Guidance on pillar 3 reports for the **Arbejdernes Landsbank Group**

Arbejdernes Landsbank

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Introduction

This guide provides a brief overview of the Group's pillar 3 reports. The templates are prepared in accordance with the Group's *Pillar 3 Disclosure Guidelines*, which are based on the requirements of the Capital Requirements Regulation[1] and Directive as regards the loss-absorbing and recapitalisation capacity of credit institutions [2].

Based on the disclosure requirements in the Capital Requirements Regulation, the Group's individual risk types and their overall management is briefly reviewed in the following sections. Additionally, the Group's capital position and relevant information that contributes to further understanding of the Group's risk profile is also reviewed.

References to relevant pillar 3 reports, where key figures and more detailed descriptions of the individual areas are provided, is included in the respective sections.

The Group's pillar 3 reports can be found here: Pillar 3 - 31.12.2024.

The 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 operate as two independent banks, each with their own business model, focus and brand. Common for the Group is an increased focus on the continued influx of new customers and a stronger position on the market for business customers.

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)
- Sluseholmen 7 A/S (subsidiary)

A/S Arbejdernes Landsbank owns almost 73% of Vestjysk Bank A/S, while AL Finans A/S, Ejendomsselskabet Sluseholmen A/S and Sluseholmen 7 A/S are 100% owned by the parent company.

For a more detailed description of the individual companies in the Group, see the Annual Report 2024.

Overview of the Group's risks

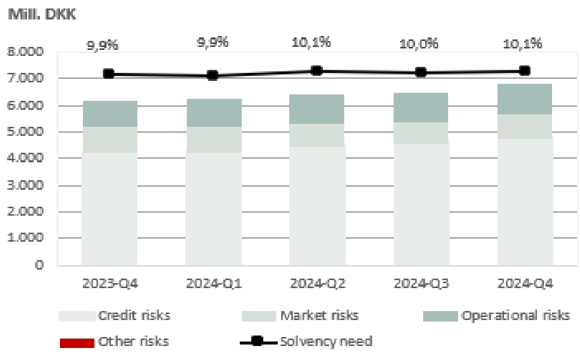
Credit risk and risks related to the loan portfolio generates the largest solvency need. This is followed by *market risk* and *operational risk*.

Overall, the Group's solvency need is calculated at DKK 6,771 million at the end of 2024 (2023: DKK 6,181 million) and the solvency need ratio amounts to 10.1% (2023: 9.9%), which is an increase by 0.2 percentage points from 2023.

The increase in the solvency need ratio is mainly attributable to an increased solvency need ratio for *credit risk*. This is partly offset by a reduction in the solvency need ratio for *market risk*.

The figure below shows the development in the Group's individual solvency need from year-end 2023 to year-end 2024.

Development in individual solvency need



In addition to the above-mentioned risk types, the Group is exposed to a number of additional risks, including *ESG risks*.

For a description of the Group's calculation method for determining the individual solvency need, please refer to the following pillar 3 reports:

- EU OVC - ICAAP information

[1] *Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 and Commission Implementing Regulation (EU) 2021/637 of 15 March 2021.*

[2] *DIRECTIVE (EU) 2019/879 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC*

For a general overview of the Group's risk exposure and key figures, please refer to the following pillar 3 reports:

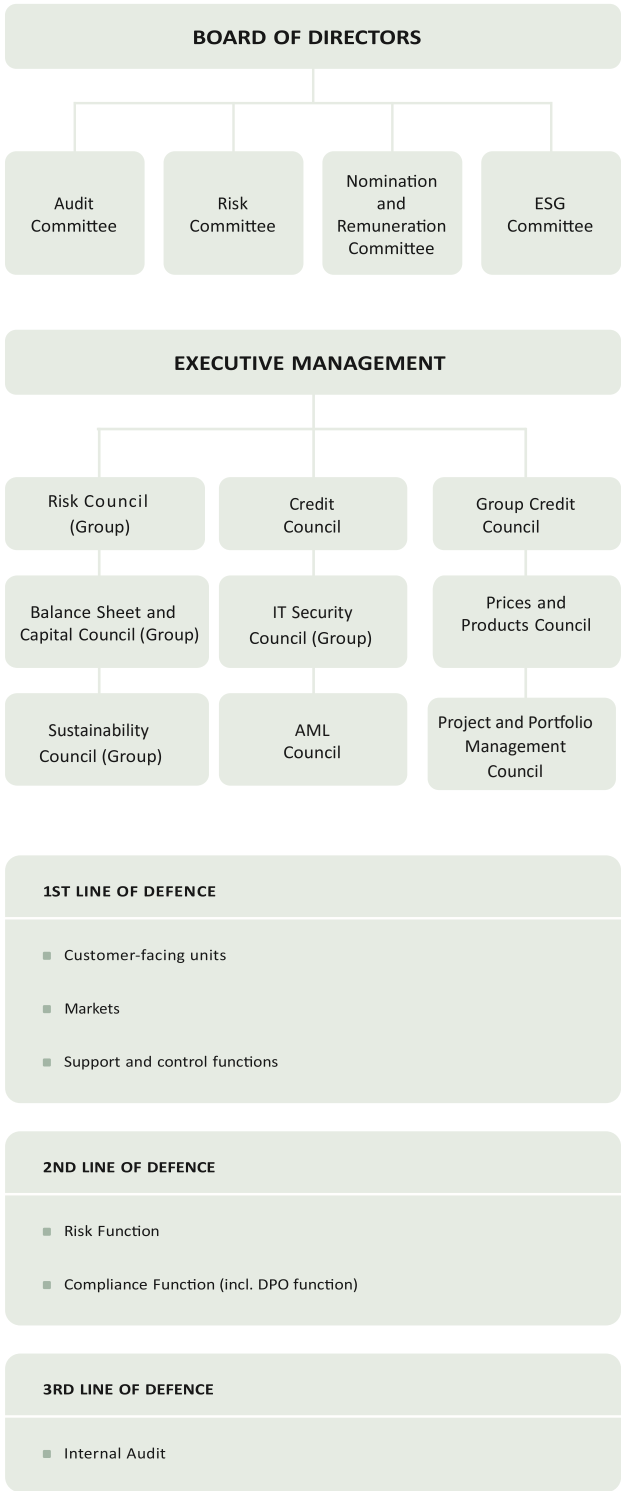
- EU KM1 - Key metrics template
- EU OV1 - Overview of total risk exposure amounts
- EU CR5 - Standardised approach

Risk management and governance

The strategic ambition of the Group risk management is to remain a strong financial enterprise for owners, customers, and society. In addition, it is emphasized that the Group is conscious of the risks that it is exposed to due to the business model, and on managing these appropriately.

The organisation of the Group's risk management is illustrated in the figure to the right.

Organisational chart for risk management



For a more detailed description of the Group's risk management and governance, please refer to the Annual Report 2024 and the following pillar 3 reports:

- EU OVA - Institution risk management approach
- EU OVB - Disclosure on governance arrangement

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.

The Group's credit risk relates to the Group's loans and guarantees, but it also has credit risk in relation to financial counterparties (counterparty risk) and in relation to the Group's unlisted shares.

For a more detailed description of the Group's credit risks in relation to loans and guarantees, see the following pillar 3 reports:

- EU CRA - General qualitative information about credit risk
- EU CRB - Additional disclosure related to the credit quality of assets
- EU CR1 - Performing and non-performing exposures and related provisions
- EU CR1-A - Maturity of exposures
- EU CR2 - Changes in the stock of non-performing loans and advances
- EUCR2a - Changes in the stock of non-performing loans and advances and related net accumulated recoveries
- EU CQ1 - Credit quality of forborne exposures
- EU CQ2 - Quality of forbearance
- EU CQ3 - Credit quality of performing and non-performing exposures by past due days
- EU CQ5 - Credit quality of loans and advances to non-financial corporations by industry
- EU CQ6 - Collateral valuation - loans and advances
- EU CQ7 - Collateral obtained by taking possession and execution processes
- EU CQ8 - Collateral obtained by taking possession and execution processes - vintage breakdown
- EU CRC - Qualitative disclosure requirements related to CRM techniques
- EU CR3 - CRM techniques overview: Disclosure of the use of credit risk mitigation techniques
- EU CRD - Qualitative disclosure requirements related to the standardised model
- EU CR4 - Standardised approach - Credit risk exposure and CRM effects

For a more detailed description of the Group's credit risks in relation to financial counterparties, please refer to the following pillar 3 reports:

- EU CCRA - Qualitative disclosure related to counterparty credit risk
- EU CCR1 - Analysis of CCR exposure by approach
- EU CCR2 - Transactions subject to own funds requirements for CVA risk
- EU CCR3 - Standardised approach - CCR exposures by regulatory exposure class and risk weight
- EU CCR5 - Composition of collateral for CCR exposures
- EU CCR8 - Exposures to CCPs

Market risk

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

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. Lastly, the Group has market risk on its banking book due to, among other things, fixed-rate loans, and the Group's own issues.

For a more detailed description of the Group's market risks, please refer to the following pillar 3 reports:

- EU MR1 - Market risk under the standardised approach
- EU MRA - Qualitative disclosure related to market risk
- EU IRRBBA - Qualitative information on interest rate risk of non-trading book activities
- EU IRRBB1 - Interest rate risks of non-trading book activities

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 also includes the funding risk associated with the issuance of bonds and subordinated debt.

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.

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.

For a more detailed description of the Group's liquidity risks, please refer to the following pillar 3 reports:

- EU LIQA - Liquidity risk management
- EU LIQB - Qualitative information on LCR, which complements template EU LIQ
- EU LIQ1 - Quantitative information of LCR
- EU LIQ2 - Net Stable Funding Ratio

For a more detailed description of the Group's encumbered assets, please refer to the following Pillar 3 reports:

- EU AE1 - Encumbered and unencumbered assets
- EU AE2 - Collateral received and own debt securities issued
- EU AE3 - Sources of encumbrance
- EU AE4 - Accompanying narrative information

Operational risk

Operational risk is the risk of losses as a consequence of inappropriate or incomplete internal procedures, human errors and system failures or as a consequence of external events, including legal risks.

There is no disclosure requirement for additional pillar 3 information at the half year regarding the Group's operational risks.

- EU ORA - Qualitative information on operational risk
- EU OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

Other risks

Other risks are a number of considered risks particularly relevant given the business models of the Group's companies, including strategic risks, reputation risks, property risks and earnings risks.

There are no disclosure requirements for additional pillar 3 information for these types of risks.

Leverage ratio

The risk of excessive leverage is the risk resulting from vulnerability due to financial leverage or conditional leverage. Through its leverage policy, the Group has set the framework for managing and monitoring the risk of excessive leverage. The leverage ratio target of the Group is set in accordance with the Group's risk strategy, and the Group assesses that a leverage ratio[3] of more than 6.0% is appropriate for the Group's business model.

For a more detailed description of the Group's leverage ratio, please refer to the following pillar 3 reports:

- EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures
- EU LR2 - LRCom: Leverage ratio common disclosure
- EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)
- EU LRA - Disclosure of LR qualitative information

ESG risks

ESG risks relate to environmental, social and governance risks, also known as sustainability risks. The Group discloses both quantitative information on environmental risks and mitigation measures associated with both economic activities that qualify as environmentally sustainable and exposures to climate-related risks that do not qualify as environmentally sustainable economic activities.

For a more detailed description of the group's ESG risks, please refer to the following pillar 3 reports:

- Table 1 - Qualitative information on Environmental risk
- Table 2 - Qualitative information on Social risk

[3] *The leverage ratio is calculated based on the Tier 1 capital according to the fully phased-in definition, which is proportional to the total exposure.*

- Table 3 - Qualitative information on Governance risk
- Template 1 - Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions, and residual maturity
- Template 2 - Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral
- Template 3 - Banking book - Climate change transition risk: Alignment metrics
- Template 4 - Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms
- Template 5 - Banking book - Climate change physical risk: Exposures subject to physical risk
- Template 6 - Summary of GAR (Green asset ratio) KPIs
- Template 7 - Mitigating actions: Assets for the calculation of GAR
- Template 8 - GAR KPIs (%)
- Template 9 - Mitigating actions: BTAR
- Template 10 - Other climate change mitigating actions that are not covered in the EU Taxonomy

Capital composition

The Group's capital requirement ratio has been calculated at 16.5%. With a capital ratio of 21.4% at the end of 2024, the Group thus has an excess cover to the requirement of 4.9 percentage points. The group's capital requirements consist of a solvency need of 10.1% and the combined capital buffer requirement of 6.4%, which currently consists of the capital conservation buffer of 2.5%, the countercyclical capital buffer of 2.5%, the systemic buffer of 0.4% and the SIFI buffer of 1%.

The Group's eligible liabilities consists of own funds and the Group's issued senior preferred and senior non-preferred bonds. At the end of 2024, the Group's eligible liabilities is calculated at DKK 21,083 million. The Group's eligible liabilities ratio consists of the eligible liabilities relative to the Group's total risk exposures and is calculated at 31.5% at the end of 2024.

For a more detailed description of the Group's capital composition and eligible liabilities please refer to the following Pillar 3 reports:

- EU PV1 - Prudent valuation adjustments (PVA)
- EU CC1 - Composition of regulatory own funds
- EU CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements
- EU CCA - Main features of regulatory own funds instruments and eligible liabilities instruments
- EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer
- EU CCyB2 - Amount of institution-specific countercyclical capital buffer
- EU KM2 - Key metrics - MREL
- EU TLAC1 - Composition - MREL
- EU TLAC3 - Creditor ranking - resolution entity

Conditions of remuneration

The Group's conditions of remuneration are based on the respective group companies' remuneration policies. The policies are intended to support the business ambitions of the companies and set guidelines for the allocation of remuneration that are consistent with and promote sound and effective risk management and do not encourage excessive risk-taking.

In addition, the remuneration policies must ensure equal pay for work of the same kind or work of equal value without any form of discrimination, including gender discrimination.

For further details on the Group's remuneration policies and remuneration conditions, please refer to the following pillar 3 tables:

- EU REMA - Remuneration policy
- EU REM1 - Remuneration awarded for the financial year
- EU REM2 - Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)
- EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

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