



Danmarks
Nationalbank

Report and
Accounts

2007

D A N M A R K S
N A T I O N A L
B A N K 2 0 0 7



REPORT AND ACCOUNTS 2007

At the meeting of the Board of Directors held on 12 March 2008 the Board of Governors will submit Danmarks Nationalbank's Report and Accounts 2007 for adoption on the recommendation of the Committee of Directors.

This Report is based on information available up to 29 February 2008.

The small picture on the front cover shows a detail from the fairy tale coin "the Nightingale", the fifth and final coin in that series. The motif was designed by the sculptor Professor Torben Ebbesen.

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Explanation of symbols:

- Magnitude nil
 - 0 Less than one half of unit employed
 - Category not applicable
 - ... Data not available
- Details may not add because of rounding.

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Foreword

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

The Report and Accounts of Danmarks Nationalbank comprise a presentation and description of Danmarks Nationalbank's Accounts for the year 2007, and the Report of the Board of Governors. The Report of the Board of Governors presents recent overall trends in the Danish and international economy, monetary and foreign-exchange policy, international cooperation and major events during the year within Danmarks Nationalbank's other areas of operation and its organisation.

In its quarterly monetary reviews Danmarks Nationalbank publishes articles on recent trends in a number of areas – including the Danish economy, monetary policy, financial conditions, statistics, banknotes and coins, payment systems, the euro and cooperation within the EU. In addition, the monetary reviews present Danmarks Nationalbank's forecasts for the Danish economy and its current view of the economic situation in Denmark. Besides the monetary reviews, Danmarks Nationalbank publishes Working Papers describing research and development activities, as well as a large number of special publications with in-depth descriptions of Danmarks Nationalbank's areas of operation.

Copenhagen, 29 February 2008

Nils Bernstein
Chairman

Torben Nielsen

Jens Thomsen

Report of the Board of Governors

Report of the Board of Governors 2007

INTERNATIONAL BACKGROUND TO THE DANISH ECONOMY

The strong momentum in the global economy continued in 2007, primarily driven by very high growth in a number of emerging market economies, including China and India. The cyclical position in Europe remained favourable, while growth in the USA declined.

Strong global demand entailed higher commodity prices – particularly for oil. The price of Brent oil rose from 57 dollars per barrel at the beginning of 2007 to 94 dollars at year-end. Food prices also increased as a result of higher grain prices. The latter reflected poor harvests and low inventory levels, as well as growing demand for crops for e.g. biofuel.

The slowdown in the *US* economy was mainly attributable to the housing market, where investments and prices continued to fall. Growth was low at the beginning of 2007 and declined further towards the end of the year, when unemployment began to rise. US GDP rose by 2.2 per cent in 2007, compared with 2.9 per cent in 2006.

In the *euro area* growth was 2.7 per cent, which was slightly lower than in 2006, but still above the level seen in previous years. Growth was highest at the beginning of the year, but then slowed down a little, while unemployment continued to fall. GDP growth was evenly distributed over the large euro area member states, primarily driven by domestic demand, and in Germany also by rising exports.

Since the summer of 2007, the financial markets in the USA and Europe have been characterised by considerable turmoil stemming from losses on US subprime mortgages. Long-term uncollateralised money-market interest rates have risen on account of the financial turmoil, and the spread between uncollateralised and collateralised money-market interest rates has widened as a result of the increased uncertainty. From the onset of the financial turmoil a number of banks and financial institutions experienced difficulties in sourcing sufficient liquidity due to the uncertainty that had arisen in the financial markets. Both the Federal Reserve System (Fed) and the European Central Bank (ECB) have provided additional liquidity to the markets on several occasions. As a result of the turmoil, banks in both the USA and Europe have tightened their credit standards.

In the international financial markets, the yield on the benchmark US 10-year government bond fell from 4.7 per cent at the beginning of 2007 to 4.1 per cent at year-end. The fall was observed in the 2nd half of the year and was driven by the financial turmoil and the slowdown of the US economy, which led to expectations of lower inflation. US inflation, excluding energy and food, declined over the year, but towards the end of the year core inflation rose. As a result of considerably higher energy and food prices, the overall consumer price index was 4.1 per cent higher in December 2007 than one year earlier. Beginning in the autumn, the Fed lowered its target rate on three occasions, by a total of 1 percentage point, to 4.25 per cent. In January 2008 the Fed cut the target rate by a further 1.25 percentage points in two stages, *inter alia* citing a need for preventive measures against increasing downside risks for the US economy owing to the financial turmoil.

In the *euro area* the yield on the benchmark German 10-year government bond increased from 3.9 per cent at the beginning of 2007 to 4.3 per cent at year-end. The decoupling of the development in European and US long-term interest rates should be viewed in the light of Europe's relatively better cyclical position and the resulting differences in the expected interest-rate behaviour of the central banks during the year.

In 2007 the US dollar reached an all-time low against the euro, standing at 1.49 dollars per euro at end-November. At the end of December the dollar had depreciated by 10.5 per cent *vis-à-vis* the euro, compared with the exchange rate at the beginning of the year. After further weakening in February 2008, the dollar fell below 1.50 dollar per euro, and the exchange rate *vis-à-vis* the Danish krone was below 5 kroner – the lowest level since late 1978.

The global stock markets rose in the 1st half of 2007, but from the summer onwards they became more volatile with a downward trend. The benchmark stock indices in the USA, Europe and the emerging market economies ended the year slightly higher than they had begun it, while the Japanese index had fallen a little.

THE DANISH ECONOMY

Recent years' strong boom in the Danish economy continued in 2007, with the economy reaching its capacity limit. Employment rose to an all-time high, and unemployment fell to less than 58,000 at year-end, equivalent to 2.1 per cent of the labour force. This is the lowest unemployment rate since the early 1970s. Extensive pressure on the

KEY FIGURES FOR THE DANISH ECONOMY					Table 1
Real growth against the previous year, per cent	2003	2004	2005	2006	2007
Gross domestic product, GDP	0.4	2.3	2.5	3.9	1.8
Private consumption	1.0	4.7	5.2	3.8	2.7
Government consumption and investments ..	0.2	2.5	1.0	2.9	0.2
Business investments	-3.0	-0.2	1.2	14.5	10.8
Residential investments	11.8	11.9	18.7	12.2	4.4
Domestic demand, excl. stockbuilding	0.7	3.7	4.2	5.5	3.2
Stockbuilding ¹	-0.5	0.6	-0.7	0.6	-0.2
Domestic demand, total	0.2	4.3	3.4	6.0	3.0
Exports	-1.0	2.8	8.3	9.0	3.7
Imports	-1.6	7.7	11.3	14.1	6.1
Net exports ¹	0.2	-1.8	-0.8	-1.8	-1.1
Unemployment, per cent of labour force	5.7	5.8	5.1	4.0	2.8
Wage index ² , percentage growth	3.7	3.1	2.9	3.1	3.8
Consumer price index ³ , percentage growth ..	2.0	0.9	1.7	1.9	1.7
Housing price index ⁴ , percentage growth	5.2	10.1	22.1	18.3	2.2
Current account, per cent of GDP	3.4	3.0	4.4	2.7	1.0
Government balance, per cent of GDP	-0.1	1.9	5.0	4.9	4.5
Private savings surplus ⁵ , per cent of GDP	3.5	1.2	-0.6	-2.2	-3.5

Source: Statistics Denmark.

¹ Contribution to growth in GDP.

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

³ The Harmonised Index of Consumer Prices (HICP).

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

⁵ Current account minus government balance (rounded).

labour market meant that many industries, as well as the public sector, had difficulties in recruiting the required labour.

Real GDP growth was 1.8 per cent in 2007, compared with 3.9 per cent in 2006, cf. Table 1. Economic activity in 2007 was to a large extent curbed by labour shortage and high capacity utilisation. Productivity fell as growth in both employment and the number of hours worked exceeded output growth. This development is to some extent attributable to the fact that more people with limited work experience entered the labour market.

The rate of wage increase showed an upward trend over the year, reflecting the tight labour market. For the private sector overall, the annual rate of wage increase was 4.3 per cent in the 4th quarter of 2007, up from 3.1 per cent in the same quarter of 2006. The rising Danish wages had a negative impact on Denmark's external wage competitiveness.

Measured by the increase in the Harmonised Index of Consumer Prices, HICP, inflation averaged 1.7 per cent in Denmark in 2007. Towards the end of the year, inflation rose to approximately 2.4 per cent due to large

price increases on energy and food. Domestic market-determined inflation, IMI, which describes the development in prices determined on market terms in Denmark, picked up from a low level, but remained moderate in the context of the cyclical position. In December, IMI was 1.4 per cent. Large price increases on e.g. Danish wholesale goods, industrial products and building materials, however, indicated strong underlying price pressure at the start of 2008.

The yield on the benchmark Danish 10-year government bond increased from approximately 3.9 per cent at the beginning of 2007 to approximately 4.4 per cent at year-end. The nominal effective krone rate rose as the krone strengthened vis-à-vis a number of currencies. At end-2007, the nominal effective krone rate was almost 3 per cent higher than the level one year earlier, thereby contributing to the weakening of competitiveness.

Growth in domestic demand was sound and broad-based in 2007, albeit more subdued than earlier on in the upswing. Despite the slowdown in the housing market, private consumption increased by 2.7 per cent, supported by strong income growth, high employment and the households' sound net worth.

Business investments increased by 10.8 per cent, following strong growth in the preceding year. The high level of investment reflects the shortage of labour, which has led to substitution by way of capital.

Import growth declined in 2007 after strong acceleration in 2004-06. The capacity pressure underpinned considerable growth in imports of goods, while imports of services grew only marginally. On the export side, sales benefited from high growth among Denmark's key trading partners.

The balance of payments has deteriorated since early 2006, and in 2007 the current-account surplus fell to kr. 17 billion. 2007 saw a growing deficit on the income account due to increased payments to foreign labour.

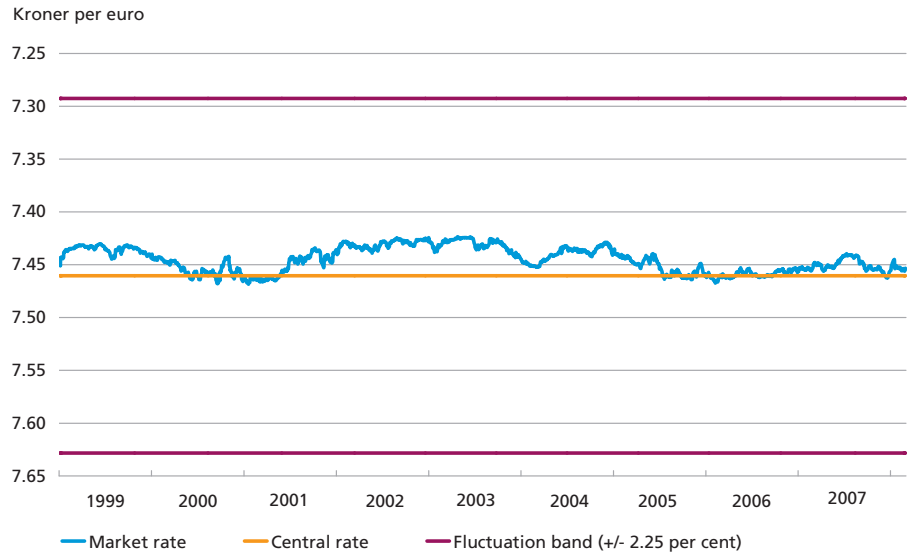
Government finances showed a surplus of 4.5 per cent of GDP in 2007, reflecting high income from direct and indirect taxes, as well as low expenditure on e.g. unemployment benefits. Government consumption rose by 1.3 per cent, and in overall terms fiscal policy was broadly neutral in relation to economic activity.

MONETARY AND FOREIGN-EXCHANGE POLICY

Throughout 2007, the Danish krone was stable at a level close to its central rate, cf. Chart 1. Danish monetary and foreign-exchange policy is aimed at keeping the krone stable vis-à-vis the euro. Due to the euro

KRONER VIS-À-VIS EURO

Chart 1



Note: Reverse scale.

area's low-inflation policy, this creates a framework for low and stable inflation in Denmark.

The formal framework for Denmark's fixed-exchange-rate policy is the 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.

Inflation excluding energy and food prices was stable on the low side of 2 per cent in the euro area throughout 2007. Due to increases in energy and food prices, the annual increase in the Harmonised Index of Consumer Prices (HICP) was 3.1 per cent in December 2007. The ECB's monetary-policy target is to keep inflation in the euro area below, but close to, 2 per cent in the medium term.

On 8 March and 6 June 2007 the ECB decided to raise the minimum bid rate by 0.25 percentage points. After the June increase, the minimum bid rate reached 4 per cent. The interest-rate decisions were motivated by increasing inflation risk, primarily due to the favourable economic prospects for the euro area. The ECB kept its interest rates unchanged for the rest of the year since the continued financial turmoil increased the uncertainty surrounding real economic development.

The ECB's interest-rate increases were followed by equivalent increases in Danmarks Nationalbank's interest rates, which were raised by 0.25 percentage points in March and June 2007, respectively. The fixed-exchange-rate policy means that Danmarks Nationalbank's monetary-

policy interest rates are purely used to keep the krone close to its central rate. Consequently, Danmarks Nationalbank's interest rates normally mirror those fixed by the ECB for the euro area. After the June increase, Danmarks Nationalbank's lending rate was 4.25 per cent, while the discount and current-account rates were 4 per cent.

Capital flows and interventions

Portfolio investments usually constitute the most important cross-border capital flows that influence short-term fluctuations in the krone rate. For 2007, portfolio investments resulted in net capital outflows totalling kr. 67 billion. The main reason is that the structural tendency in recent years for institutional investors to buy foreign shares and bonds continued in 2007. Overall, net capital exports totalling kr. 44 billion were registered, which should be seen in the light of a current-account surplus.

In 2007 Danmarks Nationalbank sold foreign exchange net for approximately kr. 2 billion in connection with intervention to stabilise the krone. At end-2007 the foreign-exchange reserve was kr. 169 billion.

Money market

There have not been any indications that the international financial turmoil has significantly affected day-to-day money-market interest rates in Denmark. However, the long-term uncollateralised money-market interest rates rose and the spread between uncollateralised and collateralised money-market interest rates widened on account of the financial turmoil. At the beginning of 2008 the spread narrowed somewhat again.

It has not been necessary for Danmarks Nationalbank to provide extraordinary krone liquidity in connection with the financial turmoil. There have been some indications of a shortage of dollar liquidity, reflecting the fact that the USA was the source of the turmoil. Shortage of dollar liquidity is an international, not a purely Danish, phenomenon.

Other central banks have provided extraordinary liquidity in their own currencies against collateral, as banks in a number of countries have shown restraint in exchanging liquidity in the money market. In addition, the ECB and the Swiss National Bank have provided dollar liquidity under agreements with the Fed.

Monetary-policy instruments

On 3 May 2007, the maturity of Danmarks Nationalbank's monetary-policy loans and certificates of deposit was changed from 14 to 7 days in order to cushion the considerable fluctuations in the day-to-day interest rate when interest-rate increases are expected. The transition was

smooth, and no major fluctuations were seen in the day-to-day interest rate around the time when the monetary-policy interest rates were raised in June. The other monetary- and foreign-exchange-policy instruments remained unchanged in 2007.

The net position of the banks and mortgage-credit institutes vis-à-vis Danmarks Nationalbank was reduced by kr. 25 billion during 2007. This is primarily attributable to a negative liquidity impact from the government finances, which in the latter part of the year developed ahead of expectations.

THE DOMESTIC FINANCIAL SYSTEM

Banks and mortgage-credit institutes

The turmoil in the international financial markets has had only a limited impact on the Danish banks, which still recorded sound profits in 2007. This reflected the favourable cyclical position in Denmark and high lending growth. The banks' lending to residents totalled kr. 1,334 billion at the end of 2007, up from kr. 1,124 billion at end-2006.

The performance of the mortgage-credit institutes remained sound in 2007. Total mortgage-credit lending by the mortgage-credit institutes to domestic households and business enterprises amounted to kr. 2,012 billion at end-2007, against kr. 1,833 billion at end-2006. Deferred-amortisation loans account for an increasing share of mortgage-credit loans, reaching 41 per cent of total lending (excluding index-linked loans) by the end of 2007, up from 34 per cent at the end of 2006. Over the last year, the share of deferred-amortisation adjustable-rate loans has remained more or less unchanged, whereas the share of deferred-amortisation fixed-rate loans has increased from 12 to 20 per cent of total mortgage-credit lending (excluding index-linked loans). Fixed-rate loans with amortisation are still the prevailing loan type.

Financial sector continuity planning

In 2006, a working group was set up to prepare a report assessing the need for national continuity planning for the financial sector in the event of a major operational disruption. The report was submitted for consultation in June 2007. A road map for the further work has been prepared and a response team set up at Danmarks Nationalbank to undertake the current operation of the continuity measures, as well as a coordination committee to coordinate the sector's overall response to any major operational disruption, such as acts of terrorism, major epidemics, natural disasters, etc. that jeopardise the functioning of the financial system.

Transition to Basel II

On 1 January 2007, new capital-adequacy rules, known as the Basel II Accord, entered into force. The new rules imply an up-to-date approach to capital requirements for credit institutions, under which the capital requirements more accurately reflect the risks incurred by each individual credit institution.

Payment systems

Settlement of payments in the Kronos, Sumclearing, CLS and Target systems continues to increase. The value of transactions settled via Danmarks Nationalbank's system, Kronos, increased by 6 per cent in 2007, to kr. 70,273 billion. In the Danish retail payment settlement system, the Sumclearing, the value of transactions in kroner rose by 7.5 per cent to kr. 5,750 billion. In VP Settlement the value of transactions in kroner declined from kr. 23,581 billion in 2006 to kr. 23,172 billion in 2007, while the number of transactions increased by 32 per cent. This is attributable to a further decline in the trading of Danish bonds, which was not offset by the increase in equities trading. Moreover, settlement of transactions in euro in the Danish systems showed high growth in 2007.

The value of foreign-exchange transactions in kroner in CLS increased by 6 per cent to kr. 50,446 billion, while the number of transactions rose by 26 per cent. In November 2007, CLS was expanded to include settlement of payments in connection with trade in credit derivatives in the five largest currencies (US dollars, euro, yen, pounds sterling and Swiss francs).

Securities settlement

Danmarks Nationalbank has participated in the work to increase the sanction options in VP Securities Services. The new rules are expected to enter into force in 2008, the aim being to strengthen settlement discipline so that as many transactions as possible are settled in a timely manner. In 2007, Danmarks Nationalbank also began to investigate whether there is a need to introduce a central counterparty in the Danish securities market.¹

The first bonds for financing of mortgage loans were issued in Mexico in December 2007 via the Danish central securities depository. Danmarks Nationalbank has provided advisory services through VP Securities Services in connection with the introduction of the Danish mortgage-credit model in Mexico.

¹ Torben Nielsen and Peter Restelli-Nielsen, Danmarks Nationalbank, Analysis of the pros and cons of introducing a central counterparty in the Danish securities market, *Working Paper*, WP 49/2007.

Collateralisation

Danmarks Nationalbank grants loans to banks and mortgage-credit institutes against certain securities with a high credit quality as collateral. On 2 July 2007, the list of eligible securities was expanded to include covered bonds issued by financial institutions comprised by the Danish Financial Business Act.

Danmarks Nationalbank has an obligation to align its collateralisation rules concerning intraday credit in euro with those of the ECB. On 1 January 2008, Danmarks Nationalbank therefore introduced the ECB's requirements for the credit rating of securities pledged as collateral for intraday credit in euro.

Payment Services Directive and SEPA

The Payment Services Directive of the European Commission was adopted in 2007, constituting the legal basis at EU level for the European banks' work to establish a Single Euro Payments Area (SEPA). Subsequently, the Directive must be transposed into national legislation. Danmarks Nationalbank monitors the sector's progress with SEPA and has participated actively in the preparation of the Directive.

In addition, Danmarks Nationalbank is working with the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, the Danish Regional Bankers Association and PBS to establish a solution for settlement of payments using the new SEPA product for direct debit in euro. The SEPA direct-debit product is comparable to Betalingsservice in Denmark. The solution will be available to all banks in Denmark and is expected to be introduced in the autumn of 2009.

Target2 and Target2-Securities

The development of a new trans-European payment system, Target2, for settlement of payments in euro continued in 2007. The first group of EU member states migrated to Target2 in November 2007, and Denmark will connect to Target2 in May 2008.

Target2-Securities is the Eurosystem's proposal for a single European settlement platform for securities issued in euro. Settlement of securities in other European currencies will also be possible. In 2007 the project was in the user requirements phase, and in Denmark, as in most other EU member states, a national user group has been set up with representatives from all parts of the sector. Danmarks Nationalbank and VP Securities Services jointly coordinate the work of this group. In 2007 the user group prepared consultation responses on the draft user requirements, focusing on special Danish interests such as single-investor accounts. The fully articulated user requirements for the settlement

platform were presented at the end of the year and have been submitted for public consultation until the beginning of April 2008. The Governing Council of the ECB is expected to reach a final decision on the project in June 2008.

INTERNATIONAL MONETARY COOPERATION

Enlargement of the euro area

On 1 January 2008, Cyprus and Malta joined the euro area and introduced the euro as their currency. The euro area thus comprises 15 EU member states. On introduction of the euro as their currency, Cyprus and Malta left the European Exchange Rate Mechanism, ERM II. The remaining ERM II participants are: Denmark, Estonia, Latvia, Lithuania and Slovakia. The change in the group of participants does not entail any adjustment of the terms for the Danish krone in ERM II.

The Lisbon Treaty and the Danish opt-outs

The new EU treaty, the Lisbon Treaty, was signed by the EU heads of state and government on 13 December 2007. With respect to Economic and Monetary Union, the Lisbon Treaty mainly introduces procedural changes in relation to previous treaties. For example, the Eurogroup, the informal meeting forum for the finance ministers of the euro area member states, now appears in a protocol.

The Danish Government Platform from November 2007 states that the government wishes the voters to have the opportunity to decide on the Danish opt-outs by referendum.

The International Monetary Fund, IMF

In recent years, the IMF has worked to adjust the quotas and voice of its 185 member countries, so that they better reflect their relative weight in the global economy. Negotiations are in progress about e.g. the quota formula, which is of key importance to the voting power of each country. During 2008 the negotiations are expected to lead to an adjustment of the quota formula, to be followed up by ad-hoc increases in the quotas, i.e. the member countries' contributions to the IMF.

In 2007, the IMF also continued its debt-relief efforts for the poorest and most indebted countries, and agreement was reached on debt relief for Liberia. Denmark has contributed kr. 31 million to the IMF's debt relief for Liberia financed via the Danish development assistance.

On 1 November 2007, Dominique Strauss-Kahn, former French minister for finance, assumed office as the Managing Director of the IMF. Since then he has worked to continue the reforms in progress, not least the

IMF budget reforms, since a substantial decline in IMF lending to its member countries has reduced interest income and the IMF is estimated to have a budget shortfall of approximately USD 400 million yearly. It is expected that the shortfall will be covered via new sources of income, and by reducing the IMF's expenditures.

BANKNOTES AND COINS

Cash circulation increased from kr. 59.1 billion in 2006 to kr. 61.0 billion in 2007, an increase by 3.2 per cent¹. The increase in the cash circulation declined in 2007 compared with recent years, possibly reflecting dampening of private consumption. The number of banknotes in circulation rose from 156 million in 2006 to 161 million in 2007, i.e. by 3.2 per cent.

501 counterfeit banknotes were removed from circulation in 2007. This is an increase from 344 in the preceding year. In an international context, counterfeiting of Danish banknotes is still limited.

New banknote series

On 14 May 2007, Danmarks Nationalbank announced that the draft proposal from the artist Karin Birgitte Lund will form the basis for the next Danish banknote series. The design of the new series was initiated as a result of the development of new security features.

In cooperation with the artist, the Banknote Printing Works at Danmarks Nationalbank has worked on the original draft proposal, which shows five selected bridges in Denmark. The artistic expression of the banknotes has also been elaborated on in order to meet the security requirements and technical requirements. The final proposal is expected to be submitted for approval by the Ministry of Economic and Business Affairs in the spring of 2008. The first banknote is scheduled for production in 2009 and issue at the end of the same year, while the last banknote in the series is to be issued in 2012.

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. In 2006 a bill was introduced for separate Greenlandic banknotes, and the Act on Banknotes in Greenland entered into force on 1 June 2007. The Danish krone will remain the currency of

¹ The circulation is stated exclusive of commemorative coins, the circulation of Faroese banknotes and certain older banknotes, and therefore deviates from the figure stated on Danmarks Nationalbank's balance sheet.

Greenland, and Danish coins will still be used. Like the Faroese banknotes, the Greenlandic ones will be of the same sizes and denominations as the Danish banknotes.

The Greenland Home Rule Government has chosen the Danish/Greenlandic artist Naja Abelsen to illustrate the Greenlandic banknotes. The Banknote Printing Works at Danmarks Nationalbank and Naja Abelsen are working on a draft proposal, which is expected to be presented to the Home Rule Government before the summer of 2008.

The Royal Mint

In 2007, The Royal Mint's website, which was launched in 2006, was expanded to include a payment module, whereby collector's coins can be ordered and purchased online. The launch of The Royal Mint's own website has boosted interest in Danish collector's coins considerably.

The growing interest in collector's coins and the development in the circulation of coins have led to an increase in the production of coins in recent years.

At the beginning of 2008, Danmarks Nationalbank contacted the Ministry of Economic and Business Affairs with a view to abolishing the 25-øre coin as the coin no longer has self-supporting purchasing power.

STATISTICS

Transition to Statistikbanken.dk

On 1 October 2007, Danmarks Nationalbank started publishing financial statistics via StatBank Denmark at Statistics Denmark. The transfer of Danmarks Nationalbank's financial statistics to StatBank Denmark is an advantage for users, who can now download all major economic and financial time series produced in Denmark from one single source.

Cooperation with the Danish Financial Supervisory Authority on reporting by investment associations

In 2007, Danmarks Nationalbank and the Danish Financial Supervisory Authority initiated a project to develop a new, common reporting system for investment associations. With the new reporting system, all reporting by investment associations will be collected at Danmarks Nationalbank, which will in turn forward data to the Danish Financial Supervisory Authority, thereby eliminating duplicate reporting as a result of overlapping reporting requirements. This will streamline administration by the authorities and reduce the investment associations' reporting burden.

Organisation and Tasks of Danmarks Nationalbank

STAFF

At the close of 2007, Danmarks Nationalbank had 540 employees, equivalent to 507 full-time positions. Employees in part-time positions constituted 13 per cent of the staff.

The staffing structure reflects that Danmarks Nationalbank is both a knowledge organisation and a production enterprise. Recent years' trend towards a higher proportion of staff with an academic background has continued, cf. Table 2.

Danmarks Nationalbank has established trainee positions within its various professional areas, and the number of clerical and craft apprenticeships was increased in 2007. A number of PhD scholarships are also offered, and at the end of 2007 11 employees were on leave to work for international institutions.

It is the policy of Danmarks Nationalbank to contribute to training and education in areas where it uses specialist staff.

In 2007 absence due to illness averaged 7.2 days per staff member, which is a slight increase compared to 2006 (7.0 days).

Recruitment

As part of a more active recruitment effort, Danmarks Nationalbank held two career evenings, in May and November, for students of economics from the universities of Aalborg, Aarhus, Southern Denmark and Copenhagen.

STAFF GROUPS

Table 2

Year-end	2001		2003		2005		2007	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Academic staff	130	23	153	28	173	33	185	37
Bank staff	128	23	116	21	96	19	81	16
IT/clerical staff	114	21	104	19	92	18	86	17
Service staff	92	16	86	16	84	16	82	16
Craftsmen/technicians	94	17	85	16	71	14	73	14
Total	558	100	544	100	516	100	507	100

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

The staff turnover rate was 16 per cent in 2007, which was higher than in the preceding years. In general it has been more difficult to fill vacancies as the number of applicants has fallen, among other reasons. Particularly bank staff has been difficult to recruit.

Outsourcing

Danmarks Nationalbank's plans to outsource IT tasks were abandoned as no pre-qualified external suppliers wished to submit tenders in accordance with the tender documents.

Organisational restructuring

As of 1 June 2007, Danmarks Nationalbank restructured its organisation so that International Relations became part of Economics, Government Debt Accounting was integrated into Accounting, and an Administration department was established, comprising the former Secretariat, Personnel and Organisation and IT departments. Subsequently, IT has become a separate department since Danmarks Nationalbank will continue to operate its own IT systems.

Collective bargaining for the Banknote Printing Works

In 2007, Danmarks Nationalbank signed a 3-year agreement with the trade union HK/Medie & Kommunikation covering employees at the Banknote Printing Works.

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. In 2007, Mr Søren Bjerre-Nielsen, Group President, took over as Chairman of the Committee of Directors and the Board of Directors from Professor Hans E. Zeuthen, who retired due to age.

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

The Royal Bank Commissioner is the formal link between the Government and Danmarks Nationalbank. The Minister for Economic and Business Affairs, Mr Bendt Bendtsen, is the Royal Bank Commissioner.

THE BOARD OF DIRECTORS OF DANMARKS NATIONALBANK,
1 MARCH 2008

Box 1

Chairman: *Søren Bjerre-Nielsen*, Group President

Deputy Chairman: *Helle Bechgaard*, Director

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

Pia Christmas-Møller, MP

Kristian Thulesen Dahl, MP, Chairman of the Finance Committee

Lars-Emil Johansen, MP

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

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

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

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

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

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

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

Michael Lunn, Permanent Secretary, Ministry of Justice

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

Søren Bjerre-Nielsen, Group President 2008

Peter Bjerregaard, Managing Director 2008

Niels Boserup, Director 2008

Niels Due Jensen, Group Chairman 2009

Jens Rostrup-Nielsen, Director 2009

Michael Møller, Professor 2009

Helle Bechgaard, Director 2010

Niels Fog, Merchant 2010

Kirsten Stallknecht, Former President of the ICN 2010

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

Kirsten Nissen, Trade Union President 2011

Peter Gæmelke, Chairman of Danish Agriculture, Farmer 2011

Jette W. Knudsen, Director 2012

Kjeld Larsen, Farmer 2012

Kirsten Nielsen, Former Council President 2012

THE COMMITTEE OF DIRECTORS OF DANMARKS NATIONALBANK,
1 MARCH 2008

Box 2

Chairman: *Søren Bjerre-Nielsen*, Group President

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

Elected by the Board of Directors for the period ending 31 March 2008:

Søren Bjerre-Nielsen, Group President

Michael Møller, Professor

Kirsten Nissen, Trade Union President

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

(The seventh member will be elected at the meeting of the Board of Directors on 12 March 2008.)

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

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

Michael Lunn, Permanent Secretary, Ministry of Justice

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

As of 1 March 2008, the Board of Governors is represented on the following committees:

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

The European Union, EU

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

The European Central Bank, ECB

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

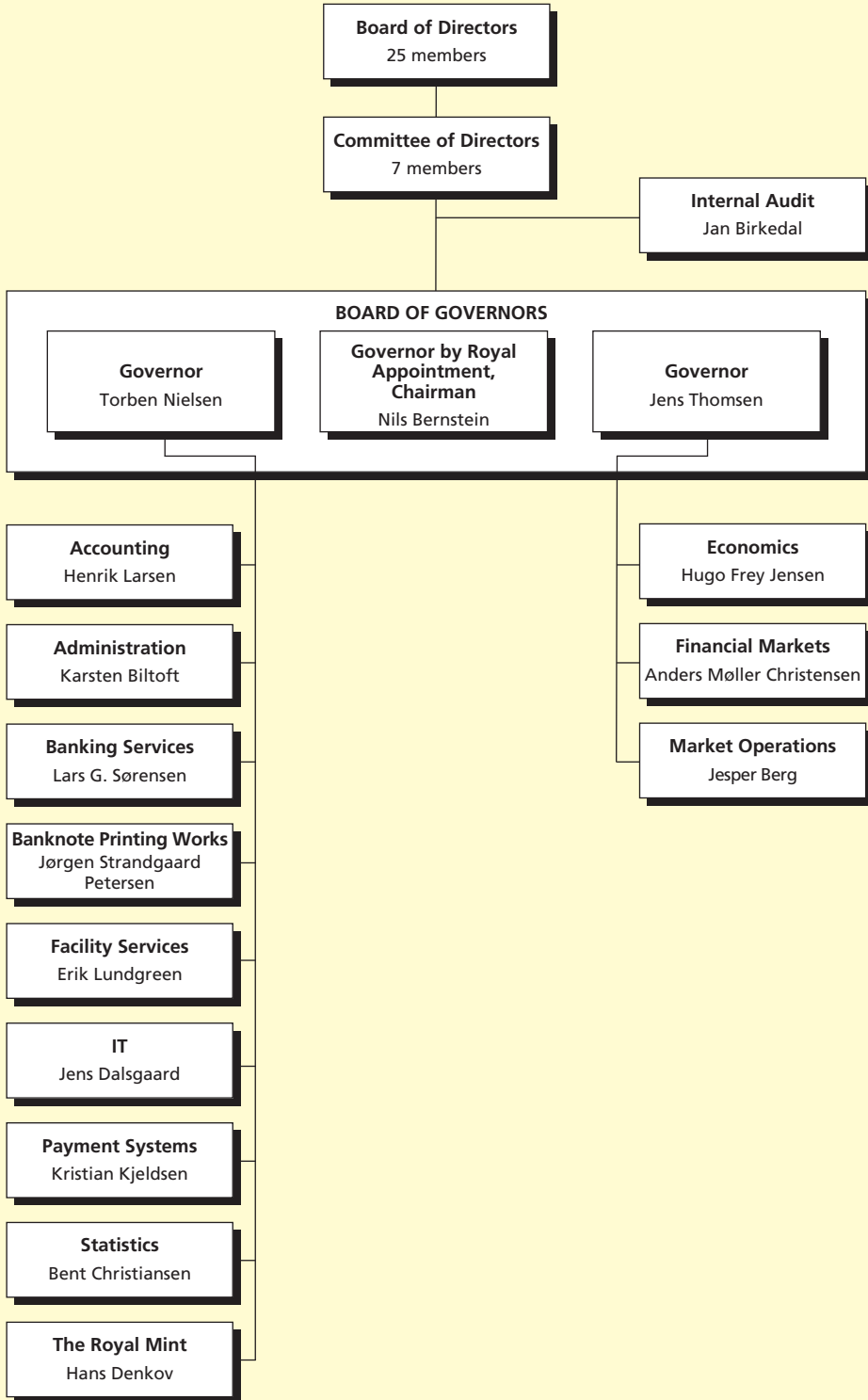
The International Monetary Fund, IMF

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

Organisation for Economic Cooperation and Development, OECD

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

ORGANISATION CHART 1 MARCH 2008



Risk Management

OPERATIONAL RISK

As described in the media, banknote material was found at Amagerforbrændingen waste incineration plant in July 2007. Danmarks Nationalbank was summoned in connection with the incident and all material was collected. It was ascertained that the banknotes were pre-printed pink banknotes from Danmarks Nationalbank's Banknote Printing Works which had accidentally been mixed with other waste and sent to Amagerforbrændingen in connection with an ordinary delivery of waste from Danmarks Nationalbank. This led to a review of procedures at the Banknote Printing Works. The review was concluded in December 2007 and has resulted in a general admonition and adjustment of procedures and work routines.

Insurance strategy

Danmarks Nationalbank's insurance strategy provides overall guidelines for what Danmarks Nationalbank has decided to insure, based on the principles governing its risk profile and the chosen level of retention for own account. In addition, the strategy lays down the organisational division of insurance responsibilities. The insurance strategy covers areas that are necessary for the general operation of Danmarks Nationalbank, including buildings and staff. However, the insurance strategy does not cover losses resulting from market operations, position-taking, etc.

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 2007.

FINANCIAL RISK

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

Danmarks Nationalbank is primarily exposed to market risks such as interest-rate, gold and foreign-exchange risks. In addition, it is to a lesser extent exposed to liquidity and credit risk. Danmarks Nationalbank opts

INTEREST-RATE EXPOSURE OF DANMARKS NATIONALBANK							Table 3
Kr. billion	DKK	EUR	USD	GBP	SEK	Other	Total
2006	0.8	0.5	0.4	0.1	0.1	-	1.9
2007	0.6	0.4	0.3	0.1	0.1	-	1.6

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

for a very prudent level of risk-taking and seeks to completely avoid losses resulting from the failure of counterparties.¹

Market risk

Market risk is the risk of losses as a result of fluctuations in interest and exchange rates in the financial markets.

Interest-rate exposure

Part of Danmarks Nationalbank's portfolio is invested in bonds, which entails exposure to changes in interest rates.

In 2007, Danmarks Nationalbank reduced its interest-rate exposure by lowering the krone duration of the overall portfolio from kr. 1.9 billion to kr. 1.6 billion, cf. Table 3.

Gold exposure

Pursuant to the Danmarks Nationalbank Act, Danmarks Nationalbank is obliged to hold a stock of gold. Throughout 2007 the gold stock was constant at 66.6 tonnes.

Higher gold prices meant that the market value of the gold stock rose from kr. 7.7 billion to kr. 9.1 billion during 2007. This increased Danmarks Nationalbank's exposure to fluctuations in the gold price.

Foreign-exchange exposure

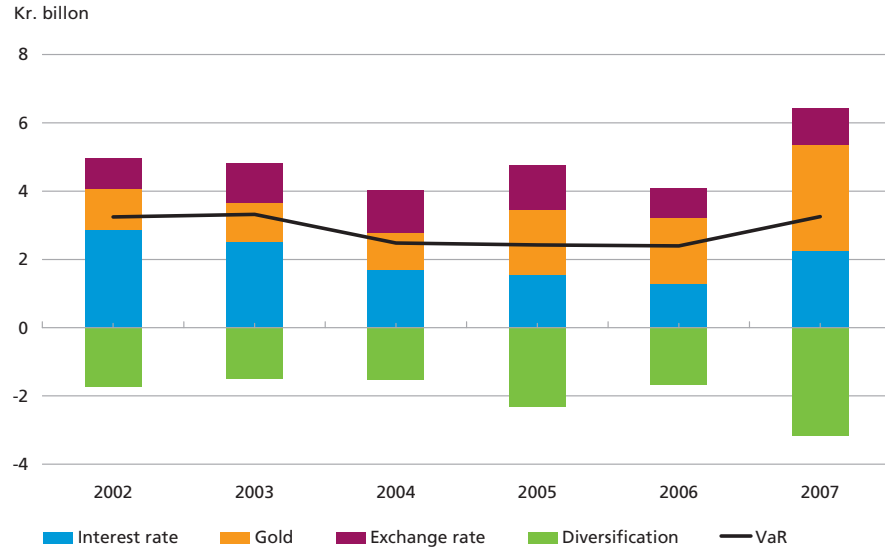
As part of its fixed-exchange-rate policy, Danmarks Nationalbank holds a foreign-exchange reserve comprising investments in euro, US dollars, pounds sterling and Swedish kronor.

Using currency swaps, Danmarks Nationalbank has converted most of its foreign-exchange exposure in non-euro currencies to euro. On account of the fixed-exchange-rate policy this significantly reduces the foreign-exchange risk so that the risk stemming from the foreign-exchange exposure is relatively small in relation to the size of the foreign-exchange reserve.

¹ Danmarks Nationalbank's financial risks and management thereof are elaborated on in *Financial Management at Danmarks Nationalbank*, Danmarks Nationalbank, 2004.

DANMARKS NATIONALBANK'S VALUE-AT-RISK

Chart 2



Note: Value-at-Risk (VaR) indicates the maximum loss, with a probability of 95 per cent, that Danmarks Nationalbank will incur during the next year. VaR is calculated at the end of the year.

The sum of the contributions from the three risk factors – interest rates, the gold price and exchange rates – exceeds the total VaR. The reason is that the various risk factors often have a low or negative correlation so that losses on all risk factors seldom occur at the same time. This is expressed as the diversification gain, illustrated by the negative green column in the Chart.

At the close of 2007, Danmarks Nationalbank's foreign-exchange exposure was kr. 173 billion. Danmarks Nationalbank will thus incur a loss of kr. 1.7 billion if the krone strengthens by 1 per cent. This is in line with the exposure in 2006.

Quantification of market risk

One measure of Danmarks Nationalbank's aggregate market risk is Value-at-Risk (VaR). VaR combines the exposure to various market conditions with an estimate of the volatility in these market conditions.

At the close of 2007, Danmarks Nationalbank's VaR was calculated at kr. 3.3 billion, which is kr. 0.9 billion higher than at the beginning of the year, cf. Chart 2. The result indicates that in 2008, with a probability of 95 per cent, Danmarks Nationalbank will not incur a capital loss exceeding kr. 3.3 billion. Conversely, the result indicates that with a probability of 5 per cent Danmarks Nationalbank will experience a capital loss exceeding kr. 3.3 billion. VaR does not indicate the size of any such potential loss.

The increase in VaR was attributable to higher risk contributions from gold and interest rates in 2007, cf. Chart 2, as a result of higher gold prices and greater interest-rate volatility.

Stress test

VaR indicates the maximum loss under normal market conditions, but not the potential loss under extreme market conditions. Consequently, it is useful to supplement VaR with stress tests. These reflect how extreme, but realistic, scenarios for market developments affect the value of Danmarks Nationalbank's current portfolio.

The stress tests show that in the most pessimistic scenario the loss to Danmarks Nationalbank will be almost kr. 15 billion, corresponding to the 2006 level. Such a loss, which is equivalent to almost 30 per cent of Danmarks Nationalbank's net capital, will typically be related to a substantial strengthening of the Danish krone against the euro, as well as significant rises in interest rates in the US and European markets.

Liquidity risk

For Danmarks Nationalbank, liquidity risk is the risk that it is not possible to release funds for intervention to support the krone, even though the funds are held in reserve.

In the management of the foreign-exchange reserve it is important to ensure that a large part of the reserve can be converted quickly into liquid funds. Consequently, a large proportion of the foreign-exchange reserve is placed in the money market or in gilt-edged bonds that can easily be realised or used as collateral in various liquid markets. Danmarks Nationalbank can also raise funds for intervention purposes by drawing on various standby credit facilities.

Danmarks Nationalbank's liquidity risk was thus very modest in 2007, as was also the case in 2006.

Credit risk

Credit risk is the risk of loss due to a counterparty defaulting on its obligations. Credit risk also comprises the risk that the credit rating of a counterparty drops, resulting in a capital loss.

Danmarks Nationalbank seeks to reduce its credit risk by spreading its assets over many counterparties with a high credit standing. For deposits with foreign banks, repo agreements using government bonds as collateral are also applied. Should a repo counterparty be subject to compulsory liquidation, Danmarks Nationalbank's deposit is covered by the collateral provided. Danmarks Nationalbank's credit risk is thus relatively small, cf. Table 4.

Turmoil in the credit markets

Danmarks Nationalbank's portfolio has not been significantly affected by the turmoil in the credit markets. Thanks to the prudent investment

CREDIT EXPOSURE OF DANMARKS NATIONALBANK, END-2007

Table 4

Kr. billion	2006 total	Bonds		Bank claims		Supra-national institutions ²	2007 total
		Central government	Others ¹	Collateralised	Uncollateralised		
Aaa	73.1	19.2	30.2	23.9	6.4	1.6	81.3
Aa1	30.9	1.7	6.1	22.0	24.7	-	54.5
Aa2	27.8	3.5	1.6	-	18.8	-	23.8
Aa3	54.7	-	2.4	21.6	2.9	-	26.9
A1	3.9	2.0	0.9	-	-	-	2.9
A2	3.3	-	0.3	-	-	-	0.3
A3	-	-	-	-	-	-	-
No rating	6.5	-	0.2	-	0.5	5.0	5.7
Total	200.3	26.3	41.8	67.5	53.3	6.6	195.4

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

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

² Supranational institutions such as BIS, the IMF and the Asian Development Bank. The credit exposure vis-à-vis the IMF totalled kr. 1.1 billion net. In addition, the IMF has unused drawing rights. If the latter are included, the gross exposure will be kr. 19.0 billion.

strategy, Danmarks Nationalbank has not incurred losses as a result of counterparties' inability to meet their payment obligations. Moreover, only few of its counterparties have been downgraded.

Overall it must, however, be assumed that the credit risk on investment increased in 2007. Danmarks Nationalbank has therefore revised its investment policy for money-market deposits by raising the minimum requirement for the credit rating of counterparty banks.

Accounts for the year 2007

KEY FIGURES AND FINANCIAL RATIOS 2003-07

	2007	2006	2005	2004	2003
Profit and loss account (kr. million)					
Net income from interest	4,105	3,368	3,616	3,954	4,454
Value adjustments	1,634	-690	1,210	-662	-267
Income from shares, etc.	134	115	68	72	38
Other income	59	48	848	84	3
Expenses, including depreciation	-751	-606	-840	-585	-619
Other expenses	-	-	-	-19	-
Profit for the year	5,181	2,235	4,902	2,844	3,609
Allocated as follows:					
Allocation to net capital	2,343	-105	1,948	39	508
Payable to the central government	2,837	2,340	2,954	2,805	3,101
	5,181	2,235	4,902	2,844	3,609
Balance sheet (kr. million)					
Assets					
Foreign-exchange-reserve assets	173,367	175,446	214,703	219,264	227,155
Monetary-policy lending	216,794	153,735	135,296	72,635	48,024
Domestic bonds	27,833	28,648	34,329	37,102	39,746
Other assets	6,546	7,043	7,668	8,065	8,169
Total assets	424,540	364,872	391,996	337,066	323,094
Liabilities					
Banknotes and coins	61,553	59,767	56,217	52,039	49,685
Monetary-policy deposits	209,863	171,984	220,423	167,252	170,043
Central government	89,899	73,789	56,428	60,810	43,981
Foreign-exchange-reserve debt	4,585	3,729	2,391	1,633	2,976
Other liabilities	4,170	3,476	4,305	5,048	6,164
Total creditors	370,070	312,745	339,764	286,782	272,849
Total net capital	54,470	52,127	52,232	50,284	50,245
Total liabilities	424,540	364,872	391,996	337,066	323,094
Financial ratios					
Foreign-exchange reserve (kr. million)	168,782	171,717	212,312	217,631	224,179
Net position of banks and mortgage-credit institutes vis-à-vis Danmarks Nationalbank (kr. million)	-6,931	18,249	85,127	94,617	122,019
Central government's account (kr. million)	89,899	73,789	56,428	60,810	43,981
Growth in banknotes and coins (per cent)	3.0	6.3	8.0	4.7	4.3
Change in net capital (per cent)	4.5	-0.2	3.9	0.1	1.0
Average no. of staff (converted to full time)	505	513	521	533	553

REPORT ON DANMARKS NATIONALBANK'S ACCOUNTS

Presentation of Danmarks Nationalbank's accounts

The accounts for 2007 have been prepared in accordance with the accounting policies applied in the previous year, cf. p. 42.

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

The profit from financial items was kr. 5,738 million, which is kr. 3,060 million higher than in 2006, and the total profit for the year was kr. 5,181 million, i.e. kr. 2,946 million higher than in 2006.

Profit from financial items

Net income from interest totalled kr. 4,105 million, which is kr. 737 million (21.9 per cent) higher than in 2006. Net income from interest on the foreign-exchange reserve increased by kr. 1,413 million, interest on the domestic bond portfolio increased by kr. 136 million, net interest expenditure on monetary-policy deposits and lending decreased by kr. 198 million, while interest expenditure on the central government's deposit and on deposits from and lending to others rose by kr. 1,010 million.

Value adjustments entailed a gain of kr. 1,634 million, representing an increase by kr. 2,324 million on 2006. The price of gold (in Danish kroner) increased by 18 per cent, resulting in a value-adjustment gain of kr. 1,383 million (2006: a gain of kr. 759 million). Market-value and exchange-rate gains on foreign-exchange positions totalled kr. 591 million (2006: a loss of kr. 780 million), and the market-value loss on domestic securities amounted to kr. 340 million (2006: a loss of kr. 669 million).

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

The profit from financial items reflects various factors. As a supplement to the presentation of the accounts, Table 5 and Chart 3 show the key factors contributing to the financial income. It should be emphasised that the breakdown in Table 5 is theoretical and not immediately comparable with the accounts.

Most of Danmarks Nationalbank's financial income reflects its role as monetary authority, from which its *core income* is generated. The profit also includes *additional income* resulting from the financial investment risk assumed by Danmarks Nationalbank. Danmarks Nationalbank weighs this risk, which is predominantly interest-rate risk, against the expected return.

FACTORS CONTRIBUTING TO DANMARKS NATIONALBANK'S PROFIT FROM FINANCIAL ITEMS

Table 5

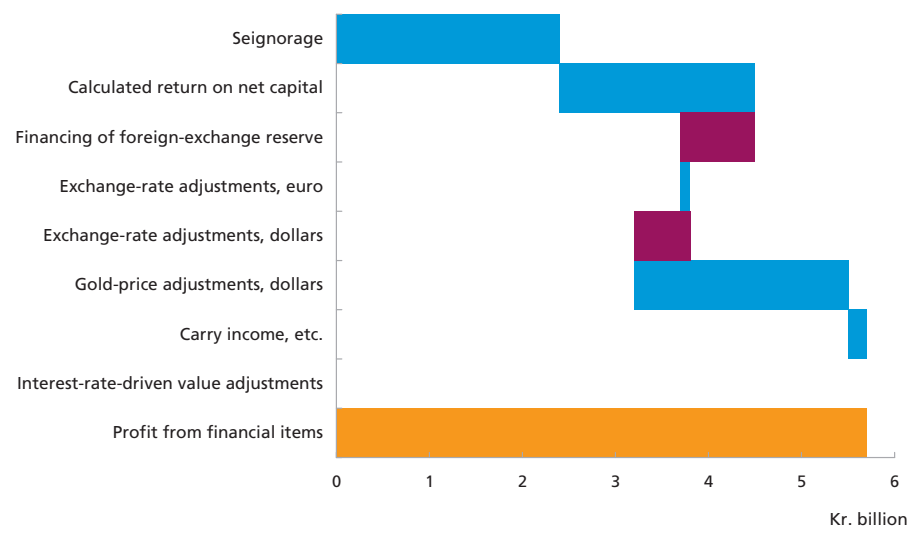
Kr. billion	Profit 2007	Profit 2006
<i>Core income</i>		
Seignorage	2.4	1.6
Calculated return on net capital	2.1	1.6
Foreign-exchange reserve and financing thereof	-0.8	-0.7
Exchange-rate adjustment	-0.5	-0.7
<i>Euro</i>	0.1	-0.1
<i>Dollars</i>	-0.6	-0.6
Gold-price adjustment (in dollars)	2.3	1.7
Total core income	5.5	3.5
<i>Income from additional risk</i>		
Interest-rate risk, carry income, etc.	0.2	0.6
Interest-rate risk, interest-rate-driven value adjustments ...	0.0	-1.4
Income from additional risk, total	0.2	-0.8
Profit from financial items	5.7	2.7

Note: Seignorage is calculated on the basis of banknotes and coins in circulation, less decentralised banknote holdings. In this Table, Danmarks Nationalbank's gold stock is included as a dollar asset.

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

FACTORS CONTRIBUTING TO DANMARKS NATIONALBANK'S PROFIT FROM FINANCIAL ITEMS

Chart 3



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

The calculation assumes that Danmarks Nationalbank invests the funds at the short-term monetary-policy interest rate in Denmark. Since monetary-policy interest rates in 2007 were higher on average than in 2006, income from this item increased.

The foreign-exchange reserve is a precondition for Denmark's fixed-exchange-rate policy. Since the short-term interest rate for the investment currencies was lower than the equivalent Danish interest rate, Danmarks Nationalbank, viewed in isolation, had calculated interest expenses on the foreign-exchange reserve corresponding to this spread. The foreign-exchange reserve is predominantly invested in euro. A small share is invested in dollars. The foreign-exchange reserve also includes gold, which does not generate any carry income.

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

The price of gold (in dollars) rose considerably in 2007, resulting in a substantial gain of kr. 2.3 billion (if the depreciation of the dollar is taken into account, the value in kroner increased by kr. 1.4 billion). This exceeds the gain in 2006, when the increase in the gold price was less pronounced.

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

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

This income includes carry income, stemming from the fact that long-term interest rates are often higher than short-term interest rates. It also reflects various other effects, including the widening of the spread between monetary-policy interest rates and the rate of interest on uncollateralised bank deposits in 2007.

In 2007 the spread between short-term and long-term interest rates was relatively narrow – the curves were relatively flat – and carry income was therefore somewhat lower than in 2006.

In addition to carry income, changes in interest rates may entail interest-rate-driven value adjustments. Taking into account the distribution of investments on markets and maturities, the contribution to the profit from this factor has been calculated at zero, which is an improvement on 2006, when the contribution was negative due to rising interest rates.

Other items

Other income was kr. 12 million higher than in 2006, primarily on account of the winding-up of the estate of VB Finans.

Expenses, including depreciation increased by kr. 146 million as a result of an increase in staff expenses of kr. 18 million (5.8 per cent), a special contribution of kr. 150 million to Danmarks Nationalbank's Pension Fund subject to winding-up to cover Danmarks Nationalbank's pension commitment, and a decrease in other expenses of kr. 22 million (8.5 per cent).

Distribution of the profit for the year

The profit for the year, kr. 5,181 million, is distributed as follows:

- An amount corresponding to the value adjustments during the year, kr. 1,634 million, is allocated to the Value Adjustment Reserve, which subsequently amounts to kr. 4,802 million.
- 20 per cent of the profit excluding value adjustments, equivalent to kr. 709 million, is allocated to the General Reserves, which subsequently amount to kr. 49,368 million.
- The remaining amount, i.e. 80 per cent of the profit excluding value adjustments, equivalent to kr. 2,837 million, is payable to the central government.

The balance sheet

The balance-sheet total increased from kr. 364.9 billion to kr. 424.5 billion.

On the assets side, the increase was primarily attributable to growth in monetary-policy lending of kr. 63.1 billion to kr. 216.8 billion, while on the liabilities side monetary-policy deposits increased by kr. 37.9 billion to kr. 209.9 billion. The overall net position of the monetary-policy counterparties (monetary-policy deposits less monetary-policy lending) has thus been reduced by kr. 25.2 billion to net lending of kr. 6.9 billion.

The foreign-exchange reserve decreased by kr. 2.9 billion to kr. 168.8 billion, reflecting, on the assets side, a decline of kr. 2.1 billion in gold, foreign assets and claims on the IMF, and, on the liabilities side, an increase of kr. 0.8 billion in foreign liabilities.

The central government's deposit increased by kr. 16.1 billion to kr. 89.9 billion.

Banknotes and coins rose by kr. 1.8 billion to kr. 61.5 billion. At 3 per cent, this is the lowest growth for five years.

The net capital increased from kr. 52.1 billion to kr. 54.5 billion as a result of profit allocations totalling kr. 2.4 billion.

SIGNATURES

The Board of Governors have today considered and approved the Annual Accounts of Danmarks Nationalbank for 2007.

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

It is our opinion that the Annual Accounts give a true and fair view of Danmarks Nationalbank's assets, liabilities and financial position at 31 December 2007 and of the result of Danmarks Nationalbank's operations for the financial year 1 January-31 December 2007.

Copenhagen, 26 February 2008

Nils Bernstein
Chairman

Torben Nielsen

Jens Thomsen

AUDIT REPORTS

To the Board of Directors

Internal Auditor's Report

I have audited the Accounts of Danmarks Nationalbank for the financial year 1 January-31 December 2007, comprising the Report on Danmarks Nationalbank's Accounts, Signatures, Accounting Policies, Profit and Loss Account, Balance Sheet and Notes. The Accounts have been prepared in accordance with the Danmarks Nationalbank Act.

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

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

Auditor's responsibility

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

Basis of opinion

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

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

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

My audit has not resulted in any qualification.

Opinion

In my opinion, the Accounts give a true and fair view of Danmarks Nationalbank's assets, liabilities and financial position at 31 December 2007 and of the result of Danmarks Nationalbank's operations for the financial year 1 January-31 December 2007 in accordance with the Danmarks Nationalbank Act.

Copenhagen, 26 February 2008

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 2007 comprising the Report on Danmarks Nationalbank's Accounts, Signatures, Accounting Policies, Profit and Loss Account, Balance Sheet and Notes. The Accounts have been prepared in accordance with the Danmarks Nationalbank Act.

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

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

Auditors' responsibility and basis of opinion

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement in the Accounts, irrespective of whether such material misstatement is due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Danmarks Nationalbank's preparation and fair presentation of the Accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Danmarks Nationalbank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Committee of Directors and Board of Directors, as well as evaluating the overall presentation of the Accounts.

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the Accounts give a true and fair view of Danmarks Nationalbank's assets, liabilities and financial position at 31 December 2007, and of the result of Danmarks Nationalbank's operations for the financial year 1 January-31 December 2007, in accordance with the Danmarks Nationalbank Act.

Copenhagen, 26 February 2008

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 12 March 2008.

As at 1 March 2008 the Board of Directors comprises

Søren Bjerre-Nielsen, Chairman Helle Bechgaard, Deputy Chairman

Peter Bjerregaard Niels Boserup Pia Christmas-Møller Kristian Thulesen Dahl

Michael Dithmer Niels Fog Peter Gæmelke Hans Jensen Niels Due Jensen

Lars-Emil Johansen Jette W. Knudsen Kjeld Larsen Michael Lunn Michael Møller

Kirsten Nielsen Kirsten Nissen Jens Rostrup-Nielsen Hans Chr. Schmidt Kirsten Stallknecht

Inger B. Støjberg Villy Søvnal Helle Thorning-Schmidt Margrethe Vestager

ACCOUNTING POLICIES

General

Danmarks Nationalbank's Accounts for the year 2007 are presented in accordance with the Danmarks Nationalbank Act.

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

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

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

The accounting policies applied are unchanged from the previous year.

Conversion of transactions in foreign currency

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

Profit and loss account

Interest

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

Value adjustments, etc.

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

Dividend on shares, etc.

Dividend on shares, etc. comprises income from capital investments in listed and unlisted companies, including associated companies. Dividend on 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 that is not annually recurring.

Expenses

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

Balance sheet:*Gold*

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

Financial assets and liabilities

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

Repurchase agreements and securities lending, etc.

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

Shares, etc.

Equity investments and equivalent investments and capital 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 foreign-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 foreign-exchange contracts, interest-rate and currency swaps and futures are stated at market value on the balance-sheet date.

Contingent liabilities

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

Pension commitments

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

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

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2007

Note	2007 kr. '000	2006 kr. '000
1 Net income from interest:		
Interest on foreign assets	6,735,537	5,320,054
2 Interest on domestic loans	5,681,288	3,690,915
Interest on domestic bonds	1,478,036	1,341,924
Commission and other income	230	749
Interest income, etc.	13,895,091	10,353,642
Interest on foreign liabilities	62,134	59,538
3 Interest on domestic deposits	9,728,350	6,926,406
Expenditure on interest, etc.	9,790,484	6,985,944
Net income from interest, total	4,104,607	3,367,698
4 Value adjustments, etc.:		
Value adjustment of gold	1,383,317	758,900
5 Value adjustment of foreign assets	590,834	-779,764
6 Value adjustment of domestic securities	-340,361	-668,905
Value adjustments, etc., total	1,633,790	-689,769
Profit from financial items	5,738,397	2,677,929

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2007

Note	2007 kr. '000	2006 kr. '000
Profit from financial items	5,738,397	2,677,929
7 Income from shares, etc.	133,606	114,833
8 Other income	59,298	47,606
Expenses:		
9 Staff expenses	327,361	309,406
10 One-off payment to Danmarks Nationalbank's Pension Fund subject to winding-up	150,000	-
11 Other expenses	237,662	259,792
Total expenses	715,023	569,198
12 Depreciation and write-down of tangible fixed assets ..	35,751	36,036
Profit for the year	5,180,527	2,235,134
Distribution of the profit for the year:		
Profit for the year	5,180,527	2,235,134
Allocation to/from Value Adjustment Reserve	-1,633,790	689,769
	3,546,737	2,924,903
allocated as follows:		
Allocation to the General Reserves, 20 per cent	709,347	584,981
Payable to the central government, 80 per cent	2,837,390	2,339,922
	3,546,737	2,924,903

BALANCE SHEET AT 31 DECEMBER 2007

Note	2007 Kr. '000	2006 Kr. '000
Assets		
13 Gold	9,083,747	7,700,396
14 Foreign assets	161,722,357	164,556,246
15 Claims on the IMF, etc.	2,560,878	3,189,154
Monetary-policy lending	216,794,000	153,735,000
16 Other lending	2,573,120	3,471,716
17 Domestic bonds	27,833,368	28,648,012
18 Shares, etc.	747,970	747,946
19 Tangible fixed assets	636,317	637,798
20 Other assets	2,566,240	2,164,268
Accruals	21,598	21,817
Total assets	424,539,595	364,872,353

BALANCE SHEET AT 31 DECEMBER 2007

Note	2007 Kr. '000	2006 Kr. '000
Liabilities		
21 Banknotes	55,781,697	54,248,974
21 Coins	5,770,979	5,517,568
Monetary-policy deposits		
22 Net current accounts	9,411,684	8,823,577
Certificates of deposit	200,451,000	163,160,000
23 Other deposits	2,105,706	1,453,696
24 Central government	89,898,808	73,789,214
25 Foreign liabilities	4,585,485	3,728,915
26 Counterpart of Special Drawing Rights allocated by the IMF	1,432,164	1,522,455
27 Other liabilities	631,644	500,663
Total creditors	370,069,167	312,745,062
General Capital Fund	50,000	50,000
Statutory Reserves	250,000	250,000
Value Adjustment Reserve	4,801,931	3,168,141
General Reserves	49,368,497	48,659,150
28 Total net capital	54,470,428	52,127,291
Total liabilities	424,539,595	364,872,353
29 Apportionment of foreign-exchange-reserve assets		
30 Financial derivatives for conversion of foreign-exchange exposure		
31 Other financial derivatives		
32 Contingent liabilities		
33 Pension commitments		

NOTES TO THE ACCOUNTS FOR 2007

Note	2007 Kr. '000	2006 Kr. '000
1 Net income from interest		
Net income from interest for the year has been substantially influenced by rising interest rates in Denmark and abroad.		
Net income from interest increased from kr. 3,368 million to kr. 4,105 million.		
Interest on foreign assets increased by kr. 1,415 million to kr. 6,736 million. The increase was attributable to considerably higher interest rates, which were partly offset by the decline in the average foreign-exchange reserve.		
Net interest payments to banks and mortgage-credit institutes (interest on current accounts and certificates of deposit less interest on monetary-policy lending) fell by kr. 198 million to kr. 1,687 million. This was attributable to a substantial decline in the banks' and mortgage-credit institutes' average net current-account deposits at Danmarks Nationalbank, which was partly offset by considerably increases in monetary-policy interest rates.		
Interest payable to the central government increased by kr. 1,017 million to kr. 2,315 million as a result of an increase in the discount rate and a higher average deposit.		
Interest on domestic bonds increased by kr. 136 million to kr. 1,478 million due to a higher re-investment rate.		
2 Interest on domestic loans		
Interest on monetary-policy lending (collateralised loans)	5,670,842	3,667,891
Interest on lending to others	10,446	23,024
	<u>5,681,288</u>	<u>3,690,915</u>
3 Interest on domestic deposits		
Interest on current accounts	356,446	266,425
Interest on certificates of deposit	7,001,375	5,286,420
Interest on the central government's deposits	2,315,116	1,297,964
Interest to other depositors, etc.	55,413	75,597
	<u>9,728,350</u>	<u>6,926,406</u>

NOTES TO THE ACCOUNTS FOR 2007

Note	2007 Kr. '000	2006 Kr. '000
4 Value adjustments		
Total value adjustments for the year show a gain of kr. 1,634 million compared with a loss of kr. 690 million in 2006, equivalent to an improvement of kr. 2,324 million.		
Value adjustment of gold entailed a gain of kr. 1,383 million, which is attributable to an 18-per-cent increase in the gold price converted to Danish kroner.		
Value adjustments of foreign assets resulted in a gain of kr. 591 million, comprising a market-value gain of kr. 176 million and an exchange-rate gain of kr. 415 million.		
Value adjustment of domestic securities (bonds) resulted in a loss of kr. 340 million.		
5 Value adjustment of foreign assets		
Market-price adjustment	175,949	-948,045
Exchange-rate adjustment	414,885	168,236
Value adjustment of shares	-	45
	<u>590,834</u>	<u>-779,764</u>
6 Value adjustment of domestic securities		
Value adjustment of domestic bonds	-340,361	-668,905
	<u>-340,361</u>	<u>-668,905</u>
7 Dividend on shares, etc.		
Danish Ship Finance A/S	64,890	43,470
PBS Holding	21,377	33,847
VP Securities Services	29,064	19,376
Bank for International Settlements (BIS)	18,275	18,140
	<u>133,606</u>	<u>114,833</u>
8 Other income		
Sale of coins and medals	35,276	40,865
Winding-up of the estate of VB Finans	22,982	-
Reversal of provision, etc. for Himmerlandsbanken	-	6,692
Other income	1,040	49
	<u>59,298</u>	<u>47,606</u>

NOTES TO THE ACCOUNTS FOR 2007

Note	2007 Kr. '000	2006 Kr. '000
9 Staff expenses		
Salaries and remuneration	255,271	248,609
Pension contributions and support	50,602	38,372
Training	9,672	10,187
Other staff expenses	11,816	12,238
	<u>327,361</u>	<u>309,406</u>

In 2007 the average number of employees was 505 on a full-time basis (2006: 513).

10 One-off payment to Danmarks Nationalbank's Pension Fund subject to winding-up

Payment of kr. 150 million to Danmarks Nationalbank's Pension Fund subject to winding-up to cover Danmarks Nationalbank's defined benefit pension commitment. The payment was necessary because of capital losses on the Pension Funds' index-linked bonds.

11 Other expenses

Materials for banknote production	23,147	27,610
Materials for coin production	69,800	45,535
Real property, current expenses	58,127	103,680
IT expenses	41,771	39,892
Other expenses	44,817	43,075
	<u>237,662</u>	<u>259,792</u>

NOTES TO THE ACCOUNTS FOR 2007

Note	2007 Kr. '000	2006 Kr. '000
12 Depreciation and write-down of tangible fixed assets		
Properties	12,380	12,282
Operating equipment	23,371	23,754
	<u>35,751</u>	<u>36,036</u>
13 Gold		
The value of the gold stock was kr. 9.1 billion at year-end, compared with kr. 7.7 billion at the end of 2006. The reason is that the price of gold, calculated in kroner, rose by 18 per cent in 2007. The gold stock was unchanged at 66,550 kg.		
14 Foreign assets		
Foreign bonds	53,698,764	65,300,811
Claims on central banks	1,710,233	1,815,916
Claims on foreign commercial banks	38,830,424	37,790,772
Repo transactions against collateral in foreign bonds	67,482,230	59,648,000
Other foreign assets	706	747
	<u>161,722,357</u>	<u>164,556,246</u>

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

NOTES TO THE ACCOUNTS FOR 2007

Note	2007 Kr. '000	2006 Kr. '000
15 Claims on the IMF, etc.		
Denmark's IMF quota	13,153,899	13,983,185
The IMF's holdings of Danish kroner	12,289,368	12,726,817
Reserve position with the IMF	864,531	1,256,368
Holdings of Special Drawing Rights (SDRs)	1,696,347	1,932,786
	2,560,878	3,189,154

During the year, the IMF made deposits corresponding to SDR 40 million at Danmarks Nationalbank, and Danmarks Nationalbank reduced its holdings of SDRs by SDR 15 million. Claims on the IMF have thus been reduced by SDR 55 million, which, combined with value adjustments during the year, reduces the claim by kr. 0.6 billion to kr. 2.6 billion.

Accounts with the IMF are stated in SDRs. The SDR exchange rate is calculated on the basis of a basket of currencies, the value of which is determined as a weighted sum of the exchange rates of four currencies: the US dollar (40 per cent), the pound sterling (12 per cent), the euro (38 per cent) and the Japanese yen (10 per cent).

16 Other lending

Banks and mortgage-credit institutes	2,544,887	3,036,807
Receivable from associated company	-	400,000
Other loans	28,233	34,909
	2,573,120	3,471,716

Lending to banks and mortgage-credit institutes relates to the decentralised banknote holdings of these institutions.

17 Domestic bonds

Danish government bonds	4,600,746	10,998,717
Mortgage-credit bonds, etc.	21,383,542	15,417,070
Ship Finance bonds	1,849,080	2,232,225
	27,833,368	28,648,012

NOTES TO THE ACCOUNTS FOR 2007

Note	2007 Kr. '000	2006 Kr. '000
18 Shares, etc.		
Capital investments and equivalent investments	455,408	455,384
Equity investments in associated companies	292,562	292,562
	747,970	747,946

Danmarks Nationalbank's portfolio of shares, etc. at 31 December 2007 has an estimated market value of no less than kr. 2.3 billion.

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

Equity investments in associated companies comprise:

	Equity investment/ voting rights	Share of equity ¹⁾	Share of result ¹⁾
Værdipapircentralen A/S (VP Securities Services)	24.2 / 24.2 per cent	kr. 54.8 million	kr. 31.0 million
Danish Ship Finance A/S	18.9 / 20.8 per cent	kr. 155.7 million	kr. 70.4 million

¹⁾ Based on provisional accounts. Share of result is recognised in the year in which it is announced as dividend.

19 Tangible fixed assets

Properties	583,777	572,006
Machinery and equipment	52,540	65,792
	636,317	637,798

At the most recent official assessment, Danmarks Nationalbank's properties were valued at kr. 1,528 million.

NOTES TO THE ACCOUNTS FOR 2007

Note	2007 kr. '000	2006 kr. '000
20 Other assets		
Market value of unsettled foreign-exchange transactions	767,713	251,171
Accrual of interest rates	1,744,181	1,880,637
Other	54,346	32,460
	<u>2,566,240</u>	<u>2,164,268</u>
21 Banknotes and coins		
Banknotes increased by kr. 1.5 billion to kr. 55.8 billion, while coins increased by kr. 0.3 billion to kr. 5.8 billion. Banknotes include kr. 377 million in Faroese banknotes. At 2.8 per cent, growth in banknotes in 2007 is lower than in previous years.		
22 Net current accounts		
Deposits in current accounts and settlement accounts	88,250,848	77,715,972
Drawing on current accounts	78,839,164	68,892,395
	<u>9,411,684</u>	<u>8,823,577</u>
At 31 December 2007, Danmarks Nationalbank acts as full guarantor to VP Securities Services for kr. 19.2 billion (2006: kr. 29.2 billion) and to the Danish Bankers Association (Sumclearing) for kr. 65.3 billion (2006: kr. 45.7 billion) in connection with the banks and mortgage-credit institutes' payment settlements with 2 January 2008 as the value date.		
23 Other deposits		
Banks and mortgage-credit institutes	1,087,401	337,571
Other deposits	1,018,305	1,116,125
	<u>2,105,706</u>	<u>1,453,696</u>

This item includes the banks' and mortgage-credit institutes' deposits in current accounts in euro and securities settlement accounts totalling kr. 1.1 billion. Other deposits include an account with Danish Ship Finance A/S of kr. 358 million.

NOTES TO THE ACCOUNTS FOR 2007

Note	2007 Kr. '000	2006 Kr. '000		
24 Central government				
The central government's share of the profit for the year of kr. 2,837 million is included in this amount.				
25 Foreign liabilities				
These liabilities comprise deposits in kroner at Danmarks Nationalbank by supranational institutions and other central banks. The European Commission's deposit of kr. 4,567 million is excluded.				
26 Counterpart of Special Drawings Rights allocated by the IMF				
No new SDRs were allocated during the year. The decrease in this item of kr. 0.1 billion to kr. 1.4 billion purely reflects value adjustments for the year.				
27 Other liabilities				
Market value of other financial derivatives	281,075	268,095		
Payable concerning one-off payment to Danmarks Nationalbank's Pension Fund subject to winding-up	150,000	-		
Other debt	98,028	116,021		
Other	102,541	116,547		
	631,644	500,663		
	General Capital Fund and Statutory Fund Kr. '000	Value Adjustment Fund Kr. '000	General Reserves Kr. '000	Total Kr. '000
28 Net capital				
Net capital at 1 January 2007	300,000	3,168,141	48,659,150	52,127,291
Carried forward from the profit for the year	-	1,633,790	709,347	2,343,137
Net capital at 31 December 2007	300,000	4,801,931	49,368,497	54,470,428

NOTES TO THE ACCOUNTS FOR 2007

Note

29 Apportionment of foreign-exchange-reserve assets

Kr. million

2007	Total	EUR	USD	GBP	Other
Foreign-exchange-reserve assets					
Gold	9,084	-	-	-	9,084
Foreign bonds	53,699	25,822	13,163	6,815	7,899
Claims on central banks	1,710	1,141	322	44	203
Claims on foreign commercial banks	38,830	21,645	11,320	4,217	1,648
Repo transactions	67,482	67,482	-	-	-
Claims on the IMF	2,561	-	-	-	2,561
	173,366	116,090	24,805	11,076	21,395
2006	Total	EUR	USD	GBP	Other
Foreign-exchange-reserve assets					
Gold	7,700	-	-	-	7,700
Foreign bonds	65,301	35,903	15,403	6,247	7,748
Claims on central banks	1,816	688	676	20	432
Claims on foreign commercial banks	37,791	21,866	8,886	5,331	1,708
Repo transactions	59,648	59,648	-	-	-
Claims on the IMF	3,189	-	-	-	3,189
	175,445	118,105	24,965	11,598	20,777

NOTES TO THE ACCOUNTS FOR 2007

Note

30 Financial derivatives for conversion of foreign-exchange exposure

Principals at market value

Kr. million

2007	Total	EUR	USD	GBP	Other
Foreign-exchange contracts:					
Purchase	51,957	51,626	-	-	331
Sale	-51,191	-	-29,859	-11,331	-10,001
Unsettled spot currency trades:					
Purchase	614	403	148	-	63
Sale	-612	-149	-370	-30	-63
	768	51,880	-30,081	-11,361	-9,670
2006	Total	EUR	USD	GBP	Other
Foreign-exchange contracts:					
Purchase	52,385	52,124	-	-	261
Sale	-52,133	-	-29,953	-11,944	-10,236
Unsettled spot currency trades:					
Purchase	603	261	335	-	7
Sale	-604	-336	-261	-	-7
	251	52,049	-29,879	-11,944	-9,975

NOTES TO THE ACCOUNTS FOR 2007

Note

31 Other financial derivatives

Principals at market value

Kr. million

2007	Total	DKK	EUR	USD	Other
Currency and interest-rate swaps:					
Purchase	1,309	-	-	1,309	-
Sale	-1,584	-1,584	-	-	-
Forward contracts, securities:					
Purchase	6,577	6,577	-	-	-
Sale	-	-	-	-	-
Unsettled spot trades, securities:					
Purchase	948	-	898	50	-
Sale	-32	-	-	-	-32
Futures, securities:					
Purchase	8	-	8	-	-
Sale	-892	-	-563	-329	-
	6,334	4,993	343	1,030	-32
2006	Total	DKK	EUR	USD	Other
Currency and interest-rate swaps:					
Purchase	1,841	-	-	1,841	-
Sale	-2,101	-2,101	-	-	-
Forward contracts, securities:					
Purchase	4,969	4,969	-	-	-
Sale	-	-	-	-	-
Unsettled spot trades, securities:					
Purchase	465	-	298	81	86
Sale	-1,118	-	-1,118	-	-
	4,056	2,868	-820	1,922	86

NOTES TO THE ACCOUNTS FOR 2007

Note	2007 Kr. '000	2006 Kr. '000
32 Contingent liabilities		
VP Securities Services, share of Guarantee Capital	37,434	48,874
VP Securities Services, guarantee for errors by other account-holding institutions	17,785	22,823
Other guarantees	1,030	1,030
Unutilised portion of credit facilities made available to the IMF (SDRs)	2,938,655	3,123,922
	<u>2,994,904</u>	<u>3,196,649</u>

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

33 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 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.

Key figures for the accounts of the Pension Fund:

Pension Fund	2007 kr. million	2006 kr. million
Pension commitments and other liabilities	3,022	3,136
Fair market value of the assets of the Pension Fund ...	3,573	3,680
Net capital of the Pension Fund	551	544
Solvency requirement of the Pension Fund	121	125

Other defined benefit pension plans are covered in a pension company, while 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. 56.6 million at 31 December 2007, while the provision on Danmarks Nationalbank's balance sheet amounts to kr. 22.5 million.