Group Risk Report 2022

Arbejdernes Landsbank

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

Contents

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

Arbejdernes Landsbank

Arbejdernes Landsbank Group

Arbejdernes Landsbank Group

The Group is nationwide, offering relevant and competitive financial products and services combined with competent advisory services for private individuals, associations and enterprises.

The two banks in the Group are operated as two independent banks, each with its own focus and brand. Common for the whole Group is more focus on a continued influx of new customers and a stronger position in the market.

The Arbejdernes Landsbank Group includes the following companies:

- A/S Arbejdernes Landsbank (parent company)
- Vestjysk Bank A/S (subsidiary)
- AL Finans A/S (subsidiary)
- Ejendomsselskabet Sluseholmen A/S (subsidiary)

A/S Arbejdernes Landsbank holds almost 73% of the shares in Vestjysk Bank A/S, while AL Finans A/S and Ejendomsselskabet Sluseholmen A/S are fully owned by the parent company.

A/S Arbejdernes Landsbank

Arbejdernes Landsbank is a nationwide full-service bank for private individuals, associations and small and medium-sized enterprises. The Bank's business strategy is based on sound values.

Arbejdernes Landsbank works systematically and strategically to develop a dynamic and customer-oriented culture. The Bank's culture is crucial in retaining and developing our unique position relative both to the Bank's customers and to being an attractive workplace for our employees. Arbejdernes Landsbank sees a clear link between strategy and culture.

Vestjysk Bank A/S

The strategic focus of Vestjysk Bank is to be Denmark's strongest local bank, offering advisory services to private and business customers, locally as well as regionally. Vestjysk Bank aims to be an attractive cooperation partner for both private and business customers.

Vestjysk Bank wants to strengthen its position as a bank appealing to the business community and will specifically target businesses in the bank's market area.

Vestjysk Bank has extensive expertise in the fisheries and agriculture sectors and it will focus even more on fisheries. On 3 January 2022, the bank opened a centre of expertise targeting the fisheries sector. Because of the bank's strong foundation in west Jutland, an area with a long tradition of fishing, Vestjysk Bank has developed strong expertise and a considerable customer portfolio in the fisheries sector over a number of years.

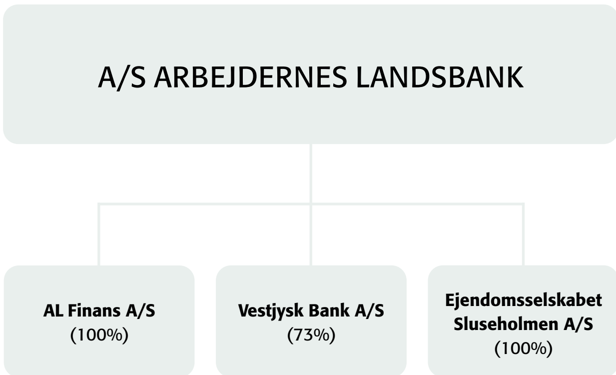
Furthermore, the bank has decided to set up a unit with focus on renewable energy and expects growth in this area.

AL Finans A/S

AL Finans A/S is a finance company offering financing solutions to private individuals and businesses. For private individuals, the company mainly provides car loans and leasing. For businesses, the company offers factoring, invoice purchasing and car leasing. AL Finans A/S aims to establish strong customer relations through close dialogue and collaboration.

Ejendomsselskabet Sluseholmen A/S

Ejendomsselskabet Sluseholmen A/S is the property company that will build the new headquarters for Arbejdernes Landsbank and AL Finans.



Risk management

Overall risk management

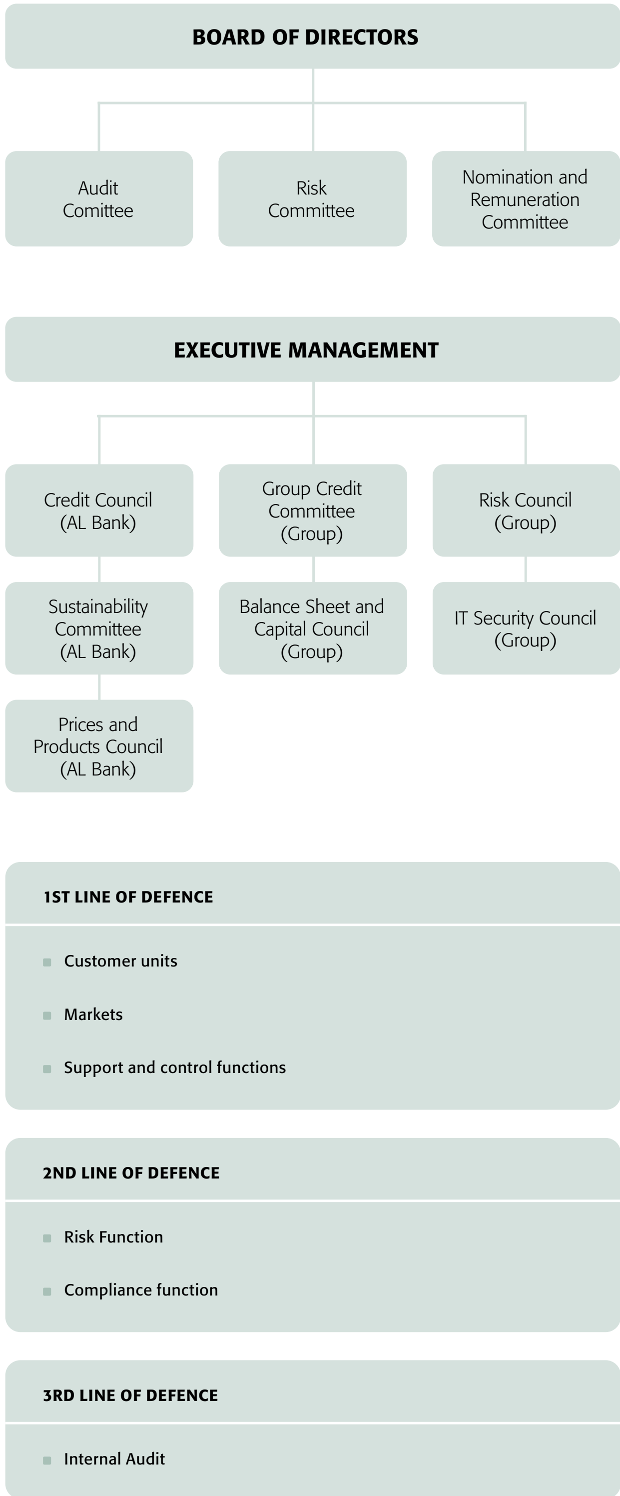
The strategic ambition for risk management at the Group is to remain a strong financial enterprise for owners, customers and society. In this connection, there is focus on the Group being aware of the risks to which the Group is exposed as a result of the business model, and on managing these appropriately. The following risks are considered as the most important:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk, including IT security, outsourcing and money laundering risk

The information in the Group Risk Report concerning risk management covers the Group. There are no differences between the consolidation basis for accounting purposes and consolidation in accordance with the CRR.

The governance structure is illustrated in figure 1 and explained in detail on the following pages.

Figure 1
Organisation chart for risk management



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

- The business model for the Group includes AL Finans, Sluseholmen and Vestjysk Bank. Vestjysk Bank is operated as an independent listed bank with its own business model within the framework for the Group.
- The Board of Directors of Arbejdernes Landsbank has formulated a risk strategy for the Group, setting the overall framework for risk management. The risk strategy formulated by the Board of Directors sets the framework for the Group's capital consumption and delegates capital to Arbejdernes Landsbank, Vestjysk Bank and AL Finans.
- Group policies developed by the Board of Directors determine the risk appetite in all significant areas, and the Board delegates risk appetite to the individual companies in the Group.
- The Board of Directors has set up three committees: a Risk Committee, an Audit Committee and a Nomination and Remuneration Committee. These support the work of the Board of Directors.
- The Executive Management has set up a number of councils and committees: a Credit Council, a Balance Sheet and Capital Council, a IT Security Council, a Price and Product Council, a Risk Council, a Group Credit Committee and a Sustainability Committee, the objective of which is to ensure good governance for operational management of the Group's business activities and to check and monitor that the Group's internal control systems, and risk and security systems are working effectively.

The responsibilities of these committees and councils are described in more detail in the following.

Organisation of risk management

Committees of the Board of Directors

The Board of Directors has overall responsibility for defining and managing the Group's risks, see figure 1. This is done on the basis of a business model, a strategy, risk appetite, risk policies and contingency plans. Based on reporting, the Board of Directors regularly follows up on risk management to ensure that it is satisfactory and that the Group is operated responsibly and in accordance with guidelines and policies.

The Board of Directors has set up three committees to support the Board's work on governance and risk management: a Risk Committee, a Audit Committee and a Nomination and Remuneration Committee.

The Audit Committee is composed of four members. The Audit Committee prepares the audit and accounts work of the Board of Directors. The Committee is responsible for supporting, monitoring and assessing whether the Group and the Bank's accounting procedures, including the internal control and risk management systems, are working effectively with a view to ensuring the credibility, integrity and transparency in the financial reporting. The committee monitors the independence of the auditors and is responsible for the procedure for selection and recommendation of auditors for election.

The Risk Committee consists of five members. The task of the Risk Committee is to advise the Board of Directors on whether the Group's and the Bank's current and future risk profile and strategy and the Group's and the Bank's risk management, including policies, guidelines, instructions, methods, systems, processes and procedures, are adequate and effective.

The Nomination and Remuneration Committee is composed of four members. In addition, an employee representative takes part when there are issues related to remuneration. The Nomination and Remuneration Committee is responsible for preparatory work in relation to the Board's evaluation and nomination process as well as discussions on matters concerning remuneration.

Executive management committees and councils

The boards of directors in each of the companies within the Group have appointed an executive management, which is responsible for day-to-day management, including that the companies are operated in accordance with the strategy, policies etc. adopted by the boards of directors. The executive managements are responsible for ensuring organisation, processes, systems and competences that support sound risk management in the companies within the Group.

The Executive Management of Arbejdernes Landsbank has set up a number of councils and committees focusing on governance and risk management in the Group and the Bank. The 2nd line of defence participates as observer in all committees and councils.

The Risk Council follows up on risk appetite, discusses the overall risk profile for financial and non-financial risks, follows up on the Group's risk reporting and discusses risk policies before they are considered by the Board of Directors' Risk Committee.

The task of **the Credit Council** is to authorise exposures of a certain size, approve impairment levels, approve credit management tools and deal with other credit-related issues at Arbejdernes Landsbank. The Credit Council also processes cases from AL Finans, while Vestjysk Bank has its own credit council.

The purpose of the **Group Credit Committee** is to pre-process significant individual cases from Vestjysk Bank, and large cases outside the scope of the business model of Vestjysk Bank, as these have to be authorised by the Board of Directors of Arbejdernes Landsbank. Furthermore, the committee ensures that the Board of Directors of Arbejdernes Landsbank receives adequate reports on credit risk in Vestjysk Bank.

The role of the **Balance Sheet and Capital Council** is to ensure efficient capital management across the Group and to monitor Group investments within and outside the trading portfolio.

The IT Security Council is responsible for coordination and collaboration on IT security across the Group. The role of the council is to ensure a risk-based IT security level that meets the business requirements, and to ensure that collaboration processes for handling IT security projects, tasks and incidents have been defined and work effectively across all stakeholders in the organisation.

The Prices and Products Council approves of new products and services within its own mandate at Arbejdernes Landsbank and shutting down existing products.

The Sustainability Committee ensures that the sustainability strategy is implemented across business areas and units.

First line of defence

The credit departments at Arbejdernes Landsbank, Vestjysk Bank and AL Finans, respectively, are responsible for day-to-day, 1st-line-of-defence risk management of credit risk in the Bank's private branches, local business centres and business centres, as well as subsidiaries. The credit departments ensure compliance with both the credit strategy and the credit policies. Furthermore, they are in contact with branches, local business centres and business centres and provide credit advisory services in relation to processing individual cases, and they carry out control and monitoring.

The markets departments at Arbejdernes Landsbank and Vestjysk Bank are responsible for day-to-day, 1st line of defence, risk management of the Bank's market risk, and are monitored by the 2nd line of defence. The various Treasury functions at the Bank are responsible for the Bank's own portfolios. The units are responsible for complying with relevant policies and instructions.

AL Markets and the Bank's CFO area are responsible for day-to-day risk management of liquidity risk at Arbejdernes Landsbank. The Bank's markets departments are responsible for short-term, day-to-day liquidity management at the Bank, while overall management responsibility lies with the Bank's Treasury unit under the CFO area.

Management of operationel risk in the 1st line of defence is anchored in the individual business units in order to ensure efficient handling of events which have caused, or may potentially cause, operational losses. Arbejdernes Landsbank has systems to identify any occurring operational incidents. Other than reporting for managerial purposes, these systems are used to improve procedures and contingency plans. Vestjysk Bank monitors and reports on its own operational incidents to its own executive management and board of directors, and to the Group Chief Risk Officer (CRO).

The IT security unit in the 1st line of defence is responsible for securing the correct level of emergency response, including drawing up contingency plans and safeguarding secure IT risk management as well as a sufficient level of IT security. The IT security unit has been set up at Group level and it refers to the IT Director in Arbejdernes Landsbank.

The task of ensuring that Arbejdernes Landsbank is not exploited for money laundering or terrorist financing is anchored in the AML Department supervised by the person responsible for the AML area at Group level The person responsible for the AML area in each subsidiary is responsible for ensuring compliance by the subsidiary of the regulations in the Anti-Money Laundering Act. The persons responsible for the AML area in the Group's subsidiaries are subject to a dual reporting obligation, as they are to report both to the management of the subsidiary and to the person responsible for the AML area at Group level on matters of importance to the Group's compliance with the Anti-Money Laundering Act, Group policies etc.

The Board of Directors of Arbejdernes Landsbank has adopted a product policy and a governance structure to ensure that activities in new areas, as well as deliberations about new products and services, are considered by the Bank's Prices and Products Council before being recommended to the Board of Directors. Vestjysk Bank has a similar procedure for activities in new areas, and moreover, approval is required from the Board of Directors of the Group prior to any changes in Vestjysk Bank's business model.

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.

Second line of defence

Arbejdernes Landsbank has a risk function managed by the Group CRO. The risk function monitors risk management across the Group and ensures correct identification, measurement, handling and reporting of all significant risks in the Parent Company and its subsidiaries. The Group CRO reports to the Board of Directors and the Executive Management of Arbejdernes Landsbank concerning the Group's risks. The report includes assessments and selected recommendations from the Group CRO. The risk function provides advice to the Board of Directors and the Executive Management with regard to risk issues. Vestjysk Bank has an independent risk function, which reports to the executive management and board of directors of Vestjysk Bank. The CRO at Vestjysk Bank coordinates monitoring with the Group CRO and reports to the Group's risk function. Monitoring IT security in the Group is also part of the responsibility of the Risk Function and is carried out by the Chief Information Security Officer (CISO). The Group CRO reports to the Executive Management of Arbejdernes Landsbank, and reports independently to the Board of Directors. The Group has a Compliance Function managed by the Group Head of Compliance. The Compliance Function is responsible for independent reporting to the Executive Management and the Board of Directors. The Group Head of Compliance reports to the Executive Management of Arbejdernes Landsbank. The Compliance Function is responsible for assessing and checking compliance with current legislation, industry standards and internal rules. Furthermore, the Compliance Function provides advice on how to reduce compliance risks. Vestjysk Bank has an independent compliance function, which reports to the executive management and board of directors of Vestjysk Bank. The head of compliance at Vestjysk Bank coordinates monitoring with the Group Head of Compliance and reports to the Group Compliance Function.

The Risk Function and the Compliance Function are subject to special conditions in which variable remuneration components are not affected by changes in the financial result and depend exclusively on the performance of the department and the individual employee.

Third line of defence

Internal Audit is the 3rd line of defence and is responsible for carrying out independent audit of risk management by the Group, including the internal controls and monitoring of the risk area. Internal Audit is a Group function with a Group Chief Audit Executive and staff employed in internal audit in both Arbejdernes Landsbank and Vestjysk Bank. Internal Audit reports on its activities and results to the Board of Directors and the Board of Directors' Audit Committee.

Reporting overview

Annual/half-yearly reporting/approval	Quarterly/monthly reporting/approval
Annual and interim financial statements Developments in earnings, business activity etc. **Individual solvency need, ICAAP** Assessment and approval of model for calculating solvency need. **Calculation and assessment of liquidity position and liquidity risk, ILAAP** Overall calculation and assessment of liquidity position and liquidity risk, ILAAP. **Risk policies** Review of risk policies for the individual risk areas and assessment of the need for adjustments. **Credit risks** Half-yearly check of compliance with credit policy goals and requirements laid down in the credit policy. **Contingency plans** Review of contingency plans (capital conservation plans, capital ratio improvement plans, liquidity contingency plan, IT contingency and recovery plan). **Projections and budget** Projection of the Bank's capital, solvency, and earnings in different macro-economic scenarios (half-yearly). Business and strategic risks are identified as part of preparing the budget and projections for the Group. **Recovery plan** Confirmation that the Group can initiate compensatory measures independently if selected risk indicators exceed set limit values. **Benchmark analysis** Benchmarking against comparable banks for selected areas/ratios. **CSR Report** Corporate Social Responsibility (CSR) report accounts for Group's social responsibility. **Responsibility & Sustainability Report** Annual responsibility & sustainability report. **Reporting from the DPO** Annual reporting from the Data Protection Officer (DPO). **Reporting from the person responsible for outsourcing** Annual reporting from the person responsible for outsourcing. **Reporting from the person responsible for IT security** Annual reporting from the Chief Information Security Officer (CISO). **The Chief Risk Officer (CRO)** Annual approval of the CRO's annual plan. **Compliance** Annual approval of the annual plan prepared by the Head of Compliance	**Individual solvency need** Assessment of risk profile and calculation of adequate own funds. **Solvency and capital** Solvency and capital statement. **Credit risks, as well as a review of the largest weak and non-performing exposures** Developments in loans and guarantees broken down by customer segment, rating code, overdraft etc. are submitted to the Board of Directors of the Group on a quarterly basis. **Market risks** Developments in interest-rate risks, credit-spread risks, share risks and currency risks in relation to frameworks and risk strategy are submitted to the Board of Directors of the Group on a quarterly basis. **Liquidity risks** Developments in excess cover in relation to the LCR requirement and the NSFR requirement are submitted to the Board of Directors of the Group on a quarterly basis. Analyses of liquidity in the short and the long terms, including liquidity stress tests are submitted to the Board of Directors of the Group every quarter. **Operational risk** Review and assessment of standalone incidents with significance in terms of value, as well as quarterly reporting on IT security. **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. Indicators concerning capital and liquidity (monthly). **Risk Profile** Reporting of the risk profile for the Group and status of recommendations from the risk function. **Risk Strategy** Quarterly reporting and follow-up on the agreed risk strategy. **Pillar-3 information** Quarterly reporting and publication of Pillar-3 information for the Group in accordance with Article 433a of the Capital Requirements Regulation (CRR). **The Chief Risk Officer (CRO)** Quarterly reporting, of which two risk statements. **Compliance** Quarterly reporting on general compliance risks.

Management declaration

Pursuant to article 435(1) of the Capital Requirements Regulation (CRR), on 14 February 2023, the Board of Directors and the Executive Management of Arbejdernes Landsbank approved Arbejdernes Landsbank's Group Risk Report for 2022. Arbejdernes Landsbank's subsidiary Vestjysk Bank prepares a separate risk report, which is available on Vestjysk Bank's website.

The assessment of the Board of Directors

In our assessment, the risk management of Arbejdernes Landsbank complies 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 Arbejdernes Landsbank.

In our assessment, the description of the Group's overall risk profile, in conjunction with the business strategy, the business model and ratios and key figures, gives a sufficient picture of the risk governance, including how the risk profile and the risk appetite determined by the Board of Directors affect each other.

We assess that the business model, policies, guidelines and the actual risks within the individual areas of activity are in alignment.

In our assessment, no intra-group transactions in the Group are of a scope or nature that will influence the Group's risk profile. See note 46 on related parties in Arbejdernes Landsbank's annual report.

Our assessment was carried out on the basis of the adopted business model, strategy and reporting submitted to the Board of Directors by the Executive Management, internal and external audit, the CRO, and the Head of Compliance, as well as on the basis of any supplementary information or statements obtained by the Board of Directors.

Business model and risk strategy

The overall requirements for individual risk areas associated with to the Group's business model are realised through the risk strategy and the individual risk policies. A review of the guidelines of the Board of Directors and the authority transferred to the Executive Management shows that the actual risks are within the limitations laid down in the individual policies.

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

The Group aims at profitable earnings based on product pricing which reflects the risk and the capital commitments accepted by the Group as well as an overall assessment of the scope of business with customers and counterparties.

As far as possible, Arbejdernes Landsbank wants to operate a Group with external capital financed mainly through customer deposits. Therefore a positive deposits surplus is an objective. With the goal of a profitable and diversified supplement to the primary business of loans, Arbejdernes Landsbank has opted for active management of its deposits surplus through placement primarily in liquid and secure bonds.

The risk appetite of the Group

The Board of Directors has set the following objectives for risk appetite and capital consumption for the Group.

In accordance with the business model, the Board of Director has a high risk appetite for customer loans in Arbejdernes Landsbank and Vestjysk Bank. As much as 70-80% of the capital consumption should preferably be allocated to customer loans. The Board of Directors wants responsible and sufficiently prudent lending activities that ensures efficient use of the capital consumption. Because Vestjysk Bank has a significantly higher percentage of business customers, the risk appetite on customer-lending activities is relatively higher than in Arbejdernes Landsbank and AL Finans.

Investment activities are considered a residual business of the Group's large deposits surplus. As the business from customer activities increases, the aim is to reduce investment activities accordingly. Overall, the Group has a moderate risk appetite in the investment area and aims to allocate 10-20% of the capital consumption to this.

Other activities, including properties and strategic investments, should preferably make up between 5-10%.

Table 1
Risk management allocated to business areas

	Objectives	2022	2021
		%	%
Customer activities	≤ 80%	74	73
Investment activities	≤ 20%	18	18
Other activities	≤ 10%	8	9

The overall risk targets and appetite for the various risk areas are included in the risk strategy. Reports on total risk targets are submitted to the Board of Directors quarterly.

The Group aims to maintain an appropriately robust capital base to support the business model. The Group has set a capital target covering the solvency need plus a capital conservation buffer of 2.5% and a SIFI capital buffer of 1.0%, as well as an excess cover of 4.5% covering a severe stress scenario (stress buffer). The capital target is adjusted by deducting the minority interests' share in Vestjysk Bank. At the end of 2022, the Group's capital ratio was 19.8%, corresponding to an excess cover of 2.0% relative to the capital target.

The Group's governance systems

Information regarding management systems, see Article 435(2), points a-d of the CRR, are described on pp. 31-30 of the 2022 Annual Report, and Arbejdernes Landsbank website, https://www.al-bank.dk/om-banken/baeredygtighed-og-governance/corporate-governance.

Executive Management:

Gert R. Jonassen
CEO

Jan W. Andersen
Deputy CEO

Frank Mortensen
Executive Bank Director

Svend Randers
Executive Bank Director

Simon S. Jørgensen
Executive Bank Director

Gry Bandholm
Executive Bank Director

Board of Directors:

Claus Jensen
Chairman

Ole Wehlast
Vice Chairman

Torben Möger Pedersen

Lars Andersen

Christian Riewe

Ulla Sørensen

Lizette Risgaard

Anja C. Jensen

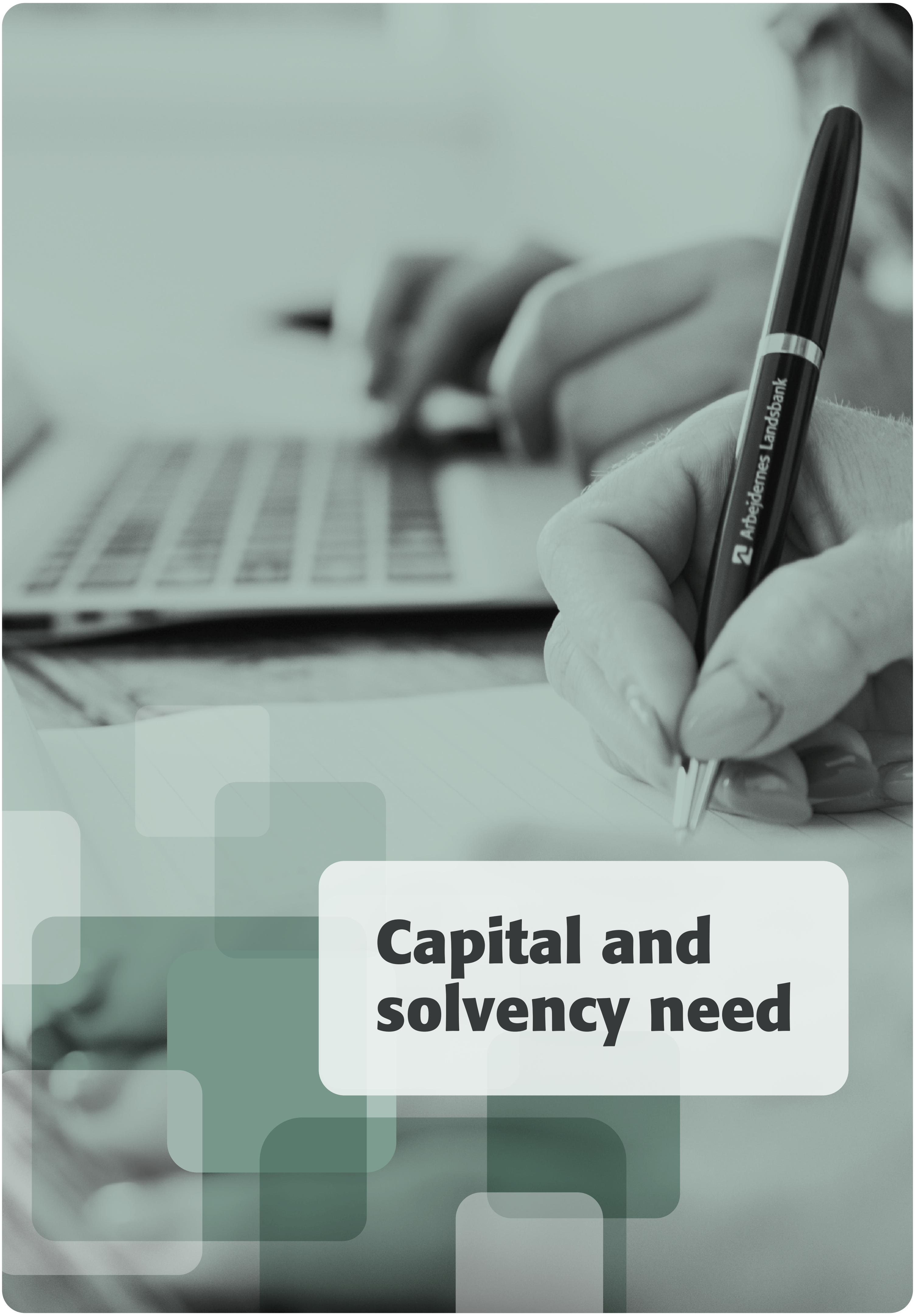
Lars Holst

Yvonne Hansen

Jesper Pedersen

Nadja Lind Bøgh Karlsen

Tina Holm



Capital and solvency need

Group structure

The Arbejdernes Landsbank Group was designated as a SIFI (systemically important financial institution) by the Danish FSA in June 2021. The designation as a SIFI meant that the Group was required to have a SIFI capital buffer of 1.0 percentage point from the end of 2022. The Group is obligated to meet the SIFI buffer through Common Equity Tier 1 capital. Arbejdernes Landsbank was redesignated as a SIFI in connection with the annual designation of SIFIs in October 2022.

Capital management

Capital management is based on the EU Capital Requirements Regulation (CRR), which entered into force on 1 January 2014 and has direct legal effect in Denmark.

As part of capital management, the Group has drawn up a capital plan to ensure that the Group has sufficient capital to comply with current legislation and meet its own solvency targets at all times.
The legislation concerns:

- Calculation of capital, risk exposures and capital requirements
- Calculation of individual solvency need
- Disclosure requirements

The Group's capital plan has been supplemented by a recovery plan comprising a number of relevant risk and capital indicators for the Group with associated limit values, stress test scenarios and recovery measures to ensure that the Group is able to identify problems in time and implement measures to ensure the viability of the Group. The Group regularly monitors developments in risk indicators.

Arbejdernes Landsbank has an ownership interest in Vestjysk Bank of 72.7%. Thus, 27.3% of the shares in Vestjysk Bank are held by minority shareholders. Furthermore, minority interests in Vestjysk Bank include owners of Additional Tier 1 instruments amounting to DKK 145.7 mill. and Tier 2 instruments amounting to DKK 365.1 mill. Minority shareholders' and other minority interests' share of the capital in Vestjysk Bank may only be recognised in consolidated own funds at an amount corresponding to the minority interests' share of the total capital requirement in Vestjysk Bank.

When determining the Group's capital targets, the Group recognises capital from minority interests corresponding to the minority interests' share of capital targets set for Vestjysk Bank. Due to the restrictions on recognising minority interest capital in consolidated own funds, Arbejdernes Landsbank will regularly fund Vestjysk Bank according to its capital need and also issue all Additional Tier 1 capital and Tier 2 capital in the Group.

Senior Non-Preferred (SNP) instruments issued in Vestjysk Bank cannot be recognised in the consolidated MREL and Arbejdernes Landsbank will therefore also be the issuer of SNP instruments in the Group, and will regularly fund Vestjysk Bank according to its MREL capital need. Based on legal requirements and the limit values for capital indicators set in the recovery plan, the Group has set a capital target covering the solvency need plus the capital conservation buffer and the SIFI buffer, as well as an excess cover of 4.5%. The target corresponds to the yellow light indicator in the recovery plan and ensures that the Group can absorb future capital requirements in the form of a fully phased-in countercyclical capital buffer.

The Group's capital ratio target has been calculated at 17.8%, after deduction for the minority interests' share in Vestjysk Bank. With a capital ratio of 19.8% at the end of 2022, the Group thus has an excess cover of 2.0%. Relative to the statutory requirement of 15.7%, the excess cover is 4.0 percentage points.

The Group's capital requirement comprises a solvency need of 10.3% and the combined capital buffer requirement of 5.4%, which currently consists of the capital conservation buffer of 2.5%, the institution-specific countercyclical capital buffer of 1.9% and a SIFI buffer of 1%. The countercyclical capital buffer will be raised further to 2.5% with effect from 31 March 2023.

The long-term capital planning of the Group is based on economic projections taking account of the Group's vision, but under different macro-economic and idiosyncratic stress scenarios and recognising the anticipated effects of future legislation.

Own funds

The Group's own funds largely consist of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Own funds are calculated with a view to calculating capital ratios that help to express the Group's capital excess cover in relation to the Group's targets and regulatory capital requirements.

Table 2
Calculation of Group own fund

	2022 DKK mill.	2021 DKK mill.
Transformation from equity to own funds		
Equity	12,348.2	11,852.9
Minority interests not included	-492.0	-649.8
Additional Tier 1 capital, including interest payable	-990.0	-754.5
Proposed dividend	-247.1	-525.0
Intangible assets	-216.1	-249.9
Deferred tax assets	-149.7	-289.6
Deduction for own shares in customers' safety deposit	-1.1	0.0
Deduction for prudent valuation	-31.8	-31.2
Deduction of non-performing exposures	-263.3	-87.8
Capital instruments in financial entities	-253.6	-18.9
Common Equity Tier 1 capital	***9,703.4***	***9,246.1***
Additional Tier 1 capital	954.7	729.7
Minority interests not included	17.0	-50.3
Capital instruments in financial entities	0.0	0.0
Tier 1 capital	***10,675.1***	***9,925.5***
Tier 2 capital	1,274.2	1,497.7
Minority interests not included	-48.0	-153.1
Capital instruments in financial entities	-29.4	0.0
Own funds	***11,871.9***	***11,270.2***

The Group's own funds have increased by DKK 601.7 mill. compared to 2021. This is largely due to an increase in equity when recognising the profit for the year, as well as a reduction in the deduction for minority interests. See below for a brief review of changes in the individual deduction items.

The total deductions for non-recognised minority interests amounted to DKK 523.0 mill. The deductions have been reduced by DKK 330.2 mill. over the course of 2022 and concern the part of the minority interests' capital that is not used to cover the capital requirement in Vestjysk Bank. The decrease is attributable to the reduction of the minority interests in connection with the redemption of external issues, as well as increased capital requirements at the end of 2022 as a consequence of activation of the SIFI buffer of 1% and activation of the countercyclical buffer from 0% to 2%. The increase in the deduction for capital instruments in financial entities from 2021 to 2022 amounted to DKK 234.7 mill. and is largely attributable to the capital treatment of Group's loan exposures against PRAS, which is expressed as an increased deduction for capital instruments in financial entities in the Common Equity Tier 1 capital by approx. DKK 150 mill. at the end of 2022. Note that the capital treatment of loan exposures against PRAS is also expressed as an increase in the deduction for equity investments in financial entities in Tier 2 capital by DKK 29.4 mill. at the end of 2022.

The increase of DKK 175.5 mill. in the deduction for non-performing exposures is attributable to further phase-in of the NPE backstop.

A deduction for deferred tax assets has been incorporated, which is attributable to a recognised tax loss in Vestjysk Bank to be carried forward. At the end of 2022, this corresponds to DKK 149.7 mill. The reduction in the deduction in 2022 is attributable to clarification of offsetting of tax liabilities in the reserves required by the articles of association, which reduces the net asset that can be deducted.

In 2022, the European Banking Authorities (EBA) published an interpretation stating that if a bank has granted loans against charges on customers' security deposits which include the Bank's own shares, then the bank must deduct the relevant shares in its calculation of own funds. According to the EBA the value of the loan will depend on the collateral provided, regardless of how the collateral would to be realised. This implies that if a bank has granted loans against charges on security deposits including the Bank's own shares, then the bank must deduct the relevant shares from its own funds. The Group has deducted a total of DKK 1.1 mill. for its own shares in customers' security deposits.

The increase in Additional Tier 1 capital of DKK 225.0 mill. relative to 2021 is attributable to recognition of the Additional Tier 1 capital, issued by Arbejdernes Landsbank on behalf of Vestjysk Bank. Decrease in Tier 2 capital of DKK 223.5 mill. is attributable to redemption of issued Tier 2 capital in Vestjysk Bank.

The Group has reserved a total of DKK 247.1 mill. for the proposed dividend in the own funds at the end of 2022, of which DKK 37.1 mill. is the minority shareholders' share of the dividend in Vestjysk Bank. Total distributions, including interest on Additional Tier 1 capital issued, have been calculated at 35.1% of the profit after tax for the year.

Capital instruments issued

The Group has currently issued a total of DKK 954.7 mill. Additional Tier 1 capital. Of this the Group issued DKK 809.0 mill. Tier 1 capital in 2022 to cover redemption of DKK 429.0 mill. Additional Tier 1 capital in Arbejdernes Landsbank and DKK 380.0 mill. Additional Tier 1 capital to cover redemption of Additional Tier 1 capital (DKK 155.0 mill.) and Tier 2 capital (DKK 225.0 mill.) in Vestjysk Bank.

The Group has currently issued Tier 2 capital amounting to DKK 1,275.0 mill., divided into three issues of DKK 900.0 mill., DKK 250.0 mill., and DKK 125.0 mill., respectively. Additional Tier 1 capital and Tier 2 capital have been issued on terms that comply with the CRR requirements for recognition of own funds, and the Group has therefore recognised the capital issues in own funds.

The Group commenced issuing SNP instruments in Q3 2022. The Group issued SNP instruments for a total of approx. DKK 2 bn. in 2022, divided between DKK 1.5 bn. and SEK 700.0 mill. Vestjysk Bank has independently issued DKK 350.0 mill. in SNP instruments (debt to external investors), but these cannot be included in the Group's MREL and are not included here.

Table 3
Additional Tier 1 capital issued

2022					
Type	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital
Issuer	Arbejdernes Landsbank	Arbejdernes Landsbank	Vestjysk Bank	Vestjysk Bank	Vestjysk Bank
ISIN	DK0030510482	DK0030497870	DK0030421466	DK0030484118	N/A
Principal amount (DKK mill.)	380.0	429.0	50.0	50.0	45.7
Currency	DKK	DKK	DKK	DKK	DKK
Possibility for redemption before maturity	16 August 2027	24 April 2029	26 June 2023	12 March 2026	25 January 2025

Tier 2 capital issued

2022			
Type	Tier 2 capital	Tier 2 capital	Tier 2 capital
Issuer	Arbejdernes Landsbank	Vestjysk Bank	Vestjysk Bank
ISIN	DK0030442892	DK0030421540	DK0030448311
Principal amount (DKK mill.)	900.0	250.0	125.0
Currency	DKK	DKK	DKK
Maturity	21 May 2031	26 June 2028	28 August 2029
Possibility for redemption before maturity	21 May 2026	26 June 2023	28 August 2024

Issued Senior Non-Preferred (SNP)

2022			
Type	Senior Non-Preferred	Senior Non-Preferred	Senior Non-Preferred
Issuer	Arbejdernes Landsbank	Arbejdernes Landsbank	Arbejdernes Landsbank
ISIN	DK0030515796	DK0030514476	DK0030512181
Principal amount (DKK mill.)	700.0	500.0	1,000.0
Currency	SEK	DKK	DKK
Maturity	09 December 2025	09 May 2026	16 September 2027
Possibility for redemption before maturity	09 December 2024	09 May 2025	16 September 2026

Capital requirement (8%)

The total risk exposure amount (REA) is used to set the minimum capital requirement and to calculate the Group's capital ratios, capital buffers and individual solvency needs.

The Group's total risk exposure decreased by approx. DKK 2 bn. during the year, distributed evenly between the items for credit risk and market risk, and was DKK 60.1 bn. at the end of 2022.

At the end of 2022, the Group's capital ratio was 19.8% compared to 18.2% at the end of 2021. The increase of 1.6% is primarily attributable to a strengthened own funds as described above, as well as to a lower Group risk exposure. The Group uses the following methods to calculate the capital ratio:

- The standardised approach for calculating credit risk
- The standardised approach for calculating market risk
  The SA-CCR method for calculating counterparty risk
- The basic indicator approach for calculating 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 in the bank

Table 4
Capital requirement (8%) and risk exposure

	Capital requirement (8%)		Risk exposure	
	2022	**2021**	**2022**	**2021**
	DKK mill.	DKK mill.	DKK mill.	DKK mill.
Exposures with credit risk etc.				
Exposures to central banks	0.0	0.1	0.1	1.4
Exposures to regional or local authorities	0.0	0.0	0.0	0.0
Exposures to institutions	29.8	24.5	372.4	306.0
Exposures to corporates	1,054.5	880.5	13,181.3	11,006.4
Retail exposures	1,604.6	1,760.0	20,057.2	21,999.6
Exposures secured by mortgages on immovable property	329.8	372.3	4,122.2	4,653.9
Exposures in default	202.7	272.3	2,533.8	3,403.3
Exposures with particularly high risk	69.9	51.1	873.4	638.7
Collective investment undertakings	0.1	5.1	1.4	63.5
Equity exposures	185.0	210.5	2,312.1	2,631.9
Other exposures	239.3	227.1	2,991.4	2,838.3
Counterparty risk	15.6	27.5	195.3	344.3
CVA risk	9.7	6.8	121.5	85.6
Total exposures with credit risk etc.	***3,741.0***	***3,837.8***	***46,762.0***	***47,973.0***
Exposures with market risk				
Debt instruments, specific risk	245.5	282.8	3,069.1	3,534.5
Debt instruments, interest-rate risk	236.1	227.7	2,951.6	2,845.9
Position risk for shares	40.6	86.0	508.0	1,075.0
Exchange-rate risk	8.6	23.2	107.2	290.0
Other risks	0.2	0.2	3.0	2.0
Total exposures with market risk	***531.1***	***619.8***	***6,638.8***	***7,747.5***
Operational risk	535.8	509.6	6,697.4	6,370.1
Total capital requirement	***4,807.9***	***4,967.2***	***60,098.2***	***62,090.6***
Own funds to cover capital requirement	11,871.9	11,270.2		

The capital requirement according to Pillar 1 (8% of risk exposures) amounted to DKK 4,807.9 mill. at the end of 2022. The capital requirement for market risk makes up 18.2% of the total risk exposure, while the credit risk accounts for the largest share at 67.9%.

Solvency need

Model

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 Group applies the 8+ model, which is based on a minimum requirement of 8% of total risk exposure (pillar 1 requirement). Normal risks are assumed to be covered by the 8% capital requirement. Furthermore, the Group assesses the extent to which Tier 2 capital is needed to cover risk areas not covered by the 8% requirement (pillar 2). The total capital need is obtained by adding the capital need according to pillar 1 and pillar 2.

The model is based on the "Guidelines on adequate own funds and solvency need for credit institutions" from the Danish FSA, which lists benchmarks and methods for calculating any supplements to the individual solvency need (pillar 2 supplements) within a number of risk areas.

The Board of Directors determines adequate own funds and the individual solvency need for the Group. The individual solvency need is calculated as the total capital need as a percentage of the total risk exposure calculated according to the provisions of the CRR. The Group assesses that the calculation of the total capital need is sufficient to cover the risks assumed by the Group.

Adequate capital and solvency need

Adequate own funds amounted to DKK 6,170.6 mill., and this is at the same level as at the end of 2021. The Group's solvency need was calculated at 10.3% at the end of 2022 against 10.0% at the end of 2021. The change is primarily attributable to the Group's coverage of operational risks.

Calculation of adequate own funds and solvency need can be broken down into the following categories:

Table 5
Solvency need

	2022 DKK mill.	2022 %	2021 DKK mill.	2021 %
Capital to cover credit risk	4,188.3	7.0	4,353.5	7.0
Capital to cover market risk	1,124.3	1.9	1,140.6	1.8
Capital to cover operational risk	842.3	1.4	665.0	1.1
Capital to cover other risks	15.7	0.0	20.7	0.0
Sufficient own funds/solvency need	***6,170.6***	***10.3***	***6,179.8***	***10.0***

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 particular risks:

- Concentration risk on large exposures
- Large exposures with financial issues
- NPE backstop
- Shares etc. outside the trading portfolio
- Other credit risks

Capital to cover market risk

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

- Credit-spread risk
- Interest-rate risk both inside and outside the trading portfolio

Capital to cover operational risk

Capital to cover operational risk corresponds 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, e.g. based on historical losses. Furthermore, risks associated with information and communication technologies, weaknesses in the internal control environment and outsourcing risk are also assessed. The calculations demonstrate a need for a supplement in addition to the capital requirement.

Capital to cover other risks

Capital to cover other risks includes assessments of capital requirements for the level of earnings, growth in lending, leverage, regulatory repayment of capital instruments, the risk of falling prices on owner-occupied properties and investment properties, as well as other aspects, including statutory requirements.

Process

The Board of Directors annually approves the budget and the solvency need. There are also quarterly adjustments and adjustments that are also submitted for the Board of Directors' approval.

Calculation of the solvency need takes place in a coordinated process involving all relevant departments. Risk calculations, assessments and documentation are performed by the entities with the required expertise within the individual risk areas. The individual units and entities are responsible for establishing controls to ensure that the calculations are correct and documented.

Combined capital buffer requirement

As a result of implementation of CRD IV in the Danish Financial Business Act, the Group is obligated to comply with the combined capital buffer requirement, which for the Group consists of a capital conservation buffer, the countercyclical capital buffer and the SIFI buffer. The capital buffer requirement can only be met through Common Equity tier 1 capital. Non-compliance with the capital buffer requirement will result in restrictions on the Group's possibilities to make dividend payments and other distributions.

As a SIFI, the Group must comply with a SIFI buffer requirement of 1% of the total risk exposure. The SIFI buffer is set on the basis of the Group's systemic importance and must be met through Common Equity Tier 1 capital.

The purpose of the capital conservation buffer is to ensure a more robust financial sector in terms of capital, and it has been fully phased-in since 2019 with a capital requirement of 2.5% of the total risk exposure.

The countercyclical capital buffer is being activated by the Minister for Industry, Business and Financial Affairs and may be in the range of 0.0% to 2.5% of the total risk exposure. The countercyclical capital buffer is being activated in individual countries in the EU/EEA area, if supervisory authorities in these countries assess that lending growth is causing higher macro-economic risks. In December 2021, the Minister for Industry, Business and Financial Affairs decided to increase the countercyclical capital buffer to 2.0% from the end of 2022. Furthermore, the Minister for Industry, Business and Financial Affairs has decided to raise the buffer additionally to 2.5% from 31 March 2023, which the Systemic Risk Council still deems appropriate as per 20 December 2022.

The institution-specific countercyclical capital buffer for the Group is calculated on the basis of the Group's geographical distribution of credit exposures. For countries in which credit exposures exceed 2.0% of total credit exposures, the Group must reserve capital that matches the level of the countercyclical capital buffer in the country in question.

Table 6
Geographical distribution of credit exposures at the end of 2022

	General credit exposures	Total exposures in the trading portfolio	Total	
	DKK mill.	DKK mill.	DKK mill.	%
Denmark	69,709.6	25,933.0	95,642.6	94.7
Germany	394.9	2,394.8	2,789.7	2.8
Other countries *)	629.7	1,933.8	2,563.5	2.5
Total	*70,734.1*	*30,261.6*	*100,995.8*	*100.0*

*) "Other countries" refers to all exposures which amount to less than 2.0% of total general credit exposures and exposures in the trading portfolio. These are ascribed to Denmark when calculating the institution-specific countercyclical capital buffer.

Table 7
Geographical distribution of capital buffer requirement at the end of 2022

	General credit exposures	Exposures in the trading portfolio	Total	
	DKK mill.	DKK mill.	DKK mill.	%
Denmark	3,620.2	196.0	3,816.2	96.7
Germany	29.5	11.1	40.6	1.0
Other countries *)	29.4	60.6	90.0	2.3
Total	*3,679.1*	*267.7*	*3,946.8*	*100.0*

*) "Other countries" refers to all exposures which amount to less than 2.0% of total general credit exposures and exposures in the trading portfolio. These are ascribed to Denmark when calculating the institution-specific countercyclical capital buffer.

In addition to Denmark, the Group only has credit exposures exceeding 2% in Germany. The Group's credit exposures in Germany are subject to a countercyclical capital buffer of 0.0%, because Germany has not activated its countercyclical buffer. On the basis of the Group's credit exposures in Denmark and Germany, the institution-specific countercyclical capital buffer is therefore 1.9% for the Group.

Table 8
Combined capital buffer requirement

	2022	2021
Total risk exposure (DKK mill.)	60,098.2	62,090.6
Capital conservation buffer rate (%)	2.5	2.5
Institution-specific countercyclical capital buffer rate (%)	1.9	0.0
SIFI buffer	1.0	0.0
Capital conservation buffer rate (DKK mill.)	1,502.5	1,552.3
Institution-specific countercyclical capital buffer rate (DKK mill.)	1,168.8	0.0
SIFI buffer	601.0	0.0
Combined capital buffer requirement	*3,272.20*	*1,552.30*

At the end of 2022, the combined capital buffer requirement consisted of the capital conservation buffer, the countercyclical capital buffer and a SIFI buffer, and it was calculated at DKK 3,272.2 mill. The combined capital buffer was calculated at 5.4% of the Group's total risk exposure. The increase in the combined capital buffer requirement is attributable to the activation and increase of the countercyclical capital buffer, as well as to entry into force of the SIFI buffer.

The Danish FSA determines an indicative level for additional own funds for all banks to supplement the banks' solvency need and ensure that they have sufficient capital to absorb potential losses resulting from a stress scenario, without conflicting with the solvency need. The indicative level must be maintained in addition to the combined capital buffer requirement. The Danish FSA has informed the Group that the indicative level is covered by the Group's current own funds, and consequently, the indicative level of additional capital has been set at zero.

Excess cover in relation to the total capital requirement

The Group's capital ratio amounted to 19.8% at the end of 2022, corresponding to an excess cover of 4.0 percentage points relative to the total capital requirement of 15.7%, comprising the solvency requirement of 8.0%, the supplementary solvency need of 2.3% and the combined capital buffer requirement of 5.4%.

The solvency requirement of 8.0% must be covered by at least 4.5% Common Equity Tier 1 capital, while at least 6.0% of the solvency requirement must be covered by Tier 1 capital. Tier 2 capital may account for up to 2.0%. Corresponding relative quality requirements for capital apply to the supplementary solvency need. The combined capital buffer requirement can only be covered by Common Equity Tier 1 capital.

Table 9
Capital composition in relation to capital requirement at the end of 2022

	Capital requirement	Capital requirement	Capital	Surplus capital
	%	DKK mill.	DKK mill.	DKK mill.
Common Equity Tier 1 capital	11.2	6,743.1	9,703.4	2,960.3
Tier 1 capital	13.1	7,900.1	10,675.1	2,775.0
Own funds	15.7	9,442.8	11,871.9	2,429.1

Table 9 shows that at the end of 2022, the Group had excess cover of DKK 2,960.3 mill. relative to the Common Equity Tier 1 capital requirement, and excess cover of DKK 2,775.0 mill. relative to the Tier 1 capital requirement. The excess cover for the Group's total capital requirement is DKK 2,429.1 mill.

MREL requirement

Pursuant to the Danish Financial Business Act, the Danish FSA and the Financial Stability Company prepare plans for the winding-up of failing financial institutions. In this connection the Danish FSA stipulates requirements for own funds and eligible liabilities (MREL) for the individual banks. The purpose of the MREL requirement is to ensure that banks in distress have sufficient own funds and eligible liabilities to cover the bank's losses and to recapitalise the bank so that critical functions can be continued without using public funds. For SIFIs, an individual resolution strategy is drawn up. The overall aim of the strategy is to ensure that the Group can be returned to the market as a viable financial institution after restructuring. This will be through recapitalisation of the resolution group on a consolidated basis at resolution group level by writing down and converting creditors' claims.

The designation as a SIFI means that the Group will be subject to a MREL requirement corresponding to the sum of two-times the solvency need plus the capital conservation buffer and the SIFI buffer. The MREL requirement is defined by the Danish FSA as 23.5% and will be phased-in linearly up to 1 January 2026. At the end of 2022, the Group was subject to a MREL requirement of 18.5%.

The MREL requirement can be met by Common Equity Tier 1 instruments and Senior-Preferred (SP) instruments and Senior-Non-Preferred (SNP) instruments with a maturity of more than 1 year. Common Equity Tier 1 capital used to meet the combined capital buffer requirement cannot simultaneously be used to meet the MREL requirement.

Up to the final phase-in of the MREL requirement on 1 January 2026, the Group expects to have to issue approx. DKK 10.0 bn. in SP and SNP instruments to cover the MREL requirement, depending on changes in risk exposures, solvency need and requirements for the countercyclical capital buffer. Therefore, the Group has entered into collaboration with credit rating agency Moody's on credit rating of the Group as part of efforts to attract new investors and new capital. On 31 May 2022, Moody's published its first rating of the Group at Baa2 for the baseline credit assessment, and a rating of A2/P-1 for bank deposits. The Group commenced issuing SNP instruments in 2022, when the Group issued a total of DKK 1,500 mill. and SEK 700 mill.

Future capital adequacy rules

On 27 October 2021, the European Commission announced a proposal to amend the CRR and the CRD, also known as Basel IV. The proposal meant that the expected date of entry into force of the amendments was postponed from 1 January 2023 to 1 January 2025.

The Group uses the standardised approach for calculating risks and has noted that substantial changes to credit risk and market risk have been proposed under the standardised approach. The Group's projections show that the Group will also meet its capital targets after phase-in of Basel IV.

Leverage ratio

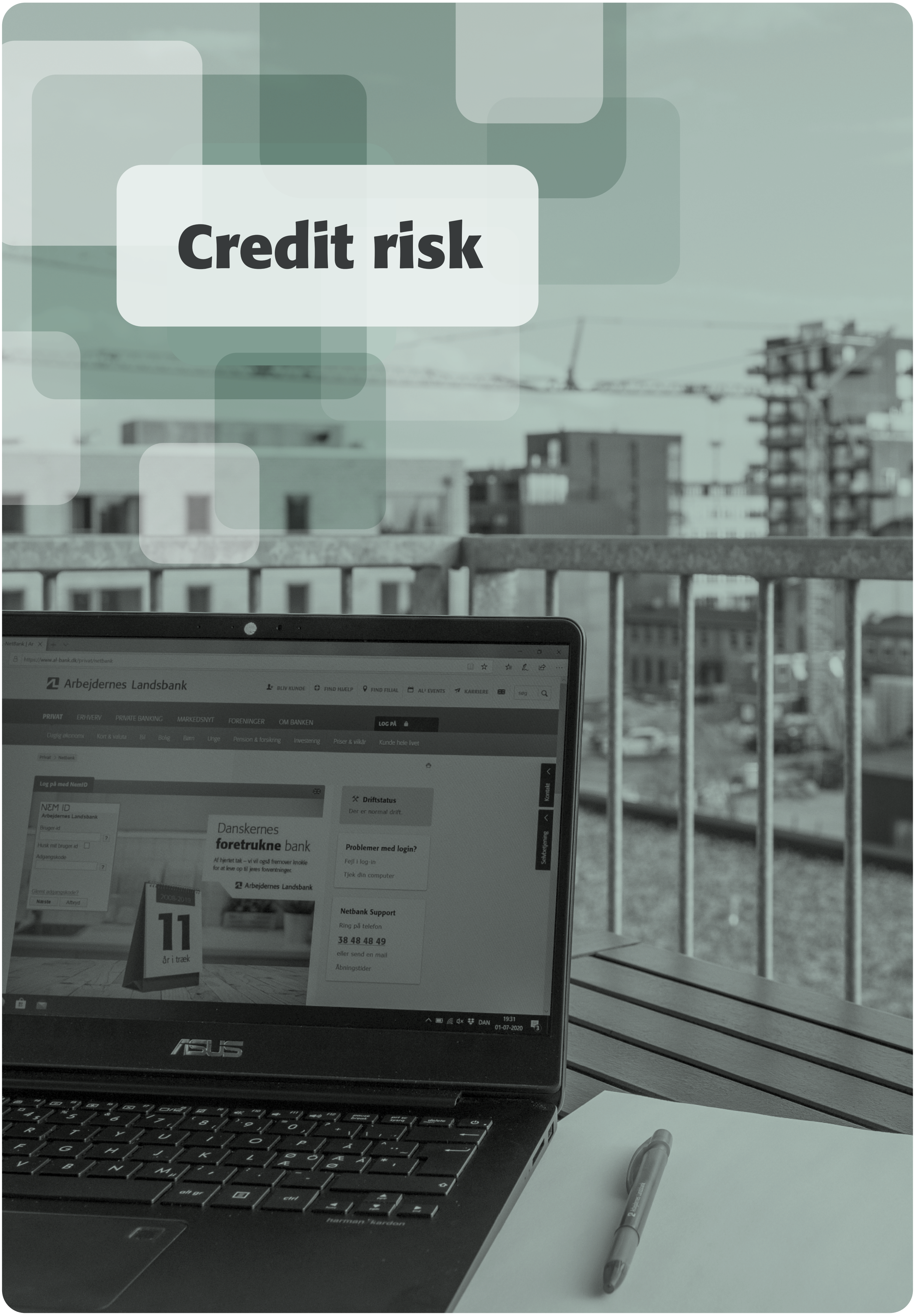
The leverage ratio is calculated as Tier 1 capital according to the fully phased-in definition, in relation to the total exposure. Through its leverage policy, the Group has set a framework for managing and monitoring the risk of excessive leverage. The aim of the Group's leverage is set in accordance with the Group's risk strategy, and the Group assesses that a leverage ratio of more than 6.0% is appropriate in relation to the Group's business model.

Leverage risk is defined in the CRR, which stipulates that a bank must have a leverage ratio of at least 3.0%. At the end of 2022, the Group had a leverage ratio of 8.7% and thus meets both the minimum requirement and its leverage target by a solid margin. The leverage ratio is 0.9% higher than at the end of 2021. This is primarily due to an increase in the Group's Tier 1 capital, and the leverage-weighted exposures have been reduced as a result of a fall in the Group's total guarantees.

Table 10
Leverage at the end of 2022

	2022	2021
Leverage ratio (%)	8.7	7.8
Tier 1 capital (DKK mill.)	10,675.1	9,925.5
Leverage-weighted exposures (DKK mill.)	123,039.1	127,126.4

Credit risk


Arbejdernes Landsbank
PRIVAT
ERHVERV
PRIVATE BANKING
MARKEDSNYT
FORENINGER
OM BANKEN
LOG PÅ
Log på med NemID
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Danskernes
foretrukne bank
Arbejdernes Landsbank
11
år i træk
Driftstatus
Der er normal drift.
Problemer med login?
Fejl i log-in
Tjek din computer
Netbank Support
Ring på telefon
38 48 48 49
eller send en mail
Åbningstider
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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 credit policy is to conduct business transactions with customers with the ability and willingness to repay their loans.

Credit risk is the largest risk item in the risk statement and amounted to 67.9% of the solvency need at the end of 2022 (70.4% at the end of 2021). Consequently, the Group has allocated the most funds to this item in order to meet unforeseen losses.

Credit policy

The Group's companies have their own credit policies reflecting the individual company's business model, as well as the overall framework for managing credit risk established by the Board of Directors of Arbejdernes Landsbank. Authorisation guidelines are established by the board of directors and passed on to the executive management of the individual company and then further on down through the organisation.

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 businesses, including financing solutions for 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 banking transactions. In the Bank's subsidiaries, AL Finans and Vestjysk Bank, the target group also includes private customers as well as small and medium-sized Danish enterprises. However, Vestjysk Bank also has particular focus on loans and financing for agriculture, fisheries and real property.

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.

The Group actively seeks to promote the sustainable transition in society. Climate change can cause physical risks, where the customers' properties are exposed to weather effects and transition risks, requiring business customers to incorporate sustainability throughout their entire value chain. For relevant business customers, ESG-related aspects are included in the credit assessment and the understanding of the customer's business model and ability to adapt to new legislation and environmental changes as well as ensuring optimal management and social conditions in the workplace.

The Group has a policy for write-offs on loans, to the effect that loans considered uncollectable are written off.

Credit organisation

Arbejdernes Landsbank is organised into seven private regions with 61 branches and six business centres, six local business centres, three housing associations, as well as the Bank's subsidiary, AL Finans. Furthermore, Vestjysk Bank has 25 branches and some specialist departments, including an agricultural centre, all of which are located in central, western and eastern Jutland.

The authority to grant loans is structured such that Arbejdernes Landsbank's branches, business centres and AL Finans may authorise loans in the majority of cases, including minor deviations from the main rule of the credit policy provided there are compensatory measures, but in larger and more complex cases, as well as cases deviating from the credit policy's main rule for credit risk profile, the Bank's branches, business centres or AL Finans make a recommendation for authorisation to the Bank's Credit Department, Credit Council or the Board of Directors. Vestjysk Bank has its own credit organisation and associated hierarchy for authorising loans, as well as its own structure for processing larger and more complex cases, including cases deviating from the credit policy. Furthermore, the Group has a Group Credit Committee tasked with pre-processing significant individual cases from Vestjysk Bank as well as cases which, according to the Group's policies, are to be processed by the Arbejdernes Landsbank Board of Directors.

The Group has structural separation between customer functions and control and monitoring functions. The credit departments are responsible for day-to-day credit management and various of the Bank's controls, while the Group risk function performs independent control and monitoring of the Bank's credit management and credit quality. The Group risk function also has overall responsibility for the Group's branch controlling. Branch controlling in Vestjysk Bank is performed by the credit secretariat in Vestjysk Bank.

Rating

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

The rating models are 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 categories 1-5: Customers with exposures of good/normal credit quality
- Rating categories 6-8: Customers starting to show weakness/certain signs of weakness
- Rating category 9: Customers with significant signs of weakness, without objective evidence of impairment (OEI).
- Rating categories 10-11: Customers with OEI, with and without individual impairment.

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 of customers is a central tool in ongoing monitoring and credit management and monitoring of the portfolio and in the Bank's model for impairments. Ranking of exposure in stages is based on Arbejdernes Landsbank's own PD values, which are based on the Bank's rating, supplemented by various other criteria for credit weakness.

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

Internally developed rating models are not used in the Bank's subsidiary AL Finans. In AL Finans, customers are generally dealt with on the basis of individual assessments. The Bank's subsidiary, Vestjysk Bank, uses a rating model based on behaviour and developed by BEC (Bankernes EDB Central). For business customers, an internal segmentation model is used for day-to-day credit management.

For the purpose of the consolidated financial statements, the ratings of Arbejdernes Landsbank and Vestjysk Bank are mapped to the Danish FSA credit quality categories.

Credit risk management and monitoring

The Group has focus on managing, controlling and monitoring credit risks, including compliance with policies and guidelines as well as ongoing reporting. Furthermore, there is ongoing focus on improving processes and tools that can contribute to more effective management and monitoring of credit risk.

The Board of Directors has set up a Risk Committee to assess whether the internal control, risk management and security systems of the Group are effective. Furthermore, the Executive Management has set up an internal Risk Council to process both financial and non-financial risks potentially influencing the Group.

Responsibility for day-to-day risk management of credit risk in the Group lies with the 1st line of defence, which is composed of the credit departments in the Bank, Vestjysk Bank and AL Finans, respectively, as well as the Group's customer units.

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 and the assessment of any supplementary solvency need for weak exposures exceeding 2% of the own funds, are made according to regulations laid down for this purpose.

There is also an annual portfolio and asset review of the Group's exposures on the basis of a materiality approach. Current and future risks on the selected portfolios and exposures are assessed, and checks are conducted on compliance with the credit policy and the authority to grant loans, satisfactory credit management and fair risk classification and impairment. The conclusions are reported to the Board of Directors.

Weak customers are dealt with on an ongoing basis in order to prepare action plans, and to assess whether the customer is credit-impaired and whether there is a need for impairment. Impairments concerning the part of the portfolio that is not credit-impaired, are calculated on the basis of model calculations.

The Group validates the calculation of expected losses. The purpose of the validation is to ensure that the allowance account is sufficient to cover the risk of losses on the Group's loan and guarantee portfolio, and to make an impairment allowance, if relevant, representing management estimates for areas in which the model does not adequately reflect the default risk. The validation includes both a quantitative and a qualitative validation.

A description of the impairment model, including the transition between stages and how forward-looking information and accounting estimates and assessments are included in the Group's expected credit losses, see notes 1 and 2 in the Group's annual report.

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

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

Risk hedging and risk reduction

The Group uses all the options available to mitigate risk, and these generally involve securing collateral in the assets financed.

The Group sets 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.
To ensure independence and necessary competences, the valuation process of properties is outsourced to Totalkredit. Focus is on ensuring that assessments of mortgaged assets are updated and documented. The most common collateral is in the form of mortgages on real property, cooperative housing and chattels such as cars, operating equipment, ships, etc.

For individually assessed exposures, collateral is calculated in impairment calculations at estimated fair values according to rules from the Danish FSA, while collateral values for model impairments are, in part, recognised more prudently.

The Group's total collateral used is shown in table 14 on page 27.

Credit risk on the Group's loans to customers

The Group's loan portfolio is described in the sections below, whereas impairments and provisions are described in more detail in Impairments and provisions on loans and guarantees, see page 29.

Loans and guarantees

The Group's total exposure, expressed as gross loans and guarantees, as presented in the 2022 Financial Statements, was DKK 58.6 bn., see table 11.

Historically, the Group's private portfolio has been relatively large compared with its business portfolio. This remains the case, but with the larger ownership interest in Vestjysk Bank, the Group has created better balance between the private portfolio and the business portfolio. Thus, the percentage of the private segment and the business segment of total gross loans and guarantees is 60.9% and 39.1%, respectively, see table 11.

As a result of the philosophy and historical foundation of Arbejdernes Landsbank, the Bank has some exposure to associations, including trade unions and social housing organisations. These are included as part of the business segment.

Table 11
Group gross and net loans and guarantees broken down by stages at the end of 2022

	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.
Private customers					
Loans before impairments	23,240.2	2,148.8	809.7	157.8	26,356.5
Guarantees before provisions	8,378.9	781.8	91.8	64.1	9,316.5
Total loans and guarantees before impairments etc.	*31,619.1*	*2,930.6*	*901.4*	*221.9*	*35,673.0*
Total impairments etc.	99.9	111.2	241.5	43.5	496.1
Total loans and guarantees after impairments etc.	*31,519.2*	*2,819.4*	*660.0*	*178.4*	*35,176.9*
Business customers					
Loans before impairments	13,646.9	3,505.0	820.7	1,128.1	19,100.7
Guarantees before provisions	3,294.5	298.2	62.7	185.7	3,841.2
Total loans and guarantees before impairments etc.	*16,941.4*	*3,803.3*	*883.4*	*1,313.8*	*22,941.9*
Total impairments etc.	101.7	172.5	308.5	301.1	883.7
Total loans and guarantees after impairments etc.	*16,839.7*	*3,630.8*	*574.9*	*1,012.8*	*22,058.2*
Total					
Loans before impairments	36,887.1	5,653.8	1,630.4	1,285.8	45,457.2
Guarantees before provisions	11,673.4	1,080.0	154.4	249.8	13,157.7
Total loans and guarantees before impairments etc.	*48,560.5*	*6,733.8*	*1,784.9*	*1,535.7*	*58,614.9*
Total impairments etc.	201.6	283.7	550.0	344.6	1,379.8
Total loans and guarantees after impairments etc.	*48,358.9*	*6,450.1*	*1,234.9*	*1,191.1*	*57,235.1*

Note: The statement excludes receivables from credit institutions.

The private and business segments are primarily ranked as stage 1 and stage 2, accounting for 96.9% and 90.4%, respectively, of segment loans and guarantees before impairments etc., see table 11.

Group loans are geographically distributed across all the regions of Denmark, though predominantly in the Capital Region of Denmark and the Central Denmark Region, followed by the Region of Southern Denmark. Region The Capital Region of Denmark and the Central Denmark Region account for 36.3% and 34.5%, respectively, of total Group gross loans and guarantees, see table 12.

If the private and business segments are considered separately, the Central Denmark Region and the Capital Region of Denmark still account for the largest share of loans, see table 12. However, the Capital Region of Denmark accounts for a larger share in the private segment. This is partly due to the relatively large share of housing loans secured against owner-occupied properties and cooperative housing, where cooperative housing in particular is typically concentrated in major cities. On the other hand, the Central Denmark Region accounts for a larger share of the business segment, which is due to the Bank's subsidiary, Vestjysk Bank.

Table 12
Group gross loans and guarantees broken down by regions at the end of 2022

	Private	Business	Total
	DKK mill.	DKK mill.	DKK mill.
Capital Region of Denmark	14,184.0	7,118.0	21,302.0
Region Zealand	3,118.5	1,011.2	4,129.7
Region of Southern Denmark	6,480.0	3,539.5	10,019.5
North Denmark Region	1,556.7	1,405.6	2,962.3
Central Denmark Region	10,333.7	9,867.6	20,201.4
Total	*35,673.0*	*22,941.9*	*58,614.9*

Note: The statement excludes receivables from credit institutions.

Of the Group's total gross loans and guarantees, 91.6% are in low-risk rating categories (rating 1-5) or medium-risk rating categories (rating 6-8), see table 13. Rating is calculated at individual customer level and does not consider Group participants with better credit quality able to support customers in the Group with lower credit quality.

Considering the private and business segments separately, 94.8% and 86.5%, respectively, of gross loans and guarantees are in rating categories with low or medium risk, see table 13.

Table 13
Group gross loans and guarantees broken down by ratings at the end of 2022

	Private customers	Business	Total
	DKK mill.	DKK mill.	DKK mill.
Ratings 1-5	26,895.8	11,983.7	38,879.4
Ratings 6-8	6,925.3	7,865.9	14,791.2
Ratings 9	701.3	1,078.0	1,779.3
Ratings 10-11	1,150.6	2,014.4	3,165.0
Total	*35,673.0*	*22,941.9*	*58,614.9*

Note: The statement excludes receivables from credit institutions.

Collateral and unsecured exposure

The most important type of collateral received by the Group is mortgages in properties, which account for 66.0% of the total collateral. This high percentage is attributable to the private segment, where mortgages on real property alone account for 79.5%, see table 14. The relatively high percentage of chattel mortgages in cars, operating equipment, ships etc. in both the private segment and the business segment, accounting for 24.2%, is due to the Bank's subsidiaries, AL Finans and Vestjysk Bank.

Table 14
Group collateral broken down by type of collateral at the end of 2022

	Private	Business	Total
	DKK mill.	DKK mill.	DKK mill.
Properties	17,012.2	5,182.9	22,195.1
Securities, bonds, cash deposits, etc.	361.7	640.1	1,001.7
Chattels mortgages, on cars, operating equipment, ships etc.	3,964.4	4,180.3	8,144.7
Warranties and guarantees	1.2	49.7	50.9
Other collateral	56.8	2,189.5	2,246.4
Total	*21,396.4*	*12,242.4*	*33,638.8*

Note: Collateral used is calculated at collateral values in accordance with Group procedures and is without the value of surplus collateral.

The Group's total unsecured exposure amounts to 41.2%, see table 15.

The Bank's subsidiary, AL Finans, has collateral in the form of the mortgaged asset for the majority of the loan.

Table 15
Group net loans and guarantees, collateral and unsecured exposures at the end of 2022

	Private customers	Business	Total
	DKK mill.	DKK mill.	DKK mill.
Loans and guarantees after impairments etc.	35,176.9	22,058.2	57,235.1
Collateral	21,396.4	12,242.4	33,638.8
Unsecured exposures (%)	39.2	44.5	41.2
Percentage of total loans (%)	61.5	38.5	100.0

Note: Impairments include impairments and provisions at all stages.
The figures exclude receivables from credit institutions.

Arrears and loans in arrears

Arrears at the Group amount to DKK 140.0 mill., of which arrears with a duration of less than 30 days account for 59.2% Of the Group's total arrears, arrears for the private segment account for 21.1%. and arrears for the business segment account for 78.9%, see table 16.

Table 16
Arrears broken down by age of arrears at the end of 2022

	Private customers	Business	Total
	DKK mill.	DKK mill.	DKK mill.
2-30 days	15.2	67.6	82.8
31-60 days	2.7	8.0	10.7
61-90 days	3.0	15.2	18.2
91+ days	8.6	19.6	28.3
Total	***29.5***	***110.5***	***140.0***
Share of total arrears (%)	21.1	78.9	100.0

Note: The statement excludes receivables from credit institutions.

Loans with arrears make up 1.0% of total Group net loans and guarantees at the end of 2022. Most of these are loans with less than 30 days in arrears.

The Group has follow-up procedures to reduce the number of customers with long-term arrears. In general, efforts aim to reduce the level with the customer by finding lasting solutions to any financial challenges.

Table 17
Loans in arrears broken down by age of arrears at the end of 2022

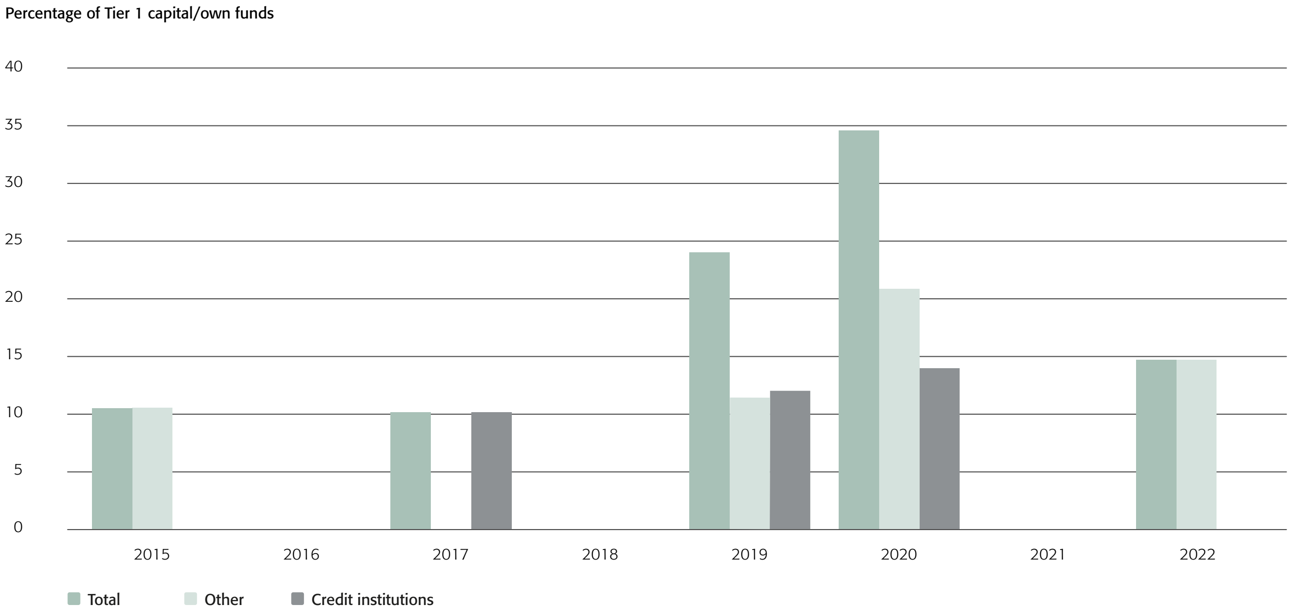
	Private	Business	Total
	DKK mill.	DKK mill.	DKK mill.
2-30 days	216.8	194.7	411.5
31-60 days	29.0	23.2	52.2
61-90 days	9.7	13.4	23.0
91+ days	55.0	44.9	99.9
Total	***310.4***	***276.2***	***586.6***

Note: The statement excludes receivables from credit institutions.

Largest customer credit risks

The Group wants to avoid dependence on single exposures and seeks to keep the percentage of large exposures at a low level. The sum of consolidated exposures after deductions which are greater than or equal to 10% of Tier 1 capital at Group level was calculated at 14.6% of Tier 1 capital at the end of 2022, including exposures to credit institutions.

Figure 2
Development in the "Sum of large exposures"



Note: For 2015-2020, the figures are calculated on the basis of consolidated exposures after deductions greater than or equal to 10% of own funds. From 2021, the figure is calculated in the basis of consolidated exposures after deductions greater than or equal to 10% of own funds, see Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019.

Credit risk on credit institutions

Credit risk on credit institutions is the risk of suffering a loss as a consequence of credit institutions defaulting on their obligations. In the Group, credit risk on credit institutions is calculated on the basis of a worst-case estimate that reflects the Bank's potential maximum loss when using the credit institution as the correspondent bank. The risk is managed separately in the Group's two banks in accordance with policies and lines adopted by the Board of Directors.

Impairments and provisions on loans and guarantees

The Group's calculation of impairment losses on loans and receivables follows sections 51-52 of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms etc. The model for impairment charges for expected credit losses is described in the accounting policies section in the annual report.

Despite further management estimates for macro-economic uncertainty of DKK 112.4 mill., impairments, provisions and losses show a net income of DKK 52.1 mill. in 2022, see table 18, as opposed to DKK 162.3 mill. in 2021.

The calculations in tables 18 and 19 include credit institutions and unutilised credit lines and commitments. After this, the Group's accumulated impairments and provisions amounted to DKK 1,547.9 mill. at the end of 2022.

The Group's NPL ratio is 5.3% at the end of 2022 against 5.5% at the end of 2021 and shows the percentage of non-performing loans relative to total loans including receivables from central banks and credit institutions. The Group focuses on reducing its non-performing loans.

Table 18
Sector breakdown of credit-impaired exposures at the end of 2022

	Credit exposures before impairments	Of which credit-impaired/ defaulted exposures	Impairment charge/provision	Impairment charge/provision and loss recognised in the income statement
	DKK mill.	DKK mill.	DKK mill.	DKK mill.
Public authorities	125.2	0.1	1.0	-0.9
Business				
Agriculture, hunting, forestry and fisheries	5,381.7	1,175.1	361.6	-41.0
Industry and extraction of raw materials	2,325.7	173.8	62.9	0.1
Energy supply	1,427.3	35.1	18.5	-12.4
Building and construction	3,131.4	118.4	63.5	19.2
Trade	6,763.0	342.6	105.9	2.6
Transport, hotels and restaurants	1,217.0	212.6	36.8	-10.7
Information and communication	243.5	24.2	14.2	6.7
Financing and insurance	4,186.2	136.5	133.7	17.6
Real property	8,002.6	272.4	103.9	-0.3
Other business	6,173.2	188.1	118.8	-120.7
Total business	***38,851.7***	***2,678.6***	***1,019.7***	***-138.8***
Private	44,631.6	1,194.1	527.1	87.6
Total	***83,608.5***	***3,872.8***	***1,547.9***	***-52.1***

Table 19
Changes in the allowance account etc. at the end of 2022

	Impairments on credit institutions	Impairments on loans	Provisions on guarantees	Total provisions on other items with credit risk	Total
	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.
Accumulated impairment charges/provisions brought forward	8.2	1,026.9	36.2	219.1	1,290.4
Impairments/provisions during the year (gross)	2.3	842.9	17.2	104.9	967.2
Reversal of impairments charges (gross)	-0.1	-473.6	-20.4	-166.3	-660.3
Other changes	0.0	22.9	0.0	0.0	22.9
Actual loss (written of) previously subject to individual	0.0	-72.4	0.0	0.0	-72.4
Accumulated impairment charges/provisions carried forward	***10.4***	***1,346.7***	***33.0***	***157.7***	***1,547.9***
Actual loss (written of) not previously subject to individual impairment charges/provisions	0.0	-37.2	0.0	0.0	-37.2
Recognised in claims previously subject to impairments	0.0	54.2	0.0	0.0	54.2

Note: See note 10 in the annual report for further details.

Counterparty risk

Counterparty risk at the Group is defined as the risk of suffering a loss as a consequence of financial counterparties or customers defaulting on their obligations in connection with trading in money market loans, long-term securities and derivative financial instruments.

Currently, the Group has decentralised counterparty risk management. Calculation and monitoring of counterparty risk is institution-specific and based on independent policies related to counterparty risk and lines adopted by the boards of directors of Arbejdernes Landsbank and Vestjysk Bank. The counterparty risk in the two banks is from the same financial counterparties.

The Group divides counterparty risk into pre-settlement risk and settlement risk.

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

The Group endeavours to reduce counterparty risk by entering into framework agreements in the form of netting agreements and by demanding cash collateral.

The Group does not use rating-triggers in financial collateral arrangements, and the Group was not exposed to specific wrong-way-risk in 2022.

The Group uses the standardised approach for calculating capital requirements for counterparty credit risk (SA CCR) for derivative financial instruments, while the financial collateral comprehensive method is used for Securities Financing transactions (Repo).

The Group's statement of counterparty risk is shown in the table below.

Table 20
Derivative financial instruments at the end of 2022

	Carrying amount before offsetting	Financial instruments offset	Carrying amount after offsetting	Offsetting possibility, see master netting agreement	Collateral	Net value
	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.	DKK mill.
Offsetting possibilities *						
2022						
Derivative financial instruments with positive market value	391.3	0.0	391.3	17.1	305.6	68.6
Derivative financial instruments with negative market value	68.7	0.0	68.7	17.1	7.8	43.8
2021						
Derivative financial instruments with positive market value	151.8	0.0	151.8	23.3	11.1	117.4
Derivative financial instruments with negative market value	299.2	0.0	299.2	23.3	224.3	51.6

*) The banks in the Group have master netting agreements with a number of financial counterparties, and this entitles them to further offsetting in relation to a counterparty in default, but does not meet the conditions for offsetting in the balance sheet.

Assets provided as collateral for own debt obligations with Danmarks Nationalbank, clearing centres and credit institutions with which the bank has entered into CSA agreements are all based on standard agreements conventionally used between financial market participants. These agreements define the terms on which collateral is transferred between the counterparties in order to reduce risk. With regard to collateral concerning fair value of derivative financial instruments, the CSA agreements stipulate daily exchange of collateral (cash).

ECAI

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

The external ratings are used to categorise the exposures into credit quality steps, which are then used to determine the risk weight for the individual exposures. The risk weights are used to calculate the risk-weighted exposures for the Group's pillar-1 statement (REA) under the standard method for credit risk, see Articles 111-134 of the CRR.

The external ratings are used for the exposure classes Institutions and Companies.

Table 21
Exposure classes for which credits from Standard & Poor's Ratings Services are used

	2022 DKK mill.	2021 DKK mill.
Institutions:		
Exposure value prior to risk weighting	633.8	859.4
Exposure value after weighting with credit quality step	217.1	262.1
Companies:		
Exposure value prior to risk weighting	74.4	73.4
Exposure value after weighting with credit quality step	74.4	73.4

Market risk and liquidity risk

Market risk

Market risk is the risk of losses due to changes in fair value of assets and liabilities as a result of changes in market conditions.

The Group regularly accepts various forms of market risk, primarily as interest-rate risk, credit-spread risk, share-price risk or currency risk. Market risks arise primarily as a result of placing surplus cash in financial instruments, but also as a result of servicing customers' needs, and derivative financial instruments to manage and adjust market risks.

The Group's activities related to market risk arise from active management of the deposits surplus. Active management is primarily by acquiring liquid assets in order to meet the Group's liquidity buffer, and is supplemented by active placements based on return/risk considerations aiming at profitable earnings.

Trading in shares, bonds, currencies and related derivative financial instruments is an important business area for the Group in relation to servicing its customers. In this regard, the Group keeps a small portfolio to respond to customers' business needs.

Market risk is managed at overall group level through delegated frameworks from the Board of Directors, whilst the day-to-day management is carried out by the individual companies. The Group's market risk is categorised into five overall risk classes: general interest-rate risk, specific interest-rate risk (credit spread risk and bankruptcy risk), share-price risk, currency risk and commodity risk.

The framework, objectives and strategies for the Group's market risks have been laid down in a delegation system in which the Board of Directors outlines the framework for the maximum total market risk the Group is permitted to accept. Otherwise, the framework is utilised on the basis of the Executive Management's investment strategy, which depends on assessments of returns/risk in financial instruments with due consideration for the Group's other risks.

The purpose of market-risk management is to balance the overall market risk on assets, liabilities and equity in order to be in a position to consider return and risk satisfactorily.

Market risk is the second-largest risk item in the Group risk statement and amounted to 18.2% of the solvency need at the end of 2022 (18.5% at the end of 2021).

Monitoring market risk

There is day-to-day monitoring and checks to assure that the calculated risks comply with the frameworks stipulated and the current strategy in the area. Any transgressions must be reported to the Board of Directors, the Executive Management, the Chief Risk Officer and to the Risk Committee.

Reporting to the Executive Management is effected on a daily basis by the individual banks. Detailed qualitative and quantitative reporting to the Board of Directors and the Risk Committee takes place quarterly for the Group.

A clearly defined division of responsibility for risk-taking at all levels in the two banks is ensured by granting institution-specific lines to the executive managements of Arbejdernes Landsbank and Vestjysk Bank, and passing these on to the authorising business units.

Short-term positions, primarily in relation to servicing the Bank's customers, are managed by the Group's trade functions within set lines that are continuously monitored.

Strategic positions are assessed on the basis of both the returns and the risk, taking into account the Group's overall risk appetite, as well as ongoing maintenance of a cash resource in the form of the Group's liquidity buffer. The positions are managed by the Group's treasury functions within set limits that are continuously monitored.

In addition to daily calculations of the overall market risk, the portfolio is subjected to periodic stress tests.

Interest-rate risk is the risk of losses as a result of interest-rate fluctuations. The interest-rate risk in the trading portfolio stems primarily from the bond portfolio, in which the chosen level of hedging of the interest-rate risk primarily concerns trade in bond futures and interest-rate swaps. The interest-rate risk is calculated as the change in market value of an instrument in the event of a change in the zero coupon yield curve of +/-1 percentage point for each defined duration interval. For convertible mortgage-credit bonds and bonds with an interest ceiling etc., the point of departure is information obtained from leading market participants about the option-adjusted interest-rate risk. Other types of interest-rate-related option risks are based on a delta valuation calculation. The calculations are in individual currencies and for each time interval on the yield curve.

The Group's exposure is primarily in DKK, EUR and USD, whereas the net interest-rate risk across currencies is relatively limited.

The calculation of interest-rate risk is supplemented by a number of Stress scenarios aimed at measuring yield curve risk and convexity risk.

The calculation of interest-rate risk distinguishes between interest-rate risk inside and outside the trading portfolio. Table 22 shows the Group's total interest-rate risk.

Table 22
Interest-rate risk

	1 percentage-point increase	1 percentage-point fall
	DKK mill.	DKK mill.
Broken down by type of business		
Bonds etc.	-351.8	350.3
Derivative financial instruments	195.2	-205.4
Mortgage deeds	-75.4	75.4
Other items	-0.8	-0.8
Total	*-232.8*	*219.5*
Broken down by currency		
DKK	-254.3	242.6
EUR	21.0	-22.4
USD	0.0	0.0
GBP	0.1	-0.1
CHF	0.0	0.0
SEK	0.3	-0.4
NOK	0.1	-0.1
Other	0.0	0.0
Total	*-232.8*	*219.5*

Share risk is the risk of losses as a result of changes in the share price. The calculation of share risk distinguishes between share risk inside and outside the trading portfolio, the latter of which is described in the section on Shares etc. outside the trading portfolio.

Shares inside the trading portfolio are shares acquired for trading. Share-price risk inside the trading portfolio is calculated according to a risk target stating how much the Group can expect to lose in the event of a general fall/increase on share markets of 10%. The risk target for end-2022 was DKK 28.5 mill. (DKK 34.2 mill. in 2021).

Shares outside the trading portfolio are shares not acquired for trading, including shares in a number of sector companies.

Currency risk reflects the risk of losses on positions as a result of currency fluctuations. The currency risk is calculated as both currency indicators 1 and 2 (where currency indicator 2 includes the currency risk from investment associations), as well as a weighted sum of net positions in the individual currencies, and with the weighting considering the volatility of the currencies.

Credit-spread risk associated with the bond portfolio and instruments related to bonds is the risk of losses as a result of changes in credit spread, reflecting the market pricing of the underlying bond-issuers' credit worthiness (probability of default - PD) as well as the seniority and liquidity of the bond (loss given default - LGD). Credit-spread risk is not only relevant for credit bonds, but also for mortgage-credit and government bonds.

Most of the bonds in the bond portfolio in the Group are investment-grade (i.e. rating BBB or higher) and the portfolio primarily consists of mortgage-credit bonds and government bonds.

A smaller part of the bond portfolio consists of corporate bonds and bonds issued by banks (financial bonds). At the end of 2022, they made up 3.1% and 5.7%, respectively, of the total bond portfolio and were primarily in DKK and EUR-denominated bonds.

To ensure risks are managed, a framework has been stipulated for government, mortgage-credit and corporate bonds, respectively, and financial bonds on the basis of risk-weighted credit-spread exposures with risk weights based on observed historical volatility. The credit-spread risk for institution-specific lines is monitored daily, while the consolidated lines are monitored quarterly.

Quarterly reports are submitted to the Board of Directors.

Table 23
Bond portfolio broken down by rating

	2022	2021
	%	%
Rating		
AAA	85.3	81.7
AA+, AA, AA-	1.6	2.0
A+, A, A-	8.4	11.3
BBB+	1.8	1.9
BBB	0.2	0.2
BBB-	0.2	0.2
Rating < BBB-	0.8	0.8
No rating	1.7	1.9
Total	*100.0*	*100.0*

Interest-rate risk outside the trading portfolio

Interest-rate risk outside the trading portfolio primarily arises from customers' fixed-interest and floating-interest rate loans and deposits. The Group uses derivative financial instruments to hedge interest-rate risk.

Interest-rate risk outside the trading portfolio in the Group is calculated according to the same principles as for interest-rate risk inside the trading portfolio, but the interest-rate scenarios are more severe due to the lower negotiability/liquidity in the transactions. The interest-rate risk is calculated daily in the banks and reported quarterly to the Board of Directors.

In the Group, interest-rate risk is part of daily risk monitoring, which includes controlling whether the Group's transactions are within the lines granted. 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. Interest-rate risk outside the trading portfolio (EVE) for the Group calculated as the estimated maximum loss in the event of parallel shifts and shifts in the yield curve amounted to DKK 45.3 mill. at the end of 2022. The table below presents the results of interest scenarios for 2022 and 2021.

Interest-rate risk on net interest income outside the trading portfolio (NII)

The Group has prepared an estimate for the sensitivity of net interest income on all interest-bearing instruments outside the trading portfolio over a three-year horizon. The sensitivity has been calculated for parallel shifts in the interest rate level of +/- 200 basis points with an interest floor rate of -1%. The calculations are based on a constant balance.

The commercial reactions assumed describe how the Bank expects to adapt its interest rates on deposits and loans for different customer segments.

As shown in the table below, the Group expects a significantly improved level of earnings in an interest-rate-increase scenario of around DKK 400 mill. per year following a phase-in period Earnings are due to expectations of higher interest-rate differential from customer deposits.

In the interest-rate-fall scenario, the Group expects a fall in revenues of around DKK 300 mill. per year. This is because the Group does not expect to be able to reduce deposit rates to the same extent as the general interest-rate fall.

However, negative deposit rates are assessed to be a general market condition for large parts of the customer population in a scenario with an interest-rate decrease of 200 basis points. The Group therefore anticipates reintroducing negative deposit rates to both private and business customers in this scenario.

Table 24
Interest-rate risk on net interest income outside the trading portfolio (NII)

	Change in interest rates of +200 bps		
	2023	**2024**	**2025**
	DKK mill.	DKK mill.	DKK mill.
Expected changes in net interest income outside the trading portfolio in the event of a constant balance and parallel shifts in interest rate levels			
Net interest income	633.0	413.0	417.0

	Change in interest rates of -200 bps		
	2023	**2024**	**2025**
	DKK mill.	DKK mill.	DKK mill.
Expected changes in net interest income outside the trading portfolio in the event of a constant balance and parallel shifts in interest rate levels			
Net interest income	-373.0	-273.0	-277.0

Table 25
Interest-rate risk outside the trading portfolio

	2022	**2021**
	DKK mill.	DKK mill.
Yield curve scenarios		
Parallel up	-45.3	-8.9
Parallel down	44.4	1.6
Short-term interest rates down	-12.3	-3.0
Short-term interest rates up	11.5	5.4
Curve flattener	33.7	9.4
Curve steepener	-44.6	-15.4
EVE	***-45.3***	***-15.4***

Shares, etc. outside the trading portfolio

Shares etc. outside the trading portfolio are characterised by not being acquired for trading. Along with other credit institutions, Arbejdernes Landsbank Group holds equity investments in a number of sector companies (e.g. DLR Kredit, PRAS, etc.). These equity investments are part of the investment securities and their purpose is to underpin the Group's business activity within mortgage-credit, IT, money transmission services and investments.

Furthermore, the Group has a share portfolio outside the trading portfolio, which includes shares acquired for long-term investments.

Table 26
Shares outside the trading portfolio

	2022 DKK mill.	2021 DKK mill.
Fair value brought forward	1,834.6	1,008.7
Additions on acquisition of subsidiary	0.0	816.3
Transferred to the trading portfolio	-265.5	0.0
Realised capital gain	2.6	28.1
Unrealised capital gain*)	133.0	51.5
Net purchases	165.2	-70.0
Fair value carried forward	*1,869.9*	*1,834.6*

In the spring of 2022, the Group moved listed shares located outside the trading portfolio to the trading portfolio. This was a consequence of the Danish FSA's memo on the boundaries between positions inside and outside the trading book.

Table 27
Share exposures outside the trading portfolio and the end of 2022

	Shares outside the trading portfolio DKK mill.
Banks, credit institutions and insurance	938.8
Investment firm	631.9
Investment associations	63.1
Private Equity	0.0
Industry	198.1
Trade and Service	38.0
Total	*1,869.9*

Liquidity risk

Liquidity risk is the risk of losses resulting from higher financing costs for the Group, from the Group being unable to fulfil its payment obligations or from the Group being unable to maintain its business model due to insufficient financing.

Liquidity risk reflects a maturity mismatch in the balance sheet between cash flows from assets and liabilities and equity, where the loan portfolio generally has a longer maturity than deposits and other financial transactions. The majority of the Group's liquidity risk is in DKK while a smaller part is in other currencies.

Management and monitoring of liquidity risk are based on liquidity policies, guidelines and contingency plans for the Group decided by the Board of Directors. Furthermore, an internal framework has been established for the liquidity management function (Treasury), which is responsible for ensuring that the Group complies with the short-term liquidity framework. In cooperation with relevant staff functions, the Executive Management is responsible for managing long-term funding.

Generally, the Group maintains a very cautious liquidity policy in order to ensure that potential requirements or needs for liquidity can be met at any time. Another aim of the liquidity policy is to ensure compliance with statutory and internal requirements and to provide a basis for the future development of the Group.

The Group must comply with the European Liquidity Coverage Ratio (LCR) requirements and Net Stable Funding Ratio (NSFR) requirements for credit institutions. Both liquidity ratios constitute an essential part of liquidity management in the Group. The Group's internal liquidity target is 130% for the LCR, while the Group's funding target is 110% for the NSFR. The internal LCR and NSFR targets are thus above the statutory requirement of 100%.

Day-to-day long-term management in Arbejdernes Landsbank lies with the Treasury function, while Markets is responsible short-term operational management. Liquidity risk is calculated and reported on a daily basis in relation to the limits granted in the liquidity policy. At Vestjysk Bank, operational responsibility for the liquidity area has been delegated to the treasury function.

The Group currently uses a BEC-supported solution to calculate the daily LCR. Vestjysk Bank will switch to the same solution in 2023.

The Group uses a BEC-supported system solution for NSFR calculations.

The Risk Council and the Balance Sheet and Capital Council monitor short-term and long-term liquidity developments in relation to Group's commercial developments in the capital-market area as well as in deposits and lending.

In addition to regular liquidity forecasts and excess liquidity coverage calculations, the Group's long-term liquidity is stress-tested to identify sensitivities to significant changes in the ongoing funding need.

The Group has also prepared a liquidity contingency plan which states specific initiatives to improve liquidity and/or reduce risks, including borrowing against assets or disposal of assets, which the Bank can implement if the liquidity situation so warrants. The Group operates with liquidity initiatives with different expected time frames. Short time-frame initiatives concern, for example, loans against bonds and shares that cannot be included in the liquidity buffer, divestment of shares and bonds not included in the liquidity buffer, and raising money market loans. Initiatives with longer expected time frames concern, for example, mortgages on owner-occupied properties, raising loans in the capital market, and utilising irrevocable credit commitments.

The Group's LCR was 264.5% at the end of 2022 and remained stable at a high level throughout the year, and considerably higher than the statutory requirement of 100%, and the Group's internal liquidity target of 130%. Based on the Group's liquidity forecast, it is expected that the Group's current liquidity buffer is sufficient to cover the liquidity need throughout 2023.

Table 27
LCR calculation 2022

	Q1	Q2	Q3	Q4
LCR calculation weighted average in DKK bn.				
Total liquidity buffer	33.0	33.7	34.9	35.4
Net outflow	11.5	12.5	13.3	13.2
Outflow	13.2	13.3	13.8	13.5
Inflow	1.7	0.8	0.4	0.4
LCR (%)	*286.9*	*271.1*	*262.3*	*268.6*

The Group's liquidity buffer primarily consists of mortgage-credit bonds, government bonds and government-guaranteed bonds, including local government and shipping credit issues. At the end of 2022, total L1 securities made up 95.9% of the Group's liquidity buffer. Apart from the composition of the Group's liquidity buffer, the primary reason for the high and stable LCR development is the Group's deposits, of which 70.4% is recognised as stable pursuant to the LCR regulation. The high degree of stable deposits results in a corresponding lower net outflow compared with non-stable deposits.

Minor quarterly fluctuations in net outflow are primarily due to changed short-term placement needs in the money market, while the changes in the liquidity buffer are attributable to fluctuations in the Group's placement needs.

Payments from derivative exposures represent an insignificant share of the Group's total net outflow and provide cash collateral. As a result of margin agreements with financial counterparties, these are not included in the Group's liquidity buffer.

The Group's NSFR amounted to 140.9% at the end of 2022, and, since the introduction of the liquidity ratio in June 2021, the NSFR has remained at a stable level above the 100% requirement, as illustrated in table 29.

Table 29
NSFR funding calculation 2022

	Q1	Q2	Q3	Q4
NSFR funding calculation in DKK bn.				
Available Stable Funding (ASF)	88.6	89.9	91.4	92.2
Required Stable Funding (RSF)	64.9	65.5	65.0	65.5
NSFR (%)	*136.6*	*137.2*	*140.8*	*140.9*

Encumbered assets

To a certain extent, The Group has encumbered assets in connection with market-risk-taking and liquidity transactions, including assets pledged as collateral at Danmarks Nationalbank for securities clearing and retail clearing.

The Group utilises collateralisation with other credit institutions for developments in the market value of the Group's OTC derivative transactions and margin deposits in connection with derivatives traded on the stock market.

Specifically, Arbejdernes Landsbank posts initial margin as collateral for qualifying central counterparties (QCCPs).

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

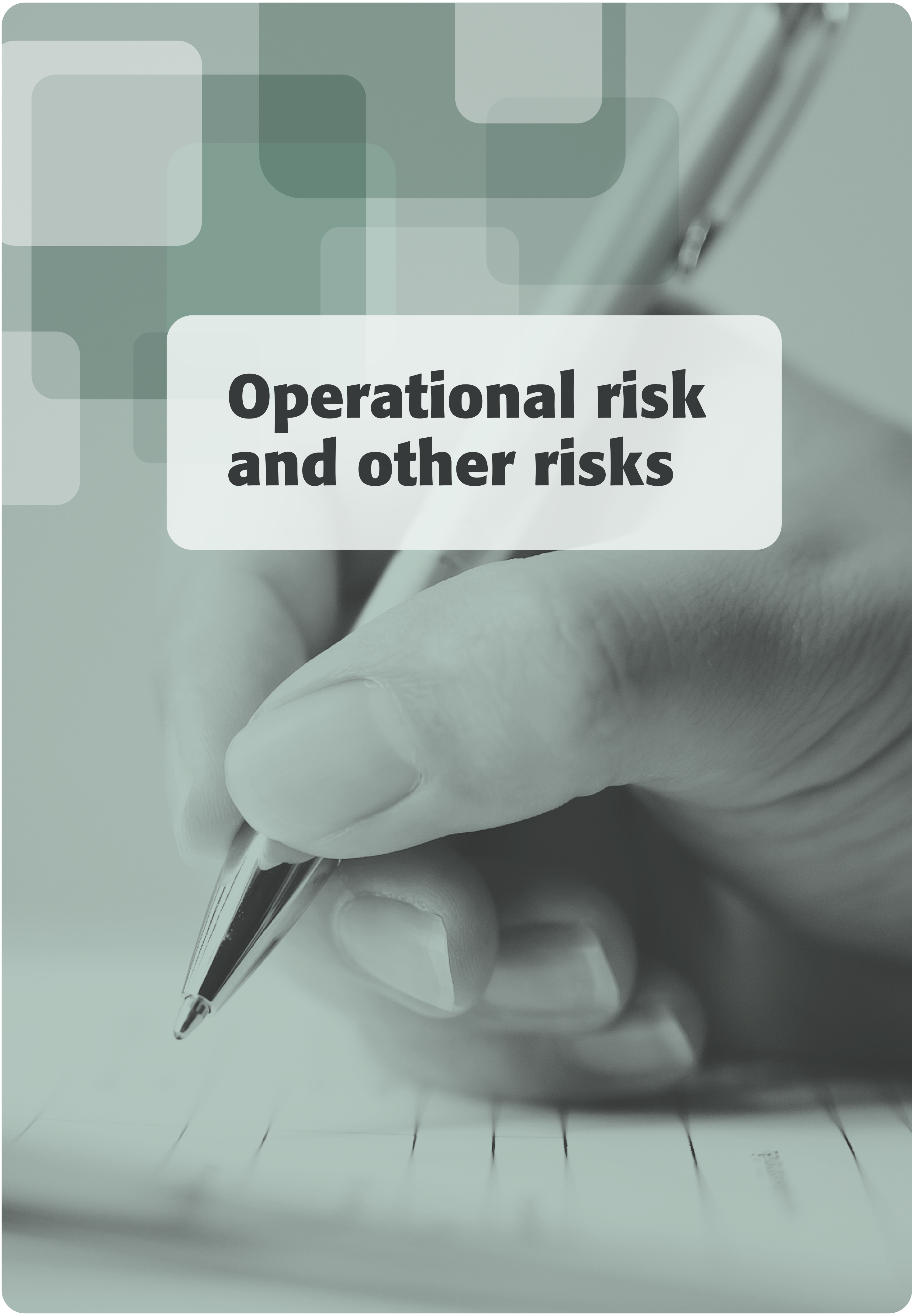
The value of encumbered assets has decreased significantly in 2022, partly attributable to a large decrease in the collateral for VP settlement/clearing and positive market-value developments in the Group's derivatives portfolio, which has reduced collateral in the form of margin calls.

Table 30
Encumbered assets

	Carrying amount 2022 DKK mill.	Fair value 2022 DKK mill.	Carrying amount 2021 DKK mill.	Fair value 2021 DKK mill.
Assets				
Encumbered assets				
Shares	0.0	0.0	0.0	0.0
Bonds	622.7	622.7	646.7	646.7
Other assets *)	207.6	207.6	2,257.1	2,257.1
Total encumbered assets	***830.4***	***830.4***	***2,903.8***	***2,903.8***
Unencumbered assets				
Shares	2,154.9	2,154.9	1,981.2	1,981.2
Bonds	28,021.2	28,021.2	27,609.2	27,609.2
Other assets	76,980.5	76,946.6	74,966.4	75,135.6
Total unencumbered assets	***107,156.5***	***107,122.7***	***104,556.8***	***104,726.0***
Collateral received, available for encumbrance				
Bonds at fair value				
Encumbered collateral	16.0	16.0	0.0	0.0
Unencumbered collateral	4.0	4.0	0.0	0.0
Bonds at fair value, in total	***20.1***	***20.1***	***0.0***	***0.0***
Encumbered assets/collateral received				
Encumbered assets and collateral	846.4	846.4	2,903.8	2,903.8
Counterpart liabilities	66.7	66.7	266.5	266.5

*) Encumbrance related to VP settlement and derivative transactions.

Operational risk and other risks



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.

Operational risks are categorised according to the seven types of risk defined by the CRR:

- Employment practices and workplace safety
- External fraud
- Business disruption and system failures
- Internal fraud
- Clients, products, and business practice
- Execution, delivery and process management
- Damage to physical assets

Follow-up on operational risk in the Group includes a number of underlying areas, the most important of which are: IT security, outsourcing, protection of personal data, compliance risks, money laundering risks and risks associated with implementing new products and services.

Policy for operational risk

The Board of Directors of A/S Arbejdernes Landsbank has laid down the Group's policy for operational risk, the purpose of which is to create an overview of operational risks, minimise the number of errors, and reduce the Group's 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.

Operational risks are assessed on the basis of the likelihood of the risk materialising in an operational incident, as well as the consequences of such incident. Risks are classified on a four-step scale from insignificant to very high. To maintain an acceptable operational risk level, the policy includes a definition of risk appetite as determined by the Board of Directors. Risks exceeding the defined risk appetite are assessed by the Board of Directors at least every six months.

Managing operational risks

All activities in the organisation are associated with operational risks. In order to reduce the risk of operational incidents leading to significant losses, the Group's companies monitor and manage operational risks.

Responsibility for day-to-day operational risk management is decentralised and lies with the relevant business units. The mapping of operational risks in Arbejdernes Landsbank and AL Finans is based on identification and assessment by the individual units of their own risks. At least annually, the Risk Function holds risk identification meetings with the individual units to review the risks identified and evaluate the likelihood and consequences of the risks. In connection with the review of the units' operational risks, an assessment is made to determine whether the risks have been sufficiently hedged against with controls and other risk-reducing measures. The risk identification meetings support risk processing and ensure greater awareness of operational risks in the organisation. The mapping of operational risks also highlights particularly risky processes, systems, products or behaviour, and thereby represents an overall risk management tool. Vestjysk Bank has its own procedure for monitoring and reporting operational risks.

Follow-up and reporting on operational risk, including the role as risk facilitator, is anchored in the 2nd line of defence, and the Risk Council continuously addresses operational risks and reports on these risks.

Developments in operational risk are monitored continuously to provide the best possible foundation for operational risk management.

In 2022, Arbejdernes Landsbank and AL Finans implemented a GRC platform to support operational-risk management etc. It is expected that the GRC platform will be implemented in Vestjysk Bank during the first half of 2023.

The Group is aware that increased digitisation, with ever more communication taking place online, may add to the risk of external fraud online in the form of cybercrime. Most cases of attempted fraud are prevented upfront by the Group's IT supplier, BEC, and through internal control environments and alert employees.

Reporting operational risks

Reporting to the Board of Directors and the Executive Management is on a quarterly basis and includes developments in operational incidents and information about major operational incidents. In addition to this the Board of Directors and the Executive Management quarterly receive a summary of significant changes in the risk profile.

There is ongoing reporting to the CRO, the Executive Management and the Board of Directors, according to more detailed criteria stated in the risk policy.

IT security

The services provided by the Group are extensively supported by IT. This is an important element to consider when assessing operational risks, so that the Group ensures an adequate level of protection of data and IT systems.

The board of directors of the banks in the Group have drawn up IT security policies setting and formulating the requirements for IT security management.

The geopolitical situation affects security of supply and the Group's threat scenario. The Group regularly assesses the need for further emergency and contingency measures. The situation is also monitored under the auspices of the FSOR.

There is increased focus on supplier management to ensure the required level of security for the Group's IT systems. Among other things, this requires further insight at outsourcing suppliers.

The Group will continue to increase its internal capacity in the area of IT security in 2023 to meet increasing demands and ensure IT security for the Group at an appropriate level. Concurrently, there are ongoing efforts to ensure that all employees have adequate expertise within IT security. In 2022, all employees at the Bank acquired knowledge about IT security through a range of awareness-raising activities. In order to protect the Group from the ever more serious threat scenario, the Group's competencies with regard to handling possible attacks will be increased.

Outsourcing

The Group has outsourced a significant part of its critical banking systems, and outsourcing therefore remains an important element in operational risk management for the Group. The boards of directors in Arbejdernes Landsbank and Vestjysk Bank have drawn up policies for outsourcing activities, which also define the boards' risk appetite in relation to outsourcing activities.

The person responsible for outsourcing is placed organisationally in the 1st line of defence, and assists the Management in ensuring that outsourcing is satisfactory. The persons responsible for outsourcing are responsible for the management and monitoring of outsourcing, and for securing outsourcing documentation.

At the beginning of 2023, Arbejdernes Landsbank established a procurement function under the CFO area responsible for contract management and outsourcing. This function will continue to raise the Bank's level of maturity in this area. In future, the person responsible for outsourcing will be linked to the procurement function.

General Data Protection Regulation (GDPR)

The Group has strong focus on ensuring that personal data is processed in accordance with the EU General Data Protection Regulation (GDPR) and data protection legislation, and it is an important element in the assessment of operational risks.

The Executive Management in Arbejdernes Landsbank has appointed a Group Data Protection Officer (DPO) to ensure compliance with data protection regulations.

Money laundering risks

The Group has strong focus on anti-money laundering (AML), including risk mitigation measures to be implemented in order to prevent abuse of the Group's companies for money laundering and financing of terrorism.

Under management of the person responsible for anti-money laundering at Group level, the task of the AML Department is to ensure that the Group and its companies comply with the Act on Measures to Prevent Money Laundering and Terrorism Financing (the Anti-Money Laundering Act) as well as EU regulations on transfers of funds and combating terrorism. The person responsible for anti-money laundering reports directly to the Executive Management.

Employee awareness and alertness plays an important role in protection from being abused for money laundering, financing of terrorism or violation of financial sanctions. To ensure that employees have the necessary knowledge, in 2022, Arbejdernes Landsbank once again conducted a mandatory e-learning course on prevention of money laundering, financing of terrorism and violation of financial sanctions. All employees have completed the course, which includes passing a test. The number of employees working full-time with measures to prevent money laundering, financing of terrorism and violation of financial sanctions continued to increase in 2022.

Model risk

Operational risk also includes model risk, which covers the risk of losses resulting from decisions primarily based on results from models. Operational risks arise due to errors in the development, implementation or use of models, and may be caused, for example, by errors or weaknesses in the data base behind a model.

The Group's guidelines for model risk adopted by the Board of Directors lay down the requirements for regular reporting and follow-up on model risk, as well as requirements for the Group's model register, which provides an overview and ensures clearly defined roles and responsibilities.

In 2023, continued efforts will be devoted to advance management of model risk at Group level.

Products and services
The supply of products and services is subject to frequent changes that have significance for the Group's IT systems and employees' management hereof. This increases the risk of errors, and such changes are therefore important to assess in relation to operational risk management.

Risks associated with implementing new products and services are identified and assessed in accordance with internal procedures prior to approval by the Executive Management and/or the Board of Directors of Arbejdernes Landsbank.

The process ensures that risks are identified, assessed and managed. Arbejdernes Landsbank has set up a Prices and Products Council to ensure adequate analysis, decision-making and involvement before changing the Bank's range of products and services. Vestjysk Bank and AL Finans have established their own procedures in this area.

The approval procedure is regulated in the Group companies' policies on the area.

Compliance risk
Operational risk also includes compliance risk, which are identified by the Group Compliance Function. Compliance risk is the risk that sanctions are imposed on the Group, by law or by the authorities, or that the Group suffers a financial loss or a loss of reputation as a consequence of non-compliance with legislation, market standards or internal rules.

The aim of the Group Compliance Function is to assist the Management in ensuring compliance with current legislation, market standards and internal rules.

The Compliance Function is part of the 2nd line of defence and reports quarterly to the Executive Management and board of directors.

Capital need
The calculation of capital need to cover operational risk in the Group is based on the basic indicator approach. At the end of 2022, the operational risk amounted to 11.1% of total risk exposure, which results in a capital requirement (the 8% requirement) of DKK 535.8 mill.

Other risks

Business risk
Business risk is the risk of losses due to changes in external conditions or events that are detrimental to the Group's reputation or operational earnings, including strategic risks.

The risk manifests as unexpected falls in revenues or unexpected rises in costs.

Examples are:

- Sharpened competitive pricing, leading to an increase in business volume or falling revenues on the existing business volume
- Increased costs from product development to match new products from competitors.
- Increased marketing costs from negative press coverage
- Incorrect estimates of revenues from new activities

The Group assesses this type of risk on an ongoing basis, including when setting the individual solvency need.

Property risk
Property risk is the risk of losses from the Group's property portfolio arising from a fall in property prices.

The Group had a portfolio of properties of DKK 1,859.5 mill. at the end of 2022. The properties are primarily used for Group operations. Furthermore, minor parts of some properties are let for residential or business use. The properties are located throughout Denmark, although in terms of carrying amount there is an overweight in Greater Copenhagen.

The sensitivity in the valuation of the Group's properties is expressed by a positive change in property returns of 0.5 percentage points, which will reduce the value of the properties by approx. DKK 131.4 mill.

Remuneration risk
The pay policy includes guidelines for remuneration of the Board of Directors and the Executive Management of Arbejdernes Landsbank. The pay policy is reviewed regularly, and at least once a year.

The pay policy stipulates that the Management must be paid remuneration in conformity with the market and reflecting the Management's work for Arbejdernes Landsbank. The pay policy also stipulates that the remuneration paid to the Board of Directors and the Executive Management must be a fixed remuneration, such that no form of incentive pay is included. The same applies to heads of division, deputy directors, the Group's Chief Audit Executive, the AML Director, the CRO and the Head of Compliance.

Employees in the Risk Function, Compliance Function and Internal Audit are subject to special conditions in which variable remuneration components are not affected by changes in the Group's result but depend exclusively on the performance of the department and the individual employee.

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

Page 21 of the Annual Report for 2022 includes a description of the premise for the nomination and remuneration committee established by the Board of Directors. Page 21 as well as note 9 describe the remuneration etc. paid to the Board of Directors, the Executive Management and other risk takers etc. who significantly influence the risk profile.

The group of employees (risk takers) with significant influence on the risk profile is adjusted when employees leave and are replaced by new employees, and/or based on an assessment of employees' functions and job content.

EHRHORN HUMMERSTON

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