ANNUAL REPORT 2016

2016

CONTENTS

FINANCIAL HIGHLIGHTS AND KEY FIGURES

Financial and operating data, DKKm	2016	2015	2014	2013	2012
Income statement					
Administration margin income	1,462	1,440	1,411	1,403	1,261
Other core income, net	84	87	71	70	111
Interest expenses, subordinated debt	0	-4	-45	-310	-448
Interest expenses, senior debt (SBB)	-50	-66	-95	-83	-5
Fee and commission income, net	-234	-218	-172	-221	-190
Core income	**1,261**	**1,239**	**1,169**	**860**	**729**
Staff costs and administrative expenses, etc.	-233	-219	-214	-209	-205
Other operating costs (contribution to resolution fund)	-15	-6	0	0	0
Provision for impairments on loans and receivables, etc.	-110	-94	-191	-113	-87
Core earnings	**903**	**921**	**765**	**538**	**438**
Portfolio earnings (securities)	136	-45	168	92	165
Profit before tax	**1,039**	**875**	**933**	**629**	**602**
Net profit for the year	**811**	**670**	**703**	**471**	**451**
Balance Sheet at 31 December					
Assets					
Loans and advances	139,053	133,038	133,219	133,910	135,631
Bonds and shares, etc.	13,683	12,033	9,234	8,874	5,356
Other assets	3,002	3,371	15,184	4,110	7,900
Total assets	**155,737**	**148,442**	**157,637**	**146,894**	**148,887**
Liabilities and equity					
Issued mortgage bonds at fair value	142,074	134,342	141,324	131,438	128,423
Other liabilities	1,404	1,596	3,638	2,395	6,241
Subordinated debt	0	0	755	3,078	5,254
Equity	12,259	12,503	11,919	9,984	8,969
Total liabilities and equity	**155,737**	**148,442**	**157,637**	**146,894**	**148,887**
Financial ratios and key figures *					
Return on equity					
Profit before tax as pc of equity	8.4	7.2	8.5	6.6	7.3
Profit after tax as pc of equity	6.5	5.5	6.4	5.0	5.4
Profit on hybrid core capital (CRR-compliant)	8.4	8.6	8.9		
Profit after tax on equity excl. hybrid core capital	6.5	5.4	6.4		
Return on capital employed					
Return on capital employed	0.52	0.45	0.45	0.32	0.30
Costs					
Costs as pc of loan portfolio	0.18	0.16	0.16	0.16	0.15
Cost/income ratio (pc)	3.90	3.75	3.30	2.96	3.07
Cost/income ratio (pc) excl. impairments	5.63	5.31	6.24	4.56	4.37
Capital ratios (incl. profit for the period)					
Total capital ratio (pc)	14.3	12.9	12.3	12.3	13.2
Tier 1 capital ratio (pc)	14.3	12.9	12.3	12.3	13.2
Common equity tier 1 capital ratio (pc)	12.7	11.5	10.4	9.8	8.7
Arrears and impairments					
Arrears year-end (DKKm)	124	122	142	125	165
Impairment ratio for the period (pc of loan portfolio)	0.08	0.07	0.14	0.08	0.06
Accumulated impairment ratio (pc of loan portfolio)	0.43	0.44	0.40	0.28	0.25
Lending activity					
Growth in loan portfolio, pc. (nominal)	3.8	0.6	-0.9	-0.9	2.3
Gross new lending (DKKm)	23,118	23,469	33,181	11,340	20,176
Number of new loans	7,353	8,585	9,638	4,887	7,944
Loan/equity ratio (pc)	11.3	10.6	11.2	13.4	15.1
Margins					
Pc of average loan portfolio (nominal):					
Profit before tax	0.77	0.67	0.71	0.47	0.44
Administration margin income as pc of average loan portfolio	1.08	1.09	1.07	1.05	0.93
Pc of tier 1 capital after deductions:					
Foreign exchange position as pc of tier 1 capital after deductions	8.0	9.1	4.0	3.1	2.4

*) Financial ratios and key figures calculated in accordance with Danish FSA definitions.

Summary

- DLR Kredit A/S's core income amounted to DKK1,261m in 2016, an increase of DKK 22m compared to 2015
- Provisions for impairments on loans and receivables (losses and impairments) amounted to DKK -110m, which is DKK 16m more than in 2015
- Portfolio earnings amounted to DKK 136m, an increase of DKK 181m compared to 2015
- DLR's pre-tax profit of DKK 1,039m was up DKK 164m compared to 2015
- After paying tax and the owners of hybrid core capital, DKK 726m was added to DLR's equity capital
- DLR's share buybacks totalled DKK 970m in 2016
- Net lending to agricultural and urban trade property totalled DKK 5bn

Management statement

DLR Kredit A/S's Chief Executive Officer Jens Kr. A. Møller states in connection with the release of the Annual Report 2016:

"DLR's pre-tax profit for 2016 of DKK 1,039m is satisfactory and exceeded expectations.

It is also satisfying that DLR's loan portfolio grew by a nominal DKK 5.0bn and that the rise included lending on both agricultural and urban trade properties. The increased loan portfolio will affect earnings positively going forward.

Declining yields and subsequently rising bond prices had a positive impact on portfolio return. Going forward, however, low interest rates will mean reduced yield returns on DLR's securities portfolio.

The past financial year has – as expected – been influenced by the difficult economic conditions faced by parts of the agricultural sector. For DLR, however, losses are significantly mitigated by the guarantee and loss-offsetting agreements we have with our distributor banks.

In Q1 2016 DLR was approved to use IRB models to calculate risk exposure with respect to the credit risk on our full-time agriculture portfolio, which has subsequently reduced overall risk exposure and improved DLR's total capital ratio.

DLR's share buybacks from government-owned Finansiel Stabilitet and Danmarks Nationalbank (Danish central bank) in 2016 had a total market value of DKK 970m".

Comments on the 2016 result

Income statement

DLR's earnings primarily stem from:

- Core earnings: Earnings from mortgage credit activity in the form of administration margins, fees and commissions, etc. less associated administration costs, losses and impairments.
- Portfolio earnings: Return on securities portfolio.

Table 1. Income statement

(DKKm)	2016	2015
Administration margin income	1,462	1,440
Other core income, net	84	87
Interest expenses, subordinated debt	-	-4
Interest expenses, senior debt (SBB)	-50	-66
Fee and commission income, net	-234	-218
Core income	**1,261**	**1,239**
Staff costs and administrative expenses, etc.	-233	-219
Other operating costs (contribution to Resolution Fund)	-15	-6
Provision for impairments on loans and receivables, etc.	-110	-94
Core earnings	**903**	**921**
Portfolio earnings (securities)	136	-45
Profit before tax	1,039	875
Net profit for the year	**811**	**696**

Core earnings

Administration margin income amounted to DKK 1,462, which is DKK 22m up on 2015. The increase is essentially due to the loan portfolio expanding.

Interest expenses on senior debt amounted to DKK 50m, which is below the 2015 level. While debt obligations in the form of senior debt increased, this was more than offset by a lower average interest rate in 2016. Combined, these two opposing trends resulted in a decline in interest expenses of DKK 16m.

Fees and commissions (net) include, on the one hand, fees and brokerage in connection with the disbursement and repayment of mortgage loans plus spread income stemming from loan refinancing and disbursing and, on the other, commission expenses to the banks that intermediate DLR's loans. Expenses include both intermediation commissions and commissions for the provision of loss guarantees, etc.

Fees and commissions (net) amounted to an expense of DKK 234m compared to an expense of DKK 218m in 2015.

Core income was subsequently DKK 1,261m, an increase of DKK 22m on 2015.

Staff and administration, etc. expenses amounted to DKK 233m, which is DKK 14m up on 2015.

DLR's contribution to the Resolution Fund in 2016 constituted an expense of DKK 15m, compared to DKK 6m in 2015. The increase was due to this cost applying to the full year in 2016, while in 2015 it only applied to H2.

Losses and impairments on loans and receivables, including adjustments from previous years, were calculated at DKK 110m, which is DKK 16m more than in 2015. The increase, which was expected, stems from the difficult economic conditions affecting sections of the agricultural industry.

Portfolio earnings
Portfolio earnings represent an income of DKK 136m compared to an expense of DKK 45m in 2015.

Relatively high portfolio earnings came on the back of further falls in yields in 2016 and bond prices subsequently rising.

DLR's investment portfolio (securities excl. temporary surplus liquidity) amounted to DKK 20.7m at the end of 2016.

Allocation of net profit for the year
The year's net profit (profit after tax) was DKK 811m. Of this, DKK 109m has been paid to the owners of hybrid core capital. As this expense is tax deductible, DLR's net expense here is DKK 85m. Overall, DKK 726 in retained earnings has been added to DLR's equity capital.

Balance sheet

Mortgage credit lending amounted to DKK 137.5bn (nom.) at the end of 2016.

The bond portfolio stood at DKK 37.5m. Of this, DLR's own bonds accounted for DKK 23.9bn, which is netted in "Issued bonds at fair value", while DKK 13.6bn was attributable to positions in government securities and other mortgage bonds.

As well as the bond holding of DKK 37.5bn, DLR held other securities for DKK 2.6bn; hence, the total securities holding amounted to DKK 40.1bn (gross) at the end of 2016.

Temporary surplus liquidity in connection with mortgage lending activity comprised DKK 19.4bn, so the investment holding was therefore DKK 20.7bn.

DLR's balance sheet stood at DKK 155.7bn at year-end 2016, which is DKK 7.3bn higher than at year-end 2015.

Capital base

DLR's capital base was reduced by DKK 925m in 2016.

The reduction in the capital base in 2016 should be seen against DLR's share buy-backs from Finansiel Stabilitet and Danmarks Nationalbank, which totalled DKK 970m.

Furthermore, DLR got approval in Q1 2016 from the Danish FSA to use IRB models to calculate risk exposure with respect to the credit risk on the full-time agriculture loan portfolio. This means the difference between "expected loss in the IRB model" and "impairment charges" has to be deducted from the capital base, which as of year-end 2016 resulted in a deduction of DKK 676m relative to year-end 2015, which was based purely on the standard method.

Overall, DLR's operations further consolidated DLR by DKK 726m in 2016.

At year-end 2016, DLR's capital base was composed solely of core capital and hybrid core capital. Hybrid core capital (Tier 1) accounted for DKK 1.3bn and in total the capital base amounted to DKK 11.6bn at year-end 2016 compared to DKK 12.5bn at the end of 2015.

DLR's total capital ratio was 14.3 at year-end 2016, while DLR's common equity tier 1 capital ratio was 12.7.

Table 2. DLR's capital ratios

	2016	2015
Common equity tier 1 ratio	12.7	11.5
Total capital ratio	14.3	12.9
Totat risk exposure amount (DKKbn)	**81**	**97**

The main reason why the capital ratios rose in 2016 was that the weighted risk exposure for credit risk was reduced from DKK 91.3bn at end-2015 to DKK 75.3bn at end-2016, essentially as a result of the above-mentioned IRB approval.

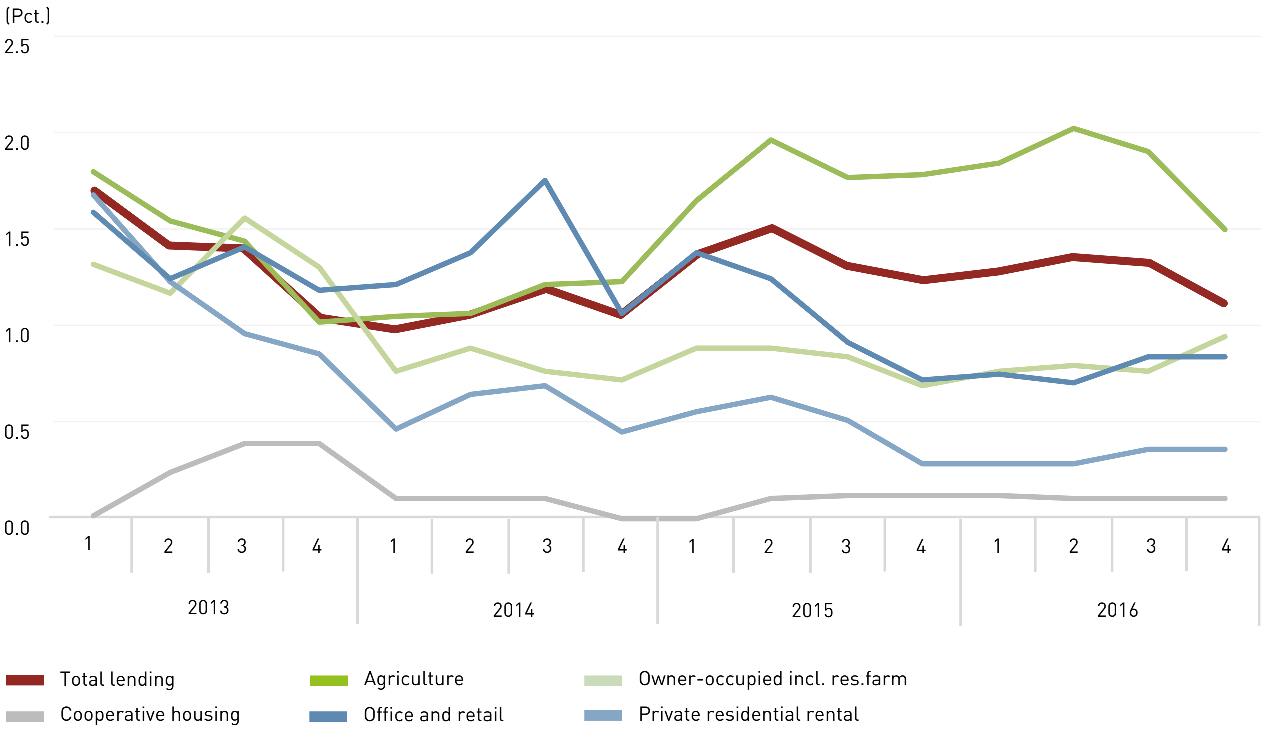
Arrears and forced sales

DLR collected mortgage payments of DKK 6.0bn in 2016.

As of year-end 2016, mortgage payments outstanding amounted to DKK 124m versus DKK122m the year before. Of the amount in arrears, the bulk stems from mortgage payments that are less than 3½ months overdue.

The number of completed forced sales of properties in which DLR holds a mortgage was 110 in 2016.

Figure 1: DLR's 3 1/2 month arrears ratios



Note: Arrears in pc of mortgage payments 105 days after last due date

Of these, DLR took possession of 42 properties. The equivalent figures in 2015 were 135 and 42. DLR's stock of repossessed properties was 27 at year-end 2016 versus 26 at year-end 2015. The value of the repossessed properties was estimated at DKK 159m at year-end 2016.

In 2016, DLR recorded a loss on 8 properties that were taken over by other parties than DLR at auction, plus DLR has participated in 53 voluntary sales agreements, etc. that resulted in a loss.

All in all, DLR recorded a loss on 103 properties in 2016 compared to 108 properties in 2015.

Q4 2016

Pre-tax profit in Q4 2016 was DKK 266m compared to DKK 256m in Q3 2016.

Q4's result was positively affected by increased spread income stemming from the refinancing of ARM loans and by low levels of losses and impairments. Negative portfolio earnings pulled in the other direction in Q4.

Events occurring after the reporting date

No events occurred after the reporting date that would change the income statement or balance sheet in the Annual Report.

Outlook for 2017

DLR's business primarily comprises lending against a mortgage in real property to the agricultural and urban trade sectors.

After a couple of years of very weak agricultural earnings, principally in dairy and pig production, the outlook has improved for settlement prices in 2017, and we expect this will significantly boost agricultural earnings and the potential for surplus liquidity at most operations. However, a number of producers remain financially challenged due to high levels of debt.

Apart from remortgaging, DLR expects lending activity to be subdued in the agricultural area.

While initially concentrated around the largest urban centres, signs continue to suggest Danish economic growth is slowly beginning to spread to other areas of the country, which would have a positive impact on DLR's customer segments within the urban trade portfolio – and DLR expects to further increase its business with this customer group.

DLR expects a profit in 2017 somewhat below that in 2016. We expect core earnings of around DKK 800-900m, while portfolio earnings are expected to affect the overall result negatively given the very low level of interest rates at present. DLR estimates that changes in interest rates and thus in portfolio return could potentially have a relatively large significance for the overall result.

CAPITAL POSITION

Capital requirements

Recent years have seen continual adjustments made to the capital requirements placed on financial firms, and going forward we must anticipate further significant changes to the requirements. The regulatory changes concern both the amount and the quality of capital.

When implementing the original CRR/CRD IV (Capital requirements regulation/ Capital requirements directive), DLR prepared a long-term capital plan to comply with future requirements for altered capital structures and the regular phasing in of buffer requirements, etc. DLR's capital plan is adjusted to take into account DLR's ongoing developments in terms of lending and earnings together with changes in regulations, etc.

Most recently, DLR has undertaken share buybacks from Finansiel Stabilitet and Danmarks Nationalbank for just under DKK 1bn in all. In doing so, DLR has fulfilled its previously stated intention of buying back Finansiel Stabilitet's shareholding, just as the wish of Danmarks Nationalbank to divest its sector equities, including DLR shares, has also been accommodated.

DLR's initiatives in the capital area are also described in the section "Ownership and capital structure".

DLR expects to be able to comply with these gradually increasing capital requirements, including any further requirements stemming from new regulations.

Long-term capital plan and capital targets

As well as the purely regulatory requirements, DLR's capital plan also includes the Board of Director's targets for DLR's capital base. DLR's total capital ratio target is being gradually raised going forward to 2019 to a level of 17 pc, assuming all buffer requirements are fully phased in and Pillar II add-ons remain at current levels.

The capital plan also incorporates the need for sufficient funds to secure the SDO status and ratings of issued bonds plus the fulfilment of the debt buffer requirement going forward to 2020.

In recent years the capital plan has provided the framework for a long series of initiatives aimed at reinforcing the capital base. Initiatives have included equity issues and the issuance of hybrid core capital together with the full repayment of government hybrid core capital of DKK 4.8bn that DLR raised in 2009. DLR has also made regular SSB issuances to ensure sufficient funds for supplementary collateral requirements and issued unsecured senior debt to meet debt buffer requirements.

Liquidity regulations

Another important element of the CRD IV/CRR rules is the introduction of a series of requirements regarding the liquidity of credit institutions, including a Liquidity Cover Ratio (LCR). According to LCR, the proportion of high quality liquid assets shall at all times exceed the net liquidity outflow for the next 30 days. The LCR requirement is defined in a delegated act (the LCR Delegated Act), which was issued in accordance with CRR.

The LCR requirements are being gradually phased in between 1 October 2015 and 2018. However, due to its SIFI (systemically important financial institution) status, DLR had to comply 100 pc with the LCR requirements from 1 October 2015.

The issue of which liquid assets could be included has been of particular importance for Danish mortgage bonds. Danish mortgage bonds can be included in the LCR liquidity buffer as level 1B assets if the outstanding volume is more than EUR 500m, though with a 7 pc haircut. If the series totals more than EUR 250m, the bonds can be included as level 2A assets with a 15 pc haircut. However, mortgage bonds may at most account for 70 pc of the total liquidity buffer, which has necessitated a series of adjustments for many financial companies in Denmark.

Like the other Danish mortgage credit institutions, DLR was granted an exemption by the Danish FSA with regard to the LCR calculation of certain mortgage bond-related cash flows. As a condition for the exemption the FSA set an LCR floor requirement, such that DLR should at all times hold liquid assets equivalent to 2.5 pc of DLR's total mortgage loan portfolio.

The LCR must be met for all currencies in which an institution has more than 5 pc of its total liabilities. DLR must therefore also comply with the requirement in euro (EUR). As a SIFI, DLR's LCR foreign currency requirement is being phased in gradually from 1 October 2016, when it should be 60 pc complied with. Required compliance is 80 pc by 1 April 2017 and 100 pc by 1 October 2017.

As well as the LCR requirement, the EU Commission proposed an NSFR (Net Stable Funding Ratio) requirement in November 2016 as part of the CRR II/CRD V package. The aim of NSFR is that the institution should have suitably stable funding over a 1-year time frame. NSFR specifies the required amount of long-term and stable funding relative to the liquidity profile of the institution's assets and the potential drains on liquidity that may arise from off-balance sheet items. The final configuration of NSFR has to be negotiated by the EU in spring 2017.

Recovery and resolution plans

The EU crisis management directive, BRRD (Bank Recovery and Resolution Directive), requires an internal recovery plan to be prepared by the institution and an external resolution plan to be drawn up by the competent authorities.

As a SIFI institution, DLR is required to update and submit a recovery plan to the Danish FSA annually on 1 October.

DLR's recovery plan describes how DLR would prevent itself ending up in such serious difficulties that resolution proceedings would be necessary. The recovery plan should ensure that financial difficulties are reacted to promptly and that measures contained in the recovery plan are implemented with a view to ensuring DLR's long-term viability. The recovery plan is built around a number of stages in DLR's contingency planning and indicators for these stages. The plan lays out capital and liquidity measures and other factors that are relevant for internal crisis management.

Debt buffer

Implementation of BRRD meant Danish mortgage credit institutions were required to establish a debt buffer of 2 pc of the institution's unweighted lending. The requirement was introduced at the same time as the mortgage credit institutions were exempted from bail-in measures in connection with a resolution/restructuring of a mortgage credit institution and also from the requirement of having liabilities eligible for writing down, which the banks have to fulfil.

When fully implemented, DLR's debt buffer is estimated at around DKK 3bn and is to be phased in between 2016 and 2020 in such a way that the buffer amounts to at least 30, 60, 80, 90 and 100 pc, respectively, of the requirement by 15 June each year.

To comply with the debt buffer requirement DLR issued DKK 1bn in unsecured senior debt in mid-June 2016.

SIFI

DLR is a systemically important financial institution (SIFI) in Denmark

DLR has been designated a SIFI institution (Systemically Important Financial Institution) in Denmark since 2014, when the first SIFI designations were announced. To be designated a SIFI, an institution must fulfil at least one of the following parameters:

- The balance sheet of the institution accounts for more than 6.5 pc of Denmark's GDP.
- The institution's lending in Denmark accounts for more than 5 pc of the total lending in Denmark by Danish banks and mortgage credit institutions.
- The institution's deposits in Denmark account for more than 5 pc of the total deposits held by Danish banks in Denmark.

DLR meets the first parameter, as DLR's balance sheet accounts for more than 6.5 pc of Denmark's GDP. Being designated a SIFI means DLR's capital base has to comply with a special SIFI buffer requirement. The requirement has been set at 1 percentage point of DLR's total risk exposure amount (REA) based on an estimate of how systemic DLR is. The requirement is being phased in gradually by 0.2 percentage points annually between 2015 and 2019 and thus amounts to 0.6 percentage points in 2017. The buffer requirement must be met with common equity tier 1 (CET 1) capital.

SUPERVISORY DIAMOND

The Danish FSA has defined a “Supervisory Diamond” for mortgage credit institutions that comprises five indicators with associated benchmarks (see table 3).

DLR has in recent years been working towards complying with the Diamond’s 2018 (1, 2 and 5) and 2020 (3 and 4) criteria. In particular, considerable work has been done in relation to criteria 4, loans with short-term funding, including campaigns, etc. targeting existing borrowers with the aim of securing a longer maturity on loan funding.

As of end-2016, DLR complies with all the criteria of the Supervisory Diamond and expects to make any adjustments necessary to comply with the criteria of the Supervisory Diamond as they are implemented.

Table 3. DLR’s compliance with the Supervisory Diamond year-end 2016

Supervisory Diamond for mortgage credit institutions	Definition	2016	Danish FSA limits
1. Lending growth (current quarter)			
Owner-occupied	Lending growth in the individual customer segments must be less than 15 pc per year. The four customer segments are private homeowners, residential rental properties, agricultural properties and other commercial.	-0.3%	<15%
Private residential rental		11.9%	<15%
Agriculture		1.9%	<15%
Other commercial		6.7%	<15%
2. Borrower’s interest rate risk	Share of loans in which the Loan-To-Value (LTV) ratio exceeds 75 pc of the lending limit and in which the interest rate is only fixed for up to two years must be less than 25 pc. Only applies to loans to private individuals and loans for residential rental properties. Loans hedged with interest rate swaps, etc. are not included.	15.4%	<25%
3. Interest-only terms on loans to private individuals	The percentage of interest-only loans may not constitute more than 10 pc of the lending volume in the LTV band above 75 pc of the lending limit. All interest-only loans are included in this provision irrespective of their position in the order of priorities.	5.2%	<10%
4. Loans with short-term funding: quarterly			
Q4, 2015	The share of loans to be refinanced should per quarter be less than 12.5 pc of the total loan.	12.3%	<12,5%
Q1, 2016		4.0%	<12,5%
Q2, 2016		4.3%	<12,5%
Q3, 2016		3.9%	<12,5%
Q4, 2016		7.4%	<12,5%
4. Loans with short-term funding: annually	The share of loans to be refinanced should annually be less than 25 pc of the loan portfolio.	19.6%	<25%
5. Major exposures	The sum of the 20 largest exposures must be less than the common equity tier 1 capital of the institution.	30.0%	<100%

OWNERSHIP AND CAPITAL STRUCTURE

Redistribution of shares

DLR's share capital has remained at a nominal DKK 569,964,023 since the latest increase in share capital in September 2013.

A redistribution of shares was carried out in early March 2016 in accordance with DLR's shareholder agreement. The redistribution is based on the proportion of shares held by the owner (shareholder) banks matching the proportion of loans they distributed in relation to DLR's aggregate loan portfolio.

The redistribution in March 2016 was based on the outstanding bond debt at year-end 2015, with shares worth approximately DKK 8.5m (nominal) redistributed. DLR shareholders bought shares from Danmarks Nationalbank and Finansiel Stabilitet for just under DKK 1.4m (nom.) and DKK 3.0m (nom.), respectively, in connection with the redistribution.

Hybrid core capital

DLR's capital base consists of shareholder capital, retained earnings, non-distributable reserves and hybrid core capital.

DLR currently has just one issue of hybrid core capital totalling DKK1.3bn outstanding. This issuance was made in 2012 to PRAS A/S and complies with all CRR requirements.

Owners and share of ownership

DLR had 64 shareholders (owners) - including DLR (own shares) - as of end-2016. The number of shareholders has been falling, particularly in recent years. One reason for the fall in the number of owner-banks is M&A activity, while another is that some banks were acquired by government-owned Finansiel Stabilitet in connection with the financial crisis.

DLR's shareholders mainly comprise members of Lokale Pengeinstitutter (the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) and Landsdækkende Banker (National Banks in Denmark, formerly the Danish Regional Bankers' Association) plus Jyske Bank, who own 38 pc, 21 pc and 14 pc, respectively, of DLR's equity capital. In addition, PRAS A/S, which essentially consists of the banks behind Lokale Pengeinstitutter and Landsdækkende Banker, holds just over 6 pc of DLR's equity, while DLR holds 9.5 pc of its own shares (treasury shares).

Agriculture

Earnings in both the pig and dairy sectors have been unsatisfactory in recent years – mainly as a result of significant price falls on both milk and pork, which were in part due to Russia's ban on food imports and China's slowdown in dairy imports.

Low settlement prices on milk and pork have presented a considerable challenge to many farmers. However, many farms have also become increasingly efficient and have experienced a fall in break-even prices, with the best producers in both sectors managing to maintain positive earnings and liquidity throughout this period.

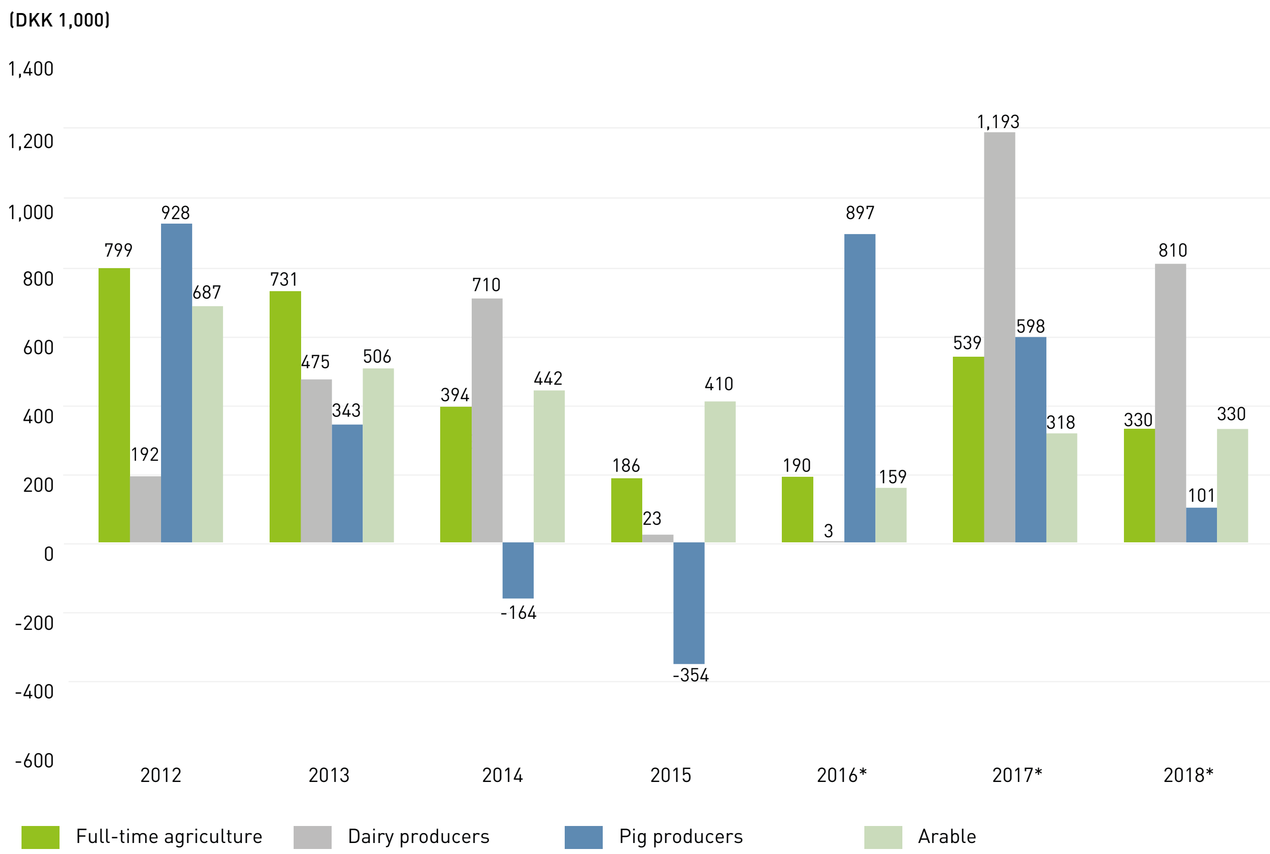
Rising milk and pork prices in H2 2016 have considerably improved the earnings situation, which is being further supported by relatively low prices for both grain and protein feeds.

Given recent price developments and market forecasts for the coming years, the general outlook is for a further substantial improvement in earnings for these two sectors in 2017 – particularly for dairy producers.

Relatively low grain prices have cut earnings in the arable sector, which in 2016 was further hit by a disappointing rapeseed harvest and a below-average grain harvest. However, debt levels among arable farmers are generally less than in the livestock sector – and with the phasing in of the 2015 "Food and Agricultural package", etc. the outlook is for a more balanced economy for arable farms.

Operating profit for full-time farms and the major production sectors up to 2015, earnings expectations in 2016 plus forecasts for 2017 and 2018 are presented in figure 2.

Figure 2. Operating profit - full-time agriculture



Note: Data for 2016, 2017 and 2018 are estimates
Source: SEGES, January 2017

Earnings in the mink sector have come under considerable pressure after several years of robust prices. Despite Danish mink pelts attracting prices 30 pc higher than foreign pelts, pronounced price falls on mink to around DKK 240/pelt in 2016 combined with an average production cost somewhat higher than this mean the earnings outlook for many mink operations is negative.

The market for mink fur is very sensitive, though falling production has raised expectations of some price growth in 2017 – albeit hardly to a level that will ensure balanced finances for all mink farms. Nevertheless, mink prices were good prior to 2016 and mink breeders are generally well consolidated.

Agricultural property market

The agricultural property and land market has picked up slightly in recent years. The market is characterised by an increasing price differentiation between land of good or poor fertility and of good or poor layout. It is positive that land prices increasingly reflect the land's yield potential, and our overall estimate is that current price levels for farmland are supported by long-term expectations for vegetable product prices, even taking into account a potential rise in interest rates in the coming years.

Urban trade properties and cooperative housing

DLR's lending on urban trade properties comprises loans for private residential rental property, office and retail property, manufacturing and workshop property, community power plants – including land-based wind turbines – and housing cooperatives.

We assess the rental market for urban trade properties to be unchanged in relation to recent years. With regard to the private residential rental market, further urbanisation has prompted an increasing interest in housing located in major urban centres – in contrast to more peripherally located housing. We can thus note very significant price rises on properties in Copenhagen, Århus and Aalborg and other major towns and cities, while price growth has been more subdued in smaller and medium-sized towns and out of town.

Likewise, investor interest is very split when it comes to office and retail property and depends very much on location. Hence, prices have risen on prime locations in the largest cities, while the opposite trend has been observed for more peripheral properties.

Still low interest rates and a largely unchanged rental climate have contributed to the urban trade property market generally performing satisfactorily.

Overall, our view is that the private residential rental, office & retail and cooperative housing markets have been relatively stable in recent years.

LENDING ACTIVITY AND PORTFOLIO

Lending activity

DLR's primary lending areas are agricultural and urban trade properties. DLR's lending is channelled almost exclusively through its shareholder banks.

DLR has in recent years targeted borrowers with campaigns aimed at reducing the loan portfolio's share of loans with a frequent refinancing requirement – thus reducing the refinancing risk. Campaigns have been regularly run in connection with DLR's refinancing auctions since August 2014.

In 2014 and 2015 the campaigns resulted in a considerable increase in gross lending. Gross lending in 2016 has been driven to a lesser extent by loan remortgaging due to campaign activity and instead more by new loans.

DLR's total gross lending amounted to DKK 23.1bn in 2016 compared to DKK 23.5bn in 2015 (see figure 3). Despite basically unchanged gross lending there has been a shift towards urban trade property, with a slight fall in lending on agricultural property.

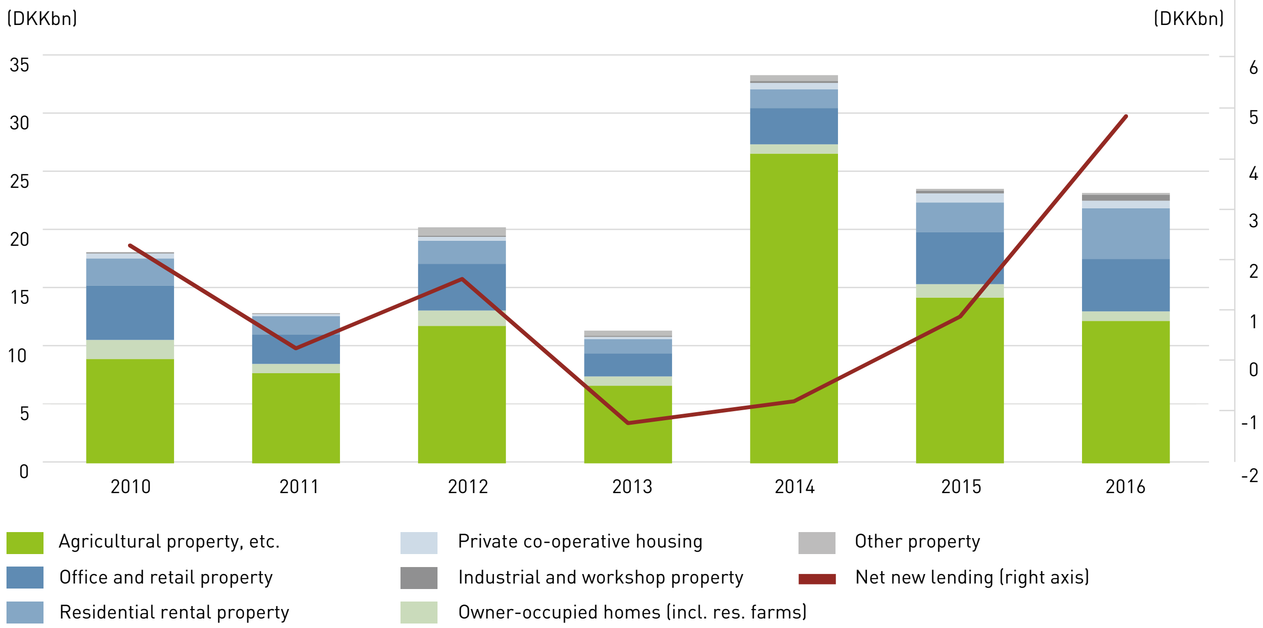
Of total gross lending in 2016, 40 pc was used for remortgaging DLR loans (58 pc in 2015) and 18 pc for remortgaging loans from other mortgage banks (14 pc in 2015). In addition, financing change of ownership accounted for 24 pc (16 pc in 2015), supplementary loans 12 pc (8 pc in 2015) and financing investments 6 pc (4 pc in 2015).

Net lending, which is gross lending less transfers, prepayments and principal payments, has hovered around zero for a number of years. However, this trend changed in 2016, as DLR realised positive net lending of DKK 4.8bn (fair value) compared to DKK 0.9bn in 2015. This is also the highest level of net lending since 2009.

The 1-year ARM (F1) loan was for many years the most popular loan type among DLR's customers. This changed in 2014, however, when DLR's ARM Short (RT-Kort) gained considerable ground. ARM Short accounted for 50 pc of gross lending in 2016, ARM loans 24 pc and fixed-rate loans 26 pc.

The share of lending with an initial interest-only period was 41 pc in 2016, which represents a small increase relative to 2015, when the share with an initial interest-only period was 39 pc of lending.

Figure 3. Gross lending by property category



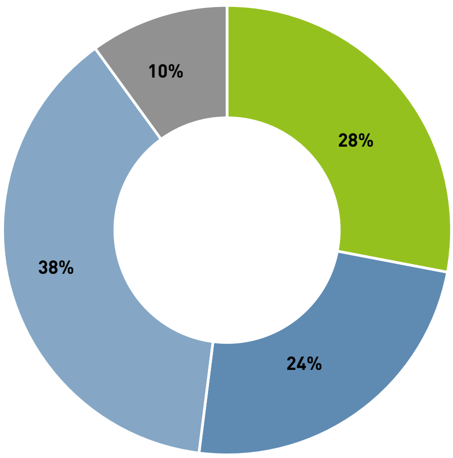
Note: All loans calculated as cash value

DLR's loan portfolio

DLRs loan portfolio as measured by outstanding bond debt stood at DKK 137.7bn at the end of 2016, which is an increase of DKK 5.2bn in relation to 2015. As the mortgage credit sector's total lending in terms of outstanding bond debt amounts to DKK 2,602bn, DLR's loan portfolio equates to a market share of 5.3 pc.

Looking only at DLR's primary business areas, that is agriculture-related loans, office and retail property, private residential rental property and cooperative housing, then DLR has a market share of 15.6 pc.

Figure 4. DLR's net lending by property category



DLR's largest lending area is loans to agricultural properties, which amounted to DKK 86.7bn at the end of 2016. Here the term agricultural properties comprises properties larger than 10 ha, irrespective of the production volume of the property, as well as properties below 10 ha with considerable agricultural production.

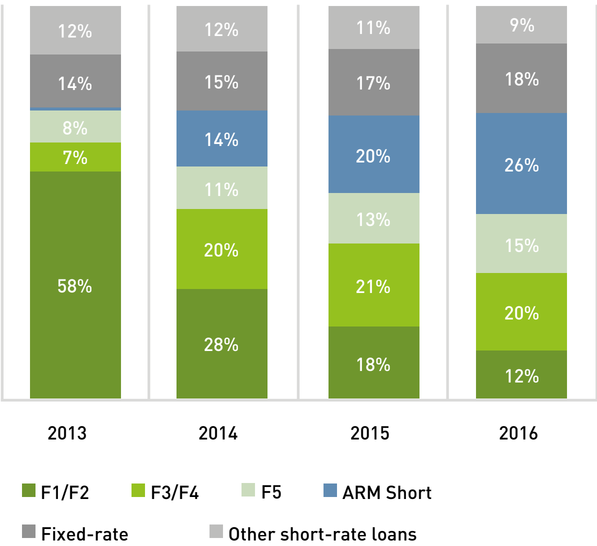
Of DLR's total lending to agricultural properties of DKK 86.7bn, around DKK 4bn was for properties with specialised production. Specialised production primarily covers horticultural properties, fur farms, poultry farms and fish farms where the area will typically not exceed 10 ha. The remaining share of loans to agricultural properties is distributed across properties exceeding 10 ha, which primarily comprise 1) spare- and part-time properties without actual animal production and where finances are based on wage income, 2) properties with some agricultural production combined with wage income from outside the farm, and 3) actual production farms (full-time farms) with considerable livestock production and where finances are based on income from farming operations.

Table 4. DLR's loan portfolio

(DKKbn)	2016	2015	Loan portfolio end-2016 by loan type (pc) Fixed-rate loan	ARM Short	F1/F2	F3/F4	F5	Other short-rate loans
Agricultural property, etc.	86,675	85,045	14%	32%	11%	20%	11%	12%
Owner-occupied (incl. residential farms)	7,912	8,008	37%	6%	18%	17%	18%	4%
Office and retail property	21,527	20,173	23%	17%	16%	18%	20%	6%
Residential rental property	15,990	14,107	19%	17%	16%	23%	21%	5%
Cooperative housing	2,956	2,779	39%	8%	5%	9%	31%	8%
Other property	2,682	2,394	11%	34%	9%	10%	31%	4%
Total	**137,742**	**132,506**	**18%**	**26%**	**12%**	**20%**	**15%**	**9%**

Note: All amounts calculated as outstanding bond debt

Figure 5. DLR's loan portfolio by loan type



DLR's loan portfolio was dominated by ARM loans, particularly 1Y ARMs, up to 2013. Over the past three years, however, the share of ARM loans has fallen considerably – as of the end of 2016 the share of ARM loans was 47 pc compared to 73 pc at the end of 2013. However, the shift away from ARM loans was most pronounced in 2014, when DLR first launched its campaigns encouraging borrowers to remortgage into loans with longer funding periods.

Regarding the various types of ARM loans, recent years have also seen a significant shift from loans with annual refinancing to loans with refinancing every third or fifth year. Furthermore, the share of ARM Short loans has increased significantly at the expense of 1Y ARM (F1) loans. ARM Short loans accounted for 26 pc of DLR's loan portfolio at end-2016 compared to 0 pc at the end of 2013. Fixed-rate loans, meanwhile, accounted for 18 pc of DLR's portfolio at the end of 2016, while other short-rate loans and guarantee (rate-cap) loans made up the remaining 9 pc.

DLR only offers standard financing solutions. DLR's partners – the banks – may in connection with a DLR loan offer solutions comprising financial instruments that can be tailored to the customer's particular requirements.

Funding and bond issuance

DLR grants loans under the specific balance principle, with funding through the 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 of 31 December 2016, DLR's outstanding volume of bonds amounted to DKK 139.6bn, excluding bonds maturing on 1 January 2017. The bonds are issued out of two capital centres with separate reserve funds. Until the end of 2007, DLR issued mortgage bonds (ROs) from the General Capital Centre, but since 2008 DLR has only been issuing covered bonds (SDOs) from Capital Centre B. DLR's ROs have been grandfathered, so all DLR bonds comply with UCITS and CRD requirements. Moreover, quarterly cover pool reports ensure that disclosure obligations under CRR article 129 (7) are complied with, and all DLR's bonds are thus included in the low risk-weighting of 10 pc for investors who are subject to a capital charge under CRR, such as credit institutions, etc.

The distribution of bonds by type and currency at 31 December 2016 (excluding bonds maturing on 1 January 2017, but including pre-issued bonds in connection with the refinancing of ARM loans on 1 January 2017) is shown in table 5.

Table 5. Distribution of bonds by type and currency at 31 December 2016

(DKKbn)	Total	DKK bonds	EUR bonds
Outstanding, total	139.6	124.6	14.9
of which SDO	126.3	120.0	6.3
of which RO	13.3	4.6	8.6

DLR's funding structure has changed considerably in recent years in that the share of DLR lending granted as ARM loans with frequent refinancing (F1) has been significantly reduced. This is a consequence of the campaigns targeting borrowers with 1-year and 2-year ARM (F1, F2) loans that DLR ran in 2014 and 2015 encouraging borrowers to remortgage into loans with longer funding periods – thus limiting the refinancing risk in consideration of DLR's rating and the Supervisory Diamond for mortgage credit institutions.

DLR borrowers continued to shift out of short-term ARM loans in 2016, either into a longer refinancing profile or into a floating rate ARM Short loan or a fixed-rate loan. The rate of remortgaging did, however, slow somewhat compared to 2014 and 2015, when the impact of DLR's initial campaigns was quite pronounced.

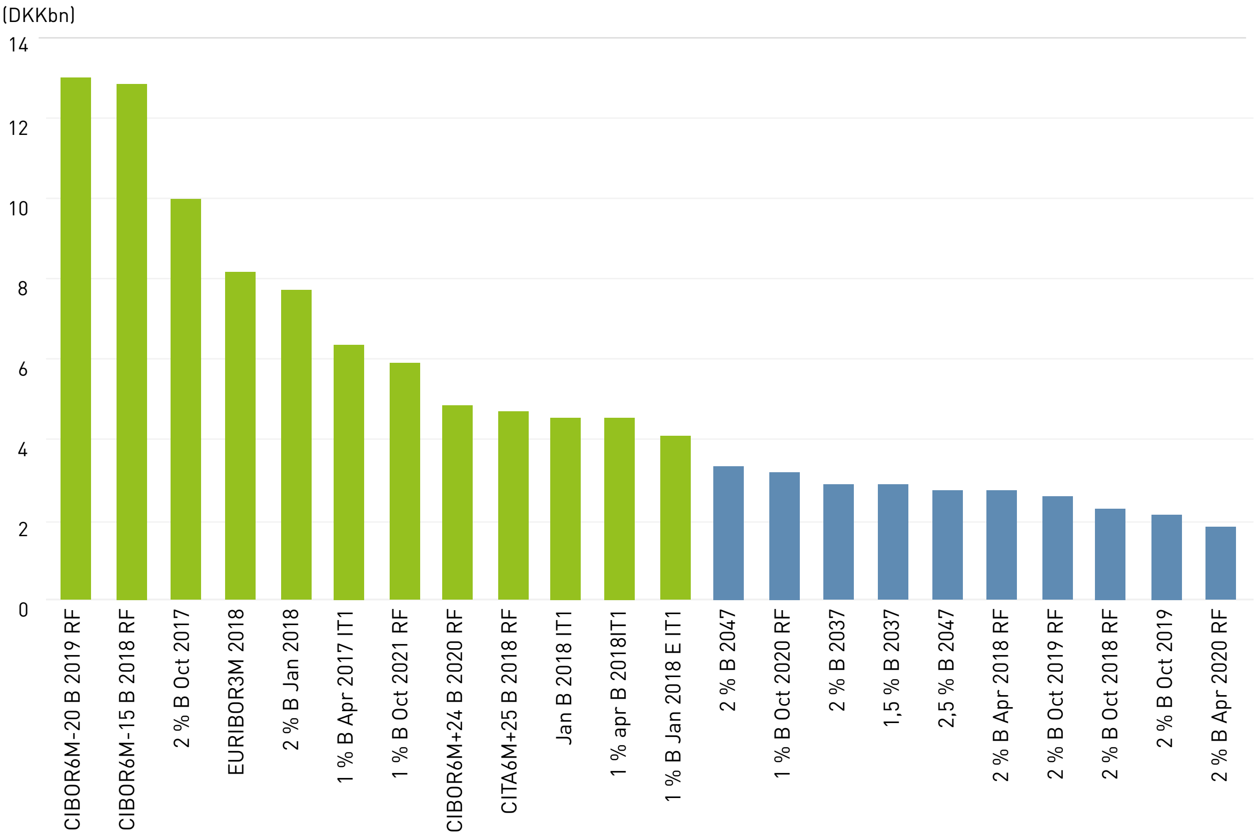
DLR also focused in 2016 on establishing a funding structure with fewer, larger series to support bond liquidity (see below). DLR launched a new campaign in autumn 2016 that again targeted borrowers with 1Y and 2Y ARM loans in connection with the 1 January 2017 refinancing.

Changes on the loan side of the business are, as a result of the balance principle, reflected in the bonds that have been issued.

1Y non-callable (ARM) bullets, which accounted for 57 pc of DLR's outstanding volume of bonds at the end of 2013, were thus reduced to 11 pc at the end of 2016, while the share of 3Y to 5Y bonds increased from 15 pc to 33 pc. Furthermore, the volume of bonds behind Cita/Cibor-based ARM Short loans grew further to account for 25 pc of the outstanding volume spread across five bond series. Finally, long fixed-rate bonds (callable mortgage bonds) have seen their share of the outstanding volume increase moderately from 14 pc to 19 pc over the past three years.

A large proportion of DLR's 1Y ARM loans denominated in EUR have also been switched into either ARM Short loans or longer ARM loans denominated in DKK, as DLR does not currently offer loans in EUR. Hence, the share of EUR-denominated bonds has been greatly reduced from 27 pc at the end of 2013 to 11 pc at the end of 2016. Short non-callable EUR-denominated bullets accounted for 4 pc, while 10Y floating rate EUR bonds based on 3-month Euribor (Euribor3) made up 7 pc of the outstanding volume.

Figure 6. DLR's largest bond series as of mid-February 2017



Bond size

Figure 6 above shows DLR's largest bond series as of mid-February 2017. The campaigns of recent years aimed at very short ARM loans have, as mentioned, resulted in increased issuance in longer maturities and have significantly reduced issuance in 1Y bonds. Hence, Cita/Cibor-based ARM Short

Given the LCR requirements for mortgage credit institutions, DLR, as a smaller issuer, aims to ensure a funding structure with a limited number of series in order to fulfil the series liquidity requirements of EUR 500m for level 1B assets and EUR 250m for level 2A assets. In 2016 DLR has therefore focused on concentrating the funding of ARM loans into fewer, larger series. DLR's initiatives in this area are elaborated on in the section below on the refinancing of ARM loans.

As of mid-February 2017, 59 pc of DLR's series complied with the level 1B series liquidity requirement in terms of outstanding volume (green columns), while a further 18 pc met the level 2A requirement (blue columns). Increased demand for fixed-rate loans has meant the open 20Y and 30Y fixed-rate annuity series have attained outstanding volumes in 2016 that meet the level 2A requirement. Likewise, increased demand for 5Y ARM loans combined with DLR's initiatives to pool issuance in fewer series have led to the 5Y non-callable bullet currently used for new loans reaching an outstanding volume that meets the level 1B requirement.

Bond sales

DLR bonds are tapped as loans are paid out and are regularly offered in the primary market, where DLR can trade bonds with financial institutions that are members of and obliged to report transactions to Nasdaq Copenhagen. DLR uses, for example, Bloomberg's auction system both for regular sales and to hold refinancing auctions for bonds with shorter maturities than the underlying loans. This helps ensure openness and transparency in DLR's bond trading.

DLR signed Primary Dealer agreements with a restricted, but representative number of banks in late 2016. These agreements compensate institutions that over an extended period actively quote prices for DLR's bonds. We expect the agreements will contribute to strengthening liquidity and thus ensure continuous pricing of DLR's bonds.

Negative interest rates

Cibor and Cita rates remained negative in 2016. For now, all DLR's floating rate bonds have a coupon floor with a minimum coupon rate of 0 pc.

VP Securities has since October 2016 been able to offer fully automated solutions to manage negative interest rates. Going forward, when DLR opens new floating rate bonds, we will closely follow the market situation, including in relation to whether there is a potential for coupon rates to turn negative.

Yields on fixed-rate non-callable bullets (ARM loans) may also turn negative. This is possible if the bonds trade at a premium that gives a negative effective yield for borrowers and investors.

Refinancing ARM loans

In 2016 DLR initiated a change in the refinancing structure behind ARM loans with the aim of concentrating bond issuance in fewer, larger series.

To comply with the previously outlined liquidity requirements, DLR has launched a series of initiatives, including – and most importantly – pooling the funding of DLR's ARM loans into fewer bond series.

To ensure a greater volume in each series, the refinancing of 1Y and 2Y ARM loans has been pooled to 1 April. 1Y and 2Y ARM loans issued prior to 2010 will, however, for now still be refinanced per 1 January, as will 1Y ARM loans in EUR. Hence, since October 2016, no 1Y or 2Y ARM loans have been earmarked for refinancing in October. Likewise, the refinancing of 3Y, 4Y and 5Y loans will be gradually pooled and these loans refinanced per 1 October going forward. Furthermore, each series will be kept open for loan offers for one year compared to 6 months previously.

DLR expects to pool the bulk of its ARM series into one series for each year from 2020.

In 2016 DLR held auctions in February, August and November in connection with refinancing ARM loans per 1 April 2016, 1 October 2016 and 1 January 2017.

At the February auction, DLR supplied DKK-denominated bonds for DKK 3,745m and EUR-denominated bonds for EUR 200m. At the August auction, DLR supplied DKK-denominated bonds for DKK 5,105m and at the November auction DKK-denominated bonds for DKK 6,295 and EUR-denominated bonds for EUR 444m (all amounts nominal).

Compared to 2015 the total volume of ARM loans refinanced fell by 35 pc as a substantial number of borrowers again in 2016 decided to remortgage into other loan types – mainly ARM Short. The total amount of ARM loans refinanced in 2016 was DKK 20bn, which is down 73 pc since 2013, when the total amount refinanced was DKK 75bn.

Figures 7 and 8 on next page show supply at DLR's refinancing auctions since 2010.

Refinancing ARM Short loans

In May 2016 DLR held its first auctions of the Cibor and Cita bond series used to refinance ARM Short loans per 1 July 2016. In connection with the auctions, DLR opened a new 4Y Cibor bond maturing on 1 July 2020 and a new 2Y Cita bond maturing on 1 July 2018. Both bond series have a coupon floor of 0 pc.

The new Cita bond series will be refinanced at the next refinancing in 2018 together with DLR's other Cita bond series from 2014, which also matures on 1 July 2018, so going forward from 2018 DLR expects to have just one Cita bond series.

DLR's Cibor-based ARM Short loans are spread across 3 bond series that all comply with the Level 1B requirement (see figure 6). According to the loan terms and conditions, DLR can refinance the loans using bonds with a maturity of 1-10 years. Like the other mortgage credit institutions, DLR has so far chosen to refinance ARM Short loans using bonds with a maturity of 3-4 years.

In order to be able to reuse the refinancing series for new lending without any tax implications for borrowers, DLR in 2016 developed a cash mortgage loan version of the ARM Short loan. This ensures that new ARM Short loans can generally be offered based on a bond series with a level 1B status

Senior debt

DLR issued a total of DKK 6.0bn in senior debt in 2016 divided between DKK 5.0bn in Senior Secured Bonds (SSB) and DKK 1.0bn in unsecured senior debt.

Issuing SSBs is the funding method DLR has used since 2012 to ensure sufficient funds for meeting supplementary collateral requirements so DLR's issued bonds can maintain their status as covered bonds (SDO) in the event of a price fall. SSB issuance has also been used to ensure the overcollateralization (OC) required to maintain DLR's AAA bond rating.

DLR issued a total of DKK 3.0bn in SSBs in March 2016 split between DKK 1.0bn in a 1Y and DKK 2.0bn in a 2Y floating rate bond based on 3M Cibor (Cibor3). The issuance in part replaced an SSB issuance of DKK 2.0bn that matured in Q4 2015 and should be viewed in connection with the increased

Figure 7. Supply of non-callable (ARM) bullets (DKK)

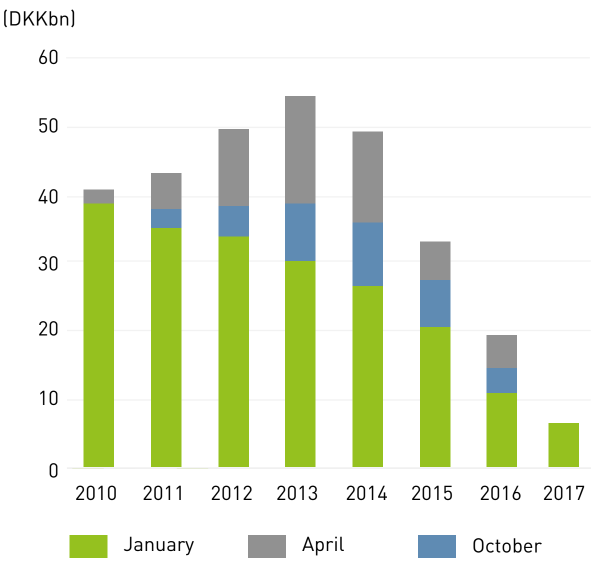
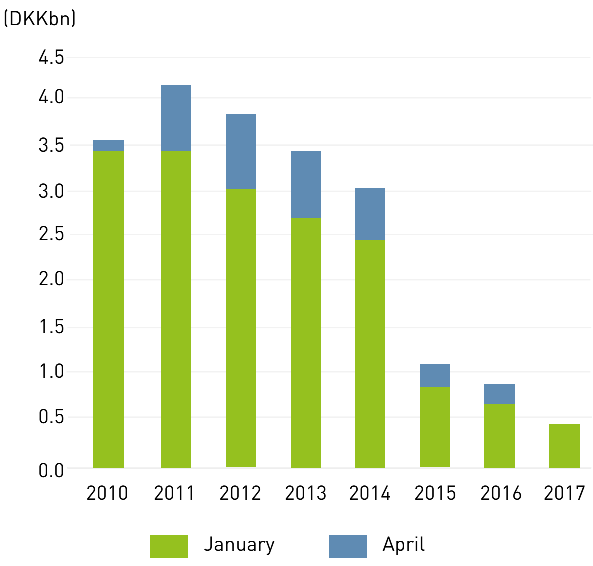


Figure 8. Supply of non-callable (ARM) bullets (EUR)



OC requirement for DLR's capital centres, which is a consequence of S&P's more stringent criteria for covered bonds with collateral in loans granted on commercial or agricultural property.

DLR made a further SSB issuance in September 2016 of DKK 2.0bn to refinance an equivalent amount of SSBs that matured on 1 October 2016. This again was a floating rate bond based on Cibor3, this time with a 3-year maturity.

The debt buffer requirement for mortgage credit institutions came into effect in 2016. The requirement is being phased in over a 5-year period and when fully phased in will amount to 2 pc of the institution's unweighted lending. DLR decided to cover the first 30 pc of the requirement as of 15 June 2016 by issuing DKK 1.0bn in unsecured senior debt with a 2-year maturity based on Cibor3.

At the end of 2016 DLR therefore had outstanding SSBs totalling a nominal DKK 7.0bn, which are used to provide supplementary collateral for covered bonds issued out of Capital Centre B or for additional collateral for the mortgage bonds (RO) issued out of the General Capital Centre. DLR also had outstanding unsecured senior debt of nominal DKK 1bn that is used for the debt buffer requirement. Both the SSBs and the unsecured senior debt can also be used to meet over-collateralisation requirements in the capital centres to secure DLR's bond ratings.

Rating

DLR's bonds are rated by S&P Global Ratings (S&P) as follows:

Table 6. DLR's ratings

Bond rating	S&P
Capital centre B (SDO)	AAA
General capital centre (RO)	AAA
Capital centre B (Sect. 15/Senior Secured Bonds)	A (stable)
Other ratings	
Institute (Long-Term Credit Rating)	BBB+ (stable)
Institute (Short-Term Credit Rating)	A-2 (stable)

Note: S&P confirmed DLR's issuer rating of BBB+/stable/A-2 in July 2016.

DLR was first rated by S&P in May 2012. At that time DLR was assigned an issuer rating of BBB+ (Long-Term Credit Rating) with a stable outlook.

DLR's covered bonds (SDO) and mortgage bonds (RO) have been assigned the highest rating of AAA. Senior secured bonds are assigned a rating two notches above the issuer credit rating. However, with the exception of the first SSB issuances from 2012, DLR has decided not to have its SSB issuances rated. The same applies to issuances of unsecured senior debt from 2016.

S&P's OC requirements for maintaining the AAA rating are covered by surplus capital in the capital centres. This is sourced from own funds and funds obtained by issuing senior debt. The OC requirement has increased since 2014, in part due to S&P implementing a new criterion for lending that employs commercial or agricultural property as collateral (CRE lending) and also because DLR's loan portfolio has increased by DKK 6.1bn over the past two years.

Covered Bond Label

DLR's covered bonds (SDO) meet the criteria for covered bonds under the Covered Bond Label Convention and carry the Covered Bond Label. In connection with this, DLR has to regularly disclose data concerning its capital position and loan portfolio at cover pool level. A requirement was introduced in January 2016 that Covered Bond Label reporting should by 1 January 2017 be based on a harmonised transparency template (HTT) that applies to labelled issuers in all countries. Until the end of 2016, however, the national transparency templates (NTT) could be used provided these were approved by the European Covered Bond Council (ECBC.)

Since Q1 2016 DLR has reported in accordance with HTT with respect to Capital Centre B as well as submitting NTT reports that continue to be used for both capital centres. The General Capital Centre is not covered by the Covered Bond Label and so there is no requirement to publish HTT for this capital centre.

Cover pool data for both capital centres is available on DLR's website at www.dlr.dk/investor and is updated quarterly.

Cover pool reports meet the transparency requirement of CRR Article 129 (7), which is a prerequisite to bonds being eligible for the preferential 10 pc risk weighting for investors that incur capital charges. According to the CRR requirement, covered bond investors should be able to document they have access to a range of information from issuers. As both HTT and NTT meet the transparency requirements, all DLR bonds continue to qualify for the lower risk weighting.

Risk management

DLR's business model is based on traditional mortgage credit activities in the form of lending against a mortgage in real property funded through the issuance of bonds. As a mortgage credit institution, DLR is subject to a fine mesh of financial regulations covering all significant aspects of DLR's activities. Based on the regulations governing mortgage credit institutions, including the balance principle, DLR is primarily exposed to credit risk. The balance principle stipulates limits for liquidity, option, interest rate and exchange-rate risk.

DLR conducts an internal creditworthiness check of all borrowers, while Danish legislation stipulates valuation rules and loan-to-value (LTV) limits, etc. Furthermore, loans are often covered by a loss guarantee, and in addition to this DLR is able to offset losses in commissions as stipulated in agreements made with DLR's loan distributing, shareholder banks. This generally ensures the loan mass is of good quality, just as continuous attention to the setting of administration margins provides balanced earnings in relation to credit risk. Issued mortgage credit loans are established and remain on DLR's balance sheet throughout the term of the loan.

DLR's Board of Directors has overall responsibility for limiting and monitoring the risk incurred by DLR. Given this, the Board of Directors has determined policies, guidelines and limits for the risks that DLR may assume. Responsibility is then further delegated throughout the organisation.

Business procedures and task descriptions prepared for individual departments are approved by the Executive Board of DLR. Their purpose is to ensure that DLR employees in all significant work areas always have access to and knowledge of all relevant guidelines, procedures, etc. The business procedures and task descriptions document the current allocation of responsibilities and are regularly updated at least once a year.

The Board of Directors is updated on and addresses general risk issues at Board meetings and on an ad hoc basis as the situation requires. DLR's Executive Board is regularly updated on DLR's risk profile and is also involved in the ongoing monitoring and management of risks within individual risk areas when the issue is more general or principle in nature.

The Board of Directors has also established an internal audit function that reports to the Board of Directors and which – in accordance with an audit strategy approved by the Board – performs spot-check reviews of business procedures, manuals and internal control procedures in significant and material risk areas. In addition, the Board of Directors has established both an Audit Committee and a Risk Committee; cf. Board committees section.

Risk Monitoring, Control and Compliance

In accordance 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 Monitor with direct reference to the Executive Board. The Risk Monitor is responsible for the proper managing of risk at DLR, including for having an overview of the general risk situation. In addition, an independent control unit has been set up to spot check all relevant risk-bearing business areas.

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

The three above-mentioned functions have been set up taking into account DLR's size and organisation. The risk and compliance manager reports to the Executive Board at quarterly status meetings and to the Board of Directors at least annually.

Whistleblower scheme
In accordance with good corporate governance and in compliance with S. 71a (1) of the Danish Financial Business Act, DLR has set up an internal whistleblower scheme that enables all DLR employees to report infringements or potential infringements of financial regulations committed by DLR, including DLR employees or Board members, via a dedicated, independent and autonomous channel.

Reports and enquiries received via the whistleblower scheme are sent to the compliance function and handled confidentially.

Managing credit risk – credit score models
Organisationally, the monitoring and management of credit risk is handled by DLR's credit department. At portfolio level, the monitoring, management and reporting of credit risk and vulnerable or distressed exposures is handled by DLR's Executive Secretariat, the legal department and the risk management department.

In addition to monitoring credit risk, the risk management department is also responsible for developing and implementing DLR's credit score models, which are an integral part of assessing credit and mortgage risk both in terms of the ongoing monitoring, including identification of OEI (objective evidence of impairment), and when granting new loans.

The models are used to estimate the probability of borrowers defaulting on a loan (PD – probability of default) and the potential loss upon default (LGD – loss given default).

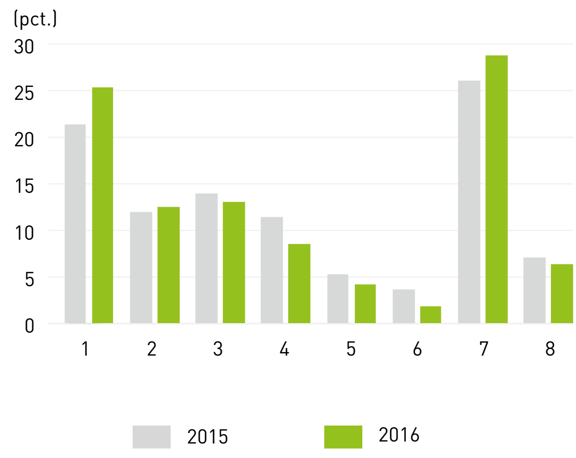
The PD models are based on statistical models supplemented with expert-based elements. The statistical models estimate PD based on a series of relevant key figures from the borrower's financial statements, etc. plus the borrower's historical payment behaviour and other characteristics in the customer's credit history to date. The expert-based elements include an internal assessment of the borrower's finances over an extended historical period plus an evaluation of the likely impact of the current and expected general economy on the borrower. Every PD is converted to a rating class from 1 to 8, where 1 is best. Exposures with OEI where no value adjustment has been identified are placed in rating class 7, while exposures in default are assigned to rating class 8.

The distribution of the full-time agriculture loan portfolio by rating class is shown in figure 9.

The LGD model is based on the value and type of collateral employed. The calculation takes into account the size of the loan and position in the order of priorities plus other costs. Collateral in property has historically been a good hedge against loss, which is why LGD levels are generally low, for example based on data going back to the 1990s.

Since Q1 2016, models have been used for the full-time agriculture portfolio to measure credit risk exposure in connection with calculating solvency

Figure 9. Full-time agriculture portfolio by rating class



Solvency need

Determination of DLR's adequate capital base and solvency need (ICAAP) is based on the "credit-reservation method" (the "8+ meth-od"). Starting with the calculated 8 pc requirement for the total risk exposure amount (REA), an estimate is made of whether DLR in individual business areas or operationally, etc. has significant above-normal risks that indicate a need for add-ons to the minimum capital requirement. This assessment takes into account the factors listed in Annex 1 (items 48-101) of executive order 295 of 27 March 2014 on "Calculation of Risk Exposure, Own Funds and Solvency Need" as well as the Danish FSA's "Guidelines on Adequate Capital Base and Solvency Need for Credit Institu-tions".

DLR has a simple business model based on activities within traditional mortgage lending in selected lending areas. The credit risk associated with the borrowers' ability to make payments is the most significant risk factor, and as a result of this the capital requirement linked to credit risk is by far the largest part of DLR's aggregate adequate capital base.

The Executive Board (via the Executive Secretariat) has overall responsibility for the internal processes when determining the adequate capital base and solvency need. Other relevant departments are also involved in the calculation. This applies to both preliminary and subsequent discussions of the extent of stress testing, etc. in relation to the various business areas.

DLR also continually monitors a series of relevant risk parameters to ensure the calculated solvency need and adequate capital base reflect DLR's current risk profile. If this is not the case, DLR assesses the need to update the adequate capital base and solvency need calculations. This is typically submitted to the Board at the quarterly meetings connected with the financial reports, as DLR's Board of Directors reviews the entire method used to determine the adequate capital base and solvency need annually. DLR's Risk Committee is also involved in determining the adequate capital base and solvency need before it is presented to DLR's full Board, while DLR's internal audit department undertakes an independent assessment of the calculation.

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

(DKK 1,000)	2016	2015
Credit risk	6,525,342	7,302,216
Market risk	231,379	280,394
Operational risk	196,445	179,915
Other factors	0	0
Internally calculated adequate capital base	6,953,166	7,762,525
Add-ons (particular risk)	0	0
Total	**6,953,166**	**7,762,525**
Solvency need	**8.62%**	**8.00%**

Major exposures

Exposures of more than 10 pc of the capital base are designated major exposures.

At year-end 2016 DLR had just two exposures (after deductions) that amounted to more than 10 pc of DLR's capital base. Both these exposures were against banks.

Supplementary collateral

DLR's lending is based solely on the issuance of covered bonds (SDO), which are all issued out of Capital Centre B. Covered bonds require particularly secure assets to be used as the basis for the bond issuance – primarily collateral in real property.

SDOs also require the continual monitoring of each mortgaged property's market value, as the statutory maximum loan-to-value (LTV) limits the extent to which the mortgaged property can be included as collateral for the issued covered bonds.

If LTV limits are not complied with, additional supplementary collateral has to be added to the capital centre in a ratio of 1:1. Such collateral must consist of certain particularly secure assets, such as government bonds, own covered bonds or up to a certain limit claims against banks. This means that during periods of declining property prices additional collateral must be provided and potentially on a considerable scale. DLR is therefore very aware of the need for supplementary collateral in connection with capital planning.

At year-end 2016 DLR had provided DKK 11.7bn in supplementary collateral, which is similar to the 2015 level.

By year-end 2016 DLR had issued Senior Secured Bonds (SSB) for DKK 7bn in all. The purpose of the issuances is to secure the supplementary collateral requirement, including a certain buffer, and the OC requirements connected with the ratings of the capital centres. With DLR's capital base, the issued SSBs and guarantees, etc., DLR is capable of absorbing a potential future general price fall on agricultural and commercial property of just over 15 pc.

Credit risk

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

DLR's Board of Directors has drawn up guidelines for the granting of credit by DLR – including limits on the credit authorisation of the Executive Board – based on DLR's business model, etc. Within these limits, internal business procedures and instructions determine guidelines and upper limits for the credit authorisation of the various levels in DLR's credit organisation. The Board of Directors must approve exposures if they exceed an amount determined by the Board of Directors.

To identify credit risk, the financial position of the borrower is closely examined. The assessment starts by determining the market value of the property to be mortgaged. In Denmark, this is done by DLR's own valuation experts. The other element is a credit assessment, including credit scoring the borrower, which is handled by DLR's credit department in Copenhagen. This setup ensures a segregation of functions between the property valuation and the credit assessment.

IRB (internal rating based) models and internal rating systems are a fully implemented and integrated element in DLR's loan application and creditgranting process and in risk management for loans to fulltime agriculture properties.

DLR's loss and credit risk has been further reduced through lossmitigating guarantee schemes with the loandistributing banks, who are also DLR's shareholders.

DLR has long had separate loan loss agreements for loans in the urban trade and agricultural property areas. For loans offered from the start of 2015 onwards, however, a new universal guarantee concept covers all distributed loans irrespective of property type. Together, these guarantees cover the vast majority of DLR's portfolio and are explained individually below.

Loan loss agreements on urban trade properties – covering loans offered until 31 December 2014

For loans on urban trade properties, i.e. private residential rental properties, private cooperative housing properties, office and retail properties plus manufacturing and workshop properties, etc., the banks provided an individual loss guarantee covering the least secure part of the loan. The scope of the guarantee varies according to property type from 0-100 pc of the loan and is written down proportionally as the principal is reduced.

The loan loss guarantees on urban trade properties at the end of 2016 comprised guarantees totalling DKK 12.3bn provided for a loan portfolio which currently amounts to DKK 28.8bn. The current guarantee setup is being phased out as DLR's universal guarantee scheme is applied to new loans and remortgaging.

Loan loss agreements in agriculture - covering loans offered until 31 December 2014.
Loans to agricultural properties distributed by shareholder banks were previously also covered by a guarantee scheme set up between DLR and its partner banks ("Cooperative Agreement"). The agreement covers loans to agricultural properties for around DKK 60bn at year-end 2016, though like the above loan loss agreement in the urban trade area it is being phased out as the universal guarantee set-up is implemented.

The agreement is a collective guarantee that is invoked if DLR's aggregate losses on agricultural loans provided by distributing banks exceed a pre-determined amount (DLR's excess) within a single calendar year. The excess is defined as 1.5 times the unweighted average of the losses in the preceding five years, though not less than 0.25 pc of the loan portfolio covered by the agreement (agricultural loans).

The collective guarantee scheme can at most cover five times DLR's excess. This means that for 2017, DLR could be liable for losses of up to roughly DKK 150m, while the maximum guarantee coverage of the banks in 2017 is around DKK 750m. Under the collective guarantee scheme, the banks are individually (not solidary) liable for losses in proportion to their share of agricultural loans covered by the agreement.

DLR can, furthermore, offset losses in commission payments to the banks. Losses (but not impairments) incurred by DLR from agricultural loans are offset in the commissions paid to the banks and accrue to DLR. Losses are offset in the commissions for the year in which the loss is realised. Losses that cannot be fully offset in commissions for that year are carried forward and offset in commissions for up to a further nine years in the case of losses registered after 1 January 2017.

DLR can demand that a bank provides a guarantee to cover losses that are carried forward.

The guarantee provision can be up to 0.25 pc of the bank's portfolio covered by the agreement.

The loss offsetting options take into account that the guarantee concept is being phased out, which is why it is possible to offset losses in the commission payments covered by the universal guarantee concept.

Universal guarantee concept implemented from 1 January 2015
DLR entered an agreement in 2014 with its distributer banks about a new guarantee model for DLR's loans. The agreement on a new universal guarantee concept came into effect at the start of 2015, so loans offered by DLR from 1 January 2015 onwards are covered by this agreement.

Under the new guarantee concept the loan distributing bank provides an individual loanloss guarantee covering 6 pc of the outstanding debt for the term of the loan. The guarantee amount declines proportionally as the loan debt is paid down, meaning the guarantee percentage relative to outstanding debt remains unchanged throughout the term of the loan. The guarantee covers the least secure part of the overall loan in the individual property.

A complementary lossoffsetting agreement has also been established, whereby the individual distributing bank has to set off all losses DLR incurs over and above the 6 pc guarantee provided at loan level in its commission payments. The loss is deducted from the bank's total fee and commission payments for its entire loan portfolio excluding intermediation commissions and brokerage reimbursements. Losses that cannot be fully offset in that year's commissions can be carried forward and deducted from commissions for up to a further nine years for losses incurred after 1 January 2017.

The number of loans covered by the universal guarantee concept will increase as new loans are granted and the existing portfolio is remortgaged. As of year-end 2016 the universal guarantee concept covers outstanding bond debt of DKK 39.5bn.

When implementing the universal guarantee concept, DLR has taken into account that the scope for offsetting losses stemming from loans to the agricultural area, cf. Cooperative Agreement, will be reduced as the affected outstanding bond debt is reduced. Hence, it is possible to offset losses in commissions across DLR's guarantee concepts. DLR offset losses totalling just under DKK 56m in 2016.

As of year-end 2016, 94 pc of DLR's total loan portfolio was covered by the above guarantee concepts including a small share of the portfolio, around DKK 0.4bn, that is covered by government guarantees. Overall, the guarantee scheme means DLR's risk of loss on its lending activities may be characterised as manageable and relatively limited.

Loan portfolio LTV

The loan portfolio's LTV underpins DLR's limited risk of loss. At the end of 2016, 90 pc of lending on agricultural properties was placed within the <60 pc LTV range of DLR's latest valuations, including valuations made in connection with continual covered bond monitoring. As for the rest of the portfolio, which is mainly composed of urban trade properties, 85 pc was placed within the <60 pc range of valuations. Several of these property categories have an LTV limit of 80 pc, which is why the proportion placed under 60 pc is naturally lower. As well as LTV, DLR has, as outlined above, a comprehensive guarantee set-up covering the vast bulk of its portfolio. Hence, for much of the portfolio there is a direct guarantee covering the least secure part of each loan.

The continual monitoring of LTV values is a permanent feature of DLR's management reporting. DLR also prepares regular exposure overviews for each of its partner banks for the purpose of managing DLR's counterparty risk on guarantors in accordance with Board guidelines.

Interest rate risk

Danish law stipulates that the interest rate risk may not exceed 8 pc of the capital base. Given DLR's capital base was DKK 11,560m after deductions at year-end 2016, this equates to a maximum permitted interest rate risk of DKK 925m.

The interest rate risk on DLR's securities portfolio (assets) was DKK 204m at end-2016. Interest rate risk expresses the amount that DLR at the end of 2016 should expect as a price adjustment in the event of a change in market yields of 1 pc point. We calculate the relative interest rate risk to be 1.8 pc based on the capital base at the end of 2016.

The interest rate risk on issued debt instruments (liabilities) – hybrid core capital and Senior Secured Bonds – is calculated to be DKK 27m, or 0.2 pc of DLR's capital base.

The interest rate risk on issued debt instruments correlates negatively with the interest rate risk on the securities portfolio and thus reduces DLR's net interest rate risk to DKK 176m, or 1.5 pc of the capital base. DLR may take a net perspective on interest rate risk because the composition of the portfolio is actively managed within duration bands so that liabilities are hedged within the same duration bands as assets.

DLR may use derivative financial instruments to manage interest rate risk if assessed to be appropriate.

Liquidity risk

DLR's use of the specific balance principle means payments on loans and issued bonds closely track each other (match funding). However, DLR receives an inflow of liquidity in connection with loan prepayments (immediate prepayment) that is subsequently invested until the amount is due to be paid to bondholders as extraordinary drawings.

The liquidity is placed as term deposits with banks or in short bonds. Likewise, prepaid funds arising from the borrower's quarterly payments on ARM loans are placed with banks or in bonds and ring-fenced from the rest of the securities portfolio.

Following implementation of CRR/CRD IV, new requirements were introduced – cf. S8 (9) of the

Danish Executive Order on Management and Control of Banks, etc. – for the calculation and assessment of liquidity and liquidity risk (ILAAP – Internal Liquidity Adequacy Assessment Process). Since 2014, DLR has therefore produced a separate annual liquidity report along the lines of a solvency need assessment (ICAAP – Internal Capital Adequacy Assessment Process). The ILAAP is approved by DLR's Board of Directors prior to submission to the Danish FSA.

Exchange rate risk

Calculated in accordance with the Danish FSA's exchange rate indicator 2, DLR's exchange rate risk was DKK 1.0m at the end of 2016, corresponding to 0.01 pc of DLR's capital base. According to Danish law, exchange rate risk calculated according to the Danish FSA's indicator 2 may not exceed 0.1 pc of the capital base. The reason for DLR's limited exchange rate risk is that loans paid out in foreign currencies (only EUR) are always funded in the same currency, while only a minor share of DLR's securities portfolio is placed in EUR bonds.

Equity market risk

DLR generally does not place funds in equities apart from "sector equities".

At the end of 2016, DLR's share portfolio consisted of holdings in VP Securities A/S, e-nettet A/S and Landbrugets FinansieringsBank A/S. Equity market risk amounted to DKK 5.8m at the end of 2016.

Operational risk

Operational risk is the risk of loss resulting from unsuitable or deficient internal procedures, human or system errors, or from external events, including legal risk.

DLR constantly strives to minimise operational risk, and indeed DLR's operational risk is generally considered to be limited. This is due to DLR's straightforward business model as a mortgage credit institution coupled with the attendant narrow statutory framework within which it operates, including that DLR adheres to the "strict" balance principle and has a product range of standardised mortgage credit products.

DLR collects and registers data on operational events both to have an overview of such events and to prevent future occurrences. Risks are also mitigated by insurance coverage where relevant.

Moreover, DLR is constantly focused on maintaining high levels of staff competence, controls and security with regard to IT systems, etc. – and DLR's policies and business procedures concerning operational risk and contingency plans reflect this.

DLR uses the basic indicator method to calculate operational risk. According to this method operational risk amounts to DKK 2,456m of the total risk exposure amount. That equates to DKK 196m to cover the 8 pc capital requirement for operational risk as of end-2016.

Board committees

DLR's Board of Directors has set up four committees in various areas with dedicated supervisory roles or to prepare certain matters prior to them being considered by the Board as a whole. The following committees have been established:

Audit Committee

The tasks of the Audit Committee include the supervision of the financial reporting process and monitoring that DLR's internal controls and security as well as internal audit and risk management systems function effectively. The Audit Committee furthermore monitors that the Executive Board reacts effectively to any vulnerabilities and/or deficiencies and that initiatives agreed in relation to strengthening risk management and internal controls – including in relation to the financial reporting process – are implemented as planned.

DLR's Audit Committee has three members: former governor of Danmarks Nationalbank Torben Nielsen (chairman), Managing Director & CEO Claus Andersen and Legal Consultant Søren Jensen.

The Audit Committee met four times in 2016.

Risk Committee

The Risk Committee helps ensure that DLR's Board of Directors has the necessary foundation to address, manage, supervise and reduce the risks that DLR is or may be exposed to. The Risk Committee should therefore have a continuous overview of the risks associated with DLR's activities. This is accomplished, for example, by undertaking a detailed analysis of the risks associated with DLR's business model, etc. as a mortgage credit institution. With respect to DLR's risk situation, the Risk Committee reviews and has a preparatory role in the Board of Directors' approach to important policies and guidelines, the determination of the adequate capital base and the solvency need, etc.

The existence of the Risk Committee does not alter the responsibilities or authorities of the Board of Directors. The Board of Directors as a whole is responsible for managing DLR's risk, but the work of the Committee is an important aspect of the preparatory work.

The Risk Committee has three members: Managing Director Lars Møller (chairman), former governor of Danmarks Nationalbank Torben Nielsen and Agricultural Account Manager Jakob G. Hald. DLR's Independent Risk Monitor also always attends Risk Committee meetings.

The Risk Committee met five times in 2016

Nomination Committee

The task of the Nomination Committee is to ensure DLR's Board of Directors has the necessary level of knowledge and experience. The Committee is therefore tasked with nominating new Board members and with evaluating the competences, etc. of the Board members. In addition, the Committee ensures diversity is considered in the composition of DLR's Board of Directors and that targets are set for the underrepresented gender.

The Nomination Committee consists of DLR's entire Board of Directors. The chairman is Managing Director & CEO Vagn Hansen, while Managing Director & CEO Director Anders Dam is deputy chairman.

The Nomination Committee met twice in 2016.

Remuneration Committee

The Remuneration Committee is responsible for the preparatory work connected with the Board of Directors' decisions, knowledge and controls associated with remuneration in DLR. In addition, the Committee maintains a list of DLR's material risk takers.

The chairman of DLR's Remuneration Committee is CEO Vagn Hansen, while the other members are CEO and Managing Director Anders Dam and Legal Consultant Søren Jensen.

DLR's Remuneration Committee met twice in 2016.

Management

DLR Kredit A/S is mainly owned by banks that are members of either Lokale Pengeinstitutter (the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) or Landsdækkende Banker (formerly the Danish Regional Bankers' Association). Jyske Bank and PRAS A/S, among others, also own shares in DLR. The Board of Directors had 14 members at the end of 2016, of whom nine were elected by the Annual General Meeting (AGM), while five were elected by the employees.

The Board of Directors decides matters that are strategic or principle in nature, including determining DLR's business model, policies and guidelines, etc. The division of work and responsibilities between the Board of Directors and the Executive Board is specified in the policies and guidelines laid down by the Board of Directors.

Members of the Board of Directors elected by the Annual General Meeting are elected for one year at a time and may be re-elected. Employee representatives are elected for a four-year period and may be re-elected.

Employees

At year-end 2016 DLR had 173 full-time employees compared to 174 at the end of 2015. Of these, 158 were employed at DLR's office in Copenhagen, while the rest were involved in conducting valuations of urban trade and private cooperative housing properties.

In addition to its permanent staff, DLR had 31 valuation experts employed at the end of 2016 to value agricultural and horticultural properties.

Knowledge resources

DLR's knowledge resources are primarily tied to its employees. Given the close collaboration between DLR and its shareholder banks, it is also important that the employees of these banks always have up-to-date knowledge of DLR as an organisation, including the services that DLR can provide.

As a financial organisation, DLR is very much dependent on IT-based solutions for its day-to-day operations. It is therefore vital that DLR's employees constantly maintain and expand their knowledge, for example via further education, and in this way contribute to securing the foundation for DLR's earnings. DLR is a member of the Education Centre of the Danish Financial Sector. DLR's administrative procedures are contained in internal business procedures, work routines and instructions that are regularly updated and expanded.

For the IT area, this also includes documentation of the IT systems used. In areas where specialist competences are required, DLR enlists external know-how.

Distribution channels

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

DLR's strategy is based on close collaboration with DLR's circle of owners through which DLR loans are distributed – and who have an extensive branch network throughout Denmark and on the Faroe Islands and Greenland. DLR thus functions as "supplier" for the owner group, providing loans to the relevant property categories. This is also why DLR has chosen not to establish its own branch network, which also ensures costeffective lending.

DLR's electronic communications system – DLRxperten – supports the banks' customer advisory services connected with mortgage lending, including prepayments and remortgaging. Loan documents, etc. are also distributed through DLRxperten. The system was jointly established by DLR and the loan-distributing banks. Customer advisory services and the distribution of DLR's products are mostly handled by the loan-distributing banks, just as the marketing of DLR is done by the banks. Hence, DLR has no local representation apart from its valuation experts.

Internal controls and risk-management systems connected with financial reporting

The Board of Directors, the Audit Committee and the Executive Board have overall responsibility for DLR's financial reporting, including compliance with relevant legislation and other regulations related to financial reporting.

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

Control environment

The Executive Board regularly assesses DLR's organisational structure and staffing in key areas, including those related to the financial reporting process. The Board of Directors, the Audit Committee and the Executive Board determine and approve general policies, procedures and controls in key areas of the financial reporting process.

The foundation for this is a clear organisational structure, well-defined reporting lines, authorisation and certification procedures, and appropriate segregation of people and functions. In compliance with statutory requirements, the Board of Directors has established an internal audit function that reports to the Board of Directors and which in accordance with an audit strategy approved by the Board of Directors conducts spot checks on business procedures and internal controls in important and material risk areas connected with the financial reporting process. Business procedures and controls have been prepared for all important and material risk areas, including areas that influence the financial reporting process.

The Accounting and Finance Department is responsible for the company's overall financial management and reporting as well as financial statements, including the responsibility for ensuring that financial reporting complies with established principles and is in compliance with applicable legislation.

The Accounting and Finance Department has established a reporting process that encompasses budget reporting and monthly earnings reports, including deviation reports with quarterly updates to the year's budget

Monitoring

The Audit Committee receives regular reports from the Executive Board as well as from the internal and external auditors on compliance with defined guidelines, business procedures and regulations.

Corporate social responsibility

DLR's Corporate Social Responsibility (CSR) policies and statements are available on DLR's website at http://www.dlr.dk/samfundsansvar.

DLR has not established a need to prepare separate policies on respect for human rights or reducing the climatic impact of the company's activities.

Underrepresented gender and diversity on DLR's Board of Directors

DLR has set a target for the proportion of the underrepresented gender on the Board of Directors and drawn up a policy for achieving that target. A policy has also been prepared for increasing the share of the underrepresented gender at DLR's other management levels. Finally, a policy has been established with respect to diversity on the Board.

Target for the underrepresented gender on DLR's Board of Directors

DLR's Board of Directors has established a policy to increase the proportion of the underrepresented gender on the Board. The policy includes a target that the share of the underrepresented gender should be increased to at least 20 pc of the AGM-elected Board members by 2017.

DLR's Board currently comprises 14 members of whom nine were elected by the Annual General Meeting, while five were elected by the employees. The AGM-elected members include eight men and one woman, while the employee-elected members comprise four men and 1 woman. The gender split has been unchanged since 2014, when one additional woman was elected to DLR's Board of Directors.

The number of female Board members was unchanged in 2016, as a male candidate was elected to replace a male Board member at the AGM in 2016 and DLR's other Board members were re-elected. DLR's Nomination Committee has adopted the above-mentioned target in connection with the nomination process for future DLR Board members.

Given the traditional composition of DLR's Board of Directors, the target is considered ambitious, as DLR Board members are traditionally drawn from the executive boards of its shareholder banks, where there is an overweight of male executives.

Policy to increase the proportion of the underrepresented gender at DLR's other management levels

DLR's Nomination Committee and Board of Directors have also laid down a policy to increase the proportion of the underrepresented gender at DLR's other management levels. By other management levels is meant leading positions besides those on the Board of Directors.

More specifically, DLR is keen to increase the proportion of the underrepresented gender at other management levels subject to DLR at all times employing the best qualified and – for DLR – best-suited candidate. In addition, DLR regularly considers initiatives both internal and in connection with the recruitment process that could increase the share of the underrepresented gender in the longer term.

Diversity among DLR's Board of Directors

The Nomination Committee has adopted a diversity policy with respect to the make-up of DLR's Board of Directors. This policy aims to help promote a broadening of the composition of DLR's Board of Directors. Emphasis has been placed on the Board of Directors being broadly composed with respect to professional background, business experience, gender and age.

DLR's Nomination Committee has concluded in its assessment of the Board's qualifications that DLR's Board of Directors is currently sufficiently diverse. Diversity considerations always play a role in the nomination of potential future Board candidates at DLR.

MANAGEMENT AND ADMINISTRATION

DLR Kredit's Board of Directors

At the end of 2016, DLR's Board of Directors consisted of 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
- Claus Andersen, Managing Director & CEO Nordjyske 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, former governor of Danmarks Nationalbank
- Jan Pedersen, Managing Director & CEO, Danske Andelskassers Bank A/S
- Lars Petersson, Managing Director & CEO, Sparekassen Sjælland-Fyn A/S

Employee representatives:

- 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 2016, DLR's Board of Directors consisted of 14 members of whom nine members were elected at the Annual General Meeting. Of these nine members, four were elected from among the members of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, and four from among the members of the Association of Regional Banks (now National Banks in Denmark). Furthermore, one member was elected jointly by the two Associations.

DLR employees elected five members to the Board of Directors.

At DLR's Annual General meeting on 28 April 2016 Claus Andersen, Managing Director & CEO, Nordjyske Bank, was elected to the Board of Directors. Ole Selch Bak, Managing Director & CEO, Djurslands Bank, stepped down from the Board. The remaining Board members elected by the Annual General Meeting were re-elected.

Audit Committee

Members of the Audit Committee:

- Torben Nielsen, former governor of Danmarks Nationalbank (chairman)
- Claus Andersen, 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
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 & Finance Department:
Lars Ewald Madsen, Accounting and Finance Director, MSc (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:
Brian Hansen, 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

In addition, Jens Kr. A. Møller is a Member of SEGES' Sector Board for Business Finance & Management and a Member of the Board of Directors of Finance Denmark and of the Association of Danish Mortgage Banks.

Cooperation Agreements:
Administration agreements
DLR has entered into an administration agreement with LR Realkredit A/S, whereby staff employed at DLR and under instruction from LR Realkredit will prepare loan applications to be decided by the Executive Board and the Board of Directors of LR Realkredit. DLR will subsequently administer the disbursed loans.

LR Realkredit's primary lending areas are the public housing sector, schools and social, cultural and training institutions. LR Realkredit shares an office address with DLR.

Shareholder information

Share capital
DLR's share capital is mainly held by local, regional and nationwide banks. DLR's share capital amounts to nominal DKK 570m (denomination of DKK 1). Of this, DLR Kredit A/S holds 54,210,563 own (treasury) shares, equivalent to a nominal DKK 54.2m.

DLR can disclose that the following shareholders held at least 5 pc of the nominal share capital at year-end 2016:

Loan distributing shareholders:

Jyske Bank A/S
Vestergade 8 – 16
8600 Silkeborg

Spar Nord Bank A/S
Skelagervej 15
9000 Aalborg

Sydbank A/S
Peberlyk 4
6200 Aabenraa

Other shareholders:

Nykredit Realkredit A/S
Kalvebod Brygge 1 – 3
1560 København V

PRAS A/S
c/o Lokale Pengeinstitutter
Toldbodgade 33, 4
Postboks 9019
1253 København K

DLR Kredit A/S
Nyropsgade 21
1602 København V

Redistribution of shares

A shareholder agreement has been made between the shareholders, according to which the shares are redistributed every year. The next redistribution will take place on 1 March 2017 (based on the outstanding bond debt at 31 December 2016).

Other directorships held by the Board of Directors

Claus Andersen, Managing Director & CEO
- Managing Director & CEO of Nordjyske Bank A/S
- Chairman of the Board of Directors of Sæbygaard Skov A/S
- Member of the Board of Directors of Bankdata
- Member of the Board of Directors of Lokale Pengeinstitutter
- Member of the Board of Directors of BI Holding A/S

Anders Dam, Managing Director & CEO
- Managing Director & CEO of Jyske Bank A/S
- Chairman of the Board of Directors of Jyske Bank's 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 FinanceDenmark
- Member of the Board of Directors of FR I af 16. september 2015 A/S
- Member of the Committee of Shareholders of Foreningen af 16. december 2016
- 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 Landsdækkende Banker
- Member of the Board of Directors and vice chairman of PRAS A/S
- Member of the Board of Directors of FinanceDenmark
- Member of the Board of Directors of Totalkredit A/S
- Member of the Board of Directors of BI Holding A/S (Bankinvest Gruppen)
- Member of the Board of Directors of Musikhuset Esbjerg (The Esbjerg Performing Arts Centre) – a Commercial Foundation
- Member of the Board of Directors of FR I af 16. september 2015 A/S
- Member of the Board of Directors of Sydbank Sønderjyllands Fond
- Member of the Board of Directors of Sydbank Fonden
- Member of the Committee for Good Governance

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 Det Grønne Museum
- Chairman of Trigon Agri A/S
- Member of the Board of Directors of 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 Supervisory Board of Askov Højskole
- Member of the Board of Directors of Danmarks Nationalbank
- Member of the Committee of Shareholders of Sydbank A/S
- Member of the Committee of Representatives of 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 Skandinavisk Data Center A/S
- Member of the Board of Directors of Spar Pantebrevsinvest A/S
- Member of the Board of Directors of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark
- Member of the Board of Directors of Forvalt-ningsinstituttet 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 Museum Sydøstdanmark
- 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 and Vice Chairman of Sparinvest Holdings SE
- Member of the Board of Directors of Bankernes EDB-central (BEC)
- Member of the Board of Directors of Andelskassen Fyns Fond
- Member of the Board of Directors of Andelskassen Himmerlands Fond
- Member of the Board of Directors of Andelskassen Norddjurs' Fond
- Member of the Board of Directors of Andelskassen Oure-Vejstrups Fond
- Member of the Board of Directors of Andelskassen Sønderjyllands Fond
- Member of the Board of Directors of Andelskassen Østjyllands Fond
- Chairman and Managing Director of Villa Prisme Komplementaranpartsselskab

Lars Petersson, Managing Director & CEO
- Managing Director & CEO of Sparekassen Sjælland-Fyn A/S
- Chairman of the Board of Directors of Spar Fyns Ejendomsselskab A/S
- Chairman of the Board of Directors of Ejendomsselskabet Faaborg A/S
- Chairman of the Board of Directors of Holbæk Kommunes Talentråd
- Member of the Board of Directors and Vice Chairman of Nærpension
- Member of the Board of Directors and Vice Chairman of Lokal Puljepension
- Member of the Board of Directors and Managing Director of Sjælland Ejendomme A/S as well as three subsidiaries
- Member of the Board of Directors of Investeringsselskabet Sjælland-Fyn A/S
- Member of the Board of Directors of BI Holding A/S (the Bankinvest Group)
- Member of the Board of Directors of Tilskudsfonden for pensionister i DLR
- Member of the Board of Directors of Copenhagen FinTech

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 of Kipling Travel A/S

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2016

Profit and Loss Account and Statement of Comprehensive Income

DKKm

Note		2016	2015
1	Interest income	3,466	3,624
2	Interest expenses	-1,765	-1,900
	Net interest income	**1,701**	**1,724**
	Dividends from shares etc.	0	1
	Fee and commission income	159	170
	Fees and commissions paid	-393	-388
	Net interest and fee income	**1,468**	**1,507**
3	Value adjustments	-88	-330
	Other operating income	18	18
4-8	Staff costs and administrative expenses	-230	-216
	Depreciation and impairment losses	-3	-3
	Other operating expenses	-15	-6
9	Impairment of loans and receivables, etc.	-110	-94
	Profit before tax	**1,039**	**875**
10	Tax	-228	-206
	Profit for the year	**811**	**670**

Statement of Comprehensive Income

	2016	2015
Profit	811	670
Comprehensive income	**811**	**670**
Attributable to:		
Shareholders of DLR Kredit A/S*	702	558
Owners of hybrid core capital	109	112
Comprehensive income	**811**	**670**

* As a consequence of tax deductions for payments to holders of additional tier 1 capital, the consolidation was increased beyond the amount stated, i.e. by an additional DKK 24m in 2016 (DKK 109m x 22%). For 2015, consolidation was similarly increased by DKK 26m (DKK 112m x 23,5%).

Balance Sheet

DKKm

Note		31. dec. 2016	31. dec. 2015
	Assets		
	Cash in hand and demand deposits with central banks	48	249
11	Receivables from credit institutions and central banks	2,428	2,713
12-18	Loans, advances and other receivables at fair value	139,032	133,016
13-18	Loans, advances and other receivables at amortised cost	20	22
19	Bonds at fair value	13,625	11,978
	Shares, etc.	58	55
20	Land and buildings, domicile properties	98	98
	Other tangible assets	4	5
	Deferred tax assets	1	1
25	Assets temporarily foreclosed	159	62
21	Other assets	246	223
	Prepayments	18	19
	Total assets	**155,737**	**148,442**

Note		31. dec. 2016	31. dec. 2015
	Liabilities and equity		
	Debt to credit institutions and central banks	0	0
22	Issued bonds at fair value	134,074	130,342
23	Issued bonds at amortised cost	8,000	4,000
	Current tax liabilities	18	4
24	Other debt and payables	1,378	1,585
	Deferred income	4	2
	Total debt	**143,474**	**135,934**
25	Provisions for deferred tax	4	5
	Total provisions	**4**	**5**
	Share capital	570	570
	Revaluation reserve	43	43
	Undistributable reserve	2,338	2,338
	Retained earnings	8,008	8,252
	Owners of hybrid core capital	1,300	1,300
26	**Total equity**	**12,259**	**12,503**
	Total liabilities and equity	**155,737**	**148,442**

Note		31. dec. 2016	31. dec. 2015
27	**Off-balance sheet items**		
	Guarantees	17	16
	Other contingent liabilities	4,220	4,109

Statement of Changes in Equity DKKm

	Share capital 1)	Revaluation reserve	Undistri-butable reserve	Retained earnings	Owners of hybrid core capital 2)	Total
2015						
Equity at 1 January 2015	**570**	**43**	**2,338**	**7,668**	**1,300**	**11,919**
Profit	0	0	0	558	112	670
Transactions with owners Interest on additional tier 1 capital	0	0	0	0	-112	-112
Tax value of deduction of interest on additional tier 1 capital	0	0	0	26	0	26
Equity at 31 December 2015	**570**	**43**	**2,338**	**8,252**	**1,300**	**12,503**
2016						
Equity at 1 January 2016	**570**	**43**	**2,338**	**8,252**	**1,300**	**12,503**
Profit	0	0	0	702	109	811
Transactions with owners Own shares 3)	0	0	0	-970	0	-970
Interest on hybrid core capital	0	0	0	0	-109	-109
Tax value of deduction of interest on additional tier 1 capital	0	0	0	24	0	24
Equity at 31 December 2016	**570**	**43**	**2,338**	**8,008**	**1,300**	**12,259**

(1) The share capital is divided into shares of DKK 1.00 each. The total number of shares is 569,964,023. DLR Kredit A/S has only one class of shares. All shares carry equal rights.

(2) Additional tier 1 capital that complies with the rules of the Capital Requirements Regulation (CRR).
The DKK 1,300m with a conversion obligation was raised on 27 August 2012. The maturity is perpetual. The rate of interest is floating and based on the 6m money-market rate (CIBOR) plus 8.25 per cent p.a. The aggregate additional tier 1 capital can be included in total capital at 31 December 2016.

Interest in 2016: DKK 109m.

(3) Treasury shares

DLR Kredit acquired treasury shares at an aggregate purchase price of DKK 970m in 2016.

Number of shares	54,210,563
Nominal value	54,210,563
Percentage of share capital	9.5%

All shares were acquired in 2016 as part of a share buyback from Finansiel Stabilitet and the Danish central bank.

Capital and solvency

DKKm	2016	2015
Equity	12,259	12,503
Additional tier 1 capital recognised in equity	-1,300	-1,300
Deductions as a consequence of prudent valuation	-22	-17
Difference between expected loss and impairment write-downs	-676	0
Deferred tax	-1	-1
Common equity tier 1 capital	**10,260**	**11,185**
Additional tier 1 capital	1,300	1,300
Total capital	**11,560**	**12,485**
Risk-weighted exposure with credit risk, etc.	75,327	91,278
Risk-weighted exposure with market risk	2,892	3,505
Risk-weighted exposure with operational risk	2,456	2,249
Total risk-weighted exposure	**80,674**	**97,032**
Actual core capital ratio	**12.7%**	**11.5%**
Capital ratio	**14.3%**	**12.9%**

In March 2016, DLR received approval from the Danish FSA to use IRB models to calculate the credit risk on its portfolio of loans to full-time farms, which has been incorporated in the figures for 2016, as opposed to the figures at year-end 2015, which were solely based on the standard method.

List of notes to the financial statements

Notes - income statement DKKm

Note		2016	2015
1	**Interest income from:**		
	Receivables from credit institutions and central banks	0	0
	Loans and advances	1,805	1,989
	Administration fees	1,462	1,440
	Bonds	229	306
	Other interest income	51	39
	Total interest income	**3,546**	**3,773**
	Interest from own mortgage bonds offset agains interest on issued bonds	-79	-149
	Total	**3,466**	**3,624**
	Of which interest income from repo transactions:		
	Receivables from credit institutions and central banks	0	0

Note		2016	2015
2	**Interest expenses:**		
	Credit institutions and central banks	-3	-6
	Issued bonds at fair value	-1,791	-1,974
	Issued bonds at amortised cost	-50	-66
	Hybrid core capital (non CRR-compliant)	0	-4
	Other interest expenses	0	0
	Total interest expenses	**-1,844**	**-2,049**
	Interest from own mortgage bonds	79	149
	Total	**-1,765**	**-1,900**
	Of which interest expenses from repo transactions:		
	Debt to credit institutions and central banks	0	0

Note		2016	2015
3	**Value adjustments of:**		
	Mortgage loans	960	-981
	Bonds	-79	-328
	Shares etc.	1	-14
	Other assets	0	1
	Foreign exchange	-3	5
	Derivative financial instruments	-7	6
	Issued bonds	-960	981
	Total value adjustments	**-88**	**-330**

Notes - income statement DKKm

Note		2016	2015
4	**Staff costs and administrative expenses:**		
	Staff costs		
	Salaries	-107	-104
	Pension costs	-11	-10
	Social security costs	-18	-16
	Total	**-136**	**-129**
	Other administrative expenses		
	IT expenses	-40	-36
	Audit, supervision and industry association	-7	-7
	Other operating costs	-48	-43
	Total staff and administrative expenses	**-230**	**-216**
	Executive Board *		
	Fixed remuneration	6.5	8.1
	Variable remuneration	0.0	0,0
	Tota	6.5	8.1
	Number of members of the Executive Board, year end	2	2

* In 2015, the Executive Board had three members during the period from 1 January to 30 April.

Notes - income statement DKKm

Note		2016	2015
5	**Remuneration to members of the Executive Board, Board of Directors, etc.**		
	Jens Kr. A. Møller, Managing Director & CEO*	3.8	3.4
	Michael Jensen, Managing Director	2.7	2.5
	Bent Andersen, Managing Director & CEO**	0.0	2.2
	Total	**6.5**	**8.1**

* Jens Kr. A. Møller was Managing Director in the period until 30 April 2015 and Managing Director & CEO from 1 May 2015.
** Bent Andersen was Managing Director & CEO until 30 April 2015.

	2016	2015
Board of Directors		
Fixed remuneration	2.0	2.0
Variable remuneration	0.0	0.0
Total remuneration to the Board of Directors	**2.0**	**2.0**
Number of members of the Board of Directors, year-end	14	14
Remuneration to the Board of Directors for participation in Board work and on the Risk and Audit Committees (DKKt)		
Vagn Hansen, Chairman	248	248
Anders Dam, Vice Chairman	165	165
Claus Andersen (took office on 28 April 2016)	93	0
Claus Andreasen	110	110
Karen Frøsig	110	110
Peter Gæmelke	110	110
Jakob G. Hald	138	138
Søren Jensen	138	138
Agnete Kjærsgaard	110	110
Lars Møller	165	174
Torben Nielsen	193	193
Benny Pedersen	110	110
Jan Pedersen	110	110
Lars Petterson	110	110
Ole Selch Bak (stepped down on 28 April 2016)	45	129
Total remuneration	**1,953**	**1,953**

Members of the Board of Directors do not receive shares or any other kind of incentive-based remuneration.

	2016	2015
Other employees that influence the risk profile		
Fixed remuneration	16.7	13.5
Variable remuneration	0.0	0.0
Total remuneration to other employees that influence the risk profile	16.7	13.5
Number of employees who have had an influence on the risk profile	19	15
- Of whom stepped down during the year	4	2
Number of employees who have an influence on the risk profile, year-end	15	13

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

Note		2016	2015
6	**Executive Board and Board of Directors. Amount of loans, charges, surety or guarantees granted to members of credit institution**		
	Executive Board:	0	0
	Loans etc.		
	Board of Directors:		
	Loans etc.	31	32

DLR has not charged any assets, nor provided other collateral or committed to any off-balance sheet liabililities on behalf of any member of the Executive Board or the Board of Directors or their related parties.

Exposure to related parties is granted on ordinary terms and on an arm's length basis at current market rates.

DLR's related parties solely comprise the Executive Board and Board of Directors and their related parties.

Interest rates (including administration fees) 2016:
Executive Board: No loans.
Board of Directors: 1.0-3.0 per cent p.a.*

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

* The interest rates (including administration margin) apply to various types of loans based on different mortgage bonds/covered bonds (SDO).

Note		2016	2015
7	**Audit fees**		
	Statutory audit of the financial statements	0.9	0.9
	Other assurance engagements	0.3	0.1
	Tax advice	0.2	0.1
	Other services	0.5	0.4
	Total fees to the auditors appointed by the shareholders in general meeting that performs the statutory audit	**1.9**	**1.5**

Note		2016	2015
8	**Number of employees**		
	Average number of employees in the financial year in full-time equivalents	165	163

Note		2016	2015
9	**Provisions and impairment losses for loans and receivables etc.**		
	Impairment losses for the period	-104	-39
	Recovery of debt previously written off	4	4
	Provisions for the period	-226	-235
	Reversal of provisions	216	176
	Total provisions and impairment losses for loans and receivables etc.	**-110**	**-94**

Note		2016	2015
10	**Tax (breakdown in DKKm)**		
	Applicable tax rate of "Profit before tax"	-228.6	-205.7
	Non-taxable income and non-deductible expenses	-0.1	0.9
	Deferred tax	0.1	-0.9
	Adjustment of prior-year tax charge	0.4	0.0
	Total tax	**-228.1**	**-205.7**
	Tax (breakdown of applicable tax rate)		
	Current tax rate	22.0	23.5
	Non-taxable income and non-deductible expenses	0,0	-0.1
	Adjustment of deferred tax	0,0	0.1
	Adjustment of prior-year tax charge	0,0	0.0
	Effective tax rate	**22.0**	**23.5**

Notes - assets DKKm

Note		2016	2015
11	**Receivables from credit institutions and central banks***		
	Receivables at notice from central banks	0	1
	Receivables from credit institutions and central banks	2,428	2,712
	Total receivables from credit institutions and central banks	**2,428**	**2,713**
	* DLR had no reverse repo transactions at year-end		
	Maturity distribution by term to maturity		
	Demand deposits	2,428	2,712
	Up to and including three months	0	1
	Over three months up to and including one year	0	0
	Over one year up to and including five years	0	0
	Over five years	0	0
	Total	**2,428**	**2,713**

Note		2016	2015
12	**Loans and advances at fair value**		
	Mortgage loans, nominal value	137,493	132,455
	Adjustment to fair value of underlying bonds	1,966	1,015
	Adjustment for credit risk	-566	-562
	Total mortgage loans at fair value	**138,893**	**132,908**
	Arrears before provisions	124	122
	Other loans and charges before provisions	44	10
	Provisions for arrears and charges	-28	-24
	Total	**139,032**	**133,016**

Note		2016	2015
13	**Loans and advances at amortised cost**		
	Loans and advances	26	27
	Adjustment for credit risk	-6	-5
	Total	**20**	**22**

Note		2016	2015
14	**Loans and advances and other receivables at fair value and amortised cost**		
	Maturity distribution by term to maturity		
	Up to and including three months	895	820
	Over three months up to and including one year	2,602	2,115
	Over one year up to and including five years	22,307	19,596
	Over five years	113,248	110,507
	Total	**139,053**	**133,038**

Pursuant to special legislation, a government guarantee of DKK 433m has been provided as supplementary security for loans to young farmers. Interim loan guarantees of DKK 1,134m have been provided for advance loans.
As supplementary security for mortgage loans apart from mortgages, bankers' guarantees of DKK 16,329m have been provided.

Note		2016	2015
15	**Mortgage loans (nominal value) by property category (as a percentage)**		
	Agricultural properties	63	64
	Owner-occupied dwellings	6	6
	Subsidised rental housing properties	0	0
	Private rental housing properties	14	13
	Office and business properties	16	15
	Properties for manufacturing and manual industries	1	1
	Properties for social, cultural and educational purposes	0	0
	Other properties	1	1
	Total, as a percentage	**100**	**100**

Notes - assets DKKm

Note		2016	2015
16	**Number of loans at year-end**	**59,119**	**59,071**

17	**Provisions for loans and receivables impairment at fair value and amortised cost**		
	Individual provisions		
	Provisions on loans and guarantees, beginning-of-year	445	333
	Reversal of provisions	-191	-123
	Provisions for the period	156	235
	Provisions, year-end	**411**	**445**
	Collective provisions		
	Provisions on loans and guarantees, beginning of year	145	198
	Reversal of provisions	-25	-53
	Provisions for the period	70	0
	Provisions, year-end	**190**	**145**
	Total provisions for loans and receivables impairment, year-end	**601**	**590**
	Fair value of commitments (larger than DKK 0) on which individual provisions have been made		
	- Before provisions	3,381	3,671
	- After provisions	2,970	3,225

All provisions concern loans and advances at fair value and at amortised cost.

Notes - assets DKKm

18 **Reasons for individual provisions:**

Property category	**Reason**	**Remaining bond debt before provision 2016**	**Provision year-end 2016**	**Remaining bond debt before provision 2015**	**Provision year-end 2015**
Farms, including residential farms, etc.					
	Bankruptcy	726	88	263	48
	Reconstruction	0	0	0	0
	Current default on payments	186	33	430	80
	Prior default om payments	2,071	226	2,415	234
Total		**2,983**	**347**	**3,109**	**362**
Rental properties, including private cooperative housing properties					
	Bankruptcy	3	1	12	1
	Reconstruction	0	0	0	0
	Current default on payments	2	1	1	2
	Prior default om payments	240	30	312	38
Total		**245**	**32**	**326**	**41**
Office and business properties					
	Bankruptcy	5	2	27	7
	Reconstruction	0	0	0	0
	Current default on payments	14	7	28	3
	Prior default om payments	120	21	169	31
Total		**139**	**30**	**225**	**41**
Other properties					
	Bankruptcy	1	0	0	0
	Reconstruction	0	0	0	0
	Current default on payments	0	0	0	0
	Prior default om payments	13	2	11	2
Total		**14**	**2**	**12**	**2**

The difference between the remaining bond debt before provisions and the actual provisions has been secured by:
- Mortgage on the property
- Guarantees from financial institutions provided as security for part of the loans.

Notes - assets DKKm

Note		2016	2015
19	**Bonds at fair value**		
	- Own mortgage bonds	23,866	26,235
	- Other mortgage bonds	11,441	10,635
	- Government bonds	2,184	1,343
	- Other bonds	0	0
	Total bonds	**37,492**	**38,213**
	Own mortgage bonds offset against issued bonds	-23,866	-26,235
	Own non-mortgage bonds offset against issued bonds	0	0
	Total	**13,625**	**11,978**

20	**Land and buildings (domicile properties)**		
	Fair value, beginning of year	**98**	**99**
	Additions during the year	0	0
	Depreciation	-1	-1
	Value changes recognised in other comprehensive income	0	0
	Fair value, year-end	**98**	**98**

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

21	**Other assets**		
	Positive market value of derivative financial instruments etc.	10	5
	Interest and commission receivable	107	155
	Other receivables	129	63
	Total	**246**	**223**

Notes - liabilities and equity DKKm

Note		2016	2015
22	**Issued bonds at fair value**		
	Mortgage bonds/SDOs - nominal value	155,775	155,403
	Fair value adjustment	2,165	1,175
	Issued bonds - gross	**157,940**	**156,577**
	Own Mortgage bonds/SDOs set off - at fair value	-23,866	-26,235
	Total	**134,074**	**130,342**
	Of which pre-issued, market value	10,228	16,423
	Drawn callable bonds for redemption in next term	2,152	820

The change in the fair value of mortgage bonds and SDOs that can be attributed to changes in credit risk may be calculated relative to corresponding mortgage bonds and SDOs offered by other Danish issuers. The bonds that fund DLR's loan portfolio have an AAA rating from S&P Global. This rating corresponds to the rating of most of the other Danish mortgage bonds and SDOs.

Using this method, no fair value adjustment was made for changes in DLR's own credit risk, neither in 2016, nor in the period since issuance.

The aggregate fair value adjustment of issued bonds and SDOs as a consequence of changes in the fair value of own credit risk was therefore DKK 0.0m (2015: DKK 0.0m). Of the accumulated effect, DKK 0.0m relates to changes in 2016 (2015: DKK 0.0m)."

	2016	2015
Maturity distribution by term to maturity (gross portfolio at market value)		
Up to and including three months	14,935	21,551
Over three months up to and including one year	21,065	13,570
Over one year up to and including five years	93,777	95,822
Over five years	28,164	25,635
Total	**157,940**	**156,577**

Notes - liabilities and equity DKKm

Note		2016	2015
23	**Issued bonds at amortised cost**		
	Issues in connection with senior debt	8,000	4,000
	Total issued bonds at amortised cost	**8,000**	**4,000**
	Set off of own bonds	0	0
	Total	**8,000**	**4,000**
	Maturity distribution by term to maturity		
	Up to and including three months	0	0
	Over three months up to and including one year	2,000	2,000
	Over one year up to and including five years	6,000	2,000
	Over five years	0	0
	Total	**8,000**	**4,000**

24	**Other debt and payables**		
	Negative market value of derivative financial instruments	5	8
	Interest and commission payable	1,180	1,311
	Other payables	193	266
	Total	**1,378**	**1,585**

25	**Deferred tax**		
	Deferred tax, beginning of year	3	2
	Change in deferred tax	0	1
	Total	**3**	**3**
	Land and buildings, domicile properties	4	5
	Other tangible assets	-1	-1
	Total	**3**	**3**
	Deferred tax is recognised as follows:		
	Deferred tax assets	-1	-1
	Provisions for deferred tax	4	5
	Total	**3**	**3**

26 **Equity**

Details on movements in equity appear from the statement of changes in equity.

At 31 December 2016, the following shareholders held more than 5 per cent 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:

Nykredit Realkredit A/S, Copenhagen
PRAS A/S, Copenhagen
DLR Kredit A/S (treasury shares have been set off against equity)

None of the above mentioned shareholders hold controlling interests.

Notes - off-balance sheet items DKKm

Note		2016	2015
27	**Off-balance sheet items**		
	Guarantees etc.		
	Financial guarantees	3	1
	Other guarantees	15	15
	Total	**17**	**16**
	Other contingent liabilities		
	Irrevocable credit commitments (loan offers)	4,220	4,109
	Total	**4,237**	**4,125**

In addition to the said guarantees and contingent liabilities, DLR's bond portfolio is used as collateral security for intra-day settlement of VP sum clearing. It is not deemed probable that it will result in an outflow of the company's economic resources.

28 **Contingent assets**

Loss guarantee agreements have been established between DLR and the banks holding shares in DLR which makes it possible for DLR to offset losses against commissions paid to the banks that hold shares in DLR. The set-off of losses against commissions can be made over severals years going forward, which means that DLR may offset losses against commissions in the years to come in cases where the exposures lead to an actual losses.

Note

29 **Risk management**

DLR provides loans against registered mortgages on real property with due consideration for the security position of the loans.

Mortgage loans and their underlying funding are regulated by the balance priciple, which means that DLR has very low interest-rate, exchange-rate and liquidity risks in this connection. Credit risk is the most significant risk DLR is exposed to.

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

Each year, 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 is available at dlr.dk/Financial Statements.

Note

30 **Credit risk - policy and security:** DLR's lending area is concentrated around lending to agricultural, forestry and horticultural properties, closed-down farms (owner-occupied homes) as well as private rental housing properties, cooperative housing properties and office and retail properties in Denmark. Furthermore, loans are provided to a small extent in the Faroe Isands 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.

DLR's lending is generally based on three elements that form part of the overall assessment of a loan application:
- Valuation of the property
- Assessment of the creditworthiness of the loan applicant
- Possibility of obtaining comprehensive finance, including the required business and operating credits from financial institutions.

The valuation of properties is carried out in compliance with the Danish FSA's Executive Order on Valuation of Security and Lending against Real Property.

In the determination of the total loan amount, including to what extent the LTV limit for the property category in question can be utilised, emphasis is placed on the applicant's financial performance over a number of years. If the applicant's financial position has not developed satisfactorily over a prolonged period of time, key 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 lending for the acquisition of properties or for major investments, emphasis is on budgets, i.e. whether balanced finances can be achieved based on expected, achievable budget assumptions. Furthermore, the applicant's equity calculated on the basis of DLR's valuation of the applicant's properties is taken into account.

In connection with loans, the loan-providing financial institution will normally provide an individual guarantee for the individual loan throughout its term covering 6 per cent of the remaining debt on the loan. The guarantee is reduced gradually as the loan is repaid, to the effect that the ratio of the guarantee to the residual debt remains unchanged throughout the term of the loan. The guarantee covers the least secure part of the total lending for the individual property. In addition, a loss set-off scheme has been established, under which DLR sets off all losses incurred by DLR in respect of loans provided by the financial institution in question in commissions due beyond what is covered by the 6 per cent guarantees provided at loan level. Losses may be set off against ten years' commissions. To the extent that losses eligible for set-off exceed the current year's and up to the following nine years' expected commissions, DLR may require that such losses are covered by drawings on the individual financial institution's aggregate guarantees. The guarantee concept was launched with loan offers issued from the beginning of 2015. Currently, the portfolio in question amounts to more than DKK 39bn.

In addition, DLR has previously had two different loss-mitigating concepts that continue to cover substantial parts of DLR's portfolio.

For loans against agricultural properties offered before 2015, a collaboration agreement has been made with the financial institutions providing the loans that partly contains a collective loss guarantee scheme and partly an access to set-off under which DLR can set off actual losses against the commissions to the individual financial institutions. Set-off of losses thus results in a lower commission being paid by DLR to the relevant financial institution. This guarantee concept, which is also being phased out, applied to loans totalling close to DKK 60 million at year-end 2016.

For loans against other property categories than agricultural properties and closed-down farms/farm houses before 2015, the loan-providing financial institution would previously provide a guarantee for the lowest-ranking DLR mortgage covering in the order of 25-100 per cent of the mortgage in question. At the end of 2016, the loan-mitigating agreements under this guarantee concept comprise guarantees totalling DKK 12.3bn provided for a portfolio of currently more than DKK 29bn. This guarantee concept is currently being phased out.

Notes - risks DKKm

Note		2016	2015
31	**Credit risk - exposures**		
	Total credit exposure distributed on balance sheet and off-balance sheet items:		
	Balance sheet items		
	Cash in hand and demand deposits with central banks	48	249
	Receivables from credit institutions and central banks	2,428	2,713
	Loans and other receivables at fair value	139,032	133,016
	Loans and other reveivables at amortised cost	20	22
	Bonds at fair value	13,625	11,978
	Other assets	236	217
	Derivative financial instruments	10	5
	Total balance sheet items	**155,400**	**148,201**
	Off-balance sheet items		
	Financial guarantees	3	1
	Other guarantees	15	15
	Irrevocable credit commitments (loan offers)	4,220	4,109
	Total	**4,237**	**4,125**

Notes - risks DKKm

32 **Credit risk - loan to value (LTV)**

The credit quality of DLR's loan portfolio is shown in the overview below, which shows the distribution of the total loan portfolio by LTV bands (loan-to-value intervals) at the end of 2016 for the most significant property categories. The tables do not include loans which are in arrears, or which have been written down for individual impairment.

The LTV distributions show how large a share of the loan portfolio is placed in the respective loan -to-value 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 of Q4 2016 to ensure that the basis applied for valuation will to the greatest possible extent reflect the current price level.

It should also be noted that, under the guarantee and set-off concepts described above, the loan-providing financial institutions partially cover DLR's risk.

Agriculture: An LTV of 70 per cent on the assumption of additional security of 10 per cent of the value being provided in the interval of 60-70 per cent for loans based on SDOs. Otherwise, an LTV of 60 per cent applies. Loans to agricultural properties accounted for 63 per cent of DLR Kredit's total loan portfolio at the end of 2016.

Loan-to-value limit (LTV) as a percentage	**0-60**	**60-70**	**70+**
Per cent of loans in LTV intervals	90.2	6.0	3.8

Office and business properties: An LTV of 70 per cent assuming additional security of 10 per cent of the value being provided in the interval of 60-70 per cent for loans based on SDOs. Otherwise, an LTV of 60 per cent applies. Loans to office and business properties accounted for 16 per cent of DLR Kredit's total loan portfolio at the end of 2016.

Loan-to-value limit (LTV) as a percentage	**0-60**	**60-70**	**70+**
Per cent of loans in LTV intervals	89.3	6.4	4.3

Rental properties, including cooperative housing: An LTV of 80 per cent applies. Loans to private rental properties and private cooperative housing properties accounted for 14 per cent of DLR Kredit's total loan portfolio at the end of 2016.

Loan-to-value limit (LTV) as a percentage	**0-80**	**80+**
Per cent of loans in LTV intervals	95.9	4.1

Owner-occupied homes: An LTV 80 per cent applies. Loans to owner-occupied homes accounted for 6 per cent of DLR Kredit's total loan portfolio at the end of 2016.

Loan-to-value limit (LTV) as a percentage	**0-80**	**80+**
Per cent of loans in LTV intervals	97.9	2.1

Notes - risks DKKm

Note

33 **Credit risk - Loans in arrears, but without impairment, distributed by age of oldest arrears:**

Property category	Age of oldest arrears	Remaining bond debt 2016	Remaining bond debt 2015
Farms, including residential farms	0-2 months	3,025.1	2,912.9
	2-5 months	453.8	555.3
	5-8 months	96.9	212.8
	8-11 months	67.4	71.9
	Over 11 months	67.3	22.0
Total		**3,710.5**	**3,774.9**
Rental properties, including private cooperative housing properties	0-2 months	471.0	520.9
	2-5 months	44.0	10.0
	5-8 months	13.6	3.0
	8-11 months	1.3	0.0
	Over 11 months	0,0	16.8
Total		**529.9**	**550.7**
Office and retail properties	0-2 months	904.2	899.6
	2-5 months	98.3	90.0
	5-8 months	43.5	16.8
	8-11 months	12.8	4.3
	Over 11 months	7.3	15.1
Total		**1,066.1**	**1,025.8**
Other properties	0-2 months	32.1	36.3
	2-5 months	0.6	3.7
	5-8 months	0.0	0.0
	8-11 months	0.0	0.0
	Over 11 months	0.0	0.0
Total		**32.7**	**40.0**

As a general rule, loans in arrrears fall within an OEI (objective evidence of impairment), and an impairment calculation is made for such loans to determine whether there is a basis for making an individual provision.

Loans in arrears without individual provisions for impairment are mainly considered to be secured through the mortgage on the properties provided as security for the individual loans. In addition, except for loans against agricultural properties granted before 2015, guarantees will generally be provided by a financial institution for part of DLR's loans against the individual properties.

Note

34 **Market risk - policy**

Interest rate risk
The statutory demands for interest rate risk are that the risk cannot exceed 8 per cent of DLR's capital base. At the end of 2016, DLR's capital base amounted to DKK 11,560m after deductions, and this corresponds to a maximum permitted interest rate risk of DKK 925m.

At the end of 2016, the interest rate risk on DLR's securities portfolio (asset side) was DKK 204m. Interest rate risk expresses the amount that at the end of 2016 DLR could expect to see as price adjustments in the event of a change in market yields. of 1 per cent point. The relative interest rate risk can be calculated at 1.8 per cent based on the capital base at year-end 2016.

The interest rate risk on issued securities (liability side) – additional tier 1 capital and senior secured bonds – can be calculated at DKK 27m, equivalent to 0.2 per cent of DLR's capital base.

The interest rate risk on issued debt securities 'inverts' interest rate risk on the securities portfolio and DLR's net interest rate risk is thus reduced to DKK 176m, equivalent to 1.5 per cent 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.

With the implementation of CRR/CRD IV, new requirements have been implemented, cf. section 8(9) of the order, concerning the determination and assessment of liquidity position and liquidity risks (ILAAP - Internal Liquidity Adequacy Assessment Process). DLR has therefore since 2014 prepared a separate report on liquidity for each year as well as a capital adequacy report (ICAAP - Internal Capital Adequacy Assessment Process). The ILAAP is approved by the Board of Directors of DLR before filing with the Danish FSA.

Foreign exchange rate risk
Calculated according to the foreign exchange indicator 2 of the Danish FSA, DLR's foreign exchange rate risk at year-end 2016 was DKK 1.0m, equivalent to 0.01 per cent 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.

Risks 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 2016, the risk related to shares amounted to DKK 5.8m.

Notes - risks DKKm

Note

35 **Market risk - sensitivity**

DLR's risks and policies appear from the section in 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 is stated below.

2016	**Change in post-tax results**	**Change in equity**
Interest-rate risk on the securities portfolio		
An interest-rate increase of 1 percentage point	-137	-137
An interest-rate decrease of 1 percentage point	137	137
Risk related to shares		
An increase in share value of 10 per cent	4	4
A decrease in share value of 10 per cent	-4	-4
Foreign-exchange risk		
An increase of 1 per cent DKK/EUR	7	7
A decrease of 1 per cent DKK/EUR	-7	-7

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

Notes - financial instruments DKKm

Note

36 **Financial instruments: Instruments used**

DLR's financial instruments mainly consist of mortgage loans, deposits of liquid funds with banks and investments in mortgage bonds /SDOs. DLR uses derivative financial instruments such as forward purchases and sales of bonds and, in certain periods, swap transactions. All derivative financial instruments are used as part of DLR's risk management.

37 **Financial instruments: Information on financial instruments not carried at fair value**

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

Fair value constitutes the amount at which a financial asset can be traded, or at which a financial liability can be settled between independent parties. See note 1, accounting policies, recognition and measurement for additional information.

2016

	Carrying amount	Fair value
Loans and other receivables at amortised cost	20	20
Issued bonds at amortised cost	8,000	8,039

2015

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

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

Notes - financial instruments DKKm

Note

38 **Information on assets and liabilities at fair value**

2016	**Quoted prices**	**Observable inputs**	**Non-observable inputs**	**Total fair value**
Financial assets:				
Recognised as trading portfolio:				
Bonds at fair value	8,074	5,551	0	13,625
Derivative financial instruments	10	0	0	10
Recognised through the fair value option:				
Loans and other receivables at fair value	0	139,032	0	139,032
Recognised as available for sale:				
Shares etc.	0	48	11	59
Other assets				
Land and buildings, domicile properties	0	0	98	98
Total	**8,084**	**144,631**	**108**	**152,824**
Financial liabilities:				
Recognised as trading portfolio:				
- derivative financial instruments	5	0	0	5
Recognised through the fair value option:				
- issued bonds at fair value	90,811	43,263	0	134,074
Total	**90,816**	**43,263**	**0**	**134,079**

2015	**Quoted prices**	**Observable inputs**	**Non-observable inputs**	**Total fair value**
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
Other assets				
Land and buildings, domicile properties	0	0	98	98
Total	**11,175**	**133,869**	**109**	**145,153**
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**

Note

38 **Quoted prices**
The company's assets and liabilities at fair value are to the widest possible extent 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 for which there is no updated market price, a price determined on the basis of the official market rate for a corresponding bond is used. For unlisted shares in sector-owned companies where the shares are reallocated, 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.

Non-observable inputs
In cases where it is not possible to measure financial instruments at fair value based on prices in active markets or observable inputs, measurement is based on own assumptions, etc. To the extent possible, measurement is based on actual transactions adjusted for differences in e.g. 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.

Notes - financial instruments DKKm

Note

39	Derivative financial instruments by remaining term to maturity	2016	2015
	Forwards, bought*		
	Up to and including three months	10,053	16,528
	Nominal value	10	5
	Net market value		
	Forwards, sold**		
	Up to and including three months	2,652	4,436
	Nominal value	-5	-8
	Net market value		
	Repo		
	Up to and including three months		
	Nominal value	0	0
	Net market value	0	0
	Over three months up to and including one year		
	Nominal value	0	0
	Net market value	0	0
	Interest rate swaps		
	Over three months up to and including one year		
	Nominal value	0	0
	Net market value	0	0
	Over five years		
	Nominal value	0	0
	Net market value	0	0
	Currency swaps		
	Over three months up to and including one year		
	Nominal value	0	0
	Net market value	0	0

Loans to be refinanced cause DLR to carry out two opposite financial transactions. In one transaction, DLR sells bonds (equivalent to the amount to be refinanced) to bond investors. The price/interest rate achieved at such sale is passed on directly to the borrower's adjustable-rate mortgage, so the other transaction involves the borrower 'buying' an interest rate on his adjustable-rate mortgage. The net effect on profit of these transactions is DKK 0, if income from trading margin to the borrower on the refinancing is disregarded.

* Forwards, bought: The refinancing, which totalled DKK 10,053m at the turn of the year 2016/17, thus implicitly involved that DLR (via the loan terms) has an agreement with the borrower that the borrower 'buys' this interest on his adjustable-rate loan.

** Forwards, sold: Out of the refinancing totalling DKK 10,053m, DLR had sold DKK 2,652m forward at 2 January 2017, while the remaining amount was sold for settlement in 2016, and therefore is not stated as forwards.

Note		2016	2015	2014	2013	2012
40	**Key figures in DKKm**					
	Income statement					
	Net interest and fee income	1,468	1,507	1,508	1,229	1,049
	Other operating income etc.	18	18	17	18	19
	Staff costs and administrative expenses etc.	-248	-225	-214	-209	-205
	Earnings	**1,238**	**1,299**	**1,311**	**1,038**	**863**
	Provision for loan and receivable impairment	-110	-94	-191	-113	-87
	Value adjustments	-88	-330	-188	-296	-174
	Profit before tax	**1,039**	**875**	**933**	**629**	**602**
	Profit after tax	**811**	**670**	**703**	**471**	**451**
	Balance sheet					
	Assets					
	Loans and advances	139,053	133,038	133,219	133,910	135,631
	Bonds, shares, etc.	13,683	12,033	9,234	8,874	5,356
	Other assets	3,002	3,371	15,185	4,110	7,900
	Total assets	**155,737**	**148,442**	**157,637**	**146,894**	**148,887**
	Liabilities and equity					
	Issued bonds	142,074	134,342	141,324	131,438	128,423
	Other debt and payables	1,404	1,596	3,638	2,395	6,241
	Subordinated debt	0	0	755	3,078	5,254
	Equity	12,259	12,503	11,919	9,984	8,969
	Total liabilities and equity	**155,737**	**148,442**	**157,637**	**146,894**	**148,887**

Note		2016	2015	2014	2013	2012
41	**Financial ratios**					
	Return on equity					
	Profit before tax in per cent of equity(*)	8.4	7.2	8.5	6.6	7.3
	Profit after tax in per cent of equity(*)	6.5	5.5	6.4	5.0	5.4
	Profit on hybrid core capital (CRR-compliant)	8.4	8.6	8.9		
	Profit after tax on equity excl. hybrid core capital	6.5	5.4	6.4		
	Return on capital employed					
	Return on capital employed(*)	0.52	0.45	0.45	0.32	0.30
	Costs					
	Costs in per cent of loan portfolio	0.18	0.16	0.16	0.16	0.15
	Income/cost ratio(*)	3.90	3.75	3.30	2.96	3.07
	Income/cost ratio, excl. write-downs for impairment	5.63	5.31	6.24	4.56	4.37
	Solvency (incl. profit for the year)					
	Total capital ratio	14.3	12.9	12.3	12.3	13.2
	Tier 1 capital ratio	14.3	12.9	12.3	12.3	13.2
	Common equity tier 1 capital ratio	12.7	11.5	10.4	9.8	8.7
	Losses and arrears					
	Arrears, year-end (DKKm)	124	122	142	125	165
	Loss and impairment ratio for the period (in per cent of loan portfolio)(*)	0.08	0.07	0.14	0.08	0.06
	Accumulated loss and impairment ratio (in per cent of loan portfolio)	0.43	0.44	0.40	0.28	0.25
	Lending activity					
	Growth in loan portfolio, per cent (nominal)*)	3.8	0.6	-0.9	-0.9	2.3
	New loans, gross (DKKm)	23,118	23,469	33,181	11,340	20,176
	Number of new loans	7,353	8,585	9,638	4,887	7,944
	Loan/equity ratio(*)	11.3	10.6	11.2	13.4	15.1
	Margins					
	Percentage of average loan portfolio (nominal):					
	Profit before tax	0.77	0.67	0.71	0.47	0.44
	Administrative margin in per cent of average loan portfolio	1.08	1.09	1.07	1.05	0.93
	Percentage of tier 1 capital after deductions:					
	Foreign exchange position as a percentage of tier 1 capital after deductions(**)	8.0	9.1	4.0	3.1	2.4

(*) The financial ratios have been calculated in accordance with the definitions of the Danish Financial Supervisory Authority.

(**) In March 2016, DLR received approval from the Danish FSA to use IRB models to determine the credit risk on the portfolio of loans to full-time farms, which has been incorporated in the figures for 2016, as opposed to the figures at year-end 2015-2012, which were solely based on the standard method.

Notes - other notes DKKm

Note		2016	2015
42	**Revenue**		
	As DLR exclusively carries on mortgage credit activities in Denmark (including the Faroe Islands and Greenland), all revenue is attributable to the Kingdom of Denmark:		
	Revenue	3,644	3,811
	Government grants received	0	0

43 Related parties

DLR has no related parties other than the Board of Directors and the Executive Board

44 Reconciliation of income statement "basic portfolio earnings" vs "official statements"

	Basic earnings	Portfolio earnings	Total
Interest income	3,242	224	3,466
Interest expenses	-1,765		-1,765
Net interest income	**1,477**	**224**	**1,701**
Dividends from shares etc.	0		0
Fee and commission income	159		159
Fees and commissions paid	-393		-393
Net interest and fee income	**1,243**	**224**	**1,468**
Value adjustments	0	-88	-88
Other operating income	18		18
Staff costs and administrative expenses	-230		-230
Depreciation and impairment losses	-3		-3
Other operating expenses	-15		-15
Impairment of loans and receivables, etc.	-110		-110
Profit before tax	**903**	**136**	**1,039**
Tax	-228		-228
Profit after tax	**675**	**136**	**811**

Note 45
Accounting policies

Basis of preparation

DLR's annual report was prepared in accordance with the provisions of the Danish FSA on financial reports of mortgage banks and the requirements of NASDAQ Copenhagen as regards the financial statements of issuers of listed bonds.

The accounting policies are unchanged from 2015.

Future sets of rules that may have an impact on the financial statements

International financial reporting standard IFRS 9, which concerns, inter alia, new rules for impairment of loans at amortised cost, is expected to become effective with effect from 1 January 2018.

Although DLR does not present its financial statements in accordance with IFRS, the Danish FSA's Executive Order on the Presentation of Financial Statements is expected to be adjusted in accordance with the rules of IFRS 9.

The new set of rules only deals with loans at amortised cost, which is why mortgage loans measured at fair value will not fall directly under the scope of these rules. However, the historical practice has been that the impairment principles for loans at amortised cost have been passed on to mortgage loans at fair value. Since considerable uncertainty remains regarding the impact on DLR of the new impairment rules, it has not been possible to prepare reliable impact analyses of the accounting effect of the implementation in the 2018 financial year.

Accounting estimates and judgments

The preparation of the financial statements involves the use of qualified accounting estimates. Such estimates and judgments are made by DLR's management in accordance with the accounting policies on the basis of historical experience and an assessment of future conditions. The accounting estimates and assumptions are tested and assessed regularly. The estimates and judgments are based on assumptions which management consider to be reasonable and realistic, but which are inherently uncertain.

The most significant estimates having an impact on the financial statements concern:

- Loans and advances at fair value
- Bonds at fair value
- Land and buildings, domicile properties
- Assets held temporarily

Loans and advances at fair value

Loans and advances at fair value are impaired to the extent there is objective evidence of impairment.

In respect of loans for which individual impairment is recognised, a material element in the determination of the impairment is an assessment of the value obtainable from the mortgaged assets in a forced sale. This valuation is an estimate that is made by in-house valuation experts whose subject area is property valuation.

In the impairment assessment of assets on a collective basis, a model-based approach is applied with adjustment by way of a management judgment. Accordingly, the estimates applied are subject to significant uncertainty. Moreover, reference is made to "Loans and advances and other receivables" below for further details on the method.

Bonds at fair value

Portfolios of liquid bonds are measured at fair value, which represent the market value of such bonds. Portfolios of bonds in small, illiquid series with no active trading are stated at an estimated price. Accordingly, this estimated price is based on a judgment and is consequently subject to a certain amount of uncertainty. See note 38 for further details.

Valuation of domicile properties and assets held temporarily

For the assessment of domicile properties as well as assets held temporarily, the valuation is based on valuations made by in-house valuers, which are subject to a certain amount of uncertainty.

Presentation, recognition and measurement in general

The figures in the financial statements are presented in whole millions of Danish kroner with no decimals, unless it is judged to be essential to provide decimals.

Total amounts in the financial statements are 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 to 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 the future economic benefits will flow to DLR, and if the value of the asset can be reliably measured.

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 the value of the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequent measurement takes place for each individual item as described below, 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 conditions existing at the balance sheet date.

Income is recognised in the income statement as earned, whereas costs are recognised in the amounts that relate to the financial year under review. Financial instruments are recognised on the settlement date. Changes in the fair value of purchased or sold instruments 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 income statement 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 date if calculation. The forward premium is accrued and recognised in the income statement under “Other interest income” and in the balance sheet under “Other assets” or “Other debt and payables, respectively. Adjustments to market value are recognised in the income statement under “Value adjustments” and in the balance sheet under “Other assets” or “Other debt and payables”, respectively.

Hedge accounting
Changes in 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 income statement together with changes in the value of the hedged asset or the hedged liability. Other changes are recognised in the income statement as financial income or expenses.

Foreign currency translation
On initial recognition, transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Receivables, payables and other monetary items in foreign currencies that have not been 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 recognised in the income statement as financial income or expenses.

Income statement

According to the Danish 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 geographic market, and consequently such information has been omitted.

Interest income and expenses

Interest income and expenses, including default interest and administration fees, are accrued to the effect that interest and fees incurred, but not yet due are recognised in the income statement. As far as payments to owners of additional tier 1 capital are concerned, such payments are included in the allocation of comprehensive income.

Fee and commission income

Loan application fees, other fees, brokerage and trading margin in connection with refinancing are recognised in the income statement on completion of the individual transaction.

Fees and commissions paid

Loan-provision commissions to financial institutions are recognised in the income statement when the transactions have been completed. Loss guarantee commissions to financial institutions are recognised in the income statement under the accruals basis of accounting. To the extent that DLR has a right to set off ascertained losses in the commissions for the individual financial institutions, this entails reduced commission payments from DLR to the individual financial institutions.

Value adjustments

Capital gains and losses on the securities portfolio are recognised in the income statement and include both realised and unrealised gains and losses.

Staff costs and administrative expenses

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

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

Impairment of loans, receivables, etc.

Impairment of loans comprises value adjustments of write-downs as a consequence of an 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 comprises:

- Tax on taxable income for the year
- Change in deferred tax
- Difference between prior-year estimated and paid tax

Tax is recognised in the income statement in respect of the share attributable to the profit for the year and in other comprehensive income in respect of the share attributable to other comprehensive income.

Current tax payable and current tax receivable is recognised in the balance sheet as tax calculated on the taxable income for the year adjusted for prepaid tax. Interest surcharges under the Tax Prepayment Scheme are recognised 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 and 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 assessed whether it is probable that sufficient future taxable income will be available against which the deferred tax 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 at fair value on initial recognition. Subsequent measurement is made 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 need for impairment write-downs.

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 impairment losses.

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

Collective impairment charges are determined applying a model based on a fundamental analysis of developments in a number of different 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 subgroup categories of full-time farms and residential farms, respectively. In respect of other properties than farms, DLR has not had adequate statistical data, and consequently the collective impairment charges have been determined in relative proportion to provisions on the agricultural portfolio. Management makes additional corrections to the extent the model is considered not to reflect to a sufficient extent new, material information that could have an impact on the need for impairment charges.

Claims previously written off that are expected to provide future economic benefits are recognised in the balance sheet and value adjustments are recognised in the income statement. DLR is not deemed to hold such claims at present.

Bonds at fair value

Bonds traded in active markets are measured at fair value. 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 set off against "Issued bonds" under liabilities in the balance sheet.

Shares, etc.

Shares traded in active markets are measured at fair value.

Unlisted shares are recognised at fair value. Where the fair value cannot be reliably measured, 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 recognised at 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 at fair value on the balance sheet date.

Subsequent costs are recognised in the carrying amount of the asset in question or may be recognised as a separate asset, if it is probable that the costs incurred will result in future economic benefits to the company, and the costs can be reliably measured. Costs of ordinary repair and maintenance are recognised in the income statement when incurred.

Positive value adjustments of own properties are recognised in the revaluation reserve under equity. Losses are recognised in the income statement, unless the loss offsets an increase in value that was previously added to the revaluation reserve.

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

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

Assets held temporarily
Assets held temporarily are measured at the lower of the carrying amount and fair value less costs of sale.

The item comprises properties foreclosed by DLR as part of measures to mitigate losses. DLR's strategy and expectation is to hold such properties temporarily.

Other assets
"Other assets" include interest receivables, other receivables and payables 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 for 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.

Issued bonds at fair value
Mortgage bonds issued are measured at fair value. For bonds that are not traded actively, a calculated market price is used.

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

Other debt and payables
"Other debt and payables" include interest payable, other payables and 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 DLR was converted into a limited liability company on 1 January 2001, an undistributable reserve was established, which corresponded to the value of the contributed equity.

The undistributable reserve is 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 must be used to further agricultural purposes according to a resolution adopted by the shareholders in general meeting.

DLR Kredit's portfolio of treasury shares is recognised in equity, having the effect that the purchase of treasury shares reduces equity.

Where the maturity is indefinite, or where contributions are non-callable by the creditor, and where the issuer may at its own discretion choose to abstain from paying coupon, additional tier 1 capital is classified as equity.

Pursuant to the Danish FSA's 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 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.

The distribution of profit adopted by the Board of Directors of DLR Kredit A/S has been included in the series financial statements. The calculated share of the profit for the year of DLR Kredit A/S attributable to the series determined in accordance with the executive order has been taken to the mortgage bank's general reserve.

The series financial statements have been printed at association level. See section 30(3) of the executive order.

Complete series financial statements are available from DLR Kredit A/S.

Series financial statements DKKm

	B-SDO	DLR in general	Total
Income statement			
Administration and reserve fund contributions	1,314	147	1,462
Front-end fees	36	0	36
Interest, subordinated debt and guarantee capital	0	0	0
Interest etc.	206	22	229
Value adjustment of securities and foreign exchange	-80	-9	-88
Administrative expenses	-441	-47	-488
Write-offs and provisions on loans	-100	-11	-110
Tax	-206	-23	-228
Profit	**731**	**80**	**811**

Balance sheet			
Assets			
Mortgage loans	126,796	12,663	139,460
Arrears on mortgage loans before impairment	151	16	168
Provisions for loans and arrears	-515	-80	-595
Prepayments	16	1	18
Other assets, including reserve fund loans	38,571	1,983	40,553
Total assets	**165,020**	**14,584**	**179,603**

Liabilities and equity			
Issued bonds etc.	144,467	13,473	157,940
Deferred income	243	23	266
Other debt and payables	9,225	-87	9,138
Subordinated debt	0	0	0
Equity	11,085	1,174	12,259
Total liabilities and equity	**165,020**	**14,584**	**179,603**

Addition or deduction of funds (net)	**0**	**0**	**0**

Balance sheet total in the series financial statements	
Balance sheet toal according to DLR Kredit's annual report	155,737
Set-off of own mortgage bonds	23,866
Set-off of interest receivable on own bonds etc.	0
Balance sheet total in DLR Kredit's series financial statements	**179,603**

MANAGEMENT'S STATEMENT ON THE ANNUAL REPORT

The Board of Directors and the Executive Board today considered and approved the annual report of DLR Kredit A/S for the financial year 1 January – 31 December 2016.

DLR's 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 additional disclosure requirements provided by NASDAQ Copenhagen for the financial statements 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 2016 as well as of the results of the company's operations for the financial year ended 1 January – 31 December 2016.

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 uncertainties that may affect the company.

The annual report is recommended for adoption at the annual general meeting.

Copenhagen, 23 February 2017

Executive Board

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

Board of Directors

Vagn Hansen Chairman	Anders Dam Deputy Chairman	
Claus Andersen	Claus Andreasen	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

Opinion

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 2016 and of the results of the company's operations for the financial year ended 1 January – 31 December 2016 in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

Furthermore, in our opinion, the company's risk management, compliance, business procedures and internal controls for all critical audit areas are planned and function in a proper manner.

Basis of opinion

We have audited the annual report of DLR Kredit A/S for the financial year 1 January – 31 December 2016. The financial statements are prepared in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

We conducted our audit on the basis of the Danish Financial Supervisory Authority's Executive Order on Auditing Financial Enterprises etc. as well as Financial Groups and in accordance with international auditing standards with respect to the planning and performance of the audit work.

We have reviewed the company's risk management, compliance function, business procedures and internal controls in all critical audit areas.

We planned and performed our audit to obtain reasonable assurance that the financial statements are free from material misstatement. We participated in auditing all the critical audit areas.

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

Statement on management's review

Management is responsible for the management's review.

Our opinion on the financial statements does not cover the management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management's review is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management's review.

Copenhagen, 23 February 2017
Internal Audit

Brian Hansen
Chief Internal Auditor

To the shareholders of DLR Kredit A/S

Opinion

We have audited the financial statements of DLR Kredit A/S for the financial year 1 January to 31 December 2016, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of its operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Company in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in

Key audit matters	How the matters were addressed in the audit
Loan impairment losses Determining impairment losses on loans is subject to significant uncertainty and is highly based on management judgement. Due to the significance of such management judgement and the loan volumes of the Company, the audit of impairment losses on loans and thus assessments related to the quantification of the risk that debtors may not fulfill all future payments is a key audit matter. The Company's loans amount to DKK 139,052m DKK at 31 December 2016, and impairment losses thereon amount to DKK 601m in 2016. The principles for determining the impairment losses are described in the summary of accounting policies, and Management has further described the management of credit risks and the review for impairment in notes 30-33. In 2016, loans to agriculture, especially pig and dairy agriculture and fur farming, required special audit attention due to the crisis in agriculture. The most significant judgements requiring special audit attention are: • Assessment of whether loans are impaired • Valuation of security which forms part of the determination of impairment losses • Management estimates	Our audit comprised a review of relevant business procedures, test of controls and analysis of the amount of impairment losses. Furthermore, our audit procedures included: • Reviewing and assessing the Company's overall procedures for monitoring the risk of loan losses, including special focus on the credit monitoring function • Testing of the Company's internal controls for identification of loans that have objective indications of a loss risk • Challenging the procedures and methodologies applied for the areas involving the highest level of management judgement by using our industry knowledge and experience in the sectors, including a review of changes compared to the previous year • Assessing the changes in the assumptions for the areas requiring the highest level of management judgement against sector trends and historical observations • Performing a risk-based test of exposures to ensure timely identification of impairment of loans and for impaired loans to ensure appropriate impairment charging. In this connection, we focused particularly on agriculture, especially pig and dairy agriculture and fur farming • Challenging management estimates with special focus on management consistency and bias, including special focus on documentation of the adequacy of management estimates related to the sectors in general. Based on the work we have performed, we did not identify any material differences, and our assessment is that management assumptions for accounting estimates are at an acceptable level.

our audit of the financial statements for the financial year 1 January to 31 December 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the management commentary.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and the additional requirements applicable in Denmark will always detect a material misstatement when it exits. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with International Standards on Auditing and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in the preparation of the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 23 February 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Henrik Wellejus
State-Authorised Public Accountant

Thomas Hjortkjær Petersen
State-Authorised Public Accountant

SHAREHOLDERS IN DLR KREDIT A/S

Year-end 2016

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 A/S
BankNordik
Borbjerg Sparekasse
Broager Sparekasse
Danske Andelskassers Bank A/S
Den Jyske Sparekasse
Djurslands Bank A/S
DLR Kredit A/S
Dragsholm Sparekasse
Dronninglund Sparekasse
Fanø Sparekasse
Faster Andelskasse
Flemløse Sparekasse
Folkesparekassen
Frørup Andelskasse
Frøs Sparekasse
Frøslev-Mollerup Sparekasse
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 A/S
Rise Sparekasse
Rønde Sparekasse
Salling Bank A/S
Saxo Privatbank A/S
Spar Nord Bank A/S
Sparekassen Balling
Sparekassen Bredebro
Sparekassen Den lille Bikube
Sparekassen Djursland
Sparekassen for Nr. Nebel og Omegn
Sparekassen Kronjylland
Sparekassen Sjælland-Fyn 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