



Danmarks
Nationalbank

Report and
Accounts



D A N M A R K S
N A T I O N A L
B A N K 2 0 0 8



REPORT AND ACCOUNTS 2008

At the meeting of the Board of Directors held on 17 March 2009 the Board of Governors will submit Danmarks Nationalbank's Report and Accounts 2008 for adoption on the recommendation of the Committee of Directors.

This report is based on information available up to 2 March 2009.

The small picture on the front shows a detail of the 25-øre coin that was abolished as legal tender effective from 1 October 2008.

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The Report and Accounts is available on Danmarks Nationalbank's website www.nationalbanken.dk under Publications and can be ordered by filling in the form on Danmarks Nationalbank's website.

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Explanation of symbols:

- Magnitude nil
- 0 Less than one half of unit employed
- Category not applicable
- ... Data not available

Details may not add because of rounding.

Schultz Grafisk A/S

ISSN 1397-520x

ISSN (Online) 1398-3849

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Foreword

Danmarks Nationalbank is the central bank of Denmark. It was established in 1818 and has been a self-governing institution since 1936. The legal basis for Danmarks Nationalbank's activities is the Danmarks Nationalbank Act of 1936, according to which Danmarks Nationalbank's objective is to maintain a safe and secure currency system in Denmark, and to facilitate and regulate the traffic in money and the extension of credit. In its formulation of monetary policy Danmarks Nationalbank is independent of the Folketing (Parliament) and the Government.

The Report and Accounts comprise a presentation and description of Danmarks Nationalbank's Accounts for the year 2008, and the Report of the Board of Governors. The Report provides a general description of the Danish and international economy, monetary and foreign-exchange policies, international cooperation and major activities during the year within Danmarks Nationalbank's other areas of operation and its organisation.

Within the financial sector and the real economy, 2008 was characterised by the financial crisis. The crisis has had a considerable impact on Danmarks Nationalbank's day-to-day activities as described in the Report of the Board of Governors and the Accounts. For further details, reference is made to the Monetary Review and the Financial stability publications.

Copenhagen, 2 March 2009

Nils Bernstein
Chairman

Torben Nielsen

Jens Thomsen

Report of the Board of Governors

Report of the Board of Governors 2008

INTERNATIONAL BACKGROUND TO THE DANISH ECONOMY

Growth in the global economy declined significantly in 2008. The decline was particularly strong towards the end of the year following a substantial deterioration of the financial crisis that resulted in negative growth in the major industrialised countries. International economic organisations expect that output in the industrialised countries will decline overall in 2009, and that a gradual reversal will not occur until the end of 2009 at the earliest. As a result, many countries have eased both monetary and fiscal policy considerably.

The financial crisis that began in the summer of 2007 was initially a liquidity crisis that caused participants in the financial markets to show restraint in lending to each other. During 2008, in an attempt to loosen up the tight money markets, the central banks of several countries expanded their lending facilities, increased the number of counterparties, accepted a wider range of eligible collateral, and increased the maturity of loans. Efforts were made to remedy dollar liquidity shortfalls outside the USA through bilateral agreements between the Federal Reserve and a number of central banks, including the European Central Bank, ECB. In the course of the year it became clear that the losses of several of the world's major financial enterprises were so severe that both their solvency and the overall financial stability were at risk. In September, the investment bank Lehman Brothers filed for Chapter 11 bankruptcy and global confidence in the financial system plummeted as a result. In many countries the authorities had to rapidly implement massive rescue packages guaranteeing loans and deposits and injecting government capital into financial enterprises to mitigate the drop in confidence and ensure capacity for new lending in the financial system.

Energy and food prices rose in the 1st half of the year but fell back substantially as the global economy slowed down. At year-end, the price of oil had fallen to 36 dollars per barrel from 94 dollars at the beginning of the year and more than 140 dollars in July. In the USA and the euro area annual consumer price inflation peaked during the summer, reaching 5.6 per cent and 4.0 per cent, respectively, followed by a significant decline.

In July the ECB raised its policy rate by 0.5 percentage points to 4.25 per cent based on elevated inflation expectations, but then lowered the

rate on three occasions in the autumn, by a total of 1.75 percentage points to 2.5 per cent at the close of the year.

The Federal Reserve eased its monetary policy considerably in 2008. The fed funds target rate was cut seven times during the year to 0.25 per cent, down 4 percentage points in total. Interest-rate reductions totalling 2.25 percentage points in the 1st half of the year reflected a downturn in the US economy due, among other reasons, to a very weak housing market.

As a result of the international financial crisis, policy rates were lowered by 0.5 percentage points in the first coordinated action ever between the central banks of Canada, the euro area, Switzerland, Sweden and the USA.

However, tighter lending conditions generally meant that the rate cuts were not fully passed through to consumers and business enterprises.

The yield on the benchmark 10-year US government bond fell from 3.9 per cent at the beginning of 2008 to 2.2 per cent at the end of 2008. In Germany, the yield decreased from 4.2 per cent at the beginning of the year to 3.0 per cent at the end of the year. In both Germany and the US these yields increased during the spring as a result of growing fears of persistently higher inflation. In the 2nd half of the year yields declined following relaxation of monetary policies, poorer growth prospects and the financial crisis.

The foreign-exchange markets were characterised by substantial exchange-rate fluctuations in 2008. In the spring, the dollar fell considerably to just under 1.60 dollars per euro, which is the lowest level in recent times. Subsequently the dollar strengthened again to 1.40 dollars per euro at the end of the year, corresponding to a decline of 4 per cent against the euro compared to the beginning of the year. The pound sterling reached an all-time low against the euro, standing at 0.96 pound sterling per euro at the turn of the year. The financial crisis put several smaller currencies under pressure in the autumn. The Swedish krona and the Norwegian krone depreciated to historically low levels against the euro from September onwards.

THE DANISH ECONOMY

After a number of years with a sustained upswing, the Danish economy also shifted to a lower gear in 2008. Total output fell by 1.3 per cent compared to 2007, cf. Table 1, making 2008 the first year with negative growth since 1993. The slowdown was originally caused by a lack of spare capacity but was exacerbated by the financial crisis and the weaker international economy. The economic downturn worsened in the 4th quarter as the financial turmoil intensified.

KEY FIGURES FOR THE DANISH ECONOMY					Table 1
Real growth against the previous year, per cent	2004	2005	2006	2007	2008
Gross domestic product, GDP	2.3	2.4	3.3	1.6	-1.3
Private consumption	4.7	3.8	4.4	2.4	0.0
Government consumption and investment ...	2.5	1.2	3.0	0.5	0.6
Business investment	-0.2	-0.1	14.0	4.3	-2.4
Residential investment	11.9	17.3	11.2	4.8	-4.6
Domestic demand, excl. stockbuilding	3.7	3.3	5.6	2.3	-0.5
Stockbuilding ¹	0.6	0.2	-0.3	-0.3	0.2
Domestic demand, total	4.3	3.4	5.3	1.9	-0.3
Exports	2.8	8.0	9.1	2.2	1.9
Imports	7.7	11.1	13.9	2.8	4.1
Net exports ¹	-1.8	-0.8	-1.7	-0.2	-1.0
Unemployment, per cent of labour force	5.8	5.1	3.9	2.8	1.8
Wage index ² , percentage growth	3.1	2.9	3.1	3.8	4.4
Consumer price index ³ , percentage growth ..	0.9	1.7	1.9	1.7	3.6
House price index ⁴ , percentage growth	10.1	22.1	18.3	2.1	-7.8
Current account, per cent of GDP	3.0	4.3	2.9	0.7	1.8
Government balance, per cent of GDP	1.9	5.0	5.0	4.5	3.0
Private savings surplus ⁵ , per cent of GDP	1.2	-0.6	-2.1	-3.7	-1.2

Source: Statistics Denmark.

¹ Contribution to growth in GDP.

² Statistics Denmark's wage index for the private sector.

³ Harmonised Index of Consumer Prices (HICP).

⁴ Quarterly statistics for prices of single-family and terraced houses published by the Association of Danish Mortgage Banks, growth from 4th quarter to 4th quarter.

⁵ Current account minus government balance (rounded).

Despite the decline in GDP, the considerable pressure on the labour market continued, especially in the 1st half of the year. In August, unemployment had declined to 47,200 persons or 1.7 per cent of the labour force, which is the lowest unemployment rate since the early 1970s. Extensive pressure on the labour market meant that many industries, as well as the public sector, had difficulties in recruiting the required labour. The pressure on the labour market began to ease towards the end of the year. At the close of the year, unemployment had risen to 2.1 per cent.

The rate of wage increase rose in the 1st half of the year and then started to fall back as the economic outlook deteriorated. For the private sector as a whole, the annual rate of wage increase was 4.2 per cent in the 4th quarter of 2008, down from 4.5 per cent in the same quarter of 2007. The rate of wage increase was higher than in other countries throughout 2007.

Inflation was 2.4 per cent year-on-year in December measured by the increase in the Harmonised Index of Consumer Prices, HICP. Inflation increased in the 1st half of the year and then began to decline. Price

developments over the year were driven mainly by the strong fluctuations in energy and food prices. Domestic market-determined inflation rose over the year and was 2.4 per cent in December.

Growth in domestic demand decreased in 2008. Private consumption growth slowed significantly, which should be viewed in the light of factors such as weakening consumer confidence and the dampening of the housing market. Retail and car sales declined over the year. The housing market weakened considerably with reduced prices and fewer transactions. In addition, there was a significant increase in the time on market. Business investment fell in 2008, reflecting weaker sales opportunities. In addition, the financial enterprises tightened their credit standards. The tightening primarily comprised interest-rate increases and more rigorous collateral requirements.

The current-account surplus increased to kr. 31.2 billion in 2008 against kr. 12.0 billion in 2007. The improvement reflects that the surplus on trade in services has remained high, while the last few years' pronounced deterioration of the surplus on trade in goods has ceased. In addition, the surplus on investment income increased substantially. At end-2008 the nominal effective krone rate was significantly higher than at the beginning of the year. In combination with the relatively high rate of wage increase, this had an adverse impact on competitiveness.

The government surplus fell to 3.0 per cent of GDP in 2008 against 4.5 per cent of GDP in 2007. The fall was primarily due to lower income taxes and falling proceeds from the taxation of pension yields. Public consumption and investment went up by 0.6 per cent. In overall terms fiscal policy was moderately expansionary.

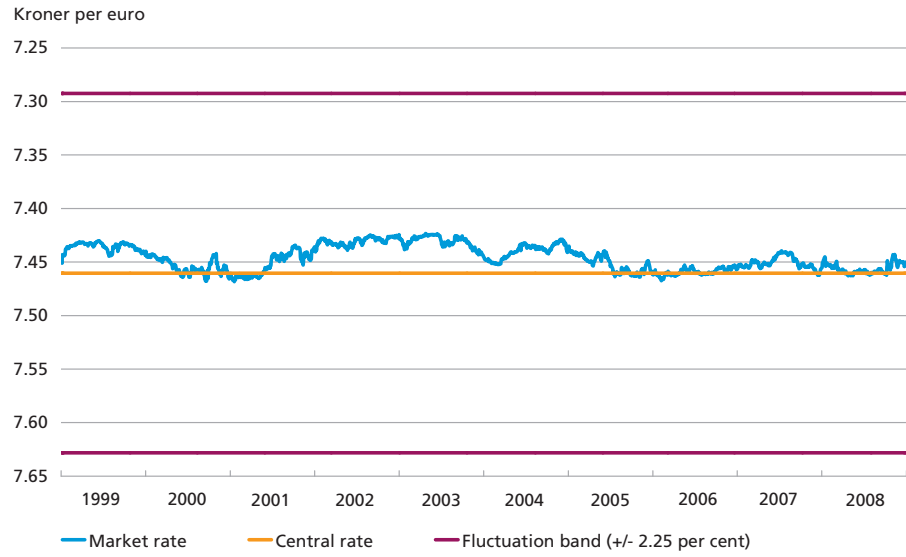
MONETARY AND FOREIGN-EXCHANGE POLICY

Danish monetary and foreign-exchange policy is aimed at keeping the krone stable vis-à-vis the euro. Due to the euro area's low-inflation policy, this creates a framework for low and stable inflation in Denmark. The formal framework for Denmark's fixed-exchange-rate policy is the Exchange Rate Mechanism, ERM II. Denmark participates with a central rate of kr. 7.46038 per euro and a fluctuation band of +/- 2.25 per cent in relation to the central rate, cf. Chart 1. The fixed-exchange-rate policy means that the monetary-policy interest rates are used solely to keep the krone close to its central rate.

At the beginning of 2008 Danmarks Nationalbank purchased foreign exchange for kr. 8 billion. The krone weakened a little in the following months and was slightly weaker than the central rate against the euro at the end of April and the beginning of May. This could be attributed

KRONER VIS-À-VIS EURO

Chart 1



Note: Reverse scale.

to the narrowing of the short-term yield spread to the euro area in the light of the turbulence in the money markets that drove up the ECB's marginal rate. To stabilise the krone, Danmarks Nationalbank intervened in the foreign-exchange market for around kr. 20 billion in April and May, and the lending rate and the rate of interest on certificates of deposit were raised from 4.25 per cent to 4.35 per cent on 16 May. The discount and current-account rates remained unchanged at 4 per cent.

The Danish krone was stable in June, July and August, and Danmarks Nationalbank did not intervene in the foreign-exchange market. On 3 July, Danmarks Nationalbank followed the ECB by raising the monetary-policy interest rates by 0.25 percentage points effective from 4 July. The ECB motivated the interest decision by increasing risk of higher inflation.

The international financial crisis escalated in September and October and the Danish krone came under pressure. The pressure on the krone followed a period in which the spread between Danmarks Nationalbank's lending rate and the ECB's marginal rate had been negative. To mitigate the pressure, Danmarks Nationalbank intervened in the foreign-exchange market, purchasing kroner against foreign exchange for a considerable amount from late September to early October. However, this proved insufficient to withstand the pressure on the krone, and Danmarks Nationalbank raised its monetary-policy interest rates, effective from 8 October. The lending rate and the rate of interest on certificates of deposit were raised by 0.4 percentage points to 5 per cent, and

the discount rate and the current-account rate were raised by 0.25 percentage points to 4.5 per cent. Danmarks Nationalbank subsequently continued to intervene in the foreign-exchange market to stabilise the krone. On 8 October, the ECB announced a reduction of the minimum bid rate by 0.5 percentage points to 3.75 per cent. On the same day, the ECB also announced that, until further notice, the weekly main refinancing operations would be carried out at a fixed rate, corresponding to the minimum bid rate, whereas they had previously been carried out at a variable marginal rate that could be at least the minimum bid rate. This meant a widening of the monetary-policy interest-rate spread between Denmark and the euro area to 1.25 percentage points.

The outflow of foreign exchange continued after a pause, however, as the mounting financial crisis caused investors to withdraw from smaller currencies. At the end of October, Danmarks Nationalbank intervened again to stabilise the krone, bringing the total intervention purchases of kroner in September and October to kr. 65 billion. On 24 October, Danmarks Nationalbank raised the lending rate and the rate of interest on certificates of deposit by a further 0.5 percentage points, thus widening the spread between Danmarks Nationalbank's lending rate and the ECB's interest rate to 1,75 percentage points.

From the end of October, the krone strengthened and Danmarks Nationalbank was able to repurchase foreign exchange. On 6 November, Danmarks Nationalbank, mirroring the ECB, cut its monetary-policy interest rates by 0.5 percentage points effective from 7 November. On 4 December, the ECB announced a reduction of the interest rate by 0.75 percentage points. Danmarks Nationalbank cut its lending rate and the rate of interest on certificates of deposit by 0.75 percentage points to 4.25 per cent and lowered the discount and current-account rates by 0.5 percentage points to 3.5 per cent, effective from 5 December.

On 19 December, Danmarks Nationalbank unilaterally cut the lending rate and the rate of interest on certificates of deposit by 0.5 percentage points to 3.75 per cent in light of the development in the foreign-exchange market, where it had been purchasing foreign exchange for a period of time. The discount and current-account rates remained unchanged at 3.5 per cent. The spread between Danmarks Nationalbank's lending rate and the ECB's interest rate was subsequently 1.25 percentage points. In November and December, Danmarks Nationalbank purchased foreign exchange in the market for kr. 56 billion.

In 2008, Danmarks Nationalbank sold foreign exchange net for approximately kr. 20 billion in connection with intervention, cf. Table 2. In the same period, the foreign-exchange reserve increased by kr. 44 billion to kr. 212 billion at the close of 2008. On Danmarks Nationalbank's ini-

IMPACT OF VARIOUS FACTORS ON THE BANKS' AND MORTGAGE-CREDIT INSTITUTES' NET POSITION VIS-À-VIS DANMARKS NATIONALBANK

Table 2

Kr. billion	2006	2007	2008
Liquidity impact from government finances	-31	-29	-111
Intervention by Danmarks Nationalbank to purchase foreign exchange, net	-34	-2	-20
Other	-2	5	26
Change in net position	-67	-25	-106
End of period:			
Net position	18	-7	-113
Broken down by:			
Certificates of deposit	163	200	119
Current-account deposits	9	9	10
Monetary-policy lending	154	217	241
Memo:			
Foreign-exchange loans ¹	108

Note: The banks' and mortgage-credit institutes' foreign-exchange loans from Danmarks Nationalbank are not included in their net position vis-à-vis Danmarks Nationalbank.

Source: Danmarks Nationalbank.

¹ Foreign-exchange loans are loans granted to banks and mortgage-credit institutes by Danmarks Nationalbank on the basis of swap lines with the Federal Reserve and the ECB. Foreign-exchange loans are end-of-year accounts.

tiative, the central government raised foreign loans of kr. 64 billion in order to strengthen the foreign-exchange reserve against the backdrop of the substantial outflow of foreign exchange in the autumn. The central government's foreign debt is raised in the interest of the foreign-exchange reserve, and the equivalent amount in kroner is credited to the central government's account at Danmarks Nationalbank and is not available for other purposes.

The central government's domestic debt exceeded the domestic financing requirement by just over kr. 100 billion, mainly as a result of the issuance of 30-year government bonds for around kr. 90 billion. The central government plans to use the overfinancing in 2008, which is deposited in its account at Danmarks Nationalbank, to finance the credit package of up to kr. 100 billion for Danish banks and mortgage-credit institutes in 2009, cf. page 17.

The money market

Due to increasing concerns about own losses and declining confidence in counterparties, the global money markets more or less froze in the autumn in step with the escalating financial crisis. The spread between uncollateralised and collateralised money-market interest rates widened considerably. To boost liquidity, Danmarks Nationalbank, in line with other central banks, launched a series of temporary facilities in 2008,

extending the collateral basis for borrowing by banks, cf. page 17. However, the spread between uncollateralised and collateralised money-market interest rates remained high in both the euro area and Denmark. In the autumn of 2008 there was also a lack of short-term dollar and euro liquidity among banks and mortgage-credit institutes in Denmark. Danmarks Nationalbank established swap lines with the Federal Reserve and the ECB with a view to offering dollar and euro loans to Danmarks Nationalbank's monetary-policy counterparties.

To restore confidence in the financial markets, western governments began to announce bank rescue packages towards the end of September. The Danish Act on Financial Stability, which ensures that all claims of depositors and other unsecured creditors are fully covered was adopted in early October, cf. page 17.

Due to the difficult financing conditions in 2008, there was a tendency for a larger group of financial institutions to raise loans from Danmarks Nationalbank. Viewed over the full year 2008, banks and mortgage-credit institutes increased their borrowing from Danmarks Nationalbank.

The net position of the banks and mortgage-credit institutes vis-à-vis Danmarks Nationalbank was reduced by kr. 106 billion in 2008, cf. Table 2. The lower net position was reflected in a reduction of the holdings of certificates of deposit by kr. 82 billion and an increase in monetary-policy loans in kroner by kr. 24 billion.

Furthermore, the banks and mortgage-credit institutes raised loans in foreign currency from Danmarks Nationalbank under the swap lines established. At the end of December, the financial institutions had raised loans in foreign currency for kr. 108 billion.

Bank interest rates and bond yields

From the end of 2007 until December 2008, the banks' average interest rates on lending to households and the corporate sector rose by 0.9 and 0.8 percentage points, respectively, while the corresponding deposit rates rose by 0.3 and 0.6 percentage points, respectively. The banks raised their lending rates several times during 2008, citing higher financing costs in the money and capital markets in connection with the international financial turmoil.

The Danish bond markets were also affected by the financial turmoil in 2008. Yields on mortgage-credit bonds rose significantly in September and October, and the spread to government bond yields widened considerably. The mortgage-credit bond yields subsequently fell again, e.g. as a consequence of the announcement on 31 October 2008 of the agreement on financial stability in the pension area in Denmark, cf. page 17.

The yield on 10-year government bonds decreased from approximately 4.5 per cent at the beginning of 2008 to approximately 3.3 per cent at year-end. The yield spread to equivalent German government bonds was fairly stable at around 0.25 percentage points from March to September and then widened to around 0.4 percentage points at the end of the year. Other European countries experienced an even further widening of the yield spread to Germany.

THE DOMESTIC FINANCIAL SYSTEM

Financial stability

During the summer of 2008, the Danish financial system proved to be seriously affected by the financial crisis. Danmarks Nationalbank's temporary measures, which are described below, were aimed at increasing liquidity in the markets. In addition, Danmarks Nationalbank several times had to provide support for Danish banks that experienced liquidity problems. The Danish banks' large deposit deficits made them vulnerable to restrictions on access to foreign funding. Danmarks Nationalbank assessed that financial stability was at risk as the liquidity problems of individual banks could affect other banks' access to foreign funding. Initially, Danmarks Nationalbank made a specific assessment of each bank, but during the autumn it became clear that a general solution was required.

Roskilde Bank

On 10 July, Danmarks Nationalbank concluded an agreement with Roskilde Bank concerning an unlimited credit facility. The agreement was made following an approach from the board of Roskilde Bank, who assessed that an announcement that substantially greater write-downs were expected might lead to a run on the bank by customers wanting to withdraw their deposits. The agreement was subject to a number of conditions, including that Roskilde Bank should work towards a full or partial sale of the bank. After an extensive sales process it became clear that no-one wished to acquire Roskilde Bank. In addition, thorough audits of the bank's commitments had disclosed considerable losses and the bank was unable to meet the statutory solvency requirement. To avoid insolvent liquidation, Danmarks Nationalbank and the Danish Contingency Association on 24 August, by agreement with the Danish government, concluded an agreement to acquire Roskilde Bank. The aim was to mitigate the negative impact on the financial system in Denmark. In September, 21 branches of Roskilde Bank were sold. The rest of the bank is still being wound up.

On 27 November, the Finance Committee of the Folketing (Danish parliament) approved a government guarantee protecting Danmarks Nationalbank against any losses in connection with the acquisition and winding up of Roskilde Bank.

EBH Bank

Danmarks Nationalbank provided liquidity support to EBH Bank in September and October. On 13 November, EBH Bank announced that it had fallen below the statutory solvency requirement, and subsequently it was taken over by the Winding-Up Company, cf. below.

Amagerbanken

On 3 October, Amagerbanken obtained a short-term credit facility from Danmarks Nationalbank.

Political agreement on financial stability

On 10 October, the Folketing adopted the Financial Stability Act, under which all depositors and other unsecured creditors are fully covered in respect of claims on banks in the Kingdom of Denmark. A winding-up company was established. In the event that a bank no longer meets the statutory solvency requirement and no private-sector solution can be found, this company will inject capital into a new subsidiary that will acquire and wind up the bank.

Political agreement on financial stability in the pension sector

On 31 October, the Ministry of Economic and Business Affairs, the Danish Financial Supervisory Authority and the Danish Insurance Association decided to launch a number of initiatives to prevent pension and insurance companies from being compelled to divest Danish mortgage-credit bonds.

Act on State-Funded Capital Injections (Credit Package)

The Act, which was adopted by the Folketing on 3 February 2009, enables credit institutions domiciled in Denmark to apply to the government for injections of hybrid Tier 1 capital. All banks, savings and cooperative banks, mortgage-credit institutes and Danish Ship Finance are comprised by the arrangement.

Danmarks Nationalbank's temporary measures

On several occasions in 2008, Danmarks Nationalbank temporarily expanded the credit facilities available to banks and mortgage-credit institutes, currently until 30 September 2010. In May, Danmarks National-

bank approved a new type of bonds as eligible collateral for loans. These loan bills can be issued by banks in Denmark. The purpose was to boost the somewhat sluggish exchange of liquidity in the money market. When acquired by other banks and mortgage-credit institutes, these bills can be pledged as collateral to Danmarks Nationalbank. In the subsequent months the situation gradually worsened, which made further measures necessary. In September, Danmarks Nationalbank gave banks and mortgage-credit institutes access to credit on the basis of excess capital adequacy. Depending on the capital buffer, the maximum credit line is usually kr. 800 million. At the same time, the collateral base for ordinary borrowing by banks and mortgage-credit institutes from Danmarks Nationalbank was expanded to include equities and investment fund shares. In addition, it became possible to pledge senior debt, i.e. bonds issued by banks and mortgage-credit institutes in connection with covered bonds, as collateral.

Banks

The earnings of Danish banks fell considerably in 2008 and the downward trend is expected to continue in 2009. The fall is primarily attributable to value adjustments and increased write-downs on loans and guarantees, particularly towards the end of the year. The banks' lending to residents, excluding monetary financial institutions (MFIs), was kr. 1,546 billion at end-2008 compared with kr. 1,334 billion at end-2007.

During 2008, nine Danish banks were wound up, merged with or were taken over by other banks.

Mortgage-credit institutes

In 2008, the mortgage-credit institutes experienced a rise in write-downs, although they remained at a very low level. Total lending by mortgage-credit institutes to domestic households and business enterprises etc. constituted kr. 2,165 billion at end-2008, up from kr. 2,016 billion at end-2007. At the end of 2008, deferred-amortisation loans made up 48 per cent of total lending compared with 43 per cent at the end of 2007.

Basel II

In 2008, the credit institutions calculated their capital requirements under the Basel II rules. In terms of credit risk, Basel II entails that the uniform rules are replaced by more institution-specific rules, whereby the risk-weighting of assets – and thus the capital requirement – to a larger extent reflects the risks incurred by each individual institution. For most Danish banks, the transition to Basel II meant reduced capital require-

ments due to lower capital requirements for exposures with retail customers and small and medium-sized enterprises. The greatest reduction was seen for institutions applying the IRB (Internal Ratings Based) approach to calculation of credit risk. To prevent large one-off decreases in the credit institutions' capital requirements, a transitional arrangement has been introduced for institutions applying the IRB approach. Up to and including 2009, these institutions must hold capital in excess of the statutory minimum requirement of 8 per cent.

Under Basel II, the credit institutions must calculate individual capital needs on the basis of their aggregate risks. The capital needs are not published, but are reported to the Danish Financial Supervisory Authority, which may order individual institutions to increase their capital needs.

Recommendations of the Financial Stability Forum

The Financial Stability Forum (FSF) comprises representatives of national and international financial authorities and aims to promote financial stability and well-functioning financial markets. In April 2008, the FSF presented a report with a number of recommendations in the context of the financial crisis. Danmarks Nationalbank and the Danish Financial Supervisory Authority held a seminar on this issue, and in that connection a group was set up with representatives of the Association of Danish Mortgage Banks, the Danish Mortgage Banks' Federation, the Danish Bankers Association, the Danish Financial Supervisory Authority and Danmarks Nationalbank. This group is to discuss and follow up the FSF recommendations and the process of implementing specific recommendations in Denmark. Its work is expected to be completed by the summer of 2009.

Payment systems

So far, payment and securities settlement in Denmark has not been particularly affected by the financial turmoil. One of the reasons is that the banks and mortgage-credit institutes have considerable holdings of securities and certificates of deposit that can be pledged as collateral in the settlement process.

Settlement of payments via accounts at Danmarks Nationalbank continued to grow in 2008 in terms of both the number of payments and their value. In 2008 there were 793,859 payments totalling kr. 78,799 billion in value.

On some days, the financial turmoil led to record numbers of foreign-exchange transactions for settlement via the international currency settlement system CLS. It has been possible to settle payments related to

credit derivatives via CLS since November 2007, but the volume is still low. However, the collapse of Lehman Brothers and the problems experienced by the US mortgage institutes Fannie Mae and Freddie Mac led to an increase in payment settlement via CLS. These transactions were settled via the normal procedure without causing any capacity problems.

Oversight

Danmarks Nationalbank oversees the financial infrastructure in Denmark in order to promote safe and efficient settlement of payments and securities transactions.

The Sumclearing

The Sumclearing is the Danish system for clearing and settlement of retail payments in Denmark. Danmarks Nationalbank has monitored settlement discipline among Sumclearing participants for quite a while. During this period, it has been observed that a number of participants have been postponed because they had not reserved sufficient liquidity. With reference to Danmarks Nationalbank's survey of settlement discipline, the Danish Bankers Association has raised the fee for postponement.

Danmarks Nationalbank follows the sector's discussions on how to modernise the retail payments infrastructure.

Securities settlement

In October, NASDAQ OMX Nordic Exchange announced plans to introduce a central counterparty for equity trading in the Nordic market. This will reduce settlement risk. The central counterparty will enter into all transactions concluded as buyer and seller vis-à-vis the respective counterparties. At the same time, the Nordic settlement procedure will be aligned with those seen elsewhere in Europe.

VP Securities A/S (VP) has set up a central securities depository in Luxembourg, VP Lux S.à r.l., with a view to giving Danish banks and mortgage-credit institutes access to issue euro-denominated bonds from a euro area member state. This means that the bonds can be pledged as collateral to central banks in the euro area. On 18 December 2008, the Governing Council of the ECB approved VP Lux under the euro area standards for central securities depositories.

The Payment Services Directive and SEPA

The EU Payment Services Directive, which was adopted in 2007, must be transposed into national legislation by 1 November 2009.

The Directive is the legal foundation for the efforts by European banks to establish a Single Euro Payments Area, SEPA. Denmark will be part of SEPA, and since January 2008 Danish banks have offered their customers the option to conduct cross-border transfers using the new SEPA Credit Transfers product.

Target2 and Target2-Securities

In May 2008, Denmark migrated to the new single shared platform for settlement of payments in euro, Target2. Target2 is one of the largest payment systems in the world. In 2008, the Danish participants settled 179,182 payments in Target2 with a value of 5,545 billion euro.

Due to an increase in cross-border securities trading, the Eurosystem is in the process of setting up a single European platform for securities settlement, Target2-Securities. VP has indicated that it wants to use Target2-Securities for the settlement of securities transactions in both kroner and euro. Target2-Securities is expected to be operational from 2013.

Fixing of swap reference rates

On 1 October 2008, Danmarks Nationalbank began to calculate and publish swap reference rates on a daily basis for maturities between 2 and 10 years in order to extend the range of Danish reference rates. The reference rates are published on the basis of daily reporting by Danish and foreign banks.

INTERNATIONAL MONETARY COOPERATION

Enlargement of the euro area

On 1 January 2009, Slovakia joined the euro area and introduced the euro as its currency. The euro area now consists of 16 member states. On introduction of the euro as its currency, Slovakia left the Exchange Rate Mechanism, ERM II. The current ERM II participants are Denmark, Estonia, Latvia and Lithuania. The change in the group of participants does not entail any adjustment of the terms for the Danish krone in ERM II.

The International Monetary Fund

In the last few years the work of the International Monetary Fund, IMF, has been characterised by the adjustment of the voice and representation of its 185 member countries in the organisation to better reflect their relative weight in the global economy, and by the introduction of a new financing model for the IMF's activities. The coming reforms were adopted by the IMF's Board of Governors in the spring of 2008. The required amendments to the IMF's Articles of Agreement are now await-

ing approval by the member countries before the reforms can be implemented. Denmark sent its approval to the IMF on 2 October 2008.

Towards the end of 2008, the global financial crisis brought the IMF back into focus in international economic-policy cooperation. The EU and G20 discussions of reforming the international financial system showed broad international support for the IMF as a central institution in the efforts to design a more efficient global financial architecture. The IMF introduced a new type of credit facility in October, the Short-Term Liquidity Facility, which provides large short-term financing without the normal binding economic-policy requirements. The facility is aimed primarily at emerging market economies with track records of sound policies. In the 4th quarter of 2008, following several years with a very low level of lending activity, the IMF granted very large loans to Ukraine, Hungary, Iceland, Pakistan and Latvia, among others, in support of economic adjustment programmes.

Swap lines with the central banks of Iceland and Latvia

Danmarks Nationalbank, Norges Bank and Sveriges Riksbank concluded bilateral agreements in May with Seðlabanki Íslands, offering to make euro available against Icelandic kronur, for 500 million euro each. In December Danmarks Nationalbank and Sveriges Riksbank concluded similar agreements with Latvijas Banka. For Danmarks Nationalbank, the agreement comprised a total amount of 125 million euro for Latvian lats.

BANKNOTES AND COINS

In 2008, the value of banknotes and coins in circulation fell from kr. 61.6 billion to kr. 61.3 billion. The circulation of banknotes increased from 161 million banknotes in 2007 to 162 million in 2008, i.e. an increase of 0.6 per cent. The circulation of 1,000-krone banknotes fell by 2 per cent, while the circulation of other banknotes increased by 1.2 per cent.

517 counterfeit banknotes were removed from circulation in 2008. This is a slight increase in the number compared to 2007. In an international context, counterfeiting of Danish banknotes is limited, however.

New banknotes

In 2007, Danmarks Nationalbank announced that the draft proposal from the artist Karin Birgitte Lund will form the basis for a new Danish banknote series. The motifs are Danish bridges and prehistoric finds from the areas surrounding the bridges. In cooperation with Karin Birgitte Lund, Danmarks Nationalbank worked on the original draft proposal in 2008, especially with regard to the depictions of the five

bridges. The final proposal was submitted to the Ministry of Economic and Business Affairs for approval in the spring, and the approval was granted by the Royal Bank Commissioner on 29 May 2008. The work on the proposal continues with a view to issuing the first new banknote (the 50-krone banknote) in August 2009. The last banknote (the 1,000-krone banknote) is expected to be issued in 2011.

Faroe islands and Greenland

As the central bank of the Kingdom of Denmark, Danmarks Nationalbank also supplies the Faroe Islands and Greenland with cash. Since 1951 the Faroe Islands have had their own banknotes with Faroese motifs, but with the same denominations as the Danish banknotes. In 2006 a bill was introduced for Greenland to have banknotes with its own motifs, and the Act on Banknotes in Greenland entered into force on 1 June 2007. Miki Jacobsen has been chosen by the Greenland Home Rule Government to illustrate the Greenlandic banknotes. The draft proposals are expected to be presented to the Home Rule Government in early 2009, and all the denominations are scheduled to be issued at the same time in 2011.

Coins

At the beginning of 2008, Danmarks Nationalbank contacted the Ministry of Economic and Business Affairs with a proposal to abolish the 25-øre coin as the coin no longer had self-supporting purchasing power. The Ministry accepted the proposal, and the coin was abolished as legal tender, effective from 1 October. The coin can be encashed at Danmarks Nationalbank for another three years until 1 October 2011.

In connection with the encashment of the 25-øre coin, coins of many other denominations were also returned. As a result the number of coins in circulation did not increase as usual in 2008; in fact there was a decline of 187.9 million coins at a value of kr. 99.8 million.

Danmarks Nationalbank continued to issue thematic coins in 2008. The second coin in the series of coins to mark the International Polar Year was issued at the beginning of the year. The series was completed in February 2009 with the issuance of the third and last coin. In the ship series three coins were issued, the motifs being *M/S Selandia*, the Viking longship the *Sea Stallion* and the *Royal Yacht Dannebrog*, respectively.

STATISTICS

Danmarks Nationalbank prepared two new sets of statistics during 2008. The lending survey was first published on 13 January 2009 and will be disseminated quarterly in future. Being qualitative, it is based on state-

ments by credit managers of the largest banks and mortgage-credit institutes on lending-policy changes. The survey contains information about factors that have influenced lending policy during the last quarter and provides a picture of the institutions' expectations of credit developments in the coming quarter. The lending survey thus supplements the existing quantitative lending statistics.

The coverage of securities statistics is expanded to include information on ownership concentration in Danish securities with special focus on mortgage-credit bonds. The statistics are published by ISIN codes, showing the degree of concentration in the owner distribution of individual bond series. The statistics were published for the first time on 7 January 2009 and will be issued on a monthly basis.

Organisation and Tasks of Danmarks Nationalbank

STAFF

At the close of 2008, Danmarks Nationalbank had 543 employees, equivalent to 505 full-time positions. Employees in part-time positions constituted 14 per cent of the staff.

The proportion of staff with an academic background has been rising in recent years, cf. Table 3, mainly because bank staff has been replaced by academic staff and because production has been streamlined.

In 2008, Danmarks Nationalbank increased the number of apprenticeships to eight positions within five different areas. It also offered five PhD scholarships and four traineeships. At year-end, 11 employees were on leave to work for international institutions. Five employees were on short-term leave to work at the ECB during the year. Furthermore, a position as financial attaché in Beijing was established in 2008.

Absence due to illness averaged 7.2 days per staff member, which is the same as in 2007.

Recruitment and staff turnover

Staff turnover in 2008 was 16 per cent, which is in line with the level in the previous year. This figure masks heavy staff turnover, 21 per cent, in the 1st half of the year, while in the 2nd half the turnover rate halved.

There has been a special need to recruit staff for the IT department as Danmarks Nationalbank had to abandon its plans to outsource IT tasks in 2007.

STAFF GROUPS

Table 3

Year-end	2001		2004		2007		2008	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Academic staff	130	23	165	31	185	37	183	36
Bank staff	128	23	104	19	81	16	71	14
IT/clerical staff	114	21	98	18	86	17	98	20
Service staff	92	16	86	16	82	16	76	15
Craftsmen/technicians ..	94	17	83	16	73	14	77	15
Total	558	100	536	100	507	100	505	100

Note: Number of employees converted to full-time positions at year-end. In note 9 to the Accounts, the number of employees is converted to full-time positions as an average for the year.

Security clearance of employees

On account of the threat scenario in 2008, Danmarks Nationalbank found it necessary to tighten and update security clearance procedures for a large group of existing employees.

Collective bargaining

In 2008, Danmarks Nationalbank negotiated and signed 3-year collective agreements with the Staff Association of Danmarks Nationalbank, which comprises most of the bank's employees, and with senior managers. These agreements reflect the results of the bargaining in the financial sector.

Reduced budget framework for fees and salaries

In the period 2008-12, Danmarks Nationalbank's total remuneration pool will be reduced by an average of 2 per cent p.a. compared with what it would otherwise have been.

DANMARKS NATIONALBANK'S BUILDINGS

In 2008, Danmarks Nationalbank began to go through its building with a view to identifying energy savings opportunities. This process is expected to be completed during 2009.

MANAGEMENT AND ORGANISATION

Danmarks Nationalbank is a self-governing institution managed by a Board of Directors, a Committee of Directors and a Board of Governors. Mr Søren Bjerre-Nielsen, Group President, is Chairman of the Committee of Directors and the Board of Directors.

The Board of Governors has three members. The three governors are charged with the day-to-day management of Danmarks Nationalbank and hold full responsibility for the formulation and ongoing adjustment of monetary policy. As Governor by Royal Appointment Mr Nils Bernstein is Chairman of the Board of Governors. The other two members, who are appointed by the Board of Directors on the recommendation of the Committee of Directors, are Mr Torben Nielsen and Mr Jens Thomsen.

The Royal Bank Commissioner is the formal link between the Government and Danmarks Nationalbank. The Minister for Economic and Business Affairs, Ms Lene Espersen, is the Royal Bank Commissioner.

THE BOARD OF DIRECTORS OF DANMARKS NATIONALBANK,
1 MARCH 2009

Box 1

Chairman: *Søren Bjerre-Nielsen*, Group President

Deputy Chairman: *Helle Bechgaard*, Director

Elected by the Folketing for the period ending 31 March 2011:

Pia Christmas-Møller, MP

Kristian Thulesen Dahl, MP, Chairman of the Finance Committee

Henrik Sass Larsen, MP, the Social Democrats' political affairs spokesman

Hans Chr. Schmidt, MP, Group Chairman of the Liberal Party

Inger B. Støjberg, MP, the Liberal Party's political affairs spokeswoman

Villy Søvndal, MP, Chairman of the Socialist People's Party

Helle Thorning-Schmidt, MP, Chairwoman of the Danish Social Democrats

Margrethe Vestager, MP, Chairwoman of the parliamentary group of the Social-Liberal Party

Appointed by the Minister for Economic and Business Affairs for the period ending 31 March 2011:

Michael Dithmer, Permanent Secretary, Ministry of Economic and Business Affairs

Michael Lunn, Permanent Secretary, Ministry of Justice

Elected by the Board of Directors for the period ending 31 March:

Niels Due Jensen, Group Chairman 2009

Jens Rostrup-Nielsen, Director 2009

Michael Møller, Professor 2009

Helle Bechgaard, Director 2010

Niels Fog, Merchant 2010

Bente Sorgenfrey, President of the Confederation of Professionals in Denmark 2010

Hans Jensen, Former President of the Danish Confederation of Trade Unions 2011

Kirsten Nissen, Trade Union President 2011

Peter Gæmelke, Farmer, Chairman of Danish Agriculture 2011

Jette W. Knudsen, Director 2012

Kjeld Larsen, Farmer 2012

Kirsten Nielsen, Former Council President 2012

Søren Bjerre-Nielsen, Group President 2013

Peter Bjerregaard, Managing Director 2013

Niels Boserup, Director 2013

THE COMMITTEE OF DIRECTORS OF DANMARKS NATIONALBANK,
1 MARCH 2009

Box 2

Chairman: *Søren Bjerre-Nielsen*, Group President

Deputy Chairman: *Michael Dithmer*, Permanent Secretary, Ministry of Economic and Business Affairs

Elected by the Board of Directors for the period ending 31 March 2009:

Søren Bjerre-Nielsen, Group President

Kristian Thulesen Dahl, MP, Chairman of the Finance Committee

Michael Møller, Professor

Kirsten Nissen, Trade Union President

Helle Thorning-Schmidt, MP, Chairwoman of the Danish Social Democrats

Appointed by the Minister for Economic and Business Affairs for the period ending 31 March 2011:

Michael Dithmer, Permanent Secretary, Ministry of Economic and Business Affairs

Michael Lunn, Permanent Secretary, Ministry of Justice

REPRESENTATION OF THE BOARD OF GOVERNORS ON COMMITTEES, IN INTERNATIONAL ORGANISATIONS, ETC.

As of 1 March 2009, the Board of Governors is represented on the following committees:

- *Bankernes EDB Central*
Governor *Torben Nielsen* is an observer on the Board of Directors.
- *Danish Ship Finance*
Governor *Jens Thomsen* is the Vice Chairman of the Board of Directors.
- *The Financial Business Council*
Governor *Jens Thomsen* is a member.
- *The Economic Council*
Governor *Jens Thomsen* is a member.
- *PBS Holding AIS and PBS AIS*
Governor *Torben Nielsen* is a member of the Board of Directors.
- *VP Lux S.à r.l.*
Governor *Torben Nielsen* is the Chairman of the Board of Directors.
- *VP Securities AIS*
Governor *Torben Nielsen* is the Vice Chairman of the Board of Directors.

The European Union, EU

- *The Economic and Financial Committee*
Governor *Jens Thomsen* is a member.
- *Economic and Financial Committee Group on EU Government Bonds and Bills markets*
Governor *Jens Thomsen* is the Chairman.

The European Central Bank, ECB

- *The General Council*
Governor *Nils Bernstein* is a member.
- *International Relations Committee*
Governor *Jens Thomsen* is a member.

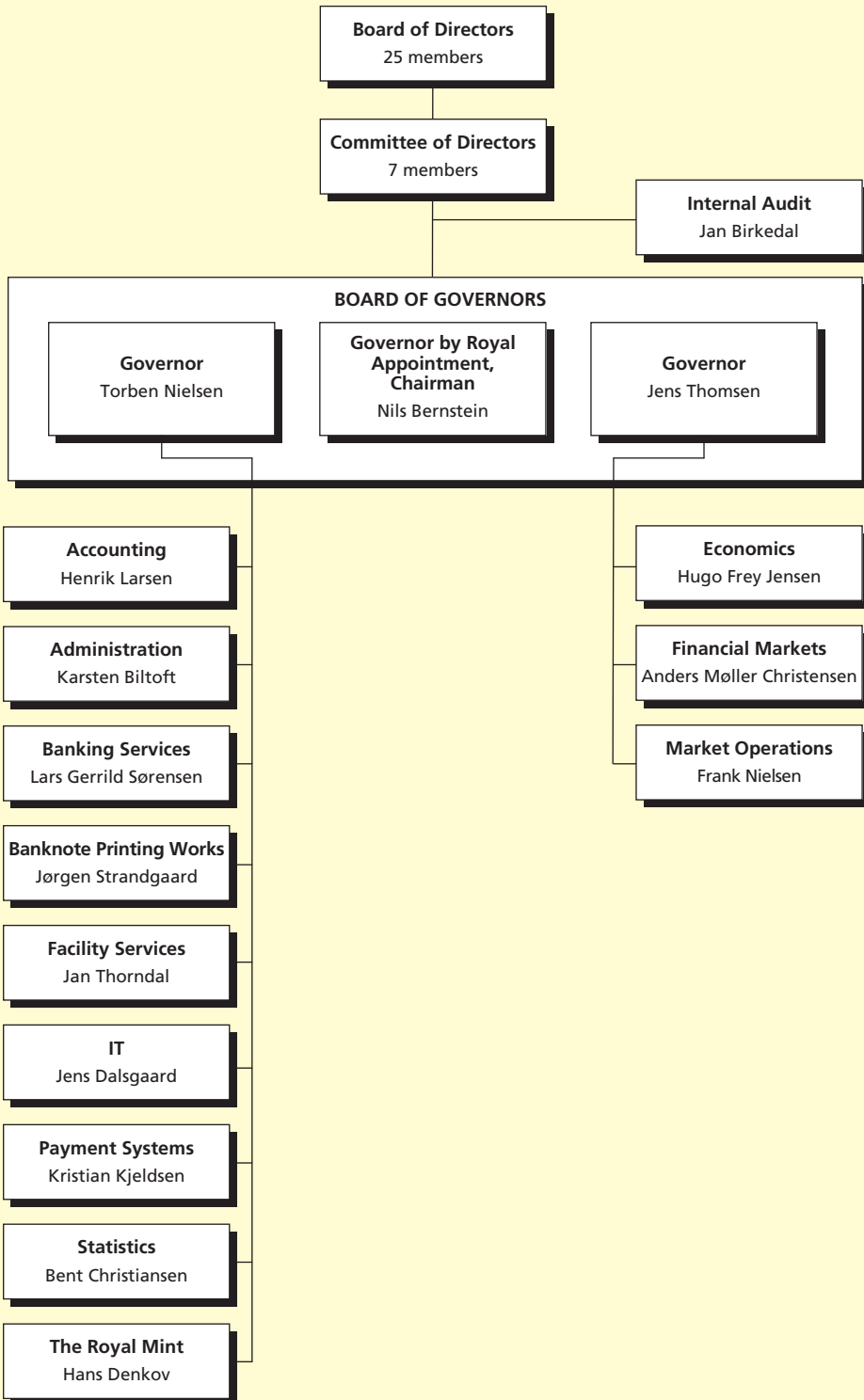
The International Monetary Fund, IMF

- *Board of Governors*
Governor *Nils Bernstein* is the Danish member.
- *The Nordic/Baltic Monetary and Financial Committee*
Governor *Jens Thomsen* is a member.

Organisation for Economic Cooperation and Development, OECD

- *The Economic Policy Committee*
Governor *Jens Thomsen* is a member.

ORGANISATION CHART 1 MARCH 2009



Risk Management

OPERATIONAL RISK

Cash supply

In both 2007 and 2008 there were large-scale robberies against the cash supply system in Denmark. This prompted Danmarks Nationalbank to contact the National Police in 2008 to discuss the security of the cash supply system, and the police decided to inspect all cash centres. The recommendations of the police resulted in measures to tighten security at the cash centres and also in a set of general security recommendations for cash centres. These have been provided to the relevant industry associations and all players in the cash supply system.

The recommendations of the police will be considered by the working group established in 2008 by Danmarks Nationalbank jointly with the Danish Bankers Association. The working group is to examine various models for the future set-up of the Danish cash handling system.

Danmarks Nationalbank's own security conditions are reviewed on an ongoing basis. Besides the review following the recommendations of the National Police, a special focus area in 2008 was security at The Royal Mint.

Business continuity

In all of Danmarks Nationalbank's business areas, 2008 saw a review of the plans for business continuity in the event of various major incidents such as extensive fire in a building. This revealed a need for a few improvements to the IT infrastructure, to be implemented in connection with the upcoming IT investments in the relevant areas.

Insurance strategy

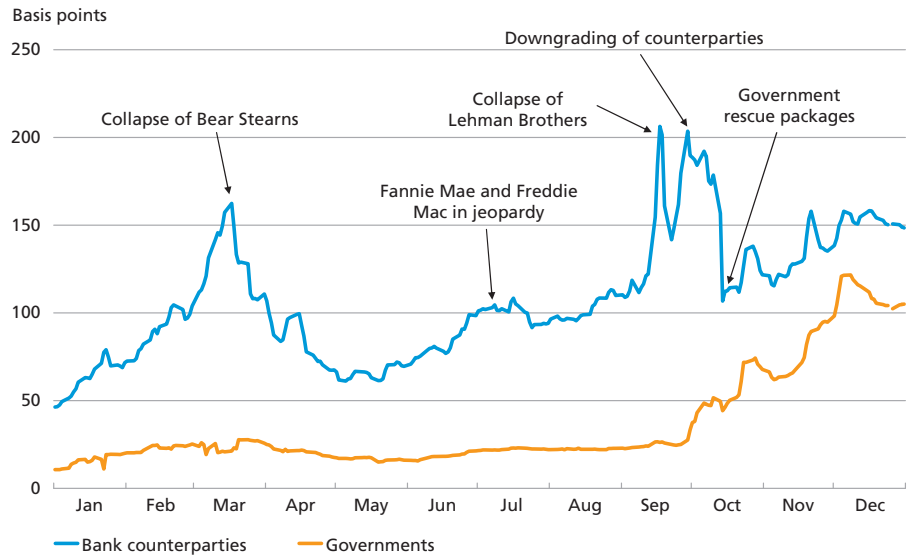
Danmarks Nationalbank's insurance policies are reviewed on an annual basis in collaboration with an external insurance agent. No major changes were made to the insurance strategy in 2008.

FINANCIAL RISK

Danmarks Nationalbank is exposed to a number of financial risks. Some of them arise from its role as monetary authority and are thus unavoidable, while others reflect how Danmarks Nationalbank, in its capacity as

AVERAGE CDS SPREADS FOR SELECTED COUNTERPARTIES IN 2008

Chart 2



Note: A Credit Default Swap (CDS) can be regarded as insurance against losses due to counterparty default on obligations. The CDS spread can be regarded as the insurance premium, expressing the market assessment of the estimated failure rate for a given counterparty. Consequently, the CDS spread is used as an indicator of the credit risk on a given counterparty. The calculated averages are simple averages for the selected counterparties' 5-year CDS spreads.

Source: Fitch Ratings.

a financial enterprise, weighs risk and reward. Danmarks Nationalbank is primarily exposed to market risks such as interest-rate, gold and foreign-exchange risks. In addition, it is exposed to liquidity and credit risk.

The risk environment changed significantly in 2008 compared with previous years. As described above, the financial markets were characterised by considerable uncertainty and nervousness, especially in the 2nd half of the year. This entailed a strong increase in market volatility, and Danmarks Nationalbank's market risk almost doubled during the year.

2008 saw a significant widening of credit and liquidity spreads, cf. Chart 2, which had an adverse impact on the prices of credit-sensitive products. The value of Danmarks Nationalbank's portfolios of mortgage bonds and covered bonds was also affected. The net outcome for Danmarks Nationalbank was, however, a capital gain since the rising demand for low-risk and liquid securities had a positive effect on the value of the government bond portfolio. In addition, Danmarks Nationalbank achieved a gain on its gold stock.

Market risk

Market risk is the risk of suffering a loss as a consequence of price fluctuations in the financial markets.

In the following, a distinction is made between exposure and risk.

INTEREST-RATE EXPOSURE OF DANMARKS NATIONALBANK							Table 4
Kr. billion	DKK	EUR	USD	GBP	SEK	Other	Total
2007	0.6	0.4	0.3	0.1	0.1	-	1.6
2008	0.6	0.4	0.2	0.1	0.1	-	1.5

Note: The Table shows Danmarks Nationalbank's interest-rate exposure measured by the krone duration. The latter indicates the change in the market value of Danmarks Nationalbank's portfolio on a 1-percentage-point increase in the general level of interest rates.

Exposure (sensitivity) is the extent to which a loss is incurred on a given change in a specific risk factor. Exposure does not account for the probability of change.

Risk combines exposure with the probability of changes in the risk factors. Risk is thus a measure of expected gains or losses.

Interest-rate exposure

Part of Danmarks Nationalbank's portfolio is invested in bonds, which entails exposure to changes in interest rates as fluctuations in market value mirror variations in interest-rate levels.

Danmarks Nationalbank's interest-rate exposure was kr. 1.5 billion at end-2008. Consequently, an increase by 1 percentage point in interest rates would entail a loss of kr. 1.5 billion due to price fluctuations. This is almost unchanged compared with 2007, cf. Table 4.

Danmarks Nationalbank's current revenue is affected by interest-rate fluctuations. Since interest-bearing investments total just below kr. 120 billion, a general drop in interest rates would entail lower income from interest. Another important factor in relation to current net income from interest is the spread between interest rates in Denmark and market interest rates in the euro area, where most of the foreign-exchange reserve is placed.

Gold exposure

Pursuant to the Danmarks Nationalbank Act, Danmarks Nationalbank is obliged to hold a stock of gold. Throughout 2008 the gold stock was at 66.5 tonnes.

In view of the strong volatility in the gold price compared with previous years, the market value of Danmarks Nationalbank's gold stock changed considerably during the year. For example, within one month the value of the gold stock rose by more than kr. 2 billion. Over the year, the market value of the gold stock rose from kr. 9.1 billion to kr. 9.8 billion. This has increased Danmarks Nationalbank's gold exposure in 2008 as higher prices entail larger potential losses.

FOREIGN-EXCHANGE EXPOSURE OF DANMARKS NATIONALBANK						Table 5
Kr. billion	EUR	USD	GBP	SEK	Other	Total
2007	167.3	5.7	-	-	-	173.0
2008	214.5	5.4	-	-	-	220.0

Note: The foreign-exchange exposure is calculated after conversion to euro.

Foreign-exchange exposure

The foreign-exchange reserve reflects Denmark's fixed-exchange-rate policy. The foreign-exchange reserve is invested in euro, US dollars, pounds sterling and Swedish kronor. Danmarks Nationalbank has converted most of its foreign-exchange exposure in non-euro currencies to euro by means of forward foreign-exchange contracts.

At the end of 2008, Danmarks Nationalbank's foreign-exchange exposure was kr. 220.0 billion, cf. Table 5. Danmarks Nationalbank will thus incur a loss of kr. 2.2 billion if the krone strengthens by 1 per cent. Since the foreign-exchange exposure is predominantly in euro, the exchange-rate risk is very small on account of the fixed-exchange-rate policy.

Value-at-Risk

One measure of Danmarks Nationalbank's aggregate market risk is Value-at-Risk (VaR). VaR combines the exposure to various market conditions with an estimate of the volatility in these conditions, and is an expression of the capital loss that Danmarks Nationalbank may incur within one year under normal market conditions.

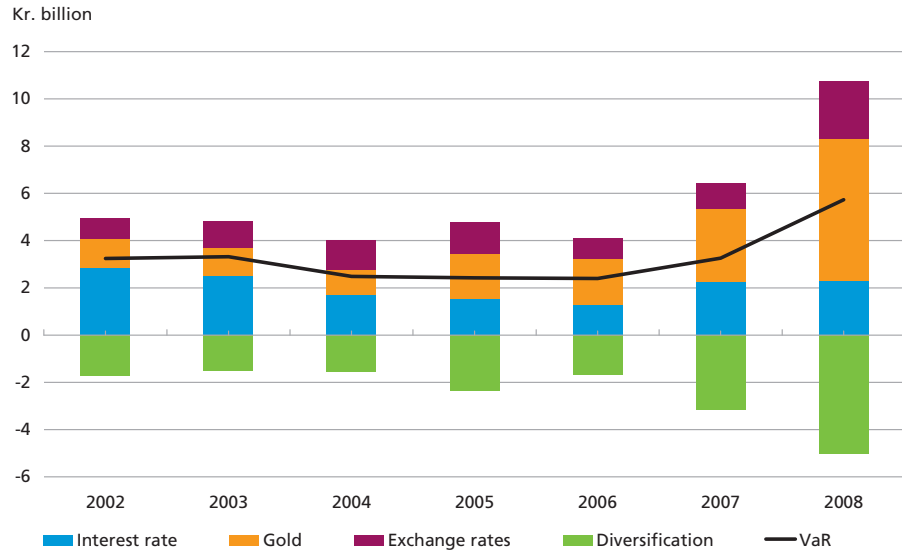
At the close of 2008, Danmarks Nationalbank's VaR was calculated at kr. 5.7 billion, which is kr. 2.5 billion higher than at the beginning of the year, cf. Chart 3. The result indicates that in 2009, with a probability of 95 per cent, Danmarks Nationalbank will not incur a capital loss exceeding kr. 5.7 billion.

The notable increase in VaR was attributable to the considerably stronger uncertainty (volatility) in the market due to the financial crisis. The increase in Danmarks Nationalbank's exposure is modest relative to end-2007, but the market risk has almost doubled as a consequence of the market turbulence.

As shown in Chart 3, the higher VaR is primarily attributable to the gold risk. Exchange-rate risk and interest-rate risk are minor factors in this context. On the other hand, the diversification gain increased in 2008, although its share of Danmarks Nationalbank's gross risk is smaller than in 2007.

DANMARKS NATIONALBANK'S VALUE-AT-RISK

Chart 3



Note: Value-at-Risk (VaR) indicates the maximum loss, with a probability of 95 per cent, that Danmarks Nationalbank will incur during the next year. VaR is calculated at the end of the year. The sum of the contributions from the three risk factors – interest rates, the gold price and exchange rates – exceeds the total VaR. The reason is that the various risk factors often have a low or negative correlation so that losses on all risk factors seldom occur at the same time. This is expressed as the diversification gain, illustrated by the negative green column in the Chart.

Stress test

VaR is a widely used risk measure, but it has its limitations. Since VaR is based on the most recent period, the estimates are strongly influenced by market developments in that period. It follows that VaR does not express the risk under all market conditions. Consequently, Danmarks Nationalbank supplements VaR with stress tests that reflect how extreme, but possible, scenarios for market developments affect Danmarks Nationalbank's current portfolio.

In the most pessimistic stress scenario, the loss to Danmarks Nationalbank will be almost kr. 20 billion. Such a loss, which is equivalent to around one third of Danmarks Nationalbank's net capital, will be related to a significant drop in the gold price, considerable appreciation of the Danish krone vis-à-vis the euro and the dollar, and substantial interest-rate increases in the US and European markets.

Liquidity risk

The purpose of the foreign-exchange reserve is to support the fixed-exchange-rate policy. In the management of the foreign-exchange reserve it is important to ensure that most of the reserve can readily be used for intervention in support of the krone. Consequently, a large proportion of the foreign-exchange reserve is placed in the money mar-

ket or in gilt-edged bonds that can easily be realised or pledged as collateral. In addition, Danmarks Nationalbank can normally quickly raise considerable amounts of foreign exchange by drawing on various standby credit facilities. These include government borrowing in Commercial Paper, as well as Danmarks Nationalbank's lending facility with the ECB under the ERM II agreement.

2008 saw very substantial drawings on Danmarks Nationalbank's foreign-exchange reserve. At the same time, liquidity has dried out in many financial markets, which has made it difficult to sell certain securities at fair prices. Danmarks Nationalbank has been able to raise the necessary funds on account of its investment strategy. 2008 has demonstrated the importance of a highly liquid foreign-exchange reserve.

Credit risk

Credit risk is the risk of loss due to a counterparty's default on its obligations. Credit risk also comprises the risk that the credit rating of a counterparty is reduced, resulting in a capital loss.

Danmarks Nationalbank's exposure to credit risk has many aspects. The credit risk relates to e.g. monetary-policy lending, payment systems and Danmarks Nationalbank's investment portfolios.

Other credit risk factors include Danmarks Nationalbank's temporary financial stability measures launched in 2008, such as extension of the credit facilities available to monetary-policy counterparties by expanding the collateral base and establishment of new credit facilities. Furthermore, Danmarks Nationalbank has taken over the distressed Roskilde Bank and its commitments. In addition, Danmarks Nationalbank has agreed swap facilities with the central banks of Iceland and Latvia.

Most of these exposures entail a very modest credit risk. Monetary-policy lending and credit in connection with payment systems are collateralised, and the Danish Act on Financial Stability ensures that nearly all Danish banks are comprised by a government guarantee.¹ Credit extended to Iceland and Latvia is also collateralised by Icelandic kronur and Latvian lats, respectively. This entails a credit risk, however, in the event that Iceland or Latvia fails to honour its commitments and the currency is not convertible. Iceland and Latvia have been rated Baa by the credit rating agency Moody's.

Credit risk from Danmarks Nationalbank's portfolios

Danmarks Nationalbank's credit risk exposure rose in 2008, cf. Table 6. This can be attributed to the higher foreign-exchange reserve, which has

¹ Losses related to Roskilde Bank are, however, covered by a separate government guarantee, cf. p.17.

CREDIT EXPOSURE FOR DANMARKS NATIONALBANK'S PORTFOLIOS,
END-2008

Table 6

Kr. billion	2007 total	Bonds		Bank claims		Supra- national institutions ⁴	2008 total
		Central govern- ment	Others ¹	Collat- eralised ²	Uncollat- eralised ³		
Aaa	81.3	34.4	25.4	-	1.4	1.6	62.9
Aa1	54.5	3.8	9.5	59.0	12.9	-	85.1
Aa2	23.8	6.8	0.8	11.9	11.1	-	30.7
Aa3	26.9	-	2.3	-	7.7	-	9.9
A1	2.9	2.0	1.2	6.9	-	-	10.1
A2	0.3	-	0.5	1.5	1.2	-	3.1
A3	-	-	-	-	-	-	-
No rating	5.7	-	0.0	-	0.6	31.6	32.2
Total	195.4	47.1	39.6	79.3	34.8	33.2	234.0

Note: Moody's credit rating is used. The scale ranges from Aaa to D, where Aaa is the highest credit rating.

¹ Other bonds include securities with both explicit and implicit government guarantees, covered bonds, and Danish issuers.

² Collateralised bank claims are repos.

³ Uncollateralised bank claims are deposits, correspondent accounts, forward foreign-exchange contracts and swaps with Danish Ship Finance.

⁴ Supranational institutions are BIS, the IMF and the Asian Development Bank. The credit exposure vis-à-vis the IMF totalled kr. 1.9 billion net. In addition, the IMF has unused drawing rights. If the latter are included, the gross exposure would be kr. 20.3 billion.

increased the need for placement in the money and securities markets, and to the higher risk of counterparty failure as a result of the financial crisis. Moreover, the crisis has shown how quickly counterparties can be downgraded, which entails a greater risk of capital losses as a result of wider credit spreads. The crisis has also demonstrated that in most cases, systemically important banks were rescued, which has reduced the credit risk on these. Overall, however, the credit risk has increased.

Danmarks Nationalbank seeks to reduce its credit risk by spreading its assets over many counterparties with high credit ratings. In addition, the investments are predominantly subject to provision of collateral. Collateralised placement means acceptance of larger deposits with the individual counterparties, as well as counterparties with a slightly lower credit rating. The collateral, typically government bonds, ensures coverage of Danmarks Nationalbank's claims in the event of counterparty failure. This was the case e.g. when the US investment bank Lehman Brothers collapsed on 15 September 2008. Danmarks Nationalbank had placed kr. 4.5 billion at Lehman Brothers, but since the deposit was based on German government bonds as collateral, Danmarks Nationalbank could sell the collateral to cover its claim. The collapse of Lehman Brothers thus entailed no loss for Danmarks Nationalbank.

Accounts

for the year 2008

KEY FIGURES AND FINANCIAL RATIOS 2004-08

	2008	2007	2006	2005	2004
Profit and loss account (kr. million)					
Net income from interest	4,915	4,105	3,368	3,616	3,954
Value adjustments	2,246	1,634	-690	1,210	-662
Income from shares, etc.	140	134	115	68	72
Other income	26	59	48	848	84
Expenses, including depreciation	-590	-751	-606	-840	-585
Other expenses	-	-	-	-	-19
Profit for the year	6,737	5,181	2,235	4,902	2,844
Allocated as follows:					
Allocation to net capital	3,593	2,343	-105	1,948	39
Payable to the central government	3,144	2,837	2,340	2,954	2,805
	6,737	5,181	2,235	4,902	2,844
Balance sheet (kr. million)					
Assets					
Foreign-exchange-reserve assets	215,964	172,282	175,446	214,703	219,264
Monetary-policy lending	240,876	216,794	153,735	135,296	72,635
Other lending	129,937	2,573	3,472	4,324	3,412
Domestic bonds	27,308	27,833	28,648	34,329	37,102
Other assets	21,008	5,058	3,571	3,344	4,653
Total assets	635,093	424,540	364,872	391,996	337,066
Liabilities					
Banknotes and coins	61,283	61,553	59,767	56,217	52,039
Monetary-policy deposits	128,193	209,863	171,984	220,423	167,252
Central government	262,789	89,899	73,789	56,428	60,810
Foreign-exchange-reserve debt	4,293	4,585	3,729	2,391	1,633
Deposits under swap facilities	115,996	-	-	-	-
Other liabilities	4,475	4,170	3,476	4,305	5,048
Total creditors	577,029	370,070	312,745	339,764	286,782
Total net capital	58,064	54,470	52,127	52,232	50,284
Total liabilities	635,093	424,540	364,872	391,996	337,066
Financial ratios					
Foreign-exchange reserve (kr. million)	211,671	167,697	171,717	212,312	217,631
Net position of banks and mortgage-credit institutes vis-à-vis Danmarks Nationalbank (kr. million)	-112,683	-6,931	18,249	85,127	94,617
Central government's account (kr. million)	262,789	89,899	73,789	56,428	60,810
Growth in banknotes and coins (per cent)	-0.4	3.0	6.3	8.0	4.7
Change in net capital (per cent)	6.6	4.5	-0.2	3.9	0.1
Average no. of staff (converted to full time)	497	505	513	521	533

REPORT ON DANMARKS NATIONALBANK'S ACCOUNTS

About the Accounts

The Accounts for 2008 have been prepared in accordance with the accounting policies applied in the previous year, cf. p. 54.

The Accounts reflect that Danmarks Nationalbank issues banknotes and coins, holds substantial assets comprising the foreign-exchange reserve, and functions as banker to the credit institutions and to the central government.

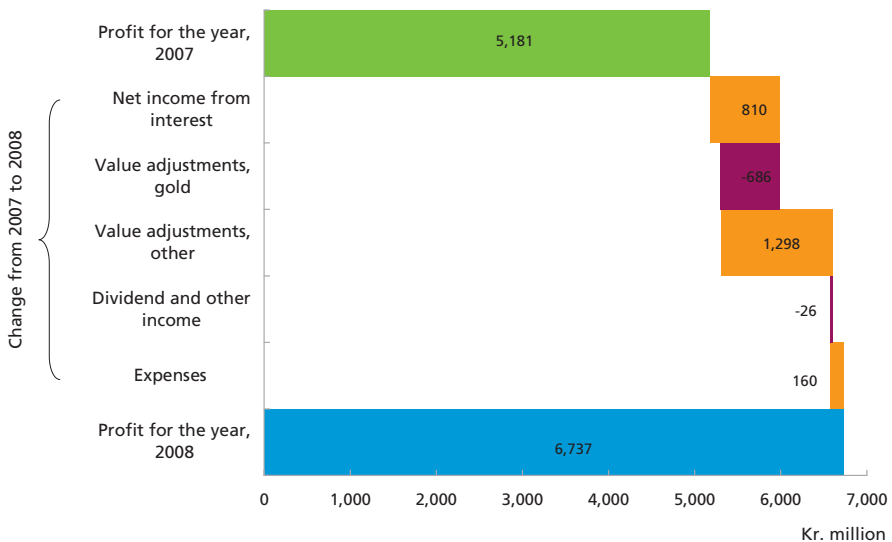
The Accounts differ substantially from last year's. The changes are to a large extent attributable to financial market developments as a result of the international financial crisis. The balance sheet thus increased by kr. 210.6 billion, and the profit and loss account shows considerable changes in the gross and net items of the profit for the year. The profit from financial items was kr. 7,161 million, an improvement by kr. 1,422 million on 2007, and the total profit for the year was kr. 6,737 million, which is kr. 1,556 million higher than in 2007.

About government guarantees

As a main rule, Danmarks Nationalbank's lending to domestic banks and mortgage-credit institutes is collateralised by securities deposited in safekeeping accounts. In addition, it is comprised by the central government's general guarantee covering depositors and unsecured claims under the Financial Stability Act.

CHANGE IN PROFIT FOR THE YEAR

Chart 4



No securities have been deposited as collateral for the special commitment in relation to Roskilde Bank, but the central government has issued a separate guarantee to Danmarks Nationalbank as regards this commitment.

The special commitment regarding EBH Bank is to some extent covered by loss guarantees from a number of banks and is otherwise comprised by the central government's general guarantee covering depositors and unsecured claims.

About losses and provisions

No credit losses were registered on Danmarks Nationalbank's commitments in 2008, and nor is it deemed to be necessary to make provisions for such losses.

Profit from financial items

At kr. 4,915 million, *net income from interest* has increased by kr. 810 million (19.7 per cent) on 2007. Major changes include:

On the positive side

- net interest income from monetary-policy deposits and lending has increased by kr. 2,738 million to kr. 1,051 million as the average net account with banks and mortgage-credit institutes has changed by kr. 63 billion to net lending of kr. 22 billion on average,
- an increase in interest income totalling kr. 350 million from new special lending to Roskilde Bank.

On the negative side

- increase in interest costs on the central government's deposit of kr. 2,003 million as a result of the central government's average deposit having risen by kr. 48 billion,
- a decrease in the yield on the portfolio of domestic bonds by kr. 279 million, mainly due to a fall in the average size of the portfolio.

Value adjustments entailed a gain of kr. 2,246 million, representing an increase by kr. 612 million on 2007.

The price of gold (in Danish kroner) rose by 8 per cent, resulting in a value-adjustment gain of kr. 697 million. (2007: a gain of kr. 1,383 million). Market-value and exchange-rate gains on foreign-exchange positions totalled kr. 1,024 million (2007: a gain of kr. 591 million) and the market-value gain on domestic securities amounted to kr. 524 million (2007: a loss of kr. 340 million).

The *net profit from financial items* is not affected by interest and exchange-rate adjustments in connection with the provision of liquidity in euro and US dollars to the Danish financial system by way of swap facilities with the European Central Bank and the Federal Reserve. The reason is that the interest payable to the central banks is offset by corresponding interest income from the institutions that borrowed the foreign exchange from Danmarks Nationalbank and that exchange-rate adjustments on such foreign-exchange lending is offset by opposite exchange-rate adjustments in connection with the settlement of the swap facilities with the central banks.

Factors contributing to the profit from financial items (financial income)

The profit from financial items reflects various factors. As a supplement to the presentation of the accounts, Table 7 shows the key factors contributing to the financial income. It should be emphasised that the breakdown in Table 7 is theoretical and not immediately comparable with the accounts.

Most of Danmarks Nationalbank's financial income reflects its role as monetary authority, from which its *core income* is generated. Among other things, this role involves issuing banknotes and coins and

FACTORS CONTRIBUTING TO DANMARKS NATIONALBANK'S PROFIT FROM FINANCIAL ITEMS

Table 7

Kr. billion	Profit 2008	Profit 2007
<i>Core income</i>		
Seignorage	2.7	2.4
Calculated return on net capital	2.5	2.1
Foreign-exchange reserve and financing thereof	-0.8	-0.8
Exchange-rate adjustment	-0.4	-0.5
<i>Euro</i>	0.1	0.1
<i>Dollars</i>	0.2	-0.6
<i>Other currencies</i>	0.1	0.0
Gold-price adjustment (in dollars)	0.3	2.3
Total core income	5.1	5.5
<i>Income from additional risk</i>		
Interest-rate risk, carry income, etc.	-0.2	0.2
Interest-rate risk, interest-rate-driven value adjustments	2.3	0.0
Income from additional risk, total	2.1	0.2
Total profit from financial items	7.2	5.7

Note: Seignorage is calculated on the basis of banknotes and coins in circulation, less decentralised banknote holdings. In this Table, Danmarks Nationalbank's gold stock is included as a dollar asset. The total profit for the year is calculated by adding other income in the year and subtracting other costs during the year in the total profit from financial items. Rounded figures.

conducting exchange-rate policy. In addition, Danmarks Nationalbank must hold a stock of gold, cf. the Danmarks Nationalbank Act.

Core income reflects the financial income accruing to Danmarks Nationalbank from business transactions purely related to its role as monetary authority. Core income can be broken down into investments at short-term interest rates and the contribution from the foreign-exchange reserve.

Besides its role as monetary authority, Danmarks Nationalbank also has a role as a financial institution, i.e. it seeks to achieve a reasonable risk/return ratio on its portfolios within the framework of its role as monetary authority. The contribution from this role is reflected in the *income from additional risk*.

Banknotes and coins in circulation and the net capital provide Danmarks Nationalbank with interest-free financing. This financing can be invested at the market rate, providing the most important source of income for Danmarks Nationalbank. The gain from interest-free credit on banknotes and coins in circulation is known as seignorage.

The calculation assumes that Danmarks Nationalbank invests the funds at the short-term monetary-policy interest rate in Denmark. Since monetary-policy interest rates in 2008 were higher on average than in 2007, income from this item increased. The contribution from banknotes and coins and net capital to Danmarks Nationalbank's profit increased by a total of kr. 0.7 billion on the previous year, to kr. 5.2 billion in 2008.

The foreign-exchange reserve is a precondition for Denmark's fixed-exchange-rate policy. The foreign-exchange reserve is predominantly invested in euro. A small share is invested in dollars. The foreign-exchange reserve also includes gold, which does not generate any carry income.

Since the short-term interest rate for the investment currencies was lower than the equivalent Danish interest rate, Danmarks Nationalbank, viewed in isolation, had calculated interest expenses on the foreign-exchange reserve corresponding to this spread. At times the spread between Danmarks Nationalbank's monetary-policy interest rate and the actual rate on investment exceeded 2 percentage points as a result of the turmoil in the financial markets and the demand for liquidity. The cost of holding the foreign-exchange reserve has been calculated at kr. 0.8 billion.

In addition to current expenses in connection with the foreign-exchange reserve, significant adjustments may be seen as a result of fluctuations in exchange rates and the price of gold. For example, when the krone strengthens vis-à-vis another currency, Danmarks Nationalbank incurs a loss because the krone value of the foreign-

exchange reserve decreases. Conversely, weakening of the krone entails a gain.

In 2008 the dollar rate and the price of gold rose by 4 and 3 per cent, respectively, resulting in a value adjustment gain of around kr. 0.5 billion, which is kr. 1.2 billion lower than in 2007. Although the euro weakened against the krone in 2008, Danmarks Nationalbank's intervention in the foreign-exchange market entailed a gain of kr. 0.1 billion.

The increase in total core income thus primarily reflects higher short-term interest rates, a rise in the price of gold and exchange-rate adjustments.

Income from additional risk reflects the fact that Danmarks Nationalbank does not place all its funds at the safe short-term interest rate, but also invests in Danish and foreign bonds and makes deposits with foreign banks. This is not directly related to its role as monetary authority, but reflects that such investments are known to yield a higher return (role as financial institution). Consequently, earnings are also affected by the development in the yield curves – in Denmark and abroad.

This income includes carry income, stemming from the fact that long-term interest rates are often higher than short-term interest rates. It also reflects various other effects, including large fluctuations in the spread between the monetary-policy interest rate and the rate of interest on uncollateralised bank deposits as a result of the crisis. The calculated profit contribution from the excess carry income, etc. was negative by kr. 0.2 billion in 2008.

In addition to carry income, changes in interest rates may entail interest-rate-driven value adjustments. Taking into account the distribution of investments on markets and maturities, the contribution to the profit from this factor has been calculated at kr. 2.3 billion. The large contribution is attributable to a general fall in bond yields in 2008. In 2007 the contribution from this item was zero.

Overall, Danmarks Nationalbank's profit from financial income was kr. 7.2 billion, i.e. kr. 1.5 billion higher than in 2007.

Other items

Income from shares, etc. increased by kr. 6 million to kr. 140 million.

Other income decreased by kr. 33 million to kr. 26 million. The fall is attributable to lower income from sale of coins and medals of kr. 11 million and disbursement from the estate of VB Finans in insolvent liquidation of kr. 2 million in 2008 compared with kr. 23 million in 2007.

Expenses, including depreciation decreased by kr. 161 million to kr. 589 million. Kr. 150 million of the decrease relates to a special contri-

bution in 2007 to Danmarks Nationalbank's Pension Fund subject to winding-up to cover Danmarks Nationalbank's pension commitment, and kr. 23 million (8.7 per cent) to a fall in other expenses and depreciation. On the other hand, staff expenses increased by kr. 12 million (3.8 per cent).

Distribution of the profit for the year

In connection with the closing of the accounts for 2002 it was decided that a reasonable guideline for the level of consolidation of Danmarks Nationalbank would be that the General Reserves are maintained at a constant real level. In other words, the increase in the General Reserves should generally adhere to the development in prices. Since 2002 the profit has been distributed as follows: 80 per cent of the profit for the year excluding value adjustments has been paid to the central government, while the remaining 20 per cent has been allocated to Danmarks Nationalbank. On average the General Reserves have thus increased by approximately 1.5 per cent p.a., which is below the rate of price inflation. In effect, the General Reserves have therefore been eroded. With the profit for the year excluding value adjustments at the current level and inflation at around 2 per cent over a period of time, the real value of the General Reserves can be maintained by transferring 30 per cent of the profit to the General Reserves and 70 per cent to the central government. On this basis it has been decided, cf. section 19 of the Danmarks Nationalbank Act, to distribute the profit for the year, kr. 6,737 million, as follows:

- An amount corresponding to the value adjustments during the year, kr. 2,246 million, is allocated to the Value Adjustment Reserve, which subsequently amounts to kr. 7,048 million.
- 30 per cent of the profit excluding value adjustments, equivalent to kr. 1,347 million, is allocated to the General Reserves, which subsequently amount to kr. 50,716 million.
- The remaining amount, i.e. 70 per cent of the profit excluding value adjustments, equivalent to kr. 3,144 million, is payable to the central government.

The balance sheet

The balance-sheet total increased from kr. 424.5 billion to kr. 635.1 billion. The increase of kr. 210.6 billion can be broken down by the following main items:

- On the *assets side*, new lending to banks in foreign exchange constituted kr. 108.1 billion, and new special lending, etc. to Roskilde Bank and EBH Bank totalled kr. 22.2 billion. In addition, the foreign-

exchange reserve rose by kr. 43.7 billion, monetary-policy lending by kr. 24.1 billion and the market value of forward exchange contracts by kr. 11.1 billion.

- On the *liabilities side*, an increase of kr. 172.9 billion is attributable to the balance of the central government's account, kr. 116.0 billion to deposits from the European Central Bank and the Federal Reserve¹ and kr. 3.6 billion to the increase in net capital in 2008. On the other hand, a fall of kr. 81.7 billion in monetary-policy deposits has reduced the liabilities.

The increase in the foreign-exchange reserve from kr. 167.7 billion to kr. 211.7 billion is composed of an increase in the foreign-exchange reserve assets *gold, foreign assets and claims on the IMF* of kr. 43.7 billion, while, on the liabilities side, *foreign liabilities* decreased by kr. 0.3 billion. The foreign-exchange reserve includes lending in connection with currency swap facilities with the central banks of Iceland and Latvia, Seðlabanki Íslands and Latvijas Banka. These facilities are aimed at providing liquidity in euro to Iceland and Latvia against Icelandic kronur and Latvian lats, respectively, as collateral. At end-2008, Iceland had drawn 150 million euro, equivalent to kr. 1.1 billion, on its 500-million-euro facility. The upper limit for Latvia is 125 million euro, and at end-2008 it had drawn 72.5 million euro, equivalent to kr. 0.5 billion, on the swap facility. This lending entails a credit risk in the event that Seðlabanki Íslands or Latvijas Banka is unable to meet its obligations and the currency provided as collateral is not convertible. At present there are no indications that they will be unable to meet their obligations.

The banks' and mortgage-credit institutes' net position vis-à-vis Danmarks Nationalbank changed considerably during the year. Monetary-policy deposits from these institutions fell from kr. 209.9 billion in 2007 to kr. 128.2 billion, while monetary-policy lending to the institutions rose from kr. 216.8 billion to kr. 240.9 billion. Overall, Danmarks Nationalbank's net lending has thus increased by kr. 105.8 billion, from kr. 6.9 billion to a historically high level of kr. 112.7 billion.

In 2008, special facilities were established for a few banks. Danmarks Nationalbank thus provided special loans to Roskilde Bank totalling kr. 17.5 billion net at end-2008 and subscribed to share capital of kr. 1.7 billion and injected subordinated loan capital of kr. 2.0 billion into the bank, cf. below. In addition, a special loan of kr. 1.0 billion was provided to EBH Bank.

¹ In connection with currency swap facilities concluded in order to provide short-term liquidity in euro and US dollars to domestic banks.

The balance of the central government's account at Danmarks Nationalbank increased by kr. 172.9 billion to kr. 262.8 billion in 2008, an increase that is by and large offset by the increase in the foreign-exchange reserve, net lending to banks and mortgage-credit institutes and lending, etc. to Roskilde Bank and EBH Bank.

Banknotes in circulation fell by kr. 0.2 billion (0.3 per cent) to kr. 55.6 million, and coins in circulation fell by kr. 0.1 billion (1.7 per cent) to kr. 5.7 billion.

The net capital rose from kr. 54.5 billion to kr. 58.1 billion as a result of profit allocations totalling kr. 3.6 billion.

Roskilde Bank

In August 2008, Danmarks Nationalbank and the Danish Contingency Association, via a newly-established Roskilde Bank, acquired the assets of the former Roskilde Bank with a view to ensuring that the activities of the latter were wound up in the most profitable manner. Danmarks Nationalbank's total commitment to Roskilde Bank can be broken down as follows as at 31 December 2008:

Against securities as collateral

Monetary-policy lending	kr. 2.2 billion
Current account and settlement accounts, net lending	kr. 0.1 billion
	<u>kr. 2.3 billion</u>

Against separate government guarantee against losses

Other lending, net	kr. 17.5 billion
Equity investment	kr. 1.7 billion
Subordinated loan capital	kr. 2.0 billion
	<u>kr. 21.2 billion</u>

In 2008, Roskilde Bank posted a loss of kr. 3,501 million so that the equity capital of the company as at 31 December 2008 was negative by kr. 1,028 million. Consequently, on 30 January 2009, the company in general meeting decided to raise the equity capital by kr. 5.0 billion, effected through Danmarks Nationalbank's conversion of loans to equity for kr. 4 billion and of subordinated loan capital to equity for kr. 1 billion. Subsequently, the equity of Roskilde Bank is kr. 3,972 million.

SIGNATURES

The Board of Governors have today considered and approved the Annual Accounts of Danmarks Nationalbank for 2008.

The Annual Accounts have been prepared in accordance with the Danmarks Nationalbank Act.

It is our opinion that the Annual Accounts give a true and fair view of Danmarks Nationalbank's assets, liabilities and financial position at 31 December 2008 and of the result of Danmarks Nationalbank's operations for the financial year 1 January-31 December 2008.

Copenhagen, 24 February 2009

Board of Governors

Nils Bernstein
Chairman

Torben Nielsen

Jens Thomsen

AUDIT REPORTS

To the Board of Directors

Internal Auditor's Report

I have audited the Accounts of Danmarks Nationalbank for the financial year 1 January-31 December 2008, comprising the Report on Danmarks Nationalbank's Accounts, Signatures, Accounting Policies, Profit and Loss Account, Balance Sheet and Notes. The Accounts have been prepared in accordance with the Danmarks Nationalbank Act.

Danmarks Nationalbank's Committee of Directors and Board of Directors' responsibility for the Accounts

The Committee of Directors and Board of Directors are responsible for the preparation and fair presentation of Accounts that are free from material misstatement, in accordance with the Danmarks Nationalbank Act.

Auditor's responsibility

My responsibility is to express an opinion on the Accounts based on my audit.

Basis of opinion

I have conducted my audit in accordance with Danish Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance that the Accounts are free from material misstatement.

The audit included an assessment of the Board of Directors and Committee of Directors' procedures and internal controls that are relevant to Danmarks Nationalbank's preparation and fair presentation of the Accounts, including an assessment of the risk of material misstatement. The audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Committee of Directors and the Board of Directors, as well as evaluating the overall presentation of the Accounts.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My audit has not resulted in any qualification.

Opinion

In my opinion, the Accounts give a true and fair view of Danmarks Nationalbank's assets, liabilities and financial position at 31 December 2008 and of the result of Danmarks Nationalbank's operations for the financial year 1 January-31 December 2008 in accordance with the Danmarks Nationalbank Act.

Copenhagen, 24 February 2009

Jan Birkedal,
Chief Audit Executive

AUDIT REPORTS

To the Board of Directors

Independent Auditors' Report

As auditors appointed by the Minister for Economic and Business Affairs we have audited the Accounts of Danmarks Nationalbank for the financial year 1 January-31 December 2008 comprising the Report on Danmarks Nationalbank's Accounts, Signatures, Accounting Policies, Profit and Loss Account, Balance Sheet and Notes. The Accounts have been prepared in accordance with the Danmarks Nationalbank Act.

Danmarks Nationalbank's Committee of Directors and Board of Directors' responsibility for the Accounts

The Committee of Directors and Board of Directors are responsible for the preparation and fair presentation of these Accounts in accordance with the Danmarks Nationalbank Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and basis of opinion

It is our responsibility to express an opinion on the Accounts based on our audit. We have conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we comply with ethical codes and that we plan and perform the audit to obtain reasonable assurance that the Accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement in the Accounts, irrespective of whether such material misstatement is due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Danmarks Nationalbank's preparation and fair presentation of the Accounts 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 Danmarks Nationalbank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Committee of Directors and Board of Directors, as well as evaluating the overall presentation of the Accounts.

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 Accounts give a true and fair view of Danmarks Nationalbank's assets, liabilities and financial position at 31 December 2008, and of the result of Danmarks Nationalbank's operations for the financial year 1 January-31 December 2008, in accordance with the Danmarks Nationalbank Act.

Copenhagen, 24 February 2009

Mona Blønd,
State-Authorised Public Accountant

Hans Frederik Carøe,
State-Authorised Public Accountant

SIGNATURES

These Accounts, audited in the manner prescribed by the by-laws of Danmarks Nationalbank, are hereby adopted by the Board of Directors at the meeting on 17 March 2009.

As at 1 March 2009 the Board of Directors comprises

Søren Bjerre-Nielsen, Chairman Helle Bechgaard, Deputy Chairman

Peter Bjerregaard Niels Boserup Pia Christmas-Møller Kristian Thulesen Dahl

Michael Dithmer Niels Fog Peter Gæmelke Hans Jensen Niels Due Jensen

Jette W. Knudsen Henrik Sass Larsen Kjeld Larsen Michael Lunn

Michael Møller Kirsten Nielsen Kirsten Nissen Jens Rostrup-Nielsen

Hans Chr. Schmidt Bente Sorgenfrey Inger B. Støjberg

Villy Søvnald Helle Thorning-Schmidt Margrethe Vestager

ACCOUNTING POLICIES

General

Danmarks Nationalbank's Accounts for the year 2008 are presented in accordance with the Danmarks Nationalbank Act. In all significant respects these accounting policies are in accordance with the sound policies for European central banks in the euro area. The main differences relate to unrealised gains on foreign exchange and securities, which are recognised in the profit and loss account in Danmarks Nationalbank's Accounts.

The basic accounting assumptions are economic reality. The effects of transactions and events are recognised when they occur and stated and presented in the accounts for the year which they concern. The Accounts include all material and relevant circumstances, revaluations are shown irrespective of their impact on profits and net capital, and calculation and valuation methods are applied consistently within each category of conditions. When initially recognised, assets and liabilities are stated at cost price. Subsequently, assets and liabilities are valued as described under each accounting item.

Apart from this, the principles for presentation and classification of the individual items in the Accounts remain unchanged from year to year.

The accounting policies applied are unchanged from the previous year.

Conversion of transactions in foreign currency

Transactions in foreign currency are converted to Danish kroner at the exchange rate applying on the transaction date. On the balance-sheet date, all financial assets and liabilities in foreign currency are converted at the exchange rate applying on that date. Both realised and unrealised gains and losses are recognised in the profit and loss account.

Profit and loss account

Interest

Besides income on interest-bearing assets and liabilities, interest income and expenses comprises premiums and discounts on T-bills and certificates of deposit, as well as premiums on forward securities and forward exchange contracts.

Value adjustments, etc.

Value adjustments comprise market-value adjustments and exchange-rate adjustments on financial assets and liabilities, shares, other equity investments and gold. Both realised and unrealised gains and losses are recognised in the profit and loss account.

Income from shares, etc.

Income from shares, etc. comprises income from equity investments in listed and unlisted companies, including associated companies. Income from shares is recognised in the year when the dividend is announced.

Other income

Other income comprises income from Danmarks Nationalbank's sale of coin sets and medals, as well as other income not relating to Danmarks Nationalbank's primary activities or that is not annually recurring.

Expenses

Staff expenses comprise salaries and remuneration for staff, governors and the Committee of Directors, including pension contributions and support, etc., training costs and other staff expenses. Other expenses comprise materials for production of banknotes and coins, etc., current expenses for Danmarks Nationalbank's properties, IT expenses and other expenses.

Balance sheet*Gold*

Gold is stated at the market value on the balance-sheet date.

Financial assets and liabilities

Financial assets and liabilities are stated at the market value on the balance-sheet date.

Repurchase agreements and securities lending, etc.

Securities sold in connection with simultaneous repurchase agreements, and gold and securities made available for lending, are included in Danmarks Nationalbank's respective holdings.

Shares, etc.

Capital investments and equivalent investments and equity investments in associated companies (in which the ownership interest or voting rights are 20 per cent or more) are stated at an estimated market value on the balance-sheet date, not exceeding the acquisition value, however.

Tangible fixed assets

Tangible fixed assets comprise Danmarks Nationalbank's properties, technical building facilities (lifts, electrical installations, etc.), technical production facilities (for banknote and coin production), as well as IT equipment, office equipment and cars.

Tangible fixed assets are stated on the balance sheet at acquisition prices less accumulated depreciation and write-down.

Assets with an acquisition value of less than kr. 100,000 per unit are recognised as expenditure in the year of acquisition.

Depreciation on a linear per-annum basis takes place over the expected useful lives of the assets.

The useful lives are assessed as follows:

Bank properties	100 years
Other properties	25-50 years
Building improvements	25 years
Technical building facilities	10-25 years
Technical production facilities	5-10 years
Other machinery and equipment	3-5 years

Equity investment and subordinated loan capital in Roskilde Bank A/S

Equity investment and subordinated loan capital are stated at acquisition price, taking into account that the central government has issued a guarantee to Danmarks Nationalbank covering losses in relation to the winding-up of Roskilde Bank A/S.

Other assets

Other assets include, inter alia, interest receivable, positive net market value of financial derivatives by instrument type, and prepaid expenses.

Financial derivatives such as forward securities and forward exchange contracts, interest-rate and currency swaps and futures are stated at market value on the balance-sheet date.

Banknotes and coins in circulation

Banknotes and coins in circulation are stated at their nominal value.

Other liabilities

Other liabilities comprise, inter alia, payables, negative net market value of financial derivatives by instrument type, and uncovered pension commitments and other provisions for guarantees provided.

Financial derivatives such as forward securities and forward exchange contracts, interest-rate and currency swaps and futures are stated at market value on the balance-sheet date.

Contingent liabilities

Other liabilities concerning guarantees provided are stated at the estimated value of the payment obligation.

Pension commitments

For defined contribution pension plans, the current premium payments to the pension companies are carried as expenditure in the profit and loss account, and the pension commitment hereafter passes to the pension companies.

For defined benefit pension plans and declarations of support, provisions are made in the accounts of Danmarks Nationalbank for uncovered pension undertakings compiled according to actuarial principles.

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2008

Note	2008 kr. '000	2007 kr. '000
1 Net income from interest:		
Interest on foreign assets	6,704,952	6,735,537
2 Interest on domestic loans	11,089,491	5,681,288
Interest on domestic bonds	1,199,095	1,478,036
Commission and other income	237	230
Interest income, etc.	18,993,775	13,895,091
Interest on foreign liabilities	40,214	62,134
Interest payable to central banks under swap facilities ...	467,157	-
3 Interest on domestic deposits	13,571,656	9,728,350
Expenditure on interest, etc.	14,079,027	9,790,484
Net income from interest, total	4,914,748	4,104,607
4 Value adjustments, etc.:		
Value adjustment of gold	697,410	1,383,317
5 Value adjustment of foreign assets	1,024,215	590,834
6 Value adjustment of domestic securities	524,189	-340,361
Value adjustments, etc., total	2,245,814	1,633,790
Profit from financial items	7,160,562	5,738,397

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2008

Note	2008 kr. '000	2007 kr. '000
Profit from financial items	7,160,562	5,738,397
7 Income from shares, etc.	140,037	133,606
8 Other income	25,814	59,298
Expenses:		
9 Staff expenses	339,680	327,361
One-off payment to Danmarks Nationalbank's Pension Fund subject to winding-up	-	150,000
10 Other expenses	217,450	237,662
Total expenses	557,130	715,023
11 Depreciation and write-down of tangible fixed assets ...	32,276	35,751
Profit for the year	6,737,007	5,180,527
Distribution of the profit for the year:		
Profit for the year	6,737,007	5,180,527
Allocation to/from Value Adjustment Reserve	-2,245,814	-1,633,790
	4,491,193	3,546,737
allocated as follows:		
Allocation to the General Reserves, 30/20 per cent	1,347,358	709,347
Payable to the central government, 70/80 per cent	3,143,835	2,837,390
	4,491,193	3,546,737

BALANCE SHEET AT 31 DECEMBER 2008

Note	2008 Kr. '000	2007 Kr. '000
Assets		
12 Gold	9,781,159	9,083,747
13 Foreign assets	202,776,620	160,636,757
14 Claims on the IMF, etc.	3,405,904	2,560,878
Claims re banks' and mortgage-credit institutes' Target accounts at the ECB	1,709,171	1,085,600
Monetary-policy lending	240,876,000	216,794,000
15 Other lending	129,936,677	2,573,120
16 Domestic bonds	27,307,792	27,833,368
17 Shares, etc.	747,970	747,970
18 Tangible fixed assets	645,806	636,317
19 Equity investment and subordinated loan capital in Roskilde Bank A/S	3,723,008	-
20 Other assets	14,160,287	2,566,240
Accruals	22,776	21,598
Total assets	635,093,170	424,539,595

BALANCE SHEET AT 31 DECEMBER 2008

Note	2008 Kr. '000	2007 Kr. '000
Liabilities		
21 Banknotes	55,612,243	55,781,697
21 Coins	5,671,134	5,770,979
Monetary-policy deposits		
22 Net current accounts	9,661,296	9,411,684
Certificates of deposit	118,532,000	200,451,000
23 Other deposits	2,512,813	2,105,706
24 Central government	262,788,752	89,898,808
25 Foreign liabilities	4,292,824	4,585,485
26 Deposits under swap facilities	115,995,914	-
27 Counterpart of Special Drawing Rights allocated by the IMF	1,459,799	1,432,164
28 Other liabilities	502,795	631,644
Total creditors	577,029,570	370,069,167
General Capital Fund	50,000	50,000
Statutory Reserves	250,000	250,000
Value Adjustment Reserve	7,047,745	4,801,931
General Reserves	50,715,855	49,368,497
29 Total net capital	58,063,600	54,470,428
Total liabilities	635,093,170	424,539,595
30 Apportionment of foreign-exchange-reserve assets		
31 Financial derivatives for conversion of foreign-exchange exposure		
32 Other financial derivatives		
33 Contingent liabilities		
34 Pension commitments		

NOTES TO THE ACCOUNTS FOR 2008

Note	2008 Kr. '000	2007 Kr. '000
1 Net income from interest		
The development in net income from interest has been substantially influenced by the large changes in and shifts between the various types of interest-bearing deposits and lending during the year, and to a lesser extent by changes in the level of interest rates for the individual types.		
Net income from interest increased from kr. 4,105 million to kr. 4,915 million.		
Net interest income from banks and mortgage-credit institutes (interest on monetary-policy lending less interest on current accounts and certificates of deposit) increased by kr. 2,738 million to income of kr. 1,051 million. This was attributable to average accounts having shifted from net deposits from these institutions of kr. 41 billion to net lending to the institutions of kr. 22 billion.		
New special lending to Roskilde Bank entailed interest income of kr. 350 million.		
Net income from interest on net foreign assets was largely unchanged, falling by kr. 9 million to kr. 6,665 million. Average net assets have been falling, but have been invested at slightly higher rates of interest.		
Interest payable to the central government increased by kr. 2,003 million to kr. 4,319 million, primarily as a result of a significantly higher average deposit.		
Interest on domestic bonds decreased by kr. 279 million to kr. 1,199 million, mainly due to a fall in the average size of the portfolio.		
Interest in connection with the provision of liquidity in euro and US dollars to the Danish financial system by way of swap facilities with central banks has not affected Danmarks Nationalbank's net interest as the interest payable to the central banks, kr. 467 million, has been offset by corresponding interest income from the financial institutions.		
2 Interest on domestic loans		
Interest on monetary-policy lending (collateralised loans)	10,251,509	5,670,842
Interest on foreign-exchange loans to banks	467,157	-
Interest on lending to others	370,825	10,446
	<u>11,089,491</u>	<u>5,681,288</u>

NOTES TO THE ACCOUNTS FOR 2008

Note	2008 Kr. '000	2007 Kr. '000
3 Interest on domestic deposits		
Interest on current accounts	446,651	356,446
Interest on certificates of deposit	8,753,789	7,001,375
Interest on the central government's deposits	4,318,513	2,315,116
Interest to other depositors, etc.	52,703	55,413
	<u>13,571,656</u>	<u>9,728,350</u>
4 Value adjustments		
Total value adjustments for the year show a gain of kr. 2,246 million compared with a gain of kr. 1.634 million in 2007, equivalent to an improvement of kr. 612 million.		
Value adjustment of gold entailed a gain of kr. 697 million, which is attributable to an 8-per-cent increase in the gold price converted to Danish kroner.		
Value adjustments of foreign assets resulted in a gain of kr. 1,024 million, comprising a market-value gain of kr. 1,030 million and an exchange-rate loss of kr. 6 million.		
Value adjustment of domestic securities (bonds) resulted in a gain of kr. 524 million.		
5 Value adjustment of foreign assets		
Market-price adjustment	1,030,617	175,949
Exchange-rate adjustment	-6,402	414,885
	<u>1,024,215</u>	<u>590,834</u>
6 Value adjustment of domestic securities		
Value adjustment of domestic bonds	524,189	-340,361
	<u>524,189</u>	<u>-340,361</u>
7 Income from shares, etc.		
Danish Ship Finance A/S	57,960	64,890
PBS Holding	35,466	21,377
VP Securities	29,064	29,064
Bank for International Settlements (BIS)	17,547	18,276
	<u>140,037</u>	<u>133,606</u>

NOTES TO THE ACCOUNTS FOR 2008

Note	2008 Kr. '000	2007 Kr. '000
8 Other income		
Sale of coins and medals	24,134	35,276
Winding-up of the estate of VB Finans	1,652	22,982
Other income	28	1,040
	<u>25,814</u>	<u>59,298</u>
9 Staff expenses		
Salaries and remuneration	259,664	255,271
Pension contributions and support	57,135	50,602
Training	9,395	9,672
Other staff expenses	13,486	11,816
	<u>339,680</u>	<u>327,361</u>
Of which remuneration of the management		
Governors, salaries	7,875	7,568
Governors, pension contributions and actuarial regulation of defined benefit pension commitments	2,902	2,218
Committee of Directors and Board of Directors	751	807
	<u>11,528</u>	<u>10,593</u>
No bonus schemes exist at Danmarks Nationalbank. In 2008 the average number of employees was 497 on a full-time basis (2007: 505).		
10 Other expenses		
Materials for banknote production	30,574	23,147
Materials for coin production	37,659	69,800
Real property, current expenses	65,423	58,127
IT expenses	47,842	41,771
Other expenses	35,952	44,817
	<u>217,450</u>	<u>237,662</u>

NOTES TO THE ACCOUNTS FOR 2008

Note	2008 Kr. '000	2007 Kr. '000
11 Depreciation and write-down of tangible fixed assets		
Properties	13,002	12,380
Operating equipment	19,274	23,371
	<u>32,276</u>	<u>35,751</u>
12 Gold		
The value of the gold stock was kr. 9.8 billion at year-end, compared with kr. 9.1 billion at the end of 2007. The reason is that the price of gold, calculated in kroner, rose by 8 per cent in 2008. The gold stock was unchanged at 66,550 kg.		
13 Foreign assets		
Foreign bonds	63,734,196	53,698,764
Claims on central banks	28,953,244	624,633
Claims on foreign commercial banks	30,814,142	38,830,424
Repo transactions against collateral in foreign bonds	79,274,384	67,482,230
Other foreign assets	654	706
	<u>202,776,620</u>	<u>160,636,757</u>

Investments have primarily been made in government and government-guaranteed bonds, deposits with central banks and commercial banks or lending against government and government-guaranteed bonds as collateral. Funds are usually only placed with counterparties or in securities with high credit ratings. The exchange-rate risk has been converted so that it is primarily in euro.

NOTES TO THE ACCOUNTS FOR 2008

Note	2008 Kr. '000	2007 Kr. '000
14 Claims on the IMF, etc.		
Denmark's IMF quota	13,407,712	13,153,899
The IMF's drawing right	11,698,099	12,289,368
Reserve position with the IMF	1,709,613	864,531
Holdings of Special Drawing Rights (SDRs)	1,696,291	1,696,347
	3,405,904	2,560,878

During the year, the IMF exercised drawing rights corresponding to SDR 102 million at Danmarks Nationalbank, and Danmarks Nationalbank reduced its holdings of SDRs by SDR 4 million. Net claims on the IMF have thus increased by SDR 97 million, which, combined with value adjustments during the year, increases the claim by kr. 0.8 billion to kr. 3.4 billion.

Accounts with the IMF are stated in SDRs. The SDR exchange rate is calculated on the basis of a basket of currencies, the value of which is determined as a weighted sum of the exchange rates of four currencies: the US dollar (41 per cent), the euro (37 per cent), the pound sterling (9 per cent) and the Japanese yen (13 per cent).

15 Other lending		
Banks and mortgage-credit institutes ¹	4,322,027	2,544,887
Banks, foreign exchange ²	108,070,069	-
Receivable from Roskilde Bank ³	17,517,316	-
Other loans	27,265	28,233
	129,936,677	2,573,120

¹ Including lending to decentralised banknote holdings.

² Concerning swap facilities with central banks.

³ Guaranteed by the central government.

NOTES TO THE ACCOUNTS FOR 2008

Note	2008 Kr. '000	2007 Kr. '000
16 Domestic bonds		
Danish government bonds	3,411,568	4,600,746
Mortgage-credit bonds, etc.	22,245,060	21,383,542
Ship Finance bonds	1,651,164	1,849,080
	<u>27,307,792</u>	<u>27,833,368</u>
17 Shares, etc.		
Capital investments and equivalent investments	455,408	455,408
Equity investments in associated companies	292,562	292,562
	<u>747,970</u>	<u>747,970</u>

Danmarks Nationalbank's portfolio of shares, etc. at 31 December 2008 has an estimated market value of no less than kr. 2.4 billion.

Capital investments and equivalent investments comprise capital subscription to the ECB and shares in the Bank for International Settlements (BIS), SWIFT, PBS Holding, SAS and Exhibition Centre Herning.

Equity investments in associated companies comprise:

	Equity investment/ voting rights	Share of equity	Share of result
VP Securities A/S	24.2 / 24.2 per cent	kr. 48.4 million	kr. 22.8 million
Danish Ship Finance A/S	18.9 / 20.8 per cent	kr. 101.3 million	Kr. 6.6 million

18 Tangible fixed assets

Properties	599,536	583,777
Machinery and equipment	46,270	52,540
	<u>645,806</u>	<u>636,317</u>

At the most recent official assessment, Danmarks Nationalbank's properties were valued at kr. 1,531 million.

NOTES TO THE ACCOUNTS FOR 2008

Note

19 Equity investment and subordinated loan capital in Roskilde Bank A/S

Danmarks Nationalbank and the Danish Contingency Association have acquired Roskilde Bank A/S with a view to ensuring that the activities of the latter are wound up in the most profitable manner.

As part of the acquisition, Danmarks Nationalbank in 2008 injected equity capital and subordinated loan capital totalling kr. 3,723 million into Roskilde Bank.

Monetary-policy lending and other lending by Danmarks Nationalbank as at 31 December 2008 is included under the respective items on the balance sheet.

The central government has guaranteed any losses incurred by Danmarks Nationalbank in connection with the winding-up of Roskilde Bank. Consequently, lending, equity capital injected and subordinated loan capital are stated at acquisition value.

In 2008, Roskilde Bank made a loss of kr. 3,501 million, of which Danmarks Nationalbank's share is kr. 2,751 million and the Danish Contingency Association's share kr. 750 million.

The total commitment as at 31 December 2008 can be broken down as follows:

	2008 kr. million
<i>Against securities as collateral</i>	
Monetary-policy lending	2,200
Current accounts and settlement accounts, net lending	111
	<u>2,311</u>
<i>Against separate government guarantee against losses</i>	
Equity capital injected	1,723
Subordinated loan capital	2,000
	<u>3,723</u>
Other lending, net	17,517
	<u>21,240</u>
Total commitment	<u>23,551</u>
Of which calculated value of the government guarantee against losses until now	<u>2,751</u>

NOTES TO THE ACCOUNTS FOR 2008

Note	2008 Kr. '000	2007 Kr. '000
20 Other assets		
Market value of unsettled foreign-exchange transactions	11,859,856	767,713
Market value of other financial derivatives	54,502	-
Accrual of interest rates	2,215,387	1,744,181
Other	30,542	54,346
	14,160,287	2,566,240

21 Banknotes and coins

Banknotes decreased by kr. 0.2 billion to kr. 55.6 billion, while coins decreased by kr. 0.1 billion to kr. 5.7 billion. Banknotes include kr. 363 million in Faroese banknotes.

22 Net current accounts

Deposits in current accounts and settlement accounts	109,791,259	88,250,848
Drawing on current accounts	100,129,963	78,839,164
	9,661,296	9,411,684

At 31 December 2008, Danmarks Nationalbank acts as full guarantor to VP Securities for kr. 39.5 billion (2007: kr. 19.2 billion) and to the Danish Bankers Association (Sumclearing) for kr. 65.8 billion (2007: kr. 65.3 billion) in connection with the banks and mortgage-credit institutes' payment settlements with 2 January 2009 as the value date.

23 Other deposits

Banks and mortgage-credit institutes	1,716,182	1,087,401
Other deposits	796,631	1,018,305
	2,512,813	2,105,706

This item includes the banks' and mortgage-credit institutes' deposits in current accounts in euro and securities settlement accounts totalling kr. 1.7 billion.

NOTES TO THE ACCOUNTS FOR 2008

Note

30 Apportionment of foreign-exchange-reserve assets

Kr. million

2008	Total	EUR	USD	GBP	Other
Foreign-exchange-reserve assets					
Gold	9,781	-	9,781	-	-
Foreign bonds	63,734	39,385	11,016	5,463	7,870
Claims on central banks	28,953	28,326	112	67	448
Claims on foreign commercial banks	30,814	18,656	9,989	765	1,404
Repo transactions	79,276	79,276	-	-	-
Claims on the IMF	3,406	-	-	-	3,406
	215,964	165,643	30,898	6,295	13,128
2007	Total	EUR	USD	GBP	Other
Foreign-exchange-reserve assets					
Gold	9,084	-	-	-	9,084
Foreign bonds	53,699	25,822	13,163	6,815	7,899
Claims on central banks	626	55	322	44	205
Claims on foreign commercial banks	38,830	21,645	11,320	4,217	1,648
Repo transactions	67,482	67,482	-	-	-
Claims on the IMF	2,561	-	-	-	2,561
	172,282	115,004	24,805	11,076	21,397

NOTES TO THE ACCOUNTS FOR 2008

Note

31 Financial derivatives for conversion of foreign-exchange exposure

Principals at market value
Kr. million

2008	Total	EUR	USD	GBP	Other
Forward exchange contracts:					
Purchase	134,848	18,698	-	116,150	-
Sale	-122,986	-	-106,307	-	-16,679
Unsettled spot currency trades:					
Purchase	246	246	-	-	-
Sale	-248	-	-248	-	-
	11,860	18,944	-106,555	116,150	-16,679

Of which relating to currency swap facilities with central banks in connection with provision of foreign exchange to Danish banks.

Forward exchange contracts:					
Purchase	115,996	-	-	115,996	-
Sale	-108,070	-28,797	-79,273	-	-
	7,926	-28,797	-79,273	115,996	-

2007	Total	EUR	USD	GBP	Other
Forward exchange contracts:					
Purchase	51,957	51,626	-	-	331
Sale	-51,191	-	-29,859	-11,331	-10,001
Unsettled spot currency trades:					
Purchase	614	403	148	-	63
Sale	-612	-149	-370	-30	-63
	768	51,880	-30,081	-11,361	-9,670

NOTES TO THE ACCOUNTS FOR 2008

Note

32 Other financial derivatives

Principals at market value
Kr. million

2008	Total	DKK	EUR	USD	Other
Currency and interest-rate swaps:					
Purchase	993	-	-	993	-
Sale	-1,145	-1,145	-	-	-
Forward contracts, securities:					
Purchase	34,042	34,042	-	-	-
Sale	-26,566	-26,566	-	-	-
Unsettled spot trades, securities:					
Purchase	-	-	-	-	-
Sale	-	-	-	-	-
Futures, securities:					
Purchase	359	359	-	-	-
Sale	-814	-37	-777	-	-
2007	Total	DKK	EUR	USD	Other
Currency and interest-rate swaps:					
Purchase	1,309	-	-	1,309	-
Sale	-1,584	-1,584	-	-	-
Forward contracts, securities:					
Purchase	6,577	6,577	-	-	-
Sale	-	-	-	-	-
Unsettled spot trades, securities:					
Purchase	948	-	898	50	-
Sale	-32	-	-	-	-32
Futures, securities:					
Purchase	8	-	8	-	-
Sale	-892	-	-563	-329	-

NOTES TO THE ACCOUNTS FOR 2008

Note	2008 Kr. '000	2007 Kr. '000
33 Contingent liabilities		
VP Securities, share of Guarantee Capital	27,412	37,434
VP Securities, guarantee for errors by other account-holding institutions	12,997	17,785
Other guarantees	1,100	1,030
Unutilised portion of credit facilities made available to the IMF (SDRs)	2,995,358	2,938,655
	<u>3,036,867</u>	<u>2,994,904</u>

In addition, Danmarks Nationalbank has established intervention agreements with the ECB.

34 Pension commitments

Present and former employees of Danmarks Nationalbank have either a defined contribution or a defined benefit pension plan.

For defined contribution pension plans Danmarks Nationalbank carries the ongoing premium payments to the pension companies as expenditure. Once the pension contributions for these plans have been paid to the pension companies, Danmarks Nationalbank has no further pension commitments to these employees.

With regard to defined benefit pension plans, Danmarks Nationalbank is obliged to ensure the policyholder a defined pension benefit. For these plans, Danmarks Nationalbank bears the risk concerning the future development in interest rates, wages, inflation, mortality, etc. Danmarks Nationalbank is thus obliged to make the contributions necessary to ensure the fulfilment of the pension undertakings.

Pension commitments for the defined benefit pension plans are calculated as the capital value of the future benefits payable under the plan. The pension undertakings are based primarily on the salary on retirement. The capital value is calculated on the basis of assumptions concerning the future development in e.g. wage levels, interest rates, inflation and mortality.

In principle, the defined benefit pension plans are covered in Danmarks Nationalbank's Pension Fund subject to winding-up.

NOTES TO THE ACCOUNTS FOR 2008

Key figures for the accounts of the Pension Fund:

Pension Fund	2008 <u>kr. million</u>	2007 <u>kr. million</u>
Pension commitments and other liabilities	3,369	3,022
Fair market value of the assets of the Pension Fund ..	3,541	3,573
Net capital of the Pension Fund	172	551
Solvency requirement of the Pension Fund	135	121

Other defined benefit pension plans are covered in a pension company. Provision is made in the Accounts for a plan concerning the Board of Governors.

Pension commitments for defined benefit pension plans and declarations of support covered in a pension company amount to kr. 53.9 million at 31 December 2008, while the provision on Danmarks Nationalbank's balance sheet amounts to kr. 24.6 million.