Annual Report 2021

Contents

DLR at a glance

DLR is a mortgage credit institution owned primarily by local and national banks that collaborate with DLR.
DLR has no local representation, 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 activities were extended 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	2021	2020	2019	2018	2017
Income statement					
Administration margin income	1,812	1,734	1,632	1,559	1,508
Other core income, net	163	140	143	103	91
Interest expenses, subordinated debt	-33	-33	-18	-16	-6
Interest expenses, senior debt	-30	-28	-26	-29	-42
Fee and commission income, net	-502	-446	-372	-326	-257
Core income	**1,410**	**1,366**	**1,360**	**1,291**	**1,293**
Staff costs and administrative expenses, etc.	-325	-300	-275	-276	-255
Other operating expenses (contribution to resolution fund)	-18	-15	-12	-11	-12
Impairment of loans and advances, receivables, etc.	109	-62	86	-24	94
Core earnings	**1,176**	**989**	**1,159**	**979**	**1,121**
Portfolio earnings (securities)	-38	-29	-75	-74	6
Profit before tax	**1,138**	**960**	**1,085**	**905**	**1,126**
Profit after tax	**888**	**749**	**846**	**707**	**880**

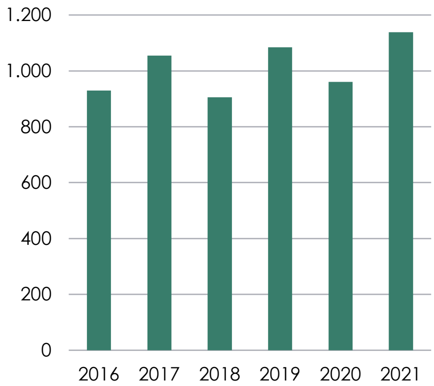
Balance sheet at 31 December	2021	2020	2019	2018	2017
Assets					
Loans and advances	175,213	166,787	156,837	148,611	143,061
Bonds and shares, etc.	6,424	12,041	11,769	8,945	11,855
Other assets	2,234	2,255	4,839	3,182	8,458
Total assets	**183,871**	**181,083**	**173,444**	**160,738**	**163,375**
Equity and liabilities					
Issued bonds	166,201	164,433	157,639	145,901	148,972
Other liabilities	1,299	1,167	1,195	1,213	1,338
Subordinated debt	1,300	1,300	1,300	650	650
Equity	15,071	14,183	13,311	12,974	12,415
Total liabilities and equity	**183,871**	**181,083**	**173,444**	**160,738**	**163,375**

Financial ratios *	2021	2020	2019	2018	2017
Solvency and capital (incl. profit for the period)					
Total capital ratio	18.6	18.8	17.1	16.9	15.9
Tier 1 capital ratio	17.1	17.1	15.5	16.0	15.1
Common equity tier 1 capital ratio	17.1	17.1	15.5	16.0	15.1
Own funds	15,887	14,918	13,947	12,994	12,372
Weighted risk exposure	85,249	79,467	81,784	77,074	77,872
Lending activity					
Growth in loan portfolio, % (nominal)	7.2	6.3	5.6	4.1	2.3
Gross new lending (DKKm)	36,608	36,839	43,061	27,717	35,214
Margins					
Admin. margin income as % of average loan portfolio	1.07	1.09	1.08	1.09	1.08

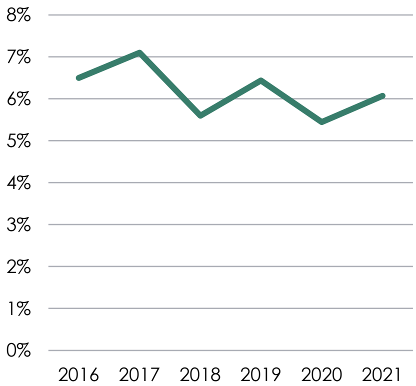
*) The key ratios are calculated in accordance with the FSA's definitions.

Overview figures

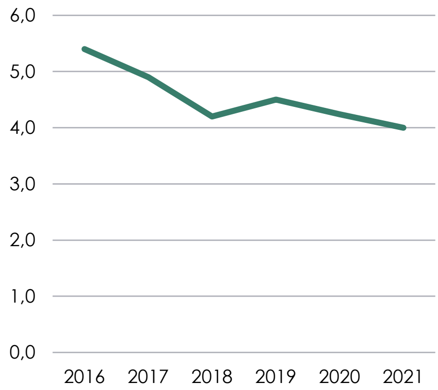
Pre-tax profit (DKKm)



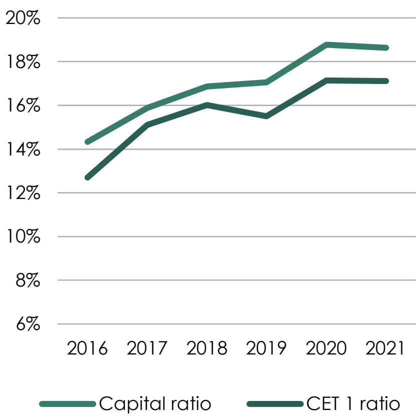
Net profit for the year as % of equity



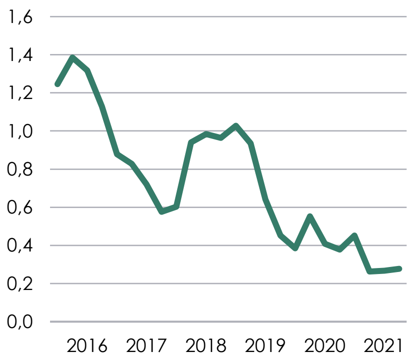
Income/cost ratio excl. impairment



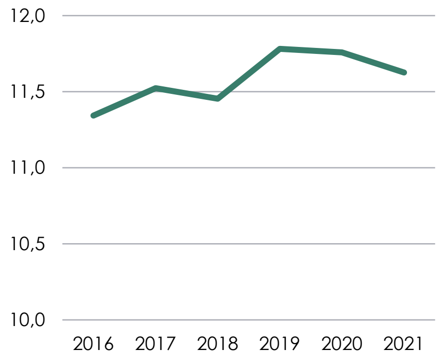
Total capital ratio



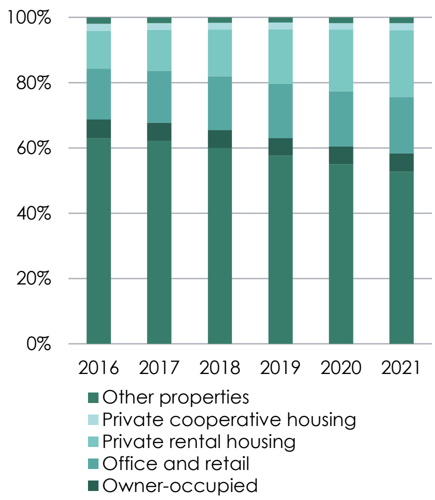
Arrears ratio (3½ month)



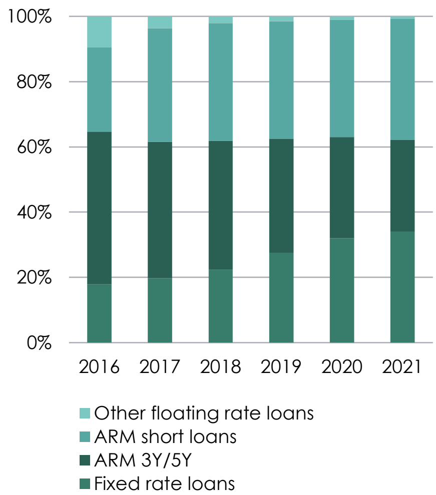
Gearing



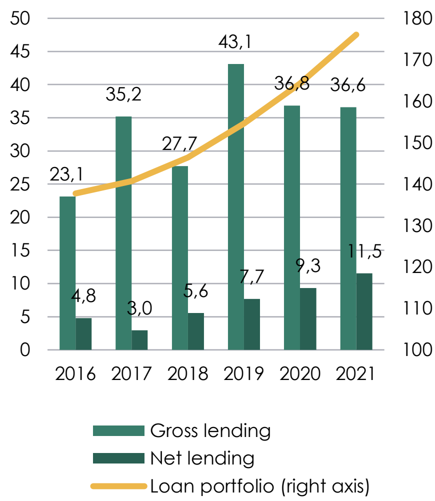
Lending by property category



Lending by loan type



Lending activity (DKKbn)



Financial review

Summary

- Administration margin income amounted to DKK 1,812m, an increase of DKK 78m compared with 2020.
- Losses and impairment on loans and receivables amounted to an income of DKK 109m, against an expense of DKK 62m in 2020.
- Portfolio earnings represented an expense of DKK 38m, compared with an expense of DKK 29m in 2020.
- Pre-tax profit was DKK 1,138m, which is DKK 178m more than in 2020 and the best financial performance ever realised by DLR.
- Net of tax paid, DKK 888m was added to DLR's equity.
- DLR's gross lending amounted to DKK 36.6bn in 2021.
- Net lending (nominal value) amounted to DKK 11.8bn in 2021.

CEO statement

Statement by CEO Jens Kr. A. Møller on the release of the Annual Report for 2021:

"At DKK 1,138m, DLR's pre-tax profit for 2021 was satisfactory and better than expected.

On presenting its financial statements at 30 June 2021, DLR upgraded its full-year financial guidance owing to greater lending activity and a better trend in customer credit quality than expected at the beginning of the year.

The strong developments continued into the second half of the year with rising income driven by high lending activity, while the strong cyclical trends despite the COVID-19 pandemic had a positive effect on losses and impairment charges. Finally, DLR realised a better return on its securities portfolio than we had expected, even though the bond markets were characterised by substantial volatility during large parts of 2021.

Lending activity measured by gross lending was on a level with 2020, marked by continuing fair-sized remortgaging activity. Net lending also developed satisfactorily in 2021, with DLR realising its highest net lending for more than ten years.

The positive trend in lending activity was witnessed in all DLR's principal lending segments. Growth in lending for agricultural properties was DKK 2.5bn, while loans for commercial properties increased by DKK 7.8bn.

As in the preceding years, growth in lending for commercial properties was marked by strong lending activity for private residential rental properties. This is a natural consequence of the extensive construction and trading activity witnessed in this segment. Loans for private residential rental property rose by DKK 5.0bn, which was on a level with the increase in 2020.

DLR also realised decent growth in loans for private owner-occupied homes. DLR's lending in this area comprises loans for residential farms, owner-occupied homes in association with commercial property and owner-occupied homes in Greenland and the Faroe Islands. Lending in this area increased by DKK 0.9bn.

Developments in the loan composition with a persistently growing share of loans for office and retail property, residential rental property and, recently, also owner-occupied homes have led to a greater diversification of DLR's loan portfolio.

The three major agricultural production areas have overall generated satisfactory earnings in recent years. This development continued in 2021 for dairy and arable farmers.

For several years, dairy farmers have experienced stable settlement prices slightly above the expected long-term level. Through 2021, milk prices developed quite favourably, and the settlement price was about 20% higher at the end of the year than at the beginning, driven by growing demand for processed dairy products. Coupled with improved dairy yields at many farms, this made dairy farmers realise satisfactory results in 2021. The relatively strong earnings are expected to continue in 2022.

In 2021, arable farmers achieved crop yields that were slightly below the normal-year average. However, this was more than offset by substantial price increases for grain and other vegetable products in line with the price increases on other raw materials resulting from the re-opening of society during the first half of 2021. The high product prices continued into the second half and were the reason why this production area also realised decent earnings in 2021, although soaring energy prices are putting pressure on cost levels. During 2022, prices of vegetable products are expected to normalise, and subject to a normal-level harvest, prospects are for acceptable earnings in this part of the industry.

Following a period of high prices of pork and weaners, and resulting strong earnings, pig farmers have experienced plummeting prices since the middle of 2021. The principal reason is a severe reduction of exports to China, among other things because the country is increasingly producing its own pigs and also because of a substantial supply of pork in the European market as exports from the EU were banned for countries such as Germany and Poland, and recently also Italy, due to outbreaks of African swine fever. Against this background, the outlook is for weak earnings for pig farmers in 2021. The low price level for pork and weaners has continued into 2022, and although prices are expected to normalise in the coming quarters, the outlook is for limited earnings in this production area in 2022.

In the commercial area, DLR generally saw healthy demand from investors as well as from tenants and users. This applies to residential rental properties and properties for actual business purposes, including warehouse and logistics properties. This development is expected to continue in 2022.

The market for residential rental property continues to see a high level of newbuild and renovation activity. There is a fair level of demand for residential rental property at stable rent levels, and investors are showing strong demand for investment properties at stable price levels. The market for office and retail property and warehouse and logistics property was also characterised by positive trends throughout 2021 amid low vacancy rates and strong demand, driven by the overall strong cyclical trends for large parts of the business community.

However, demand for certain types of property, including the hotel, restaurant and retail segments, were adversely affected by lockdowns during the COVID-19 pandemic and the increase in online retailing. DLR only has moderate exposure to these types of property.

The continuing development of ever-stronger focus not only on reducing the carbon footprint but on the sustainable transition and all the ESG factors is also important to DLR.

Consequently, DLR is increasingly focused on CSR and sustainability and in early 2021 launched green loans to finance sustainable investments and properties.

In autumn 2021, a broad and ambitious climate agreement was made for the green transition of Danish agriculture. The agreement opens up for developing our ever-important Danish food production on a sustainable basis.

Together with its shareholder banks, DLR wants to play a key role in the financing of the sustainable transition of both the agricultural sector and the other types of commercial property financed by DLR.

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 2021

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 2021 is set out below.

Key figures, DKKm	2021	2020
Income statement		
Administration margin income	1,812	1,734
Other core income, net	163	140
Interest expenses, subordinated debt	-33	-33
Interest expenses, senior debt	-30	-28
Fee and commission income, net	-502	-446
Core income	**1,410**	**1,366**
Staff costs and administrative expenses, etc.	-325	-300
Other operating expenses (contribution to resolution fund)	-18	-15
Impairment of loans, advances and receivables, etc.	109	-62
Core earnings	**1,176**	**989**
Portfolio earnings (securities)	-38	-29
Profit before tax	**1,138**	**960**
Profit after tax	**888**	**749**

Core earnings

Administration margin income amounted to DKK 1,812m in 2021, up DKK 78m on 2020. The increase was driven by a larger loan portfolio.

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 163m in 2021, which is DKK 23m more than in 2020. The increase was caused primarily by income in connection with DLR's administration agreement with Landbrugrådets Finansieringsinstitut.

Interest expenses on subordinated debt amounted to DKK 33m, which is on a level with 2020.

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 502m, compared to an expense of DKK 446m in 2020. The higher net expense was due to a combination of a DKK 6m decline in fee and commission income and an increase of DKK 50m 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. for the shareholder banks.

Core income was subsequently DKK 1,410m, an increase of DKK 44m on 2020.

Staff costs and administrative expenses, etc. amounted to DKK 325m, which is DKK 25m more than in 2020.

The "Other operating expenses" item concerns DLR's contribution to the Resolution fund, which in 2021 amounted to DKK 18m.

Losses and impairment on loans, advances and receivables, including prior-year adjustments, were calculated at an income of DKK 109m, compared to an expense of DKK 62m in 2020.

Of the DKK109m income in 2021, DKK 106m concerns lower impairment charges because of the better macroeconomic conditions. The DKK 106m reduction breaks down on the following elements:

- The individual impairment charges were reduced by DKK 52m in 2021, primarily because of improved economic conditions for the major agricultural production areas.
- Model impairment charges, on the other hand, were increased by DKK 45m. A significant reason for the increase is that COVID-19-related impairment charges, which in 2020 were made on the basis of a management estimate, in 2021 were incorporated in DLR's model scenario and are thus included in model impairment.
- The management estimate was reduced by DKK 98m relative to end-2020. The reduction is a combination of the above-mentioned issue relating to COVID-19-related impairment charges, which in 2020 were recognised as an impairment due to a management estimate, and which in 2021 were incorporated in DLR's model for calculating impairment. Furthermore, the reduction concerns lower impairment charges because COVID-19 and the shutdown of the Danish mink industry involved less uncertainty at end-2021 than at end-2020.

Portfolio earnings

Portfolio earnings represented an expense of DKK 38m, compared with an expense of DKK 29m in 2020.

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 22.2bn at year-end 2021.

Allocation of comprehensive income for the year

The best-ever net profit for the year of DKK 888m has been transferred to DLR's equity.

Balance sheet

Mortgage lending at fair value amounted to DKK 175.2bn at the end of 2021.

Bond holdings amounted to DKK 26.7bn, which is DKK 4.6bn less than at year-end 2020. Of this amount, the portfolio of DLR bonds amounted to DKK 20.3bn, which is netted in "Issued bonds at fair value", while DKK 6.4bn was attributable to positions in government securities and other mortgage bonds.

In addition to the bond holding of DKK 26.7bn, DLR held other securities for DKK 1.9bn; hence, the total securities holding amounted to DKK 28.6bn (gross) at the end of 2021.

Of the total securities amount, temporary excess liquidity in connection with mortgage lending activity comprised DKK 6.4bn, so the investment holding was therefore DKK 22.2bn.

DLR's total assets stood at DKK 183.9bn at year-end 2021.

Own funds

DLR's own funds increased by DKK 969m in 2021.

The increase was mainly due to the profit after tax and value adjustment of DKK 888m, the full amount of which was added to DLR's reserves. Furthermore, 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 82m.

Driven mainly by DLR's lending growth, the weighed exposure amount for credit risk rose from DKK 74.8bn at end-2020 to DKK 80.9bn at end-2021. Moreover, there was an increase in DLR's outstanding loan offers relative to end-2020. These developments are also the main reason for the increase in the total weighted risk exposure amount.

DLR's total capital ratio was 18.6 at year-end 2021, while DLR's common equity tier 1 capital ratio was 17.1. The total capital ratio fell by 0.2% of a percentage point because of the higher weighted risk exposure, while the common equity tier 1 capital ratio was unchanged relative to 31 December 2020. At year-end 2021, 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 15.9bn at year-end 2021 compared to DKK 14.9bn at year-end 2020.

	2021	2020
Own funds	15,887	14,918
Total risk-weighted exposure	85,249	79,467
Common equity tier 1 capital ratio	**17.1%**	**17.1%**
Total capital ratio	**18.6%**	**18.8%**

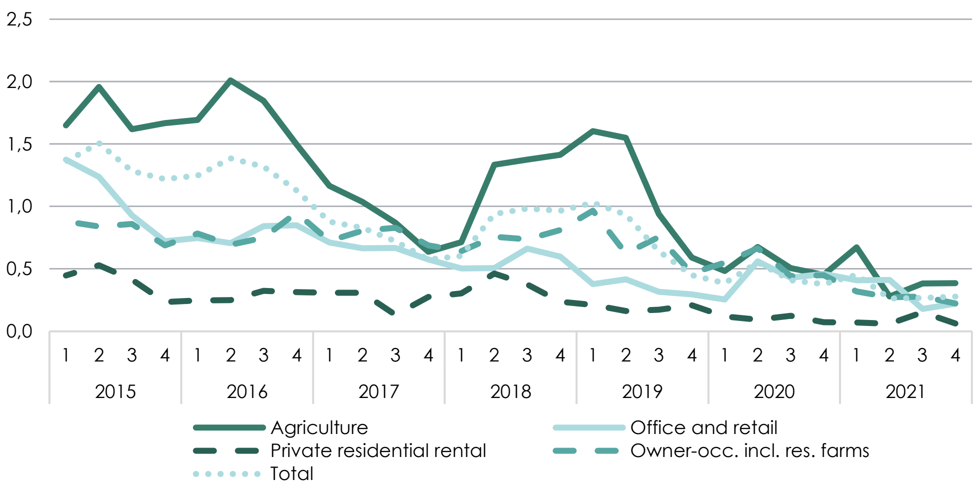
Arrears and forced sales

DLR collected mortgage payments of DKK 7.9bn in 2021.

At year-end 2021, outstanding mortgage payments amounted to DKK 61m, against DKK 71m 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 0.28% in mid-January 2022, against 0.38% in January 2021.

3½ months' arrears by property category



The number of completed forced sales of properties in which DLR held a mortgage was 22 in 2021. Of these, DLR repossessed no properties. The equivalent figures in 2020 were 49 and four. At 31 December 2021, DLR had no repossessed properties, against 5 at year-end 2020.

In 2021, DLR recorded a loss on eight properties that were repossessed by parties other than DLR at auction, and DLR has participated in 14 voluntary sales agreements, etc. that resulted in a loss. Moreover, DLR recorded a loss on one property in which the collateral held no value.

All in all, DLR recorded a loss on 23 properties in 2021, compared to 48 properties in 2020.

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 2021

The pre-tax profit in Q4 2021 was DKK 291m.

The Q4 performance was positively affected by the reversal of impairment charges, and the profit impact of losses and impairment for the quarter was thus an income of DKK 31m. Moreover, several of the other accounting items developed more favourably than expected.

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 2022

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, including interest rates.

As the COVID-19 restrictions in society were lifted on 1 February 2022, economic activity is set to normalise. A similar trend is expected to take place in most other countries during the first quarter, as broad immunity is established in the population.

However, challenges persist and a high degree of uncertainty remains with respect to economic developments due to factors such as the winding down of the COVID-19 relief packages, rising prices, bottlenecks with respect to labour shortages in several sectors and expectations of rising interest rates.

Despite these uncertainties, DLR generally expects satisfactory earnings in 2022 for the sectors for which DLR provides funding.

Large parts of Danish agriculture can expect acceptable terms of trade and satisfactory product prices. Pig farmers are currently squeezed by very low selling prices, but conditions are expected to improve during 2022.

The favourable situation in the rental property market and persistently strong interest for investing in both residential and commercial rental property is expected to continue into 2022, albeit at a slightly more subdued pace due to factors such as rising building costs.

Earnings forecast

For 2022, DLR expects core earnings before impairment in the order of DKK 1,050 – 1,100m and a pre-tax profit of around DKK 975 – 1,025m.

Interest rate developments and thus the scale of portfolio earnings together with the operational impact of losses and impairment could potentially have a relatively large significance for DLR's overall results.

We expect continued positive net lending in 2022 and a higher loan portfolio.

Capital position

Capital requirements

DLR's capital management is based on a long-term capital model that includes both existing and future regulatory requirements. The model is regularly adjusted to reflect developments at DLR for example in terms of lending, capital initiatives, earnings and regulatory changes.

For many years, DLR has regularly adjusted its own funds in connection with transactions such as share issues and share buybacks, issuance and redemption of additional tier 1 capital and issuance of tier 2 capital. With a view to meeting the requirement for capital to cover 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 969m in 2021, mainly driven by consolidation and earnings for the year.

Capital and solvency

(DKKm)	2021	2020
Equity	15,071	14,183
Deduction due to prudent valuation	-22	-25
Difference between expected losses and impairment losses	-457	-539
Profit, etc. not recognised in common equity tier 1 capital	0	0
Deduction due to intangible assets	0	0
Deduction due to non-performing exposures (NPE)	-4	0
Common equity tier 1 capital	14,587	13,618
Additional tier 1 capital	0	0
Tier 2 capital	1,300	1,300
Own funds	**15,887**	**14,918**
Weighted risk exposure amount, credit risk etc.	80,871	74,846
Weighted risk exposure amount, market risk	1,930	2,221
Weighted risk exposure amount, operational risk	2,448	2,400
Total risk-weighted exposure	85,249	79,467
Common equity tier 1 capital ratio	**17.1%**	**17.1%**
Total capital ratio	**18.6%**	**18.8%**

Capital planning and capital targets

On the basis of currently known facts, the 2022 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, which are expected to be increased in 2022. Furthermore, the targets have been set assuming that DLR's pillar II add-on remains at the current level of 1.0-1.5%. DLR's capital targets are set annually, but are regularly reviewed at DLR's board meetings. The targets will be adjusted should significant events occur.

In addition to the capital level, DLR's long-term capital model also incorporates 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 current and 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% relative to the regulatory requirement.

At the end of 2021, DLR had an LCR of 500% excluding the floor requirement and an LCR of 143% including the floor requirement.

At end-2021, DLR had an NSFR of 172% relative to the required level.

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

Debt buffer

From 2022, Danish mortgage credit institutions must comply with a two-part debt buffer requirement, as mortgage credit institutions are not comprised by the MREL requirement that applies to banks.

In 2021, the debt buffer requirement was set to constitute at least 2% of an institution's total unweighted lending. From the beginning of 2022, the 2% requirement will be changed so that the debt buffer requirement will henceforth constitute two separate requirements consisting of the above-mentioned requirement and a new requirement that the sum of the requirement for the institution's capital and debt buffer (loss-absorbing capital/debt) must constitute at least 8% of the institution's total liabilities.

The debt buffer requirement of at least 2% of DLR's lending equated to DKK 3.5bn at end-2021. The requirement that the debt buffer must constitute 8% of total liabilities will apply from the beginning of 2022 and will amount to approximately DKK 14.7bn.

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 2021, DLR had issued SNP/SRN totalling DKK 4bn.

With its existing amount of issued SNP/SRN and existing own funds and tied-up capital, DLR complies with both debt buffer requirements.

SIFI

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

DLR has consistently been designated a SIFI institution (Systemically Important Financial Institution) since the first SIFI designations in Denmark in 2014.

To be designated a SIFI in Denmark under the current rules, 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 was redesignated as a SIFI most recently in mid-2021 because its balance sheet makes up 7.8% 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.

On 6 October 2021, the Danish government tabled a proposal to amend, among other things, the Danish Financial Business Act and the rules concerning designation of SIFIs in Denmark, which was later adopted. DLR expects that it will still be designated as a SIFI under the revised criteria.

Supervisory Diamond

The Danish FSA's Supervisory Diamond for mortgage credit institutions contains five indicators, each with its own threshold value. See the table below.

DLR currently meets all the thresholds of the Supervisory Diamond except for the indicator concerning lending growth for "Property rental" and "Private homeowners".

Since Q3 2018, DLR has exceeded the indicator with respect to lending growth for "Property rental" based on fair-sized lending growth, especially for residential rental properties. Lending growth amounted to 15.9% at the end of 2021, and during the period of exceeding the threshold, it hovered in the 16-21% range. DLR has been in regular dialogue with the Danish FSA about its lending growth, and in March 2019 DLR received a so-called risk information concerning this matter.

Notwithstanding that the lending growth is in breach of the Danish FSA's indicator, it is believed to be positive for DLR as it means greater risk diversification of DLR's portfolio. DLR is aware that increased lending growth may be an indication of elevated risk and has taken this into account in connection with loan valuation. Lending growth should also be seen in the context of the fact that DLR's current market share in the lending segment in question is considered to be lower than the market opportunities offered when considering the market shares held by the loan-distributing banks. As such, the current 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 and expects during 2022 to once more comply with the "Property rental" indicator.

DLR's lending growth to the segment "Private homeowners" was 15.1% at end-2021, thus exceeding the Supervisory Diamond threshold level of 15%. The growth primarily concerns loans for owner-occupied homes in the Faroe Islands and in Greenland, and the breach of the threshold should be seen in the context of DLR's generally limited lending to the segment of DKK 9.4bn, which is less than DLR's own funds. In its memo regarding the Supervisory Diamond for mortgage credit institutions, the Danish FSA stated that it does not consider segments to which the institution has only limited lending at a level that is lower than the institution's own funds.

DLR has previously been focusing especially on the Diamond's indicator 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. As a result of these efforts, DLR has been below the Supervisory Diamond's threshold values for the other benchmarks in recent years.

DLR's compliance with the Supervisory Diamond

Supervisory Diamond for mortgage credit institutions	End-Q4 2021	End-Q3 2021	FSA threshold values
1. Lending growth: (current quarter)			
Private homeowners	15.1%	14.0%	<15%
Property rental	15.9%	16.6%	<15%
Agriculture	2.8%	2.8%	<15%
Other corporate	8.5%	7.5%	<15%
2. Borrower's interest rate risk:	15.7%	15.7%	<25%
3. Interest-only loans to private individuals:	1.7%	1.8%	<10%
4. Loans with short-term funding: quarterly *			
Q4 2020	2.5%		<12.5%
Q1 2021	0.1%		<12.5%
Q2 2021	7.3%		<12.5%
Q3 2021	3.3%		<12.5%
Q4 2021	2.3%		<12.5%
4. Loans with short-term funding: annually	12.7%	12.9%	<25%
5. Large exposures	29.3%	29.8%	<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 2021. 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 March 2021 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 2021 was based on the outstanding bond debt at year-end 2020, with shares for a nominal value of DKK 12.5m 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 2021, DLR had 49 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 51% 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 20% of the share capital. The above does not include DLR's 8.1% holding of treasury shares at end-2021.

DLR's lending areas

Agricultural sector

In early October 2021, a broad political agreement was concluded on the green transition of Danish agriculture, including the framework for implementing changes to the EU common agricultural policy (CAP).

This is a very ambitious agreement in terms of reducing the carbon footprint of Danish agriculture, placing heavy demands on the sector's ability to transition and adapt. Generally, the agreement opens up for voluntary transition and leaving open the possibility to maintain substantial agricultural production in Denmark.

Broad support for the agreement from most of the political parties represented in the Danish parliament provides adequate security with respect to framework conditions for Danish agriculture towards 2030, which is paramount for the industry to invest in the green transition.

In terms of earnings, Danish agriculture has experienced a satisfactory relationship between costs and selling prices in recent years, and very positive developments in efficiency has produced good results, which in tern have enabled farmers to substantially reduce their debts. For 2019 and 2020 combined, the indebtedness of Danish agriculture was reduced by DKK 40bn to DKK 294m. For full-time farms, the debt as a percentage of the value of assets was 57%. As whole, the financial robustness of the sector has improved dramatically in recent years, which is a big positive both for the industry and for its creditors.

Dairy and arable farmers experienced consistently good price conditions in 2021, while the period since mid-2021 brought substantially lower prices of both weaners and pork, and this production area is thus expected to produce an unsatisfactory result in 2021. Especially in the latter part of 2021, rising raw materials prices, including surging energy prices and, by extension, fertiliser prices, resulted in mounting pressure on costs, which remains to be reflected in the settlement prices. As a result, there was a decline in the terms of trade for Danish agriculture as a whole in 2021. As rising prices are a global phenomenon, they are expected to result in production adjustments and, be extension, rising settlement prices in the longer term and thus to a normalisation of the terms of trade.

With the conclusion of the broad political agreement on the green transition of the agricultural sector and very high competence levels and ability to adapt and embrace change in Danish agriculture, there would appear to be continuing positive prospects for Danish agriculture, with the focus on sustainable production of high-quality food.

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

Pork and weaners

For the past five years as a whole, average settlement prices for slaughter pigs have been DKK 10.32 per kg before supplementary payment. In 2021, the average price fell to DKK 9.71 from 11.62 in 2020, or a drop of about 16% from a relatively high level. The fall, which has continued into January 2022, was mainly due to reduced demand from China, but also to continuing challenges in term of African swine fever (ASF) in the countries south of Denmark.

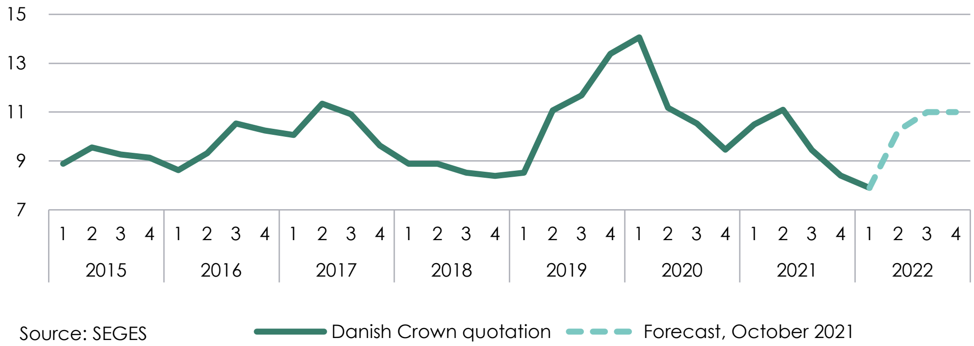
Danish producers of weaners who export pigs to Central and Eastern Europe were also affected by the consequences of ASF in 2021, which resulted in difficult market conditions and large price fluctuations. During the past two years, the market price of weaners has thus fluctuated from DKK 690 per weaner in spring 2020 to DKK 150 per weaner in autumn 2021. Market conditions appear to be unresolved at the beginning of 2022, including an unsatisfactory price level after the outbreak of ASF in northern Italy.

The low pork prices reflect an imbalance between supply and demand. Given reports of a lower number of sows in e.g. Germany, the EU market for pork is expected to see a better balance during 2022, leading to improved prices.

Based on persistently very positive developments in efficiency, production costs in Denmark are now in fact lower than in the other EU countries, giving Danish pig farmers relatively strong competitive power.

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)

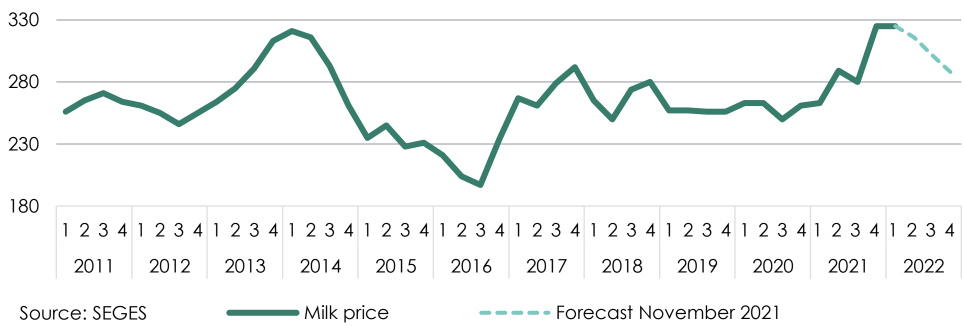


Source: SEGES

Dairy production

The price of milk, which is generally the most important factor for dairy farmer earnings, trended higher in 2021. From the beginning of the year, the settlement price for conventional milk thus rose by 20% to DKK 3.16 per kg and has moved higher in January 2022. 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 demand outpacing production, which has been falling since mid-2021, dairy farmers may expect a persistently satisfactory financial situation.

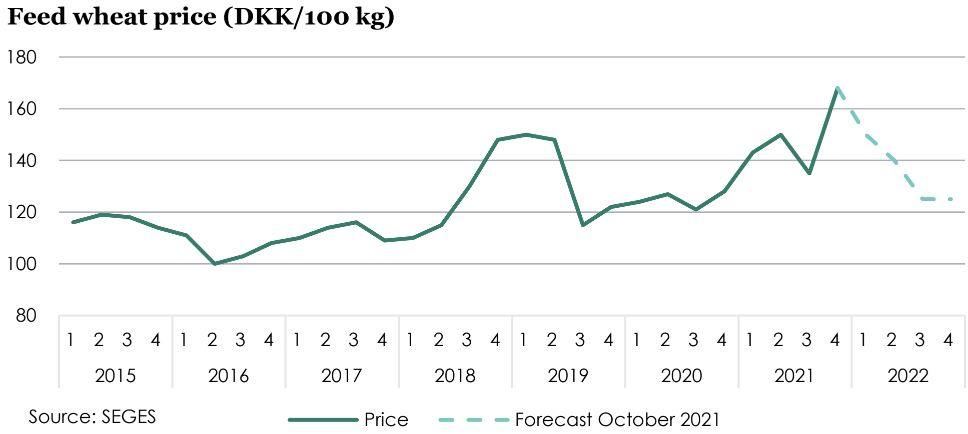
Milk price (ore/kg)



Source: SEGES

Arable farming

Arable farmers enjoyed acceptable growth conditions in 2021 although crop yields were slightly below normal-year average. Main products experienced a positive price development, leaving overall finances and profitability for arable farmers at acceptable levels.



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 European countries, the price of land in Denmark has in recent years been at a relatively low level. This has triggered an interest among foreign investors in buying Danish land.

The climate agreement entails leaving cultivated low-lying land areas fallow and, by extension, a reduced area of arable land available, which is assumed to have a stabilising or potentially positive impact on land prices in general.

Commercial property

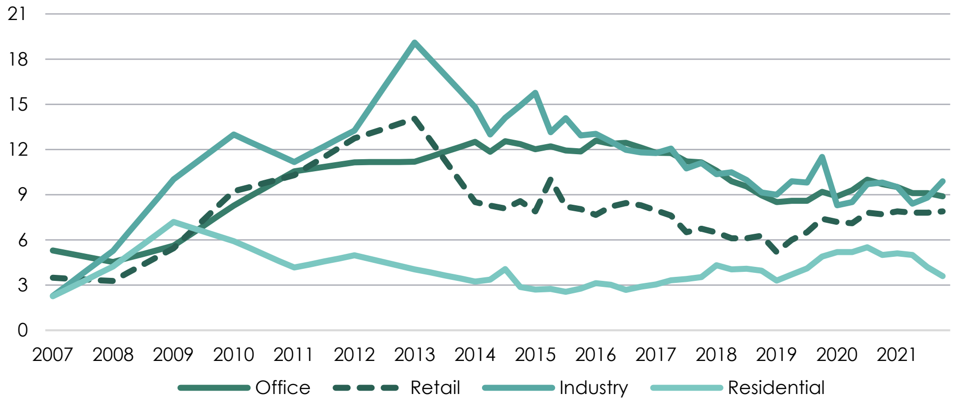
DLR's lending for commercial properties comprises loans for private residential rental property, office and retail property, manufacturing and craft property, properties for social, cultural and educational purposes, community utility plants – including onshore wind turbines – and housing cooperatives in Denmark. Furthermore, on a smaller scale DLR grants mortgage loans for properties in the Faroe Islands and in Greenland, where DLR also finances owner-occupied homes.

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 in Denmark, 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 edged higher in 2019 and 2020. In 2021, there were once again a decline in vacancy rates for residential and office properties, while overall vacancy rates for retail properties were largely unchanged. For industrial properties, which only make up a very limited proportion of DLR's loans, there was a slight increase in vacancy rates.

Vacancy rates (%)



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 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

Demand for investing in rental properties remains strong with particularly strong demand for residential rental properties and modern office, logistics and production properties at decent rent levels. This demand has resulted in an increase in new-build activity.

It remains to be seen whether in the slightly longer term the COVID-19 pandemic will result in a reduced need for office space because more people are working from home, but it has yet to feed through to vacancy statistics or falling rent levels.

As was the case both in 2019 and 2020, a number of prime-location retail properties continued to experience pressure on rents in 2021. This development 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 have accelerated with the COVID-19 crisis and have caused or maybe will cause a number of shop closures.

Demand for rental properties appears to continue to grow, and investors generally appear to be attracted to the residential rental property segment. Especially medium-sized towns with slightly lower price levels where investors can obtain a greater return on their investment are witnessing strong demand for investing in this segment.

Lending activity and portfolio

DLR's primary lending areas are agricultural and commercial properties and, to a limited extent, properties and owner-occupied homes in 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

Throughout 2021, DLR experienced growing demand for loans in all significant loan segments, and not least in the non-agricultural sector. As a result of the increase in demand for loans, DLR realised satisfactory lending growth and a continuing diversification of its loan portfolio on business areas.

Lending growth

In 2021, DLR achieved the highest-ever lending growth for many years, with no negative impacts from the COVID-19 pandemic. The strong growth was driven partly by increased competitive strength of the loan-distributing banks for all property types, and partly by persistently high demand in the market for urban commercial property.

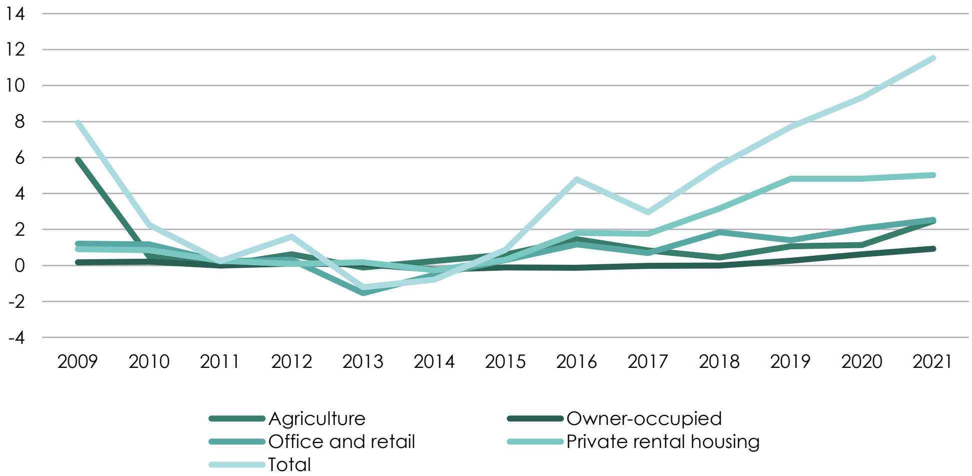
Total lending (cash value) increased by DKK 11.5bn in 2021, against DKK 9.3bn in 2020.

Much of the lending growth is still driven by private residential rental property, although other property segments account for an increasing share of growth. During the past year, the contribution of agricultural lending to DLR's growth has increased, accounting for 21.5% of lending growth in 2021, against 12.1% in 2020. Lending growth for owner-occupied homes (incl. residential farms) rose from 6.2% in 2020 to 8.0% in 2021, which was especially due to lending growth in Greenland and the Faroe Islands.

Private residential rental property accounted for 43.6% of DLR's lending growth in 2021. This is a lower share than in 2020, when the segment accounted for half of the lending growth. Office and retail property accounted for 21.9% of the lending growth in 2021, which is on a level with 2020.

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

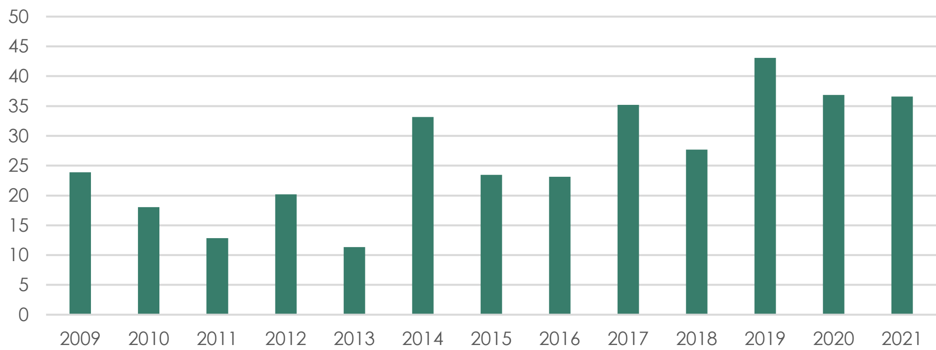
Development in DLR's net lending (DKKbn)



Loans disbursed

In 2021, DLR disbursed more top-up loans and loans for property purchases than in 2020. On the other hand, DLR disbursed much fewer loans for remortgaging, which was not as attractive in 2021 due to interest rate developments. Overall, the increase in new loans and lower level of remortgaging resulted in a largely unchanged volume of disbursed loans compared with 2020. DLR's disbursed loans (gross lending) amounted to DKK 36.6bn in 2021, which was more or less on a level with 2020, but lower than in 2019, when high remortgaging activity resulted in gross lending of DKK 43.1bn.

Development in DLR’s gross lending (DKKbn)



DLR's portfolio and market share

DLR's loan portfolio amounted to DKK 176.1bn measured by the nominal outstanding bond debt at the end of 2021, equivalent to a market share of 5.8% of total mortgage lending.

DLR's portfolio in its lending areas

Looking only at DLR's main business areas, DLR has a market share of 17.4%. This breaks into a market share of 35.6% for agricultural properties, 9.7% for private residential rental properties/cooperative housing properties and 11.3% for office and retail property. Over the past few years, DLR has increased its market share within these three lending areas.

Agriculture

Even though DLR's agricultural lending has increased, agricultural loans' share of DLR's total loan volume has been declining for some years. The reason is that loans for non-agricultural properties have grown far quicker than agricultural loans. At the end of 2021, agricultural loans accounted for 52.7% of DLR's total loans against 55% in 2020.

Urban commercial properties

The share of DLR's total lending for private residential rental properties was 20.5% at end-2021, while the share was 17.2% for office and retail properties. The share of DLR's lending to these two property segments rose by 1.6 percentage point and 0.3% of a percentage point, respectively, during 2021.

Owner-occupied homes including residential farms

At the end of 2021, DLR had lending to owner-occupied properties and residential farms of DKK 10bn. Lending primarily covers residential farms in Denmark and owner-occupied homes in Greenland and the Faroe Islands. Lending to owner-occupied properties and residential farms rose by almost DKK 1bn during 2021.

Changed composition of loan types

The composition of DLR's loans by loan type has changed moderately over the past year towards a higher number of fixed-rate loans and more ARM Short loans (variable rate loans). The share of fixed-rate loans increased by 2.1 percentage points in 2021 to 34.1% of DLR's total lending by the end of 2021. During the same period, the share of ARM Short loans increased by 1.1 percentage points to 37.1% of lending at end-2021.

The volume of adjustable-rate loans, which previously accounted for the bulk of DLR's loans, declined in 2021. The share of 5Y ARMs was reduced by 1.5 percentage points during 2021 to 24.3% of DLR's total lending at end-2021. The same development was seen for shorter refinancing periods (1Y-3Y ARMs), which at end-2011 accounted for a total of 3.0% of total lending. Eight years ago, 1Y ARM loans alone accounted for almost 60% of DLR's lending.

DLR's loan portfolio at 31 December 2021

	Out-standing bond debt	Distribu-tion by property category	Fixed -rate loan	ARM Short	1Y/ 2Y	3Y/ 4Y	5Y	Other short-term inter-est rate loans
Agriculture, incl. horticul-tural proper-ties	92.8	52.7%	22.0%	51.3%	1.5%	2.1%	21.9%	1.0%
Owner-occ. incl. res. farms	10.0	5.7%	59.2%	8.4%	4.1%	4.2%	22.7%	1.4%
Office & retail	30.3	17.2%	45.6%	22.2%	1.8%	2.1%	27.8%	0.6%
Private residential rental	36.1	20.5%	42.7%	25.4%	1.3%	1.7%	28.5%	0.4%
Private coop-erative hous-ing	3.7	2.1%	71.9%	8.7%	0.1%	0.8%	17.8%	0.7%
Other prop-erty	3.2	1.8%	54.7%	18.1%	1.0%	3.0%	23.2%	0.1%
Total	**176.1**	**100.0%**	**34.1%**	**37.1%**	**1.6%**	**2.1%**	**24.3%**	**0.8%**

Distribution of loan types by segment

Loans with short refinancing periods (ARM Short loans) are among the most prevalent among DLR's agricultural customers. At end-2021, 51.3% of DLR's agricultural loans were granted as ARM Short loans, which is about twice as high a percentage as for non-agricultural properties. The proportion of ARM Short loans of agricultural loans increased since the end of 2020, when they accounted for 48.8% of lending.

For private residential rental properties and office and retail properties, fixed-rate loans are the most popular loan type, accounting for 42.7% and 45.6%, respectively, at end-2021. During 2021, the proportions rose by 2.2 percentage points and 3.2 percentage points, respectively.

Funding

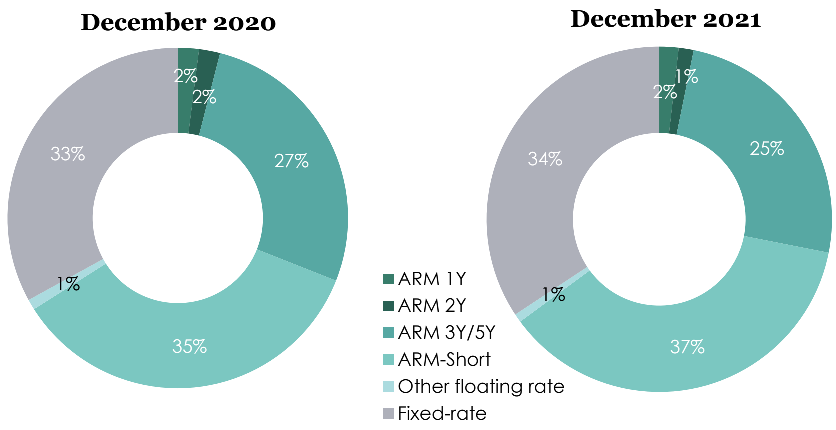
DLR funds its lending activities through the issuance of mortgage bonds listed on Nasdaq Copenhagen. Bonds are issued according to the specific balance principle, with financing through issuance of covered bonds (SDO) in a 1:1 ratio.

Funding and bond issuance

DLR's funding structure reflects the composition of mortgage loans, of which about one third are fixed-rate loans, a little over one third are ARM Short loans, while just under one third are adjustable-rate loans. The change in loan composition during 2021 as described in the section above is thus also reflected in DLR's funding composition.

During the past eight years, the share of callable bonds has increased significantly, and combined with ARM Short bonds they have replaced ARM bonds with shorter maturities. This development has resulted in a more balanced funding structure.

DLR's outstanding bonds by type



More DLR bonds

Lending growth in 2021 meant that the volume of DLR's outstanding bonds increased to DKK 177.3bn at the end of the year, not counting senior debt and bonds that expire on 1 January 2022. 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. The volume of DLR's outstanding bonds is slightly greater than the outstanding bond debt at end-2021, which is due to drawings, fixed-price agreements, partial repayments and immediate repayment.

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 about 0.5% of outstanding volume at end-2021.

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 2021 (excluding bonds maturing on 1 January 2022, but including pre-issued bonds in connection with the refinancing of mortgage loans on 1 January 2022) is shown in the table below.

DLR's bonds, end-2021, nominal DKKbn

	DKK bonds	EUR bonds	Total
SDO	174.9	1.5	176.4
RO	0.9	0	0.9
Total	**175.8**	**1.5**	**177.3**

EUR loans

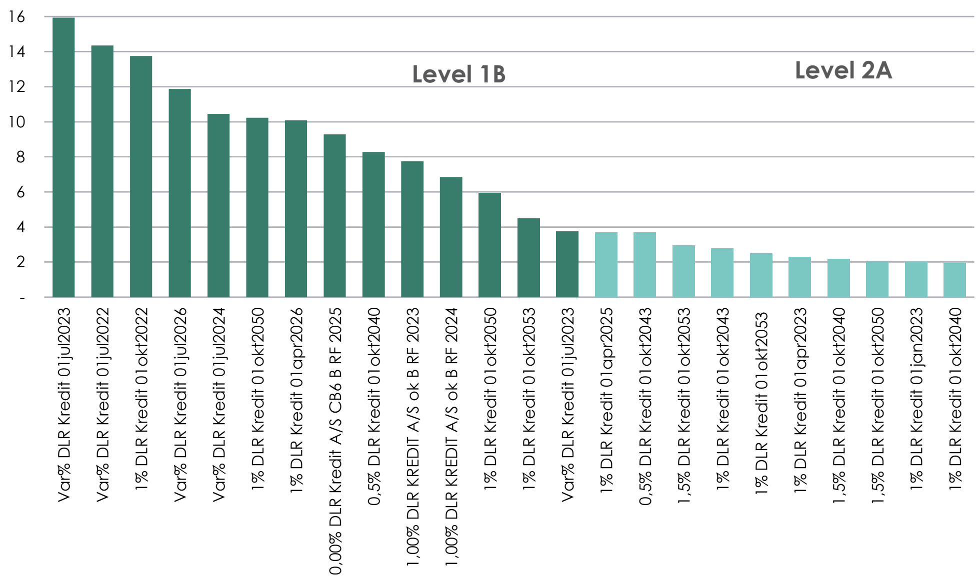
DLR's ARM loans in euros are only refinanced in January. A large proportion of DLR's 1Y ARM loans denominated in EUR has since 2014 been switched into either ARM Short loans or longer ARM loans denominated in DKK, as DLR has not offered loans in EUR since 2014. Likewise, a large proportion of the EURIBOR-based 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 0.8% of the total outstanding volume of bonds at the end of 2021.

Series sizes

Shown below are DLR's largest bond series at the beginning of 2022. 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.

At the beginning of 2022, 75% of DLR's series met the 1B requirement for series size in terms of outstanding volume, while a further 15% met the level 2A requirement.

DLR bond series meeting LCR size requirements (DKKbn)



Bond sales

DLR bonds are tapped as loans and paid out and regularly offered in the primary market 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 for a continuous period. These agreements have contributed to strengthening liquidity and thus ensuring the continuous pricing of DLR's bonds.

Negative interest rates

Short CIBOR, CITA and EURIBOR rates remained negative throughout 2021. DLR's floating-rate bonds opened after 1 January 2018 have no coupon floor, and yields on these bonds may therefore become negative. Fixed-rate non-callable bullet bonds could also potentially have negative yields, as the bonds may trade at a premium that gives a negative effective yield for borrowers and investors.

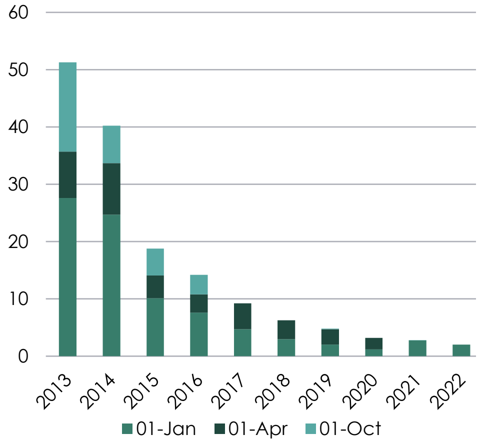
Refinancing of ARM loans

DLR held auctions in February, August and November-December 2021 in connection with the refinancing of ARM loans per 1 April 2021, 1 October 2021 and 1 January 2022, respectively. In step with the switch to other loan types, refinancing volumes have declined steadily in recent years.

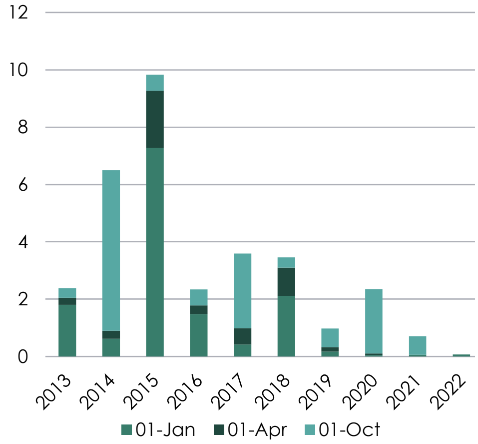
At the February auctions, DLR supplied DKK-denominated bonds for around DKK 90m and at the August auctions DKK-denominated bonds for about DKK 5.3bn (all nominal amounts). At the November-December auctions, DLR supplied DKK-denominated bonds for about DKK 2.2bn and EUR-denominated bonds for EUR 0.1bn (all nominal amounts). The refinancing of ARM loans of the 1Y, 3Y and 5Y types totalled DKK 7.0bn in 2021, which was DKK 2.2bn less than in 2020.

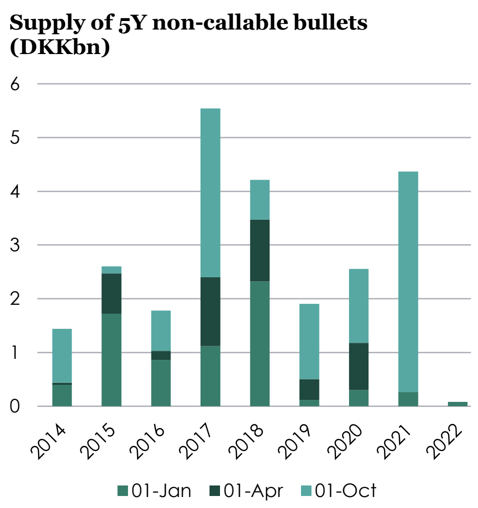
In recent years, DLR has focused on establishing a funding structure with fewer, larger series to support bond liquidity. This means, DLR has grouped the refinancing of 1Y-2Y loans in January and is working to move the refinancing of 3Y-5Y loans from October to April. Furthermore, each series is kept open for loan offers for one year compared to only six months previously.

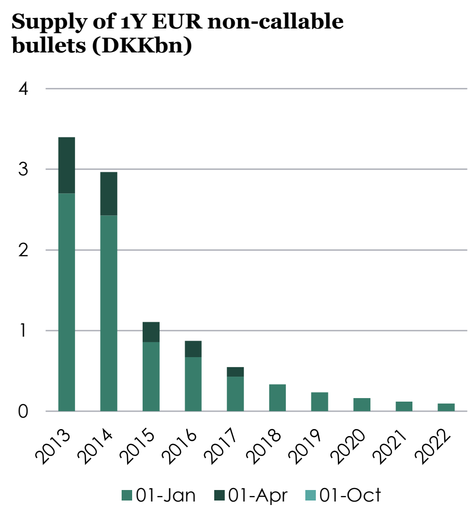
Supply of 1Y non-callable bullets (DKKbn)



Supply of 3Y non-callable bullets (DKKbn)

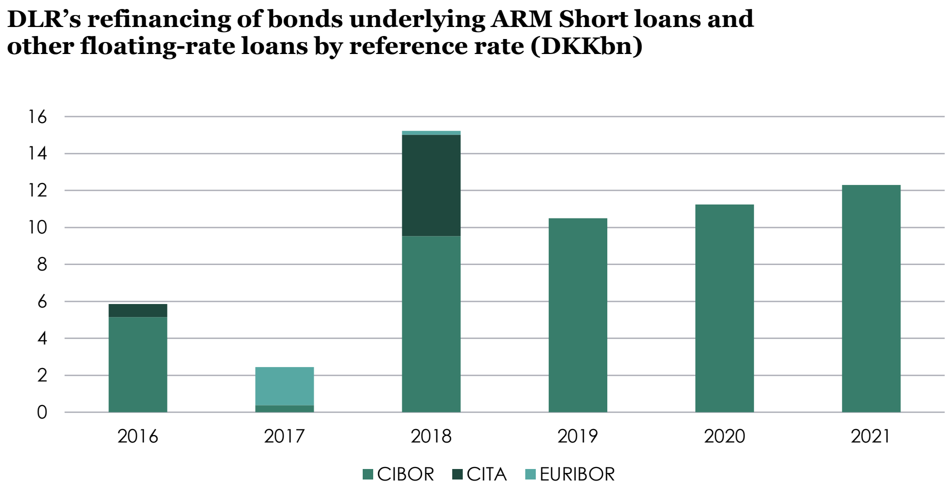






Refinancing of floating-rate loans

In May 2021, DLR auctioned floating-rate bonds for an amount of DKK 12.3bn in 5-year CIBOR6 bonds, which were used to refinance ARM Short loans on 1 July 2021. On 1 August 2021, DLR opted to replace the funding of new ARM Short from CIBOR-2023 to CIBOR-2024 series.



Senior debt

At year-end 2021, DLR had DKK 5bn in outstanding senior debt, against DKK 7bn the year before. The assessment is 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 2021, the senior debt consisted of DKK 1.0bn in Senior Secured Bonds (SSB), DKK 1.0bn in Senior Resolution Notes (SRN) and DKK 3.0bn in Senior Non-Preferred Notes (SNP).

In the period from 2012 to 2019, DLR 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 were issued with three to five year maturities, and DLR continually monitors the need for supplementary collateral, including the refinancing of maturing SSBs.

DLR's outstanding senior debt issues year-end 2021

Type	Amount (DKKm)	Issuance date	Maturity date	Maturity (years)	Reference rate	Rate premium
SRN	1,000	15/09/2017	15/06/2022	4¾	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	4¼	3M CIBOR	1.15%
SNP	250	12/04/2019	01/07/2023	4¼	Fixed interest rate	1.07%
SNP	1,000	03/11/2020	01/07/2024	3¾	3M CIBOR	0.85%
SNP	1,000	08/06/2021	01/07/2025	4	3M CIBOR	0.67%
Total, senior debt	**5,000**					

DLR's loss-absorbing senior debt (SRN and SNP) was issued with a view to meeting the debt buffer requirement and is also included in S&P's ALAC calculation (Additional Loss-Absorbing Capacity). The issues are thus supportive of DLR's issuer rating, see below, and can also be used for meeting OC requirements and other purposes.

Rating

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

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 applies only six of the eight remaining notches to achieve the 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 8.60% 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 issue rated. Both the SRN and the SNP issues are rated BBB, which is one notch below DLR's SACP.

ESG ratings

The growing interest in society especially for climate and environmentally sustainable matters and for social and governance issues is also reflected among investors and issuers. ESG ratings (Environmental, Social and Governance) is a tool with which investors and other stakeholders can assess a company's position with respect to ESG issues.

MSCI, which is a provider of indices and also rates companies in terms of sustainability, has on its own account assigned a rating to DLR on the basis of publicly available information. In October 2021, MSCI upgraded DLR's ESG rating from BBB to AA.

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 calculation is based on 8% of the total risk exposure amount. Subsequently, an assessment is made of whether DLR in business areas or operationally, etc. is exposed to material risk not covered by the 8% requirement. If such risk is identified, an add-on is made to the adequate own funds and the solvency need. As DLR's business model relies exclusively on operating a mortgage credit institution, this means that by far the largest part of DLR's adequate own funds attaches to DLR's credit risk. See the table below.

DLR's adequate capital base and solvency need

(DKKm)	2020	2021
Credit risk	6,493	7,011
Market risk	611	592
Operational risk	192	196
Other factors	0	0
Internally calculated adequate own funds	7,296	7,799
Add-ons (special risks)	0	0
Total, adequate own funds	**7,296**	**7,799**
Solvency need	**9.18%**	**9.15%**

At least once quarterly, the adequate own funds and solvency need is presented to DLR's Board of Directors. 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. In addition, DLR's Board of Directors reviews the methodology approach to the calculation at least once annually.

DLR's Board of Directors has set up a Risk Committee. The Risk Committee addresses factors such as the calculation of adequate own funds and solvency need before presenting the figures to the Board of Directors. In addition, DLR's internal audit department undertakes an independent assessment of the calculation.

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 DLR's website under https://dlr.dk/en/investor/financial-statements/.

Large exposures

Exposures of more than 10% of DLR's own funds are designated large exposures by regulations. At year-end 2021, 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 lending activity, 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 end-2021, DLR had provided supplementary collateral in the amount of DKK 8.6bn, which is a decrease relative to end-2020, when supplementary collateral amounted to DKK 9.9bn. 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 2021, 98.1% of DLR's total loan portfolio was covered by guarantee concepts, including a government guarantee covering a small share of the portfolio to young farmers amounting to DKK 134m. Overall, the guarantee schemes mean DLR's risk of loss on its lending activities is very limited. The loss-mitigating agreements are explained in the section *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 in Denmark.

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 more than 82% of loans for full-time farms are placed within an LTV ratio of 50, and only a little more than 1% 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 DKK 65bn.

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 81% of the loans are placed within an LTV of 50%, and only about 0.5% 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 15 days after the due payment date on the December 2021 mortgage payment has fallen by 0.7 of a percentage 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. In spite of low prices of weaners and pork in the latter part of 2021, DLR's arrears on loans for pig farmers remain at a very low level. After strong earnings in 2019 and 2020, most players in this sector are capable of handling a period of low prices, and DLR saw a need for making only a small increase in impairment charges for pig farmers in 2021. For the other segments in the agricultural sector, the overall situation is relatively favourable.

DLR's guarantee concept
DLR has agreed a uniform 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.

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 uniform guarantee concept. In 2021, DLR offset losses totalling DKK 3.7m.

DLR's loan portfolio, which is covered by the uniform guarantee concept, is regularly increased as new loans are granted and also as the existing portfolio is remortgaged. In 2021, DLR offered its loan-distributing banks to transfer the remaining loans from the previous cooperation models to the uniform guarantee concept, and at 1 October just under DKK 23bn had been transferred to the uniform guarantee concept so that at end-2021 this covers an outstanding bond debt of DKK 171.3bn, or 97% of the total loan portfolio. An amount of approximately DKK 1.4 bn remains covered by previous collaboration and guarantee concepts.

Loan portfolio LTV
The loan portfolio's LTV in a mortgaged property illustrates DLR's limited risk of loss. At the end of 2021, 93% 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, 90% 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 and loss-mitigating 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 15.9bn at year-end 2021, this equates to a maximum permitted interest rate risk for DLR of DKK 1.3bn.

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 397m.

At the end of 2021, the interest rate risk on DLR's securities portfolio (asset side) was DKK 142m. Interest rate risk expresses the amount that DLR at the end of 2021 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 0.9 per cent based on the capital base at year-end 2021.

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 18m, or 0.1% of DLR's 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 (10) 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). DLR prepares 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 requirement entails that DLR should have a sufficient liquidity buffer to cover its net liquidity requirement for the coming 30 days. The LCR requirement is defined in a delegated act (the LCR Delegated Act), which was issued in accordance with Article 460 of CRR.

Like other Danish mortgage credit institutions, DLR has been granted a permission pursuant to Article 26 of the LCR regulation (exemption provision). The permission allows mortgage credit institutions to leave out certain mortgage bond-related cash flows from the LCR calculation. In order to apply the exemption, the mortgage credit institution must meet an LCR floor requirement such that the institution holds at all times liquid assets equivalent to 2.5% of its total mortgage loan portfolio.

This means DLR must on a daily basis calculate and monthly report LCR by using the two methods described below:

- Calculation without the floor requirement in which DLR's holding of eligible liquid assets (HQLA) are set in relation to DLR's net liquidity outflow (next 30 days)
- Calculation with the floor requirement in which DLR's holding of eligible liquid assets (HQLA) are set in relation to 2.5% of DLR's mortgage loans

The calculations show that DLR throughout 2021 complied with the internally defined 110% minimum requirement for both LCR without and with the floor requirement.

At end-2021, DLR's LCR without and with the floor requirement was calculated at 500% and 143%, respectively.

Exchange rate risk

Owing to the specific balance principle and very modest loans in EUR, 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 0.001% of the own funds at the end of 2021.

Equity risk

DLR generally does not place funds in equities apart from "sector equities". At the end of 2021, DLR's equity holdings consisted of unlisted shares in e-nettet A/S and Landbrugets Finansieringsinstitut A/S. With an equity portfolio of DKK 44.5m at 31 December 2021, 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, and the extent thereof is assessed to be limited because of factors such as DLR's business model, which is based exclusively on mortgage lending business.

DLR regularly collects and registers data on operational events above a certain threshold limit. The collection of data is undertaken to obtain an overview of the events, including to be able 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 2021.

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 2021.

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 six meetings in 2021.

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 held one meeting in 2021

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 2021

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 nine members at the end of 2021, of whom six were elected at the Annual General Meeting (AGM), while three 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 230 permanent FTE employees in 2021. In addition, DLR has 23 agricultural valuation experts attached to the company on a fee basis. See note 10 to the financial statements. In 2020, DLR employed on average 210 permanent employees and 24 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.

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.

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 also 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's principal goal is to operate a business that is responsible in every way. Consequently, it is natural that as an employer and mortgage credit institution, we assume responsibility for the way in which we affect the world around us. 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.

Green loans

At the beginning of 2021, DLR launched its Grøn RT-Kort loan, which is a green mortgage loan to finance green buildings, energy efficiency improvements, climate investment in farm buildings, sustainable energy sources or farm property with a sustainability certification. The criteria for DLR's green loans are expected to be extended in an ongoing process.

Full transparency for sustainability data

To ensure full sustainability transparency for its loans, DLR publishes 1) the carbon footprint of its loan portfolio broken down by capital centres, 2) an overview of properties with energy performance certificates broken down by type of certificate, which DLR has financed, and 3) a calculation of the volume of loans DLR has granted to industries listed in the EU Taxonomy for sustainable investments. All the figures are published in DLR's report on corporate social responsibility and on DLR's website.

DLR's CSR policy

In 2021, DLR published a CSR policy, which sets the framework for how we approach CSR in practice within five selected focus areas. These are the five focus areas which, combined, set the direction for identifying the specific objectives and initiatives to be addressed, implemented and reported on in our annual CSR reports.

1) Corporate social responsibility
2) Sustainable financing and funding
3) Social factors
4) Climate and environment
5) Business ethics

DLR's CSR policy is available at dlr.dk. As CSR is an area that is constantly evolving, the CSR policy will be continuously adjusted.

DLR received no reports on or other indications of any human rights violations in 2021. DLR considers the risk of such violations to be highly limited and has therefore opted not to prepare a separate policy on respect for human rights.

Establishment of CSR committee

To ensure that DLR will proactively deliver on the five focus areas set out in the CSR policy and continuously comply with any requirements and expectations we meet, DLR also established a CSR committee in 2021. The CSR committee consists of representatives from all parts of the organisation. The CSR policy sets the direction for the committee's efforts and describes the objectives to be pursued in the years ahead.

Data ethics policy

In January 2022, DLR adopted a data ethics policy. This policy contains the framework for DLR's data ethical principles and covers the following areas:

- DLR's use of customer data
- Openness and transparency in DLR's use of customer data
- Collection of data
- DLR's focus on the community
- Third-party data processing
- Compliance at DLR and training of employee skills

DLR's data ethics policy is available at dlr.dk and is further described in DLR's report on corporate social responsibility.

Corporate Social Responsibility Report

In its Corporate Social Responsibility report, DLR annually reports on its work with social responsibility and sustainability. 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.

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.

Management and administration

DLR Kredit's Board of Directors

At the end of 2021, DLR's Board of Directors consisted of nine 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.

In addition, DLR employees elected three employee representatives to the Board of Directors.

At the end of 2021, DLR's Board of Directors consisted of the following members:

Elected at the General Meeting

- Vagn Hansen (chairman), Managing Director & CEO, Sparekassen Danmark af 1871
- 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 29 April 2021, all Board members elected by the Annual General Meeting were re-elected.

Employee representatives

- Lars Faber, IT Operations Manager
- Jakob G. Hald, Agricultural Account Manager
- Randi Franke, Head of Business Development and Communications

In connection with the Annual General Meeting on 29 April 2021, the number of employee-elected Board representatives was reduced from five to three.

Executive Board

Jens Kr. A. Møller, Managing Director & CEO, MSc. (Economics)
Pernille Lohmann, Managing Director, MSc. (Economics)

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 Danish Mortgage Banks (Realkreditrådet)
- Member of SEGES's Sector Board for Business Finance & Management
- Member of the board of directors of Klimaskovfonden

Pernille Lohmann, Managing Director

- Member of the board of directors of 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)

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 Dimploma in Informatics & Financial Management, IPMA-B

HR & Internal Services
Mette Bagge-Petersen, HR consultant, Finance Diploma and Master NLP

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

Compliance
Søren Jensen, Attorney, Head of Compliance

Internal Audit
Chief Internal Auditor, MSc (Business Administration, Accounting and Auditing) Brian Hansen

Supervision

DLR is under the supervision of the Danish Financial Supervisory 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 were 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.

The agreement expired at the end of 2021 as LFI is in the process of carrying out a solvent liquidation.

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 in March 2022 based on the outstanding bond debt at 31 December 2021.

Other directorships held by the Board of Directors

Vagn Hansen (Chairman), Managing Director & CEO, Sparekassen Danmark af 1871 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 Ejendomsselskabet Vendsyssel ApS
- Member of the board of directors of SDC A/S
- Vice-chairman of the board of directors of The Association of Local Banks, Savings Banks and Co-Operative Savings Banks in Denmark (Lokale Pengeinstitutter)
- Member of the board of directors of Orbicon A/S and one subsidiary
- Member of the board of directors of Sparinvest SE
- Member of the board of directors of Sparekassen Vendsyssels Fond
- Member of the board of directors of Finance Denmark
- Member of the board of directors of FR I af 16. september 2015 A/S
- Member of the board of directors of PRAS A/S
- Member of the board of directors of Kunstbygningen i Vrå

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 of BI Asset Management A/S
- Chairman of the board of directors of BI Management A/S
- Member of the board of directors of Aktieselskabet Skelagervej 15
- 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 Pengeinstitutter)

- Member of the board of directors of Education Fund under The Association of Local Banks, Savings Banks and Co-Operative Savings Banks in Denmark (Lokale Pengeinstitutter)

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 Opendo A/S (previously Alm. Brand Leasing)
- Managing Director and member of the board of directors of Syd ABB A/S (previously Alm. Brand Bank A/S)

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

- Member of the board of directors of Ejendomsselskabet Sluseholmen A/S
- Member of the board of directors of AL Finans 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
- Director, Impagt Invest Sjælland A/S
- 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 2021

Income statement and statement of comprehensive income
(DKKm)

Note		2021	2020
1	Interest income	3,111	3,147
2	Interest expenses	-1,181	-1,273
	Net interest income	**1,930**	**1,874**
	Share dividends etc.	0	0
	Fees and commission income	244	250
	Fees and commission paid	-746	-696
	Net interest and fee income	**1,428**	**1,428**
3	Market value adjustments	-87	-114
	Other operating income	31	24
4-10	Staff costs and administrative expenses	-323	-298
	Depreciation and impairment of property, plant and equipment	-3	-2
	Other operating expenses	-18	-15
11	Impairment of loans, advances, receivables, etc.	109	-62
	Profit before tax	**1,138**	**960**
12	Tax	-250	-212
	Profit after tax	**888**	**749**
	Comprehensive income		
	Profit for the year	888	749
	Property revaluations	0	17
	Tax on property revaluations	0	-4
	Other comprehensive income after tax	**888**	**762**
	Attributable to shareholders of DLR Kredit A/S	888	762

Balance sheet

(DKKm)

Note		2021	2020
	Assets		
	Cash balance and demand deposits with central banks	1,581	50
13	Due from credit institutions and central banks	330	1,731
14, 16-21	Loans, advances and other receivables at fair value	175,203	166,775
15 -16, 19-21	Loans, advances and other receivables at amortised cost	10	12
22	Bonds at fair value	6,380	12,007
	Shares etc.	45	34
23	Land and buildings, domicile properties	136	136
	Other property, plant and equipment	6	6
	Leasing assets	0	0
	Current tax assets	25	12
	Assets held temporarily	0	6
24	Other assets	130	293
	Prepayments	26	21
	Total assets	**183,871**	**181,083**
	Equity and liabilities		
25	Issued bonds at fair value	161,203	157,429
26	Issued bonds at amortised cost	4,998	7,004
27	Other liabilities	1,279	1,145
	Deferred income	1	2
	Total liabilities	**167,481**	**165,580**
28	Provisions for deferred tax	20	20
	Total provisions	**20**	**20**
29	Subordinated debt	1,300	1,300
	Total subordinated debt	**1,300**	**1,300**
	Share capital	570	570
	Revaluation reserve	75	75
	Undistributable reserve	2,338	2,338
	Retained earnings etc.	12,088	11,200
30	**Total equity**	**15,071**	**14,183**
	Total equity and liabilities	**183,871**	**181,083**
31	**Off-balance sheet items**		
	Guarantees	0	0
	Contingent liabilities (loan offers, other contingent liabilities, etc.)	13,823	9,490
32	**Contingent assets**		
	Other contingent assets	16	34

Statement of changes in equity
(DKKm)

	Share capital 1)	Revaluation reserve	Undistributable reserve	Retained earnings	Total
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	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**
2021					
Equity at 1 January	570	75	2,338	11,200	**14,183**
Profit for the year	0	0	0	888	**888**
Disposal of treasury shares	0	0	0	0	**0**
Acquisition of treasury shares	0	0	0	0	**0**
Equity at 31 December	**570**	**75**	**2,338**	**12,088**	**15,071**

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. DLR held 46,122,083 (2020: 46,122,083) treasury shares at 31 December 2021, corresponding to a nominal value of DKK 46.1m (2020: DKK 46.1m). The portfolio of treasury shares accounts for 8.1% (2020: 8.1%) of the total share capital.

Capital and solvency
(DKKm)

	2021	2020
Equity	15,071	14,183
Deductions as a consequence of prudent valuation	-22	-25
Deductions as a consequence of intangible assets	0	0
Deductions af a consequence of non-performing exposures	-4	0
Difference between expected losses and impairment losses	-457	-539
Common equity tier 1 capital	**14,587**	**13,618**
Subordinated capital (tier 2 capital)	1,300	1,300
Deductions from tier 2 capital	0	0
Own funds	**15,887**	**14,918**
Risk-weighted exposure with credit risk etc.	80,871	74,846
Risk-weighted exposure with market risk	1,930	2,221
Risk-weighted exposure with operational risk	2,448	2,400
Total risk-weighted exposure	**85,249**	**79,467**
Common equity tier 1 capital ratio	17.1%	17.1%
Total capital ratio	18.6%	18.8%

Statement of excess capital adequacy	2021	2020
Own funds after deductions	15,887	14,918
Capital adequacy	-7,799	-7,296
SIFI buffer	-852	-795
Capital conservation buffer	-2,131	-1,987
Countercyclical buffer	0	0
Systemic buffer Faroe Islands	-11	-10
Reserved debt buffer	0	0
Excess capital adequacy	**5,093**	**4,831**

Notes

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Notes - Income statement
(DKKm)

Note

1 Interest income

Interest income	2021	2020
Due from credit institutions and central banks	0	0
Positive interest loans and advances *	1,060	1,183
Contributions	1,812	1,734
Bonds	56	96
Issued bonds at fair value **	79	59
Other interest income	127	107
Total	**3,134**	**3,180**
Interest on own mortgage bonds offset against interest on issued bonds	-24	-32
Total	**3,111**	**3,147**
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).

2 Interest expenses

Interest expenses	2021	2020
Credit institutions and central banks *	-2	-3
Issued bonds at fair value **	-1,060	-1,182
Issued bonds at amortised cost	-30	-28
Subordinated debt	-33	-33
Negative interest loans and advances***	-79	-59
Other interest expenses	0	0
Total	**-1,204**	**-1,305**
Interest on own mortgage bonds offset against interest on issued bonds	24	32
Total	**-1,181**	**-1,273**
Of which interest expenses on repo transactions	0	0

DLR has not paid out reserve fund shares on redeemed mortgages

* Interest expense for credit institutions and central banks relates to negative returns on the asset item "Due from credit institutions and central banks"

** Interest on issued bonds carrying a positive interest rate is included under interest expense (Note 2), while interest is included under interest income (Note 1) if the bond carries a negative interest rate.

*** Interest on loans carrying a positive interest rate is included under interest income (Note 1), while interest is included under interest expense (Note 2) if the loans carry an interest rate that is negative.

3 Market value adjustments

	2021	2020
Mortgage loans	-3,444	350
Bonds	-93	-121
Shares etc.	6	7
Foreign currency	0	-1
Derivative financial instruments	0	0
Other assets	0	1
Issued bonds	3,444	-350
Total	**-87**	**-114**

4 Staff costs and administrative expenses

	2021	2020
Staff costs		
Salaries	-180	-155
Pension costs	-16	-14
Social security costs	-29	-26
Total	**-226**	**-195**
Other administrative expenses		
IT expenses	-45	-51
Audit, financial supervision and industry association	-11	-13
Other expenses	-41	-38
Total	**-97**	**-103**
Total staff costs and administrative expenses	**-323**	**-298**

DLR's salary policy is available at www.dlr.dk/om os/

5 Remuneration of members of the Executive Board

	2021	2020
Total Executive Board *	**6.9**	**6.5**

* Members of the Executive Board do not receive variable remuneration or other incentive pay, and the remuneration for the individual members of the Executive Board can be found at www.dlr.dk/om os/organisation/

The remuneration may be specified as follows:

	2021	2020
Fixed remuneration	6.9	6.5
Variable remuneration	0.0	0.0
Total	**6.9**	**6.5**
Number of members of the Executive Board at year-end	2	2

6 Remuneration of members of the Board of Directors

	2021	2020
Board of Directors		
Fixed remuneration	1.6	1.8
Variable remuneration	0.0	0.0
Total	**1.6**	**1.8**
Number of members of the Board of Directors at year-end	9	11

The remuneration for the individual members of the Board of Directors can be found at www.dlr.dk/om os/organisation/

Members of the Board of Directors receive only a fixed remuneration, and there is no share allotment or other form of incentive pay.

7 Information on employees other than the Executive Board and Board of Directors influencing the risk profile

	2021	2020
Employees other than the Executive Board and the Board of Directors influencing the risk profile		
Fixed remuneration	22.4	21.6
Variable remuneration	0.0	0.0
Total	**22.4**	**21.6**
Number of employees who have influenced the risk profile		
Number of employees who have influenced the risk profile during the year	19	18
- Of whom resigned during the year	1	0
Number of employees influencing the risk profile at year-end	**18**	**18**

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

8 Loans, security, surety or guarantees provided to members of Executive Board and Board of Directors

	2021	2020
Executive Board		
Loans etc.	0	0
Board of Directors:		
Loans etc.	0	5

Interest rates (incl. contributions) 2021

Executive Board: No loans (2020: No loans)

Board of Directors: No loans (2020: 2.6% 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.

The interest rates (incl. contributions) relate to different loan types based on different mortgage bonds / SDOs.

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

9 Audit fees

	2021	2020
Statutory audit of the financial statements	1.0	1.4
Other assurance engagements	0.2	0.1
Tax services	0.0	0.4
Other services	0.3	0.4
Total	**1.6**	**2.4**

DLR's auditors elected by the general meeting are EY for the financial year 2021, while it was Deloitte for the financial year 2020.

The fee for non-audit services provided by EY relates 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

	2021	2020
Average number of employees in the financial year converted into FTEs*	230	210
Total	**230**	**210**

* In addition to its 230 full-time employees, DLR has 23 associated agricultural valuation experts (2020: 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.

	2021	2020
Losses in the period	-6	-11
Amounts received on claims previously written off	3	3
Adjustment of acquired properties	4	-4
Impairment losses in the period	-138	-246
Reversal of impairment losses	243	190
Losses offset against commission payments to banks	4	5
Total	**109**	**-62**

12 Tax

	2021	2020
Tax (breakdown in DKKm)		
Applicable tax rate for "Profit before tax"	-250	-211
Non-taxable income and non-deductible expenses	0	0
Adjustment of prior-year tax charge	0	-1
Total	**-250**	**-212**
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

	2021	2020
Due from central banks	0	1,300
Due from credit institutions	330	431
Total amount due from credit institutions and central banks	**330**	**1,731**

DLR did not enter into any reverse repo transactions in 2021 or 2020.

Maturity distribution by term to maturity

	2021	2020
Demand deposits	330	431
Up to and including three months	0	1,300
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	**330**	**1,731**

14 Loans, advances and other receivables at fair value

	2021	2020
Mortgage loans, nominal value	176,065	164,286
Adjustment to fair value of underlying bonds	-541	2,902
Adjustment for credit risk	-379	-481
Mortgage loans at fair value	**175,145**	**166,707**
Arrears before impairment losses	61	71
Other loans and outlays before impairment losses	2	3
Impairment losses on arrears and outlays	-5	-7
Total	**175,203**	**166,775**

15 Loans, advances and other receivables at amortised cost

	2021	2020
Loans and advances	11	15
Adjustment for credit risk	-1	-3
Total	**10**	**12**

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

	2021	2020
Maturity distribution by term to maturity		
Up to and including three months	1,385	1,309
Over three months up to and including one year	4,122	3,854
Over one year up to and including five years	23,924	23,741
Over five years	145,781	137,883
Total	**175,213**	**166,787**

Pursuant to special legislation, a government guarantee of DKK 134m (2020: DKK 178m) has been provided as supplementary collateral for loans to young farmers.

Collateral in the amount of DKK 933m has been provided for advance loans (2020: DKK 848m).

As supplementary collateral for mortgage loans, bankers' guarantees of DKK 11,395m in addition to mortgages have been provided (2020: DKK 13,073m)

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

	2021	2020
Owner-occupied dwellings	5.1%	4.8%
Recreational dwellings	0.3%	0.2%
Subsidised rental housing properties	0.1%	0.1%
Co-operative housing	2.1%	2.0%
Private rental housing properties	20.5%	18.8%
Properties for manufacturing and manual industries	1.1%	1.3%
Office and business properties	17.9%	17.6%
Agricultural properties	52.7%	55.0%
Properties for social, cultural and educational purposes	0.2%	0.0%
Other properties	0.0%	0.2%
Total, %	100.0%	100.0%

18 Number of loans - end of period

	2021	2020
	70,998	**67,254**

19 Impairment losses by stage

Impairment of loans and advances at fair value and amortised cost *	31-dec 2021 Stage 1	Stage 2	Stage 3	Total
Specification of impairment losses at year-end:				
Loans and advances in stage 1 at beginning of year	6	30	1	**37**
Loans and advances in stage 2 at beginning of year	3	51	40	**94**
Loans and advances in stage 3 at beginning of year	0	6	99	**105**
New loans and advances	8	28	1	**37**
Management estimate	98	14	1	**112**
Total	**115**	**129**	**141**	**385**

Impairment of loans and advances at fair value and amortised cost *	31-dec 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**

DLR's total impairment losses consist of individual impairment of DKK 127.7m, model impairment of DKK 145.4m and a management estimates of DKK 112m. The methods used to calculate impairment losses are described in accounting policies.

* No loans, advances or other receivables which were credit-impaired on initial recognition were recognised in 2020 or 2021. 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

At 31 December 2021 and 31 December 2020, stage 1 impairment of less than DKK 0.5m was calculated with respect to Due from credit institutions and central banks.

21 Loan exposures - rating classes, property categories and stages

Stated at fair value and amortised cost — 2021

PD band	Stage 1	Stage 2	Stage 3	Total
0 - 0,2	9,331	0	0	**9,331**
0,2 - 0,5	34,048	8	0	**34,056**
0,5 - 1,0	41,085	409	1	**41,495**
1,0 - 1,5	34,440	866	1	**35,307**
1,5 - 2,0	10,397	319	0	**10,715**
2,0 - 3,0	5,544	3,319	0	**8,863**
3,0 - 5,0	4,788	2,516	0	**7,304**
5,0 - 10,0	3,853	4,105	0	**7,959**
10,0 - 20,0	2,981	4,275	0	**7,257**
20,0 - 100,0	48	11,236	1,643	**12,926**
Total	**146,515**	**27,052**	**1,646**	**175,212**

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**

Irrevocable credit commitments: At year-end 2021, unexercised credit commitments amounted to DKK 13.8bn, 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 2021.

21 Loan exposures - rating classes, property categories and stages (continued)

Stated at fair value and amortised cost	2021			
	Stage 1	Stage 2	Stage 3	Total
Agricultural properties	75,425	15,677	1,240	92,343
Owner-occupied dwellings	7,640	1,130	98	8,869
Subsidised rental housing properties	34	109	0	143
Private rental housing properties	30,686	5,186	56	35,929
Office and business properties	26,990	4,234	151	31,374
Properties for manufacturing and manual industries	1,708	209	61	1,977
Properties for social, cultural and educational purposes	343	32	2	378
Co-operative housing	3,241	402	37	3,680
Recreational dwellings	375	72	0	447
Other properties	73	1	0	74
Total loans and advances	**146,515**	**27,052**	**1,646**	**175,213**

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**

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 per mille of total exposures.

22 Bonds at fair value

	2021	2020
Own mortgage bonds	20,328	19,296
Other mortgage bonds	5,777	11,505
Government bonds	602	502
Bonds - gross	**26,707**	**31,302**
Own mortgage bonds offset against issued bonds	-20,328	-19,296
Total	**6,380**	**12,007**

23 Land and buildings - domicile properties

	2021	2020
Fair value, beginning of year	**136.2**	**119.6**
Additions during the year	0.0	0.0
Depreciation	-0.4	-0.4
Value changes recognised in other comprehensive income	0.0	17.0
Fair value, end of year	**135.8**	**136.2**

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

24 Other assets

	2021	2020
Positive market value of derivative financial instruments etc.	0	1
Interest and commission receivable	17	60
Other receivables	113	233
Total	**130**	**293**

Notes - Equity and liabilities
(DKKm)

Note

25	Issued bonds at fair value	2021	2020
	Mortgage bonds - nominal value	182,022	173,746
	Fair value adjustment	-492	2,978
	Issued bonds - gross	**181,531**	**176,724**
	Offsetting of own mortgage bonds - fair value	-20,328	-19,296
	Total	**161,203**	**157,429**
	Of which pre-issued, market value	3,020	4,137
	Cash value of bonds drawn for redemption at next repayment date (settlement price)	1,347	3,189

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 2021, 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 (2020: DKK 0.0m). Of the accumulated effect, DKK 0.0m relates to changes in 2021 (2020: DKK 0.0 million).

Maturity distribution by term to maturity (gross portfolio at market value)	2021	2020
Up to and including three months	3,843	5,339
Over three months up to and including one year	28,682	23,538
Over one year up to and including five years	88,551	88,694
Over five years	60,455	59,153
Total	**181,531**	**176,724**

26	Issued bonds at amortised cost	2021	2020
	Issues in connection with senior debt	4,998	7,004
	Offsetting of own bonds	0	0
	Total	**4,998**	**7,004**

Maturity distribution by term to maturity	2021	2020
Up to and including three months	0	0
Over three months up to and including one year	2,004	2,000
Over one year up to and including five years	2,994	5,004
Over five years	0	0
Total	**4,998**	**7,004**

27 Other liabilities

	2021	2020
Negative market value of derivative financial instruments etc.	1	1
Interest and commission payable	1,049	966
Other liabilities	229	178
Total	**1,279**	**1,145**

28 Provisions for deferred tax

	2021	2020
Deferred tax, beginning of year	20	8
Change in deferred tax	-1	12
Total	**20**	**20**
Land and buildings - domicile properties	13	13
Senior loans	7	8
Other property, plant and equipment	-1	-1
Total	**20**	**20**

29 Subordinated debt

	2021	2020
Interest payments	**-33**	**-33**

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

No subordinated capital has been issued or redeemed in either 2020 or 2021.

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

One 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 second 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 2021, the following shareholders held more than 5% of DLR's share capital:

Loan-distributing shareholders:

Sydbank A/S, Aabenraa
Jyske Bank A/S, Silkeborg
Spar Nord Bank A/S, Aalborg
Ringkjøbing Landbobank A/S, Ringkøbing
Sparekassen Danmark af 1871, Vrå

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.

	2021	2020
Financial guarantees	0	0
Other guarantees	0	0
Total	**0**	**0**
Other contingent liabilities		
Irrevocable credit commitments (loan offers)	13,823	9,490
Total	**13,823**	**9,490**

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 16m (2020: DKK 34m)

Notes - Risk management
(DKKm)

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.

-Non-financial risks: Non-financial risks relate to operational risk (losses due to inappropriate or inadequate internal procedures, human or systemic errors or errors due to external events), compliance risk (losses due to non-compliance with applicable regulations, market standards or internal rules) and IT risk (losses due to system errors and non-compliance with IT security, 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 Isands 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 171bn at year-end 2021, equivalent to 97 per cent of the total loan 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 0,8bn at year-end 2021.

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 2021, the loan-mitigating agreements under this guarantee concept comprised guarantees totalling DKK 5bn provided for a portfolio of currently DKK 0,5bn. 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 listed on the balance sheet with the number below.

Balance sheet items	2021	2020
Cash balance and demand deposits with central banks	1.581	50
Due from credit institutions and central banks	330	1.731
Loans, advances and other receivables at fair value	175.203	166.775
Loans, advances and other reveivables at amortised cost	10	12
Bonds at fair value	6.380	12.007
Other assets	130	292
Derivative financial instruments	0	1
Total	**183.634**	**180.867**

Off-balance sheet items	2021	2020
Financial guarantees	0	0
Other guarantees	0	0
Irrevocable credit commitments (loan offers)	13.823	9.490
Other contingent assets	16	34
Total	**13.839**	**9.524**

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 2021 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 2021 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 fin-incial 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 53% of DLR's total loan portfolio at the end of 2021.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Per cent of loans in LTV intervals	93.7	5.1	1.3

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. Loans for office and business properties accounted for 17% of DLR's total loan portfolio at the end of 2021.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Per cent of loans in LTV intervals.	95.7	3.4	0.9

Rental properties, including cooperative housing: An LTV of 80% applies. Loans for private rental properties and private cooperative housing properties accounted for 17% of DLR's total loan portfolio at the end of 2021.

Loan-to-value limit (LTV) as a percentage	0-80	80+
Per cent of loans in LTV intervals	99.6	0.4

Owner-occupied homes: An LTV of 80% applies. Loans for owner-occupied homes accounted for 6% 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	99.7	0.3

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 2021, DLR's own funds amounted to DKK 15,887m (after deductions), resulting a maximum permitted interest rate risk of DKK 1,271m.

At the end of 2021, the interest rate risk on DLR's securities portfolio (asset side) was DKK 142m. Interest rate risk expresses the market value adjustment expected to result from a 1 percentage point change in market rates at year-end 2021. Based on own funds, the relative interest rate risk was 0,9% at year-end 2021.

The interest rate risk on issued securities (liability side) – additional tier 1 capital and senior secured bonds – is DKK 18m, equivalent to 0.1% of DLR's own funds.

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 2021 was DKK 0.2m, equivalent to 0.001% 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 forreign-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 2021, DLR's equity portfolio consisted of holdings in e-nettet A/S and Landbrugets Finansieringsinstitut A/S. At year-end 2021, 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.

2021	Change in profit after tax	Change in equity
Interest rate risk exposure of the securities portfolio		
An interest rate increase of 1 percentage point	-110	-110
An interest rate decrease of 1 percentage point	110	110
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

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	-119	-119
An interest rate decrease of 1 percentage point	119	119
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

Notes - Financial instruments
(DKKm)

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 recognised 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 recognised 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.

2021	Carrying amount	Fair value
Loans, advances and other receivables at amortised cost	10	10
Issued bonds at amortised cost	4,998	5,032

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

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

42 Assets and liabilities at fair value

2021	Quoted prices	Observable inputs	Non-observable inputs	Total fair value
Financial assets:				
Recognised as trading portfolio:				
- bonds at fair value	5,878	502	0	6,380
- derivative financial instruments	0	0	0	0
Recognised through fair value option:				
- loans, advances and other receivables at fair value	0	175,203	0	175,203
Recognised as available for sale:				
- shares available for sale	0	0	45	45
Other assets				
Land and buildings, domicile properties	0	0	136	136
Total	**5,878**	**175,705**	**180**	**181,763**
Financial liabilities:				
Recognised as trading portfolio				
- derivative financial instruments	1	0	0	1
Recognised through fair value option:				
- issued bonds at fair value	158,923	2,280	0	161,203
Total	**158,923**	**2,280**	**0**	**161,203**

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**

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

	2021	2020
Forwards, bought *		
Up to and including three months		
Nominal value	3.907	5.143
Net market value	0	0
Forwards, sold **		
Up to and including three months		
Nominal value	2.423	3.938
Net market value	0	0

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 rate deduction income in connection with the refinancing is disregarded.

* Forwards, bought: The refinancing, totalling DKK 2,971m at the turn of the year 2021/22, 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. In addition, DLR has other forwards for DKK 936 m.

** Forwards, sold: Of the DKK 2,971m refinancing, DLR has sold DKK 2,423m forward at 2 January 2022, while the remaining amount was sold for settlement in 2021 and is therefore not stated as forwards.

Notes - Key figures and financial ratios
(DKKm)

44 Key figures	2021	2020	2019	2018	2017
Income statement					
Net interest and fee income	1,428	1,428	1,432	1,401	1,451
Other operating income etc.	31	24	25	27	20
Staff costs and administrative expenses etc.	-343	-315	-287	-287	-267
Earnings	**1,116**	**1,137**	**1,170**	**1,141**	**1,204**
Impairment of loans, advances and receivables	109	-62	86	-24	94
Market value adjustments	-87	-114	-171	-211	-172
Profit before tax	**1,138**	**960**	**1,085**	**905**	**1,126**
Profit after tax	**888**	**749**	**846**	**707**	**880**

Balance	2021	2020	2019	2018	2017
Assets					
Loans and advances	175,213	166,787	156,837	148,611	143,061
Bonds, shares, etc.	6,424	12,041	11,769	8,945	11,855
Other assets	2,234	2,255	4,839	3,182	8,458
Total assets	**183,871**	**181,083**	**173,444**	**160,738**	**163,375**
Equity and liabilities					
Issued bonds	166,201	164,433	157,639	145,901	148,972
Other liabilities	1,299	1,167	1,195	1,213	1,338
Subordinated debt	1,300	1,300	1,300	650	650
Equity	15,071	14,183	13,311	12,974	12,415
Total equity and liabilities	**183,871**	**181,083**	**173,444**	**160,738**	**163,375**

45 Financial ratios	2021	2020	2019	2018	2017
Return on equity					
Profit before tax in per cent of equity *)	7.8	7.0	8.3	7.1	9.1
Profit after tax in per cent of equity *)	6.1	5.4	6.4	5.6	7.1
Return on capital employed					
Return on capital employed *)	0.48	0.41	0.49	0.44	0.54
Costs					
Costs in per cent of loan portfolio	0.20	0.19	0.19	0.20	0.19
Income/cost ratio *)	5.9	3.5	6.4	3.9	7.5
Income/cost ratio, excl. impairment losses	4.0	4.2	4.5	4.2	4.9
Solvency					
Total capital ratio*	18.6	18.8	17.1	16.9	15.9
Tier 1 capital ratio*	17.1	17.1	15.5	16.0	15.1
Common equity tier 1 capital ratio	17.1	17.1	15.5	16.0	15.1
Arrears and impairment losses					
Arrears, end of period (DKKm)	61	71	89	120	101
Impairment ratio for the period *)	-0.06	0.04	-0.05	0.02	-0.07
Accumulated impairment ratio	0.22	0.29	0.28	0.36	0.37
Lending activity					
Growth in loan portfolio, per cent (nominal) *	7.2	6.3	5.6	4.1	2.3
New loans, gross (DKKm)	36,608	36,839	43,061	27,717	35,214
Number of new loans	11,250	11,507	13,033	8,546	10,225
Loan/equity ratio *	11.6	11.8	11.8	11.5	11.5
Margins					
Percentage of average loan portfolio (nominal):					
Profit before tax	0.67	0.60	0.72	0.63	0.81
Administration margin income	1.07	1.09	1.08	1.09	1.08
Percentage of tier 1 capital after deductions					
Foreign exchange position as a percentage of tier 1 capital after deductions	1.6	2.2	3.9	3.9	13.1

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

Other notes
(DKKm)

46 Activities and geographical markets

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

	2021	2020
Net interest and fee income	1,428	1,428
Market value adjustments	-87	-114
Revenue	3,385	3,421
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 2021	Portfolio earnings 2021	Total 2021
Interest income	3,061	50	3,111
Interest expenses	-1,181		-1,181
Net interest income	**1,880**	**50**	**1,930**
Share dividends etc.	0		0
Fees and commission received	244		244
Fees and commission paid	-746		-746
Net interest and fee income	**1,378**	**50**	**1,428**
Market value adjustments	0	-87	-87
Other operating income	31		31
Staff costs and administrative expenses	-323		-323
Depreciation and impairment of property, plant and equipment	-3		-3
Other operating expenses	-18		-18
Impairment of loans, advances, receivables, etc.	109		109
Profit before tax	**1,175**	**-37**	**1,138**
Tax	-259	8	-250
Profit after tax	**917**	**-29**	**888**

49	Supervisory Diamond for mortgage credit institutions	2021	2020	Threshold
	1. Lending growth			
	Private homeowners	15.1	10.2	<15%
	Residential rental property*	15.9	17.3	<15%
	Agriculture	2.8	1.6	<15%
	Other business lending	8.5	8.8	<15%
	2. Borrower interest-rate risk	15.7	7.6	<25%
	3. Interest-only lending to private home owners	1.7	1.1	<10%
	4. Loans with short-term funding (quarterly)			
	Q1 2021	0.1		<12,5%
	Q2 2021	7.3		<12,5%
	Q3 2021	3.3		<12,5%
	Q4 2021	2.3		<12,5%
	Loans with short-term funding annually**	**12.7**	**13.9**	**<25%**
	5. Large exposures	29.3	28.1	< 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 2021. 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 2020.

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

Total amounts in the financial statements are calculated based on actual figures, which constitutes the correct mathematical method. A recalculation of total amounts may in certain cases result in a rounding difference, which reflects that the underlying decimals are not visible to the reader of the financial statements.

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
- Assumptions regarding expected future developments (forward looking)
- Management estimates to ensure that provisions are made to cover risks not reflected in the individual impairment charges and model calculations.

For the estimates, a more detailed description of the methods is provided in the section “Loans, advances and other receivables”.

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 specialising in the assessment of agricultural and commercial property. However, such estimates are still subject to some uncertainty.

For the estimate, a more detailed description of the methods is provided in the section “Land and buildings, domicile properties”.

Unlisted shares

Unlisted shares are measured at fair value. If the Association of Local Banks, Savings Banks and Co-Operative Savings Banks in Denmark (Lokale Pengeinstitutter) 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.

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 spread income 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
- Adjustment of properties taken over
- Losses offset in commission payments to banks, which represent an income resulting from DLR's right to set off actual losses against the commission payable to individual banks
- Changes in loan loss provisions

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 pandemic 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 the COVID-19 pandemic have applied for a respite or a relief loan have been treated according to the above principles. For purposes of assessing whether concessions have been granted, DLR has considered the borrower's credit rating. If the customer's pre-pandemic 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.

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 12-month PD is lower than 1.0% 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 12-month PD is higher than 1.0% 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 substages, 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%.
- 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 assessed 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 both historical observations and 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 by5 %
- increase by10 %.

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".

In addition to the scenarios above, the following scenarios have been applied:

- Special conditions regarding urban commercial properties due to the COVID-19 pandemic, where assumptions are for a 10% fall in collateral value and a 25% increase in PD.
- Special conditions regarding the pig farming sector because of price falls on weaners and pork, where assumptions are for a 10% decline in collateral values and a 25% increase in PD.

Impairment method – management estimate

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 farmers
- Pig farmers
- Mink farmers
- Poultry farmers

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.

<u>Impairment of loans secured against urban commercial properties</u>

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 27m.

<u>Impairment relating to current uncertainty prompted by the COVID-19 pandemic</u>

The general uncertainty about future developments has been exacerbated by the COVID-19 pandemic. DLR believes that the increased level of uncertainty has not been duly incorporated into the forward-looking factors used in DLR's impairment models.

Moreover, DLR finds that there is increased uncertainty in relation to the scenarios included in the model calculations.

This management assessment has generally resulted in additional impairment prompted by the COVID-19 pandemic in the amount of DKK 75m.

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.

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 any subsequent depreciation. 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. The annual assessment is made by an in-house valuer specialising in the valuation of commercial property.

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 or when it is doubtful whether the expense will result in an inflow of future economic benefits 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.

On initial recognition, lease contracts for property, plant and equipment are recognised at the net value of the lease liability including costs. Subsequently, lease contracts for other property, plant and equipment are measured in the same way as other property, plant and equipment.

Intangible assets
Development costs are measured at cost less accumulated amortisation and impairment.

The amortisation period for development costs is the expected useful life, which is three to five years.

On initial recognition, lease contracts for intangible assets are recognised at the net value of the lease liability including costs. Subsequently, lease contracts for intangible assets are measured in the same way as other intangible assets.

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

Prepayments comprise expenses incurred 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 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.

Deferred income

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

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 is adopted by the Board of Directors of DLR and 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.

Series financial statements are prepared at capital centre 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	1,801	12	1,812
Front-end fees	104	1	105
Interest on subordinated debt and guarantee capital	-33	0	-33
Interest etc.	85	1	86
Market value adjustment of securities, foreign exchange, etc.	-86	-1	-87
Administrative expenses etc.	-849	-6	-855
Write-offs and provisions for loans and advances	109	1	109
Tax	-249	-2	-250
Profit	882	6	888
Balance sheet			
Assets			
Mortgage loans	174,672	852	175,524
Arrears on mortgage loans before impairment	62	0	63
Provisions for loans, advances and arrears	-375	-9	-384
Prepayments	25	0	26
Other assets, including reserve fund loans	28,855	164	29,019
Total assets	203,240	1,007	204,247
Equity and liabilities			
Issued bonds etc.	180,624	907	181,531
Deferred income	383	2	385
Other liabilities	5,961	0	5,961
Subordinated debt	1,294	6	1,300
Equity	14,979	92	15,071
Total equity and liabilities	203,240	1,007	204,247
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			183,871
Set-off of own mortgage bonds			20,328
Set-off of interest receivable on own bonds etc.			48
Balance sheet total in DLR's series financial statements			204,247

* 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 2021.

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 2021 and of the results of the Company's operations for the financial year 1 January - 31 December 2021.

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, 10 February 2022

Executive Board

Jens Kr. A. Møller
Managing Director & CEO

Pernille Lohmann
Managing Director

Board of Directors

Vagn Hansen
Chairman

Lars Møller
Vice Chairman

Bjarne Larsen

Claus Andersen

Frank Mortensen

Jakob G. Hald

Lars Petersson

Lars Faber

Randi Holm Franke

Internal auditor's report

Report of 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 and financial position at 31 December 2021 and of the Company's financial performance for the financial year 1 January - 31 December 2021 in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

Furthermore, in our opinion, the Company's risk management, compliance function, business procedures and internal controls in all significant and risky areas have been organized and are working satisfactorily.

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

Basis for opinion
We have audited the financial statements of DLR Kredit A/S for the financial year 1 January - 31 December 2021. 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 in accordance with 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 significant and risky areas.

We planned and performed our audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. We participated in the audit of all significant and risky areas.

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

Statement on the Management's 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 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 misstatements of the Management commentary.

Copenhagen, 10 February 2022

Internal Audit

Brian Houmann 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 1 January – 31 December 2021, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2021 and of the results of its operations for the financial year 1 January – 31 December 2021 in accordance with the Danish Financial Business Act.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor

We were initially appointed as auditor of DLR Kredit A/S on 30 April 2020 for the financial year 2021.

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 2021. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the below key audit matters. Our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Key audit matters	How our audit addressed the key audit matter
Valuation of loans and provisioning for credit	
A major part of the Company's assets consist of loans which entail a risk of loss in case of the customer's inability to pay. The Company's loans totalled DKK 175,203 million at 31 December 2021 (DKK 166,775 million at 31 December 2020) and write-downs totalled DKK 385 million at 31 December 2021 (DKK 491 million at 31 December 2020). We assess that the Company's statement of write-downs on loans (exposures) is a key audit matter as the statement includes considerable amounts and a high level of management estimates. This concerns in particular the determination of probability of default, staging assessment and an assessment of indication of credit impairment, realisable value of collateral received as well as the customer's ability to pay in case of default. Significant high risk exposures are assessed individually, whereas minor exposures and low risk exposures are stated on the basis of models for expected credit losses where methods and assumptions used to state the expected credit loss are based on management estimates. The Company recognises additional impairment losses based on management estimates in situations where the model-calculated and individually assessed impairment losses are not yet assessed to reflect a specific loss risk ("in-model-adjustments" and "post-model-adjustments"), including the effect of COVID-19. Reference is made to the accounting policies and notes 34, 35 and 36 to the financial statements for a description of the Company's credit risks and a description of uncertainties and estimates where circumstances that may affect the statement of expected credit losses are described.	Based on our risk assessment and knowledge of the industry, we performed the below audit procedures regarding measurement of loans: - Assessment of the Company's methods for stating expected credit losses, including an assessment as to whether methods applied for model-based and individual statements of expected credit losses live up to the accounting rules. - Test of the Company's procedures and internal controls among others relating to the monitoring of exposures, staging assessment of exposures, recording of indications of credit impairment and recording and valuation of the values of security. - Sample testing among the largest and most risky exposures, including credit-impaired exposures. - For model-calculated impairment losses, we tested completeness and accuracy of input data, the models' calculations of expected credit losses and the Group's validation of models and methods. - For management add-ons to the individual and model-based impairments, we assessed whether the methods applied are relevant and suitable. Furthermore, we assessed and tested the Group's basis for the assumptions applied and whether they are fair and well-founded in relation to the relevant basis of comparison. We also assessed whether the note disclosures regarding exposures, impairment losses and credit risks live up to the relevant accounting rules and tested the figures included (notes 11, 14 and 21).

Statement on the Management's review

Management is responsible for the Management' review.

Our opinion on the financial statements does not cover the Management's 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's review and, in doing so, consider whether the Management's 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's review meets the disclosure requirements of the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's review 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.

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.

Management is also responsible for such internal control that 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company 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 as to 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 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 the financial statements.

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

- Identify and assess the risks 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 Company'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 or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, 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 communicate to 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.

Report on compliance with the ESEF Regulation

As part of our audit of the financial statements of DLR Kredit A/S, we performed procedures to express an opinion as to whether the annual report for the financial year 1 January – 31 December

2021, with the file name "DLR Kredit Årsrapport 2021.zip", has been prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation), which includes requirements related to the preparation of an annual report in XHTML format.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes preparing an annual report in XHTML format.

Our responsibility is to obtain reasonable assurance as to whether the annual report has been prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained and to express an opinion. The procedures include testing whether the annual report has been prepared in XHTML format.

In our opinion, the annual report for the financial year 1 January – 31 December 2021, with the file name "DLR Kredit Årsrapport 2021.zip", has been prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 10 February 2021
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Lars Rhod Søndergaard
State Authorised Public Accountant
mne28632

Thomas Hjortkjær Petersen
State Authorised Public Accountant
mne33748

Shareholders in DLR Kredit A/S

Year end 2021

Arbejdernes Landsbank A/S
BankNordik
Borbjerg Sparekasse
Broager Sparekasse
Danske Andelskassers Bank A/S
Djurslands Bank A/S
Dragsholm Sparekasse
Fanø Sparekasse
Faster Andelskasse
Forvaltningsinstituttet for Lokale Pengeinstitutter
Frørup Andelskasse
Frøs Sparekasse
Frøslev-Mollerup Sparekasse
Fynske Bank A/S
Fælleskassen
GrønlandsBANKEN A/S
Handelsbanken
Hvidbjerg 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 Sparekasse
Rønde Sparekasse
Skjern Bank A/S
Spar Nord Bank A/S
Sparekassen Balling
Sparekassen Bredebro
Sparekassen Danmark af 1871
Sparekassen Djursland
Sparekassen for Nr. Nebel og Omegn
Sparekassen Kronjylland
Sparekassen Sjælland-Fyn A/S
Sparekassen Thy
Stadil Sparekasse
Suduroyar Sparikassi
Sydbank A/S
Sønderhå-Hørsted Sparekasse
Totalbanken A/S
Vestjysk Bank A/S

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