


Annual Report 2008

8th financial year

DLR Kredit A/S· CVR no. 25781309
Nyropsgade 21· DK 1780 København V
Tlf. +45 70 10 00 90· Fax +45 33 93 95 00
www.dlr.dk· dlr@dlr.dk

Index

Management's Review

Financial and operating data, DKKm

Profit and Loss Account	**2004**	**2005**	**2006**	**2007**	**2008**
Net interest and fee income	*477.0*	*580.1*	*604.0*	*688.4*	*759.8*
Other operating income etc.	*17.2*	*15.5*	*17.6*	*16.4*	*16.5*
Staff costs and administrative expenses	*(145.8)*	*(157.6)*	*(159.3)*	*(169.2)*	*(173.1)*
Other operating costs	*(13.7)*	*(5.7)*	*(6.3)*	*(7.1)*	*(7.2)*
Provisions for loan and receivable impairment etc.	*19.8*	*(2.8)*	*174.4*	*36.6*	*13.8*
Core earnings	*354.5*	*429.5*	*630.4*	*565.1*	*609.8*
Value adjustments	*(20.7)*	*(31.9)*	*(52.0)*	*(74.5)*	*1.5*
Profit before tax	*333.8*	*397.6*	*578.4*	*490.6*	*611.3*
Profit after tax	*236.4*	*287.7*	*416.9*	*373.0*	*457.9*

Balance Sheet at 31 December					
Assets					
Loans and advances	*69,243.4*	*83,264.7*	*91,158.7*	*105,617.6*	*121,922.9*
Bonds and shares etc.	*33,912.0*	*1,327.0*	*7,201.2*	*18,445.3*	*5,880.0*
Other assets	*7,883.0*	*9,556.3*	*6,207.3*	*10,837.0*	*9,778.3*
Total assets	*111,038.4*	*94,148.0*	*104,567.2*	*134,899.9*	*137,581.2*
Liabilities and equity					
Issued bonds	*98,763.9*	*81,932.2*	*93,638.2*	*122,347.9*	*122,449.7*
Other debt and payables	*5,254.1*	*4,620.7*	*2,957.4*	*4,223.6*	*5,788.9*
Subordinated debt	*3,773.7*	*3,733.2*	*3,693.1*	*3,676.8*	*3,733.8*
Equity	*3,246.7*	*3,861.9*	*4,278.5*	*4,651.6*	*5,608.8*
Total liabilities and equity	*111,038.4*	*94,148.0*	*104,567.2*	*134,899.9*	*137,581.2*

Financial Ratios

Return on equity (ROE)					
Profit before tax in pc of equity)*	*10.7*	*11.2*	*14.2*	*11.0*	*11.9*
Profit after tax in pc of equity)*	*7.6*	*8.1*	*10.2*	*8.4*	*8.9*
Costs					
Costs in pc of loan portfolio	*0.23*	*0.20*	*0.18*	*0.17*	*0.15*
Income/cost ratio)*	*3.42*	*3.49*	*(64.55)*	*4.51*	*4.67*
Income/cost ratio. excl. write-downs for impairment	*2.99*	*3.45*	*3.44*	*3.57*	*4.31*
Solvency (incl. profit for the year)					
Solvency ratio. pc)*	*11.6*	*11.7*	*11.3*	*9.5*	*9.7*
Core capital ratio. pc)*	*5.8*	*6.8*	*7.0*	*6.1*	*6.6*
Losses and arrears					
Arrears. year-end (DKKm)	*57.0*	*59.2*	*61.1*	*84.9*	*150.3*
Loss and impairment ratio for the year (in pc of loan portfolio))*	*(0.03)*	*0.00*	*(0.19)*	*(0.03)*	*(0.01)*
Accumulated loss and impairment ratio (in pc of loan portfolio)	*0.63*	*0.48*	*0.23*	*0.17*	*0.13*
Lending activity					
Growth in loan portfolio. pc (nominal))*	*19.8*	*19.1*	*11.4*	*17.3*	*14.7*
New loans. gross (DKKm)	*24,646*	*36,808*	*22,413*	*32,424*	*29,878*
Number of new loans	*12,392*	*16,238*	*8,379*	*9,081*	*8,536*
Loan/equity ratio)*	*21.3*	*21.6*	*21.3*	*22.7*	*21.7*
Margins					
Percentage of average loan portfolio (nominal):					
Profit before tax	*0.53*	*0.52*	*0.67*	*0.49*	*0.53*
Administrative margin	*0.66*	*0.66*	*0.64*	*0.61*	*0.59*
Percentage of core capital after deductions:					
Foreign exchange position)*	*8.2*	*9.4*	*8.8*	*11.0*	*12.2*

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

Summary

2008 held many challenges, but DLR Kredit can look back at the year with great satisfaction.

In terms of lending, the activity level was very high with gross lending amounting to just below DKK 30bn. Apart from the fact that mortgage credit loans remain the preferred funding option for many business sectors in connection with change of ownership and investment in real property, the activity level was also affected by more customers than before wanting to cover an increasing share of their funding requirements with mortgage loans.

At the same time, the high gross lending meant that net lending developed very positively with an amount of DKK 16bn. Thus, DLR's total loan portfolio reached well over DKK 122bn at the end of 2008.

This development cemented DLR's position among the property segments to which DLR grants loans. Therefore, DLR maintained its market shares within lending to both agricultural and urban trade properties.

One of the challenges in 2008 was the transition to funding through the issuance of covered bonds (the so-called SDOs) rather than through the traditional mortgage credit bonds.

For SDO holders, the increased security lies in the fact that through their entire lifetime, the SDO loans granted must lie within the statutory lending limits (LTV). This requires constant monitoring of the position of the loans in terms of collateral. If the monitoring indicates than loans are placed beyond the LTV – e.g. owing to falling property prices – the mortgage credit institution must provide additional collateral in the form of secure assets. This places additional demands on the capital base of the mortgage credit institution.

Financially, 2008 was also a good year for DLR, since the high activity level in combination with a modest growth in costs, a satisfactory securities portfolio performance, and the highly limited losses meant that DLR's financial position developed in a positive direction. Pre-tax profits for 2008 reached DKK 611.3m against DKK 490.6m in 2007.

And last but not least, the financial ties between DLR and the banks that hold shares in DLR developed further through an increase of DLR's share capital to a nominal DKK 385.5m. This transaction entailed an increase of equity by DKK 500m. At the end of 2008, DLR's capital base was calculated at well over DKK 9.3bn.

Lending Activity in 2008

Like in previous years, DLR's lending areas in 2008 were concentrated on agricultural properties, office and business properties, private rental housing properties as well as private cooperative housing properties.

Traditionally, the Danish mortgage credit institutions cover by far the majority of the loan requirements of the agricultural sector. This was also the case in 2008, when agricultural demand for loans – i.a. for the funding of the continuing, strong structural development – was significant. And since the demand for loans from urban trade was also at a handsome level, DLR's gross lending in 2008 reached DKK 29.9bn against DKK 32.4bn in 2007.

Of the total volume, remortgagings accounted for around 30 pc of which well over one third consisted of remortgagings of loans in other mortgage credit institutions with DLR loans. Approx. 40 pc is attributable to the financing of changes of ownership and investments, while top-up loans accounted for almost 30 pc.

Net lending – i.e. gross lending less loan (p)repayments – amounted to DKK 15.9bn in 2008 against DKK 15.6bn in 2007.

By far the majority of the loans paid out in 2008 were variable-interest loans. Thus, around 65 pc was paid out as ARM loans, primarily with yearly interest rate adjustment and just below 19 pc was paid out with interest-fixing based on 6-months CIBOR or 3-months EURIBOR, respectively.

Last but not least, fixed-interest loans accounted for just below 17 pc of the loans paid out.

Around two thirds of DLR's loans in 2008 were granted with an interest-only period. The desire for interest-only loans is mainly linked to the ARM loans where just below 74 pc of the loans paid out was granted with an interest-only period. As far as fixed-interest loans are concerned, the corresponding number was around 37 pc of the lending.

Well over 98 pc of DLR's gross lending in 2008 was processed by the banks that hold shares in DLR.

Agricultural Properties

Gross lending to agricultural properties (farms and horticultural properties) amounted to DKK 20.0bn in 2008. Of this amount, loans to residential farms accounted for DKK 1.6bn. The total amount comprises government-guaranteed start-up loans to young farmers at just below DKK 0.2bn (the so-called "YF loans").

Loans to the agricultural sector totalled two thirds of DLR's total gross lending in 2008. Net lending amounted to DKK 9.7bn, of which DKK 0.8bn relates to residential farms.

Experience shows that the interest shown by the agricultural sector in ARM loans is considerable. This was also true in 2008, when well over 87 pc of the gross lending was paid out as floating rate loans, i.e. ARM loans as well as CIBOR- and EURIBOR-based loans. It is our impression that farmers will often tend to attach a number of different financial instruments to their ARM loans via banks. That way the funding may be adjusted and composed in accordance with the wants and needs of the individual farmer.

Quite a significant share of the loans granted went into remortgaging, but the continuing, strong structural development in the agricultural sector also led to considerable demand for loans to finance change of ownership.

In 2008 quite a significant volume of top-up loans were granted. The reason behind this is i.a. the generally weak economy in pig production, which necessitated the raising of loans to cover losses or to alleviate an often strained liquidity situation.

Loans for investments showed a generally decreasing trend. In relation to investments, it should be pointed out that for both the cattle and pig production areas, loans are often granted for expansions of existing farms as part of the on-going concentration of production on an ever decreasing number of units.

The past few years have been characterised by steep price increases for especially agricultural land. A significant driver behind this trend is structural development; furthermore, the relatively low interest level prevailing until well into 2007 should be mentioned.

It is DLR's impression that the prices of agricultural properties are no longer increasing.

DLR's share of the total amount of gross and net lending provided by the Danish mortgage credit institutions to agricultural properties amounted to 35 pc and 36 pc, respectively, in 2008.

Challenges

The agricultural sector in general will be facing considerable challenges in the years ahead. One challenge is the continuing, strong structural development towards ever fewer farms.

At the end of 2008, the EU ministers for agriculture agreed on a number of adjustments as part of a 'health check' of the EU agricultural policy. A particularly important initiative that affects Danish agriculture is that the direct subsidies (subsidies to the individual farmers) will be reduced over a period leading up to 2012 by transferring additional funds to the development of rural districts. Also the obligatory set-aside scheme will be abandoned, but an even more important feature is that the milk quota system will end in 2015.

Not until 2013 when the current EU budget agreement on agricultural policy expires can we expect more general discussions about the future for the EU agricultural policy.

It is DLR's impression that the Danish agricultural sector is well prepared for possible future reductions in the EU subsidy level. This belief is based on a

Paid-Out Loans to Agricultural Properties 2004-2008; DKKm

	2004	*2005*	*2006*	*2007*	*2008*
Agricultural properties	*15,454*	*23,766*	*12,869*	*19,935*	*18,384*
Owner-occupied homes (residential farms) [1]	*1,292*	*2,055*	*1,351*	*1,395*	*1,594*
Gross lending	*16,746*	*25,821*	*14,219*	*21,330*	*19,978*
– extraordinary prepayments	*10,091*	*18,899*	*7,531*	*10,738*	*8,736*
– repayments	*1,637*	*1,720*	*1,686*	*1,607*	*1,499*
Net lending	*5,018*	*5,202*	*5,002*	*8,985*	*9,743*

Note: All amounts are stated in cash value
[1] Agricultural properties below 10 hectares without significant agricultural activities

high level of efficiency and a considerable ability to adjust, but on the other hand it is impossible to disregard the generally high burden of debt and the attached interest risk borne by Danish farmers.

Urban Trade Properties and Cooperative Housing Properties

The category urban trade and cooperative housing properties comprises private rental housing properties, office and business properties as well as manufacturing and manual industry properties.

Gross lending to urban trade and cooperative housing properties etc. amounted to DKK 9.9bn in 2008. Net lending reached DKK 6.2bn. Around 75 pc of the gross lending was paid out as variable-interest loans and for the main part as ARM loans.

As was the case in 2007, lending in 2008 funded changes of ownership and investments. Almost half the loans granted went into remortgagings or was granted as top-up loans, the latter often with a view to strengthening the borrower's liquidity situation.

Lending to rental housing properties and to office and business properties developed satisfactorily in 2008, whereas lending to cooperative housing properties was heavily reduced. The development supports the knowledge that in the past years, the activity level in the construction of new cooperative housing properties has been severely slowing down.

A significant part of DLR's lending to private rental housing properties and to office and retail properties has been granted to so-called mixed properties, i.e. properties with office and retail premises in combination with private rental homes. The properties in question are typically either relatively large urban properties with retail facilities or offices at street level and rental homes in the floors above, or they are owner-occupied homes in combination with service or manual industry businesses. Statistically, loans to mixed properties are categorised according to the predominant property category.

Paid-Out Loans to Urban Trade Properties 2004-2008; DKKm

	2004	2005	2006	2007	2008
Office and business	4,086	5,182	3,966	6,555	5,941
Private rental housing	2,203	3,314	1,580	3,388	3,468
Private cooperative housing	1,324	2,247	2,439	786	368
Manufactoring and manual industries	28	162	141	264	77
Other properties	89	82	67	101	46
Paid-out loans	7,730	10,987	8,193	11,095	9,900
– extraordinary prepayments	929	4,185	3,645	4,029	3,207
– repayments	214	342	418	450	489
Net lending	6,587	6,460	4,130	6,616	6,204

Note: All amounts are stated in cash value.

DLR's lending to subsidised housing properties, which comprise family homes, service flats for the elderly and homes for the young, is very limited.

DLR's share of gross and net lending to rental housing properties, including private cooperative housing properties, was 11 pc for both gross and net lending in 2008. As regards office and retail properties, the share was 10 pc and 9 pc, respectively, for both gross and net lending.

DLR's Loan Portfolio

Since DLR was converted into a limited-liability company almost eight years ago with a circle of owners that now consists solely of local and regional banks, DLR has more than trebled its loan portfolio.

From amounting to DKK 40bn at the beginning of 2001, DLR's loan portfolio had grown to DKK 122bn at the end of 2008. Of the total loan portfolio of the Danish mortgage bank sector of DKK 2,187bn at the end of 2008, DLR's share was 5.6 pc. If we look at DLR's market share in the lending areas where DLR mainly offers loans, the share was 18 pc.

Both agricultural properties and urban trade properties have contributed to the growth in the portfolio. Since the loan portfolio to urban trade properties is growing faster than the agricultural property portfolio, DLR is obtaining a higher degree of diversification of its loan portfolio. Owing to the continued high lending to agriculture, the diversification in the loan portfolio has been slowing down over the past few years.

At the end of 2008, agricultural properties including residential farms accounted for well over 69 pc of DLR's loan portfolio, while loans to urban trade properties and cooperative housing properties accounted for just below 31 pc.

Fixed-interest loans and short-interest period loans (ARM loans, CIBOR- and EURIBOR-based loans and guarantee loans) accounted for 31 pc and 69 pc, respectively, of DLR's loan portfolio at the end of 2008. With 51 pc, ARM loans accounted for more than half of the total portfolio.

Interest-only loans accounted for 48 pc of DLR's loan portfolio at the end of 2008. The lending areas where interest-only loans are the most predominant are private rental housing properties and cooperative housing properties, where the share of interest-only loans makes up 70 pc of the volume of lending.

Loan Types

Recent years have seen extensive product development in the Danish mortgage bank sector. Up till the mid-1990s, fixed-interest loans dominated the loan market. But in the mid-1990s, the ARM loans gained a strong foothold in the market.

Since then variations of mortgage loans have been developed. An example would be the variable-interest loans with a built-in 'cap' on the interest rate level. Another example is the CIBOR- and EURIBOR-based loans where the interest is refixed more than once a year.

The problems facing the financial markets have had the effect that product development almost came to a standstill in 2008. And since at the same time it turned out to be very difficult to sell EUR-denominated bonds, an increasing share of mortgage loans in 2008 was based on the issuance of bonds denominated in DKK.

For DLR, the sales situation described has had the effect that in March 2008 DLR was forced to stop offering Euribor-based loans, just as DLR has been unable to offer ARM loans denominated in EUR for certain periods in 2008. Consequently, DLR's lending was primarily based on traditional, fixed-interest bonds with maturities of 20 and 30 years as well as on one-year ARM bonds denominated in DKK.

In the product area, it is DLR's general policy to offer standardised financial solutions. Then DLR's co-operation partners – banks – may offer to top up the DLR loans with financial instruments such as interest rate and currency swaps, individual interest rate caps etc. – solutions that are tailored to the needs of the borrower.

Funding

DLR's funding for its lending activities takes place solely via the issuance of bonds. At the same time lending takes place in observance of a full balance and transparency between the volume of loans granted and the issuance of bonds. DLR thus applies the 'specific' balance principle in its most restrictive form.

With the Danish legislation on covered bonds, which came into force on 1 July 2007, the joint EU rules on covered bonds were implemented in Danish financial legislation.

In December 2007, DLR obtained permission from the Danish Financial Supervisory Authority to issue covered bonds (SDOs). DLR's issuance of bonds in 2008 was therefore solely based on SDOs.

SDOs are characterized by the requirement that specific, secure assets constitute the collateral for the issuance of

DLR's Loan Portfolio 2004-2008; DKKm.

						Loan portfolio 2008 distributed pc-wise on			
	2004	*2005*	*2006*	*2007*	*2008*	*Fixed interest*	*Floating rate loans*	*Guarantee loans*	*Cibor/ Euribor loans*
Agricultural properties	*52,565*	*57,455*	*61,798*	*69,809*	*78,346*	*27*	*53*	*2*	*18*
Owner-occupied homes (residential farms)	*3,818*	*4,536*	*5,181*	*5,887*	*6,685*	*56*	*34*	*7*	*3*
Office and business properties	*7,213*	*10,098*	*12,385*	*16,359*	*20,445*	*41*	*43*	*2*	*14*
Private rental housing	*3,834*	*5,682*	*6,839*	*9,133*	*11,612*	*24*	*63*	*3*	*10*
Private cooperative housing	*2,207*	*3,834*	*4,465*	*4,580*	*4,378*	*33*	*54*	*9*	*4*
Other properties	*222*	*442*	*605*	*930*	*953*	*37*	*45*	*3*	*15*
Total	*69,858*	*82,047*	*91,272*	*106,698*	*122,419*	*31*	*51*	*3*	*15*

Note: All amounts are calculated at cash value.

the bonds – primarily security in the form of real property.

DLR's SDOs are issued in a newly created capital centre B, which also contains the underlying mortgages on real property. Also, the capital centre contains additional collateral added in connection with the granting of loans to commercial properties in the interval 60-70 pc of market value, and in connection with possible exceeding of LTV limits as part of the on-going monitoring of the market value of the mortgaged properties.

The most significant difference between SDOs and traditional mortgage credit bonds is that the LTV limits must be maintained throughout the lifetime of the loan for the former category. If that is not the case – e.g. due to declining property prices, which result in part of the loan being placed outside the LTV limit – the mortgage credit institution must put up additional collateral corresponding to that part of the loan, which is placed outside the LTV limit. The collateral in question must consist of specific, secure assets – e.g. government bonds.

For traditional mortgage bonds, the statutory LTVs must only be observed at the time when the loan offer is made. It should be noted that the new legislation on covered bonds does not prevent a mortgage credit institution from continuing to issue traditional mortgage bonds under the existing rules.

The condition that the LTV must be observed throughout the lifetime of a loan means that the market value of each individual mortgaged property must be monitored on a current basis. For commercial properties, the monitoring takes place on an annual basis and for residential properties at least every three years. In the event of considerable decreases in property prices, extraordinary monitoring may come into effect.

With the new covered bonds legislation, the same LTV – 60 pc – applies to urban trade properties (primarily office and business properties as well as manufacturing and manual industry properties) and for agricultural properties (primarily farms).

Yet, loans may be granted with an LTV of 70 pc of the market value, if the mortgage credit institution offers additional collateral of 10 pc for that part of the loan, which is placed between 60 and 70 pc of the market value.

For residential properties, the LTV remains unchanged at 80 pc.

Since traditional mortgage bonds issued after 1 January 2008 have a capital weight of 0.2 against that of 0.1 for SDOs, we can pari passu expect the interest on the latter bond type to be marginally lower than that of the traditional mortgage bonds.

Refinancing of ARM Loans

For the refinancing of ARM loans at the beginning of January 2009, DLR held auctions of ARM bonds in December 2008. On the whole, DKK bonds worth a nominal DKK 29.0bn and EUR bonds worth a nominal EUR 1.8bn were put up for auction. The auctions went well, as the offered bonds were sold at interest rates at the same level as that of the corresponding bonds issued by the other mortgage credit institutions at similar auctions.

The most recent refinancing of ARM loans took place on the basis of the issuance of covered bonds (SDOs) against traditional mortgage bonds at previous auctions.

Rating

All DLR bonds have been rated by Moody's Investors Service. DLR was first rated in September 2003, when DLR's bonds obtained the second highest obtainable rating, Aa1. DLR's issuer rating was A1.

The rating was justified in DLR's finely meshed distribution network, the fine quality of DLR's loan portfolio and the relatively low cost level compared to DLR's earnings.

As a consequence of the general, global financial crisis, Moody's made a reassessment of DLR's rating in December 2008. The reassessment had the result that both the Aa1 rating of DLR's bonds and DLR's Issuer rating of A1 were maintained.

The Aa1 bond rating comprises all DLR's bonds, i.e. both the traditional mortgage bonds issued by the 'institution as a whole' and the covered bonds (SDOs) issued in capital centre B. Furthermore, the rating was maintained as stable, which means that Moody's has no plans of changing the ratings.

In June 2005, DLR raised Hybrid Tier 1 capital (EUR 100m) in the European capital market. This transaction received the rating A3 from Moody's. The year before, a Tier 2 issue (EUR 400m) by DLR received an A2 rating.

Capital Requirement Rules

Credit Risk

With the EU capital requirement rules that came into force as from January 2007, credit institutions now have the possibility of applying more or less advanced methods to calculate the capital requirements of their business. The decisive new point is that – depending on the method chosen – the credit institution has the possibility of setting aside capital for each exposure corresponding to a model calculation of the risk on the exposure.

Under the new rules for the calculation of credit risk, credit institutions may choose between three methods.

The first and least complex method – the standard method – has been applicable as from 1 January 2007. In 2008, DLR also used this method.

The other two methods – the internal ratings-based (IRB) methods – differ from the standard method in that each individual credit institution must itself estimate the risk on its loan portfolio based on i.a. individually calculated PDs, i.e. the likelihood of the customer defaulting on his commitment.

The least complex of the IRB methods – the Foundation IRB – presupposes that the credit institution itself calculates the PDs, cf. above. Other variables are determined by law. The other and most advanced method – the Advanced IRB – presupposes that the credit institution estimates virtually all variables to calculate its capital requirement, including PDs and LGDs. The latter express that part of the exposure that is expected to be lost if the customer defaults on his payments.

The application of the IRB method makes it possible for the credit institutions to exercise better control of credit risk, thus giving them a more qualified foundation for the calculation of the capital requirement.

DLR has filed an application with the Danish Financial Supervisory Authorities to be approved as an advanced IRB institution and thus to use the IRB approach in the estimation of credit risk. The application, which is being considered and discussed with the Danish FSA at the moment, comprises DLR's agricultural portfolios.

It is expected that – provided that the Danish FSA approves DLR's application to be an advanced IRB institution – DLR will achieve a reduction in the minimum capital requirement.

Market Risk

The calculation of market risk can be done according to two methods: a standard method and an advanced method. DLR uses the standard method in the calculation of market risk.

Operational Risk

Operational risk is attached to the risk of losses caused by inappropriate or inadequate internal procedures, human error and systems errors, external events, legal risk etc.

Three methods may be used to calculate operational risk – the basic indicator method, the standard indicator method and the advanced method for measuring operational risk. In view of its relatively homogeneous area of business, DLR has decided to use the basic indicator method, which is calculated on the basis of a three-year average of the total of net interest income and non-interest related net income. The capital adequacy requirement is calculated as 15 pc of the basic indicator.

Risk Management

For DLR risk management is a central element in the daily operations. DLR's exposure to credit risk and financial risk is considered limited. The limited exposure to risk is attributable to restrictive legislation and to DLR's internal credit policy procedures. As a supplement, DLR has reduced its risk of loss through agreements with the banks that hold shares in DLR, i.e. local and regional banks.

Credit Risk

DLR's loans are granted against a registered mortgage on real property subject to the limits of the LTV ratio stipulated under Danish law.

In connection with DLR's lending activities, the specific balance principle must also be observed, which means that there is full balance between the payments received by DLR from borrowers and the payments made by DLR to the holders of DLR bonds.

The balance principle means that DLR assumes no interest or currency risk nor any risk in connection with the prepayment of loans. The only type of risk assumed is the credit risk, i.e. the borrower's risk of default on payments.

DLR's Board of Directors has set up guidelines for the granting of credit by DLR, including limits to the credit authorisation of the Executive Board. Within these limits, internal procedures and instructions determine upper limits for the credit authorisation in regard to the various levels in DLR's credit organisation.

With a view to reducing credit risk, the financial position of the borrowers is closely examined. The valuation basis is a determination of the market value of the property on which the mortgage is to be taken out. The valuation of the loan applicant's property is carried out by DLR's own valuation experts, whereas the rating of the borrower's creditworthiness is handled by DLR's administrative office in Copenhagen. That way functions are separated between property valuation and the assessment of creditworthiness.

Apart from the mortgages held on the properties in which DLR grants loans as well as a close credit assessment, DLR's credit risk has been further reduced by means of loan loss guarantees provided by the loan-providing financial institutions.

In pursuance of 'Bank Package I', cf. the Danish Financial Stability Act passed by the Folketing (the Danish Parliament) on 10 October 2008, the government will reguarantee any claims that DLR may have on financial institutions which are – contrary to expectations – unable to honour their loan loss guaranties. The reguarantee scheme concerns claims that may arise before the end of September 2010.

In connection with loans to urban trade properties, i.e. private rental housing properties, private cooperative housing properties, office and business properties as well as manufacturing and manual industry properties, the loan-providing financial institution in question will therefore put up an individual loan loss guarantee covering the most risky part of the loan. This means that DLR's risk of losses arising from the granting of loans to the property types mentioned is highly limited.

Loans to agricultural properties – farms and horticultural properties – are also comprised by a guarantee scheme set up between DLR and the loan-providing financial institutions. This is a collective guarantee scheme that comes into force in the event that the losses suffered by DLR within a given calendar year exceed a given level. The guarantee scheme means that DLR's risk of losses arising from the granting of loans to agricultural properties is predictable and relatively limited.

The limited risk of losses is supported by calculations of the security position of the loan portfolio in the mortgaged agricultural properties – the so-called 'loan-to-value' (LTV) calculations. At the end of 2008, 89 pc of the loans granted to production properties was thus placed within 50 pc of DLR's most recent valuations.

At the end of 2008, 93 pc of DLR's total loan portfolio was comprised by the above-mentioned loan loss guarantees. The bulk of the loans that are not comprised by guarantees usually have a low LTV value.

The constant monitoring of LTV values is a standard element of DLR's management reporting.

Generally, loan commitment tables are drawn up on a regular basis with the loan-providing financial institutions in order to maintain an assessment of DLR's counterparty risk.

On the organizational level, the monitoring of credit risk is handled by DLR's Credit Risk Control Unit and by the administrative office. Apart from the monitoring of credit risk, the Credit Risk Control Unit oversees the implementation of the capital requirement rules and the development of DLR's credit score models.

Based on the models, DLR has since summer 2006 undertaken a statistical credit score for its agricultural clients, i.e. full-time and part-time farmers. The credit score comprises an estimate of the payment behaviour of the client, PD (probability of default), which is an expression of the likelihood that the client will default on his commitment with DLR. The calculation of PDs is made in a continuous process and is based on client-specific information, primarily the client's history of payments, financial information etc.

Since summer 2007, DLR has furthermore been calculating and using estimates for losses called LGD (loss given default), which is an expression of the percentage loss that DLR can expect if the client defaults on his commitment with DLR.

The PD and LGD, respectively, of each individual client will be transformed into a grading scale. That makes it easier to use the system in the credit granting process.

Furthermore, DLR has implemented an application score model for agricultural loans, which is used in connection with the granting of credit to new clients and extensions of existing commitments.

Information about client ratings is submitted to the Board of Directors and the Executive Board every month.

Financial Risk

Interest Rate Risk

In practice, DLR's financial risk is attached solely to the interest rate risk on its securities portfolio, where the legal requirement is that the risk cannot exceed 8 pc of the capital base. Interest rate risk is defined as the price adjustment in the event of a change in market yields of 1 pc point. According to DLR's capital base at the end of 2008, this would correspond to a maximum interest rate risk of DKK 747.3m.

Based on a concrete assessment, DLR uses derivative financial instruments such as repo transactions and futures to manage interest rate risk.

At the end of 2008, DLR's relative interest rate risk amounted to 2.58 pc. This corresponds to a price adjustment of the securities portfolio of DKK 241.2m in the event of a change in the market yield of 1 pc point.

With regard to funds from the raising of both the hybrid core capital (EUR 100m) and the subordinated loan capital (EUR 400m), DLR assumes a limited interest rate risk. This is hedged by reinvesting just below half of the proceeds from the transactions as deposits with financial institutions at the same interest terms (3 months' EURIBOR) and in the same currency (EUR) as the loans raised. The remaining part of the proceeds is invested in three-month bonds denominated in EUR (EURIBOR 3).

The fixed-interest hybrid core capital has been changed to a three-month variable-interest (EURIBOR) arrangement by means of an 'interest rate swap'.

Liquidity Risk

As a consequence of the balance principle, the payments on loans granted closely match payments on the issued bonds. In connection with prepayments of loans (immediate prepayments), DLR receives some liquidity, which will subsequently be invested until the amount is due for payment to the bondholders as part of extraordinary drawings.

The liquidity is placed as forward deposits with financial institutions or in ARM bonds maturing the following January. Excess funds arising from the borrower's quarterly repayments on ARM loans will be placed in bonds and will be kept separate from the remaining securities portfolio.

Foreign Exchange Risk

In real terms, DLR has no foreign exchange risk. Calculated according to the foreign exchange indicator 2 of the Danish Financial Supervisory Authority, DLR's foreign exchange risk at the end of 2008 was DKK 0.5m, corresponding to 0.005 pc of the capital base. The foreign exchange indicator 2 of the Danish Financial Supervisory Authority cannot exceed 0.1 pc of the capital base. The reason behind the limited foreign exchange risk is that loans paid out in foreign currencies, e.g. EUR, will at all times be funded in the foreign currency in question.

Risk Related to Shares

In general, DLR does not invest in shares. At the end of 2008, DLR's share portfolio consisted of holdings in VP Securities Services and e-nettet.

Operational Risk

As previously mentioned, DLR uses the basic indicator method. According to this method, an amount of DKK 1.2bn has been allocated to cover operational risk at the end of 2008.

Solvency Requirement

DLR has a relatively simple business model where the most significant risk factor is attached to the borrower's ability to repay the loan. On this background, DLR has not developed mathematical-statistical capital models for the calculation of the solvency requirement.

A simple model is used in the ongoing calculation of the capital requirement; the basis of the model is the anticipated financial results following a 'stress test'.

In the determination of the likelihood of losses, the guarantee schemes established by DLR's circle of owners – local and regional banks – are included in the calculations.

In the calculation of the solvency requirement, the anticipated growth in lending, market risk – where only the interest rate risk is relevant – the possibility of raising capital as well as operational risk are included as significant elements.

On the whole, DLR's solvency requirement may be considered limited.

DLR's Disclosure Requirements

Under the Capital Adequacy Order, DLR is required to place a certain amount of information concerning its risk management targets and policies at the disposal of the public.

Among other disclosures, DLR is required to account for its risk management strategy and procedures.

In its lending, DLR uses the specific balance principle, cf. the Executive Order on the issuance of bonds, balance principle and risk management. DLR uses the principle without the deviations made possible in the legislation.

The use of the specific balance principle means that in relation to its lending, DLR only carries the risk that the borrower could default on his repayment obligation.

The Credit Risk Control Unit plays a significant part in the monitoring of DLR's credit risk. The Unit handles the implementation of the capital adequacy rules (Basel II) as well as the monitoring of exposure risk, and controls that the statistical models function optimally etc. In addition, statistical variables are used to supplement the impairment losses on weak commitments.

In addition, DLR continuously calculates the solvency requirement, which comprises the overall, risk-adjusted capital requirement. This requirement differs from the capital adequacy requirement, which is required by law to amount to not less than 8 pc of the risk-weighted assets. Thus the solvency requirement may be lower than 8 pc.

All credit institutions, including DLR, are operating with limits regarding market risk. The legislation permits a maximum interest rate risk of 8 pc of the capital base. The market risk is defined as the capital loss on the securities portfolio in the event of a change in market rates of 1 pc point.

The basic indicator model is used in the calculation of DLR's operational risk. The choice of this method is explained by DLR's less complicated activities.

In 2008, DLR used the revised standard method to calculate capital adequacy.

Electronic Land Registration

The implementation of electronic land registration was originally expected to begin in March 2008, but for a number of reasons, the project has been delayed a number of times. The Danish Courts Authority now expects the electronic land registration system to be initiated on 7 September 2009. The whole project is a comprehensive challenge – not just for the public sector, but also for the financial sector.

As a consequence of the introduction of digital land registration, the Association of Danish Mortgage Banks and the Danish Bankers Association have established a joint solution for a number of digital business processes in the financial sector. The efforts to implement the first version of this joint solution are expected to end at the time when the electronic land registration has been implemented.

It has been decided that the e-nettet (formerly Realkreditnettet) will handle the implementation and operation of the joint solution. The circle of owners behind the company comprises all Danish mortgage credit institutions and banks.

Knowledge Resources

DLR's knowledge resources are primarily linked to DLR's staff. Since DLR is in close cooperation with local and regional banks, it is also important that the employees of these banks at all times have an updated knowledge of DLR as an organization, including the services that DLR provides.

DLR is to a large extent an organization where communication and operations rely on the use of modern technology. It is therefore of decisive importance that DLR's staff may constantly maintain and expand their knowledge, i.a. via further education, and thus contribute to ensuring the earnings base of DLR. DLR is a member of the Education Centre of the Danish Financial Sector.

Knowledge about DLR's functions is recorded in internal procedures and instructions, which are regularly being updated and expanded. With regard to the IT area, this is done via documentation of the IT systems in use.

In a number of areas, DLR draws on external knowledge resources; these are primarily areas that require special competencies.

Financial Review

DLR prepares its annual reports and interim reports according to the accounting rules of the Danish Financial Supervisory Authority.

Profit and Loss Account

In 2008, DLR generated a pre-tax profit of DKK 611.3m against DKK 490.6m in 2007. The post-tax profit amounted to DKK 457.9m against DKK 373.0m the year before. Tax on the profit for 2008 has been calculated at DKK 153.4m.

Net interest income rose from DKK 869.2m in 2007 to DKK 963.1m in 2008, while fee and commission expenses (net) between the two calendar years rose from DKK 182.5m to DKK 204.4m.

The increase in net interest income is primarily attributable to increased administration fee income caused by the increasing loan portfolio and the increasing securities portfolio in combination with the increasing interest rate level in the first three quarters of the year.

Profit and Loss Account; DKKm	***2006***	***2007***	***2008***
Net interest, fee and commission income	*604*	*688*	*760*
Other operating income etc.	*18*	*16*	*17*
Value adjustment, securities	*(52)*	*(75)*	*2*
Staff costs and administrative expenses etc.	*(159)*	*(169)*	*(173)*
Depreciation	*(6)*	*(7)*	*(7)*
Provisions for loan and receivable impairment	*174*	*37*	*14*
Profit before tax	*578*	*491*	*611*
Tax	*(161)*	*(118)*	*(153)*
Profit for the year	*417*	*373*	*458*

The increased net expenses to fees and commissions are primarily due to an increase in commissions to loan-providing financial institutions as compensation for an increasing number of loans being covered by loss guarantees.

DLR's staff costs and administrative expenses etc. rose by 2 pc in 2008. These items rose from DKK 169.2m in 2007 to DKK 173.1m in 2008. Depreciation and amortisation amounted to DKK 7.1m and DKK 7.2m, respectively.

Value adjustments of securities etc. resulted in income of DKK 1.5m in 2008 against expenses of DKK 74.5m in 2007.

Losses ascertained on claims, including adjustments from previous years, are calculated at DKK (0.9)m for 2008. And as at year-end 2008 a reversal of individual impairment losses was recognised at DKK 12.9m, the item 'Provisions for loan and receivable impairment etc.' contributes positively to profit before tax with DKK 13.8m.

Consequently, individual provisions for impairment were reduced to DKK 162.6m at the end of 2008. DLR has no collective provisions for impairment losses at present.

No dividend will be paid to shareholders in 2008.

Most recently – in the interim report for Q1-Q3 2008 – DLR expressed its performance expectations for 2008 as a whole to be DKK 395-415m before tax. When the final results for 2008 were significantly higher, this was due to both an extraordinarily high level of activity in Q4 2008 and to the falling interest rate level towards year-end 2008, which means that our former expectations of a quite considerable negative value adjustment of DLR Kredit's securities portfolio was replaced by a modest, positive value adjustment.

Capital Structure

In recent years, DLR's capital base has been considerably strengthened. This strengthening has taken place via an increase in equity through increases in the share capital as well as through the accumulation of profit.

This trend continued throughout 2008. In November 2008 DLR's share capital was raised to a nominal DKK 385.5m. This increase resulted in proceeds of DKK 500m. To this should be added profit after tax of DKK 457.9m, which means that DLR Kredit's equity rose by almost DKK 1.0bn in 2008.

The need for the implemented strength-

Capital Base and Solvency Ratio

DKKm	2006	2007	2008
Equity			
– Distributable reserves	*2,100*	*2,436*	*3,347*
– Undistributable reserves	*2,179*	*2,216*	*2,262*
Total, equity	*4,279*	*4,652*	*5,609*
Subordinated debt:			
– Hybrid core capital	*712*	*695*	*754*
– Supplementary capital			
– Subordinate loan capital	*2,982*	*2,982*	*2,980*
Total, subordinated debt	*3,693*	*3,677*	*3,734*
Capital base after deduction	*7,970*	*8,327*	*9,341*
Weighted assets	*70,631*	*87,668*	*96,522*
Capital adequacy	*5,651*	*7,013*	*7,722*
DLRs solvency ratio	*11.3*	*9.5*	*9.7*

ening of DLR's capital base primarily arose from DLR's growing loan portfolio.

At the end of 2008, DLR Kredit's equity amounted to DKK 5,608.8m against DKK 4,651.6m at the end of 2007. The equity comprises the share capital of a nominal DKK 385.5m as well as DLR's reserves totalling DKK 5,223.3m, of which 'undistributable reserves' amount to DKK 2,261.7m.

At the end of 2008, DLR's total subordinated debt amounted to DKK 3,733.8m. This amount consists of the hybrid core capital (Tier1) at DKK 753.7m (EUR 100m adjusted for the fair value of interest rate swaps entered into to secure payment flows on the hybrid core capital) and supplementary capital (Tier2) at DKK 2,980.1m (EUR 400m).

On the whole, DLR's capital base amounted to DKK 9,342.6m at the end of 2008 against DKK 8,328.4m at the end of 2007.

DLR's solvency ratio at the end of 2008 was calculated at 9.7.

Arrears and Forced Sales

In 2008, DLR received repayments amounting to a total of well over DKK 8.3bn.

At the end of 2008, the amount of repayments in arrears was DKK 150.3m against DKK 84.9m the year before. Of the amount in arrears, the main part related to term payments in the last quarter of the year.

Like in previous years, term payments have been highly satisfactory in 2008. Part of the increase in the amount in arrears can be explained by DLR's increasing loan portfolio, but at the same time the increase also reflects the increasingly difficult financial situation for the corporate sector.

The number of implemented forced sales over properties on which DLR holds a mortgage was 23 in 2008. DLR took over three of these properties. The corresponding figures for 2007 were 10 and three, respectively.

In addition, DLR in 2008 suffered losses on three properties, which were taken over at forced sales by other creditors than DLR. Furthermore DLR took part in two loss-incurring, voluntary trades.

On the whole, DLR in 2008 suffered losses on eight properties against 13 in 2007.

Outlook for 2009

For 2009, DLR expects a lower level of activity, compared with 2008. At the same time, an additional diversification is expected in DLR's loan portfolio distributed on property categories.

On the whole, net interest income is anticipated to rise in 2008 due to the increased loan portfolio. We expect a reduction in interest income on the securities portfolio and on accounts with banks.

Staff and administrative costs are expected to rise in 2009 at a rate that roughly corresponds to the development in wages.

For 2009 as a whole, DLR budgets with core earnings (profit before value adjustments, impairment losses and tax) in the interval of DKK 500-550m against realised core earnings of DKK 596.0m in 2008.

Due to the weak financial outlook, we expect a moderate increase in DLR's loss rate for 2009.

On 3 February 2009, the Folketing passed an Act on Government Capital Injections in Credit Institutions – 'Bank Package II'. Whether DLR will be making use of a government capital injection will be assessed as part of the deliberations concerning the future capital structure of DLR.

Management and Administration

DLR Kredit's Board of Directors

At the end of 2008, DLR Kredit's Board of Directors had the following members:

Elected by the General Meeting:

- Svend Jørgensen (Chairman), Managing Director, Sparekassen Himmerland A/S
- Preben Lund Hansen (Deputy Chairman), Managing Director, Sydbank A/S
- Anders Dam, Managing Director & CEO, Jyske Bank A/S
- Peter Gæmelke, Farmer, Chairman of Dansk Landbrug (Danish Agriculture)
- Jens Ole Jensen, Managing Director, Nordjyske Bank A/S
- Lars Møller, Managing Director, Spar Nord Bank A/S
- Vagn T. Raun, Managing Director, Sammenslutningen Danske Andelskasser and Danske Andelskassers Bank A/S

Employee Board Members:

- Tanja Bregninge Itenov, Office Assistant
- Søren Jensen, Legal Consultant
- Steen Pedersen, Head of Division
- Torben Thorup Jensen, Valuation Expert
- Aage Thomsen, Farmer and Valuation Expert

At the end of 2008, DLR's Board of Directors consisted of 12 members of whom seven members have been elected at the Annual General Meeting. Of these seven Directors, three have been elected among the members of the Association of Local Banks in Denmark, three among the members of the Association of Regional Banks. One member has been elected by the two Associations jointly.

The employees of DLR elect five members of the Board of Directors.

At the Annual General Meeting on 25 April 2008 Kjeld Mosebo Christensen, Managing Director, Forstædernes Bank A/S, joined the Board of Directors in replacement of Bent Naur, Managing Director, Ringkjøbing Landbobank, Aktieselskab. At 17 October 2008, Finn B. Sørensen, Managing Director, Fionia Bank A/S and at 14 November 2008, Kjeld Mosebo Christensen, Managing Director, Forstædernes Bank A/S both resigned from DLR's Board of Directors.

At the turn of the year 2008/2009 Aage Thomsen, Farmer and Valuation Expert, was replaced by Benny Pedersen, Farmer and Valuation Expert.

Executive Board:

Bent Andersen, Managing Director & CEO
Bjarne Dyreborg-Carlsen, Managing Director

Executive Staff:

Executive Board Secretariat, information, staff etc.:

Bjarne Dyreborg-Carlsen, Managing Director, MSc (Economics)

Loan department:

Jens Kr. A. Møller, Deputy Director, MSc (Economics)

Legal department:

Per Englyst, Deputy Director, Attorney-at-Law

Accounting department:

Leif Knudsen, Deputy Director, Diploma in Business Administration (HD), Copenhagen Business School

IT department:

Chr. Willemoes Sørensen, Deputy Director, Engineer

Internal audit:

Martin S. Petersen, Chief Internal Auditor

Supervision:

The Danish Financial Supervisory Authority

DLR Kredit's organizational structure

At the end of 2008 the number of employees on a full-time basis in DLR was 145 against 135 at the end of 2007. Of the 145, 129 are working at DLR's administrative offices in Copenhagen, whereas the remaining staff is in charge of valuation of urban trade and private cooperative housing properties.

Apart from the permanent staff, DLR employed 41 valuation experts at the end of 2008. These experts are responsible for the valuation of agricultural and horticultural properties.

Directorships held by the Executive Board

Bent Andersen, Managing Director & CEO

- Member of the Board of Directors of Værdipapircentralen A/S (VP Securities Services)
- Member of the Board of Directors of e-nettet Holding A/S
- Member of the Board of Directors of e-nettet a/s

Cooperation agreements with other credit institutions:

a) Management agreement

DLR has entered into a management agreement with LR Realkredit A/S. DLR processes loan applications to be decided by the Executive Board and the Board of Directors of LR Realkredit. Once the loans have been approved, DLR manages the loans paid out.

The primary lending area of LR Realkredit is the social housing sector, schools and other educational institutions as well as social and cultural institutions. LR Realkredit shares office address with DLR.

b) e-nettet

Danish financial and mortgage credit institutions are co-operating about the digitalization of work processes in connection with the digital land registration system. The e-nettet – which was previously known as Realkreditnettet – has been chosen as the provider of the technical platform. Apart from the financial sector's communication with the digital land registration system, the system is required to digitalize and integrate a number of the business processes of the financial sector.

DLR holds 16 pc of the shares in e-nettet, of which 10 pc has been acquired on behalf of the Association of Regional Banks and the Association of Local Banks. From 2010, the ownership shares in e-nettet will be distributed according to the financial and mortgage credit institutions' respective share in the revenue of e-nettet.

Apart from the above project activities, e-nettet operates and develops an electronic communications network where i.a. sales of disclosures of remaining debt amounts and property trades are part of the product platform. About 3,000 business addresses are linked to e-nettet. The customers are professional players in the financial and housing market. Typically, the customers will retrieve information as case documentation or for direct processing in their own professional systems in connection with their case handling of property finance and sale.

Shareholder information

Share capital

The share capital in DLR is held by local and regional financial institutions.

The share capital of a nominal DKK 385.5m (denomination DKK 1) is distributed on the following main groups of shareholders:

	DKKm
‣ Local financial institutions (members of the Association of Local Banks)	286.5
‣ Regional financial institutions (members of the Association of Regional Banks)	88.0
‣ Other financial institutions	11.0

It must be stated that the following shareholders held at least 5 pc of the nominal share capital at the end of 2008:

	DKK nom.
‣ Sydbank A/S, Aabenraa	29,785,524
‣ Jyske Bank A/S, Silkeborg	25,612,681

Redistribution of shares

Between the shareholders, a shareholders' agreement has been made according to which the shareholders implement a redistribution of shares every three years. The most recent redistribution of shares took place on 1 March 2008 (on the basis of the remaining bond debt at 31 December 2007).

Directorships held by the Board of Directors

Anders Dam, Managing Director & CEO,
- Managing Director & CEO of Jyske A/S
- Chairman of the Board of Jyske Banks Almennyttige Fonds Holdingselskab A/S
- Deputy Chairman of the Board of PRAS A/S

Peter Gæmelke, Farmer,
- Chairman of the Board of Agroinvest A/S
- Member of the Board of Kirkbi A/S
- Member of the Board of Sydbank A/S

Preben Lund Hansen, Managing Director,
- Managing Director of Sydbank A/S.

Jens Ole Jensen, Managing Director,
- Managing Director of Nordjyske Bank A/S
- Chairman of the Board of Sæbygård Skov A/S
- Member of the Board of Vækst Invest Nordjylland A/S

Svend Jørgensen, Managing Director,
- Managing Director of Sparekassen Himmerland A/S.
- Member of the Board of PRAS A/S

Lars Møller, Managing Director,
- Managing Director of Spar Nord Bank A/S
- Chairman of the Board of BI Asset Management Fondsmæglerselskab A/S
- Chairman of the Board of BI Holding A/S
- Chairman of the Board of BI Management A/S
- Member of the Board of BI Technology A/S
- Member of the Board of Erhvervsinvest Nord A/S
- Member of the Board of Spar Nord Ejendomsselskab A/S

Vagn T. Raun, Managing Director,
- Managing Director of Danske Andelskassers Bank A/S
- Member of the Board of SDA Bolig A/S

2008

Accounting Policies
Profit and Loss Account
Balance Sheet
Equity
Notes
Solvency
Cash Flow Statement
Series Financial Statements

Accounting Policies

DLR Kredit's Annual Report has been prepared in accordance with the accounting rules for mortgage banks issued by the Danish Financial Supervisory Authority as well as the disclosure requirements for issuers of listed bonds specified by the NASDAQ OMX København.

Apart from only a few reclassifications with no effect on the financial results, the accounting policies are unchanged as compared with the Annual Report 2007.

Recognition and measurement

Assets are recognised in the balance sheet if it is probable that future economic benefits will flow to DLR, and if the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when a legal or constructive obligation arises for DLR as a result of a previous event, and when it is probable that future economic benefits will flow from DLR, and if the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Subsequent measurement will take place for each individual item as described in the following, but as a principal rule, balance sheet items are measured at fair value.

Recognition and measurement allow for predictable risks and losses arising before the presentation of the annual report and which confirm or invalidate circumstances existing at the balance sheet date.

Income is recognised in the profit and loss account as earned, whereas costs are recognised with the amounts that relate to the financial year under review. Financial instruments are recognised on the settlement date.

Profit and Loss Account

According to the Financial Statements Order, net interest and fee income and value adjustments must be presented by activity and geographic market where different activities or markets exist. DLR has one single activity in one single geographic market, and consequently such information has been omitted.

Interest income and expenses

Interest income and expenses, including default interest as well as risk and administration fees, has been accrued to include incurred, but not yet due interest and fees in the profit and loss account.

Value adjustments

Capital gains and price losses on the securities portfolio have been recognised in the profit and loss account and include both realised and non-realised gains and losses.

Staff costs and administrative expenses

Staff costs include wages and salaries as well as social cost and pensions etc. to DLR's employees.

Administrative expenses include costs in connection with distribution, sale, advertising, administration etc.

Tax

Tax is charged to the profit and loss account at 25 pc of the profit for the year, adjusted for non-taxable income and expenses.

Current tax liabilities and current tax receivable, respectively, are included in the balance sheet computed as the tax calculated of the taxable profit for the year with adjustment for taxes paid under the Tax Prepayment Scheme. Interest surcharges under the Tax

Prepayment Scheme are recognised under net interest income.

Provisions are made for deferred tax at 25 pc of all temporary differences between the carrying amount and the tax base of profit.

Balance Sheet

Loans and advances

Mortgage loans are measured at fair value and comprise adjustments for market risk based on the value of the bonds issued and adjustments for credit risk based on the provisioning need.

The measurement of mortgage loans at fair value complies with the accounting rules for mortgage banks issued by the Danish Financial Supervisory Authority, but constitutes a deviation from the rules in article 42a of the EU Fourth Company Directive (78/660/EEC) with a view to giving a true and fair view of the mortgage loans.

Other loans and advances are measured at amortised cost, which usually corresponds to the nominal value less initial fees etc., and less provisions for anticipated loan and receivable impairment losses.

Individual impairment charges are determined on the basis of separate examinations of partly a number of large loans and commitments and partly loans that are in arrears or subject to other objective evidence of impairment. If it is assumed highly probable that the borrower will default on the loan, an impairment charge is provided based on the expected loss which DLR is estimated to suffer following a forced sale of the mortgaged property.

Collective impairment charges are determined on the basis of a model that includes historical correlation between arrears and loss rates within the various property categories. Based on the actual arrears rates within the various property categories, the expected loss rates of the segments are calculated, and to the extent the calculated loss rates exceed the losses expected at the lending, collective impairment charges are provided to cover such loan impairment.

Claims previously written off that are estimated to provide future economic advantages, are recognised in the balance sheet and adjusted in value in the profit and loss account. At present, DLR is estimated to hold no such claims.

Bonds

Bonds traded in active markets are recognised at fair value. The fair value is determined as the closing price on the balance sheet date. Index-linked bonds are recognised at the indexed value on the balance sheet date.

Bonds drawn for redemption at future creditor term dates are measured at their discounted values. For bonds that are not traded actively, a calculated market price is used.

DLR's own portfolio of own issued bonds is offset against issued bonds at fair value under liabilities in the balance sheet.

Shares

Shares traded in active markets are recognised at fair value. The fair value is determined as the closing price on the balance sheet date.

Unlisted shares are recognised at fair value. Where the fair value cannot be measured reliably, unlisted shares are measured at cost, less any write-downs.

Land and buildings

Domicile properties are initially recognised at cost. After initial recognition, domicile properties are recognised at a reassessed value, which is the fair value at the time of reassessment less subsequent accumulated depreciation and impairment losses. Increases in the value of own properties have been added to the revaluation reserve under equity. Losses are recognised in the profit and loss account, unless the loss offsets an increase in value that was previously added to revaluation reserve.

Other tangible assets

Machinery and equipment is measured at cost less accumulated depreciation and write-down for impairment. Depreciation is provided on a straight-line basis over the expected useful life of the asset, however not exceeding 5 years.

Other tangible assets include finance leases, which are initially recognised at the lower of fair value and present value of future lease payments. Subsequent measurement is effected as described above.

Assets temporarily foreclosed

Properties temporarily foreclosed are measured at the lower of carrying amount and fair value less costs of sale. The item includes the remaining debt on mortgages issued to DLR as well as any debt in default on such properties. The item furthermore includes payments due and outlays made at the time of the forced auction sale as well as income and expenses etc. after the time when the property has been taken over. These assets are not depreciated. The item is reduced by the necessary write-downs for impairment losses on such properties.

Prepayments

Prepayments recognised as assets include prepaid expenses that relate to the following financial year. Prepayments are measured at cost.

Mortgage bonds issued

Mortgage bonds issued are measured at fair value. As a principal rule, fair value is determined as the closing price at the balance sheet date. For bonds that are not traded actively, a calculated market price is used.

The measurement of issued mortgage bonds at fair value complies with the accounting rules for mortgage banks issued by the Danish Supervisory Authority, but constitutes a deviation from the rules in article 42a of the EU Fourth Company Directive (78/660/EEC) with a view to giving a true and fair view of the mortgage bonds issued.

Forward transactions

Unsettled forward transactions are measured at the forward price at the calculation date. The forward premium is accrued and recognised in the profit and loss account under Other interest income and in the balance sheet under Other assets. Adjustments to market value are included in the profit and loss account under Value adjustments and in the balance sheet under Other assets or Other debt and payables, respectively.

Derivative financial instruments

Derivative financial instruments are measured at fair value on the balance sheet date.

Unrealised as well as realised capital gains or losses are recognised in the profit and loss account and in the balance sheet under Other assets or Other debt and payables, respectively.

Hedge accounting

Changes to the fair value of derivative financial instruments that have been designated as and meet the conditions for hedging the fair value of a recognised asset or a recognised liability are recognised in the profit and loss account together with changes in the value of the hedged asset or the hedged liability. Other changes are entered in the profit and loss account as financial income or expenses.

Subordinated debt

Subordinated debt consists of liabilities in the form of subordinated loan capital and hybrid core capital, which - in the event of the Company's voluntary or involuntary liquidation - will not be repaid until after the claims of ordinary creditors have been met. Subordinated debt is included in the capital base under S.136 of the Danish Financial Business Act.

The subordinated loan capital, nominal EUR 400m, and the hybrid core capital, nominal EUR 100m, are both recognised at amortised cost.

Equity

When in 2001 DLR was converted into a limited liability company, an undistributable reserve fund was established, which corresponded to the value of the contributed assets less debt.

The undistributable reserves are not available for distribution as dividends; however, it may be used subsequent to DLR's other reserves to cover losses. In the event of the winding-up of DLR, the undistributable reserve fund shall be used to further agricultural purposes according to resolution by the General Meeting.

Foreign currency translation

On initial recognition, transactions in foreign currency are translated at the exchange rates at the dates of transaction. Receivables, payables and other monetary items in foreign currencies that are not settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences in exchange rates that may arise between the exchange rates at the transaction date and the exchange rates at the payment date or the balance sheet date, respectively, are entered in the profit and loss account as financial income or expenses.

Cash flow statement

The cash flow statement shows DLR's cash flows for the year classified by cash flows from operating, investing and financing activities.

Profit and Loss Account for the period 1 January – 31 December 2008

Note	(DKKm)	2008	2007
1	*Interest income*	6,045.2	5,008.1
2	*Interest expenses*	(5,082.1)	(4,138.9)
	Net interest income	**963.1**	**869.2**
	Dividends from shares etc.	1.1	1.7
	Fee and commission income	66.2	68.3
	Fee and commission paid	(270.6)	(250.8)
	Net interest and fee income	**759.8**	**688.4**
3	*Value adjustments*	1.5	(74.5)
	Other operating income	16.5	16.4
4	*Staff costs and administrative expenses*	(173.1)	(169.2)
17+18	*Depreciation and impairment losses, tangible assets*	(7.2)	(7.1)
9	*Provisions for loan and receivable impairment etc.*	13.8	36.6
8	***Profit before tax***	**611.3**	**490.6**
	Tax	(153.4)	(117.6)
	Profit for the year	**457.9**	**373.0**

Balance Sheet at 31 December 2008

Note	(DKKm)	2008	2007
	Assets		
	Cash balance	*0.1*	*0.1*
10	*Receivables from credit institutions and central banks*	*9,224.1*	*9,854.7*
11	*Loans, advances and other receivables at fair value*	*121,922.2*	*105,616.7*
11	*Loans, advances and other receivables at amortised cost*	*0.7*	*0.9*
15	*Bonds at fair value*	*5,864.3*	*18,429.6*
16	*Shares etc.*	*15.7*	*15.7*
17	*Land and buildings, domicile properties*	*87.4*	*89.7*
18	*Other tangible assets*	*10.3*	*10.7*
24	*Deferred tax assets*	*1.7*	*1.5*
	Assets temporarily foreclosed	*0.4*	*0.0*
19	*Other assets*	*447.2*	*874.1*
	Prepayments	*7.1*	*6.2*
	Total assets	***137,581.2***	***134,899.9***
	Liabilities and equity		
20	*Payables to credit institutions and central banks*	*1,500.0*	*0.0*
21	*Issued bonds at fair value*	*122,444.6*	*122,344.7*
22	*Issued bonds at amortised cost*	*5.1*	*3.2*
	Current tax liabilities	*42.0*	*2.6*
23	*Other debt and payables*	*4,244.1*	*4,217.2*
	Deferred income	*0.4*	*0.8*
	Total debt	***128,236.2***	***126,568.5***
24	*Provisions for deferred tax*	*2.4*	*3.0*
	Total provisions	***2.4***	***3.0***
25	***Subordinated debt***	***3,733.8***	***3,676.8***
	Share capital	*385.5*	*335.5*
	Revaluation reserve	*24.3*	*24.3*
	Undistributable reserve	*2,261.7*	*2,215.9*
	Retained earnings	*2,937.3*	*2,075.9*
	Total equity	***5,608,8***	***4,651.6***
	Total liabilities and equity	***137,581.2***	***134,899.9***
28	***Off-balance sheet items***		

Statement of Changes in Equity

(DKKm)	Share capital	Revaluation reserve	Undistributable reserve	Retained earnings	Total
Equity at 31.12.2007	***335.5***	***24.3***	***2,215.9***	***2,075.9***	***4,651.6***
Capital					
Capital increase as of 28 November 2008	*50.0*	*0.0*	*0.0*	*450.0*	*500.0*
Foreign exchange adjustments	*0.0*	*0.0*	*0.0*	*(0.6)*	*(0.6)*
Profit for the year	*0.0*	*0.0*	*45.8*	*412.0*	*457.8*
Equity at 31.12.2008	***385.5***	***24.3***	***2,261.7***	***2,937.3***	***5,608.8***

The share capital is divided into shares of DKK 1.00. The share capital has been increased by DKK 50m in 2008.

Notes to the Financial Statements

Note	(DKKm)	2008	2007
1	***Interest income from:***		
	Receivables from credit institutions and central banks	111.0	106.8
	Loans and advances	5,205.2	4,221.2
	Administration fees	676.4	602.7
	Bonds	575.3	313.4
	Other interest income	32.7	30.3
	Total interest income	**6,600.6**	**5,274.4**
	Interest from own mortgage bonds offset against interest on issued bonds	(555.4)	(266.3)
	Total	**6,045.2**	**5,008.1**
	Of which interest income from genuine purchase and resale transactions recognised as:		
	Receivables from credit institutions and central banks	6.3	0.0
2	***Interest expenses for:***		
	Credit institutions and central banks	23.6	3.8
	Issued bonds	5,400.5	4,214.2
	Subordinated debt	167.8	143.0
	Hybrid core capital	44.1	39.3
	Other interest expenses	1.5	4.9
	Total interest expenses	**5,637.5**	**4,405.2**
	Interest from own mortgage bonds offset against interest on issued bonds	(555.4)	(266.3)
	Total	**5,082.1**	**4,138.9**
	Of which interest expence from genuine purchase and resale transactions recognised as:		
	Payables from credit institutions and central banks	10.9	0.0
3	***Value adjustments of:***		
	Mortgage loans	871.9	(1,331.3)
	Bonds	40.2	(36.9)
	Shares etc.	0,0	18.5
	Other assets	0.1	0.2
	Foreign exchange	(1.5)	0.0
	Derivate financial instruments	(36.6)	(55.6)
	Issued bonds	(872.6)	1,330.6
	Total value adjustments	**1.5**	**(74.5)**
4	***Staff costs and administrative expenses:***		
	Salaries and remuneration to the Board of Directors and the Executive Board		
	Executive Board	5.8	5.2
	Board of Directors	1.3	1.3
	Total	**7.1**	**6.5**

The Company has no pension obligations to the Board of Directors and the Executive Board.

Note	(DKKm)	2008	2007
	(note 4 Staff costs and administrative expenses, continued)		
	Staff costs		
	Salaries	68.6	61.3
	Pension costs	7.4	6.3
	Social security costs	8.7	8.7
	Total	**84.7**	**76.3**
	Other administrative expenses		
	Valuation expenses	19.4	21.0
	Office expenses etc.	36.2	35.8
	Audit, supervision etc.	4.0	4.8
	Other operating costs	21.7	24.8
	Total staff costs and administrative expenses	**173.1**	**169.2**
5	***Executive Board and Board of Directors. Amount of loans, pledges, securities or guarantees granted to members of the:***		
	Executive Board:		
	Loans etc.	0.0	0.0
	Guarantees	0.0	0.0
	Board og Directors:		
	Loans etc.	24.0	20.6
	Guarantees	0.0	0.0

Related party commitments are made on usual business terms and provided on an arm's lenght basis at market interest rates.

Note		2008	2007
6	***Audit fees***		
	Total fees to the accounting firm appointed by the Annual General Meeting, performing the statutory audit	0.9	1.5
	Fees for services other than audit included in the preceding item	0.2	0.7
7	***Number of employees***		
	Average number of employees in the financial year, full-time equivalents	140	131

Notes to the Financial Statements

Note	(DKKm)	2008	2007
8	***Tax***		
	Tax computed on profit for the year	*154.2*	*118.8*
	Deferred tax	*(0.8)*	*(1.1)*
	Readjustment of tax charge for previous years	*0.0*	*(0.1)*
	Total tax	***153.4***	***117.6***
	Effective tax rate		
	Current tax rate	*25.0*	*25.0*
	Non-taxable income	*0.0*	*(1.0)*
	Non-deductible expenses	*0.3*	*0.2*
	Readjustment of tax charge for previous years	*(0.1)*	*(0.2)*
	Effective tax rate	***25.2***	***24.0***
9	***Provisions for loan and receivable impairment etc.***		
	Individual provisions		
	Provisions, loans and guarantees, beginning-of-year	*175.5*	*211.4*
	Provisions during the period	*4.6*	*2,4*
	Reversal of provisions	*(17.5)*	*(38.3)*
	Provisions, year-end	***162.6***	***175.5***
	Group-based provisions		
	Provisions, loans and guarantees, beginning-of-year	*0.0*	*0.0*
	Provisions during the period	*0.0*	*0.0*
	Reversal of provisions	*0.0*	*0.0*
	Provisions, year-end	***0.0***	***0.0***
	Total provisions end-of-year	***162.6***	***175.5***
	Fair value of commitments subject to provisions:		
	- Before provisions	*431.1*	*389.7*
	- After provisions	*268.5*	*214.2*
	Impairment losses without previous provisions	*(2.2)*	*(4.1)*
	Recovery of debt previously written off	*3.1*	*4.8*
	Provisions for the year	*(4.6)*	*(2.4)*
	Reversal of provisions	*17.5*	*38.3*
	Provisions and impairment losses, loans and guarantees	***13.8***	***36.6***

Notes to the Financial Statements

Note	(DKKm)	2008	2007
10	**Receivables from credit institutions and central banks**		
	Receivables from credit institutions and central banks	9,224.1	9,854.7
	Total receivables from credit institutions and central banks	**9,224.1**	**9,854.7**
	By remaining term to maturity		
	Demand deposits	5,677.6	7,345.1
	Up to 3 months	3,546.5	2,509.6
	Over 3 months and up to 1 year	0.0	0.0
	Over 1 year and up to 5 years	0.0	0.0
	Over 5 years	0.0	0.0
	Total	**9,224.1**	**9,854.7**
11	**Loans and advances**		
	Mortgage loans, nominal value	123,157.0	107,421.2
	Adjustment for interest risk etc.	(1,228.8)	(1,719.2)
	Adjustment for credit risk	(142.1)	(159.2)
	Total mortgage loans at fair value	**121,786.1**	**105,542.8**
	Arrears and outlays	136.1	73.9
	Other loans and advances	0.7	0.9
	Total loans and advances	**121,922.9**	**105,617.6**
	By remaining term to maturity		
	Mortgage loans		
	Up to 3 months	47,509.8	40,686.4
	Over 3 months and up to 1 year	1,486.1	1,191.5
	Over 1 year and up to 5 years	21,772.7	15,424.2
	Over 5 years	51,154.3	48,315.5
	Total	**121,922.9**	**105,617.6**

Pursuant to special legislation, a government guarantee of DKK 1,019.4m has been provided as supplementary security for young farmers' loans.

Pursuant to special legislation, a government guarantee of DKK 8.4m has been provided as supplementary security for debt rescheduling loans.

A guarantee of DKK 3,562.8m has been provided for advance loans.

As supplementary guarantee for mortgage loans, bankers' guarantees of DKK 14,037.2m have been provided.

Note	(DKKm)	2008	2007
12	**Arrears and execution**		
	Arrears before provisions	150.3	84.9
	Execution before provisions	1.4	0.0
	Provisions for arrears and execution	(15.6)	(11.0)
	Total	**136.1**	**73.9**

Note	(DKKm)	2008	2007
13	***Mortgage loans (nominal value) by property category, in per cent***		
	Agricultural properties	*64.0*	*65.4*
	Owner-occupied dwellings	*6.4*	*6.4*
	Subsidised rental housing properties	*0.3*	*0.4*
	Private rental housing properties	*13.1*	*12.9*
	Office and business properties	*15.6*	*14.2*
	Properties for manufacturing and manual industries	*0.5*	*0.5*
	Properties for social, cultural and educational purposes	*0.0*	*0.1*
	Other properties	*0.1*	*0.1*
	Total. in per cent	***100.0***	***100.0***
14	***Number of mortgages, year-end***	***75,323***	***73,556***
15	***Bonds at fair value***		
	- Own mortgage bonds	*49,792.4*	*46,437.3*
	- Other mortgage bonds	*5,864.3*	*18,429.6*
	- Other bonds (drawn)	*37.4*	*43.8*
	Total bonds	***55,694.1***	***64,910.7***
	Own mortgage bonds offset against issued bonds	*(49,829.8)*	*(46,481.1)*
	Total	***5,864.3***	***18,429.6***
16	***Shares etc.***		
	Other shares	*15.7*	*15.7*
	Total shares etc.	***15.7***	***15.7***
17	***Land and buildings***		
	Domicile properties		
	Fair value, beginning-of-year	***89.7***	***92.0***
	Additions during the year	*0.0*	*0.0*
	Depreciation	*(2.3)*	*(2.3)*
	Fair value, year-end	***87.4***	***89.7***

Domicile properties are measured by DLR Kredit's commercial property valuation experts.

Note	(DKKm)	2008	2007
18	***Other tangible assets***		
	Cost, beginning-of-year	*29.5*	*23.3*
	Additions during the year	*4.5*	*6.9*
	Disposals during the year	*(1.6)*	*(0.7)*
	Cost, year-end	***32.4***	***29.5***
	Depreciation, beginning-of-year	*18.8*	*14.6*
	Depreciation for the year	*4.8*	*4.8*
	Depreciation written back	*(1.5)*	*(0.6)*
	Depreciation, year-end	***22.1***	***18.8***
	Total other tangible assets	***10.3***	***10.7***

Note	(DKKm)	2008	2007
19	***Other assets***		
	Positive market value of derivative financial instruments etc.	*50.1*	*1.3*
	Other receivables	*77.4*	*63.4*
	Interest and commission receivable	*319.7*	*809.4*
	Total	***447.2***	***874.1***
20	***Payables to credit institutions and central banks***		
	Loan in Danmarks Nationalbank	*1,500.0*	*0.0*
	Total	***1,500.0***	***0.0***

Collateral for the loan is provided by own bonds. These bonds are placed in safety deposit with Danmarks Nationalbank.

The loan matures on 2 January 2009. The loan carries an interest at a rate of 3.75 pc p.a.

Note	(DKKm)	2008	2007
21	***Issued bonds at fair value***		
	Mortgage bonds - nominal value	*173,482.4*	*170,711.1*
	Fair value adjustment	*(1,208.0)*	*(1,885.3)*
	Own mortgage bonds offset - at fair value	*(49,829.8)*	*(46,481.1)*
	Mortgage bonds at fair value	***122,444.6***	***122,344.7***
	Of which pre-issued	*42,364.5*	*40,385.8*
	Drawn for redemption in next term	*270.3*	*290.6*
	By remaining term to maturity		
	Up to 3 months	*51,043.0*	*47,745.2*
	Over 3 months and up to 1 year	*1,176.9*	*1,184.1*
	Over 1 year and up to 5 years	*68,465.2*	*58,818.5*
	Over 5 years	*51,589.3*	*61,078.0*
	Total	***172,274.4***	***168,825.8***
22	***Issued bonds at amortised cost***		
	Employee bonds	*5.1*	*3.2*
	Total	***5.1***	***3.2***
	By remaining term to maturity		
	Up to 3 months	*0.0*	*0.0*
	Over 3 months and up to 1 year	*0.0*	*0.0*
	Over 1 year and up to 5 years	*3.1*	*0.0*
	Over 5 years	*2.0*	*3.2*
	Total	***5.1***	***3.2***

Note	(DKKm)	2008	2007
23	***Other debt and payables***		
	Negative market value of derivative financial instruments	*82.0*	*56.1*
	Interest and commission payable	*222.6*	*216.7*
	Lease commitments	*0.9*	*1.3*
	Other payables	*3,938.6*	*3,943.1*
	Total	***4,244.1***	***4,217.2***
24	***Deferred tax***		
	Deferred tax, beginning-of-year	*1.5*	*2.7*
	Change in corporation tax rate	*0.0*	*(0.3)*
	Change in deferred tax	*(0.8)*	*(0.9)*
	Total	***0.7***	***1.5***
	Land and buildings, domicile properties	*2.4*	*3.0*
	Other tangible assets	*(1.7)*	*(1.5)*
	Total	***0.7***	***1.5***
	Deferred tax recognised in the balance sheet as follows:		
	Deferred tax assets	*(1.7)*	*(1.5)*
	Provisions for deferred tax	*2.4*	*3.0*
	Total	***0.7***	***1.5***
25	***Subordinated debt***		
	Hybrid core capital 1)	*753.7*	*694.7*
	Supplementary capital 2)	*2,980.1*	*2,982.1*
	Total subordinated debt	***3,733.8***	***3,676.8***

1) *Hybrid core capital in DLR Kredit:*
EUR 100m raised on 16 June 2005. The loan is perpetual. The loan carries a fixed rate of 4.269% up to 16 June 2015 after which it will carry a floating interest rate pegged to the 3-month money market interest rate (EURIBOR) with an addition of 1.95%. For 2008, the total hybrid core capital may be included in the capital base.

Interest: DKK 44.1m.

Extraordinary repayments: DKK 0.0m.

2) *Supplementary capital in DLR Kredit:*
EUR 400m raised on 30 June 2004. Term to maturity 8 years. The loan carries a floating interest rate pegged to the 3-month money market interest rate (EURIBOR) with an addition of 0.60% up to 30 June 2009 and from then with an addition of 2.10% up to 30 June 2012. For 2008, the total supplementary capital may be included in the capital base.

Interest: DKK 167.5m.

Extraordinary repayments: DKK 0.0m.

Note	(DKKm)	2008	2007
26	***Derivative financial instruments***		
	By remaining term to maturity		
	Interest rate contracts		
	Forward/futures, bought		
	Up to 3 months		
	Nominal value	*4,369.5*	*89.3*
	Net market value	*41.5*	*0.2*
	Forward/futures, sold		
	Up to 3 months		
	Nominal value	*13,231.2*	*6,359.0*
	Net market value	*(81.4)*	*(3.9)*
	Interest rate swaps		
	Over 5 years		
	Nominal value	*745.1*	*745.7*
	Net market value	*8.7*	*(51.0)*

Forward contracts are entered in connection with the contracting of fixed price agreements by borrowers with DLR Kredit, and with the refinancing of adjustable-rate loans in the month of December, as the auction took place on 5 and 10 December 2008, however, settlement of the bonds was not effected until 2 January 2009.

Note	(DKKm)	2008	2007
27	***Unsettled spot transactions***		
	Interest rate transactions, bought		
	Nominal value	*1.0*	*0.0*
	Net market value	*0.0*	*0.0*
	Interest rate transactions, sold		
	Nominal value	*1,551.2*	*20.7*
	Net market value	*0.6*	*(0.1)*
28	***Off-balance sheet items***		
	Guarantees etc.	*1.5*	*1.4*
	Other liabilities	*11.9*	*13.9*
	Total off-balance sheet items	***13.4***	***15.3***

Solvency

(DKKm)	2008	2007
Core capital (incl. hybrid core capital)	*6,336.5*	*5,320.5*
Supplementary capital	*3,004.4*	*3,006.4*
Capital base after deductions	***9,340.9***	***8,326.9***
Weighted items carrying credit, counterparty, dilution and delivering risk	*91,695.3*	*82,131.3*
Weighted items with market risk	*3,591.1*	*4,434.6*
Weighted items with operational risk	*1,236.0*	*1,102.2*
Total weighted items	***96,522.4***	***87,668.1***
Core capital after deductions in pc of weighted items	***6.6***	***6.1***
Solvency ratio	***9.7***	***9.5***

Cash Flow Statement

(DKKm)	2008	2007
Cash flow from operating activities:		
Profit before tax	*611.3*	*490.6*
Adjustment for non-cash-items		
Depreciation on assets	*7.2*	*7.1*
Value adjustments, securities	*(40.3)*	*18.2*
Foreign-exchange adjustment recognised directly in equity	*(0.7)*	*0.1*
Change in provisions	*(12.9)*	*(35.9)*
Revaluation of capital base	*0.4*	*0.4*
Change in accrued interest income and receivables	*433.1*	*(399.6)*
Change in accrued interest expenses and payables	*76.4*	*1,251.1*
Corporation tax paid	*(114.7)*	*(116.9)*
Total cash flow from operating activities	***959.8***	***1,215.1***
Cash flow from investing activities:		
Investment in tangible assets	*(4.9)*	*6.1*
Total cash flow from investing activities	***(4.9)***	***6.1***
Cash flow from financing activities:		
Capital increase	*500.0*	*0.0*
Change in mortgage loans	*(15,334.9)*	*(15,092.9)*
Change in issued bonds	*3,450.5*	*32,352.7*
	(11,384.4)	*17,259.8*
Change in immediate redemptions at par	*(891.4)*	*693.2*
Change in receivables from non-foreclosed properties	*(66.6)*	*(23.3)*
Total cash flow from financing activities	***(12,342.4)***	***17,929.7***
Cash flow for the year	***(11,387.5)***	***19,150.9***
Cash and cash equivalents, incl. securities, beginning-of-year	*74,781.2*	*55,648.5*
Market value adjustment	*40.3*	*(18.2)*
Cash and cash equivalents, incl. securities, year-end	***63,434.0***	***74,781.2***

Series Financial Statements

Pursuant to the Danish Financial Supervisory Authority Executive Order no 872 of 20 November 1995 on series financial statements in mortgage banks, mortgage banks are required to prepare separate series financial statements for series with series reserve funds, cf section 25(1) of the Danish Mortgage Credit Loans and Mortgage Credit Bonds etc. Act.

The Series Financial Statements have been prepared on the basis of the Annual Report of DLR Kredit A/S for 2008.

The distribution of profit for 2008 adopted by DLR Kredit A/S's Board of Directors (cf the Annual Report) has been included in the Series Financial Statements. The series' calculated share of the profit for the year of DLR Kredit A/S determined in accordance with the Executive Order has been taken to the general reserves of the mortgage credit institution.

The Series Financial Statements have been printed at association level, cf section 30(3) of the Executive Order.

Complete Series Financial Statements may be obtained from DLR Kredit A/S.

Series Financial Statements for 2008 of DLR Kredit A/S

(DKKm)	***B - SDO***	***DLR In General***	***TOTAL***
Income Statement			
Income from lending	*81.5*	*624.8*	*706.3*
Interest payable on subordinate loan capital	*(37.5)*	*(174.1)*	*(211.6)*
Interest, net	*83.4*	*387.5*	*470.9*
Administrative expenses	*(65.2)*	*(302.9)*	*(368.1)*
Impairment losses on loans and advances	*3.7*	*10.0*	*13.7*
Tax	*(16.4)*	*(136.9)*	*(153.3)*
Profit	***49.5***	***408.4***	***457.9***
Balance sheet			
Assets			
Mortgage loans	*25,468.6*	*96,507.4*	*121,976.0*
Other assets	*54,440.8*	*12,899.4*	*67,340.2*
Total assets[1]	***79,909.4***	***109,406.8***	***189,316.2***
Liabilities and equity			
Issued bonds	*75,509.2*	*102,200.2*	*177,709.4*
Other liabilities	*955.7*	*1,308.5*	*2,264.2*
Subordinate loan capital	*661.6*	*3,072.2*	*3,733.8*
Equity	*2,782.9*	*2,825.9*	*5,608.8*
Total liabilities and equity	***79,909.4***	***109,406.8***	***189,316.2***
Movements in capital, net	***1,944.5***	***(986.6)***	

Notes

1. Assets, Series Financial Statements	
Assets, Annual Report	*137,581.2*
Assets, Series Financial Statements	*189,316.2*
Difference	***(51,735.0)***
Specified as follows:	
Own issued mortgage bonds and own SDOs	*(49,829.9)*
Interest receivable from own issued bonds	*(1,905.1)*
Total	***(51,735.0)***

Management's Statement on the Annual Report

Today, the Board of Directors and the Executive Board reviewed and approved the Annual Report for the financial year 1 January – 31 December 2008 of DLR Kredit A/S.

The Annual Report has been prepared in accordance with the accounting provisions for mortgage banks laid down by the Danish Financial Supervisory Authority and the additional disclosure requirements provided by the NASDAQ OMX København for annual reports of issuers of listed bonds.

Management's review constitutes a fair presentation of the development in the Company's activities and financial position as well as a description of the most material risks and uncertainties that may influence the Company.

In our opinion, the accounting policies applied are appropriate and ensure that the Annual Report gives a true and fair view of the Company's assets, liabilities, equity and financial position at 31 December 2008 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2008.

The Annual Report is recommended to the Annual General Meeting for approval.

Copenhagen, 12 February 2009
Executive Board

Bent Andersen *Managing Director, CEO*	B. Dyreborg-Carlsen *Managing Director*

Copenhagen, 12 February 2009
Board of Directors

Svend Jørgensen *Chairman*	Preben Lund Hansen *Deputy Chairman*	
Anders Dam	Peter Gæmelke	Tanja Bregninge Itenov
Jens Ole Jensen	Søren Jensen	Torben Thorup Jensen
Lars Møller	Benny Pedersen	Steen Pedersen
Vagn T. Raun		

Internal Auditor's Report

We have audited the Annual Report of DLR Kredit A/S for the financial year 1 January – 31 December 2008. The Annual Report comprises the Statement by Management on the Annual Report, the Management's Review, the Accounting Policies, the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the Notes to the Financial Statements. The Financial Statements have been prepared in accordance with the Danish Financial Business Act. In addition, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Basis of opinion

We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Enterprises etc. as well as Financial Groups and in accordance with Danish auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Annual Report is free from material misstatement.

The audit was performed observing the division of work agreed with the external auditors and included assessment of the business procedures and internal control established, including the risk management organised by Management and aimed at reporting processes and significant business risks. Based on materiality and risk, we have, by audit sampling, verified the bases for amounts and other disclosures in the Annual Report, including evidence supporting amounts and disclosures stated in the Annual Report. Furthermore, the audit included an evaluation of the appropriateness of accounting policies applied by Management and the reasonableness of the accounting estimates made by Management, as well as an evaluation of the overall presentation of the Annual Report.

We have participated in the audit of areas that are material and exposed to the highest risks, and we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the business procedures and internal control established, including the risk management organised by Management aimed at reporting processes and significant business risks, are working satisfactorily.

Furthermore, in our opinion, the Annual Report gives a true and fair view of the Company's financial position at 31 December 2008 and of its financial performance and its cash flows for the financial year 1 January – 31 December 2008 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Copenhagen, 12 February 2009
Internal audit

Martin S. Petersen
Chief Internal Auditor

Independent Auditors' Report

To the shareholders of DLR Kredit A/S

We have audited the annual report of DLR Kredit A/S for the financial year 1 January to 31 December 2008, which comprises the statement by Management on the annual report, the Management's review, the accounting policies, the profit and loss account, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the financial statements. The financial statements have been prepared in accordance with the Danish Financial Business Act. In addition, the annual report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Management's responsibility for the annual report

Management is responsible for the preparation and fair presentation of an annual report in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of issuers of listed bonds. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an annual report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and basis of opinion

Our responsibility is to express an opinion on the annual report based on our audit. We conducted our audit in accordance with Danish auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of an annual report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies applied by Management and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the annual report.

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the annual report gives a true and fair view of the Company's financial position at 31 December 2008 and of its financial performance and its cash flows for the financial year 1 January to 31 December 2008 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Copenhagen, 12 February 2009

Deloitte
Statsautoriseret Revisionsaktieselskab

Søren Dinesen	Kasper Bruhn Udam
State Authorised	*State Authorised*
Public Accountant	*Public Accountant*

Shareholders in DLR Kredit A/S

Year-end 2008

A/S Møns Bank
A/S Nørresundby Bank
A/S Vinderup Bank
Agri-Egens Sparekasse
Aktieselskabet Lollands Bank
Aktieselskabet Morsø Bank
Aktieselskabet Nordfyns Bank
Aktieselskabet Ringkjøbing Bank
Aktieselskabet Skjern Bank
Alm. Brand Bank A/S
Amagerbanken, Aktieselskab
Andelskassen J.A.K., Slagelse
Boddum-Ydby Sparekasse
Borbjerg Sparekasse
Broager Sparekasse
Brørup Sparekasse
Danske Andelskassers Bank A/S
Den jyske Sparekasse
Den lille Sparekasse
DiBa Bank A/S
Djurslands Bank A/S
Dragsholm Sparekasse
Dronninglund Sparekasse
ebh bank a/s
Fanefjord Sparekasse
Fanø Sparekasse
Faster Andelskasse
Finansbanken a/s
Fionia Bank A/S
Flemløse Sparekasse
Folkesparekassen
Forstædernes Bank A/S
Fruering-Vitved Sparekasse
Frørup Andelskasse
Frøs Herreds Sparekasse
Frøslev-Mollerup Sparekasse
Hals Sparekasse
Hunstrup-Østerild Sparekasse
Hvidbjerg Bank, Aktieselskab
Jyske Bank A/S
Klim Sparekasse
Kongsted Sparekasse
Kreditbanken A/S
Langå Sparekasse
Lokalbanken i Nordsjælland a/s
Lunde-Kvong Andelskasse
Løkken Sparekasse
Lån & Spar Bank A/S
Max Bank A/S
Merkur, Den Almennyttige Andelskasse
Middelfart Sparekasse
Morsø Sparekasse A/S
Nordjyske Bank A/S
Ringkjøbing Landbobank, Aktieselskab
Rise Spare- og Laanekasse
Roskilde Bank A/S
Ryslinge Andelskasse
Rønde og Omegns Sparekasse
Salling Bank A/S
Skælskør Bank Aktieselskab
Spar Nord Bank A/S
Spar Salling Sparekasse
Sparbank A/S
Sparekassen Balling
Sparekassen Bredebro
Sparekassen Den lille Bikube
Sparekassen Djursland
Sparekassen Farsø
Sparekassen for Arts Herred
Sparekassen for Nr. Nebel og Omegn
Sparekassen Faaborg A/S
Sparekassen Himmerland A/S
Sparekassen Hobro
Sparekassen Hvetbo A/S
Sparekassen i Skals
Sparekassen Kronjylland
Sparekassen Limfjorden
Sparekassen Lolland A/S
Sparekassen Løgumkloster
Sparekassen Midtdjurs
Sparekassen Midtfjord
Sparekassen Sjælland
Sparekassen Thy
Sparekassen Vendsyssel
Sparekassen Østjylland
Svendborg Sparekasse A/S
Sydbank A/S
Søby-Skader-Halling Spare- og Laanekasse
Sønderhå-Hørsted Sparekasse
Totalbanken A/S
Tved Sparekasse
Tønder Bank A/S
Vestfyns Bank A/S
Vestjysk Bank A/S
Vistoft Sparekasse
Vorbasse-Hejnsvig Sparekasse
Vordingborg Bank A/S
Ø. Brønderslev Sparekasse
Østjydsk Bank A/S
Aarhus Lokalbank Aktieselskab