dlr kredit
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RISK AND CAPITAL MANAGEMENT REPORT MARCH 2015

RISK

INDHOLD

PREFACE

In 2014, DLR achieved a satisfactory profit before tax of DKK 817.2m (2013: DKK 629.3m). After tax, the profit amounted to DKK 615.9m against DKK 470.7m the year before.

DLR Kredit's primary lending areas comprise agricultural and urban trade properties. By far the majority of DLR Kredit's lending is intermediated by the banks that hold shares in DLR Kredit.

Lending activity in 2014 was characterised by heavy refinancing activity, particularly in H2 2014. The backdrop for this was the refinancing campaigns aimed at the short ARM loans with a view to reducing refinancing risk. DLR's aggregate gross lending in 2014 was DKK 33.2bn against DKK 11.3bn in 2013. Net lending, i.e. gross lending less transfers and (p)repayments was a negative DKK 0.8bn in 2014 against a negative DKK 1.2bn in 2013. At the end of 2014, DLR's loan portfolio amounted to DKK 133.2bn measured at fair value.

In 2014, DLR's capital base was affected by the repayment of the remaining government hybrid core capital of DKK 1,000m through own funds. At the same time, the profit for 2014 of DKK 615.9m has in its entirety been allocated to reserves. This development in DLR's capital base means that at the end of 2014, DLR's solvency ratio was 12.3, which is the same as the 12.3 at the end of 2013. Correspondingly, the core capital ratio amounted to 12.3 at the end of 2014.

At 31 December 2014, DLR's equity amounted to DKK 10,619.0m against DKK 9,984.3m at year-end 2013. Equity comprises share capital of a nominal DKK 570.0m and DLR's reserves of DKK 10,049.0m, of which undistributable reserves amount to DKK 2,337.9m.

At year-end 2014, DLR's aggregate subordinated capital amounted to DKK 2,055.1m. This capital consists exclusively of hybrid core capital (Tier 1) distributed on hybrid core capital raised in 2005 at EUR 100m (DKK 755.1m) and hybrid core capital of DKK 1,300m raised in 2012.

Despite the prospects of a general strengthening of economic trends in 2015, DLR expects no improvement in the financial situation of its primary customer groups.

Particularly for the agricultural sector, considerable uncertainty is attached to the outlook for 2015. As a consequence of factors such as the trade conflict with Russia and sales difficulties in China, agriculture is affected by low selling prices on several of the most important products. In spite of the continued, low interest rate level, this provides an expectation for unsatisfactory earnings in 2015. Against this backdrop, DLR expects an increased level of impairment provisions in respect of loans to the agricultural sector also in 2015.

For small urban trade businesses, particularly outside large cities, challenges still exist. No prospects indicate that this will change during 2015.

For 2015, like for 2014, DLR expects limited lending activity, when disregarding loan conversions stemming from the interest rate drop and the reduction in the extent of short-term ARM loans. In addition to this, the low interest rate level causes the return on the securities portfolio to continue to be declining. On these grounds, DLR expects the performance for 2015 to be at a satisfactory level, however somewhat below results for 2014.

DLR Kredit has been rated by Standard & Poor's (S&P) since May 2012. At present, DLR Kredit's issuer rating is set at BBB+ ("Long-Term Credit Rating") with a stable outlook. DLR's covered bonds (SDOs) and mortgage credit bonds (ROs) hold the highest rating, AAA. In early February 2015, the bond rating has been put under criteria observation, since at 12 January 2015 S&P

changed their criteria for the rating of covered bonds[1]. DLR's two issues of Senior Secured Bonds (SBBs) from 2012 have been rated BBB+ with a stable outlook, and finally DLR's EUR 100m hybrid Tier-1 issue from 2005 holds a BB rating.

This report has been drawn up in compliance with the Pillar III disclosure requirements of the Capital Requirements Regulation (CRR articles 431-455).

1 On 12 March 2015 S&P confirmed the AAA ratings on DLR's SDOs and ROs upon closing of the criteria review, and the "Under Criteria Observation" indication was removed.

INTRODUCTION

DLR Kredit A/S (DLR) is primarily owned by 65 local and regional financial institutions. In connection with the termination of a number of financial institutions, the government-owned Financial Stability Company has become a shareholder in DLR, just as the Danmarks Nationalbank is a shareholder through its acquisition of shares from a few financial institutions. As a consequence of its acquisition of Forstædernes Bank, Nykredit has also become a shareholder in DLR, and in 2013 Nykredit increased its holdings in DLR in connection with a share issue. Lastly, PRAS became a shareholder in DLR in 2012 in connection with a share issue. PRAS was founded when Totalkredit was sold to Nykredit in 2003, and – as is the case with DLR – its shareholders are primarily the members of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark and the Danish Regional Bankers' Association.

DLR grants loans against mortgages on real property within the areas of agriculture, including residential farms, urban trade properties and private cooperative housing properties. The term 'urban trade properties' is a comprehensive term covering private rental housing properties, office and business properties, subsidised housing properties, manufacturing and manual industry properties, collective energy plants and 'other properties' (primarily unbuilt sites). Since 2002, DLR has also, albeit to a limited extent, been granting loans in Greenland and since 2009 in the Faroe Islands. At the end of 2014, DLR's loan portfolio measured in terms of the remaining bond debt amounted to DKK 131.6bn, of which loans granted in Greenland and the Faroe Islands amounted to DKK 1.5bn corresponding to 1.1 pc of the portfolio.

At the end of 2014, DLR employed 148 full-time employees at DLR's administrative offices in Nyropsgade, Copenhagen; apart from the permanent staff, DLR employed 29 valuation experts for the valuation of agricultural and horticultural properties and 14 valuation experts for the valuation of urban trade properties and private cooperative housing properties. DLR has no branch offices, since the actual granting of loans takes place through the branch network of the banks that hold shares in DLR.

DLR receives loan applications via the borrower's bank, whereupon DLR's independent valuation expert valuates the property in question. Next the application is handled by DLR's lending department on the basis of the valuation of the property, financial information as well as a statement by the borrower's bank. Thus there is a clear distinction in functions between the property valuation, the credit assessment of the borrower and the granting of the loan, the loan administration and the follow-up actions.

Risk management is a central element in DLR's day-to-day operations, even though DLR's credit and financial risks are viewed as limited. Like the other Danish mortgage credit institutions, DLR is subjected to the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, the Danish Financial Business Act, the Executive Order no 718 of 21 June 2007 on the Issue of Bonds, the Balance Principle and Risk Management ("the Bond Executive Order") as well as other executive orders issued in connection with the mentioned legislation. The limited risk is i.a. attributable to the detailed, risk-reducing legislation.

As part of its lending activities, DLR applies the specific balance principle as defined in the Bond Executive Order. This principle means that there is full consistency between the interest and capital repayment amounts that DLR receives from the borrowers and DLR's own payments to bond holders.

Furthermore, the balance principle means that in reality DLR does not assume interest rate, exchange rate or liquidity risk on its lending business, including prepayment risk. The most significant risk is credit risk, i.e. the risk that a borrower defaults on the loan.

On 11 March 2014 a new act regulating refinancing risk for ARM loans and other short-interest loans was passed. This new act introduced a statutory maturity extension on the bonds issued in the event that a planned refinancing cannot take place, or in the event that the refinancing rate were to be more than 5 pc points higher than the corresponding rate the year before.

The new act ensures legal clarity in the event that a planned refinancing cannot be carried out due to failing sales of the new bonds, and this will to some extent limit the refinancing risk. Correspondingly, the new act creates legal clarity in the event of insolvency, provided that the refinancing cannot be implemented upon maturity of bonds with a shorter maturity than the underlying loans.

In 2014, DLR was appointed a SIFI institution, and therefore – from the beginning of 2015 – DLR must uphold a SIFI buffer which is being gradually phased in towards 2019, at which point in time it will amount to 1 pc of DLR's risk-weighted assets.

1. RISK MANAGEMENT TARGET AND RISK POLICY

On 26 February 2015, DLR's Board of Directors and Executive Board approved this report on risk and capital management.

1.1 Management Declarations

The Board of Directors estimates that DLR's risk management procedures are sufficient and can ensure that the risk management systems implemented meet the requirements in relation to DLR's profile and strategy.

At the same time, the Board of Directors estimates that the below description of DLR's general risk profile provides a true and fair view of DLR's risk management procedures and risk appetite.

The Board of Directors draws these conclusions based on the business model and strategy that the Board has formulated as well as on reports presented to the Board of Directors by the Executive Board, the Audit Committee, the risk manager and the compliance manager.

A review of DLR's business model and policies shows:

- That the general requirements set forward in the business model *vis-à-vis* the various risk areas are fully covered in the more specific limits of the individual policies;
- That a review of the guidelines set forward by the Board of Directors *vis-à-vis* the Executive Board shows that the limits stipulated in the individual policies are fully implemented in the underlying guidelines to the Executive Board and its conferred authorisations;
- That the actual risk levels are within the limits stipulated in the individual policies and authorisations;
- That on this background the Board of Directors concludes that there is a match between business model, policies, guidelines and the actual risk in the individual areas.

DLR's business strategy rests on the desire to be a strong and attractive cooperation partner within the Company's market area. DLR wants to see profitable earnings based on a pricing of its products that reflects the risk and amount of funds tied up that DLR assumes based on an overall assessment of its business with customers and counterparties. DLR wishes to uphold a suitably robust capital base to support its business model.

The maximum risk tolerance accepted by the Board of Directors is controlled by means of stipulated limits laid down in the individual policies and guidelines.

1.2 DLR's Board of Directors

DLR complies with the demands regarding the competences of the members of the Board of Directors resulting from Danish financial legislation. On this background it is continuously evaluated whether the Board of Directors as a whole possesses the required knowledge and experience within DLR's most significant risk areas. DLR has set up a Nomination Committee to handle i.a. the assessment of the knowledge and experience of the Board of Directors. In addition, the Nomination Committee must propose new members of DLR's Board of Directors at DLR's Annual General Meeting. In this process, the Committee assesses – apart from the mentioned knowledge and experience – DLR's policy regarding the underrepresented gender as well as diversity, cf. section 6: Management and Remuneration.

1.3 Overall Risk Management at DLR

DLR's Board of Directors carries the overall responsibility for limiting and monitoring the risk incurred by DLR. Thus the Board of Directors has, based on DLR's business model and risk assessment etc., determined the overall policies, guidelines and framework for the risk that DLR is allowed to assume, and on this basis the responsibility has been delegated further into the organisation.

The Board of Directors is continuously kept informed about and will treat the overall assessment of the risk situation at meetings of the Board as well as on an ad hoc basis, when the situation calls for it. In addition, at least once each year a comprehensive assessment of the risk situation of DLR is drawn up and presented to the Board of Directors who will then determine whether the mentioned risk levels are acceptable. The Executive Board is being kept informed at meetings or in writing about the risk profile of DLR and is also involved in the on-going monitoring and management of risk within the individual risk areas when the matter at hand is of a more general and principal nature. Table 1 shows the structure of DLR's management reporting procedures in regard to risk and capital management.

In addition, DLR's risk situation is treated in both the Risk Committee and the Audit Committee, which are both statutory for DLR. The Audit Committee i.a. reviews accounting, auditing and security conditions, just as it monitors DLR's internal control and risk management systems. The Risk Committee counsels the Board of Directors about DLR's overall present and future risk profile and strategy, just as it supports the Board of Directors in ensuring that the risk strategy determined by the Board of Directors is implemented, cf. section 1.6 New Committees under the Board of Directors.

In compliance with statutory requirements, DLR has set up a risk management function, and the Executive Board has appointed a risk manager who is organisationally independent. In the event that the risk manager were to be dismissed, this would require the approval of the Board of Directors. The risk manager also holds responsibility for compliance and is responsible for DLR's independent control procedures. Suitable procedures have been established to ensure that the independence of the risk manager can be maintained, in spite of other assignments that the risk manager has to undertake. The risk manager may express concern and warn the Board of Directors of specific challenges. Furthermore, the risk manager participates in the meetings of the Risk Committee and supplies information to the Committee.

Tabel 1. Reporting procedures in regard to DLR's risk and capital management

Topic	Recipient	Frequency
Monthly report on the development of DLR's lending, market shares and ratings of the loan portfolio	Board of Directors, Executive Board	Monthly
Quarterly report on losses, arrears, impairment losses etc.	Board of Directors, Executive Board	Quarterly
Quarterly report on the composition of the loan portfolio	Board of Directors, Executive Board	Quarterly
Summary on DLR's lending distributed on loan-providing banks	Board of Directors, Executive Board	Quarterly
Briefing on loan offers	Board of Directors	Quarterly
Asset review (S. 78)	Board of Directors, Executive Board	Annual
Supplementary collateral and capital requirement	Board of Directors	Quarterly
Capital position – Individual solvency need	Board of Directors	Quarterly
Capital position – contingency plan	Board of Directors	Quarterly
Two-week report on market risk of the securities portfolio	Executive Board	Two weeks
Securities report	Board of Directors, Executive Board	Quarterly
Status on DLR's rating systems	Board of Directors, Executive Board	Semi-annual
Report on the Executive B oard's management of guidelines regarding financial counterparty exposures	Board of Directors	Semi-annual
Risk Manager's review and reporting (S. 71 Order)	Board of Directors, Executive Board	Annual
Compliance report (S. 71 Order)	Board of Directors, Executive Board	Annual
Risk and Capital Management Report (Pillar III requirements)	Board of Directors	Annual

As mentioned above, the risk manager is also responsible for DLR's independent control procedures. In connection with the implementation of the rules laid down in the Danish Executive Order on Management and Control of Banks etc. (The S.71 Order) from December 2010 with subsequent amendments, DLR has further strengthened its control and reporting procedures.

1.3.1 Specifically Concerning Credit Risk

The most significant risk to DLR is credit risk, defined as loss resulting from a debtor's default in payments. The risk in question should be seen against the backdrop that DLR grants loans solely against a mortgage on real property. Furthermore, there will typically also be a loss-absorbing guarantee posted by the loan-providing banks.

Based on the risk assessment and business model of DLR, the Board of Directors has laid down a credit policy and a set of guidelines for DLR. The policy and the guidelines stipulate the principles for DLR's granting of credit. In accordance with policy and guidelines, DLR's Board of Directors has conferred authority to DLR's Executive Board but is still involved in the granting of the largest loans.

The credit policy determines DLR's credit profile, including the desired risk levels. DLR grants loans to properties in i.a. agriculture, office and business, housing etc. in Denmark as well as in the Faroe Islands and Greenland. DLR wishes to uphold a reasonable balance between the price of credit and the risk this exposure incurs on DLR. In this connection, DLR takes into account i.a. the size of the exposure, location, the customer's creditworthiness etc.

In principle, DLR is not interested in credit exposure that exceeds 10 pc of DLR's capital base. Furthermore, DLR has set internal targets for the desired exposure between the respective property categories.

At the same time, DLR has set the target that as from 2018, the demands of the Supervisory Diamond for mortgage credit institutions presented by the Danish FSA in December 2014 shall be complied with.

The Board of Directors is being kept informed about the development in DLR's lending and portfolio. At least once a year a review of DLR's exposures is carried out where large commitments and other relevant commitments are reviewed by the Board of Directors.

Also see the specific section about credit risk.

1.3.2 Specifically Concerning Market Risk

Also with regard to the market area, DLR's Board of Directors has determined principles for the management of DLR's market risk through policies and guidelines. Market risk is defined as the risk that the fair value of financial instruments and derivative financial instruments will fluctuate due to changing market prices. DLR's market risk comprises share price risk, interest rate risk and exchange rate risk. DLR's basic goal in regard to market risk is that the risk is low and that policies and guidelines determine the limits of the desired market risk as regards investment, size of interest rate risk, exchange rate risk etc.

On this background, DLR's securities portfolio primarily consists of AAA-rated Danish covered bonds, including typically bonds with short maturities.

On an ongoing basis, DLR's Board of Directors is being updated on the development in DLR's market risk.

Also see the specific section about market risk.

1.3.3 Specifically Concerning Liquidity Risk

In the agreed liquidity policy, DLR's Board of Directors has stipulated that liquidity risk must be low.

Liquidity risk for DLR is estimated to be very limited based on the fact that DLR's activities centre solely on mortgage credit activities. In addition, DLR has chosen to conform to the specific balance principle, which means that in connection with the daily payments of loan proceeds to customers, DLR issues bonds on terms matching the borrowers' terms and conditions. The term payments received by DLR must thus match payments made by DLR to investors.

In addition, the liquidity policy stipulates that DLR must at all times hold sufficient liquidity to manage daily operations, i.e. liquidity to cover salary payments, payments on supplementary capital instruments etc.

DLR's Board of Directors is being informed about the development in DLR's liquidity situation on a current basis.

1.3.4 Specifically Concerning Operational Risk

Like all other financial institutions, DLR is exposed to possible operational risk. Operational risk reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

On this background, DLR's Board of Directors has formulated policies and guidelines for operational risk and insurance cover with a view to reducing DLR's risk to the widest possible extent.

A significant area assessed in regard to operational risk is IT. DLR's management relates to IT security, including preparedness plans and emergency plans etc., on an ongoing basis.

At the same time, DLR on an ongoing basis registers losses and events that might be attributable to operational risk.

Operational events are reported on an ongoing basis.

1.4 Calculation of the Total Risk Exposure

With the present capital adequacy rules, Danish credit institutions may use the standard method or advanced methods in the calculation of the organisation's capital requirement to cover credit risk. Irrespective of which method is chosen, the credit institution must allocate capital for each exposure corresponding to the risk of the exposure in question.

In 2014, DLR was still using the 'standard method' to calculate the various types of risk and the risk-weighted items for credit risk. [2]

1.4.1 IRB

Apart from the standard method, the capital adequacy rules allow two other methods – the IRB methods – that are different from the standard method in that the individual credit institution is required to estimate a series of parameters and variables itself. The least complex of the IRB methods – "Foundation IRB" – requires that the credit institution itself estimates the risk on the loan portfolio based on i.a. individually calculated PDs, i.e. the likelihood that a customer will default. Other variables are determined by law. The other and more advanced method – "Advanced IRB" – requires that the credit institution itself estimates virtually all variables for the calculation of the capital adequacy, including PDs and LGDs. The latter expresses that part of the exposure that is liable to be lost upon customer default. When they use the IRB method, credit institutions may better control credit risk and hence they have a more solid foundation for calculating the capital need.

2 For reporting purposes, DLR uses the risk indicators determined by the Danish FSA.

At the moment, DLR has only submitted application material to the Danish FSA in regard to DLR's production farm portfolio. The application for permission to use the advanced IRB method for the production farm portfolio was submitted in February 2012 and is being processed by the Danish FSA.

Next, IRB models will be developed for the urban trade portfolio so that the majority of the loan portfolio may in future be comprised by the IRB models.

1.5 Risk Management, Compliance and Control

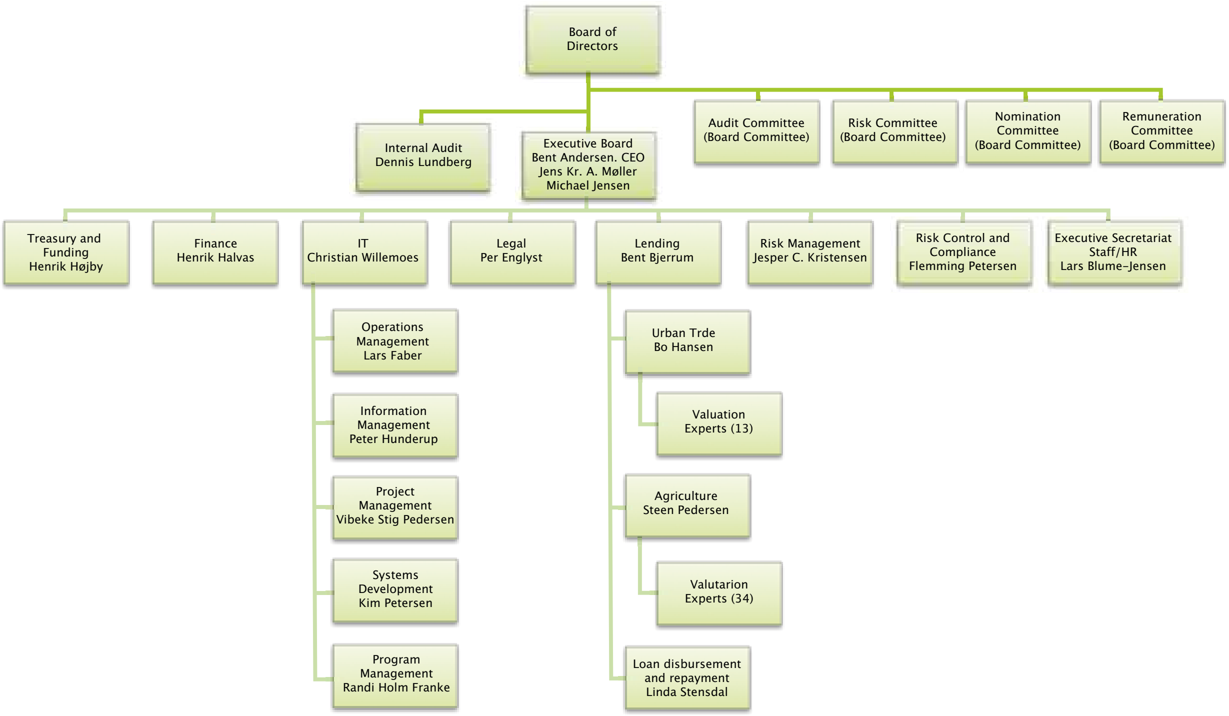
In general, DLR is exposed to various types of risk, primarily credit risk, market risk and operational risk, but also liquidity risk, risk of IT operational disruptions/break-down, financial counterparty risk etc., which will all be dealt with in detail in the following sections. There is a close link between the business model chosen and the risk types that DLR is exposed to.

The Board of Directors and the Executive Board share the overall responsibility for DLR's risk management, internal controls, observance of legislation as well as other regulation in relation to DLR's risk exposure. The Board of Directors and the Executive Board determine and approve the general policies, procedures and control procedures in the significant areas in connection with risk management. The foundation for this is a clear organisational structure, cf. figure 1 below, clear reporting lines, authorisation procedures and personal independence ('the four eyes principle'). This ensures a clear division in responsibility and suitable division of functions between operations, development, risk management, reporting and control within the various types of risk.

As per the statutory requirements, the Board of Directors has also set up an Internal Audit Committee reporting to the Board of Directors and which will in compliance with an audit plan approved by the Board of Directors control business procedures, manuals and internal controls in significant and risky areas through random sampling. All business procedures etc. are accessible to all DLR employees.

Furthermore, DLR has established a risk management and compliance function with a risk and compliance manager who is responsible for ensuring that risk management and compliance tasks

Figure 1. DLR Organization Chart, February 2015



are handled in a satisfactory manner. The risk and compliance manager reports directly to DLR's Executive Board.

In addition, DLR has established internal control procedures for all risky areas; in connection with the rules of the Danish Executive Order on Management and Control of Banks etc. (The S.71 Order) these internal control procedures have been further expanded with the establishment of an actual control function.

One purpose of the control activities is to ensure that the defined targets, policies, guidelines, manuals, procedures etc. are observed; another purpose is in time to prevent, detect and correct possible errors, deviations, defects etc. The control activities comprise manual and physical controls as well as general IT and automatic application control procedures in the various IT systems etc.

Monitoring and controls are carried out through ongoing and/or periodical assessments and controls at all significant levels. The extent and frequency depend primarily on the risk assessment and the results on the ongoing control procedures. Any weaknesses, control failures, infringements of set policies, frameworks etc. or other current deviations are reported to the Executive Board. Significant events are also reported to the Board of Directors, including the Audit Committee.

1.6 New Committees under the Board of Directors

In 2014, DLR was appointed a SIFI institution. The appointment resulted in a series of requirements, i.e. the setting-up of three new sub-committees under DLR's Board of Directors: the Risk Committee, the Nomination Committee and the Remuneration Committee as indicated in figure 1; members of DLR's Board of Directors serve on all three committees.

Under the set mandate, the Risk Committee must undertake the following tasks:

- Advise the Board of Directors on DLR's overall present and future risk profile and strategy;
- Review and prepare the Board of Directors' handling of DLR's calculation of the adequate capital base and the solvency need as well as make recommendations to the Board of Directors regarding the adequacy of DLR's capital base in relation to statutory requirements as well as internal targets. On this basis, the Risk Committee must also review DLR's capital plans, recovery plans etc.;
- Assist the Board of Directors in monitoring that the Board of Directors' risk strategy is implemented correctly in the organisation;
- Assess whether the loan products etc. offered by DLR to customers are in compliance with DLR's business model and risk profile, including whether earnings on the products and services rendered reflect the associated risk, and draw up plans for remedial action if the products or services rendered and the resulting earnings are not in compliance with DLR's business model and risk profile;
- Assess whether the incentives offered in DLR's remuneration structure take into account DLR's risk, capital, liquidity and the probability and time of the payment of the remuneration.

The Risk Committee held three meetings in 2014.

2. CREDIT RISK

DLR's loans are granted against a registered mortgage on real property subject to the statutory limits of the LTV ratio. This activity means that credit risk (defined as the risk of loss due to the borrower's default towards DLR) accounts for by far the largest part of the aggregate risk.

Due to the chosen business model, DLR's credit risk is limited to and concentrated around agriculture etc., urban trade properties and private cooperative housing properties and – to a small extent – owner-occupied homes in the form of residential farms and properties in Greenland and the Faroe Isles.

DLR's Board of Directors has set up guidelines for the granting of credit by DLR, including limits to the credit authorisation of the Executive Board. Within these limits, internal business procedures and instructions determine credit policy guidelines and upper limits for the credit authorisation for the various levels/persons in DLR's organisation.

2.1 Credit Scoring of Customers

With a view to identifying credit risk, a thorough assessment of the mortgageable property and the borrower's financial position is made. The basis for the assessment of the mortgageable property is the determination of the market value of the property that the customer wishes to mortgage. This assessment is made by DLR's own valuation experts who know their local areas. The determination of the value of the property also includes a valuation of its condition and marketability.

In principle, the assessment of the customer's financial position takes place based on his financial statements for several years. The assessment takes into consideration general cyclical trends as well as individual factors that may affect the customer's results. In addition, in connection with purchases and significant investments it is important to include budgets with a view to determining whether the financial situation will balance, based on realistic expectations.

The credit scoring is undertaken by DLR's credit department in Copenhagen. For some customer groups, various credit scoring models are used. The necessity of including additional and more detailed information about the customer will vary from case to case and depends on the customer's financial situation. The higher the degree of complexity and risk identified in connection with a given loan, the more detailed investigations are made to ensure a sufficient basis for the loan decision. The established organisational division secures separated functions between the property valuation and the credit scoring.

2.2 Monitoring of Credit Risk

The portfolio is screened on a quarterly basis based on predetermined risk signals – e.g. arrears, registration in RKI (the Danish subdivision of Experian), financial reporting etc. – and customers are picked out for manual review in order to ascertain potential objective evidence of impairment (OEI). For customers with OEI, it is calculated whether DLR can expect to incur a loss if the mortgaged property will have to be sold. On this background, an impairment provision will be made if required.

Individual impairment provisions are consequently made when it is likely that, based on objective criteria, the customer in question will be unable to (fully or partly) repay the loan, or if the customer is in financial difficulty or the like and this is estimated to be a risk of potential loss to DLR.

Collective impairment provisions on loan portfolios are made when primarily significant macro-economic indicators point towards deterioration in value. The basis is model-calculated collective impairment provisions for the individual lending areas. Apart from that, management relates to the risk and the impairment level for all lending areas, and the model-calculated collective impairment provisions may be supplemented by management estimates if it is assessed that the model does not fully reflect the actual situation.

2.3 Guarantee Schemes

Apart from the mortgages on the mortgaged properties and a thorough credit assessment of the customers, DLR has further as part of its business model reduced credit risk on individual loans and the risk level at portfolio level by having the banks that hold shares in DLR put up guarantees for the loans they provide.

At the end of 2014, 93 pc of DLR's loan portfolio was comprised by guarantee schemes, including government guarantees. The main part of the exposures not covered by guarantees usually has a low LTV value.

In regard to loans to urban trade properties, i.e. private rental housing properties, private cooperative housing properties, office and business properties as well as properties for manufacturing and manual industries, the loan providing banks put up an individual loss guarantee that covers the least secure and most risky part of the loan. The guarantee as a minimum covers the part of the loan that exceeds 60 pc of the value for rental housing properties and cooperative housing properties without municipal guarantees as well as the part that exceeds 35 pc of the value for office and business properties. For properties for manufacturing and manual industries/other properties and for loans in the Faroe Islands and Greenland, DLR requires a stronger guarantee. The guarantee amount is gradually written down parallel to the repayments made, and in principle the guarantee will run for up to 16 years (possibly longer for interest-only loans). This means that DLR's risk of loss on loans to the said property categories is highly limited.

Loans to agricultural properties – i.e. farms and horticultural properties – are also comprised by a guarantee scheme between DLR and the loan providing, shareholding banks. This is a collective guarantee scheme that comes into force if DLR's aggregate losses on agricultural loans provided by the shareholding banks within a given calendar year exceed a pre-determined amount (DLR's excess). This excess is defined as 1.5 times the unweighted average of the losses in the preceding five years, however not less than 0.25 pc of the loan portfolio covered by the cooperation agreement. The agreement covered approx. DKK 80.6bn of the loan portfolio at the end of 2014. DLR thus bears losses of up to approx. DKK 201.5m itself (the excess) in 2015 (0.25 pc of DKK 80.6bn).

The guarantee share of each individual bank matches that bank's share of the loans provided on behalf of DLR, where the banks' total loss frame in 2015 cannot exceed approx. DKK 1.0bn (five times DLR's excess). Losses beyond DLR's excess and the banks' loss frame are borne solely by DLR.

Furthermore, DLR offsets losses in commission payments to the banks. Losses inflicted on DLR that stem from agricultural loans will be offset in the agricultural commissions for the bank in question and go to DLR. Losses that cannot be fully offset in commissions for the year in question are carried forward for offsetting in commissions for the following four years as a maximum. The guarantee provision may constitute up to 0.25 pc of the bank's portfolio that the cooperation agreement comprises. If offsetting has not been effected in commissions within the following four years, the guarantee can be asserted. The offsetting basis for 2014 was approx. DKK 205m, an amount which exceeded the size of DLR's excess mentioned above for the agricultural loans.

Finally, loans to subsidised housing properties are for the vast majority partly covered by the Danish government or the Danish municipalities.

At the beginning of January 2015, DLR implemented a new guarantee concept that comprises loans offered after that time. The guarantee is constructed in such a way that when the loan is paid to the customer, the loan providing bank posts an individual guarantee covering the loan in question throughout its maturity. As a starting point, the guarantee covers 6 pc of the remaining debt on the loan. Additional guarantees are required in connection with specific types of mortgages etc. The guarantee is reduced gradually as the loan is reduced with a proportionate share of the repayments so that in view of the remaining debt on the loan, the guarantee percentage remains unchanged throughout the maturity of the loan. The guarantee covers the least secure part of the loans on the individual property.

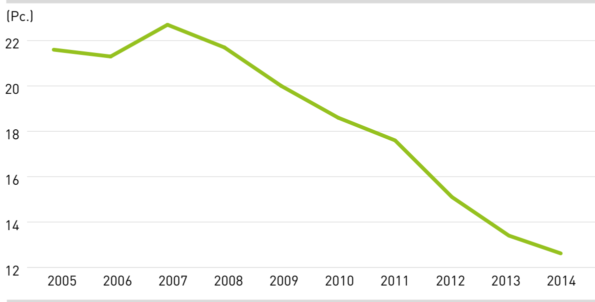
In addition, a loss offset scheme has been set up in which the individual bank offsets any loss that DLR may incur on loans granted by the bank in question beyond the 6 pc guarantees at loan level. Losses will be offset in the aggregate commissions of the bank in question for the entire loan portfolio, except for loan-provision commission and brokerage refund and may be offset for the following three years' commissions.

To the extent that there are losses to be offset exceeding the anticipated commissions of the current and the two following years, DLR may require such losses covered through a drawing on the direct guarantees made by the bank in question.

Based on the guarantee schemes in force until the end of 2014 as well as the implementation of the new guarantee concept in January 2015, DLR's risk of loss in the mentioned lending areas must be considered as manageable and limited.
Reports are prepared on an ongoing basis (daily, weekly and monthly) about the development in DLR's lending, including the development in lending distributed on business sectors/property types, loan types etc. These reports are sent to the staff within the credit area, the Executive Board and the Board of Directors, depending on the relevance of the report to the target group in question.

All in all, DLR has historically seen been conducting a sound and conservative credit policy. Figure 2 below shows the development in DLR's leverage ratio (loans-to- equity ratio) over the past 10 years. DLR's leverage measured in terms of loans in relation to equity has been reduced from just below 23 in 2007 to 12.5 at the end of 2014. This change has come about i.a. as a consequence of the continuous consolidation and repeated equity contributions combined with a very limited growth in lending over the period. The current, low leverage level is positive *vis-à-vis* DLR's aggregate risk.

Figure 2: DLR's leverage ratio



Source: DLR's Annual Reports

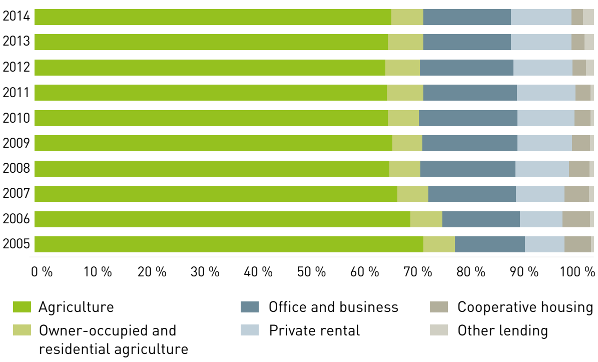
By applying the current definition of leverage ratio (gearing ratio) in accordance with COREP, DLR's leverage ratio can be calculated at 7.55 pc at the end of 2014 when a fully phased-in definition of capital under CRR is used, and at 7.93 pc when transitional schemes for capital in CRR are used, respectively. DLR's Board of Directors has stipulated a minimum limit for leverage at 5 pc. There is thus a considerable margin to this limit. Based on statements by the Basel Committee, a possible statutory requirement in regard to leverage ratio is expected to be around 3 pc.

2.4 Composition of the Loan Portfolio

At the end of 2014, DLR's loan portfolio (measured in terms of remaining bond debt) amounted to DKK 131.6bn. Loans to agricultural properties accounted for just over 64 pc and loans to owner-occupied homes including residential farms accounted for well over 5 pc of DLR's loan portfolio, while loans to urban trade properties and cooperative housing properties accounted for just below 31 pc, cf. figure 3.

Figure 4 shows the composition of DLR's loan portfolio. In recent years there has been a trend

Figure 3: DLR's loan portfolio distributed by property segments

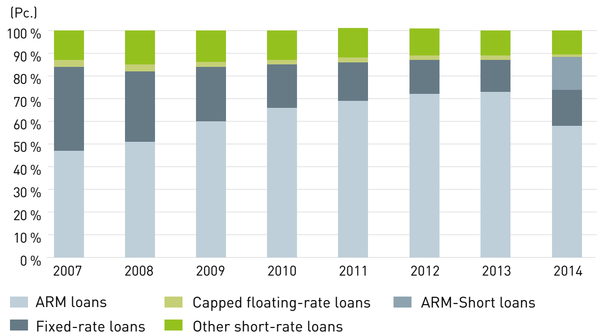


Source: Internal calculation by DLR

towards an increasing part of DLR's loan portfolio consisting of ARM loans. However, this development turned around in 2014 when DLR carried out targeted campaigns to encourage borrowers with short ARM loans to refinance into loans with longer underlying funding. In this connection, a fair share of borrowers chose to refinance into DLR's new ARM Short loans that were introduced at the end of 2013. ARM Short loans are based on issues of floating-rate bonds pegged to either the CIBOR or the CITA rate. So far, the ARM Short loans have been based on bonds with 3-4 years to maturity.

At the end of 2014, 59 pc of DLR's loan portfolio thus consisted of ARM loans against 73 pc at the end of 2013, while the proportion of ARM Short loans grew from 0 pc at the end of 2013 to 14 pc at the end of 2014. Fixed-rate loans picked up a bit to 15 pc, while capped floating-rate loans and other short-rate loans account for the remaining 11 pc, which is a small decrease.

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



Notice: Other short-rate loans are older, callable CIBOR/EURIBOR-linked loans.
Source: DLR's Annual Reports

In 2014, the share of loans with an initial interest-only period of the total gross lending was 49 pc, which was an increase over 2013 when the share of loans with an initial interest-only period accounted for 36 pc of gross lending. Still, this increase should be seen against the backdrop of the high level of refinancing activity in connection with which existing interest-only F1 loans were refinanced to other interest-only loan types. Thus, DLR's general policy regarding interest-only loans, which was sharpened in previous years, has not been changed. DLR still has the general wish to see amortisation begin relatively early during the lifetime of the loan. For that same reason, initial interest-only periods are as a rule offered for a period of five years only.

As regards DLR's aggregate loan portfolio, the share of loans with initial interest-only period fell to 52 pc at the end of 2014 from 54 pc at the end of 2013. Interest-only loans continue to be most frequently used in private rental homes where they account for 63 pc of the loans. Interest-only loans are used the least in connection with owner-occupied homes including residential farms, where the share is 35 pc. For agricultural loans, the share of loans granted with an initial interest-only period is 56 pc, which remained unchanged compared to 2013.

DLR's loan portfolio may be characterised as diversified as regards geography and customers, but is – due to the business model – limited in terms of business areas to agriculture, urban trade and cooperative housing properties. A significant share of 2/3 of DLR's loan portfolio is concentrated on loans to agriculture. Geographically, the loans are spread across the country as the loan-providing banks (the banks that hold shares in DLR) between them command a considerable number of branches across the country. In addition, DLR has limited lending in Greenland and the Faroe Islands totaling DKK 1.5bn, corresponding to 1.1 pc of the loan portfolio.

The geographical distribution of DLR's lending at the end of 2014 is shown in table 2.

Table 2. Geographical distribution of DLR's loan portfolio at end-2014

DKK m	Agriculture	Owner-occupied	Office and business	Private rental	Cooperative housing	Other properties	Total
Northern Jutland	17,319	1,107	2,450	1,714	467	631	23,687
Central Jutland	29.590	2,038	5,923	3,970	829	1,447	43,797
Southern Region	26,405	1,892	4,885	4,050	517	232	37,979
Capital Region	1,188	544	3,649	1,978	359	65	7,783
Zealand	10,045	1,121	2,919	2,044	623	121	16,873
Greenland	0	414	75	51	31	0	571
Faroe Islands	0	913	0	0	0	0	913
Total	**84,546**	**8,029**	**19,901**	**13,807**	**2,826**	**2,496**	**131,604**

Source: Internal calculations by DLR

2.5 The LTV of the Loan Portfolio

DLR grants mortgage credit loans against mortgages on real property. In order to determine DLR's position in the order or mortgage priorities, including whether special risk is attached, DLR continuously calculates LTV values for the individual loans in all property categories.

Table 3. LTV distribution of DLR's loan portfolio at end-2014

	LTV band (pc)					
Property category	**0-50**	**50-60**	**60-70**	**70-80**	**above 80**	**Total**
AGRICULTURE			share of lending			
Cattle	70.8	11.5	8.6	4.8	4.3	100.0
Pigs	75.7	11.8	7.4	3.3	1.7	100.0
Crop Farming	82.5	9.4	5.0	1.8	1.2	100.0
Part time/spare time agriculture	86.0	7.9	3.7	1.3	1.1	100.0
Agriculture, other	86.0	7.8	3.2	1.5	1.5	100.0
SINGLE-FAMILY						
Single-family incl. residential agriculture	73.6	11.2	8.2	4.3	2.7	100.0
URBAN TRADE						
Office/business	74.1	11.7	7.7	3.2	3.3	100.0
Private rental	63.0	11.8	10.7	8.1	6.4	100.0
Coorperative housing	59.5	9.8	9.2	8.6	12.9	100.0
Other properties	70.2	11.4	7.8	4.8	5.8	100.0
Total, lending	**74.8**	**10.8**	**7.3**	**3.8**	**3.2**	**100.0**

Notice: The valuation of the properties is based on the most recent physical inspection or approved market value.
Agriculture properties are indexed to an actual value (Q4 2014).
Source: Internal calculations by DLR.

Table 3 shows the percentage placement (distribution on LTV band) for DLR's lending. At the end of 2014, 88 pc of the loans to agriculture was placed within 60 pc of DLR's most recently completed valuations, including valuations made in connection with the continuous SDO monitoring. Of the remaining portfolio, primarily urban trade properties, 81 pc was placed within 60 pc of the valuations disregarding the guarantees posted. Several of these loan categories in addition have an LTV of 80 pc of the valuation of the property, and so the share placed below 60 pc is naturally lower.

With a view to ensuring that DLR's capital centre B at all times holds additional collateral as stipulated in the SDO legislation (replenishment of cover pool), a valuation is carried out of all properties – every year as a minimum for commercial properties and every three years for residential properties. This valuation can be a valuation without physical inspection (market valuation), but to the extent that a physical inspection has been carried out, this is used in the valuation.

The continuous monitoring of LTV values is based on i.a. these current market valuations and is a fixed component in DLR's management reporting.

2.6 Credit Risk and Dilution Risk

DLR adheres to the Danish Executive Order on Financial Reports of Credit Institutions and Investment Companies etc., and we therefore refer to SS. 51-54 regarding the accounting definitions of distressed and impaired claims as well as the description of methods to determine value adjustment and impairment provisions.

At 31 December 2014, the aggregate value of unweighted exposures to credit risk according to the COREP calculation amounted to DKK 159,184.7m.

Tables 4 and 5 provide information about the distribution on business areas of credit categories for lending (before weighting and deductions for collateral resulting in down-weighting). Exposure to central governments, regional/local authorities and institutions is calculated via their exposure as guarantors, not via their direct exposure. This is the reason why these three groups are not necessarily posted in their natural categories.

Table 4. Exposures distributed on category and line of business, 31 December 2014

	Commercial							Residential		
Cash value of outstanding bond debt (DKK 1,000)	Real estate	Trade	Industry raw material and construction/plant	Agriculture, forestry	Restaurant and hotel	Other industry	Sub-total	Residential (owner-occupied)	Sub-total	Total
Exposures to central government	146,454	261,829	2,634	603,116	21,618	.	1,035,650	13,999	13,999	1,049,649
Exposures to regional/local government	93,353	1,016	.	.	.	.	94,369	.	.	94,369
Exposures to institutions	3,180,361	7,333,889	289,232	390	903,487	0	11,707,359	1,841,131	1,841,131	13,548,491
Exposures secured by mortgage on real property	11,709,342	9,534,771	304,634	76,760,959	846,434	13,267	99,169,407	11,638,905	11,638,905	110,808,312
Non-performing exposures	2,485,655	1,565,045	17,328	3,491,734	122,948		768,710	326,938	326,938	8,009,648
Total	**1,615,165**	**18,696,550**	**613,828**	**80,856,199**	**1,894,487**	**13,267**	**119,689,496**	**13,820,973**	**13,820,973**	**133,510,470**

Notice: The numbers cannot be directly deduced from DLR's annual report. Deviations due to rounding can exist
All DLR's loans are secured by mortgages on real property
* Non-performing exposures include exposures in arrears of more than 90 days and impaired exposures without arrears
Source: Internal calculations by DLR

Table 5. Exposures distributed on category and term to maturity, 31 December 2014

Cash value of outstanding bond debt (DKK 1,000)	0-3 m	3 m - 1 y	1 - 5 y	> 5 y	Total
Exposures to central government	44	593	28,387	1,020,625	1,049,649
Exposures to regional/local government	.	.	.	94,369	94,369
Exposures to institutions	131	1,293	7,704	13,539,362	13,548,491
Exposures secured by mortgage on real property	1,949	52,581	334,860	110,418,922	110,808,312
Non-performing exposures	.	471	5,646	8,003,531	8,009,648
Total	**2,125**	**54,938**	**376,598**	**133,076,809**	**133,510,470**

Notice: The numbers cannot be directly deduced from DLR's annual report. Deviations due to rounding can exist.
All DLR's loans are secured by mortgages on real property
* Non-performing exposures include exposures in arrears of more than 90 days and impaired exposures without arrears
Source: Internal calculations by DLR

Table 6 offers an overview over DLR's impaired claims and impairment provisions for 2014.

Table 6. DLR's impaired claims and impairment provisions distributed on property category, 2014

Property category, DKK m	Loans in arrears, without impairment Outstanding bond * debt at year-end	Impaired loans. Outstanding bond debt at year-end	Individual impairment provisions at year-end	Value adjustments and impairment claims in 2014
Agriculture, incl. residential agriculture	4,310.0	2,185.6	266,4	133,5
Private rental and cooperative housing properties	633.0	254.5	26,8	5,5
Office and business	1,423.2	220.2	39,8	10,8
Other property	411.4		0,0	0,0
Total	6,777.6	2,660.3	333,0	149,8

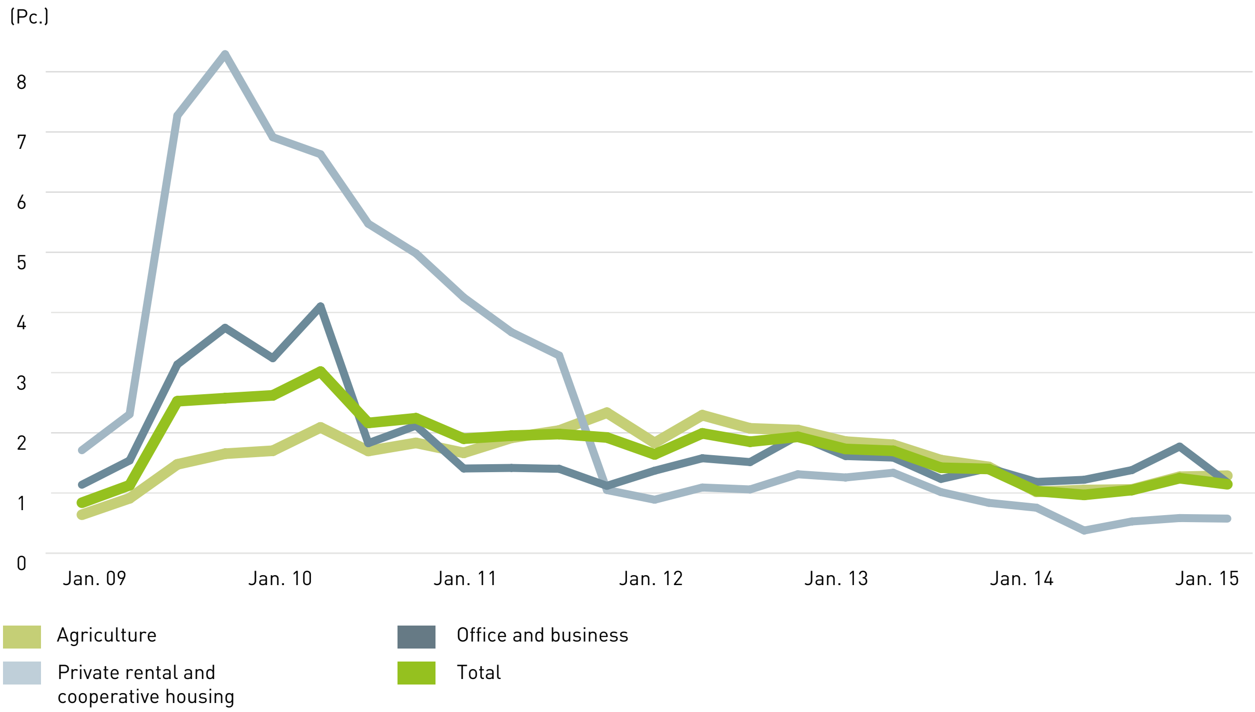
* Including loans in arrears with regards to the December 2014 term payment, calculated after the due date
Notice: The numbers cannot be directly deduced from DLR's Annual Report
Source: Internal calculations by DLR

2.7 Arrears, Impairment Provisions and Losses

The number of borrowers unable to meet their obligations towards DLR showed a slightly increasing rate in H2 2014 but fell a bit again towards the end of the year; in general, the number was at a lower level in 2014 compared to 2013, cf. figure 5.

Seen as a whole, the arrears percentage – measured in pc of all term payments calculated 3½ months after the due date – was 1.15 by mid-January 2015 against 1.03 by mid-January the year before. The increase was driven by slightly increasing arrears rates for agricultural properties in H2 2014 whereas other property categories showed stable or decreasing arrears rates in 2014.

Figure 5. Arrears percentage of selected property categories calculated 3 ½ months after the due date



Notice: Arears are calculated around the 15th of the said month.
Source: Internal calculations by DLR

For private rental properties and cooperative housing properties, the arrears rate for 2014 fell from 0.76 to 0.58, and for owner-occupied homes including residential farms the rate fell from 1.30 to 0.73 in the same period.

The arrears rate for agricultural properties rose from 1.02 pc by mid-January 2014 to 1.28 by mid-January 2015. The 2014 levels are the lowest levels registered since the financial crisis. We expect that arrears rates for agricultural properties will increase further in 2015 due to falling settling prices for agricultural products, resulting from the trade crisis with Russia, decreasing demand in China and the generally increasing food production on a global level.

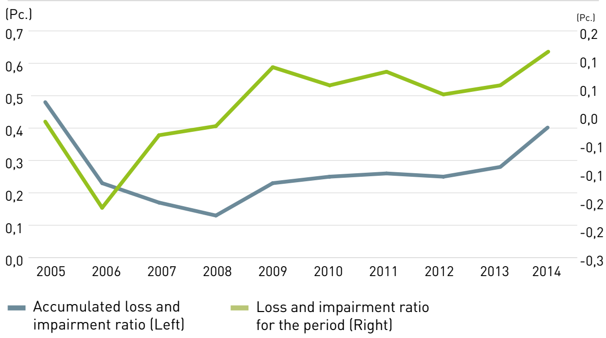
In 2014, the arrears rate for office and business properties rose, but fell back again to the level from early 2014; thus the arrears rate by mid-January 2015 was down at 1.17 pc against 1.18 pc by mid-January 2014.

A common feature of all property categories is that their arrears rates prior to April 2009 were at an all-time low.

As previously mentioned, DLR continuously monitors the loan portfolio with a view to identifying loans subject to a potential decrease in value. Furthermore, a number of large exposures as well as certain exposures showing signs of financial difficulties etc. are being assessed individually. If DLR believes that there is objective evidence of impairment (OEI), an impairment provision is made on the exposure matching the loss that DLR estimates is likely.

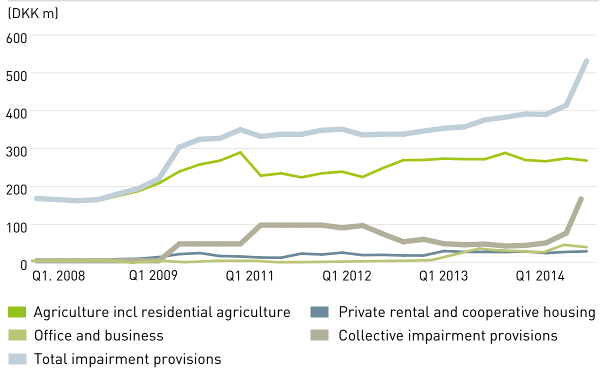
As shown in figure 6, DLR's loss and impairment rate has been increasing since 2012, and in 2014 the rate was 0.14 pc of the loan portfolio. The loss and impairment rate is calculated in compliance with the definitions of the Danish FSA and stated as pc of the loan portfolio.

Figure 6: Loss and impairment ratios



Source: DLR's Annual Reports

Figure 7: Impairment provisions distributed on property categories



Source: Internal calculations by DLR

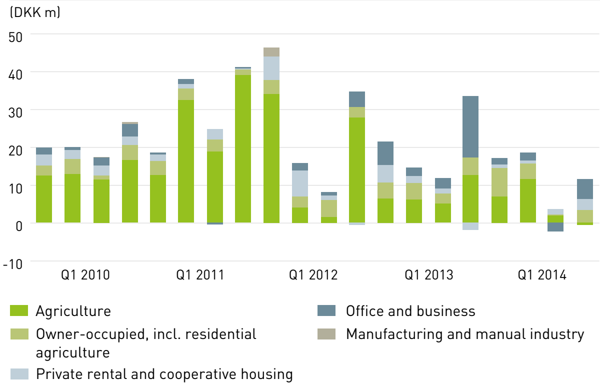
Until Q3 2008, DLR's impairment provisions related solely to agricultural loans, but since then minor impairment provisions have also been made in regard to loans to other property categories.

Total, individual impairment provisions amounted to DKK 333.0m at the end of 2014, cf. table 6. To this should be added collective impairment of DKK 198.4m corresponding to the total impairment at the end of 2014 of DKK 531.4m[3]. Compared to DLR's total loan volume of well over DKK 133bn, the accumulated impairment rate amounted to 0.40 pc at the end of 2014 against 0.28 pc at the end of 2013.

As shown in figure 7, the increased impairment level is primarily attributable to increased collective impairment provisions. The reason is the uncertain situation for the agricultural sector due to i.a. the trade conflict with Russia and sales difficulties in China, which has affected particularly the pig and milk farmers. Thus at the end of 2014, DLR made collective impairment provisions of DKK 165m attributable to these circumstances. The collective impairment provisions are particularly related to the risk of loss on farmers who are already under financial strain due to other circumstances than the current settling prices.

Figure 8 shows the development in ascertained losses at the end of each quarter. From Q4 2008 to Q1 2012, there was a steady increase in aggregate, ascertained losses, but subsequently losses on the loan portfolio have generally been at a lower level, except for a few quarters.

Figure 8: Ascertained losses, end-of-quarter



Source: Internal calculations by DLR

As seen in figure 8, the development in ascertained losses has been fluctuating. The reason behind the fluctuating loss figures is that in most cases, DLR realizes its loss on a limited number of loans. Depending on the time when a given, forced sale is implemented and DLR registers the actual loss, the aggregate loss amount for the given quarter will be affected.

For 2014, ascertained losses on loans, including adjustments from previous years, have been calculated at DKK 40.8m against DKK 76.6m in 2013. Seen in proportion to the total loan portfolio, this corresponds to a loss percentage for 2014 of 0.03

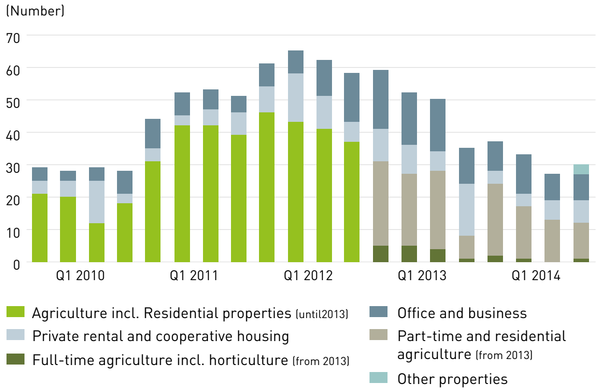
3 Cf. DLR's Annual Report 2014.

pc. Losses amounting to DKK 19.7m stem from agriculture, of which DKK 7.8m stems from part-time farms; DKK 15.4m stems from owner-occupied homes including residential farms; DKK 6.6m stems from office and business properties and DKK 5.9m from rental housing properties.

According to the previously mentioned loss offset agreement for agricultural properties, DLR in 2014 offset DKK 19.5m in the commissions paid to the banks.

As a consequence of the financial crisis, the payment challenges faced by borrowers and the increasingly difficult financial situation, DLR from 2010 to 2012 experienced an increase in the number of foreclosed properties, cf. figure 9. Since mid-2012, this number has been steadily falling. In 2014, DLR foreclosed 44 properties against 97 in 2013.

Figure 9: Repossessed properties, end of quarter

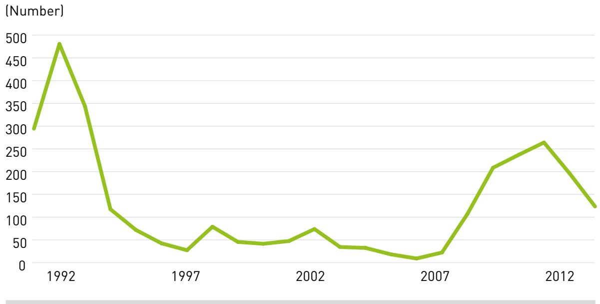


Source: Internal calculations by DLR

DLR's portfolio of foreclosed properties contained 30 properties at the end of 2014 against 35 at the end of 2013. The portfolio consisted of residential farms, part-time farms and small rental properties/office and business properties and one poultry farm, whereas DLR did not hold any full-time farms.

Also the number of forced sales carried out over properties on which DLR holds a mortgage has fallen from 195 in 2013 to 123 in 2014, cf. figure 10.

Figure 10: Number of forced sales on properties on which DLR holds a mortgage



Source: DLR's Annual Reports

Table 7 shows the fluctuations in impaired claims due to adjustments in value and various impairment provisions.

Table 7. Impaired claims

Item, DKK m	2014	2013
INDIVIDUAL IMPAIRMENT PROVISIONS		
on loans and guaranties at beginning of year	342.3	287,8
Impairment provisions for the period	125.7	190,2
Reversed impairment provisions	-135.0	-135.7
Individual impairments at year-end	**333.0**	**342.3**
COLLECTIVE IMPAIRMENT PROVISIONS		
on loans and guaranties at beginning of year	39.3	57.1
Impairment provisions for the period	159.1	6.8
Reversed impairment provisions	0.0	-24.6
Collective impairments at year-end	**198.4**	**39.3**
Total impairments at year-end	**531.4**	**381.6**
IMPAIRED EXPOSURES, CURRENT VALUE:		
- Before impairment	2,640.5	3,197.3
- After impairment	2,307.5	2,855.0
IMPACT ON OPERATIONAL RESULTS:		
Loss of the period	-47.7	-79.2
Loss incurred on claims previously written off	6.9	2.6
Impairment provisions of the period	-284.8	-197.0
Reversed impairment provisions	135.0	160.3
Provision for loan and receivable impairment, etc.	**-190.6**	**-113.3**

Source: DLR's Annual Report 2014

2.8 Current Trends in DLR's Most Significant Business Areas

2.8.1 The Agricultural Sector

On the whole, 2014 showed good price conditions for the most significant production areas in agriculture, whereas settlement prices for primary products fell considerably in H2 of the year.

The reasons behind the falling settlement prices are primarily believed to be the trade restrictions implemented *vis-à-vis* Russia and China's stop to milk powder imports. Falling energy prices and the continuing low interest level do not fully offset the decreasing earnings, and so all primary agricultural sectors must expect falling earnings and results for 2014 and 2015. Still, forecasts of agricultural earnings are quite uncertain, since Russia's and/or China's possible return to the market would have a huge impact on price conditions. Furthermore, it remains unclear to what extent a shift in Danish food sales to other markets would offset part of the ascertained drop in prices that arose due to the unexpected closures of the said markets.

On the whole, forecasts from the Danish Knowledge Centre for Agriculture (now SEGES) suggest that the average operating profit for 2014 for full-time farms will decrease by more than 50 pc compared to 2013. With the current price relations, the scene is set for further setbacks in 2015. Particularly the pig farmers are faced with weak results for 2015 if price relations are realized as anticipated in the current forecasts.

The reason behind the relatively weak prospects for the development in pork prices is primarily that we expect no short-term softening in relation to the Russian market and that there are therefore prospects of increasing supplies of pork from Canada and the USA in the other markets.

For arable farms seen in isolation as wells for the arable share of animal production farms, we expect slightly improved results in 2015 compared to 2014.

Apart from the current geopolitical conditions, there are – particularly for milk producers – new possibilities as well as some degree of uncertainty surrounding the development in milk prices in connection with the phasing-out of the milk quota system in 2015. For the individual farmer, the phasing-out of the quota system thus offers a good possibility to exploit any free stable capacity and to gain a profit from increased production in his herd, just as an increase in production can then be implemented without additional costs in relation to the purchase of milk quotas. If this possibility for an adjustment of the milk production means that on an EU level the total milk production goes up, it could lead to a continued downward pressure on milk prices in 2015.

The agricultural sector expects that in H2 2015, China will resume the imports of milk products, and it is expected that in the longer term milk prices will rise again.

At farm level, the spread in results remains very wide. The spread in earnings is seen both between and within the various branches. DLR also finds that the most capable farmers within all agricultural production branches are still able to produce good financial results, and this supports the notion that there is still a basis for a substantial agricultural production in Denmark where particularly the agricultural sector is characterised by a high level of professional competence.

DLR believes that the market for transactions in farms and farmland in 2013 and 2014 showed a higher degree of marketability than in the years before and at largely unchanged or slightly increasing prices. It is estimated that the current price level for farmland is being supported by the long-term outlook for prices of agricultural products, also in view of an anticipated increase in interest levels in the years to come.

2.8.2 Urban Trade Properties

DLR's loans to urban trade properties comprise loans to private rental housing properties, office and business properties, collective energy plants including land-based wind turbines, as well as loans to cooperative housing properties and some lending to subsidised housing properties.

On the whole, the rental situation for urban trade properties in 2014 seems to be unchanged compared to previous years. In the large cities, the rental situation appears to have improved, while the opposite is the case for properties outside the metropolitan areas.

The ongoing urbanisation has in regard to the market for private rental housing properties resulted in a continuation of the development where the interest in housing properties located in metropolitan areas is increasing at the expense of housing properties outside the metropolitan areas.

2014 also saw continuing great differences in investor interest in office and business properties, depending on their location. We have thus seen slightly increasing prices in the metropolitan areas, while the opposite is the case outside the metropolitan areas.

The continued low interest level throughout 2014 and a largely unchanged rental situation meant that in general the operations of urban trade properties were satisfactory. On the whole, DLR estimates that – like 2012 and 2013 – 2014 was a stable year for private rental housing properties, office and business properties and cooperative housing properties.

3. MARKET RISK

Market risk is defined as the risk of loss resulting from fluctuations in financial markets, i.e. interest rate, equity price and foreign exchange rate risk.

Since DLR adheres to the specific balance principle, market risk derived from the funding in mortgage credit bonds (ROs) and covered bonds (SDOs) will reflect the borrowing terms and conditions of the mortgage debtors. The market risk assumed by DLR should be seen against the backdrop of DLR's business model and arises solely as a consequence of a natural investment need for DLR's capital base, raised senior debt, current profit/results and amounts paid in advance. At the end of 2014, DLR's securities portfolio amounted to DKK 25.4bn, disregarding bonds maturing 1 January 2015.

Between them, the Danish Financial Business Act and the Executive Order on the Issue of Bonds, the Balance Principle and Risk Management stipulate the legal foundations in this area.

In addition, DLR has formulated a policy for securities investments as well as a concrete framework for the extent and volatility of each risk type.

The basic principle is that DLR's aggregate market risk must be low; this means:

1. That interest rate risk calculated in accordance with the rules of the Executive Order on the Issue of Bonds, the Balance Principle and Risk Management must as a whole be within the interval 0-3 pc of the capital base. Interest rate risk on DLR's securities portfolio must be within the interval 0-3 pc of the capital base. In connection with refinancing auctions etc. this risk target may be exceeded for a brief period of time. DLR's securities portfolio must primarily consist of bonds with maturities of up to 5 years. Interest rate risk on the debt instruments issued must be in the interval -3-0 pc of the capital base;
2. That foreign exchange rate risk on DLR's assets, liabilities and off-balance sheet items cannot exceed 0.1 pc of the capital base calculated by means of exchange rate indicator 2, cf. the rules of the Executive Order on the Issue of Bonds, the Balance Principle and Risk Management;
3. That DLR does not assume market risk in shares unless these are political/strategic positions deemed either necessary to the operations of DLR (e.g. shares in sector-owned companies) or are of an insignificant volume; and
4. That other types of price risk should be avoided or be kept at a minimum. DLR thus does not enter into foreign currency positions beyond EUR or into positions in shares, raw materials or options.

The stipulated risk levels have been specified in the Board of Directors' guidelines to the Executive Board and authorisations conferred.

The aim is to secure a well-considered and balanced proportion between risk and return. Based on a concrete assessment, DLR uses financial instruments to hedge and manage market risk. Clearly defined limits ensure that DLR's market risk remains at a relatively limited level.

DLR's risk reporting on its securities portfolio is an ongoing process so that Management can follow the current risk development and decide on possible initiatives on this basis. The treasury department thus draws up a two-week report and a quarterly report (securities report). The two-week report is submitted to the Executive Board and is discussed at securities meetings held every two weeks, while the securities report is submitted to the Executive Board as well as to the Board of Directors. Both reports contain information about the composition of DLR's securities portfolio, price adjustments, interest accrual and interest rate risk.

3.1 Interest Rate Risk

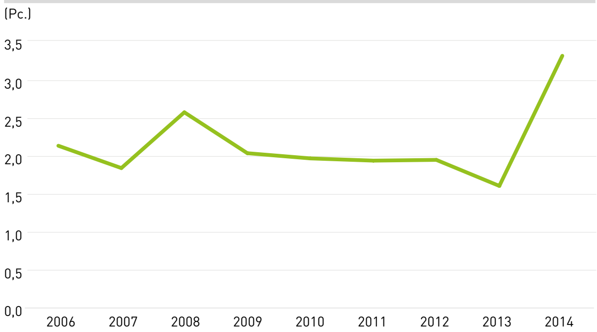
Interest rate risk is defined as the size of the loss following a positive or negative 1 pc point parallel shift in the interest rate structure, i.e. the price adjustment upon a change in the market rate of 1 pc point.

In practice, DLR's financial risk is limited to the interest rate risk on its securities portfolio and interest rate risk on issued instruments of debt, which will (typically) have a negative sign in relation to the interest rate risk on the securities portfolio.

Under Danish law, the interest rate risk cannot exceed 8 pc of the capital base, and up to half the interest rate risk in EUR can be offset in the interest rate risk in DKK. In view of DLR's capital base at the end of 2014 amounting to DKK 12.5bn, this corresponds to a maximum legal interest rate risk of DKK 1,002m. However, as mentioned DLR's Board of Directors has stipulated a more restrictive framework of currently 0-3 pc of the capital base, corresponding to DKK 0-376m.

At the end of 2014, DLR's relative interest rate risk on its portfolio amounted to 3.34 pc, cf. figure 11. This corresponds to a price adjustment of the portfolio of DKK 417.0m in the event of a change in the market rate of 1 pc point. The background for the high interest rate risk is special circumstances in regard to the composition of the portfolio at the turn of the year 2014/2015 resulting from the refinancing activities and a high remortgaging activity. In January 2015, the interest rate risk was down at DKK 327.1m corresponding to 2.61 pc of the capital base.

Figure 11: DLR's relative interest rate risk



Source: DLR's Annual Reports

As an important element in its capital structure, DLR has several times raised considerable loans in the capital market through the issuance of debt instruments. These debt instruments have varying structure and currencies, but they all represent a loan taken up beyond the specific balance principle in connection with DLR's lending activities. The interest rate risk on these instruments can be calculated at DKK 27.0m at the end of 2014, corresponding to 0.22 pc of the capital base.

The interest rate risk linked to issued debt instruments 'inverts' the interest rate risk on DLR's portfolio, and it thus reduces DLR's aggregate interest rate risk to DKK 390.0m corresponding to 3.12 pc of the capital base at the end of 2014.

DLR holds a large portfolio of bonds. This portfolio consists solely of AAA-rated Danish listed covered bonds (ROs, SDOs and SDROs) in ISIN codes with large circulating volumes. Traditionally, DLR's securities portfolio has been dominated by DLR's own bonds, but in 2014 the share of bonds from other mortgage credit institutions in the portfolio rose. The reason for this is the new LCR demands and Standard & Poor's assessment of DLR's funding and liquidity position.

Of the portfolio at the end of 2014, 64 pc is invested in bonds with annual interest rate adjustments or shorter intervals for the pegging of the interest rate(cibor/cita/euribor). This is a decrease from 86 pc at the end of 2013, which means, as described, that the interest rate risk has increased in the past year.

The reason for this is that the portfolio of bonds with longer maturities has been increased at the expense of 1-year ARM bonds in connection with the refinancing at 1 January 2015. The new bonds are primarily 3 and 5-year bonds. DLR's bond portfolio will to some extent reflect DLR's issuance pattern so that looking forward the increase in duration of the bond portfolio will also be seen.

DLR meets the statutory requirements that at least 60 pc of the capital requirement for DLR's capital base is invested in listed investment-grade bonds.

Upon a concrete assessment, DLR will use derivative financial instruments to manage interest rate risk. The fixed coupon rate of DLR's hybrid core capital raised in 2005 (EUR 100m) has been changed into a 3-month variable interest rate (euribor3) by means of an interest rate swap.

The proceeds from DLR's three issues of Senior Secured Bonds totaling DKK 6.0bn have been invested in bonds with relatively short maturities. The SSB issues mature between October 2015 and October 2017.

3.2 Foreign Exchange Rate Risk

The foreign exchange rate risk expresses the risk of loss due to changes in foreign exchange rates. Due to the specific balance principle, DLR assumes but a minimal foreign exchange rate risk, since loans paid out in foreign currencies, i.e. solely EUR, will at all times be funded in the foreign currency in question, just as but a very small part of DLR's securities portfolio is held in the form of EUR bonds.

Calculated by foreign currency indicator 2 of the Danish FSA, DLR's foreign exchange rate risk at the end of 2014 amounted to DKK 0.4m or 0.003 pc of the capital base. According to Danish law, the foreign exchange rate risk calculated by foreign currency indicator 2 of the Danish FSA cannot exceed 0.1 pc of the capital base.

3.3 Risk Related to Shares

In general, DLR does not invest in shares, except for 'sector shares' relating to the financial infrastructure. Together with banks and other mortgage credit institutions, DLR has invested in shares in two sector companies. The purpose of these sector companies is to support the owners' business within mortgage credit, payment handling, IT etc.

DLR has furthermore invested in shares in LFB (Landbrugets FinansieringsBank – a specialised bank providing finance for the Danish agricultural sector). DLR has no intention of selling the said sector shares, since participation in these sector companies is considered vital to the mortgage banking operations. Therefore these shares are not considered part of DLR's trading portfolio.

At the end of 2014, DLR's share portfolio thus solely consisted of shares in VP Securities A/S, e-nettet A/S and LBF A/S. On the whole, the value of the said share portfolio totaled DKK 68.0m at the end of 2014.

In compliance with DLR's accounting policies, shares traded in active markets are measured at fair value. The fair value is calculated as the closing price on the balance sheet date. Unlisted shares are also entered at fair value. If the fair value cannot be measured reliably, these shares will be entered at cost, including any deductions for impairment.

DLR can provide the following information about its exposure in shares etc. that are not part of the trading portfolio:

Table 8. DLR's share exposure, 2014

Type, DKK m	Exposure at 31.12.2014	Impact on operating operating income, 2014
SECTOR SHARES	68.0	-6.7
Other capital shares	0	0
Total	**68.0**	**-6.7**

Source: DLR's Annual Report 2014.

3.4 Property Risk

Seen in proportion to DLR's equity and balance sheet, DLR's portfolio of building sites, buildings and domicile properties (excluding temporarily held properties) is limited. DLR does not wish to assume any significant property risk. The value of properties, which solely comprises DLR's domicile in Copenhagen, amounted to DKK 99.2m at the end of 2014, corresponding to 0.9 pc of equity.[4]

3.5 Counterparty Risk and Financial Instruments

In order to monitor and reduce DLR's risk of loss due to counterparty default in payment obligations towards DLR, a number of internal 'lines' are determined for financial counterparties.

It should be noted that DLR's risk of loss on financial counterparties is limited, since counterparty risk is primarily made up of guarantees posted by financial institutions for borrowers where the guarantee in question is subsidiary to the borrower's personal debt obligations and the mortgage on the property.

Commitment calculations are continuously being made for the individual financial institutions with a view to assessing DLR's financial counterparty risk, just as a 'line' has been determined for each risk-weighted individual financial counterparty in compliance with the guidelines set forth by the Board of Directors.

DLR's aggregate counterparty risk in regard to financial instruments is calculated based on the fair value method and amounted to DKK 31.5m at 31 December 2014[5]. This amount represents the positive market value of the two interest rate swaps set up in connection with DLR's issuance of EUR 100m hybrid core capital in 2005. Also the positive market value of financial instruments is included when DLR sells bonds with long maturities at the ARM auctions.

As regards funds from the issuance of hybrid core capital (EUR 100m), DLR assumes limited interest rate risk. The hybrid core capital has a fixed interest rate, which was swapped to a 3-months variable rate (euribor) through an interest rate swap.

4 Source: DLR's Annual Report 2014.
5 Source: DLR's Annual Report 2014, note 20.

3.6 Liquidity Risk

The risk of suffering a loss because the current liquidity funds do not suffice in covering the current payment obligations is extremely limited for DLR. The reason behind this is that DLR has chosen to adhere to the specific balance principle where payments on the loans granted and the bonds issued closely mirror each other (match funding). There is thus a 1:1 relation between the loan taken out by the borrower in DLR and the bonds issued by DLR to fund the loan.

This model offers many advantages that ensure a funding match in terms of maturity, interest, currency and repayment of the loan. This is due to the fact that the payments received by DLR from the borrowers less a marginal (risk and administration fee) to DLR completely match the amounts payable to the bond holders by DLR. In general, the balance principle means that to all extents and purposes DLR assumes credit risk only as part of its lending activities.

Since the individual borrower's terms for payment of interest and instalments are pre-determined, DLR will – when payments are made on the due date – receive the funds prior to or no later than at the same time as the matching payments to the bondholders fall due. A mismatch will only occur in situations where the frequency of the borrower's payments is higher than DLR's payments on the underlying bonds (e.g. ARM loans). For DLR, this will result in a continuous liquidity surplus (prepaid funds).

Also in connection with prepayment of loans (immediate repayment) DLR gets an influx of liquidity which is then invested until the amount is due to be paid out to the bondholders as part of extraordinary drawings. Like the liquidity from immediate repayments, the excess liquidity from prepaid funds is invested in secure, liquid bonds or as short-term deposits with financial institutions; they are kept separate from the remaining securities portfolio.

DLR's Board of Directors has determined that liquid resources must be invested in financial institutions that are subjected to Danish legislation. The maximum amount that may be deposited with each financial institution corresponds to 25 pc of DLR's capital base, cf. the limitations stipulated in the Danish Financial Business Act, however not exceeding a maximum of 35 pc of the capital base of the said financial institution.

As a principle, DLR primarily only deposits funds with financial institutions that have an S&P rating not lower than BBB/A-2. DLR's policy and guidelines regarding liquidity risk stipulate that as a maximum DLR can have deposits of DKK 50m in financial institutions that do not have an S&P rating of at least BBB/A-2. In the event that a financial institution is rated below BBB/A-2, DLR will within 30 calendar days transfer the said liquidity to another financial institution.

In consideration of DLR's bond rating by S&P, DLR continuously makes sure that the total amount of deposits on accounts with financial institutions related to DLR's capital centre B and the general capital centre with individual financial institutions does not exceed a limit of 5 pc of the outstanding cover-pool in capital centre B and the general capital centre, respectively. In the event that the total amount of deposits with one financial institution exceeds 5 pc, DLR will immediately reduce the deposit with the said financial institution and invest the amount in a way that is in compliance with these rules.

In addition, DLR holds the status of a 'monetary counterparty', just as contingency plans have been drawn up for the event of lacking or insufficient liquidity. A monetary counterparty is defined as an account holder with Danmarks Nationalbank who has access to using the monetary policy instruments.

The monetary policy instruments include i.a. that DLR may borrow in DKK against collateral in a matching portfolio of bonds (less a 'haircut'). This provides DLR with a good flexibility in its liquidity management. Still, it remains DLR's policy and goal to remain independent of this borrowing facility from Danmarks Nationalbank, and therefore DLR also has 'lines' and drawing rights with other financial institutions.

Specific liquidity risk (refinancing risk) is attached to the refinancing of ARM loans, in particular the one that used to be attached to 'the large' interest rate adjustment of bonds maturing on 1 January. This is due to the fact that on these interest rate adjustments, considerable amounts of ARM bonds are sold by all mortgage credit institutions. Therefore the market is sensitive to liquidity crises, widening spreads etc.

So under particular conditions, the situation may arise that the bonds cannot be sold in the market, and so the risk of a lack of liquidity may arise due to the refinancing risk. In that situation, DLR would be able to avail itself of the opportunity to borrow against the bonds from Danmarks Nationalbank and/or use repo facilities in the market with a view to obtaining the required liquidity to repay the 'old' bonds.

In late 2013, the Danish Minister of Business and Growth put forward a bill about the regulation of refinancing risk for ARM loans that was passed in March 2014 and came into force on 1 April 2014. To begin with, only the F1 loans were comprised by the amendment, which introduced a statutory extension of the maturity of the bonds up for refinancing of one year at a time in the event that a planned refinancing cannot be carried through due to a lack of buyers to the required new bonds in connection with refinancing (failed refinancing trigger), or if the interest rate has gone up by more than 5 pc points in one year (interest rate trigger). As from 1 January 2015, all bonds with a maturity shorter than the underlying loans are comprised by the failed refinancing trigger, whereas bonds with a maturity of up to two years are also comprised by the interest rate trigger.

The bill created legal clarity in the event of a failed refinancing, which does to some extent provide a solution to the refinancing risk.

In recent years, DLR has also been working to reduce risk in connection with the refinancing auctions. Now four auctions are held each year in March, September, November and December.

The new Capital Requirement rules (CRD IV) implement the Liquidity Coverage Ratio (LCR), which means that the share of high-quality liquid assets (HQLA) must at all times exceed the net cash outflow for the coming 30-day period. Furthermore, on a reporting basis, the Net Stable Funding Ratio (NSFR) is implemented, which means that stable funding defined as 'stable funding available' divided by 'required funding' must be higher than 100 pc at one year's sight.

With a view to i.a. the coming LCR requirements, DLR in 2013 chose to bring forward from December to November the sale of bonds in connection with the refinancing of ARM loans at 1 January.

A small group of borrowers with refinancing in January, however, did not give the required consent to bringing the refinancing forward, and so DLR continues to hold a small auction in December.

The increased focus on refinancing risk which is making itself felt in i.a. the coming Supervisory Diamond for mortgage credit institutions as well as in the strengthened requirements of the rating agencies *vis-à-vis* the Danish issuers to reduce funding imbalances has meant that DLR's funding profile has undergone a significant structural change in 2014.

DLR thus carried out targeted refinancing campaigns aimed at encouraging borrowers with F1 and F2 loans to refinance into loans with a longer funding. Consequently, around 60 pc of DLR's F1 loans with refinancing in October and January were refinanced into longer ARM loans or the new floating-rate loans, ARM-Short, where the underlying bonds currently have a maturity of 3-4 years. In connection with the refinancing of ARM-Short loans, DLR may choose to issue bonds with 1-10 years of maturity, which means a higher degree of flexibility in the planning of the funding.

As a consequence of the new demands, DLR has drawn up a report calculating and assessing DLR's liquidity position and liquidity risk for 2014 (ILAAP, Internal Liquidity Adequacy Assessment Process). The ILAAP report contains i.a. DLR's future funding plan.

3.7 Operational Risk

The term operational risk covers a wide range of risk that could lead to loss for DLR. It could be loss due to break-downs in IT systems, human error, legal complications, defects, fraud, accidents and disasters etc., i.e. non-financial events.

DLR is constantly attempting to minimise operational risk by e.g. drawing up control procedures, authorisations, emergency procedures, 'back-ups', business procedures, automatic updates, emergency plans etc., just as DLR's compliance functions helps minimise operational risk. In addition, various process descriptions are drawn up to provide instructions for relevant procedures and account for the distribution of responsibility within the given area. These initiatives support DLR in meeting external as well as internal demands.

Since DLR must be considered a relatively 'simple' business with few products and business areas, DLR is on the whole believed to be exposed to limited operational risk. DLR calculates its capital need *vis-à-vis* operational risk by means of the basic indicator method. According to this method, operational risk amounts to DKK 1,917m of the risk-weighted items at 31 December 2014, cf. table 9. This means that DLR had a capital need of DKK 153m to cover operational risk at the end of 2014 (8 pc of the exposure).

Table 9. Operational risk based on the basis indicator calculation method, 31 December 2014

Profit and loss account item (DKK m)	Recent year	Year -1	Year -2	Year -3
+ Interest income	3,803	3,965	4,500	6,448
- Interest expenses	-2,238	-2,516	-3,261	-5,207
+ Dividends from shares etc.	1	1	1	1
+ Fee and commission income	229	164	170	86
- Fee and commission paid	-401	-384	-360	-384
+/- Value adjustment	-188	-296	-174	-259
+ Other operating income	17	18	19	18
Base indicator CS59 1.1.	1,222	951	894	704
3-year average of base indicator	1,023	0	0	0
Base indicator * 15% / 8%	**1,917**	**0**	**0**	**0**

Source: DLR's Annual Report 2014

3.8 Insurance Risk

As part of the handling of operational risk, DLR focuses on the possibility to take out insurance against events that might pose a threat to the independence of DLR in connection with claims, actual damage and events or omissions that could incur liability to pay compensation.

DLR wishes to keep insignificant risk of loss at its own expense and risk. Insignificant risk of loss is defined as risk there the insurance premium and administrative costs are considered out of proportion with the possible loss.

3.9 IT Risk

DLR's business is to a wide extent based on IT systems comprising DLR's own IT systems as well as interfaces with other, external IT systems, e.g. the electronic land registration system, VP Securities and payments systems in the financial institutions.

DLR's IT strategy is based on the use of modern and well-tested technology. DLR has chosen to develop its own business systems to handle the strategic requirements of its mortgage financing activities, whereas peripheral systems are based on purchased standard systems running on a Windows-based platform.

DLR's IT preparedness includes the possibility of moving the operation of the systems critical to the business from the primary operations centre to a secondary centre. As regards the operation of the central mainframe-based mortgage credit system, it is part of the outsourcing agreement with CSC Denmark that operations may be re-established at a spare operations centre. As regards DLR's Windows-based operating environment, which is normally operated out of the Nyropsgade headquarters; this can also be moved to a secondary operating environment with CSC Denmark.

DLR's preparedness for the central business systems is tested once a year at which time the business part of the systems is moved from the primary to the secondary operations centre.

4. CAPITAL MANAGEMENT

DLR Kredit's capital structure must provide an adequate solvency surplus to form the basis of the sale of bonds and be based on the largest possible equity, taking into the account the costs on other capital elements, including hybrid core capital and supplementary (tier 2) capital. DLR must also have sufficient resources to ensure continuous LTV-compliance of SDO funded loans and the OC requirements of credit rating agencies.

CRD IV increases requirements for the quantity and quality of capital. In recent years, DLR has strengthened its actual core capital position (equity) significantly. Consequently, it is our assessment that DLR will be able to meet the CRD requirements as in the long view, DLR is likely to obtain permission to apply an Internal Ratings Based (IRB) approach in the calculation of risk-weighted assets exposed to credit risk.

The future implementation of liquidity rules in the form of LCR and NSFR – together with the Supervisory Diamond – also increases the requirements to be met by mortgage credit institutions. As a first step, DLR has worked on moving forward the December refinancing so that most of it will now take place in November. In addition, DLR has launched the loan product "ARM-Short" which will extend the funding period and at the same time consider S&P's view of DLR's funding structure for the purpose of underpinning the existing rating. Overall, DLR must meet the LCR liquidity requirement and at the same time change the funding structure over the coming years to meet the NCFR, the Supervisory Diamond as well as the credit rating criteria.

Moreover, CRD IV contains various additional requirements to be met by financial undertakings. It is our overall assessment that such requirements will not cause any major challenges to DLR.

4.1 Capital Targets

DLR has continuously focused on the new capital adequacy rules, including the changed requirements for the composition of the capital of mortgage credit institutions. Against this background, DLR's Board of Directors passed in 2012 a resolution on DLR's capital for the period from 2015 to 2019. The capital plan sets targets for the development of DLR's capital base which meet the new requirements for the quality and quantity of the company's capital base etc. The capital plan takes into account the new requirements under CRD IV and CRR as well as the desire of DLR's Board of Directors to increase equity financing and repay the government hybrid core capital raised in 2009.

The new capital requirements etc. contained in CRR, which came into force on 1 January 2014, led to both relaxation and tightening in relation to DLR's solvency.

CRR (Article 501) thus provides for a relaxation in the funds tied up in loans to SMEs. The down-weighting of loan commitments guaranteed by financial institutions where the financial institutions' rating-based risk weight is higher than the risk weight of non-rated institutions draws in the opposite direction. In addition, in 2014 only 80 pc of the hybrid core capital of EUR 100m issued by DLR in 2005 can be included in DLR's capital base.

Overall, the above change in capital requirements etc. has had a positive impact on DLR's solvency as the relaxation in Article 501 of the CRR exceeds the effect of the other changes.

4.2 Capital Plan 2019

DLR's capital plan for the period from 2015 to 2019 is, among other things, based on the following contemplated capital initiatives:

- Consolidation of future accounting profits for the purpose of increasing the equity share
- "Discount" on the risk-weighted assets for SMEs by virtue of the CRR
- Phase-in of IRB risk-weights after anticipated IRB approval of firstly full-time farms and subsequently retail farms and commercial lending
- An LTV buffer to offset potential, not immaterial falls in property prices, including through the raising of senior debt (SSBs).

5. CAPITAL STRUCTURE

5.1 Capital Base

The individual elements of DLR's capital base as at 31 December 2014 are shown in table 10 below and calculated using the standardised approach for credit risk.

Table 10. DLR's capital base and solvency ratio

DKK m	2012	2013	2014
Equity			
– Distributable reserves	6,631	7,646	8,281
– Undistributable reserves	2,338	2,338	2,338
Total, equity	8,969	9,984	10,619
Subordinated debt			
– Hybrid core capital (2005) [1]	800	778	604
– Government hybrid core capital (2009)	3,154	1,000	-
– Hybrid core capital (2012)	1,300	1,300	1,300
Total, subordinated debt	5,254	3,078	1,904
Capital base after deductions	14,221	13,060	12,521
Weighted assets	107,798	105,774	102,092
Solvency requirement	8,624	8,462	8,167
DLR's solvency ratio	13.2	12.3	12.3

[1]) Hybrid core capital of EUR 100m comprised by an interim provision in the CRR regulation 575/2013 from 26 June 2013, thus can only be included by 80 pc in the 2014 capital base.
Source: DLR's Annual Report 2014

At year-end 2014, DLR's total weighted assets totalled DKK 102,092,107 thousand.

Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, the Danish Financial Business Act and the Danish Executive Order on the Determination of Risk Exposures, Capital Resources and Solvency Needs etc. form the basis of DLR's capital management. DLR meets the three pillar requirements consisting of the minimum capital requirement (Pillar I), the capital adequacy requirement (Pillar II) and the disclosure requirements (Pillar III). It is the responsibility of the Board of Directors and the Executive Board to ensure an adequate capital structure and compliance of solvency and core capital ratios with all statutory requirements.

In recent years, DLR has strengthened its capital base as a result of the continuing profit and several increases of DLR's share capital. The share capital increases and the issue of hybrid core capital have been used to reduce the government hybrid core capital raised several times to allow for final repayment in May 2014.

At year-end 2014, DLR's equity totalled DKK 10,619m compared to DKK 9,984.3m at the end of 2013. The equity includes the share capital at a nominal DKK 570.0m, revaluation reserves at DKK 48m, retained earnings at an amount of DKK 7,662.7m, as well as the undistributable reserve fund amounting to DKK 2,337.9m. In the calculation of the capital base, a tax asset of almost DKK 2m will be deducted. At year-end 2014, DLR's subordinated debt totalled DKK 2,055.1m distributed on two issues of hybrid core capital: Hybrid core capital of EUR 100m raised on the private market in 2005 (DKK 755.1m) and hybrid core capital to PRAS A/S raised in 2012 (DKK 1,300m).

The issue of EUR 100m was raised in 2005 and does not meet the new rules set out in the CRR. The issue will thus be reduced gradually, and in 2014, 80 pc of the issue can be included in the capital base. The issue has e.g. an indefinite maturity period and an interest rate trigger after ten years, after which it can be repaid by DLR on a quarterly basis.

The hybrid core capital of DKK 1,300m issued to PRAS A/S meets the requirements set out in the CRR. The issue thus has an indefinite maturity period and options to stop payments, provisions for impairment etc. in accordance with current legislation. The trigger level of the issue has been fixed at 7 pc.

The developments in DLR's capital base are shown in table 11.

Table 11. DLR's capital base

DKK 1,000	2013	2014
Equity, end-of-year	9,960,009	10,575,944
Share capital	569,964	569,964
Issue premium	509,196	0
Undistributable reserves	2,337,913	2,337,913
Retained earnings	6,072,166	7,052,133
Profit for the year	470,770	615,934
Primary deductions in core capital	-2,019	-2,468
Core capital after primary deductions	9,957,990	10,573,476
Hybrid core capital	3,077,512	1,904,051
Core capital, incl. hybrid core capital, after deductions	13,035,502	12,477,527
Other deductions	0	0
Core capital, incl. hybrid core capital	13,035,502	12,477,527
Supplementary capital	24,263	43,087
Supplementary capital, included	24,263	43,087
Capital base before deductions	13,059,765	12,520,614
Deductions in capital base	0	0
Capital base after deductions	13,059,765	12,520,614

Source: DLR's Internal calculations by DLR

5.2 New Capital Adequacy Rules and Appointment as SIFI

In summer 2013, an agreement was reached on the new capital adequacy and liquidity rules. The CRR came into force on 1 January 2014 and sets e.g. requirements for more and better capital and a number of capital buffers (capital conservation buffer, company-specific counter-cyclical capital buffer and systemic risk buffer), all of which are to be met using actual core capital.

The capital conservation buffer is generally 2.5 pc of the risk-weighted assets whereas the counter-cyclical capital buffer ranges between 0 pc and 2.5 pc depending on the business trends in Denmark and may even exceed 2.5 pc if required by circumstances. The counter-cyclical capital buffer has been fixed at 0 pc for 2015.

On 19 June 2014, DLR was appointed a Systemically Important Financial Institution (SIFI) in Denmark. The reason is that DLR's total lending exceeds 6.5 pc of Denmark's GDP. From the beginning of 2015, DLR will therefore be required to maintain an additional capital buffer. This capital buffer requirement will phase in over the period from 2015 to 2019 at which time the capital buffer requirement will be 1 pc of the risk-weighted assets in DLR's case. In 2015, the requirement will be 0.2 pc of the aggregate risk exposure.

5.3 Use of External Credit Assessment Institutions (ECAIs)

Article 138 of the CRR allows a credit institution to nominate one or more ECAIs to determine credit quality steps and risk weights for financial assets.

At the beginning of January 2015, DLR appointed Standard & Poor's Rating Services (S&P) for the purpose of credit assessment/risk weighting of exposures to credit institutions. The appointment of S&P is naturally linked to DLR's use of S&P as the only rating agency providing DLR's issuer and bond ratings.

Table 12 shows the FSA's conversion of S&P ratings into credit quality steps for exposures to business enterprises, institutions, central governments and central banks.

Table 12. Rating categories and risk weights

Credit quality level	S&P rating classes	Exposures against corporates	Exposures against central governments or central banks
1	AAA to AA-	20%	0%
2	A+ to A-	50%	20%
3	BBB+ to BBB-	100%	50%
4	BB+ to BB-	100%	100%
5	B+ to B-	150%	100%
6	CCC+ and below	150%	150%

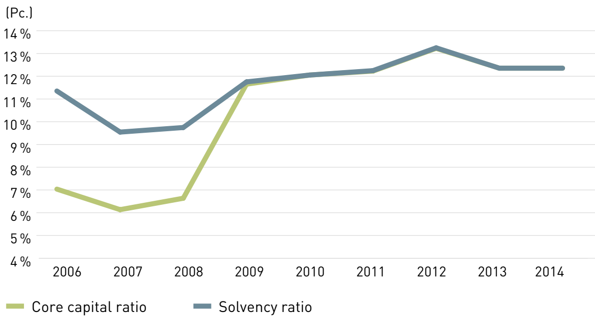
The determination of the credit quality step is based on the rating of the counterparty. If the counterparty is not rated by the ECAI selected, the country rating for the country in which the counterparty is domiciled will be used.

The CRR (Article 129(1)(c)) provides that exposures to credit institutions (e.g. guarantees) which qualify for credit quality step 1 must not exceed 15 pc of the nominal amount of outstanding covered bonds (SDOs/SDROs) of the issuing institution. Due to the concentration risks in the Danish mortgage credit system, Denmark has been allowed to also use counterparty credit risks (CCRs) at credit quality step 2 provided that they do not exceed 10 pc of the nominal amount of outstanding covered bonds and the aggregate exposure to credit institutions does not exceed 15 pc of the nominal amount of outstanding covered bonds.

5.4 Solvency Position

At the end of December 2014, DLR's solvency ratio was 12.3 pc, calculated according to the standardised approach for credit risk (see figure 12). In 2014, DLR has used excess solvency exceeding 12 pc to repay the remaining outstanding government hybrid core capital of DKK 1.0bn using own funds. Consequently, DLR will also in the years to come be required to consolidate on a regular basis to be able to meet the future capital requirements.

Figure 12: DLR's solvency and core capital ratio (standardised approach)



Source: DLR's Annual report 2014

In this context, it is, however, important to note that the regulation does not distinguish between the different approaches to calculation of risk-weighted assets. If DLR's pending application for permission to use internal ratings based (IRB) approaches to calculation of the risk-weighted assets exposed to credit risk and the consequent likely reduction of such assets is granted, it will have a positive impact on fulfilment of the requirements.

5.5 Solvency Requirements and Adequate Base Capital

Table 13 shows DLR's risk-weighted assets and capital requirements for credit risk at 31 December 2014 for each exposure category whereas the solvency requirements for market risks appear from table 14.

Table 13. DLR's risk-weighted assets and capital requirements for credit risks at year end 2014

Category	Risk-weighted exposure* (DKK 1,000)	Capital requirement (8 pc of exposure) (DKK 1,000)
Institutions	6,678,806	534,304
Commercial exposures	69,015,906	5,521,273
Retail exposures	112,782	9,023
Exposures secured by mortgage on real property	11,339,835	907,187
Exposures in arrears or with overdraft	6,729,888	538,391
Covered bonds	931,453	74,516
Shares	67,987	5,439
Other exposures	360,328	28,826
Total	**95,236,984**	**7,618,959**

Note: * Not adjusted for collective impairment provisions
Source: DLR's internal calculations

Table 14. DLR's solvency requirements for market risks at year end 2014

Category	Risk-weighted exposure (DKK 1,000)	Capital requirement (8 pc of exposure) (DKK 1,000)
Debt instruments	4,549,347	363,948
Shares	135,975	10,878
Collective investment solutions	0	0
Foreign exchange risk	252,569	20,206
Total, weighted items with market risk	**4,937,891**	**395,031**

Source: DLR's internal calculations

The standardised approach has been applied. It should be noted that all DLR's loans are secured on real property.

5.6 Individual Solvency Needs

DLR's Board of Directors discusses and approves the determination of DLR's adequate capital base and solvency needs on a quarterly basis. The discussions are based on a recommendation from DLR's Executive Board. In addition, the Board of Directors discusses in detail at least once a year the methods used to calculate DLR's solvency needs, including the risk areas and benchmarks which should be taken into account in the calculation of the solvency needs.

The solvency needs are calculated using the capital reservation method (the "8+ method") which is the method officially used by the Danish FSA since 2013. The 8+ method includes the risk types for which it is assessed that they need to be covered by capital. Generally, these types include credit risk, market risk and operational risk as well as a number of sub-categories. The assessment is based on DLR Kredit's risk profile, capital position and outlook factors that could be of relevance, including the budget etc.

DLR's calculation method follows the directions in the Danish FSA Guidelines regarding the "8+ method", supplemented by DLR's own stress tests, i.a. an evaluation of DLR's resilience in the event of severe loss scenarios based on historical observations. In the evaluation of DLR's resilience, the starting point is a stress test developed by DLR Kredit covering a five-year recession, during which i.a. core earnings are reduced by 17 pc. The stress test next assumes losses and provisions for impairment corresponding to those that hit the Danish mortgage credit institutions in the period 1991-1995 plus 50 pc, which would activate DLR's comprehensive guarantee concepts. The calculation furthermore includes costs pertaining to the continued maintenance of the covered bond (SDO) status of the issued bonds in the event of a drop in property prices by 20 pc as well as general impairment provisions of approx. 1 pc of the portfolio.

Apart from this, the calculation is supported further by management estimates. DLR's risks in the below main areas will be assessed. Within each main area, the risks in question will be assessed in terms of a number of sub-areas. It is also estimated whether an addition to the adequate capital base is required to cover other circumstances.

A. Credit risk
- Earnings and growth
- Credit risk for large customers
- Other credit risks
- Counterparty risk (financial counterparties)
- Credit risk concentration

B. Market risk, including
- Interest rate risk
- Share price risk
- Exchange rate risk
- Liquidity risk

C. Operational risk

D. Leverage

Thus, the risk factors included in the evaluation comprise, in DLR's opinion, all the risk areas that Danish law requires the Management of DLR to take into account in the determination of the adequate capital base and the solvency needs as well as the risks that Management believes that DLR has assumed. In the determination of DLR's adequate capital base and solvency needs, the relevant departments have been involved. This is also true for the initial and subsequent discussions of stress tests etc. for the respective business areas.

Credit risk is DLR's largest risk area to which the bulk of the solvency requirement can be attributed, see table 14. On this background, DLR has sharp focus on this area. DLR uses the standardised approach in the calculation of the risk-weighted assets in regard to credit risk. Reference is made to section 2 on credit risk.

8 pc of the risk-weighted assets is allocated in the *market risk* category. It is further estimated whether DLR is exposed to additional risk that would require capital beyond the 8 pc. Based on i.a. the balance principle, DLR's market risk is considered limited.

Operational risks is defined as the risk of direct or indirect loss caused by insufficient or faulty processes, systems etc. Based on DLR's simple business model, the focus on internal processes, etc., this risk is considered limited.

DLR uses the Basic Indicator Approach (BIA) to calculate the capital requirements for operational risks. In regard to operational risk, no demand has been ascertained for a capital allocation beyond 8 pc of the risk-weighted assets calculated under this category.

Apart from the circumstances mentioned, Management continuously assesses whether there could be other circumstances that need to be included in the calculation of the adequate capital resources and the solvency needs.

DLR consequently allocates the statutory 8 pc as own funds requirement for each risk area and will then assess whether further capital allocations are required, e.g. on the basis of individual large exposures, the credit quality of the portfolio, etc. The determination of an addition will be calculated either on the basis of stress tests as outlined in the Guidelines of the Danish FSA, of DLR's own stress tests or of a management assessment of whether individual business areas require a capital addition..

Table 15. DLR's adequate capital base and solvency as at 31 December 2014

Risk area (DKK 1,000)	Adequate Capital Base	Solvency Needs
Credit risk	7,618,959	7.46%
Market risk	395,031	0.39%
Operational risk	153,379	0.15%
Other		
Internally calculated solvency need	8,167,369	8.00%
Supplements, if any (special risks)	0	0
Total	**8,167,369**	**8.00%**

Source: Internal Capital and Solvency Requirements for DLR

At year-end 2014, DLR's adequate capital base has been calculated at DKK 8,167.4m, see table 15. As DLR's risk-weighted asset totals DKK 102,092.1m, this corresponds to a solvency need of 8.0 pc.

DLR has calculated its solvency surplus relative to the individual solvency need at 4.3 percentage points corresponding to DKK 4.4bn at the end of 2014, see table 16. DLR considers this surplus satisfactory.

Table 16. DLR's adequate capital base and solvency needs as at 31 December 2014

Key figures, 2014	Amount
Capital base after deductions, DKK 1,000	12,520,614
Adequate capital base, DKK 1,000	8,167,369
Excess capital cover, DKK 1,000	4,353,245
Solvency ratio, pc	12.3%
Individual solvency need, pc	8.00%
Solvency surplus, pc points	4.3%

Source: Internal Capital and Solvency Requirements for DLR

5.7 LTV Compliance

When granting loans based on the issue of covered bonds (SDOs), DLR is required to provide supplementary security if the lending limit is exceeded as a result of primary a fall in the value of the property. Compliance with this obligation will be monitored regularly.

Besides the costs of the supplementary security, the risk and costs of LTV compliance are linked to the credit risk as losses on the loan portfolio will be interconnected with property price falls.

To cover exceeded LTVs, DLR may use the capital base in Capital Centre B and to some extent, bank guarantees provided for loans to urban trade properties and advance loans.

DLR has further issued senior secured bonds of DKK 6.0bn which may be used for LTV compliance and supplementary security for rating purposes.

With these resources, DLR will be able to withstand any further property price falls in the region of 10-15 pc on the entire loan portfolio, and for this reason, the risk associated with LTV compliance is assessed as being very limited.

5.8 Rating

Since May 2012, DLR has been rated by Standard & Poor's Rating Services. Until March 2013, DLR has also been rated by Moody's, but DLR chose in December 2012 to terminate the rating contract, and therefore, Moody's withdrew its ratings of DLR at the end of March 2013.

Table 17. DLR's rating by S&P, at year end 2014

Bond ratings	Standard & Poor's
Capital Centre B (SDO)	AAA
General Capital Centre (RO)	AAA
Capital Centre B B (Sec. 15/Senior Secured Bonds)	BBB+ (stable)
Other ratings	
Issuer (Long-Term Credit Rating)	BBB+ (stable)
Issuer (Short-Term Credit Rating)	A-2 (stable)
Hybrid Tier-1	BB

Source: DLR's Annual report 2014

S&P has issued a long-term credit rating for DLR at BBB+ level with stable outlook whereas DLR's covered bonds and mortgage bonds are rated AAA by S&P, also with stable outlook.

DLR's BBB+ issuer rating with stable outlook has most recently been affirmed by S&P in July 2014 where DLR's stand-alone credit profile (SACP) was downgraded one notch to bbb and at the same time the previously given additional factor of -1 was removed. As DLR's SACP is still raised by one notch as a result of anticipated government support, the issuer rating remained unaffected.

The downgrading of SACP was a consequence of S&P choosing to lower DLR's business position one notch to moderate with reference to Jyske Bank's acquisition of BRFkredit. The acquisition of its own mortgage credit institution was thus deemed to create uncertainty about Jyske Bank's future referral of corporate customers to DLR.

DLR's two issues of Senior Secured Bonds (SSBs) from 2012 are rated BBB+ with stable outlook, matching DLR's issuer rating, and DLR chose not to have the 2013 SSB issue rated.

DLR's EUR 100m hybrid Tier 1 issue from 2005 achieved a BB+ rating from S&P in 2012. As the rating of subordinated debt is connected to the issuer's SACP and will consequently not benefit from the government support element of one notch, the rating of DLR's hybrid issue was lowered by one notch to BB in July 2014 in connection with S&P's downgrading of DLR's SACP.

In December 2014, S&P published various changes to their global criteria for covered bond rating and adjusted the approach to valuation of the supplementary assets in a capital centre (series reserve fond). The changes became effective on 12 January 2015, and in the first half of 2015, S&P will assess the consequences of the changes to the criteria for the 99 covered bond programmes they are rating. In the review period, all covered bond programmes, including DLR's two Capital Centres, will be subject to a criteria update by S&P. For DLR, the changes may result in slightly higher capital requirements, but the AAA rating for both Capital Centres is expected to be maintained.

S&P's overcollateralisation (OC) requirements for DLR's Capital Centres compatible with the current AAA rating are fixed at 11.03 pc for Capital Centre B and 4.82 pc for the credit issuer in general as at December 2014. At year-end 2013, the OC requirements were 11.77 and 5.09 pc respectively for the two Capital Centres. The OC requirement is met for the nominal bond volume in the Capital Centre, and the overcollateralisation consists of the capital base and funds generated by the issue of SSBs. S&P has calculated the current overcollateralisation in DLR's Capital Centres at 20.17 pc and 7.55 pc respectively, and that provides a comfortable buffer to meet any increased capital requirements.

6. MANAGEMENT AND REMUNERATION

6.1 Management and Administration

DLR Kredit's Board of Directors

At the end of 2014, DLR Kredit's Board of Directors was made up as follows:

Elected by the General Meeting:

- Vagn Hansen (chairman), Managing Director and CEO, Sparekassen Vendsyssel
- Anders Dam (vice chairman), Managing Director & CEO, Jyske Bank A/S
- Ole Selch Bak, Managing Director, Djurslands Bank A/S
- Karen Frøsig, Managing Director & CEO, Sydbank A/S
- Peter Gæmelke, Farmer
- Lars Møller, Managing Director, Spar Nord Bank A/S
- Torben Nielsen, former Governor of Danmarks Nationalbank (independent member)
- Jan Pedersen, Managing Director & CEO, Danske Andelskassers Bank A/S
- Lars Petersson, Managing Director & CEO, Sparekassen Sjælland

Employee board members:

- Claus Andreasen, Administrative Officer
- Jakob G. Hald, Agricultural Account Manager
- Søren Jensen, Legal Consultant
- Agnete Kjærsgaard, Administrative Officer
- Benny Pedersen, Farmer and Valuation Expert

At the end of 2014, DLR's Board of Directors consisted of 14 members, of whom nine members have been elected at the Annual General Meeting. Of thee nine members, four have been elected among the members of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, and four among the members of the Association of Regional Banks. Furthermore, one member has been elected by the two Associations jointly.

Torben Nielsen, former Governor of the Danmarks Nationalbank, is the independent member of DLR's Board of Directors.

Furthermore, DLR's employees elected five members to the Board of Directors.

At the Annual General Meeting on 24 April 2014, all members elected at the Annual General Meeting were re-elected.

Audit Committee

Members of the Audit Committee:

- Torben Nielsen, former Governor of Danmarks Nationalbank (chairman)
- Lars Møller, Managing Director
- Søren Jensen, Legal Consultant

Risk Committee

Members of the Risk Committee:

- Lars Møller, Managing Director (chairman)
- Torben Nielsen, former Governor of Danmarks Nationalbank
- Jakob G. Hald, Agricultural Account Manager

Nomination Committee

Members of the Nomination Committee:

- Vagn Hansen, Managing Director & CEO (chairman)
- Anders Dam, Managing Director & CEO (vice chairman)
- Other members of DLR's Board of Directors

Remuneration Committee

Members of the Remuneration Committee:

- Vagn Hansen, Managing Director & CEO (chairman)
- Anders Dam, Managing Director & CEO
- Søren Jensen, Legal Consultant

Executive Board:

- Bent Andersen, Managing Director & CEO
- Jens Kr. A. Møller, Managing Director

As published in DLR's stock exchange announcement on 30 September 2014, Michael Jensen, Managing Director, joined as member of the Executive Board in DLR Kredit on 2 January 2015.

Bent Andersen, Managing Director & CEO in DLR Kredit, will retire at 30 April 2015.

Jens Kr. A. Møller will take over the position as Managing Director & CEO of DLR Kredit as of 1 May 2015, and from that date the Executive Board will consist of Jens Kr. A. Møller and Michael Jensen.

Executive Staff

Executive Board Secretariat, Information, Staff, etc.:
Lars Blume-Jensen, Executive Secretary, MSc (Economics)

Loan Department:
Bent Bjerrum, Lending Director, MSc (Agriculture)

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

Accounting & Finance Department:
Henrik Halvas, Finance Director, Diploma in Business Administration (Financial and Management Accounting)

Treasury Department:
Henrik Højby, Treasurer, MSc (Economics)

IT Department:
Christian Willemoes Sørensen, IT Director, Engineer

Risk Management Department:
Jesper C. Kristensen, Head of Risk Management, MSc (Mathematics and Economics)

Internal Audit:
Dennis Lundberg, Chief Internal Auditor, MSc (Business Administration, Accounting and Auditing)

Supervision:
The Danish Financial Supervisory Authority (FSA)

Directorships held by the Executive Board:

- Bent Andersen, Managing Director & CEO
- Member of the Board of Directors of VP Securities A/S
- Member of the Board of Directors of e-nettet Holding A/S
- Member of the Board of Directors of e-nettet a/s

Managerial posts held by members of the Board of Directors:

Ole Selch Bak:

- Managing Director of Djursland Bank A/S
- Member of the Board of Directors of Djurs Invest ApS
- Member of the Board of Directors of Bankdata
- Member of the Board of Directors of JN Data
- Member of the Board of Directors of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark

Anders Dam:

- Managing Director & CEO of Jyske Bank A/S
- Chairman of the Board of Directors of Jyske Banks Almennyttige Fond og Holdingselskab A/S
- Member and vice chairman of the Board of Directors of Bankdata (the Bankdata Organisation)
- Member of the Board of Directors of Jyske Banks Pensionstilskudsfond
- Member of the Board of Directors of the Danish Bankers Association
- Member of the Board of Directors of the Regional Bankers' Association
- Member of the Governing Body of the Private Contingency Association established by the Danish Bankers Association
- Alternate in the Danish Value Assessment Council (Værdiansættelsesrådet)

Karen Frøsig:

- Managing Director & CEO of Sydbank A/S
- Chairman of the Board of Directors of Ejendomsselskabet af 1. juni 1986 A/S
- Chairman of the Board of Directors of the Regional Bankers' Association
- Chairman of Bankdata (The Bankdata Organisation)
- Vice chairman of the Board of Directors of PRAS A/S
- Member of the Board of Directors of the Danish Bankers Association
- Member of the Board of Directors of Totalkredit A/S

- Member of the Board of Directors of BI Holding A/S (Bankinvest Gruppen)
- Member of the Board of Directors of Musikhuset Esbjerg (The Esbjerg Performing Arts Centre), (Commercial Foundations)

Peter Gæmelke, Farmer:
- Chairman of Danske Spil A/S
- Chairman of Løvenholmfonden (Commercial Foundation)
- Chairman of NGF Nature Energy Biogas A/S
- Chairman of Gamst Maskinstation A/S
- Chairman of Gamst Landbrug I/S
- Member of the Board of Directors of Kirkbi A/S
- Member of the Board of Directors of H.C. Petersen & Co.'s Eftf. A/S
- Member of the Board of Directors of Jantzen Development A/S
- Member of the Board of Directors of Fællesfonden
- Member of the Board of Directors and vice chairman of the University of Copenhagen
- Member of the Board of Directors and of the Committee of Representatives of TryghedsGruppen smba
- Member of the Board of Directors and of the Committee of Representatives of Askov Højskole
- Member of the Board of Directors of Danmarks Nationalbank
- Member of the Shareholders' Committee of Sydbank A/S
- Member of the Committee of Representatives of Hedeselskabet

Vagn Hansen:
- Managing Director & CEO of Sparekassen Vendsyssel
- Chairman of the Board of Directors of EgnsInvest Holding A/S and two subsidiaries
- Chairman of the Board of Directors of EgnsInvest Management A/S
- Chairman of the Board of Directors of EgnsInvest Ejendomme A/S
- Member of the Board of Directors of SparInvest Holdings SE
- Member of the Board of Directors of Ejendomsselskabet Vendsyssel ApS
- Member of the Board of Directors of Skandinavisk Data Center A/S
- Member of the Board of Directors of Amanah Kredit A/S
- Member of the Board of Directors of Spar Pantebrevsinvest A/S
- Member of the Board of Directors of HN Invest Tyskland 1 A/S
- Member of the Board of Directors of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark
- Member of the Board of Directors of the Trust Corporation for Local Banks in Denmark (Forvaltningsinstituttet for Lokale Pengeinstitutter)

Lars Møller:
- Managing Director of Spar Nord Bank A/S
- Chairman of the Board of Directors of BI Holding A/S (Bankinvest Gruppen)
- Chairman of the Board of Directors of BI Asset Management A/S
- Chairman of the Board of Directors of BI Management A/S

Torben Nielsen:
- Chairman of the Board of Directors of the Sparinvest Unit Trust (Investeringsforeningen Sparinvest)
- Chairman of the Board of Directors of Eik banki p/f
- Chairman of the Board of Directors of the Unit Trust Sparinvest SICAV, Luxembourg
- Chairman of the Board of Directors of Museum Southeast Denmark
- Chairman of the Board of Directors of Capital Market Partners A/S
- Member of the Board of Directors and vice chairman of Tryg A/S
- Member of the Board of Directors and vice chairman of Tryg Forsikring A/S
- Member of the Board of Directors and vice chairman of Sydbank A/S
- Member of the Board of Directors of Sampension KP Livsforsikring a/s

Jan Pedersen:
- Managing Director & CEO of Danske Andelskassers Bank A/S

- Chairman of the Board of Directors of DAB Invest A/S
- Chairman of the Board of Directors of DAB Invest 2 A/S
- Member of the Board of Directors of Bankernes EDB-central (BEC)
- Member of the Board of Directors of Sparinvest Holdings SE
- Chairman and Managing Director of Villa Prisme Komplementaranpartsselskab

Lars Petersson:
- Managing Director & CEO of Sparekassen Sjælland
- Chairman of the Board of Directors of Sparekassen Fyn A/S
- Chairman of the Board of Directors of Sparekassen Faaborgs Studielegat
- Member of the Board of Directors of Faaborg Finans A/S
- Member of the Board of Directors of Leasing Fyn Bank A/S
- Member of the Board of Directors of Leasing Fyn Faaborg A/S
- Member of the Board of Directors of BI Holding A/S
- Member of the Board of Directors of ForsikringsSamarbejde A/S (FSS)
- Member of the Board of Directors and CEO of Sjælland Ejendomme A/S and two subsidiaries

Benny Pedersen:
- Self-employed farmer

Søren Jensen:
- Self-employed farmer

Claus Andreasen:
- Member of the Board of Directors of Kipling Travel A/S

6.2 Employment Policy

Members of DLR's Board of Directors are elected at the Annual General Meeting of DLR. All members are eligible for re-election. In connection with DLR's appointment as SIFI in 2014, DLR has appointed a nomination committee as prescribed by section 312 of the Danish Financial Business Act, see section 80a. One of the responsibilities of the nomination committee is to suggest candidates for members of DLR's Board of Directors and to prepare a description of functions and qualifications required to take part in the work of the Board of Directors of DLR.

Based on the business model, DLR's current Board of Directors has identified material risk areas within which the full Board of Directors is required to have knowledge and experience. To members of the Board of Directors of DLR Kredit, it is essential to possess skills and competences in one or more of these areas to contribute to an adequate and relevant knowledge level in the Board of Directors. In connection with suggestions for new candidates for new members of the Board of Directors, DLR's nomination committee also considers diversity and the underrepresented gender.

6.3 Remuneration

DLR's Board of Directors has adopted a remuneration policy for DLR Kredit A/S which has been approved by the Annual General Meeting. It appears from the remuneration policy that DLR does not pay variable salary components to the Board of Directors, the Executive Board or material risk takers.

In the design of the remuneration policy, it has been DLR's objective to promote a remuneration practice which agrees with and promotes a healthy and effective risk management that does not prompt excessive risk-taking and which conforms to DLR's business strategy, values and long-term objectives, including a sustainable business model.

The Board of Directors has set up a remuneration committee which prepares the work of the Board of Directors in relation to remuneration. One of the responsibilities of the remuneration committee is to prepare drafts for resolutions of the Board of Directors relating to remuneration, including remuneration policy and other resolutions that may affect DLR's risk management. The Committee is further to make preparations for the Board of Directors' appointment of material risk takers.

The Remuneration Committee consists of three members. The chairman of DLR's Remuneration Committee is Vagn Hansen, managing director & CEO, and the other members of the Committee are Anders Dam, managing director & CEO, and Søren Jensen, legal consultant.

In 2014, the Committee has held one meeting which was attended by all members.

All quantitative data on the remuneration of employees identified as material risk takers, broken down by business area, are shown in table 18.

Table 18. Data on remuneration of employees identified as material risk takers

DKK m	2014	2013
Executive Board		
Fixed salary component	7.0	6.6
Variable salary component	0.0	0.0
Total salary, Executive Board	7.0	6.6
Number of Executive Board members at year-end	2	2
Individual salary of Executive Board members		
Bent Andersen, Managing Director and CEO	4.2	4.0
Jens Kr. A. Møller, Managing Director	2.8	2.6
Included in the staff costs for 2014 is an allocation of DKK 4.0m to cover remuneration in connection with Bent Andersen's retirement at end-April 2015		
Board of Directors		
Fixed remuneration compontent	1.7	1.7
Variable remuneration component	0.0	0.0
Total remuneration, Board of Directors	1.7	1.7
Number of Board members at year-end	14	14
The annual remuneration to the Chairman and deputy Chairman of the Board is DKK 225,000 and DKK 150,000, respectively. The remaining board members receive DKK 100,000.		
Annual remuneration to the Chairman of the Audit Committee is DKK 50,000. The remaining committee members receive DKK 25,000.		
Other employees identified as material risk takers		
Fixed salary component	12.9	9.2
Variable salary component	0.0	0.0
Total salary, other employees identified as material risk takers	12.9	9.2
Number of employees identified as material risk takers at year-end	13	9

No persons in DLR have a compensation package exceeding EUR 1m in the financial year.