ANNUAL REPORT 2017

2017

© 2017 DLR KREDIT A/S | NYROPSGADE 21 | 1780 KØBENHAVN V | TLF. 70 10 00 90 | FAX 33 93 95 00 | WWW.DLR.DK | DLR@DLR.DK | CVR NR. 25781309

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Preface

DLR Kredit A/S[1] is a Danish mortgage credit institution owned by 58 local and national banks that collaborate with DLR and by Nykredit Realkredit A/S and PRAS A/S. DLR has no branch offices, as loans are distributed through the branch networks of DLR's shareholder (owner) banks.

DLR grants loans against mortgages on real property in Denmark to finance agricultural property - including residential farms - and other commercial properties and cooperative housing. Since 2002, DLR has also been granting loans in Greenland and since 2009 the Faroe Islands.

DLR's net lending totalled DKK 3bn in 2017 and at the end of 2017 DLR's loan portfolio amounted to a nominal DKK 141bn. Around two-thirds of the portfolio consists of agricultural properties together with residential farms and owner-occupied dwellings, while one-third comprises commercial and cooperative housing properties

DLR's main risk by far is credit risk, i.e. the risk that a borrower is unable to make the payments due on the loan to DLR. Credit risk is limited by both collateral in the form of DLR's mortgage on the property and by the guarantee and loss-mitigating agreements DLR has with its loan-distributing shareholder banks

DLR's net profit after paying interest to the owners of hybrid core capital and supplementary capital was DKK 824m, all of which was added to DLR's reserves. DLR's capital base was also affected by the sale of treasury shares and by an adjustment of its capital structure that has increased the proportion of core equity tier 1 capital. Developments in DLR's earnings and capital resulted in DLR's total capital ratio increasing to 15.9 at the end of 2017.

[1] Hereafter DLR

Financial highlights and key figures

Income statement, DKKm	2017	2016	2015	2014	2013
Administration margin income	1,508	1,462	1,440	1,411	1,403
Other core income, net	91	84	87	71	70
Interest expenses, subordinated debt	-6	0	-4	-45	-310
Interest expenses, senior debt (SSB)	-42	-50	-66	-95	-83
Fee and commission income, net	-257	-282	-251	-192	-244
Core Income	**1,293**	**1,213**	**1,206**	**1.150**	**836**
Staff costs and administrative expenses, etc.	-255	-233	-219	-214	-209
Other operating costs (Resolution Fund)	-12	-15	-6	0	0
Provision for impair. on loans and receivables, etc.	94	-62	-60	-171	-90
Core earnings	1,121	903	921	765	538
Portfolio earnings (securities)	6	136	-45	168	92
Profit before tax	**1,126**	**1,039**	**875**	**933**	**629**
Net profit for the year	**880**	**811**	**670**	**703**	**471**

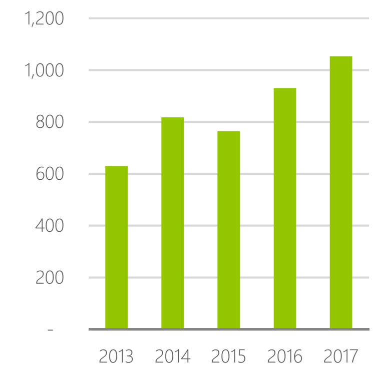
Balance Sheet at 31 December	2017	2016	2015	2014	2013
Assets:					
Mortgage loans	143,061	139,053	133,038	133,219	133,910
Bonds and shares, etc	11,855	13,683	12,033	9,234	8,874
Other assets	8,458	3,002	3,371	15,185	4,110
Total assets	**163,375**	**155,737**	**148,442**	**157,637**	**146,894**
Liabilities and equity:					
Issued mortgage bonds	148,972	142,074	134,342	141,324	131,438
Other liabilities	1,338	1,404	1,596	3,638	2,395
Subordinated debt	650	0	0	755	3,078
Equity	12,415	12,259	12,503	11,919	9,984
Total liabilities	163,375	155,737	148,442	157,637	146,894

Financial ratios and key figures *	2017	2016	2015	2014	2013
Profit before tax as pc of equity	9.13	8.4	7.2	8.5	6.6
Profit after tax as pc of equity	7.13	6.5	5.5	6.4	5.0
Costs as pc of loan portfolio	0.19	0.18	0.16	0.16	0.16
Total capital ratio	15.9	14.3	12.9	12.3	12.3
Common equity tier 1 capital ratio	15.1	12.7	11.5	10.4	9.8
Capital base (DKKm)	12,372	11,560	12,485	12,521	13,062
Risk-weighted exposure amount (DKKm)	77,872	80,674	97,032	102,092	105,774
Growth in loan portfolio pc (nominal)	2.3	3.8	0.6	-0.9	-0.9
Gross new lending (DKKm)	35,214	23,118	23,469	33,181	11,340
Admin. margin income as pc of average loan port.	1.08	1.08	1.09	1.07	1.05

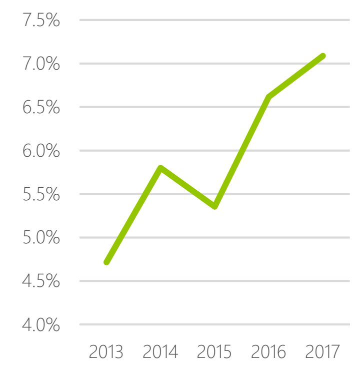
Overview figures

Profit before tax (DKKm)

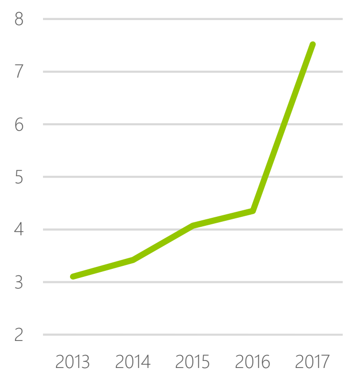
-After interest on hybrid core capital



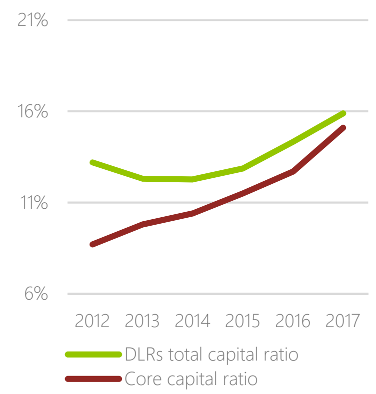
Profit after tax as pc of equity



Income/cost ratio



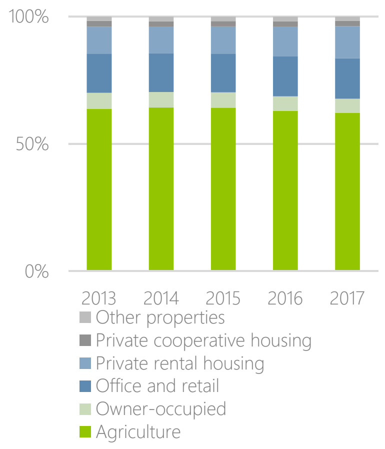
Capital ratio



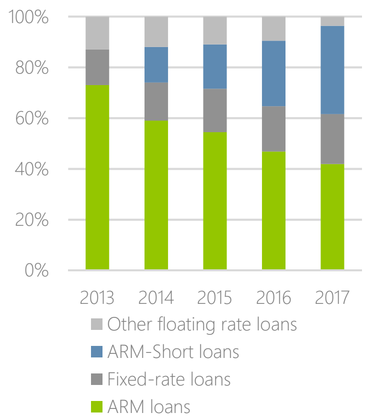
Arrears ratio (pc of term payments)

Loan/equity ratio

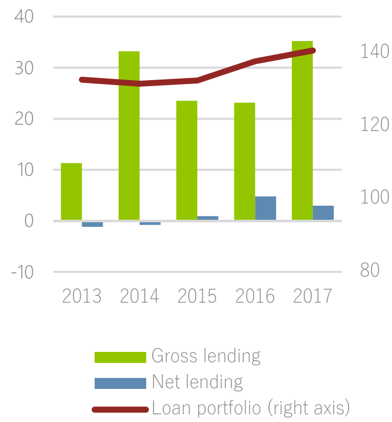
Loan portfolio by property category



Loan portfolio by loan type



Lending activity (DKKbn)



FINANCIAL REVIEW

Summary

- DLR Kredit A/S's core income amounted to DKK 1,293m, an increase of DKK 80m compared to 2016
- Impairments on loans and receivables (operational impact) amounted to an income of DKK 94m compared to an expense of DKK 62m in 2016
- Portfolio earnings amounted to DKK 6m, which is a decline of DKK 130m compared to 2016
- DLR's pre-tax profit of DKK 1,126m was up DKK 87m compared to 2016
- After paying tax and the owners of hybrid core capital, DKK 824m was added to DLR's equity capital
- DLR paid back DKK 1,300m in hybrid core capital in 2017, but issued supplementary capital of DKK 650m and sold treasury shares for DKK 632m. The net effect of these transactions has thus been a slight fall in DLR's capital base of DKK 18m and an increased share of core equity tier 1 (CET 1) capital.
- DLR's net lending to agricultural and business customers, etc. amounted to DKK 3bn

Chief executive officer statement

DLR Kredit A/S's Chief Executive Officer Jens Kr. A. Møller states in connection with the release of the Annual Report 2017:

"DLR's pre-tax profit for 2017 of DKK 1,126m is satisfactory and exceeds expectations.

Also satisfactory was DLR's loan portfolio again expanding in 2017 by a nominal DKK 3bn. The enlarged loan portfolio will have a positive impact on earnings going forward.

Losses and impairments had a positive operational impact of DKK 94m, mainly due to the improved situation for the agricultural industry in 2017.

DLR's capital base increased in 2017 by DKK 812m, while total risk exposure fell by DKK 2.8bn. Overall, this means DLR is well positioned to meet future capital requirements."

Comments on the 2017 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)	2017	2016	Index 17/16
Administration margin income	1,508	1,462	103%
Other core income, net	91	84	109%
Interest expenses, subordinated debt	-6	0	
Interest expenses, senior debt (SSB)	-42	-50	84%
Fee and commission income, net	-257	-282	91%
Core income (mortgage lending income)	**1,293**	**1,213**	**107%**
Staff costs and administrative expenses, etc.	-255	-233	109%
Other operating costs	-12	-15	82%
Provision for impairments on loans and receivables, etc.	94	-62	
Core earnings	**1,121**	**903**	**124%**
Portfolio earnings (securities)	6	136	4%
Profit before tax	**1,126**	**1,039**	**108%**
Net profit for the year	**880**	**811**	**109%**

Core earnings

Administration margin income amounted to DKK 1,508, which is DKK 46m up on 2016. The increase is due to a larger loan portfolio, as the average administration margin has remained unchanged.

Other core income includes income from loan origination commissions, fees from administration agreements with other financial institutions and interest on arrears. This income amounted to DKK 91m in 2017, which is a little higher than in 2016.

Interest expenses on senior debt amounted to DKK 42m, which is below the 2016 level. While senior debt issuance increased, this was more than offset by a lower average interest rate in 2017. Combined, these two opposing trends resulted in a decline in interest expenses of DKK 8m.

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 257m compared to an expense of DKK 282m in 2016.

Core income was subsequently DKK 1,293m, an increase of DKK 80m on 2016.

Staff and administration, etc. expenses amounted to DKK 255m, which is DKK 22m up on 2016.

The post "Other operating expense" concerns DLR's contribution to the Resolution fund, which in 2017 amounted to DKK 12m compared to DKK 15m in 2016.

Losses and impairments on loans and receivables, including adjustments from previous years, were calculated as an income of DKK 94m compared to an expense of DKK 62m in 2016. This was due, in particular, to a net reduction in impairments (allowance account) of DKK 77m, prompted by the better economic conditions prevailing in parts of the agricultural industry in 2017.

The fall in impairments is due to a combination of individual impairments being reduced by DKK 133m, while collective impairments were increased by DKK 56m.

Portfolio earnings

Portfolio earnings represent an income of DKK 6m compared to an income of DKK 136m in 2016.

The bulk of DLRs investment portfolio has been placed in mortgage bonds with a short duration, which given current yield levels resulted in a negative return. The remainder of DLR's investment portfolio, which has been placed in bonds with a longer duration, generated a positive return. Falling yields have also had a positive effect on portfolio earnings.

DLR's investment portfolio (securities excl. temporary surplus liquidity) amounted to DKK 23bn at the end of 2017.

Allocation of net profit for the year

The year's net profit (profit after tax) was DKK 880m, of which DKK 72m was paid to the owners of hybrid core capital. As this expense is tax-deductible, DLR's net expense was DKK 56m. Overall, this means DKK 824m has been added to DLR's equity capital.

Balance sheet

Mortgage credit lending amounted to DKK 143bn (fair value) at the end of 2017.

Bond holdings amounted to DKK 42bn, of which the portfolio of DLR bonds amounted to

DKK 30bn, which is netted in “Issued bonds at fair value”, while DKK 12bn was attributable to positions in government securities and other mortgage bonds.

As well as the bond holding of DKK 42bn, DLR held other securities for DKK 8bn; hence, the total securities holding amounted to DKK 50bn (gross) at the end of 2017.

Temporary surplus liquidity in connection with mortgage lending activity comprised DKK 27bn, so the investment holding was therefore DKK 23bn.

DLR’s balance sheet stood at DKK 163.4bn at year-end 2017, which is DKK 7.6bn higher than at year-end 2016.

Special factors – collective impairments

A number of changes to the Executive Order on Financial Reporting came into force on 1 January 2018. The changes are a consequence of the implementation of IFRS 9, which mainly concerns the valuation of loans at amortised cost price. The changes mean the adjustment of credit risk, which was previously based on realised events (objective evidence of impairment), will in future be based on an expected loss model.

DLR measures loans at fair value, but to a large extent uses the same principles as apply to loans at amortised cost price. Hence, the method for calculating the fair value of loans has been changed so that going forward credit risk will be regulated according to an expected loss model, cf. the Executive Order on Financial Reporting.

The change is considered an alteration to the estimate for accounting purposes that forms the basis for calculating the value of the mortgage loan. As DLR at the end of 2017 had a reliable foundation for calculating the estimate, this is included in the 2017 accounts. The impact of the transition to the new model on DLR’s financial results amounts to DKK 97m, which in the annual accounts is included under the item “Impairments on loans and receivables”.

Capital base

DLR’s capital base increased by DKK 812m in 2017.

The increase is mainly due to the net profit of DKK 824m, which was added to DLR’s reserves in its entirety.

DLR’s total capital ratio was 15.9 at year-end 2017, while DLR’s common equity tier 1 capital ratio was 15.1.

The risk-weighted exposure amount for credit risk was, moreover, reduced from DKK 75.3bn at the end of 2016 to DKK 71.8bn at the end of 2017. This was essentially due to improved conditions for the agricultural sector in 2017 and hence an improvement in the loan portfolio's creditworthiness.

In Q3 2017, DLR redeemed the DKK 1,300m in hybrid core capital it issued in 2012 and at the same time issued DKK 650m in new supplementary capital. The transactions should be seen against DLR's capital base being strengthened in H1 2017 through the sale of treasury shares at a market value of DKK 632m. DLR's solvency situation is therefore in reality unaffected by the redemption of the hybrid core capital, while the level of CET 1 capital has been strengthened.

At year-end 2017, DLR's capital base was composed solely of core capital and supplementary capital. Supplementary capital (tier 2) accounted for DKK 650m, and in total the capital base amounted to DKK 12.4bn at year-end 2017 compared to DKK 11.6bn at year-end 2016.

Table 2 - DLR's capital ratios	2017	2016
Common equity tier 1 capital ratio	15.1	12.7
Total capital ratio	15.9	14.3
Total risk exposure amount (DKKbn)	77.9	81.0

Arrears and forced sales

DLR collected mortgage payments of DKK 5.5bn in 2017.

As of year-end 2017, outstanding mortgage payments amounted to DKK 101m versus DKK 124m the year before. Of the amount in arrears, the bulk stems from mortgage payments that are less than 3½ months overdue.

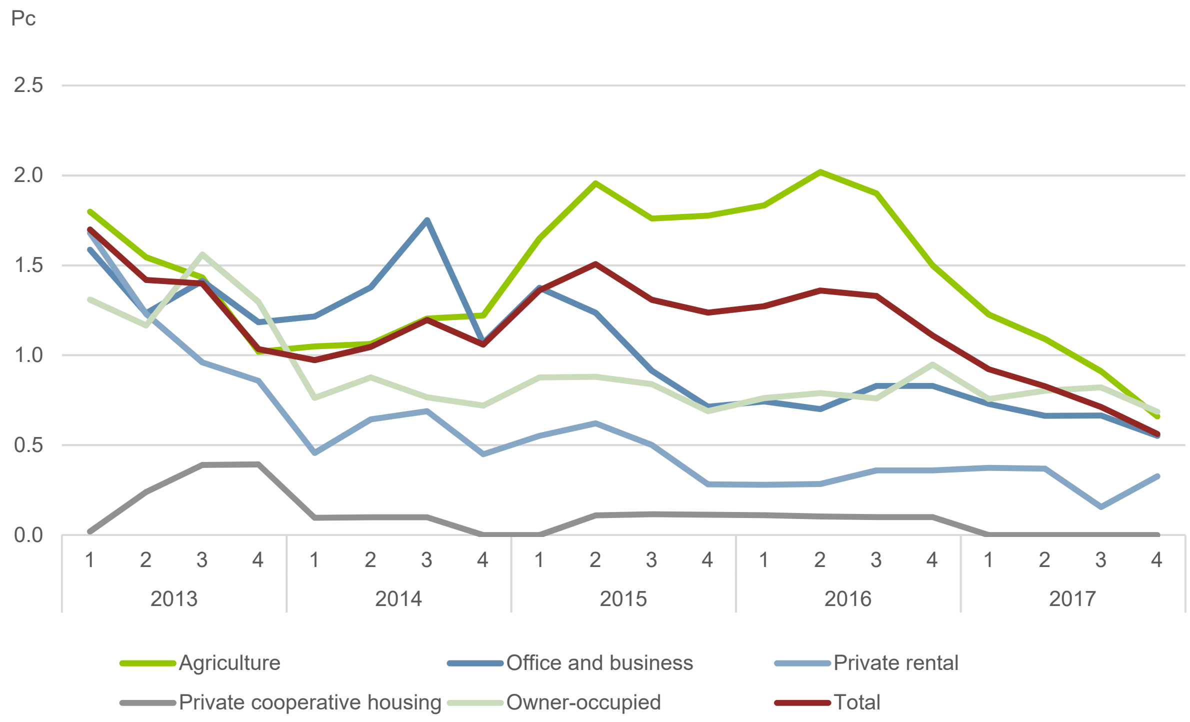
The number of completed forced sales of properties in which DLR holds a mortgage was 64 in 2017. Of these, DLR took possession of 26 properties. The equivalent figures in 2016 were 110 and 42. DLR's stock of repossessed properties was 14 at year-end 2017 versus 27 at year-end 2016. The value of the repossessed properties was estimated at DKK 35m at year-end 2017.

In 2017, DLR recorded a loss on 4 properties that were taken over by other parties than DLR at auction, plus DLR has participated in 48 voluntary sales agreements, etc. that resulted in a loss.

All in all, DLR recorded a loss on 74 properties in 2017 compared to 103 properties in 2016.

In addition, the loan distributing banks have in connection with voluntary sales/forced sales redeemed DLR loans or covered losses that would otherwise be offset in commission payments.

Figure 1 - DLR's 3.5-month arrears ratio



Q4 2017

Pre-tax profit in Q4 2017 was DKK 228m compared to DKK 317m in Q3 2017.

Q4's result was positively affected by increased spread income stemming from the refinancing of ARM loans. Negative portfolio earnings and increased collective impairments had a negative impact on Q4's result.

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 2018

DLR's business primarily comprises lending to the agricultural and business sectors.

Agriculture

After a few years of very low settlement prices, the key pig and dairy production segments realised very satisfactory earnings in 2017. We expect earnings to decline in 2018 on the back of lower settlement prices for pork and milk, in part due to a significant increase in global production. Moreover, a number of producers remain financially challenged due to very high levels of debt.

Business

Danish economic growth, which was initially concentrated around the larger urban centres, has spread to other areas of the country. This has a positive significance for DLR's customer segments in our business portfolio.

Earnings outlook

DLR expects core earnings in 2018 in the order of DKK 800 – 900m and pre-tax profit of around DKK 700 – 800m, as in contrast to the 2017 financial year there is no expectation for a net reversal of impairments.

Interest rate developments and hence portfolio earnings could potentially have a relatively large significance for DLR's overall result.

We expect net lending to be positive and thus the loan portfolio to grow.

CAPITAL POSITION

Capital requirements

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

DLR's capital management has for several years centred on a long-term capital model focused on complying with future requirements for altered capital structures and the regular phasing in of buffer requirements, etc. DLR's capital model is continually adjusted to take into account lending growth, capital initiatives, earnings and regulatory changes, etc.

Table 3 – Capital and solvency

(DKKm)	2017	2016
Equity	**12,415**	**12,259**
Hybrid core capital included in equity	0	-1,300
Deduction due to prudent valuation	-26	-22
Difference between expected losses and impairments for accounting purposes	-667	-676
Deferred tax	0	-1
Common equity tier 1 capital	**11,722**	**10,260**
Hybrid core capital	0	1,300
Supplementary capital	650	0
Capital base	**12,372**	**11,560**
Risk-weighted exposure with credit risk, etc.	71,804	75,327
Risk-weighted exposure with market risk	3,667	2,892
Risk-weighted exposure with operational risk	2,401	2,456
Risk-weighted exposure, total	**77,872**	**80,674**
Common equity tier 1 capital ratio	**15,1%**	**12.7%**
Total capital ratio	**15.9%**	**14.3%**

Capital planning and capital targets

DLR's capital planning takes into account both the regulatory requirements and the Board of Director's targets for DLR's capital base. The target for DLR's total capital ratio is 14.7 pc in 2018, rising to 15.5 pc in 2019 as the capital preservation and SIFI buffers are gradually phased in. The target has also been set assuming the Pillar II add-on and the contra-cyclical buffer are maintained at current levels. Should there be an increase in the contra-cyclical capital buffer, there will likewise be an increase in DLR's capital target.

The capital model also incorporates the need for sufficient funds to secure the SDO status of issued bonds, the OC requirement in connection with ratings and the requirement to accumulate a debt buffer.

DLR's capital base has been regularly adjusted, for example in accordance with the capital model. Adjustments have included equity issues, the issuance and redemption of hybrid core capital and the issuance of supplementary capital. DLR has also made regular issues of Senior Secured Bonds (SSB) and Senior Resolution Notes (SRN) to ensure sufficient funds for posting supplementary collateral and for complying with debt buffer requirements.

DLR sold treasury shares to existing DLR shareholders for DKK 632m in 2017. In addition, DLR has redeemed DKK 1,300m in hybrid core capital and at the same time issued DKK 650m in supplementary capital.

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

Given its current capital base and earnings forecasts, DLR expects to be in a position to comply with the gradually increasing capital requirements.

Liquidity regulations

According to the LCR requirement, the proportion of high quality liquid assets shall at all times exceed the net liquidity outflow for the next 30 days. Due to its SIFI (systemically important financial institution) status, DLR has had to comply 100 pc with the LCR requirement from 1 October 2015. The requirement must be complied with in all currencies where an institution has more than 5 pc of its total liabilities. DLR must therefore also comply with the requirement in euro (EUR).

Like the other Danish mortgage credit institutions, DLR has been 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 floor requirement can be met without taking into consideration that level 1B covered bonds may at most account for 70 pc of the liquid assets.

At the end of 2017, DLR had an LCR excluding the floor requirement of 958% and an LCR including the floor requirement of 281%.

In November 2016, the EU Commission presented a proposal for an NSFR requirement (Net Stable Funding Ratio).

EU negotiations on the final form of the NSFR are still ongoing. NSFR aims to help ensure the institution has 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 ongoing negotiations on NSFR include a determination of "interdependent assets and liabilities" that acknowledges the Danish refinancing legislation, which has rules on extending existing bonds where refinancing is not possible. This means there will generally not be any NSFR requirement for Danish mortgage credit loans and the issued covered bonds if the proposal is, as expected, approved in this form.

The NSFR proposal is expected to be approved in 2018.

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 (Recovery plan) and an external resolution plan to be drawn up by the competent authorities (Resolution plan).

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 mortgage credit institutions were required to establish a debt buffer of 2 pc of the institution's total unweighted lending. The requirement was introduced at the same time as the mortgage credit institutions were exempted from bail-in measures potentially being employed in connection with the resolution/restructuring of a mortgage credit institution. Mortgage credit institutions were also exempted 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 to amount to just over DKK 3bn and will 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.

In 2017, DLR issued Senior Resolution Notes (SRN) to cover the debt buffer requirement. SRN is a relatively new type of senior debt that in a resolution situation can be written down or converted to equities. SRN can be included in S&P's estimate of an institution's Additional Loss-Absorbing Capacity (ALAC) and can thus provide an uplift to the institution's rating. Hence, DLR had its institutional rating raised by one notch after announcing the planned issuance of up to DKK 4bn in SRN to comply with the debt buffer requirement going forward to 2019.

DLR issued DKK 2bn, in all, in Senior Resolution Notes (SRN) in June and September 2017, and has thus as of year-end 2017 issued papers totalling DKK 3bn to meet the debt buffer requirement.

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 the first SIFI designations were announced in 2014. 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 7.6 pc of Denmark's GDP.

Denmark's Ministry of Industry, Business and Financial Affairs published an evaluation of the SIFI rules in Denmark on 19 December 2017. The Ministry found it appropriate to adjust the level for deposits to 3 pc. This has no significance for DLR.

Alongside the designation as a SIFI follows a special SIFI buffer requirement for DLR's capital, which is based on an estimate of how systemic DLR is. The requirement has been set at 1 percentage point of DLR's total risk exposure amount. The requirement is being phased in gradually by 0.2 percentage points annually between 2015 and 2019 and thus amounts to 0.8 percentage points in 2018. 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 4).

DLR has in recent years been working to comply 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.

DLR met the Supervisory Diamond's criteria at the end of Q4 2017.

Table 4. DLR's compliance with the Supervisory Diamond

Supervisory Diamond for Mortgage credit institutions	End-Q4 2017	End-Q3 2017	Danish FSA limits
Lending growth: (current quarter)			
Owner-occupied	0.3%	0.5%	<15%
Private residential rental	8.5%	9.8%	<15%
Agriculture	1.1%	1.5%	<15%
Other commercial	2.5%	2.9%	<15%
2. Borrowers interest rate risk:	21.7%	22.8%	<25%
Interest-only loans to private individuals:	3.2%	3.5%	<10%
Loans with short-term funding: quarterly			
Q4 2016	7.4%		<12.5%
Q4 2017	5.4%		<12.5%
Q4 2017	0.0%		<12.5%
Q4 2017	4.7%		<12.5%
Q4 2017	9.3%		<12.5%
Loans with short-term funding: annually	19.6%	17.5%	<25%
5. Major exposures	28.1%	27.4%	<100%

OWNERSHIP AND CAPITAL STRUCTURE

Redistribution of shares

DLR's share capital has amounted to 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 2017 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 2017 was based on the outstanding bond debt at year-end 2016, with a nominal roughly DKK 2.8m in shares being redistributed. DLR sold shares for a nominal approximately DKK 1.1m to its circle of shareholders in connection with the redistribution.

Supplementary capital

DLR's capital base consists of equity capital, retained earnings, non-distributable reserves and supplementary tier 2 capital.

DLR currently has one issue of supplementary capital comprising DKK 650m. This issuance was made in August 2017 to PRAS A/S and meets the relevant requirements of the CRR directive.

Owners and share of ownership

At year-end 2017 DLR had 60 shareholders. The number of shareholders has been falling since DLR became a limited company in 2001. 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 (Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) and Landsdækkende Banker (National Banks in Denmark) plus Jyske Bank, who own 41 pc, 22 pc and 16 pc, respectively, of DLR's equity capital. In addition, PRAS A/S, whose shareholders are essentially the banks behind Lokale Pengeinstitutter and Landsdækkende Banker, holds 7 pc of DLR's equity capital, while other financial firms hold 13 pc of the equity. The above does not include DLR's 3.8 pc holding of treasury shares.

DLR’S KEY LENDING AREAS

Agricultural Sector

Significant price increases from mid-2016 on port products and not least weaner pigs, which are exported to Germany, together with rising milk prices from the latter half of 2016 have resulted in considerably improved earnings for dairy and pig producers in 2017 compared with immediately preceding years.

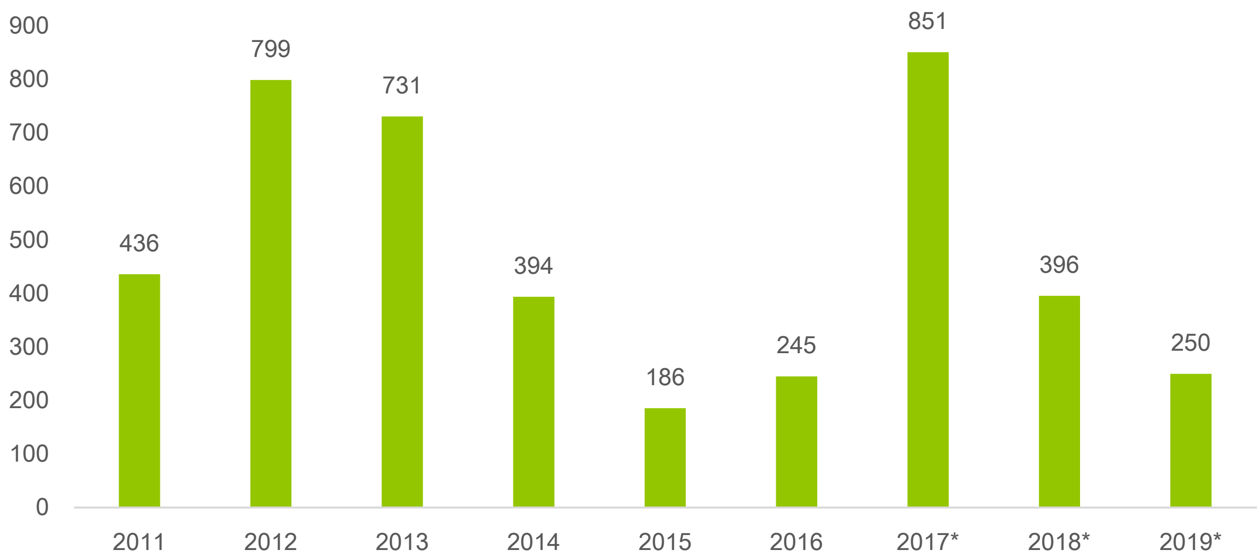
Growth in operating profit up to 2016 together with our forecast going forward to 2018 for full-time farms is shown in figure 2. Note that the forecast for 2017 is largely based on already known prices.

The considerably improved earnings in 2017 follow a number of years with weak financial results. This positive trend has increased the farmers’ options for reducing debt and has contributed to the further development of Danish agriculture.

The latest income forecasts from SEGES indicate that improved earnings will be replaced by a deterioration in terms of trade as early as 2018 and 2019. The less rosy economic outlook for the coming years increases the need to be aware of operations that after several years of weak earnings have a debt burden that exceeds what the operation can realistically service. Focus is needed in the coming years on finding suitable solutions both for these operations and for farms where the owner, due to his/her age, wishes to leave the industry.

We should note, however, that within all segments of the agricultural sector there are substantial differences in the results each farmer can achieve from apparently very similar operations. Hence, there are many farmers who even during periods of relatively poor prices are capable of realising a level of earnings that allows for the further development of their operation.

Figure 2 - Operating profit before owner remuneration for all full-time farms (DKK 1,000)



Source: SEGES income forecast, January 2018

*) Forecast

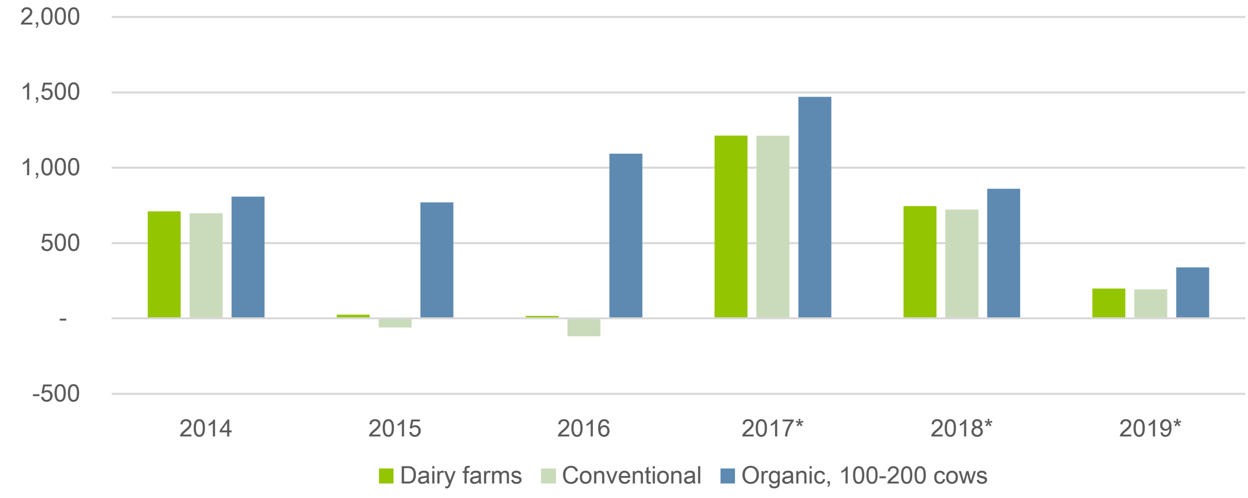
Dairy producers

A forecast for developments in the operating profits of dairy producers is shown in figure 3. As can be seen, the outlook is for a satisfactory result in 2017 on the back of the relatively high milk price.

The increase in the price of milk was mainly due to generally rising demand for butter and cheese. A further contributory factor has been a growing interest in China for importing dairy products.

Going forward, considerable volatility in milk prices should be expected, in part due to the discontinuation of the EU's milk quota system in 2015, which could again put pressure on operating profits. This has been confirmed by recent market developments and updated forecasts for prices and earnings.

Figure 3 - Operating profit before owner remuneration, dairy producers (DKK 1,000)



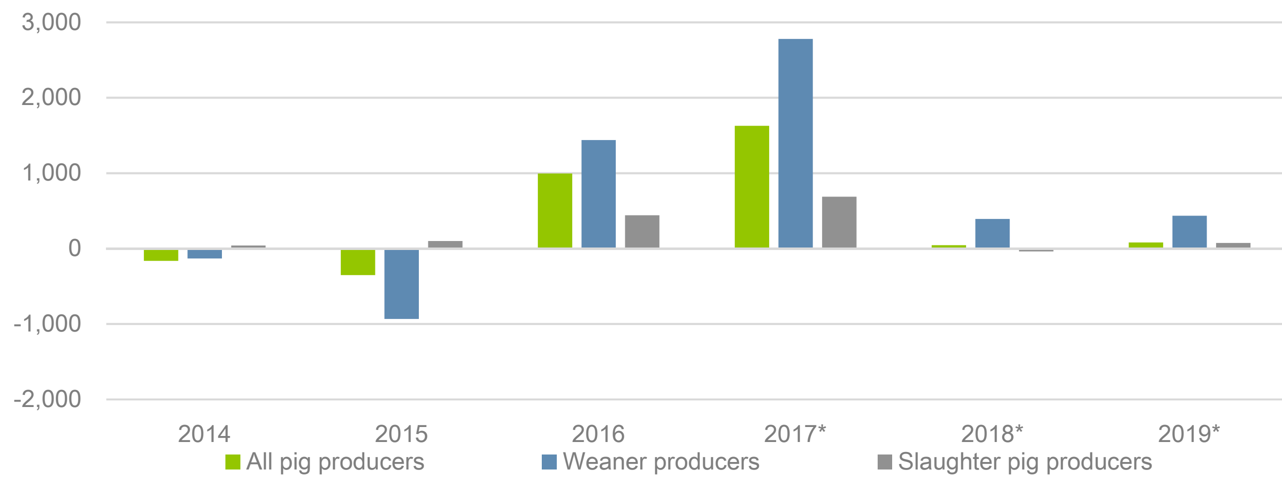
Source: SEGES income forecast, January 2018

*) Forecast

Pork producers

As can be seen in figure 4, which shows developments in and a forecast for the operating profits of pork producers, weaner producers have realised the most pronounced increase in earnings, though slaughter pig producers, too, experienced significantly improved earnings in 2016 and particularly in 2017 compared to the preceding years. Pork production looks set to increase in both the EU and North and South America in the coming years. The larger supply of pork on the global market will likely put pressure on settlement prices and thus reduce the earnings of producers.

Figure 4 - Operating profit before owner remuneration, pork producers (DKK 1,000)



Source: SEGES income forecast, January 2018

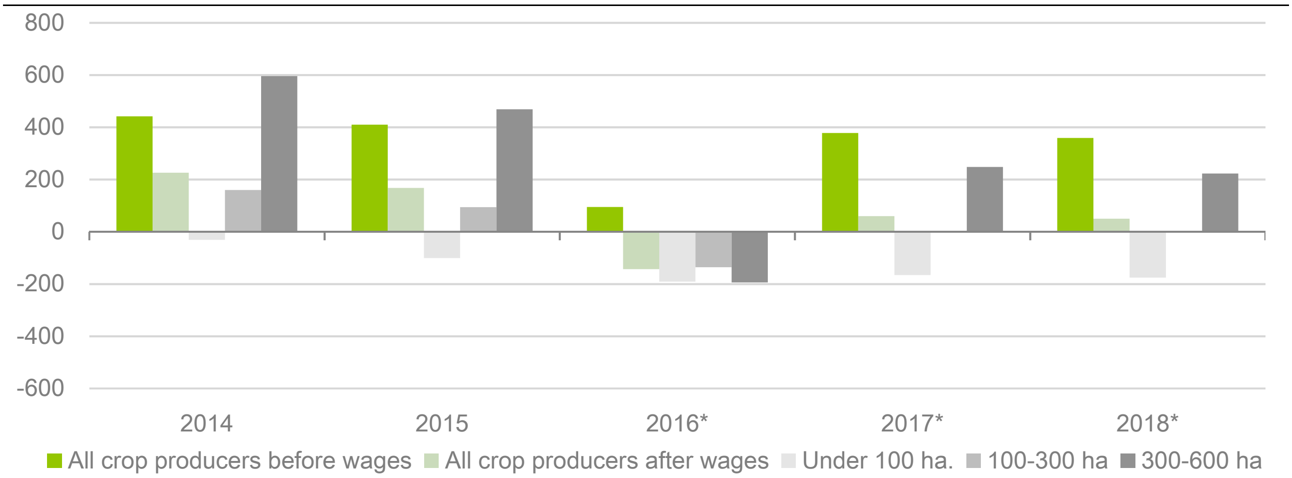
*) Forecast

Crop producers

Relatively low grain prices mean the earnings of crop producers are under pressure, as can be seen in figure 5. On average, however, the outlook is still for crop producers to have balanced economies.

As can be seen in the figure, the larger farms, who often have the highest absolute and relative debt burdens, on average achieve the best results.

Figure 5 - Operating profit before/after owner remuneration, crop producers (DKK 1,000)



Source: SEGES income forecast, January 2018

*) Forecast

Mink producers

After further increasing its market share, Danish mink production now accounts for around one third of the global production of mink pelts, with much of this production being exported. Despite Danish mink pelts attracting prices 30 pc higher than foreign pelts, pronounced price falls on mink pelts between 2015 and 2017 mean a number of mink operations look likely to make a loss.

However, with the supply of mink pelts expected to fall by 30 million to 54 million pelts in 2017 and demand likely to remain robust, Copenhagen Fur expects mink prices to trend higher in 2018.

Agricultural property market

Activity and price levels in the agricultural property and land market have remained largely unchanged on average in recent years.

The market continues to be characterised by an increasing price differentiation depending on the fertility and layout of the land. Land prices increasingly reflecting the land's yield potential is a positive development, 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 certain rise in interest rates in the coming years.

Compared to other countries, the price of land in Denmark is now relatively low, which was not the case earlier. This has triggered an increasing interest among foreign investors in buying Danish land, which may help support prices.

Commercial property

DLR's lending on commercial 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.

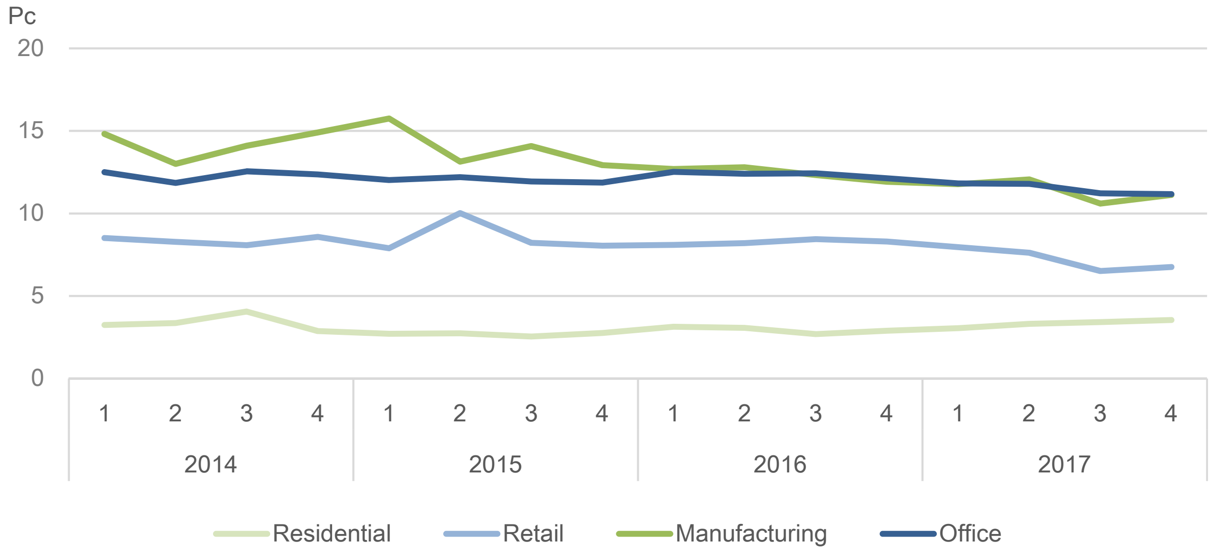
DLR's loan distribution network consists of local and regional/national banks whose markets cover the entire country, although coverage of the Greater Copenhagen area is somewhat limited. Of DLR's lending to the abovementioned property categories, just under 90 pc is on properties located outside the capital region.

Vacancy rates falling

As can be seen in figure 6, vacancy rates have been falling in recent years on rental properties in the office, retail and manufacturing sectors. This trend has had a positive impact on the commercial property market, albeit initially in and around Copenhagen and the other major cities.

However, this favourable development has lately been spreading from the major cities to other parts of the country, where both the rental situation and turnover rate have improved.

Figure 6. Vacancy rates.



Source: Danish Property Federation market statistics, IPD Denmark Property index and Ejendomstorvet - ED Statistic
Data break Oct. 2013 – Jan. 2014 due to change in calculation method

Commercial property market

Still low interest rates and the improved rental climate have contributed to the commercial property market generally performing satisfactorily.

A survey carried out by the Danish Property Federation (Ejendomsforeningen Danmark) showed the professional investment property market to be rather upbeat about the future. Expectations for the office property market are particularly high due to forecasts of rising property values, increasing market rents and falling vacancy rates.

The same survey showed expectations for the residential rental property market had been falling since 2015, though from a very high level.

There is a tendency for investor interest to be particularly focused on properties located close to public transport and good road connections. Properties with layout flexibility are also in demand, while older, outdated properties are still proving difficult to sell.

2017 saw an increased interest in contemporary, high-ceilinged, logistics facilities well located with respect to infrastructure. Demand here has been driven by a focus on efficient cargo handling and speedy delivery, and we expect this trend will continue into 2018.

LENDING ACTIVITY AND PORTFOLIO

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

Lending activity

DLR has since 2014 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. Between 2014 and 2016 the campaigns were directed only at 1Y and 2Y ARM loans (F1 and F2 RTL loans). In 2017 the campaign was extended to also target 3Y ARM loans (F3 RTL loans).

The campaigns initially (in 2014 and 2015) resulted in a substantial increase in gross lending. Gross lending in 2016 was driven to a lesser extent by loan remortgaging due to campaign activity and more by new loans. The campaign's expanded focus in 2017 to include 3Y ARM loans has once again been a prime reason behind the increase in gross lending in the past year.

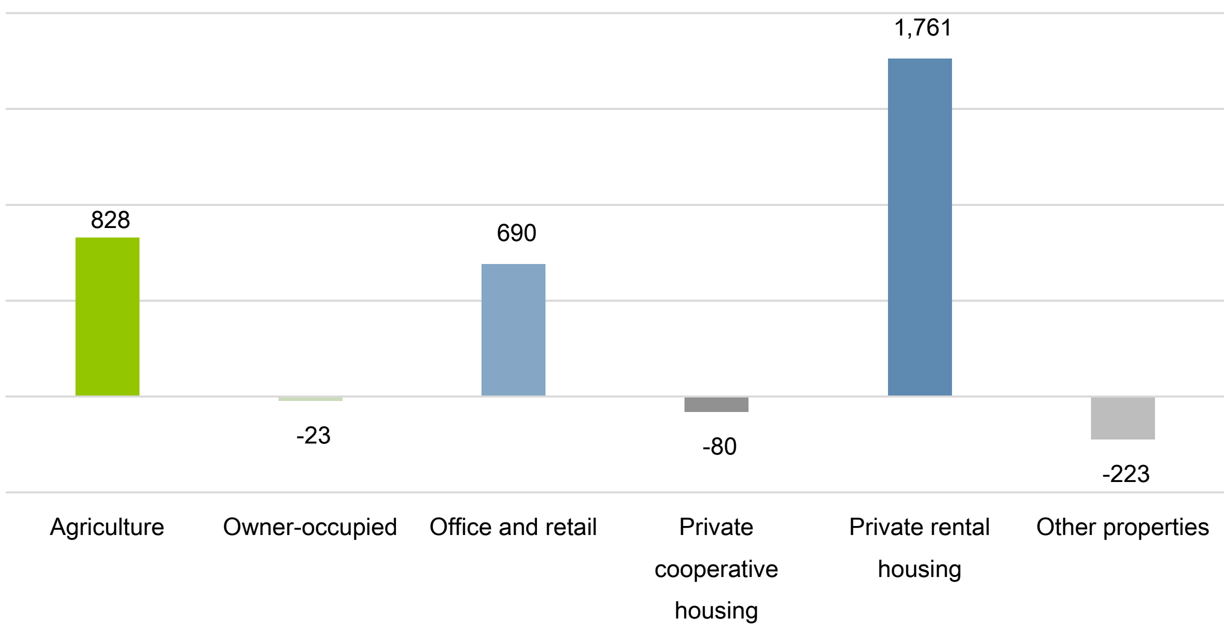
DLR's total gross lending amounted to DKK 35.2bn in 2017 compared to DKK 23.1bn in 2016, cf see figure 7.

Figure 7 – Gross lending by property category

Of total gross lending in 2017, 58 pc was used for remortgaging DLR loans (40 pc in 2016) and 12 pc for remortgaging loans from other mortgage banks (18 pc in 2016). In addition, financing change of ownership accounted for 16 pc (24 pc in 2016), supplementary loans 9 pc (12 pc in 2016) and the financing of investments 4 pc (6 pc in 2016).

Net lending, which is gross lending less transfers, prepayments and principal payments, has been positive since 2015. DLR realised net lending of DKK 3.0bn in 2017, measured by nominal outstanding bond debt. Net lending was driven, in particular, by loans on commercial property, which accounted for 73 pc of net lending in 2017, while lending to the agricultural sector, including residential farms, accounted for 27 pc of net lending.

Figure 8 - DLR's net lending by property category, 2017



The 1Y 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 2017, ARM loans 30 pc and fixed-rate loans 20 pc.

The share of gross lending with an initial interest-only period was 49 pc in 2017, which represents a small increase relative to 2016, when the share with an initial interest-only period was 41 pc.

DLR's loan portfolio

DLRs loan portfolio as measured by nominal outstanding bond debt stood at DKK 140.7bn at the end of 2017, which is an increase of DKK 3.0bn in relation to year-end 2016. As the mortgage credit sector's total lending in terms of outstanding bond debt amounted to DKK 2,672bn at year-end 2017, DLR's loan portfolio equates to a market share of 5.3 pc.

Looking only at DLR's primary business areas, i.e. agriculture-related lending, office and retail property, private residential rental property and private cooperative housing, then DLR has a market share of 15.7 pc.

DLR's largest lending area is loans for agricultural property, which amounted to DKK 87.4bn at the end of 2017. Here the term agricultural property covers properties larger than 10 ha irrespective of the production volume of the property, as well as properties below 10 ha with substantial agricultural production.

Table 5 – DLR's loan portfolio end-December 2017

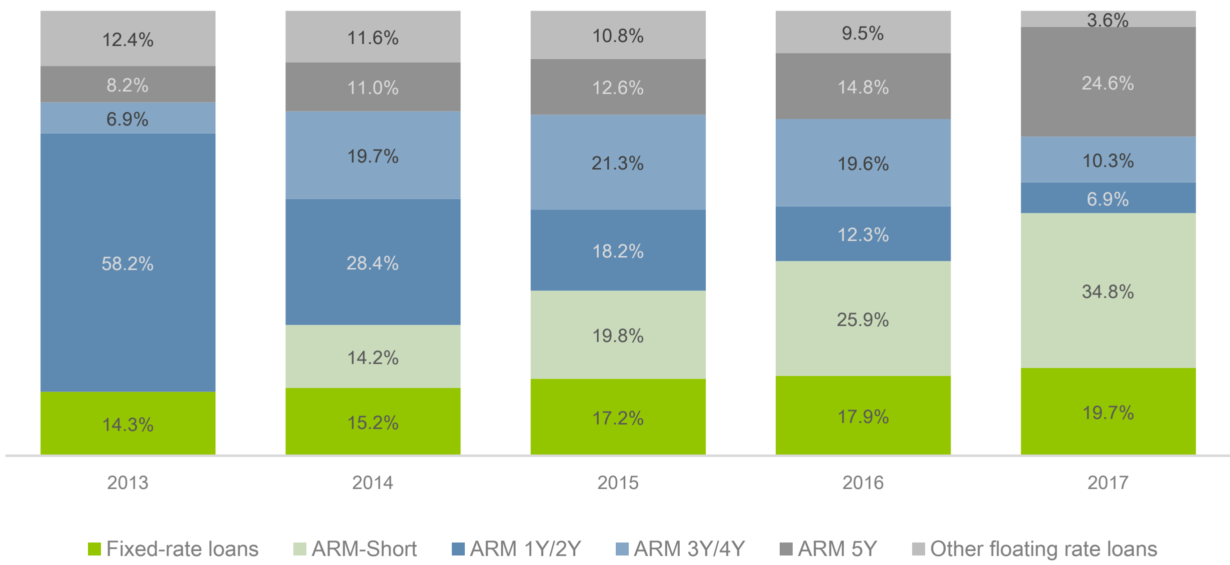
Distribution by property category			Distribution by loan type					
	Outstanding bond debt (DKKbn)	Distribution by property category	Fixed-rate loan	ARM Short	F1/F2	F3/F4	F5	Other short-rate loans
Agriculture	87.4	62%	15.4%	44.0%	6.1%	9.8%	20.8%	39%
Owner-occ. incl. res. farms	7.9	6%	39.6%	8.0%	12.8%	12.7%	23.6%	3.2%
Office & retail property	22.3	16%	26.3%	20.4%	8.5%	10.8%	302%	3.8%
Residential rental property	17.8	13%	20.7%	23.8%	7.9%	12.2%	33.2%	2.3%
Private co-op. housing	2.9	2%	41.6%	11.5%	1.7%	5.7%	34.3%	53%
Other property	2.5	2%	14.6%	32.6%	2.0%	8.6%	40.5%	1.8%
Total	140.7	100%	19.7%	34.8%	6.9%	10.3%	24.6%	3.6%

DLR's loan portfolio was dominated by ARM loans, particularly 1Y ARMs, up to 2013. Over the past four years, however, the share of ARM loans has fallen considerably - the share of ARM loans was 42 pc at the end of 2017 compared to 73 pc at the end of 2013. The trend away from ARM loans has been driven by DLR's campaigns aimed at persuading borrowers to shift into loans with longer-term funding.

Within the ARM segment there was a pronounced shift in 2014 and 2015 away from loans with annual refinancing towards loans that are refinanced every three years. In 2017 there was a shift from loans that are refinanced every three years to loans that are refinanced every five years, mainly driven by DLR's expanded campaigns and a very limited additional payment on 5Y ARM compared to 3Y ARM loans. The share of ARM Short loans has, moreover, increased markedly in connection with the remortgaging of 1Y and 3Y ARM loans. ARM Short loans accounted for 35 pc of DLR's loan portfolio at year-end 2017 compared to 26 pc at the end of 2016. Fixed-rate loans, meanwhile, accounted for 20 pc, while other short-rate loans and guarantee (rate-cap) loans made up the remaining 4 pc of DLR's portfolio at year-end 2017.

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.

Figure 9 - DLR's loan portfolio by loan type (end-of-year)



FUNDING

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 2017, DLR's outstanding volume of bonds amounted to DKK 142.1bn, not counting bonds maturing on 1 January 2018. 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. Much of the RO lending from the General Capital Centre has subsequently been remortgaged into Capital Centre B, and at the start of 2018 DLR's RO bonds accounted for less than 2 pc of outstanding volume.

All DLR's bonds, including grandfathered ROs, comply with the so-called UCITS and CRD requirements for covered bonds. Moreover, quarterly cover pool reports ensure that disclosure obligations under CRR article 129 (7) are complied with, and all DLR's bonds are thus covered by the preferential riskweighting 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 2017 (excluding bonds maturing on 1 January 2018, but including preissued bonds in connection with the refinancing of mortgage loans on 1 January 2018) is shown in table 6.

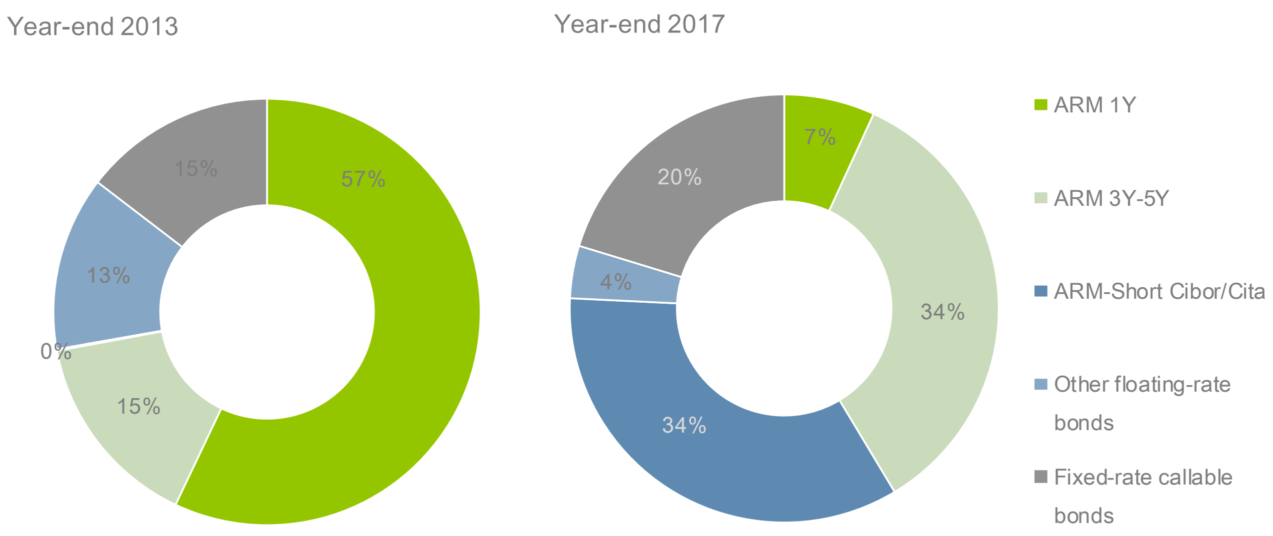
Table 6 – DLR's bonds, year-end 2017

(DKKbn)	Total	DKK bonds	EUR bonds
Outstanding, total	142.1	136.8	5.3
Of which SDO	139.8	134.5	5.3
Of which RO	2.3	2.3	0

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 has been running since 2014.

The changes to DLR's funding structure since 2013 are shown in figure 10.

Figure 10 – DLR's funding structure



As well as the campaigns directed towards limiting refinancing risk, DLR has also focused on establishing a funding structure with fewer, larger series to support bond liquidity. DLR has therefore been working since 2016 to concentrate the refinancing of 1Y and 2Y ARM loans in April, while 3Y to 5Y ARM loans have been pooled in October. Furthermore, each series is kept open for loan offers for one year compared to only 6 months previously.

ARM loans in euro are refinanced in January, while ARM Short loans are refinanced in July. 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. Likewise, a large proportion of the EURIBOR-based loans with 10-year funding was switched into other loan types denominated in DKK in connection with the 1 January 2018 refinancing. Hence, EUR-denominated bonds accounted for just 4 pc of the total outstanding volume of bonds at the start of 2018.

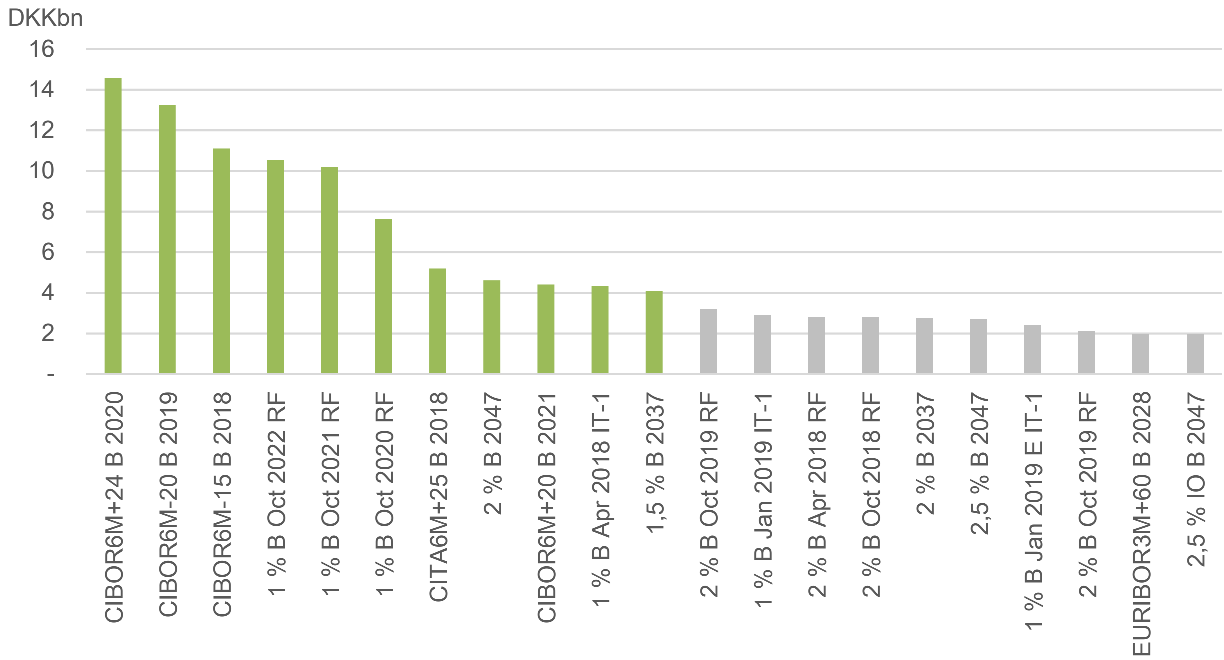
Series size

Figure 11 shows DLR's largest bond series as of end-January 2018. The series meet the LCR requirements of EUR 500m for level 1B assets and EUR 250m for level 2A assets.

The largest series are made up of CIBOR-based ARM Short bonds. In addition, the campaigns of recent years targeting short ARM loans have, as mentioned, resulted in increased issuance in longer maturities and have significantly reduced issuance in 1Y bonds in particular. This, together with DLR's initiatives to concentrate the funding of ARM loans in fewer series, has resulted in the open 3Y and 5Y non-callable (ARM) bullets all meeting the level 1B requirement.

As of end-January 2018, 63 pc of DLR's series complied with the level 1B series liquidity requirement in terms of outstanding volume (green columns in figure 11), while a further 18 pc met the level 2A requirement (grey columns in figure 11).

Figure 11 - DLR's LCR compliant bond series at end-January 2018



Bond sales

DLR bonds are tapped as loans are paid out and regularly offered to financial institutions that are members of and obliged to report transactions to Nasdaq Copenhagen. DLR uses 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 the trading of DLR's bonds.

At the end of 2017, DLR renewed the Primary Dealer agreements it made with six banks at the end of 2016. These agreements remunerate the institutions that actively quote prices for DLR's bonds over an extended period. These agreements have contributed to strengthening liquidity and thus ensuring the continuous pricing of DLR's bonds.

Negative interest rates

Short CIBOR and CITA rates remained negative in 2017. All DLR's floating rate bonds currently have a coupon floor with a minimum coupon rate of 0 pc.

The yield on the floating rate bonds depends on current pricing and so could well be negative even though an interest rate floor of 0 pc applies to the coupon rate.

Short, fixed-rate non-callable bullets (ARM loans) could also potentially have negative yields. This is possible if the bonds trade at a premium that gives a negative effective yield for borrowers and investors.

Refinancing of ARM loans

DLR held auctions in February, August and November-December 2017 in connection with the refinancing of ARM loans per 1 April 2017, 1 October 2017 and 1 January 2018, respectively.

At the February auctions, DLR offered DKK-denominated bonds for DKK 6,570m and EUR-denominated bonds for EUR 120m. At the August auctions, DLR supplied DKK-denominated bonds for DKK 6,265m and at the November-December auctions DKK-denominated bonds for DKK 8,082m and EUR-denominated bonds for EUR 338.5m (all amounts nominal).

Figures 12a-d show the supply of 1Y, 3Y and 5Y non-callable bullets at DLR's refinancing/interest-reset auctions since 2013.

The total amount of ARM loans refinanced in 2017 was DKK 24bn. This represents an increase of 21 pc relative to 2016, as the large 3Y series from 2014 - when many 1Y ARM loans were remortgaged into 3Y ARM loans - had to be refinanced. A considerable number of borrowers used the occasion to shift profile into 5Y ARMs or remortgage into ARM Short loans, which should be seen against the extension of DLR's refinancing campaigns to also include 3Y ARM loans.

The refinancing of 1Y ARM loans was reduced by a third in 2017 relative to the previous year, accounting for just 44 pc of the total refinancing amount.

Fig. 12a - Supply of 1Y ARM bullets (DKK)

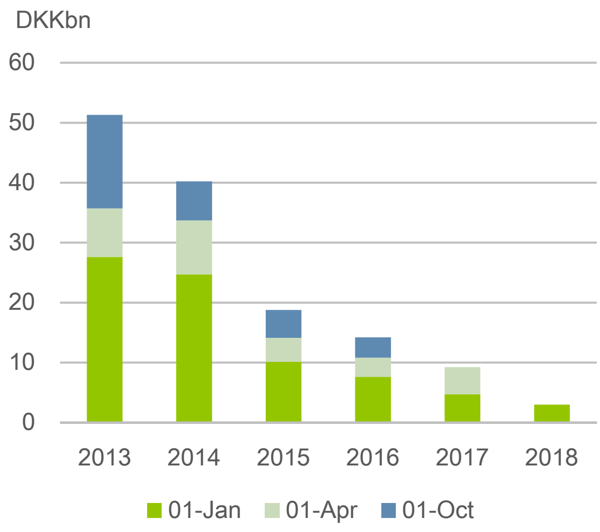


Fig. 12b - Supply of 3Y ARM bullets (DKK)

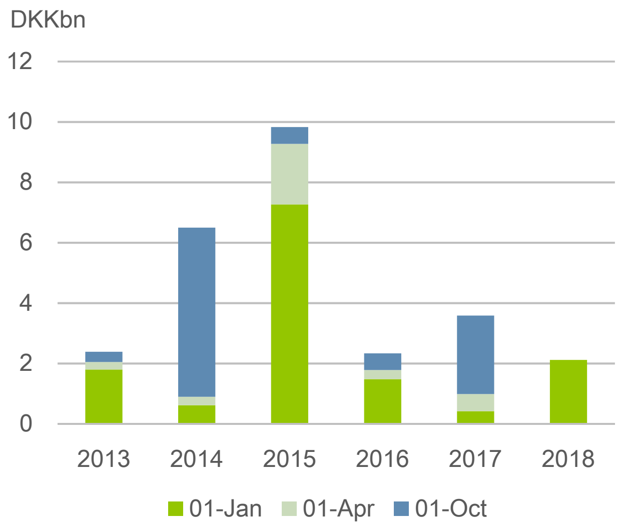


Fig. 12c - Supply of 5Y ARM bullets (DKK)

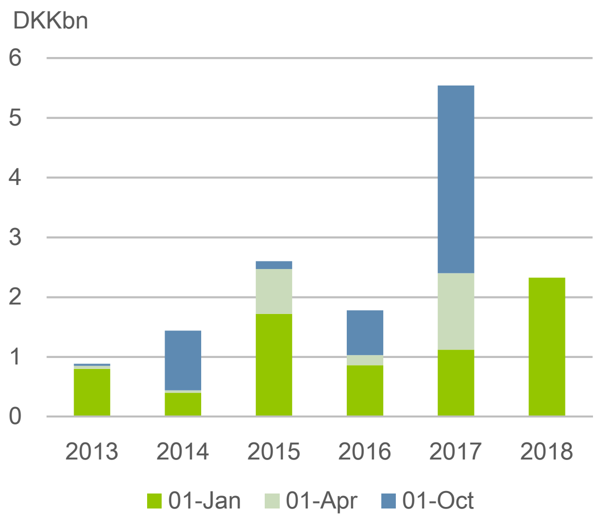
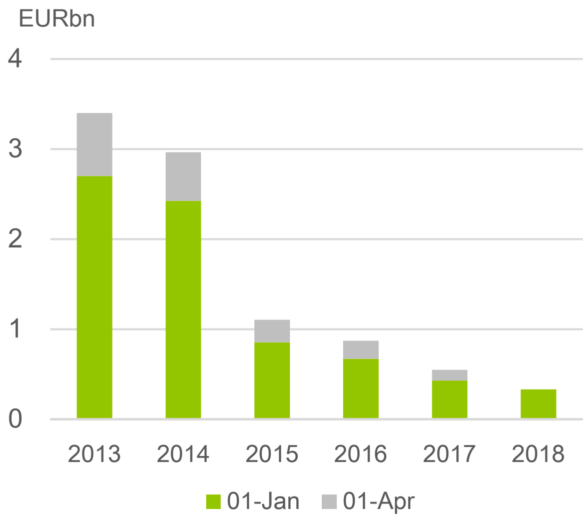


Fig. 12d - Supply of 1Y ARM bullets (EUR)



Refinancing of floating rate loans

DLR also held auctions in December 2017 linked to the refinancing of floating rate loans in DKK and EUR on 1 January 2018. These were loans granted in 2007 and financed with 10Y callable mortgage bonds based on short CIBOR and EURIBOR rates. A significant share of borrowers chose to remortgage into other loan types, not least ARM Short, in connection with the refinancing.

At the auction on 5 December 2017, DLR offered DKK 385m in 10Y CIBOR-based bonds and EUR 275m in 10Y EURIBOR-based bonds. Both bond series are callable at par and have a coupon floor of 0 pc.

ARM Short bonds

At year-end 2017, ARM Short loans amounted to DKK 49bn, divided between just over DKK 43bn in CIBOR-based loans and close to DKK 6bn in CITA-based loans.

The CIBOR-based ARM Short loans are spread across four bond series that mature during the period 2018-2021. 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.

Due to heavy demand for ARM Short loans, DLR has relatively quickly accumulated CIBOR-based series with large outstanding volumes, cf. figure 6. DLR opened a new CIBOR bond in October 2017 that matures on 1 July 2021, and as a result of this DLR has closed CIBOR 2020 for further issuance.

DLR currently has two CITA-based bond series that both have to be refinanced on 1 July 2018. Due to considerations of series size, we expect the two CITA series will be refinanced in one continuing series.

Change of fixed-rate callable bond series

Fixed-rate, callable mortgage bonds have an opening period of 3 years. DLR therefore closed its 20Y and 30Y bonds that mature in 2037 and 2047, respectively, for issuance at the end of August 2017.

In their place, DLR has opened new fixed-rate series maturing in 2040 and 2050 for the funding of fixed-rate loans.

The 20Y and 30Y series used in connection with lending up to the end of August had achieved a series volume at closing that meets the LCR requirements for either level 1B or 2A assets. Long, fixed-rate loans have grown from accounting for around 14 pc of DLR’s loan portfolio at end-2013 to around 20 pc at the end of 2017. Building volume in the new series will depend in part on prepayment activity, which is mainly driven by changes in interest rates.

Senior debt

DLR had DKK 9.0bn in outstanding senior debt at the end of December 2017 divided between DKK 6bn in Senior Secured Bonds (SSB), DKK 1bn in unsecured senior debt and DKK 2bn in Senior Resolution Notes (SRN), as shown in table 7.

Table 7. DLR's outstanding senior debt issues year-end 2017

Type	Amount (DKKm)	Issuance-date	Maturity date	Maturity (years)	Reference rate	Rate-premium
SSB	2,000	16-03-2016	01-04-2018	2	3M Cibor	0.72 %
Unsecured senior debt	1,000	13-06-2016	01-07-2018	2	3M Cibor	0.73 %
SSB	1,000	24-09-2015	01-10-2018	3	3M Cibor	0.78 %
SSB	2,000	12-09-2016	01-10-2019	3	3M Cibor	0.60 %
SSB	1,000	22-03-2017	01-04-2020	3	3M Cibor	0.37 %
SRN	1,000	15-06-2017	15-06-2020	3	3M Cibor	0.62 %
SRN	1,000	15-09-2017	15-06-2022	4 ¾	3M Cibor	0.75 %
Total, senior debt	**9,000**					

DLR has since 2012 issued SSBs 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 fall in property prices. SSB issuance has also been used to ensure the overcollateralisation (OC) required to maintain DLR's AAA bond rating. SSBs are issued with maturities of 2-5 years, and DLR continually monitors the need for supplementary collateral, including the refinancing of maturing SSBs.

In March 2017, DLR issued DKK 1bn in SSBs to refinance an equivalent amount of SSBs maturing on 1 April 2017.

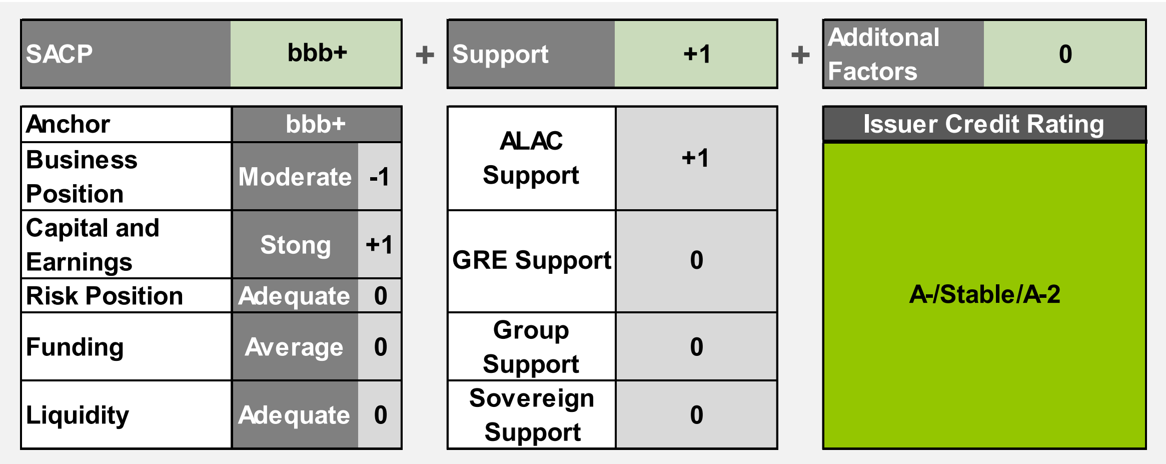
In 2017, DLR issued SRNs to comply with the debt buffer requirement. The initial issuance of DKK 1bn in SRN was carried out in June 2017 to cover the second instalment of the debt buffer requirement as per 15 June 2017. DLR issued a further DKK 1bn in SRN in September 2017, this time to replace an equivalent volume of SSBs that matured on 1 October 2017. The reason DLR chose to issue SRN instead of SSB is that SRN are included in S&P's ALAC calculation and thus support DLR's issuer rating, cf. below, plus they can be used for OC purposes, etc.

DLR's outstanding volume of senior debt increased by DKK 1bn overall in 2017.

Rating

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

Table 8 - DLR's ratings	
Bond rating	**S&P Global Ratings**
Capital centre B (SDO)	AAA (stable)
General Capital Centre (RO)	AAA (stable)
General Capital Centre (SRN)	BBB (stable)
Other ratings	
Issuer (Long-Term)	A- (stable)
Issuer (Short-Term)	A-2 (stable)



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.

In May 2017, S&P raised DLR's Issuer Credit Rating (ICR) 1 notch to A- and retained the stable outlook. Underpinning the rating uplift was DLR's announcement it would issue a total of DKK 4bn in Senior Resolution Notes (SRN) to build its debt buffer going forward to 2019, with DKK 2bn being issued within the first year. SRN meet the S&P criteria for absorbing a loss (ALAC), which meant DLR was assigned an ALAC support uplift of +1, which is added to DLR's Stand-Alone Credit Profile (SACP) of BBB+.

DLR's covered bonds (SDO) and mortgage bonds (RO) have been assigned the highest rating of AAA. With respect to S&P's Covered Bond rating method, it is possible to obtain a bond rating that is up to 9 notches above the ICR. With an ICR of A-, DLR only has a need for 6 of the 9 notches. However, DLR has decided not to have committed OC, and so in reality only has 2 unused uplifts in its bond rating. This contributes to lowering the OC requirement on DLR's capital centres.

S&P's OC requirements compatible with the AAA rating have most recently been set at 14.9 pc for Capital Centre B and 11.1 pc for the General Capital Centre. The OC requirements are met for the nominal bond amount in the capital centre and covered by surplus capital in the capital centres. This is sourced from own funds together with funds obtained by issuing senior debt.

Senior secured bonds (SSB) are generally assigned a rating two notches above the issuer rating. The 5Y SSB issuance that matured on 1 October 2017 was thus rated A+ by S&P. DLR has decided not to have its current SSB issues rated. The same applies to issues of unsecured senior debt from 2016. Both SRN issues from 2017 are rated BBB, which is one notch below DLR's SACP.

Covered Bond Label

DLR's covered bonds (SDO) meet the criteria for covered bonds with respect to the Covered Bond Label Convention under ECBC (European Covered Bond Council) and carry the ECBC's Covered Bond Label. In connection with this, DLR has to regularly disclose data concerning its capital, funding and lending position at cover pool (capital centre) level.

From 1 January 2017, reporting has had to be based on a harmonised transparency template (HTT) that applies to "labelled" issuers in all countries. DLR has since Q1 2016 reported in accordance with HTT with respect to Capital Centre B. In addition, DLR continues to use the National Transparency Template (NTT) for both capital centres. DLR has decided not to let the General Capital Centre be included under the Covered Bond Label scheme.

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 lower 10 pc risk weighting for investors that incur capital charges. According to the CRR requirement, covered bond investors should, in addition, be able to document they have access to a range of bond information from issuers. As both HTT and NTT meet the transparency requirements, all DLR bonds continue to qualify for the lower risk weighting.

The European Central Bank, ECB, has, moreover, from 1 July 2017 introduced a minimum requirement for the regular disclosure of covered bond rating data. According to the new requirement, rating agencies approved by Eurosystem (ECAIs) have to disclose quarterly overviews of all rated covered bond programmes. This is necessary if the rating from the agency is to be used for affirming that the bonds comply with Eurosystem's credit quality requirements for tradable assets. To help facilitate this process for the rating agencies, an addendum has been added to the HTT to accommodate the ECB's additional data requirements. However, the addendum is voluntary and not part of the label transparency requirements.

An addendum was added to the HTT for DLR's Capital Centre B from Q3 2017 to include the ECB ECAI data that S&P can use in its overview.

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. Due to 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, just as 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. The aim is to ensure that DLR employees in all key 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 function

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 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 department for special financial exposures and debt collections plus the model development unit and the data management and reporting unit.

The model development unit is 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 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 derive from statistical models that 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. Also included are the borrower's finances over an extended historical period plus the likely impact of the current and expected general economic situation on the borrower. Every PD is converted to a rating class from 1 to 8.

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.

The models cover more than 80% of the loan portfolio, but only the models for the full-time farm portfolio are used to measure credit risk exposure in connection with calculating solvency.

Solvency need

DLR uses the "credit-reservation method" (the "8+ method") to determine its adequate capital base and solvency need (ICAAP).

Starting with the 8 pc of total risk exposure amount requirement, an assessment is made of whether DLR in individual business areas or operationally, etc. has significant risks that may not be covered by the 8 pc requirement. If this is the case, an add-on is made to the adequate capital base and the solvency need. In connection with this assessment, DLR considers 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 Institutions".

DLR's simple business model based on traditional mortgage credit activities in selected lending areas means the credit risk associated with the borrower's ability to make payments is the main risk factor. Hence, the capital requirement linked to credit risk also forms by far the largest part of DLR's aggregate adequate capital base.

The Executive Board (via the Executive Secretariat) carries out the internal processes associated with determining the adequate capital base and solvency need. Relevant departments are involved in the determination when discussing the level of stress tests, etc. in individual business areas.

DLR determines its adequate capital base and solvency need quarterly, but also continually monitors a number of relevant risk parameters to ensure the estimated solvency need and adequate capital base always reflect DLR's current risk profile. If this is assessed to not be the case, DLR will consider the need to update the adequate capital base and solvency need calculations.

A submission will typically be made to the Board at the quarterly meetings connected with presenting the financial reports. DLR's Board of Directors reviews the entire method used to determine the adequate capital base and solvency need annually. DLR's Risk Committee also considers the adequate capital base and solvency need calculation prior to it being presented to DLR's full Board, while DLR's internal audit department undertakes an independent assessment of the calculation.

Table 9 - DLR's adequate capital base and solvency need

(DKKm)	2017	2016
Credit risk	6,158	6,525
Market risk	293	231
Operational risk	192	196
Other factors	0	0
Internally calculated adequate capital base	6,643	6,953
Add-ons (special risks)	0	0
Total	**6,643**	**6,953**
Solvency need	**8.53%**	**8.62%**

Major exposures

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

At year-end 2017, DLR had just one exposure (after deductions) that amounted to more than 10 pc of DLR's capital base. That exposure was against a bank.

Supplementary collateral

DLR's lending is funded by the issuance of covered bonds (SDO), which are issued out of DLR's Capital Centre B. Particularly secure assets have to be used as the basis for the bond issuance – primarily collateral in real property. Furthermore, continual monitoring is required 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 cover pool (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, potentially on a considerable scale. DLR is therefore very aware of the need for supplementary collateral in connection with capital planning.

At year-end 2017, DLR had provided DKK 11.4bn in supplementary collateral, which is slightly down on the 2016 level, when DLR provided DKK 11.7bn in supplementary capital. Given DLR's capital base, issued SSBs, SRNs and guarantees, etc. DLR is capable of absorbing a potential future general price fall on agricultural and commercial property of 15-20 pc.

Credit risk

DLR grants loans against a registered mortgage on real property subject to the regulations stipulated for mortgage credit institutions, including the rules governing LTV in real property, 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 that exceed the limits laid down 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 a credit scoring of the loan applicant, 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 rating systems are a fully implemented and integrated element in DLR's loan application and credit-granting process and in the risk management of loans for full-time agriculture properties. In terms of the commercial property loan portfolio, PD models are increasingly being used in connection with credit assessments and risk management in this area. PD models for commercial properties were implemented in January 2017.

DLR's credit risk has been further reduced through loss-mitigating guarantee schemes with the loan-distributing banks, who are also DLR's shareholders.

At the start of 2015, DLR established a new, universal guarantee concept that covers all distributed loans irrespective of property type. The guarantee concept is still being implemented and will eventually cover DLR's entire portfolio. Prior to 2015, DLR's portfolio was covered by separate loan loss agreements depending on whether the loan was granted to the commercial or agricultural property segments. These loss-mitigating agreements still cover a considerable share of DLR's portfolio.

At the end of 2017, 95 pc of DLR's total loan portfolio was covered by the above guarantee concepts, including a government guarantee covering a small share of the portfolio amounting to around DKK 0.3bn. Overall, the guarantee schemes mean DLR's risk of loss on its lending activities may be characterised as manageable and relatively limited.

The relevant loss-mitigating agreements are explained individually below.

Universal guarantee concept implemented from 1 January 2015

DLR entered an agreement in 2014 with its distributor 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 all loans offered by DLR from 1 January 2015 onward are covered by this agreement.

Under the new guarantee concept the loan-distributing bank provides an individual guarantee at the time of disbursement covering 6 pc of the outstanding debt for the entire term of the loan. Hence, 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 loss-offsetting agreement has also been established, whereby the individual distributing bank has to set off all losses DLR incurs from a loan distributed by that bank 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.

Lending covered by the universal guarantee concept will increase as new loans are granted and also as the existing portfolio is remortgaged. As of year-end 2017, the universal guarantee concept covered an outstanding bond debt of almost DKK 70bn, or close to half of the total loan portfolio.

The opportunity to offset losses in the commissions paid to the banks is an important element in DLR's universal guarantee concept. During the implementation phase the potential for offsetting in the commissions paid directly under the universal guarantee concept will naturally still be accumulating and thus may not offer full coverage. Due to this, it has been agreed that losses can also be offset against commissions from the other guarantee concepts. DLR offset losses for a total of DKK 27m in 2017, with a share of that amount concerning losses realised in 2016.

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

For loans on commercial 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 from 0-100 pc of the loan according to property type and is written down proportionally as the principal is reduced.

Loan loss agreements in the commercial property area for loans offered prior to 2015 comprise as of year-end 2017 guarantees of DKK 9.7bn provided for a loan portfolio which at present amounts to DKK 22.6bn. The current guarantee setup is being phased out as DLR's universal guarantee scheme is applied to new loans and remortgaging.

Loan loss agreements on agricultural properties - covering loans offered until 31 December 2014

Loans for agricultural properties were previously covered by a guarantee scheme set up between DLR and its partner banks (the cooperative agreement). The agreement covers loans totalling DKK 41.4bn as of year-end 2017. Like the loan loss agreements in the commercial property area, this cooperative agreement is being phased out as the universal guarantee setup is implemented.

The cooperative agreement is a collective guarantee scheme that is invoked if DLR's aggregate losses on agricultural loans covered by the agreement exceed a pre-determined amount (DLR's excess) within a single calendar year. DLR's 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 2018, DLR could be liable for losses of up to roughly DKK 100m, while the maximum guarantee coverage of the banks in 2017 is around DKK 500m. 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 for loans covered by the cooperative agreement. Loan losses (but not impairments) incurred by DLR 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 that year's commissions can be carried forward for offsetting in commissions for up to a further nine years.

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 under the universal guarantee concept.

Loan portfolio LTV

The loan portfolio's LTV in the mortgaged property illustrates DLR's limited risk of loss. At the end of 2017, 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. With regards to the portfolio of commercial properties, 87 pc was placed in the <60 pc LTV range of valuations. Loans for residential properties classed as commercial properties have an upper loan limit of 80 pc of the property's value, which is why the share below the <60 pc LTV range is naturally lower.

As well as LTV, DLR has, as outlined above, a comprehensive guarantee setup covering the vast bulk of its portfolio.

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

As DLR has decided to follow the specific balance principle, the interest rate risk deriving from the issuance of covered bonds (SDO) for the financing of mortgage loans reflects the mortgagor's loan conditions. Hence, DLR's interest rate risk arises solely as a consequence of a natural need to invest DLR's securities portfolio, prepaid amounts and issued debt instruments.

Danish law stipulates that the interest rate risk on the securities portfolio and funds acquired through the issuance of debt instruments may not exceed 8 pc of the capital base. With a capital base of DKK 12,372m after deductions at year-end 2017, this equates to a maximum permitted interest rate risk for DLR of DKK 990m.

DLR's interest rate risk complies with the Board of Directors' guidelines for overall market risk, whereby the interest rate risk on the securities portfolio should be in the range 0-3 pc of DLR's capital base. According to the Board's guidelines, the interest rate risk on the securities portfolio should be between DKK 0 and 371m.

The interest rate risk on DLR's securities portfolio (assets) was DKK 220m at end-2017. Interest rate risk expresses the amount that DLR at the end of 2017 should expect as a price adjustment in the event of a shift in market yields of 1 percentage point. We calculate the relative interest rate risk to be 1.8 pc given the capital base at the end of 2017.

The interest rate risk on issued debt instruments (liabilities) – i.e. Senior Secured Bonds, unsecured senior debt and Senior Resolution Notes – is calculated to be DKK 32m, or 0.3 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 188m, 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.

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. S.8 (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

Due to the specific balance principle, DLR assumes only a minimal exchange rate risk. 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.

DLR's exchange rate risk amounted to DKK 2.0m at the end of 2017, equivalent to 0.02% 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 and 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 2017, DLR's equity holdings consisted of unlisted shares in VP Securities A/S, e-nettet A/S and Landbrugets Finansieringsinstitut A/S.

DLR's equity market risk after tax amounted to DKK 4m at year-end 2017.

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 DLR's operational risk is generally assessed 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 specific 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 help prevent future occurrences. Risks are also mitigated by insurance coverage where relevant. Moreover, DLR is constantly focused on maintaining high levels of staff competence, control 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 2,401m of the total risk exposure amount. That equates to DKK 192m to cover the 8 pc capital requirement for operational risk as of end-2017.

Board committees

DLR's Board of Directors has set up four committees with dedicated supervisory roles in various areas 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 five times in 2017.

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 by, for example, performing a detailed analysis of the risks associated with DLR's business model 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 2017

Nomination Committee

The task of the Nomination Committee is to ensure that 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 Lars Møller is vice chairman.

The Nomination Committee met twice in 2017

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 Remuneration Committee consists of three members – Managing Director & CEO Vagn Hansen (chairman), Managing Director Lars Møller and Legal Consultant Søren Jensen.

The Nomination Committee met twice in 2017.

ORGANISATION

Management

DLR Kredit A/S is mainly owned by banks that are members of either Lokale Pengeinstitutter (Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) or Landsdækkende Banker (National Banks in Denmark). Jyske Bank and PRAS A/S, among others, also own shares in DLR.

The Board of Directors had 14 members at the end of 2017, 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

DLR had, on average, 173 FTE employees in 2017. In addition, DLR has 24 agricultural valuation experts attached to the company.

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 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 agricultural and commercial properties. Loans for owner-occupied homes are provided solely for hobby and residential farms and for owner-occupied homes on the Faroe Islands and Greenland.

DLR's business model is based on close collaboration and professional sparring with DLR's circle of owners, who comprise national, regional and local loan-distributing banks with branches in Denmark and on the Faroe Islands and Greenland. The cooperative model between DLR and its owners ensures a cost-efficient lending process where the banks are remunerated for intermediating mortgage credit loans to customers, advisory services, customer care and risk hedging through the provision of a guarantee, while DLR handles property valuations, loan processing and loan limits together with the issuance and sale of bonds to fund the mortgage credit loans.

DLR's digital advisory platform – DLRxperten – supports the banks' customer advisory services connected with mortgage lending and the day-to-day collaboration between the two parties.

DLR will introduce a new and improved version of DLRxperten in 2018 with the aim of further supporting the banks' efficient and competitive customer advisory services.

Internal control 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 DLR's overall financial management and reporting as well as financial statements, including the responsibility for ensuring that financial reporting follows established principles and complies 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 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 has 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.

Targets 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 sets a target for the gender distribution of DLR's board members.

DLR's Board currently comprises 14 members, of whom nine were elected by the Annual General Meeting, while five were elected by DLR's employees. The AGM-elected members include eight men and one woman, while the employee representatives comprise three men and two women.

The number of female Board members was increased from two to three in 2017, as DLR's employees elected an additional female candidate to the Board.

One male member of the Board stepped down at the 2017 AGM and was replaced by a male candidate, while the other Board members were re-elected. When assessing potential Board candidates, DLR's Nomination Committee attaches crucial importance to the candidates put forward being at all times the most suitable irrespective of gender, ethnicity, religious affiliation, etc. If two candidates are deemed to be equally qualified, the candidate that represents the underrepresented gender on the Board will be proposed as a member.

In 2017, the Nomination Committee increased the target for the proportion of women on DLR's Board from 20 pc to 25 pc. The target should be met within a period of three years. Hence, the goal is for at least one more female member to be elected to the Board by the time of the AGM in 2020. Given the traditional composition of DLR's Board of Directors, the target is considered ambitious. This is because the majority of the AGM-elected DLR Board members are members of the executive boards of DLR's shareholder banks, where there is currently only a very limited number of female 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. The policy should help promote a broadening of the composition of DLR's Board of Directors, which is the principle aim. Particular emphasis has been placed on the need for diversity 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 2017, DLR's Board of Directors consisted of 14 members, of whom nine were elected by DLR's Annual General Meeting. Of the AGM-elected Board 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 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 the end of 2017, DLR's Board of Directors consisted of the following members:

Elected by the General Meeting

- Vagn Hansen (chairman), Managing Director & CEO, Sparekassen Vendsyssel
- Lars Møller (vice chairman), Managing Director, Spar Nord Bank A/S
- Claus Andersen, Managing Director & CEO, Nordjyske Bank A/S
- Peter Gæmelke, Farmer, Vejen
- Karen Frøsig, Managing Director & CEO, Sydbank A/S
- Gert R. Jonassen, Managing Director & CEO, A/S Arbejdernes Landsbank
- 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

Gert R. Jonassen, Managing Director & CEO, A/S Arbejdernes Landsbank, was elected to DLR's Board of Directors at the Annual General Meeting on 27 April 2017. Anders Dam, Managing Director & CEO, Jyske Bank A/S, stepped down from the Board at this time. The remaining Board members elected by the Annual General Meeting were re-elected.

Employee representatives

- Randi Franke, Head of Business Development and Communication
- Jakob G. Hald, Agricultural Account Manager
- Kim Hansen, Office Attendant
- Søren Jensen, Legal Consultant
- Agnete Kjærsgaard, Administrative Officer

Executive Board

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

Directorships held by the Executive Board

Jens Kr. A. Møller, Managing Director & CEO

- Member of the Board of Directors of e-nettet a/s

- Member of the Board of Directors of FR I af 16. september 2015 A/S
- Member of the Board of Directors of Finance Denmark and the Association of Danish Mortgage Banks
- Member of the Board of Directors of SEGES's sector board for Business Finance and Management

Executive Staff

Executive Board Secretariat

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

Lending

- Bent Bjerrum, Deputy Director, MSc (Agriculture)

Accounting & Finance

- Lars Ewald Madsen, Accounting and Finance Director, MSc (Finance and Accounting)

IT

- Christian Willemoes, IT Director, Engineer

Internal Audit

- Brian Hansen, Chief Internal Auditor, MSc in Business Administration, Accounting and Auditing

Supervision

DLR is under the supervision of the Danish Financial Services Authority.

Cooperation Agreements:

Administration agreement with LR Realkredit A/S

DLR has 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.

Outsourcing agreement with Landbrugets Finansieringsinstitut A/S (LFI)

LFI (formerly Landbrugets FinansieringsBank) handed back its bank licence in October 2017 and entered an agreement with DLR effective from 1 November 2017 on the outsourcing of all LFI's operations to DLR. As a result of this, four former employees of LFI are now employed at DLR.

According to the agreement, DLR will take over contact to LFI's customers and the administration of LFI's loan portfolio, including prepared credit recommendations to LFIs Executive Board and Board of Directors. LFI's portfolio comprises loans to the agricultural sector. The intention is to reduce LFI's customer base during the term of the outsourcing agreement.

The agreement runs until the end of 2021 with the option of extending.

Shareholder information

Share capital

DLR's share capital is mainly held by local, regional and national banks. DLR's share capital amounts to nominal DKK 570.0m (denomination of DKK 1). Of this, DLR Kredit A/S holds 21,495,118 own (treasury) shares, equivalent to a nominal DKK 21.5m.

The following shareholders held at least 5 pc of DLR's nominal share capital at year-end 2017:

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

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 2018 (based on the outstanding bond debt at 31 December 2017).

Other directorships held by the Board of Directors

Vagn Hansen (chairman), Managing Director & CEO, 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 Holding SE
- Member of the Board of Directors of Skandinavisk Data Center A/S (SDC)
- Member of the Board of Directors of Spar Pantebrevsinvest A/S
- Member of the Board of Directors of Lokale Pengeinstitutter
- Member of the Board of Directors of Forvaltningsinstituttet for Lokale Pengeinstitutter

Lars Møller (Vice Chairman), Managing Director, 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 Fondsmæglerselskab A/S
- Chairman of the Board of Directors of BI Management A/S
- Member of the Board of Directors of Aktieselskabet Skelagervej 15

Claus Andersen, Managing Director & CEO, Nordjyske Bank A/S

- Chairman of the Board of Directors of Sæbygaard Skov A/S
- Member of the Board of Directors of Foreningen Bankdata
- Member of the Board of Directors of Lokale Pengeinstitutter
- Member of the Board of Directors of BI Holding A/S (Bankinvest Gruppen)
- Alternate Member of the Board of Directors of Finance Denmark

Peter Gæmelke, Farmer, Vejen

- Chairman of the Board of Directors of Danske Spil A/S
- Chairman of the Board of Directors of Løvenholmfonden (Commercial foundation)
- Chairman of the Board of Directors of NGF Nature Energy Biogas A/S
- Chairman of the Board of Directors of foreningen Norliv fmba
- Chairman of the Board of Directors of Det Grønne Museum
- Member of the Board of Directors of Kirkbi A/S
- Member of the Board of Directors of Fællesfonden
- Member of the Board of Directors of Nordea Liv and Pension A/S
- 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 Committee of Representatives of Danmarks Nationalbank
- Member of the Committee of Shareholders of Sydbank A/S
- Member of the Committee of Representatives of Hedeselskabet

Karen Frøsig, Managing Director & CEO, 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 the Board of Directors of Foreningen Bankdata
- Member of the Board of Directors and vice chairman of Landsdækkende Banker
- Member of the Board of Directors of PRAS A/S
- Member of the Board of Directors of Finance Denmark

- 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

Gert R. Jonassen, Managing Director & CEO, A/S Arbejdernes Landsbank

- Chairman of the Board of Directors of AL Finans A/S
- Chairman of the Board of Directors of Foreningen Bankernes EDB-Central
- Member of the Board of Directors and Vice Chairman of Finanssektorens Uddannelsescenter
- Member of the Board of Directors and Vice Chairman of LR Realkredit A/S
- Member of the Board of Directors of Pension Danmark Holding A/S
- Member of the Board of Directors of Pension Danmark Pensionsforsikringsaktieselskab
- Member of the Board of Directors and Vice Chairman of PRAS A/S
- Member of the Board of Directors of Landsdækkende Banker
- Member of the Board of Directors of Totalkredit A/S
- Managing Director at Handels ApS Panoptikon

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
  *Will step down on 23 February 2018

Jan Pedersen, Managing Director & CEO, 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 Fonden for Andelskasserne in area NORTH

- Chairman and Managing Director of Villa Prisme Komplementar-anpartsselskab

Lars Petersson, Managing Director & CEO of Sparekassen Sjælland-Fyn A/S

- Chairman of the Board of Directors of Holbæk Kommunes Talentråd
- Chairman of the Board of Directors of Museum Vestsjælland
- Member of the Board of Directors and Vice Chairman of Nærpension
- Member of the Board of Directors and Managing Director of Investeringsselskabet af 10. marts 2015 ApS
- Member of the Board of Directors of Ejendomselskabet Sjælland-Fyn A/S
- Member of the Board of Directors of Investeringsselskabet Sjælland-Fyn A/S
- Member of the Board of Directors of BI Holding A/S (Bankinvest Gruppen)
- Member of the Board of Directors of Tilskudsfonden for pensionister i DLR
- Member of the Board of Directors of Copenhagen FinTech
- Member of the Board of Directors of Regional Invest Fyn A/S
- Member of the Board of Directors of Poulsgade A/S

FINANCIAL STATEMENTS 2017

PROFIT AND LOSS ACCOUNT AND STATEMENT OF COMPREHENSIVE INCOME

BALANCE SHEET

STATEMENT OF CHANGES IN EQUITY

CAPITAL AND SOLVENCY

NOTES

SERIES FINANCIAL STATEMENTS

Profit and Loss Account and Statement of Comprehensive Income

Note		2017	2016
		DKKm	
1	Interest income	3,329	3,466
2	Interest expenses	(1,621)	(1,765)
	Net interest income	**1,708**	**1,701**
	Share dividends etc.	0	0
	Fee and commission income	235	159
	Fee and commission paid	(492)	(441)
	Net interest and fee income	**1,451**	**1,419**
3	Market value adjustments	(172)	(88)
	Other operating income	20	18
4-8	Staff costs and administrative expenses	(252)	(230)
	Depreciation and impairment of property, plant and equipment	(3)	(3)
	Other operating expenses	(12)	(15)
9	Impairment of loans, advances, receivables, etc.	94	(62)
	Profit before tax	**1,126**	**1,039**
10	Tax	(246)	(228)
	Profit after tax	**880**	**811**
	Statement of comprehensive income		
	Profit after tax	880	811
	Comprehensive income	**880**	**811**
	Attributable to:		
	Shareholders of DLR Kredit A/S*	808	702
	Owners of additional tier 1 capital	72	109
	Total comprehensive income	**880**	**811**

* Due to tax deductions on payments to owners of additional tier 1 capital, the amount for 2017 is DKK 16 million higher than the one stated (22% of DKK 72 million). Similarly, the amount for 2016 was DKK 24 million higher.

Balance Sheet

Note		31 Dec. 2017	31 Dec. 2016
	Assets		
	Cash balance and demand deposits with central banks	50	48
11	Due from credit institutions and central banks	7,951	2,428
12-18	Loans, advances and other receivables at fair value	143,042	139,032
13-18	Loans, advances and other receivables at amortised cost	19	20
19	Bonds at fair value	11,810	13,625
	Shares, etc.	46	58
20	Land and buildings, domicile properties	97	98
	Other tangible assets	4	4
	Current tax receivables	27	0
	Deferred tax assets	0	1
	Assets held temporarily	35	159
21	Other assets	272	246
	Prepayments	22	18
	Total assets	**163,375**	**155,737**
	Liabilities and equity		
22	Issued bonds at fair value	139,972	134,074
23	Issued bonds at amortised cost	9,000	8,000
	Current tax liabilities	0	18
24	Other liabilities	1,331	1,378
	Deferred income	4	4
	Total debt	**150,307**	**143,474**
	Provisions for deferred tax	3	4
	Total provisions	**3**	**4**
	Subordinated debt	650	0
	Subordinated debt	**650**	**0**
	Share capital	570	570
	Revaluation reserve	43	43
	Undistributable reserve	2,338	2,338
	Retained earnings	9,464	8,008
	Additional tier 1 capital	0	1,300
	Total equity	**12,415**	**12,259**
	Total liabilities and equity	**163,375**	**155,737**
27	**Off-balance sheet items**		
	Guarantees	7	17
	Other liabilities	4,953	4,220

	Share capital 1)	Revalua-tion reserve	Undistribu-table reserve	Retained earnings	Owners of additional tier 1 capital 2)	Total
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						
Acquisition of treasury shares 3)	0	0	0	(970)	0	**(970)**
Interest on additional tier 1 capital	0	0	0	0	(109)	**(109)**
Tax base of deduction for 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**
2017						
Equity at 1 January 2017	570	43	2,338	8,008	1,300	**12,259**
Comprehensive income	0	0	0	808	72	**880**
Transactions with owners						
Disposal of treasury shares 3)	0	0	0	632	0	**632**
Interest on additional tier 1 capital	0	0	0	0	(72)	**(72)**
Tax base of deduction for interest on additional tier 1 capital	0	0	0	16	0	**16**
Redemption of additional tier 1 capital	0	0	0	0	(1,300)	**(1,300)**
Equity at 31 december 2017	**570**	**43**	**2,338**	**9,464**	**0**	**12,415**

1) The share capital is divided into shares of each DKK 1.00. 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 in the Capital Requirements Regulation (CRR).

3) In 2017, DLR Kredit sold treasury shares corresponding to a market value of DKK 632 million (2016: acquired treasury shares worth DKK 970 million).

Number	32,715,445
Nominal value (DKKm)	32.7
Percentage of share capital	5.7%

4) DLR Kredit held 21,495,118 treasury shares at 31/12 2017, corresponding to a nominal value of DKK 21.5 million. The portfolio of treasury shares accounts for 3.8% of the total share capital.

	31 Dec. 2017	31 Dec. 2016
Equity	12,415	12,259
Profit not recognised in equity	0	0
Additional tier 1 capital recognised in equity	0	(1,300)
Deductions as a consequence of prudent valuation	(26)	(22)
Difference between expected losses and impairment losses	(667)	(676)
Deferred tax	0	(1)
Common equity tier 1 capital	**11,722**	**10,260**
Additional tier 1 capital	0	1,300
Subordinated capital (tier 2 capital)	650	0
Own funds	**12,372**	**11,560**
Risk-weighted exposure with credit risk, etc.	71,804	75,327
Risk-weighted exposure with market risk	3,667	2,892
Risk-weighted exposure with operational risk	2,401	2,456
Total risk-weighted exposure	**77,872**	**80,674**
Common equity tier 1 capital ratio	**15.1%**	**12.7%**
Total capital ratio	**15.9%**	**14.3%**

List of notes to the financial statements

Nr.	Name of note
	Notes to the financial statements - income statement
1	Interest income
2	Interest expenses
3	Market value adjustments
4	Staff costs and administrative expenses
5	Remuneration to members of the Executive Board, Board of Directors, etc.
6	Executive Management and Board of Directors. Amount of loans, security, surety or guarantees provided to institution members
7	Audit fees
8	Number of employees
9	Provisions and impairment losses for loans and receivables etc.
10	Tax (breakdown in DKKm)
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13	Loans, advances and other receivables at amortised cost
14	Loans and advances and other receivables at fair value and amortised cost
15	Mortgage loans (nominal value) by property category (as a percentage)
16	Number of loans - end of period
17	Impairment of loans, advances and other receivables at fair value and amortised cost
18	Reasons for individual impairment losses
19	Bonds at fair value
20	Land and buildings, domicile properties
21	Other assets
	Notes to the financial statements - liabilities and equity
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23	Issued bonds at amortised cost
24	Other liabilities
25	Provisions for deferred tax
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30	Credit risk - policy and security:
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Note		2017	2016
1	**Interest income**		
	Due from credit institutions and central banks	0	0
	Loans and advances	1,660	1,805
	Contributions	1,508	1,462
	Bonds	186	229
	Other interest income	58	51
	Total interest income	**3,412**	**3,546**
	Interest on own mortgage bonds offset against interest on issued bonds	(83)	(79)
	Total	**3,329**	**3,466**
	Of which interest income from repo transactions:		
	Due from credit institutions and central banks	**0**	**0**
2	**Interest expenses**		
	Credit institutions and central banks	(5)	(3)
	Issued bonds at fair value	(1,652)	(1,791)
	Issued bonds at amortised cost	(42)	(50)
	Other interest expenses	(6)	-
	Total	**(1,704)**	**(1,844)**
	Interest on own mortgage bonds offset against interest on issued bonds	83	79
	Total	**(1,621)**	**(1,765)**
	Of which interest expenses on repo transactions:		
	Debt to credit institutions and central banks	**0**	**0**
3	**Market value adjustments**		
	Mortgage loans	2,844	960
	Bonds	(180)	(79)
	Shares etc.	(3)	1
	Other assets	0	0
	Foreign currency	4	(3)
	Derivative financial instruments	7	(7)
	Issued bonds	(2,844)	(960)
	Total	**(172)**	**(88)**

Note		2017	2016
4	**Staff costs and administrative expenses**		
	Staff costs		
	Salaries *	(129)	(118)
	Pension costs	(11)	(11)
	Social security costs	(19)	(18)
	Total	**(160)**	**(147)**
	Other administrative expenses		
	IT expenses	(46)	(40)
	Audit, supervision and industry association	(9)	(7)
	Other expenses	(38)	(36)
	Total	**(93)**	**(83)**
	Total staff and administrative expenses	**(252)**	**(230)**
5	**Remuneration to members of the Executive Board, Board of Directors, etc.**		
	Executive Management *		
	Jens Kr. A. Møller, Managing Director & CEO	4.0	3.8
	Michael Jensen, Managing Director	2.8	2.7
	Total	**6.8**	**6.5**
	*** The Executive Management receives a fixed remuneration only.**		
	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

	2017	2016
Remuneration to the Board of Directors for participating in board duties and serving on Risk and Audit Committees (DKKt)		
Vagn Hansen, Chairman	248	248
Lars Møller, Deputy Chairman (took office in April 2017)	202	165
Anders Dam, Deputy Chairman (resigned in April 2017)	52	165
Claus Andersen (took office in April 2016)	138	93
Claus Andreasen (resigned in April 2017)	36	110
Randi Franke (took office in April 2017)	74	0
Karen Frøsig	110	110
Peter Gæmelke	110	110
Jakob G. Hald	138	138
Kim Hansen (took office in April 2017)	74	0
Søren Jensen	138	138
Gert R. Jonassen (took office in April 2017)	74	0
Agnete Kjærsgaard	110	110
Torben Nielsen	193	193
Benny Pedersen (resigned in April 2017)	36	110
Jan Pedersen	110	110
Lars Petterson	110	110
Ole Selch Bak (resigned in April 2016)	0	45
Total remuneration	**1,953**	**1,953**
Members of the Board of Directors do not receive shares or other incentive pay.		
Other employees influencing the risk profile		
Fixed remuneration	18.2	16.7
Variable remuneration	0.0	0.0
Total	**18.2**	**16.7**
Number of employees who have influenced the risk profile		
Number of employees who have influenced the risk profile	18	19
- Of whom resigned during the year	1	4
Number of employees influencing the risk profile, year-end	17	15
The Company has no pension obligations to or incentive schemes for the above group of persons.		

Note		2017	2016
6	**Executive Management and Board of Directors. Amount of loans, security, surety or guarantees provided to**		
	Executive Board:		
	Loans etc.	0	0
	Board of Directors:		
	Loans etc.	18	31

- DLR has not charged any assets or provided other collateral or assumed any off-balance sheet liabilities on behalf of any member of the Executive Management or the Board of Directors or their related parties.
- Exposure with related parties is granted on ordinary business 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) 2017:
Executive Board: No loans (2016: No loans).
Board of Directors: 1.0-3.0 per cent p.a.* (2016: 1.0-3.0 per cent p.a.)
* Interest rates (including contributions) relate to various types of loans based on different mortgage bonds/covered bonds (SDOs).

No impairment losses have been recognised on exposures with the Executive Management or the Board of Directors.

Note		2017	2016
7	**Audit fees**		
	Statutory audit of the financial statements	0.9	0.9
	Other assurance engagements	0.3	0.3
	Tax advice	0.2	0.2
	Other services*	0.6	0.5
	Total	**2.0**	**1.9**

* The fee paid to Deloitte for non-audit services amounts to DKK 1.1 million. The services relate to assurance reports issued by DLR in its capacity as a financial business, tax advice in connection with tax returns etc. and a number of other services, of which the most important concern advice in relation to DLR's IRB-based credit risk model (solvency) and IFRS 9.

Note		2017	2016
8	**Number of employees**		
	Average number of employees in the financial year converted into FTEs*	173	165
	Total	**173**	**165**

* In addition to its 173 employees, DLR has 24 associated agricultural valuation experts (2016: 25), who perform valuations for DLR in connection with lending against agricultural property. Agricultural valuation experts are paid a combination of a fixed remuneration and a variable fee depending on the number and scope of valuation assignments performed for DLR. Fees paid to agricultural valuation experts are included in “Staff cost”.

Note		2017	2016
9	**Provisions and impairment losses for loans and receivables etc.**		
	Losses in the period*	(23)	(104)
	Amounts received on claims previously written off*	14	4
	Impairment losses in the period	(118)	(226)
	Reversal of impairment losses	195	216
	Losses offset against commission payments to banks	27	48
	Total	**94**	**(62)**

* Under DLR's collaboration agreement with the financial institutions providing the loans (see note 30 for additional information), DLR received a total of DKK 53 million in 2017 to cover losses. The main part of these payments was received in the fourth quarter of 2017. The amounts received are included as income under "Losses in the period" and "Amounts received on claims previously written off".

Note		2017	2016
10	**Tax (breakdown in DKKm)**		
	Applicable tax rate for "Profit before tax"	(247.8)	(228.6)
	Non-taxable income and non-deductible expenses	(0.1)	(0.1)
	Deferred tax etc.	0.1	0.1
	Adjustment of prior-year tax charge	1.4	0.4
	Total	**(246.4)**	**(228.1)**
	Tax (breakdown of effective tax rate)		
	Current tax rate	22.0	22.0
	Non-taxable income and non-deductible expenses	0.0	0.0
	Adjustment of deferred tax	0.0	0.0
	Adjustment of prior-year tax charge	(0.1)	0.0
	Effective tax rate	**21.9**	**22.0**
11	**Due from credit institutions and central banks**		
	Due from credit institutions and central banks	7,951	2,428
	Total amount due from credit institutions and central banks	**7,951**	**2,428**
	DLR had not entered into any reverse repo transactions at year-end		
	Maturity distribution by term to maturity		
	Demand deposits	1,928	2,428
	Up to and including three months	6,023	0
	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	**7,951**	**2,428**

Note		31 Dec. 2017	31 Dec. 2016
12	**Loans, advances and other receivables at fair value**		
	Mortgage loans, nominal value	140,653	137,493
	Adjustment to fair value of underlying bonds	2,843	1,966
	Adjustment for credit risk	(504)	(566)
	Mortgage loans at fair value	**142,992**	**138,893**
	Arrears before impairment losses	101	124
	Other loans and outlays before impairment losses	(36)	44
	Impairment losses on arrears and outlays	(16)	(28)
	Total	**143,042**	**139,032**
13	**Loans, advances and other receivables at amortised cost**		
	Loans and advances	24	26
	Adjustment for credit risk	(5)	(6)
	Total	**19**	**20**
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	1,183	895
	Over three months up to and including one year	3,003	2,602
	Over one year up to and including five years	21,530	22,307
	Over five years	117,345	113,248
	Total	**143,061**	**139,053**

Pursuant to special legislation, a government guarantee of DKK 342m (2016: DKK 433m) has been provided as supplementary security for loans to young farmers.

Security in the amount of DKK 1,158m has been provided for advance loans (2016: DKK 1,134m).

As supplementary security for mortgage loans, bankers' guarantees of DKK 16,257 million in addition to mortgages have been provided (2016: DKK 16,329 million)

Note		31 Dec. 2017	31 Dec. 2016
15	**Mortgage loans (nominal value) by property category (as a percentage)**		
	Agricultural properties	62	63
	Owner-occupied dwellings	6	6
	Subsidised rental housing properties	0	0
	Private rental housing properties	15	14
	Office and business properties	16	16
	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**
16	**Number of loans - end of period**	**60,212**	**59,119**
17	**Impairment of loans, advances and other receivables at fair value and amortised cost**		
	Individual impairment losses		
	Impairment losses on loans, advances and guarantees, beginning of period	411	445
	Reversal of impairment losses	(195)	(191)
	Impairment losses in the period	62	156
	Impairment losses - end of period	**278**	**411**
	Collective impairment losses*		
	Impairment losses on loans, advances and guarantees, beginning of period	190	145
	Reversal of impairment losses	0	(25)
	Impairment losses in the period	56	70
	Impairment losses - end of period	**246**	**190**
	Total	**524**	**601**

*Collective impairment losses:

A number of amendments to the Danish Executive Order on the Presentation of Financial Statements will take effect on 1 January 2018. These amendments are the result of the implementation of IFRS 9, which mainly concerns the valuation of loans and advances at amortised cost. As a result of these amendments, adjustments for credit risk, which were previously based on actual events (objective evidence of impairment), will in future be based on expected losses.

DLR measures loans and advances at fair value but to a wide extent applies the same principles as those used for loans and advances at amortised cost. The method applied to determine the fair value of loans and advances has therefore been changed to the effect that adjustments for credit risk will in future be based on expected losses in accordance with the Danish Executive Order on the Presentation of Financial Statements.

This change is considered a change of the accounting estimate underlying the determination of the value of mortgage loans. As at year-end 2017 DLR had a reasonable basis on which to make the estimate, the recognition was made in the financial statements for 2017. The earnings effect of the transition to the new method is DKK 97 million, which has been recognised in collective impairment charges.

	2017	2016
Fair value of exposures on which individual impairment losses have been recognised:		
- Before impairment losses	2,027	3,381
- After impairment losses	1,748	2,970

All impairment losses relate to loans and advances at fair value and at amortised cost.

Note			Remaining bond debt before impairment 2017	Impairment year-end 2017	Remaining bond debt before impairment 2016	Impairment year-end 2016
18	**Reasons for individual impairment losses**					
	Property category	**Reason**				
	Farms, including residential farms, etc.					
		Bankruptcy	113	25	726	88
		Reconstruction	0	0	0	0
		Current default on payments	161	34	186	33
		Prior default om payments	1,515	180	2,071	226
			1,789	**239**	**2,983**	**347**
	Rental properties, including private cooperative housing properties					
		Bankruptcy	0	0	3	1
		Reconstruction	0	0	0	0
		Current default on payments	0	0	2	1
		Prior default om payments	147	23	240	30
	Total		**147**	**23**	**245**	**32**
	Office and business properties					
		Bankruptcy	11	1	5	2
		Reconstruction	0	0	0	0
		Current default on payments	14	8	14	7
		Prior default om payments	56	7	120	21
	Total		**81**	**16**	**139**	**30**
	Other properties					
		Bankruptcy	0	0	1	0
		Reconstruction	0	0	0	0
		Current default on payments	1	0	0	0
		Prior default om payments	9	1	13	2
	Total		**10**	**1**	**14**	**2**

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

Note		31 Dec. 2017	31 Dec. 2016
19	**Bonds at fair value**		
	- Own mortgage bonds	30,307	23,866
	- Other mortgage bonds	10,243	11,441
	- Government bonds	1,567	2,184
	Bonds - gross	**42,117**	**37,492**
	Own mortgage bonds offset against issued bonds	(30,307)	(23,866)
	Total	**11,810**	**13,625**
20	**Land and buildings, domicile properties**		
	Fair value, beginning of year	**98**	**98**
	Additions during the year	0	0
	Depreciation	(1)	(1)
	Value changes recognised in other comprehensive income	0	0
	Fair value, end of period	**97**	**98**
	Domicile properties are valued on an annual basis by DLR's valuation experts.		
21	**Other assets**		
	Positive market value of derivative financial instruments etc.	4	10
	Interest and commission receivable	85	107
	Other receivables	183	129
	Total	**272**	**246**

Note		31 Dec. 2017	31 Dec. 2016
22	**Issued bonds at fair value**		
	Mortgage bonds - nominal value	167,176	155,775
	Fair value adjustment	3,103	2,165
	Issued bonds - gross	**170,279**	**157,940**
	Offsetting of own mortgage bonds - fair value	(30,307)	(23,866)
	Total	**139,972**	**134,074**
	Of which pre-issued, market value	13,291	10,228
	Cash value of bonds drawn for redemption at next repayment date (settlement price)	8,321	2,152

The change in the fair value of mortgage bonds and SDOs attributable to changes in credit risk may be calculated relative to corresponding mortgage bonds and SDOs offered by other Danish issuers. The bonds funding DLR's loan portfolio are rated AAA by Standard & Poor's, in line with the rating assigned to most 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 the year 2016, nor in the period since issuance.

The aggregate fair value adjustment of issued mortgage bonds and SDOs as a consequence of changes in the fair value of own credit risk was therefore DKK 0.0 million (2016: DKK 0.0 million). Of the accumulated effect, DKK 0.0 million relates to changes in 2017 (2016: DKK 0.0 million).

	31 Dec. 2017	31 Dec. 2016
Maturity distribution by term to maturity (gross portfolio at market value)		
Up to and including three months	23,483	14,935
Over three months up to and including one year	29,020	21,065
Over one year up to and including five years	83,970	93,777
Over five years	33,806	28,164
Total	**170,279**	**157,940**

Note		31 Dec. 2017	31 Dec. 2016
23	**Issued bonds at amortised cost**		
	Issues in connection with senior debt	9,000	8,000
	Offsetting of own bonds	0	-
	Total	**9,000**	**8,000**
	Maturity distribution by term to maturity		
	Up to and including three months	0	0
	Over three months up to and including one year	4,000	2,000
	Over one year up to and including five years	5,000	6,000
	Over five years	0	0
	Total	**9,000**	**8,000**
24	**Other liabilities**		
	Negative market value of derivative financial instruments	5	5
	Interest and commission payable	1,079	1,180
	Other liabilities	247	193
	Total	**1,331**	**1,378**
25	**Provisions for deferred tax**		
	Deferred tax, beginning of year	3	3
	Change in deferred tax	0	0
	Total	**3**	**3**
	Land and buildings, domicile properties	4	4
	Other property, plant and equipment	(1)	(1)
	Total	**3**	**3**
	Presented as:		
	Deferred tax assets	(1)	(1)
	Provisions for deferred tax	4	4
	Total	**3**	**3**

Note		31 Dec. 2017	31 Dec. 2016
26	**Equity**		
	Details on movements in equity appear from the statement of changes in equity.		
	At 31 December 2017, the following shareholders held more than 5 per cent of DLR's share capital.		
	Loan-providing shareholders:		
	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		
	None of the above mentioned shareholders hold controlling interests.		
27	**Off-balance sheet items**		
	Guarantees etc.		
	Financial guarantees	3	3
	Other guarantees	4	15
	Total	**7**	**17**
	Other contingent liabilities		
	Irrevocable credit commitments (loan offers)	4,953	4,220
	Total	**4,960**	**4,237**
	In addition to the above garantees and contingent liabilities, DLR´s bond portfolio is used as collateral for intraday settlement of VP sumclearing. This is not expected to entail an outflow of the Company's financial resources.		
28	**Contingent assets**		
	Loss set-off agreements have been established between DLR and the banks holding shares in DLR, under which DLR may offset any loss incurred against commission payable to the banks. Set-off can be made for a number of years, which means that DLR may offset any losses against future commission to the extent that impairment losses on exposures materialise as actual losses.		

Note

29 **Risk management**

Risk management is anchored with the Board of Directors and the Executive Management and is a key element of DLR’s day-to-day operations. DLRs internal controls and risk management procedures have been organised with a view to ensuring effective management of relevant risks.

DLR’s risks may be classified as follows:

1) Credit risk: DLR provides loans against registered mortgages on real property in compliance with statutory limits for the ranking of collateral.

2) Mortgage loans and the underlying funding are regulated according to the balance principle, meaning that DLR is only exposed to insignificant market risk. DLR’s market risk is thus associated with its securities portfolio and issued bonds at amortised cost

3) Operational risk: DLR’s operational risk pertains to any inadequate or failed internal processes, human or system error and external events, including legal risks.

Credit, market and operational risks are hedged by holding sufficient capital, while liquidity risks are hedged by holding adequate cash resources.

Each year, DLR publishes a detailed report entitled Risk and Capital Management containing a number of risk indicators in compliance with the Capital Requirements Regulation (CRR). The report, which is not subject to auditing, may be found 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 business properties in Denmark. Furthermore, loans are provided to a small extent in the Faroe Isands and in Greenland.

DLR offers loans in cooperation with the banks holding shares in DLR, 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 loan applicant's creditworthiness
- 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 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 an extended 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 the provision of 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 against the commission payable to each financial institution all losses incurred beyond what is covered by the 6% guarantees provided at loan level. Losses may be set off against ten years' commission for losses incurred after 1 January 2017.

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 70bn.
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 loan-providing financial institutions setting out a collective loss guarantee limit and a right of set-off under which DLR can set off actual losses against the commission payable 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 scheme, which is being phased out, applied to loans totalling DKK 41 billion at year-end 2017.

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 2017, the loan-mitigating agreements under this guarantee concept comprise guarantees totalling DKK 9.7bn provided for a portfolio of currently more than DKK 23bn. This guarantee concept is currently being phased out.

Note		31 Dec. 2017	31 Dec. 2016
31	**Credit risk - exposures**		
	Total credit exposure distributed on balance sheet and off-balance sheet items:		
	Balance sheet items		
	Cash balance and demand deposits with central banks	50	48
	Due from credit institutions and central banks	7,951	2,428
	Loans, advances and other receivables at fair value	143,042	139,032
	Loans, advances and other reveivables at amortised cost	19	20
	Bonds at fair value	11,810	13,625
	Other assets	269	236
	Derivative financial instruments	4	10
	Total	**163,144**	**155,400**
	Off-balance sheet items		
	Financial guarantees	3	3
	Other guarantees	4	15
	Irrevocable credit commitments (loan offers)	4,953	4,220
	Total	**4,960**	**4,237**

Note

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

The credit quality of DLR's loan portfolio is shown in the table below, which shows the distribution of the total loan portfolio by LTV bands (loan-to-value intervals) at the end of 2017 for the most significant property categories. The tables do not include loans in arrears or individual impaired loans.

The LTV distributions show how large a share of the loan portfolio is placed in the respective loan-to-value intervals. The LTV distribution is based on DLR 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 at Q4 2017 to ensure that the valuation basis applied 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 cover part of DLR's risk.

Agriculture: An LTV of 70% provided that additional security of 10% of the value is provided in the interval of 60-70% for loans based on SDOs. Otherwise, an LTV of 60% applies. Loans for agricultural properties accounted for 63% of DLR Kredit's total loan portfolio at the end of 2017.

Loan-to-value limit (LTV) as a percentage	**0-60**	**60-70**	**70+**
Per cent of loans in LTV intervals	91.0	5.9	3.1

Office and business properties: An LTV of 70% provided that additional security of 10% of the value is provided in the interval of 60-70% for loans based on SDOs. Otherwise, an LTV of 60% applies. Loans for office and business properties accounted for 16% of DLR's total loan portfolio at the end of 2017.

Loan-to-value limit (LTV) as a percentage	**0-60**	**60-70**	**70+**
Per cent of loans in LTV intervals	91.2	5.6	3.2

Rental properties, including cooperative housing: An LTV of 80% applies. Loans for private rental properties and private cooperative housing properties accounted for 13% of DLR's total loan portfolio at the end of 2017.

Loan-to-value limit (LTV) as a percentage	**0-80**	**80+**
Per cent of loans in LTV intervals	97.5	2.5

Owner-occupied homes: An LTV of 80% applies. Loans for owner-occupied homes accounted for 6% of DLR Kredit's total loan portfolio at the end of 2017.

Loan-to-value limit (LTV) as a percentage	**0-80**	**80+**
Per cent of loans in LTV intervals	98.9	1.1

Note			31 Dec. 2017	31 Dec. 2016
33	**Credit risk - loans in arrears but not impaired, distributed by age of oldest outstanding mortgage payment**			
			Remaining bond debt	**Remaining bond debt**
	Property category	**Age of oldest arrears**		
	Farms, including residential farms	0-2 months	3,144	3,025
		2-5 months	286	454
		5-8 months	50	97
		8-11 months	52	67
		Over 11 months	11	67
	Total		**3,543**	**3,711**
	Rental properties, including private cooperative housing properties	0-2 months	647	471
		2-5 months	30	44
		5-8 months	5	14
		8-11 months	6	1
		Over 11 months	0	0
	Total		**687**	**530**
	Office and business properties	0-2 months	1,009	904
		2-5 months	93	98
		5-8 months	25	44
		8-11 months	22	13
		Over 11 months	19	7
	Total		**1,167**	**1,066**
	Other properties	0-2 months	32	32
		2-5 months	0	1
		5-8 months	0	0
		8-11 months	0	0
		Over 11 months	0	0
	Total		**32**	**33**

Loans in arrears generally show OEI (objective evidence of impairment). Such loans are tested for impairment to determine whether an individual impairment loss should be recognised.

Loans in arrears but not individually impaired are essentially considered to be secured through the mortgage on the property provided as security for the individual loan. In addition, except for loans against agricultural properties provided before 2015, a guarantee will generally be provided by a financial institution for part of DLR's loan against the property in question.

Note

34 **Market risk - policy**

Interest rate risk

Under Danish law, the interest rate risk cannot exceed 8% of DLR's own funds. At the end of 2017, DLR's own funds amounted to DKK 12,372 million after deductions, giving a maximum permitted interest rate risk of DKK 990 million.

At the end of 2017, the interest rate risk on DLR's securities portfolio (asset side) was DKK 220 million. Interest rate risk expresses the market value adjustment expected to result from a 1 percentage point change in market rates at year-end 2017. Based on own funds, the relative interest rate risk was 1.8% at year-end 2017.

The interest rate risk on issued securities (liability side) – additional tier 1 capital and senior secured bonds – is DKK 32 million, equivalent to 0.3% of DLR's own funds.

The interest rate risk on issued debt instruments is opposite to the interest rate risk on the securities portfolio, and DLR's net interest rate risk is thus reduced to DKK 188 million, equivalent to 1.5% of own funds. DLR may take a net perspective on interest rate risk since the composition of the portfolio is managed actively within duration bands so that the liabilities side is hedged within matching duration bands as on the asset side.

Based on a specific assessment, DLR may use financial instruments to manage interest rate risk.

Liquidity risk

DLR's use of the specific balance principle means there is a close match between payments on loans granted and issued bonds (match-funding). However, in connection with prepayments of loans (immediate repayment), DLR receives 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, see section 8(9) of the executive order on governance, risk management, etc. for financial institutions, new requirements were implemented concerning the determination and assessment of liquidity position and liquidity risks (ILAAP - Internal Liquidity Adequacy Assessment Process). Accordingly, DLR has since 2014 prepared a separate report on liquidity for each year along with the 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.

Exchange rate risk

Calculated according to the foreign exchange indicator 2 of the Danish FSA, DLR's exchange rate risk at year-end 2017 was DKK 2.0 million, equivalent to 0.02% of own funds. Under Danish legislation, the exchange rate risk calculated on the basis of the foreign exchange indicator 2 of the Danish FSA cannot exceed 0.1% of own funds. The reason behind DLR's limited exchange rate 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, and that only a small proportion of DLR's securities portfolio is held in EUR bonds.

Equity risk

In general, DLR does not invest in shares, except for sector shares. At the end of 2017, DLR's equity portfolio consisted of holdings in VP Securities A/S, e-nettet A/S and Landbrugets Finansieringsinstitut A/S. At the end of 2017, the equity risk amounted to DKK 4 million.

Note		Change in post-tax results	Change in equity
35	**Market risk - sensitivity**		

DLR's risks and policies are set out in the risk management section of the Management's review. DLR is exposed to different types of market risk. To illustrate the exposure or sensitivity to each type of market risk, the change in profit and equity caused by various risk scenarios is set out below.

2017	**Change in profit after tax**	**Change in equity**
Interest-rate risk on the securities portfolio		
An interest-rate increase of 1 percentage point	(147)	(147)
An interest-rate decrease of 1 percentage point	147	147
Equity risk		
An increase in share value of 10 per cent	4	4
A decrease in share value of 10 per cent	(4)	(4)
Exchange rate risk		
An increase of 1 per cent DKK/EUR	12	12
A decrease of 1 per cent DKK/EUR	(12)	(12)

2016		
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
Equity risk		
An increase in share value of 10 per cent	4	4
A decrease in share value of 10 per cent	(4)	(4)
Exchange rate risk		
An increase of 1 per cent DKK/EUR	7	7
A decrease of 1 per cent DKK/EUR	(7)	(7)

Note

36 **Financial instruments: Instruments used**

DLRs financial instruments mainly consist of mortgage loans, deposits of liquid funds with banks and investments in mortgage bonds. 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 table 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 accounting policies, recognition and measurement for additional information.

2017	**Carrying amount**	**Fair value**
Loans, advances and other receivables at amortised cost	19	19
Issued bonds at amortised cost	9,000	8,978

2016	**Carrying amount**	**Fair value**
Loans, advances and other receivables at amortised cost	20	20
Issued bonds at amortised cost	8,000	8,039

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

Note		Quoted prices	Observable inputs	Non-observable inputs	Total fair value
38	**Information on assets and liabilities at fair value**				
	2017				
	Financial assets:				
	Recognised as trading portfolio:				
	- bonds at fair value	11,269	541	0	**11,810**
	- derivative financial instruments	4	0	0	**4**
	Recognised through the fair value option:				
	- loans, advances and other receivables at fair value	0	143,042	0	**143,042**
	Recognised as available for sale:				
	- shares available for sale	0	42	4	**46**
	Other assets				
	Land and buildings, domicile properties	0	0	97	**97**
	Total	**11,273**	**143,625**	**101**	**154,998**
	Financial liabilities:				
	Recognised as trading portfolio				
	- derivative financial instruments	5	0	0	**5**
	Recognised through the fair value option:				
	- issued bonds at fair value	122,206	17,766	0	**139,972**
	Total	**122,210**	**17,766**	**0**	**139,977**
	2016				
	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, advances and other receivables at fair value	0	139,032	0	**139,032**
	Recognised as available for sale:				
	- shares available for sale	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**

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 an updated market price is not available, 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 as the reallocation price, and the shares are included in this category.

Non-observable inputs

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 and extrapolations, 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.

Note		31 Dec. 2017	31 Dec. 2016
39	**Derivative financial instruments by remaining term to maturity**		
	Forwards, bought*		
	Up to and including three months		
	Nominal value	13,031	10,053
	Net market value	(3)	10
	Forwards, sold**		
	Up to and including three months		
	Nominal value	9,769	2,652
	Net market value	2	(5)

When loans are refinanced, DLR will 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 directly on to the borrower's adjustable-rate mortgage, while in the other transaction the borrower "buys" interest on its adjustable-rate mortgage. The net earnings effect of these transactions is DKK 0, if trading margin income in connection with the refinancing is disregarded.

* Forwards, bought: The refinancing, totalling DKK 13,031 million at the turn of the year 2017/18, thus implicitly involves that DLR (via the loan terms) has an agreement with the borrower that the borrower "buys" this interest on its adjustable-rate loan.

** Forwards, sold: Of the DKK 13,031 million refinancing, DLR has sold DKK 9,769 million forward at 2 January 2018, while the remaining amount was sold for settlement in 2017 and is therefore not stated as forwards.

Note		2017	2016	2015	2014	2013
40	**Key figures**					
	Income statement					
	Net interest and fee income	1,451	1,419	1,474	1,488	1,206
	Other operating income etc.	20	18	18	17	18
	Staff costs and administrative expenses etc.	(267)	(248)	(225)	(214)	(209)
	Earnings	**1,204**	**1,189**	**1,267**	**1,291**	**1,015**
	Impairment of loans, advances and receivables	94	(62)	(60)	(171)	(90)
	Market value adjustments	(172)	(88)	(330)	(188)	(296)
	Profit before tax	**1,126**	**1,039**	**875**	**933**	**629**
	Profit after tax	**880**	**811**	**670**	**703**	**471**
	Balance sheet					
	Assets					
	Loans and advances	143,061	139,053	133,038	133,219	133,910
	Bonds, shares, etc.	11,855	13,683	12,033	9,234	8,874
	Other assets	8,458	3,002	3,371	15,185	4,110
	Total assets	**163,375**	**155,737**	**148,442**	**157,637**	**146,894**
	Equity and liabilities					
	Issued bonds	148,972	142,074	134,342	141,324	131,438
	Other liabilities	1,338	1,404	1,596	3,638	2,395
	Subordinated debt	650	0	0	755	3,078
	Equity	12,415	12,259	12,503	11,919	9,984
	Total equity and liabilities	**163,375**	**155,737**	**148,442**	**157,637**	**146,894**

Note		2017	2016	2015	2014	2013
41	**Financial ratios**					
	Return on equity					
	Profit before tax in per cent of equity(*)	9.1	8.4	7.2	8.5	6.6
	Profit after tax in per cent of equity(*)	7.1	6.5	5.5	6.4	5.0
	Return on capital employed					
	Return on capital employed(*)	0.5	0.5	0.5	0.5	0.3
	Costs					
	Costs in per cent of loan portfolio	0.2	0.2	0.2	0.2	0.2
	Income/cost ratio*)	7.5	4.4	4.1	3.4	3.1
	Income/cost ratio, excl. impairment losses	4.9	5.4	5.2	6.2	4.4
	Solvency **)					
	Total capital ratio	15.9	14.3	12.9	12.3	12.3
	Tier 1 capital ratio	15.1	14.3	12.9	12.3	12.3
	Common equity tier 1 capital ratio	15.1	12.7	11.5	10.4	9.8
	Arrears and impairment losses					
	Arrears, end of period (DKKm)	101	124	122	142	125
	Impairment ratio for the period (in per cent of loan portfolio) *)	(0.07)	0.04	0.05	0.13	0.07
	Accumulated impairment ratio (in per cent of loan portfolio)	0.37	0.43	0.44	0.40	0.28
	Lending activity					
	Growth in loan portfolio, per cent (nominal)*)	2.3	3.8	0.6	(0.9)	(0.9)
	New loans, gross (DKKm)	35,214	23,118	23,469	33,181	11,340
	Number of new loans	10,225	7,353	8,585	9,638	4,887
	Loan/equity ratio(*)	11.5	11.3	10.6	11.2	13.4
	Margins					
	Percentage of average loan portfolio (nominal):					
	Profit before tax	0.81	0.77	0.67	0.71	0.47
	Administration margin income in per cent of average loan portfolio	1.08	1.08	1.09	1.07	1.05
	Percentage of tier 1 capital after deductions:					
	Foreign exchange position as a percentage of tier 1 capital after deductions(**)	13.1	8.0	9.1	4.0	3.1

(*) 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 and 2017, as opposed to the figures at year-end 2015, which were solely based on the standard method.

Note		31. dec. 2017	31. dec. 2016
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	3,584	3,644
	Government grants received	0	0
43	**Related parties**		
	DLR has no related parties other than the Board of Directors and the Executive Board		

		Basic earnings	Portfolio earnings	Total
44	**Reconciliation of income statement "basic portfolio earnings" vs "official statements"**			
	Interest income	3,151	178	3,329
	Interest expenses	(1,621)		(1,621)
	Net interest income	**1,530**	**178**	**1,708**
	Share dividends etc.	0		0
	Fees and commission received	235		235
	Fees and commission paid	(492)		(492)
	Net interest and fee income	**1,273**	**178**	**1,451**
	Market value adjustments	1	(173)	(172)
	Other operating income	20		20
	Staff costs and administrative expenses	(252)		(252)
	Depreciation and impairment of property, plant and equipment	(3)		(3)
	Other operating expenses	(12)		(12)
	Impairment of loans, advances, receivables, etc.	94		94
	Profit before tax	**1,121**	**6**	**1,126**
	Tax	(246)		(246)
	Profit after tax	**874**	**6**	**880**

Note

45 **Significant accounting policies**

Generelt

DLR's annual report has been prepared in accordance with the provisions of the Danish Financial Supervisory Authority 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 applied in 2017 have been changed in relation to the classification of the following items:

- Fees for agricultural valuation experts: Previously, the expenses set out in the note "Staff costs and administrative expenses" were classified as "Other administrative expenses". As from 2017, these expenses are classified as "Staff costs".
- Loss set-off against commission to shareholder banks was previously recognised in "Fees and commission paid". As from 2017, such income is recognised in "Impairment of loans, advances and receivables".

The reclassification has no effect on either profit before tax, comprehensive income or equity.

The comparative figures have been restated to reflect the changes.

Accounting estimates and judgments

The preparation of financial statements requires the use of qualified accounting estimates. Such estimates and judgments are made by DLR's Management in accordance with the accounting policies and on the basis of historical experience and assessments of future conditions. Accounting estimates and assumptions are tested and reviewed on a regular basis. The estimates and judgments applied are based on assumptions which Management finds reasonable and realistic but which are inherently subject to uncertainty.

The most significant estimates affecting the financial statements concern:

- Loans and advances at fair value
- Bonds at fair value
- Land and buildings, domicile properties
- Assets held temporarily
- (What about shares and issued bonds at fair value)

Loans and advances at fair value

Mortgage loans are measured at fair value in accordance with the Danish executive order on the presentation of financial statements and IFRS 13. In the financial statements for 2017, the measurement of mortgage loans has changed materially to reflect IFRS 9.

Consequently, while adjustments for credit risk were previously based on actual events (objective evidence of impairment), adjustments are as from 2017 based on expected losses.

This change of rules is considered a change of the accounting estimate underlying the determination of the value of mortgage loans. As at year-end 2017 DLR had a reasonable basis on which to apply the improved method for estimating the fair value of mortgage loans, the recognition was made in the financial statements for 2017. The effect of the revised estimate has been determined at DKK 46 million relative to the method applied in the financial statements for the first nine months of 2017.

The accounting estimates applied for purposes of calculating impairment losses on loans and advances at fair value are as follows:

- As regards individually impaired loans and advances, estimating the price a mortgage would obtain in a forced sale is an important element in calculating the impairment loss. Such estimates are made by internal valuers specialising in the valuation of properties.

- As regards the rest of the portfolio (referred to as collective impairment losses in the financial statements), impairment losses are calculated using a model-based approach. As regards the loans and advances for which DLR has an approved IRB model, the model parameters PD (probability of default) and LGD (loss given default) are applied. For purposes of the financial statements, these parameters are based on an "expected addition", while for purposes of the statement of total capital the prudence concept is applied. As regards the loans and advances for which DLR does not have an IRB model, PD and LGD have been determined using other input variables so as to enable the calculation of the expected loss. In addition to model-based impairment losses, a management judgment has been made to ensure that provisions are made to cover the risks not captured by the model.

The estimate applied is subject to considerable uncertainty.

Bonds at fair value

Liquid bond portfolios are measured at fair value, which is the market price of these bonds. Portfolios of bonds in small illiquid series that are not traded actively are measured at a calculated price. As this price is based on an estimate, it is subject to some uncertainty. For further information, see the note "Assets and liabilities at fair value".

Valuation of domicile properties and assets held temporarily

The measurement of domicile properties and assets held temporarily is based on valuations performed by internal valuers. Such estimates are subject to some uncertainty.

Presentation, recognition and measurement

The figures in the financial statements are presented in whole millions of DKK with no decimals unless decimals are considered essential.

Totals in the financial statements have been calculated on the basis of actual amounts in accordance with the correct mathematical method. A recalculation of totals may in some cases result in rounding differences because the underlying decimals are not disclosed to the reader.

Notes - Significant accounting policies

Assets are recognised in the balance sheet when, as a consequence of a past event, it is probable that future economic benefits will flow to DLR and the value of the asset can be measured reliably.
Liabilities are recognised in the balance sheet when, as a consequence of a past event, DLR has a legal or constructive obligation, and it is probable that future economic benefits will flow from the Company, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below in respect of each individual item, but generally at fair value.

Recognition and measurement take into account predictable risks and losses occurring before the presentation of the annual report which confirm or invalidate circumstances existing at the balance sheet date.

Income is recognised in the income statement as earned, whereas costs are recognised at the amounts that relate to the financial year.

Financial instruments are recognised at the settlement date. Changes in the fair value of instruments purchased or sold in the period between the trade date and the settlement date are recognised as financial assets or liabilities.

Derivative financial instruments

Derivative financial instruments are measured at fair value at the balance sheet date.
Unrealised as well as realised capital gains or losses are recognised in the income statement and in the balance sheet under “Other assets” or “Other liabilities”, respectively.

Forward transactions

Unsettled financial futures are measured at the forward price at the calculation date. 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 liabilities”, respectively. Adjustments to market value are recognised in the income statement under “Market value adjustments” and in the balance sheet under “Other assets” or “Other liabilities”, respectively.

Foreign currency translation

On initial recognition, transactions denominated in foreign currency are translated at the exchange rates at the transaction date. Receivables, payables and other monetary items denominated 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 foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment or the balance sheet date, respectively, are recognised in the income statement under financial income or expenses.

Income statement

Under the Danish executive order on the presentation of financial statements, net interest and fee income and market value adjustments must be disclosed by activity and geographical market where activities and markets are not identical. DLR has one single activity, i.e. mortgage credit business in Denmark and, to a limited extent, the Faroe Islands and Greenland. For risk purposes, these markets are considered one geographical market, and the above-mentioned information is therefore not disclosed.

Interest income and expenses

Interest income and expenses, including default interest and administration contributions, are accrued to the effect that interest incurred but not yet due is recognised in the income statement.

Payments to owners of additional tier 1 capital are included in the allocation of comprehensive income.

Fees and commission received

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

Fees and commission paid

Agency commission to financial institutions is recognised in the income statement on completion of the transaction. Loss guarantee commission to financial institutions is recognised in the income statement under the accrual basis of accounting.

Market value adjustments

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

Staff costs and administrative expenses

Staff costs comprise payroll costs, social security costs, pensions, etc. relating to the Company's employees. Administrative expenses comprise expenses related to IT, distribution, sale and administration, etc.

Impairment of loans, advances, receivables, etc.

Impairment losses on loans and advances comprise value adjustments for the year consisting of actual losses and changes in expected future losses.

Also included are income resulting from DLR's right to set off actual losses against the commission payable to individual banks as well as amounts received on claims previously written off.

Tax

Tax for the year consists of:

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

Tax is recognised in profit or loss at the share attributable to profit or loss for the year and in other comprehensive income at the share attributable to other comprehensive income.

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax paid on account. Interest surcharges under the tax prepayment scheme are included in net interest income.

The current tax charge for the year is calculated based on the tax rates and rules applicable at the balance sheet date.

Deferred tax is recognised on all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax assets or tax liabilities are recognised in the balance sheet at the value at which the asset/liability is expected to be realised. At each balance sheet date, an assessment is made as to whether it is probable that sufficient future taxable income will be available against which a deferred tax asset can be utilised.

Comprehensive income

Comprehensive income comprises the profit for the year plus other comprehensive income such as revaluation of domicile properties.

Balance Sheet

Due from credit institutions and central banks

Demand deposits and time deposits with financial institutions are measured at fair value on initial recognition and subsequently at amortised cost.

Loans, advances and other receivables

Mortgage loans are measured at fair value and comprise adjustment for market risk based on the value of the bonds issued and adjustment for credit risk based on evidence of impairment.

Other loans and advances are measured at amortised cost, which usually corresponds to the nominal value less front-end fees etc., and less provisions for bad debts.

Individual impairment losses are recognised on the basis of individual examinations of a number of large loans and exposures and of loans in arrears or showing other objective evidence of impairment. If it is considered probable that the borrower will default on the loan, an impairment loss is recognised based on the loss which DLR is expected to incur following a forced sale of the mortgaged property.

Collective impairment losses are recognised applying the model described under “Accounting estimates” above.

Claims previously written off which are expected to result in an inflow of future economic benefits are recognised in the balance sheet and adjusted through profit or loss. DLR is currently not believed to have any such claims.

Bonds at fair value

Bonds traded in active markets are measured at fair value. Index-linked bonds are recognised at the indexed value at the balance sheet date. Bonds not traded actively are recognised on the basis of a calculated market price.

The portfolio of own bonds is set off against the liability item “Issued bonds”.

Shares etc.

Shares traded in active markets are measured at fair value.

Unlisted shares are stated at fair value. Where the fair value cannot be measured reliably, unlisted shares are measured at cost less any impairment.

Land and buildings, domicile properties

On initial recognition, domicile properties are recognised at cost. Subsequently, domicile properties are measured at their revalued amounts, being the fair value at the revaluation date less subsequent accumulated depreciation and subsequent impairment. Revaluations are performed annually to ensure that the carrying amount does not differ materially from the value which would have been determined using the fair value at the balance sheet date.

Subsequent improvement expenses are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, when it is probable that the expenses incurred will result in an inflow of future economic benefits for the Company and the expenses can be measured reliably. Ordinary repair and maintenance expenses are recognised in the income statement as incurred.

Positive value adjustments of own properties are recognised in the revaluation reserve under equity. Any decreases are recognised in the income statement unless the decrease offsets an increase in value previously recognised in the revaluation reserve.

Depreciation is provided on a straight-line basis over the estimated useful life of 50 years taking into account the expected residual value at the end of the useful life. Land is not depreciated.

Other property, plant and equipment

Machinery, tools and equipment are measured at cost less accumulated depreciation and impairment. Depreciation is provided on a straight-line basis over the expected useful life of the asset, which is not to exceed five years.

Assets held temporarily

Properties temporarily acquired are measured at the lower of cost and fair value less costs to sell.

The item includes properties acquired by DLR as part of measures to mitigate losses where it is the strategy and the expectation that the properties in question will be held only temporarily by DLR.

Notes - Significant accounting policies

Other assets

Other assets include interest receivable, sundry receivables and sundry debtors such as miscellaneous balances with customers in connection with loans. Such assets are measured at amortised cost.

Also included are positive market values of financial instruments measured at fair value.

Prepayments and deferred income

Prepayments comprise expenses incurred relating to subsequent financial years. Deferred income comprises income received relating to subsequent financial years. Prepayments and deferred income are measured at cost.

Issued bonds at fair value

Issued mortgage bonds are measured at fair value. Bonds not traded actively are recognised on the basis of a calculated market price.

Issued bonds at amortised cost

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

Other liabilities

Other liabilities include interest payable, sundry payables and sundry creditors such as miscellaneous balances with customers in connection with loans. Such liabilities are measured at amortised cost.

Also included are negative market values of financial instruments measured at fair value.

Equity

In connection with the conversion of DLR into a limited liability company at 1 January 2001, an undistributable reserve corresponding to the value of contributed equity was set up.

This undistributable reserve is not available for distribution but may be used to cover any losses when DLR's other reserves have been used up. In the event of the winding up of DLR, the undistributable reserve must be used to further agricultural purposes according to resolution by the annual general meeting.

DLR Kredit's portfolio of treasury shares is recognised in equity, which implies that purchases of treasury shares will reduce equity.

Additional tier 1 capital which has been provided for an indefinite term or which is non-terminable by the creditor and regarding which the issuer may at its sole discretion choose to omit interest payments is classified as equity.

Series financial statements

Pursuant to the Danish Financial Supervisory Authority's executive order no. 872 of 20 November 1995 on series financial statements of mortgage banks, mortgage banks are required to prepare separate series financial statements for series with series reserve funds, see 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 incorporated in the series financial statements. The series' calculated share of the profit for the year of DLR Kredit A/S determined in accordance with the executive order has been taken to the general reserves of the mortgage bank.

The series financial statements have been reprinted at association level, cf. section 30(3) of the executive order.

Complete series financial statements may be obtained from DLR Kredit A/S.

	B - SDO	DLR in general	Total
Income statement			
Administration and reserve fund contributions	1,368	139	1,508
Front-end fees	37	4	41
Interest on subordinated debt and guarantee capital	(5)	(1)	(6)
Interest etc.	183	19	202
Market value adjustment of securities and foreign exchange	(156)	(16)	(172)
Administrative expenses etc.	(490)	(50)	(540)
Write-offs and provisions for loans and advances	86	9	94
Tax	(224)	(23)	(246)
Profit	**799**	**81**	**880**
Balance sheet			
Assets			
Mortgage loans	138,579	4,917	143,496
Arrears on mortgage loans before impairment	60	6	66
Provisions for loans, advances and arrears	(456)	(64)	(519)
Prepayments	21	1	22
Other assets, including reserve fund loans	45,630	4,987	50,617
Total assets	**183,834**	**9,848**	**193,682**
Equity and liabilities			
Issued bonds etc.	161,084	9,195	170,279
Deferred income	97	6	102
Other liabilities	10,725	(489)	10,236
Subordinated debt	617	33	650
Equity	11,312	1,103	12,415
Total equity and liabilities	**183,834**	**9,848**	**193,682**
Addition or deduction of funds (net)	**86**	**(86)**	**0**
Balance sheet total in the series financial statements			
Balance sheet toal according to DLR Kredit's annual report			163,375
Set-off of own mortgage bonds			30,307
Balance sheet total in DLR Kredit's series financial statements			**193,682**

Statement by the Board of Directors and the Executive Management

The Board of Directors and the Executive Management have today considered and approved the annual report of DLR Kredit A/S for the financial year 1 January - 31 December 2017.

The annual report has been prepared in accordance with the Danish Financial Business Act and the provisions of the Danish Financial Supervisory Authority on financial reports of mortgage banks and the requirements of NASDAQ Copenhagen as regards 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 enterprises.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

In our opinion, the Management's review includes a fair review of the matters covered by the review together with a description of the principal risks and uncertainties that may affect the Company.

We recommend that the annual report be adopted at the Annual General Meeting.

Copenhagen, 8 February 2018

Executive Management

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

Board of Directors

Vagn Hansen Chairman	Lars Møller Deputy Chairman	
Claus Andersen	Randi Franke	Karen Frøsig
Peter Gæmelke	Jakob G. Hald	Kim Hansen
Søren Jensen	Gert R. Jonassen	Agnete Kjærsgaard
Torben Nielsen	Jan Pedersen	Lars Petersson

Internal auditor’s report

Report of the financial statements

Opinion

In our opinion, the financial statements of DLR Kredit A/S give a true and fair view of the Company’s assets, liabilities and financial position at 31 December 2017 and of the Company’s financial performance for the financial year 1 January - 31 December 2017 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 function, business procedures and internal controls in all significant and risky areas have been organized and are working satisfactorily.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion

We have audited the financial statements of DLR Kredit A/S for the financial year 1 January - 31 December 2017. The financial statements have been prepared in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

We conducted our audit in accordance with 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 on planning and performing the audit work.

We assessed the Company’s risk management, compliance function, business procedures and internal controls in all significant and risky areas.

We planned and performed our audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. We participated in the audit of all significant and risky areas.

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

Statement on the Management’s review

Management is responsible for the Management review.

Our opinion on the financial statements does not cover the Management 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 review and, in doing so, consider whether the Management review is materially inconsistent with the financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated.

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

Internal auditor’s report

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 misstatements of the Management commentary.

Copenhagen, 8 February 2018

Internal Audit

Brian Hansen

Chief Internal Auditor

Independent auditor’s report

To the shareholders of DLR Kredit A/S

Opinion

We have audited the financial statements of DLR Kredit A/S for the financial year 01.01.2017 to 31.12.2017, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including the summary of significant ac-counting 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 financial position at 31.12.2017 and of its financial performance for the financial year 01.01.2017 to 31.12.2017 in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

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 IESBA Code of Ethics for Professional Accountants and 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.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were first appointed auditors of DLR Kredit A/S before 1995. We have been reappointed annually at the annual general meetings for a total consecutive engagement period of more than 23 years up to and including the 2017 financial year.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 1.1.2017 to 31.12.2017. 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.

Write-down on loans	How the matter was addressed in our audit
The determination of the write-down requirement on loans is associated with significant uncertainty and to a great extent based on Management's accounting estimates. Due to the significance of these estimates and the size of the loans in the Company, the audit of write-downs on loans and, consequently, assessments associated with the quantification of the risk that the debtor cannot meet all future payments is a Key audit matter in the audit. The Company's loans amount to DKK 143,061 million at 31 December 2017 (DKK 139,052 million at 31 December 2016) and write-down amounts to DKK 524 million in 2017 (DKK 601 million in 2016). The principles for calculating the indication for impairment are described in the accounting policies and Management has in more detail described the handling of credit risks and the assessment of the write-down requirement in notes 30-33. In 2017, agriculture, especially pig and dairy farming and fur farming have still demanded special attention from the auditor as a result of the outlook in agriculture. In addition, Management estimates regarding impairment of expected losses had required special attention. • Assessment of whether loans are impaired • Valuation of collateral included in the calculation of an indication for impairment • Management add-ons and expected losses	Our audit has included a review of relevant business processes, testing of controls and analysis of the size of the write-downs. We have performed the following audit procedures: • A review and assessment of the Company's overall methods for monitoring the risk of loss on loans, including particular focus on the credit monitoring function. • Test of the Company's internal controls for identification of loans where there are objective indicators of risk of loss. • Challenged the methodologies used for the areas that require the highest estimate based on our knowledge and experience with the sectors, including a review of changes compared to last year. • Assessment of the changes in the assumptions for the areas that require the highest estimates against trends in the sector in general and historical observations. • Risk-based test of commitments in or-der to ensure timely identification of impairment of loans and for loans, which are impaired and that correct write-downs are made. In this connection, we have focused particularly on agriculture, including pig and dairy farming and fur farming. • Challenged management add-ons with particular focus on consistency and objectivity of Management, including with particular focus on documenting the sufficiency of management add-ons related to the sectors in general as well as expected losses.

Management's responsibilities 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 and 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 the preparation of 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 audit of 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 ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. 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 in accordance with ISAs and 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 ac-counting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management’s use of the going concern basis of ac-counting 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 Entity 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 under-lying 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.

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 other-wise 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.

Copenhagen, 08.02.2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration no 33 96 35 56

Henrik Wellejus
State-Authorised Public Accountant
MNE no. 24807

Brian Schmit Jensen
State-Authorised Public Accountant
MNE no. 40050

SHAREHOLDERS IN DLR KREDIT A/S

Year-end 2017

A/S Møns Bank

Aktieselskabet Lollands Bank

Aktieselskabet Nordfyns Bank

Aktieselskabet Skjern Bank

Alm. Brand Bank A/S

Andelskassen Fælleskassen

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

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 Flemløse 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

Sønderhå-Hørsted Sparekasse

Totalbanken A/S

Vestjysk Bank A/S

Østjydsk Bank A/S