

Internal Capital and Solvency Requirement

30 June 2025

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Internal Capital and Solvency Requirement for DLR Kredit – 30 June 2025

DLR Kredit calculates the internal capital and the individual solvency requirement based on the capital reservation method (8+ method), as this is described in the "Guidelines on Adequate Capital Base and Solvency Need of Credit Institutions" published by the Danish Financial Supervisory Authority.

The "8+ method" means that the calculation takes its starting point in the own funds requirement of 8 pc of the total risk exposure amount. Next it is estimated whether the institution in question has risks beyond what is covered by the 8 pc – the own funds requirement in connection with "a normal risk level". If that is the case, an addition is made in the calculation of the internal capital and the solvency requirement.

The Guidelines from the Authority set up a series of benchmarks for a number of stress tests etc. The benchmarks in question indicate within which limits the Authority estimates that the risks incurred by an institution are covered by 8 pc of the total risk exposure amount. If the limits in question are exceeded, an addition must as mentioned be made to the internal capital and the solvency need.

The calculation of the internal capital and solvency requirement is reviewed quarterly by DLRs risk committee. On a quarterly basis, DLR Kredit's Board of Directors will afterwards discuss and approve the determination of DLR Kredit's internal capital and solvency need. The discussions are based on a recommendation from the Executive Board of DLR Kredit. In addition, first the risk committee and afterwards the Board of Directors will - at a minimum once per year - discuss more thorough calculation methods etc. for the solvency need of DLR Kredit, including which risk areas and benchmarks should be taken into consideration in the calculation of the solvency need.

As mentioned, the solvency need is calculated by means of an "8+ method", which comprises the risk types for which it is assessed that they need to be covered by capital. These types first of all include credit risk, market risk and operational risk as well as a

number of sub-categories. The assessment is based on DLR Kredit's risk profile, capital situation and outlook factors that could be of relevance, i.a. the budget etc.

DLR Kredit's calculation method follows the directions in the Danish Financial Supervisory Authority Guidelines regarding the "8+ method", supplemented by DLR Kredit's own stress tests, i.a. an evaluation of DLR Kredit's resilience in the event of severe loss scenarios based on historical observations.

Apart from this, the calculation is supported further by management estimates. DLR Kredit's risks in the below main areas will be assessed. Within each main area, the risks in question will be assessed in terms of a number of sub-areas. It is also estimated whether an addition to the adequate capital base is required to cover other circumstances.

A. Credit risk

- Earnings and growth
- Credit risk for large customers
- Other credit risks
- Counterparty risk (financial counterparties)
- Credit risk concentration

B. Market risk, including i.a.

- Interest rate risk
- Share price risk
- Exchange rate risk
- Liquidity risk

C. Operational risk

D. Leverage

E. IT risk

Thus, the risk factors that are included in the evaluation, in DLR Kredit's opinion comprise all the risk areas that Danish law requires the Management of DLR Kredit to take into account in the determination of the internal capital and the solvency need as well as the risks that Management believes that DLR Kredit has assumed. In the determination of DLR Kredit's internal capital and solvency need, the relevant departments have been involved. This is also true for the initial and subsequent discussions of stress tests etc. for the respective business areas.

Credit risk is DLR Kredit's largest risk area to which the bulk of the solvency requirement can be attributed. On this background, DLR Kredit has sharp focus on this area. DLR

Kredit applies the advanced IRB method for the calculation of credit risk on the full-time agriculture portfolio and standard method calculation for the remaining portfolio.

An allocation is made of 8 pc of the risk exposure amount in the market risk category. It is further estimated whether DLR Kredit is exposed to additional risk that would require capital beyond the 8 pc. Based on i.a. the balance principle, DLR Kredit's risk is estimated as limited.

Operational risk is defined as the risk of direct or indirect loss caused by insufficient or faulty processes, systems etc. Based on DLR Kredit's simple business model, the focus on internal processes, etc., this risk is considered limited. In regard to operational risk, no demand has been ascertained for a capital allocation beyond 8 pc of the risk exposure amount calculated under this category.

Apart from the mentioned circumstances, Management continuously assesses whether there could be other circumstances that need to be included in the calculation of the internal capital and the solvency need.

DLR Kredit consequently allocates the statutory 8 pc as own funds requirement for each risk area and will then assess whether further capital allocations are required, e.g. on the basis of individual large exposures, the credit quality of the portfolio, etc. The determination of an addition will be calculated either on the basis of stress tests as outlined in the Guidelines of the Danish Financial Supervisory Authority, of DLR Kredit's own stress tests or of a management assessment of whether individual business areas require a capital addition.

Table 1. DLR Kredit's Internal Capital and Solvency Need 30 June 2025

Risk area in DKK 1,000	Internal capital	Solvency need
Credit risk	6,401,486	8.17%
Market risk	705,246	0.90%
Operational risk	383,774	0.49%
Other circumstances	0	0%
Internally calculated solvency need	7,490,506	9.56%
Additions (special risk factors)	0	0
Total	7,490,506	9.56%

DLR Kredit's internal capital 30 June 2025 was calculated at DKK 7,491 m, cf. table 1. Since DLR Kredit's total risk exposure amount to DKK 78,325 m, this corresponds to a solvency requirement of 9.56 pc.

Table 2. DLR Kredit's Internal Capital and Solvency Need 30 June 2025

Current financial ratios 1,000	Amount
Own funds after deductions, DKK	18,100,784
Internal capital base, DKK	7,490,506
SIFI buffer	783,247
Capital conservation buffer	1,958,117
Countercyclical capital buffer	1,958,117
systemic buffer Denmark	1,190,545
systemic buffer Faroe Island	8,318
Reserved for "Gældsbuffer"	0
Excess capital adequacy, DKK	4,711,935
Capital ratio, pc	23.1%
Individual solvency ratio, pc	9.6%
SIFI buffer	1.0%
Capital conservation buffer	2.5%
Countercyclical capital buffer	2.5%
Systemic buffer Denmark	1.5%
Systemic buffer Faroe Island	0.0%
Excess capital adequacy, pc points	6.0%

DLR Kredit has calculated its excess capital adequacy compared to the individual solvency requirement and SIFI buffer etc. at 6.0 pc points, corresponding to DKK 4.7 bn at the end of June 2025, cf. table 2. DLR Kredit considers this excess capital adequacy as satisfactory.