

# Annual Report 2006



**Nykredit**  
bank

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# Nykredit Bank's Company Profile



## Corporate identity

The Nykredit Group is one of Denmark's leading financial groups with activities ranging from mortgage banking and banking to pension, insurance and estate agency services.

Nykredit Bank occupies a key position in the overall strategy of the Nykredit Group and cooperates closely with the other companies of the Group.

When serving customers on a daily basis, Nykredit is organised into three intercompany business areas: Retail Customers, Markets & Asset Management and Commercial Customers. The business areas offer customers all products available from the different companies of the Group produced through intercompany cooperation.

The Bank plays different roles within each business area. Where Retail Customers are concerned, the Bank's role is mainly to supply products. As for Commercial Customers, the Bank is responsible for serving the Group's corporate customers, including agricultural customers, and for supplying products to other customers, whereas the Bank is responsible for all Markets & Asset Management activities.

The Bank's objective is to provide satisfactory profitability and make a significant contribution to the Nykredit Group's image as a quality-conscious and competitive financial services provider.

The Nykredit Group's position will be maintained and developed through organic growth in the banking, mortgage banking and insurance areas with focus on further developing a stable and valuable customer base as well as through close relations with local and regional banks.

## Board of Directors

At his own request, Peter Engberg Jensen was not re-elected to the Bank's Board of Directors at the Bank's general meeting on 14 March 2006. For the remaining part of 2006, the Board of Directors of the Bank was made up of five members.

Henning Kruse Petersen, Chairman  
Søren Holm, Deputy Chairman  
Per Ladegaard  
Søren Klitholm, staff-elected member  
Allan Kristiansen, staff-elected member

## Executive Board

In connection with a reorganisation in November, Jes Klausby, Managing Director of Nykredit Bank, was appointed as Chief Financial Officer of Nykredit Group Finance and therefore retired from the Bank's Executive Board.

Kim Duus  
Jes Klausby (up to 1 December 2006)  
Karsten Knudsen

## Company information

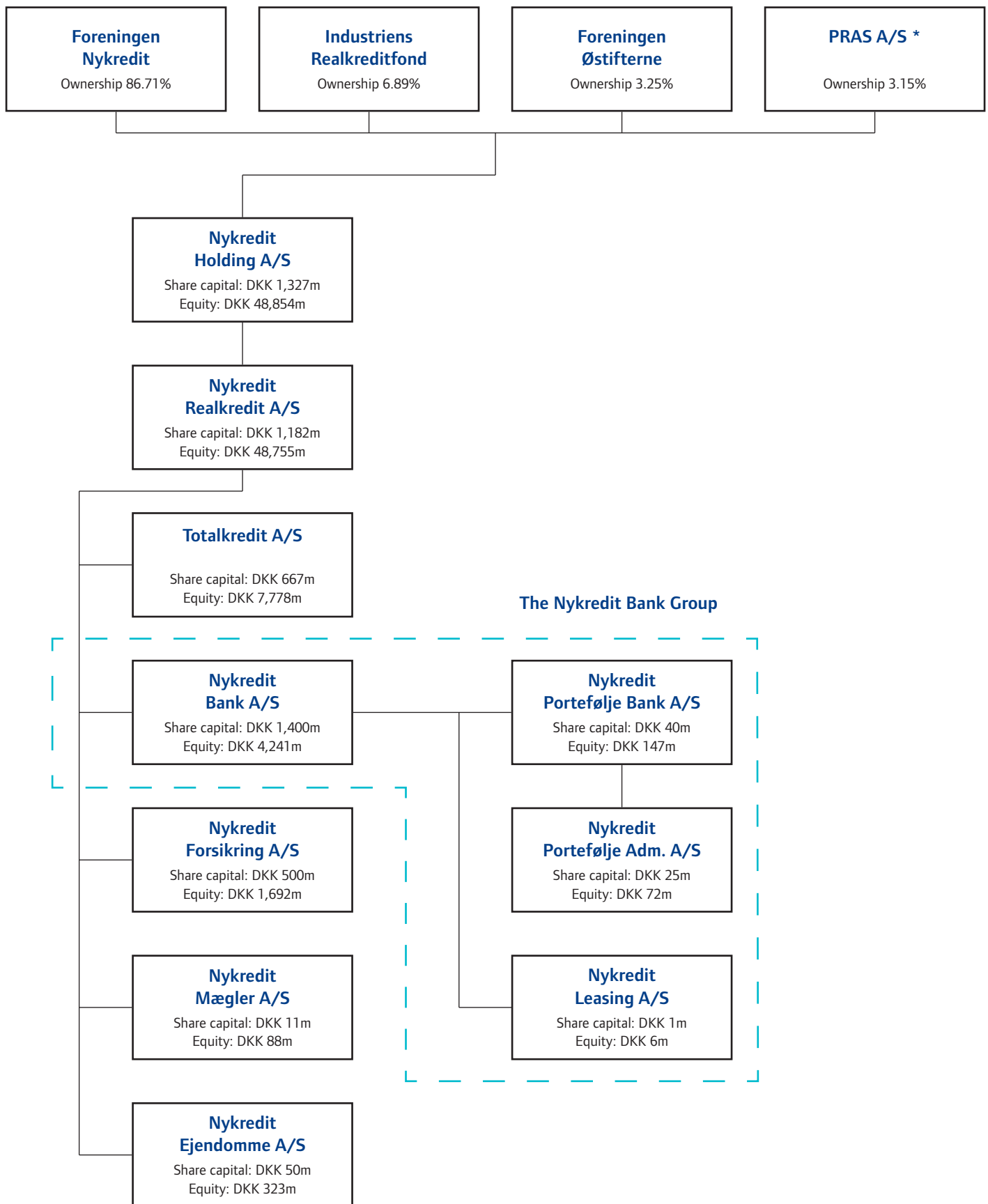
Nykredit Bank A/S  
Kalvebod Brygge 1-3  
DK-1780 Copenhagen V

Website: [nykredit.com](http://nykredit.com)  
Tel +45 33 42 18 00

CVR no 10 51 96 08  
Accounting period: 1 January-31 December  
Municipality of registered office: Copenhagen

The annual general meeting will be held on 13 March 2007.

# The Nykredit Group chart

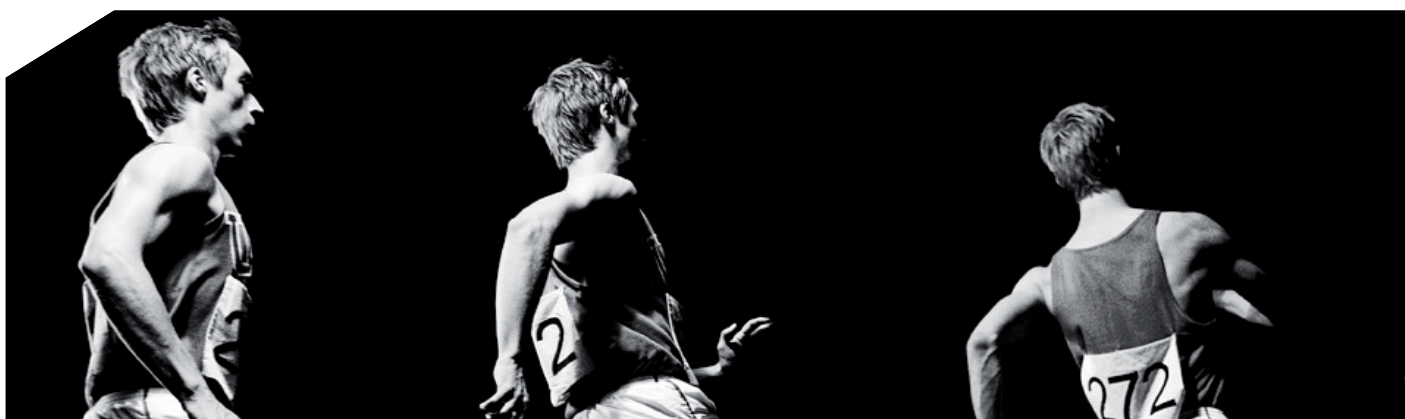


\* The former owners of Totalkredit A/S

# The Nykredit Bank Group 2002–2006

DKK million/EUR million	2006/EUR	2006	2005	2004 *	The Nykredit Bank Group 2003 * 2002 *	
<b>SUMMARY INCOME STATEMENT</b>						
Net interest and fee income	138	1,032	1,007	875	891	660
Value adjustments	70	522	177	12	2	(69)
Other operating income	3	21	20	42	94	18
Staff and administrative expenses	99	739	590	498	436	419
Other operating costs, depreciation and amortisation	0	3	6	4	4	7
Provisions for loan and receivable impairment	(6)	(44)	7	6	129	39
<b>Profit before tax</b>	<b>118</b>	<b>877</b>	<b>601</b>	<b>421</b>	<b>418</b>	<b>144</b>
Tax	34	250	162	131	125	46
<b>Profit for the year</b>	<b>84</b>	<b>627</b>	<b>439</b>	<b>290</b>	<b>293</b>	<b>98</b>
<b>BALANCE SHEET, YEAR-END</b>						
<b>Assets</b>						
Cash balance and receivables from credit institutions	2,473	18,438	15,031	13,094	14,738	13,739
Loans, advances and other receivables at fair value	460	3,432	6,688	5,242	3,012	3,872
Loans, advances and other receivables at amortised cost	3,887	28,983	19,731	17,408	19,017	20,292
Bonds and equities	6,432	47,955	36,152	31,586	29,783	20,369
Other asset items	1,105	8,237	6,860	6,629	5,869	5,470
<b>Total assets</b>	<b>14,357</b>	<b>107,045</b>	<b>84,462</b>	<b>73,959</b>	<b>72,419</b>	<b>63,742</b>
<b>Liabilities and equity</b>						
Payables to credit institutions and central banks	8,464	63,107	44,654	39,695	41,149	37,044
Deposits and other payables	3,040	22,667	22,103	19,094	13,351	11,310
Other non-derivative financial liabilities at fair value	943	7,032	6,484	5,110	8,304	5,966
Other liability items	1,165	8,680	6,748	6,044	5,930	5,794
<b>Total payables</b>	<b>13,612</b>	<b>101,486</b>	<b>79,989</b>	<b>69,943</b>	<b>68,734</b>	<b>60,114</b>
Provisions	2	18	59	41	24	22
Subordinate loan capital	174	1,300	800	800	800	800
Equity	569	4,241	3,614	3,175	2,861	2,806
<b>Total liabilities and equity</b>	<b>14,357</b>	<b>107,045</b>	<b>84,462</b>	<b>73,959</b>	<b>72,419</b>	<b>63,742</b>
* Incl reclassifications as a result of new accounting policies in 2005						
<b>OFF-BALANCE SHEET ITEMS</b>						
Guarantees	1,253	9,343	10,399	7,919	6,751	5,880
Other commitments	855	6,374	3,058	2,280	3,050	4,090
<b>Total off-balance sheet items</b>	<b>2,108</b>	<b>15,717</b>	<b>13,457</b>	<b>10,199</b>	<b>9,801</b>	<b>9,970</b>
<b>FINANCIAL RATIOS</b>						
Capital adequacy ratio, %		10.6	10.3	10.4	9.8	9.3
Core capital ratio, %		8.2	8.8	8.3	7.6	7.2
Return on equity before tax (pa) <sup>1</sup> , %		22.3	17.8	14.0	14.7	5.2
Return on equity after tax (pa) <sup>1</sup> , %		16.0	13.0	9.6	10.3	3.5
Income:cost ratio, DKK <sup>1</sup>		2.26	2.00	1.83	1.73	1.31
Interest rate exposure, %		4.3	3.3	3.0	2.4	3.1
Foreign exchange position, %		5.7	4.2	3.2	6.4	14.2
Foreign exchange exposure, %		0.2	0.1	0.0	0.1	0.2
Loans and advances:deposits		1.4	1.2	1.2	1.6	2.0
Loans and advances:equity		7.6	7.3	7.2	7.8	8.7
Growth in loans and advances for the year, %		22.7	16.1	2.2	(8.9)	9.6
Excess cover:statutory requirements for liquidity, %		122.7	207.1	195.3	93.7	176.3
Total major exposures, %		336.4	349.5	351.3	329.7	352.3
Impairment provisions for the year, %		(0.1)	0.0	0.0	0.4	0.1
<sup>1</sup> Incl effect of new accounting policies in 2004 and 2005 EUR 1 = DKK 7.4560 at end-2006						

# Management Review



## 2006 – IN BRIEF

- Financial Statements for 2006 showed a profit before tax of DKK 877m. Compared with 2005, profit increased by DKK 276m or 46%
- Profit before tax generated a return on equity of 22.3% against 17.8% in 2005
- Significant earnings growth in Markets & Asset Management and Corporate Banking
- Impairment provisions were positive at DKK 44m
- The balance sheet stood at DKK 107bn against DKK 84.5bn at end-2005

## THE NYKREDIT BANK GROUP'S RESULTS

The Nykredit Bank Group recorded a profit before tax of DKK 877m against DKK 601m in 2005.

Results are very satisfactory and surpass expectations both at the beginning of the year and at the publication of the interim reports for 2006. In the Q1-Q3 Interim Report 2006, the Bank forecast a profit of DKK 700-750m.

Relative to expectations at the time, the Corporate and Retail Banking areas, excluding provisions for loan impairment, recorded results largely on a level with expectations, albeit with a positive tendency especially in the Corporate Banking area. By contrast, Markets & Asset Management delivered a significant earnings increase with customer trading and trading activities outperforming all expectations. Similarly, core income from the Bank's own portfolio increased beyond expectations. Finally, the Bank was able to reverse a number

of impairment provisions in Q4 which had not been predicted at the time of the presentation of the Q1-Q3 Interim Report 2006.

Relative to 2005 the Bank's income from interest, fees and value adjustments increased by DKK 370m to DKK 1,554m as a result of increased core income, while investment portfolio income decreased by DKK 22m compared with 2005.

Net interest was down by DKK 18m to DKK 776m. Increased deposit and lending activities in the Retail and Corporate Banking areas led to increasing income, while Markets & Asset Management saw a decrease of approximately DKK 85m. However, the latter should be seen in combination with income from the value adjustments of securities and foreign exchange made within this business area, which rose by DKK 297m to DKK 477m compared with 2005.

Fees and commissions netted an increase from DKK 213m in 2005 to DKK 256m. The rise derived mainly from higher income from asset management activities.

Value adjustments went up from DKK 177m to DKK 522m. In addition to growing business volumes in Markets & Asset Management, the development was especially affected by value adjustments of corporate bonds.

Other operating income came to DKK 21m of which DKK 13m could be ascribed to the Bank's leasing activities.

The Bank's core income from the business areas totalled DKK 1,578m against DKK 1,185m in 2005. Markets & Asset Management contributed DKK 882m of total core

### The Nykredit Bank Group Results

DKKm	2006	2005
Net interest and fee income	1,032	1,007
Value adjustments	522	177
Other operating income	21	20
<b>Total income from interest, fees and value adjustments<sup>1</sup></b>	<b>1,575</b>	<b>1,204</b>
Staff and administrative expenses	742	596
Provisions for loan and receivable impairment	(44)	7
<b>Profit before tax</b>	<b>877</b>	<b>601</b>
Tax	250	162
<b>Profit for the year</b>	<b>627</b>	<b>439</b>
<sup>1</sup> Of which		
– Core income	1,578	1,185
– Investment portfolio income	(3)	19

income compared with DKK 600m in 2005. The advance was based on a general activity lift in the customer-oriented entities of the business area and very satisfactory growth in earnings from the area's trading, capital market and portfolio activities. Further, income from own trading was also highly satisfactory.

Core income from Corporate Banking was DKK 295m against DKK 239m in 2005. Especially increased income from rising lending activities and positive value adjustments of corporate bonds were behind this positive tendency. Core income from Retail Banking was DKK

288m – largely unchanged compared with DKK 276m in 2005. In 2006 the business area recorded increasing income from mortgage trading activities as well as deposit and lending business, while the lower level of mortgage refinancing led to falling guarantee fees.

Finally, income from securities not allocated to the business areas rose by DKK 43m to DKK 113m, while investment portfolio income, ie returns from own portfolios exceeding risk-free interest, was a negative DKK 3m against a positive DKK 19m in 2005.

Staff and administrative expenses amounted to DKK 739m, up DKK 149m (25%) on 2005.

The significant activity lift led to a higher number of staff from an average of 426 in 2005 to 492 (up 15.5%). Along with a rise in performance-related pay, this led to higher expenses for salaries from DKK 331m in 2005 to DKK 438m.

Administrative expenses increased by DKK 43m to DKK 295m. The item is generally affected by increased activity levels, including IT related costs which have been significantly affected by the increased transaction volume, just as product development has increased demands on management, administration and control.

Provisions for loan and receivable impairment generated an income of DKK 44m against an expense of DKK 7m in 2005. The development can be attributed to a number of factors. A review of the Bank's individual impairment provisions led to a lower individual provisioning need for loan impairment, especially within retail exposures, while a review of the Bank's models for the determination of group-based impairment provisions gave rise to certain model adjustments. Lastly, the low provi-

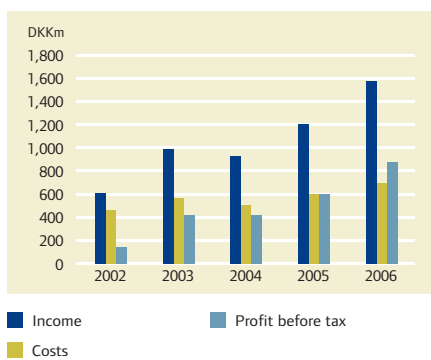
sioning need reflects the continued favourable economic climate in Denmark.

Tax on profit for the year amounted to DKK 250m equal to 28.5% of profit before tax. For 2005 tax equalled 27% or DKK 162m.

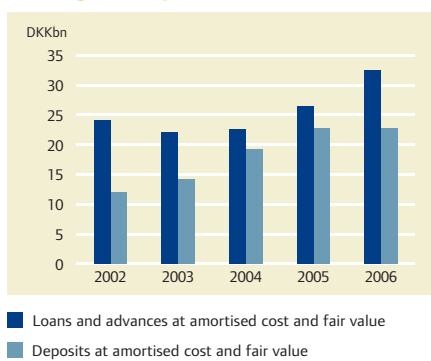
In total, profit after tax was DKK 627m against DKK 439m in 2005.

It will be recommended for adoption by the Annual General Meeting that no dividends be distributed for 2006.

**The Nykredit Bank Group  
Profit before tax**



**The Nykredit Bank Group  
Lending and deposits**



**The Nykredit Bank Group  
Balance sheet**

DKKm	2006	2005
Receivables from credit institutions	18,405	15,005
Loans and advances at amortised cost and fair value	32,415	26,419
Bonds and equities	47,955	36,152
Payables to credit institutions	63,107	44,654
Deposits and other payables at amortised cost	22,667	22,103
Issued bonds	1,741	654
Subordinate loan capital	1,300	800
Equity	4,241	3,614
<b>Balance sheet total</b>	<b>107,045</b>	<b>84,462</b>

**BALANCE SHEET, EQUITY AND  
CAPITAL ADEQUACY**

**Balance sheet**

In 2006 the Bank's balance sheet total rose by DKK 22.5bn to DKK 107bn.

The balance sheet growth mirrors the positive development recorded by the Bank in all business areas. The Bank's customer lending increased by DKK 9.3bn. Retail lending increased by DKK 1.3bn, while corporate lending went up by DKK 8bn. Reverse transactions with customers fell by DKK 3.3bn. Loans and advances subsequently totalled DKK 32.4bn at end-2006.

The cash balance and receivables from credit institutions and central banks totalled DKK 18.4bn, up DKK 3.4bn on end-2005. Reverse transactions accounted for DKK 8.9bn of receivables against DKK 5.8bn at end-2005.

Bonds and equities went up to DKK 48bn. The Bank's bond portfolio grew by DKK 11.8bn. The bond portfolio mainly consists of Danish government and mortgage bonds. The size of the portfolio and the increase for the year should be seen in the light of Nykredit Markets's trading operations and the Bank's substantial activities in the repo market. The Bank's equity portfolio remained unchanged at DKK 0.3bn.

Other assets amounted to DKK 8.2bn against DKK 6.9bn at end-2005. The item mainly consists of interest receivable and positive market values of derivative financial instruments.

Payables to credit institutions were up DKK 18.5bn to DKK 63.1bn compared with end-

2005. Repo transactions accounted for DKK 13.7bn of total payables against DKK 8.7bn at end-2005.

Deposits went up by DKK 0.6bn from DKK 22.1bn to DKK 22.7bn. Retail deposits accounted for DKK 0.5bn of total deposit growth. Corporate deposits went up by DKK 1.6bn, while deposits from Markets & Asset Management fell by DKK 1.6bn. The rise in retail deposits primarily relates to the addition of new customers opening wage accounts.

Issued bonds increased from DKK 654m at end-2005 to DKK 1.7bn. In 2006 the Bank issued three bond series totalling a nominal DKK 1.3bn of which Nykredit Højrente I and Nykredit Højrente II represented DKK 1.2bn

(EUR 164m) and NB Credit Pick DKK 56m (EUR 7.5m). Nykredit Højrente I & II are both listed on the Copenhagen Stock Exchange. At 31 December the Bank's own portfolio amounted to DKK 279m against DKK 133m at end-2005. The Bank's own portfolio has been deducted from the item.

Other non-derivative financial instruments at fair value totalled DKK 7bn against DKK 6.5bn at end-2005. The item includes repo transactions (deposits) and negative securities portfolios measured at fair value as these transactions form part of a portfolio of financial instruments in which a pattern of short-term gain realisation has prevailed within a short period.

Other liabilities totalled DKK 6.9bn against DKK 6.1bn at end-2005. The item mainly consisted of interest and commissions payable as well as negative market values of derivative financial instruments.

Subordinate loan capital grew from DKK 800m to DKK 1.3bn. Subordinate loan capital was contributed by the Parent Company Nykredit Realkredit A/S and has been fully included in the capital base.

### Equity

Equity of Nykredit Bank and the Nykredit Bank Group stood at DKK 4,241m at end-2006 against DKK 3,614m at the beginning of 2006. The increase stemmed from a transfer of profit after tax for the year of DKK 627m. In 2005 retained earnings amounted to DKK 439m.

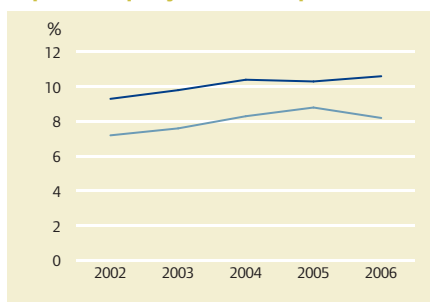
### Capital adequacy

The capital adequacy ratio of the Nykredit Bank Group landed at 10.6% against 10.3% at end-2005, and the core capital ratio was 8.2% against 8.8% at end-2005.

The capital base after statutory deductions amounted to DKK 5.4bn at end-2006, equal to the carrying amount of equity with the addition of supplementary capital of DKK 1.3bn and with the deduction of parts of the Bank's holding of investment units of DKK 0.1bn.

Weighted items amounted to DKK 51.1bn at end-2006 against DKK 40.8bn at end-2005.

### The Nykredit Bank Group Capital adequacy and core capital ratio



— Capital adequacy ratio — Core capital ratio

### The Nykredit Bank Group Equity

DKKm	2006	2005
Equity, beginning of financial year	3,614	3,175
Profit after tax for the year	627	439
<b>Equity, end of financial year</b>	<b>4,241</b>	<b>3,614</b>

### The Nykredit Bank Group Capital base and capital adequacy

DKKm	2006	2005
Equity	4,241	3,614
Supplementary capital	1,300	800
Statutory deductions from core capital and supplementary capital	113	194
<b>Total</b>	<b>5,428</b>	<b>4,220</b>
Weighted items not included in the trading portfolio	40,502	30,932
Weighted items incurring market risk	10,631	9,829
<b>Total weighted items</b>	<b>51,133</b>	<b>40,761</b>
Capital adequacy ratio, %	10.6	10.3
Core capital after statutory deductions as a % of weighted items	8.2	8.8

### OUTLOOK FOR 2007

In 2007 the Bank expects continued low interest rates and a stable economic climate in Denmark.

Deposit and lending activities within the Retail and Corporate Banking areas are expected to see growth, and Markets & Asset Management is expected to continue expanding its business volumes. Considering the high earnings recorded by Markets & Asset Management in 2006, 2007 is expected to see somewhat lower results.

In 2007 the Bank will launch a number of initiatives that will cause a certain increase in staff and IT costs – one example being the continued development of the Bank's risk manage-



ment and administrative systems for the handling of new products. Equally, the higher activity levels will lead to increasing transaction-based expenses.

In 2007 impairment provisions are expected to be low, but without the same positive effect as in 2006.

All in all, core income is expected to be largely unchanged compared with 2006. With prospects of higher costs and a normalisation in impairment provisions, overall results before tax are expected to be lower than in 2006. The Bank therefore expects a profit before tax of around DKK 700-800m.

**OTHER**

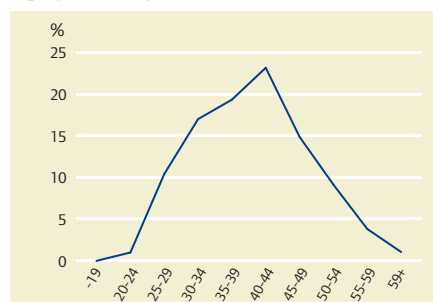
**Nykredit strengthens its organisation**

One month after Peter Engberg Jensen took up the position as Group Chief Executive of Nykredit, the Group implemented a number of changes to the Executive Board's areas of responsibility and to the organisation as a whole.

An important organisational change was the establishment of the new reinforced business area Commercial Customers encompassing specialised and production farming in addition to businesses. In future, part-time farming customers will be served by the Retail Customers area. This enables Nykredit to optimise the use of its key competencies within commercial and agricultural business.

The reorganisation also led to the integration of the Retail Customers functions, and a new internet function now handles and coordinates the Group's web-based activities across mortgage banking, banking, insurance and asset management activities.

**Age profile - permanent staff**



Two other new initiatives taken in connection with the reorganisation were the set-up of a compliance function and the appointment of a customer ambassador with the principal task to optimise Nykredit's dialogue with customers.

**Changes to Bank Management**

At his own request, Peter Engberg Jensen was not re-elected to the Bank's Board of Directors at the Bank's general meeting on 14 March 2006. For the remaining part of 2006, the Board of Directors of the Bank was made up of five members.

In connection with the reorganisation, Jes Klausby, Managing Director, was appointed as Chief Financial Officer of the Nykredit Group and therefore retired from his post at Nykredit Bank on 1 December 2006. The Executive Board subsequently consists of Kim Duus and Karsten Knudsen.

**Subordinate loan capital**

In Q3 the Parent Company, Nykredit Realkredit A/S, provided subordinate loan capital in the amount of DKK 500m after which the Bank's subordinate loan capital totalled DKK 1.3bn. The capital has been fully included in the Bank's capital base. The objective of the capital contribution was to support the positive development in the Bank's business areas and improve the Bank's opportunities for serving more and larger corporate customers.

**STAFF**

The staff is the mainstay of Nykredit Bank. By creating a dynamic and challenging workplace for competent and proactive staff, the Bank will develop for the benefit of our customers and business partners.

In 2006 the Nykredit Bank Group had an average number of staff of 492 (full-time equivalents) against 426 in 2005, corresponding to a rise of 66 or 15.5%.

The average age of the staff is approximately 40 years – around three years lower than the average age in the Danish financial sector as such.

28.7% of Nykredit Bank's staff is between 20 and 34 years, 57.3% is between 35 and 49 years, while staff aged 50 and above account for 14%.

58.6% of the staff has less than five years of service and 28.4% has between five and nine years of service.

In Nykredit Bank, 38% of the staff is female and 62% male. Nykredit aims to increase the number of female staff in executive positions to the effect that the gender distribution at all management levels reflects the composition of staff.

**Competence development**

Professional and personal development of staff and managers as well as the continuous development of the organisation are key elements of Nykredit's objective to be the preferred workplace for financial sector staff.

Nykredit Bank will master the competencies required at any time – primarily by developing and training staff.

Therefore, Nykredit Bank maintains strong focus on staff and management development and considers this to be decisive to the achievement of business targets and results.

**Core values and staff satisfaction**

Every quarter, Nykredit measures staff satisfaction. The measurements contain relevant benchmarks relative to the Group core values – commitment, insight and empathy – and form part of Nykredit's Balanced Scorecard.

**Incentive schemes**

The Nykredit Group's general bonus scheme covers all the Bank's staff not covered by special bonus schemes.

The general bonus scheme involves both corporate bonds and an individual cash bonus. The corporate bonds have a five-year compulsory holding period and are allotted to all Group staff fulfilling specific employment criteria. For 2006 general bonuses granted totalled some DKK 4m.

Special bonus schemes have been established for all managers and senior specialists of the Nykredit Group. On top of this come special bonus schemes within special areas such as Markets & Asset Management.

## **IT IN NYKREDIT**

Part of the Nykredit Group's corporate vision is for the Group to operate as one company focused on customers' needs and requirements and to take advantage of the possibilities within electronic-based business activities.

Nykredit's IT strategy supports the integration of Group sales, marketing, production and customer care to the effect that customers experience individualised and coordinated services regardless of their choice of contact channel.

### **Key IT projects in 2006**

Based on a significantly increasing number of new Markets & Asset Management customers and a strategic focus on new products, Straight-Through-Processing and Time-to-Market, the Bank entered into an extensive partnership with a foreign IT supplier in spring 2006. The system provides an integrated IT platform for the front-to-back management of financial instruments. The system is intended for integration into Nykredit's existing IT infrastructure in future. Implementation commenced in 2006 and will last several years.

Improving nykredit.dk continued to be a top priority in 2006. The functionality and user interface of the Internet Bank have been improved. Today's customers demand personalised user interfaces, and this poses an opportunity for Nykredit to expand the business scope with individual customers. The internet is generally a focus area as a growing part of Nykredit's sales takes place through this channel.

## **EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR**

In the period up to the presentation of the Annual Report, no material events have occurred.

## Business areas

### BUSINESS AREAS

The Nykredit Bank Group is organised into three intercompany business areas: Retail Banking, Corporate Banking and Markets & Asset Management.

*Retail Banking* serves retail customers and small agricultural customers who typically require the same product range as retail customers.

*Commercial Banking* serves business, agricultural and rental housing customers including housing society and non-profit housing customers.

*Markets & Asset Management* handles the Nykredit Group's activities within securities trading, asset management and pension advice.

### The Nykredit Bank Group

#### Profit before tax by business area

DKK m	Retail Banking		Corporate Banking		Markets & Asset Management		Group items <sup>1</sup>		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Core income *	288	276	295	239	882	600	113	70	1,578	1,185
Operating costs	165	133	120	110	454	350	3	3	742	596
<b>Core earnings before impairment losses</b>	<b>123</b>	<b>143</b>	<b>175</b>	<b>129</b>	<b>428</b>	<b>250</b>	<b>110</b>	<b>67</b>	<b>836</b>	<b>589</b>
Provisions for loan impairment	(62)	13	18	(6)	0	0	0	0	(44)	7
<b>Core earnings after impairment losses</b>	<b>185</b>	<b>130</b>	<b>157</b>	<b>135</b>	<b>428</b>	<b>250</b>	<b>110</b>	<b>67</b>	<b>880</b>	<b>582</b>
Investment portfolio income	0	0	0	0	0	0	(3)	19	(3)	19
<b>Profit before tax</b>	<b>185</b>	<b>130</b>	<b>157</b>	<b>135</b>	<b>428</b>	<b>250</b>	<b>107</b>	<b>86</b>	<b>877</b>	<b>601</b>
* Of which transactions between the business areas	111	71	(77)	(49)	(34)	(22)	-	-	0	0
Income:costs	2.8	1.9	2.1	2.3	1.9	1.7	-	-	2.3	2.0
Avg allocated business capital <sup>2</sup>	802	847	1,766	1,519	805	625	21	20	3,394	3,010
Core earnings as a % of allocated business capital	23.0	15.3	8.9	8.9	53.0	40.0	-	-	25.9	19.3

<sup>1</sup> Includes income from securities not allocated to the individual business areas but included in the Bank's own portfolio as well as non-allocated expenses.

<sup>2</sup> 8% of average risk-weighted assets allocated to the business areas.

### The Nykredit Bank Group

#### Balance sheet (principal items) by business area

DKK m	Retail Banking		Corporate Banking		Markets & Asset Management		Group items		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
<b>Assets</b>										
Receivables from credit institutions and central banks					18,246	14,669	192	362	18,438	15,031
Loans and advances at fair value					3,432	6,688			3,432	6,688
Loans and advances at amortised cost	6,348	5,027	22,635	14,704					28,983	19,731
Bonds, mortgages and equities	235	181	1,641	2,084	45,653	31,062	426	2,825	47,955	36,152
Properties and equipment			73	248			6	8	79	256
Other assets					4,467	3,939	3,691	2,665	8,158	6,604
<b>Total</b>	<b>6,583</b>	<b>5,208</b>	<b>24,349</b>	<b>17,036</b>	<b>71,798</b>	<b>56,358</b>	<b>4,315</b>	<b>5,860</b>	<b>107,045</b>	<b>84,462</b>
<b>Payables, liabilities and loan capital</b>										
Payables to credit institutions and central banks					63,107	44,654			63,107	44,654
Deposits and other payables	9,670	9,134	12,816	11,181	181	1,788			22,667	22,103
Financial liabilities at fair value					7,032	6,484			7,032	6,484
Issued bonds					1,741	654			1,741	654
Other payables and liabilities					3,245	3,405	3,712	2,748	6,957	6,153
Subordinate loan capital							1,300	800	1,300	800
<b>Total</b>	<b>9,670</b>	<b>9,134</b>	<b>12,816</b>	<b>11,181</b>	<b>75,306</b>	<b>56,985</b>	<b>5,012</b>	<b>3,548</b>	<b>102,804</b>	<b>80,848</b>
<b>Associates and group enterprises <sup>3</sup></b>										
Associates and group enterprises have been included in the business areas as follows:										
Profit before tax	20	12	0	6	52	39	1	0	73	57
Investment (equity value)	61	64	51	69	147	110	113	0	372	243
<b>Off-balance sheet items</b>										
Guarantees	6,702	6,827	8,885	6,139	130	491	0	0	15,717	13,457
Investments in property, plant and equipment	-	-	-	-	-	-	2	7	2	7

<sup>3</sup> The Retail Banking area includes the Bank's mortgage trading activities, the Corporate Banking area includes the Bank's leasing activities, while the Bank's asset management activities in Nykredit Portefølje Bank are included under Markets & Asset Management.

In 2006 the Nykredit Bank Group's business areas recorded a profit of DKK 770m against DKK 515m in 2005. Including income from Group items of DKK 107m, profit came to DKK 877m against DKK 601m in 2005.

All in all, core earnings after impairment losses yielded a return on average allocated capital of 25.9% against 19.3% in 2005.

### Retail Banking

The Retail Banking area supplies Nykredit Bank products to the Nykredit Group's own sales entities. The Bank's products are sold through 50 retail centres and the Sales Centre.

For 2006 the Retail Banking area recorded a profit of DKK 185m or an increase of DKK 55m compared with 2005. The improvement is attributable to a reversal of impairment provisions of DKK 62m equal to a positive development in results of DKK 75m compared with 2005.

Income increased by DKK 12m to DKK 288m. Fee income netted a decrease on 2005 because of decreased income from mortgage refinancing, etc, while income from mortgage trading activities went up.

Costs increased by DKK 32m to DKK 165m. More retail customers with multiple accounts led to growth in transactions and service tasks and, consequently, a higher cost level. The number of staff went up from 105 in 2005 to 116 at end-2006.

In 2006 provisions for loan impairment generated an income of DKK 62m against an expense of DKK 13m in 2005. The positive trend is in particular attributable to the Bank's review of all exposures for which individual impairment provisions have been made and adjustment of the estimates of impairment provisions previously applied. At the same time, testing and review of the Bank's models and methods used in the determination of group-based impairment provisions also led to a number of adjustments which also affected impairment provisions. Finally, the Bank's provisioning need reflects the continued sound Danish economy and not least homeowners' favourable financial situation, and a large part of the Bank's lending has been secured by owner's mortgages on customers' homes.

In total, profit for the year equalled an average return on business capital of 23% before tax. The income:cost ratio was up from DKK 1.9 in 2005 to DKK 2.8 in 2006.

### Balances

Deposit balances went up by DKK 0.5bn to DKK 9.7bn at end-2006, a somewhat lower growth rate than in 2005.

The number of customers opening wage accounts went up from 69,000 at the beginning of 2006 to 82,000 at end-2006.

Lending balances grew relative to 2005 by DKK 1.3bn to DKK 6.3bn. Lending is still marked by many housing loan prepayments which homeowners are able to replace with mortgage loans by virtue of the increases in property values in large parts of Denmark. The decrease in the total housing loan portfolio is, however, more than offset by the opening of equity release accounts. Loans advanced as equity release accounts represented over one third of total lending at end-2006.

Guarantees amounted to DKK 6.7bn at end-2006, the same as at end-2005.

### Activities in 2006

The positive development continued in 2006 with focus on offering wage accounts to the Nykredit Group's homeowner customers. We introduced the international credit cards Nykredit Gold and Nykredit Blue, and were the first to offer individually designed Dankort and Visa/Dankort payment cards.

### Second mortgages

Dansk Pantebrevsbørs, of which the Bank holds 50%, outperformed expectations. The positive development was due to a stable activity level within mortgages on owner-occupied dwellings and, above all, a high level of activity within commercial mortgages, including financing of rental properties.

### Retail Banking in 2007

In 2007 as well, the Retail Banking area will focus on attracting more customers opening wage accounts and customers with multiple account relationships and on strengthening investment and asset management services, including pension services, for which purpose particularly qualified asset management advisers are trained. The area will also continue to further develop and improve self-service solutions.

In addition, Retail Banking will target customers with part-time farming businesses in 2007.

### Results - Retail Banking

DKKm	2006	2005
Core income	288	276
Operating costs	165	133
<b>Core earnings before impairment losses</b>	<b>123</b>	<b>143</b>
Provisions for loan impairment	(62)	13
<b>Core earnings after impairment losses</b>	<b>185</b>	<b>130</b>
<b>Profit before tax</b>	<b>185</b>	<b>130</b>
Income:costs	2.8	1.9
Avg allocated business capital <sup>1</sup>	802	847
Core earnings as a % of business capital	23.0	15.3

<sup>1</sup> 8% of average risk-weighted assets allocated to the business area.

### Balance sheet (principal items)

DKKm	2006	2005
<b>Assets</b>		
Loans and advances at amortised cost	6,348	5,027
Bonds, mortgages and equities	235	181
<b>Payables</b>		
Payables to credit institutions and central banks		
Deposits and other payables	9,670	9,134
<b>Off-balance sheet items</b>		
Guarantees	6,702	6,827

## Corporate Banking

The Corporate Banking area encompasses business activities within the agricultural, urban trades and rental housing areas, including housing society dwellings and non-profit housing construction. The Bank's products are sold through 28 commercial centres offering the full range of Nykredit Group products.

In 2006 the Corporate Banking area recorded a profit of DKK 157m against DKK 135m in 2005. Core income went up by DKK 56m on 2005 to DKK 295m owing in particular to growing lending activity, positive value adjustments of corporate bonds and profit from the sale of an investment property.

Costs rose by DKK 10m to DKK 120m, mainly due to higher expenses for salaries and pensions, etc. At end-2006 the number of staff was 103 against 79 at end-2005.

Impairment provisions showed an expense of DKK 18m. The provisioning need reflects the continued stability of the Danish economy.

In total, profit for the year equalled an average return on business capital of 8.9% before tax,

or the same as in 2005. The income:cost ratio was DKK 2.1 against DKK 2.3 in 2005.

Nykredit Bank maintained its position as a competitive specialised bank for commercial and corporate customers. 2006 saw a satisfactory development in activities. Business results from the Corporate Banking area are considered satisfactory in the light of the extremely fierce competition in the financial sector.

Lending delivered a very satisfactory increase by just over 54% to DKK 22.6bn, primarily on the back of increased syndication business and fixed asset and fixed-term loans. Deposits went up from DKK 11.2bn to DKK 12.8bn.

### Activities in 2006

Nykredit Bank's product range includes several deposit and loan products, financial instruments, securities trading and asset management services, etc. As a subsidiary of the Nykredit Group, a number of other products such as mortgage finance and insurance products are also natural elements of the product range. Nykredit Bank holds a strong position in long-term finance, and the Bank's products serve as elements in the optimisation of customers' finance structures.

The supply of financial instruments and finance solutions for corporate and commercial customers increased significantly in 2006. 2006 also saw a pronounced increase in the sale of financial instruments such as swap- and option-based products. Furthermore, focus centred on asset management products within the investment area.

In 2006 the Corporate Banking area introduced a credit facility with payment management services for private housing societies and agricultural customers. The business area has gradually expanded its service offering and introduced a basic commercial credit facility with payment management services in 2006.

Nykredit Bank is still one of the main suppliers of construction loans for non-profit housing associations and provides finance solutions for large and small housing projects involving housing society as well as owner-occupied dwellings.

Over the years the Corporate Banking area has acquired special expertise within acquisition finance. This area experienced significant growth in 2006 by virtue of the growing number of transactions completed by private equity funds.

The area also joins forces with Nykredit Markets to provide corporate finance through capital market products, including issuance of bonds and subordinate loan capital.

Combined with the participation in international loan transactions, Corporate Banking offers a number of products to corporates in other Nordic countries. The Bank's expertise within fixed income products is a key element of this activity.

### Nykredit's commercial centres

The business structure in Denmark is changing rapidly, and the local government reform will further speed up restructuring. Nykredit Commercial Customers is consolidating its local profile by expanding its commercial centre set-up.

Recent years have seen widespread consolidation within Danish agriculture, resulting in very large production farms that are by and large interested in the same type of products as other commercial customers. In consequence,

## Results - Corporate Banking

DKKm	2006	2005
Core income	295	239
Operating costs	120	110
<b>Core earnings before impairment losses</b>	<b>175</b>	<b>129</b>
Provisions for loan impairment	18	(6)
<b>Core earnings after impairment losses</b>	<b>157</b>	<b>135</b>
<b>Profit before tax</b>	<b>157</b>	<b>135</b>
Income:costs	2.1	2.3
Avg allocated business capital <sup>1</sup>	1,766	1,519
Core earnings as a % of allocated business capital	8.9	8.9

<sup>1</sup> 8% of average risk-weighted assets allocated to the business area.

## Balance sheet (principal items)

DKKm	2006	2005
<b>Assets</b>		
Loans and advances at amortised cost	22,635	14,704
Bonds, mortgages and equities	1,641	2,084
Properties	73	248
<b>Payables</b>		
Deposits and other payables	12,816	11,181
<b>Off-balance sheet items</b>		
Guarantees	8,885	6,139

Nykredit combined the business areas serving production farming and commercial customers under one roof in 2006 to improve the Bank's and the Nykredit Group's possibilities of advising customers on total solutions, including interest rate and foreign exchange management.

As part of the broad-based sale across Group companies, the national financial adviser function was improved in 2006, and a number of investment advisers will be employed at the commercial centres in 2007 to strengthen advisory services and sales within investment products.

#### Leasing

Nykredit Bank has leasing activities through the wholly-owned subsidiary Nykredit Leasing A/S and LeasIT A/S of which the Bank holds 22.7%.

These activities enable Nykredit Bank to offer a broad range of leasing solutions and meet customer demand in the leasing market.

#### Corporate Banking in 2007

The Nykredit Group had a total commercial loan portfolio of approximately DKK 300.3bn at end-2006 and holds a strong position in the market for fixed asset finance and advice on interest rate risk management.

The market position constitutes a sound foundation for the continuous expansion of the Bank's business cooperation with Danish trade and industry. In the years ahead, the Group will continue to be a major lender and financial adviser to Danish trade and industry, making Nykredit the natural choice as total supplier of finance solutions

#### Markets & Asset Management

The business area Markets & Asset Management handles the activities of the Nykredit Group within securities trading, asset management and pension advice. Markets & Asset Management is divided into four customer-oriented entities: Nykredit Markets, Debt Capital Markets, Financial Products (formerly Investment & Pension) and Nykredit Portefølje.

2006 showed marked progress within the trading, debt capital market and asset management activities of the area, just as Proprietary Trading obtained significant earnings from the Bank's own trading activities.

Core income increased by DKK 282m to DKK 882m. The income increase was an effect of the general advances made in all business areas where the increased activity also led to an expansion of the staff from 251 at end-2005 to 293 at end-2006. Operating costs rose by DKK 104m to DKK 454m, in part as a consequence of higher expenses for salaries, pensions and provisions for performance-related pay.

In total, profit for the year before tax equalled an average return on business capital of 53% against 40% in 2005. The income:cost ratio stood at DKK 1.9 against DKK 1.7 in 2005.

The development in the balance sheet items of the business area should be seen in the context of the generally increased activity level, including the repo transaction volumes.

#### Nykredit Markets

Markets & Asset Management undertakes the Nykredit Group's activities within securities trading and tailored financial solutions.

Nykredit Markets serves a wide section of the customer base, including institutional, commercial, corporate and agricultural customers.

2006 proved a very satisfactory year for Nykredit Markets. The year saw a significant and broad-based earnings lift and an expanded market share within basic products. Nykredit Markets's product range was expanded further and integrated into the Nykredit Group's overall product range.

The improvement was mainly attributable to increased earnings from institutional customers, growth in the sale of financial instruments and a marked activity lift within equity trading and corporate bonds.

The background for the increased earnings from institutional customers is Nykredit Markets's development of staff competencies and optimised cooperation within the Fixed Income area and a consequent stronger market position within basic products.

#### Results – Markets & Asset Management

DKKm	2006	2005
Core income	882	600
Operating costs	454	350
<b>Core earnings before impairment losses</b>	<b>428</b>	<b>250</b>
Provisions for loan impairment	0	0
<b>Core earnings after impairment losses</b>	<b>428</b>	<b>250</b>
<b>Profit before tax</b>	<b>428</b>	<b>250</b>
Income:costs	1.9	1.7
Avg allocated business capital <sup>1</sup>	805	625
Core earnings as a % of allocated business capital	53.0	40.0

<sup>1</sup> 8% of average risk-weighted assets allocated to the business area.

#### Balance sheet (principal items)

DKKm	2006	2005
<b>Assets</b>		
Receivables from credit institutions and central banks	18,246	14,669
Loans and advances at fair value	3,432	6,688
Bonds, mortgages and equities	45,653	31,062
<b>Payables</b>		
Payables to credit institutions and central banks	63,107	44,654
Deposits and other payables	181	1,788
Liabilities at fair value (cf note 28)	7,032	6,484
<b>Off-balance sheet items</b>		
Guarantees	130	491

Within financial instruments for corporate and commercial customers, focus has been on tailor-made financial solutions. New products have been developed in close cooperation between Nykredit Markets and the Nykredit Group's sales channels aimed at corporate, commercial and agricultural customers. Furthermore, the advisory competencies within complex solutions for corporate customers were expanded.

Another area with an appreciable activity rise is equity trading and corporate bonds of which the latter primarily relate to the issues of Danish local banks.

Finally, 2006 was the year when the FX area came to be seen as a significant product area of Nykredit Markets after the set-up of Currency Products at end-2005. The area got off to a good start and will be expanded on a continuous basis.

#### *Debt Capital Markets*

2006 was another good year in which Debt Capital Markets consolidated its position as one of the leading Danish arrangers of Danish issues offered to Danish and foreign investors.

Some of the new initiatives were the issuance of pooled hybrid core capital through Nykredit Bank's funding company Kalvebod Plc and a senior capital issue in the Norwegian market. All in all, Debt Capital Markets arranged Danish capital market issues worth a total of DKK 6.3bn in 2006.

Debt Capital Markets also launched structured products offering principal guarantees and underlying assets such as currencies, credit default swaps and equity and bond indices. These products were sold successfully to both professional and private investors and contributed to the satisfactory results.

#### *Nykredit Portefølje*

The asset management activities of the Nykredit Group are undertaken by Nykredit Bank's subsidiary Nykredit Portefølje Bank.

Assets under individual management increased by DKK 31.7bn to DKK 71.5bn, while assets under administration totalled DKK 216.3bn against DKK 143.3bn at end-2005.

The growth in assets under management equalled around 50% and derives in particular from a large number of new bond-based mandates achieved on the back of highly satisfactory investment results for a period of several years. Also the management of equity-based mandates progressed.

Again in 2006 Nykredit Portefølje recorded very satisfactory investment results evidenced by a number one ranking of Nykredit Invest on the Morningstar list of top investment funds in Denmark for most of the year.

As a supplement to Nykredit Portefølje's primary asset management expertise within Danish and European bonds and equities, the investment fund Multi Manager Invest/ Nykredit Invest International was established in 2006. The investment fund cooperates with reputable international investment advisers enabling the Nykredit Group to offer its customers optimum asset management services within a number of international investment areas.

Nykredit Portefølje Administration, today one of the largest providers of administration services for retail and wholesale investment funds, continued its distinct growth in 2006. Most recently, Nykredit Portefølje Administration won administration mandates from two large pension funds of which the activity increase has only been partly included in assets under administration at end-2006.

#### *Financial Products*

Financial Products (formerly Investment & Pension) is the connecting link between Markets & Asset Management and Nykredit's distribution channels. Financial Products builds long-term savings concepts aimed at strengthening Nykredit's profile on the asset side of retail and commercial customers. Furthermore, Financial Products has provided support and training for the decentralised distribution channels, just as the direct sale of the Private Portfolio concept is rooted in this area.

2006 saw continued growth in assets under management, and the satisfactory development is expected to continue. The Private Portfolio assets under management went up from DKK 3bn at end-2005 to DKK 5bn.

In 2006 Financial Products was behind several product launches of which the three most distinct were Multi Manager Invest, new investment opportunities for customers subject to the Danish Business Tax Scheme and balanced funds for private individuals.

The objective choice of asset managers plays a pivotal role in several of Nykredit's investment products – eg PensionsInvest and Nykredit Private Portfolio. The introduction of Multi Manager Invest in spring 2006 further underscored Private Portfolio's objectivity as Nykredit now has the choice between top asset managers both in Denmark and abroad. As a result, three of the twelve asset classes included in PensionsInvest and Private Portfolio are now managed by international asset managers.

In 2006 Financial Products launched a line of investment solutions aimed at funds subject to the Danish Business Tax Scheme. Furthermore, the balanced funds, a cornerstone of Nykredit PensionsInvest, were made available to private individuals wishing to invest available funds in a portfolio containing both equities and bonds.

#### *Markets & Asset Management in 2007*

Growth is expected to continue in all business areas. Through a broader-based product range and an improved system-based distribution set-up, activities within all customer segments are expected to prosper.

Nykredit Markets aims to expand its commercial customer activities by strengthening system-based communication between Markets and the decentralised sales channels. The partnership with the Danish local banks will be further developed founded on the requirements of the individual bank, which will place demands on the flexibility and adaptability of the services.

In 2007 Financial Products will launch new products and concepts within the investment and pension area aimed at retail and commercial customers.

The high quality of products and asset management competencies will secure growth in Nykredit Portefølje Bank, and the attractive services offered by Nykredit Portefølje Administration will help cement the cooperation with institutional investors.

## Risk and capital management

Risk management is a key element of the Nykredit Realkredit Group and the Nykredit Bank Group's day-to-day operations. The Bank continuously develops advanced models that form part of the daily risk and capital management.

### Organisation and division of responsibilities

The Board of Directors of the Bank is responsible for defining limits to and monitoring the risk incurred by the Bank as well as for delegating responsibilities and approving overall instructions. The Board of Directors has laid down guidelines and specific limits as to the types of risk the Bank may assume. Such risk limits have been delegated in the organisation to each department or subsidiary.

To ensure tight management of the Bank Group's risks, these are monitored by Risk Management and Group Credits from central quarters. The Executive Board is informed about the Group's market risks on a day-to-day basis, while the Bank's overall credit risks are assessed on a weekly basis. The Board of Directors is briefed on a monthly basis.

In Nykredit risk management is coordinated on an intercompany basis. Overall risk management has been delegated to a number of committees monitoring and assessing the Bank Group's business development and risk. The committees are the Treasury Committee, the Credits Committee, the Risk Committee and the Asset/Liability Committee.

The Treasury Committee and the Credits Committee are responsible for managing Group market risk and credit risk, respectively. Both committees lay down guidelines on the risk exposures allowed in the Group companies and assign management responsibilities to the companies.

### Risk types

Nykredit distinguishes between three main risk types:

- Credit risk is the risk of losses following the non-performance of counterparties.
- Market risk is the risk of loss of market value as a result of movements in financial markets (interest rate, foreign exchange and equity price risks, etc). Market risk also includes liquidity risk and volatility risk.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, human errors and actions, system errors and external events.

At end-2006 the Risk Committee and the Asset/Liability Committee were established. The Risk Committee is responsible for continuously monitoring the Group's overall risk scenario and capital requirement. The Asset/Liability Committee is responsible for the Group's overall asset/liability and liquidity management.

Nykredit Bank's Executive Board and relevant executive staff are represented on all four committees.

### New capital adequacy rules (CRD/Basel II)

Since 2001 the Nykredit Group has completed an extensive development project for the purpose of building risk models and improving processes and systems related to the Group's risk management.

In autumn 2006 the Nykredit Group applied for the Danish Financial Supervisory Authority's approval to apply the most advanced Internal Ratings-Based (IRB) approach in the determination of risk-weighted items to cover credit risk from 2008. Nykredit Bank is included in the application. However, the Bank has applied for approval to apply the basic IRB approach in its determination of credit risk incurred by the Bank's corporate, commercial and agricultural portfolios from 2008 to 2010, inclusive.

It is the Bank's intention to apply the standard approach in the determination of risk-weighted items to cover operational risk during 2008. Nykredit Bank will comply with the existing rules in its determination of risk-weighted items and capital adequacy requirements throughout 2007. The Bank currently applies an internal Value-at-Risk model in the determination of risk-weighted assets to cover market risk.

### Economic capital and RAROC

As part of the Group's risk management, economic business capital is determined, ie the capital necessary to cover (at a given probability) the statistically maximum unexpected losses within a time horizon of one year.

Economic business capital is determined based on internal models on credit and market risk. The determination of the risks is comparable to the determination according to the advanced approaches of credit and market risk under the new capital adequacy rules.

Economic business capital is included in the computation of risk-adjusted return on capital (RAROC) for the business areas. Further, the economic business capital has been included in the Bank's internal assessment of an adequate capital base and capital requirement.

### Uncertainty about recognition and measurement

The day-to-day operations of the Bank imply a number of rights and obligations, the recognition and subsequent measurement of which lead to the use of estimates and the measurement of which may be uncertain.

In accordance with IFRS, the Annual Report has been prepared on the basis of assumptions that require the use of accounting estimates. These estimates have been made by the Bank's Management in accordance with the accounting policies and based on previous experience and, in Management's opinion, reasonable and realistic assumptions.

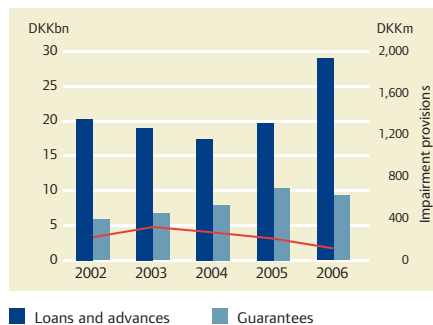
The accounting estimates and underlying assumptions are tested and reviewed regularly.

Areas implying a higher degree of complexity or areas in which assumptions and estimates are material to the financial statements are:

*Provisions for loan and receivable impairment* where the quantification of the risk of not receiving all future payments involves significant estimates. All group-based impairment provisions still involve some uncertainty as the Bank has only limited historical data as the basis for the computations, just as the systems supporting these have still not been fully implemented. The supporting IT systems and applied models are being improved and developed on a continuous basis.

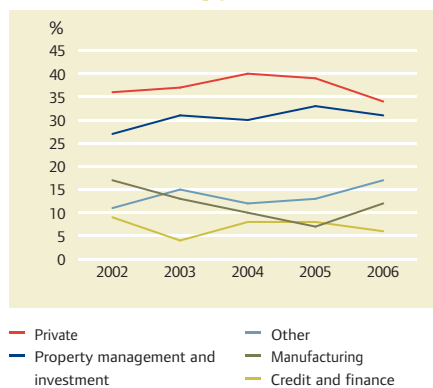


### Loans, advances, guarantees and impairment provisions



Note: Excl loans, advances and other receivables at fair value

### Loans, advances and guarantees by sector excl loans in trading portfolio



Unlisted financial instruments where the measurement of fair values involves significant estimates.

Provisions involving certain estimates at the balance sheet date.

In Management's opinion, the uncertainty related to the above-mentioned matters is insignificant to the Annual Report.

#### Credit risk

The Board of Directors lays down the overall framework of the Bank's credit granting and is presented with the largest credit applications for approval or briefing on a continuous basis. The Bank's credit risk is managed in accordance with credit policies, business procedures and credit granting instructions, etc specific to the three business areas Retail Banking, Corporate Banking and Markets & Asset Management.

Group Credits is responsible for managing and monitoring credit risk in accordance with the guidelines laid down by the Board of Directors and the Executive Board and for reporting credit risk internally and externally. Group Credits serves all entities of the Nykredit Group and is, accordingly, responsible at Group level.

Nykredit's local centres have been authorised to process a considerable part of customer

applications for bank facilities independently. The scope of the credit granting authority of most centres was expanded in 2006.

Applications exceeding the authority of the centres are processed at central level by Group Credits. Applications involving large amounts must be presented to the Executive Board or the Board of Directors. Applications that, if granted, will bring the Bank's total exposure to any one customer over DKK 50m are subject to both initial and subsequent (each time an exposure increases by DKK 50m) board approval.

When a customer applies for a bank facility, the customer and the customer's financial circumstances are assessed. Overall guidelines of credit assessment have been laid down centrally and depend for example on the customer's relations with the Bank's business areas. Internal credit models continuously form an important part of the assessment of the majority of retail and corporate customers.

A thorough assessment of customers is a prerequisite for avoiding future losses. The same applies to a number of tangible cover assets, primarily real property, but also securities, moveable property and guarantees. These cover assets are included in subsequent assessments based on conservative valuation.

The establishment of lines for trading in financial products often requires a contractual basis giving the Bank access to netting. The contractual basis is typically based on standards such as ISDA or ISMA agreements. No set-off has been made for collateral security or netting agreements in the accounting figures presented.

#### Impairment provisions 2006

In consequence of the favourable economic climate evidenced by continued falling arrears, fewer forced sales and fewer losses ascertained, individual impairment provisions were reduced significantly in 2006.

At end-2006 impairment provisions totalled DKK 88m against DKK 182m at end-2005. Relative to total loans and advances, impairment provisions equalled 0.2% against 0.5% in 2005. Levels remained low for both corporate and retail exposures.

### The Nykredit Bank Group

DKKm	Corporate		Retail		Total 2005
	2006	2005	2006	2005	
Impairment provisions, beginning of year	61	85	121	128	213
Impairment provisions and reversals for the year	19	(6)	(61)	15	9
Previously provided for, now lost	40	17	12	21	38
Other additions and disposals	0	(1)	0	(1)	(2)
<b>Impairment provisions, year-end</b>	<b>40</b>	<b>61</b>	<b>48</b>	<b>121</b>	<b>182</b>
Of which individual	12	48	15	84	132
Of which group-based	28	13	33	37	50
<b>Effect on profit/loss</b>					
New impairment provisions for the year, net	19	(6)	(61)	11	5
Received on claims previously written off	2	1	3	4	5
Impairment losses not provided for	1	1	2	6	7
<b>Total effect on profit/loss</b>	<b>18</b>	<b>(6)</b>	<b>(62)</b>	<b>13</b>	<b>7</b>
Impairment provisions as a % of loans, advances and guarantees, year-end	0.1	0.3	0.4	1.1	0.5
Operating expense as a % of loans, advances and guarantees for the year	-	-	-	0.1	0.0

In Management's opinion, impairment provisions at end-2006 are necessary and adequate. A test of the adequacy of impairment provisions is the extent to which losses ascertained individually in the financial statements were covered by impairment provisions made not later than at the beginning of the year. This ratio stood at 93.7% for 2006 against 84.4% for 2005.

The effect on results equalled a positive DKK 44m in 2006 against a negative DKK 7m in 2005.

**Guarantees**

The Bank issues a number of guarantees on a continuous basis, including guarantees to mortgage banks. According to the accounting rules, the guarantees must be reviewed individually on a continuous basis, however, guarantees of a uniform nature may be reviewed

collectively. Provisions for losses on guarantees must be made if deemed necessary. Such provisions are presented under the item "Provisions".

An individual review of the guarantees issued by the Bank only gave rise to a limited provision of DKK 0.2m for guarantees provided. Correspondingly, historical data has not given rise to any group-based impairment provisions. The same applied at end-2005.

**Credit models**

The determination of credit risk is based on three key parameters: Probability of Default (PD), Loss Given Default (LGD) and Exposure Value (EV).

Internal methods are used to calculate the PD of all the Bank's customers and to calculate

the LGD and the EV of the main part of all exposures. An application has been submitted to the Danish Financial Supervisory Authority for permission to apply these methods in the determination of risk-weighted items to cover credit risk from 2008.

A PD expressing the probability of default is determined for each Group customer. A credit facility is in default where it is deemed unlikely that a customer will repay all debt in full, or where a significant amount has been in arrears for 90 days. Depending on the customer group, Nykredit Bank considers the forwarding of a second or third reminder to be a clear signal that the customer is unlikely to repay his/her debt in full.

The PD of retail customers is determined on the basis of a customer's credit score and payment behaviour. Credit scoring has been used by Nykredit Bank since 1998 and reflects a statistical computation of a customer's credit-worthiness based on financial position, etc.

With respect to other customer groups, statistical models have been developed based on conditional probabilities that estimate PDs taking into account business-specific circumstances such as financial statements, arrears and provisions as well as industry-specific conditions and economic climate.

PDs are updated at least once a year as the Bank receives new information about structural conditions or the customer.

The PD of the individual customer is translated into a rating from 0 to 10, 10 being the highest rating. Customer rating is an important element in the credit policy and the assessment of a customer. Ratings are also applied to increase the efficiency of credit granting procedures and to monitor weak exposures. Furthermore, PDs are used for risk-adjusted profitability analyses and statements.

The LGD and the EV of the Bank's retail exposures are also determined using internally developed methods based on loss and default data. The determination of LGD takes into account any security provided such as mortgages on real property.

**Elements behind the calculation of credit risk**

The parameters included in the determination of credit risk are:

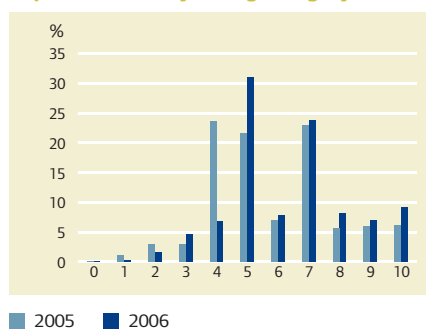
- PD: Probability of Default – the probability of a customer defaulting on a credit exposure to the Nykredit Group.
- LGD: Loss Given Default – the loss rate of an exposure given a customer's default.
- EV: Exposure Value – the total exposure to a customer in DKK at the time of default. The exposure value is adjusted for any undrawn part of a credit maximum granted.

The PD is customer-dependent, while the other parameters are product-dependent. A PD is therefore assigned to each customer, while each exposure has a separate LGD and EV.

**Rating scale and marginal Probability of Default (PD) values**

Rating category	PD floor	PD ceiling
10	0.00%	0.15%
9	0.15%	0.25%
8	0.25%	0.40%
7	0.40%	0.60%
6	0.60%	0.90%
5	0.90%	1.30%
4	1.30%	2.00%
3	2.00%	3.00%
2	3.00%	7.00%
1	7.00%	25.00%
0	25.00%	100.00%

**The Nykredit Bank Group Exposure value by rating category**



**Market risk**

The Bank assumes market risk in connection with customer trading activities and the optimisation of the return on the Bank's equity. Market risk in the Bank's subsidiaries is either hedged with the Bank as counterparty or negligible. The most significant market risk relates to the Bank's Markets & Asset Management activities within securities trading, swap and money market transactions.

The Bank applies a trading and risk management system, which handles all types of financial instruments, to compute market risk. The system provides the Bank with a high degree of reliability in relation to consistent monitoring and computation of market risk. The validity of the price and risk models is tested on a continuous basis.

Nykredit Bank's Board of Directors fixes the limits for market risk – including Value-at-Risk and interest rate, equity price, foreign exchange and volatility risk. Through the Treasury Committee, the Executive Board fixes the market risk limits of Markets & Asset Management. Risk Management monitors and reports market risk on a continuous basis and reports to Management on a day-to-day basis. Acting and reporting entities have been segregated.

The management of market risk is based on Value-at-Risk and more traditional risk measures such as BPV and interest rate vega. The Bank has also defined a number of stress and scenario tests that form part of market risk management.

*Value-at-Risk*

Value-at-Risk is computed on a day-to-day basis as part of the determination of market risk and the capital requirement. Both computations are reported on a day-to-day basis and form part of the market risk framework. The risk calculations related to the embedded option of callable mortgage bonds and capped floating-rate mortgage bonds form part of the overall analytical model for the calculation of Value-at-Risk.

In general, the Bank calculates risk factors related to foreign exchange and interest rate risk, OAS (option-adjusted spread) risk, vega risk (risk of fluctuations in interest rate volatility) and risk incurred by index-linked bonds.

The calculation of Value-at-Risk includes yield curves based on closing prices in the market as well as historical correlations and volatilities. These are calculated using an EWMA model with a decay factor of 0.94 whereby the latest market observations will have the highest weighting, and the last 74 observations will thus in practice form part of the calculation.

The model results are subject to a daily backtest which is presented to the Executive Board on a weekly basis. In 2006 the backtesting methodology was expanded to allow the calculation of the range in which the number of Values-at-Risk overshootings should be found to prevent the Value-at-Risk model from being rejected at a given probability.

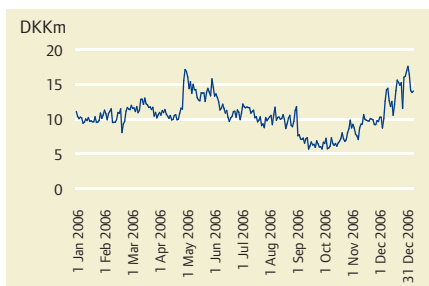
In 2006 Value-at-Risk averaged DKK 10.6m. This meant that Nykredit Bank would at a 99% probability lose less than DKK 10.6m in one day as a consequence of market fluctuations. In 2006 Value-at-Risk ranged between DKK 5.7m and DKK 17.6m.

*Elements in Value-at-Risk determination*

Value-at-Risk provides no indication of the distribution of losses under unusual market conditions. In consequence, a number of scenarios depicting unusual market conditions have been drawn up. The scenarios are calculated on a daily basis and reported to the Board of Directors on a monthly basis.

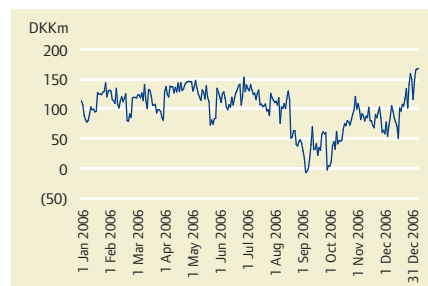
The Bank is authorised by the Danish Financial Supervisory Authority to calculate Value-at-Risk for the purpose of market risk and capital adequacy.

**Value-at-Risk (excl equities)**



Value-at-Risk at a 99% probability

**Net interest rate exposure**



**Elements of the Value-at-Risk calculation**

Value-at-Risk is a statistical measure of the maximum loss on an investment portfolio at a given probability within a given time horizon. The Nykredit Realkredit Group calculates Value-at-Risk based on a 99% confidence level and a one-day time horizon.

The parameters of VaR calculations are:

- Risk factors All positions are transformed into a number of risk factors related to equity price, interest rate and foreign exchange risk.
- Volatilities and correlations Daily volatilities and correlations of the factors above are retrieved from RiskMetrics. In calculating the volatilities, last-dated observations carry the largest weights.
- Time horizon Value-at-Risk is estimated based on a time horizon of one day, but the number can be scaled to other time horizons.
- Confidence level Value-at-Risk is estimated based on a 99% confidence.

*Interest rate risk*

The Bank's interest rate exposure in terms of a general change in rates of one percentage point ranged between DKK 6.8m and DKK 182m in 2006 and stood at DKK 182m at end-2006.

The Bank's interest rate exposures are mainly in DKK and EUR, but also in SEK, NOK and USD. Long-term loans and deposits are substantially hedged against interest rate movements through interest rate swaps.

*Equity price risk*

At end-2006 an equity position of DKK 258m was included in the determination of market risk.

Equity price risk does not form an integral part of the Value-at-Risk model. Therefore, the loss distribution of the equity portfolio is determined on a continuous basis as a supplement to the Value-at-Risk model in the daily determination of market risk.

*Foreign exchange risk*

At end-2006 the Bank's most significant foreign exchange positions were in EUR, NOK and USD. In 2006 the Bank's foreign exchange exposure in terms of the largest numeric sum of positive and negative foreign exchange positions (Exchange Rate Indicator 1) ranged between DKK 66.4m and DKK 618.9m and amounted to DKK 229.2m at end-2006.

*Option risk*

The Bank's most significant option risk derives from the embedded options in Danish mortgage bonds, but the Bank's trading in swaptions also incurs option risk. The risk is hedged to a significant extent through the purchase of caps.

The Bank's interest rate volatility risk measured as the change in market value following a change in volatility of one percentage point amounted to DKK 5.8m at end-2006.

*Liquidity risk*

Liquidity risk management is based on an internally developed liquidity model which generates a liquidity graph that quantifies the Bank's liquidity position at future maturity points on the basis of assumptions on the cash flows of assets and liabilities. The instructions laid down by the Board of Directors on liquid-

ity contain the Bank's liquidity policy as well as limits and principles of and requirements for the liquidity model.

The liquidity model is subject to intercompany guidelines supplementing the liquidity requirements of the Danish Financial Business Act and the recommendations of the Bank for International Settlements (BIS) relating to liquidity policy and management.

The liquidity model is subjected to formalised stress tests to provide an overview of the Bank's liquidity risk subject to different scenarios and to test the validity of the model assumptions. Stress tests of the liquidity risk are reported to the Bank's Executive Board and Board of Directors four times a year.

The Bank has a good liquidity position. The ratio between lending and deposits has improved, and long-term credit commitments are generally underpinned by long-term funding.

*Funding*

The Bank's main funding sources in addition to retail and corporate deposits are long-term bilateral loans raised mainly through foreign banks and structured bond issues. The Bank has no official funding programme.

In 2006 the Bank's holding of own structured bond issues increased from DKK 133m at end-2005 to DKK 279m, and the Bank issued structured EUR-denominated bonds worth DKK 171m.

The Bank's trading portfolio is funded through the repo and money market.

*Capital management*

In compliance with the statutory capital requirements, the Bank has allocated capital lines to its business areas. The line utilisation, which is monitored and reported daily to the entities responsible, draws a useful picture of the activity levels in the business areas.

**Operational risk**

The day-to-day management of operational risk in the Nykredit Bank Group forms an integral part of the business management and is the responsibility of the business areas. Operational risk management activities are coordinated centrally to ensure intercompany consistency and optimisation. Nykredit pursues a

policy of always striving to limit operational risk taking into consideration the related costs. The Nykredit Group develops tools to identify, analyse and report operational risk. The tools are gradually implemented into the business areas and the management support functions to ensure ongoing monitoring of Group operational risk.

Business contingency plans ensure constant and secure operations in case of a shutdown of the IT supply or other emergencies.

# Nykredit Bank A/S 2002–2006

DKK million/EUR million	Nykredit Bank A/S					
	2006/EUR	2006	2005	2004 *	2003 *	2002 *
<b>SUMMARY INCOME STATEMENT</b>						
Net interest and fee income	118	877	883	790	825	599
Value adjustments	65	486	153	(8)	(17)	(85)
Other operating income	3	19	19	36	94	17
Staff and administrative expenses	84	627	503	426	380	370
Other operating costs, depreciation and amortisation	0	3	3	2	3	5
Provisions for loan and receivable impairment	(7)	(52)	5	2	125	33
Profit from investments in associates and group enterprises	10	73	57	33	24	21
<b>Profit before tax</b>	<b>118</b>	<b>877</b>	<b>601</b>	<b>421</b>	<b>418</b>	<b>144</b>
Tax	34	250	162	131	125	46
<b>Profit for the year</b>	<b>84</b>	<b>627</b>	<b>439</b>	<b>290</b>	<b>293</b>	<b>98</b>
<b>BALANCE SHEET, YEAR-END</b>						
<b>Assets</b>						
Cash balance and receivables from credit institutions	2,451	18,271	15,035	13,097	14,731	13,750
Loans, advances and other receivables at fair value	460	3,432	6,688	5,242	3,012	3,872
Loans, advances and other receivables at amortised cost	3,857	28,758	19,484	17,418	19,192	20,450
Bonds and equities	6,327	47,177	35,893	31,379	29,486	20,044
Investments in associates and group enterprises	50	371	243	197	163	156
Other asset items	1,094	8,156	6,819	6,587	5,842	5,446
<b>Total assets</b>	<b>14,239</b>	<b>106,165</b>	<b>84,162</b>	<b>73,920</b>	<b>72,426</b>	<b>63,718</b>
<b>Liabilities and equity</b>						
Payables to credit institutions and central banks	8,390	62,553	44,326	39,604	41,108	36,971
Deposits and other payables	3,053	22,764	22,192	19,190	13,432	11,387
Other non-derivative financial liabilities at fair value	943	7,032	6,484	5,110	8,304	5,966
Other liability items	1,108	8,261	6,693	6,008	5,899	5,766
<b>Total payables</b>	<b>13,494</b>	<b>100,610</b>	<b>79,695</b>	<b>69,912</b>	<b>68,743</b>	<b>60,090</b>
Provisions	2	14	53	33	22	22
Subordinate loan capital	174	1,300	800	800	800	800
Equity	569	4,241	3,614	3,175	2,861	2,806
<b>Total liabilities and equity</b>	<b>14,239</b>	<b>106,165</b>	<b>84,162</b>	<b>73,920</b>	<b>72,426</b>	<b>63,718</b>
*Incl reclassifications as a result of new accounting policies in 2005						
<b>OFF-BALANCE SHEET ITEMS</b>						
Guarantees	1,251	9,323	10,269	7,849	6,611	5,896
Other commitments	851	6,346	3,030	2,278	3,045	4,078
<b>Total off-balance sheet items</b>	<b>2,102</b>	<b>15,669</b>	<b>13,299</b>	<b>10,127</b>	<b>9,656</b>	<b>9,974</b>
<b>FINANCIAL RATIOS</b>						
Capital adequacy ratio, %		10.6	10.4	10.4	9.7	9.3
Core capital ratio, %		8.3	8.9	8.3	7.6	7.2
Return on equity before tax (pa) <sup>1</sup> , %		22.3	17.8	14.0	14.7	5.2
Return on equity after tax (pa) <sup>1</sup> , %		16.0	13.0	9.6	10.3	3.5
Income:cost ratio, DKK <sup>1</sup>		2.52	2.18	1.97	1.82	1.35
Interest rate exposure, %		4.2	3.3	3.0	2.4	3.1
Foreign exchange position, %		5.4	4.2	3.2	6.4	14.2
Foreign exchange exposure, %		0.2	0.1	0.0	0.1	0.2
Loans and advances:deposits, %		1.4	1.2	1.2	1.6	2.0
Loans and advances:equity		7.6	7.2	7.2	7.8	8.7
Growth in loans and advances for the year, %		23.0	15.7	1.8	(8.7)	9.5
Excess cover:statutory requirements for liquidity, %		117.2	207.8	195.2	93.3	175.9
Total major exposures, %		336.4	349.5	351.3	329.7	352.2
Impairment provisions for the year, %		(0.1)	0.0	0.0	0.4	0.1
<sup>1</sup> Incl effect of new accounting policies in 2004 and 2005 EUR 1 = DKK 7.4560 at end-2006						

## Group entities

### Nykredit Bank A/S

#### Summary income statement

DKKm	2006	2005
Net interest and fee income	877	883
Value adjustments	486	153
Other operating income	19	19
Capacity costs	630	506
Provisions for loan and receivable impairment	(52)	5
Profit from investments in associates and group enterprises	73	57
<b>Profit before tax</b>	<b>877</b>	<b>601</b>
Tax	250	162
<b>Profit for the year</b>	<b>627</b>	<b>439</b>

### Nykredit Bank A/S

#### Summary balance sheet

DKKm	2006	2005
Receivables from credit institutions	18,271	15,035
Loans, advances and receivables	32,190	26,172
Bonds and equities	47,177	35,893
Other asset items	8,527	7,062
<b>Total assets</b>	<b>106,165</b>	<b>84,162</b>
Payables to credit institutions	62,553	44,326
Deposits and other payables	22,764	22,192
Other liability items and provisions	15,307	13,230
Subordinate loan capital	1,300	800
Equity	4,241	3,614

### Nykredit Bank A/S

#### Financial ratios

	2006	2005
Capital adequacy ratio, %	10.6	10.4
Core capital ratio, %	8.3	8.9
Return on equity before tax, %	22.3	17.8
Return on equity after tax, %	16.0	13.0
Income:cost ratio, DKK	2.52	2.18
Number of full-time staff (avg)	402	346

### NYKREDIT BANK A/S

Nykredit Bank A/S is wholly owned by Nykredit Realkredit A/S, Copenhagen. Nykredit Bank has been included in this company's Consolidated Financial Statements and in the consolidated financial statements of Foreningen Nykredit, Copenhagen, which owns 86.71% of Nykredit Realkredit A/S.

The Nykredit Bank Group consists of the Parent Company Nykredit Bank A/S and its subsidiaries.

Nykredit Bank A/S applies the same recognition and measurement principles as those applied in the Nykredit Bank Group's Financial Statements, and profit for the year and equity are consequently identical in both financial statements.

As a significant part of the activities of the Nykredit Bank Group are completed through the Parent Company Nykredit Bank A/S, the financial development has been affected by the same factors as described in the management review of the Nykredit Bank Group.

In 2006 Nykredit Bank A/S recorded a profit of DKK 627m, up DKK 188m on profit for 2005 of DKK 439m.

Interest and fees netted DKK 877m compared with DKK 883m in 2005, while value adjustments went up from DKK 153m to DKK 486m.

Income from net interest and value adjustments should be considered in context as the Bank to a large extent uses interest-bearing financial assets and liabilities combined with derivatives as part of its day-to-day operations, including swaps for interest rate hedging purposes. The development in value adjustments also reflects the increased business volume within interest rate products and derivative financial products as well as income from the Bank's own securities portfolios. Moreover, the item is affected positively by value adjustments of corporate bonds.

Other operating income was unchanged at DKK 19m, stemming mainly from operating leases.

Costs rose from DKK 506m in 2005 to DKK 630m, up 24%. The increase was related to the higher level of activity leading to a rise in the

number of staff as well as IT expenses. The average number of staff went up by 16% to 402 in 2006 against 346 in 2005.

Provisions for loan impairment were a positive DKK 52m against a negative DKK 5m in 2005. The background for the positive effect on results is the same as previously described.

#### Balance sheet – principal items

The balance sheet grew from DKK 84.2bn at end-2005 by DKK 22.0bn to DKK 106.2bn at end-2006.

The cash balance and receivables from credit institutions and central banks increased from approximately DKK 15bn to DKK 18bn of which reverse transactions were DKK 8.7bn against DKK 5.8bn at end-2005.

Loans, advances and receivables increased by DKK 6.0bn to DKK 32.2bn. Corporate lending accounted for approximately DKK 8bn of the increase, while retail lending was responsible for a rise of just over DKK 1bn. Reverse transactions from the Bank's Markets and own portfolio activities fell by DKK 3.2bn to DKK 3.4bn.

Bonds and equities went up from DKK 35.9bn to DKK 47.2bn. The size of the portfolio as well as the increase for the year should especially be considered in the light of Nykredit Markets's trading operations and the Bank's repo market activities.

Payables to credit institutions and central banks increased from DKK 44.3bn to DKK

62.5bn, of which repo transactions contributed a rise of DKK 4.7bn to DKK 13.4bn.

Deposits and other payables increased by DKK 0.5bn to DKK 22.8bn. In total, deposits from Corporate Banking and Markets & Asset Management customers remained unchanged, while retail deposits went up by DKK 0.5bn.

At end-2006 equity stood at DKK 4,241m against DKK 3,614m at end-2005. The increase equals retained earnings of DKK 627m. Of total equity, statutory reserves were DKK 147m (reserve for net revaluation according to the equity method). The capital adequacy ratio was 10.6% against 10.4% at end-2005.

#### THE NYKREDIT PORTEFØLJE BANK GROUP

The company is wholly owned by Nykredit Bank A/S.

Profit before tax was DKK 52m against DKK 40m in 2005. Profit after tax was DKK 37m against DKK 29m in 2005.

Income from net interest, fees paid and received and value adjustments of securities came to DKK 138m against DKK 107m in 2005. The rise was caused by a significant increase in assets under management and administration. The largest relative increase was recorded in the asset management area where profit margins are highest.

Assets under management went up from DKK 39.8bn to DKK 71.5bn, while assets under administration went up from DKK 143.3bn to DKK 216.3bn.

Costs grew by DKK 20m to DKK 86m of which staff-related costs accounted for DKK 12m as the average number of staff increased from 54 to 63. The company's further development of IT-based tools for the management of portfolios of increasing complexity led to a high cost level in 2006 as well.

At end-2006 the Nykredit Portefølje Bank Group's balance sheet totalled DKK 182m against DKK 131m at end-2005. Assets consisted mainly of receivables from credit institutions of DKK 9m (2005: DKK 20m) and investments in short-term bonds of DKK 125m

#### The Nykredit Portefølje Bank Group Summary income statement

DKKm	2006	2005
Net interest and fees	138	107
Value adjustments	0	(1)
Capacity costs	86	66
<b>Profit before tax</b>	<b>52</b>	<b>40</b>
Tax	15	11
<b>Profit for the year</b>	<b>37</b>	<b>29</b>

#### The Nykredit Portefølje Bank Group Summary balance sheet

DKKm	2006	2005
Receivables from credit institutions	9	20
Bonds and equities	125	78
Other asset items	48	33
<b>Total assets</b>	<b>182</b>	<b>131</b>
Other liability items and provisions	35	21
Equity	147	110

#### The Nykredit Portefølje Bank Group Financial ratios

	2006	2005
Capital adequacy ratio, %	276.0	180.5
Core capital ratio, %	276.0	180.5
Return on equity before tax	40.8	41.4
Return on equity after tax	28.6	30.7
Income:cost ratio, DKK	1.61	1.60
Number of full-time staff (avg)	63	54

(2005: DKK 78m). In accordance with Group policy, excess liquidity has been invested in short-term securities, etc.

Equity stood at DKK 147m against DKK 110m at end-2005.

#### DANSK PANTEBREVSØRS A/S

Nykredit Bank A/S owns 50% of the company. The company's accounting figures have been

subject to proportionate consolidation in the Nykredit Bank Group's Financial Statements. The company recorded a profit of DKK 26m against DKK 18m in 2005, up 44%, of which 50% has been recognised in Nykredit Bank's Financial Statements.

In 2006 activity levels surpassed expectations following a positive development in the issuance of second mortgages on residential, rental and commercial properties. Especially

the financing of rental properties contributed to the positive development.

Total income from interest, fees and value adjustments increased by DKK 16m (up 27%) to DKK 74m. In consequence of the activity rise, costs rose by DKK 4m to DKK 37m, in part due to a lift in the number of average staff from 35 to 40.

The company's assets mainly consisted of a mortgage portfolio which grew by DKK 107m to DKK 469m. Payables to credit institutions amounted to DKK 429m equal to a rise of DKK 86m - an effect of an increased funding need related to the growing mortgaging activity.

Equity went up by DKK 9m to DKK 48m. In 2006 the company paid dividend of DKK 18m to its shareholders.

#### Dansk Pantebrevsbørs A/S Summary income statement

DKKm	2006	2005
Net interest and fees	16	14
Value adjustments	58	44
Capacity costs	37	33
<b>Profit before tax</b>	<b>37</b>	<b>25</b>
Tax	11	7
<b>Profit for the year</b>	<b>26</b>	<b>18</b>

#### Dansk Pantebrevsbørs A/S Summary balance sheet

DKKm	2006	2005
Receivables from credit institutions	2	8
Mortgage portfolio	469	362
Other asset items	25	16
<b>Total assets</b>	<b>496</b>	<b>386</b>
Payables to credit institutions	429	343
Other liability items and provisions	19	4
Equity	48	39
Number of full-time staff (avg)	40	35

#### Nykredit Leasing A/S Summary income statement and balance sheet

DKKm	2006	2005
Interest and fee income	2	2
<b>Profit for the year</b>	<b>1</b>	<b>2</b>
Loans, advances and receivables	112	119
<b>Total assets</b>	<b>135</b>	<b>120</b>
Payables to credit institutions	109	102
Equity	6	4

#### NYKREDIT LEASING A/S

The company, which is wholly owned by Nykredit Bank A/S, carries on leasing business aimed at Danish agricultural and commercial customers. The company has no staff.

The company largely recorded the same income as in 2005, and profit for the year was DKK 1m against DKK 2m in 2005. Activities during the year were significantly reduced compared with expectations, evidenced by a reduction in loans, advances and receivables from DKK 119m at end-2005 to DKK 112m at end-2006.

Equity amounted to DKK 6m at year-end.

#### NYKREDIT FIXED INCOME OPPORTUNITIES FUND LIMITED

The company is wholly owned by Nykredit Bank A/S and has been in operation since 1 December 2006 when Nykredit Bank contributed share capital of EUR 15m. The company is registered in the Cayman Islands as a mutual fund and in principle operates as a Danish investment fund. The company has no staff.

Intentions are to gradually reduce the Bank's interests in the company either through a sale of units or the contribution of new capital by new investors.



The company recorded a profit after tax of nearly DKK 1m.

Assets amounted to DKK 603m and consisted mainly of receivables from credit institutions of DKK 165m and bond portfolios of DKK 418m, primarily Danish mortgage bonds.

Payables related chiefly to credit institutions and negative bond portfolios of DKK 325m and DKK 150m, respectively. Equity totalled DKK 112.6m (EUR 15.1m) equal to the Bank's capital contribution at 1 December and retained earnings for the year.

#### OTHER COMPANIES

Nykredit Bank also owns a number of small companies which have been completely or partly without activity in 2006. The companies have been consolidated in the Nykredit Bank Group's Financial Statements and appear from the Group structure, cf note 43.

*Nykredit Pantebrevsinvestering A/S's* mortgage portfolio was sold in 2005. The company's activities in 2006 were limited. Profit before tax was DKK 0.4m against a loss of DKK 0.2m in 2005.

Total assets were DKK 10.6m against DKK 19m at end-2005. Assets consisted mainly of receivables from Nykredit Bank of DKK 8m and lending of DKK 3m. At end-2005 the same items amounted to DKK 12m and DKK 3m, respectively. Equity stood at DKK 10m against DKK 19m at end-2005. In 2006 the company paid dividend of DKK 9m.

*Pantebrevsselskabet af 8/8 1995 A/S* had no activities in 2006. Profit after tax was DKK 0.5m against DKK 0.3m in 2005.

Assets remained unchanged at DKK 26m and consisted of receivables from Nykredit Bank A/S. Equity remained unchanged at DKK 26m.

*LeasIT A/S*, of which the Bank owns 22.65%, is subject to proportionate consolidation in the Nykredit Bank Group's Financial Statements. The company carries on leasing activities.

The company recorded a loss after tax of DKK 8m in 2006 against a profit of DKK 7m in 2005. The company saw growth in core income in 2006 of DKK 11.8m to DKK 60.1m as a

result of a satisfactory business development. However, the company also had to make provisions for the impairment of certain major contracts worth a total of DKK 37.7m against DKK 10.5m in 2005 which contributed significantly to the negative results in 2006.

Costs went up concurrently with the development in activities from DKK 28.6m in 2005 to DKK 33.1m in 2006. Average staff came to 33 against 30 in 2005.

Assets were DKK 1,970m against DKK 1,716m at end-2005 of which lease financing accounted for DKK 1,806m against DKK 1,646m at end-2005 equal to a rise of DKK 160m. Payables to credit institutions were DKK 1,748m against DKK 1,505m at end-2005.

Equity went up from DKK 68m at end-2005 to DKK 70m. The company's share capital grew by DKK 2m from DKK 14.2m to DKK 16.2m, and the share premium account increased to DKK 8m.

Furthermore, the Bank has two small UK subsidiaries which have not had any activities in recent years and are in the process of being wound up.

# Management Statement and Audit Reports



## STATEMENT BY THE EXECUTIVE BOARD AND BOARD OF DIRECTORS ON THE ANNUAL REPORT

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report for 2006 of Nykredit Bank A/S and the Nykredit Bank Group.

The Consolidated Financial Statements have

been prepared in accordance with the International Financial Reporting Standards as adopted by the EU. The Parent Financial Statements have been prepared in accordance with the Danish Financial Business Act. The Annual Report has furthermore been prepared in accordance with the Danish disclosure requirements for annual reports of issuers of listed bonds.

In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Company's assets, liabilities, equity and financial position at 31 December 2006 and the results of the Group's and the Parent Company's activities as well as the Group's cash flows for the financial year 2006.

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

Copenhagen, 7 February 2007

## BOARD OF DIRECTORS

Henning Kruse Petersen, Chairman

Søren Holm, Deputy Chairman

Per Ladegaard

Søren Klitholm, staff-elected

Allan Kristiansen, staff-elected

## EXECUTIVE BOARD

Kim Duus

Karsten Knudsen

**INTERNAL AUDITORS' REPORT**

We have audited the Annual Report of Nykredit Bank A/S for the financial year 1 January-31 December 2006. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent 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 Undertakings etc. as well as Financial Groups and the Danish and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.

The audit has been performed in accordance with the division of work agreed with the external auditors and has included an assessment of procedures and internal control established, including the risk management organised by Management relevant to the entity's reporting processes and significant business risks. Based on materiality and risk, we have examined, on a test basis, the basis of amounts and other disclosures in the Annual Report, including evidence supporting amounts and disclosures in the Annual Report. Furthermore, the audit has included evaluating the appropriateness of the accounting policies applied by Management and the reasonableness of the 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 procedures and internal control established, including the risk management organised by Management aimed at Group and Parent Company reporting processes and significant business risks, are working satisfactorily.

Furthermore, in our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Company's assets, liabilities, equity and financial position at 31 December 2006 as well as of the Group's and the Parent Company's activities and the Group's cash flows for the financial year 1 January-31 December 2006 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the Consolidated Financial Statements, in accordance with the Danish Financial Business Act in respect of the Parent Financial Statements, and otherwise in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Copenhagen, 7 February 2007

Claus Okholm  
Chief Audit Executive

Kim Stormly Hansen  
Deputy Chief Audit Executive

## EXTERNAL AUDITORS' REPORT

### Independent auditors' report

#### To the shareholder of Nykredit Bank A/S

We have audited the Annual Report of Nykredit Bank A/S for the financial year 1 January-31 December 2006. The Annual Report comprises the statement by Management on the Annual Report, the Management's review, the accounting policies, the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the Financial Statements. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent 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 International Financial Reporting Standards as adopted by the EU in respect of the Consolidated Financial Statements, in accordance with the Danish Financial Business Act in respect of the Parent Financial Statements, and otherwise in accordance with 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 this Annual Report based on our audit. We conducted our audit in accordance with Danish and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence for the amounts and disclosures in the Annual Report. The procedures selected depend on the auditors' 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 the accounting policies applied by Management and the reasonableness of the 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 Group's and the Parent Company's assets, liabilities, equity and financial position at 31 December 2006 as well as of the Group's and the Parent Company's activities and the Group's cash flows for the financial year 1 January-31 December 2006 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the Consolidated Financial Statements, in accordance with the Danish Financial Business Act in respect of the Parent Financial Statements, and otherwise in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Copenhagen, 7 February 2007

#### Deloitte

#### Statsautoriseret Revisionsaktieselskab

Erik Holst Jørgensen  
State-Authorised Public Accountant

Anders O. Gjelstrup  
State-Authorised Public Accountant

# Financial Statements 2006



## ACCOUNTING POLICIES

### General

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The Consolidated Financial Statements have furthermore been prepared in accordance with Danish disclosure requirements relating to the presentation of financial statements of issuers of listed bonds, of the disclosure requirements of the Copenhagen Stock Exchange and the Executive Order on the application of international financial reporting standards for companies subject to the Danish Financial Business Act.

### Early implementation of IFRS

The following standards have been implemented early:

- IAS 1 Amendment – Capital Disclosures. The amendment of IAS 1 formally takes effect on 1 January 2007, but an early implementation is recommended. The amendments introduce disclosure requirements as to the capital related to targets, practices and processes of capital management. Nykredit has opted to implement the amendments at 1 January 2006.
- IFRS 7 Financial instruments: Disclosures. This standard introduces new disclosure requirements in relation to financial instruments in financial statements. This replaces IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and certain provisions of IAS 32 Financial Instruments: Disclosure and presentation. IFRS 7 formally takes effect at 1 January 2007. Nykredit has opted to

implement the amendments at 1 January 2005.

### Implementation of new and amended standards and interpretations

The Annual Report for 2006 has been presented in accordance with the new and amended standards (IFRS/IAS) as well as the new international financial reporting interpretations (IFRIC) applicable to financial years beginning on 1 January 2006 or later. The implementation of new and amended standards and interpretations in the Annual Report for 2006 has led to the following amendments to the accounting policies:

- Recognition and measurement of financial assets and financial liabilities at fair value in the income statement (fair value option) (IAS 39).

In June 2005 IASB adopted amendments to IAS 39 Financial instruments: Recognition and measurement, so that the access to recognise fair value adjustments of financial assets and liabilities in the income statement (“the Fair Value Option”) is limited. According to the IAS 39 previously in force, an enterprise could opt to classify all financial assets and financial liabilities as “financial assets/financial liabilities measured at fair value and recognised in the income statement”. Following the amendments to the standard, this is only possible if the assets or liabilities are included in a trading portfolio, where application of the method eliminates or significantly reduces inconsistent recognition and measurement of financial assets and liabilities, or if a group of financial assets or financial liabilities or both are managed according to a documented risk management or investment strategy.

Under certain circumstances, the revised fair value option also allows for completely combined contracts involving one or more derivative instruments to be classified as financial assets or financial liabilities at fair value and recognised in the income statement.

### General about recognition and measurement

#### Recognition

Assets have been recognised in the balance sheet if it has been probable that future economic benefits will flow to the Company, and if the value of the asset can be measured reliably.

Liabilities have been recognised in the balance sheet if it has been probable that future economic benefits will flow from the Company/Group, and if the value of the liability can be measured reliably.

Income has been recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost have been recognised in the income statement in the period in which they arose.

Also, all costs incurred in connection with this year’s earnings have been recognised in the income statement, including depreciation and amortisation, impairment losses and provisions as well as reversals as a result of changed accounting estimates previously recognised in the income statement.

Financial assets and liabilities have initially been recognised on the date of transaction and have been derecognised where the right to receive/pay cash flows from the financial

asset or liability has lapsed, or if the right has been transferred and the Group has in all material respects transferred all risks and returns related to ownership.

#### Measurement

The financial statements have been prepared based on the historical cost convention except as modified by the recognition of financial assets and liabilities, including properties.

On initial recognition, financial assets and liabilities have been measured at fair value. Financial assets and liabilities have subsequently been measured at either fair value or amortised cost depending on their classification.

The categories "loans, advances and receivables" and "other financial liabilities" have in general been measured at amortised cost, including a constant effective interest rate over their terms. Amortised cost has been determined as the original cost with the deduction of principal payments and the addition/deduction of the accumulated amortisation of the difference between cost and the nominal value with the deduction of impairment provisions. Capital losses and gains have accordingly been distributed over the maturity.

The category "Financial assets and liabilities at fair value through profit or loss" consists of the two subcategories: financial assets/liabilities held for trading and assets/liabilities classified at fair value (fair value option) on initial recognition.

Financial assets/liabilities have been classified as "held for trading" if acquired principally to obtain a gain in the short term, if they form part of a portfolio where evidence of a short-term realisation of gains exists or if classified as such by Management. Derivative financial instruments have also been classified as financial assets held for trading unless classified as hedges.

On initial recognition, a financial asset/liability has been classified at fair value (fair value option) if a group of financial assets/liabilities are managed and the earnings are determined by Nykredit Bank's Management based on their fair value in accordance with a documented risk management or investment strategy, or if such classification eliminates or in

material respects reduces any accounting mismatch that might arise on application of the ordinary measurement provisions of IAS 39.

"Financial assets and liabilities at fair value through profit or loss" have been measured at fair value, and realised and unrealised gains and losses arising as a result of changes in the fair value have been recognised in the income statement in the period in which they arose.

If the market for a financial asset or liability is illiquid, or if no publicly recognised pricing exists, Nykredit Bank has determined the fair value using recognised measurement techniques. These techniques include corresponding recent transactions between independent parties, reference to other corresponding instruments and an analysis of discounted cash flows as well as option and other models based on observable market data.

In Management's opinion, the methods and estimates applied as part of the measurement techniques give a reliable view of the fair value of the instruments.

#### Derivative financial instruments

On initial recognition, derivative financial instruments have been recognised in the balance sheet at fair value and subsequently measured at fair value. Value adjustments have been recognised through profit or loss under "Value adjustments" in the period in which they arose. Positive and negative fair values of derivative financial instruments have been recognised under other assets or other liabilities, as appropriate. The fair values of derivative financial instruments have been stated on the basis of available market data and recognised measurement methods.

#### Hedge accounting

Changes in the fair values of derivative financial instruments classified as and meeting the criteria of fair value hedges of a recognised asset or liability have been recognised in the income statement, including changes in the value of the hedged asset or the hedged liability to the extent of the hedged part.

The hedges have been established for individual assets and liabilities and at portfolio level. The hedge accounting effectiveness has been measured and assessed on a continuous basis.

#### Accounting estimates

In accordance with IFRS, the Annual Report has been prepared on the basis of certain special assumptions that require the use of accounting estimates. These estimates have been made by Nykredit Bank's Management in accordance with the accounting policies and based on previous experience and, in Management's opinion, reasonable and realistic assumptions.

The accounting estimates and their underlying assumptions have been tested and assessed regularly.

Areas implying a higher degree of assessment or complexity or areas in which assumptions and estimates are material to the financial statements are:

- Provisions for loan and receivable impairment where the quantification of the risk of not receiving all future payments involves significant estimates
- Unlisted financial instruments where the measurement of fair values involves significant estimates
- Provisions where actuarial assumptions, including staff turnover, involve significant estimates.

Other significant accounting estimates have been disclosed separately in the Annual Report.

#### Consolidation

Nykredit Bank A/S (the Parent Company) and the enterprises in which Nykredit Bank A/S exercises direct or indirect control over the enterprises' financial and operational management have been included in the Consolidated Financial Statements. Together, Nykredit Bank A/S and its subsidiaries have been referred to as the Nykredit Bank Group.

Joint ventures are enterprises in which Nykredit Bank exercises joint control with other enterprises not forming part of the Group. The Group's investments in joint ventures have been recognised by proportionate consolidation.

The Consolidated Financial Statements have been prepared based on the financial state-

ments of the individual enterprises combining items of a uniform nature. All intercompany income and costs, dividends, intercompany shareholdings and balances as well as realised and unrealised intercompany gains and losses have been eliminated.

#### Segment information

Information has been provided on business segments and geographic markets. The presentation of the business areas has been based on the continuous reporting made to the Group Management and, consequently, the principles applied in connection with management control. The business segments reflect the Group's returns and risks and are considered the Group's primary segments.

The segments include the concepts core earnings and investment portfolio income. Core earnings include earnings from lending, ie customer-oriented activities, and core earnings from securities. Core earnings from securities include the risk-free return on the part of the securities portfolio not allocated to the business areas. No risk-free interest is calculated on capital allocated to the business areas.

Investment portfolio income comprises the returns exceeding risk-free interest. Income and expenses included in the profit/loss before tax of the individual segments include directly as well as indirectly attributable items. Such allocation has been based on internally fixed allocation keys as well as intercompany agreements between the individual business segments. Items not directly or indirectly attributable have not been subject to allocation.

The underlying financial assets and liabilities of the financial income and expenses forming part of the segment profit/loss have been allocated to the relevant business segment.

Non-current assets in the segment include the non-current assets used directly as part of the segment operations, including property, plant, equipment and investments in associates.

The business capital of the individual segments equals 8% of the segments' average weighted items (the minimum requirement), while the business return has been estimated as profit/loss relative to the business capital.

Information has been provided exclusively at Group level.

#### Currency

The Consolidated Financial Statements have been presented in Danish kroner (DKK) which is the functional as well as the presentation currency of the Parent Company. All other currencies have been regarded as foreign currencies.

Transactions in foreign currencies have been translated into the functional currency at the exchange rates prevailing on the transaction date. Exchange rate gains and losses arising on the settlement of these transactions have been recognised in the income statement.

At the balance sheet date, monetary assets and liabilities in foreign currencies have been translated at the rate prevailing at the balance sheet date. Foreign currency translation adjustment has been recognised in the income statement.

Currency translation differences arisen on translation of non-monetary items such as equities at fair value recognised in the income statement have been recognised as part of the fair value gain or loss. Currency translation differences arisen on translation of non-monetary items such as equities classified as financial assets available-for-sale have been recognised in the fair value reserve under equity.

The financial statements of integrated foreign entities have been translated into Danish kroner at the exchange rates prevailing at the balance sheet date with respect to balance sheet items and at average exchange rates with respect to income statement items. The currency change in foreign subsidiaries has been recognised directly in equity.

#### Impairment

The carrying amounts of property, plant and equipment are reviewed annually to determine whether there are any indications of impairment apart from what has been recognised as depreciation. If this is the case, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount, and the asset concerned will be written down to the lower recoverable amount. Such impairment test is carried out annually with respect to in-progress development

projects regardless of whether there have been any indications of impairment.

The recoverable amount of the asset has been determined as the higher value of the net sales price and the value in use. Where no recoverable amount can be determined for the individual asset, the assets have been measured in the lowest aggregation of assets where overall measurement can provide a reliable recoverable amount.

#### Repo/reverse

Securities sold as part of sale and repurchase transactions have been retained in the balance sheet under the appropriate principal item, eg "Bonds". The amount received has been recognised as payables to the counterparty or under the item "Non-derivative financial liabilities at fair value". The liability has been fair value-adjusted over the maturity of the contract through profit or loss.

Securities acquired as part of sale and repurchase transactions have been stated as receivables from the counterparty or under the item "Loans, advances and receivables at fair value". The receivable has been fair value-adjusted over the maturity of the contract through profit or loss.

#### Leases

The Nykredit Bank Group has entered into a number of leases with the Nykredit Bank Group as lessor.

Receivables from the lessee under finance leases have been included under "Loans, advances and other receivables at amortised cost". The leases have been measured to the effect that the carrying amount equals the net investment in the lease. Interest income under finance leases has been recognised as income under the item "Interest income". Repayments made have been deducted from the carrying amount concurrently with the amortisation of the receivable.

Direct costs on conclusion of leases have been recognised in the net investment.

Properties leased under operating leases have been classified as "Investment properties". The properties have been measured at fair value in accordance with IAS 40 "Investment properties". Fair value adjustments have been recog-

nised on a continuous basis through profit or loss under the item "Value adjustments".

Lease payments received have been recognised as income under "Other operating income" on a continuous basis.

## INCOME STATEMENT

### Interest income and expense

Interest includes interest due and accrued up to the balance sheet date.

Interest income includes interest and interest-like income, including interest-like commission received and other income forming an integral part of the effective interest of the underlying instruments. The item also includes the index premium on assets, forward premium of securities and foreign exchange trades as well as adjustments over the maturity of financial assets measured at amortised cost and where cost differs from the redemption price.

Interest income from impaired bank loans and advances has been included under "Interest income" at an amount reflecting the effective interest of the impaired value of loans and advances. Any interest income from the underlying loans and advances exceeding this amount has been included under the item "Provisions for loan and receivable impairment".

Interest expense includes all interest-like expenses including adjustment over the maturity of financial liabilities measured at amortised cost and where cost differs from the redemption price.

### Dividend

Dividend from equity investments has been recognised as income in the income statement for the financial year in which the dividend was declared.

### Fees and commissions

Fees and commissions include income and expenses relating to services, including management fees. Fee income relating to services delivered on a continuous basis has been accrued over their terms.

Fees, commissions and transaction costs have been treated for accounting purposes as inter-

est if they form an integral part of the effective interest rate of a financial instrument.

Other fees have been recognised in the income statement at the date of transaction.

### Value adjustments

Value adjustments include foreign currency translation adjustment and value adjustments of assets and liabilities measured at fair value. However, value adjustments relating to the credit risk from loans, advances and receivables measured at fair value have been carried under "Provisions for loan and receivable impairment".

### Staff and administrative expenses

Staff expenses include wages and salaries as well as social expenses and pensions.

### Provisions for loan and receivable impairment

Impairment losses ascertained and changes for the year in impairment provisions have been charged to the income statement under the item "Provisions for loan and receivable impairment".

### Profit/loss from investments in associates

The proportionate share of associates' profit/loss before tax after elimination of the proportionate share of intercompany profit/loss has been recognised in the Consolidated Income Statement.

### Tax

Tax calculated at the current tax rate of taxable income for the year, adjustment of tax assessed for previous years and adjustment of the proportion of deferred tax relating to tax assets and liabilities attributable to profit for the year have been charged to the income statement. Adjustments relating to deferred tax attributable to direct equity entries have been recognised directly in equity.

Nykredit Bank and the Bank Group's Danish companies are jointly taxed with Foreningen Nykredit. The Parent Company settles total tax payable by the Group on the taxable income assessed for the year. Current Danish corporation tax payable has been distributed between the jointly taxed Danish companies relative to their taxable income (full distribution subject to refund for tax losses).

Domestic corporation tax payable by the jointly taxed companies is payable in accordance with the scheme for payment of tax on account. Interest payable or receivable relating to voluntary payments of tax on account and interest payable or receivable on the over-/underpayment of tax have been recognised under "Other interest income" or "Other interest expense", as appropriate.

## ASSETS

### Receivables from credit institutions and central banks

Receivables from credit institutions and central banks include receivables from other credit institutions and time deposits with central banks. Initial recognition takes place at fair value. Receivables are subsequently measured at amortised cost or fair value if included in the trading portfolio. The same applies to genuine purchase and resale transactions recognised under the item. The fair value adjustment takes place through profit or loss.

### Loans, advances and other receivables at fair value (fair value option)

The item includes loans and advances related to genuine purchase and resale transactions included in the trading portfolio. The fair value adjustment takes place through profit or loss.

### Loans, advances and other receivables at amortised cost

On initial recognition, other loans, advances and other receivables have been measured at fair value with the deduction/addition of the costs or income related to the acquisition. Subsequent measurement takes place at the lower of amortised cost and the net realisable value with the deduction of provisions for loan impairment.

### Provisions for loan and receivable impairment

The Nykredit Bank Group performs continuous individual review and risk assessment of all significant loans, advances and receivables with a view to uncovering objective indications of impairment. Where objective indications of impairment are present, and such event(s) affect(s) the size of expected future payments from the exposure which can be measured reliably, impairment provisions have been made for the exposure at the difference between the car-



rying amount before impairment and the present value of expected future payments from the exposure. Objective indications are deemed present where for example borrowers have serious financial difficulties, where borrowers do not fulfil their payment obligations under their contracts, and where it is probable that borrowers will go into bankruptcy or become subject to other financial restructuring.

Similarly, provisions have been made for non-significant loans, advances and receivables in case of objective indications of impairment where the event(s) concerned is(are) believed to have a reliably measurable effect on the size of expected future payments from the exposure.

Loans and advances, which have not been subject to individual provisioning, have been included in the group-based assessment of loans and advances of uniform characteristics of credit risk. Group-based impairment provisions have been made for groups of loans where future losses exceed the losses expected at the time of the granting of a loan.

Where events occur showing a partial or complete reduction of an impairment loss following individual or group-based provisioning, impairment provisions have been reversed accordingly.

Impairment provisions have been deducted from the asset items concerned.

#### **Equities and bonds**

Equities and bonds have been recognised at fair value at the transaction date and subsequently measured at fair value equal to fair value determined on the basis of market data and recognised measurement methods. Changes in the fair value have been recognised on a continuous basis in the income statement under value adjustments.

However, the Group's own portfolio of own issued bonds has been offset against issued bonds (the liability), and interest receivable relating to own bonds has been offset against interest payable.

#### **Investments in associates**

Associates are enterprises in which the Nykredit Bank Group exercises significant influence but not control.

Investments in associates have been recognised and measured according to the equity method and have therefore been measured at the proportionate share of the enterprises' equity value carried with the deduction or addition of the proportionate share of unrealised intercompany profits or losses and with the addition of residual goodwill.

Total net revaluation of investments in associates has been transferred through the profit distribution to "Reserve for net revaluation according to the equity method" under equity.

#### **Land and buildings**

##### *Owner-occupied properties*

Owner-occupied properties are properties which the Nykredit Bank Group uses for administration and as sales and customer contact centres or for other service activities. The owner-occupied property has been recognised in the balance sheet at the value which the Bank expects the property to generate on its disposal with the deduction of accumulated depreciation and impairment losses.

Depreciation has been made on a straight-line basis over 20–50 years based on expected scrap values and the estimated useful lives of the properties.

Increases in the carrying amounts arising on the revaluation of owner-occupied properties have been added to the revaluation reserve under equity. Impairment losses offsetting former revaluations of the same asset have been deducted from revaluation reserves directly in equity, while other impairment losses have been recognised in the income statement.

Subsequent expenses have been recognised in the carrying amount of the asset concerned or recognised as a separate asset where it has been probable that expenses incurred will lead to future economic benefits for the Group, and the expenses can be measured reliably. Expenses for ordinary repair and maintenance have been recognised in the income statement as incurred.

Gains and losses on divested assets have been determined by comparing the sales proceeds with the carrying amount. Gains and losses have been recognised in the income statement. On divestment of revalued assets, revaluations con-

tained in the revaluation reserve have been transferred to retained earnings.

##### *Investment properties*

Properties owned for lease purposes and not occupied by the Group have been classified as investment properties.

Investment properties have been carried at fair value.

The fair value has been based on active market prices adjusted, if necessary, for differences in the nature, location or state of repair of the asset concerned. If such information has not been available, the Group has applied alternative measurement methods such as the return method or estimated discounted cash flows. Changes in the fair value have been recognised in the income statement. The valuation has been made by a valuer associated with the Parent Company Nykredit Realkredit A/S who specialises in the valuation of commercial properties.

#### **Other property, plant and equipment**

##### *Equipment*

Equipment has been measured at historical cost less accumulated depreciation and impairment losses. Cost includes the purchase price and costs directly related to the acquisition up to the time when the assets are ready for entry into service.

Depreciation has been made on a straight-line basis over the expected useful lives as follows:

- Computer equipment and machinery 4 years
- Equipment and motor vehicles 5 years

The residual value and useful lives of the assets have been assessed and adjusted, if necessary, at each balance sheet date. The carrying amount of an asset has been written down to the recoverable value immediately if the carrying amount of the asset exceeds the estimated recoverable value.

Gains and losses on the continuous replacement of property, plant and equipment have been recognised in the income statement under "Other operating income" and "Other operating expenses".

**Prepayments**

Prepayments carried as assets include prepaid costs.

**LIABILITIES AND EQUITY****Payables**

Payables to credit institutions and central banks, deposits and other payables have been recognised at the proceeds received less transaction costs incurred. In subsequent periods, payables have been measured at amortised cost equal to the capitalised value using the effective interest rate so that the difference between the proceeds and the nominal value has been recognised in the income statement as an interest expense over the term of the loan. Other payables have been measured at amortised cost, which in all essential respects equals the nominal value.

Payables to credit institutions and central banks including deposits arisen as part of "genuine sales and repurchase transactions" or forming part of the Bank's trading portfolio have been measured at fair value on a continuous basis. Fair value adjustments have been recognised continuously through profit or loss.

**Issued bonds at amortised cost**

Issued bonds have been recognised at cost equal to consideration received less costs incurred. Issued bonds have subsequently been measured at amortised cost. Where the bonds have embedded derivative financial hedging instruments measured at fair value, the bonds will be value-adjusted on a continuous basis to ensure accounting symmetry of the value adjustment of the hedged instrument and the hedging derivative financial instrument.

**Other non-derivative financial liabilities at fair value**

Other non-derivative financial liabilities at fair value include deposits and negative securities portfolios related to "genuine sales and repurchase transactions" held for trading. These financial instruments have subsequently been recognised and measured at fair value. Fair value adjustments have been recognised continuously through profit or loss.

**Provisions**

Provisions have been recognised where, as a result of an event occurred before or on the balance sheet date, the Group has a legal or constructive obligation, and where it has been probable that economic benefits must be provided to settle the obligation.

In connection with the measurement of provisions, the costs necessary to settle the obligation have been discounted where having a significant effect on the measurement of the obligation. A discount factor has been applied reflecting prevailing market rates with the addition of the specific risks which the provision concerned is estimated to involve. The changes in present values for the financial year have been recognised under interest expense/interest income. Provisions have been measured at Management's best estimate of the amounts considered to be necessary to redeem the obligation.

**Corporation and deferred tax**

Current tax liabilities and current tax receivable have been recognised in the balance sheet as tax calculated on taxable income adjusted for tax paid on account.

Deferred tax has been measured in accordance with the balance sheet liability method based on all temporary differences between the carrying amounts and tax bases of assets and liabilities.

Deferred tax assets, including the tax value of tax loss carryforwards, have been recognised at the value at which they are expected to be utilised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities.

Deferred tax has been measured on the basis of the tax rules and tax rates effective under current legislation at the balance sheet date when deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates have been recognised in the income statement.

**Deferred income**

Deferred income recognised under liabilities includes payments received concerning income recorded in subsequent years.

**Subordinate loan capital**

Subordinate loan capital has initially been recognised at fair value less transaction costs incurred. Subordinate loan capital has subsequently been carried at amortised cost, and any differences between the proceeds (less transaction costs) and the redemption value have been recognised in the income statement over the loan term using the effective interest method.

**Equity***Share capital*

Equities have been classified as equity where no obligation exists to transfer cash or other assets.

*Statutory reserves*

The reserves include value adjustments of investments in subsidiaries and associates (net revaluation according to the equity method). The reserve has been adjusted for the distribution of dividend to the Parent Company and for other movements in equity in subsidiaries and associates.

*Other reserves*

The reserves include distributable reserves which may be distributed to the Company's shareholders without limitation.

**CASH FLOW STATEMENT**

The consolidated cash flow statement has been prepared according to the indirect method based on profit/loss for the year. The consolidated cash flow statement shows cash flows from the operating, investing and financing activities for the year, the changes in cash and cash equivalents for the year and the Group's cash and cash equivalents at the beginning and end of the year.

Cash and cash equivalents consist of the items "Cash balance and demand deposits with central banks" and "Receivables from credit institutions and central banks".

**INTERCOMPANY TRANSACTIONS**

The Nykredit Group consists of a number of independent legal entities. Intercompany trade and services have been settled on an arm's length basis or, where no real market exists, on

estimated market terms. Alternatively, settlements have been made on a cost reimbursement basis.

#### **FINANCIAL RATIOS**

Financial highlights have been presented in accordance with the DFSA Executive Order on the Financial Reports for Credit Institutions and Investment Companies, etc.

#### **SPECIAL POLICIES FOR THE PARENT COMPANY NYKREDIT BANK A/S**

The Annual Report of Nykredit Bank A/S has been prepared in accordance with the Danish Financial Business Act and the DFSA Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

These rules comply with the International Financial Reporting Standards (IFRS) in all material respects and with the Nykredit Bank Group's accounting policies. Exceptions to this practice and special circumstances related to the Parent Company are described below.

#### **Investments in group enterprises and associates**

The DFSA Executive Order prescribes that equity investments in group enterprises and associates be recognised and measured according to the equity method. IFRS do not allow the use of "the equity method" in the separate annual financial statements of the Parent Company.

The proportionate ownership interest of the enterprises' equity values carried with the deduction or addition of unrealised intercompany profits or losses and with the addition of the residual value of goodwill has been recognised under "Investments in group enterprises" and "Investments in associates" in the balance sheet.

Nykredit Bank's share of the enterprises' profit/loss after elimination of unrealised intercompany profits and losses with the deduction of depreciation, amortisation and impairment losses has been recognised in the income statement.

Total net revaluation of investments in group enterprises has been transferred through profit

distribution to the "Reserve for net revaluation according to the equity method" under equity.

The recognition and measurement principles applied by Nykredit Bank are the same in the Parent Company and in the Group after which results and equity will be identical in both reports.

## Income statements for the financial year 2006

DKK million

Nykredit Bank A/S		Note	The Nykredit Bank Group	
2005	2006		2006	2005
2,178	2,994	2	3,029	2,204
1,409	2,243	3	2,253	1,410
<b>769</b>	<b>751</b>		<b>776</b>	<b>794</b>
4	6	4	6	4
329	422	5	556	419
219	302	6	306	210
<b>883</b>	<b>877</b>		<b>1,032</b>	<b>1,007</b>
153	486	7	522	177
19	19		21	20
503	627	8	739	590
2	2	9	2	3
1	1		1	3
5	(52)	10	(44)	7
57	73	11	-	-
<b>601</b>	<b>877</b>		<b>877</b>	<b>601</b>
162	250	12	250	162
<b>439</b>	<b>627</b>	13	<b>627</b>	<b>439</b>
439	627			
<b>439</b>	<b>627</b>			
439	627			
<b>439</b>	<b>627</b>			



## Balance sheets at 31 December

DKK million

Nykredit Bank A/S				The Nykredit Bank Group	
2005	2006		Note	2006	2005
<b>LIABILITIES AND EQUITY</b>					
44,326	62,553	Payables to credit institutions and central banks	25	63,107	44,654
22,192	22,764	Deposits and other payables	26	22,667	22,103
654	1,741	Issued bonds at amortised cost	27	1,741	654
6,484	7,032	Other non-derivative financial liabilities at fair value	28	7,032	6,484
-	74	Current tax liabilities	30	83	-
6,033	6,443	Other liabilities	29	6,852	6,085
6	3	Deferred income		4	9
<b>79,695</b>	<b>100,610</b>	<b>Total payables</b>		<b>101,486</b>	<b>79,989</b>
<b>Provisions</b>					
43	9	- Provisions for deferred tax	30	13	49
10	5	- Other provisions	31	5	10
<b>53</b>	<b>14</b>	<b>Total provisions</b>		<b>18</b>	<b>59</b>
800	1,300	Subordinate loan capital	32	1,300	800
<b>Equity</b>					
1,400	1,400	Share capital		1,400	1,400
131	147	Other reserves		-	-
2,083	2,694	- Statutory reserves		-	-
		Retained earnings		2,841	2,214
<b>3,614</b>	<b>4,241</b>	<b>Total equity</b>		<b>4,241</b>	<b>3,614</b>
<b>84,162</b>	<b>106,165</b>	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>107,045</b>	<b>84,462</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
10,269	9,323	Guarantees	33	9,343	10,399
3,030	6,346	Other contingent liabilities	34	6,374	3,058
<b>13,299</b>	<b>15,669</b>	<b>TOTAL OFF-BALANCE SHEET ITEMS</b>		<b>15,717</b>	<b>13,457</b>
		Related parties	35		
		Financial instruments	36		
		Derivative financial instruments	37		
		Unsettled spot transactions	38		
		Credit, foreign exchange, equity and interest rate exposures	39		
		Hedging of interest rate risk	40		
		Genuine sale and repurchase transactions and genuine purchase and resale transactions	41		
		Contingent liabilities	42		
		Group structure	43		

## Statement of changes in equity and capital adequacy

DKK million

The Nykredit Bank Group

2006	Share capital	Retained earnings	Total
<b>Equity, 1 January 2006</b>	1,400	2,214	3,614
Profit for the year	0	627	627
<b>Total comprehensive income</b>	0	627	627
<b>Total changes in equity</b>	0	627	627
<b>Equity, 31 December 2006</b>	1,400	2,841	4,241
<b>2005</b>			
<b>Equity, 1 January 2005</b>	1,400	1,748	3,148
Changed accounting policies	0	27	27
<b>Adjusted equity, 1 January 2005</b>	1,400	1,775	3,175
Profit for the year	0	439	439
<b>Total comprehensive income</b>	0	439	439
<b>Total changes in equity</b>	0	439	439
<b>Equity, 31 December 2005</b>	1,400	2,214	3,614
<b>Capital adequacy and core capital</b>		<b>2006</b>	<b>2005</b>
Share capital		1,400	1,400
Retained earnings		2,841	2,214
<b>Total core capital</b>		<b>4,241</b>	<b>3,614</b>
Supplementary capital		1,300	800
<b>Capital base</b>		<b>5,541</b>	<b>4,414</b>
Statutory deductions		113	194
<b>Capital base after statutory deductions</b>		<b>5,428</b>	<b>4,220</b>
Weighted items not included in the trading portfolio		40,502	30,932
Weighted items involving market risk		10,631	9,829
<b>Total weighted items</b>		<b>51,133</b>	<b>40,761</b>
Capital adequacy ratio, %		10.6	10.3
Core capital ratio, %		8.2	8.8

## Statement of changes in equity and capital adequacy

DKK million

Nykredit Bank A/S

	Share capital	Statutory reserve: Reserve for net re- valuation according to the equity method	Retained earnings	Total
<b>2006</b>				
Equity, 1 January 2006	1,400	131	2,083	3,614
Profit for the year	0	51	576	627
Other disposals/additions	0	(35)	35	0
<b>Total comprehensive income</b>	<b>0</b>	<b>16</b>	<b>611</b>	<b>627</b>
<b>Total changes in equity</b>	<b>0</b>	<b>16</b>	<b>611</b>	<b>627</b>
Equity, 31 December 2006	1,400	147	2,694	4,241
<b>2005</b>				
Equity, 1 January 2005	1,400	89	1,659	3,148
Changed accounting policies	0	0	27	27
<b>Adjusted equity, 1 January 2005</b>	<b>1,400</b>	<b>89</b>	<b>1,686</b>	<b>3,175</b>
Transfers	0	42	0	42
Profit for the year	0	0	397	397
<b>Total comprehensive income</b>	<b>0</b>	<b>42</b>	<b>397</b>	<b>439</b>
<b>Total changes in equity</b>	<b>0</b>	<b>42</b>	<b>397</b>	<b>439</b>
Equity, 31 December 2005	1,400	131	2,083	3,614
<p>The share capital breaks down into 11 shares in multiples of DKK 1m.  The share capital is wholly-owned by Nykredit Realkredit A/S, Copenhagen.  Nykredit Bank A/S is included in the Consolidated Financial Statements of this company and the consolidated financial statements of Foreningen Nykredit, Copenhagen, which owns 86.71% of Nykredit Realkredit A/S.</p>				
<b>Capital adequacy and core capital</b>			<b>2006</b>	<b>2005</b>
Share capital			1,400	1,400
Reserves			147	131
Retained earnings			2,694	2,083
<b>Total core capital</b>			<b>4,241</b>	<b>3,614</b>
Supplementary capital			1,300	800
<b>Capital base</b>			<b>5,541</b>	<b>4,414</b>
Statutory deductions			113	194
<b>Capital base after statutory deductions</b>			<b>5,428</b>	<b>4,220</b>
Weighted items not included in the trading portfolio			40,262	30,544
Weighted items involving market risk			10,530	9,826
<b>Total weighted items</b>			<b>50,792</b>	<b>40,370</b>
Capital adequacy ratio, %			10.6	10.4
Core capital ratio, %			8.3	8.9



## Cash flow statement 2006

DKK million

	The Nykredit Bank Group	
	2006	2005
Profit after tax for the year	627	439
<b>Adjustment for non-cash operating items, depreciation, amortisation and provisions</b>		
Depreciation and impairment losses for property, plant and equipment	0	4
Other cash changes	(5)	0
Provisions for loan and receivable impairment	(39)	16
Tax calculated on profit for the year	250	162
<b>Total</b>	<b>206</b>	<b>182</b>
<b>Profit for the year adjusted for non-cash operating items</b>	<b>833</b>	<b>621</b>
<b>Change in working capital</b>		
Loans, advances and other receivables	(5,800)	(3,778)
Deposits and other payables	613	2,996
Payables to credit institutions and central banks	18,272	4,668
Bonds at fair value	(11,886)	(4,307)
Equities	9	(193)
Other working capital	(275)	1,526
<b>Total</b>	<b>933</b>	<b>912</b>
Corporation tax paid, net	(172)	(165)
<b>Cash flows from operating activities</b>	<b>1,594</b>	<b>1,368</b>
<b>Cash flows from investing activities</b>		
Property, plant and equipment	177	0
<b>Total</b>	<b>177</b>	<b>0</b>
<b>Cash flows from financing activities</b>		
Subordinate loan capital	500	0
Issued bonds	1,087	339
<b>Total</b>	<b>1,587</b>	<b>339</b>
<b>Total cash flows</b>	<b>3,358</b>	<b>1,707</b>
Cash and cash equivalents, beginning of year	15,031	13,093
Foreign currency translation adjustment of cash	49	231
<b>Cash and cash equivalents, year-end</b>	<b>18,438</b>	<b>15,031</b>
<b>Cash and cash equivalents, year-end</b>		
Cash and cash equivalents, year-end, specified as:		
Cash balance and demand deposits with central banks	33	26
Receivables from credit institutions and central banks	18,405	15,005
<b>Cash and cash equivalents, year-end</b>	<b>18,438</b>	<b>15,031</b>

## Notes

DKK million

1. CORE EARNINGS AND INVESTMENT PORTFOLIO INCOME	2006			The Nykredit Bank Group 2005		
	Core earnings	Investment portfolio income	Total	Core earnings	Investment portfolio income	Total
Net interest income	768	8	776	752	42	794
Dividend on equities	6	0	6	4	0	4
Fee and commission income, net	250	0	250	208	1	209
<b>Net interest and fee income</b>	<b>1,024</b>	<b>8</b>	<b>1,032</b>	<b>964</b>	<b>43</b>	<b>1,007</b>
Value adjustments	533	(11)	522	201	(24)	177
Other operating income	21	0	21	20	0	20
Staff and administrative expenses	739	0	739	590	0	590
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	2	0	2	3	0	3
Other operating expenses	1	0	1	3	0	3
Provisions for loan impairment	(44)	0	(44)	7	0	7
<b>Profit before tax</b>	<b>880</b>	<b>(3)</b>	<b>877</b>	<b>582</b>	<b>19</b>	<b>601</b>

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
		<b>2. INTEREST INCOME</b>		
268	421	Receivables from credit institutions and central banks	421	268
929	1,264	Loans, advances and other receivables	1,282	952
1,111	1,419	Bonds	1,435	1,113
(130)	(110)	Total derivative financial instruments	(110)	(130)
		Of which		
20	40	- Foreign exchange contracts	40	20
(150)	(150)	- Interest rate contracts	(150)	(150)
0	0	Other interest income	1	1
<b>2,178</b>	<b>2,994</b>	<b>Total</b>	<b>3,029</b>	<b>2,204</b>
		<b>Of which interest income from genuine purchase and resale transactions entered as:</b>		
144	263	Receivables from credit institutions and central banks	263	144
124	140	Loans, advances and other receivables at fair value	140	124
		<b>Of total interest income:</b>		
805	1,124	Interest income accrued on financial assets measured at amortised cost	1,142	828
		Interest income accrued on loans and advances for which individual impairment provisions have been made amounts to less than DKK 0.2m. To a significant extent, the Bank suspends addition of interest on loans individually impaired.		
172	219	Interest income accrued on fixed-rate loans and advances	219	172
9	8	Interest income from finance leases	29	35
		<b>3. INTEREST EXPENSE</b>		
831	1,523	Credit institutions and central banks	1,536	835
523	666	Deposits and other payables	662	520
33	21	Issued bonds	21	33
22	33	Subordinate loan capital	33	22
0	0	Other interest expense	1	0
<b>1,409</b>	<b>2,243</b>	<b>Total</b>	<b>2,253</b>	<b>1,410</b>
		<b>Of which interest expense for genuine sale and repurchase transactions entered as:</b>		
215	368	Payables to credit institutions and central banks	368	215
14	23	Deposits and other payables (non-derivative financial liabilities at fair value)	23	14
		<b>Issued bonds</b>		
1	6	Offset interest on the Bank's own portfolio of own bonds	6	1
		<b>Of total interest expense:</b>		
1,395	2,220	Interest expense accrued on financial liabilities measured at amortised cost	2,229	1,396
		<b>4. DIVIDEND ON EQUITIES</b>		
4	6	Dividend on equities	6	4
<b>4</b>	<b>6</b>	<b>Total</b>	<b>6</b>	<b>4</b>

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
		<b>5. FEE AND COMMISSION INCOME</b>		
81	158	Securities trading and custody accounts	288	167
13	18	Payment services	18	13
40	11	Loan fees	12	41
82	67	Guarantee commission	67	82
113	168	Other fees and commissions	171	116
<b>329</b>	<b>422</b>	<b>Total</b>	<b>556</b>	<b>419</b>
		<b>Of which:</b>		
58	67	Fees relating to financial instruments not measured at fair value	69	60
54	102	Fees relating to asset management activities and other fiduciary activities	237	141
		Certain fees that form an integral part of the effective interest rate of an underlying loan measured at amortised cost have been presented under the item "Interest income".		
		<b>6. FEE AND COMMISSION EXPENSE</b>		
<b>219</b>	<b>302</b>	<b>Total</b>	<b>306</b>	<b>210</b>
		<b>Of which:</b>		
73	105	Fees relating to financial instruments not measured at fair value	105	75
18	21	Fees relating to asset management activities and other fiduciary activities	17	15
		<b>7. VALUE ADJUSTMENTS</b>		
-	-	Other loans, advances and receivables at fair value	35	24
37	(206)	Bonds	(207)	37
39	61	Equities	61	39
(3)	6	Investment properties	6	(3)
3	35	Foreign exchange	35	3
77	590	Foreign exchange, interest rate and other contracts as well as derivative financial instruments	592	77
<b>153</b>	<b>486</b>	<b>Total</b>	<b>522</b>	<b>177</b>
		Value adjustments mainly relate to financial assets, financial liabilities and derivative financial instruments included in the Bank's/Group's trading activities as well as value adjustments of investment properties.		
		<b>Of which value adjustment relating to fair value hedging for accounting purposes:</b>		
4	(2)	Fair value hedging – cf note 40	(2)	4

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>8. STAFF AND ADMINISTRATIVE EXPENSES</b>				
7	6	Remuneration of Board of Directors/Executive Board	6	7
269	361	Staff expenses	438	331
227	260	Administrative expenses	295	252
<b>503</b>	<b>627</b>	<b>Total</b>	<b>739</b>	<b>590</b>
<b>Remuneration of Board of Directors and Executive Board:</b>				
<b>Board of Directors</b>				
0.1	0.1	Remuneration	0.1	0.1
Each staff-elected Board representative receives annual remuneration of DKK 60,000.				
<b>Executive Board</b>				
7	6	Salaries	6	7
<b>7</b>	<b>6</b>	<b>Total</b>	<b>6</b>	<b>7</b>
<b>Remuneration of Executive Board:</b>				
Kim Duus, Managing Director, DKK 3.9m, of which a bonus of DKK 0.4m.				
Karsten Knudsen, Managing Director of Nykredit Bank, is a member of the Group Executive Board of the Parent Company Nykredit Realkredit A/S and is remunerated by the Parent Company.				
The Bank's Executive Board is further remunerated in the form of a company car. The taxable value thereof was DKK 0.2m in 2006.				
Members of the Executive Board receive a fixed salary. No permanent bonus plans have been established.				
Executive Board members do not receive remuneration as directors of group enterprises and associates.				
The pensionable age for members of the Executive Board is 65 years. No agreements have been made for pension benefits for Executive Board members.				
The term of notice is 12 months. Upon resignation at Nykredit Bank A/S's request, Executive Board members are entitled to termination benefits equal to 6 months' gross salary.				
<b>Loans, charges or guarantees granted to the members of:</b>				
0	0	Executive Board	0	0
0	1	Board of Directors	1	0
23	170	Management of the Bank's Parent Company	170	23
<b>Deposits from the members of:</b>				
0	0	Executive Board	0	0
3	1	Board of Directors	1	3
8	92	Management of the Bank's Parent Company	92	8
Balances with the above members of the Bank's Management carry interest at usual market rates.				

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>8. STAFF AND ADMINISTRATIVE EXPENSES, CONTINUED</b>				
<b>Staff expenses</b>				
225	309	Wages and salaries	374	278
22	26	Pensions (defined contribution plans)	31	26
22	26	Social security expenses	33	27
<b>269</b>	<b>361</b>	<b>Total</b>	<b>438</b>	<b>331</b>
<b>346</b>	<b>402</b>	<b>Average number of staff, full-time equivalents</b>	<b>492</b>	<b>426</b>
<b>Aggregate fees to the auditors appointed by the General Meeting that perform the statutory audit</b>				
1	1	Statutory audit	1	1
0	0	Other services	4	1
<b>1</b>	<b>1</b>	<b>Total</b>	<b>5</b>	<b>2</b>
In addition to the fees mentioned above, expenses relating to the activities of Group Internal Audit have been incurred.				
<b>9. DEPRECIATION AND IMPAIRMENT LOSSES FOR PROPERTY, PLANT AND EQUIPMENT</b>				
2	2	Property, plant and equipment	2	3
<b>2</b>	<b>2</b>	<b>Total</b>	<b>2</b>	<b>3</b>
<b>10. PROVISIONS FOR LOAN AND RECEIVABLE IMPAIRMENT</b>				
<b>Specification of impairment provisions</b>				
130	17	Total individual impairment provisions	27	132
50	61	Total group-based impairment provisions	61	50
<b>180</b>	<b>78</b>	<b>Total impairment provisions, year-end</b>	<b>88</b>	<b>182</b>
<b>Individual impairment provisions</b>				
178	130	Impairment provisions, beginning of year	132	182
42	3	Impairment provisions for the year	11	45
53	64	Impairment provisions reversed	64	56
0	0	Other additions/disposals	0	(1)
37	52	Impairment provisions recognised as lost	52	38
<b>130</b>	<b>17</b>	<b>Impairment provisions, year-end</b>	<b>27</b>	<b>132</b>
<b>Group-based impairment provisions</b>				
30	50	Impairment provisions, beginning of year	50	31
20	11	Impairment provisions for the year, net	11	20
0	0	Other movements	0	(1)
<b>50</b>	<b>61</b>	<b>Impairment provisions, year-end</b>	<b>61</b>	<b>50</b>

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>10. PROVISIONS FOR LOAN AND RECEIVABLE IMPAIRMENT, CONTINUED</b>				
<b>Effect on profit</b>				
9	(47)	Change in provisions for loan impairment and guarantees	(39)	9
(4)	(3)	Offset interest income from loans and advances written off as impairment losses	(3)	(4)
4	2	Losses ascertained for the year, net	3	7
(4)	(4)	Received on claims previously written off	(5)	(5)
<b>5</b>	<b>(52)</b>	<b>Total provisions for loan impairment</b>	<b>(44)</b>	<b>7</b>
-	0	Impairment provisions for guarantees	0	-
<b>5</b>	<b>(52)</b>	<b>Total</b>	<b>(44)</b>	<b>7</b>
<b>Specification of loans and advances with objective indications of impairment</b>				
135	25	Loans and advances subject to individual provisioning	48	145
130	17	Impairment provisions	27	132
<b>5</b>	<b>8</b>	<b>Carrying amount of non-performing loans</b>	<b>21</b>	<b>13</b>
4,807	5,906	Loans and advances subject to group-based provisioning	5,906	4,807
50	61	Impairment provisions	61	50
<b>4,757</b>	<b>5,845</b>	<b>Total loans and advances after impairment provisions</b>	<b>5,845</b>	<b>4,757</b>
<b>11. PROFIT FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES</b>				
15	16	Profit from investments in associates	-	-
42	57	Profit from investments in group enterprises	-	-
<b>57</b>	<b>73</b>	<b>Total</b>	<b>-</b>	<b>-</b>

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
		<b>12. TAX</b>		
		<b>Tax for the year can be specified as follows:</b>		
162	250	Tax on profit for the year	250	162
<b>162</b>	<b>250</b>	<b>Total</b>	<b>250</b>	<b>162</b>
		<b>Tax on profit for the year has been calculated as follows:</b>		
131	280	Current tax	280	131
27	(35)	Deferred tax	(35)	27
(1)	5	Adjustment of current tax relating to previous years	5	(1)
5	0	Adjustment of deferred tax relating to previous years	0	5
(1)	0	Adjustment of deferred tax as a result of reduced tax rate	0	(1)
1	0	Tax on impairment provisions	0	1
<b>162</b>	<b>250</b>	<b>Total</b>	<b>250</b>	<b>162</b>
		<b>Tax on profit for the year can be specified as follows:</b>		
168	246	Calculated 28% tax on profit before tax	246	168
		Tax effect of:		
(2)	(4)	Non-taxable income	(4)	(2)
2	2	Other non-deductible costs	2	2
(6)	6	Adjustment of tax assessed for previous years	6	(6)
<b>162</b>	<b>250</b>	<b>Total</b>	<b>250</b>	<b>162</b>
26.9%	28.5%	Effective tax rate	28.5%	26.9%
		<b>13. INCOME FROM FOREIGN ENTITIES</b>		
		<b>Foreign entities' contributions to profit for the year in the form of interest, fees, value adjustments and other operating income</b>		
-	-	England and Cayman Islands	2	2
-	-	<b>Revenue of foreign entities</b>	<b>2</b>	<b>2</b>
		Contributions from foreign entities are regarded as the Group's secondary segment. The business areas regarded as the Group's primary segment are described in the Management Review.		
		Foreign entities' revenues, results, etc, are also shown under "Group structure", note 43.		
		<b>14. CASH BALANCE AND DEMAND DEPOSITS WITH CENTRAL BANKS</b>		
23	33	Cash balance	33	23
3	0	Demand deposits with central banks	0	3
<b>26</b>	<b>33</b>	<b>Total</b>	<b>33</b>	<b>26</b>



## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>15. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS</b>				
3,105	2,973	Receivables at call with central banks	2,973	3,105
11,904	15,265	Receivables from credit institutions	15,432	11,900
<b>15,009</b>	<b>18,238</b>	<b>Total</b>	<b>18,405</b>	<b>15,005</b>
<b>By time-to-maturity</b>				
8,534	7,014	Demand deposits	7,181	8,530
6,285	10,698	Up to 3 months	10,698	6,285
99	400	Over 3 months and up to 1 year	400	99
19	38	Over 1 year and up to 5 years	38	19
72	88	Over 5 years	88	72
<b>15,009</b>	<b>18,238</b>	<b>Total</b>	<b>18,405</b>	<b>15,005</b>
5,814	8,734	Of which genuine purchase and resale transactions	8,887	5,814
<b>16. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE</b>				
6,688	3,432	Loans and advances at fair value	3,432	6,688
<b>6,688</b>	<b>3,432</b>	<b>Total</b>	<b>3,432</b>	<b>6,688</b>
6,688	3,432	Of which genuine purchase and resale transactions	3,432	6,688
<b>By time-to-maturity</b>				
6,540	3,001	Up to 3 months	3,001	6,540
148	431	Over 3 months and up to 1 year	431	148
<b>6,688</b>	<b>3,432</b>	<b>Total</b>	<b>3,432</b>	<b>6,688</b>

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>17. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST</b>				
19,484	28,758	Loans and advances	28,983	19,731
<b>19,484</b>	<b>28,758</b>	<b>Total</b>	<b>28,983</b>	<b>19,731</b>
<b>By time-to-maturity</b>				
5,779	4,705	On demand	4,409	5,493
1,041	5,381	Up to 3 months	5,434	1,086
4,114	5,930	Over 3 months and up to 1 year	6,028	4,215
4,844	6,238	Over 1 year and up to 5 years	6,583	5,204
3,706	6,504	Over 5 years	6,529	3,733
<b>19,484</b>	<b>28,758</b>	<b>Total</b>	<b>28,983</b>	<b>19,731</b>
<b>Non-performing loans or loans carrying a reduced interest rate</b>				
8	16	Non-performing loans	16	8
0	2	Loans carrying a reduced interest rate	2	0
<b>Impairment provisions made, year-end - cf note 10</b>				
130	17	Individual impairment provisions	27	132
50	61	Group-based impairment provisions	61	50
<b>Fixed-rate loans</b>				
3,110	3,404	Of total loans and advances, fixed-rate loans represent	3,404	3,110
3,235	3,419	Market value of fixed-rate loans	3,419	3,235
<b>Finance leases</b>				
128	122	Of total loans and advances at amortised cost, finance leases represent	643	671
149	128	Carrying amount, beginning of year	671	613
0	0	Additions	304	431
21	6	Disposals	332	373
<b>128</b>	<b>122</b>	<b>Carrying amount, year-end</b>	<b>643</b>	<b>671</b>
<b>By time-to-maturity</b>				
7	1	Up to 3 months	54	65
17	2	Over 3 months and up to 1 year	100	118
67	74	Over 1 year and up to 5 years	418	427
37	45	Over 5 years	71	61
<b>128</b>	<b>122</b>	<b>Total</b>	<b>643</b>	<b>671</b>
<b>Gross investments in finance leases</b>				
<b>By time-to-maturity</b>				
13	11	Up to 1 year	185	193
100	93	Over 1 year and up to 5 years	475	496
75	71	Over 5 years	99	103
<b>188</b>	<b>175</b>	<b>Total</b>	<b>759</b>	<b>792</b>
<b>60</b>	<b>53</b>	<b>Non-earned income</b>	<b>116</b>	<b>121</b>

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
		<b>17. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST, CONTINUED</b>		
		Where loans and advances under finance leases are concerned, amortised cost represents the fair value hereof. The leases comprise equipment as well as real property. The leases have been concluded on an arm's length basis.		
0	0	Impairment provisions for finance leases	9	3
		Non-guaranteed residual values upon expiry of the leases amount to DKK 0.		
		<b>Loans, advances and guarantee debtors by sector and industry as a %, year-end</b>		
<b>0%</b>	<b>0%</b>	<b>Public sector</b>	<b>1%</b>	<b>0%</b>
		<b>Corporate Customers</b>		
3%	3%	Agriculture, hunting and forestry	3%	4%
0%	0%	Fisheries	0%	0%
9%	14%	Manufacturing industries, extraction of raw materials, utilities	14%	9%
1%	1%	Building and construction	1%	1%
7%	6%	Trade, restaurants and hotels	6%	7%
1%	4%	Transport, mail and telephone	4%	1%
18%	9%	Credit, finance and insurance	8%	17%
25%	25%	Property management and trade, business services	25%	24%
4%	7%	Other trade and industry	7%	5%
<b>68%</b>	<b>69%</b>	<b>Total Corporate Customers</b>	<b>68%</b>	<b>68%</b>
32%	31%	Retail Customers	31%	32%
<b>100%</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>	<b>100%</b>
		The industrial distribution has been based on the official Danish activity codes.		
		<b>18. BONDS AT FAIR VALUE</b>		
133	279	Portfolio of own issued bonds	279	133
23,168	32,485	Other mortgage bonds	32,903	23,168
3,705	6,794	Government bonds	6,919	3,964
8,753	7,640	Other bonds	7,875	8,753
<b>35,759</b>	<b>47,198</b>	<b>Total</b>	<b>47,976</b>	<b>36,018</b>
133	279	Own bonds offset against issued bonds – cf note 27	279	133
<b>35,626</b>	<b>46,919</b>	<b>Total</b>	<b>47,697</b>	<b>35,885</b>
		The effect of fair value adjustment has been recognised in the income statement.		
837	588	Of which drawn bonds	588	837
9,093	13,148	Assets sold as part of genuine sale and repurchase transactions	13,564	9,093
19,417	25,698	As collateral security for the Danish central bank, Danmarks Nationalbank, and foreign clearing centres, etc, bonds have been deposited of a total market value of	25,698	19,417
		The collateral security was provided at standard industry terms and on an arm's length basis.		

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
		<b>19. EQUITIES</b>		
267	258	Equities measured at fair value through profit or loss	258	267
<b>267</b>	<b>258</b>	<b>Total</b>	<b>258</b>	<b>267</b>
		<b>Specification of equity portfolios</b>		
24	53	Listed on the Copenhagen Stock Exchange	53	24
7	13	Listed on other stock exchanges	13	7
236	192	Unlisted equities carried at fair value	192	236
<b>267</b>	<b>258</b>	<b>Total equities</b>	<b>258</b>	<b>267</b>
		<b>20. INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES</b>		
		<b>Investments in associates</b>		
21	23	Cost, beginning of year	-	-
2	0	Additions	-	-
<b>23</b>	<b>23</b>	<b>Cost, year-end</b>	<b>-</b>	<b>-</b>
3	14	Revaluations and impairment losses, beginning of year	-	-
0	0	Foreign currency translation adjustment	-	-
15	16	Profit before tax	-	-
0	9	Dividends	-	-
(4)	(4)	Tax	-	-
<b>14</b>	<b>17</b>	<b>Total revaluations and impairment losses, year-end</b>	<b>-</b>	<b>-</b>
<b>37</b>	<b>40</b>	<b>Balance, year-end</b>	<b>-</b>	<b>-</b>
		<b>Investments in group enterprises</b>		
81	82	Cost, beginning of year	-	-
1	(1)	Foreign currency translation adjustment	-	-
-	112	Additions	-	-
<b>82</b>	<b>193</b>	<b>Cost, year-end</b>	<b>-</b>	<b>-</b>
92	124	Revaluations and impairment losses, beginning of year	-	-
1	0	Foreign currency translation adjustment	-	-
42	57	Profit before tax	-	-
0	26	Dividends	-	-
(11)	(17)	Tax	-	-
<b>124</b>	<b>138</b>	<b>Total revaluations and impairment losses, year-end</b>	<b>-</b>	<b>-</b>
<b>206</b>	<b>331</b>	<b>Balance, year-end</b>	<b>-</b>	<b>-</b>
110	147	Of which credit institutions	-	-

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
		<b>21. SUBORDINATE RECEIVABLES AND BALANCES WITH ASSOCIATES AND GROUP ENTERPRISES</b>		
		<b>Subordinate receivables</b>		
20	24	Associates	19	15
392	349	Other enterprises	349	392
<b>412</b>	<b>373</b>	<b>Total</b>	<b>368</b>	<b>407</b>
		<b>Balances with associates and group enterprises</b>		
		<b>Associates</b>		
		<b>Asset items</b>		
534	523	Loans, advances and other receivables at amortised cost	339	352
<b>534</b>	<b>523</b>	<b>Total</b>	<b>339</b>	<b>352</b>
		<b>Liability items</b>		
67	153	Deposits and other payables	118	47
<b>67</b>	<b>153</b>	<b>Total</b>	<b>118</b>	<b>47</b>
		<b>Group enterprises</b>		
		<b>Asset items</b>		
111	109	Loans, advances and other receivables at amortised cost	-	-
<b>111</b>	<b>109</b>	<b>Total</b>	<b>-</b>	<b>-</b>
		<b>Liability items</b>		
9	5	Payables to credit institutions	-	-
99	92	Deposits and other payables	-	-
<b>108</b>	<b>97</b>	<b>Total</b>	<b>-</b>	<b>-</b>

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>22. LAND AND BUILDINGS</b>				
246	72	Investment properties	72	246
-	-	Owner-occupied properties	1	2
<b>246</b>	<b>72</b>	<b>Total</b>	<b>73</b>	<b>248</b>
<b>Investment properties</b>				
255	255	Cost, beginning of year	255	255
-	182	Disposals for the year	182	-
<b>255</b>	<b>73</b>	<b>Cost, year-end</b>	<b>73</b>	<b>255</b>
(6)	(9)	Fair value adjustment, beginning of year	(9)	(6)
(3)	8	Value adjustment for the year through profit or loss	8	(3)
<b>(9)</b>	<b>(1)</b>	<b>Fair value adjustments, year-end</b>	<b>(1)</b>	<b>(9)</b>
<b>246</b>	<b>72</b>	<b>Balance, year-end</b>	<b>72</b>	<b>246</b>
246	72	Of which assets held under operating leases	72	246
210	47	Latest public land assessment	47	210
18	13	Lease payments received (included in "Other operating income")	13	18
<b>By time-to-maturity</b>				
3	1	Up to 1 year	1	3
17	4	Over 1 year and up to 5 years	4	17
226	67	Over 5 years	67	226
<b>246</b>	<b>72</b>	<b>Total</b>	<b>72</b>	<b>246</b>
<b>Minimum lease payments</b>				
16	5	Up to 1 year	5	16
67	21	Over 1 year and up to 5 years	21	67
328	101	Over 5 years	101	328
<b>411</b>	<b>127</b>	<b>Total</b>	<b>127</b>	<b>411</b>
<p>The lease expires in 2021 at the latest at which time the residual risk exposure has been determined at DKK 17m (discounted value) (2005: DKK 58m).</p> <p>No impairment provisions for credit losses have been made.</p> <p>Fair value has been determined based on an internal model which includes future cash flows as well as the pricing of similar properties. Fair value has been determined by the Parent Company Nykredit Realkredit's valuers who specialise in commercial property valuation.</p> <p>The lessee has a purchase option on the property according to specifically agreed guidelines. In case of a potential disposal, the price will in all essentials reflect the carrying amount at the time of disposal.</p>				

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
		<b>22. LAND AND BUILDINGS, CONTINUED</b>		
		<b>Owner-occupied properties</b>		
-	-	Cost, beginning of year	2	3
-	-	Additions and disposals for the year	0	(1)
-	-	<b>Cost, year-end</b>	<b>2</b>	<b>2</b>
-	-	Depreciation and impairment losses, beginning of year	0	0
-	-	Depreciation for the year	1	0
-	-	<b>Depreciation and impairment losses, year-end</b>	<b>1</b>	<b>0</b>
		<b>Balance, year-end</b>	<b>1</b>	<b>2</b>
		Owner-occupied properties are depreciated over a period of 50 years and had a residual depreciation period of 44 years at 31 December 2006.		
		The owner-occupied property belongs to the proportionately consolidated company LeasIT A/S. The property has been measured at cost less the depreciation made, which in consideration of the Bank's 22.7% ownership share of the company has been estimated to correspond to the amount which the property would raise on a potential disposal of the ownership share.		
		<b>23. OTHER PROPERTY, PLANT AND EQUIPMENT</b>		
5	4	Equipment	6	8
<b>5</b>	<b>4</b>	<b>Total</b>	<b>6</b>	<b>8</b>
		<b>Equipment:</b>		
15	7	Cost, beginning of year	13	20
6	1	Additions for the year	2	7
14	1	Disposals for the year	3	14
<b>7</b>	<b>7</b>	<b>Cost, year-end</b>	<b>12</b>	<b>13</b>
9	2	Depreciation and impairment losses, beginning of year	5	11
2	2	Depreciation for the year	2	3
9	1	Reversal of depreciation and impairment losses	1	9
<b>2</b>	<b>3</b>	<b>Depreciation and impairment losses, year-end</b>	<b>6</b>	<b>5</b>
<b>5</b>	<b>4</b>	<b>Balance, year-end</b>	<b>6</b>	<b>8</b>
		Equipment is depreciated over five years and had an average residual depreciation period of three years at 31 December 2006.		
		<b>24. OTHER ASSETS</b>		
2,557	3,535	Interest and commission receivable	3,609	2,582
3,939	4,467	Positive market value of derivative financial instruments	4,467	3,939
38	77	Other assets	77	48
<b>6,534</b>	<b>8,079</b>	<b>Total</b>	<b>8,153</b>	<b>6,569</b>

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>25. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS</b>				
12,696	20,868	Payables to credit institutions	20,868	12,696
31,630	41,685	Payables to central banks	42,239	31,958
<b>44,326</b>	<b>62,553</b>	<b>Total</b>	<b>63,107</b>	<b>44,654</b>
8,681	13,375	Of which genuine sale and repurchase transactions	13,701	8,681
<b>By time-to-maturity</b>				
18,994	13,610	Payables on demand	14,165	19,322
22,377	45,174	Up to 3 months	45,174	22,377
606	1,695	Over 3 months and up to 1 year	1,695	606
2,200	2,074	Over 1 year and up to 5 years	2,073	2,200
149	0	Over 5 years	0	149
<b>44,326</b>	<b>62,553</b>	<b>Total</b>	<b>63,107</b>	<b>44,654</b>
<b>26. DEPOSITS AND OTHER PAYABLES</b>				
13,082	14,156	On demand	14,059	12,994
5	0	At notice	0	5
8,429	7,871	Time deposits	7,871	8,429
676	737	Special deposits	737	675
<b>22,192</b>	<b>22,764</b>	<b>Total</b>	<b>22,667</b>	<b>22,103</b>
<b>By time-to-maturity</b>				
19,413	20,281	Up to 3 months	20,184	19,324
533	754	Over 3 months and up to 1 year	754	533
1,693	1,212	Over 1 year and up to 5 years	1,212	1,693
553	517	Over 5 years	517	553
<b>22,192</b>	<b>22,764</b>	<b>Total</b>	<b>22,667</b>	<b>22,103</b>



## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>27. ISSUED BONDS AT AMORTISED COST</b>				
787 (133)	2,066 (325)	Value of issues Amortisation and own portfolio	2,066 (325)	787 (133)
<b>654</b>	<b>1,741</b>	<b>Total</b>	<b>1,741</b>	<b>654</b>
<b>By time-to-maturity</b>				
-	100	Up to 3 months	100	-
415	1,402	Over 1 year and up to 5 years	1,402	415
239	239	Over 5 years	239	239
<b>654</b>	<b>1,741</b>	<b>Total</b>	<b>1,741</b>	<b>654</b>
<b>Issues</b>				
325	325	*2003 to 2008 Bond loan (DKK)	325	325
239	239	*2005 to 2016 Curve steepener (DKK)	239	239
100	100	*2005 to 2007 Range Accrual Note (DKK)	100	100
100	100	*2005 to 2010 Basket Barrier (DKK)	100	100
23	23	2005 to 2010 Index-linked (DKK)	23	23
-	574	*2006 to 2008 Nykredit Højrente I (EUR 77m)	574	-
-	649	*2006 to 2008 Nykredit Højrente II (EUR 87m)	649	-
-	56	2006 to 2011 NB Credit Pick (EUR 7.5m)	56	-
<b>787</b>	<b>2,066</b>	<b>Total nominal value</b>	<b>2,066</b>	<b>787</b>
-	(46)	Amortisation	(46)	-
133	279	Own portfolio	279	133
<b>654</b>	<b>1,741</b>	<b>Total</b>	<b>1,741</b>	<b>654</b>
764	1,987	* Listed on the Copenhagen Stock Exchange, nominal	1,987	764
No value adjustments have been made that can be ascribed to changes in the credit risk. All issues carry floating interest rates.				
<b>28. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE</b>				
568	28	Deposits at fair value	28	568
5,916	7,004	Negative securities portfolios	7,004	5,916
<b>6,484</b>	<b>7,032</b>	<b>Total liabilities at fair value</b>	<b>7,032</b>	<b>6,484</b>
<b>By time-to-maturity</b>				
6,484	7,032	Up to 3 months	7,032	6,484
568	28	Of which genuine sale and repurchase transactions	28	568
<b>29. OTHER LIABILITIES</b>				
2,457	3,185	Interest and commission payable	3,158	2,457
3,405	3,096	Negative market value of derivative financial instruments	3,245	3,405
171	162	Other payables	449	223
<b>6,033</b>	<b>6,443</b>	<b>Total</b>	<b>6,852</b>	<b>6,085</b>
The items fall due within one year.				

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>30. PROVISIONS FOR DEFERRED TAX</b>				
<b>Deferred tax</b>				
18	43	Deferred tax (asset), beginning of year	49	24
26	(34)	Deferred tax for the year recognised in profit for the year	(36)	31
(1)	0	Adjustment of deferred tax assessed for previous years	0	(6)
<b>43</b>	<b>9</b>	<b>Deferred tax, year-end</b>	<b>13</b>	<b>49</b>
<b>Deferred tax recognised in the balance sheet as follows:</b>				
43	9	Deferred tax (liability)	13	49
<b>43</b>	<b>9</b>	<b>Net deferred tax, year-end</b>	<b>13</b>	<b>49</b>
<b>Deferred tax relates to:</b>				
35	4	Loans and advances	8	41
4	4	Property, plant and equipment, including buildings	4	4
(3)	(8)	Other assets and prepayments	(8)	(3)
9	10	Other liabilities	10	9
(2)	(1)	Provisions	(1)	(2)
<b>43</b>	<b>9</b>	<b>Total</b>	<b>13</b>	<b>49</b>
<b>Recognised in profit for the year</b>				
29	(31)	Loans and advances	(33)	30
2	0	Property, plant and equipment, including buildings	0	2
0	(5)	Other assets and prepayments	(5)	0
0	1	Other liabilities	1	0
(1)	1	Provisions	1	(1)
<b>30</b>	<b>(34)</b>	<b>Total</b>	<b>(36)</b>	<b>31</b>
<b>Current tax assets/liabilities</b>				
3	33	Corporation tax receivable, 1 January	32	3
(116)	(258)	Current tax for the year	(280)	(131)
152	156	Corporation tax paid for the year, net	172	165
(6)	(5)	Adjustment relating to previous years	(7)	(5)
<b>33</b>	<b>(74)</b>	<b>Current tax asset/liability, year-end</b>	<b>(83)</b>	<b>32</b>
Negative amount = current tax liability				

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>31. PROVISIONS FOR LIABILITIES</b>				
<b>Pensions and similar obligations</b>				
3	-	Balance, beginning of year	-	3
3	-	Reversal of unutilised amounts	-	3
<b>0</b>	<b>-</b>	<b>Balance, year-end</b>	<b>-</b>	<b>0</b>
<b>Other provisions</b>				
12	10	Balance, beginning of year	10	14
2	5	Utilised for the year	5	4
<b>10</b>	<b>5</b>	<b>Balance, year-end</b>	<b>5</b>	<b>10</b>
<b>Total pensions and other provisions</b>				
15	10	Balance, beginning of year	10	17
2	5	Utilised for the year	5	4
3	-	Reversal of unutilised amounts	-	3
<b>10</b>	<b>5</b>	<b>Balance, year-end</b>	<b>5</b>	<b>10</b>
<p>As a result of its operations, the Bank continuously enters into contracts where it is probable that the settlement of the liability will lead to an outflow of the Bank's financial resources, and where a reliable estimate may be made of the size of the liability.</p> <p>The balance sheet items in the financial statements represent the Bank's best estimates of the expected costs related to provisions.</p> <p>The provisions typically relate to contractual obligations related to loans and advances and other banking activities, including loans and advances subject to collection procedures and pension contributions to Bank Group staff.</p> <p>It is estimated that the majority of provisions will be settled within one year.</p>				
<b>32. SUBORDINATE LOAN CAPITAL</b>				
Subordinate loan capital consists of liabilities which, in case of voluntary or compulsory liquidation, will not be repaid until after the claims of ordinary creditors have been met.				
The loan capital below was granted by Nykredit Realkredit A/S.				
The loan capital forms part of the supplementary capital and has been included in full in the capital base.				
500	500	The loan was granted in 2003 and falls due on 1 December 2011. No principal payments will be made on the loan during its term. The loan carries a floating interest rate.	500	500
300	300	The loan was granted in 2005 and falls due on 22 April 2013. No principal payments will be made on the loan during its term. The loan carries a floating interest rate.	300	300
-	500	The loan was granted in 2006 and falls due on 30 September 2014. No principal payments will be made on the loan during its term. The loan carries a floating interest rate.	500	-
<b>800</b>	<b>1,300</b>	<b>Total</b>	<b>1,300</b>	<b>800</b>

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
		<b>33. GUARANTEES</b>		
7,344	7,182	Financial guarantees	7,182	7,344
367	120	Registration and refinancing guarantees	120	367
2,558	2,021	Other guarantees	2,041	2,688
<b>10,269</b>	<b>9,323</b>	<b>Total</b>	<b>9,343</b>	<b>10,399</b>
		<b>34. OTHER CONTINGENT LIABILITIES</b>		
3,007	6,238	Irrevocable credit commitments	6,238	3,007
23	108	Other commitments	136	51
<b>3,030</b>	<b>6,346</b>	<b>Total</b>	<b>6,374</b>	<b>3,058</b>
		<b>35. RELATED PARTY TRANSACTIONS AND BALANCES</b>		
		The Parent Company Nykredit Realkredit A/S, its group enterprises and associates as well as group enterprises and associates of the Nykredit Bank Group and the Bank's Board of Directors, Executive Board and their related parties are regarded as related parties.		
		Transactions with Nykredit Bank's Board of Directors, Executive Board and related parties appear from note 8.		
		No unusual related party transactions occurred in 2006.		
		The companies have entered into different agreements as a natural part of the Group's day-to-day operations. The agreements typically involve finance, sales commission, tasks relating to IT support and IT development projects as well as other joint tasks.		
		Intercompany trade and services took place on an arm's length or a cost recovery basis.		
		Important related party transactions prevailing/entered into in 2006 between consolidated companies include:		
		<b>Agreement between Nykredit Bank A/S and Nykredit Holding A/S</b>		
		On specific occasions, Nykredit Holding A/S has issued guarantees or letters of comfort to third parties.		
		Nykredit Holding A/S has issued guarantees to Nykredit Bank A/S covering pre-fixed loss amounts with respect to some of the Bank's exposures.		

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>35. TRANSACTIONS WITH ASSOCIATES, CONTINUED</b>				
<b>Income statement</b>				
23	21	Interest income	14	17
0	3	Interest expense	2	0
<b>Asset items</b>				
534	523	Loans and advances	339	352
<b>Liability items</b>				
67	153	Deposits and other payables	118	47
<b>TRANSACTIONS WITH THE PARENT COMPANY NYKREDIT REALKREDIT A/S AND ITS GROUP ENTERPRISES AND ASSOCIATES</b>				
<b>Income statement</b>				
406	908	Interest income	908	406
206	214	Interest expense	214	206
45	87	Fee and commission income	88	58
158	256	Fee and commission expense	262	158
(77)	288	Value adjustments	288	(77)
105	115	Costs	122	111
<b>Asset items</b>				
2,128	1,940	Receivables from credit institutions and central banks	1,940	2,128
-	75	Loans and advances	75	-
17,243	20,388	Bonds at fair value	20,786	17,243
512	794	Other assets	795	512
<b>Liability items</b>				
17,312	15,476	Payables to credit institutions and central banks	15,476	17,312
292	590	Deposits	590	292
393	302	Other liabilities	302	393
800	1,300	Subordinate loan capital	1,300	800
<b>TRANSACTIONS WITH OTHER GROUP ENTERPRISES</b>				
<b>Income statement</b>				
10	3	Interest income	-	-
4	4	Interest expense	-	-
2	0	Fee and commission income	-	-
19	29	Fee and commission expense	-	-
<b>Asset items</b>				
111	109	Loans and advances	-	-
<b>Liability items</b>				
9	5	Payables to credit institutions and central banks	-	-
99	92	Deposits and other payables	-	-

# Notes

The Nykredit Bank Group

## 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Measurement principles for financial instruments

In connection with the determination of the fair values of financial instruments, the following methods and significant assumptions have been applied.

Equities and bonds in the Group's trading portfolio have been recognised at fair value on the basis of market data and recognised measurement methods.

The carrying amounts of the cash balance, demand deposits and other receivables falling due within 12 months have also been considered as the fair value hereof.

As regards loans, advances and receivables as well as financial liabilities measured at amortised cost, carrying floating interest rates and entered into on an arm's length basis, carrying amounts are estimated to correspond to the fair values.

The fair value of deposits and other payables without a fixed term has been assumed to be the value payable at the balance sheet date.

The fair value of fixed-rate loans measured at amortised cost has been determined based on recognised measurement methods. The credit risk related to fixed-rate loans has been assessed in connection with the assessment of other loans, advances and receivables.

## Notes

DKK million

The Nykredit Bank Group

36. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED						
	IAS 39 category	Carrying amount	Fair value	Balance	Fair value computed on the basis of	
2006					method 1	method 2
<b>Assets</b>						
Cash balance and demand deposits with central banks	a, c	33	33		1	
Receivables at call with central banks	a, c	2,973	2,973		1	
Receivables from credit institutions	a, c	15,432	15,432		1	
Loans, advances and other receivables at fair value	c	3,432	3,432		1	
Loans, advances and other receivables at amortised cost	a	28,983	28,983			2
Bonds at fair value	c	47,462	47,462		1	
Bonds at fair value	c	235	235			2
Equities	c	66	66		1	
Equities	b	192	192			2
Interest and commission receivable	a, c	3,609	3,609			2
Derivative financial instruments	c	4,467	4,467		1	
<b>Total</b>		<b>106,884</b>	<b>106,884</b>	<b>0</b>		
<b>Liabilities</b>						
Payables to credit institutions and central banks	c, d	63,107	63,107		1	
Deposits and other payables	d	22,667	22,664	3		2
Issued bonds	d	1,741	1,728	13	1	
Other non-derivative financial instruments at fair value	c	7,032	7,032		1	
Interest and commission payable	c, d	3,158	3,158			2
Derivative financial instruments	c	3,245	3,245		1	
Subordinate loan capital	d	1,300	1,300			2
<b>Total</b>		<b>102,250</b>	<b>102,234</b>	<b>16</b>		
Balance not recognised in the income statement				16		
<b>Measurement methods</b>						
Method 1: Recognised measurement methods based on market data						
Method 2: Other recognised measurement methods						
<b>IAS categories</b>						
a) Loans, advances and receivables						
b) Assets/liabilities classified at fair value on initial recognition						
c) Financial assets/liabilities held for trading						
d) Other financial liabilities						

## Notes

DKK million

The Nykredit Bank Group

36. FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED						
	IAS 39 category	Carrying amount	Fair value	Balance	Fair value computed on the basis of method 1    method 2	
<b>2005</b>						
<b>Assets</b>						
Cash balance and demand deposits with central banks	a, c	26	26		1	
Receivables at call with central banks	a, c	3,105	3,105		1	
Receivables from credit institutions	a, c	11,900	11,900		1	
Loans, advances and other receivables at fair value	c	6,688	6,688		1	
Loans, advances and other receivables at amortised cost	a	19,731	19,731			2
Bonds at fair value	c	35,673	35,673		1	
Bonds at fair value	c	212	212			2
Equities	c	31	31		1	
Equities	b	236	236			2
Interest and commission receivable	a, c	2,582	2,582			2
Derivative financial instruments	c	3,939	3,939		1	
<b>Total</b>		<b>84,123</b>	<b>84,123</b>	<b>0</b>		
<b>Liabilities</b>						
Payables to credit institutions and central banks	c, d	44,654	44,654		1	
Deposits and other payables	d	22,103	22,104	(1)		2
Issued bonds	d	654	654		1	
Other non-derivative financial instruments at fair value	c	6,484	6,484		1	
Interest and commission payable	c, d	2,457	2,457			2
Derivative financial instruments	c	3,405	3,405		1	
Other payables	d	223	223			2
Subordinate loan capital	d	800	800			2
<b>Total</b>		<b>80,780</b>	<b>80,781</b>	<b>(1)</b>		
Balance not recognised in the income statement				(1)		
<b>Measurement methods</b>						
Method 1: Recognised measurement methods based on market data						
Method 2: Other recognised measurement methods						
<b>IAS categories</b>						
a) Loans, advances and receivables						
b) Assets/liabilities classified at fair value on initial recognition						
c) Financial assets/liabilities held for trading						
d) Other financial liabilities						



## Notes

DKK million

The Nykredit Bank Group

By time-to-maturity	Net market value				Gross market value			
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Positive	Negative	Net market value	Nominal value
<b>2006</b>								
<b>Foreign exchange contracts</b>								
Forward contracts/futures, purchased	(45)	2	0	0	150	193	(43)	44,170
Forward contracts/futures, sold	(19)	0	0	0	97	116	(19)	24,471
Swaps	0	(14)	205	138	624	295	329	40,703
Options, purchased	25	0	0	0	25	0	25	2,117
Options, written	(23)	0	0	0	0	23	(23)	2,108
<b>Interest rate contracts</b>								
Forward contracts/futures, purchased	(121)	0	0	0	0	121	(121)	53,463
Forward contracts/futures, sold	128	2	0	0	131	1	130	75,512
Forward Rate Agreements, purchased	5	16	0	0	21	0	21	34,669
Forward Rate Agreements, sold	(4)	(7)	0	0	0	11	(11)	15,370
Swaps	0	10	(22)	423	2,399	1,988	411	279,890
Options, purchased	0	15	50	938	1,003	0	1,003	43,302
Options, written	0	(5)	(32)	(439)	0	476	(476)	43,631
<b>Equity contracts</b>								
Forward contracts/futures, purchased	0	0	0	0	0	0	0	3
Forward contracts/futures, sold	0	0	0	0	0	0	0	30
Options, purchased	0	0	1	0	1	0	1	18
Options, written	0	0	(1)	0	0	1	(1)	18
<b>Nykredit Bank Group total</b>							<b>1,226</b>	

## Notes

DKK million

The Nykredit Bank Group

By time-to-maturity	Net market value				Gross market value			
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Positive	Negative	Net market value	Nominal value
<b>2005</b>								
<b>Foreign exchange contracts</b>								
Forward contracts/futures, purchased	(52)	16	0	0	163	199	(36)	35,715
Forward contracts/futures, sold	36	(6)	0	0	200	170	30	31,739
Swaps	0	0	(202)	17	134	319	(185)	25,638
Options, written	1	0	0	0	4	3	1	177
<b>Interest rate contracts</b>								
Forward contracts/futures, purchased	8	0	0	0	19	11	8	27,696
Forward contracts/futures, sold	(20)	(1)	0	0	6	27	(21)	28,050
Forward Rate Agreements, purchased	2	2	0	0	5	1	4	18,028
Forward Rate Agreements, sold	0	(1)	0	0	1	2	(1)	3,900
Swaps	(1)	(14)	160	84	2,484	2,255	229	226,415
Options, purchased	0	0	10	833	843	0	843	32,798
Options, written	0	0	(26)	(411)	0	437	(437)	25,965
<b>Equity contracts</b>								
Forward contracts/futures, purchased	0	0	0	0	0	0	0	147
Forward contracts/futures, sold	(1)	0	0	0	0	1	(1)	17
Options, purchased	1	0	1	0	2	0	2	20
Options, written	(1)	0	(1)	0	0	2	(2)	19
<b>Nykredit Bank Group total</b>							<b>434</b>	

## Notes

DKK million

38. UNSETTLED SPOT TRANSACTIONS	2006			2005	
	Nominal value	Market value Positive	Market value Negative	Net market value	Net market value
<b>The Nykredit Bank Group</b>					
Foreign exchange contracts, purchased	10,822	1	1	0	3
Foreign exchange contracts, sold	18,933	7	13	(6)	0
Interest rate contracts, purchased	6,974	0	5	(5)	1
Interest rate contracts, sold	6,070	6	0	6	(1)
Equity contracts, purchased	97	0	0	0	1
Equity contracts, sold	101	0	0	0	5
<b>Total</b>	<b>42,997</b>	<b>14</b>	<b>19</b>	<b>(5)</b>	<b>9</b>
<b>Total the year before</b>	<b>11,164</b>	<b>14</b>	<b>(5)</b>	<b>9</b>	<b>1</b>
<b>Nykredit Bank A/S</b>					
Foreign exchange contracts, purchased	10,822	1	1	0	3
Foreign exchange contracts, sold	18,933	7	13	(6)	0
Interest rate contracts, purchased	6,974	0	5	(5)	1
Interest rate contracts, sold	6,070	6	0	6	(1)
Equity contracts, purchased	97	0	0	0	1
Equity contracts, sold	101	0	0	0	5
<b>Total</b>	<b>42,997</b>	<b>14</b>	<b>19</b>	<b>(5)</b>	<b>9</b>
<b>Total the year before</b>	<b>11,164</b>	<b>14</b>	<b>(5)</b>	<b>9</b>	<b>1</b>

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>39. CREDIT, FOREIGN EXCHANGE, EQUITY AND INTEREST RATE EXPOSURES</b>				
<b>Credit risk</b>				
The Group's maximum credit exposure is made up of selected balance sheet items and off-balance sheet items.				
<b>Total credit exposure</b>				
<b>On-balance sheet items</b>				
26	33	Cash balance and demand deposits with central banks	33	26
15,009	18,238	Receivables from credit institutions and central banks	18,405	15,005
6,688	3,432	Loans, advances and other receivables at fair value	3,432	6,688
19,484	28,758	Loans, advances and other receivables at amortised cost	28,983	19,731
<b>Off-balance sheet items</b>				
10,269	9,323	Guarantees	9,343	10,399
3,007	6,238	Irrevocable credit commitments	6,238	3,007
<b>Concentration risk</b>				
After deduction of particularly secure claims, the exposure to any one customer or group of interconnected customers must not exceed 25% of the capital base pursuant to the Danish Financial Business Act. Furthermore, the sum of exposures which represent 10% or more of the capital base after deduction of particularly secure claims must not exceed 800% of the capital base. None of the Bank Group's exposures exceeded these limits in 2006 nor the year before.				
<b>Collateral security received</b>				
Loans, advances and collateral security provided are subject to ongoing review and, where relevant, the Nykredit Bank Group employs the options available to reduce the risk related to its lending activities. Collateral security is mainly obtained in the form of charges on securities and/or real assets such as real property and equipment, but also movable property and guarantees are included.				
The establishment of lines for trading in financial products often requires a contractual basis giving Nykredit Bank access to netting. The contractual basis is typically based on current market standards such as ISDA or ISMA agreements. No set-off has been made for collateral security or netting agreements in the accounting figures presented.				
<b>Foreign exchange risk</b>				
18,369	26,050	Total foreign exchange assets	25,965	18,320
16,971	25,192	Total foreign exchange liabilities	25,206	16,962
151	229	Exchange Rate Indicator 1 (DKKm)	242	151
4.2	5.4	Exchange Rate Indicator 1 as a % of core capital after statutory deductions	5.7	4.2
2.0	6.4	Exchange Rate Indicator 2 (DKKm)	6.4	2.0
0.1	0.2	Exchange Rate Indicator 2 as a % of core capital after statutory deductions	0.2	0.1
<b>Interest rate risk by currency involving the highest interest rate exposure</b>				
331	397	DKK	412	331
(211)	(225)	EUR	(236)	(211)
(12)	5	SEK	5	(12)
6	6	PLN	6	6
0	(8)	JPY	(8)	0
0	2	NOK	2	0
2	0	USD	0	2
2	0	GBP	0	2
0	1	Other currencies	1	0
<b>118</b>	<b>178</b>	<b>Total interest rate exposure on debt instruments</b>	<b>182</b>	<b>118</b>

## Notes

DKK million

Nykredit Bank A/S		The Nykredit Bank Group	
2005	2006	2006	2005
<b>39. CREDIT, FOREIGN EXCHANGE, EQUITY AND INTEREST RATE EXPOSURES, CONTINUED</b>			
13	11	11	13
	<b>Value-at-Risk</b>		
	Value-at-Risk is a statistical measure of the maximum loss the Bank may risk at a given probability and time horizon. The Bank calculates the key figure subject to a one-tailed confidence level of 99% and a time horizon of one day.		
(7)	6	6	(7)
	<b>Option risk</b>		
	The interest rate volatility risk is measured as the change in a market value following a change in volatility of one percentage point.		
267	258	258	267
	<b>Equity price risk</b>		
	Equity price risk has been disclosed as the carrying amount of the Bank's investments in equities, etc.		
	<b>Liquidity risk</b>		
	The day-to-day operations of Nykredit Bank are affected by certain liquidity fluctuations, including the risk of the Bank and the Bank Group not being able to meet their expected and unexpected payment obligations when these fall due.		
	Furthermore, a risk of losses may arise as a result of the Bank or the Bank Group's difficulty in disposing of or realising certain assets within a limited time horizon and without any significant impairment of the market value due to inadequate market depth or other market interruptions.		
	The Nykredit Bank Group's market risk and risk management policy are described in detail under "Risk and capital management" in the Management Review.		

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
		<b>40. HEDGING OF INTEREST RATE RISK</b>		
		Market risk is the risk of a loss of market value as a result of movements in financial markets (interest rate, foreign exchange, equity price risk, etc). The Nykredit Group's market risk and risk management policy are described under "Market risk" in the Management Review.		
		The Nykredit Bank Group continuously hedges the interest rate risk of fixed-rate assets and liabilities using derivative financial instruments, etc.		
		This enables the Group to manage the level of its aggregate interest rate sensitivity taking into consideration the expected interest rate development.		
		According to the accounting provisions, loans, advances and deposits must, initially, be measured at amortised cost, while derivative financial instruments have been measured at fair value. To obtain accounting symmetry between hedging and hedged transactions, adjustment of the carrying amounts of the assets and liabilities that form part of effective hedge accounting has been allowed. The fair value adjustment exclusively concerns the hedged part (the interest rate exposure).		
		<b>HEDGED FIXED-RATE ASSETS</b>		
3,110	3,404	Loans, advances and other receivables at amortised cost	3,404	3,110
<b>3,110</b>	<b>3,404</b>	<b>Total nominal value</b>	<b>3,404</b>	<b>3,110</b>
		<b>Market value of hedged fixed-rate assets</b>		
3,235	3,419	Loans, advances and other receivables at amortised cost	3,419	3,235
<b>3,235</b>	<b>3,419</b>	<b>Total carrying amount, year-end</b>	<b>3,419</b>	<b>3,235</b>
		<b>Fair value adjustment</b>		
125	15	Loans, advances and other receivables at amortised cost	15	125
<b>125</b>	<b>15</b>	<b>Total fair value adjustment, year-end</b>	<b>15</b>	<b>125</b>
		<b>HEDGING DERIVATIVE FINANCIAL INSTRUMENTS</b>		
3,885	4,056	Nominal value (synthetic principal)	4,056	3,885
(124)	(16)	Market value adjustment (negative market value)	(16)	(124)
		<b>FAIR VALUE ADJUSTMENT DIFFERENCE</b>		
<b>1</b>	<b>(1)</b>	<b>Total</b>	<b>(1)</b>	<b>1</b>
		Hedged and hedging financial instruments have been fair value-adjusted through profit or loss.		
		<b>Amounts recognised through profit or loss for the financial year:</b>		
(34)	(110)	Hedged transactions	(110)	(34)
38	108	Hedging transactions	108	38

## Notes

DKK million

Nykredit Bank A/S			The Nykredit Bank Group	
2005	2006		2006	2005
<b>41. GENUINE SALE AND REPURCHASE TRANSACTIONS AND GENUINE PURCHASE AND RESALE TRANSACTIONS</b>				
<b>Of the asset items below, genuine purchase and resale transactions represent:</b>				
5,814	8,734	Receivables from credit institutions and central banks	8,887	5,814
6,688	3,432	Loans, advances and other receivables at fair value	3,432	6,688
<b>Of the liability items below, genuine sale and repurchase transactions represent:</b>				
8,681	13,375	Payables to credit institutions and central banks	13,701	8,681
568	28	Other non-derivative financial liabilities at fair value	28	568
<b>Assets sold as part of genuine sale and repurchase transactions:</b>				
9,093	13,148	Bonds at fair value	13,564	9,093
The Bank's activities take place exclusively through an exchange of listed bonds and on an arm's length basis.				
<b>42. CONTINGENT LIABILITIES</b>				
The Bank's operations involve the Bank in legal proceedings and litigation. The Bank is of the opinion that the outcome hereof will have no material effect on its financial position.				

## Notes

DKK million

The Nykredit Bank Group

43. GROUP STRUCTURE	Revenue	Assets	Liabilities	Share capital 31.12.06	Equity 31.12.05	Ownership share, % 31.12.06	Profit for the year	Nykredit Bank's share of profit/loss for the year	Equity 31.12.06	Carrying amount
Nykredit Bank A/S (Parent Company)	1,382	106,165	106,165	1,400	3,614	-	627	-	4,241	-
<b>Consolidated subsidiaries</b>										
Nykredit Portefølje Bank A/S, Copenhagen a)	138	182	182	40	110	100	37	37	147	147
Pantebrevsselskabet af 8/8 1995 A/S, Copenhagen d)	1	26	26	5	26	100	1	1	26	26
Nykredit Pantebrevsinvestering A/S, Copenhagen b)	1	11	11	5	19	100	0	0	10	10
Nykredit Leasing A/S, Copenhagen c)	2	135	135	1	4	100	1	1	6	6
Nykredit Fixed Income Opportunities Fund Limited, Cayman Islands e)	1	603	603	111	-	100	1	1	113	113
Norswood Properties Limited, Plymouth d)	0	0	0	0	3	100	0	0	0	0
Nykredit Finance plc, Plymouth d)	1	32	32	29	44	100	0	0	30	30
<b>Associates subject to proportionate consolidation</b>										
Dansk Pantebrevsbørs A/S, Copenhagen b) <sup>1</sup>	80	496	496	5	38	50.0	26	13	48	24
LeasIT A/S, Lyngby-Taarbæk c) <sup>1</sup>	60	1,970	1,970	16	68	22.7	(8)	(2)	70	16
Nykredit Fixed Income Opportunities Fund Limited started activities at the beginning of December 2006.										
1 Subject to proportionate consolidation based on shareholders' agreements entitling the Bank to appoint a director in the companies, etc.										
Pantebrevsselskabet af 8/8-1995 A/S and Nykredit Pantebrevsinvestering A/S have been completely or partly without activity in 2006.										
a) Bank										
b) Mortgage trading company										
c) Leasing company										
d) No activity										
e) Financial institution										



## The Nykredit Bank Group – eight quarters

DKK million

	Q4/ 2006	Q3/ 2006	Q2/ 2006	Q1/ 2006	Q4/ 2005	Q3/ 2005	Q2/ 2005	Q1/ 2005
<b>SUMMARY INCOME STATEMENT</b>								
Net interest income	194	235	229	117	162	184	212	236
Dividends, fee and commission income (net)	67	59	65	66	54	63	49	47
<b>Net interest and fee income</b>	<b>261</b>	<b>294</b>	<b>294</b>	<b>183</b>	<b>216</b>	<b>247</b>	<b>261</b>	<b>283</b>
Value adjustments	228	93	81	120	46	79	47	5
<b>Net interest, fees and value adjustments</b>	<b>489</b>	<b>387</b>	<b>375</b>	<b>303</b>	<b>262</b>	<b>326</b>	<b>308</b>	<b>288</b>
Other operating income	5	4	5	8	5	5	5	5
Staff and administrative expenses	230	168	187	154	172	138	148	132
Depreciation, amortisation and other operating expenses	2	1	0	1	2	2	2	0
Provisions for loan impairment	(24)	(8)	(6)	(6)	10	0	(6)	3
<b>Profit before tax</b>	<b>286</b>	<b>230</b>	<b>199</b>	<b>162</b>	<b>83</b>	<b>191</b>	<b>169</b>	<b>158</b>
Tax	79	64	62	45	16	55	44	47
<b>Profit</b>	<b>207</b>	<b>166</b>	<b>137</b>	<b>117</b>	<b>67</b>	<b>136</b>	<b>125</b>	<b>111</b>
<b>SUMMARY BALANCE SHEET, YEAR-END</b>								
Cash balance and receivables from credit institutions	18,438	21,609	16,700	15,365	15,031	16,495	15,493	15,106
Loans, advances and other receivables at fair value	3,432	4,477	9,698	5,014	6,688	8,652	7,807	6,709
Loans, advances and other receivables at amortised cost	28,983	25,852	25,020	21,950	19,731	18,028	18,353	18,495
Bonds at fair value	47,697	45,794	43,340	45,946	35,885	36,591	36,364	34,412
Equities	258	278	330	280	267	241	232	246
Land and buildings	73	72	247	247	248	249	250	250
Other asset items	8,164	8,301	8,086	7,384	6,612	6,982	7,292	5,924
<b>Total assets</b>	<b>107,045</b>	<b>106,383</b>	<b>103,421</b>	<b>96,186</b>	<b>84,462</b>	<b>87,238</b>	<b>85,791</b>	<b>81,142</b>
Payables to credit institutions and central banks	63,107	59,869	59,271	49,402	44,654	43,339	43,977	46,647
Deposits and other payables	22,667	21,041	22,181	24,329	22,103	25,288	22,326	20,240
Issued bonds	1,741	1,702	1,750	1,741	654	629	669	576
Non-derivative financial liabilities at fair value	7,032	11,025	8,410	9,954	6,484	6,724	7,386	3,580
Other liability items	6,939	7,356	7,085	6,173	6,094	6,879	7,183	5,981
<b>Total payables</b>	<b>101,486</b>	<b>100,993</b>	<b>98,697</b>	<b>91,599</b>	<b>79,989</b>	<b>82,859</b>	<b>81,541</b>	<b>77,024</b>
Provisions	18	56	56	56	59	32	39	32
Subordinate loan capital	1,300	1,300	800	800	800	800	800	800
Equity, beginning of period	4,034	3,868	3,731	3,614	3,547	3,411	3,286	3,175
Profit for the period	207	166	137	117	67	136	125	111
<b>Equity, end of period</b>	<b>4,241</b>	<b>4,034</b>	<b>3,868</b>	<b>3,731</b>	<b>3,614</b>	<b>3,547</b>	<b>3,411</b>	<b>3,286</b>
<b>Total liabilities and equity</b>	<b>107,045</b>	<b>106,383</b>	<b>103,421</b>	<b>96,186</b>	<b>84,462</b>	<b>87,238</b>	<b>85,791</b>	<b>81,142</b>
<b>OFF-BALANCE SHEET ITEMS</b>								
Guarantees	9,343	7,492	7,963	8,493	10,399	11,048	11,917	11,320
Other commitments	6,374	5,086	4,131	3,600	3,058	2,995	2,377	2,307
<b>Total</b>	<b>15,717</b>	<b>12,578</b>	<b>12,094</b>	<b>12,093</b>	<b>13,457</b>	<b>14,043</b>	<b>14,294</b>	<b>13,627</b>
<b>FINANCIAL RATIOS</b>								
Capital adequacy ratio, %	10.6	10.9	9.4	9.8	10.3	9.8	9.7	9.4
Core capital ratio, %	8.2	8.0	7.9	8.4	8.8	8.3	8.1	7.9
Return on equity before tax (pa), %	27.6	23.3	21.0	17.7	9.3	22.0	20.2	19.6
Return on equity after tax (pa), %	20.0	16.8	14.4	12.7	7.5	15.7	15.0	13.7
Income:cost ratio, DKK	2.38	2.43	2.09	2.09	1.45	2.36	2.18	2.17
Interest rate exposure, %	4.3	1.1	3.7	3.0	3.3	2.9	3.4	2.6
Impairment provisions for the year, %	(0.1)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0

## Other Information



### FINANCIAL CALENDAR FOR 2007

#### **7 February**

Preliminary Announcement of Financial Statements of the Nykredit Bank Group  
Annual Report 2006 of the Nykredit Bank Group

#### **13 March**

General meeting of Nykredit Bank A/S at Nykredit, Kalvebod Brygge 1-3,  
DK-1780 Copenhagen V

#### **10 May**

Q1 Interim Report of the Nykredit Bank Group

#### **16 August**

H1 Interim Report of the Nykredit Bank Group

#### **8 November**

Q1-Q3 Interim Report of the Nykredit Bank Group

Published announcements are available on Nykredit's website [nykredit.com](http://nykredit.com)

**ANNUAL LIST OF ANNOUNCEMENTS OF NYKREDIT BANK A/S**

Stock exchange announcements published by Nykredit Bank A/S from 1 January 2006 to 7 February 2007 in accordance with section 27a of the Danish Securities Trading Act, available for download on Nykredit's website nykredit.com and published on the Copenhagen Stock Exchange.

**Stock exchange announcements 2006****09.01.2006**

Nykredit's financial calendar for 2006

**06.02.2006**

Prospectus and announcement of prospectus of NB Højrente 2008

**09.02.2006**

Peter Engberg Jensen succeeds Mogens Munk-Rasmussen as Group Chief Executive

**09.02.2006**

Preliminary announcement of Financial Statements and Annual Report for 2005 of Nykredit Bank and the Nykredit Bank Group

**15.02.2006**

Convening of annual general meeting of Nykredit Bank A/S

**15.02.2006**

Annual list of announcements of Nykredit Bank A/S

**23.02.2006**

Prospectus and announcement of prospectus of NB Højrente II 2008

**03.03.2006**

Announcement of new coupon rate of ISIN DK0003448181 Nykredit Bank 2003/2008

**14.03.2006**

Annual general meeting of Nykredit Bank A/S held on 14 March 2006

**24.03.2006**

Publication of result of the offering of NB Højrente II 2008

**11.05.2006**

Q1 Interim Report 2006 of the Nykredit Bank Group

**02.06.2006**

Announcement of new coupon rate of ISIN DK0003448181 Nykredit Bank 2003/2008

**17.08.2006**

H1 Interim Report 2006 of Nykredit Bank and the Nykredit Bank Group

**01.09.2006**

Announcement of new coupon rate of ISIN DK0003448181 Nykredit Bank 2003/2008

**01.09.2006**

Nykredit Bank A/S distributes Deutsche Bank AG, London branch's issue of "0% Deutsche Bank Bedst 2009"

**27.09.2006**

Nykredit Bank A/S publishes as distributor the results of the offering of "0% Deutsche Bank Bedst 2009"

**06.10.2006**

Nykredit Bank arranges Kalvebod plc's issue of "Series 3 DKK 1,074,130,000 Fixed/Floating Rate Secured Notes due 2014"

**01.11.2006**

Nykredit to strengthen organisation

**01.11.2006**

Announcement of change in Nykredit Bank's Executive Board

**09.11.2006**

Q1-Q3 Interim Report 2006 of Nykredit Bank and the Nykredit Bank Group

**01.12.2006**

Announcement of new coupon rate of ISIN DK0003448181 Nykredit Bank 2003/2008

**Stock exchange announcements 2007****04.01.2007**

Nykredit's financial calendar for 2007

**23.01.2007**

Prospectus and announcement of prospectus of NB Argentina 2009

# Nykredit Bank's Management – directorships and executive positions in other companies

## Board of Directors and Executive Board

The Board of Directors and the Executive Board form the Nykredit Bank Group's Management.

### BOARD OF DIRECTORS

The Board of Directors meets monthly except in July.

The members of Nykredit Bank's Board of Directors are elected for one year at a time. The last election took place on 14 March 2006. Re-election is not subject to any restrictions.

Below, an account is given of the individual Director's position, age, years of service on the Board and other directorships and executive positions in Danish and international companies as well as demanding organisational responsibilities.

#### Henning Kruse Petersen, Group Managing Director

Managing Director of Nykredit Holding A/S  
Group Managing Director of Nykredit Realkredit A/S

Born on 25 November 1947  
Joined the Board on 30 August 1994

Director of  
Dene Finanse S.A. under liquidation  
Den Danske Forskningsfond (Chairman)  
LeasIT A/S (Chairman)  
Scandinavian Private Equity Partners A/S (Chairman)  
Sund & Bælt Holding A/S and its two subsidiaries (Deputy Chairman)  
Erhvervsinvest Management A/S  
JNSFA Holding A/S  
A/S Det Østasiatiske Kompagni  
Scandinavian Private Equity A/S

#### Søren Holm, Group Managing Director

Managing Director of Nykredit Holding A/S  
Group Managing Director of Nykredit Realkredit A/S

Born on 15 November 1956  
Joined the Board on 26 September 2002

Director of  
Dene Finanse S.A. under liquidation  
Nykredit Ejendomme A/S  
Nykredit Forsikring A/S  
Nykredit Mægler A/S  
Totalkredit A/S  
JN Data A/S

#### Søren Klitholm, Chief Dealer

Born on 9 March 1961  
Joined the Board on 13 March 2003

No other directorships

#### Allan Kristiansen, Vice President

Born on 6 March 1958  
Joined the Board on 13 March 2003

Director of  
Nykredit Holding A/S  
Nykredit Realkredit A/S

#### Per Ladegaard, Group Managing Director

Managing Director of Nykredit Holding A/S  
Group Managing Director of Nykredit Realkredit A/S

Born on 17 March 1953  
Joined the Board on 18 March 1998

Director of  
JN Data A/S (Chairman)  
Realkreditnettet Holding A/S and its subsidiary (Chairman)  
Nykredit Forsikring A/S (Chairman)  
Nykredit Mægler A/S (Chairman)

### EXECUTIVE BOARD

Below, an account is given of the individual Executive Board member's position, age, years of service on the Board and other directorships and executive positions, including in other companies as permitted by the Board of Directors pursuant to section 80 of the Danish Financial Business Act.

#### Kim Duus, Managing Director

Born on 8 December 1956  
Joined the Board on 1 August 1997

Director of  
Nykredit Portefølje Bank A/S (Chairman)  
Nykredit Portefølje Administration A/S (Chairman)

#### Karsten Knudsen, Managing Director

Born on 21 June 1953  
Joined the Board on 1 January 2004

Director of  
Nykredit Forsikring A/S  
Dansk Pantebrevsbørs A/S  
Nykredit Portefølje Bank A/S

## Executives

### **Retail Banking**

Inge Bender Koch, Senior Vice President

### **Corporate Banking – Domestic**

Bjørn Damgaard Mortensen, Senior Vice President

### **Corporate Banking – International**

Tom Ahrenst, Executive Vice President

### **Structured Finance**

Jørn Christiansen, First Vice President

### **Market & Asset Management**

#### **Markets**

Georg Andersen, Executive Vice President

#### **Debt Capital Markets**

Claus Møller, First Vice President

### **Financial Products**

Lars Bo Bertram, Executive Vice President

### **Risk Management**

René Baht-Hagen, First Vice President

### **Treasury**

Lars Eibeholm, First Vice President

### **Research**

John Madsen, Chief Economist

### **Credits**

Søren Møller Hansen, Senior Vice President

### **Legal Department**

Elisabeth Stamer, Chief Legal Adviser

### **Finance & Accounts**

Nils Peter Sørensen, First Vice President

This document is an English translation of (extracts of) the original Danish text. In the event of discrepancies between the original Danish text and the English translation, the Danish text shall prevail.