

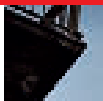
# Annual Report 2006



REALKREDIT  
**Danmark**

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# Financial highlights

## Realkredit Danmark Group

### NET PROFIT FOR THE YEAR

DKr m	2006	2005	2004	2003	2002
Administration margin	2,689	2,471	2,318	2,216	2,094
Net interest income	1,281	1,178	953	1,216	1,219
Net fees	-233	83	125	186	175
Net trading income	222	355	436	246	415
Other income	324	232	126	140	139
Total income	4,283	4,319	3,958	4,004	4,042
Operating expenses	1,171	1,251	1,255	1,454	1,304
Profit before credit loss expenses	3,112	3,068	2,703	2,550	2,738
Credit loss expenses	-105	-118	-18	24	-74
Profit before tax	3,217	3,186	2,721	2,526	2,812
Tax	861	769	655	609	822
Net profit for the year	2,356	2,417	2,066	1,917	1,990

### BALANCE SHEET

DKr m					
Due from credit institutions etc.	18,554	16,943	12,886	14,914	33,174
Mortgage loans	602,584	569,092	524,428	497,563	468,953
Bonds and shares	39,553	35,925	35,891	128,323	132,707
Other assets	2,586	3,893	3,404	6,346	7,747
Total assets	663,277	625,853	576,609	647,146	642,581
Due to credit institutions etc.	5,267	45,390	2,068	874	31,259
Issued mortgage bonds	610,761	536,530	531,401	603,120	567,912
Other liabilities	14,083	13,123	13,422	15,915	18,162
Shareholders' equity	33,166	30,810	29,718	27,237	25,248
Total liabilities and equity	663,277	625,853	576,609	647,146	642,581

### RATIOS AND KEY FIGURES

Net profit for the year as % of average shareholders' equity	7.4	8.0	7.2	7.3	8.2
Cost/income ratio, %	27.3	29.0	31.7	36.3	32.3
Solvency ratio, %	10.2	10.1	10.1	10.4	10.4
Core (tier 1) capital ratio, %	10.2	10.0	10.0	10.3	10.3
Full-time-equivalent staff, end of year	738	749	771	981	1,043

For 2004-2006, items are valued in accordance with the IFRS. For 2002-2003, items are valued in accordance with the rules in force for those financial years.

# Financial review

In 2006, the Realkredit Danmark Group's pre-tax profit was DKr3,217m, against DKr3,186m the year before. The financial performance matched the level forecast at the publication of the report for the first nine months of 2006.

After tax, the profit for the year stood at DKr2,356m, against DKr2,417m in 2005.

Mortgage lending measured at fair value grew from DKr569bn at the beginning of 2006 to DKr603bn at year-end. The increase covered an increase in the outstanding nominal bond debt of DKr46bn and a DKr12bn decline in the market value as a result of rising interest rates.

The market share of net new lending increased from 27.5% in 2005 to 28.7% in 2006. The market share of the loan portfolio was 32.8% at the end of 2006, down from 33.4% at year-end 2005.

## Results

Total income amounted to DKr4,283m in 2006, down from DKr4,319m in 2005.

At DKr2,689m, the administration margin was up DKr218m on the previous year as a result of the larger loan portfolio.

Net fees fell by DKr316m relative to 2005 to an expense of DKr233m primarily as a result of lower refinancing activity in the mortgage credit market and higher fees for mortgage lending arranged through Danske Bank and BG Bank.

The rising interest rates caused net trading income to fall to DKr222m, from DKr355m in 2005. Net trading income consists of value adjustments and the yield on the proprietary investment portfolio after deduction of funding costs – calculated on the basis of short-term money market rates.

Other income climbed DKr92m to DKr324m in 2006. Of the income in 2006, DKr137m derived from a gain on the sale of the former head office building at Jarmers Plads in Copenhagen.

At DKr1,171m, operating expenses were reduced by 6% relative to the year before.

As in 2005, credit loss expenses represented a net income. This income amounted to DKr105m in 2006 against DKr118m in 2005. The net income was attributable to the persistently favourable economic climate, which resulted in a low level of new impairment charges, the reversal of previously made impairment charges on corporate customers and income from claims previously written off. The total impairment charge stood at DKr108m at year-end, against DKr140m at year-end 2005.

Realkredit Danmark is taxed jointly with Danske Bank. Realkredit Danmark's total tax charge for 2006 was DKr861m, corresponding to an effective tax rate of 27%.

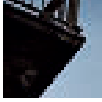
## Capital and solvency

Shareholders' equity stood at DKr33,166m at the end of 2006, up from DKr30,810m at year-end 2005. The increase equals the profit for the year. No dividend will be paid for 2006.

On December 31, 2006, the capital base stood at DKr33,129m, corresponding to a solvency ratio of 10.2%. The statutory minimum requirement is 8.0%.

<b>Capital base and solvency</b>		
	<b>Dec. 31 2006</b>	<b>Dec. 31 2005</b>
DKr m		
Core capital less statutory deductions	32,953	30,707
Supplementary capital less statutory deductions	176	184
<b>Capital base</b>	<b>33,129</b>	<b>30,891</b>
Total weighted items	324,258	306,435
Solvency ratio	10.2	10.1
Core (tier 1) capital ratio	10.2	10.0

From 2007, new rules will be introduced for the minimum capital of mortgage credit institutions, the capital requirements directive (CRD), which gives financial institutions a choice between different methods for meeting their capital requirements. In 2006, the Danske Bank Group filed an



application with the Danish FSA for applying advanced in-house models to calculate the capital requirement for credit risks. The Group expects to apply the new calculation methods from 2008 and to obtain the full effect of the amended rules by 2010. The new rules will lead to a lower capital requirement for Realkredit Danmark.

### **Balance sheet**

In 2006, the Group's total assets rose 6% to DKr663bn.

Mortgage lending measured at fair value rose by DKr34bn to DKr603bn in 2006. The nominal outstanding bond debt rose by DKr46bn to DKr609bn after gross lending of DKr145bn in 2006.

The private market accounted for 62% of the total loan portfolio at end-2006, unchanged from year-end 2005. Interest-only loans accounted for 39% of the loan portfolio in the private market at December 31, up from 33% at year-end 2005.

Issued mortgage bonds measured at fair value rose DKr74bn to DKr611bn in 2006. In nominal value, issued bonds rose by DKr86bn to DKr617bn. The amounts are exclusive of holdings of own mortgage bonds.

### **Outlook for 2007**

Activity in the mortgage credit market in 2007 is expected to be more or less on a par with 2006. Due to the expected slight rise in interest rates in 2007, the level of interest rate-driven refinancing is forecast to be low.

The private market is expected to see unchanged to slightly rising property prices and unchanged property sales. Consequently, demand

for mortgage loans to finance changes of ownership is likely to be at the same level as in 2006.

The corporate market is expected to record trends similar to those in 2006 in urban trade and, to some extent, in residential rental property, although construction of large residential properties is expected to slow. The agricultural segment is expected to see the structural change towards larger production units continue, while the rate of price increase on agricultural property will decline.

The increase in the volume of lending will boost the administration margin in 2007. Net interest income is forecast to rise as a result of the general rise in interest rates. Net fee expenses will go up because of the activity and portfolio-based fees paid to Danske Bank and BG Bank for mortgage loans arranged through them. Net trading income will depend largely on the level of securities prices at the end of the year. Other income will fall as 2006 was influenced by one-off income from the sale of the head office building at Jarmers Plads.

Operating expenses are expected to remain unchanged.

Assuming that the economic climate remains unchanged, credit loss expenses are expected to remain low.

The pre-tax profit for 2007 will depend largely on trends in the financial markets, including the level of securities prices at the end of the year. At a slight increase in interest rates, pre-tax profit is expected to be 3-8% higher than in 2006.

Tax payable by the Group is expected to be 28% of pre-tax profit.

# Organisation

## Human resources

As in preceding years, Realkredit Danmark conducted a survey in 2006 to measure employee satisfaction. The aim was to identify areas that could benefit from increased efforts to improve employee satisfaction, motivation and loyalty. The 2006 survey again showed that employee satisfaction is at a satisfactory level.

Realkredit Danmark has taken a number of steps to support the positive trend in employee satisfaction. The following three development projects are examples of such initiatives: developing the talent of future managers, retaining young talents and establishing a network group for female managers.

At the end of 2006, the number of full-time-equivalent staff at the Realkredit Danmark Group was 738, compared with 749 at the beginning of the year.

## Management

Realkredit Danmark A/S is a wholly-owned subsidiary of Danske Bank A/S. The Board of Directors consists of four directors who represent the bank and two directors elected by the employees. The Board of Directors has not changed since the presentation of the Annual Report for 2005.

The Executive Board was changed on December 1, 2006, when Thomas Mitchell resigned to take up another position in the Danske Bank Group. Carsten Nøddebo Rasmussen joined the Executive Board on the same date.

## Administration

RD Service handles home finance-related back-office functions for mortgage loans arranged by Realkredit Danmark's own offices. In 2006, the separation line between mortgage credit offices and RD Service was adjusted and RD Service took over additional assignments previously handled by the local offices. The new organisation resulted in better utilisation of resources, and customer service improved in terms of shorter

processing time.

In 2006, Realkredit Danmark further developed the automated valuation model implemented towards the end of 2005. The model has now been embedded in the work processes, so that valuation of certain segments of the single-family housing market is based on this model instead of physical inspection. In 2007, Realkredit Danmark will apply the model also for the valuation of terrace houses and owner-occupied flats. The use of the automated valuation model allows for quicker processing of loan applications to the benefit of the customers.

In July 2006, Realkredit Danmark took over the responsibility for providing professional advice and support in the home finance area from Danske Bank and BG Bank.

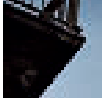
IT developments at Realkredit Danmark in 2006 were influenced by the Danske Bank Group's strategy of creating a joint mortgage credit system. As part of this strategy, Realkredit Danmark's Web site and the two Danish eBanking systems were upgraded and harmonised in the spring of 2006 to give all customers the same possibilities of viewing and making loan calculations in all of the Group's electronic channels in Denmark.

## Distribution channels

Realkredit Danmark has four distribution channels:

- Own offices, corporate centres and the Mortgage Line
- Danske Bank and BG Bank branches
- The Internet
- The real-estate agency chain "home"

Realkredit Danmark is represented by 22 mortgage credit offices and four corporate centres across Denmark. Realkredit Danmark has located 20 of its 22 mortgage credit offices in premises shared with Danske Bank finance centres or large Danske Bank and BG Bank



branches. These offices, which have maintained the separate identities of the participating brands, give customers the best possible opportunity to get fast, competent and co-ordinated advice on all types of financial products.

At the end of 2005, Realkredit Danmark launched its Community Business strategy. As a result, customer services to small, local businesses were transferred to the mortgage credit offices at the beginning of 2006. Large corporate customers are still serviced by the four corporate centres.

In 2006, Realkredit Danmark continued to develop its local strategy to play a more active role in the local community. In September, Realkredit Danmark launched its Smart Square Metres sponsorship initiative, awarding grants to schools and companies that give special priority to “physical and functional settings that inspire learning, co-operation and new ideas”.

The Mortgage Line serves customers who contact Realkredit Danmark by telephone. Telephone services encompass all advisory aspects for these customers and the full processing of loan applications.

The nation-wide branch network of Danske Bank and BG Bank, comprising a total of 469 branches and finance centres, strengthens the distribution power of Realkredit Danmark con-

siderably, and the additional products and services give the Group a very strong basis for sales of home loans.

An increasing number of customers visit Realkredit Danmark’s Web site, [www.rd.dk](http://www.rd.dk). A growing number of services on the Web site allow both existing and potential customers to make various calculations. Furthermore, Realkredit Danmark is the only mortgage credit institution to provide indicative property values using an electronic home value calculator. Electronic registration of mortgages will be introduced in the spring of 2008 as a new component of the self-service options on the Internet.

“home” is the Danish real-estate agency chain of the Danske Bank Group. The real estate-agency activities are organised as franchise business, and at end-2006, the chain was made up of 199 estate agents. Loans distributed through “home” are used mainly to finance changes of ownership. Sale of owner-occupied dwellings is the largest business area of the real-estate agency, but “home” and Realkredit Danmark also collaborate on the corporate market. “home” has a total of 12 corporate centres and eight back office functions across Denmark. The back office function handles after-sale services to optimise the process of a change of ownership.

# Property market

## Economic trends

The economic upswing continued in 2006, and the rise in interest rates that started in the last few months of 2005 continued into 2006. The rate hikes marked the end of a period with the lowest interest rates in Denmark in recent times.

The US central bank, the Federal Reserve, led the rate hikes in 2006. The Fed gradually raised its key interest rate 1.00 percentage point during 2006 to 5.25% at the end of the year.

The European Central Bank, the ECB, raised interest rates a total of five times, as growth in Europe gathered momentum and proved surprisingly solid.

Danmarks Nationalbank, the Danish central bank, usually emulates the ECB's interest rate changes, but exchange rate movements early in the year led to an independent rate hike of 0.10 of a percentage point. As a result, in 2006, the key lending rate of Danmarks Nationalbank rose a total of 1.35 percentage point to 3.75%.

Danish bond yields also rose in 2006. The table shows that short-term interest rates posted the biggest increase. The rise in interest rates caused a sharp drop in interest rate-driven refinancing.

## Property prices and sales

Activity in the mortgage credit market relies not only on interest rate movements and product launches, etc. but also on developments in property prices and sales.

As in the preceding years, prices of owner-occupied dwellings surged in 2006. The rising prices were to some extent explained by the strong Danish economy and low unemployment rates combined with low interest rates.

However, the rate of price increases slowed in the second half of the year and especially during the fourth quarter. This trend appeared, for example, in the eastern parts of Denmark, which have otherwise seen very large price increases in recent years. The lower price increases in 2006 for single-family and terrace houses and owner-occupied flats are illustrated by the chart.

Sales of owner-occupied dwellings were significantly lower in 2006 than the year before. Not only was a higher number of properties put up for sale, but properties were also significantly more days on the market. In 2006, around 45,000 single-family and terrace houses changed hands, which was about 7% fewer than in 2005, and around 20,000 owner-occupied flats and holiday homes changed hands, a decline of 21% and 25%, respectively, from 2005.

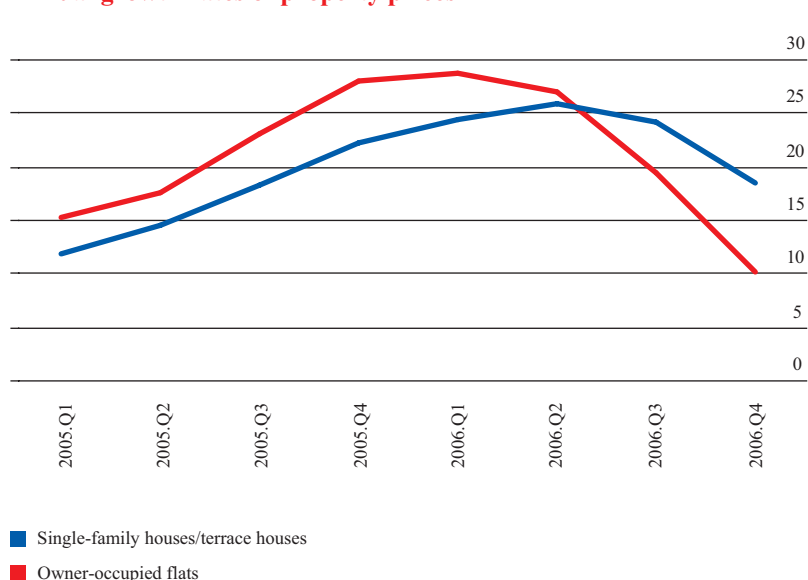
### Effective rate of interest

%

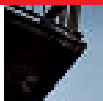
	Dec. 31 2006	Dec. 31 2005
FlexLån® F1	4.2	2.9
4% 30-year fixed-rate loan	4.8	4.4
5% 30-year fixed-rate loan	5.2	5.0
FlexGaranti® 5M	4.5	3.1
RD Cibor6®	4.0	2.7

### Annual growth rates of property prices

%







# Lending

## Mortgage credit market

Total gross lending in the Danish mortgage credit market fell 37% in 2006 to DKr469bn, returning to a normal level that corresponded to gross lending in 2004. The large decline relative to 2005 was due partly to rising interest rates, partly to a decline in refinancing activity.

## Total lending

Gross lending by Realkredit Danmark fell 35% to DKr145bn in 2006 from DKr224bn in 2005. Net new lending, on the other hand, rose 6% to DKr64bn from DKr60bn in 2005.

Mortgage lending measured at fair value rose DKr34bn to DKr603bn in 2006. The fair value is

composed of the nominal outstanding bond debt, value adjustments and impairment charges. The outstanding nominal bond debt increased DKr46bn. The private market accounted for 65% of the portfolio increase during the year and for 62% of the portfolio at the end of the year.

The market share of net new lending climbed from 27.5% in 2005 to 28.7% in 2006. The market share of the loan portfolio was 32.8% at the end of 2006, down from 33.4% at year-end 2005.

Lending broken down by loan types is illustrated in the table. FlexLån® represented a rising share of total gross lending, while the market share of fixed-rate loans declined. The increase

Activity and portfolio	Gross lending		Net new lending		Loan portfolio			
	2006	2005	2006	2005	Dec. 31, 2006		Dec. 31, 2005	
	DKr m	DKr m	DKr m	DKr m	DKr m	%	DKr m	%
Private market	97,253	153,822	40,055	36,980	377,726	62	347,866	62
Urban trade	20,106	29,187	7,129	7,898	72,178	12	67,666	12
Agriculture	10,211	14,469	5,787	5,409	38,377	6	33,225	6
Residential rental property	17,190	26,859	11,012	9,970	120,661	20	114,396	20
Total corporate market	47,507	70,515	23,928	23,277	231,216	38	215,287	38
<b>Total (nominal value)</b>	<b>144,760</b>	<b>224,337</b>	<b>63,983</b>	<b>60,257</b>	<b>608,942</b>	<b>100</b>	<b>563,153</b>	<b>100</b>

Market share	Gross lending		Net new lending		Loan portfolio	
	2006	2005	2006	2005	Dec. 31, 2006	Dec. 31, 2005
%						
Private market	29.9	30.5	28.6	25.5	33.7	34.6
Corporate market	29.3	27.6	28.9	31.0	31.3	31.6
<b>Total</b>	<b>29.7</b>	<b>29.5</b>	<b>28.7</b>	<b>27.5</b>	<b>32.8</b>	<b>33.4</b>

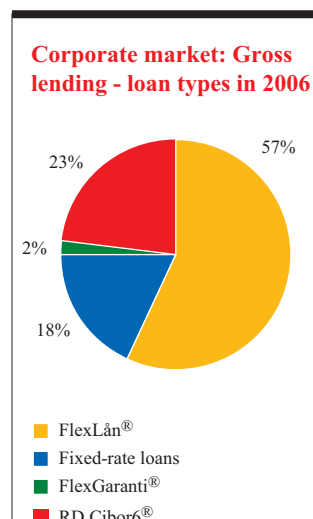
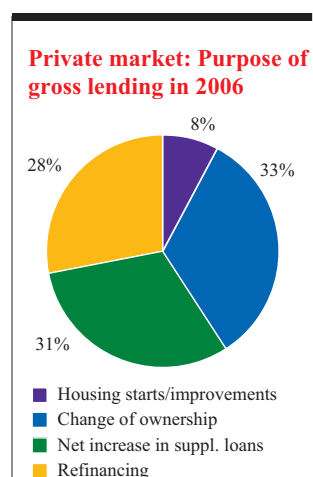
Lending broken down by loan type	Share of gross lending		Share of loan portfolio	
	2006	2005	Dec. 31, 2006	Dec. 31, 2005
%				
FlexLån®	38	30	42	45
Fixed-rate loans	41	48	44	44
FlexGaranti®	14	18	11	9
RD Cibor6® *)	7	4	3	2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\*) Launched in the autumn of 2005

for FlexLån<sup>®</sup> was achieved in the corporate market. The number of private customers raising fixed-rate loans continues to rise.

Representing a market share of 14% of total gross lending in 2006, FlexGaranti<sup>®</sup> demonstrated that the product offers an attractive alternative to fixed-rate loans during times of rising interest rates. FlexGaranti<sup>®</sup> is still a relatively new product and its share of the total loan portfolio therefore continues to rise.

For all loan types, interest-only loans accounted for 28% of the portfolio of loans at the end of 2006, against 22% at the beginning of the year.



### Private market

The private market is defined as lending for the financing of owner-occupied housing and holiday homes, and at 62% of the total loan portfolio, it is Realkredit Danmark's largest business area.

Gross lending in 2006 fell 37% to DKr97bn from DKr154bn in 2005. At the end of 2006, the loan portfolio was DKr378bn, or DKr30bn larger than at the beginning of the year.

The market share of the loan portfolio was 33.7% at the end of 2006, against 34.6% at the beginning of the year.

The chart shows 2006 gross lending to the private market distributed by loan purpose. Refinancing of mortgages fell to 28% of gross lending, against 48% the year before.

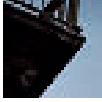
In terms of Danish kroner, gross lending for refinancing fell to about one-third of the level recorded in 2005. Supplementary loans, in many cases raised in connection with refinancing, also experienced a small decline. On the other hand, the volume of gross lending for housing starts and improvements and change of ownership was almost on a level with 2005.

For all loan types, interest-only loans accounted for 39% of the portfolio of loans to the private market at the end of 2006. At the beginning of the year, their share was 33%.

### Corporate market

The corporate market consists of urban trade, agriculture and residential rental property. Lending activity stayed robust in 2006, albeit at a lower level than in 2005. The positive economic climate spurred persistently strong investment in the corporate property market, and building activity remained high. As in the private market, refinancing activity was substantially lower than in 2005.

Gross lending to corporate customers fell 33% to DKr48bn in 2006 from DKr70bn in 2005. Nevertheless, the loan portfolio rose by DKr16bn, against an increase of DKr15bn in



2005. The agriculture segment achieved the relatively largest increase in gross lending.

The market share of the loan portfolio was 31.3% at the end of 2006, against 31.6% at the beginning of the year.

Floating-rate loans remained the preferred loan type among corporate customers, and the share of fixed-rate loans fell to 18% of total gross lending in 2006, against 42% the year before.

For all loan types, interest-only loans accounted for 9% of the portfolio of loans to the corporate market at the end of 2006. At the beginning of the year, their share was 5%.

#### **Urban trade**

Gross lending to urban trade was down 31% to DKr20.1bn in 2006. The loan portfolio was up 7% to DKr72.2bn.

Construction of office buildings and retail property remained strong in 2006. The construction of new property was concentrated in and around the major cities and near traffic hubs.

The large volume of renovation of existing property continued in 2006, driven by demand for prime location office buildings and a continuing decline in vacant leases.

#### **Agriculture**

Gross lending to agriculture was down 29% to DKr10.2bn in 2006. The loan portfolio was up 16% to DKr38.4bn.

The portfolio increase was the result of Realkredit Danmark's strategy of primarily attracting major commercial farms, which involve extensive investment activity.

Again in 2006, the segment's focus on economies of scale led to structural developments towards larger production units. The large production units were created especially within pig breeding and plant growing.

#### **Residential rental property**

Gross lending to subsidised housing, co-operative housing and private residential rental property was down 36% to DKr17.2bn in 2006. The combined loan portfolio was up 5% to DKr120.7bn.

Lending to the subsidised rental property segment remained at a low level. Activities related mainly to improvement and renovation work, while building starts were stagnant. As in previous years, repayments on the existing loan portfolio were at a high level, as index-linked loans disbursed in the 1980s are being prepaid because of the low inflation rate.

Private residential rental property and co-operative housing experienced another decline in lending growth in 2006, including in the market for new construction. Loans were raised especially for improvements and to establish co-operatives in the existing housing stock.

# Funding

## **Funding and bond issuance**

Realkredit Danmark funds its lending to borrowers by issuing mortgage bonds listed on the Copenhagen Stock Exchange.

Issued bonds are carried in the accounts at their fair value after deduction of own holdings. The following text and charts are based on nominal values before set-off, as these reflect the actual volume of bonds issued and listed on the Copenhagen Stock Exchange.

At the end of 2006, Realkredit Danmark had issued bonds for a total of Dkr768bn, or 34% of all issued mortgage bonds on the Danish market and 25% of all bonds listed on the Copenhagen Stock Exchange.

## **Bonds issued in 2006**

In 2006, Realkredit Danmark issued bonds worth a total of Dkr278bn, which was 20% less than in 2005. The decline reflects the generally lower level of activity in the mortgage market.

Non-callable bonds issued to fund FlexLån® accounted for Dkr190bn, of which bonds worth Dkr123bn were issued in connection with refinancing in December 2006. Moreover, Dkr62bn worth of bonds was issued to fund fixed-rate, callable loans, and bonds worth Dkr26bn were issued to fund floating rate loans, primarily FlexGaranti®.

Of callable bonds issued in 2006, 73% had a coupon of 5%.

The demand for FlexGaranti® primarily targeted bonds with a maximum coupon of 5%. These accounted for 84% of the bonds issued to fund FlexGaranti®.

Prepayments of callable bonds primarily hit series with a coupon of 5% or 6%.

## **Annual refinancing**

At the December 2006 auction of bonds to refinance FlexLån® on January 1, 2007, Realkredit Danmark sold non-callable bonds worth Dkr123bn as compared with Dkr122bn at the auction in December 2005. Of the bonds sold,

80% were 1-year bonds with an effective rate of interest of 4.1%.

As a result of the large refinancing amount, the auction was completed over the course of five business days, from Monday, December 11, to Friday, December 15, 2006. The refinancing auctions generated a very satisfactory oversubscription rate.

## **Bonds issued at end-2006**

At end-2006, Realkredit Danmark had issued mortgage bonds for a total amount of Dkr768bn, of which Dkr135bn was for refinancing. At the end of 2005, the corresponding amounts were Dkr737bn and Dkr123bn.

At the end of 2006, bonds with a coupon of 4% accounted for the largest proportion of bonds in circulation, namely 56%. A total of 85% of bonds issued had a coupon of 4% or less.

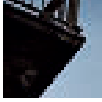
The proportion of bonds with a term to maturity of more than 20 years rose to 36% at end-2006, against 32% at the beginning of the year.

At 53% at end-2006 (55% the year before), non-callable bullet bonds issued to fund FlexLån® continued to account for the largest part of the bond portfolio. Bonds to fund fixed-rate loans and FlexGaranti® accounted for 31% and 8%, respectively, at the end of 2006, against 30% and 7% the year before.

## **Bond investors**

Realkredit Danmark's investor base is composed of a wide range of Danish and foreign investors. By far the majority of investors are companies in the financial sector in Denmark. This investor segment has grown in step with issues of short-term, non-callable bonds. These are well-suited as money-market instruments.

At the end of the third quarter of 2006, foreign investors held a total of 16% of the bonds issued by Realkredit Danmark as compared with 15% the year before. Foreign investors held 15% of the bonds denominated in Danish kroner and 31% of the euro-denominated bonds.



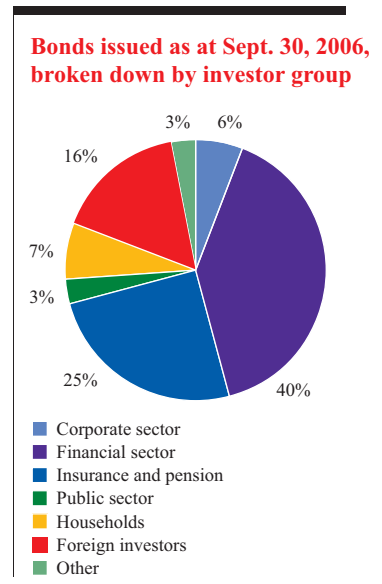
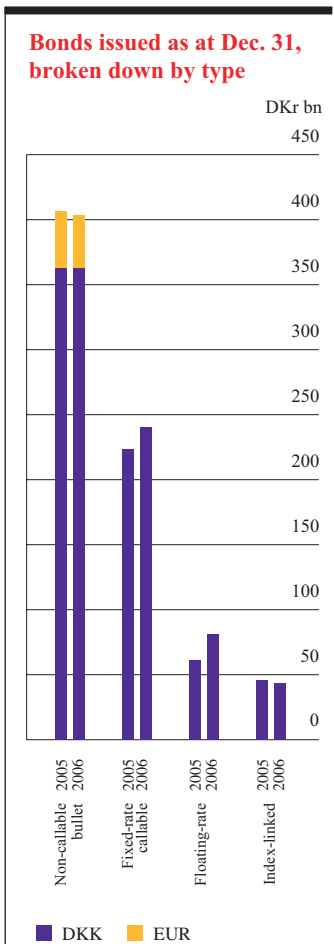
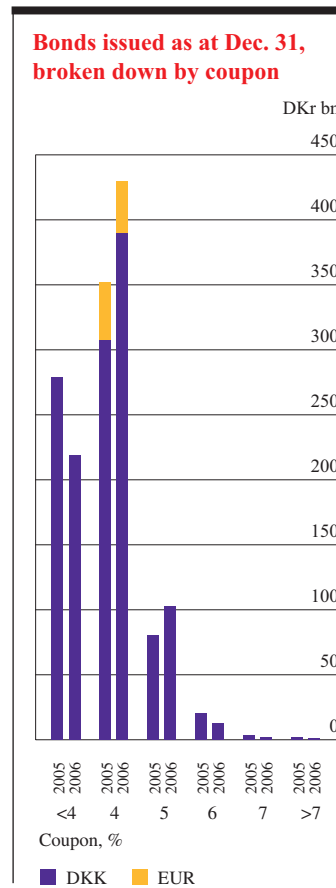
At the end of the third quarter of 2006, financial institutions held 40% of the bonds issued by Realkredit Danmark and were the largest investor group. Insurance and pension companies held 25%.

est possible ratings awarded by the credit rating agencies Moody's Investors Service and Standard & Poor's.

The ratings of Moody's as well as of Standard & Poor's apply to 95% of all bonds issued by Realkredit Danmark.

### Rating

All new bonds issued by Realkredit Danmark carry Aaa and AAA ratings, which are the high-



# Capital management

## **Economic capital**

For several years, Realkredit Danmark has applied a Raroc-based risk management system. Based on economic capital and risk-adjusted earnings, this tool is designed to optimise the relation between the risk of loss, the capital base and earnings.

The purpose of the Raroc system is to quantify the credit risk, market risk and operational risk Realkredit Danmark undertakes in the ordinary course of its mortgage finance business.

These risks are quantified through a combination of historical data and statistical models. Against this background, Realkredit Danmark can calculate its capital requirement, which is referred to as economic capital.

Risk-adjusted earnings are calculated against the background of the pre-tax profit. Actual losses are replaced with expected losses, and net interest is adjusted to reflect economic capital.

Experience from the Raroc concept has contributed substantially to the preparations for the new Capital Requirements Directive (CRD). In connection with the transition to CRD, Raroc will gradually be replaced by Roac (Return on Allocated Capital). Roac is developed from the Raroc model. One of the key differences between Roac and Raroc is that Roac also includes concentration and diversification risk. Concentration on few customers, industries and countries will increase the economic capital requirement and thus reduce the Roac return. Diversification will have the opposite effect. Roac also involves a longer time horizon than Raroc. Raroc focuses on the risk one year ahead, while Roac covers a period of three to five years.

## **Capital requirements**

The new capital requirement rules for credit institutions will replace current rules in 2007 with a transition period until 2010. In future, the capital required for customers with a high credit rating will be much lower than that required for customers with lower credit ratings. In other

words, the capital requirement will be more closely linked to the actual risk.

Credit risk calculations under the Raroc system and the CRD are based on the probability of customers defaulting on their payment obligations, Probability of Default (PD), and expected losses in case of default, Loss Given Default (LGD).

In 2006, Realkredit Danmark continued its risk classification of customers to comply with the requirements of the CRD to obtain permission to apply an advanced capital adequacy model. This classification is based on detailed historical data covering several years and on accounting and expert-based rating models.

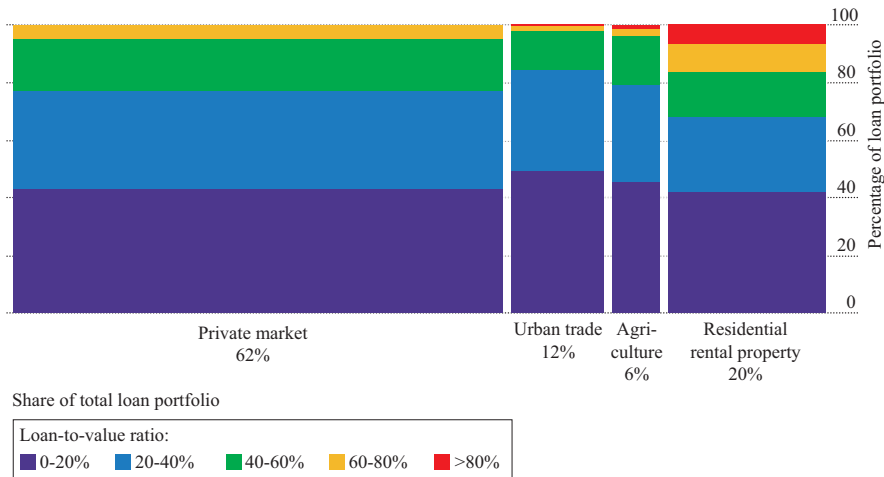
To obtain a sound basis for the calculation of the LGD, it is of vital importance to have the best possible calculations of the current values of mortgaged properties, as the property value is the most important parameter for a mortgage credit institution in the calculation of the LGD.

Again in 2006, Realkredit Danmark made efforts to improve the various statistical models that have been applied for a number of years to calculate property values for LTV (loan-to-value) ratios and the like. These models calculate current property values in all property categories. For owner-occupied dwellings, the model boasts a standard that allows it to be applied as an active ancillary tool for the physical inspection of properties. For parts of the single-family housing market, the quality of the model is so good that, already in 2005, the Danish FSA granted Realkredit Danmark exemption from the requirement for physical property inspection.

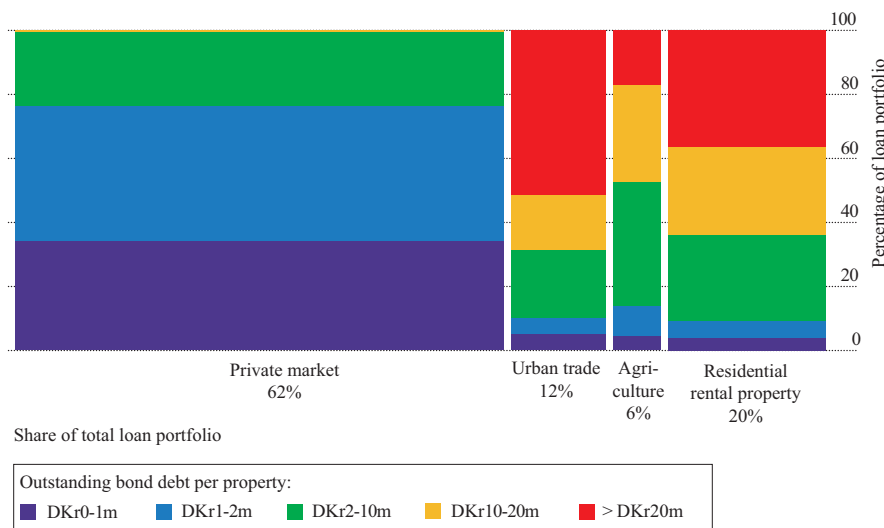
Calculations show that Realkredit Danmark will have a lower capital requirement under the new rules. The reason is that the current capital requirement rules do not adequately recognise the low risk associated with mortgage loans.

Most of Realkredit Danmark's lending is placed in the historically very secure residential property segment. The residential property segment accounted for 82% of the total loan portfolio.

**Loan portfolio broken down by loan-to-value ratios as at Dec. 31, 2006**



**Loan portfolio broken down by outstanding bond debt as at Dec. 31, 2006**



lio, of which owner-occupied dwellings accounted for 62% and private and subsidised residential rental property for 20%. Compared with industrial property, for example, residential property is characterised by easy marketability and very stable value, as this property type can normally be used by many others than the present owners. This means that the LGD of this segment is normally low.

One method of calculating the LTV ratio is to break down the total amount of loans secured on each property by seniority in debt ranking. As illustrated in the chart, a breakdown using this method shows that 77% of the total loan portfolio is secured within 40% of the value of the properties, and 93% of the loans within 60% of the value. The width of the columns indicates the portion of the total portfolio represented by each segment.

The loss guarantee provided to Realkredit Danmark by Danske Bank and BG Bank for the top end of loans to the private market arranged by the banks covered loans for a total amount of approximately DKr244bn at the end of 2006, of which the bank guarantee covered a total of DKr39bn.

The breakdown by loan size (see chart) shows that the portfolio was generally distributed over many properties with relatively small loans. As much as 55% of the portfolio consisted of loans with an outstanding debt of less than DKr10m per property.

For further information about the Group's approach to CRD, go to the Web site [www.rd.dk/omrd](http://www.rd.dk/omrd).

# Management and directorships

Under section 80(8) of the Danish Financial Business Act, financial institutions are required to publish information at least once a year about directorships held with the approval of the Board of Directors by persons employed by the Board (section 80(1) of the Act).

This page also lists directorships held by members of the Board of Directors outside the Realkredit Danmark Group.

## **Board of Directors**

**Jakob Brogaard**, Chairman

Deputy Chairman of the Executive Board of Danske Bank A/S

Born on June 30, 1947

Director of:

LR Realkredit A/S (Deputy Chairman)

DDB Invest AB (Deputy Chairman)

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999

Danica Pension, Livsforsikringsaktieselskab

Danica Pension I, Livsforsikringsaktieselskab

Danica Liv III, Livsforsikringsaktieselskab

Kreditforeningen Danmarks Pensionsafviklingskasse (Chairman)

Member of the Financial Business Council

**Sven Lystbæk**, Deputy Chairman

Member of the Executive Board of Danske Bank A/S

Born on September 26, 1951

Director of:

VP Securities Services A/S (Chairman)

PBS Holding A/S (Chairman)

PBS A/S (Chairman)

Ejendomsselskabet Lautrupbjerg A/S (Chairman)

Multidata Holding A/S (Chairman)

Multidata A/S (Chairman)

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999 (Deputy Chairman)

Danica Pension, Livsforsikringsaktieselskab

(Deputy Chairman)

Danica Pension I, Livsforsikringsaktieselskab

(Deputy Chairman)

Danica Liv III, Livsforsikringsaktieselskab

(Deputy Chairman)

Danske Bank International S.A.

Fokus Bank ASA

DDB Invest Limited

National Irish Bank Limited

Northern Bank Limited

Kreditforeningen Danmarks Pensionsafviklingskasse

**Tonny Thierry Andersen**

Member of the Executive Board of Danske Bank A/S

Born on September 30, 1964

Director of:

Investeringselskabet af 23. marts 2001 A/S

Danske Bank International S.A.

Danske Private Equity A/S

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab 1999

Danica Pension, Livsforsikringsaktieselskab

Danica Pension I, Livsforsikringsaktieselskab

Danica Liv III, Livsforsikringsaktieselskab

Nordania Finans A/S

DDB Invest Limited

National Irish Bank Limited

Northern Bank Limited

**Klaus Pedersen** (elected by the employees)

Corporate Adviser, Realkredit Danmark A/S

Born on January 30, 1947

Director of:

Kreditforeningen Danmarks Pensionsafviklingskasse

**Per Skovhus**

Member of the Executive Board of Danske Bank A/S

Born on September 17, 1959

Director of:

Danmarks Skibskredit A/S (Deputy Chairman)

Danske Bank International S.A. (Chairman)

Fokus Bank ASA (Deputy Chairman)

Nordania Finans A/S (Chairman)

The Danish Bankers Association (Deputy Chairman)

**Margit Würtz** (elected by the employees)

Customer Adviser, Realkredit Danmark A/S

Born on May 13, 1944

## **Executive Board**

**Sven Holm**

Chairman of the Executive Board and

Chief Executive Officer

Born on July 4, 1946

Joined the Executive Board on April 1, 1997

Director of:

home a/s (Chairman)

The Association of Danish Mortgage Banks

(Deputy Chairman)

Realkreditnettet Holding A/S (Deputy Chairman)

Realkreditnettet A/S (Deputy Chairman)

Kreditforeningen Danmarks Pensionsafviklingskasse

**Carsten Nøddebo Rasmussen**

Member of the Executive Board

Born on August 15, 1964

Joined the Executive Board on December 1, 2006

Director of:

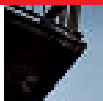
The Association of Danish Mortgage Banks

Member of the Danish Securities Council

Chairman of the Popular Educational Association,

Kgs. Lyngby





# Statement by the Executive Board and the Board of Directors

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report of Realkredit Danmark A/S for the financial year 2006.

The consolidated accounts have been presented in accordance with the International Financial Reporting Standards as adopted by the EU, and the annual accounts of the Parent Company have been prepared in accordance with the Danish Financial Business Act. Furthermore, the Annual Report has been prepared in accordance with additional 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 and financial position at December 31, 2006, and of the results of the Group's and the Parent Company's operations and the Group's cash flows for the financial year starting on January 1 and ending on December 31, 2006.

The management will submit the Annual Report to the general meeting for approval.

Copenhagen, January 31, 2007

## Executive Board

### **Sven Holm**

Chairman of the Executive Board and  
Chief Executive Officer

### **Carsten Nøddebo Rasmussen**

Member of the Executive Board

## Board of Directors

### **Jakob Brogaard**

Chairman

### **Sven Lystbæk**

Deputy Chairman

### **Tonny Thierry Andersen**

### **Klaus Pedersen**

### **Per Skovhus**

### **Margit Würtz**

# Audit reports

## **Internal Audit's report**

We have audited the Annual Report of Realkredit Danmark A/S for the financial year 2006, which comprises the management's report, the statement by the Executive Board and the Board of Directors, accounting policies, income statement, balance sheet, capital, cash flow statement, notes to the accounts and series accounts. The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the annual accounts of the Parent Company have been prepared in accordance with the Danish Financial Business Act. Furthermore, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

## **Auditor's responsibility and basis of opinion**

We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on auditing financial enterprises and financial groups and in accordance with Danish auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the Annual Report is free from material misstatement. In addition, the audit was conducted in accordance with the division of duties agreed with the external auditors, according to which the external auditors to the widest possible extent base their audit on the work performed by the internal auditors.

We planned and conducted our audit such that we have, during the year, assessed the business and internal control procedures, including the risk management implemented by the Board of Directors and the Executive Board, aimed at the Group's and the Parent Company's reporting processes and major business risks.

An audit also involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditor's judgment, 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 preparation and fair presentation of the Annual Report in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Executive Board, 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 did not result in any qualification.

## **Opinion**

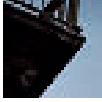
In our opinion, the business procedures and internal control procedures, including the risk management implemented by the Board of Directors and the Executive Board, aimed at the Group's and the Parent Company's reporting processes and major business risks work satisfactorily.

Furthermore, we believe that the Annual Report gives a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at December 31, 2006, and of the results of the Group's and the Parent Company's operations and the Group's cash flows for the financial year 2006 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the consolidated accounts, in accordance with the Danish Financial Business Act in respect of the Parent Company's accounts and in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Copenhagen, January 31, 2007

**Jens Peter Thomassen**  
Group Chief Auditor

**Morten Bendtsen**  
Senior Manager



### **Independent auditors' report**

To the shareholders of Realkredit Danmark A/S

We have audited the Annual Report of Realkredit Danmark A/S for the financial year 2006, which comprises the management's report, a statement by the Executive Board and the Board of Directors, accounting policies, income statement, balance sheet, capital, cash flow statement, notes to the accounts and series accounts. The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the annual accounts of the Parent Company have been prepared in accordance with the Danish Financial Business Act. Furthermore, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

#### **Management's responsibility the Annual Report**

The Board of Directors and Executive Board are responsible for preparing and presenting an Annual Report that gives a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the consolidated accounts, in accordance with the Danish Financial Business Act in respect of the Parent Company's accounts and 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.

#### **Auditor's responsibility and basis of opinion**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditor's judgment, 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 controls relevant to the preparation and fair presentation of the 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Executive Board, 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 opinion.

Our audit did not result in any qualification.

#### **Opinion**

We believe that the Annual Report gives a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at December 31, 2006, and of the results of the Group's and the Parent Company's operations and the Group's cash flows for the financial year 2006 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the consolidated accounts, in accordance with the Danish Financial Business Act in respect of the Parent Company's accounts and in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Copenhagen, January 31, 2007

**KPMG C.Jespersen**

**Statsautoriseret Revisionsinteressentskab**

**Per Gunslev      Søren Peter Nielsen**  
State Authorised Public Accountants

Copenhagen, January 31, 2007

**Grant Thornton**

**Statsautoriseret Revisionsaktieselskab**

**Svend Ørjan Jensen   Erik Stener Jørgensen**  
State Authorised Public Accountants

# Accounting policies

## **General**

Realkredit Danmark presents its consolidated accounts in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU and with relevant interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC). Furthermore, the consolidated accounts comply with the requirements formulated by the Copenhagen Stock Exchange and the Danish FSA for annual reports of issuers of listed bonds.

Realkredit Danmark has opted for early adoption of IFRS 7 Financial Instruments: Disclosures (August 2005).

The accounting policies are unchanged from the policies applied in the Annual Report for 2005.

## ***Accounting estimates and assessments***

The preparation of the consolidated accounts is based on a number of estimates and assessments of future events that will affect the carrying amounts of assets and liabilities. The amounts most influenced by vital estimates and assessments made by the management are impairment charges in relation to lending.

The estimates and assessments made by the management are based on assumptions that the management finds reasonable, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unexpected future events or situations may occur. Therefore, such estimates and assumptions are difficult to make and will always entail uncertainty, even under stable macroeconomic conditions, when they involve transactions with customers and other counterparties.

## **Consolidation**

### ***Subsidiary undertakings***

The consolidated accounts comprise Realkredit Danmark A/S and subsidiary undertakings in which the Group has control over financial and

operating policy decisions. Control is said to exist if Realkredit Danmark A/S, directly or indirectly, holds more than half of the voting rights in an undertaking or otherwise has power to control financial and operating policy decisions, provided that most of the return on the undertaking accrues to the Group and that the Group assumes most of the risk.

The consolidated accounts are prepared by consolidating items of the same nature and eliminating intra-group transactions, accounts and trading profits and losses.

Undertakings acquired are included in the accounts at the time of acquisition. Divested undertakings are included in the accounts until the transfer date.

The net assets of such undertakings, that is, assets, including identifiable intangible assets, less liabilities and contingent liabilities, are included in the accounts at their fair value on the date of acquisition using the purchase method.

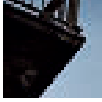
### ***Associated undertakings***

Associated undertakings are businesses, other than subsidiary undertakings, in which the Group has holdings and significant influence but not control. The Group generally classifies undertakings as associated undertakings, if Realkredit Danmark A/S, directly or indirectly, holds 20-50% of the voting rights.

Holdings are recognised at cost at the time of acquisition. Thereafter, they are valued using the equity method with the addition of goodwill on consolidation. The proportionate share of the net profit or loss of the individual undertaking is carried under Income from associated undertakings based on data from accounts with balance sheet dates not earlier than three months before the balance sheet date of the Group.

### **Segment reporting**

Realkredit Danmark has only one segment, mortgage finance, and therefore no segment reporting.



### **Offsetting**

Amounts due to and from the Group are offset when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Holdings of own bonds do not constitute a claim on a counterparty, but reduce the Group's liability under the issued bonds. Holdings of own mortgage bonds are therefore set off against the liability item Issued mortgage bonds at fair value.

### **Translation of transactions in foreign currencies**

The presentation currency of the consolidated accounts is Danish kroner, which is the functional currency of Realkredit Danmark.

Transactions in foreign currencies are translated at the functional currency at the transaction date. Gains and losses on exchange differences arising between the transaction date and the settlement date are recognised in the income statement.

Monetary assets and liabilities in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Exchange rate adjustments of monetary assets and liabilities arising as a result of differences in the exchange rates applying at the transaction date and at the balance sheet date are recognised in the income statement.

Non-monetary assets and liabilities in foreign currencies that are subsequently revalued at fair value are translated at the exchange rates applying at the date of revaluation. Exchange rate adjustments are included in the revaluation of the fair value of an asset and liability. Other non-monetary items in foreign currency are translated at the exchange rates applying at the date of transaction.

### **Financial instruments – general**

Purchases and sales of financial instruments are measured at their fair value as at the settlement

date, which is usually the same as the transaction price. Before the settlement date, changes in the value of financial instruments are recognised.

### **Classification**

At the time of recognition, financial assets are divided into the following categories:

- securities measured at fair value;
- mortgage loans designated at fair value with value adjustment through profit and loss
- loans measured at amortised cost

Issued mortgage bonds designated at fair value with value adjustment through profit and loss are recognised under financial liabilities.

### ***Fair value option – mortgage loans and issued mortgage bonds designated at fair value with value adjustment through profit and loss***

Mortgage loans granted under Danish mortgage finance law are funded by issuing listed mortgage bonds on identical terms. Borrowers may repay such mortgage loans by delivering the underlying bonds.

Realkredit Danmark buys and sells own mortgage bonds on an ongoing basis because these securities play an important role in the Danish financial market. If mortgage loans and issued mortgage bonds were valued at amortised cost, the purchase and sale of own mortgage bonds would mean that significant timing differences in profit and loss recognition would occur: the purchase price of the mortgage bond portfolio would not equal the amortised cost of the issued bonds. Moreover, elimination would result in recognition of an arbitrary effect on profit and loss, which it would require excessive resources to calculate. If the Group subsequently decided to sell its holding of own mortgage bonds, the new amortised cost of this “new issue” would not equal the amortised cost of the matching mortgage loans, and the difference would be amortised over the remaining term to maturity.

Consequently, the Group has chosen to recognise both mortgage loans and issued mortgage

bonds at fair value in accordance with the option offered by IAS 39 to ensure that neither profit nor loss will occur on the purchase of own mortgage bonds.

The fair value of mortgage loans is based on the fair value of the underlying mortgage bonds adjusted for the credit risk on borrowers. The fair value adjustment of mortgage loans largely equals the fair value adjustment of the mortgage bonds issued.

The fair value adjustment of mortgage loans and issued mortgage bonds is carried under Value adjustments. However, the part of the value adjustment relating to the credit risk on mortgage loans is carried under Credit loss expenses.

## **BALANCE SHEET**

### **Bonds at fair value**

Bonds acquired with a view to resale in the short term are considered to constitute a trading portfolio and are measured at first-time recognition at fair value exclusive of transaction costs and at subsequent recognition at fair value with value adjustment over profit and loss.

If an active market exists, valuation is based on the last known market price at the balance sheet date. If an active market does not exist, generally accepted valuation techniques are used instead, including discounted cash flow analysis and other known valuation techniques based on market input.

### **Mortgage lending and issued mortgage bonds**

At first-time recognition, mortgage loans and issued mortgage bonds are measured at fair value, exclusive of transaction costs. Such assets are subsequently measured at fair value.

The fair value of the issued mortgage bonds generally corresponds to the market value. However, a small part of the issued bonds are illiquid, and the fair value of these bonds is calculated on the basis of a discounted cash flow valuation model.

The fair value of mortgage loans is based on

the fair value of the underlying mortgage bonds adjusted for the credit risk on the borrowers.

### ***Impairment***

If objective evidence of impairment of a loan exists, and the effect of the impairment event or events on the cash flow from the asset is reliably measurable, the impairment charge is determined individually. The charge equals the difference between the carrying amount and the present value of the expected future cash flow of the asset, including the realisation value of the mortgages on the properties in question and other security.

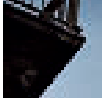
Objective evidence of impairment of loans and advances exists if at least one of the following events has occurred:

- the borrower is experiencing significant financial difficulty
- the borrower's actions, such as default on interest or principal payments, lead to a breach of contract
- the Group, for reasons relating to the borrower's financial difficulty, grants to the borrower a concession that Realkredit Danmark would not otherwise grant, or
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

Loans without objective evidence of impairment are considered in an assessment of collective impairment at portfolio level. Such assessment involves groups of loans with uniform credit risk characteristics.

Impairment charges on loans are offset against Mortgage loans at fair value. Changes in impairment charges are recorded under Credit loss expenses in the income statement. If subsequent events show that the impairment is not of a permanent nature, the charge is reversed via Credit loss expenses.

Where the Group temporarily takes over a mortgaged property through compulsory sale in order to limit its loss on the loan, the loss is con-



sidered to have been finally realised at the time of takeover of the property.

#### **Due from credit institutions and central banks and Loans and other amounts due at amortised cost**

Amounts due from credit institutions and central banks include amounts due from other credit institutions and time deposits with central banks. Reverse transactions, that is, purchases of securities from credit institutions and central banks to be resold at a later date, are recognised as amounts due from credit institutions and central banks.

Loans and other amounts due carried at amortised cost consist of mortgage payments due and other outlays relating to mortgage loans as well as claims against individual borrowers and reserve fund mortgages, etc.

Impairment of these claims and loans carried at amortised cost is made according to the same principles as described above for mortgage loans.

#### **Investment property**

Investment property is real property held to generate rent income and/or capital gains. The section on domicile property below explains the distinction between domicile and investment property.

On acquisition, investment property is recognised at cost, including transaction costs. The property is subsequently measured at fair value. Fair value adjustments are carried under Other operating income in the income statement.

The fair value is assessed by the Danske Bank Group's valuers at least once a year. Assessments are based on the expected return on the Group's property and on the rate of return calculated for each property. The rate of return of a property is calculated on the basis of its location, type, applications, layout and condition as well as of the terms of lease agreements, rent adjustment and creditworthiness of the lessees.

#### **Domicile property**

Domicile property is real property occupied by the Group's administrative departments, mortgage credit offices and the like. Real property with both domicile and investment property elements is allocated proportionally to the two categories if the elements are separately sellable. If that is not the case, such real property is classified as domicile property, unless the Group occupies less than 10% of the total floorage.

Domicile property is valued at cost plus improvements and less depreciation and write-downs. The straight-line depreciation of the property is based on the expected scrap value and an estimated useful life of 20 to 50 years.

Domicile property is tested for impairment if evidence of impairment exists, and the property is written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Domicile property which, according to a publicly announced plan, is expected to be sold within twelve months is carried as assets held for sale under Other assets.

#### **Other tangible assets**

Equipment, vehicles, furniture and leasehold improvements are recognised at cost less depreciation and impairment. Assets are depreciated over their expected useful lives, which are usually three years, using the straight-line method. Leasehold improvements are depreciated over the terms of the leases, with a maximum of 10 years.

Other tangible assets are tested for impairment if evidence of impairment exists, and the asset is written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

### **Other assets**

Other assets includes interest due and property taken over temporarily under non-performing loans.

At first-time recognition, properties taken over temporarily in a compulsory sale are carried at their estimated net realisable value, that is, the sales price offered by the real estate agent less expected costs to sell. At subsequent recognition, properties taken over are carried at the lower of their cost price and net realisable value. Any impairment of properties taken over or loss incurred in connection with the sale thereof is carried under Staff costs and administrative expenses. Any gain on sales is carried under Other operating income.

Other assets also includes assets held for sale, that is, tangible assets, except investment property, which, according to a publicly announced plan, is expected to be sold within twelve months. At the time the assets are classified as held for sale, they are measured at the lower of their carrying amount and their net realisable value and are no longer depreciated.

### **Pension assets**

The Group's pension obligations consist of both defined contribution and defined benefit plans for its staff. Under the defined contribution plans, the Group pays regular contributions to insurance companies and other institutions. Such payments are expensed as they are earned by the staff, and the obligations under the plans are taken over by the insurance companies and other institutions as contributions are made.

Under the defined benefit plan maintained under Kreditforeningen Danmarks Pensionsafviklingskasse (pension fund), Realkredit Danmark A/S guarantees payment of a defined benefit from the time of retirement. The amounts payable are determined by an actuarial assessment of the present value of expected benefits. The present value is calculated on the basis of

the expected future trends in salaries and interest rates, time of retirement, mortality and other factors.

The fair value of pension assets less the present value of pension benefits is carried as a pension asset under Other assets on the balance sheet.

The difference between the expected trends in pension assets and benefits and the actual trends will result in actuarial gains or losses. Actuarial gains and losses that do not exceed the higher of 10% of the present value of benefits and 10% of the fair value of pension assets are not recognised in the income statement or on the balance sheet but form part of the corridor. If the accumulated actuarial gains and losses exceed both these threshold values, the excess amount is recognised in the income statement and in the net pension obligation or asset over the expected remaining period of service of the staff covered by the plan.

### **Amounts due to credit institutions and central banks**

Amounts due to credit institutions and central banks include amounts received under repo transactions, that is, sales of securities to be repurchased at a later date.

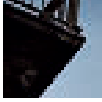
Amounts due to credit institutions and central banks are measured at amortised cost.

### **Deferred tax**

Deferred tax on all temporary differences between the tax base of the assets and liabilities and their carrying amounts is accounted for using the balance sheet liability method. Deferred tax is recognised on the balance sheet under Deferred tax assets or Provisions for deferred tax on the basis of current tax rates.

Deferred tax is measured on the basis of the tax regulations and rates that, according to the rules in force at the balance sheet date, will apply at the time the deferred tax is expected to be-





come current tax. Changes in deferred tax resulting from changes in tax rates are recognised in the income statement.

#### **Shareholders' equity**

##### ***Proposed dividend***

The Board of Directors' proposal for a dividend for the year is included as a separate reserve in shareholders' equity. Dividend is recognised as a liability when the general meeting has adopted the proposal.

#### **INCOME STATEMENT**

##### **Interest**

Interest income and expense include interest on financial instruments carried at fair value. Origination fees on mortgage loans carried at fair value are recognised as Interest income at origination.

##### **Fees**

Income from mortgage loans carried at fair value is recognised when the transaction is completed.

##### **Value adjustments**

Value adjustments comprise realised and unrealised capital gains and losses on bonds at fair value, mortgage loans, issued mortgage bonds and fixed-price agreements as well as exchange rate adjustments.

##### **Staff costs and administrative expenses**

###### ***Staff costs***

Salaries and other consideration expected to be paid for work carried out during the year are expensed under Staff costs and administrative expenses. This item comprises salaries, bonuses, expenses for share-based payment, holiday allowances, jubilee bonuses, pension costs and other consideration.

###### ***Bonuses and share-based payment***

Bonuses are expensed as they are earned. Part of

the bonuses for the year is paid in the form of share options with delivery and conditional shares issued by Danske Bank. Share options may not be exercised until three years after allotment and are conditional on the employee not having resigned from the Group within a three-year period. Conditional shares become available three years after allotment and are conditional on the employee not having resigned from the Group within a three-year period.

The fair value of share-based payment at the time of allotment is expensed over the period of service unconditionally entitling the employee to the payment. The intrinsic value of the allotment is expensed in the year when entitlement is earned, whereas the time value is accrued over the remaining service period. Expenses are set off against shareholders' equity. The increase in shareholders' equity is eliminated by set-off against an interim account with Danske Bank A/S. Subsequent changes to the fair value are not carried in the income statement.

##### ***Pensions***

The Group's contributions to defined contribution plans are recognised in the income statement as they are earned by the staff. The Group applies the corridor method to defined benefit plans, and the income statement thus includes actuarial pension expenses (standard costs).

##### **Credit loss expenses**

Credit loss expenses includes the fair value adjustment of the credit risk on mortgage loans as well as losses on and impairment charges for other loans and amounts due.

##### **Tax**

Calculated current and deferred tax on the profit for the year and subsequent adjustments of tax charges for previous years are recognised in the income statement. Tax on items recognised in shareholders' equity is charged directly.

### **Cash flow statement**

The Group has prepared its cash flow statement using the indirect method. The statement is based on the pre-tax profit for the year and shows the cash flows from operating, investing and financing activities and the increase/decrease in cash and cash equivalents during the year. Cash and cash equivalents consist of cash in hand and demand deposits with central banks and amounts due from credit institutions and central banks with original maturities shorter than three months.

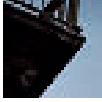
### **Standards and interpretations not yet in force**

The International Accounting Standards Board (IASB) has issued a number of international accounting standards that have not yet come into force. Similarly, the International Financial Reporting Interpretations Committee (IFRIC) has issued a number of interpretations that have not yet come into force.

None of these standards or interpretations are expected to have any influence on Realkredit Danmark's financial reporting.

### **Accounting policies for the parent company**

The accounts of the parent company, Realkredit Danmark A/S, are presented in accordance with the Danish Financial Business Act, including the Danish FSA's executive order on financial reports presented by credit institutions etc. The principles of the new rules are identical to the Group's valuation principles under IFRS, with the exceptions that domicile property owned by the parent company is recognised at its estimated fair value and that the corridor method is not applied to pension obligations. Holdings in subsidiary undertakings are valued using the equity method, which means that the tax payable by subsidiary undertakings is charged to the item Income from associated and subsidiary undertakings.



# Income statement

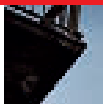
January 1 - December 31

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
3	Interest income	25,047	26,339	25,042	26,335
4	Interest expense	21,413	22,082	21,413	22,082
	Net interest income	3,634	4,257	3,629	4,253
	Dividends from shares	13	12	11	8
	Fee and commission income	591	947	591	947
	Fee and commission expense	824	864	824	864
2	Net fee and commission income	3,414	4,352	3,407	4,344
2, 5	Value adjustments	545	-291	549	-253
	Other operating income	324	232	128	21
6-8	Staff costs and administrative expenses	1,162	1,242	1,163	1,175
	Impairment, amortisation and depreciation	9	9	6	1
	Credit loss expenses	-105	-118	-105	-118
	Income from associated and subsidiary undertakings	-	26	45	78
	Profit before tax	3,217	3,186	3,065	3,132
9	Tax	861	769	811	738
	Net profit for the year	2,356	2,417	2,254	2,394
	Proposal for allocation of profits				
	Dividend for the year			-	-
	Reserves in series			104	106
	Other reserves			2,150	2,288
	Total allocation			2,254	2,394

# Balance sheet

at December 31

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
	<b>ASSETS</b>				
	Cash in hand and demand deposits with central banks	7	7	7	7
10	Due from credit institutions and central banks	18,547	16,936	18,383	16,929
11	Bonds at fair value	39,448	35,700	39,448	35,700
12-13, 16	Mortgage loans at fair value	602,584	569,092	602,584	569,092
12, 14-16	Loans and other amounts due at amortised cost	436	556	403	529
	Shares	105	225	105	98
17	Holdings in associated undertakings	-	-	-	-
	Holdings in subsidiary undertakings	-	-	248	203
	Land and buildings	125	119	180	158
18	Investment property	-	-	-	-
19	Domicile property	125	119	180	158
20	Other tangible assets	17	16	14	14
	Current tax assets	-	10	-	11
21	Deferred tax assets	67	88	90	85
16, 22-23	Other assets	1,926	3,089	1,725	3,020
	Prepayments	15	15	14	14
	<b>Total assets</b>	<b>663,277</b>	<b>625,853</b>	<b>663,201</b>	<b>625,860</b>
	<b>LIABILITIES AND EQUITY</b>				
	<b>AMOUNTS DUE</b>				
24	Due to credit institutions and central banks	5,267	45,390	5,267	45,390
25	Issued mortgage bonds at fair value	610,761	536,530	610,761	536,530
	Current tax liabilities	28	-	24	-
26, 27	Other liabilities	13,971	13,063	13,600	12,600
	Deferred income	84	60	84	60
	<b>Total amounts due</b>	<b>630,111</b>	<b>595,043</b>	<b>629,736</b>	<b>594,580</b>
	<b>PROVISIONS FOR LIABILITIES</b>				
27	Reserves in early series subject to a reimbursement obligation	-	-	358	449
	<b>Total liabilities</b>	<b>630,111</b>	<b>595,043</b>	<b>630,094</b>	<b>595,029</b>
	<b>SHAREHOLDERS' EQUITY</b>				
	Share capital	630	630	630	630
	Revaluation reserve	-	-	43	24
	Reserves in series	1,453	1,640	1,453	1,640
	Other reserves	31,083	28,540	30,981	28,537
	<b>Total shareholders' equity</b>	<b>33,166</b>	<b>30,810</b>	<b>33,107</b>	<b>30,831</b>
	Proposed dividend	-	-	-	-
	<b>Total liabilities and equity</b>	<b>663,277</b>	<b>625,853</b>	<b>663,201</b>	<b>625,860</b>



# Capital

## Realkredit Danmark Group

DKr m	Share capital	Undistrib. reserves	Proposed dividend	Other reserves	Total
Shareholders' equity at January 1, 2006	630	1,640	-	28,540	30,810
Net profit for the year	-	104	-	2,252	2,356
Transferred from series with excess coverage	-	-291	-	291	-
Shareholders' equity at December 31, 2006	630	1,453	-	31,083	33,166
Shareholders' equity at January 1, 2005	625	2,104	1,500	25,489	29,718
Net profit for the year	-	106	-	2,311	2,417
Addition on merger	5	-	-	170	175
Dividends paid	-	-	-1,500	-	-1,500
Transferred from series with excess coverage	-	-570	-	570	-
Shareholders' equity at December 31, 2005	630	1,640	-	28,540	30,810

## Realkredit Danmark A/S

	Share capital	Undistrib. reserves	Other reserves	Total 2006	Total 2005
Shareholders' equity at January 1	630	1,664	28,537	30,831	29,756
Net profit for the year	-	104	2,150	2,254	2,394
Revaluation of properties	-	19	3	22	6
Addition on merger	-	-	-	-	175
Dividends paid	-	-	-	-	-1,500
Transferred from series with excess coverage	-	-291	291	-	-
Shareholders' equity at December 31	630	1,496	30,981	33,107	30,831

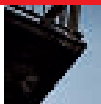
At December 31, 2006, the share capital was made up of 6,300,000 shares of DKKr100 each. There is only one class of shares, as all shares carry the same rights. The company is a wholly-owned subsidiary of Danske Bank A/S, Copenhagen.

Shareholders' equity at December 31 core capital and capital base:	Realkredit Danmark Group		Realkredit Danmark A/S	
	2006	2005	2006	2005
Shareholders' equity according to accounts	33,166	30,810	33,107	30,831
Domicile property	54	50	-	-
Pension obligations	-157	-41	-	-
Tax effect	44	12	-	-
Shareholders' equity as basis for solvency calculation	33,107	30,831	33,107	30,831
Revaluation reserve	-43	-24	-43	-24
Deferred tax assets	-111	-100	-90	-85
Core (tier 1) capital less statutory deductions	32,953	30,707	32,974	30,722
Reserves in series subject to a reimbursement obligation	133	160	133	160
Revaluation reserve	43	24	43	24
Capital base less statutory deductions	33,129	30,891	33,150	30,906
Risk-weighted items:				
Not included in trading portfolio	318,733	300,823	318,858	300,705
With market risk included in trading portfolio	5,525	5,612	5,525	5,612
Total risk-weighted items	324,258	306,435	324,383	306,317
Core (tier 1) capital ratio, %	10.16	10.02	10.17	10.03
Solvency ratio, %	10.22	10.08	10.22	10.09
Minimum capital requirement, 8% of risk-weighted assets	25,941	24,515	25,951	24,505

# Cash flow statement

January 1 - December 31

DKr m	Realkredit Danmark Group	
	2006	2005
<b>Cash flow from operating activities</b>		
Profit before tax	3,217	3,186
Adjustment for non-liquid items in the income statement:		
Impairment, amortisation and depreciation	9	9
Credit loss expenses	-47	-78
Other non-cash items	-30	103
Tax paid	-781	-766
Total	2,368	2,454
Cash flow from operating capital:		
Bonds and shares	-3,483	-78
Mortgage loans	-45,826	-46,327
Issued mortgage bonds	86,815	7,387
Due to credit institutions	-40,123	43,322
Other assets/liabilities	1,134	-1,484
Cash flow from operating activities	885	5,274
<b>Cash flow from investing activities</b>		
Sale of business units	-	288
Acquisition of tangible assets	-7	-3
Sale of tangible assets	733	5
Cash flow from investing activities	726	290
<b>Cash flow from financing activities</b>		
Dividends	-	-1,500
Cash flow from financing activities	-	-1,500
<b>Cash and cash equivalents at January 1</b>	16,943	12,811
Change during the year	1,611	4,064
Addition on merger	-	68
Cash and cash equivalents at December 31	18,554	16,943
<b>Cash and cash equivalents at December 31</b>		
Cash in hand and demand deposits with central banks	7	7
Deposits with credit institutions and central banks with terms shorter than 3 months	18,547	16,936
Total	18,554	16,943



# Notes to the accounts

Note DKr m

## 1 Operating activity accounts

	Realkredit Danmark Group - 2006				
	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	2,689	-	2,689	-	2,689
Net interest income	1,281	-336	945	336	1,281
Net interest	3,970	-336	3,634	336	3,970
Dividends from shares	-	13	13	-13	-
Net fees	-233	-	-233	-	-233
Net trading income	-	-	-	222	222
Value adjustments	214	331	545	-545	-
Other income	324	-	324	-	324
Total income	4,275	8	4,283	-	4,283
Staff costs and administrative expenses	1,158	4	1,162	-	1,162
Impairment, amortisation and depreciation	9	-	9	-	9
Credit loss expenses	-105	-	-105	-	-105
Income from associated and subsidiary undertakings	-	-	-	-	-
Profit before tax	3,213	4	3,217	-	3,217

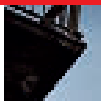
  

	Realkredit Danmark Group - 2005				
	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	2,471	-	2,471	-	2,471
Net interest income	1,178	608	1,786	-608	1,178
Net interest	3,649	608	4,257	-608	3,649
Dividends from shares	-	12	12	-12	-
Net fees	83	-	83	-	83
Net trading income	-	-	-	355	355
Value adjustments	195	-486	-291	291	-
Other income	232	-	232	-	232
Total income	4,159	134	4,293	26	4,319
Staff costs and administrative expenses	1,238	4	1,242	-	1,242
Impairment, amortisation and depreciation	9	-	9	-	9
Credit loss expenses	-118	-	-118	-	-118
Income from associated and subsidiary undertakings	-	26	26	-26	-
Profit before tax	3,030	156	3,186	-	3,186

In addition to the mortgage finance business itself, mortgage finance also includes purchases and sales of real property through the "home" franchise. Under the Danish Financial Business Act, at least 60% of the capital base of a mortgage credit institution must be invested in bonds etc. Own holdings comprise the net return on the part of the securities portfolio not relating to the mortgage finance business. Income from trading activities and own holdings is carried in the income statement under net interest income, value adjustments, etc. In the consolidated highlights, this income is reclassified to net trading income.

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
2	<b>Geographical segmentation</b> For the Realkredit Danmark Group, interest on loans to non-Danish residents amounted to DKr7m (2005: DKr1m). The sum of Realkredit Danmark A/S's net interest and fee income and value adjustments on non-Danish loans is DKr0m.				
3	<b>Interest income</b> Reverse repo transactions with credit institutions and central banks	306	329	306	329
	Due from credit institutions and central banks	68	27	65	27
	Loans and other amounts due	21,597	22,625	21,595	22,621
	Administration margin	2,689	2,471	2,689	2,471
	Bonds	263	509	263	509
	Derivatives:				
	Interest rate contracts	42	182	42	182
	Other interest income	82	196	82	196
	<b>Total</b>	<b>25,047</b>	<b>26,339</b>	<b>25,042</b>	<b>26,335</b>
	Interest income derived from:				
	Assets at fair value	24,968	26,291	24,968	26,291
	Other assets	79	48	74	44
	<b>Total</b>	<b>25,047</b>	<b>26,339</b>	<b>25,042</b>	<b>26,335</b>
4	<b>Interest expense</b> Repo transactions with credit institutions and central banks	71	75	71	75
	Due to credit institutions and central banks	21	21	21	21
	Issued mortgage bonds	21,268	21,824	21,268	21,824
	Reimbursement of origination fees etc.	48	157	48	157
	Other interest expense	5	5	5	5
	<b>Total</b>	<b>21,413</b>	<b>22,082</b>	<b>21,413</b>	<b>22,082</b>
	Interest expense relates to:				
	Liabilities at fair value	21,387	22,056	21,387	22,056
	Other liabilities	26	26	26	26
	<b>Total</b>	<b>21,413</b>	<b>22,082</b>	<b>21,413</b>	<b>22,082</b>
5	<b>Value adjustments</b> Mortgage loans	-9,073	415	-9,073	415
	Bonds	-	-184	-	-184
	Shares	3	43	7	42
	Investment property	-	-	-	39
	Foreign currency	5	10	5	10
	Derivatives	32	35	32	35
	Other assets	10	6	10	6
	Issued mortgage bonds	9,548	-616	9,548	-616
	Reserves in early series subject to a reimbursement obligation	20	-	20	-
	<b>Total</b>	<b>545</b>	<b>-291</b>	<b>549</b>	<b>-253</b>
	Value adjustments derived from:				
	Assets and liabilities at fair value	535	-297	539	-259
	Other assets and liabilities	10	6	10	6
	<b>Total</b>	<b>545</b>	<b>-291</b>	<b>549</b>	<b>-253</b>





# Notes to the accounts

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
<b>6</b>	<b>Staff costs and administrative expenses</b>				
	<b>Salaries and remuneration of Executive Board, Board of Directors and local councils</b>				
	Executive Board	7	7	7	7
	Board of Directors	-	-	-	-
	Local councils	4	4	4	4
	<b>Total</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>
	<b>Staff costs</b>				
	Salaries	357	394	338	377
	Share-based payment	3	2	3	2
	Pensions	32	30	146	69
	Financial services employer tax etc.	38	39	38	39
	<b>Total</b>	<b>430</b>	<b>465</b>	<b>525</b>	<b>487</b>
	<b>Other administrative expenses</b>	<b>721</b>	<b>766</b>	<b>627</b>	<b>677</b>
	<b>Total staff costs and administrative expenses</b>	<b>1,162</b>	<b>1,242</b>	<b>1,163</b>	<b>1,175</b>
	Number of full-time-equivalent staff (avg.)	746	751	711	717

The information below concerning the Board of Directors and the Executive Board also applies to the parent company.

#### Remuneration of the Board of Directors (DKr thousands)

	Realkredit Danmark Group	
	2006	2005
Klaus Pedersen (from March 14, 2005)	125	125
Margit Würtz (from March 14, 2005)	125	99
Søren Hermansen (until March 14, 2005)	-	31
Jørgen Raaschou (until March 14, 2005)	-	31
<b>Total remuneration</b>	<b>250</b>	<b>286</b>

Members of the Board of Directors who are employed by Danske Bank A/S do not receive remuneration.

#### Remuneration of the Executive Board 2006

	Sven	*Thomas	*Carsten
	Holm	Mitchell	Nøddebo Rasmussen
Fixed salary	2.8	1.3	0.1
Cash bonus	0.2	0.2	-
Pension	0.4	0.2	-
Share-based payment	0.9	0.7	-
<b>Total</b>	<b>4.3</b>	<b>2.4</b>	<b>0.1</b>

The amounts recognised as share-based payment will be translated into share options and conditional shares in the first quarter of 2007.

\* Thomas Mitchell retired from the Executive Board at December 1, 2006, and at the same date, Carsten Nøddebo Rasmussen replaced him as member of the Executive Board. Information on salary, bonuses, pensions and share-based payments is provided for the period until and after December 1, 2006, respectively.

#### Remuneration of the Executive Board 2005

	Sven	Thomas
	Holm	Mitchell
Fixed salary	2.7	1.4
Cash bonus	0.2	0.2
Pension	0.4	0.2
Share-based payment	0.9	0.9
<b>Total</b>	<b>4.2</b>	<b>2.7</b>

Continued on the following page

6 Continued  
**Staff costs and administrative expenses**

**Pensions**

Sven Holm, who attained the age of 60 at the end of 2006, is entitled to retire with a life pension, which constitutes two thirds of his remuneration on retirement. The contributions made in 2006 amounted to DKr0.4m (2005: DKr0.4m). At end-2006, the pension obligation amounted to DKr39m (end-2005: DKr35m). The pension obligation is covered by payments to Kreditforeningen Danmarks Pensionsafvklingskasse. Realkredit Danmark A/S is obliged to pay any shortfall. The pension obligation has been actuarially calculated and is based on a number of assumptions. See note 23. The recognised amount cannot be considered as remuneration of or amounts due to Sven Holm. The changed pension obligation therefore cannot reasonably be added to the annual remuneration.

Carsten Nøddebo Rasmussen is entitled to retire at the end of the month in which he attains the age of 60. The pension obligation is covered by payments equal to 14% of his salary to a bank.

**Termination**

Sven Holm may terminate his service by giving six months' notice. Realkredit Danmark may terminate the service contract by giving 12 months' notice. Sven Holm is entitled to a life pension on termination.

Carsten Nøddebo Rasmussen may terminate his service by giving three months' notice. Realkredit Danmark may terminate the service contract by giving eight months' notice. In case of termination by Realkredit Danmark, Carsten Nøddebo Rasmussen is entitled to severance pay equal to 12 months' salary.

7 **Share-based payment**

Realkredit Danmark offers the Executive Board and selected senior managers and specialists an incentive programme set up by the Danske Bank Group for managers and certain other employees. The programme consists of share options and conditional shares. Incentive payments reflect individual performance and also depend on financial results and other measures of value creation.

Share options carry a right to buy Danske Bank shares that can be exercised between three and seven years after allotment provided that the employee has not resigned from the Group. The strike price of the options is computed as the average price of Danske Bank shares for 20 stock exchange days after the release of Danske Bank's Annual Report plus 10%.

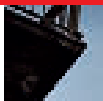
Rights to buy Danske Bank shares under the conditional share programme are allotted as a portion of the annual bonus earned. The shares become available after three years provided that the employee has not resigned from the Group.

The fair value of the share options at the time of allotment is calculated according to a dividend-adjusted Black & Scholes formula based on the following assumptions at December 31, 2006: Share price 250.04 (2005: 221.18), dividend payout ratio 3.2% (2005: 3.7%), rate of interest 4.1% to 4.3% (2005: 2.9% to 3.2%) volatility 18% (2005: 15%), average time of exercise 0.63 to 4.25 years (2005: 1.13 to 4.25 years). The lifetime of share options is seven years from allotment, consisting of a vesting period of three years and an exercise period of four years. The volatility is estimated on the basis of historical volatility.

The fair value of the conditional shares at the time of allotment is calculated as the share price less the payments made by the employees.

Intrinsic value is recognised in the year the share options and rights to conditional shares were earned, while time value is recognised during the vesting period of three years using the straight-line method. Realkredit Danmark has hedged the share price risk.

Continued on the following page



# Notes to the accounts

Note DKr m

7 Continued  
**Share-based payment 2006**

**Share options - changes during the year**

	Number			Exercise price (DKr)	Market value (MV)	
	Executive Board	Other employees	Total		At issue DKr m	End of year DKr m
Allotted in 2002-2003, beg.	38,400	41,200	79,600	118.5-140.8	1.7	7.3
Exercised	-19,200	-41,200	-60,400			
Forfeited	-	-	-			
Other changes	-19,200	-	-19,200			
Allotted in 2002-2003, end	-	-	-		-	-
Allotted in 2004, beg.	69,444	63,889	133,333	157.2	2.4	12.1
Exercised	-	-8,333	-8,333			
Forfeited	-	-	-			
Other changes	-33,333	-	-33,333			
Allotted in 2004, end	36,111	55,556	91,667	157.2	1.7	8.3
Allotted in 2005, beg.	88,525	75,410	163,935	190.2	2.5	10.7
Exercised	-	-	-			
Forfeited	-	-	-			
Other changes	-42,623	-	-42,623			
Allotted in 2005, end	45,902	75,410	121,312	190.2	1.9	7.9
Allotted in 2006	58,700	55,900	114,600	244.6	1.9	4.4
Exercised	-	-	-			
Forfeited	-	-	-			
Other changes	-28,400	-	-28,400			
Allotted in 2006, end	30,300	55,900	86,200	244.6	1.4	3.3

**Held by the Executive Board, end of year**

Year of allotment End of year (DKr m)	2004		2005		2006	
	Number	MV	Number	MV	Number	MV
Sven Holm	36,111	3.3	45,902	3.0	30,300	1.2
Carsten Nøddebo Rasmussen	-	-	-	-	-	-

In 2006, 68,733 share options were exercised at an average price of DKr221.8.

Continued on the following page

Note DKr m

7 Continued  
Share-based payment 2006

Conditional shares - changes during the year

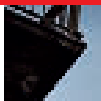
	Number			Market value (MV)	
	Executive Board	Other employees	Total	At issue DKr m	End of year DKr m
Allotted in 2003, beg.	2,252	5,633	7,885	0.9	2.0
Exercised	-2,252	-5,633	-7,885		
Forfeited	-	-	-		
Other changes	-	-	-		
Allotted in 2003, end	-	-	-	-	-
Allotted in 2004, beg.	2,070	4,799	6,869	1.0	1.7
Exercised	-	-	-		
Forfeited	-	-	-		
Other changes	-566	-49	-615		
Allotted in 2004, end	1,504	4,750	6,254	0.9	1.6
Allotted in 2005, beg.	1,974	5,886	7,860	1.4	2.0
Exercised	-	-	-		
Forfeited	-	-	-		
Other changes	-585	174	-411		
Allotted in 2005, end	1,389	6,060	7,449	1.3	1.9
Allotted in 2006	4,400	9,910	14,310	3.2	3.6
Exercised	-	-	-		
Forfeited	-	-	-		
Other changes	-1,751	-205	-1,956		
Allotted in 2006, end	2,649	9,705	12,354	2.7	3.1

Held by the Executive Board, end of year

Year of allotment End of year (DKr m)	2004		2005		2006	
	Number	MV	Number	MV	Number	MV
Sven Holm	1,150	0.3	1,023	0.3	2,273	0.5
Carsten Nøddebo Rasmussen	354	0.1	366	0.1	376	0.1

In 2006, 7,885 rights to conditional shares were exercised at an average price of DKr223.0.

Continued on the following page



# Notes to the accounts

Note DKr m

7 Continued  
Share-based payment 2005

## Share options - changes during the year

	Number			Exercise price (DKr)	Market value (MV)	
	Executive Board	Other employees	Total		At issue DKr m	End of year DKr m
Allotted in 2001-2002, beg.	54,380	32,000	86,380			
Exercised	-54,380	-26,000	-80,380			
Forfeited	-	-	-			
Other changes	-	-	-			
Allotted in 2001-2002, end	-	6,000	6,000	140.8	0.2	0.4
Allotted in 2003, beg.	38,400	35,200	73,600	118.5	1.5	6.9
Exercised	-	-	-			
Forfeited	-	-	-			
Other changes	-	-	-			
Allotted in 2003, end	38,400	35,200	73,600	118.5	1.5	6.9
Allotted in 2004, beg.	69,444	63,889	133,333	157.2	2.4	7.6
Exercised	-	-	-			
Forfeited	-	-	-			
Other changes	-	-	-			
Allotted in 2004, end	69,444	63,889	133,333	157.2	2.4	7.6
Allotted in 2005	88,525	75,410	163,935	190.2	2.5	5.8
Exercised	-	-	-			
Forfeited	-	-	-			
Other changes	-	-	-			
Allotted in 2005, end	88,525	75,410	163,935	190.2	2.5	5.8

## Held by the Executive Board, end of year

Year of allotment End of year (DKr m)	2003		2004		2005	
	Number	MV	Number	MV	Number	MV
Sven Holm	19,200	1.8	36,111	2.1	45,902	1.6
Thomas Mitchell	19,200	1.8	33,333	1.9	42,623	1.5

In 2005, 80,380 share options were exercised at an average price of DKr173.4.

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Note DKr m

7 Continued  
Share-based payment 2005

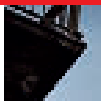
Conditional shares - changes during the year

	Number			Market value (MV)	
	Executive Board	Other employees	Total	At issue DKr m	End of year DKr m
Allotted in 2002, beg.	1,894	4,671	6,565	0.8	1.5
Exercised	-1,894	-4,671	-6,565		
Forfeited	-	-	-		
Other changes	-	-	-		
Allotted in 2002, end	-	-	-	-	-
Allotted in 2003, beg.	2,252	6,807	9,059	1.0	2.0
Exercised	-	-1,174	-1,174		
Forfeited	-	-	-		
Other changes	-	-	-		
Allotted in 2003, end	2,252	5,633	7,885	0.9	1.8
Allotted in 2004, beg.	2,070	5,276	7,346	1.1	1.6
Exercised	-	-265	-265		
Forfeited	-	-212	-212		
Other changes	-	-	-		
Allotted in 2004, end	2,070	4,799	6,869	1.0	1.5
Allotted in 2005	1,974	6,211	8,185	1.4	1.8
Exercised	-	-	-		
Forfeited	-	-325	-325		
Other changes	-	-	-		
Allotted in 2005, end	1,974	5,886	7,860	1.4	1.7

Held by the Executive Board, end of year

Year of allotment	2003		2004		2005	
End of year (DKr m)	Number	MV	Number	MV	Number	MV
Sven Holm	1,126	0.3	1,150	0.3	1,023	0.2
Thomas Mitchell	1,126	0.3	920	0.2	951	0.2

In 2005, 8,004 rights to conditional shares were exercised at an average price of DKr177.7.

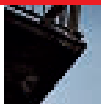


# Notes to the accounts

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
8	<b>Audit fees</b>				
	Total fees to the accounting firms elected by the annual general meeting which perform the statutory audit	2	2	2	2
	Fees for non-audit services included in preceding item	-	-	-	-
9	<b>Tax (minus denotes a credit)</b>				
	Estimated tax charge on the profit for the year	878	816	823	797
	Change in deferred tax as a result of				
	lower tax rate	-	5	-	5
	Other deferred tax	-9	-5	-4	-18
	Re-adjustment of prior-year tax charge	-8	-49	-8	-48
	Tax on credit loss expenses etc.	-	2	-	2
	<b>Total</b>	<b>861</b>	<b>769</b>	<b>811</b>	<b>738</b>
	<b>Effective tax rate</b>	%	%	%	%
	Current Danish tax rate	28.0	28.0	28.0	28.0
	Effect of lowering of tax rate	-	0.2	-	0.2
	Re-adjustment of prior-year tax charge	-0.3	-1.5	-0.3	-1.5
	Non-taxable items	-0.2	-0.9	-0.5	-1.4
	Other	-0.7	-1.7	-0.7	-1.7
	<b>Effective tax rate</b>	<b>26.8</b>	<b>24.1</b>	<b>26.5</b>	<b>23.6</b>
10	<b>Due from credit institutions and central banks</b>				
	On demand	9,223	9,656	9,211	9,649
	3 months or less	9,324	7,280	9,172	7,280
	<b>Total</b>	<b>18,547</b>	<b>16,936</b>	<b>18,383</b>	<b>16,929</b>
	Due from credit institutions	17,442	16,057	17,278	16,050
	Deposits at notice with central banks	1,105	879	1,105	879
	<b>Total</b>	<b>18,547</b>	<b>16,936</b>	<b>18,383</b>	<b>16,929</b>
	Portion attributable to reverse repo transactions	5,387	3,909	5,387	3,909
11	<b>Bonds at fair value</b>				
	Own mortgage bonds	150,312	205,408	150,312	205,408
	Other mortgage bonds	35,949	31,199	35,949	31,199
	Government bonds	3,499	4,501	3,499	4,501
	<b>Total</b>	<b>189,760</b>	<b>241,108</b>	<b>189,760</b>	<b>241,108</b>
	Own mortgage bonds set off against issued mortgage bonds	150,312	205,408	150,312	205,408
	<b>Total</b>	<b>39,448</b>	<b>35,700</b>	<b>39,448</b>	<b>35,700</b>

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
12	<b>Total lending</b>				
	Mortgage loans, nominal value	608,942	563,153	608,942	563,153
	Adjustment for interest-rate risk	-6,290	6,044	-6,290	6,044
	Adjustment for credit risk	68	105	68	105
	Mortgage loans, fair value	602,584	569,092	602,584	569,092
	Arrears and outlays	120	166	120	166
	Other loans	316	390	283	363
	<b>Total</b>	<b>603,020</b>	<b>569,648</b>	<b>602,987</b>	<b>569,621</b>
	Apart from being backed by mortgages on properties, the company's loans are backed by government, municipal and insurance guarantees of	23,151	23,483	23,151	23,483
	Pass books and bonds have been lodged and guarantees provided as supplementary security in a total amount of	61,847	65,048	61,847	65,048
	Realkredit Danmark has also received various declarations of indemnification without specification of amounts.				
13	<b>Mortgage loans at fair value</b>				
	Mortgage loans (nominal value) broken down by property category:				
	Owner-occupied dwellings	58%	58%	58%	58%
	Holiday homes	3%	3%	3%	3%
	Subsidised residential property	11%	13%	11%	13%
	Private residential rental property	10%	7%	10%	7%
	Industrial and skilled trades property	3%	3%	3%	3%
	Office and retail property	7%	7%	7%	7%
	Agricultural property etc.	6%	6%	6%	6%
	Property for social, cultural and training activities	1%	2%	1%	2%
	Other property	1%	1%	1%	1%
	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
	3 months or less	15,879	19,351	15,879	19,351
	3 months to 1 year	10,991	11,414	10,991	11,414
	1 year to 5 years	59,442	64,667	59,442	64,667
	Over 5 years	516,272	473,660	516,272	473,660
	<b>Total</b>	<b>602,584</b>	<b>569,092</b>	<b>602,584</b>	<b>569,092</b>
14	<b>Loans and other amounts due at amortised cost</b>				
	On demand	251	401	251	401
	3 months or less	9	4	6	2
	3 months to 1 year	35	15	27	8
	1 year to 5 years	68	61	49	45
	Over 5 years	73	75	70	73
	<b>Total</b>	<b>436</b>	<b>556</b>	<b>403</b>	<b>529</b>
15	<b>Arrears and outlays</b>				
	Arrears before impairment	126	166	126	166
	Outlays before impairment	29	29	29	29
	Impairment	35	29	35	29
	<b>Total</b>	<b>120</b>	<b>166</b>	<b>120</b>	<b>166</b>





# Notes to the accounts

Note DKr m

16 **Loans etc.**

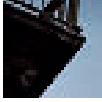
At December 31, 2006, total impairment of mortgage loans stood at DKr68m, against DKr105m at the beginning of the year.

At December 31, 2006, impairment of loans carried at amortised cost stood at DKr40m, against DKr35m at the beginning of the year.

<b>Realkredit Danmark A/S</b>				
	Loans etc. individual impairment	Loans etc. collective impairment	Total	Effect on profit
Impairment charges etc. at January 1, 2006	110	30	140	
Impairment charges during the year	32	10	42	42
Reversal of impairment charges for previous years	58	16	74	74
Impairment charges etc. at December 31, 2006	84	24	108	
Losses incurred				18
Recovery of previously booked losses				91
Effect on profit				-105
Impairment charges etc. at January 1, 2005	245	39	284	
Impairment charges during the year	41	2	43	43
Reversal of impairment charges for previous years	176	11	187	187
Impairment charges etc. at December 31, 2005	110	30	140	
Losses incurred				41
Recovery of previously booked losses				15
Effect on profit				-118

	<b>Realkredit Danmark Group</b>		<b>Realkredit Danmark A/S</b>	
	2006	2005	2006	2005
17 <b>Holdings in associated undertakings</b>				
Cost at January 1	16	194	16	194
Disposals	-	178	-	178
Cost at December 31	16	16	16	16
Revaluations and write-downs at January 1	-16	73	-16	73
Profit/loss	-	26	-	26
Reversal of revaluations and write-downs	-	-115	-	-115
Revaluations and write-downs at December 31	-16	-16	-16	-16
Carrying amount at December 31	-	-	-	-

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
18	<b>Investment property</b>				
	Fair value at January 1	-	366	-	366
	Disposals	-	366	-	366
	Fair value at December 31	-	-	-	-
	Rent income from investment property	-	16	-	16
	Direct expenses generating rent income	-	14	-	14
	Direct expenses not generating rent income	-	-	-	-
19	<b>Domicile property</b>				
	The Group measures domicile property at cost less depreciation and impairment. The parent company, Realkredit Danmark A/S, measures it at the estimated fair value.				
	Carrying amount at January 1	119	287	158	325
	Transferred	-	166	-	177
	Depreciation	1	2	1	2
	Value adjustment recognised directly in shareholders' equity	-	-	21	6
	Value adjustment recognised directly in income statement	7	-	2	6
	Carrying amount at December 31	125	119	180	158
	Broken down by cost and depreciation and impairment:				
	Cost at January 1	177	358		
	Transferred	-	181		
	Cost at December 31	177	177		
	Depreciation and impairment at January 1	58	71		
	Depreciation	1	2		
	Reversal of prior-year impairment	7	15		
	Depreciation and impairment at December 31	52	58		
	Carrying amount at December 31	125	119		
	Fair value of domicile property	180	158		
	The property is valued on the basis of assessments made by valuers of the Danske Bank Group.				



# Notes to the accounts

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
20	<b>Other tangible assets</b>				
	Cost at January 1	103	116	95	110
	Additions	7	4	5	2
	Disposals	2	17	2	17
	Cost at December 31	108	103	98	95
	Depreciation and impairment at January 1	87	98	81	93
	Depreciation	6	5	5	4
	Depreciation and impairment reversed due to sale etc.	2	16	2	16
	Depreciation and impairment at December 31	91	87	84	81
	Carrying amount at December 31	17	16	14	14
21	<b>Deferred tax assets</b>				
	Deferred tax assets relate to:				
	Reserves in early series subject to a reimbursement obligation	100	126	100	126
	Pension fund	-69	-66	-25	-54
	Land and buildings	-6	-11	-6	-11
	Other tangible assets	14	20	6	10
	Other	28	19	15	14
	Total	67	88	90	85
22	<b>Other assets</b>				
	Interest due	920	1,422	920	1,422
	Pension fund	248	234	91	193
	Assets held for sale	-	166	-	177
	Property taken over under non-performing loans	1	20	1	20
	Other assets	757	1,247	713	1,208
	Total	1,926	3,089	1,725	3,020

Pension fund concerns defined benefit plan through Kreditforeningen Danmarks Pensionsafvklingskasse (see note 23).

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
23	<b>Pension plans</b>				
	<b>Charge in respect of pension plans</b>				
	Defined contribution costs	46	46	44	44
	Defined benefit costs	-14	-16	102	25
	<b>Total</b>	<b>32</b>	<b>30</b>	<b>146</b>	<b>69</b>

When computing the net pension assets, the Realkredit Danmark Group uses the corridor method. This method is not, however, used by the parent company, Realkredit Danmark A/S.

**Defined benefit plans**

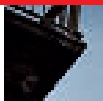
Present value of pension obligations fully or partly funded	1,012	976	1,012	976
Fair value of plan assets	1,103	1,169	1,103	1,169
Net pension asset, end of year, parent company	91	193	91	193
Actuarial losses not recognised	157	41		
Net pension asset, end of year, Group	248	234		

Change in net pension assets	2006			2005		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Balance at January 1, parent company	1,169	976	193	1,134	957	177
Expenses incurred during the financial year	-	41	41	-	23	23
Calculated interest expense	-	3	3	-	17	17
Estimated return on plan assets	58	-	58	56	-	56
Standard cost	58	44	-14	56	40	-16
Actuarial gains or losses	-61	55	-116	1	42	-41
Employer contributions to the plans*	-	-	-	41	-	41
Benefits paid out by pension fund	-63	-63	-	-63	-63	-
Balance at December 31, parent company	1,103	1,012	91	1,169	976	193
Actuarial gains or losses not recognised	-60	97	-157	1	42	-41
Net asset, end of year, Group	1,163	915	248	1,168	934	234

\* The Group expects to make total contributions of DKr3m for 2007.

Defined benefit costs	2006	2005
Standard cost, Group	-14	-16
Actuarial gains or losses	-116	-41
Total, parent company	102	25

Continued on the following page



# Notes to the accounts

Note DKr m

23 Continued  
**Pension plans**

For defined benefit plans, the pension asset is recognised on the basis of actuarial calculations of the present value of the expected benefits. The present value at year-end was calculated on the basis of the following assumptions:

**Average actuarial assumptions  
at December 31 (% p.a.):**

	2006	2005
Discount rate	5.19	5.04
Return on plan assets	5.19	5.04
Rate of inflation	2.50	2.50
Salary adjustment rate	2.75	2.75
Pension adjustment rate	2.75	2.75

The assumptions of mortality used to recognise the pension asset are based on the standard mortality table DB06. The assumptions applied entail that the average life expectancy of a pension fund member calculated at December 31, 2006, was 80.59 years for a 60-year old man and 83.85 years for a 60-year old woman, 81.79 years for a 65-year old man and 84.81 years for a 65-year old woman.

<b>Pension assets broken down by type (%)</b>	2006			2005		
	Distribut., end	Estim. re- turn, beg.	Actual re- turn, end	Distribut., end	Estim. re- turn, beg.	Actual re- turn, end
Shares	3	-	25.8	3	-	46.3
Government and mortgage bonds	95	-	-0.5	96	-	5.1
Cash and cash equivalents	2	-	1.2	1	-	6.9
<b>Total</b>	<b>100</b>	<b>5.2</b>	<b>0.2</b>	<b>100</b>	<b>5.0</b>	<b>5.8</b>

Plan assets include the following assets at fair value issued by the Realkredit Danmark Group:

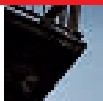
	2006	2005
DKr m		
Bonds	184	224
<b>Total</b>	<b>184</b>	<b>224</b>

**Historical trend in defined  
benefit plans (DKr m)**

	2006	2005	2004
Present value of pension obligations	1,012	976	957
Fair value of plan assets	1,103	1,169	1,134
Net pension asset, end of year, parent company	91	193	177
Actuarial losses not recognised	157	41	-
<b>Net pension asset, end of year, Group</b>	<b>248</b>	<b>234</b>	<b>177</b>

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
24	<b>Due to credit institutions and central banks</b>				
	On demand	4	4	4	4
	3 months or less	5,263	45,386	5,263	45,386
	<b>Total</b>	<b>5,267</b>	<b>45,390</b>	<b>5,267</b>	<b>45,390</b>
	Portion attributable to repo transactions	5,263	45,386	5,263	45,386
25	<b>Issued mortgage bonds at fair value</b>				
	Issued mortgage bonds, nominal value*	767,912	737,234	767,912	737,234
	Fair value adjustment	-6,839	4,704	-6,839	4,704
	Issued mortgage bonds at fair value, before set-off	761,073	741,938	761,073	741,938
	Set-off of own mortgage bonds at fair value	150,312	205,408	150,312	205,408
	<b>Issued mortgage bonds at fair value</b>	<b>610,761</b>	<b>536,530</b>	<b>610,761</b>	<b>536,530</b>
	3 months or less	70,145	93,357	70,145	93,357
	3 months to 1 year	156,477	136,323	156,477	136,323
	1 year to 5 years	214,762	159,073	214,762	159,073
	Over 5 years	169,377	147,777	169,377	147,777
	<b>Total</b>	<b>610,761</b>	<b>536,530</b>	<b>610,761</b>	<b>536,530</b>
	* Portion pre-issued	137,483	126,427	137,483	126,427
	* Portion drawn at January 2, 2007, or in 2006	159,088	174,626	159,088	174,626
	Of the total fair value adjustment of issued mortgage bonds, the change in the fair value of own credit risk amounts to:	-	-	-	-
	Portion of the change in 2006:	-	-	-	-
	The amounts are calculated as the change due to circumstances other than changes in the benchmark interest rate, corresponding to the average yield on Danish mortgage bonds with an AAA rating.				
	The nominal value of issued mortgage bonds is equivalent to the amount payable at maturity.				
26	<b>Other liabilities</b>				
	Interest accrued	12,673	11,800	12,673	11,800
	Reserves in early series subject to a reimbursement obligation*	358	449	-	-
	Other creditors	940	814	927	800
	<b>Total</b>	<b>13,971</b>	<b>13,063</b>	<b>13,600</b>	<b>12,600</b>

\*Classified on the balance sheet of the parent company, Realkredit Danmark A/S, under "Provisions for liabilities".



# Notes to the accounts

Note	DKr m	Realkredit Danmark Group		Realkredit Danmark A/S	
		2006	2005	2006	2005
27	<b>Reserves in early series subject to a reimbursement obligation*</b>				
	Carrying amount, beginning of year	449	533	449	533
	Utilised	-85	-101	-85	-101
	Increase due to shortening of maturity	14	17	14	17
	Decrease due to change in discount rate	-20	-	-20	-
	Carrying amount, end of year	358	449	358	449

\*Classified on the balance sheet of the Realkredit Danmark Group under "Other liabilities".

Reserves in early series subject to a reimbursement obligation relate to mortgage loan agreements under which the borrower's share of the series reserve fund is disbursed to the borrower on repayment of the loan in accordance with the terms and conditions applying to the series. Until 2031, the Group's obligation will gradually be reduced in accordance with the individual borrower repayment profiles. Factors that affect the repayment profiles include changes in interest rates, cash flows, etc.

28	<b>Security</b>				
	The following assets have been deposited with Danmarks Nationalbank as security:				
	Bonds at fair value	22,257	23,571	22,257	23,571
	Portion issued by Realkredit Danmark	22,257	22,805	22,257	22,805
	Assets sold under repo transactions:				
	Bonds at fair value	5,207	45,402	5,207	45,402
	Portion issued by Realkredit Danmark	93	45,402	93	45,402

29	<b>Contingent liabilities</b>				
	Owing to its size and business volume, the Realkredit Danmark Group is continually a party to various lawsuits. The Group does not expect the outcomes of the cases pending to have any material effect on its financial position.				
	Realkredit Danmark guarantees the pension obligations of Kreditforeningen Danmarks Pensionsafviklingskasse. See note 23.				
	Realkredit Danmark is jointly and severally liable for the prior-year corporation tax charges of the companies jointly taxed with Danske Bank A/S before 2005.				
	The company is registered jointly with all major Danish subsidiaries of the Danske Bank Group for financial services employer tax and VAT, for which it is jointly and severally liable.				
	The table below shows guarantees and indemnities issued by the Group, irrevocable loan commitments regarding reverse mortgages and other commitments not recognised on the balance sheet.				

	Realkredit Danmark Group		Realkredit Danmark A/S	
	2006	2005	2006	2005
<b>Guarantees, etc.</b>				
Other guarantees	4	4	4	4
Total	4	4	4	4
<b>Other contingent liabilities</b>				
Irrevocable loan commitments regarding reverse mortgages	835	903	835	903
Other commitments	109	122	101	111
Total	944	1,025	936	1,014

Note DKr m

30 **Related party transactions**

Transactions between related parties are concluded and settled on market terms or on a cost-reimbursement basis. No unusual transactions were made with associated and subsidiary undertakings in 2006.

	<b>Realkredit Danmark Group</b>		<b>Realkredit Danmark A/S</b>	
	2006	2005	2006	2005
Realkredit Danmark A/S made the below-mentioned major intra-group transactions with companies directly or indirectly associated with the Group/company.				
Fees, etc. paid to Danske Bank A/S for the arranging and guaranteeing of mortgage loans	767	811	767	811
Fees received from Danske Bank A/S for referral of customers and for property valuation	116	139	116	139
Fees paid to Danske Bank A/S for managing Realkredit Danmark's IT operations and development, portfolio management and finance functions, etc.	372	379	349	358
Interest received by Realkredit Danmark A/S on outstanding accounts with Danske Bank A/S	323	350	320	350
Interest paid by Realkredit Danmark A/S on outstanding accounts with Danske Bank A/S	77	75	77	75
Amounts due from Danske Bank A/S	16,982	11,589	16,819	11,582
Loss guarantees from Danske Bank A/S	38,866	35,490	38,866	35,490
Other guarantees from Danske Bank A/S	17,824	23,171	17,824	23,171
Amounts due to Danske Bank A/S	5,174	42,961	5,174	42,961
Any amounts due to related parties in the form of issued bonds have not been included in the above outstanding accounts as such bonds are bearer securities. In these cases, the Group does not know the identity of the creditors.				

31 **Loans etc. to management**

Mortgage loans established on market terms for:

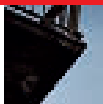
Executive Board	4	6	4	6
Board of Directors	7	9	7	9

32 **Reporting to the Danish FSA**

**Realkredit Danmark Group**

Difference between net profit and shareholders' equity in IFRS accounts and reporting to the Danish FSA is calculated as follows:	Net profit		Sharehold. equity Dec. 31	Sharehold. equity Dec. 31
	2006	2005	2006	2005
Net profit according to the accounts	2,356	2,417	33,166	30,810
Domicile property	-17	6	54	50
Pension obligations	-116	-41	-157	-41
Tax effect	31	12	44	12
Net profit according to the rules of the Danish FSA	2,254	2,394	33,107	30,831





# Notes – risk management

## Credit risk

Realkredit Danmark grants loans on the basis of an assessment of the value of the property on which the loan is secured and the customer's ability and intention to repay the loan. The weighting of the assessment of the customer depends on the type of property.

In terms of the Capital Requirements Directive (CRD), this practice means that expectations of high Loss Given Default (LGD) – for property types that notoriously may suffer large declines in value – increase the importance attached to the assessment of the customer to ensure a low Probability of Default (PD). Conversely, for loans for property types with stable value and low expected LGD, less importance is attached to the assessment to ensure a low PD.

To a certain extent, single-family houses, and from 2007 also terrace houses and owner-occupied flats, are valued using Realkredit Danmark's property valuation model. The valuation of other properties is based on a physical inspection of the property. As a general rule, Realkredit Danmark's own valuation experts carry out the physical inspection of properties, but, in some cases, the valuation of owner-occupied dwellings is carried out by members of Realkredit Danmark's real-estate agency chain, "home". In these cases, Realkredit Danmark's valuation experts subsequently perform spot checks of the valuation.

The valuation of property is based on the current market value as well as the estimated long-term value of the property. Location, marketability and alternative use of the property are key elements in the assessment of the long-term value.

The assessment of the customer aims to ensure that the customer has the ability and intention to

repay the loan. Assessment of the private customer segment is supported by Realkredit Danmark's priority customer concept and statistical score models.

For customers who do not have priority customer status, the assessment of the customer's ability to repay is based on a 30-year fixed-rate annuity loan.

Most loans can be approved by local offices. However, large loans and loans to customers or property involving a larger-than-normal risk must be approved by Realkredit Danmark's central credit division or, in some cases, by the Executive Board or the Board of Directors.

As a result of the large price increases in the Danish property market in recent years, Realkredit Danmark's lending is even better secured on the mortgaged properties than previously. This is reflected in a drop in Realkredit Danmark's average loan-to-value (LTV) ratio – calculated on the basis of the total amount of loans secured on each property – from 58% at the end of 2005 to 53% at the end of 2006. A lower LTV means that Realkredit Danmark is better covered against losses if customers default on their loans.

A large proportion of Realkredit Danmark's loans to the private market are arranged via Danske Bank and BG Bank branches. These loans, which currently account for 62% of total lending to the private market, are covered by a loss guarantee provided to Realkredit Danmark by Danske Bank. The guarantee covers the part of the loans that exceeds 60% of the original valuation of the properties. Because of the guarantee, Realkredit Danmark very rarely incurs losses on these loans. At the end of 2006, the loss guarantee from the bank comprised loans for a total amount of about DKr244bn, of which the bank guarantee covered a total of DKr39bn.

The low arrear rates reflect the favourable financial situation of borrowers. After three months, arrears from the September 2006 payment date accounted for only 0.07% of the amount due. The low level indicates that there is no sign of an increase in credit loss expenses in the time to come.

	Loan portfolio		LTV ratio		Arrears	
	DKr m (nom.)		%		Sept. paym. in %	
	Dec. 31 2006	Dec. 31 2005	Dec. 31 2006	Dec. 31 2005	Dec. 31 2006	Dec. 31 2005
Private market	377,726	347,866	53	58	0.05	0.07
Urban trade	72,178	67,666	43	45	0.13	0.12
Agriculture	38,377	33,225	46	51	0.05	0.09
Residential rental property	120,661	114,396	62	66	0.13	0.04
<b>Total</b>	<b>608,942</b>	<b>563,153</b>	<b>53</b>	<b>58</b>	<b>0.07</b>	<b>0.07</b>

### Market risk

Realkredit Danmark's Board of Directors defines the overall framework for interest rate, equity market and exchange rate risks in accordance with the limits laid down in the Danish Mortgage Credit Loans and Mortgage Credit Bonds, etc. Act. Realkredit Danmark calculates, monitors and reports on these risks on a regular basis. By complying with the statutory balance principle, Realkredit Danmark eliminates interest rate, exchange rate and liquidity risks on most of its assets and liabilities.

### Interest rate risk

The interest rate risk expresses the expected loss on fixed-income positions from a general increase in interest rates of 1 percentage point.

According to Danish law, the difference between interest payments and instalments received on mortgage loans and payments made on issued bonds may not result in an interest rate risk exceeding 1% of Realkredit Danmark's capital base, that is, DKr331m. At the end of 2006, this interest rate risk amounted to DKr19m, against DKr4m the year before.

The interest rate risk on other assets and liabilities and on off-balance-sheet items, including in particular the proprietary investment portfolio, may not exceed 8% of the capital base, or DKr2,650m, according to legislation. At the end of

2006, the interest rate risk on these items amounted to DKr424m, against DKr366m the year before.

At the end of 2006, the total interest rate risk amounted to DKr443m, or 1.3% of the capital base. The year before, Realkredit Danmark's interest rate risk was DKr370m.

### Equity market risk

The equity market risk is calculated as the market value of the Realkredit Danmark Group's equity portfolios and holdings in subsidiary and associated undertakings etc. Internal limits have been set for the overall equity market risk. At end-2006, the market value and hence the equity market risk amounted to DKr105m, against DKr225m the year before.

### Exchange rate risk

Realkredit Danmark has only very small unhedged currency positions. The exchange rate risk is calculated in accordance with exchange rate indicator 2 of the Danish FSA and may, in accordance with legislation, not exceed 0.1% of the capital base, that is DKr33m. At the end of 2006, the exchange rate risk amounted to DKr1m, unchanged from the year before.

### Financial instruments

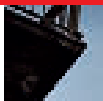
Financial instruments are employed exclusively for hedging purposes in relation to mortgage finance business (see the balance principle) and are carried at fair value in the accounts. In 2006, Realkredit Danmark used forwards, futures and repo/reverse transactions to hedge risk. The market risk on these instruments is included in the risk calculations mentioned above.

### Pension risk

The Group's pension risk is the Group's risk of claims for further contributions to defined benefit pension plans of present and/or former employees. The Group aims to reduce the pension risk of the defined benefit pension plans in the same way that it handles other risks. To achieve this goal, the Group matches pension obligations with assets similar mainly in terms of maturity and volatility. Note 23 to the accounts specifies the Group's defined benefit pension plan.

DKr m	December 31, 2006			December 31, 2005		
	Notional value	Positive market value	Negative market value	Notional value	Positive market value	Negative market value
<b>Derivatives</b>						
<b>Interest rate contracts</b>						
Forwards/futures bought	95,775	12	15	93,252	22	23
Forwards/futures sold	35,052	119	51	99,295	53	14
<b>Currency contracts</b>						
Forwards/futures bought	29	-	-	1,003	-	-
Forwards/futures sold	0	-	-	748	-	-
<b>Total</b>		<b>131</b>	<b>66</b>		<b>75</b>	<b>37</b>
<b>Outstanding spot transactions</b>						
Interest rate contracts bought	893	1	-	1,149	1	-
Interest rate contracts sold	2,862	1	2	3,651	-	2
Currency contracts bought	373	-	-	1,231	-	-
<b>Total</b>		<b>2</b>	<b>2</b>		<b>1</b>	<b>2</b>

The statement covers the Realkredit Danmark Group as well as Realkredit Danmark A/S.



# Highlights, ratios and key figures

## Realkredit Danmark Group

DKr m	2006	2005	2004	2003	2002
<b>HIGHLIGHTS</b>					
1. Net interest and fee income	3,414	4,352	4,268	4,420	3,827
2. Value adjustments	545	-291	-353	-430	178
3. Staff costs and administrative expenses	1,162	1,242	1,347	1,588	1,411
4. Credit loss expenses	-105	-118	-18	24	-74
5. Income from associated and subsidiary undertakings	-	26	23	18	29
6. Net profit for the year	2,356	2,417	2,066	1,917	1,990
7. Loans	603,020	569,648	525,035	498,037	469,414
8. Shareholders' equity	33,166	30,810	29,718	27,237	25,248
9. Total assets	663,277	625,853	576,609	647,146	642,581
<b>RATIOS AND KEY FIGURES</b>					
1. Solvency ratio, %	10.2	10.1	10.1	10.4	10.4
2. Core (tier 1) capital ratio, %	10.2	10.0	10.0	10.3	10.3
3. Return on equity before tax, %	10.1	10.5	9.5	9.6	11.6
4. Return on equity after tax, %	7.4	8.0	7.2	7.3	8.2
5. Cost/income ratio, DKr	4.02	3.81	3.03	2.56	3.07
6. Foreign exchange position, %	1.8	0.9	1.3	6.4	3.0
7. Ratio of lending to shareholders' equity	18.4	18.5	17.7	18.3	18.6
8. Growth in lending for the year, %	8.1	8.5	4.6	6.1	4.7
9. Impairment ratio for the year, %	0.0	0.0	0.0	0.0	0.0

## Realkredit Danmark A/S

DKr m	2006	2005	2004	2003	2002
<b>HIGHLIGHTS</b>					
1. Net interest and fee income	3,407	4,344	4,262	4,415	3,821
2. Value adjustments	549	-253	-353	-430	178
3. Staff costs and administrative expenses	1,163	1,175	1,266	1,509	1,336
4. Credit loss expenses	-105	-118	-18	24	-74
5. Income from associated and subsidiary undertakings	45	78	59	52	55
6. Net profit for the year	2,254	2,394	2,069	1,917	1,990
7. Loans	602,987	569,621	525,007	498,007	469,386
8. Shareholders' equity	33,107	30,831	29,756	27,237	25,248
9. Total assets	663,201	625,860	576,631	647,135	642,564
<b>RATIOS AND KEY FIGURES</b>					
1. Solvency ratio, %	10.2	10.1	10.1	10.4	10.4
2. Core (tier 1) capital ratio, %	10.2	10.0	10.0	10.3	10.3
3. Return on equity before tax, %	9.6	10.3	9.5	9.6	11.6
4. Return on equity after tax, %	7.1	7.9	7.2	7.3	8.2
5. Cost/income ratio, DKr	3.88	3.96	3.16	2.64	3.19
6. Foreign exchange position, %	1.8	0.9	1.3	6.4	3.0
7. Ratio of lending to shareholders' equity	18.4	18.5	17.6	18.3	18.6
8. Growth in lending for the year, %	8.1	8.5	4.6	6.1	4.7
9. Impairment ratio for the year, %	0.0	0.0	0.0	0.0	0.0

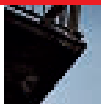
For 2004-2006, items in the consolidated accounts are valued in accordance with the IFRS and items in the parent company accounts in accordance with the executive order on financial reports issued by the Danish FSA on November 21, 2005.

For 2002-2003, items are valued in accordance with the rules in force at that time. The ratios are defined in the executive order on financial reports of credit institutions, etc. issued by the Danish FSA.

# Group holdings and undertakings

	Share capital (thousands)	Net profit* (DKr m)	Shareholders' equity* (DKr m)	Holding of share capital (%)
<b>Realkredit Danmark A/S, Copenhagen</b>	DKK 630,000	2,254	33,107	
<b>Subsidiaries</b>				
Real-estate agency business: home a/s, Copenhagen	DKK 15,000	45	248	100
Other business: Omegadane SARL, Paris	EUR 8	-	-	100
<b>Associated undertakings</b>				
Other business: Realkreditnettet Holding A/S, Copenhagen	DKK 11,000	-1	82	25
Further information on Realkreditnettet Holding A/S: Total assets DKr128m Total liabilities DKr46m Total income DKr10m At December 31, 2006, the amount owed by Realkreditnettet Holding A/S to Realkredit Danmark was DKr9m (Dec. 31, 2005: DKr9m).				

\* According to the company's latest annual report



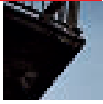
# Series accounts 2006

Pursuant to the executive order on the presentation of series accounts by mortgage credit institutions, Realkredit Danmark A/S's annual accounts are broken down by the individual underlying mortgage credit associations as follows:

Note	DKr m	Jydsk Grundejer- Kredit- forening	Ny jyske Kjøbstad- Credit- forening	Ny Jysk Grundejer- Kredit- forening	Østifternes Kredit- forening	Grund- ejernes Hypotek- forening	Husmands- hypotek- foreningen for Danmark
<b>Income statement</b>							
	Income from lending	2.3	2.2	0.1	4.8	0.5	0.0
1	Net interest etc.	4.8	5.0	7.4	12.0	1.7	0.0
1	Administrative expenses etc.	5.9	9.4	0.1	24.7	0.3	0.3
	Credit loss expenses	0.0	0.0	0.0	0.0	0.0	0.0
	Tax	0.3	-0.6	2.1	-2.2	0.5	-0.1
2	Net profit for the year	0.9	-1.6	5.3	-5.7	1.4	-0.2
<b>Balance sheet - assets</b>							
	Mortgage loans etc.	747.3	551.6	5.3	1,629.2	32.7	0.0
	Other assets	180.0	176.4	187.4	411.9	42.5	0.1
	Total assets	927.3	728.0	192.7	2,041.1	75.2	0.1
<b>Balance sheet - liabilities and equity</b>							
3	Issued bonds	814.7	612.1	6.5	1,743.0	42.1	0.1
	Other liabilities	7.2	5.7	1.5	16.0	0.6	0.0
4	Shareholders' equity	105.4	110.2	184.7	282.1	32.5	0.0
5	Total liabilities and equity	927.3	728.0	192.7	2,041.1	75.2	0.1
Note	DKr m	Provins- hypotek- foreningen for Danmark	Series not subject to a reimbursement obligation	Danske Kredit	Other reserves	Total	
<b>Income statement</b>							
	Income from lending	0.4	92.5	21.6	2,600.7	2,725.1	
1	Net interest etc.	0.6	49.0	9.3	1,494.6	1,584.4	
1	Administrative expenses etc.	1.9	64.5	23.1	1,209.1	1,339.3	
	Credit loss expenses	0.0	-102.3	0.4	-3.4	-105.3	
	Tax	-0.2	50.2	2.1	758.8	810.9	
2	Net profit for the year	-0.7	129.1	5.3	2,130.8	2,264.6	
<b>Balance sheet - assets</b>							
	Mortgage loans etc.	24.3	33,929.5	3,492.8	562,399.0	602,811.7	
	Other assets	23.9	3,404.2	468.2	210,254.6	215,149.2	
	Total assets	48.2	37,333.7	3,961.0	772,653.6	817,960.9	
<b>Balance sheet - liabilities and equity</b>							
3	Issued bonds	35.7	36,021.7	3,776.2	735,042.8	778,094.9	
	Other liabilities	0.3	292.2	31.0	6,046.5	6,401.0	
4	Shareholders' equity	12.2	1,019.8	153.8	31,564.3	33,465.0	
5	Total liabilities and equity	48.2	37,333.7	3,961.0	772,653.6	817,960.9	

Note	DKr m	
1	<p>Pursuant to section 3(1) and (2) of the executive order on the presentation of series accounts by mortgage credit institutions, a share of net interest etc., equivalent to the ratio of the individual series reserve fund to other series reserve funds, has been allocated to each series.</p> <p>Pursuant to section 3(3) of the executive order on the presentation of series accounts by mortgage credit institutions, the Danish FSA has approved the allocation of administrative expenses etc. to individual associations using a distribution scale by which the number of loans in the association is weighted at 3, and the principal of the loans is weighted at 1. The same distribution scale is used for allocation to individual series and series reserve funds; however, allocation to pre-1972 series is made in accordance with the statutes etc., of the associations in question.</p>	2006
2	<p><b>Net profit for the year, series accounts</b></p> <p>Net profit for the year, Realkredit Danmark A/S's annual accounts</p> <p>Transferred to other reserves etc.</p> <p>Revaluation of properties over shareholders' equity</p> <p>Net profit for the year, series accounts</p>	<p>2,254.6</p> <p>-11.2</p> <p>21.2</p> <p>2,264.6</p>
3	<p><b>Issued bonds, series accounts</b></p> <p>Issued bonds, Realkredit Danmark A/S's annual accounts</p> <p>Own mortgage bonds, not offset in the series accounts</p> <p>Accrued interest, own bonds</p> <p>Issued bonds, series accounts</p>	<p>610,761.0</p> <p>150,311.8</p> <p>17,022.1</p> <p>778,094.9</p>
4	<p><b>Shareholders' equity, series accounts</b></p> <p>Shareholders' equity, Realkredit Danmark A/S's annual accounts</p> <p>Reserves in pre-1972 series subject to a reimbursement obligation</p> <p>Shareholders' equity, series accounts</p>	<p>33,107.0</p> <p>358.0</p> <p>33,465.0</p>
5	<p><b>Total assets, series accounts</b></p> <p>Total assets, Realkredit Danmark A/S's annual accounts</p> <p>Own mortgage bonds, not offset in the series accounts</p> <p>Accrued interest, own bonds</p> <p>Total assets, series accounts</p>	<p>663,201.0</p> <p>150,311.8</p> <p>4,448.1</p> <p>817,960.9</p>
6	<p><b>Transfers to and from reserves subject to a reimbursement obligation</b></p> <p>In 2006, the following net transfers of funds to and from the reserves were made between individual associations and other reserves.</p> <p>Transferred from and to shareholders' equity:</p> <p>Series not subject to a reimbursement obligation</p> <p>Danske Kredit</p> <p>Other reserves</p> <p>Total</p>	<p>-233.2</p> <p>-64.2</p> <p>297.4</p> <p>0.0</p>

The accounts of the individual series are available at Realkredit Danmark on request.



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