dlr kredit
er realkredit

ANNUAL REPORT 2014

2014

CONTENTS

5 YEARS' FINANCIAL AND OPERATING DATA

	2014	2013	2012	2011	2010
Financial and operating data, DKKm					
Profit and Loss Account					
Net interest and fee income	*1,392.6*	*1,229.4*	*1,048.9*	*944.2*	*579.7*
Other operating income etc.	*17.3*	*17.5*	*19.1*	*18.4*	*22.5*
Staff costs and administrative expenses	*(210.6)*	*(203.7)*	*(199.6)*	*(188.4)*	*(185.6)*
Other costs	*(3.7)*	*(4.8)*	*(5.1)*	*(5.7)*	*(6.7)*
Core earnings	***1,195.6***	***1,038.4***	***863.3***	***768.5***	***409.9***
Provision for loan and receivable impairment. etc.	*(190.6)*	*(113.3)*	*(87.1)*	*(140.8)*	*(106.4)*
Value adjustments	*(187.8)*	*(295.8)*	*(173.7)*	*(258.7)*	*32.6*
Profit before tax	***817.2***	***629.3***	***602.5***	***369.0***	***336.1***
Profit after tax	***615.9***	***470.7***	***450.7***	***275.3***	***251.1***
Balance Sheet at 31 December					
Assets					
Loans and advences	*133,218.6*	*133,910.1*	*135,630.7*	*133,211.2*	*132,567.3*
Bonds and shares etc.	*9,233.5*	*8,874.4*	*5,355.7*	*7,669.4*	*5,478.4*
Other assets	*15,184.5*	*4,109.7*	*7,900.2*	*14,065.8*	*6,487.1*
Total assets	***157,636.6***	***146,894.2***	***148,886.7***	***154,946.4***	***144,532.8***
Liabilities and equity					
Issued bonds	*138,524.0*	*131,437.6*	*128,423.2*	*129,949.2*	*122.849.3*
Other debt and payables	*6,438.5*	*2.394.8*	*6,240.5*	*11,788.6*	*8.964.4*
Subordinated debt	*2,055.1*	*3,077.5*	*5,254.2*	*5,622.5*	*5.607.1*
Equity	*10,619.0*	*9,984.3*	*8,968.8*	*7,586.1*	*7.112.0*
Total liabilities and equity	***157,636.6***	***146,894.2***	***148,886,7***	***154,946.4***	***144,532.8***
Financial Ratios					
Return on equity (ROE)					
Profit before tax in pc of equity)*	*7.9*	*6.6*	*7.3*	*5.0*	*4.9*
Profit after tax in pc of equity)*	*6.0*	*5.0*	*5.4*	*3.7*	*3.7*
Return on Capital Employed					
Return on Capital Employed)*	*0.39*	*0.32*	*0.30*	*0.18*	*0.17*
Costs					
Costs in pc of loan portfolio	*0.16*	*0.16*	*0.15*	*0.15*	*0.15*
Income/cost ratio)*	*3.02*	*2.96*	*3.07*	*2.10*	*2.13*
Income/cost ratio, excl. write(downs for impairment	*5.70*	*4.56*	*4.37*	*3.63*	*3.30*
Solvency (incl. profit for the year)					
Solvency ratio, pc)*	*12.3*	*12.3*	*13.2*	*12.2*	*12,0*
Core capital ratio, pc)*	*12.3*	*12.3*	*13.2*	*12.2*	*12,0*
Losses and arrears					
Arrears, year end (DKKm)	*141.8*	*125.4*	*165.2*	*142.9*	*190.9*
Loss and impairment ratio for the period (in pc of loan portfolio))*	*0.14*	*0.08*	*0.06*	*0.11*	*0.08*
Accumulated loss and impairment ratio (in pc of loan portfolio)	*0.40*	*0.28*	*0.25*	*0.26*	*0.25*
Lending activity					
Growth in loan portfolio, pc (nominal))*	*(0.9)*	*(0.9)*	*2.3*	*1.1*	*2.0*
New loans, gross (DKKm)	*33,181*	*11,340*	*20,176*	*12,836*	*18,037*
Number of new loans	*9,638*	*4,887*	*7,944*	*4,887*	*7,327*
Loan/equity ratio)*	*12.5*	*13.4*	*15.1*	*17.6*	*18.6*
Margins					
Percentage of average loan portfolio (nominal):					
Profit before tax	*0.62*	*0.47*	*0.44*	*0.28*	*0.26*
Administrative margin	*1.07*	*1.05*	*0.93*	*0.80*	*0.73*
Percentage of core capital after deductions:					
Foreign exchange position)*	*4.0*	*3.1*	*2.4*	*12.0*	*10.3*

**) The financial ratios have been calculated on the basis of the definitions by the Danish Financial Supervisory Authority.*

FINANCIAL REVIEW

Summary

- In 2014, DLR achieved a profit after tax of DKK 615.9m against DKK 470.7m the year before
- For 2014, provisions on loans came to DKK 190.6m. Compared with 2013, the level of total arrears showed a modest increase.
- Refinancing campaigns in respect of F1 ARM loans contributed to gross lending of DKK 33.2bn for 2014 (2013: DKK 11.3bn). Net lending came to a negative DKK 0.8bn for 2014.
- In 2014, DLR repaid the remaining government hybrid core capital of DKK 1,000.0m.
- At the end of 2014, the solvency ratio was 12.3 which is equivalent to the level at year-end 2013.
- The outlook for the 2015 performance is expected at a satisfactory level, however somewhat below results for 2014.

Annual Results

In 2014, DLR achieved a satisfactory profit before tax of DKK 817.2m (2013: DKK 629.3m). Tax on the 2014 profit amounted to DKK 201.3m.

Hence, the profit before tax of DKK 817.2m was somewhat higher than the forecast for 2014 of DKK 675-725m.

An increase in net interest income, reduced fee and commission expenses (net) and reduced negative value adjustments are the primary reasons for DLR's profit increase compared with 2013 and compared to the forecast for 2014. Increased provisions and value adjustments pull in the opposite direction.

Net interest income amounted to DKK 1,564.4m in 2014, an increase of 8 pc on 2013. The background for the increase is a decrease in interest expenses for government hybrid core capital, as DLR has repaid the remaining government hybrid core capital of DKK 1,000.0m.

Because of the continuously decreasing interest rate level, interest income on the securities portfolio was lower in 2014 than in the previous year.

Between the two calendar years, fee and commission expenses (net) were reduced by 22 pc – from DKK 220.6m to DKK 172.4m.

DLR's staff costs and administrative expenses etc. increased from DKK 203.7m in 2013 to DKK 210.6m in 2014.

In 2014, the price adjustment on the securities portfolio was negative at DKK 187.8m. The price adjustment was primarily due to the reduced maturity on the portfolio of short-term bonds with higher coupon rates than the market rate. In 2013, the price adjustment was negative at DKK 295.8m.

Realised losses on claims, including adjustments from previous years, have been calculated at DKK 40.8m for 2014. At the same time, provisions have increased by DKK 149.8m (net). Consequently, an amount of DKK 190.6m (2013: DKK 113.3m) has been charged in respect of provisions for loan and receivable impairment to the financial statements.

The increased level of provisions is especially attributable to increased collective provisions. The background is the uncertain situation in agriculture as a consequence of factors such as the trade conflict with Russia and the sales difficulties in China that have particularly affected pig and dairy farmers. Therefore, as a consequence of these conditions, DLR made a collective provision of DKK 165m at the end of 2014. This collective provision is particularly related to the risk of loss on farmers who are already under financial strain as a consequence of other conditions than the current settlement prices.

At the end of 2014, individual provisions totalled DKK 333.0m, whereas collective provisions amounted to DKK 198.4m.

DLR recommends to the General Meeting that like previous years, no dividend be paid for 2014.

Table 1. Profit and Loss Account

DKK m	2012	2013	2014
Net interest, fee and commission income	1,048	1,229	1,393
Other operating income etc.	19	18	17
Value adjustments	-174	-296	-188
Staff costs and administrative expenses etc.	-200	-204	-211
Depreciation	-5	-5	-4
Provisions for loan and receivable impairment etc.	-87	-113	-191
Profit before tax	603	629	817
Tax	-152	159	-201
Profit for the year	**451**	**471**	**616**

Capital Base

In 2014, DLR strengthened the capital base by transferring the total profit for the year of DKK 615.9m to reserves and thus to DLR's equity.

At the end of 2014, DLR's equity amounted to DKK 10,619.0m against DKK 9,984.3m at year-end 2013. Equity comprises share capital of a nominal DKK 570.0m and DLR's reserves of DKK 10,049.0m, of which undistributable reserves amount to DKK 2,337.9m.

At year-end 2014, DLR's aggregate subordinated capital amounted to DKK 2,055.1m. This capital consists exclusively of hybrid core capital (Tier 1) distributed on hybrid core capital raised in 2005 of EUR 100m (DKK 755.1m) and hybrid core capital of DKK 1,300m raised in 2012.

In May 2014, DLR repaid the remaining DKK 1,000.0m of the government hybrid core capital of a total of DKK 4,829.1m that was established within the framework of the Danish Banking Package II in June 2009. In principle, the government hybrid core capital was perpetual, but with the option of full or part repayment – for the first time three years after its establishment. DLR used this repayment right in 2012, in 2013, and most recently in 2014. Consequently, DLR has now fully repaid the government hybrid core capital.

At year-end 2014, DLR's capital was solely based on core capital (equity) and hybrid core capital. In aggregate, the capital base before deductions amounted to DKK 12,674.1m at year-end 2014 against DKK 13,061.8m at year-end 2013.

DLR's solvency ratio came to 12.3 at year-end 2014, which is equivalent to year-end 2013. The core capital ratio was also 12.3 at year-end 2014.

Table 2. Capital Base and Solvency Ratio

DKK m	2012	2013	2011
EQUITY			
Distributable reserves	6,631	7,646	8,281
Undistributable reserves	2,338	2,338	2,338
Total, equity	**8,969**	**9,984**	**10,619**
SUBORDINATED DEBT			
Hybrid core capital (2005)	800	778	604
Government hybrid core capital (2009)	3,154	1,000	-
Hybrid core capital (2012)	1,300	1,300	1,300
Total, subordinated debt	**5,254**	**3,078**	**1,904**
Capital base after deductions	14,221	13,060	12,521
Weighted assets	107,798	105,771	102,092
Solvency requirement	8,624	8,462	8,167
DLR Kredit's solvency ratio	13.2	12.3	12,3

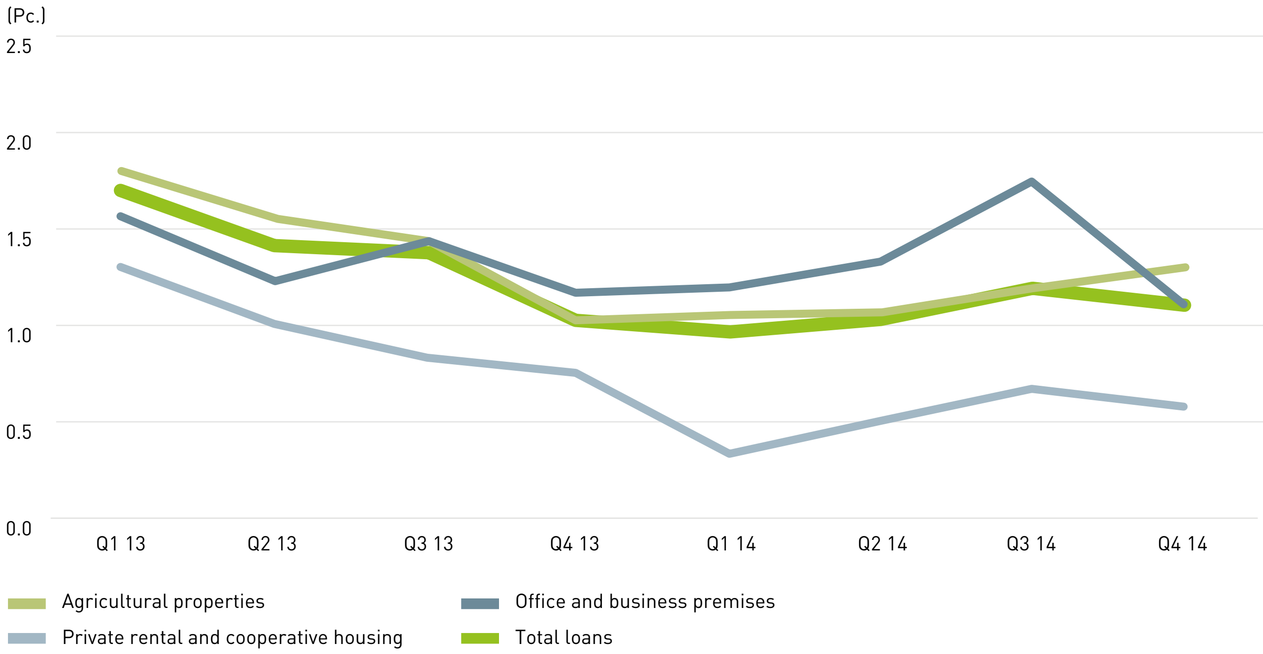
Arrears and Forced Sales

In 2014, DLR charged term payments amounting to a total of approx. DKK 6.0bn.

At the end of 2014, the amount of repayments in arrears was DKK 141.8m against DKK 125.4m the year before. Of the amount of arrears, the vast majority relates to term payments that are no more than 3½ months old.

Following a generally falling level since the second half of 2012, arrears percentages have from the second quarter of 2014 showed an increasing trend, cf. fig. 1.

Fig. 1: The development in DLR Kredit's 3.5 months' arrears percentages



Note: Arrears in pc of term payments 105 days after the due date

The number of implemented forced sales of properties on which DLR holds a mortgage was 123 in 2014. DLR took over 44 of these properties. The corresponding figures for 2013 were 195 and 97. DLR's portfolio of properties foreclosed was 30 at year-end 2014 against 35 at year-end 2013.

In 2014, DLR recognised losses of 14 properties, which were taken over at forced sales by other creditors than DLR, and DLR participated in 35 loss-incurring, voluntary trades and compositions.

In total, DLR recognised losses on 95 properties in 2014 against 154 in 2013.

Outlook 2015

DLR's lending areas primarily comprise agricultural and urban trade properties. In spite of the prospect of a general strengthening of the economic trends throughout 2015, the economic conditions for DLR's primary customer groups are not expected to improve.

Particularly for the agricultural sector, considerable uncertainty is attached to the outlook for 2015. As a consequence of factors such as the trade conflict with Russia and sales difficulties in China, agriculture is affected by low selling prices on several of the most important products. In spite of the continued, low interest rate level, this provides an expectation for unsatisfactory earnings in 2015. Against this backdrop, DLR expects an increased level of impairment provisions in respect of loans to the agricultural sector also in 2015.

For small urban trade businesses, particularly outside large cities, challenges still exist. No prospects indicate that this will change during 2015.

For 2015, like for 2014, DLR expects limited lending activity, when disregarding loan conversions stemming from the interest rate drop and the reduction in the extent of short-term ARM loans. In addition to this, the low interest rate level causes the return on the securities portfolio to continue to be declining.

On these grounds, DLR expects the performance for 2015 to be at a satisfactory level, however somewhat below results for 2014.

New Capital Requirements – CRR and CRD IV

In 2013, the EU agreed to the CRR (Capital Requirement Regulation) and the CRD IV (Capital Requirement Directive). The CRR came into force in early 2014, since as a regulation it is directly applicable to Denmark, whereas the CRD IV was implemented in i.a. the Danish Financial Business Act that came into force on 31 March 2014. In a number of areas like e.g. capital base and liquidity, longer transitional periods have been implemented. The new rules are being continuously supplemented by additional EU-based regulations. Both the CRR and the CRD IV stipulate regulations in regard to a long number of situations, including capital and solvency, liquidity, large exposures etc.

Thus within a relatively short period of time there have been significant changes to the financial regulation which have required adjustments for all financial businesses, including DLR. DLR must for instance based on a long-term capital plan, cf. below, over a number of years gradually adjust its capital base with a view to meeting demands that are being phased in ending 2019. An example is i.a. the phasing-in of capital buffers which must consist of actual core capital. At the same time, the new rules have affected DLR's calculation of the overall risk exposure which has to some extent been reduced based on i.a. the easing in the capital requirement that has been introduced for small and medium-sized enterprises.

Capital Plan

As mentioned, DLR has been keeping a constant focus on the new rules for financial businesses, in particular in regard to the importance of the changed requirements on the capital base of the Danish mortgage credit institutions. Therefore, since 2012 the Board of DLR has on a regular basis taken an approach on a capital plan towards 2019.

The capital plan takes into account i.a. the new regulatory demands in regard to quality as well as the size of the required capital base. In addition, DLR's capital plan also takes into account the Board's targets for DLR's capital base, including their wish to see a higher ratio of actual core capital. The plan also includes the factor that DLR must at all times have sufficient funds to secure the SDO status (covered bonds status) of the issued bonds. This may be done e.g. through the issuance of Senior Secured Bonds (SSB) or senior unsecured debt.

Based on the capital plan, a long number of initiatives have been implemented in recent years aimed at adjusting the capital base. These initiatives have comprised i.a. several share issues as well as issuance of hybrid core capital. The funds from the share issues and the issued hybrid core capital together with current earnings have meant that on 21 May 2014, DLR was able to repay the last tranche of DKK 1.0bn of the government hybrid core capital raised in 2009, which originally amounted to DKK 4.8bn. In recent years, DLR has also made several SSB issues aimed at holding sufficient funds to post additional security to safeguard the SDO status of the issued bonds in the event of further price decreases.

DLR's initiatives in the capital area are described in further detail in the section ”Ownership and Capital Structure”. On the whole, DLR expects to be able to meet the gradually increasing demands in the capital area.

Liquidity Rules

Another significant element in the CRD IV/CRR rules is the introduction of a series of requirements in regard to the liquidity of credit institutions. Thus a Liquidity Cover Ratio requirement (LCR) has been introduced. The LCR means that a credit institution must hold sufficient liquidity to cover the requirements of the institutions for a period of 30 days. In addition, a Net Stable Funding Ratio (NSFR) requirement covering a period of 1 year is expected to be implemented.

The LCR will be gradually phased in from 1 October 2015 and will be fully phased in from 2018. However, we expect that as a SIFI institution, DLR will be required to meet a fully phased-in LCR requirement from 1 October 2015.

Proposals for the final LCR standard were published on 10 October 2014, and on 12 January 2015, the EU Commission announced that the standard had been finalized. Particularly the demands regarding what liquid assets may be included have been of decisive importance to the Danish mortgage credit sector. Danish mortgage bonds may be included in the LCR liquidity buffer as level 1 assets with a a haircut of 7 pc, provided that the individual bond series amount to more than EUR 500m. If the individual bond series amount to more than EUR 250m, the bonds may be included as level 2A assets with a 15 pc haircut. Mortgage bonds can, however, not amount to more than 70 pc of the aggregate liquidity buffer, which requires adjustments in liquidity management for many financial businesses in Denmark.

A possible regulatory requirement for stable funding in the form of NSFR is expected to be phased in from 2018 at the earliest, and not until after renewed political decision. Still, NSFRs must be reported to the Danish FSA. In 2014, DLR carried out a number of refinancing campaigns aimed at moving borrowers from F1 and F2 loans to loans with longer underlying funding, i.e. ARM-Short loans, F3 and F5 loans as well as long-term fixed-rate loans. This was done with a view to i.a. the NSFR liquidity demands with a 1 year horison that we expect in future as well as the supervisory diamond limit value for the share of loans based on short funding, cf. the relevant section.

The implementation of the CRR/CRD IV means that, cf. S. 8 (9) in the Danish Executive Order on Management and Control of Banks etc., new requirements have been introduced regarding the calculation and assessment of liquidity position and liquidity risk (ILAAP - Internal Liquidity Adequacy Assessment Process). DLR must therefore on an annual basis prepare a specific report on liquidity in the same way as we prepare a capital adequacy assessment report (ICAAP - Internal Capital Adequacy Assessment Process).

DLR's initiatives in 2014 regarding funding and liquidity are described in further detail in the section "Funding".

Recovery and Resolution Plans

Upon the implementation of the CRD IV rules on recovery plans into Danish legislation through S. 71a in the Danish Financial Business Act in March 2014, it became statutory for Danish banks and mortgage credit institutions to draw up a recovery plan. Since DLR was made a SIFI in 2014, there is extra focus on the necessary of having a thorough recovery plan. Therefore DLR in 2014 carried out an internal process to draw up an individual recovery plan. DLR's recovery plan was approved by the Board and has been submitted to the Danish FSA. In future, the recovery plan will be updated and submitted to the Danish FSA on an annual basis.

The purpose of DLR's recovery plan is to prevent that DLR should find itself in such dire straits that resolution proceedings would be necessary. The recovery plan will help ensure that financial difficulties will meet fast reaction and that the initiatives of the recovery plan will be implemented with a view to ensuring DLR's long-term viability.

The recovery plan contains various stages in DLR's crisis preparedness as well as indicators for these stages. The plan comprises capital and liquidity initiatives that are relevant for internal crisis management.

In late December 2014, Bills were proposed to implement the EU Bank Recovery and Resolution Directive (BRRD) into Danish legislation. The implementation of the BRRD will lead to new and changed requirements of the contents of the recovery plans.

The Bills appoint the government company Financial Stability as the resolution authority. Under the Bills, Financial Stability must collaborate with the Danish FSA to draw up resolution plans for the businesses comprised, including DLR, and in this connection Financial Stability must assess to what extent a given business may be resolved.

The Bills implementing the BRRD are expected to come into force in early June 2015.

DLR as a SIFI

On 19 June 2014, DLR was appointed a SIFI institution (Systemically Important Financial Institution). In order to become a Danish SIFI institution, at least one of the below parameters must be met with:

- The balance sheet of the institution accounts for more than 6.5 pc of Danish GDP;
- The lending in Denmark of the institution exceeds 5 pc of Danish banks' and mortgage credit institutions' lending in Denmark;
- The deposits in Denmark of the institution exceed 5 pc of the aggregate deposits of Danish financial institutions.

DLR meets the first of the three parameters, as at the end of 2013 DLR's balance sheet amounted to 7.9 pc of GDP and thus exceeds the stipulated limit of 6.5 pc.

Special SIFI Rules

A number of new demands follow in the wake of the SIFI appointment. Based on DLR's systemic degree, an additional SIFI buffer demand to DLR's capital of 1 pc point of the aggregate risk exposure has been made. This demand must be met with actual core capital and will be gradually phased in by 0.2 pc point each year from 2015 so that the demand is fully implemented in 2019.

In 2014, DLR – also based on the SIFI status – set up three new sub-committees under its Board of Directors. These committees are the Risk Committee, the Nomination Committee and the Remuneration Committee; members of DLR's Board serve on all three committees. Like the Audit Committee, the three new committees will support and supplement DLR's Board of Directors in a number of areas.

In addition to the already implemented rules, a number of additional initiatives for SIFI institutions are to be expected based on the political agreement "Agreement between the Government (the Danish Social Democrats, the Danish Social-Liberal Party and the Socialist People's Party) and the Liberal Party of Denmark (Venstre), the Danish People's Party (Dansk Folkeparti), Liberal Alliance and the Conservative People's Party on the regulation of systemically important financial institutions (SIFI) as well as requirements of all banks and mortgage credit institutions regarding more and better capital and higher liquidity". This concerns e.g. the drawing-up of resolution plans, earlier phasing-in of liquidity requirements and generally a higher level of attention on the part of the Danish FSA.

The Five Limit Values

On 2 December 2014, the Danish FSA published a supervisory diamond for mortgage credit institutions. The diamond should i.a. be seen as a follow-up to the Rangvid Report "The financial crisis in Denmark - causes, consequences and lessons" to the Danish Minister for Business and Growth, containing a recommendation of the determination of a "mortgage credit diamond". The mortgage credit supervisory diamond contains a number of limit values for what the Danish FSA basically considers mortgage credit activity posing increased risk, cf. below. Institutions exceeding the limit values may be given a risk notification or may in more serious cases be ordered to draw up a report or be given an improvement notice. The supervisory diamond will come into force from 2018 (items 3 and 4 not until 2020).

1. Growth in lending: The growth in lending to the individual customer segments must not exceed 15 pc per year. The four customer segments are private homeowners, rental properties, agricultural properties and other business properties;
2. Borrowers' interest rate risk: The share of loans where the LTV exceeds 75 pc of the lending limit and where the interest rate is fixed for up to two years only must not exceed 25 pc. This applies only to loans to private homeowners and to rental properties. Loans hedged through interest rate swaps and the like are not included;
3. Interest-only loans to private borrowers: The share of interest-only loans in the LTV band above 75 pc of the lending limit cannot exceed 10 pc of the aggregate volume of loans. All interest-only loans are included in this provision, irrespective of their position in the order of priorities.
4. Loans with short-term funding: The share of loans up for refinancing must per quarter be lower than 12.5 pc of the aggregate loan portfolio, and on an annual basis lower than 25 pc of the loan portfolio;
5. Large exposures: The sum of the 20 largest exposures must not exceed the actual core capital of the institution in question.

DLR and the Requirements of the Diamond

DLR expects to meet all limit values at the stipulated implementation time, including item 2 (borrowers' interest rate risk) and item 4 (loans with short-term funding) where DLR needs to adjust. Based on ongoing refinancing campaigns in connection with the refinancing auctions throughout the year, 2014 saw a considerable shift in the loan portfolio towards longer underlying funding. In addition, the supervisory diamond is taken into consideration in connection with the daily lending activities.

When they published the Supervisory Diamond, the Danish FSA published another two initiatives comprising a demand for a 5 pc down-payment in connection with house purchases as well as a liquidity requirement in connection with the mortgaging of business properties. These initiatives are implemented through amendments to existing executive orders.

OWNERSHIP AND CAPITAL STRUCTURE

Redistribution of Shares

Since the most recent increase in share capital in September 2013, DLR's share capital has amounted to a nominal DKK 569,964,023.

In early March 2014, a redistribution of shares was made in compliance with DLR's shareholder agreement; such redistribution will take place each year from 2014 against every third year before 2014. The basis for the redistribution is that stakes of shares of the loan-providing, shareholding banks must correspond to their stakes in the loans granted in relation to DLR's aggregate loan portfolio. The redistribution in March 2014 was based on the remaining bond debt at the end of 2013, and shares at a nominal value of approx. DKK 7.0m were redistributed.

In October 2014, a large number of voluntary transactions in DLR shares were made at a total market value of just below DKK 1.0bn. The purpose was primarily to strengthen DLR's distribution and competitive power by easing the solvency strain with financial institutions with a particular need for such action. At the same time, it was possible for those financial institutions that wanted to acquire additional DLR shares to make an attractive investment. The transactions were carried out within DLR's existing circle of shareholders and comprised 11 selling and 21 buying institutions – a broad cross-section of DLR's loan-providing shareholders.

For DLR it is very positive to see the improvement in DLR's distributions power that results from the strengthened capital resources of a number of the loan-providing institutions. At the same time, the broad range of participating investors - comprising large as well as small institutions – demonstrated the strong backing behind DLR among our shareholders.

Hybrid Core Capital

DLR's capital base consists of share capital, retained earnings and undistributable reserves as well as by hybrid core capital.

In May 2014, DLR repaid the remaining DKK 1,000.0m of the government hybrid core capital totaling DKK 4,829.1m, raised by DLR under Banking Package II in mid-2009. The repayment was made with own funds and was based on a solvency ratio of 13.6 pc after the presentation of the interim report for Q1 2014.

Thus at the end of 2014, DLR has only private hybrid core capital amounting to just below DKK 2.1bn distributed on two issues of DKK 1.3bn and EUR 100m, respectively.

Senior Secured Bonds

In the case of loans granted based on the issuance of covered bonds (SDOs), DLR is required to provide supplementary security if the LTV is exceeded, which could primarily happen as a result of a fall in the property value. To cover exceeded LTVs, DLR may use the capital base in Capital Centre B and bank guarantees provided within certain limitations.

Furthermore, DLR may issue bonds to acquire particularly secure assets for the same purpose under the Danish Mortgage Credit Loans and Mortgage Credit Bonds etc. Act. Such bonds are called Senior Secured Bonds (SSBs). SSBs can be used to meet the obligation to provide additional supplementary security as well as to establish over-collateral in the Capital Centre if required for rating purposes. For an in-depth description of the requirement etc. for additional security, cf. "Risk Management".

DLR issued no SSBs in 2014 but has previously under S.15 of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act issued SSBs worth DKK 4.0bn in November 2012 and DKK 2.0bn in May 2013.

Owners and Ownership Shares

When in May 2001 DLR Kredit was converted into a limited liability company, DLR Kredit had 137 shareholders, of which 133 were financial institutions. The remaining four shareholders were three organisations within the agricultural trades and the Nationalbanken (the Danish Central Bank).

At the end of 2014, the number of shareholders was 68, and the number has been falling particularly in recent years. One reason for the fall in the number of financial institutions is mergers and acquisitions; another reason is that during the financial crisis a number of financial institutions have been taken over by the government company Financial Stability A/S. In recent years, DLR has also issued new capital, which has been subscribed by i.a. PRAS A/S and Nykredit Realkredit A/S, which are not among DLR's loan-providing banks.

DLR Kredit's shareholders are primarily organised in the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark and in the Danish Regional Bankers' Association. These two organisations hold 39 pc and 32 pc, respectively, of the share capital in DLR.

The Agricultural Sector

On the whole, the agricultural sector benefited in the first half of 2014 from good price conditions for the most significant production areas in the sector; however, settling prices for primary products fell considerably in the second half of the year.

The reasons behind the falling settling prices are primarily the trade restrictions imposed vis-a-vis Russia and China's stop in milk product imports. Falling energy prices and the continuing low interest rate level do not fully offset the fall in sales prices, and so we expect decreasing earnings in 2015 for all the primary agricultural producers. Still, forecasts of agricultural earnings are quite uncertain, since Russia's and/or China's possible return to the market would have a huge impact on price conditions. Furthermore, it remains unclear to what extent a transition in sales to other markets might offset some of the actual fall in prices that arose based on the unexpected closings of the said markets.

On the whole, the outlook from the Danish Knowledge Centre for Agriculture (now SEGES) suggests that the average operating profit in 2014 for full-time farms will amount to approx. DKK 324,000, which is a reduction by more than half compared to 2013. As shown in figure 2, the current price conditions suggest further setbacks in 2015. Particularly the pig farmers are faced with prospects of weak results for 2015, if the current forecasts hold true in regard to prices.

The reason behind the relatively weak outlook for the development in pork prices is primarily that we do not expect to see changes in sales outlets in the Russian market, just as at the same time we foresee increasing supplies of pork from Canada and the USA.

For arable farms seen in isolation as well as for the arable share on animal production farms, we expect a slight improvement in results for 2015 compared to 2014.

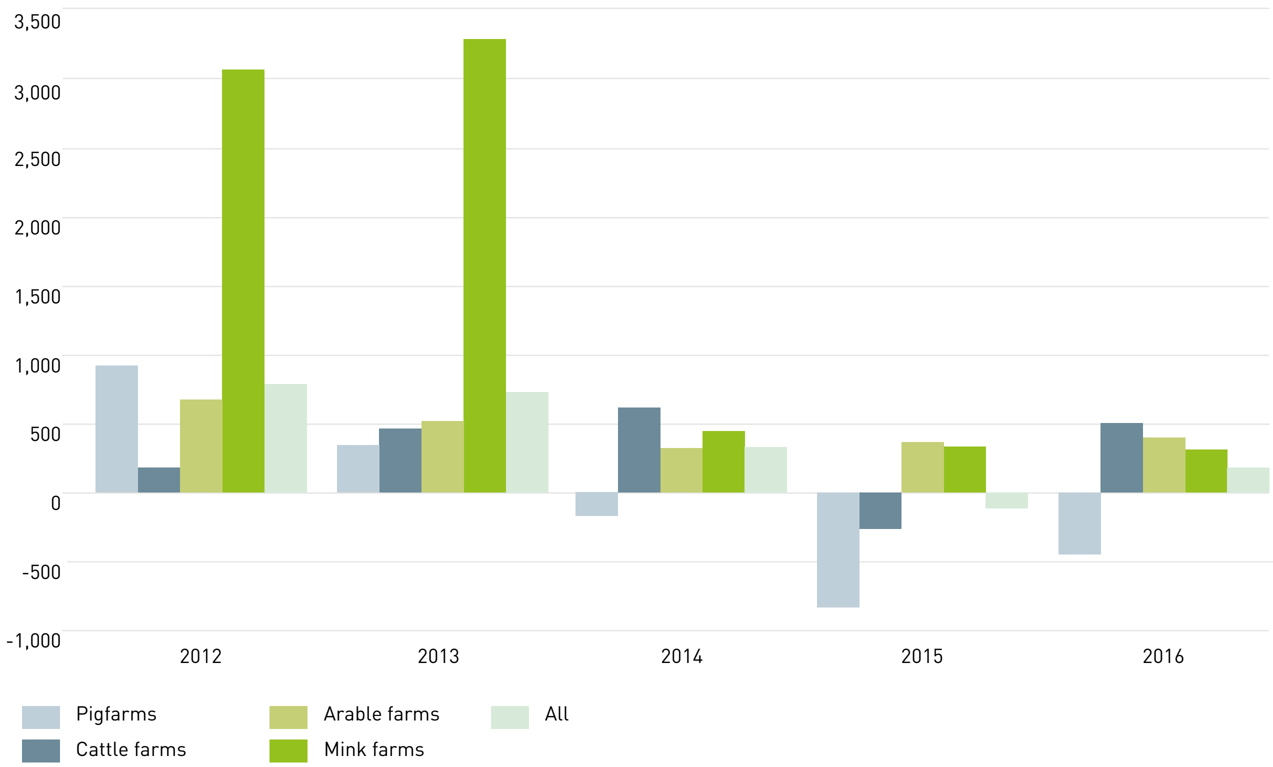
Apart from the current geo-political conditions, particularly milk producers are facing new possibilities as well as some uncertainty about the development in milk prices in connection with the phasing-out of the EU milk quota system in 2015.

For the individual milk producers, the phasing-out of the quota system thus offers a good opportunity to exploit any vacant stable capacity and gain financial profit from increased milk yield from his herd, just as expansions in production may take place without any separate payment for the acquisition of milk quotas.

If this possibility to adjust milk production leads to an increase in the total milk production in the EU, it could result in a continuing downwards pressure on milk prices in 2015.

It is expected that China will resume milk product imports in the second half of 2015, just as it is expected that in the longer term milk prices will increase again.

Fig. 2: The development in operating profit, full-time farms per farm (DKK 1,000)



Note: Data for 2014, 2015 and 2016 are estimated values
Source: The Danish Knowledge Centre for Agriculture (now SEGES) and the Danish Agriculture & Food Council, December 2014

At farm level, the spread in results remains very wide. The spread in earnings is seen both between and within the different sectors. For full-time farms in the best third, the forecast from the Danish Knowledge Centre for Agriculture (now SEGES) for 2015 is thus a figure which is DKK 769,000 higher than the average. DLR notes correspondingly that the most competent farmers within all production sectors continue to see good financial results, even in periods with poor price relations. This supports the notion that that there is still a foundation for a large agricultural production in Denmark where we have great professional expertise in the agricultural sector.

DLR is of the opinion that in 2013 and 2014 the market for trade in agricultural properties and farmland showed better marketability than in the preceding years and at largely unchanged or slightly increasing prices.

It is estimated that the current price level for farm land is supported by the long-term expectations of prices for vegetable products, even in the event of a certain increase in interest rate levels in the years to come.

Urban Trade Properties and Cooperative Housing Properties

DLR's lending to urban trade properties comprises private rental housing properties, office and business properties as well as manufacturing and manual industry properties, collective energy supply plants including land-based wind turbines, loans to cooperative housing properties and to some extent loans to subsidised housing properties.

The rental situation for urban trade properties in 2014 on the whole seems to have remained unchanged compared to previous years. In the major cities, the rental situation seems to have improved, whereas the opposite seems to be the case for the more peripherally located properties.

The continued urbanization in the private rental housing market has resulted in a continuation of the development where the interest in urban rental properties in the large cities is on the increase as opposed to the interest in housing properties outside the cities.

2014 also saw continued wide differences in investor interest in office and business properties, depending on the location of the properties. We have thus seen slightly increasing prices in prime locations in the large cities, whereas the opposite seems to be the case for the more peripherally located properties.

The continued low interest level throughout 2014 and a generally unchanged rental situation contributed to the generally satisfactory operations of urban trade properties.

On the whole, DLR finds that – like 2012 and 2013 – 2014 was a stable year for private rental housing properties, office and business properties as well as cooperative housing properties in regard to both pricing and rental situation.

LENDING ACTIVITY AND PORTFOLIO

Lending Activity

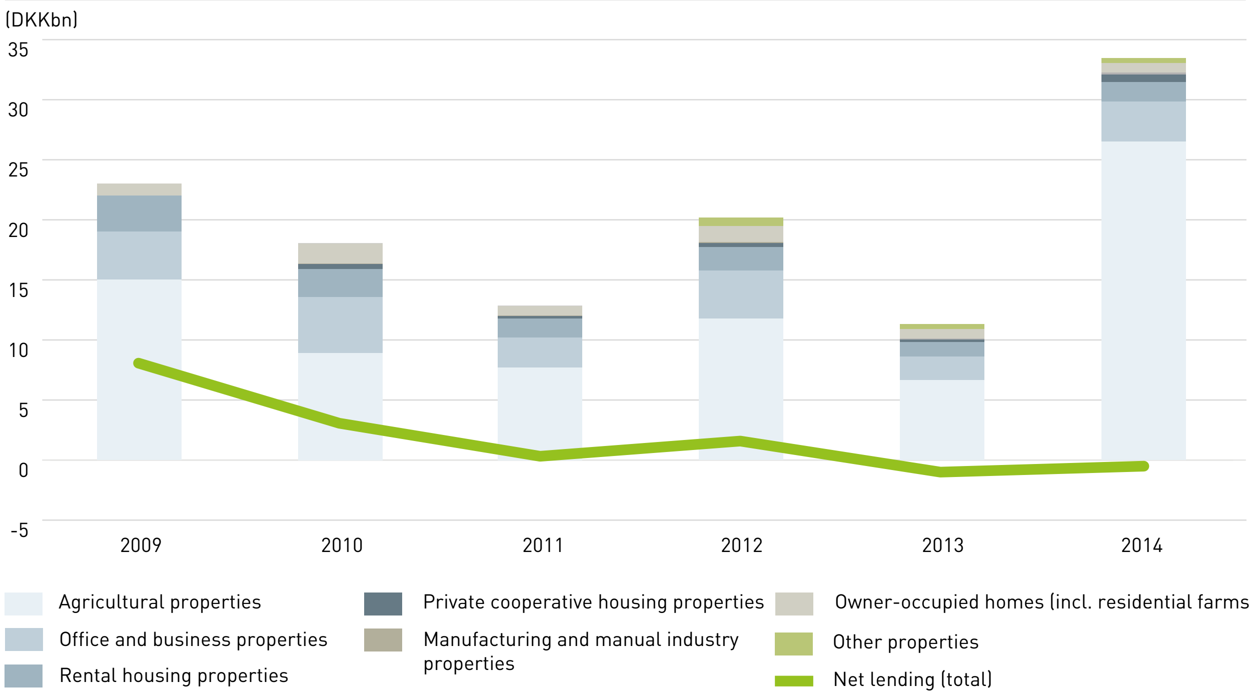
DLR Kredit's primary lending areas comprise agricultural and urban trade properties. By far the majority of DLR Kredit's lending is intermediated by the banks that hold shares in DLR Kredit.

In 2014, lending activities were characterised by DLR's campaign towards borrowers aimed at reducing the loan portfolio's share of F1/F2 loans, thus reducing the refinancing risk. This campaign that was carried out in connection with DLR's refinancing auctions during the year led to a strong increase in gross lending, while the aggregate loan portfolio remained relatively stable. DLR's lending activity in 2014 is seen as acceptable considering the limited net lending activity for the sector as a whole as well as the special challenges that have characterised in particular the agricultural sector for a number of years.

DLR's aggregate gross lending in 2014 was DKK 33.2bn against DKK 11.3bn in 2013. The increase in gross lending comprises all property categories, cf. figure 3. In absolute terms, the increase is highest for agriculture where gross lending rose from DKK 6.6bn in 2013 to DKK 26.5bn in 2014. Net lending, i.e. gross lending less transfers, (p)repayments and capital repayments was negative by DKK -0.8bn in 2014 against DKK -1.2bn in 2013.

Lending to agriculture less owner-occupied homes in 2014 amounted to 80 pc of DLR's total gross lending, which exceeds the level of 2013, when this share was 58 pc. It is due to the fact that the agricultural segment saw a higher share of loans comprised by the campaign to reduce refinancing risk than the rest of the loan portfolio. Of the total lending in 2014, 85 pc stemmed from refinancing. Financing of change of ownership accounted for 8 pc and top-up loans for 5 pc.

Fig. 3: Gross lending distributed on property categories



Note: All loans are stated as cash values

For several years, the F1 ARM loan was the most popular loan type. This changed in 2014 when DLR's new loan type, ARM-Short (short-rate loans), gained ground. ARM-Short was introduced in December 2013, and its share of the total gross lending in 2014 amounted to 56 pc.

ARM-Short loans are based on floating-rate non-callable bonds with a reference rate based on either the 6-months CITA or CIBOR rate. The interest on the loans is adjusted on the basis of the current interest rate level twice a year. So far, the maturity of the bonds underlying the ARM-Short loans has been 2½-4 years, and refinancing will take place in bonds with 1-10 years' maturity determined by DLR based on the market conditions at the time of the refinancing.

The background for the introduction of the ARM-Short was specifically to reduce the share in the loan portfolio of F1/F2 loans and hence to reduce refinancing risk, i.a. for rating purposes. The share of the aggregate gross lending paid out as ARM loans was therefore only 24 pc in 2014, which is a significant reduction compared to 2013, when 72 pc of the lending was paid our as ARM loans.

The share of loans with an initial interest-only period was 49 pc, which is an increase compared to 2013, when this number was 36 pc of the lending. Still, this increase should be seen against the backdrop of DLR's high gross lending in connection with the refinancing campaigns where borrowers with interest-only periods chose to a large extent to maintain this when refinancing to other loan types. Thus it is not a more relaxed policy in regard to interest-only periods that lies behind this increase.

DLR's Loan Portfolio

DLR's loan portfolio measured in terms of outstanding bond debt was DKK 131.6bn at the end of 2014. Based on the slightly negative net lending in 2014, we saw a fall of DKK 1bn compared to the loan portfolio at the end of 2013. Since the aggregate loan portfolio calculated as the outstanding bond debt for the entire Danish mortgage credit sector was DKK 2,500bn, DLR's loan portfolio corresponds to 5.3 pc of the total loan volume of the sector.

If we consider DLR's primary business areas alone, i.e. agriculture, office and business premises, private rental housing properties and private cooperative housing properties, the average market share is 15.2 pc.

Table 3. DLR's loan portfolio

			Loan portfolio end 2014 distributed in pc on loan types					
DKKm	2013	2014	Fixed rate loans	ARM-Short	ARM-F1/F2	ARM-F3/F4	ARM-F5	Short rate loans[1]
Agricultural properties	84,586	84,543	13	19	27	19	8	14
Owner-occupied homes (incl. residential farms 2))	8,307	8,029	32	2	30	17	14	5
Office and business properties	20,444	19,901	19	5	33	20	15	8
Rental housing properties	14,051	13,807	12	4	33	28	15	8
Cooperative housing properties	3,067	2,826	30	1	17	16	27	9
Other properties	2,226	2,499	9	19	21	13	34	5
Total	**132,682**	**131,604**	**15**	**14**	**28**	**20**	**11**	**12**

Note: All amounts are calculated at the remaing bond debt
1) CIBOR and EURIBOR-based loans, incl. Guarantee loans
2) Residential farms comprise agricultural properties below 10 ha without significant acgricultural activities

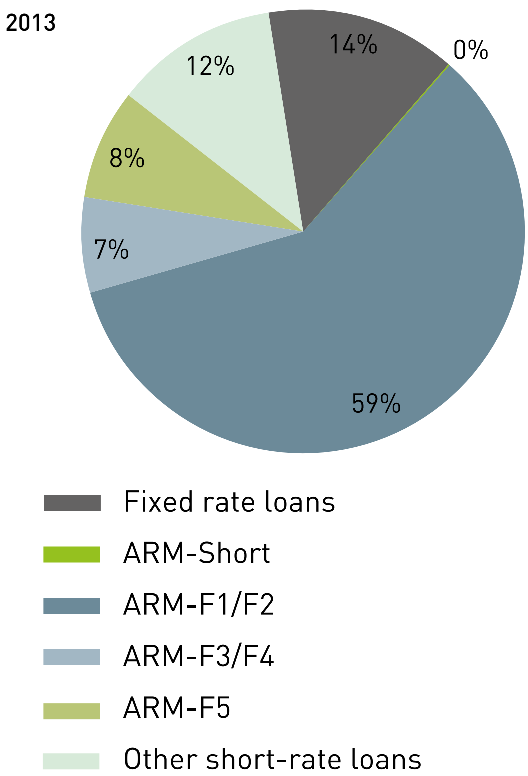
DLR's biggest lending area is loans to agricultural properties, which amounted to DKK 84.5bn at the end of 2014. Here the term agricultural properties comprises properties larger than 10 ha, irrespective of the production volume on the property, as well as properties below 10 ha with a considerable agricultural production.

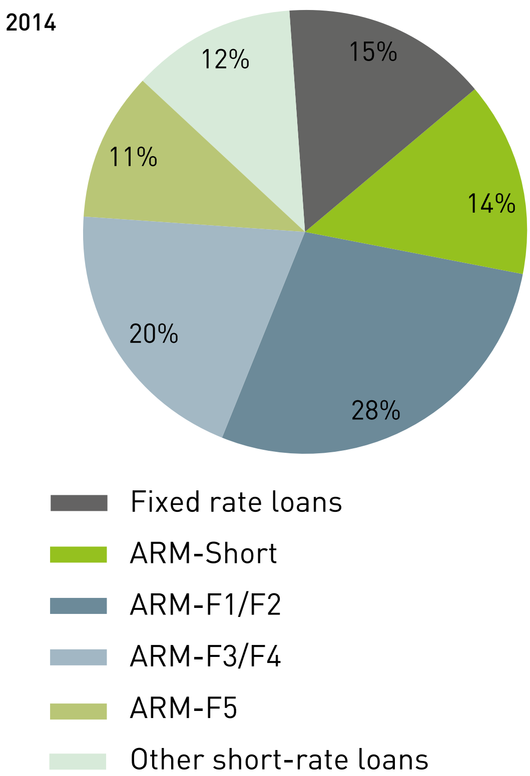
Of DLR's aggregate lending to agricultural properties of DKK 84.5bn, approx. DKK 4bn is made up of loans to specialised production. Specialised production primarily covers horticultural properties, fur farms, poultry farms and fish farms where the area will typically not exceed 10 ha. The remaining share of loans to agricultural properties is distributed on properties exceeding 10 ha, which primarily comprise 1) spare- and part-time properties and land values without actual animal production and where the financial situation is based on wage earnings, 2) properties with some agricultural production in combination with wage earnings outside the farm and 3) actual production farms with considerable animal production, where the financial situation is based on earnings from the farming operations.

DLR's loan portfolio used to be dominated by ARM loans. However, in 2014 there was a significant drop in the share of ARM loans, since 59 pc of DLR's loan portfolio at the end of 2014 was ARM loans compared to 73 pc at the end of 2013. In regard to ARM loans, there has also been a significant shift from F1 to primarily F3 and to some extent to F5 loans. The share of the new loan type, ARM-Short, has increased significantly at the expense of the F1 loans. ARM-Short accounted for 14 pc of DLR's loan portfolio at the end of 2014 against 0 pc at the end of 2013. Furthermore, fixed-rate loans account for 15 pc of DLR's portfolio while other short-rate loans and guarantee loans (floating-rate loans with a cap) make up the remaining 12 pc. For both these types, the number is virtually unchanged compared to the end of 2013.

In the product area, it is DLR's general policy to offer standardised funding solutions. Then DLR's partner banks may offer to top up the DLR Kredit loans with solutions that are tailored to the needs of the individual borrower.

Fig. 4: DLR's Loan Portfolio Distributed on Loan Types





Funding and Issuing of Bonds

DLR Kredit grants loans under the specific balance principle where funding takes place through daily tap issue of covered bonds (SDOs) listed on NASDAQ OMX Copenhagen. Bonds are issued in DKK and EUR to fund loans granted in DKK and EUR, respectively.

As at 31 December 2014, DLR's volume of covered bonds and mortgage bonds in circulation amounted to DKK 131.6bn, excluding bonds maturing on 1 January 2015. The bonds are issued out of two capital centres with their separate reserve funds. Until the end of 2007, DLR would issue mortgage bonds (ROs) from the General Capital Centre, but since 2008 DLR has solely been issuing covered bonds (SDOs) out of Capital Centre B. DLR's ROs are "grandfathered", and thus all DLR bonds live up to the so-called UCITS and CRD requirements and are thus comprised by the low risk-weight of 10 pc for capital charged investors.

The distribution of bonds on type and currency at 31 December 2014 (excluding bonds maturing on 1 January 2015, but including pre-issued bonds in connection with the refinancing of ARM loans at 1 January 2015) is shown in table 4:

Table 4. Distribution of Bonds on Type and Currency at 31 December 2014

DKKbn	Total	DKK bonds	EUR bonds
In circulation, total	131.6	109.8	21.8
Of which SDO	114.1	101.8	12.3
Of which RO	17.5	8.0	9.5

During H2 2014, DLR's funding structure changed quite significantly, since the share of DLR's lending granted as ARM loans with frequent refinancing (F1) was reduced considerably. This was the consequence of the refinancing campaigns aimed at borrowers with F1 and F2 loans that DLR has been running since August 2014 with the aim of encouraging borrowers to remortgage into loans with longer funding in order to limit refinancing risk.

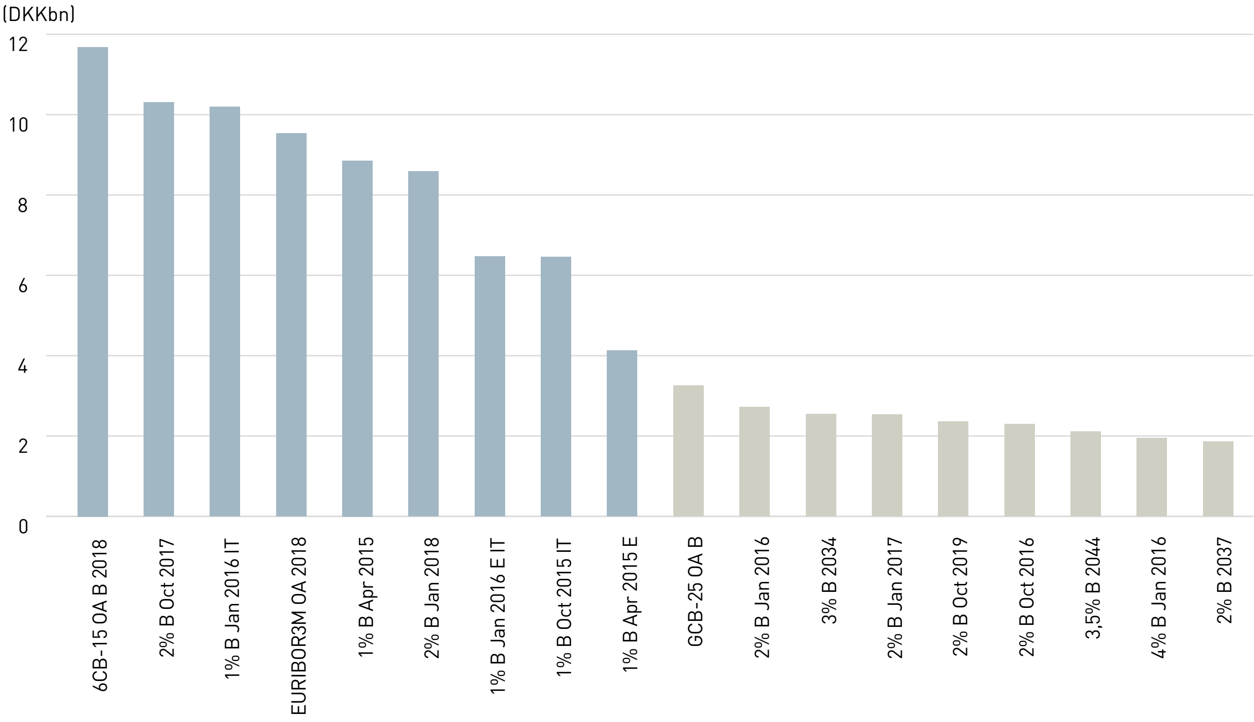
The background for our wish to reduce the extent of the shortest ARM loans was firstly DLR's rating and secondly the supervisory diamond for mortgage credit institutions that i.a. limits the share of loans that can be refinanced on a quarterly and an annual basis.

The ARM loans and in particular the F1 loans have been extremely popular among DLR's borrowers. F1 loans thus accounted for 58 pc of the loan portfolio at the end of 2013. However, in connection with the refinancing auctions in September and November-December 2014, around 60 pc of DLR's F1 loans were remortgaged or had their refinancing profile changed. Borrowers primarily chose to change into the new, floating-rate ARM-Short loans introduced by DLR in December 2013, or into F3 loans or to a lesser extent into F5 and fixed-rate loans. Consequently, a large volume of non-callable floating-rate bonds was issued towards the end of the year whose interest is based on either CIBOR or CITA, just as we issued a large number of 3-year fixed-rate ARM bonds.

A large portion of DLR's F1 loans in EUR that required refinancing at 1 January 2015 was also remortgaged to either CITA/CIBOR-based loans or DKK F3 loans. The share of EUR bonds, of which the bulk is made up of an issue maturing in 2018, thus fell from 27 pc at the beginning of 2014 to 17 pc at the beginning of 2015.

Figure 5 below shows DLR's biggest bond series at the beginning of February 2015. Compared to previous years, the 1-year bonds are less dominant, since refinancing of F1/F2 loans has led to increasing issues in longer maturities and thus to a significantly reduced issuance of 1-year bonds. Therefore the CIBOR-based ARM-Short bonds and the 3-year ARM bonds now count among DLR's largest bond series.

Fig. 5: DLR's largest bond series at the beginning of February 2015



In view of the coming LCR requirements of the liquidity cover of mortgage credit institutions, which are expected to come into force on 1 October 2015, DLR as a small issuer must focus on ensuring a funding structure based on few bond series. This will be a prerequisite for meeting the bond size demand of EUR 500m for level 1 assets and EUR 250m for level 2A assets to the widest possible extent. By early February 2015, 58 pc of DLR's bonds measured in terms of volume in circulation met the level 1 demand of bond size (the blue columns in figure 5), and another 15 pc met the level 2A demand (the beige columns in figure 5).

In March 2014, the government's Bill for the regulation of refinancing risk was passed. This amendment addresses the risk that in a critical situation it may not be possible to sell a sufficient number of new bonds to refinance the underlying loans as well as the risk of steep interest increases on loans with frequent refinancing.

The Act imposes certain demands on the bond issues of the mortgage credit institutions when the institution e.g. funds a 30-year loan with bonds with maturities shorter than 30 years. If the bonds cannot be sold, it is required that the bonds can automatically have the maturity extended by one year, and the rate is then set as the rate in the year before plus 5 pc points (failed refinancing trigger). For bonds with a maturity of up to two years, an interest rate cap is introduced as well so that the interest rate may increase by max. 5 pc points from one year to the next (interest rate trigger).

The amendment came into force on 1 April 2014 for fixed-rate bonds with a maturity of up to 12 months issued after this date. On 1 January 2015, it came into force for all other bonds with maturities shorter than the underlying loan, including the floating-rate bonds underlying DLR's ARM-Short loans.

Since 1 April 2014, DLR has therefore opened new 1-year bond series to fund F1 loans issued after this date and to refinance existing F1 loans in DKK and EUR. These bonds are termed "IT" ("Interest Rate Trigger") and are covered by the statutory extension of maturity in the event of failing sales or an interest rate increase exceeding 5 pc points. On 2 January 2015, DLR opened new 2-5 year bond series to fund and remortgage F2-F5 loans with refinancing in April and October. Also the 2-year bonds are covered by the interest rate trigger as well as the failed refinancing trigger and termed "IT", while the 3-5 year bonds are solely covered by the failed refinancing trigger and are therefore termed "RF" ("Refinancing Failed").

By mid-December 2013, DLR opened issues in the first CITA and CIBOR bond series to fund the new ARM-Short loans. Maturing 1 July 2016, these bonds had a maturity of 2½ years. In July 2014 DLR closed the issuance in the 2016 series and instead opened new 4-year CITA and CIBOR series maturing 1 July 2018. In connection with the refinancing campaigns aimed at the F1/F2 loans with refinancing in October 2014 and January 2015, many DLR F1/F2 borrowers chose to remortgage into ARM-Short loans, resulting in large issues in the CIBOR-based 2018 series towards the end of the year. In November 2014, DLR therefore opened a new CIBOR-based bond maturing 1 July 2019 for future funding of ARM-Short loans.

Since DLR has decided that the bonds underlying the ARM-Short loans have a maturity of more than 2 years at opening, they are not comprised by an interest rate trigger, but solely by the statutory extension of maturity in the event of failing sales upon refinancing. According to the loan terms, refinancing of ARM-Short loans can take place with bonds with 1-10 years maturity determined by DLR based on the market conditions at the time of the refinancing.

Refinancing of ARM Loans

All new ARM loans paid out since 2010 are refinanced at 1 April or 1 October (EUR loans at 1 April). However, DLR will continue to issue non-callable bullet bonds maturing 1 January for the refinancing of ARM loans at 1 January.

In 2014, DLR held auctions in March, in September and November/December in connection with the refinancing of ARM loans 1 April 2014, 1 October 2014 and 1 January 2015.

At the March auction, DLR sold DKK bonds at a nominal DKK 9,400m and EUR bonds at a nominal EUR 540m. 1-year bonds accounted for the bulk of the bonds sold. At the September auction, DKK bonds at a nominal DKK 13,800m were sold, and here 1-year bonds accounted for less than half the volume due to the mentioned profile shift into F3–F5 loans. Since many borrowers chose to remortgage into other loan types, the aggregate refinance volume fell by 15 pc compared to the year before.

At the November auction, which lasted six auction days, DLR offered DKK bonds at a nominal DKK 20,200m and EUR bonds at a nominal EUR 840m. Compared to the year before, this was a reduction in the refinancing volume of no less than 23 pc for DKK bonds and as much as 66 pc for the EUR bonds, as the targeted refinancing campaigns meant that around 60 pc of all F1 borrowers chose to refinance into ARM loans with longer refinancing profile or to other DKK loan types. For DKK bonds, the 1-year bonds also in November accounted for less than half the volume offered compared to more than 90 pc the year before.

When in 2013 DLR chose, with a view to the coming LCR requirements of a 30-day liquidity buffer, to move up the refinancing of ARM loans at 1 January from December to November, more than 95 pc of the affected borrowers consented. A small group still has their loan refinanced in December, though, and at the December 2014 auction, DKK bonds at a nominal DKK 590m and EUR bonds at a nominal EUR 15m were offered.

The below figures show the volumes of bonds offered at DLRs refinancing auctions in recent years. The spread of the refinancing over the year and the

Fig. 6: Volume of ARM bonds offered (DKK)

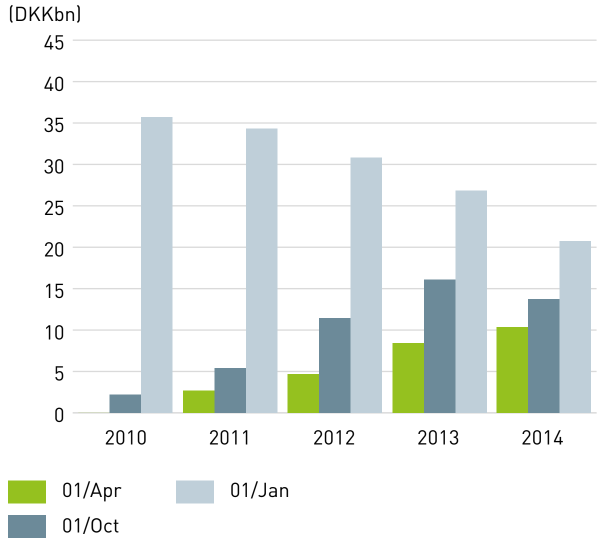
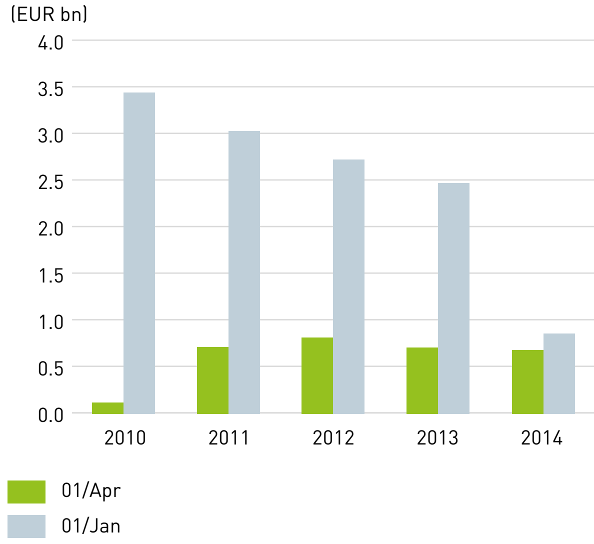


Fig. 7: Volume of ARM bonds offered (EUR)



reduced volume of ARM loans means that more than half of the total refinancing of ARM loans in DKK has now been removed from the January repayment period. Due to the shift from F1 EUR loans to DKK loans with longer funding, the refinancing of EUR ARM loans is now distributed much more evenly on the two repayment periods.

Senior Secured Bonds

In 2014, DLR issued no further bonds in compliance with S. 15 of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act. (Senior Secured Bonds, SSBs).

Thus at the end of 2014, DLR continued to have SSBs outstanding at a nominal DKK 6.0bn issued in 2012 and 2013 that may be used to provide additional collateral for the covered bonds issued out of Capital Centre B or additional collateral for the mortgage bonds issued out of the General Capital Centre.

On 1 October 2015, SSBs at a nominal DKK 3.0bn will mature.

Rating

DLR's bonds have been given the following ratings by Standard & Poor's (S&P):

Table 5. DLRs ratings

Bond rating	Standard & Poor's
Capital Centre B (SDO)	AAA
General Capital Centre (ROs)	AAA
Capital Centre B (SSB)	BBB+ (stable) (Excl. DKK 2 bn issued in May 2013)
Other ratings	
Issuer (Long-Term Credit Rating)	BBB+ (stable)
Issuer (Short-Term Credit Rating)	A-2 (stable)
Hybrid Tier-1 (2005)	BB

DLR Kredit was rated by S&P for the first time in May 2012. Here DLR Kredit's issuer rating was set at BBB+ ("Long-Term Credit Rating") with a stable outlook.

DLR's covered bonds (SDO's) and mortgage bonds (RO's) hold the highest rating, AAA. DLR's Senior Secured Bonds have been rated BBB+ with a stable outlook, corresponding to DLR's issuer rating (DLR has chosen not to have a rating for the SSB issue from May 2013).

In July 2014, S&P lowered DLR's "business position" by one notch to "moderate", which meant a matching downgrade of DLR's "Stand-Alone Credit

Profile" (SACP) by one notch. S&P explained the weakened business position with the fact that Jyske Bank's acquisition of BRFkredit was likely to create uncertainty about the future lending volumes from Jyske Bank to DLR. Still, the SACP is being added one notch due to anticipated government support, and since at the same time S&P removed its previous "additional rating factor" of -1 stating that DLR had further strengthened its earnings position, the issuer rating was maintained at BBB+ with a stable outlook.

Due to the SACP downgrade, DLR's EUR 100m Hybrid Tier-1 2005 issue was downgraded from BB+ to BB in July 2014.

S&P's OC requirements ("Target Credit Enhancement") for DLR's capital centres that are compatible with the AAA rating were in December 2014 set at 11.03 pc for Capital Centre B and 4.82 pc for the General Capital Centre. At the end of 2013, the OC requirements were 11.77 pc for Capital Centre B and 5.09 pc for the General Capital Centre. The OC requirement is met for the nominal volume of bonds in the capital centre and is covered by excess capital in the capital centres. This is done through own funds as well as funds obtained through the issuance of Senior Secured Bonds. At the end of 2014, DLR's over-collateral ("Actual Credit Enhancement") according to S&P's calculations amounted to 20.17 pc in Capital Centre B and 7.55 pc in the General Capital Centre.

In December 2014, S&P published a series of changes to their global criteria for covered bond ratings. At the same time, the criteria for valuating the supplementary assets in the capital centre (the reserve fund) was changed. These changes came into force at 12 January 2015, and S&P plans to use the first half of 2015 to assess the consequences of the changed criteria for the individual covered bond programmes. For DLR the changes may result in slightly increased capital requirements, but it is expected that the AAA rating will be maintained for both capital centres.

Covered Bond Label

DLR's covered bonds (SDOs) meet the criteria of the "Covered Bond Label Convention" and are comprised by the Covered Bond Label, which was created by the EMF/ECBC in 2012 and came into force on 1 January 2013. In this connection, DLR discloses data for its capital position and loan portfolio at cover pool level under the criteria of the Danish Transparency Template.

Cover pool data for both capital centres are available from DLR Kredit's website www.dlr.dk/investor and are updated on a quarterly basis.

As from 1 January 2015, a number of changes were introduced to the Covered Bond Label Convention, which further improve transparency and harmonization of covered bonds. One of the changes is the explicit reference to CRR Article 129 (7), which require covered bond investors to be able to document that they have access to certain bond and cover pool information from the issuer, just as the information regarding fulfillment of the liquidity requirements of covered bonds (LCR) are included. From Q1 2015, the Danish Transparency Template has therefore been changed to take these improvements into account.

Risk Management Procedures

As a mortgage credit institution, DLR is subject to financial regulation, which covers all relevant and risk-bearing aspects of the entity. DLR's most significant activity is the traditional granting of loans against a mortgage on real property, funded through the issuance of bonds. As a consequence of the balance principle, DLR like other mortgage credit institutions can only to a highly limited extent assume other types of risk than credit risk. The balance principle lays down limits to liquidity, option, interest rate and exchange rate risk.

In connection with the credit granting, all borrowers are subjected to an internal credit assessment, just as Danish legislation stipulates valuation rules and the overall lending limits for the real property of the borrower. In many cases, a loss guarantee is arranged by the banks that hold shares in DLR. These procedures generally ensure a good credit quality for the loans granted, just as continued attention to the determination of administration fee sizes means balanced earnings in proportion to credit risk. The issued mortgage credit loans remain on DLR's balance sheet throughout their maturities.

The overall responsibility for limiting and monitoring DLR's risk lies with the Board of Directors who have therefore determined the general policies, guidelines and frameworks for the risk that DLR may assume. On this basis, the responsibility has been delegated to the organisation.

Procedures and work descriptions have been drawn up for the individual departments, which are approved by the Executive Board of DLR. The purpose of the procedures and work descriptions is to make sure that DLR will at all times have written procedures and work descriptions covering all its significant areas of business. The procedures and work descriptions must at all times describe the distribution of responsibility for the work procedures, and the business procedures and work descriptions will be updated on an on-going basis, however at least once per year.

The Board of Directors is kept informed about and will treat the overall assessment of the risk situation at meetings of the Board as well as on an ad hoc basis, when the situation calls for it. The Executive Board is being kept informed about the risk profile of DLR and is also involved in the on-going monitoring and management of risk within the individual risk areas when the matter at hand is of a more general and principal nature.

Independent Risk Manager, Control and Compliance

In compliance with the Danish Executive Order on Management and Control of Banks etc. (The S.71 Order), DLR has set up an independent risk monitoring function and has appointed an independent risk manager with direct reference to the Executive Board. The risk manager is responsible for the proper managing of risk in DLR, including for having an overview of the risk situation as a whole. In addition, an independent control unit has been set up which makes random samplings on a current basis of all relevant, risk-related business areas.

Furthermore, DLR has set up an independent compliance function with direct reference to the Executive Board. The compliance manager is responsible for assessing, controlling and reporting whether DLR acts in compliance with the relevant legislation and with internal guidelines, instructions and procedures.

These three functions have been set up in regard to DLR's size and organisation, and the independent risk and compliance manager reports to the Executive Board on a monthly basis and to the Board of Directors at least on an annual basis.

Whistleblower Scheme

As part of our good corporate governance practices and in compliance with S. 71a (1) of the Danish Financial Business Act, DLR has set up an internal whistleblower scheme that allows all DLR employees to report via a special, independent channel infringements or potential infringements of financial regulations committed by DLR, including DLR's staff or Board. Reports and questions received through the whistleblower scheme are submitted to the compliance function and are treated confidentially.

Risk Committee
In 2014 based on the Danish Financial Business Act and DLR's status as a SIFI institution, DLR set up a Risk committee under the Board of Directors. All members of the Committee are members of our Board. In addition, the Committee may draw on members of DLR's staff in their work; the Risk Manager usually participates in the meetings of the Committee.

The Risk Committee helps ensure that the Board of Directors of DLR has the required foundations for countering, handling, monitoring and reducing risk that DLR is or may be exposed to. Therefore the Risk Committee must at all times have an overall understanding of the risk attached to DLR's activities. The Risk Committee advices the Board of Directors about DLR risks, i.a. based on a thorough analysis of the risk attached to DLR's business model as a mortgage credit institution. In terms of DLR's risk situation, the Risk Committee will prepare i.a. the Board's handling of DLR's calculations of the adequate capital base and the solvency needs, just as the Committee will make recommendations to the Board regarding the adequacy of DLR's capital base, based on statutory requirements as well as internal targets. On this background, the Committee will also review DLR's capital plans, recovery plans etc.

Audit Committee
DLR's Audit Committee, which was set up by the Board of Directors in 2009, monitors whether DLR's internal control systems, internal audit and risk management systems function effectively, just as it monitors the financial reporting process. The Audit Committee also monitors that the Executive Board reacts efficiently to possible weaknesses and/or deficiencies and that agreed initiatives in relation to the strengthening of risk management and internal control procedures – e.g. in relation to the financial reporting process – are implemented as planned.

Credit Risk – Credit Score Models
On the organisational level, the monitoring and control of credit risk is handled by DLR's credit department. At portfolio level, the monitoring, control and reporting of credit risk and of weak and defaulting commitments will be handled by DLR's Executive Board Secretariat, by the Legal Department and the Risk Management Department.

Apart from the monitoring of credit risk, the risk management department oversees the development and implementation of DLR's credit score models used as a supplement to the assessment of credit and mortgage risk in both the continuous monitoring process, including the OIV (identification of objective indication for impairment) and in the granting of new loans.

Since 2006, the credit score models have been covering DLR's agricultural portfolio, whereas models have yet to be developed for the urban trade portfolio. The models are used to estimate the probability of borrower defaults (PD) and possible default-related losses (LGD), respectively.

The PD models are based on a statistical model supplemented by expert-based elements. The statistical model estimates PD based on a series of relevant key figures from the financial statements of the borrower as well as the borrower's payment history and other characteristics in his loan-related performance. The expert-based elements include an internal assessment of the borrower's financial position in a prolonged historical perspective as well as an internal assessment of how the current and future financial trends are likely to affect the borrower.

The LGD model is a model founded on the value of the mortgage after 'haircut' and a calculation that takes into account the size of the loan and additional costs.

Solvency Requirement

DLR calculates the adequate capital base and solvency requirement based on the credit reservation method (the 8+ method).

Based on the calculated 8 pc requirement of the total risk exposure, it is estimated whether in each individual business area or in organisational and other terms, DLR might have material super-normal risks for which an addition is required to be made to the adequate capital base. At the assesment, all factors referred to in Annex 1 (items 48-101) in the Executive Order No. 295 of 27 March 2014 on Calculation of Risk Exposures, Own Funds and Solvency Need as further described in the Danish FSA's Guidelines on Capital Base Determination for Credit Institutions are reviewed.

DLR has a simple business model based on activity within the classic mortgage credit business. Credit risk linked to the borrower's ability to repay the loan is therefore the main risk factor, and so the adequate capital base linked to the credit risk also accounts for by far the largest part of DLR's aggregate adequate capital base.

The Executive Board Secretariat is in charge of the internal processes determining the adequate capital base and the solvency requirement. In the process of determining DLR's adequate capital base and solvency requirement, all relevant departments are also involved. This applies to both initial and subsequent discussions of the degree of stress tests, etc. of the different business areas.

At the same time, DLR constantly monitors the development in a number of relevant risk parameters with a view to ensuring that the calculated solvency requirement and the sufficient capital base reflect DLR's current risk profile. Furthermore, it is constantly considered whether an updating of the calculated solvency requirement is required. Submissions to the Board of Directors take place at the quarterly meetings prior to the publication of the financial reports, and once a year the Board of Directors will review the overall methodology used in the calculation of the adequate capital base and solvency requirement.

Large Exposures

Large exposures are exposures that account for not less than 10 pc of the capital base.

At the end of 2014, DLR had two exposures that (less deductions) accounted for more than 10 pc of the capital base. These exposures relates to two banks and primarily consists of term deposits.

Supplementary Security

In 2014, like in previous years, DLR's issuance of bonds as the foundation for its lending activities was solely based on the issuance of covered bonds (SDOs). DLR's SDOs are issued out of Capital Centre B. The SDOs are characterised by requiring particularly secure assets as the basis for the issuance of the bonds – primarily a mortgage on real property. The SDO legislation does not preclude DLR from continuing to issue traditional mortgage bonds (ROs) under the rules governing that activity.

For SDOs, the statutory maximum lending limits (the LTV limits) must be observed at all times. The requirement in regard to the traditional mortgage bonds (ROs) is that the LTV limits must be observed at the time when the loan is granted. This means that for SDOs, the market value of each individual mortgaged property must be monitored on a current basis. If LTVs are not met – e.g. due to falling property prices – supplementary security must be provided. This security must consist of particularly secure assets – e.g. government bonds, own SDOs or – to a certain extent - loss guarantees provided by the loan-providing financial institutions.

The considerable decreases in prices of more or less all property categories, primarily seen in the years immediately following the start of the financial crisis, mean that the demand for supplementary security is a factor of great importance to the capital planning. This is underlined by the fact that the supplementary security must be provided at a ratio of 1:1. For DLR, the supplementary security amounted to DKK 13.0bn at the end of 2014, which is on the same level as in 2013 when the supplementary security amounted to DKK 13.3bn. Fairly stable prices on urban trade and agricultural properties in recent years have resulted in a corresponding stabilisation in the demand for supplementary security. The security primarily consists of issued own SDOs and of loss guarantees and interim loan guarantees provided by loan-providing financial institutions.

In 2012 and 2013, DLR issued Senior Secured Bonds (SSBs) at a total of DKK 6.0bn. The purpose of the issues was i.a. to secure the future demand for supplementary security. With the issued SSBs and DLR's capital base in Capital Centre B as well as guarantees, etc., DLR is able to withstand any additional general price decreases of 10-15 pc on agricultural and commercial properties. The issued SSBs can also be used to meet OC requirements in connection with the rating of the Capital Centres.

Credit Risk

DLR's loans are granted against a registered mortgage on real property subject to the statutory limits of the LTV ratio.

DLR's Board of Directors has set up guidelines for the granting of credit by DLR, including limits to the credit authorisation of the Executive Board. Within these limits, internal business procedures and instructions determine credit policy guidelines and upper limits for the credit authorisation for the various levels in DLR's credit organisation. The Board of Directors must approve loan commitments in DLR in those cases where the total exposure exceeds an amount determined by the Board of Directors.

With a view to mapping credit risk, the financial position of the borrowers is closely examined. First of all, this valuation basis includes a determination of the market value of the property on which the mortgage is to be taken out. The valuation of the loan applicant's property is carried out by DLR's own valuation experts. Secondly, the rating of the borrower's creditworthiness, including a credit score for the borrower, is handled by DLR's administrative office in Copenhagen. In this way functions are separated between property valuation and the assessment of creditworthiness.

DLR's loss and credit risk has been further reduced by means of loan loss guarantees provided by the local as well as regional loan-providing banks that hold shares in DLR. DLR has for a long time made loan loss agreements for lending within the urban trade and agricultural areas. The said loan loss agreements that cover the vast majority of DLR's portfolio are reviewed in the following.

With effect from early 2015, DLR has introduced a new guarantee concept based on an agreement with the loan-providing financial institutions. The main elements of this new concept are also reviewed below.

Loan Loss Agreements in Urban Trade Properties – Covering the Current Portfolio

For loans to urban trade properties, i.e. private rental homes, private cooperative housing properties, office and business properties as well as manufacturing and manual industry properties, the banks offer an individual loss guarantee on the least secure part of the loan. The guarantee is reduced proportionately with repayments on the loan.

The loan loss guarantees on trade properties at the end of 2014 comprised guarantees totaling DKK 17.1bn provided for the total urban trade property portfolio.

Loan Loss Agreements in Agriculture - Covering the Current Portfolio

Loans to agricultural properties intermediated by the local as well as regional banks that hold shares in DLR are also comprised by a guarantee scheme set up between DLR and the loan-providing financial institutions.

Table 6. DLR's individual loss guarantees in the urban trade area

	Private rental homes/cooperative housing properties	Office and business properties	Manufacturing and manual industry properties
LTV in pc of property valuation	80	70	70
Maximum maturity for loans (years)	30	30	20
Guarantee required for that part of the loan that exceeds the said percentage of the valuation of the property	60	35	20/0
Guarantee period (years)	16	16	20

This scheme comprised approx. DKK 80.6bn of the loan portfolio at the end of 2014. The scheme is a collective guarantee scheme that comes into force in the event that the losses suffered by DLR on agricultural loans provided by the banks that hold shares in DLR within a given calendar year exceed a given pre-fixed amount (the excess of DLR). DLR's excess has been fixed as 1.5 times an unweighted average of the losses for the last five years, however at a minimum of 0.25 pc of the remaining bond debt for loans under the cooperation agreement (agricultural loans).

As a maximum, the collective guarantee scheme can be applied in respect of five times DLR's excess. This means that for 2015, DLR could suffer losses up to around DKK 201.5m, while the maximum guarantee coverage of banks for 2015 would be around DKK 1,007m. Under the collective guarantee scheme, the banks are individually liable for losses in proportion to each bank's share of the agricultural loans under the cooperation agreement.

Furthermore, DLR offsets losses in commission payments to the banks. Losses inflicted on DLR that stem from agricultural loans will be offset in the agricultural commissions for the bank in question and go to DLR. Losses are offset in commissions in respect of the year in which the loss is ascertained (excluding provisions). Losses that cannot be fully offset in commissions for the year in question are carried forward for offsetting in commissions for the following four years as a maximum. DLR can require that a bank must provide a guarantee for cover of losses carried forward.

The guarantee provision may constitute up to 0.25 pc of the bank's portfolio that the cooperation agreement comprises. If offsetting has not been effected in commissions within the following four years, the guarantee can be asserted. The offsetting basis for 2014 was approx. DKK 205m, an amount which exceeded the size of DLR's excess mentioned above for the agricultural loans.

At the end of 2014, 93 pc of DLR's total loan portfolio was comprised by the above guarantee concepts or a government guarantee. Overall, the guarantee schemes entail that DLR's risk of losses arising from the granting of loans can be characterised as manageable and relatively limited. The majority of the loans that are not comprised by a guarantee scheme typically have low LTVs.

Calculations of the security position of the loan portfolio in the mortgaged properties (LTV) support DLR's limited risk of loss. At the end of 2014, 88 pc of the loans granted to agricultural properties was thus placed within 60 pc of DLR's most recent valuations, including valuations made in connection with the continuous SDO monitoring. Concerning loans to the remaining portfolio, primarily urban trade properties, 81 pc was placed within 60 pc of the valuations without taking into account the guarantees provided. Several of these property categories have an LTV of 80 pc of the property value, which is why the share placed below 60 is naturally lower.

The constant monitoring of LTV values is a standard element of DLR's management reporting. DLR furthermore constantly prepares exposure reviews on the individual financial institutions with a view to assessing and managing DLR's counterparty risk on guarantors, according to the guidelines of the Board of Directors.

New Guarantee Concept in DLR
In 2014, DLR entered into an agreement with local and regional banks that hold shares in DLR about a new guarantee model for DLR's lending activities. The new model came into force in early 2015 so that loans offered by DLR from 2015 and onwards will be comprised by this agreement.

The guarantee is structured in such a way that when the loan is paid out, the loan-providing bank will post an individual guarantee for the individual loan throughout its maturity. The guarantee covers 6 pc[1)] of the remaining debt on the loan. The guarantee is reduced gradually as the loan is reduced with a proportionate share of the repayments so that in view of the remaining debt on the loan, the guarantee percentage remains unchanged throughout the maturity of the loan. The guarantee covers the least secure part of the loans on the individual property.

In addition, a loss offset scheme has been set up in which the individual bank offsets any loss that DLR may incur on loans granted by the bank in question beyond the 6 pc guarantees at loan level. Losses will be offset in the aggregate commissions of the bank in question for the entire loan portfolio, except for loan-provision commission and brokerage refund and may be offset for the following three years' commissions.

To the extent that there are loss to be offset exceeding the anticipated commissions of the current and the two following years, DLR may require such losses covered through a drawing on the direct guarantees made by the bank in question.

[1)] The guarantee in principle covers 6 pc of the remaining debt on the loan. Other guarantees are required in connection with special mortgages etc.

Interest Rate Risk

The statutory demands for interest rate risk are that the risk cannot exceed 8 pc of DLR's capital base. At the end of 2014, DLR's capital base amounted to DKK 12,520.6m after deductions, and this corresponds to a maximum permitted interest rate risk of DKK 1,001.6m.

At the end of 2014, interest rate risk on DLR's securities portfolio (assets side) was DKK 417.9m. Interest rate risk expresses the amount that at the end of 2014 DLR could expect to see as price adjustments in the event of a change in market yields of 1 pc point. The relative interest rate risk can be calculated at 3.34 pc based on the capital base at the end of 2014.

Interest rate risk on issued securities (liabilities side) – hybrid core capital and Senior Secured Bonds – can be calculated at DKK 27m corresponding to 0.22 pc of DLR's capital base.

Interest rate risk on issued securities 'inverts' interest rate risk on the securities portfolio, and thus DLR's net interest rate risk is reduced to DKK 390.9m, corresponding to 3.12 pc of the capital base. DLR may take a net perspective on interest rate risk since the composition of the portfolio is managed within duration bands so that the liabilities side is covered within matching duration bands as on the assets side.

Based on a concrete assessment, DLR uses derivative financial instruments to manage interest rate risk.

Liquidity Risk

DLR's use of the specific balance principle means that payments on loans granted and issued bonds closely match (match-funding). In connection with prepayments of loans (immediate repayments), DLR receives some liquidity, which will subsequently be invested until the amount is due for payment to the bondholders as part of extraordinary drawings.

The liquidity is placed as forward deposits with financial institutions or in short bonds. Likewise, prepaid funds arising from the borrower's quarterly repayments on ARM loans will be placed as forward deposits with financial institutions or in short bonds, and will be kept separate from the remaining securities portfolio.

Foreign Exchange Rate Risk

Calculated according to the foreign exchange indicator 2 of the Danish FSA, DLR's foreign exchange risk at the end of 2014 was DKK 0.4m, corresponding to 0.003 pc of the capital base. Under Danish legislation, the foreign exchange indicator 2 of the Danish FSA cannot exceed 0.1 pc of the capital base. The reason behind the limited foreign exchange risk is that loans paid out in foreign currencies, i.e. solely EUR, will at all times be funded in the foreign currency in question, just as but a very small part of DLR's securities portfolio is held in the form of EUR bonds.

Risk Related to Shares

In general, DLR does not invest in shares, except for sector shares. At the end of 2014, DLR's share portfolio consisted of holdings in VP Securities A/S, e-nettet A/S and Landbrugets FinansieringsBank A/S.

Operational Risk

Operational risk is attached to the risk of loss resulting from inappropriate or defective internal procedures, human error and system error or as the result of external events, including legal risk.

In general, the size of DLR's operational risk is considered highly limited. This is due to DLR's unified business model as a mortgage credit institution with the corresponding, narrow statutory framework, including the fact that DLR adheres to the "strict" balance principle in combination with its product range of standardised mortgage credit products.

At the same time, DLR has a constant focus on maintaining a high level of i.a. staff competences, control and security in regard to IT systems etc. DLR's policies and procedures in regard to operational risk and its preparedness plans reflect this fact. DLR furthermore collects and registers all operational events just as we use insurance to cover all relevant risk.

DLR applies the basic indicator method to calculate operational risk. According to this method, operational risk amounts to DKK 1,917.2m of the risk-weighted assets. This results in a capital requirement of DKK 153.4m to cover operational risk at the end of 2014.

COMMITTEES SET UP BY DLR'S BOARD OF DIRECTORS

DLR's Board of Directors has set up four committees that within various areas among other tasks supervise or prepare subjects and issues for treatment by the Board of Directors. DLR's Audit Committee was established in 2009 while the Risk Committee, the Nomination Committee and the Remuneration Committee were set up in 2014.

Audit Committee

Among the tasks of the Audit Committee is the supervision of the financial reporting as well as the auditing and the security conditions, etc. DLR's Audit Committee consists of three members, of whom the independent member of DLR's Board of Directors and former governor of Danmarks Nationalbank Torben Nielsen occupies the post as chairman, while the other members are Managing Director Lars Møller and Legal Consultant Søren Jensen. In 2014, the Audit Committee held four meetings.

Risk Committee

The established Risk Committee contributes to ensuring that DLR's Board of Directors has the necessary basis for counteracting, handling, supervising and reducing the risks that DLR is or may be exposed to. In this connection, the Risk Committee focuses on DLR's overall risks, including solvency and capital issues.

The Risk Committee consists of three members: Managing Director Lars Møller (chairman), former governor of Danmarks Nationalbank Torben Nielsen as well as Agricultural Account Manager Jakob Hald. Furthermore, DLR's independent Risk Manager will usually participate in the meetings of the Risk Committee. In 2014, three meetings were held in this committee.

Nomination Committee

The task of the Nomination Committee is to ensure that within DLR's Board of Directors the necessary level of knowledge and experience exists. In this connection, the committee is responsible for nominating new members for the Board of Directors and for ensuring that an evaluation of the competencies etc. of the board members is made. Furthermore, the Nomination Committee ensures that considerations for diversity constitute an element in connection with the composition of DLR's Board of Directors. The chairman of DLR's Nomination Committee is Managing Director Vagn Hansen and Managing Director Anders Dam is vice chairman. Furthermore, the committee consists of the remaining members of the Board of Directors. In 2014, one meeting was held in the Committee.

Remuneration Committee

DLR has set up a Remuneration Committee that has been established with a view to direct the preparatory work in connection with the Board of Directors' resolutions concerning remuneration in DLR Kredit A/S. Also, the committee prepares the identification of DLR's most important risk-takers. The chairman of DLR's Remuneration Committee is Managing Director Vagn Hansen, and the other members of the committee are Managing Director Anders Dam as well as Legal Consultant Søren Jensen. One meeting was held in DLR's Remuneration Committee in 2014.

ORGANISATION

Management

DLR Kredit A/S is owned by local and regional banks, Nykredit A/S, PRAS A/S, Financial Stability A/S, Danmarks Nationalbank etc. The Board of Directors consists of 14 members, of whom five members have been elected by the employees.

The Board of Directors determines the overall principles and policies for DLR's activities and establishes guidelines and directions to be followed by the Executive Board. The division of work between the Board of Directors and the Executive Board has been established in the Board of Directors' policies and rules of procedure.

The members of the Board of Directors elected at the Annual General Meeting are elected for one year at a time and may be re-elected. The employee-elected members of the Board of Directors are elected for four years at a time and may be re-elected.

Employees

At the end of 2014, the number of full-time employees in DLR was 162 against 156 at the end of 2013. Of the 156 employees, 148 worked at DLR's administrative offices in Copenhagen, while the remaining staff was in charge of valuation of urban trade and private cooperative housing properties.

Apart from the permanent staff, DLR employed 29 valuation experts for the valuation of agricultural and horticultural properties at the end of 2014.

Knowledge Resources

DLR's knowledge resources are primarily linked to DLR's employees. Since DLR is in close cooperation with local and regional banks, it is also important that the employees of these banks at all times have an updated knowledge of DLR as an organisation, including the services that DLR provides.

DLR is an organisation where communications and operations rely on the use of IT technology. It is therefore of decisive importance that DLR's staff constantly maintain and expand their knowledge, i.a. via further education, and in this way contribute to ensuring the earnings base of DLR. DLR is a member of the Education Centre of the Danish Financial Sector. DLR's administrative procedures are recorded in internal procedures, routines and instructions, which are regularly being updated and expanded.

In the IT area, this also happens in the form of documentation of the IT systems applied. In areas where special competencies are required, DLR acquires external knowledge resources.

Distribution Channels

DLR focuses on mortgage credit loans for the financing of commercial properties in the form of both agricultural and urban trade properties. Loans for owner-occupied homes are provided solely for residential farms and for the Faroe Islands and Greenland.

DLR's strategy is based on close cooperation with DLR's group of owners, and DLR's loans are intermediated primarily through the group of shareholders – the local and regional banks that have a comprehensive, aggregate network of branches all over Denmark. Consequently, DLR functions as a "subsupplier" for the group of owners, i.e. the local and regional banks, and provides loans to the property categories in question. This is why DLR has chosen not to set up its own branches, which also ensures a cost-effective lending process.

DLR's electronic communications system – DLRxperten – supports the customer advisory services of the banks in connection with mortgage loans, including refinancing of loans. Loan documents etc. can be distributed through DLRxperten.

The system has been developed in cooperation between DLR and the loan-providing banks. Advisory services for customers and the intermediation of DLR's products are to the widest possible extent taken care of by the loan-providing banks, just as the actual marketing activities of DLR are provided by the banks. This means that DLR has no local representation apart from the valuation experts.

Internal Control and Risk Management Systems in Connection with the Financial Reporting

The Board of Directors, the Audit Committee and the Executive Board have the overall responsibility for DLR's risk management and internal control procedures in connection with the annual reporting process, including that current legislation and other regulation in relation to the presentation of the annual report and financial statements are being complied with.

The attitudes of the Board of Directors, the Audit Committee and the Executive Board to good risk management and internal control in connection with the financial reporting process is that these tools should effectively manage and to the widest possible extent eliminate the risk of errors and inconsistencies.

The Board of Directors, the Audit Committee and the Executive Board are continuously assessing and monitoring all material risks compared with the established internal controls in connection with DLR's activities and their possible influence on the financial reporting process.

Control Environment

The Executive Board is continuously evaluating DLR's organisational structure and staffing in significant areas, including within areas related to the financial reporting process.

The Board of Directors, the Audit Committee and the Executive Board determine and approve the main policies, procedures and controls in main areas in connection with the financial reporting process. The basis for this is a clear organizational structure, clear reporting lines, authorization and certification procedures as well as separate directorships and functions.

In compliance with the statutory requirements, the Board of Directors has established an internal audit department with reference to the Board of Directors, which in compliance with an audit plan approved by the Board of Directors will carry out audit sampling of business procedures and internal control procedures on material and risky areas in connection with the financial reporting process.

Policies and controls have been prepared within all material and risky areas including areas of particular importance to the financial reporting process.

The Accounting and Finance Department is responsible for the Company's total management control and management accounting as well as the financial reporting, and is also responsible for ensuring that the management accounting reports comply with principles laid down and current legislation.

Risk Monitoring

The Board of Directors, the Audit Committee and the Executive Board continuously make general assessment and monitoring of risk in connection with the financial reporting process.

As part of the risk monitoring, the Board of Directors, the Audit Committee and the Executive Board, decide on an annual basis on the risk of fraud and on the measures supposed to be taken with a view to reducing and/or eliminating such risk.

Decisions about initiatives aimed at reducing and/or eliminating risk are based on an assessment of materiality and on cost/benefit-analyses.

Control Procedures

The control procedures take their starting point in the risk assessment. The aim of the control procedures is to make sure that the goals, policies, manuals, procedures etc. set out by Management are met with, and to prevent, detect and correct possible errors, deviations, inconsistencies etc. in due time.

The control procedures comprise manual and physical controls as well as general IT controls and automatic application controls in the IT systems etc. in use.

The Accounting and Finance Department has set up a formal reporting process, which comprises budget reporting and monthly results reporting including deviation reports with quarterly updating of the budgetary outlook for the year.

Monitoring
On a current basis, the Audit Committee receives reports from the Executive Board as well as from the internal and external auditors on the observance of the defined guidelines, procedures and compliance with rules.

Corporate Social Responsibility

DLR's Corporate Social Responsibility (CSR) policy is available from DLR's website at http://www.dlr.dk/about-dlr under the heading "About DLR Kredit", "More about", CSR.

As a consequence of its activities, DLR finds that there is no need to prepare separate policies covering respect for human rights or concerning mitigation of climate effects.

Underrepresented Gender and Diversity on DLR's Board of Directors

As mentioned in the section on committees set up by DLR's Board of Directors, DLR has in 2014 established a Nomination Committee. In accordance with the Danish Financial Business Act, the Nomination Committee has laid down target figures for the proportion of the underrepresented gender on DLR's Board of Directors and prepared a policy for achieving this target figure. Furthermore, a policy has been determined with a view to increasing the proportion of the underrepresented gender at DLR's other managerial levels. A policy for diversity on the Board of Directors has also been determined.

Target figures for the underrepresented gender on DLR's Board of Directors
Based on the rules for target figures for the underrepresented gender, DLR's Board of Directors at the beginning of 2013 laid down a target for increasing the proportion of the underrepresented gender from 0 pc to a minimum of 10 pc of the board members elected at the Annual General Meeting within a period of three years. At present, DLR has nine board members elected at the Annual General Meeting who are each elected for a period of one year. Currently, DLR's board members elected at the Annual General Meeting consist of eight men and one woman.

The target was met at the Annual General Meeting held in April 2013. On this background, the target has subsequently been increased so that the proportion of the underrepresented gender should be increased to at least 20 pc of the board members elected by the Annual General Meeting not later than in 2017. Based on the traditional composition of DLR's Board of Directors, this is considered an ambitious goal. This should be seen in relation to the traditional composition of board members in DLR that consists of excutives from local and regional banks.

DLR's Nomination Committee will include the above target in the nomination process for future board members in DLR.

Policy to include the proportion of the underrepresented gender at DLR's other managerial levels
DLR's Nomination Committee and Board of Directors have also laid down a policy to include the proportion of the underrepresented gender at DLR's other managerial levels. Managerial levels are to be understood as leading positions other than those on the Board of Directors.

Concretely, DLR wishes to increase the proportion of the underrepresented gender at the other managerial levels while duly respecting that at all times DLR intends to employ the best qualified and for the Company best suited candidate. Furthermore, DLR has determined a number of initiatives, both internally and in connection with the recruiting process, with a view to increasing the proportion of the underrepresented gender in the long term.

Diversity in DLR's Board of Directors

In correlation with the composition of DLR's Board of Directors, the Nomination Committee has also in 2014 adopted a diversity policy. This policy is aimed at contributing to a broader composition of DLR's Board of Directors. In this connection it has been emphasized that the Board of Directors should be broadly composed with a view to i.a. professional competence, business experience, gender and age.

When assessing the qualifications of the Board of Directors, DLR's Nomination Committee has ascertained that at present adequate diversity exists in DLR's Board of Directors. The considerations of diversity are continually included in connection with the nomination of future candidates for DLR's Board of Directors.

MANAGEMENT AND ADMINISTRATION

DLR's Board of Directors

At the end of 2014, DLR's Board of Directors has the following members:

Elected by the General Meeting:

- Vagn Hansen (chairman), Managing Director & CEO, Sparekassen Vendsyssel
- Anders Dam (vice chairman), Managing Director & CEO, Jyske Bank A/S
- Ole Selch Bak, Managing Director, Djurslands Bank A/S
- Karen Frøsig, Managing Director & CEO, Sydbank A/S
- Peter Gæmelke, Farmer
- Lars Møller, Managing Director, Spar Nord Bank A/S
- Torben Nielsen (independent member), former governor of Danmarks Nationalbank
- Jan Pedersen, Managing Director & CEO, Danske Andelskassers Bank A/S
- Lars Petersson, Managing Director & CEO, Sparekassen Sjælland

Employee Board Members:

- Claus Andreasen, Administrative Officer
- Jakob G. Hald, Agricultural Account Manager
- Søren Jensen, Legal Consultant
- Agnete Kjærsgaard, Administrative Officer
- Benny Pedersen, Farmer and Valuation Expert

At the end of 2014, DLR's Board of Directors consisted of 14 members of whom nine members have been elected at the Annual General Meeting. Of these nine members, four have been elected among the members of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, and four among the members of the Association of Regional Banks. Furthermore, one member has been elected by the two Associations jointly.

Torben Nielsen, former governor of the Danmarks Nationalbank, is the independent member of DLR's Board of Directors.

Furthermore, DLR's employees elected five members to the Board of Directors.

At the Annual General Meeting on 24 April 2014 all members elected at the Annual General Meeting were re-elected.

Audit Committee:

Members of the Audit Committee:

- Torben Nielsen, former governor of Danmarks Nationalbank (chairman)
- Lars Møller, Managing Director
- Søren Jensen, Legal Consultant

Risk Committee:

Members of the Risk Committee:

- Lars Møller, Managing Director (chairman)
- Torben Nielsen, former governor of Danmarks Nationalbank
- Jakob G. Hald, Agricultural Account Manager

Nomination Committee:

Members of the Nomination Committee:

- Vagn Hansen, Managing Director & CEO (chairman)
- Anders Dam, Managing Director & CEO (vice chairman)
- other members of DLR's Board of Directors

Remuneration Committee:

Members of the Remuneration Committee:

- Vagn Hansen, Managing Director & CEO (chairman)
- Anders Dam, Managing Director & CEO
- Søren Jensen, Legal Consultant

Executive Board:

- Bent Andersen, Managing Director & CEO
- Jens Kr. A. Møller, Managing Director

As published in DLR's stock exchange announcement on 30 September 2014, Michael Jensen, Managing Director, joined as member of the Executive Board in DLR Kredit on 2 January 2015.

Bent Andersen, Managing Director & CEO in DLR Kredit, will retire at 30 April 2015.

Jens Kr. A. Møller will take over the position as Managing Director & CEO of DLR Kredit as of 1 May 2015, and from that date on the Executive Board will consist of the Managing Directors Jens Kr. A. Møller and Michael Jensen.

Executive Staff

Executive Board Secretariat, Information, Staff, etc.:
Lars Blume-Jensen, Executive Secretary, MSc (Economics)

Loan Department:
Bent Bjerrum, Lending Director, MSc (Agriculture)

Legal Department:
Per Englyst, Legal Director, Attorney-at-Law

Accounting and Finance Department:
Henrik Halvas, Finance Director, Diploma in Business Administration (Financial and Management Accounting)

Treasury Department:
Henrik Højby, Treasurer, MSc (Economics)

IT Department:
Chr. Willemoes Sørensen, IT Director, Engineer

Risk Management Department:
Jesper C. Kristensen, Head of Risk Management, MSc (Mathematics and Economics)

Internal Audit:
Dennis Lundberg, Chief Internal Auditor, MSc in Business Administration, Accounting and Auditing

Supervision:
The Danish Financial Supervisory Authority

Directorships held by the Executive Board:
Bent Andersen, Managing Director & CEO

- Member of the Board of Directors of VP Securities A/S
- Member of the Board of Directors of e-nettet Holding A/S
- Member of the Board of Directors of e-nettet a/s

Cooperation Agreements:
(a) Management Agreements
DLR has entered into a management agreement with LR Realkredit A/S. DLR processes loan applications to be decided by the Executive Board and the Board of Directors of LR Realkredit. Once the loans have been approved, DLR manages the loans paid out.

LR Realkredit's primary lending area is the social housing sector, schools and other educational institutions as well as social and cultural institutions. LR Realkredit shares office address with DLR.

(b) e-nettet
e-nettet is Denmark's distributor of real property data, owned by Danish financial and mortgage credit institutions. Therefore, DLR holds shares in e-nettet, of which the majority was acquired on behalf of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark and the Association of Regional Banks.

Shareholder Information

Share Capital
The share capital in DLR is primarily held by local and regional financial institutions.

DLR's share capital amounts to a nominal DKK 570.0m (denomination of DKK 1).

At year-end 2014, the share capital is distributed on the following main groups of shareholders:

	Nom. kr.
Local financial institutions (members of Local Banks, Savings Banks and Cooperative Banks in Denmark)	222,097,674
Regional financial institutions (members of the Association of Regional Banks)	180,335,522
Finansiel Stabilitet A/S (including FS Finans II A/S, FS Finans III A/S and FS Finans IV A/S)	50,962,310
PRAS A/S	35,137,035
Other shareholders	82,378,368

It must be stated that the following shareholders held at least 5 pc of the nominal share capital at the end of 2014:

Loan-providing shareholding banks:
- Jyske Bank A/S
- Spar Nord Bank A/S
- Sydbank A/S

Other shareholders:
- Finansiel Stabilitet A/S[1)]
- Nykredit Realkredit A/S
- PRAS A/S

[1)] DLR has informed Finansiel Stabilitet that – subject to specified condition - DLR will buy back the holding of DLR shares before the end of 2017

Redistribution of shares
Between the shareholders, a shareholders' agreement has been made according to which the shareholders implement a redistribution of shares every year. The next redistribution of shares will take place on 1 March 2015 (on the basis of the remaining bond debt at 31 December 2014).

Other Directorships held by the Board of Directors
Ole Selch Bak, Managing Director
- Managing Director of Djurslands Bank A/S
- Member of the Board of Directors of Djurs Invest ApS
- Member of the Board of Directors of Bankdata (The Bankdata Organisation)
- Member of the Board of Directors of JN Data
- Member of the Board of Directors of The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark

Anders Dam, Managing Director & CEO
- Managing Director & CEO of Jyske Bank A/S
- Chairman of the Board of Directors of Jyske Banks Almennyttige Fond and Holdingselskab A/S
- Member of the Board of Directors and Vice Chairman of Bankdata (the Bankdata Organisation)
- Member of the Board of Directors of Jyske Bank's Pensionstilskudsfond
- Member of the Board of Directors of The Danish Bankers Association
- Member of the Board of Directors of The Danish Regional Bankers' Association
- Member of the Committee of Shareholders of Det Private Beredskab
- Alternate in Værdiansættelsesrådet (The Danish Value Assessment Council)

Karen Frøsig, Managing Director & CEO
- Managing Director and CEO of Sydbank A/S
- Chairman of the Board of Directors of Ejendomsselskabet af 1. Juni 1986 A/S
- Chairman of the Board of Directors of The Danish Regional Bankers' Association)
- Chairman of Bankdata (he Bankdata Organisation)
- Vice chairman of PRAS A/S
- Member of the Board of Directors in The Danish Bankers Association
- Member of the Board of Directors in Totalkredit A/S
- Member of the Board of Directors in BI Holding A/S (Bankinvest Gruppen)
- Member of the Board of Directors in Musikhuset Esbjerg (The Esbjerg Performing Arts Centre) (Commercial Foundation)

Peter Gæmelke, Farmer
- Chairman of Danske Spil A/S
- Chairman of the foundation Løvenholmfonden (Commercial Foundation)
- Chairman of NGF Nature Energy Biogas A/S
- Chairman of Gamst Maskinstation A/S
- Chairman of Gamst landbrug I/S
- Member of the Board of Directors in Kirkbi A/S
- Member of the Board of Directors of H.C. Petersen & Co.'s Eftf. A/S
- Member of the Board of Directors of Jantzen Development A/S

- Member of the Board of Directors of Fællesfonden
- Member of the Board of Directors and Vice Chairman of the University of Copenhagen
- Member of the Board of Directors and Chairman of the Committee of Shareholders of Tryghedsgruppen smba
- Member of the Board of Directors and Chairman of the Committee of Shareholders of Askov Højskole
- Member of the Committee of Directors of Danmarks Nationalbank
- Member of the Committee of Shareholders in Sydbank A/S
- Member of the Committee of Representatives in Hedeselskabet

Vagn Hansen, Managing Director & CEO

- Managing Director & CEO of Sparekassen Vendsyssel
- Chairman of the Board of Directors of EgnsInvest Holding A/S as well as two subsidiaries
- Chairman of the Board of Directors of EgnsInvest Management A/S
- Chairman of the Board of Directors of EgnsInvest Ejendomme A/S
- Member of the Board of Directors of SparInvest Holdings SE
- Member of the Board of Directors of Ejendomsselskabet Vendsyssel ApS
- Member of the Board of Directors of Skandinavisk Data Center A/S
- Member of the Board of Directors of Amanah Kredit A/S
- Member of the Board of Directors of Spar Pantebrevsinvest A/S
- Member of the Board of Directors of HN Invest Tyskland 1 A/S
- Member of the Board of Directors, The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark
- Member of the Board of Directors of Forvaltningsinstituttet for Lokale Pengeinstitutter

Lars Møller, Managing Director

- Managing Director of Spar Nord Bank A/S
- Chairman of the Board of Directors of BI Holding (Bankinvest Gruppen)
- Chairman of the Board of Directors of BI Asset Management A/S
- Chairman of the Board of Directors of BI Management A/S

Torben Nielsen, former governor of Danmarks Nationalbank

- Chairman of the Board of Directors of Investeringsforeningen Sparinvest
- Chairman of the Board of Directors of Eik Banki p/f
- Chairman of the Board of Directors of Investeringsforeningen Sparinvest SICAV, Luxembourg
- Chairman of the Board of Directors of Museum Sydøstdanmark
- Chairman of Capital Market Partners A/S
- Member of the Board of Directors and Vice Chairman of Tryg A/S
- Member of the Board of Directors and Vice Chairman of Tryg Forsikring A/S
- Member of the Board of Directors and Vice Chairman of Sydbank A/S
- Member of the Board of Directors of Sampension KP Livsforsikring a/s

Jan Pedersen, Managing Director & CEO

- Managing Director & CEO of Danske Andelskassers Bank A/S
- Chairman of the Board of Directors of DAB Invest A/S
- Chairman of the Board of Directors of DAB Invest 2 A/S
- Member of the Board of Directors of Bankernes EDB-central (BEC)
- Member of the Board of Directors of Sparinvest Holding SE
- Chairman and Managing Director of Villa Prisme Komplementaranpartsselskab

Lars Petersson, Managing Director & CEO

- Managing Director & CEO of Sparekassen Sjælland
- Chairman of the Board of Directors of Sparekassen Fyn A/S
- Chairman of the Board of Directors of Sparekasssen Faaborgs Studielegat
- Member of the Board of Directors of Faaborg Finans A/S

- Member of the Board of Directors of Leasing Fyn Bank A/S
- Member of the Board of Directors of Leasing Fyn Faaborg A/S
- Member of the Board of Directors of BI Holding A/S
- Member of the Board of Directors of ForsikringsSamarbejde A/S (FSS)
- Member of the Board of Directors and Managing Director of Sjælland Ejendomme A/S as well as two subsidiaries

Benny Pedersen, Farmer and Valuation Expert
- Self-employed farmer

Søren Jensen, Legal Consultant
- Self-employed farmer

Claus Andreasen, Administrative Officer
- Member of the Board of Directors, Kipling Travel A/S

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2014

Profit and Loss Account

Note	(DKKm)	2014	2013
2	*Interest income*	*3,802.5*	*3,965.0*
3	*Interest expenses*	*(2,238.1)*	*(2,515.6)*
	Net interest income	***1,564.4***	***1,449.4***
	Dividends from shares etc.	*0.6*	*0.6*
	Fee and commission income	*229.1*	*163.5*
	Fee and commission paid	*(401.5)*	*(384.1)*
	Net interest and fee income	***1,392.6***	***1,229.4***
4	*Value adjustments*	*(187.8)*	*(295.8)*
	Other operating income	*17.3*	*17.5*
5	*Staff costs and administrative expenses*	*(210.6)*	*(203.7)*
18+19	*Depreciation and impairment losses, tangible assets*	*(3.7)*	*(4.8)*
10	*Provisions for loan and receivable impairment etc.*	*(190.6)*	*(113.3)*
	Profit before tax	***817.2***	***629.3***
9	*Tax*	*(201.3)*	*(158.6)*
	Profit for the year	***615.9***	***470.7***

Statement of Comprehensive Income

Note	(DKKm)	2014	2013
	Profit for the year	*615.9*	*470.7*
	Revaluation of domicile properties	*24.1*	*0.0*
	Of which tax	*(5.3)*	*0.0*
	Other comprehensive income after tax	***18.8***	***0.0***
	Total comprehensive income for the year	***634.7***	***470.7***

Balance Sheet at 31 December 2014

Note	(DKKm)	2014	2013
	Assets		
	Cash in hand and demand deposits with central banks	47.6	251.8
11	*Receivables from credit institutions and central banks*	14,552.5	3,360.8
12	*Loans, advances and other receivables at fair value*	133,198.3	133,892.7
12	*Loans, advances and other receivables at amortised cost*	20.3	17.4
16	*Bonds at fair value*	9,165.5	8,802.9
17	*Shares etc*	68.0	71.5
18	*Land and buildings, domicile properties*	99.2	75.9
19	*Other tangible assets*	5.8	6.2
	Current tax assets	14.2	0.0
28	*Deferred tax assets*	2.5	2.0
	Assets temporarily foreclosed	30.8	42.8
20	*Other assets*	416.0	353.1
	Prepayments	15.9	17.1
	Total assets	**157,636.6**	**146,894.2**
	Liabilities and equity		
22	*Debt to credit institutions and central banks*	2,000.0	0.0
23	*Issued bonds at fair value*	132,522.0	125,433.7
24	*Issued bonds at amortised cost*	6,002.0	6,003.9
	Current tax liabilities	0.0	9.9
27	*Other debt and payables*	4,430.4	2,380.5
	Deferred income	3.3	4.4
	Total debt	**144,957.7**	**133,832.4**
28	*Provisions for deferred tax*	4.8	0.0
	Total provisions	**4.8**	**0.0**
30	***Subordinated debt***	**2,055.1**	**3,077.5**
	Share capital	570.0	570.0
	Revaluation reserve	48.4	24.3
	Undistributable reserve	2,337.9	2,337.9
	Retained earnings	7,662.7	7,052.1
29	***Total equity***	**10,619.0**	**9,984.3**
	Of which dividend proposed, DKK 0.0m		
	Total liabilities and equity	**157,636.6**	**146,894.2**

Statement of Changes in Equity

Note	(DKKm)	Share capital	Revalu-ation-reserve	Undis tribut-able reserve	Retained earnings	Total
	2013					
	Equity at 1 January 2013	***534.4***	***24.3***	***2,337.9***	***6,072.2***	***8,968.8***
	Capital increase as of 4 September 2013	*35.6*	*0.0*	*0.0*	*509.2*	*544.8*
	Profit for the year	*0.0*	*0.0*	*0.0*	*470.7*	*470.7*
	Other comprehensive income after tax	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
	Equity at 31 December 2013	***570.0***	***24.3***	***2,337.9***	***7,052.1***	***9,984.3***
	2014					
	Equity at 1 January 2014	***570.0***	***24.3***	***2,337.9***	***7,052.1***	***9,984.3***
	Profit for the year	*0.0*	*0.0*	*0.0*	*615.9*	*615.9*
	Other comprehensive income after tax	*0.0*	*18.8*	*0.0*	*0.0*	*18.8*
	Equity at 31 December 2014	***570.0***	***43.1***	***2,337.9***	***7,668.0***	***10,619.0***

The share capital is divided into shares of each DKK 1.00. DLR Kredit A/S has only one class of shares where all shares carry the same rights.

Note 1 *Accounting Policies*

DLR Kredit's Annual Report has been prepared in accordance with the accounting rules for mortgage banks issued by the Danish Financial Supervisory Authority as well as the disclosure requirements for issuers of listed bonds specified by the NASDAQ Copenhagen.

The accounting policies are unchanged as compared with the Annual Report 2013.

Recognition and measurement

Assets are recognised in the balance sheet if it is probable as a consequence of a previous event that future economic benefits will flow to DLR, and if the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when a legal or constructive obligation arises for DLR as a result of a previous event, and when it is probable that future economic benefits will flow from DLR, and if the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Subsequent measurement will take place for each individual item as described in the following, but as a principal rule, balance sheet items are measured at fair value.

Recognition and measurement allow for predictable risks and losses arising before the presentation of the annual report and which confirm or invalidate circumstances existing at the balance sheet date.

Income is recognised in the profit and loss account as earned, whereas costs are recognised with the amounts that relate to the financial year under review. Financial instruments are recognised on the settlement date, and changes in the fair value of instruments purchased or sold in the period between the trade date and the settlement date are recognised as financial assets or liabilities.

Accounting Estimates and Judgments

The preparation of the financial statements requires the use of qualified accounting estimates. These estimates and judgments are made by DLR's Management in compliance with our accounting policies and based on historical experience as well as an assessment of future conditions. The accounting estimates and assumptions are tested and assessed on a regular basis. The accounting estimates and judgments applied are based on assumptions deemed reliable and realistic by Management, but by their very nature there is some degree of uncertainty attached to them. The areas that involve assumptions and estimates that are significant to the financial statements comprise the determination of fair value for certain financial instruments as well as the valuation of loans. Note 26 accounts for the methods used in the calculation of the carrying amounts and the particular uncertainties attached to the measurement at fair value of financial instruments.

Profit and Loss Account

According to the Financial Statements Order, net interest and fee income and value adjustments must be presented by activity and geographic market where different activities or markets exist. DLR has one single activity in one single geographic market, and consequently such information has been omitted.

Interest income and expenses

Interest income and expenses, including default interest as well as risk and administration fees, has been accrued to include incurred, but not yet due interest and fees in the profit and loss account.

Value adjustments

Capital gains and price losses on the securities portfolio have been recognised in the profit and loss account and include both realised and non-realised gains and losses.

Staff costs and administrative expenses

Staff costs include wages and salaries as well as social cost and pensions etc. to DLR's employees.

Administrative expenses include costs in connection with distribution, sale, advertising, administration etc.

Tax

Tax for the year, which includes current tax and changes in deferred tax for the year, is recognised in the profit and loss account with the share that is attributable to the profit for the year and in other comprehensive income, or directly in equity with the share that can be attributed to entries made in other comprehensive income or directly in equity, respectively.

Current tax payable and current tax receivable are recognised in the balance sheet as the tax calculated on the taxable income for the year adjusted for prepaid tax. Interest surcharges under the Tax Prepayment Scheme are included in net interest income.

When calculating current tax for the year, the tax rates and regulation prevailing at the balance sheet date are applied.

Deferred tax is recognised on all temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are recognised in the balance sheet at the value at which the assets are expected to be realised, either by set-off against deferred tax liabilities or as net tax assets. At each balance sheet date it is estimated whether it is probable that sufficient future taxable income will be available in the future against which the deferred tax asset can be utilised.

Balance Sheet

Loans and advances

Mortgage loans are measured at fair value and comprise adjustments for market risk based on the value of the bonds issued and adjustments for credit risk based on the provisioning need.

Other loans and advances are measured at amortised cost, which usually corresponds to the nominal value less initial fees etc., and less provisions for anticipated loan and receivable impairment losses.

Individual impairment charges are determined on the basis of separate examinations of partly a number of large loans and commitments and partly loans that are in arrears or subject to other objective evidence of impairment. If it is assumed highly probable that the borrower will default on the loan, an impairment charge is provided based on the expected loss which DLR is estimated to suffer following a forced sale of the mortgaged property.

Collective impairment charges are determined applying a model based on a fundamental analysis of the developments in a number of various material social parameters, which are assumed to influence the customers' general ability to pay. To ensure that this model can be applied, the model has been adapted to DLR's agricultural portfolio, and the variables have been identified that best describe the sub-group categories of production farms and residential farms. In respect of other properties than farms, DLR has not had adequate statistical data to be able to make a sufficiently valid adaptation of the model as was the case in respect of farms, and consequently the collective impairment charges have been determined in a relative proportion to provisions on the agricultural portfolio. To the extent that the model is considered not to reflect new, significant information to a sufficient extent, that could have an impact on the demand for impairment charges, Management will make corrections.

Claims previously written off that are estimated to provide future economic advantages, are recognised in the balance sheet and adjusted in value in the profit and loss account. At present, DLR is estimated to hold no such claims.

In connection with loans against agricultural properties, the loan-providing financial institutions have acceded to a collective loss guarantee scheme. DLR sets off recognised losses in the commissions of the individual financial institutions in respect of loans to this property category. Offsetting of losses will result in reduced payments of commission from DLR to the individual financial institution.

Bonds

Bonds traded in active markets are recognised at fair value. The fair value is determined as the closing price on the balance sheet date. Index-linked bonds are recognised at the indexed value on the balance sheet date.

Bonds drawn for redemption at future creditor term dates are measured at their discounted values. For bonds that are not traded actively, a calculated market price is used.

DLR's own portfolio of own issued bonds is offset against issued bonds at fair value under liabilities in the balance sheet.

Shares

Shares traded in active markets are recognised at fair value. The fair value is determined as the closing price on the balance sheet date.

Unlisted shares are recognised at fair value. Where the fair value cannot be measured reliably, unlisted shares are measured at cost, less any write-downs.

Land and buildings

Domicile properties are initially recognised at cost. After initial recognition, domicile properties are recognised at a reassessed value, which is the fair value at the time of reassessment less subsequent accumulated depreciation and impairment losses. Increases in the value of own properties have been added to the revaluation reserve under equity. Losses are recognised in the profit and loss account, unless the loss offsets an increase in value that was previously added to revaluation reserve. Annual reassessments are made ensuring that the carrying amount will not differ materially from the value that would have been determined on the balance sheet date.

Subsequent costs are recognised in the carrying amount of the asset in question, or the asset may be recognised as a separate asset when it is probable that the costs incurred will result in future economic benefits to the entity and the costs can be measured reliably. The costs for ordinary repairs and maintenance are recognised in the profit and loss account when incurred.

Positive value adjustments of own properties are recognised in revaluation reserve. Losses are recognised in the profit and loss account, unless the loss offsets an increase in value that was previously added to revaluation reserve.

Depreciation is provided on a straight-line basis over the estimated useful life of 50 years, with due consideration to the expected residual value at the end of the useful life. Land is not depreciated.

Other tangible assets

Machinery and equipment are measured at cost less accumulated depreciation and write-down for impairment. Depreciation is provided on a straight-line basis over the expected useful life of the asset, however not exceeding 5 years.

Assets temporarily foreclosed

Properties temporarily foreclosed are measured at the lower of carrying amount and fair value less costs of sale. The item includes the remaining debt on mortgages issued to DLR as well as any debt in default on such properties. The item furthermore includes payments due and outlays made at the time of the forced auction sale as well as income and expenses etc. after the time when the property has been taken over. These assets are not depreciated. The item is reduced by the necessary write-downs for impairment losses on such properties.

Prepayments and deferred income

Prepayments recognised as assets include prepaid expenses that relate to the following financial year. Deferred income recognised as liabilities include amounts received that relate to the following financial year. Prepayments and deferred income are measured at cost.

Mortgage bonds issued
Mortgage bonds issued are measured at fair value. As a principal rule, fair value is determined as the closing price at the balance sheet date. For bonds that are not traded actively, a calculated market price is used. The bonds drawn are measured at par value.

Bonds issued at amortised cost
Issued senior debt is measured at fair value at initial recognition and subsequently at amortised cost.

Forward transactions
Unsettled forward transactions are measured at the forward price at the calculation date. The forward premium is accrued and recognised in the profit and loss account under Other interest income and in the balance sheet under Other assets. Adjustments to market value are included in the profit and loss account under Value adjustments and in the balance sheet under Other assets or Other debt and payables, respectively.

Derivative financial instruments
Derivative financial instruments are measured at fair value on the balance sheet date.

Unrealised as well as realised capital gains or losses are recognised in the profit and loss account and in the balance sheet under Other assets or Other debt and payables, respectively.

Hedge accounting
Changes to the fair value of derivative financial instruments that have been designated as and meet the conditions for hedging the fair value of a recognised asset or a recognised liability are recognised in the profit and loss account together with changes in the value of the hedged asset or the hedged liability. Other changes are entered in the profit and loss account as financial income or expenses.

Subordinated debt
Subordinated debt constitute debt in the form of subordinate loan capital and hybrid core capital that in case of the company's liquidation or bankruptcy is only satisfied after the claims of the non-lower-ranking creditors [have been met]. Subordinated debt is included in the capital base under EU Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) on prudential requirements for credit institutions and investment firms.

Government hybrid core capital and hybrid core capital are measured at amortised cost.

Equity
When in 2001 DLR was converted into a limited liability company, an undistributable reserve fund was established, which corresponded to the value of the contributed assets less debt.

The undistributable reserves are not available for distribution as dividends; however, it may be used subsequent to DLR's other reserves to cover losses. In the event of the winding-up of DLR, the undistributable reserve fund shall be used to further agricultural purposes according to resolution by the General Meeting.

Foreign currency translation
On initial recognition, transactions in foreign currency are translated at the exchange rates at the dates of transaction. Receivables, payables and other monetary items in foreign currencies that are not settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences in exchange rates that may arise between the exchange rates at the transaction date and the exchange rates at the payment date or the balance sheet date, respectively, are entered in the profit and loss account as financial income or expenses.

Cash flow statement
The cash flow statement shows DLR's cash flows for the year classified by cash flows from operating, investing and financing activities.

Note	(DKKm)	2014	2013
2	***Interest income from:***		
	Receivables from credit institutions and central banks	*0.2*	*0.1*
	Loans and advances	*2,263.6*	*2,487.4*
	Administration fees	*1,411.0*	*1,403.2*
	Bonds	*379.3*	*420.7*
	Other interest income	*23.5*	*24.2*
	Total interest income	***4,077.6***	***4,335.6***
	Interest from own mortgage bonds offset against interest on issued bonds	*(275.1)*	*(370.6)*
	Total	***3,802.5***	***3,965.0***
3	***Interest expenses for:***		
	Credit institutions and central banks	*0.3*	*0.2*
	Issued bonds	*2,256.6*	*2,470.3*
	Subordinated debt	*125.0*	*124.9*
	Hybrid core capital	*35.7*	*185.5*
	Government hybrid core capital	*94.6*	*101.3*
	Other interest expenses	*1.0*	*4.0*
	Total interest expenses	***2,513.2***	***2,886.2***
	Interest from own mortgage bonds offset against i interest on issued bonds	*(275.1)*	*(370.6)*
	Total	***2,238.1***	***2,515.6***
	Of which interest expence from genuine sell and repurchase transactions recognised as		
	Payables from credit institutions and central banks	*0.0*	*0.1*
4	***Value adjustments of:***		
	Mortgage loans	*549.9*	*(470.4)*
	Bonds	*(186.2)*	*(293.7)*
	Shares etc.	*(6.7)*	*(0.6)*
	Other assets	*0.9*	*1.3*
	Foreign exchange	*(4.2)*	*1.7*
	Derivate financial instruments	*8.4*	*(4.2)*
	Issued bonds	*(549.9)*	*470.1*
	Total value adjustments	***(187.8)***	***(295.8)***

Note	(DKKm)	2014	2013
5	***Staff costs and administrative expenses:***		
	Staff costs		
	Salaries	*99.3*	*91.7*
	Pension costs	*9.2*	*9.0*
	Social security costs	*13.9*	*12.8*
	Total	***122.4***	***113.5***
	Other administrative expenses		
	Valuation expenses	*12.2*	*12.1*
	Office expenses etc.	*51.1*	*45.0*
	Audit, supervision etc.	*7.7*	*10.1*
	Other operating costs	*17.2*	*23.0*
	Total staff costs and administrative expenses	***210.6***	***203.7***
	Executive Board		
	Fixed remuneration	*7.0*	*6.6*
	Variable remuneration	*0.0*	*0.0*
	Total remuneration to the Executive Board	*7.0*	*6.6*
	Number of members of the Executive Board, year-end	*2*	*2*
	Individual remuneration to the Executive Board		
	Bent Andersen, Managing Director & CEO	*4.2*	*4.0*
	Jens Kr. A. Møller, Managing Director	*2.8*	*2.6*

Staff costs for 2014 include a provision of DKK 4.0m for reimbursement in connection with Bent Andersen's retirement at the end of April 2015.

With reference to the terms for participation in Banking Package II it should be stated that in connection with the preliminary statement of the taxable income for the accounting period 2014, remuneration for the Executive Board in the amount of DKK 3.8m was deducted for tax purposes. For the taxable income for 2013, a deduction of DKK 3.6m was made.

	2014	2013
Board of Directors		
Fixed remuneration	*1.7*	*1.7*
Variable remuneration	*0.0*	*0.0*
Total remuneration to the Board of Directors	*1.7*	*1.7*
Number of members of the Board of Directors, year-end	*14*	*14*

The Chairman of the Board of Directors receives annual remuneration in the amount of DKK 225 thousand, the Vice Chairman receives an annual amount of DKK 150 thousand, and the other members of the Board of Directors receive an annual amount of DKK 100 thousand.

In addition the chairman of the Audit Committee is remunerated with DKK 50 thousand per year; the other members of the Audit Committee are remunerated with DKK 25 thousand per year.

	2014	2013
Other employees that influence the risk profile		
Fixed remuneration	*12.9*	*9.2*
Variable remuneration	*0.0*	*0.0*
Total remuneration to other employees that influence the risk profile	*12.9*	*9.2*
Number of employees that influence the risk profile	*13*	*9*

The Company has no pension obligations to or incentive schemes for the above group of persons.

Note	(DKKm)	2014	2013
6	***Executive Board and Board of Directors. Amount of loans, pledges, securities or guarantees granted to members of the***		
	Executive Board:		
	Loans etc.	*0.0*	*0.0*
	Board og Directors:		
	Loans etc	*32.4*	*33.0*

DLR has pledged no assets, nor provided other collateral, nor committed to any off-balance sheet liabilities on behalf of any member of the Executive Board or the Board of Directors and related parties.

Related party commitments are made in accordance with usual business terms and provided on an arm's length basis at current market interest rates.

Interest rates (incl. administration margin) 2014:
Executive Board: No loans
*Board of Directors: 1.2-3.0 pc p.a.**
**The interest rates (incl. administration margin) apply to various types of loans based on various mortgage bonds/SDOs.*

No write-downs have been made on commitments with the Executive Board or the Board of Directors.

Note	(DKKm)	2014	2013
7	***Audit fees***		
	Statutory audit of the Financial Statements	*0.9*	*1.0*
	Other assurance engagements	*0.1*	*0.1*
	Tax advice	*0.0*	*0.0*
	Other services	*0.3*	*0.6*
	Total fees to the accounting firm appointed by the Annual General Meeting, performing the statutory audit	*1.3*	*1.6*
8	***Number of employees***		
	Average number of employees in the financial year full-time equivalents	*155*	*153*
9	***Tax***		
	Tax computed on profit for the year	*203.3*	*158.7*
	Deferred tax	*4.3*	*(0.1)*
	Deferred tax related to equity entries	*(5.3)*	*0.0*
	Readjustment of tax charge for previous years	*0.0*	*0.0*
	Total tax	***201.3***	***158.6***
	Effective tax rate		
	Current tax rate	*24.5*	*25.0*
	Non-taxable income	*0.0*	*0.0*
	Non-deductible expenses	*0.2*	*0.2*
	Readjustment of tax charge for previous years	*0.0*	*0.0*
	Deferred tax related to equity entries	*(0.1)*	*0.0*
	Effective tax rate	***24.6***	***25.2***

Note	(DKKm)	2014	2013
10	***Provisions for loan and receivable impairment etc.***		
	Individual provisions		
	Provisions, loans and guarantees, beginning-of-year	*342.3*	*287.8*
	Provisions during the period	*125.7*	*190.2*
	Reversal of provisions	*(135.0)*	*(135.7)*
	Provisions, year-end	***333.0***	***342.3***
	Group-based provisions		
	Provisions, loans and guarantees, beginning-of-year	*39.3*	*57.1*
	Provisions during the period	*188.3*	*6.8*
	Reversal of provisions	*(29.3)*	*(24.6)*
	Provisions, year-end	***198.4***	***39.3***
	Total provisions end-of-year	***531.4***	***381.6***
	Fair value of commitments subject to provisions:		
	- Before provisions	*2,640.5*	*3,197.3*
	- After provisions	*2,307.5*	*2,855.0*
	Impairment losses for the period	*(47.7)*	*(79.2)*
	Recovery of debt previously written off	*6.9*	*2.6*
	Provisions for the year	*(284.8)*	*(197.0)*
	Reversal of provisions	*135.0*	*160.3*
	Provisions and impairment losses, loans and guarantees	***(190.6)***	***(113.3)***
11	***Receivables from credit institutions and central banks***		
	Receivables from credit institutions	*14,552.5*	*3,360.8*
	Total receivables from credit institutions and central banks	***14,552.5***	***3,360.8***
	By remaining term to maturity		
	Demand deposits	*14,366.4*	*3,360.8*
	Up to 3 months	*186.1*	*0.0*
	Total	***14,552.5***	***3,360.8***

Note	(DKKm)	2014	2013
12	***Loans and advances***		
	Mortgage loans, nominal value	*131,590.3*	*132,694.4*
	Adjustment for interest risk etc.	*1,990.4*	*1,441.7*
	Adjustment for credit risk	*(506.0)*	*(351.1)*
	Total mortgage loans at fair value	***133,074.7***	***133,785.1***
	Arrears and outlays	*123.6*	*107.6*
	Other loans and advances	*20.3*	*17.4*
	Total loans and advances	***133,218.6***	***133,910.1***
	By remaining term to maturity		
	Up to 3 months	*1,233.5*	*887.0*
	Over 3 months and up to 1 year	*2,072.0*	*2,066.8*
	Over 1 year and up to 5 years	*44,881.4*	*26,505.6*
	Over 5 years	*85,031.7*	*104,450.7*
	Total	***133,218.6***	***133,910.1***

Pursuant to special legislation, a government guarantee of DKK 621.7m has been provided as supplementary security for young farmers' loans.
Pursuant to special legislation, a government guarantee of DKK 583.8m has been provided as supplementary security for debt rescheduling loans.
As supplementary guarantee for mortgage loans, bankers' guarantees of DKK 16,974.1m have been provided.

Note	(DKKm)	2014	2013
13	***Arrears and execution***		
	Arrears before provisions	*141.8*	*125.3*
	Execution before provisions	*0.0*	*2.2*
	Provisions for arrears and execution	*(18.2)*	*(19.9)*
	Total	***123.6***	***107.6***
14	***Mortgage loans (nominal value) by property category, in per cent***		
	Agricultural properties	*64.2*	*63.8*
	Owner-occupied dwellings	*6.1*	*6.2*
	Subsidised rental housing properties	*0.2*	*0.2*
	Private rental housing properties	*12.9*	*13.2*
	Office and business properties	*15.1*	*15.4*
	Properties for manufacturing and manual industries	*0.5*	*0.4*
	Properties for social, cultural and educational purposes	*0.0*	*0.0*
	Other properties	*1.0*	*0.8*
	Total. in per cent	***100.0***	***100.0***
15	***Number of mortgages, year-end***	***62,091***	***65,354***
16	***Bonds at fair value***		
	– Own mortgage bonds	*48,066.8*	*59,760.9*
	– Other mortgage bonds	*9,165.5*	*8,802.9*
	– Other bonds	*163.8*	*42.9*
	Total bonds	***57,396.1***	***68,606.7***
	Own mortgage bonds offset against issued bonds	*(48,230.6)*	*(59,803.8)*
	Total	***9,165.5***	***8,802.9***

Note	(DKKm)	2014	2013
17	***Shares etc***		
	Other shares	*68.0*	*71.5*
	Total shares etc	***68.0***	***71.5***
18	***Land and buildings***		
	Domicile properties		
	Fair value, beginning-of-year	***75.9***	***78.2***
	Additions during the year	*0.0*	*0.0*
	Depreciation	*(0.8)*	*(2.3)*
	Value changes recognised in other comprehensive income	*24.1*	*0.0*
	Fair value, year-end	***99.2***	***75.9***

The value of domicile properties is measured on an annual basis by DLR's commercial property valuation experts.

Note	(DKKm)	2014	2013
19	***Other tangible assets***		
	Cost, beginning-of-year	*32.1*	*32.4*
	Additions during the year	*2.5*	*4.3*
	Disposals during the year	*(0.5)*	*(4.6)*
	Cost, year-end	***34.1***	***32.1***
	Depreciation, beginning-of-year	*25.9*	*27.8*
	Depreciation for the year	*2.9*	*2.5*
	Depreciation written back	*(0.5)*	*(4.4)*
	Depreciation, year-end	***28.3***	***25.9***
	Total other tangible assets	***5.8***	***6.2***
20	***Other assets***		
	Positive market value of derivative financial instruments etc.	*31.5*	*67.8*
	Other receivables	*198.4*	*74.1*
	Interest and commission receivable	*186.1*	*211.2*
	Total	***416.0***	***353.1***

Note	(DKKm)	2014	2013
21	***Credit Risk***		
	Total credit exposure distributed on balance sheet and off-balance sheet items:		
	Balance Sheet Items		
	Cash in hand and demand deposits with central banks	*47.6*	*251.8*
	Receivables from credit institutions and central banks	*14,552.5*	*3,360.8*
	Loans and other receivables at fair value	*133,198.3*	*133,892.7*
	Loans and other receivables at amortised cost	*20.3*	*17.4*
	Bonds at fair value	*9,165.5*	*8,802.9*
	Shares etc.	*68.0*	*71.5*
	Derivative financial instruments	*31.5*	*67.8*
	Total, balance sheet items	***157,083.7***	***146,464.8***
	Off-Balance Sheet Items		
	Guarantees etc.	*0.9*	*1.6*
	Other liabilities	*17.7*	*17.7*
	Total, balance sheet items	***18.6***	***19.3***

Credit policy and security:

DLR's lending area is concentrated around granting loans to agricultural, forestrial and horticultural properties, closed-down farms (owner-occupied homes) as well as private rental housing properties, cooperative housing properties and office and business properties in Denmark. Furthermore, to a smaller extent, loans are granted in the Faroe Islands and in Greenland.

DLR's lending takes place in cooperation with the banks that hold shares in DLR and which – in their capacity as loan providers – offer advice to borrowers about DLR's products.

Generally speaking, DLR's lending is based on three elements that form part of the overall assessment of a loan application: a valuation of the property in question, an assessment of the creditworthiness of the loan applicant, and the possibility of obtaining comprehensive finance, including the required business and operational credit from a financial institution.

The valuation of properties is carried out in compliance with the Danish FSA Executive Order on the valuation of mortgages and loans on real property.

In the valuation of agricultural properties, the production capacity of the property is emphasised in respect of animal production, soil quality, and as to whether there is a balance between animal production and the aggregate farm area.

In the valuation of urban trade properties, emphasis is placed on the leases attached to the property, including the nature of the leases and the possible alternative use and marketability of the property.

In the determination of the total loan amount, including to what extent the LTV for the property category in question can be utilized, emphasis is placed on the applicant's financial results for a number of years. If the applicant's financial situation has not developed satisfactorily over a prolonged period of time, decisive emphasis will be placed on whether the loan in question will be given a ranking in the order of priority with a high degree of mortgage security.

In connection with acquisitions or the implementation of major investments, emphasis is put on budgets, i.a. whether balanced finances can be obtained based on expected, achievable budget assumptions. Furthermore, the equity of the applicant calculated on the basis of DLR's valuation of the borrower's properties is taken into consideration.

In connection with loans to other property categories than agricultural properties and closed-down farms/farmhouses, the loan-providing financial institution will put up a guarantee/security for the lowest-ranking DLR mortgage in the order of priority. In connection with loans to agricultural properties, the loan-providing financial institutions have acceded to a collective loss guarantee scheme. DLR has entered into an agreement with the loan-providing banks that hold shares in DLR to the effect that DLR will offset ascertained losses on loans to agricultural properties in the commissions to the individual banks concerning loans to this property category.

(Note 21 Credit Risk, continued)

Consequently, losses offset will lead to reduced commission payments from DLR to the individual financial institution. One of the implications of this change is that losses ascertained in 2014, but included in provisions already made in connection with loans to agricultural properties in previous years, may result in offsetting in commissions for 2014 and/or subsequent years, thereby reducing the commission expenses for DLR.

The credit quality of DLR's lending is supported in the below tables, which show the distribution of the total loan portfolio on LTV bands (loan intervals) calculated at the end of 2014 for the most significant property categories. (The tables do not contain those parts of the lending which are in arrears, or which have been written down for impairment).

The LTV distributions show how large a share of the loan portfolio is placed in the respective loan intervals. The starting point for the LTV distribution has been DLR's most recent valuations or "approved market values" (valuations made without physical inspection in connection with the ongoing LTV monitoring for loans based on covered bonds (SDOs)). In addition, a forward indexation has been made of the valuations to the price level for Q4 2014 to ensure that the basis applied for valuation will to the largest possible extent reflect the current price level.

Agriculture: *LTV 70 pc on the assumption of additional security of 10 pc of the value in the interval 60-70 pc has been met with for loans based on SDOs. Otherwise, an LTV of 60 pc. Loans to agricultural properties amounted to* ***64 pc*** *of DLR Kredit's total loan portfolio at the end of 2014.*

LTV	***0-60***	***60-70***	***70+***
Pc of loans in loan intervals	*87.7*	*6.7*	*5.6*

Office and business properties: *LTV 70 pc on the assumption of additional security of 10 pc of the value in the interval 60-70 pc has been met with for loans based on SDOs. Otherwise, an LTV of 60 pc. Loans to office and business properties amounted to* ***15 pc*** *of DLR's total loan portfolio at the end of 2014. It should be noted that the loan-providing financial institutions provide a guarantee for the part of the individual loan that exceeds an LTV of 35 pc at the time of raising the loan.*

LTV	***0-60***	***60-70***	***70+***
Pc of loans in loan intervals	*86.2*	*7.7*	*6.1*

Rental properties, including cooperative housing properties: *LTV 80 pc. Loans to private rental properties and private cooperative housing properties amounted to* ***13 pc*** *of DLR's total loan portfolio at the end of 2014. It should be noted that the loan-providing financial institutions provide a guarantee for the part of the individual loan that exceeds an LTV of 60 pc at the time of raising the loan.*

LTV	***0-80***	***80+***
Pc of loans in loan intervals	*92.7*	*7.3*

Owner-occupied homes: *LTV 80 pc. Loans to owner-occupied homes amounted to* ***6 pc*** *of DLR's total loan portfolio at the end of 2014.*

LTV	***0-80***	***80+***
Pc of loans in loan intervals	*97.4*	*2.6*

(DKKm)

(Note 21 Credit Risk, continued)

Reasons for individual provisions, DKKm:

Property Category	***Reason***	***Remaining Bond Dept before Provision 2014***	***Provision 2014***	***Remaining Bond Dept before Provision 2013***	***Provision 2013***
Farms, including Residential farms etc	*Bankruptcy*	*80.4*	*20.7*	*119.1*	*14.6*
	Suspension of payments	*0.0*	*0.0*	*17.9*	*12.8*
	Current default on payments	*161.3*	*27.5*	*736.1*	*91.4*
	Past default on payments etc	*1,937.7*	*217.3*	*1,759.0*	*166.7*
Total		***2,179.4***	***265.5***	***2,632.1***	***285.5***
Rental properties, including private cooperative housing properties	*Bankruptcy*	*39.3*	*6.0*	*10.5*	*1.9*
	Suspension of payments	*0.0*	*0.0*	*0.0*	*0.0*
	Current default on payments	*19.8*	*3.6*	*86.5*	*6.1*
	Past default on payments etc.	*195.5*	*17.2*	*199.7*	*14.2*
Total		***254.6***	***26.8***	***296.7***	***22.2***
Office and business properties	*Bankruptcy*	*27.2*	*5.0*	*88.3*	*14.1*
	Suspension of payments	*0.0*	*0.0*	*0.0*	*0.0*
	Current default on payments	*38.9*	*4.2*	*51.2*	*3.8*
	Past default on payments etc	*154.1*	*30.6*	*110.8*	*14.4*
Total		***220.2***	***39.8***	***250.3***	***32.3***
Other properties	*Bankruptcy*	*0.0*	*0.0*	*6.0*	*0.4*
	Suspension of payments	*0.0*	*0.0*	*0.0*	*0.0*
	Current default on payments	*1.8*	*0.2*	*2.1*	*0.2*
	Past default on payments etc	*4.5*	*0.7*	*10.2*	*1.7*
Total		***6.3***	***0.9***	***18.3***	***2.3***

The difference between the remaining bond debt before provisions and the actual provisions is estimated secured partly by means of the mortgage on the mortgaged property in question and partly by the financial institution guarantees placed as security for part of the loans. The background for this is that the calculation of provisions is based on the losses that DLR is likely to suffer in forced sales of the individual properties and in due consideration of the loss guarantees provided by the financial institutions.

(DKKm)

(Note 21 Credit Risk, continued)

Loans in Arrears, but without Provisions.
Distributed by the Age of the Oldest Arrears

Property Category	***Age of Oldest Arrears***	***Remaining Bond Debt 2014***	***Remaining Bond Debt 2013***
Farms, including	*0-2 months*	*3,480.4*	*2,546.4*
Residential farms etc.	*2-5 months*	*686.2*	*532.5*
	5-8 months	*99.6*	*72.0*
	8-11 months	*17.7*	*44.0*
	Over 11 months	*26.1*	*21.8*
Total		***4,310.0***	***3,216.7***
Rental properties	*0-2 months*	*578.6*	*567.8*
including private	*2-5 months*	*40.3*	*30.7*
cooperative housing	*5-8 months*	*1.3*	*17.7*
properties	*8-11 months*	*8.8*	*7.7*
	Over 11 months	*4.0*	*159.1*
Total		***633.0***	***783.0***
Office and business	*0-2 months*	*1,215.8*	*1,329.0*
properties	*2-5 months*	*114.5*	*105.2*
	5-8 months	*45.0*	*47.0*
	8-11 months	*28.2*	*23.3*
	Over 11 months	*19.7*	*19.1*
Total		***1,423.2***	***1,523.6***
Other properties	*0-2 months*	*327.7*	*75.0*
	2-5 months	*76.6*	*125.4*
	5-8 months	*1.5*	*8.6*
	8-11 months	*1.2*	*0.0*
	Over 11 months	*4.4*	*0.0*
Total		***411.4***	***209.0***

As a general rule, loans in arrears fall within an OII (objective indication for impairment), and for such loans an impairment calculation is carried out to determine whether there is a basis for making an individual provision.

Loans in arrears without individual provisions for impairment are substantially considered secured through the mortgage on the real property, which has been placed as security for the individual loans. In addition, there will generally – except for loans in agricultural properties – be a guarantee provided by a financial institution for part of DLR's loans in the individual properties.

Note	(DKKm)	2014	2013
22	***Debt to credit institutions and central banks***		
	Remaining term to maturity		
	Up to three months	*2,000.0*	*0.0*
	I alt	***2,000.0***	***0.0***
23	***Issued bonds at fair value***		
	Mortgage bonds - nominal value	*178,087.9*	*183,345.0*
	Fair value adjustment	*2,664.7*	*1,892.5*
	Own mortgage bonds offset - at fair value	*(48,230.6)*	*(59,803.8)*
	Montgage bonds at fair value	***132,522.0***	***125,433.7***
	Of which pre-issued	*27,834.2*	*45,761.9*
	Drawn for redemption in next term	*2,800.1*	*713.1*

Changes in the fair value of mortgage credit bonds and covered bonds (SDOs) attributable to changes in the credit risk can be determined relative to corresponding mortgage credit bonds and covered bonds (SDOs) from other Danish providers. These bonds are traded in a market without any measurable price differences between the bonds with the same characteristics offered by the various providers. Furthermore, the bonds that finance DLR's loans have been rated AAA by Standard & Poor's. Similarly, the main part of other Danish mortgage credit bonds and covered bonds have a high rating with Standard & Poor's.

As determined in this way, no fair value adjustments relate to DLR's own credit risk, either in the course of the year, or since the issuance.

Consequently, total fair value adjustments of issued mortgage credit bonds and SDOs resulting from fair value changes in own credit risk amount to DKK 0.0m (2013: DKK 0.0m). DKK 0.0m of the cumulative effect is attributable to changes for 2014 (2013: DKK 0.0m).

	2014	2013
By remaining term to maturity		
Up to 3 months	*60,598.1*	*66,515.7*
Over 3 months and up to 1 year	*12,531.0*	*23,028.0*
Over 1 year and up to 5 years	*85,276.0*	*74,592.1*
Over 5 years	*22,347.5*	*21,101.7*
Total	***180,752.6***	***185,237.5***

Note	(DKKm)	2014	2013
24	***Issued bonds at amortised cost***		
	Issues in connection with state guaranteed senior debt	*6,000.0*	*6,000.0*
	Employee bonds	*2.0*	*3.9*
	Total issued bonds at amortised cost	***6,002.0***	***6,003.9***
	By remaining term to maturity		
	Up to 3 months	*2.0*	*1.9*
	Over 3 months and up to 1 year	*3,000.0*	*0.0*
	Over 1 year and up to 5 years	*3,000.0*	*6,002.0*
	Total	***6,002.0***	***6,003.9***

25 ***Details on fair value of financial instruments that are not recognised at fair value***

Financial instruments are measured in the balance sheet either at fair value or at amortised cost. The table below shows the fair value of the instruments that are not recognised at fair value in the balance sheet.

Fair value constitutes the amount at which a financial asset can be exchanged, or at which a financial liability can be settled, between parties in an arm's length transaction. For further information, see note 1 Accounting Policies concerning recognition and measurement.

2014

	Carrying amount	Fair value
Loans and other receivables at amortised cost	*20.3*	*20.3*
Bonds at fair value	*6,002.0*	*6,096.0*

2013

	Carrying amount	Fair value
Loans and other receivables at amortised cost	*17.4*	*17.4*
Bonds at fair value	*6,003.9*	*6,110.5*

For other financial assets and liabilities that are not recognised at fair value, the carrying amount corresponds in all material respects to the fair value.

Note **(DKKm)**

26 ***Fair value breakdown of financial instruments recognised at fair value***

2014	***Quoted prices***	***Observable inputs***	***Unobservable inputs***	***Fair value total***
Financial assets:				
Recognised as trading book:				
- bonds at fair value	*9,165.5*	*0.0*	*0.0*	*9,165.5*
- derivative financial instruments	*20.8*	*10.7*	*0.0*	*31.5*
Recognised through the fair value option:				
- loans and other receivables at fair value	*0.0*	*133,198.3*	*0.0*	*133,198.3*
Recognised as available for sale:				
- shares available for sale	*0.0*	*57.5*	*10.5*	*68.0*
Total	***9,186.3***	***133,266.5***	***10,5***	***142,463.3***
Financial liabilities:				
Recognised as trading book:				
- derivative financial instruments	*17.8*	*0.0*	*0.0*	*17.8*
Recognised through the fair value option:				
- issued bonds at fair value	*129,670.4*	*2,849.5*	*0.0*	*132,519.9*
Total	***129,688.2***	***2,849.5***	***0.0***	***132,537.7***

2013	***Quoted prices***	***Observable inputs***	***Unobservable inputs***	***Fair value total***
Financial assets:				
Recognised as trading book:				
- bonds at fair value	*8,802.9*	*0.0*	*0.0*	*8,802.9*
- derivative financial instruments	*36.3*	*31.5*	*0.0*	*67.8*
Recognised through the fair value option:				
- loans and other receivables at fair value	*0.0*	*133,892.7*	*0.0*	*133,892.7*
Recognised as available for sale:				
- shares available for sale	*0.0*	*58.2*	*13.3*	*71.5*
Total	***8,839.2***	***133,982.4***	***13.3***	***142,834.9***
Financial liabilities:				
Recognised as trading book:				
- derivative financial instruments	*26.8*	*0.0*	*0.0*	*26.8*
Recognised through the fair value option:				
- issued bonds at fair value	*124,562.0*	*871.7*	*0.0*	*125,433.7*
Total	***124,588.8***	***871.7***	***0.0***	***125,460.5***

Quoted prices
The Company's assets and liabilities at fair value are to the widest extent possible recognised at quoted prices in an active market for identical assets and liabilities.

Observable inputs
When an instrument is not traded in an active market, measurement is based on observable inputs in generally accepted calculation models with observable market data. For unlisted shares in sector-owned companies where reallocation of the shares take place, the reallocation is considered to constitute the principal market for the shares. The fair value is determined to be the reallocation price, and the shares are included in this category.

Unobservable inputs
In cases where it is not possible to measure financial instruments at fair value on prices in active markets or observable inputs, measurement is based on own assumptions and extrapolations, etc. To the extent possible, measurement is based on actual transactions adjusted for differences in e.g. the liquidity, credit spreads and maturities of the instruments, etc. The Company's portfolio of unlisted shares in sector-companies where observable inputs are not immediately accessible are placed in this category.

Note	(DKKm)	2014	2013
27	***Other debt and payables***		
	Negative market value of derivative financial instruments	*17.8*	*26.8*
	Interest and commission payable	*1,326.6*	*1,546.3*
	Other payables	*3,086.0*	*807.4*
	Total	***4,430.4***	***2,380.5***
28	***Deferred tax***		
	Deferred tax, beginning-of-year	*(2.0)*	*(1.9)*
	Change in deferred tax	*4.3*	*(0.1)*
	Total	***2.3***	***(2.0)***
	Land and buildings, domicile properties	*4.8*	*(0.4)*
	Other tangible assets	*(1.5)*	*(1.6)*
	Provisions for retirement	*(1.0)*	*0.0*
	Total	***2.3***	***(2.0)***
	Deferred tax recognised in the balance sheet as follows:		
	Deferred tax assets	*(2.5)*	*(2.0)*
	Provisions for deferred tax	*4.8*	*0.0*
	Total	***2.3***	***(2.0)***

29 ***Equity***

Details on movements in equity appear from the Statement of Changes in Equity.

At 31 December 2014, the following shareholders held more than 5 pc of DLR's share capital:

Loan-providing banks that hold shares in DLR:
Jyske Bank A/S, Silkeborg
Spar Nord Bank A/S, Aalborg
Sydbank A/S, Aabenraa

Other shareholders:
Finansiel Stabilitet A/S, Copenhagen
Nykredit Realkredit A/S, Copenhagen
PRAS A/S, Copenhagen

Note	(DKKm)	2014	2013
30	***Subordinated debt***		
	Hybrid core capital 1)	*2,055.1*	*2,077.5*
	Government hybrid core capital 2)	*0.0*	*1,000.0*
	Total subordinated debt	***2,055.1***	***3,077.5***

1)Hybrid core capital in DLR Kredit:
An amount of DKK 1,300m was raised on 27 August 2012. The maturity is indefinite. The interest rate is floating and based on the six-months money market interest rate (CIBOR) with addition of 8.25 pc. The total hybrid core capital can be included in the capital base at 31 December 2014.

Interest: DKK 115.6m.

EUR 100m raised on 16 June 2005. The loan is perpetual. The loan carries a fixed rate of 4.269 pc p.a. up to 16 June 2015 after which it will carry a floating interest rate pegged to the 3-month money market interest rate (EURIBOR) with an addition of 1.95 pc. 80 pc. of the hybrid core capital can be included in the capital base at 31 December 2014.

Interest: DKK 9.4m.

Hedge accounting for risk:
Hedging is carried out for the exposure to fair value changes to bond prices resulting from changes in market yields. DLR has countered this risk by entering into the following currency swaps:

Two ten-year currency swaps with a synthetic principal amount of each a nominal value of EUR 50m, cf. note 32.

2) Government hybrid core capital in DLR Kredit:
On 21 May 2014 DLR redeemed the remaining DKK 1,000.0m of the government hybrid core capital issued on 26 June 2009.

Interest: DKK 35.7m.
Extraordinary repayments: DKK 1,000.0m

31 ***Capital base***

Details on capital base at the end of the year as well as differences between the capital base vis-à-vis equity appear from the Solvency statement.

Note **(DKKm)**

Note		2014	2013
32	***Derivative financial instruments***	***2014***	***2013***
	By remaining term to maturity		
	Forwards, bought		
	Up to three months		
	Nominal value	*71.8*	*170.3*
	Net market value	*0.2*	*1.3*
	Forwards, sold		
	Up to three months		
	Nominal value	*13,515.4*	*16,589.0*
	Net market value	*(2.6)*	*(11.2)*
	Interest rate swaps		
	Exceeding one year and up to five years		
	Nominal value	*744.4*	*746.0*
	Net market value	*27.6*	*48.3*

Forward contracts are entered partly in connection with the contracting of fixed price agreements by borrowers with DLR, and partly at the refinancing of adjustable-rate loans in the month of January, as the auctions took place in November and December 2014, while the settlement of the bonds was not effected until 2 January 2015.

33 ***Sensitivity to market risk***

DLR's risks and policies appear from the section in the Management’s Review on Risk Management. DLR is influenced by different types of market risk. To illustrated this influence or the sensitivity to each type of market risk, the change in results and equity caused by the various risk scenarios have been stated below.

2014	***Change in results***	***Change in equity***
Interest-rate risk on the securities portfolio		
An interest rate increase of 1 pc point	*(295.1)*	*(295.1)*
An interest rate decrease of 1 pc point	*295.1*	*295.1*
Risk Related to Shares		
An increase in share value of 10 pc	*5.1*	*5.1*
A decrease in share value of 10 pc	*(5.1)*	*(5.1)*
Foreign Exchange Risk		
An increase of 1 pc DKK/EUR	*3.8*	*3.8*
A decrease of 1 pc DKK/EUR	*(3.8)*	*(3.8)*

2013	***Change in results***	***Change in equity***
Interest-rate risk on the securities portfolio		
An interest rate increase of 1 pc point	*(128.9)*	*(128.9)*
An interest rate decrease of 1 pc point	*128.9*	*128.9*
Risk Related to Shares		
An increase in share value of 10 pc	*5.4*	*5.4*
A decrease in share value of 10 pc	*(5.4)*	*(5.4)*
Foreign Exchange Risk		
An increase of 1 pc DKK/EUR	*3.0*	*3.0*
A decrease of 1 pc DKK/EUR	*(3.0)*	*(3.0)*

Note **(DKKm)**

34 ***Risk Management***

DLR grants loans against registered mortgages on real property in due consideration of the security position of the loans. Mortgage credit loans and their underlying funding are regulated by the balance principle, which means that DLR has very low interest-rate, exchange-rate and liquidity risk in this connection. Credit risk is the most significant type of risk DLR is exposed to.

Credit, market and operational risk are all covered by holding sufficient capital, whereas liquidity risk is covered through sufficient liquidity resources.

Risk management responsibility lies with the Board of Directors and the Executive Board and is a central element in DLR's daily operations. DLR's internal control and risk management procedures are designed with a view to managing the relevant risk effectively.

On an annual basis, DLR publishes a detailed report entitled Risk and Capital Management. This report contains a series of risk indicators in compliance with the Capital Requirements Regulation (CRR). The report is not subject to auditing and may be found at dlr.dk/Financial Statements.

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Financial and operating data	***2014***	***2013***	***2012***	***2011***	***2010***
Profit and Loss Account					
Net interest and fee income	*1,392.6*	*1,229.4*	*1,048.9*	*944.2*	*579.7*
Other operating income etc.	*17.3*	*17.5*	*19.1*	*18.4*	*22.5*
Staff costs and administrative expenses	*(210.6)*	*(203.7)*	*(199.6)*	*(188.4)*	*(185.6)*
Other costs	*3.7*	*(4.8)*	*(5.1)*	*(5.7)*	*(6.7)*
Core earnings	***1,195.6***	***1,038.4***	***863.3***	***768.5***	***409.9***
Provision for loan and receivable impairment. etc.	*(190.6)*	*(113.3)*	*(87.1)*	*(140.8)*	*(106.4)*
Value adjustments	*(187.8)*	*(295.8)*	*(173.7)*	*(258.7)*	*32.6*
Profit before tax	***817.2***	***629.3***	***602.5***	***369.0***	***336.1***
Profit after tax	***615.9***	***470.7***	***450.7***	***275.3***	***251.1***
Balance Sheet at 31 December					
Assets					
Loans and advances	*133,218.6*	*133,910.1*	*135,630.7*	*133,211.2*	*132,567.3*
Bonds and shares etc.	*9,233.5*	*8,874.4*	*5,355.7*	*7,669.4*	*5,478.4*
Other assets	*15,184.5*	*4,109.7*	*7,900.2*	*14,065.8*	*6,487.1*
Total assets	***157,636.6***	***146,894.2***	***148,886.7***	***154,946.4***	***144,532.8***
Liabilities and equity					
Issued bonds	*138,524.0*	*131,437.6*	*128,423.2*	*129,949.2*	*122,849.3*
Other debt and payables	*6,438.5*	*2,394.8*	*6,240.5*	*11,788.6*	*8,964.4*
Subordinated debt	*2,055.1*	*3,077.5*	*5,254.2*	*5,622.5*	*5,607.1*
Equity	*10,619.0*	*9,984.3*	*8,968.8*	*7,586.1*	*7,112.0*
Total liabilities and equity	***157,636.6***	***146,894.2***	***148,886.7***	***154,946.4***	***144,532.8***
Financial Ratios					
Return on equity (ROE)					
Profit before tax in pc of equity)*	*7.9*	*6.6*	*7.3*	*5.0*	*4.9*
Profit after tax in pc of equity)*	*6.0*	*5.0*	*5.4*	*3.7*	*3.7*
Return on capital employed					
*Return on capital employed *)*	*0.39*	*0.32*	*0.30*	*0.18*	*0.17*
Costs					
Costs in pc of loan portfolio	*0.16*	*0.16*	*0.15*	*0.15*	*0.15*
Income/cost ratio)*	*3.02*	*2.96*	*3.07*	*2.10*	*2.13*
Income/cost ratio, excl. writedowns for impairment	*5.70*	*4.56*	*4.37*	*3.63*	*3.30*

Note	(DKKm)	2014	2013	2012	2011	2010
	(Note 35 Financial and operating data, continued)					
	Solvency (incl. profit for the year)					
	Solvency ratio, pc)*	12.3	12.3	13.2	12.2	12.0
	Core capital ratio, pc)*	12.3	12.3	13.2	12.2	12.0
	Losses and arrears					
	Arrears, year end (DKKm)	141.8	125.4	165.2	142.9	190.9
	Loss and impairment ratio for the period (in pc of loan portfolio))*	0.14	0.08	0.06	0.11	0.08
	Accumulated loss and impairment ratio (in pc of loan portfolio)	0.40	0.28	0.25	0.26	0.25
	Lending activity					
	Growth in loan portfolio, pc (nominal))*	(0.9)	(0.9)	2.3	1.1	2.0
	New loans, gross (DKKm)	33,181	11,340	20,176	12,836	18,037
	Number of new loans	9,638	4,887	7,944	4,887	7,327
	Loan/equity ratio)*	12.5	13.4	15.1	17.6	18.6
	Margins					
	Percentage of average loan portfolio (nominal):					
	Profit before tax	0.62	0.47	0.44	0.28	0.26
	Administrative margin	1.07	1.05	0.93	0.80	0.73
	Percentage of core capital after deductions:					
	Foreign exchange position)*	4.0	3.1	2.4	12.0	10.3

**) The financial ratios have been calculated on the basis of the definitions by the Danish Financial Supervisory Authority.*

Solvency

(DKKm)	2014	2013
Equity (excl. revaluation reserves)	***10,619.0***	***9,984.3***
Hybrid core capital with conversion option meeting the requirements to hybrid core capital in the EU Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR)	*1,300.0*	*1,300.0*
Government hybrid core capital covered by a transitional provision under EU Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR)	*0.0*	*1,000.0*
Hybrid core capital that does not meet the requirements in EU Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR), but is comprised by a transitional provision, according to which the issue is part of the capital base at 80 pc in 2014	*604.1*	*777.5*
Capital base before deductions	***12,523.1***	***13,061.8***
of which deferred tax assets	*(2,5)*	*(2.0)*
Capital base after deductions	***12,520.6***	***13,059.8***
Weighted items carrying credit, counterparty dilution and delivering risk	*95,237.0*	*101,198.4*
Weighted items with market risk	*4,937.9*	*3,021.2*
Weighted items with operational risk	*1,917.2*	*1,593.3*
Group-based provisions	*0.0*	*(39.3)*
Total weighted items	***102,092.1***	***105,773.6***
Solvency ratio	***12.3***	***12.3***

Cash Flow Statement

(DKKm)	2014	2013
Cash flow from operating activities		
Profit before tax	*817.2*	*629.3*
Adjustment for non-cash-items:		
Depreciation on assets	*3.7*	*4.8*
Value adjustments, securities	*186.2*	*293.7*
Change in provisions	*149.7*	*36.8*
Change in accrued interest income and receivables	*(82.4)*	*68.3*
Change in accrued interest expenses and payables	*2,052.8*	*(1,331.7)*
Corporation tax paid	*(226.4)*	*(171.3)*
Total cash flow from operating activities	***2,900.8***	***(470.1)***
Cash flow from investing activities		
Investment in tangible assets	*(2.5)*	*(4.2)*
Investment in assets temporarily foreclosed	*12.0*	*66.1*
Total cash flow from investing activities	***9.5***	***61.9***
Cash flow from financing activities		
Capital increase	*0.0*	*544.8*
Redemption of Government hybrid core capital (banking package II)	*(1,000.0)*	*(2,154.3)*
Raising of senior secured bonds	*0.0*	*2,000.0*
Redemption of state guaranteed senior debt	*0.0*	*(3,499.0)*
Change in mortgage loans	*(1,535.0)*	*1,413.1*
Change in issued bonds	*(4,486.7)*	*8,584.2*
	(7,021.7)	*(10,279.6)*
Change in immediate redemptions at par	*2,090.4*	*237.6*
Change in receivables from non-foreclosed properties	*(19.4)*	*31.7*
Total cash flow from financing activities	***(4,950.7)***	***(10,010.3)***
Cash flow for the year	***(2,040.4)***	***(10,418.5)***
Cash and cash equivalents. incl. securities, beginning-of-year	*72,290.8*	*83,003.0*
Market value adjustment	*(186.2)*	*(293.7)*
Cash and cash equivalents, incl. securities, year-end	***70,064.2***	***72,290.8***

Pursuant to the Danish Financial Supervisory Authority Executive Order no 872 of 20 November 1995 on series financial statements in mortgage banks, mortgage banks are required to prepare separate series financial statements for series with series reserve funds, cf section 25(1) of the Danish Mortgage Credit Loans and Mortgage Credit Bonds etc. Act.

The Series Financial Statements have been prepared on the basis of the Annual Report of DLR Kredit A/S for 2014.

The distribution of profit for 2014 adopted by DLR Kredit A/S's Board of Directors (cf the Annual Report) has been included in the Series Financial Statements. The series' calculated share of the profit for the year of DLR Kredit A/S determined in accordance with the Executive Order has been taken to the general reserves of the mortgage credit institution.

The Series Financial Statements have been printed at association level, cf section 30(3) of the Executive Order.

Complete Series Financial Statements may be obtained from DLR Kredit A/S.

(DKKm)	***B-SDO***	***DLR In General***	***TOTAL***
Income Statement			
Income from lending	*1,215.6*	*213.5*	*1,429.1*
Interest payable on subordinate loan capital	*(217.2)*	*(38.1)*	*(255.3)*
Interest, net	*204.9*	*27.8*	*232.7*
Administrative expenses	*(351.0)*	*(47.7)*	*(398.7)*
Impairment losses on loans and advances	*(166.0)*	*(24.6)*	*(190.6)*
Tax	*(168.2)*	*(33.1)*	*(201.3)*
Profit	***518.1***	***97.8***	***615.9***
Balance sheet			
Assets			
Mortgage loans	*115,455.8*	*17,775.1*	*133,230.9*
Other assets	*71,144.8*	*2,024.5*	*73,169.3*
Total assets[1]	***186,600.6***	***19,799.6***	***206,400.2***
Liabilities and equity			
Issued bonds	*164,208.0*	*18,177.1*	*182,385.1*
Other liabilities	*10,828.6*	*512.4*	*11,341.0*
Subordinate loan capital	*1,567.2*	*487.9*	*2,055.1*
Equity	*9,996.7*	*622.3*	*10,619.0*
Total liabilities and equity	***186,600.6***	***19,799.6***	***206,400.2***
Movements in capital, net	***1,066.0***	***(431,2)***	

1. Assets, Series Financial Statements	
Assets, Annual Report	*157,636.6*
Assets, Series Financial Statements	*206,400.2*
Difference	***(48,763.6)***
Specified as follows:	
Own issued mortgage bonds and own SDOs	*(48,230.5)*
Interest receivable from own issued bonds	*(533.1)*
Total	***(48,763.6)***

MANAGEMENT'S STATEMENT ON THE ANNUAL REPORT

Today, the Board of Directors and the Executive Board reviewed and approved the Annual Report for the financial year 1 January – 31 December 2014 of DLR Kredit A/S.

The Annual Report has been prepared in accordance with the Danish Financial Business Act and the accounting provisions for mortgage banks laid down by the Danish Financial Supervisory Authority, as well as the additional disclosure requirements provided by the NASDAQ Copenhagen for annual reports of issuers of listed bonds. Furthermore, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for listed financial companies.

In our opinion, the Financial Statements give a true and fair view of the Company's assets, liabilities, equity and financial position at 31 December 2014 as well as of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2014.

Moreover, in our opinion, the Management's Review includes a fair review of the matters under review as well as a description of significant risks and uncertainty factors that may affect the Company.

The Annual Report is recommended to the Annual General Meeting for approval.

Copenhagen, 26 February 2015

Executive Board

Bent Andersen *Managing Director, CEO*	Jens Kr. A. Møller *Managing Director*	Michael Jensen *Managing Director*

Board of Directors

Vagn Hansen *Chairman*	Anders Dam *Deputy Chairman*	
Claus Andreasen	Ole Selch Bak	Karen Frøsig
Peter Gæmelke	Jakob G. Hald	Søren Jensen
Agnete Kjærsgaard	Lars Møller	Torben Nielsen
Benny Pedersen	Jan Pedersen	Lars Petersson

INTERNAL AUDITOR'S REPORT

Reposit on the Financial Statements

We have audited the Financial Statements of DLR Kredit A/S for the financial year 1 January to 31 December 2014, which comprise profit and loss account and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The Financial Statements have been prepared in accordance with the Danish Financial Business Act. In addition, the financial statements have been prepared in accordance with additional Danish disclosure requirements for issuers of listed bonds.

Basis of opinion

We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Enterprises, etc. as well as Financial Groups and in accordance with Danish auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance that the Financial Statements and Management's Review are free from material misstatement.

The audit was performed observing the division of work agreed with the external auditors and included assessment of the business procedures and internal control established, including the risk management organised by Management and aimed at reporting processes and significant business risks. Based on materiality and risk, we have, by audit sampling, verified the bases for amounts and other disclosures in the Financial Statements and Management's Review, including evidence supporting amounts and disclosures stated therein. Furthermore, the audit included an evaluation of the appropriateness of accounting policies applied by Management and the reasonableness of the accounting estimates made by Management, as well as an evaluation of the overall presentation of the Financial Statements and Management's Review.

We have participated in the audit of areas that are material and exposed to the highest risks, and we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the business procedures and internal controls established, including the risk management organised by Management aimed at reporting processes and significant business risks, are working satisfactorily.

Furthermore, in our opinion, the Financial Statements give a true and fair view of the Company's assets, liabilities, equity and financial position at 31 December 2014 and of its operations and cash flows for the financial year 2014 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for financial statements of issuers of listed bonds.

Moreover, in our opinion, the Management's Review gives a fair review in accordance with the Danish Financial Business Act.

Statement on the Management's Review

Pursuant to the Danish Financial Business Act, we have read the Management's Review. We have not performed any other procedures in addition to the audit of the Financial Statements. On this basis, it is our opinion that the information given in the Management's Review is consistent with the Financial Statements.

Copenhagen, 26 February 2015

Internal audit

Dennis Lundberg
Chief Internal Auditor

To the shareholders of DLR Kredit A/S

Report on the Financial Statements

We have audited the financial Statements of DLR Kredit A/S for the financial year 2014, which comprise profit and loss account, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies as well as Management's review. The financial statements and Management's review have been prepared in accordance with the Danish Financial Business Act. In addition, the financial statements have been prepared in accordance with additional Danish disclosure requirements for issuers of listed bonds.

Management's responsibility for the financial statements and Management's review

Management is responsible for the preparation and fair presentation of financial statements in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds, and for a management's review that provides a fair review in accordance with the Danish Financial Business Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements and management's review that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and basis of opinion

Our responsibility is to express an opinion on the financial statements and Management's review based on our audit. We conducted our audit in accordance with Danish auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements and Management's review are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and Management's review. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial statements and Management's review, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of financial statements that give a true and fair view, as well as to the preparation of a management's review that provides a fair review, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies applied by Management and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements and Management's review.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and equity, and of the financial position at 31 December 2014, as well as of the Company's financial performance and cash flows for the financial year 1 January – 31 December 2014 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds, and that Management's review provides a fair review in accordance with the Danish Financial Business Act.

Copenhagen, 26 February 2015

Deloitte
Statsautoriseret Revisionspartnerselskab

Henrik Wellejus	Hans Trærup
State Authorised Public Accountant	*State Authorised Public Accountant*

STOCK EXCHANGE ANNOUNCEMENTS IN 2014

In 2014, DLR Kredit A/S published the below stock exchange announcement announcements. The announcements are available from DLR's website at www.dlr.dk. The announcements may also be required in full wording from DLR.

06-02-14	Statement on the lending development in DLR Kredit A/S in H2 2013
06-02-14	Remortgaging auction at 1 April 2014
27-02-14	Announcement of Financial Results 2013
27-02-14	Annual Report 2013
03-03-14	Remortgaging auction at 1 April 2014 – final amounts
10-03-14	Results from remortgaging auctions in EUR
10-03-14	Results from remortgaging auctions in DKK
11-03-14	Correction: Results from refinancing in EUR
11-03-14	Correction: Results from refinancing in DKK
14-03-14	Appendix to prospectus for covered bonds
27-03-14	Fixing of coupon rates at 1 April 2014 (EUR)
27-03-14	Final bond terms and conditions for 1% IT ap B 2015 (DKK)
27-03-14	Final bond terms and conditions for 1% IT ok B 2014 (DKK)
27-03-14	Final bond terms and conditions for 1% IT ap B 2015 (EUR)
31-03-14	Fixing of coupon rates at 1 April 2014 (Senior Secured Bonds)
07-04-14	Notice of Annual General Meeting
24-04-14	Interim Report, Q1 2014
24-04-14	Annual General Meeting
20-05-14	DLR Kredit A/S redeems remaining government hybrid core capital and upgrades expectations for the financial result for 2014
03-06-14	Final bond terms and conditions for 2% ok B2019 (DKK)
03-06-14	Final bond terms and conditions for 1% IT ok B 2015 (DKK)
26-06-14	Fixing of coupon rates at 1 July 2014 (EUR)
26-06-14	Fixing of coupon rates at 1 July 2014 (DKK)
27-06-14	Final bond terms and conditions for 3% 43A B 2047
27-06-14	Final bond terms and conditions for 3% 43OA B 2047
27-06-14	Final bond terms and conditions for 2.5% 42A B 2037
27-06-14	Fixing of coupon rates at 1 July 2014 (Senior Secured Bonds)
08-07-14	Final bond terms and conditions for 6CT+25 B OA 2018
08-07-14	Final bond terms and conditions for 6CB-15 B OA 2018
11-07-14	Correction concerning fixing of coupon rates
18-07-14	Standard & Poor's affirms issuer credit rating on DLR Kredit
14-08-14	Remortgaging auction at 1 October 2014
14-08-14	Interim Report, H1 2014
20-08-14	Refinancing auction at 1 October 2014 (updated estimate of offered amounts)

25-08-14	Remortgaging auction at 1 October 2014 (updated estimate of offered amounts)
27-08-14	Statement on the lending development in DLR Kredit A/S in H1 2014
29-08-14	Final bond terms and conditions for 1% IT B ja 2016 (EUR)
29-08-14	Remortgaging auction at 1 October 2014 (update)
29-08-14	Final bond terms and conditions for 2% B ja 2020 (DKK)
29-08-14	Final bond terms and conditions for 2% IN B ja 2020 (EUR)
29-08-14	Final bond terms and conditions for 1% IT B ja 2016 (DKK)
01-09-14	Remortgaging auction at 1 October 2014 (final offer)
05-09-14	Results from DLR's remortgaging auction (DKK)
08-09-14	Correction: Results from DLR's remortgaging auction (DKK)
11-09-14	Final bond terms and conditions for 2% 42A B 2037
11-09-14	Final bond terms and conditions for 2,5% 43A B 2047
26-09-14	Fixing of coupon rates at 1 October 2014 (EUR)
26-09-14	Fixing of coupon rates at 1 October 2014 (Senior Secured Bonds)
30-09-14	The Executive Board of DLR Kredit
01-10-14	Standard & Poor's downgrades rating on DLR Kredit's junior subordinated debt from BB to BB-
10-10-14	Realisation of a large number of trades in DLR shares
23-10-14	Financial Calendar 2015
23-10-14	Interim Report, Q1-3 2014
04-11-14	Remortgaging auctions at 1 January 2015
05-11-14	Clarification concerning remortgaging auctions at 1 January 2015
10-11-14	Refinancing auctions at 1 January 2015
18-11-14	Final bond terms and conditions for 6CB-20 B OA 2019
26-11-14	Final bond terms and conditions for 2.5% B 2047 IO
26-11-14	Results from November auctions of ARM loans
08-12-14	Appendix to prospectus No. 2 for covered bonds issued by DLR Kredit A/S
17-12-14	Offer of bonds for the remaining part of the year
19-12-14	Final bond terms and conditions for 1% B ap 2016 IT (DKK)
19-12-14	Final bond terms and conditions for 2% B ap 2017 IT (DKK)
19-12-14	Final bond terms and conditions for 2% B ap 2018 RF (DKK)
19-12-14	Final bond terms and conditions for 2% B ap 2019 RF (DKK)
19-12-14	Final bond terms and conditions for 2% B ap 2020 RF (DKK)
22-12-14	Fixing of coupon rates (DKK)
22-12-14	Fixing of coupon rates (EUR)
30-12-14	Fixing of coupon rates (Senior Secured Bonds)

Apart from the above announcements, DLR Kredit A/S has on an ongoing basis published CK announcements containing information about prepayments, repayment policies and debtor distribution. This information is also available from DLR's website at www.dlr.dk.

SHAREHOLDERS IN DLR KREDIT A/S

Year-end 2014

A/S Møns Bank
A/S Nørresundby Bank
Aktieselskabet Lollands Bank
Aktieselskabet Nordfyns Bank
Aktieselskabet Skjern Bank
Alm. Brand Bank A/S
Andelskassen Fælleskassen
Andelskassen J.A.K., Slagelse
Arbejdernes Landsbank
BankNordik
Borbjerg Sparekasse
Broager Sparekasse
Danmarks Nationalbank
Danske Andelskassers Bank A/S
Den Jyske Sparekasse
Djurslands Bank A/S
Dragsholm Sparekasse
Dronninglund Sparekasse
Fanø Sparekasse
Faster Andelskasse
Finansiel Stabilitet A/S*
Flemløse Sparekasse
Folkesparekassen
Frørup Andelskasse
Frøs Herreds Sparekasse
Frøslev-Mollerup Sparekasse
Fynske Bank A/S
GrønlandsBANKEN A/S
Hals Sparekasse
Handelsbanken
Hvidbjerg Bank, Aktieselskab
J.A.K. Andelskasse, Østervrå
Jutlander Bank A/S
Jyske Bank A/S
Klim Sparekasse
Kreditbanken A/S
Langå Sparekasse
Lån & Spar Bank A/S
Merkur, Den Almennyttige Andelskasse
Middelfart Sparekasse
Nordjyske Bank A/S
Nordoya Sparikassi
Nykredit Realkredit A/S**
PRAS A/S
Ringkjøbing Landbobank, Aktieselskab
Rise Sparekasse
Rønde Sparekasse
Salling Bank A/S
Saxo Privatbank
Spar Nord Bank A/S
Sparekassen Balling
Sparekassen Bredebro
Sparekassen Den lille Bikube
Sparekassen Djursland
Sparekassen for Nr. Nebel og Omegn
Sparekassen Fyn A/S
Sparekassen Kronjylland
Sparekassen Sjælland
Sparekassen Thy
Sparekassen Vendsyssel
Stadil Sparekasse
Sydbank A/S
Søby-Skader-Halling Sparekasse
Sønderhå-Hørsted Sparekasse
Totalbanken A/S
Vestjysk Bank A/S
Vorbasse-Hejnsvig Sparekasse
Østjydsk Bank A/S

*) Including FS Finans II A/S, FS Finans III A/S and FS Finans IV A/S

**) Formerly Nykredit Bank A/S (Forstædernes Bank A/S)