dlr kredit er realkredit

RISK AND CAPITAL MANAGEMENT REPORT FEBRUARY 2016

INDHOLD

PREFACE

DLR achieved a satisfactory profit before tax of DKK 875m in 2015 against DKK 933m in 2014. Profit after tax was DKK 670m compared to DKK 703m in 2014.

DLR Kredit's primary lending areas comprise agricultural and urban trade properties. DLR Kredit's loans are almost exclusively distributed through its owner (shareholder) banks.

Lending in 2015 was again characterised by significant remortgaging activity – encouraged by DLR's remortgaging campaigns targeting short ARM loans with the aim of reducing refinancing risk. Declining interest rates early in the year prompted a substantial number of borrowers to remortgage into long fixed-rate loans with lower coupon rates or shift from floating to fixed rates. DLR's aggregate gross lending in 2015 amounted to DKK 23.5bn compared to DKK 33.2bn in 2014. Net lending, in other words gross lending less transfers and (p)repayments amounted to DKK 0.9bn in 2015 against DKK -0.8bn in 2014. DLR's loan portfolio totalled DKK 133.0bn measured at fair value at the end of 2015.

DLR's capital base was affected in 2015 by the redemption of EUR 100m in hybrid core capital issued in 2005. DLR's entire profit of DKK 584m after interest payments to holders of the hybrid core capital was allocated to reserves. This development in DLR's capital base means DLR's total capital ratio at the end of 2015 was 12.9 versus 12.3 at the end of 2014. DLR's core capital ratio was also 12.9 at the end of 2015.

DLR's equity totalled DKK 12,503m as of 31 December 2015 against DKK 11,919m at the end of 2014. Equity comprises share capital of nominal DKK 570m, DLR's reserves of DKK 10,633m, of which DKK 2,338m is non-distributable reserves, plus hybrid core capital of DKK 1,300m issued in 2012.

Economic growth in Denmark, which was initially concentrated around the major urban conurbations, appears to be slowly spreading to other parts of the country. This should have a positive impact on DLR's urban trade property customers and DLR expects to slightly increase its business in this segment.

Poor prices in several key product areas due to the trade conflict with Russia, challenging trading conditions in China and rising supply continue to dog the agricultural sector. The Danish government and several parliamentary parties agreed the so-called "Food and agriculture package" in December 2015. The package includes various initiatives that aim to improve conditions for the agricultural sector. Full implementation of the "Package" in is current form would initially benefit the arable sector most, but the initiatives would have a positive impact on all agricultural production in the longer term. However, when the "Package" might be finally adobted is currently unclear.

While the outlook for the agricultural sector as a whole is for earnings to improve slightly, partly as a result of the Food and agricultural package, earnings are expected to remain unsatisfactory. DLR expects lending activity to the agricultural sector to be modest when not including loan refinancing.

For 2016, DLR expects core earnings to be around DKK 700-800m, which is slightly down on 2015. However, the impact of any shift in interest rates on the return from the securities portfolio could significantly affect DLR's overall result.

DLR has been rated by Standard & Poor's (S&P) since May 2012 and has an issuer rating of BBB+ with a stable outlook and an AAA rating on its covered bonds (SDO) and mortgage credit bonds (RO). DLR's issuer rating was confirmed in July 2015, when the anticipated removal of the government support element due to Denmark's implementation of the Bank Recovery and Resolution Directive (BRRD) was considered offset by an equivalent improvement in DLR's risk position.

In 2015 S&P revised its criteria for analysing commercial real estate (CRE) as collateral for covered bonds. The new criteria resulted in increased overcollateralisation (OC) requirements for both of DLR's capital centres.

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

INTRODUCTION

DLR Kredit A/S (DLR) is owned by 63 local and regional banks, etc. together with Nykredit A/S, PRAS A/S, Finansiel Stabilitet and Danmarks Nationalbank.

Government-owned Finansiel Stabilitet (the Financial Stability Company) became a DLR shareholder in connection with the acquisition and winding up of several banks during the financial crisis, while Danmarks Nationalbank became a shareholder through its purchase of shares from several financial institutions. Nykredit's stake in DLR resulted from its acquisition of Forstædernes Bank, and Nykredit's shareholding has subsequently grown in connection with DLR increasing its share capital in 2013 and later via equity redistributions between shareholders. PRAS became a DLR shareholder in 2012 in connection with a share issue. PRAS was founded when Totalkredit was sold to Nykredit in 2003 and – like 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 agricultural – including residential farms – urban trade and private cooperative housing sectors. Urban trade is a catch-all term for private residential rental properties, office and business properties, subsidised housing properties, manufacturing and manual industry properties, community power plants and 'other properties' (mainly unbuilt land). 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 2015, DLR's loan portfolio in terms of bond debt outstanding amounted to DKK 132.5bn, of which loans in Greenland and the Faroe Islands amounted to DKK 1.6bn or 1.2 pc of the portfolio.

As of year-end 2015, DLR had 158 FTE employees at DLR's head office in Nyropsgade, Copenhagen plus a further 29 agricultural property valuation experts and 16 urban trade property and private cooperative housing valuation experts. DLR has no branch offices, as loans are distributed through the branch network of DLR's shareholder banks.

DLR receives loan applications via the applicant's bank, after which DLR's independent experts value the property. The application outcome is then decided in DLR's credit department based on the property valuation, the applicant's financial history and statements from the applicant's bank. Hence, there is a clear segregation between the functions of property valuation, credit assessment and loan granting, and loan administration and follow-up.

Risk management is a key feature of DLR's day-to-day operations, though DLR's credit and financial risks are estimated as limited. Like other Danish mortgage credit institutions, DLR is subject to the Danish Mortgage Credit Loans and Mortgage Credit Bonds, etc. Act, the Danish Financial Business Act, Executive Order no. 718 of 21 June 2007 on the Issue of Bonds, the Balance Principle and Risk Management ("the Bond Executive Order") and other executive orders issued pursuant to the above legislation. DLR's limited risk exposure is in part due to this detailed, risk-reducing legislation.

DLR applies the specific balance principle as defined in the Bond Executive Order to its lending activities. This means there is a complete match between the interest and principal payments received by DLR from borrowers and DLR's payments to bondholders.

In reality, the balance principle means DLR's credit business does not assume interest rate, exchange rate or liquidity risk – including prepayment risk. DLR's main risk is credit risk, i.e. the risk that a borrower fails to repay or defaults on a loan.

Statutory maturity extensions in the event of a failed refinancing auction came into effect on 1 January 2015 for all bonds with shorter maturities than their underlying loans. This removes the refinancing risk from the mortgage institutions, as investors now bear the risk of a complete or partial failure to refinance the mortgage bonds at expiry.

1. RISK MANAGEMENT TARGETS AND POLICIES

DLR's Board of Directors and Executive Board approved this 2015 risk and capital management report on 25 February 2016.

1.1 Management declarations

It is the Board of Directors' view that DLR's risk management procedures are adequate and ensure implemented risk management systems meet all requirements with respect to DLR's profile and strategy.

Furthermore, the Board of Directors views the description below of DLR's general risk profile as giving a true and fair picture of DLR's risk management and risk appetite.

The Board of Directors' assessment is based on the Board of Directors-approved business model and strategy and reports provided to the Board of Directors by the Executive Board, Internal Audit, the Chief Risk Officer and Compliance.

A review of the business model and policies indicates that the general requirements of the business model for each risk area are fully and comprehensively reflected in the more specific limits of the individual policies, while a review of the Board of Director's instructions to the Executive Board and the authorities delegated to the Executive Board indicates that stipulated limits in individual policies are fully and comprehensively reflected in the underlying instructions to the Executive Board and the authorities delegated to the Executive Board and, furthermore, that real risks are within the limits stipulated in individual policies and authorities. Based on this, the Board of Directors concludes there is compliance between the business model, policies and instructions and the real risks in each area.

DLR's business strategy is based on its goal of being a strong and attractive partner for both private individuals and businesses within its market area. DLR aims for profitable earnings based on product pricing that reflects the risks and capital requirements DLR assumes together with a holistic assessment of the scope of its business with customers and counterparties. DLR aims to have a suitably robust capital base that supports its business model.

The maximum risk tolerance accepted by the Board of Directors is managed via defined limits in individual policies and guidelines. The Board also takes into account the limits in the Danish FSA's (Finanstilsynet) "Supervisory Diamond".

1.2 DLR's Board of Directors

DLR regularly reviews whether the Board of Directors in its entirety possesses the requisite knowledge and experience of DLR's key risk areas. DLR has established a Nomination Committee tasked with assessing the Board of Director's overall knowledge and experience. The Committee also selects and recommends new candidates to DLR's Board of Directors at DLR's General Meeting. As well as considering knowledge and experience, the Committee also takes into account DLR's policies on gender balance and diversity. See also section 7: Management and Remuneration.

1.3 Overall risk management at DLR

DLR's Board of Directors has overall responsibility for monitoring and mitigating the risk incurred by DLR. Based on DLR's business model and risk assessment, etc. the Board of Directors has determined general policies and guidelines and hence limits for the risk that DLR may assume. Delegation of responsibility throughout the organisation is based on these policies, guidelines and limits.

The Board of Directors is regularly updated on and addresses general risk issues at Board meetings and on an ad hoc basis as the situation requires. Furthermore, a comprehensive assessment of DLR's risk situation is prepared and presented at least annually to the Board of Directors, who determine whether risk levels are acceptable. DLR's Executive Board is regularly updated at meetings or in writing about DLR's risk profile and is also involved in the ongoing monitoring and management of risks more general or principle in nature within individual risk areas. Table 1 provides an overview of DLR's management reporting on risk and capital management.

DLR's risk is also addressed in both the Risk Committee and the Audit Committee. The Audit Committee is tasked with reviewing accounting, auditing and security practices and monitoring DLR's internal control and risk management systems. The Risk Committee advises the Board of Directors on DLR's overall current and future risks and strategy and helps the Board of Directors ensure its risk strategy is implemented. The Risk Committee also undertakes preparatory work for the calculation of the individual solvency need prior to the Board of Director's final approval.

Table 1. Overview of DLR reporting, risk and capital management

Report	Recipient	Frequency
14-day report on market risks affecting securities portfolio	Executive Board	Every 14 days
Monthly report on DLR's lending, market shares and loan portfolio rating	Board of Directors, Executive Board	Monthly
Assessment of solvency need and potential updates	Executive Board	Monthly
Quarterly report on losses, arrears, impairments, etc.	Board of Directors, Executive Board	Quarterly
Quarterly loan portfolio composition report	Board of Directors, Executive Board	Quarterly
Overview of distributed loans by bank	Board of Directors, Executive Board	Quarterly
Briefings – loan offers	Board of Directors	Quarterly
Supplementary collateral and capital requirement	Board of Directors	Quarterly
Capital position – individual solvency need (ICAAP)	Board of Directors	Quarterly
Quarterly report on fulfilment of capital adequacy requirement	Board of Directors	Quarterly
Overview of recovery indicators	Board of Directors	Quarterly
Securities portfolio report	Board of Directors, Executive Board	Quarterly
Status report on ratings systems	Board of Directors, Executive Board	Semi-annual
Report on Executive Board's administration of guidelines for exposures to banks	Board of Directors	Semi-annual
Capital position – contingency plan	Board of Directors	Annual
Liquidity report (ILAAP)	Board of Directors	Annual
Risk assessment	Board of Directors	Annual
Recovery plan	Board of Directors	Annual
Review of assets (S. 78)	Board of Directors, Executive Board	Annual
Chief Risk Officer's review and report (S. 71)	Board of Directors, Executive Board	Annual
Compliance report (S.71)	Board of Directors, Executive Board	Annual
Annual report	Board of Directors	Annual
Risk and capital management report	Board of Directors	Annual

In compliance with regulatory requirements, DLR has also established a risk management function for which the Executive Board has appointed a manager (Chief Risk Officer), who is organisationally independent and reports directly to the Executive Board. Dismissal of the Chief Risk Officer requires approval from the Board of Directors. DLR's Chief Risk Officer also heads Compliance and has overall responsibility for DLR's independent control procedures.

Appropriate procedures have been established to maintain the independence of the Chief Risk Officer despite his additional duties. The Chief Risk Officer may requisition other DLR employees to work on particular tasks.

The Chief Risk Officer may express concern and warn the Board of Directors about particular events. The Chief Risk Officer also participates in the meetings of the Risk Committee and provides it with information.

As mentioned above, the Chief Risk Officer is also responsible for DLR's independent control procedures. DLR has regularly reinforced its control and reporting procedures in accordance with the Danish Executive Order on Management and Control of Banks, etc.

Credit risk

The most significant risk for DLR is credit risk due to losses resulting from debtors failing to repay their loans. However, DLR, as a mortgage credit institution, only grants loans against a mortgage on real property. Furthermore, these loans are normally guaranteed by the loan-distributing bank under one of DLR's guarantee schemes.

The Board of Directors has defined a credit policy and drawn up guidelines pursuant to this based on DLR's risk assessment and business model, etc. The policy and guidelines establish the principles by which DLR grants credit. In accordance with policy and guidelines, DLR's Board of Directors has delegated lending authorities to DLR's Executive Board, but decides on the granting of the largest loans.

The credit policy determines DLR's credit profile, including desired levels of risk. DLR grants loans for agricultural, office and business, residential, etc. properties in Denmark and in the Faroe Islands and Greenland. DLR aims for a reasonable balance between the price of credit and the risk and capital requirement the exposure imposes on DLR. DLR therefore considers location, creditworthiness and the size of the exposure, etc.

For example, DLR prefers to avoid credit exposures that exceed 10 pc of DLR's capital base. Furthermore, DLR has set internal targets for overall exposure within the various property categories.

DLR also aims to comply with the Danish FSA's "Supervisory Diamond" for mortgage credit institutions.

The Board of Directors is regularly updated on developments in DLR's lending, portfolio, etc. Moreover, a major review of DLR's exposures is conducted at least annually, with large or otherwise pertinent exposures being examined by the Board of Directors.

See also the section on credit risk.

Market risk

Similarly, DLR's Board of Directors has via policies and guidelines established principles for managing and limiting DLR's market risk. Market risk comprises the risk that the value of financial instruments and derivative financial instruments will fluctuate due to changes in market prices.

DLR's market risks comprise: equity market, interest rate and exchange rate risk plus other price risks. DLR's overall goal with respect to market risk is that it should be low, while DLR's policies and guidelines include more precise limits for appropriate market risk with respect to investments, level of interest rate risk, exchange rate risk, etc.

DLR's securities portfolio therefore mainly contains AAA-rated Danish mortgage bonds, often of short maturity, plus a minor holding of government bonds.

DLR's Board of Directors receives regular updates on DLR's market risk.

Liquidity risk

DLR's Board of Directors' liquidity policy stipulates that liquidity risk should be low.

DLR's liquidity risk is assessed as low given that DLR's activities are limited to mortgage credit activities. Moreover, DLR has opted to comply with the specific balance principle, which means that as DLR originates loans it issues bonds with terms equivalent to those applying to the borrower of the loan. Mortgage loan payments received by DLR should therefore match the payments DLR makes to bond investors.

The liquidity policy also stipulates that DLR should at all times have sufficient liquidity to meet operational costs; in other words, sufficient liquidity to cover salaries, payments on supplementary capital instruments, etc.

DLR's Board of Directors receives regular updates on DLR's liquidity. DLR has since 2014 produced a separate annual liquidity report (ILAAP), which is approved by the Board of Directors before being submitted to the Danish FSA. As a SIFI (Systemically Important Financial Institution), DLR has had to comply 100 pc with the new Liquidity Coverage Ratio (LCR) since 1 October 2015.

See also the section on liquidity risk.

Operational risk

Like other financial institutions, DLR is exposed to potential operational risks, defined as inadequate or failed procedures, human error, system errors or external events, etc.

DLR's Board of Directors has therefore established policies and guidelines for operational risk and insurance coverage, with the aim of reducing DLR's risk as much as possible.

IT represents an important area of operational risk. DLR's management therefore regularly reviews IT security, including contingency and emergency planning, etc.

DLR registers losses and events that could potentially be attributable to operational risk. DLR's Executive Board is regularly updated about any operational events, while DLR's Board of Directors receives a report at least annually on all operational events that have occurred.

1.4 Calculating total risk exposure

Under prevailing rules, Danish mortgage credit institutions may apply the standard method or advanced methods when calculating the organisation's risk-weighted assets for credit risk purposes. Regardless of the method chosen, the credit institution must allocate capital for each exposure equivalent to the risk on the exposure.

In 2015, DLR continued to use the standard method for calculating risk-weighted assets for credit risk purposes.[1]

1.5 IRB

As well as the standard method, the capital adequacy rules allow two other methods – the IRB (internal rating based) methods – which differ from the standard method in that each credit institution is required to estimate a series of parameters and variables itself.

The least complex of the IRB methods – "Foundation IRB" – requires the credit institution to estimate the risk on its loan portfolio based on individually calculated PDs (probability of default), etc. Other variables are determined by regulations. The other and more advanced method – "Advanced IRB" – requires the credit institution to estimate virtually all variables when calculating its capital requirement, including PDs and LGDs (loss given default).

Using the IRB method gives credit institutions greater control of their credit risk and thus a better foundation for calculating their capital requirement.

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

In early February 2016, DLR received approval from the Danish FSA to use the advanced IRB method for its full-time farm portfolio. Using the IRB method for full-time farms would improve DLR's total capital ratio by around 2½ percentage points.

DLR will subsequently develop IRB models for its business portfolio, so that in future up to 80 pc of the loan portfolio could employ IRB models. An application for approval to use the models for the bulk of the urban trade portfolio is expected to be ready for submission in early 2017.

1.6 Supervisory Diamond

The Danish FSA has defined a "Supervisory Diamond" for mortgage credit institutions that comprises 5 indicators with associated benchmarks for what the FSA essentially considers to be mortgage credit activities with a higher risk profile (see below). Institutions that breach the Danish FSA's limits may receive a risk notification, or in more serious cases may be ordered to provide a report or receive an improvement order.

The 5 Indicators

1. LENDING-GROWTH: Growth in lending for individual customer segments must be less than 15 pc per year. The four customer segments are private homeowners, residential rental properties, agricultural properties and other corporate
2. BORROWER'S INTEREST-RATE RISK: The percentage of loans in which the Loan-To-Value (LTV) ratio exceeds 75 pc of the lending limit, and in which the interest rate is only fixed for up to two years, must be less than 25 pc. This only applies to loans to private individuals and loans for residential letting properties. Loans hedged with interest rate swaps and the like are not included.
3. INTEREST-ONLY TERMS ON LOANS TO PRIVATE INDIVIDUALS: The percentage of interest-only loans may not constitute more than 10 pc of the lending volume in the LTV band above 75 pc of the lending limit. All interest-only loans are included in this provision irrespective of their position in the order of priorities.
4. LOANS WITH SHORT-TERM FUNDING: The share of loans to be refinanced should per quarter be less than 12.5 pc of the total lending portfolio and annually less than 25 pc of the lending portfolio.
5. LARGE EXPOSURES: The sum of the 20 largest exposures must be less than the Common Equity Tier 1 capital of the institution.

Supervisory Diamond points 1, 2 and 5 apply from 2018, while points 3 and 4 will not apply until 2020.

DLR and the Supervisory Diamond

As of year-end 2015 DLR complied with all the set limits; cf. table 2.

Table 2. DLR's compliance with supervisory diamond benchmarks for MCIs, end-Q4 2015.

	DLR 31/12.2015	DFSA's limits
1. Lending growth: current quarter		
Owner-occupied property	-0.8%	<15%
Private rental property	1.3%	<15%
Agriculture	0.6%	<15%
Other corporate	1.0%	<15%
2. Borrower's interest-rate risk:	**23.4%**	**<25%**
3. Interest-only terms on loans to private individuals:	**5.5%**	**<10%**
4. Loans with short funding: quarterly		
Q1 2015	6.9%	<12.5%
Q2 2015	0.0%	<12.5%
Q3 2015	4.6%	<12.5%
Q4 2015	12.3%	<12.5%
4 Loans with short funding: annually	**23.8%**	**<25%**
5. Large exposures	**25.5%**	**<100%**

Regarding points 2 and 4, DLR's share of loans with short-term funding was reduced significantly in 2015, in part due to remortgaging campaigns in connection with the refinancing auctions, just as Supervisory Diamond considerations are now incorporated into our lending practices. The campaigns have generally prompted a shift in the loan portfolio in recent years towards a longer maturity on the underlying bonds. We therefore expect that DLR will comply with all the benchmarks by the implementation dates.

The Danish FSA announced two further initiatives in connection with the publication of the Supervisory Diamond concerning a 5 pc down payment (own funding) when purchasing a home and a requirement that commercial properties should be able to generate positive liquidity before they can be financed. These initiatives have now been implemented, so DLR also takes these factors into account in its lending practices.

1.7 Risk management, compliance and control

DLR Kredit is exposed to various types of risk – primarily credit risk, market risk and operational risk, but also liquidity risk, the risk of IT operational disruptions/breakdowns, financial counterparty risk, etc – all of which are discussed in detail in the following sections.

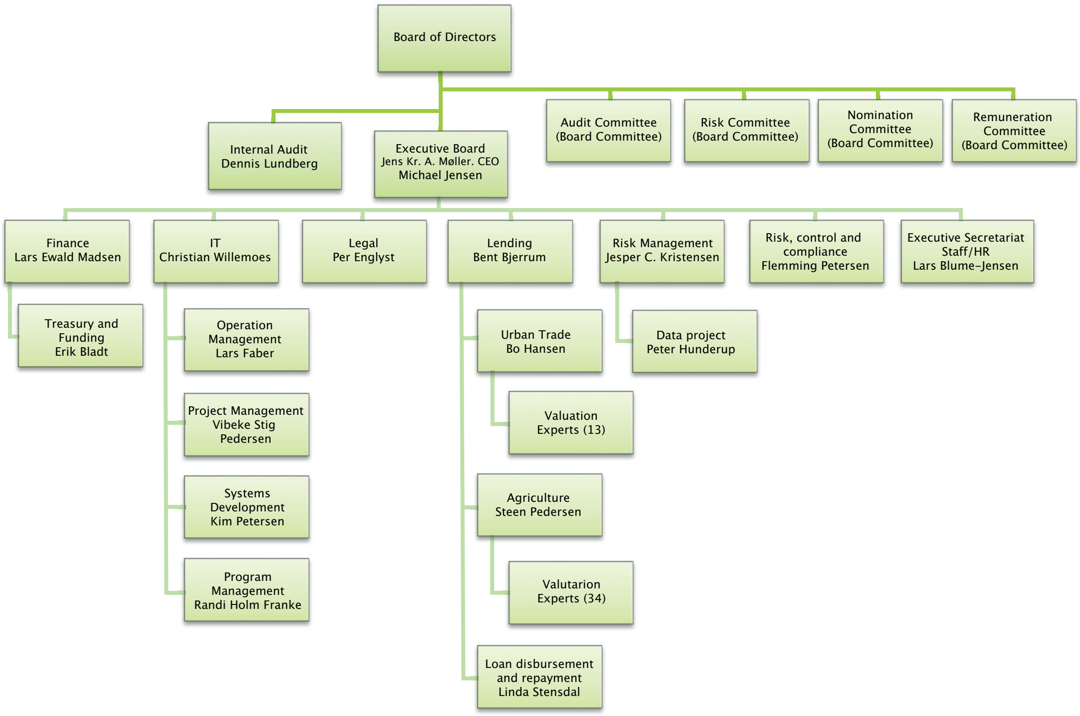
There is a close link between DLR's business model and the types of risk DLR is exposed to.

The Board of Directors and the Executive Board share overall responsibility for DLR's risk management, internal controls, compliance with relevant legislation and other regulations relating to DLR's risk exposure. The Board of Directors and the Executive Board set forth and approve general policies, procedures and controls in key areas connected with risk management. The foundation for this is a clear organisational structure (cf. figure 1 below), well-defined reporting lines, authorisation procedures and segregation ("four eyes" principle). This ensures a clear division of responsibilities and an appropriate segregation of functions between operations, development, risk management, reporting and control within the various types of risk. All business procedures, etc. are, moreover, available to all DLR's employees.

In line with regulatory requirements, the Board of Directors has established an Internal Audit Committee that reports directly to the Board of Directors and which, in accordance with a Board-approved audit plan, conducts spot checks on business procedures, manuals and internal controls in key risk areas. A Board of Directors Risk Committee has also been formed to assist and prepare material for the Board of Directors in certain areas.

DLR has, furthermore, established a risk management and compliance function and appointed a Chief Risk Officer responsible for ensuring that risk management and compliance tasks are handled satisfactorily. The Chief Risk Officer reports directly to DLR's Executive Board.

Figure 1. DLR's Organisation Chart, February 2016



DLR has also set up an independent internal control function that conducts checks in all key risk areas; cf. Danish Executive Order on Management and Control of Banks, etc.

The purpose of the control activities is to ensure that defined targets, policies, guidelines, manuals, procedures, etc. are adhered to, and to prevent, detect and correct errors, discrepancies, omissions, etc. in a timely manner. Control activities include manual and physical checks as well as general IT checks and automatic application controls in the various IT systems, etc.

Monitoring and control is done via ongoing and/or periodical assessments and checks at all significant levels. The extent and frequency of these mainly depends on the risk assessments and the results of ongoing controls. Any weaknesses, control failures, breaches of policy or limits, etc. or other discrepancies are reported to the Executive Board. Significant events are also reported to the Board of Directors, including the Audit Committee, and reported in the annual risk assessment.

1.8 Board Committees

DLR has been designated a SIFI and has consequently established a series of Board Committees – an Audit Committee, Nomination Committee, Remuneration Committee and a Risk Committee. Committee members are drawn from DLR's Board of Directors.

DLR's Risk Committee is described in more detail in section 7: Management and Remuneration. Please refer to DLR's Annual Report 2015 for further details of the other Board Committees.

2. CREDIT RISK

DLR grants loans against a registered mortgage on real property subject to regulatory limits on LTV, etc. This activity means that credit risk (risk of loss due to a borrower defaulting on payments to DLR) constitutes by far the greatest share of the aggregate risk.

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

DLR's Board of Directors has defined DLR's credit policy and guidelines for the granting of credit, including limits for the Executive Board's lending authorities. Within these limits, internal business procedures and instructions set upper limits for credit granting for the various sections/persons in DLR's organisation.

2.1 Credit scoring

To identify credit risk, a detailed assessment is made of the mortgageable property and the borrower's finances. The starting point for assessing the mortgageable property is determining its market value. This is done by DLR's own valuation experts, who have the requisite local knowledge. The condition and marketability of the property are also included when determining its value.

Assessing the customer's finances usually involves several years of financial statements. The assessment process takes into account both general economic factors and individual factors that may affect the loan applicant's score. Budgets are important in connection with purchases and substantial investments, including whether a reasonable financial balance can be achieved based on realistic expectations.

Credit scoring is the responsibility of DLR's credit department in Copenhagen. Credit scoring models are used for certain customer segments. Whether additional or more detailed information about the borrower is required varies from case to case and depends on the borrower's financial circumstances. The more complex and risky the case, the more detailed the investigations to ensure an adequate basis for decision-making. DLR's organisational set-up ensures a segregation of functions between the property valuation and the credit assessment.

2.2 Monitoring credit risk

DLR's loan portfolio is screened every quarter, and based on established risk signals – such as arrears, registration in RKI-Experian (credit information register) and financial reports, etc. – customers are selected for a manual check to ascertain whether there is any objective evidence of impairment (OEI). For customers with OEI, a calculation is made of whether DLR can expect to incur a loss if the asset has to be realised. Based on this, an impairment provision may be made.

Individual impairment provisions are made when the customer – based on objective criteria – is judged unlikely to be able to (fully or partially) repay the loan, or if the customer has financial difficulties or the like and this is assessed to constitute a risk that DLR will incur a loss.

Collective impairment provisions on credit portfolios are mainly made when key macro-economic indicators point to a depreciation in value. The starting point here is modelled collective impairments for the individual lending areas. In addition, management may also assess the risk and level of impairment for all lending areas, and modelled collective impairments may be supplemented with management estimates if the model is deemed to not fully reflect real-life circumstances.

2.3 Guarantee schemes

As well as collateral in the mortgaged property and a detailed credit assessment, DLR has further reduced its credit risk on individual loans and its risk at portfolio level via loss-mitigating guarantees provided by DLR's owner banks on the loans they distribute. The guarantee scheme is an integral component of DLR's business model.

DLR has for many years had separate loss-mitigating agreements for loans in the urban trade and agricultural property areas. However, a new, universal guarantee concept now covers all property categories for loans granted from the start of 2015 onwards.

As of year-end 2015, 93 pc of DLR's loan portfolio was covered by the above-mentioned guarantees. In addition, a small share of the portfolio amounting to DKK 0.5bn was covered by government guarantees. Most non-guaranteed exposures have a low LTV.

DLR's guarantee scheme from 1 January 2015
All loans offered from 1 January 2015 onwards are covered by a new, universal guarantee. Under the new guarantee concept, the loan-distributing bank provides an individual loan-loss guarantee covering 6 pc of the outstanding debt for the term of the loan. Additional guarantees are required for certain types of mortgage, etc. The guarantee amount declines proportionally as the loan debt is paid down, meaning the guarantee percentage relative to outstanding debt remains unchanged throughout the term of the loan. The guarantee covers the outermost part of the total loan amount at an individual property level.

A complementary loss-offsetting agreement (commission recovery) is also in place, whereby the individual distributing bank has to set off all losses it causes DLR over and above the 6 pc guarantee. The loss is deducted from the bank's total fee and commission payments for its entire loan portfolio excluding agency and brokerage fees and can be deducted from commissions up to three years ahead.

If losses exceed the current year's and the following two year's expected commission payments, DLR can request that the losses be covered by drawing on the direct guarantees provided by that bank.

At the end of December 2015 around DKK 20bn of the loan portfolio was covered by the new guarantee concept.

Loss-mitigating agreements for loans granted before year-end 2014.
For loans on urban trade properties (private residential rental properties, private cooperative housing properties, office and business properties plus manufacturing and manual industry properties) granted prior to 2015, loan-distributing banks provide an individual loss guarantee covering the outermost part of the loan. As a minimum, the guarantee covers that part of the loan that exceeds 60 pc of the value of residential rental properties and cooperative housing properties without municipal guarantees, and that part of the loan that exceeds 35 pc of the value of office and business properties. For manufacturing and manual industry/other properties and for loans in the Faroe Islands and Greenland, DLR requires a larger guarantee. The guarantee amount is written down proportionally as the principal is reduced, and the guarantee generally runs for up to 16 years (potentially longer for interest-only loans). Hence, DLR's risk of loss on loans to the above property types is extremely limited.

As of year-end 2015, loss-mitigating agreements covering commercial properties comprised guarantees of DKK 14.4bn on a total portfolio of DKK 34.1bn with respect to loans granted up to the end of 2014.

Loans on agricultural properties granted prior to 2015 are also covered by a guarantee agreement between DLR and its owner banks. This is a collective guarantee that is invoked if DLR's aggregate losses on agricultural loans provided by distributing banks exceed a pre-determined amount (DLR's excess) within a single calendar year. The excess is defined as 1.5 times the unweighted average of the losses in the preceding five years, though not less than 0.25 pc of the loan portfolio covered by the agreement. The agreement covered around DKK 69bn of the loan portfolio at the end of 2015. DLR would thus potentially bear losses of up to approximately DKK 172m (DLR's excess) in 2016 (0.25 pc of DKK 69bn).

Each bank's share of the guarantee is proportional to the share of loans it has distributed on behalf of DLR, with the banks' total loss limit potentially up to DKK 860m (5 x DLR's excess) in 2016. Losses above DLR's excess and the banks' total loss limit are borne solely by DLR.

DLR has, furthermore, an agreement allowing it to offset losses in commission payments to individual banks if loans granted for agricultural properties via the bank result in a loss for DLR. Losses that cannot be fully offset in commissions for a single year are carried forward and offset in commissions for the following up to four years. DLR can request that losses above this be covered by a guarantee of up to 0.25 pc of the loans intermediated by the bank annually. The guarantee can be invoked if a loss is not fully covered by commissions within the following four years.

Finally, lending for subsidised housing properties is generally partly guaranteed by the Danish government or Danish municipalities.

Given the guarantees that applied up to the end of 2014 and the new guarantee concept implemented in January 2015, DLR's risk of loss in the mentioned lending areas can be characterised as manageable and limited.

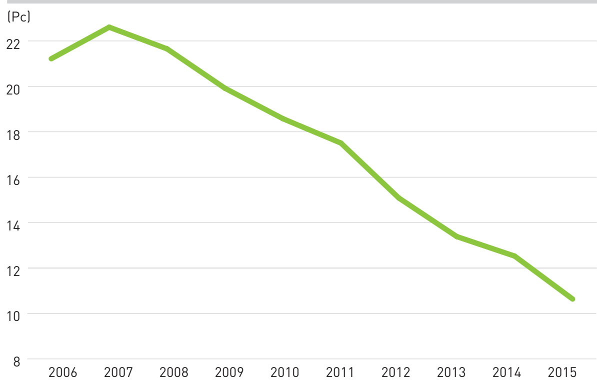
Regular (daily, weekly and monthly) reports are produced on DLR's lending, including lending by sector/property type, loan type, etc. These reports are sent to credit area staff, the Executive Board or the Board of Directors, depending on the relevance of the reports for the particular recipient group.

Historically, DLR has pursued a generally sound and conservative credit policy.

2.4 Leverage

Figure 2 below shows developments in DLR's leverage ratio in terms of loans to equity. DLR's leverage ratio has fallen significantly from almost 23 pc in 2007 to 10.6 pc at the end of 2015. The decline is a result of the ongoing consolidation process and several share issues combined with limited lending growth over the period. The current low leverage ratio is positive for DLR's aggregate risk.

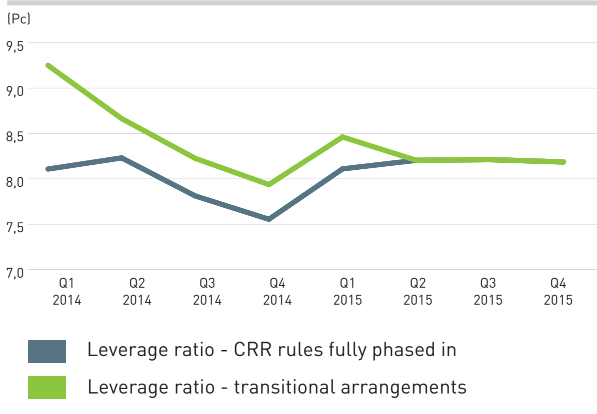
Figure 2: Developments in DLR's leverage (lending as a pc of equity)



Source: DLR's Annual Reports

Applying the current CRR definition of leverage ratio, where leverage is calculated as total exposure relative to core capital, DLR's leverage ratio was 8.2 pc at the end of 2015; cf. figure 3 and table 3.

Figure 3: DLR's leverage ratio



Source: DLR's internal calculations

Table 3. DLR's leverage ratio according to CRR, end-2015

(DKKm)	
Total assets	148,440.6
Derivates (book value)	3.7
Off-balance-sheet items, loan offers, etc.	4,125.4
Core capital deductions (sector equities, etc.)	-18.1
Total exposure for leverage ratio calculation	152,569.7
Core capital, transitional arrangement	12,485.2
Core capital, CRR rules fully implemented	12,485.2
Leverage ratio, transitional arrangement	8.2%
Leverage ratio, CRR rules fully phased in	8.2%

DLR's Board of Directors has set a lower leverage limit of 5 pc (CRR definition).

Pursuant to CRR/CRD IV, the EU Commission has to determine whether legislation should be proposed to introduce a binding leverage ratio. Hence, an expert panel was set up in October 2014 to assess the need for a leverage requirement in Denmark.

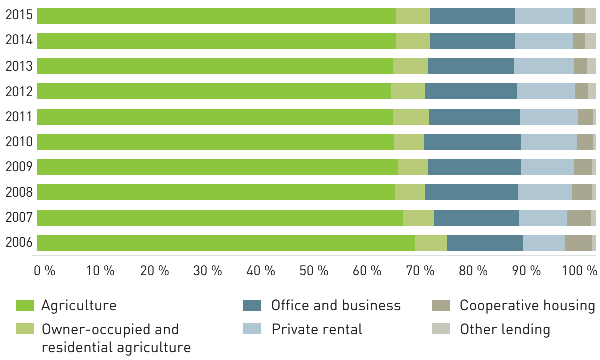
The expert panel presented its recommendations in December 2015. The panel supports a leverage requirement of 3 pc and the requirement not being implemented in advance in Denmark.

Hence, we can conclude that DLR's current leverage ratio of 8.2 pc provides a significant capital surplus relative to both the Board of Directors' requirement of 5 pc and the likely regulatory requirement of 3 pc.

2.5 Composition of loan portfolio

At the end of 2015, DLR's loan portfolio (measured as bond debt outstanding) amounted to DKK 132.5bn. Loans on agricultural properties accounted for just over 64 pc and on owner-occupied properties, including residential farms, for 6 pc of DLR's loan portfolio, while urban trade property loans and loans on cooperative housing properties accounted for just over 30 pc of the loan portfolio; cf. figure 4.

Figure 4: DLR lending by property segment

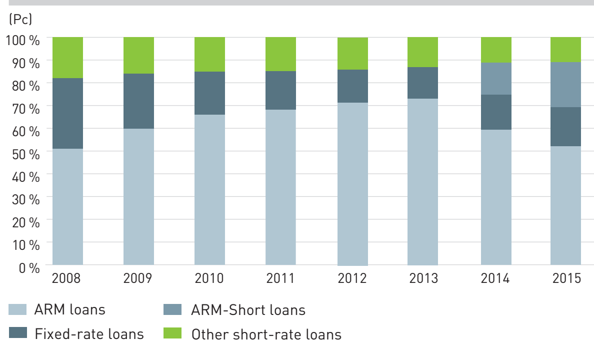


Source: DLR's internal calculations

The composition of DLR's loan portfolio by loan type is shown in figure 5. Since 2014, DLR has been running campaigns encouraging borrowers with short ARM loans to remortgage into loans with longer underlying funding. As a result, considerable numbers of borrowers have subsequently shifted into DLR's "ARM Short" loans (RT-Kort), which 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. ARM Short loans have so far been based on bonds with a maturity of 3-4 years.

At the end of 2015, 52 pc of DLR's loan portfolio consisted of ARM loans compared to 73 pc at the end of 2013. 1Y and 2Y ARM loans (F1 and F2) together accounted for 18 pc of the loan portfolio against 58 pc two years earlier, while ARM Short loans have grown from 0 pc at the end of 2013 to 20 pc by the end of 2015. The share of fixed-rate loans rose to just over 17 pc in 2015, while capped-floater (Garantilån) and other short-rate loans made up the remaining almost 11 pc – a slight decline.

Figure 5: DLR's lending by loan type



Note: Other short-rate loans are older, callable CIBOR/EURIBOR-linked loans

Source: DLR's Annual Reports

The share of total gross lending with an initial interest-only period was 39 pc in 2015, which was down on 2014, when the share of loans with an initial interest-only period accounted for 49 pc of gross lending.

As regards DLR's aggregate loan portfolio, the share of loans with an initial interest-only period was 52 pc at the end of 2015, which was on a par with 2014. Interest-only loans continue to be most common among private residential rental properties, where they accounted for 58 pc of loans compared to 63 pc in 2014. For agricultural loans, the share of loans with an initial interest-only period was 56 pc, which is unchanged compared to 2014. Interest-only loans are least prevalent among owner-occupied properties, including residential farms, where the share was 31 pc.

DLR's loan portfolio is diversified as regards geography and number of customers, but due to the business model is limited to the agricultural, urban trade and cooperative housing sectors. A significant 2/3 share of DLR's loan portfolio is concentrated in the agricultural sector. Geographically, DLR's lending is spread across Denmark, as the loan-distributing banks have between them an extensive network of branches spread throughout the country. DLR also has limited lending in Greenland and the Faroe Islands totalling DKK 1.6bn, corresponding to 1.2 pc of the loan portfolio.

The geographical distribution of DLR's lending at the end of 2015 is shown in table 4.

Table 4. DLR lending by geography and property type, year-end 2015

(DKKm)	Agriculture	Owner occupied	Office and business	Private rental	Cooperative housing	Other	Total bond debt outstanding
Northern Jutland	17,292	1,103	2,746	2,010	583	678	24,413
Central Jutland	30,004	1,995	5,849	3,924	705	1,267	43,744
Southern Region	26,312	1,844	4,829	4,236	501	267	37,989
Capital Region	1,174	518	3,762	1,910	298	66	7,729
Zealand	10,264	1,135	2,879	1,991	652	114	17,034
Greenland	0	474	92	52	39	0	658
Faroe Islands	0	941	0	0	0	0	941
Total	**85,046**	**8,010**	**20,157**	**14,123**	**2,779**	**2,392**	**132,506**

Source: DLR's internal calculations

2.6 Loan portfolio LTV

DLR grants loans against a mortgage on real property. To determine DLR's position in the order of mortgage priorities, and whether this constitutes a significant risk, DLR continually calculates LTV values for individual loans across all property categories.

Table 5. LTV distribution of DLR's loan portfolio, end-2015

	LTV band (pc)					
Property category	0-50	50-60	60-70	70-80	Over 80	Total
AGRICULTURE:			share of lending			
Cattle	73.0%	11.8%	8.1%	4.0%	3.1%	100
Pigs	76.0%	11.9%	7.4%	3.2%	1.6%	100
Arable	83.8%	9.3%	4.6%	1.4%	1.0%	100
Agriculture, other	85.8%	8.0%	3.4%	1.3%	1.5%	100
Part/spare-time agriculture	86.7%	7.7%	3.4%	1.2%	0.9%	100
OWNER-OCCUPIED:						
Owner-occupied incl. residential farms	76.7%	10.7%	7.2%	3.4%	1.8%	100
URBAN TRADE:						
Office/Business	76.6%	11.3%	6.6%	2.6%	2.8%	100
Residential rental properties	64.6%	11.9%	10.5%	7.2%	5.0%	100
Cooperative housing	62.4%	9.5%	9.2%	7.8%	11.1%	100
Other properties	78.0%	10.6%	5.5%	2.7%	3.2%	100
Total	**76.4%**	**10.8%**	**6.8%**	**3.3%**	**2.5%**	**100**

Note: Basis for valuaion of properties is latest physical valuation or approved market value. Agricultural properties are also forwardindexed to a current value (Q4 2015)
Source: DLR's internal calculations

Table 5 shows the distribution by LTV band of DLR's loan portfolio. At the end of 2015, 89 pc of loans granted on agricultural properties were in the <60 pc LTV band based on DLR's latest valuations, including valuations made in connection with ongoing SDO monitoring. Regarding the remainder of the portfolio, primarily urban trade properties, 84 pc was in the <60 pc LTV band – not taking into account the guarantees provided. Several of these property categories have an LTV limit of 80 pc, which is why the proportion below 60 pc is naturally lower.

To ensure the sufficient overcollateralisation (OC) of DLR's capital centre B (cover pool) in accordance with the SDO-legislation, a valuation is done at least annually on commercial property and every three years on residential property. This can be done without a physical inspection (market valuation), but if a physical inspection has been carried out this valuation is used.

The continual monitoring of LTV values is partly based on these current market valuations and is a permanent feature of DLR's management reporting.

2.7 Credit risk and dilution risk

DLR adheres to the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. Please refer to SS. 51-54 for definitions of non-performing and impaired loans for accounting purposes as well as the description of methods to determine value adjustments and impairment charges.

The total value of DLR's unweighted exposure for credit risk purposes was DKK 138,526m on 31 December 2015, in accordance with the Common Reporting Framework (COREP).

Tables 6 and 7 provide information about credit categories by industry (before weighting and deductions for collateral, which reduce the weighting). Exposures to central governments, regional/local authorities and institutions are via their exposure as guarantors, not via their direct exposure. This is why the three groups do not necessarily appear in their natural sectors.

Table 6. DLR's exposure by category and sector, 31 December 2015

Cash value of bond debt outstanding (DKK 1,000)	Commercial: Real estate	Commercial: Retail	Commercial: Industry, raw material and construction plant	Commercial: Agriculture and forestry	Commercial: Restaurant and hotel	Commercial: Subtotal	Private: Private (owner-occupied)	Private: Subtotal	Total
Exposure to central gov.	152,305	245,366	2,926	485,101	62,849	948,546	28,420	28,420	976,966
Exposure to reg./loc. authorities	85,995	978				86,973			86,973
Exposure to institutions	3,495,193	7,201,694	531,115	742,096	912,823	12,882,922	2,075,374	2,075,374	14,958,296
Secured by mortgage on real property	11,868,858	9,752,007	187,715	75,228,665	777,697	97,814,942	10,913,186	10,913,186	108,728,127
Arrears	2,136,621	1,379,205	5,815	4,653,241	104,092	8,278,974	448,360	448,360	8,727,334
TOTAL	**17,738,972**	**18,579,251**	**727,571**	**81,109,104**	**1,857,461**	**120,012,358**	**13,465,340**	**13,465,340**	**133,477,698**

Note: The figures cannot be directly deduced from DLR's Annual Report. Discrepancies may exist due to rounding. All DLR's loans are secured by mortgages on real property. Exposures in arrears include arrears of more than 90 days and impairments without arrears.
Source: DLR's internal calculations

Table 7. DLR's exposures by category and term to maturity, 31 December 2015

Cash value of bond debt outstanding (DKK 1,000)	0 - 3 mdr.	3 mdr. - 1 y	1 - 5 y	Over 5 y	Total
Exposure to central governments	80	784	26,061	950,042	976,966
Exposure to regional/ local authorities				86,973	86,973
Exposure to institutions	6	119	17,791	14,940,381	14,958,296
Secured by mortgages on real property	961	29,734	208,197	108,489,235	108,728,127
Arrears		298	5,314	8,721,722	8,727,334
Total	**1,047**	**30,935**	**257,363**	**133,188,353**	**133,477,698**

Note: The figures cannot be directly deduced from DLR's Annual Report. Discrepancies may exist due to rounding. All DLR's loans are secured by mortgages on real property. Exposures in arrears include arrears of more than 90 days and impairments without arrears.
Source: DLR's internal calculations

Table 8. DLR's non-performing loans and impairments by property category, 2015

Property category, DKK m	Loans in arrears without impairment Bond debt outstanding, year-end **.	Individual impaired loans. Bond debt outstanding, year-end.	Individual impairment provisions, year-end.	Value adjustments and impairment charges 2015.
Agriculture, incl. residential, etc.*	3,774.9	3,108.8	363.7	49.1
Rental properties incl. cooperative housing	550.7	325.5	40.7	12.0
Office and business property	1,025.8	224.7	41.0	-2.1
Other	40.0	11.7	0.0	0.0
Total	**5,391.4**	**3,670.7**	**445.4**	**59.0**

Note: * Also includes residential farms
** Calculation also includes loans with arrears on December 2015 mortgage payment calculated after the due date.
Note: Numbers cannot be directly deduced from DLR's Annual Report
Source: DLR's internal calculations

Table 8 presents an overview of DLR's non-performing loans and impairments for 2015.

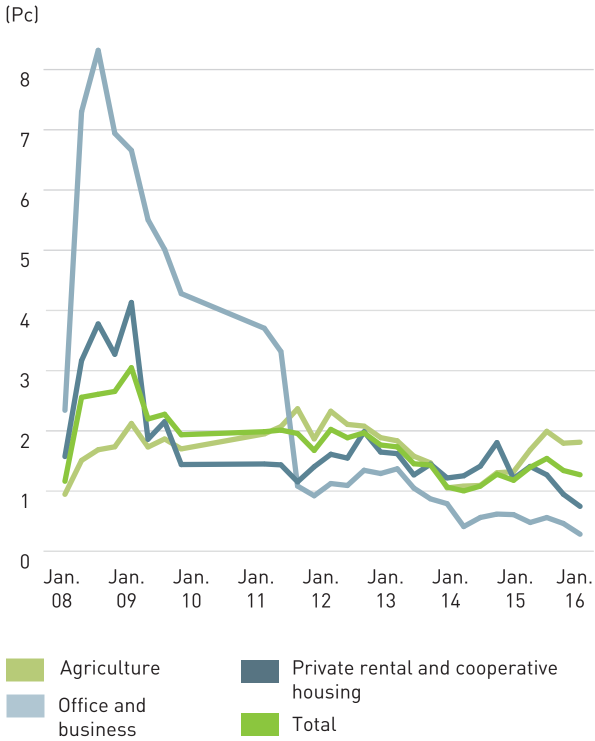
2.8 Arrears, impairment provisions and losses

The number of borrowers failing to meet their payment obligations to DLR rose slightly in the first two quarters of 2015, but fell again in H2 2015; cf. figure 6.

Overall, the arrears ratio – measured as the percentage of mortgage payments in arrears 3½ months after due date – was 1.24 pc in mid-January 2016 against 1.15 pc at the same point in 2015. The increase was driven by moderately rising arrears ratios on agricultural properties, while DLR's other property categories had stable or falling arrears in 2015.

The arrears ratio for agricultural properties rose from 1.22 pc in mid-January 2015 to 1.78 pc in mid-January 2016. Rising arrears on agricultural properties come on the back of falling prices for agricultural products prompted by the trade conflict with Russia, declining demand in China and a general increase in the global supply of agricultural products.

Figure 6. DLR's arrears ratio 3½ months after due date for various properties



Note: All arrears calculated in the middle of the relevant month
Source: DLR's internal calculations

The arrears ratio for private residential rental properties and housing cooperatives fell in 2015 from 0.58 pc to 0.25 pc, while arrears on owner-occupied homes, including residential farms, fell from 0.73 pc to 0.69 pc over the same period.

The arrears ratio on office and business property rose in early 2015 and then fell back. By the end of the year arrears ratios were at lows not seen since before the financial crisis. Between mid-January 2015 and mid-January 2016, the arrears ratio for office and business properties fell from 1.07 pc to 0.71 pc.

As mentioned earlier, DLR regularly monitors its loan portfolio to identify impairments. An individual assessment is also made of a number of large exposures and certain exposures exhibiting signs of financial distress, etc. If an assessment finds OEI, an impairment provision is made against the exposure equivalent to the loss DLR estimates it will incur.

As can be seen in figure 7, DLR's provisioning ratio fell in 2015 to 0.07 pc of the loan portfolio after rising between 2012 and 2014. The provisioning ratio is calculated in accordance with the Danish FSA's definitions and stated as a percentage of the loan portfolio.

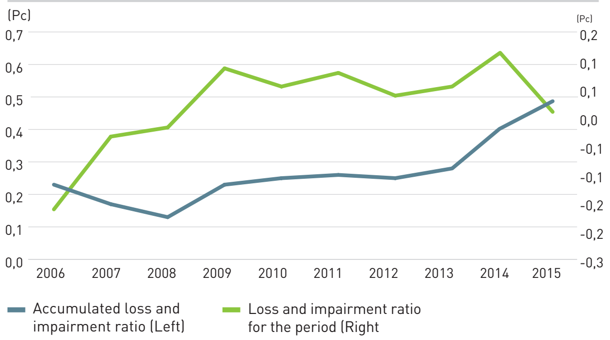
Accumulated losses and impairments have increased markedly in recent years, mainly due to the uncertainty surrounding agriculture and the Danish FSA's requirement of provision-making for "early warnings".

Total individual impairment provisions amounted to DKK 445m at the end of 2015. On top of this comes collective impairment provisions of DKK 145m, taking aggregate impairment provisions to DKK 590m at the end of 2015[2]. Relative to DLR's total lending of DKK 133bn, the accumulated provisioning ratio was 0.44 pc at the end of 2015 compared to 0.38 pc at the end of 2014.

Figure 8 shows developments in DLR's impairment provisions between 2009 and 2015. Collective impairment provisions fell somewhat in 2015 compared to the high level seen at the end of 2014. In contrast, individual impairment provisions in the agricultural sector increased in 2015. The reason for this is the already mentioned uncertainties dogging agriculture, which have hit pig and dairy producers in particular.

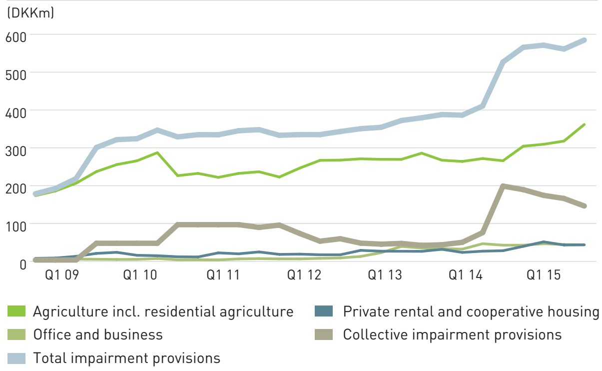
2 Cf. DLR's Annual Report 2015.

Figure 7. Provisioning ratio



Source: DLR's Annual Report

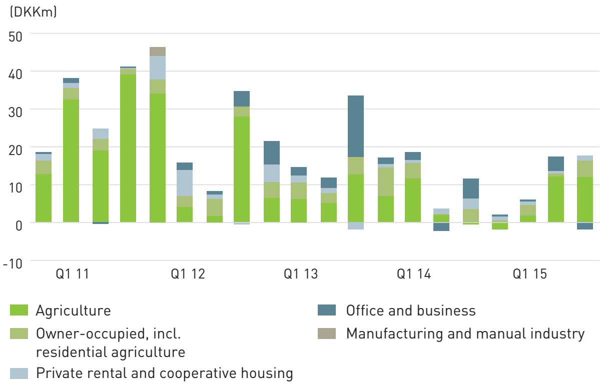
Figure 8. Impairments by property category



Source: DLR's internal calculations

Figure 9 shows developments in realised losses, end-of-quarter.

Figure 9. Realised losses, end-of-quarter



Source: DLR's internal calculations

As can be seen in figure 9, realised losses have fluctuated. The reason for this is that in most cases DLR realises a loss on a limited number of loans. Thus the aggregate loss for the quarter will depend on when the particular forced sale is concluded and the loss registered by DLR.

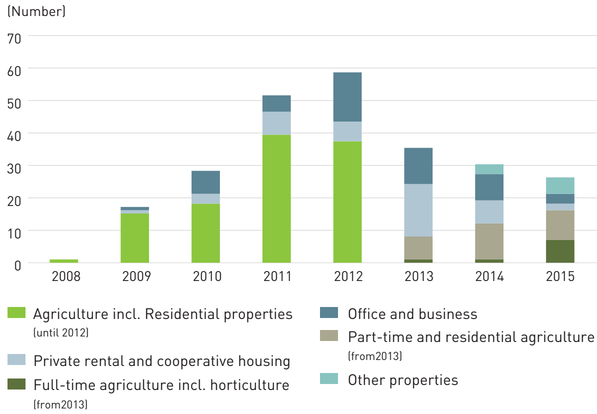
Realised losses on loans, including adjustments from previous years, amounted to DKK 34.7m in 2015 against DKK 40.8m in 2014. Relative to the total loan portfolio, the loss ratio was less than 0.03 pc. Of the losses, DKK 23.7m was attributable to agricultural loans, with DKK 13.5m attributable to cattle farms, DKK 8.7m to owner-occupied properties including residential farms, DKK 2.8m to office and business property and DKK 3.7m to residential rental property.

With respect to the previously mentioned loss offset schemes, DLR has in 2015 set off losses of just over DKK 30m against commissions paid to the banks.

The number of repossessions increased between 2010 and 2012 as a result of the financial crisis, payment challenges faced by borrowers and the general economic slowdown; cf. figure 10. However, since mid-2012 the number of properties repossessed by DLR has been falling steadily. DLR repossessed 42 properties in 2015 against 44 in 2014.

DLR had a stock of 26 repossessed properties at the end of 2015 compared to 30 at the end of 2014. The value of the repossessed property was DKK 61.5m at end-2015. The stock consisted of a small number of production farms, which DLR took over towards the end of 2015, residential farms, part-time farms and minor rental/office and business properties plus three building plots.

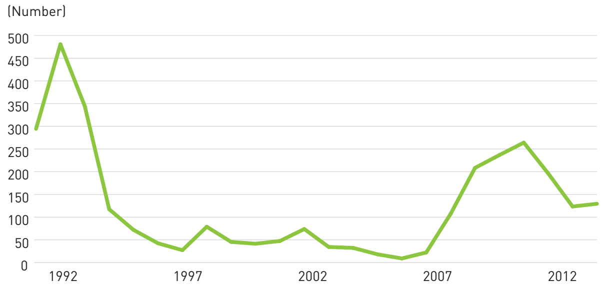
Figure 10. Repossessed property, end-of-year



Source: DLR's internal calculations

The number of completed forced sales where DLR holds a mortgage was 129 in 2015, which was largely unchanged compared to 2014; cf. figure 11.

Figure 11. Forced sales



Source: DLR's Annual Reports

Table 9 shows developments in non-performing loans due to value adjustments and various impairment provisions.

Table 9. Developments in DLR's impaired loans

Item, DKKm	2015	2014
INDIVIDUAL IMPAIRMENTS:		
On loans and guarantees, start of year	333.0	342.3
Impairment provisions for the period	234.9	125.7
Reversed impairment provisions	-122.5	-135.0
Individual impairments, year-end	**445.4**	**333.0**
COLLECTIVE IMPAIRMENTS:		
On loans and guarantees, start of year	198.4	39.3
Impairment provisions for the period	0.4	188.3
Reversed impairment provisions	-53.8	-29.3
Collective impairments, year-end	**145.0**	**198.4**
Total impairments, year-end	**590.4**	**531.4**
IMPAIRED EXPOSURES, FAIR VALUE:		
- Before impairment	3,670.7	2,640.5
- After impairment	3,225.3	2,307.5
Impact on operating results:		
Loss for the period	-39.0	-47.7
Recovered debts previously written off	4.3	6.9
Impairments for the period	-235.2	-284.8
Reversed impairments	176.3	135.0
Impairments on loans and other receivables, etc.	**-93.7**	**-190.6**

Source: DLRs Annual Report 2015, note 10

2.9 Encumbered assets

As a mortgage credit institution, asset encumbrance is a natural aspect of DLR's business model. Assets in a cover pool used for the issuance of covered bonds are, by definition, encumbered. All DLR loans are thus encumbered, as the bond owners have a preferential claim on the assets in the event of insolvency.

Parts of DLR's securities holding can at times be encumbered if DLR has taken a monetary policy loan from Danmarks Nationalbank using bonds as collateral or engages in repo transactions with banks. However, DLR's use of these instruments is very limited and it had no monetary policy loans or repo's outstanding at the end of 2015.

Table 10. DLR's asset encumbrance, 31 December 2015

(Value for accounting purposes, DKK m)	Encumbered assets	Unencumbered assets	Total	Encumbrance ratio
Mortgage loans	133,038	0	133,038	100%
Equity instruments	0	55	55	0%
Debt instruments	0	11,978	11,978	0%
Other assets	0	3,371	3,371	0%
DLR's total assets	**133,038**	**15,404**	**148,442**	**90%**

Source: DLR's internal calculations

The above calculations are based on DLR's financial statement, which is why debt instruments consist solely of non-DLR mortgage bonds. For accounting purposes, DLR's holding of self-issued bonds is netted under both assets and liabilities. Hence, DLR also has DKK 20.4bn in self-issued bonds (excl. pre-issuance) that were not encumbered at the end of 2015.

At year-end 2015, DLR had not received re-encumbered assets.

2.10 Current trends in DLR's key business areas

Agricultural Sector

The economy of the agricultural sector has been under some pressure in 2015 due to weak milk and pork prices, which resulted in unfavourable terms of trade. However, we should at the same time note that a significant percentage of farmers across all production sectors experienced positive results and liquidity despite unsatisfactory settlement prices.

Reasons for the weak settlement prices include trade sanctions against Russia, China's continuing absence as a key importer of dairy products and a general increase in the supply of agricultural products. Relatively low energy prices and still low interest rates compensated to some extent for the decline in sales prices.

Forecasts for the primary agriculture sector in 2016 from agricultural organisation SEGES again indicate challenging economic conditions for farmers. However, the earnings forecasts carry considerable uncertainty, as global price trends are unclear. The potential return of Russia and/or China to the market could have a major impact on prices. Moreover, climatic changes could produce significant shifts in the supply of grain and dairy products on the global market.

Current prices suggest only slightly better earnings in 2016, but with the prospect of further improvement in 2017.

The above forecast prices in an expected effect from the so-called Food and Agriculture Package agreed between the government, the Conservative Party, the Danish People's Party and Liberal Alliance on 21 December 2015. The intention is that certain sectors should benefit from the legislation by as early as 2016. However, when the "Package" might be finally adopted is currently unclear.

DLR expects that the agreement, if adopted, would strengthen earnings in the agricultural sector overall.

Sales of agricultural property and particularly agricultural land have, in DLR's view, picked up in recent years – and at essentially unchanged or slightly higher prices. As mentioned, the Food and Agricultural Package is expected to support this trend.

We estimate that current prices for agricultural land are being supported by long-term expectations on vegetable product prices, even taking into account some increase in interest rates in the coming years.

Urban trade property

DLR's lending on urban trade property comprises loans on private residential rental property, office and business property, community power plants, including land-based wind turbines, loans to housing cooperatives and some lending for subsidised housing.

Overall rental demand for urban trade property appears to have improved slightly in 2015 compared to previous years. Interest continues to grow in the larger towns and cities, while positive trends are also emerging in more peripheral urban areas.

Increasing urbanisation and housing demand have significantly boosted interest in residential rental properties in the larger towns and cities. This has caused prices to appreciate, while interest in slightly more peripheral residential properties appears to be growing.

Investor interest in office and business properties remained highly dependent on location in 2015. As in 2014, prime locations in the major cities experienced rising prices, while prices on more peripheral locations were unchanged or just marginally higher.

Low interest rates throughout 2015 together with an unchanged or slightly improved rental environment contributed to a generally satisfactory operating performance for urban trade property.

DLR estimates that both prices and rental conditions improved overall in 2015 for private residential rental properties, office and business properties and cooperative housing.

3. MARKET AND LIQUIDITY RISK

Market risk is the risk of loss due to financial market fluctuations – in other words, interest rate, equity market and exchange rate risk.

As DLR adheres to the specific balance principle, market risk arising from funding in covered bond (SDOs) will reflect the terms and conditions of the mortgage debtors. The market risk DLR assumes should be viewed in relation to DLR's business model and is solely attributable to a natural investment need for DLR's capital base, issued senior debt, regular profits/earnings and prepaid funds. DLR's securities holdings including prepaid funds amounted to DKK17.0bn at the end of 2015, not including bonds expiring at the start of January 2016.

This area is largely governed by the rules of the Danish Financial Business Act and the Executive Order on the Issue of Bonds, the Balance Principle and Risk Management.

DLR has, additionally, determined a policy for securities investments and specific limits for the extent and volatility of each risk type.

Essentially, DLR's market risk should be low, which means that:

1. Interest rate risk calculated in accordance with the Executive Order on the Issue of Bonds, the Balance Principle and Risk Management should lie within the range 0-3 pc of the capital base. Interest rate risk on DLR's securities portfolio should remain within the range 0-3 pc of the capital base, except in connection with refinancing auctions, etc. when the target range may be temporarily exceeded. DLR's securities portfolio should primarily consist of bonds with terms to maturity of up to 5 years. Interest rate risk on issued debt instruments should be in the range -0-3 pc of the capital base.

2. Exchange rate risk on DLR's assets, liabilities and off balance-sheet items must at most be 0.1 pc of the capital base calculated according to exchange rate indicator 2; cf. Executive Order on the Issue of Bonds, the Balance Principle and Risk Management.

3. DLR does not assume equity market risk except in connection with policy/strategic positions deemed either necessary for DLR's operations (for example, equities in sector-owned companies) or of an insignificant scale.

4. Other price risks should be avoided or kept to a minimum. Hence, DLR does not wish to take positions in foreign currency, other than EUR, or in equities, commodities or options.

The stipulated risk levels are specified in the Board of Director's instructions to the Executive Board and in its delegated authorities.

DLR seeks to ensure a carefully considered balance between risk and return. DLR uses financial instruments to hedge and manage market risk if assessed to be appropriate. Clear, well-defined limits ensure that DLR's market risk remains modest.

Regular risk reports on the securities portfolio ensure DLR's management can track prevailing risk levels and decide on which measures, if appropriate, to take. Treasury prepares both a 14-day and a quarterly report (securities report). The 14-day report is submitted to the Executive Board and discussed at securities meetings held every 14 days, while the securities report is submitted to both the Executive Board and the Board of Directors. Both reports contain information on portfolio composition, price adjustments, interest accrual and interest rate risk.

3.1 Interest rate risk

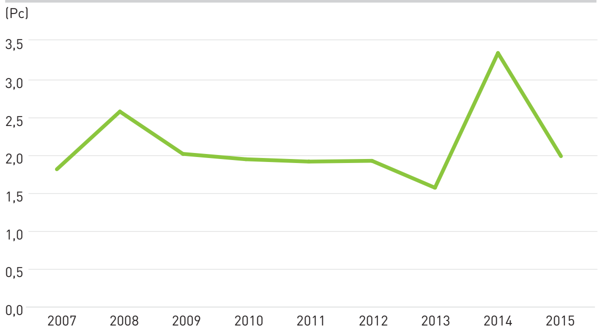
Interest rate risk is defined as the loss incurred due to a positive or negative 1 percentage point parallel shift in the interest rate structure – in other words, the price adjustment resulting from a 1 percentage point change in market rates (yield curve).

In practice, DLR's financial risk is limited to the interest rate risk on its securities portfolio and the interest rate risk on any debt instruments issued, which (generally) will have a negative correlation with the risk on the securities portfolio.

Danish law stipulates that the interest rate risk may not exceed 8 pc of the capital base, while up to half of the interest rate risk in EUR may be offset in the interest rate risk in DKK. DLR's capital base of DKK12.5bn at the end of 2015 corresponds to a maximum regulatory interest rate risk of DKK 999m. However, as mentioned, DLR's Board of Directors has set a more restrictive limit of, currently, 0-3 pc of the capital base, corresponding to DKK 0-375m, though this limit may be raised to 4 pc in connection with refinancing.

At the end of 2015, DLR's relative interest rate risk on its securities portfolio amounted to 2.0 pc; cf. figure 12 – which corresponds to a price adjustment to the securities portfolio of DKK 245m in the event of a 1 pc change in market rates. The high interest rate risk in 2014 was due to special circumstances affecting the composition of the portfolio over New Year 2014/2015 as a result of refinancing and substantial remortgaging activity.

Figure 12. DLR's relative interest rate risk



Source: DLR's Annual Report

An important component of DLR's capital structure is regularly raising significant loans in the capital markets via the issuance of debt instruments. The debt instruments vary in structure and currency, but all represent a loan raised outside the specific balance principle in connection with lending activities. The interest rate risk on these debt instruments was DKK 18.4m at the end of 2015, corresponding to 0.15 pc of DLR's capital base.

The interest rate risk on issued debt instruments correlates negatively with the interest rate risk on DLR's securities portfolio, thus reducing DLR's aggregate interest rate risk to DKK 227m or 1.8 pc of the capital base at the end of 2015.

DLR holds a large portfolio of bonds consisting mainly of AAA-rated Danish listed mortgage bonds (mortgage credit bonds/RO, covered bonds/SDO and mortgage covered bonds/SDRO), plus a small volume of government bonds.

Of DLR's bond portfolio at the end of 2015, including bonds due to mature soon, 80 pc was in DKK and 20 pc in EUR. Some 58 pc of the portfolio is invested in bonds with annual or even shorter (CIBOR/CITA/EURIBOR) intervals for rate setting.

DLR uses derivative financial instruments to manage interest rate risk if assessed to be appropriate. Since redeeming its EUR 100m hybrid core capital issue in June 2015, which was swapped from a fixed rate to a 3-month floating rate, DLR has not employed financial instruments to manage interest rate risk.

Proceeds from DLR's three issues of Senior Secured Bonds totalling DKK 4bn have been placed in bonds with relatively short maturities. The SSB issues will mature between October 2016 and October 2018.

3.2 Exchange rate risk

Exchange rate risk is the risk of loss from changes in foreign exchange rates. Due to the specific balance principle, DLR assumes only a very limited exchange rate risk, as loans paid out in foreign currency – EUR only – are always funded in that currency.

Calculated in accordance with the Danish FSA's exchange rate indicator 2, DLR's exchange rate risk was DKK 1.3m at the end of 2015, corresponding to 0.01 pc of DLR's capital base. According to Danish law, exchange rate risk calculated according to the Danish FSA's indicator 2 may not exceed 0.1 pc of the capital base.

3.3 Equity market risk

DLR generally does not place funds in equities apart from "sector equities" relating to financial infrastructure. Together with banks and other mortgage credit institutions, DLR has acquired shares in two sector companies whose mandate is to support its owners' business within mortgage credit, payment processing, IT, etc. DLR has also acquired shares in LFB (Landbrugets Finansieringsbank – a specialised bank providing finance to the Danish agricultural sector). DLR has no plans to sell these sector equities, since participation in these companies is considered necessary for mortgage-banking operations. Hence, these shares are not considered part of DLR's trading portfolio.

At the end of 2015, DLR's share portfolio consisted solely of shares in VP Securities A/S, e-nettet A/S and LBF A/S. The total value of this share portfolio was DKK 55m at the end of 2015.

In compliance with DLR's accounting policies, market-traded equities are measured at fair market value. Fair value is calculated as the closing price on the balance sheet date. Unlisted equities are also entered at fair value. If the fair value cannot be reliably estimated, these shares are set at cost, minus any deductions for write-downs.

DLR's exposures to equities, etc. not included in the trading portfolio are as follows:

Table 11. DLR's equity market exposure, 2015

Type, DKK m	Exposure, 31.12.2015	Operational impact, 2015
SECTOR EQUITIES	55.3	-13.9
Other equities and capital shares	-	-
Total	**55.3**	**-13.9**

Source: DLR's Annual Report 2015, note 17

3.4 Counterparty risk and financial instruments

To manage and mitigate DLR's risk of loss due to counterparties failing to meet their payment obligations to DLR, internal credit lines are set for financial counterparties.

Note that DLR's risk of loss on financial counterparties is limited, as counterparty risk essentially comprises the borrower guarantees provided by the banks, with the guarantee secondary to the borrower's personal debt obligations and the mortgage on the property.

Exposure calculations are regularly made for the individual banks to estimate DLR's financial counterparty risk, just as a line is determined for each financial counterparty's weighted exposure in accordance with the Board of Director's guidelines.

3.5 Liquidity risk

The risk of loss due to current liquid assets being insufficient to cover current payment obligations is extremely limited for DLR. This is because DLR adheres to the specific balance principle whereby loan payments match the payments on issued bonds (match funding). Hence, there is a 1:1 ratio between the loan granted to the borrower by DLR and the bonds issued by DLR to fund the loan.

There are many advantages to this model, which ensures a funding match in terms of maturity, interest, currency and loan repayment. Hence, payments received by DLR from borrowers less an administration margin to DLR (risk and administration fee) perfectly match the amounts DLR has to pay bondholders. In general, the balance principle means DLR essentially only assumes a credit risk in connection with its lending activities.

As the individual borrower's dates for making interest and principal payments are pre-determined, DLR will – assuming due payment – receive the funds prior to or no later than concurrently with the equivalent payments falling due to bondholders. A mismatch will only occur when the frequency of the borrower's payments is higher than DLR's payments on the underlying bonds (for example, ARM loans). For DLR, this will result in a continuous liquidity surplus (prepaid funds).

Loan prepayments (immediate redemptions) also give DLR additional liquidity, which is then invested until the amount has to be paid out to bondholders as extraordinary drawings. Like the liquidity from immediate redemptions, excess liquidity from prepaid funds is placed in secure, liquid bonds or as term deposits with banks and fully ring-fenced from the rest of the securities portfolio.

DLR's Board of Directors has determined that liquid funds must be placed in financial institutions that are subject to Danish law. The maximum deposit at any one bank may be 25 pc of DLR's capital base, cf. Article 395 of the Capital Requirements Regulation (CRR), though deposits must not exceed 35 pc of the bank's capital base.

DLR generally only deposits funds in banks with an S&P rating of at least BBB/A-2. DLR's policy and guidelines on liquidity risk stipulate that a maximum of DKK 50m may be deposited in banks that do not have an S&P rating of at least BBB/A-2. Should a bank be assigned a rating below BBB/A-2, DLR will transfer the liquidity to another bank within 30 calendar days.

In consideration of DLR's bond rating by S&P, DLR continuously ensures that total bank account deposits at individual banks related to DLR's capital centre B and the general capital centre do not exceed a limit of 5 pc of the outstanding cover pools in, respectively, capital centre B and the general capital centre. If the total amount deposited with a single bank exceeds 5 pc, DLR will immediately reduce the deposit at that bank and place the amount in compliance with the above rules.

DLR also has monetary policy counterparty status and contingency plans in the event of a liquidity shortfall. A monetary policy counterparty is an account holder with Danmarks Nationalbank who has access to monetary policy instruments.

Monetary policy instruments include lending facilities whereby DLR can borrow in DKK against collateral in a matching portfolio of bonds (less a haircut). This increases DLR's flexibility with respect to liquidity management. Nevertheless, DLR's policy and goal is to be non-dependent on Danmarks Nationalbank's lending facility, which is why DLR also has lines and drawing rights with other banks.

Refinancing risk is a particular liquidity risk connected with the refinancing of ARM loans that previously applied, in particular, to "the big" resetting of interest rates on bonds maturing on 1 January. This is because interest-resetting involves the sale, generally by auction or tap sales, of considerable amounts of non-callable bullet (ARM) bonds by all the mortgage credit institutions, making the market sensitive to liquidity crises, spread-widening, etc.

New legislation to regulate the refinancing risk associated with ARM loans came into effect on 1 April 2015. Initially, only 1Y ARM loans were affected by the amendment, which introduced a mandatory maturity extension of one year at a time in the event of a refinancing failing due to insufficient buyers for the new bonds (refinancing failure trigger/RF) or if the effective interest rate has risen by more than 5 percentage points over one year (interest-rate trigger/IT). From 1 January 2015 all bonds with maturities shorter than their associated loans will be covered by the RF trigger, while bonds with a maturity of up two years will also be covered by the IT trigger.

The law creates legal clarity in the event of a failed refinancing and thus mitigates refinancing risk to some extent.

The increased focus on refinancing risk, which has also resulted in the "Supervisory Diamond" for mortgage credit institutions and the rating agencies' more stringent demands on Danish issuers to reduce funding imbalances, means DLR's funding profile has undergone a pronounced structural change in recent years.

DLR has run remortgaging campaigns targeting borrowers with 1Y and 2Y ARM (F1/F2) loans, encouraging them to refinance into loans with longer funding. Between end-2013 and end-2015 DLR's share of F1/F2 loans in its loan portfolio fell by 40 percentage points – from 58 pc to 18 pc. Borrowers have mostly shifted into longer ARM loans or to our new floating rate loans, "ARM Short" (RT-Kort), where the underlying bonds currently have a time to maturity of 3-4 years. When refinancing ARM Short loans, DLR can choose to issue bonds with maturities of 1-10 years, which means greater funding flexibility.

As a SIFI, DLR had to comply 100 pc with the new Liquidity Coverage Ratio (LCR) by 1 October 2015. The LCR requirement is defined in a delegated act (LCR Delegated Act), issued in accordance with article 460 of CRR. LCR requires that the share of High Quality Liquid Assets (HQLA) at all times exceeds the net cash outflow for the next 30 days.

Like other Danish mortgage credit institutions, DLR applied to the Danish FSA for an exemption from the cap on inflows related to mortgage lending when calculating LCR. Without this exemption, only 75 pc of mortgage lending inflows would be included. On 30 September 2015, DLR received permission, subject to certain conditions, to include 100 pc of mortgage lending inflows. The Danish FSA set an LCR minimum requirement as a prerequisite for the exemption. The LCR minimum requirement modifies DLR's LCR requirement such that the denominator in the LCR fraction should be either "2.5 pc of DLR's total mortgage lending" or "net outflow over 30 days with an exemption from the inflow cap."

DLR adjusted its securities portfolio ahead of the LCR requirement being implemented to include more government bonds, as these are required to increase the share of HQLA.

Following implementation of CRR/CRD IV, new requirements were introduced in 2014 – cf. S8 (9) of the Danish Executive Order on Management and Control of Banks, etc. – for the calculation and assessment of liquidity and liquidity risk (ILAAP – Internal Liquidity Adequacy Assessment Process). Since 2014, DLR has therefore produced a separate liquidity report along the same lines as a solvency need assessment (ICAAP – Internal Capital Adequacy Assessment Process). The ILAAP is approved by DLR's Board of Directors prior to being submitted to the Danish FSA.

4. IT AND OPERATIONAL RISK, ETC.

4.1 IT risk

DLR's business is heavily dependent on IT systems comprising DLR's own IT systems and interfaces with other external systems, such as the electronic land registry, VP Securities (securities registration and administration), CPR (civil registration system) and bank payment systems.

DLR's IT strategy is based on employing modern and well-proven technology with IT security as a fundamental parameter. DLR has chosen to develop its own strategic business systems for mortgage lending activities, while peripheral systems are based on procured standard systems that run on a Windows-based platform.

DLR's IT contingency planning includes the option of transferring the operation of business-critical systems from DLR's primary operations centre to a secondary centre. With respect to the central mainframe-based mortgage credit system, DLR's outsourcing agreement with CSC Denmark includes the potential to re-establish operations at a reserve operations centre at just a few hours' notice. DLR's Windows-based operating environment has been set up as an active/active operating environment with a primary operations centre in Nyropsgade and a secondary centre at CSC Denmark.

DLR's contingency plan for its central systems is tested annually, with the systems' business operations being transferred from the primary to the secondary operations centre. The contingency plan for the Windows-based operating environment is also tested once a year.

4.2 Operational risk

Operational risk is a comprehensive term covering a broad range of risks that could produce a loss for DLR. These include loss due to IT system breakdowns, human error, legal complications, omissions, fraud, accidents and disasters, etc. – in other words, non-financial events.

DLR constantly strives to minimise operational risk by, for example, establishing control procedures, authorisations, emergency procedures, back-ups, business procedures, automatic updates, contingency plans, etc. DLR's Compliance function also helps minimise operational risk. Moreover, various process descriptions have been produced to provide instructions for pertinent procedures and to define an area's allocated responsibilities. These measures help ensure DLR complies with both external and internal requirements. In addition, all non-trivial operational events are regularly collated and registered.

As DLR is considered a relatively "simple" business with few products and business areas, DLR's operational risk is estimated to be limited overall. DLR calculates its capital requirement with respect to operational risk using the basic indicator method. According to this method, operational risk amounts to DKK 2,249m of the risk-weighted assets as of 31 December 2015; cf. table 12. This translates into a capital requirement of DKK 180m to cover operational risk at the end of 2015 (8 pc of the exposure).

Table 12. Operational risk calculated in accordance with the basic indicator method, 31 December 2015

Income statement item, DKK m	Latest year	Year -1	Year -2
+ Interest income	3,624	3,803	3,965
- Interest expenses	-1,900	-2,122	-2,400
+ Dividends from shares, etc.	1	1	1
+ Fee & commission income	170	229	164
- Fee & commission expenses	-388	-401	-384
+/- Price regulation	-330	-188	-296
+ Other operating income	18	17	18
Basic indicator CS59 1.1.	1,194	1,338	1,067
3Y average of basic indicator	1,199	0	0
Basic indicator * 15% / 8%	**2,249**	**0**	**0**

Source: DLR's Annual Report

4.3 Insurance risk

Another element in managing operational risk, etc. is the option of insuring DLR against events that might threaten the company's independence in connection with claims, actual damage, or actions or omissions that could be liable to compensation.

DLR prefers to assume responsibility for minor loss risks itself. Minor loss risks are risks where the insurance premium and administration costs are assumed not to be commensurate with a potential loss.

4.4 Property risk

DLR's portfolio of land, buildings and domicile properties (excluding temporarily held properties) is modest relative to DLR's equity and balance sheet. DLR prefers not to assume any significant property risk.

The value of properties solely comprising DLR's domicile property in Copenhagen was DKK 98m at the end of 2015, equivalent to 0.8 pc of DLR's equity3

3 Source: DLR's Annual Report 2015

5. CAPITAL MANAGEMENT

DLR Kredit's capital structure should provide an adequate capital surplus to serve as the foundation for running a sound business and thus secure bond sales. Moreover, the capital structure should be based on having the largest possible equity given the cost of other capital components, including hybrid core capital and supplementary capital. DLR must also have sufficient surplus to ensure continual LTV compliance with respect to covered bond (SDO) loans, and to meet OC requirements from the rating agencies and requirements concerning the accumulation of a debt buffer.

Implementing the CRD IV/CRR capital requirement places increased demands on both the quantity and quality of capital. In recent years, DLR has increased its common equity tier 1 capital significantly. DLR is therefore expected to comply with the requirements when they are finally phased in. DLR received approval from the Danish FSA in early February 2016 touse the Advanced IRB method to calculate risk-weighted assets for credit risk purposes on, initially, its full-time farm portfolio and is working towards approval to use IRB metods on its remaining portfolios.

Liquidity Coverage Ratio (LCR) rules, which have been fully phased in for SIFIs, together with the forthcoming Net Stable Funding Ratio (NSFR) also place more stringent demands on the mortgage credit institutions. Among other initiatives, DLR has brought forward its December refinancing auctions so they mostly fall in November. In addition, DLR has launched ARM short (RT-Kort), a new loan product that will extend the funding period and at the same time satisfy S&P's requirement that DLR changes it funding structure to maintain its existing rating. Going forward, DLR will focus on altering its funding structure to comply with both NSFR and rating requirements.

CRD IV also includes a number of additional requirements that financial institutions must comply with. DLR estimates that complying with these will generally not present any significant challenge.

5.1 Capital targets

DLR has maintained a continuous focus on the changing requirements introduced by CRD IV/CRR with regard to the composition of capital. DLR's Board of Director's therefore decided in 2012 to devise a strategic plan for DLR's capital position going forward to 2019. The contents of the capital plan have been subsequently updated and the plan extended.

The capital plan includes targets for DLR's capital base to meet the new requirements regarding quality and quantity of the company's capital base, etc. The capital plan takes into account the new requirements stemming from CRD IV/CRR as well as DLR's Board of Director's aim of increased equity financing. Pursuant to the capital plan, DLR's share capital has been increased on several occasions, while DKK 4.8bn in hybrid core capital raised from the Danish government in 2009 and EUR 100m in private hybrid core capital raised in 2005 have been repaid.

CRR coming into force on 1 January 2014 resulted in both regulatory tightening and easing in relation to DLR's capital position.

CRR (article 501) relaxed the capital requirement on loans to SMEs, while a number of other factors had a negative impact on DLR's total capital ratio.

The overall effect of the above changes in capital requirements, etc. has been positive for DLR's solvency, as the regulatory easing, cf. CRR article 501, outweighed the impact of the other factors.

5.2 Capital plan 2020

DLR's capital plan going forward to 2020 builds on the following expected capital initiatives:

- Consolidation of future excess earnings to increase the share of equity in DLR's capital base. DLR is thus presumed not to pay a dividend.
- Phasing in of IRB risk weightings subsequent to expected IRB approval for, initially, full-time agriculture then retail farms and business lending.
- Securing an LTV buffer against not insubstantial falls in property prices, including via the uptake of senior debt (SSB).
- Issuance of capital to meet the requirement of a debt buffer of 2 pc of total unweighted lending.
- Ongoing implementation of DLR's new guarantee concept

6. STATEMENT OF CAPITAL

6.1 Capital base

The individual components of DLR's capital base as of 31 December 2015 are shown in table 13 below and calculated according to standard methods.

Table 13. Developments in DLR's capital base

(DKKm)	2015	2014
Equity:		
– Distributable reserves	8,865	8,281
– Non-distributable reserves	2,338	2,338
– Hybrid core capital (2012)	1,300	1,300
Total equity	12,503	11,919
Subordinated capital injections:		
– Hybrid core capital (2005) 1)	-	604
Total subordinated capital injections	-	604
Capital base after deductions	12,485	12,521
RWA	97,032	102,092
Solvency requirement	7,763	8,167
DLR's total capital ratio	12.9	12.3

1) Hybrid core capital of EUR 100m covered by transitional rules in CRR regulation 575/2013 from 26 June 2013 and therefore only 80 pc included in capital base in 2014
Source: DLR's internal calculations

DLR's risk-weighted assets at the end of 2015 totalled DKK 97,031,562 thousand. [4]

The European Parliament and Council's regulation (EU) No 575/2013 of 26 June 2013, the Danish Financial Business Act and the Danish Executive Order on the Determination of Risk Exposures, Own Funds and Solvency Need, etc., together with the capital targets determined by DLR's Board of Directors comprise the basis for DLR's capital management. DLR complies with the three regulatory pillars consisting of the minimum capital requirement (Pillar I), the capital adequacy requirement (Pillar II) and the disclosure requirements (Pillar III). The Board of Directors and the Executive Board are responsible for ensuring that DLR's capital structure is appropriate and that solvency and core capital ratios comply with regulatory requirements.

DLR has strengthened its capital base in recent years via earnings and by increasing its share capital several times. Moreover DLR has not paid a dividend during the period. Share issues and the issuance of hybrid core capital have formed the basis for repaying the government hybrid core capital from 2009, with the final instalment paid in May 2014.

At the end of 2015, DLR's equity totalled DKK 12,503m compared to DKK 11,919m at the end of 2014. Equity comprises share capital of nominal DKK 570m, revaluation reserves of DKK 43m and retained earnings of DKK 8,252m, plus non-distributable reserves amounting to DKK 2,338m. When calculating the capital base a deferred tax asset of DKK 3m is deducted along with DKK 17m for measurement uncertainty. At year-end 2015 DLR's subordinated debt totalled DKK 1,300m in the form of hybrid core capital from 2012. The issue complies with CRR requirements and thus has, for example, perpetual maturity and the option of a payment stop, write-downs, etc. in accordance with applicable legislation. The trigger level of the issue is set at 7 pc.

Developments on DLR's capital base are shown in table 14.

Table 14. DLR' capital base

(DKK 1,000 kr.)	2015	2014
Core capital	11,203,254	10,575,944
Share capital	569,964	569,964
Issuance premium	0	0
Non-distributable reserves	2,337,913	2,337,913
Retained earnings	7,711,154	7,052,133
Profit for the year	584,223	615,934
Core capital primary deductions	-18,093	-2,468
Core cap. after primary deductions	11,185,161	10,573,476
Hybrid capital	1,300,000	1,904,051
Core cap. incl. hybrid core cap. after deductions	12,485,161	12,477,527
Other deductions	0	0
Core cap incl. hybrid core cap.	12,485,161	12,477,527
Supplementary capital	0	43,087
Included supplementary capital	0	43,087
Capital base before deductions	12,485,161	12,520,614
Deductions in capital base	0	0
Capital base after deductions	12,485,161	12,520,614

Source: DLR's internal calculations

4 Risk weighting determined by legislation

6.2 Capital adequacy rules and designation as SIFI

CRR/CRD IV regulations on the capital base of mortgage credit institutions have led to requirements for more and better capital and the introduction of a number of capital buffers (capital conservation buffer, company-specific counter-cyclical capital buffer and systemic risk buffer) that have to be filled with common equity tier 1 capital (CET1 capital).

The capital conservation buffer generally comprises 2.5 pc of the total risk exposure, while the counter-cyclical buffer ranges between 0-2.5 pc, depending on economic conditions in the country and may be increased further if the situation requires. The economic buffer is currently set at 0 pc, while the capital conservation buffer is fixed at 0.625 pc from 1 January 2016.

DLR is a designated SIFI institution, as DLR's total lending comprises more than 6.5 pc of Denmark's GDP. Because of this, DLR must maintain a SIFI buffer, which will be gradually phased in going forward to 2019, when the requirement will be 1 pc of total risk exposure. In 2016, the requirement is 0.4 pc of total risk exposure.

6.3 Use of external credit assessment institutions (ECAIs)

Article 138 of the CRR Delegated Act allows a credit institution to appoint one or more ECAIs to determine credit quality steps and risk weightings for financial assets.

DLR appointed Standard & Poor's Ratings Services (S&P) in January 2015 for the purpose of credit assessment/risk weighting of exposures to credit institutions. S&P was a natural choice given that S&P is the only ratings agency that provides both issuer and bond ratings on DLR.

Table 15 shows the Danish FSA's conversion of S&P's rating classes to credit quality steps for exposure to corporates, institutions, central governments and central banks.

Table 15. Rating classes and credit-quality steps

Credit quality step	S&P's rating classes	Exposure to corporates	Exposure to institutions (> 3M)	Exposure to central gov. or central banks
1	AAA to AA-	20%	20%	0%
2	A+ to A-	50%	50%	20%
3	BBB+ to BBB-	50%	50%	50%
4	BB+ to BB-	100%	100%	100%
5	B+ to B-	150%	100%	100%
6	CCC+ below	150%	150%	150%

CRR article 129(1)(c) states that exposures to credit institutions (for example, guarantees) that qualify for quality step 1 can comprise up to 15 pc of the collateral for an institution's outstanding (mortgage) covered bonds (SDO/SDRO).

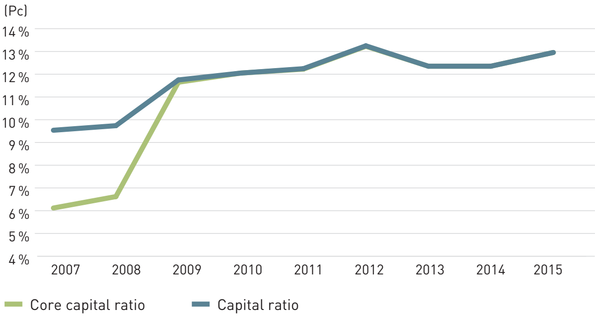
Due to concentration in the Danish mortgage credit system, Denmark has also been permitted to use exposures to counterparties on credit quality step 2 for up to 10 pc of the collateral, though the aggregate exposure to credit institutions may not exceed 15 pc of the collateral.

The credit quality step is based on the counterparty's rating. If the counterparty is not rated by the appointed rating agency, the country rating is used for the country the counterparty is domiciled in.

6.4 Total capital ratio

DLR's total capital ratio was 12.9 pc at the end of December 2015, calculated according to the standardised approach to credit risk; see figure 13. In recent years, DLR has used surplus capital above 12 pc to repay hybrid core capital using own funds. Going forward, DLR will also need to regularly consolidate in order to meet future capital requirements.

Figure 13. DLR's total capital ratio and core capital ratio



Source: DLR's Annual Report

It is important to note that the regulations do not distinguish between the different methods for calculating risk-weighted assets (RWA). As from q1 2016, DLR will use the advanced IRB approach to calculating RWA for credit risk purposes, initially on the full-time farming portfolio.

6.5 REA and solvency requirement

Table 16 shows DLR's risk exposure amount (REA) and the solvency requirement at 31 December 2015 for each exposure category. The standardised approach has been applied. Note that all DLR's loans are secured by mortgages on real property.

Table 16. DLR's risk-weighted components and capital requirements year-end 2015

Category	Risk-weighted exp. (DKK 1,000)*	Solvency requirement (8 pc of exp.)*
Institutions	4,363,617	349,089
Business	68,031,692	5,442,535
Retail exposures	83,551	6,684
Exposures secured by mortgages on real property	11,037,604	883,008
Exposures in arrears or overdrawn	7,437,279	594,982
Covered bonds	14,383	1,151
Equities	55,345	4,428
Other exposures, etc.	254,228	20,338
	91,277,700	**7,302,216**

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

Table 17 shows DLR's risk exposure and solvency requirement for market risks.

Table 17. DLR's risk exposure and solvency requirement for market risks, year-end 2015.

Category	Risk-weighted exp. (DKK 1,000)	Solvency requirement (8 pc of exp.)
Debt instruments	2,828,007	226,241
Equities	110,691	8,855
Collective invest. schemes	0	0
Exchange rate risk	566,229	45,298
Total weighted components with market risk	**3,504,926**	**280,394**

Source: DLR's internal calculations

6.6 Adequate capital base and solvency need

DLR's Board of Directors discusses and approves the determination of DLR's adequate capital base (own funds) and the individual solvency need (ratio) on a quarterly basis. Discussions are based on a recommendation from DLR's Executive Board. DLR's Risk Committee evaluates adequate own funds prior to the Board of Directors' deliberations. In addition, the Board of Directors discusses in detail the methods, etc. used to calculate DLR's solvency need (ratio), including the risk areas and benchmarks that should be taken into account.

Determination of DLR's adequate capital base and solvency need is based on the "credit-reservation method" (the "8+ method"), the method officially used by the Danish FSA since 2013. The 8+ method comprises the risk types assessed to require capital coverage. Generally, these include credit risk, market risk and operational risk as well as a number of sub-categories. The assessment is based on DLR's risk profile, capital position and any relevant forward looking factors, including budgets, etc.

DLR's calculation method follows the directions in the Executive order on Calculation of Risk Exposures, Own Funds and Solvency Need and the Danish FSA guidelines regarding the "8+ method" – most recently updated in December 2015 – supplemented with DLR's own stress tests; for example, an evaluation of DLR's resilience in the event of severe loss scenarios based on historical observations.

DLR's resilience is assessed using a stress test that assumes a severe five-year downturn, during which, for example, core earnings are reduced by 17 pc. The stress test also assumes losses and impairments corresponding to those incurred by the Danish mortgage credit institutions in the period 1991-1995 plus 50 pc, which would activate DLR's extensive guarantee concepts. Furthermore, the calculation includes costs pertaining to the ongoing maintenance of the covered bond (SDO) status of issued bonds in the event of a fall in property prices of 20 pc as well as general impairment provisions of around 1 pc of the portfolio.

The calculation is further supported by management estimates. DLR's risks in the main areas listed below are assessed. Within each main area, risks are assessed in a number of sub-areas. An estimation is also made of whether an add-on to DLR's adequate capital base is needed 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
- Equity market risk
- Exchange rate risk
- Liquidity risk

C. Operational risk

D. Leverage

In DLR's opinion, the risk factors included in the evaluation comprise all the risk areas that Danish law requires the management of DLR to take into account in determining the adequate capital base and solvency need as well as the risks management believes DLR has assumed. Relevant departments are also involved in determining DLR's adequate capital base and solvency need. This is also the case 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 need can be attributed; cf. table 14. DLR therefore has considerable focus on this area. In 2015, DLR used the standardised approach to calculate risk-weighted assets in connection with credit risk. Please also refer to section 2 on credit risk.

Market risk is another important category for DLR. DLR sets aside capital equivalent to 8 pc of the RWAs in the market risk category. Moreover, DLR also assesses whether it is exposed to additional risk that requires a capital allocation above the 8 pc. DLR's market risk is estimated to be limited due to the balance principle.

Operational risk is the risk of direct or indirect loss caused by inadequate or faulty processes, systems etc. Given DLR's simple business model, focus on internal processes, etc., this risk is estimated to be limited.

DLR employs the Basic Indicator Approach (BIA) to calculate the operational risk capital requirement.

As well as the above-mentioned factors, management regularly assesses if additional factors should be included in the individual solvency need calculation.

DLR thus allocates the statutory 8 pc capital requirement for each risk area and then assesses whether further capital should be set aside; for example due to large exposures, the general credit quality of the portfolio, elevated market risk, etc. Determination of the need for a potential add-on is based on either the stress tests defined in Danish FSA guidelines, DLR's own stress tests or by a management assessment of whether individual business areas require an add-on.

Table 18. DLR's adequate capital base and solvency need, 31 December 2015

Risk area, DKK 1,000	Adequate capital base	Solvency need
Credit risk	7,302,216	7.53%
Market risk	280,394	0.29%
Operational risk	179,915	0.19%
Other factors	0	0%
Internally calculated solvency need	7,762,525	8.00%
Add-ons (special risks)	0	0%
Total	**7,762,525**	**8.00%**

Source: Internal Capital and Solvency Requirement for DLR Kredit - Q1 2016
http://www.dlr.dk/solvency

DLR's adequate capital base was calculated as DKK 7,763m at year-end 2015; cf. table 18. As DLR's total risk exposure amount (REA) was DKK 97,032m, this equates to a solvency need of 8.0 pc.

In accordance with CRR article 92, DLR has calculated its excess with respect to its solvency need as 4.9 percentage points or DKK 4.7bn at year-end 2015; cf. table 19. DLR considers this excess adequate.

Table 19. DLR's adequate capital base and solvency need, 31 December 2015

Current key figures, 2015	Amount
Capital base after deductions, DKK 1,000	12,485,161
Adequate capital base, DKK 1,000	7,762,525
Excess, DKK 1,000	4,722,636
Total capital ratio, pc	12.9%
Individual solvency need, pc	8.00%
Excess, percentage points	4.9%

Source: Calculation of adequate capital base and solvency need at
http://www.dlr.dk/regnskab-og-rapportering

6.7 LTV compliance

When granting loans based on the issuance of covered bonds (SDOs), DLR has to provide supplementary collateral if the LTV is exceeded, mainly due a fall in the value of the property. Compliance with this obligation is continually monitored.

Besides the costs of supplementary collateral, the risk and cost of LTV compliance is linked to credit risk, as losses on the loan portfolio will be connected to falls in property prices.

To cover breaches of LTV, DLR can in addition to the capital in Capital Centre B also to some extent use the provided bank guarantees.

DLR has, furthermore, issued DKK 4.0bn in senior secured bonds that can be used both for LTV compliance and as supplementary collateral for rating purposes.

With these resources, DLR is able to withstand further price falls of up to 15 pc on the entire loan portfolio, which is why the risk associated with LTV compliance is estimated to be very limited.

6.8 Ratings

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

Table 20. S&P's ratings on DLR, year-end 2015

Bond ratings	Standard & Poor's
Capital Centre B (SDO)	AAA
General Capital Centre (RO)	AAA
Capital Centre B (S.15/SSB)	A (stable)
Other ratings	
Issuer (Long-Term Credit Rating)	BBB+ (stable)
Issuer (Short-Term Credit Rating)	A-2 (stable)

Source: DLRs Annual Report 2015

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

DLR's (mortgage) covered bonds (SDO and RO) have been assigned the highest rating of AAA and also with a stable outlook.

On 30 April 2015 S&P introduced revised criteria for analyzing European Commercial Real Estate (CRE) collateral in European covered bonds. S&P increased the default frequency (PD) and especially the loss severity(LGD) on CRE loans, which in turn increased the level of overcollateralization (OC) ofDLR's capital centres that is commensurate with the current AAA bond ratings.

During the transition phase to the new criteria, DLR's General Capital Centre was placed "under criteria observation", as S&P anticipated that the increased OC requirements could exceed the actual OC in the capital centre. Upon completion of its analysis, S&P affirmed the AAA rating of the General Capital Centre in November 2015 subject to an OC requirement of 9.68 pc compared to 4.57 pc before the criteria were revised. The OC requirement is met for the nominal bond amount in the capital centre and covered by surplus capital in the cover pools. This is done using own funds and funds raised by the issuance of SSBs.

The actual OC in DLR's capital centres was, respectively, 17.0 pc in Capital Centre B and 9.7 pc in the General Capital Centre as of end-Q3 2015.

With regards to DLR's issuer rating, S&P improved DLR's risk position one notch to "adequate" from "moderate", which resulted in an equivalent upward revision to DLR's stand-alone credit profile (SACP) of one notch from BBB to BBB+. S&P justified the improved risk position by stating that DLR's strong guarantee and loss offsetting concepts plus its earnings and loss history outweighed the elevated risk on agriculture. Meanwhile, S&P removed the previous +1 rating uplift from expected government support, referring to the Danish implementation of BRRD, which in S&P's view had made government support to Danish mortgage credit institutions less likely.

DLR's issuer rating, which in May 2015 was placed on negative "Credit Watch" as a result of the expected removal of the government support element, was maintained at BBB+ with stable outlook due to the SACP revision.

DLR's Senior Secured Bonds (SSB) from 2012, which were originally assigned a BBB+ rating, equivalent to DLR's issuer rating, had in December 2015 their rating raised two notches to A with stable outlook. The rating increase was due to S&P changing its view on the status of the SSBs in the event of a bank resolution, now not expecting them to be hit by delayed payments. SSB issues from May 2013 and December 2015 are not rated.

7. MANAGEMENT AND REMUNERATION

7.1 Management and administration

DLR's Board of Directors

DLR's Board of Directors had the following members at the end of 2015:

Elected by the General Meeting:

- Vagn Hansen (chairman), Managing Director & CEO, Sparekassen Vendsyssel
- Anders Dam (vice chairman), Managing Director & CEO, Jyske Bank A/S
- Ole Selch Bak, Managing Director & CEO, 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 (independent member), former Governor of Danmarks Nationalbank
- Jan Pedersen, Managing Director & CEO, Danske Andelskassers Bank A/S
- Lars Petersson, Managing Director & CEO, Sparekassen Sjælland A/S

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 2015, DLR's Board of Directors consisted of 14 members, nine of whom had been elected at the General Meeting. Of those members elected at the Annual General Meeting, four were elected from among the members of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, and four from among the members of the Association of Regional Banks. Furthermore, one member was jointly elected by the two Associations.

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

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

All General-Meeting-elected members were re-elected at the Annual General Meeting on 23 April 2015.

Audit Committee

Members of the Audit Committee:

- Torben Nielsen, former Governor of Danmarks Nationalbank (chairman)
- Ole Selch Bak, Managing Director & CEO
- Søren Jensen, Legal Consultant

Risk Committee

Members of the Risk Committee:

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

Nomination Committee

Members of the Nomination Committee:

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

Remuneration Committee

Members of the Remuneration Committee:

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

Executive Board:

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

Executive staff

Executive Board Secretariat, Information, HR, etc.:

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

Loan Department:

Bent Bjerrum, Deputy Director, MSc (Agriculture)

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

Accounting & Finance Department:
Lars Ewald Madsen, Accounting and Finance Director, MSc (Finance and Accounting)

IT Department:
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)

Management positions and Directorships of the Executive Board
Jens Kr. A. Møller, Managing Director & CEO
- Member of the Board of Directors of VP Securities A/S
- Member of the Board of Directors of e-nettet a/s

Management positions and Directorships of the Board of Directors:
Ole Selch Bak, Managing Director & CEO:
- 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
- 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 FR I af 16. september 2015 A/S
- Member of the Board of Directors of the Danish Regional Bankers' Association
- Member of the Committee of Shareholders of Det Private Beredskab
- Alternate in Værdiansættelsesrådet (The Danish Value Assessment Council)

Karen Frøsig, Managing Director & CEO
- Managing Director & CEO of Sydbank A/S
- Chairman of the Board of Directors of Ejendomsselskabet af 1. juni 1986 A/S
- Chairman of the Bord of Directors of Diba A/S
- Chairman of Bankdata (The Bankdata Organisation)
- Member and vice chairman of the Board of Directors of PRAS A/S
- Member of the Board of Directors of the Danish Regional Bankers' Association
- 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)
- Member of the Board of Directors of FR I af 16. september 2015 A/S
- Member of the Board of Directors of Sydbank Sønderjyllands Fond
- Member of the Board of Directors of Sydbank Fonden

Peter Gæmelke, Farmer
- Chairman of Danske Spil A/S
- Chairman of Løvenholmfonden (Commercial Foundation)

- Chairman of NGF Nature Energy Biogas A/S
- Chairman of Foreningen NLP fmba
- Chairman of Trigon Agri A/S
- Member of the Board of Directors of Kirkbi A/S
- Member of the Board of Directors of H.C. Petersen & Co.'s Eftf. A/S
- Member of the Board of Directors of Fællesfonden
- Member of the Board of Directors of Nordea Liv og Pension
- 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 Committee 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
- 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 HN Invest Tyskland 1 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 Spar Pantebrevsinvest A/S
- Member of the Board of Directors of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark
- Member of the Board of Directors of Forvaltningsinstituttet for Lokale Pengeinstitutter (The Trust Corporation for Local Banks in Denmark)

Lars Møller, Managing Director
- Managing Director of Spar Nord Bank A/S
- Chairman of the Board of Directors of BI Holding A/S (Bankinvest Gruppen)
- Chairman of the Board of Directors of BI Asset Management A/S
- Chairman of the Board of Directors of BI Management A/S
- Member of the Board of Directors of Aktieselskabet Skelagervej 15

Torben Nielsen, former Governor of Danmarks Nationalbank
- Chairman of the Board of Directors of Investeringsforeningen Sparinvest (The Sparinvest Unit Trust)
- Chairman of the Board of Directors of Eik Banki p/f
- Chairman of the Board of Directors of Investeringsforeningen Sparinvest SICAV, Luxembourg (Unit Trust)
- Chairman of the Board of Directors of Museum Sydøstdanmark (The Museum South-east Denmark)
- Chairman of the Board of Directors of Capital Market Partners A/S
- Chairman of the Board of Directors of Sydbank A/S
- Member of the Board of Directors and vice chairman of Tryg A/S
- Member of the Board of Directors and vice chairman of Tryg Forsikring A/S
- Member of the Board of Directors of Sampension KP Livsforsikring a/s

Jan Pedersen, Managing Director & CEO
- Managing Director & CEO of Danske Andelskassers Bank A/S
- Chairman of the Board of Directors of DAB Invest A/S
- Chairman of the Board of Directors of DAB Invest 2 A/S
- Member of the Board of Directors of Bankernes EDB-central (BEC)
- Member of the Board of Directors and vice chairman of Sparinvest Holdings SE
- Chairman and Managing Director of Villa Prisme Komplementaranpartsselskab

Lars Petersson, Managing Director & CEO

- Managing Director & CEO of Sparekassen Sjælland A/S
- Chairman of the Board of Directors of Sparekassen Fyn 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 (the Bankinvest Group)
- Member of the Board of Directors of Forsikrings Samarbejde A/S (FSS)
- Member of the Board of Directors and Managing Director of Sjælland Ejendomme A/S and three subsidiaries

Benny Pedersen, Valuation Expert

- Self-employed farmer

Søren Jensen, Legal Consultant

- Self-employed farmer

Claus Andreasen, Administrative Officer

- Member of the Board of Directors of Kipling Travel A/S

Board committees

DLR was designated a SIFI institution in 2014. With the designation came a series of requirements, including the establishment of three new Board committees. DLR has therefore established a Nomination Committee, a Remuneration Committee and a Risk Committee. Committee members are drawn from members of DLR's Board of Directors.

In accordance with its defined mandate, the Risk Committee shall:

- Advise the Board of Directors on DLR's overall current and future risk profile and strategy.
- Have a preparatory role in relation to the Board of Director's deliberations on determining DLR's individual solvency need and make recommendations to the Board of Directors on the adequacy of DLR's capital base in relation to both regulatory requirements and internal targets. Based on this, the Committee shall also review DLR's capital plans and recovery plans, etc.
- Assist the Board of Directors in ensuring the Board of Director's risk strategy is implemented correctly in the organisation.
- Assess whether the loan products, etc. that DLR offers its customers are in accordance with DLR's business model and risk profile, including whether earnings from the products and services reflect the risks involved and provide feedback if the products or services and their earnings are not in accordance with DLR's business model and risk profile.
- Assess whether the incentives in DLR's remuneration structure take into account risk, capital, liquidity and the probability and timing of the remuneration payment.

The Risk Committee convened five times in 2015.

7.2 Appointment 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 accordance with section 312 and section 80a of the Danish Financial Business Act, DLR has established a Nomination Committee. One of the responsibilities of the Nomination Committee is to identify and recommend candidates to DLR's Board of Directors and to draw up a description of functions and qualifications required to take part in the work of the Board of Directors at DLR.

Based on the business model, etc., DLR's current Board of Directors has identified a number of significant risk areas of which the Board of Directors as a whole should have knowledge and experience. It is important that members of DLR's Board of Directors possess the requisite skills and competences in one or more of these areas to ensure the Board of Directors has an appropriate and relevant level of knowledge. When recommending new candidates to the Board of Directors, DLR's Nomination Committee also takes into consideration gender balance and diversity.

7.3 Remuneration

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

DLR's remuneration policy has been shaped by the wish to promote a remuneration practice that is in accordance with and promotes healthy and effective risk management, does not encourage excessive risk taking and which is pursuant to DLR's business strategy, values and long-term objectives, including a sustainable business model.

The Remuneration Committee was established by DLR's Board of Director's and has a preparatory role in the Board of Director's handling of remuneration matters. The Remuneration Committee performs preparatory work for the Board of Directors ahead of decision-making on remuneration matters, including remuneration policy and other decisions that may affect DLR's risk management. Furthermore, the Committee assists in preparing the Board of Directors in connection with appointing material risk takers.

The Remuneration Committee consists of three members. Committee chairman Vagn Hansen, managing director & CEO, plus Anders Dam, managing director & CEO, and Søren Jensen, legal consultant.

The Committee convened twice in 2015.

Table 21 presents all quantitative data on the remuneration of staff identified as material risk takers categorised by business area.

Table 21. Data on remuneration of staff identified as material risk takers

(DKK m)	2015	2014
Executive Board		
Fixed remuneration	8.1	7.0
Variable remuneration	0.0	0.0
Total remuneration for Executive Board	8.1	7.0
Number of Executive Board members, year-end	2	2
Individual remuneration of Executive Board members		
Bent Andersen, Managing Director & CEO (until 30 April 2015)	2.2	4.2
Jens Kr. A. Møller, Managing Director & CEO*	3.4	2.8
Michael Jensen, Managing Director (appointed 1 January 2015)	2.5	-
Total Executive Board remuneration	8.1	7.0
As well as the above-mentioned amounts, a DKK4m provision was made in connection with Bent Andersen's retirement at the end of April 2015. This amount was paid out in 2015. * Jens Kr. A. Møller was Managing Director until 30 April 2015 and was appointed CEO as from 1 May 2015.		
Board of Directors		
Fixed remuneration	2.0	1.7
Variable remuneration	0.0	0.0
Total remuneration for Board of Directors	2.0	1.7
Number of Board of Director members, year-end	14	14
The annual remuneration to the Chairman and Vice Chairman of the Board is DKK 247,500 and DKK 165,000, respectively. Other board members receive DKK 110,000.		
Annual remuneration to the Chairman of the Audit Committee is DKK 55,000. Other committee members receive DKK 27,500.		
Annual remuneration to the Chairman of the Risk Committee is DKK 55,000. Other committee members receive DKK 27,500.		
Other employees with influence on DLR's risk profile		
Fixed remuneration	13.5	12.9
Variable remuneration	0.0	0.0
Total remuneration to other staff members with influence on DLR's risk profile	13.5	12.9
Number of staff members with influence on DLR's risk profile, year-end	13	13
DLR has no pension obligations or incentive programmes for the above-mentioned group of personnel.		

No person in DLR has a remuneration package exceeding EUR 1m for the financial year.