

dlr.kredit



Investor presentation

H1 2020

Interim report

H1 2020

Financial summary H1 2020

- DLR's earnings from core activities were satisfactory in the first half of 2020. Core profit before impairments amounted to DKK 534m, which is DKK 12m more than for the same period in 2019
- Pre-tax profit was DKK 443m, which is down DKK 129m from the same period in 2019. The lower pre-tax profit is primarily due to the corona pandemic, which had a significant, negative impact on the period's result due to increased impairments on loans and receivables along with a decline in portfolio earnings
- DLR has instituted additional impairment charges of DKK 106m – a management supplement to offset the expected consequences of the corona pandemic, mainly for DLR's commercial property customers

Economic outlook for 2020

- DLR expects a core profit before impairments in the range DKK 900-1,000m for 2020, and a pre-tax profit of DKK 775-825m
- Due to the corona situation, the economic outlook for 2020 is subject to increased uncertainty

Solvency

- The total capital ratio is calculated as 17.1 at the end of H1 2020, which is unchanged relative to the end of 2019
- The common equity tier 1 (CET 1) capital ratio was 15.5, which is also unchanged compared to year-end 2019
- Including the result for the period, the total capital ratio was 17.5 and the CET 1 capital ratio was 15.9

Lending activity

- Lending activity in Q1 was at a relatively high level, but has been more subdued in Q2
- Gross lending in H1 2020 amounted to DKK 17.6bn (nominal), while net lending amounted to DKK 4.2bn (nominal)

Agenda

— **Interim financial results H1 2020**

Lending and credit risk

Capital structure and rating

Funding

Income statement

(DKKm)	H1 2020	H1 2019	Index
Administration fee income	859	806	107
Other core income, net	71	57	124
Interest expenses, senior debt and subordinated debt	-29	-22	133
Fee and commission income, net	-215	-179	120
Core income (mortgage credit income)	685	662	103
Staff costs and administrative expenses, etc.	-143	-134	107
Other operating expenses	-8	-6	131
Results from core activities	534	522	102
Provision for loans and receivable impairment, etc.	-57	11	
Portfolio earnings (securities)	-35	39	
Profit before tax	443	572	77
Profit after tax	345	446	77

Balance sheet

(DKKm)	H1 2020	H1 2019
Assets:		
Loans and advances	160,634	153,439
Due from credit institutions and central banks	1,715	2,670
Bonds at fair value	10,443	9,051
Shares, etc.	45	51
Other assets	406	520
Total assets	173,243	165,730
Liabilities:		
Issued bonds	157,266	150,234
Other liabilities	903	1,201
Provisions for deferred tax	8	8
Subordinated debt	1,300	650
Total equity	13,766	13,637
Total equity and liabilities	173,243	165,730

Return on securities holdings

(DKKm)	H1 2020	H1 2019
<i>Interest income from/return on:</i>		
Bonds	56	57
Credit institutions and central banks, net	-1	-1
Currency	-1	0
Shares	7	0
Other	-3	0
Value adjustment, etc.	-92	-18
Total return on securities holdings	-35	39
<i>Interest expenses on:</i>		
Senior debt	13	14
Subordinated capital (Tier 2)	16	8
Total interest expenses on external capital	29	22

Agenda

Interim financial results H1 2020

— **Lending and credit risk**

Capital structure and rating

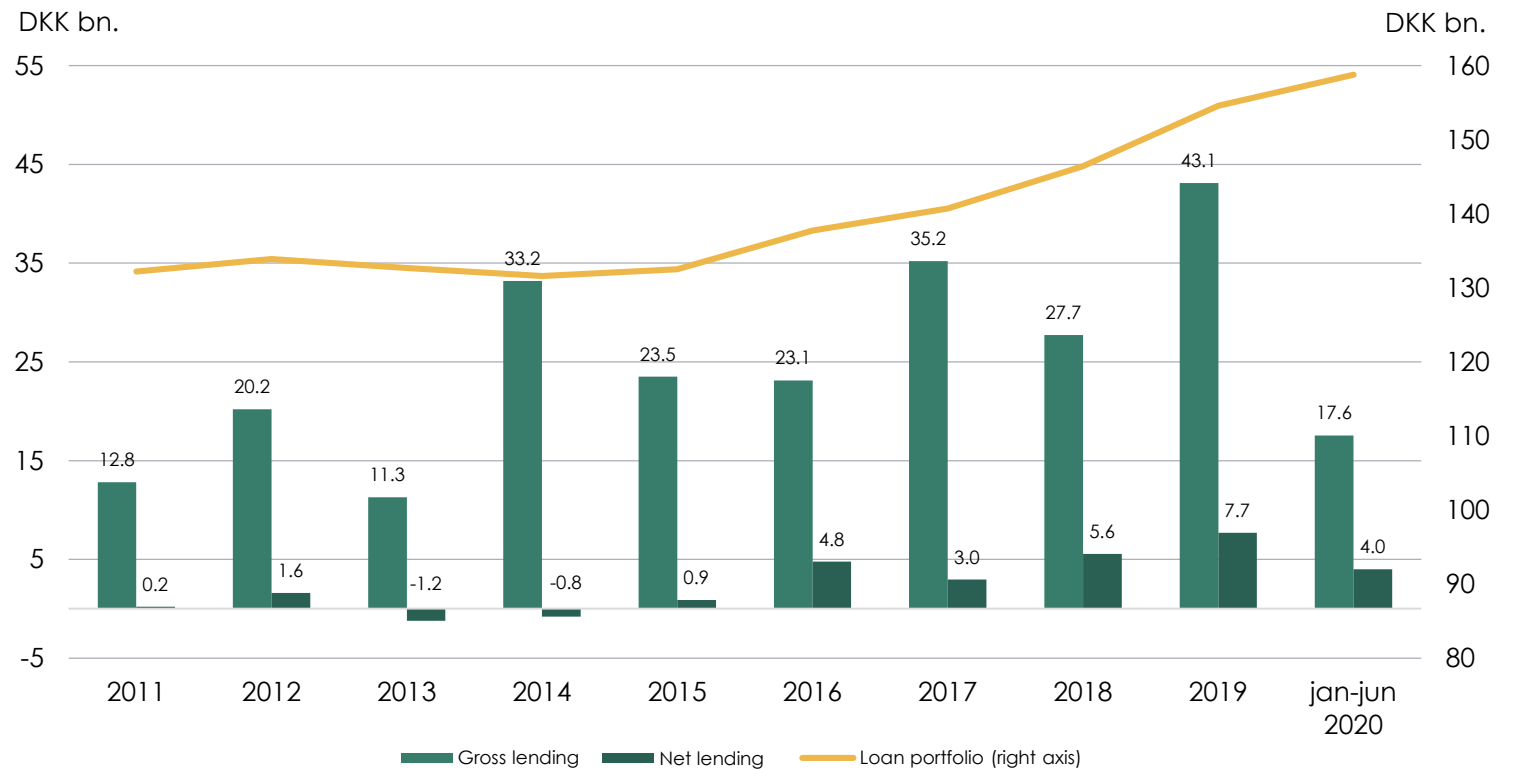
Funding

Lending activity

- DLR's lending activity in H1 2020 has been at a satisfactory level
- Gross lending of DKK 17.6bn in H1 2020 was DKK 1.1bn higher than in H1 2019
- Net lending of DKK 4.0bn in H1 2020 was DKK 0.5bn higher than in H1 2019

Lending activity

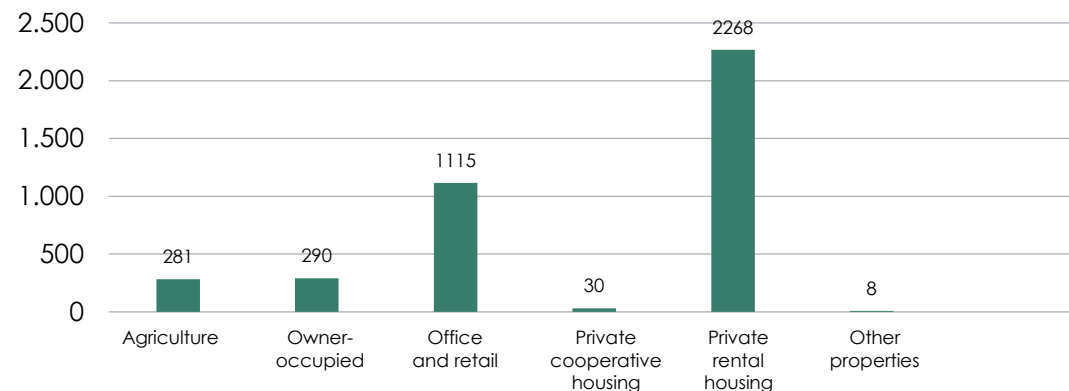
- Gross and net lending and total portfolio



Net lending

- DLR's net lending to commercial and private rental housing properties amounted to DKK 3.4bn in H1 2020, whereas net lending to agriculture and owner-occupied dwellings amounted to DKK 0.6bn
- DLR has realized higher market shares within all major market segments since 2015

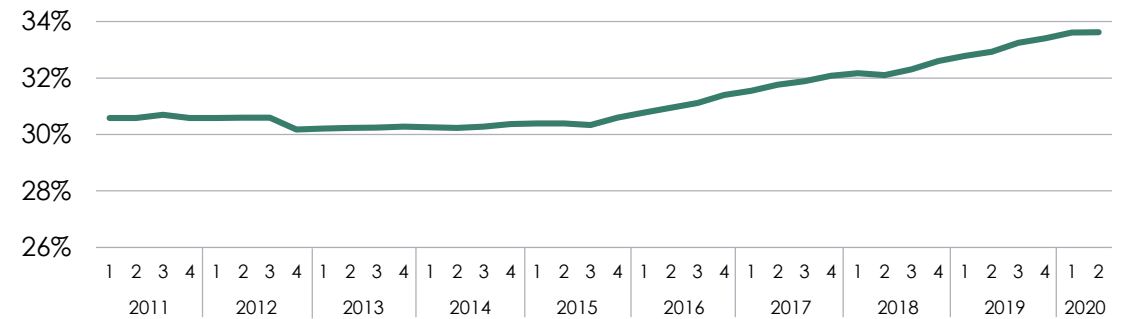
DLRs net lending in H1 2020 split on property segments (DKKm)



Note: Net lending calculated at cash value

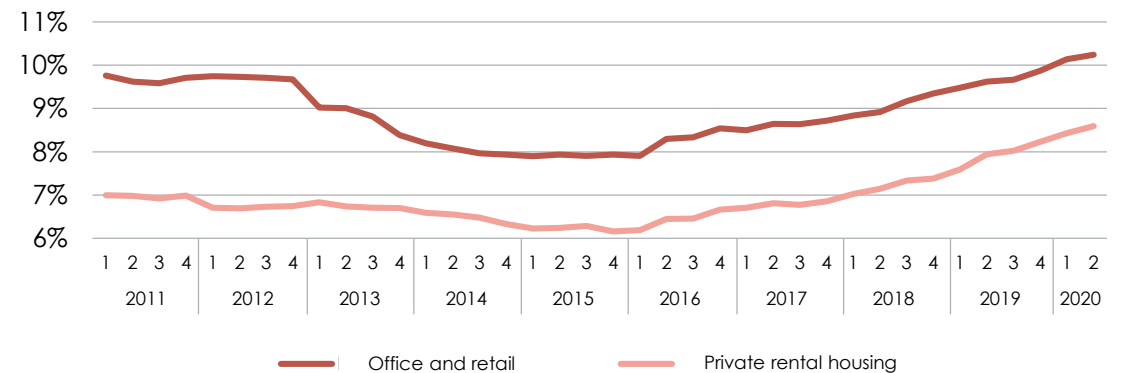
DLR's market share

Agriculture portfolio



DLR's market share

Commercial loan portfolio

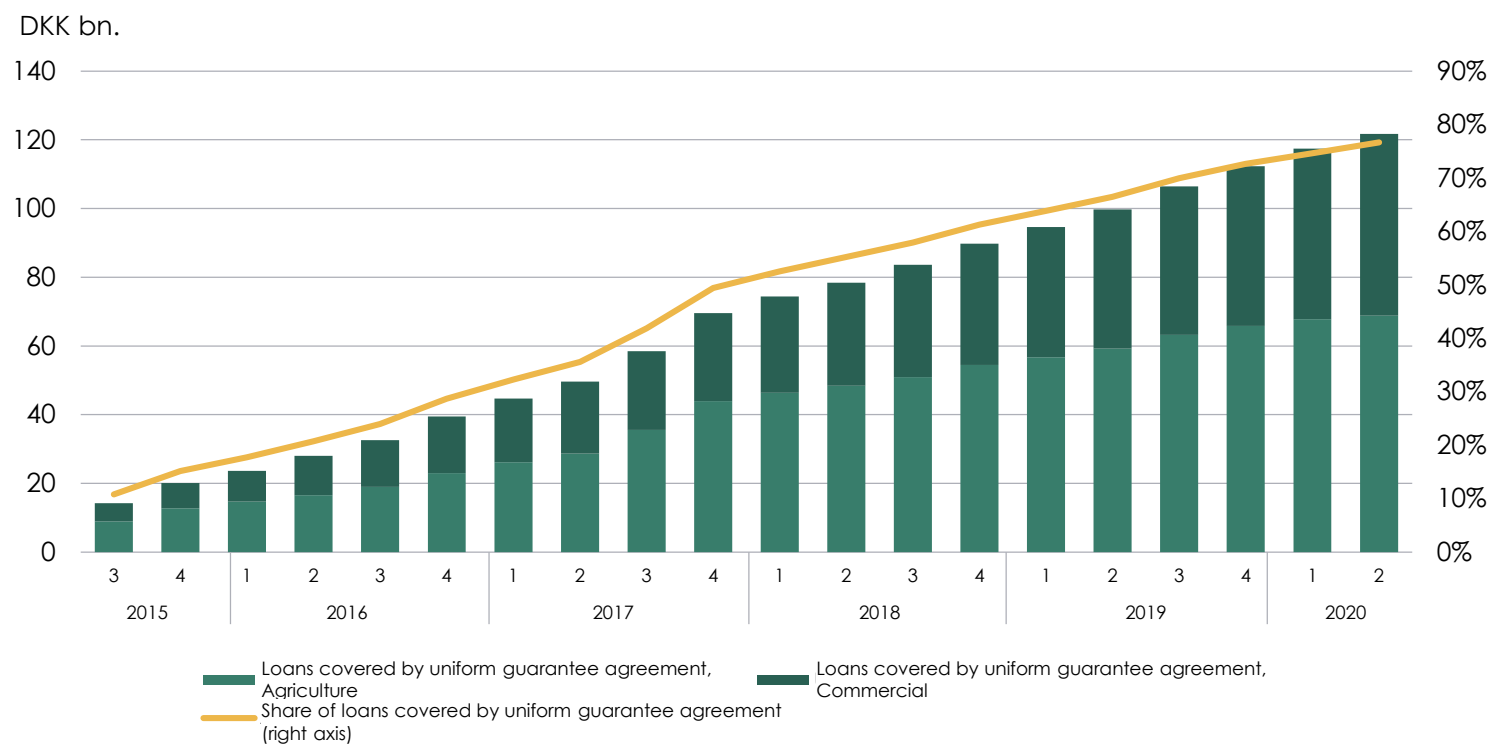


Loans comprised by the uniform guarantee agreement

- The uniform guarantee agreement comprises all loans offered as from January 2015
- Loans granted until end-2014 are still covered by the former guarantee agreements for agricultural and commercial lending, respectively
- 77 pc of DLR's loan portfolio is now comprised by the uniform guarantee agreement which includes direct loss guarantees, a loss offsetting facility and a portfolio guarantee

DLR's lending covered by the uniform guarantee agreement

- Applies to loans offered after 1/1/2015



Loan portfolio

DLR's loan portfolio, 30 June 2020

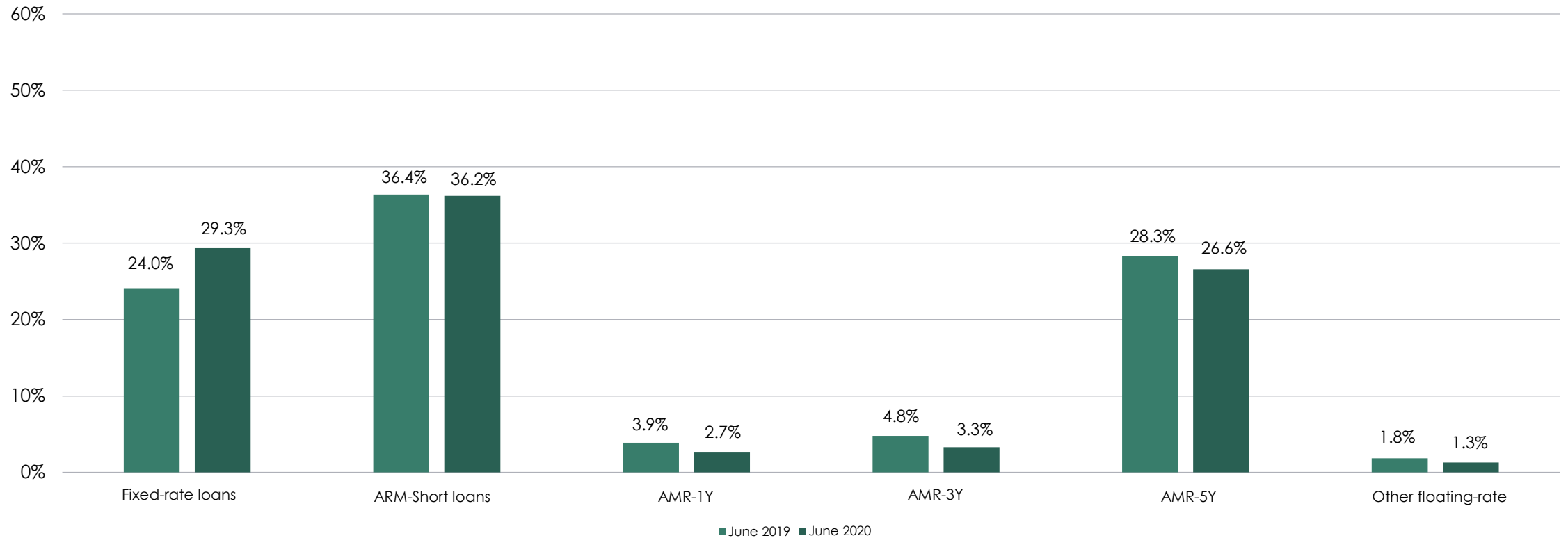
	Outstanding bond debt	Distribution on property categories
Agriculture	89.4	56.3%
Owner occupied. Incl. Residential farms	8.7	5.4%
Office and retail	26.8	16.9%
Private residential rental housing	28.4	17.9%
Private cooperative housing	3.1	2.0%
Other properties	2.4	1.5%
Total	158.8	100.0%

Distribution on loan types

Fixed rate loans	ARM short	ARM 1Y/Y2	ARM 3Y/4Y	ARM 5Y	Other floating rate loans
20.4%	48.2%	2.5%	3.7%	23.5%	1.6%
51.0%	8.9%	6.8%	6.6%	24.6%	2.0%
39.9%	21.5%	3.1%	4.0%	30.7%	1.0%
37.2%	24.1%	2.6%	3.1%	32.3%	0.7%
57.4%	13.0%	0.4%	1.7%	26.4%	1.0%
35.6%	24.8%	0.9%	5.4%	33.0%	0.4%
29.3%	36.2%	2.8%	3.8%	26.6%	1.3%

Loan portfolio

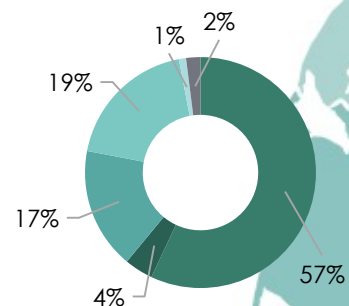
Change in loan type composition



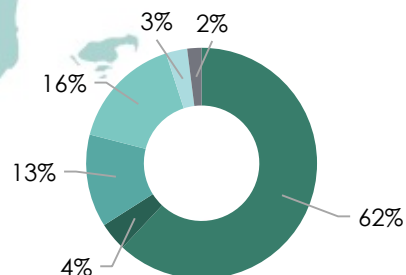
Geographical distribution of lending

Outstanding bond debt at June 2020

Central Jutland
48.5 DKKbn (30.6%)



Northern Jutland
34.9 DKKbn (22.0%)

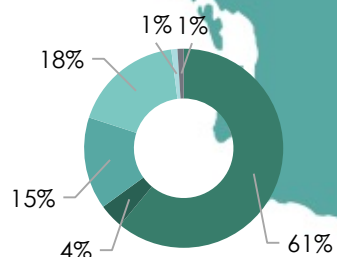


Greenland
1.2 DKKbn (0.8%)

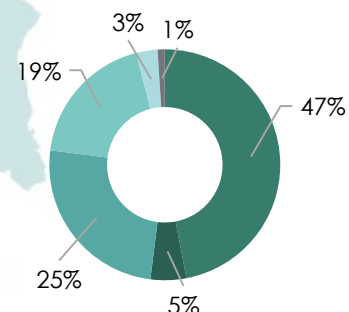
Faroe Island
1.5 DKKbn (0.9%)

- Agricultural properties
- Owner-occupied dwellings
- Office and retail properties
- Private rental housing properties
- Co-operative housing properties
- Other properties

Southern Jutland and Funen
43.1 DKKbn (27.1%)



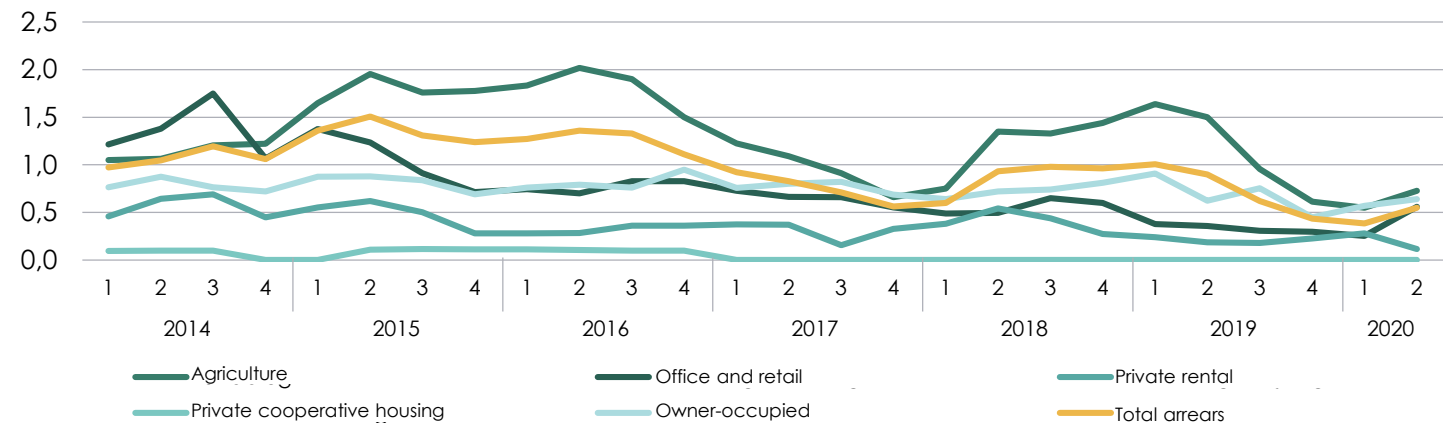
Zealand/Capital
29.7 DKKbn (18.7%)



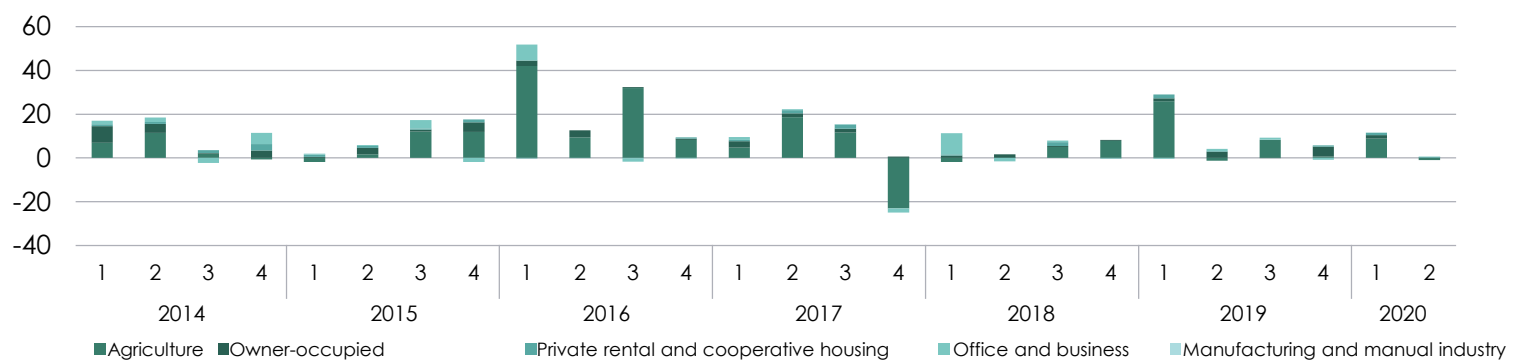
Arrears and loan losses

- At mid-July 2020, DLR's 105-days arrears was 0.6 pc
- Arrears have in general increased in Q2, but is still on a fairly low level
- The moderate level reflects that the impact of the corona pandemic on DLR's customers so far has been limited
- At the June 2020 mortgage payment date, around 40 deferrals were noted due to the corona situation
- In H1 2020 DLR recorded losses of DKK 10m
- The losses can to a large extent be offset in DLR's commission payments to its intermediary banks
- In H1 2020 DKK 4.0m was off-set in commission payable to the distribution owner banks

105-days arrears, pc of term payments



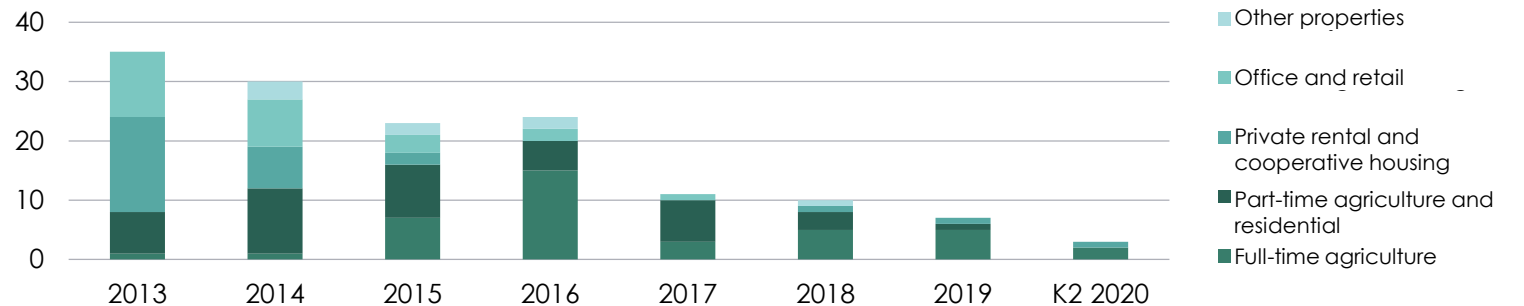
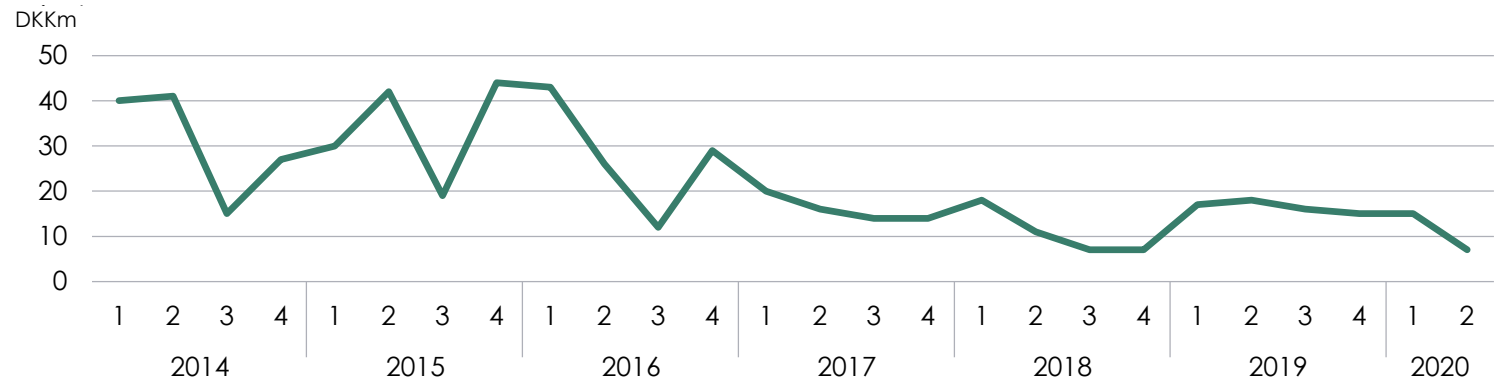
Loan losses before loss offsetting (DKK m)



Takeovers and forced sales

- The number of completed forced sales on properties in which DLR holds a mortgage was 7 in Q2 2020, and DLR repossessed no properties
- At end-Q2 2020, DLR had a stock of 3 repossessed properties worth DKK 8m

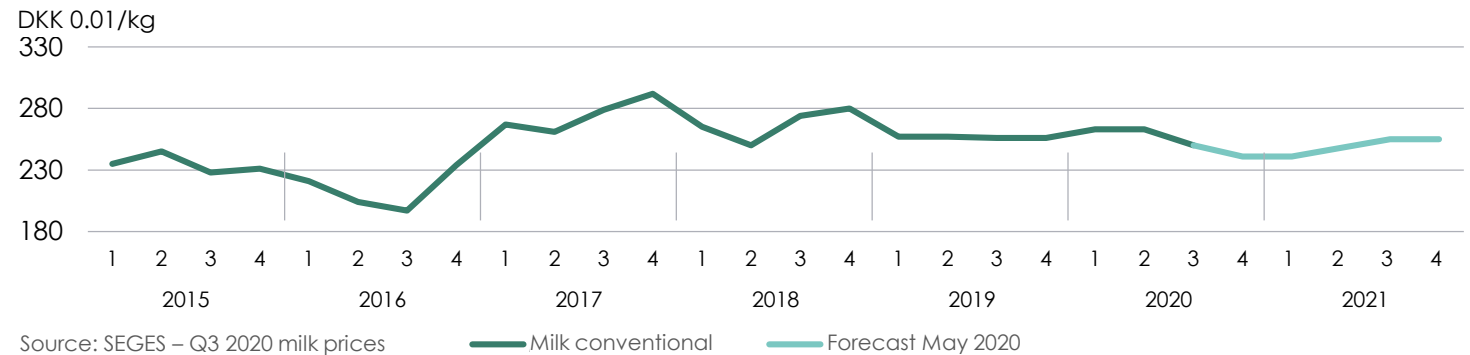
Forced Sales – properties where DLR holds mortgage



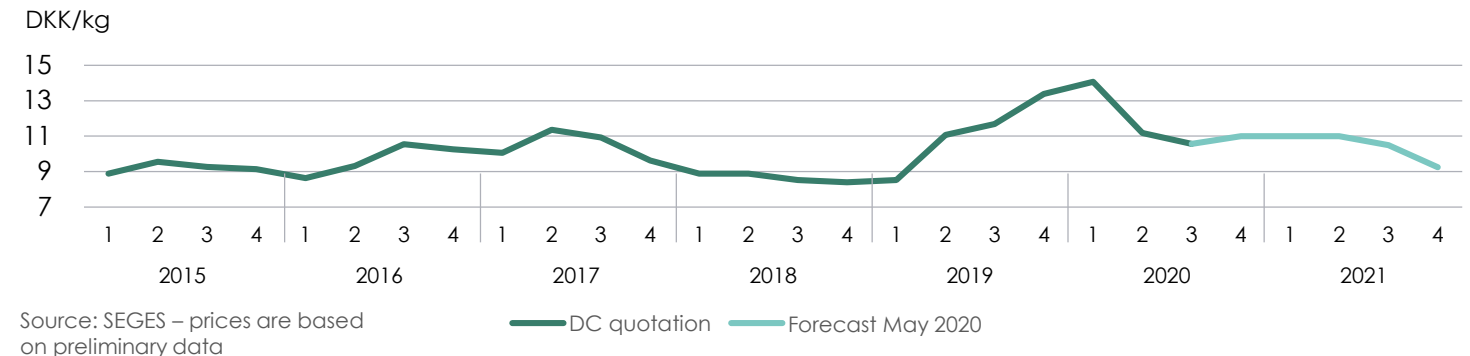
Status on agriculture

- Despite a decline in product prices, particularly in Q2, the main areas of agricultural production continued to enjoy good terms of trade and satisfactory earnings
- We expect this will continue for the rest of this year

Development in milk prices quotation



Development in pork price quotation



Agenda

Interim financial results H1 2020

Lending and credit risk

— **Capital structure and rating**

Funding

Capital base

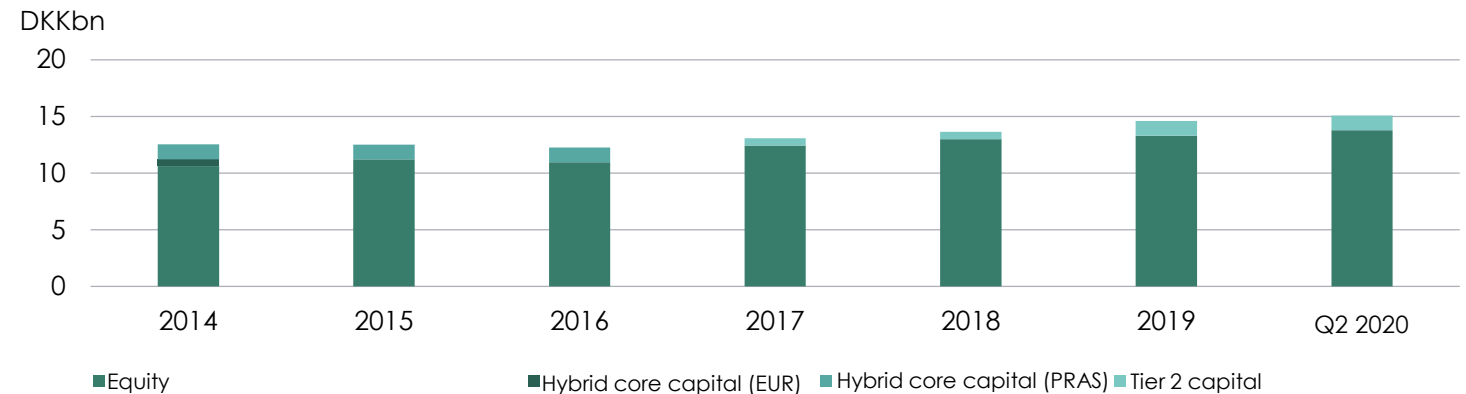
(DKKm)	June 2020	2019	2018
Equity			
- Share capital	570	570	570
- Distributable reserved	10,858	10,403	10,066
- Non-distributable reserves	2,338	2,338	2,338
Total equity	13,766	13,311	12,974
CET1	12,747	12,647	12,344
Subordinated capital (Tier 2)	1,300	1,300	650
Capital base	14,047	13,947	12,994
DLR's total capital ratio, %	17.1	17.1	16.9
Capital requirement, % ¹⁾	12.8	13.7	13.0
Reservation debt buffer, %	0.3		
Capital surplus, % point	4.1	3.4	3.9

1) 9.2% individual solvency need added 2.5% capital conservation buffer, 1% SIFI buffer requirement and 0% counter-cyclical buffer.

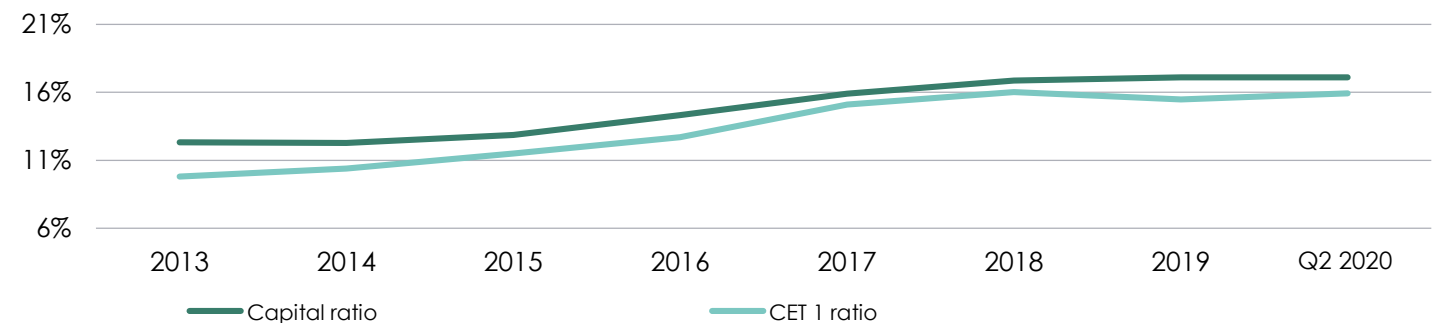
Capital structure

- DLR's total equity amounted to DKK 13,766m at end-June 2020 compared with DKK 13,311m at end-Q4 2019
- The total capital ratio was 17.1% at end-June 2020 and the core capital (CET1) ratio was 15.5%
- Including the result for the period, the total capital ratio was 17.5 and the CET 1 capital ratio was 15.9

DLR's capital structure



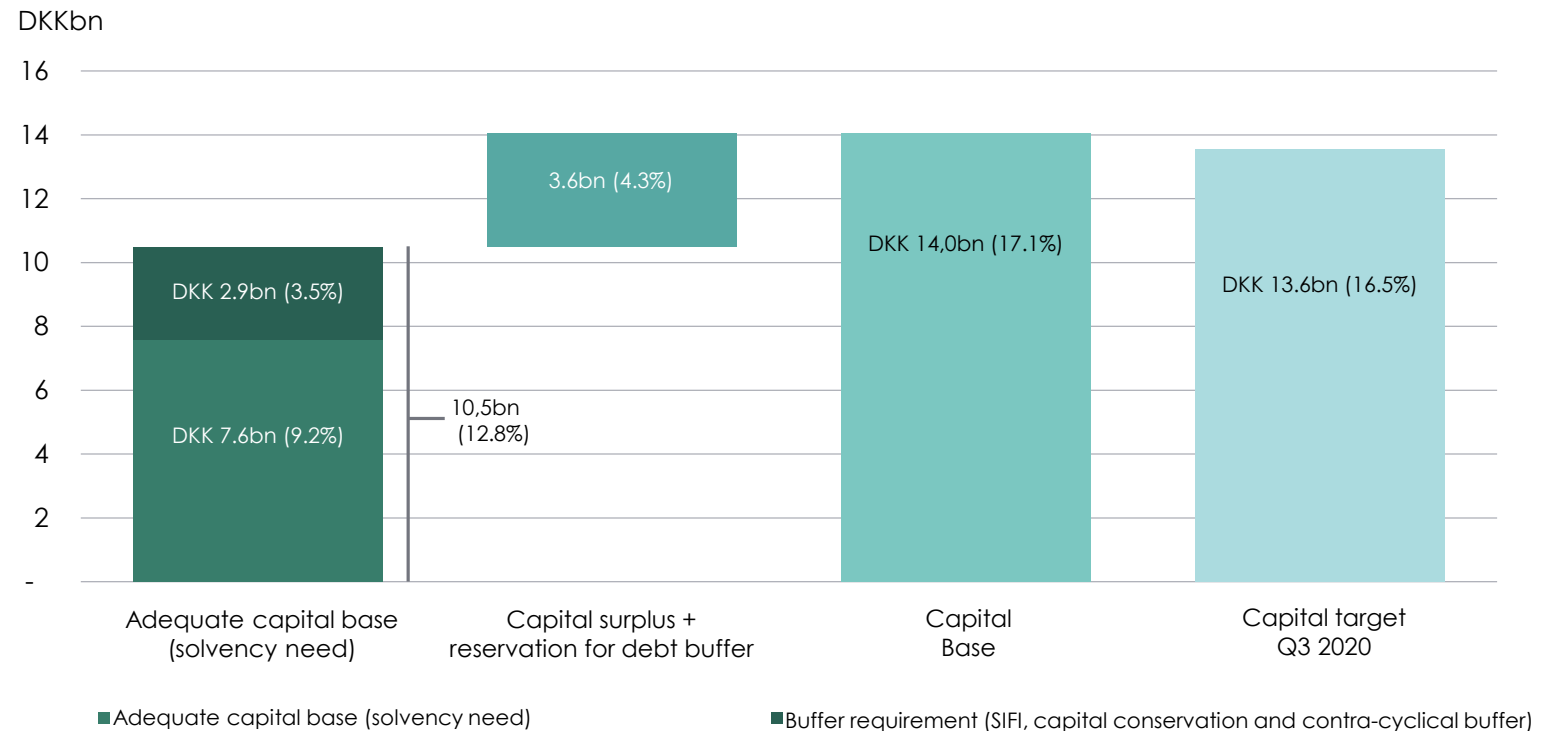
DLRs capital ratios



Capital requirement and capital ratio

- At end-June 2020 DLR's capital base amounted to DKK 14,047m
- DLR had excess capital of DKK 3,349m at end-Q2 2020, on top of the total capital requirement of DKK 10,486m. Additionally, DLR has a debt buffer reservation of DKK 212m
- DLR's total capital requirement was reduced to 12.8% as a consequence of the counter-cyclical buffer being reduced to zero

DLR's capital requirement and capital ratio, 30 June 2020



Solvency need statement

(DKKkm)	Q3 2019		Q4 2019		Q1 2020		Q2 2020	
	Standard	IRB	Standard	IRB	Standard	IRB	Standard	IRB
Credit risk	3,099	2,933	3,223	2,925	3,270	2,908	3,283	2,920
Supplements to 8% requirement		534		551		549		549
Market risk	165		204		203		185	
Supplements to 8% requirement	320		435		457		471	
Operational risk	193		190		190		190	
Supplements to 8% requirement	0		0		0		0	
Other risk	0		0		0		0	
Adequate capital base, total	7,245		7,529		7,577		7,599	
Total risk exposure IRB/STA	79,883		81,784		82,135		82,229	
Of which from credit risk	38,744	36,656	40,292	36,561	40,871	36,355	41,039	36,499
Individual solvency need, %	9.07		9.21		9.23		9.24	
Statutory adequate capital base	7,245		7,529		7,577		7,599	
Supplements due to statutory requirements	0		0		0		0	
Individual solvency need after supplements,%	9.07		9.21		9.23		9.24	
SIFI-requirement,%-points	1.0		1.0		1.0		1.0	
Capital preservation buffer, %-points	2.5		2.5		2.5		2.5	
Countercyclical buffer, %-points	1.0		1.0		0.0		0.0	
SIFI-requirement Faroe Island, %-points	0.01		0.01		0.01		0.01	
Total statutory capital requirement, %-points	13.6		13.7		12.7		12.8	

Ownership structure

	30 June 2020		30 June 2019		30 June 2018	
	Share capital (DKKm)	Share of share capital (%)	Share of share capital (%)	Share of share capital (%)	Share of share capital (%)	Share of share capital (%)
Local Banks	263	46.1%	45.5%	42.1%		
Nationwide Bank and Jyske Bank	148	26.0%	31.3%	34.9%		
Nykredit Realkredit	69	12.1%	12.1%	12.2%		
PRAS	41	7.2%	7.2%	6.8%		
DLR	46	8.1%	3.5%	3.8%		
Other Banks	3	0.5%	0.4%	0.2%		
Total	570	100%	100%	100%		

DLR's ratings with S&P

- DLR has an issuer credit rating (ICR) of A- with a stable outlook
- The rating is supported by an ALAC-uplift of +1
- The high issuer credit rating adds an extra buffer of 2 unused 'uplifts' to the AAA-rating of DLR's covered bonds
- DLR's covered bonds are supported by a further high over-collateralisation of Capital Center B compared to S&P's OC-requirements

S&P Global

DLR Kredit A/S

SACP	bbb+		Support	+1		Additional Factors	0
Anchor	bbb+		ALAC Support	+1		Issuer Credit Rating	
Business Position	Moderate	-1	GRE Support	0		A- / Stable / A-2	
Capital and Earnings	Strong	+1	Group Support	0		Resolution Counterparty Rating	
Risk Position	Adequate	0	Sovereign Support	0		A / -- / A-1	
Funding	Average						
Liquidity	Adequate	0					

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Interim financial results H1 2020

Lending and credit risk

Capital structure and rating

— **Funding**

Funding

Update

Successful refinancing of ARM-Short loans on 27 May 2020, where CIBOR6 bonds were sold for DKK 11.3bn

- Spread to CIBOR6M settled at +6bp
- Bid-to-cover was 3.2

Successful auctions of ARM F3-F5 bonds on 18 and 19 August for DKK 4.1bn

- Interest rates on ARM F3 and F5 settled at -0.21% and -0.2%, respectively
- Bid-to-cover was in the range of 3-6

New refinancing auctions dates

- ARM F3-F5 are moved from settlement dates in October to April
- ARM F1-F2 are moved from settlement dates in April to January
- The goal is for all refinancing of ARM loans from 2024 to be made exclusively with settlement dates in January and April

New callable bond series from 1 September (2050 → 2053)

- Callable bond series are replaced with three years intervals
- Hence, DLR has opened the following callable bond series:
 - 30-year bonds: 1% 2053, 1% IO 2053 and 1.5% 2053
 - 20-year bonds: 0.5% 2043

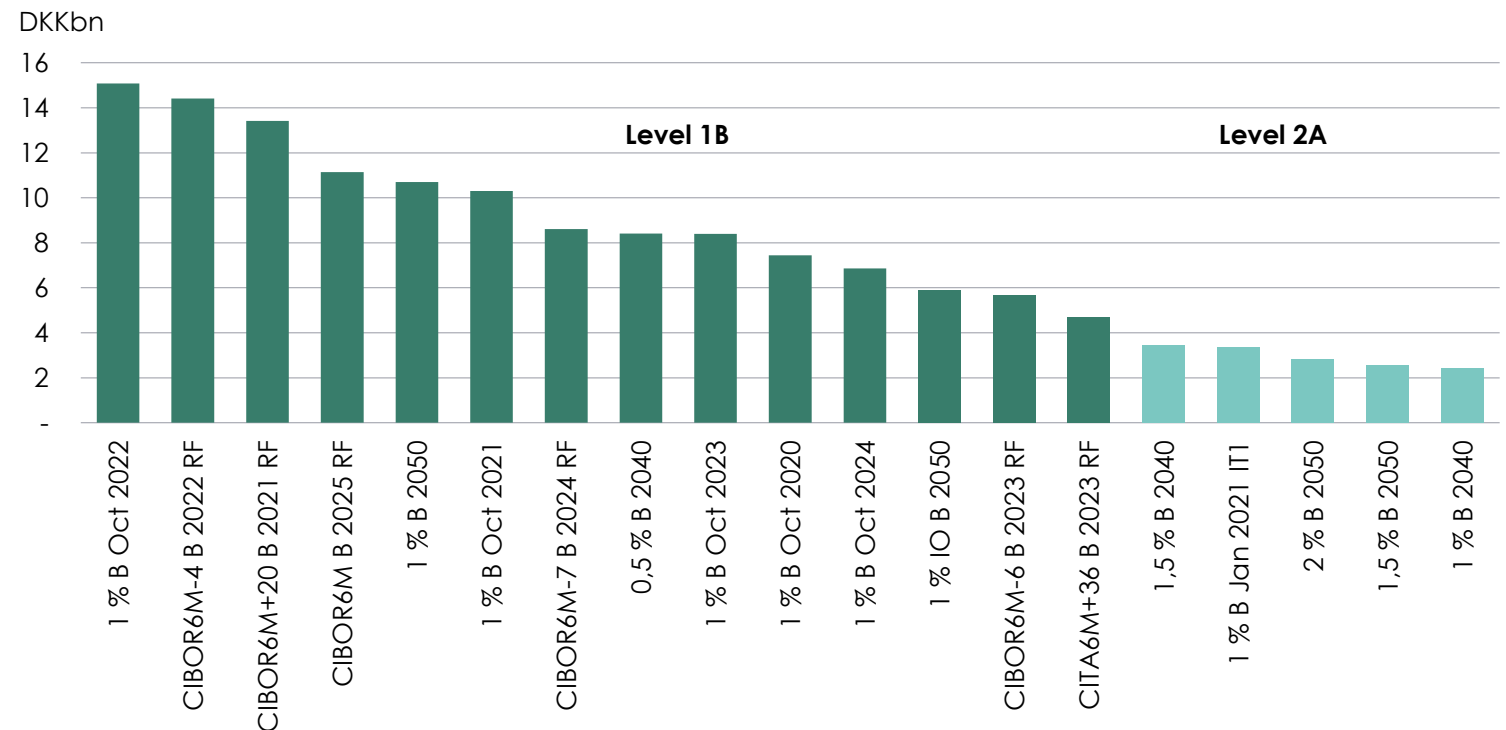
DLR's covered bond series

LCR-bond size requirements

- Around 90% of DLR's total amount of outstanding bond amount currently comply with the LCR bond size requirement for Level 1B (+500m EUR) or Level 2A (+250m EUR)
- DLR's largest covered bond series are dominated by the CIBOR-based ARM-Short bonds and the ARM bullet bonds with long maturities

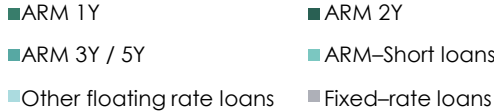
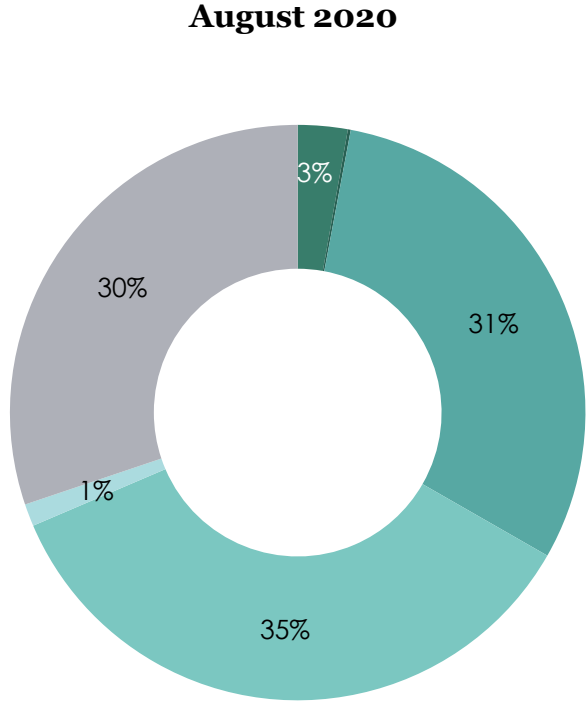
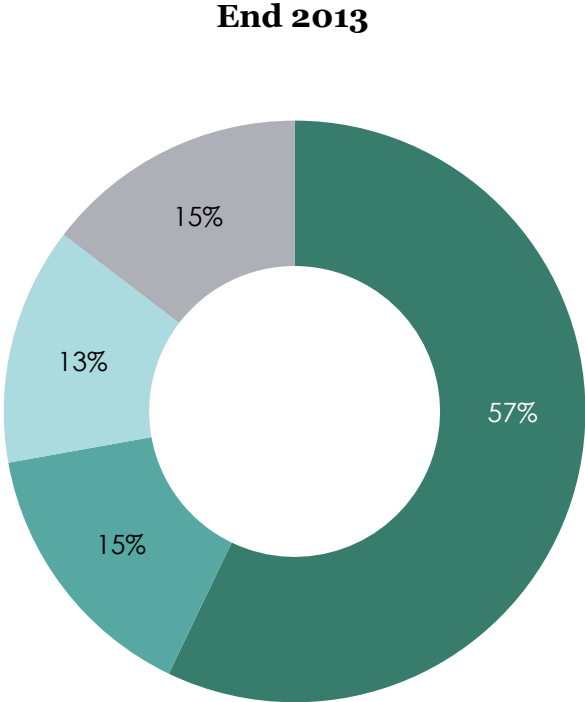
DLRs bond series that meets LCR size requirements

August 2020



A well balanced funding structure

- The many new callable bonds issued over the past year have implied that 30 pc of all DLR's covered bonds were long-term fixed-rate bonds at the end of August 2020
- Also, there has been a significant shift away from ARM bullet bonds with short maturities
- Overall, DLR's funding structure is today far more well-balanced than 5 years ago



Maturity profile

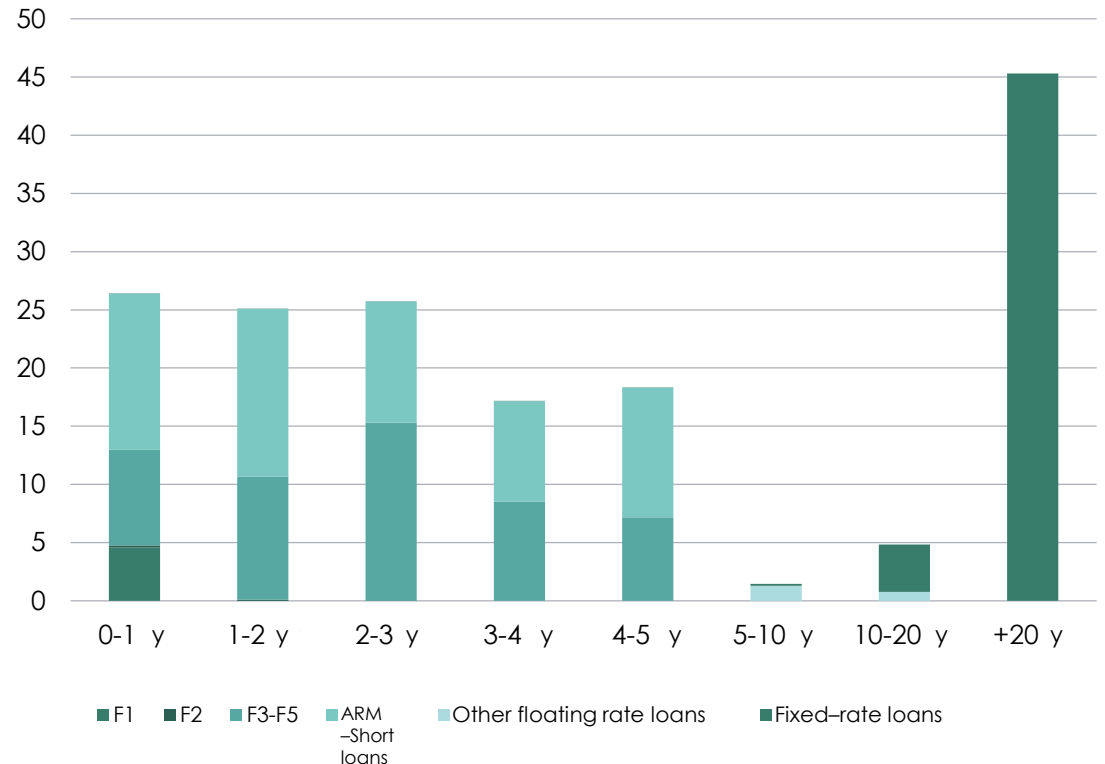
on DLR's outstanding bonds

- The transition towards loans with longer interest reset periods has contributed to reduce DLR's annual refinancing need, and the most common interest rate fixation period on the reset loans is now 5 years
- When refinancing the variable rate bonds funding ARM-Short loans, DLR targets the 5-year segment for new issuances
- Only 16 pc of DLR's outstanding bonds must be refinanced within the coming year

Maturity profile on DLR's circulating bonds

August 2020

DKKbn



Refinancing

- of bonds maturing in the coming 12 months

Close to DKK 26bn DLR covered bonds are up for refinancing within the next 12 months

- ARM-bonds of approx. 13 billion DKK will expire the coming years, while the remaining approx. 13 billion DKK comes from ARM-Short-bonds
- ARM-loans of DKK 7.4bn expire 1 October 2020, but because many borrowers have switched to other types of loans and /or have repaid their debts, only DKK 4.1 billion was refinanced

Maturity date	Bond type	Loan type	Currency	Reference rate	Refinancing frequency	Amount (DKKbn)
01-10-2020	SDO	ARM	DKK	01-10-2020	5 y	7,444
01-01-2021	SDO	ARM	DKK and EUR	01-01-2021	1 - 5 y	5,363
01-04-2021	SDO	ARM	DKK	01-04-2021	1 - 5 y	172
01-07-2021	SDO	ARM-Short	DKK	01-07-2021	3 - 5 y	13,443
Total						26,422

Issued senior debt

1 August 2020

- DLR issues Senior Secured Bonds (SSB) to provide supplementary security for DLR's covered bonds in Capital Center B, including out of rating considerations. DLR's issued SSBs total DKK 3bn
- Further, DLR has issued Senior Resolution Notes (SRN) and Senior Non-Preferred Notes (SNP) totaling DKK 3bn to meet the debt buffer requirement, which must constitute 2% of unweighted loans outstanding. From 2022, the total of DLR's capital and debt buffer (loss-absorbing capital/debt) requirements must make up at least 8% of DLR's total liabilities

Type	Amount (DKKm)	Issue date	Maturity date	Maturity (years)	Reference rate	Spread
SSB	2,000	20-03-2018	01-04-2021	3	3M CIBOR	0.31%
SNP	1,000	02-07-2018	02-07-2021	3	3M CIBOR	0.70%
SRN	1,000	15-09-2017	15-06-2022	4 $\frac{1}{4}$	3M CIBOR	0.75%
SSB	1,000	01-10-2019	01-10-2022	3	3M CIBOR	0.94%
SNP	750	12-04-2019	01-07-2023	4	3M CIBOR	1.15%
SNP	250	12-04-2019	01-07-2023	4	Fixed rate	1.07%
Total, senior debt	6,000					

Contact IR



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