Risk and Capital Management 2024

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Disclosure requirements and introduction

Disclosure requirements

This Risk and Capital Management Report is being published in compliance with DLR Kredit's disclosure requirements under the CRR rules. Quantitative disclosures pursuant to the EBA guidelines etc. are set out in a separate Pillar III appendix (in Excel format), which is published on the DLR website at www.dlr.dk/investor together with this report.
https://dlr.dk/en/investor/financial-statements/

All information will be regularly updated to the extent deemed necessary, but at least once a year in connection with the release of DLR's Annual Report. Certain disclosures in the Pillar III appendix are updated half-yearly.

In the assessment of DLR, the information stated complies with the Pillar III information requirements set out in the CRR regulation (CRR articles 431-455) and the European Commission's technical standards.

The Risk and Capital Management Report was published on 7 February 2025.

Introduction

DLR Kredit A/S ("DLR") is a Danish mortgage credit institution owned primarily by 42 local and national banks that collaborate with DLR.

DLR provides mortgage loans for the purpose of financing agricultural and commercial property – including residential rental property, office and retail property, private co-operative housing and residential properties in the countryside. DLR also grants loans in Greenland and the Faroe Islands, primarily for owner-occupied homes and residential rental properties and, on a smaller scale, office and retail properties. At the end of 2024, DLR's loan portfolio in terms of nominal outstanding bond debt amounted to DKK 199.2bn. Loans granted in Greenland and the Faroe Islands amounted to DKK 5.0bn, or 2.5 pct. of the loan portfolio.

In 2024, DLR had on average 245.5 FTE employees and 23 fee-based agricultural valuation experts. DLR has no branch offices, as loans are mediated through the branch networks of DLR's shareholder banks.

DLR's lending increased by DKK 9.9bn in 2024 (in nominal terms). Lending for agricultural properties accounted for 50.0 pct. of the portfolio, while lending for residential farms and owner-occupied homes made up 5.8 pct. of the portfolio at end-2024. The remaining 44.2 pct. represented loans for commercial property, mainly office and retail property, private residential rental property and cooperative housing.

DLR generated a satisfactory profit after tax of DKK 1,222m in 2024. With total own funds after deductions of DKK 18.2 billion and a total risk exposure amount of DKK 76.6 billion, DLR's total capital ratio was 23.7 pct. at year-end 2024.

DLR's overriding risk is credit risk, i.e. the risk of a loss arising as a result of borrowers defaulting on payment obligations (incl. counterparty risk). However, credit risk is to a wide extent mitigated by collateral in the form of DLR's mortgages on the properties and also by the guarantee and loss-mitigating agreements DLR has signed with its loan-mediating shareholder banks.

DLR aims to be a key player in financing the sustainable transition, and this is expected in the longer-term to be reflected in the portfolio composition. At portfolio level and in the individual loan cases, DLR focuses on the credit risks relating to climate change which may result in a reduced value of mortgaged properties, for example due to risk of flooding.

Management statements
The Risk and Capital Management Report was approved by the Board of Directors of DLR Kredit A/S on 7 February 2025.

In the opinion of the Board of Directors, DLR's risk management is adequate and ensures that the risk management systems implemented meet all requirements under DLR's profile and strategy.

Furthermore, the Board of Directors believes the below description of DLR's general risk profile gives a true and fair view of DLR's risk management and risk appetite.

The Board of Directors' assessment is based on the Board-approved business model and strategy and reports submitted to the Board of Directors by the Executive Board, Internal Audit, Risk Management and Compliance.

A review of the business model and policies shows that the general requirements of the business model for each risk area are fully and comprehensively reflected in the specific limits of the individual policies. A review of the Board of Directors' instructions to the Executive Board and the authorities delegated indicates that the limits stipulated in individual policies are fully and comprehensively reflected in the underlying instructions to the Executive Board and the authorities delegated, and that real risks are within the limits stipulated in individual policies and authorities. On this basis, the Board of Directors considers the business model, policies and instructions to be consistent with the real risks in the individual areas.

DLR's business strategy is based on its goal of being the preferred collaboration partner for the shareholders within its market area. DLR aims to achieve profitable operations based on product pricing that reflects its risks and capital tie-up together with an overall assessment of the scope of its business with customers and counterparties. DLR aims to have an adequate and robust capital base that supports its business model and bond ratings.

The maximum risk tolerance accepted by the Board of Directors is managed via defined limits in individual policies and guidelines, etc. These include the following areas of control:

- At end-20224, DLR's capital target for the capital ratio is 23.0 pct., and the targets for the tier 1 capital ratio and the common equity tier 1 ratio are 21.0 pct. and 19.5 pct., respectively. At the end of 2024, DLR's common equity tier 1 capital ratio was 21.3 pct., the tier 1 capital ratio was 21.5 pct. and its capital ratio was 23.7 pct
- DLR's Board of Directors has defined a lower leverage ratio threshold of 5 pct., which is above the statutory requirement of 3 pct. DLR's leverage ratio was 7.9 pct. at the end of 2024.
- With regard to activities in the financial markets, DLR aims for a maximum interest rate risk of 2.5 pct., which is below the statutory requirement of 8 pct. DLR's

interest rate risk on the bond portfolio was 1.3 pct. relative to own funds at end-2024.
- With respect to liquidity, DLR aims to maintain low liquidity risk given its business model as a mortgage credit institution applying the specific balance principle and a coverage of the LCR requirement of at least 110 pct. At the end of 2024, DLR calculated its LCR at 110 pct. and the Pillar II liquidity add-on at 110 pct. Since mid-July 2023, DLR has, for management purposes, consistently allocated HQLA (high quality liquid assets) to the effect that both LCR and the Pillar II liquidity add-on amount to 110 pct. The purpose hereof was to optimise the use of HQLA, which, among other things, is also used as supplementary collateral.

Furthermore, ESG risks is one of the elements in the assessment of overall credit risk in DLR's portfolio. The Board of Directors also takes into account other statutory limits in laying down DLR's risk management policies.

Copenhagen, 7 February 2025

Executive Board

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

Board of Directors

Vagn Hansen Chairman	Stig Westergaard Vice Chairman	
Claus Andersen	Ole Beith	
Frank Mortensen	Lars Petersson	
Jakob G. Hald	Lars Faber	Randi Franke

Risk governance and management

DLR's business model as a mortgage credit institution and the types of risk to which DLR is exposed are closely linked. On the basis of the adopted business model, DLR is exposed to different types of risk, notably credit risk. The different types of risk are described in more detail in Risk taxonomy section below.

Board of Directors

DLR's Board of Directors has overall responsibility for defining and monitoring DLR's risk exposures and for DLR's risk management, internal controls and for ensuring compliance with applicable legislation. Based on the business model and risk assessments, etc., the Board of Directors has defined policies and guidelines and, by extension, limits for the risks that DLR is prepared to assume. Delegation of responsibility throughout the organisation is based on these policies, guidelines and limits. DLR's organisation comprises a number of function heads who all report to the Executive Board.

Also, the Board of Directors and the Executive Board set and approve general policies and guidelines, procedures and controls in key risk management areas. The Board of Directors has set up four board committees: an audit committee, a risk committee, a remuneration committee and a nomination committee, as described below.

In addition, DLR has established an internal audit function that reports to the Board of Directors and which – in accordance with an approved audit strategy – audits processes and internal control procedures in significant and material risk areas.

At the end of 2024, DLR's Board of Directors consisted of ten members. Seven members were elected at the Annual General Meeting, while three members were elected from among DLR's employees. Of the AGM-elected board members, three were elected from among the members of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, three from among the members of National Banks in Denmark and one member elected jointly by the two organisations. AGM-elected board members are elected by the shareholders at the Annual General Meeting for one year at a time, while the employee-elected board members are elected for periods of four years. AGM-elected and employee-elected board members are eligible for re-election.

The composition of the Board of Directors at end-2024 and information about other directorships held by the members of the Board of Directors is set out in DLR's Annual Report 2024.

Managing Director Carsten Levring Jakobsen resigned from the Board of Directors on 9 January 2025. On 16 January 2025, the Board of Directors appointed Deputy Group Chief Executive Stig Westergaard as the new vice chairman.

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

Committee members are also members of DLR's Board of Directors and include the members elected at the Annual General Meeting as well as employee representatives. Information about the composition of board committees and their duties is also provided in DLR's Annual Report 2024. Managing Director Carsten Levring Jakobsen stepped down from the Risk Committee, the Nomination Committee and the Remuneration Committee on 9 January 2025. On 16 January 2025, Deputy Group Chief Executive Stig Westergaard was appointed to the Risk Committee and the Remuneration Committee.

- The **Audit Committee** is charged with supervising the financial reporting process as well as other accounting and auditing matters including monitoring whether DLR's internal control systems as well as internal audit and risk management systems in relation to accounting matters function effectively. At end-2024, DLR's Audit Committee had three members – General Manager Claus Andersen (chairman), Deputy Director & CFO Frank Mortensen and Head of Business Development and Communications Randi Franke. The Committee's regular meetings are attended by DLR's internal and external auditors and by DLR's Accounting and Finance Director. The Audit Committee met five times in 2024.

- The **Risk Committee** is charged with ensuring that DLR's Board of Directors is adequately equipped to address, manage, monitor and mitigate the risks that DLR is or may be exposed to. The Risk Committee must maintain a comprehensive view of the risks associated with DLR's activities. All Risk Committee meetings are attended by DLR's Chief Risk Officer. The Risk Committee had three members at end-2024: Managing Director Ole Beith (chairman), Managing Director Carsen Levring Jakobsen and Head of Kompetencecenter Kredit Jakob G. Hald. The Risk Committee held five meetings in 2024.

- The **Nomination Committee** is charged with ensuring 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. At end-2024, the Nomination Committee consisted of DLR's entire Board of Directors, with Managing Director & CEO Vagn Hansen as chairman and Managing Director Carsten Levring Jakobsen as vice chairman. The committee held two meetings in 2024.

- 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 consisted of three members at end-2024 – Managing Director & CEO Vagn Hansen (chairman), Managing Director Carsten Levring Jakobsen and Head of Kompetencecenter Kredit Jakob G. Hald. The committee held three meetings in 2024.

DLR continually ensures that the members of DLR's Board of Directors have the collective knowledge, professional skills and experience required to execute DLR's business model and strategy. The Nomination Committee prepares the full Board's review of issues associated with knowledge and experience. This review is conducted at least once annually among DLR's board members.

One of the responsibilities of the Nomination Committee is to nominate candidates for DLR's Board of Directors and to prepare a description of the functions and qualifications required to participate in the work of the Board of Directors.

DLR's Board of Directors has adopted a remuneration policy for DLR Kredit A/S which has been approved at the Annual General Meeting. The remuneration policy is available at dlr.dk. Quantitative data on the remuneration of staff affecting the risk profile is provided in note 7 in DLR's 2024 Annual Report.

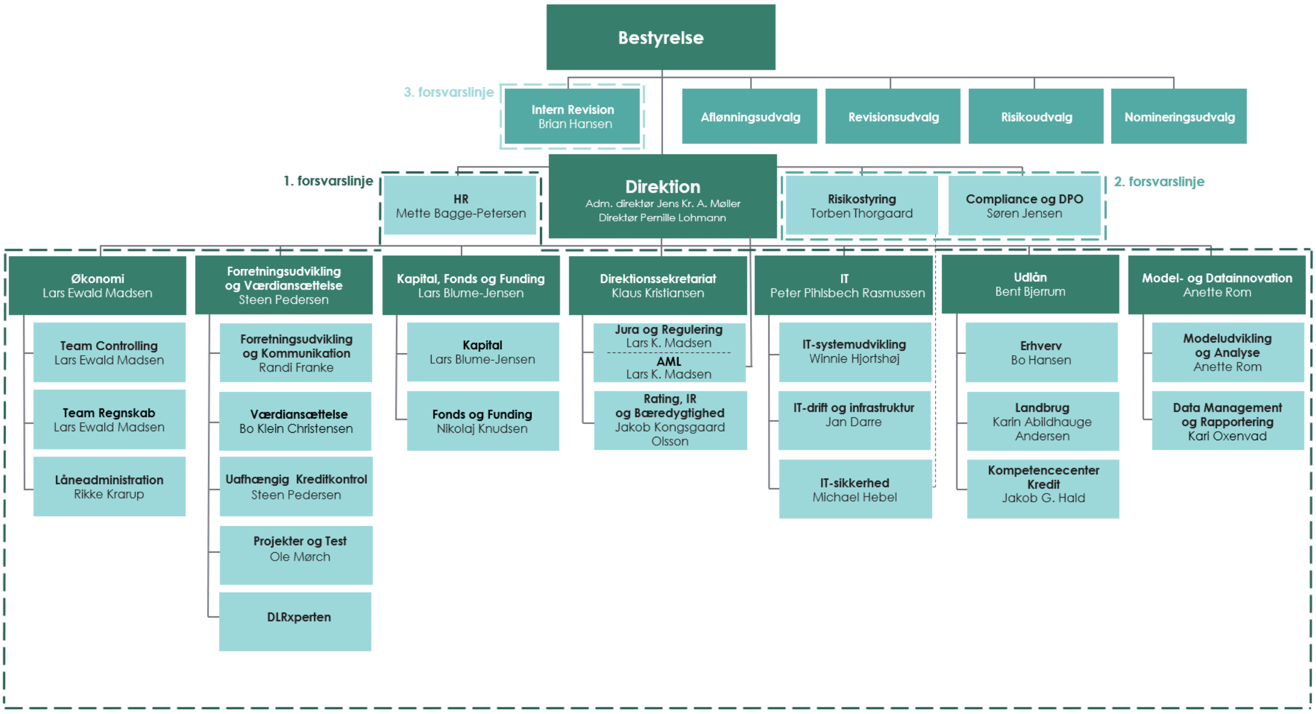
Risk management at DLR – the three lines of defence
DLR's Executive Board ensures that risks are managed and mitigated as directed by the Board of Directors. Risk management at DLR is shaped around the three lines of defence model:

- **First line of defence:** Functions that own and manage risks. Individual department heads at DLR are responsible for identifying, measuring, managing and reporting risks and for ensuring that adequate controls are in place. Department heads are also responsible for preparing/updating business procedures and in that context for ensuring that compliance requirements are observed.

- **Second line of defence:** Risk Management and Compliance, which are independent advisory and control functions, report directly to the Executive Board. The primary focus of the Compliance function is to oversee that the first line of defence complies with applicable regulation, internal rules and market standards. The primary focus of the Risk Management function is to maintain a comprehensive view of DLR and DLR's risk exposure in order to assess whether adequate risk management is in place. The Risk Management function is responsible for establishing the framework for appropriate identification, measurement, management and reporting of all material risks.

- **Third line of defence:** Internal Audit, which is independent of the Executive Board and of the performance of tasks in the first and second lines of defence, reports directly to the Board of Directors and the Board's Audit Committee.

Risk management at DLR – the three lines of defence



Risk Management must maintain a comprehensive view of DLR and DLR's risks for purposes of assessing whether adequate risk management is in place. DLR's Risk Management function is responsible for establishing the framework for appropriate identification, measurement, management and reporting of all material risks. Risk Management is an independent advisory, control and reporting function which does not own individual risks but owns the framework for managing risk across DLR. The Risk Management Officer reports to DLR's Executive Board.

As the Chief Information Security Officer (CISO) is placed in the IT department (first line of defence), DLR has identified a need to take some compensatory measures in terms of ensuring adequate segregation of functions in the area of IT security. As a compensatory measure, the CISO therefore has a secondary reporting duty to the head of Risk Management.

DLR has also established a Compliance function, which reports to the Executive Board. The Chief Compliance Officer is in charge of assessing and checking whether DLR complies with relevant legislation, market standards and internal rules. The Chief Compliance Officer also serves as Data Protection Officer (DPO).

Internal risk committees

With a view to maintaining ongoing focus on proper risk management across the DLR organisation, the Executive Board has set up three internal risk committees:

- **The Credit Risk Committee** manages cross-organisational credit risks. This includes monitoring developments in credit portfolio risk exposures, monitoring IRB models and internal ratings and LTV monitoring. The committee does not monitor individual credit grants.

- **The Liquidity and Market Risk Committee** manages DLR's liquidity and market risks. This includes monitoring interest rate risk, credit spread risk, investor distribution, market conditions for bonds, funding plans, refinancing auctions.

- **IOC Risk Committee** (Committee for ICT, operational and compliance risk): manages cross-organisational ICT, operational and compliance risks (cross-organisational non-financial risks). Specific operational and compliance risks pertaining to the credit area or the securities area are managed by the Credit Risk Committee or the Liquidity and Market Risk Committee.

The Executive Board is represented on all three internal risk committees. Risk Management is also represented on all three internal risk committees as an observer, while Compliance is represented on the IOC Risk Committee as an observer.

Risk taxonomy

The following risk taxonomy is applied across the DLR organisation. The risk categories cover both financial and non-financial risks.

Risk type	Risk category	Definition
Financial risks	Credit risk	The risk of loss arising as a result of borrowers defaulting on payment obligations (incl. counterparty risk)
	Market risk	The risk of loss arising as a result of movements in financial markets, i.e. interest rate, share price and exchange rate risk (incl. credit spread and convexity risk)
	Liquidity risk	The risk of loss arising as a result of inability to meet financial obligations falling due in the short or medium term (incl. funding risk)

Risk type	Risk category	Definition
Non-financial risks	Operational risk	The risk of loss arising as a result of inappropriate or inadequate internal procedures, human or system error or error caused by external events (excl. compliance and ICT risk) Model risk and non-ICT-related outsourcing risk are considered and managed as operational risk.
	Compliance risk	The risk of loss arising as a result of non-compliance with applicable regulations, market standards or internal rules
	ICT risk	Any reasonably identifiable circumstance relating to the use of network and information systems which, if it occurs, could compromise the security of DLR's ICT services

DLR's risk taxonomy for non-financial risks follows the Danish Executive Order on Management and Control of Banks with the deviation that compliance risks, outsourcing and system errors in the Executive Order are considered as a subset of operational risk.

ICT third-party risk is placed under ICT risk in DLR's risk taxonomy, while non-ICT-related outsourcing risk is treated as operational risk.

Model risk (the risk of loss as a result of decisions based mainly on output from internal models and occurring due to errors in the development, implementation or use of such models) is treated as operational risk.

ESG (Environment, Social and Governance) relationships is treated as an integral/cross-cutting part of DLR's risk taxonomy. ESG is considered a "risk driver/factor" that can affect the overall risks and is therefore not considered a separate risk category in its own right.

DLR's risk management processes within the above risk categories are described in more detail in the following sections.

Risk reporting

DLR has a comprehensive risk register covering all types of risk. Once annually, DLR performs a risk and control assessment, the result of which is documented in DLR's risk register.

Significant risks in the risk register are updated at least quarterly. The risk register provides a basis for DLR's risk reporting process.

Once every quarter, four overviews of the most significant risks are prepared in the risk register:

- Risk overview – Lending at DLR
- Risk overview – Securities trading at DLR
- Risk overview – IT area at DLR
- Risk overview – DLR's other areas

Furthermore, a comprehensive internal risk report is prepared annually for the Board of Directors, who determines whether risk levels are acceptable. In addition, a number of reports and overviews are prepared with respect to risk and regulatory requirements. The necessity and extent of reporting is regularly adjusted in line with regulations, etc. In addition, the Board of Directors is briefed on a more general level at board meetings, which are held at least four times a year in connection with the financial reporting process.

The following overview shows the risk reports presented to the Executive Board and the Board of Directors on a regular basis.

Risk reporting overview

Reporting	Recipient	Frequency
Credit risk reporting		
Monthly statistics (loan portfolio, market share and rating)	Board of Directors	Monthly
Risk reporting in the lending area	Board of Directors	Quarterly
Mediated loans by bank	Board of Directors	Quarterly
Briefings – loan offers	Board of Directors	Quarterly
Credit rating and financial counterparty monitoring	Board of Directors	Semi-annually
Review of assets (S. 78)	Board of Directors	Annually
IRB validation report	Board of Directors	Annually
Validation of impairment losses	Board of Directors	Annually
Market and liquidity risk reporting		
Securities meeting reporting	Executive Board	Monthly
Securities monitoring by Risk Management	Executive Board	Monthly
Risk reporting in the securities trading area	Board of Directors	Quarterly
Liquidity report (ILAAP)	Board of Directors	Annually

Reporting	Recipient	Fre-quency
Cross-organisational risk reporting (incl. non-financial risks)		
DLR's internal risk report	Board of Direc-tors	Annually
Risk overview in IT areas and other areas	Risk Commit-tee	Quarterly
Risk and capital management (Pillar III report)	Board of Direc-tors	Annually
Compliance report	Board of Direc-tors	Annually
DPO report (personal data compliance reporting)	Board of Direc-tors	Annually
Money laundering and terrorist financing reporting	Board of Direc-tors	Annually
Capital management reporting		
Capital position – individual solvency need (ICAAP)	Board of Direc-tors	Quarterly
Long-term capital plan	Board of Direc-tors	Quarterly
Quarterly report – capital requirement, Cover pool and recovery indicator	Board of Direc-tors	Quarterly
Recovery plan	Board of Direc-tors	Annually
Capital position – contingency plan	Board of Direc-tors	Annually

Capital position

DLR’s capital management efforts build on applicable regulation, including the Danish Financial Business Act, the CRR regulation (Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 and the Danish Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need, etc. The Board of Directors and the Executive Board are responsible for ensuring that DLR’s capital structure is appropriate and complies with regulatory requirements.

Capital management
DLR’s capital structure must ensure capital adequacy in order to create a long-term foundation for running a sound mortgage credit business that can sell bonds on competitive terms. Pursuant to the regulatory requirements, the capital structure should be based on a high level of equity, which is also reflected in DLR's capital target. The capital structure must also ensure compliance with other requirements such as the debt buffer requirement, LTV compliance with respect to issued covered bond (SDO) loans and rating agency OC requirements.

Capital targets
The purpose of DLR’s capital targets is to ensure that DLR has sufficient capital and, even during economic slowdowns, maintains adequate own funds to ensure a sound business operation.

DLR’s capital requirement is made up of the basic 8 pct. requirement plus the combined capital buffer requirements and possible Pillar II requirements. DLR aims to have additional excess coverage relative to the regulatory capital requirements.

The Board of Directors defines DLR’s capital targets, and in August 2024 it raised the capital target to 23.0 pct., and to 21.0 pct. and 19.5 pct., respectively, for the tier 1 capital ratio and the common equity tier 1 capital ratio. The increase in the capital target from 20.0 pct. to 23.0 pct. is primarily attributable to the implementation of the sector-specific capital buffer of 7 pct. aimed at real estate companies and the change in DLR's guarantee concept in 2024. The capital target of 23.0 pct. also “pre-implements” the expected impact of the new capital adequacy rules (CRR) from the beginning of 2025.

The targets were set on the basis of both known and expected requirements, and the targets will be adjusted in case of significant events or changes to market conditions. Consequently, the capital targets are expected to be adjusted in 2025 because the effect of the new CRR rules from the beginning of 2025 will be included directly in the calculation of DLR's capital ratios, and the capital targets will therefore need to reflect that.

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.

Long-term capital plan

DLR prepares and regularly updates a long-term capital plan. The capital plan is designed to meet regulatory requirements and ensure adequate capital for commercial activities. The plan is updated and adjusted on an ongoing basis to take into account lending developments, capital initiatives, earnings, regulatory changes and other significant issues that may affect DLR's capital position.

The capital plan prepared for the next five years centres on the following:

- Compliance with applicable and known regulatory capital requirements and continual compliance with LTV requirements for issued bonds and OC requirements etc.
- Use of the IRB approach for the calculation of risk exposure on the full-time agriculture property portfolio and the standard approach for the remaining portfolio.
- Inclusion of other potential operational factors, such as expected developments in losses and impairment losses, lending growth, etc.

DLR's capital structure is regularly evaluated against the capital plan.

Own funds and capital ratio

DLR's own funds amounted to DKK 18.2bn at end-2024. Own funds consist primarily of equity and a small proportion of tier 2 capital, as DLR's common equity tier 1 capital amounted to DKK 16.5bn, while the tier 2 capital amounted to DKK 1.7bn.

DLR's own funds increased by DKK 823m in 2024. The increase was primarily attributable to the profit for the year of DKK 1,222m. In 2024, DLR also increased the issue of tier 2 capital. In connection with the redemption of DKK 650m of tier 2 capital, a total of a little over DKK 1,000m of tier 2 capital was issued, distributed on DKK 400m and SEK 1,000m, respectively. The risk exposure amount at end-2024 was DKK 76.6bn, against DKK 72.2bn at end-2023.

DLR's own funds at 31 December 2024

DKKm	2024	2023
Share capital	570	570
Share premium	0	0
Reserves (locked-up capital)	2,399	2,355
Retained earnings	13,430	12,877
Profit for the year after tax	1,222	1,347
Deduction for proposed dividend	-750	-750
Deduction for holding of bonds secured against treasury shares	-290	-282
Tier 1 primary deductions	-111	-74
Tier 1 capital less primary deductions (CET 1 capital)	16,471	16,044
Additional tier 1 capital	0	0
Other deductions	0	0
Tier 1 capital incl. additional tier 1 capital	16,471	16,044
Tier 2 capital	1,694	1,298
Included tier 2 capital	1,694	1,298
Own funds before deductions	18,165	17,342
Deductions from own funds	0	0
Own funds after deductions	18,165	17,342

DLR's capital ratio at 31 December 2024

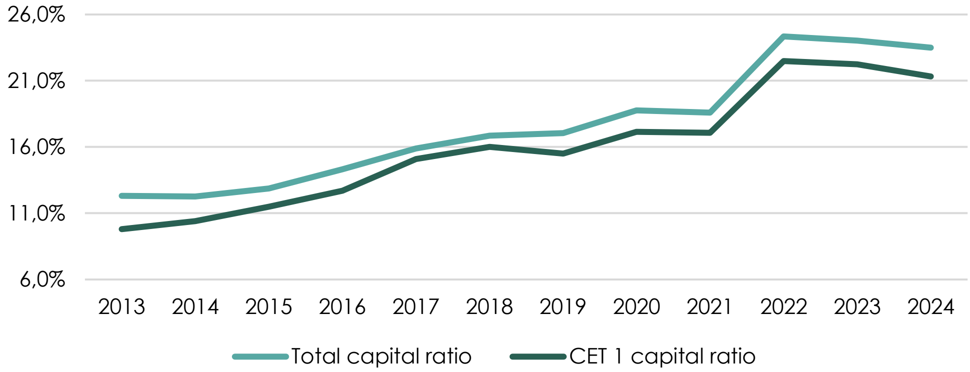
(DKKm)	2024	2023
Equity:		
– Distributable reserves	15,222	14,794
– Non-distributable reserves	2,399	2,355
Total equity	17,622	17,149
Own funds after deductions	18,165	17,342
Weighted risk exposure	76,581	72,158
Adequate own funds	7,133	6,733
DLR's total capital ratio	23.7%	24.0%

Capital ratio

DLR's total capital ratio at end-2024 was 23.7 pct., while the common equity tier 1 capital ratio was 21.5 pct. When calculating risk exposure for full-time farms, DLR applies the IRB approach, while the standard approach has been applied for the rest of the portfolio.

DLR capital ratio has generally increased for a number of years, among other things driven by the consolidation through DLR's profit for the year.

DLR's total and CET 1 capital ratios



In addition to the consolidation through DLR's results, the increase in 2022 was driven especially by the approval of a new and more accurate IRB model and adjustments and specifications to the calculation of credit risk for the portfolio in the standard approach. In addition, there was a net fall in the carrying amount of mortgage loans (loan exposure) due to large price falls on the underlying bonds. The slight drop in capital ratios in 2023 and 2024 should be seen in the context of reservation of funds for dividend payments of DKK 750m in both years, as well as rising risk exposure.

Based on its current level of own funds and expected future earnings, DLR expects to be favourably positioned to comply with the expectedly increasing capital requirements.

Capital requirements

The statutory capital requirement for DLR was 16.6 pct. at 31 December 2024. The requirement is based on the classic 8 pct. requirement, a solvency requirement (Pillar II requirement) of 1.31 pct., the SIFI requirement of 1.0 pct. and a capital conservation buffer of 2.5 pct., a countercyclical buffer of 2.5 pct., a systemic buffer of 7 pct. for loans to real estate companies in Denmark equal to a regulatory requirement of 1.2 pct. and a systemic buffer for loans on the Faroe Islands of 2 pct., equal to a regulatory requirement of 0.02 pct. The overall requirement was increased from the end of 2023 primarily as a result of the systemic buffer of 7 pct. for loans to real estate companies in Denmark, implemented at the end of June 2024.

Solvency requirement, adequate own funds and solvency need

At least once a year, the Board of Directors performs a review of calculation methods, risk areas, stress tests and benchmarks etc. for calculating DLR's solvency need. In addition to the annual and more thorough review, the Board of Directors discusses and approves DLR's calculation of adequate own funds and solvency need at least once every quarter based on a recommendation from the Executive Board. DLR's Risk Committee reviews the material prior to submission to the Board of

Directors. The review in the Risk Committee also takes place with the participation of DLR's internal audit function, which conducts the independent verification of the assessment.

In the calculation of the adequate own funds and the solvency need, DLR follows the guidelines set out in the Executive Order on Risk Exposures, Own Funds and Solvency Need and the Danish FSA's guidelines, etc. For the actual calculation, DLR applies the credit reservation approach ("8+ approach"), which is the official method of the Danish FSA, described in more detail in the FSA's guidelines. Using this approach, the individual risk areas are reviewed to assess whether special risks exist. The risk areas are credit risks, market risks, operational risks and IT risks. The assessment is based on DLR's risk profile, capital position and any significant forward-looking factors.

The calculation also uses stress tests, including the Danish FSA's macroeconomic stress test, supplemented with DLR's own scenarios. On the basis of these scenarios, an assessment is made of the adequacy of DLR's own funds and recurring earnings.

DLR's risks are assessed in the following main areas. An estimate is also made as to whether other factors require an add-on to own funds. Such factors are described in the Danish FSA's guidance, and the calculation also takes into consideration the need for specific management overlays. Relevant departments are involved in determining adequate own funds. This also applies for preliminary and subsequent discussions of stress tests etc. for the various business areas.

The risk assessment covers the following areas as set out in the Danish FSA's guidelines:

- Credit risk (ESG-related sub-risks may be included)
  - Earnings and lending growth
  - Credit risk for large customers
  - Model uncertainty
  - Other credit risks
  - Counterparty risk (financial counterparties)
  - Credit risk concentration
- Market risk, including
  - Interest rate risk
  - Equity risk
  - Exchange rate risk
- Liquidity risk (ESG-related sub-risks may be included)
- Operational risk (ESG-related sub-risks may be included)
- ICT risks
- Leverage

In DLR, ESG factors are assessed as a "risk driver" that can affect multiple risk areas, although it is considered that ESG factors primarily can impact DLR's credit risks.

A number of main subject areas are reviewed below.

Credit risk is DLR’s largest risk category. As most of the risk exposure relates to this area, it accounts for most of the solvency need. See the table below. DLR therefore has considerable focus on this area. When calculating risk exposure, DLR applies the IRB approach for its full-time agriculture property portfolio, while for the rest of the portfolio, DLR uses the standard method for the calculation of risk exposure. See the section below on credit risk for further details.

Relevant ESG factors are included in DLR's credit assessment of customers and property valuation, where primarily climate-related factors are taken into consider-ation.

Market risk is another important area for DLR given DLR’s substantial securities port-folio. DLR sets aside capital equivalent to 8 pct. of the risk exposure amount for mar-ket risk. Moreover, it is assessed whether DLR may be exposed to additional risk that requires an add-on to the adequate own funds. DLR’s market risk is estimated to be limited due to the balance principle, just as DLR has set narrow limits for interest rate risk.

Operational risk is defined as the risk of direct or indirect loss caused by inadequate or faulty processes, systems, etc. Given DLR’s single-pronged business model and its focus on internal processes, etc., this risk is considered to be limited. DLR employs the Basic Indicator Approach (BIA) for the calculation of the capital requirement for operational risk.

ICT risks A risk assessment is made in the IT area, reflecting material ICT risks.

In addition, management regularly assesses if additional factors should be included in the calculation of adequate own funds and solvency need. In 2024, for example, management assessed DLR’s data quality.

DLR’s adequate own funds were calculated at DKK 7.133m at year-end 2024. See the table below. As DLR’s total risk exposure amount (REA) was DKK 76,581m, this equates to a solvency need of 9.31 pct.

DLR’s excess capital relative to the regulatory requirement is calculated at 7.2 per-centage points, equal to DKK 5.5bn at end-2024. DLR considers this to be a satisfac-tory level.

DLR's adequate own funds and solvency need at 31 December 2024

Risk area	Adequate own funds DKKm	Solvency need
Credit risk	6,126	8.00%
Market risk	730	0.95%
Operational risk	277	0.36%
Other factors	0	0
Internally calculated solvency need	7,133	9.31%
Add-ons (special risks)	0	0
Total	**7,133**	**9.31%**

Source: Calculation of adequate own funds and solvency need at https://dlr.dk/en/investor/financial-statements/

DLR's own funds and excess capital at 31 December 2024

Key figures and financial ratios	DKKm,
Own funds after deductions	18,165
Adequate own funds	7,133
SIFI buffer	766
Capital conservation buffer	1,915
Countercyclical capital buffer	1,915
Systemic add-on Denmark (loans to commercial real estate companies)	943
Systemic add-on Faroe Islands	15
Excess capital	5,480
Total capital ratio	23.7%
Individual solvency need, %	9.3%
SIFI buffer	1.0%
Capital conservation buffer	2.5%
Countercyclical capital buffer	2.5%
Systemic add-on Denmark (loans to commercial real estate companies)	1.2%
Systemic add-on Faroe Islands*	0.0%
Excess capital, percentage points	0.0%
Key figures and financial ratios	7.2%

* Amounting to 0.02%, it is not included in the table.

Supplementary collateral, OC and debt buffer

DLR funds lending by issuing covered bonds (SDOs). Particularly secure assets are used as collateral for the issued bonds – primarily in the form of mortgages on real property. Other types of collateral include government and mortgage bonds or claims against banks, for example by way of guarantees. For the issued bonds, DLR must provide supplementary collateral to ensure that there is always an adequate amount of secure assets underlying the issued bonds. This could, for example, arise as a result of a fall in the value of the properties provided as collateral for the bonds. DLR continually monitors compliance with this obligation. The need for supplementary collateral amounted to DKK 6.2bn. at end-2024.

The supplementary collateral must be provided in the form of particularly secure assets. To cover this requirement, DLR may use approved assets acquired for both own funds and any proceeds from other debt issues placed in Capital Centre B and, to a certain extent, claims against banks, for example by way of guarantees.

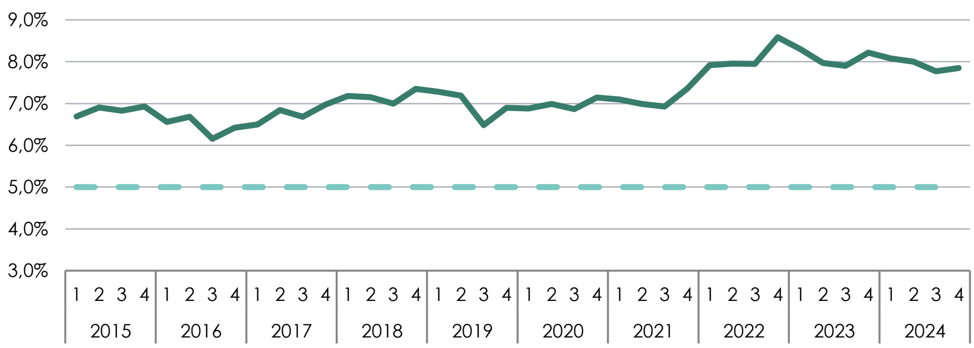
In addition to own funds, DLR has issued DKK 4bn in Senior Non-Preferred Notes (SNP), from which funds, other than for meeting the debt buffer requirement, may also be used to acquire assets for supplementary collateral purposes. Furthermore, DLR can issue Senior Secured Bonds (SSB), Senior Non-Preferred Notes (SNP) and unsecured senior debt in order to meet the need for supplementary collateral.

DLR maintains a buffer of particularly secure assets that may be used as supplementary collateral should the need arise. Without additional steps, DLR is therefore able to resist any general price falls on all agricultural and commercial properties of at least 12 pct. without having to source additional collateral.

Leverage

DLR's leverage ratio calculated pursuant to the CRR, according to which leverage is calculated as the total risk exposure amount (REA) relative to tier 1 capital, was 7.9 pct. at year-end 2024. See below. DLR's Board of Directors has defined a leverage ratio threshold of 5 pct. relative to the CRR rules on top of the regulatory threshold of 3 pct. DLR's current leverage ratio thus provides a significant excess coverage relative to both the 5 pct. requirement defined by the Board of Directors and the regulatory requirement of 3 pct. Reference is made to the Pillar III appendix for further information on DLR's leverage ratio.

DLRs gearingsgrad (leverage ratio, CRR)

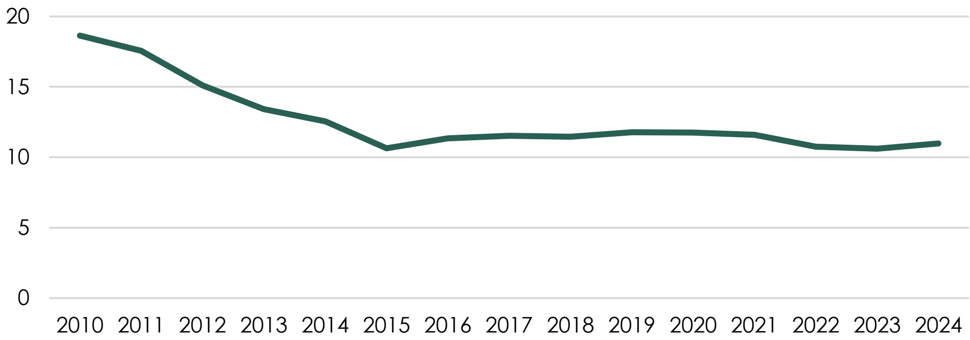


DLR's leverage ratio under CRR, end-2023

DKKm	2024	2023
Total assets according to financial statements	206,552	192,890
Total balance sheet exposures as per CRR	206,552	192,890
Off-balance sheet items, loan offers, etc.	3,485	2,424
Deductions from tier 1 capital	-111	-74
Adjustment for derivative financial instruments	0	0
Total exposure for leverage ratio calculation	209,226	195,240
Tier 1 capital	16,471	16,044
Leverage ratio	**7.9%**	**8.2%**

In recent years, DLR's leverage ratio (calculated as lending relative to equity) has been relatively constant at 10-15 pct., which is regarded as a positive for DLR's aggregate risk.

DLR's leverage ratio (ratio of lending to equity)



Debt buffer

Mortgage banks in Denmark must comply a two-part debt buffer requirement. The debt buffer requirement is set to represent a minimum of 2 pct. of total unweighted lending, while the sum of the requirement for the issuer's capital and debt buffer must constitute at least 8 pct. of the institution's total liabilities. The debt buffer is met using equity, additional tier 1 capital, tier 2 capital and unsecured subordinated senior debt.

The debt buffer requirement of at least 2 pct. of DLR's lending amounted to DKK 3.9bn at end-2024. The requirement that the debt buffer must constitute 8 pct. of total liabilities amounted to DKK 3.8bn at end-2024 after deducting the regulatory capital requirement. The debt buffer requirement of at least 2 pct. of DLR's lending is thus the binding buffer requirement for DLR when taking into account the tied-up capital for covering the regulatory capital requirement. The debt buffer requirement is thus met on the basis of DLR's SNP issues totalling DKK 4bn.

DLR has issued SNP totalling DKK 4bn. DLR has invested the issues so that DKK 1bn of the notes will mature each year. These issues may be refinanced on maturity according to need. SNP notes represent unsecured debt that can be written down or converted into shares in case of resolution. SNP can also be included in S&P's estimate of an institution's Additional Loss-Absorbing Capacity (ALAC) and can thus provide an uplift to the institution's rating.

Compliance with DLR's debt buffer requirement is shown in the table below.

Debt buffer requirement for DLR

Debt buffer requirement (2% of lending), DKKm		Debt buffer requirement (8% of liabilities), DKKm	
DLR's total lending (unweighted	193,627	DLR's total liabilities	206,552
Need for capital/debt to comply with debt buffer	3,873	Need for capital/debt to comply with debt buffer	16,524
Covered via SNP	3,873	Covered via regulatory tied-up capital (own funds)	12,685
		To be covered via other types of capital	3,839
		Covered via SNP	3,839

Rating

DLR was first rated by S&P in May 2012. At that time, DLR was assigned an issuer rating of BBB+ (Long-Term Credit Rating) with a stable outlook.

Since May 2017, however, DLR has held an issuer rating (Issuer Credit Rating – "ICR") of A-, which was affirmed with a stable outlook on 5 September 2024. 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 overcollateralisation level (voluntary OC). With an ICR of A-, DLR only needs to advance by six of the eight remaining notches to achieve AAA rating and thus has two unused uplifts in its bond rating. This contributes to lowering the overcollateralisation requirement on DLR's capital centres.

DLR's S&P ratings, end-2024

Bond rating	
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)
Other ratings	
Issuer (Long-Term)	A- (stable)
Issuer (Short-Term)	A-2 (stable)

Rating composition overview

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

DLR's covered bond rating with S&P

Issuer Credit Rating (ICR)	A-
Sovereign support	0
Adjusted ICR	A-
BRRD uplift	+2
Reference Rating Level (RRL)	**A+**
Jurisdiction support	+3
Jurisdiction Rating Level (JRL)	**AA+**
Collateral support	+4
Max achievable CB rating	AAA
Used collateral support notches	-1
Voluntary OC	-1
Unused uplift	**2**

S&P's overcollateralisation requirements compatible with the AAA rating have most recently been set at 9.09 pct. for Capital Centre B and 2.50 pct. for the General Capital Centre. The overcollateralisation 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 overcollateralisation 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. For this reason, DLR maintains a buffer of extra overcollateralisation to accommodate any changes. At the end of 2024, the current overcollateralisation was thus 12.1 pct. in Capital Centre B and 19.6 pct. in the General Capital Centre, which is 3.0 percentage points and 17.1 percentage points, respectively, higher than S&P's overcollateralisation requirements.

DLR's SNP issues are rated BBB, which follows the S&P standard approach, which is one notch below DLR's SACP. DLR's Tier 2 issues are rated BBB-, which is two notches below DLR's SACP and also follows the S&P standard approach.

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.

Due to the selected business model, DLR's credit risk is concentrated around lending to agricultural and commercial property, and to a limited extent owner-occupied homes, including residential farms. DLR also grants loans for properties on the Faroe Islands and in Greenland based on bilateral agreements with shareholder banks. As a key element of its business model, DLR has made loss-mitigating agreements with its loan-mediating banks.

DLR's Board of Directors has defined DLR's credit policies and guidelines for the granting of credit – including limits for the Executive Board's lending authorities – in order to achieve the desired level of risk. Within these set limits, internal business procedures and instructions further delegate lending authorities to the various sections/persons in DLR's organisation.

Credit scoring

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, who have significant local knowledge. 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 condition and marketability of the property, etc. are also taken into account in the valuation, as are the status of the property and opportunities, including ESG factors. 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.

The credit assessment of the customer's finances normally involves several years of financial statements. Credit scoring models are used for the most important customer segments. Whether additional or more detailed information about the borrower is required varies from case to case and depends on the borrower's financial circumstances. The more complex and risky the case, the more detailed the investigations to ensure an adequate basis for decision-making.

IRB models

The capital adequacy rules allow for the use of either the standard method or the internal ratings based approach (IRB approach) to calculate risk exposure for credit risk purposes. If the model is used to calculate capital requirements, approval from the Danish FSA must be obtained.

DLR's lending to full-time farms uses the IRB method, while the rest of the portfolio follows the standard method. The full-time agriculture property loan portfolio amounts to DKK 87bn, or 44 pct. of DLR's total loan portfolio.

Similar, advanced statistical models are used for internal risk management for significant parts of the business portfolio, equal to an additional DKK 81bn.

The models DLR uses to estimate portfolio risk comprise PD (Probability of Default) and LGD (Loss Given Default). PD is calculated at customer level, while LGD is calculated for all properties in the collateral pool. The same structure is involved in a loan application situation, though additional components relevant to the application situation are also included.

The definition of default is essential when working with IRB models. Pursuant to the Capital Requirements Regulation (CRR), a borrower is in default if (i) DLR considers that the borrower is unlikely to pay its credit obligations, or (ii) the borrower is past due more than 90 days on any material credit obligation.

To ensure consistent handling of item (i) above, DLR has, in accordance with international requirements, defined a number of criteria that the borrower must comply with for the loan to be categorised as in default.

PD expresses the probability that a customer over a 12-month period will default on its credit obligations, cf. the above CRR requirement. A high PD reflects a high risk of a customer defaulting, whereas a low PD reflects a low risk of default. DLR calculates a PD for each individual customer.

The European Banking Authority (EBA) has issued new IRB standards. DLR's default definition and PD model comply with the EBA requirements approved by the Danish FSA in 2022. In 2023 and 2024, DLR endeavoured to ensure that the LGD model also complies with the EBA requirements, and at the end of 2024 DLR submitted an application to the Danish FSA in order to have the new LGD model approved. As the current LGD model does not meet the EBA requirements, DLR has since October

2022 held a capital add-on under Pillar I in the amount of DKK 10.8bn in risk-weighted assets (REA).

The implementation of CRR3 at 1 January 2025 is accompanies by a LGD floor requirement. Further to this, DLR will raise the calibration level in the LGD model while also reducing the capital add-on to DKK 5.7bn, thereby neutralising the effect on risk-weighted assets. When a new LGD model has been approved, the capital add-on is expected to be further reduced.

Rating categories

When a customer has been assigned a statistical PD, the customer is placed in a rating category depending on PD level. Customers with the lowest PDs are placed in rating category 1 as they represent a low probability of default. The other customers are also categorised according to their PD.

The distribution of DLR's rating categories by PD band is shown in the table below. Customers with OEI (objective evidence of impairment) where no individual impairment loss has been identified are always placed in rating category 7 irrespective of whether the model rating is better. Customers in default are placed in rating category 8 and stage 3 in accordance with the Danish Executive Order on the Presentation of Financial Statements (IFRS 9).

The PD bands are generally fixed, and during positive economic conditions customers will migrate towards the better rating categories, while the opposite applies during economic slumps.

DLR's PD rating categories

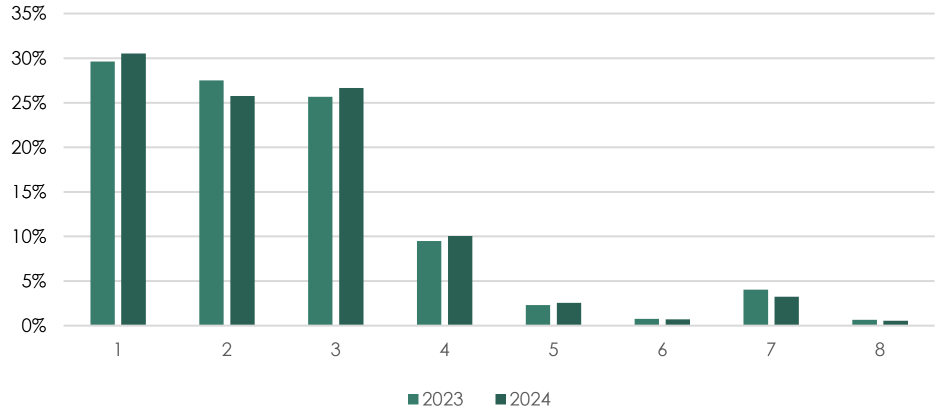
Rating category	Profile	PD band (%)
1	Extremely good	[0; 0.2]
2	Very good	]0.2; 0.4]
3	Good	]0.4; 0.8]
4	Acceptable	]0.8; 2]
5	Certain signs of weakness	]2; 5[
6	Poor	]5; 10]
7	Very poor	]10; 100[
8	Default	100

The figures below show the distribution (in pct.) of DLR's full-time agricultural customers by PD rating class. The agricultural sector generally experienced favourable economic trends again in 2024. Overall, full-time agricultural customers moved towards better rating categories as compared with the end of 2023.

At end-2024, 92.9 pct. of agricultural customers were placed in rating categories 1-4, which comprise loans to good customers. Customers placed in categories 5 and

6 typically show signs of weakness, accounting for 3.3 pct. at end-2024. At year-end 2024, 3.3 pct. of the customers were in rating category 7, against 4.0 pct. the year before. Customers in rating category 7 typically show several signs of weakness, and 95.3 pct. of these customers are categorised as OEI customers. All customers in default are placed in rating category 8, and at end-2024 they accounted for 0.5 pct. of the total number of customers, down from 0.6 pct. the year before.

Full-time agriculture portfolio (share of customers) by PD rating category



LGD indicates DLR's financial loss relative to exposure when a customer defaults. The model is based on DLR's experience of impairment and distressed properties.

The overall LGD model consists of a PR (probability of realisation) element, which indicates the likelihood that a default will lead to a realisation of the mortgage collateral, and an LGR element (loss given realisation), which indicates how large a loss DLR would realise.

The LGR model incorporates the value of the mortgage collateral and the size of the exposure. Defined haircuts (deductions) for a property's individual asset subcomponents provide an estimate of the value of the customer's property in the event of a realisation (forced sale or the like), while exposure is calculated as the loan's current position plus an estimate for interest, costs (such as sales costs), etc. for the period until the realisation is completed. The exposure includes selling costs etc.

A positive LGR equates to an expected loss for DLR, while a negative LGR means DLR has a safety margin and can expect to avoid a loss.

If DLR is aware of particular factors in individual cases that render the model's result misleading, an override (correction) is performed on the model's output.

Validation of IRB models

Risk Management in DLR carries out the task as an independent validation unit and prepares a comprehensive validation report. Reviews of the validation reports are carried out by DLR's internal Credit Risk Committee, which consists of representatives from the Executive Board, model development, the lending department and business development and valuation. Validation reports are subsequently sent to the Risk Committee, the Board of Directors and internal audit.

Business use of the IRB approach at DLR

Models and ratings systems are fully implemented components of DLR's standard loan application and loan approval process. Behavioural score models and application score models are both actively employed in loan application processing. The use of ratings in the loan approval process has for many years been an important element in assessing the risk on both loans to new customers and when extending existing exposures. A customer's rating also influences the organisational processing of the loan application.

The models are also used to identify risk exposures in connection with the calculation of impairment. The rating system is also used for portfolio monitoring and in several management reports.

Monitoring credit risk

DLR's loan portfolio is screened every quarter and based on established risk signals – such as arrears, registration in RKI-Experian (credit information register) and financial reports – customers are selected for a check to ascertain whether there is any objective evidence of impairment (OEI). For customers with OEI, a calculation is made of whether DLR can expect to incur a loss if the asset has to be realised. Based on this, an impairment provision may be made. DLR's loan portfolio is divided into impairment stages (stages 1, 2 and 3), in accordance with the requirements of the Danish Executive Order on the Presentation of Financial Statements.

Individual manual impairment losses (stage 3) are made for customers with weak credit quality and where DLR at the same time estimates that its exposure is not fully secured by the mortgaged property or the guarantees provided, etc.

In addition, DLR calculates the need for modelled impairment for stages 1, 2 and 3, respectively, based on the use of scenario calculations. If it is found that the modelled impairment and the individual impairment losses do not adequately reflect the overall risk, they will be supplemented by a management overlay.

Regular reports are prepared on DLR's lending, including lending developments by sector/property type, loan type, etc. These reports are sent to employees in the lending area, the Executive Board and the Board of Directors, depending on the relevance of the report for the particular recipient group.

Guarantee schemes

On top of collateral in the mortgaged property and a detailed credit assessment, DLR has reduced its credit risk on individual loans and its risk at portfolio level through loss-mitigating agreements made with DLR's loan-mediating banks (DLR's shareholders).

DLR has applied a uniform guarantee concept since the start of 2015, covering loans granted on agricultural property, commercial property and cooperative housing. Under the uniform guarantee concept, the risk on each individual bank's mediated loan portfolio at DLR is borne in the following order.

1. Risk cover – 2 pct. guarantee provision

The loan-mediating bank generally provides a direct individual guarantee on disbursement that covers the individual loan for its entire term and covers the least secure part of the loan. The guarantee covers 2 pct. of the loan's outstanding debt, and in case of multiple loans the lowest-ranking part of the overall loan. In some cases, DLR will require a supplementary guarantee to be posted. The guarantee is reduced as the loan is paid down.

2. Risk cover – Loss-offset scheme

DLR's uniform guarantee concept also encompasses the possibility of offsetting losses in the commission payments made to the bank for up to ten years, whereby all losses incurred by DLR beyond those covered by the 2 pct. guarantee provided at the loan level are offset. Only losses on loans mediated by the particular bank are offset in commission payments. If the loss offset exceeds the commission payment for the loss year, this will be covered in one of two ways: either through payment from the shareholder bank in the given year or by loss offsetting in the following years. Loss offsetting in subsequent years will be subject to an annual surcharge of 600bps plus CIBOR6, which provides an incentive for the shareholder bank to pay in the loss year.

3. Risk cover – portfolio level

If losses to be offset exceed the current year's and the following nine years' expected commissions to the bank, such losses can be covered by drawing on all the direct 2 pct. guarantees provided by the bank in question. DLR has never made use of this part of the risk cover.

Changes to the guarantee concept at 30 June 2024

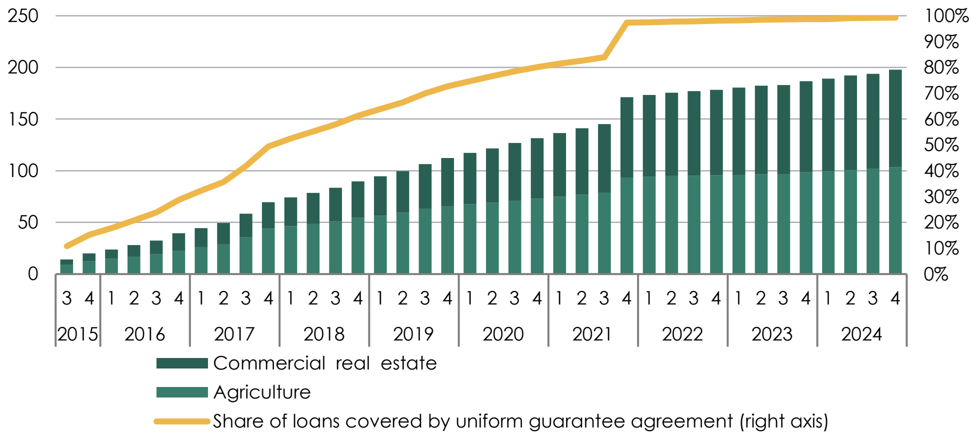
Effective 30 June 2024, DLR adjusted the guarantee concept as part of an alignment to the upcoming capital adequacy rules, which will reduce the value of the guarantees. The adjustment entailed a reduction of the requirement for guarantees for both new and already disbursed loans from 6 pct. to 2 pct. of the loan's outstanding debt. The most important element of the guarantee concept remained the access to offset losses in commission payments to the bank for up to ten years. Moreover, the adjustment entailed that the change to loss offsetting, which will be effected in the subsequent years, will be subject to a surcharge. DLR therefore finds that the adjusted guarantee concept in effect offers DLR the same degree of protection as before the adjustment.

Lending covered by the guarantee concept

At the end of 2024, 99.2 pct. of DLR's portfolio was covered by the uniform guarantee concept. Lending under previous corporate guarantee concepts from before

2015 amounted to 0.1 pct. of DLR's portfolio, while the remaining 0.7 pct. relates to older loans that are not comprised by cooperation schemes. The high coverage ratio under the uniform guarantee concept is explained by the fact that all loan-mediating shareholder banks in July 2021 were offered to move their outstanding loan portfolio under the previous schemes to the uniform guarantee concept. The vast majority of the banks wanted to carry out the shift, which was completed on 1 October 2021.

DLR lending covered by the uniform guarantee concept (DKKbn)



Credit risk developments

As DLR continues to experience growth in lending to commercial real estate properties, especially for private residential rental properties, its share of agricultural loans continues to decline. See the descriptions in the sections Lending activity and portfolio. However, DLR maintains a large concentration of loans to agricultural customers and is the largest mortgage provider for full-time agricultural properties in Denmark.

Exposures of up to DKK 15m account for 38 pct. 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 99.5bn. Of this amount, loans for full-time agricultural customers account for some DKK 87bn. For the portfolio, the past few years have seen a migration towards the better rating categories, reflecting the relatively good cyclical trends in the main production areas and a reduction of outstanding debt for properties with the highest LTV ratios through ordinary mortgage payments.

A little less than 87.3 pct. of loans for agricultural customers are placed within an LTV ratio of 50, and 0.3 pct. above the 70 pct. lending limit. DLR's loan portfolio is thus generally well covered by the value of the mortgage for agricultural customers.

Business

DLR's total lending to commercial real estate customers amounts to a little over DKK 88bn, of which loans for residential rental properties account for DKK 45.5bn, loans for office and retail properties account for DKK 34.0bn and loans for other properties and private co-operative housing account for DKK 8.5bn.

A little more than 76 pct. of loans for residential rental properties are placed within an LTV ratio of 50, and about 0.6 pct. above the 80 pct. lending limit.

A little more than 89 pct. of loans for office and retail properties are placed within an LTV ratio of 50, and about 0.4 pct. above the 70 pct. lending limit.

Owner-occupied homes

DLR's total lending for owner-occupied homes encompasses loans for a little over DKK 11.6bn.

85.4 pct. of loans for owner-occupied homes are placed within an LTV ratio of 50, and about 1.8 pct. above the 80 pct. lending limit.

Lending growth

DLR's loan portfolio grew by DKK 9.9n in 2024 (in nominal terms), equal to lending growth of 5.2 pct. By way of comparison, the loan portfolio grew by DKK 7.4bn in 2023, equal to lending growth of 4.1 pct.

For two of DLR's three main lending areas – agriculture and private residential rental properties – lending growth was higher than in 2024, while lending growth for office and retail properties was more or less unchanged from 2023. In 2024, lending to properties within residential rental, office and retail and agriculture rose by 9.3 pct., 4.0 pct. and 3.9 pct., respectively.

The underlying lending growth was satisfactory in 2024 because of great competitive strength of the loan-mediating banks and persistent demand for loans for all significant property types. Moreover, rising property and land values prompted an increase in demand for top-up loans in 2024.

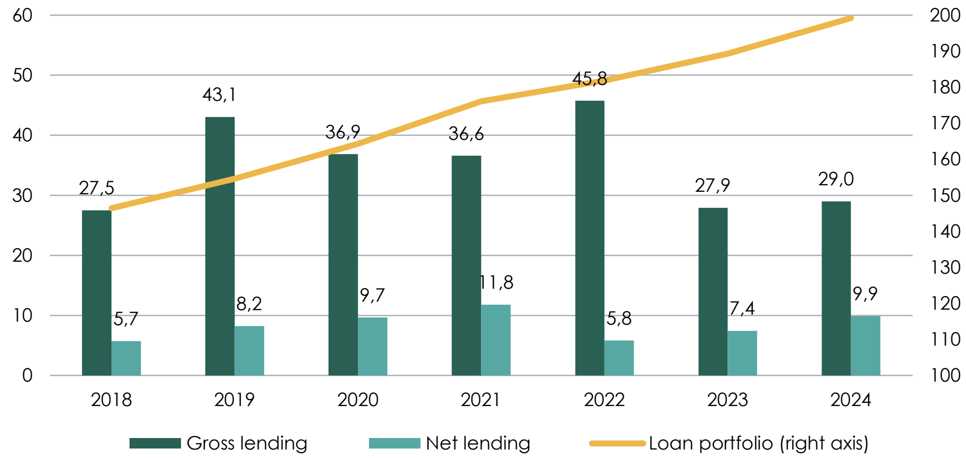
Loans disbursed

DLR's gross lending amounted to DKK 29bn in 2024 (in nominal terms), which is a small increase from DKK 27.9bn in 2023.

In particular, there was an increase in the number of top-up loans, including remortgaging of loans with other institutions, which accounted for a larger share of disbursed loans in 2024 than in 2023. In 2024, 42 pct. of all disbursed loans were top-up loans, against 35 pct. in 2023 (measured as the number of loans). The number of loans in connection with change of ownership was at the same level as in 2023, but there was a lower level of activity within disbursements for loan remortgaging. In

2024, remortgaging accounted for 18.5 pct. of all disbursed loans, against 28.1 pct. in 2023 (measured as the number of loans).

Development in gross and net lending and overall portfolio (DKKbn)

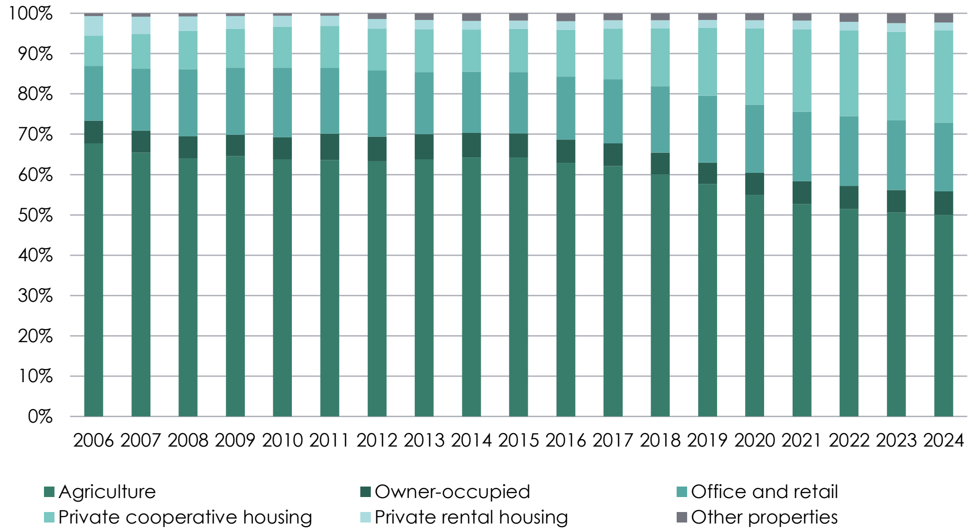


Composition of loan portfolio

Property categories

At the end of 2024, DLR's loan portfolio amounted to DKK 199.2bn (in nominal terms). Loans for agricultural properties accounted for 50.0 pct. and loans for owner-occupied homes, including residential farms, for 5.8 pct. of the portfolio, while loans for commercial property and private cooperative housing properties etc. accounted for 44.2 pct.

DLR's loan portfolio by property category



Loan types

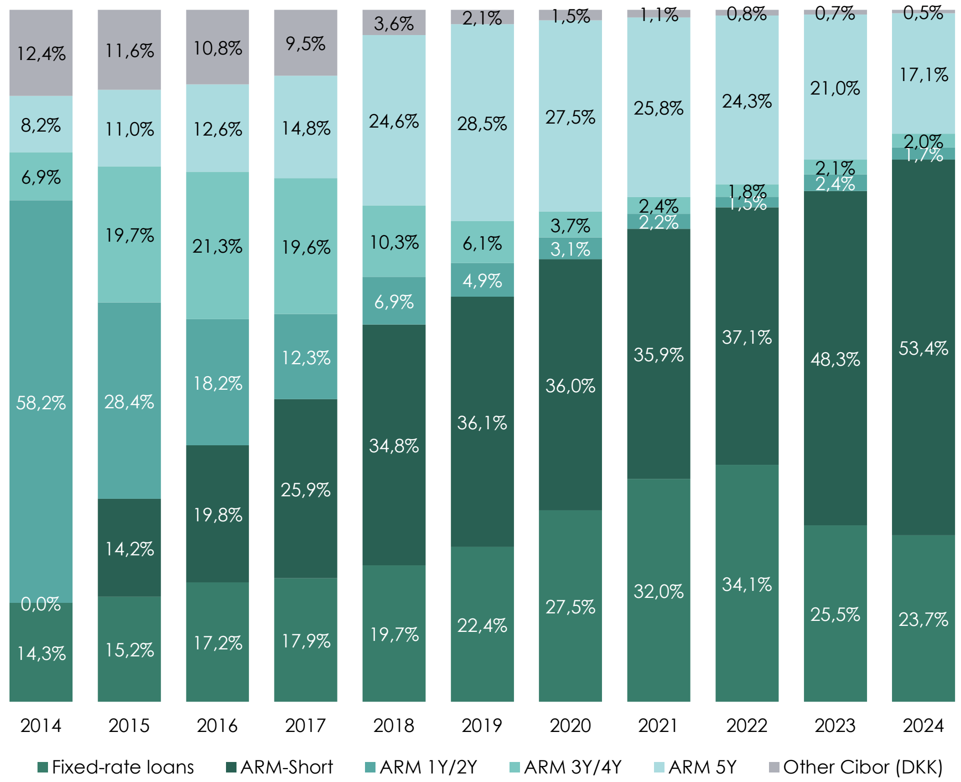
In 2024, there were only small changes to the composition of DLR's loans by loan type. Fixed-rate loans represent a falling share of DLR's outstanding loans, with the share falling from 23.7 pct. in 2023 to 22.8 pct. in 2024. At 22.8 pct., the share of adjustable-rate loans is slightly higher than in 2023, when the share was 22.4 pct. However, this development covers a 1.8 percentage point drop in the proportion of adjustable-rate loans with five-year refinancing periods, while the proportion of adjustable-rate loans with shorter refinancing periods rose by 2.2 percentage points. The share of ARM Short loans, which are loans carrying a variable rate determined twice annually based on the 6M CIBOR or CITA rate, continue to rise, from 53.4 pct. in 2023 to 54 pct. in 2024. ARM Short loans have become increasingly popular as a loan type in recent years, accounting for more than half of DLR's disbursed loans in 2024. This loan type is particularly popular with DLR's agricultural customers, which have traditionally been more attracted to loans with short refinancing periods.

It would appear that a number of customers, also in the other business segments, in 2024 used the ARM Short loan as a temporary "holding position", expecting that they will be able to take out fixed-rate loans or loans with longer refinancing periods when interest rates have fallen further.

Distribution of loan types by segment

In all DLR's major loan segments, adjustable-rate loans with five-year refinancing periods were less popular than they were in 2023, while the proportion of loans with three-year refinancing periods has increased. This change is particularly pronounced in lending for private residential rental. However, ARM Short remains the most popular loan type for agriculture, private residential rental and office and retail, with a share of lending of 70.3 pct., 43.0 pct. and 41.4 pct., respectively.

DLR's loan portfolio by property type



Repayment profile

In 2024, the share of total gross lending with an initial interest-only period was 40.4 pct. compared to 40.8 pct. at the end of 2023.

Interest-only loans are particularly popular in the agricultural area, as 59.4 pct. of gross lending to the agricultural sector had an initial interest-only period in 2024. The share of gross lending with initial interest-only periods for other property segments is shown in the following table:

Share of gross lending with an initial interest-only period

	2023	2024	Changes (percentage point)
Agriculture	60.8%	59.4%	-1.4%
Owner-occupied homes including residential farms	10.5%	9.2%	-1.3%
Office and retail	13.6%	13.2%	-0.4%
Residential rental	37.8%	38.3%	0.5%
Cooperative housing	64.8%	60.4%	-4.4%
Other	2.8%	8.4%	5.6%
Total	**40.8%**	**40.4%**	**-0.4%**

Of DLR's total loan portfolio, the share of loans with an initial interest-only period was 38.5 pct. at the end of 2024, which was slightly higher than at end-2023, when the share was 37.7 pct. Interest-only loans accounted for 55.7 pct. of lending to the agricultural sector at year-end 2024, against 54.4 pct. the year before. The share of loans with an interest-only period in the other segments rose slightly in 2024, except for the share of loans with an interest-only period for owner-occupied homes.

Share of outstanding loans with interest-only payments, year-end

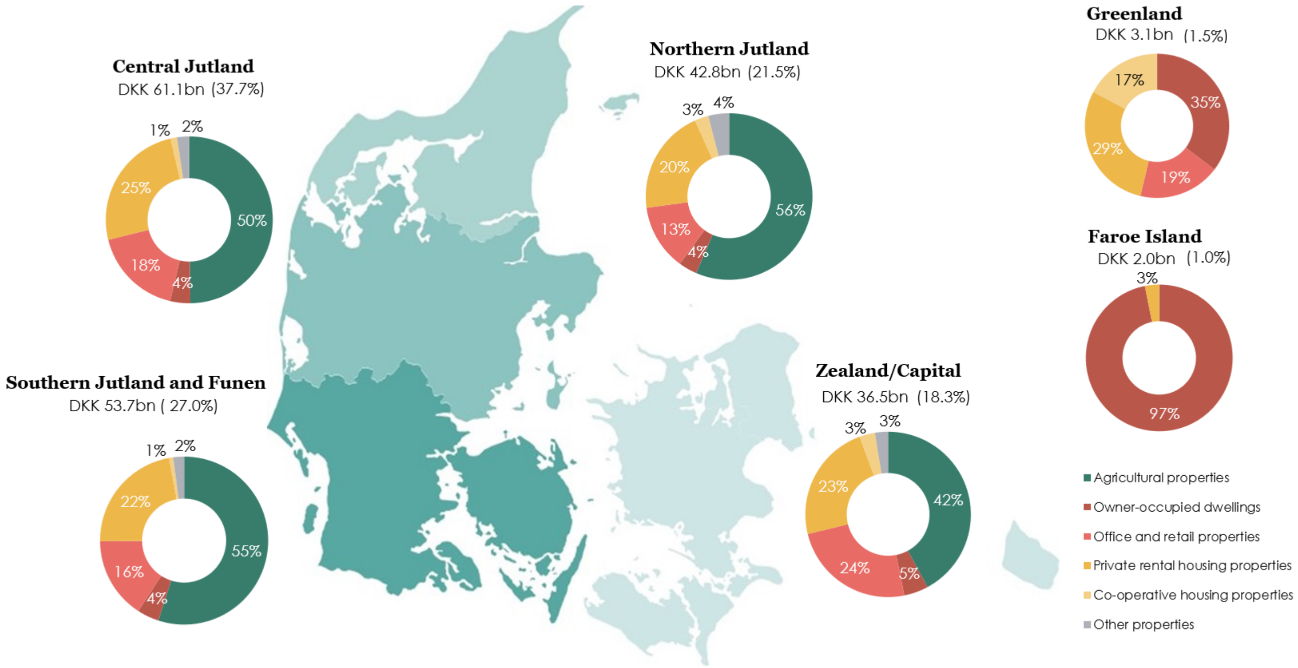
	2023	2024	Changes (percentage point)
Agriculture	54.4%	55.7%	1.3%
Owner-occupied homes including residential farms	12.8%	10.5%	-2.3%
Office and retail	8.7%	9.8%	1.1%
Residential rental	32.6%	33.0%	0.4%
Cooperative housing	37.5%	38.0%	0.5%
Other	1.6%	2.4%	0.8%
Total	**37.7%**	**38.5%**	**0.8%**

Geographical distribution

As a result of its business model, DLR's loan portfolio is limited to agricultural, commercial and cooperative housing properties, and housing in Greenland and the Faroe Islands.

Geographically, DLR's lending is spread across Denmark and reflects the coverage of the loan-mediating shareholder banks' branch networks. DLR also has lending in Greenland and on the Faroe Islands totalling DKK 5.0bn, corresponding to 2.5 pct. of the loan portfolio, of which a large part is for owner-occupied housing.

Geographical distribution

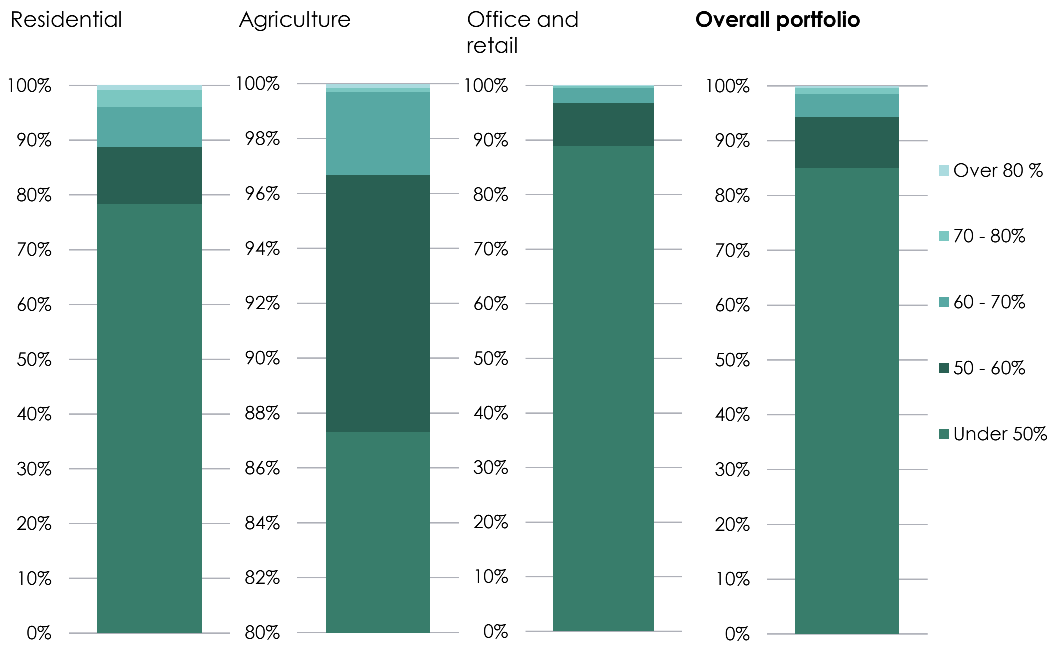


Loan portfolio LTV

DLR grants loans against a mortgage on real property within the statutory lending limits for the various property categories. To determine DLR's position in the order of mortgage priorities and whether this constitutes a significant risk, DLR continually calculates LTV (Loan-To-Value) values for the individual loans across all property categories. The average LTV on DLR loans was 45.9 pct. at end-2024.

At the end of 2024, 96.7 pct. of loans granted on agricultural properties were in the <60 pct. LTV band based on DLR's latest valuations, including valuations made in connection with continual covered bond (SDO) monitoring, while 92.0 pct. of the lending on commercial properties was in the <60 pct. LTV band – not taking into account the guarantees provided. Residential properties, including residential rental property and cooperative housing properties, have an LTV limit of 80 pct., which is why the proportion placed under 60 pct. is naturally lower for these property categories.

DLR's lending by LTV band at 31 December 2024



To ensure the statutory overcollateralisation (OC) of DLR's Capital Centre B (cover pool) for the issued covered bonds, property values are monitored at least annually. This monitoring may be based on valuations without a physical inspection (market valuation), but if a physical inspection has been carried out, this valuation is prioritised.

The continual monitoring of LTV values is partly based on these current market valuations and is a permanent feature of DLR's management reporting. DLR has currently provided DKK 6.2bn in supplementary collateral and has, in addition, an overcollateralisation of DKK 10.1bn consisting of collateral in particularly secure assets. Moreover, claims against banks (bank guarantees) may to a limited extent be applied in case of falling property prices. Overall, it is estimated that the current overcollateralisation enables DLR to withstand a general property price fall of at least 12 pct. without having to provide further collateral.

Unweighted exposure for credit risk

DLR adheres to the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. Please refer to this and to the significant accounting policies in DLR's Annual Report (note 50) for definitions of non-performing and impaired loans for accounting purposes as well as a description of methods used to determine value adjustments and impairment losses.

The total value of DLR's unweighted exposure for credit risk was DKK 189.3bn at 31 December 2024, calculated after guarantees and conversion factor.

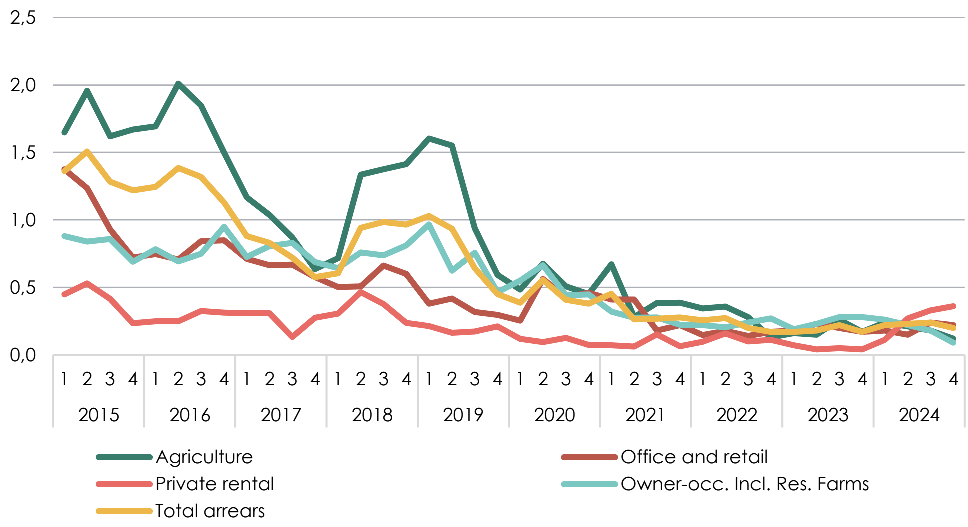
Arrears, impairment and losses

Arrears

At 0.67 pct., the arrears ratio 15 days after the due payment date on the December 2024 mortgage payment remains very low and slightly lower than one year ago.

The arrears ratio calculated 3½ months after the due date – was 0.20 pct. in mid-January 2025, which was largely unchanged from January 2024.

3½ months' arrears by property category

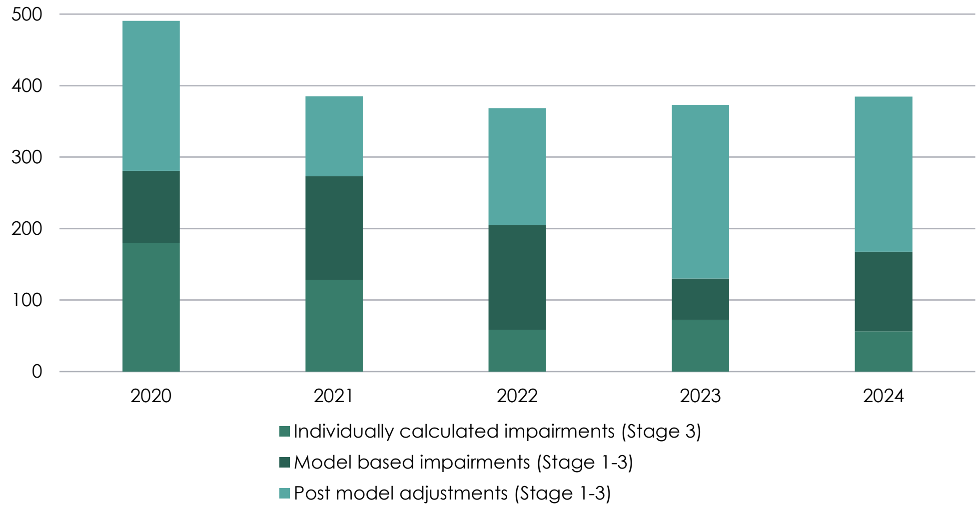


Loan impairment losses and credit losses

As mentioned, DLR regularly monitors its loan portfolio to identify potential loan impairment. An individual assessment is also made of a number of large exposures and certain exposures showing signs of financial distress, etc. 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. 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 model calculation.

Total individual impairment losses (stage 3) amounted to DKK 57m at the end of 2024 compared to DKK 72m at the end of 2023. On top of this comes stage 1, 2 and 3 modelled impairment of DKK 111m and a management overlay of DKK 217m, which equated to total impairment losses of DKK 385m at the end of 2024.

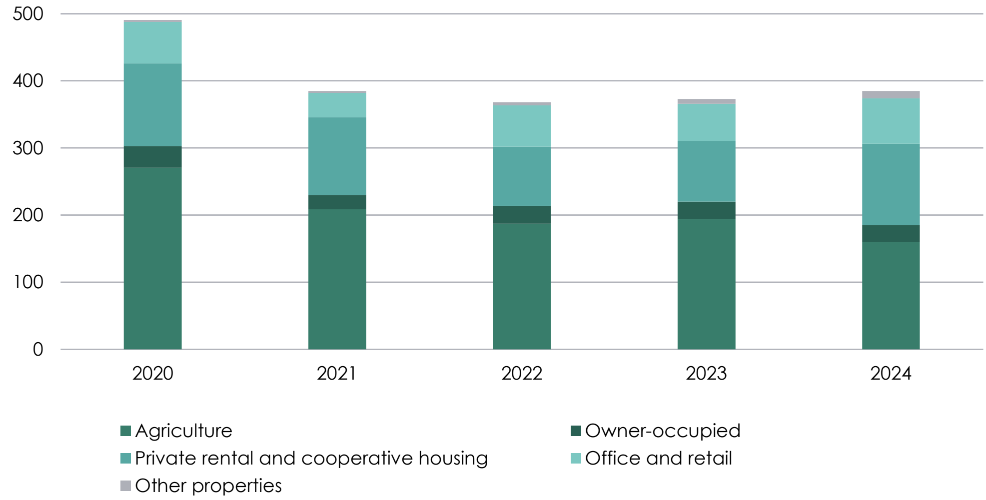
Accumulated impairment losses by impairment type (DKKm)



The management overlay has primarily been determined to cover special uncertainty due to the cyclicality of the industries, economic effects of the geopolitical situation with the war in Ukraine and fluctuations in future interest rates etc. In addition, the management overlay covers uncertainty with respect to the implementation of the nitrogen regulation of agriculture, unhedged ESG-related climate risks and model uncertainty.

The figure below shows DLR's accumulated impairment losses by property segment. Impairment losses on loans to agricultural customers and for owner-occupied homes, including residential farms, accounted for 48.2 pct. of accumulated impairment losses at end-2024.

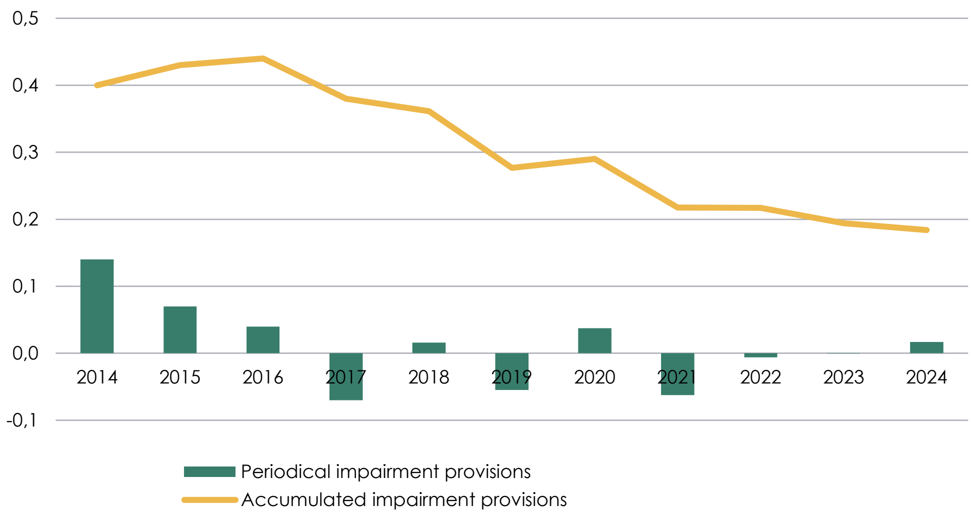
Accumulated impairment losses by property segment (DKKm)



The impairment percentage, denoting accumulated impairment losses in percent of total lending, represented 0.18 pct. – calculated using the Danish FSA's guidelines – at end-2024. At end-2023, the impairment percentage was 0.19 pct.

Losses and impairment on loans, advances and receivables, including prior-year adjustments, were calculated at an expense of DKK 36m, compared with an income of DKK 1m in 2023.

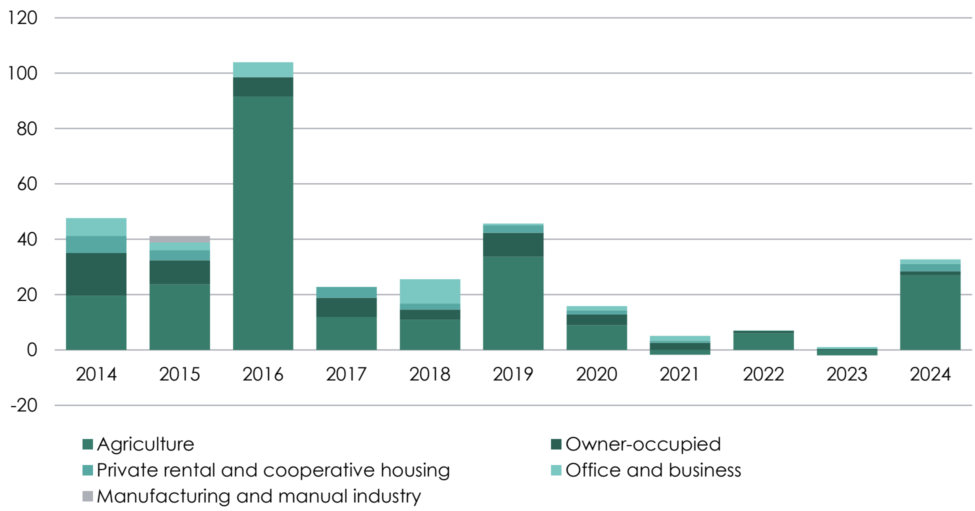
Impairment as pct. of loan portfolio



Note: Negative impairment percentage = reversal

For 2024, realised losses on loans calculated after payments under guarantee agreements and after prior-year adjustments but before offsetting losses amounted to an expense of DKK 32.7m. By comparison, realised losses were an income of DKK 1.0m in 2023.

Realised losses before loss-offsetting (DKKm)



Note: The calculation shows realised losses prior to loss offsetting and prior to the offsetting of recovered debts previously written off

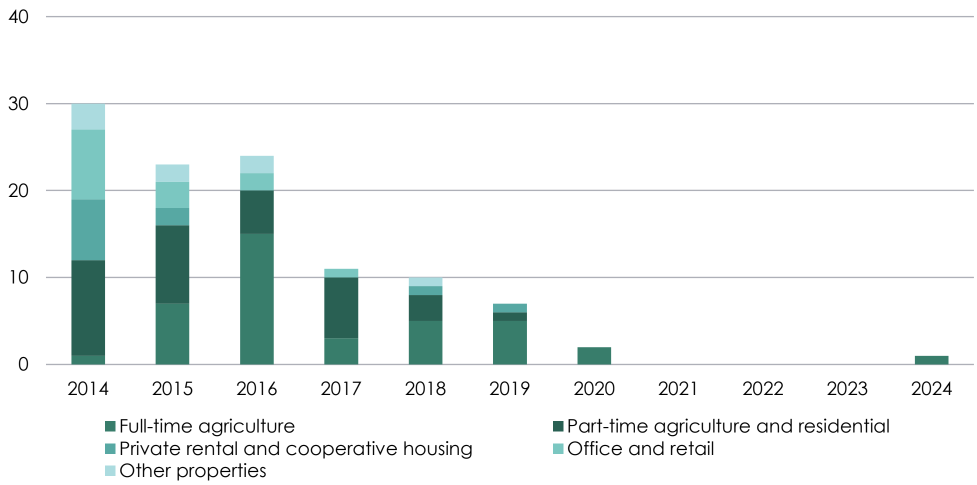
Agriculture, private residential rental, owner-occupied homes incl. residential farms and office and commercial properties realised losses of DKK 26.9m, DKK 2.6m, DKK 1.6m and DKK 1.6m respectively. In 2024, an amount of DKK 1.8m was deducted from claims previously written off to the effect that DLR's realised losses for the period were DKK 30.9m. The change in DLR's aggregate losses from 2023 to 2024 was due mainly to a loss on a single property. The loss concerns one of the few loans that were not covered by DLR's guarantee concept.

With respect to the previously described loss-offsetting schemes, DLR set off losses of about DKK 5.4m in 2024 against commissions paid to the banks. DLR thus realised a net loss in 2024 of DKK 25.5m.

Portfolio of repossessed properties and forced sales

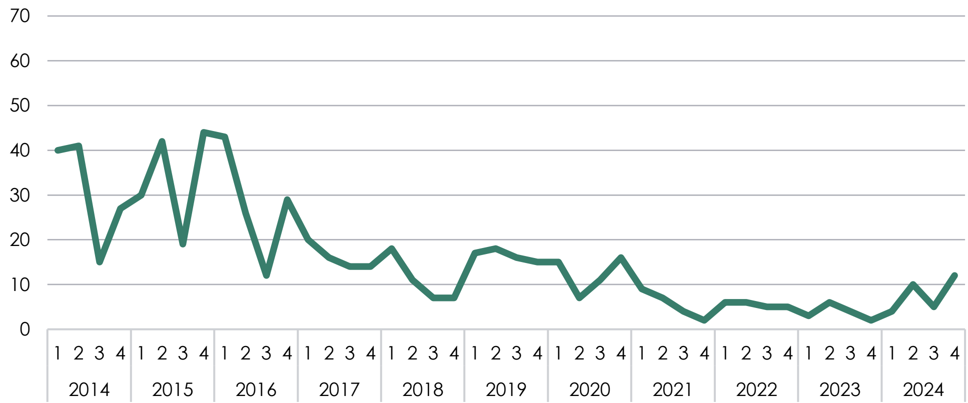
At year-end 2024, DLR had one repossessed property in the balance sheet, against no repossessed properties in the preceding year.

Portfolio of repossessed properties, year-end



The number of completed forced sales of properties in which DLR held a mortgage was 31 in 2024, which was higher than in 2023.

Forced sales of properties in which DLR holds a mortgage



Encumbered assets

DLR's business model is based on match-funded mortgage loans offered against mortgages on real property. DLR issues covered bonds to fund mortgage loans to its customers. The loans are recognised in DLR's balance sheet until maturity and are reserved to ensure timely payment to the bond investors if DLR should become distressed. The reservation of certain assets for creditors/investors is referred to as asset encumbrance. Hence, asset encumbrance is a natural part of DLR's business model.

Assets used to comply with the covered bond OC requirement of 2 pct., requirements for supplementary collateral (LTV requirements) and "balancing funds" (i.e. prepaid funds from repayment, fixed-price agreements, etc.) are also considered to be encumbered as the bondholders have a preferential claim in case of a bankruptcy.

DLR's securities portfolio consists primarily of DLR's equity, issued subordinated debt and senior loans. Only the parts of DLR's securities portfolio relating to meeting the covered bond OC requirement of 2 pct., requirements for supplementary collateral or balancing funds are encumbered. The remaining part of DLR's securities portfolio is considered unencumbered and available in terms of DLR's LCR calculation.

DLR publishes asset encumbrance data in the Pillar III appendix.

Use of external credit assessment institutions

Article 138 of CRR allows a credit institution to appoint one or more External Credit Assessment Institutions (ECAI) to determine credit quality steps and risk weightings for financial assets.

In 2025, DLR uses S&P Global Ratings and Moody's for the purpose of credit assessment/risk weighting of exposures to credit institutions, including guarantees.

ESG matters

Article 449a of the EU's revised Capital Requirements Regulation (CRRII) introduced requirements for financial institutions to disclose information on ESG risks from 28 June 2022. DLR presents data for ESG risks in the Pillar III appendix. On 3 May 2024, the Capital Requirements Regulation was revised again (CRRIII). The EBA will present the draft technical standards to the European Commission not later than on 10 July 2025, so that Pillar III reporting under CRRIII may be prepared for the first time in early 2026.

DLR has integrated ESG risks into its work on risk management. DLR's management of ESG risks focuses initially on identifying even more clearly the extent of ESG risks for its customers and the properties put up as collateral for its loans. DLR must then ensure sufficient awareness of ESG risks in its loan portfolio also in the longer term, and finally that ESG risks are reduced.

ESG risks are included in the assessment of overall credit risk in DLR's portfolio. We have set targets for the desired risk profile in relation to individual sub-portfolios. Credit risks are monitored in DLR's risk database, and the most significant credit risks are reported in DLR's risk overview. Movements in credit risk relative to the chosen risk tolerance are monitored in the risk database and risk overview.

As part of its ESG risk management process, DLR has incorporated ESG risks into its business strategies, governance/processes and research approaches.

In 2024, DLR focused on incorporating ESG issues more clearly in its risk register. DLR has opted for the approach of treating ESG issues as an integral part of DLR's existing risk management efforts. ESG is often considered a "risk driver/factor" for a risk in DLR's risk register, as it is often not possible to isolate the ESG part to an independent risk.

In June 2024, DLR conducted interviews with all risk owners at DLR, at which Risk Management also attended. At these meetings, the relevant ESG factors for DLR (ESG sub risks) were identified. The efforts were based on the European Sustainability Reporting Standards (ESRS) to ensure that all ESG aspects have been covered.

Strategic sustainability efforts

DLR is a major lender for agricultural and commercial real estate customers of local and national banks. Consequently, it is only natural for DLR to play an active part in financing the all-important sustainable transition at DLR's and its shareholder banks' joint customers. This active participation is a key element of DLR's social responsibility and its strategic approach to sustainability.

DLR's strategic sustainability efforts are based on its key stakeholders: Borrowers, shareholder banks, bond investors and employees. DLR's strategic foundation is to a large extent defined by the combination of DLR's key stakeholders' preferences and requirements with respect to sustainability. DLR's foundation also entails a recurring deliberation of various factors, in which DLR's sustainability approach must accommodate the various ESG policies of our shareholder banks, borrowers' green transition opportunities and investor aims to reduce CO_2 emissions funded by the DLR bonds in which they invest. Furthermore, DLR's social responsibility involves contributing to reducing sustainability risks where they can be identified.

Green loans, ESG data, dialogue on sustainability and reduction targets are key elements of DLR's sustainability efforts and contribute to defining DLR's sustainability strategy.

Green loans
At the end of 2024, DLR had outstanding green loans ('Grøn RT-Kort ') for DKK 5.5bn, equivalent to 2.8 pct. of DLR's outstanding loans. By way of comparison, DLR had outstanding green loans for DKK 4.7bn at end-2023. The outstanding green loans are used 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/.

On 1 September 2024, DLR extended the criteria for green loans to include biogas facilities and hydropower plants. At the same time, the possibility of granting green loans for buildings with a grade A2015 energy performance certificate was discontinued, because the EU sustainability taxonomy requires that new buildings constructed after 1 January 2021 are more energy-efficient than the minimum legislative requirements for energy-efficient buildings, equal to a grade A2020 energy performance certificate. The grade A2015 energy performance certificate is the minimum legislative requirement for energy performance in new buildings in Denmark.

ESG reports with customer replies and comparative data at portfolio level
Since September 2022, DLR has collected ESG information from customers in connection with their loan application. Since November 2023, DLR has also collected information in connection with customer remortgaging.

Based on the collected ESG responses, DLR implemented a new feature in autumn 2024, where ESG reports display the customer's responses alongside comparison data for the relevant lending segment in DLR. As a result, the reports have become more informative and may be used to perform a sustainability assessment of customers and properties. The ESG reports also support loan officers and credit officers at the banks in assessing customers' ESG matters and may be used in our dialogue with the customers.

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 an action plan for achieving the targets: https://dlr.dk/en/investor/financial-statements/

Governance and processes

Anchoring ESG in the organisation

DLR has integrated sustainability in processes, governance set-up, compliance and risk management and actively engages in dialogue with stakeholders through sector collaboration, attending seminars and training of e.g. agricultural advisers which the farmers consult with about ESG factors. The integration of sustainability also involves DLR acting responsibly as a workplace and employer.

To ensure an unwavering focus on ESG throughout the organisation, DLR has set up a Sustainability Committee. The Sustainability Committee is responsible for DLR achieving the strategic goals in its sustainability policy and for establishing processes at DLR to promote sustainability, including sourcing data for use in analysis, target setting and reporting.

The committee is charged with monitoring regulatory developments relevant to DLR and ensuring that we comply with applicable rules and regulations and the recommendations the sector has agreed on under the auspices of Finance Denmark etc.

It is also responsible for updating and expanding policies, among other things by specifying ESG initiatives in the credit policy, human resources policies and procurement policy.

The Executive Board is represented on the Sustainability Committee. The Executive Board and the other internal committees at DLR (Credit Risk Committee, Liquidity and Market Risk Committee, IOC Risk Committee, Data Committee and IT Committee) are also informed about sustainability efforts through the minutes of the Sustainability Committee's meetings. The Board of Directors is updated on selected matters and progress at board meetings and is responsible for approving DLR's sustainability policy.

Integration of ESG factors into governance setup

The overall responsibility for sustainability initiatives lies with DLR's management in collaboration with the Sustainability Committee. The Executive Board is therefore involved in work on climate risks and opportunities through the Sustainability Committee, which meets two or three times a year and is responsible for discussing and deciding on DLR's strategic climate initiatives. The Executive Board Secretariat is responsible for ESG rules and best practices being implemented in other relevant departments at DLR. After implementation, these departments' risk owners are responsible for introducing controls and for compliance. These controls are described in DLR's risk database, and their adequacy is monitored and assessed by Risk

Management. The Credit Risk Committee reviews DLR's risk database annually and discusses risks and controls in the lending area, including ESG.

Integration of ESG factors into loan procedures

Before a loan is granted, both the collateral and the applicant's finances are carefully scrutinised. The starting point for assessing the collateral is measuring the market value of the property against which the loan is to be secured. This is done by DLR's own valuation experts, who have local knowledge. The valuation of the property takes account of ESG factors and climate risks as well as its condition and marketability. The valuation expert pays attention to ground pollution, reviews production permits, looks at geographical data (such as the risk of flooding, energy performance certificates, heating sources), 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.

ESG approaches

The European Banking Authority (EBA) has described three overall methods to assess and evaluate ESG risks (EBA report), which is part of a mandate given in Article 98(8) of the capital requirements directive (CRDIV) to, among other things, define analysis methods and tools to assess the impact of ESG risks on the lending activities of institutions. The three approaches are:

1. Portfolio alignment method
2. Risk framework method
3. Exposure method

Portfolio alignment method

The key principle behind the portfolio alignment method is assessing the extent to which loan portfolios are aligned with globally agreed ESG targets. DLR works on portfolio alignment partly through its commitment to the UN's Principles for Responsible Banking and the targets in DLR's climate action plan.

Risk framework method

DLR prepares ESG stress tests based on, among other things, the Danish FSA's climate stress test guidance. The stress test is focused on risk associated with transitioning to lower CO_2e emissions and physical risks relating to climate change. When using the Danish FSA's stress test guidance, the results indicate that DLR is primarily exposed to transition risks in case of a very high COe_2 tax on agricultural emissions, which comes on top of the green tripartite agreement. If 100-year weather incidents should materialise, it will only lead to a modest increase in impairment.

The data to be used for ESG stress testing remain incomplete, but DLR is working with financial infrastructure company e-nettet on gathering better data on climate risks. As the data improve, DLR will continue to carry out ESG stress tests to shed light on climate risks in several stress scenarios.

At portfolio level, DLR has launched initiatives to identify the extent to which loans and collateral are at risk of flooding etc. This process covers external data for potential increases in water levels (seawater and precipitation) and a link to individual loans. There is also continuous reassessment of collateral values as part of our covered bond monitoring. Climate risks at the individual property form part of an assessment of market value.

Exposure method

The exposure method involves measuring how individual exposures and counterparties perform on ESG relative to risks. In this regard, DLR focuses primarily on climate-related risks affecting credit risks. Data for assessing credit-related ESG risks are obtained especially from e-nettet or public records that provide data at the borrower/property level, such as data on energy efficiency and physical climate risks.

Market and liquidity risk

Market risk is the risk that the value of financial instruments and derivative financial instruments fluctuate due to changes in market prices. DLR includes the following types of risk under the market risk area: interest rate risk, including credit spread risk, exchange rate risk, equity market risk and other price risks. DLR's interest rate risk comprises interest rate risk on all financial instruments, both on- and off-balance sheet, including lending and issued bonds.

As DLR adheres to the specific balance principle, the market risk deriving from funding in mortgage (RO) and covered bonds (SDO) will reflect the terms and conditions of the mortgage debtors. The market risk DLR assumes should be viewed in relation to DLR's business model and is solely attributable to an investment need for DLR's own funds, proceeds from issued senior debt, additional tier 1 capital and tier 2 capital, etc., profits/earnings and prepaid funds.

DLR actively manages its interest rate risk. In addition to the statutory framework, DLR has determined a policy for investing its securities portfolio and specific limits for the extent and volatility of each type of risk.

Essentially, DLR's overall market risk should be low, which specifically means that:

- For DLR's securities portfolio (asset side overall in the trading book and in the banking book) the interest rate risk, including the convexity impact, calculated according to the rules of the Danish Executive Order on the Issuance of Bonds, the Balance Principle and Risk Management, should be in the 0-2.5 pct. range of the own funds, and the securities portfolio should mainly consist of bonds with a remaining term to maturity of up to five years.
- Interest rate risk on issued debt instruments (liabilities) should be in the 0-2.5 pct. range of the own funds.
- The credit spread risk on the securities portfolio (asset side overall in the trading book and in the banking book) must not exceed 2.5 pct. of DLR's own funds. The calculation of the credit spread risk is based on the benchmarks of the Danish FSA in force from time to time, which currently determines a credit spread widening of 25 basis points for government bonds and 50 basis points for mortgage bonds. When calculating the credit spread risk, no netting is made relative to short positions.
- The exchange rate risk, calculated according to the Danish FSA's indicator 1, may not exceed 8 pct. of tier 1 capital according to DLR's internal limit.

- Exchange rate risk on DLR's assets, liabilities and off-balance sheet items must be at most 0.1 pct. of the own funds as calculated according to exchange rate indicator 2; see the rules in the Executive Order on the Issue of Bonds, the Balance Principle and Risk Management.
- DLR does not assume equity market risk except in connection with policy/strategic positions deemed necessary for DLR's operations (for example, equities in sector-owned companies)
- Other price risks should be avoided. DLR may only assume foreign exchange risk in EUR, SEK and NOK. Risks may be hedged, including through positions in government bonds and/or covered bonds in the relevant currencies and/or by using derivative financial instruments.

The stipulated risk levels are specified in the Board of Director's instructions to the Executive Board and in its delegated authorities.

Regular risk reports on the securities portfolio ensure DLR's management can track prevailing risk levels and decide on which measures to take, if appropriate.

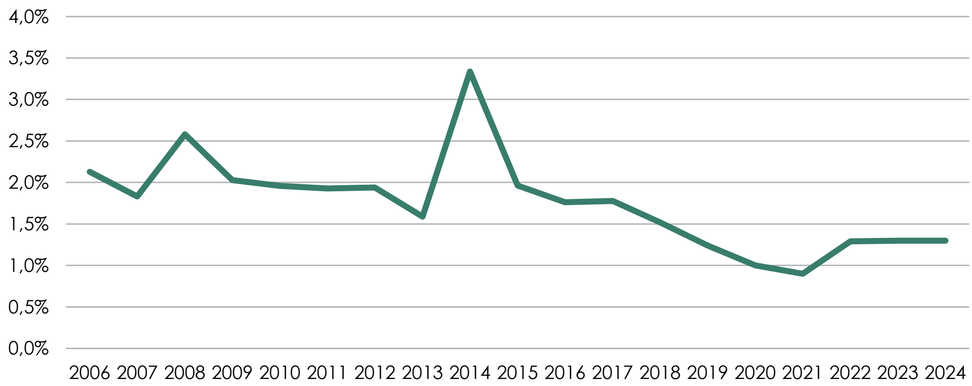
Interest rate risk
Interest rate risk is defined as the amount of the loss caused by a positive or negative parallel shift in the interest rate structure of one percentage point, i.e. the value adjustments triggered by a change in the market rate of one percentage point. DLR's financial risk attaches particularly to the interest rate risk on the securities portfolio and the interest rate risk on issued debt instruments, which (typically) correlates negatively with the interest rate risk on the securities portfolio. Moreover, DLR is exposed to e.g. credit spread risk.

DLR has set limits for interest rate exposure to keep interest rate risk at a low level overall.

DLR's interest rate risk complies with the Board of Directors' guidelines for overall market risk, whereby the interest rate risk on the securities portfolio should be in the range 0-2.5 pct. of DLR's own funds, which equates to between DKK 0 and 454m.

At the end of 2024, DLR's relative interest rate risk, including the convexity impact, on its securities portfolio was 1.3 pct., see the figure below. This equates to a value adjustment of the securities portfolio of DKK 235m in case of a one percentage point change in the market interest rate. The convexity impact on DLR's bond portfolio is DKK -0.5m. In this way, DLR complies with the guidelines that the interest rate risk incl. the convexity impact must be within 2.5 pct.

Relative interest rate risk on DLR's securities portfolio



As mentioned above, the interest rate risk on issued debt instruments "correlates negatively" with the interest rate risk on the securities portfolio. The issued debt instruments represent a loan raised outside the specific balance principle in connection with lending activities. The interest rate risk on these debt instruments is DKK 17.3m.

DLR holds a significant portfolio of bonds. The portfolio mainly consists of AAA-rated Danish listed mortgage bonds (mortgage credit bonds/RO, covered bonds/SDO and mortgage covered bonds/SDRO), plus a small volume of government bonds.

The interest rate risk on the bond holdings with a duration of up to one year accounts for 4 pct. of the total interest rate risk, up to two years the interest rate risk accounts for 52 pct., and up to five years the interest rate risk accounts for 94 pct. of the total interest rate risk.

Interest rate risk in the banking book
Interest rate risk in the banking book is a catch-all term for the risks that may arise on items in the banking book because of interest rate changes.

At end-2024, DLR's interest rate risk in the banking book primarily concerned DLR's issued debt instruments and, to a very limited extent, interest rate risk on non-performing exposures The issued debt instruments consisted of SNPs for DKK 4bn and tier 2 capital for DKK 1.7bn. DLR's lending is comprised by the specific balance principle, so interest rate risk does not affect DLR's lending.

DLR's market risk policy lays down limits for the targeted interest rate risk in the banking book, which may not exceed 2.5 pct. of DLR's own funds. DLR calculates the financial effect of a number of different interest rate scenarios such as a parallel shift of interest rates in either direction.

Credit spread risk
Credit spread risk is defined as the risk of price losses due to lower creditworthiness of a counterparty or on exposures to the institution itself. Lower counterparty

creditworthiness may occur due to higher risk of default, for example. The credit spread is calculated as the spread to a risk-free yield curve.

DLR's Board of Directors has determined a maximum credit spread risk for DLR of 2.5 pct. of its own funds, corresponding to DKK 454m at end-2024. At end-2024, the credit spread risk on DLR's bond portfolio was DKK 275m., equivalent to 1.5 pct. of the own bunds.

Exchange rate risk

Exchange rate risk is the risk of loss from fluctuations in foreign exchange rates. Due to the specific balance principle, DLR assumes no actual exchange rate risk.

The exchange rate risk, calculated according to the Danish FSA's indicator 1, may not exceed 8 pct. of tier 1 capital according to DLR's internal limit. DLR's exchange rate risk amounted to 1.5 pct. of the tier 1 capital at the end of 2024.

According to Danish law, exchange rate risk calculated according to the Danish FSA's indicator 2 may not exceed 0.1 pct. of own funds. DLR's exchange rate risk amounted to 0.002 pct. of the own funds at the end of 2024.

Equity risk

DLR generally does not invest in equities except in connection with policy/strategic positions deemed necessary for DLR's operations (for example, equities in sector-owned companies) At the end of 2024, DLR's equity holdings consisted of unlisted shares in e-nettet.

As equity risk is defined as 10 pct. of the market value, and DLR's equity portfolio amounted to DKK 46.5m at year-end 2024, the equity risk was DKK 4.6m before tax and DKK 3.4m after tax of 26 pct. at end-2024.

Equities are also entered at fair value, which in this case is calculated according to the equity method pursuant to the most recently published financial statements.

DLR's exposures in equities in the investment portfolio

DKKm	Exposure, 31 December 2024	Operational impact in 2024
e-nettet	46.5	0.2
Total	**46.5**	**0.2**

Counterparty risk

To manage and mitigate DLR's risk of loss due to counterparties failing to meet their payment obligations to DLR, financial counterparties' ability to pay is monitored quarterly pursuant to a policy and guidelines for DLR's exposure to banks, which are defined by DLR's Board of Directors.

DLR's risk of loss on financial counterparties is limited, as counterparty risk essentially comprises the borrower guarantees provided. These guarantees are secondary to the borrower's personal debt obligations and the mortgage on the property.

Moreover, other than a limited threshold of DKK 40m, DLR only places liquidity in banks which hold a minimum rating of BBB/A-2 by S&P, and the maximum duration for term deposits is 30 days. In Denmark, only four banks hold such a rating: Nordea, Danske Bank, Jyske Bank and Nykredit Bank.

Exposure calculations are regularly made for the individual banks to estimate DLR's financial counterparty risk, in accordance with the Board of Directors' guidelines.

Liquidity risk

Liquidity risk at DLR includes the risk that DLR may not be able to meet its payment obligations and the risk of insufficient funding or compliance with applicable statuary requirements. DLR's liquidity policy and associated guidelines laying down the specific limits for liquidity management are determined by DLR's Board of Directors. Based on this, DLR's Executive Board has communicated the framework for managing liquidity in DLR's organisation. The policy makes clear that DLR's risk profile in the liquidity area should be low, which should be seen against DLR's compliance with the balance principle.

The risk of loss due to current liquid assets being insufficient to cover current payment obligations is extremely limited for DLR. This is because DLR adheres to the specific balance principle whereby loan payments match the payments on issued bonds (match funding). Hence, there is a 1:1 correlation between the loan granted to the borrower and the bonds issued by DLR to fund the loan. In general, the balance principle means DLR essentially only assumes a credit risk in connection with its lending activities.

In accordance with DLR's guidelines in the liquidity area, the Board of Directors has defined the framework for liquidity management. The guidelines state, for example, that the vast bulk of DLR's securities holding should be placed in Danish government or mortgage bonds, and that the holding should be diversified across issuers and ISIN codes. Furthermore, DLR should have sufficient credit facilities at banks and be a monetary policy counterparty in Danmarks Nationalbank. In addition, DLR's Board of Directors has determined that liquid funds must be placed in financial institutions that are subject to Danish law.

DLR may place funds in each financial institution up to a maximum exposure to the financial institution of 25 pct. of DLR's own funds, calculated in accordance with CRR regarding large exposures, provided the financial institution has a minimum rating of BBB/A-2 with S&P. As part of the quarterly forward transactions, the abovementioned limit may be exceeded on a day-to-day basis up to a total of 50 pct. of DLR's own funds.

DLR's liquidity and liquidity requirements are continually monitored, and given DLR's special business model as a mortgage credit institution are primarily concentrated around the end of each quarter, when a separate report is prepared. DLR also prepares an annual ILAAP report (Internal Liquidity Adequacy Assessment Process). The ILAAP is approved by DLR's Board of Directors prior to submission to the Danish FSA.

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

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

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

LCR

DLR must have sufficient liquid assets to meet net cash outflows over a 30-day stress period. During this period, DLR must quickly be able to convert liquid assets to cash without making use of the Danish central bank's liquidity or public funds. A distinction is made between assets offering particularly high liquidity and very high credit quality (level 1 assets) and assets with high liquidity and high credit quality (level 2 assets).

To ensure that DLR maintains an adequate buffer to meet the LCR requirement, an internal requirement has been defined that the LCR requirement must be met by a minimum of 110 pct.

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

At end-2024, DLR's LCR was thus 110 pct.

Pillar II liquidity add-on

To replace the previous LCR floor requirement, which ceased to apply on 8 July 2022, the Danish FSA has set an individual and risk-based LCR Pillar II liquidity add-on, which DLR must meet. The Pillar II liquidity add-on is calculated daily and reported on a monthly basis.

The Pillar II liquidity requirement takes into consideration specific liquidity risks at DLR and entails a stricter requirement for the liquidity reserve to take account of the liquidity risks that DLR is and may become exposed to. The Pillar II requirement covers a time period that extends beyond the LCR requirement, which covers the next coming 30 days. The Pillar II liquidity requirement emphasises that, in addition to maintaining an adequate liquidity buffer, DLR must also have a stable liquidity buffer from one mortgage payment date to the next.

The Pillar II liquidity add-on for DLR consists of three parts:

- Pillar II liquidity add-on regarding unknown arrears
- Pillar II liquidity add-on regarding unknown open remortgaging
- Pillar II liquidity add-on regarding refinancing

DLR covers the Pillar II liquidity add-on using the same type of high quality liquid assets (HQLA) used to cover the LCR requirement. As the Pillar II requirement is an independent requirement, the assets used to meet other liquidity requirements, including requirements for supplementary collateral, overcollateralisation and LCR requirements, may not be used to meet the Pillar II requirement.

DLR makes a daily calculation of how many liquid assets (HQLA) to reserve to cover the Pillar II liquidity add-on. To ensure that DLR maintains an adequate buffer to meet the liquidity add-on, an internal requirement has been defined that the Pillar II liquidity add-on must be met by a minimum of 110 pct.

At end-2024, DLR has therefore reserved liquid assets to cover the Pillar II liquidity add-on by 110 pct.

NSFR

NSFR (Net Stable Funding Ratio) requires that so-called available stable funding must be equal to or higher than (minimum 100 pct.) the required stable funding. Available Stable Funding ("ASF") is calculated on the basis of an institution's liabilities. The shorter the term to maturity of a liability, the less ASF value it is considered to contribute. Required Stable Funding ("ASF") is calculated on the basis of an institution's assets. The more liquid an asset, the less stable funding an institute is required to have to fund it and the lower the RSF factor.

The NSFR requirement includes a possible exception for mutually dependent assets and liabilities that meet a number of specific conditions, including having the same maturity, such as, say, Danish mortgage loans and underlying mortgage bonds with the same maturity. This implies that mortgage bonds and mortgage loans are accorded an ASF factor and an RSF factor, respectively, of 0 pct, and in practice that exempts mortgage loans and issued mortgage bonds from an NSFR calculation. In addition, NSFR recognises Danish refinancing legislation (section 6 of the Danish Mortgage Credit Loans and Mortgage Credit Bonds, etc. Act), to the effect that exemption also applies to short-term mortgage bonds used to fund longer-term loans and meeting the requirements of Danish refinancing legislation.

DLR regularly calculates NSFR, where the requirement for available stable funding is at least 100 pct. of the required stable funding. DLR has set an internal minimum requirement of complying 110 pct. with NSFR. At year-end 2024, DLR had an NSFR of 189 pct.

Non-financial risks

In the risk management policy, DLR's Board of Directors has defined the following risk taxonomy for non-financial risks:

- **Operational risk:** Loss arising as a result of inappropriate or inadequate internal procedures, human or system error or error caused by external events (excl. compliance and ICT risk) Model risk and non-ICT-related outsourcing risk are considered and managed as operational risk.

- **Compliance risk:** Loss arising as a result of non-compliance with applicable regulations, market standards or internal rules

- **ICT risk:** Any reasonably identifiable circumstance relating to the use of network and information systems which, if it occurs, could compromise the security of DLR's ICT services

Operational risk

DLR constantly strives to minimise operational risk by, for example, establishing control procedures, authorisations, emergency procedures, back-ups, business procedures, automatic updates, contingency plans, etc. Moreover, process descriptions have been produced in relevant areas to provide instructions for procedures and to define an area's allocated responsibilities. These measures help ensure DLR complies with both external and internal requirements.

As DLR is considered a relatively "simple" business with few products and business areas, DLR's operational risk is estimated to be limited overall.

DLR calculates its capital requirement with respect to operational risk using the basic indicator method. The risk exposure in connection with operational risks has been calculated at DKK 3.5bn, equal to an 8 pct. capital requirement of DKK 277m at 31 December 2024.

DLR has established business procedures and processes to ensure regular follow-up and handling of operational incidents. All operational incidents that have or could have entailed costs exceeding a pre-defined limit are reported to DLR's Executive Board and the Risk Monitor, and DLR's Risk Committee is informed hereof. Any major losses must also be reported to DLR's Board of Directors at the next meeting. Overall, DLR experiences a relatively low number of operational incidents taking into account the number of loan cases handled each year.

Another focus area in terms of managing operational risk, etc. is the options for insuring DLR against events that might threaten the company's independence in connection with claims, actual damage, or actions or omissions that could be liable to compensation. DLR prefers to assume responsibility for minor loss risks itself. Minor loss risks are risks where the insurance premium and administration costs are assumed not to be commensurate with the potential loss.

Model risk

DLR employs statistical models for risk management purposes and for the calculation of model-calculated impairment. The use of statistical models involves risk because of potential model weakness. For example, this may be due to a weak data basis, errors in the statistical modelling process or errors in the use of the models.

DLR has a standard that defines the overall framework for how to manage model risk at DLR. The standard is complemented by an independent model register. DLR's statistical models are categorised according to business materiality.

DLR's most important models relate to IRB models (estimation of PD and LGD), lifetime PDs for use in modelled impairment and PD regression models used in DLR's macro stress tests. DLR has established procedures for monitoring, changing and approving the models. In addition to the ongoing monitoring in the first line of defence, the most significant statistical models are also comprised by an independent validation/revision in the second or third line of defence.

As regards the PD model, DLR has quantified model risks directly in Pillar I, in accordance with EBA requirements. For modelled impairment and for the statistical components in the macro stress test model, model risks have also been estimated. Finally, DLR has reserved capital in Pillar II to mitigate model risk not estimated directly in the models.

Outsourcing risk

In DLR's risk taxonomy, outsourcing risk is considered alongside other operational risks. DLR's IT Director is in charge of outsourcing activities. Each year, a report on outsourcing risk at DLR is prepared to the Board of Directors, which represents a separate appendix to DLR's internal risk report.

DLR maintains an outsourcing register based on a review of all of DLR's suppliers. At present, four suppliers are considered to be general outsourcing, and four are considered significant or critical outsourcing (in accordance with the Danish Executive Order on Outsourcing Significant Areas of Activity).

Ongoing deliverables from the various suppliers are monitored and controlled in a risk-based approach. The risk attaching to IT outsourcing is considered low.

DLR holds regular meetings with its two main outsourcing suppliers, DXC and B4Restore, and they have confirmed their compliance with DLR's IT security policy.

Moreover, DLR has prepared elaborate questionnaires and reviewed external audit reports and performed physical inspections of these critical outsourcing suppliers. The aggregate risk assessment for these two outsourcing suppliers is low.

Compliance

DLR is strongly committed to complying with rules and standards applicable to DLR as a financial business. This applies to actual financial rules deriving from EU rules and Danish legislation, but compliance with the rules on combating money laundering and terrorist financing and GDPR compliance is also important to DLR. In the IT security area, the DORA regulation has been applied since 17 January 2025 and will contribute to strengthening DLR's resilience to cyber threats etc.

The volume of regulation has grown for a number of years, leading to higher requirements for effective controls. DLR's management emphasises the continual roll-out of effective control systems to ensure compliance with the rules applicable to DLR's business.

DLR's Compliance department monitors DLR's compliance with rules and market standards and reports to DLR's Executive Board and Board of Directors.

ICT risks

DLR's business is heavily dependent on IT systems, including both DLR's own IT systems and interfaces with other external systems, such as the electronic land registry, e-nettet, Euronext Securities (securities registration and administration) and bank payment systems.

DLR performs ongoing risk assessments, evaluating threats against systems and data in the IT area relative to DLR's protection measures and controls. All relevant risks in the IT area are documented in DLR's risk register, and activities are initiated in case of a need for additional protection.

The risk assessment covers factors such as risks relating to deliberate harmful actions performed by employees, internal errors in the IT department, dependence on key employees in the IT department and cyber attacks. All risks are within DLR's risk tolerance levels.

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 the defence. For example, we participate in the sector's TIBER test, which includes simulated attacks against company employees and infrastructure. The conclusion from the 2024 test is that DLR has a strong defence against cyber attacks.

Furthermore, DLR has taken out cyber risk insurance that partly covers any losses, partly provides access to IT security specialists in case of events.

Contingency plans

Contingency plans are in place should DLR's IT systems experience a serious incident that results in the digital systems being unavailable for shorter or longer periods of time. All systems must generally be recoverable within 24 hours after a breakdown is ascertained so that normal operations can be resumed. The contingency plan is tested annually based on specific objectives.

In 2024, DLR's contingency plan was revised relative to existing requirements and new DORA requirements in the area. Subsequently, the contingency plan has been tested both in relation to the crisis management performed by Management and the IT Department's possibility of preventing a cyber attack. The two tests show that DLR is capable of managing and addressing a crisis scenario. Furthermore, the exercises provided input for further improvements to the Contingency Plan.

DORA

On January 17, 2025, the Digital Operational Resilience Act (DORA) came into effect across the EU. DORA aims to strengthen the financial sector's digital resilience against ICT risks (risks related to information and communication technology). DORA is based on the recognition that the use of information and communication technology supports all economic activity. Increased digitalization and integration therefore amplify the vulnerability to cyber threats and IT disruptions in society in general and the financial sector in particular.

To achieve an adequate level of digital resilience, DORA sets a number of requirements for network and information systems that support the business processes of financial entities. Overall, DORA imposes requirements on financial entities' management of ICT risks, including incident reporting, testing of digital resilience, and requirements for the control framework for IT services provided by third parties.

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