ANNUAL REPORT 2015

2015

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5 YEARS' FINANCIAL AND OPERATING DATA

	2015 *	2014 *	2013	2012	2011
Financial and operating data, DKKm					
Administration fee income	*1,440*	*1,411*	*1,403*	*1,261*	*1,064*
Other core income, net	*87*	*71*	*70*	*111*	*176*
Interest expenses, subordinated debt	*(4)*	*(45)*	*(310)*	*(448)*	*(465)*
Interest expenses, senior debt (SBB)	*(66)*	*(95)*	*(83)*	*(5)*	*0*
Fee and commission income, net	*(218)*	*(172)*	*(221)*	*(190)*	*(298)*
Core income (mortgage credit income)	***1,239***	***1,169***	***860***	***729***	***477***
Staff costs and administrative expenses, etc.	*(225)*	*(214)*	*(209)*	*(205)*	*(194)*
Provision for loan and receivable impairment, etc.	*(94)*	*(191)*	*(113)*	*(87)*	*(141)*
Results from core activities (mortgage credit earnings)	***921***	***765***	***538***	***438***	***142***
Portfolio earnings (securities)	*(45)*	*168*	*92*	*165*	*227*
Profit before tax	***875***	***933***	***629***	***602***	***369***
Profit after tax	***670***	***703***	***471***	***451***	***275***
Balance Sheet at 31 December					
Assets					
Loans and advances	*133,038*	*133,219*	*133,910*	*135,631*	*133,211*
Bonds and shares	*12,033*	*9,234*	*8,874*	*5,356*	*7,669*
Other assets	*3,371*	*15,184*	*4,110*	*7,900*	*14,066*
Total assets	***148,442***	***157,637***	***146,894***	***148,887***	***154,946***
Liabilities and equity					
Issued bonds	*134,342*	*141,324*	*131,438*	*128,423*	*129,949*
Other debt and payables	*1,596*	*3,638*	*2,395*	*6,241*	*11,789*
Subordinated debt	*0*	*755*	*3,078*	*5,254*	*5,623*
Equity	*12,503*	*11,919*	*9,984*	*8,969*	*7,586*
Total liabilities and equity	***148,442***	***157,637***	***146,894***	***148,887***	***154,946***
Financial Ratios **					
Return on equity (ROE)					
Profit before tax in pc of equity	*7.2*	*8.5*	*6.6*	*7.3*	*5.0*
Profit after tax in pc of equity	*5.5*	*6.4*	*5.0*	*5.4*	*3.7*
Return on hybrid core capital (CRR-compliant)	*8.6*	*8.9*			
Return on hybrid core capital excl. Hybrid core capital (CRR-compliant)	*5.1*	*5.7*	*5.0*	*5.4*	*3.7*
Return on Capital Employed					
Return on capital employed	*0.5*	*0.4*	*0.3*	*0.3*	*0.2*
Costs					
Costs in pc of loan portfolio	*0.16*	*0.16*	*0.16*	*0.15*	*0.15*
Income/cost ratio	*3.75*	*3.30*	*2.96*	*3.07*	*2.10*
Income/cost ratio, excl. write-downs	*5.31*	*6.24*	*4.56*	*4.37*	*3.63*
Solvency (incl. results for the period)					
Capital ratio	*12.9*	*12.3*	*12.3*	*13.2*	*12.2*
Actual core capital ratio (CET1%)	*11.5*	*10.4*	*9.8*	*8.7*	*7.4*
Losses and Arrears					
Arrears, year-end (DKKm)	*122*	*142*	*125*	*165*	*143*
Loss and impairment ratio for the period (in pc of loan portfolio)	*0.07*	*0.14*	*0.08*	*0.06*	*0.11*
Accumulated loss and impairment ratio (in pc of loan portfolio)	*0.44*	*0.40*	*0.28*	*0.25*	*0.26*
Lending Activity					
Growth in loan portfolio, pc (nominel)	*0.6*	*(0.9)*	*(0.9)*	*2.3*	*1.1*
New loans, gross (DKKm)	*23,469*	*33,181*	*11,340*	*20,176*	*12,836*
Number of new loans	*8,585*	*9,638*	*4,887*	*7,944*	*4,887*
Loan/equity ratio	*10.6*	*11.2*	*13.4*	*15.1*	*17.6*
Margins					
Percentage of average loan portfolio (nominal):					
Profit before tax	*0.67*	*0.71*	*0.47*	*0.44*	*0.28*
Administrative margin	*1.09*	*1.07*	*1.05*	*0.93*	*0.80*
Percentage of core capital after deductions:					
Foreign exchange position as a percentage of core capital after deductions	*9.1*	*4.0*	*3.1*	*2.4*	*12.0*

**) A change has been made to DLR's accounting policies in respect of the classification of interest expenses relating to hybrid core capital. Comparative figures for 2014 have been adjusted. Please refer to note 1 "Accounting Policies" for details.*

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

Summary

- In 2015, DLR Kredit achieved a profit before tax of DKK 875m against DKK 933m the year before
- The profit before tax levels with the amount expected for the year
- In 2015, DLR repaid hybrid core capital of EUR 100m
- At the end of 2015, the capital ratio amounted to 12.9
- Losses and provisions for impairment impacted operations by a negative DKK 94m before loss offsetting against a negative DKK 191m in 2014
- The outlook for the 2016 results before portfolio earnings and provisions for loans and receivable impairment are expected to be slightly below the 2015-level

Annual Results

In 2015, DLR achieved a satisfactory profit before tax of DKK 875m, which is DKK 58m lower than for 2014 and level with the forecast. Profit after tax came to DKK 670m for 2015.

DLR's earnings primarily stem from:

- Core earnings: The return on mortgage credit activity in the form of administration fee, other fee and commission income, etc. less the related administrative expenses as well as losses and provisions for impairment

Table 1. Profit and Loss Account

DKK m	2015	2014
Administration fee income	1,440	1,411
Other core income, net	87	71
Interest expenses, subordinated debt	(4)	(45)
Interest expenses, senior debt (SBB)	(66)	(95)
Fee and commission income, net	(218)	(172)
Core income	**1,239**	**1,169**
Staff costs and administrative expenses, etc.	(225)	(214)
Provision for loan and receivable impairment, etc.	(94)	(191)
Core earnings	**921**	**765**
Portfolio earnings (securities)	(45)	168
Profit before tax	875	933
Profit after tax	670	703

- Portfolio earnings: The return on the securities portfolio.

Core earnings

In 2015, administration fee income came to DKK 1,440m, which is virtually unchanged compared to 2014.

Interest expenses for subordinated debt relate to expenses concerning DLR's capital issues. In the years 2011-2013, total expenses for such capital issues were recognised in the profit and loss account. For 2014 and 2015, a change has been made to the accounting policies concerning expenses for capital issues that meet the requirements of the CRR regulation for hybrid capital instruments (indefinite maturity and a voluntary code of conduct regarding payments to owners of hybrid core capital). This change entails that payments to owners of hybrid core capital cannot be expensed in the profit and loss account, but must instead be included in the allocation of the statement of comprehensive income. See note 1 to the financial statements for further information.

Consequently, interest expenses for subordinated debt in 2014 and 2015 only concern expenses for capital issues that did not meet the requirements of the CRR regulation to hybrid core capital instruments. The expense amounted to DKK 4m in 2015 against DKK 45m in 2014. The decrease is primarily due to the repayment of the remaining government hybrid core capital in 2014. Furthermore, EUR 100m hybrid core capital was repaid in 2015.

Interest expenses for Senior Secured Bonds (SSB) amounted to DKK 66m, which is DKK 29m lower than in 2014. The lower expenses are due to the falling interest rate level as well as to the net run-off of SSBs in 2015. Issuance of this type of debt is applied to meet the need for additional security (the SDO requirement) as well as to meet the requirements for overcapitalisation to secure DLR's bond rating.

Fee and commission income concern income from fees and brokerage in connection with payment and repayment of mortgage credit loans as well as trading margins on refinancing. Fee and commission payments relate to financial institutions that have provided loans to DLR. The expenses include both loan-provision commission and commission for provision of loss guarantees.

Net fee and commission paid constituted expenses of DKK 218m against expenses at DKK 172m in 2014. The principal cause of the change is lower income from trading margins connected to refinancing. This is a consequence of a decreasing amount of loans subject to frequent refinancing, and it is consistent with DLR's wish to reduce the amount of the annual refinancing.

Subsequently, core income amounted to DKK 1,239m, which is DKK 70m less than in 2014. The increase constitutes 6.0 pc.

Staff costs and administrative expenses, etc. increased from DKK 214m in 2014 to DKK 225m in 2015, which is an increase of 5.1 pc. DKK 6m of the increase constitutes an expense to the statutory settlement funds. Excluding the expenses to the settlement funds, the cost increase amounted to 2.3 pc.

For 2015, recognised losses on claims, including adjustments from previous years, have been calculated at DKK 35m. Consequently, provisions for loan and receivable impairment etc. charge DKK 94m to the financial statements compared with DKK 191m in 2014.

To a great extent, DLR has maintained the collective provisions from 2014 as a consequence of the continued uncertain situation in agriculture. Thus, at the end of 2015, DLR made a collective provision of DKK 145m against DKK 198m at the end of 2014.

At the end of 2015, the total individual impairment provisions amount to DKK 445m, to which can be added the collective provisions at DKK 145m.

Portfolio earnings

Portfolio earnings amounted to a negative DKK 45m in 2015 against DKK 168m in 2014. The lower return for 2015 should be seen in connection with the modestly decreasing interest rate level in 2014, whereas in 2015 this level was modestly increasing.

At year-end 2015, DLR's bond holdings amounted to DKK 17bn including prepaid funds.

Allocation of comprehensive income for the year

The comprehensive income of the year amounts to DKK 670m. Of this, DLR paid DKK 112m to owners of hybrid core capital. As this expense is deductible DLR's net cost only amounts to DKK 86m. Overall, this implies that DKK 584m is transferred to DLR's shareholders. DLR recommends to the Annual General Meeting that like previous years, no dividend be paid for 2015 to the shareholders.

Balance Sheet

At the end of the year, mortgage loans amounted to DKK 133.0bn determined at fair value, which is level with end-2014. However, the unchanged level covers a continued considerable activity where gross lending for 2015 amounted to DKK 23.5bn (8,585 paid-out loans).

The portfolio of bonds and shares amounted to DKK 12.0bn against DKK 9.2bn at the end of 2014. The amount of the accounting portfolio of bonds depends on whether the portfolio comprises own issued bonds that are offset in the item under liabilities of “Issued bonds”, or mortgage bonds issued by other mortgage credit institutions.

At the end of 2015, DLR's balance sheet total came to DKK 148.4bn, which is DKK 9.2bn lower than at the end of 2014. One of the reasons for the lower balance sheet total is a lower extent of refinancing at the end of 2015 compared to the end of 2014.

Capital Base

In 2015, DLR strengthened the capital base by DKK 584m, cf. above.

In June 2015, DLR repaid the hybrid core capital of EUR 100m raised in 2005. At the end of 2015, DLR consequently only had hybrid core capital (Tier 1) in the amount of DKK 1,300m that has been recognised in equity.

At year-end 2015, DLR's capital was solely based on core capital and hybrid core capital. In aggregate, the capital base amounted to DKK 12.5bn at year-end 2015 against likewise DKK 12.5bn at year-end 2014.

Table 2. DLRs capital ratio

	2015	2014
Actual core capital ratio	11.5	10.4
Core capital ratio	12.9	12.3
Capital ratio	12.9	12.3
Total risk exposure (DKKbn)	**97**	**102**

DLR's capital ratio amounts to 12.9 at year-end 2015. The core capital ratio was also 12.9 at year-end 2015.

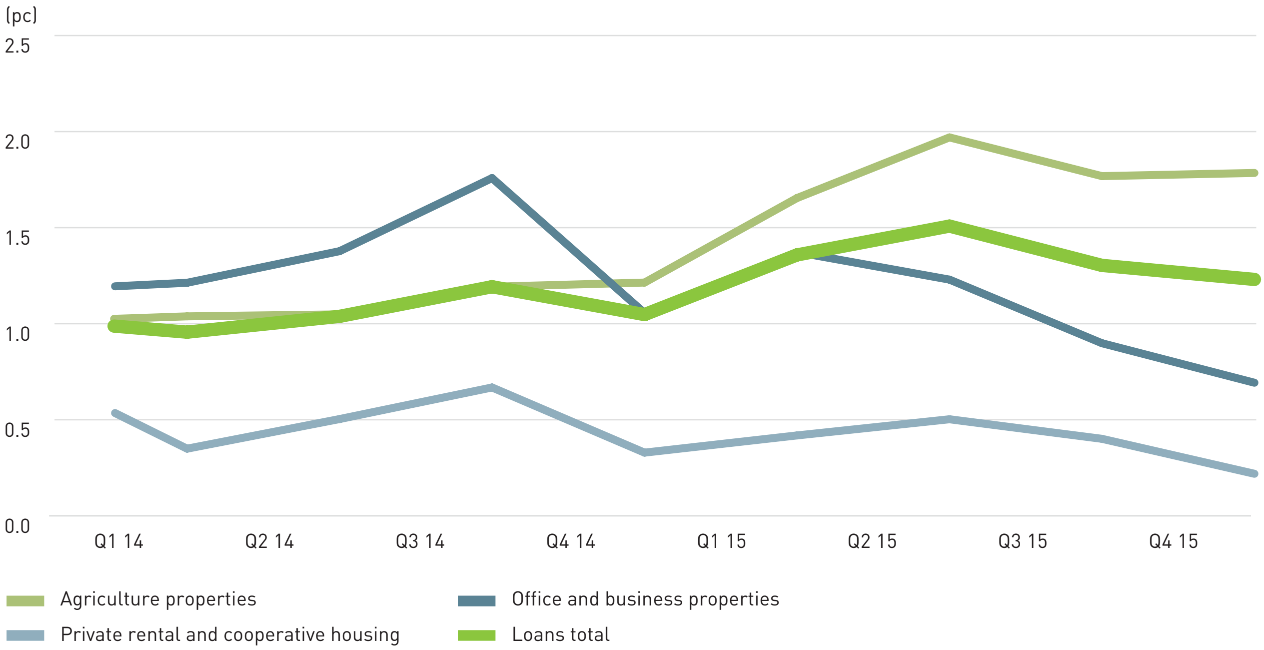
Arrears and Forced Sales

In 2015, DLR charged term payments amounting to a total of DKK 5.9bn.

At the end of 2015, the amount of repayments in arrears was DKK 122m against DKK 142m the year before. Of the amount of arrears, the vast majority relates to term payments that are no more than 3½ months old.

The number of implemented forced sales of properties on which DLR holds a mortgage was 129 in 2015. DLR took over 42 of these properties. The corresponding figures for 2014 were 123 and 44. DLR's portfolio of properties foreclosed was 26 at year-end 2015 against 30 at year-end 2014. The value of the properties foreclosed amounted to DKK 62m at year-end 2015.

Figure 1: The development in DLR's 3.5 months arrears percentages



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

In 2015, DLR recognised losses on 20 properties, which were taken over at forced sales by other creditors than DLR, and DLR participated in 46 loss-incurring, voluntary trades and compositions.

In total, DLR recognised losses on 108 properties in 2015 against 95 in 2014.

Events occurred after the reporting period

There have been no events after the balance sheet date that could change the financial statements result or balance.

It can be noted that DLR has received approval from the Danish FSA of the use of IRB models for calculating credit risk in the agricultural portfolio at end Q1 2016. The effect of the application is expected to be an improvement in the capital ratio of around 2.5 per cent points.

DLR's board of directors has decided to buy back Financial Stability's portfolio of DLR shares before the end of Q1 2016. The buyback will take place at a market value of up to DKK 600m.

The buyback is expected to have a negative effect on DLR's capital ratio of around 0.6 per cent point.

Chief internal auditor Dennis Lundberg has resigned in DLR effective from the end of April 2016 to take up a similar position in another financial institution.

The process of recruiting a new chief internal auditor has begun.

Outlook 2016

DLR's business areas primarily comprise loans to the agricultural sector and urban trade businesses.

As a consequence of factors such as the trade conflict with Russia, sales difficulties in the Chinese market and increasing supplies of agricultural products, agriculture is still affected by low settlement prices on several of the most important products. In December 2015, the government and a number of parties concluded the so-called "Agreement on Food and Agriculture Package" that contains several initiatives to improve the framework conditions of the agricultural sector. A final approval of the "package" in its present form will initially primarily benefit arable production, but will in the longer term have a positive impact on all branches of production. At present, final approval of the "package" is however pending. Even if there is a prospect of a slight improvement of earnings for the agricultural sector as a whole in 2016, in part as a result of the "Food and Agriculture Package", the level is still expected not to be satisfactory. For the agricultural sector, DLR expects moderate lending activity when disregarding loan conversions.

Indications show that the growth in the Danish economy that at first was concentrated around the largest cities, is slowly spreading to other areas of the country, which will be beneficial to DLR's customer segments within urban trade businesses. Within this customer group, DLR expects a small increase of the business volume.

IN 2016, DLR expects core earnings in the area of DKK 700-800m and as such slightly below the level in 2015. Changes in the interest rate level and the resulting amount of the portfolio return may, however, be of major importance to DLR's overall performance.

CAPITAL BASE

Capital Requirements

With the CRR and the CRD IV we have within a brief period of time witnessed a considerable shift in the requirements to financial businesses, including the extent and quality of the capital required.

On this basis, DLR has, cf. below, drawn up a long-term capital plan aimed at a gradual adjustment of the capital base over a number of years with a view to meeting the demands that are being phased in ending 2019. An example is the phasing-in of capital buffers to be met with actual core capital. At the same time, the new rules have affected DLR's calculation of the overall risk exposure based on i.a. the easing in the capital requirement that has been introduced for small and medium-sized enterprises.

Capital Plan

With a view to an anticipated increase in capital requirements due to CRR and CRD IV, DLR's Board in 2012 for the first time decided on a long-term capital plan towards 2019, which has since then been updated and extended on a current basis. The capital plan takes into account the new regulatory demands in regard to quality as well as the size of the required capital base, including the gradual phasing-in of the new requirements. In addition to the regulatory demands, 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 and their rating as well as ensure that demands regarding the debt buffer from 2016 etc. are met with.

Based on the capital plan, a long number of initiatives have been implemented aimed at adjusting the capital base. These initiatives have comprised i.a. several share issues as well as issuance of hybrid core capital. At the same time, the government hybrid core capital of DKK 4.8bn raised by DLR in 2009 has been fully repaid. On a current basis, 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 property price decreases.

DLR's initiatives in the capital area are described in further detail in the section "Ownership and Capital Structure". 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 high-quality liquid assets (HQLA) to continuously to be able to cover the net liquidity outflow 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 has been gradually phased in from 1 October 2015 and will be fully phased in from 2018. However, as a SIFI institution, DLR has been required to meet a fully phased-in LCR requirement from 1 October 2015.

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 1b assets with 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.

In the period leading up to the implementation of the LCR demand, DLR has been adjusting its securities portfolio, i.a. in regard to government bonds, in order to increase the share of HQLA.

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 the past two years, DLR has 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 horizon that we expect in future as well as to 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 has therefore since 2014 on an annual basis prepared a specific report on liquidity in the same way as we prepare a capital adequacy assessment report (ICAAP - Internal Capital Adequacy Assessment Process). The ILAAP is approved by DLR's Board of Directors before it is submitted to the Danish FSA.

DLR's initiatives in 2015 regarding funding and liquidity are described in further detail in the section "Funding".

Recovery and Resolution Plans

The EU crisis management directive, the BRRD (Bank Recovery and Resolution Directive), that was implemented into Danish legislation as from 1 June 2015 demands the drawing-up of two new reports: An internal recovery plan drawn up by DLR, and an external resolution plan drawn up by the authorities.

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 i.e. capital and liquidity initiatives that are relevant for internal crisis management.

DLR has taken into account the technical standards (RTS) and guidelines (GL) of the European Banking supervisory authority (EBA) within this area.
As a SIFI institution, DLR is required once a year at 1 October to update and submit a recovery plan to the Danish FSA.

As mentioned, the Danish FSA is required to draw up resolution plans for financial businesses, including DLR, cf. the Danish Financial Business Act. And since DLR is a SIFI institution, the Nationalbanken must be consulted about the resolution plan drawn up regarding DLR. In connection with the drawing-up of resolution plans, the Danish FSA has issued an executive order stipulating a number of information points that all financial businesses must upon request submit to the Danish FSA.

Debt Buffer

The implementation of the BRRD meant that mortgage credit institutions are exempt from using the "bail-in" in connection with resolution/recovery. At the same time, the mortgage credit institutions were exempted from the demand regarding liabilities suitable for impairment provisions, to which financial institutions are subjected. On the other hand, the BRRD stipulates that mortgage credit institutions establish a debt buffer amounting to 2 pc of their unweighted lending.

The demand for the debt buffer will be phased in during the period 2016-2020 so that on 15 June each year the buffer must amount to not less than 30, 60, 80, 90 and 100 pc of the demand, respectively.

Seen in relation to the anticipated development in DLR's lending portfolio in the years 2016-2020, this demand will require a debt buffer for DLR of approx. DKK 3bn once it has been fully phased-in.

DLR as a Systemically Important Financial Institution in Denmark

Since19 June 2014, DLR has been 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 Denmark's GDP;
- The lending in Denmark by 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 in Denmark.

DLR meets the first of the three parameters, as at the end of 2014 DLR's balance sheet amounted to 8.2 pc of GDP and thus exceeds the stipulated limit of 6.5 pc.

Special SIFI Rules

A number of 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 and up to 2019 so that in 2016 the SIFI demand amounts to 0.4 pc.

Based on its SIFI status, DLR's Board has 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 of Directors 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 capital requirement as such, there are also other demands that SIFI institutions must meet; for example SIFI institutions are required as early as from Q4 2015 to meet the Liquidity coverage ratio (LCR) 100 pc. Apart from the already implemented liquidity requirement, the Danish FSA also generally monitors a SIFI more closely.

THE SUPERVISORY DIAMOND

The Danish FSA has drawn up a supervisory diamond for mortgage credit institutions with five limit values for what the Danish FSA basically considers mortgage credit activity possessing 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 Five Limit Values

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. *Borrower's 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.

Items 1, 2 and 5 in the Supervisory Diamond come into force from 2018, while items 3 and 4 will come into force from 2020.

DLR and the Requirements of the Supervisory Diamond

At the end of 2015, DLR meets all stipulated limit values, cf. table 3.

Table 3. DLR's compliance with limit values in the Supervisory Diamond, end Q4 2015.

	DLR 31/12 2015	Limit values, Danish FSA
1. Growth in lending (Current quarter)		
Owner-occupied homes	-0.8%	<15%
Private rental homes	1.3%	<15%
Agriculture	0.6%	<15%
Other business properties	1.0%	<15%
2. Borrower's interest rate risk	**23.4%**	**<25%**
3. Interest-only period for loans to private borrowers	**5.5%**	**<10%**
4. Loans with short funding per quarter		
1Q 2015	6.9%	<12.5%
2Q 2015	0.0%	<12.5%
3Q 2015	4.6%	<12.5%
4Q 2015	12.3%	<12.5%
4. Loans with short funding per year	**23.8%**	**<25%**
5. Large exposures	**25.5%**	**<100%**

As regards points 2 and 4, the share of loans with short funding was reduced significantly in 2015, i.a. due to the refinancing campaigns in connection with the remortgaging auctions held, just as the supervisory diamond is taken into consideration in connection with the ongoing lending activities. Seen as a whole, the campaigns have led to a shift in the loan portfolio towards longer maturities on the underlying bonds in recent years. We therefore expect DLR to meet all five limit values at the stipulated implementation dates.

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 have now also been implemented so that DLR also takes them into consideration when granting loans.

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 2015, a redistribution of shares was made in compliance with DLR's shareholder agreement; such redistribution takes 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 2015 was based on the remaining bond debt at the end of 2014, and shares at a nominal value of approx. DKK 8.0m were redistributed.

In addition, a number of DLR's shareholders in December 2015 bought DLR shares from the Financial Stability Company at a market value of DKK 250m.

Hybrid Core Capital

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

DLR has in recent years gradually reduced the share of hybrid core capital by continuously repaying a government hybrid core capital issue totaling DKK 4.8bn raised in 2009. Furthermore, by mid-2015, DLR repaid private hybrid core capital amounting to EUR 100 m, raised in 2005. So at present, DLR has only one issue of hybrid core capital amounting to DKK 1.3bn. This issue was made in 2012, and it meets all demands of the CRR.

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 2015, the number of shareholders was 70, 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 investors within and outside the circle of DLR's loan-providing banks.

DLR'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 38 pc and 34 pc, respectively, of the share capital in DLR. In addition, PRAS A/S, which primarily consists of the financial institutions behind the two organisations, holds 6.2 pc DLR shares.

The Agricultural Sector

Generally seen, the financial position of agriculture was under pressure in 2015 due to weak settling prices for milk and port, which led to dissatisfactory terms of trade. However, it should be pointed out that a considerable share of farmers within all branches of the agricultural sector has shown positive results and liquidity, irrespective of the dissatisfactory settling prices.

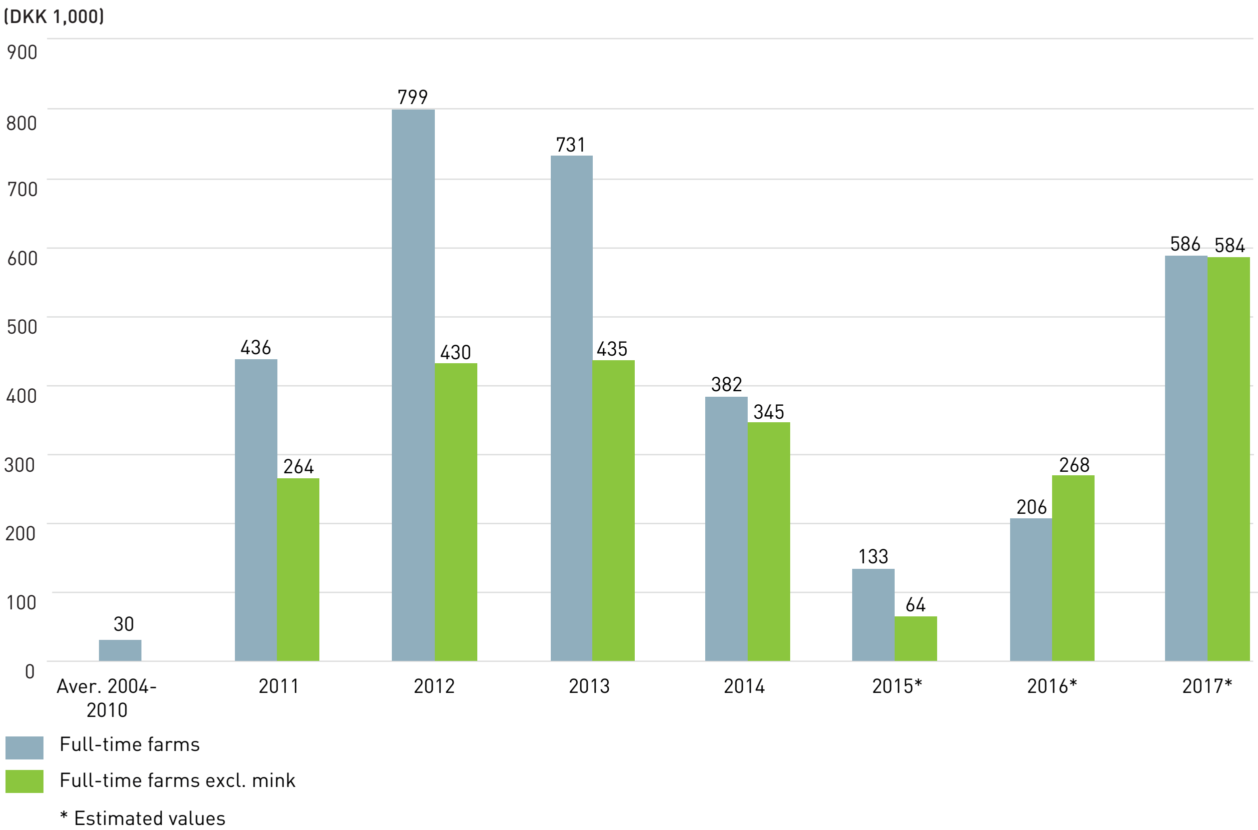
Part of the background for the weak settling prices are the trade restrictions imposed by Russia, China's continued absence as a major importer of milk products and the increased supply of agricultural products. The relatively low energy prices and the continuing low interest rate level together compensate for the decrease in sales prices to some extent.

Agricultural Earnings Outlook

The outlook for the financial situation of the primary agricultural sector for 2016 shows that also this year farmers may expect financial challenges. Still, the outlook is quite uncertain, since there are great uncertainties about the price development in the world market. E.g. Russia's and/or China's possible return to the market would impact prices significantly. Furthermore, changes in climate conditions could lead to considerable shifts in the supply of grain and milk products in the world market.

With the current price relations we can, as shown in figure 2, expect merely slightly moderately increasing results in 2016, but the outlook for 2017 is more positive.

Figure 2: The development in operating profit for full-time farms (DKK 1,000)



Source: SEGES, January 2016

At farm level, the spread in results remains very wide. The spread in earnings is seen between and within the different sectors. For full-time farms in the best third, the forecast from SEGES for 2016 is thus a figure which is DKK 751,000 higher than the average.

DLR notes correspondingly that the most competent farmers within all production sectors continue to deliver good financial results, even in periods with poor price relations.

"Food and Agriculture Package"

The outlook referred to above takes into consideration the expected effects of the so called "Food and Agriculture Package" agreed between the Government, the Conservative People's Party, the Danish People's Party and the Liberal Alliance on 21 December 2015. For individual elements of the aggrement legislation is proposed with a view to achieve effect already in 2016. At present, final approval of the "package" is however pending.

The "Package" contains a series of initiatives in these areas:

- Sustainability
- Increased raw materials foundation
- Stronger competitiveness
- Developing the food production of the future
- Foresighted export efforts.

One of the more concrete initiatives is that the general demand for border strips is being abolished like the demand for second crops on an additional 60,000 ha. Agreement has also been reached to change the soil fertilization legislation so that the current reduction in nitrogen norms by 20 pc be phased out by 2/3 as quickly as possible in the growing season 2015/2016 and by 1/3 in the growing season 2016/2017.

Also the harmonization requirement for slaughter pigs will be reduced from max 1.4 animal units per ha to max 1.7 animal unites per ha; going forward, environmental approvals of stables will be based solely on an assessment of the stables in question and not be linked to the land area where it is located.

The "Package" contains a long list of other initiatives as well.

DLR estimates that seen as a whole, the "Package", if finally approved, will strengthen earnings in the agricultural sector. The effect is expected to be strongest in the area of arable farming, but earnings for farmers with animal production are also expected to be strengthened. This will be the result of increased crops for the arable farmers and the consequence of changed rules regarding area requirements and environmental approvals in animal production.

On the whole, the "Package" is believed to improve the financial situation for each individual farm, just as it will help support property values, and land prices in particular.

The Price Development for Farms

DLR is of the opinion that in recent years 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. As pointed out above, the "Food and Agriculture Package" is expected to support this development.

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 2015 on the whole seems to have improved slightly compared to previous years. In the major cities, interest in these properties seems to be increasing, and the trend also seems to be positive for the more peripherally located properties in these cities.

The continued urbanization and development in the demand for homes has, in regard to the market for private rental homes, led to the continued development where the interest in housing properties in the big cities has picked up considerably. This has resulted in increasing prices, and we are now beginning to see an early interest in the slightly more peripherally located housing properties.

In 2015 we continued to see wide differences in investor interest in office and business properties, depending on the location of the properties.

In both 2015 and 2014 we saw increasing prices in prime locations in the large cities, whereas the price development for the more peripherally located properties seemed to remain unchanged or only slightly increasing.

The continued low interest level throughout 2015 and a generally unchanged or slightly improved rental situation contributed to the generally satisfactory operations of urban trade properties.

On the whole, DLR finds that 2015 saw an improvement in terms of both pricing and the rental situation for private rental homes, office and business premises as well as cooperative housing properties.

LENDING ACTIVITY AND PORTFOLIO

Lending Activity

DLR's primare lending areas are agricultural and urban business properties. DLR's lending takes place almost solely via its shareholding banks.

In 2014 and 2015, DLR campaigned towards borrowers with a view to reducing the share of loans with frequent remortgagings in the loan portfolio and thus to reduce the refinancing risk. These campaigns that have been timed with DLR's refinancing auctions in the past two years have led to a significant increase in gross lending, whereas the total loan portfolio has increased relatively modestly.

DLR's total gross lending in 2015 amounted to DKK 23.5bn against DKK 33.2bn in 2014. This fall in gross lending relates solely to the agricultural area, cf. figure 3, whereas the remaining property categories saw unchanged or increasing gross lending. The reason behind the significant fall in gross lending to agriculture is that particularly farmers refinanced their F1 loans in 2014. Net lending in 2015, i.e. gross lending less transfers, prepayments and repayments, was positive by DKK 0.9bn against a negative DKK 0.8bn in 2014. The positive net lending covers an increase in loans granted to agriculture, rental housing properties and office and business properties.

In 2015 loans to agriculture totalled 60 pc of DLR's aggregate gross lending. In 2013 and 2014, this share was 58 and 80 pc, respectively, and the fall is thus a return to 'normal' for the agricultural segment. Of the total gross lending in 2015, 72 pc related to conversion of loans. In addition, loans in connection with change of ownership amounted to 16 pc, top-up loans 8 pc and investments 4 pc.

Figure 3: Gross lending distributed on property categories

Note: All loans are calculated at cash value

For several years, the F1 ARM loan was the most demanded loan type among DLR's borrowers. In 2014, this trend turned around when DLR's loan type ARM Short gained ground. In 2015, fixed-interest loans made up the bulk of gross lending. Thus 40 pc of the aggregate gross lending was paid out at a fixed interest, while ARM Short loans accounted for 37 pc and ARM loans for 23 pc.

In 2015, loans with initial interest-only periods accounted for 39 pc which is a decrease compared to 2014, when the share of these loans accounted for 49 pc of the lending.

DLR's Portfolio

DLR's loan portfolio measured in terms of outstanding bond debt was DKK 132.5bn at the end of 2015, which is an increase of DKK 09.bn over 2014. Since the aggregate loan portfolio calculated as the outstanding bond debt for the entire Danish mortgage credit sector was DKK 2,561bn, DLR's loan portfolio corresponds to 5.2 pc.
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 p

DLR's biggest lending area is loans to agricultural properties, which amounted to DKK 85.0bn at the end of 2015. 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.

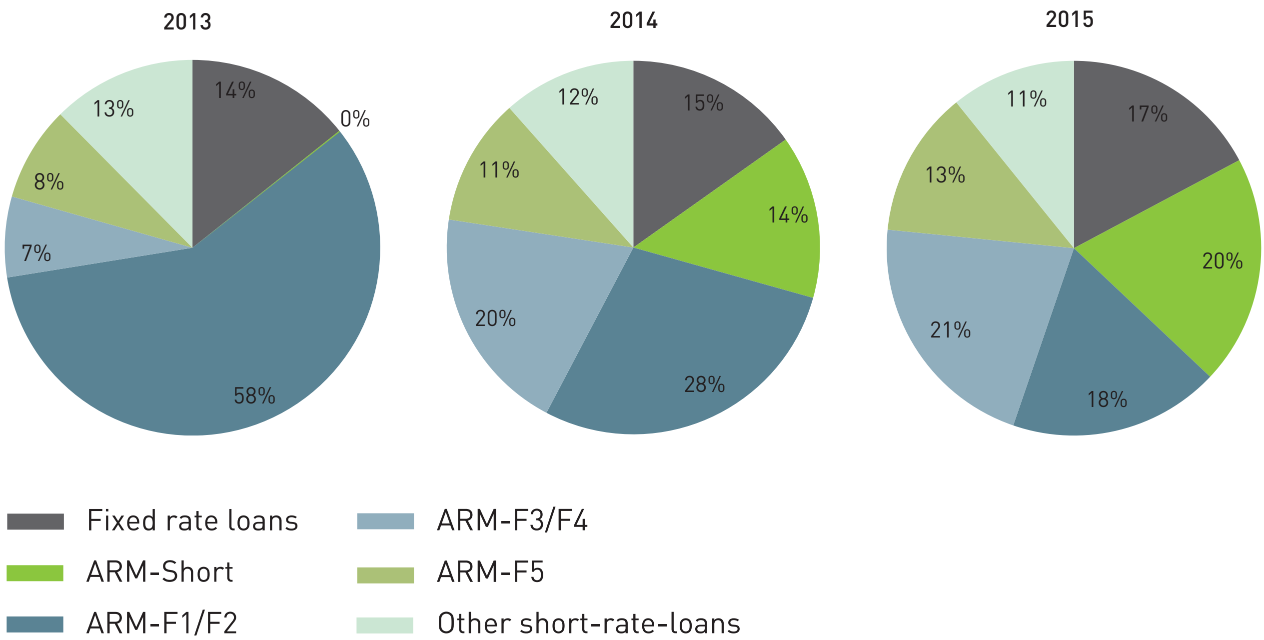
Of DLR's aggregate lending to agricultural properties of DKK 85.0bn, approx. DKK 4bn is made up of loans to specialised production. Specialised production primarily covers horticultural properties, fur farms, poultry farms and fish farms where the area will typically not exceed 10 ha. The remaining share 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.

Table 4. DLR's loan portfolio

			Loan portfolio end 2015 distributed in pc on loan types					
DKKm	2014	2015	Fixed-interest loans	ARM Short	F1/F2	F3/F4	F5	Other short-rate loans [1]
Agriculture properties etc.	84,543	85,045	14	26	16	21	9	13
Owner-occupied homes incl. residential farms [2]	8,029	8,008	35	4	23	18	16	4
Office and business propeties	19,901	20,173	22	10	22	22	17	7
Rental housing properties	13,807	14,107	16	8	25	28	16	7
Cooperative housing properties	2,826	2,779	37	4	8	11	31	9
Other properties	2,499	2,394	13	21	12	14	34	5
Total	**131,604**	**132,506**	**17**	**20**	**18**	**21**	**13**	**11**

Note: All amounts are calculated at remaining bond debt
1) CIBOR and EURIBOR-based loans, including quarantee loans
2) Residential farms comprise farms below 10 ha without significant farming activities

Figure 4: DLR's loan portfolio distributed on loan types



Up until 2013, ARM loans, particularly F1, dominated DLR's loan. In the past two years, however, the share of ARM loans has plummeted, since at the end of 2015 52 pc of DLR's loan portfolio consisted of ARM loans against 73 pc at the end of 2013. Still the trend away from ARM loans was stronger in 2014 than in 2015.

Within the various types of ARM loans, the past two years have also seen a significant shift from loans with annual refinancing to loans with refinancing every third and to a lesser extent every fifth year. Also, the share of the new ARM Short loans has gone up significantly at the expense of the F1 loans. At the end of 2015, ARM Short loans accounted for 20 pc of DLR's loan portfolio against 0 pc at the end of 2013. Fixed-interest loans made up 17 pc of DLR's portfolio at end 2015, and other short-rate loans and guarantee loans accounted for the remaining 11 pc.

In the product area, DLR offers standardised funding solutions. Then DLR's partner banks may offer to top up the DLR Kredit loans with financial instruments tailored to the needs of the individual borrower.

Funding and Issuing of Bonds

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

As at 31 December 2015, DLR's volume of bonds in circulation amounted to DKK 133.5bn, excluding bonds maturing on 1 January 2016. 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. The quarterly cover pool reports ensure that disclosure obligations under CRR article 129 (7) are met with, and all DLR's SDO and RO bonds are thus comprised by the low risk-weight of 10 pc for capital charged investors under the CRR, i.a. credit institutions etc.

The distribution of bonds on type and currency at 31 December 2015 (excluding bonds maturing on 1 January 2016, but including pre-issued bonds in connection with the refinancing of ARM loans at 1 January 2016) is shown in table 5:

Table 5. Bonds distributed on type and currency per 31 December 2015

DKKbn	Total	DKK bonds	EUR bonds
In circulation, total	133.5	115.8	17.8
Of which SDO's	118.7	110.1	8.7
Of which RO's	14.8	5.7	9.1

Since H2 2014, DLR's funding structure has 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 basis.

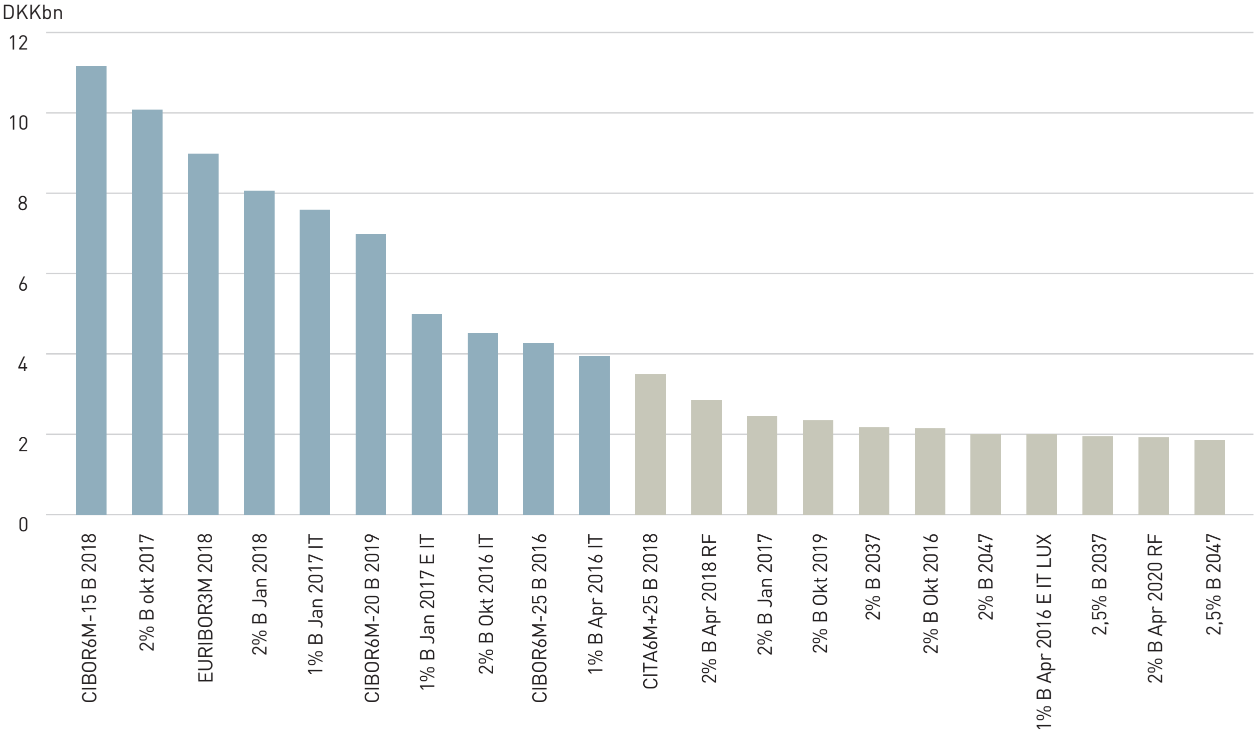
The ARM loans and in particular the F1 loans used to be extremely popular among DLR's borrowers. But since 2014, many of DLR's borrowers have chosen to change profile to ARM loans with longer ARM periods, to variable-interest ARM Short loans, or to fixed-interest loans, just as new borrowers are moving away from the shortest ARM loans.

Thus F1 loans, which made up 57 pc of the loan portfolio at the end of 2013, had been reduced to 17 pc at the end of 2015, while the share of F3-F5 loans had gone up from 15 to 34 pc. The CITA/CIBOR-based ARM Short loans introduced in December 2013 have in merely two years grown to make up 20 pc of the loan portfolio. Long, fixed-interest loans have increased moderately from 14 to 17 pc of the loan portfolio and accounted for 40 pc of gross lending in 2015.

A large portion of DLR's F1 loans in EUR have since 2014 been remortgaged to either ARM Short loans or DKK F3-F5 loans, since at the moment DLR does not offer loans in EUR. The share of EUR bonds has thus been more than halved i.e. from 27 pc in early 2014 to 13 pc at the beginning of 2016.

Figure 5 below shows DLR's biggest bond series at the beginning of February 2016. The campaigns of recent years aimed at the ultra-short ARM loans have led to increasing issues in longer maturities and 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.

Figure 5: DLR's largest bond series earl February 2016



In view of the LCR requirements of the liquidity cover of mortgage credit institutions, which came into force on 1 October 2015, DLR as a small issuer must focus on ensuring a funding structure based on few bond series as a prerequisite for meeting the bond size demand of EUR 500m for level 1b assets and EUR 250m for level 2a assets to the widest possible extent. By early January 2016, 53 pc of DLR's bonds measured in terms of volume in circulation met the level 1b demand of bond size (the blue columns in figure 5), and another 17 pc met the level 2a demand (the beige columns in figure 5). At present it is, however, just a small part of these series that is being used to fund lending activities.

Since 1 January 2015, the amendment concerning refinancing risk, which was first introduced for F1 loans on 1 April 2014, has come into force for all other bonds with maturities shorter than the underlying loan, including the floating-rate bonds underlying DLR's ARM-Short loans.

Against this backdrop, DLR has opened new bond series to finance ARM loans issued after 1 January 2015 and to refinance existing loans. Bonds with a maturity of up to two years are comprised by the statutory extension of maturity, both in the event of a lack of investors (sales trigger) and an interest-rate increase by more than 5 pp (interest trigger); these bonds have the designation "IT" ("Interest Trigger"). Bonds with maturities over two years are solely affected by the sales trigger and therefore have the designation "RF" ("Refinancing Failed").

In November 2014, DLR opened a new CIBOR-based bond maturing 1 July 2019 to fund ARM Short loans offered after that date. In 2015, the CIBOR 2019 series was the preferred bond underlying ARM Short loans, and it now has level 1b status. DLR in addition offers ARM Short loans funded in the CITA-based bond maturing 1 July 2018, which is expected to reach an issue level exceeding the minimum requirement of EUR 500m so that it also lives up to the level 1b criterion. In December 2015, DLR re-opened the CIBOR-based bond maturing 1 July 2016 in order to increase the series volume, and in early 2016 also this bond reached level 1b status.

Since the bonds underlying the ARM Short loans have a maturity of over two years when they open, they are not comprised by an interest trigger but solely by the statutory maturity extension in the event of a lack of investors at the time of refinancing. Yet, according to the loan terms, refinancing of ARM Short loans may take place in bonds with maturities between 1 and 10 years determined by DLR based on the market conditions at the time of refinancing. DLR expects to fund new loans with the same ARM Short series that are used for refinancing in order to support liquidity in the series.

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 on 1 January for the refinancing of ARM loans at 1 January.

In 2015, DLR held auctions in March, in September and November/December in connection with the refinancing of ARM loans 1 April 2015, 1 October 2015 and 1 January 2016.

At the March auction, DLR sold DKK bonds at a nominal DKK 6,890m and EUR bonds at a nominal EUR 250m. 1-year bonds made up 58 pc of the volume against 96 pc in March 2014.

At the September auction, DKK bonds at a nominal 6,040m were sold. The aggregate refinancing volume fell by 56 pc compared to September 2014, since in September 2014 a large number of F1 borrowers chose to refinance to ARM loans with longer interest periods or to other loan types.

At the November auction, which lasted five auction days, DLR offered DKK bonds at a nominal DKK 10,625m and EUR bonds at a nominal EUR 673m. Compared to the year before, this almost halved the refinancing volume for the DKK bonds, and the fall was 20 pc for the EUR bonds. Like in previous years, there is a small group of loans that have their interest adjustment in December. At the December 2015 auction, DKK bonds at a nominal DKK 455m and EUR bonds at a nominal EUR 12m were on sale.

The below figures show the volumes of bonds offered at DLRs refinancing auctions in recent years. The spread of the refinancing over the year, which began in 2010, and the reduced volume of ARM loans mean that the refinancing of ARM loans is now distributed much more evenly on the three repayment periods.

Figure 6: Supply of ARM bonds (DKK)

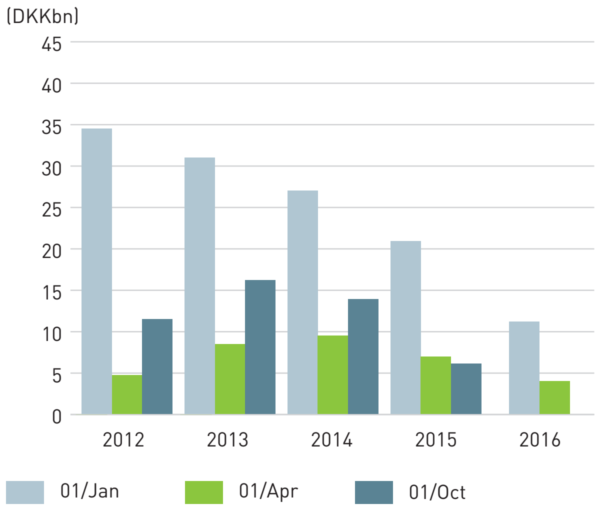
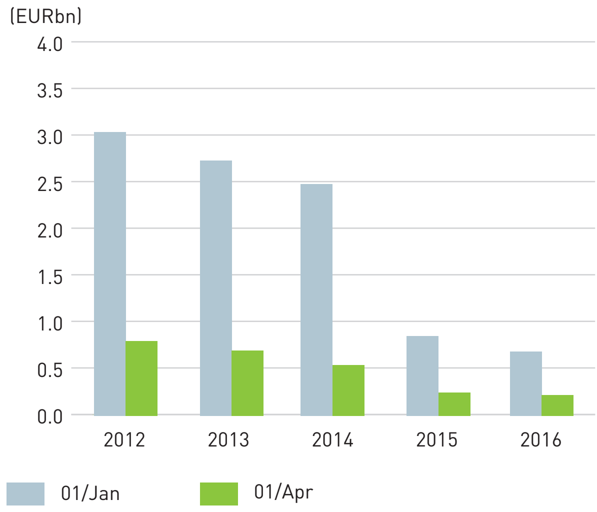


Figure 7: Supply of ARM bonds (EUR)



Reduction in the Number of ISIN Codes

In order to meet the LCR criteria, bond series are required to have a volume in circulation corresponding to a minimum of EUR 500m to be ”level 1b”, while series with circulating volumes of a minimum of EUR 250m are ”level 2a” in LCR terms. DLR is therefore working determinedly towards reducing the number of ISIN codes for payment and refinancing of ARM loans in order to increase the volume of the open series.

Thus as from October 2015 DLR has had only one open series in each maturity for F1-F5 bonds for offering and paying out loans with a view to building volume in these series. ARM loans with different refinancing dates will from mid-2016 to the widest possible extent be pooled at one annual refinancing time, also aimed at increasing volume in the various series in connection with refinancing. The aim is that series opened by DLR are opened with a volume in connection with refinancing that ensures fulfilment of ”level 1b” or alternatively ”level 2a” LCR criteria.

Senior Secured Bonds

On 1 October 2015, bonds for DKK 3.0bn issued in 2012 in compliance with S. 15 of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act. (Senior Secured Bonds, SSBs) matured. These SSBs were partly replaced by a new 3-year SSB issue of DKK 1.0bn. Like DLR’s other SSB issues, this is a variable-interest issue based on 3-months CIBOR sold to a broad circle of domestic investors.

Thus at the end of 2015, DLR had SSBs outstanding at a nominal DKK 4.0bn used to provide additional collateral for the covered bonds issued out of Capital Centre B or and to meet the demand for overcapitalisation to secure DLR’s bond rating.

On 1 October 2016, SSB’s worth a nominal DKK 2bn will mature. DLR is continuously considering the need for funding security, including the need to refinance SSBs upon maturity. The introduction of a debt buffer for mortgage credit institutions of 2 pc of their unweighted lending, which will be gradually phased in from 15 June 2016 (30 pc) to 2020 (100 pc) could mean that DLR decides to start issuing a new type of loss-absorbing senior debt in 2016 that would meet the demands of the debt buffer.

Rating

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

Table 6. DLR’s ratings

Bond rating	Standard & Poor’s
Captial Centre B	AAA
General capital centre (RO)	AAA
Capital Centre B (SSB) (DKK 1bn issued Dec. 2012)	A (stable)
Other ratings	
Issuer (Long-Term Credit Rating)	BBB+ (stable)
Issuer (Short-Term Credit Rating)	A-2 (stable)

DLR 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.

As per 30 April 2015, S&P introduced new criteria for the rating of commercial loans (Commercial Real Estate, ”CRE”) underlying the covered bonds. S&P have thus chosen to upgrade the likelihood of loss (PD) and in particular the anticipated extent of loss (LGD) on CRE lending, which stepped up the OC demands for DLR’s capital centres required to maintain the AAA rating.

Upon transition to the new CRE criteria, DLR’s General Capital Centre was put on ”under criteria observation”, as S&P anticipated that the increased OC requirements could exceed the actual over-collateral in the capital centre. Upon completion of their analysis, S&P in November 2015 confirmed the AAA rating of the General Capital Centre under observation of an OC requirement of 9.68 pc against 4.57 pc ahead of the change in criteria. The OC demand is met for the nominal bond volume in the capital centre and is covered by excess capital in the capital centres. The cover is provided through own funds and funds provided through the issuance of senior debt. At the end of Q3 2013, the actual over-collateral in the General Capital Centre was 10.0 pc.

In regard to DLR's issuer rating, S&P in July 2015 upgraded DLR's "risk position" by one notch to "adequate" from "moderate", which led to a corresponding upgrade of DLR's "stand-alone credit profile" (SACP) of one notch from BBB to BBB+. S&P justified the improved risk position arguing that DLR's strong guarantee and loss-offset concepts and the current earnings and loss history offset an increased risk on agricultural loans. At the same time, S&P abolished the then rating lift of one notch resulting from expectations of government subsidies, as they referred to their estimation that the Danish implementation of the BRRD had rendered government subsidies to Danish credit institutions less likely.

DLR's issuer rating, which was put on negative "Credit Watch" in May 2015 due to the expected abolishing of the government subsidy element, was maintained at BBB+ with a stable outlook due to the SACP upgrading.

In December 2015, DLR's Senior Secured Bonds from 2012, which originally had a rating of BBB+ with stable outlook corresponding to DLR's issuer rating, had their rating upgraded by two notches to A with a stable outlook. The increase in rating is due to the fact that S&P have changed their view of the status of the SSBs in the event of suspension of payments and do not expect the SSBs to be affected by payment delays. The SSB issues from May 2013 and September 2015 are not rated.

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 (Capital Centre B) 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 to further improve transparency and harmonization of covered bonds. One of the changes is the explicit reference to CRR Article 129 (7), which requires 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 fulfilment 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.

As from 1 January 2016, a new reporting standard will come into force for all "labelled" covered bond issuers. This harmonizes information across covered bond jurisdictions against the national level that has been required so far. In 2016 there will be a transition period during which national standards may still be used. But from 1 January 2017 is becomes mandatory for "labelled" issuers to use the new standard. Danish covered bond issuers, including DLR, expect to report according to the new standards as from Q1 2016.

Risk Management Procedures

DLR's business model is based on traditional mortgage credit activities in the form of the traditional granting of loans against a mortgage on real property, funded through the issuance of bonds. As a mortgage credit institution, DLR is subjected to finely meshed financial regulation covering all significant aspects of DLR's activities. Based on the regulation of mortgage credit institutions, including the balance principle, DLR is primarily exposed to 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. In many cases, a loss guarantee is arranged, just as DLR may offset loss in commissions per agreement with 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.

The Board of Directors has established an internal audit function with reference to the Board of Directors who will – in compliance with an audit plan approved by the Board – make random samples aimed at auditing procedures, manuals and internal control procedures in significant and potentially risky areas. In addition, the Board of Directors has set up an Audit Committee and a Risk Committee; cf. the section of committees set up by the Board of Directors of DLR.

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. The independent risk and compliance manager reports to the Executive Board on a quarterly basis and to the Board of Directors at least on an annual basis.

Whistle-blower 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 whistle-blower 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 whistle-blower scheme are submitted to the compliance function and are treated confidentially.

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 OIE (identification of objective evidence 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.

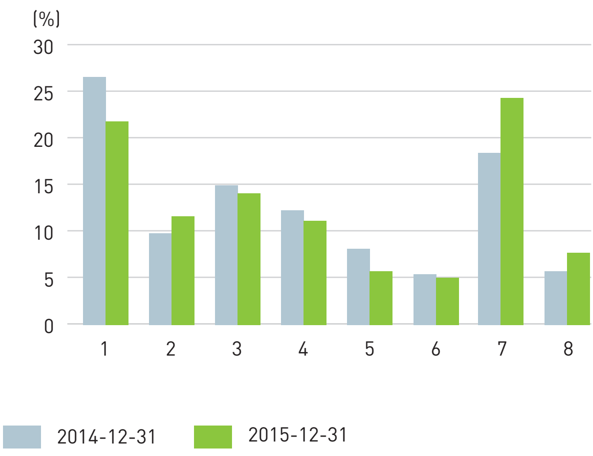
The PD models are based on a statistical model supplemented by expert-based elements. The statistical model estimates PD based on a series of relevant key figures from the financial statements of the borrower as well as the borrower's payment history and other characteristics in his loan-related performance. 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. Each PD is converted to a rating class between 1-8, where 1 is best. Exposures with OIE are placed in rating class 7, whereas exposures in default are placed in rating class 8.

The LGD model is founded on the value of the mortgage after 'haircut' and a calculation that takes into account the size of the loan, its position in the order of priorities and additional costs. Historically seen, mortgages on real property have offered good protection from loss, and so LGD levels are typically low.

Data from the 1990s are used.

The models are not yet being used in the calculation of credit risk exposure in connection with solvency calculations.

Figure 8: Exposures on agricultural lending distributed on rating classes



Solvency Requirement

DLR calculates the adequate capital base and solvency requirement (ICAAP) 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 assessment, 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 to certain property categories. Credit risk linked to the borrowers' 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 is – via the Executive Board Secretariat - 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. If this is not the case, it is 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. DLR's risk committee will handle the calculation of the adequate capital base and the solvency requirement before it is presented to DLR's Board of Directors.

Table 7. DLR's adequate capital base and solvency requirement

(DKK 1,000)	2015	2014
Credit risk	7,302,216	7,618,959
Market risk	280,394	395,031
Operational risk	179,915	153,379
Other risk	0	0
Internally calculated adequate capital base	7,762,525	8,167,369
Possible additions (special risk)	0	0
Total	**7,762,525**	**8,167,369**
Solvency requirement	**8.00 %**	**8.00 %**

Large Exposures

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

At the end of 2015, DLR had no exposures that (less deductions) accounted for more than 10 pc of the capital base.

Supplementary Security

DLR's issuance of bonds as the foundation for its lending activities is solely based on the issuance of covered bonds (SDOs), which are all 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.

As regards security behind the issued SDOs, the statutory maximum lending limits (the LTV limits) must be observed throughout the maturity of the loan. 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 to the capital centre. This security must consist of particularly secure assets – e.g. government bonds, own SDOs or – to a certain extent – general claims on financial institutions in the form of e.g. loss guarantees provided by the loan-providing financial institutions.

Supplementary security must be provided at a ratio of 1:1. This means that in periods when property prices fall, e.g. like in the period following the most recent financial crisis, security must be provided to a considerable extent. Therefore great focus is put on the demand for supplementary security in connection with DLR's capital planning.

DLR presently has put up DKK 11.7bn as supplementary security, a fall compared to the end of 2014 when the figure was just below DKK 13.0bn. The fall in supplementary security is distributed broadly across the property categories in which DLR grants loans. The security primarily consists of issued own SDOs and of loss guarantees and interim loan guarantees provided by loan-providing financial institutions.

At present, DLR has issued Senior Secured Bonds (SSBs) at a total of DKK 4bn and most recently in September 2015 issued DKK 1bn in SSBs as part replacement of a maturing issue. The purpose of the issues is 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 will be able to withstand any additional general price decreases of up to15 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 determining i.a. the security position of the loans etc.

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. For loans offered since early 2015, a new overall guarantee concept has been established. The said loan loss agreements that cover the vast majority of DLR's portfolio are reviewed below.

Loan Loss Agreements in Urban Trade Properties – Covering Loans Offered until 31 December 2014

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 2015 comprised guarantees totalling DKK 14.4bn provided for the total urban trade property portfolio, which currently amounts to DKK 34.1bn.

Loan Loss Agreements in Agriculture - Covering Loans Offered until 31 December 2014

Loans to agricultural properties intermediated by shareholding banks were previously also comprised by a guarantee scheme set up between DLR and the shareholding banks.

This scheme comprised approx. DKK 69bn at the end of 2015. 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 shareholding banks 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 2016, DLR could suffer losses up to around DKK 172m, while the maximum guarantee coverage of banks for 2015 would be around DKK 861m. 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 2015 was approx. DKK 188m, an amount which exceeded the size of DLR's "excess" mentioned above for the agricultural loans.

DLR's Guarantee Concept Implemented from 1 January 2015

In 2014, DLR entered into an agreement DLR's shareholding banks 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 are 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 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 losses 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. Currently, the new guarantee concept covers a remaining bond debt of well over DKK 20bn.

The implementation of DLR's new guarantee concept has taken into account that the possibility of offsetting losses on agricultural loans, cf. the previous guarantee concept, is being reduced as the large remaining bond debt is being reduced as well. At the same time, commission payments under the new guarantee concept will be limited in the staring phase. The possibility of offsetting loss has therefore been expanded so that the offsetting of losses under the two guarantee concepts is made in the aggregate commission payments under the two concepts. In 2015, DLR offset losses amounting to well over DKK 30m.

At the end of 2015, 93 pc of DLR's aggregate loan portfolio was comprised by the two guarantee concepts. In addition, a small part of the portfolio of around DKK 0.5bn was covered by a government guarantee. On the whole, the guarantee schemes mean that DLR's risk of loss on lending can be characterized as manageable and relatively limited. Usually, most exposures not comprised by guarantees have low LTVs.

LTV

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 2015, 89 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, 83 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.

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 2015, DLR's capital base amounted to DKK 12,485m after deductions, and this corresponds to a maximum permitted interest rate risk of DKK 999m.

At the end of 2015, interest rate risk on DLR's securities portfolio (asset side) was DKK 245m. Interest rate risk expresses the amount that at the end of 2015 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 2.0 pc based on the capital base at the end of 2015.

Interest rate risk on issued securities (liability side) – hybrid core capital and Senior Secured Bonds – can be calculated at DKK 18m corresponding to 0.15 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 227m, corresponding to 1.8 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 asset side.

Based on a concrete assessment, DLR uses 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 short 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 with financial institutions or in 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 2015 was DKK 1.3m, corresponding to 0.01 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 2015, DLR's share portfolio consisted of holdings in VP Securities A/S, e-nettet A/S and Landbrugets FinansieringsBank A/S. At the end of 2015, the risk related to shares amounted to DKK 5.5m.

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.

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.

DLR continually collects and registers data on all operational events with a view to forming an overview of such events and preventing any future events. In addition, we use insurance to cover all relevant risk. 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 applies the basic indicator method to calculate operational risk. According to this method, operational risk amounts to DKK 2,249m of the risk-weighted assets. This results in a capital requirement (8 pc) of DKK 180m to cover operational risk at the end of 2015.

Committees set up by DLR's Board of Directors

DLR's Board of Directors has set up four committees within various areas to supervise or prepare subjects and issues for treatment by the Board of Directors among other tasks. 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 monitoring that DLR's internal controls and security conditions as well as internal audit and risk management systems function effectively. The Audit Committee furthermore monitors that the Executive Board reacts effectively to any weaknesses and/or defaults and that initiatives agreed in relation to the strengthening of risk management and internal controls – i.a. in relation to the financial reporting process – are implemented as planned.

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 holds the post as chairman, while the other members are Managing Director, CEO Ole Selch Bak and Legal Consultant Søren Jensen.

The Audit Committee on a current basis involves relevant DLR staff in the committee meetings.

In 2015, 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. Therefore the Risk Committee must at all times have an overall picture of any risk linked to DLR's activities; this is done i.a. on the basis of a thorough analysis of the risk linked to DLR's business model as a mortgage credit institution. In regard to DLR's risk situation, the Risk Committee i.a. reviews and prepares the handling by the Board of Directors of DLR's calculation of the adequate capital base and the solvency requirement etc.

The Risk Committee does not change the responsibilities or competences of the Board of Directors. It remains the Board of Directors as a whole who is responsible for the management of DLR's risk, but the work of the Committee is a vital link in the preparatory work.

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 participates in the meetings of the Risk Committee, just as the Committee may involve DLR's other employees. In 2015, five meetings were held in the Risk 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. In addition, the Board sees to it that diversity is included as 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, CEO and Managing Director, CEO Anders Dam is vice chairman. Furthermore, the committee consists of the remaining members of the Board of Directors.

In 2015, two meetings were 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, CEO Vagn Hansen; the other members of the committee are Managing Director, CEO Anders Dam and Legal Consultant Søren Jensen.

Two meetings were held in DLR's Remuneration Committee in 2015.

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 DLR's business model and the overall principles, policies and guidelines for DLR's business activities. 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 2015, the number of full-time employees in DLR was 174 against 162 at the end of 2014. 158 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 2015.

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 grants 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 – the local and regional banks – that have a comprehensive, aggregate network of branches all over Denmark and distribute DLR's loans through this. Consequently, DLR functions as a "subsupplier" for the group of owners 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. are 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 financial reporting process, including that current legislation and other regulation in relation to the presentation of the financial statements are being complied with.

The financial reporting process has been planned with a view to minimizing the risk of errors and inconsistencies in the financial statements.

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 organisational 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 financial control and financial reporting as well as the financial statements, and is also responsible for ensuring that the financial reporting comply with principles laid down and current legislation.

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/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 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. 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.

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.

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 executives 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 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 2015, DLR's Board of Directors had 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 & CEO, 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 A/S

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 2015, 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 23 April 2015 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)
- Ole Selch Bak, Managing Director & CEO
- 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)
- All 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:

- Jens Kr. A. Møller, Managing Director & CEO
- Michael Jensen, Managing Director

Executive Staff

Executive Board Secretariat, Information, Staff, etc.:

Lars Blume-Jensen, Senior Vice President, MSc (Economics)

Loan Department:

Bent Bjerrum, Deputy Director, MSc (Agriculture)

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

Accounting and Finance Department:
Lars Ewald Madsen, Accounting and Finance Director, M.Sc. (Finance and Accounting)

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:
Jens Kr. A. Møller, Managing Director & CEO
- Member of the Board of Directors of VP Securities 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, social and cultural institutions and other educational 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 2015, the share capital is distributed on the following main groups of shareholders:

	Nom. DKK.
Local financial institutions (members of Local Banks, Savings Banks and Cooperative Banks in Denmark)	216,882,361
Regional financial institutions (members of the Association of Regional Banks)	194,508,433
Finansiel Stabilitet (including FS Finans II A/S, FS Finans III A/S and FS Finans IV A/S	33,879,086
PRAS A/S	35,137,035
Other shareholders	89,557,108

It must be stated that the following shareholders held at least 5 pc of the nominal share capital at the end of 2015:

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 2016 (on the basis of the remaining bond debt at 31 December 2015).

Other Directorships Held by the Board of Directors

Ole Selch Bak, Managing Director & CEO

- 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
- 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
- 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 FR I of 16 September 2015 A/S
- 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 DIBA A/S
- Chairman of Bankdata
- Member of the Board of Directors and vice chairman of PRAS A/S
- Member of the Board of Directors of The Danish Regional Bankers' Association
- 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)
- Member of the Board of Directors of FR I of 16 September 2015 A/S
- Member of the Board of Directors of Sydbank Sønderjyllands Fond
- Member of the Board of Directors of Sydbank Fonden

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 Foreningen NLP fmba
- Chairman of Trigon Agri A/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 Fællesfonden
- Member of the Board of Directors of Nordea Liv & Pension
- Member of the Board of Directors and member of the Committee of Shareholders of Tryghedsgruppen smba
- Member of the Board of Directors and member 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 HN Invest Tyskland 1 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 Spar Pantebrevsinvest 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 A/S (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
- Member of the Board of Directors of Aktieselskabet Skelagervej 15

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 Investe-ringsforeningen Sparinvest SICAV, Luxembourg
- Chairman of the Board of Directors of Museum Sydøstdanmark
- Chairman of the Board of Directors of Capital Market Partners A/S
- Chairman of the Board of Directors of Sydbank 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 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 and Vice Chairman of Sparinvest Holding SE
- Chairman and Managing Director of Villa Prisme Komplementaranpartsselskab

Lars Petersson, Managing Director & CEO

- Managing Director & CEO of Sparekassen Sjælland A/S
- Chairman of the Board of Directors of Sparekassen Fyn 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 (the Bankinvest Group)
- 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 three 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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2015

Profit and Loss Account

Note	(DKKm)	2015	2014
2	Interest income	3,624	3,803
3	Interest expenses	(1,900)	(2,123)
	Net interest income	**1,724**	**1,680**
	Dividends from shares, etc.	1	1
	Fee and commission income	170	229
	Fee and commission paid	(388)	(402)
	Net interest and fee income	**1,507**	**1,508**
4	Value adjustments	(330)	(188)
	Other operating income	18	17
5	Staff costs and administrative expenses	(216)	(211)
18+19	Depreciation and impairment losses	(3)	(4)
	Other operating expenses	(6)	0
10	Provisions for loan and receivable impairment, etc.	(94)	(191)
	Profit before tax	**875**	**933**
9	Tax	(206)	(230)
	Profit for the year	**670**	**703**

Statement of Comprehensive Income

Note		2015	2014
	Profit for the year	670	703
	Revaluation of domicile properties	0	24
	Of which tax	0	(5)
	Total comprehensive income for the year	**670**	**722**
	Attributable to:		
	Shareholders of DLR Kredit A/S*	558	606
	Owners of hybrid core capital	112	116
	Total comprehensive income for the year	**670**	**722**

* In addition the shareholders of DLR Kredit A/S receive 26 mio. DKK as a result of a tax deduction on payment to owners of hybrid core capital

Balance Sheet at 31 December 2015

Note	(DKKm)	2015	2014
	Assets		
	Cash in hand and demand deposits with central banks	249	48
11	Receivables from credit institutions and central banks	2,713	14,553
12	Loans, advances and other receivables at fair value	133,016	133,198
12	Loans, advances and other receivables at amortised cost	22	20
16	Bonds at fair value	11,978	9,166
17	Shares, etc.	55	68
18	Land and buildings, domicile properties	98	99
19	Other tangible assets	5	6
	Current tax assets	0	14
32	Deferred tax assets	1	2
	Assets temporarily foreclosed	62	31
20	Other assets	223	416
	Prepayments	19	16
	Total assets	**148,442**	**157,637**

Note		2015	2014
	Liabilities and equity		
26	Debt to credit institutions and central banks	0	2,000
27	Issued bonds at fair value	130,342	135,322
28	Issued bonds at amortised cost	4,000	6,002
	Current tax liabilities	4	0
31	Other debt and payables	1,585	1,630
	Deferred income	2	3
	Total debt	**135,934**	**144,958**
32	Provisions for deferred tax	5	5
	Total provisions	**5**	**5**
34	**Subordinated debt**	**0**	**755**
	Share capital	570	570
	Revaluation reserve	43	43
	Undistributable reserve	2,338	2,338
	Retained earnings	8,252	7,668
	Owners of hybrid core capital	1,300	1,300
33	**Total equity**	**12,503**	**11,919**
	Total liabilities and equity	**148,442**	**157,637**

Note		2015	2014
21	Off-balance sheet items	16	19

Statement of Changes in Equity

Note	(DKKm)	Share capital 1)	Revaluation-reserve	Undistri-butable reserve	Retained earnings	Owners of hybrid core capital 2)	Total
	2014						
	Equity at 1 January 2014	**570**	**24**	**2,338**	**7,052**	**1,300**	**11,284**
	Profit for the year	0	0	0	587	116	703
	Domicile properties	0	24	0	0	0	24
	Transactions with owners						
	Interest on hybrid core capital	0	0	0	0	(116)	(116)
	Tax	0	(5)	0	28	0	23
	Equity at 31 December 2014	**570**	**43**	**2,338**	**7,667**	**1,300**	**11,919**
	2015						
	Equity at 1 January 2015	**570**	**43**	**2,338**	**7,667**	**1,300**	**11,919**
	Profit for the year	0	0	0	558	112	670
	Domicile properties	0	0	0	0	0	0
	Transactions with owners						
	Interest on hybrid core capital	0	0	0	0	(112)	(112)
	Tax	0	0	0	26	0	26
	Equity at 31 December 2015	**570**	**43**	**2,338**	**8,252**	**1,300**	**12,503**

1) 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.
2) Hybrid core capital that comply with the rules in the Capital Requirements Regulation (CRR).

The DKK 1,300m with a conversion obligation was raised on 27 August 2012. The maturity is infinite. The interest rate is floating and based on the six-months money market interest rate (CIBOR) with addition of 8.25 per cent. The total hybrid core capital can be included in the capital base at 31 December 2015.

Interest: 112

Note 1 *Accounting Policies (most material items)*

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 NASDAQ Copenhagen.

Compared to 2014, the accounting policies have been changed in respect of the classification of hybrid core capital. DLR Kredit has no contractual obligations regarding repayment of the hybrid capital which is why this capital does not meet the requirements of a financial liability. Therefore, the change has been made with a view to ensuring that the presentation of the financial statements complies with IFRS 32, which is compatible with the Danish Executive Order on the Presentation of Financial Statements.

The change implies that hybrid core capital is classified as equity and that payments to owners of the hybrid core capital are not recognised in the profit and loss account, but included instead in the allocation of comprehensive income.

The change resulted in the following changes to the financial statements:

Balance Sheet:
A decrease of DKK 1,300m in subordinated debt and an opposite increase in equity of DKK 1,300m for both 2014 and 2015.

Profit and Loss Account:
A decrease in interest expenses of DKK 116m in 2014 and DKK 112m in 2015. As a direct consequence, profit for the year increased by corresponding amounts.

Allocation of Comprehensive Income:
Payments to owners of hybrid core capital at DKK 116m in 2014 and DKK 112m in 2015 have been included in the allocation of comprehensive income.

For future financial years, the above items are not expected to be influenced by amounts equivalent to those in 2015.

Comparative figures have been restated in compliance with the above.

Future sets of rules that may be significant

With effect from 1 January 2018, IFRS 9 is expected to become effective, and this standard is i.a. concerned with new rules for impairment write-downs on loans at amortised cost.

Even though DLR does not present financial statements in accordance with IFRS, it is considered likely that the Danish FSA's Executive Order on the Presentation of Financial Statements will be adjusted in accordance with the rules in IFRS 9.

The new set of rules only deal with loans at amortised cost, which is why mortgage credit loans measured at fair value will not fall directly under the scope of these rules. However, there has been a historic, significant trend to pass on the impairment write-down principles from amortised cost to the impairment write-down principles for mortgage credit loans to fair value. Since considerable uncertainty remains regarding if and how the new set of rules will affect DLR, it has not been possible to carry out any reliable impact analyses.

Presentation, recognition and measurement in general

The accounting figures are presented in whole millions of DKK with no decimals unless it is judged to be essential to provide decimals.

Total amounts in the financial statements have been calculated based on actual figures, which constitutes the correct mathematical method. A recalculation of total amounts may in certain cases result in a rounding difference, which reflects that the underlying decimals are not visible for the reader of the financial statements.

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

Derivative financial instruments
Derivative financial instruments are measured at fair value at 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.

Forward transactions
Unsettled forward securities 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" or "Other debt and payables", respectively. 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.

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 recognised in the profit and loss account as financial income or expenses.

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.

Accounting estimates and judgements
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 30 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 administration fees, has been accrued to include incurred, but not yet due interest and fees in the profit and loss account. As far as payments to owners of hybrid core capital are concerned, such payments are included in the allocation of comprehensive income, cf. the above-mentioned change in accounting policies.

Fee and commission income
Loan application fees, other fees, brokerage and trading margin in connection with refinancing are recognised in the profit and loss account on completion of the individual transaction.

Fee and commission paid
Loan-provision commissions to financial institutions are recognised in the profit and loss account when the transactions have been completed. Loss guarantee commissions to financial institutions are recognised in the profit and loss account under the accrual basis of accounting. To the extent that DLR has a right to offset ascertained losses in the commissions for the individual financial institutions, this will entail reduced commission payment from DLR to the individual financial institution.

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 unrealised 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.

Provision for loan and receivable impairment
Provisions for loan and receivable impairment comprise value adjustments of write-downs falling within objective indication as well as losses ascertained for the period and amounts relating to recovery of debt previously written off.

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 or tax liabilities are recognised in the balance sheet at the value at which the assets/liabilities are expected to be realised. 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.

Comprehensive income
Comprehensive income constitutes profit for the year plus other comprehensive income, e.g. revaluation of domicile properties.

Balance sheet

Receivables from credit institutions and central banks
Demand deposits and time deposits with financial institutions are measured on initial recognition at fair value on initial recognition. Subsequent measurement is carried out at fair value.

Loans, advances and other receivables
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, 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.

Bonds at fair value
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.

For bonds that are not traded actively, a calculated market price is used.

DLR's portfolio of own issued bonds is offset against the item of "Issued bonds" under liabilities in the balance sheet.

Shares, etc.
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
Domicile properties are initially recognised at cost. After initial recognition, domicile properties are rec-

ognised at a reassessed value, which is the fair value at the time of reassessment less subsequent accumulated depreciation and impairment losses. 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.

Other assets
"Other assets" include receivables as well as other receivables such as various account balances with customers in connection with loan applications. These assets are measured at amortised cost.

Furthermore, positive market values are recognised from financial instruments measured at fair value.

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.

Debt to credit institutions and central banks
Debt to credit institutions and central banks including money-market loans are measured at fair value on initial recognition and subsequently at amortised cost.

Bonds issued at fair value
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.

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

Other debt and payables
Other debt and payables include payables and sundry accounts payable such as various account balances with customers in connection with loan applications.
These liabilities are measured at amortised cost.

Furthermore, negative market values are recognised for financial instruments measured at fair value.

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 any 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 Annual General Meeting.

Where the maturity is indefinite, or where contributions on the part of the creditor are non-callable, and where the issuer may choose to abstain from paying coupon, hybrid core capital is classified as equity

Cash Flow Statement

The cash flow statement shows DLR's cash flows for the year classified by cash flows from operating activities as well as cash flows from lending, funding and financing activities.

Note	(DKKm)	2015	2014
2	**Interest income from:**		
	Loans and advances	1,989	2,264
	Administration fees	1,440	1,411
	Bonds	306	379
	Other interest income	39	24
	Total interest income	**3,773**	**4,078**
	Interest from own mortgage bonds offset agains interest on issued bonds	(149)	(275)
	Total	**3,624**	**3,803**

	Interest expenses for:		
3	Credit institutions and central banks	6	0
	Issued bonds	1,974	2,257
	Hybrid core capital	4	9
	Government hybrid core capital	0	36
	Senior debt	66	95
	Other interest expenses	0	1
	Total interests expenses	**2,049**	**2,398**
	Interest from own mortgage bonds	(149)	(275)
	Total	**1,900**	**2,123**
	Of which interest expenses from genuine sale and repurchase transactions recognised as		
	Debt to credit institutions and central banks	0	0

	Value adjustments of:		
4	Mortgage loans	(981)	550
	Bonds	(328)	(186)
	Shares, etc.	(14)	(7)
	Other assets	1	1
	Foreign exchange	5	(4)
	Derivative financial instruments	6	8
	Issued bonds	981	(550)
	Total value adjustments	**(330)**	**(188)**

Note	(DKKm)	2015	2014
5	**Staff costs and administrative expenses:**		
	Staff costs		
	Salaries	104	99
	Pension costs	10	9
	Social security costs	16	14
	Total	**129**	**122**
	Other administrative expenses		
	Valuation expenses	13	12
	Office expenses, etc.	47	51
	Audit, supervision, etc.	8	8
	Other operating costs	18	17
	Total staff and administrative expenses	**216**	**211**
	Executive Board		
	Fixed remuneration	8.1	7.0
	Variable remuneration	0.0	0.0
	Total remuneration to the Executive Board	8.1	7.0
	Number of members of the Executive Board, year-end	2	2
	Remuneration to members of the Executive Board		
	Bent Andersen, Managing Director & CEO*	2.2	4.2
	Jens Kr. A. Møller, Managing Director & CEO**	3.4	2.8
	Michael Jensen, Managing Director (took office on 1 January 2015)	2.5	0.0
	Total remuneration to the Executive Board	**8.1**	**7.0**

* Bent Andersen was managing director and CEO until 30 April 2015. In addition to the above amounts, an amount of DKK 4m was provided in 2014 in connection with Bent Andersen's retirement at the end of April 2015. This amount was paid out in 2015.

** Jens Kr. A. Møller was managing director until 30 April 2015 and CEO from 1 May 2015.

	2015	2014
Board of Directors		
Fixed remuneration	2.0	1.7
Variable remuneration	0.0	0.0
Directors	**2.0**	**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 247.5 thousand, the Vice Chairman receives an annual amount of DKK 165 thousand, and the other members of the Board of Directors receive an annual amount of DKK 110 thousand.
In addition, the Chairman of the Audit Committee receives annual remuneration in the amount of DKK 55 thousand, and the other members of the Audit Committee receive an annual amount of DKK 27.5 thousand.
In addition, the Chairman of the Risk Committee receives annual remuneration in the amount of DKK 55 thousand, and the other members of the Risk Committee receive an annual amount of DKK 27.5 thousand.

	2015	2014
Other employees that influence the risk profile		
Fixed remuneration	13.5	12.9
Variable remuneration	0.0	0.0
Total remuneration to other employees that influence the risk profile	13.5	12.9
Number of employees that influence the risk profile at year-end	13	13

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

Note	(DKKm)	2015	2014
6	**Executive Board and Board of Directors. Amount of loans, pledges, securities or guarantees granted to members of the credit institution**		
	Executive Board:		
	Loans, etc.	0	0
	Board of Directors:		
	Loans, etc.	32	32

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, or their related parties.

Exposures against related party are made in accordance with usual business terms and provided at an arm's length basis at current market rates.

Besides the above mentioned DLR has no further transachons with related parties.

Interest rates (incl. administration margin) 2015:
Executive Board: No loans
Board of Directors: 1.1-3.0 pc p.a.*
*The interest rates (incl. administration margin) apply to various types of loans
based on various types of mortgage bonds/SDOs

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

Note		2015	2014
7	**Audit fees**		
	Statutory audit of the financial statements	0.9	0.9
	Other assurance engagements	0.1	0.1
	Tax advice	0.1	0.0
	Other services	0.4	0.3
	Total fees to the accounting firm appointed by the Annual General Meeting, performing the statutory audit	**1.5**	**1.3**

Note		2015	2014
8	**Number of employees**		
	Average number of employees in the financial year in full-time equivalents	163	155

Note		2015	2014
9	**Tax** (explanation in DKKm)		
	Applicable tax rate of "Profit before tax"	206	229
	Deferred tax	0	6
	Deferred tax related to equity entries	0	(5)
	Readjustments of tax charge for previous years	0	0
	Total tax	**206**	**230**
	Tax (explanation of effective tax rate)		
	Current tax rate	23,5	24.5
	Non-taxable income	(0.1)	0.0
	Non-deductible expenses	0.0	0.2
	Adjustment for deferred tax	0.1	(0.1)
	Effective tax rate	**23.5**	**24.6**

Note	(DKKm)	2015	2014
10	**Provisions for loan and receivable impairment, etc.**		
	Individual provisions		
	Provisions, loans and guarantees, beginning-of-year	333	342
	Provisions for the period	235	126
	Reversal of provisions	(123)	(135)
	Provisions, year-end	**445**	**333**
	Collective provisions		
	Provisions, loans and guarantees, beginning-of-year	198	39
	Provisions for the period	0	188
	Reversal of provisions	(54)	(29)
	Provisions, year-end	**145**	**198**
	Total provisions, year-end	**590**	**531**
	Fair value of commitments subject to individual provisions		
	Before provisions	3,671	2,641
	After provisions	3,225	2,308
	Impairment losses for the period	(39)	(48)
	Recovery of debt previously written off	4	7
	Provisions for the period	(235)	(285)
	Reversal of provisions	176	135
	Provisions for loan and receivable impairment, etc.	**(94)**	**(191)**

Note	(DKKm)	2015	2014
11	**Receivables from credit institutions and central banks**		
	Receivables with period of notice from central banks	1	0
	Receivables from credit institutions and central banks	2,712	14,553
	Total receivables from credit institutions and central banks	**2,713**	**14,553**
	By remaining term to maturity		
	Demand deposits	2,712	14,366
	Up to three months	1	186
	Over three months and up to one year	0	0
	Over one year and up to five years	0	0
	Over five years	0	0
	Total	**2,713**	**14,553**

Note	(DKKm)	2015	2014
12	**Loans and advances**		
	Mortgage loans, nominal value	132,455	131,590
	Adjustment for interest rate risk	1,015	1,990
	Adjustment for credit risk	(562)	(506)
	Total mortgage loans at fair value	**132,908**	**133,075**
	Arrears and outlays	108	124
	Other loans and advances	22	20
	Total loans and advances	**133,038**	**133,219**
	By remaining term to maturity		
	Up to three months	820	1,410
	Over three months and up to one year	2,115	2,690
	Over one year and up to five years	19,596	17,131
	Over five years	110,507	111,988
	Total	**133,038**	**133,219**

Pursuant to special legislation, a government guarantee of DKK 539m has been provided as supplementary security for loans to young farmers. Interim loan guarantees of DKK 800m have been provided for debt rescheduling loans. As supplementary security for mortgage loans apart from mortgages, bankers' guarantees of DKK 16,764m have been provided.

Note	(DKKm)	2015	2014
13	**Arrears and execution**		
	Arrears before provisions	122	142
	Execution before provisions	10	0
	Provisions for arrears and execution	(24)	(18)
	Total	**108**	**124**
14	**Mortgage loans (nominal value) by property category (as a percentage)**		
	Agricultural properties	64	64
	Owner-occupied dwellings	6	6
	Subsidised rental housing properties	0	0
	Private rental housing properties	13	13
	Office and business properties	15	15
	Properties for manufacturing and manual industries	1	0
	Properties for social, cultural and educational purposes	0	0
	Other properties	1	1
	Total, as a percentage	**100**	**100**
15	**Number of mortgages, year-end**	**59,071**	**62,091**
16	**Bonds at fair value**		
	Own mortgage bonds	26,235	48,067
	Other mortgage bonds	10,635	9,166
	Government bonds	1,343	0
	Other bonds	0	164
	Total bonds	**38,213**	**57,396**
	Own mortgage bonds offset against issued bonds	(26,235)	(48,231)
	Total	**11,978**	**9,166**

Note	(DKKm)	2015	2014
17	**Shares, etc.**		
	Other shares	55	68
	Total shares, etc.	**55**	**68**

Note	(DKKm)	2015	2014
18	**Land and buildings (domicile properties)**		
	Fair value, beginning-of-year	**99**	**76**
	Additions during the year	0	0
	Depreciation	(1)	(1)
	Value changes recognised in other comprehensive income	0	24
	Fair value, year-end	**98**	**99**

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

Note	(DKKm)	2015	2014
19	**Other tangible assets**		
	Cost, beginning-of-year	32	30
	Additions during the year	3	3
	Disposals during the year	(6)	(1)
	Cost, year-end	**29**	**32**
	Depreciation, beginning-of-year	26	24
	Depreciation for the year	3	3
	Depreciation written back	(5)	(1)
	Depreciation, year-end	**24**	**26**
	Total other tangible assets	**5**	**6**

Note	(DKKm)	2015	2014
20	**Other assets**		
	Positive market value of derivative financial instruments, etc.	5	32
	Other receivables	63	198
	Interest and commission receivable	155	186
	Total	**223**	**416**

Note	(DKKm)	2015	2014
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	249	48
	Receivables from credit institutions and central banks	2,713	14,553
	Loans and other receivables at fair value	133,016	133,198
	Loans and other receivables at amortised cost	22	20
	Bonds at fair value	11,978	9,166
	Shares, etc.	55	68
	Other assets	223	416
	Derivative financial instruments	5	32
	Total, balance sheet items	**148,262**	**157,500**
	Off-balance sheet items		
	Guarantees, etc.	1	1
	Other liabilities	15	18
	Total, off-balance sheet items	**16**	**19**

22 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 credits 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 that must be considered risk-free.

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, the loan-providing financial institution will post an individual guarantee for the individual loan throughout its maturity covering 6 pc of the remaining debt on the loan. The guarantee is reduced gradually as the loan is reduced, 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 total 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 losses 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. This guarantee concept was launched with loan offers from the beginning of 2015. Currently, the portfolio in question amounts to well over DKK 20bn.

Furthermore, DLR has previously introduced two different loss guarantee concepts that still cover considerable parts of DLR's portfolio.

In connection with loans to other property categories than agricultural properties and closed-down farms/farmhouses, the loan-providing financial institution would previously provide a guarantee for the lowest-ranking DLR mortgage covering in the order of 25-100 pc of the mortgage in question. At the end of 2015, the loan loss agreements under this guarantee concept comprise guarantees at a total of DKK 14.4 provided for a portfolio of well over currently DKK 34bn.

22 continued

In connection with loans against 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 in this property category. Offsetting of losses will result in reduced payments of commission from DLR to the individual financial institution. This guarantee concept, which is also being phased out, comprises loans in the amount of just below DKK 69bn at the end of 2015.

23 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 2015 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 2015 to ensure that the basis applied for valuation will to the largest possible extent reflect the current price level.

It should also be noted that under the applicable guarantee concept the loan-providing financial institutions provide a guarantee for the least secure 6 pc of the loan. Furthermore, a considerable part of the portfolio of commercial properties is covered by the guarantee concept previously in force, where the loan-providing financial institutions provided a guarantee for the part of the loan that exceeded an LTV of 35 pc for office and business properties as well as 60 pc for rental properties, including cooperative housing properties.

Agriculture: LTV 70 pc on the assumption of additional security of 10 pc of the value in the interval 60-70 pc 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 2015.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Pc of loans in loan intervals	90.3	6.0	3.7

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 2015.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Pc of loans in loan intervals	88.6	6.6	4.8

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 2015.

Loan-to-value limit (LTV) as a percentage	0-80	80+
Pc of loans in loan intervals	94.6	5.4

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 2015.

Loan-to-value limit (LTV) as a percentage	0-80	80+
Pc of loans in loan intervals	98.4	1.6

Note **(DKKm)**

24 Reasons for individual provisions

Property category	Reason	Remaining bond debt before provision 2015	Provision 2015	Remaining bond debt before provision 2014	Provision 2014
Farms, incl. residential farms, etc.	Bankruptcy	263	48	80	21
	Reconstruction	0	0	0	0
	Current default on payments	430	80	161	28
	Past default on payments, etc.	2,415	234	1,938	217
Total		**3,109**	**362**	**2,179**	**266**
Rental properties, incl. private cooperative housing properties	Bankruptcy	12	1	39	6
	Reconstruction	0	0	0	0
	Current default on payments	1	2	20	4
	Past default on payments, etc.	312	38	196	17
Total		**326**	**41**	**255**	**27**
Office and business properties	Bankruptcy	27	7	27	5
	Reconstruction	0	0	0	0
	Current default on payments	28	3	39	4
	Past default on payments, etc.	169	31	154	31
Total		**225**	**41**	**220**	**40**
Other properties	Bankruptcy	0	0	0	0
	Reconstruction	0	0	0	0
	Current default on payments	0	0	2	0
	Past default on payments, etc.	11	2	5	1
Total		**12**	**2**	**6**	**1**

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.

Note **(DKKm)**

25 Loans in arrears, but without provisions, distributed by the age of the oldest arrears:

Property category	Age of oldest arrears	Remaining bond debt 2015	Remaining bond debt 2014
Farms, incl.	0-2 months	2,912.9	3,480.4
residential farms	2-5 months	555.3	686.2
	5-8 months	212.8	99.6
	8-11 months	71.9	17.7
	Over 11 months	22.0	26.1
Total		**3,774.9**	**4,310.0**
Rental properties, incl.	0-2 months	520.9	578.6
private cooperative	2-5 months	10.0	40.3
housing properties	5-8 months	3.0	1.3
	8-11 months	0.0	8.8
	Over 11 months	16.8	4.0
Total		**550.7**	**633.0**
Office and	0-2 months	899.6	1,215.8
business properties	2-5 months	90.0	114.5
	5-8 months	16.8	45.0
	8-11 months	4.3	28.2
	Over 11 months	15.1	19.7
Total		**1.025.8**	**1,423.2**
Other properties	0-2 months	36.3	327.7
	2-5 months	3.7	76.6
	5-8 months	0.0	1.5
	8-11 months	0.0	1.2
	Over 11 months	0.0	4.4
Total		**40.0**	**411.4**

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)	2015	2014
26	**Debt to credit institutions and central banks**		
	Remaining term to maturity		
	Up to three months	0	2,000
	Total	**0**	**2,000**

Note	(DKKm)	2015	2014
27	**Issued bonds at fair value**		
	Mortgage bonds - nominal value	155,403	180,888
	Fair value adjustment	1,175	2,665
	Own mortgage bonds offset - at fair value	(26,235)	(48,231)
	Mortgage bonds at fair value	**130,342**	**135,322**
	Of which pre-issued	16,423	27,834
	Drawn for redemption in next term	820	2,800

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. The bonds that finance DLR's loans have been rated AAA by Standard & Poor's. The main part of other Danish mortgage credit bonds and covered bonds have been given the similar rating by 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 (2014: DKK 0.0m). DKK 0.0m of the cumulative effect is attributable to changes for 2015 (2014: DKK 0.0m).

	2015	2014
By remaining term to maturity		
Up to 3 months	28,597	63,398
Over 3 months	13,861	12,531
Over 1 year and up to 5 years	89,980	85,276
Over 5 years	24,139	22,348
Total	**156,577**	**183,553**

Note	(DKKm)	2015	2014
28	**Issued bonds at amortised cost**		
	Issues in connection with senior debt	4,000	6,000
	Employee bonds	0	2
	Total issued bonds at amortised cost	**4,000**	**6,002**
	Offsetting of own other bonds	0	0
	Total	**4,000**	**6,002**
	By remaining term to maturity		
	Up to 3 months	0	2
	Over 3 months and up to 1 year	2,000	3,000
	Over 1 year and up to 5 years	2,000	3,000
	Total	**4,000**	**6,002**

29 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 to Accounting Policies concerning recognition and measurement.

2015

	Carrying amount	Fair value
Loans and other receivables at amortised cost	22	22
Issued bonds at amortised cost	4,000	4,033

2014

	Carrying amount	Fair value
Loans and other receivables at amortised costs	20	20
Issued bonds at amortised cost	6,002	6,096

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)**

30 Fair value breakdown of financial instruments recognised at fair value

2015	**Quoted prices**	**Observable inputs**	**Un-observable inputs**	**Fair value total**
Financial assets				
Recognised as trading portfolio:				
Bonds at fair value	11,170	808	0	11,978
Derivative financial instruments	5	0	0	5
Recognised through the fair value option:				
Loans and other receivables at fair value	0	133,016	0	133,016
Recognised as available for sale:				
Shares available for sale	0	45	11	55
Total	**11,175**	**133,869**	**11**	**145,055**
Financial liabilities:				
Recognised as trading portfolio:				
Derivative financial instruments	8	0	0	8
Recognised through the fair value option:				
Issued bonds at fair value	111,489	18,854	0	130,342
Total	**111,497**	**18,854**	**0**	**130,351**

2014	**Quoted prices**	**Observable inputs**	**Un-observable inputs**	**Fair value total**
Financial assets				
Recognised as trading portfolio:				
Bonds at fair value	9,166	0	0	9,166
Derivative financial instruments	21	11	0	32
Recognised through the fair value option:				
Loans and other receivables at fair value	0	133,198	0	133,198
Recognised as available for sale:				
Shares available for sale	0	58	11	68
Total	**9,186**	**133,267**	**11**	**142,463**
Financial liabilities:				
Recognised as trading portfolio:				
Derivative financial instruments	18	0	0	18
Recognised through the fair value option:				
Issued bonds at fair value	129,670	2,850	0	132,520
Total	**129,688**	**2,850**	**0**	**132,538**

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 bonds where no updated market price is available, a price calculated on the basis of the official market price of a corresponding bond is applied. 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)	2015	2014
31	**Other debt and payables**		
	Negative market value of derivative financial instruments	8	18
	Interest and commission payable	1,311	1,327
	Other payables	266	286
	Total	**1,585**	**1,630**
32	**Deferred tax**		
	Deferred tax, beginning-of-year	2	(2)
	Change in deferred tax	1	4
	Total	**3**	**2**
	Land and buildings, domicile properties	5	5
	Other tangible assets	(1)	(2)
	Provisions for retirement	0	(1)
	Total	**3**	**2**
	Deferred tax is recognised as follows:		
	Deferred tax assets	(1)	(2)
	Provisions for deferred tax	5	5
	Total	**3**	**2**

33 Equity

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

At 31 December 2015, 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

None of the above mentioned shareholders have controlling interest.

Note	(DKKm)	2015	2014
34	**Subordinated debt**		
	Hybrid core capital [1])	0	755
	Total subordinated debt	**0**	**755**

[1]) The hybrid core capital in 2014 of DKK 755m was not CRR-compliant and therefore continues to be recognised in subordinated debt. In 2014, interest amounted to DKK 4m. The debt was repaid on 16 June 2015.

Note		2015	2014
35	**Derivative financial instruments by remaining term to maturity**	**2015**	**2014**
	Forwards, bought		
	Up to 3 months		
	Nominal value	321	72
	Net market value	0	0
	Forwards, sold		
	Up to 3 months		
	Nominal value	4,436	13,515
	Net market value	(3)	(3)
	Interest rate swaps		
	Exceeding 3 months and up to 1 year		
	Nominal value	0	744
	Net market value	0	28

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 2015, while the settlement of the bonds will not be effected until 4 January 2016.

Note **(DKKm)**

36 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 illustrate 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.

2015	**Change in post-tax results**	**Change in equity**
Interest-rate risk on the securities portfolio		
An interest-rate increase of 1 pc point	(174)	(174)
An interest-rate decrease of 1 pc point	174	174
Risk related to shares		
An increase in share value of 10 pc	4	4
A decrease in share value of 10 pc	(4)	(4)
Foreign-exchange risk		
An increase of 1 pc DKK/EUR	9	9
A decrease of 1 pc DKK/EUR	(9)	(9)

2014	**Change in post-tax results**	**Change in equity**
Interest-rate risk on the securities portfolio		
An interest-rate increase of 1 pc point	(295)	(295)
An interest-rate decrease of 1 pc point	295	295
Risk related to shares		
An increase in share value of 10 pc	5	5
A decrease in share value of 10 pc	(5)	(5)
Foreign-exchange risk		
An increase of 1 pc DKK/EUR	4	4
A decrease of 1 pc DKK/EUR	(4)	(4)

Note **(DKKm)**

37 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.

38 Profit and loss account	2015	2014	2013	2012	2011
Net interest and fee income	1,507	1,508	1,229	1,049	944
Other operating income, etc.	18	17	18	19	18
Staff costs and administrative expenses, etc.	(225)	(214)	(209)	(205)	(194)
Earnings	**1,299**	**1,311**	**1,038**	**863**	**769**
Provision for loan and receivable impairment	(94)	(191)	(113)	(87)	(141)
Value adjustments	(330)	(188)	(296)	(174)	(259)
Profit before tax	**875**	**933**	**629**	**603**	**369**
Profit after tax	**670**	**703**	**471**	**451**	**275**

Balance sheet at 31 December					
Assets					
Loans and advances	133,038	133,219	133,910	135,631	133,211
Bonds and shares, etc.	12,033	9,234	8,874	5,356	7,669
Other assets	3,371	15,185	4,110	7,900	14,066
Total assets	**148,442**	**157,637**	**146,894**	**148,887**	**154,946**
Liabilities and equity					
Issued bonds	134,342	141,324	131,438	128,423	129,949
Other debt and payables	1,596	3,638	2,395	6,241	11,789
Subordinated debt	0	755	3,078	5,254	5,623
Equity	12,503	11,919	9,984	8,969	7,586
Total liabilities and equity	**148,442**	**157,637**	**146,894**	**148,887**	**154,946**

Financial ratios					
Return on equity (ROE)					
Profit before tax in pc of equity*)	7.2	8.0	6.6	7.3	5.0
Profit after tax in pc of equity*)	5.5	6.1	5.0	5.4	3.7

Return on capital employed					
Return on capital employed*)	0.45	0.45	0.32	0.30	0.18
Costs					
Costs in pc of loan portfolio	0.16	0.16	0.16	0.15	0.15
Income/cost ratio*)	3.75	3.30	2.96	3.07	2.10
Income/cost ratio, excl. write-downs for impairment	5.31	6.24	4.56	4.37	3.63

Note	(DKKm)	2015	2014	2013	2012	2011
38 continued						
	Solvency (incl. profit for the year)					
	Capital ratio, pc*)	12.9	12.3	12.3	13.2	12.2
	Core capital ratio, pc*)	12.9	12.3	12.3	13.2	12.2
	Losses and arrears					
	Arrears, year-end (DKKm)	122.0	141.8	125.4	165.2	142.9
	Loss and impairment ratio for the period (in pc of loan portfolio)*)	0.07	0.14	0.08	0.06	0.11
	Accumulated loss and impairment ratio (in pc of loan portfolio)	0.44	0.40	0.28	0.25	0.26
	Lending activity					
	Growth in loan portfolio, pc (nominal)*)	0.6	(0.9)	(0.9)	2.3	1.1
	New loans, gross (DKKm)	23,469	33,181	11,340	20,176	12,836
	Number of new loans	8,585	9,638	4,887	7,944	4,887
	Loan/equity ratio*)	10.6	11.2	13.4	15.1	17.6
	Margins					
	Percentage of average loan portfolio (nominal):					
	Profit before tax	0.67	0.71	0.47	0.44	0.28
	Administrative margin	1.09	1.07	1.05	0.93	0.80
	Percentage of core capital after deductions:					
	Foreign exchange position as a percentage of core capital after deductions*)	9.1	4.0	3.1	2.4	12.0

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

Note	(DKKm)	2015	2014
39	**Revenue**		
	DLR exclusively carries on mortgage credit activities in Denmark (incl. the Faroe Islands and Greenland), and therefore all revenue is attributable to the Kingdom of Denmark.		
	Revenue	3,812	4,049
	Government grants received	0	0

Note	(DKKm)	2015	2014
40	**Capital and solvency**		
	Equity	12,503	11,919
	Hybrid core capital recognised in equity	(1,300)	(1,300)
	Deductions as a consequence of prudent valuation	(17)	0
	Deferred tax	(1)	(2)
	Actual core capital	**11,185**	**10,617**
	Hybrid core capital	1,300	1,904
	Capital base	**12,485**	**12,521**
	Risk-weighted exposure with credit risk, etc.	91,278	95,237
	Risk-weighted exposure with market risk	3,505	4,938
	Risk-weighted exposure with operational risk	2,249	1,917
	Total risk-weighted exposure	**97,032**	**102,092**
	Actual core capital ratio	**11.5%**	**10.4%**
	Capital ratio	**12.9%**	**12.3%**

Cash Flow Statement

Note	(DKKm)	2015	2014
41	**Cash flow from operating activities**		
	Profit before tax	875	933
	Adjustments for non-cash items:		
	Depreciation on assets	1	4
	Value adjustments, securities	342	186
	Change in provisions	59	150
	Change in accrued interest income and receivables	190	(82)
	Change in accrued interest expenses and payables	(46)	(34)
	Corporate income tax paid	(160)	(226)
	Total cash flow from operating activities	**1,262**	**929**
	Cash flow from investing activities		
	Investments in assets temporarily foreclosed	(32)	10
	Total cash flow from investing activities	**(32)**	**10**
	Cash flow from financing activities		
	Capital increase	0	0
	Payment to owners of hybrid core capital	(112)	(116)
	Raising of hybrid core capital	0	0
	Redemption of government hybrid core capital (Bankink Package II)	(755)	0
	Raising of senior secured bonds	1,000	0
	Redemption of state-guaranteed senior debt	(3,002)	(1,000)
	Change in mortgage loans	(859)	536
	Change in issued bonds	(25,995)	(2,400)
	Total cash flow from financing activities	**(29,723)**	**(2,979)**
	Cash flow for the year	**(28,493)**	**(2,040)**
	Cash and cash equivalents, incl. securities, beginning-of-year	69,996	72,223
	Market value adjustment	(328)	(186)
	Cash and cash equivalents, incl. securities portfolio, year-end	**41,175**	**69,996**

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 2015.

The distribution of profit for 2015 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
Profit and loss account			
Administration and reserve fund contributions	1,276	164	1,440
Front-end fees	26	0	26
Interest, subordinated debt and guarantee capital	(3)	0	(4)
Interest, etc.	263	25	288
Value adjustment of securities and foreign exchange	(301)	(29)	(330)
Administrative expenses	(412)	(40)	(451)
Write-offs and provisions on loans	(56)	(38)	(94)
Tax	(186)	(19)	(206)
Profit	**606**	**63**	**670**
Balance sheet			
Assets			
Mortgage loans	118,912	14,558	133,470
Arrears, mortgage loans	109	13	122
Provisions for loans and arrears	(495)	(90)	(585)
Prepayments	17	2	19
Other assets, incl. reserve fund loans	39,781	2,140	41,921
Total assets	**158,324**	**16,622**	**174,946**
Liabilities and equity			
Issued bonds, etc.	141,514	15,064	156,577
Deferred income	249	26	275
Other debt and payables	5,255	336	5,590
Subordinated debt	0	0	0
Equity	11,307	1,197	12,503
Total liabilities and equity	**158,324**	**16,622**	**174,946**
Addition and deduction of funds (net)	**(210)**	**210**	**0**

Balance sheet total in the Series Financial Statements	
Balance sheet total according to DLR Kredit's Annual Report	148,442
Offsetting of own mortgage bonds	26,235
Offsetting of interest receivable on own bonds, etc.	269
Balance sheet total in DLR Kredit's serial financial statements	**174,946**

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 2015 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 2015 as well as of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2015.

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, 25 February 2016

Executive Board

Jens Kr. A. Møller *Managing Director, CEO*	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

Report on the Financial Statements

We have audited the Financial Statements of DLR Kredit A/S for the financial year 1 January to 31 December 2015. 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 international 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 2015 and of its operations and cash flows for the financial year 2015 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for financial statements of issuers of listed bonds.

Statement on 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, 25 February 2016
Internal Audit

Dennis Lundberg
Chief Internal Auditor

INDEPENDENT AUDITOR'S REPORT

To the shareholders in DLR Kredit A/S

Report on the financial statements

We have audited the financial Statements of DLR Kredit A/S for the financial year 2015, 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. 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

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. Furthermore, Management is responsible for the internal control that Management determines as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility and basis of opinion

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. 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 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.

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 2015, as well as of the Company's financial performance and cash flows for the financial year 1 January – 31 December 2015 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for issuers of listed bonds.

Statement on the management's report
Pursuant to the Danish Financial Business Act, we have read the management's report. We have not performed any further procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information provided in the management's report is consistent with the financial statements.

Copenhagen, 25 February 2016

Deloitte 33963556
Statsautoriseret Revisionspartnerselskab

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

SHAREHOLDERS IN DLR KREDIT A/S

Year-end 2015

A/S Møns 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
Flemløse Sparekasse
Folkesparekassen
Frørup Andelskasse
Frøs Herreds Sparekasse
Frøslev-Mollerup Sparekasse
FS Finans II A/S
FS Finans III A/S
FS Finans IV A/S
Fynske Bank A/S
GrønlandsBANKEN A/S
Handelsbanken
Hvidbjerg Bank, Aktieselskab
J.A.K. Andelskasse, Østervrå
Jutlander Bank A/S
Jyske Bank A/S
Klim Sparekasse
Kreditbanken A/S
Københavns Andelskasse
Langå Sparekasse
Lån & Spar Bank A/S
Merkur 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 A/S
Sparekassen Thy
Sparekassen Vendsyssel
Stadil Sparekasse
Sydbank A/S
Søby-Skader-Halling Sparekasse
Sønderhå-Hørsted Sparekasse
Totalbanken A/S
Vestjysk Bank A/S
Østjydsk Bank A/S

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