Annual Report 2023

dlr kredit

Contents

DLR at a glance

DLR Kredit is a mortgage credit institution owned primarily by local and national banks that collaborate with DLR.
DLR provides mortgage loans through the branch network of the 42 shareholder banks.

DLR provides mortgage loans 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 lending area has now grown to represent close to half of the loan portfolio. DLR also grants loans in Greenland and the Faroe Islands, primarily for owner-occupied homes and residential rental properties and, on a smaller scale, also for 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 mitigated by collateral in the form of DLR's mortgages on the properties and also by the loss-mitigating agreements DLR has signed with its loan-distributing shareholder banks.

Five-year financial highlights

Financial highlights, DKKm	2023	2022	2021	2020	2019
Profit and Loss Account					
Administration fee income	1,927	1,895	1,812	1,734	1,632
Other core income, net	91	168	163	140	143
Interest expenses subordinated debt	-45	-41	-33	-33	-18
Interest expenses senior debt	-44	-54	-30	-28	-26
Fee and commission income, net	-561	-491	-502	-446	-372
Core income (mortgage credit income)	**1,368**	**1,476**	**1,410**	**1,366**	**1,360**
Staff costs and administrative expenses, etc.	-350	-326	-325	-300	-275
Other operating expenses	-22	-19	-18	-15	-12
Results from core activities	**996**	**1,132**	**1,067**	**1,051**	**1,073**
Provision for loan and receivable impairment, etc.	1	10	109	-62	86
Portfolio earnings (securities)	800	-215	-38	-29	-75
Profit before tax	**1,797**	**927**	**1,138**	**960**	**1,085**
Profit after tax	**1,347**	**720**	**888**	**749**	**846**

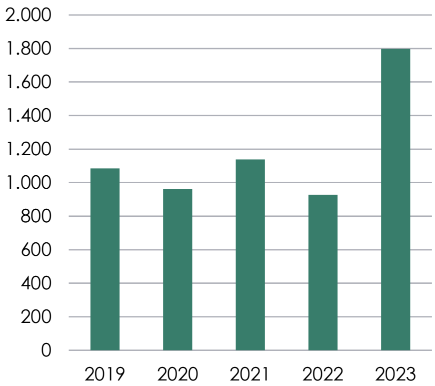
Balance Sheet end of period	2023	2022	2021	2020	2019
Assets					
Loans and advances	181,961	169,920	175,213	166,787	156,837
Bonds and shares	7,829	8,141	6,424	12,041	11,769
Other assets	3,100	2,183	2,234	2,255	4,839
Total assets	**192,890**	**180,244**	**183,871**	**181,083**	**173,444**
Liabilities and equity					
Issued bonds	172,006	161,707	166,201	164,433	157,639
Other debt and payables	2,436	1,448	1,299	1,167	1,195
Subordinated debt	1,298	1,298	1,300	1,300	1,300
Equity	17,149	15,791	15,071	14,183	13,311
Total liabilities and equity	**192,890**	**180,244**	**183,871**	**181,083**	**173,444**

Financial ratios*	2023	2022	2021	2020	2019
Return on equity (ROE)					
Total capital ratio*	24.0	24.3	18.6	18.8	17.1
Tier 1 capital ratio*	22.2	22.5	17.1	17.1	15.5
Common equity tier 1 capital ratio	22.2	22.5	17.1	17.1	15.5
Own funds	17,342	17,004	15,887	14,918	13,947
Capital ratio	72,158	69,844	85,249	79,467	81,784
Lending Activity					
Growth in loan portfolio, pct. (nominel)	4.1	3.3	7.2	6.3	5.6
New loans, gross (DKKm)	27,899	45,751	36,608	36,839	43,061
Margins					
Contribution income in percent of average loan portfolio	1.04	1.06	1.07	1.09	1.08

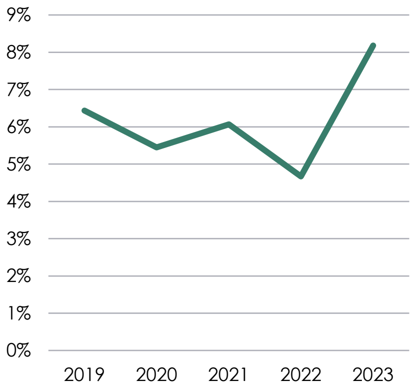
*) The financial ratios have been calculated on the basis of the definitions by the Danish Financial Supervisory Authority.

Overview figures

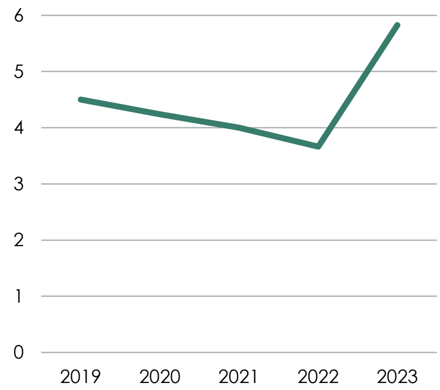
Pre-tax profit (DKKm)



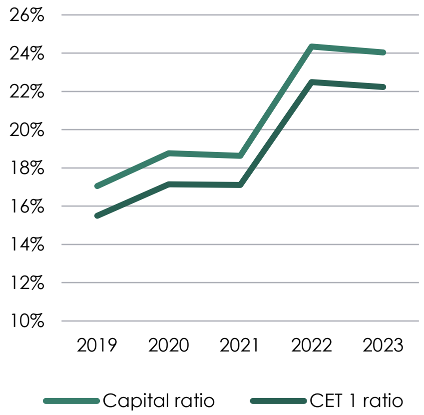
Net profit for the year as % of equity



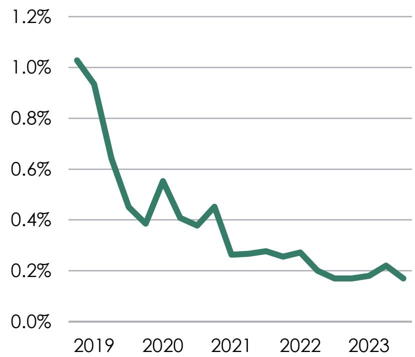
Income/cost ratio excl. impairment



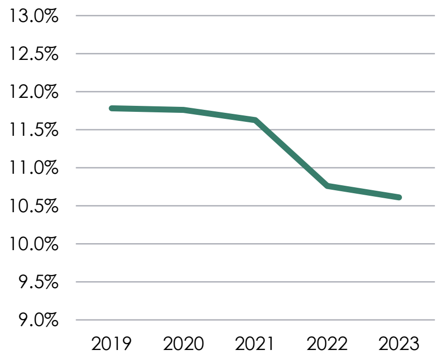
Total capital ratio



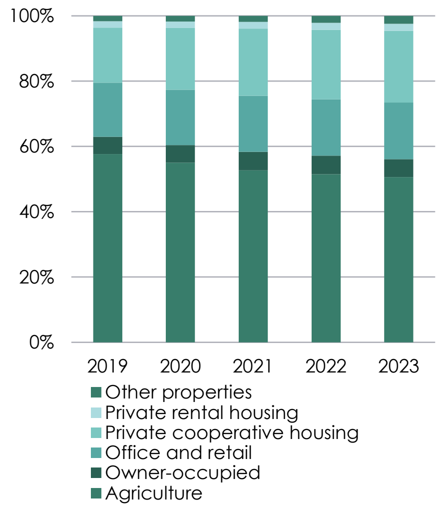
Arrears ratio (3½ month)



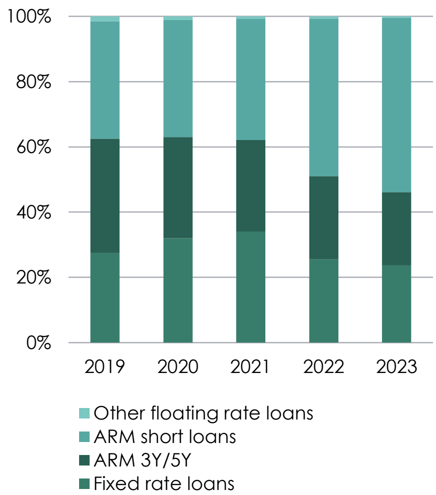
Ratio of lending to equity



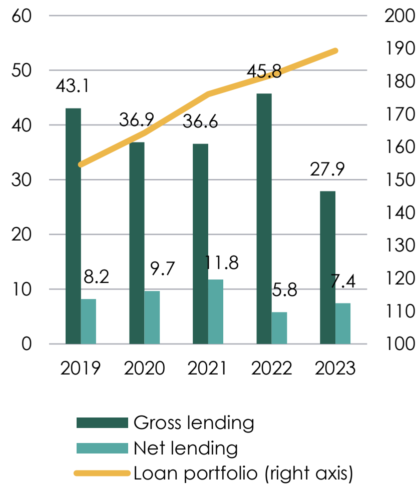
Lending by property category



Lending by loan type



Lending activity, nominal (DKKbn)



Financial review

Summary

Administration margin income amounted to DKK 1,927m in 2023, an increase of DKK 32m compared with 2022.

Losses and impairment on loans and receivables amounted to an income of DKK 1m.

The return on the securities portfolio was positive at DKK 800m.

Pre-tax profit amounted to DKK 1,797m

Profit after tax was DKK 1,347m.

The Board of Directors proposes paying dividends of DKK 750m.

DLR's gross lending amounted to DKK 27.9bn in 2023.

Net lending (calculated at outstanding bond debt) amounted to DKK 7.4bn in 2023.

DLR's capital ratio was 24.0 at end-2023.

CEO statement

Statement by CEO Jens Kr. A. Møller on the release of the Annual Report for 2023:

"After a year marked by inflation and rising interest rates, 2023 was a more stable year of subsiding inflation, stable interest rates and a persistently robust economy.

Profit for the year DKK **1,797m** before tax

A noticeable increase in returns on the securities portfolio, continuing low impairment losses and satisfactory lending growth enabled DLR to record a pre-tax profit of DKK 1,797m. This is the best financial performance in DLR's history and a far better result than we had expected going into the year, when we guided for a pre-tax profit in the order of DKK 1,425m-1,525m.

Based on the profit for the year and DLR's strong capital position, DLR's Board of Directors will recommend to the Annual General Meeting that dividends of DKK 750m to be distributed for the first time in DLR history.

Lending growth lifted DLR's administration margin income in 2023. However, the increase in administration margin income was more than offset by a decline in income from fees and commissions due to the lower level of activity in gross lending. Overall, core earnings fell by DKK 108m to DKK 1,368m.

Portfolio earnings represented an income of DKK 800m in 2023, compared with an expense of DKK 215m in 2022. Reflecting a return of about 4.3%, the performance was lifted especially by falling interest towards the end of the year, which resulted in capital gains.

DLR recorded lending growth in a market characterised by weaker activity than in 2022. Gross lending amounted to DKK 27.9bn in 2023, against DKK 45.8bn in 2022. The sharp rise in interest rates in 2022 followed by stable rates in 2023 entailed that many of DLR's customers had no remortgaging options. In spite hereof, lending growth of DKK 7.4bn (nominally) was at the same level as in 2022. This was testament to the strength of the collaboration with the banks in DLR's circle of owners on facilitation of mortgage loans.

Lending growth centred on residential rental property, where the share of overall lending rose by 0.7 of a percentage point to 22.0% at year-end 2023. On the other hand, the agricultural sector's share of total lending fell by 0.9 of a percentage point to 50.6% at the end of 2023. Loan composition developments reflected hesitation among Danish farmers to raise new debts, among other things because of uncertainty relating to an upcoming climate levy on the biological processes in agriculture.

Many of our customers opted for a floating rather than a fixed interest rate in the environment of stable, but higher, interest rates than in the preceding years. The share of floating-rate loans thus rose from 48.3% at end-2022 to 53.4% at the end of 2023. DLR believes that many customers will again consider fixed-rate loans or floating-rate loans with longer refinancing intervals if interest rates remain stable or move lower.

In 2023, the main focus in the agricultural sector was on the upcoming political agreement on the green transition of the sector. It became clear that farmers will likely be imposed a CO_2e levy on their biological processes. The framework for such a levy will be determined in "green tripartite" negotiations during spring 2024. The levy must be introduced in the context of broadly founded long-term solutions to Denmark's climate and nature challenges to ensure a future foundation for food production in Denmark. The levy may have a large impact on profitability in the various segments, not least for the dairy farmers.

Dairy farmers experienced a sharp drop in wholesale prices from the record-high levels of 2022. While wholesale prices remained high, they were closer to the expected long-term level, resulting in satisfactory terms of trade. Strong earnings and consolidation among dairy farmers were supported by productivity growth on the individual farms.

Producers of weaners benefited from strong demand in markets such as Germany in 2023, which resulted in very favourable prices and terms of trade. For producers of slaughter pigs, on the other hand, the high cost prices of weaners, which squeezed earnings in this part of the sector.

The grain harvest was impacted by weather conditions both in spring and in the harvest season, which resulted in reduced yields. Spring crops were particularly hard hit, but there were large regional differences. The roughage harvest was satisfactory overall.

There was a broad-based increase in land prices in 2023, which was driven not only by earnings in the agricultural sector. Demand for farmland for infrastructure, energy production and afforestation purposes drove prices higher. The additional demand is expected to keep prices on an upward trajectory.

The agricultural sector as a whole was obviously affected by the higher level of interest rates in 2023. Several years of strong earnings have enabled farmers to substantially reduce their debts. In the period from 2017 to 2022, total debts were reduced by DKK 53bn to DKK 285bn at the end of the period. This means Danish farmers are substantially better prepared to face the higher level of interest rates than they were just a few years ago.

In the commercial real market, there was healthy demand for tenancies and vacancy rates remained low. Only the retail sector recorded slightly rising vacancy rates, presumably caused by further growth in online trading. Construction activity fell noticeably over the course of the year, not least in the residential rental area, as a direct consequence of the higher level of interest rates. Even though rental income may be indexed to reflect the rate of inflation, the higher level of interest rates combined with stricter rules for real estate companies are expected to add further pressure on real estate prices.

Recent years' improvement in customer credit quality continued in 2023. The level of arrears – a key indicator of future losses – remained at the low levels of 2022 in spite of higher interest rates. Losses and impairment on loans and receivables amounted to an income of DKK 1m in 2023. Accumulated impairment losses were largely unchanged, but for 2023 an additional amount was recognized, which was not needed previously, to account for the implementation of a CO_2e levy.

Sustainability was a focus area for DLR throughout 2023. DLR worked with sustainability in relation to our customers and business partners and in our own organisation. DLR strengthened its collection of ESG data from customers in 2023. Furthermore, DLR consolidated the sustainability collaboration with the loan-distributing banks through a number of meetings and fora in order to identify opportunities for jointly facilitating and supporting the sustainable transition of our borrowers.

Green loans funded using green bonds increased from DKK 1.9bn to DKK 4.7bn in 2023. DLR expects increased volumes of green loans in coming years, which will support the development of a market for green financing for the sustainable transition of commercial and agricultural properties.

For 2024, DLR expects continuing growth in lending and a pre-tax profit in the order of DKK 1,450m to DKK 1,650m. The lower projected profit is rooted in expectations of lower interest rates in 2024."

Jens Kr. A. Møller
Managing Director & CEO

Comments on the results for 2023

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.
- Portfolio earnings: Return on the securities portfolio.

The income statement for 2023 is set out below.

Financial highlights, DKKm	2023	2022
Profit and Loss Account		
Administration fee income	1,927	1,895
Other core income, net	91	168
Interest expenses subordinated debt	-45	-41
Interest expenses senior debt	-44	-54
Fee and commission income, net	-561	-491
Core income (mortgage credit income)	**1,368**	**1,476**
Staff costs and administrative expenses, etc.	-350	-326
Other operating expenses	-22	-19
Results from core activities	**996**	**1,132**
Provision for loan and receivable impairment, etc.	1	10
Portfolio earnings (securities)	800	-215
Profit before tax	**1,797**	**927**
Profit after tax	**1,347**	**720**

Core earnings

Administration margin income amounted to DKK 1,927m in 2023, up DKK 32m on 2022. The increase was driven by a larger loan portfolio.

Other core income primarily concerns income from loan origination fees. The lower income was due primarily to lower gross lending activity in 2023 than in 2022 and, secondarily, the fact that DLR in 2022 received fees from administration agreements with other financial institutions. These agreements were discontinued at the end of 2022.

Interest expenses for subordinated debt amounted to DKK 45m, while interest expenses for senior loans amounted to DKK 44m. Interest expenses for subordinated debt and interest expenses for senior loans are calculated as the interest add-on to an internal net interest rate, with the internal net interest being included in portfolio earnings.

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 agency commission and commission for the provision of loss guarantees, etc.

Fees and commission (net) amounted to an expense of DKK 561m, compared to an expense of DKK 491m in 2022. The higher net expense was due to a combination of a DKK 84m decrease in fee and commission income and DKK 15m lower fee and commission expenses. These developments reflected the substantial reduction in gross lending in 2023 compared with 2022.

Core income was subsequently DKK 1,368m, a decrease of DKK 108m relative to 2022.

Staff costs and administrative expenses, etc. amounted to DKK 350m, which is DKK 24m more than in 2022.

The "Other operating expenses" item concerns DLR's contribution to the Resolution Fund, which in 2023 amounted to DKK 22m.

Losses and impairment on loans, advances and receivables, including prior-year adjustments, were calculated at an income of DKK 1m in 2023, compared with an income of DKK 10m in 2022.

Total impairment losses (allowance account) amounted to DKK 373m, which breaks down as follows:

Individual impairment losses of DKK 72m, which is DKK 14m higher than last year, primarily because of higher impairment losses on a few individual exposures.
Modelled impairment of DKK 58m, which is a decrease of DKK89m. The fall was driven by relatively strong earnings in Danish agriculture in 2023, which results in a positive impact on modelled impairment.
Management overlay of DKK 243m, which is an increase of DKK 80m. The increase of the management overlay is primarily due to uncertainty relating to the fixing of a CO_2 levy on biological processes in agriculture and uncertainty relating to the effects of higher interest rates.

Portfolio earnings

Portfolio earnings represented an income of DKK 800m in 2023, compared with an expense of DKK 215m in 2022. The positive return in 2023 equals a return of around 4.3% of the average "investment portfolio" in 2023. The "investment portfolio" consists of the total securities portfolio less temporary excess liquidity in connection with mortgage lending activity (balance sheet funds).

Results, comprehensive income and allocation hereof
Profit after tax was DKK 1,347m, and property revaluations of DKK 11m after tax brought comprehensive income to DKK 1,358m. Of this comprehensive income, DLR proposes to distribute dividends of DKK 750m, while DKK 608m will be transferred to equity.

Profit for the year relative to previous guidance
In its Annual Report 2022, DLR guided for core earnings before impairment in the order of DKK 1,000m – 1,100m and a pre-tax profit of around DKK 1,425m – 1,525m for the full-year 2023.

This guidance was revised after Q3 2023 to core earnings before impairment in the order of DKK 900m – 1,000m and a pre-tax profit of around DKK 1,500m – 1,600m.

Furthermore, on 11 January 2024 DLR upgraded its full-year guidance again, this time to a pre-tax profit for 2023 in the order of DKK 1,775m – 1,800m.

The realised numbers for 2023 were core earnings before impairment of DKK 996m and a pre-tax profit of DKK 1,797m.

The difference between the previous guidance and the actual figures for 2023 relates in part to a higher return on the securities portfolio (portfolio earnings), while lower core earnings due to a lower gross profit and, by extension, lower commission and fee income have the opposite effect.

Balance sheet
Mortgage lending at fair value amounted to DKK 182bn at the end of 2023.

Bond holdings amounted to DKK 28.7bn of the total securities amount, which is DKK 3.2bn less than at year-end 2022. Of this amount, the portfolio of DLR bonds amounted to DKK 21bn, which is netted in "Issued bonds at fair value", while DKK 7.8bn was attributable to positions in government securities and other mortgage bonds.

In addition to the bond holding of DKK 28.7bn, DLR held other securities for DKK 2.7bn; hence, the total securities holding amounted to DKK 31.4bn (gross) at the end of 2023.

Of the total securities amount, balance sheet funds amounted to DKK 8.2bn, after which the "investment portfolio" amounted to DKK 23.2bn at year-end 2023.

DLR's total assets stood at DKK 192.9bn at year-end 2023.

Own funds

DLR's own funds increased by DKK 338m in 2023, amounting to DKK 17,342m at end-2023. The increase in own funds was primarily attributable to the profit for the year of DKK 1,347m less the amount allocated to expected dividend payments of DKK 750m. Furthermore, in December 2023 DLR acquired bonds for DKK 251m secured against DLR shares, as a result of which the value of these shares of DKK 282m has been deducted from own funds in accordance with applicable rules.

The risk-weighted exposure amount for credit risk increased from DKK 69.8bn at the end of 2022 to DKK 72.2bn at the end of 2023. The increase was driven by lending growth and other factors in 2023.

DLR's total capital ratio at end-2023 was 24.0%, while the common equity tier 1 capital ratio was 22.2%. The total capital ratio was thus 0.3 of a percentage point lower than in 2022.

At year-end 2023, DLR's own funds were composed entirely of tier 1 and tier 2 capital. Tier 2 capital amounted to DKK 1,300m nominally, and in total own funds amounted to DKK 17.3bn at year-end 2023 compared to DKK 17.0bn at year-end 2022.

(DKKm)	2023	2022
Own funds	17,342	17,004
Capital ratio	72,158	69,844
Common equity tier 1 capital ratio	**22.2%**	**22.5%**
Total capital ratio	**24.0%**	**24.3%**

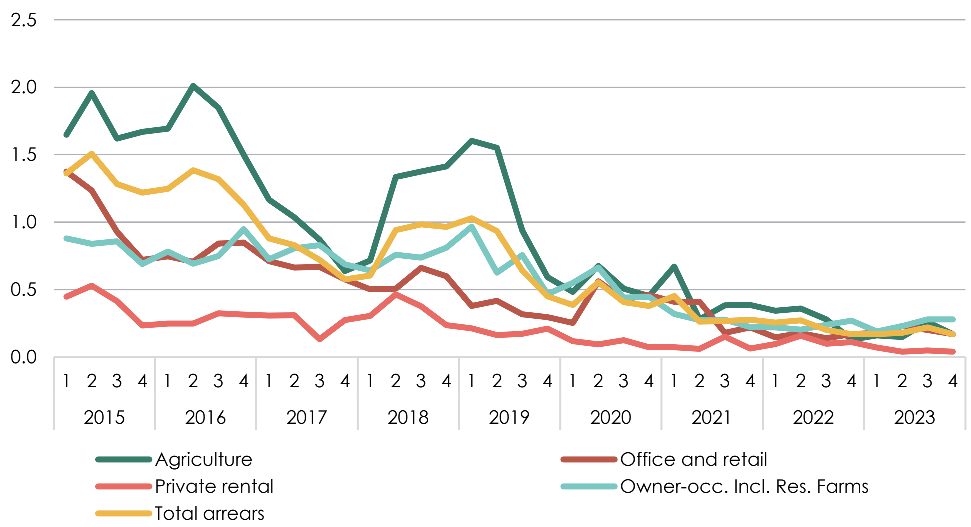
Arrears and forced sales

DLR collected mortgage payments totalling DKK 11.6bn in 2023.

At year-end 2023, outstanding mortgage payments amounted to DKK 61m, against DKK 50m 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 0.17% in mid-January 2024, which was unchanged from January 2023. The level of arrears is historically low.

3½ months' arrears by property category



The number of completed forced sales of properties in which DLR held a mortgage was 15 in 2023, against 22 the year before. Of these, DLR repossessed no properties. At 31 December 2023, DLR had no repossessed properties, which was also the case at year-end 2022.

In 2023, DLR furthermore recorded a loss on three properties, two of which were re-possessed by parties other than DLR at auction, and DLR has participated in two voluntary sales agreements, etc. that resulted in a loss.

All in all, DLR recorded a loss on five properties in 2023, compared with 17 properties in 2022.

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 2023

The pre-tax profit in Q4 2023 was DKK 549m.

The performance in Q4 was positively affected by earnings on DLR's securities portfolio in the latter part of 2023.

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 2024

DLR's business primarily comprises lending for agricultural and commercial properties in close co-operation with local and national banks. DLR also has a substantial portfolio of bonds as a result of its robust own funds.

DLR's earnings are affected by general economic trends and especially by developments in the sectors for which it provides financing, as well as movements in interest rates.

DLR expects stable to slightly declining interest rates throughout 2024 given that the central banks are expected to start cutting policy rates in the second half of 2024. Interest rates are thus not expected to fall to the levels prevailing before the sharp increase in rates in 2022. Consequently, DLR expects continuing pressure on real estate prices, which will impact on trading and construction activity, which is expected to remain subdued.

For the agricultural sector as a whole, expectations are for satisfactory earnings in 2024 due to persistently favourable terms of trade, even though settlement prices in several sub-sectors are expected to fall to a relatively normalised level. Unlike real estate prices, land prices are expected to increase due to strong demand for farmland to be used for infrastructure, energy production and afforestation projects and the like.

In the urban commercial area, letting conditions are expected to remain attractive for residential rental and office and retail properties, which are thus expected to record satisfactory earnings.

Overall, prospects are for satisfactory earnings in 2024 for the sectors for which DLR provides financing. DLR therefore expects the credit quality of its loan portfolio to remain satisfactory.

The lower level of interest rates following the drop in rates towards the end of 2023 and prospects of rates moving lower in 2024 make DLR forecast a lower return on its bond portfolio in 2024 compared with the return in 2023. This will have a negative effect on overall earnings in 2024.

Earnings forecast
For 2024, DLR expects core earnings before impairment in the order of DKK 900 – 1,000m and a pre-tax profit of around DKK 1,450 – 1,650m.

This earnings forecast includes portfolio earnings of around DKK 600m.

Interest rate developments and thus the scale of portfolio earnings together with the operational impact of any additional losses and impairment in 2024 could, however, potentially have a relatively large significance for DLR’s final results in 2024.

We expect continued positive net lending in 2024 and a higher loan portfolio.

Capital position

Capital requirements

Own funds after deductions totalling DKK 17,342m at end-2023 is mainly composed of equity and a small proportion of tier 2 capital distributed on two issues of DKK 650m each. DLR has not issued additional tier 1 capital. The table below shows the distribution of common equity tier 1 capital and tier 2 capital and DLR's risk exposure.

In 2023, own funds increased by DKK 338m, driven mainly by the profit for the year of DKK 1,347m, whereas own funds were reduced by an amount allocated to expected dividend payments of DKK 750m. Furthermore, in December 2023 DLR acquired bonds for DKK 251m secured against DLR shares, as a result of which the value of these shares of DKK 282m has been deducted from own funds in accordance with applicable rules. DLR's total capital ratio at end-2023 was 24.0% as DLR's total risk exposure amount has been calculated at DKK 72.2bn.

Capital and solvency

(DKKm)	2023	2022
Equity	17,149	15,791
Profit etc. not recognised in tier 1 capital	-750	0
Expected repurchase of own shares	-282	0
Deductions as a consequence of prudent valuation	-23	-22
Deductions as a consequence of non-performing exposures	-11	-9
Difference between expected losses and impairment losses	-40	-54
Common equity tier 1 capital	**16,044**	**15,706**
Subordinated capital (tier 2 capital)	1,298	1,298
Deductions from tier 2 capital	0	0
Own funds	**17,342**	**17,004**
Risk-weighted exposure with credit risk etc.	66,475	64,862
Risk-weighted exposure with market risk	2,682	2,500
Risk-weighted exposure with operational risk	3,001	2,482
Total risk-weighted exposure	**72,158**	**69,844**
Common equity tier 1 capital ratio	**22.2%**	**22.5%**
Total capital ratio	**24.0%**	**24.3%**

DLR's total regulatory capital requirement at end-2023 was 15.3%. In addition to the 8% requirement, the requirement is composed of the SIFI buffer requirement (1%), the capital conservation buffer (2.5%), the countercyclical buffer (2.5%) and the Pillar II add-on (1.33%). Also included is a small add-on concerning the systemic buffer on the Faroe Islands, equal to 0.02%. In addition to the capital requirement, an amount of DKK 358m was allocated from the excess capital coverage to comply with the debt buffer requirement.

DLR's capital management is based on a long-term capital model that builds on assumptions regarding significant matters, such as earnings and lending performance. The model also encompasses an estimate of the consequences of upcoming regulatory requirements. The model is regularly recalibrated and adjusted in step with developments in DLR.

When a systemic buffer of 7% is introduced in 2024 for exposures to the real estate sector as recommended by the Systemic Risk Council, it will lead to a higher capital requirement for DLR. Furthermore, upcoming expected amendments to the capital requirements regulation (CRR) will lead to a further increase of the capital requirement in 2025. With its existing level of own funds, DLR is able to handle the above-mentioned regulatory changes.

DLR also issues senior debt in the form of Senior Non-Preferred Notes (SNP). The issues are made with a view to meeting the debt buffer requirement and need for capital to cover supplementary collateral. In mid-2023, DLR issued SNPs for DKK 1bn to replace maturing issue of a corresponding size. At end-2023, DLR had issued SNPs totalling DKK 4bn. DLR has also previously issued senior secured bonds (SSB) with a view to meeting the requirement for supplementary collateral, but it currently has no issues of this type of bonds.

Solvency need

In accordance with the Danish Financial Business Act, DLR determines 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 approach is thus based on 8% of the total risk exposure amount, and it is subsequently assessed whether DLR in individual risk areas or operationally is exposed to risk not covered by the 8% requirement. If additional risk is identified, an add-on is made to the adequate own funds.

At least once quarterly, DLR's Board of Directors considers the adequate own funds and solvency need, while a more detailed methodology review of the calculation is made at least once annually. The material is reviewed by DLR's Risk Committee before it is presented to the Board of Directors, and DLR's internal audit department undertakes an independent assessment of the calculation. In addition, it is regularly assessed whether the solvency need and adequate own funds reflect DLR's current risk profile.

DLR's calculation of adequate own funds and solvency need is shown in the table below. As DLR's business model relies exclusively on operating a mortgage credit institution, by far the largest part of the adequate own funds attaches to credit risk.

DLR's adequate own funds and solvency need

(DKKm)	2023	2022
Credit risk	5,791	5,540
Market risk	702	675
Operational risk	240	199
Other factors	0	0
Internally calculated adequate own funds	6,733	6,413
Add-ons (special risks)	0	0
Total, adequate own funds	**6,733**	**6,413**
Solvency need	**9.33%**	**9.18%**

Please also refer to DLR's report "Risk and Capital Management " and the quarterly calculations of adequate own funds and the solvency need, which can be found at DLR's website under dlr.dk/investor/regnskaber-rapporter/#risiko-ogkapitalstyring.

Excess capital

Based on DLR's own funds and its calculation of adequate own funds and solvency need, the table on the next page shows DLR's excess capital relative to the regulatory capital requirement of 15.3%. The excess capital was DKK 5.9bn at end-2023, as an amount of DKK 358m has been allocated to cover the debt buffer requirement in addition to the regulatory capital requirement.

DLR's excess capital adequacy

(DKKm)	2023	2022
Own funds after deductions	17,342	17,004
Capital adequacy	-6,733	-6,413
SIFI buffer	-722	-698
Capital conservation buffer	-1,804	-1,746
Countercyclical buffer	-1,804	-1,397
Systemic buffer Faroe Islands	-11	-11
Reserved debt buffer	-358	-153
Excess capital adequacy	**5,911**	**6,584**

Capital planning and capital targets

The Board of Directors defines DLR's capital targets. The target for the capital ratio has in recent years been fixed at 17.5%, and 15.5% and 14.0%, respectively, for the tier 1 capital ratio and the common equity tier 1 capital ratio.

DLR's capital targets are fixed at least annually, but are regularly reviewed at DLR's board meetings. DLR's Board of Directors has recently resolved to raise DLR's capital targets for the capital ratio to 20.0% and to 18.0% and 16.5%, respectively, for the tier 1 capital ratio and the common equity tier 1 capital ratio. The higher capital targets are driven primarily by the fact that the expected effect of the implementation of the new capital adequacy rules (CRR) from the beginning of 2025 is taken into consideration. Furthermore, it is assumed that DLR's Pillar II add-on will be at the level of 1.0 – 2.0%.

The targets were set on the basis of both known and expected requirements. The targets will thus be adjusted in case of significant events or changes to market conditions. Consequently, it may prove necessary to revise DLR's capital targets again in the first half of 2024, among other things due to the implementation of the expected systemic buffer of 7% directed at real estate companies at the end of June 2024, as recommended by the Systemic Risk Council.

Moreover, in connection with the presentation of the financial report for the first quarter of 2025, the capital targets are expected to be adjusted because the effect of the new capital adequacy rules (CRR) from that time will be included directly in the calculation of DLR's capital ratios, and the capital targets will therefore need to reflect that.

DLR's own funds and capital ratio have developed favourably in recent years, and at end-2023 DLR had a highly satisfactory excess capital.

In addition to the capital level, DLR's long-term capital model also incorporates supplementary collateral, the OC (overcollateralisation) requirement, requirements associated with the debt buffer and requirements relating to S&P's rating of DLR.

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 in coming years.

Debt buffer

A two-part debt buffer requirement applies for mortgage credit institutions in Denmark. The debt buffer requirement is set to represent a minimum of 2% of total unweighted lending, while the sum of the requirement for the issuer's capital and debt buffer 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 3.6bn at end-2023, while the requirement that 8% of total liabilities must be covered by the debt buffer and required capital equals DKK 15.4bn.

Among other things to comply with the debt buffer requirement, DLR has issued senior non-preferred notes, 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). The SNP issues may also be used to finance the need for supplementary collateral and the overcollateralisation requirement stipulated by legislation and rating agencies. At year-end 2023, DLR had issued SNP totalling DKK 4bn.

With its existing own funds, capital requirement and issued SNP, DLR complies with both debt buffer requirements. The 8% requirement is currently the binding requirement for DLR, and at end-2023 it was met through the regulatory capital requirement, the DKK 4bn of SNP issues and an amount of DKK 358m allocated from the excess capital coverage.

SIFI

DLR is a systemically important financial institution (SIFI)

DLR has been designated a SIFI (Systemically Important Financial Institution) since the first SIFI designations in Denmark in 2014. DLR was most recently redesignated a SIFI in mid-2023. The designation was made on the basis of criteria for assessing how systemically important a SIFI, using 12 indicators.

Alongside the designation as a SIFI follows a special SIFI buffer requirement based on an estimate of how systemically important DLR is. The systemic importance of DLR entails a SIFI requirement of 1% of DLR's total risk exposure amount, which must be covered by common equity tier 1 capital.

Supervisory Diamond

The Danish FSA has defined a Supervisory Diamond for mortgage credit institutions with indicators of what the FSA generally considers an elevated risk. The Supervisory Diamond for mortgage credit institutions contains five contains five indicators with threshold values for lending growth, borrower interest-rate risk, interest-only option, loans with short-term funding and large exposures. At year-end 2023, DLR complies with all the Supervisory Diamond indicators. See the table below.

During a specific period, DLR has identified an increase in the indicator concerning borrower's interest rate risk, which comprises loans for private homes and residential rental properties (the extended residential property segment). At the end of the year, the indicator was close to the threshold value. The increase was attributable to the fact that a growing share of DLR's customers in the extended residential property segment are raising floating-rate loans with refinancing periods of less than two years. To limit customers' interest rate risk and, thus, the increase in the indicator, DLR encourages customers to opt for loans with longer refinancing periods. Furthermore, DLR has strengthened the price incentive for customers in the extended residential property segment to opt for loans with longer refinancing periods.

DLR's compliance with the Supervisory Diamond

Supervisory diamond for mortgage credit institutions	End of 2023	End of 2022	Threshold
1. Lending growth			
Private homeowners	1.5%	3.0%	<15%
Residential rental property	6.8%	6.9%	<15%
Agriculture	2.4%	1.1%	<15%
Other business lending	6.2%	5.4%	<15%
2. Borrower interest-rate risk	24.0%	20.5%	<25%
3. Interest-only lending to private home owners	0.9%	0.8%	<10%
4. Loans with short-term funding (quarterly)			
Q1 2023	0.7%		<12,5%
Q2 2023	10.4%		<12,5%
Q3 2023	2.8%		<12,5%
Q4 2023	2.3%		<12,5%
Loans with short-term funding annually *	**16.0%**	**13.9%**	**<25%**
5. Large exposures	40.1%	31.9%	< 100%

*The percentage for the individual quarters is calculated on the basis of the quarter-end portfolio, while the annual percentage is calculated on the portfolio at the end of the last quarter. The percentage for the year therefore does not agree with the sum of the percentage in 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 2023 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 2023 was based on the outstanding bond debt at year-end 2022, with shares for a nominal value of DKK 19.2m being redistributed.

Tier 2 capital

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

DLR currently has two issues of tier 2 capital totalling DKK 1,300m nominally. The latest issue of DKK 650m was made in mid-October 2022 to be used for the redemption of DKK 650m of tier 2 capital issued in 2017. DLR's other issue of DKK 650m was made in December 2019. Both issues comply with the relevant requirements of the CRR directive.

Owners and share of ownership

At 31 December 2023, DLR had 47 shareholders. The number of shareholders has been falling slightly in recent years because mergers and acquisitions have reduced the number of banks.

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). The members hold 54% and 17%, respectively, of DLR's share capital and are active loan distributors in DLR.

In addition, PRAS A/S, whose shareholders are essentially the banks behind Lokale Pengeinstitutter and Landsdækkende Banker, holds 8% of DLR's share capital, and PRIPS2022 P/S, which is owned by 12 local banks, hold another 4% of DLR's shares. Other shareholders hold 17% of the share capital. The above does not include DLR's 8.1% holding of treasury shares at end-2023.

DLR's lending areas

Agricultural sector

In 2023, much of the attention in the Danish agricultural sector was on the implementation of the political agreement on the green transition of Danish agriculture. Over the course of the year, it became clear that a CO_2e levy will most likely be imposed on Danish agriculture. An agreement on carbon levies on biological processes in farming is to be considered in "green tripartite" negotiations in spring 2024, with Henrik Dam Kristensen as the external chairman. The agreement is expected to be adopted later in 2024. The levy must be seen in the context of broadly founded long-term solutions to Denmark's climate and nature challenges and the need for Denmark to produce food.. Depending on the structure and implementation of the levy and how any reversal of the proceeds to the agricultural sector is carried out, it could have a major impact on earnings in the individual production lines, not least for dairy farmers.

The agricultural sector remains committed to creating more sustainable food production. In collaboration with its shareholder banks, DLR contributes financing of this transition and the associated business opportunities by way of loans and dialogue with joint customers.

Since mid-2022, a sharp increase in interest rates has caused interest expenses to soar. However, several years of strong earnings capacity have enabled the industry to repay a substantial proportion of their total debts, and the vast majority of farmers have become far more financial robust. The total debts of the agricultural sector have in recent years been reduced to DKK 285bn. During the period from 2017 to 2022, debts were reduced by DKK 53bn. In the most recent records from Statistics Denmark as of end-2022, the debt has been calculated at 52% of the value of the mortgaged assets for agricultural customers as a whole.

Primary agriculture in Denmark is characterised by very high skill levels and ability to adapt and embrace change, and the positive prospects for Danish agriculture are expected to continue, 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

Pig farmers experienced satisfactory terms of trade in 2023. In particular, producers of weaners recorded strong demand in countries like Germany, which resulted in favourable terms of trade. For producers of slaughter pigs, actual wholesale prices were at satisfactory levels, averaging DKK 12.92 per kg before supplementary payment for the year as a whole. This represents an increase compared to an average wholesale price of DKK 10.91 in 2022, but compared with pork wholesale prices elsewhere in Europe, Danish prices were relatively lower. The reason for this difference is that Danish pork to a great extent is sold in markets outside the EU, where demand and prices have moved lower.

The European market has witnessed a sharp drop in the supply of pork, which has contributed to supporting relatively high pork prices, in spite of a falling meat consumption in the EU. As the profitability of pig farming is relatively high, production in Europe is expected to rise again in 2024, and recent figures show that the reduction in the number of breeding animals has slowed down. The US and Chinese economies have been under pressure, causing a reduction in the number of breeding animals and, by extension, a lower supply of pork. Against this backdrop, prospects of exporting pork outside the EU are expected to improve slightly.

The volume of pigs slaughtered in the EU member states at the beginning of September 2023 was 8.3% lower than at the same time in 2022. There was a particularly sharp drop in the volume of pigs slaughtered in the Netherlands, Belgium and Denmark. The number of pigs slaughtered in Denmark fell by 19.6%, which was a substantially greater decline than the EU average.

Pig prices by quarter
DKK/kg

Source: SEGES

Danish producers of weaners who export pigs to Central and Eastern Europe have experienced strong price volatility in recent years. Prices were as low as DKK 158 per weaner in autumn 2021, while for 2022 the average price was DKK 363 per weaner, and in 2023 average prices were DKK 632. As producers of weaners are affected especially by developments in the German market, it is essential for them to keep informed about upcoming requirements for farm buildings and general environmental issues in Germany.

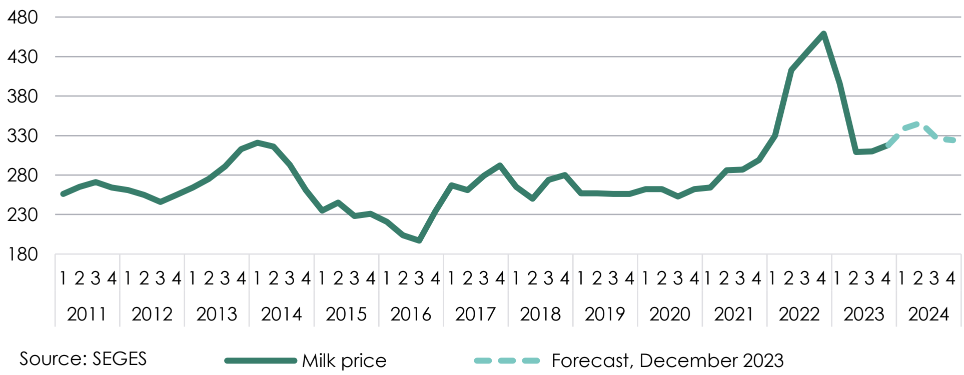
Dairy production

In 2023, the wholesale price for conventional milk fell by DKK 1.41 per kg to DKK 3.18 per kg at end-2023, which is an decrease of 31% over the course of the year. Despite the substantial drop in milk prices, the terms of trade remain satisfactory as the costs of protein feed, energy and commercial fertiliser, among other things, fell by a relatively larger margin during the same period. The dairy farmers are therefore expected to generate fairly satisfactory financial results.

In recent years, the global milk market has seen demand outpacing production, which drove the very high prices in 2022. However, milk prices fell dramatically in early 2023 because of an increase in global milk deliveries coupled with relatively weak demand for dairy products. In 2023, milk prices stabilised at a level just above what is expected in a "normal year". The growth rate in global milk deliveries has fallen while consumption of dairy products is rising, driven by improved consumer purchasing power. Production both within and outside the EU is expected to remain subdued.

The global market for dairy products was particularly impacted by a sharp drop in Chinese imports of milk powder in 2023. There is much uncertainty about how the highly volatile global dairy market will develop in 2024. However, wholesale prices for dairy farmers are expected to remain satisfactory in 2024.

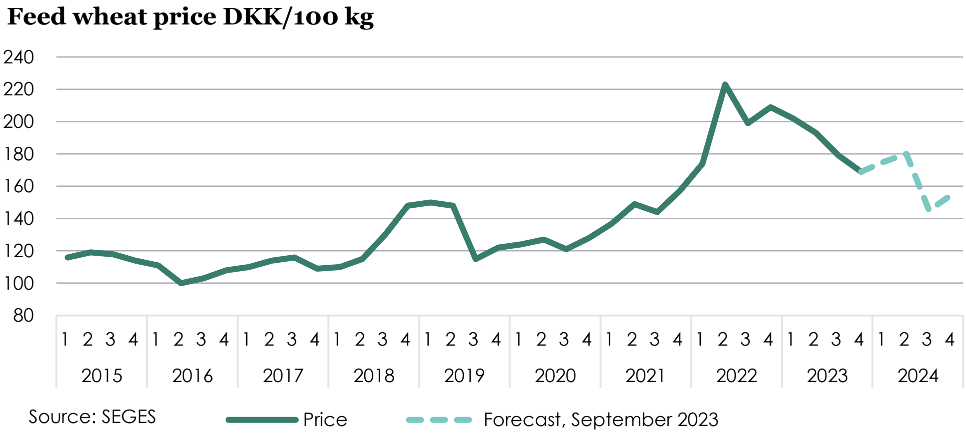
Milk price øre/kg



Source: SEGES

Arable farming

Arable farms were hard hit by a long drought period in the early summer of 2023, which caused difficult growth conditions for spring crops in particular. The drought was followed by an extended period of rain, which caused very difficult harvest conditions. While there were large local variations, harvest yields were lower than the average for a normal year, and for spring crops yields were up to 20-25% lower. The combined grain harvest fell 25% to the lowest level since 2018. Prices of main products were relatively high in 2023. Although they have struggled with difficult conditions, arable farmers' overall finances and profitability were at acceptable levels in 2023.

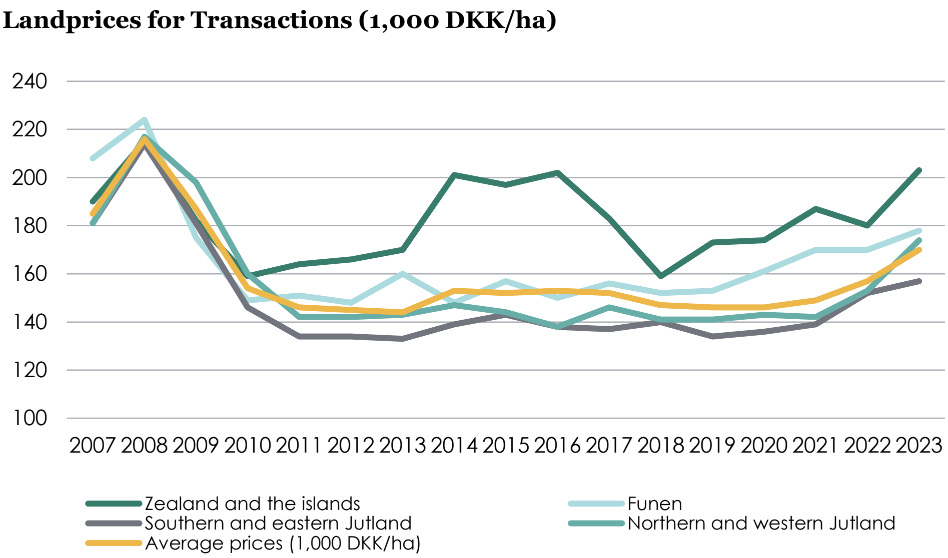


Agricultural property market

DLR's records of land and property transactions have shown a stable level of trading activity during the past 4-5 years. Numbers from Statistics Denmark show a falling level of trading activity in 2022 and 2023. It should be noted, however, that, from Q2 2022, the number of transactions in Statistics Denmark's records no longer include partial deeds. The data inconsistency entails uncertainty in connection with conclusions regarding trading activity for agricultural properties.

Prices of farmland have shown a rising trend, among other things due to demand for land for energy production and afforestation. Recent years' favourable earnings in the agricultural sector have also enabled farmers recording good profitability and a strong capital position to make investments in property or land.

Overall, DLR assesses that current price levels for farmland are supported by long-term expectations for farmers' terms of trade. Furthermore, carbon-rich lowlands are taken out of farming and the continuous adoption of arable land for infrastructure projects and energy production leads to a reduction of the area available for actual farm production, which is expected to contribute to a sustained upward price trajectory.



Source: DLR, based on registered purchases and sales of agricultural properties with more than 10 ha of agricultural land calculated excluding building values

Commercial property

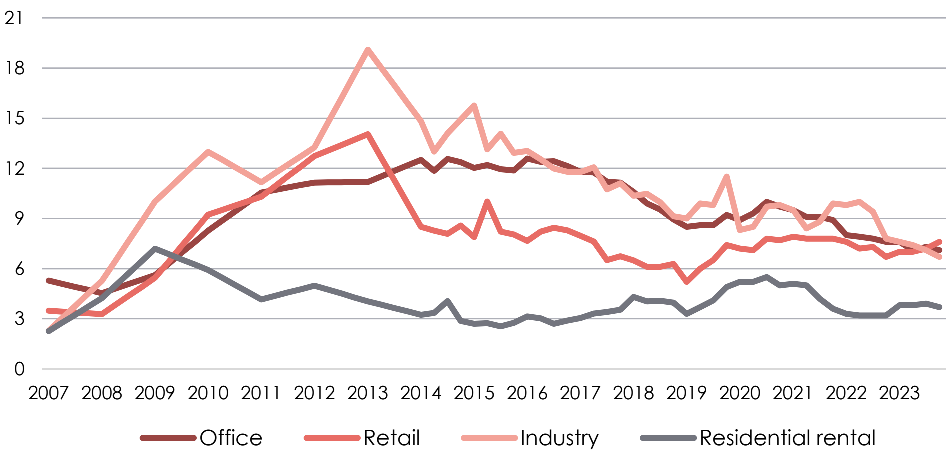
DLR's lending for commercial properties comprises loans for private residential rental property, office and retail property, manufacturing and craft property, properties for social, cultural and educational purposes, community utility plants – including on-shore wind turbines and solar power plants –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

DLR's loan-distributing banks cover all parts of Denmark, although coverage of the Greater Copenhagen area is somewhat limited. Around 90% of DLR's lending to the above-mentioned property categories in Denmark is thus for properties located outside the capital region.

Relatively low vacancy rates

Overall, vacancy rates have stabilised at a relatively low level. Selected segments may still experience rising vacancy rates in local areas. This applies to residential tenancies in specific geographical areas which have seen extensive construction activity in recent years, and also to certain types of retail tenancies.

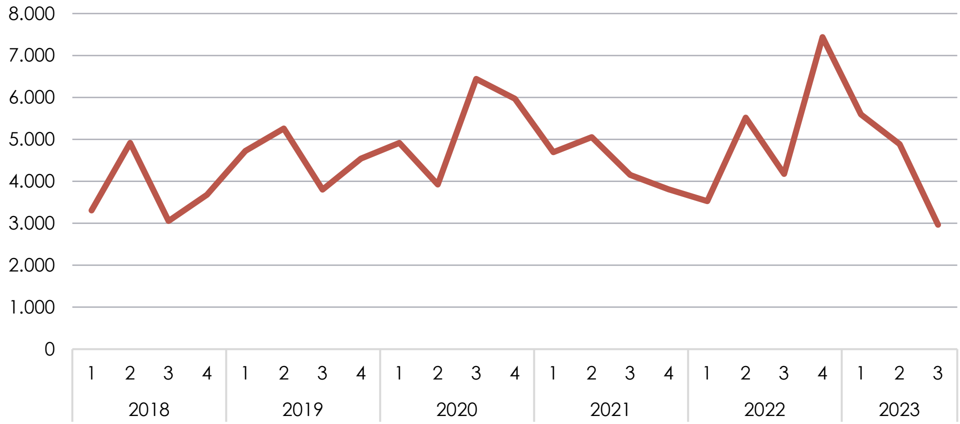
Vacancy rates (%)



Source: Ejendomsforeningen Danmarks markedstatistik

However, especially for the residential tenancies, recent years' falling construction activity is expected to result in lower supply and vacancy rates.

Completed multi-storey residential buildings (number)



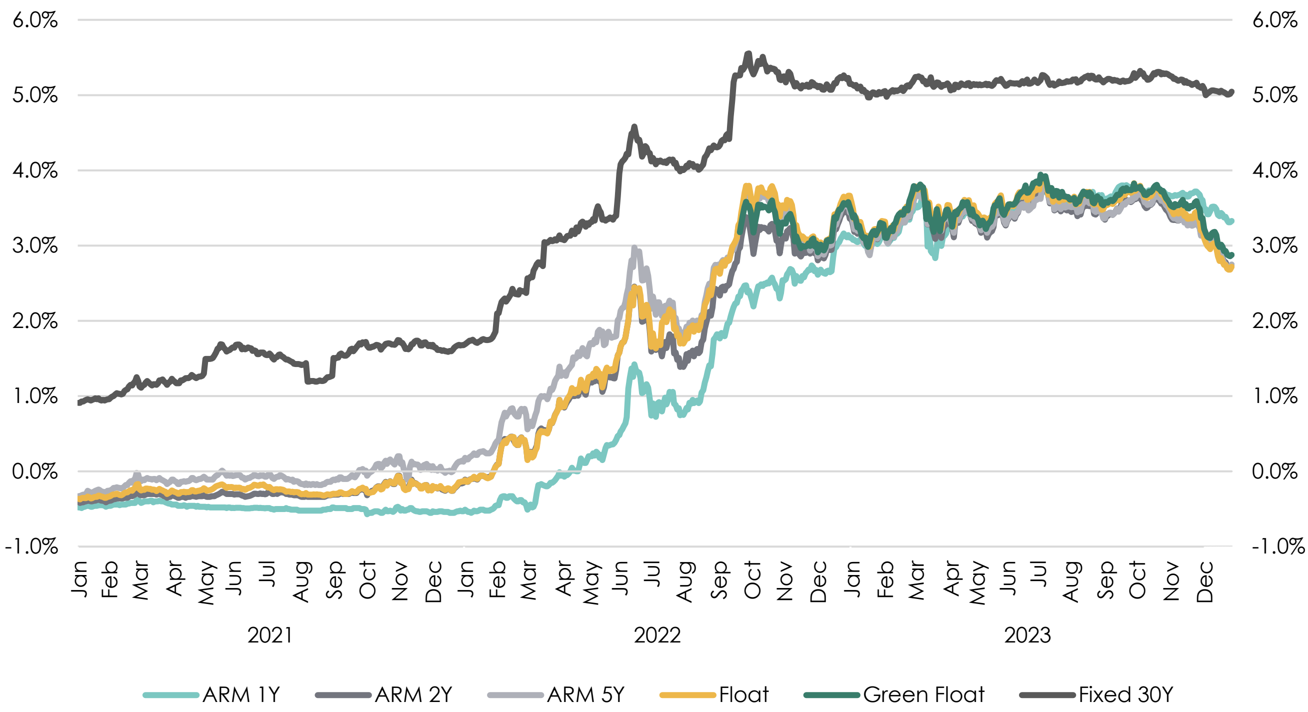
Source: Danmarks Statistik

As shown in the figure above, the number of completed residential units in multi-storey buildings fell in 2023 to the lowest level in five years.

The current commercial property market

The rapid and sharp increase in interest rates since mid-2022 were followed by a stabilisation of interest rates during 2023, and the benchmark rate on a 30-year fixed-rate mortgage loan at end-2023 was about 5.0% p.a. Although rental income is indexed to reflect the rate of inflation, the higher level of interest rates – combined with credit and regulatory requirements regarding property liquidity – is expected to put market prices under pressure.

Interest rate development 2021-2023 (effective yields)

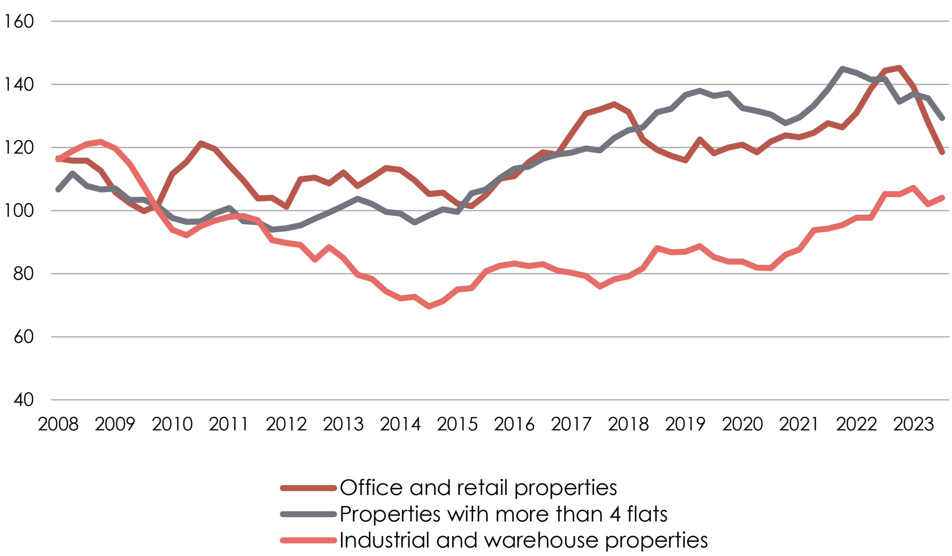


The recommendation from the Systemic Risk Council from the start of October 2023 to the Danish Minister for Industry, Business and Financial Affairs to activate a sector-specific systemic risk buffer of 7% for exposures towards real estate companies is expected to be followed by the Minister. The initiative will lead to higher financing costs for the real estate sector. Furthermore, in a report on financial stability dated 28 November 2023, Danmarks Nationalbank addressed higher credit risk in relation to property financing due to falling prices triggered by higher interest rates and the economic slowdown. Due to the uncertainties, transaction activity in the commercial real estate market is currently relatively modest, causing greater uncertainty about price developments.

Property prices

As shown in the figure below, prices of all types of commercial property fell in 2023. Retail properties recorded the largest fall, with prices now back to the levels of mid-2022. Residential rental properties and warehouse properties recorded only modest falls.

Price index (2006=100)



Source: Danmarks Statistik

EU directive may have implications for the pricing of certain properties

At the end of 2023, an agreement was reached to revise the Energy Performance of Buildings Directive, which will lead to requirements for the reduction of greenhouse gas emissions and energy consumption in the construction sector and for refurbishment of the worst-performing buildings in terms of energy efficiency. For residential buildings overall, the primary energy consumption must on average be reduced by 16% by 2030 and 20-22% by 2035. For non-residential buildings, minimum energy performance standards will be introduced.

The national implementation plan has still to be finalised.

Lending activity and portfolio

DLR's primary lending areas are agricultural properties, residential rental properties and office and retail properties. In addition, DLR grants loans on a limited scale for Danish owner-occupied dwellings in the form of residential farms and properties in the Faroe Islands and Greenland. DLR's lending is distributed exclusively through its shareholder banks, which cover the entire country, but primarily outside the Greater Copenhagen area.

Lending activity

Despite the much lower level of gross lending activity, DLR experienced satisfactory lending growth in 2023 largely on a level with 2022.

Lending growth continued in 2023

Lending growth
DLR's loan portfolio grew by DKK 7.4bn in 2023 (in nominal terms), equal to lending growth of 4.1%. By way of comparison, the loan portfolio grew by DKK 5.8bn in 2022, equal to lending growth of 3.3%. Considering the fact that the higher remortgaging activity in 2022 with the purpose of reducing the outstanding debt seen in isolation reduced the size of the loan portfolio by a little over DKK 2bn (in nominal terms), lending growth in 2023 was largely unchanged from the year before. The unchanged lending growth covers slightly stronger lending growth for agricultural properties and renewable energy supply (other lending) and slightly weaker lending growth for private residential rental properties, cooperative housing properties and owner-occupied dwellings including residential farms.

The underlying lending growth was satisfactory in 2023 because of great competitive strength of the loan-distributing banks and persistent demand for loans for all significant property types. Loans for private residential rental purposes continue to account for the major part of lending growth. In 2023, loans for private residential rental properties accounted for 38% of net lending (cash value), while loans for agriculture and office and retail property accounted for 30% and 20%, respectively.

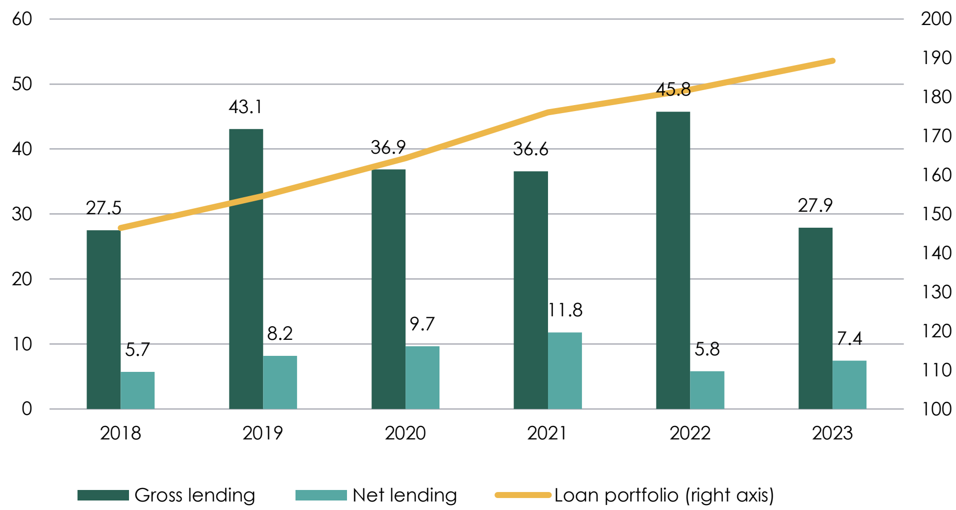
Growth in loans for office and retail property and residential rental property resulted in added risk diversification in the loan portfolio in several lending segments again in

2023, which bond investors and rating agencies also consider to be an advantage to DLR.

Loans disbursed

DLR's gross lending amounted to DKK 27.9bn in 2023, against DKK 45.8bn the year before. The sharp drop in gross lending was primarily attributable to reduced remortgaging activity. Unlike in 2023, the year 2022 was characterised by a relatively high level of remortgaging activity driven by a sharp rise in interest rates and, accordingly, falling prices of the fixed rate callable bonds loans. Falling prices in 2022 enabled borrowers holding callable fixed-rate loans to substantially reduce their debts by remortgaging their loans. As a large proportion of borrowers capitalised on the opportunity to remortgage their loans and obtained a lower outstanding debt in 2022, the remortgaging opportunities were generally far less attractive in 2023. Moreover, the increase in interest rates on fixed rate callable loans slowed down to a large extent in 2023, which also contributed to curving the demand for remortgaging.

Lending activity (nominal terms)
Development in gross and net lending and overall portfolio
(DKKbn)



DLR's portfolio and market share

DLR's loan portfolio amounted to DKK 189.3bn measured by the nominal outstanding bond debt at the end of 2023, equivalent to a market share of 6.0% of total mortgage lending.

DLR's portfolio in its lending areas

In DLR's main business areas, DLR has a market share of 17.4%. This may be broken into market shares of 38.0% for agricultural properties, 10.1% for private residential rental properties/cooperative housing properties and 11.2% for office and retail property.

DLR has since 2015 increased its market share of loans to agricultural customers. During the period from 2016 to 2021, DLR's increased its market share of commercial real estate properties, which has since then remained fairly constant.

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 DLR's other segments have grown quicker than agricultural loans since 2015. At the end of 2023, agricultural loans accounted for 50.6% of DLR's total loans against 51.5% at end-2022.

Commercial real estate properties

The share of DLR's total lending for private residential rental properties was 22.0% at end-2023, while the share was 17.3% for office and retail properties. The share of DLR's lending for private residential rental properties increased by 0.7%-point in 2023, while the share for office and retail properties rose by 0.1%-point.

Owner-occupied homes including residential farms

At the end of 2023, DLR had provided loans to owner-occupied properties and residential farms totalling DKK 10.5bn. 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 was largely unchanged in 2023.

Composition of portfolio by loan types

The share of DLR's outstanding fixed-rate loans fell from 25.5% at end-2022 to 23.7% at end-2023. Similarly, the share of DLR's outstanding adjustable-rate loans was 22.4% at end-2023, against 25.5% at end-2022. This change reflects the fact that the proportion of adjustable-rate loans with five-year refinancing periods was reduced, while the proportion of adjustable-rate loans with short refinancing periods increased. During the same period, the share of ARM Short loans rose from 48.3% to 53.4%. The change was primarily driven by the fact that 72.7% of the loans disbursed by DLR in 2023 were ARM Short loans.

DLR's loan portfolio at 31 December 2023

	Outstanding bond debt DKKbn	Distribution by property category	Fixed rate loan	ARM Short*	1Y/ 2Y	3Y/ 4Y	5Y	Other Short term interest rate loans
Agriculture, incl. horticultural properties	95.8	50.6%	12.8%	68.0%	3.2%	1.9%	13.5%	0.6%
Owner-occ. incl. res. farms	10.5	5.5%	54.2%	16.0%	4.2%	4.2%	20.4%	1.0%
Office and retail	32.7	17.3%	31.2%	41.0%	2.8%	2.5%	22.1%	0.4%
Private residential rental	41.7	22.0%	27.8%	45.2%	2.7%	2.9%	21.1%	0.3%
Private cooperative housing	4.0	2.1%	73.6%	8.8%	0.5%	2.5%	14.4%	0.3%
Other property	4.6	2.4%	45.8%	35.7%	0.6%	1.8%	16.0%	0.0%
Total	**189.3**	**100.0%**	**23.7%**	**53.4%**	**2.9%**	**2.4%**	**17.1%**	**0.5%**

*) CIBOR/CITA-based loans

Distribution of loan types by segment

In all DLR's major loan segments, loans with short refinancing periods were more popular in 2023 than previously. At 68.6%, DLR's agricultural customers still accounted for the largest share of loans with short refinancing periods at end-2023. For office and retail property and residential rental property, loans with short refinancing periods accounted for 41.4% and 45.5%, respectively, at the end of 2023.

Green loans

At the end of 2023, DLR had outstanding green loans ('Grøn RT-Kort') for DKK 4.7bn, equivalent to 2.5% of DLR's outstanding loans. By way of comparison, DLR had outstanding green loans for DKK 1.9bn at end-2022. The outstanding green loans are granted primarily to finance energy-efficient buildings and organic farms. The criteria for obtaining green loans are described here: https://dlr.dk/laan-hos-os/laan-typer/.

In 2023, DLR extended the criteria for green loans to include e.g. sustainability-certified forests that are PEFC and/or FSC-certified and solar power plants erected on owned or leased land.

ESG disclosures about DLR's loans

Since September 2022, DLR has sent ESG questionnaires to all new borrowers and existing customers applying for new loans. In November 2023, DLR also started to collect information in connection with remortgaging. The replies to the ESG questionnaires provide DLR with a better foundation for making sustainability assessments of its customers and properties. Furthermore, advisers at DLR's loan-distributing banks have access to the returned questionnaires and may thus use the information in their dialogue with customers and in their in-house assessment of ESG risks.

ESG meetings with loan-distributing banks
During 2023 and the beginning of 2024, DLR supported the dialogue on and awareness about sustainability by meeting with its loan-distributing banks to discuss the sustainability in its lending business. Topics at these meetings included how DLR can team up with the banks to help push customers in a more sustainable direction.

CO_2 reduction target and action plan
DLR is focused on reducing CO_2e emissions of its loan portfolio. The reductions are to be achieved in collaboration with the borrowers and the shareholder banks. DLR has published its reduction targets and action plan for achieving the targets:https://dlr.dk/investor/regnskaber-rapporter/#baeredygtighed.

Sustainability

In 2023, DLR actively pursued sustainability efforts in several areas, including in DLR's own organisation and towards borrowers. In its Sustainability Report, DLR annually reports on its work with social responsibility and sustainability, which also makes up DLR's statutory in accordance with section 135 of the Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

DLR's Sustainability Report is available on DLR's website under dlr.dk/investor/regnskaber-rapporter/#baeredygtighed. The report also includes facts on social issues and corporate governance.

The section 'Target figures and policies for the gender composition of management' on pages 59-61 and DLR's Sustainability Report also includes the statutory report on DLR's diversity and gender diversity initiatives both on the Board of Directors and at DLR's other management levels in accordance with section 134(1)(viii) of the Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

Funding

DLR's lending activities are funded exclusively 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. DLR's funding structure thus reflects the composition of mortgage loans.

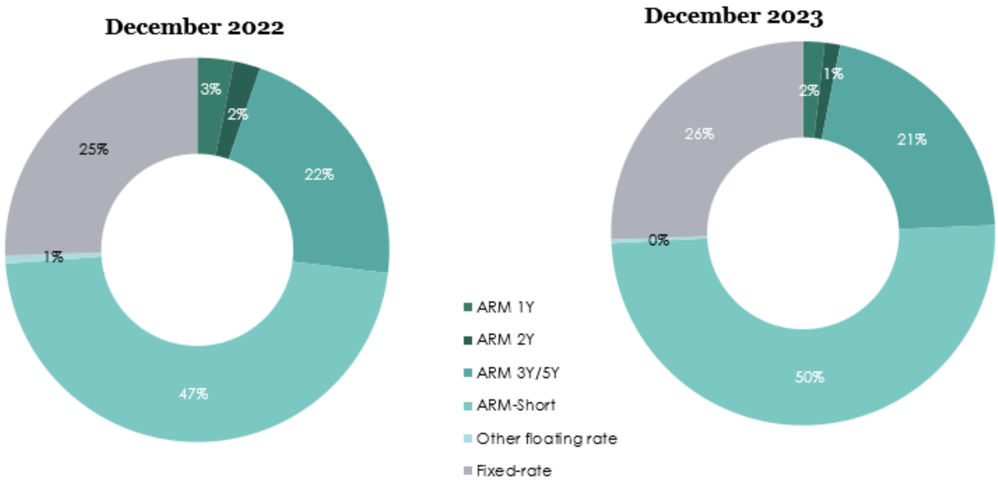
Funding and bond issuance

The year was characterised by continuing interest rate increases on loans with short refinancing periods and slowing rate increases on loans with long refinancing periods. Issuance of long-maturity callable bonds mainly took place in 30Y bonds with coupons of 5%. The increase in short-term interest rates in the first half of 2023 was driven primarily by monetary policy tightening in the USA with the intention to slowing the increase in consumer prices. In the second half of the year, central banks stopped hiking the monetary policy rates, which resulted in slightly lower interest rates on DLR's loans with short-term interest rate reset intervals.

Because of interest rate developments in 2023, 72.7% of all DLR's loans were disbursed as ARM Short loans, which resulted in many new issues of floating-rate bonds and modest issuance of 20-year and 30-year callable bonds and non-callable bullet bonds. DLR's new issues of floating-rate bonds also include DLR's green ARM Short bond, which had an outstanding amount of DKK 4.7bn at end-2023.

The large number of new issues of floating-rate bonds has increased the ARM Short bonds' share of DLR's total issues from 47.0% at end-2022 to 50% at end-2023.

DLR's outstanding bonds by type



More DLR bond series

Lending growth in 2023 meant that the volume of DLR's outstanding bonds for mortgage financing increased to DKK 190.9bn at the end of the year, not counting senior debt and bonds maturing on 1 January 2024.

The volume of DLR's outstanding bonds is slightly greater than the outstanding bond debt at end-2023, which is due to drawings, fixed-price agreements, partial repayments and immediate repayment.

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 for mortgage credit financing.

Before 2008, DLR funded its loans by issuing mortgage bonds (RO) out of the General Capital Centre, and most of these have subsequently been redeemed, often involving remortgaging to covered bonds (SDO) issued out of Capital Centre B. DLR's RO bonds merely accounted for about 0.3% of the outstanding volume at end-2023.

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 at capital centre level ensures that disclosure obligations under CRR article 129(7) are complied with. The distribution of bonds by type and currency at 31 December 2023 (excluding bonds maturing on 1 January 2024, but including pre-issued bonds in connection with the refinancing of mortgage loans on 1 January 2024) is shown in the table below.

DLR's bonds, end-2023 (nominal)
DKKbn

	DKK bonds	EUR bonds	Total
SDO	189.6	0.8	190.3
RO	0.6	0.0	0.6
Total	**190.2**	**0.8**	**190.9**

Euro loans

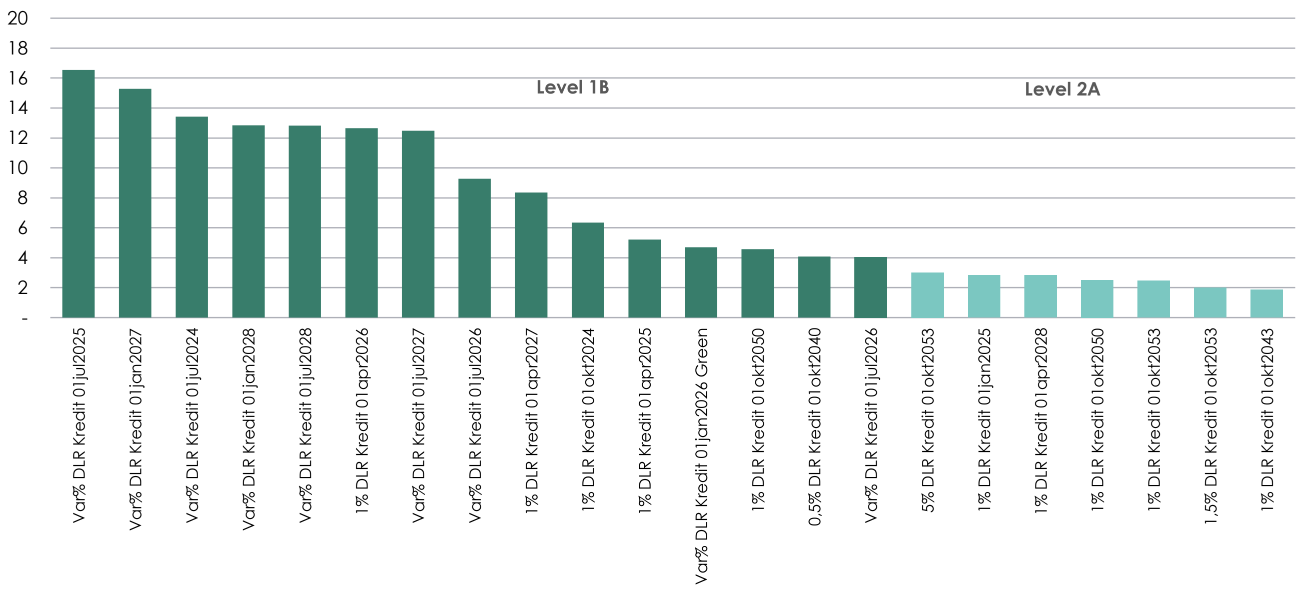
DLR offers a modest volume of 1Y ARM loans denominated in EUR. DLR's ARM loans in euros are refinanced in January. A large proportion of DLR's 1Y ARM loans denominated in EUR has since 2014 been switched into either ARM Short loans or longer ARM loans denominated in DKK. Likewise, a large proportion 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 0.4% of the total outstanding volume of bonds at the end of 2023.

Series sizes

Shown below are DLR's largest bond series at the end of 2023. 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 CIBOR-based ARM Short bonds and the longest non-callable bullet bonds.

At the end of 2023, 75% of DLR's series met the 1B requirement for series size in terms of outstanding volume, while a further 9% met the level 2A requirement.

DLR bond series meeting LCR size requirements (DKKbn)



In several callable bond series, the outstanding amount is limited due to the change of maturity group in August, the modest interest in raising fixed-rate loans in 2023 and the rapid and extensive interest rate developments in 2022, which resulted in tap issues of bond series with relatively short opening periods in the individual coupons.

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.

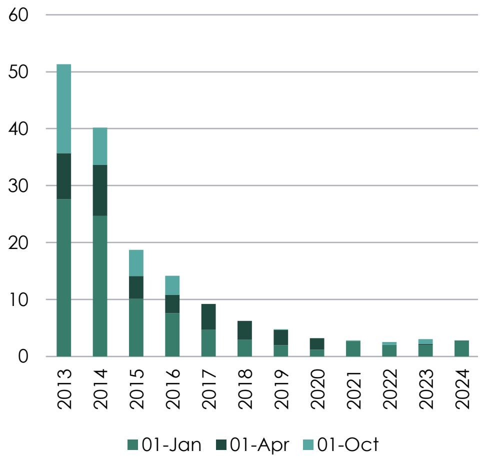
Since 2017, DLR has had Primary Dealer agreements with a number of banks. These agreements remunerate the institutions that actively quote prices for DLR's bonds for a continuous period. These agreements have contributed to strengthening liquidity and thus ensuring the continuous pricing of DLR's bonds.

Refinancing of ARM loans

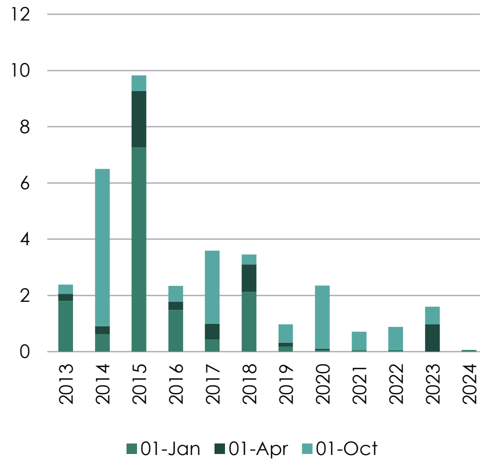
DLR held auctions in February, August and November-December 2023 in connection with the refinancing of ARM loans per 1 April 2023, 1 October 2023 and 1 January 2024, respectively. There was only a small volume of ARM loans for refinancing at 1 April 2023 because the refinancing of short-term ARM loans was moved from April to January. In step with the switch to other loan types, refinancing volumes of short-term ARM loans have declined steadily in recent years. By contrast, volumes of floating-rate CIBOR and CITA loans rose in 2023.

At the February auctions, DKK-denominated bonds for around DKK 1.1bn were offered, and at the August auctions DKK-denominated bonds for about DKK 3.7bn (nominal amount) were offered. At the November-December auctions, DLR supplied DKK-denominated bonds for about DKK 2.9bn and EUR-denominated bonds for about EUR 0.1bn (all nominal amounts). The refinancing of ARM loans of the 1Y type totalled DKK 3.8bn in 2023, which was about DKK 1.3bn more than in 2022. Refinancing of the 5Y type totalled DKK 2.3bn in 2023, which was about half the volume of the year before.

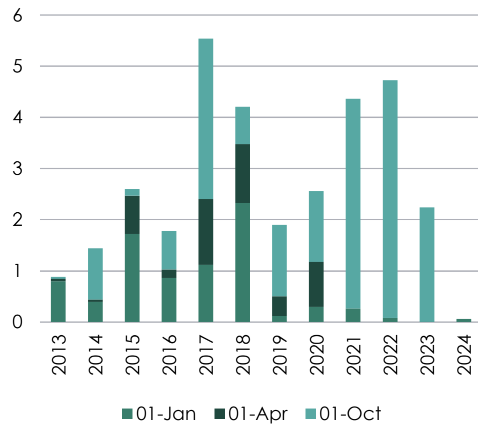
Supply of 1Y non-callable bullets (DKKbn)



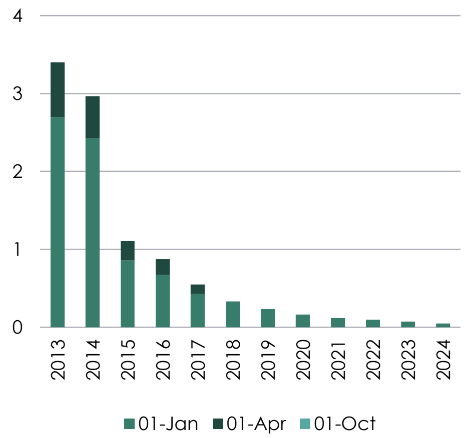
Supply of 3Y non-callable bullets (DKKbn)



Supply of 5Y non-callable bullets (DKKbn)



Supply of 1Y EUR non-callable bullets (DKKbn)

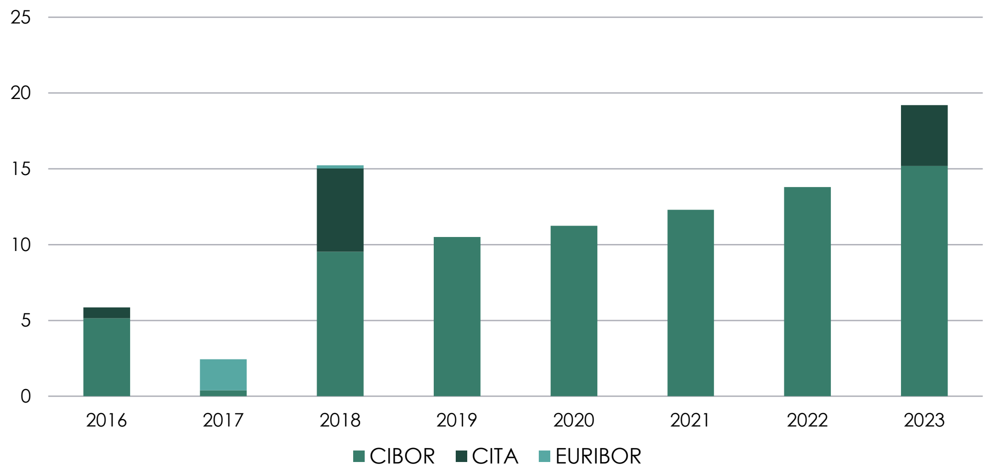


Refinancing of floating-rate loans

In May 2023, DLR held refinancing auctions of floating-rate bonds with a nominal supply of DKK 13.4bn in 5-year CIBOR6 bonds and DKK 4.0bn in 3-year CITA6 bonds to be used to refinance ARM Short loans on 1 July 2023. Furthermore, DKK 1.85bn was refinanced in DLR's existing green CIBOR6 bond.

At the beginning of 2023, DLR opted to change the funding of new ARM Short loans from the CIBOR6-2027 to the CIBOR6-2028 series.

DLR's refinancing of floating-rate bonds (DKKbn)



Capital and debt instruments

DLR issues loss-absorbing senior debt with a view to meeting the debt buffer requirement and tier 2 capital that forms part of DLR's own funds. DLR's loss-absorbing senior debt 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 overcollateralisation requirements and other purposes.

DLR's has tier 2 capital as stipulated in Regulation (EU) No. 575/2013 of the European Parliament and of the Council (CRR), which thus forms part of DLR's own funds. DLR has issued total tier 2 capital of DKK 1.3bn.

DLR's loss-absorbing senior debt consists of Senior Non-Preferred Notes (SNP) issued pursuant to the legislation on creditor hierarchy, which entered into force on 1 July 2018. The loss-absorbing senior debt can be written down or converted into share capital if DLR should become distressed. DLR has previously issued senior secured bonds (SSB) with a view to meeting the requirement for supplementary collateral, but it currently has no outstanding SSBs.

DLR's outstanding capital and debt instruments at end-2023

Type	Amount (DKKm)	Issuance date	Maturity date	Maturity (years)	Reference rate	Rate premium
SNP	1,000	03-11-2020	01-07-2024	3½	3M CIBOR	0.85%
SNP	1,000	08-06-2021	01-07-2025	4	3M CIBOR	0.67%
SNP	700	15-06-2022	02-07-2026	4	3M CIBOR	1.25%
SNP	300	15-06-2022	02-07-2026	4	Fast rente	2.99%
SNP	1,000	20-06-2023	01-07-2027	4	3M CIBOR	2.40%
Total debt instruments	**4,000**					
Tier 2	650	06-12-2019	06-12-2029 *	10	6M CIBOR	2.50%
Tier 2	650	14-10-2022	14-10-2032 **	10	3M CIBOR	4.25%
Total capital instruments	**1,300**					
Total debt and capital instruments	**5,300**					

* First call option 06-12-2024
** First call option 14-10-2027

At year-end 2023, DLR had DKK 4.0bn in outstanding senior debt (SNPs), which was unchanged from the year before. The assessment is that DLR has adequate excess cover relative to both applicable OC requirements and requirements for supplementary collateral. From 2025, changed rules for supplementary collateral with claims against credit institutions may lead to a need for additional overcollateralisation.

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 (SNP)	BBB (stable)
General Capital Centre (Tier 2)	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- with a stable outlook. 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 9.04% 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 aims to maintain a comfortable overcollateralisation buffer in Capital Centre B relative to S&P's OC requirements.

The SNP issues are rated BBB, which is one notch below DLR's SACP. DLR's tier 2 issue is rated BBB-, which is two notches below DLR's SACP.

ESG ratings

MSCI has assigned DLR an ESG rating of

AA

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 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. On 28 March 2023, MSCI published a rating report affirming DLR's ESG rating of AA. DLR is working actively to improve the factors underlying the ESG rating.

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.

DLR carries out a valuation of mortgaged properties and an internal credit assessment of all borrowers. The loan-distributing banks have also provided 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 functions that together comprise the second line of defence: Risk Management and Compliance. Both departments report to the Executive Board of DLR and have access to report to the Board of Directors.

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 provides a detailed description and review of DLR's risks and risk management. The report can be found at DLR's website under dlr.dk/investor/regnskaber-rapporter/#risiko-ogkapitalstyring.

Large exposures

Exposures of more than 10% of DLR's tier 1 capital are designated large exposures by regulations. At year-end 2023, DLR only had bank exposures (after deductions) that amounted to more than 10% of DLR's tier 1 capital.

Supplementary collateral

DLR regularly issues covered bonds (SDO) Particularly secure assets are used as collateral for the issued bonds – primarily in the form of real property. Continual monitoring is carried out of the market value of the mortgaged properties, as legislation lays down limits that determine the extent to which the mortgaged property can be included as collateral for the issued SDOs relative to the current market value of the properties.

In case of a decrease in the amount of secure assets underlying the issued bonds, e.g. in case of falling prices of the mortgaged properties, to the effect that there is no longer any security for the issued covered bonds, supplementary collateral must be added. Such supplementary collateral must consist of particularly secure assets, such as government bonds, covered bonds or, up to a certain limit, claims against credit institutions.

At year-end 2023, the supplementary collateral totalled DKK 5.9bn, which is lower than in 2022, when the collateral provided amounted to DKK 6.1bn. The need for supplementary collateral has generally declined in recent years.

DLR maintains a buffer of particularly secure assets that may be used as supplementary collateral should the need arise. DLR is therefore able to resist any general price falls on agricultural and commercial properties of at least 15% without having to source additional collateral. From 2025, changed rules for supplementary collateral with claims against credit institutions may lead to a need for additional overcollateralisation.

Credit risk

Hedging of 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 the Executive Board's credit authorisation limits.

To identify credit risk, the financial position of the borrower and the collateral offered is closely reviewed. The review 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 and an assessment of the applicant's ESG factors and risks, which is handled by DLR's credit department. This setup ensures a segregation of functions between the property valuation and the credit assessment.

The valuation expert pays attention to ground pollution, reviews production permits, looks at geographical data (such as the risk of flooding), considers the location (proximity to natural/urban areas etc.) and assesses land use (e.g. forestry, grazing, arable) and working conditions for employees. In terms of credit risk, the assumption is that customers and properties with a positive ESG assessment, all else equal, are expected to be better placed in the coming years and so more financially robust, although account is also taken of the risks associated with using new technology etc. This is also set out in DLR's credit policy.

DLR uses IRB models as an integrated element in its ongoing case processing, credit-granting process and 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 year-end 2023, 99.1% of DLR's total loan portfolio was covered by guarantee concepts. 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 concepts* below.

Credit risk developments

As DLR continues to experience growth in lending to urban trade, especially for private residential rental properties, its share of urban trade loans continues to rise. 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 mortgage provider for full-time agricultural properties in Denmark.

Exposures of up to DKK 15m account for 41% of DLR's lending volume, and DLR's portfolio primarily consists of a large proportion of small and medium-sized exposures.

Agriculture

DLR's total lending to agricultural customers encompasses loans for nearly DKK 96bn. Of this amount, loans for actual full-time farms account for some DKK 83bn. For the portfolio, the past few years have seen a migration towards the better rating categories, reflecting the good cyclical trends in the main production areas and a reduction of outstanding debt for properties with the highest LTV ratios through ordinary mortgage payments.

A little less than 87% of loans for agricultural customers are placed within an LTV ratio of 50, and only 0.4% above the 70% lending limit.

DLR's loans are thus well covered by the value of the mortgage for agricultural customers.

Business

DLR's total lending to urban commercial customers amounts to DKK 83bn, of which loans for residential rental properties account for DKK 41.7bn and loans for office and retail properties account for DKK 32.7bn.

A little more than 78% of loans for residential rental properties are placed within an LTV ratio of 50, and only about 0.4% above the 80% lending limit.

A little more than 89% of loans for office and retail properties are placed within an LTV ratio of 50, and only about 0.5% above the 70% lending limit.

DLR's loans are thus well covered by the value of the mortgage for commercial properties.

Owner-occupied dwellings

DLR's total lending for owner-occupied dwellings encompasses loans for a little over DKK 10bn.

88% of loans for owner-occupied dwellings are placed within an LTV ratio of 50, and only about 0.4% above the 80% lending limit.

DLR's loans are thus well covered by the value of the mortgage for owner-occupied dwellings.

Arrears and impairment

The arrears ratio 15 days after the due payment date on the December 2023 mortgage payment remains at a very low level of 0.8%, which was unchanged from December 2022. Given the high level of interest rates, this is considered highly satisfactory.

Despite the fact that no increase in arrears has been registered at portfolio level, some customers and customer groups are expected to remain challenged due to factors such as higher interest rates and economic and geopolitical uncertainties. Against this background, DLR has made substantial management overlays to the impairment losses, primarily in relation to urban commercial properties, but also in relation to the political risk of how to implement the announced introduction of a climate levy on biological processes in farming.

The arrears ratio calculated 3½ months after the due date – was 0.17% in mid-January 2024, which was unchanged from January 2023.

The major agricultural production areas, with the exception of a number of arable farmers, who were challenged by weather conditions in spring and during the harvest period, generally experienced satisfactory earnings in 2023 owing to favourable developments in settlement prices, which have improved borrowers' ability to pay. In spite of difficult growth conditions for a number of crops in 2023, DLR's arrears on loans for arable farmers remain at a very low level.

DLR's guarantee concepts

Together with the loan-distributing banks, DLR has established a uniform guarantee concept.

Under the 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.

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, a portfolio transfer was carried out in which the bulk of the remaining portfolio comprised by the previous cooperation and guarantee concepts were transferred to the uniform guarantee concept. At year-end 2023, the universal guarantee concept covered an outstanding bond debt of DKK 186.8bn, or 98.7% of the total loan portfolio. In addition, DKK 0.8bn remains covered by previous collaboration and guarantee concepts.

Interest rate risk

As DLR's lending is made subject to the specific balance principle, its interest rate risk arises solely as a consequence of a 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 17.3bn at year-end 2023, this equates to a maximum permitted interest rate risk for DLR of DKK 1,387m.

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 (asset side) should be in the range 0-2.5% of DLR's own funds, which equates to between DKK 0 and 433m.

At the end of 2023, the interest rate risk on DLR's securities portfolio was DKK 219m. Interest rate risk expresses the amount that DLR at the end of 2023 should expect as a price adjustment in the event of a shift in market rates of 1 percentage point. The relative interest rate risk can be calculated at 1.3% based on the own funds at year-end 2023.

The interest rate risk on issued capital and debt instruments (liabilities) – i.e. tier 2 and Senior Non-Preferred Notes – is calculated at DKK 20.4m at end-2023, 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 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.

CRR/CRD IV established requirements – see section 8 (10) of the Danish Executive Order on Management and Control of Banks, etc. – for the calculation and assessment of liquidity and liquidity risk. DLR therefore prepares a separate annual liquidity report (ILAAP – Internal Liquidity Adequacy Assessment Process). 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.

LCR and Pillar II liquidity add-on
In the LCR calculation, DLR's holding of eligible liquid assets (HQLA) are set in relation to DLR's net liquidity outflow (next 30 days)

The Pillar II liquidity add-on is accumulated and calculated on the basis of three elements; outflows concerning unknown arrears, outflows concerning unknown open remortgaging and outflows concerning refinancing.

Liquid assets to cover the Pillar II liquidity requirement must be of the same quality as under the LCR requirement.

DLR's internal requirement for both LCR and the Pillar II liquidity add-on has been set at a minimum of 110% relative to the minimum regulatory requirement of 100%.

To optimise the use of HQLA, DLR consistently maintains a level of 110%. Excess HQLA is then used as supplementary collateral and/or OC requirements.

At end-2023, DLR's LCR was calculated at 110%, and DLR also reserved liquid assets to cover the Pillar II liquidity add-on by 110%.

NSFR
The NSFR requirement (Net Stable Funding Ratio) includes a possible exception for "mutually dependent" assets and liabilities, which in practice exempts mortgage lending and issued bonds from the NSFR calculation (12 months ahead).

At end-2023, DLR's NSFR was calculated at 164%.

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

Exchange rate risk

Owing to the specific balance principle and very modest loans in EUR, DLR assumes only a minimal exchange rate risk.

The exchange rate risk, calculated according to the Danish FSA's indicator 1, may not exceed 8% of tier 1 capital according to DLR's internal limit. Calculated according to indicator 1, DLR's exchange rate risk amounted to 2.1% of the tier 1 capital at the end of 2023.

According to Danish law, exchange rate risk calculated according to the Danish FSA's indicator 2 may not exceed 0.1% of tier 1 capital. Calculated according to indicator 2, DLR's exchange rate risk amounted to 0.002% of the tier 1 capital at the end of 2023.

Equity risk

DLR generally does not place funds in equities apart from "sector equities". At the end of 2023, DLR's equity holdings consisted of unlisted shares in e-nettet A/S. With an equity portfolio of DKK 46.3m at 31 December 2023, DLR was thus exposed to limited equity risk.

Operational risk

Operational risk is the risk of loss resulting from inappropriate or deficient internal procedures, IT risks including cyber threats, 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 DLR exclusively conducts mortgage lending business.

DLR regularly collects and registers data on events above a certain threshold limit. The collection of data is undertaken to obtain an overview of the events and to prevent any future repetitions. 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.

DLR uses the basic indicator method to calculate operational risk. According to this method, the risk exposure amount for operational risk amounts to DKK 3.0bn. At year-end 2023, that equates to a capital need of DKK 240bn to cover the 8% requirement.

Cyber security risk
DLR closely monitors developments in cyber threats against the financial sector. For DLR, the threat from cyber crime, such as ransomware, is considered very high. The threat from cyber activity has intensified and is now considered high for the financial sector. These threats are mitigated by a strong defence, which substantially reduces the likelihood of a successful cyber attack with huge implications for DLR's business and customers. The residual risk of cyber attacks therefore attaches to DLR's risk tolerance.

As threat scenarios change constantly, DLR participates in selected security fora in the financial sector. This helps us stay aware of risks in the sector and to ensure appropriate protection of DLR and the rest of the financial sector against cyber attacks and other threats. For example, DLR participates in the Financial Sector forum for Operational Resilience (FSOR), whose objective is to enhance operational resilience across the sector, including resilience to cyber attacks.

To verify its protection level and enhance resilience in case of any weaknesses, DLR performs regular tests to obtain an actual overview of strengths and weaknesses in our defence. For example, we participate in the sector's TIBER exercises, which include simulated attacks against company employees and infrastructure. This is done on the basis of knowledge of players and the values DLR seeks to protect.

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 other accounting and auditing matters, including whether DLR's internal control systems and internal audit and risk management systems in the area of accounting and auditing 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 in the area of accounting and auditing – including in relation to the financial reporting process – are implemented as planned.

The work of the Audit Committee does not change relative to the responsibilities or authorities of the Board of Directors. The combined members of the Board of Directors are responsible for monitoring DLR's financial reporting process and other accounting and auditing matters, but the work of the Committee is an important aspect of the preparatory work.

DLR's Audit Committee has three members – General Manager Claus Andersen (chairman), Deputy CEO & CFO Frank Mortensen and Head of Business Development and Communications Randi Franke as a board member elected by the employees. The internal and external auditors also participate in Audit Committee meetings.

The Audit Committee met five times in 2023.

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 combined members of the Board of Directors are 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 Ole Beith (chairman), Managing Director Carsen Levring Jakobsen and Head of Kompetencecenter Kredit Jakob G. Hald as a board member elected by the employees. In addition, Torben Thorgaard, the head of Risk Management, regularly participates in the meetings of the Risk Committee.

The Risk Committee held six meetings in 2023.

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 and 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 sex.

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

The committee held two meetings in 2023.

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 Carsten Levring Jakobsen and Head of Kompetencecenter Kredit Jakob G. Hald as a board member elected by the employees.

The committee held two meetings in 2023.

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 2023, of whom six were elected at the Annual General Meeting (AGM), while three were elected by the employees. Until 7 December, when Deputy Group Chief Executive Bjarne Larsen stepped down from the Board of Directors, the Board had seven AGM-elected members.

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 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. The next election of employee representatives will take place in 2025.

Employees

DLR had on average 234 permanent FTE employees in 2023. In addition, DLR had 23 agricultural valuation experts attached to the company on a fee basis. In 2022, DLR employed on average 229 permanent employees and 23 on a fee basis.

Target figures and policies for the gender composition of management

The Board of Directors has adopted a policy and defined targets for gender diversity to promote gender diversity on the Board of Directors and at the other management levels.

For the Board of Directors, the targets are defined for the AGM-elected board members. Other management levels include the registered Executive Board and the executive team reporting to the registered Executive Board.

Gender diversity on the Board of Directors
DLR will work towards a more equal gender distribution on DLR's Board of Directors with the aim of ensuring that no gender represents more than 60% of the members of the Board of Directors.

When assessing potential candidates for DLR's Board of Directors, the board attaches importance to the nominated candidates being at all times the most suitable irrespective of gender, ethnicity, religious affiliation, etc. Moreover, the Board of Directors must ensure that the requirement that DLR's Board of Directors maintains the necessary knowledge and experience with respect to the company's principal risk areas is met.

In accordance with DLR's shareholder agreement, the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark and the National Banks in Denmark nominate board members for election at the general meeting. The shareholder agreement does not define gender targets for the nomination by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark and the National Banks in Denmark of members to DLR's Board of Directors.

When nominating candidates this year, DLR has asked that, in addition to meeting the requirements regarding qualifications, the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark should also observe the Board of Directors' policy and targets for gender diversity on the Board of Directors. In addition, if two candidates are deemed to be equally qualified, the Nomination Committee will propose the candidate representing the under-represented gender.

The nominated candidates for DLR's Board of Directors are typically members of the executive boards of local or national banks in Denmark. In in these banks the executive board members are predominantly male, which affects the composition of the

AGM-elected members of DLR's Board of Directors, which at end-2023 counted six men.

The Board of Directors has defined a target that, by 2027 at the latest, one of the AGM-elected members of the Board of Directors will be a female member, which will give a gender distribution of 83/17 on a board of six AGM-elected members or 86/14 on a board of seven. The Board of Directors believes that this is a realistic target in the given setting.

Gender diversity at other management levels

Based on specific initiatives, DLR will regularly seek to ensure increased gender diversity at the other management levels of the organisation. By other management levels is meant the Executive Board (two members) and the group of function managers (seven members).

Specific initiatives in this context could involve the following:

Making DLR more attractive by drawing up a staff policy that promotes equal career opportunities regardless of gender.
Ensuring additional clarity and transparency in recruitment procedures that may contribute to identify management talents of either gender so that there will be both female and male candidates are available for in-house or external recruitment.
Enhanced transparency with respect to job flexibility opportunities for both men and women.
Focus on career development plans that contribute to identifying management talents of both genders and ensure that employees, regardless of gender, experience that they have the same career opportunities and equal access to management positions at DLR.

Activities are conducted with due consideration to the principal requirement for employment at DLR; that DLR at all times recruit the best qualified and – for the organisation – the best suited candidate for a management position irrespective of gender, ethnicity, religious affiliation, etc. If two or more candidates are equally qualified, DLR will recruit the candidate representing the under-represented gender.

In 2023, there was an equal gender distribution on DLR's Executive Board. No targets have been defined for the gender distribution on the Executive Board.

In the group of function managers, 86% were men and 14% were women in 2023. As the group of function managers counts a limited number of members, a single change in the composition of the group will result in a large change in the gender distribution.

The Board of Directors has defined a target of 80/20 within the next four years, after which time no gender should represent more than 80% The current distribution of 87/14 does not meet the target.

	2023	2022
Board of directors		
Elected members of the general assembly	6/7	7
Underrepresented sex in percentage	0	0
Target in percentage	14/17	-
Year for achieving the target	2027	-
Employee-elected members	3	3
Underrepresented sex in percentage	33	33
Other management levels (Executive board and head of departments)		
Total number of members	9	7
Underrepresented sex in percentage	22	29
Target in percentage	33	-
Year for achieving the target	2027	-
Executive board		
Total number of members	2	2
Underrepresented sex in percentage	50	50
Target in percentage	-	-
Year for achieving the target	-	-
Head of departments		
Total number of members	7	5
Underrepresented sex in percentage	14	20
Target in percentage	20	-
Year for achieving the targets	2027	-

Knowledge resources

DLR prioritises the well-being of its employees, who form the core of the many different competence areas of the organisation. DLR aims to create value and ensure quality through a high degree of expertise across the organisation, It is crucial that DLR's employees keep abreast of developments and maintain and develop their expert knowledge and specific skills.

In its recruitment process, DLR prioritises preparing new colleagues for their assignments and giving them a basic understanding of DLR's business model and strategic goals. Twice a year, we therefore arrange "intro days" for new employees.

DLR works closely with its shareholder banks on facilitating loans to shared customers. It is therefore essential that advisers and customer-facing staff at the banks always stay updated on DLR, DLR's loan types and the collaboration processes. 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, which is regularly updated. In addition, DLR arranges to intro days for new bank employees every six months.

DLR's internal business procedures and instructions are updated and developed in an ongoing process to ensure a documented basis for DLR's property valuations, credit processing, loan administration, risk management and monitoring. Employees are also kept up-to-date and given training in correct processing of personal data and awareness about anti-money laundering and terrorist financing.

As a financial enterprise, DLR relies heavily on IT solutions for its day-to-day operations and therefore maintains comprehensive IT system documentation. In areas requiring special expertise, DLR employs external resources.

For further information, please see our sustainability report, which is found on our website under dlr.dk/investor/regnskaber-rapporter/#baeredygtighed.

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 for holiday homes for rental. In addition, DLR grants mortgage loans for properties in the Faroe Islands and Greenland, including owner-occupied dwellings.

DLR's business model is based on close collaboration with customer advisers and customer staff with the loan-distributing banks in DLR's circle of owners. The circle of owners comprises national and local 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. 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 financing and facilitates the day-to-day collaboration with customers. The platform supports advisers and customer employees when, for instance, they apply for loans, present loan offers to customers, enter into fixed-price agreements, obtain customer signatures, disburse loan proceeds, provide guarantees, shift profile, cancel and prepay loans.

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 accordance with legislative requirements, the Board of Directors has established an internal audit function that reports to the Board of Directors. The internal audit function audits processes and internal control procedures in significant and material risk areas in accordance with an audit strategy approved by the Board. 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.

Data ethics policy

In October 2023, DLR updated its data ethics policy. This policy contains the framework for DLR's data ethical principles and covers the following areas:

1. DLR's processing of customer data
2. Openness and transparency about DLR's processing of customer data
3. Procurement of data
4. DLR's focus on the community
5. Data processing by third parties
6. Compliance within DLR and training of employee skills

DLR's data is available on DLR's website under dlr.dk/om-os/governance/.

Management and administration

DLR Kredit's Board of Directors

At the end of 2023, DLR's Board of Directors consisted of nine members, of whom six were elected at DLR's Annual General Meeting. The AGM-elected Board members were elected from among the members of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark and 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 2023, DLR's Board of Directors consisted of the following members:

Elected at the General Meeting
Vagn Hansen (chairman), Managing Director & CEO, Sparekassen Danmark
Carsten Levring Jakobsen (vice chairman), Managing Director, Spar Nord Bank A/S
Claus Andersen, General Manager, Ringkjøbing Landbobank A/S
Ole Beith, Managing Director, Sparekassen Thy
Frank Mortensen, Deputy CEO & CFO, A/S Arbejdernes Landsbank
Lars Petersson, Managing Director & CEO, Sparekassen Sjælland-Fyn A/S

At the Annual General Meeting held on 27 April 2023, Managing Director Carsten Levring Jakobsen was elected as a new member of the Board of Directors, replacing Managing Director Lars Møller, and Managing Director Ole Beith was elected as a new member of the Board of Directors. The remaining five Board members elected by the Annual General Meeting were all re-elected.

The Board of Directors had seven AGM-elected members until 7 December 2023, when Deputy Group Chief Executive Bjarne Larsen stepped down from the Board of Directors in connection with his retirement from the position as Deputy Group Chief Executive at Sydbank.

Employee representatives

Lars Faber, IT Operations Manager
Head of Business Development and Communications Randi Holm Franke
Jakob G. Hald, Head of Kompetencecenter Kredit

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
Director, Finance Denmark (Finans Danmark) and the Association of Danish Mortgage Banks (Realkreditrådet)
Member of the board of directors of the Danish Agriculture and Food Council's sector 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)
Personal alternate for Jens Kr. A. Møller on the board of Finance Denmark
Expert member of the executive committee and board of the Danish Agriculture and Food Council
Expert member of the Company Appeals Board

Executive Staff

Executive Board Secretariat
Klaus Kristiansen, 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)

Capital, Securities & Funding
Lars Blume-Jensen, Senior Vice President, MSc (Economics)

IT
Peter Pihlsbech Rasmussen, IT Director, MSc (Economics)

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

Business Development & Valuation
Steen Pedersen, Senior Vice President, HD Diploma in Finance

HR
Mette Bagge-Petersen, Head of HR, HD Diploma in Informatics & Financial Management, IPMA-B

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

Compliance
Søren Jensen, Attorney, Head of Compliance

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

Supervision

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

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 2024 based on the outstanding bond debt at 31 December 2023.

Other directorships held by the Board of Directors

Vagn Hansen (Chairman), Managing Director & CEO, Sparekassen Danmark

- Chairman of the board of directors of EgnsInvest Holding A/S as well as two subsidiaries
- 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 Sparinvest SE
- Member of the board of directors of Sparekassen Danmark Fonden Vendsyssel
- Member of the board of directors of PRAS A/S

Carsten Levring Jakobsen (Vice Chairman), Managing Director, Spar Nord A/S

- Member of the board of directors of Aktieselskabet Skelagervej 15

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

Ole Beith, Managing Director, Sparekassen Thy

- Member of the board of directors of Finanssektorens Uddannelsescenter
- Member of the board of directors of Skanderborg Park P/S
- Member of the board of directors of Finance Denmark
- 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 the Education Fund under The Association of Local Banks, Savings Banks and Co-Operative Savings Banks in Denmark (Lokale Pengeinstitutter)
- Member of the board of directors of Stenbjerg fonden
- Member of the board of directors of Lokal Puljeinvest
- Member of the board of directors of Krone Kapital A/S
- Member of the board of directors of FR I af 16. september 2015 A/S
- Executive, Krone Kapital A/S
- Co-owner of Gesten Møllelaug I/S

Frank Mortensen, Deputy CEO and CFO, A/S Arbejdernes Landsbank

- Vice chairman of Nærpension
- Member of the board of directors of AL Finans A/S
- Member of the board of directors of Ejendomsselskabet Sluseholmen A/S
- Member of the board of directors of Sluseholmen 7 A/S

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

- Chairman of the board of directors of Holbæk Kommunes Talentråd
- Member of the board of directors of Holbæk Alliancen
- Member of the board of directors of 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
- Member of the Board of Directors of Bankdata

Financial statements 2023

Income statement and statement of comprehensive income
(DKKm)

Note		2023	2022
1	Interest income	6,866	3,546
2	Interest expenses	-4,426	-1,507
	Net interest income	**2,439**	**2,039**
	Share dividends etc.	0	0
	Fees and commission income	222	306
	Fees and commission paid	-782	-797
	Net interest and fee income	**1,879**	**1,547**
3	Market value adjustments	288	-304
	Other operating income	1	18
4-10	Staff costs and administrative expenses	-348	-323
	Depreciation and impairment of property, plant and equipment	-2	-2
	Other operating expenses	-22	-19
11	Impairment of loans, advances, receivables, etc.	1	10
	Profit before tax	**1,797**	**927**
12	Tax	-450	-207
	Profit after tax	**1,347**	**720**
	Appropriation of profit		
	Distribution of dividends	750	0
	Transferred to undistributable reserve	17	0
	Transferred to retained earnings	580	720
	Total amount appropriated	**1,347**	**720**
	Statement of comprehensive income		
	Profit after tax	1,347	720
	Property revaluations	15	0
	Tax on property revaluations for the year	-4	0
	Comprehensive income after tax	**1,358**	**720**

Balance sheet

(DKKm)

Note		2023	2022
	Assets		
	Cash balance and demand deposits with central banks	2,450	1,433
13	Due from credit institutions and central banks	183	408
14-21	Loans, advances and other receivables at fair value	181,956	169,912
15	Loans, advances and other receivables at amortised cost	5	7
22	Bonds at fair value	7,783	8,096
	Shares etc.	46	45
23	Land and buildings, domicile properties	150	135
	Other property, plant and equipment	6	5
	Leasing assets	0	0
	Current tax assets	0	63
	Assets held temporarily	0	0
24	Other assets	283	115
	Prepayments	28	25
	Total assets	**192,890**	**180,244**
	Equity and liabilities		
25	Issued bonds at fair value	168,011	157,712
26	Issued bonds at amortised cost	3,995	3,994
	Current tax liabilities	13	0
27	Other liabilities	2,400	1,429
	Deferred income	0	0
	Total liabilities	**174,419**	**163,136**
28	Provisions for deferred tax	24	19
	Total provisions	**24**	**19**
29	Subordinated debt	1,298	1,298
	Total subordinated debt	**1,298**	**1,298**
30	Share capital	570	570
	Revaluation reserve	86	75
	Undistributable reserve	2,355	2,338
	Retained earnings etc.	13,388	12,808
	Proposed dividend	750	0
	Total equity	**17,149**	**15,791**
	Total equity and liabilities	**192,890**	**180,244**
31	**Off-balance sheet items**		
	Guarantees	0	0
	Contingent liabilities (loan offers, other contingent liabilities, etc.)	10,043	13,918
32	**Contingent assets**		
	Other contingent assets	0	0

Statement of changes in equity
(DKKm)

	Share capital 1)	Revaluation reserve	Undistributable reserve	Proposed dividend	Retained earnings	Total
2022						
Equity at 1 January	570	75	2,338	0	12,088	**15,071**
Profit for the year	0	0	0	0	720	**720**
Disposal of treasury shares	0	0	0	0	0	**0**
Acquisition of treasury shares	0	0	0	0	0	**0**
Equity at 31 December	**570**	**75**	**2,338**	**0**	**12,808**	**15,791**
2023						
Equity at 1 January	570	75	2,338	0	12,808	**15,791**
Profit for the year	0	0	17	750	580	**1,347**
Property revaluations	0	15	0	0	0	**15**
Tax on property revaluations	0	-4	0	0	0	**-4**
Disposal of treasury shares	0	0	0	0	0	**0**
Acquisition of treasury shares	0	0	0	0	0	**0**
Equity at 31 December	**570**	**86**	**2,355**	**750**	**13,388**	**17,149**

1) The share capital is divided into shares of DKK 1.00 each. The total number of shares is 569,964,023. DLR has only one share class, and all shares carry equal rights. DLR held 46,122,083 (2022: 46,122,083) treasury shares at 31 December 2023, corresponding to a nominal value of DKK 46.1m (2022: DKK 46.1m). The portfolio of treasury shares represents 8.1% (2022: 8.1%) of the total share capital.

Capital and solvency
(DKKm)

	2023	2022
Equity	17,149	15,791
Deduction of proposed dividends	-750	0
Deduction of bond holdings secured by own shares	-282	0
Deductions as a consequence of prudent valuation	-23	-22
Deductions as a consequence of non-performing exposures	-11	-9
Difference between expected losses and impairment losses	-40	-54
Common equity tier 1 capital	**16,044**	**15,706**
Subordinated capital (tier 2 capital)	1,298	1,298
Deductions from tier 2 capital	0	0
Own funds	**17,342**	**17,004**
Risk-weighted exposure with credit risk etc.	66,475	64,862
Risk-weighted exposure with market risk	2,682	2,500
Risk-weighted exposure with operational risk	3,001	2,482
Total risk-weighted exposure	**72,158**	**69,844**
Common equity tier 1 capital ratio	22.2%	22.5%
Total capital ratio	24.0%	24.3%

Notes

Notes - Income statement
(DKKm)

Note	Interest income	2023	2022
1	Due from credit institutions and central banks	12	1
	Positive interest loans and advances *	4,633	1,395
	Contributions	1,927	1,895
	Bonds	682	92
	Issued bonds at fair value **	0	75
	Other interest income	85	146
	Total	**7,338**	**3,603**
	Interest on own mortgage bonds offset against interest on issued bonds	-472	-58
	Total	**6,866**	**3,546**
	Of which interest income from reverse repo transactions	0	0

Interest income was substantially higher in 2023 than in 2022, primarily because interest rates increased during 2022 and 2023. Because DLR's mortgage loans are granted under the specific balance principle (match funding), the higher interest income on lending is matched by a corresponding increase in interest expenses for Issued bonds at fair value.

* In 2022, certain loans carried a negative interest rate. These expenses were recognised as interest expenses for loans with a negative interest rate (note 2). In 2023, all DLR's loans carried a positive interest rate.

** Interest on issued bonds, with certain issued bonds carrying a negative interest rate in 2022 and therefore being recognised in this accounting item as interest income. In 2023, all DLR's issued bonds carried a positive interest rate.

Note	Interest expenses	2023	2022
2	Credit institutions and central banks	0	-1
	Issued bonds at fair value *	-4,633	-1,394
	Issued bonds at amortised cost	-177	-54
	Subordinated debt	-89	-41
	Negative interest loans and advances**	0	-75
	Other interest expenses	0	0
	Total	**-4,898**	**-1,565**
	Interest on own mortgage bonds offset against interest on issued bonds	472	58
	Total	**-4,426**	**-1,507**
	Of which interest expenses on repo transactions	0	0

The DLR has not paid out reserve fund shares on redeemed mortgages.

Interest expenses were substantially higher in 2023 than in 2022, primarily because interest rates increased during 2023. Because DLR's issued bonds at fair value are granted under the specific balance principle (match funding), the higher interest expense on issued bonds at fair value is matched by a corresponding increase in interest income on loans at fair value.

*Interest on issued bonds at fair value, with certain loans carrying a negative interest rate in 2022. This interest income was recognised as interest income on issued bonds at fair value (note 1). In 2023, all DLR's issued bonds carried a positive interest rate.

** Interest on loans at fair value, with certain loans carrying a negative interest rate 2022 and therefore being recognised in this accounting item as an interest expense. In 2023, all DLR's loans at fair value carried a positive interest rate.

Note			
3	**Market value adjustments**	**2023**	**2022**
	Mortgage loans*	4.607	-11.102
	Bonds	298	-312
	Shares etc.	1	5
	Foreign currency	1	0
	Derivative financial instruments**	-12	3
	Other assets	1	1
	Issued bonds	-4.607	11.102
	Total	**288**	**-304**

* DLR's mortgage loans and the underlying issued mortgage bonds are granted under the specific balance principle.

Pursuant to the Danish FSA's executive order on the presentation of financial statements, the mortgage loan and the issued mortgage bonds must be measured at fair value. The fair value of these items is calculated on the basis of the prices of the listed issued bonds. The sharp increase in interest rates in 2022 caused bond prices to plummet, resulting in very large market value adjustments in 2022. In 2023, there was an opposite and slightly smaller effect due to falling interest rates in the latter part of the year. However, the use of the specific balance principle means the net effect was close to DKK 0 million both in 2022 and 2023.

**Market value adjustments of derivative financial instruments in 2022 mainly related to market value adjustments on forward sales in connection with the refinancing. As the refinancing transaction is fully funded, there was a corresponding negative market value adjustment of bonds, resulting in a net effect of the refinancing of DKK 0.

4	**Staff costs and administrative expenses**	**2023**	**2022**
	Staff costs		
	Salaries	-188	-177
	Pension costs	-18	-17
	Social security costs	-31	-30
	Total	**-238**	**-224**
	Other administrative expenses		
	IT expenses	-52	-49
	Audit, financial supervision and industry association	-11	-11
	Other expenses	-47	-39
	Total	**-110**	**-99**
	Total staff costs and administrative expenses	**-348**	**-323**

DLR's remuneration policy is available at https://dlr.dk/governance/

In addition to the above-mentioned expenses of DKK 348 million, depreciation was charged on various assets (separate accounting item) after which expenses for staff, administration and depreciation amounted to DKK 350 million in 2023 and DKK 325 million in 2022.

Note

5 Remuneration of members of the Executive Board

	2023	2022
Total Executive Board remuneration *	**7.9**	**7.3**

The remuneration may be specified as follows:

	2023	2022
Fixed remuneration	7.9	7.3
Variable remuneration	0.0	0.0
Total	**7.9**	**7.3**
Number of members of the Executive Board at year-end	2	2

* 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 is shown at www.dlr.dk/en/investor/about-dlr/organisation/

6 Remuneration of the Board of Directors

	2023	2022
Board of Directors		
Fixed remuneration	2.0	1.9
Variable remuneration	0.0	0.0
Total	**2.0**	**1.9**
Number of members of the Board of Directors at year-end *	9	9

The remuneration for the individual members of the Board of Directors is shown at www.dlr.dk/en/investor/about-dlr/organisation/

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

* In the period from April to the beginning of December, there were ten board members.

Note		2023	2022
7	**Information regarding employees, other than the Executive Board and Board of Directors, influencing the risk profile**	**2023**	**2022**
	Employees other than the Executive Board and the Board of Directors influencing the risk profile		
	Fixed remuneration	24,9	23,1
	Variable remuneration	0,0	0,0
	Total	**24,9**	**23,1**
	Number of employees who have influenced the risk profile		
	Number of employees who have influenced the risk profile during the year	20	19
	Of which employees retired during the year or who are no longer considered material risk takers	4	1
	Number of employees influencing the risk profile at year-end	**16**	**18**

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

*The statement includes employees who have been elected to the board as employee representatives.

Note		2023	2022
8	**Loans and loan offers provided to members of the Executive Board and the Board of Directors**	**2023**	**2022**
	Executive Board		
	Loans etc.	0	0
	Offer	0	0
	Board of Directors:		
	Loans etc.	3	0
	Offer	0	0
	Interest rates (incl. contributions) 2021		

Executive Board: No loans (2022: No loans)

Board of Directors: There is one loan to a member of the Board of Directors. This is a fixed-rate loan with a 30Y maturity offered on market terms when the loan was granted. The loan carries interest of 1% with an administration margin of 0.6%.

DLR has not pledged any assets as collateral 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. Administration margins) 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	2023	2022
	Statutory audit of the financial statements	1.4	1.4
	Other assurance engagements	0.4	0.3
	Tax services	0.0	0.0
	Other services	0.0	0.2
	Total	**1.8**	**1.8**

The fee for non-audit services provided by EY relate to assurance engagement reports issued to DLR as a financial business, tax services and a number of other advisory services.

10	Number of employees	2023	2022
	Average number of employees in the financial year converted into FTEs*	234	229
	Total	**234**	**229**

* In addition to its 234 FTEs, DLR has 22 associated agricultural valuation experts (2022: 23), 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 cost".

11	Impairment of loans, advances, receivables, etc.	2023	2022
	Losses in the period	3	-10
	Amounts received on claims previously written off	2	2
	Adjustment of acquired properties	0	0
	Impairment losses in the period	-142	-181
	Reversal of impairment losses	137	197
	Losses offset against commission payments to banks	1	1
	Total	**1**	**10**

* The reason that the accounting item Losses in the period represents an income is that realised losses for specific properties proved to be lower than originally assumed, which therefore leads to an income when the case is finalised.

Note 12 Tax

	2023	2022
Tax (breakdown in DKKm)		
Applicable tax rate for "Profit before tax"	-453	-204
Non-taxable income and non-deductible expenses	-1	-2
Adjustment of prior-year tax charge	4	-1
Total	**-450**	**-207**
Tax (breakdown of effective tax rate)		
Current tax rate	25.20%	22.00%
Non-taxable income and non-deductible expenses	0.03%	0.21%
Adjustment of prior-year tax charge	-0.20%	0.09%
Effective tax rate	25.03%	22.30%

Notes – Assets
(DKKm)

Note

13	Due from credit institutions and central banks	2023	2022
	Due from credit institutions	183	408
	Total amount due from credit institutions and central banks	**183**	**408**

DLR did not enter into any reverse repo transactions in 2023 or 2022.

	Maturity distribution by term to maturity		
	Demand deposits	183	408
	Up to and including three months	0	0
	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	**183**	**408**

14	Loans, advances and other receivables at fair value	2023	2022
	Mortgage loans, nominal value	189,303	181,873
	Adjustment to fair value of underlying bonds	-7,036	-11,643
	Adjustment for credit risk	-367	-364
	Mortgage loans at fair value	**181,900**	**169,866**
	Arrears before impairment losses	61	50
	Other loans and outlays before impairment losses	0	0
	Impairment losses on arrears and outlays	-5	-3
	Total	**181,956**	**169,912**

* DLR's mortgage loans and the underlying issued mortgage bonds are granted under the specific balance principle.

Pursuant to the Danish FSA's executive order on the presentation of financial statements, the mortgage loan and the issued mortgage bonds must be measured at fair value. The fair value of these items is calculated on the basis of the prices of the listed issued bonds. The sharp increase in interest rates in 2022 caused bond prices to plummet, resulting in very large market value adjustments in 2022. However, the use of the specific balance principle means the net effect was close to DKK 0 million both in 2022 and 2023.

15	Loans, advances and other receivables at amortised cost	2023	2022
	Loans and advances	6	8
	Adjustment for credit risk	-1	-1
	Total	**5**	**7**

Note

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

	2023	2022
Maturity distribution by term to maturity		
Up to and including three months	1,069	1,151
Over three months up to and including one year	3,741	3,503
Over one year up to and including five years	20,834	20,087
Over five years	156,317	145,178
Total	**181,961**	**169,920**

As supplementary collateral for mortgage loans, bankers' guarantees of DKK 13,440m in addition to mortgages have been provided (2022: DKK 14,469m)

Pursuant to special legislation, a government guarantee of DKK 65m (2022: DKK 97m) has been provided as supplementary collateral for loans to young farmers.

In cases where DLR has granted an advance loan, a full bank guarantee has been provided for the loan. This amounts to DKK 1.4 bn. DKK at the end of 2023 (2022: DKK 2.1 bn).

17 Mortgage loans (nominal value) by property category

	2023	2022
Owner-occupied dwellings	4.8%	5.0%
Recreational dwellings	0.3%	0.3%
Subsidised rental housing properties	0.0%	0.1%
Co-operative housing	2.1%	2.2%
Private rental housing properties	21.9%	21.2%
Properties for manufacturing and manual industries	1.3%	1.1%
Office and business properties	18.0%	18.0%
Agricultural properties	50.7%	51.5%
Properties for social, cultural and educational purposes	0.7%	0.5%
Other properties	0.0%	0.0%
Total	**100%**	**100%**

18 Number of loans - end of period

	2023	2022
Number of loans - end of period	**72,810**	**72,252**

Note

19 Impairment losses by stage

Impairment of loans and advances at fair value and amortised cost *	2023 Stage 1	Stage 2	Stage 3	Total
Specification of impairment losses at the end of period:				
Loans and advances in stage 1 at beginning of year	14	10	1	25
Loans and advances in stage 2 at beginning of year	2	12	32	46
Loans and advances in stage 3 at beginning of year	0	1	44	45
New loans and advances	10	4	1	14
Management estimate	217	25	1	243
Total	**242**	**52**	**79**	**373**

DLR's total impairment losses at the end of 2023 consisted of individual impairment losses of DKK 72.5m, model calculated impairment losses of DKK 57.6m and a management overlay of DKK 243.0m. In the Accounting policies, the methods that form the basis for calculating the impairment losses are explained in more detail.

Impairment of loans and advances at fair value and amortised cost *	2022 Stage 1	Stage 2	Stage 3	Total
Specification of impairment losses at the end of period:				
Loans and advances in stage 1 at beginning of year	24	21	2	47
Loans and advances in stage 2 at beginning of year	3	27	21	50
Loans and advances in stage 3 at beginning of year	0	2	55	56
New loans and advances	28	23	1	52
Management estimate	142	20	1	163
Total	**196**	**93**	**80**	**368**

DLR's total impairment losses at the end of 2022 consisted of individual impairment losses of DKK 58.4m, model calculated impairment losses of DKK 147.0m and a management overlay of DKK 163.0m. In the Accounting policies, the methods that form the basis for calculating the impairment losses are explained in more detail.

* No loans, advances or other receivables which were credit-impaired on initial recognition were recognised in 2022 or 2023. 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.

Note

20 Impairment - other financial assets

	2023			
	Stage 1	Stage 2	Stage 3	Total
Impairment of cash and demand deposits with central banks	0	0	0	**0**
Impairment of receivables with credit institutions and central banks	0	0	0	**0**

All assets in the above table have been classified as stage 1, meaning that impairment losses of less than DKK 0.5m have been recognised. This was also the case at 1 January 2023.

	2022			
	Stage 1	Stage 2	Stage 3	Total
Impairment of cash and demand deposits with central banks	0	0	0	**0**
Impairment of receivables with credit institutions and central banks	0	0	0	0

No other financial assets which were credit-impaired on initial recognition were recognised in 2022 or 2023.

Note

21 Loan exposures - rating classes, property categories and stages

Measured at fair value and amortised cost *	2023			
12 months PD band	Stage 1	Stage 2	Stage 3	Total
[0 - 0,2]	22,298	0	0	22,298
[0,2 - 0,5]	53,966	190	0	54,156
[0,5 - 1,0]	52,063	2,442	1	54,506
[1,0 - 1,5]	24,208	2,736	0	26,944
[1,5 - 2,0]	4,185	1,092	0	5,278
[2,0 - 3,0]	1,851	2,066	0	3,917
[3,0 - 5,0]	2,167	2,590	0	4,756
[5,0 - 10,0]	1,697	2,385	1	4,083
[10,0 - 20,0]	286	4,661	4	4,951
[20,0 - 100,0]	0	78	0	78
[100]	0	0	994	994
Total	**162,721**	**18,241**	**1,000**	**181,961**

Measured at fair value and amortised cost *	2022			
12 months PD band	Stage 1	Stage 2	Stage 3	Total
[0 - 0,2]	16,469	0	0	16,469
[0,2 - 0,5]	41,925	43	0	41,969
[0,5 - 1,0]	50,719	1,309	0	52,028
[1,0 - 1,5]	26,155	3,120	1	29,276
[1,5 - 2,0]	4,604	1,384	0	5,989
[2,0 - 3,0]	2,990	1,878	25	4,893
[3,0 - 5,0]	2,611	2,632	0	5,243
[5,0 - 10,0]	2,871	2,843	2	5,716
[10,0 - 20,0]	21	7,095	7	7,123
[20,0 - 100,0]	0	278	936	1,215
[100]	0	0	0	0
Total	**148,365**	**20,584**	**971**	**169,920**

*The division of the remaining debt takes place in each stages per 30 November and PD bands per 31 December. This may cause minor shifts in the locations.

Irrevocable credit commitments: At year-end 2023, unutilised loan offers amounted to DKK 10.0bn (2022: 13.9), all of which belong to stage 1.

Other financial assets: DLR's other financial assets consist of amounts due 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 2023.

**The break-down of the PD bands is as follows:

[…] Everything within this band is included

]…] Values greater than the first figure up to and including the next stated figure are included in the band, which means the first figure is not included in the band

]…[Only values greater than the first figure and values lower than the next figure are included.

Note

21 Loan exposures - rating classes, property categories and stages

Measured at fair value and amortised cost *	2023			
	Stage 1	Stage 2	Stage 3	Total
Agricultural properties	84,985	6,677	525	92,187
Owner-occupied dwellings	8,058	678	74	8,810
Subsidised rental housing properties	17	70	0	87
Private rental housing properties	33,847	5,844	134	39,824
Office and business properties	28,693	3,957	165	32,815
Properties for manufacturing and manual industries	2,181	208	0	2,389
Properties for social, cultural and educational purposes	1,051	239	2	1,293
Co-operative housing	3,296	500	99	3,895
Recreational dwellings	531	61	0	592
Other properties	61	7	0	69
Total loans and advances	**162,721**	**18,241**	**1,000**	**181,961**

Measured at fair value and amortised cost *	2022			
	Stage 1	Stage 2	Stage 3	Total
Agricultural properties	75,240	11,625	706	87,572
Owner-occupied dwellings	7,686	764	60	8,510
Subsidised rental housing properties	18	72	0	91
Private rental housing properties	31,930	4,100	53	36,084
Office and business properties	27,224	3,244	109	30,577
Properties for manufacturing and manual industries	1,764	127	0	1,891
Properties for social, cultural and educational purposes	817	110	0	927
Co-operative housing	3,201	468	41	3,710
Recreational dwellings	428	67	0	496
Other properties	56	5	1	62
Total loans and advances	**148,365**	**20,584**	**971**	**169,920**

* 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.

Note		2023	2022
22	**Bonds at fair value**	**2023**	**2022**
	Own mortgage bonds	20,946	17,481
	Other mortgage bonds	6,715	7,053
	Government bonds	1,069	1,043
	Bonds - gross	**28,729**	**25,577**
	Own mortgage bonds offset against issued bonds	-20,946	-17,481
	Total	**7,783**	**8,096**

23	Land and buildings - domicile properties	2023	2022
	Fair value, beginning of year	135.3	135.8
	Additions during the year	**0.0**	**0.0**
	Depreciation	-0.4	-0.4
	Value changes recognised in other comprehensive income	15.1	0.0
	Fair value, end of year	**150.0**	**135.3**

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

24	Other assets	2023	2022
	Positive market value of derivative financial instruments etc.	38	12
	Interest and commission receivable	78	39
	Other receivables	167	65
	Total	**283**	**115**

Positive market value of derivative financial instruments consists of forward transactions and market value adjustment of pre-issued bonds with a positive market value. These transactions are a direct consequence of DLR's refinancing of mortgage loans.

Notes – Equity and liabilities
(DKKm)

Note			
25	**Issued bonds at fair value**	**2023**	**2022**
	Mortgage bonds - nominal value	196,109	186,898
	Fair value adjustment *	-7,151	-11,705
	Issued bonds - gross	**188,957**	**175,193**
	Offsetting of own mortgage bonds - fair value	-20,946	-17,481
	Total	**168,011**	**157,712**
	Of which pre-issued, market value	4,172	2,630
	Cash value of bonds drawn for redemption at next repayment date (settlement price)	832	979

The change in the fair value of mortgage bonds (ROs) and covered bonds (SDOs) that can be attributed to changes in credit risk may be calculated relative to corresponding ROs and SDOs offered by other Danish issuers. The bonds that fund DLR's loan portfolio have an AAA rating from S&P Global Ratings. This rating corresponds to the rating of most of the 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 2023, nor in the period since issuance.

The aggregate fair value adjustment of issued bonds and SDOs as a consequence of changes in the fair value of own credit risk was therefore DKK 0.0m (2022: DKK 0.0m). Of the accumulated effect, DKK 0.0m relates to changes in 2023 (2022: DKK 0.0m).

* DLR's mortgage loans and the underlying issued mortgage bonds are granted under the specific balance principle.

Pursuant to the Danish FSA's executive order on the presentation of financial statements, the mortgage loan and the issued mortgage bonds must be measured at fair value. The fair value of these items is calculated on the basis of the prices of the listed issued bonds. The sharp increase in interest rates in 2022 caused bond prices to plummet, resulting in very large market value adjustments in 2022. In 2023, there has been an opposite and smaller effect due to the falling interest rates in the last part of the year. However, the use of the specific balance principle means the net effect was close to DKK 0 million both in 2022 and 2023.

Maturity distribution by term to maturity (gross portfolio at market value)		
Up to and including three months	5,162	3,400
Over three months up to and including one year	21,269	29,720
Over one year up to and including five years	122,851	103,250
Over five years	39,674	38,823
Total	**188,957**	**175,193**

Note 26	Issued bonds at amortised cost	2023	2022
	Issues in connection with senior debt	3,995	3,994
	Offsetting of own bonds	0	0
	Total	**3,995**	**3,994**
	Maturity distribution by term to maturity		
	Up to and including three months	0	0
	Over three months up to and including one year	1,000	1,000
	Over one year up to and including five years	2,995	2,995
	Over five years	0	0
	Total	**3,995**	**3,994**

27	Other liabilities	2023	2022
	Negative market value of derivative financial instruments etc.	19	15
	Interest and commission payable	2,224	1,313
	Other liabilities	157	101
	Total	**2,400**	**1,429**

Negative market value of derivative financial instruments consists of forward transactions and market value adjustment of pre-issued bonds with a negative market value.

28	Provisions for deferred tax	2023	2022
	Deferred tax, beginning of year	19.4	19.6
	Change in deferred tax	4.2	-0.2
	Total	**23.6**	**19.4**
	Land and buildings - domicile properties	18.8	15.0
	Senior loans	-0.1	2.9
	Subordinated debt	5.3	2.2
	Other property, plant and equipment	-0.5	-0.7
	Total	**23.6**	**19.4**

Note			
29	**Subordinated debt**	**2023**	**2022**
	Subordinated debt	**1,298**	**1,298**

Subordinated debt amounts to DKK 1,300m divided between two issues, and has been recognised in full in own funds

Interest payments amount to DKK -89m (2022: DKK -41m)

Subordinated capital has been issued and redeemed in 2023, while in 2022 no subordinated capital was either issued or redeemed.

The subordinated debt is denominated in DKK and carries interest at CIBOR 6M + 2.5% and CIBOR-3M + 4.25%

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

The subordinated debt of DKK 650m falls due on 14 October 2032 but may, subject to approval by the Danish FSA, be repaid at par in part or in full at any time after 14 October 2027.

30 Shareholder relations

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

At 31 December 2023, the following shareholders held more than 5% of DLR's share capital:

Loan-providing shareholders:

Sparekassen Danmark A/S, Vrå
Sydbank A/S, Aabenraa
Vestjysk Bank A/S, Herning

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.**	**2023**	**2022**
	Financial guarantees	0	0
	Total	**0**	**0**
	Other contingent liabilities		
	Irrevocable credit commitments (loan offers)	10,043	13,918
	Total	**10,043**	**13,918**

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.

Note
32 Contingent assets

Loss set-off agreements have been established between DLR and the loan-distributing shareholder banks, 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.

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. DLR assesses the loan applicant's financial circumstances and the property mortgage offered. In this connection, the loan applicant's ESG conditions and climate risks are also assessed.

- Market risk: Mortgage lending and the associated funding are regulated by "Bekendtgørelse om obligationsudstedelse, balanceprincip og risikostyring", where DLR provides lending according to the specific balance principle (match funding). This means that DLR only has insignificant market risks in connection with the mortgage lending provided and the corresponding mortgage bonds issued. DLR's market risks are thus related to the fund portfolio and issued bonds at amortized cost price.

- DLR's liquidity risk is linked to losses as a result of DLR's financial obligations not being met in a timely manner. DLR manages the liquidity on a daily basis, which is essentially related to generating liquidity for the daily loan payments, which are secured via the issue and sale of mortgage bonds. In addition, DLR has 4 major liquidity days each year, which are early January, early April, early July and early October. On these large liquidity days, payment of interest, ordinary installments and extraordinary installments is due to the bond investor. An important element in securing the necessary liquidity is the holding of refinancing auctions, which are held at least 30 days before the respective maturity dates, so that there is adequate security for liquidity on the major liquidity days.

- Non-financial risks: Non-financial risks concern operational risk (losses due to inappropriate or insufficient in-house procedures, human or system error or error caused by external events), compliance risk (losses due to non-compliance with applicable regulations, market standards or internal rules) and IT risks (losses due to system error or non-compliance with IT security protocols, incl. cyber security 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/en/investor/Financial Statements.

Note 34 Credit risk - management of credit risk and collateral

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

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

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

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

Valuation of properties takes place in accordance with the Financial Supervisory Authority's order on the valuation of mortgages and loans in real estate. The valuation takes into account any special environmental, social and management conditions at the property, as these conditions now and especially in the future must be expected to affect the property's value and marketability. For agricultural properties, special attention is paid to possible point pollution, environmentally sensitive areas, location in relation to the risk of flooding, stable layout in relation to legislation, animal welfare and the like. For urban commercial properties, special attention is paid to energy consumption, energy source, possible pollution, environmental restrictions, location in relation to the risk of flooding, layout and use in relation to legislation, and the expected development in the requirements for the type of property in question in the future.

In the determination of the total loan amount, including the extent to which the upper loan limit for the relevant property category can be used, emphasis is placed on the loan applicant's financial results over several years, the property's ESG situation as described above, as well as the owner's and management's focus on and ability to handle of the increasing focus on a sustainable company profile. If the economy has not developed satisfactorily over a longer period, decisive emphasis is placed on whether a mortgage placement can be achieved in the property, which 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 187bn at year-end 2023, equal to 99% of the total loan portfolio calculated at the outstanding bond debt.

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 0,5bn at year-end 2023.

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 2023, the loan-mitigating agreements under this guarantee concept comprised guarantees for a portfolio of currently DKK 0,3bn. 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.

Note 35 Credit risk - exposures

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

Balance sheet items

	2023	2022
Cash balance and demand deposits with central banks	2,450	1,433
Due from credit institutions and central banks	183	408
Loans, advances and other receivables at fair value	181,956	169,912
Loans, advances and other reveivables at amortised cost	5	7
Bonds at fair value	7,783	8,096
Other assets	246	103
Derivative financial instruments	38	12
Total	**192,660**	**179,972**

Off-balance sheet items

	2023	2022
Financial guarantees	0	0
Irrevocable credit commitments (loan offers)	10,043	13,918
Other contingent assets	0	0
Total	**10,043**	**13,918**

Note 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 2023 for the most significant property categories. The tables of the distribution of lending by LTV bands 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 ranges. 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 for loans based on covered bonds). In addition, a forward indexation has been made of the valuations to the price level at Q4 2023 to ensure that the valuation basis applied reflects the current price level.

It should be noted that, the intermediary institutions partially hedge DLRs risk according to the guarantee and set-off concepts described in note 34.

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 51% of DLR's total loan portfolio at the end of 2023.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Per cent of loans in LTV intervals	96.5	3.1	0.4

Office and business properties: An LTV of 70% provided that additional collateral of 10% of the value is provided in the interval of 60-70% for loans based on SDOs. Otherwise, an LTV of 60% applies. Loans for office and business properties accounted for 18% of DLR's total loan portfolio at the end of 2023.

Loan-to-value limit (LTV) as a percentage	0-60	60-70	70+
Per cent of loans in LTV intervals.	96.9	2.6	0.5

Rental properties, including cooperative housing: An LTV of 80% applies. Loans for private rental properties and private cooperative housing properties accounted for 24% of DLR's total loan portfolio at the end of 2023.

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 5% of DLR's total loan portfolio at the end of 2023.

Loan-to-value limit (LTV) as a percentage	0-80	80+
Per cent of loans in LTV intervals	99.4	0.6

Note

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. Instead, modelled impairment will be recognised for these loans. DLR's impairment approach complies with the requirements of the Danish FSA's executive order on the presentation of financial statements, which is based on IFRS 9.

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 2023, DLR's own funds amounted to DKK 17,342m after deductions, giving a maximum permitted interest rate risk of DKK 1,387m.

At the end of 2023, the interest rate risk on DLR's securities portfolio (asset side) was DKK 219m. Interest rate risk expresses the market value adjustment expected to result from a 1 percentage point change in market rates at year-end 2023. Based on own funds, the relative interest rate risk was 1,3% at year-end 2023.

The interest rate risk on issued securities (liability side) – additional tier 2 capital and senior secured bonds, Senior Non-Prefered Notes and Senior Resolution Notes – is DKK 20m, 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 payments on loans and issued bonds closely track each other (match funding). However, DLR receives an inflow of liquidity in connection with loan prepayments (immediate prepayment) that is subsequently invested until the amount is due to be paid to bondholders as extraordinary drawings.

The liquidity is placed as term deposits with banks or in short bonds. Likewise, prepaid funds arising from the borrower's quarterly payments on ARM loans are placed with banks or in short-term bonds and ring-fenced from the rest of the securities portfolio.

The implementation of CRR/CRD IV, introduced requirements – cf. S.8 (9) of the Danish Executive Order on Management and Control of Banks, etc. – for the calculation and assessment of liquidity and liquidity risk (ILAAP – Internal Liquidity Adequacy Assessment Process). Since 2014, DLR has therefore produced a separate annual liquidity report. The ILAAP is approved by DLR's Board of Directors prior to submission to 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 2023 was DKK 0.3m, equivalent to 0.002% of common equity tier 1 capital. 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 common equity tier 1 capital. DLR's limited exchange rate risk is explained by the fact that foreign-currency loans (only EUR) will always be funded in the foreign currency in question and that only a small proportion of DLR's securities portfolio is held in EUR bonds.

Equity risk
In general, DLR does not invest in shares, except for sector shares. At the end of 2023, DLR's equity portfolio consisted of holdings in e-nettet A/S. At year-end 2023, the equity risk after tax (determined as the earnings effect of a change in share prices of 10%) was DKK 3m.

Note

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.

2023	Change in profit after tax	Change in equity
Interest rate risk exposure of the securities portfolio		
An interest rate increase of 1 percentage point	-164	-164
An interest rate decrease of 1 percentage point	164	164
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	3	3
A 1% drop in the DKK/EUR rate of exchange	-3	-3

2022	Change in profit after tax	Change in equity
Interest rate risk exposure of the securities portfolio		
An interest rate increase of 1 percentage point	-160	-160
An interest rate decrease of 1 percentage point	160	160
Equity risk		
An increase in share value of 10%	4	4
A decrease in share value of 10%	-4	-4
Exchange rate risk		
A 1% increase in the DKK/EUR rate of exchange	3	3
A 1% drop in the DKK/EUR rate of exchange	-3	-3

Notes – Financial instruments
(DKKm)

Note

40 Financial instruments: instruments used

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

41 Financial instruments - Financial instruments not carried at fair value

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

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

2023	Carrying amount	Fair value
Loans, advances and other receivables at amortised cost	5	5
Issued bonds at amortised cost	3,995	3,995
Subordinated capital contributions at amortized cost price	1,298	1,319

2022	Carrying amount	Fair value
Loans, advances and other receivables at amortised cost	7	7
Issued bonds at amortised cost	3,994	3,915
Subordinated capital contributions at amortized cost price	1,298	1,307

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

Note

42 Assets and liabilities at fair value

2023	Quoted prices	Observable inputs	Non-observable inputs	Total fair value
Financial assets:				
Recognised as trading portfolio:				
- bonds at fair value	6,843	941	0	7,783
- derivative financial instruments	38	0	0	38
Recognised through fair value option:				
- loans, advances and other receivables at fair value	0	181,956	0	181,956
Recognised as available for sale:				
- shares available for sale	0	0	46	46
Other assets				
Land and buildings, domicile properties	0	0	150	150
Total	**6,880**	**182,897**	**196**	**189,973**
Financial liabilities:				
Recognised as trading portfolio				
- derivative financial instruments	19	0	0	19
Recognised through fair value option:				
- issued bonds at fair value	160,654	7,357	0	168,011
Total	**160,672**	**7,357**	**0**	**168,030**

Note

42 Assets and liabilities at fair value (continued)

2022	Quoted prices	Observable inputs	Non-observable inputs	Total fair value
Financial assets:				
Recognised as trading portfolio:				
- bonds at fair value	6,934	1,162	0	8,096
- derivative financial instruments	12	0	0	12
Recognised through fair value option:				
- loans, advances and other receivables at fair value	0	169,912	0	169,912
Recognised as available for sale:				
- shares available for sale	0	0	45	45
Other assets				
Land and buildings, domicile properties	0	0	135	135
Total	**6,945**	**171,075**	**180**	**178,200**
Financial liabilities:				
Recognised as trading portfolio:				
- derivative financial instruments	15	0	0	15
Recognised through fair value option:				
- issued bonds at fair value	141,137	16,575	0	157,712
Total	**141,152**	**16,575**	**0**	**157,728**

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.

Note

43 Derivative financial instruments by remaining term to maturity

	2023	2022
Forwards, bought *		
Up to and including three months		
Nominal value	5,453	3,716
Net market value	9	-15
Forwards, sold **		
Up to and including three months		
Nominal value	3,280	1,867
Net market value	-16	5

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

* Forwards, bought: The refinancing, totalling DKK 4,287m at the turn of the year 2023/24, 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. Furthermore, DLR has other forward contracts for DKK 1,166m.

** Forwards, sold: Of the DKK 4,287m refinancing, DLR has sold DKK 3,280m forward at 2 January 2024, while the remaining amount was sold for settlement in 2023 and is therefore not stated as forwards.

Notes – Key figures and financial ratios
(DKKm)

Note	Key figures	2023	2022	2021	2020	2019
44	**Income statement**					
	Net interest and fee income	1,879	1,547	1,428	1,428	1,432
	Other operating income etc.	1	18	31	24	25
	Staff costs and administrative expenses etc.	-372	-344	-343	-315	-287
	Earnings	**1,508**	**1,221**	**1,116**	**1,137**	**1,170**
	Impairment of loans, advances and receivables	1	10	109	-62	86
	Market value adjustments	288	-304	-87	-114	-171
	Profit before tax	**1,797**	**927**	**1,138**	**960**	**1,085**
	Profit after tax	**1,347**	**720**	**888**	**749**	**846**

Balance	2023	2022	2021	2020	2019
Assets					
Loans and advances	181,961	169,920	175,213	166,787	156,837
Bonds, shares, etc.	7,829	8,141	6,424	12,041	11,769
Other assets	3,100	2,183	2,234	2,255	4,839
Total assets	**192,890**	**180,244**	**183,871**	**181,083**	**173,444**
Equity and liabilities					
Issued bonds	172,006	161,707	166,201	164,433	157,639
Other liabilities	2,436	1,448	1,299	1,167	1,195
Subordinated debt	1,298	1,298	1,300	1,300	1,300
Equity	17,149	15,791	15,071	14,183	13,311
Total equity and liabilities	**192,890**	**180,244**	**183,871**	**181,083**	**173,444**

Note

45 **Financial ratios**

	2023	2022	2021	2020	2019
Return on equity					
Profit before tax in per cent of equity *	10.9	6.0	7.8	7.0	8.3
Profit after tax in per cent of equity *	8.2	4.7	6.1	5.4	6.4
Return on capital employed					
Return on capital employed *	0.70	0.40	0.48	0.41	0.49
Costs					
Costs in per cent of loan portfolio	0.2	0.2	0.2	0.2	0.2
Income/cost ratio *	5.8	3.8	5.9	3.5	6.4
Income/cost ratio, excl. impairment losses	5.8	3.7	4.0	4.2	4.5
Solvency					
Total capital ratio*	24.0	24.3	18.6	18.8	17.1
Tier 1 capital ratio*	22.2	22.5	17.1	17.1	15.5
Common equity tier 1 capital ratio	22.2	22.5	17.1	17.1	15.5
Arrears and impairment losses					
Arrears, end of period (DKKm)	61	50	61	71	89
Impairment ratio for the period *	0.00	-0.01	-0.06	0.04	-0.05
Accumulated impairment ratio	0.19	0.22	0.22	0.29	0.28
Lending activity					
Growth in loan portfolio, per cent (nominal) *	4.1	3.3	7.2	6.3	5.6
New loans, gross (DKKm)	27,899	45,751	36,608	36,839	43,061
Number of new loans	7,358	12,518	11,250	11,507	13,033
Loan/equity ratio *	10.6	10.8	11.6	11.8	11.8
Margins					
Percentage of average loan portfolio (nominal):					
Profit before tax	0.97	0.52	0.67	0.60	0.72
Administration margin income	1.04	1.06	1.07	1.09	1.08
Percentage of tier 1 capital after deductions					
Foreign exchange position as a percentage of tier 1 capital after deductions	2.1	2.3	1.6	2.2	3.9

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

Other notes
(DKKm)

Note	Activities and geographical markets	2023	2022
46			
	DLR carries on mortgage credit activities in one geographical market, which is Denmark (including the Faroe Islands and Greenland).		
	Net interest and fee income	1.879	1.547
	Market value adjustments	288	-304
	Revenue	7.088	3.869
	Government grants received	0	0

47 Related parties

DLR has no related parties exercising control, either in the form of an ownership interest of more than 20% or 20% of the voting rights.

The related parties of the institution comprise the members of the Board of Directors and the Executive Board, including their related parties.

During 2023, there were no direct transactions with the Board of Directors or the Executive Board apart from salaries and remuneration. Remuneration to members of the Board of Directors and the Executive Board is disclosed in notes 5 and 6.

In 2023, no loans, charges or guarantees have been granted to the institution's related parties in the form of the members of the Board of Directors and the Executive Board or their related parties. Disclosures on loans, charges or guarantees to the institution's Board of Directors and Executive Board are set out in note 8. As far as the member of the board who has a loan with DLR is concerned, this loan was established before the person joined DLRs board of directors.

Some members of DLR's Board of Directors hold executive positions in the institution's shareholder banks, which makes these banks related parties of DLR. Guarantees provided by these shareholder banks amounted to DKK 5,201m at 31 December 2023 (2022: DKK 6,202m).

Transactions between DLR and these related parties concern commission payments such as mediation commissions and commission reimbursements. In 2023, the transactions amounted to DKK 24m. (2022: DKK 36m).

DLR has commissions payable to the related parties in the form of guarantee commissions, etc. At 31 December 2023, this amount was DKK 280m (2022: DKK 301m).

	Reason for related party status	Address	Registered office
A/S Arbejdernes Landsbank	A board member is an executive in the bank	København V	Denmark
Ringkjøbing Landbobank A/S	A board member is an executive in the bank	Ringkøbing	Denmark
Spar Nord Bank A/S	A board member is an executive in the bank	Aalborg	Denmark
Sparekassen Danmark	A board member is an executive in the bank	Vrå	Denmark
Sparekassen Sjælland-Fyn A/S	A board member is an executive in the bank	Holbæk	Denmark

Sparekassen Thy	A board member is an executive in the bank	Thisted	Denmark

DLR has exposures with companies in which related parties exercise control. At 31 December 2023, these exposures totalled DKK 207m (2022: DKK 217m).

	Reason for related party status	Address	Registered office
Sparekassen Danmark	A board member acts as chairman of boards of directors of companies which have exposures with DLR	Vrå	Denmark
Sparekassen Sjælland-Fyn A/S	The institution has ownership interests in a company which has a loan offer about an exposure with DLR	Holbæk	Denmark
Sparekassen Thy	A board member has exposures with DLR, jf. note 8.	Thisted	Denmark

All transactions, guarantees, deposits and exposures with related parties and companies in which related parties exercise control were made on an arm's length basis.

Note

48 Reconciliation of income statement for "core and portfolio earnings" against "official statements" 2023

	Core earnings	Portfolio earnings	Total
Interest income	6,353	513	6,866
Interest expenses	-4,426		-4,426
Net interest income	**1,927**	**513**	**2,439**
Share dividends etc.	0		0
Fees and commission received	222		222
Fees and commission paid	-782		-782
Net interest and fee income	**1,366**	**513**	**1,879**
Market value adjustments	1	287	288
Other operating income	1		1
Staff costs and administrative expenses	-348		-348
Depreciation and impairment of property, plant and equipment	-2		-2
Other operating expenses	-22		-22
Impairment of loans, advances, receivables, etc.	1		1
Profit before tax	**997**	**800**	**1,797**
Tax	-242	-208	-450
Profit after tax	**755**	**592**	**1,347**

*) Interest income from portfolio earnings is a net income that only includes the part of the bond interest that corresponds to a return in addition to an internal interim interest rate. This cannot therefore be reconciled directly to note 1.

Note

49	Supervisory diamond for mortgage credit institutions , %	2023	2022	Threshold
	1. Lending growth			
	Private homeowners	1.5	3.0	<15%
	Residential rental property	6.8	6.9	<15%
	Agriculture	2.4	1.1	<15%
	Other business lending	6.2	5.4	<15%
	2. Borrower interest-rate risk	24.0	20.5	<25%
	3. Interest-only lending to private home owners	0.9	0.8	<10%
	4. Loans with short-term funding (quarterly)			
	Q1 2023	0.7	0.0	<12,5%
	Q2 2023	10.4	7.7	<12,5%
	Q3 2023	2.8	4.7	<12,5%
	Q4 2023	2.3	1.6	<12,5%
	Loans with short-term funding annually *	**16.0**	**13.9**	**<25%**
	5. Large exposures	40.1	31.9	< 100%

*The percentage for the individual quarters is calculated on the basis of the quarter-end portfolio, while the annual percentage is calculated on the portfolio at the end of the last quarter. The percentage for the year therefore does not agree with the sum of the percentage in the individual quarters.

Note

Accounting policies

50

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 2022.

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

Totals in the financial statements have been calculated on the basis of actual amounts. 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, advances and other receivables at fair value (including impairment)
- Issued bonds at fair value and loans, advances and other receivables at fair value (before impairment)
- Bonds at fair value
- Land and buildings, domicile properties
- Shares etc.

Loans, advances and other receivables at fair value (and related impairment losses)

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.

The calculation of impairment losses on loans, advances and other receivables 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
- Determination of LGD (loss given default), which is the loss DLR expects to incur if a borrower defaults on a loan.
- Scenarios for developments in PD
- Scenarios for developments in property values
- Assumptions regarding expected future developments in general macroeconomic metrics, such as GDP, interest rates, unemployment, etc. In this connection, DLR uses auxiliary tools developed by the Association of Local Banks (LOPI), and which is referred to as LOPI's IFRS 9 auxiliary tool.
- Management overlays to ensure that provisions are made to cover risks not reflected in the individual impairment losses or the modelled impairment losses.

For these overlays, a more detailed description of the methods is provided in the section "Loans, advances and other receivables".

Issued bonds at fair value and loans, advances and other receivables at fair value (before impairment)

DLR's mortgage loans and underlying issued bonds adhere to the specific balance principle.

Issued mortgage bonds and mortgage loans 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".

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 43, "Assets and liabilities at fair value".

Land and buildings, domicile properties

The measurement of the value of DLR's domicile properties is based on valuations performed by an in-house valuer specialising in the assessment of 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".

Shares etc.
DLR does not own listed shares but has a small portfolio of unlisted shares, which 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, the share price is determined 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 financial instruments 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 rate of 25.2% applicable for mortgage credit institutions, while deferred tax is calculated based on a rate of 26%, which is the tax rate applicable from 2025 and onwards for mortgage credit institutions.

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

Balance sheet

Cash and demand deposits at central banks
Demand deposits with Danmarks Nationalbank are measured at fair value on initial recognition and subsequently at amortised cost less impairment losses.

Due 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 at fair value and amortised cost
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 the Danish Executive Order on the Presentation of Financial Statements, which is based on the principles of IFRS 13, and in which the impairment principles are based on the same method 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 in stages is based on DLR's proprietary rating models. The principles governing the categorisation in 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.

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
- DLR has granted concessions due to the customer's financial difficulties and expects to suffer a loss in the most likely scenario.
- It is probable that the customer will enter into bankruptcy
- The loan is individually impaired

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 loan is more than 30 days in arrears and no special circumstances warrant that this should be ignored.

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

- Weak stage 2: The credit risk associated with the customer has increased significantly since initial recognition, and the customer's ability to pay is significantly impaired, which is defined as a PD above 5%.
- 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 institutions are all assessed to carry low credit risk. For assets with such counterparties, it is therefore assumed that there has been no major increase in credit risk since initial recognition. These claims 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.

<u>Inputs for the impairment model</u>
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. They are based on historical migrations between PD categories and adjusted to reflect observed default levels, and it is expected that future migrations may be estimated against this background.

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 factors designed by the Association of Local Banks, Savings Banks and Co-operative Banks in Denmark. The model calculates a number of industry-specific "adjustment factors" on the basis of expectations for macroeconomic developments (GDP, interest rates, unemployment, etc.).

Scenarios
DLR´s main scenario is assessed as the most likely, and is assigned a weight of 35%. In this scenario, existing property prices and PD levels are used. In addition to the main scenario, DLR has incorporated additional four scenarios where the following stress parameters are used:

- Property prices fall by 30%, and PD increases by 100%, which is allocated a weight of 20%
- Property prices fall by 15%, and PD increases by 50%, which is allocated a weight of 30%
- Property prices rise by 10%, and PD remains unchanged, which is allocated a weight of 10%
- Property prices rise by 20%, and PD remains unchanged, which is allocated a weight of 5%

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

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

The management overlay is divided into two categories:

- Category 1: Expected losses which are difficult to calculate in a world of constant change, including the fact that the determination of individual, manual impairment losses and modelled impairment to a large extent is based on historical data.
- Category 2: Errors and omissions in the calculation of expected losses, including errors and omissions in data or impairment models in general.

Category 1:
The determination of the management overlay is divided into the following sub-categories.

Impairment of loans secured against agricultural properties

The assessment is made for each of the following types of pledges:

- Piglet producers
- Producers of fattening pigs
- Plant growers
- Milk producers
- Horticulture

The assessment of the need for a possible management supplement to the write-downs is based on the settlement prices for the respective agricultural products and the associated costs, which are combined with DLR's in-depth knowledge of the market. As a consequence of the fact that significant stress scenarios have already been taken into account in the model-calculated write-downs, in the form of falling mortgage values and increasing PDs, it has been assessed that there is no need for a further management supplement.

Overlay due to the situation in Ukraine, rising interest rates, inflation etc.

The economic situation continues to be affected by the effects of the war in Ukraine, the increased and afterwards falling inflation and significant increases in interest rates. In general, DLR's portfolio is considered to be relatively robust in relation to these influences, and at the same time the arrears levels are still very low.

Although the latest indications point towards a soft landing on the long-awaited economic slowdown for Denmark, there is still increased uncertainty. It is the management's assessment that this uncertainty may lead to a higher risk of loss than that reflected in the individual and model-calculated write-downs.
In relation to DLR's lending to production agriculture, special stress calculations have been carried out, based on the time in the financial crisis when the mortgage sector experienced the highest losses on agricultural lending. These calculations indicate a potential write-down need, in addition to the already allocated individual and model-calculated write-downs of DKK 59 million. DKK, which is thus set aside as a management supplement to the write-downs.

In relation to DLR's other lending for residential rental properties, office & business properties, etc. there are still very low levels of arrears on these loans. However, according to management's assessment, there may still potentially be a higher risk of loss than what is reflected in the individual and model-calculated write-downs. In order to quantify this potential additional risk, shadow calculations have been made based on the real estate sector's losses during the financial crisis, for a cautious but not unrealistic outcome.

These calculations indicate a potential write-down need, in addition to the already allocated individual and model-calculated write-downs of DKK 111 million. DKK, which is therefore set aside as a management supplement to the write-downs.

The total managerial supplement as a result of the situation in Ukraine, interest rate increases, inflation, etc. then amounts to DKK 170 million DKK

<u>Supplement as a result of uncertainty surrounding the implementation of CO2e tax on agricultural biological processes.</u>

It is the management's expectation that agriculture will very likely be subject to a CO2e tax and that these rules could be adopted in 2024.

Despite political announcements about a clear focus on maintaining a large agricultural production in Denmark, there is a particular political risk in relation to how these rules are implemented in practice. In order to be able to quantify such a risk, SEGES, for DLR, has made calculations at different levels of a CO2e tax. Based on these SEGES calculations, DLR's model department has estimated different PD thrust. In addition, alternative calculations have been made in the form of rough estimates for individual exposures. Based on these methods, the management has made a managerial addition to the write-downs of DKK 63 million. DKK

<u>Category 2:</u>
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 general 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”.

Bonds at amortised cost
Bonds acquired for the purpose of receiving a return throughout the period until maturity (“held-to-maturity”) are measured at amortised cost.

On initial recognition, the bonds are measured at fair value equal to cost, which forms the basis of the amortisation calculation made.

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. In connection with the assessment of the fair value of the property, the lifetime and scrap value are also reassessed.

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.

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 derivative financial instruments (forward transactions with mortgage bonds) 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 derivative financial instruments (forward transactions with mortgage bonds) 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.

Subordinated debt

Subordinated debt is measured at fair value on initial recognition and subsequently at amortised cost.

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.

Management review, (continued)

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.

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

Complete series financial statements may be obtained from DLR.

Series financial statements	B - SDO	DLR in general	Total
Income statement			
Administration and reserve fund contributions	1,916	11	1,927
Front-end fees	87	1	87
Interest on subordinated debt and guarantee capital	-88	-1	-88
Interest etc.	540	3	543
Market value adjustment of securities, foreign exchange, etc.	287	2	288
Administrative expenses etc.	-955	-6	-961
Write-offs and provisions for loans and advances	1	0	1
Tax	-447	-3	-450
Profit	1,339	8	1,347
Balance sheet			
Assets			
Mortgage loans	181,728	539	182,267
Arrears on mortgage loans before impairment	61	0	61
Provisions for loans, advances and arrears	-365	-7	-372
Prepayments	28	0	28
Other assets, including reserve fund loans	31,925	138	32,063
Total assets	213,376	671	214,047
Equity and liabilities			
Issued bonds etc.	188,399	558	188,957
Deferred income	1,490	5	1,494
Other liabilities	5,147	0	5,147
Subordinated debt	1,295	4	1,298
Equity	17,045	104	17,149
Total equity and liabilities	213,376	671	214,047
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			192,890
Set-off of own mortgage bonds			20,946
Set-off of interest receivable on own bonds etc.			210
Balance sheet total in DLR's series financial statements			214,047

* 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 2023.

The annual report has been prepared in accordance with the requirements of the law, including 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.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2023 and of the results of the Company's operations for the financial year 1 January - 31 December 2023.

Furthermore, it is our opinion that the Management review includes a fair presentation of the Company's activities and development and financial position, as well as a description of the principal risks and uncertainties that may affect the Company.

In our opinion, the annual report for the financial year 1 January to 31 December 2023 with the file name "DLR Kredit Annual Report 2023.zip", in all material respects has been prepared in accordance with the ESEF Regulation.

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

Copenhagen, 9 February 2024

Executive Board

Jens Kr. A. Møller
Managing Director & CEO

Pernille Lohmann
Managing Director

Board of Directors

Vagn Hansen
Chairman

Carsten Levring Jakobsen
Vice Chairman

Claus Andersen

Ole Beith

Frank Mortensen

Lars Petersson

Jakob G. Hald

Lars Faber

Randi Holm Franke

Internal auditor's report

Report on the financial statements

Opinion
In our opinion, the financial statements of DLR Kredit A/S give a true and fair view of the Company's assets, liabilities, equity and financial position at 31 December 2023 and of the results of the Company's operations for the financial year 1 January – 31 December 2023 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 critical audit areas have been organised and are working satisfactorily.

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

Basis of opinion
We have audited the financial statements of DLR Kredit A/S for the financial year 1 January - 31 December 2023. The financial statements have been prepared in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

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

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

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

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

Statement on the Management review
Management is responsible for the Management review.

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

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

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

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

Copenhagen, 9 February 2024

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 2023, 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 and additional Danish disclosure requirements for listed financial companies.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2023 and of the results of its operations for the financial year 1 January – 31 December 2023 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for listed financial companies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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. We have been re-elected annually by resolution of the Annual General Meeting for a total continuous assignment period of 3 years up until and including financial year 2023.

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 2023. 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.

Valuation of loans and provisioning for expected credit losses

Description of the matter

The Company's loans, advances and other receivables at fair value amounted to DKK 181,956 million at 31 December 2023 (DKK 169,912 million at 31 December 2022) and provisions for expected credit losses amounted to DKK 373 million at 31 December 2023 (DKK 368 million at 31 December 2022).

As described in the accounting policies (note 50) multiple variables are included in the measurement of expected credit losses related to loans measured value at fair value, and such variables are subject to significant estimation uncertainty. Such estimation uncertainty relates to - among other things - the realisable value of financed properties; estimating the 12-month and lifetime PDs (probability of default), scenarios regarding the future development of the real estate market. Additionally, expected credit losses are materially affected by managements estimates, which are established to account for risks which are not reflected in the individual credit loss assessment or the model-based credit losses (both the "in-model-adjustments" and the "post-model-adjustments").

For all loans with an objective indication of credit impairment (OIK), an individual credit loss assessment is applied, taking into consideration various weighted scenarios, including a sales scenario wherein the underlying collaterals are realised.

Credit losses for all other loans that either do not contain OIK, or OIK-exposures where the individual credit loss allowance is calculated at DKK 0, are calculated based on model-based calculations, taking into account the probability of

How the matter was addressed

Based on our risk assessment and knowledge of the industry, we performed the following audit procedures regarding measurement of loans, advances and other receivables at fair value:

- We have obtained an understanding of and tested the design and operating effectiveness of management's internal controls regarding measurement of expected credit losses on loans and receivables, including the monitoring of the exposures, staging of exposures and significant increases in credit risk, and valuation of underlying collateral.
- Assessment of the Company's methods for measuring expected credit losses, including an assessment as to whether methods applied for model-based and individual credit loss assessments comply with the accounting rules.
- On the basis of qualitative and quantitative sampling criterions, we have tested credit-impaired exposures on a sample basis, including assessing the assessment of the value of collateral and the conditions from management.
- With the involvement of our credit-risk specialists we have assessed the model-based credit losses, evaluated the completeness and accuracy of input data, the model's clerical methods and the Company's validation of the models and methods.
- We have tested on a sample basis the credit-risk ratings, staging and the

default (PD), expected exposure to credit loss (Exposure At Default – "EAD") and the expected loss in a default situation (Loss Given Default – "LGD"). The model includes both historical and forward-looking information, including expected future macroeconomic conditions.

The audit of the Company's estimated credit losses on loans and receivables etc. is associated with a high complexity as a result of the significant management and accounting estimates, which involves forward-looking information, an assessment of the realisable value of the collateral and models used for the estimation of expected credit losses. In addition, the current macroeconomic environment and geopolitical tension, requires that management supplement model-based credit losses with management estimates.

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.

conditions applied in the measurement of PD-. LGD- and EAD-values, which are a part of management's estimate of expected credit losses on loans and receivables with respect to the model-based credit loss measurement.

- We have assessed the relevance of management's estimates, including whether management have appropriately included both qualitative and quantitative information, input from the Company's own specialists, performed sensitivity analyses and tests of consistency in the method to determine management's estimates.

We also assessed whether the note disclosures regarding exposures, credit losses and credit risks comply with the relevant accounting rules and tested the figures included therein (notes 11, 14, 19, 20 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 relevant law and regulations.

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 relevant law and regulations. 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 and additional Danish disclosure requirements for listed financial companies.

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

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 on whether the annual report of DLR Kredit A/S for the financial year 1 January – 31 December 2023 with the file name "DLR Kredit Årsrapport 2023.zip" is 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 the annual report in XHTML format.

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

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The procedures consist of testing whether the annual report is prepared in XHTML format.

In our opinion, the annual report of DLR Kredit A/S for the financial year 1 January – 31 December 2023 with the file name "DLR Kredit Årsrapport 2023.zip" is prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 9 February 2024
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Lars Rhod Søndergaard	Thomas Hjortkjær Petersen
State Authorised Public Accountant	State Authorised Public Accountant
mne28632	mne33748

Shareholders in DLR Kredit A/S

Year end 2023

- Arbejdernes Landsbank A/S
- BankNordik
- Borbjerg Sparekasse
- Danske Andelskassers Bank A/S
- Djurslands Bank A/S
- Dragsholm Sparekasse
- Faster Andelskasse
- Forvaltningsinstituttet for Lokale Pengeinstitutter
- Frørup Andelskasse
- Frøslev-Mollerup Sparekasse
- Fynske Bank A/S
- Fælleskassen
- GrønlandsBANKEN A/S
- 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
- PRIPS2022 P/S
- Ringkjøbing Landbobank A/S
- Rise Sparekasse
- Rønde Sparekasse
- Skjern Bank A/S
- Spar Nord Bank A/S
- Sparekassen Balling
- Sparekassen Bredebro
- Sparekassen Danmark
- Sparekassen Djursland
- Sparekassen for Nr. Nebel og Omegn
- Sparekassen Kronjylland
- Sparekassen Sjælland-Fyn A/S
- Sparekassen Thy
- Stadil Sparekasse
- Suduroyar Sparikassi
- Sydbank A/S
- Sydjysk Sparekasse
- Sønderhå-Hørsted Sparekasse
- Vestjysk Bank A/S

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