ANNUAL REPORT 2019

2019

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Preface

A year of high lending activity

DLR Kredit A/S[1] experienced particularly high levels of lending activity in 2019. A major reason for this was the low level of interest rates, which made remortgaging attractive for many borrowers. In addition, DLR had its highest level of lending growth in 10 years as a result of significant activity across all segments and particularly in the residential rental property segment.

The high level of lending activity in 2019 should also be seen against DLR's continuing efforts to strengthen its network with its loan distributing shareholder banks. Initiatives include strengthening relations and knowledge of our collaboration model, focusing on shared value creation and the needs of borrowers plus further developing DLRxperten, the digital advisory platform that DLR makes available to the banks.

The high levels of lending activity have also prompted a small increase in the number of employees in 2019 to 193 full-time employees (FTE), on average, over the year.

Robust loan portfolio

Higher levels of growth have helped diversify the risk on DLR's loan book. The share of loans to the agricultural sector, which constitutes the bulk of DLR's overall loan portfolio, has thus been reduced to 57.6 pc as a result of growth in other lending areas.

All in all, the trend has also made DLR's loan portfolio more robust to interest rate changes. At the end of 2019, 27.5 pc of DLR's loans were fixed-rate loans, which is 5 percentage points more than a year ago.

A historically good result for DLR

DLR earned a very satisfactory pre-tax profit of DKK 1,085m in 2019, one of the best results in DLR's history.

[1] Hereafter DLR

The result is attributable to the solid collaboration with our shareholder banks and the high level of lending activity. In addition, improved economic conditions for the agricultural sector in particular resulted in losses and impairments on loans and receivables adding up to an income of DKK 86m in 2019, compared to an expense of DKK24m in 2018.

DLR in brief

DLR is a Danish mortgage credit institution owned primarily by 54 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 banks.

DLR grants loans against mortgages on real property for the purpose of financing agricultural and commercial property in Denmark. DLR has been financing Danish agriculture through the good and the lean years since 1960, when DLR was first established as Dansk Landbrugs Realkreditfond. The business expanded in 2001 to include the financing of commercial property more broadly, and this is now the fastest growing lending area.

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.

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.

Five-year financial highlights

Income statement, DKKm	2019	2018	2017	2016	2015
Profit and Loss Account					
Administration fee income	1.632	1.559	1.508	1.462	1.440
Other core income, net	143	103	91	84	87
Interest expenses, subordinated debt	-18	-16	-6	0	-4
Interest expenses, senior debt	-26	-29	-42	-50	-66
Fee and commision income, net	-372	-326	-257	-282	-251
Core income	**1.360**	**1.291**	**1.293**	**1.213**	**1.206**
Staff costs and administrative expenses, etc.	-275	-276	-255	-233	-219
Other operating expenses	-12	-11	-12	-15	-6
Provisions for loan and receivable impairment, etc.	86	-24	94	-62	-60
Results from core activities	**1.159**	**979**	**1.121**	**903**	**921**
Portfolio earnings (securities)	-75	-74	6	136	-45
Profit before tax	**1.085**	**905**	**1.126**	**1.039**	**875**
Profit after tax	**846**	**707**	**880**	**811**	**670**

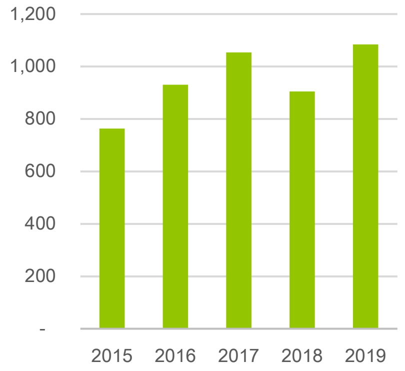
Balance sheet at 31. December	2019	2018	2017	2016	2015
Assets					
Loans and advances	156.837	148.611	143.061	139.053	133.038
Bonds and shares	11.769	8.945	11.855	13.683	12.033
Other assets	4.839	3.182	8.458	3.002	3.371
Total assets	**173.444**	**160.738**	**163.375**	**155.737**	**148.442**
Liabilities and equity					
Issued bonds	157.639	145.901	148.972	142.074	134.342
Other debt and payables	1.195	1.213	1.338	1.404	1.596
Subordinated debt	1.300	650	650	0	0
Equity	13.311	12.974	12.415	12.259	12.503
Total liabilities and equity	**173.444**	**160.738**	**163.375**	**155.737**	**148.442**

Financial ratios*	2019	2018	2017	2016	2015
Solvency and Capital (the periods result incl.)					
Total capital ratio	17,1	16,9	15,9	14,3	12,9
Tier 1 capital ratio	15,5	16,0	15,1	14,3	12,9
Common equity tier 1 capital ratio	15,5	16,0	15,1	12,7	11,5
Own funds	13.947	12.994	12.372	11.560	12.485
Weighted risk exposure	81.784	77.074	77.872	80.674	97.032
Lending Activity					
Growth in loan portfolio, pc (nominal)	5,6	4,1	2,3	3,8	0,6
New loans, gross (DKKm)	43.061	27.717	35.214	23.118	23.469
Margins					
Admin. Margin income as pc of average loan port.	1,08	1,09	1,08	1,08	1,09

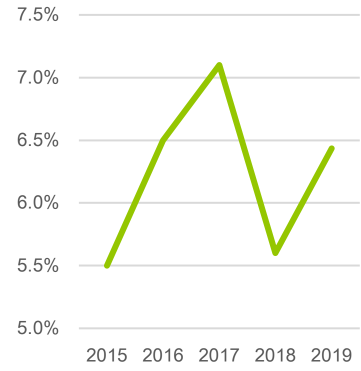
*) The key figures are calculated in accordance with the FSA's definitions.
**) In March of 2016, the FSA approved DLRs IRB-models for calculating of credit risk on the agriculture loan portfolio. From 2016 onwards, the IRB method has been used, while figures from the end of 2015 are based solely on the standard method.

Overview figures

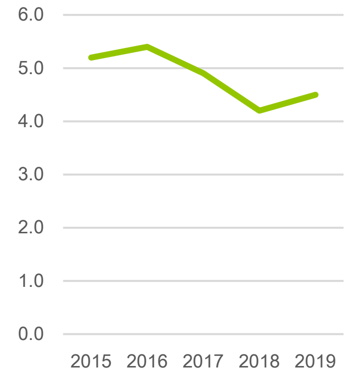
Pre-tax profit (DKKm) -After interest on additional tier 1 debt



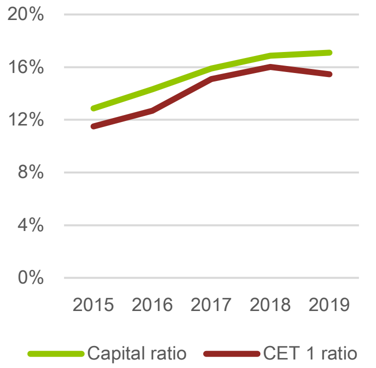
Net profit for the year as pc of Equity



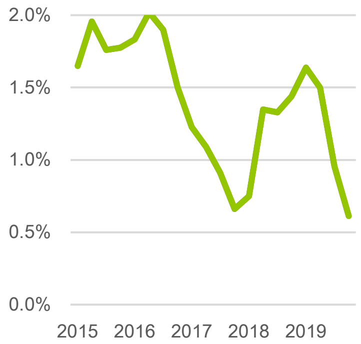
Income/cost ratio excl. impairments



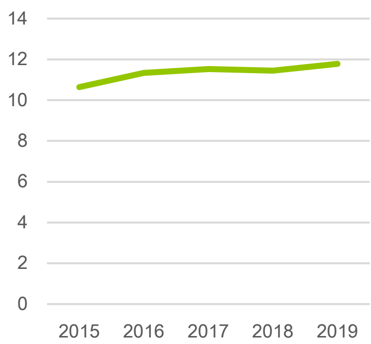
Total capital ratio



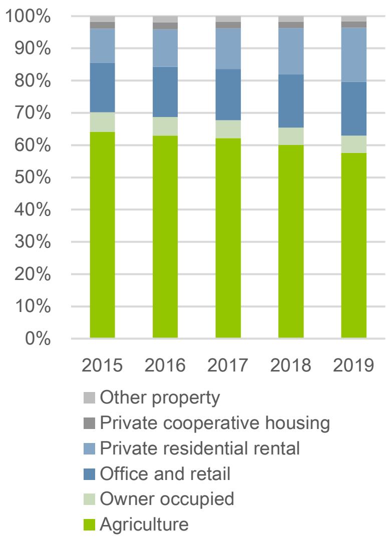
Arrears ratio



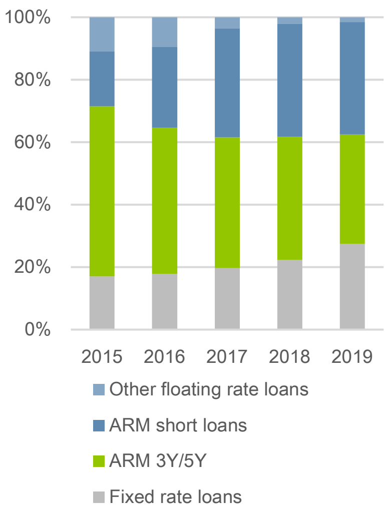
Gearing



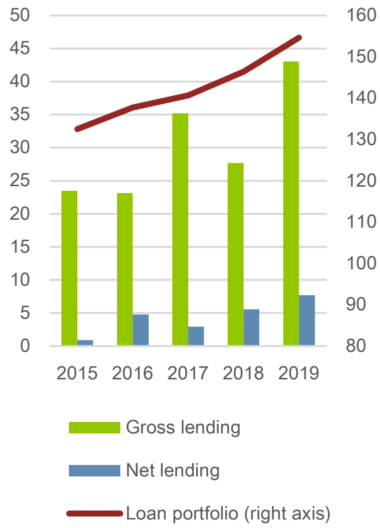
Lending by property categories



Lending by loan type



Lending activity (DKKbn)



FINANCIAL REVIEW

Summary

- Administration margin income amounted to DKK 1,632m, an increase of DKK 73m compared to 2018.
- Losses and impairments on loans and receivables (operational impact) amounted to an income of DKK 86m in 2019 against an expense of DKK 24m in 2018.
- Portfolio earnings amounted to an expense of DKK 75m, which is very similar to the level in 2018.
- Pre-tax profit was DKK 1,085m, which is up DKK 180m on 2018.
- Net of tax paid, DKK 846m was added to DLR's equity.
- DLR's gross lending amounted to DKK 43.1bn in 2019.
- Net lending (outstanding bond debt) amounted to DKK 8.2bn in 2019.

Chief executive officer statement

Statement by CEO Jens Kr. A. Møller on the release of the Annual Report for 2019:

"DLR's pre-tax profit of DKK 1,085m for 2019 is satisfactory and better than expected. DLR had revised its expected earnings higher several times, most recently in January 2020, and the final result is on a level with the latest announced expected result.

This positive development is mainly due to rising income as a result of record-high lending activity throughout much of 2019. In addition, a good economic environment for much of the agricultural sector in 2019 had a positive effect on losses and impairments.

The high level of lending activity in 2019 was in part prompted by a great deal of remortgaging activity on the back of falling yields, especially in H2. Furthermore, DLR registered the highest growth in net lending for the past 10 years. The expanded loan portfolio reflects growth in both agricultural lending and on lending to commercial property. Lending on commercial property increased by DKK 6.6bn, while lending on agricultural property including residential farms increased by

DKK 1.6bn in 2019. The continuing trend towards greater diversification of the loan portfolio, with a rising share of loans to office and retail property as well as residential rental property means greater risk diversification on DLR's lending, which is very satisfactory.

The still negative interest rate environment resulted in negative portfolio earnings in 2019. This should be seen against a slightly rising trend in yields in Q4, especially at the short end, which resulted in a negative price regulation on DLR's securities holding, which primarily comprises short-term mortgage bonds.

The outlook for agriculture's main production areas is for satisfactory earnings overall in 2019.

Dairy farmers have had satisfactory settlement prices slightly above the expected long-term average for some time now. This, along with rising milk production at many operations, means that we expect relatively good earnings in this sector of the agricultural business in 2019.

Due to the massive outbreak of African swine fever in China and other parts of the Far East, the market for pork has been characterised by quite significant price increases. Quotes for butcher hogs rose by just over 60 pc in 2019, and the expectation is that this relatively high price level can be maintained for an extended period, albeit depending on any outbreak of African swine fever in Europe. Given this, the outlook is for very satisfactory earnings in this production sector in 2020 too.

Mink breeders have been realising very low pelt prices for a number of years, recently considerably below production prices. This has given quite unsatisfactory earnings for many producers, which is also expected to be the case in 2019. In the short term at least, there is no expectation of a balance in the market for mink pelts.

Comments on the results for 2019

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, and losses and impairment charges.
- Portfolio earnings: Return on the securities portfolio.

The income statement for 2019 is set out in table 1 below.

Table 1. Income statement

Income statement, DKKm	2019	2018	Index
Profit and Loss Account			
Administration fee income	1,632	1,559	105
Other core income, net	143	103	139
Interest expenses, subordinated debt	-18	-16	107
Interest expenses, senior debt	-26	-29	87
Fee and comission income, net	-372	-326	114
Core income	**1,360**	**1,291**	**105**
Staff costs and administrative expenses	-275	-276	100
Other operating expenses	-12	-11	105
Provision for loan and receivable impairment, etc.	86	-24	
Results from core activities	**1,159**	**979**	**118**
Portfolio earnings (securities)	-75	-74	101
Profit before tax	**1,085**	**905**	**120**
Profit after tax	**846**	**707**	**120**

Core earnings

Administration margin income amounted to DKK 1,632m, up DKK 73m on 2018. 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 interest on arrears. Income in 2019 amounted to DKK 143m, which is DKK 40m more than in 2018 and a direct result of the high level of lending activity in 2019.

Interest expenses on senior debt amounted to DKK 26m, which is DKK 3m below the 2018 level. The decline is due to the fact that senior loans maturing in 2019 were refinanced at a lower effective rate of interest, and that senior debt issuance was on average slightly below the 2018 level.

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

Fees and commission (net) amounted to an expense of DKK 372m compared to an expense of DKK 326m in 2018. The increase in net expenses resulted from a combination of higher income and higher expenses, both of which were a consequence of the high level of lending activity.

Core income was subsequently DKK 1,360m, an increase of DKK 69m on 2018.

Staff costs and administration expenses, etc. amounted to DKK 275m, which is DKK 1m lower than in 2018.

The post “Other operating expense” concerns DLR’s contribution to the Resolution Fund, which in 2019 amounted to DKK 12m.

Losses and impairments on loans and receivables, including adjustments from previous years, were calculated as an income of DKK 86m in 2019 compared to an expense of DKK 24m in 2018. The positive operational impact in 2019 is due to a net reduction in impairments (allowance account) of DKK 102m, prompted in part by improved economic conditions for the agricultural industry in 2019.

Portfolio earnings

Portfolio earnings represent an expense of DKK 75m in 2019 compared to an expense of DKK 74m in 2018.

The bulk of DLR’s investment portfolio has been placed in short-duration mortgage bonds, which given current yield levels result in a negative return. DLR’s investment portfolio (securities excl. temporary surplus liquidity) amounted to DKK 23.1bn at the end of 2019.

Allocation of net profit for the year

The year’s net profit of DKK 846m has been added to DLR’s equity.

Balance sheet

Mortgage credit lending amounted to DKK 157bn (fair value) at the end of 2019.

The bond holding amounted to DKK 33.0bn, which is DKK 1.5bn more than at year-end 2018. Of this amount, the portfolio of DLR bonds amounted to DKK

21.3bn, which is netted in “Issued bonds at fair value”, while DKK11.7bn was attributable to positions in government securities and other mortgage bonds.

In addition to the bond holding of DKK 33.0bn, DLR held other securities for DKK 4.2bn; hence, the total securities holding amounted to DKK 37.2bn (gross) at the end of 2019.

Of the total securities amount, temporary surplus liquidity in connection with mortgage lending activity comprised DKK 14.1bn, so the investment holding was therefore DKK 23.1bn.

DLR’s total assets stood at DKK 173.4bn at year-end 2019.

Own funds

DLR’s own funds increased by DKK 953m in 2019.

The increase was mainly due to the net profit of DKK 846m, which was added to DLR’s reserves in its entirety. DLR has, in addition, sold DLR shares for DKK 216m in 2019 and bought back DLR shares for DKK 725m, and also issued tier 2 capital for DKK 650m.

DLR’s total capital ratio was 17.1 at year-end 2019, while DLR’s common equity tier 1 (CET 1) capital ratio was 15.5.

The weighted risk exposure amount for credit risk increased from DKK 72bn at year-end 2018 to DKK 77bn at year-end 2019 due to DLR’s lending growth, which is the main reason for the increase in the total weighted risk exposure amount.

DLR’s total capital ratio rose in 2019 by 0.2 percentage points to 17.1, while DLR’s CET 1 capital ratio fell from 16.0 to 15.5 in connection with DLR’s net purchase of treasury shares and issuance of tier 2 capital.

At year-end 2019, DLR’s own funds were composed entirely of tier 1 and tier 2 capital. Tier 2 capital accounted for DKK 1,300m, and in total the own funds amounted to DKK 13.9bn at year-end 2019 compared to DKK 13.0bn at year-end 2018.

Table 2 - DLR’s capital ratios

	2019	2018
Common equity tier 1 capital ratio	15.5	16.0
Total capital ratio	17.1	16.9
Total risk exposure amount (DKKbn)	**81.8**	**77.1**

Arrears and forced sales

DLR collected mortgage payments of DKK 6.8bn in 2019.

At year-end 2019, outstanding mortgage payments amounted to DKK 89m versus DKK 120m the year before. Of the amount in arrears, the bulk stems from mortgage payments that are less than 3½ months overdue.

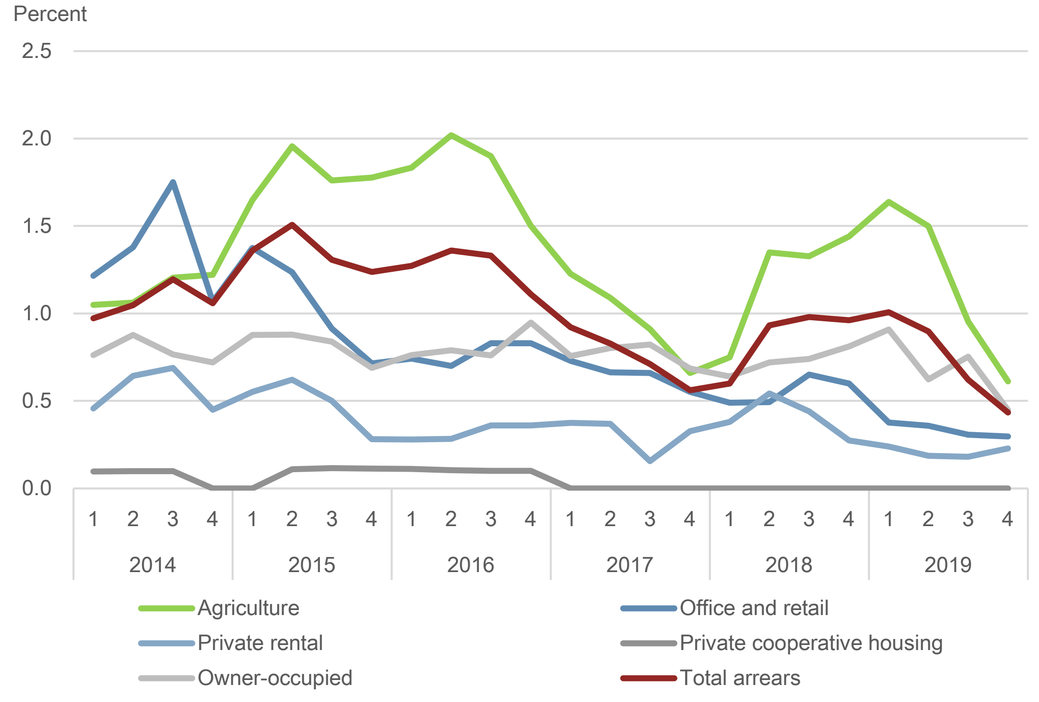
The number of completed forced sales of properties in which DLR held a mortgage was 66 in 2019. DLR took over 8 of these properties. The equivalent figures in 2018 were 43 and 19. At year-end 2019, DLR had a portfolio of 7 repossessed properties compared to 10 at the end of 2018. The value of the repossessed properties was estimated at DKK 40m at year-end 2019.

In 2019, DLR recorded a loss on 22 properties that were taken over by parties other than DLR at auction, and DLR has participated in 42 voluntary sales agreements, etc. that resulted in a loss.

All in all, DLR recorded a loss on 73 properties in 2019 compared to 60 properties in 2018.

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. Developments in DLR's 3½ months arrears rate



Q4 2019

Pre-tax profit in Q4 2019 was DKK 242m compared to DKK 270m in Q3 2019.

The Q4 result was positively affected by the positive operational impact from losses and impairments of DKK 53m, while the result was negatively affected by portfolio earnings of DKK -82m.

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 2020

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 loans and on general macroeconomic developments.

Agriculture

Dairy farms had relatively solid earnings in 2019, while pig producers enjoyed very good results in 2019 on the back of a very pronounced increase in piglets and pork prices. Earnings have thus been satisfactory overall in the agricultural sector despite still difficult conditions for mink breeders with respect to the sale of mink pelts.

For 2020, the expectation is still for relatively good milk prices, with the potential for a minor upward adjustment relative to 2019. Pig producers, too, can probably look forward to very good terms of trade given the ongoing spread of African swine fever (ASF) in China and Asia and falling grain prices. However, piglets and pork prices could be very sensitive to the spread of ASF in Asia and, not least, if the disease spreads from Eastern Europe to Germany and potentially more countries in Western Europe.

Business

The rental market in 2019 has generally been favourable, with considerable interest for investing in both residential and commercial rental property. Certain major towns and cities have seen a very large number of homes completed or commenced, and this substantial growth in the supply of residential rental property has led to some locations experiencing stagnating or slightly falling rental prices when re-letting. However, we expect the rental market to remain relatively buoyant in 2020 with solid demand for investment properties, not least those in prime locations.

Earnings forecast

For 2020, DLR expects core earnings in the order of DKK 900-950m and a pretax profit of around DKK 800-850m.

Interest rate developments and thus the scale of portfolio earnings together with the operational impact of losses and impairments could potentially have a relatively large significance for DLR's overall result.

We expect net lending to be positive in 2020 and thus the loan portfolio to grow.

CAPITAL POSITION

Capital requirements

DLR bases its capital management on long-term capital planning taking into account current and expected future capital requirements. DLR's capital model is continually adjusted to take into account lending growth, capital initiatives, earnings and regulatory changes, etc. DLR's own funds have been adjusted over the years in order to comply with both existing and upcoming regulatory requirements. Adjustments have included equity issues and buybacks, the issuance and redemption of additional tier 1 capital and issuance of tier 2 capital. DLR has also made issues of senior secured bonds (SSB), senior resolution notes (SRN) and senior non-preferred notes (SNP) for the purposes of posting supplementary collateral, covering OC requirements and for complying with debt buffer requirements.

As already mentioned, DLR's own funds increased overall in 2019 by DKK 953m to DKK 13,947m, mainly as a result of this year's earnings. In addition, DLR sold treasury shares for DKK 216m and most recently in December 2019 bought back DLR shares for DKK 725m, while DKK 650m was issued in tier 2 capital.

Table 3. Capital and solvency

DKKm	2019	2018
Equity	**13,311**	**12,974**
Additional tier 1 capital included in equity	0	0
Deduction due to prudent valuation	-26	-24
Difference between expected losses and impairments for accounting purposes	-638	-607
Deferred tax	0	0
Common equity tier 1 capital	**12,647**	**12,344**
Additional tier 1 capital	0	0
Tier 2 capital	1,300	650
Own funds	**13,947**	**12,994**
Risk-weighted exposure with credit risk, etc.	76,853	71,665
Risk-weighted exposure with market risk	2,555	2,994
Risk-weighted exposure with operational risk	2,376	2,415
Weighted risk exposure, total	**81,784**	**77,074**
Common equity tier 1 capital ratio	**15.5%**	**16.0%**
Total capital ratio	**17.1%**	**16.9%**

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. The target for DLR's total capital ratio as calculated at the end of 2019 was 16.5 pc, while the target for the CET1 capital ratio was 13.0 pc. The targets for 2020 are 17 pc and 13,5 pc, respectively. Both the total capital ratio and the CET1 capital ratio take into account the phasing in of the already known requirements for the contra-cyclical buffer rate, which at the end of 2020 is expected to be 2 pc. Furthermore, the target has been set assuming that DLR's pillar II add-on remains at the current level. DLR's capital targets are set annually, but are regularly reviewed at DLR's Board meetings and will be adjusted should significant events occur.

DLR's long-term capital model also incorporates costs related to posting supplementary collateral, the OC (overcollateralisation) requirement and the requirements associated with the debt buffer. 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 (LCR and NSFR)

At the end of 2019, DLR had an LCR excluding the floor requirement of 601 pc and an LCR including the floor requirement of 249 pc. DLR regularly calculates the not yet in force NSFR (Net Stable Funding Ratio) requirement, where the requirement for available stable funding is at least 100 pc of the required stable funding. DLR had an NSFR of 181 pc at the end of 2019.

LCR and NSFR are expanded on in DLR's Risk and Capital Management report.

Debt buffer

Instead of a MREL requirement, Mortgage Credit Institutions must comply with a two-part debt buffer requirement that:

1) Must amount to at least 2 pc of an institution's total unweighted lending once fully implemented, and
2) where the sum of its capital and debt buffer (loss-absorbing capital/debt) requirements must make up at least 8 pc of the institution's total liabilities.

The debt buffer requirement as a proportion of lending has been gradually phased in from 2016 and currently amounts to 1.8 pc of DLR's lending. The requirement will be fully implemented from 15 June 2020 and subsequently amount to 2 pc of total unweighted lending, which equates to just over DKK 3bn for DLR.

Primarily to comply with the debt buffer requirement, DLR has issued so-called Senior Non-Preferred debt, SNP. SNP is senior debt and absorbs losses before other debt, but after equity and other subordinated debt (additional tier 1 capital and tier 2 capital). DLR's previous SRN issues (*Senior Resolution Notes*) are essentially the same type of debt as what is now defined as SNP in the credit hierarchy.

SNP and SRN issues can be used as ALAC (*Additional Loss-Absorbing Capacity*) in S&P's (Standard & Poor's) capital calculation. As of the end of 2019, DLR has issued DKK 4bn in SNP/SRN.

The debt buffer requirement, where the loss-absorbing capital/debt should amount to at least 8 pc of the institution's total liabilities, must be complied with by 1 January 2022.

With its existing own funds and capital requirements, DLR complies with the two debt buffer requirements both during the phasing in and when fully implemented.

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, at least one of the following parameters must be met:

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

With its total assets corresponding to 7.2 pc of Denmark's GDP, DLR thereby meets the requirement to be designated a SIFI institution. Alongside the designation as a SIFI follows a special SIFI buffer requirement for DLR's capital based on an estimate of how systemically important DLR is. The requirement has been set at 1 pc 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).

In 2019, DLR experienced excessive growth relative to the benchmark for lending growth with respect to “Commercial property with residential purposes”. Lending growth has hovered in the range 16-21 pc., and has thus exceeded the FSA’s benchmark of 15 pc. DLR has been in regular dialogue with the FSA about the elevated lending growth and in March 2019 DLR received a so-called risk information concerning this matter.

DLR generally views this lending growth as positive, as it means greater risk diversification in DLR’s portfolio. DLR is aware that high lending growth is an indication of an elevated risk, which DLR has taken into account when valuing the loan portfolio.

It should also be noted here that DLR’s market share in the area is significantly lower than the market opportunities represented by the distributing banks’ customer base. Hence, lending growth could be seen as a normalisation of DLR’s market share in the area. DLR expects that lending growth will gradually slow down over the coming years.

DLR has in recent years focused on the Diamond’s other areas, including the criteria for loans with short-term funding. As part of these efforts, DLR has increasingly encouraged customers to choose loans backed by underlying bonds with relatively longer maturities. As a result, DLR has been below the Supervisory Diamond’s limits for the other indicators throughout 2019.

Table 4. DLR’s compliance with the Supervisory Diamond

Supervisory Diamond for Mortgage credit institutions Benchmarks	End-Q4 2019	End-Q3 2019	Limits
1. Lending growth: annual			
Private individuals	7.0%	5.4%	<15%
Business with residential purposes	21.2%	19.0%	<15%
Agriculture	1.5%	2.%	<15%
Other commercial	5.0%	5.1%	<15%
2. Borrower’s interest rate risk:	16.8%	17.4%	<25%
3. Interest-only loans to private individuals:	2.1%	2.3%	<10%
4. Loans with short-term funding: quarterly			
Q4 2018	4.1%		<12.5%
Q1 2019	2.3%		<12.5%
Q2 2019	7.1%		<12.5%
Q3 2019	1.7%		<12.5%
Q4 2019	2.4%		<12.5%
4. Loans with short-term funding: annually	13.2%	14.9%	<25%
5. Large exposures	26.8%	31.6%	<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 2019 in accordance with DLR's shareholder agreement. The redistribution is based on the proportion of shares held by the loan-distributing shareholder banks matching the proportion of loans they distributed in relation to DLR's aggregate loan portfolio.

The redistribution in March 2019 was based on the outstanding bond debt at year-end 2018, with shares for a nominal value of roughly DKK 15.7m being redistributed.

Tier 2 capital

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

DLR currently has two issues of tier 2 capital totalling DKK 1,300m. The latest issuance of DKK 650m was made at the start of December 2019 to PRAS A/S, just like a similar issuance of DKK 650m made in August 2017. Both issues comply with the relevant requirements of the CRR directive.

The issuance in December 2019 was carried out in connection with DLR's buyback of treasury shares for DKK 725m.

Owners and share of ownership

At 31 December 2019, 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 shareholder banks mainly comprise members of Lokale Pengeinstitutter (Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) and Landsdækkende Banker (National Banks in Denmark), who own 48 pc and 21 pc, respectively, of DLR's share capital. In addition, PRAS A/S, whose shareholders are essentially the banks behind Lokale Pengeinstitutter and Landsdækkende Banker, holds 8 pc of DLR's share capital, while other financial firms hold 23 pc of the share capital. The above does not include DLR's 8.9 pc holding of treasury shares.

DEVELOPMENTS IN DLR'S KEY LENDING AREAS

Agricultural Sector

Pork

2019 has generally been a year of solid earnings in the main agricultural production areas.

Prices for pork rose by almost 60 pc, from DKK 8.5 per kg at the start of 2019 to DKK 13.5 per kg at the end of the year. The impetus was an increased demand for pork as a result of the further spread of African swine fever (ASF) in Asia and particularly China. Prior to the outbreak of ASF in Asia, China accounted for around half of the global production of pork. Estimates suggest that the Chinese pig population has been reduced by 40-50 pc as a result of ASF. Hence, the total global pig population has been reduced by 20-25 pc as a result of ASF in China alone. On top of this come the after-effects of ASF in other Asian countries and in Eastern Europe, etc., where ASF has also caused a considerable reduction in the production and supply of pork.

The high quotes on butcher hogs have also led to high prices on piglets, and combined with falling fodder prices this means earnings at pork producers have been very good in 2019.

The immediate prospects for pork prices look good for 2020, too, though prices should be expected to fall in the slightly longer term. Moreover, the risk of ASF spreading to Germany continues to increase. Contagion with ASF among German wild boar or domestic pigs could potentially have a relatively large impact on the export of Danish piglets to Germany.

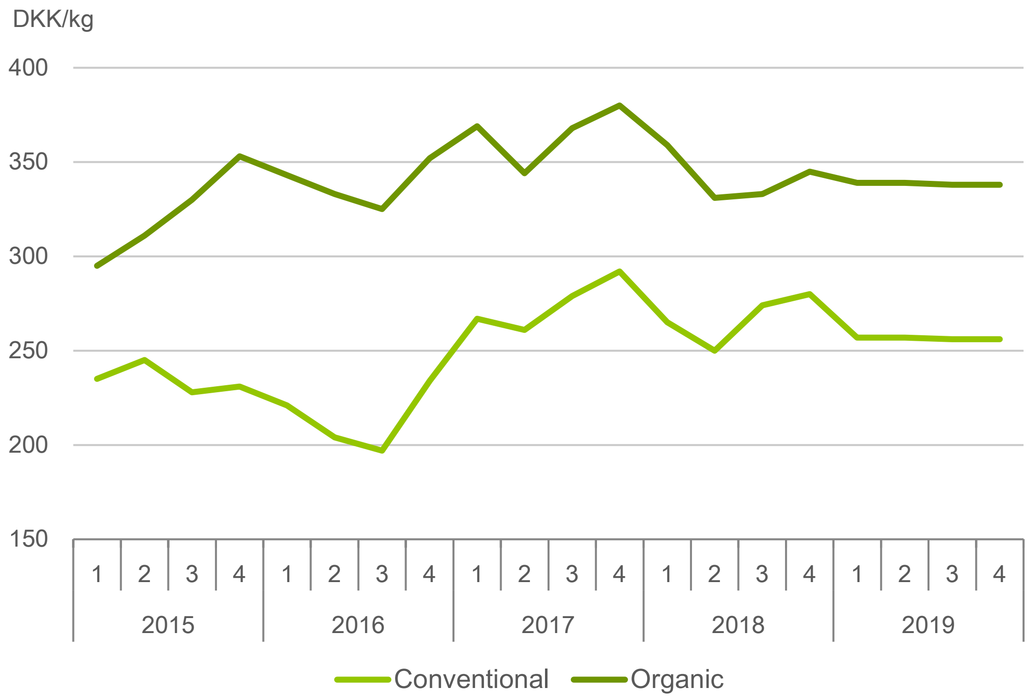
Figure 2. Price of pork

Source: SEGES

Dairy production

The price of milk, which is generally the most important factor for dairy farmer earnings, has also been volatile in recent years, though to a much lesser extent than the price of pork. As can be seen from figure 3 below, the price of milk has been quite stable in 2019, hovering around a level that is slightly above the average of recent years. Dairy operations have achieved solid financial results on the back of the realised milk price, good performance growth and increased efficiencies. With a global dairy market characterised by a gradually falling supply of milk and still solid demand, including from China, Mexico and Japan, the overall outlook is for stable or positive growth in milk prices in 2020.

Figure 3. Milk price



Source: SEGES

Arable farming

Arable harvests where hit by a widespread drought in 2018 that reduced crop yields but at the same time saw significant increases in produce prices. Good sowing weather and favourable growing conditions meant a somewhat better harvest in 2019. However, farmers in parts of Jutland who experienced large amounts of precipitation in the late summer and autumn had problems gathering the harvest in some places. This reduced yields for certain speciality crops and increased machinery and drying costs compared to if the harvest could have been carried out under more normal weather conditions.

As can be seen in figure 4, prices retreated to more normal levels relative to the elevated prices in 2018, but again the overall picture is that arable operations achieved satisfactory results in 2019.

Figure 4. Wheat prices

Source SEGES

Fur sector

Danish mink farmers achieved very good results for a number of years and now account for around one third of the global production of mink pelts, with much of the production being exported. Developments in mink pelt prices are shown in table 5. While Danish mink pelts are sold at prices around 30 pc above the price of foreign pelts, pelt prices have fallen significantly. Pronounced price falls on mink pelts from 2015 to 2019 mean a number of operations have incurred several years of significant losses.

Given the still considerable volume of frozen pelts and announcements from a string of leading fashion houses that they would in future not be using natural furs in their collections, we assess the sector to be challenged. Quite a number of mink farms have closed, others have reduced production, and the overall supply of pelts has been significantly reduced in the past few years, though it remains unclear whether or not there is a balance between supply and demand.

Table 5. Fur prices

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Danish fur, DKK	401	503	612	324	386	235	262	218	198
Foreign fur, DKK	332	418	498	241	270	184	207	168	159
Premium, Danish fur, %	21	20	23	34	43	28	27	30	25

Source: Kopenhagen Fur

Agricultural property market

The agricultural property and land market has experienced largely unchanged prices and activity in recent years.

The market continues to be characterised by an increasing price differentiation depending on the fertility and layout of the land. Overall, we estimate that the current price level for farmland is supported by long-term expectations for vegetable product prices, even taking into account a potential rise in interest rates.

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

Commercial property

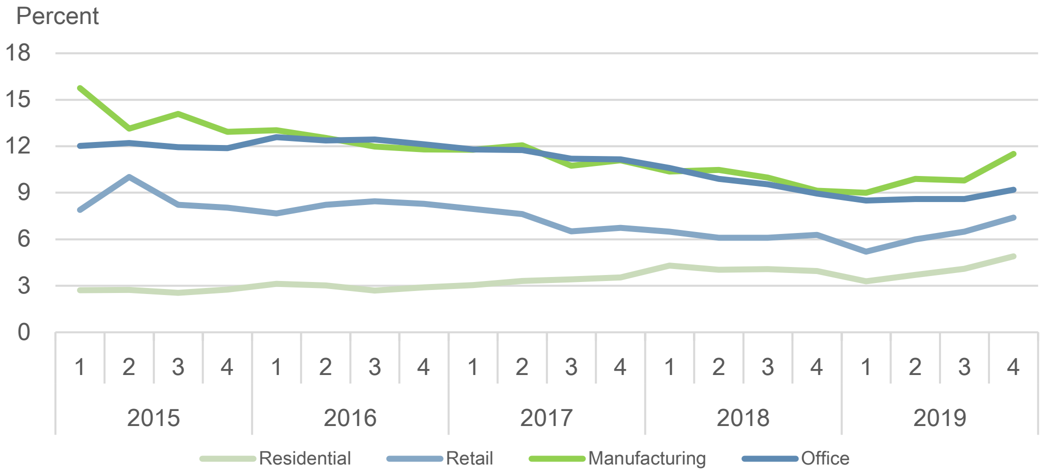
DLR's lending on commercial properties comprises loans for private residential rental property, office and retail property, manufacturing and craft property, community power plants – including land-based wind turbines – and housing cooperatives.

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 abovementioned property categories, just under 90 pc is for properties located outside the capital region.

Downward trend in vacancy rates has ceased

As can be seen in figure 5, vacancy rates on commercial rental properties had been falling until the end of 2018, particularly in the office and manufacturing sectors. However, this downward trend appears to have ceased, with minor increases recorded throughout 2019. Overall, though, the rental situation remains relatively buoyant.

Figure 5. Vacancy rates



Source: EjendomDanmark's (Danish Property Federation) market statistics

Commercial property market

Still low interest rates and the favourable rental climate have contributed to the commercial property market generally performing satisfactorily. Demand remains solid, especially for modern offices, logistics and production properties with decent rent levels and consequently an increase in new-builds.

Some centrally located urban retail properties continued to experience pressure on rental prices in 2019. This is most likely due to the ongoing increase in online shopping relative to shopping in brick and mortar stores and pressure from large shopping centres. These consumer trends have been the reason behind the closure of numerous shops, and in many towns the result has been increased vacancy rates on high streets and in side streets. Other retail properties have been converted to housing, cafés or the like, and this has ensured continued use and rental income.

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

We have seen nascent signs of the market for rental housing becoming sated in certain locations. Some of the largest cities and parts of the capital have seen falling rent levels in newer residential properties in connection with the first re-lettings.

LENDING ACTIVITY AND PORTFOLIO

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

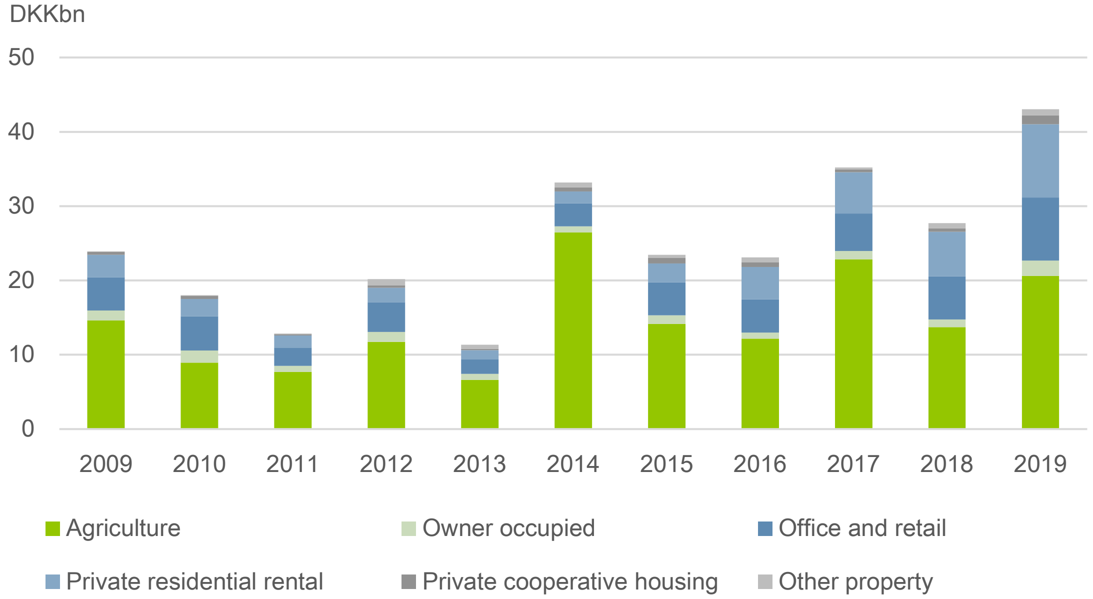
Lending activity

DLR had a high level of lending activity in 2019 that was characterised by a great deal of remortgaging and solid lending growth.

Intense remortgaging activity

The high level of remortgaging activity was due in particular to the fall in interest rates, which has generally made it more attractive for borrowers to remortgage into loans with lower interest rates and larger interest rate fixation periods. Remortgaging together with supplementary loans and new lending were the main reasons why DLR had its highest level of gross lending ever in 2019. DLR's total gross lending amounted to DKK 43.1bn in 2019 compared to DKK 27.7bn in 2018, see figure 6.

Figure 6. Gross lending by property category



More robust loan portfolio

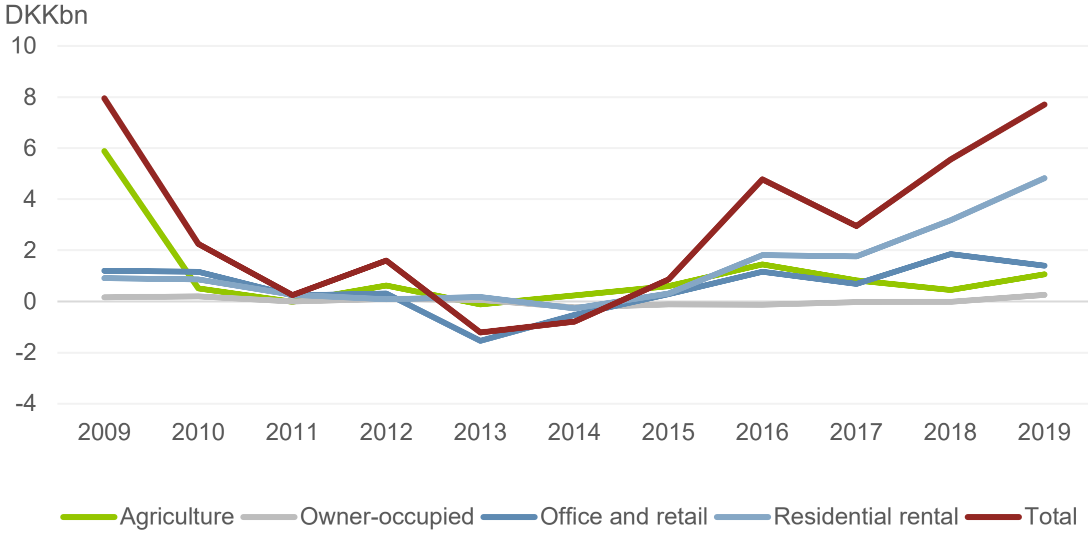
Remortgaging activity in 2019 has contributed to making DLR’s loan portfolio more robust overall to interest rate changes and also more diversified. At the end of 2019, 27.5 pc of DLRs lending was loans with interest rates fixed to maturity, which is 5 pc more than the previous year. The remaining loans are more or less evenly split between ARM SHORT (variable rate loans) and ARM loans (interest reset loans). See section below on DLR’s loan portfolio.

The shift towards more loans with fixed interest rates in DLR’s loan portfolio continues the trend towards greater interest rate security that began five years ago. This was when DLR began to run campaigns for borrowers with the intention of reducing the loan portfolio’s share of loans with short refinancing intervals, especially so-called F1 1Y ARM loans.

Highest lending growth in 10 years

As well as the high level of remortgaging, many new loans were granted in 2019 for property purchases and investments along with supplementary loans, which caused DLR’s loan portfolio to expand. Lending growth as measured by net lending (cash balance outstanding) was DKK 7.7bn in 2019, the highest growth in 10 years. The high level of lending growth was in part due to the low interest rate environment and a positive property market, though the increased competitiveness of the loan-distributing banks also played a role. As mentioned earlier, DLR’s lending grew in 2019, especially in the commercial property market - and primarily residential rental properties, see figure 7. The growth in loans to residential rental property has increased risk diversification in the loan portfolio, which both investors and rating agencies see as a positive feature.

Figure 7. DLR's net lending



Lending growth for private residential rental property should also be seen against the generally very high rate of remortgaging in 2019 – as it is only natural that customers switch between lenders when loans have to be remortgaged anyway. New customers can therefore come in a clump when there is an upheaval in the market, such as a wave of conversions.

DLR's loan portfolio

DLR's total outstanding bond debt was DKK 154.6bn at the end of 2019, equivalent to a market share of 5.4 pc of total mortgage credit lending.

DLR's portfolio in its main lending areas

Looking only at DLR's main business areas, DLR has a market share of 16.3 pc, which is an increase of 0.3 percentage points over the past year. DLR has in recent years increased its market share within its main lending areas.

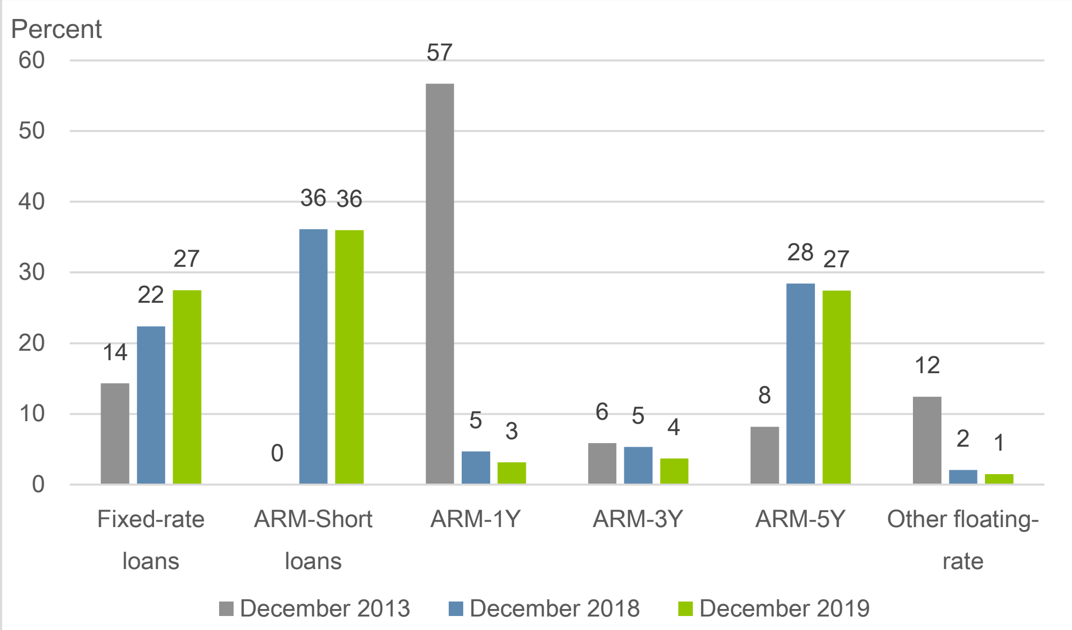
DLR's main business areas are lending to agriculture, office and retail property, private residential rental property and private cooperative housing.

Even though DLR's agricultural lending has increased, agricultural loans' share of DLR's total loan volume has nevertheless been declining for quite a number of years. Agricultural loans accounted for 57.6 pc of DLR's total loans at the end of 2019, which is considerably lower than five years ago, when 64.2 pc of lending was to agriculture. This trend has mainly come about because agricultural lending has grown more slowly than other forms of lending. This means that DLR's loan portfolio is now more diversified across other lending areas than agriculture, which contributes to making the loan portfolio even more robust.

Composition of loan types is more diversified.

The composition of lending by loan types has also become more diversified over the years, which has resulted in less interest rate sensitivity. A greater share of loans fixed to maturity, in particular, has in recent years contributed to increasing the interest rate security of DLR's loan portfolio. In addition, DLR's customers have since 2014 generally had longer interest reset periods on their loans. Previously, 1Y ARM loans were the most popular loan type among DLR's customers, but these so-called F1 loans have generally been replaced by ARM loans with longer refinancing intervals, fixed-rate loans and ARM Short loans, which are now the most common loan type. At the end of 2019, 1Y ARM and ARM Short loans together accounted for just 39.3 pc of DLR's total lending, while 1Y ARM loans accounted for almost 60 pc of total lending at the end of 2013 The most common fixed interest rate period on ARM loans is now five years, see figure 8 below.

Figure 8. DLR's loan portfolio by loan type



Administration margins

The major shift towards longer periods between refinancing in DLR's loan portfolio has happened as a result of targeted campaigns and differentiated administration margins, among other things. Differentiation of administration margins has provided borrowers with a financial incentive to shift into loans with longer interest reset periods or ARM Short loans.

In 2019, DLR focused on adjusting administration margins for a small group of customers with stressed finances. In summer 2019, DLR announced increases in administration margins for business customers with weak or underperforming finances of 0.25 pc on average. Agricultural customers with weak or underperforming finances were subsequently warned in the autumn of similar increases. The main background to this was that DLR has not increased administration margins since 2013 despite rising capital expenses. In addition, a number of agricultural customers where 'protected' from administration charge increases in the period 2013-2019 in consideration of their financial situation.

Table 6. DLR's loan portfolio as of 31 December 2019

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-term interest rate loans
Agriculture	89.1	57.6%	19.7%	47.3%	2.9%	4.1%	24.1%	1.8%
Owner-occ. incl. res. farms	8.3	5.4%	48.6%	8.7%	7.9%	7.2%	25.3%	2.3%
Office and retail	25.7	16.6%	37.6%	21.1%	3.9%	4.5%	31.8%	1.1%
Private residential rental	26.0	16.8%	33.8%	24.6%	3.0%	3.8%	34.1%	0.8%
Private cooperative housing	3.1	2.0%	53.4%	13.6%	0.6%	1.9%	29.3%	1.2%
Other property	2.5	1.6%	32.1%	22.9%	1.4%	5.4%	37.3%	0.8%
Total	154.6	100.0%	27.5%	36.0%	3.3%	4.3%	27.5%	1.5%

FUNDING

Funding and bond issuance

DLR's funding structure has changed considerably since 2014, as the proportion of loans granted as ARM loans with frequent refinancing (F1-F3) has been significantly reduced to the benefit of loans with longer refinancing intervals. The trend towards longer term funding continued in 2019 as a result of solid lending growth and a good deal of remortgaging. The high level of lending activity in 2019 has resulted in more of DLR's borrowers having loans with interest rates fixed to maturity and lower levels than previously.

As DLR grants loans under the specific balance principle, with financing through tap issuance of covered bonds (SDO) in a 1:1 ratio, lending activity in 2019 has meant equivalent changes on the bond side.

This has resulted in greater diversification across issuance types and has reduced DLR's ongoing refinancing requirement. The many new callable bonds, just like other issuances, listed on Nasdaq Copenhagen, where both borrowers and investors can track price and yield developments on the bonds.

More DLR bonds

Lending growth in 2019 meant that DLR's outstanding volume of bonds amounted to DKK 163bn at the end of the year, not counting bonds that expire on 1 January 2020. The bonds are issued out of two capital centres with separate reserve funds. Since the beginning of 2008, DLR has exclusively issued covered bonds (SDO) out of Capital Centre B. Before that, DLR funded its loans by issuing mortgage bonds (RO) from the General Capital Centre, most of which have subsequently been redeemed or remortgaged into Capital Centre B. DLR's RO bonds accounted for just around 1 pc of the outstanding volume at end-2019.

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 at capital centre level ensures that disclosure obligations under CRR article 129 (7) are complied with, and all DLR's bonds are thus covered by the low risk-weighting of 10 pc for investors subject to a capital charge under CRR, such as credit institutions, etc.

The distribution of bonds by type and currency at 31 December 2019 (excluding bonds maturing on 01 January 2020, but including pre-issued bonds in connection with the refinancing of mortgage loans on 01 January 2020) is shown in table 7.

Table 7. DLR's bonds, end-2019 (nominal)

DKKbn	Total	DKK bonds	EUR bonds
Of which RO	1.5	1.5	-
Of which SDO	161.0	158.5	2.6
Outstanding, total	162.5	160.0	2.6

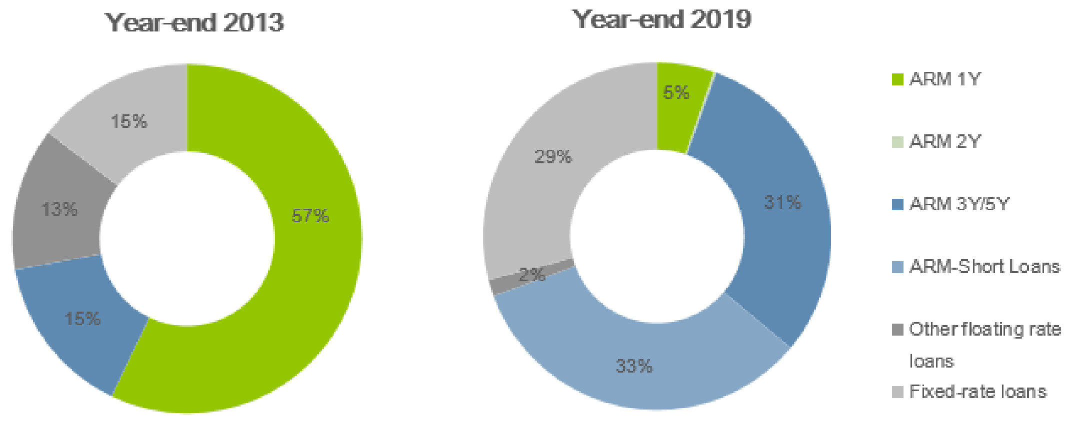
More callable bonds

The many new callable bonds issued in 2019 meant that 29 pc of all DLR's bonds were callable bonds at the end of 2019, which is just over 6 percentage points more than the preceding year. Growth has occurred in the new 30-year bonds with coupons of 0.5 pc, 1.0 pc and 1.5 pc along with 20-year bonds with 1.0 pc, 0.5 pc and 0.0 pc coupons, which DLR opened during 2019.

At the same time, the share of non-callable bullet bonds has fallen slightly in the past year, while the share of floating rate bonds is more or less the same as a year ago. Overall, DLR's funding has therefore seen a marked reduction in refinancing volume compared to earlier.

The changes witnessed in the past year should be seen as an extension of the significant changes in DLR's funding structure over the past five years towards far fewer 1-year non-callable bullet bonds; see description in the above section on lending. Five years ago, 1-year non-callable bullet bonds comprised almost 60 pc of all DLR's bonds.

Figure 9. DLR's funding structure



As well as limiting refinancing risk, DLR has also focused on establishing a funding structure with fewer, larger series to support bond liquidity. From 2020, DLR will concentrate the refinancing of 1Y and 2Y ARM loans in January, while 3Y and 5Y ARM loans will be moved from October to April. The series will be kept open for loan offers for one year.

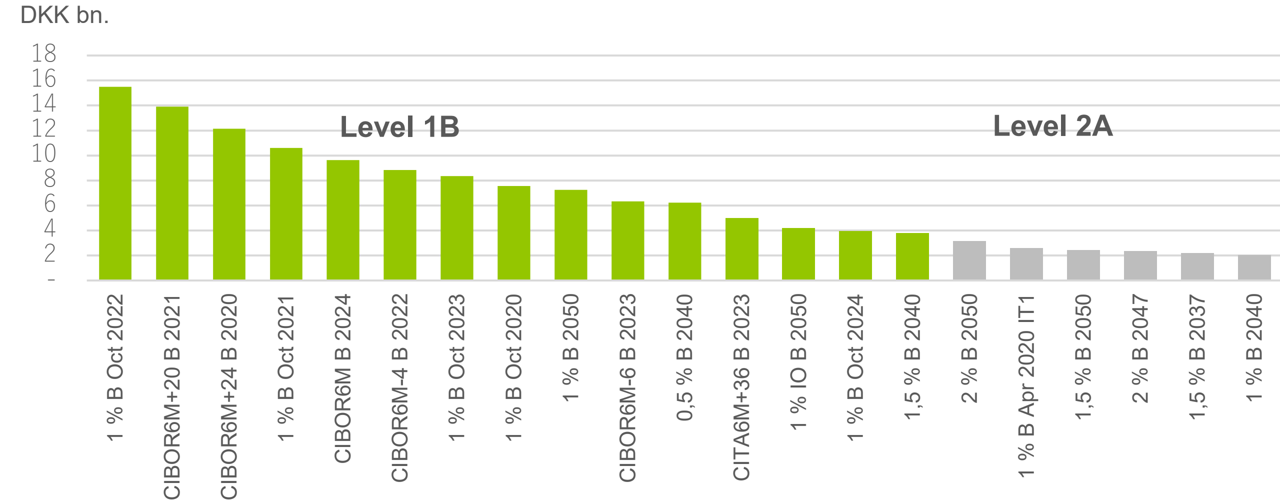
ARM loans in euros (EUR) are only refinanced in January. A large proportion of DLR's 1Y ARM loans denominated in EUR has since 2014 been switched into either ARM Short loans or longer ARM loans denominated in DKK, as DLR has not offered loans in EUR since 2014. Likewise, a large proportion of EURIBOR-based 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 2.7 pc of the total outstanding volume of bonds at the end of 2019.

Series size

Figure 10 shows DLR's largest bond series at end-2019. 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 bullet bonds and CIBOR-based ARM Short bonds.

As of year-end 2019, 73 pc of DLR's series met the 1B requirement for series size in terms of outstanding volume, while a further 12 pc met the level 2A requirement.

Figure 10. DLR's largest bond series at end-January 2020



Bond sales

DLR bonds are tapped as loans are paid out and regularly offered to financial institutions, who publish transaction information on Nasdaq Copenhagen. Publication helps ensure transparency in the market for Danish mortgage bonds.

In addition, DLR issues bonds in connection with the refinancing of ARM and ARM Short loans and other short-term interest rate loans.

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 the end of 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 2019. 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's floating rate bonds had an interest rate floor of at least 0 pc. 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 pc applies to the coupon rate.

Short, fixed-rate non-callable bullets (ARM loans) could also potentially have negative yields, as the bonds can 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 2019 in connection with the refinancing of ARM loans per 1 April 2019, 1 October 2019 and 1 January 2020. At the February auctions, DLR supplied DKK-denominated bonds for DKK 3.4bn and at the August auctions DKK-denominated bonds for DKK 2.4bn (all nominal amounts). At the November-December auctions, DLR offered DKK-denominated bonds for DKK 2.1bn and EUR-denominated bonds for EUR 0.2bn (all nominal amounts). The total amount of ARM loans refinanced in 2019 was DKK 9.2bn, which is DKK 3.2bn less than in 2018.

Figure 11a. Supply of 1Y non-callable bullets (DKK)

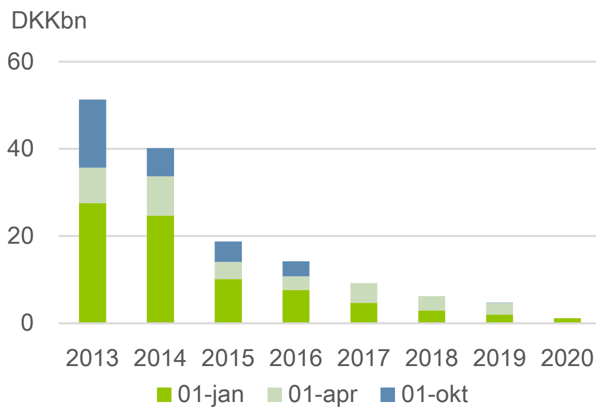


Figure 11b. Supply of 3Y non-callable bullets (DKK)

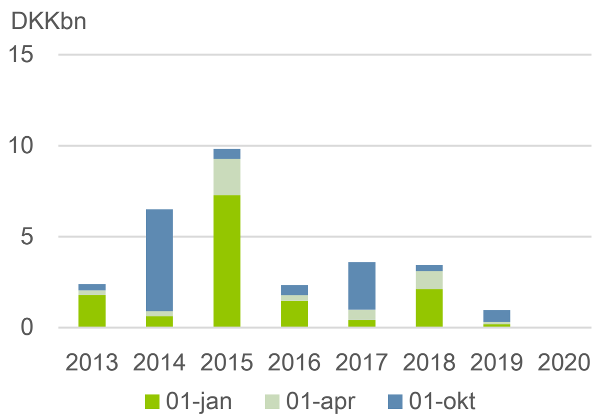


Figure 11c. Supply of 5Y non-callable bullets (DKK)

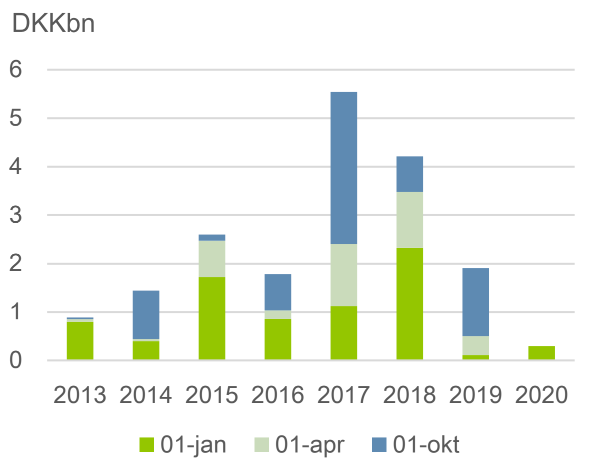


Figure 11d. Supply of 1Y non-callable bullets (EUR)

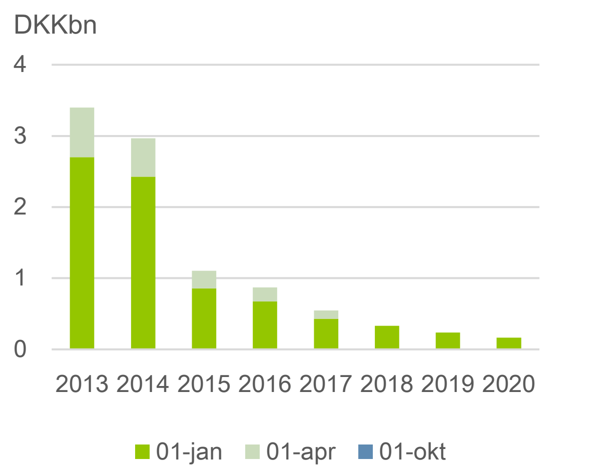
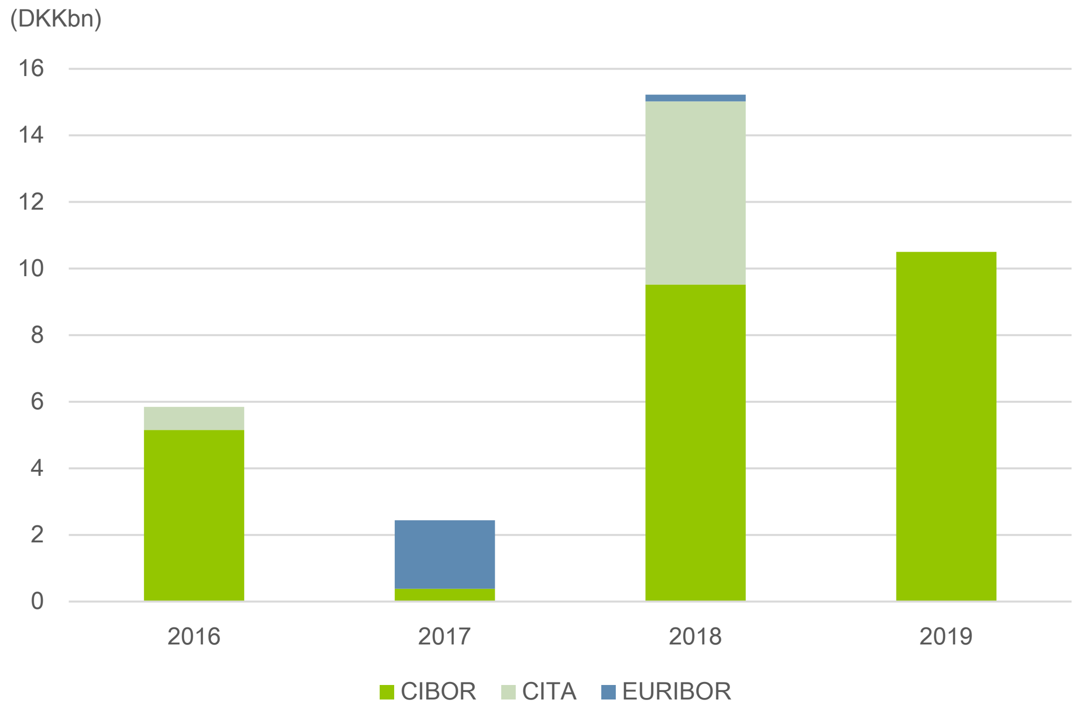


Figure 12. DLR's refinancing of bonds behind ARM Short loans and other floating rate loans by reference rate



Refinancing of floating rate loans

In May 2019, DLR held bond auctions to refinance ARM Short loans on 1 July 2019. Supply was DKK 10.5bn in a new 5-year CIBOR 6-based bond expiring 1 July 2024, see figure 12.

Senior debt

DLR had DKK 8.0bn in outstanding senior debt at the end of December 2019, consisting of DKK 4.0bn in Senior Secured Bonds (SSB), DKK 2.0bn in Senior Resolution Notes (SRN) and DKK 2.0bn in Senior Non-Preferred Notes (SNP).

Table 8. DLR's outstanding senior debt issues year-end 2019

Type	Amount DKKm	Issuance-date	Maturity date	Maturity (years)	Reference rate	Rate-premium
SSB	1,000	22-03-2017	01-04-2020	3	3M CIBOR	0.37%
SRN	1,000	15-06-2017	15-06-2020	3	3M CIBOR	0.62%
SSB	2,000	20-03-2018	01-04-2021	3	3M CIBOR	0.31%
SNP	1,000	02-07-2018	02-07-2021	3	3M CIBOR	0.70%
SRN	1,000	15-09-2017	15-06-2022	4¾	3M CIBOR	0.75%
SSB	1,000	01-10-2019	01-10-2022	3	3M CIBOR	0.94%
SNP	750	12-04-2019	01-07-2023	4	3M CIBOR	1.15%
SNP	250	12-04-2019	01-07-2023	4	Fixed rate	1.07%
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 three- to five-year maturities, and DLR continually monitors the need for supplementary collateral, including the refinancing of maturing SSBs.

DLR issued DKK 1bn in SSBs in September 2019 to partially replace an SSB issuance of DKK 2.0bn maturing on 1 October 2019. DLR chose not to refinance the full amount, as DLR estimates it has an appropriate amount of overcollateralisation in its capital centres after refinancing DKK 1bn.

In April 2019, DLR issued SNPs for DKK 1.0bn to comply with the debt buffer requirement, which will be gradually phased in by mid-2020 as described in the debt buffer section. Hence, DLR has issued DKK 4.0bn, in all, in loss-absorbing senior debt that is included in S&P's ALAC calculation and thus supports DLR's issuer rating, see below, plus it can be used for OC purposes, etc.

Rating

DLR as an issuer and DLR's bonds are rated by 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	
Institute (Long-Term)	A- (stable)
Institute (Short-Term)	A-2 (stable)

Since May 2017, DLR has had an Issuer Credit Rating (ICR) of A-. The rating is supported by an ALAC support uplift of +1, which is assigned to DLR's Stand-Alone Credit Profile (SACP) of BBB+. DLR's covered bonds (SDO) and mortgage bonds (RO) have been assigned the highest rating of AAA. With respect to S&P's Covered Bond rating method, it is possible to obtain a bond rating that is up to 9 notches above the ICR. S&P deducts one notch for DLR not committing to a particular OC level (voluntary OC). With an ICR of A-, DLR only needs six of the eight remaining notches to obtain an AAA rating and thus has two unused uplifts in its bond rating. This contributes to lowering the OC requirement at DLR's capital centres.

S&P's OC requirements compatible with the AAA rating have most recently been set at 11.63 pc for Capital Centre B and 2.70 pc for the General Capital Centre. The OC requirements are met for the nominal bond amount in the capital centre and covered by surplus capital in the capital centres. This is done with assets sourced from own funds together with funds obtained by issuing senior debt.

As mentioned, DLR has not committed to maintaining a particular OC level in its capital centres for S&P, but has nevertheless a clear ambition of maintaining the current AAA rating. As S&P's OC requirement is dynamic and changes regularly, for example due to changes in the size of the assets, their composition or quality, or as a result of changes to S&P's criteria or models, the need for supplementary collateral could potentially change in the future.

Senior secured bonds (SSB) are generally assigned a rating two notches above the issuer rating. DLR has decided not to have its current SSB issues rated. Both the SRN and the SNP issues are rated BBB, which is one notch below DLR's SACP.

The outlook was changed in October 2019 from positive to stable. The earlier positive outlook on DLR was tied to an expectation that Denmark would be allowed to shift from BICRA group 3 to 2, due to a better economic score. However, Denmark remained in group 3 at the assessment in October and so the outlook again changed to stable.

Covered Bond Label

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

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 under the 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.

Risk management

DLR's business model is based on traditional mortgage credit activities. In other words, DLR grants loans 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 these regulations, including the balance principle and the framework this provides 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 also has the opportunity to offset losses in the commissions paid to the banks. These factors generally ensure a limited risk of loss on the loan mass, 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 uses credit score models (IRB models) on part of its loan portfolio. The models are used to estimate the probability of borrowers defaulting on a loan (PD – probability of default) and the size of the potential loss upon default (LGD – loss given default).

DLR has two separate and independent departments that together comprise the second line of defence: Risk management and Compliance. Both departments report directly to DLR's Executive Board.

DLR's Risk and Capital Management 2019 report (February 2020) provides a detailed description and review of DLR's risks and risk management.

Solvency need

In compliance with the Financial Business Act, the Board of Directors and the Executive Board must ensure DLR has sufficient own funds. 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 pc 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 covered by the 8 pc requirement. If this is the case, an add-on is made to the adequate own funds and the solvency need. Stress tests are an important element of the assessment.

As mentioned, DLR’s business model means that credit risk tied to borrowers’ ability to make payments is the most important risk factor. The capital requirement linked to credit risk therefore forms the most significant part of DLR’s 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 discussing the level of stress tests, etc. in individual business areas. DLR determines its adequate own funds and solvency need at least once every quarter. In addition, DLR monitors relevant risk parameters to ensure the estimated solvency need and adequate own funds always reflect DLR’s current risk profile.

Reports to the Board of Directors are typically made at the Board’s quarterly meetings in connection with the release of financial reports. DLR’s Risk Committee considers the calculations before presenting them to DLR’s Board of Directors. DLR’s Board of Directors reviews the entire method used to determine adequate own funds and the solvency need at least annually. 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.

Please also refer to DLR’s report “Risk and Capital Management 2019” and the quarterly calculations of own funds and the solvency need, which can be found at http://dlr.dk/risk-reports.

Table 10. DLR’s adequate own funds and solvency need

DKKm	2019	2018
Credit risk	6,699	6,205
Market risk	639	550
Operational risk	190	193
Other factors	0	0
Internally calculated adequate own funds	7,529	6,949
Add-ons (special risks)	0	0
Total	**7,529**	**6,949**
Solvency need	**9.21%**	**9.02%**

Large exposures

Exposures of more than 10 pc of DLR’s own funds are designated major exposures by the regulations. At year-end 2019, DLR had no single exposures (after deductions) that amounted to more than 10 pc of DLR’s own funds.

Supplementary collateral

DLR issues covered bonds (SDO) out of Capital Centre B with a view to funding distributed loans. Particularly secure assets are used as the basis for the bond issuance – primarily collateral in real property. Continual monitoring is required of each mortgaged property’s market value, as the statutory maximum loan-to-value (LTV) limits determine 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 if prices fall on the properties provided as collateral, 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 credit institutions. DLR is therefore very aware of the need for supplementary collateral in connection with capital planning.

At year-end 2019, DLR had provided DKK 10.5bn in supplementary collateral, which is very similar to the level in 2018, when collateral provided amounted to DKK 10.7bn. The volume of supplementary collateral has generally been trending downwards in recent years. DLR maintains a continuous buffer in the form of both own funds and issued SSBs, SRNs and SNPs as well as guarantees, etc., such that DLR is capable of absorbing a potential further general price fall on agricultural and commercial property of 15-20 pc without having to provide further collateral.

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 defined limits.

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

IRB (internal rating based) models and 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 end of 2019, 96.8 pc of DLR's total loan portfolio was covered by guarantee concepts, including a government guarantee covering a small share of the portfolio amounting to around DKK 0.2bn. Overall, the guarantee schemes mean DLR's risk of loss on its lending activities may be characterised as relatively limited.

The relevant loss-mitigating agreements are explained below.

DLR's guarantee concepts

DLR has agreed a universal guarantee concept with its loan-distributing banks that all loans offered by DLR since the start of 2015 are covered by.

Under the guarantee concept the loan-distributing bank provides an individual guarantee at the time of disbursement covering 6 pc of the outstanding debt for the entire term of the loan. 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 lending 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 2019, the universal guarantee concept covered an outstanding bond debt of DKK 112.3bn, or 72.6 pc of the total loan portfolio.

A complementary loss-offsetting agreement has also been established, whereby the individual distributing bank sets off all losses DLR incurs from loans distributed by that bank over and above the 6 pc guarantee provided at loan level. The loss is deducted from the bank's total fee and commission payments for its entire distributed loan portfolio excluding agency commissions and brokerage reimbursements. Losses that cannot be fully offset in that year's commissions are 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 totalling DKK 24.3m in 2019. At the end of 2019, DLR had realised losses of DKK 750,000 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 2019, 14.6 pc of the loan portfolio was covered by the previous agreement on agricultural loans, while another 9.3 pc was covered by the previous guarantee concept in the commercial area.

Loan portfolio LTV

The loan portfolio's LTV in the mortgaged properties illustrates DLR's limited risk of loss. At the end of 2019, 91 pc of lending on agricultural properties was placed within the <60 pc LTV range of DLR's latest valuations, including valuations made in connection with continual covered bond monitoring. With regards to the portfolio of commercial properties, 89 pc was placed in the <60 pc LTV range of valuations. Loans for residential properties classified as commercial properties have an LTV limit of 80 pc, which is why the share below the <60 pc 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, balance and issued capital and debt instruments.

Danish law stipulates that the interest rate risk on the securities portfolio and funds acquired through the issuance of capital and debt instruments may not exceed 8 pc of own funds. With own funds of DKK 13.9bn at year-end 2019, this equates to a maximum permitted interest rate risk for DLR of DKK 1.1bn.

DLR's interest rate risk complies with the Board of Directors' guidelines for overall market risk, whereby the interest rate risk on the securities portfolio should be in the range 0-3 pc of DLR's own funds, which equates to between DKK 0 and 418m.

At the end of 2019, the interest rate risk on DLR's securities portfolio (asset side) was DKK 173m. Interest rate risk expresses the amount that DLR at the end of 2019 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 1.2 pc given DLR's own funds at the end of 2019.

The interest rate risk on issued capital and debt instruments (liabilities) – i.e. Tier 2, Senior Secured Bonds, Senior Resolution Notes and Senior Non-Preferred Notes – is calculated at DKK 49m, or 0.4 pc of DLR's own funds.

The interest rate risk on issued capital and debt instruments correlates negatively with the interest rate risk on the securities portfolio and thus reduces DLR's net interest rate risk to DKK 136m, or 1.0 pc of own funds.

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 2019.

Liquidity risk

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

DLR's liquidity risk primarily concerns the risk that DLR cannot provide liquidity to cover the business's ongoing liquidity needs, such as the payment of interest and redemptions to bond owners, the paying out of loans and the operational running of DLR.

DLR has determined a number of indicators for a potential liquidity crisis situation:

- Diminished selling opportunities for DLR's bonds
- Large increases in arrears
- Large increases in losses and impairments.

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.

The LCR directive entails that DLR should have a sufficient liquidity buffer to cover the institution's liquidity requirement for the coming 30 days. This liquidity buffer should be placed in HQLA (High Quality Liquid Assets).

The net liquidity requirement is essentially calculated by deducting the incoming cash flow from the outgoing cash flow. DLR's liquidity buffer should be large enough to continually cover the net liquidity requirement for the coming 30 days. DLR has set an internal minimum requirement of complying 110 pc with LCR.

The LCR requirement means that DLR has to calculate its liquidity position and LCR on a daily basis.

DLR's LCR has been above the internally set minimum requirement of 110 pc throughout 2019 .

Exchange rate risk

Due to the specific balance principle, DLR assumes only a minimal exchange rate risk. According to Danish law, exchange rate risk calculated according to the Danish FSA's indicator 2 may not exceed 0.1 pc of own funds.

DLR's exchange rate risk amounted to 0.003 pc of own funds at the end of 2019.

Equity market risk

DLR generally does not place funds in equities apart from "sector equities". At the end of 2019, 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 3m at year-end 2019.

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, and 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, cyber risks, 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 weighted risk exposure amount for operational risk amounts to DKK 2,376m. That equates to DKK 190m to cover the 8 pc capital requirement for operational risk at end-2019.

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 & CEO 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 2019.

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 adequate own funds and the solvency need, etc.

The work of the Risk Committee does not change 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 Risk Monitor also attends Risk Committee meetings.

The Risk Committee met five times in 2019.

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 ensuring an evaluation of the competences, etc. of 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 2019.

Remuneration Committee

The Remuneration Committee was established to carry out 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 Agricultural Account Manager Jakob G. Hald.

The Committee met twice in 2019.

ORGANISATION

Management

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

The Board of Directors had 11 members at the end of 2019, of whom six 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 be re-elected. Employee representatives are elected for a four-year period and may be re-elected.

Employees

DLR had on average 193 FTE employees in 2019. In addition, DLR has 24 agricultural valuation experts attached to the company on a fee basis.

Knowledge resources

DLR's knowledge resources primarily comprise DLR's employees. The organisation has many different competence areas. DLR has committed to creating value and ensuring quality through a high degree of professionalism across the organisation. It is therefore essential that DLR's employees actively follow developments and that they maintain and regularly extend their professional knowledge and specialist competences.

When hiring, DLR strives to prepare new employees adequately for their duties and to ensure a high degree of knowledge about DLR's business and strategy.

As DLR works closely with its shareholder banks on the distribution of loans to shared customers, it is also important that advisors and customer-facing staff at the banks are kept continually updated on DLR and DLR's loan types. DLR is a member of the Education Centre of the Danish Financial Sector and has in collaboration with the Centre developed an e-learning course on the interaction with DLR. In addition, DLR invites new bank employees to intro days every six months.

DLR's internal business procedures, workflows and instructions are regularly updated and expanded to ensure a documented basis for DLR's property valuations, credit processing, loan administration, risk management and monitoring, etc.

DLR holds regular training sessions on anti-money laundering and terror financing for relevant employees. Furthermore, DLR makes both written and video training material available to the entire organisation.

As a financial organisation, DLR relies heavily on IT solutions for its day-to-day operations. For the IT area, this means there is also 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. In practice, loans for owner-occupied homes are provided solely for hobby and residential farms and for owner-occupied homes in the Faroe Islands and 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 Greenland.

The collaborative 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 between the parties in connection with loan applications, presenting loan offers to customers, making fixed-rate agreements, disbursing DLR loans, guarantee provision, profile shifting, cancellation and prepayment of loans, etc.

Internal control and risk-management systems connected with financial reporting

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

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

Control environment

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

The foundation for this is a clear organisational structure, well-defined reporting lines, authorisation and certification procedures, and appropriate segregation of people and functions. In compliance with statutory requirements, the Board of Directors has established an internal audit function that reports to the Board of Directors and which – in accordance with an audit strategy approved by the Board – 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.

Corporate social responsibility

DLR is focused on contributing to Denmark achieving its ambitious climate goals in 2030 and complying with the UN's global sustainable development goals as well as the climate goals of the Paris agreement. This applies both to DLR as a company and to lending, where DLR wishes to contribute to a shift in a more sustainable direction.

DLR is working with the rest of the financial sector – under the auspices of Finance Denmark – to create transparency around the measurement of our climate footprint. The goal is that everyone should be able to see how great a CO2 footprint each credit institution leaves.

Transparency on CO2 emissions will allow customers and investors to see the climate footprint, so they have the opportunity to make a climate-friendly choice. This may, ultimately, help accelerate the green transition.

DLR's ambition is that the work with measuring the company's CO2 footprint can be used as the basis for issuing so-called green bonds, such that the bonds can comply with the EU's upcoming rules on green investments.

DLR's Corporate Sustainability Report (CSR) can be found on DLR's website at dlr.dk/samfundsansvar (in Danish).

As of the end of 2019, DLR has no separate policies on human rights or reducing the climatic impact of the company's activities.

Underrepresented gender and diversity on DLR's Board of Directors

DLR has established a policy and target for the underrepresented gender on the most senior management body. A policy and target have also been established for the underrepresented gender at DLR's other management levels. Finally, a policy has been established with respect to diversity on the Board.

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

DLR's Board of Directors has established a policy to increase the proportion of the underrepresented gender on the Board. The policy sets a target for the gender distribution of DLR's board members.

One male member of the Board stepped down in connection with DLR's AGM in 2019. Hence, at the end of 2019 DLR's Board of Directors comprised two women and nine men, equivalent to women making up 18 pc of the Board and men 82 pc.

In 2017, the Nomination Committee increased the target for the proportion of women on DLR's Board from 20 pc to 25 pc. The goal is for the target to be met within a period of three years. Given the traditional composition of DLR's Board of Directors, the target is considered ambitious. This is because the AGM-elected Board members are currently members of the executive boards of DLR's shareholder banks, where historically men have been overrepresented.

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 determined to be equally qualified, the candidate that represents the underrepresented gender on the Board will be proposed as a member.

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 drawn up a policy to increase the proportion of the underrepresented gender at DLR's other management levels. By other management levels is meant leading positions besides those on the Board of Directors.

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

DLR's Executive Board has two members. When a male Executive Board member retired in 2019, a female executive joined the Executive Board, meaning there is an equal representation of both genders on the Executive Board.

Diversity among DLR's Board of Directors

The Nomination Committee has adopted a diversity policy that aims to broaden 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 2019, DLR's Board of Directors consisted of 11 members, of whom six 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.

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

At the end of 2019, 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
- 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

At the Annual General Meeting on 30 April 2019 the six AGM-elected members of the Board of Directors were all re-elected. Peter Gæmelke, farmer, stepped down from the Board on this date.

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
- Managing Director Pernille Lohmann

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

Mortgage loans

- Bent Bjerrum, Deputy Director, MSc (Agriculture)

Accounting & Finance

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

IT

- Christian Willemoes, IT Director, Engineer

Model and Data innovation

- Head of Model and Data Innovation, MSc. (Economics) Anette Rom

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

Outsourcings agreement with LR Realkredit A/S

DLR has an outsourcing 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 A/S was sold in 2019 and the outsourcing agreement with DLR has therefore been terminated with effect at year-end 2022.

LR Realkredit's primary lending areas are the public housing sector, schools and social, cultural and training institutions.

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 LFI's 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 amounts to nominal DKK 570.0m (denomination of DKK 1). Of this, DLR Kredit A/S holds 50,752,863 own (treasury) shares, equivalent to a nominal DKK 50.8m.

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 2020 (based on the outstanding bond debt at 31 December 2019).

Other directorships held by the Board of Directors

Vagn Hansen (Chairman), Managing Director & CEO, Sparekassen Vendsyssel, and board member of a subsidiary company

- 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 SDC A/S
- Member of the Board of Directors of 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
- Member of the Board of Directors of Sparekassen Nordjyllands Fond af 29. marts 1976

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

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 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

- Vice Chairman of Syd Administration A/S
- Member of the Board of Directors of Ejendomsselskabet af 1. juni 1986 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 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 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 2019

PROFIT AND LOSS ACCOUNT AND STATEMENT OF COMPREHENSIVE INCOME

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Income statement and statement of comprehensive income (DKKm)

Note		2019	2018
1	Interest income	3,142	3,124
2	Interest expenses	-1,338	-1,398
	Net interest income	**1,804**	**1,726**
	Share dividends etc.	0	0
	Fees and commission income	269	214
	Fees and commission paid	-641	-540
	Net interest and fee income	**1,432**	**1,401**
3	Market value adjustments	-171	-211
	Other operating income	25	27
4-10	Staff costs and administrative expenses	-273	-274
	Depreciation and impairment of property, plant and equipment	-2	-2
	Other operating expenses	-12	-11
11	Impairment of loans, advances, receivables, etc.	86	-24
	Profit before tax	**1,085**	**905**
12	Tax	-239	-198
	Profit after tax	**846**	**707**
	Comprehensive income		
	Profit for the year	**846**	**707**
	Revaluation of property	**0**	**24**
	Tax on property revaluations	**0**	**-5**
	Other comprehensive income after tax	**846**	**726**
	Attributable to:		
	Shareholders of DLR Kredit A/S	846	726

Balance Sheet (DKKm)

Note		2019	2018
	Assets		
	Cash balance and demand deposits with central banks	50	49
13	Due from credit institutions and central banks	4,129	2,858
14, 16-21	Loans, advances and other receivables at fair value	156,821	148,593
15, 19-21	Loans, advances and other receivables at amortised cost	16	18
22	Bonds at fair value	11,732	8,894
	Shares etc.	36	51
23	Land and buildings, domicile properties	120	120
	Other property, plant and equipment	7	4
	Current tax assets	13	21
	Assets held temporarily	42	48
24	Other assets	454	64
	Prepayments	24	19
	Total assets	**173,444**	**160,738**
	Equity and liabilities		
25	Issued bonds at fair value	149,630	137,911
26	Issued bonds at amortised cost	8,009	7,990
27	Other liabilities	1,183	1,203
	Deferred income	4	2
	Total liabilities	**158,825**	**147,106**
28	Provisions for deferred tax	8	8
	Total provisions	**8**	**8**
29	Subordinated debt	1,300	650
	Total subordinated debt	**1,300**	**650**
	Share capital	570	570
	Revaluation reserve	62	62
	Undistributable reserve	2,338	2,338
	Retained earnings etc.	10,341	10,004
30	**Total equity**	**13,311**	**12,974**
	Total equity and liabilities	**173,444**	**160,738**
31	**Off-balance sheet items**		
	Guarantees	2	2
32	Other contingent liabilities	10,118	7,184

Statement of changes in equity (DKKm)

	Share capital [1]	Revaluation reserve	Undistributable reserve	Retained earnings	Total
2018					
Equity at 1 January	570	43	2.338	9.464	**12.415**
Profit for the year	0	0	0	707	**707**
Revaluation of property	0	24	0	0	**24**
Tax on property revaluations	0	-5	0	0	**-5**
Acquisition of treasury shares	0	0	0	-167	**-167**
Equity at 31 December	**570**	**62**	**2.338**	**10.004**	**12.974**
2019					
Equity at 1 January	570	62	2.338	10.004	**12.974**
Profit for the year	0	0	0	846	**846**
Disposal of treasury shares [2]	0	0	0	216	**216**
Acquisition of treasury shares [3]	0	0	0	-725	**-725**
Equity at 31 December	**570**	**62**	**2.338**	**10.341**	**13.311**

[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] DLR held 50,752,863 (2018: 29.420.037) treasury shares at 31 December 2019, corresponding to a nominal value of DKK 50.8m (2018: DKK 29.4m). The portfolio of treasury shares accounts for 8.9% (2018: 5,2%) of the total share capital.

[3] In 2019, DLR acquired treasury shares corresponding to a market value of DKK 725.0m and sold treasury shares corresponding to a market value of DKK 216.5m. The net acquisition of treasury shares was thus DKK 508.5m (2018: sale of treasury shares of DKK 167.5m). The transactions were made for purposes of adjusting the equity interests of individual shareholders and as part of a general share buy-back programme.

The DKK 508.5m net acquisition of treasury shares may be specified as follows:

Number	21,332,826
Nominal value (DKKm)	21.3
Percentage of share capital	3.74%

Capital and solvency (DKKm)

	2019	2018
Equity	13,311	12,974
Deductions as a consequence of prudent valuation	-26	-24
Difference between expected losses and impairment losses	-638	-607
Common equity tier 1 capital	**12,647**	**12,344**
Subordinated capital (tier 2 capital)	1,300	650
Own funds	**13,947**	**12,994**
Risk-weighted exposure with credit risk etc.	76,853	71,665
Risk-weighted exposure with market risk	2,555	2,994
Risk-weighted exposure with operational risk	2,376	2,415
Total risk-weighted exposure	**81,784**	**77,074**
Common equity tier 1 capital ratio	**15.5**	**16.0**
Total capital ratio	**17.1**	**16.9**

List of notes to the financial statements

No.	Name of note
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List of notes to the financial statements - continued

Notes - income statement (DKKm)

Note		2019	2018
1	**Interest income**		
	Due from credit institutions and central banks *	0	0
	Loans and advances	1,297	1,423
	Contributions	1,632	1,559
	Bonds	114	146
	Issued bonds at fair value **	55	13
	Other interest income	106	64
	Total	**3,204**	**3,206**
	Interest on own mortgage bonds offset against interest on issued bonds	-63	-82
	Total	**3,142**	**3,124**
	Of which interest income from reverse repo transactions	0	0

* Interest on positive interest rate loans and advances is included in interest income (note 1), while interest on negative interest rate loans and advances is included in interest expenses (note 2).

** Interest on positive interest rate issued bonds is included in interest expenses (note 2), while interest on negative interest rate issued bonds is included in interest income (note 1).

Note		2019	2018
2	**Interest expenses**		
	Credit institutions and central banks	-8	-3
	Issued bonds at fair value *	-1,295	-1,418
	Issued bonds at amortised cost	-26	-29
	Loans and advances**	-55	-13
	Other interest expenses	-18	-16
	Total	**-1,401**	**-1,479**
	Interest on own mortgage bonds offset against interest on issued bonds	63	82
	Total	**-1,338**	**-1,398**
	Of which interest expenses on repo transactions	0	0

* Interest on positive interest rate issued bonds is included in interest expenses (note 2), while interest on negative interest rate issued bonds is included in interest income (note 1).

** Interest on positive interest rate loans and advances is included in interest income (note 1), while interest on negative interest rate loans and advances is included in interest expenses (note 2).

Note		2019	2018
3	**Market value adjustments**		
	Mortgage loans	-60	-231
	Bonds	-169	-215
	Shares etc.	-14	5
	Other assets	1	0
	Foreign currency	1	5
	Derivative financial instruments	11	-7
	Issued bonds	60	231
	Total	**-171**	**-211**

Notes - income statement (DKKm)

Note		2019	2018
4	**Staff costs and administrative expenses**		
	Staff costs		
	Salaries	-145	-138
	Pension costs	-13	-12
	Social security costs	-23	-21
	Total	**-181**	**-171**
	Other administrative expenses		
	IT expenses	-45	-49
	Audit, financial supervision and industry association	-9	-8
	Other expenses	-38	-47
	Total	**-92**	**-103**
	Total staff costs and administrative expenses	**-273**	**-274**

5 Remuneration for members of the Executive Board and the Board of Directors etc.

	2019	2018
Executive Board		
Jens Kr. A. Møller, CEO	4.4	4.3
Michael Jensen, Managing Director	2.2	2.9
Pernille Lohmann, Managing Director	1.5	0.0
Total	**8.1**	**7.1**

* At the 1st of April Pernille Lohmann entered the executive management.

* At the 1st of September Michael Jensen resigned from the executive management due to his retirement.

Members of the Executive Board do not receive variable remuneration or other incentive pay.

	2019	2018
The remuneration may be specified as follows:		
Fixed remuneration	8.1	7.1
Variable remuneration	0.0	0.0
Total	**8.1**	**7.1**
Number of members of the executive management - year-end	2	2

6 Remuneration for members of the Board of Directors etc.

	2019	2018
Board of Directors		
Fixed remuneration	1.8	2.0
Variable remuneration	0.0	0.0
Total	**1.8**	**2.0**
Number of members of the Board of Direcors - year-end	**11**	**12**

Notes - income statement (DKKm)

Note		2019	2018
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	300	291
	Lars Møller, Deputy Chairman	237	237
	Claus Andersen	176	167
	Randi Franke	149	139
	Peter Gæmelke (resigned in April 2019)	40	121
	Jakob G. Hald	149	149
	Karen Frøsig (resigned in April 2018)	0	40
	Kim Hansen	121	121
	Søren Jensen	121	130
	Gert R. Jonassen	149	139
	Agnete Kjærsgaard	121	121
	Bjarne Larsen (took office in April 2018)	121	81
	Torben Nielsen (resigned in April 2018)	0	68
	Jan Pedersen (resigned in April 2018)	0	40
	Lars Petterson	121	121
	Total remuneration	**1,803**	**1,965**
	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	18.2	17.3
	Variable remuneration	0.0	0.0
	Total	**18.2**	**17.3**
	Number of employees who have influenced the risk profile		
	Number of employees who have influenced the risk profile during the year	15	17
	- Of whom resigned during the year	0	2
	Number of employees influencing the risk profile, year-end	**15**	**15**
	The Company has no pension obligations to or incentive schemes for the above group of persons.		

Note		2019	2018
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.	5	18

Interest rates (incl. contributions) 2019

Executive Board: No loans (2018: No loans)

Board of Directors: 2,4 % p.a. * (2018: 0,8-3.5% 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.

Note		2019	2018
9	**Audit fees**		
	Statutory audit of the financial statements	1.0	0.9
	Other assurance engagements	0.3	0.3
	Tax advice	0.6	0.2
	Other services	1.2	1.0
	Total	**3.1**	**2.4**

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.

Note	(DKKm)	2019	2018
10	**Number of employees**		
	Average number of employees in the financial year converted into FTEs*	193	187
	Total	**193**	**187**

* In addition to its 193 employees, DLR has 24 associated agricultural valuation experts (2018: 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".

Note		2019	2018
11	**Impairment of loans, advances, receivables, etc.**		
	Losses in the period	-44	-23
	Amounts received on claims previously written off	3	3
	Impairment losses in the period	-160	-146
	Reversal of impairment losses	262	133
	Losses offset against commission payments to banks	24	8
	Total	**86**	**-24**
12	**Tax**		
	Tax (breakdown in DKKm)		
	Applicable tax rate for "Profit before tax"	-238.6	-199.2
	Non-taxable income and non-deductible expenses	0.0	-0.1
	Deferred tax etc.	-0.2	0.0
	Adjustment of prior-year tax charge	0.0	1.2
	Total	**-238.8**	**-198.0**
	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	0.0	-0.1
	Effective tax rate	**22.0**	**21.9**

Notes - assets (DKKm)

Note		2019	2018
13	**Due from credit institutions and central banks**		
	Due from central banks	3,700	1,881
	Due from credit institutions	429	977
	Total amount due from credit institutions and central banks	**4,129**	**2,858**

DLR had not entered into any reverse repo transactions in 2019 or in 2018

		2019	2018
	Maturity distribution by term to maturity		
	Demand deposits	429	977
	Up to and including three months	3,700	1,881
	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	**4,129**	**2,858**
14	**Loans, advances and other receivables at fair value**		
	Mortgage loans, nominal value	154,590	146,392
	Adjustment to fair value of underlying bonds	2,552	2,611
	Adjustment for credit risk	-418	-517
	Mortgage loans at fair value	**156,724**	**148,486**
	Arrears before impairment losses	89	120
	Other loans and outlays before impairment losses	22	3
	Impairment losses on arrears and outlays	-14	-16
	Total	**156,821**	**148,593**
15	**Loans, advances and other receivables at amortised cost**		
	Loans and advances	19	22
	Adjustment for credit risk	-3	-4
	Total	**16**	**18**
16	**Loans, advances and other receivables at fair value and amortised cost**		
	Maturity distribution by term to maturity		
	Up to and including three months	1,234	1,146
	Over three months up to and including one year	3,591	3,285
	Over one year up to and including five years	22,869	22,298
	Over five years	129,143	121,883
	Total	**156,837**	**148,611**

Pursuant to special legislation, a government guarantee of DKK 223m (2018: DKK 281m) has been provided as supplementary security for loans to young farmers.

Security in the amount of DKK 1,513m has been provided for advance loans (2018: DKK 1,339m).

As supplementary security for mortgage loans, bankers' guarantees of DKK 15,549m in addition to mortgages have been provided (2018: DKK 15,992m)

Notes - assets (DKKm)

Note		2019	2018
17	**Mortgage loans (nominal value) by property category (as a percentage)**		
	Owner-occupied dwellings	4.6	5.4
	Recreational dwellings	0.1	0.0
	Subsidised rental housing properties	0.1	0.1
	Co-operative housing	2.0	2.0
	Private rental housing properties	16.7	14.7
	Properties for manufacturing and manual industries	1.1	0.8
	Office and business properties	17.5	16.5
	Agricultural properties	57.6	60.0
	Properties for social, cultural and educational purposes	0.0	0.0
	Other properties	0.3	0.5
	Total, %	**100.0**	**100.0**
18	**Number of loans - end of period**	**64,077**	**62,280**

Notes - assets (DKKm)

Note

19 **Impairment losses by stage**

Impairment of loans and advances at fair value and amortised cost *	**2019** Stage 1	Stage 2	Stage 3	Total
Specification of impairment losses at year-end:				
Loans and advances in stage 1 at beginning of year	1	7	0	**8**
Loans and advances in stage 2 at beginning of year	0	50	75	**125**
Loans and advances in stage 3 at beginning of year	0	2	155	**157**
New loans and advances	2	38	1	**41**
Management estimate	3	85	15	**103**
Total	**7**	**183**	**246**	**435**

Impairment of loans and advances at fair value and amortised cost *	**2018** Stage 1	Stage 2	Stage 3	Total
Specification of impairment losses at year-end:				
Loans and advances in stage 1 at beginning of year	1	7	0	**8**
Loans and advances in stage 2 at beginning of year	1	83	89	**172**
Loans and advances in stage 3 at beginning of year	0	11	199	**211**
New loans and advances	1	26	0	**27**
Management estimate	2	117	0	**119**
Total	**5**	**244**	**288**	**537**

* No loans, advances or other receivables which were credit-impaired on initial recognition were recognised in 2018 or 2019.

* Impairment losses on loans and advances at fair value and impairment losses on loans and advances at amortised cost have been aggregated as the amount of impairment of loans and advances at amortised cost represents less than 1% of the total impairment loss.

Note

20 **Impairment - other financial assets**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Impairment of cash and demand deposits with central banks	0	0	0	**0**
Impairment of receivables with credit institutions and central banks	0	0	0	**0**

All assets in the above table have been classified as stage 1, meaning that impairment losses of less than DKK 0.5m have been recognised. This was also the case at the beginning of the year.

	2018			
	Stage 1	Stage 2	Stage 3	Total
Impairment of cash and demand deposits with central banks	0	0	0	**0**
Impairment of receivables with credit institutions and central banks	0	0	0	**0**

No other financial assets which were credit-impaired on initial recognition have been recognised in 2018 or 2019.

Notes - assets (DKKm)

Note

21 Loan exposures - rating classes, property category and

Stated at fair value and amortised cost *

PD-band	Stage 1	Stage 2	Stage 3	Total
	2019			
0 - 0,2	19,824	0	0	19,824
0,2 - 0,5	17,935	3	0	17,939
0,5 - 1,0	30,693	37	0	30,730
1,0 - 1,5	26,139	4	0	26,144
1,5 - 2,0	7,401	0	0	7,401
2,0 - 3,0	9,040	0	0	9,040
3,0 - 5,0	5,319	979	0	6,298
5,0 - 10,0	0	5,960	0	5,960
10,0 - 20,0	0	5,816	0	5,816
20,0 - 100,0	0	24,498	3,187	27,685
I alt	**116,352**	**37,298**	**3,187**	**156,837**

Stated at fair value and amortised cost *

PD-band	Stage 1	Stage 2	Stage 3	Total
	2018			
0 - 0,2	14,677	0	0	14,677
0,2 - 0,5	19,414	24	0	19,438
0,5 - 1,0	26,291	146	0	26,437
1,0 - 1,5	23,468	266	0	23,734
1,5 - 2,0	5,862	41	0	5,903
2,0 - 3,0	6,856	8	0	6,864
3,0 - 5,0	5,089	823	0	5,912
5,0 - 10,0	0	5,763	0	5,763
10,0 - 20,0	0	6,237	0	6,237
20,0 - 100,0	0	31,662	1,984	33,646
I alt	**101,658**	**44,970**	**1,984**	**148,611**

Irrevocable credit commitments: At year-end 2019, unexercised credit commitments amounted to DKK 10.1bn, all of which belonged to stage 1.

Other financial assets: DLR's other financial assets consist of receivables from banks and Danmarks Nationalbank, mortgage bonds, etc., all of which belong to stage 1.

No financial assets which were credit-impaired on initial recognition were recognised in 2019.

Loan exposures broken down by property category (fair value and amortised cost)

Notes - assets (DKKm)

21 **Loan exposures - rating classes, property categories and stages**

Stated at fair value and amortised cost *	**2019**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Agricultural properties	63,799	24,190	2,406	**90,395**
Owner-occupied dwellings	5,906	1,124	172	**7,202**
Subsidised rental housing properties	0	124	0	**124**
Private rental housing properties	21,074	4,902	193	**26,169**
Office and business properties	21,169	5,865	342	**27,375**
Properties for manufacturing and manual industries	1,516	211	0	**1,727**
Properties for social, cultural and educational purposes	10	7	0	**17**
Co-operative housing	2,610	464	74	**3,148**
Recreational dwellings	173	25	0	**199**
Other properties	95	385	0	**481**
Total loans and advances	**116,352**	**37,298**	**3,187**	**156,837**

Stated at fair value and amortised cost *	**2018**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
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 loans and advances	**101,658**	**44,970**	**1,984**	**148,611**

DLR's loan commitments are all based on market-consistent administration margins reflecting the credit risk, as a result of which all loan commitments are classified as stage 1.

* Loans and advances at fair value and loans and advances at amortised have been aggregated as the loan exposure at amortised cost represents approximately 0.1 per mille of total exposures.

Notes - assets (DKKm)

Note		2019	2018
22	**Bonds at fair value**		
	- Own mortgage bonds	21,252	22,561
	- Other mortgage bonds	11,026	8,183
	- Government bonds	706	711
	Bonds - gross	**32,984**	**31,455**
	Own mortgage bonds offset against issued bonds	-21,252	-22,561
	Total	**11,732**	**8,894**
23	**Land and buildings, domicile properties**		
	Fair value, beginning of year	**120.0**	**96.8**
	Additions during the year	0.0	0.0
	Depreciation	-0.4	-0.8
	Value changes recognised in other comprehensive income	0.0	24.0
	Fair value, end of period	**119.6**	**120.0**

Domicile properties are valued on an annual basis by DLR's in-house valuation expert, who specialises in commercial property valuation.

Note		2019	2018
24	**Other assets**		
	Positive market value of derivative financial instruments etc.	8	7
	Interest and commission receivable	66	38
	Other receivables	380	19
	Total	**454**	**64**

Notes - liabilities etc. (DKKm)

Note		2019	2018
25	**Issued bonds at fair value**		
	Mortgage bonds - nominal value	168,244	157,762
	Fair value adjustment	2,638	2,710
	Issued bonds - gross	**170,882**	**160,472**
	Offsetting of own mortgage bonds - fair value	-21,252	-22,561
	Total	**149,630**	**137,911**
	Of which pre-issued, market value	3,669	5,996
	Cash value of bonds drawn for redemption at next repayment date (settlement price)	6,647	2,647

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 2019, 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 (2018: DKK 0.0m). Of the accumulated effect, DKK 0.0m relates to changes in 2019 (2018: DKK 0.0 million).

	2019	2018
Maturity distribution by term to maturity (gross portfolio at market value)		
Up to and including three months	5,682	9,045
Over three months up to and including one year	24,356	22,045
Over one year up to and including five years	88,119	91,227
Over five years	52,725	38,154
Total	**170,882**	**160,472**

Notes - liabilities etc. (DKKm)

Note		2019	2018
26	**Issued bonds at amortised cost**		
	Issues in connection with senior debt	8,009	7,990
	Offsetting of own bonds	0	0
	Total	**8,009**	**7,990**
	Maturity distribution by term to maturity		
	Up to and including three months	1,000	0
	Over three months up to and including one year	1,000	1,999
	Over one year up to and including five years	6,009	5,991
	Over five years	0	0
	Total	**8,009**	**7,990**
27	**Other liabilities**		
	Negative market value of derivative financial instruments etc.	7	10
	Interest and commission payable	889	961
	Other liabilities	286	232
	Total	**1,183**	**1,203**
28	**Provisions for deferred tax**		
	Deferred tax, beginning of year	8	3
	Change in deferred tax	0	5
	Total	**8**	**8**
	Land and buildings, domicile properties	9	9
	Other property, plant and equipment	-1	-1
	Total	**8**	**8**

Notes - liabilities etc. (DKKm)

Note		2019	2018
29	**Subordinated debt**		
	Interest payments	-18	-16

Subordinated debt amounts to DKK 1,300m, which has been recognised in full in own funds.

A further amount of DKK 650m was issued in 2019.

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

The subordinated debt DKK 650m 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.

The subordinated debt DKK 650 m falls due on 6 December 2029 but may, subject to approval by the Danish FSA, be repaid at par in part or in full at any time after 6 December 2024.

30 Equity

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

At 31 December 2019, the following shareholders held more than 5% of DLR's share capital:

<u>Loan-providing shareholders:</u>

Sydbank A/S, Aabenraa

Jyske Bank A/S, Silkeborg

Spar Nord Bank A/S, Aalborg

Ringkøbing Landbobank A/S, Ringkøbing

<u>Other shareholders:</u>

Nykredit Realkredit A/S, Copenhagen

PRAS A/S, Copenhagen

None of the above-mentioned shareholders hold controlling interests.

Note		2019	2018
31	**Off-balance sheet items**		
	Guarantees etc.		
	Financial guarantees	2	2
	Other guarantees	0	0
	Total	**2**	**2**
	Other contingent liabilities		
	Irrevocable credit commitments (loan offers)	10,118	7,184
	Total	**10,120**	**7,186**

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 business and operating credits from financial institutions

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

In the determination of the total loan amount, including to what extent the LTV for the property category in question can be utilised, emphasis is placed on the applicant's financial performance over a number of years. If the applicant's financial position has not developed satisfactorily over an extended period of time, key emphasis will be placed on whether the loan in question will be given a ranking in the order of priority that must be considered risk-free.

In connection with lending for the acquisition of properties or for major investments, emphasis is on budgets, i.e. whether balanced finances can be achieved based on expected, achievable budget assumptions. Furthermore, the applicant's equity calculated on the basis of DLR's valuation of the applicant's properties is taken into account.

In connection with the provision of loans, the loan-providing financial institution will normally provide an individual guarantee for the individual loan throughout its term covering 6% 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 112bn at year-end 2019.
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 23bn at year-end 2019.

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 2019, the loan-mitigating agreements under this guarantee concept comprise guarantees totalling DKK 6bn provided for a portfolio of currently DKK 14bn. 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 50.

Notes - risk management (DKKm)

Note		2019	2018
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	2019	2018
Cash balance and demand deposits with central banks	50	49
Due from credit institutions and central	4,129	2,858
Loans, advances and other receivables at fair value	156,821	148,593
Loans, advances and other reveivables at amortised cost	16	18
Bonds at fair value	11,732	8,894
Other assets	446	57
Derivative financial instruments	8	7
Total	**173,202**	**160,477**

Off-balance sheet items	2019	2018
Financial guarantees	2	2
Other guarantees	0	0
Irrevocable credit commitments (loan offers)	10,118	7,184
Total	**10,120**	**7,186**

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 2019 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 2019 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 58% of DLR's total loan portfolio at the end of 2019.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Per cent of loans in LTV intervals	91.6	6.0	2.4

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 17% of DLR's total loan portfolio at the end of 2019.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Per cent of loans in LTV intervals.	93.1	5.0	2.0

Rental properties, including cooperative housing: An LTV of 80% applies. Loans for private rental properties and private cooperative housing properties accounted for 19% of DLR's total loan portfolio at the end of 2019.

Loan-to-value limit (LTV) as a percentage	0-80	80+
Per cent of loans in LTV intervals	98.8	1.2

Owner-occupied homes: An LTV of 80% applies. Loans for owner-occupied homes accounted for 5% of DLR's total loan portfolio at the end of 2019.

Loan-to-value limit (LTV) as a percentage	0-80	80+
Per cent of loans in LTV intervals	99.4	0.6

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 2019, DLR's own funds amounted to DKK 13,947m after deductions, giving a maximum permitted interest rate risk of DKK 1,116m.

At the end of 2019, the interest rate risk on DLR's securities portfolio (asset side) was DKK 173m. 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 1.2% at year-end 2019.

The interest rate risk on issued securities (liability side) – additional tier 1 capital and senior secured bonds – is DKK 57m, equivalent to 0.4% 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 116, equivalent to 0.8% 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 2019 was DKK 0,4m, equivalent to 0.003% 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 2019, 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 2019, the equity risk after tax amounted to DKK 3m.

Notes - risk management (DKKm)

Note

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.

2019	Change in profit after tax	Change in equity
Interest-rate risk on the securities portfolio		
An interest-rate increase of 1 percentage point	-90	-90
An interest-rate decrease of 1 percentage point	90	90
Equity risk		
An increase in share value of 10%	3	3
A decrease in share value of 10%	-3	-3
Exchange rate risk		
An increase of 1% DKK/EUR	4	4
A decrease of 1% DKK/EUR	-4	-4

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

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.

2019	**Carrying amount**	**Fair value**
Loans, advances and other receivables at amortised cost	16	16
Issued bonds at amortised cost	8,009	8,031
2018	**Carrying amount**	**Fair value**
Loans, advances and other receivables at amortised cost	18	18
Issued bonds at amortised cost	7,990	8,020

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**

2019	Quoted prices	Observable inputs	Non-observable inputs	Total fair value
Financial assets:				
Recognised as trading portfolio:				
- bonds at fair value	8,457	3,275	0	**11,732**
- derivative financial instruments	8	0	0	**8**
Recognised through fair value option:				
- loans, advances and other receivables at fair value	0	156,821	0	**156,821**
Recognised as available for sale:				
- shares available for sale	0	0	36	**36**
Other assets				
Land and buildings, domicile properties	0	0	120	**120**
Total	**8,465**	**160,096**	**156**	**168,717**
Financial liabilities:				
Recognised as trading portfolio				
- derivative financial instruments	7	0	0	**7**
Recognised through fair value option:				
- issued bonds at fair value	103,696	45,934	0	**149,630**
Total	**103,703**	**45,934**	**0**	**149,637**

2018				
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	**10**
Recognised through fair value option:				
- issued bonds at fair value	120,130	17,781	0	**137,911**
Total	**120,140**	**17,781**	**0**	**137,921**

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**

	2019	2018
Forwards, bought *		
Up to and including three months		
Nominal value	4,618	7,308
Net market value	2	2
Forwards, sold **		
Up to and including three months		
Nominal value	9,769	9,769
Net market value	6	(5)

When loans are refinanced, DLR will carry out two opposite financial transactions. In one transaction, DLR sells bonds (equivalent to the amount to be refinanced) to bond investors. The price/interest rate achieved at such sale is passed directly on to the borrower’s adjustable-rate mortgage, while in the other transaction the borrower "buys" interest on its adjustable-rate mortgage. The net earnings effect of these transactions is DKK 0, if trading margin income in connection with the refinancing is disregarded.

* Forwards, bought: The refinancing, totalling DKK 3,584m at the turn of the year 2019/20, 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 3,584m refinancing, DLR has sold DKK 3,102m forward at 2 January 2020, while the remaining amount was sold for settlement in 2019 and is therefore not stated as forwards.

Note		2019	2018	2017	2016	2015
44	**Key figures**					
	Income statement					
	Net interest and fee income	1,432	1,401	1,451	1,419	1,474
	Other operating income etc.	25	27	20	18	18
	Staff costs and administrative expenses etc.	-287	-287	-267	-248	-225
	Earnings	**1,170**	**1,141**	**1,204**	**1,189**	**1,267**
	Impairment of loans, advances and receivables	86	-24	94	-62	-60
	Market value adjustments	-171	-211	-172	-88	-330
	Profit before tax	**1,085**	**905**	**1,126**	**1,039**	**875**
	Profit after tax	**846**	**707**	**880**	**811**	**670**
	Balance sheet					
	Assets					
	Loans and advances	156,837	148,611	143,061	139,053	133,038
	Bonds, shares, etc.	11,769	8,945	11,855	13,683	12,033
	Other assets	4,839	3,182	8,458	3,002	3,371
	Total assets	**173,444**	**160,738**	**163,375**	**155,737**	**148,442**
	Equity and liabilities					
	Issued bonds	157,639	145,901	148,972	142,074	134,342
	Other liabilities	1,195	1,213	1,338	1,404	1,596
	Subordinated debt	1,300	650	650	0	0
	Equity	13,311	12,974	12,415	12,259	12,503
	Total equity and liabilities	**173,444**	**160,738**	**163,375**	**155,737**	**148,442**

Notes - financial ratios

Note		2019	2018	2017	2016	2015
45	**Financial ratios**					
	Return on equity					
	Profit before tax in per cent of equity *)	8.3	7.1	9.1	8.4	7.2
	Profit after tax in per cent of equity *)	6.4	5.6	7.1	6.5	5.5
	Return on capital employed					
	Return on capital employed *)	0.49	0.44	0.54	0.52	0.45
	Costs					
	Costs in per cent of loan portfolio	0.2	0.2	0.2	0.2	0.2
	Income/cost ratio *)	6.4	3.9	7.5	4.4	4.1
	Income/cost ratio, excl. impairment losses	4.5	4.2	4.9	5.4	5.2
	Solvency **)					
	Total capital ratio	17.1	16.9	15.9	14.3	12.9
	Tier 1 capital ratio	15.5	16.0	15.1	14.3	12.9
	Common equity tier 1 capital ratio	15.5	16.0	15.1	12.7	11.5
	Arrears and impairment losses					
	Arrears, end of period (DKKm)	89	0	0	0	0
	Impairment ratio for the period *)	-0.05	0.36	0.37	0.43	0.44
	Accumulated impairment ratio	0.28	0.00	0.00	0.00	0.00
	Lending activity					
	Growth in loan portfolio, per cent (nominal) *)	5.6	27,717.0	35,214.0	23,118.0	23,469.0
	New loans, gross (DKKm)	43,061	8,546	10,225	7,353	8,585
	Number of new loans	13,033	12	12	11	11
	Loan/equity ratio *)	11.8	0.0	0.0	0.0	0.0
	Margins					
	Percentage of average loan portfolio (nominal):					
	Profit before tax	0.72	1.09	1.08	1.08	1.09
	Administration margin income in per cent of	1.08	0.00	0.00	0.00	0.00
	Percentage of tier 1 capital after deductions					
	Foreign exchange position as a percentage of tier 1 capital after deductions	3.9	0.0	0.0	0.0	0.0

*) 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 2016-2019, as opposed to prior-year figures, which are based fully on the standard method.

Note		2019	2018
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	1,432	1,401
	Market value adjustments	-171	-211
	Revenue	3,436	3,365
	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	Portfolio earnings	Total
	2019	**2019**	**2019**
Interest income	3,045	97	3,142
Interest expenses	-1,338		-1,338
Net interest income	**1,707**	**97**	**1,804**
Share dividends etc.	0		0
Fees and commission received	269		269
Fees and commission paid	-641		-641
Net interest and fee income	**1,335**	**97**	**1,432**
Market value adjustments	1	-171	-171
Other operating income	25		25
Staff costs and administrative expenses	-273		-273
Depreciation and impairment of property, plant and equipment	-2		-2
Other operating expenses	-12		-12
Impairment of loans, advances, receivables, etc.	86		86
Profit before tax	**1,159**	**-75**	**1,085**
Tax	-255		-239
Profit after tax	**904**	**-58**	**846**

Note

49 **Supervisory diamond for mortgage-credit institutions**

	2019	2018	Threshold
1. Lending growth			
Private homeowners	7.1	1.2	**<15%**
Residential rental property	21.2	15.8	**<15%**
Agriculture	1.5	0.6	**<15%**
Other business lending	5.0	7.1	**<15%**
2. Borrower interest-rate risk	16.8	18.9	**<25%**
3. Interest-only lending to private home	2.1	2.6	**<10%**
4. Loans with short-term funding			
Q4 2018	2.3	0.0	**<12,5%**
Q1 2019	7.1	0.0	**<12,5%**
Q2 2019	1.7	0.0	**<12,5%**
Q3 2019	2.4	0.0	**<12,5%**
Loans with short-term funding annually	13.2	23.0	
5. Large exposures	26.8	28.0	**< 100%**

* The percentage for the individual quarters is calculated on the basis of the end-of-quarter portfolio, while the annual percentage is calculated on the portfolio at the end of the fourth quarter 2019. The year's percentage therefore does not correspond to the sum of the percentages in the individual quarters.

Note	
50	**Significant accounting policies**

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.

New provisions on leases took effect in 2019, but they have not had any impact on the annual report of DLR.

The accounting policies are unchanged from 2018.

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.

Upcoming changes to accounting policies

At the time of publication of the annual report, no new rules have been adopted that will affect DLR's future financial reporting.

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
- Issued 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 note 42 "Assets and liabilities at fair value".

Issued bonds at fair value

Issued mortgage bonds are measured at fair value, which is the market price of these bonds. Issued mortgage bonds in small illiquid series that are not traded actively are measured at a calculated market price. As this price is based on an estimate, it is subject to some uncertainty. For further information, see note 42 "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

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.

Notes – significant accounting policies

Liabilities are recognised in the balance sheet when, as a consequence of a past event, it is probable that future economic benefits will flow from DLR, and the value of the liability can be measured reliably.

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

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

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

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

Derivative financial instruments

Derivative financial instruments are measured at fair value at the balance sheet date.
Unrealised as well as realised capital gains or losses are recognised in the income statement under “Market value adjustments” 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.

Notes – significant accounting policies

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.

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.

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:

- Actual losses for the year
- Amounts received on claims previously written off
- Income resulting from DLR's right to set off actual losses against the commission payable to individual banks
- Changes in expected future losses (impairment)

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.

Notes – significant accounting policies

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

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 and certificates of deposit with Danmarks Nationalbank are measured at fair value on initial recognition and subsequently at amortised cost less impairment losses.

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, which are typically related to reserve fund lending, are measured at amortised cost, which usually corresponds to the nominal value less front-end fees etc., and less provisions for bad debts.

Adjustment for credit risk (impairment of loans and advances)

Fair value adjustments are made in accordance with IFRS 13 using the same method as the one applied for loans and advances at amortised cost (IFRS 9).

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.

- This categorisation is based on DLR's proprietary rating models, and the principles governing the categorisation in stages 1, 2 and 3 are described below:

Loans and advances are categorised individually. First, it is assessed whether a loan meets the criteria for assignment to stage 3. If this is not the case, it is assessed whether the loan meets the criteria for assignment to stage 2, and if this is not the case, the loan is placed in stage 1.

Stage 3: The loan is credit-impaired

Loans in stage 3 are loans which DLR considers to be in default. A loan is in default if one or more of the following characteristics apply:

- The customer is in material breach of contract
- It is probable that the customer will enter into bankruptcy
- The loan is individually impaired

Stage 2: Credit risk has increased significantly

The assessment as to whether credit risk has increased significantly is based on the rules of the Danish FSA. This means that if the probability of default (PD) is lower than 0.2%, credit risk has not increased significantly. If the PD is higher than 0.2%, credit risk has increased significantly:

- If the PD is lower than 1% on initial recognition but increases by 100% or more during the remaining term and the 12-month PD increases by 0.5 of a percentage point or more.
- If the PD is higher than 1% on initial recognition and increases by 100% or more during the remaining term or the 12-month PD increases by 2.0 percentage points or more.
- If the borrower is more than 30 days in arrears and no special circumstances warrant that this should be ignored.

In pursuance of the rules of the Danish FSA, loans assigned to stage 2 are divided into two sub-stages, i.e. ordinary stage 2 and weak stage 2. The criteria for these two stages are as follows:

- Weak stage 2: The credit risk associated with the customer has increased significantly since initial recognition, and the customer's ability to pay is significantly impaired, which is defined as a PD above 5%, regardless of whether the credit risk associated with the customer has increased significantly.
- Ordinary stage 2: The credit risk associated with the customer has increased significantly since initial recognition, but the PD is lower than 5%.

Stage 1: Credit risk has not increased significantly

All loans and advances which after this procedure have not been placed in stage 3, weak stage 2 or ordinary stage 2 are placed in stage 1.

A loan with a 12-month PD of less than 0.2% at the balance sheet date is considered to carry low credit risk. Loans with low credit risk are always assigned to stage 1.

DLR does not have any specific models for the calculation of PDs for loans to Danish credit institutions and central banks, but such receivables are considered to carry low credit risk and are therefore assigned to stage 1.

Impairment method – individual review

All loans showing objective evidence of impairment (in the following referred to as “OEI”) are reviewed for impairment on an individual basis, and an impairment loss is recognised based on a sales scenario in which the underlying collateral is realised.

Impairment method – mathematical models

All loans which do not show OEI or which do show OEI but are found not to be impaired based on the sales scenario are assessed based on a mathematical model which takes into account the probability of default (PD), the estimated exposure at default (EAD) and the expected loss given default (LGD).

The model incorporates historical observations as well as forward-looking information, including macroeconomic conditions.

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.

Forward-looking model:

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

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”.

Notes – significant accounting policies

Impairment method – management estimate

In addition, a management estimate is made to take account of any circumstances not captured by the individual impairment losses or the mathematical models.

Other circumstances regarding loans, advances and other receivables

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.

Unlisted shares are stated 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.

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 DLR and the expenses can be measured reliably. Ordinary repair and maintenance expenses are recognised in the income statement as incurred.

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

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

Notes – significant accounting policies

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.

Current tax assets

Current tax assets are recognised in the balance sheet as the estimated tax charge on the profit for the year adjusted for prepaid tax.

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.

Notes – significant accounting policies

Provisions for deferred tax

Deferred tax is calculated on all temporary differences between the carrying amount and the tax base of assets and liabilities.

Deferred tax is recognised in the balance sheet as a net amount, which in DLR's case is a liability.

Equity

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

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

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

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.

The distribution of profit adopted by the Board of Directors of DLR has been incorporated in the series financial statements. The series' calculated share of the profit for the year of DLR determined in accordance with the executive order has been taken to the general reserves of the institution.

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

Complete series financial statements may be obtained from DLR.

The series financial statements of DLR Kredit have been prepared in accordance with the Danish Executive Order on series financial statements of mortgage credit institutions.

	B - SDO	DLR in general	Total
Income statement			
Administration and reserve fund contributions	1,611	22	1,632
Front-end fees	61	1	62
Interest on subordinated debt and guarantee capital	-17	0	-18
Interest etc.	171	2	174
Market value adjustment of securities and foreign exchange	-169	-2	-171
Administrative expenses etc.	-671	-9	-680
Write-offs and provisions for loans and advances	85	1	86
Tax	-236	-3	-239
Profit	**835**	**11**	**846**
Balance sheet			
Assets			
Mortgage loans	155,729	1,413	157,142
Arrears on mortgage loans before impairment	109	1	111
Provisions for loans, advances and arrears	-415	-17	-432
Prepayments	24	0	24
Other assets, including reserve fund loans	37,626	298	37,924
Total assets	**193,073**	**1,696**	**194,769**
Equity and liabilities			
Issued bonds etc.	169,324	1,558	170,882
Deferred income	374	3	378
Other liabilities	8,856	43	8,899
Subordinated debt	1,289	11	1,300
Equity	13,230	81	13,311
Total equity and liabilities	**193,073**	**1,696**	**194,769**
Addition or deduction of funds (net)	**100**	**-100**	**0**
Balance sheet total in the series financial statements			
Balance sheet total according to DLR's annual report			173,444
Set-off of own mortgage bonds			21,252
Set-off of interest receivable on own bonds etc.			73
Balance sheet total in DLR's series financial statements			**194,769**

* In the balance sheet of the series financial statements, the portfolio of "Own mortgage bonds" is not set off against the liability item “Issued bonds etc.". As a result, the balance sheet total in the series financial statements is not consistent with the amount stated in the balance sheet of the DLR Annual Report.

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 2019.

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 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019.

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

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

Copenhagen, 6 February 2020

Executive Board

Jens Kr. A. Møller	Pernille Lohmann
Adm. direktør	Direktør

Board of Directors

Vagn Hansen Formand	Lars Møller Næstformand	
Claus Andersen	Randi Franke	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 2019 and of the Company's financial performance for the financial year 1 January - 31 December 2019 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 2019. 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, 6 February 2020

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 01.01.2019 to 31.12.2019, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 to 31.12.2019 in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Ac-countants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 before 1995. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of more than 25 years up to and including the financial year 2019.

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 01.01.2019 to 31.12.2019. 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.

Loan impairment charges	How the matter was addressed in our audit
The Entity's loans amount to DKK 156,837m at 31.12.2019 (DKK 148,611m at 31.12.2018), and total impairment charges therefor amount to DKK 434m in 2019 (DKK 537m in 2018). Determining expected loan impairment charges is subject to significant uncertainty and to some degree based on management judgement. Due to the significance of such management judgement and the loan volumes of the Entity, auditing loan impairment charges is a key audit matter. The principles for determining the loan impairment charges are further described in the summary of significant accounting policies, and Management has described the management of credit risks and the review for impairment in notes 34 to 36 to the financial statements. In 2019, management estimates of expected loss impairment have required special attention by the auditor because of the outlook for the Danish agricultural sector. 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.	Based on our risk assessment, our audit comprised a review of the Entity's relevant lending procedures, testing of relevant controls and analysis of the development in credit quality of loans, including the amount of impairment charges. 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 impairment charges. • 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 used with particular focus on management consistency and bias, including challenging documentation of the adequacy of management judgements.

• Valuation of collateral, including management judgement involved in determining Stage 3 expected losses. • Management add-ons related to the Danish agricultural sector.	• Testing, on a sample basis for loans classified to be in Stage 3, the calculated impairment charges for consistency with legal and entity guidelines to this effect. This included testing collateral values and definition of scenarios. • Challenging management add-ons with particular focus on the Danish agricultural sector, including pig, milk and fur farming.

Management’s responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity’s abil-ity to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless Management either intends to liquidate the Entity 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 audi-tor’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 the 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 the additional requirements applicable in Den-mark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk 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 Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of ac-counting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of ac-counting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the Entity'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 contents of the financial statements, in-cluding disclosures in the notes, and whether the financial statements represent the under-lying transactions and events in a manner that gives a true and fair view.

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

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

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

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

Copenhagen, 06.02.2020

Deloitte

Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56

Henrik Wellejus	Brian Schmit Jensen
State-Authorised Public Accountant	State-Authorised Public Accountant
MNE no 24807	MNE no 40050

SHAREHOLDERS IN DLR KREDIT A/S

Year-end 2019

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

Fanø Sparekasse

Faster Andelskasse

Folkesparekassen

Forvaltningsinstituttet for Lokale Pengeinstitutter

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