Group Risk Report 2017

Arbejdernes Landsbank

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

Group Risk Report 2017
for Arbejdernes Landsbank

Contents

Arbejdernes Landsbank

Overall risk management

The aim of the Group Risk Report is to provide an insight into internal risk management at Arbejdernes Landsbank, and the Group's approach to reviewing and managing risk.

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

The Group 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 the 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 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 enterprise 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.
- The Audit and Risk Committee established by the Board of Directors assesses whether the internal-control, audit, risk and security systems are working effectively.
- Internal risk committees at Executive Management level.
- Risk reports, including compliance with policies and guidelines.

The Group has a Risk Department managed by the CRO (Chief Risk Officer). The Risk Department is the second line in the risk-management organisation at the Group, and it monitors risk management across the Group, including correct identification, measurement, handling and reporting of all significant risks. The Risk Department prepares a report at least once a year regarding the Group's risks. This report includes assessments by the CRO as well as any concerns.

The Credit Departments in the Bank and in AL Finans A/S, respectively, are responsible for day-to-day management (first line) of credit risk in the Bank's branches and in AL Finans A/S. The Credit Departments ensure compliance with the credit strategy as well as the credit policy and coordinate branch contact as well as credit advisory services for processing individual cases.

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 for 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 management reporting, updating risk assessments and following up on compliance with policies.

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 activities 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 is consulted in advance if decisions impose new or significant risks on the Group.

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

Internal Audit is responsible for carrying out independent audit of the Group's management of risks, including the internal controls and monitoring of the risk area. Internal Audit reports on its activities and results to the Board of Directors as well as the Audit and Risk Committee.

Management declaration

Pursuant to article 435(1) of the Capital Requirements Regulation (CRR), on 9 March 2018 the Board of Directors and the Executive Management of Aktieselskabet Arbejdernes Landsbank approved the Group Risk Report 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 comprehensive view of the risk management, including how the risk profile interacts with the risk tolerance set by the Board of Directors.

The assessment by the Board of Directors was carried out on the basis of the business model and strategy adopted by the Board of Directors, material and reporting presented to the Board of Directors by the Bank's Executive Management, internal and external audit, 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 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, 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 capital-ratio buffer at Bank level as well as Group level compared with the calculated solvency need must amount to at least 6.0 percentage points. As at 31 December 2017, the excess coverage amounted to 8.3 percentage points for the Group and 8.1 percentage points for the Bank.

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 2017.

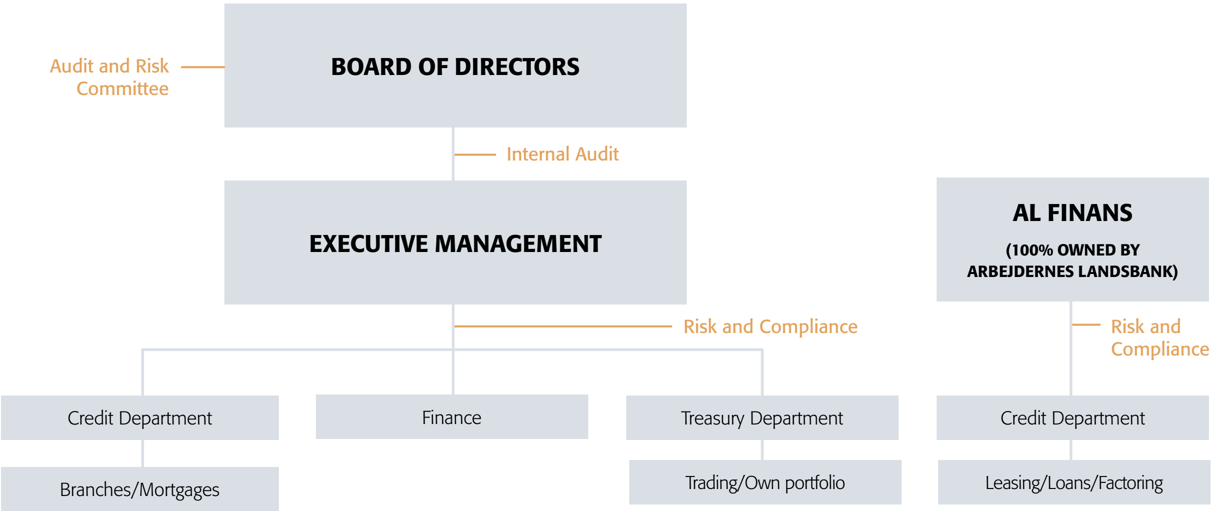
Table 1
Benchmarks from the Danish FSA at the end of 2017

	Supervisory diamond	Bank compliance
Funding ratio	<1	0.5
Excess liquidity coverage	> 50%	242.3%
Sum of large exposures	< 125%	0.0%
Lending growth	< 20%	4.0%
Commercial property exposure	< 25%	4.9%

Disclosure requirements regarding management systems, see article 435(2), points a-d of the CRR, are described on pp. 20-27 of the Annual Report 2017, and on the Bank's website, https://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.

A Credit Committee has been set up, tasked to authorise exposures, determine impairment levels, approve credit management tools and deal with any other credit-related issues.

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

An Operational Risk Committee has also been established to monitor compliance with policies for operational risk and to support the Audit and Risk Committee in assessing operational risk. The Committee is composed of the Executive Management, the CRO, the Head of Compliance, the IT Director and the CFO.

The Executive Management of the Bank is represented on the Board of Directors of the AL Finans subsidiary, and helps to ensure that the risk policies of the Group are implemented.

Reporting overview

Annual reporting/approval

Individual solvency need
Assessment and approval of model for calculating solvency need (ICAAP).

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).

Benchmark analysis
Benchmarking against comparable banks in selected areas/ratios and key figures (half-yearly).

Calculation and assessment of liquidity position and liquidity risk
Overall calculation and assessment of liquidity position and liquidity risk (ILAAP).

Risk report by the CRO
Report about the work of the risk function (half-yearly) and overall assessment of the Group's risks and risk management.

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

Recovery plan
Confirmation that the Group itself can initiate compensatory measures if selected risk indicators exceed set limit values.

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).

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 (monthly).

Liquidity risks
Developments in excess coverage in relation to the LCR (monthly). Analysis of liquidity in the short and the long terms, including liquidity stress tests (monthly).

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).

Follow-up on risk indicators
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 all times, with current legislation and realisation of the Group's own solvency targets. The legislation concerns:

- Calculation of capital, risk exposures and capital requirement (8% 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 requirements to cover risks which are not adequately covered by the 8% minimum requirement according to the CRR. The combined buffer requirement also derives from the CRR and entails that, up to 2019, the Group must generate a capital preservation buffer of 2.5% as well as introduction of a cyclical buffer of up to 2.5%, which the supervisory authorities may decide to activate.

In addition to the goals pursuant to 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 and solvency improvement plans, these confirm that the Group has the required financial strength to meet its own objectives for capital buffers. The Group has a target capital ratio that at least covers the solvency need plus 6 percentage points. The solvency need was 10.0% at the end of 2017. The target capital ratio is therefore at least 16.0%, which the Group fully meets with its capital ratio of 18.3% at the end of 2017.

Own funds

Table 2
Calculation of Group own funds

	2017 DKK '000	2016 DKK '000
Share capital	300,000	300,000
Reserve under the equity method	0	0
Revaluation reserves	326,709	365,689
Retained earnings	5,285,881	4,167,084
Proposed dividend	-150,000	-30,000
Intangible assets	-16,587	-12,713
Deductions for prudent valuation	-14,188	-16,232
Capital instruments in financial entities <10%	0	0
Capital instruments in financial entities ≥10 %	-696,591	-113,657
Common Equity Tier 1 capital	***5,035,224***	***4,660,171***
Additional Tier 1 capital issued	829,000	829,000
Capital instruments in financial entities <10%	0	0
Capital instruments in financial entities ≥10 %	-186,648	-75,772
Tier 1 capital	***5,677,576***	***5,413,399***
Tier 2 capital	0	0
Own funds	***5,677,576***	***5,413,399***

During 2017, own funds increased by DKK 264.2 mill. to 5,677.6 mill. The improvement is attributable to profit for the year transferred to reserves. However reserves have been reduced by the deduction for shareholdings in financial entities as a result of revaluation of shares in ALKA Forsikring, as well as the investment in Vestjysk Bank. The revaluation of shares in ALKA Forsikring has been made on the basis of the sales agreement which is expected to be settled in the first half of 2018, which alone would lead to an improvement of the level of own funds by about DKK 0.8 bn. Own funds currently only comprise Tier 1 capital, of which Common Equity Tier 1 capital amounts to 89%.

Revaluation reserves amount to DKK 326.7 mill. and relate to value increases on the Bank's owner-occupied properties. Revaluation reserves have been reduced by DKK 39.0 mill. compared to 2016, and this is primarily attributable to realisation in connection with property sales.

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 and has been recognised as part of equity.

Table 3
Hybrid capital issued

	2017	2016
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)	27,128	27,651
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 2017 were 18.3% compared with 17.1% at the end of 2016. In addition to the improvement of own funds, the increase of 1.2 percentage points is attributable to a reduction in the risk-weighted exposures of DKK 545.4 mill. as a result of adjustments in exposures with market risk.

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.
- Market value method to calculate 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%)

	2017 DKK '000	2016 DKK '000
Items with credit risk etc.		
Exposures to institutions	28,322	31,654
Exposures to companies	344,496	346,491
Retail exposures	1,051,354	1,103,848
Exposures secured by mortgages on real property	120,979	43,742
Exposures with breach	42,793	53,087
Exposures with particularly high risk	15,461	0
Share exposures	144,513	131,078
Other exposures	94,122	104,079
CVA risk	12,378	18,727
Total items with credit risk etc.	***1,854,418***	***1,832,706***
Exposures with market risk		
Debt instruments, specific risk	180,167	226,005
Debt instruments, interest-rate risk	102,034	141,167
Position risk for shares	46,169	50,601
Currency risk	6,460	10,533
Total items with market risk	***334,830***	***428,306***
Operational risk	293,269	265,135
Total capital requirement	***2,482,517***	***2,526,147***
Own funds for compliance with capital	5,677,576	5,413,399

The capital requirement according to pillar I (8% of the weighted exposures) amounted to DKK 2,482.5 mill. at the end of 2017 against DKK 2,526.1 mill. in the previous year. The capital requirement for credit risk increased by DKK 21.7 mill., which reflects solid growth in the Group's loan and guarantee portfolio, although it has been negatively influenced by the Group increasingly utilising options to lower the weight of exposures secured by mortgages in real property. The capital requirement for market risk was reduced by DKK 93.5 mill., and this is mainly attributable to a reduction in positions in debt instruments.

Solvency need

Model

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

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% requirement 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 exposures calculated according to the provisions of the CRR. Pursuant to the CRR, the Bank calculates weighted exposures for both the Group and the Bank. Group weighted exposures are used in calculation of the solvency need.

Adequate capital and solvency need

The Bank and Group solvency need amounted to 10.0% against 9.6% at the end of 2016. The increase is primarily attributable to exposures with market risk arising from new methods of calculation. Adequate own funds amounted to DKK 3,101.5 mill. Calculation of adequate own funds and solvency need can be broken down into the following categories:

Table 5
Solvency need

	2017 DKK '000	2017 %	2016 DKK '000	2016 %
Capital to cover credit risk	2,049,619	6.6	2,111,301	6.8
Capital to cover market risk	739,030	2.4	642,615	2.0
Capital to cover operational risk	293,269	0.9	265,135	0.8
Capital to cover other risks	19,800	0.1	0	0.0
Adequate own funds/solvency need	*3,101,717*	*10.0*	*3,019,051*	*9.6*

Capital to cover credit risk

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

- Concentration risk on large exposures.
- Large exposures with financial problems.
- Concentration risk on sectors.
- Credit institutions.
- Other credit risks.

Capital to cover market risk

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

- Market interest-rate risk within the trading portfolio on the basis of historical utilisation of the framework.
- Liquidity risks.
- Interest-rate risk outside the trading portfolio.

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, lending growth, leverage, risk of falling prices on owner-occupied and investment properties, as well as other aspects, including statutory requirements.

Process

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

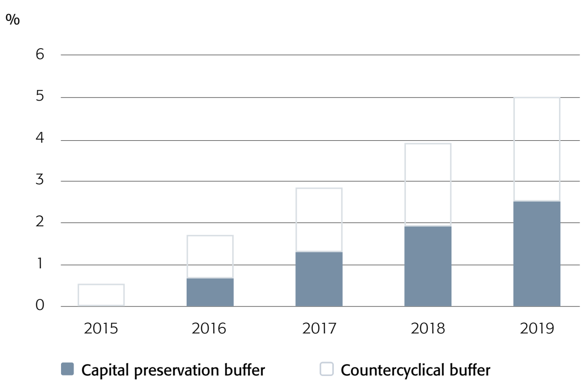
The Bank's CFO is responsible for completing the ICAAP and this takes place in a coordinated process with the Financial Department as the coordinating unit. Risk calculations, assessments and documentation are completed by the entities in the Group with the expertise within the individual risk areas. The individual risk areas are responsible for establishing controls to ensure that the calculations are correct and documented. The Financial Department monitors developments in the solvency need.

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 sum of the Common Equity Tier 1 capital necessary for the Group to comply with the requirement for a capital preservation buffer and a countercyclical buffer.

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. The capital preservation buffer will therefore amount to 2.5% of the total risk exposure once it has been fully phased in on 1 January 2019.

In Denmark, the countercyclical buffer, which can be activated by the supervisory authorities, will be phased in by 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 the 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, lending growth is causing higher macro-economic risks. The countercyclical capital buffer was 0.0% in Denmark at the end of 2017, but the Systemic Risk Council has recommended that the countercyclical capital buffer be activated at 0.5% from 31 March 2019, and the Council expects to recommend a further increase of 0.5% during 2018.

The geographic distribution of the Group's credit risks at the end of 2017 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 below.

Table 6
Geographical distribution of credit exposures at the end of 2017

Exposures

	General credit exposures DKK '000	Exposures in the trading portfolio DKK '000
Denmark	36,364,679	10,448,281
Germany	75,386	1,854,965
Other countries *)	361,373	3,087,714
Total	*36,801,438*	*15,390,960*

Own funds requirement

	General credit exposures	Exposures in the trading portfolio	Total
	DKK '000	DKK '000	DKK '000
Denmark	1,785,873	124,477	1,910,350
Germany	5,429	5,397	10,826
Other countries *)	22,542	84,635	107,177
Total	*1,813,844*	*214,509*	*2,028,353*

*) "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 buffer.

Apart from its exposures in Denmark, the Group only has credit exposures exceeding 2% in Germany. As Germany has not introduced a countercyclical buffer, the institution-specific countercyclical capital buffer rate is 0.0%, and the requirement for the institution-specific capital buffer is DKK 0.0 mill.

Table 7
Combined buffer requirement

	2017	2016
Total risk exposures (DKK '000)	31,031,465	31,576,836
Capital preservation buffer rate (%)	1.250	0.625
Institution-specific countercyclical buffer rate (%)	0.000	0.000
Capital preservation buffer (DKK '000)	387,893	197,355
Institution-specific countercyclical buffer (DKK '000)	0	0
Combined buffer requirement (DKK '000)	*387,893*	*197,355*

In 2017, the combined buffer requirement was increased to DKK 387.9 mill. as a result of gradual phasing-in of the capital preservation buffer by 0.625 percentage points. In 2018, the Arbejdernes Landsbank Group expects that the institution-specific countercyclical buffer will amount to less than 0.1%, while the capital preservation buffer at 1 January 2018 rose to 1.875%.

Excess coverage in relation to the total capital requirement

At the end of 2017, the Group's capital ratio was 18.3%, which corresponds to an excess coverage of 7.1 percentage points relative to the total capital requirement of 11.2% comprising the solvency requirement of 8.0%, the supplementary solvency need of 2.0% and the combined buffer requirement of 1.25%.

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 2017

	Capital requirement	Capital requirement	Capital	Surplus capital
	%	DKK '000	DKK '000	DKK '000
Common Equity Tier 1 capital	6.9	2,132,609	5,035,224	2,902,615
Tier 1 capital	8.7	2,714,181	5,677,576	2,963,395
Own funds	11.2	3,489,611	5,677,576	2,187,965

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 0.8 bn. compared to the excess coverage of own funds shows that the Group is well equipped to bolster its capital by issuing Tier 2 capital.

CRR/CRD IV transitional scheme

The Group has calculated 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 and fully phased in at the start of 2018. The phase-in means that the Tier 1 capital ratio at the beginning of January 2018 was reduced by 0.5 percentage points to 15.7%, whereas the capital ratio was maintained at 18.3%. If the calculation is done on the assumption that the current sales agreement concerning the shareholding in ALKA Forsikring was completed on 31 December 2017, and the sales price was placed without risk, the Common Equity Tier 1 capital ratio would amount to 18.3% at the end of 2017 and the start of 2018. Under similar assumptions, the capital ratio would amount to 20.9% at the end of 2017 and start of 2018.

MREL requirement

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 MREL 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 public funds.

The requirement for MREL capital is composed of the individual solvency need, the combined buffer requirement and a MREL supplement, as notified to the individual institution. The requirement for the MREL supplement for Arbejdernes Landsbank is 6.8% calculated in relation to risk-weighted exposures, and this will be phased in over a 5-year period, probably as 0.6% in 2019, 1.9% in 2020, 3.1% in 2021, 5% in 2022 and 6.8% in 2023. On the basis of the solvency need at the end of 2017, the total requirements for Arbejdernes Landsbank in 2023 will thus amount to 19.3% excluding the cyclical capital buffer and may be as high as 21.8%, depending on the extent to which the cyclical capital buffer has been activated.

The MREL requirement can be met by the capital items included in own funds and a new type of capital with a maturity of more than 1 year, which is referred to as Non-Preferred Senior (NPS) or Tier 3 capital. The Bank prepares 5-year projections, which indicate that the Group can meet the phase-in of the MREL requirement through self-financing using the retained profits for the year. The Bank will also consider options to utilise alternative types of financing in the form of Tier 2 capital and Tier 3 capital.

IFRS 9

At the end of 2017, the Arbejdernes Landsbank Group calculated how the new impairment rules in IFRS 9 will affect the Group's impairments on loans etc. when the rules enter into force at the start of January 2018. Calculations show increased impairment of around DKK 109 mill., which after tax of 22% will reduce the shareholders' share of equity by DKK 85 mill. It is possible to apply a transitional scheme to calculate the own funds, so that the effect of the new impairment rules is phased in over a 5-year period. The Group has decided not to use this transitional scheme. However, the Group may change this decision during the 5-year phase-in period.

CRR II/CRD V - upcoming regulations

In December 2017, the Basel Committee published final recommendations on amended regulations for calculation of capital requirements under the provisions of the CRR II and CRD V. The regulatory framework is a development of the current CCR / CRD IV regulations. The Arbejdernes Landsbank Group uses the standard method to calculate risks and has noted that substantial changes to market risk and credit risk have been recommended under the standard method, including stricter capital requirements for undrawn credit facilities and exposures to unrated banks. The new regulations are expected to enter into force on 1 January 2022.

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 its equity. In its policies, the Group has designed its business model such that the Group operates with a leverage ratio >7%, 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, but a final limit value for the leverage ratio has not yet been set. A requirement of a minimum 3% is likely, corresponding to a maximum leverage of approximately 33 times Tier 1 capital. At the end of 2017, the Arbejdernes Landsbank Group had a leverage ratio of 10.6% and thus complies with the expected requirement of at least 3% by a solid margin.

During 2017, total leverage-weighted exposure increased from DKK 51.2 bn. to DKK 53.6 bn., but due to a strengthening of Tier 1 capital, the leverage ratio could be maintained at 10.6% from the end of 2016 to the end of 2017.

Table 10
Leverage brought forward from 2017

	DKK '000
Leverage-weighted exposures	
Total assets	47,368,881
Adjustments for derivatives	128,075
Adjustments for repo/reverse transactions	450
Adjustments for exposures not recognised in the balance sheet	7,047,940
Other adjustments	-914,464
Total leverage-weighted exposures	***53,630,882***
Exposures recognised in the balance sheet, excl. derivatives and repo/reverse transactions	
Assets excl. derivatives and repo/reverse transactions	47,110,762
Assets deducted in Tier 1 capital	-914,014
Total exposures recognised in the balance sheet, excluding derivatives and repo/reverse transactions	***46,196,748***
Derivative exposures	
Positive market value	67,418
Potential risk	128,075
Total derivative exposures	***195,493***
Repo/reverse transactions	
Gross exposures	190,251
Counterparty risk	450
Total repo/reverse transactions	***190,701***
Exposures not recognised in the balance sheet	
Gross exposures	12,318,240
Adjustments	-5,270,300
Total exposures not recognised in the balance sheet	***7,047,940***
Capital and leverage-weighted exposures	
Tier 1 capital	5,677,576
Leverage-weighted exposures	53,630,882
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	5,775,937
Institutions	887,626
Exposures secured by collateral in the form of mortgages on real property	2,406,531
Retail exposures	15,414,069
Companies	3,900,949
Exposures with breach	434,878
Other exposures (e.g. share exposures, securitisation and other assets which are not debt obligations)	3,495,140
Exposures outside the trading portfolio	***32,315,130***
Exposures in the trading portfolio	14,796,335
Total exposures recognised in the balance sheet	***47,111,465***

Consolidation

Consolidation of A/S Arbejdernes Landsbank Group includes the following subsidiaries:

AL Finans A/S
Handels ApS Panoptikon,

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

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

Overview of capital, risk exposures and ratios and key figures

Table 11
Capital, risk exposures and ratios and key figures

	2017 DKK '000	2016 DKK '000
Common Equity Tier 1 capital		
Share capital	300,000	300,000
Reserve under the equity method	0	0
Revaluation reserves	326,709	365,689
Retained earnings from previous years	4,137,084	3,836,595
Transferred from profit for the year less proposed dividend	998,797	300,489
Common Equity Tier 1 capital before statutory adjustments	*5,762,590*	*4,802,773*
Statutory adjustments - Common Equity Tier 1 capital		
Intangible assets	-16,587	-12,713
Deductions for prudent valuation	-14,188	-16,232
Capital instruments in financial entities (Common Equity Tier 1 capital) <10%	0	0
Capital instruments in financial entities (Common Equity Tier 1 capital) ≥10%	-696,591	-113,657
Transitional schemes concerning deduction for capital instruments in insurance companies	0	0
Transitional adjustments concerning distribution of deductions	0	0
Total statutory adjustments of Common Equity Tier 1 capital	*-727,366*	*-142,602*
Total Common Equity Tier 1 capital	*5,035,224*	*4,660,171*
Additional Tier 1 capital		
Additional Tier 1 capital issued	829,000	829,000
Statutory adjustments - Additional Tier 1 capital		
Own portfolio of Additional Tier 1 capital issued	0	0
Capital instruments in financial entities (Additional Tier 1 capital) <10%	-87,074	-37,886
Capital instruments in financial entities (Tier 2 capital) <10%	-99,574	-37,886
Transitional adjustments concerning distribution of deductions	0	0
Transitional adjustments concerning indirect and synthetic ownership interests	0	0
Total statutory adjustments of Additional Tier 1 capital	*-186,648*	*-75,772*
Total Additional Tier 1 capital	*642,352*	*753,228*
Tier 1 capital	*5,677,576*	*5,413,399*
Tier 2 capital	0	0
Own funds	*5,677,576*	*5,413,399*
Amounts under the thresholds for deduction		
Capital instruments in financial entities <10%	470,584	465,538
Capital instruments in financial entities ≥10%	573,181	477,383
Deferred tax assets	11,701	4,238

Overview of capital, risk exposures and ratios and key figures

Table 11, continued
Capital, risk exposures and ratios and key figures

	2017 DKK '000	2016 DKK '000
Risk-weighted exposures		
Exposures to credit risk	23,180,236	22,908,826
Exposures with market risk	4,185,371	5,353,819
Exposures with operational risk	3,665,858	3,314,191
Total risk-weighted exposures	***31,031,465***	***31,576,836***
Ratios and key figures		
Common Equity Tier 1 capital ratio	16.2%	14.8%
Tier 1 capital ratio	18.3%	17.1%
Capital ratio	18.3%	17.1%
Requirements for institution-specific buffer	0.0%	0.0%
Common Equity Tier 1 capital available for buffers	10.3%	9.1%
Leverage ratio	10.6%	10.6%

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 exposures with credit risk

	Average 2017	Status 31 December 2017	Status 30 September 2017	Status 30 June 2017	Status 31 March 2017	Status 31 December 2016
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Exposures to central governments and central banks	2,426,347	5,775,937	1,520,395	2,023,865	1,336,640	1,474,897
Exposures to institutions	1,222,821	1,368,704	1,129,078	1,139,033	1,132,423	1,344,866
Exposures to companies	6,512,829	6,883,284	6,918,628	6,254,947	6,115,351	6,391,937
Retail exposures	23,333,564	22,364,298	22,994,525	23,395,652	24,311,631	23,601,714
Exposures secured by mortgages on real property	3,015,226	4,379,203	3,736,785	3,560,204	1,755,421	1,644,518
Exposures with breach	580,452	529,023	551,008	614,122	603,948	604,161
Exposures with particularly high risk	31,732	158,662	0	0	0	0
Share exposures	1,013,634	944,155	889,947	996,191	1,129,878	1,107,998
Other exposures	1,575,718	1,542,813	1,524,887	1,566,479	1,596,328	1,648,084
Total exposures with credit risk	*39,712,323*	*43,946,079*	*39,265,253*	*39,550,493*	*37,981,620*	*37,818,175*

Table 13
Items recognised in the balance sheet *) broken down by remaining maturity

End of 2017

	On demand DKK '000	0-3 months DKK '000	3 months to 1 year DKK '000	1-5 years DKK '000	More than 5 years DKK '000
Exposures to central governments and central banks	654,840	5,116,580	573	894	0
Exposures to institutions	53,333	774,490	0	56,012	3,790
Exposures to companies	469,604	999,420	1,252,194	678,370	501,362
Retail exposures	132,438	849,684	1,926,463	6,590,935	5,914,548
Exposures secured by mortgages on real property	21,631	143,232	405,423	835,332	1,000,912
Exposures with breach	38,688	39,095	111,604	174,917	70,575
Exposures with particularly high risk	10,671	94,597	18,181	6,195	0
Share exposures **)	0	0	0	0	944,155
Other items **)	347,812	225,586	27,058	47,514	894,843
Total items recognised in the balance sheet	*1,729,017*	*8,242,684*	*3,741,496*	*8,390,169*	*9,330,185*

End of 2016

	On demand DKK '000	0-3 months DKK '000	3 months 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	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 with breach	55,307	42,378	171,026	165,338	58,830
Exposures with particularly high risk	0	0	0	0	0
Share exposures **)	0	0	0	13,003	1,094,994
Other items **)	331,854	257,241	24,565	38,902	993,662
Total items recognised in the balance sheet	*3,121,371*	*2,386,962*	*3,528,505*	*8,378,517*	*8,939,894*

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

**) The following items have been reclassified: Shares are classified under "More than 5 years", while properties and Other property, plant and equipment are classified according to depreciation period. Comparative figures have been adjusted.

Table 14
Distribution by sector of exposure categories

End of 2017

	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	Parti-cularly high risk DKK '000	Shares DKK '000	Other items DKK '000	Total DKK '000	Of which SMEs
Public authorities	120,605	0	140,000	37,217	48	0	0	0	0	*297,870*	
Business											
Agriculture, hunting, forestry and fisheries	0	0	0	43,164	1,957	19,361	0	0	0	*64,482*	43,727
Industry and extraction of raw materials	0	0	782,139	293,017	7,584	16,796	0	0	0	*1,099,536*	395,950
Energy supply	0	0	35,000	7,493	89	0	0	0	0	*42,582*	41,770
Building and con-struction	0	0	274,757	546,137	32,322	41,626	8,000	0	0	*902,842*	690,506
Trade	0	0	594,797	1,259,770	46,044	27,188	0	0	0	*1,927,799*	1,740,917
Transport, hotels and restaurants	0	0	271,253	251,314	23,636	18,814	0	0	0	*565,017*	487,560
Information and com-munication	0	0	568,888	84,961	2,465	2,988	0	1,316	0	*660,618*	81,901
Financing and insurance	5,655,332	1,368,704	1,209,304	94,719	7,886	39,734	9,162	879,169	0	*9,264,010*	1,219,065
Real property	0	0	903,771	354,744	146,615	99,262	81,500	13,783	0	*1,599,675*	1,387,151
Other business	0	0	1,774,642	975,402	50,883	24,481	60,000	13,121	0	*2,898,529*	2,298,204
Total business	*5,655,332*	*1,368,704*	*6,414,551*	*3,910,721*	*319,481*	*290,250*	*158,662*	*907,389*	*0*	*19,025,090*	*8,386,751*
Of which SMEs			*4,371,920*	*3,726,565*	*288,266*					*8,386,751*	
Private	0	0	328,733	18,416,360	4,059,674	238,773	0	36,766	0	*23,080,306*	
Other items	0	0	0	0	0	0	0	0	1,542,813	*1,542,813*	
Total	*5,775,937*	*1,368,704*	*6,883,284*	*22,364,298*	*4,379,203*	*529,023*	*158,662*	*944,155*	*1,542,813*	*43,946,079*	

Table 15
Credit risk reduction and guarantees for exposures with credit risk

	Adjusted value of the collateral		Guarantees used	
	2017 DKK '000	2016 DKK '000	2017 DKK '000	2016 DKK '000
Credit risk reduction and guarantees used				
Exposures to companies	201,928	285,692	0	0
Retail exposures	200,102	165,652	328	398
Exposures secured by mortgages on real property	6,355	656	0	0
Exposures with breach	6,486	2,416	0	0
Exposures with particularly high risk	9,162	0	0	0
Total items with credit risk	*424,033*	*454,416*	*328*	*398*

Table 16
Exposures with counterparty risk

	2017 DKK '000	2016 DKK '000
Exposures with counterparty risk		
Currency contracts		
Forward contracts/futures	58,264	60,100
Interest-rate contracts		
Forward contracts/futures/repo/reverse	20,644	131,709
Interest-rate swaps and swaptions	117,035	150,576
Options	0	5,236
Total	*195,943*	*349,771*

Credit risk

Credit risk is the risk that a counterparty is wholly or partly unable to make payments, or fails to make payments. 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 66% of the Bank's solvency need at the end of 2017 (70% at the end of 2016). 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 financing solutions in the areas of car loans, leasing and factoring through the Bank's subsidiary AL Finans.

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 has 70 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 parameter in ongoing monitoring and credit management, including identification of customers with a significant increase in credit risk. Furthermore the rating is used in the Bank's model for impairments.

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

Credit risk management and monitoring

The Group focusses 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 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 a comprehensive examination is performed of weak customers and new-loan authorisations, 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 and fair risk classification and impairment. 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 each quarter in order to prepare action plans, and to assess whether there is a need for impairment charges. The part of the portfolio not subject to individual impairment charges is assessed collectively.

All large lending exposures are regularly reassessed, and, at least once a year, on the basis of the customer's financial statements etc. If 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, when all the Group's lending exposures exceeding 1% of own funds are assessed. For weak exposures exceeding 2% of own funds, a further assessment is made to determine whether there are increased risks that call for an addition to the solvency need.

Credit risk is reported 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.

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, cooperative housing and cars.

For individually assessed exposures, collateral is calculated in impairment calculations at estimated fair value, pursuant to guidelines 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 30.

Loans and guarantees

The Group's total exposure, expressed as gross loans and guarantees, as presented in the 2017 Financial Statements, was DKK 28.7 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 amounts to 74%, see table 17.

The business segment's percentage of total gross loans and guarantees at the end of 2017 amounted to 26%. 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 customer segments at the end of 2017

	Private DKK '000	Business DKK '000	Total DKK '000
Loans before impairments	16,589,158	6,637,506	*23,226,664*
Guarantees before provisions	4,610,834	910,712	*5,521,545*
Total loans and guarantees before impairments etc.	*21,199,991*	*7,548,218*	*28,748,209*
Individual impairments on loans	560,022	563,956	*1,123,979*
Collective impairments on loans	120,494	24,134	*144,629*
Individual provisions on guarantees	9,281	9,198	*18,479*
Collective provisions on guarantees	9,485	2,785	*12,271*
Total gross loans and guarantee after impairments etc.	*20,500,708*	*6,948,144*	*27,448,852*

Note: The figures exclude receivables from credit institutions.

Group loans are geographically broken down between all the regions of Denmark, though 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.

If the private segment is considered separately, the distribution is the same. 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 65% 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.

Table 18
Group gross loans and guarantees broken down by regions at the end of 2017

	Private DKK '000	Business DKK '000	Total DKK '000
Capital Region of Denmark	11,028,363	4,929,546	*15,957,909*
Region Zealand	1,937,526	374,186	*2,311,711*
Region of Southern Denmark	3,455,144	888,721	*4,343,866*
North Denmark Region	1,276,309	323,462	*1,599,771*
Central Denmark Region	3,502,649	1,032,303	*4,534,953*
Total	*21,199,991*	*7,548,218*	*28,748,209*

Note: The figures exclude receivables from credit institutions.

Of the Group's total gross loans and guarantees, 88% are in low-risk rating classes (rating 1-5) or medium-risk rating classes (rating 6-8), see table 19.

Both private and business segments have a sound risk diversification, in which 91% and 80%, respectively, of gross loans and guarantees are in rating classes with low or medium risk.

Table 19
Group gross loans and guarantees broken down by ratings at the end of 2017

	Private DKK '000	Business DKK '000	Total DKK '000
Rating 1-5	11,940,688	3,695,890	*15,636,577*
Rating 6-8	7,414,914	2,307,960	*9,722,875*
Rating 9	674,656	326,590	*1,001,246*
Rating 10-11	1,169,733	1,217,778	*2,387,511*
Total	*21,199,991*	*7,548,218*	*28,748,209*

Note: The figures exclude receivables from credit institutions.

Total gross loans and guarantees are mostly concentrated in small exposure intervals due to the private customer segment. Exposures below DKK 2 mill. account for 84% of gross loans and guarantees to private customers. Private customers in the exposure interval exceeding DKK 2 mill. are usually consolidated with business customers, or temporary guarantees have been provided in connection with housing transactions.

Rating 1-5 amount to just under 55% of gross loans and guarantees in the small exposure intervals.

Table 20
Group gross loans and guarantees broken down by exposure intervals and ratings at the end of 2017

	Rating 1-5 DKK '000	Rating 6-8 DKK '000	Rating 9 DKK '000	Rating 10-11 DKK '000	Total DKK '000
Private (DKK '000)					
1. < DKK 500	4,282,720	2,091,644	232,803	419,270	*7,026,437*
2. DKK 500-2,000	5,551,087	4,399,973	381,682	517,127	*10,849,869*
3. DKK 2,000-4,000	1,372,569	698,642	47,278	103,323	*2,221,813*
4. DKK 4,000-10,000	601,631	189,975	12,870	68,221	*872,697*
5. DKK 10,000-35,000	95,050	3,909	0	61,305	*160,263*
6. > DKK 35,000	37,631	30,771	23	488	*68,913*
Total	*11,940,688*	*7,414,914*	*674,656*	*1,169,733*	*21,199,991*
Business (DKK '000)					
1. < DKK 500	295,755	301,824	57,967	52,741	*708,287*
2. DKK 500-2,000	206,613	229,832	61,369	143,843	*641,656*
3. DKK 2,000-4,000	159,863	162,863	43,006	125,406	*491,138*
4. DKK 4,000-10,000	252,481	241,336	61,416	91,577	*646,811*
5. DKK 10,000-35,000	526,543	323,740	53,399	271,024	*1,174,707*
6. > DKK 35,000	2,254,635	1,048,366	49,432	533,187	*3,885,619*
Total	*3,695,890*	*2,307,960*	*326,590*	*1,217,778*	*7,548,218*
Group (DKK '000)					
1. < DKK 500	4,578,476	2,393,468	290,770	472,011	*7,734,724*
2. DKK 500-2,000	5,757,700	4,629,805	443,051	660,969	*11,491,525*
3. DKK 2,000-4,000	1,532,432	861,505	90,285	228,729	*2,712,951*
4. DKK 4,000-10,000	854,112	431,311	74,286	159,798	*1,519,507*
5. DKK 10,000-35,000	621,593	327,649	53,399	332,329	*1,334,970*
6. > DKK 35,000	2,292,265	1,079,137	49,454	533,675	*3,954,531*
Total	*15,636,577*	*9,722,875*	*1,001,246*	*2,387,511*	*28,748,209*

Note: Exposure intervals are calculated for consolidated exposures, while ratings concern individual sub-exposures.
The figures exclude receivables from credit institutions.

Collateral and security

The most important collateral received by the Group is mortgages in properties, which alone account for 67% of the Group's total collateral. This high percentage is attributable to the private segment, where mortgages in properties alone account for 79%, 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 2017

	Private DKK '000	Business DKK '000	Total DKK '000
Properties	8,327,925	1,261,569	*9,589,494*
Securities, bonds, cash deposits, etc.	194,489	437,698	*632,187*
Cars	1,946,099	1,096,870	*3,042,970*
Warranties and guarantees	1,695	6,639	*8,334*
Other collateral	100,566	978,245	*1,078,810*
Total	*10,570,774*	*3,781,021*	*14,351,795*

Note: Calculated collateral 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
Group net loans and guarantees, collateral and unsecured exposures at the end of 2017

	Private DKK '000	Business DKK '000	Total DKK '000
Loans and guarantees after impairments etc.	20,500,708	6,948,144	*27,448,852*
Collateral	10,570,774	3,781,021	*14,351,795*
Unsecured exposures	48%	46%	*48%*
Percentage of total loans	75%	25%	*100%*

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

Arrears and loans in arrears

Group arrears amount to DKK 34.4 mill. and are concentrated on arrears of less than 30 days. Out of the Group's total arrears, the private segment accounts for 61% and business segment accounts for 39%.

Table 23
Arrears broken down by age of arrears at the end of 2017

	Private DKK '000	Business DKK '000	Total DKK '000
2-30 days	12,709	9,795	*22,505*
31-60 days	5,671	654	*6,325*
61-90 days	684	877	*1,561*
91+ days	1,888	2,095	*3,983*
Total	*20,953*	*13,421*	*34,374*
Percentage of total arrears	61%	39%	*100%*

Note: Arrears are calculated as in note 47 of the financial statements. The figures are excluding receivables from credit institutions.

Table 24
Loans in arrears broken down by age of arrears at the end of 2017

	Private DKK '000	Business DKK '000	Total DKK '000
2-30 days	207,355	85,544	*292,899*
31-60 days	12,034	1,302	*13,336*
61-90 days	2,620	1,043	*3,663*
91+ days	11,682	3,682	*15,364*
Total	*233,690*	*91,572*	*325,262*

Note: The calculation is based on loans in arrears, as calculated in note 47 of the financial statements. The figures are excluding receivables from credit institutions.

Loans in arrears totalled 1.2% of the Group's total net loans and guarantees at the end of 2017. Of this, loans more than 30 days in arrears accounted for 0.1%, see table 24.

The Bank has "early warning" procedures to reduce the number of customers with long-term arrears.

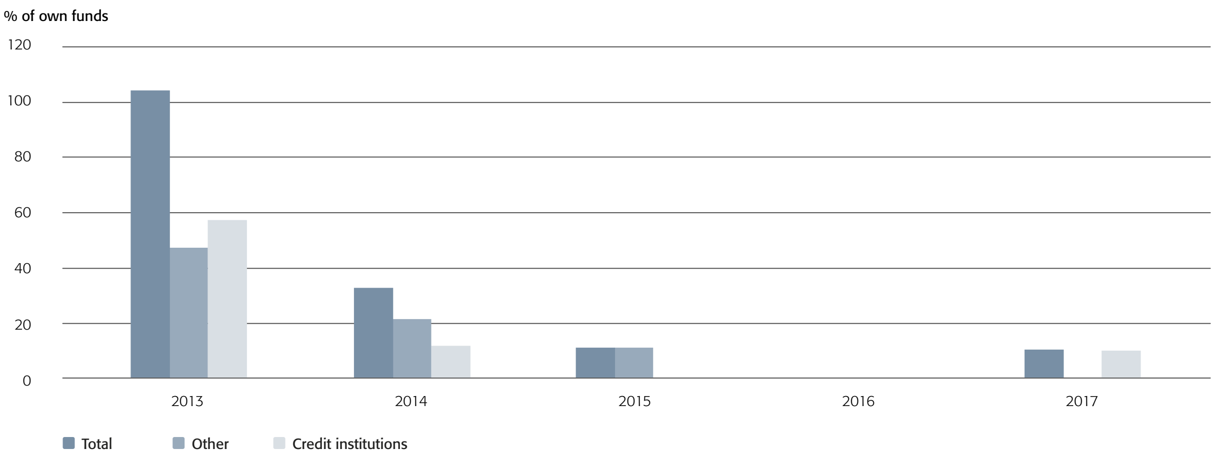
Generally, in cooperation with the customer, the Bank focuses its efforts on reducing the level by finding lasting solutions to any financial challenges.

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 10.2% of own funds at the end of 2017, 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 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, solid credit institutions and are mainly based on external ratings and on the same principles that apply to Danish credit institutions.

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.

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.

Impairments and provisions on loans and guarantees

The Group's statement of impaired exposures is pursuant to sections 51-54 of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

Impairment charges, provisions and losses recognised in the income statement amounted to DKK 14.3 mill. in 2017, see table 25, against DKK 67 mill. in 2016.

The calculations in tables 25 and 26 include receivables from credit institutions.

Group accumulated impairment charges and provisions then amount to DKK 1,344 mill. at the end of 2017. Impairment charges/provisions on the "Building and construction" sector relate to one large exposure in the Bank, which is monitored closely.

The Bank expects that impairment charges will remain at a relatively low level of around 0.3% of total gross loans and guarantees up to 2020. Continued and sustained focus on weak 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 2017

	Exposures DKK '000	Exposures impaired/ provided DKK '000	Impairment charge/ provision DKK '000	Impairment charge/ provision and loss recognised in the income statement in 2017 DKK '000
Public authorities	84,318	157	0	49
Business				
Agriculture, hunting, forestry and fisheries	43,769	59,533	48,937	-511
Industry and extraction of raw materials	950,845	68,281	40,978	-5,992
Energy supply	39,298	678	19	1
Building and construction	628,231	158,309	49,766	-11,276
Trade	1,206,958	191,443	69,066	-5,105
Transport, hotels and restaurants	427,065	104,049	33,142	541
Information and communication	222,895	13,534	9,306	1,326
Financing and insurance	6,961,445	267,170	208,467	11,396
Real property	1,200,221	430,585	142,488	-4,697
Other business	2,197,640	117,706	41,773	-1,337
Total business	***13,878,367***	***1,411,288***	***643,942***	***-15,654***
Private	20,473,384	8,641,452	700,098	1,270
Total	***34,436,069***	***10,052,897***	***1,344,040***	***-14,335***

Table 26
Changes in impaired exposures at the end of 2017

	Individual impairment charges on credit institutions DKK '000	Individually impaired loans and other items with credit risk DKK '000	Individual provisions on guarantees DKK '000	Collectively impaired loans and other items with credit risk DKK '000	Collective provisions on guarantees DKK '000
Accumulated impairment charges/provisions brought forward on loans and guarantee debtors	25,856	1,255,556	19,862	142,044	10,658
Impairment charges/provisions carried forward on loans and guarantee debtors	26	253,783	6,963	89,596	8,143
Reversal of impairment charges	0	-243,343	-8,346	-90,108	-6,530
Other changes	0	41,679	0	3,097	0
Actual loss (written off) previously subject to individual impairment charges/provisions	0	-164,896	0	0	0
Accumulated impairment charges/provisions brought forward on loans and guarantee debtors	25,882	1,142,779	18,479	144,629	12,271
Actual loss (written off) not previously subject to individual impairment charges/provisions	0	-19,442	0	0	0
Recognised in claims previously written off	0	15,291	0	0	0

Note: The figures are in accordance with Note 13 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 authorisation process and in general exposure monitoring, see the relevant sections on this matter.

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

The Bank endeavours to limit counterparty risk in connection with financial instruments by demanding 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 2017

	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	545,707	-393	2,913	3,306
Forward transactions/futures, sale	3,905,335	7,707	9,756	2,049
Interest-rate contracts				
Forward contracts/futures, purchase	1,045,305	4,868	4,989	121
Forward transactions/futures, sale	2,378,888	14,105	15,002	897
Interest-rate swaps/swaptions	8,587,045	-221,726	33,851	255,577
Total		***-195,439***	***66,511***	***261,950***

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 converts 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 the 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

	2017 DKK '000	2016 DKK '000
Institutions		
Exposure value prior to risk weighting	525,966	309,669
Exposure value after weighting with credit quality step	187,618	149,156

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 are managed at Group level.

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.

The Bank gives high priority to managing 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 upwards change in the yield curve of 100 basis points. Risks on convertible mortgage-credit bonds and bonds with an interest ceiling etc. are based on correction factors issued by the Danish FSA and information obtained from leading market participants on modified duration. Other types of interest-rate-related option risks are based on the delta valuation calculation combined with modified durations for the underlying instruments. The calculations are made in the individual currencies and in duration intervals. Separate calculations of interest-rate risk are made within and outside the trading portfolio.

The Bank's exposure is primarily in DKK, EUR and USD.

Table 29
Interest-rate risk

	2017 DKK '000	2016 DKK '000
Broken down by type of business		
Bonds etc.	352,263	492,257
Derivative financial instruments	-399,168	-584,478
Mortgage deeds	79,904	79,891
Other items	-74,202	-54,158
Total	*-41,202*	*-66,488*
Broken down by currency		
DKK	-10,767	827
USD	-45,699	-35,280
EUR	8,928	-37,826
GBP	1,706	2,225
NOK	969	227
CHF	1,522	2,035
SEK	2,138	1,304
Other	-1	-1
Total	*-41,202*	*-66,488*

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 21.9 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.

As a consequence of attractive prices relative to investments in government bonds, for example, credit bonds weigh heavily in 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 1.1 bn., corresponding to 9% 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 29.1 mill., primarily in bonds denominated in DKK and EUR.

Investment in bonds issued by banks amounts to DKK 1.2 bn. and 9% of the Bank's total bond portfolio. Interest-rate sensitivity amounts to DKK 17.5 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

	2017	2016
Rating		
AAA	64%	54%
AA+, AA, AA-	4%.	4%
A+, A, A-	9%.	9%
BBB+	3%	7%
BBB	10%	12%
BBB-	3%	3%
Rating < BBB-	2%	2%
No Rating	6%	9%
Total	*100%*	*100%*

Management of market risks

The Group's 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 utilisation of the frameworks set 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 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 cash 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, periodic 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. At the end of 2017, the net interest-rate risk outside the trading portfolio amounted to DKK 5.7 mill. against DKK 27.9 mill. at the end of 2016.

Shares etc. outside the trading portfolio

In collaboration 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. Furthermore, the Group has made long-term strategic investments in individual enterprises.

The portfolio of shares outside the trading portfolio increased by DKK 731 mill. in 2017. Of this amount, more than DKK 0.5 bn. is attributable to a revaluation of shares in ALKA Forsikring in connection with a sales agreement expected to be completed in the first half of 2018. Moreover, through its participation in an investor group, the Bank has acquired DKK 100 mill. worth of shares in Vestjysk Bank.

Table 31
Shares outside the trading portfolio

	2017 DKK '000	2016 DKK '000
Fair value brought forward	1,094,994	813,436
Realised capital gain in the income statement	419	5,222
Unrealised capital gain in the income statement	620,704	4,489
Reclassified from associated companies *)	0	278,170
Net purchases	110,124	-6,323
Total fair value carried forward	*1,826,241*	*1,094,994*

*) The Bank's ownership interest in ALKA Forsikring was reduced to less than 20% in 2016 in connection with a divestment of shares. The ownership interest in ALKA Forsikring was subsequently classified under "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 and USD.

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. Thus, the Bank must comply with common European LCR (Liquidity Coverage Ratio) requirements for credit institutions. The requirements were fully phased in from 1 January 2018 and constitute 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 management. The Bank's Risk and Liability 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 coverage, 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 2017, the Bank's LCR has been calculated at 186% and is thus comfortably above the 80% requirement for 2017. In 2018, the requirement has been fully phased in, with a minimum LCR requirement of 100%. Based on its liquidity forecasts, the Bank expects to maintain a sufficient level of cash resources throughout 2018.

Table 32
LCR liquidity statement at the end of 2017

	DKK bn.
Total liquidity buffer	14.5
Net outflow	7.8
LCR	186%

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.

The new liquidity benchmark in the supervisory diamond, which will replace the existing benchmark calculated according to section 152 of the Danish Financial Business Act, will enter into force on 30 June 2018. At the end of 2017, the Bank complied with the new liquidity benchmark.

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 33
Encumbered assets

	Carrying amount 2017 DKK '000	Fair value 2017 DKK '000	Carrying amount 2016 DKK '000	Fair value 2016 DKK '000
Assets				
Encumbered assets				
Shares	0	0	0	0
Bonds	780,071	780,071	3,172,757	3,172,757
Other assets (margin deposits)	281,658	281,658	441,429	441,429
Total encumbered assets	*1,061,729*	*1,061,729*	*3,614,186*	*3,614,186*
Unencumbered assets				
Shares	2,045,320	2,045,320	1,328,188	1,328,188
Bonds	11,032,317	11,032,317	12,035,043	12,035,043
Other assets	33,229,515	33,383,917	27,448,401	27,552,694
Total unencumbered assets	*46,307,152*	*46,461,554*	*40,811,632*	*40,915,925*
Collateral received, available for encumbrance				
Bonds at fair value				
Encumbered collateral	54,773	54,773	264,235	264,235
Unencumbered collateral	118,741	118,741	147,231	147,231
Total bonds at fair value	*173,514*	*173,514*	*411,466*	*411,466*
Encumbered assets/collateral received				
Encumbered assets and collateral	1,116,502	1,116,502	3,878,420	3,878,420
Counterpart liabilities	324,966	324,966	1,542,472	1,542,472

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.

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 partly supports risk reduction, and at the same time it 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 and the source of loss. The systematic registration and classification is used to manage the Group's operational risks and create a record of experience and knowledge-sharing in the organisation.

Classification of loss events is based on the seven types of risk defined in the CRR: employment practices and workplace safety; external fraud; business disruption and system failures; internal fraud; clients, products and business practices; execution, delivery and process management and damage to physical assets. In 2017, the Group's loss events have predominantly been in the external fraud category and the clients, products and business practices category.

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.

Reporting is made quarterly to the Executive Management and the Board of Directors; however, actual and potential loss events exceeding DKK 0.5 mill. are reported to the Executive Management and the Board of Directors on an ongoing basis.

Management of operational risk, including the role as risk facilitator, is anchored in the Group's Financial Department, and general issues concerning operational risk are managed by the Operational Risk Committee.

Fraud

On the basis of regular reporting received by the Bank's Board of Directors and Executive Management, it is the opinion 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, Bankernes EDB Central (BEC), and by 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 statutory factors, as well as the ongoing operations. Operation of IT installations in the Group and with our permanent IT supplier is carried out according to documented operating plans and guidelines. Operations must be safe and stable, and this is pursued through automation and ongoing adjustment of capacity. At our suppliers, this is secured through written agreements. Work on IT security also involves preparing contingency and emergency plans to ensure that continued operations can be carried out at a satisfactory level despite any extraordinary events. Bankernes EDB Central, BEC, provides statements about security setups annually.

In 2017, the Bank established a new position, Head of IT security, referring to the Chief Risk Officer. This will ensure greater independence within this area.

Capital need

The calculation of capital need to cover Arbejdernes Landsbank's operational risk is based on the basic indicator approach. At the end of 2017, the operational risk amounted to 11.8% of the total risk exposure, corresponding to DKK 3,665.9 mill., which results in a capital requirement (8% requirement) of DKK 293.3 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 the 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 that the Bank's customers or the Bank suffer significant financial losses. The compliance function regularly reviews the critical business procedures in order to assess risks and recommendations for limiting each risk.

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 falls in revenues or unexpected rises in costs.

Examples of reasons may be:

- Sharpened competitive pricing leading to 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 894 mill. at the end of 2017. 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.

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 90 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 employees in the management group, 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 2017 describes the basis for the Nomination and Remuneration Committee established by the Board of Directors. Pages 24-27 as well as note 11 describe the remuneration etc. paid to the Board of Directors, the Executive Management and other risk takers etc. who significantly influence the risk profile.

The group of employees (risk takers) who significantly influence the risk profile remains unchanged in 2017.

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