



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 1 0



REPORT AND ACCOUNTS 2010

This report is based on information available up to 8 March 2011.

See also www.nationalbanken.dk

Explanation of symbols:

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

Details may not add up because of rounding.

Rosendahls/Schultz Grafisk A/S

ISSN 1397-4017

ISSN (Online) 1398-3830

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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. The Board of Governors of Danmarks Nationalbank makes decisions on the formulation of monetary policy.

The Report and Accounts of Danmarks Nationalbank comprise a presentation and description of Danmarks Nationalbank's Accounts for the year 2010 and the Report of the Board of Governors. The Report describes general developments in the Danish and international economy, monetary and foreign-exchange policies, international co-operation and major activities during the year within Danmarks Nationalbank's other areas of operation and its organisation.

The recovery in the world economy became more broad-based in the course of 2010, but with diverging patterns across countries – globally and within the EU. Several of the large emerging economies moved ahead with growth rates of around 7-10 per cent. In the old industrialised countries growth was more sluggish and still subject to uncertainty. Many countries were struggling with excessive government deficits and large government debts.

For further elaboration on economic and financial developments, reference is made to Danmarks Nationalbank's *Monetary Reviews*.

Copenhagen 8 March 2011

Nils Bernstein
Chairman

Per Callesen

Torben Nielsen

Report of the Board of Governors

Report of the Board of Governors 2010

INTERNATIONAL BACKGROUND TO THE DANISH ECONOMY

The global economic recovery that began in the 2nd half of 2009 continued in 2010, and the world economy is gradually emerging from the worst economic recession since World War II. The recovery is to a large extent driven by the considerable easing of fiscal and monetary policies implemented in 2009.

Global growth is mainly driven by the momentum of the Asian emerging economies, while the pace of recovery is much slower in the old industrialised countries. Growth patterns have diverged across the EU, with economic activity remaining weak in Greece, Ireland and Spain in 2010, while Germany and Sweden posted considerably stronger growth than expected.

In nearly all advanced OECD economies the crisis has led to a surge in government debt, and pronounced fiscal consolidation will be required in the coming years. So far private demand has been weak during the upswing. Given the necessary fiscal consolidation, solid growth requires a self-sustained upturn in private demand.

Employment in the OECD region seems to have bottomed out in 2010 and an upward trend is seen in several countries, but the very moderate growth in employment has been too weak to seriously reduce unemployment, which remains high.

Consumer price inflation continued to rise in 2010. Overall, OECD inflation was low despite rising energy and food prices. An important underlying factor was that most OECD countries still had considerable spare capacity. On the other hand, the first signs of capacity restraints, combined with rising food prices, have led to higher inflationary pressures in several emerging economies.

The economic crisis and the pronounced easing of fiscal policy have contributed to substantial government budget deficits and a strong increase in government debt in the OECD countries. The USA maintains its expansionary fiscal policy stance in 2011, but in most advanced economies it has been necessary to start on the path of fiscal consolidation. This is particularly true of the EU, where 24 of 27 member states are now subject to the excessive deficit procedure. Greece, Ireland, Spain and Portugal have been compelled to implement more extensive and faster consolidation measures than other member states

on account of pronounced increases in the yields on government securities. Market developments also meant that in May and November, respectively, Greece and Ireland had to apply for financial assistance by way of loan programmes from the EU and the International Monetary Fund, IMF. To meet the need for financial support, the euro area member states in May established the European Financial Stability Facility, EFSF, a temporary loan facility of 440 billion euro, which was at the same time supplemented with a temporary EU loan mechanism of 60 billion euro, the European Financial Stability Mechanism, EFSM. In October the European Council agreed on the establishment of a permanent stability mechanism for euro area member states, the European Stability Mechanism, ESM, which will enter into force when the temporary facility, EFSF, expires in mid-2013. The establishment of a permanent stability mechanism requires a limited amendment to the Treaty of Lisbon. At the EU summit in December 2010 it was decided to make this amendment, which is expected to be ratified by the EU member states by the end of 2012.

In most countries accommodative monetary policies continued to support economic activity. In the euro area, the USA, the UK and Japan, key monetary-policy interest rates were kept at a very low level throughout 2010. In addition, the Federal Reserve and the Bank of Japan extended their programmes for quantitative easing by 500 billion dollars and 5,000 billion yen, respectively. The Bank of England has not expanded the framework for its quantitative easing after the existing limit of 250 billion pounds was reached in February. On 10 May the European Central Bank, ECB, announced a Securities Markets Programme to purchase public and private debt securities in the secondary market to ensure depth and liquidity in dysfunctional market segments and restore an efficient monetary policy transmission mechanism. At the same time the ECB continued its gradual phasing-out of the extraordinary liquidity allotments introduced in 2008 and 2009. In some countries, including Sweden, Norway and Australia, the central banks raised their key monetary-policy interest rates as economic activity began to pick up.

During the year the financial markets were affected by mounting debt problems in the euro area and continued uncertainty about future economic developments.

10-year yields in the USA, Germany and the UK fell up to and including August, but the same period saw considerable widening of the 10-year yield spreads to Germany for a number of debt-ridden euro area member states. From August, 10-year yields increased as the uncertainty about the economic upswing gradually subsided.

Equity prices rose in 2010 overall in most OECD countries, thereby continuing the trend from 2009. This also applied to financial equities, which showed a more stable development as the year progressed.

The prices of food and several commodities such as metals and energy rose substantially in 2010, reflecting growing demand among other factors. The price of gold set a new record at the end of the year, at just over 1,420 dollars per troy ounce, up from around 1,100 dollars at the beginning of the year. The price of oil was approximately 94 dollars per barrel at year-end compared with approximately 76 dollars at the start of the year.

Turning to the foreign-exchange markets, the US dollar strengthened against most currencies in the 1st half of 2010, but this development reversed to some extent in the 2nd half of the year. On 19 June, the People's Bank of China abandoned its fixed-exchange-rate policy vis-à-vis the dollar in favour of a fixed exchange rate vis-à-vis a basket of currencies. Subsequently the renminbi gradually strengthened against the dollar. The Japanese yen appreciated considerably against the dollar in 2010 and on 15 September the Bank of Japan intervened in the foreign-exchange market. Over the full year the euro weakened by around 10 per cent vis-à-vis the area's primary trading partners.

THE DANISH ECONOMY

The Danish economy is slowly picking up after the strongest drop in activity since World War II. The loss of output was 8 per cent when the recession bottomed out in mid-2009. At end-2010 less than half of the loss had been recovered.

Since the labour market was overheated in the last few years before the financial crisis, unemployment is, despite the slowdown, only slightly higher than the estimated structural level. Registered unemployment remained virtually unchanged at around 115,000 throughout 2010. Gross unemployment, i.e. those in activation plus those registered as unemployed, was 165,000 at year-end, corresponding to 6.1 per cent of the labour force. Given the slight fall in employment during the year, the output growth entails a strong increase in productivity, making up for part of the fall in productivity seen in recent years.

Wage inflation in the private sector was stable at just below 2.5 per cent year-on-year throughout 2010. The dampened wage development reflected the weak labour market and ample capacity in the firms. The rate of wage increase abroad rose a little in 2010 and is now on a par with Danish wage inflation after having been lower for a large number of years. Wage inflation in the public sector decreased from a high level,

KEY FIGURES FOR THE DANISH ECONOMY					Table 1
Real growth against the previous year, per cent	2006	2007	2008	2009	2010
Gross domestic product, GDP	3.4	1.6	-1.1	-5.2	2.1
Private consumption	3.6	3.0	-0.6	-4.5	2.1
Government consumption and investment ...	3.6	1.0	1.6	3.2	2.5
Business investment	16.1	4.1	-0.3	-15.9	-4.8
Residential investment	9.6	-6.0	-10.9	-16.9	-10.4
Domestic demand, excl. stockbuilding	5.6	2.0	-0.6	-4.5	0.8
Stockbuilding ¹	-0.3	0.4	-0.6	-2.0	0.9
Domestic demand, total	5.2	2.3	-1.2	-6.5	1.8
Exports	9.0	2.8	2.8	-9.7	2.4
Imports	13.4	4.3	2.7	-12.5	1.9
Net exports ¹	-1.5	-0.7	0.1	1.1	0.3
Gross unemployment, per cent of labour force	5.2	3.5	2.5	4.5	5.7
Net unemployment, per cent of labour force	3.8	2.7	1.7	3.4	3.9
Wage index ² , growth in per cent	3.1	3.8	4.4	3.1	2.3
Consumer price index ³ , growth in per cent ...	1.9	1.7	3.6	1.1	2.2
House price index ⁴ , growth in per cent	21.6	4.6	-4.5	-12.0	2.7
Current account, per cent of GDP	2.9	1.3	2.6	3.6	5.4
Government balance, per cent of GDP	5.0	4.8	3.3	-2.8	-3.6
Private savings surplus ⁵ , per cent of GDP.....	-2.1	-3.5	-0.6	6.4	8.9

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 For 2010 1st Quarter to 3rd Quarter in 2010 via-à-vis 1st Quarter to 3rd Quarter in 2009.

⁵ Government balance 2010 from *Economic Survey*, December 2010, Ministry of Finance.

⁶ Current account less government balance (rounded).

and the annual rate of wage inflation was around 2 per cent at year-end.

Consumer prices rose by 2.8 per cent year-on-year in December 2010, measured by the EU's Harmonised Index of Consumer Prices, HICP. Higher taxes on goods such as tobacco, energy and sugar contributed to pushing prices upwards. The index of net retail prices, i.e. consumer prices excluding indirect taxes and duties, increased by 2.5 per cent. Domestic marked-determined inflation declined throughout the year, turning negative in the 2nd half. This shows that firms did not fully pass on the rising commodity prices to consumers, and that unit labour costs fell as a result of the strong productivity growth over the year.

Domestic demand rose by 1.8 per cent in 2010, while private consumption grew by 2.1 per cent. This was below the level of growth in the households' disposable incomes and entailed a further fall in the consumption ratio as households continued to increase their savings

after the loss of wealth in recent years. Housing prices went up a little following substantial falls in the preceding two years, while residential investments still showed a downward trend. Corporate investments ceased to fall at the beginning of the year, but no reversal as such has been seen so far.

Exports and imports grew by 2.4 per cent and 1.9 per cent, respectively, in 2010. Competitiveness, measured by relative unit labour costs, strengthened, partly due to weakening of the effective exchange rate of the krone. Despite these developments in 2010, wage competitiveness has, nevertheless, deteriorated by around 12 per cent since 2000.

The government deficit increased in 2010, to 3.6 per cent of GDP from a deficit of 2.8 per cent of GDP in 2009. The growing deficit reflects a combination of the weak economy and active easing of fiscal policy, which was substantially more expansionary in 2010.

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 basis for low and stable inflation in Denmark. The formal framework for Denmark's fixed-exchange-rate policy is the European 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.

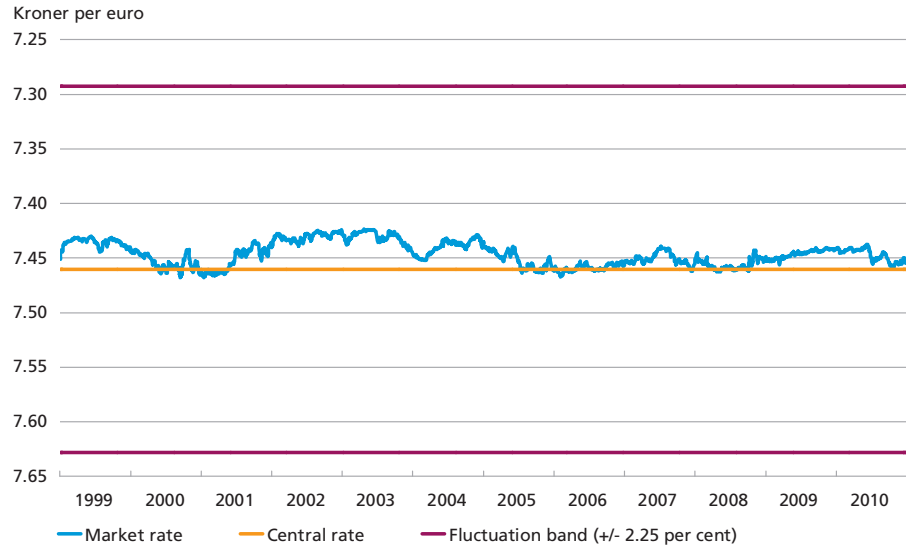
In 2010, the krone was stable vis-à-vis the euro at a level slightly stronger than its central rate in ERM II. Danmarks Nationalbank's total net purchases of foreign exchange for kroner in connection with intervention in 2010 amounted to kr. 46 billion, cf. Table 2.

In the same period, the foreign-exchange reserve increased by kr. 34.1 billion and amounted to kr. 428.7 billion at the end of 2010. The central government redeemed foreign-exchange loans for kr. 25.9 billion net.

In 2010, Danmarks Nationalbank adjusted its monetary-policy interest rates seven times. The ECB kept the interest rate on its main refinancing operations at 1 per cent in 2010. Danmarks Nationalbank's unilateral interest rate changes took place against the background of a widening spread between short-term Danish and European money-market interest rates. The discount rate, which is a signal rate for the overall level of monetary-policy interest rates, was changed only once, when it was lowered by 0.25 percentage points in January. The lending rate was

KRONER VIS-À-VIS EURO

Chart 1



Note: Reverse scale.

Source: Danmarks Nationalbank.

lowered twice in January, by a total of 0.15 percentage points. The rate of interest on certificates of deposit and the current-account rate were changed in parallel seven times during the year, cf. Table 3.

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

Table 2

Kr. billion	2008	2009	2010
Liquidity impact from government finances	-111	55	9
Intervention by Danmarks Nationalbank to purchase foreign exchange, net	-20	154	46
Other	26	-12	-1
Change in net position	-106	197	54
End of period:			
Net position	-113	84	138
Broken down by:			
Certificates of deposit	119	166	133
Current-account deposits	10	22	15
Monetary-policy lending	241	104	9
Memo:			
Foreign-exchange loans ¹	108	0	0

Note: Based on the monthly balance sheets at end-December. The banks' and mortgage banks' 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 banks by Danmarks Nationalbank on the basis of swap lines with the Federal Reserve and the ECB.

DANMARKS NATIONALBANK'S MONETARY-POLICY INTEREST RATES

Table 3

Per cent	Discount rate	Current-account rate	Rate of interest on certificates of deposit	Lending rate
End-2009	1.00	0.85	0.95	1.20
With effect from:				
8 January 2010	1.00	0.80	0.90	1.15
15 January 2010	0.75	0.70	0.80	1.05
26 March 2010	0.75	0.60	0.70	1.05
20 May 2010	0.75	0.50	0.60	1.05
27 May 2010	0.75	0.40	0.50	1.05
15 October 2010	0.75	0.50	0.60	1.05
29 October 2010	0.75	0.60	0.70	1.05

Source: Danmarks Nationalbank.

The margin between the rate of interest on certificates of deposit and the lending rate changed as the rate of interest on certificates of deposit was adjusted in the period after January 2010, while the lending rate remained unchanged. The margin was widened to 0.55 per cent in the 1st half of 2010 and reduced to 0.35 per cent in the 2nd half. The interest-rate margin gives bank and mortgage banks an incentive to smooth out liquidity differences via the money market rather than resorting to Danmarks Nationalbank's facilities. Since the introduction of the interest-rate margin in June 2009, Danmarks Nationalbank's balance sheet has decreased, and at the turn of the year monetary-policy lending was close to zero.

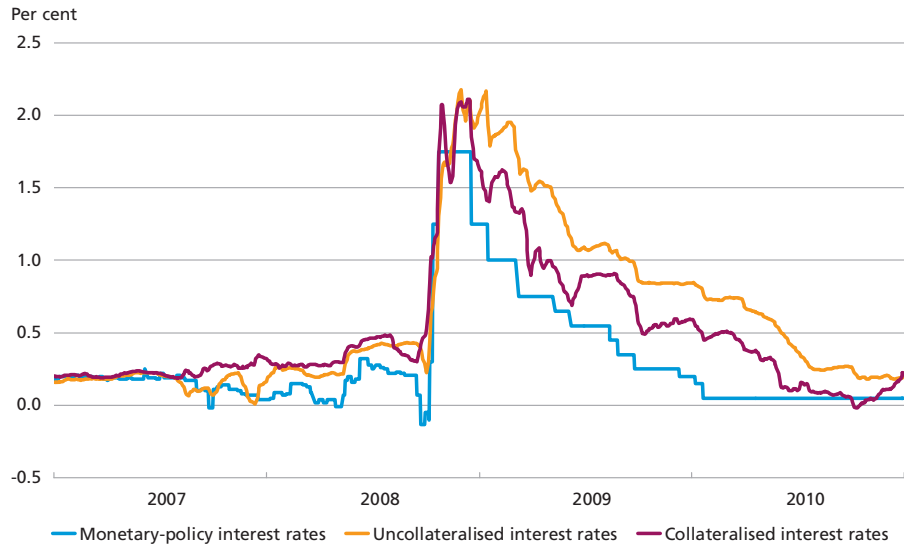
In April, Danmarks Nationalbank announced that the temporary credit facilities for banks and mortgage banks introduced in 2008 would be extended until 26 February 2011. This included both the option to borrow on the basis of excess capital adequacy and the option to borrow on the basis of an expanded list of assets eligible as collateral. In February the collateral basis was expanded to also include bonds issued on the basis of loans with an individual government guarantee from Finansiel Stabilitet A/S (the Financial Stability Company).

Money market

At the beginning of 2010, the difference between money-market interest rates in Denmark and the euro area was somewhat greater than the monetary-policy spread, cf. Chart 2. In this context it should be noted that euro area money-market interest rates were very low since euro area banks had requested and been allocated large amounts of liquidity from the ECB. The spreads between money-market interest rates in Denmark and the euro area narrowed in the course of 2010. From mid-year until the beginning of December, the collateralised

MONETARY-POLICY INTEREST-RATE SPREAD AND 3-MONTH INTEREST-RATE SPREADS BETWEEN DENMARK AND THE EURO AREA

Chart 2



Note: The monetary-policy spread is the difference between Danmarks Nationalbank's lending rate and the ECB's marginal rate in its main refinancing operations. The spread for uncollateralised lending is the spread between the 3-month Cibur and Euribor. The spread for collateralised interest rates is based on a 3-month interest-rate swap at the overnight interest rate.

Source: EcoWin, European Central Bank and Danmarks Nationalbank.

money-market spread was back in line with the monetary-policy spread, but it widened a little again in December. At year-end money-market spreads were around 0.2 percentage points. Money-market spreads have approached the monetary-policy spread as a result of Danmarks Nationalbank's unilateral interest-rate cuts in the 1st half of the year as well as rising money-market interest rates in the euro area. The latter seem to be the first signs of normalisation of the liquidity situation in the euro area.

Bank interest rates and bond yields

The yield on Danish mortgage bonds fell in the 1st half of the year and rose again in the 2nd half. Overall, the yield on 1-year non-callable fixed-rate bullet bonds ("fixed bullets") used for financing adjustable-rate loans fell by 0.5 percentage points from the beginning of January 2010, to 1.4 per cent at the end of December. Over the same period the yield on long-term mortgage bonds fell by 0.5 percentage points to 4.7 per cent. The narrowing of the yield spread between long-term fixed-rate mortgage bonds and fixed bullets contributed to reducing the fixed bullet share of total gross new lending until September 2010. A reversal of this pattern was seen in the last three months of the year when the spread widened again.

BANK LENDING AND DEPOSIT RATES FOR HOUSEHOLDS AND THE CORPORATE SECTOR

Table 4

	End-2010		Change from end-2009 to end-2010	
	Households	Corporate sector	Households	Corporate sector
Deposits	1.0	0.7	-0.4	-0.4
Lending	5.1	4.1	-0.5	-0.4

Note: Average effective interest rates on large and medium-sized banks' lending to and deposits from Danish residents in kroner.

Source: Danmarks Nationalbank.

The banks' lending and deposit rates followed the same pattern as the monetary-policy rates. Over the full year, the banks' average interest rate on outstanding loans to households and the corporate sector fell by 0.5 and 0.4 percentage points, respectively, while deposit rates fell by 0.4 percentage points, cf. Table 4. The banks' interest-rate margin thus remained more or less stable.

The yield on 10-year government bonds fell from 3.7 per cent at the beginning of 2010 to 3.1 per cent at year-end. The yield spread to equivalent German government bonds narrowed from around 0.3 to 0.2 percentage points. Conversely, a number of euro area member states saw their spreads to German government bonds widen in 2010. This is attributable to sovereign debt problems in some of these member states, as well as continued uncertainty about the outlook for economic growth, as described in the section on the international background to the Danish economy.

THE DOMESTIC FINANCIAL SYSTEM

Banks and mortgage banks

Bank earnings in 2010 were still affected by the financial crisis. Write-downs on loans were substantially higher than before the crisis, but most banks showed signs of improvement by way of a declining trend in write-downs and a slight increase in earnings. By far the majority of banks posted positive financial results for the 1st to 3rd quarters, but for a few banks the financial situation proved to be so severe that further capital injections were required for the banks to be able to meet the requirements for individual government guarantees under Bank Rescue Package II. Two banks were acquired by the Financial Stability Company, as they were unable to meet the solvency requirement.

The turmoil in a number of European government bond markets had a limited impact on the Danish banks. The reason was that bonds issued

by the EU member states concerned constituted only a modest share of the banks' aggregate holdings of securities.

In connection with the publication of their interim financial statements for the 1st to 3rd quarters of the year, the mortgage banks reported that arrears rates were declining relative to 2009. Lower write-downs and higher contribution rates in several mortgage banks had a positive impact on sector earnings.

Expiry of the general government guarantee

The unlimited government guarantee for depositors and other unsecured creditors expired on 30 September 2010.

In future, ordinary deposits are covered up to an amount corresponding to 100,000 euro, approximately kr. 745,000. Certain special deposits are still fully covered, e.g. children's savings accounts and establishment accounts, as well as pension, education and home savings accounts.

As part of Bank Rescue Package II, Danish banks could apply for individual government guarantees for non-subordinated unsecured debt with a maturity of up to three years. The option to issue debt under such guarantees expired on 31 December 2010. 50 banks have made use of the facility and have issued debt for a total of kr. 193 billion under individual government guarantees.

Stress tests

In 2010, Danmarks Nationalbank performed two stress tests of the largest Danish banks, testing their resilience to selected macroeconomic shocks. In the most recent test, *Stress Tests, 2nd Half 2010*, the banks overall are assessed to be sufficiently well-capitalised in the most probable economic scenario. Nevertheless, the banks should continue to consolidate and strengthen their capital bases and prepare for forthcoming regulation and repayment of any government capital injections from 2012 onwards.

In the summer of 2010, the Committee of European Banking Supervisors, CEBS, conducted a stress test of the largest European banks. The three Danish banks participating in the survey all came out with Tier 1 ratios well above the threshold value of 6 per cent set by the CEBS.

Liquidity monitoring

On the basis of the lessons learned during the financial crisis, the Danish Financial Supervisory Authority and Danmarks Nationalbank have set up a joint, intensified system for monitoring the banks' liquidity. This contributes to ensuring that the banks focus on liquidity and are

prepared for the phasing-out of the individual government guarantees and Danmarks Nationalbank's temporary measures to support liquidity.

As part of the intensified monitoring, the banks prepare and report liquidity stress tests on a monthly basis. At the end of 2010, the latest stress tests showed that most banks were well prepared for a prolonged period of liquidity pressure. Nevertheless, some banks remain vulnerable.

New winding-up scheme

Bank Rescue Package III has introduced a new winding-up scheme for ailing banks. Under the scheme, the Financial Stability Company assists with the winding-up of the ailing bank by setting up a subsidiary to continue the activities of the bank in question. It is up to the individual ailing bank whether it prefers the new winding-up scheme or ordinary winding-up proceedings. At its forthcoming general meeting each bank must decide whether it wants to join the scheme beforehand.

Emergency communication system

Danmarks Nationalbank, the Danish Financial Supervisory Authority, the Danish Bankers Association and the Association of Danish Mortgage Banks have jointly set up an emergency communication system for the financial sector that entered into force in March 2010 with a number of banks and mortgage banks as participants. The aim is to improve the opportunity for the sector overall to respond with a coordinated effort in the event of a major operational disruption which jeopardises the functioning of the financial system.

Committee on the structure of financial supervision in Denmark

Developments in the supervisory area in the EU and in other countries have made it appropriate to rethink the organisation of financial supervision in Denmark. Against this background, the Minister for Economic and Business Affairs has set up a committee to assess the current structure in relation to possible alternatives, among other tasks. The committee, which comprises representatives of Danmarks Nationalbank, the Danish Financial Supervisory Authority, the Ministry of Finance and the Ministry of Economic and Business Affairs as well as two external experts, must submit its final report by 1 October 2011.

NEW EUROPEAN SUPERVISORY STRUCTURE

In 2010 a new structure for financial supervision in the EU was adopted, and on 1 January 2011 a new European System of Financial Supervisors,

ESFS, was established. The ESFS brings together players responsible for financial supervision at the national and EU levels and functions as a network. At the EU level the network comprises the three European Supervisory Authorities, ESAs, the Joint Committee of the ESAs and the European Systemic Risk Board, ESRB.¹ Compared with previously, the new supervisory structure attaches more importance to the interaction between macroeconomic developments and the financial system.

The ESRB is responsible for macroprudential oversight of the EU financial system with a view to contributing to the prevention or mitigation of systemic risks in the EU.² More specifically, the ESRB will be in charge of collecting and analysing all the relevant and necessary information, identifying and prioritising systemic risks. If necessary the ESRB should issue warnings and recommendations for remedial action in response to the risks identified. The ESRB will also be responsible for monitoring follow-up on the warnings and recommendations issued.

The organisation of the ESRB comprises the General Board, the Steering Committee, the Secretariat, the Advisory Scientific Committee and the Advisory Technical Committee. The Chairman of the Board of Governors of Danmarks Nationalbank participates on the General Board with voting rights, and Danmarks Nationalbank is a member of the Advisory Technical Committee. The ECB provides analytical, statistical, administrative and logistical support to the ESRB. The President of the ECB is the Chair of the ESRB for the first five years. The ESRB will also seek technical advice from the national central banks and supervisory authorities. The ESRB will work closely with the three ESAs to ensure that the assessment of macroeconomic risks is based on adequate and precise information about developments in the financial system. Hence, the Chairs of the three ESAs will participate with voting rights on the General Board on an equal footing with the national central banks and the ECB. The national supervisory authorities will also be represented on the General Board, but without voting rights.

The ESAs are established by converting the existing EU supervisory committees for banking, insurance and securities markets into three supervisory authorities, namely the European Banking Authority, EBA, the European Securities and Markets Authority, ESMA, and the European Insurance and Occupational Pensions Authority, EIOPA. Direct supervision of financial enterprises will still be performed by the

¹ For a more detailed description, see Birgitte Bundgaard Madsen and Louise Caroline Mogensen, A New European Supervisory Architecture, Danmarks Nationalbank, *Monetary Review*, 4th Quarter 2009.

² The regulation on the establishment of the ESRB defines systemic risks as risks of disruption to financial services that have the potential to have serious negative consequences for the internal market and the real economy. All types of financial intermediaries, markets and infrastructures could potentially be systemically important to some extent.

national supervisory authorities. Danmarks Nationalbank participates in the EBA without voting rights.

INTERNATIONAL MONETARY COOPERATION

Enlargement of the euro area

On 1 January 2011, Estonia joined the euro area, bringing the number of euro area member states to 17, while the remaining 10 EU member states are outside the euro area. Subsequently, the participants in the currency arrangement ERM II are Denmark, Latvia and Lithuania.

The International Monetary Fund

In recent years, the International Monetary Fund, IMF, has played a prominent role in the handling of the global economic and financial crisis. The IMF focuses on issues such as global imbalances, the establishment of a new, robust financial system and resolution of the large problems related to sovereign debt and unsustainable government finances in the advanced economies.

Strengthened economic-policy guidance and new lending instruments

Above all, the crisis has highlighted the need for stronger international economic surveillance – including in particular surveillance of the financial sector and its interaction with the real economy. Consequently, over the past year there has been focus on strengthening the IMF's surveillance of regions, individual countries and financial markets. Among other things the Executive Board of the IMF has supported the conduct of Financial Sector Assessment Programs, FSAPs, in all systemically important member countries. Parts of these FSAPs will be integrated in the IMF's Article IV Reports for all members. Likewise, the IMF will strengthen its multilateral surveillance by increasing focus on how the economic policies pursued by systemically important countries/regions affect the international economy in general. Such analyses will be included as separate sections in the forthcoming Article IV Reports for the USA, the euro area, China, Japan and the UK.

The IMF's mandate to oversee capital flows and exchange rates has also been discussed. This discussion has become topical as a result of the still very considerable global imbalances and the derived risks to the world economy, including the risk of detrimentally sudden exchange-rate adjustments.¹ Furthermore, a number of emerging economies have

¹ For a more detailed description of these risks, see Niels Blomquist and Susanne Thamsborg, *Global Imbalances – a Threat to the Upswing?*, Danmarks Nationalbank, *Monetary Review*, 3rd Quarter 2010.

accumulated substantial foreign-exchange reserves, and some of these countries have also introduced capital restrictions in order to counter the significant inflows of capital and the resultant market pressures to revalue their currencies. These issues are still being discussed by the IMF and the G20. The IMF also offers technical assistance to the G20 in various areas; for example, the IMF has supplied the G20 with a number of studies concerning taxation of the financial sector. As part of the G20 Mutual Assessment Process, the IMF has also contributed with technical assessments of the economic policy programmes of the G20 countries.

The IMF is also working to strengthen the global financial safety nets and enhance the stability of the international monetary system. As part of this effort, the IMF has revised its lending facilities so as to make it more attractive for members with strong economic policies to apply for precautionary loans as a means of preventing cross-border spreading of economic and financial turmoil. The Flexible Credit Line, FCL, introduced in the spring of 2009, gives access to such precautionary loans from the IMF for countries meeting certain criteria. The loan is disbursed without further conditions if, contrary to expectations, the country in question needs to draw on the loan facility. In August 2010, the Executive Board of the IMF adopted a new Precautionary Credit Line, PCL, with more limited loan conditions than the IMF's usual Stand-By Facility. The PCL is available to countries meeting most of the FCL criteria and not deviating seriously from the remaining criteria. It differs from the FCL in that the conditions for a loan programme may include requirements for adjusting economic policy.

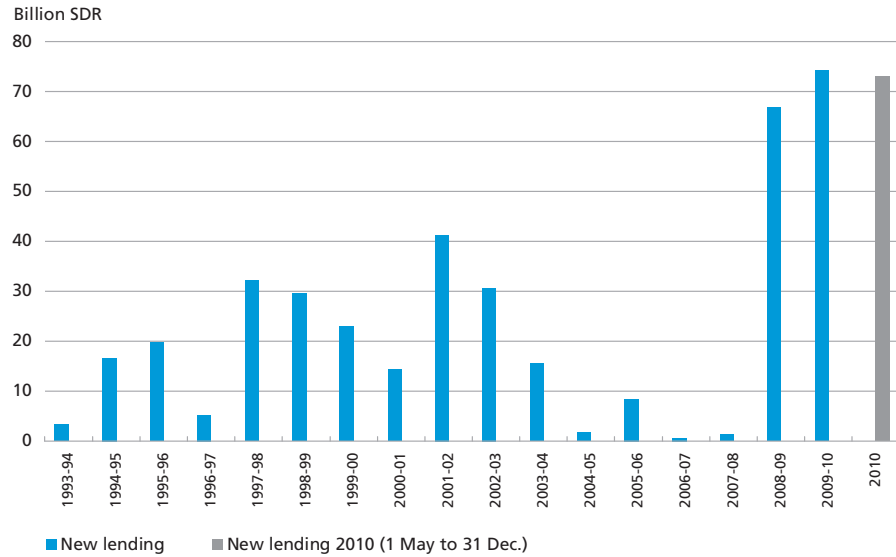
The IMF's loan programmes and lending capacity

The global economic crisis has entailed an increased need for loans from the IMF, cf. Chart 3. In the fiscal year 2010¹, the IMF concluded loan agreements for 74.2 billion SDR, notably a number of FCL programmes for Mexico, Poland and Columbia. In addition, the IMF has played an important role in the handling of sovereign debt problems in peripheral euro area member states. Hence, the IMF in 2010 concluded extensive loan agreements with the euro area member states Ireland and Greece for 26.4 billion SDR and 19.5 billion SDR, respectively. The loan programmes for Greece and Ireland are somewhat larger than previously, seen in relation to these countries' IMF quotas. The EU and the euro area member states provide additional financing so that the

¹ Stated for each fiscal year, i.e. the figure for 2010 covers the period 1 May 2009-30 April 2010. In January 2011, the FCL loan programmes for Mexico and Poland were extended by 2 years and increased to 15 and 14 times, respectively, the quota (in total around 47.3 billion SDR and 19.2 billion SDR, respectively).

DEVELOPMENT IN NEW LENDING BY THE IMF

Chart 3



Note: The fiscal year runs from 1 May to 30 April of the following calendar year.

Source: IMF.

loans from the IMF constitute around one third of the aggregate loan programmes for these two member states.

As a result of the increased lending activity, the IMF member countries have agreed to give the IMF access to extra funds for lending to enable the IMF to meet any new borrowing requirements. On 12 April 2010, the Executive Board of the IMF adopted an amendment to the New Arrangements to Borrow, NAB. The amendment entails a pronounced expansion of the funds available from 34 billion SDR to 367.5 billion SDR, partly reflecting the inclusion of a further 13 countries in the NAB. Danmarks Nationalbank's credit commitment via the foreign-exchange reserve will grow from 367 million SDR to 3.2 billion SDR, equivalent to kr. 28.4 billion. The new NAB also includes a number of amendments to enhance its flexibility and usefulness. The amended NAB enters into force when it has been finally ratified by the participant countries, presumably in the spring of 2011.¹

Increasing the weight of the emerging economies in the IMF governance structure

The past year has been characterised by the negotiations on the IMF quota and governance reform. Following its approval by the Executive Board, the reform was adopted on 16 December 2010 by the IMF's Board

¹ On 24 August, Danmarks Nationalbank was able to inform the IMF that Denmark had ratified the amended NAB.

of Governors after political agreement had been reached by the G20 central bank governors and ministers of finance on 22-23 October 2010. The reform increases the influence of the leading emerging economies, while smaller countries in particular will lose some of theirs. The reform will take effect when it has been finally ratified by the member countries.¹ It is hoped that this will be achieved in connection with the IMF's and the World Bank's Annual Meetings in Egypt in 2012.

BANKNOTES AND COINS

In 2010, the value of banknotes and coins in circulation rose from kr. 60.1 billion to kr. 61.9 billion. The value of banknotes in circulation increased from kr. 54.5 billion to kr. 56.1 billion, while the number of banknotes in circulation grew from 160 million in 2009 to 163 million in 2010.

The number of registered counterfeit banknotes rose from 356 in 2009 to 762 in 2010. 418 of the counterfeits registered in 2010 were found in circulation. In an international context, counterfeiting of Danish banknotes remains very limited.

New banknote series

Issuance of the new banknote series continued in 2010. Its motifs, designed by the artist Karen Birgitte Lund, are five selected bridges in Denmark and prehistoric objects found near the bridges. Two new banknotes were issued in 2010: the 100-krone banknote in early May and the 200-krone banknote in mid-October. The remaining two banknotes in the series – 500 and 1,000 kroner – will be issued in February and May 2011.

Faroe Islands and Greenland

As Denmark's central bank, 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, the Danish government, with support from the Greenlandic government at that time, adopted the Act on Banknotes in Greenland with a view to introducing separate Greenlandic banknotes. The Act entered into force on 1 June 2007. In the autumn of 2010, the new Greenlandic government indicated that it did not wish to introduce separate Greenlandic banknotes and Danmarks Nationalbank stopped the project to develop a Greenlandic series.

¹ For a more detailed description of the quota and governance reform, see Helene Kronholm Bohn-Jespersen, The IMF's Quota and Governance Reform 2010, Danmarks Nationalbank, *Monetary Review*, 4th Quarter 2010.

The Royal Danish Mint

Effective 1 October 2008, the 25-øre coin ceased to be legal tender, but it can be exchanged at Danmarks Nationalbank for three years from this date, i.e. until the end of September 2011. In early 2008, 525 million bronze 25-øre coins were in circulation. It is expected that around one third will be returned by the deadline. Very few 25-øre coins were returned in 2010.

The value of coins in circulation rose by kr. 82 million, or 1.5 per cent, in 2010. This is still a moderate increase compared with those seen in the period 2000-07, but the growth rate is higher than in 2008 and 2009. In 2010, as in 2009, production of coins for circulation was limited. Stocks remained ample as other values were also returned when the 25-øre coin was taken out of circulation.

In recent years, Danmarks Nationalbank has exchanged an increasing number of damaged Danish coins. In 2010, coins for around kr. 9 million were received for exchange. On 1 January 2011 an amendment to section 4(2) of the Danish Coinage Act entered into force, allowing Danmarks Nationalbank to refuse to exchange any damaged coin or coins that have been modified. As a main rule, such coins can no longer be exchanged at Danmarks Nationalbank.

To mark the 70th birthday of Her Majesty Queen Margrethe II on 16 April 2010, a commemorative coin was issued in three versions: a 1,000-krone gold coin, a 500-krone silver coin and an ordinary 20-krone circulation coin. The motif on the obverse of the commemorative coins is a portrait of the Queen by the sculptor Lis Nogel. This portrait will be used on ordinary 10-krone and 20-krone coins from 2011 onwards. The reverse of the commemorative coins was designed by Ronny Andersen, Royal Heraldic Painter, and shows the royal coat of arms set against a background of daisies.

In November 2010 a coin with a Greenlandic motif was issued in the ship series. The coin shows a kayak and an umiak and was designed by the Greenlandic artist Niels Motzfeldt. Issuance in this series will continue in 2011.

PAYMENT SYSTEMS

Pledging of collateral

In February 2010, Danmarks Nationalbank's collateral basis for credit in Danish kroner was extended to include "junior covered bonds"¹. The

¹ The term "junior covered bonds" covers bonds issued by mortgage banks with a view to restoring the collateral behind the banks' covered bonds (*særligt dækkede obligationer* – SDO) in the event of falling house prices as required by the legislation on SDOs.

temporary collateral basis was extended to include bonds issued by Special Purpose Vehicles, SPVs, offering loans with individual government guarantees to Danish banks and mortgage banks. Finally, the deadline for use of Danmarks Nationalbank's temporary borrowing facilities was extended until 26 February 2011.

The Eurosystem's risk management principles were changed with effect from 1 January 2011. As of the same date, Danmarks Nationalbank increased its valuation haircuts for less liquid securities. An extra 5-per-cent haircut was also introduced in connection with the use of theoretical prices for calculating the collateral value of securities.

Payment and settlement systems

Danmarks Nationalbank owns and operates the Kronos payment system for large, time-critical payments and acts as settlement bank for VP settlement, the Danish securities settlement system, and the Sumclearing, which is the Danish Bankers Association's system for settlement of retail payments. In addition, Danmarks Nationalbank oversees the financial infrastructure in Denmark in order to promote safe and efficient settlement of payments and securities transactions.

Kronos

The settlement of payments in Kronos functioned smoothly in 2010, and the participants had ample liquidity to meet their day-to-day payments. This is to a large extent attributable to their access to intra-day credit at Danmarks Nationalbank against their large portfolios of eligible assets as collateral.

In 2010, the value of Kronos payments fell for the second year running. The 12-per-cent fall was attributable to a decline in the volume of monetary-policy operations, i.e. banks' and mortgage banks' purchase and sale of certificates of deposit at Danmarks Nationalbank and collateralised loans. On the other hand, the number of Kronos transactions rose by 3 per cent.

The Sumclearing

Sumclearing operations were generally satisfactory in 2010.

The working group on domestic payment transfers, chaired by Danmarks Nationalbank, prepared a report analysing the settlement times for domestic payment transfers. The report recommends looking into the possibilities of changing the payments infrastructure in three respects: (1) rescheduling the settlement of all payments made during the weekend, so that these reach the recipients on Monday morning instead of Tuesday morning, (2) postponement of the data processing

centres' deadlines for receiving payment orders, so that more payments initiated in the evening can be included in the night-time settlement, and (3) introduction of an additional daily settlement cycle for credit transfers.

Securities settlement

On the whole, the VP settlement, the Danish system for settlement of securities transactions, ran satisfactorily in 2010. Nevertheless, the share of equity trades settled on time has fallen despite the introduction of a central counterparty in this market in the autumn of 2009.

One of the reasons for the settlement problems is that the incentives to deliver securities on time have not been adapted to a market with a central counterparty. Danmarks Nationalbank is represented on a task force to create a new incentive structure which is to encourage participants to deliver securities on time.

Infrastructure development in the securities area

In 2010, central banks, central securities depositories and market participants in Europe continued their work on TARGET2-Securities, T2S, which is expected to go live in September 2014. The aim is to establish a trans-European securities settlement system in which cross-border transactions can be settled as efficiently as domestic transactions. VP Securities is expected to join T2S in 2015.

The introduction of T2S will require some changes to Danmarks Nationalbank's and the market participants' systems. A number of key issues were clarified in 2010, including the decision to extend the monetary-policy day. Furthermore, the Eurosystem has given Danmarks Nationalbank access to provide night-time liquidity in euro on T2S.

T2S will entail a number of changes to the IT systems currently used by Danmarks Nationalbank in connection with the settlement of payments and pledging of collateral. Hence, a major project has been initiated to ensure the operational and systemic adaptation of Danmarks Nationalbank's IT systems for T2S.

Analysis of the costs of various payment types

In 2010, Danmarks Nationalbank conducted a survey of the costs of various payment types in Denmark, e.g. cash and card payments and payments via Internet banking and direct debit. As part of this survey data was collected from a number of banks and other major payment service providers as well as retailers in Denmark. The results will be published in 2011.

STATISTICS

New statistics provision

As of 1 July 2010, a new section 14a was added to the Danmarks Nationalbank Act, giving Danmarks Nationalbank separate authority to collect and use statistics for performing its tasks.

The background to the new provision is that Danmarks Nationalbank needs to use information about individual institutions when conducting its monetary and exchange-rate policies and overseeing financial stability in Denmark. This was not possible previously, when Danmarks Nationalbank collected statistical information by authority of Statistics Denmark, for example. Such information could be used for statistical purposes only.

Under the new provision, Danmarks Nationalbank may also, if it has good reason to do so, pass on information about individual institutions to the Danish Financial Supervisory Authority, to the European System of Central Banks, ESCB, and to the newly established European Systemic Risk Board, ESRB, which is charged with the task of strengthening oversight of financial stability in the EU.

Technical cooperation with the Danish Financial Supervisory Authority

In the autumn of 2010, Danmarks Nationalbank and the Danish Financial Supervisory Authority decided to enter into technical cooperation to collect information from the financial sector. Over time this should mean that all information required by Danmarks Nationalbank and the Danish Financial Supervisory Authority from the financial sector will be collected via Danmarks Nationalbank's electronic reporting platform.

All in all, this should lead to considerable savings for the two institutions, and players in the financial sector will benefit from having to report on one platform only.

New method for estimating investment income from direct investment

In 2010, Danmarks Nationalbank introduced a new method for estimating investment income from direct investment. Together with returns on other cross-border investments, this part of investment income is included in the statement of the current account of the balance of payments published by Statistics Denmark. Investment income from direct investment reflects the financial results of foreign enterprises owned by Danish residents and Danish enterprises owned by non-residents. Since the result for the year is not known when the monthly balances of payments are compiled during the year, estimates are applied. Previously these estimates were based on historical data,

but – especially when the economic tide turned – this gave rise to major revisions of investment income when the corporate financial statements were subsequently incorporated into the balance of payments.

With the new method, information about expected cyclical developments is included in the estimates of investment income from direct investment applied when compiling the balance of payments during the year. This is expected to result in substantially lower revisions of both investment income and expenses.

Organisation and Tasks of Danmarks Nationalbank

STAFF

At the close of 2010, Danmarks Nationalbank had 541 employees, equivalent to 510 full-time positions. The number of full-time positions remains unchanged, while the number of employees fell slightly from 2009 to 2010. Employees in part-time positions constituted 11 per cent of the staff, down from 13 per cent in 2009.

In 2010, nine apprentices were employed within a range of areas: electricity, gastronomy, graphics (media graphics and technical graphics), data technology and clerical work (administration and finance). The total number of PhD scholarships was five, and Danmarks Nationalbank had two trainee positions at the end of the year.

At year-end, 10 employees were on leave, of whom seven were working for international institutions while the rest were on other leave schemes (relevant Danish institutions, supplementary education, etc.), and six employees had leave to work for the ECB during the year.

In 2010, absence due to illness was an average of 7.3 days per staff member, which is a small decrease compared with 2009 and almost identical to the level in 2008.

Staff turnover increased to 10.4 per cent in 2010, cf. Table 5.

HR strategy

Danmarks Nationalbank has prepared an HR strategy based on five ambitions: life-long learning for all, openness, coherence, responsibility and recognition, and simplification and efficiency.

Employee survey

In the spring an employee survey was conducted with a response rate of 91 per cent. This was the first initiative under the new HR strategy. It

STAFF TURNOVER IN PER CENT, 2000-10

Table 5

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
11.0	6.8	9.2	6.7	10.4	13.0	13.2	15.7	16.3	9.5	10.4

Source: Danmarks Nationalbank.

showed that in general work satisfaction is high at Danmarks Nationalbank – slightly above the average for the Danish labour market. On the basis of the survey results, work has been carried out at organisation, department and section level to improve working conditions with a view to increasing employee satisfaction, commitment and joy of work, all of which contribute to meeting Danmarks Nationalbank's objectives.

Development programme for administrative staff

Danmarks Nationalbank has introduced a development programme for its administrative staff. A total of 31 employees have enrolled in the programme, which includes identification of competencies, tailored training courses, focus on job content and anchoring of knowledge and cooperation.

Development programme for economists

So far 13 newly graduated economists have joined Danmarks Nationalbank's development programme, which was introduced in 2009. The programme is part of Danmarks Nationalbank's effort to recruit new employees and offer challenges and attractive development opportunities for newly graduated economists.

Collective bargaining/renewal of agreements

Danmarks Nationalbank's collective agreement with the trade union HK – it, medie & industri covering employees at the Banknote Printing Works was renegotiated for a 2-year period.

Like the financial sector, Danmarks Nationalbank chose to negotiate and renew its current collective agreements with the Staff Association of Danmarks Nationalbank and the Senior Management Group, respectively, for a 1-year period from 2011 to 2012.

DANMARKS NATIONALBANK'S BUILDINGS

Besides regular maintenance work, Danmarks Nationalbank focused on reducing its consumption of electricity and district heating in 2010. The point of departure was a review of electricity consumption initiated in 2008 in connection with the statutory energy labelling. The review was completed in 2009 and a catalogue of potential energy savings published. Some of these measures were implemented in 2010 under a separate budget for small investments with a short payback time. The effort to reduce electricity and heating consumption will continue in 2011.

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.

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

THE BOARD OF DIRECTORS OF DANMARKS NATIONALBANK, 1 MARCH 2011

Box 1

Chairman: *Søren Bjerre-Nielsen*, Group President
Deputy Chairman: *Helle Bechgaard*, Director

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

Peter Christensen, MP, the Liberal Party's political affairs spokesman¹

Pia Christmas-Møller, MP

Kristian Thulesen Dahl, MP, Chairman of the Finance Committee

Kristian Jensen, MP, Chairman of the parliamentary group of the Liberal Party

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

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 2016:

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:

Peter Gæmelke, Farmer, former Chairman of Danish Agriculture 2011

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

Kirsten Nissen, Former Trade Union President 2011

Camilla Hersom, President of the Danish Consumer Council 2012

Jette W. Knudsen, Director 2012

Kjeld Larsen, Farmer 2012

Søren Bjerre-Nielsen, Group President 2013

Peter Bjerregaard, Managing Director 2013

Niels Boserup, Director 2013

Niels Due Jensen, Group Chairman 2014

Michael Møller, Professor 2014

Lars Rebién Sørensen, CEO 2014

Helle Bechgaard, Director 2015

Niels Fog, Merchant 2015

Bente Sorgenfrey, President of the Confederation of Professionals in Denmark 2015

¹ The Folketing (Parliament) will elect a new member to replace Peter Christensen who resigned on 8 March 2011, when he became a government minister.

THE COMMITTEE OF DIRECTORS OF DANMARKS NATIONALBANK, 1 MARCH 2011	Box 2
<p>Chairman: <i>Søren Bjerre-Nielsen</i>, Group President Deputy Chairman: <i>Michael Dithmer</i>, Permanent Secretary, Ministry of Economic and Business Affairs</p> <p>Elected by the Board of Directors for the period ending 31 March 2011: <i>Søren Bjerre-Nielsen</i>, Group President <i>Kristian Thulesen Dahl</i>, MP, Chairman of the Finance Committee <i>Michael Møller</i>, Professor <i>Kirsten Nissen</i>, Former Trade Union President <i>Helle Thorning-Schmidt</i>, MP, Chairwoman of the Danish Social Democrats</p> <p>Appointed by the Minister for Economic and Business Affairs for the period ending 31 March 2016: <i>Michael Dithmer</i>, Permanent Secretary, Ministry of Economic and Business Affairs <i>Michael Lunn</i>, Permanent Secretary, Ministry of Justice</p>	

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 Per Callesen. Per Callesen joined the Board of Governors on 1 February 2011, replacing Mr Jens Thomsen, who had been a governor since 1995. Governor Torben Nielsen will be resigning on 1 April 2011. He has been a member of the Board of Governors since 1996.

The Royal Bank Commissioner is the formal link between the Government and Danmarks Nationalbank. The Minister for Economic and Business Affairs, Mr Brian Mikkelsen, is the Royal Bank Commissioner. Mr Søren Bjerre-Nielsen, Group President, is Chairman of the Committee of Directors and the Board of Directors.

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

As of 1 March 2011, the Board of Governors is represented on the following committees, etc.:

The European Union, EU

- *European Systemic Risk Board, ESRB, the General Board*
Governor *Nils Bernstein* is a member.
- *The Economic and Financial Committee*
Governor *Per Callesen* is a member.

The European Central Bank, ECB

- *The General Council*
Governor *Nils Bernstein* is a member.
- *International Relations Committee*
Governor *Per Callesen* 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 *Per Callesen* is a member.

The Bank for International Settlements, BIS

Governor *Nils Bernstein* represents Danmarks Nationalbank.

The Organisation for Economic Cooperation and Development, OECD

- *The Economic Policy Committee*
Governor *Per Callesen* is a member.

Bankernes EDB Central

Governor *Torben Nielsen* is an observer on the Board of Directors.

Bankernes Kontantservice A/S

Governor *Torben Nielsen* is the Vice Chairman of the Board of Directors.

The Financial Business Council

Governor *Per Callesen* is a member.

The Economic Council

Governor *Per Callesen* is a member.

Nets Holding A/S

Governor *Torben Nielsen* is a member of the Board of Directors.

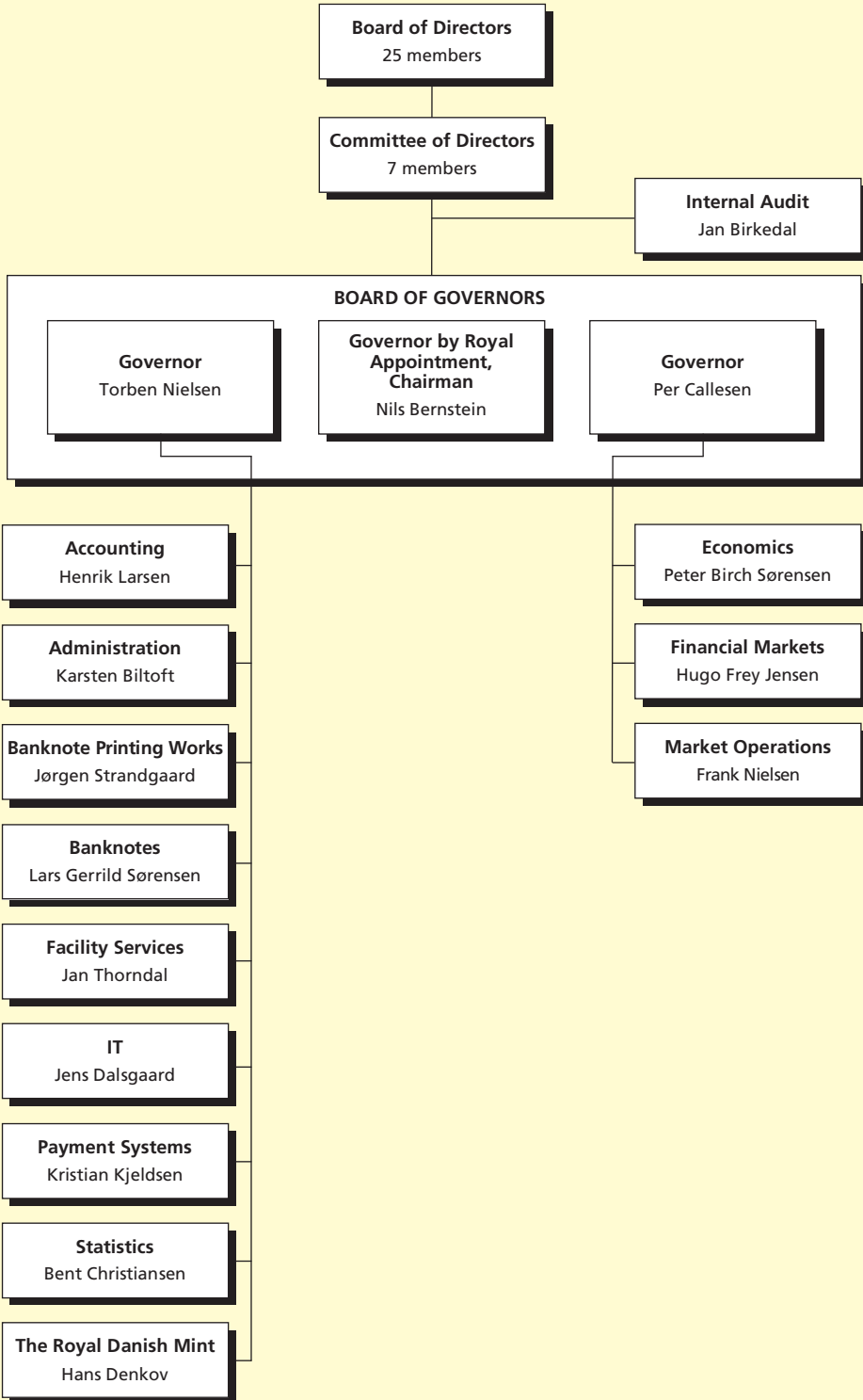
VP Lux S.à r.l.

Governor *Torben Nielsen* is the Chairman of the Board of Directors.

VP Securities A/S

Governor *Torben Nielsen* is the Vice Chairman of the Board of Directors.

ORGANISATION CHART 1 MARCH 2011



Risk Management

In its work, Danmarks Nationalbank is regularly confronted with a number of risks. In order to reduce these risks and the consequences of any incidents, various systems and routines have been developed to address the risks.

OPERATIONAL RISK

Cash supply

The joint cash-handling company that Danmarks Nationalbank and the Danish Bankers Association decided to establish in June 2009 was set up in August 2010 under the name of Bankernes Kontantservice A/S, BKS, and with a share capital of kr. 100 million. Danmarks Nationalbank owns 25 per cent of the company, while the remaining 75 per cent is owned by 98 banks. BKS is to take over the cash-handling services currently undertaken by the banks operating banknote and coin depots for Danmarks Nationalbank, i.e. primarily transport, distribution, sorting and counting of banknotes and coins on behalf of banks. In line with the takeover, BKS will gather the cash handling undertaken by banks up to now in fewer units.

As part of the establishment of BKS, Danmarks Nationalbank in 2009 asked Danish Standards to investigate the possibilities of establishing a sector standard for the security requirements for cash centres and cash-in-transit operations in Denmark in accordance with the general rules for preparation of standards, including the involvement of all players and stakeholders. There has been full support for the establishment of such a standard, which was published in December 2010 by Danish Standards as *DS 3999 Sikkerhedsstandard for kontantcentre, transitstationer og kontanttransporter*. It includes a number of standard requirements for security management in companies performing cash handling services, and physical and technical requirements for cash centres and cash transports. After a transitional period, the security standard will be applicable as a basis for concluding cash-supply contracts. Danmarks Nationalbank and the Danish Bankers Association agree that – after the transition period of three years – they will only use cash management companies that are certified according to this standard.

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 2010.

FINANCIAL RISK

Danmarks Nationalbank is exposed to a number of financial risks, such as interest-rate, gold and foreign-exchange risks as well as liquidity and credit risks. Some risks are linked to the fixed-exchange-rate policy, which makes it necessary to hold a large, liquid foreign-exchange reserve. Others reflect how Danmarks Nationalbank, in its capacity as a financial enterprise, takes on risk in the expectation of achieving a reasonable return.

At end-2010 the foreign-exchange reserve totalled kr. 429 billion, an increase of kr. 34 billion on 2009, and more than twice its size in the autumn of 2008 before the collapse of Lehman Brothers triggered a worldwide financial crisis. Although the increase has predominantly been placed in secure short-term government securities and with bank counterparties with high credit ratings, Danmarks Nationalbank has inevitably taken on greater financial risks than previously.

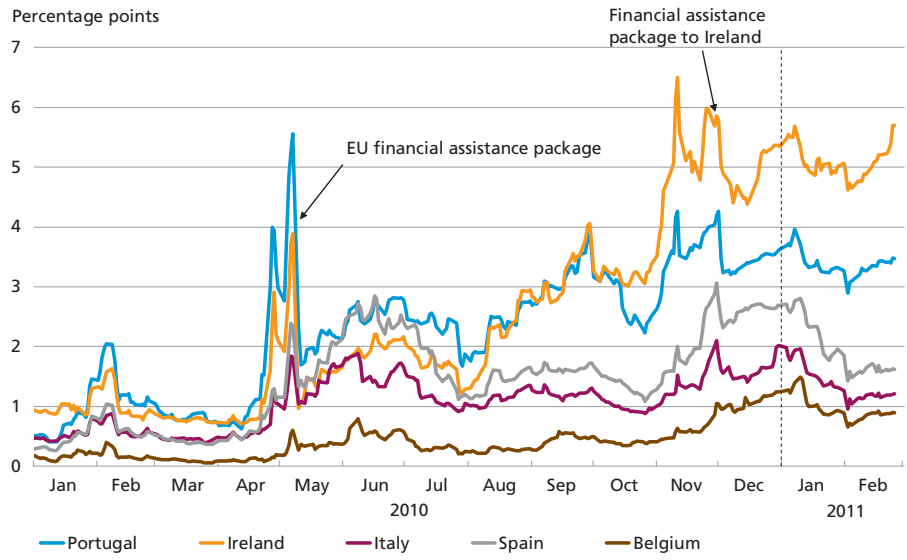
Market conditions have changed swiftly, and there are now fewer safe investment options. In 2010 this was reflected in the European sovereign debt crisis¹, which has led to the downgrading of sovereign issuers and to substantial widening of yield spreads to Germany, cf. Chart 4. This has affected the risk on Danmarks Nationalbank portfolio of government securities from the relevant euro area member states, most of which have short maturities.

The price of gold has been rising rapidly in recent years, a trend that continued in 2010.² In Danish kroner, the price rose by almost 40 per cent in 2010. Consequently, the market value of Danmarks Nationalbank's gold stock rose by kr. 4.7 billion to kr. 16.9 billion, cf. Chart 5, leading to an equivalent increase in the exposure to the price of gold. If the price falls back to the level before the onset of the financial crisis in the autumn of 2008, Danmarks Nationalbank will suffer a valuation loss of just over kr. 7.5 billion.

¹ For a description of the sovereign debt crisis, see Søren Lejsgaard Autrup, Jacob Wellendorph Ejning and Uffe Mikkelsen, *The Crisis in European Sovereign Debt Markets*, Danmarks Nationalbank, *Monetary Review*, 4th Quarter 2010.

² See also Thomas Krabbe Jensen and Christian Stampe Sørensen, *The Increase in the Price of Gold in Recent Years*, Danmarks Nationalbank, *Monetary Review*, 1st Quarter 2010.

YIELD SPREADS TO GERMANY, 2-YEAR GOVERNMENT BONDS Chart 4



Source: Bloomberg.

VALUE OF DANMARKS NATIONALBANK'S STOCK OF GOLD Chart 5



Source: Danmarks Nationalbank's portfolio management system, PSS.

Market risk

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

Interest-rate exposure

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

At end-2010 the interest-rate exposure was kr. 2.3 billion, compared with kr. 1.9 billion in 2009, cf. Table 6. Consequently, an increase by 1 percentage point in interest rates would entail a loss of kr. 2.3 billion due to price fluctuations. The increase is attributable to larger investments in government securities in connection with the increase of the foreign-exchange reserve and fewer bank transactions. The interest-rate exposure of the domestic securities portfolio remained unchanged compared with the level at end-2009.

Foreign-exchange exposure

The foreign-exchange reserve is predominantly invested in euro, reflecting Denmark's fixed-exchange-rate policy. Besides that, the reserve is invested in US dollars, pounds sterling and Swedish kronor. Pursuant to the Danmarks Nationalbank Act, Danmarks Nationalbank is obliged to hold a stock of gold. In the calculation of Danmarks Nationalbank's foreign-exchange exposure, gold is now included as a separate currency. Previously it was regarded as a dollar-denominated asset and the exposure was included under dollars, cf. Table 7. Danmarks Nationalbank converts its foreign-exchange exposures, excluding gold, to euro by means of forward contracts. The net result is an exposure in euro and gold.

At the end of 2010, the foreign-exchange exposure was kr. 415.9 billion. Danmarks Nationalbank will thus incur a loss of just over kr. 4 billion if the krone strengthens by 1 per cent. The increase in the foreign-exchange exposure in 2010 was in euro. Due to the fixed-

INTEREST-RATE EXPOSURE OF DANMARKS NATIONALBANK

Table 6

Kr. billion	DKK	EUR	USD	GBP	SEK	Other	Total
2009	0.6	0.7	0.3	0.1	0.1	0	1.9
2010	0.6	1.1	0.3	0.1	0.1	0	2.3

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

Source: Danmarks Nationalbank's portfolio management system, PSS.

FOREIGN-EXCHANGE EXPOSURE OF DANMARKS NATIONALBANK Table 7

Kr. billion	EUR	USD	Gold	GBP	SEK	Other	Total
2009 ¹	379.3	5.3	-	0	0	0	384.6
2010	399.0	0	16.9	0	0	0	415.9

Note: The foreign-exchange exposure is calculated after conversion to euro. Danmarks Nationalbank's aggregate foreign-exchange exposure deviates from the size of the foreign-exchange reserve, primarily due to commitments to the IMF.

Source: Danmarks Nationalbank's portfolio management system, PSS.

¹ Gold was included in the net dollar exposure at end-2009, but as a separate currency at end-2010.

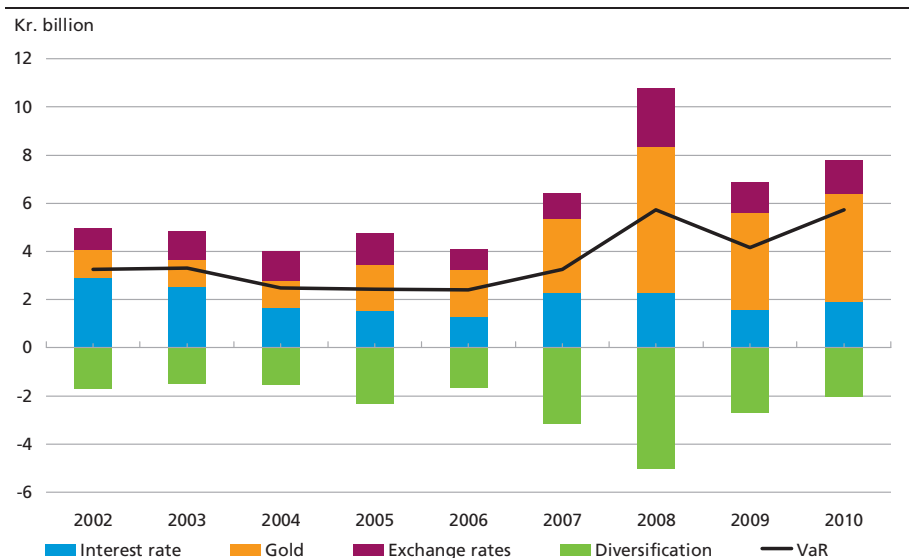
exchange-rate policy, fluctuations against the euro are small, and hence the foreign-exchange risk is limited. To this should be added the increased exposure to changes in the price of gold, cf. above.

Value-at-Risk

One measure of Danmarks Nationalbank's aggregate market risk is Value-at-Risk (VaR). VaR combines the exposure to various risk factors with an estimate of the volatility in these factors. The volatility estimates are based on historical observations.

At the close of 2010, Danmarks Nationalbank's VaR was calculated at kr. 5.7 billion, which is just over kr. 1.5 billion higher than at the beginning of the year, cf. Chart 6. The calculation shows that Danmarks

DANMARKS NATIONALBANK'S VALUE-AT-RISK, YEAR-END Chart 6



Note: VaR is calculated on the basis of volatility estimates based on price developments on the latest 160 trading days. Observations are weighted so that the most recent observations are most significant. From 2010 onwards, the decomposition of VaR reflects the inclusion of gold as a separate currency. This does not affect Danmarks Nationalbank's aggregate VaR.

Source: RiskMetrics and own calculations.

Nationalbank would suffer a market-value loss in excess of kr. 5.7 billion in one year in twenty. VaR has primarily risen as a result of the increase in the foreign-exchange reserve.

Danmarks Nationalbank's market risk is in line with the level in 2008, which was characterised by very turbulent market conditions and thus high volatility estimates. The reason why the market risk has not declined despite the calmer financial markets is that the foreign-exchange reserve has been more than doubled since 2008. If the VaR calculations are based on observations from the stressed market conditions in the autumn of 2008, the outcome is kr. 11.6 billion for Danmarks Nationalbank's exposure at end-2010.

Liquidity risk

For Danmarks Nationalbank, liquidity risk is the risk that it is not possible to release funds for intervention even though the funds are held in reserve, or that release of the funds involves considerable excess costs.

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 a large proportion of the reserve can readily be used for intervention in support of the krone. Danmarks Nationalbank's contingency plans operate with liquidity requirements for the foreign-exchange reserve. Most of the reserve is invested in the money market or in very safe securities that can be sold or pledged as collateral at very short notice. In addition, Danmarks Nationalbank can normally raise foreign exchange via various borrowing programmes, e.g. the Danish government's commercial papers.

Credit risk

Credit risk is the risk of loss due to a counterparty's default on obligations. Danmarks Nationalbank incurs credit risk on both bank deposits and securities investments. For securities, credit risk also comprises the risk that the credit rating of a counterparty drops, resulting in a market-value loss.

Danmarks Nationalbank seeks to limit its credit risk by requiring that counterparties have high credit ratings, and by spreading its assets over many counterparties. In addition, investments with counterparty banks are to a large extent subject to provision of collateral. The collateral is virtually only European government bonds. None of Danmarks Nationalbank's counterparties were compulsorily wound up in 2010.

Credit exposure

The credit exposure is an expression of the potential loss to Danmarks Nationalbank if a counterparty fails. It does not indicate the probability that this will happen or the proportion of the claim that is lost.

The credit exposure increased in 2010, cf. Table 8. The reason is that the foreign-exchange reserve grew, entailing more investments in bonds. At the close of the year, 78 per cent of Danmarks Nationalbank's portfolio was invested in category Aa3 or higher. Exposures to the IMF and the Bank for International Settlements, BIS, make up almost 14 per cent. Collateralised deposits where the counterparty's credit rating is lower than Aa3 account for just under 5 per cent.

Danmarks Nationalbank has a small exposure of short duration to debt-ridden euro area member states. The credit risk on these portfolios increased in 2010. This risk is countered by the establishment of joint stability mechanisms for the EU (the European Financial Stabilisation Mechanism, EFSM) and the euro area (the European Financial Stability Facility, EFSF).

Besides the actual exposure, Danmarks Nationalbank also incurs risk in relation to widening of spreads. The credit-spread exposure is an expression of how much Danmarks Nationalbank will lose if the credit spreads for a given counterparty widen by 1 percentage point. Hence, the credit-spread exposure corresponds to the interest-rate exposure on

CREDIT EXPOSURE FOR DANMARKS NATIONALBANK'S PORTFOLIOS, Table 8
END-2010

Kr. billion	2009 total	Bonds		Bank claims		Supra-national institutions ⁴	Central banks	2010 total
		Government	Other ¹	Collateralised ²	Uncollateralised ³			
Aaa	178	149	48	-	0	3	1	201
Aa1	60	34	11	-	1	-	-	46
Aa2	30	10	-	7	13	-	-	31
Aa3	65	-	-	61	8	-	-	69
A1	10	3	-	-	5	-	-	9
A2	29	-	0	15	-	-	-	15
A3	19	-	-	5	-	-	-	5
Baa1	-	2	-	-	-	-	-	2
No rating	21	-	1	-	1	60	4	65
Total	412	198	60	88	28	63	5	442

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

Source: Danmarks Nationalbank and Moody's.

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

² Collateralised bank claims are (reverse) repurchase agreements.

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

⁴ Supranational institutions such as the BIS, the IMF, the European Investment Bank and the Asian Development Bank. The BIS and the IMF have no official credit ratings.

the individual counterparty. These risks are mitigated by imposing upper limits on market value and maturity.

Danmarks Nationalbank's uncollateralised bank deposits, which are among the least secure foreign-exchange-reserve investments, were reduced in 2010 in favour of increased investment in government securities. This reduced the credit risk, but increased the interest-rate risk.

The counterparty concentration in Danmarks Nationalbank's collateralised deposits was reduced in 2010, partly by operating with more counterparties, and partly by placing more funds in German government securities and in the BIS.

The exposure to supranational institutions increased significantly in 2010, especially in the category without credit ratings, i.e. the IMF and the BIS. The increase is primarily attributable to a larger exposure to the BIS. The probability of losses on claims on the IMF and the BIS is assessed to be very small.

Accounts

for the year 2010

KEY FIGURES AND FINANCIAL RATIOS 2006-10

	2010	2009	2008	2007	2006
Profit and loss account (kr. million)					
Net income from interest	3,546	2,760	4,915	4,105	3,368
Value adjustments	4,567	1,751	2,246	1,634	-690
Income from shares, etc.	129	126	140	134	115
Other income	12	24	26	59	48
Expenses, including depreciation	-581	-706	-590	-751	-606
Other expenses	-19	-	-	-	-
Profit for the year	7,654	3,955	6,737	5,181	2,235
Allocated as follows:					
Allocation to net capital	5,493	2,412	3,593	2,343	-105
Payable to the central government	2,161	1,543	3,144	2,837	2,340
	7,654	3,955	6,737	5,181	2,235
Balance sheet (kr. million)					
Assets					
Foreign-exchange-reserve assets	431,856	398,804	215,964	172,282	175,446
Monetary-policy lending	9,275	104,220	240,876	216,794	153,735
Other lending	4,099	3,749	129,937	2,573	3,472
Domestic bonds	32,609	33,093	27,308	27,833	28,648
Other assets	8,305	10,285	21,008	5,058	3,571
Total assets	486,144	550,151	635,093	424,540	364,872
Liabilities					
Banknotes and coins	62,541	60,760	61,283	61,553	59,767
Monetary-policy deposits	147,067	188,294	128,193	209,863	171,984
Central government	179,443	212,435	262,789	89,899	73,789
Foreign-exchange-reserve debt	3,134	4,257	4,293	4,585	3,729
Deposits under swap facilities	-	-	115,996	-	-
Other liabilities	27,990	23,929	4,475	4,170	3,476
Total creditors	420,175	489,675	577,029	370,070	312,745
Total net capital	65,969	60,476	58,064	54,470	52,127
Total liabilities	486,144	550,151	635,093	424,540	364,872
Financial ratios					
Foreign-exchange reserve (kr. million)	428,722	394,547	211,671	167,697	171,717
Net position of banks and mortgage banks					
vis-à-vis Danmarks Nationalbank (kr. million) .	137,792	84,074	-112,683	-6,931	18,249
Central government's account (kr. million)	179,443	212,435	262,789	89,899	73,789
Growth in banknotes and coins (per cent)	2.9	-0.9	-0.4	3.0	6.3
Change in net capital (per cent)	9.1	4.2	6.6	4.5	-0.2
Change in net capital excl. Value					
Adjustment Reserve (per cent)	1.8	1.3	2.7	1.4	1.2
Average no. of staff (full-time equivalents)	510	508	497	505	513

BOARD OF GOVERNORS' REPORT ON DANMARKS NATIONALBANK'S ACCOUNTS

About the Accounts

The Accounts for 2010 have been prepared in accordance with the accounting policies applied in the previous year, cf. p. 56.

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

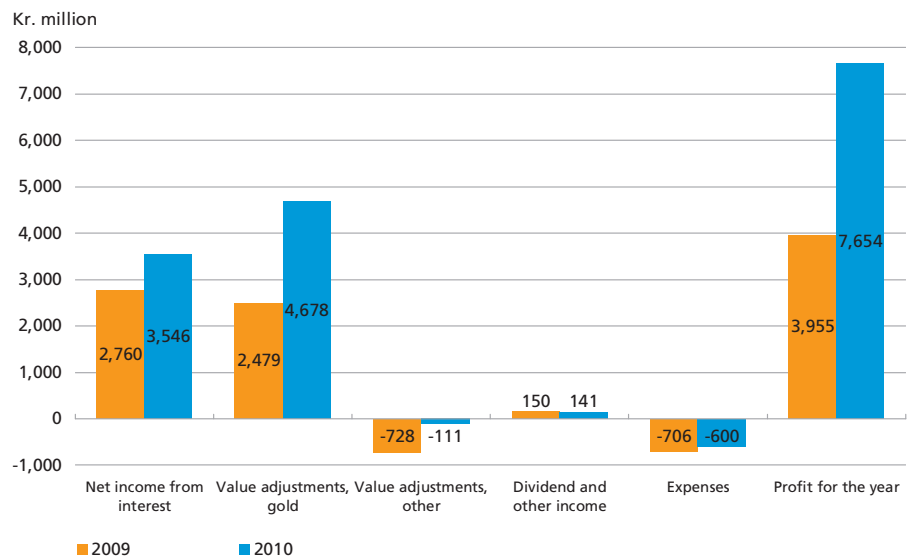
Once again, the Accounts differ substantially from last year's. The balance sheet thus decreased by kr. 64 billion overall, the foreign-exchange reserve increased by kr. 34 billion, the net deposits of the banks and mortgage banks rose by kr. 54 billion, and the central government's deposit fell by kr. 33 billion. 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. 8,113 million, an increase of kr. 3,601 million on 2009, and the total profit for the year was kr. 7,654 million, which is kr. 3,699 million higher than in 2009.

About losses and provisions

No credit losses were registered on Danmarks Nationalbank's commitments in 2010, and nor was it deemed to be necessary to make provisions for such losses at year-end.

DEVELOPMENT IN PROFIT FOR THE YEAR RELATIVE TO 2009

Chart 7



Profit from financial items

At kr. 3,546 million, *net income from interest* has increased by kr. 786 million (28.5 per cent) on 2009. Major changes include:

On the positive side

- Interest expenditure on the central government's deposit fell by kr. 1,926 million to kr. 0 million. The central government's average deposit decreased by kr. 6 billion to kr. 191 billion. The average return in 2010 was 0.0 per cent following a decision in 2009 to reduce the rate of interest payable on the central government's deposit from the discount rate to the discount rate less 1 percentage point, but not less than 0 per cent. From 1 January 2011 the central government's deposit will accrue interest again, but at the current-account rate.
- Net income from interest on net foreign assets increased by kr. 61 million to kr. 3,306 million. Average net claims increased by kr. 102 billion to kr. 410 billion, while the average return fell from 1.1 per cent to 0.8 per cent.

On the negative side

- Net interest income from monetary-policy deposits and lending fell by kr. 605 million, from interest expenses of kr. 190 million to interest expenses of kr. 795 million. The average net account with financial institutions has changed from net deposits from the institutions of kr. 44 billion to net deposits of kr. 129 billion. The strong fall in monetary-policy interest rates in 2009 continued in the 1st half of 2010, with the deposit rate in particular dropping considerably. In the 2nd half of the year the deposit rate rose, while the lending rate remained unchanged. Hence the average return declined from 1.7 per cent in 2009 to 0.6 per cent in 2010 for deposits and from 2.1 per cent to 1.1 per cent for loans.
- Interest income from special loans to Roskilde Bank and EBH Bank decreased by a total of kr. 468 million to kr. 0 million as a result of the discontinuation of these commitments in 2009.
- Interest income on the portfolio of domestic bonds fell by kr. 188 million to kr. 1,051 million.

Value adjustments entailed a gain of kr. 4,567 million, an increase of kr. 2,816 million on 2009. These include value adjustments of gold at a gain of kr. 4,678 million (2009: a gain of kr. 2,479 million) reflecting a 38-per-cent increase (in DKK) in the price of gold in 2010. In contrast, market-value and exchange-rate adjustments on foreign-exchange entailed a total a loss of kr. 71 million (2009: a loss of kr. 968 million) and market-

value adjustments of domestic securities entailed a loss of kr. 40 million (2009: a gain of kr. 240 million). Kr. 58 million of the domestic market-value loss is attributable to shares.

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

As a supplement to the presentation of the financial items of the accounts, Table 9 shows a breakdown by the key factors contributing to the financial income. It should be emphasised that the breakdown in Table 9 is analytical and not immediately comparable with the accounts.

Danmarks Nationalbank's tasks include issuing banknotes and coins, conducting monetary and exchange-rate policy, holding a stock of gold and acting as banker to the banks and mortgage banks and the central government. These tasks relating to its role as monetary authority provide Danmarks Nationalbank with *core income*.

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 trade-off 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*.

Core income has been calculated at kr. 6.5 billion in 2010, kr. 3.6 billion higher than in 2009. Income in 2010 mainly stemmed from gold-price adjustments. Core income also includes contributions from seigniorage, the calculated return on assets corresponding to the net capital, financing of the foreign-exchange reserve and exchange-rate adjustment.

FACTORS CONTRIBUTING TO DANMARKS NATIONALBANK'S PROFIT FROM FINANCIAL ITEMS

Table 9

Kr. billion	Profit 2010	Profit 2009
<i>Core income</i>		
Seigniorage	0.4	1.1
Calculated return on net capital	0.4	1.0
Foreign-exchange reserve and financing thereof etc.	0.0	-1.9
Interest from special loans, etc.	-	0.5
Exchange-rate adjustment	1.0	-0.3
Gold-price adjustment	4.7	2.5
Total core income	6.5	2.9
Income from additional risk	1.6	1.6
Total profit from financial items	8.1	4.5

Note: Seigniorage is calculated on the basis of banknotes and coins in circulation, less decentralised banknote holdings. Rounded figures.

The gain from interest-free credit on banknotes and coins in circulation is known as seigniorage. The calculation assumes that Danmarks Nationalbank invests the funds from banknotes and coin and the net capital at the short-term monetary-policy interest rate in Denmark. The contribution from seigniorage and net capital fell by kr. 1.3 billion to kr. 0.8 billion in 2010. The fall is attributable to lower monetary-policy interest rates.

The foreign-exchange reserve is predominantly invested in euro. A share is invested in dollar-denominated assets. The foreign-exchange reserve also includes gold, which has not generated any carry income. The foreign-exchange reserve is offset by liabilities, primarily the net position vis-à-vis banks and mortgage banks and the central government's deposit at Danmarks Nationalbank.

Since the short-term interest rate in the investment currencies is normally lower than the equivalent Danish interest rate, Danmarks Nationalbank incurs interest expenses by holding the foreign-exchange reserve. The spreads between Danmarks Nationalbank's monetary-policy interest rates and the actual interest rates in the investment currencies was generally narrower in 2010 than in 2009. Combined with the zero rate on the central government's account, this contributed to a fall in the calculated expenses of holding the foreign-exchange reserve to kr. 0.0 billion in 2010, down from kr. 1.9 billion in 2009.

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 weakens vis-à-vis another currency, Danmarks Nationalbank makes a gain because the krone value of the foreign-exchange reserve increases. Conversely, strengthening of the krone entails a loss. In 2010, the krone weakened by 0.2 per cent vis-à-vis the euro, entailing a gain of kr. 0.8 billion.

Due to a sustained low level of interest rates, a large foreign-exchange reserve and remuneration of the central government's account at the current-account rate in 2011, core income – excluding gold – will presumably be low in 2011.

Income from additional risk reflects the fact that Danmarks Nationalbank, to a moderate extent, incurs interest-rate and credit risk by investing in Danish and foreign bonds and making deposits with foreign banks with high credit standings. Consequently, earnings are also affected by the development in interest rates in Denmark and abroad and in credit risk premiums. The profit contribution from additional risk has been calculated at kr. 1.6 billion in 2010. The gain is mainly attributable to Danmarks Nationalbank having achieved a higher return on its bond portfolio as long-term interest rates were higher than

short-term interest rates. Developments in the government bond markets in certain debt-ridden euro area member states entailed market-value-adjustment losses on a small part of the bond portfolio. These losses have to some extent been offset by higher carry due to the higher interest rates in these member states.

Other items

Income from shares, etc. increased by kr. 4 million to kr. 129 million.

Other income decreased by kr. 12 million to kr. 12 million. Kr. 4 million of the fall is attributable to lower income from sale of coins and medals, and kr. 7 million to gains on property sales in 2009.

Expenses, depreciation and other expenses decreased by kr. 106 million to kr. 600 million. Kr. 100 million of the decline is attributable to a special payment in 2009 to "Danmarks Nationalbank's Pension Fund subject to winding-up" to cover Danmarks Nationalbank's pension commitment, as well as fall in staff expenses of kr. 3 million and a fall in other expenses of kr. 22 million. In contrast, other expenses increased by kr. 19 million as a result of disbursements to the Royal Family and to the Ministry of Economic and Business Affairs in connection with the issuance of a commemorative coin to mark the 70th birthday of Her Majesty Queen Margrethe. The amount was divided equally between the Royal Family and the Ministry and will be used for charitable purposes.

Distribution of the profit for the year

The distribution of Danmarks Nationalbank's profit is determined from year to year, based on a specific assessment.

Since 1995 it has been a fundamental principle that positive value adjustments are allocated to the Value Adjustment Reserve and that negative value adjustments are covered by the Value Adjustment Reserve, to the extent that this is possible. This principle helps to smooth fluctuations in the amount payable to the central government.

For some years, distribution of the profit for the year has been based on the principle 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 match the development in prices.

On this basis it has been decided, cf. section 19 of the Danmarks Nationalbank Act, to distribute the profit for 2010, kr. 7,654 million, as follows:

- An amount corresponding to the value adjustments during the year, kr. 4,567 million, is allocated to the Value Adjustment Reserve, which subsequently amounts to kr. 13,365 million.
- 30 per cent of the profit excluding value adjustments, equivalent to kr. 926 million, is allocated to the General Reserves, which subsequently amount to kr. 52,303 million.
- The remaining amount, i.e. 70 per cent of the profit excluding value adjustments, equivalent to kr. 2,161 million, is payable to the central government.

Balance sheet

The balance-sheet total fell from kr. 550.2 billion to kr. 486.1 billion. The decrease of kr. 64 billion can be broken down by the following main items:

- On the *assets side*, lending to banks and mortgage banks fell by kr. 94.9 billion, and claims re banks' and mortgage banks' TARGET accounts at the ECB by kr. 2.2 billion. Foreign-exchange-reserve assets increased by kr. 33.0 billion.
- On the *liabilities side*, deposits by banks and mortgage banks decreased by kr. 41.2 billion and the central government's deposit by kr. 33.0 billion. Banknotes and coins in circulation increased by kr. 1.8 billion, other deposits by kr. 4.4 billion and net capital by the share of the profit for the year, kr. 5.5 billion.

The increase in the foreign-exchange reserve from kr. 394.5 billion to kr. 428.7 billion is composed of increases of kr. 4.7 billion in gold, kr. 26.2 billion in foreign assets and kr. 2.2 billion in claims on the IMF on the assets side, while, on the liabilities side, foreign liabilities decreased by kr. 1.1 billion.

The banks' and mortgage banks' net position vis-à-vis Danmarks Nationalbank also changed considerably during 2010, the net deposit increasing by kr. 53.7 billion to kr. 137.8 billion.

After having fallen slightly for a couple of years, banknotes in circulation increased by kr. 1.7 billion (3.1 per cent) to kr. 56.7 billion, while coins in circulation increased by kr. 0.1 billion (1.7 per cent) to kr. 5.8 billion.

The net capital rose from kr. 60.5 billion to kr. 66.0 billion as a result of profit allocations totalling kr. 5.5 billion.

STATEMENT BY THE BOARD OF GOVERNORS

The Board of Governors have today considered and approved the Annual Accounts of Danmarks Nationalbank for 2010.

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

In our opinion, the Accounts give a true and fair view of Danmarks Nationalbank's assets, liabilities and financial position at 31 December 2010, and of the result of Danmarks Nationalbank's activities for the financial year 1 January-31 December 2010.

Copenhagen, 22 February 2011

Board of Governors

Nils Bernstein
Chairman

Per Callesen

Torben Nielsen

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 2010, comprising the Board of Governors' Report on Danmarks Nationalbank's Accounts, Statement by the Board of Governors, Accounting Policies, Profit and Loss Account, Balance Sheet and Notes. The Annual 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 the audit in accordance with Danish Accounting Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the Accounts are free of material misstatement.

The audit included an assessment of the Board of Directors and Committee of Directors' established 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.

The 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 2010, and of the result of Danmarks Nationalbank's activities for the financial year 1 January-31 December 2010, in accordance with the Danmarks Nationalbank Act.

Copenhagen, 22 February 2011

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 2010, comprising the Board of Governors' Report on Danmarks Nationalbank's Accounts, Statement by the Board of Governors, Accounting Policies, Profit and Loss Account, Balance Sheet and Notes. The Annual 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 the audit in accordance with Danish Accounting Standards. 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.

The 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 2010, and of the result of Danmarks Nationalbank's activities for the financial year 1 January-31 December 2010, in accordance with the Danmarks Nationalbank Act.

Copenhagen, 22 February 2011

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 15 March 2011.

As at 1 March 2011 the Board of Directors comprises

Søren Bjerre-Nielsen, Chairman Helle Bechgaard, Deputy Chairman

Peter Bjerregaard Niels Boserup Peter Christensen Pia Christmas-Møller

Kristian Thulesen Dahl Michael Dithmer Niels Fog Peter Gæmelke

Camilla Hersom Hans Jensen Kristian Jensen Niels Due Jensen Jette W. Knudsen

Henrik Sass Larsen Kjeld Larsen Michael Lunn Michael Møller

Kirsten Nissen Bente Sorgenfrey Lars Rebien Sørensen

Villy Søvnald Helle Thorning-Schmidt Margrethe Vestager

ACCOUNTING POLICIES

General

Danmarks Nationalbank's Accounts for the year 2010 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 comprise 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, 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.

Other expenses

Other expenses comprise expenses that are not related to Danmarks Nationalbank's primary activities or that are not annually recurring.

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 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

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, 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 2010

Note	2010 kr. '000	2009 kr. '000
1 Net income from interest:		
Interest on foreign assets	3,481,885	3,263,275
2 Interest on domestic loans	124,970	4,078,059
Interest on domestic bonds	1,051,131	1,239,806
Commission and other income	736	132
Interest income, etc.	4,658,722	8,581,272
Interest on foreign liabilities	175,759	18,225
Interest payable to central banks under swap facilities ...	-	525,264
3 Interest on domestic deposits	936,806	5,277,334
Expenditure on interest, etc.	1,112,565	5,820,823
Net income from interest, total	3,546,157	2,760,449
4 Value adjustments, etc.:		
Value adjustment of gold	4,677,830	2,478,607
5 Value adjustment of foreign assets	-71,254	-968,222
6 Value adjustment of domestic securities	-39,776	240,359
Value adjustments, etc., total	4,566,800	1,750,744
Profit from financial items	8,112,957	4,511,193

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2010

Note	2010 kr. '000	2009 kr. '000
Profit from financial items	8,112,957	4,511,193
7 Income from shares, etc.	129,302	125,646
8 Other income	12,060	24,481
Expenses:		
9 Staff expenses	350,517	353,846
Special payment to Danmarks Nationalbank's Pension Fund subject to winding-up	-	100,000
10 Other expenses	200,819	222,445
Total expenses	551,336	676,291
11 Depreciation and write-down of tangible fixed assets ...	29,927	30,051
Other expenses	19,000	-
Profit for the year	<u>7,654,056</u>	<u>3,954,977</u>
Distribution of the profit for the year:		
Profit for the year	7,654,056	3,954,977
Allocation to Value Adjustment Reserve	-4,566,800	-1,750,744
	<u>3,087,256</u>	<u>2,204,233</u>
allocated as follows:		
Allocation to the General Reserves, 30 per cent	926,177	661,270
Payable to the central government, 70 per cent	2,161,079	1,542,963
	<u>3,087,256</u>	<u>2,204,233</u>

BALANCE SHEET AT 31 DECEMBER 2010

Note	2010 kr. '000	2009 kr. '000
Assets		
12 Gold	16,937,591	12,259,761
13 Foreign assets	397,084,896	370,861,369
14 Claims on the IMF, etc.	17,832,779	15,682,621
Claims re banks' and mortgage banks'		
TARGET accounts at the ECB	4,594,753	6,886,260
Monetary-policy lending	9,275,000	104,220,000
15 Other lending	4,099,441	3,749,269
16 Domestic bonds	32,609,268	33,093,490
17 Shares, etc.	825,562	805,051
18 Tangible fixed assets	653,558	661,299
19 Other assets	2,206,461	1,907,892
Accruals	24,535	24,041
Total assets	486,143,844	550,151,053

BALANCE SHEET AT 31 DECEMBER 2010

Note	2010 kr. '000	2009 kr. '000
Liabilities		
20 Banknotes	56,697,456	55,014,549
20 Coins	5,844,182	5,745,801
Monetary-policy deposits		
21 Net current accounts	14,518,838	22,138,405
Certificates of deposit	132,548,000	166,156,000
22 Other deposits	11,644,970	9,517,671
23 Central government	179,443,285	212,435,011
24 Foreign liabilities	3,133,860	4,256,993
25 Counterpart of Special Drawing Rights allocated by the IMF	13,252,758	12,418,718
26 Other liabilities	3,091,904	1,992,291
Total creditors	420,175,253	489,675,439
General Capital Fund	50,000	50,000
Statutory Reserves	250,000	250,000
Value Adjustment Reserve	13,365,289	8,798,489
General Reserves	52,303,302	51,377,125
27 Total net capital	65,968,591	60,475,614
Total liabilities	486,143,844	550,151,053
28 Apportionment of foreign-exchange-reserve assets		
29 Financial derivatives for conversion of foreign-exchange exposure		
30 Other financial derivatives		
31 Contingent liabilities		
32 Pension commitments		

NOTES TO THE ACCOUNTS FOR 2010

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 by substantial falls in the level of interest rates for the individual types.

Net income from interest rose from kr. 2,760 million to kr. 3,546 million.

Net income from interest on foreign assets increased by kr. 61 million to kr. 3,306 million. Average net assets increased by kr. 103 billion to kr. 410 billion. Average returns fell from 1.1 per cent to 0.8 per cent.

Net interest income from banks and mortgage banks (interest on monetary-policy lending less interest on current accounts and certificates of deposit) increased by kr. 605 million from interest expenses of kr. 190 million to interest expenses of kr. 795 million. Average net accounts have shifted from net deposits from these institutions of kr. 44 billion to net deposits of kr. 129 billion. Monetary-policy interest rates dropped substantially in 2010, and hence the average return fell from 1.7 per cent to 0.6 per cent for deposits and from 2.1 per cent to 1.1 per cent for loans.

Interest expenditure to the central government fell by kr. 1,926 million to kr. 0 million. The central government's average deposit declined by kr. 6 billion to kr. 191 billion, while the average return fell from 1.0 per cent to 0.0 per cent.

Interest income from special loans to Roskilde Bank and EBH Bank fell by kr. 468 million to kr. 0 million due to the discontinuation of these commitments.

Interest on domestic bonds fell by kr. 188 million to kr. 1,051 million due to falling interest rates on reinvestment.

NOTES TO THE ACCOUNTS FOR 2010

Note	2010 kr. '000	2009 kr. '000
2 Interest on domestic loans		
Interest on monetary-policy lending (collateralised loans)	104,192	3,084,400
Interest on foreign-exchange loans to banks	-	525,264
Interest on lending to others	20,778	468,395
	<u>124,970</u>	<u>4,078,059</u>
3 Interest on domestic deposits		
Interest on current accounts	79,775	177,761
Interest on certificates of deposit	819,039	3,097,126
Interest on the central government's deposits	-	1,925,761
Interest to other depositors, etc.	37,992	76,686
	<u>936,806</u>	<u>5,277,334</u>
4 Value adjustments		
Total value adjustments for the year show a gain of kr. 4,567 million compared with a gain of kr. 1,751 million in 2009, equivalent to an increase of kr. 2,816 million.		
Value adjustment of gold entailed a gain of kr. 4,678 million, reflecting of 38-per-cent increase in the price of gold calculated in Danish kroner.		
Value adjustments of foreign assets resulted in a loss of kr. 71 million, comprising a market-value loss of kr. 1,102 million and an exchange-rate gain of kr. 1,031 million.		
Value adjustment of domestic securities resulted in a loss of kr. 40 million.		
5 Value adjustment of foreign assets		
Market-price adjustment	-1,102,370	-687,403
Exchange-rate adjustment	1,031,116	-280,819
	<u>-71,254</u>	<u>-968,222</u>
6 Value adjustment of domestic securities		
Value adjustment of domestic bonds	18,662	240,359
Value adjustment of shares	-58,438	-
	<u>-39,776</u>	<u>240,359</u>

NOTES TO THE ACCOUNTS FOR 2010

Note	2010 kr. '000	2009 kr. '000
7 Income from shares, etc.		
Nets Holding A/S	57,987	78,025
Bank for International Settlements (BIS)	51,939	18,557
VP Securities A/S	19,376	29,064
	129,302	125,646
8 Other income		
Sale of coins and medals	11,482	15,070
Gains on property sales	-	7,028
Other income	578	2,383
	12,060	24,481
9 Staff expenses		
Salaries and remuneration	286,331	273,996
Pension contributions and support	42,917	55,015
Training	8,232	10,219
Other staff expenses	13,037	14,616
	350,517	353,846
Of which remuneration of the management		
Governors, salaries	8,559	8,240
Governors, pension contributions and actuarial regulation of defined benefit pension commitments	-424	4,339
Committee of Directors and Board of Directors	840	807
	8,975	13,386
No bonus schemes exist at Danmarks Nationalbank. In 2010 the average number of employees was 510 on a full-time basis (2009: 508).		
10 Other expenses		
Materials for banknote production	49,147	25,272
Materials for coin production	13,052	13,202
Real property, current expenses	54,388	93,159
IT expenses	41,177	39,959
Other expenses	43,055	50,853
	200,819	222,445

NOTES TO THE ACCOUNTS FOR 2010

Note	2010 kr. '000	2009 kr. '000
11 Depreciation and write-down of tangible fixed assets		
Properties	15,523	14,096
Operating equipment	14,404	15,955
	29,927	30,051
12 Gold		
<p>The value of the gold stock was kr. 16.9 billion at year-end, compared with kr. 12.3 billion at the end of 2009. The reason for the increase is that the price of gold, calculated in kroner, rose by 38 per cent in 2010. The gold stock was unchanged at 66,550 kg.</p>		
13 Foreign assets		
Foreign bonds	272,970,681	183,036,120
Claims on central banks and supranational institutions	12,203,983	25,475,296
Claims on foreign commercial banks	23,470,334	42,183,857
Repo transactions against collateral in foreign bonds	88,439,002	120,165,342
Other foreign assets	896	754
	397,084,896	370,861,369
<p>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.</p>		
14 Claims on the IMF, etc.		
Denmark's IMF quota	14,216,134	13,321,465
The IMF's drawing right	11,005,883	10,430,831
Reserve position with the IMF	3,210,251	2,890,634
Holdings of Special Drawing Rights (SDRs)	13,165,954	12,329,774
	16,376,205	15,220,408
Loans to the PRG Trust	26,999	-
Bilateral loans	1,429,575	462,213
	17,832,779	15,682,621

NOTES TO THE ACCOUNTS FOR 2010

Note

14 Claims on the IMF, etc. (continued)

During the year, the IMF exercised drawing rights corresponding to SDR 15 million at Danmarks Nationalbank. In addition, Danmarks Nationalbank reduced its net holdings by SDR 1 million over the year as a result of IMF transactions.

Under the SDR cooperation, Danmarks Nationalbank may purchase SDR to increase its holdings to up to three times the accumulated allotment of SDR 1,531 million, i.e. to SDR 4,594 billion. The current holdings are SDR 1,521 million, so that the maximum further purchase is SDR 3,073 million, corresponding to kr. 26.6 billion.

In 2010, Danmarks Nationalbank lent SDR 3 million (kr. 27 million) to the PRG Trust. The loan was guaranteed by the Danish government.

In 2010, the IMF exercised drawing rights of SDR 108 million on its bilateral loan agreement with Danmarks Nationalbank. The total amount drawn on this facility was SDR 165.2 million (kr. 1.4 billion) at 31 December 2010. The IMF can borrow SDRs up to a value of EUR 1,950 million (kr. 14.5 billion).

In 1997, Danmarks Nationalbank made credit commitments of up to SDR 367 million (kr. 3.2 billion) under the IMF's New Arrangements to Borrow. No funds had been drawn on this facility at 31 December 2010.

Overall, claims on the IMF thus increased by SDR 127 million in 2010. With the exchange-rate adjustments for the year, this increased the claim by kr. 2.2 billion to kr. 17.8 billion.

Accounts with the IMF are stated in SDRs (Special Drawing Rights). The exchange rate for SDR at 31 December 2010 was 865.36 (end-2009: 810.9). 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: 0.632 US dollar, 0.41 euro, 18.4 Japanese yen and 0.090 pound sterling.

NOTES TO THE ACCOUNTS FOR 2010

Note	2010 kr. '000	2009 kr. '000
15 Other lending		
Banks and mortgage banks, lending to decentralised banknote holdings	4,061,830	3,718,061
Other loans	37,611	31,208
	4,099,441	3,749,269
16 Domestic bonds		
Danish government bonds	996,823	2,476,954
Mortgage bonds, etc.	31,172,086	29,305,760
Ship Finance bonds	440,359	1,310,776
	32,609,268	33,093,490
17 Shares, etc.		
Capital investments and equivalent investments	508,000	512,489
Equity investments in associated companies	317,562	292,562
	825,562	805,051

Danmarks Nationalbank's portfolio of shares, etc. at 31 December 2010 has an estimated market value of no less than kr. 2.9 billion.

Capital investments and equivalent investments comprise capital subscription to the ECB and shares in the Bank for International Settlements (BIS), SWIFT, Nets 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. 34.7 million	kr. 16.2 million
Danish Ship Finance A/S	18.9/20.8 per cent	kr. 219.6 million	kr. 87.9 million
Bankernes Kontantservice A/S ...	25.0/25.0 per cent	kr. 25.0 million	-

NOTES TO THE ACCOUNTS FOR 2010

Note	2010 kr. '000	2009 kr. '000
18 Tangible fixed assets		
Properties	602,696	605,780
Machinery and equipment	50,862	55,519
	653,558	661,299

At the most recent official assessment, Danmarks Nationalbank's properties were valued at kr. 1,740 million.

19 Other assets		
Market value of unsettled securities transactions	11,839	-
Accrual of interest rates	2,123,017	1,856,885
Other	71,605	51,007
	2,206,461	1,907,892

20 Banknotes and coins

Banknotes increased by kr. 1.7 billion to kr. 56.7 billion, while coins increased by kr. 0.1 billion to kr. 5.8 billion. Banknotes include kr. 367 million in Faroese banknotes.

21 Net current accounts

Deposits in current accounts and settlement accounts	99,924,458	136,601,478
Drawing on current accounts	85,405,620	114,463,073
	14,518,838	22,138,405

At 31 December 2010 Danmarks Nationalbank acts on a full secured basis as guarantor to VP Securities A/S for kr. 25.9 billion (2009: kr. 61.4 billion) and to the Danish Bankers Association (Sumclearing) for kr. 66.4 billion (2009: kr. 67.3 billion) in connection with the banks and mortgage banks' payment settlements with 3 January 2011 as the value date.

NOTES TO THE ACCOUNTS FOR 2010

Note	2010 kr. '000	2009 kr. '000
22 Other deposits		
Banks and mortgage banks	4,596,901	6,892,296
Other deposits	7,048,069	2,625,375
	11,644,970	9,517,671
<p>This item includes the banks' and mortgage banks' deposits in current accounts in euro totalling kr. 4.6 billion.</p>		
23 Central government		
<p>The central government's share of the profit for the year of kr. 2,161 million is included in this amount.</p>		
24 Foreign liabilities		
<p>These liabilities comprise deposits in kroner at Danmarks Nationalbank by supranational institutions and other central banks. The European Commission's deposit comprises kr. 3,110 million of this amount.</p>		
25 Counterpart of Special Drawings Rights allocated by the IMF		
<p>There were no changes in the allocation of SDRs in 2010. The increase in this item was solely attributable to value adjustments as a result of the SDR exchange rate having increased from 810.9 to 865.36 over the year.</p>		
26 Other liabilities		
Market value of unsettled foreign-exchange transactions	2,917,601	1,675,370
Market value of other financial derivatives	22,517	141,343
Other debt	41,540	78,377
Other	110,246	97,201
	3,091,904	1,992,291

NOTES TO THE ACCOUNTS FOR 2010

Note	General Capital Fund and Statutory Fund kr. '000	Value Adjustment Fund kr. '000	General Reserves kr. '000	Total kr. '000
27 Net capital				
Net capital at 1 January 2010 ..	300,000	8,798,489	51,377,125	60,475,614
Carried forward from the profit for the year	-	4,566,800	926,177	5,492,977
Net capital at 31 December 2010	300,000	13,365,289	52,303,302	65,968,591

28 Apportionment of foreign-exchange-reserve assets

Kr. million

2010	Total	EUR	USD	GBP	Other
Foreign-exchange-reserve assets					
Gold	16,938	-	-	-	16,938
Foreign bonds	272,971	182,668	77,266	6,564	6,473
Claims on central banks	12,204	3,870	8,197	1	136
Claims on foreign commercial banks	23,470	10,778	11,591	516	585
Repo transactions	88,439	88,439	-	-	-
Claims on the IMF	17,833	-	-	-	17,833
	431,855	285,755	97,054	7,081	41,965
2009	Total	EUR	USD	GBP	Other
Foreign-exchange-reserve assets					
Gold	12,260	-	-	-	12,260
Foreign bonds	183,036	150,941	21,317	6,623	4,155
Claims on central banks	25,475	22,783	2,631	1	61
Claims on foreign commercial banks	42,184	23,870	16,154	508	1,652
Repo transactions	120,165	120,165	-	-	-
Claims on the IMF	15,683	-	-	-	15,683
	398,804	317,759	40,102	7,132	33,811

NOTES TO THE ACCOUNTS FOR 2010

Note

29 Financial derivatives for conversion of foreign-exchange exposure

Net positions at market value

Kr. million

2010	<u>Total</u>	<u>EUR</u>	<u>USD</u>	<u>DKK</u>	<u>Other</u>
Forward exchange contracts:					
Purchase	111,914	111,914	-	-	-
Sale	-114,832	-	-99,237	-	-15,595
Unsettled spot currency trades:					
Purchase	37	-	37	-	-
Sale	-37	-37	-	-	-
	<u>-2,918</u>	<u>111,877</u>	<u>-99,200</u>	<u>-</u>	<u>-15,595</u>
2009	<u>Total</u>	<u>EUR</u>	<u>USD</u>	<u>DKK</u>	<u>Other</u>
Forward exchange contracts:					
Purchase	60,014	60,014	-	-	-
Sale	-61,695	-	-47,790	-	-13,905
Unsettled spot currency trades:					
Purchase	9,175	3,646	908	4,621	-
Sale	-9,169	-4,621	-223	-4,325	-
	<u>-1,675</u>	<u>59,039</u>	<u>-47,105</u>	<u>296</u>	<u>-13,905</u>

NOTES TO THE ACCOUNTS FOR 2010

Note

30 Other financial derivatives

Principals at market value
Kr. million

2010	Total	DKK	EUR	USD	Other
Currency and interest-rate swaps:					
Purchase	113	-	-	113	-
Sale	-130	-130	-	-	-
Forward contracts, securities:					
Purchase	22,282	22,282	-	-	-
Sale	-16,435	-16,435	-	-	-
Unsettled spot trades, securities:					
Purchase	2,279	-	1,368	840	71
Sale	-1,439	-	-1,439	-	-
Futures, securities:					
Purchase	144	-	124	20	-
Sale	-153	-	-8	-145	-
2009	Total	DKK	EUR	USD	Other
Currency and interest-rate swaps:					
Purchase	583	-	-	583	-
Sale	-718	-718	-	-	-
Forward contracts, securities:					
Purchase	54,909	54,909	-	-	-
Sale	-43,049	-43,049	-	-	-
Unsettled spot trades, securities:					
Purchase	4,261	-	4,068	52	141
Sale	-27	-	-	-27	-
Futures, securities:					
Purchase	223	-	148	-	75
Sale	-846	-	-129	-717	-

NOTES TO THE ACCOUNTS FOR 2010

Note	2010 kr. '000	2009 kr. '000
31 Contingent liabilities		
VP Securities A/S, share of Guarantee Capital	31,931	29,356
VP Securities A/S, guarantee for errors by other account-holding institutions	14,515	13,363
Other guarantees	1,100	1,100
	<u>47,546</u>	<u>43,819</u>

In addition, Danmarks Nationalbank has established an intervention agreement with the ECB. As regards commitments to the IMF, see Note 14.

32 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 2010

Key figures for the accounts of the Pension Fund:

	2010 <u>kr. million</u>	2009 <u>kr. million</u>
Pension commitments and other liabilities	3,296	3,432
Fair market value of the assets of the Pension Fund	4,070	3,885
Net capital of the Pension Fund	774	453
Solvency requirement of the Pension Fund	130	137

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. 50.6 million at 31 December 2010, while the provision on Danmarks Nationalbank's balance sheet amounts to kr. 24.0 million.