dlr kredit
er realkredit

ANNUAL REPORT 2018

2018

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Preface

DLR Kredit A/S[1] is a Danish mortgage credit institution owned primarily by 56 local and national banks that collaborate with DLR. 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 for purposes of financing agricultural property - including residential farms - and other commercial properties and cooperative housing. DLR also grants loans in Greenland and the Faroe Islands, primarily for owner-occupied homes and residential rental properties and, on a smaller scale, office and retail properties.

In 2018, DLR focused on developing its collaboration with the loan-distributing shareholder banks and in that connection launched a new digital advisory platform – DLRxperten – in March. In 2019, DLR will continue to develop this collaboration by, among other things, strengthening relations, focusing on borrower needs and expanding the functionality of DLRxperten.

DLR's net lending totalled DKK 5.6bn in 2018 and the loan portfolio was up to a nominal DKK 147bn at the end of 2018. The portfolio breaks down into just under two-thirds for agricultural properties, residential farms and owner-occupied dwellings and just over one-third for commercial and cooperative housing properties.

DLR's overriding risk is credit risk, i.e. the risk that borrowers default on their loans with DLR. Credit risk is limited by collateral in the form of DLR's mortgages on the properties and also by the guarantee and loss-mitigating agreements DLR has signed with its loan-distributing shareholder banks.

DLR's net profit after paying interest to supplementary capital owners was DKK 707m in 2018, all of which was added to DLR's reserves. DLR's own funds were further affected by the purchase of treasury shares in the amount of DKK 167m. Developments in DLR's earnings and capital position resulted in DLR's total capital ratio increasing to 16.9% at the end of 2018.

[1] Hereafter "DLR"

Five-year financial highlights

Income statement, DKKm	2018	2017	2016	2015	2014
Administration margin income	1,559	1,508	1,462	1,440	1,411
Other core income, net	103	91	84	87	71
Interest expenses, subordinated debt	-16	-6	0	-4	-45
Interest expenses, senior debt (SSB)	-29	-42	-50	-66	-95
Fee and commission income, net	-326	-257	-282	-251	-192
Core Income	1,291	1,293	1,213	1,206	1,150
Staff costs and administrative expenses, etc.	-276	-255	-233	-219	-214
Other operating costs (Resolution Fund)	-11	-12	-15	-6	0
Provision for impair. on loans and receivables, etc.	-24	94	-62	-60	-171
Core earnings	979	1,121	903	921	765
Portfolio earnings (securities)	-74	6	136	-45	168
Profit before tax	905	1,126	1,039	875	933
Net profit for the year	707	880	811	670	703

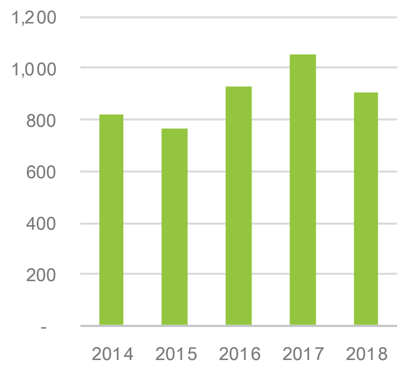
Balance Sheet at 31 December, DKKm	2018	2017	2016	2015	2014
Assets:					
Mortgage loans	148,611	143,061	139,053	133,038	133,219
Bonds and shares, etc.	8,945	11,855	13,683	12,033	9,234
Other assets	3,182	8,458	3,002	3,371	15,185
Total assets	160,738	163,375	155,737	148,442	157,637
Liabilities and equity:					
Issued mortgage bonds	145,901	148,972	142,074	134,342	141,324
Other liabilities	1,213	1,338	1,404	1,596	3,638
Subordinated debt	650	650	0	0	755
Equity	12,974	12,415	12,259	12,503	11,919
Total liabilities	160,738	163,375	155,737	148,442	157,637

Financial ratios and key figures	2018	2017	2016	2015	2014
Return on equity					
Profit before tax as pc of equity	7.1	9.1	8.4	7.2	8.5
Profit after tax as pc of equity	5.6	7.1	6.5	5.5	6.4
Costs					
Costs as pc of loan portfolio	0.20	0.19	0.18	0.17	0.16
Solvens (inkl. periodens resultat)					
Total capital ratio	16.9	15.9	14.3	12.9	12.3
Common equity tier 1 capital ratio	16.0	15.1	12.7	11.5	10.4
Own funds	12,994	12,372	11,560	12,485	12,521
Vægtet risikoeksponering	77,074	77,872	80,674	97,032	102,092
Lending activity					
Growth in loan portfolio pc (nominal)	4.1	2.3	3.8	0.6	-0.9
Gross new lending (DKKm)	27,717	35,214	23,118	23,469	33,181
Margins					
Admin. Margin income as pc of average loan port.	1.09	1.08	1.08	1.09	1.07

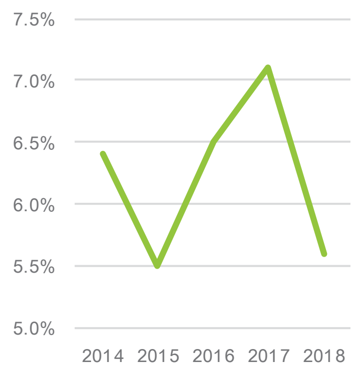
The key figures are calculated in accordance with the FSA's definitions. See note 44.

Overview figures

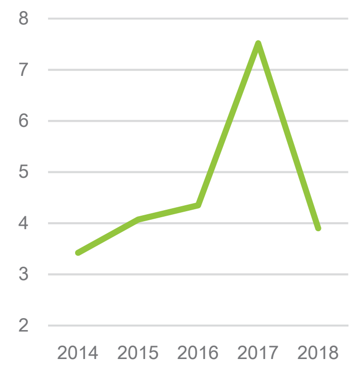
Profit before tax (DKKm)
-After interest on hybrid core capital



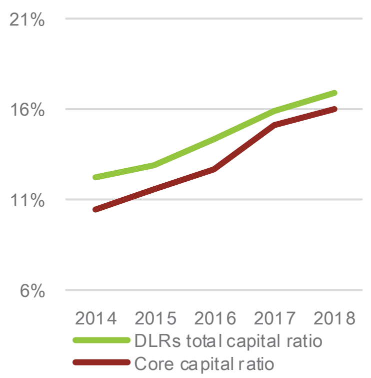
Profit after tax as pc of equity



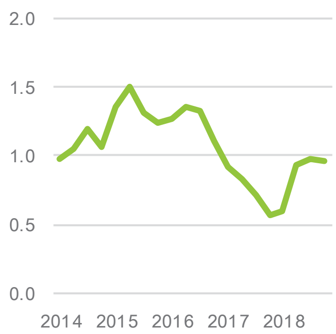
Income/cost ratio



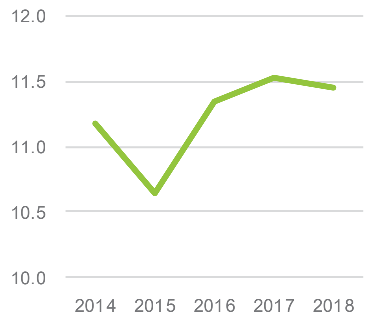
Capital ratio



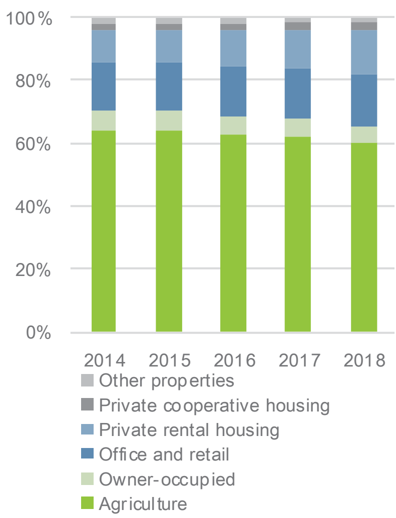
Arrears ratio (pc of term payments)



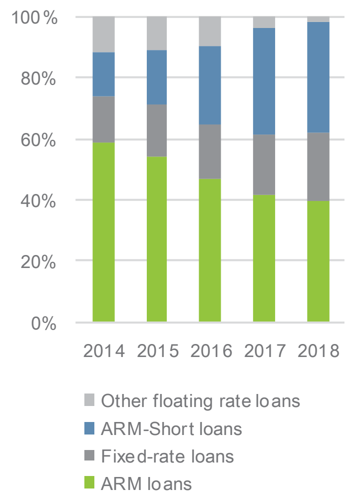
Loan/equity ratio



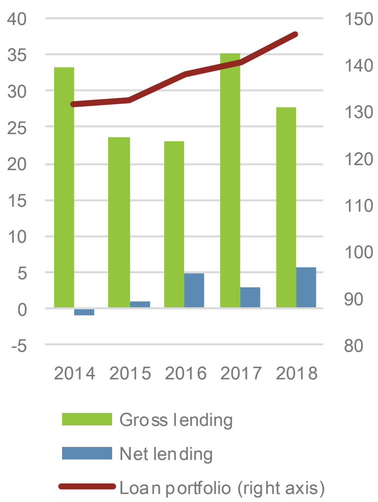
Loan portfolio by property category



Loan portfolio by loan type



Lending activity (DKKbn)



FINANCIAL REVIEW

Summary

- Administration margin income amounted to DKK 1,559m, an increase of DKK 51m compared to 2017
- Impairment losses on loans and receivables (operational impact) amounted to an expense of DKK 24m against an income of DKK 94m in 2017
- Portfolio earnings were a negative DKK 74m, a decline of DKK 80m compared to 2017
- The pre-tax profit was DKK 905m, down by DKK 221m on 2017
- Net of tax paid, DKK 707m was added to equity
- Net lending amounted to DKK 5.6bn

Chief executive officer statement

Statement by CEO Jens Kr. A. Møller on the release of the Annual Report for 2018:

"At DKK 905m, DLR's pre-tax profit for 2018 was satisfactory and slightly better than expected.

The profit was affected by a growing loan portfolio, which translated into higher administration margin and fee income although the average administration margin was unchanged.

All DLR's partner banks contributed to the increase in net lending, which was mainly attributable to the urban trade segment, including in particular residential rental properties.

The effects of the dry summer on the financial situation of the agricultural sector attracted considerable attention in 2018. So far, the drought does not seem to have had any significant effect on our agricultural customers' ability to pay, and our impairment charges were only moderately affected.

In 2019, we expect the agricultural industry, pork producers in particular, to benefit from improved terms of trade and against that background anticipate acceptable overall earnings levels for large parts of the agricultural sector."

Comments on the results for 2018

Income statement

DLR's earnings primarily stem from:

- Core earnings: Earnings from mortgage credit activity in the form of administration margins, fees and commission income, etc. less associated administrative expenses, losses and impairment charges
- Portfolio earnings: Return on the securities portfolio

The income statement for 2018 is set out in table 1 below.

Table 1. Income statement

(DKKm)	2018	2017	Index
Administration margin income	1,559	1,508	103
Other core income, net	103	91	113
Interest expenses, subordinated capital	-16	-6	296
Interest expenses, senior debt	-29	-42	70
Fee and commission income, net	-326	-257	127
Core income (mortgage lending income)	1,291	1,293	100
Staff costs and administrative expenses, etc.	-276	-255	108
Other operating costs	-11	-12	93
Provision for impairments on loans and receivables, etc.	-24	94	(25)
Core earnings	979	1,121	87
Portfolio earnings (securities)	-74	6	
Profit before tax	905	1,126	80
Net profit for the year	707	880	80

Core earnings

Administration margin income amounted to DKK 1,559m, up DKK 51m on 2017. The increase is due to a larger loan portfolio, as the average administration margin remained unchanged.

Other core income includes income from loan origination fees, fees from administration agreements with other financial institutions and default interest. This income amounted to DKK 103m in 2018, which is DKK 12m up on 2017.

Interest expenses on senior debt amounted to DKK 29m, which was DKK 13m below the 2017 level. The decline was due to the fact that senior loans maturing in 2018 to some extent were refinanced at a lower effective rate of interest, and that senior debt issuance on average was slightly below the 2017 level.

Fees and commission (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 disbursement and, on the other, commission payable to the banks that intermediate DLR's loans. Expenses include both intermediation commission and commission for the provision of loss guarantees etc.

Fees and commission (net) amounted to an expense of DKK 326m compared to an expense of DKK 257m in 2017.

Core income was thus DKK 1,291m, which is on a level with 2017.

Staff costs and administrative expenses, etc. amounted to DKK 276m, which is DKK 21m up on 2017. The higher costs were due to an increase in IT costs and should also be seen in the context of higher net lending, which required more staff.

The item "Other operating expense" concerns DLR's contribution to the Resolution Fund, which in 2018 amounted to DKK 11m, which was slightly less than in 2017.

Losses and impairments on loans and receivables, including prior-year adjustments, were calculated at an expense of DKK 24m. In 2017, total losses and impairments amounted to an income of DKK 94m, which was due, in particular, to a net reduction in impairments (allowance account) of DKK 77m, prompted by the improved economic conditions prevailing in parts of the agricultural industry in 2017.

Portfolio earnings

Portfolio earnings represent an expense of DKK 74m in 2018 compared to an income of DKK 6m in 2017.

The bulk of DLRs investment portfolio has been placed in short-duration mortgage bonds, which given current yield levels resulted in a negative return. DLR's investment portfolio (securities excl. temporary surplus liquidity) amounted to DKK 22bn at the end of 2018.

Allocation of net profit for the year

In addition to the net profit for the year of DKK 707m, DLR's domicile property was revalued by DKK 24m. After adjustment for provisions for deferred tax, the revaluation has a DKK 19m impact on comprehensive income.

Overall, this means that DKK 726m has been added to DLR's equity.

Balance sheet

Mortgage credit lending amounted to DKK 149bn (fair value) at the end of 2018.

Bond holdings amounted to DKK 31bn, which is DKK 11bn less than at year-end 2017. Of this amount, the portfolio of DLR bonds amounted to DKK 23bn, which is netted in "Issued bonds at fair value", while the remainder was attributable to positions in government securities and other mortgage bonds.

In addition to the bond holding of DKK 31bn, DLR held other securities for DKK 3bn; hence, the total securities holding amounted to DKK 34bn (gross) at the end of 2018.

Temporary surplus liquidity in connection with mortgage lending activity comprised approximately DKK 10bn, bringing the investment holding to DKK 22bn.

DLR's total assets stood at DKK 160.7bn at year-end 2018.

Own funds

DLR's own funds increased by DKK 622m in 2018.

The increase was mainly due to the net profit of DKK 707m, which was added to DLR's reserves in its entirety.

DLR's total capital ratio was 16.9 at year-end 2018, while DLR's common equity tier 1 capital ratio was 16.0.

The weighted risk exposure amount for market risk was reduced from DKK 3.7bn at year-end 2017 to DKK 3.0bn at year-end 2018, which is the main reason for the reduction in total weighted risk exposure amount.

DLR's solvency and common equity tier 1 capital was strengthened in 2018, when DLR also bought back treasury shares for a net amount of DKK 167m.

At year-end 2018, DLR's own funds were composed entirely of tier 1 and tier 2 capital. Tier 2 capital accounted for DKK 650m, and in total the own funds amounted to DKK 13.0bn at year-end 2018 compared to DKK 12.4bn at year-end 2017.

Table 2 - DLR's capital ratios

	2018	2017
Common equity tier 1 capital ratio	16.0	15.1
Total capital ratio	16.9	15.9
Total risk exposure amount (DKKbn)	77.1	77.9

Arrears and forced sales

DLR collected mortgage payments of DKK 6.8bn in 2018.

At year-end 2018, outstanding mortgage payments amounted to DKK 120m versus DKK 101m the year before. Of the amount in arrears, the bulk stems from mortgage payments that were less than 3½ months overdue.

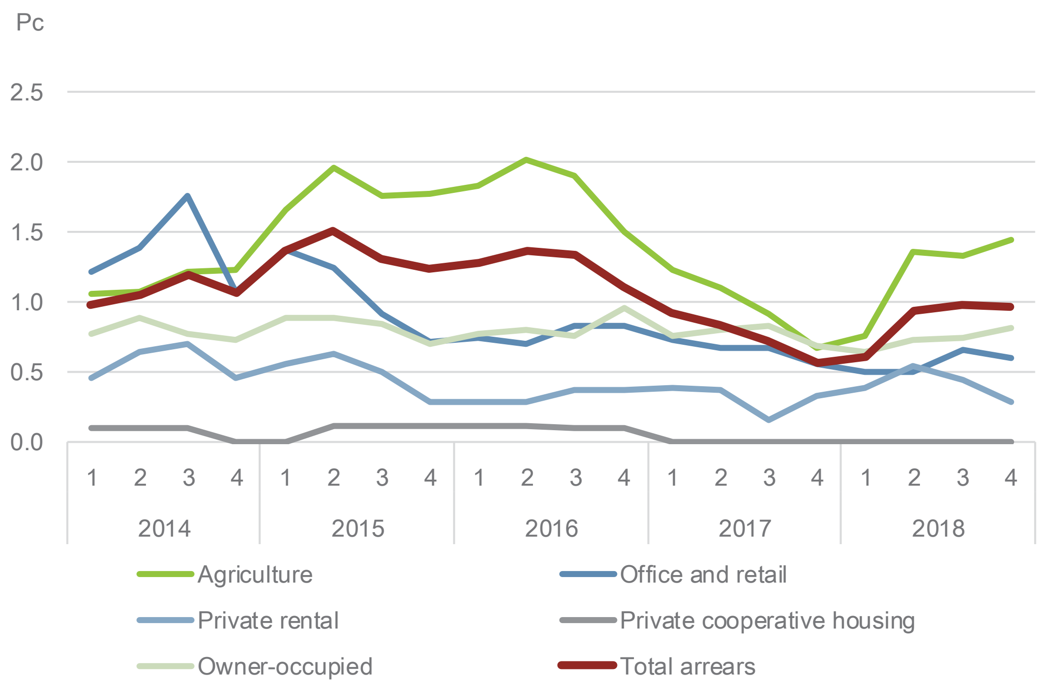
The number of completed forced sales of properties in which DLR held a mortgage was 43 in 2018. Of these, DLR took possession of 19 properties. The equivalent figures in 2017 were 64 and 26. At 31 December 2018, DLR had 10 repossessed properties, against 14 at year-end 2017. The value of the repossessed properties was estimated at DKK 48m at year-end 2018.

In 2018, DLR recorded a loss on six properties that were taken over by parties other than DLR at auction, and DLR has participated in 35 voluntary sales agreements, etc. that resulted in a loss.

All in all, DLR recorded a loss on 60 properties in 2018 compared to 74 properties in 2017.

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

Figure 1. DLR's 3.5 month arrears ratio



Q4 2018

Pre-tax profit in Q4 2018 was DKK 206m compared to DKK 228m in Q3 2018.

Fourth-quarter performance 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 financial performance.

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 2019

DLR's business primarily comprises lending to the agricultural and business sectors, mainly outside the Greater Copenhagen area. Expectations for DLR's financial performance are thus based on developments in the sectors for which DLR provides funding and on general macroeconomic developments.

Agriculture

Following generally satisfactory earnings in the agricultural sector in 2017, lower product prices in 2018 weighed on sector earnings, particularly for pig and mink farmers. The dry summer period with very low volumes of precipitation had a negative impact on harvest yields at most farms.

The outlook for 2019 is for decent milk and pork prices, and most of the farmers can thus expect satisfactory earnings. However, some farmers will be challenged by the consequences of last year's drought, and a number of farms remain burdened by a substantial degree of debt financing.

Business

Denmark's economic growth was initially concentrated around the larger urban centres, but has now spread to other areas of the country. The rental market is expected to remain buoyant in 2019, not least for prime-location properties.

With respect to turnover of commercial properties, investors seem to have become more restrained, and this may affect demand and trading activity in 2019.

Earnings forecast

For 2019, DLR expects core earnings in the order of DKK 825 – 925m and a pre-tax profit of around DKK 750 – 850m.

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

The capital requirements that financial businesses must meet have steadily been revised in recent years. The changes made have toughened the requirements for both the amount and the quality of the capital provided. Substantial changes should also be expected going forward.

DLR bases its capital management on long-term capital planning taking account of future known and expected capital structure requirements. DLR's capital model is continually adjusted to take into account lending growth, capital initiatives, earnings and regulatory changes, etc.

Table 3. Capital og solvency

(DKKm)	2018	2017
Equity	**12,974**	**12,415**
Hybrid core capital included in equity	0	0
Deduction due to prudent valuation	-24	-26
Difference between expected losses and impairments for accounting purposses	-607	-667
Deferred tax	0	0
Common equity tier 1 capital	**12,344**	**11,722**
Hybrid core capital	0	0
Supplementary capital	650	650
Capital base	**12,994**	**12,372**
Risk-weighted exposure with credit risk, etc.	71,665	71,804
Risk-weighted exposure with market risk	2,994	3,667
Risk-weighted exposure with operational risk	2,415	2,401
Risk-weighted exposure, total	**77,074**	**77,872**
Common equity tier 1 capital ratio	**16.0%**	**15.1%**

Capital planning and capital targets

DLR's capital planning takes into account both the regulatory requirements and the Board of Directors' targets for DLR's own funds. For 2019, DLR has defined a target for its total capital ratio in the 16.0–16.5% range, when taking account of the phasing in of currently known requirements for the countercyclical buffer rate, which is expected to be 1% by end-2019. In addition, the target was defined on the assumption that DLR's Pillar II supplement will remain at the current level and considering the final phasing in of the capital conservation buffer and the SIFI buffer in 2019. Any further increase of the countercyclical capital buffer, as signalled by the Systemic Risk Council following its meeting in mid-December 2018 may result in changes to DLR's capital target, expectedly from 2020.

The capital model also incorporates costs related to securing the SDO status of issued bonds by posting supplementary collateral, the OC (overcollateralisation) requirement in connection with ratings and the requirement to accumulate a debt buffer.

DLR's own funds have been regularly adjusted to reflect long-term plans. Adjustments have included equity issues, the issuance and redemption of additional tier 1 capital and issuance of tier 2 capital. DLR has also made regular issues of senior secured bonds (SSB) and senior resolution notes (SRN) and senior non-preferred notes (SNP) for the purposes of posting supplementary collateral, cover OC requirements and for complying with debt buffer requirements.

A small number of share transactions were made in 2018 involving shareholder banks, resulting in a net share buyback of DKK 167 million.

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

Given its current own funds and its earnings forecasts, DLR expects to be in a position to comply with future capital requirements and to meet any additional capital needs relating to the anticipated growth in lending.

Liquidity regulations

According to the LCR requirement, the proportion of high quality liquid assets (HQLA) must at all times exceed the net liquidity outflow for the next 30 days. Due to its SIFI (systemically important financial institution) status, DLR has been subject to the full LCR requirement from 1 October 2015.

Like other Danish mortgage credit institutions, DLR is authorised to exempt certain mortgage bond-related cash flows from its LCR calculation. In order to apply the exemption, DLR must meet an LCR floor requirement such that DLR holds at all times liquid assets equivalent to 2.5% of its total mortgage loan portfolio.

At the end of 2018, DLR had an LCR of 175% excluding the floor requirement and an LCR of 229% including the floor requirement.

In November 2016, the EU Commission presented a first proposal for an NSFR (Net Stable Funding Ratio) requirement as part of the CRDV/CRR2 package. In early December 2018, agreement was reached on the general content of the CRDV/CRR2 package in the tripartite negotiations between the Council of Ministers, the European Parliament and the EU Commission. However, as the legislative wording has yet to be finalised, no date has yet been set for the coming into force of the NSFR.

NSFR requires that so-called available stable funding must be equal to or higher than the required stable funding. Available Stable Funding ("ASF") is calculated on the basis of an institution's liabilities. The shorter the term to maturity of a liability, the less ASF value it is considered to contribute. Required Stable Funding ("ASF") is calculated on the basis of an institution's assets. The more liquid an asset, the less stable funding an institute is required to have to fund it and the lower the RSF factor.

The NSFR requirement includes a possible exception for mutually dependent assets and liabilities that meet a number of specific conditions, including having the same maturity, such as, say, Danish mortgage loans and underlying mortgage bonds with the same maturity. This implies that mortgage bonds and mortgage loans are accorded an ASF factor and an RSF factor, respectively, of 0%, and in practice that exempts mortgage loans and issued mortgage bonds from an NSFR calculation. In addition, NSFR recognises Danish refinancing legislation (section 6 of the Danish Mortgage Credit Loans and Mortgage Credit Bonds, etc. Act), to the effect that exemption also applies to short-term mortgage bonds used to fund longer-term loans and meeting the requirements of Danish refinancing legislation.

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 describes capital and liquidity measures as well as other matters of relevance to internal crisis management.

Debt buffer

Implementation of BRRD meant mortgage credit institutions were required to establish a debt buffer of 2% of their 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 banks have to fulfil.

When fully implemented, DLR's 2% debt buffer is estimated to amount to about 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%, respectively, of the requirement by 15 June each year.

A new act passed in 2018 introduced a new layer in the creditor hierarchy, Senior Non-Preferred debt (SNP), that banks can use to meet their MREL requirements and mortgage credit institutions can use to meet debt buffer requirements. SNP is non-preferred senior debt and absorbs losses before other debt, but after equity and other subordinated debt (additional tier 1 capital and tier 2 capital). This means DLR's prior SRN issues constitute debt that is basically of the same type as what is now defined in the creditor hierarchy as SNP.

Effective from 2018, DLR will apply SNP to meet the debt buffer requirement. These are market-conforming debt issues that, like SRN, can also be used as Additional Loss-Absorbing Capacity (ALAC) in Standard&Poor's rating system.

For that purpose, DLR issued SNP debt of DKK 1 billion in June 2018 to replace DKK 1 billion in unsecured senior debt that was expiring. At 31 December 2018, DLR has issued a total of DKK 3 billion in debt to cover the debt buffer requirement. The amount is also recognised as ALAC with S&P.

Amended debt buffer requirement

Legislation was also passed in 2018 to amend the debt buffer requirement.

Mortgage credit institutions now have a two-tier debt buffer requirement:

1) It must make up at least 2% of an institution's total unweighted lending, and
2) the sum of its capital and debt buffer (loss-absorbing capital/debt) must make up at least 8% of its total equity and liabilities.

The 2% debt buffer requirement has not changed and is still to be phased in by mid-2020, while the requirement of a capital and debt buffer of at least 8% of total equity and liabilities must be met by 1 January 2022.

The amended debt buffer requirement is expected to result in only a minor increase in DLR's SNP issuance need in the period to 2022.

SIFI

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

DLR has been designated a SIFI institution in Denmark since 2014. To be designated a SIFI in Denmark, an institution must fulfil at least one of the following parameters:

- The institution's total assets account for more than 6.5% of Denmark's gross national product.
- The institution's lending in Denmark accounts for more than 5% of the total lending in Denmark by Danish banks and mortgage credit institutions.
- The institution's deposits in Denmark account for more than 3% of the total deposits held by Danish banks in Denmark.

With its total assets corresponding to 7.6% of Denmark's GDP, DLR has been designated a SIFI institution. Alongside the designation as a SIFI follows a special SIFI buffer requirement for DLR's capital, which is based on an estimate of how systemically important DLR is. The requirement has been set at 1% of DLR's total risk exposure amount and must be covered by CET1 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 criteria, including criteria for loans with short funding. As part of these efforts, DLR has increasingly encouraged customers to choose loans backed by underlying bonds with relatively longer maturities.

In 2018, DLR had a refinancing volume of less than 25%, apart from in the second quarter when it was about 28%. Effective from 2020, the Supervisory Diamond’s 25% threshold values will apply to this the indicator.

DLR recorded lending growth in “Commercial property with residential purposes” of 15.8% p.a. in both the third and fourth quarters of 2018, exceeding the indicator threshold of 15% by a slight margin. DLR believes that this volume of lending growth is a positive due to the risk diversification it means to DLR’s portfolio. It should be noted that the market share used to measure the lending growth rate is significantly lower than the market opportunities represented by the distributing banks’ customer base.

Table 4. DLR's compliance with the Supervisory Diamond

Supervisory Diamond for Mortgage credit institutions	End-Q4 2018	End-Q3 2018	Threshold values
1. Lending growth (annually):			
Personal	1.2%	-0.1%	<15%
Commercial with residential purposes	15.8%	15.8%	<15%
Agriculture	0.6%	0.0%	<15%
Other commercial	7.1%	5.8%	<15%
2. Borrower's interest rate risk:	18.9%	21.7%	<25%
3. Interest-only loans to private individuals:	2.6%	3.2%	<10%
4. Loans with short-term funding (quarterly):			
Q4 2017	9.3%		<12.5%
Q1 2018	4.0%		<12.5%
Q2 2018	10.3%		<12.5%
Q3 2018	1.3%		<12.5%
Q4 2018	4.1%		<12.5%
4. Loans with short-term funding (annually):	19.5%	24.8%	<25%
5. Large exposures	28.0%	32.7%	<100%

OWNERSHIP AND CAPITAL STRUCTURE

Redistribution of shares

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

A redistribution of shares was carried out in early March 2018 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 2018 was based on the outstanding bond debt at year-end 2017, with shares for a nominal value of roughly DKK 15.1m being redistributed.

Tier 2 capital

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

DLR currently has one issue of tier 2 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 31 December 2018, DLR had 58 shareholders. The number of shareholders has been falling since DLR became a limited company in 2001. Mergers and acquisitions are the main reason for the fall in the number of owner-banks, 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 45%, 21% and 13%, respectively, of DLR's share capital. In addition, PRAS A/S, whose shareholders are essentially the banks behind Lokale Pengeinstitutter and Landsdækkende Banker, holds 7% of DLR's share capital, while other financial firms hold 13% of the share capital. The above does not include DLR's 5.2% holding of treasury shares.

DEVELOPMENTS IN DLR'S KEY LENDING AREAS

Agricultural Sector

Dairy, pig and crop farmers

The very low volumes of precipitation during the spring and summer of 2018 were a dominant event during the year.

Even before the growing season, crop production in 2018 had already been impaired by very wet weather conditions in autumn 2017 that prevented farmers from sowing winter crops. That situation amplified the effects of the drought, as spring crops are generally more vulnerable to drought than crops sown during the autumn months.

The drought was not confined to Denmark but caused substantially reduced crop yields in large parts of the rest of northern Europe and had an impact on grain prices. A chart of grain prices is shown in figure 2. Pure grain farmers suffered much lower yields, but much of the effect was offset by lower costs during the growing season and during harvest along with higher grain prices.

Figure 2. Development in feed wheat sales prices

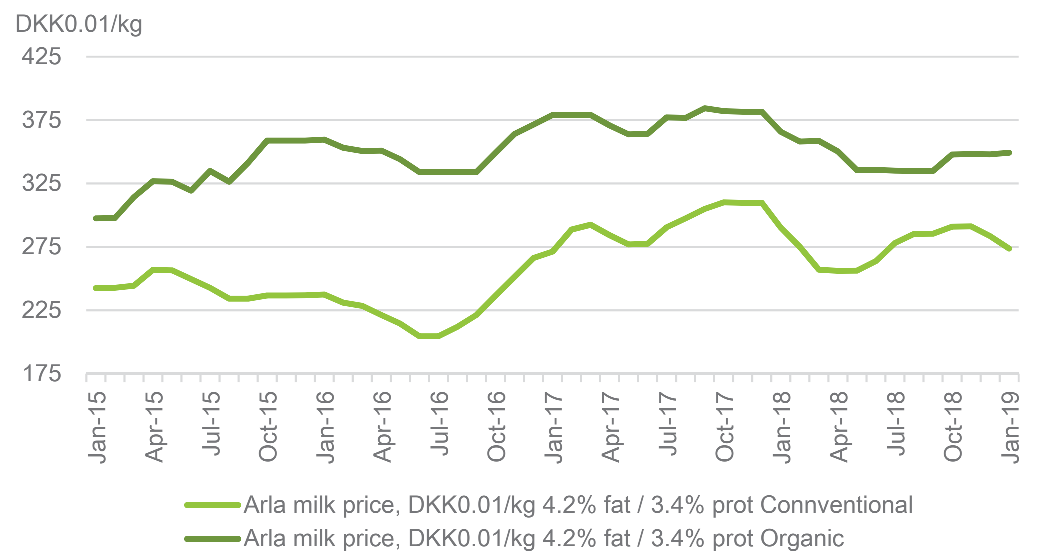
Source: Landbrug & Fødevarer (Danish Agriculture & Food Council)

For dairy farmers, grass fields all but stopped growing during the spring and early summer, but the effect was to some extent offset by healthy growth during the autumn. However, the maize harvest was satisfactory in areas with local rainfalls during the summer, sufficient watering capacity or with adequate soil quality. For farms without watering capacity, no precipitation during the period or with lighter soil, maize fields delivered very low yields with low feed value. In other words, dairy farmers suffered very different impacts of the drought during the year.

Many farms had large volumes of coarse fodder on hand following a very good coarse fodder year in 2017. The high volumes of coarse fodder will enable many farms to continue to have full, or almost full, milk production.

The total effect on milk prices from the drought is not known, but to date it appears to have reduced the supply of milk in northern Europe much as expected, and given an ordinary increase in consumption of 1%-2% per annum, the drought would seem to have contributed to a positive trend in milk prices. See figure 3.

Figure 3. Development in milk prices



Source: Arla

A number of newly converted organic dairy farmers will suffer a relatively hard impact from the drought, because they will generally not have access to coarse fodder from 2017 and opportunities to buy feed will be limited.

Pig farmers generally grow corn for their own feed and will therefore feel the direct effects of both lower yields due to the drought and the resulting price increases on corn as they will have to buy feed grain at very high prices.

With pork prices also being very low in 2018, due in part to the large global production following the favourable terms of trade in 2017, pig farmers are currently in a slump. Despite generating strong earnings in the second half of 2016 and during all of 2017, many farmers face liquidity constraints. Recent reports from abattoirs, among other sources, indicate rising pork prices in 2019. Developments in pork prices and current forecasts are shown in figure 4.

Figure 4. Development in pork prices – Danish Crown

Sources: Danish Crown and SEGES price forecast

Following an outbreak of African swine fever in south-eastern Belgium, the Danish authorities and the Danish Agriculture and Food Council have taken joint steps to reduce the wild boar population in Denmark and to reduce the risk of wild boars coming into the country. A possible spread of African swine fever to Germany, for example, could have a big impact of the pig industry depending on the extent and where an outbreak might occur.

Mink farmers

Danish mink farmers have continued to increase their market share and now account for around one third of the global production of mink pelts with much of the production being exported. A chart of mink pelt prices is shown in figure 5. Despite Danish mink pelts attracting prices some 30% higher than foreign pelts, pronounced price falls on mink pelts between 2015 and 2018 mean a number of mink operations are likely to incur a loss.

Table 5. Fur prices

	2011	2012	2013	2014	2015	2016	2017	2018
Danish fur, DKK	401	503	612	324	386	235	262	218
Foreign fur, DKK	332	418	498	241	270	184	207	168
Premium, Danish fur, %	21	20	23	34	43	28	27	30

Source: Kopenhagen Fur

Agricultural property market

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

Commercial property

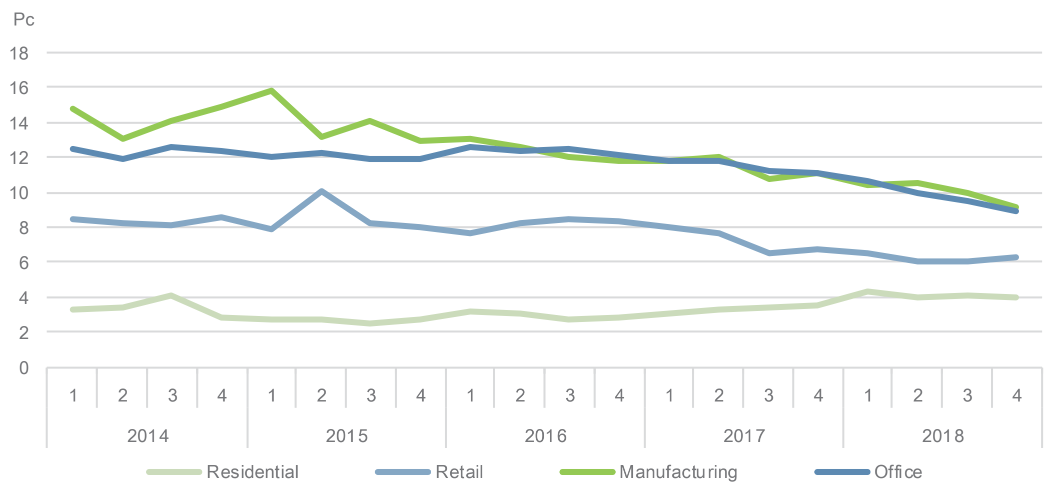
DLR’s lending on commercial properties comprises loans for private residential rental property, office and retail property, manufacturing and workshop property, community power plants – including land-based wind turbines – and housing co-operatives.

DLR’s loan distribution network covers the entire country, although coverage of the Greater Copenhagen area is somewhat limited. Of DLR’s lending to the above-mentioned property categories, just under 90% is for properties located outside the capital region.

Vacancy rates falling

As can be seen in figure 5, vacancy rates on commercial rental properties have been falling in recent years, particularly in the office and manufacturing sectors. 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 5. Vacancy rates



Source: Ejendomsforeningen Danmarks markedsstatistik (Danish Property Federation)

Commercial property market

Still low interest rates and the improved rental climate have contributed to the commercial property market generally performing satisfactorily. High employment and upward trending business activity have resulted in persistently strong demand particularly for offices and logistics and production property at higher rent levels, leading to higher newbuild activity.

DLR believes that turnover in the property market was quite high in 2018 and that it is approaching pre-crisis levels.

After nearly constantly rising prices since 2010, buyers now seem more reluctant to pay the prices demanded by sellers. Notwithstanding that properties are still being sold at prices above 2017 levels, a number of properties are not being offered for sale because the sellers had expected and assumed higher prices.

Investors are still attracted to the residential rental segment, and there is an increasing demand for residential rental properties, although supply in this segment is limited.

LENDING ACTIVITY AND PORTFOLIO

DLR's primary lending areas are agricultural and commercial properties. DLR's lending is channelled 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 and 2018, the campaigns were extended to also target 3Y ARM loans in connection with refinancing of these loans.

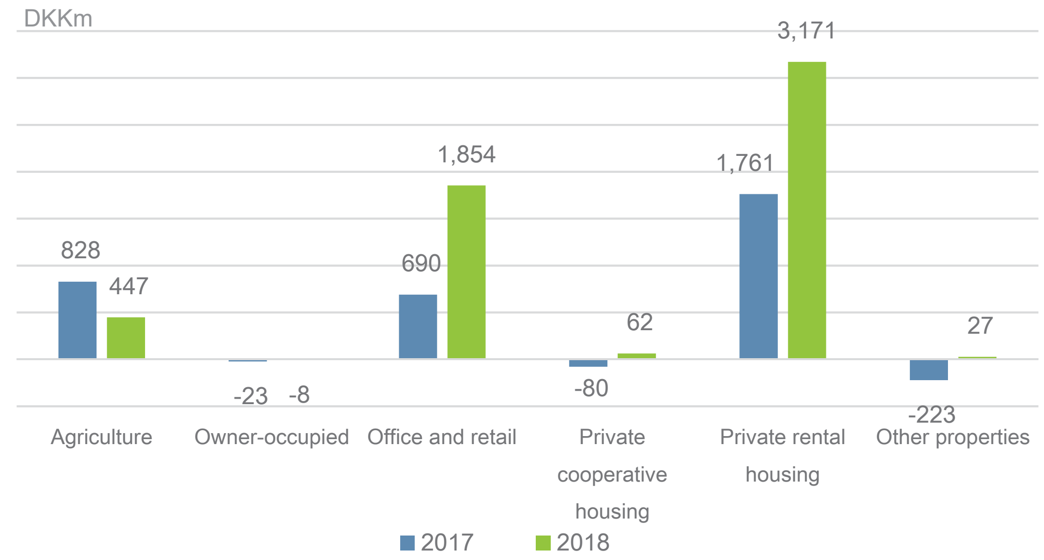
The expanded campaign focus to include 3Y ARM loans was the principal reason behind the increase in gross lending in 2017. In 2018, de-facto new lending has to a greater extent contributed to the high gross lending.

DLR's total gross lending amounted to DKK 27.7bn in 2018 compared to DKK 35.2bn in 2017, see figure 6.

Figure 6. Gross lending by property category

Net lending, which is gross lending less transfers, prepayments and principal payments, has been positive since 2015. DLR had net lending of DKK 5.6bn in 2018. Net lending was driven, in particular, by loans on commercial property, which accounted for 92% of net lending in 2018, while lending to the agricultural sector, including residential farms, accounted for the remaining 8% of net lending.

Figure 7. DLR's net lending by property category



The 1Y ARM (F1) loan was previously the most popular loan type among DLR's customers. This changed in 2014, however, when DLR's ARM Short (RT-Kort) gained considerable ground in 2018. ARM Short accounted for 37% of gross lending, ARM loans (F3-F5) 30% and fixed-rate loans 33%.

The share of gross lending with an initial interest-only period was 41% in 2018, which represents a decrease relative to 2017, when the share with an initial interest-only period was 49%.

DLR's loan portfolio

DLRs loan portfolio as measured by nominal outstanding bond debt stood at DKK 146.4bn at the end of 2018, which is an increase of DKK 4.1% relative to year-end 2017. As the mortgage credit sector's total lending in terms of outstanding bond debt amounted to DKK 2,745bn at year-end 2018, DLR's loan portfolio equates to a market share of 5.3%.

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 15.9%.

As shown in figures 8 and 9, DLR has since 2016 increased its market share in lending to agricultural, office and retail customers as well as to private residential rental property.

Figure 8. DLR's markets share - agriculture

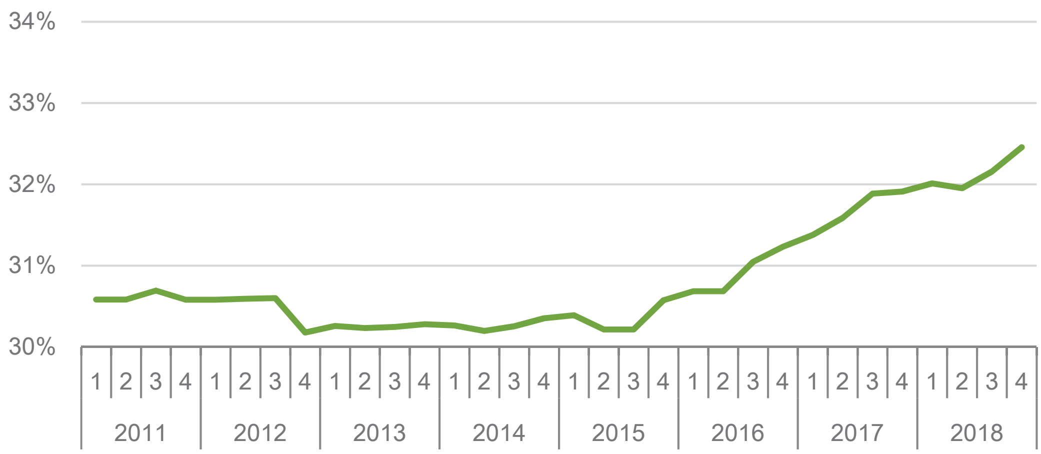
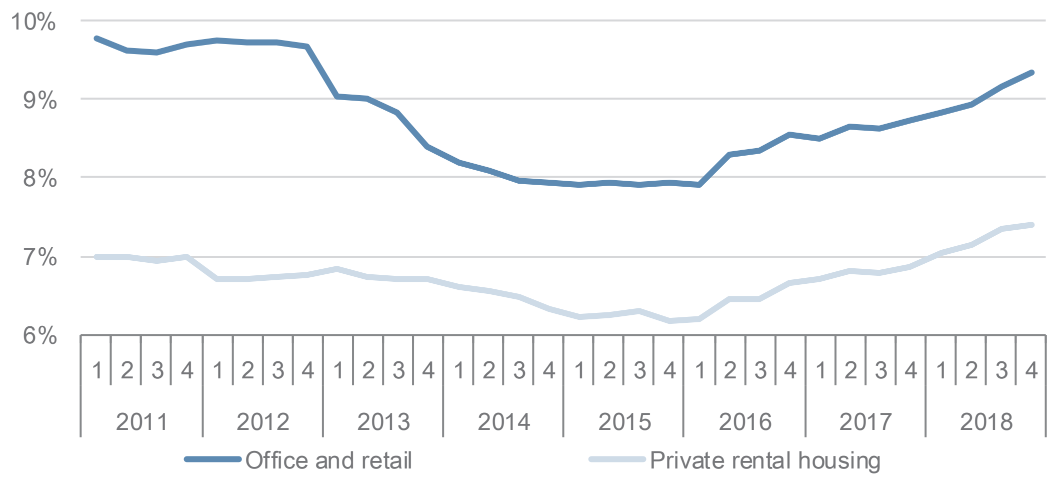


Figure 9. DLR's markets share – business



DLR's largest lending segment is loans for agricultural property, which amounted to DKK 88bn at the end of 2018. Here the term agricultural property covers properties larger than 10 ha irrespective of the production volume of the property, as well as properties smaller than 10 ha with substantial agricultural production.

Table 6. DLR's loan portfolio end-December 2018

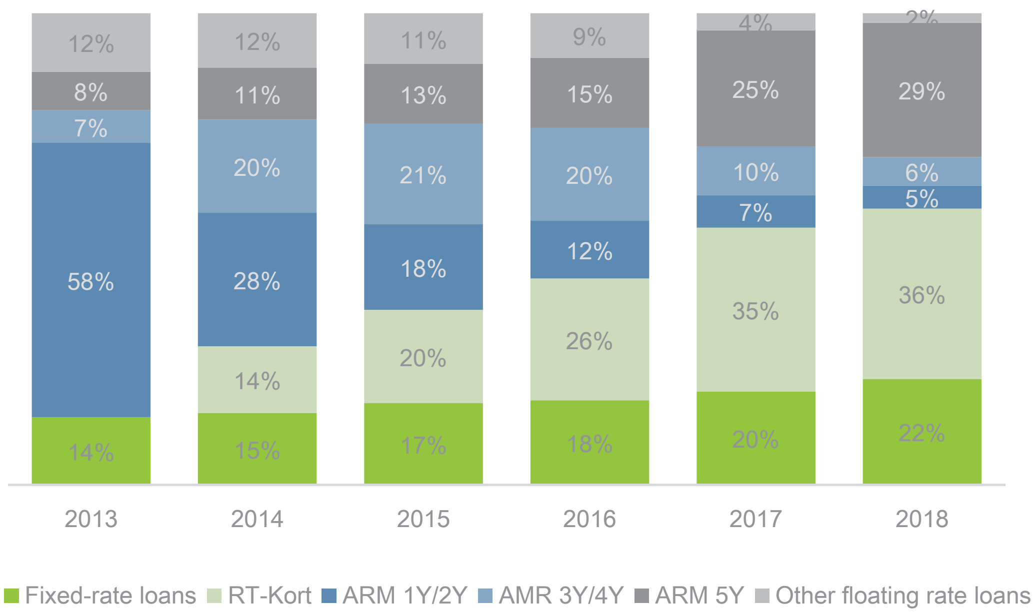
Distribution by property category			Distribution by loan type					
	Outstanding bond debt (DKKbn)	Distribution by property category	Fixed-rate loan	ARM Short	F1/F2	F3/F4	F5	Other short-rate loans
Agriculture	87.9	60%	16.7%	46.4%	4.2%	5.7%	24.7%	2.3%
Owner occ. incl. res. farms.	7.9	5%	42.7%	8.8%	10.3%	9.3%	26.2%	2.8%
Office and retail property	24.1	16%	30.6%	21.8%	6.0%	6.5%	33.3%	1.8%
Residental rental property	21.0	14%	25.0%	25.0%	5.3%	6.1%	37.4%	1.3%
Private co-op. housing	2.9	2%	45.3%	12.7%	1.3%	3.4%	35.8%	1.5%
Other property	2.5	2%	31.0%	20.7%	1.9%	6.8%	38.7%	0.9%
Total	146.4	100%	22.4%	36.1%	4.9%	6.1%	28.5%	2.1%

DLR's loan portfolio was dominated by ARM loans, particularly 1Y ARMs, up to 2013. In recent years, however, the share of ARM loans has fallen considerably - the share of ARM loans was 39% at the end of 2018 compared to 73% at the end of 2013. During the same period, the share of 1Y ARM loans fell from 58% to less than 5%. The trend away from short 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 and 2018, 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. 5Y ARM loans thus currently make up 72% of all ARM loans. ARM Short loans have become the most popular loan type among DLR's agricultural customers and accounted for 36% of DLR's combined loan portfolio at year-end 2018. Fixed-rate loans, meanwhile, accounted for a little over 22%, while other short-rate loans and guarantee (rate-cap) loans made up the remaining 2% of DLR's portfolio at year-end 2018.

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 a customer's particular requirements.

Figure 10. 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 tap issuance of covered bonds (SDOs) listed on NASDAQ Copenhagen.

As of 31 December 2018, DLR's outstanding volume of bonds amounted to DKK 148.6bn, not counting bonds maturing on 1 January 2019. The bonds are issued out of two capital centres with separate reserve funds. Since the beginning of 2008, DLR has exclusively issued SDO covered bonds out of Capital Centre B. Before that, DLR funded its loans by issuing mortgage covered bonds (RO) from the General Capital Centre, most of which has subsequently been remortgaged into Capital Centre B. DLR's RO bonds merely accounted for a little over 1% of outstanding volume at end-2018.

All DLR's covered bonds meet the so-called UCITS requirements for covered bonds. The SDO bonds also meet the CRD requirements for covered bonds. Moreover, quarterly cover pool reporting ensure that disclosure obligations under CRR article 129 (7) are complied with, and all DLR's bonds are thus covered by the preferential risk-weighting of 10% 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 2018 (excluding bonds maturing on 01 January 2019, but including pre-issued bonds in connection with the refinancing of mortgage loans on 01 January 2019) is shown in table 7.

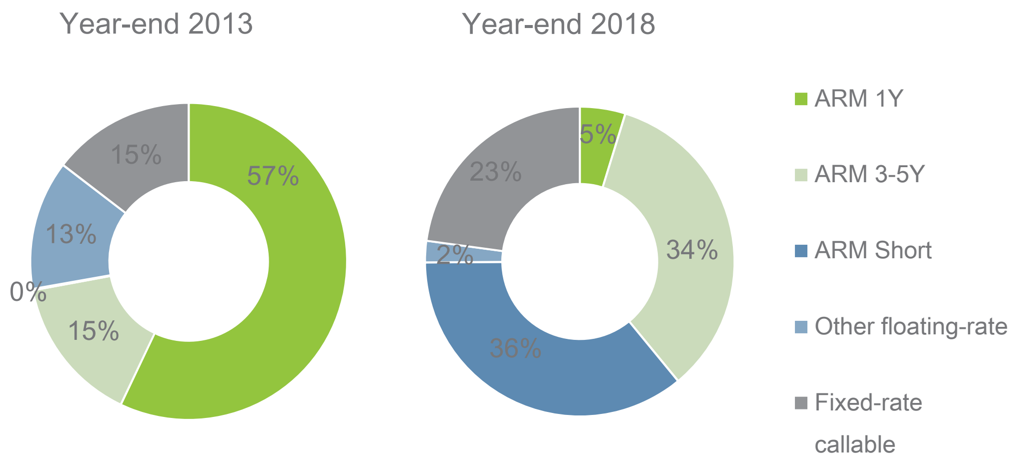
Table 7. DLR's bonds, year-end 2018

(DKKbn)	Total	DKK bonds	EUR bonds
Outstanding, total	148.6	145.1	3.5
Of which SDO	146.6	143.1	3.5
Of which RO	2.0	2.0	0

DLR's funding structure has changed considerably during the past five years, as the proportion of DLR's loans granted as ARM loans with frequent refinancing (F1-F3) has been significantly reduced to the benefit of loans with longer refinancing intervals. This is a consequence of the campaigns targeting borrowers with short-term ARM loans that DLR has been running since 2014.

Changes to DLR's funding structure are shown in figure 11.

Figure 11. 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 - 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.

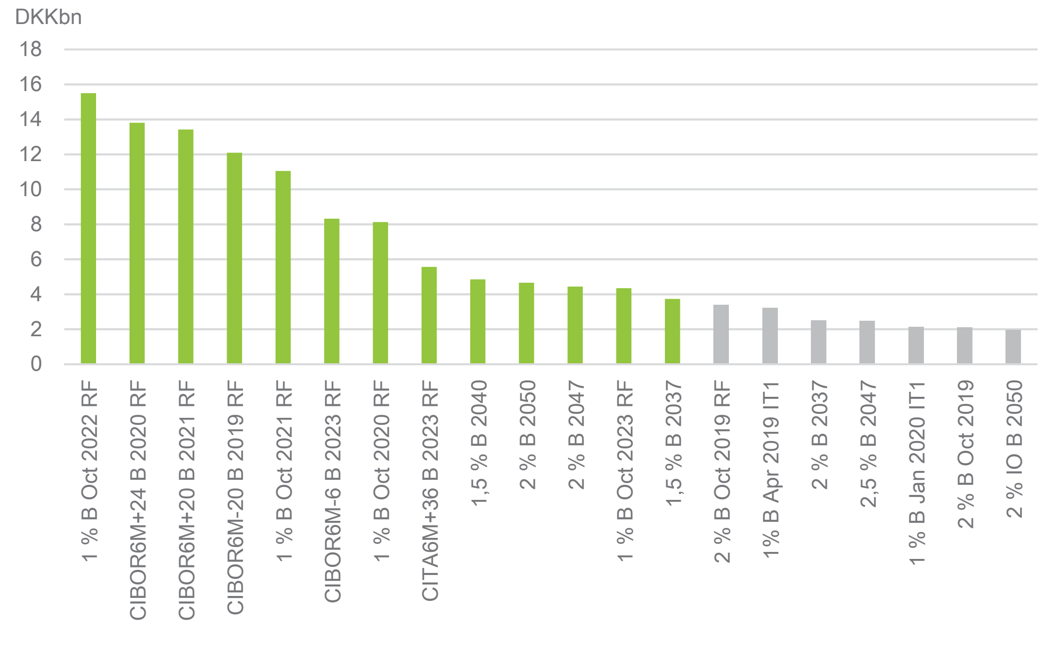
ARM loans in EUR are only refinanced in January. A large proportion of DLR's 1Y ARM loans denominated in EUR has been switched into either ARM Short loans or longer ARM loans denominated in DKK, as DLR does not currently offer loans in EUR. Likewise, a large proportion of the EURIBOR-based loans with 10-year funding was switched into other loan types denominated in DKK in connection with the 1 January 2018 and 1 January 2019 refinancing rounds. Hence, EUR-denominated bonds accounted for just 2.4% of the total outstanding volume of bonds at the end of 2018.

Series sizes

Figure 12 shows DLR's largest bond series at end-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 the longest non-callable ARM bullet bonds and CIBOR-based ARM Short bonds.

At end-December 2018, 74% of DLR's series complied with the level 1B series liquidity requirement in terms of outstanding volume (green columns in figure 12), while a further 12% met the level 2A requirement (grey columns in figure 12). During 2018, the volume of DLR bonds meeting the level 1B size criteria increased substantially. For example, the open 20-year and 30-year fixed-rate bond series with ordinary repayment and a new 5-year non-callable bullet bond with maturity in October 2023 now meet the level 1B criteria.

Figure 12. DLR's largest bond series at end-December 2018



Bond sales

DLR bonds are tapped as loans are paid out and are 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.

Since 2016, DLR has had Primary Dealer agreements with six banks. 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, CITA and EURIBOR rates remained negative throughout 2018.

Floating-rate bonds opened after 1 January 2018 have no coupon floor, and yields on these bonds may therefore become negative. Until the end of 2017, all DLR floating rate bonds had a coupon floor with a minimum coupon rate of 0%. The effective yield on the floating rate bonds depends on current pricing and so could well be negative even though an interest rate floor of 0% applies to the coupon rate.

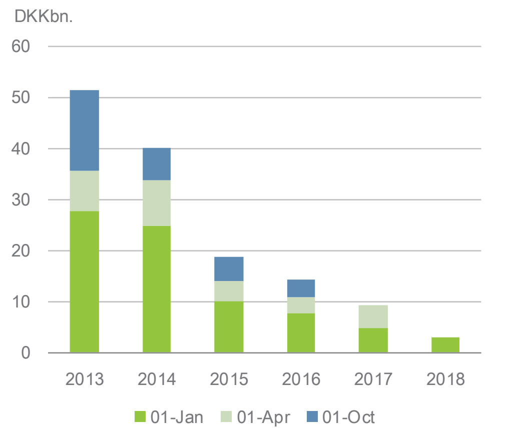
Short, fixed-rate non-callable bullets (ARM loans) could also potentially have negative yields, as the bonds trade at a premium that gives a negative effective yield for borrowers and investors.

Refinancing of ARM loans

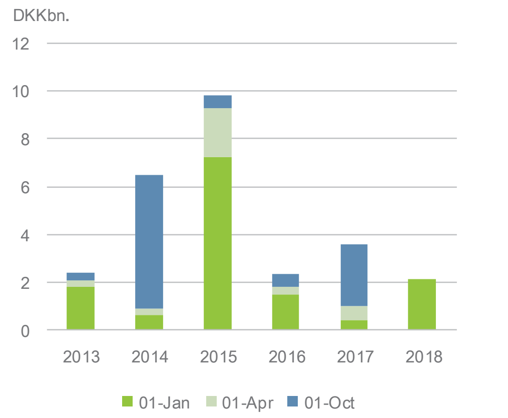
DLR held auctions in February, August and November-December 2018 in connection with the refinancing of ARM loans per 1 April 2018, 1 October 2018 and 1 January 2019, respectively. At the February auctions, DLR supplied DKK-denominated bonds for DKK 5.6bn and at the August auctions DKK-denominated bonds for DKK 1.6bn (all nominal amounts). At the November-December auctions, DLR offered DKK-denominated bonds for DKK 3.8bn and EUR-denominated bonds for EUR 0.3bn.

The total amount of ARM loans refinanced in 2018 was DKK 12.2bn, which is half the amount refinanced in 2017. The refinancing of 3Y-5Y ARM loans amounted to DKK 4.6bn, against DKK 12.6bn in 2017 when the large 3Y ARM series from 2014 were due for refinancing. In addition, the refinancing of 1Y-2Y ARM loans was further reduced by DKK 2bn in 2018 relative to 2017.

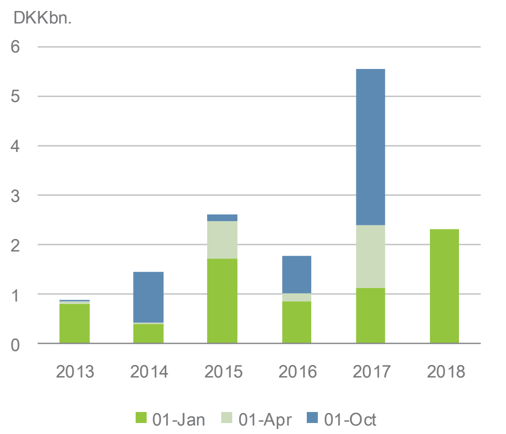
Figur 13a. Supply of 1Y ARM bullets (DKK)



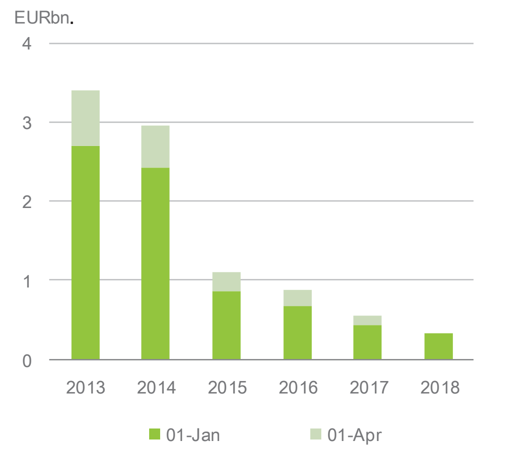
Figur 13b. Supply of 3Y ARM bullets (DKK)



Figur 13c. Supply of 5Y ARM bullets (DKK)



Figur 13d. Supply of 1Y ARM bullets (EUR)



Refinancing of floating rate loans

In May 2018, DLR held auctions of CIBOR6 and CITA6 bonds for refinancing of ARM Short loans at 1 July 2018. An amount of DKK 9.2bn was offered in a new CIBOR6-2023 series, and DKK 5.5bn in a new CITA6-2023 series.

DLR also held auctions in December 2018 linked to the refinancing of floating rate loans in DKK and EUR on 1 January 2019. These were loans granted in 2008 and financed with 10Y callable mortgage bonds based on short CIBOR and EURIBOR rates. The maturing series were relatively small, and 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 2018, DLR offered DKK 373m in 10Y CIBOR-based bonds and EUR 27m in 10Y EURIBOR-based bonds. Both bond series are callable at par and have no coupon floor.

Senior debt

DLR had DKK 8.0bn in outstanding senior debt at the end of December 2018 consisting of DKK 5.0bn in Senior Secured Bonds (SSB), DKK 2.0bn in Senior Resolution Notes (SRN) and DKK 1.0bn in Senior Non-Preferred Notes (SNP).

Table 8. DLR's outstanding senior debt issues year-end 2018

Type	Amount (DKKm)	Issuance date	Maturity date	Maturity (years)	Reference rate	Rate premium
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 %
SSB	2,000	20-03-2018	01-04-2021	3	3M Cibor	0.31 %
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 %
SNP	1,000	02-07-2018	02-07-2021	3	3M Cibor	0.70 %
Total, senior debt	8,000					

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 two to five year maturities, and DLR continually monitors the need for supplementary collateral, including the refinancing of maturing SSBs.

In March 2018, DLR issued DKK 2bn in SSBs to refinance an equivalent amount of SSBs maturing on 1 April 2018. SSBs for an additional DKK 1bn matured on 1

October 2018, and DLR opted not to refinance these bonds because the overcollateralisation in DLR's capital centre after maturity of the DKK 1bn was considered to be at an appropriate level.

In June 2018, DLR issued SNPs for DKK 1.0bn to comply with the debt buffer requirement, which will be phased-in until mid-2020 as described in the debt buffer section. DLR has now issued loss-absorbing senior bonds for a total amount of DKK 3.0bn, which is included in S&P's ALAC calculation and thus support DLR's issuer rating, see below, plus they can be used for OC and other purposes.

Rating

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

Table 9. DLR's ratings

Bond rating	S&P
Capital Centre B (SDO)	AAA (stable)
General Capital Centre (RO)	AAA (stable)
General Capital Centre (SRN)	BBB (stable)
Other ratings	
Issuer (Long-Term)	A- (positive)
Issuer (Short-Term)	A-2 (stable)

DLR's long-term issuer rating (Issuer Credit Rating, ICR) of A- is supported by an ALAC support uplift of +1, which is added to DLR's Stand-Alone Credit Profile (SACP) of BBB+. In July 2018, S&P put DLR's issuer rating on a positive outlook when S&P changed the trend for the economic risk in Denmark to positive. This opens up for DLR's issuer rating being lifted by one notch within a period of two years.

DLR's covered bonds (SDO) and mortgage covered bonds (RO) have been assigned the highest rating of AAA. Under S&P's Covered Bond rating method, it is possible to obtain a bond rating that is up to 9 notches above the issuer rating. With an issuer rating of A-, DLR only has a need for six of the nine notches to reach AAA and thus potentially has three unused uplifts in its bond rating. However, DLR has decided not to have committed OC, and so in reality has two unused uplifts in its bond rating. These unused uplifts contribute 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 12.1% for Capital Centre B and 2.5% 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. However, DLR has decided not to have its current SSB issues rated. Both the SRN and the SNP 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. For that purpose, DLR is required to regularly disclose data concerning its capital, funding and lending position at cover pool (capital centre) level.

Cover pool data for both capital centres is available on DLR's website at www.dlr.dk/investor and is updated quarterly. For Capital Centre B, data is published in accordance with both the ECBC's harmonised transparency template (HTT), which since 2016 has been mandatory for cover pools comprised by a covered bond label, and the national transparency template (NTT). For the General Capital Centre, data is only published according to NTT, as DLR's RO bonds are not covered by the covered bond label.

Cover pool reporting meets the transparency requirement of CRR Article 129 (7), which is a prerequisite to bonds being eligible for the preferential 10% risk weighting for investors that incur capital charges. According to the CRR requirement, covered bond investors must 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 covered bonds qualify for the lower risk weighting.

RISK

Risk management

DLR's business model is based on traditional mortgage credit activities in the form of lending against a mortgage on real property funded through the issuance of bonds. As a mortgage credit institution, DLR is subject to a finely-meshed regulatory setup, covering all important areas of DLR's operations. Due to the regulations governing mortgage credit institutions, including the balance principle, and the framework provided for running DLR, the company 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. The loan-distributing banks have also provided a substantial volume of guarantees for the loans granted, and DLR has the opportunity to offset losses in the commissions paid to the banks. These factors generally ensure the loan mass is of good quality, just as continuous attention to the setting of administration margins provides balanced earnings relative 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 the overall responsibility for limiting and monitoring the risk incurred by DLR. For that purpose, the Board of Directors has defined 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 and the relevant Board committees such as the Risk Committee and Audit Committee (see section on Board committees) are 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 – audits processes and internal control procedures in significant and material risk areas.

Risk Monitor

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 reporting directly to the Executive Board. The Risk Monitor is responsible for the proper management of risk at DLR, including having an overview of the general risk situation and establishing a relevant control environment. The Risk Monitor reports to the Board of Directors and Executive Board on an ongoing basis and participates in the meetings of DLR’s Risk Committee.

Compliance function

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 Compliance Manager reports to the Board of Directors and Executive Board on an ongoing basis.

Whistle-blower scheme

In compliance with S.71a (1) of the Danish Financial Business Act, DLR Kredit has set up an internal whistle-blower 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

The monitoring and management of credit risk is undertaken by DLR's credit department, 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 size of 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 borrower's PD is converted to a rating class from 1 to 8.

The LGD model is based on DLR's exposure compared with the value of collateral basis. 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 applies the "credit-reservation method" (the "8+ method") to determine its adequate own funds and solvency need (ICAAP).

Using this approach, which is based on 8% of the total risk exposure amount, an assessment is made of whether DLR in individual business areas or operationally, etc. has significant risks that are not be covered by the 8% requirement. If this is the case, an add-on is made to the adequate own funds 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 Own Funds and Solvency Need for Credit Institutions” of 5 December 2018.

DLR’s unified business model, which is 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. The capital requirement linked to credit risk therefore forms the most significant part of DLR’s aggregate adequate own funds.

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

At least once every quarter, DLR determines its adequate own funds and solvency need. In addition, DLR monitors relevant risk parameters to ensure the estimated solvency need and adequate own funds always reflect DLR’s current risk profile. If it is found that the adequate own funds and thus the solvency need does not adequately reflect DLR’s current risks, the need for renewed determination will be considered.

A submission will typically be made to the Board at the quarterly meetings held in connection with the release of financial reports. At least annually, DLR’s Board of Directors reviews the method used to determine the adequate own funds and solvency need. DLR’s Risk Committee considers the calculation and the method before presenting them to DLR’s Board of Directors. In addition, DLR’s internal audit department undertakes an independent assessment of the calculation.

Table 10 shows DLR's adequate own funds and solvency need. DLR's calculation of its adequate own funds is relatively stable over time, among other things due to the fact that the DLR business model builds exclusively on conventional mortgage lending activity. Changes are thus typically driven by developments in DLR's total risk exposure amount or, such as changes to the supervision practice relative to specific risk areas.

Table 10. DLR's adequate capital base and solvency need

(DKKm)	2018	2017
Credit risk	6,205	6,158
Market risk	550	293
Operational risk	193	192
Other factors	0	0
Internally calculated adequate own funds	6,949	6,643
Add-ons (special risks)	0	0
Total	6,949	6,643
Solvency need	9.02%	8.53%

Large exposures

Exposures of more than 10% of the own funds are designated major exposures. At year-end 2018, DLR had no single exposures (after deductions) that amounted to more than 10% of DLR's own funds.

With respect to the Supervisory Diamond threshold value for large exposures, the sum of DLR's 20 largest exposures at end-2018 was 28% of the common equity tier 1 capital, which is well below the 100% threshold value.

Supplementary collateral

DLR issues covered bonds (SDO) out of Capital Centre B with a view to funding issued loans. Particularly secure assets must 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 the amount of secure assets is insufficient, for example in case of falling prices of the properties provided as collateral, additional supplementary collateral must be added to the capital centre in a ratio of 1:1. Such collateral must consist of certain particularly secure assets, such as government bonds, own covered bonds or, up to a certain limit, claims against banks. DLR is therefore very aware of the need for supplementary collateral in connection with capital planning.

At year-end 2018, DLR had provided DKK 10.7bn in supplementary collateral, which was slightly down on the 2017 level, when DLR provided DKK 11.4bn in supplementary capital. The volume of supplementary collateral has trended downward in recent years. Given DLR's own funds and issued SSBs, SRNs, SNPs and guarantees, etc., DLR is capable of absorbing a potential future general price fall on agricultural and commercial property of some 20%.

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.

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 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 segment. These loss-mitigating agreements still cover a considerable share of DLR's portfolio.

At the end of 2018, 96% 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 below.

DLR's guarantee concept

In 2014, DLR entered an agreement 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 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% of the outstanding debt for the entire term of the loan. The guarantee amount declines proportionally as the loan debt is paid off, 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 on the individual property.

Lending covered by the universal guarantee concept will increase as new loans are granted and also as the existing portfolio is remortgaged. At year-end 2018, the universal guarantee concept covered an outstanding bond debt of DKK 90bn, or 60% of the total loan portfolio.

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% 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 agency commissions and brokerage reimbursements. Losses that cannot be fully offset in that year's commissions can be carried forward and offset against commissions for up to a further nine years.

The opportunity to offset losses in the commissions paid to the banks is an important element in the universal guarantee concept. DLR offset losses for a total of just under DKK 8m in 2018, with nearly DKK 2m concerning losses realised in 2017. At the end of 2018, DLR had not realised any losses to be offset in future commissions.

Loans granted until the end of 2014, are still covered by the previous loss-mitigating agreements for loans to agricultural and commercial property. At the end of 2018, 22% of the loan portfolio was covered by the previous collaboration agreement on agricultural loans, while another 13% was covered by the previous guarantee concept in the commercial area.

Loan portfolio LTV

The loan portfolio's LTV in a mortgaged property illustrates DLR's limited risk of loss. At the end of 2018, 91% of lending on agricultural properties was placed within the <60% 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% was placed in the <60% LTV range of valuations. Loans for residential properties classified as commercial properties have an LTV limit of 80%, which is why the share below the <60% LTV range is inherently lower.

In addition to LTV, DLR has, as outlined above, a comprehensive guarantee setup covering the bulk of its portfolio.

The continual monitoring of LTV values is a permanent feature of DLR's management reporting.

DLR also prepares regular risk-based 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 terms. 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% of the own funds. With own funds of DKK 13.0bn at year-end 2018, this equates to a maximum permitted interest rate risk for DLR of DKK 1.0bn.

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% of DLR's own funds, which equates to between DKK 0 and 390m.

At the end of 2018, the interest rate risk on DLR's securities portfolio (asset side) was DKK 197m. Interest rate risk expresses the amount that DLR at the end of 2018 should expect as a price adjustment in the event of a shift in market yields of 1 percentage point. DLR calculates the relative interest rate risk at 1.5% given the own funds at the end of 2018.

The interest rate risk on issued capital and debt instruments (liabilities) – i.e. Tier 2 capital, Senior Secured Bonds, Senior Resolution Notes and Senior Non-Preferred notes – is calculated at DKK 45m, or 0.4% of DLR's own funds.

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 151m, or 1.2% of the own funds. 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.

In connection with the calculation of interest rate risk, DLR also calculates convexity risk and credit spread risk. See DLR's Risk and Capital Management Report 2018.

Liquidity risk

DLR's use of the specific balance principle means payments on loans and issued bonds closely track each other (match funding).

CRR/CRD IV established requirements – see 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% of the own funds.

DLR's exchange rate risk amounted to 0.004% of the own funds at the end of 2018.

Equity market risk

DLR generally does not place funds in equities apart from "sector equities". At the end of 2018, 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 2018.

Operational risk

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

DLR constantly strives to minimise operational risk. DLR's operational risk is generally assessed to be limited due to DLR's single-string business model as a mortgage credit institution.

DLR regularly 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 highly competent staff and high levels of 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, the risk exposure amount for operational risk amounts to DKK 2,415m. That equates to DKK 193m to cover the 8% capital requirement for operational risk at end-2018.

Board committees

Four committees have been set up under DLR's Board of Directors 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 responds 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 – General Manger Claus Andersen (chairman), Managing Director Gert R. Jonassen and Head of Business Development and Communication Randi Franke. The Executive Board and the internal and external auditors also participate in Audit Committee meetings.

The Audit Committee met five times in 2018.

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 and ongoing monitoring of DLR's most significant risks. 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 own funds and the solvency need, etc.

The work of the Risk Committee does not change relative to 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), Managing Director & CEO Vagn Hansen and Agricultural Account Manager Jakob G. Hald. DLR's Independent Risk Monitor also attends Risk Committee meetings.

The Risk Committee met five times in 2018.

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 committee met twice in 2018.

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 Attorney, MA (Law) Søren Jensen.

The committee met twice in 2018.

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 A/S and PRAS A/S, among others, also own shares in DLR.

The Board of Directors had 12 members at the end of 2018, of whom seven were elected at 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 stand for re-election. Employee representatives are elected for a four-year period and may stand for re-election.

Employees

DLR had, on average, 187 permanent employees (FTE) in 2018. In addition, DLR has 26 agricultural valuation experts attached to the company on a part-time basis.

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 and products that DLR can provide.

It is therefore vital that DLR's employees constantly maintain and build on their knowledge, for example via continuous education, and in this way contribute to securing competent and effective service of DLR's customers and collaboration partners. DLR is a member of the Education Centre of the Danish Financial Sector.

DLR's in-house business procedures and workflows and instructions are regularly updated and expanded to ensure a documented basis for, among other things, DLR's loan administration and customer services.

As a financial organisation, DLR relies strongly on IT solutions for its day-to-day operations. For the IT area, this also includes comprehensive documentation of the IT systems used.

In areas where specialist competences are required, DLR enlists external know-how where necessary.

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 in the Faroe Islands and in Greenland.

DLR's business model is based on close and professional collaboration with DLR's circle of owners, who comprise national and local loan-distributing banks with branches in Denmark, in the Faroe Islands and in Greenland. The cooperative model between DLR and its owners ensures a cost-efficient lending process where the banks are remunerated for arranging 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 mortgage credit loans.

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

Internal control and risk-management systems connected with financial reporting

The Board of Directors, the Audit Committee and the Executive Board have the 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 – audits processes and internal control procedures in significant and material risk areas. 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.

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 other than 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.

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 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. Lastly, 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.

On the basis of an amendment to DLR's shareholder agreement in spring 2018, the number of AGM-elected board members was reduced from nine to seven in connection with DLR's Annual General Meeting in April 2018. DLR's Board subsequently comprises 12 members, of whom seven were elected by the shareholders, and five were elected by DLR's employees. The shareholder-elected members are all male, while three of the employee representatives are male and two are female.

The number of female board members was reduced by one from three to two since the latest count, as a female member of the Board of Directors stepped down in connection with the Annual General Meeting in 2018, being replaced by a male member of the Board of Directors.

When assessing potential Board candidates, DLR's Nomination Committee attaches 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% to 25%. The target is to 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 traditionally members of the executive boards of DLR's shareholder banks, which currently have only a very limited number of female executives.

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 purpose of the policy is to help promote a broadening of the composition of DLR's Board of Directors. 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 2018, DLR's Board of Directors consisted of 12 members, of whom seven were elected at DLR's Annual General Meeting. Of the shareholder-elected Board members, three were elected from among the members of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, and three from among the members of National Banks in Denmark. Furthermore, one member was elected jointly by the two associations.

In addition, DLR employees elected five members to the Board of Directors.

At the end of 2018, DLR's Board of Directors consisted of the following members:

Elected at the General Meeting

- Vagn Hansen (chairman), Managing Director & CEO, Sparekassen Vendsyssel
- Lars Møller (vice chairman), Managing Director, Spar Nord Bank A/S
- Claus Andersen, General Manager, Ringkjøbing Landbobank A/S
- Peter Gæmelke, Farmer, Vejen
- Gert R. Jonassen, Managing Director & CEO, A/S Arbejdernes Landsbank
- Bjarne Larsen, Deputy Group Chief Executive, Sydbank A/S
- Lars Petersson, Managing Director & CEO, Sparekassen Sjælland-Fyn A/S

Bjarne Larsen, Deputy Group Chief Executive, Sydbank A/S, was elected as a new board member at the Annual General Meeting on 30 April 2018. The remaining Board members elected by the Annual General Meeting were all re-elected.

Karen Frøsig, CEO of Sydbank A/S, Torben Nielsen, former governor of Danmarks Nationalbank, Jan Pedersen, Managing Director & CEO, Danske Andelskassers Bank A/S, stepped down from the Board at this time, as DLR's shareholders prior to the Annual General Meeting had resolved that the number of AGM-elected board members should be reduced.

Employee representatives

- Randi Franke, Head of Business Development and Communication
- Jakob G. Hald, Agricultural Account Manager
- Kim Hansen, Office Attendant
- Søren Jensen, Attorney, MA (Law)
- 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

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

Lending

- Deputy Director, MSc (Agriculture) Bent Bjerrum

Accounting & Finance

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

IT

- Christian Willemoes, IT Director, Engineer

Internal Audit

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

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, under which staff employed at DLR and under instruction from LR Realkredit will prepare loan applications for approval 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 A/S) entered into an agreement with DLR effective from 1 November 2017 on the outsourcing of all LFI's operations to DLR.

According to the agreement, DLR will serve LFI's customers and handle the administration of LFI's loan portfolio, including the preparation of 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 and has an extension option.

Shareholder information

Share capital

DLR's share capital is mainly held by local, regional and national banks. DLR's share capital has a nominal value of DKK 570.0m (denomination of DKK 1), of which DLR Kredit A/S holds 29,420,037 own (treasury) shares, equivalent to a nominal value of DKK 29.45m.

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 01 March 2019 (based on the outstanding bond debt at 31 December 2018).

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 SDC 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
- Chairman of the Board of Directors of BI Asset Management A/S
- Chairman of the Board of Directors of BI Management A/S
- Member of the Board of Directors of Aktieselskabet Skelagervej 15

Claus Andersen, General Manager, Ringkjøbing Landbobank A/S

- Chairman of the Board of Directors of Sæbygaard Skov A/S
- Member of the Board of Directors of Lokale Pengeinstitutter

Peter Gæmelke, Professional board member and farmer

- 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 i Velliv Foreningen fmba
- Chairman of the Board of Directors of Det Grønne Museum
- Member of the Board of Directors of Velliv A/S
- Member of the Board of Directors of Kirkbi A/S
- Member of the Board of Directors of Fællesfonden
- Member of the Board of Directors and member of the Supervisory Board of Askov Højskole
- Member of the Committee of Shareholders of Tryghedsgruppen smba
- Member of the Board of Directors of Danmarks Nationalbank
- Member of the Committee of Shareholders of Sydbank A/S
- Member of the Committee of Representatives of Hedeselskabet

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 A/S
- Member of the Board of Directors of PRAS A/S
- Member of the Board of Directors of Landsdækkende Banker

- Member of the Board of Directors of Totalkredit A/S
- Members of the Board of Directors of Kooperationen
- Member of the Executive Board of Handels ApS Panoptikon

Bjarne Larsen, Deputy Group Chief Executive, Sydbank A/S

- Member of the Board of Directors of Ejendomsselskabet af 1. juni 1986 A/S
- Member of the Board of Directors and Vice Chairman of DiBa A/S

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 of Ejendomsselskabet 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
- 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 2018

PROFIT AND LOSS ACCOUNT AND STATEMENT OF COMPREHENSIVE INCOME

BALANCE SHEET

STATEMENT OF CHANGES IN EQUITY

CAPITAL AND SOLVENCY

NOTES

SERIES FINANCIAL STATEMENTS

Income statement and statement of comprehensive income (DKKm)

Note		2018	2017
1	Interest income	3,124	3,329
2	Interest expenses	-1,398	-1,621
	Net interest income	**1,726**	**1,708**
	Share dividends etc.	0	0
	Fees and commission received	214	235
	Fees and commission paid	-540	-492
	Net interest and fee income	**1,401**	**1,451**
3	Market value adjustments	-211	-172
	Other operating income	27	20
4-10	Staff costs and administrative expenses	-274	-252
	Depreciation and impairment of property, plant and equipment	-2	-3
	Other operating expenses	-11	-12
11	Impairment of loans, advances, receivables, etc.	-24	94
	Profit before tax	**905**	**1,126**
12	Tax	-198	-246
	Profit after tax	**707**	**880**
	Comprehensive income		
	Profit for the year	**707**	**880**
	Revaluation of property	**24**	**0**
	Tax on property revaluations	**-5**	**0**
	Other comprehensive income after tax	**726**	**880**
	Attributable to:		
	Shareholders of DLR Kredit A/S	726	808
	Owners of additional tier 1 capital	0	72

* Due to tax deductions for payments to owners of additional tier 1 capital, the consolidation increased by an additional DKK 16m (22% of DKK 72m) beyond comprehensive income in 2017.

Balance Sheet

(DKKm)

Note		31 December 2018	31 December 2017
	Assets		
	Cash balance and demand deposits with central banks	49	50
13	Due from credit institutions and central banks	2,858	7,951
14, 16-20	Loans, advances and other receivables at fair value	148,593	143,042
15,16,19-20	Loans, advances and other receivables at amortised cost	18	19
22	Bonds at fair value	8,894	11,810
	Shares etc.	51	46
23	Land and buildings, domicile properties	120	97
	Other property, plant and equipment	4	4
	Current tax assets	21	27
	Assets held temporarily	48	35
24	Other assets	64	272
	Prepayments	19	22
	Total assets	**160,738**	**163,375**
	Equity and liabilities		
25	Issued bonds at fair value	137,911	139,972
26	Issued bonds at amortised cost	7,990	9,000
27	Other liabilities	1,203	1,331
	Deferred income	2	4
	Total liabilities	**147,106**	**150,307**
28	Provisions for deferred tax	8	3
	Total provisions	**8**	**3**
29	Subordinated debt	650	650
	Total subordinated debt	**650**	**650**
	Share capital	570	570
	Revaluation reserve	62	43
	Undistributable reserve	2,338	2,338
	Retained earnings etc.	10,004	9,464
30	**Total equity**	**12,974**	**12,415**
	Total equity and liabilities	**160,738**	**163,375**
31	**Off-balance sheet items**		
	Guarantees	2	7
	Other contingent liabilities	7,184	4,953

Statement of changes in equity (DKKm)

	Share capital 1,4)	Revaluation reserve	Undistributable reserve	Retained earnings	Owners of additional tier 1 capital 2)	Total
2017						
Equity at 1 January	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**
Repayment of additional tier 1 capital					-1.300	**-1.300**
Equity at 31 December	**570**	**43**	**2.338**	**9.464**	**0**	**12.415**
2018						
Equity at 1 January	570	43	2.338	9.464	0	**12.415**
Profit for the year	0	0	0	707	0	**707**
Revaluation of property		24				**24**
Tax on property revaluations		-5				**-5**
Acquisition of treasury shares 3)	0	0	0	-167	0	**-167**
Equity at 31 December	**570**	**62**	**2.338**	**10.004**	**0**	**12.974**

1) The share capital is divided into shares of DKK 1.00 each. The total number of shares is 569,964,023. DLR has one share class, and all shares carry equal rights.

2) Additional tier 1 capital meeting the requirements of the Capital Requirements Regulation (CRR).

3) In 2018, DLR acquired treasury shares corresponding to a market value of DKK 171.8m and sold treasury shares corresponding to a market value of DKK 4.3m. The net acquisition of treasury shares was thus DKK 167.5m (2017: sale of treasury shares of DKK 632m). The transactions were made for purposes of adjusting the equity interests of individual shareholders.

The DKK 167.5m net acquisition of treasury shares may be specified as follows:

Number	7,924,919
Nominal value (DKKm)	7.9
Percentage of share capital	1.4%

4) DLR held 29,420,037 treasury shares at 31 December 2018, corresponding to a nominal value of DKK 29.4 million. The portfolio of treasury shares accounts for 5.2% of the total share capital.

Capital and solvency

(DKKm)

	31 December 2018	31 December 2017
Equity	12,974	12,415
Profit etc. not recognised in tier 1 capital	0	0
Deductions as a consequence of prudent valuation	-24	-26
Difference between expected losses and impairment losses	-607	-667
Deferred tax	0	0
Common equity tier 1 capital	**12,344**	**11,722**
Subordinated capital (tier 2 capital)	650	650
Own funds	**12,994**	**12,372**
Risk-weighted exposure with credit risk etc.	71,665	71,804
Risk-weighted exposure with market risk	2,994	3,667
Risk-weighted exposure with operational risk	2,415	2,401
Total risk-weighted exposure	**77,074**	**77,872**
Common equity tier 1 capital ratio	**16.0%**	**15.1%**
Total capital ratio	**16.9%**	**15.9%**

List of notes to the financial statements

No.	Name of note
	Notes to the financial statements - income statement
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2	Interest expenses
3	Market value adjustments
4	Staff costs and administrative expenses
5	Remuneration for members of the Executive Board and the Board of Directors etc.
6	Remuneration for members of the Board of Directors etc.
7	Remuneration to the Board of Directors for participating in board duties and serving on Risk and Audit Committees
8	Executive Board and Board of Directors. Amount of loans, security, surety or guarantees provided to institution members
9	Audit fees
10	Number of employees
11	Impairment of loans, advances, receivables, etc.
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	Notes to the financial statements - assets
13	Due from credit institutions and central banks
14	Loans, advances and other receivables at fair value
15	Loans, advances and other receivables at amortised cost
16	Loans, advances and other receivables at fair value and amortised cost
17	Mortgage loans (nominal value) by property category (as a percentage)
18	Number of loans - end of period
19	Impairment of loans, advances and other receivables
20	Impairment - other financial assets
21	Reasons for individual impairment losses
22	Bonds at fair value
23	Land and buildings, domicile properties
24	Other assets
	Notes to the financial statements - equity and liabilities etc.
25	Issued bonds at fair value
26	Issued bonds at amortised cost
27	Other liabilities
28	Provisions for deferred tax
29	Subordinated debt
30	Equity
	Notes to the financial statements - off-balance sheet items etc.
31	Off-balance sheet items
32	Contingent assets

List of notes to the financial statements

Notes - income statement (DKKm)

Note		2018	2017
1	**Interest income**		
	Due from credit institutions and central banks *	0	0
	Loans and advances	1,436	1,660
	Contributions	1,559	1,508
	Bonds	146	186
	Other interest income	64	58
	Total interest income	**3,206**	**3,412**
	Interest on own mortgage bonds offset against interest on issued bonds	-82	-83
	Total	**3,124**	**3,329**
	* Of which interest income from repo transactions	0	0
2	**Interest expenses**		
	Credit institutions and central banks *	-3	-5
	Issued bonds at fair value	-1,431	-1,652
	Issued bonds at amortised cost	-29	-42
	Other interest expenses	-16	-6
	Total	**-1,479**	**-1,704**
	Interest on own mortgage bonds offset against interest on issued bonds	82	83
	Total	**-1,398**	**-1,621**
	* Of which interest expenses on repo transactions	0	0
3	**Market value adjustments**		
	Mortgage loans	-231	2,844
	Bonds	-215	-180
	Shares etc.	5	-3
	Other assets	0	0
	Foreign currency	5	4
	Derivative financial instruments	-7	7
	Issued bonds	231	-2,844
	Total	**-211**	**-172**

Notes - income statement (DKKm)

Note		2018	2017
4	**Staff costs and administrative expenses**		
	Staff costs		
	Salaries	-138	-129
	Pension costs	-12	-11
	Social security costs	-21	-19
	Total	**-171**	**-160**
	Other administrative expenses		
	IT expenses	-49	-46
	Audit, financial supervision and industry association	-8	-9
	Other expenses	-47	-38
	Total	**-103**	**-93**
	Total staff costs and administrative expenses	**-274**	**-252**
5	**Remuneration for members of the Executive Board and the Board of Directors etc.**		
	Executive Board		
	Jens Kr. A. Møller, CEO	4.3	4.0
	Michael Jensen, Managing Director	2.9	2.8
	Total	**7.1**	6.8
	Members of the Executive Board do not receive variable remuneration or other incentive pay.		
6	**Remuneration for members of the Board of Directors etc.**		
	Board of Directors		
	Fixed remuneration	2.0	2.0
	Variable remuneration	0.0	0.0
	Total	**2.0**	**2.0**
	Number of members of the Board of Direcors - year-end	**12**	**14**

Notes - income statement (DKKm)

Note		2018	2017
7	**Remuneration to the Board of Directors for participating in board duties and serving on Risk and Audit Committees**		
	Amount in this note are in 1.000 DKK		
	Vagn Hansen, Chairman	291	248
	Lars Møller, Deputy Chairman (took office in April 2017)	237	202
	Anders Dam, Deputy Chairman (resigned in April 2017)	0	52
	Claus Andersen	167	138
	Claus Andreasen (resigned in April 2017)	0	36
	Randi Franke (took office in April 2017)	139	74
	Karen Frøsig (resigned in April 2018)	40	110
	Peter Gæmelke	121	110
	Jakob G. Hald	149	138
	Kim Hansen (took office in April 2017)	121	74
	Søren Jensen	130	138
	Gert R. Jonassen (took office in April 2017)	139	74
	Agnete Kjærsgaard	121	110
	Bjarne Larsen	81	0
	Torben Nielsen (resigned in April 2018)	68	193
	Benny Pedersen (resigned in April 2017)	0	36
	Jan Pedersen (resigned in April 2018)	40	110
	Lars Petterson	121	110
	Total remuneration	**1.965**	**1.953**
	Members of the Board of Directors do not receive shares or other incentive pay.		
	Other employees besides the Executive Board and the Board of Directors influencing the risk profile		
	Fixed remuneration	17,3	18,2
	Variable remuneration	0,0	0,0
	Total	**17,3**	**18,2**
	Number of employees who have influenced the risk profile		
	Number of employees who have influenced the risk profile during the year	17	18
	- Of whom resigned during the year	2	1
	Number of employees influencing the risk profile, year-end	**15**	**17**
	The Company has no pension obligations to or incentive schemes for the above group of persons.		

		2018	2017
8	**Executive Board and Board of Directors. Amount of loans, security, surety or guarantees provided to institution members**		
	Executive Board:		
	Loans etc.	0	0
	Board of Directors:		
	Loans etc.	18	18

Interest rates (incl. contributions) 2018

Executive Board: No loans (2017: No loans)

Board of Directors: 0.8-3.5% p.a. * (2017: 1.0-3.0% p.a.)

- 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 Board or the Board of Directors or their related parties.

- Exposures with related parties are 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 the Board of Directors and their related parties.

* 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 Board or the Board of Directors.

		2018	2017
9	**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	1.0	0.6
	Total	**2.4**	**2.0**

The fee for non-audit services provided by Deloitte amounts to DKK 1.5m. The services relate to assurance reports issued by DLR in its capacity as a financial business, tax advice and a number of other advisory services.

		2018	2017
10	**Number of employees**		
	Average number of employees in the financial year converted into FTEs*	187	173
	Total	**187**	**173**

* In addition to its 187 employees, DLR has 24 associated agricultural valuation experts (2017: 24), 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 costs”.

		2018	2017
11	**Impairment of loans, advances, receivables, etc.**		
	Losses in the period	-23	-23
	Amounts received on claims previously written off	3	14
	Impairment losses in the period	-146	-118
	Reversal of impairment losses	133	195
	Losses offset against commission payments to banks	8	27
	Total	**-24**	**94**
12	**Tax**		
	Tax (breakdown in DKKm)		
	Applicable tax rate for "Profit before tax"	-199.2	-247.8
	Non-taxable income and non-deductible expenses	-0.1	-0.1
	Deferred tax etc.	0.0	0.1
	Adjustment of prior-year tax charge	1.2	1.4
	Total	**-198.0**	**-246.4**
	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	-0.1
	Effective tax rate	**21.9**	**21.9**

Notes - assets (DKKm)

		31 December 2018	31 December 2017
13	**Due from credit institutions and central banks**		
	Due from central banks	1,881	6,023
	Due from credit institutions	977	1,928
	Total amount due from credit institutions and central banks	**2,858**	**7,951**
	DLR had not entered into any reverse repo transactions at end-2017 or end-2018		
	Maturity distribution by term to maturity		
	Demand deposits	977	1,928
	Up to and including three months	1,881	6,023
	Over three months up to and including one year	0	0
	Over one year up to and including five years	0	0
	Over five years	0	0
	Total	**2,858**	**7,951**
14	**Loans, advances and other receivables at fair value**		
	Mortgage loans, nominal value	146,392	140,653
	Adjustment to fair value of underlying bonds	2,611	2,843
	Adjustment for credit risk	-517	-504
	Mortgage loans at fair value	**148,486**	**142,992**
	Arrears before impairment losses	120	101
	Other loans and outlays before impairment losses	3	-36
	Impairment losses on arrears and outlays	-16	-16
	Total	**148,593**	**143,042**
15	**Loans, advances and other receivables at amortised cost**		
	Loans and advances	22	24
	Adjustment for credit risk	-4	-5
	Total	**18**	**19**

Notes - assets (DKKm)

		31 December 2018	31 December 2017
16	**Loans, advances and other receivables at fair value and amortised cost**		
	Maturity distribution by term to maturity		
	Up to and including three months	1,146	1,183
	Over three months up to and including one year	3,285	3,003
	Over one year up to and including five years	22,298	21,530
	Over five years	121,883	117,345
	Total	**148,611**	**143,061**

Pursuant to special legislation, a government guarantee of DKK 281m (2017: DKK 342m) has been provided as supplementary security for loans to young farmers.

Security in the amount of DKK 1,339m has been provided for advance loans (2017: DKK 1,158m).

As supplementary security for mortgage loans, bankers' guarantees of DKK 15,992m in addition to mortgages have been provided (2017: DKK 16,257m)

17	**Mortgage loans (nominal value) by property category (as a percentage)**		
	Agricultural properties	60	62
	Owner-occupied dwellings	5	6
	Subsidised rental housing properties	0	0
	Private rental housing properties	17	15
	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, %	**100**	**100**
18	**Number of loans - end of period**	**62,280**	**60,212**

Notes - assets (DKKm)

19 **Impairment of loans, advances and other receivables**

Impairment of loans, advances and other receivables at fair value	Stage 1	Stage 2	Stage 3	Total
	2018			
Beginning of period	2	244	273	519
Change in period	3	0	11	14
End of period	5	244	284	**533**

Loans, advances and other receivables at amortised cost	Stage 1	Stage 2	Stage 3	Total
Beginning of period	0	2	3	5
Change in period	0	0	-1	-1
End of period	0	2	2	**4**
Impairment of loans - total	**5**	**246**	**286**	**537**

There where no financial assets which were credit-impaired on initial recognition

	2017		
	Collective	Individual	Total
Impairment of loans, advances and other receivables	246	278	**524**

Loan exposures by stages and property category	Stadie 1	Stadie 2	Stadie 3	I alt
	2018			
Agricultural properties	59,414	31,220	1,820	92,454
Owner-occupied dwellings	3,184	602	2	3,787
Subsidised rental housing properties	2	546	0	548
Private rental housing properties	18,438	5,580	123	24,141
Office and business properties	18,824	6,746	39	25,609
Properties for manufacturing and manual industries	1,053	168	0	1,221
Properties for social, cultural and educational purposes	14	3	0	16
Other properties	730	106	0	836
Total	**101,658**	**44,970**	**1,984**	**148,611**

Notes - assets (DKKm)

20 **Impairment - other financial assets**

	Asset before impairment		Impairment loss	
	31 Dec. 2018	**31 Dec. 2017**	**31 Dec. 2018**	**31 Dec. 2017**
Impairment of cash and demand deposits with central banks	49	50	**0**	**0**
Impairment of receivables with credit institutions and central banks	2,858	7,951	**0**	**0**

No other financial assets which were credit-impaired on initial recognition have been recognised.

Notes - assets (DKKm)

21 **Reasons for individual impairment losses**

	Remaining bond debt before impairmen 31 Dec. 2018	Impairment year-end 2018	Remaining bond debt before impairment 31 Dec. 2017	Impairment year-end 2017
Property category / Reason				
Farms, including residential farms etc.				
Bankruptcy	374	59	113	25
Reconstruction	92	6	0	0
Current default on payments	274	38	161	34
Prior default om payments	1.283	155	1.515	180
Total	**2.023**	**258**	**1.789**	**239**
Rental properties, including private cooperative housing properties				
Bankruptcy	5	2	0	0
Reconstruction	0	0	0	0
Current default on payments	4	1	0	0
Prior default om payments	113	17	147	23
Total	**122**	**20**	**147**	**23**
Office and business properties				
Bankruptcy	18	3	11	1
Reconstruction	0	0	0	0
Current default on payments	9	2	14	8
Prior default on payments	24	4	56	7
Total	**51**	**9**	**81**	**16**
Other properties				
Bankruptcy	1	0	0	0
Reconstruction	0	0	0	0
Current default on payments	0	0	1	0
Prior default on payments	2	0	9	1
Total	**3**	**0**	**10**	**1**

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.

Notes - assets (DKKm)

		31 Dec. 2018	31 Dec. 2017
22	**Bonds at fair value**		
	- Own mortgage bonds	22,561	30,307
	- Other mortgage bonds	8,183	10,243
	- Government bonds	711	1,567
	Bonds - gross	**31,455**	**42,117**
	Own mortgage bonds offset against issued bonds	-22,561	-30,307
	Total	**8,894**	**11,810**
23	**Land and buildings, domicile properties**		
	Fair value, beginning of year	**97**	**98**
	Additions during the year	0	0
	Depreciation	-1	-1
	Value changes recognised in other comprehensive income	24	0
	Fair value, end of period	**120**	**97**
	Domicile properties are valued on an annual basis by DLR's valuation experts.		
24	**Other assets**		
	Positive market value of derivative financial instruments etc.	7	4
	Interest and commission receivable	38	85
	Other receivables	19	183
	Total	**64**	**272**

Notes - liabilities etc. (DKKm)

Note		31 Dec. 2018	31 Dec. 2017
25	Issued bonds at fair value		
	Mortgage bonds - nominal value	157,762	167,176
	Fair value adjustment	2,710	3,103
	Issued bonds - gross	**160,472**	**170,279**
	Offsetting of own mortgage bonds - fair value	-22,561	-30,307
	Total	**137,911**	**139,972**
	Of which pre-issued, market value	5,996	13,291
	Cash value of bonds drawn for redemption at next repayment date (settlement price)	2,647	8,321

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 2018, 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 0.0m (2017: DKK 0.0m). Of the accumulated effect, DKK 0.0m relates to changes in 2018 (2017: DKK 0.0 million).

Maturity distribution by term to maturity (gross portfolio at market value)	31 Dec. 2018	31 Dec. 2017
Up to and including three months	9,045	23,483
Over three months up to and including one year	22,045	29,020
Over one year up to and including five years	91,227	83,970
Over five years	38,154	33,806
Total	**160,472**	**170,279**

Notes - liabilities etc. (DKKm)

		31 Dec. 2018	31 Dec. 2017
26	**Issued bonds at amortised cost**		
	Issues in connection with senior debt	7,990	9,000
	Offsetting of own bonds	0	0
	Total	**7,990**	**9,000**
	Maturity distribution by term to maturity		
	Up to and including three months	0	0
	Over three months up to and including one year	1,999	4,000
	Over one year up to and including five years	5,991	5,000
	Over five years	0	0
	Total	**7,990**	**9,000**
27	**Other liabilities**		
	Negative market value of derivative financial instruments etc.	10	5
	Interest and commission payable	961	1,079
	Other liabilities	232	247
	Total	**1,203**	**1,331**
28	**Provisions for deferred tax**		
	Deferred tax, beginning of year	3	3
	Change in deferred tax	5	0
	Total	**8**	**3**
	Land and buildings, domicile properties	9	4
	Other property, plant and equipment	-1	-1
	Total	**8**	**3**

Notes - liabilities etc. (DKKm)

		31 Dec. 2018	31 Dec. 2017
29	**Subordinated debt**		
	Interest payments	**-16**	**-6**

Subordinated debt amounts to DKK 650m, which has been recognised in full in own funds.

The subordinated debt is denominated in DKK and interest is payable at CIBOR 6M + 2.5%.

The subordinated debt falls due on 29 August 2027 but may, subject to approval by the Danish FSA, be repaid at par in part or in full at any time after 29 August 2022.

30 **Equity**

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

At 31 December 2018, the following shareholders held more than 5% 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.

31 **Off-balance sheet items**

	31 Dec. 2018	31 Dec. 2017
Guarantees etc.		
Financial guarantees	2	3
Other guarantees	0	4
Total	**2**	**7**
Other contingent liabilities		
Irrevocable credit commitments (loan offers)	7,184	4,953
Total	**7,186**	**4,960**

In addition to the above guarantees and contingent liabilities, DLR's bond portfolio is used as intraday collateral in connection with settlement of interest and drawings on DLR's outstanding bonds. This is not expected to entail an outflow of the Company's financial resources.

32 **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 is expected to be able to offset any losses against future commission to the extent that impairment losses on exposures materialise as actual losses.

Note

33 **Risk management**

Risk management is anchored with the Board of Directors and the Executive Board 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:

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

- Market risk: 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.
- 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

34 **Credit risk - management of credit risk 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 on a minor scale in the Faroe Isands and 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 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% 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 DKK 90bn.

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 32bn at year-end 2018.

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% of the mortgage in question. At the end of 2018, the loan-mitigating agreements under this guarantee concept comprise guarantees totalling DKK 8bn provided for a portfolio of currently DKK 17bn. This guarantee concept is currently being phased out.

As regards recognition and measurement of expected credit losses, see the accounting policies set out in note 49.

Notes - risk management (DKKm)

Note		31 Dec. 2018	31 Dec. 2017
35	**Credit risk - exposures**		
	The maximum credit risk, disregarding security, is as follows, which amounts have been recognised in the balance sheet.		
	Balance sheet items		
	Cash balance and demand deposits with central banks	49	50
	Due from credit institutions and central banks	2,858	7,951
	Loans, advances and other receivables at fair value	148,593	143,042
	Loans, advances and other reveivables at amortised cost	18	19
	Bonds at fair value	8,894	11,810
	Other assets	57	269
	Derivative financial instruments	7	4
	Total	**160,477**	**163,144**
	Off-balance sheet items		
	Financial guarantees	2	3
	Other guarantees	0	4
	Irrevocable credit commitments (loan offers)	7,184	4,953
	Total	**7,186**	**4,960**

Note

36 **Credit risk - loan to value (excl. loans in arrears and impaired loans)**

The credit quality of DLR's loan portfolio is shown in the tables below, which show the distribution of the total loan portfolio by LTV bands (loan-to-value intervals) at the end of 2018 for the most significant property categories. The tables do not include loans in arrears or individually 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's most recent valuations or "approved market values" (valuations made without physical inspection in connection with the ongoing LTV monitoring for loans based on covered bonds (SDOs)). In addition, a forward indexation has been made of the valuations to the price level at Q4 2018 to ensure that the valuation basis applied reflects the current price level.

It should be noted that, under the guarantee and set-off concepts described above, the loan-providing finincial institutions cover part of the 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 61% of DLR's total loan portfolio at the end of 2018.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Per cent of loans in LTV intervals	91.4	5.9	2.7

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 2018.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Per cent of loans in LTV intervals.	92.2	5.3	2.5

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 2018.

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

Owner-occupied homes: An LTV of 80% applies. Loans for owner-occupied homes accounted for 6% of DLR's total loan portfolio at the end of 2018.

Loan-to-value limit (LTV) as a percentage	0-80	80+
Per cent of loans in LTV intervals	99.2	0.8

37 **Credit risk - loans in arrears but not impaired, distributed by age of oldest outstanding mortgage payment**

The collateral for DLR's loans is described in more detail in note 34. As a result of these collateral, a number of loans, on which there is objective indication of credit impairment, will not be able to make write-downs in connection with an individual impairment review, as the value of the collateral exceeds the loan debt. These loans are included in DLR's "IFRS 9 model", where scenarios with a fall in property prices of up to 20% will typically lead to write-downs on these loans based on the "IFRS 9 model".

Note

38 **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 2018, DLR's own funds amounted to DKK 12,994m after deductions, giving a maximum permitted interest rate risk of DKK 1,040m.

At the end of 2018, the interest rate risk on DLR's securities portfolio (asset side) was DKK 196m. Interest rate risk expresses the market value adjustment expected to result from a 1 percentage point change in market rates at year-end 2018. Based on own funds, the relative interest rate risk was 1.5% at year-end 2018.

The interest rate risk on issued securities (liability side) – additional tier 1 capital and senior secured bonds – is DKK 45m, 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 152, equivalent to 1.2% 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 2018 was DKK 0,5m, equivalent to 0.004% 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 2018, 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 2018, the equity risk after tax amounted to DKK 4m.

Notes - risk management (DKKm)

39 **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.

2018	**Change in profit after tax**	**Change in equity**
Interest-rate risk on the securities portfolio		
An interest-rate increase of 1 percentage point	-119	-119
An interest-rate decrease of 1 percentage point	119	119
Equity risk		
An increase in share value of 10%	4	4
A decrease in share value of 10%	-4	-4
Exchange rate risk		
An increase of 1% DKK/EUR	4	4
A decrease of 1% DKK/EUR	-4	-4

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%	4	4
A decrease in share value of 10%	-4	-4
Exchange rate risk		
An increase of 1% DKK/EUR	12	12
A decrease of 1% DKK/EUR	-12	-12

Notes - risk management (DKKm)

Note

40 **Financial instruments: instruments used**
DLR's 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.

41 **Financial instruments: financial instruments not carried at fair value**
Financial instruments are measured in the balance sheet at fair value or at amortised cost. The table below shows the fair value of instruments not carried 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.

2018	**Carrying amount**	**Fair value**
Loans, advances and other receivables at amortised cost	18	18
Issued bonds at amortised cost	7,990	8,020

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

For other financial assets and liabilities not carried at fair value, the carrying amount essentially corresponds to the fair value, for which reason additional information is not provided.

Notes - financial instruments (DKKm)

Note

42 **Assets and liabilities at fair value**

2018	Quoted prices	Observable inputs	Non-observable inputs	Total fair value
Financial assets:				
Recognised as trading portfolio:				
- bonds at fair value	8,377	517	0	**8,894**
- derivative financial instruments	7	0	0	**7**
Recognised through fair value option:				
- loans, advances and other receivables at fair value	0	148,593	0	**148,593**
Recognised as available for sale:				
- shares available for sale	0	0	51	**51**
Other assets				
Land and buildings, domicile properties	0	0	120	**120**
Total	**8,384**	**149,110**	**171**	**157,665**
Financial liabilities:				
Recognised as trading portfolio				
- derivative financial instruments	10	0	0	**5**
Recognised through fair value option:				
- issued bonds at fair value	120,130	17,781	0	**137,911**
Total	**120,140**	**17,781**	**0**	**137,915**

2017	Quoted prices	Observable inputs	Non-observable inputs	Total fair value
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 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 fair value option:				
- issued bonds at fair value	122,206	17,766	0	**139,972**
Total	**122,210**	**17,766**	**0**	**139,977**

Note

42

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.

43

Derivative financial instruments by remaining term to maturity	31 Dec. 2018	31 Dec. 2017
Forwards, bought *		
Up to and including three months		
Nominal value	7,308	13,031
Net market value	2	(3)
Forwards, sold **		
Up to and including three months		
Nominal value	9,769	9,769
Net market value	-5	2

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 5,898m at the turn of the year 2018/19, 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 5,898m refinancing, DLR has sold DKK 5,559m forward at 2 January 2019, while the remaining amount was sold for settlement in 2018 and is therefore not stated as forwards.

Notes - key figures (DKKm)

44	Key figures	2018	2017	2016	2015	2014
	Income statement					
	Net interest and fee income	1,401	1,451	1,419	1,474	1,488
	Other operating income etc.	27	20	18	18	17
	Staff costs and administrative expenses etc.	-287	-267	-248	-225	-214
	Earnings	**1,141**	**1,204**	**1,189**	**1,267**	**1,291**
	Impairment of loans, advances and receivables	-24	94	-62	-60	-171
	Market value adjustments	-211	-172	-88	-330	-188
	Profit before tax	**905**	**1,126**	**1,039**	**875**	**933**
	Profit after tax	**707**	**880**	**811**	**670**	**703**
	Balance sheet (year-end)	**2018**	**2017**	**2016**	**2015**	**2014**
	Assets					
	Loans and advances	148,611	143,061	139,053	133,038	133,219
	Bonds, shares, etc.	8,945	11,855	13,683	12,033	9,234
	Other assets	3,182	8,458	3,002	3,371	15,185
	Total assets	**160,738**	**163,375**	**155,737**	**148,442**	**157,637**
	Equity and liabilities					
	Issued bonds	145,901	148,972	142,074	134,342	141,324
	Other liabilities	1,213	1,338	1,404	1,596	3,638
	Subordinated debt	650	650	0	0	755
	Equity	12,974	12,415	12,259	12,503	11,919
	Total equity and liabilities	**160,738**	**163,375**	**155,737**	**148,442**	**157,637**

Notes - financial ratios (DKKm)

		2018	2017	2016	2015	2014
45	**Financial ratios**					
	Return on equity					
	Profit before tax in per cent of equity *)	7.1	9.1	8.4	7.2	8.5
	Profit after tax in per cent of equity *)	5.6	7.1	6.5	5.5	6.4
	Return on capital employed					
	Return on capital employed *)	0.44	0.54	0.52	0.45	0.45
	Costs					
	Costs in per cent of loan portfolio	0.20	0.19	0.18	0.17	0.16
	Income/cost ratio *)	3.9	7.5	4.4	4.1	3.4
	Income/cost ratio, excl. impairment losses	4.2	4.9	5.4	5.2	6.2
	Solvency **)					
	Total capital ratio	16.9	15.9	14.3	12.9	12.3
	Tier 1 capital ratio	16.0	15.1	14.3	12.9	12.3
	Common equity tier 1 capital ratio	16.0	15.1	12.7	11.5	10.4
	Arrears and impairment losses					
	Arrears, end of period (DKKm)	120	101	124	122	142
	Impairment ratio for the period *)	0.02	-0.07	0.04	0.05	0.13
	Accumulated impairment ratio	0.36	0.37	0.43	0.44	0.40
	Lending activity					
	Growth in loan portfolio, per cent (nominal) *)	4.1	2.3	3.8	0.6	-0.9
	New loans, gross (DKKm)	27,717	35,214	23,118	23,469	33,181
	Number of new loans	8,546	10,225	7,353	8,585	9,638
	Loan/equity ratio *)	11.5	11.5	11.3	10.6	11.2
	Margins					
	Percentage of average loan portfolio (nominal):					
	Profit before tax	0.63	0.81	0.77	0.67	0.71
	Administration margin income in per cent of average loan portfolio	1.09	1.08	1.08	1.09	1.07
	Percentage of tier 1 capital after deductions					
	Foreign exchange position as a percentage of tier 1 capital after deductions	3.9	13.1	8.0	9.1	4.0

*) 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 2016-2018, as opposed to prior-year figures, which are based fully on the standard method.

Notes - other notes

Note		31 Dec. 2018	31 Dec. 2017
46	**Activities and geographical markets** DLR carries on mortgage credit activities in one geographical market, which is Denmark (including the Faroe Islands and Greenland).		
	Net interest and fee income	1,401	1,451
	Market value adjustments	-211	-172
	Revenue	3,365	3,584
	Government grants received	0	0

47 **Related parties**

DLR has no related parties other than the Board of Directors and the Executive Board. There are no balances with the Board of Directors or the Executive Board showing objective evidence of credit impairment (OECI).

48 **Reconciliation of income statement for "core and portfolio earnings" against "official statements"**

	Core earnings 2018	Portfolio earnings 2018	Total 2018
Interest income	2,986	138	3,124
Interest expenses	-1,398		-1,398
Net interest income	**1,589**	**138**	**1,726**
Share dividends etc.	0		0
Fees and commission received	214		214
Fees and commission paid	-540		-540
Net interest and fee income	**1,263**	**138**	**1,401**
Market value adjustments	0	-212	-211
Other operating income	27		27
Staff costs and administrative expenses	-274		-274
Depreciation and impairment of property, plant and equipment	-2		-2
Other operating expenses	-11		-11
Impairment of loans, advances, receivables, etc.	-24		-24
Profit before tax	**979**	**-74**	**905**
Tax	-198		-198
Profit after tax	**781**	**-74**	**707**

Note

49 **General**

DLR's annual report has been prepared in accordance with the provisions of the Danish Financial Supervisory Authority on financial reports of mortgage credit institutions and the requirements of NASDAQ Copenhagen as regards the financial statements of issuers of listed bonds.

The accounting policies applied in 2018 have been changed in accordance with the Danish FSA's amending executive order no. 1043 of 5 September 2017 (executive order amending executive order on financial reports of credit institutions and investment companies, etc.). The amending executive order sets out new provisions concerning the measurement of financial instruments in the form of new rules concerning impairment of loans and advances.

The most significant change introduced by the new set of rules reflects the implementation of IFRS 9. Under IFRS 9, credit risk adjustments, which were previously based on incurred losses (objective evidence of impairment), must now be based on expected losses.

As DLR had a reliable foundation at the end of 2017 for estimating the effects of implementing IFRS 9, recognition was made in the financial statements for 2017. The effect on profit or loss of the transition to the new method was DKK 97m, which was recognised as an accounting estimate in 2017.

Due to the early recognition in 2017, there were no changes in 2018 to pre-tax profit, comprehensive income or equity as a result of the new executive order on the presentation of financial statements.

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 on the basis of historical experience and assessments of future circumstances. 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
- Unlisted shares

Loans and advances at fair value

The calculation of impairment losses on loans and advances at fair value is partially based on a number of variables involving significant estimates. The most significant variables are as follows:

- The value of the property
- Determination of PD (probability of default) within 12 months

- Determination of PD throughout the term of the loan
- Scenarios for developments in the value of the property
- Assumptions regarding expected future developments
- Management estimate to ensure that provisions are made to cover risks not captured by the model.

As regards the measurement of collateral (typically properties), such estimate is made either by DLR's IT systems or by internal valuers specialising in the valuation of properties.

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.

Unlisted shares

Unlisted shares are measured at fair value. If the company provides a calculated price of its shares, this price is used. Alternatively, measurement is based on the company's equity value.

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.

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.

Notes – significant accounting policies

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 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 market value adjustments.

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 and contributions incurred but not yet due are recognised in the income statement.

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

Notes – significant accounting policies

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.

Notes – significant accounting policies

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

Receivables 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.

Impairment of loans and advances

Impairment losses on loans and advances are calculated on the basis of the method set out below.

All loans and advances are categorised individually according to the following three stages:

- Stage 1: Credit risk has not increased significantly since initial recognition. At this stage, the impairment loss is determined as the 12-month expected credit loss.
- Stage 2: Credit risk has increased significantly. At this stage, the impairment loss is determined as the lifetime expected credit loss.
- Stage 3: The asset is credit-impaired. At this state, the impairment loss is determined based on an individual assessment of the lifetime credit loss.

Categorisation in stages

This categorisation in stages is based on DLR's proprietary rating models.

The categorisation in stages 1, 2 and 3 is based on the following principles:

Significant increase in credit risk (stage 2):

Loans and other receivables are categorised according to whether on initial recognition the probability of default (PD) within 12 months is lower or higher than 1.0%.

For purposes of assessing the change in credit risk, a significant increase in credit risk relative to the risk on initial recognition is assumed to have occurred when:

- Less than 1% on initial recognition: The probability of default (PD) during the remaining term increases by 100% or more, and the 12-month PD increases by 0.5 of a percentage point or more.
- More than 1% on initial recognition: The probability of default (PD) during the remaining term increases by 100% or more, or the 12-month PD increases by 2.0 percentage points or more.
- The credit risk is also considered to have increased significantly if the borrower is more than 30 days in arrears and no special circumstances warrant that this should be ignored.

A loan with a 12-month PD of less than 0.2% at the balance sheet date is considered to carry low credit risk unless current or expected circumstances indicate otherwise. Loans with low credit risk are kept at stage 1. In addition to loans with a PD of less than 0.2%, receivables from Danish credit institutions and central banks are considered to carry low credit risk.

Objective evidence of credit impairment (stage 2 or 3): Loans and other receivables show objective evidence of credit impairment (in the following referred to as “OECI”) if one or more of the following events have occurred:

- The borrower is experiencing significant financial difficulty
- The borrower’s breach of contract where, for instance, interest or principal payments are more than 45 days overdue (default)
- The institution or other lenders grant concessions to the borrower that would not have been considered if the borrower was not experiencing financial difficulty
- It becomes probable that the borrower will enter into bankruptcy or other financial reconstruction.

All loans showing OECI are individually tested for impairment, and if the most likely scenario is that a loss will be incurred, the loan is considered to be credit-impaired and is placed in stage 3. If the most likely scenario is that a loss will not be incurred, the loan is placed in stage 2 (weak stage 2).

Calculation of expected losses in stages 1 and 2:

The calculation of expected credit losses in stages 1 and 2 is based on an impairment model which assesses the probability of default (PD), the expected credit exposure at default (EAD) and the expected loss given default (LGD).

The model incorporates historical observations as well as forward-looking information.

Inputs for the impairment model

The probability of default (PD) is determined based on observed default events during a period covering an economic cycle. The observed default events are converted into an estimated probability at a specified point in time (12-month PD).

Lifetime PD is determined based on 12-month PD using mathematical models and extrapolations of 12-month PD, taking into account expectations as to future events and loan performance.

The determination of credit exposure at default (EAD) takes interest and principal payments into account.

Expected loss given default (LGD) is calculated based on the difference between contractual cash flows and the cash flows which the institution expects to receive after default, including cash flows from realisation of collateral.

With a view to making the impairment model forward-looking, LOPI’s forward-looking model is used.

Notes – significant accounting policies

Considering its most significant risk to be related to falling mortgage values, DLR has incorporated an additional four scenarios in which property prices

- fall by 20%
- fall by 10%
- increase by 10%
- increase by 20%.

DLR's Management has estimated the probabilities of these scenarios, taking into account that there is an increased risk of significant price falls following a period of significant price increases.

Conversely, after a period of significant price falls, there is a lower risk of “new additional price falls”.

For purposes of determining whether a loan should be placed in stage 2 or stage 3, an individual assessment is made of all loans showing objective evidence of credit impairment. If the assessment indicates that an impairment loss should be recognised, the loan is credit-impaired and is placed in stage 3.

In addition, a management estimate is made to take account of any circumstances not captured by the individual impairment losses in stage 3 or the models for stages 1 and 2.

Loans and advances cease to be recognised in the balance sheet when the loan has either been repaid or been transferred to DLR in connection with a forced sale or the like.

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.

Notes – significant accounting policies

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.

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.

Notes – significant accounting policies

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 FSA's executive order no. 872 of 20 November 1995 on series financial statements of mortgage credit institutions, mortgage credit institutions 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.

Series financial statements

	B - SDO	DLR in general	Total
Income statement			
Administration and reserve fund contributions	1,483	76	1,559
Front-end fees	47	2	50
Interest on subordinated debt and guarantee capital	-16	-1	-16
Interest etc.	155	8	163
Market value adjustment of securities and foreign exchange	-201	-10	-211
Administrative expenses etc.	-585	-30	-615
Write-offs and provisions for loans and advances	-23	-1	-24
Tax	-188	-10	-198
Profit	**673**	**35**	**707**
Balance sheet			
Assets			
Mortgage loans	147,057	1,947	149,003
Arrears on mortgage loans before impairment	117	6	123
Provisions for loans, advances and arrears	-514	-19	-533
Prepayments	18	0	19
Other assets, including reserve fund loans	34,278	495	34,773
Total assets	**180,956**	**2,429**	**183,385**
Equity and liabilities			
Issued bonds etc.	158,365	2,107	160,472
Deferred income	469	6	475
Other liabilities	8,683	131	8,814
Subordinated debt	642	8	650
Equity	12,797	176	12,974
Total equity and liabilities	**180,956**	**2,429**	**183,385**
Addition or deduction of funds (net)	**465**	**-465**	**0**
Balance sheet total in the series financial statements			
Balance sheet total according to DLR's annual report			160,738
Set-off of own mortgage bonds			22,561
Set-off of interest receivable on own bonds etc.			85
Balance sheet total in DLR's series financial statements			**183,385**

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today considered and approved the annual report of DLR Kredit A/S for the financial year 1 January - 31 December 2018.

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 credit institutions 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 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018.

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 af-fect the Company.

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

Copenhagen, 7 February 2019

Executive Board

Jens Kr. A. Møller	Michael Jensen
CEO	Managing Director

Board of Directors

Vagn Hansen Chairman	Lars Møller Deputy Chairman	
Claus Andersen	Randi Franke	Peter Gæmelke
Jakob G. Hald	Kim Hansen	Søren Jensen
Gert R. Jonassen	Agnete Kjærsgaard	Bjarne Larsen
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 2018 and of the Company’s financial performance for the financial year 1 January - 31 December 2018 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 2018. 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.

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, 7 February 2019

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 01.01.2018 to 31.12.2018, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including the summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Business Act and additional 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 31.12.2018 and of its financial performance for the financial year 01.01.2018 to 31.12.2018 in accordance with the Danish Financial Business Act and additional 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 appointed auditors of DLR Kredit A/S for the first time prior to 1995. We have been reappointed annually by decision of the general meeting for a total engagement period of more than 24 years up to and including the financial year 2018.

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 01.01.2018 to 31.12.2018. 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.

<table>
<tr><th>Impairment losses on loans</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>
The Company's loans amount to DKK 148,611 million at 31 December 2018 (DKK 143,061 million at 31 December 2017) and the impairment losses amount to DKK 537 million in 2018 (DKK 524 million in 2017).
Determining expected impairment losses on loans is subject to significant uncertainty and to some extent based on management judgements. Due to the significance of such management judgements and the loan volumes of the Company, auditing impairment losses on loans is a key audit matter in our audit.
The principles for determining the impairment losses on loans are described in more detail in the accounting policies, and Management has described the management of credit risks and the assessment of the indication of impairment in notes 34-36 to the financial statements.
In 2018, management judgement of expected loss impairment has required special attention from auditors as a result of outlook in agriculture.
The areas of loans involving the highest level of management judgement, thus requiring greater audit attention, are:

Identification of credit-impaired exposures.
Parameters and management judgements in the calculation model used to determine Stage 1 and Stage 2 expected losses.
Valuation of collateral, including management judgements involved in determining Stage 3 expected losses.
Management add-ons related to the agricultural sector.

</td><td>
Based on our risk assessment, our audit comprised a review of the Company's relevant loan procedures, testing of relevant controls and analysis of the credit quality of loans, including the amount of loss impairment.
Our audit procedures included testing relevant controls regarding:

Current assessment of credit risk.
Assessment and validation of input and assumptions applied in calculating Stage 1 and Stage 2 loss impairment.
Determining management judgements in the model and Stage 3.

Our audit procedures also comprised:

Reviewing, on a sample basis, exposures to ensure timely identification of credit-impaired loans.
Challenging key assumptions in the calculation model applied with particular focus on objectivity and the data used.
Challenging management judgements in the calculation model applied with particular focus on management consistency and bias, including challenging documentation of the adequacy of management judgements.
Testing, on a sample basis for loans classified to be in Stage 3, the calculated indication of impairment for consistency with legal and company guidelines to this effect. This included testing collateral values and definition of scenarios.
Challenging management add-ons with particular focus on the agricultural sector, including pig and dairy farming and fur farming.

</td></tr>
</table>

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

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

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

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

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

Copenhagen, 07.02.2019

Deloitte

Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56

Henrik Wellejus	Brian Schmit Jensen
State-Authorised	State-Authorised
Public Accountant	Public Accountant
MNE no mne24807	MNE no mne40050

SHAREHOLDERS IN DLR KREDIT A/S

Year-end 2018

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 A/S

Djurslands Bank 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

Nordoya Sparikassi

Nykredit Realkredit A/S

PRAS A/S

Ringkjøbing Landbobank A/S

Rise Flemløse Sparekasse

Rønde Sparekasse

Salling Bank 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

Suduroyar Sparikassi

Sønderhå-Hørsted Sparekasse

Totalbanken A/S

Vestjysk Bank A/S