


Annual Report 2006

6th financial year

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Management's Review

Financial and operating data, DKKm

Profit and Loss Account	***2002***	***2003***	***2004***	***2005***	***2006***
Net interest and fee income	*404*	*472*	*477*	*580*	*604*
Other operating income etc.	*18*	*17*	*17*	*16*	*18*
Staff costs and administrative expenses	*(135)*	*(150)*	*(146)*	*(158)*	*(159)*
Other operating costs	*(6)*	*(4)*	*(13)*	*(5)*	*(7)*
Provisions for loan and receivable impairment etc.	*(23)*	*(21)*	*20*	*(3)*	*174*
Core earnings	*258*	*314*	*355*	*430*	*630*
Value adjustments	*90*	*(17)*	*(21)*	*(32)*	*(52)*
Profit before tax	*348*	*297*	*334*	*398*	*578*
Profit after tax	*241*	*204*	*236*	*288*	*417*

Balance Sheet at 31 December					
Assets					
Loans and advances	*48,423*	*57,803*	*69,243*	*83,265*	*91,159*
Bonds and shares etc.	*15,408*	*19,783*	*33,912*	*1,327*	*7,201*
Other assets	*2,975*	*3,413*	*7,883*	*9,556*	*6,207*
Total assets	*66,806*	*80,999*	*111,038*	*94,148*	*104,567*

Liabilities and equity					
Issued bonds	*59,603*	*74,107*	*98,764*	*81,932*	*93,638*
Other debt and payables	*3,647*	*3,118*	*5,254*	*4,621*	*2,957*
Subordinated debt	*775*	*788*	*3,773*	*3,733*	*3,693*
Equity	*2,781*	*2,986*	*3,247*	*3,862*	*4,279*
Total liabilities and equity	*66,806*	*80,999*	*111,038*	*94,148*	*104,567*

Financial Ratios

	2002	***2003***	***2004***	***2005***	***2006***
Return on equity (ROE)					
Profit before tax in pc of equity)*	*13.1*	*10.3*	*10.7*	*11.2*	*14.2*
Profit after tax in pc of equity)*	*9.1*	*7.1*	*7.6*	*8.1*	*10.2*
Costs					
Costs in pc of loan portfolio	*0.29*	*0.27*	*0.23*	*0.20*	*0.18*
Income/cost ratio)*	*3.12*	*2.70*	*3.42*	*3.49*	*(64.55)*
Income/cost ratio, excl. write-downs for impairment	*3.62*	*3.07*	*2.99*	*3.45*	*3.44*
Solvency (incl. profit for the year)					
Solvency ratio, pc)*	*10.8*	*9.5*	*11.6*	*11.7*	*11.3*
Core capital ratio, pc)*	*6.9*	*6.4*	*5.8*	*6.8*	*7.0*
Losses and arrears					
Arrears, year-end (DKKm)	*58.4*	*58.0*	*57.0*	*59.2*	*61.1*
Loss and impairment ratio for the year (in pc of loan portfolio))*	*0.05*	*0.04*	*(0.03)*	*0.00*	*(0.19)*
Accumulated loss and impairment ratio (in pc of loan portfolio)	*0.93*	*0.80*	*0.63*	*0.48*	*0.23*
Lending activity					
Growth in loan portfolio, pc (nominal))*	*16.6*	*19.4*	*19.8*	*19.1*	*11.4*
New loans, gross (DKKm)	*16,325*	*23,729*	*24,646*	*36,808*	*22,413*
Number of new loans	*9,884*	*13,607*	*12,392*	*16,238*	*8,379*
Loan/equity ratio)*	*17.4*	*19.4*	*21.3*	*21.6*	*21.3*
Margins					
Percentage of average loan portfolio (nominal):					
Profit before tax	*0.77*	*0.56*	*0.53*	*0.52*	*0.67*
Administrative margin	*0.63*	*0.67*	*0.66*	*0.66*	*0.64*
Percentage of core capital after deductions:					
Foreign exchange position)*	*1.2*	*5.2*	*8.2*	*9.4*	*8.8*

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

Summary

DLR Kredit can look back at 2006 with great satisfaction.

In terms of lending, the level of activity was at a more standard level compared to 2005, which was characterised by a high degree of remortgage activities.

The many years of moderate losses that the Danish financial sector has been experiencing has also resulted in a highly intensified competition for customers. And in this respect, 2006 was no exception. Nevertheless, DLR succeeded in retaining and in some areas even expanding its share of the lending by the Danish mortgage bank sector.

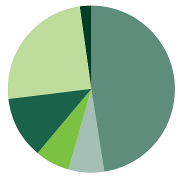
Net lending developed positively also in 2006. At the end of 2006, DLR's total loan portfolio had exceeded DKK 90bn.

2006 saw considerable challenges in legislation. The preparation and implementation of the new capital requirement rules at 1 January 2007 – cf. the EU Capital Requirement Directive (CRD) – demanded a lot of resources, which will also be the case in the years to come. The same applies to the coming legislation about covered bonds (in Danish referred to as SDOs). In 2006 the first preparatory steps were also taken to introduce electronic land registration, which is supposed to be introduced in spring 2008 according to the plans.

Financially speaking, 2006 was a good year for DLR, when the high level of activity in combination with virtually unchanged costs and very limited losses meant that DLR's financial position developed satisfactorily. And as at the same time DLR implemented a reversal of all group-based write-downs for impairment, profit after tax in 2006 reached DKK 416.9m against DKK 287.7m in 2005.

Last, but not least, the cooperation with the banks that hold shares in DLR was expanded even further in 2006, both in terms of more personal relationships between staff at DLR and in the banks, and in the more technical and systems-related areas.

Net Lending Distributed on Property Categories (2006)



Paid-Out Loans to Agricultural Properties 2002-2006; DKKm

	2002	2003	2004	2005	2006
Agricultural properties	13,045	17,375	15,454	23,766	12,869
Owner-occupied homes (residential farms) [1]	649	1,265	1,292	2,055	1,351
Gross lending	13,694	18,640	16,746	25,821	14,219
– extraordinary prepayments	7,726	12,463	10,091	18,899	7,531
– repayments	1,450	1,549	1,637	1,720	1,686
Net lending	4,518	4,628	5,018	5,202	5,002

Note: All amounts are stated in cash value

[1] Agricultural properties below 10 ha without significant agricultural activities

Lending activity in 2006

2006 saw a lower level of activity than 2005. The reason for this was a significant drop in the number of remortgagings due to the generally increasing interest rate level in 2006.

In 2006, DLR's lending was concentrated on agricultural properties, office and business properties, private rental housing properties and private cooperative housing properties.

Gross lending amounted to DKK 22.4bn in 2006 against DKK 36.8bn in 2005. Remortgagings accounted for just below half the amount, and here the bulk of the business consisted in remortgaging loans with other mortgage credit institutions to DLR loans. The considerable remortgaging activity between mortgage credit institutions, where DLR loans are also prepaid and remortgaged with loans with other mortgage credit institutions, underline the intense competition in the area of commercial lending.

The remaining part of DLR's gross lending, ie well over half of it, relates to the financing of property sales and investments. Lending for these purposes was virtually unchanged from 2005 to 2006.

Net lending – ie gross lending less loan repayments – amounted to DKK 9.1bn in 2006 against DKK 11.7bn in 2005.

Generally, 2006 saw a considerable interest also in ARM loans (adjustable-rate mortgage loans), as this type of loans accounts for approx. 63 pc of all paid-out loans. ARM loans in EUR accounted for around one third of these loans.

DLR also felt a certain interest in interest-rate guarantee loans – ie loans with a built-in 'cap' on the level of the interest rate. In 2006 this loan type accounted for approx. 5 pc of the paid-out loans.

Last, but not least, fixed-interest loans accounted for well over 30 pc of the paid-out loans.

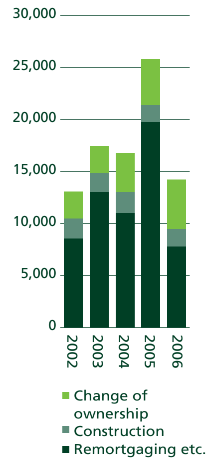
Around half of DLR's lending in 2006 was granted with an interest-only period. The desire for interest-only loans is mainly linked to the ARM loans where more than 60 pc of the paid-out loans was granted with an interest-only period. As far as fixed-interest loans are concerned, the corresponding number was around one third of the lending.

96 pc of DLR's gross lending in 2006 was processed by the banks that hold shares in DLR.

Agricultural properties

Gross lending to agricultural properties (farms and horticultural properties) amounted to around DKK 14.2bn in 2006. Of this amount, loans to residential farms accounted for DKK 1.4bn. The total amount comprises government-guaranteed start-up loans to young farmers at DKK 0.2bn (the so-called "YF loans").

Loans Granted to Agricultural Properties Distributed on Loan Purposes
(DKKm)



Loans to the agricultural sector totalled about 63 pc of DLR's total gross lending in 2006. Net lending amounted to DKK 5.0bn, of which DKK 0.6bn relates to residential farms.

Experience shows that the interest taken by the agricultural sector in ARM loans is considerable. This was also true in 2006, when two thirds of the gross lending were paid out as ARM loans. It is our impression that farmers will often tend to attach a number of different financial instruments to their ARM loans via the banks. That way the funding may be adjusted and composed in accordance with the wants and needs of the individual farmer.

Well over half the loans granted went into remortgaging, but the continuing, strong structural development in the agricultural sector also led to considerable demand for loans to finance investments in real property and investments in production equipment.

In relation to investments it is worth noting that within both cattle and pig farming, there have been expansions of existing farms as part of the ongoing concentration of production on still fewer units. On the dairy cattle farms, the expansions are often accompanied by investments in additional milk quotas.

The past few years have been characterised by steep price increases for especially agricultural land. Apart from the independent effect of the low interest rates, the demand for agricultural properties is affected by the structural development and by a series of liberalisations of the Danish Agricultural Holdings Act. To this should be added the generally favourable economic trends that the agricultural sector has experienced in the past years.

DLR's share of the total amount of gross and net lending provided by the Danish mortgage credit institutions to agricultural properties amounted to 29.6 pc and 30.0 pc, respectively, in 2006.

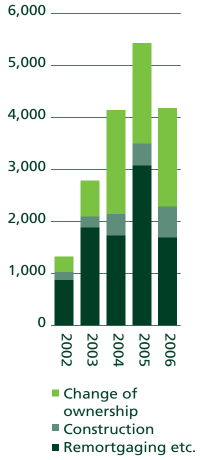
EU payment rights

In connection with the EU reform that came into force on 1 January 2005, the largest part of the EU subsidies was decoupled from the property/production so that after the implementation of the reform, subsidies are paid on the basis of personal payment rights.

These payment rights are not subjected to charges on the real property, but first of all because the payment of subsidies based on the individual payment right presupposes that the recipient owns one hectare of land, there was some uncertainty when the reform came into force about the extent to which the decoupling of the subsidies might affect property and land prices.

Therefore, at the end of 2004 the Danish Financial Supervisory Authority issued a set of guidelines that introduced a changed procedure according to which the mortgage credit institutions were to reduce their valuations of agricultural land by DKK 7,000 per ha and further reduce their valuations of dairy cattle

Loans Granted to Office and Business Properties Distributed on Loan Purposes (DKKm)



farms by DKK 1.30 per kg milk quota.

When during 2006 it was found that there was an actual market for payment rights, the Authority revoked the guidelines as per 1 September 2006, since at that time the mortgage credit institutions did in fact have the basis required to value the properties exclusive of payment rights.

The price formation process has shown that the value of the payment rights is lower than the amounts stipulated by the Authority in its guidelines.

In consideration of the funding possibilities of the agricultural sector in Denmark and the security of the mortgages for the mortgage credit institutions, it is satisfactory to find that the decoupling of the subsidies has only affected the property and land prices to a limited extent.

Challenges

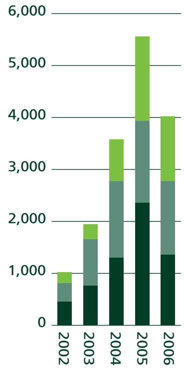
The agricultural sector in general will be facing considerable challenges in the years ahead. One challenge is the continuing, strong structural development towards increasingly fewer farms. To this should be added an anticipated pressure on product prices due to ia the increasing market orientation in the world trade in agricultural products.

Another challenge is the possible gradual adjustments of the EU agricultural policy that could be the result of the agricultural policy deliberations and discussions in the coming years. The EU has announced that in 2008 there will be a 'health check' of the agricultural policy which may also include budgetary questions.

For the Danish farmers in particular, the considerable burden of debt and the attached interest rate risk should be a focus point.

On the whole, the mentioned points place demands for the continued increase in production efficiency as a necessary prerequisite for a satisfactory earnings level.

Loans Granted to Private Rental Housing and Cooperative Properties Distributed on Loan Purposes (DKKm)



Paid-Out Loans to Urban Trade Properties 2002-2006; DKKm

	2002	2003	2004	2005	2006
Office and business	1,300	2,724	4,086	5,182	3,966
Private rental housing	762	1,266	2,203	3,314	1,580
Private cooperative housing	258	676	1,324	2,247	2,439
Manufactoring and manual industries	6	21	28	162	141
Other properties	31	37	89	82	67
Paid-out loans	2,357	4,724	7,730	10,987	8,193
– extraordinary prepayments	126	366	929	4,185	3,645
– repayments	24	110	214	342	418
Net lending	2,207	4,248	6,587	6,460	4,130

Note: All amounts are stated in cash value.

Urban trade and cooperative housing properties

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

Gross lending to urban trade and cooperative housing properties etc. amounted to DKK 8.2bn in 2006. Net lending reached DKK 4.1bn. More than 50 pc of the gross lending was paid out as ARM loans – primarily with one annual rate adjustment.

To a far lesser extent than in 2005, lending in 2006 was characterised by remortgagings. The bulk of the remortgagings implemented consisted in the remortgaging of loans taken out with other mortgage credit institutions with DLR loans.

The biggest part of DLR's loans to private cooperative housing properties was granted to finance improvements and to erect new homes. It is clearly the impression that in recent years the level of activity in building new cooperative housing properties has been significantly reduced.

In the autumn of 2005, the Danish Financial Supervisory Authority changed the basis for the valuation of cooperative housing properties; this no doubt contributed to the reduced level of activity in this lending area.

This is particularly true outside the big cities where the new valuation rules make it difficult to obtain sufficient mortgage credit funding. The change in rules was that the valuation of the cooperative housing properties is now to reflect the rent level in comparable rental housing properties.

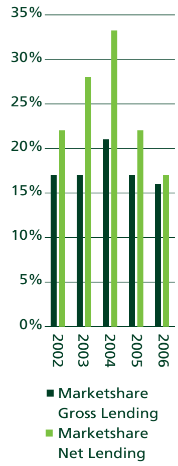
As opposed to the private cooperative housing property sector, lending to rental housing properties and to office and business properties has developed satisfactorily. This applies to both the financing of sales and of investments.

With the currently low rates of return on investments in rental housing properties, the demand in connection with urban trade properties is primarily concentrated on office and business properties. This change in the demand pattern has narrowed the gap between the rates of return obtainable on investment in rental housing properties and in office and business properties, respectively.

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

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

DLR's Marketshares 2002–2006
(Primary Lending Areas of DLR)



DLR's share of the total lending by the Danish mortgage credit institutions to urban trade properties, cooperative housing properties etc. developed satisfactorily in 2006. The share of gross and net lending to private rental housing, including private cooperative housing, was 8.0 pc and 7.2 pc, respectively. As regards office and business properties, the corresponding shares were 11.4 pc and 19.7 pc, respectively.

DLR's loan portfolio

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

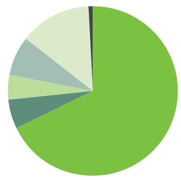
From amounting to DKK 39.9bn at the beginning of 2001, DLR's loan portfolio had grown to DKK 91.2bn at the end of 2006. Of the total loan portfolio of the Danish mortgage bank sector of DKK 1,858bn at the end of 2006, DLR's over-all share was around 4.9 pc. If we look at DLR's market share in the lending areas where DLR offers loans, the share was 17 pc.

Both agricultural properties and urban trade properties (including cooperative housing properties etc.) have contributed to the growth in the portfolio. Since the loan portfolio to urban trade properties is growing faster than the agricultural property portfolio, DLR has obtained a higher degree of diversification of its loan portfolio on property categories. At the end of 2006, agricultural properties, including residential farms, accounted for 73 pc of DLR's loan portfolio, while loans to urban trade properties and cooperative housing properties accounted for 27 pc.

Fixed-interest loans and short-interest period loans (ARM loans and guarantee loans) accounted for 40.9 pc and 59.1 pc (of which guarantee loans accounted for 4.3 pc points), respectively, of DLR's loan portfolio at the end of 2006.

Interest-only loans accounted for 30.2 pc of DLR's loan portfolio at the end

Portfolio Distributed on Property Categories



DLR's Loan Portfolio 2002-2006; DKKm

	2002	2003	2004	2005	2006	Loan portfolio 2006 distributed pc-wise on Fixed-interest	ARM loans	Guarantee loans
Agricultural properties	*43,887*	*48,373*	*52,565*	*57,455*	*61,798*	*40*	*57*	*3*
Owner-occupied homes (residential farms)	*2,391*	*2,880*	*3,818*	*4,536*	*5,181*	*57*	*33*	*10*
Office and business properties	*1,439*	*3,888*	*7,213*	*10,098*	*12,385*	*47*	*49*	*4*
Private rental housing	*899*	*2,178*	*3,834*	*5,682*	*6,839*	*33*	*62*	*5*
Private cooperative housing	*183*	*743*	*2,207*	*3,834*	*4,465*	*32*	*58*	*10*
Other properties	*76*	*110*	*222*	*442*	*605*	*44*	*52*	*4*
Total	*48,875*	*58,172*	*69,858*	*82,047*	*91,272*	*41*	*55*	*4*

Note: All amounts are calculated at cash value.

of 2006. The lending areas where interest-only loans are the most predominant are private rental housing properties and cooperative housing properties, where the share of interest-only loans makes up just below half the total volume of lending.

New loan types

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

Since then variations of mortgage loans have been developed, allowing borrowers to benefit from the relatively low interest rate level. An example would be the variable-interest loans with a built-in 'cap' on the interest rate level.

In the next future, DLR will offer its urban trade and agricultural clients CIBOR loans. The advantage of these loans is that borrowers can benefit from the short interest rate, which will typically be lower than the long-term rate.

With a view to being able to offer borrowers the best possible funding, DLR cooperates closely with the banks, and they will be able to top up DLR loans with financial instruments such as eg interest rate and currency swaps, individual interest rate caps etc. – solutions tailored to the needs of the borrower.

Funding

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

The ten most frequently used bond series in 2006 covered well over 89 pc of the funding required to match gross lending. The two biggest individual series – 4 pc 1-year ARM bonds in DKK and EUR – accounted for 34 pc and 18 pc, respectively, of the issuance of bonds.

In order to refinance ARM loans in early January 2007, DLR held an auction of ARM bonds on 13 December 2006. On the whole, DKK bonds worth a nominal DKK 28.3bn and euro-denominated bonds worth a nominal EUR 1.7bn were offered. The auction went satisfactorily, as the bonds offered were sold at rates, which were at the same level as the level obtained by the other mortgage credit institutions for corresponding bonds at similar auctions.

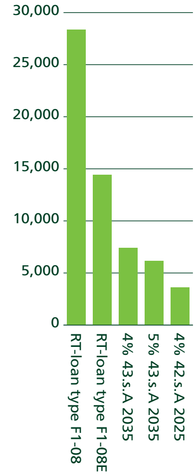
Rating

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

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

At DLR's annual meeting with Moody's on 22 March 2006, the ratings Aa1 and A1, respectively,

DLR's 5 largest Bondseries
(DKKm)



were confirmed. In addition, the rating was awarded the outlook stable, which means that Moody's has no intention of changing the ratings.

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

Risk exposure

DLR's credit risk and financial risk are estimated as limited. This is due to both a solid, legal basis and to DLR's internal credit policy guidelines. To this should be added the guarantee schemes that have been set up for DLR's various lending areas according to agreements with the banks that hold shares in DLR.

As a consequence of the new capital requirement rules, DLR has at 1 January 2007 established a credit risk control department. Apart from monitoring the new capital requirement rules, this department is also responsible for monitoring DLR's risk.

Credit risk

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

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

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

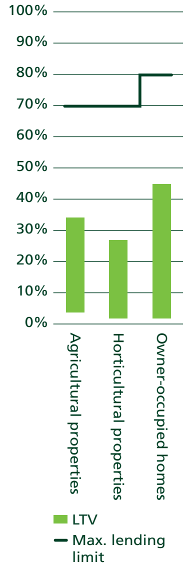
DLR's Board of Directors has set up guidelines for the granting of credit by DLR, including limits to the credit authorisation of the Executive Board. Within these limits, internal procedures and instructions determine upper limits for the credit authorisation in regard to the various levels in DLR's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

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

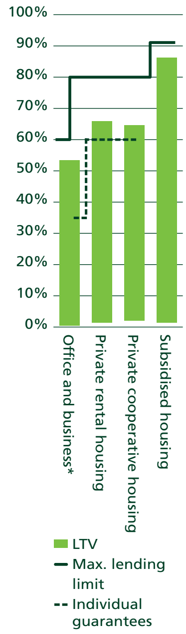
In relation to the new capital requirement rules (Basel II), DLR has introduced a credit score system for the majority of its existing clients. It is the intention that during 2007, DLR will introduce a credit score for all new loan commitments.

Apart from the mortgages held on the properties in which DLR grants

LTV for DLR's Loan Portfolio
(Agricultural Properties)



LTV for DLR's Loan Portfolio
(Urban Trade Properties)



*Incl. properties for mixed purposes

loans as well as a close credit assessment, DLR's credit risk has been further reduced by means of loan loss guarantees provided by the share-holding banks.

In connection with loans to private cooperative housing properties and urban trade properties, ie private rental housing properties, office and business properties as well as manufacturing and manual industry properties, the share-holding banks in question will therefore put up an individual loan loss guarantee covering the most risky part of the loan. This means that DLR's risk of losses arising from the granting of loans to the property types mentioned is highly limited due to the said guarantee schemes. Still, slight adjustments will probably have to be made to the guarantee concept as a consequence of the new capital requirement rules.

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

This is supported by calculations of the security position of the loan portfolio in the mortgaged properties (the so-called 'loan-to-value' (LTV) calculations). At the end of 2006, 90 pc of the loans granted to production properties was eg placed within 50 pc of DLR's most recent valuations. For residential farms, the corresponding figure was 77 pc.

The legally stipulated LTV ratio for loans to agricultural production properties is 70 pc of the valuation. The LTV ratio for loans to residential farms is 80 pc of the valuation.

At the end of 2006, 90 pc of DLR's total loan portfolio was comprised by the above-mentioned loan loss guarantees. The bulk of the loans that are not comprised by guarantees usually have a low LTV value.

The constant monitoring of LTV values is a standard element of DLR's management reporting as from 1 January 2007.

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

Financial risk

Interest rate risk

In practice, DLR's financial risk is attached solely to its securities portfolio, where the legal requirement is that the risk cannot exceed 8 pc of the capital base. Interest rate risk is defined as the price adjustment in the event of a change in market yields of 1 pc point. With a capital base (incl. deferred tax asset) of DKK 7,971.6m at the end of 2006, this would correspond to a maximum interest rate risk of DKK 637.6m.

In the ongoing management of interest rate risk, DLR operates with a reduction by half of the maximum interest rate risk stipulated by law, ie a maximum of 4 pc of the capital base. In this connection, DLR uses derivative financial instruments such as repo transactions and futures in the control of interest rate risk. The need for derivative transactions is assessed on a current basis.

At the end of 2006, DLR's relative interest rate risk amounted to 2.13 pc. This corresponds to a price adjustment of the securities portfolio of DKK 169.8m in the event of a change in the market yield of 1 pc point.

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

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

Liquidity risk

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

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

Foreign exchange risk

In real terms, DLR has no foreign exchange risk. Calculated according to the foreign exchange indicator 2 of the Danish Financial Supervisory Authority, DLR's foreign exchange risk at the end of 2006 was DKK 0.4m, corresponding to 0.006 pc of the capital base. Under Danish legislation, the foreign exchange indicator 2 of the Danish Financial Supervisory Authority cannot exceed 0.1 pc of the capital base. The reason behind the limited foreign exchange risk is that loans paid out in foreign currency, eg EUR, will at all times be funded in the foreign currency in question.

Risk related to shares

In general, DLR does not invest in shares. At the end of 2006, DLR's share portfolio consisted of a holding in OMX (previously the Copenhagen Stock Exchange) and minor holdings in VP Securities Services as well as Realkreditnettet.

Capital requirement rules

Credit risk

The new EU capital requirement rules came into force on 1 January

2007 – part of the rules, however, will not come into force until 1 January 2008.

The new capital requirement rules mean that in relation to the calculation of credit risk, the mortgage credit institutions will have three different methods at their disposal when determining the capital adequacy requirement. The first method and the least complex one – the standard method – may be used as from 1 January 2007; yet, the mortgage bank may use the existing rules until 1 January 2008.

The two other methods – the IRB methods – distinguish themselves from the standard method in that the individual credit institution will have to estimate the loan portfolio risk itself, ia on the basis of individually calculated PDs, ie the likelihood that the client will default on his payments.

One of the IRB methods – the Foundation IRB – requires the credit institution to calculate its PDs itself, cf above. Other variables will be determined by the authorities. The other and the most advanced method – the Advanced IRB – requires the credit institution to estimate all variables in its calculation of the capital requirement, including PDs and LGDs. The latter is an expression of the part of the exposure that is estimated to be lost if the client defaults on his payments.

The IRB methods may be put to use with effect from 1 January 2008.

Consequently, the new capital requirement rules mean that financial institutions and mortgage credit institutions will be able to make a more differentiated calculation of the capital adequacy requirement to cover their lending. With the use of the IRB methods, the capital cover will reflect the individual risks of the commitments as opposed to the present rules where risk is calculated according to commitment type – ie primarily taking into consideration whether the commitment is a private or commercial commitment.

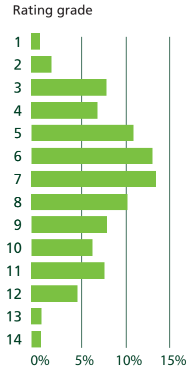
DLR has decided to use the IRB methods – to begin with on its agricultural portfolio. As part of this decision, DLR is developing models for the estimation of credit risk in the calculation of the minimum capital requirement. It is expected that DLR will be able to use the IRB methods from early 2009 on the said part of its portfolio. It is furthermore expected that the remaining part of the portfolio will also be evaluated by means of the IRB methods soon thereafter.

Since summer 2006, DLR has been carrying out credit scores – ie DLR has calculated PDs for the majority of its clients. This way the creditworthiness of the client portfolio is more precisely assessed.

The calculation of PDs is based on client specific information – primarily the payment history, financial reporting data etc. of the client. PDs are calculated on a current basis.

The distribution of DLR's clients on PD values is shown in the bar-chart.

Distribution of Loan Portfolio by Rating Grade – Fulltime and parttime farms



Finally, it should be mentioned that the improvement in risk management that DLR gets by applying the IRB method will be to the advantage of both DLR and DLR's clients.

Market risk

Market risk may be calculated according to two methods – a standard method, and an advanced method. DLR has chosen the standard method to calculate market risk. This method differs in only a few points from the present rules.

Operational risk

A new element in the capital requirement calculation is capital to meet operational risk. Such risk is attached to the risk of losses caused by inappropriate or inadequate internal procedures, human error and systems errors, external events, legal risk etc.

Three methods may be used to calculate operational risk – the basic indicator method, the standard indicator method and the advanced method for measuring operational risk. In view of its relatively homogeneous area of business, DLR has decided to use the basic indicator method.

The basic indicator is calculated on the basis of a three-year average of the total of net interest earnings and non-interest related net earnings. The capital adequacy requirement is calculated as 15 pc of the basic indicator.

Covered bonds (SDOs)

With the adoption of the EU Capital Requirement Directive in June 2005, the member states are now implementing rules regarding covered bonds (in Danish abbreviated to SDOs) in their national legislation. For Denmark, the adjustments will be made via amendments to the Danish Financial Business Act and the Danish Mortgage Loans and Mortgage Bonds Act, respectively. It is expected that a Bill will be proposed in the Danish Parliament (Folketinget) in early March 2007 with commencement on 1 July 2007.

The coming legislation will in principle repeal the monopoly that the mortgage credit institutions have had since 1850 on the issuance of mortgage bonds to finance real property. Thus the financial institutions will also be allowed to issue covered bonds. However, the Danish mortgage credit institutions will have a monopoly on terming their bonds covered mortgage bonds (in Danish referred to as SDROs).

In comparison with the present legislation (the Danish Mortgage Loans and Mortgage Bonds Act), the new legislation will place stricter demands on the security that forms the basis for the issuance of SDOs/SDROs – first and foremost in the sense that the statutory lending limits must be complied with throughout the entire lifetime of the loan. Under the present rules, the limits must be complied with at the time when the loan offer is made.

In real terms this means ia that the price development in the various property categories must be monitored on a continuous basis in order to make sure that the value of the mortgage loans granted stays within the lending limit that applies to the property category in question – eg 80 pc for residential properties.

If it is found that the lending limit has been exceeded due to eg falling property prices, the mortgage bank must provide additional security to cover that part of the mortgage loan that exceeds the lending limit. The additional security must consist of assets that may serve as underlying assets for the issuance of SDOs.

It should be mentioned that once the new legislation regarding covered bonds comes into force, the Danish mortgage credit institutions may still continue to issue mortgage bonds under the present legislation where the lending limit will only have to be complied with at the time when the loan offer is made. However, it remains to be seen to what extent this will happen.

In terms of capital requirement, the covered bonds will be treated more favourably than the traditional mortgage bonds in the sense that the former carry a weight of 10 pc in capital adequacy calculations. Traditional mortgage bonds issued after 1 January 2008 will double their weight from 10 to 20 pc.

Lending limits

No major changes to the existing lending limits have been proposed, as long as the lending takes place on the basis of covered bonds.

As far as residential properties are concerned, the LTV remains at 80 pc of the property value, provided ia that the maximum lifetime of the loan is 30 years.

For commercial properties, including agricultural properties, a general LTV of 60 pc is introduced, which may be increased to 70 pc if a supplementary guarantee of not less than 10 pc is offered for that part of the loan that exceeds 60 pc of the property value. Particularly in relation to agricultural properties, this will lead to some limitations in the equipment that may form part of the asset basis for the issuance of covered bonds.

Challenges for DLR

The coming legislation about covered bonds will result in a long series of adjustments to DLR's administrative functions and processes. It will be necessary to set up new systems to ensure the constant monitoring of the price development for the property categories in which DLR grants loans.

In terms of accounting, DLR will be operating with series reserve funds/capital centres. So far, all bond issuance in DLR has not been effected in capital centres. The possible change of the present balance principle to allow greater imbalances will at the same time require systems to be set up to handle changes of the described nature.

Since it is the general perception that not all financial institutions will be able to benefit from the funding source that the coming legislation about covered bonds represents, access will be granted to undertake joint issuance of covered bonds – so-called 'joint funding'. In this connection, DLR could come to play a central role. This may happen as part of DLR's current issuance of bonds to fund its own lending activities, where DLR can at the same time make issuances to refinance the mortgage-backed lending by financial institutions. If DLR were to participate in joint funding, it would require clarification of a long number of legal, financial and administrative problems.

Electronic land registration

As from the end of March 2008 it has been decided that the registration of ia mortgages used in mortgage banking will take place electronically. This project is a comprehensive challenge – not just for the public sector, but also for the financial sector.

As a consequence of the coming digital land registration system, the Association of Danish Mortgage Banks and the Danish Bankers Association have decided to establish a joint solution for digital business processes in the financial sector. This work has already begun and must be completed at the same time as the electronic land registration is implemented.

It has also been decided that Realkreditnettet A/S will handle the implementation and operation of the joint solution. As a consequence of this, the circle of owners behind Realkreditnettet will be expanded to also comprise banks.

Knowledge resources

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

DLR is to a large extent an organisation where communication and operations rely of modern technology. It is therefore of the utmost importance that DLR's staff may constantly maintain and expand their knowledge, ia via further education, and thus contribute to ensuring the earnings base of DLR.

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

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

Financial Review

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

Profit and loss account

In 2006, DLR generated a pre-tax profit of DKK 578.4m against DKK 397.6m in 2005. The post-tax profit amounted to DKK 416.9m against DKK 287.7m the year before.

Net interest income rose from DKK 723.7m in 2005 to DKK 773.8m in 2006, while fee and commission expenses (net) between the two calendar years rose from DKK 144.5m to DKK 171.4m.

The increase in net interest income is primarily attributable to increased administration fee income caused by the increasing loan portfolio. At the same time, the increasing securities portfolio and the increasing interest rate level also contributed to the increase in net interest income.

The increased net expenses to fees and commissions are due to a fall in fee income due to the reduced level of activity in 2006 compared to 2005.

DLR's staff costs and administrative expenses etc. rose moderately in 2006 to DKK 159.3m against DKK 157.6m in 2005. Depreciation and amortisation for 2006 and 2005 amounted to DKK 6.3m and DKK 5.6m, respectively. The cost development has been affected by a minor reduction in the number of employees experienced in 2006.

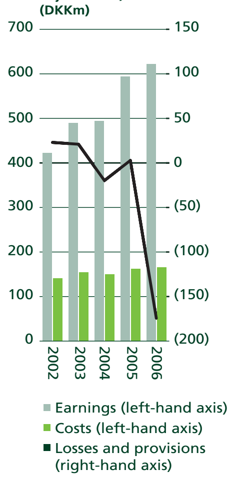
Value adjustments resulted in expenses of DKK 52.0m in 2006 against expenses of DKK 31.9m in 2005. The capital loss is to some extent affected by the generally increasing interest rate level. Furthermore, quite a significant part of DLR's securities portfolio is placed in one-year ARM bonds, which were acquired at prices above par, while the redemption took place at par. Yet, the upside was a higher interest yield.

Losses ascertained on claims, including adjustments from previous years, are calculated at DKK 9.8m for 2006. And as at the end of 2006 there was a reversal of impairment at DKK 184.2m, the item 'Provisions for loan and receivable impairment etc.' contributes positively to the pre-tax results with DKK 174.4m.

The considerable reduction of the provisions for loan and receivable impairment account is due to the fact that DLR has reversed all group-based provisions for impairment, which amounted to DKK 306.1m in early 2006. DLR estimates that at the end of 2006 there are no longer any objective indications of impairment losses on groups of loans.

So far the basis for DLR's group-based provisions for impairment was the decoupling of the EU agricultural subsidies at 1 January 2005, which – all other things being equal – meant a reduction of the mortgage basis for DLR's loans to the agricultural sector. The effect of this was an anticipated increase in losses for DLR.

Earnings and Costs
(Excluding value adjustments) (DKKm)



Profit and Loss Account; DKKm	***2004***	***2005***	***2006***
Net interest, fee and commission income	*477*	*580*	*604*
Other operating income etc.	*17*	*16*	*18*
Value adjustment, securities	*(21)*	*(32)*	*(52)*
Staff costs and administrative expenses etc.	*(155)*	*(158)*	*(160)*
Depreciation	*(4)*	*(5)*	*(6)*
Provisions for loan and receivable impairment	*20*	*(3)*	*174*
Profit before tax	*334*	*398*	*578*
Tax	*(98)*	*(110)*	*(161)*
Profit for the year	*236*	*288*	*417*

However, the considerable price increases of particularly agricultural land in 2005 and 2006 have more than fully eliminated the anticipated effect of the decoupling of the agricultural subsidies with the result that at the end of 2006 there was no longer any reason for making group-based impairment provisions due to the decoupling of the EU subsidies.

On the other hand, there was reason to increase the individual provisions for impairment - primarily due to the difficult financial situation for parts of the horticultural sector.

On the whole, individual provisions for impairment increased by DKK 121.9m to DKK 211.4m at the end of 2006.

Tax on the profit for 2006 has been calculated at DKK 161.5m, and so the profit for the year is calculated at DKK 416.9m against 287.7m in 2005.

If the effect of the reversal of provisions for impairment, cf above, is disregarded, the profit for 2006 corresponds to the expectations expressed in the publication of DLR's interim financial statements for the first three quarters of 2006.

Capital structure

In recent years, DLR's capital base has been considerably strengthened. In 2004 this happened primarily through the raising of a subordinated loan of EUR 400m in the European capital market.

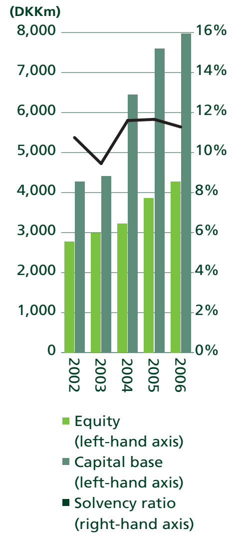
In 2005, this transaction was followed up with the raising of Hybrid Tier I capital at EUR 100m, also in the European capital market. The same year, DLR's share capital was increased; this increase resulted in proceeds of approximately DKK 300m.

The need for a continued strengthening of DLR's capital base is primarily caused by DLR's increasing loan portfolio.

DLR's profit after tax amounting to DKK 416.9m in 2006 means an additional strengthening of DLR's capital base.

At the end of 2006, DLR's equity amounted to DKK 4,278.5m against DKK 3,861.9m at the end of 2005. The equity comprises the share capital of a nominal DKK 335.5m as well as DLR's reserves totalling DKK 3,943.0m, of which "undistributable reserves" amounted to DKK 2,178.6m.

Equity and Capital Base



Capital Base and Solvency Ratio

DKKm	2004	2005	2006
Equity			
– Distributable reserves	*1,139*	*1,725*	*2,100*
– Undistribuable reserves	*2,108*	*2,137*	*2,179*
Total, equity	*3,247*	*3,862*	*4,279*
Subordinated debt:			
– Hybrid core capital	*-*	*750*	*712*
– Supplementary capital			
– Subordinate loan capital	*3,773* [1]	*2,983*	*2,982*
Total, subordinated debt	*3,773*	*3,733*	*3,693*
Capital base	*7,020*	*7,595*	*7,972*
Weighted assets	*55,565*	*65,100*	*70,631*
Capital adequacy	*4,445*	*5,208*	*5,650*
DLRs solvency ratio	*11.60*	*11.67*	*11.28*

1) In the calculation of the solvency ratio, only DKK 3,247m is included.

At the end of 2006, DLR's total subordinated debt amounted to DKK 3,693.1m. This amount consists of the hybrid core capital amounted to DKK 711.6m (EUR 100m adjusted for the market value of interest rate swaps entered into to secure payment flows on the hybrid core capital) and supplementary capital amounting to DKK 2,981.5m (EUR 400m).

On the whole, DLR's capital base amounted to DKK 7,971.6m at the end of 2006 against DKK 7,595.1m at the end of 2005.

DLR's solvency ratio at the end of 2006 was calculated at 11.28.

Arrears and forced sales

In 2006, DLR received repayments amounting to a total of DKK 6,078.9m.

At the end of 2006, the amount of repayments in arrears was DKK 61.1m against DKK 59.2m the year before. Of the amount in arrears the main part related to term payments in the last quarter of the year.

Like in previous years, term payments have been highly satisfactory in 2006. The almost unchanged level of term payments in arrears should be seen against the backdrop of DLR's increasing loan portfolio.

The number of implemented forced sales over properties on which DLR holds a mortgage was 19 in 2006. In 2006 DLR took over 6 of the said properties. The corresponding numbers for 2005 were 33 and 12, respectively.

In addition, DLR in 2006 suffered a loss on one property, which was taken over at a forced sale by another creditor than DLR. Furthermore DLR took part in one loss-incurring, voluntary trade with a debtor.

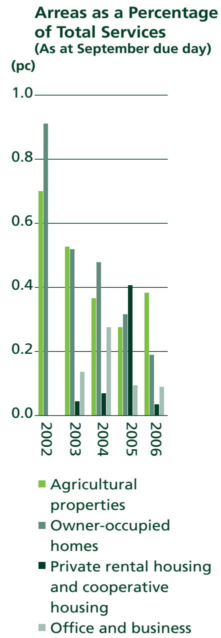
On the whole, DLR in 2006 suffered losses on eight properties against 24 in 2005.

Outlook for 2007

For 2007, DLR expects an almost unchanged level of activity, compared to 2006. At the same time, an additional diversification is expected in DLR's loan portfolio distributed on loan categories.

Before provisions for loan and receivable impairment as well as tax, DLR budgets with a profit in the range of DKK 470m to DKK 480m. In the budget we have calculated with an unchanged interest rate level for 2007 compared to the level at the end of 2006.

Since there are no indications at the moment that DLR's losses on mortgages will increase, DLR expects that the modest level of losses of previous years will continue in 2007. In regard to urban trade properties and private cooperative housing properties, DLR expects no losses in 2007.



Management and Administration

DLR Kredit's Board of Directors

At the end of 2006, DLR Kredit's Board of Directors had the following members:

Elected by the General Meeting:

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

Employee Board Members:

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

At the end of 2006, DLR's Board of Directors consisted of 14 members of whom nine members have been appointed at the general meeting. Of these nine Directors, four have been appointed among the members of the Association of Local Banks in Denmark, four among the members of the Association of Regional Banks. One member has been appointed by the two Associations jointly.

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

Executive Board:

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

Executive Staff:

Executive Board Secretariat, information, staff etc.:

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

Loan department:

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

Legal department:

Per Englyst, Deputy Director, Attorney-at-Law

Accounting department:

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

IT department:

Chr. Willemoes Sørensen, Deputy Director, Engineer

Internal audit:

Martin S. Petersen, Chief Internal Auditor

Supervision:

The Danish Financial Supervisory Authority

DLR Kredit's organisational structure

At the end of 2006 the number of employees on a full-time basis in DLR was 130 against 133 at the end of 2005. Of the 130, 115 are working at DLR's administrative offices in Copenhagen, whereas the remaining staff is in charge of valuation of urban trade and private cooperative housing properties.

Apart from the permanent staff, DLR employs 41 valuation experts who are responsible for the valuation of agricultural and horticultural properties.

Directorships held by the Executive Board

Bent Andersen, Managing Director & CEO

- Member of the Board of Directors of Realkreditraadet (The Association of Danish Mortgage Banks)
- Member of the Board of Directors of Værdipapircentralen A/S (VP Securities Services)
- Member of the Board of Directors of Realkreditnettet Holding A/S
- Member of the Board of Directors of Realkreditnettet A/S

Cooperation agreements with other mortgage credit institutions:

a) Management agreement

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

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

b) Realkreditnettet

DLR has entered into cooperation with the other Danish mortgage credit institutions about the building, operation and maintenance of a data network to handle data exchange of information concerning loans between the mortgage credit institutions themselves, between the mortgage credit institutions and connected users (primarily loan intermediaries) and between the mortgage credit institutions and the public authorities. This cooperation takes place via a jointly established limited liability company: Realkreditnettet A/S, which is owned by Realkreditnettet Holding A/S in which DLR holds an ownership share of just below 8.5 pc.

Shareholder Information

Share capital

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

The share capital of a nominal DKK 335.5m (denomination DKK 1) is distributed on the following main groups of shareholders:

	DKKm
‣ Local financial institutions (members of the Association of Local Banks)	244.2
‣ Regional financial institutions (members of the Association of Regional Banks)	85.6
‣ Other financial institutions	5.7

In compliance with the statutory requirements, it must be stated that the following shareholders held at least 5 pc of the nominal share capital at the end of 2006:

	Nom. DKK
‣ Sydbank A/S, Åbenrå	29,917,189
‣ Jyske Bank A/S, Silkeborg	25,598,663
‣ Danske Andelskassers Bank A/S, Tjele	18,410,258

Redistribution of shares

Between the shareholders, a shareholders' agreement has been made according to which the shareholders implement a redistribution of shares at specified intervals. The first redistribution took place on 1 July 2005 (on the basis of the remaining bond debt at 31 December 2004). According to the shareholders' agreement, the next redistribution of shares will take place on 1 March 2008 (on the basis of the remaining bond debt at 31 December 2007), and then every three years at 1 March.

2006

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

Accounting Policies

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

The accounting policies are unchanged as compared with the Annual Report 2005.

Recognition and measurement

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

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

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

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

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

Profit and Loss Account

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

Interest income and expenses

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

Value adjustments

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

Staff costs and administrative expenses

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

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

Tax

Tax is charged to the profit and loss account at 28 pc of the profit for the year, adjusted for non-taxable income and expenses.

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

Prepayment Scheme are recognised under net interest income.

Provisions are made for deferred tax at 28 pc of all temporary differences between the carrying amount and the tax base of profit.

Balance Sheet

Loans and advances

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

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

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

Individual and collective write-downs for impairment may be made on loans and advances if one or more objective, loss-incurring events have occurred at the balance sheet date and such events are estimated to result in impairment.

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

Bonds

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

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

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

Shares

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

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

Land and buildings

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

Other tangible assets

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

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

Assets temporarily foreclosed

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

Prepayments

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

Mortgage bonds issued

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

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

Forward transactions

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

Derivative financial instruments

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

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

Hedge accounting

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

Subordinated debt

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

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

Equity

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

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

Foreign currency translation

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

Cash flow statement

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

Profit and Loss Account for the period 1 January – 31 December 2006

Note	(DKKm)	2006	2005
1	Interest income	4,244.7	4,508.8
2	Interest expenses	(3,470.9)	(3,785.1)
	Net interest income	**773.8**	**723.7**
	Dividends from shares etc.	1.6	0.9
	Fee and commission income	57.8	96.8
	Fee and commission paid	(229.2)	(241.3)
	Net interest and fee income	**604.0**	**580.1**
3	Value adjustments	(52.0)	(31.9)
	Other operating income	17.6	15.5
4	Staff costs and administrative expenses	(159.3)	(157.6)
17+18	Depreciation and impairment losses, tangible assets	(6.3)	(5.6)
	Other operating costs	0.0	(0.1)
9	Provisions for loan and receivable impairment etc.	174.4	(2.8)
	Profit before tax	**578.4**	**397.6**
8	Tax	(161.5)	(109.9)
	Profit for the year	**416.9**	**287.7**

Balance Sheet at 31 December 2006

Note	(DKKm)	2006	2005
	Assets		
	Cash balance	*0.1*	*0.1*
10	*Receivables from credit institutions and central banks*	*5,612.3*	*9,201.2*
11	*Loans, advances and other receivables at fair value*	*91,156.8*	*83,260.3*
11	*Loans, advances and other receivables at amortised cost*	*1.9*	*4.4*
15	*Bonds at fair value*	*7,188.7*	*1,316.3*
16	*Shares etc.*	*12.5*	*10.7*
17	*Land and buildings, domicile properties*	*92.0*	*94.3*
18	*Other tangible assets*	*8.7*	*6.2*
22	*Deferred tax assets*	*1.4*	*1.3*
	Assets temporarily foreclosed	*11.6*	*7.3*
19	*Other assets*	*475.7*	*239.8*
	Prepayments	*5.5*	*6.1*
	Total assets	***104,567.2***	***94,148.0***
	Liabilities and equity		
20	*Issued bonds at fair value*	*93,638.2*	*81,932.2*
	Current tax liabilities	*0.7*	*12.1*
21	*Other debt and payables*	*2.951.7*	*4.601.2*
	Deferred income	*0.9*	*2.7*
	Total debt	***96,591.5***	***86,548.2***
22	*Provisions for deferred tax*	*4.1*	*4.7*
	Total provisions	***4.1***	***4.7***
23	***Subordinated debt***	***3,693.1***	***3,733.2***
	Share capital	*335.5*	*335.5*
	Revaluation reserve	*24.3*	*24.3*
	Undistributable reserve	*2,178.6*	*2,136.9*
	Retained earnings	*1,740.1*	*1,365.2*
	Total equity	***4,278.5***	***3,861.9***
	Total liabilities and equity	***104,567.2***	***94,148.0***
27	***Off-balance sheet items***		

Statement of Changes in Equity

(DKKm)	***Share capital***	***Revaluation reserve***	***Undistributable reserve***	***Retained earnings***	***Total***
Equity at 31.12.2005	***335.5***	***24.3***	***2,136.9***	***1,365.2***	***3,861.9***
Foreign exchange adjustments	*0.0*	*0.0*	*0.0*	*(0.3)*	*(0.3)*
Profit for the year	*0.0*	*0.0*	*41.7*	*375.2*	*416.9*
Equity at 31.12.2006	***335.5***	***24.3***	***2,178.6***	***1,740.1***	***4,278.5***

The share capital is divided into shares of DKK 1.00. The number of shares is unchanged in the financial year.

Notes to the Financial Statements

Note	(DKKm)	2006	2005
1	**Interest income from:**		
	Receivables from credit institutions and central banks	97.3	103.9
	Loans and advances	3,552.0	3,851.9
	Administration fees	558.2	502.6
	Bonds	229.8	195.6
	Other interest income	29.0	37.0
	Total interest income	**4,466.3**	**4,691.0**
	Interest from own mortgage bonds offset against interest on issued bonds	(221.6)	(182.2)
	Total	**4,244.7**	**4,508.8**
	Of which interest income from genuine purchase and resale transactions recognised as:		
	Receivables from credit institutions	0.0	2.5
2	**Interest expenses for:**		
	Credit institutions	0.7	0.9
	Issued bonds	3,551.6	3,853.1
	Subordinated debt	106.7	82.9
	Hybrid core capital	29.8	13.0
	Other interest expenses	3.7	17.4
	Total interest expenses	**3,692.5**	**3,967.3**
	Interest from own mortgage bonds offset against interest on issued bonds	(221.6)	(182.2)
	Total	**3,470.9**	**3,785.1**
3	**Value adjustments of:**		
	Mortgage loans	(1,411.0)	(686.6)
	Bonds	(109.1)	(38.0)
	Shares etc.	1.8	5.9
	Other assets	0.4	0.9
	Foreign exchange	(0.6)	2.4
	Derivate financial instruments	52.1	(1.4)
	Issued bonds	1,414.4	684.9
	Total value adjustments	**(52.0)**	**(31.9)**

Note	(DKKm)	2006	2005
4	***Staff costs and administrative expenses:***		
	Salaries and remuneration to the Board of Directors,		
	Executive Board and Governing Council		
	Executive Board	*5.0*	*4.6*
	Board of Directors	*1.3*	*1.1*
	Total	***6.3***	***5.7***

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

		2006	2005
	Staff costs		
	Salaries	*56.3*	*58.3*
	Pension costs	*6.0*	*5.6*
	Social security costs	*8.2*	*8.1*
	Total	***70.5***	***72.0***
	Other administrative expenses		
	Valuation expenses	*20.4*	*22.9*
	Office expenses etc.	*33.3*	*31.7*
	Audit, supervision etc.	*3.7*	*5.2*
	Other operating costs	*25.1*	*20.1*
	Total staff costs and administrative expenses	***159.3***	***157.6***
5	***Executive Board, Board of Directors and Governing Council, Amount of loans, pledges, securities or guarantees granted to members of the:***		
	Executive Board:		
	Loans etc.	*0.0*	*0.0*
	Guarantees	*0.0*	*0.0*
	Board og Directors:		
	Loans etc.	*21.1*	*21.5*
	Guarantees	*0.0*	*0.0*

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

		2006	2005
6	***Audit fees***		
	Total fees to the accounting firms appointed by		
	the Annual General Meeting, performing the statutory audit	*1.2*	*2.1*
	Fees for services other than audit included in the preceding item	*0.4*	*1.3*

Notes to the Financial Statements

Note	(DKKm)	2006	2005
7	***Number of employees***		
	Average number of employees in the financial year, full-time equivalents	*132*	*129*
8	***Tax***		
	Tax computed on profit for the year	*162.2*	*123.4*
	Deferred tax	*(0.7)*	*(4.0)*
	Tax on equity items	*0.0*	*(11.5)*
	Readjustment of tax charge for previous years	*0.0*	*(0.3)*
	Tax on impairment loss account	*0.0*	*2.3*
	Total tax	***161.5***	***109.9***
	Effective tax rate		
	Current tax rate	*28.0*	*28.0*
	Non-taxable income	*(0.2)*	*(1.3)*
	Non-deductible expenses	*0.2*	*0.4*
	Readjustment of tax charge for previous years	*(0.1)*	*(0.1)*
	Tax on impairment loss account	*0.0*	*0.6*
	Effective tax rate	***27.9***	***27.6***

Note	(DKKm)	2006	2005
9	**Provisions for loan and receivable impairment etc.**		
	Individual provisions		
	Provisions, loans and guarantees, beginning-of-year	89.5	96.6
	Provisions during the period	123.5	6.1
	Reversal of provisions	(1.6)	(13.2)
	Provisions, year-end	**211.4**	**89.5**
	Group-based provisions		
	Provisions, loans and guarantees, beginning-of-year	306.1	307.2
	Provisions during the period	0.0	0.0
	Reversal of provisions	(306.1)	(1.1)
	Provisions, year-end	**0.0**	**306.1**
	Total provisions end-of-year	**211.4**	**395.6**
	Fair value of commitments subject to provisions:		
	- Before provisions	503.2	52,792.6
	- After provisions	291.8	52,397.0
	Impairment losses without previous provisions	(13.9)	(15.5)
	Recovery of debt previously written off	4.1	4.5
	Provisions for the year	(123.5)	(6.1)
	Reversal of provisions	307.7	14.3
	Provisions and impairment losses, loans and guarantees	**174.4**	**(2.8)**
10	**Receivables from credit institutions and central banks**		
	Demand deposits with central banks	0.0	0.0
	Receivables from credit institutions	5,612.3	9,201.2
	Total receivables from credit institutions and central banks	**5,612.3**	**9,201.2**

Notes to the Financial Statements

Note	(DKKm)	2006	2005
11	***Loans and advances***		
	Mortgage loans, nominal value	*91,643.3*	*82,495.7*
	Adjustment for interest risk etc.	*(341.1)*	*1,098.5*
	Adjustment for credit risk	*(197.4)*	*(383.7)*
	Total mortgage loans at fair value	***91,104.8***	***83,210.5***
	Arrears and outlays	*52.0*	*49.8*
	Other loans and advances	*1.9*	*4.4*
	Total loans and advances	***91,158.7***	***83,264.7***

Pursuant to special legislation, a government guarantee of DKK 1,221.3m has been provided as supplementary security for young farmers' loans.

Pursuant to special legislation, a government guarantee of DKK 44.8m has been provided as supplementary security for debt rescheduling loans.

A guarantee of DKK 2,908.6m has been provided for advance loans.

As supplementary guarantee for mortgage loans, bankers' guarantees of DKK 8,891.0m have been provided.

Note	(DKKm)	2006	2005
12	***Arrears and execution***		
	Arrears before provisions	*61.1*	*59.2*
	Execution before provisions	*(0.5)*	*0.8*
	Provisions for arrears and execution	*(8.6)*	*(10.2)*
	Total	***52.0***	***49.8***
13	***Mortgage loans (nominal value) by property category, in per cent***		
	Agricultural properties	*67.7*	*70.2*
	Owner-occupied dwellings	*6.6*	*6.1*
	Subsidised rental housing properties	*0.4*	*0.4*
	Private rental housing properties	*12.4*	*11.5*
	Office and business properties	*12.5*	*11.5*
	Properties for manufacturing and manual industries	*0.3*	*0.2*
	Properties for social, cultural and educational purposes	*0.1*	*0.1*
	Total. in per cent	***100.0***	***100.0***
14	***Number of mortgages, year-end***	***76,894***	***76,665***

Notes to the Financial Statements

Note	(DKKm)	2006	2005
15	**Bonds at fair value**		
	- Own mortgage bonds	42,780.3	40,179.6
	- Other mortgage bonds	7,188.7	1,316.3
	- Government bonds	0.0	0.0
	- Other bonds (drawn)	54.6	128.1
	Total bonds	**50,023.6**	**41,624.0**
	Own mortgage bonds offset against issued bonds	(42,834.9)	(40,307.7)
	Total	**7,188.7**	**1,316.3**
16	**Shares etc.**		
	Shares listed on the Copenhagen Stock Exchange	11.4	9.6
	Other shares	1.1	1.1
	Total shares etc.	**12.5**	**10.7**
17	**Land and buildings**		
	Domicile properties		
	Fair value, beginning-of-year	**94.3**	**94.8**
	Additions during the year	0.0	1.8
	Depreciation	(2.3)	(2.3)
	Fair value, year-end	**92.0**	**94.3**

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

Note	(DKKm)	2006	2005
18	**Other tangible assets**		
	Cost, beginning-of-year	19.5	15.2
	Additions during the year	6.8	5.8
	Disposals during the year	(3.0)	(1.5)
	Cost, year-end	**23.3**	**19.5**
	Depreciation, beginning-of-year	13.3	11.3
	Depreciation for the year	4.0	3.4
	Depreciation written back	(2.7)	(1.4)
	Depreciation, year-end	**14.6**	**13.3**
	Total other tangible assets	**8.7**	**6.2**

Note	(DKKm)	2006	2005
19	***Other assets***		
	Positive market value of derivative financial instruments etc.	*34.6*	*14.3*
	Other receivables	*76.4*	*80.9*
	Interest and commission receivable	*364.7*	*144.6*
	Total	***475.7***	***239.8***
20	***Issued bonds***		
	Mortgage bonds - nominal value	*136,814.4*	*121,169.5*
	Fair value adjustment	*(341.3)*	*1,070.4*
	Own mortgage bonds offset - at fair value	*(42,834.9)*	*(40,307.7)*
	Mortgage bonds at fair value	***93,638.2***	***81,932.2***
	Of which pre-issued	*41,022.4*	*34,674.7*
	Drawn for redemption in next term	*426.5*	*2,280.4*
21	***Other debt and payables***		
	Negative market value of derivative financial instruments	*1.5*	*1.0*
	Interest and commission payable	*220.8*	*225.1*
	Lease commitments	*0.2*	*0.7*
	Other payables	*2,729.2*	*4,374.4*
	Total	***2,951.7***	***4,601.2***
22	***Deferred tax***		
	Deferred tax, beginning-of-year	***3.4***	***7.4***
	Change in corporation tax rate	*0.0*	*(0.5)*
	Change in deferred tax	*(0.7)*	*(3.5)*
	Total	***2.7***	***3.4***
	Tangible assets	*2.7*	*3.4*
	Total	***2.7***	***3.4***
	Deferred tax recognised in the balance sheet as follows:		
	Deferred tax assets	*(1.4)*	*(1.3)*
	Provisions for deferred tax	*4.1*	*4.7*
	Total	***2.7***	***3.4***

Note	(DKKm)	2006	2005
23	***Subordinated debt***		
	Subordinated debt		
	Hybrid core capital [1)]	*711.6*	*750.2*
	Supplementary capital [2)]	*2,981.5*	*2,983.0*
	Total subordinated debt	***3,693.1***	***3,733.2***

[1)] *Hybrid core capital in DLR Kredit:*
EUR 100m raised on 16 June 2005. The loan is perpetual. The loan carries a fixed rate of 4.269% up to 16 June 2015 after which it will carry a floating interest rate pegged to the 3-month money market interest rate (EURIBOR) with an addition of 1.95%. For 2006, the total hybrid core capital may be included in the capital base.

Interest: DKK 29.8m.
Extraordinary repayments: DKK 0.0m.

[2)] *Supplementary capital in DLR Kredit:*
EUR 400m raised on 30 June 2004. Term to maturity 8 years. The loan carries a floating interest rate pegged to the 3-month money market interest rate (EURIBOR) with an addition of 0.60% up to 30 June 2009 and from then with an addition of 2.10% up to 30 June 2012. For 2006, the total supplementary capital may be included in the capital base.

Interest: DKK 106.3m.
Extraordinary repayments: DKK 0.0m.

Note	(DKKm)	2006	2005
24	**Credit risk**		
	By remaining term to maturity		
	Receivables from credit institutions		
	Demand deposits	*3,250.1*	*4,398.0*
	Up to 3 months	*2,362.2*	*4,803.3*
	Over 3 months and up to 1 year	*0.0*	*0.0*
	Over 1 year and up to 5 years	*0.0*	*0.0*
	Over 5 years	*0.0*	*0.0*
	Total	**5,612.3**	**9,201.2**
	Mortgage loans		
	Up to 3 months	*41,480.8*	*35,258.1*
	Over 3 months and up to 1 year	*1,197.9*	*1,247.8*
	Over 1 year and up to 5 years	*14,415.3*	*14,459.8*
	Over 5 years	*34,222.1*	*32,504.0*
	Total	**91,316.1**	**83,469.7**
	Issued bonds		
	Up to 3 months	*45,197.4*	*38,943.5*
	Over 3 months and up to 1 year	*1,190.7*	*1,424.2*
	Over 1 year and up to 5 years	*54,188.1*	*48,522.5*
	Over 5 years	*35,896.9*	*33,349.8*
	Total	**136,473.1**	**122,240.0**

Note	(DKKm)	2006	2005
25	***Derivative financial instruments***		
	By remaining term to maturity		
	Interest rate contracts		
	Forward/futures, bought		
	Up to 3 months		
	Nominal value	*18,507.1*	*4,421.5*
	Net market value	*(16.5)*	*(0.5)*
	Forward/futures, sold		
	Up to 3 months		
	Nominal value	*41,022.4*	*35,719.2*
	Net market value	*49.9*	*10.5*
	Interest rate swaps		
	Over 5 years		
	Nominal value	*745.6*	*746.1*
	Net market value	*(34.0)*	*4.2*

Forward contracts are entered in connection with the contracting of fixed price agreements by borrowers with DLR Kredit, and with the refinancing of adjustable-rate loans in the month of December, as the auction took place on 13 December 2006, however, settlement of the bonds was not effected until 2 January 2007.

Note	(DKKm)	2006	2005
26	***Unsettled spot transactions***		
	Interest rate transactions, bought		
	Nominal value	*0.0*	*10.5*
	Net market value	*0.0*	*0.0*
	Interest rate transactions, sold		
	Nominal value	*415.5*	*577.6*
	Net market value	*(0.0)*	*(0.7)*
27	***Off-balance sheet items***		
	Guarantees etc.	*1.4*	*1.9*
	Other liabilities	*15.3*	*14.8*
	Total off-balance sheet items	***16.7***	***16.7***

Solvency

(DKKm)	2006	2005
Core capital (incl. hybrid core capital)	*4,964.5*	*4,411.8*
Supplementary capital	*3,005.8*	*3,182.0*
Capital base after deductions	***7,970.3***	***7,593.8***
Weighted items not included in trading portfolio	*68,246.0*	*63,839.3*
Weighted items with market risk	*2,385.1*	*1,260.5*
Total weighted items	***70,631.1***	***65,099.8***
Core capital after deductions in % of weighted items	***7.03***	***6.78***
Solvency ratio	***11.28***	***11.67***

Cash Flow Statement

(DKKm)	2006	2005
Cash flow from operating activities:		
Profit before tax	578.4	397.6
Adjustment for non-cash-items		
Depreciation on assets	6.3	5.6
Value adjustments, securities	78.7	31.2
Foreign-exchange adjustment recognised directly in equity	(0.3)	1.0
Change in provisions	(184.2)	(46.5)
Revaluation of capital base	0.4	0.4
Effect on equity of changed accounting policies:		
Provisions and impairment losses	0.0	38.5
Value adjustment	0.0	(1.3)
Revaluation of properties	0.0	30.6
Tax adjustment	0.0	(17.8)
Change in accrued interest income and receivables	(235.3)	1,179.5
Change in accrued interest expenses and payables	(1,651.9)	(641.3)
Corporation tax paid	(173.6)	(104.0)
Total cash flow from operating activities	**(1,581.5)**	**873.5**
Cash flow from investing activities:		
Investment in tangible assets	(22.4)	(16.3)
Total cash flow from investing activities	**(22.4)**	**(16.3)**
Cash flow from financing activities:		
Capital increase	0.0	300.8
Raising of subordinated loan capital	0.0	0.0
Repayment of subordinated debt	0.0	(800.0)
Raising of hybrid core capital	0.0	746.0
Change in mortgage loans	(6,132.3)	(14,774.0)
Change in issued bonds	14,233.2	23,476.0
	8,100.9	8,948.8
Change in immediate redemptions at par	(1,575.8)	803.5
Change in receivables from non-foreclosed properties	(1.8)	0.4
Total cash flow from financing activities	**6,523.3**	**9,752.7**
Cash flow for the year	**4,919.4**	**10,609.9**
Cash and cash equivalents, incl. securities, beginning-of-year	50,836.0	40,257.3
Market value adjustment	(106.9)	(31.2)
Cash and cash equivalents, incl. securities, year-end	**55,648.5**	**50,836.0**

Management's Statement on the Annual Report

Today, the Board of Directors and the Executive Board reviewed and approved the Annual Report for the financial year 1 January – 31 December 2006 of DLR Kredit A/S.

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

In our opinion, the accounting policies applied are appropriate and ensure that the Annual Report gives a true and fair view of the Company's assets, liabilities, equity and financial position at 31 December 2006 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2006.

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

Copenhagen, 15 February 2007
Executive Board

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

Copenhagen, 15 February 2007
Board of Directors

Svend Jørgensen *Chairman*	Preben Lund Hansen *Deputy Chairman*	
Anders Dam	Peter Gæmelke	Tanja Bregninge Itenov
Jens Ole Jensen	Søren Jensen	Torben Thorup Jensen
Lars Møller	Bent Naur	Steen Pedersen
Vagn T. Raun	Finn B. Sørensen	Aage Thomsen

Internal Auditor's Report

We have audited the Annual Report of DLR Kredit A/S for the financial year 1 January – 31 December 2006. The Annual Report comprises the Statement by Management on the Annual Report, the Management's Review, the Accounting Policies, the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the Notes to the Financial Statements. The Financial Statements have been prepared in accordance with the Danish Financial Business Act. In addition, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Basis of opinion

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

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

In our opinion, the audit evidence achieved is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

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

Furthermore, in our opinion, the Annual Report gives a true and fair view of the Company's assets, liabilities, equity and financial position at 31 December 2006 and of the results of the Company's activities and cash flows for the financial year 1 January – 31 December 2006 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Copenhagen, 15 February 2007
Internal audit

Martin S. Petersen
Chief Internal Auditor

Independent Auditors' Report

To the shareholders of DLR Kredit A/S

We have audited the annual report of DLR Kredit A/S for the financial year 1 January to 31 December 2006. The annual report comprises the statement by Management on the annual report, the Management's review, the accounting policies, the profit and loss account, the balance sheet, the statement of changes in equity, the cash flow statement and the notes to the financial statements. The financial statements have been prepared in accordance with the Danish Financial Business Act. In addition, the annual report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Management's responsibility for the annual report

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

Auditors' responsibility and basis of opinion

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditor's 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 entity's preparation and fair presentation of an annual report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the annual report.

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the annual report gives a true and fair view of the Company's financial position at 31 December 2006 and of its financial performance and its cash flows for the financial year 1 January to 31 December 2006 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Copenhagen, 15 February 2007

Deloitte
Statsautoriseret Revisionsaktieselskab

Poul Høiby	Henrik Wellejus
State Authorised	*State Authorised*
Public Accountant	*Public Accountant*

Shareholders in DLR Kredit A/S

Year-end 2006

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