20 February 2008
Max Bank A/S
NRE no. 4017 2319
Tel.: +45 55 78 01 11

Contact:
Managing Director Hans Verner Larsen, Tel.: +45 55 78 01 23/+45 20 32 31 62

ANNUAL REPORT

2007

CONTENTS

APPENDICES

 – brænder for det ypperste

The year 2007 in headlines

- The business volume has gone up by 17% to DKK 17.0bn.

- Increase in loans and advances as well as deposits up by approx 35%.

- The effect of the intensified efforts to reverse the cost development is becoming visible, but will not be fully reflected until in the financial statements for 2008 and onwards.

- Pre-tax profit of DKK 57.9m corresponds to a return of 11.9% despite extraordinary expenses in connection with the opening of a new branch in Århus and refurbishment of three branches.

- The capital base now exceeds DKK 1bn corresponding to a capital adequacy ratio of 14.5%.

- A solid capital structure with sound excess cover in relation to the new Basel II rules.

- Continued sound cash resources with excess cover of 85.2% compared to statutory requirements.

Five-year financial highlights

	2007 DKK'000	2006 DKK'000	2005 DKK'000	2004 DKK'000	2003 DKK'000
KEY FIGURES					
Income statement					
Net interest and fee income	224,702	224,565	181,084	155,093	142,860
Other operating income	680	297	4,322	643	3,246
Staff costs and administrative expenses etc	185,551	173,024	136,690	109,421	95,350
Impairment losses on loans and advances etc	-6,520	-14,347	5,032	15,448	38,027
Profit excluding value adjustments and tax	46,351	66,185	43,684	30,867	12,729
Value adjustments including profit from investments	11,532	45,675	30,931	23,605	38,222
Profit before tax	57,883	111,860	74,615	54,472	50,951
Profit for the year	44,733	89,246	54,631	40,917	44,084
Balance sheet at 31 December					
Loans and advances	4,957,773	3,671,654	2,351,321	1,882,456	1,361,469
Guarantees	3,134,935	2,815,988	2,088,674	1,390,009	1,052,737
Deposits	3,228,357	2,377,654	2,121,227	1,617,963	1,337,700
Equity at year-end	489,498	480,541	342,447	303,394	282,900
Balance sheet total	6,938,978	5,048,160	3,417,830	2,551,678	2,101,411
Custody account volume	5,724,303	5,697,840	3,308,242	2,463,423	2,313,804
Business volume	17,045,368	14,563,136	9,869,464	7,353,851	6,065,710
Ratios					
Return on equity before tax	11.9	27.2	23.3	18.8	19.3
Return on equity after tax	9.2	21.7	17.1	14.1	16.7
Capital adequacy ratio	14.5	15.6	13.2	14.6	12.8
Dividend ratio	15	15	15	15	20
Closing price of the share*)	532	564	402	310	211
Book value of share*)	246	234	199	165	157
Number of employees (average)	213	198	160	137	126

*) Restated to reflect denominations of DKK 20 for comparative years.

The rules of preparation of financial statements were changed considerably in 2005. The financial highlights for 2004-2007 have been prepared in accordance with the new rules whereas the comparative figures for 2003 have not been restated.
Comparative figures for 2004 have not been restated for financial assets and liabilities.
Interest on loans and advances written down for impairment in 2007 has been recorded at DKK 3,292k (2006: DKK 6,146k) under impairment losses on loans and advances.
The comparative figures for 2003-2005 have not been restated.

2007 IN OUTLINE

In 2007, Max Bank realised a pre-tax profit of DKK 57.9m, which is very close to the expectation announced in August 2007. An increase in loans and advances as well as deposits of approx 35% has been realised, and the total business volume has gone up by 17% to DKK 17.0bn. The Bank's focus on creating an even better balance between earnings and costs ia implies that it has a relatively modest cost increase of 7% in 2007 despite the new establishment in Århus. The full effect of this focus will not fully feed through until 2008.

The Bank's capital adequacy ratio has been estimated at 14.5% and is thereby well above the capital adequacy requirement of 8.3%, determined under the new Basel II rules.

In addition, Max Bank has solid and long-term cash resources, which by the end of 2007 had an excess cover of 85.2%.

On account of a growth rate in the total business volume – loans and advances, deposits, guarantees and custody account volume – of 17% to DKK 17.0bn, Max Bank emerged from 2007 with a pre-tax profit of DKK 57.9m, which corresponds to a return of 11.9%. So, the results almost correspond to the previously announced expectations of a pre-tax profit for the year of DKK 60-70m. After two years, where 2006 in particular was affected by extraordinary earnings from investments, high positive market value adjustments and reversals of previous impairment losses, profit for 2007 reflects a return to a normal year in terms of earnings.

Fair rise in interest income

In 2007, interest income rose by 61% to DKK 343.8m. The rise is very much attributable to the increase in the Bank's loans and advances, but is also a result of the general interest rate hike in 2007.

Interest expenses have however more than doubled to DKK 207.9m. This is due to several factors. Firstly, the general interest rate level has been on the increase. Secondly, the Bank's external funding, by which the Bank finances it growth in loans and advances today, has gone up by about 26% in 2007. Furthermore, we have had to pay more for such funding, particularly in the second half of 2007. Finally, the Bank has raised new subordinate loan capital in 2007 to strengthen the capital base, which has also increased interest expenses for subordinate debt.

The above matters imply that total net interest income in 2007 went up by 10% to DKK 135.9m.

In 2007, Max Bank's fee and commission income decreased by 9% to DKK 98.6m. Guarantee commissions have gone up by DKK 7m to DKK 31.5m – primarily as a result of a rise in foreign loans. The level of activities in the investment and housing areas has generally been reasonable in 2007. The decrease in total fee and commission income is attributable to extraordinarily high earnings from investments in Q1 2006.

Total net interest and fee income then amounts to DKK 224.7m, which is largely unchanged compared to the year before.

The effect of intensified efforts to reverse the cost development is already becoming visible

In 2007, Max Bank established Bank·Butik and the Corporate and Investment Centre in Århus and refurbished the branches in Haslev, Faxe and Slagelse. Staff costs and administrative expenses show an increase of 7% to DKK 173.3m.

This relatively small cost increase is a result of considerable efforts to reverse the cost development. In the summer of 2007, the Bank drew up a 30-point plan, the aim of which is to create greater balance in future between the Bank's income and costs and to ensure a higher operating profit. It is the effects of these efforts that are already becoming visible, however the effect of the measures taken will not be fully reflected until in the financial statements for 2008 and onwards.

Continuing positive impairment losses

High quality in the overall loans volume and the relatively profitable market trends indicate that, again in 2007, it has been relevant to reverse previous impairment losses, either because commitments that were in danger of triggering losses have been terminated, or because they have developed so positively that there is no longer a basis for maintaining previous provisions. The loss account accordingly shows an income of DKK 6.5m.

Cautious strategy triggers capital gain

When it comes to translation/market value adjustments, Max Bank performed satisfactorily in 2007 – however not as satisfactorily as the year before when these adjustments were positive by almost DKK 50m. In 2007, translation/market value adjustments amounted to DKK 15.8m, which must be considered satisfactory in view of the autumn's big downturn in the stock markets.

Above all, it is the Bank's investments in sector-owned companies, including DLR Kredit and Garanti, etc, that have ensured these positive translation/market value adjustments.

However, the Bank has simultaneously written down the shareholding in the subsidiary AdministratorGruppen AS for impairment by DKK 4.4m. The write-down for impairment is a result of the company presently going through a transition phase where it gears to new growth through a number of resource-demanding initiatives.

Pre-tax profit of DKK 57.9m

Pre-tax profit can be stated at DKK 57.9m against DKK 111.9m in 2006, which as mentioned was affected by several extraordinary matters.

After tax, which has been estimated at DKK 13.2m, profit for the year is DKK 44.7m against DKK 89.2m in 2006.

Dividends to shareholders are proposed to remain unchanged at 15%.

Capital base of DKK 1bn

After transfer of profit for the year, Max Bank's equity amounts to DKK 489.5m, and subordinate debt totals DKK 525m which is an increase of DKK 150m compared to the year before. The increase of subordinate capital implies that Max Bank's capital base amounts to DKK 1,002m at the end of 2007, corresponding to a capital adequacy ratio of 14.5%.

Max Bank has calculated the capital adequacy requirement at 8.3% under the new Basel II rules, and the capital adequacy ratio of 14.5% is therefore a considerable excess cover.

Liquidity

The Bank's cash resources have for several years been the subject of great focus.

Max Bank has ensured cash resources through long-term liquidity planning.

The instability in the international cash market that broke out in the summer of 2007 has not had an adverse effect on the Bank's funding situation, but the price of liquidity has of course been on the rise.

Measured in relation to statutory requirements, the Bank's cash resources accounted for an excess cover of 85.2% by the end of 2007. By the end of February 2008, investment credits of approx DKK 500m will be repaid, which will positively influence the excess cover.

Total business volume now amounts to DKK 17bn

By the end of 2007, Max Bank's total business volume amounted to DKK 17.0bn, calculated as the sum of deposits and loans and advances, guarantees and custody account value. This corresponds to an increase in business volume of 17%.

Total loans and advances increased by 35% to DKK 5.0bn in 2007. Deposits went up by 36% to DKK 3.2bn. Guarantees rose by 11% to DKK 3.1bn. Total custody account value is largely unchanged at DKK 5.7bn.

Special circumstances

CEO Allan Weirup resigned on 25 September 2007 under mutual agreement.

The Supervisory Board has now initiated the process of engaging a new CEO who is expected to be announced in late March 2008. Until then, EO Hans Verner Larsen takes the position as temporary CEO.

The Max Bank share

By the end of 2007, Max Bank had 15,958 shareholders. In 2007, the shareholders have experienced a decline in the price of the Bank's shares from 564 to 532, or 5.8%. This should be viewed in relation to a drop of 8.9% in the SmallCap index in the same period.

Related party transactions

Marketing activities, DKK 7.8m incl VAT, are performed in cooperation with Dan Andersen, Næstved, Coming/1 Reklame/markedsføring A/S. Most of the amount is attributable to central invoicing of adverts. The services have been settled on market terms.

Outlook for 2008

Profit before translation/market value adjustments and tax, which amounted to DKK 46.4m in 2007, is expected at the level of DKK 40m in 2008.

The expectations are based on the following assumptions:

- Max Bank expects continued growth in loans and advances, however not to the same extent as in 2007, where the growth rate in loans and advances was 35%. The Bank will focus on growth in deposits as it aims not to worsen the loss from deposits.
- The cost development is expected to dampen in 2008. The Bank does not plan any major new investments in 2008, nor in new geographical areas.
- Impairment losses on loans and advances, which could be reversed in 2006 and 2007 by significant amounts, are also in 2008 expected to represent a moderate item of expense.

Annual General Meeting
Max Bank's Annual General Meeting is convened for Thursday, 27 March 2008 at 7 p.m. at Ny Ridehus, Grønnegades Kaserne, Grønnegade 10, Næstved.

Financial calendar
14 March 2008:
Annual report for 2007.
27 March 2008:
Annual General Meeting.
29 April 2008:
Quarterly report for Q1 2008.
5 August 2008:
Interim report for the first half of 2008.
28 October 2008:
Quarterly report for Q1-Q3 2008.

Statement by Management on the annual report
The Supervisory and Executive Boards have today considered and approved the annual report of Max Bank A/S for 2007.

The annual report is presented in accordance with the Danish Financial Business Act. Further, the annual report has been prepared in accordance with additional Danish disclosure requirements for annual reports of listed financial companies. The management's review includes a fair presentation of the development in the Bank's activities and financial position as well as a fair description of the most material risks and elements of uncertainty that may affect the Bank. We consider the applied accounting policies appropriate for the annual report to provide a true and fair view of the Bank's financial position at 31 December 2007 as well as of the results of its activities and cash flows for the financial year 2007.

We recommend the annual report for adoption at the Annual General Meeting.

Executive Board
Hans Verner Larsen

Supervisory Board
Hans Fossing Nielsen, Chairman
Dan Andersen, Vice-Chairman
Niels Henrik Andersen
Henrik Forssling
Sven Jacobsen
Steen Sørensen
Mie Rahbek Hjorth
Mogens Pedersen
Kurt Aarestrup

Audit of the annual report
The annual report has been audited by the Bank's appointed auditors.

This document is an unauthorised translation of the Danish original. In the event of any inconsistencies the Danish version shall apply.

Income statement and distribution of profit

	2007 DKK'000	2006 DKK'000
INCOME STATEMENT		
Interest income	343,782	214,231
Interest expenses	207,903	91,063
Net interest income	**135,879**	**123,168**
Dividends from shares, etc	1,578	3,359
Fee and commission income	98,561	108,615
Ceded fees and commission expenses	11,316	10,577
Net interest and fee income	**224,702**	**224,565**
Value adjustments	15,799	49,036
Other operating income	680	297
Staff costs and administrative expenses	173,290	162,402
Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment	12,234	10,622
Other operating expenses	27	0
Impairment losses relating to loans, advances and other receivables, etc.	-6,520	-14,347
Profit/loss from investments in associates and group enterprises	-4,267	-3,361
Profit before tax	**57,883**	**111,860**
Income tax	13,150	22,614
Profit for the year	**44,733**	**89,246**
Proposed distribution of profit		
Dividends for the financial year	6,210	6,210
Carried forward to next year	38,523	83,036
Total	**44,733**	**89,246**

Balance sheet at 31 December

	2007 DKK'000	2006 DKK'000
ASSETS		
Cash holdings and demand deposits with central banks	540,723	306,398
Receivables from credit institutions and central banks	350,348	192,302
Loans, advances and other receivables at amortised cost	4,957,773	3,671,654
Bonds at fair value	769,673	625,831
Shares, etc	181,841	161,495
Investments in associate	0	5,400
Investments in group enterprise	10,826	5,212
Total land and buildings	17,087	14,689
Owner-occupied property	17,087	14,689
Other property, plant and equipment	37,401	26,254
Current tax assets	1,692	0
Deferred tax assets	6,746	7,212
Other assets	64,868	31,713
Total assets	**6,938,978**	**5,048,160**
EQUITY AND LIABILITIES		
Payables to credit institutions and central banks	2,610,068	1,739,668
Deposits and other payables	3,228,357	2,377,654
Current tax payable	0	2,080
Other liabilities	73,787	58,730
Deferred income	131	140
Total payables	**5,912,343**	**4,178,272**
Provisions for pensions and similar obligations	10,420	11,250
Provisions for loss on guarantees	1,717	3,097
Total provisions	**12,137**	**14,347**
Subordinate debt	525,000	375,000
Total subordinate debt	**525,000**	**375,000**
Equity		
Share capital	41,400	41,400
Share premium	91,997	91,997
Revaluation reserves	2,357	0
Other reserves	2,305	2,128
Statutory reserves	2,305	2,128
Retained earnings	351,439	345,016
Total equity	**489,498**	**480,541**
Proposed dividends thereof	6,210	6,210
Total equity and liabilities	**6,938,978**	**5,048,160**

Equity statement

STATEMENT OF CHANGES IN EQUITY FOR 2007 (DKK'000)

	Share capital	Share premium	Revaluation reserves	Statutory reserves	Retained earnings	Proposed dividend for the financial year	Total
Equity at 1 January 2007	**41,400**	**91,997**	**0**	**2,128**	**338,806**	**6,210**	**480,541**
Profit for the period	0	0	0	176	38,345	6,210	44,733
Income or expenses for the period recognised directly in equity	0	0	2,357	0	71	0	2,428
Total income taken to equity	**0**	**0**	**2,357**	**176**	**38,416**	**6,210**	**47,161**
Dividends paid	0	0	0	0	0	-6,210	-6,210
Capital injections or reductions	0	0	0	0	0	0	0
Purchase and sale of own shares	0	0	0	0	-31,992	0	-31,992
Total other changes	**0**	**0**	**0**	**0**	**-31,992**	**-6,210**	**-38,202**
Equity at 31 December 2007	**41,400**	**91,997**	**2,357**	**2,305**	**345,230**	**6,210**	**489,498**

The share capital totals DKK 41.4m and consists of 2,070,000 shares at a nominal value of DKK 20.
The Bank has a portfolio of 81,361 own shares (2006: 18,933), corresponding to 3.9% of the share capital.
The shares were acquired as part of ordinary trading.

STATEMENT OF CHANGES IN EQUITY FOR 2006 (DKK'000)

	Share capital	Share premium	Revaluation reserves	Statutory reserves	Retained earnings	Proposed dividend for the financial year	Total
Equity at 1 January 2006	**34,500**	**31,980**	**0**	**1,957**	**268,835**	**5,175**	**342,447**
Profit for the period	0	0	0	171	82,865	6,210	89,246
Income or expenses for the period recognised directly in equity	0	-2,084	0	0	15	0	-2,069
Total income taken to equity	**0**	**-2,084**	**0**	**171**	**82,880**	**6,210**	**87,177**
Dividends paid	0	0	0	0	0	--5,175	-5,175
Capital injections or reductions	6,900	62,100	0	0	0	0	69,000
Purchase and sale of own shares	0	0	0	0	-12,909	0	-12,909
Total other changes	**0**	**62,100**	**0**	**0**	**-12,909**	**-5,175**	**50,917**
Equity at 31 December 2006	**41,400**	**91,997**	**0**	**2,128**	**338,806**	**6,210**	**480,541**

Cash flow statement

	2007 DKK'000	2006 DKK'000
Pre-tax profit for the year	57,883	111,860
Impairment losses relating to loans, etc	-6,520	-14,347
Received, non-recognised fees	6,773	7,132
Depreciation, amortisation and impairment losses relating to property plant and equipment and intangible assets	11,997	9,771
Price adjustments of bonds and shares	-4,850	-46,667
Value adjustments of investments	4,267	-171
Unrealised value adjustments of investments	0	3,600
Income taxes paid, net	-13,150	-22,614
Earnings	**56,400**	**48,564**
Change in loans and advances	-1,286,373	-1,313,118
Change in deposits	850,702	256,427
Change in credit institutions and central banks, net	712,354	1,295,225
Change in other assets and liabilities*)	-23,891	-43,511
Cash flows from operating activities	**252,792**	**195,023**
Acquisition, etc of property, plant and equipment	-23,196	-9,805
Sale of property, plant and equipment	281	290
Acquisition of group enterprice	-4,480	0
Cash flows from investment activities	**-27,396**	**-9,515**
Change in bond and share portfolios	-159,340	-250,595
Change in subordinate debt	150,000	150,000
Dividends paid	-6,210	-5,175
Dividends received from own shares	71	15
Trade in own shares and write-down of share capital	-31,992	54,007
Cash flows from financing activities	**-47,471**	**-51,748**
Change in cash and cash equivalents	**234,325**	**182,323**
Cash holdings and demand deposits with central banks, beginning of year	306,398	124,075
Cash holdings and demand deposits with central banks, end of year	**540,723**	**306,398**

*) Other assets, other liabilities, current and deferred tax assets, current tax liabilities, deferred income and provisions.

The Danish Financial Supervisory Authority's key ratio system

		2007	2006	2005	2004	2003
1	Capital adequacy ratio	14.5%	15.6%	13.2%	14.6%	12.8%
2	Core capital ratio	8.1%	10.3%	8.4%	9.6%	11.6%
3	Return on equity before tax	11.9%	27.2%	23.3%	18.8%	19.3%
4	Return on equity after tax	9.2%	21.7%	17.1%	14.1%	16.7%
5	Operating income over operating expenses	1.32 kr.	1.72 kr.	1.53 kr.	1.44 kr.	1.38 kr.
6	Interest-rate risk	4.6%	3.0%	2.8%	2.3%	1.8%
7	Currency position	1.1%	1.3%	6.2%	4.8%	3.7%
8	Currency risk	0.0%	0.0%	0.0%	0.0%	0.0%
9	Loans plus impairment losses thereon in ratio to deposits	155.7%	157.8%	115.2%	122.3%	109.5%
10	Excess liquidity in relation to statutory requirements of liquidity	85.2%	67.9%	69.0%	49.1%	107.4%
11	The sum of large exposures	167.6%	200.2%	234.6%	107.5%	105.8%
12	Share of receivables with a reduced interest rate	1.0%	0.7%	0.7%	0.9%	1.9%
13	Accumulated impairment ratio	0.9%	1.2%	2.0%	2.8%	4.1%
14	Impairment ratio for the year	-0.1%	-0.2%	0.1%	0.5%	1.5%
15	Loan growth for the year	35.0%	56.2%	24.9%	38.3%	14.0%
16	Loans in ratio to equity	10.1	7.6	6.9	6.3	4.8
17	Earnings per share for the year (denomination DKK 100)	108.1 kr.	235.2 kr.	153.9 kr.	112.1 kr.	120.8 kr.
18	Equity value per share (denomination DKK 100)	1,231 kr.	1,171 kr.	994 kr.	825 kr.	785 kr.
19	Dividend per share (denomination DKK 100) in DKK	15 kr.	15 kr.	15 kr.	15 kr.	20 kr.
20	Price/earnings for the year per share (denomination DKK 100)	24.6	12.0	13.0	13.8	8.7
21	Price/equity value per share (denomination DKK 100)	2.16	2.41	2.02	1.88	1.34

The rules of preparation of financial statements were changed considerably in 2005. The financial highlights for 2004-2007 have been prepared in accordance with the new rules whereas the comparative figures for 2003 have not been restated.

Comparative figures for 2004 have not been restated for financial assets and liabilities.

Interest on loans and advances written down for impairment in 2007 has been recorded at DKK 3,292k (2006: DKK 6,146k) under impairment losses on loans and advances.

The comparative figures for 2003-2005 have not been restated.

Accounting policies

The annual report has been presented in accordance with the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc and rules for listing on the Copenhagen Stock Exchange. We consider the accounting policies appropriate for the annual report to provide a true and fair view of the Bank's financial position and results.

The annual report has been presented applying the accounting policies consistently with last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Bank, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Bank, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at fair value. However, intangible assets and property, plant and equipment are measured at cost at the time of the initial recognition. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year. However, increases in value of owner-occupied property are recognised directly in equity.

Purchase and sale of financial instruments are recognised on the trading date.

Accounting estimates

Stating the carrying amount of certain assets and liabilities is related to an estimate of how future events affect the value of such assets and liabilities. The most significant estimates relate to impairment losses on loans and advances, provisions for guarantees, determination of the fair value of unlisted financial instruments as well as provisions.

The estimates are based on assumptions, which are considered reasonable by Management, but which are uncertain. Furthermore, the Bank is subject to risk and uncertainty that may result in deviations of the actual results from the estimates. Measurement of the fair value of unlisted financial instruments is therefore subject to significant estimates.

For write-down on loans and receivables, significant estimates are related to the quantification of the risk that not all future payments are received.

Changes in accounting estimates

The Bank has so far based its group-based assessment of loans, advances and receivables on an informed estimate. The Bank has used a proper model in the preparation of the annual report for 2007. The switch from an informed estimate to a proper model has been accounted for as a change of accounting estimate.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the closing exchange rate at the balance sheet date. Exchange rate differences that arise between the rate at the transaction date and the one in effect at the payment date or the balance sheet date are recognised in the income statement as exchange adjustments.

Non-monetary assets and liabilities acquired in foreign currencies which are not revalued at fair value are not subjected to market value adjustment.

Hedge accounting

The Bank does not apply the rules on hedge accounting.

INCOME STATEMENT

Interest, fees and commissions

Interest income and interest expenses are recognised in the income statement in the period to which they relate. Commission and fees, which are integrated parts of the effective interest rate on loans, are recognised as a part of amortised cost and thereby as an integrated part of the financial instrument (loans) under interest income.

Commission and fees which are part of a current payment are accrued over the term of the loan. Other fees are recognised in the income statement at the date of transaction.

Interest on written-down loans is recognised under write-downs on loans and receivables, etc.

Staff costs and administrative expenses

Staff costs comprise salaries and wages, social security costs, pension contributions, etc. for the Bank's staff. Costs for payments and benefits for employees, including anniversary bonuses and severance payments, are recognised concurrently with the employees' performance of such work as entitle them to receive the payments and benefits concerned.

Costs for incentive programmes are recognised in the income statement in the financial year to which the cost is related.

Pension plans

The Bank has entered into defined contribution plans with its employees. In the defined contribution plans, fixed contributions are paid to an independent pension fund. The Bank has no obligation to pay any further contributions.

The Bank also has defined benefit plans previously entered into for Management, and two of these plans still exist.

Under the defined benefit plans, the Bank is obliged to pay a defined benefit when a member of Management retires. Obligations of this kind are calculated using an actuarial discounting of pension commitments to present value. The net present value is calculated on the basis of assumptions of future developments in interest rates, inflation and mortality. The Bank's current Management is not covered by these plans.

Taxation
Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit/loss for the year and classified directly as equity by the portion attributable to entries directly in equity.

The current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities. Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

The Bank is taxed jointly with Nauca A/S and AdministratorGruppen AS.

THE BALANCE SHEET

Cash and demand deposits with central banks
Cash and demand deposits with central banks comprise cash holdings as well as demand deposits with central banks.

The item is measured at fair value.

Receivables from credit institutions and central banks
Receivables from credit institutions and central banks comprise receivables from other credit institutions as well as time deposits with central banks.

The item is measured at fair value.

Loans and advances
This item consists of loans and advances which have been paid directly to the borrower.

Listed loans and advances and those forming part of a trading portfolio are measured at fair value. Other loans and advances are measured at amortised cost which usually corresponds to the nominal value minus front-end fees, etc and minus any write-downs for impairment for occurred but not yet realised losses.

Write-down for bad and doubtful debts is made when there is objective evidence of impairment. Write-down for impairment is made by the difference between the carrying amount before write-down and the present value of the expected future payments on the loan or advance.

Write-down for impairment is made both on individual and group basis.

The group-based assessment is performed on groups of loans, advances and receivables with similar characteristics as regards credit risk. The Bank has 11 groups containing one group of public authorities, one group of private customers and nine groups of corporate customers as the corporate customers are broken down by sector groups.

The group-based assessment is made by applying a segmentation model developed by the association Lokale Pengeinstitutter, which is responsible for current maintenance and development. The segmentation model determines the correlation of the individual groups between realised losses and a number of significant explanatory macroeconomic variables through a linear regression analysis. The explanatory macroeconomic variables include unemployment, real property prices, interest rate, number of bankruptcies/compulsory sales, etc.

The macroeconomic segmentation model has been set up on the basis of loss data for the entire banking sector. Max Bank has assessed the model estimates and adjusted them.

This assessment has led to an adjustment of the model estimates to own conditions after which the adjusted estimates form the background for the calculation of the group-based write-down. An estimate is produced for each group of loans and receivables that expresses the impairment in percent related to a given group of loans and receivables at the balance sheet date. When comparing with the individual loan's original risk of loss at the time of establishment and the loan's risk of risk in the beginning of the current financial period, the individual loan's contribution to the group-based write-down is obtained. The write-down is calculated as the difference between the carrying amount and the discounted value of the expected future payments.

Bonds
Bonds and mortgage deeds traded on active markets are measured at fair value. The fair value is calculated on the basis of the closing price on the relevant market at the balance sheet date.

Shares
Shares traded on active markets are measured at fair value. The fair value is calculated on the basis of the closing price at the balance sheet date. Unlisted and non-liquid shares, for which calculation of a reliable fair value is not deemed possible, are measure at cost.

Investments in group enterprises and associates
An associate is an enterprise over which the Group may exercise significant, but not controlling influence. A group company is an enterprise over which the Group may exercise controlling influence.

Investments in group enterprise
Shares in the subsidiary Nauca A/S and AdministratorGruppen AS have been measured under the equity method with addition of goodwill.

Property, plant and equipment
On initial recognition, property, plant and equipment are measured at cost. Cost comprises the acquisition price, costs directly attributable to the acquisition, and preparation costs of the asset until the time when it is ready to be put into operation.

Owner-occupied property is property which the Bank itself uses for administration, branches or other service operations. Subsequent to initial recognition, owner-occupied property is measured at revalued amount. Revaluation is made so often that no significant differences occur in relation to the fair value. External experts are not involved in the measurement of owner-occupied property. Increases in the properties' restated value is recognised directly in equity as a revaluation reserve. Any decrease in value is recognised in the income statement unless it is considered a reversal of previous revaluations.

Depreciation is calculated based on the revalued amount. Owner-occupied property is depreciated over a period of 50 years.

Other property, plant and equipment comprise machinery, equipment, safety deposit facilities, computer equipment and leasehold improvements and are measured at cost minus accumulated depreciation and impairment losses. Straight-line depreciation is made on the basis of the following assessment of other assets' expected useful lives which are estimated to be from 3 to 7 years.

Other property, plant and equipment are tested for impairment when there is evidence of impairment, and they are written down to the recoverable amount which is the higher of net realisable value and value in use.

Prepayments
Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Other financial liabilities
Other financial liabilities are measured at amortised cost which usually corresponds to nominal value.

Provisions
Liabilities, guarantees and other liabilities, which are uncertain in terms of amount or time of settlement, are recognised as provisions when it is probable that the liability will lead to a consumption on the enterprise's financial resources, and the liability can be measured reliably. The liability is stated at present value of those costs necessary to meet the obligation. Provisions for staff commitments are made using a statistical actuarial basis. Liabilities due more than 12 months after the period during which they arise are discounted.

However, guarantees are not measured at an amount lower than the commission received for the guarantee accrued over the guarantee period.

Dividends
Dividends are recognised as a liability at the time of adoption at the general meeting. The proposed dividends for the financial year are disclosed as a separate item under equity.

Own shares
Acquisition and selling prices as well as dividends on own shares are recognised directly in retained earnings under equity.

Derivative financial instruments
Derivative financial instruments are measured at fair value. Derivative financial instruments are recognised under other assets or other liabilities.

Cash flow statement
The cash flow statement is presented according to the indirect method and shows cash flows from operations, investments and financing as well as the Bank's cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investment activities comprise payments in connection with acquisition and divestment of enterprises, activities as well as acquisition, development, improvement and sale, etc. of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the size or composition of the Bank's share capital, subordinated debt and related costs, acquisition of treasury shares as well as distribution of dividends.

Cash and cash equivalents comprise cash holdings and demand deposits with central banks, receivables from credit institutions with original maturity periods of up to three months as well as securities with original lives of up to three months which may immediately be converted into cash and which are only subject to insignificant risks of price changes.

Financial highlights
Financial highlights have been prepared in accordance with the requirements of the Executive Order on Financial Reports for Financial Credit Institutions and Investment Companies to this effect.

The ratios applicable from 1 January 2004 are stated in the Executive Order on Financial Reports for Financial Credit Institutions and Investment Companies but are defined in the financial reporting guidelines for credit institutions and investment companies, etc. (Appendix 6) (for 2003 please refer to the definitions in the former Executive Order on Financial Reports for Banks and Savings Banks).