

dlr.kredit



Investor presentation

October 2020

Interim report

Q1-Q3 2020

Financial summary Q1-Q3 2020

- DLR's earnings from core activities were satisfactory in Q1-Q3 2020
- Core profit before impairments amounted to DKK 799m, which is unchanged from the same period in 2019
- 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
- Pre-tax profit was DKK 714m, which is DKK 128m down on the same period in 2019, but better than expected

Economic outlook for 2020

- DLR has adjusted its profit forecast for the full-year 2020 upwards by DKK 100m compared to its previous announced expectation
- DLR now expects a pre-tax profit of DKK 875-925m for the full-year 2020
- Due to the corona situation, the economic outlook for 2020 is still subject to increased uncertainty

Solvency

- DLR's own funds increased by DKK 108m (net) essentially due to a rise in equity resulting from the sale of treasury shares for DKK 110m
- The net profit of DKK 556m for the period is not included

Lending activity

- The level of lending activity has been reasonably high despite the corona pandemic. Gross lending amounted to DKK 27.3bn (nominal) driven by a significant remortgaging activity
- Lending growth – net lending – amounted to DKK 7bn for the first three quarters of the year, which is more than expected and better than for the same period in 2019, when net lending totaled DKK 5.7bn
- DLR has realized higher market shares within all major market segments

Agenda

— **Interim financial results Q1-Q3 2020**

Lending and credit risk

Capital structure and rating

Funding

Income statement

(DKKm)	Q1-Q3 2020	Q1-Q3 2019	Index
Administration fee income	1,295	1,216	106
Other core income, net	104	100	105
Interest expenses, senior debt and subordinated debt	-45	-34	134
Fee and commission income, net	-329	-272	121
Core income (mortgage lending income)	1,025	1,010	102
Staff costs and administrative expenses, etc.	-215	-199	108
Other operating expenses	-11	-9	131
Result from core activities before losses and impairments	799	802	100
Provision for loans and receivable impairment, etc.	-58	33	
Portfolio earnings (securities)	-27	7	
Pre-tax profit	714	842	85
Net profit	556	657	85

Balance sheet

(DKKm)	30 Sep. 2020	31 Dec. 2019
Assets:		
Loans and advances	163,785	156,837
Due from credit institutions and central banks	2,788	4,179
Bonds at fair value	11,146	11,732
Shares, etc.	34	36
Other assets	351	443
Total assets	178,104	173,228
Liabilities:		
Issued bonds	161,575	157,639
Other liabilities	1,239	970
Provisions for deferred tax	13	8
Subordinated debt	1,300	1,300
Total equity	13,977	13,311
Total equity and liabilities	178,104	173,228

Return on portfolio holdings

(DKKm)	Q1-Q3 2020	Q1-Q3 2019
<i>Interest income from/return on:</i>		
Bonds	80	83
Credit institutions and central banks, net	-2	-6
Currency	-1	1
Shares	7	0
Other	-4	0
Value adjustment, etc.	-107	-70
Total return on securities holdings	-27	7
<i>Interest expenses on:</i>		
Senior debt	-20	-21
Subordinated capital (Tier 2)	-25	-12
Total interest expenses on external capital	-45	-34

Agenda

Interim financial results Q1-Q3 2020

— **Lending and credit risk**

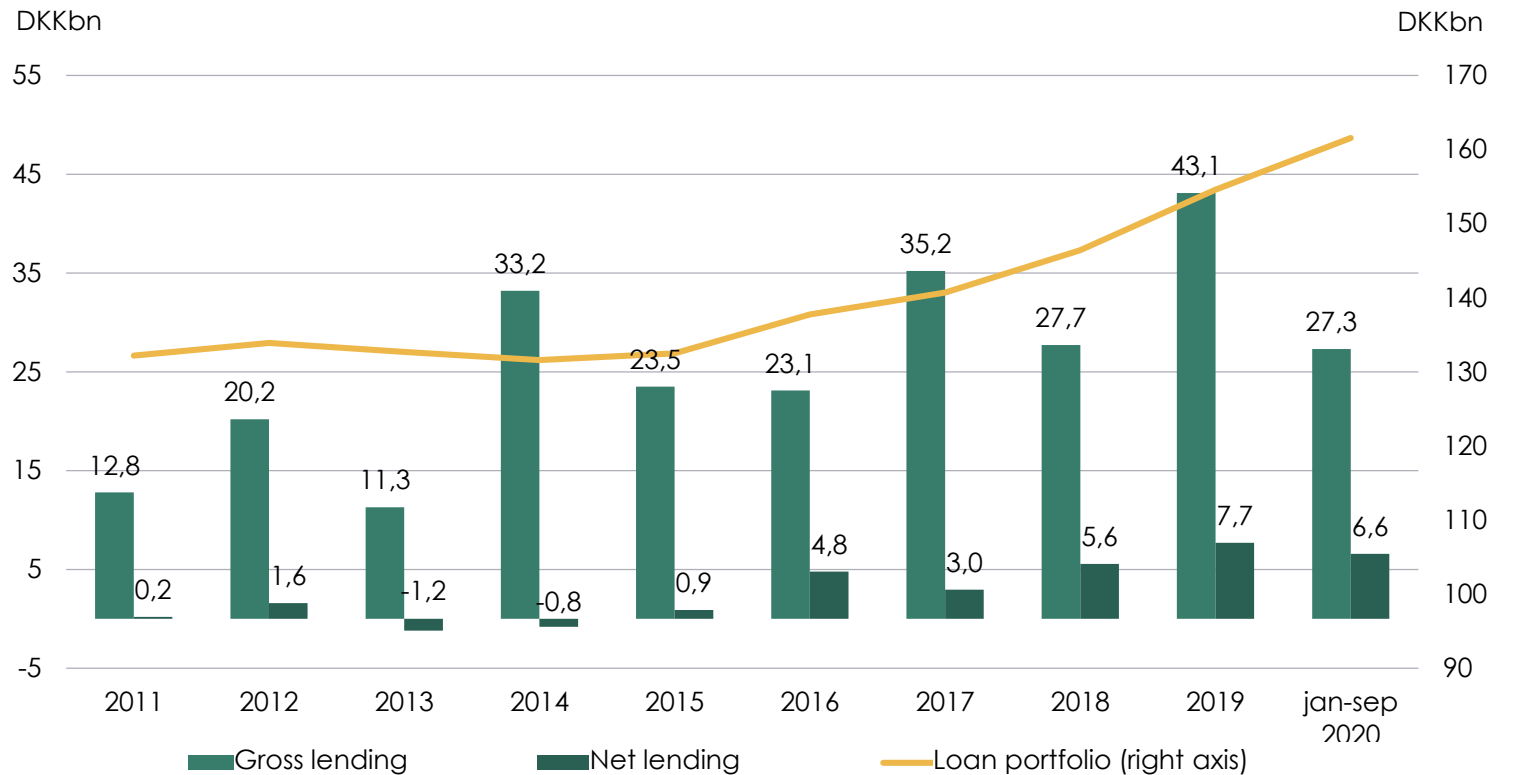
Capital structure and rating

Funding

Lending activity

- Lending growth measured in cash value amounted to DKK 6,6bn for the first three quarters of the year, which is more than expected and better than for the same period in 2019, when net lending totaled DKK 5.3bn
- Driven in part by significant remortgaging activity, gross lending reached DKK 27.3bn, which was better than expected
- The positive development in lending activity is not least due to a still very close and well-functioning collaboration with our partner/shareholder banks
- Lending growth has been particularly pronounced in the commercial property segment

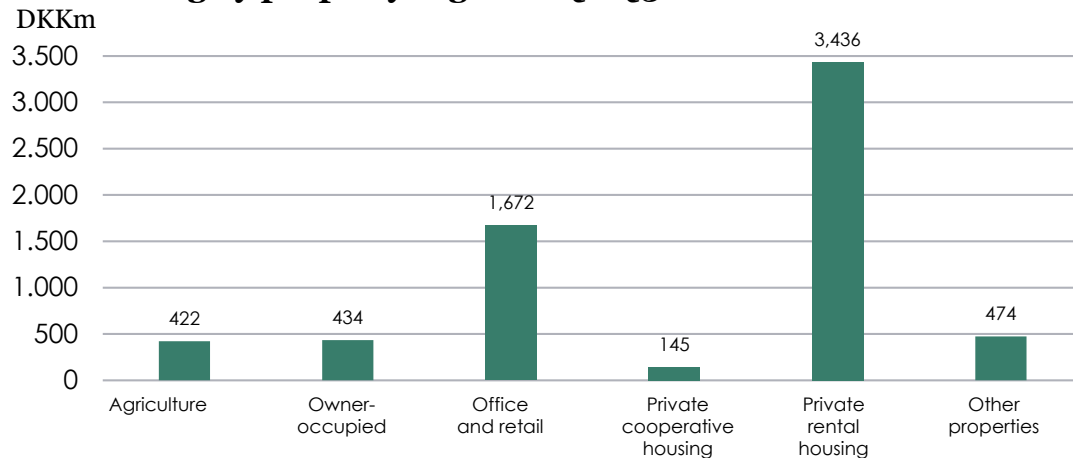
Lending activity - Gross and net lending and total portfolio



Net lending

- DLR's net lending to commercial and private rental housing properties amounted to DKK 5.7bn in Q1-Q3 2020, whereas net lending to agriculture and owner-occupied dwellings amounted to DKK 0.9bn
- DLR has realized higher market shares within all major market segments since 2015

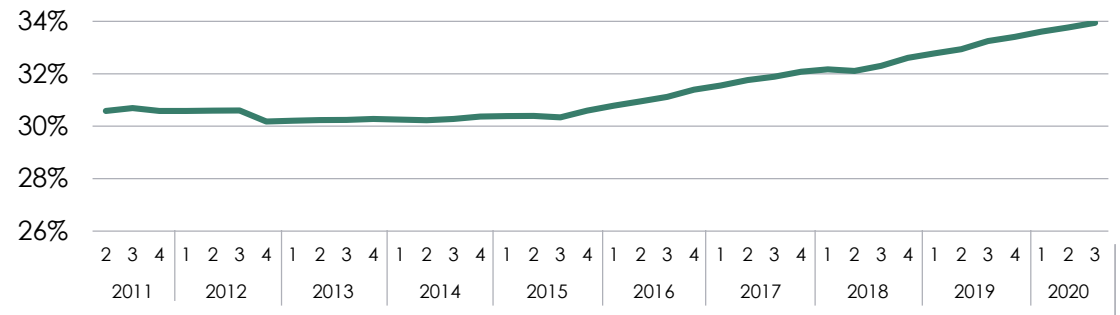
Net lending by property segment Q1-Q3 2020



Note: Net lending calculated at cash value

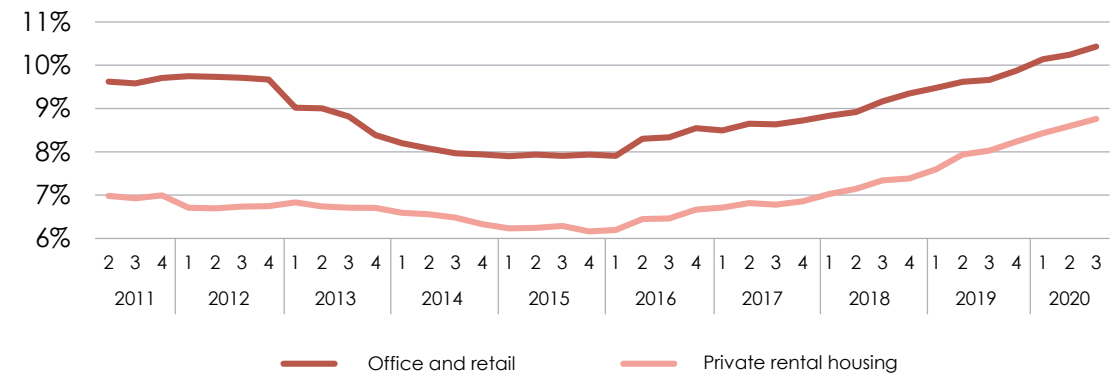
DLR market share

Agriculture



DLR market share

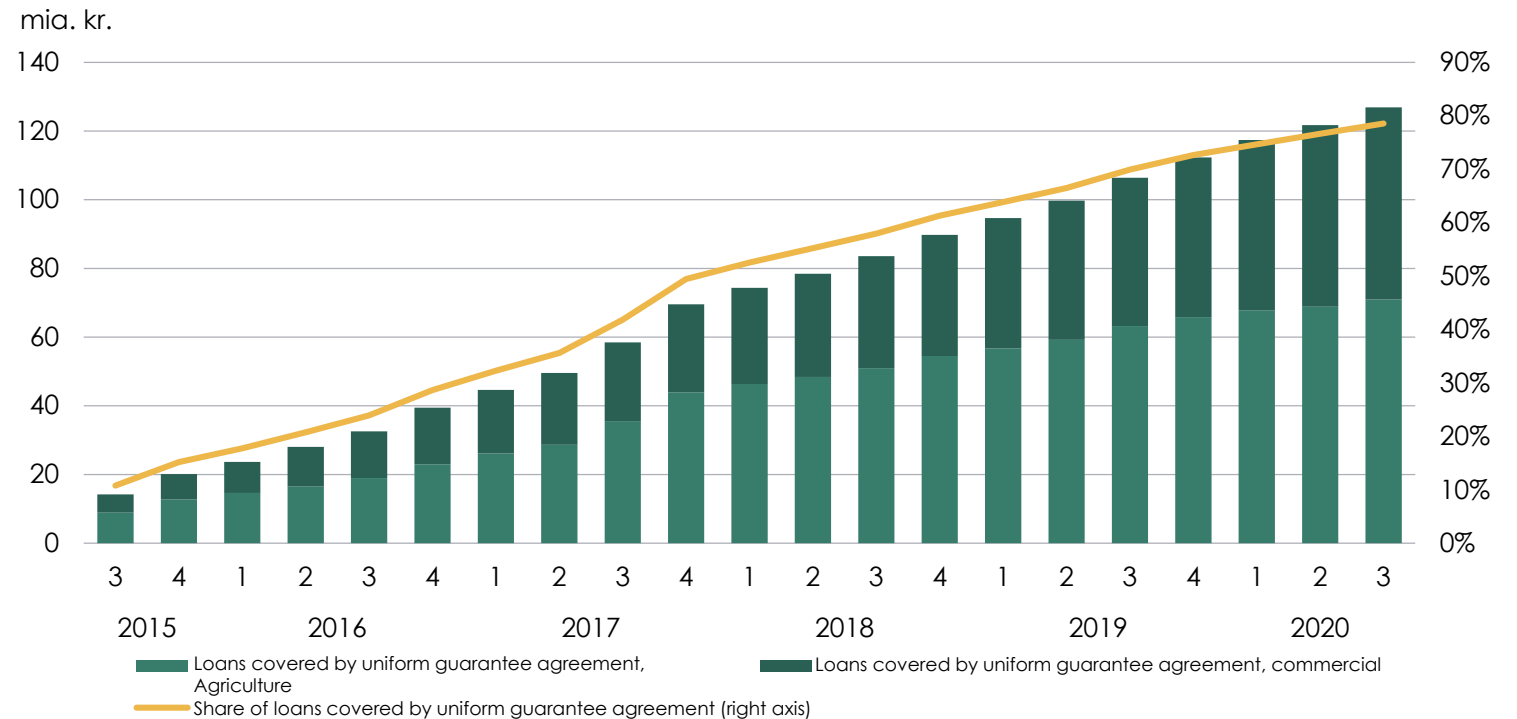
Commercial loan portfolio



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
- 78.5 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

Lending covered by the uniform guarantee agreement
- Applies to loans offered after 1/1/2015



Loan portfolio

Distributed on types of loans

Loan portfolio, 30 September 2020

	Outstanding bond debt	Distribution on property categories
Agriculture	89.6	55.5%
Owner occupied incl. Residential farms	8.8	5.5%
Office and retail	27.4	17.0%
Private residential rental housing	29.6	18.4%
Private cooperative housing	3.2	2.0%
Other properties	2.8	1.8%
Total	161.6	100.0%

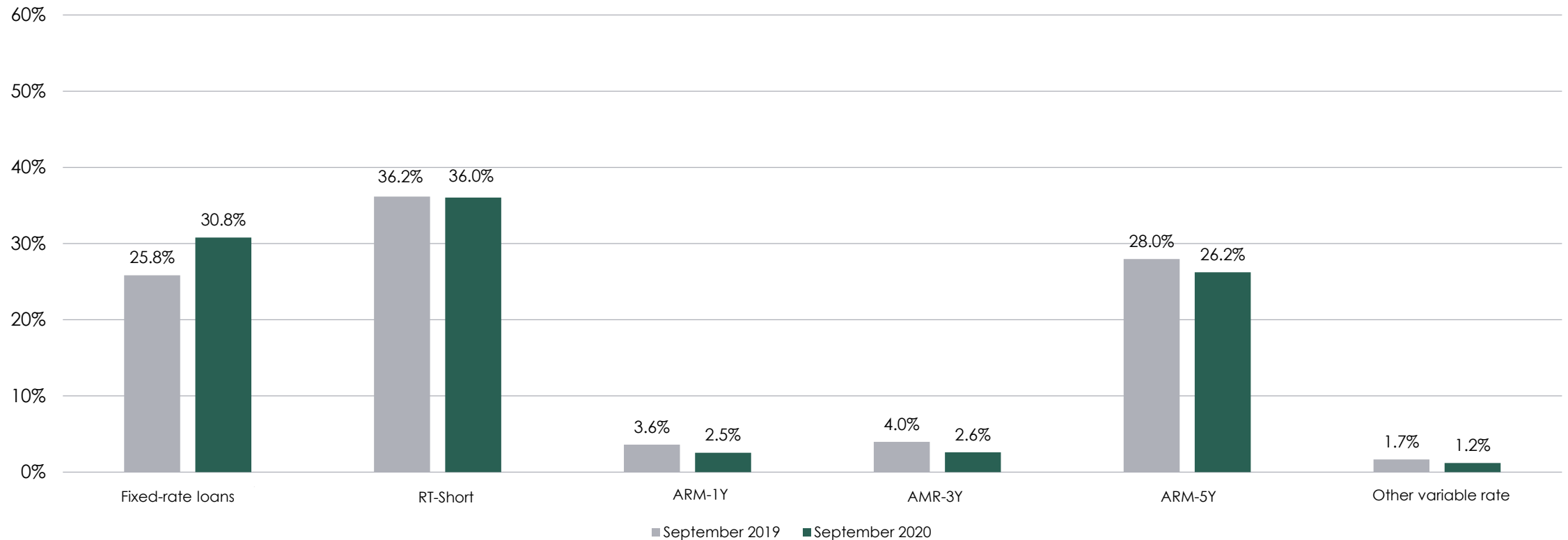
Distribution on loan types

Fixed rate loans	ARM short	ARM 1Y/Y2	ARM 3Y/4Y	ARM 5Y	Other floating rate loans
21.2%	48.5%	2.4%	2.9%	23.4%	1.4%
52.8%	8.9%	6.6%	5.8%	24.0%	1.9%
41.3%	21.3%	2.9%	3.3%	30.2%	0.9%
38.6%	23.9%	2.5%	2.6%	31.8%	0.6%
61.0%	12.4%	0.4%	1.1%	24.1%	1.0%
47.2%	20.7%	0.9%	4.1%	26.7%	0.4%
30.8%	36.0%	2.7%	3.1%	26.2%	1.2%

Loan portfolio

Distributed on loan types

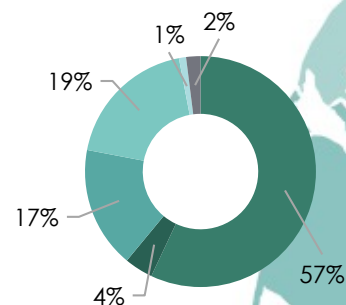
Loan portfolio – distribution on loan types



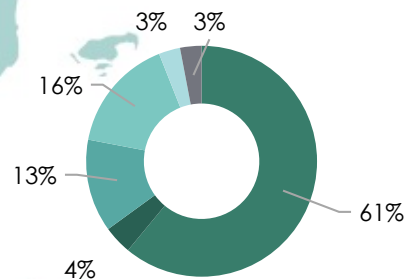
Geographical distribution of lending

Outstanding debt at September 2020

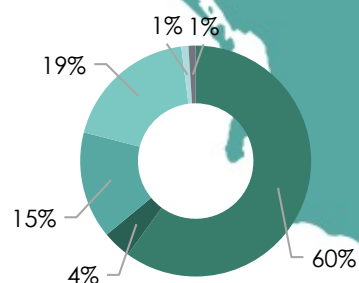
Central Jutland
DKK 49.2bn (30.4%)



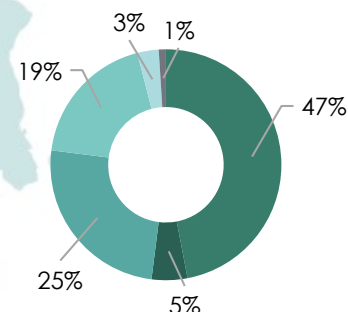
Northern Jutland
DKK 35.7bn (22.1%)



Southern Jutland and Funen
DKK 43.8bn (27.1%)



Zealand/Copenhagen
DKK 30.0bn (18.6%)



Greenland
DKK 1.3bn (0.8%)

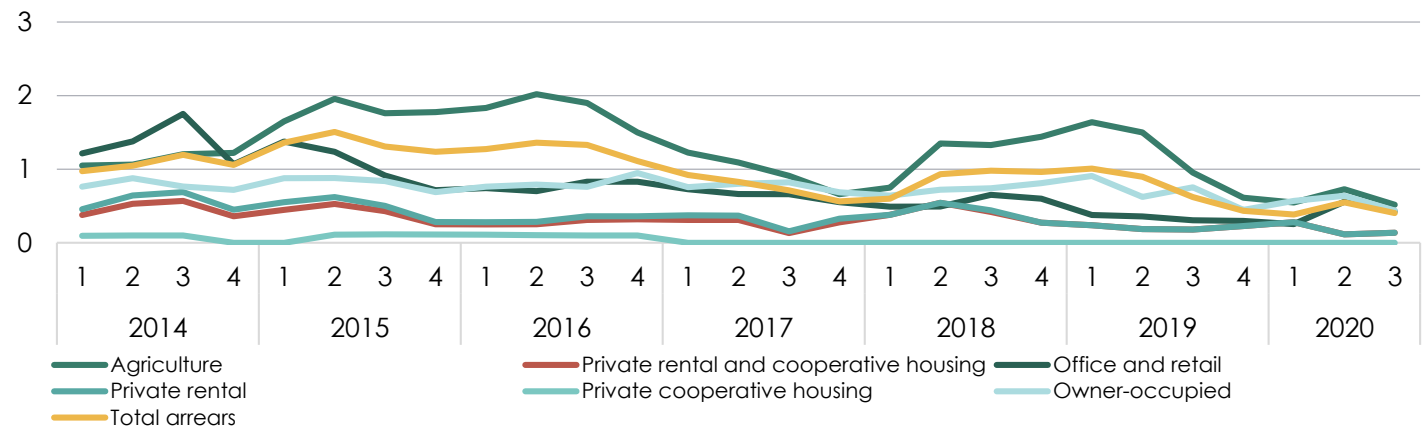
Faroe Islands
DKK 1.5bn (0.9%)

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

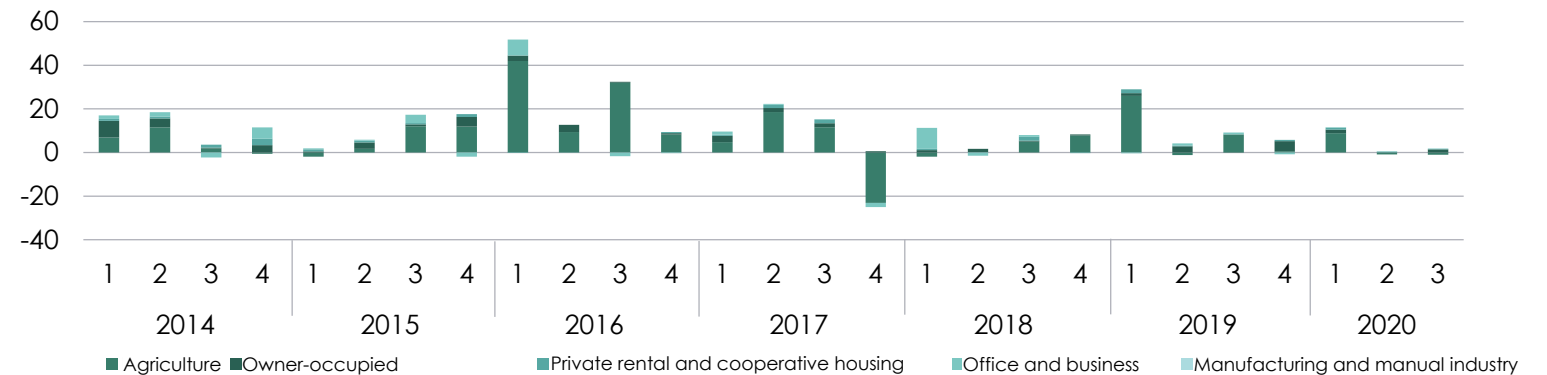
Arrears and loan losses

- At mid-October 2020, DLR's 105-days arrears was 0.41%
- Arrears have in general decreased in Q3 to around the same level as year-end 2019
- The moderate level reflects that the impact of the corona pandemic on DLR's customers so far has been limited
- At the September 2020 mortgage payment date, 4 agreed deferrals were noted due to the corona situation
- DLR recorded a loss on 36 exposures in Q1-Q3 2020 compared to 57 during the same period in 2019

105-days arrears, pc of term payments



Loan losses before loss offsetting (DKKm)



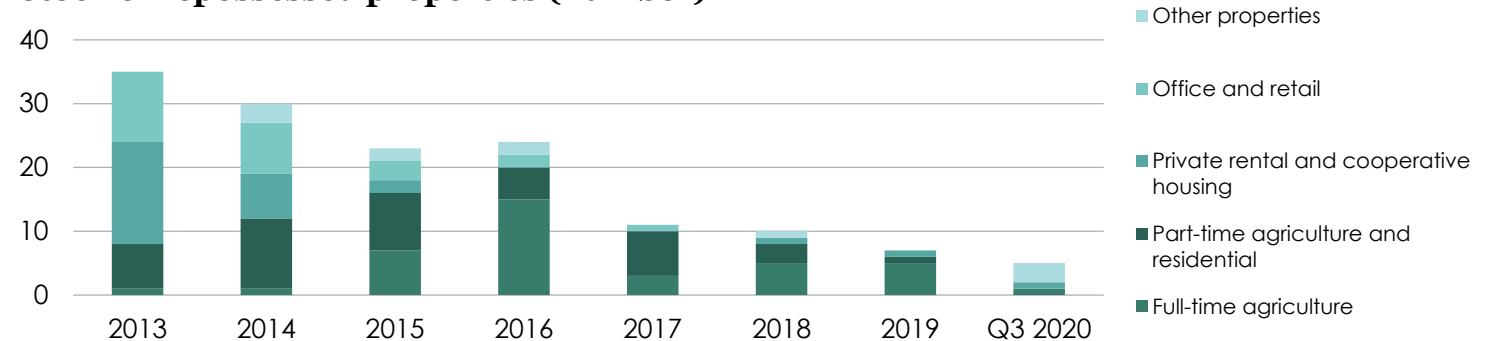
Takeovers and forced sales

- The number of completed forced sales on properties in which DLR holds a mortgage was 11 in Q3 2020, and DLR repossessed 1 property
- At end-Q3 2020, DLR had a stock of 5 repossessed properties worth DKK 3m

Forced sales – properties where DLR holds mortgage



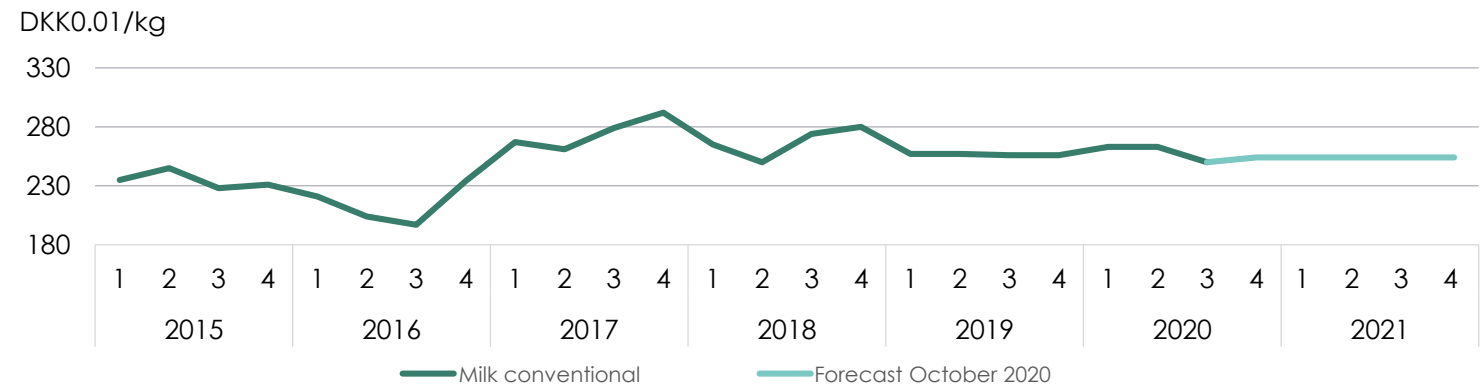
Stock of repossessed properties (number)



Outlook on agriculture

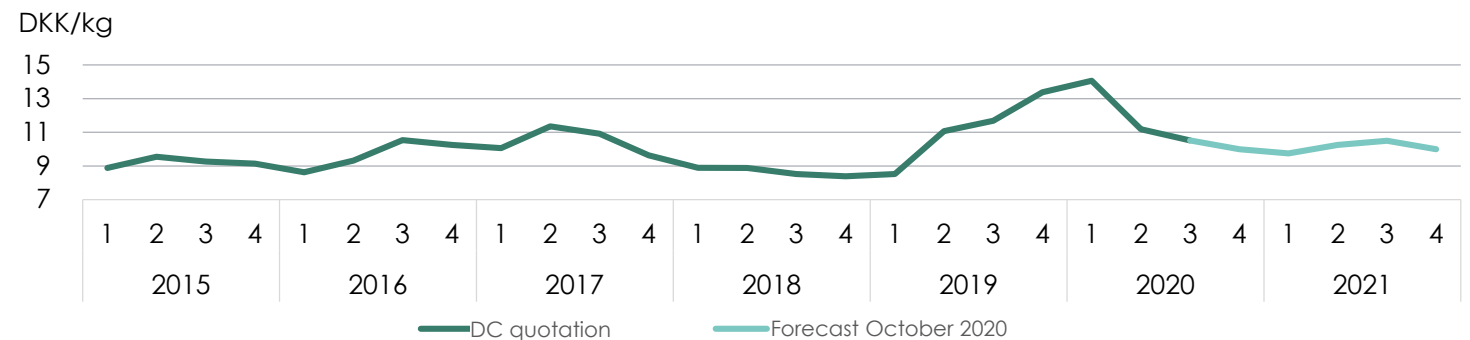
- Despite a decline in product prices, particularly in Q3, the main areas of agricultural production continued to enjoy good terms of trade and satisfactory earnings
- We expect this will continue for the rest of this year

Development in milk prices quotation



Source: SEGES

Development in pork price quotation



Source: SEGES

Agenda

Interim financial results Q1-Q3 2020

Lending and credit risk

— **Capital structure and rating**

Funding

Capital base

(DKKm)	September 2020	2019	2018
Equity			
- Share capital	570	570	570
- Distributable reserved	11,070	10,403	10,066
- Non-distributable reserves	2,338	2,338	2,338
Total equity	13,977	13,311	12,974
CET1	12,755	12,647	12,344
Subordinated capital (Tier 2)	1,300	1,300	650
Capital base	14,055	13,947	12,994
DLR's total capital ratio, %	17.2	17.1	16.9
Capital requirement, % ¹⁾	12.7	13.7	13.0
Capital surplus including debt buffer reservation % point ²⁾	4.5	3.4	3.9

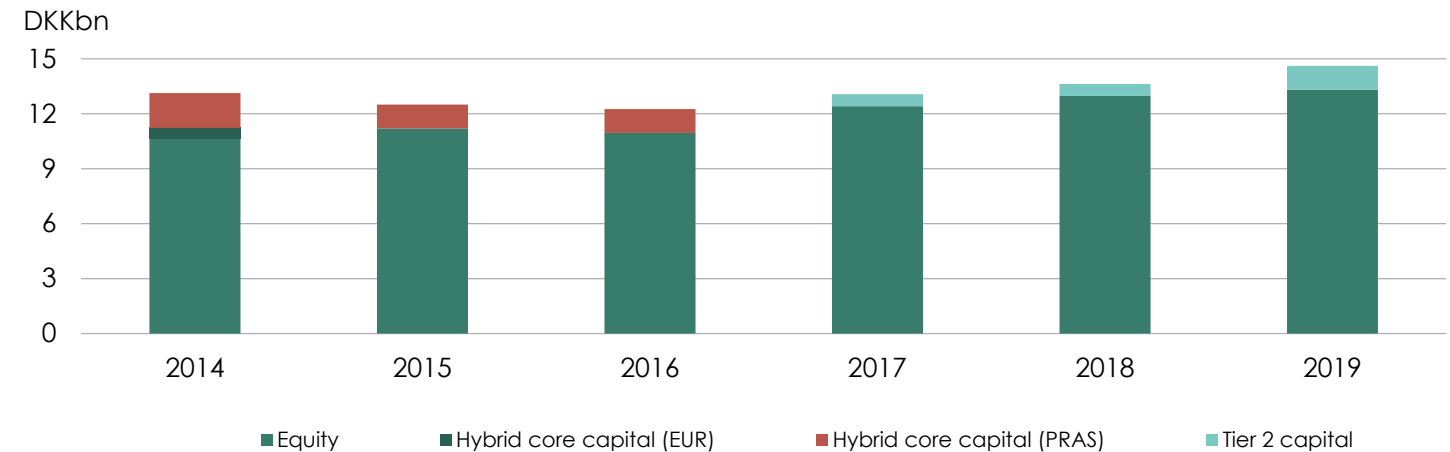
1) 9.2% individual solvency need added 2.5% capital conservation buffer, 1% SIFI buffer requirement and 0% counter-cyclical buffer

2) The debt buffer reservation-constitutes 0.3%

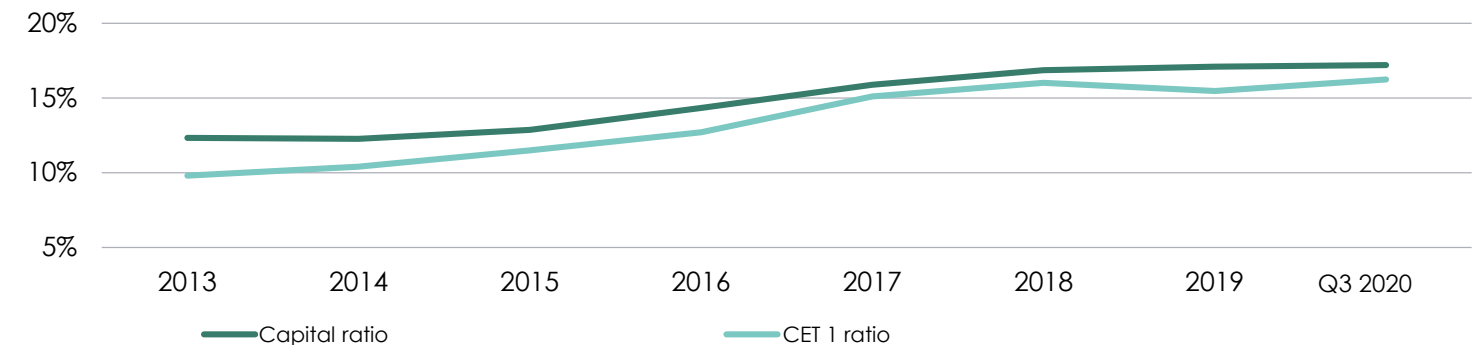
Capital structure

- The total capital ratio is calculated as 17.2 at the end of Q3 2020, which is an increase of 0.1 per cent compared with 2019 year-end
- The common equity tier 1 (CET 1) capital ratio was 15.6, which is also an increase of 0.1 per cent relative to the end of 2019
- Including the result for the period would produce a total capital ratio of 17.9 and a CET 1 capital ratio of 16.3

Capital structure



Capital ratios

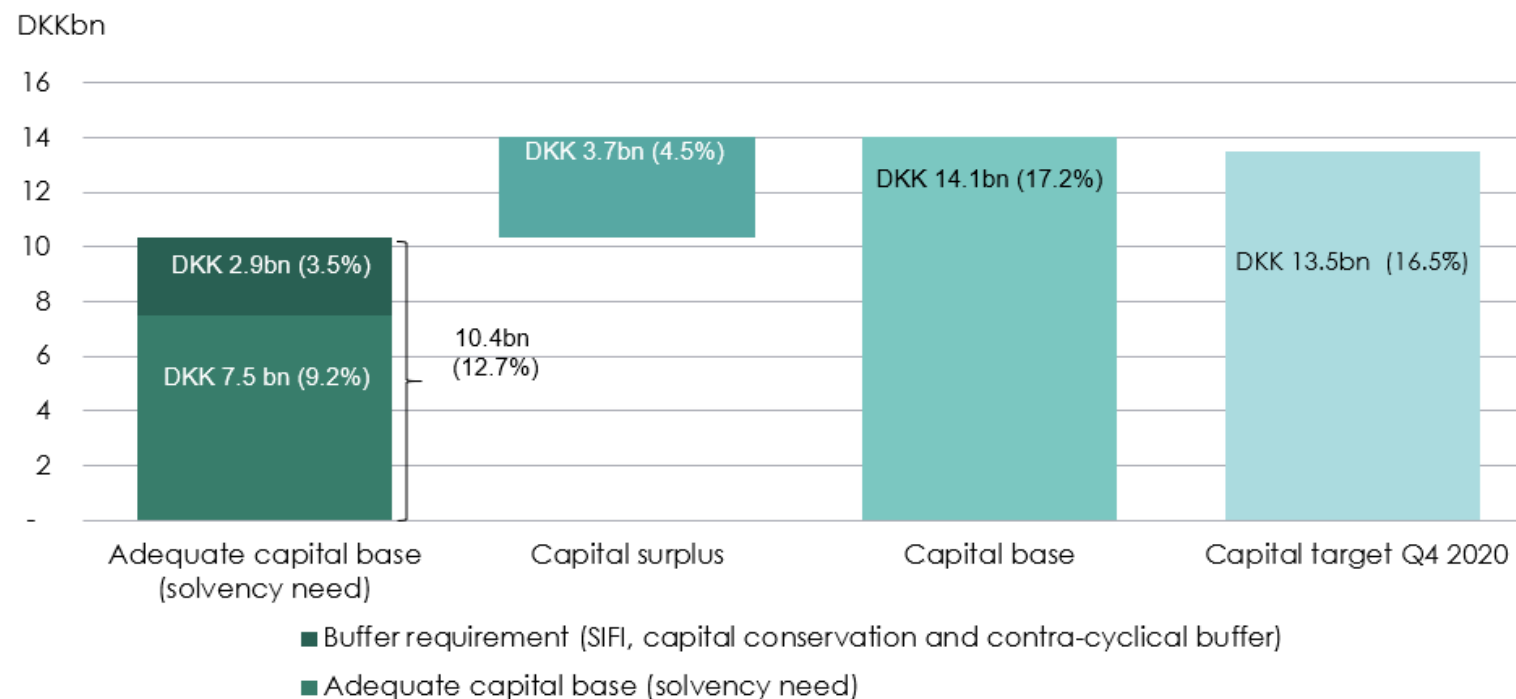


Capital requirement and capital ratio

- At end-September 2020 DLR's capital base amounted to DKK 14,055m
- DLR had capital surplus (including debt buffer reservation) of DKK 3,697m at end-Q3 2020, on top of the total capital requirement of DKK 10,357m

DLR's capital requirement and capital ratio

30 September 2020



Solvency need statement

(DKKm)	Q4 2019		Q1 2020		Q2 2020		Q3 2020	
	Standard	IRB	Standard	IRB	Standard	IRB	Standard	IRB
Credit risk	3,223	2,925	3,270	2,908	3,283	2,920	3,283	2,927
Supplements to 8% requirement		551		549		549		561
Market risk	204		203		185		132	
Supplements to 8% requirement	435		457		471		401	
Operational risk	190		190		190		190	
Supplements to 8% requirement	0		0		0		0	
Other circumstances	0		0		0		0	
Adequate capital base, total	7,529		7,577		7,599		7,491	
Total risk exposure STA/IRB	81,784		82,135		82,229		81,619	
of which from credit risk	40,292	36,561	40,871	36,355	41,039	36,499	40,998	36,589
Individual solvency need, %	9.21		9.23		9.24		9.18	
Statutory adequate capital base	7,529		7,577		7,599		7,491	
Supplements due to statutory requirements	0		0		0		0	
Individual solvency need after supplements,%	9.21		9.23		9.24		9.18	
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		0.0		0.0		0.0	
SIFI-requirement Faroe Island, %-points	0.01		0.01		0.01		0.01	
Total statutory capital requirement, %-points	13.7		12.7		12.8		12.7	

Ownership structure

	30 September 2020		30 September 2019	30 September 2018
	Share capital (DKKm)	Share of share capital (%)	Share of share capital (%)	Share of share capital (%)
Local Banks	263	46.1%	46.2%	42.8%
Nationwide Banks and Jyske Bank	148	26.0%	30.6%	33.8%
Nykredit Realkredit	69	12.1%	12.2%	12.2%
PRAS	41	7.2%	7.2%	6.8%
DLR	46	8.1%	3.5%	5.2%
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's latest report on DLR can be down here: <https://dlr.dk/investor/rating/>

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					

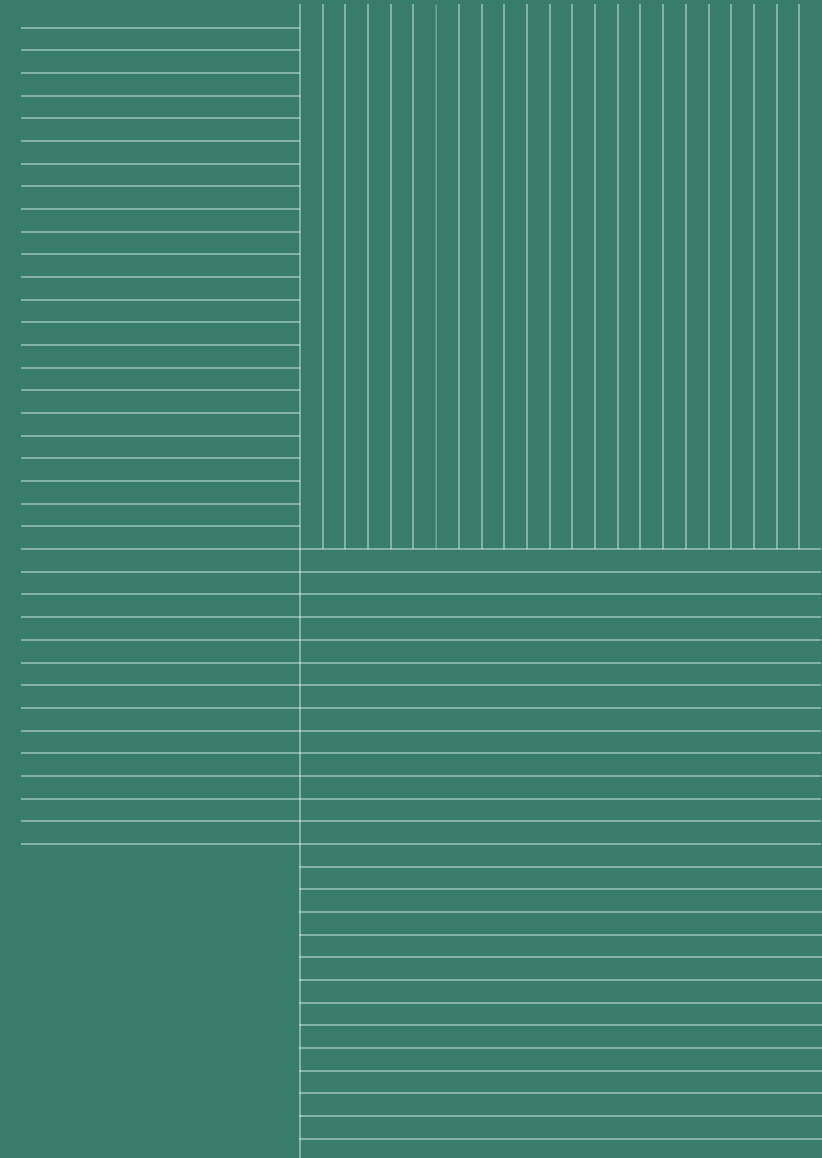
Agenda

Interim financial results Q1-Q3 2020

Lending and credit risk

Capital structure and rating

— **Funding**



DLR's covered bond series

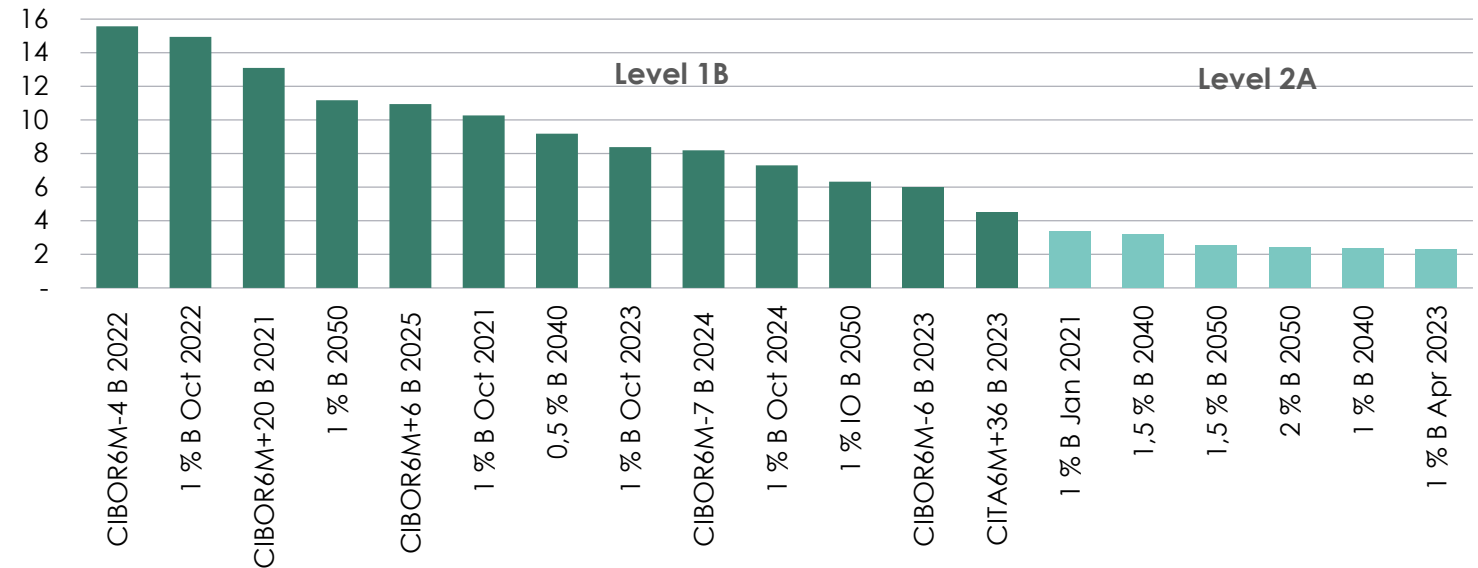
LCR bond size requirements

- Around 87% 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

DLR bond series that meet LCR size requirements

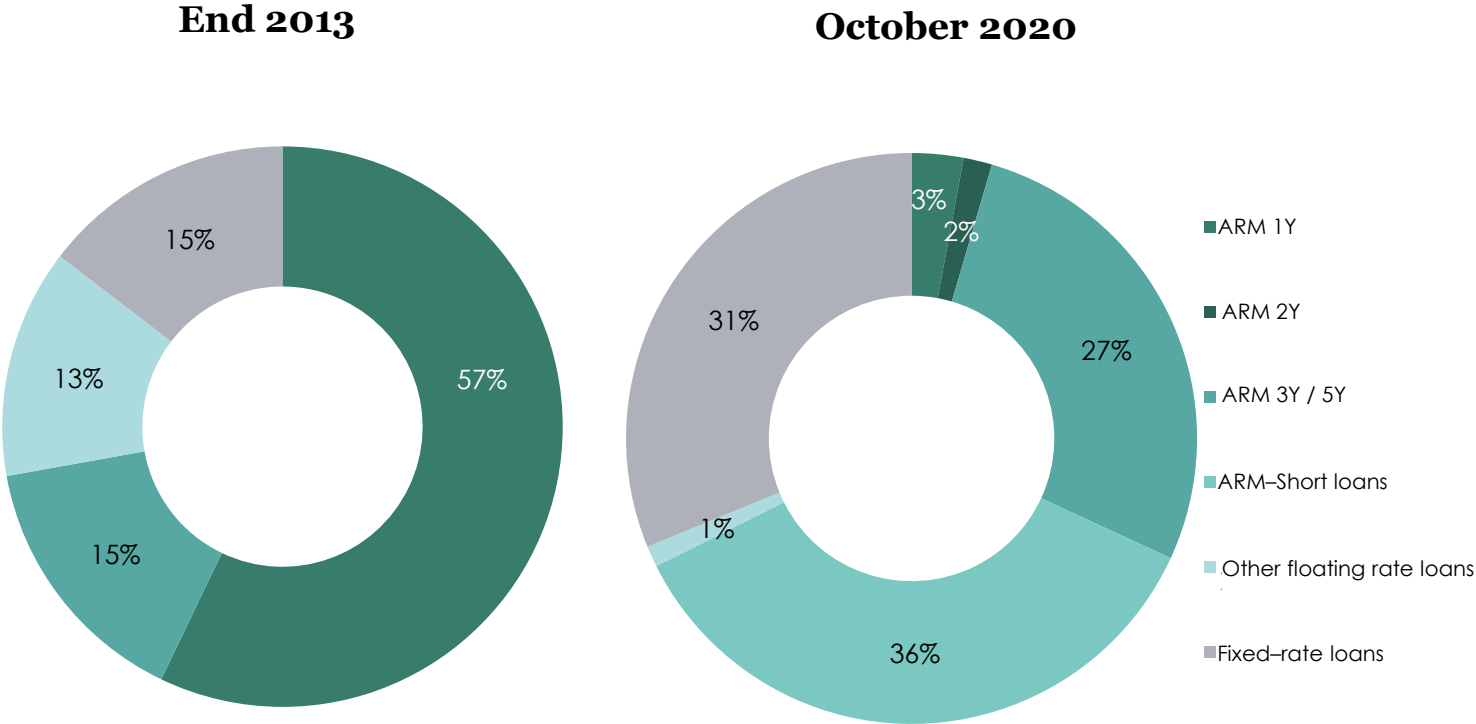
October 2020

DKKbn



A well balanced funding structure

- The many new loans issued with interest rates fixed to maturity have resulted in 31% of all DLR's bonds being fixed-rate callable bonds at October 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



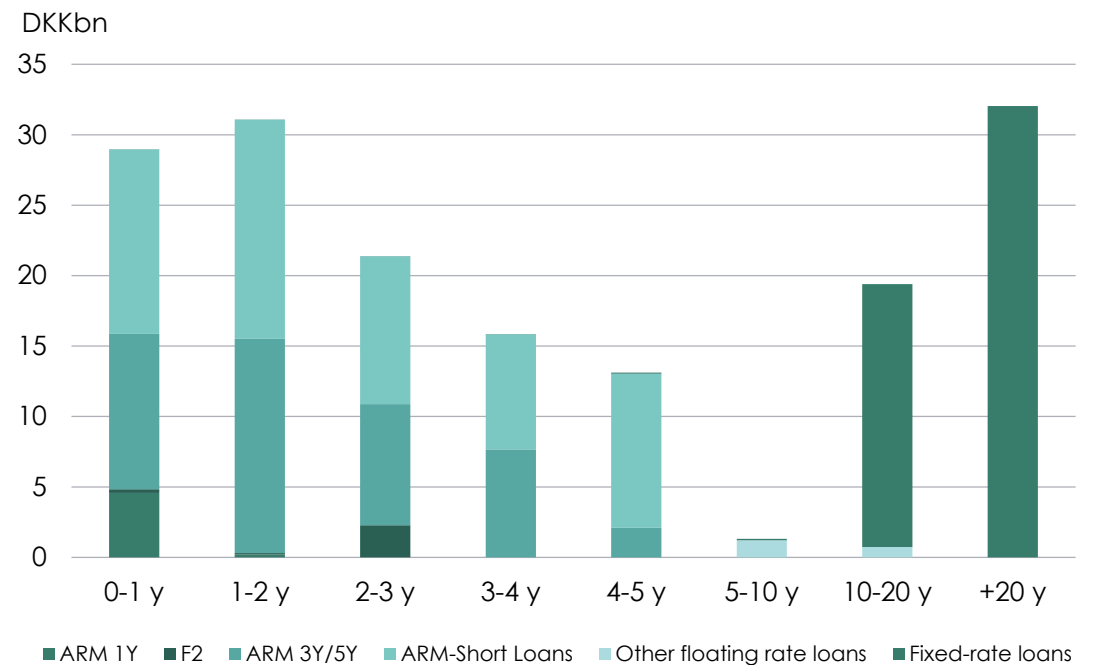
Maturity profile

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 18 pc of DLR's outstanding bonds must be refinanced within the coming year

Maturity profile on DLR's circulating bonds

October 2020



Refinancing

- of bonds maturing in the coming 12 months

DKK 29bn DLR covered bonds are up for refinancing within the next 12 months

- ARM-bonds of approx. 16 billion DKK will expire the coming years, while the remaining approx. 13 billion DKK comes from ARM-Short-bonds
- ARM-loans of DKK 5bn expire 1 January 2021

Maturity date	Bond type	Loan type	Currency	Reference rate	Refinancing frequency	Amount (DKKbn)
01-01-2021	SDO	ARM	DKK and EUR	01-01-2021	1 - 5 y	5,339
01-04-2021	SDO	ARM	DKK	01-04-2021	1 - 5 y	265
01-07-2021	SDO	ARM-Short	DKK	01-07-2021	3 - 5 y	13,092
01-10-2021	SDO	ARM	DKK	01-10-2021	3 - 5 y	10,263
Total						28,958

Issued senior debt

1 October 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 ³ / 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					

Senior Non-preferred Notes

- Buffers to absorb losses

- DLR's total buffer to take losses before SNP / SRN must be taken into account is DKK 15.7 bn
- This corresponds to 19.3% of REA (DKK 81.6 bn) and 9.7% of total loans outstanding (DKK 161.6bn)
- In addition, there are guarantees on DLR's mortgages as well as the possibility of offsetting losses in the commission payments to DLR's loan distributing shareholder banks
- For SNP / SRN to take losses DLR must be in a state of recovery or resolution

Current buffers (end-Q3 2020)	DKKm	
Impairments	488	Total buffer to take losses before SNP / SRN: DKK 15.7 bn corresponding to 19.3% of REA (DKK 81.6 bn) and 9.7% of total loans outstanding (DKK 161.6bn)
IRB-related deductions	643	
CET1	12,755	
Profit after tax Q1-Q3 2020	556	
Tier 2	1,300	
Senior Non-Preferred Notes	2,000	Debt buffer
Senior Resolution Notes	1,000	

Forthcoming issue of DKK 1bn SNP

- DLR has mandated Danske Bank and Nykredit to arrange a series of investor meeting and manage an issue of DKK 1bn "Senior Non-Preferred Notes" (SNP) in DKK
- The issue is expected to be effectuated in week 44, 2020 taking the market development into consideration
- The expected maturity date of the issue is 1 July 2024
- DLR's total amount of loss-absorbing senior debt will after the issue be DKK 4bn
- The SNP complies with S&P's requirement regarding "Additional Loss Absorbing Capacity" (ALAC) and is consequently supporting DLR's rating

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