Annual Report 2006

DJURSLANDS BANK
– vi bygger på lokale værdier

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This is an unofficial translation of an original document in the Danish language. In the event of disputes or misunderstanding arising from the interpretation of any part of the translation, the Danish language version shall prevail

5 Years survey and key figures

(1,000 kr.)	**2006**	2005	2004	2003	2002
Profit and Loss Accont					
Net interest income	**141.450**	132.016	133.562	132.702	130.633
Net interest and fee income	**208.232**	187.190	174.046	172.698	163.342
Value adjustments	**28.498**	30.033	15.512	42.622	7.633
Operational expenditure	**145.021**	134.488	122.623	118.680	106.922
herof staff and administrative expenses	**140.758**	129.506	116.914	113.118	103.201
Writedowns	**-13.838**	4.696	12.022	22.879	21.990
Profit of associated and affiliated companies	**76**	60	-17	44	21
Profit before tax for the financial year	**107.721**	79.228	55.666	77.183	46.514
Profit for the financial year	**83.292**	59.876	41.777	63.625	31.802
Balance Sheet					
Assets					
Cash in hand and claims on credit institutions, etc.	**215.968**	252.818	132.894	199.909	111.541
Loans and other amounts due	**3.535.614**	2.820.627	2.351.315	2.127.320	2.086.850
Bonds and shares etc.	**798.327**	702.537	437.960	721.083	596.033
Assets under pooled schemes	**732.116**	570.403	437.888	0	0
Other assets	**140.678**	90.296	80.210	86.041	76.783
Total assets	**5.422.703**	4.436.681	3.440.267	3.134.353	2.871.207
Liabilities					
Due to credit institutions and central banks	**835.691**	359.519	224.441	226.085	253.358
Deposits and other amounts due	**2.913.448**	2.621.164	2.159.024	2.344.952	2.130.344
Deposits under pooled schemes	**766.386**	582.296	446.992	0	0
Other liabilities	**116.415**	158.660	135.032	133.982	116.943
Subordinated debt	**225.659**	225.717	50.000	48.604	48.104
Equity	**565.104**	489.325	424.778	380.730	322.458
Total liabilities	**5.422.703**	4.436.681	3.440.267	3.134.353	2.871.207
Off-balance sheet items					
Guarantees, etc.	**2.326.774**	2.252.483	1.478.007	1.245.117	1.213.730
Other commitments	**1.572**	1.676	1.587	1.596	1.581
Total off-balance sheet items	**2.328.346**	2.254.159	1.479.594	1.246.713	1.215.311

5 Years survey and key figures

Key figures		2006	2005	2004	2003	2002
Solvency and capital ratio						
Solvency ratio	pct.	**13,1**	13,4	11,8	12,3	12,3
Core capital ratio	pct.	**10,4**	10,2	12,0	12,4	10,5
Earning ratios						
Profit on own funds before tax	pct.	**20,4**	17,3	13,6	21,9	15,7
Profit on own funds after tax	pct.	**15,8**	13,1	10,2	18,1	10,8
Earning/costs	kr.	**1,8**	1,6	1,4	1,6	1,4
Market risk ratios						
Interest rate risk	pct.	**1,8**	2,3	1,8	2,4	1,8
Foreign exchange standing - pos 1	pct.	**0,0**	0,0	0,0	0,0	0,0
Foreign exchange standing - pos 2	pct.	**3,6**	2,5	1,2	1,2	1,3
Credit risk ratio						
Lendings plus provisions on loans in relation to deposits	pct.	**98,1**	91,4	95,9	96,5	103,6
Extra cover in relation to the statutory liquidity requirement	pct.	**60,0**	61,9	104,5	106,2	70,9
Credit risk ratios						
The sum of large commitments	pct.	**57,6**	45,7	68,4	71,6	66,9
Share of outstandings with reduced interest	pct.	**0,1**	0,4	0,7	0,7	0,7
Provision percentage	pct.	**1,5**	2,1	3,3	3,9	3,5
The year's loss and writedown	pct.	**-0,2**	0,1	0,3	0,6	0,6
The year's growth in lending	pct.	**25,3**	20,0	10,5	1,9	7,6
Lending in relation to equity capital	pct.	**6,3**	5,8	5,5	5,6	6,5
Return on share						
Profit for the year per share *	kr.	**59**	43	30	45	23
Net book value per share *	kr.	**418**	363	308	272	230
Dividend per share *	kr.	**7**	5	4	4	3
Stock value/result of the year per sl		**11,8**	13,2	14,1	6,9	7,5
Stock value/net book value per share		**1,69**	1,56	1,36	1,15	0,74

*Calculated on a share size of DKK 20/share

The regulation regarding financial statements has been materially changed in 2005. The survey and key figurs for 2004 to 2006 has been prepared in compliance with the changed rules, figures from 2002-2003 has not been changed. The figures from 2004 has not been changes regarding financial assets and liabilities.

Annual Report

Profit for the year better than expected
The profit for the year of DKK 83,3m was considerably better than expected at the beginning at the year, and is considered very satisfactory by the bank's management.

The profit before tax and value adjustments was DKK 79.2m and was thus within the forecast range of DKK 72 to 82m, which the bank had revised upwards after the 3 quarter.

The profit before tax represents a 20.4% return on average shareholders' equity and a profit of DKK 59.5 per DKK 20 nominal share.

Background for the profit
The main reason for the profit achieved was a high level of activity driven by the very favourable economic climate.
Low interest rates, low inflation and the generally rising demand for labour led to an unusually positive basis on which to conduct financial business.

In addition, Djurslands Bank can point to

- a large and stable inflow of customers
- 16% increase in deposits and 22% increase in loans.
- strong growth in the securities trading/fund management and mortgage credit business areas
- income from earlier write downs
- income of DKK 28.5m from value adjustments

In spite of the continuing and strong competition at the financial marked, the bank has had a large and stable inflow of new customers at the bank's branches in Djursland and Aarhus.

New customers and more business with existing customers led to a large 22% rise in the business volume.

A contributory factor in this is the bank's customer VærdiPlus-concepts, which entail cash benefits for shareholders and customers who bring their financial business together in Djurslands Bank, which a lot of the customers have shifted to in 2006.

Average deposits rose by 16%, which was more than expected for the year.

About half of the increase can be subscribed to "amounts payable on demand", which for the main part is from private customer wage- and saving deposits.
The rising interest in pension saving led to a significant marked growth of 37% in deposits under pooled schemes thus also contributed to the growth in deposits.

In the area of lending, the average growth of about 22% was significant above the expected level.

The increase in lending is equally split between businesses and private customer. Businesses is mainly asking about loans with the purpose of investments in production expansions and other growth activities, while the demand from private customers mainly can be subscribed to financing of investments in real estate.

The average interest margin for the year was 0.7 percentage points lower than in 2005.
The main reason for this was the change in the composition of the bank's deposit and loan portfolio, since in particular, property loans with low interest rates, which were much in demand, reduce the interest margin.
In addition, tough competition between financial businesses is also contributing to a declining interest margin.

The increase in interest on bonds has lead to a reduction in the number of estate purchases and conversion activity, and therefore a reduction in the banks earning from this area.

Opposite this the activity level is considerably higher on another of the banks very important business areas, which is securities trading, asset and fund management.

The strong growth in pension saving and the increase in wealth as a result of rises in the property market are encouraging customers increasingly to invest and trade in securities.

Consequently, we have therefore, again in 2006, broken all previous records for the number of securities transactions and thus also the bank's income from them.

The very positive economic climate, combined with the bank's ongoing effort to improve the quality of its loan portfolio, meant that the bank also in 2006 has realized a considerably decrease in the need for write downs on loans.

New accounting rules, implemented in 2005, also meant that the criteria used to assess the writedown requirement have changed.
In connection with the evaluation of the need for write downs on loans, we have recognized that the earlier group write downs had been booked at a level, which was too high.
As announced in a briefing 5. January 2007 the bank has consequently changed the group write

downs, which has lead to a revaluation on equity of DKK 20m end 2005.

The positive value adjustments for the year were made up of a loss on the bond portfolio, a gain on the bank's share portfolio and income from trading in currencies as well as in shares and bonds.

Operations
Net interest income rose by DKK 9.4m due to the fact that the rising volume of business has more than offset the decline in the interest margin.
The interest yield on the bank's bond portfolio has been on the same level as in 2005.

The markedly increased activity in the areas of securities trading/fund management and mortgage credit was the main reason for the DKK 8m rise in net commission and fee income.

In all, the bank's total income rose by DKK 21m compared with 2005, corresponding to a rise of 11,2%.

Overall value adjustments on securities and foreign currencies amounted to a gain of DKK 28.5m, a slight fall of DKK 1.5m compared with 2005.
The main reason was substantial price rises in the bank's share portfolio, of which DKK 10,5m can be ascribed to the sale of the last shares in Totalkredit, and DKK 8.9m, which can be ascribed to holding of sector shares.

Total operating expenses rose by DKK 10.5m, or 7,8%. The main reasons for this were

- more employees due to increased activity,
- a continuing modernisation of the bank's branches, and
- bonus of total DKK 2.2m to all employees in the shape of stocks in the bank.

In addition, there were normal negotiated increases in payroll and pension expenses and normal price increases in the bank's other operating expenses.

The average number of employees, converted to full-time equivalents, was 190.2, an increase of 8.1 compared with 2005.

As announced in the "Financial statement half year 2006, the bank has joined a bonus incentive program with its employees at bank level. The agreement has triggered a bonus in terms of shares to the employees as the goal for the basis earning ratio has been reached.
The shares has been taken from the banks own stock of shares.

For the financial year a similar agreement has been agreed up on. To trigger this bonus the bank shall continue to increase the basis earning ratio.

The figure for credit losses and provisions has lead to an income of DKK 13.8.
The main reason for this is a very positive development in individual write downs, and a continuing positive development in the need for group write downs on loans.
Total write downs amounted to DKK 91.5m at the end of the year, corresponding to 1.5% of the bank's loan and guarantee portfolio.

Allocation of profits
After tax of DKK 24.4m the profit for the year was DKK 83.3m.

At the bank's Annual General Meeting the Board of Directors will recommend,

- the payment of a dividend of DKK 7 per share, corresponding to DKK 9.8m, which is a rise of 40% compared with 2005.
- that the remaining sum of DKK 73.5m be allocated to reserves.

After the proposed allocation of profits, the bank's shareholders' equity will amount to DKK 565.1m, an increase of 15.5%.

Capital
As announced in a briefing 5. January 2007 the equity has been revaluated with DKK 20m end 2005, as a conseqence of a change in the accumulated write downs on loans. Further explanation is placed in the section "accounting policies".

After this change and consolidation of the year result 2006 the bank's capital base amounts to DKK 686m and the equity ratio at the end of the year was 13.1%, which compares with the statutory minimum requirement of 8%.

Due to the significant growth in the business volume and to strengthen the banks cash pool, a new bond deposit of DKK 200m in terms of "senior" capital has been signed on the Copenhagen Exchange at the 12. January 2007. The bond deposit has a maturity of 3 years, and can be raised during the period.

During 2005 the bank gained 1,700 new shareholders, and the bank's DKK 28m nominal share capital is now owned by 13,000 shareholders.

Investeringsforeningen Sparinvest of Baneskellet 1, Hammershøj, DK-8830 Tjele has notified the bank that it owns more than 5% of the share capital.

Balance sheet
The bank's balance sheet grew by DKK 986m and amounted to DKK 5,423m at the end of the year.
The increase corresponded to a rise of 22.2%.

Off-balance-sheet items increased by DKK 74m, corresponding to a rise of 3.3% compared with 2005.

Pension pools
The bank's two pension pools again yielded fully satisfactory returns in 2005 when compared with equivalent competing products.
The returns were 2.4% in Sikkerpuljen (the Safe Pool) and 10.7% in Mixpuljen (the Mix Pool).

Market risk
The bank's total interest risk in 2006 amounted to between 1.91% and 2.41% of the bank's core capital at the beginning of the year.
At the end of the year the interest risk amounted to 1.8% of the core capital after consolidation.

Throughout the year the exchange rate risk (indicator 2) amounted to no more than 0.03% of the bank's core capital at the beginning of the year.

Management
In March 2006 business manager Uffe Vithen replaced Director Bent Christiansen and Helle Baerentsen replaced Poul Erik Have as representative for the employees in the bank's Board of Directors.

Other information
The Annual Report has been prepared in accordance with applicable legislation and relevant rules and guidelines.

Since the end of the financial year no events have occurred which would have an influence on the bank's Annual Report or its financial position.

In 2006 the bank issued the following stock exchange announcements.

22.02.2006	Annual Report for 2005
15.03.2006	General Meeting
21.03.2006	Own shares
04.05.2006	Interim Report for the first quarter of 2006
15.06.2006	Own shares
07.08.2005	Interim Report for the first half of 2006
02.11.2006	Interim Report for the first three quarters of 2006

Expectations for 2007
The bank expects the current economic climate, with relative low interest rates and inflation will be a solid basis for a continuing high employment in Denmark.

The low unemployment will still keep the consumer confidence on a high level. A high consumer confidence will be a good, sound basis for increased investment in business, high private consumption and generally good economic growth in the macro economy.

The risk for increasing interest rates will though reduce the consumer confidence and therefore the demand for loans.

The bank's growth is expected to come partly from more business with existing customers and partly from the expected continued inflow of new customers into the bank.

Competition in the financial sector is expected to continue with undiminished strength and with a gradually declining interest margin as a result.

The bank's risk profile on its own operations in the area of foreign currency and investments will remain at a cautious level.

Based on the present and expected competitive situation, credit losses and writedowns are expected to remain at a low level.

Against the background of these assumptions, the profit for 2007, excluding value adjustments and tax, is expected to be in the region of DKK 65m to 70m.

For the bank's interim reporting for the 2007 financial year, please see the financial calendar issued via the Copenhagen Stock Exchange.

Commercial basis

The local bank
Djurslands Bank came into being in 1965 through a merger of the area's three small banks with roots dating right back to 1906.

Since its establishment the bank has continuously expanded its network of branches in Djursland.
The first branch in the Århus area was opened in 1995, since when the number has risen to 5.
Most recently the bank opened a Finance Centre in the centre of Århus.

The bank's vision is to be a strong, independent local bank in Djursland and the Århus area.
The bank's strategy therefore includes a continued expansion of the bank within the bank's natural market area.

The foundation of the bank's principal objectives is that the bank should be a competitive, professional, locally-oriented business at all times.
Continuous development, optimal use of resources, responsible risk management and controlled growth are therefore keywords in the management of the bank.

The bank's values are described in more detail on page 29.

Commercial basis
Djurslands Bank is a full-service bank for private customers, small and medium-sized commercial enterprises and public institutions in the bank's market area.

In addition to banking products, customers are offered a full range of mortgage, investment, pension and insurance products.
The bank's most important cooperation partners in these business areas are

- Totalkredit
- DLR Kredit
- BankInvest
- PFA
- Privatsikring and
- Letpension

Customers
The bank advises and services around 35,000 private customers and around 2,500 business customers and public institutions.

At the bank we give high priority to the principle of proximity and to personal dialogue with customers.

The needs and wishes of the customer are thus the foundation of the bank's advice and services.
The bank's local branches are the hub of our systematic customer contact – personal and individual advice.
We call it Active Customer Advice and we aim to become the best in Denmark in this area.

As a supplement to this, the bank's customers are offered all relevant forms of self-service products.
About half of the bank's business and private customers have electronic access to the bank via NetBank or NetBank Erhverv.

Continuous, systematic surveys of the bank's customers, and other market surveys, are the basis for the bank's business development, including the product range, branch network and business policies.

The bank's customer concepts support the commercial objective that customers who combine their financial business in the bank will obtain cash benefits for doing so.
Through this we secure the best basis for providing informed, holistic advice to the customer.

Corporate Management and risk management

Corporate Governance at Djurslands Bank
Management at Djurslands Bank keeps up to date on an ongoing basis with developments in the field of Corporate Governance.

At www.djurslandsbank.dk the bank's shareholders and other interested parties can obtain further information about Djurslands Bank's response to the full set of recommendations on Corporate Governance.

The bank lives up to most of the recommenddations, and for those recommendations that the bank does not live up to the bank's management has provided a detailed explanation of the reasons for this in accordance with the so-called "comply or explain" principle.

The duty to inform for publicly quoted companies also includes the individual company's opinion of and assessment of Corporate Governance, and the following sections therefore include a selection of the most significant areas of the bank that are covered by the rules.

Shareholders
The bank is owned by around 11,300 shareholders, of which only one shareholder owns more than 5% of the share capital. Please see page 4 of the Annual Report.

One of the bank's principal objectives is to secure for shareholders a long-term, attractive return on their investment in the bank.

The bank's management aims to realise this objective by developing the bank in a continued dialogue with the bank's principal stakeholders:

- shareholders,
- customers,
- employees and
- the local community.

Information for the bank's shareholders will be developed on an ongoing basis at www.djurslandsbank.dk, and the bank's management also aims to enhance the level of information in the regular communications and reports from the bank.

The bank's shareholders decided, by quite a large majority at general meetings in 1990, to insert ownership restrictions into the bank's articles of association, as a roof of 10% of the share capital.
The immediate background for this was the relatively large shareholdings in the bank held by two other financial institutions, and thus the risk of a dominating influence on the bank's development.

Changes in the articles of association cannot be adopted unless at least two thirds of the votes submitted and votes cast by the share capital represented with voting rights at the general meeting.

Changes in the articles of association that are suggested by anyone other than the Board of Directors or the Board of Representatives cannot be adopted unless at least nine tenths of the share capital is represented at the general meeting.

According to the bank's articles of association, the following voting restrictions apply at the general meeting:

1-25 shares	= 1 vote
26-50 shares	= 2 votes
51-100 shares	= 3 votes
101-200 shares	= 4 votes
201-400 shares	= 5 votes
401 shares or more	= 6 votes

No shareholder or agent may cast more than a total of six votes.

The bank's management is still of the opinion that the ownership and voting right restrictions in the articles of association provide the best basis for realising the bank's vision and its principal objectives.
Optimising the return to shareholders in the short term by lifting the restrictions is, in the opinion of the management, not in harmony with the interests of the customers, employees and local community.

Employees
In the bank we put great emphasis on our human assets, and the organisation is based on a team-oriented working environment.
To measure the working environment, and as a basis for further development, annual job satisfaction surveys are carried out.

The latest survey in mid 2005 showed a high level of general job satisfaction, and we are working on improving it further.

The personal and professional development of the bank's employees is a very important element in the bank's development.

Systematic skills development shall ensure a high level of advice for the bank's customers and lead to committed and satisfied employees.

The bank is also aware of its social responsibilities.
Flexible, individual contracts of employment, including senior employee contracts, are thus a natural part of the bank's personnel policy.

Management
The bank's Board of Directors consists of six members elected by the bank's Board of Representatives.
In addition, the bank's employees have elected three members.
The composition of the Board of Representatives and the Board of Directors is shown on the second last page of the Annual Report.

The six Board Members elected by shareholders are elected for a 2-year term, so three are elected each year. See Note 36.
The number of Board Members is regularly reviewed. It is the opinion of the Board of Directors that the present number is appropriate for the management of the bank.
The bank's Articles of Association set an age limit of 67 years for election to the Board of Representatives, and thus also for election to the Board of Directors.

The tasks and responsibilities of the Board of Directors, and the division of the same between the Board of Directors and the Management, are laid down in instructions prepared in accordance with statutory rules and the requirements and guidelines of the Financial Supervisory Authority in this area.
Board Meetings are held at intervals of around three weeks, and otherwise as often as required.
The other managerial duties of the Board of Directors and the Management can be found in Note 35 to the Annual Report.
The fees and remuneration of the Board of Directors and the Management can be found in Note 7 to the Annual Report.
The fee for the Board of Directors is a fixed annual amount which is index-linked. The Board of Directors is not remunerated with share options.

The terms and conditions of employment of the Management are considered to be in line with normal practice in the area, and the terms and conditions are regularly reviewed.
The Management participates on the same terms as all other employees in the bonus program, but does not receive any other incentive payments. No pension commitments have been made to the Management.

Risk management
In all the most important areas of risk, the bank's Board of Directors has drawn up and laid down policies in accordance with relevant legislation and the rules and instructions of the Financial Supervisory Authority.

In the instructions to the Management, the bank's Board of Directors has laid down the framework for risk management by the bank and for the reporting thereof.

Through regular reports from the bank's Management, internal and external audits and continuous supervision by the Financial Supervisory Authority, the Board of Directors is kept fully aware of the risk management of the bank.

The risk management of all significant areas is evaluated and adapted continuously.

Asset management
The Board of Directors assesses on an ongoing basis the necessary capital requirement to cover the bank's overall risks, and thus the scale of the solvency requirement, while at the same time taking into account the optimisation of capital utilisation.
This ongoing assessment includes the size, type and distribution of the bank's capital base.

Tools used to calculate what constitutes a sufficient capital base and capital adequacy requirement include stress tests, including all relevant risk areas.

The bank must at a minimum comply with all prevailing rules and supervisory requirements, including a capital adequacy requirement of 8%.
As the bank has not been credit-rated according to international rating methods, the bank's Board of Directors has defined its own solvency target, which is 3% higher than the legal requirement. The bank's capital adequacy target is thus 11%.

In future the bank will use the standard method as a basis for producing a specification of capital employed.

Credit risks
Credit management and risk constitute a significant area of the bank's risk management, as loans comprise by far the biggest proportion of the bank's assets.

The bank's credit organisation is structured to enable it to make decisions close to the custommer, i.e. in the individual branches.
The authorisation to make decisions is therefore delegated to customer advisors and managers in the branches, so that most credit decisions are made locally.
Authorisation is delegated to an individual employee on the basis of an assessment of competence and needs.

The bank has a central credit department to develop, manage and monitor the bank's credit policies and risks.
The credit department also authorises any commitments that exceed the branches' authorisation limits according to the defined rules, and processses, assesses and recommends the

commitments to be authorised by the Management or the Board of Directors.

The bank accepts credit risks on the basis of a defined credit policy.
In the bank's credit policy the decisive emphasis is placed on the diversification of risk.

Diversification across

- customers,
- segments,
- sectors and
- geographic areas

is part of the credit management process, so that no individual commitments or sectors constitute a risk to the bank's continued existence.

The bank's lending policy is based on the concept that all loan commitments shall have a sound financial basis.
The determining element in assessing the creditworthiness of business customers is their ability to service the debt with cash flow from operations.
For personal customers the balance between net income, expenses and capital is decisive.

To manage its loan portfolio the bank also uses a credit rating based on factual financial information about the individual business or personal customer.
The credit rating is a determining element in work under way to create a model for the assessment of future losses, and thereby write-downs and provisions for the loan and guarantee portfolio.

To limit the bank's risk of losses, there is an assessment in each individual credit case of whether the lodging of security is necessary.
If the credit risk is not minimal, as a general rule it is a requirement that the customer lodges full or partial security for the commitment.
The value of security lodged is determined on the basis of defined valuation principles for each kind and type of security. This also includes changes in the market and depreciation as a consequence of age.

Write-downs of loans are performed on the basis of a breakdown of the portfolio into

- write-downs of significant loans
- individual write-downs and
- group write-downs.

All commitments of DKK 0.5 million or more are valued individually with a view to confirming whether there is an objective indication of any depreciation in value on the basis of actual events that have occurred. If an objective indication is confirmed and this involves an impact on the size of expected future payment flows, a write-down is performed.
The loan is written down if necessary, applying the difference between the book value before the write-down and the present value of expected future payments.
Regardless of the size of the commitment, the endangered commitments are valued individually and the write-down is performed correspondingly.

Customer commitments that are not processed individually are included in the base data for group write-downs.
The bank has initiated, but not yet completed, work on building up a rating model for use in group valuations and write-downs. This work is expected to be completed during the financial year 2007.
The group write-downs in the financial years 2005 and 2006 were therefore performed as qualified estimates based on factual data and calculations of the future likely effect of the payment flow from individual groups of loans.

The risk of guarantees lodged by the bank is assessed individually. On the basis of the probability that the guarantee will lead to a drain on the bank's resources, including the risk of whether the bank can achieve cover for the expected payment from a debtor, an assessment is performed of whether a provision should be made for the estimated risk of loss.

Market risks

Another important area of risk management is the management of the bank's market risk.
Market risk is the changes which a financial receivable may be subject to as a result of interest rate changes and general or specific fluctuations in the market prices of securities.

In this area, too, the policy is that the bank does not take on risks which may have a significant influence on the bank's financial situation.

The bank's total interest risk is quantified such that it may be a maximum of between 0 and 3% of the bank's core capital after deductions.

The bank's total currency risk is quantified such that it may be a maximum of 0.1% of the bank's tier 1 capital after deductions, calculated according to exchange rate indicator 2.

Management of the bank's share risk is quantified as a maximum percentage of investments in relation to the bank's core capital after deductions
Depending on whether investments are made in Danish, foreign or individual shares, or in shares

in the bank's financial partners, individual limits have been defined for these.

The bank only uses financial instruments to hedge risks.

Liquidity risks

Liquidity management must guarantee that there is sufficient liquidity to be able to pay off the bank's current payment obligations at any time.
As well as the fact that cash resources must comply with prevailing laws and regulations, it is also an element of the bank's liquidity policy that the bank will at all times be independent of other financial companies in terms of liquidity.

The bank's primary source of financing is deposits from the bank's customers.
In addition to this, the bank uses bonded loans in the form of senior capital with a term of up to three years.
Unsecured loans in the wholesale market are used for the daily procurement of liquidity and investment.
In addition to this, the bank has entered into multi-annual agreements on guaranteed lines of liquidity of DKK 300 million.
The guaranteed lines are regularly adjusted to the bank's needs in the short and long term and are not used in day-to-day liquidity management.

IT security

IT security is also monitored continuously.
Our most important partner in the area of IT is Bankdata, to which most of the operational and developmental activities are outsourced.
The division of responsibility and work between Bankdata and the bank is clearly defined and described, and there are regular evaluations of whether Bankdata complies with the bank's IT security policy.

Operational risks

Operational risks can be described as the potential losses that the bank might incur as a consequence of operational errors and events caused by people, processes, systems or external events.
The risk can be ascribed to inappropriate behaviour by employees, system breakdown, breach of policies, failure to observe business processes, laws or regulations, etc.

To minimise operational risks, in purely organisational terms the bank has separated the performance of activities from the control of these.
The bank's internal audit function also performs an ongoing audit in order to achieve the greatest possible guarantee that policies, business processes, rules and procedures are observed.

Specification and coverage of operational risks are included in the capital adequacy ratio.

Audit

On the basis of a recommendation from the bank's Board of Directors and Management, the bank's General Meeting appoints the external auditors for the coming year as well as alternates.

In accordance with the applicable legislation, the external auditors prepare the basis for the audit of the bank, including the division of responsibilities and tasks between the auditors and the management, the planning and performance of the audit and reporting to the Board of Directors on the work carried out.

In addition to the external auditors, the bank's Board of Directors has appointed a controller to run the internal audit department.
The division of work between the external and internal auditors is agreed annually.
The internal auditors report at least semi-annually to the Board of Directors.
In connection with the audit of the Annual Report, the auditors go through the details of the audit report with the Board of Directors and present their overall assessment of the bank.

Profit and Loss Account

(DKK 1,000)

	Note	**2006**	2005
Interest income	*3*	**207.698**	168.806
Interest expenses	*4*	**66.248**	36.790
Net interest income		**141.450**	132.016
Dividend from share etc.		**4.485**	1.271
Fees and commission income	5	**67.903**	59.717
Fees and commission expenses		**5.606**	5.814
Net interest and fee income		**208.232**	187.190
Value adjustments	*6*	**28.498**	30.033
Other ordinary income		**2.098**	1.129
Staff costs and administrative expenses	*7*	**140.758**	129.506
Depreciation and writedowns of tangible assets		**4.263**	4.982
Writedowns		**-13.838**	4.696
Profit of holdings in associated and affiliated companies	*8*	**76**	60
Profit before tax for the financial year		**107.721**	79.228
Tax	*10*	**24.429**	19.352
Profit for the financial year		**83.292**	59.876

Allocation of profit

Profit on holdings in associated and affiliated companies	**76**	60
Proposed dividend	**9.800**	7.000
Retained profit	**73.416**	52.816
Total allocated	**83.292**	59.876

Balance Sheet as at 31. december

(DKK 1,000)	Note	**2006**	2005
Cash in hand and claims at call on central banks		**35.303**	58.347
Due from credit institutions and central banks	*12*	**180.665**	194.471
Loans and other amounts due at amortised cost	*13*	**3.535.614**	2.820.627
Bonds at fair value		**631.914**	548.108
Shares, etc.		**166.413**	154.429
Holdings in associated companies	*15*	**250**	250
Holdings in affiliated companies	*15*	**1.339**	1.263
Assets under pooled schemes	*14*	**732.116**	570.403
Tangible assets		**66.982**	53.935
Investment properties	*17*	*2.479*	*1.250*
Domicile property	*18*	*64.503*	*52.685*
Other tangible assets	*19*	**6.918**	5.595
Tax assets		**0**	0
Deferred tax assets	*20*	**8.707**	3.714
Other assets		**56.482**	25.539
Total assets		**5.422.703**	4.436.681
Due to credit institutions and central banks	*22*	**835.691**	359.519
Deposits and other amounts due	*23*	**2.913.448**	2.621.164
Deposits under pooled schemes		**766.386**	582.296
Tax liabilities		**6.638**	9.478
Other liabilities		**82.846**	142.003
Cut-off liabilities		**2.645**	349
Total debt		**4.607.654**	3.714.809
Provisions for pensions and similar obligations	*24*	**5.923**	6.339
Provisions regarding loss on guaranties		**18.363**	491
Provisions for commitments		**24.286**	6.830
Subordinated debt	*25*	**225.659**	225.717
Subordinated debt		**225.659**	225.717
Share capital		**28.000**	28.000
Share premium account		**5.274**	5.274
Revaluation reserves		**2.468**	2.468
Other reserves		**1.339**	1.263
Retained profit		**528.023**	452.320
Total equity	2	**565.104**	489.325
Hereof proposed dividend		**9.800**	7.000
Total liabilities		**5.422.703**	4.436.681

Cash Flow Analysis

(DKK 1,000)

	2006	2005
Source of capital		
Operations		
Profit for the financial year	**83.292**	59.876
Changes in accouting policy	**0**	1.786
Loss and provisions on bad debts	**-13.838**	4.696
Revaluation on investment land and property	**-150**	-283
Depreciation and writedowns of intangible and tangible assets	**4.263**	4.982
Dividend to shareholders	**-7.000**	-5.600
Source of capital from operations	**66.567**	65.457
Financial leverage		
Change in debt to credit institutions (net)	**489.978**	42.204
Change in deposits	**476.374**	597.444
Change in other liabilities	**-42.245**	15.661
Change in subordinated capital investments	**-58**	175.717
Total financial leverage	**924.049**	831.026
Equity		
Own shares	**-513**	-11.352
Total equity financement	**-513**	-11.352
Total source of capital	**990.103**	885.131
Use of capital		
Change in cash in hand, etc. and treasury bills eligible for refinancing	**-23.044**	27.050
Change in loans and advances	**701.149**	446.456
Change in net pension assets	**161.713**	132.515
Change in bond holdings	**83.806**	217.055
Change in share holdings	**11.984**	47.522
Change in associated and affiliated companies	**76**	60
Purchase of tangible assets	**17.727**	7.089
Purchase of small assets, expensed as part of depriciations	**756**	1.961
Change in other assets	**35.936**	5.423
Total use of capital	**990.103**	885.131

Notes

1 Solvency

	2006	2005
Solvency ratio accordingly to FIL § 124, subsection 1	**13,1%**	13,4%
Core capital after deductions in percentage of total weighted items	**10,4%**	10,2%
Equity	**565.104**	489.325
Herof revaluation reserves	**-2.468**	-2.468
Herof suggested dividend	**-9.800**	-7.000
Tax assets	**-8.707**	-3.714
Core capital after deduction	**544.129**	476.143
Subordinated capital investments	**225.659**	225.717
Revaluation reserves	**2.468**	2.468
Capital base before deductions	**772.256**	704.328
Total of holding etc., more than 10% of capital base	**-85.854**	-75.117
Capital base after deductions	**686.402**	629.211
Weighted values not including trade portfolio	**3.307.402**	2.667.765
Weighted values below the line	**1.628.756**	1.713.815
Weighted values with corresponding risk	**11.164**	0
Weighted values with marked risk	**304.671**	298.063
Total weighted values	**5.251.993**	**4.679.643**

2 Equity

	2006	2005
Sharecapital beginning / end	**28.000**	28.000
The Banks´share capital consists of 1,4 mio shares each of nom. Value DKK 20		
Shares premium account	**5.274**	5.274
Other reserves		
Reserves for net revaluation to intrinsic value method, beginning	**263**	203
Transferred from "financial year result"	76	60
Reserves for net revaluation to intrinsic value method, end	**339**	263
Other reserves, beginning / end	**1.000**	1.000
Total other reserves	**1.339**	1.263
Revaluation reserves, beginning	**2.468**	2.468
Revaluation of land and buildings	**0**	0
Revaluation reserves end	**2.468**	2.468
Retained profit beginning	**452.320**	389.619
Changing regarding earlier years	**0**	19.837
Retained profit beginning inclusive new estimates	**452.320**	409.456
Transferred from "financial year result"	**83.216**	59.816
Dividend, paid to share holders	**-7.000**	-5.600
Own shares reserved for employee programs	**2.200**	0
Net purchase of own shares, booked to zero value	**-2.713**	-11.352
Retained profit end	**528.023**	452.320
Total equity beginning	**489.325**	426.564
Changing of accounting estimates 1. January	**0**	19.837
Total equity 1. January according to new accounting policy	**489.325**	446.401
Retained profit	**83.292**	59.876
Dividend paid to share holders	**-7.000**	-5.600
Own shares reserved for employee programs	**2.200**	0
Own shares	**-2.713**	-11.352
Total equity end	**565.104**	489.325

Notes

		2006	2005
3	**Interest income**		
	Claims on credit institutions, etc.	**6.532**	4.833
	Loans and advances	**180.659**	150.360
	Bonds	**17.075**	16.606
	Total derivative financial instruments	**3.266**	-3.469
	of which		
	Currency contracts	**7.122**	3.206
	Interest rate contracts	**-3.856**	-6.675
	Other interest income	**166**	476
	Total interest income	**207.698**	168.806
4	**Interest expenses**		
	Credit institutions and central banks	**7.037**	2.477
	Deposits	**49.244**	30.571
	Subordinated debt	**9.672**	3.659
	Other interest expenses	**295**	83
	Total interest expenses	**66.248**	36.790
5	**Fee and commission income**		
	Securities trading and custody account fees	**32.488**	23.256
	Payment services fees	**8.609**	8.557
	Loan fees	**11.146**	15.161
	Guarantee commissions	**12.852**	9.916
	Other fees and commissions	**2.808**	2.827
	Total fee and commission income	**67.903**	59.717
6	**Value adjustments**		
	Loan and advances at fair value	**-10.257**	-600
	Bonds	**-5.205**	-2.211
	Shares, etc.	**31.209**	29.484
	Investment property	**150**	283
	Currency	**2.392**	2.244
	Derivatives	**10.585**	1.063
	Assets under pooled schemes	**39.256**	51.094
	Deposits under pooled schemes	**-39.632**	-51.324
	Total value adjustments	**28.498**	30.033
7	**Staff costs and administrative expenses**		
	Salaries and remuneration of Executive Board, Board of Directors and Board of Representatives		
	Executive Board	**1.570**	1.425
	Board of Directors	**707**	625
	Board of Representatives	**135**	131
	Total	**2.412**	2.181
	Staff costs		
	Salaries	**71.959**	65.407
	Pensions	**7.939**	7.643
	Financial services employer tax, etc.	**7.517**	7.014
	Total	**87.415**	80.064
	Other administrative expenses	**50.931**	47.261
	Total staff costs and administrative expenses	**140.758**	129.506
	Number of full-time equivalent staff (avg.)	**190,2**	**182,1**

Notes

		2006	2005
8	**Profit of holdings in associated and affiliated companies**		
	Profit on holdings in associated companies, etc.	**0**	0
	Profit on holdings in affiliated companies	**76**	60
	Total profit on holdings in associated and affiliated companies	**76**	60
9	**Write down on loans and advances**		
	Individual write downs		
	Write downs beginning	**90.017**	86.544
	Write downs in the financial year	**11.858**	25.308
	Changes in write downs regarding earlier years	**-36.600**	-20.595
	Finally lost regarding earlier write downs	**-6.507**	-1.240
	Individual write downs end	**58.768**	90.017
	Group write downs		
	Write downs beginning	**44.783**	43.844
	Corrections of estimates on write downs	**-27.552**	-27.552
	Write downs beginning inclusive corrections	**17.231**	16.292
	Write downs in the financial year	**0**	7.537
	Changes in write downs regarding earlier years	**-2.869**	-6.598
	Group write downs end	**14.362**	17.231
	Total write downs on loans and advances	**73.130**	107.248
10	**Tax**		
	Calculated tax charge for the year	**28.032**	20.019
	Deferred tax	**-3.188**	-1.044
	Adjustment of prior-year tax charge	**-415**	-303
	Tax from provision account	**0**	680
	Total tax	**24.429**	19.352
	Effective tax rate		
	Danish tax rate	**28,0%**	28,0%
	Adjustment of prior-year tax charge	**-0,4%**	-0,4%
	Non-taxable income and non-deductible expenses	**-4,9%**	-3,6%
	Tax from provision account	**0,0%**	0,9%
	Others	**0,0%**	-0,5%
	Effective tax rate	**22,7%**	24,4%
	The non-taxable income in 2006 is mainly from the sale of shares in TotalKredit A/S		
11	**Audit fees**		
	Total fee to the accounting firm elected by the general meeting which perform the statutory audit	**355**	573
	Fees for non-audit services	**14**	59
	The bank has an internal audit department		
12	**Due from credit institutions and central banks**		
	Claims at notice on central banks	**149.836**	149.895
	Claims on credit institutions	**30.829**	44.576
	Total due from credit institutions and central banks	**180.665**	194.471
	By residual maturity		
	Up to 3 months	**163.673**	175.550
	Over 5 years	**16.992**	18.921
	Total due from credit institutions and central banks	**180.665**	194.471

Notes

		2006	2005
13	**Loans and other amounts due at amortised cost**		
	Loans and other amounts due at amortised cost	**3.535.614**	2.820.627
	Total loans and other amounts due at amortised cost	**3.535.614**	2.820.627
	By residual maturity		
	Demand deposits	**451.395**	179.444
	Up to 3 months	**330.420**	237.285
	From 3 months to 1 year	**994.629**	801.052
	From 1 to 5 years	**1.132.113**	1.107.322
	Over 5 years	**627.057**	495.524
	Total loans and other amounts due at amortised cost	**3.535.614**	2.820.627
	Specifikation of write downs		
	Loans and other amounts due at amortised cost, before write downs	**3.608.743**	2.927.875
	Write downs	**-73.129**	-107.248
	Total loans and other amounts due at amortised cost	**3.535.614**	2.820.627
	Broken down by sector and industry		
	Public sector	**3,4**	3,8
	Business		
	Agriculture, hunting and forestry	**12,0**	15,0
	Fishing	**0,5**	0,3
	Manufacturing industry, quarring, electricity- and gas etc.	**3,1**	4,7
	Construction	**4,6**	3,3
	Wholesale and retail trade, hotels and restaurants	**5,3**	6,8
	Transport, post and communication	**3,2**	5,3
	Finance, insurance etc.	**2,5**	2,1
	Real estate administration and real estate business activities	**11,6**	12,4
	Other businesses	**5,7**	7,0
	Total business	**48,5**	56,9
	Private	**48,1**	39,3
	Total	**100,0**	100,0
14	**Assets under pooled schemes**		
	Bonds at fair value	**470.313**	392.703
	Shares	**261.803**	177.700
	Total	**732.116**	570.403
15	**Holdings in associated companies**		
	Erhvervsparken A/S, Grenaa		
	Part of shares	**50%**	50%
	Holdings in affiliated companies		
	Djurs-Invest ApS, Grenaa		
	Part of shares	**100%**	100%
	Equity	**1.339**	1.263
	Profit for the financial year	**76**	60

The activity in the companies are immaterial.

Notes

16 Related parties

	2006	2005	**2006**	2005
	Affiliated companies		Affiliated Companies	
Loans and advances	**0**	0	**28.029**	29.488
Deposits	**596**	595	**356**	283

	2006	2005
17 Investment property		
Marked value at January 1	**1.250**	967
Additions	**1.079**	0
Revaluation of marked value	**150**	283
Marked value at December 31	**2.479**	1.250
18 Domicile property		
Marked value at January 1	**52.685**	49.639
Additions	**12.526**	3.646
Disposals	**0**	0
Depreciation and impairment charges	**-708**	-600
Revaluation of marked value, booked on equity	**0**	0
Reclassified to "temporary overtaken property"	**0**	0
Marked value at December 31	**64.503**	52.685
19 Other tangible assets		
Total cost at January 1	**12.818**	41.792
Revaluation regarding earlier years	**0**	-32.417
Additions	**4.122**	3.443
Disposals	**0**	0
Total cost at December 31	**16.940**	12.818
Depreciation and impairment at January 1	**7.223**	37.219
Revaluation regarding earlier years	**0**	-32.417
Depreciation	**2.799**	2.421
Depreciation and impairment at December 31	**10.022**	7.223
Carrying amount at December 31	**6.918**	5.595
20 Deferred tax assets and liabilities		
Deferred tax at January 1	**3.714**	-3.305
Revaluation regarding earlier years	**0**	-105
Change in tax rate	**0**	227
Change in deferred tax due to own shares	**1.805**	5.601
Change in deferred tax due, without own shares	**3.188**	1.044
Deferred tax at December 31 before reclassification	**8.707**	3.462
Reclassification from due tax to deferred tax	**0**	252
Deferred tax at December 31	**8.707**	3.714

Notes

21 Split of deferred tax on assets and liabilities

	31/12 2006 Deferred tax assets	31/12 2006 Deferred tax liabilities	31/12 2005 Deferred tax assets	31/12 2005 Deferred tax liabilities
Tangible assets	**0**	**149**	0	21
Cut of on fees and commissions	**3.515**	**0**	3.858	0
Own shares	**9.535**	**0**	7.730	0
Provisions for commitments	**1.658**	**0**	1.775	0
Other	**1.131**	**6.983**	353	9.981
Deferred tax total	**15.839**	**7.132**	13.716	10.002

Deferred tax of unquoted stocks amount to DKK 3,164,000
As it is the banks intention to keep the stocks for more than 3 years, there will be no tax obligation, and therefore no liability has been booked on these stocks.

22 Due to credit institutions and central banks	2006	2005
Due to credit institutions	**835.691**	359.519
By residual maturity		
Amounts payable on demand	**225.691**	190.127
Up to 3 months	**610.000**	169.392
Total due to credit institutions and central banks	**835.691**	359.519

23 Deposits and other amounts due		
Amounts payable on demand	**2.177.038**	1.895.428
At notice	**224.481**	230.005
Time deposits	**249.083**	216.006
Special deposits	**262.846**	279.725
Total deposits and other amounts due	**2.913.448**	2.621.164
By residual maturity		
Amounts payable on demand	**2.282.305**	1.968.440
Up to 3 months	**425.304**	439.741
From 3 months to 1 year	**24.904**	17.499
From 1 to 5 years	**36.436**	41.344
Over 5 years	**144.499**	154.140
	2.913.448	2.621.164

24 Provisions for pensions and similar obligations		
Provision for pensions and similar commitments	**5.923**	6.339
	5.923	6.339

Notes

		2006	2005
25	**Subordinated debt**		
	Floating rate loan in DKK, maturity 2012, Option to prepay from 2009	**50.000**	50.000
	Floating rate loan in DKK, maturity 2013, Option to prepay from 2010	**75.000**	75.000
	Floating rate loan in DKK, maturity 2014, Option to prepay from 2011	**100.659**	100.717
	Total subordinated capital investments	**225.659**	225.717
	Signing fee	**0**	**188**
	Part of capital base	**225.659**	225.717
26	**Equity - shares**		
	Number of shares each of nom value kr. 20.	**1.400**	1.400
	Share capital nom value DKK 28.000 (1.000 kr.)		
	Number of own shares, beginning	**50.391**	20.121
	Net additions / disposals	**-1.964**	30.270
	Number of own shares, end	**48.427**	50.391
	Nom value of own shares, beginning	**1.008**	402
	Net additions / disposals	**-39**	606
	Nom value of own shares, end	**969**	1.008
	Part of own shares, beginning	**3,6%**	1,4%
	Net additions / disposals	**-0,1%**	2,2%
	Part of own shares, end	**3,5%**	3,6%
27	**Guarantees, etc.**		
	Financial guarantees	**846.425**	1.068.283
	Loss guarantees	**849.442**	678.621
	Registration guarantees	**236.017**	204.381
	Other guarantees	**394.890**	301.198
		2.326.774	2.252.483
28	**Other commitments**		
	Other commitments	**1.572**	1.676
		1.572	1.676
29	**Credit risk on other financial instruments**		
	Positive market value after netting		
	Authorities (with weighted risk 0%)	**0**	0
	Credit institutions, etc. (with weighted risk 20%)	**930**	406
	Customers (with weighted risk 100%)	**3.347**	1.391
30	**Outstanding owings**		
	Outstanding owings in other works	**1.668**	2.844
31	**Exchange rate risk**		
	Exchange rate indicator 1 in % of core capital after deductions	**3,6%**	2,5%
	Exchange rate indicator 2 in % of core capital after deductions	**0,0%**	0,0%

Notes

		2006	2005
32	Interest rate risk		
	Total interest rate risk on liabilities, etc.	**9.862**	10.860
	Interest rate risk by foreign currency with highest interest rate risk		
	DKK	**9.833**	10.780
	NZD	**0**	46
	CHF	**28**	26
	Other currencies	**1**	8

The rate risks on fixed-interest assets DKK 193,000,000 - excluding mortgage deeds - are covered by interest swaps for nominel DKK 193,800,000.
Exchange rate adjustments to market value of loans and swaps have not been corrected.

33 Other financial instruments

The bank uses exchange rate- and interest futures as well as interests- and exchange rate swaps. Interest swaps have been signed with the intention of covering the banks portefolio of loans with fixed interests. The remaining financial instruments are used for covering the custumers businesses in relation 1:1

34 Close parties

Transaktions with close parties

Close parties covers the Board of Directors and the Board of Managment. None transactions have been entered into except those mentioned in note 7.

	2006	2005
Loans etc to the management		
Executive Board	**150**	315
Board of Directors	**15.728**	15.794
Board of Representatives	**162.052**	150.403
Collaterals for engagements with		
Executive Board	**150**	315
Board of Directors	**2.481**	2.738

35 Summary of other executive appointments in Danish limited companies held by members of Board of Directors and Executive Board

Managing Director Ole Fast

Chairman in Grenaa Bowlingcenter A/S, Kolind Midtpunkt A/S and KØ Beton A/S.
Manager and member of Board of Directors in Peolia I A/S, Peolia II A/S and Djurslands Bowlinghus A/S.
Member of Board of Directors in Perstrup Beton Industri A/S and Fårup betonindustri A/S and Hedensted lagerhoteller A/S.

Wholesaler Erik Nymann

Manager and deputy chairman in AUTO-G Dansk Grossist Union A/S.
Chairman in J.A.D.-Autodele A/S.
Manager and member of Board of directors in Auto-Generation A/S, Erik Nymann Holding A/S, Nymann Autoparts A/S, Nymann Kemi A/S, N.K. Specialværktøj A/S, Detailgruppen A/S, Kolind Midtpunkt A/S og Hedensted lagerhoteller A/S
Member of Board of Directors in S. Burchardt Nielsen Autodele A/S and Sydjydsk Reservedele A/S.

Car dealer Poul Erik Sørensen

Manager and member of Board of directors in Grenaa Bil-Center A/S, Grenaa Bil-Center af 2002 A/S and Bil-Center Grenaa A/S.

Managing Director Ole Selch Bak

Member of Board of Directors in Letpension Drift A/S and Letpension IT A/S.

Notes

36 Election of board of directors

	First election	Chosen again	On election
Erik Nymann	1990	1992, afterwoods every 2 år.	2008
Ole Fast	1994	1995, afterwoods every 2 år.	2007
Jakob Arendt	1995	1997, afterwoods every 2 år.	2007
Helle Bærentsen	2006		2010
Tina Klausen	1998	2002, afterwoods every 4 år.	2010
Ole Birk Nielsen	1994	1996, afterwoods every 2 år.	2008
Jan B. Poulsen	2002	2006	2010
Poul Erik Sørensen	2002	2004, afterwoods every 2 år.	2008
Uffe Vithen	2006		2007

37 Shareholders

The following share holders owns more than 5% of the sharevalue:

Investeringsforeningen Sparinvest, Baneskellet 1, Hammershøj, 8830 Tjele
shares amount to 6,80%

Applied accounting policy

The Annual Report has been prepared in accordance with the Danish Financial Business Act, including the Executive Order on the presentation of financial reports by credit institutions and investment companies etc. (the Executive Order) and other Danish disclosure requirements for the annual reports of listed financial businesses (cf. the disclosure requirements laid down by the Copenhagen Stock Exchange).

Changes of accumulated write downs – booked on the equity.
In connection with the preparation of the annual report 2006 we realized that “Group write downs” had been booked at a level, which was too high.

During the implementation of new accounting principles in 2005, the bank, made an estimate of the need for group write downs.

The following work with development of useful models as a basis for calculation of group write downs has not ended yet, but already at the present time is it obvious that the need for write downs is lower than expected in 2005.

The change has lead to a revaluation on equity of DKK 19,8m, which changes the equity at end 2005 to DKK 489,3m. Furthermore the chance has meant that “loans …” and “tax liabilities” has increased with DKK 27,5m and 7,7m end 2005.

Recognition and measurement in general
Assets are recognised on the balance sheet when, as a result of an earlier event, it is probable that the bank will enjoy future financial benefits and the value of the asset can be measured reliably.

Liabilities are recognised on the balance sheet when the bank, as a result of an earlier event, has a legal or actual obligation and it is probable that the bank will be deprived of future financial benefits and the value of the liability can be measured reliably.

Upon initial recognition assets and liabilities are measured at market value. However, at the time of their initial recognition tangible assets are measured at cost price. Measurement after initial recognition is carried out as described for each individual item below.

Recognition and measurement take into account foreseeable risks and losses, arising before the annual report is presented which validate or invalidate the situation which prevailed at the balance sheet date.

Income is recognised in the profit and loss account as it is earned, while costs are recognised at the amounts relating to the financial year. However, value growth in residential properties is recognised directly in equity.

Financial instruments are recognised at the time of trading.

Accounting estimates
The calculation of the accounting value of certain assets and liabilities entails an estimate of how future events will affect the value of these assets and liabilities. The most significant estimates relate to writedowns on loans.

The estimates made are based on assumptions which the management consider reasonable, but which are uncertain. In addition, the bank is affected by risks and uncertainties which may mean that the actual results differ from the estimates.

For writedowns on loans and receivables, significant estimates are associated with quantifying the risk that not all future payments will be received.

Profit and loss account
Interest, fees and commission
Fee and commission income which forms an integrated part of the effective return on a loan is recognised together with the yield to maturity for the loan concerned.

Other fees are recognised in the profit and loss account at the transaction date.

Interest income on loans written down collectively is not set at zero, which is a permitted departure from the Financial Supervisory Authority’s prescribed method.

Staff costs and administrative expenses
Staff costs cover wages and salaries, social costs and pensions etc. for the bank’s staff.

The costs of incentive schemes are recognised in the profit and loss account in the financial year to which the cost relates.

Tax
The tax for the year, which comprises current tax and changes in deferred tax, is recognised in the profit and loss account for the part which can be ascribed to the profit for the year, and directly in equity for the part which can be ascribed to items recognised directly in equity.

Current tax liabilities or current tax assets are recognised on the balance sheet and calculated as estimated tax on the taxable income for the year adjusted for tax paid on account.

Deferred tax is recognised on all temporary differences between accounting and tax values of assets and liabilities.

Deferred tax assets are recognised on the balance sheet at the value at which the asset is expected to be able to be realised.

Djurslands Bank A/S is taxed jointly with its 100%-owned subsidiary Djurs-Invest ApS. The actual Danish corporate tax is divided between the companies in proportion to their taxable incomes.

Balance sheet

Loans
Listed loans and loans which are included in a trading portfolio are measured at market value. Other loans are measured at their amortised cost price, which usually corresponds to the nominal value less arrangement fees etc. less provisions for losses incurred but not yet realised.

Credit loss provisions are made when there is an objective indication of a reduction in value. The provision is made for the difference between the accounting value before impairment and the present value of expected future payments on the loan.

Bonds
Bonds which are traded on active markets are measured at market value. The market value is calculated on the basis of the closing price at the balance sheet date.

Shares
Shares which are traded on active markets are measured at market value. The market value is calculated on the basis of the closing price at the balance sheet date. Non-liquid and unlisted shareholdings, where it is not considered possible to calculate a reliable market value, are measured at cost price.

Shareholdings in associated companies
Shareholdings in subsidiaries are recognised and measured according to the equity method.

The Company's share in the profit after tax of the businesses is recognised in the profit and loss account. Net revaluations of shareholdings are transferred to revaluation reserves to the extent that the accounting value exceeds the cost price.

Tangible fixed assets
Upon initial recognition tangible fixed assets are measured at cost price. The cost price includes the acquisition price and costs directly associated with the acquisition.

After initial recognition investment properties are measured at market value in accordance with Annex 8 of the Executive Order. After initial recognition residential properties are measured at their reappraised value. Revaluation is carried out so frequently that significant differences to the market value do not arise.

Rises in the reappraised value of residential properties are recognised under revaluation reserves under shareholders' equity. Falls in value are recognised in the profit and loss account, unless they are reversals of previous revaluations.

Changes in the market value of investment properties are recognised in the profit and loss account.

Other tangible assets and furnishing of leased premises is measured at cost price less accumulated depreciation, amortisation and writedowns. Depreciation and amortisation are on a straight-line basis over an expected lifetime of 5 years.

Individual assets with a cost price of less than DKK 25k are charged to expenses in full in the year of acquisition.

Dividends
Dividends are recognised as a liability commitment at the time of adoption at the General Meeting. The proposed dividend for the financial year is shown as a separate item under shareholders' equity.

Provisions for liabilities
Liabilities, guarantees and other commitments which are uncertain with regard to their size or date of settlement are recognised as provisions for liabilities if it is likely that the liability will result in a drain on the financial resources of the business and the liability can be measured reliably. The liability is calculated at the present value of the costs required to discharge the liability. Provisions for liabilities relating to staff are made on a statistical actuarial basis.

However, guarantees are not measured as being lower than the commission received for the guarantee accrued over the guarantee period.

Own shares
Acquisition and disposal amounts and dividends from own shares are recognised directly in shareholders' equity under retained profits.

Signatures by the Board of Executives and Directors

We have today presented the annual report 2006 for Djurslands Bank A/S.

The annual report is executed in accordance with the legislation, the Danish accounting principles and the demands to annual accounts as quoted by the Copenhagen Stock exchance.

We believe that the annual accounts shows a fair view of the assets and liabilities of the bank, the financial position, the result of the year and the source of capital.

The annual report is recommended for adoption at the general meeting.

Grenaa, 21 February 2007
Board of Executive
Ole Bak

Martin Ring Andersen
Chief Accountant

Grenaa, 21 February 2007
Board of Directors

Erik Nymann *Chairman*	**Ole Fast** *Deputy Chairman*	**Jakob Arendt**
Helle Bærentsen	**Tina Klausen**	**Ole Birk Nielsen**
Jan B. Poulsen	**Poul Erik Sørensen**	**Uffe Vithen**

Internal auditors´ report on the financial statement

We have audited the Annual Report of Djurslands Bank A/S for the financial year 2006. The Financial statement has been prepared in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial institutions.

Basis of opinion
We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Undertakings etc. and the Danish Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.

The audit has been performed in accordance with the division of duties agreed with the external auditors and has included an assessment of procedures and internal controls established, including the risk management organised by Management relevant to the entity's reporting processes and significant business risks. Based on materiality and risk we have examined, on a test basis, the basis of amounts and other disclosures in the Annual Report, including evidence supporting amounts and disclosures in the Annual Report. Furthermore, the audit has included evaluating the appropriateness of the accounting policies applied by Management and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the Annual Report.

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

Our audit has not resulted in any qualification.

Opinion
In our opinion, the procedures and internal controls established, including the risk management organised by Management relevant to the company's reporting processes and significant business risks, are working satisfactorily.

Furthermore, in our opinion, the Annual Report gives a true and fair view of the company's financial position at 31 December 2006 and of its financial performance and its cash flows for the financial year 2006 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial institutions.

Grenaa, 21 February 2007

DJURSLANDS BANK A/S

INTERNAL AUDIT

Jens Reckweg

Manager Internal Audit

The independent auditors' report

To the shareholders of Djurslands BankA/S
We have audited the annual report of Djurslands Bank A/S for the financial year 1 January - 31 December 2006, which comprises the statement by the Executive and Supervisory Boards, Management's review, accounting policies, income statement, balance sheet, statement of changes in equity and notes. The annual report has been prepared in accordance with the Danish Financial Business Act and in accordance with additional Danish disclosure requirements for annual reports of listed financial institutions.

Management's responsibility for the annual report
Management is responsible for the preparation and fair presentation of the annual report in accordance with the Danish Financial Business Act and in accordance with additional Danish disclosure requirements for annual reports of listed financial institutions. 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 using appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the bank's preparation and fair presentation of the annual report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank'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 did not result in any qualification.

Opinion
In our opinion, the annual report gives a true and fair view of the bank's financial position at 31 December 2006 and of the results of its operations for the financial year 1 January - 31 December 2006 in accordance with the Danish Financial Business Act and in accordance with additional Danish disclosure requirements for annual reports of listed financial institutions.

Aarhus, 21 February 2007

KPMG C.Jespersen
Statsautoriseret Revisionsinteressentskab

Flemming Johannsen	**Gert Foldager**
State Authorised Public Accountant	State Authorised Public Accountant