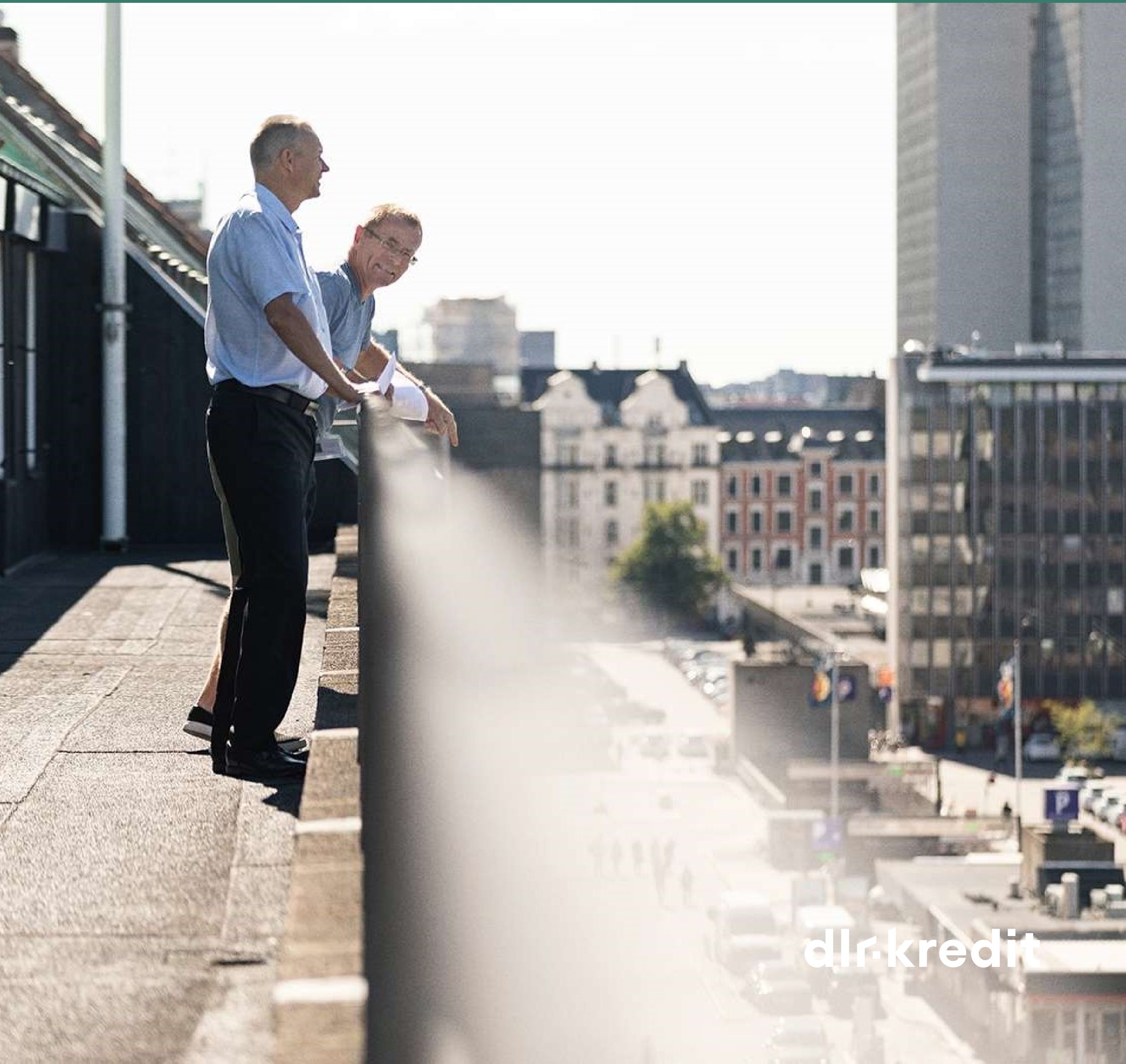
Annual Report 2020



Contents

DLR at a glance

DLR is a Danish mortgage credit institution owned primarily by 50 local and national banks that collaborate with DLR. DLR has no branch offices, as loans are distributed through the branch networks of DLR's shareholder banks.

DLR grants loans against mortgages on real property for the purpose of financing agricultural and commercial property in Denmark. DLR has been financing Danish agriculture since 1960, when DLR was established as Dansk Landbrugs Realkreditfond. The business expanded in 2001 to include the financing of commercial property more broadly, and this is now the fastest growing lending area. DLR also grants loans in Greenland and the Faroe Islands, primarily for owner-occupied homes and residential rental properties and, on a smaller scale, office and retail properties. DLR's overriding risk is credit risk, i.e. the risk that borrowers default on their loans with DLR. Credit risk is limited by collateral in the form of DLR's mortgages on the properties and also by the guarantee and loss-mitigating agreements DLR has signed with its loan-distributing shareholder banks.

Five-year financial highlights

Key figures, DKKm	2020	2019	2018	2017	2016
Income statement					
Administration margin income	1,734	1,632	1,559	1,508	1,462
Other core income, net	140	143	103	91	84
Interest expenses, subordinated debt	-33	-18	-16	-6	0
Interest expenses, senior debt	-28	-26	-29	-42	-50
Fee and commission income, net	-446	-372	-326	-257	-282
Core income	**1,366**	**1,360**	**1,291**	**1,293**	**1,213**
Staff costs and administrative expenses, etc.	-300	-275	-276	-255	-233
Other operating expenses (contribution to resolution fund)	-15	-12	-11	-12	-15
Core earnings before impairment	**1,051**	**1,073**	**1,003**	**1,026**	**965**
Impairment of loans and advances, receivables, etc.	-62	86	-24	94	-62
Portfolio earnings (securities)	-29	-75	-74	6	136
Profit before tax	**960**	**1,085**	**905**	**1,126**	**1,039**
Profit after tax	**749**	**846**	**707**	**880**	**811**

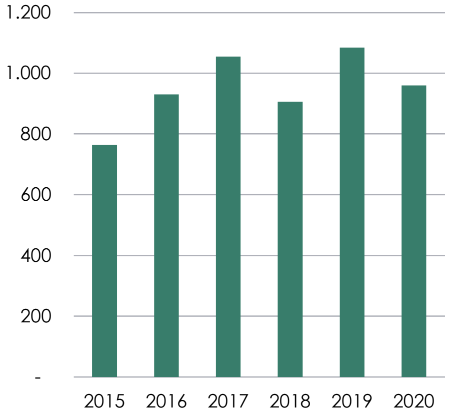
Balance sheet at 31 December	2020	2019	2018	2017	2016
Assets					
Loans and advances	166,787	156,837	148,611	143,061	139,053
Bonds and shares, etc.	12,041	11,769	8,945	11,855	13,683
Other assets	2,255	4,839	3,182	8,458	3,002
Total assets	**181,083**	**173,444**	**160,738**	**163,375**	**155,737**
Equity and liabilities					
Issued bonds	164,433	157,639	145,901	148,972	142,074
Other liabilities	1,167	1,195	1,213	1,338	1,404
Subordinated debt	1,300	1,300	650	650	0
Equity	14,183	13,311	12,974	12,415	12,259
Total liabilities and equity	**181,083**	**173,444**	**160,738**	**163,375**	**155,737**

Financial ratios *	2020	2019	2018	2017	2016
Solvency and capital (incl. profit for the period)					
Total capital ratio	18.8	17.1	16.9	15.9	14.3
Tier 1 capital ratio	17.1	15.5	16.0	15.1	14.3
Common equity tier 1 capital ratio	17.1	15.5	16.0	15.1	12.7
Own funds	14,918	13,947	12,994	12,372	11,560
Weighted risk exposure	79,467	81,784	77,074	77,872	80,674
Lending activity					
Growth in loan portfolio, % (nominal)	6.3	5.6	4.1	2.3	3.8
Gross new lending (DKKm)	36,839	43,061	27,717	35,214	23,118
Margins					
Admin. margin income as % of average loan portfolio	1.09	1.08	1.09	1.08	1.08

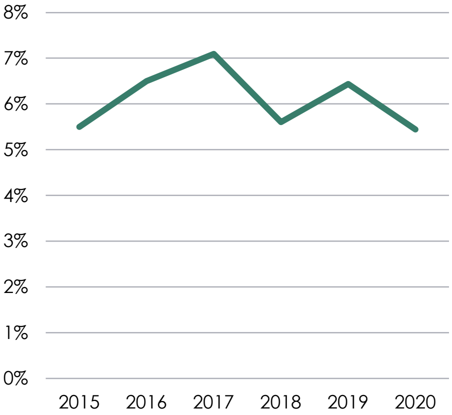
*) The key ratios are calculated in accordance with the FSA's definitions.

Overview figures

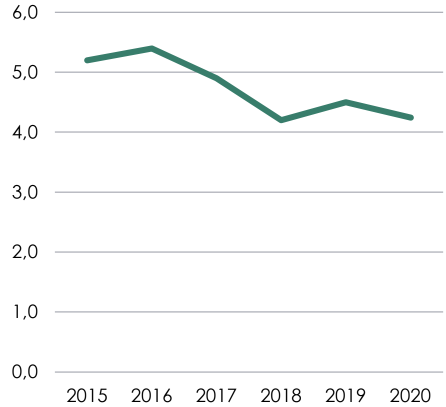
Pre-tax profit after interest on additional tier 1 capital (DKKm)



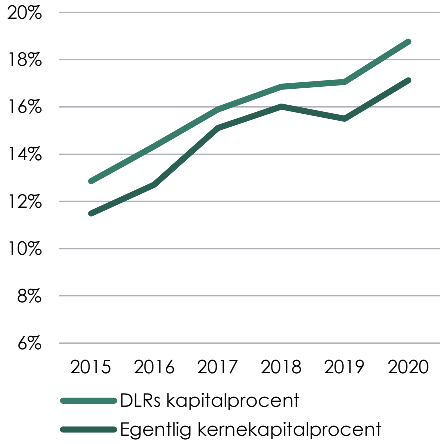
Net profit for the year as % of equity



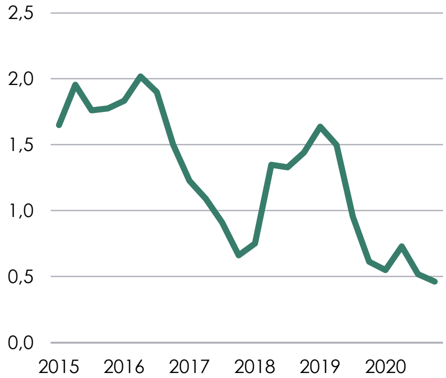
Income/cost ratio excl. impairment



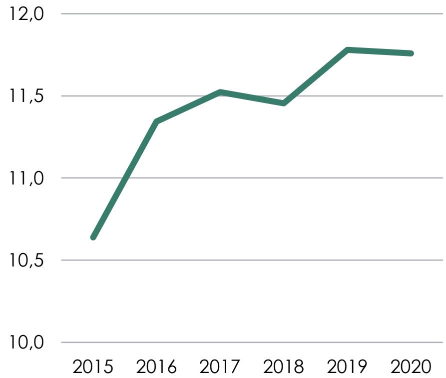
Total capital ratio



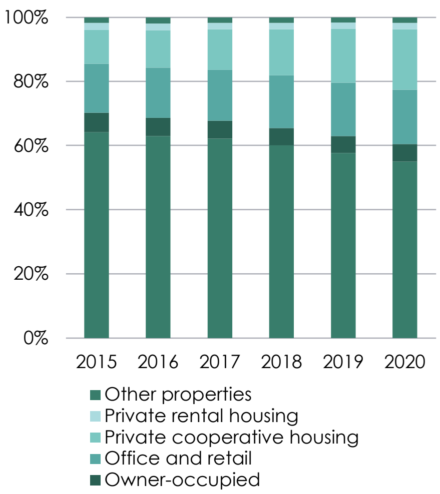
Arrears ratio



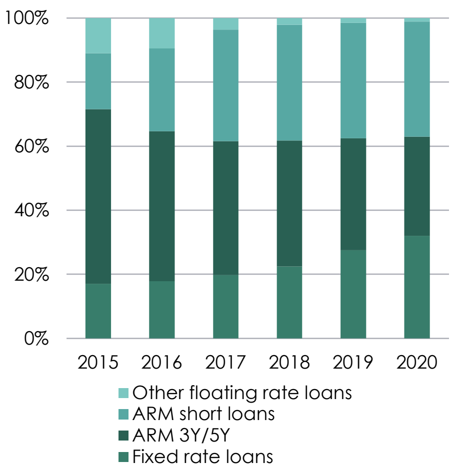
Gearing



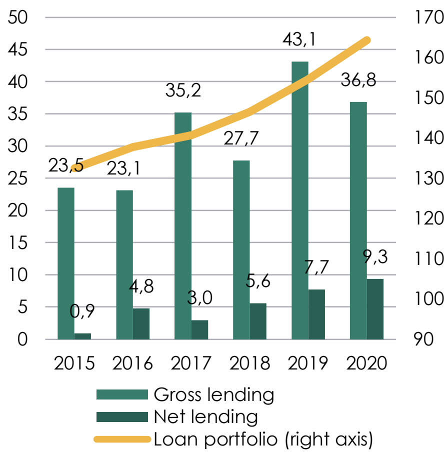
Lending by property category



Lending by loan type



Lending activity (DKKbn)



Financial review

Summary

- Administration margin income amounted to DKK 1,734m, an increase of DKK 102m compared with 2019.
- Losses and impairment on loans and receivables amounted to an expense of DKK 62m against an income of DKK 86m in 2019.
- The COVID-19 pandemic has resulted in additional impairment losses of DKK 130m.
- Portfolio earnings represent an expense of DKK 29m compared with an expense of DKK 75m in 2019.
- Pre-tax profit was DKK 960m, down by DKK 125m on 2019.
- Net of tax paid, DKK 749m was added to DLR's equity.
- DLR's gross lending amounted to DKK 36.8bn in 2020.
- Net lending (nominal value) amounted to DKK 9.7bn in 2020.

Chief executive officer statement

Statement by CEO Jens Kr. A. Møller on the release of the Annual Report for 2020:

"At DKK 960m, DLR's pre-tax profit for 2020 was satisfactory and better than expected. DLR has revised its full-year forecast several times due to extraordinary uncertainty prompted by the COVID-19 pandemic, which, among other things, has made DLR allocate a large amount to cover anticipated losses since the first quarter of 2020.

However, during the second and, particularly, the third quarter of the year, it became evident that our business activities were not as severely affected by the pandemic as we had feared, and favourable developments in lending and in the bond markets made us upgrade our forecast, most recently in connection with the release of our Q3 report on 30 September 2020.

The positive performance was mainly attributable to growing income as a result of strong lending activity. In addition, strong cyclical trends for large parts of both the agricultural sector and the urban commercial segment in 2020 had a positive effect on losses and impairment charges despite COVID-19.

Lastly, portfolio earnings had less of a negative impact in 2020 than we had expected owing to positive market value adjustments driven by falling interest rates.

Although the strong lending activity of 2020 did not fully match the level of gross lending in 2019, which was due to extraordinarily high remortgaging activity, DLR recorded its strongest growth in net lending since the financial crisis. The loan portfolio increase reflects growth both in agricultural loans and in loans for commercial property. Loans for commercial property rose by DKK 7.6bn, while loans for agricultural property incl. residential property increased by DKK 1.7bn in 2020. The persistently growing share of loans for office and retail property and residential rental properties has led to a greater diversification of DLR's loan portfolio, which is highly satisfactory.

The major agricultural production areas generally experienced satisfactory earnings in 2020.

For several years, dairy farmers have experienced stable settlement prices slightly above the expected long-term level. Coupled with improved efficiency and improved dairy yields at many farms, this makes us expect relatively strong earnings in this part of the agricultural segment in 2021.

Following a long period of good pork prices, pig farmers experienced a sharp plunge in prices in 2020. The principal reason were restrictions on exports to China due to COVID-19 infections among abattoir workers and the outbreak of African swine fever in wild boars in Germany, which resulted in a significant excess supply of German pork in the European market. For 2021, we expect pork prices to improve, driven by persistently strong demand from China in particular.

Overall, the 2020 harvest was satisfactory both in terms of volumes and quality. Based on prices towards the tail end of the year, earnings among arable farmers in 2020 are considered satisfactory and are expected to remain so in 2021.

Danish mink farmers, which for many years had realised very low fur prices, experienced what was in every way an *annus horribilis*. The COVID-19 pandemic caused the spring fur auctions to be cancelled, and later in the year, the spreading of COVID-19 at mink farms led to the government to order the culling of all mink and a de-facto shutdown of the industry. Based on the political agreement on the mink industry, mink farmers are expected to be compensated for losses on culled mink and also for future loss of income and depreciation of mink-related assets.

In the non-agricultural sector, 2020 saw decent investor demand for investment property for housing, office and retail purposes. Also, there was strong tenant demand for such leases, and given the low level of interest rates this resulted in a buoyant market for commercial property.

However, certain types of property in the hotel, restaurant and retail segments were hard hit by the COVID-19 pandemic. DLR only has moderate exposure to these types of property.

For 2021, we expect prices to remain unchanged and for letting conditions in the commercial property market to remain favourable.

DLR is increasingly focused on CSR and sustainability and in early 2021 launched green loans to finance sustainable investments and properties. Together with its shareholder banks, DLR wants to play a role in the financing of the sustainable transition of the agricultural sector and urban commercial properties, which are expected to see renewed focus in the wake of the COVID-19 crisis.

In the coming years, we will remain focused on building a portfolio of green loans by offering green loan products on attractive terms with a view to financing the sustainable transition for a larger proportion of our customers. This will also provide a foundation for issuing green bonds, which are attracting growing investor demand."

Jens Kr. A. Møller
Managing Director & CEO

Comments on the results for 2020

Income statement

DLR's earnings primarily stem from:

- Core earnings: Earnings from mortgage credit activity in the form of administration margins, fees and commission income, etc. less associated administrative expenses, losses and impairment charges.
- Portfolio earnings: Return on the securities portfolio.

The income statement for 2020 is set out below.

Key figures, DKKm	2020	2019
Income statement		
Administration margin income	1,734	1,632
Other core income, net	140	143
Interest expenses, subordinated debt	-33	-18
Interest expenses, senior debt	-28	-26
Fee and commission income, net	-446	-372
Core income	**1,366**	**1,360**
Staff costs and administrative expenses, etc.	-300	-275
Other operating expenses (contribution to resolution fund)	-15	-12
Core earnings before impairment	**1,051**	**1,073**
Impairment of loans, advances and receivables, etc.	-62	86
Portfolio earnings (securities)	-29	-75
Profit before tax	**960**	**1,085**
Profit after tax	**749**	**846**

Core earnings

Administration margin income amounted to DKK 1,734m, up DKK 102m on 2019. The increase is due to a larger loan portfolio, as the average administration margin remained unchanged. Other core income includes income from loan origination fees, fees from administration agreements with other financial institutions and default interest. This income amounted to DKK 140m in 2020, which is DKK 3m lower than in 2019.

Interest expenses on subordinated debt amounted to DKK 33m, which is DKK 15m more than in 2019. The increase was driven by a DKK 650m increase in the issuance of tier 2 capital carried out in Q4 2019.

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

Fees and commission (net) amounted to an expense of DKK 446m compared to an expense of DKK 372m in 2019. The higher net expense was due to a combination of a DKK 19m decline in fee and commission income and an increase of DKK 55m in fee and commission expenses. The latter should be seen in the context of the increasing loan portfolio and the resulting higher expenses for commission for the provision of loss guarantees, etc.

Core income was subsequently DKK 1,366m, an increase of DKK 6m on 2019.

Staff costs and administrative expenses, etc. amounted to DKK 300m, which is DKK 25m more than in 2019.

The "Other operating expenses" item concerns DLR's contribution to the Resolution fund, which in 2020 amounted to DKK 15m.

Losses and impairment on loans, advances and receivables, including prior-year adjustments, were calculated at an expense of DKK 62m, compared with an income of DKK 86m in 2019.

The expense of DKK 62m in2020 is composed of an increase in impairment of DKK 56m, and losses during the period which are calculated at a net expense of DKK 6m.

The DKK 56m increase in impairment charges is composed of a reduction of the individual impairment charges of DKK 35m and a reduction of model impairment charges of DKK 16m. Both components are driven primarily by improved economic conditions for the major agricultural production areas. On the other hand, impairment charges were increased by way of an increase in the management estimate by an additional DKK 107m compared with the end of 2019.

The DKK 107m increase is composed of added impairment of DKK 130m due to the COVID-19 pandemic, while the management estimate for a number of other areas was reduced by DKK 23m. The management add-on due to the pandemic was made on the basis of the currently expected consequences of the COVID-19 pandemic for the sectors in which DLR has exposure. In this connection, it should be mentioned that DLR has found no basis for making additional impairment charges concerning pig, dairy and arable farmers related to the COVID-19 pandemic.

At the end of January 2021, a political agreement was reached on compensation for Danish mink farmers. Having reviewed this agreement, DLR has opted to maintain its impairment charges on loans to mink production properties in its financial statements for 2020, because it is too early to calculate the financial implications of the political agreement in relation to DLR's impairment charges.

Portfolio earnings

Portfolio earnings represented an expense of DKK 29m compared with an expense of DKK 75m in 2019.

The bulk of DLRs investment portfolio (securities excl. temporary excess liquidity) has been placed in short-duration mortgage bonds, which given current yield levels resulted in a negative return. DLR's investment portfolio amounted to DKK 23.2bn at year-end 2020.

Allocation of net profit for the year

The net profit for the year was DKK 749m, to which should be added DKK 13m relating to a revaluation of DLR's domicile property. Overall, DKK 762m was thus added to DLR's equity.

Balance sheet

Mortgage lending at fair value amounted to DKK 167bn at the end of 2020.

Bond holdings amounted to DKK 31.3bn, which is DKK 1.7bn less than at year-end 2019. Of this amount, the portfolio of DLR bonds amounted to DKK 19.3bn, which is netted in "Issued bonds at fair value", while DKK 12.0bn was attributable to positions in government securities and other mortgage bonds.

In addition to the bond holding of DKK 31.3bn, DLR held other securities for DKK 1.8bn; hence, the total securities holding amounted to DKK 33.1bn (gross) at the end of 2020.

Of the total securities amount, temporary excess liquidity in connection with mortgage lending activity comprised DKK 9.9bn, so the investment holding was therefore DKK 23.2bn.

DLR's total assets stood at DKK 181.1bn at year-end 2020.

Own funds

DLR's own funds increased by DKK 971m in 2020.

The increase was mainly due to the profit after tax and value adjustment of DKK 762m, which was added to DLR's reserves in its entirety. In addition, DLR sold treasury shares for DKK 110m in 2020. Finally, deductions from own funds because of the difference between expected losses and impairment for accounting purposes on the IRB portfolio were reduced, which increased own funds by DKK 99m.

The weighted exposure amount for credit risk fell from DKK 76.9bn at year-end 2019 to DKK 74.8bn at year-end 2020 despite DLR's lending growth. This was partly due to the implementation of changed rules for risk weighting of small and medium sized enterprises (SMEs), and partly to a lower risk weighting of loans under DLR's IRB portfolio. This is also the main reason for the decrease in the total weighted risk exposure amount.

DLR's total capital ratio was 18.8 at year-end 2020, while DLR's common equity tier 1 capital ratio was 17.1. The capital ratio rose by 1.7 percentage points, and the common equity tier 1 capital ratio rose by 1.6 percentage points relative to year-end 2019 because of the increase in own funds and the lower weighted risk exposure amount. At year-end 2020, DLR's [[own funds]] were composed entirely of tier 1 and tier 2 capital. Tier 2 capital amounted to DKK 1,300m, and in total the own funds amounted to DKK 14.9bn at year-end 2020 compared to DKK 13.9bn at year-end 2019.

	2020	2019
Own funds	14,918	13,947
Total risk-weighted exposure	79,467	81,784
Common equity tier 1 capital ratio	**17.1%**	**15.5%**
Total capital ratio	**18.8%**	**17.1%**

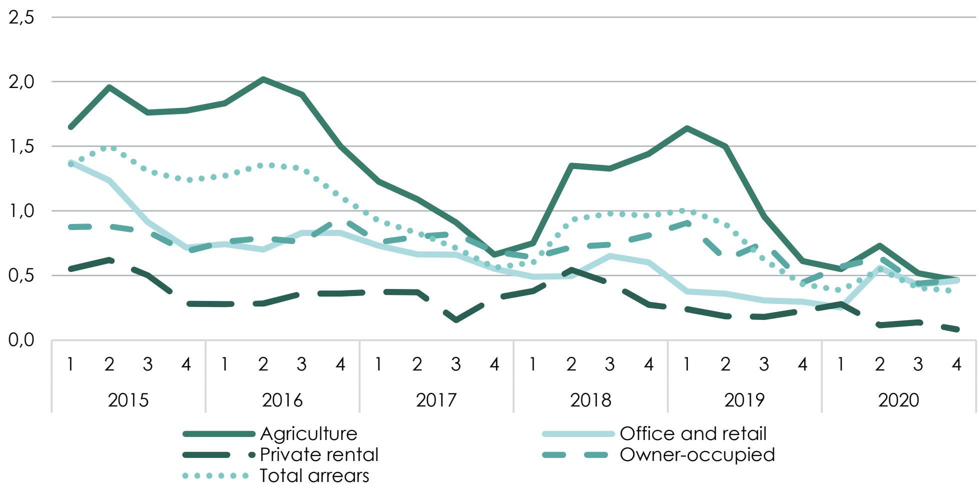
Arrears and forced sales

DLR collected mortgage payments of DKK 7.5bn in 2020.

At year-end 2020, outstanding mortgage payments amounted to DKK 71m, against DKK 89m the year before. Of the amount in arrears, the bulk stems from mortgage payments that are less than 3½ months overdue.

Overall, the arrears ratio – measured as the percentage of mortgage payments in arrears 3½ months after the due date – was 0.38% in mid-January 2021, against 0.43% in January 2020. The number of borrowers unable to meet their payment obligations towards DLR showed a declining tendency during the second half of 2020. The reason was that the level of arrears rose temporarily in Q2 2020 due to uncertainty caused by the COVID-19-related lockdown of the economy.

3½ months' arrears by property category



The number of completed forced sales of properties in which DLR held a mortgage was 49 in 2020. Of these, DLR repossessed 4 properties. The equivalent figures in 2019 were 66 and 8. At 31 December 2020, DLR had a portfolio of 5 repossessed properties, against 7 at year-end 2019. The value of the repossessed properties was estimated at DKK 8m at year-end 2020.

In 2020, DLR recorded a loss on 15 properties that were repossessed by parties other than DLR at auction, and DLR has participated in 29 voluntary sales agreements, etc. that resulted in a loss.

All in all, DLR recorded a loss on 48 properties in 2020, compared to 73 properties in 2019.

In addition, the loan-distributing banks have in connection with voluntary sales/forced sales redeemed DLR loans or covered losses that would have been covered by guarantees or be offset in commission payments.

Q4 2020

The pre-tax profit in Q4 2020 was DKK 247m.

The Q4 performance was only to a limited extent affected by losses and impairment charges and negative returns on the securities portfolio. Thus, losses and impairment charges had a negative impact of DKK 4m on operations, while portfolio earnings detracted DKK 2m from the financial performance.

Events occurring after the reporting date

No events occurred after the reporting date that would change the income statement or balance sheet in the Annual Report.

Outlook for 2021

DLR's business primarily comprises lending for agricultural and commercial properties, mainly outside the Greater Copenhagen area. Expectations for DLR's financial performance are thus based on developments in the sectors for which DLR provides funding and on general macroeconomic developments.

COVID-19

On the threshold of 2021, the COVID-19 pandemic and the emergence of new variants continue to extensively restrict activities in many industries, and the comprehensive lockdowns and restrictions cause great economic uncertainty in Denmark and the rest of the world. As the vaccination programme is rolled out, society is expected to gradually re-open while the extended support packages will be phased out. Interest rates are expected to remain subdued in 2021, but comprehensive debt accumulation and mounting public sector deficits both in the EU and the USA entail that interest rate developments in the slightly longer term are subject to great uncertainty.

Agriculture

Dairy farmers generated relatively strong earnings in 2020, and despite a plunge in prices of weaners and pork, pig farmers maintained satisfactory earnings in 2020. Mink farmers had a particularly hard year but are expected to receive compensation for their loss of income and assets in connection with the government-imposed liquidation of the entire industry. As a whole, the agricultural sector recorded satisfactory earnings in 2020, and except for the mink farmers the segment was not noticeably affected by the pandemic. Milk prices are expected to remain satisfactory in 2021, while pig farmers may expect higher prices on the back of persistently strong demand from China.

Business

The rental market was generally quite favourable in 2020, marked by persistently strong interest for investing in both residential and commercial rental property. An increase in online shopping has driven up vacancy rates for certain types of property and growing demand for others. Supported by low interest rates, rental properties are expected to continue to attract investor interest in 2021.

Earnings forecast

For 2021, DLR expects core earnings before impairment in the order of DKK 1,000 – 1,050m and a pre-tax profit of around DKK 875 – 925m.

Interest rate developments and thus the scale of portfolio earnings together with the operational impact of losses and impairment, including the economic repercussions of the COVID-19 pandemic, could potentially have a relatively large significance for DLR's overall results.

In addition, we expect positive net lending in 2021 and a higher loan portfolio.

Capital position

Capital requirements

DLR's capital management is based on long-term capital planning that involves both existing and future requirements. Moreover, the long-term capital model is continually adjusted to take into account lending growth, capital initiatives, earnings, regulatory changes, etc.

In order adjust its own funds, DLR has in recent years made a number of transactions, including issues and buyback of shares, issuance and redemption of additional tier 1 capital and issuance of tier 2 capital.

With a view to meeting the requirement for supplementary collateral and the debt buffer requirement, DLR has also issued senior secured bonds (SSB), senior resolution notes (SRN) and senior non-preferred notes (SNP).

DLR's own funds increased by DKK 971m in 2020, mainly driven by earnings for the year.

Table 3. Capital and solvency

(DKKm)	2020	2019
Equity	14,183	13,311
Additional tier 1 capital included in equity	0	0
Deduction due to prudent valuation	-25	-26
Difference between expected losses and impairment losses	-539	-638
Profit, etc. not recognised in common equity tier 1 capital	0	0
Common equity tier 1 capital	13,618	12,647
Additional tier 1 capital	0	0
Tier 2 capital	1300	1300
Own funds	**14,918**	**13,947**
Weighted risk exposure amount, credit risk etc.	74,846	76,853
Weighted risk exposure amount, market risk	2,221	2,555
Weighted risk exposure amount, operational risk	2,400	2,376
Total risk-weighted exposure	79,467	81,784
Common equity tier 1 capital ratio	**17.1%**	**15.5%**
Total capital ratio	**18.8%**	**17.1%**

Capital planning and capital targets

DLR's capital planning takes into account both the regulatory requirements and the Board of Directors' targets for DLR's own funds. On the basis of currently known facts, the 2021 target for DLR's total capital ratio is 17.5%, while the target for the common equity tier 1 capital ratio is 14.0%.

The targets were set on the basis of known and expected requirements, including capital buffer requirements. Furthermore, the target has been set assuming that DLR's pillar II add-on remains at the current level of around 1.0-1.5%. DLR's capital targets are set annually, but are regularly reviewed at DLR's board meetings and will be adjusted should significant events occur.

DLR's long-term capital model also incorporates costs related to posting supplementary collateral, the OC (overcollateralisation) requirement and requirements associated with the debt buffer. Given its current own funds and its earnings forecasts, DLR expects to be in a position to comply with future capital requirements and to meet any additional capital needs relating to the anticipated growth in lending.

Liquidity regulations (LCR and NSFR)

DLR's internal requirement for both LCR and NSFR is a minimum of 110%.

At the end of 2020, DLR had an LCR of 311% excluding the floor requirement and an LCR of 232% including the floor requirement.

At year-end 2020, DLR had an NSFR of 181%.

LCR and NSFR are explained in DLR's Risk and Capital Management Report.

Debt buffer

Instead of a MREL requirement, mortgage credit institutions must comply with a two-part debt buffer requirement that:

1. constitutes at least 2% of an institution's total unweighted lending, and
2. entails that sum of the institution's capital and debt buffer (loss-absorbing capital/debt) constitutes at least 8% of total liabilities.

The former requirement was gradually phased in until mid-2020 and must therefore be complied with 100%, which equals a little more than DKK 3bn for DLR. The debt buffer requirement, where the loss-absorbing capital/debt should amount to at least 8% of the institution's total liabilities, has not yet been phased in, and must be complied with by 1 January 2022.

To comply with the debt buffer requirement, DLR has issued so-called senior non-preferred debt, SNP. SNP is senior debt and absorbs losses before other debt, but after equity and other subordinated debt (additional tier 1 capital and tier 2 capital). DLR's previous SRN issues (Senior Resolution Notes) are essentially the same type of debt as what is now defined as SNP in the creditor hierarchy. SNP and SRN issues can also be used in connection with requirements for supplementary collateral for issued covered bonds (SDO and as ALAC (Additional Loss-Absorbing Capacity) in S&P's capital calculation. At year-end 2020, DLR had issued SNP/SRN totalling DKK 4bn.

With its existing own funds and capital requirements, DLR complies with both debt buffer requirements.

SIFI

DLR is a systemically important financial institution (SIFI) in Denmark

DLR has been designated a SIFI institution since the first designations in Denmark in 2014

To be designated a SIFI in Denmark, an institution must fulfil at least one of the following parameters:

- The institution's total assets make up more than 6.5% of Denmark's GDP.
- The institution's lending in Denmark makes up more than 5% of total lending in Denmark by Danish banks and mortgage credit institutions.
- The institution's deposits in Denmark make up more than 3% of total deposits held by Danish banks in Denmark.

DLR has been designated because its balance sheet exceeds 7.5% of Denmark's GDP. Alongside the designation as a SIFI follows a special SIFI buffer requirement based on an estimate of how systemically important DLR is The buffer requirement has been set at 1% of DLR's total risk exposure amount and must be covered by common equity tier 1 capital.

Supervisory Diamond

The Danish FSA has defined a "Supervisory Diamond" for mortgage credit institutions that comprises five indicators with associated benchmarks (see table 4).

For some time, DLR has experienced positive lending growth especially for residential rental properties and has therefore exceeded the benchmark with respect to lending growth for "Property rental" since Q3 2018. Lending growth was calculated at 17.3% at the end of Q4 2020, and during the period of exceeding the benchmark, it hovered in the 16-21% range. DLR has been in regular dialogue with the Danish FSA about the elevated lending growth and in March 2019 DLR received a so-called risk information concerning this matter.

DLR generally views this lending growth as positive, as growth in the area of residential rentals means greater risk diversification of DLR's portfolio. DLR is aware that high lending growth may be an indication of elevated risk and has taken this into account in connection with loan valuation.

Lending growth for the property rental segment should be seen in the context of DLR's current market share in the lending area in question, which is significantly lower than the market opportunities that the loan-distributing banks' customer base is believed to represent. In that light, the lending growth could be seen as a "normalisation" of DLR's market share in the area. DLR expects that lending growth will gradually level off.

DLR has in recent years also been focusing on the Diamond's other areas, including the criteria for loans with short-term funding, in which initiatives intended to encourage customers to opt for loans backed by underlying bonds with relatively longer maturities have been scaled up the past several years.

As a result of these efforts, DLR has been below the Supervisory Diamond's threshold values for the other benchmarks throughout 2020.

Table 4. DLR's compliance with the Supervisory Diamond

Supervisory Diamond for mortgage credit institutions	End-Q4 2020	End-Q3 2020	FSA threshold values
1. Lending growth: (current quarter)			
Private homeowners	10.2%	11.8%	<15%
Property rental	17.3%	18.6%	<15%
Agriculture	1.6%	0.9%	<15%
Other corporate	8.8%	9.7%	<15%
2. Borrower's interest rate risk:	**15.2%**	**15.9%**	**<25%**
3. Interest-only loans to private individuals:	**2.0%**	**1.9%**	**<10%**
4. Loans with short-term funding: quarterly			
Q4 2019	2.4%		<12.5%
Q1 2020	2.0%		<12.5%
Q2 2020	7.1%		<12.5%
Q3 2020	2.7%		<12.5%
Q4 2020	2.5%		<12.5%
4. Loans with short-term funding: annually*	**13.9%**	**13.9%**	**<25%**
5. Large exposures	**28.1%**	**29.5%**	**<100%**

* The percentage for the individual quarters is calculated on the basis of the end-of-quarter portfolio, while the annual percentage is calculated on the portfolio at the end of Q4 2020. As a result, the annual percentage does not tally with the sum of the percentage of the individual quarters.

Ownership and capital structure

Redistribution of shares

DLR's share capital has had a nominal value of DKK 569,964,023 since the latest increase in share capital in September 2013.

A redistribution of shares was carried out in early March 2020 in accordance with DLR's shareholder agreement. The redistribution is based on the proportion of shares held by the loan-distributing shareholder banks matching the proportion of loans they distributed in relation to DLR's aggregate loan portfolio.

The redistribution in March 2020 was based on the outstanding bond debt at year-end 2019, with shares for a nominal value of DKK 15.2m being redistributed.

Tier 2 capital

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

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

Owners and share of ownership

At 31 December 2020, DLR had 53 shareholders. The number of shareholders has been falling slightly in recent years because mergers and acquisitions have reduced the number of banks in Denmark. DLR's shareholder banks mainly comprise members of Lokale Pengeinstitutter (Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) and Landsdækkende Banker (National Banks in Denmark), who own 45% and 21%, respectively, of DLR's share capital. In addition, PRAS A/S, whose shareholders are essentially the banks behind Lokale Pengeinstitutter and Landsdækkende Banker, holds 8% of DLR's share capital, while other financial businesses hold 21% of the share capital. The above does not include DLR's 8.1% holding of treasury shares at end-2020.

DLR's lending areas

Agricultural sector

The main agricultural production areas have generally had good earnings conditions in recent years. This has helped the sector to significantly reduce overall debts. The indebtedness of Danish agriculture has now been reduced to about 62%. Looking exclusively at the debts of full-time farms, exclusive of debt associated with "other assets", total debts have fallen to a little over DKK 200bn, equal to a drop of up to DKK 40bn, or 20%, since 2010.

As whole, the financial robustness of the sector has thus improved dramatically in recent years, which is very positive both for the industry and for its creditors.

In the slightly shorter term, earnings are expected to fluctuate due to factors such as COVID-19, Brexit and the challenges of the outbreak of African swine fever (ASF) in Germany, but generally speaking, longer term prospects remain good for Danish agriculture. Long-term trends continue to point to persistently growing demand for high-quality food products, and, despite the challenges, Danish agriculture is believed to stand well prepared to accommodate the ever-increasing requirements, including for sustainable production processes.

2020 was a tough year especially for Danish mink farming. The industry had initially hoped and expected price developments to turn following a long and tough period, but was first hit by COVID-19-related shutdowns of fur auctions in spring and then, in autumn, by the ban on mink farming in Denmark until the end of 2021. Following the conclusion of a political agreement on 26 January 2021, Danish mink farmers are expected to receive full or partial compensation for the financial consequences in terms of lost earnings and value depreciation of their properties. To the individual families who have often built up their mink farm over the course of many years of dedicated breeding, etc., the situation is extremely difficult to cope with.

The current situation for the main agricultural production areas is described briefly below.

Pork and piglets

Following a long period of good pork prices, settlement prices fell by nearly 30% from DKK 13.3 per kg at the start of 2020 to DKK 9.5 at the end of the year. The relatively benign starting point enabled Danish pig farmers to obtain satisfactory earnings for the year as a whole. The price fall was driven by factors such as restrictions on exports to China because of COVID-19-infections among abattoir workers, but settlement prices were also affected by changes to the pork market prompted by the outbreak of African swine fever (ASF) in wild boars in Germany, which means that German pork must be sold within the EU.

Piglet producers who export their animals to Germany experienced extreme earnings volatility in 2020. At the beginning of the year, export prices were almost at record-high levels, but the outbreak of ASF in Germany caused demand for piglets to plummet. The price of a 30 kg pig for exports to Germany thus fell from nearly DKK 600 at the beginning of the year to around DKK 200 at the end of the year, and even at the lower prices it was sometimes difficult to find buyers.

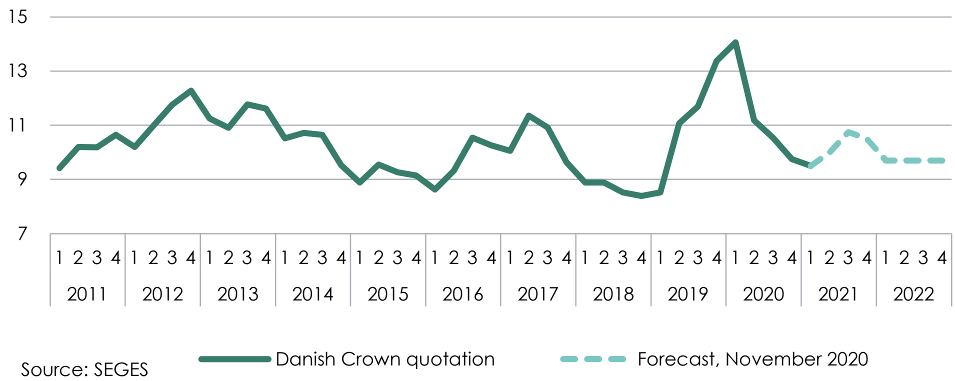
With respect to expectations for the upcoming period, it is important to keep track of the extent to which and the pace with which the Chinese pork production is being re-established following the plunge in production volumes due to massive outbreaks of ASF in China. Prior to the outbreak of ASF in Asia, China accounted for around half of the global production of pork, and price developments in the global market largely hinge on restoring this production.

China is expected to re-establish a substantial pork production in the longer term but, at least in the near term, demand for imported pork is expected to remain strong in China and the rest of Asia.

Developments in the German market are paramount to producers of piglets. Due to the outbreak of ASF in wild boars, production challenges at the German abattoirs due to COVID-19-infections among abattoir workers and new requirements for stables and environmental conditions, German pig farmers reduced their sow population in 2020. Demand for Danish piglets with a good health status is generally expected to recover during 2021, which could lead to more acceptable prices than the current levels.

It is imperative for Danish pork production that Denmark continues to keep ASF at bay. The initiatives of erecting a fence along the Danish-German border and fighting the population of wild boar in Denmark help ensure that the authorities still consider the risk of ASF in Denmark as being low.

Price of pork per quarter (DKK/kg)

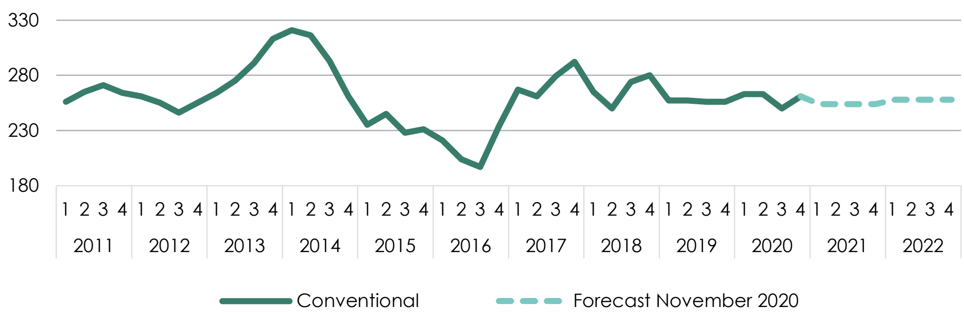


Source: SEGES

Dairy production

The price of milk, which is generally the most important factor for dairy farmer earnings, was stable and at a satisfactory level in 2020. Dairy farmers have achieved solid financial results on the back of the realised milk prices, fair growth in milk production and increased efficiencies as well as satisfactory roughage production. With a global dairy market characterised by a gradually falling supply of milk and still solid demand, including from China, Mexico and Japan, the overall outlook for dairy farmers is for the financial situation to remain stable.

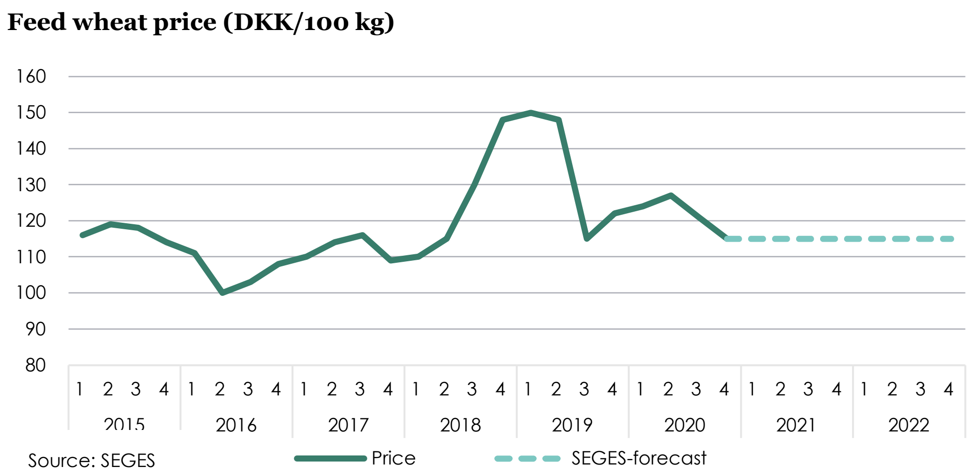
Milk price (ore/kg)



Source: SEGES

Arable farming

Arable farmers enjoyed satisfactory growth conditions in 2020 with crop yields slightly above normal-year average. Prices of main products were stable/good, leaving overall finances and profitability for arable farmers at acceptable levels.



Brexit

Following the UK's withdrawal from the European single market on 31 December 2020, the UK is now a considered a third country. Not least for the agricultural sector, it came as a great relief when the UK and the EU reached a trading agreement on 24 December, which means that trading of food products, among other things, can still be exempt of customs and quota restrictions.

After the establishment of a trade border between the EU and the UK, trading between the two parties will be subject to a number of controls at the borders, the initial position is that this will be a manageable situation.

Agricultural property market

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

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

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

Commercial property

DLR's lending for commercial properties comprises loans for private residential rental property, office and retail property, manufacturing and craft property, properties for social, cultural and educational purposes, community utility plants – including onshore wind turbines – and housing cooperatives.

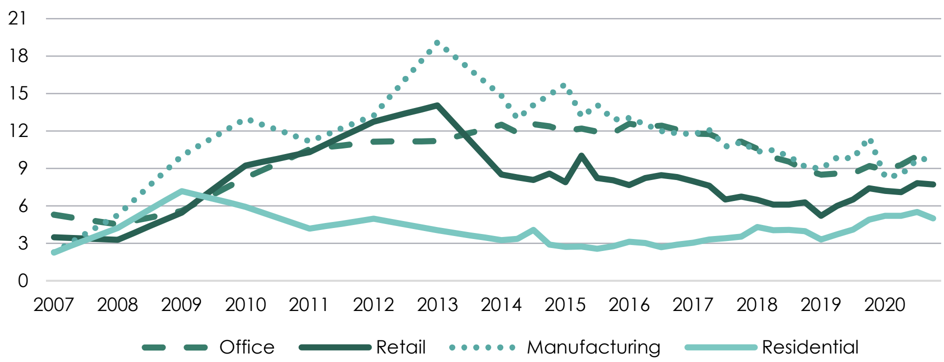
DLR's loan distribution network is nationwide, although coverage of the Greater Copenhagen area is somewhat limited. Of DLR's lending to the above-mentioned property categories, just under 90% is for properties located outside the capital region.

Downward trend in vacancy rates broken

Following quite a few years of falling rates, vacancy rates have edged higher since the spring of 2019. This trend was driven by letting of retail, office and manufacturing properties.

Periods of notice in the commercial letting market usually cause a delay in vacancy rates, and given deteriorated economic prospects for certain industries, vacancy rates are expected to move even higher for vulnerable segments.

Vacancy rates (pct.)



Source: Ejendomsforeningen Danmarks markedstatistik

COVID-19 leading to higher vacancy rates for certain types of property and growing demand for others

Challenges in the retail sector and in the hotel and restaurant business due to COVID-19-related shutdowns, consumer migration from brick-and-mortar shops to online retailing, prudent consumers, a shortage of tourists and other factors have pushed up vacancy rates for certain exposed property categories.

The surge in online retailing, on the other hand, has already prompted growing demand for modern, prime-location warehouse and logistics properties throughout the country. Vacancies are currently seen only for older, unrefurbished warehouse properties.

Commercial property market

Persistently low interest rates and the quite favourable rentals climate have contributed to a generally satisfactory commercial property market. Demand remains solid, especially for modern offices, logistics and production properties with decent rent levels and has led to an increase in newbuild activity.

As was the case in 2019, a number of prime-location retail properties continued to experience pressure on rents in 2020. As described above, this is most likely due to the ongoing increase in online shopping relative to brick-and-mortar shopping and mounting pressure from large shopping centres. These consumer trends appear to have accelerated with the COVID-19 crisis and may be the reason behind a number of shop closures.

Investors appear to remain attracted to the residential rental segment, both with respect to new-builds and existing property, although supply in the latter is limited.

Returns in medium-sized towns have fallen by a fair amount in 2020, as several investors are shunning the large cities looking for better returns, leading to higher prices in the medium-sized towns.

The market for residential rental property is close to being saturated in some areas. In a few of the large cities and the Greater Copenhagen area, rent levels have moved lower in new residential properties in connection with initial reletting.

A political agreement approved by the Danish parliament on 10 October 2020 introduced current taxation of a company's property gains by launching current taxation of value appreciation on companies' properties pursuant to a mark-to-market principles in the same way that pension companies are currently taxed. The tax will be implemented prospectively with effect from 2023.

The final delimitation of which companies and properties will be covered, and specific guidelines for determining the tax payment, remain to be established and could have an impact on the market for rental properties. The agreement stipulates that small property portfolios of less than DKK 100m will not be covered, so the introduction of the rules on mark-to-market taxation will thus only apply to large properties and property portfolios.

So far, however, investors would appear still to be attracted to properties, as described above, and the agreement has thus so far not caused demand to falter.

Lending activity and portfolio

DLR's primary lending areas are agricultural and commercial properties and, to a limited extent, the Faroe Islands and Greenland. DLR's lending is channelled exclusively through its shareholder banks, which cover the entire country, but primarily outside the Greater Copenhagen area.

Lending activity

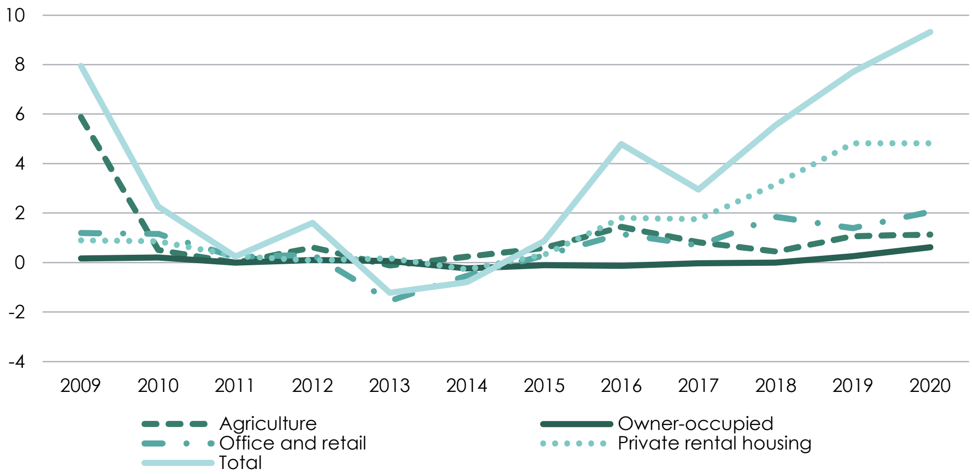
DLR experienced an increase in lending activity in 2020 relative to 2019, except for remortgaging activity. While remaining at a high level, the extent of remortgaging was lower in 2020 than in 2019.

Strong lending growth
DLR experienced the strongest lending growth in nominal terms for many years in 2020, although the year as a whole was characterised by uncertainty prompted by the COVID-19 pandemic. The high level of lending growth was in part due to the low interest rate environment, though the increased competitive strength of the loan-distributing banks also played a role. Total lending increased by DKK 9.3bn in 2020, against DKK 7.7bn in 2019.

Lending growth in 2020 was attributable to growth in all DLR's principal lending segments. However, DLR experienced lending growth especially in the market for urban commercial property – as was also the case in 2019. A little more than half of the lending growth in 2020 was attributable to an increase in lending to private residential rental properties. It is worth noting that the absolute increase in lending to private rental properties was at the same level as in 2019. On the other hand, the increase in loans for office and retail property and owner-occupied homes (incl. residential farms) was significantly higher in 2020, while growth in loans for the agricultural sector was more or less unchanged.

Growth in loans for commercial property, in particular private residential rental properties, resulted in added risk diversification in the loan portfolio in several lending segments, which bond investors and rating agencies also consider to be an advantage.

DLR's net lending (DKKbn)



Strong remortgaging activity, but at a lower level than previously

Many DLR borrowers remortgaged their loans in 2020, although the level of remortgaging activity was lower than in 2019. The high level of remortgaging activity was due in particular to the fall in interest rates, which has generally made it more attractive for borrowers to remortgage into loans with lower interest rates and longer interest-reset intervals. In addition, when interest rates briefly and temporarily rose in March 2020 some borrowers opted to remortgage to a higher coupon on their loan, thereby reducing their outstanding debt. Borrowers who remortgaged to a higher coupon have subsequently been able to remortgage once more to a lower-coupon loan. Combined with top-up loans and new lending, the persistently high level of remortgaging activity in 2020 was the principal reason why DLR recorded gross lending amounting to DKK 36.8bn in 2020. By way of comparison, DLR's gross lending amounted to DKK 43.1bn in 2019.

More customers opting for fixed-rate loans

The extensive remortgaging activity generally resulted in more DLR borrowers than previously now having fixed-rate mortgages, which has made DLR's loan portfolio more diversified and more resilient to interest rate changes. At year-end 2020, 32% of DLR's loans carried a fixed rate of interest, which is about 5 percentage points more than the year before. The remaining loan portfolio is more or less evenly divided between ARM Short loans and ARM loans. See section on DLR's loan portfolio below.

DLR's loan portfolio

DLR's loan portfolio amounted to DKK 164.3bn measured by the nominal outstanding bond debt at the end of 2020, equivalent to a market share of 5.6% of total mortgage lending.

DLR's portfolio in its main lending areas

Looking only at DLR's main business areas, DLR has a market share of 16.8%. DLR has in recent years increased its market share within its main lending areas of agriculture, office and retail property, and private residential rental property.

Even though DLR's agricultural lending has increased, agricultural loans' share of DLR's total loan volume has nevertheless been declining for some years. Agricultural loans accounted for 55% of DLR's total loans at the end of 2020, which is considerably lower than six years ago, when agriculture accounted for nearly two-thirds of lending. This trend has mainly come about because agricultural lending has grown more slowly than other forms of lending. This means that DLR's loan portfolio is now more diversified across lending areas other than agriculture, which contributes to making the loan portfolio even more robust.

Composition of loan types more diversified

The composition of lending by loan types has been characterised by a greater proportion of fixed-rate loans, which has contributed to making DLR's loan portfolio less exposed to interest rate changes. In addition, the share of 1Y-3Y ARM loans has been reduced.

Viewed over a long period, the greater share of fixed-rate loans coupled with a changed composition of variable-rate loans has contributed to increasing the interest rate security of DLR's loan portfolio and longer refinancing intervals. Only six years ago, 1Y ARM loans accounted for almost 60% of total lending, while fixed-rate loans accounted for 15%. At year-end 2020, 1Y ARMs and ARM Short loans combined accounted for about 38% of DLR's total lending, while fixed-rate mortgages accounted for close to one-third.

The comprehensive changes to DLR's loan portfolio have taken place in part through targeted campaigns and differentiated administration margins. Differentiation of administration margins has provided borrowers with a financial incentive to shift into loans with longer interest reset periods or ARM Short loans.

DLR's loan portfolio at 31 December 2020

	Outstanding bond debt	Distribution by property category	Fixed-rate loan	ARM Short	F1/ F2	F3/ F4	F5	Other short-term interest rate loans
Agriculture, incl. horticultural properties	90.3	55.0%	22.0%	48.8%	2.1%	2.7%	23.0%	1.3%
Owner-occ. incl. res. farms	9.0	5.5%	54.4%	8.7%	5.8%	5.4%	23.9%	1.8%
Office & retail	27.8	16.9%	42.4%	21.4%	2.7%	3.0%	29.7%	0.8%
Private residential rental	31.0	18.9%	40.5%	23.2%	2.0%	2.4%	31.3%	0.6%
Private cooperative housing	3.3	2.0%	64.4%	12.3%	0.1%	1.2%	21.0%	1.0%
Other property	2.9	1.8%	49.8%	19.7%	0.8%	3.9%	25.5%	0.3%
Total	**164.3**	**100.0%**	**32.0%**	**35.9%**	**2.3%**	**2.8%**	**25.8%**	**1.1%**

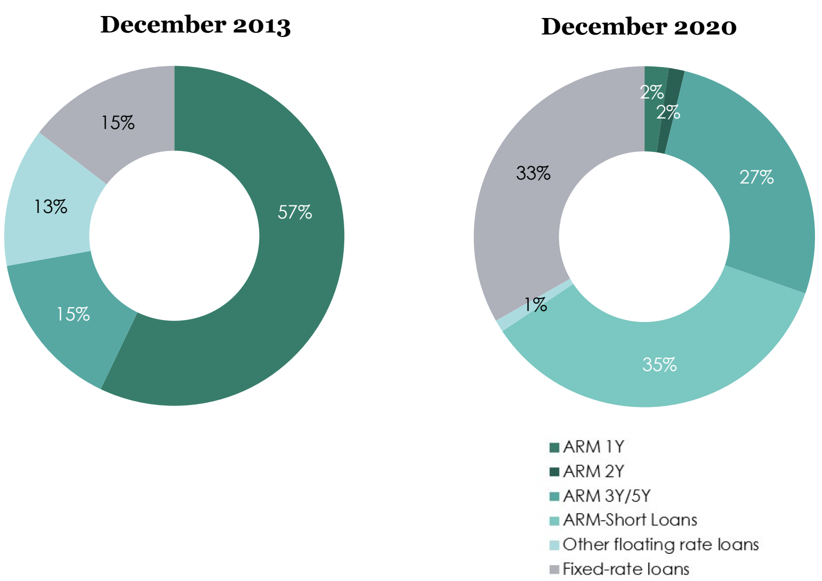
Funding

DLR funds its lending activities through the issuance of mortgage bonds listed on Nasdaq Copenhagen. Bonds are issued according to the specific balance principle, with financing through issuance of covered bonds (SDO) in a 1:1 ratio.

Funding and bond issuance

Because of the balance principle, lending activities in 2020 resulted in similar changes on the bond side. In 2020, the many new fixed-rate loans and fewer 1Y-3YARM loans reduced DLR's ongoing refinancing requirement, which has contributed to developments in the past seven years towards a more stable funding structure.

DLR's outstanding bonds by type



More DLR bonds

Lending growth in 2020 meant that the volume of DLR's outstanding bonds increased to just under DKK 168bn at the end of the year, not counting senior debt and bonds that expire on 1 January 2021. The bonds are issued out of two capital centres with separate reserve funds. Since the beginning of 2008, DLR has exclusively issued covered bonds (SDO) out of Capital Centre B.

Before 2008, DLR funded its loans by issuing mortgage bonds (RO) from the General Capital Centre, most of which has subsequently been redeemed or remortgaged into Capital Centre B. DLR's RO bonds merely accounted for a little less than 1% of outstanding volume at end-2020.

All DLR's covered bonds (SDO and RO) meet the so-called UCITS requirements for covered bonds. The SDO bonds also meet the CRD requirements for covered bonds. Moreover, quarterly cover pool reporting ensure that disclosure obligations under CRR article 129(7) are complied with, and all DLR's bonds are thus covered by the low risk-weighting of 10% for investors who are subject to a capital charge under CRR, such as credit institutions, etc.

The distribution of bonds by type and currency at 31 December 2020 (excluding bonds maturing on 1 January 2021, but including pre-issued bonds in connection with the refinancing of mortgage loans on 1 January 2021) is shown in table 7.

Table 7: DLR's bonds, end-2020 (nominal)
DKKbn

	DKK bonds	EUR bonds	Total
SDO	164.8	1.8	166.7
RO	1.2		1.2
Total	**166.0**	**1.8**	**167.9**

More callable bonds
As a result of growing borrower interest in long-term fixed-rate loans in 2020, 33% of all DLR's bonds at the end of 2020 were fixed-rate callable bonds, which is 4%-points more than the year before. The increase occurred in 30-year bonds with coupons of 0.5% and 1.0% and in 20-year bonds with coupons of 0.5%.

Change of issuance series
Until 1 September 2020, the increase was based on bonds maturing in 2050 or 2040, but because of the three-year change of issuance series, fixed-rate loans have subsequently been based on new 30-year and 20-year series, maturing in 2053 and 2043, respectively.

Change of refinancing dates
In 2020, it was decided to change the refinancing date for the longest ARM loans from October to April, and new 3Y-5y ARM loans were subsequently funded in 2023-2025 series. In addition, CIBOR-based ARM Short loans, which have been funded in CIBOR 2022 series since January 2019, will from 2020 now be funded in the 2023 series maturing on 1 July 2023. The changes were made because DLR for some time

has focused on establishing a funding structure with fewer, larger series to support bond liquidity.

EUR loans

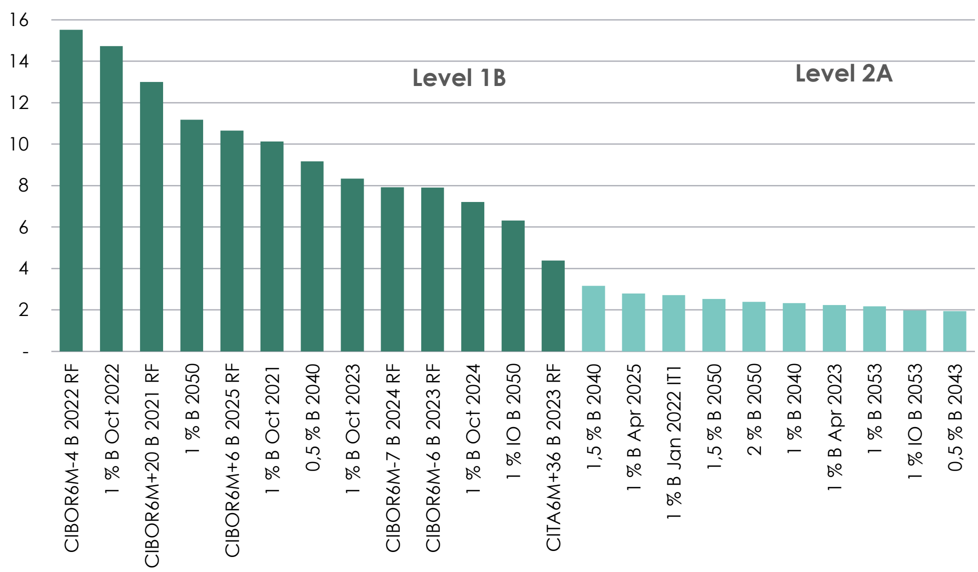
ARM loans in euros are only refinanced in January. A large proportion of DLR's 1Y ARM loans denominated in EUR has since 2014 been switched into either ARM Short loans or longer ARM loans denominated in DKK, as DLR has not offered loans in EUR since 2014. Likewise, a large proportion of the EURIBOR-based loans with 10-year funding was switched into other loan types denominated in DKK in connection with the 1 January 2018 and 1 January 2019 refinancing rounds. Hence, EUR-denominated bonds accounted for just 1.1% of the total outstanding volume of bonds at the end of 2020.

Series sizes

Shown below are DLR's largest bond series at the beginning of 2021. The series meet the LCR requirements of EUR 500m for level 1B assets and EUR 250m for level 2A assets. The largest series are made up of the longest non-callable bullet bonds and CIBOR-based ARM Short bonds, but due to strong demand for fixed-rate loans the callable bonds that were closed for issuance in Q3 2020 have also obtained level 1B status. These are 0.5% 2040 and 1% 2050 ordinary and interest-only series. Over the course of only a few months, the new 20-year and 30-year series maturing in 2043 and 2053 have reached a volume that meets the level 2A requirement.

At the beginning of 2021, 75% of DLR's series met the 1B requirement for series size in terms of outstanding volume, while a further 14% met the level 2A requirement.

DLR bond series meeting LCR size requirements (DKKbn)
Early 2021



Bond sales

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

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

DLR uses Bloomberg's auction system both for regular sales and to hold refinancing auctions for bonds with shorter maturities than the underlying loans. This helps ensure openness and transparency in the trading of DLR's bonds.

Since the end of 2016, DLR has had Primary Dealer agreements with six banks. These agreements remunerate the institutions that actively quote prices for DLR's bonds over an extended period. These agreements have contributed to strengthening liquidity and thus ensuring the continuous pricing of DLR's bonds.

The agreements thus also helped support demand for DLR bonds during the brief turmoil in the financial markets in March 2020 resulting from the COVID-19 pandemic. During this period, DLR could, despite substantial daily price losses, sell the required number of bonds in the market at unchanged price and yield spreads to similar mortgage bonds issued by other mortgage credit institutions.

Negative interest rates

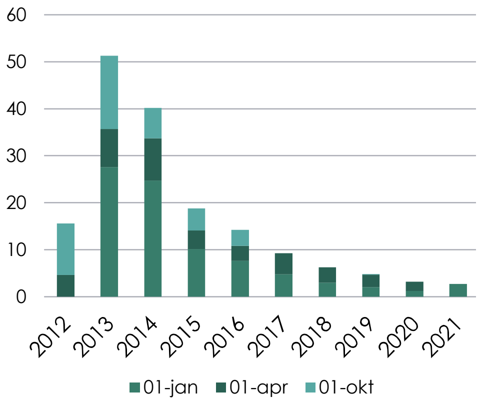
Short CIBOR, CITA and EURIBOR rates remained negative throughout 2020. DLR's floating-rate bonds opened after 1 January 2018 have no coupon floor, and yields on these bonds may therefore become negative. Until the end of 2017, all DLR floating-rate bonds had a coupon floor with a minimum coupon of 0%. The effective yield on the floating-rate bonds depends on current pricing and so could well be negative even though an interest rate floor of 0% applies to the coupon rate.

Short, fixed-rate non-callable bullets (ARM loans) could also potentially have negative yields, as the bonds may trade at a premium that gives a negative effective yield for borrowers and investors.

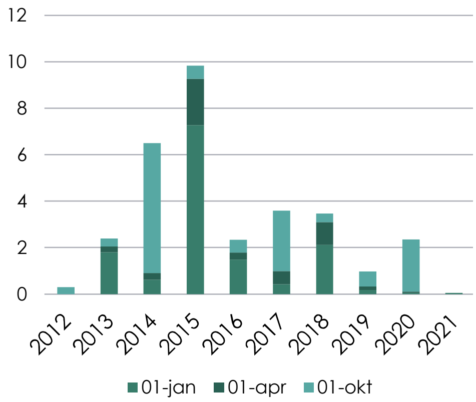
Refinancing of ARM loans

DLR held auctions in February, August and November-December 2020 in connection with the refinancing of ARM loans per 1 April 2020, 1 October 2020 and 1 January 2021, respectively. In step with the switch to other loan types, refinancing volumes have declined steadily in recent years. At the February auctions, DLR supplied DKK-denominated bonds for just under DKK 3bn and at the August auctions DKK-denominated bonds for DKK 3.6bn (all nominal amounts). At the November-December auctions, DLR supplied DKK-denominated bonds for about DKK 4bn and EUR-denominated bonds for EUR 0.1bn (all nominal amounts). The refinancing of ARM loans of the F1, F3 and F5 types totalled DKK 9.3bn in 2020, which was DKK 0.1bn less than in 2019.

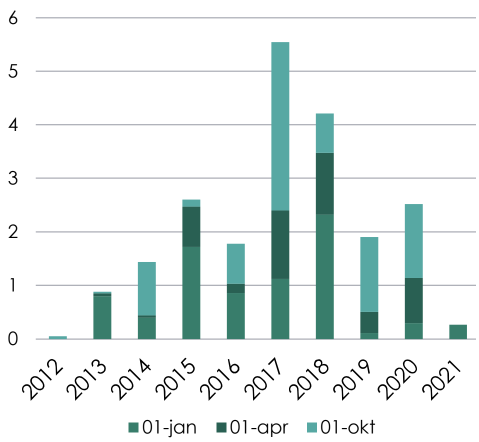
Supply of 1Y non-callable bullets (DKKbn)



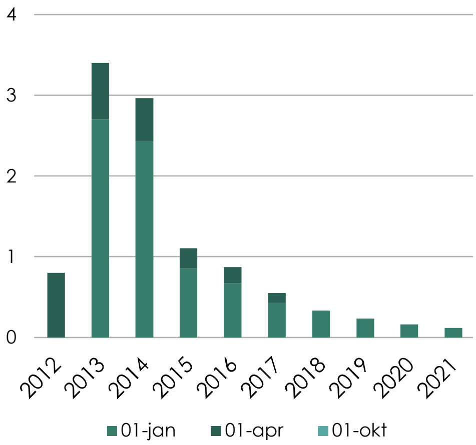
Supply of 3Y non-callable bullets (DKKbn)



Supply of 5Y non-callable bullets (DKKbn)



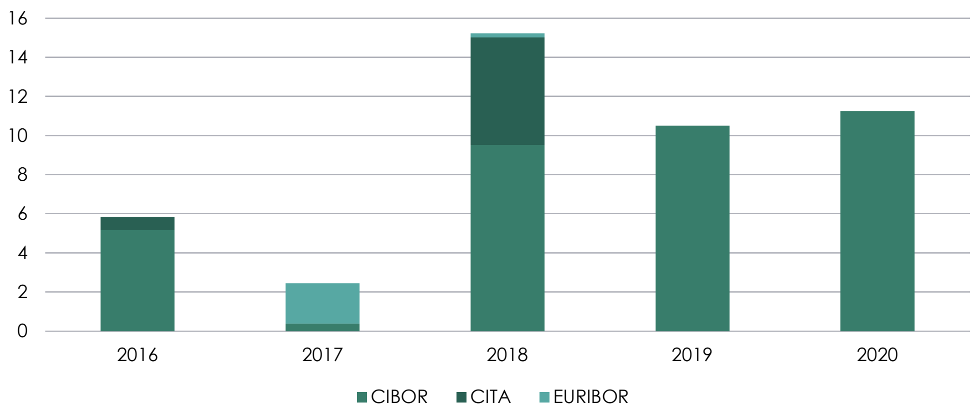
Supply of 1Y non-callable bullets (EURbn)



Refinancing of floating rate loans

In May 2020, DLR auctioned floating-rate bonds for an amount of DKK 11.25bn. 5-year CIBOR6 bonds were used to refinance ARM Short loans on 1 July 2020.

DLR's refinancing of bonds underlying ARM Short loans and other floating-rate loans by reference rate (DKKbn)



Senior debt

At year-end 2020, DLR had DKK 7bn in outstanding senior debt, against DKK 8bn the year before. The change is explained by the fact that DLR at the end of Q1 2020 opted not to refinance senior debt (SSB) for DKK 1bn expiring on 31 March 2020. The decision was based on an assessment that DLR had adequate excess cover relative both to overcollateralisation requirements (OC) and to supplementary collateral in the short and medium term.

At the end of December 2020, the senior debt consisted of DKK 3.0bn in Senior Secured Bonds (SSB), DKK 1.0bn in Senior Resolution Notes (SRN) and DKK 3.0bn in Senior Non-Preferred Notes (SNP).

[[Furthermore, in parts of 2020 DLR also had DKK 1bn less of eligible senior debt.]] The reason was that DLR in the summer of 2020 deferred the refinancing of DKK 1bn of SRNs because the COVID-19 pandemic had an unfavourable impact on the financial markets. In autumn 2020, however, markets had recovered, and DLR issued DKK 1bn of SNPs instead of the SRNs.

DLR has since 2012 issued SSBs to ensure sufficient funds for meeting supplementary collateral requirements so DLR's issued bonds can maintain their status as covered bonds (SDO) in the event of a fall in property prices. SSB issuance has also been used to ensure the overcollateralisation (OC) required to retain DLR's AAA bond rating. SSBs are issued with three to five year maturities, and DLR continually monitors the need for supplementary collateral, including the refinancing of maturing SSBs.

Table 8. DLR's outstanding senior debt issues year-end 2020

Type	Amount (DKKm)	Issuance date	Maturity date	Maturity (years)	Reference rate	Rate premium
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	4½	3M CIBOR	0.75%
SSB	1,000	01/10/2019	01/10/2022	3	3M CIBOR	0.94%
SNP	750	13/04/2019	01/07/2023	4	3M CIBOR	1.15%
SNP	250	12/04/2019	01/07/2023	4	Fixed interest rate	1.07%
SNP	1,000	03/11/2020	01/07/2024	3¾	3M CIBOR	0.85%
Total, senior debt	**7,000**					

DLR's loss-absorbing senior debt (SRN and SNP) is included in S&P's ALAC calculation (Additional Loss-Absorbing Capacity) and is thus supportive of DLR's issuer rating, see below, and can also be used for OC and other purposes.

Rating

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

Table 9. DLR's ratings

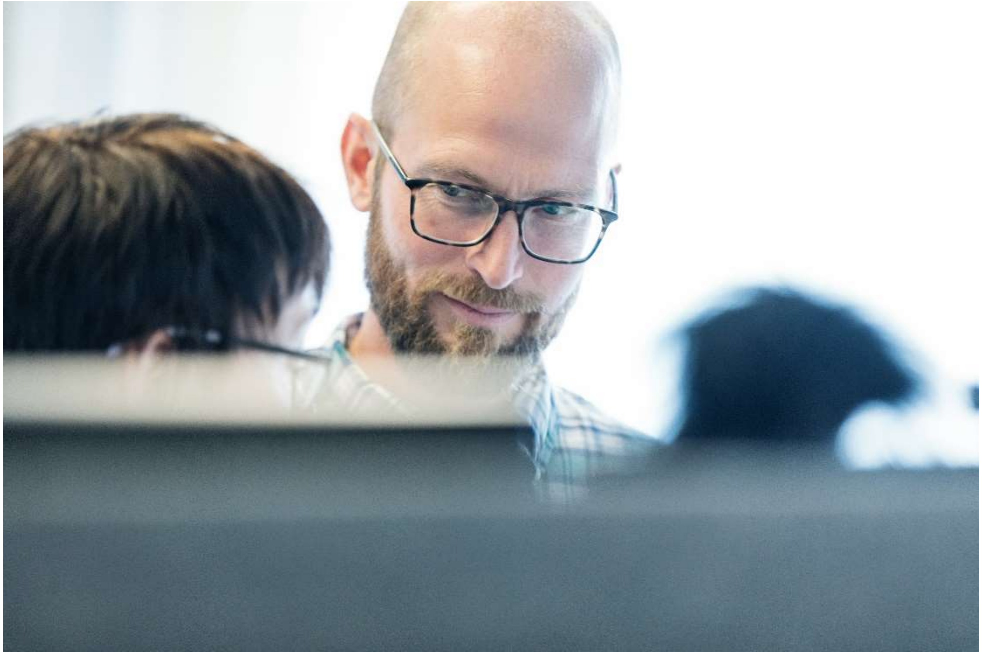
Bond rating	S&P
Capital Centre B (SDO)	AAA (stable)
General Capital Centre (RO)	AAA (stable)
General Capital Centre (SRN/SNP)	BBB (stable)
Issuer rating	
Issuer (Long-Term)	A- (stable)
Issuer (Short-Term)	A-2 (stable)

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

S&P's OC requirements compatible with the AAA rating have most recently been set at 10.08% for Capital Centre B and 2.50% for the General Capital Centre. The OC requirements are met for the nominal bond amount in the capital centre and covered by surplus capital in the capital centres. This is achieved using assets acquired for own capital together with funds obtained by issuing senior debt.

While DLR, as mentioned, has not made any commitment to S&P about maintaining a certain level of overcollateralisation in its capital centres, it has a clear ambition of maintaining its current AAA rating. As S&P's OC requirement is dynamic and changes with, for example, changes in asset levels, composition and quality, or due to a change in S&P's criteria or models, the need for additional collateral may change going forward. DLR therefore maintains a comfortable overcollateralisation buffer in Capital Centre B relative to S&P's OC requirements.

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



Covered Bond Label

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

Cover pool data for both capital centres is available on DLR's website at www.dlr.dk/investor and is updated quarterly. For Capital Centre B, data is published in accordance with both the ECBC's harmonised transparency template (HTT), which since 2016 has been mandatory for cover pools comprised by a covered bond label and the national transparency template (NTT). For the General Capital Centre, data is only published according to NTT, as DLR's RO bonds are not covered by the covered bond label.

Risk factors

Risk management

DLR's business model is based on traditional mortgage credit activities. In other words, DLR grants loans against a mortgage on real property funded through the issuance of bonds. As a mortgage credit institution, DLR is subject to finely-meshed regulations, covering all important areas of DLR's operations. Due to these regulations, including the balance principle and the framework this provides for running DLR, the company is primarily exposed to credit risk. The balance principle stipulates strict limits for liquidity, option, interest rate and exchange rate risk.

DLR carries out a valuation of mortgaged properties and an internal credit assessment of all borrowers. The loan-distributing banks have also provided a substantial volume of loss guarantees for the loans granted, and DLR has the opportunity to offset losses in the commissions paid to the banks. These factors generally ensure a limited risk of loss on the loan mass, just as continuous attention to the setting of administration margins provides balanced earnings relative to credit risk. Issued mortgage loans are established and remain on DLR's balance sheet throughout the term of the loan.

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

DLR's anti-money-laundering and anti-terrorist financing initiatives are based on DLR's risk assessment and its anti-money laundering and anti-terrorist financing policy. DLR gives high priority to ensuring that DLR and its customers are not used for money laundering or terrorist financing purposes. DLR's AML officer reports directly to the member of DLR's Executive Board in charge of AML.

DLR's Risk and Capital Management Report 2020 provides a detailed description and review of DLR's risks and risk management.

Solvency need

In accordance with the Danish Financial Business Act, DLR must determine its adequate own funds and solvency need. In its calculation, DLR applies the credit-reservation approach (the "8+ approach") as described in the Danish FSA's guidelines on adequate own funds and solvency needs for credit institutions.

The credit-reservation approach is based on 8% of the total risk exposure amount. Also, an assessment is made of whether DLR in individual business areas or operationally, etc. is exposed to material risk not covered by the 8% requirement.

In case there is material risk not covered by the 8% requirement, an add-on is made to the adequate own funds and the solvency need. DLR's business model, which is based exclusively on operating a mortgage credit business, means that DLR's [[adequate own funds tied to credit risk is by far the most important risk factor.]]

Adequate own funds and solvency need are calculated and presented to DLR's Board of Directors at least once every quarter. In addition, it is regularly assessed whether the calculated solvency need and adequate own funds reflect DLR's current risk profile.

Reports to the Board of Directors are typically made quarterly in connection with the release of financial reports. At least annually, DLR's Board of Directors reviews the method used to determine the adequate own funds and solvency need.

Prior to presentation to DLR's Board of Directors, the calculation has been reviewed by DLR's Risk Committee. In addition, DLR's internal audit department undertakes an independent assessment of the calculation. Table 10 shows DLR's adequate own funds and solvency need.

Please also refer to DLR's report "Risk and Capital Management 2020" and the quarterly calculations of adequate own funds and the solvency need, which can be found at https://dlr.dk/en/investor/financial-statements/.

Table 10. DLR's adequate capital base and solvency need

(DKKm)	2019	2020
Credit risk	6,699	6,493
Market risk	639	611
Operational risk	190	192
Other factors	0	0
Internally calculated adequate own funds	7,529	7,296
Add-ons (special risks)	0	0
Total, adequate own funds	**7,529**	**7,296**
Solvency need	**9.21%**	**9.18%**

Large exposures

Exposures of more than 10% of DLR's own funds are designated large exposures by regulations. At year-end 2020, DLR had no single exposures (after deductions) that amounted to more than 10% of DLR's own funds.

Supplementary collateral

As part of its ongoing operations, DLR issues covered bonds (SDO) out of Capital Centre B with a view to funding issued loans. Particularly secure assets are used as the basis for the bond issuance – primarily mortgage on real property.

Continual monitoring is carried out of the market value of the mortgaged properties, as the statutory maximum loan-to-value (LTV) limits determine the extent to which the mortgaged property can be included as collateral for the issued covered bonds.

If the amount of secure assets is insufficient, for example in case of falling prices on the properties provided as collateral, additional supplementary collateral must be added to the capital centre in a ratio of 1:1. Such collateral must consist of specified secure assets, such as government bonds, own covered bonds or, up to a certain limit, claims against credit institutions. DLR is therefore very aware of the need for supplementary collateral in connection with capital planning.

At year-end 2020, DLR had provided DKK 9.9bn in supplementary collateral, which was down on the year-end 2019 level, when DLR provided DKK 10.5bn in supplementary capital. The volume of supplementary collateral has generally been trending lower in recent years.

DLR maintains a continuous buffer in the form of both own funds and issued SSBs, SRNs and SNPs as well as guarantees, etc. provided by the loan-distributing banks, such that DLR is capable of absorbing a potential further general price fall on agricultural and commercial property of 15-20% without having to provide further collateral.

Credit risk

Credit risk

DLR grants loans against a registered mortgage on real property subject to the regulations stipulated for mortgage credit institutions, including the rules governing LTV in real property, etc.

DLR's Board of Directors has drawn up guidelines for the granting of credit by DLR – including limits on the credit authorisation of the Executive Board – based on DLR's business model, etc. Within these limits, internal business procedures and instructions determine guidelines and limits for the credit authorisation of the various levels in DLR's credit organisation. The Board of Directors must approve exposures that exceed defined limits.

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

IRB (internal rating based) models and rating systems are a fully implemented and integrated element in DLR's loan application and credit-granting process and in the risk management.

DLR's credit risk has been further reduced through loss-mitigating guarantee schemes with the loan-distributing banks, who are also DLR's shareholders.

At the end of 2020, 97.6% of DLR's total loan portfolio was covered by guarantee concepts, including a government guarantee covering a small share of the portfolio amounting to around DKK 0.2bn. Overall, the guarantee schemes mean DLR's risk of loss on its lending activities is very limited. The loss-mitigating agreements are explained under the heading DLR's guarantee concept below.

Credit risk developments

As DLR continues to experience growth in lending to urban trade, especially for private residential rental properties, its share of agricultural loans continues to decline. See the descriptions in the sections Lending activity and Portfolio. However, DLR maintains a large concentration of loans to agricultural customers and is the largest lender for full-time agricultural properties.

Exposures of up to DKK 15m account for more than 50% of DLR's lending volume, and DLR's portfolio primarily consists of a large proportion of small and medium-sized exposures.

Full-time farms

DLR's total lending to actual full-time farms encompasses loans for nearly DKK 80bn. For the portfolio, the past few years have seen a migration towards the better rating categories, reflecting the relatively good cyclical trends in the main production areas and a reduction of loans with the highest LTV ratios through ordinary mortgage payments.

A little less than 81% of loans for full-time farms are placed within an LTV ratio of 50, and only a little more than 2% above the 70% lending limit. DLR's loan portfolio is thus generally well covered by the value of the mortgage.

Other customers

DLR's total lending for urban commercial customers, for which a significant part of the earnings is linked to the operation or letting of the mortgaged properties, amounts to just under DKK 60bn.

The remaining part of DLR's lending is principally to customers with small exposures for which the commercial utilisation of the mortgaged property is not of decisive importance to the financial circumstances, as well as loans in Greenland and the Faroe Islands and for horticultural properties.

For total lending to the group of other customers, around 80% of the loans are placed within an LTV of 50%, and only about 0.7% have an LTV of more than 80%. Also for this portfolio, DLR's loans are generally well covered by the value of the mortgage.

Arrears and impairment charges

The arrears ratio on the December 2020 mortgage payment has fallen by 0.8%-point relative to the year before, and considering the COVID-19 pandemic this is considered highly satisfactory. However, the situation should also be seen in the context of the extensive relief packages, and despite the fact that no increase in arrears has been registered at portfolio level, some customers and customer groups are expected to be challenged by the long-term implications of the COVID-19 lockdowns. Against this background, DLR has made substantial COVID-19-related management add-ons to the impairment charges, primarily in relation to urban trade. Despite reversals of impairment charges on the agricultural portfolio owing to the favourable trends within the main production areas, DLR's total impairment account at end-2020 has, against this background, been increased by nearly DKK 56m (13%) compared with the end of 2019.

DLR's guarantee concept

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

Under the new guarantee concept the loan-distributing bank provides an individual guarantee at the time of disbursement covering 6% of the outstanding debt for the entire term of the loan. The guarantee amount declines proportionally as the loan debt is paid off, meaning the guarantee percentage relative to outstanding debt remains unchanged throughout the term of the loan. The guarantee covers the least secure part of the overall loan on the individual property.

DLR's loan portfolio, which is covered by the universal guarantee concept, will increase as new loans are granted and also as the existing portfolio is remortgaged.

A complementary loss-offsetting agreement has also been established, whereby the individual distributing bank has to set off all losses DLR incurs from loans distributed by that bank over and above the guarantee provided at loan level in its commission payments. The loss is deducted from the bank's total fee and commission payments for its entire distributed loan portfolio excluding agency commissions and brokerage reimbursements. Losses that cannot be fully offset in that year's commissions can be carried forward and offset against commissions for up to a further nine years.

The opportunity to offset losses in the commissions paid to the banks is an important element in the universal guarantee concept. In 2020, DLR offset losses totalling DKK 5.0m.

At year-end 2020, the universal guarantee concept covered an outstanding bond debt of DKK 131.6bn, or 80% of the total loan portfolio. Loans granted until the end of 2014 are still covered by the previous loss-mitigating agreements for loans to agricultural and commercial property. At the end of 2020, 10.7% of the loan portfolio was covered by the previous collaboration agreement on agricultural loans, while another 6.6% was covered by the previous guarantee concept in the commercial area.

Loan portfolio LTV

The loan portfolio's LTV in a mortgaged property illustrates DLR's limited risk of loss. At the end of 2020, 92% of lending on agricultural properties was placed within the <60% LTV range of DLR's latest valuations, including valuations made in connection with continual covered bond monitoring. With regards to the portfolio of commercial properties, 89% was placed in the <60% LTV range of valuations. Loans for residential properties classified as commercial properties have an LTV limit of 80%, which is why the share below the <60% LTV range is inherently lower than for agriculture, where the LTV limit is 70%.

In addition to LTV, DLR has, as outlined above, a comprehensive guarantee setup covering the bulk of its portfolio.

The continual monitoring of LTV values is a permanent feature of DLR's management reporting.

DLR also prepares regular risk-based exposure overviews for each of its partner banks for the purpose of managing DLR's counterparty risk on guarantors in accordance with Board guidelines.

Interest rate risk

As DLR's lending is made subject to the specific balance principle, the interest rate risk deriving from the issuance of covered bonds (SDO) for the financing of mortgage loans reflects the borrower's loan terms. Hence, DLR's interest rate risk arises solely as a consequence of a natural need to invest DLR's proprietary portfolio, balancing funds and issued capital and debt instruments.

Danish law stipulates that the interest rate risk on the securities portfolio and funds acquired through the issuance of capital and debt instruments may not exceed 8% of own funds. With own funds of DKK 14.9bn at year-end 2020, this equates to a maximum permitted interest rate risk for DLR of DKK 1.2bn.

DLR's interest rate risk complies with the Board of Directors' guidelines for overall market risk, whereby the interest rate risk on the securities portfolio should be in the range 0-2.5% of DLR's own funds, which equates to between DKK 0 and 351m.

At the end of 2020, the interest rate risk on DLR's securities portfolio (asset side) was DKK 153m. Interest rate risk expresses the amount that DLR at the end of 2020 should expect as a price adjustment in the event of a shift in market yields of 1 percentage point. The relative interest rate risk can be calculated at 1.0 per cent based on the capital base at year-end 2020.

The interest rate risk on issued capital and debt instruments (liabilities) – i.e. Tier 2, Senior Secured Bonds, Senior Resolution Notes and Senior Non-Preferred Notes – is calculated at DKK 3, or 0.2% of DLR's own funds.

The interest rate risk on issued capital and debt instruments correlates negatively with the interest rate risk on the securities portfolio and thus reduces DLR's net interest rate risk to DKK 120m, or 0.8% of own funds.

In connection with the calculation of interest rate risk, DLR also calculates convexity risk and credit spread risk. See DLR's Risk and Capital Management Report.

Liquidity risk

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

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

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

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

CRR/CRD IV established requirements – see S.8 (9) of the Danish Executive Order on Management and Control of Banks, etc. – for the calculation and assessment of liquidity and liquidity risk (ILAAP – Internal Liquidity Adequacy Assessment Process). Since 2014, DLR has therefore produced a separate annual liquidity report along the lines of a solvency need assessment (ICAAP – Internal Capital Adequacy Assessment Process). The ILAAP is approved by DLR's Board of Directors prior to submission to the Danish FSA.

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

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

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

DLR's LCR remained above the internally defined 110% minimum requirement throughout 2020.

Exchange rate risk

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

DLR's exchange rate risk amounted to 0.002% of the own funds at the end of 2020.

Equity risk

DLR generally does not place funds in equities apart from "sector equities". At the end of 2020, DLR's equity holdings consisted of unlisted shares in e-nettet A/S and Landbrugets Finansieringsinstitut A/S. DLR sold its portfolio of shares in VP Securities A/S in connection with the sale of that company to Euronext in 2020. With an equity portfolio of DKK 34m at 31 December 2020, DLR was thus exposed to limited equity risk.

Operational risk

Operational risk is the risk of loss resulting from inappropriate or deficient internal procedures, human or system error, or from external events, including legal risk.

DLR constantly strives to minimise operational risk. DLR's operational risk is generally assessed to be limited, among other things because of DLR's business model, which is based exclusively on mortgage lending business.

DLR regularly collects and registers data on operational events to have an overview of such events and to prevent any future operational events. Risks are also mitigated by insurance coverage where relevant. DLR is constantly focused on maintaining highly competent staff and high levels of control and security with regard to IT systems, cybercrime, etc. – and DLR's policies and business procedures concerning operational risk and contingency plans reflect this.

DLR uses the basic indicator method to calculate operational risk. According to this method, the risk exposure amount for operational risk amounts to DKK 2.4bn. That equates to DKK 0.2bn to cover the 8% capital requirement for operational risk at year-end 2020.

Board committees

Four committees have been set up under DLR's Board of Directors to monitor specific areas or prepare matters to be discussed by the Board as a whole.

The following committees have been established:

Audit Committee
The tasks of the Audit Committee include the supervision of the financial reporting process and monitoring that DLR's internal controls and security as well as internal audit and risk management systems function effectively. The Audit Committee furthermore monitors that the Executive Board responds effectively to any vulnerabilities and/or deficiencies and that initiatives agreed in relation to strengthening risk management and internal controls – including in relation to the financial reporting process – are implemented as planned.

DLR's Audit Committee has three members – General Manager Claus Andersen (chairman), Deputy Group Chief Executive Bjarne Larsen and Head of Business Development and Communication Randi Franke. The Executive Board and the internal and external auditors also participate in Audit Committee meetings.

The Audit Committee held six meetings in 2020.

Risk Committee

The Risk Committee helps ensure that DLR's Board of Directors has the necessary foundation to address, manage, supervise and reduce the risks that DLR is or may be exposed to. DLR's Risk and Capital Management Report provides more details on relevant types of risk.

As such, the Risk Committee must maintain a comprehensive view of the risks associated with DLR's activities. This is accomplished by performing an analysis of the risks associated with DLR's business model as a mortgage credit institution and ongoing monitoring of DLR's most significant risks, based in part on DLR's risk register. With respect to DLR's risk situation, the Risk Committee reviews and has a preparatory role in the Board of Directors' approach to important policies and guidelines, the determination of the adequate own funds and the solvency need, etc.

The work of the Risk Committee does not change relative to the responsibilities or authorities of the Board of Directors. The Board of Directors as a whole is responsible for managing DLR's risk, but the work of the Committee is an important aspect of the preparatory work.

The Risk Committee has three members: Managing Director Lars Møller (chairman), Managing Director & CEO Vagn Hansen and Agricultural Account Manager Jakob G. Hald. DLR's Independent Risk Monitor also attends Risk Committee meetings.

The Risk Committee held five meetings in 2020.

Nomination Committee

The task of the Nomination Committee is to ensure that DLR's Board of Directors has the necessary level of knowledge and experience. The Committee nominates new board members, evaluates the competencies represented on the Board, etc. In addition, the Committee ensures diversity is considered in the composition of DLR's Board of Directors and that targets are set for the underrepresented gender.

The Nomination Committee consists of DLR's entire Board of Directors. The chairman is Managing Director & CEO Vagn Hansen, while Managing Director Lars Møller is vice chairman.

The committee met twice in 2020

Remuneration Committee

The Remuneration Committee undertakes preparatory work in relation to the Board of Directors' decisions, knowledge and controls with respect to remuneration. In addition, the Committee maintains a list of DLR's material risk takers.

The Remuneration Committee consists of three members – Managing Director & CEO Vagn Hansen (chairman), Managing Director Lars Møller and Agricultural Account Manager Jakob G. Hald.

The committee held two meetings in 2020

Organisation

Management

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

The Board of Directors had 11 members at the end of 2020, of whom six were elected at the Annual General Meeting (AGM), while five were elected by the employees.

The Board of Directors decides matters that are strategic or principle in nature, including determining DLR's business model, policies and guidelines, etc. The division of work and responsibilities between the Board of Directors and the Executive Board is specified in the policies and guidelines laid down by the Board of Directors.

Members of the Board of Directors elected by the Annual General Meeting are elected for one year at a time and may stand for re-election. Employee representatives are elected for a four-year period and may stand for re-election.

Employees

DLR had on average 210 permanent FTE employees in 2020. In addition, DLR has 24 agricultural valuation experts attached to the company on a fee basis. See note 10 to the financial statements. In 2019, DLR employed on average 193 permanent employees and the same number on a fee basis.

Knowledge resources

DLR's employees are a key resource. The organisation has many different competence areas. As DLR has committed to creating value and ensuring quality through a high degree of professionalism across the organisation, it is essential that DLR's employees actively follow developments and that they maintain and regularly extend their professional knowledge and specialist skills. Restrictions imposed because of the COVID-19 pandemic posed a challenge in this respect in 2020.

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

As DLR works closely with its shareholder banks on the distribution of loans to shared customers, it is also important that advisors and customer-facing staff at the banks are kept continually updated on DLR and DLR's loan types. DLR is a member of the Education Centre of the Danish Financial Sector and has in collaboration with the Centre developed an e-learning course on the interaction with DLR. In addition, DLR invites new bank employees to intro days every six months, although this was not possible during the COVID-19 pandemic.

DLR's in-house business procedures and workflows and instructions are regularly updated and expanded to ensure a documented basis for, among other things, DLR's property valuations, credit processing, loan administration, risk management and monitoring.

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

As a financial organisation, DLR relies heavily on IT solutions for its day-to-day operations. For the IT area, this also includes comprehensive documentation of the IT systems used.

In areas where specialist competences are required, DLR enlists external know-how where necessary.

For further information on DLR's knowledge resources, please see our report on corporate social responsibility, which is found on our website under https://dlr.dk/en/investor/corporate-social-responsibility/

Distribution channels

DLR grants mortgage credit loans for the financing of agricultural and commercial properties. Loans for owner-occupied homes are provided for hobby and residential farms, for homes in association with commercial property and holiday homes for rental. In addition, DLR grants mortgage loans for properties in the Faroe Islands and Greenland.

DLR's business model is based on close and professional collaboration with DLR's circle of owners, who comprise national and local loan-distributing banks with branches in Denmark, in the Faroe Islands and in Greenland.

The cooperative model between DLR and its owners ensures a cost-efficient lending process where the banks are remunerated for arranging loans to customers, advisory services, customer care and risk hedging through the provision of a guarantee, while DLR handles property valuations, loan processing and loan limits together with the issuance and sale of bonds to fund mortgage credit loans.

DLR's digital platform – DLRxperten – supports the banks' customer advisory services connected with mortgage lending and the day-to-day collaboration between the parties in connection with loan applications, presenting loan offers to customers, making fixed-price agreements, obtaining customer signatures, disbursing DLR loans, guarantee provision, profile shifting, cancellation and prepayment of loans, etc.

Internal control and risk-management systems connected with financial reporting

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

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

Control environment

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

The foundation for this is a clear organisational structure, well-defined reporting lines, authorisation and certification procedures, and appropriate segregation of people and functions. In compliance with statutory requirements, the Board of Directors has established an internal audit function that reports to the Board of Directors and which – in accordance with an audit strategy approved by the Board – audits processes and internal control procedures in significant and material risk areas. Business procedures and controls have been prepared for all important and material risk areas, including areas that influence the financial reporting process.

The Accounting and Finance Department is responsible for DLR's overall financial management and reporting as well as financial statements, including the responsibility for ensuring that financial reporting follows established principles and complies with applicable legislation.

The Accounting and Finance Department has established a reporting process that encompasses budget reporting and monthly earnings reports, including deviation reports with quarterly updates to the year's budget.

Monitoring
The Audit Committee receives regular reports from the Executive Board as well as from internal and external auditors on compliance with defined guidelines, business procedures and regulations.

Corporate social responsibility

DLR is focused on contributing to Denmark achieving its ambitious climate goals by 2030 and complying with the UN Sustainable Development Goals and the reduction targets of the Paris Agreement. This applies both in relation to DLR as a company and in relation to lending, where DLR aims to contribute to the sustainable transition.

DLR's ambition is, together with the shareholder banks, to a be major player in financing the transition towards a more sustainable society focused on transitioning the agricultural sector and energy efficiency in urban commercial properties.

This ambition will be accomplished by offering green loan products on attractive and competitive terms and by issuing green mortgage bonds as a source of green funding for the transition. DLR's investors are increasingly demanding such green bonds.

DLR has taken the first step by launching its Grøn RT-Kort loan at the beginning of 2021. Grøn RT-Kort is a green mortgage loan initially offered to new borrowers wanting to finance green buildings, energy improvements, sustainable energy sources or farm property with a sustainability certification. Next, the criteria will be extended to also cover investment in selected improvement projects such as new technology in the agricultural sector that reduces the carbon footprint (measured in terms of CO_2 equivalents) by at least 30%. DLR will later extend the criteria, allowing for a larger proportion of Danish agriculture to use green loan financing on the basis of sustainable management practices. The extension of the criteria will be based on the EU sustainability taxonomy.

In addition, DLR teamed up with the rest of the financial sector – under the auspices of Finance Denmark – in 2020 to prepare a voluntary model to measure the carbon footprint. The goal is to publicly disclose the carbon footprint of each individual financial institution, including the footprint of loans and advances facilitated. On the basis of this model, DLR expects to disclose its carbon footprint.

DLR's report on corporate social responsibility also provides a description of our diversity and gender diversity initiatives both on the Board of Directors and at DLR's other management levels in accordance with section 135a of the Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

The CSR report is available on DLR's website at https://dlr.dk/en/investor/corporate-social-responsibility/. The report also includes facts on social issues and corporate governance.

At year-end 2020, DLR has no separate policies on respect for human rights or reducing the climatic impact of the company's activities.

Management and administration

DLR Kredit's Board of Directors

At the end of 2020, DLR's Board of Directors consisted of 11 members, of whom six were elected at DLR's Annual General Meeting. Of the shareholder-elected Board members, three were elected from among the members of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, and three from among the members of National Banks in Denmark.

The remaining five members of the Board of Directors were elected by DLR's employees.

At the end of 2020, DLR's Board of Directors consisted of the following members:

Elected at the General Meeting

- Vagn Hansen (chairman), Managing Director & CEO, Sparekassen Vendsyssel
- Lars Møller (vice chairman), Managing Director, Spar Nord Bank A/S
- Claus Andersen, General Manager, Ringkjøbing Landbobank A/S
- Frank Mortensen, Deputy Director & CFO, A/S Arbejdernes Landsbank
- Bjarne Larsen, Deputy Group Chief Executive, Sydbank A/S
- Lars Petersson, Managing Director & CEO, Sparekassen Sjælland-Fyn A/S

At the Annual General Meeting on 30 April 2020, Deputy Director & CFO Frank Mortensen was elected as a new member of the Board of the Board of Directors, replacing General Manager Gert R. Jonassen. The remaining five Board members elected by the Annual General Meeting were all re-elected.

Employee representatives

- Lars Faber, IT Operations Manager
- Randi Franke, Head of Business Development and Communication
- Jakob G. Hald, Agricultural Account Manager
- Kim Hansen, Office Attendant

- Søren Jensen, Attorney, MA (Law)

Until the end of September 2020, Lars Faber was first alternate and joined the Board of Directors on 1 October 2020 when board member Agnete Kjærsgaard resigned from her position with DLR to go into retirement.

Executive Board

- Jens Kr. A. Møller, Managing Director & CEO
- Pernille Lohmann, Managing Director

Directorships held by the Executive Board
Jens Kr. A. Møller, Managing Director & CEO

- Member of the board of directors of e-nettet A/S
- Member of the board of directors of FR I af 16. september 2015 A/S
- Member of the board of directors of Finance Denmark (Finans Danmark) and the Association of Mortgage Banks (Realkreditrådet)
- Member of SEGES's Sector Board for Business Finance & Management

Managing Director Pernille Lohmann

- Director – The Association of Danish Mortgage Banks (Realkreditrådet)

Executive Staff

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

Mortgage loans
- Bent Bjerrum, Deputy Director, MSc (Agriculture)

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

Securities &Funding

- Erik Bladt, Head of Securities, HD Graduate Diploma in Finance

IT

- Christian Willemoes, IT Director, Engineer

Model and Data Innovation

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

Internal Audit

- Brian Hansen, Chief Internal Auditor, MSc in Business Administration, Accounting and Auditing

Business Development & Communications

Randi Franke, Head of Business Development and Communications, HD Diploma in Organisation and Management, IPMA-B

Projects

Ole Mørch, Project Manager, HD Diploma in Informatics & Financial Management, IPMA-B

Risk Management

Torben Thorgaard, Head of Risk Management, MSc. (Economics)

Compliance

Søren Jensen, Attorney, Head of Compliance

Supervision

DLR is under the supervision of the Danish Financial Services Authority.

Cooperation agreements

Outsourcing agreement with LR Realkredit A/S
DLR has an outsourcing agreement with LR Realkredit A/S under which DLR, among other things, manage loans disbursed.

As LR Realkredit A/S was sold to Nykredit in 2019, the outsourcing agreement with DLR has been terminated with effect from the end of 2022.

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

Outsourcing agreement with Landbrugets Finansieringsinstitut A/S (LFI)
LFI (formerly Landbrugets FinansieringsBank A/S) entered into an agreement with DLR effective from 1 November 2017 on the outsourcing of all LFI's operations to DLR.

According to the agreement, DLR will serve LFI's customers and handle the administration of LFI's loan portfolio, including the preparation of credit recommendations to LFIs executive board and board of directors. LFI's portfolio comprises loans to the agricultural sector. The intention is to reduce LFI's customer base during the term of the outsourcing agreement.

The agreement runs until the end of 2021 and has an extension option.

Shareholder information

Share capital
DLR's share capital is mainly held by local, regional and national banks. DLR's share capital has a nominal value of DKK 570.0m (denomination of DKK 1), of which DLR Kredit A/S holds 46,122,083 own (treasury) shares, equivalent to a nominal value of DKK 46.1m.

Redistribution of shares
A shareholder agreement has been made between the shareholders according to which the shares are redistributed every year. The next redistribution will take place on 01 March 2021 (based on the outstanding bond debt at 31 December 2020).

Other directorships held by the Board of Directors

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

- Chairman of the board of directors of EgnsInvest Holding A/S as well as two subsidiaries
- Chairman of the board of directors of HN Invest Tyskland 1 A/S
- Member of the board of directors of SDC A/S
- Member of the board of directors of The Association of Local Banks, Savings Banks and Co-Operative Savings Banks in Denmark (Lokale Pengeinstitut-ter)
- Member of the board of directors of Opendo A/S
- Member of the board of directors of Sparinvest Holding SE

Lars Møller (Vice Chairman), Managing Director, Spar Nord Bank A/S

- Chairman of the board of directors of BI Holding A/S
- Chairman of the board of directors, BI Asset Management Fonds-mæglerselskab A/S
- Chairman of the board of directors, BI Management A/S
- Member of the board of directors of Aktieselskabet Skelagervej 15

- Member of the board of directors of Sparekassen Nordjyllands Fond af 29. marts 1976

Claus Andersen, Managing Director, Ringkjøbing Landbobank A/S

- Chairman of the board of directors of Sæbygaard Skov A/S
- Member of the board of directors of The Association of Local Banks, Savings Banks and Co-Operative Savings Banks in Denmark (Lokale Pengeinstitut-ter)

Bjarne Larsen, Deputy Group Chief Executive, Sydbank A/S

- Vice Chairman of the board of directors of Syd Administration A/S
- Member of the board of directors of Ejendomsselskabet af 1. juni 1986 A/S
- Member of the board of directors of Alm. Brand Leasing

Frank Mortensen, Senior Vice President CFO in A/S Arbejdernes Landsbank

- Bestyrelsesmedlem i Ejendomsselskabet Sluseholmen A/S

Lars Petersson, Managing Director and CEO, Sparekassen Sjælland-Fyn A/S

- Chairman of the board of directors of Holbæk Kommunes Talentråd
- Chairman of the board of directors of Museum Vestsjælland
- Member of the board of directors of Impagt Invest Sjælland A/S
- Member of the board of directors of Nærpension
- Member of the board of directors of Ejendomsselskabet Sjælland-Fyn A/S
- Member of the board of directors of Investeringsselskabet Sjælland-Fyn A/S
- Member of the board of directors of BI Holding A/S

Financial statements 2020

Income statement and statement of comprehensive income
(DKKm)

Note		2020	2019
1	Interest income	3,147	3,142
2	Interest expenses	-1,273	-1,338
	Net interest income	**1,874**	**1,804**
	Share dividends etc.	0	0
	Fees and commission income	250	269
	Fees and commission paid	-696	-641
	Net interest and fee income	**1,428**	**1,432**
3	Market value adjustments	-114	-171
	Other operating income	24	25
4-10	Staff costs and administrative expenses	-298	-273
	Depreciation and impairment of property, plant and equipment	-2	-2
	Other operating expenses	-15	-12
11	Impairment of loans, advances, receivables, etc.	-62	86
	Profit before tax	**960**	**1,085**
12	Tax	-212	-239
	Profit after tax	**749**	**846**
	Comprehensive income		
	Profit for the year	749	846
	Property revaluations	17	0
	Tax on property revaluations	-4	0
	Other comprehensive income after tax	**762**	**846**
	Attributable to shareholders of DLR Kredit A/S	762	846

Balance sheet

(DKKm)

Note		2020	2019
	Assets		
	Cash balance and demand deposits with central banks	50	50
13	Due from credit institutions and central banks	1,731	4,129
14, 16-21	Loans, advances and other receivables at fair value	166,775	156,821
15, 19-21	Loans, advances and other receivables at amortised cost	12	16
22	Bonds at fair value	12,007	11,732
	Shares etc.	34	36
23	Land and buildings, domicile properties	136	120
	Other property, plant and equipment	6	7
	Current tax assets	12	13
	Assets held temporarily	6	42
24	Other assets	293	237
	Prepayments	21	24
	Total assets	**181,083**	**173,228**
	Equity and liabilities		
25	Issued bonds at fair value	157,429	149,630
26	Issued bonds at amortised cost	7,004	8,009
27	Other liabilities	1,145	966
	Deferred income	2	4
	Total liabilities	**165,580**	**158,609**
28	Provisions for deferred tax	20	8
	Total provisions	**20**	**8**
29	Subordinated debt	1,300	1,300
	Total subordinated debt	**1,300**	**1,300**
	Share capital	570	570
	Revaluation reserve	75	62
	Undistributable reserve	2,338	2,338
	Retained earnings etc.	11,200	10,341
30	**Total equity**	**14,183**	**13,311**
	Total equity and liabilities	**181,083**	**173,228**
31	**Off-balance sheet items**		
	Guarantees	0	2
	Contingent liabilities (loan offers, other contingent liabilities, etc.)	9,490	10,118
32	Other contingent assets	34	60

Statement of changes in equity
(DKKm)

	Share capital 1)	Revaluation reserve	Undistributable reserve	Retained earnings	Total
2019					
Equity at 1 January	570	62	2,338	10,004	12,974
Profit for the year	0	0	0	846	846
Disposal of treasury shares 2)	0	0	0	216	216
Acquisition of treasury shares	0	0	0	-725	-725
Equity at 31 December	**570**	**62**	**2,338**	**10,341**	**13,311**
2020					
Equity at 1 January	570	62	2,338	10,341	13,311
Profit for the year	0	0	0	749	749
Property revaluations	0	17	0	0	17
Tax on property revaluations	0	-4	0	0	-4
Disposal of treasury shares 2)	0	0	0	110	110
Acquisition of treasury shares	0	0	0	0	0
Equity at 31 December	**570**	**75**	**2,338**	**11,200**	**14,183**

1) The share capital is divided into shares of DKK 1.00 each. The total number of shares is 569,964,023. DLR has one share class, and all shares carry equal rights.

2) DLR held 46,122,083 (2019: 50,752,863) treasury shares at 31 December 2020, corresponding to a nominal value of DKK 46.1m (2019: DKK 50.8m). The portfolio of treasury shares accounts for 8.1% (2019: 8.9%) of the total share capital.

Capital and solvency
(DKKm)

Note		2020	2019
	Equity	14,183	13,311
	Deductions as a consequence of prudent valuation	-25	-26
	Difference between expected losses and impairment losses	-539	-638
	Common equity tier 1 capital	**13,618**	**12,647**
	Subordinated capital (tier 2 capital)	1,300	1,300
	Deductions from tier 2 capital	0	0
	Own funds	**14,918**	**13,947**
	Risk-weighted exposure with credit risk etc.	74,846	76,853
	Risk-weighted exposure with market risk	2,221	2,555
	Risk-weighted exposure with operational risk	2,400	2,376
	Total risk-weighted exposure	**79,467**	**81,784**
	Common equity tier 1 capital ratio	17.1%	15.5%
	Total capital ratio	18.8%	17.1%

Statement of excess capital adequacy	2020	2019
Own funds after deductions	14,918	13,947
Capital adequacy	-7,296	-7,529
SIFI buffer	-795	-818
Capital conservation buffer	-1,987	-2,045
Countercyclical buffer	0	-818
Systemic buffer Faroe Islands	-10	-7
Excess capital adequacy	**4,831**	**2,730**

Notes

Notes - Income statement

Notes - Assets

Notes - Equity and liabilities

Notes - Income statement
(DKKm)

Note

Note	1 Interest income	2020	2019
1	Interest income	2020	2019
	Due from credit institutions and central banks	0	0
	Positive interest loans and advances *	1,183	1,297
	Contributions	1,734	1,632
	Bonds	96	114
	Issued bonds at fair value **	59	55
	Other interest income	107	106
	Total	**3,180**	**3,204**
	Interest on own mortgage bonds offset against interest on issued bonds	-32	-63
	Total	**3,147**	**3,142**
	Of which interest income from reverse repo transactions	0	0

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

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

Note	Interest expenses	2020	2019
2	Interest expenses	2020	2019
	Credit institutions and central banks	-3	-8
	Issued bonds at fair value *	-1,182	-1,295
	Issued bonds at amortised cost	-28	-26
	Negative interest loans and advances**	-59	-55
	Other interest expenses	-33	-18
	Total	**-1,305**	**-1,401**
	Interest on own mortgage bonds offset against interest on issued bonds	32	63
	Total	**-1,273**	**-1,338**
	Of which interest expenses on repo transactions	0	0

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

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

3	Market value adjustments	2020	2019
	Mortgage loans	350	-60
	Bonds	-121	-169
	Shares etc.	7	-14
	Other assets	1	1
	Foreign currency	-1	1
	Derivative financial instruments	0	11
	Issued bonds	-350	60
	Total	**-114**	**-171**

4	Staff costs and administrative expenses	2020	2019
	Staff costs		
	Salaries	-155	-145
	Pension costs	-14	-13
	Social security costs	-26	-23
	Total	**-195**	**-181**
	Other administrative expenses		
	IT expenses	-51	-45
	Audit, financial supervision and industry association	-9	-9
	Other expenses	-43	-38
	Total	**-103**	**-92**
	Total staff costs and administrative expenses	**-298**	**-273**

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

	2020	2019
Executive Board *		
Jens Kr. A. Møller, CEO	4.5	4.4
Pernille Lohmann, Managing Director *	2.0	1.5
Michael Jensen, Managing Director *	0.0	2.2
Total	**6.5**	**8.1**

* In 2020, in addition to the remuneration stated, Jens Kr. A. Møller received frozen holiday pay in an amount of DKK 0.4m, and

Pernille Lohmann received frozen holiday pay in an amount of DKK 0.2m.

* Pernille Lohmann joined the Executive Board effective 1 April 2019.

* Michael Jensen resigned from the Executive Board for retirement effective 1 September 2019.

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

The remuneration may be specified as follows:

	2020	2019
Fixed remuneration	6.5	8.1
Variable remuneration	0.0	0.0
Total	**6.5**	**8.1**
Number of members of the Executive Board at year-end	2	2

6 Remuneration of members of the Board of Directors etc.

	2020	2019
Board of Directors		
Fixed remuneration	1.8	1.8
Variable remuneration	0.0	0.0
Total	**1.8**	**1.8**
Number of members of the Board of Directors at year-end	11	11

7 Remuneration of the Board of Directors for participating in board duties and serving on Risk and Audit Committees

Amounts in DKK thousands	2020	2019
Vagn Hansen, Chairman	300	300
Lars Møller, Deputy Chairman	237	237
Claus Andersen	176	176
Randi Holm Franke	149	149
Peter Gæmelke (resigned in April 2019)	0	40
Jakob G. Hald	149	149
Kim Hansen	121	121
Søren Jensen	121	121
Gert R. Jonassen (resigned in April 2020)	50	149
Agnete Kjærsgaard (resigned in September 2020)	91	121
Bjarne Larsen	139	121
Lars Petersson	121	121
Frank Mortensen (took office in May 2020)	81	0
Lars Faber (took office in October 2020)	30	0
Total	**1,763**	**1,803**

Members of the Board of Directors do not receive shares or other incentive pay.

Employees other than the Executive Board and the Board of Directors influencing the risk profile	2020	2019
Fixed remuneration	21.6	18.2
Variable remuneration	0.0	0.0
Total	**21.6**	**18.2**

Number of employees who have influenced the risk profile	2020	2019
Number of employees who have influenced the risk profile during the year	18	15
- Of whom resigned during the year	0	0
Number of employees influencing the risk profile at year-end	**18**	**15**

The Company has no pension obligations to or incentive schemes for the above group of persons.

8 Executive Board and Board of Directors. Amount of loans, security, surety or guarantees provided to institution members

	2020	2019
Executive Board		
Loans etc.	0	0
Board of Directors:		
Loans etc.	5	5

Interest rates (incl. contributions) 2020

Executive Board: No loans (2019: No loans)

Board of Directors: 2.6% p.a. (2019: 2.4% p.a.)

- DLR has not charged any assets or provided other collateral or assumed any off-balance sheet liabilities on behalf of any member of the Executive Board or the Board of Directors or their related parties.

- Exposures with related parties are granted on ordinary business terms and on an arm's length basis at current market rates.

- DLR's related parties solely comprise the Executive Board and the Board of Directors and their related parties.

- Interest rates (including contributions) relate to various types of loans based on different mortgage bonds/covered bonds (SDOs).

- No impairment losses have been recognised on exposures with the Executive Board or the Board of Directors.

9 Audit fees

	2020	2019
Statutory audit of the financial statements	1.4	1.0
Other assurance engagements	0.1	0.3
Tax services	0.4	0.6
Other services	0.4	1.2
Total	**2.4**	**3.1**

The fee for non-audit services provided by Deloitte amounts to DKK 1.0m. The services relate to assurance reports issued by DLR in its capacity as a financial business, tax services and a number of other advisory services.

10 Number of employees

	2020	2019
Average number of employees in the financial year converted into FTEs*	210	193
Total	**210**	**193**

* In addition to its 210 employees, DLR has 24 associated agricultural valuation experts (2019: 24), who perform valuations for DLR in connection with lending against agricultural property. Agricultural valuation experts are paid a combination of a fixed remuneration and a variable fee depending on the number and scope of valuation assignments performed for DLR. Fees paid to agricultural valuation experts are included in “Staff costs”.

11 Impairment of loans, advances, receivables, etc.

	2020	2019
Losses in the period	-15	-44
Amounts received on claims previously written off	3	3
Impairment losses in the period	-246	-160
Reversal of impairment losses	190	262
Losses offset against commission payments to banks	5	24
Total	**-62**	**86**

12 Tax

	2020	2019
Tax (breakdown in DKKm)		
Applicable tax rate for "Profit before tax"	-211	-239
Non-taxable income and non-deductible expenses	0	0
Adjustment of prior-year tax charge	-1	0
Total	**-212**	**-239**
Tax (breakdown of effective tax rate)		
Current tax rate	22	22
Non-taxable income and non-deductible expenses	0	0
Adjustment of prior-year tax charge	0	0
Effective tax rate	**22**	**22**

Notes - Assets
(DKKm)

Note

13	Due from credit institutions and central banks	2020	2019
	Due from central banks	1,300	3,700
	Due from credit institutions	431	429
	Total amount due from credit institutions and central banks	**1,731**	**4,129**

DLR did not enter into any reverse repo transactions in 2020 or 2019.

Maturity distribution by term to maturity

	2020	2019
Demand deposits	431	429
Up to and including three months	1,300	3,700
Over three months up to and including one year	0	0
Over one year up to and including five years	0	0
Over five years	0	0
Total	**1,731**	**4,129**

14	Loans, advances and other receivables at fair value	2020	2019
	Mortgage loans, nominal value	164,286	154,590
	Adjustment to fair value of underlying bonds	2,902	2,552
	Adjustment for credit risk	-481	-418
	Mortgage loans at fair value	**166,707**	**156,724**
	Arrears before impairment losses	71	89
	Other loans and outlays before impairment losses	3	22
	Impairment losses on arrears and outlays	-7	-14
	Total	**166,775**	**156,821**

15	Loans, advances and other receivables at amortised cost	2020	2019
	Loans and advances	15	19
	Adjustment for credit risk	-3	-3
	Total	**12**	**16**

16 Loans, advances and other receivables at fair value and amortised cost

	2020	2019
Maturity distribution by term to maturity		
Up to and including three months	1,309	1,234
Over three months up to and including one year	3,854	3,591
Over one year up to and including five years	23,741	22,869
Over five years	137,883	129,143
Total	**166,787**	**156,837**

Pursuant to special legislation, a government guarantee of DKK 178m (2019: DKK 223m) has been provided as supplementary collateral for loans to young farmers.

Collateral in the amount of DKK 1,845m has been provided for advance loans (2019: DKK 1,513m).

As supplementary collateral for mortgage loans, bankers' guarantees of DKK 15,147m in addition to mortgages have been provided (2019: DKK 15,549m)

17 Mortgage loans (nominal value) by property category (as a percentage)

	2020	2019
Owner-occupied dwellings	4.8%	4.6%
Recreational dwellings	0.2%	0.1%
Subsidised rental housing properties	0.1%	0.1%
Co-operative housing	2.0%	2.0%
Private rental housing properties	18.8%	16.7%
Properties for manufacturing and manual industries	1.3%	1.1%
Office and business properties	17.6%	17.5%
Agricultural properties	55.0%	57.6%
Properties for social, cultural and educational purposes	0.0%	0.0%
Other properties	0.2%	0.3%
Total, %	**100.0%**	**100.0%**

18 Number of loans - end of period

	2020	2019
	67,254	**64,077**

19 Impairment losses by stage

Impairment of loans and advances at fair value and amortised cost *	2020 Stage 1	Stage 2	Stage 3	Total
Specification of impairment losses at year-end:				
Loans and advances in stage 1 at beginning of year	3	8	2	13
Loans and advances in stage 2 at beginning of year	1	49	55	105
Loans and advances in stage 3 at beginning of year	0	3	134	137
New loans and advances	3	23	1	26
Management estimate	151	43	16	210
Total	158	125	208	491

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

* No loans, advances or other receivables which were credit-impaired on initial recognition were recognised in 2019 or 2020.

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

20 Impairment - other financial assets

	2020			
	Stage 1	Stage 2	Stage 3	Total
Impairment of cash and demand deposits with central banks	0	0	0	**0**
Impairment of receivables with credit institutions and central banks	0	0	0	**0**

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

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

No other financial assets which were credit-impaired on initial recognition were recognised in 2019 or 2020.

21 Loan exposures - rating classes, property categories and stages

Stated at fair value and amortised cost *	2020			
PD band	Stage 1	Stage 2	Stage 3	Total
0 - 0,2	8,552	0	1	8,552
0,2 - 0,5	25,412	3	0	25,415
0,5 - 1,0	37,907	37	5	37,949
1,0 - 1,5	30,886	46	4	30,936
1,5 - 2,0	11,784	0	0	11,784
2,0 - 3,0	11,353	2	2	11,357
3,0 - 5,0	6,503	764	2	7,269
5,0 - 10,0	0	8,125	1	8,126
10,0 - 20,0	26	7,106	0	7,132
20,0 - 100,0	21	15,818	2,427	18,266
Total	**132,444**	**31,902**	**2,441**	**166,787**

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

Irrevocable credit commitments: At year-end 2020, unexercised credit commitments amounted to DKK 9.5bn, all of which belonged to stage 1.

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

No financial assets which were credit-impaired on initial recognition were recognised in 2020.

21 Loan exposures - rating classes, property categories and stages

Stated at fair value and amortised cost *	2020			
	Stage 1	Stage 2	Stage 3	Total
Agricultural properties	70,293	19,560	1,877	91,730
Owner-occupied dwellings	6,570	1,259	138	7,966
Subsidised rental housing properties	14	117	27	157
Private rental housing properties	26,187	5,067	86	31,339
Office and business properties	24,117	5,161	193	29,471
Properties for manufacturing and manual industries	1,922	149	77	2,147
Properties for social, cultural and educational purposes	48	27	0	75
Co-operative housing	2,955	288	41	3,284
Recreational dwellings	227	80	3	310
Other properties	113	194	0	307
Total loans and advances	**132,444**	**31,902**	**2,441**	**166,787**

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

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

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

22 Bonds at fair value

	2020	2019
Own mortgage bonds	19,296	21,252
Other mortgage bonds	11,505	11,026
Government bonds	502	706
Bonds - gross	**31,302**	**32,984**
Own mortgage bonds offset against issued bonds	-19,296	-21,252
Total	**12,007**	**11,732**

23 Land and buildings - domicile properties

	2020	2019
Fair value, beginning of year	**119.6**	**120.0**
Additions during the year	0.0	0.0
Depreciation	-0.4	-0.4
Value changes recognised in other comprehensive income	17.0	0.0
Fair value, end of year	**136.2**	**119.6**

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

24 Other assets

	2020	2019
Positive market value of derivative financial instruments etc.	1	8
Interest and commission receivable	60	66
Other receivables	233	163
Total	**293**	**237**

Notes - Equity and liabilities
(DKKm)

Note

25	Issued bonds at fair value	2020	2019
	Mortgage bonds - nominal value	173,746	168,244
	Fair value adjustment	2,978	2,638
	Issued bonds - gross	**176,724**	**170,882**
	Offsetting of own mortgage bonds - fair value	-19,296	-21,252
	Total	**157,429**	**149,630**
	Of which pre-issued, market value	4,137	3,669
	Cash value of bonds drawn for redemption at next repayment date (settlement price)	3,189	6,647

The change in the fair value of mortgage bonds and SDOs attributable to changes in credit risk may be calculated relative to corresponding mortgage bonds and SDOs offered by other Danish issuers. The bonds funding DLR's loan portfolio are rated AAA by Standard & Poor's, in line with the rating assigned to most other Danish mortgage bonds and SDOs.

Using this method, no fair value adjustment was made for changes in DLR's own credit risk, neither in the year 2020, nor in the period since issuance.

The aggregate fair value adjustment of issued mortgage bonds and SDOs as a consequence of changes in the fair value of own credit risk was therefore DKK 0.0m (2019: DKK 0.0m). Of the accumulated effect, DKK 0.0m relates to changes in 2020 (2019: DKK 0.0 million).

Maturity distribution by term to maturity (gross portfolio at market value)

Up to and including three months	5,339	5,682
Over three months up to and including one year	23,538	24,356
Over one year up to and including five years	88,694	88,119
Over five years	59,153	52,725
Total	**176,724**	**170,882**

26	Issued bonds at amortised cost	2020	2019
	Issues in connection with senior debt	7,004	8,009
	Offsetting of own bonds	0	0
	Total	**7,004**	**8,009**

Maturity distribution by term to maturity

Up to and including three months	0	1,000
Over three months up to and including one year	2,000	1,000
Over one year up to and including five years	5,004	6,009
Over five years	0	0
Total	**7,004**	**8,009**

27	Other liabilities	2020	2019

Negative market value of derivative financial instruments etc.	1	7
Interest and commission payable	966	889
Other liabilities	178	69
Total	**1,145**	**966**

28 Provisions for deferred tax

	2020	2019
Deferred tax, beginning of year	8	8
Change in deferred tax	12	0
Total	**20**	**8**

Land and buildings - domicile properties	13	9
Senior loans	8	0
Other property, plant and equipment	-1	-1
Total	**20**	**8**

29 Subordinated debt

	2020	2019
Interest payments	**-33**	**-18**

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

An additional amount of DKK 650m was issued in 2019.

The subordinated debt is denominated in DKK and carries interest at CIBOR 6M + 2.5%, however not less than 2.5%.

The subordinated debt of DKK 650m falls due on 29 August 2027 but may, subject to approval by the Danish FSA, be repaid at par in part or in full at any time after 29 August 2022.

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

30 Equity

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

At 31 December 2020, the following shareholders held more than 5% of DLR's share capital:

Loan-providing shareholders:

Sydbank A/S, Aabenraa
Jyske Bank A/S, Silkeborg
Spar Nord Bank A/S, Aalborg
Ringkjøbing Landbobank A/S, Ringkøbing
Sparekassen Vendsyssel, Vrå
Jutlander Bank A/S, Aars

Other shareholders:

Nykredit Realkredit A/S, Copenhagen
PRAS A/S, Copenhagen

None of the above-mentioned shareholders hold controlling interests.

31 Off-balance sheet items - guarantees etc.

	2020	2019
Financial guarantees	0	2
Other guarantees	0	0
Total	**0**	**2**
Other contingent liabilities		
Irrevocable credit commitments (loan offers)	9,490	10,118
Total	**9,490**	**10,120**

In addition to the above guarantees and contingent liabilities, DLR's bond portfolio is used as intraday collateral in connection with settlement of interest and drawings on DLR's outstanding bonds. This is not expected to entail an outflow of the Company's financial resources.

32 Contingent assets

Loss set-off agreements have been established between DLR and the banks holding shares in DLR, under which DLR may offset any loss incurred against commission payable to the banks. Set-off can be made for a number of years, which means that DLR is expected to be able to offset any losses against future commission to the extent that impairment losses on exposures materialise as actual losses.

DLR Kredit A/S has an administration agreement with LR Realkredit A/S, which may be terminated at three years' notice. Following Nykredit A/S' acquisition of LR Realkredit A/S, the agreement was terminated to expire at 31 December 2022. DLR Kredit A/S thus has a contingent asset in the form of an administration fee receivable of a total of DKK 34 million (2020).

Notes - Risk management
(DKKm)

Note

33 Risk management

Risk management is anchored with the Board of Directors and the Executive Board and is a key element of DLR's day-to-day operations. DLR's internal controls and risk management procedures have been organised with a view to ensuring effective management of relevant risks.

DLR's risks may be classified as follows:

- Credit risk: DLR provides loans against registered mortgages on real property in compliance with statutory limits for the ranking of collateral.

- Market risk: Mortgage loans and the underlying funding are regulated according to the balance principle, meaning that DLR is only exposed to insignificant market risk. DLR's market risk is thus associated with its securities portfolio and issued bonds at amortised cost.

- Operational risk: DLR's operational risk pertains to any inadequate or failed internal processes, human or system error and external events, including cyber risk.

Credit, market and operational risks are hedged by holding sufficient capital, while liquidity risks are hedged by holding adequate cash resources.

Each year, DLR publishes a detailed report entitled Risk and Capital Management containing a number of risk indicators in compliance with the Capital Requirements Regulation (CRR). The report, which is not subject to auditing, may be found at dlr.dk/Financial Statements.

34 Credit risk - management of credit risk and collateral

DLR's lending area is concentrated around lending to agricultural, forestry and horticultural properties, owner-occupied homes connected with farming or other sectors, such as residential farms, as well as private rental housing properties, cooperative housing properties and office and business properties in Denmark. Furthermore, loans are provided on a minor scale in the Faroe Islands and Greenland.

DLR offers loans in cooperation with the banks holding shares in DLR, which - in their capacity as loan providers - offer advice to borrowers about DLR's products.

DLR's lending is generally based on three elements that form part of the overall assessment of a loan application:

- Valuation of the property
- Assessment of the loan applicant's creditworthiness
- Possibility of obtaining comprehensive finance, including the required business and operating credits from financial institutions

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

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

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

In connection with the provision of loans, the loan-providing financial institution will normally provide an individual guarantee for the individual loan throughout its term covering 6% of the remaining debt on the loan. The guarantee is reduced gradually as the loan is repaid, to the effect that the ratio of the guarantee to the residual debt remains unchanged throughout the term of the loan. The guarantee covers the least secure part of the total lending for the individual property. In addition, a loss set-off scheme has been established, under which DLR sets off against the commission payable to each financial institution all losses incurred beyond what is covered by the 6% guarantees provided at loan level. Losses may be set off against ten years' commission for losses incurred after 1 January 2017.

To the extent that losses eligible for set-off exceed the current year's and up to the following nine years' expected commissions, DLR may require that such losses are covered by drawings on the individual financial institution's aggregate guarantees. This part of the guarantee scheme has not been used so far. The guarantee concept was launched with loan offers issued from the beginning of 2015. The portfolio in question amounted to DKK 131bn at year-end 2020.

In addition, DLR has previously had two different loss-mitigating concepts that continue to cover substantial parts of DLR's portfolio.

For loans against agricultural properties offered before 2015, a collaboration agreement has been made with the loan-providing financial institutions setting out a collective loss guarantee limit and a right of set-off under which DLR can set off actual losses against the commission payable to the individual financial institutions. Set-off of losses thus results in a lower commission being paid by DLR to the relevant financial institution. This guarantee scheme, which is being phased out, applied to loans totalling DKK 18bn at year-end 2020.

For loans against other property categories than agricultural properties and closed-down farms/residential farms before 2015, the loan-providing financial institution would previously provide a guarantee for the lowest-ranking DLR mortgage covering in the order of 25-100% of the mortgage in question. At the end of 2020, the loan-mitigating agreements under this guarantee concept comprised guarantees totalling DKK 5bn provided for a portfolio of currently DKK 10bn. This guarantee concept is also being phased out.

As regards recognition and measurement of expected credit losses, see the accounting policies set out in note 50.

35 Credit risk - exposures

The maximum credit risk, disregarding collateral, is as follows, which amounts have been recognised in the balance sheet.

Balance sheet items	2020	2019
Cash balance and demand deposits with central banks	50	50
Due from credit institutions and central banks	1,731	4,129
Loans, advances and other receivables at fair value	166,775	156,821
Loans, advances and other receivables at amortised cost	12	16
Bonds at fair value	12,007	11,732
Other assets	292	230
Derivative financial instruments	1	8
Total	**180,867**	**172,986**

Off-balance sheet items	2020	2019
Financial guarantees	0	2
Other guarantees	0	0
Irrevocable credit commitments (loan offers)	9,490	10,118
Other contingent assets	34	60
Total	**9,524**	**10,180**

36 Credit risk - loan to value (excl. loans in arrears and impaired loans)

The credit quality of DLR's loan portfolio is shown in the tables below, which show the distribution of the total loan portfolio by LTV bands (loan-to-value intervals) at the end of 2020 for the most significant property categories. The tables do not include loans in arrears or individually impaired loans.

The LTV distributions show how large a share of the loan portfolio is placed in the respective loan-to-value intervals. The LTV distribution is based on DLR's most recent valuations or "approved market values" (valuations made without physical inspection in connection with the ongoing LTV monitoring). In addition, a forward indexation has been made of the valuations to the price level at Q4 2020 to ensure that the valuation basis applied reflects the current price level.

It should be noted that, under the guarantee and set-off concepts described above, the loan-providing financial institutions cover part of the DLR's risk.

Agriculture: An LTV of 70% provided that additional collateral of 10% of the value is provided in the interval of 60-70% for loans based on SDOs. Otherwise, an LTV of 60% applies. Loans for agricultural properties accounted for 55% of DLR's total loan portfolio at the end of 2020.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Per cent of loans in LTV intervals	92.3	5.8	1.9

Office and business properties: An LTV of 70% provided that additional collateral of 10% of the value is provided in the interval of 60-70% for loans based on SDOs. Otherwise, an LTV of 60% applies. Loans for office and business properties accounted for 17% of DLR's total loan portfolio at the end of 2020.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Per cent of loans in LTV intervals.	94.1	4.7	1.2

Rental properties, including cooperative housing: An LTV of 80% applies. Loans for private rental properties and private cooperative housing properties accounted for 21% of DLR's total loan portfolio at the end of 2020.

Loan-to-value limit (LTV) as a percentage	0-80	80+
Per cent of loans in LTV intervals	99.3	0.7

Owner-occupied homes: An LTV of 80% applies. Loans for owner-occupied homes accounted for 5% of DLR's total loan portfolio at the end of 2020.

Loan-to-value limit (LTV) as a percentage	0-80	80+
Per cent of loans in LTV intervals	99.5	0.5

37 Financial assets - not impaired as a result of collateral

The collateral for DLR's loans is described in more detail in note 34. As a result of this collateral, an individual impairment review will not result in impairment losses being charged on some loans for which there is objective evidence of credit impairment, because the value of the collateral exceeds the remaining debt. Such loans are instead included in DLR's "IFRS 9 model", according to which impairment losses are charged based on the "IFRS 9 model".

38 Market risk - policy

Interest rate risk
Under Danish law, the interest rate risk cannot exceed 8% of DLR’s own funds. At the end of 2020, DLR’s own funds amounted to DKK 14,918m after deductions, giving a maximum permitted interest rate risk of DKK 1,193m.

At the end of 2020, the interest rate risk on DLR’s securities portfolio (asset side) was DKK 153m. Interest rate risk expresses the market value adjustment expected to result from a 1 percentage point change in market rates at year-end 2020. Based on own funds, the relative interest rate risk was 1.0% at year-end 2020.

The interest rate risk on issued securities (liability side) – additional tier 1 capital and senior secured bonds – is DKK 33m, equivalent to 0.2% of DLR’s own funds.

The interest rate risk on issued debt instruments is opposite to the interest rate risk on the securities portfolio, and DLR’s net interest rate risk is thus reduced to DKK 120m, equivalent to 0.8% of own funds. DLR may take a net perspective on interest rate risk since the composition of the portfolio is managed actively within duration bands so that the liabilities side is hedged within matching duration bands as on the asset side.

Based on a specific assessment, DLR may use financial instruments to manage interest rate risk.

Liquidity risk
DLR’s use of the specific balance principle means there is a close match between payments on loans granted and issued bonds (match-funding). However, in connection with prepayments of loans (immediate repayment), DLR receives liquidity which will subsequently be invested until the amount is due for payment to the bondholders as part of extraordinary drawings.

The liquidity is placed as short forward deposits with financial institutions or in short bonds. Likewise, prepaid funds arising from the borrower’s quarterly repayments on ARM loans will be placed with financial institutions or in bonds, and will be kept separate from the remaining securities portfolio.

With the implementation of CRR/CRD IV, see section 8(9) of the executive order on governance, risk management, etc. for financial institutions, new requirements were implemented concerning the determination and assessment of liquidity position and liquidity risks (ILAAP - Internal Liquidity Adequacy Assessment Process). Accordingly, DLR has since 2014 prepared a separate report on liquidity for each year along with the capital adequacy report (ICAAP - Internal Capital Adequacy Assessment Process). The ILAAP is approved by the Board of Directors of DLR before filing with the Danish FSA.

Exchange rate risk
Calculated according to the Danish FSA's foreign exchange indicator 2, DLR’s exchange rate risk at year-end 2020 was DKK 0.3m, equivalent to 0.002% of own funds. Under Danish legislation, the exchange rate risk calculated on the basis of the Danish FSA's foreign exchange indicator 2 cannot exceed 0.1% of own funds. DLR's limited exchange rate risk is explained by the fact that foreign-currency loans (only EUR) will always be funded in the foreign currency in question and that only a small proportion of DLR’s securities portfolio is held in EUR bonds.

Equity risk
In general, DLR does not invest in shares, except for sector shares. At the end of 2020, DLR’s equity portfolio consisted of holdings in e-nettet A/S and Landbrugets Finansieringsinstitut A/S. At year-end 2020, the equity risk after tax (determined as the earnings effect of a change in share prices of 10%) was DKK 3m.

39 Market risk - sensitivity

DLR's risks and policies are set out in the risk management section of the Management's review. DLR is exposed to different types of market risk. To illustrate the exposure or sensitivity to each type of market risk, the change in profit and equity caused by various risk scenarios is set out below.

2020	Change in profit after tax	Change in equity
Interest rate risk exposure of the securities portfolio		
An interest rate increase of 1 percentage point	-94	-94
An interest rate decrease of 1 percentage point	94	94
Equity risk		
An increase in share value of 10%	3	3
A decrease in share value of 10%	-3	-3
Exchange rate risk		
A 1% increase in the DKK/EUR rate of exchange	2	2
A 1% drop in the DKK/EUR rate of exchange	-2	-2

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

40 Financial instruments: instruments used

DLR's financial instruments mainly consist of mortgage loans, deposits of liquid funds with banks and investments in mortgage bonds. DLR uses derivative financial instruments such as forward purchases and sales of bonds and, in certain periods, swap transactions. All derivative financial instruments may be used as part of DLR's risk management.

41 Financial instruments - Financial instruments not carried at fair value

Financial instruments are measured in the balance sheet at fair value or at amortised cost. The table below shows the fair value of instruments not carried at fair value in the balance sheet.

Fair value constitutes the amount at which a financial asset can be traded or at which a financial liability can be settled between independent parties and is calculated as the present value of the underlying cash flows. See accounting policies, recognition and measurement, for additional information.

2020	Carrying amount	Fair value
Loans, advances and other receivables at amortised cost	12	12
Issued bonds at amortised cost	7,004	7,042

2019	Carrying amount	Fair value
Loans, advances and other receivables at amortised cost	16	16
Issued bonds at amortised cost	8,009	8,031

For other financial assets and liabilities not carried at fair value, the carrying amount essentially corresponds to the fair value, for which reason additional information is not provided.

Notes - Financial instruments
(DKKm)

Note

42 Assets and liabilities at fair value

2020	Quoted prices	Observable inputs	Non-observable inputs	Total fair value
Financial assets				
Recognised as trading portfolio:				
- bonds at fair value	9,745	2,262	0	12,007
- derivative financial instruments	1	0	0	1
Recognised through fair value option:				
- loans, advances and other receivables at fair value	0	166,775	0	166,775
Recognised as available for sale:				
- shares available for sale	0	0	34	34
Other assets				
Land and buildings, domicile properties	0	0	136	136
Total	**9,746**	**169,037**	**170**	**178,953**

Financial liabilities				
Recognised as trading portfolio				
- derivative financial instruments	1	0	0	1
Recognised through fair value option:				
- issued bonds at fair value	153,591	3,838	0	157,429
Total	**153,592**	**3,838**	**0**	**157,429**

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

Financial liabilities				
Recognised as trading portfolio:				
- derivative financial instruments	7	0	0	7
Recognised through fair value option:				
- issued bonds at fair value	103,696	45,934	0	149,630
Total	**103,703**	**45,934**	**0**	**149,637**

Quoted prices
The Company's assets and liabilities at fair value are to the widest possible extent recognised at quoted prices in an active market for identical assets and liabilities.

Observable inputs
When an instrument is not traded in an active market, measurement is based on observable inputs in generally accepted calculation models with observable market data. For bonds for which an updated market price is not available, a price determined on the basis of the official market rate for a corresponding bond is used. For unlisted shares in sector-owned companies where the shares are reallocated, the reallocation is considered to constitute the principal market for the shares. The fair value is determined as the reallocation price, and the shares are included in this category.

Non-observable inputs
Where it is not possible to measure financial instruments at fair value based on prices in active markets or observable inputs, measurement is based on own assumptions and extrapolations, etc. To the extent possible, measurement is based on actual transactions adjusted for differences in, e.g., liquidity, credit spreads and maturities of the instruments, etc. The Company's portfolio of unlisted shares in sector companies where observable inputs are not immediately accessible are placed in this category.

43 Derivative financial instruments by remaining term to maturity

	2020	2019
Forwards, bought *		
Up to and including three months		
Nominal value	5,143	4,618
Net market value	0	2
Forwards, sold **		
Up to and including three months		
Nominal value	3,938	9,769
Net market value	0	6

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

* Forwards, bought: The refinancing, totalling DKK 3,584m at the turn of the year 2019/20, thus implicitly involves that DLR (via the loan terms) has an agreement with the borrower that the borrower "buys" this interest on its adjustable-rate loan.

** Forwards, sold: Of the DKK 3,584m refinancing, DLR has sold DKK 3,102m forward at 2 January 2020, while the remaining amount was sold for settlement in 2019 and is therefore not stated as forwards.

Notes - Key figures and financial ratios
(DKKm)

Note	Key figures	2020	2019	2018	2017	2016
44	**Income statement**					
	Net interest and fee income	1,428	1,432	1,401	1,451	1,419
	Other operating income etc.	24	25	27	20	18
	Staff costs and administrative expenses etc.	-315	-287	-287	-267	-248
	Earnings	**1,137**	**1,170**	**1,141**	**1,204**	**1,189**
	Impairment of loans, advances and receivables	-62	86	-24	94	-62
	Market value adjustments	-114	-171	-211	-172	-88
	Profit before tax	**960**	**1,085**	**905**	**1,126**	**1,039**
	Profit after tax	**749**	**846**	**707**	**880**	**811**

Balance sheet	2020	2019	2018	2017	2016
Assets					
Loans and advances	166,787	156,837	148,611	143,061	139,053
Bonds, shares, etc.	12,041	11,769	8,945	11,855	13,683
Other assets	2,255	4,839	3,182	8,458	3,002
Total assets	**181,083**	**173,444**	**160,738**	**163,375**	**155,737**
Equity and liabilities					
Issued bonds	164,433	157,639	145,901	148,972	142,074
Other liabilities	1,167	1,195	1,213	1,338	1,404
Subordinated debt	1,300	1,300	650	650	0
Equity	14,183	13,311	12,974	12,415	12,259
Total equity and liabilities	**181,083**	**173,444**	**160,738**	**163,375**	**155,737**

45	Financial ratios	2020	2019	2018	2017	2016
	Return on equity					
	Profit before tax in per cent of equity *)	7.0	8.3	7.1	9.1	8.4
	Profit after tax in per cent of equity *)	5.4	6.4	5.6	7.1	6.5
	Return on capital employed					
	Return on capital employed *)	0.41	0.49	0.44	0.54	0.52
	Costs					
	Costs in per cent of loan portfolio	0.2	0.2	0.2	0.2	0.2
	Income/cost ratio *)	3.5	6.4	3.9	7.5	4.4
	Income/cost ratio, excl. impairment losses	4.2	4.5	4.2	4.9	5.4
	Solvency					
	Total capital ratio*	18.8	17.1	16.9	15.9	14.3
	Tier 1 capital ratio*	17.1	15.5	16.0	15.1	14.3
	Common equity tier 1 capital ratio	17.1	15.5	16.0	15.1	12.7
	Arrears and impairment losses					
	Arrears, end of period (DKKm)	71	89	120	101	124
	Impairment ratio for the period *)	0.04	-0.05	0.02	-0.07	0.04
	Accumulated impairment ratio	0.29	0.28	0.36	0.37	0.43
	Lending activity					
	Growth in loan portfolio, per cent (nominal) *	6.3	5.6	4.1	2.3	3.8
	New loans, gross (DKKm)	36,839	43,061	27,717	35,214	23,118
	Number of new loans	11,507	13,033	8,546	10,225	7,353
	Loan/equity ratio *	11.8	11.8	11.5	11.5	11.3
	Margins					
	Percentage of average loan portfolio (nominal):					
	Profit before tax	0.60	0.72	0.63	0.81	0.77
	Administration margin income	1.09	1.08	1.09	1.08	1.08
	Percentage of tier 1 capital after deductions					
	Foreign exchange position as a percentage of tier 1 capital after deductions	2.2	3.9	3.9	13.1	8.0

*) The financial ratios have been calculated in accordance with the definitions of the Danish Financial Supervisory Authority.

Notes - Other notes
(DKKm)

Note	Activities and geographical markets	2020	2019
46			

DLR carries on mortgage credit activities in one geographical market, which is Denmark (including the Faroe Islands and Greenland).

	2020	2019
Net interest and fee income	1,428	1,432
Market value adjustments	-114	-171
Revenue	3,421	3,436
Government grants received	0	0

47 Related parties

DLR has no related parties other than the Board of Directors and the Executive Board. There are no balances with the Board of Directors or the Executive Board showing objective evidence of credit impairment (OECI).

48 Reconciliation of income statement for "core and portfolio earnings" against "official statements"

	Core earnings 2020	Portfolio earnings 2020	Total 2020
Interest income	3,060	87	3,147
Interest expenses	-1,273		-1,273
Net interest income	**1,787**	**87**	**1,874**
Share dividends etc.	0		0
Fees and commission received	250		250
Fees and commission paid	-696		-696
Net interest and fee income	**1,341**	**87**	**1,428**
Market value adjustments	1	-115	-114
Other operating income	24		24
Staff costs and administrative expenses	-298		-298
Depreciation and impairment of property, plant and equipment	-2		-2
Other operating expenses	-15		-15
Impairment of loans, advances, receivables, etc.	-62		-62
Profit before tax	**989**	**-29**	**960**
Tax	-218	6	-212
Profit after tax	**771**	**-22**	**749**

49	Supervisory diamond for mortgage credit institutions	2020	2019	Threshold
	1. Lending growth			
	Private homeowners	10,2	7,1	<15%
	Residential rental property *	17,3	21,2	<15%
	Agriculture	1,6	1,5	<15%
	Other business lending	8,8	5,0	<15%
	2. Borrower interest-rate risk	7,6	16,8	<25%
	3. Interest-only lending to private homeowners	1,1	2,1	<10%
	4. Loans with short-term funding (quarterly)			
	Q1 2020	2,0		<12,5%
	Q2 2020	7,1		<12,5%
	Q3 2021	2,7		<12,5%
	Q4 2020	2,5		<12,5%
	**Loans with short-term funding annually ** **	**13,9**	**13,2**	<25%
	5. Large exposures	28,1	26,8	< 100%

* DLR generally assesses the lending growth as positive, as the growth in the housing rental area leads to an increased risk diversification through diversification of DLR's portfolio

**The percentage for the individual quarters is calculated on the basis of the end-of-quarter portfolio, while the annual percentage is calculated on the portfolio at the end of Q4 2020. The year's percentage therefore does not correspond to the sum of the percentages in the individual quarters.

50 Significant accounting policies

General

DLR's annual report has been prepared in accordance with the Danish Financial Business Act, including the executive order on financial reports of credit institutions and investment firms, etc. (the Danish Executive Order on the Presentation of Financial Statements), and the requirements of NASDAQ Copenhagen as regards the financial reporting of issuers of listed bonds.

The accounting policies are consistent with those applied for 2019.

The figures in the financial statements are presented in whole millions of DKK with no decimals unless decimals are considered essential.

Totals in the financial statements have been calculated on the basis of actual amounts in accordance with the correct mathematical method. A recalculation of totals may in some cases result in rounding differences because the underlying decimals are not disclosed to the reader.

Future changes to accounting policies

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

Accounting estimates and judgments

The preparation of financial statements requires the use of qualified accounting estimates. Such estimates and judgments are made by DLR's Management on the basis of historical experience and assessments of future circumstances. Accounting estimates and assumptions are tested and reviewed on a regular basis. The estimates and judgments applied are based on assumptions which Management considers reasonable and realistic but which are inherently subject to uncertainty.

The most significant estimates affecting the financial statements concern:

- Loans and advances at fair value
- Bonds at fair value
- Issued bonds at fair value
- Land and buildings, domicile properties
- Unlisted shares

Loans and advances at fair value

The calculation of impairment losses on loans and advances at fair value is partially based on a number of variables involving significant estimates. The most significant variables are:

- The value of the property
- Determination of 12-month PD (probability of default)
- Determination of PD throughout the term of the loan

- Scenarios for developments in property values
- A special COVID-19 scenario in which PD is adjusted upwards, while the value of the collateral is adjusted downwards. The parameters chosen for this stress scenario are based on the projections of Danmarks Nationalbank, the Danish Economic Council, the Danish Ministry of Finance and Danske Bank. This scenario is calculated for all loans other than loans for full-time farms, as they have not been adversely affected by the COVID-19 pandemic.
- Assumptions regarding expected future developments
- Management estimates to ensure that provisions are made to cover risks not captured by the model.

As regards the value of the property, such estimate is made either by DLR's IT systems or by in-house valuers specialising in the valuation of properties.

The measurement of loans and advances is materially affected by the COVID-19 situation and its implications for the economy. Due to negative developments in the non-agricultural segment, in which DLR has substantial commitments, impairment losses are increasing.

Bonds at fair value

Liquid bond portfolios are measured at fair value, which is the market price of these bonds. Portfolios of bonds in less liquid series that are not traded actively are measured at a calculated price. As this price is based on an estimate, it is subject to some uncertainty. For further information, see note 42, "Assets and liabilities at fair value".

Issued bonds at fair value

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

Valuation of domicile properties and temporary assets

The measurement of domicile properties and temporary assets is based on valuations performed by in-house valuers. Such estimates are subject to some uncertainty.

Unlisted shares

Unlisted shares are measured at fair value. If the company provides a calculated price of its shares, this price is used. Alternatively, measurement is based on the company's equity value.

Presentation, recognition and measurement

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

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

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

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

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

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

Derivative financial instruments
Derivative financial instruments are measured at fair value at the balance sheet date.

Unrealised as well as realised capital gains or losses are recognised in the income statement under “Market value adjustments” and in the balance sheet under “Other assets” or “Other liabilities”, as the case may be.

Forward transactions
Unsettled financial futures are measured at the forward price at the calculation date. The forward premium is accrued and recognised in the income statement under “Other interest income” and in the balance sheet under “Other assets” or “Other liabilities”, as the case may be. Market value adjustments are recognised in the income statement under “Market value adjustments” and in the balance sheet under “Other assets” or “Other liabilities”, as the case may be.

Foreign currency translation
On initial recognition, transactions in foreign currency are translated at the exchange rates at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment or the balance sheet date, respectively, are recognised in the income statement under “Market value adjustments”.

Income statement
Under the Danish executive order on the presentation of financial statements, net interest and fee income and market value adjustments must be disclosed by activity and geographical market

where activities and markets are not identical. DLR has one single activity, i.e. mortgage credit business in Denmark and, to a limited extent, the Faroe Islands and Greenland. For risk purposes, these markets are considered one geographical market, and the above-mentioned information is therefore not disclosed.

Interest income and expenses

Interest income and expenses, including default interest and administration contributions, are accrued to the effect that interest and contributions incurred but not yet due are recognised in the income statement.

Fees and commission received

Loan fees, other fees, brokerage and trading margin in connection with refinancing are recognised in the income statement on completion of the transaction.

Fees and commission paid

Agency commission for financial institutions is recognised in the income statement on completion of the transaction. Loss guarantee commission for financial institutions is recognised in the income statement in accordance with the accrual basis of accounting.

Market value adjustments

Capital gains and losses on the securities portfolio and other balance sheet items are recognised in the income statement and include both realised and unrealised gains and losses.

Staff costs and administrative expenses

Staff costs comprise payroll costs, social security costs, pensions, etc.

Administrative expenses comprise expenses related to IT, distribution, sale and administration, etc.

Impairment of loans and advances, receivables, etc.

Impairment losses on loans and advances comprise:

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

Tax

Tax for the year consists of:

- Tax on taxable income for the year
- Change in deferred tax
- Difference between tax calculated and paid in prior years

Tax is recognised in profit or loss at the share attributable to profit or loss for the year and in other comprehensive income at the share attributable to other comprehensive income.

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

Comprehensive income

Comprehensive income comprises the profit for the year plus other comprehensive income such as revaluation of domicile properties.

Balance sheet

Receivables from credit institutions and central banks

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

Loans, advances and other receivables

Mortgage loans are measured at fair value based on the fair value of the underlying issued mortgage bonds. Adjustment is made for credit risk based on evidence of impairment.

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

Adjustment for credit risk (impairment of loans and advances)

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

All loans and advances are categorised individually as stage 1, 2 or 3:

- Stage 1: Credit risk has not increased significantly since initial recognition. At this stage, the impairment loss is determined as the 12-month expected credit loss.
- Stage 2: Credit risk has increased significantly. At this stage, the impairment loss is determined as the lifetime expected credit loss.
- Stage 3: The asset is credit-impaired. At this stage, the impairment loss is determined as the lifetime expected credit loss.

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

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

The COVID-19 situation has led to the recategorisation of some credit exposures, mainly from stage 1 to stage 2 as a result of a higher credit risk, especially for non-agricultural exposures. The effects of COVID-19 have not led to a general recategorisation from stage 2 to stage 3.

Stage 3: The loan is credit-impaired

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

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

Borrowers who in light of COVID-19 have accepted DLR's offer of a respite or a relief loan have been treated according to the above principles. For purposes of assessing whether concessions have been granted, we have considered the borrower's credit rating. If the customer's pre-COVID-19 credit rating was high, a respite or a relief loan does not necessarily constitute a concession. This is determined based on an assessment of the individual loan applications. DLR has granted respites and relief loans.

Stage 2: Credit risk has increased significantly

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

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

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

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

Stage 1: Credit risk has not increased significantly

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

A loan with a 12-month PD of less than 0.2% is considered to carry low credit risk. Such loans are always assigned to stage 1.

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

Impairment method – individual review

All loans showing objective evidence of credit impairment (OECI) are reviewed for impairment on an individual basis, and an impairment loss is recognised based on a sales scenario in which the underlying collateral is realised.

Impairment method – mathematical model

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

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

Inputs for the impairment model

PD is determined based on observed default events during a period covering an economic cycle. The observed default events are converted into an estimated probability at a specified point in time (12-month PD).

Lifetime PD is determined based on 12-month PD using mathematical models and extrapolations of 12-month PD, taking into account expectations as to future events and loan performance.

The determination of estimated credit exposure at default (EAD) takes interest and principal payments into account.

Expected loss given default (LGD) is calculated based on the difference between contractual cash flows and the cash flows which DLR expects to receive after default, including cash flows from realisation of collateral.

Forward-looking model

With a view to making the impairment model forward-looking, DLR uses the forward-looking model designed by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark

(LOPI). The model calculates a number of industry-specific "adjustment factors" on the basis of expectations for general macroeconomic developments (GDP, interest rates, unemployment, etc.).

Scenarios
Considering its most significant risk to be related to falling mortgage values, DLR has incorporated an additional four scenarios in which property prices:

- fall by 25%
- fall by 15%
- increase by 5%
- increase by 10%

DLR's Management has estimated the probabilities of these scenarios, taking into account that there is an increased risk of significant price falls following a period of significant price increases.

Conversely, after a period of significant price falls, there is a lower risk of "new additional price falls".

Impairment method – management judgment
In addition, a management estimate is made to take account of any circumstances not captured by either the individual impairment losses or the model calculation.

The management estimate is determined on the basis of calculations or expert assessments, which may be divided into the following categories:

Impairment of loans secured against agricultural properties

The assessment is made for the following types of mortgages:

- Dairy farms
- Pig farms
- Arable farms
- Mink farms

The assessment of the need for any management estimate is based on settlement prices for the various products combined with DLR's in-depth knowledge of this market.

For mink farms, the calculation of the management estimates includes additional calculations in relation to the values of land, buildings and mink facilities, respectively. In addition, an assessment is made of the effect of the political agreement reached at the end of January 2021 on compensation for Danish mink farmers. In this respect, the assessment was that it is too early to calculate the financial implications of the political agreement in relation to DLR's impairment calculations, which were made at end-2020.

The management assessment has resulted in additional impairment losses of DKK 30m regarding mink farm properties, while no evidence was found for additional impairment of the remaining part of the agricultural sector.

Impairment of loans secured against urban commercial properties

The assessment of a need for a management estimate on urban commercial properties was made because DLR has experienced lending growth in this segment above the Danish FSA's threshold value. The management estimate is based on historical losses in this lending segment during times of crises. The management assessment has resulted in additional impairment losses of DKK 40m.

Impairment relating to model uncertainty

With respect to DLR's modelled impairment losses, a management assessment has resulted in additional impairment losses of DKK 10m relating to model uncertainty.

Impairment relating to current uncertainty prompted by the COVID-19 pandemic

In recent months, the general uncertainty prompted by the COVID-19 pandemic has been exacerbated by the re-emergence of the virus and new mutations observed. In addition, substantial uncertainty attaches to the economic repercussions when the current government relief packages are eventually phased out.

In this connection, DLR has recognised significant impairment losses on the basis of a management estimate. This estimate was made on the basis of the following three components:

- Calculation of a special COVID-19 scenario for all loans not relating to full-time farms. In this scenario, PD is assumed to rise by 25% while the value of the property falls by 10%. The stress parameters chosen are an estimate that is based on the economic projections of Danmarks Nationalbank, the Danish Economic Council, the Danish Ministry of Finance and Danske Bank as well as the Danish FSA's instructions regarding the calculation of impairment losses in the financial statements for 2020.
- Adjustment of the factors set out in the LOPI forward-looking model announced in December 2020, to the effect that additional impairment losses are recognised in relation to the uncertainty attaching to the economic outlook. The adjustment was made on the basis of the factors announced by LOPI in mid-2020, when these factors resulted in adjustments in the form of higher impairment losses, unlike the factors announced at the end of 2020.
- A general COVID-19 uncertainty add-on. As there is no valid economic data from previous global pandemics and the resulting increase in uncertainty, a general COVID-19 uncertainty add-on has been made to the above-mentioned calculations. As there is no valid statistical economic data from previous pandemics, an additional COVID-19-related impairment loss has been recognised on the basis of a management assessment.

This management assessment has generally resulted in additional impairment prompted by the COVID-19 pandemic in the amount of DKK 130m.

Other circumstances regarding loans, advances and other receivables

Loans and advances cease to be recognised in the balance sheet when the loan has either been repaid or been transferred to DLR in connection with a forced sale or the like.

Claims previously written off which are expected to result in an inflow of future economic benefits are recognised in the balance sheet and adjusted through profit or loss. DLR is currently not believed to have any such claims.

Bonds at fair value

Bonds traded in active markets are measured at fair value. Index-linked bonds are recognised at the indexed value at the balance sheet date. Bonds not traded actively are recognised on the basis of a calculated market price.

The portfolio of own bonds is set off against the liability item "Issued bonds".

Shares etc.

Unlisted shares are measured at fair value. If the company provides a calculated price of its shares, this price is used. Alternatively, measurement is based on the company's equity value.

Land and buildings, domicile properties

On initial recognition, domicile properties are recognised at cost. Subsequently, domicile properties are measured at their revalued amounts, being the fair value at the revaluation date less subsequent accumulated depreciation and subsequent impairment. Revaluations are performed annually to ensure that the carrying amount does not differ materially from the value which would have been determined using the fair value at the balance sheet date.

Subsequent improvement expenses are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, when it is probable that the expenses incurred will result in an inflow of future economic benefits for DLR and the expenses can be measured reliably. Ordinary repair and maintenance expenses are recognised in the income statement as incurred.

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

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

Other property, plant and equipment
Machinery, tools and equipment are measured at cost less accumulated depreciation and impairment. Depreciation is provided on a straight-line basis over the expected useful life of the asset, which is not to exceed five years.

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

Temporary assets
Temporarily acquired properties are measured at the lower of cost and fair value less costs to sell.

The item includes properties acquired by DLR as part of measures to mitigate losses where, according to the strategy and expectations, DLR will only hold the properties in question temporarily.

Other assets
Other assets include interest receivable, sundry receivables and sundry debtors. Such assets are measured at amortised cost.

Also included are positive market values of financial instruments measured at fair value.

Prepayments and deferred income
Prepayments comprise expenses incurred relating to subsequent financial years. Deferred income comprises income received relating to subsequent financial years. Prepayments and deferred income are measured at cost.

Issued bonds at fair value
Issued mortgage bonds are measured at fair value. Bonds not traded actively are recognised on the basis of a calculated market price.

Issued bonds at amortised cost
Issued senior debt is measured at fair value on initial recognition and subsequently at amortised cost.

Other liabilities
Other liabilities include interest payable, sundry payables and sundry creditors such as miscellaneous balances with customers in connection with loans. Such liabilities are measured at amortised cost.

Also included are negative market values of financial instruments measured at fair value.

Provisions for deferred tax

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

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

Equity

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

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

DLR's portfolio of treasury shares is recognised in equity, which implies that purchases and sales of treasury shares will be reflected as a change in equity.

Series financial statements

Pursuant to the Danish FSA's executive order no. 872 of 20 November 1995 on series financial statements of mortgage credit institutions, mortgage credit institutions are required to prepare separate series financial statements for series with series reserve funds, see section 25(1) of the Danish Mortgage Credit Loans and Mortgage Credit Bonds etc. Act.

The series financial statements have been prepared on the basis of DLR's annual report.

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

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

Complete series financial statements may be obtained from DLR.

Series financial statements	B - SDO	DLR in general	Total
Income statement			
Administration and reserve fund contributions	1,724	10	1,734
Front-end fees	71	0	71
Interest on subordinated debt and guarantee capital	-33	0	-33
Interest etc.	141	1	142
Market value adjustment of securities, foreign exchange, etc.	-113	-1	-114
Administrative expenses etc.	-774	-4	-778
Write-offs and provisions for loans and advances	-62	0	-62
Tax	-210	-1	-212
Profit	744	4	749
Balance sheet			
Assets			
Mortgage loans	166,092	1,097	167,189
Arrears on mortgage loans before impairment	74	0	74
Provisions for loans, advances and arrears	-460	-28	-488
Prepayments	21	0	21
Other assets, including reserve fund loans	33,410	235	33,646
Total assets	199,138	1,304	200,442
Equity and liabilities			
Issued bonds etc.	175,529	1,196	176,724
Deferred income	419	3	422
Other liabilities	7,801	12	7,813
Subordinated debt	1,292	8	1,300
Equity	14,097	86	14,183
Total equity and liabilities	199,138	1,304	200,442
Addition or deduction of funds (net)	0	0	0
Balance sheet total in the series financial statements			
Balance sheet total according to DLR's annual report			181,083
Set-off of own mortgage bonds			19,296
Set-off of interest receivable on own bonds etc.			64
Balance sheet total in DLR's series financial statements			200,442

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

Management's statement

The Board of Directors and the Executive Board have today considered and approved the annual report of DLR Kredit A/S for the financial year 1 January - 31 December 2020.

The annual report has been prepared in accordance with the Danish Financial Business Act and the provisions of the Danish Financial Supervisory Authority on financial reports of mortgage credit institutions and the requirements of NASDAQ Copenhagen as regards the financial statements of issuers of listed bonds. Furthermore, the annual report has been prepared in accordance with additional Danish disclosure requirements for listed financial enterprises.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020.

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

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

Copenhagen, 11 February 2021

Executive Board

Jens Kr. A. Møller
Managing Director & CEO

Pernille Lohmann
Managing Director

Board of Directors

Vagn Hansen
Chairman

Lars Møller
Vice Chairman

Claus Andersen

Lars Faber

Randi Holm Franke

Jakob G. Hald

Kim Hansen

Søren Jensen

Bjarne Larsen

Frank Mortensen

Lars Petersson

Internal auditor's report

Report on the financial statements

Opinion

In our opinion, the financial statements of DLR Kredit A/S give a true and fair view of the Company's assets, liabilities, equity and financial position at 31 December 2020 and of the results of the Company's operations for the financial year 1 January – 31 December 2020 in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

Furthermore, in our opinion, the Parent Company's risk management, compliance function, business procedures and internal controls in all critical audit areas have been organised and are working satisfactorily.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

Basis of opinion

We have audited the financial statements of DLR Kredit A/S for the financial year 1 January - 31 December 2020. The financial statements have been prepared in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

We conducted our audit on the basis of the Danish Financial Supervisory Authority's executive order on auditing financial enterprises etc. as well as financial groups and in accordance with international auditing standards on planning and performing the audit work.

We assessed the Company's risk management, compliance function, business procedures and internal controls in all critical audit areas.

We planned and performed the audit to obtain reasonable assurance as to whether the Financial Statements are free from material misstatement. We participated in the audit of all critical audit areas.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Statement on the Management review

Management is responsible for the Management review.

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

In connection with our audit of the financial statements, our responsibility is to read the Management review and, in doing so, consider whether the Management review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

Based on the work we have performed, we conclude that the Management review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatements of the Management review.

Copenhagen, 11 February 2021

Internal Audit

Brian Hansen

Chief Internal Auditor

Independent auditor's report

To the shareholders of DLR Kredit A/S

Opinion
We have audited the financial statements of DLR Kredit A/S for the financial year 01.01.2020 to 31.12.2020, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2020 and of the results of its operations for the financial year 01.01.2020 to 31.12.2020 in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

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

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, we have not provided any prohibited non-audit ser-vices as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of DLR Kredit A/S before 1995. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of more than 25 years up to and including the financial year 2020.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 01.01.2020 to 31.12.2020. These matters

were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan impairment charges

The Entity's loans amount to DKK 166,775 at 31.12.2020 (DKK 156,837m at 31.12.2019), and total impairment charges therefor amount to DKK 481m in 2020 (DKK 418m in 2019).

Determining expected loan impairment charges is subject to significant uncertainty and to some degree based on management judgement. Due to the significance of such management judgement and the loan volumes of the Entity, auditing loan impairment charges is a key audit matter.

The principles for determining the loan impairment charges are further described in the summary of significant accounting policies, and Management has described the management of credit risks and the review for impairment in notes 34 to 36 to the financial statements.

In 2020, management estimates of expected loss impairment have required special attention by the auditor because of the outlook for the Danish agricultural sector.

The areas of loans involving the highest level of management judgement, thus requiring greater audit attention, are:

- Identification of credit-impaired exposures.
- Parameters and management judgements in the calculation model used to determine Stage 1 and Stage 2 expected losses.
- Valuation of collateral, including management judgement involved in determining Stage 3 expected losses.
- Assessing the implications of the COVID-19 pandemic and other events that have not been incorporated into the models (management add-ons).
- Management add-ons related to the Danish agricultural sector.

How the matter was addressed in our audit

Based on our risk assessment, our audit comprised a review of the Entity's relevant lending procedures, testing of relevant controls and analysis of the development in credit quality of loans, including the amount of impairment charges.

Our audit procedures included testing relevant controls regarding:

- Current assessment of credit risk.
- Assessment and validation of input and assumptions applied in calculating Stage 1 and Stage 2 impairment charges.
- Determining management judgements in the model and Stage 3.

Our audit procedures also comprised:

- Reviewing, on a sample basis, exposures to ensure timely identification of credit-impaired loans.
- Challenging key assumptions in the calculation model applied with particular focus on objectivity and the data used.
- Challenging management judgements in the calculation model used with particular focus on management consistency and bias, including challenging documentation of the adequacy of management judgements.
- Testing, on a sample basis for loans classified to be in Stage 3, the calculated impairment charges for consistency with legal and entity guidelines to this effect. This included testing collateral values and definition of scenarios.
- Challenging management add-ons in relation to the implications of the COVID-19 pandemic and other events that have not been incorporated into the models (management add-ons).
- Challenging management add-ons with particular focus on the Danish agricultural sector.

Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may

cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

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

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

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

Copenhagen, 11.02.2021

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Henrik Wellejus
State-Authorised Public Accountant
MNE no 24807

Brian Schmit Jensen
State-Authorised Public Accountant
MNE no 40050

Shareholders in DLR Kredit A/S

Year end 2020

Arbejdernes Landsbank A/S
BankNordik
Borbjerg Sparekasse
Broager Sparekasse
Danske Andelskassers Bank A/S
Den Jyske Sparekasse A/S
Djurslands Bank A/S
Dragsholm Sparekasse
Fanø Sparekasse
Faster Andelskasse
Folkesparekassen
Forvaltningsinstituttet for Lokale Pengeinstitutter
Frørup Andelskasse
Frøs Sparekasse
Frøslev-Mollerup Sparekasse
FS Finans VI A/S
Fynske Bank A/S
Fælleskassen
GrønlandsBANKEN A/S
Handelsbanken
Hvidbjerg Bank A/S
Jutlander Bank A/S
Jyske Bank A/S
Klim Sparekasse
Kreditbanken A/S
Lollands Bank A/S
Lån og Spar Bank A/S
Merkur Andelskasse
Middelfart Sparekasse
Møns Bank A/S
Nordfyns Bank
Nordoya Sparikassi
Nykredit Realkredit A/S
PRAS A/S
Ringkjøbing Landbobank A/S
Rise Flemløse Sparekasse
Rønde Sparekasse
Skjern Bank A/S
Spar Nord Bank A/S
Sparekassen Balling
Sparekassen Bredebro
Sparekassen Djursland
Sparekassen for Nr. Nebel og Omegn
Sparekassen Kronjylland
Sparekassen Sjælland-Fyn A/S
Sparekassen Thy
Sparekassen Vendsyssel
Stadil Sparekasse
Sydbank A/S
Suduroyar Sparikassi
Sønderhå-Hørsted Sparekasse
Totalbanken A/S
Vestjysk Bank A/S

dlr·kredit

Nyropsgade 21 · 1780 Copenhagen V, Denmark
Tlf. +45 70 10 00 90
www.dlr.dk · dlr@dlr.dk

Company reg. (CVR) no. 25781309