

dlr.kredit



# Investor presentation

November 2024

This presentation is based on publicly available information primarily from following sources:

- <https://dlr.dk/wp-content/uploads/2024/10/DLR-Investor-presentation-Q3-2024.pdf>
- <https://dlr.dk/wp-content/uploads/2024/10/DLR-Kredit-delaarsrapport-1-3-kvarital-2024-EN.pdf>

# DLR – issuance of additional Tier 2 capital

- DLR has mandated Danske Bank A/S and Nordea Bank Abp to conduct the issuance of subordinated notes (Tier 2) in the range from DKK 650 million to DKK 1,000 million in DKK and/or SEK to optimize the capital structure
- In December 2024, DLR redeems a Tier 2 issue maturing 2029 with an outstanding of DKK 650 million based on the approval of the Danish FSA
- The bonds are issued under "DLR Kredit A/S DKK 10,000,000,000 Debt Issuance Programme" (base prospectus) dated 27 September 2024
- The bonds will be listed on Nasdaq Copenhagen and are expected to be 'BBB-' rated from S&P



# About DLR Kredit

- DLR is a Danish mortgage credit institution specializing in lending to agricultural and commercial properties in Denmark, Greenland and the Faroe Islands
- Founded in 1960 as a mortgage foundation, and in 2001 converted into the present form as a Limited Liability Company "A/S"
- Owned mainly by 42 local and regional banks who distribute loans/customers to DLR against commission payments from DLR
- Recognized SIFI under Danish regulations

**Loan portfolio of DKK 195 bn**

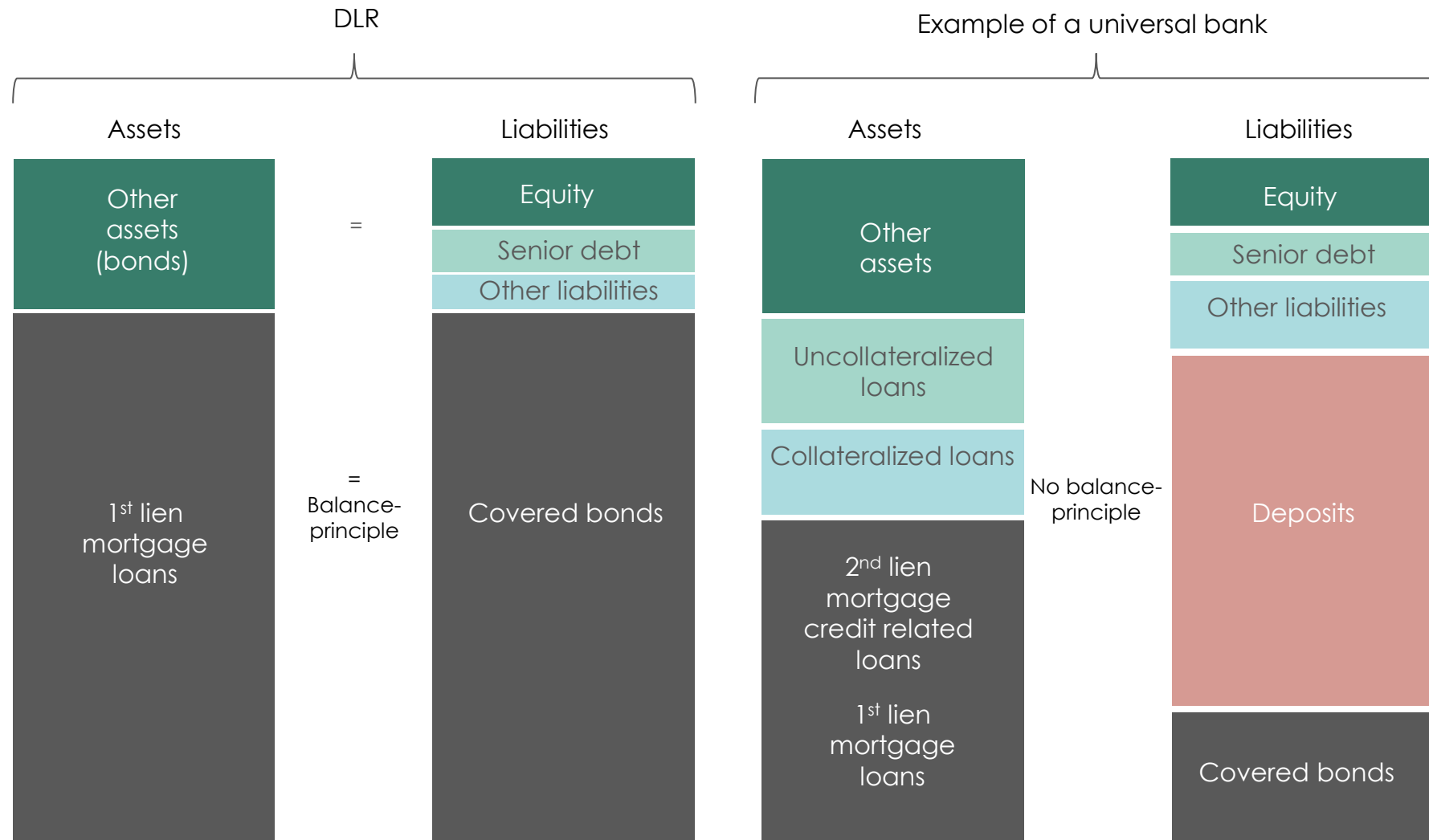
**Own funds of DKK 17.3 bn**

**240 FTE's in Nyropsgade, Copenhagen + 43 locally based valuation officers**

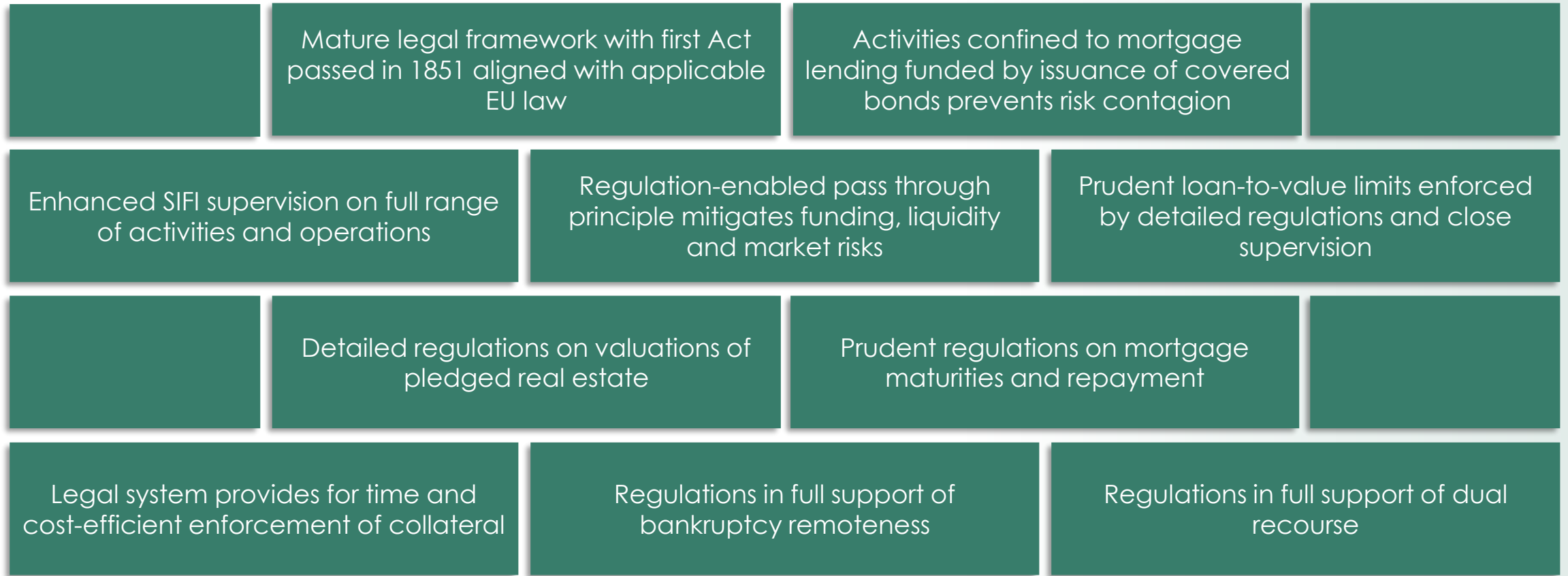




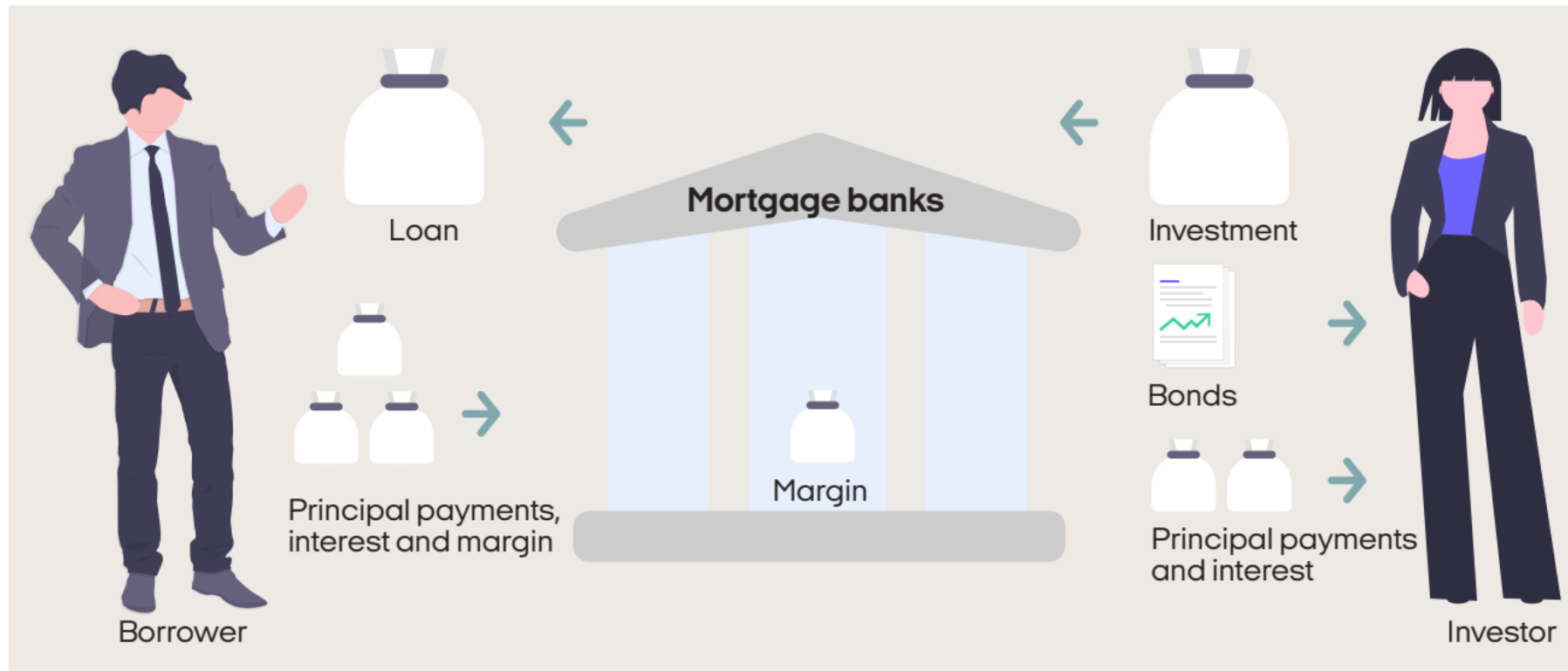
# Balance sheet: DLR vs. Universal bank



# Strong legal framework



# Match funding principle – the foundation of the unique mortgage credit model



## Features

- 1:1 relationship between bonds and mortgages
- Direct pass-through
- Market-based prices
- Transparent loan costs

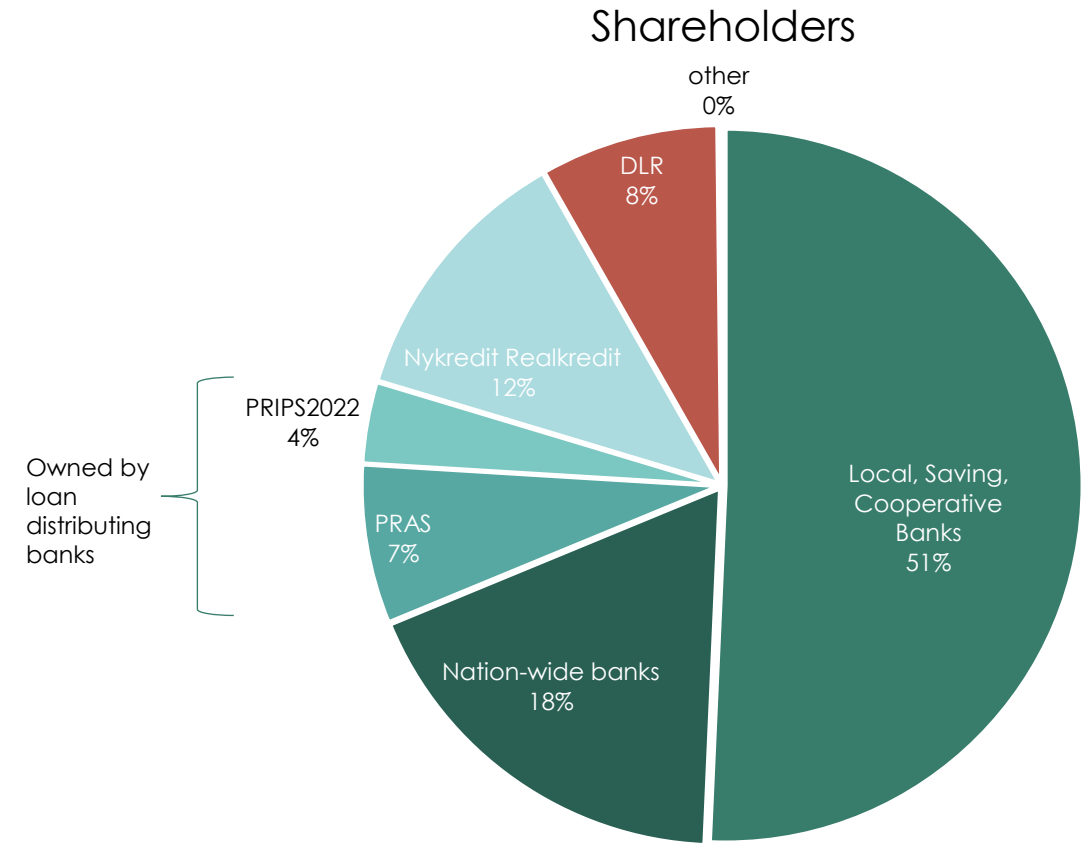
## Risks

- Most significant risk is credit risk
- Limited market risk primarily on DLR's securities portfolio
- Limited liquidity risk primarily related to refinancing (mitigated by statutory maturity extension in the event of an insufficient number of buyers)

# Rock solid business model

- based on support from partner banks

- DLR is primarily owned by the 42 loan distributing banks (partner banks)
- The partner banks can freely distribute DLR's loans in competition with other providers of mortgage credit products
- Partner banks provide a loan loss guarantee on mortgages originated. Losses not covered by the guarantee are offset in commission payments for up to 10 years or ultimately covered by a portfolio guarantee
- During the Great Financial Crisis DLR's partner banks showed willingness and ability to support DLR
- Total value creation for shareholders in 2023 was DKK 2.6bn



# DLR's vision

- DLR aims to be the preferred partner for both customers and partner banks in the financing of agricultural and commercial properties – with a focus on maximizing mutual value creation
- Together with DLR's partner banks, DLR seeks to be a significant player in the financing of customers' sustainable transition

# DLR's mission

- Deliver competitive mortgage credit products to agriculture and commercial customers together with DLR's partner-banks
- Provide attractive value creation for shareholders
- To be an attractive company for employees and partners, where sustainability is integrated into the business model



# DLR is highly resilient

- DLR's high resilience is mainly due to its:
  - 1) collateral in fixed property
  - 2) risks being mitigated by guarantee schemes with the owner banks, and
  - 3) comfortable capital buffers
- DLR has comfortable capital buffers in stressed scenarios

# Agenda

## — **Interim financial results Q1-Q3 2024**

Lending and credit risk

Capital structure and rating

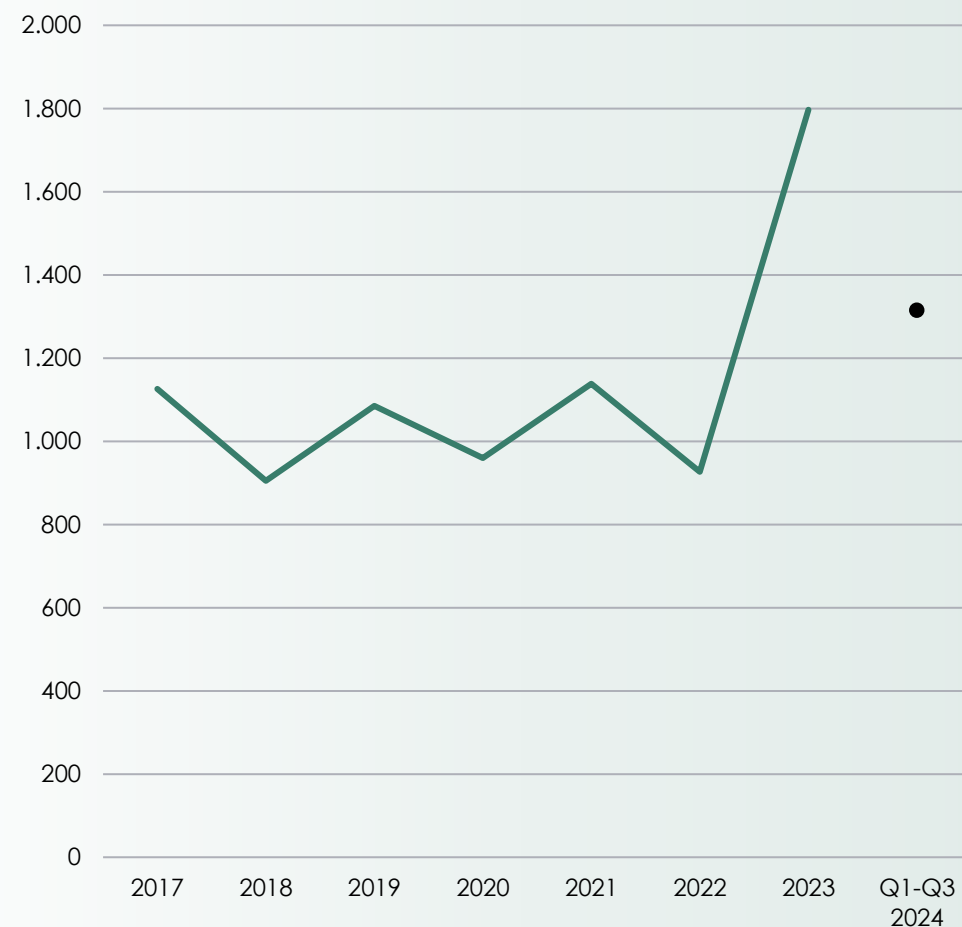
Funding

Sustainability

# Income statement

(DKK m)	Q1-Q3 2024	Q1-Q3 2023	Index
Administration fee income	1,471	1,443	102
Other core income, net	63	65	97
Interest expenses, subordinated debt	-34	-34	100
Interest expenses, senior debt	-49	-30	165
Fee and commission income, net	-449	-423	106
<b>Core income</b>	<b>1,002</b>	<b>1,021</b>	<b>98</b>
Staff costs and administrative expenses, etc.	-281	-253	111
Other operating expenses	-13	-16	77
<b>Core profit before impairment of loans, advances and receivables</b>	<b>709</b>	<b>751</b>	<b>94</b>
Impairment of loans, advances and receivables, etc.	-27	4	
Portfolio earnings (securities)	634	492	129
<b>Profit before tax</b>	<b>1,315</b>	<b>1,248</b>	<b>105</b>
<b>Profit after tax</b>	<b>973</b>	<b>937</b>	<b>104</b>

Profit before tax DKKm



# Return on securities holdings

- DLR's securities portfolio is invested primarily in variable rate AAA rated covered bonds, which are based on the CIBOR interest rate plus a minor markup
- DLR's gross portfolio earnings amounted to DKK 781m in Q1-Q3 2024, which is DKK 164m higher than in the same period of 2023
- DKK 5.3bn of DLR's securities portfolio of DKK 29.8bn is funded through issuance of capital and debt instruments
- When calculating the net portfolio earnings, an internal intercompany interest rate (CIBOR3 ) on DLR's capital and debt issuance is deducted. Consequently, the net portfolio earnings amounted to DKK 634m

(DKKm)	Q1-Q3 2024	Q1-Q3 2023
Bonds, interest rates	574	484
Bonds, price adjustments	195	122
Interest rates, credit institutions	12	9
Currency, price adjustments	0	1
Shares, price adjustments	0	1
<b>Return on securities holdings, gross</b>	<b>781</b>	<b>617</b>
CIBOR-interest rate on capital and debt instruments issued <sup>1)</sup>	-147	-125
Other	0	0
<b>Return on securities holdings, net</b>	<b>634</b>	<b>492</b>

1) The interest rate is calculated as the CIBOR part of the interest rate expenses on issued capital and debt instruments

Note: The sum of individual entries may differ from total sums due to rounding

# Agenda

— Interim financial results Q1-Q3 2024

## **Lending and credit risk**

Capital structure and rating

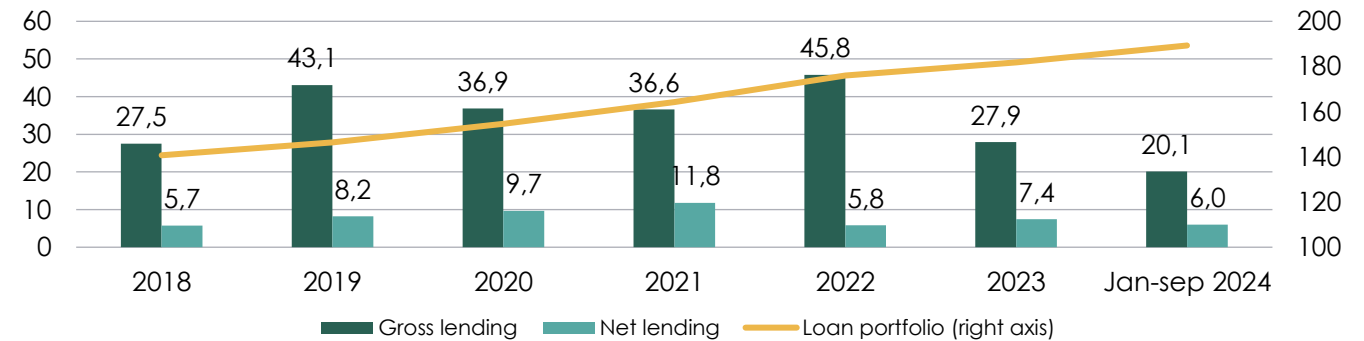
Funding

Sustainability

# Lending activity

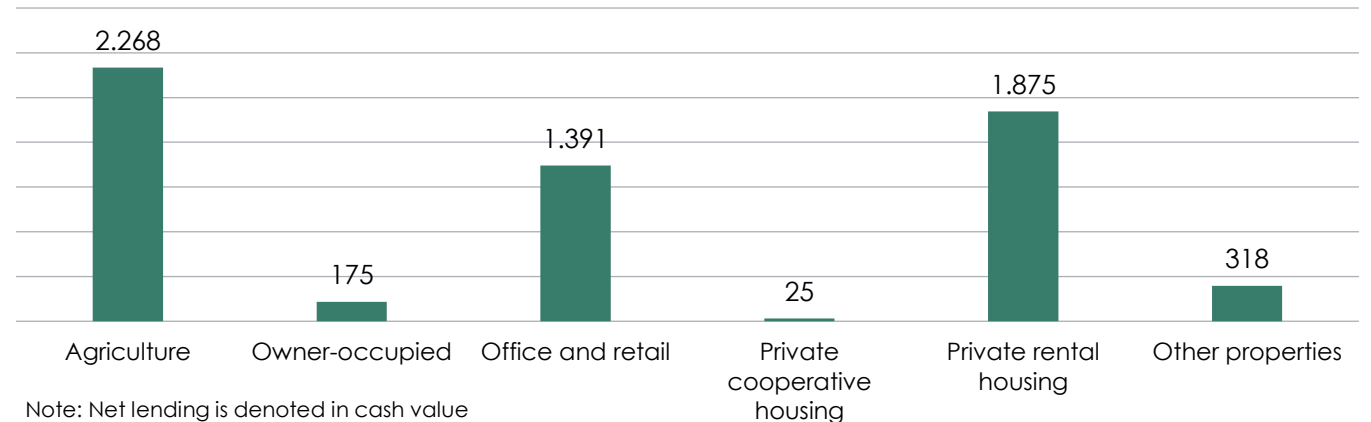
- DLR's loan portfolio expanded by DKK 6bn during Q1 – Q3 2024, against DKK 3.7bn in the same period of 2023
- DLR has experienced lending growth in all three main categories agriculture, office and retail and private rental housing
- Lending to agriculture has been on the rise, which can be attributed to an increase in property transactions and rising land prices
- DLR's gross lending was DKK 20.1bn during Q1 – Q3 2024, against DKK 19.4bn in the same period of 2023
- At the end of Q3 2024, DLR's loan portfolio was DKK 195.3bn

## Lending activity Gross and net lending and total portfolio (DKKbn)



Note: Gross and net lending are denoted in nominal value

## DLR's net lending property segment Q1-Q3 2024 (DKKm)

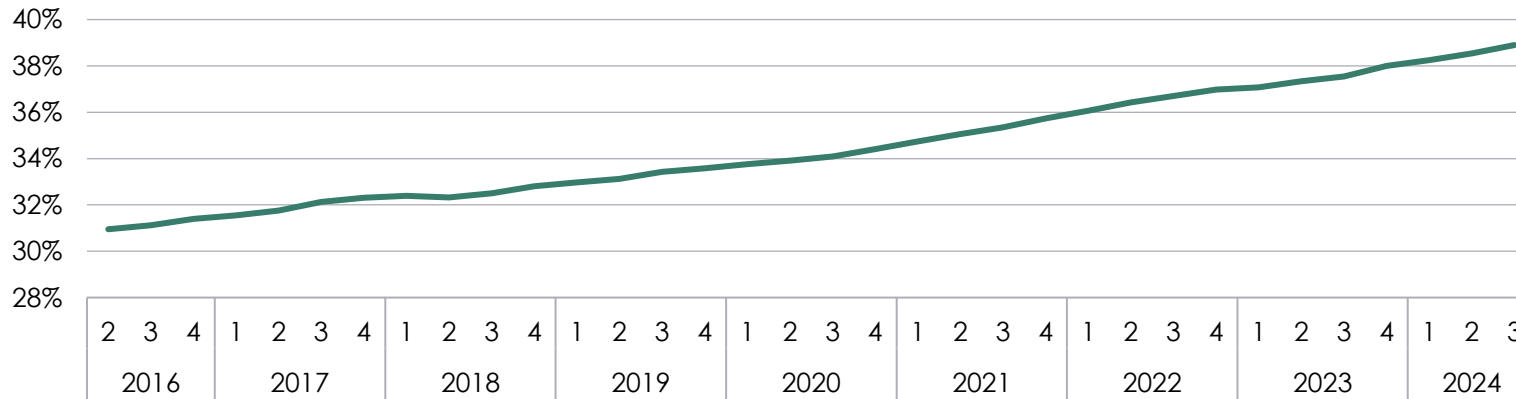


Note: Net lending is denoted in cash value

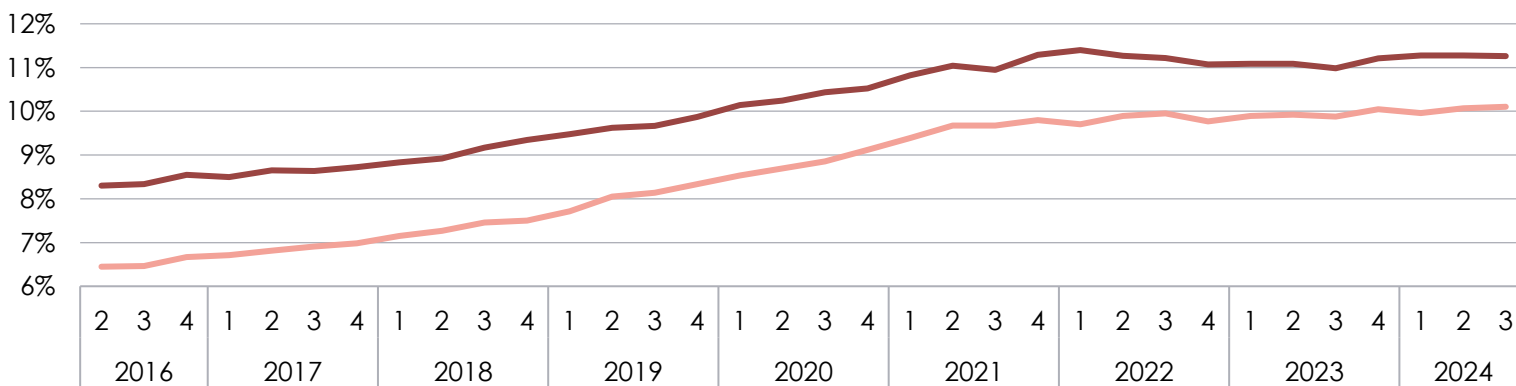


# DLR's market share

## DLR's market share – Agriculture portfolio



## DLR's market share – Commercial loan portfolio



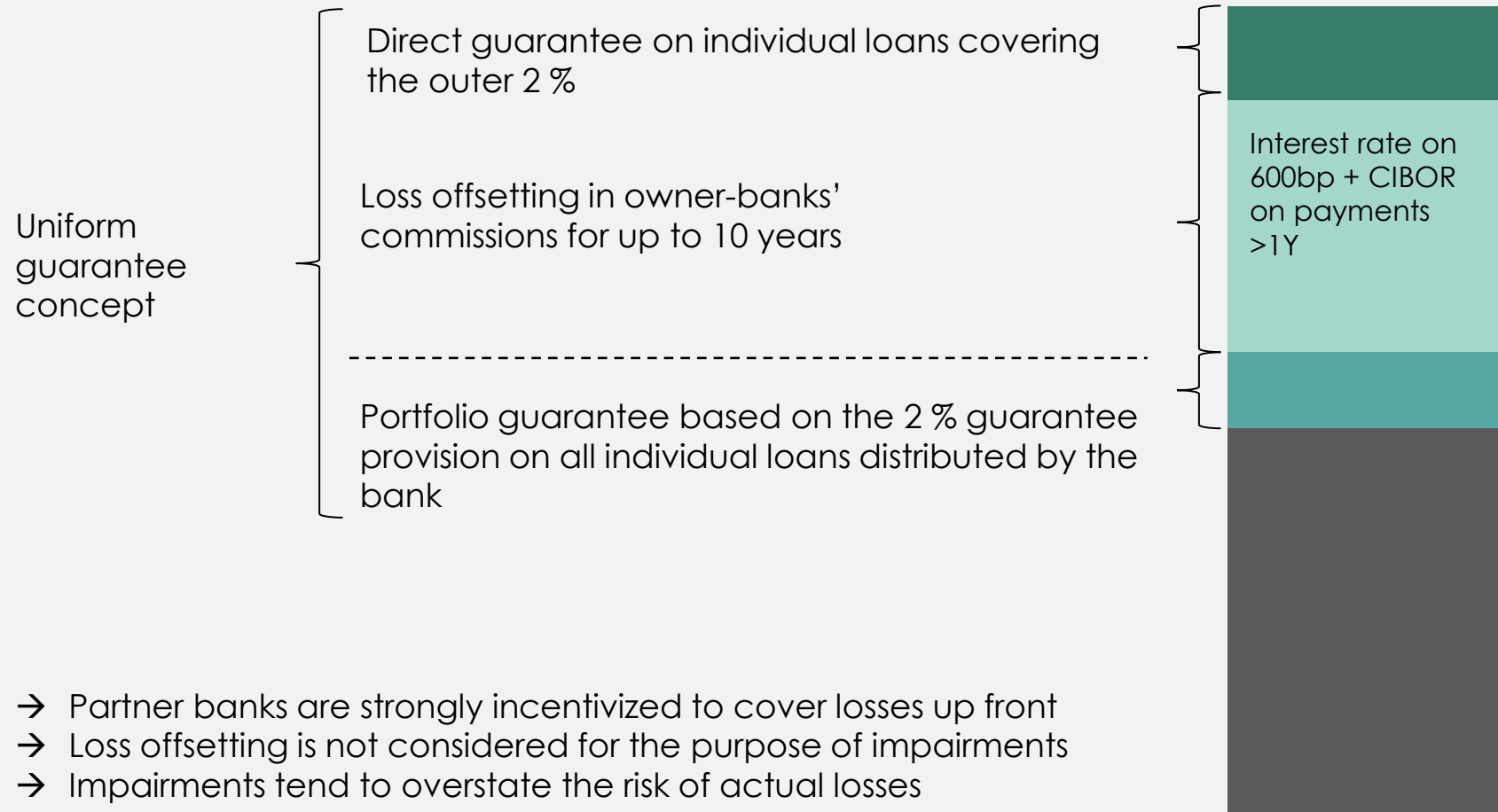
Sources: Finance Denmark and DLR

Office and retail

Private rental housing

- DLR's total loan portfolio of DKK 195.3bn represents a share of 6.2% of Danish mortgage banks' total outstanding mortgages of DKK 3,155bn
- DLR's market share across the segments DLR is servicing is 17.4%
- DLR's market share within agricultural lending has increased steadily since 2015
- DLR's market shares to commercial properties has remained stable in recent years following a significant increase from 2016

# Uniform guarantee concept mitigates the impact of loan losses on DLR in 3 Steps



Note: The illustration is based on fictive numbers

# Loan portfolio

Distributed on property categories and types of loans

Loan portfolio end September 2024			Distribution on loan types					
	Outstanding bond debt (DKKbn)	Distribution on property categories	Fixed rate loans	ARM short	ARM 1Y/2Y	ARM 3Y/4Y	ARM 5Y	Other floating rate loans
Agriculture	98.1	50.2%	12.3%	69.8%	2.8%	2.2%	12.4%	0.5%
Owner occupied incl. residential farms	11.4	5.8%	54.7%	16.8%	3.7%	4.6%	19.4%	0.9%
Office and retail	33.5	17.1%	30.1%	41.7%	2.6%	4.3%	20.9%	0.3%
Private residential rental housing	43.9	22.5%	26.9%	44.1%	2.6%	5.4%	20.7%	0.2%
Private cooperative housing	4.1	2.1%	73.7%	8.8%	0.5%	3.0%	13.9%	0.3%
Other properties	4.5	2.3%	49.8%	36.7%	0.4%	1.6%	11.4%	0.0%
<b>Total</b>	<b>195.3</b>	<b>100.0%</b>	<b>23.2%</b>	<b>54.1%</b>	<b>2.7%</b>	<b>3.4%</b>	<b>16.1%</b>	<b>0.4%</b>

# Key loan portfolio risk drivers

## Agriculture

- Market value of agricultural land
- Output prices
- Input prices
- Production volumes (harvest)
- Regulations and taxes

## Commercial real estate

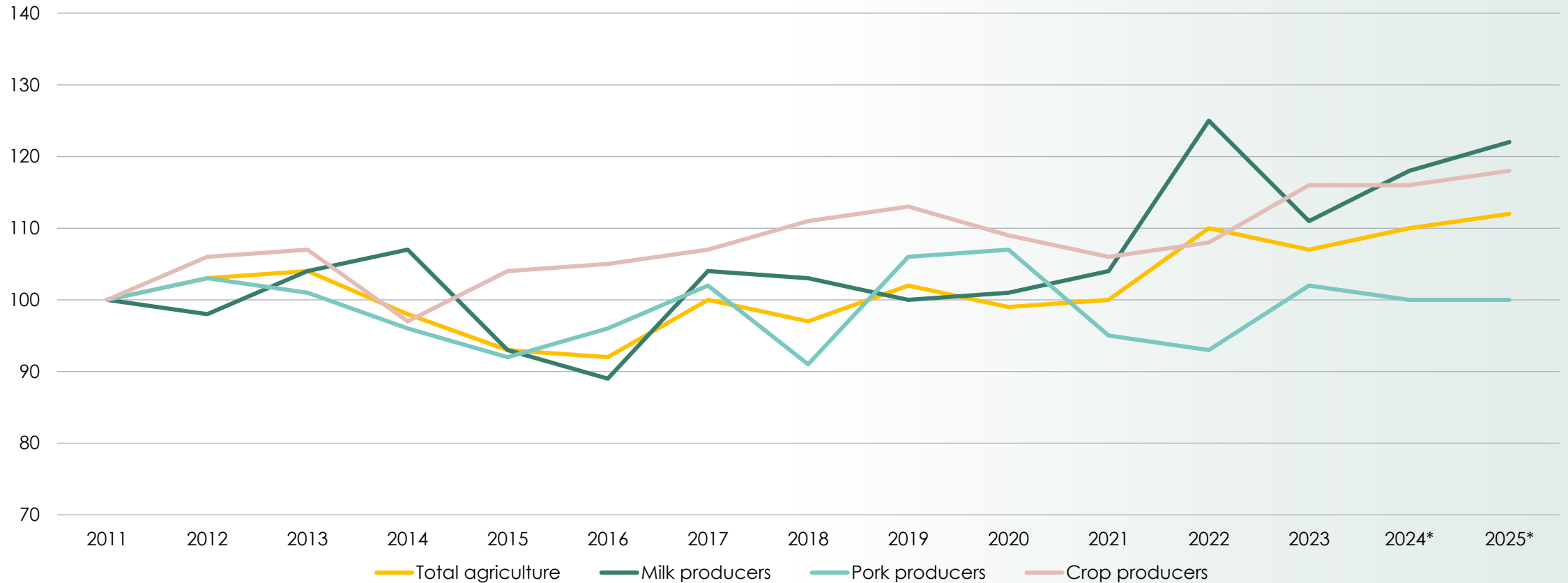
- Market value of commercial real estate
- Expected yield
- Expected cash flow
- Vacancy rates

## Across segments...

- Interest rates
- Macroeconomic factors

# Terms of trade for agriculture

**Terms of trade for agriculture index (2011=100)**



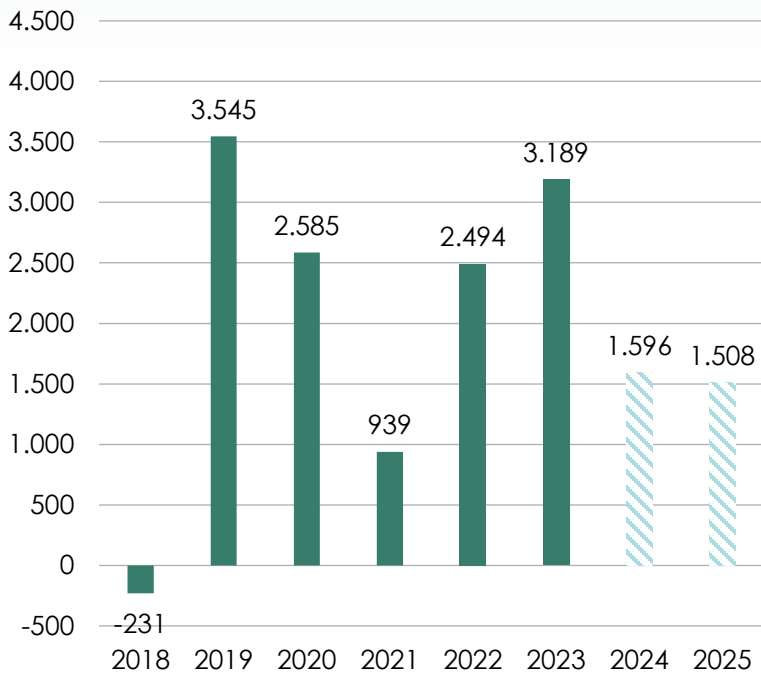
Source: SEGES

Note: The statements cover conventional full-time farms, and the forecasts are prepared by SEGES, September 2024

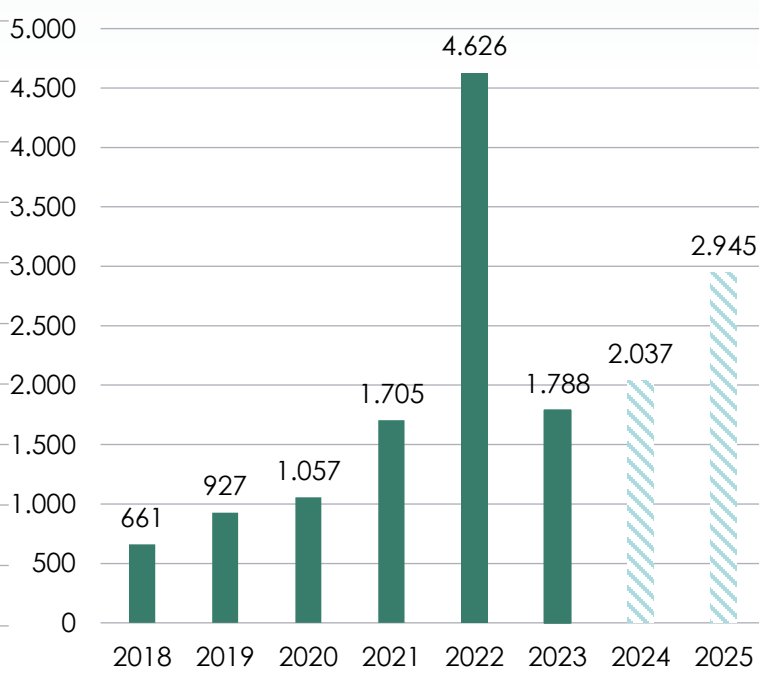
# Agriculture income

- Measured in operating income before owner compensation

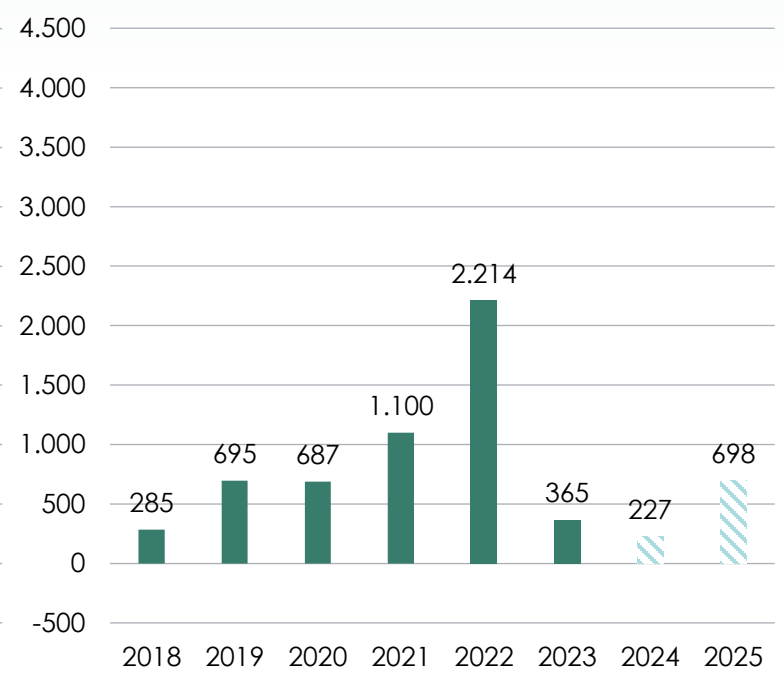
**Pork producers  
(DKKt)**



**Milk producers  
(DKKt)**



**Crop producers  
(DKKt)**



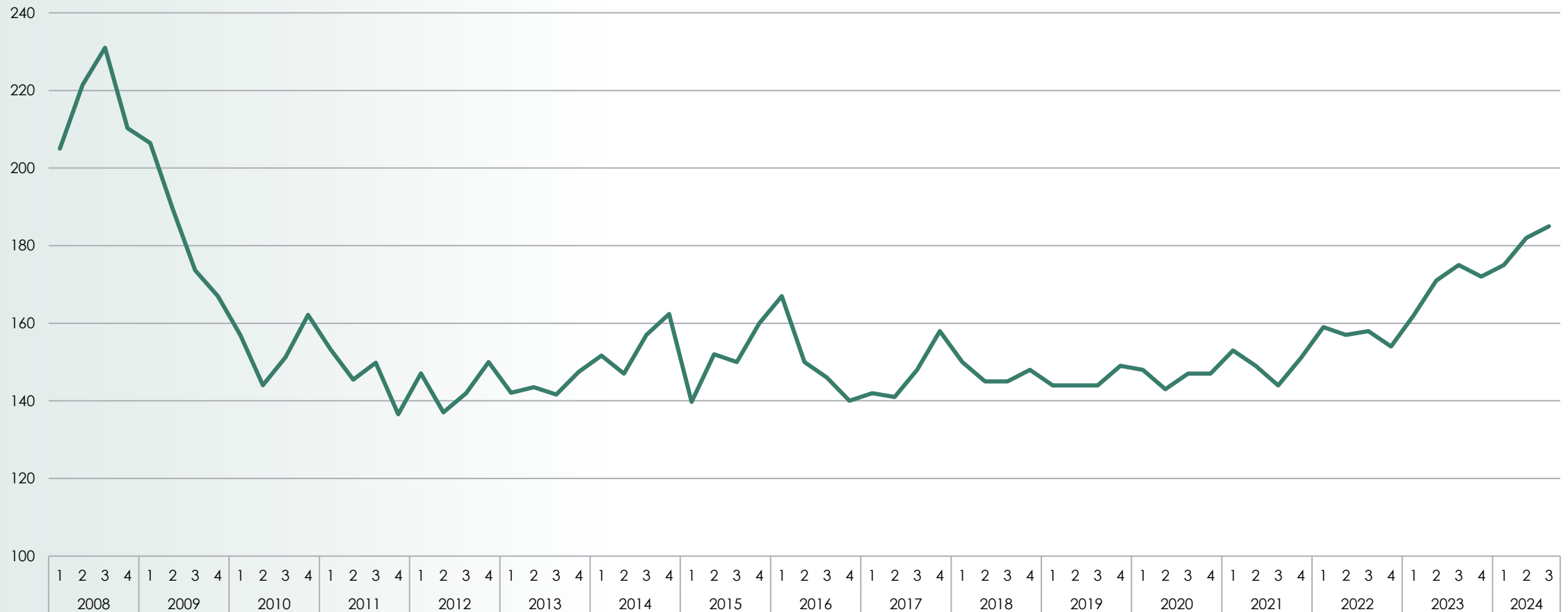
Source: SEGES

Note: The income statistics cover conventional full-time farms, and the forecasts are prepared by SEGES, September 2024



# Price on agricultural land

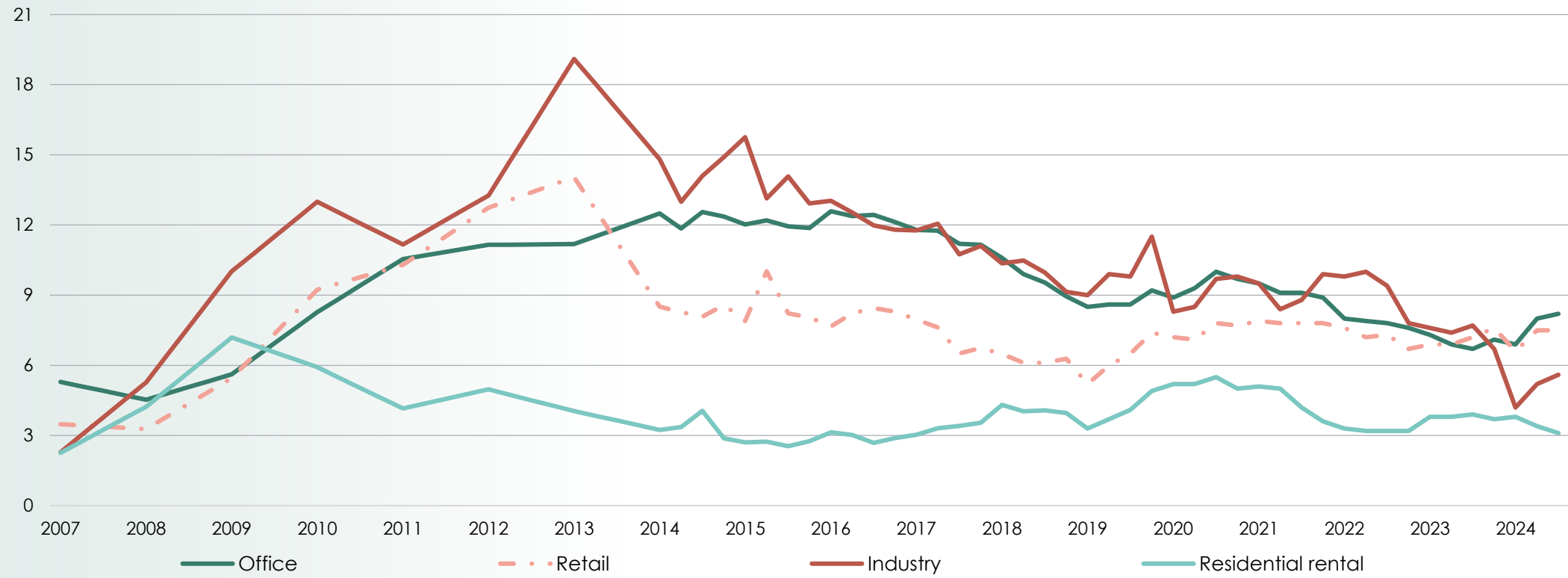
**Average price of arable land DKKt/ha**



Source: DLR, based on registered purchases and sales of agricultural properties with more than 10 ha of arable land

# The commercial real estate market

Development in vacancy rates (%)

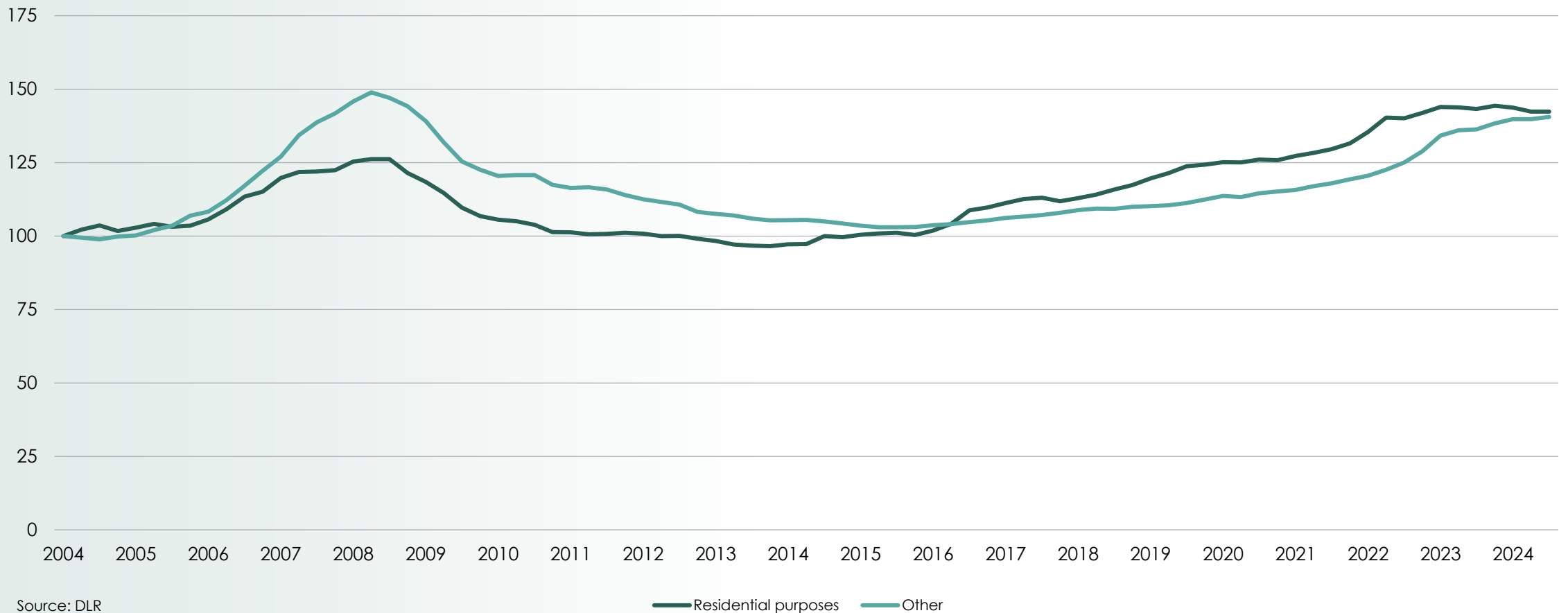


Note: A data breach in January 2024 resulted in significantly lower vacancy rates for the industrial sector

# Prices on commercial real estate with a DLR mortgage

## Stable prices on commercial real estate

Price indices of DLR's assessed value of commercial real estate (2004 = index 100)

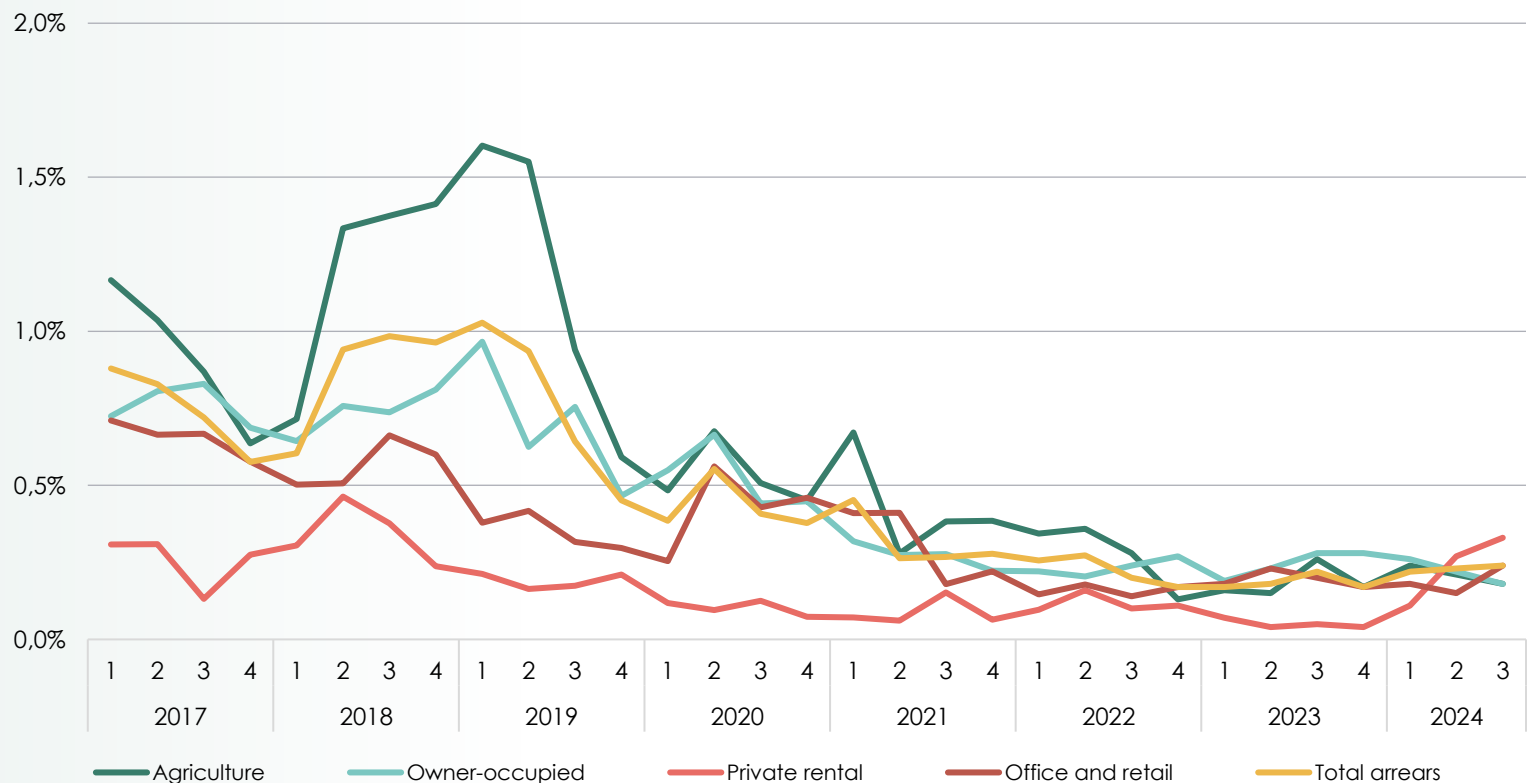


Source: DLR

# Arrears

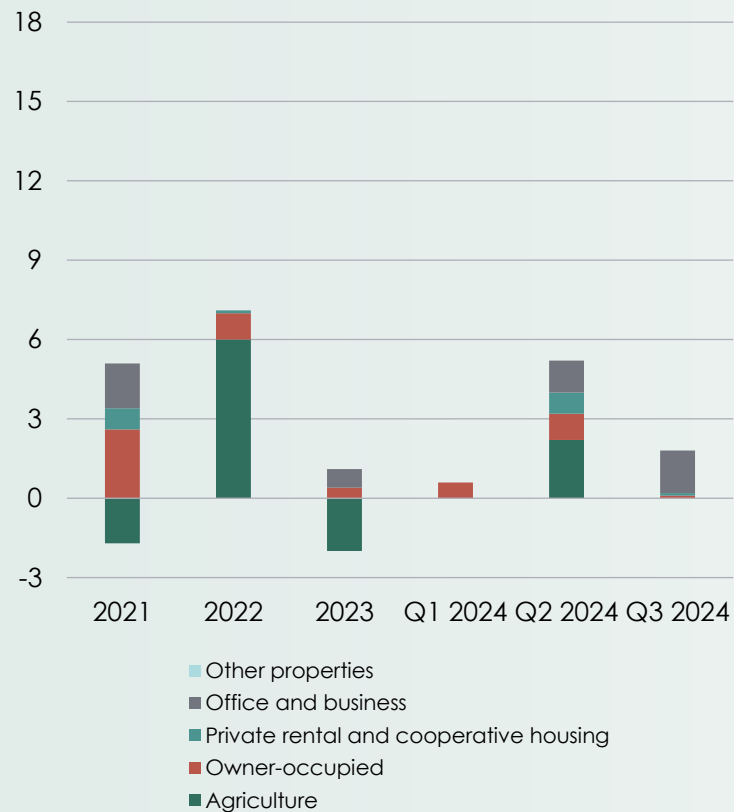
- Overall, the arrears ratio – measured as the percentage of mortgage payments in arrears 3½ months after the due date – was 0.24% in October 2024, against 0.22% in October 2023
- Arrears are low for all DLR's major business segments
- Arrears of private rental has risen to 0.33% in mid-October 2024 against 0.05% at the same time in 2023. The increase refers primarily to five individual cases

## The borrowers' ability to pay timely keeps being high 105-days arrears, pct. of term payments



# Losses and provisions

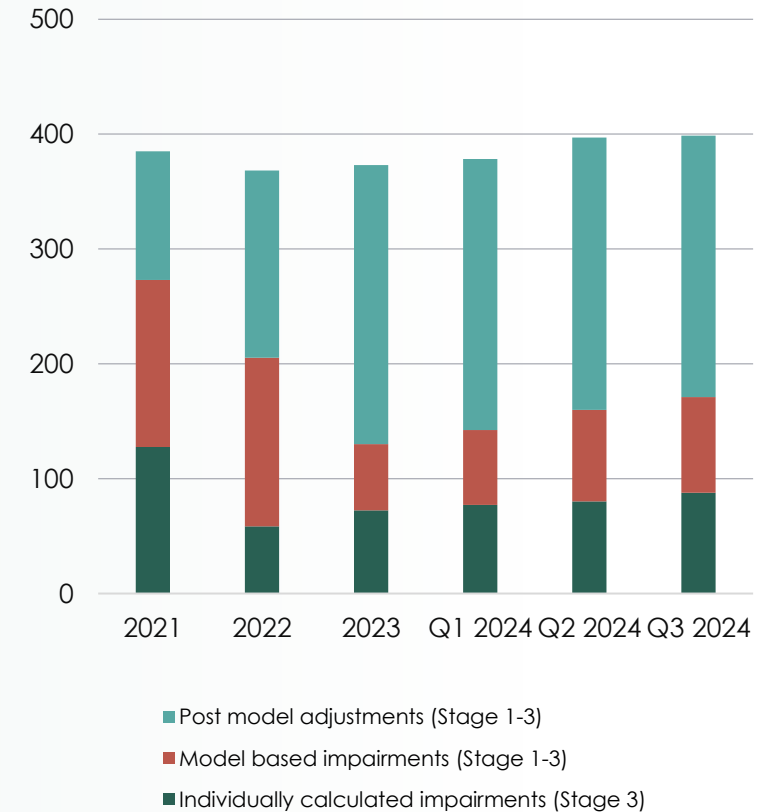
**Actual loan losses before loss offsetting (DKKm)**



**Accumulated impairment provisions distributed on property (DKKm)**



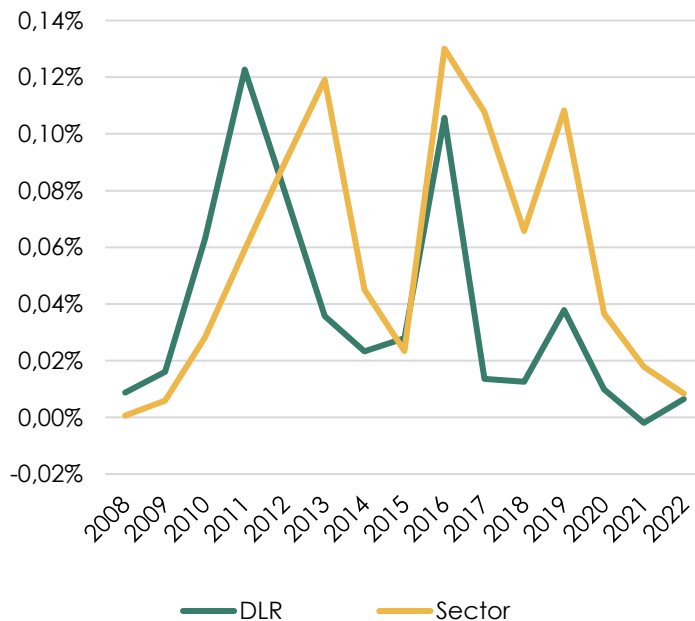
**Accumulated impairment provisions distributed on impairment types (DKKm)**



# Few losses in DLR across business segments

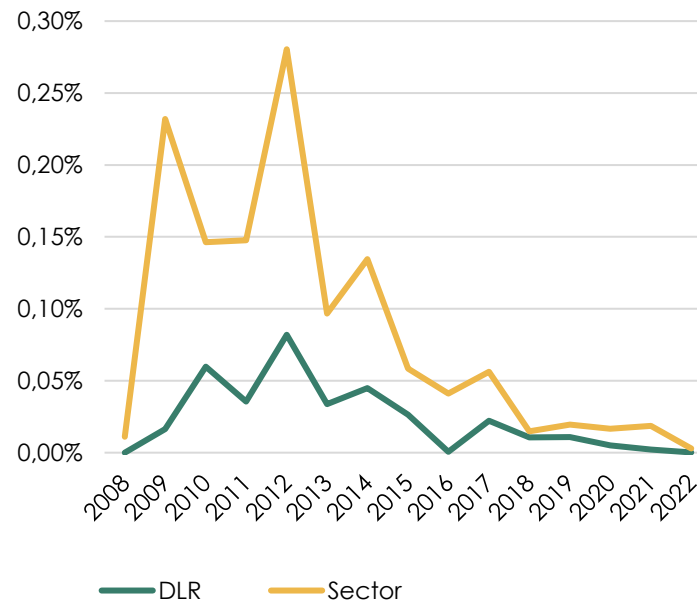
- Decreasing and lower losses than in other mortgage banks

**Losses on agricultural lending - DLR vs. all mortgage banks**



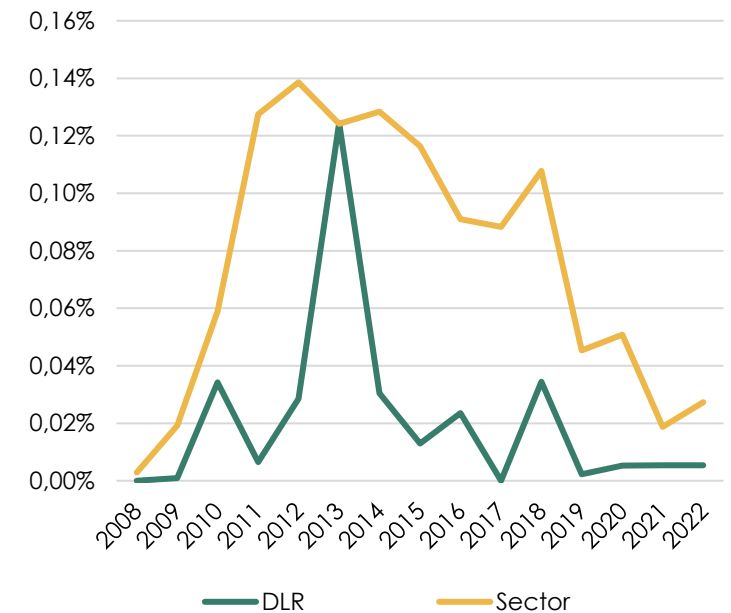
Source: Danish FSA and DLR

**Losses on private rental housing lending - DLR vs. all mortgage banks**



Source: Danish FSA and DLR

**Losses on office and retail lending - DLR vs. all mortgage banks**



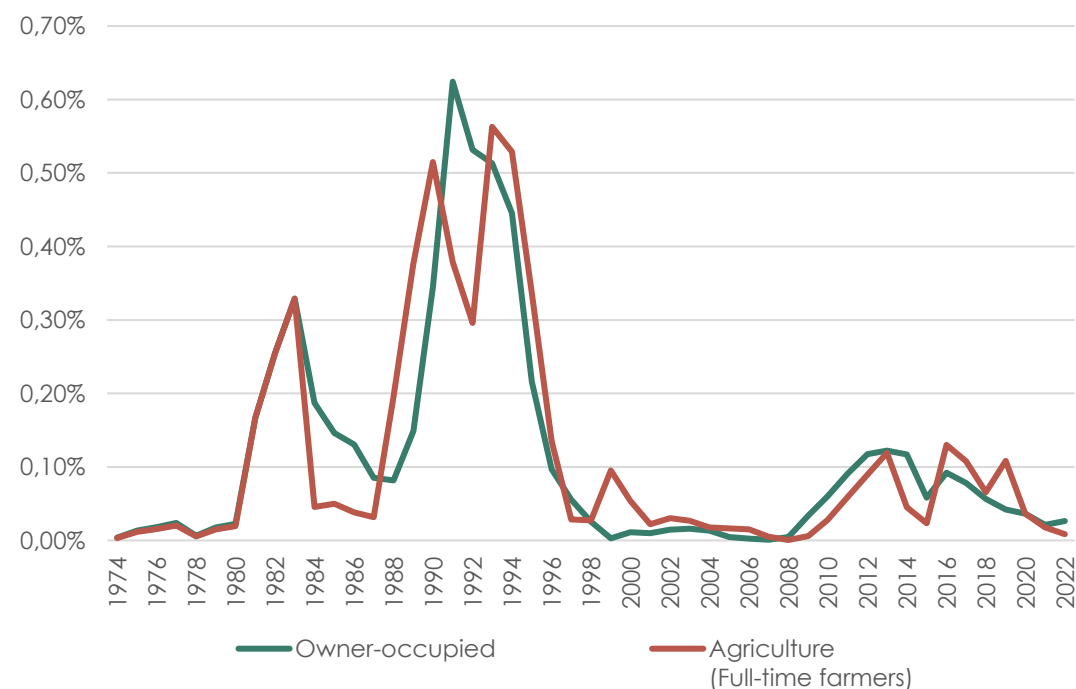
Source: Danish FSA and DLR



# Agriculture is not an 'outlier' in terms of risk

- There are no significant differences in losses on lending to owner-occupied housing and agricultural properties
- During the biggest 'natural stress test' in the early 1990's, losses on owner-occupied lending were higher than on agricultural lending

**Loss percentage on agricultural and owner-occupied housing for all Danish mortgage lending**



Source: Danish FSA

# Agenda

— Interim financial results Q1-Q3 2024

Lending and credit risk

**Capital structure and rating**

Funding

Sustainability

# DLR's own funds

(DKKm)	Q3 2024	End-2023	End-2022
<b>Equity</b>			
- Distributable reserved	15,004	14,794	13,453
- Non-distributable reserves	2,368	2,355	2,338
<b>Total equity</b>	17,373	17,149	15,791
CET1 (total equity after capital deduction)	16,019	16,044	15,706
Tier 2 capital	1,299	1,298	1,298
<b>Own funds</b>	17,318	17,342	17,004
<b>Total risk exposure</b>	74,703	72,158	69,844
<b>Total capital ratio, %<sup>1)</sup></b>	23.2	24.0	24.3
<b>Capital requirement, % <sup>2)</sup></b>	16.6	15.3	14.7
<b>Capital surplus, %-points</b>	6.6	8.7	9.6

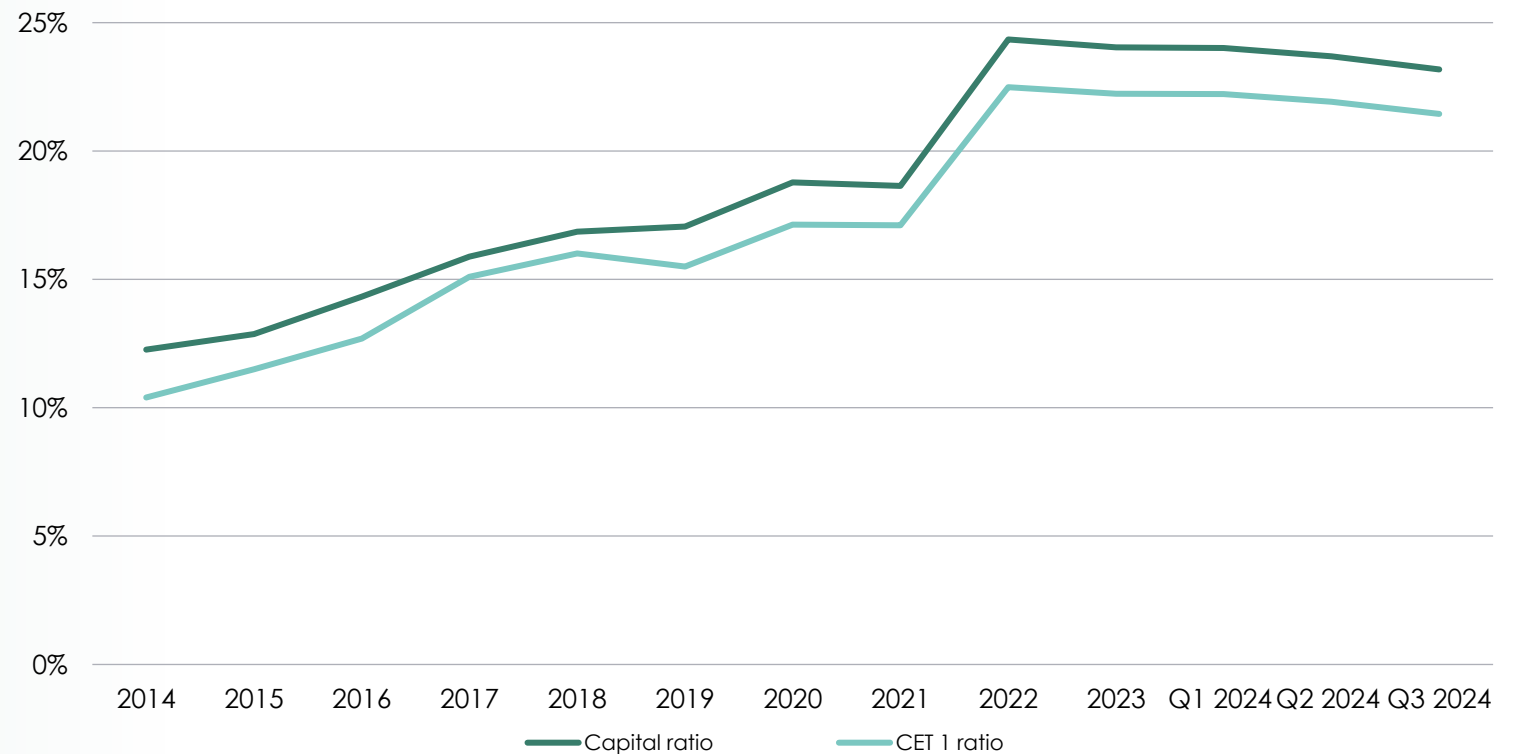
1) The capital ratio at the end of Q3 does not include the financial results from Q1-Q3 2024

2) The capital requirement as of the end of Q3 2024 consists of the individual solvency need of 9.3%, supplemented by the SIFI requirement, which for DLR amounts to 1.0%, as well as a capital conservation buffer of 2.5% and a countercyclical capital buffer of 2.5%. Additionally, a systemic requirement of 0.02% has been added for the Faroe Islands and a systemic requirement of 1.2% for loans to real estate companies in Denmark

# Capital structure

- The capital ratio was 23.2% at the end of September 2024, which is a reduction of 0.8 percentage points from the end of 2023
- The Q1-Q3 financial result is not included in the capital base, as no audit review has been conducted
- With the inclusion of the period's result, the capital ratio would have been 24.5%

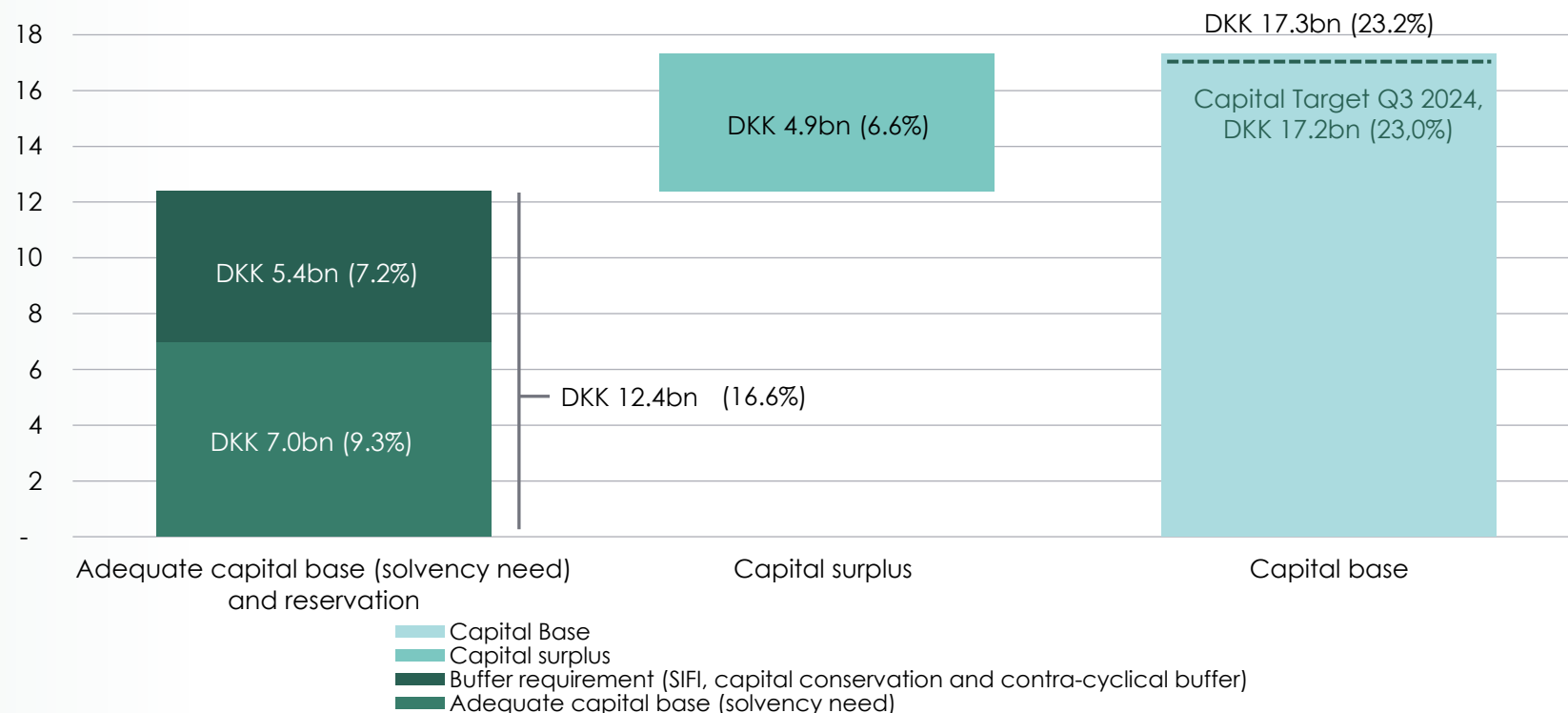
**DLR's capital ratios**



# Capital requirement and capital ratio

- At the end of Q3 2024, DLR's own funds were at DKK 17.3bn, while the total capital requirement amounted to DKK 12.4bn (16.6%)
- Consequently, DLR had a capital surplus of DKK 4.9bn (6.6%)
- DLR has defined a target for its capital ratio of 23.0%, while the targets for the tier 1 capital ratio and the common equity tier 1 capital ratio are 21.0% and 19.5%, respectively
- The target has been raised in 2024 because of the expected effect of the implementation of the new capital adequacy rules (CRR) from the beginning of 2025

**DLR's capital requirement and capital ratio end-Q3 2024 (DKKbn)**



Note: The discrepancy between the total capital requirement and adding up its subcategories is due to rounding

# Capital/Debt structure and planning



## Elements in DLR's long-term capital plan

- Regulatory requirements
- Target capital ratio
- Need for sufficient funds to protect the SDO status and ratings (issuance of Senior Secured Bonds, SSB)
- Debt buffer requirement (issuance of Senior Non-Preferred Notes, SNP)
- Changes in regulatory requirements in 2025
- Sector specific systemic buffer of 7%
- Adjusted guarantee concept

## DLR's capital plan 2024-2028

- DLR's board has agreed on a long-term capital plan for DLR
- DLR's total capital ratio target is 23.0%, and is expected to be 20.0% when the implementation of CRR3 is completed
- Total regulatory capital requirement of 16.6% as of Q3 2024



# Agenda

— Interim financial results Q1-Q3 2024

Lending and credit risk

Capital structure and rating

**Funding**

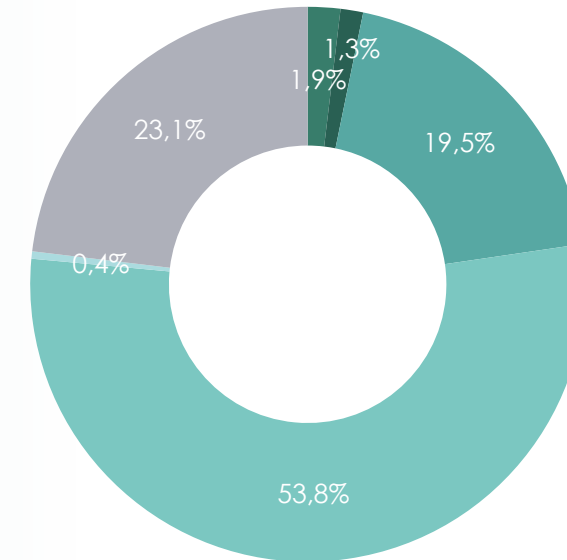
Sustainability

# A well-balanced funding structure

- Volume of outstanding covered bonds DKK 198.3bn
- DLR has a diversified funding structure both in terms of maturities and bond types
- DLR's outstanding bonds were in September 2024 divided between 54% ARM-Short-bonds, 23% fixed-rate callable bonds, 20% ARM-bonds and 3% other floating rate bond types
- DLR has a well-diversified investor base

## DLR's outstanding bonds distributed on loan types their finance

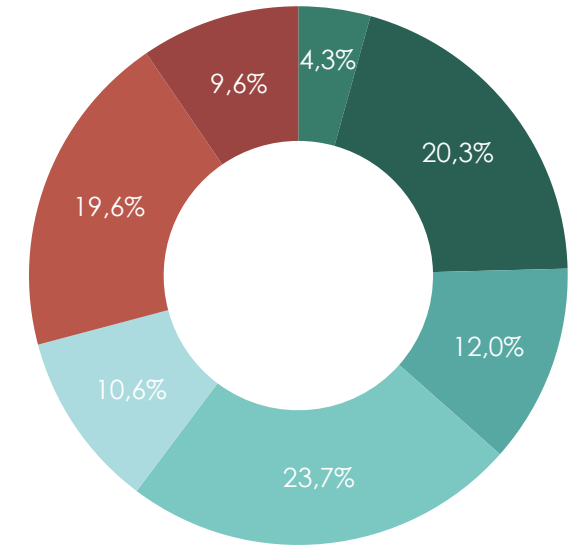
September 2024



ARM 1Y  
ARM 3Y/5Y  
Other floating rate  
ARM 2Y  
ARM-Short  
Fixed-rate

## Owner-distribution of DLR's bonds

September 2024



Others  
Insurance and pension  
Foreign investors  
The central bank and commercial banks  
Mortgage banks  
Investment funds  
Undisclosed

# Issued senior debt and capital

IN	Type	Amount (DKKm)	Issue date	Maturity date	Maturity (years)	Benchmark rate	Spread
DK0006352943	SNP	1.000	08-06-2021	01-07-2025	4	3M CIBOR	0,67%
DK0006356266	SNP	700	15-06-2022	02-07-2026	4	3M CIBOR	1,25%
DK0006356340	SNP	300	15-06-2022	02-07-2026	4	Fixed rate	2,99%
DK0006359609	SNP	1.000	20-06-2023	01-07-2027	4	3M CIBOR	2,40%
DK0006361183	SNP	1.000	06-06-2024	01-07-2028	4	3M CIBOR	1,90%
DK0030450804	Tier 2	650	06-12-2019	06-12-2029 (first call-option 06-12-2024)	10	6M CIBOR	2,50%
DK0006357900	Tier 2	650	14-10-2022	14-10-2032 (first call-option 14-10-2027)	10	3M CIBOR	4,25%
<b>Total capital and debt instruments</b>		<b>5.300</b>					

Note: DLR has received approval from the Danish FSA to call the Tier 2 issue maturing 2029, provided it will be refinanced by a corresponding new issue of Tier 2 of an equal size

# Forthcoming issue of DKK 650m to DKK 1,000m Tier 2

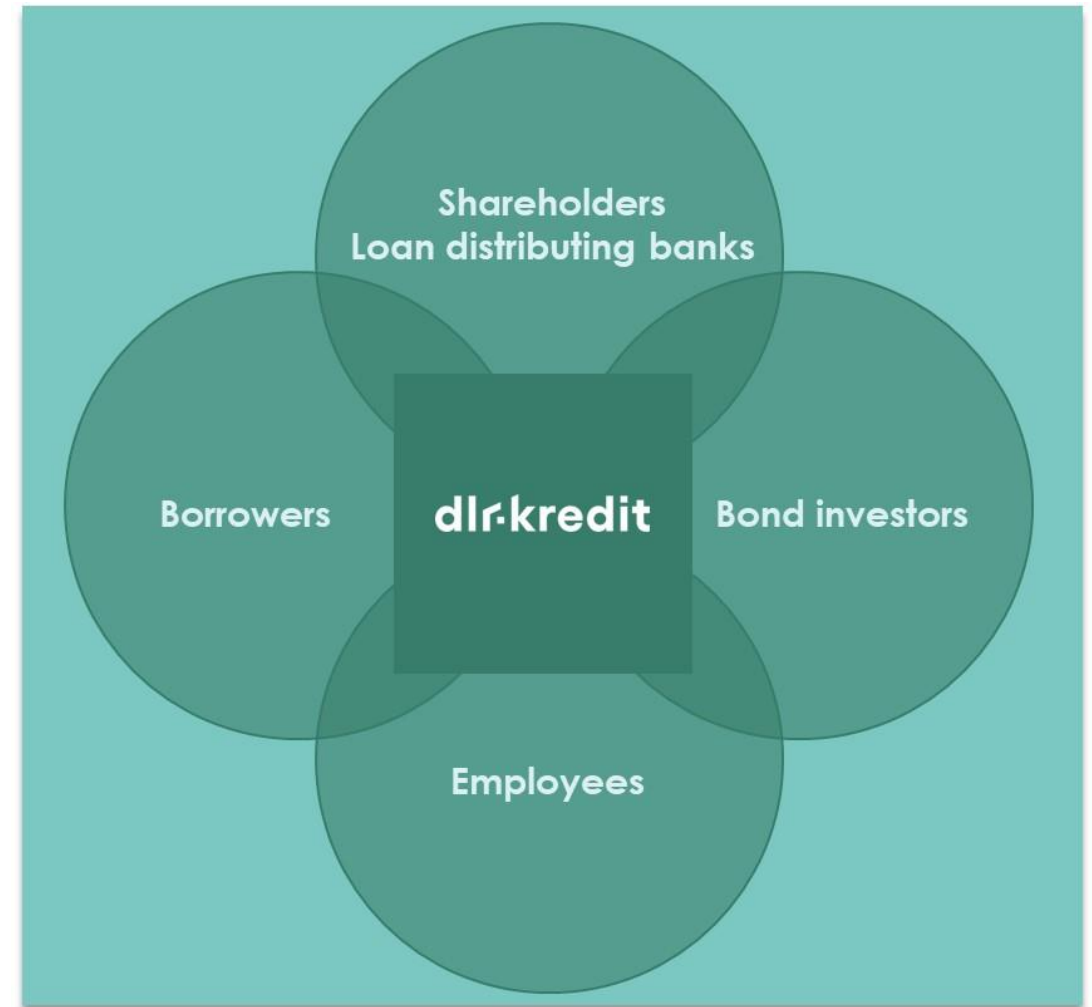
- DLR has mandated Danske Bank A/S and Nordea Bank Abp to conduct the issuance of subordinated notes (Tier 2) in the range from DKK 650 million to DKK 1,000 million in DKK and/or SEK
- The issue is expected in the near future, subject to market conditions
- The expected maturity date of the issue is 2035 (10,25nc5,25)
- The expected first early redemption date is 2029 (10,25nc5,25)
- The expected rating of the issue is BBB- (S&P)

# Agenda

- Interim financial results Q1-Q3 2024
- Lending and credit risk
- Capital structure and rating
- Funding
- Sustainability**

# DLR's approach to sustainability

- DLR's sustainability efforts is based on three pillars:
  - ESG-data
  - Engagement, training and nudging
  - Green financing
- DLR's strategic position in the field of sustainability is largely defined by the preferences and requirements of these stakeholders
- DLR considers, among other things, the various ESG policies of shareholder banks, borrowers' opportunities and risks related to the green transition, and investors' desire to reduce the CO<sub>2</sub> emissions financed by DLR's bonds
- DLR has DKK 5.5bn outstanding green covered bonds



# Sustainability targets and focus areas for 2024

Expand the eligibility criteria for green loans and explore the possibility of expanding DLR's green mortgage product range

Collect more and better farm- and property-specific data on at least 90 percent of the loan portfolio with to improve sustainability assessments of customers

Share more ESG data with DLR's shareholder banks

Structured development of sustainability skills among DLR's employees

Conduct stakeholder and double materiality analyses for use in CSRD reporting

Prepare internal employee policy regarding diversity, equality and inclusion



# Management of ESG risk

- DLR has integrated ESG risks into its framework of risk management
- DLR has implemented ESG factors into loan procedures
- The past two years, DLR has gathered ESG-data from borrowers, when new loans are granted
- DLR has started preparing CSRD-reporting





# Appendix

# Appendix contents

## — **Strategy and LTV-limits**

Lending and forced sales

Rating

# DLR's business strategy

## - four pillar implementation

### **Customers/partners**

- DLR must have a close relationship to loan distributing owner-banks and understand their business models and customers – "Their customers are our customers"

### **Products**

- DLR must deliver standardized mortgage products based on competitive funding and with competitive loan terms and prices

### **Organization**

- DLR's organization (employees, IT systems, competencies, sustainability activities, etc.) must continuously develop in alignment with the operating business environment

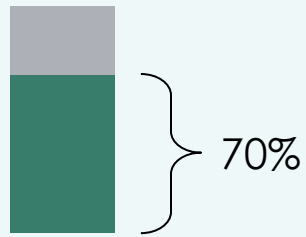
### **Financials**

- DLR's earnings and capital ratio must be robust, secure future operations and be attractive to shareholders



# Loan limits

## Full-time farms, part-time farms and hobby farms

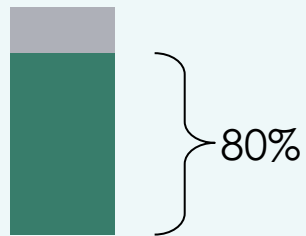


### Full-time farms

- Livestock and/or crops
- Several or many production buildings
- Farming is the primary source of income

### Part-time farms

- More than 10 ha
- Newer or renovated residential property
- Certain amount of production buildings

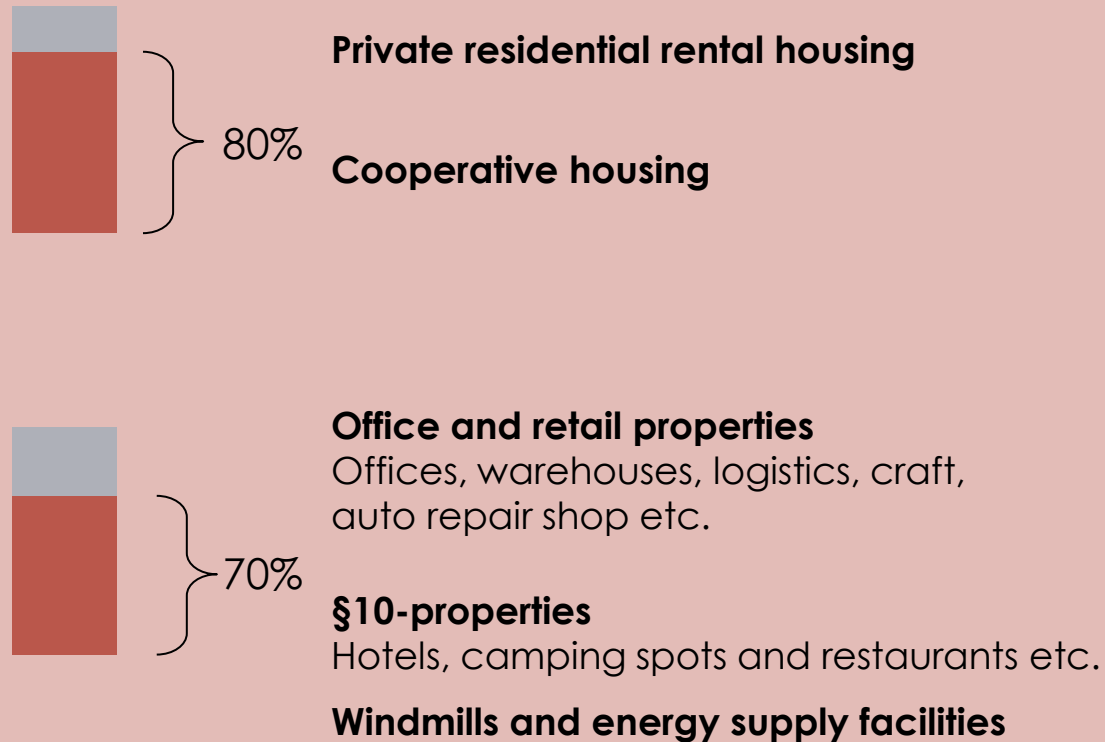


### Hobby farms

- Maximum 10 ha
- Newer or renovated residential property
- Limited number of production buildings
- Well-located in terms of infrastructure (road, school, shopping etc.)

# Loan limits

## Commercial real estate properties



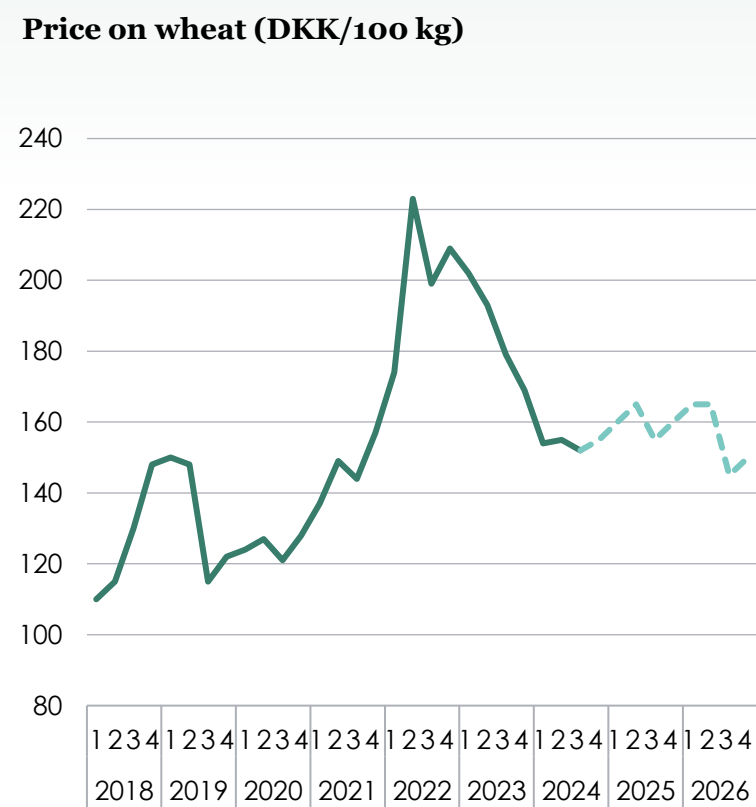
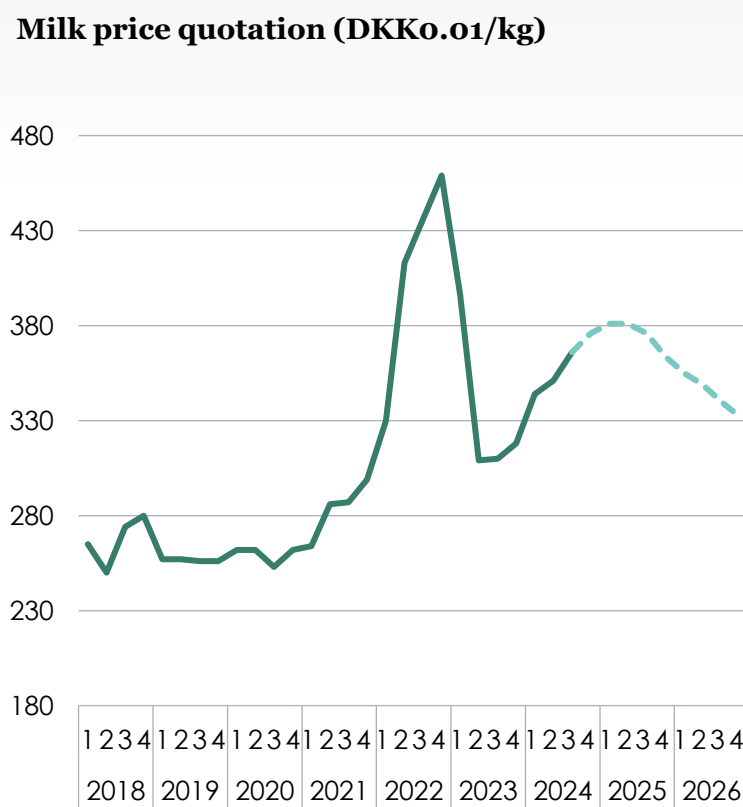
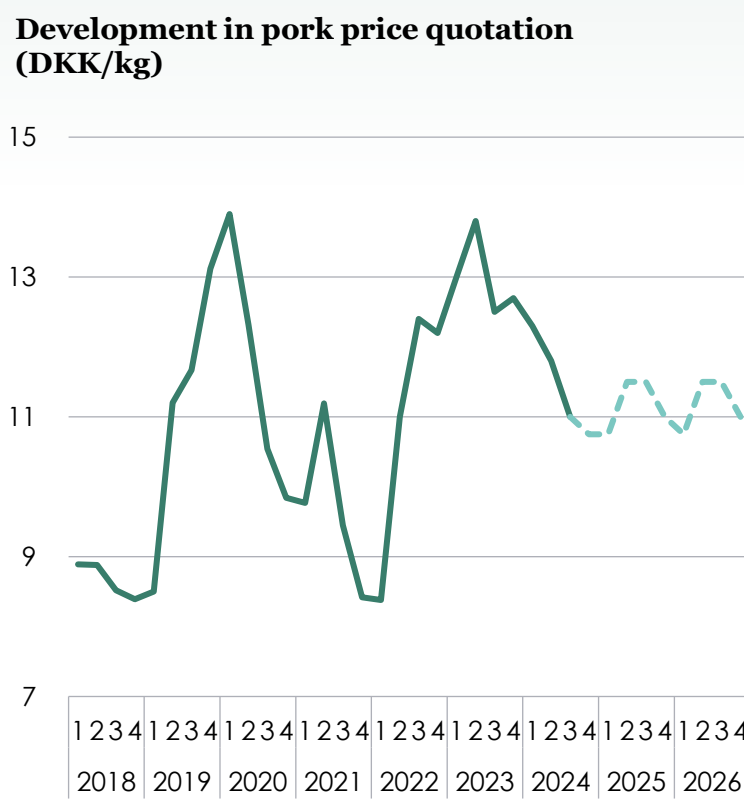
# Appendix contents

Strategy and LTV-limits

— **Lending and forced sales**

Rating

# Development in the pricing of agricultural products



Source: SEGES  
Note: Forecast, September 2024

# Developments in the agricultural sector

- For the agricultural sector, the positive cyclical trends continued into 2024 with terms of trade generally at satisfactory levels
- Milk prices, which fell throughout 2023, have now reached stable levels that remain supportive of satisfactory earnings. Prices are expected high for the rest of 2024 and 2025
- The price of piglets remains high due to continued strong demand, especially from countries like Germany. Prices are expected to somewhat decrease in 2025 due to larger production in EU
- Strong earnings in agriculture in recent years, along with demand for land for other purposes such as afforestation and solar parks, have contributed to rising agricultural land prices. Market observations for the first three quarters of 2024 indicate a continued steady stable increase in land prices

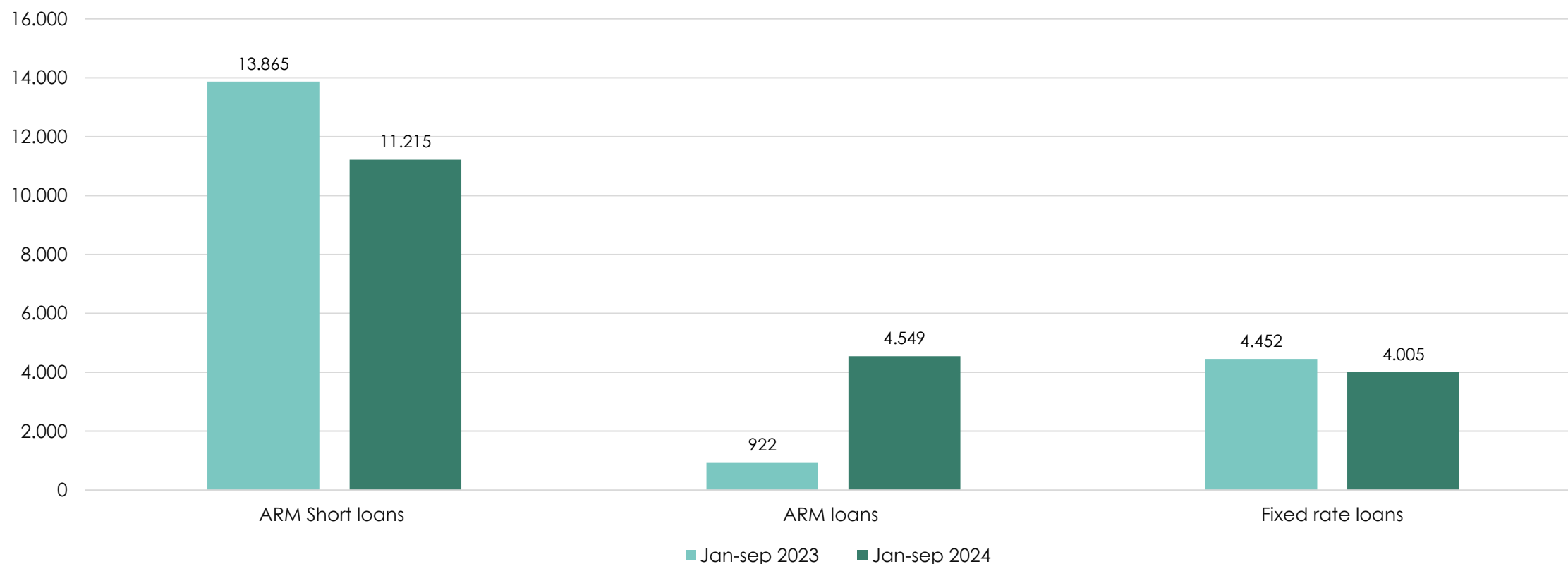




# DLR's disbursed loans

## Distributed on loan types

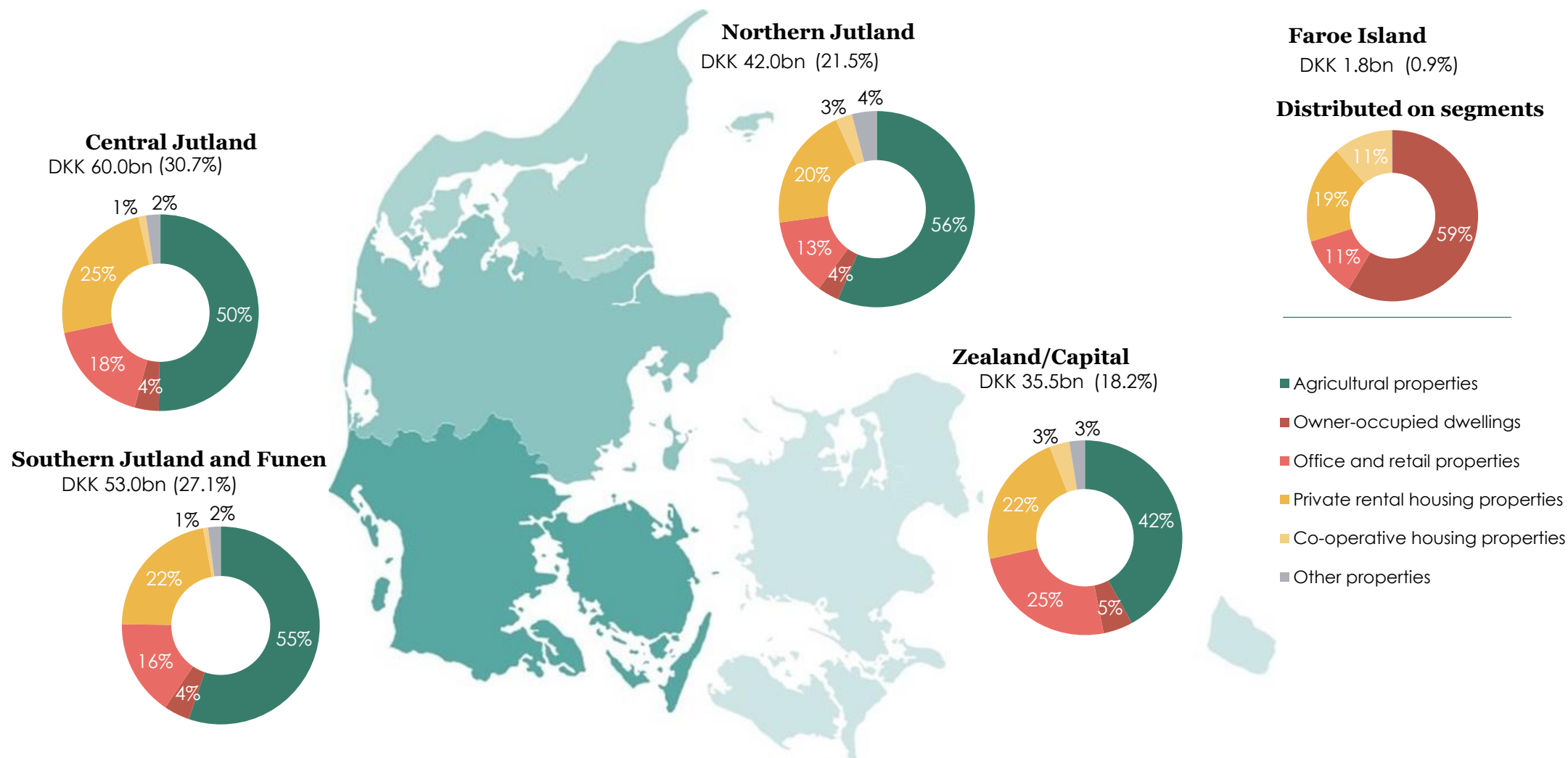
**DLRs gross lending distributed on selected loan types (DKKm)**



Note: Gross lending calculated at cash value

# Geographical distribution of lending

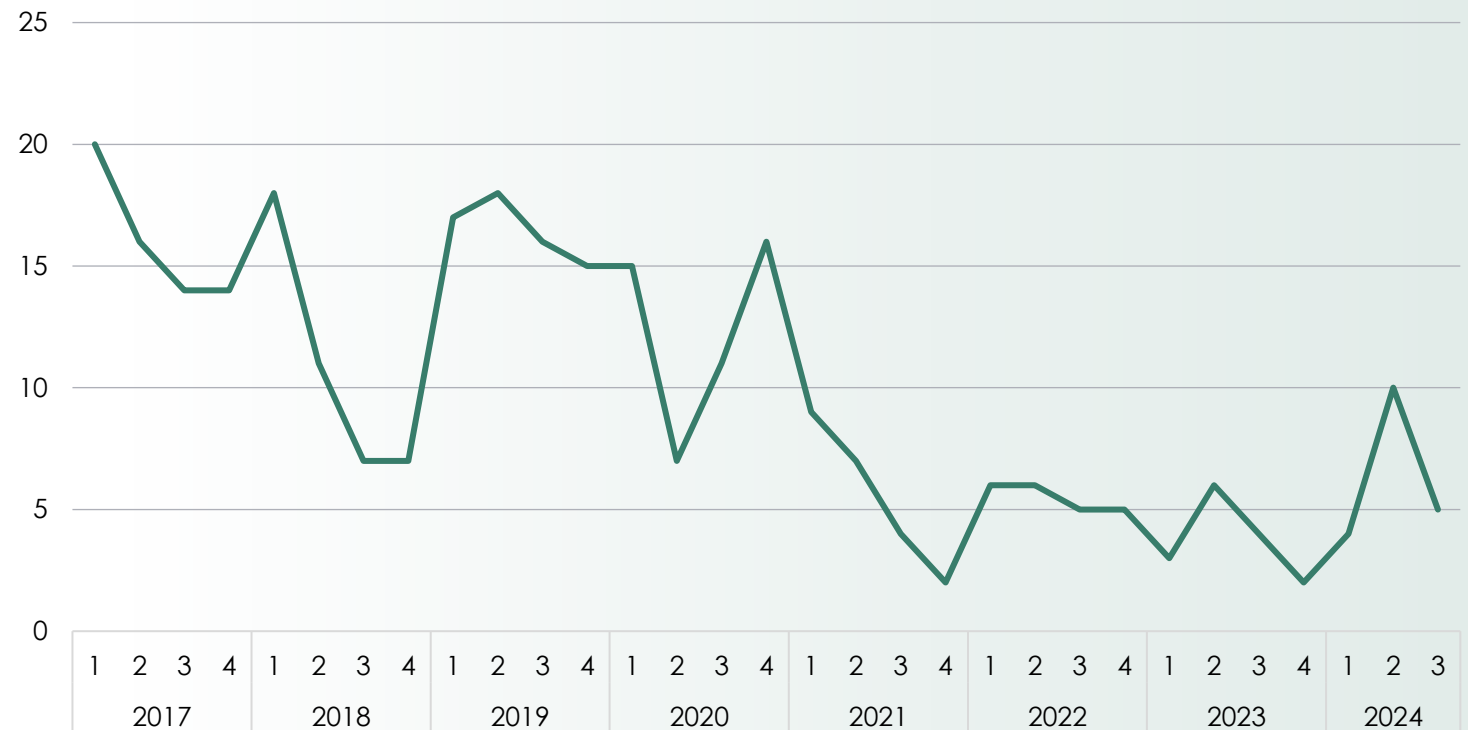
Outstanding debt at end September 2024



# Takeovers and forced sales

- The number of completed forced sales of properties in which DLR held a mortgage was 5 in Q3 2024
- DLR does not hold properties acquired through forced sales

**Forced Sales - Properties where DLR holds a mortgage (numbers)**



# Appendix contents

LTV-limits

Lending and forced sales

— **Rating**

# DLR's ratings with S&P

## S&P Global DLR Kredit A/S

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

- On September 6 2024, S&P affirmed DLR's issuer credit rating (ICR) of A- with a stable outlook
- The rating is supported by an ALAC-uplift of +1
- The high issuer credit rating adds an extra buffer of 2 unused 'uplifts' to the AAA-rating of DLR's covered bonds
- DLR's covered bonds are supported by a further high over-collateralization of Capital Center B compared to S&P's OC-requirements
- S&P's latest report on DLR can be found here: <https://dlr.dk/en/investor/rating/>