of deductions from own funds. Own funds consist exclusively of Tier 1 capital, of which Common Equity Tier 1 capital accounts for 86%.

The Group's reserve under the equity method comprises value adjustments in associates in addition to acquisition cost, and amounts to DKK 0.0 mill. compared to DKK 690.5 mill. at the end of 2015. The reason for this is that the Bank's ownership interest in the insurance company ALKA was reduced to less than 20% in connection with a divestment of shares in 2016. The ownership interest was subsequently classified under "Shares etc.", and the reserve of DKK 690.5 mill. was transferred to "Retained earnings".

Revaluation reserves amount to DKK 365.7 mill. and relate to value increases on the Bank's owner-occupied properties.

The Group's deductions under "Capital instruments in financial entities" amount to a total of DKK 189.4 mill. following adjustments for lower limits. The deductions are primarily attributable to the Bank's ownership interests in LR Realkredit and ALKA. Compared to 2015, the deductions have been reduced by DKK 867.4 mill., which is attributable to the divestments of shares in ALKA as well as divestments of other equity investments in financial entities in 2016. The divestments were intended to reinforce and safeguard the Group's own funds, thus ensuring that the Group has sufficient financial strength to cope with continued growth and stricter CRR requirements, which will be fully phased in by 2019.

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
Hybrid capital issued

	2016	2015
Type	Hybrid capital	Hybrid capital
Principal amount (DKK '000)	400,000	400,000
Own portfolio (DKK '000)	0	0
Carrying amount (DKK '000)	400,000	400,000
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)	27,651	28,263
Subordinated debt recognised when calculating Tier 1 capital/own funds (DKK '000)	400,000	400,000
Type	Hybrid capital	Hybrid 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	38,863
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 2016 were 17.1% compared with 13.4% at the end of 2015. Besides the impact from the profit for the year, this 3.7 percentage-point increase is primarily attributable to divestments of equity instruments in financial entities.

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 real property and cash deposits with the Bank

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

	2016 DKK '000	2015 DKK '000
Items with credit risk etc.		
Exposures to institutions	31,654	24,770
Exposures to companies	346,491	326,516
Retail exposures	1,103,848	975,255
Exposures secured by mortgages on real property	43,742	54,278
Exposures in the event of breach	53,087	62,643
Share exposures	131,078	105,451
Other items	104,079	97,104
CVA risk	18,727	17,240
Total items with credit risk etc	*1,832,706*	*1,663,257*
Items with market risk		
Debt instruments, specific risk	226,005	266,264
Debt instruments, interest-rate risk	141,167	217,802
Position risk for shares	50,601	54,980
Exchange-rate risk	10,533	6,523
Total items with market risk	*428,306*	*545,569*
Operational risk	265,135	268,224
Total capital requirements, 8%	*2,526,147*	*2,477,050*
Own funds for compliance of capital requirement	5,413,399	4,142,576

The capital requirement according to pillar I (8% of the weighted exposures) amounted to DKK 2,526.1 mill. at the end of 2016 against DKK 2,477.1 mill. in the previous year. The capital requirement for credit risk increased by DKK 169.4 mill., which reflects solid growth in the Group's loan and guarantee portfolio. The capital requirement for market risk was reduced by DKK 117.3 mill., which is mainly attributable to a reduction in positions with interest-rate risk.

Solvency need

Model

An individual solvency need for both the Group and the Bank has been determined.

The 8+ model was 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 FSA.

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 exposures for both the Group and the Bank. The Group's weighted exposures are used in the calculation of the solvency need.

Adequate capital and solvency need

The Bank and Group solvency need amounted to 9.6% against 9.5% at the end of 2015. Adequate own funds amounted to DKK 3,019.1 mill. Calculation of adequate own funds and solvency need can be broken down into the following categories:

Table 5
Solvency need as at 31 December

	2016 DKK '000	2016 %	2015 DKK '000	2015 %
Capital to cover credit risk	2,111,301	6.8	1,971,271	6.4
Capital to cover market risk	642,615	2.0	687,477	2.2
Capital to cover operational risk	265,135	0.8	268,224	0.9
Capital to cover other risks	0	0.0	0	0.0
Adequate own funds/solvency need	*3,019,051*	*9.6*	*2,926,971*	*9.5*

Capital to cover credit risk

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

- Interest-rate risk outside the trading portfolio
- Liquidity risks
- Credit-spread risks on bond portfolio
- Market risks exceeding the benchmarks set in guidelines from the Danish FSA

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 on historical losses, among other things. 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, leverage, and 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 annually approves the Group budget and the solvency need. In addition, the budget and solvency need are regularly adjusted and corrected, and this is also presented to the Board of Directors.

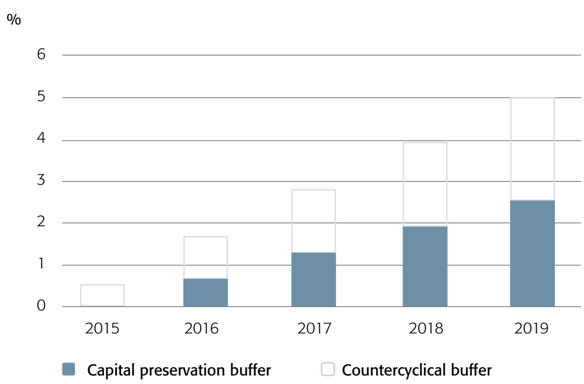
Preparation of the annual budget and solvency need as well as regular adjustments are a coordinated process within the Group, with the Financial Department as the coordinating unit.

Combined buffer requirement

As a result of the implementation of CRD IV in the Danish Financial Business Act, the Group is obliged to comply with the combined buffer requirement. The buffer requirement can only be met through Common Equity Tier 1 capital. Non-compliance with the buffer requirement will result in restrictions on the Group's possibilities to pay dividends and make other distributions.

The Group's combined buffer requirement is the Common Equity Tier 1 capital necessary for the Group to comply with requirements for a capital preservation buffer and an institution-specific countercyclical capital buffer, taking into account countercyclical capital buffers in countries to which the Group has credit exposures exceeding 2% of total credit exposures.

Phasing-in of buffer requirements 2015-2019



The capital preservation buffer will be phased in by 0.625% a year in the period 1 January 2016 to 1 January 2019, and amounted to 1.25% on 1 January 2017. Consequently, once it has been fully phased in as at 1 January 2019, the capital preservation buffer will amount to 2.5% of total risk exposure.

In Denmark, the countercyclical buffer will be introduced by up to 0.5% a year in the period 1 January 2015 to 1 January 2019. Consequently, once it has been fully phased in as at 1 January 2019, the countercyclical buffer will be in the range 0.0% to 2.5% of total risk exposure. The countercyclical buffer will be set at more than 0.0% in individual EU/EEA countries if, according to assessments by the supervisory authorities in these countries, the growth in loans causes higher macro-economic risks.

The geographic distribution of the Group's credit risks at the end of 2016 provides the basis for the capital requirement for the institution-specific countercyclical buffer. The Group's credit exposures to countries in which such exposures exceed 2% of total credit exposures are stated in the table

Table 6
Geographical distribution of credit exposures as at 31 December 2016

Exposures

	General credit exposures	Exposures in the trading portfolio
	DKK '000	DKK '000
Denmark	34,338,081	12,042,201
Germany	56,101	4,056,980
USA	8,563	1,354,995
Other countries *)	325,948	4,278,693
Total	*34,728,693*	*21,732,869*

Own funds requirement

	General credit exposures	Exposures in the trading portfolio	Total
	DKK '000	DKK '000	DKK '000
Denmark	1,819,576	148,852	*1,968,428*
Germany	4,274	10,038	*14,312*
USA	418	0	*418*
Other countries *)	19,941	106,297	*126,238*
Total	*1,844,209*	*265,187*	*2,109,396*

*) "Other countries" refers to all exposures which amount to less than 2% of total general credit exposures and exposures in the trading portfolio. These are ascribed to Denmark when calculating the institution-specific countercyclical capital buffer.

Apart from its exposures in Denmark, the Group has no credit exposures exceeding 2% in countries which have introduced a countercyclical buffer. Consequently, the institution-specific countercyclical capital buffer rate is 0.0%, and the requirement for the institution-specific countercyclical buffer is DKK 0.0 mill.

Table 7
Combined buffer requirement

	2016	2015
Total risk exposures (DKK '000)	31,576,836	30,963,109
Institution-specific countercyclical buffer rate (%)	0	0
Capital preservation buffer rate (%)	0.625	0
Institution-specific countercyclical buffer requirement (DKK '000)	0	0
Capital preservation buffer requirements (DKK '000)	197,355	0
Combined buffer requirement (DKK '000)	*197,355*	*0*

In 2016, the combined buffer requirement was increased to DKK 197.4 mill. as a result of the gradual phasing-in of the capital preservation buffer by 0.625% In 2017, Arbejdernes Landsbank Group expects that the institution-specific countercyclical buffer will amount to less than 0.1%. The capital preservation buffer was increased to 1.25% as at 1 January 2017.

Excess cover in relation to the total capital requirement

At the end of 2016, the Group's capital ratio was 17.1%, which corresponds to an excess cover of 6.9 percentage points relative to the total capital requirement of 10.2% comprising the solvency requirement of 8.0%, the supplementary solvency need of 1.6% and the combined buffer requirement of 0.625%.

The solvency requirement of 8% must be covered by at least 4.5% Common Equity Tier 1 capital. Hybrid capital may account for up to 3.5%, and Tier 2 capital may account for up to 2.0%. Corresponding relative quality requirements for capital apply to the supplementary solvency need. The combined buffer requirement can only be covered by Common Equity Tier 1 capital.

Table 8
Capital composition in relation to the minimum requirement at the end of 2016

	Capital requirement %	Capital requirement DKK '000	Capital DKK '000	Surplus capital DKK '000
Common Equity Tier 1 capital	6.0	1,895,400	4,660,171	2,764,771
Tier 1 capital	7.8	2,461,414	5,413,399	2,951,985
Own funds	10.2	3,216,101	5,413,399	2,197,298

The table shows that the Group has total capital buffers of DKK 2.2 bn. relative to the minimum requirements. The higher excess cover of Common Equity Tier 1 capital of DKK 0.6 bn. compared to the excess cover of own funds shows that the Group has the possibility to bolster its capital through the issuance of Tier 2 capital.

Future regulations on capital requirements

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, so that deductions will increasingly reduce Common Equity Tier 1 capital, whilst own funds will not be affected. The consequences can be illustrated by placing the Bank's current capital and risk-weighted exposures in the setup which will apply in 2017 as well as in 2019, when the CRR is fully phased in.

Table 9
Phase-in of CRD IV regulations

	2016	2017	2019
Common Equity Tier 1 capital ratio	14.8	14.6	14.5
Tier 1 capital ratio	17.1	17.1	17.1
Capital ratio	17.1	17.1	17.1

The table shows that the impact on the Group will be limited, with a reduction in the Common Equity Tier 1 capital ratio of 0.2 percentage points in 2017, and a total reduction of 0.3 percentage points in 2019 when the CRR has been fully phased in. The Group's disposal of equity instruments in ALKA and other financial entities in 2016 has contributed significantly to reducing the Group's sensitivity to the remaining phase-in of the CRR over the coming years.

According to the Danish Financial Business Act, the Danish FSA and Finansiel Stabilitet are responsible for preparing resolution plans for banks in distress. These plans state that a minimum requirement for own funds and eligible liabilities (MREL) must be determined for the individual bank. The MRELs will ensure that a bank in distress has sufficient eligible liabilities to cover losses in the bank and to recapitalise the bank so that critical functions can be continued without using funds from the state, and thereby from taxpayers. The exact figures for each individual bank are expected to depend on a number of factors, including the composition of the balance sheet, impairments, solvency needs and lending quality. It is still too soon to estimate the effect of MREL on Arbejdernes Landsbank. The Danish FSA is expected to be able to approve resolution plans and set individual MRELs for banks before the end of 2017.

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. The Group has designed its business model such that the Group operates with a leverage in the range of 7-11%, and does not want to fall below the 5% limit, where BIS (Bank for International Settlements) set a minimum requirement of 3%.

Leverage risk is defined in the CRR and cannot become a hard requirement until 2018.

During 2016, total exposure increased from DKK 45.9 bn. to DKK 51.2 bn., but due to a strengthening of Tier 1 capital, the leverage ratio improved from 8.8% at the end of 2015 to 10.6% at the end of 2016. The increase in Tier 1 capital primarily relates to profit for the year transferred to the reserves and lower deductions from Tier 1 capital.

Table 10
Leverage

	2016 DKK '000
Leverage-weighted exposures	
Total assets	44,425,818
Adjustments for derivatives	162,188
Adjustments for repo/reverse transactions	94,567
Adjustments for exposures not recognised in the balance sheet	6,528,955
Other adjustments	-218,373
Total leverage-weighted exposures	***50,993,155***
Exposures recognised in the balance sheet, excl. derivatives and repo/reverse transactions	
Assets, excl. derivatives and repo/reverse transactions	42,902,884
Assets less Tier 1 capital	-218,373
Total exposures recognised in the balance sheet, excluding derivatives and repo/reverse transactions	***42,684,511***
Derivative exposures	
Positive market value	90,902
Potential risk	162,188
Total derivative exposures	***253,090***
Repo/reverse transactions	
Gross exposures	1,432,032
Counterparty risk	94,567
Total repo/reverse transactions	***1,526,599***
Exposures not recognised in the balance sheet	
Gross exposures	11,130,116
Adjustments	-4,601,161
Total exposures not recognised in the balance sheet	***6,528,955***
Capital and leverage-weighted exposures	
Tier 1 capital	5,413,399
Leverage-weighted exposures	50,993,155
Leverage ratio	10.6%
Total exposures recognised in the balance sheet (excl. derivatives, repo/reverse transactions and non-recognised exposures)	
Exposures treated as exposures to central governments	911,233
Institutions	786,700
Exposures secured by collateral in the form of mortgages on real property	1,510,330
Retail exposures	15,611,109
Companies	3,725,151
Exposures in the event of breach	492,879
Other exposures (e.g. share exposures, securitisation and other assets which are not debt obligations)	3,317,847
Exposures outside the trading portfolio	***26,355,249***
Exposures in the trading portfolio	16,447,228
Total exposures recognised in the balance sheet	***42,802,477***

Consolidation

Aktieselskabet Arbejdernes Landsbank

Consolidation includes the subsidiaries:

AL Finans A/S
Handels ApS Panoptikon,

which are both fully owned by the parent company Aktieselskabet 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.

Furthermore, the Bank holds 100% of the shares of PR Ejendoms Holding A/S. This company is under liquidation and has been recognised with an amount of DKK 0. The company is not part of the consolidation.

Overview of capital, risk exposures and ratios and key figures

Table 11
Capital, risk exposure and ratios and key figures as at 31 December

	2016 DKK '000	2015 DKK '000
Common Equity Tier 1 capital		
Share capital	300,000	300,000
Reserve under the equity method	0	690,535
Revaluation reserves	365,689	306,282
Retained earnings from previous years	3,747,668	2,978,552
Transferred from profit for the year less proposed dividend	389,416	125,259
Common Equity Tier 1 capital before statutory adjustments	*4,802,773*	*4,400,628*
Statutory adjustments Common Equity Tier 1 capital		
Intangible assets	-12,713	-13,813
Deductions for prudent valuation	-16,232	-16,454
Capital instruments in financial entities (Common Equity Tier 1 capital) <10%	0	-171,062
Capital instruments in financial entities (Common Equity Tier 1 capital) ≥10%	-113,657	-831,471
Transitional adjustments concerning distribution of deductions	0	601,520
Total statutory adjustments of Common Equity Tier 1 capital	*-142,602*	*-431,280*
Total Common Equity Tier 1 capital	*4,660,171*	*3,969,348*
Additional Tier 1 capital		
Additional Tier 1 capital issued	829,000	829,000
Statutory adjustments Additional Tier 1 capital		
Capital instruments in financial entities (Additional Tier 1 capital) <10%	-37,886	-55,143
Capital instruments in financial entities (Tier 2 capital) <10%	-37,886	-14,154
Transitional adjustments concerning distribution of deductions	0	-601,520
Transitional adjustments concerning indirect and synthetical ownership interests	0	15,045
Total statutory adjustments of Additional Tier 1 capital	*-75,772*	*-655,772*
Total Additional Tier 1 capital	*753,228*	*173,228*
Tier 1 capital	*5,413,399*	*4,142,576*
Tier 2 capital	0	0
Own funds	*5,413,399*	*4,142,576*
Amounts under the thresholds for deduction		
Capital instruments in financial entities <10%	465,538	437,618
Capital instruments in financial entities ≥10%	477,383	430,792
Deferred tax assets	4,238	4,397

Overview of capital, risk exposures and ratios and key figures

Table 11, continued
Capital, risk exposure and ratios and key figures
as at 31 December

	2016 DKK '000	2015 DKK '000
Risk-weighted exposures		
Exposures to credit risk	22,908,826	20,790,704
Exposures to market risk	5,353,819	6,819,611
Items with operational risk	3,314,191	3,352,794
Total risk-weighted exposures	*31,576,836*	*30,963,109*
Ratios and key figures		
Common Equity Tier 1 capital ratio	14.8%	12.8%
Tier 1 capital ratio	17.1%	13.4%
Capital ratio	17.1%	13.4%
Phased-in capital preservation buffer	0.63%	0.0%
Requirements for institution-specific buffer	0.0%	0.0%
Common Equity Tier 1 capital available for buffers	9.1%	5.4%
Leverage ratio	10.6 %	8.8%

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 12
Development and average for items with credit risk

	Average 2016	Status 31 December 2016	Status 31 September 2016	Status 30 June 2016	Status 31 March 2016	Status 31 December 2015
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Exposures to central governments and central banks	791,642	1,474,897	901,250	883,062	258,436	440,567
Exposures to institutions	1,457,084	1,344,866	1,413,259	1,518,906	1,869,039	1,139,352
Exposures to companies	6,200,969	6,391,937	6,172,128	6,226,177	5,998,375	6,216,226
Retail exposures	22,566,658	23,601,714	23,194,594	23,146,036	21,795,912	21,095,034
Exposures secured by mortgages on real property	2,017,452	1,644,518	2,303,309	2,345,818	1,878,956	1,914,656
Exposures in the event of breach	701,578	604,161	744,269	697,858	732,821	728,782
Share exposures	1,558,839	1,107,998	1,682,127	1,650,137	1,687,501	1,666,432
Other items	1,610,305	1,648,084	1,558,607	1,652,417	1,609,594	1,582,826
Total items with credit risk	*36,904,527*	*37,818,175*	*37,969,543*	*38,120,411*	*35,830,634*	*34,783,875*

Table 13
Items recognised in the balance sheet *) broken down by remaining maturity
As at 31 December 2016

	On demand DKK '000	0-3 mths DKK '000	3 moths to 1 year DKK '000	1-5 years DKK '000	More than 5 years DKK '000
Exposures to central governments and central banks	1,473,070	249	623	917	0
Exposures to institutions	695,084	12	91,051	191	362
Exposures to companies	426,470	1,102,780	943,035	778,055	474,810
Retail exposures	119,712	918,222	2,081,777	6,888,351	5,603,048
Exposures secured by mortgages on real property	19,874	66,080	216,428	493,760	714,188
Exposures in the event of breach	55,307	42,378	171,026	165,338	58,830
Share exposures	1,094,994	0	3	13,000	0
Other items	1,589,144	46,818	0	0	10,262
Total items recognised in the balance sheet	*5,473,655*	*2,176,539*	*3,503,943*	*8,339,612*	*6,861,500*

As at 31 December 2015

	On demand DKK '000	0-3 mths DKK '000	3 moths to 1 year DKK '000	1-5 years DKK '000	More than 5 years DKK '000
Items recognised in the balance sheet *) broken down by remaining maturity					
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	810,175	439,885
Retail exposures	140,383	873,283	1,858,379	6,633,674	4,790,930
Exposures secured by mortgages on 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*	*8,345,410*	*6,013,275*

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

Table 14
Distribution by sector of exposure categories as at 31 December 2016

	Central governments and central banks DKK '000	Institutions DKK '000	Companies DKK '000	Retail DKK '000	Mortgage on real property DKK '000	Unful-filled DKK '000	Shares DKK '000	Other items DKK '000	Total DKK '000	Of which SMEs
Public authorities	49,509	0	140,000	46,576	0	20	0	0	*236,105*	
Business										
Agriculture, hunting, forestry and fisheries	0	0	0	32,078	3,134	8,511	0	0	*43,723*	33,768
Industry and extraction of raw materials	0	0	612,033	382,363	4,978	20,977	0	0	*1,020,351*	374,597
Energy supply	0	0	60,000	30,307	0	236	0	0	*90,543*	91,349
Building and construction	0	0	302,437	446,695	23,581	22,628	0	0	*795,341*	623,229
Trade	0	0	633,366	945,774	31,685	23,452	0	0	*1,634,277*	1,488,037
Transport, hotels and restaurants	0	0	252,475	224,928	12,830	26,061	0	0	*516,294*	403,011
Information and communi-cation	0	0	453,455	84,878	1,006	445	46,068	0	*585,852*	164,804
Financing and insurance	1,425,388	1,235,511	1,371,418	79,097	7,942	31,486	1,022,571	0	*5,173,413*	1,332,361
Real property	0	0	775,163	348,698	120,153	102,202	1,057	0	*1,347,273*	1,198,680
Other business	0	109,355	1,497,110	983,385	37,443	104,673	38,302	0	*2,770,268*	1,940,697
Total business	*1,425,388*	*1,344,866*	*5,957,457*	*3,558,203*	*242,752*	*340,671*	*1,107,998*	*0*	*13,977,335*	*7,650,533*
Of which SMEs			4,097,486	3,315,892	237,155				*7,650,533*	
Private	0	0	294,479	19,996,935	1,401,767	263,470	0	10,262	*21,966,913*	
Other items	*0*	*0*	*0*	*0*	*0*	*0*	*0*	1,637,822	*1,637,822*	
Total	*1,474,897*	*1,344,866*	*6,391,936*	*23,601,714*	*1,644,519*	*604,161*	*1,107,998*	*1,648,084*	*37,818,175*	

Table 15
Credit risk reduction as a result of pledged securities and guarantees for exposures with credit risk as at 31 December

	Adjusted value of the collateral		Guarantees used	
	2016 DKK '000	2015 DKK '000	2016 DKK '000	2015 DKK '000
Credit risk reduction and guarantees used				
Exposures to companies	285,692	431,100	0	0
Retail exposures	165,652	192,871	398	603
Exposures secured by mortgages on real property	656	1,320	0	0
Exposures in the event of breach	2,416	12,628	0	0
Total items with credit risk	***454,416***	***637,919***	**398**	**603**

Table 16
Exposures to counterparty risk

	2016 DKK '000	**2015** DKK '000
Exposures to counterparty risk		
Currency contracts		
Forward contracts/futures	60,100	86,073
Options	0	1,371
Currency swaps	2,150	195
Interest-rate contracts		
Forward contracts/futures/repo/reverse	131,709	94,870
Interest-rate swaps and swaptions	150,576	132,465
Options	5,236	0
Total	*349,771*	*314,974*

Credit risk

Credit risk is the risk that a counterparty is wholly or partly unable to fulfil payment 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 70% of the Bank's solvency need at the end of 2016 (67% at the end of 2015). The Group has allocated the most funds to this item in order to meet unforeseen losses.

Credit policy

The overall credit risk is managed in accordance with policies and frameworks adopted and stipulated by the Bank's Board of Directors, and subsequently implemented in the Bank's standard operating procedures. Authorisation guidelines are established by the Board of Directors and passed on to the Executive Management and then further on in the organisation. Moreover, the Bank has a Credit Committee which authorises exposures over a certain size.

A central element in the Group's business model is to advise on, and grant loans, credits and other financial products to private individuals, associations 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. At AL Finans, the target group is also private customers as well as small and medium-sized enterprises.

Generally, the Group does not participate in geared investment transactions, nor does it wish to finance projects of a speculative nature. When providing credit, the assessment is based on an ethical profile and 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 Group's further development.

Credit organisation

The Bank is organised with 71 branches.

The Bank's customers are primarily based in Denmark.

The authority to grant loans is structured such that the 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 or the Bank's Credit Committee.

The Bank has a structural separation between customer functions and the control and monitoring function. The Bank also has independent departments responsible for property assessments, debt collection and mortgage deeds.

The Credit Department is responsible for day-to-day credit management, monitoring and reporting to the branch network.

Rating

For several years, the Bank has been using its own internally developed rating model for private as well as business customers to support assessment of credit risk.

The rating model is based on a combination of payment behaviour as well as 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.

- Rating classes 1-5: Customers with exposures of good/normal credit quality (Danish FSA credit quality 3/2a)
- Rating classes 6-8: Customers starting to show weakness/certain signs of weakness (Danish FSA credit quality 2b)
- Rating class 9: Customers with significant signs of weakness but without objective evidence of impairment (OEI) (Danish FSA credit quality 2c)
- Rating classes 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.

The Bank's rating is a central tool in ongoing monitoring and credit management, including the identification of customers starting to show signs of weakness and customers with OEI. Furthermore, the rating is used in the Bank's model for collective impairments.

Rating distribution and rating development are monitored on an ongoing basis at portfolio as well as branch level.

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.

The branch network is responsible for collecting, registering and documenting the basis for granting loans and 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 authorisations given. The branch management is also responsible for ensuring that authorisation of credit that goes beyond the authority of the branch is recommended for authorisation by the Bank's central Credit Department.

The central Credit Department is responsible for ensuring that the branches comply with the Bank's credit strategy as well as its credit policy. Furthermore, the central Credit Department carries out branch contact, including credit advisory services 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 inspection of branches, including reviews of branches in which an extraordinary examination is performed of credit-weak customers and newly authorised cases, focusing on the general management of exposures. There is a rotation system which ensures that all branches are reviewed every 3 years as a minimum. Where assessed necessary, the branch will then 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. The Credit Department assesses current and future risks on selected exposures, checks compliance with the credit policy and with the authority to grant loans, and ensures satisfactory credit management. Furthermore it is ensured that risk classification and impairment comply with current regulations. The conclusions are reported to the Board of Directors.

Overdrafts are processed daily at the branches. The Credit Department monitors the processing of overdrafts on an ongoing basis.

Weak/distressed customers are handled on an ongoing basis and examined individually at least quarterly in order to prepare action plans, and to assess whether there is objective evidence of impairment and a need for impairment charges. The part of the portfolio not subject to individual impairment charges is assessed collectively.

All large lending exposures are reassessed continuously and at least once every year based on 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 ongoing customer contact or the quarterly statement of the Bank's individual solvency need, where all the Group's lending exposures exceeding 1% of own funds are assessed. The solvency review also includes a calculation of the individual solvency need per exposure for exposures exceeding 2% of own funds with Danish FSA credit quality 1 or 2c.

Credit risk is reported quarterly to the Board of Directors. The report includes more detailed comments on developments in risk ratios and key figures, sectors and customer segments, and on achievement of and compliance with credit policy goals and requirements in the Bank's credit policy.

Moreover, various management reports are prepared to provide additional monitoring of the Bank's credit quality as well as relevant analyses to support credit monitoring.

The Bank's subsidiary, AL Finans A/S, carries out quarterly reviews of loans 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 OEI. Furthermore, an asset review is carried out annually 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 Group applies prudent collateral values on all significant asset types. This implies that, for reasons of prudence, some assets are calculated at a reduced value, and therefore the real collateral value is assessed to be higher than the value calculated. Focus is on ensuring that assessments of mortgaged assets are updated and documented. The most common collateral in the Group is in the form of mortgages on real property, including cooperative housing, as well as cars.

For individually assessed exposures, collateral is calculated in impairment calculations at estimated fair value, pursuant to regulations from the Danish FSA.

The Group's total collateral is shown in table 21 on page 27.

Credit risk on Group customer loans

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

Loans and guarantees

The Group's total exposure, expressed as gross loans and guarantees, as presented in the 2016 Financial Statements, was DKK 27.3 bn., see table 17

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 73%, see table 17.

The business segment's percentage of total gross loans and guarantees at the end of 2016 amounted to 27%, see table 17. 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 under the business segment.

Table 17
Group gross loans and guarantees, as well as net loans and guarantees broken down by main customer segments at the end of 2016

	Private 2016 DKK '000	**Business** 2016 DKK '000	**Total** 2016 DKK '000
Loans before impairments	15,794,531	6,531,560	***22,326,091***
Guarantees before provisions	3,915,897	1,083,562	***4,999,459***
Total loans and guarantees before impairments etc.	***19,710,428***	***7,615,122***	***27,325,550***
Individual impairments on loans	558,033	674,877	***1,232,910***
Collective impairments on loans	115,292	26,752	***142,044***
Individual provisions on guarantees	5,461	14,401	***19,862***
Collective provisions on guarantees	7,481	3,177	***10,658***
Total loans and guarantees after impairments etc.	***19,024,161***	***6,895,915***	***25,920,076***

Note: The figures are excluding receivables from credit institutions.

Group loans are geographically broken down between all the regions of Denmark, though most predominantly in the Greater Copenhagen area, followed by the Central Denmark Region and the Region of Southern Denmark. The Capital Region of Denmark accounts for 56% of the Group's total gross loans and guarantees, see table 18.

If the private segment is considered separately, the distribution is the same, see table 18. 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 67% of the segment's total gross loans and guarantees. However, the other percentage of the segment's portfolio has a sound diversification over the other regions of Denmark, see table 18.

Table 18
Group gross loans and guarantees broken down by regions at the end of 2016

	Private 2016 DKK '000	Business 2016 DKK '000	Total 2016 DKK '000
Capital Region of Denmark	10,093,086	5,097,868	*15,190,954*
Region Zealand	1,802,592	395,965	*2,198,557*
Region of Southern Denmark	3,279,042	765,019	*4,044,061*
North Denmark Region	1,225,370	431,179	*1,656,549*
Central Denmark Region	3,310,338	925,091	*4,235,429*
Total	*19,710,428*	*7,615,122*	*27,325,550*

Note: This calculation is based on gross loans and guarantees before impairments etc. The figures are excluding receivables from credit institutions.

Of the Group's total gross loans and guarantees, 57% are in Danish FSA credit quality 3/2a, see table 19.

Both private and business segments have a sound risk diversification, in which 57% and 56%, respectively, of gross loans and guarantees are in Danish FSA credit quality 3/2a, see table 19.

Table 19
Group gross loans and guarantees broken down by Danish FSA credit quality at the end of 2016

	Private 2016 DKK '000	Business 2016 DKK '000	Total 2016 DKK '000
Danish FSA credit quality 3/2a	11,275,432	4,255,772	*15,531,204*
Danish FSA credit quality 2b	6,692,525	1,429,509	*8,122,034*
Danish FSA credit quality 2c	589,848	461,180	*1,051,028*
Danish FSA credit quality 1	1,152,623	1,468,661	*2,621,284*
Total	*19,710,428*	*7,615,122*	*27,325,550*

Note: This calculation is based on gross loans and guarantees before impairments etc. The figures are excluding receivables from credit institutions.

Total gross loans and guarantees are mostly concentrated in small exposure intervals due to the large percentage from the private customer segment. Exposures below DKK 2 mill. account for 84% of gross loans and guarantees to private customers, see table 20.

Danish FSA credit quality 3/2a accounts for almost 60% of gross loans and guarantees for the private customer segment in small exposure intervals, see table 20.

Table 20
Group gross loans and guarantees broken down by exposure intervals and Danish FSA credit quality at the end of 2016

	Danish FSA credit quality 3/2a	Danish FSA credit quality 2b	Danish FSA credit quality 2c	Danish FSA credit quality 1	Total
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Private					
1. < DKK 500,000	4,036,844	2,002,473	232,091	426,807	*6,698,215*
2. DKK 500,000-2,000,000	5,236,060	3,833,850	302,969	489,885	*9,862,764*
3. DKK 2,000,000-4,000,000	1,043,008	561,038	41,762	94,776	*1,740,584*
4. DKK 4,000,000-10,000,000	823,257	249,113	13,026	55,406	*1,140,802*
5. DKK 10,000,000-35,000,000	113,009	22,199	0	79,507	*214,715*
6. > DKK 35,000,000	23,254	23,852	0	6,242	*53,348*
Total	*11,275,432*	*6,692,525*	*589,848*	*1,152,623*	*19,710,428*
Business					
1. < DKK 500,000	230,242	250,466	134,496	73,307	*688,511*
2. DKK 500,000-2,000,000	169,921	178,167	90,353	173,500	*611,941*
3. DKK 2,000,000-4,000,000	171,037	169,155	42,554	114,110	*496,856*
4. DKK 4,000,000-10,000,000	242,001	248,909	60,672	148,985	*700,567*
5. DKK 10,000,000-35,000,000	639,749	121,808	59,490	318,490	*1,139,537*
6. > DKK 35,000,000	2,802,822	461,004	73,615	640,269	*3,977,710*
Total	*4,255,772*	*1,429,509*	*461,180*	*1,468,661*	*7,615,122*
Group					
1. < DKK 500,000	4,267,086	2,252,939	366,587	500,114	*7,386,726*
2. DKK 500,000-2,000,000	5,405,981	4,012,017	393,322	663,385	*10,474,705*
3. DKK 2,000,000-4,000,000	1,214,045	730,193	84,316	208,886	*2,237,440*
4. DKK 4,000,000-10,000,000	1,065,258	498,022	73,698	204,391	*1,841,369*
5. DKK 10,000,000-35,000,000	752,758	144,007	59,490	397,997	*1,354,252*
6. > DKK 35,000,000	2,826,076	484,856	73,615	646,511	*4,031,058*
Total	*15,531,204*	*8,122,034*	*1,051,028*	*2,621,284*	*27,325,550*

Note: This calculation is based on gross loans and guarantees before impairments etc. The figures are excluding receivables from credit institutions.

Collateral and security

The most important collateral received by the Group is mortgages on real property, which alone account for 67% of the Group's total collateral. This high percentage is attributable to the private segment, where mortgages in real property alone account for 78%, see table 21.

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 21
Group collateral broken down by type of collateral at the end of 2016

	Private 2016 DKK '000	Business 2016 DKK '000	Total 2016 DKK '000
Properties	7,717,559	1,296,423	*9,013,982*
Securities, bonds, cash deposits, etc.	152,716	538,608	*691,324*
Cars	1,922,769	970,960	*2,893,729*
Warranties and guarantees	1,910	2,624	*4,534*
Other collateral	77,264	756,894	*834,158*
Total	*9,872,218*	*3,565,509*	*13,437,727*

Note: Calculated loan values of collateral deposited in accordance with the Group's business procedures.

The total unsecured exposure for the Group makes up 48%, see table 22.

With the prudent collateral values applied by the Group and a thriving housing market, the actual unsecured exposure for the private customer segment is lower than 48%.

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.

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

Table 22
Net loans and guarantees, collateral and unsecured exposures at the end of 2016

	Private 2016 DKK '000	Business 2016 DKK '000	Total 2016 DKK '000
Loans and guarantees after impairments etc.	19,024,161	6,895,915	*25,920,076*
Collateral	9,872,218	3,565,509	*13,437,727*
Unsecured exposures	48%	48%	*48%*
Percentage of total loans	73%	27%	*100%*

Note: Impairment charges include individual and collective impairments and provisions. The figures are excluding credit institutions.

Arrears and loans in arrears

Group arrears amount to DKK 49.0 mill. and are concentrated on arrears of less than 60 days, however primarily on arrears of less than 30 days. Out of the Group's total arrears, the private segment accounts for 40% and business segments account for 60%, see table 23.

Table 23
Arrears broken down by age of arrears at the end of 2016

	Private 2016 DKK '000	Business 2016 DKK '000	Total 2016 DKK '000
2-30 days	11,603	14,213	*25,816*
31-60 days	2,057	12,319	*14,376*
61-90 days	2,438	136	*2,574*
91+ days	3,539	2,688	*6,227*
Total	*19,637*	*29,356*	*48,993*
Percentage of total arrears	40%	60%	*100%*

Note: Arrears are calculated as in note 44 of the financial statements. The figures are excluding credit institutions.

Loans in arrears totalled 1.1% of the Group's total net loans and guarantees at the end of 2016. Of this, loans more than 90 days in arrears accounted for 0.1%, see table 24.

The Bank has "early warning" procedures to reduce the number of customers with arrears of more than 90 days past the due date.

Furthermore, in cooperation with the customer, the Bank focuses its efforts on reducing the level by finding lasting solutions to any financial challenges.

Table 24
Loans in arrears broken down by age of arrears and segment at the end of 2016

	Private 2016 DKK '000	Business 2016 DKK '000	Total 2016 DKK '000
2-30 days	163,885	64,657	*228,542*
31-60 days	10,447	20,310	*30,757*
61-90 days	4,670	823	*5,493*
91+ days	15,159	4,494	*19,653*
Total	*194,161*	*90,284*	*284,445*

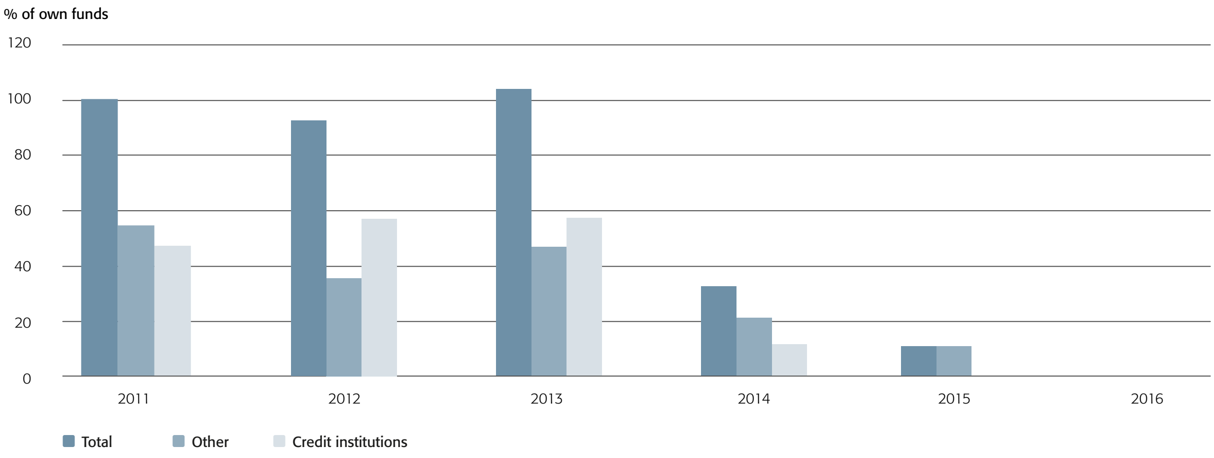
Note: The calculation is based on loans in arrears, as calculated in note 44 of the financial statements. The figures are excluding credit institutions.

Largest credit exposure risks

The Bank wants to avoid dependence on single exposures and seeks to maintain a low percentage of large exposures.

The key figure "Sum of large exposures", i.e. the sum of consolidated exposures after deductions which are greater than or equal to 10% of own funds at group level, is calculated at 0% of own funds at the end of 2016, excluding exposures to credit institutions.

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



Note: The figures are calculated on the basis of the values reported for the Group for consolidated exposures after deduction which are greater than, or equal to 10% of the own funds, and comply with legislation in force at any time. Regulations for risk-reducing measures were changed with effect from 2014.

Credit risk on credit institutions

General conditions

Counterparty risks are managed in accordance with guidelines and within the authority of the Executive Management to expose the Bank to credit risk on credit institutions etc.

In general the Bank adopts a tight granting practice. In day-to-day trading, financial frameworks are only established with credit institutions known to the Bank.

Authorisations of frameworks for Danish credit institutions are based on the institutions' most recent financial statements as well as the Bank's knowledge about the counterparty.

Frameworks for non-Danish credit institutions are primarily granted to large, first-class credit institutions and are mainly based on external ratings and on the same principles that apply to Danish credit institutions.

Binding credit commitments

The Bank bases its lending on business relationships, and as a point of departure credit is only granted to credit institutions with a natural cooperation potential within the Bank's other business areas.

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

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

All 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

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. A size criteria by which a credit line for credit institutions is measured according to objective criteria pursuant to specific guidelines. The size of the credit line is determined in consideration of the Group's equity and the equity of the credit institution in question.

2. A subjective assessment in which 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 Director of Treasury & Finance and the Bank' Executive Management and Board of Directors.

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 amounted to DKK 67 mill. in 2016, see table 25, against DKK 116 mill. in 2015.

The figures in tables 25 and 26 include credit institutions.

Group accumulated impairment charges and provisions amounted to DKK 1,454 mill. at the end of 2016 against DKK 1,490 mill. in 2015. Impairment charges/provisions on the "Financing and insurance" and "Real property" sectors are related to individual large exposures, which are all monitored closely.

The Bank expects that impairment charges will remain at a relatively low level of around 0.5% of total gross loans and guarantees up to 2021. Continued and sustained focus on weaker customer exposures, as well as quality assurance of the basis for credit risk assessment and collateralisation, together with a stable property market and continued low interest rates, are expected to contribute to this scenario.

Table 25
Distribution by sector for impaired exposures, including collective impairment charges and collective provisions at the end of 2016

	Exposures at the end of 2016	Exposures impaired/ provided	Impairment charge/ provision 2016	Impairment charge/ provision and loss recognised in the income statement in 2016
	DKK '000	DKK '000	DKK '000	DKK '000
Public authorities	79,680	15,851	49	-71
Business				
Central governments and central banks	35,403	80,341	57,613	-10,395
Industry and extraction of raw materials	829,092	194,810	33,871	-3,768
Energy supply	38,584	1,987	20	9
Building and construction	607,569	357,655	32,400	1,881
Trade	1,188,181	336,753	70,400	-4,288
Transport, hotels and restaurants	417,386	161,103	23,047	-6,522
Information and communication	145,905	33,746	10,582	-977
Financing and insurance	3,198,879	342,538	216,545	-15,484
Real property	1,105,846	697,372	235,510	45,054
Other business	2,052,963	375,264	87,178	-23,795
Total business	***9,619,808***	***2,581,569***	***767,166***	***-18,285***
Private	19,145,533	7,824,657	686,760	-48,840
Total	***28,845,020***	***10,422,077***	***1,453,975***	***-67,196***

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

Table 26
Changes in impaired exposures at the end of 2016

	Individual impairment charges on credit institutions	Individually impaired loans and other items with credit risk	Individual provisions on guarantees	Collectively impaired loans and other items with credit risk	Collective provisions on guarantees
	2016	2016	2016	2016	2016
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Accumulated impairment charges/provisions brought forward on loans and guarantee debtors	28,003	1,324,714	23,299	102,590	11,810
Impairment charges/provisions carried forward on loans and guarantee debtors	0	284,154	9,228	104,905	7,498
Reversal of impairment charges	-2,147	-266,152	-12,665	-67,438	-8,650
Other changes	0	30,536	0	1,987	0
Actual loss (written off) previously subject to individual impairment charges/provisions	0	-117,696	0	0	0
Accumulated impairment charges/provisions brought forward on loans and guarantee debtors	*25,856*	*1,255,556*	*19,862*	*142,044*	*10,658*
Actual loss (written off) not previously subject to individual impairment charges/provisions	0	-18,462	0	0	0
Recognised in claims previously written off	0	11,521	0	0	0

Note: The statement is in line with Note 11 of the financial statements.

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 granting 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 collateralisation or by entering into netting agreements following a specific assessment.

The Bank expects to clear a significant part of its derivative agreements through CCP schemes in future, thus reducing the repayment risk.

Table 27
Derivative financial instruments at the end of 2016

	Nominal value	Net market value	Positive market value	Negative market value
	DKK '000	DKK '000	DKK '000	DKK '000
Currency contracts				
Forward contracts/futures, purchase	46,471	141	405	264
Forward contracts/futures, sale	5,289,098	-9,052	5,587	14,639
Options, acquired	0	0	0	0
Currency swaps	3,900	2,111	2,111	0
Interest-rate contracts				
Forward contracts/futures, purchase	2,594,912	13,083	13,188	105
Forward contracts/futures, sale	4,812,443	-22,159	17,233	39,392
Options, acquired	353,410	5,236	5,236	0
Interest-rate swaps and swaptions	10,254,264	-293,698	46,253	339,951
Total		*-304,338*	*90,013*	*394,351*

ECAI

The Bank has appointed Standard & Poor's Ratings Services as its credit rating agency (ECAI). The Bank uses Bankernes EDB Central, which receives external credit ratings from Standard & Poor's Ratings 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.

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

Table 28
Exposure classes for which credit ratings from Standard & Poor's Ratings Services are used

	2016 DKK '000	2015 DKK '000
Institutions		
Exposure value prior to risk weighting	309,669	661,812
Exposure value according to weighting with credit quality step	149,156	206,986

Market risk

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

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

In general the Bank has a conservative attitude to the size of its exposure to market risk. The Bank puts high priority on managing and monitoring transactions 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 the volatility related to these. Furthermore, with respect to bonds, market risk covers more specific risks linked to market assessments of credit risks on individual issuers of bonds. 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 the expected loss on positions with interest-rate risk in the event of a parallel change in the yield curve of 100 basis points upwards. 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. At the end of 2016, the net interest-rate risk in DKK was very low, but this should be seen in light of relatively large gross positions in different duration intervals.

Table 29
Group interest-rate risk at the end of the year (DKK '000)

	2016 DKK '000	2015 DKK '000
Broken down by type of business		
Bonds etc.	492,257	701,048
Derivative financial instruments	-584,478	-769,479
Mortgage deeds	79,891	57,763
Other items	-54,158	-33,124
Total	*-66,488*	*-43,792*
Broken down by currency		
DKK	827	106,230
USD	-35,280	-93,122
EUR	-37,825	-63,781
GBP	2,225	2,813
NOK	227	-5
CHF	2,035	2,569
SEK	1,304	1,505
Other	-1	-1
Total	*-66,488*	*-43,792*

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. These holdings are diversified over as many companies as possible so that a general fall in the stock markets of 10% can be expected to lead to a loss of DKK 23.3 mill. However, investment securities, excluding associates, 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 1 method, and in part as a weighted sum of net positions in the individual currencies, where weighting takes volatility into account.

Securities-related credit-spread risk of the bond portfolio reflects 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 spread results in regular balancing of the portfolio with regard to the risk assessment.

Currently, DKK 1.2 bn., corresponding to 8% of the total bond portfolio has been invested in a very diversified portfolio of corporate bonds. The interest-rate risk associated with a 1 percentage-point fluctuation in general interest-rate levels results in a loss/gain of DKK 32.2 mill., primarily in bonds denominated in DKK and EUR.

Investment in bonds issued by banks amounts to DKK 2.2 bn. and 14% of the Bank's total bond portfolio. Interest-rate sensitivity amounts to DKK 66.0 mill., mainly in banks with a BBB+ rating or higher and with a concentration in EUR bonds.

Credit-spread risk is calculated on an ongoing basis and is reported in the same way as other market risks.

Table 30
Bond portfolio broken down by rating

	2016 DKK '000	2015 DKK '000
Rating		
AAA	54%	48%
AA+, AA, AA-	4%	5%
A+, A, A-	9%	19%
BBB+	7%	4%
BBB	12%	9%
BBB-	3%	4%
Rating < BBB-	2%	2%
Not rated	9%	9%
Total	*100%*	*100%*

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

Management of market risks

The Group's overall market risks are managed centrally by the Bank's Treasury Department.

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 Department. On the basis of this, narrower frameworks are delegated to the individual authorising employees in the Treasury Department.

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 and Control monitors how much of the individual frameworks are used by the position takers and reports directly to the Executive Management. The Risk Department monitors procedures as well as controls.

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 set limitations that are continuously monitored.

Strategic positions are decided by the Executive Management, following a recommendation from the Finance Director and on the basis of an assessment of the potential returns compared with the risk involved, taking into account the Bank's overall risk appetite, 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 portfolio 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 Department'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. At the end of 2016, the net interest-rate risk outside the trading portfolio amounted to DKK 27.9 mill. against DKK 23.1 mill. at the end of 2015.

Shares etc. outside the trading portfolio

In cooperation with other banks, Arbejdernes Landsbank has acquired equity investments 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 equity investments are not included in the trading portfolio, as participation in the sector companies is highly important for the Bank's goal to offer customers a broad range of financial services at competitive prices.

Shareholdings outside the trading portfolio increased as a result of the reduction of the Bank's ownership interest in the insurance company ALKA, following a divestment of shares. Consequently, the item is no longer included as an associate, but has been classified under the item "Shares etc."

Total shareholdings outside the trading portfolio increased to DKK 1,095 mill. in 2016.

Table 31
Shares outside the trading portfolio

	2016 DKK '000	2015 DKK '000
Fair value brought forward	813,436	806,328
Realised capital gain in the income statement	5,222	6,231
Unrealised capital gain in the income statement	4,489	-6,870
Reclassified from "Associates" *)	278,170	0
Net purchases	-6,323	7,747
Total fair value carried forward	***1,094,994***	***813,436***

*) The Bank's ownership interest in the insurance company ALKA was reduced to less than 20% in connection with a divestment of shares in 2016. The ownership interest in ALKA was subsequently classified under the item "Shares etc.".

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, i.e. EUR, USD, CHF, NOK and SEK.

The Bank's liquidity policy sets the overall framework for liquidity transactions and its financing structure.

Generally, the Bank maintains a very prudent liquidity policy in order to ensure that the Bank is at all times able to meet the liquidity requirements or needs that may face the Bank, and to provide a sound basis for the future development of the Bank. Another obvious aim of the liquidity policy is to ensure compliance with statutory requirements. The Bank must meet the requirements laid down in section 152 of the Danish Financial Business Act. Common European requirements concerning credit institutions' compliance with the Liquidity Coverage Ratio (LCR), which is to be phased in by 2018, are included as a central part of liquidity management by the Bank.

Internal Risk Management and Control calculates and monitors liquidity on a daily basis in relation to set frameworks. Operational responsibility for LCR compliance is delegated to the Treasury Department, which is in charge of short-term liquidity transactions and monitoring. The Risk and Balance Sheet Management Committee assesses short-term and long-term liquidity developments in relation to the general commercial development of the Bank in the capital-market area as well as in deposits and lending.

In addition to regular liquidity forecasts and calculations of the excess liquidity, 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 cash resources contingency plan which defines efforts to be launched if liquidity deteriorates relative to the adopted liquidity policy.

At the end of 2016, the Bank's LCR was calculated at 154% and is thus considerably higher than the 70% requirement for 2016. In 2017, the LCR minimum requirement is 80%, and when the regulations have been fully phased in, in 2019, the minimum requirement will be 100%. Based on its liquidity forecasts, the Bank expects to maintain a sufficiently high level of cash resources throughout 2017.

Future regulations on NSFR compliance to ensure that the Bank meets certain minimum requirements regarding long-term funding will be implemented in the Bank's liquidity policy and business procedures.

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-risk management and as part of liquidity management.

Furthermore, the Bank has collateralisation with other banks in connection with various derivative agreements and margin deposits.

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

Table 32
Encumbered assets

	Carrying amount 2016 DKK '000	Fair value 2016 DKK '000	Carrying amount 2015 DKK '000	Fair value 2015 DKK '000
Assets				
Encumbered assets				
Shares	0	0	0	0
Bonds	3,172,757	3,172,757	2,529,094	2,529,094
Other assets	441,429	441,429	150,423	150,423
Total encumbered assets	*3,614,186*	*3,614,186*	*2,679,517*	*2,679,517*
Unencumbered assets				
Shares	1,328,188	1,328,188	1,083,859	1,083,859
Bonds	12,035,043	12,035,043	12,992,438	12,992,438
Other assets	27,448,401	27,552,694	25,222,429	25,253,998
Total unencumbered assets	*40,811,632*	*40,915,925*	*39,298,726*	*39,330,295*
Collateral received, available for encumbrance				
Bonds at fair value				
Encumbered collateral	264,235	264,235	118,829	118,829
Unencumbered collateral	147,231	147,231	56,324	56,324
Total bonds at fair value	*411,466*	*411,466*	*175,153*	*175,153*
Encumbered assets/collateral received				
Encumbered assets and collateral	3,878,420	3,878,420	2,798,346	2,798,346
Counterpart liabilities	1,542,472	1,542,472	1,903,081	1,903,081

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

The Board of Directors has laid down a policy for operational risk, the purpose of which is to create an overview of Group operational risks and minimise the number of errors, thus reducing Group losses due to operational errors, taking into account related costs. In its policy, the Board of Directors has set an upper limit on the scope of risk the Group may accept. The Group has kept within this limit throughout 2016.

The Group 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, controls, employee competences, business procedures, physical security, etc.

Management, monitoring and reporting

In order to reduce the risk of operational events leading to significant losses, the Group monitors and manages operational risks. Primary focus is on the most significant risks potentially leading to substantial losses.

The risk identification process is carried out as a scenario analysis in cooperation with the individual business units, and includes assessments of frequency and consequence. The scenario analysis supports risk reduction and contributes to stronger awareness of operational risks in the organisation. In cooperation with the business units, an annual evaluation is performed regarding the risk scenarios and the risk exposures.

Developments in operational risk are monitored continuously to provide the best possible foundation for risk management. The Group registers and categorises loss-making events of more than DKK 5,000, with respect to actual losses as well as potential loss situations. Each event report must include a description of the event and state the cause of the error. There is ongoing registration of identified events, with reports to the CRO, the Executive Management and the Board of Directors, according to more detailed criteria stated in the policy.

Reports from 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, it is the assessment of the Executive Management that the Bank has a satisfactory level of measures to counter the risk of fraud. External fraud primarily concerns abuse of credit card schemes and online banking fraud in the form of phishing for customer information through fraudulent emails and text messages. The Group is aware that increased digitisation, with still more communication taking place online, may add to the risk of external fraud online, known as cybercrime. Most cases of attempted fraud are prevented by the Bank's IT supplier, the Group's internal control environments and alert employees.

IT security

In the assessment of the Group's operational risk, IT supply is a significant area. The Group'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. IT operation must be secure and stable and based on written agreements with suppliers. 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.

Capital need

The calculation of capital need to cover Arbejdernes Landsbank's operational risk is based on the basic indicator approach. In 2016, the operational risk amounted to 10.5% of the total risk exposure, corresponding to DKK 3,314.2 mill., which results in a capital requirement of DKK 265.1 mill.

Compliance

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

Arbejdernes Landsbank has an independent compliance function anchored in the Risk Department. The aim of the compliance function is to assist 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 critical business procedures in order to assess risks and recommendations for limiting individual risks.

Business risk

Business risk is the risk of losses due to changes in external conditions or events which may harm the image of the Group, or the operating income, including strategic risks.

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

Examples of reasons may be:

- Sharpened competitive pricing which causes 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 individual solvency need.

Property risk

Property risk is the risk of losses on the Bank's portfolio of properties, arising from a general drop in property prices.

Arbejdernes Landsbank had a portfolio of properties of DKK 983 mill. at the end of 2016. The properties are primarily used for operation of the Bank. In addition, parts of individual properties are rented out as residential properties or to businesses.

The properties are located throughout Denmark, although in terms of carrying amount there is an overweight in Greater Copenhagen.

In 2016, the Group reclassified an owner-occupied property as an investment property because the Group ceased to use the property to operate a branch. The sensitivity of measurements regarding the Group's properties is expressed by a positive change in the return on properties of 0.5 percentage points, which will reduce the value of the properties by approx. DKK 100 mill.

Remuneration policy

Among other things, the pay policy contains guidelines for remuneration 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 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 paid 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. The same applies to the Group's Chief Audit Executive, the CRO and the Head of Compliance.

Employees at Internal Audit and at Risk and Compliance are subject to special conditions in which variable remuneration components within the framework of the collective agreement are independent of the development in the results of the Group and depend exclusively on the employee's own performance.

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

Page 22 of the Annual Report for 2016 describes the basis for the Nomination and Remuneration Committee established by the Board of Directors. Pages 25-28 as well as note 9 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 2016, six employees joined the group of risk takers who significantly influence the risk profile. These persons will be included with their percentage of remuneration, calculated from when their profiles were updated. Four employees are no longer part of the group of risk takers.

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