The Mortgage Bank of Denmark

Annual Report

2002

June 2003

The Mortgage Bank

Administration:
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Conventional symbols and signs:

bn = billion = 1,000 mns
mn = million
- = nil
0 = less than half of the unit in question
· = not applicable
... = not available

Due to rounding, the figures given for individual items do not necessarily add up to the corresponding shown.

The Annual Report is a translation of the Danish Report finalised 15 May 2003

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Endorsements

Statement by the Board of Directors and the Manager

Today the Board of Directors and the Manager has considered and approved The Mortgage Bank's Annual Report for the financial year 2002. The Annual Report is presented in pursuance of the Danish Financial Statements Act and requirements stated by Copenhagen Stock Exchange.

In our opinion, the accounting policies are appropriate and The Annual Report gives a true and fair view of The Mortage Bank's assets and liabilities, financial position and result.

Copenhagen, 15 May 2003

Manager		**Board of Directors**		
Financial Administration Agency				
Claus Juhl	*/Jesper Olesen*	*Inge Thygesen*	*Lars Tybjerg*	*Helge Sigurd Næss-Schmidt*
Man. Director	Head of Div.	Chair		

Opinions of the Auditors

Opinion of the Manager's Internal Auditor

The Manager's Internal Audit has audited the annual report of the Mortgage Bank for the financial year January 1 – December 31 2002. The annual report is the responsibility of the Board of Directors and the Manager. Our responsibility is to express an opinion on the annual report based on our audit.

Basis of Opinion

The audit was performed on the basis of regulations of the Act on the Auditor General Article 9 (2) and in accordance with the generally accepted Danish auditing standards. Based on an evaluation of materiality and risk our audit has included an examination of business procedures, the accounting policies used and significant estimates made by the Board of Directors and the Manager, as well an evaluation of the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

Opinion
In our opinion, the annual report gives a true and fair view of the Mortgage Bank's financial position at 31 December 2002 and of the results of its operations for the financial year 1 January - 31 December 2002 in accordance with the Danish Financial Statements Act.

Copenhagen, 15 May 2003 *Lone Strøm*
Internal Auditor

Opinion of The Auditor General
To the Minister of Finance
We have audited the annual report of the Mortgage Bank for the financial year 1 January - 31 December 2002. The annual report is the responsibility of the Board of Directors and the Manager. Our responsibility is to express an opinion on the annual report based on our audit.

Basis of Opinion
We conducted our audit in accordance with Danish Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual report. An audit also includes assessing the accounting policies used and significant estimates made by the Board of Directors and the Manager, as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

Opinion
In our opinion, the annual report gives a true and fair view of the Mortgage Bank's financial position at 31 December 2002 and of the results of its operations for the financial year 1 January - 31 December 2002 in accordance with the Danish Financial Statements Act.

Copenhagen, 15 May 2003 *Henrik Otbo* */Jan Falkensteen*
Auditor General Director

Management's Review 2002

Introduction

Since 1st of January 1999, the Mortgage Bank has had the task of settling the existing portfolios of lendings and borrowings plus activities attached to these. The other non-banking activities in the institution 'the Mortgage Bank and Financial Administration Agency of the Kingdom of Denmark' are continued in the Danish Financial Administration Agency which at the same time takes care of the liquidation of the Mortgage Bank.

During the liquidation period the Bank's reserves will be transferred to the Treasury, and when the liquidation is concluded and all the remaining assets and other rights have been transferred to the Treasury the Bank will be closed down. Thus, with an appropriational approval, the Minister of Finance can close down the Bank before the liquidation is concluded.

New Financial Statements Act

As of 1st of January 2002 a new Danish Act on Commercial Enterprises' presentation of Financial Statements came into force. This new Act has a wider application range than the former Danish Act on Financial Statements which did not apply to The Mortgage Bank. With effect for financial years beginning on or after 1 January 2002 the Danish Act on Financial Statements with few exceptions applies to all commercial enterprises. The Danish Commerce and Companies Agency has confirmed that The Mortgage Bank with respect to the new Act is to be viewed as a commercial enterprise and therefore the Bank's Annual Report for 2002 is presented in pursuance of the Danish Financial Statements Act.

In the Danish Financial Statements Act '*Annual Report*' is the jointly designated term for the financial statements, reports and endorsements. Compared to the Bank's annual reports for previous years the structure and wordings has been somewhat revised in the Annual Report for 2002, but the provisions of the Danish Financial Statements Act implies no changes to the Bank's accounting policies and therefore the Act has no effects on the Bank's Income Statement and Balance Sheet.

Changes in Management

As of 1 September 2002 Mr. Claus Juhl was appointed to Managing Director of the Danish Financial Administration Agency which administer the Mortgage Bank. Mr. Claus Juhl previously held a position as Head of

Division at the Ministry of Finance and succeeded Managing Director Hans Henrik H. Østergaard who moved from the Financial Administration Agency to the Ministry of Finance.

Result, transfers and balance

The result of the year's operation was a profit of DKK 413 mn before allocation of DKK 90 mn to the Security Fund. The Bank's operating surplus of DKK 323 mn after transfers to the Security Fund was set aside for transfer to the Treasury along with DKK 300 mn of the Bank's reserves according to the Danish Finance Act for 2003.

In 2002 the Mortgage Bank transferred a operating surplus for the year 2001 of DKK 353 mn and DKK 650 mn of the reserves according to an approval from the Danish Finance Committee. The unused amount of a reservation of DKK 2 bn of the Bank's reserves for transfer to the Treasury in compliance with an earlier request from the Ministry of Finance have been carried back to the Bank's Security Fund.

At the end of 2002 the Bank had a total balance of DKK 13.2 bn, hereof an equity of DKK 6.9 bn including the Bank's callable Basic Fund of DKK 2 bn.

Loan portfolios

Loans outstanding

Table 1. Lendings 1998-2002. Mn DKK.

	1998	1999	2000	2001	2002
Loans at year-start	13,498	12,007	9,419	6,561	5,261
New Loans	2,188	17	39	4	-
Interests added	37	24	22	20	17
Ordinary instalments	1,559	1,432	1,654	1,257	599
Early repayments	2,148	1,196	1,267	68	52
Losses on lendings	-	-	11	-	-
Net decrease	1,482	2,587	2,870	1,301	634
Value adjustment at year-end	÷9	÷1	12	2	0
Loans at year-end	12,007	9,419	6,561	5,261	4,628

Repayments on loans amounted to DKK 652 mn in the year under review and with DKK 17 mn interests added the total loans outstanding amounted to DKK 4,628 mn at the end of 2002 against DKK 5,261 mn at the end of 2001.

In the course of 2002, the number of loans have been reduced from 389 to 373. The special budget agreement loans, which the Bank in the years 1993-1998 granted to local counties and municipalities, take the leading position with 324 loans and with amounts outstanding of DKK 2,580 mn (56 per cent). Further specifications of loans by groups of borrowers are given in table 8 on page 15.

Outstanding Debts and Swaps

The remaining net debt of borrowings and swaps was reduced with the year's repayments of DKK 2,580 mn to a total of DKK 5,557 mn after currency adjustments and indexation at the end of 2002. The net debt at year-end is composed by, on the one side a remaining debt on borrowings of DKK 6,086 mn, and on the other side a net credit of DKK 530 mn from swap-credits of DKK 7,790 mn and swap-liabilities of DKK 7,260 mn.

Table 2. Outstanding debts and swaps 1998-2002. Mn DKK

	1998	1999	2000	2001	2002
Debt at year-start	12,743	10,922	10,321	8.364	8,130
New borrowings	312	-	-	-	-
Repayments	2,132	609	1,996	248	2,580
Net decrease	1,820	609	1,996	248	2,580
Indexation at year-end	18	10	18	16	8
Value adjustment at year-end	÷19	÷1	21	÷3	÷1
Debt at year-end	10,922	10,321	8,364	8,130	5,557

During year 2002, 4 DKK-loans and 17 interest rate swaps matured. After these disposals there was a total of 24 loans and 39 swap agreements outstanding at year-end 2002.

Net Debt and Currency Distribution

Due to the above mentioned changes in the loan and swap portfolios, the Bank's net debt of the loan and swap portfolios decreased from DKK 2,868 mn at the beginning of the year to DKK 929 mn at year-end 2002.

The net debt is made up of a net debt in Danish Kroner of DKK 193 mn and a net debt of DKK 736 mn in foreign currencies. The net debt in foreign currencies is made up of net credits in CHF and USD of respectively DKK 22 mn and DKK 2 mn and a net debt in EUR of DKK 760 mn.

Table 3. Debt, Lendings and Net Debt by currency

	Debt		Lendings		Net debts			
					End 2002		End 2001	
	Mn DKK	Per cent	Mn DKK	Per cent	Mn DKK	Per cent	Mn DKK	Per cent
EUR	767	14	6	0	760	82	724	25
CHF	-	-	22	0	÷22	÷2	÷94	÷3
USD	÷2	÷0	-	-	÷2	-0	÷2	÷0
Foreign currency	765	14	28	1	736	79	628	22
DKK	4,792	86	4,600	99	193	21	2,241	78
Total	5,557	100	4,628	100	929	100	2,868	100

The Accounts

Result and Balance

The year's result was DKK 413 mn against DKK 405 mn in 2001. The increase is a result of the net impact of, on the one side an increase in value adjustments of bonds etc. of DKK 38 mn, and on the other side a fall of DKK 30 mn in other items.

The interest income from lendings fell by DKK 78 mn to DKK 227 mn in 2002, while *interest expenses on borrowings* fell by DKK 117 mn to DKK 319 mn. Thus, the net expenses from borrowings and lendings fell from DKK 131 mn in 2001 to DKK 91 mn in 2002.

Interest income of financial investments amounted to DKK 411 mn against DKK 481 mn in 2001. The income is split up between *liquid funds* with DKK 77 mn (2001: DKK 94 mn) and *bonds* with DKK 334 mn (2001: DKK 387 mn).

Table 4. Income Statements 1998-2002. Mn DKK

	1998	1999	2000	2001	2002
Interest income	1,140	956	922	786	638
Interest expenses	564	431	479	436	319
Net interest income	576	525	443	350	320
Fee and commission income	15	8	7	5	5
Administrative expenses	9	3	4	3	2
Profit before value adjustments	581	530	446	353	323
Value adjustments of bonds	111	÷326	÷20	49	88
Value adjustments of debt and loans	18	3	4	3	2
Losses on lendings	-	-	11	-	-
Profit of the year	710	207	418	405	413
Allocated to the Security Fund	129	-	-	52	90
Transferable to the Treasury	581	207	418	353	323

Commision and fee income are in line with the loan settlements fallen to DKK 4.8 mn in 2002 against DKK 5.4 mn in 2001. At the same time *the administrative expenses* fell from DKK 2.6 mn in 2001 to DKK 1.7 mn in 2002. Commission and fee income plus administration expenses have contributed with a combined net income of DKK 3.1 mn in 2002 (2001: DKK 2.9 mn).

Value adjustment gains on the bond portfolio came to DKK 88 mn (2001: DKK 49 mn), and there was a net income from *exchange rate adjustments etc.* of DKK 2 mn (2001: DKK 3 mn).

The year's result hereafter ended with a profit of DKK 413 mn. Hereof, the year's positive net value adjustment of DKK 90 mn is allocated to the Security Fund, while the remaining profit of DKK 323 mn is allocated for transfer to the Treasury at the end of 2003 in pursuance of the Act on the Liquidation of the Mortgage Bank and Financial Administration Agency.

According to the Act on the Liquidation the Minister of Finance can, with appropriational authorisation, transfer that part of the Bank's reserves that are not necessary for the Bank to meet its obligations. The Ministry of Finance has in November 2000 requested the Mortgage Bank to reserve an amount of up to DKK 2 bn from the reserves for transfer in 2001. However, the Ministry of Finance did not carry out a transfer until in 2002 when DKK 650 mn were transferred to the Treasury according to an approval from the Danish Finance Committee.

The unused amount of the reservation of DKK 2 bn of the Bank's reserves for transfer to the Treasury have been carried back to the Bank's Security Fund. At the same time DKK 300 mn were allocated from the Security Fund and set a side for transfer to the Treasury in 2003 according to the Finance Act for 2003. Thus, a net amount of DKK 1,050 mn have been carried back to the Security Fund and, with the addition of the previously mentioned allocation of the year's net value adjustment of DKK 90 mn, at the end of 2002 the Bank's equity amounted to DKK 6,913 mn against DKK 5,773 mn at the end of 2001.

The Bank's non income-earning Basic Fund of DKK 2 bn which has been granted by the Treasury as a 'non cash security' is included in the equity. The remaining DKK 4,913 mn that are the income-earning part of the equity is equivalent to 79 per cent of the total liabilities at the end of 2002.

Distribution of Net Financial Income

The year's result can on the revenue side be divided to the following categories of assets: cash, bonds and loans, and on the expenditure side the following categories of liabilities: short-term debt, borrowings and equity.

Table 5. Capital[1] and the year's net financial income[2] by areas of activity

	2001		2002				
	Net income		Net income		Capital, mn DKK		
	Mn DKK	Per cent	Mn DKK	Per cent	Opening	Average[3]	Closing
Assets							
Cash	95	4.6	77	3.5	1,643	2,192	294
Bonds	436	6.5	422	6.3	7,145	6,678	5,985
Loans to local governments[4]	144	5.0	109	4.1	2,738	2,677	2,580
Other lendings	169	5.8	124	5.1	2,523	2,422	2,047
Total assets	844	5.8	732	5.2	14,050	13,968	10,907
Financing							
Short-term debt	-	.	-	.	2,353	2,353	623
Borrowings[5]	÷436	5.2	÷318	4.2	8,086	7,629	5,526
Total liabilities	÷436	4.1	÷318	3.2	10,439	9,983	6,149
Equity	408	10.4	415	10.4	3,611	3,986	4,758

[1] Excluding the Bank's callable capital of DKK 2 bn and accrued interest receivable and payable (DKK 221 mn and DKK 65 mn, respectively, at the end of 2002).
[2] Excluding administrative expenses of DKK 1.7 mn in 2002.
[3] Capital base calculated on the basis of the year's average invested capital. Some elements in the average values of capital are estimated.
[4] According to budget agreements between the government and local governments.
[5] Debt excluding issue expenses of DKK 31 mn, not written-off, at the end of 2002.

Excluding administration costs of nearly DKK 2 mn, the year's result amounted to DKK 415 mn in 2002 which, as in 2001, corresponds to a rate of return of 10.4 per cent of the year's average equity. This calculated yield rate is influenced by the fact that the short-term debt, consisting mainly of the previous year's result and reserves set a side for transfer to the Treasury, do not carry financial expenditures. If these transferables instead were to be regarded as additional equity, the yield rate will be calculated to 6.5 per cent in 2002 against 6.4 per cent in 2001.

Risks

Exchange rate risk

While the share of the lendings in foreign currencies during the year have been reduced from 2.6 per cent to 0.6 per cent, the extensive repayments on the borrowings in Danish Kroner implied a increase from 9.4 per cent to 13.8 per cent in the share of the borrowings in foreign currencies.

The total net debt in foreign currencies amounted to DKK 736 mn at year-end 2002 against DKK 628 mn at year-end 2001. The net debt is made up of net credits in CHF and USD of DKK 22 mn and DKK 2 mn respectively plus a net debt in EUR of DKK 760 mn.

The total exchange rate risk can momentarily be measured through the two indicators that the money and credit institutions use to report to the Danish Financial Supervisory Authority.

Table 6. Indicators of currency exposure 1998-2002

	End 1998	End 1999	End 2000	End 2001	End 2002
Indicator 1					
Mn DKK	425	303	244	724	760
Per cent of equity[1]	6.3	5.3	6.6	19.2	15.5
Indicator 2					
Mn DKK	2.6	0.9	3.6	2.1	1.3
Per cent of equity[1]	0.04	0.02	0.10	0.06	0.03

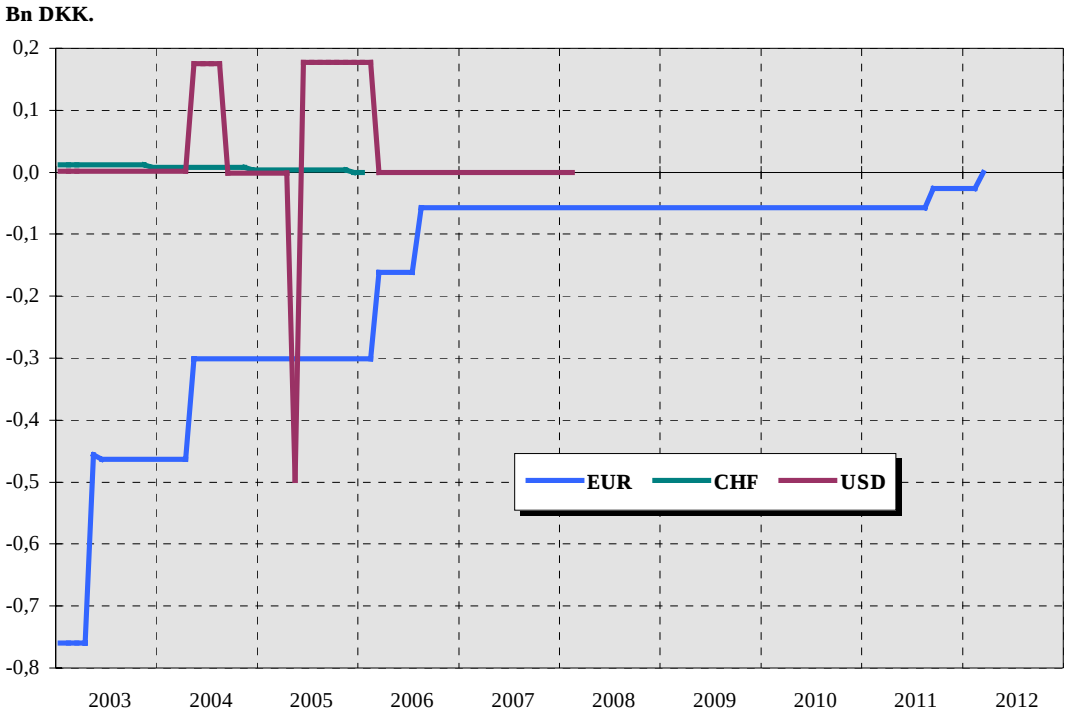
Note: *Indicator 1* expresses the total currency exposure by the largest amount of all foreign currency positions held either short or long. *Indicator 2* expresses the total currency exposure statistically on the basis of historical exchange rate corelations and volatilities by that amount which with a certainty of 99.5 per cent at the most may be lost over a period of 10 trading days.

[1] Excluding the Bank's callable capital.

Due to the year's change in the EUR position from a net debt of DKK 724 mn to DKK 760 mn, *indicator 1* has increased correspondingly. *Indicator 2*, which is considered to be a more valid measurement of risk, has during the year under review been reduced from DKK 2.1 mn to DKK 1.3 mn. Measured in relation to the interest bearing equity this is a decrease from 0.06 per cent to 0.03 per cent.

The currency positions will change over time as illustrated by chart 1 with the expected development in net credits for each of the three currency groups (converted to DKK at market values as of 31 December 2002).

Chart 1. Expected development in currency positions



The net debt position in EUR of DKK 760 mn will over the coming years gradually decline until 2012 when the last EUR loan expires. As a consequence of the official Danish fixed exchange rate policy the Euro is regarded as stable in relation to DKK and the relatively large and long-termed EUR positions are therefore assumed to be safe.

For CHF is a modest net credit of DKK 22 mn at year-end 2002. This net credit will be liquidated fairly evenly up until the end of 2007. In comparison with the Euro, CHF is regarded less stable versus DKK, but due to the low level in CHF-positions it has been chosen to tolerate this exposure.

In relation to the other two currencies USD is more volatile versus DKK and therefore it is the Bank's policy, that larger positions in USD are only short-termed. USD-positions will be unchanged with a marginal net credit of DKK 2 mn up until mid 2004. There will hereafter occasionally occur positions, with partly a net credit of approx. DKK 175 mn in the time span May-August 2004 and June 2005–February 2006 and partly a short lived net liability of approx. DKK 500 mn in May 2005.

As a measure for the risk exposure due to exchange rate movements that takes into account the future expected development in the currency positions, the change in net present value of the future payments for each of the three currencies by a 1 per cent change in the respective exchange rates to the Mortgage Bank's disadvantage can be calculated. Assuming the occurrence of such exchange rate changes at year-end 2002, and that the exchange rates hereafter will remain unchanged during the full duration of the loans, there is calculated a combined net present loss of DKK 8.2 mn. This loss is split up with DKK 7.9 mn on the EUR positions, DKK 0.2 mn on the CHF positions and DKK 0.1 mn on the USD positions, and it will occur in the case of increase in the exchange rate of EUR and decreases in the exchange rates of CHF and USD.

Interest rate risk

To illustrate the Bank's interest rate risk, durations for the different part of the Bank's assets and liabilities are given in table 7.

Table 7. Duration of Assets, Debts and Equity[1]

	End 2002		End 2001		End 2002		End 2001
	Mn DKK	Duration	Duration		Mn DKK	Duration	Duration
Assets				*Liabilities*			
Cash.....	515	0.0	0.1	Short-term debt	688	0.9	1.0
Loan assets ..	4,628	0.5	0.6	Loans[2]	5,526	0.6	0.7
Bonds.....	5,985	1.8	2.3	Equity	4,913	1.9	3.1
Total assets ..	11,128	1.2	1.4	Total liabilities...	11,128	1.2	1.4

[1] Excluding basic capital and capital loss on bond issues not yet written-off.
[2] Debts excluding capital loss on bond issues not yet written-off.

The duration of the equity, that is calculated as the residual of the directly calculated durations of all assets and liabilities, amounts to 1.9 years at year-end 2002 against 3.1 years at year-end 2001. The sensitivity to interest rate changes has therefore decreased, mainly due to the year's reduction of maturity period in the bond portefolio.

The equity's duration is a central parameter in the Bank's overall asset and liability management where an approximation is sought with the assumed duration on the yearly transfers of the Bank's reserves to the Treasury.

Credit Risk

Table 8 outlines the Bank's lendings by groups of borrowers with and without governmental authority guarantees or liabilities.

Table 8. Loans outstanding by groups of borrowers at year end. Mn DKK

	2000	2001	2002
Loans with state guarantee	148	144	136
Loans withs municipal guarantee			
According to budget agreement[1]	3,023	2,738	2,580
Regional natural gas companies[2]	1,305	641	511
Municipal investment projects	123	91	28
Other borrowers	229	214	197
Total with municipal guarantee	4,679	3,828	3,317
Loans without public guarantee			
Finance for Danish Industry (FIH)[3]	175	125	75
Post Danmark Ltd.	400	400	400
Copenhagen Airports Ltd.	898	700	500
Combus Ltd.	42	-	-
NESA Ltd.	218	209	200
Total without public guarantee	1,733	1,434	1,175
All loans	6,561	5,261	4,628

[1] Loans according to agreements between local government associations and the government, covered by counterclaim security on the general grants from central to local government.
[2] Including a state guaranteed loan with outstandings of DKK 135 mn at the end of 2002 to a regional gas distribution company which has become part of the stateowned DONG group.
[3] Interest is paid by the state and this subsidy is passed on by FIH when lending to small and medium-sized enterprises.

75 per cent of the total loans outstandings are covered by a governmental authority guarantee or liability which means that from a practical point of view there is no risk of the Bank having losses on these loans. The

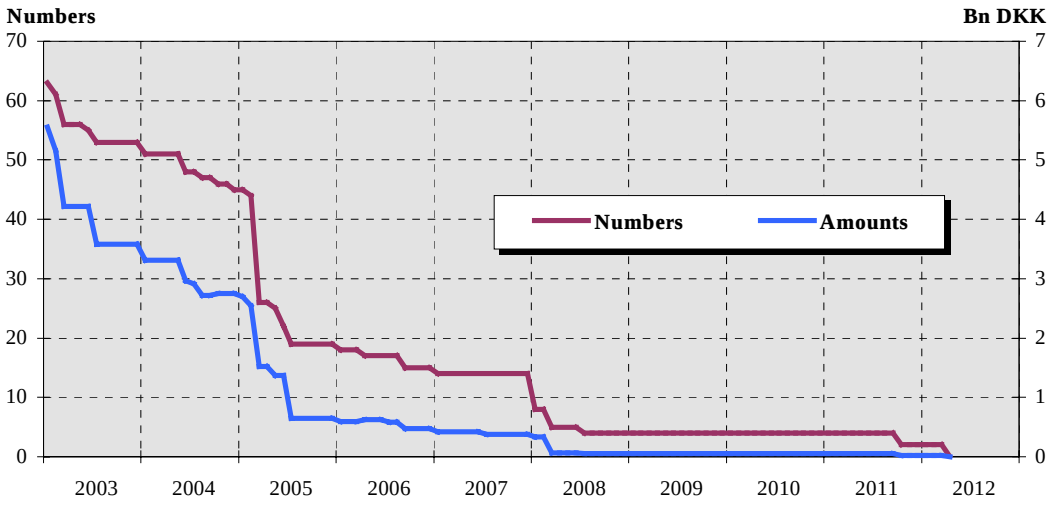
remaining lendings of DKK 1.2 bn can be exposed to credit risk and ongoing assessments is therefore made to make necessary provisions to cover any such possible future losses on these loans.

The Bank furthermore places liquid funds on a current account with Danmarks Nationalbank, on fixed-term deposits or in listed danish bonds. Fixed-term deposits are only done within certain limits, while there are no limits for investments in bonds even though there might be a limited credit risk. This is partly countered by holding a significant part of the bond portfolio in government bonds. This share was 36 per cent at the end of 2002.

Repayment profile

To illustrate the profile for the Mortgage Bank's expected liquidation there are in chart 2 and 3 shown the ordinary outflow in numbers and in amounts respectively for the borrowing and swap portfolios and for the lending portfolio up until the end of 2012 when the last liability expires.

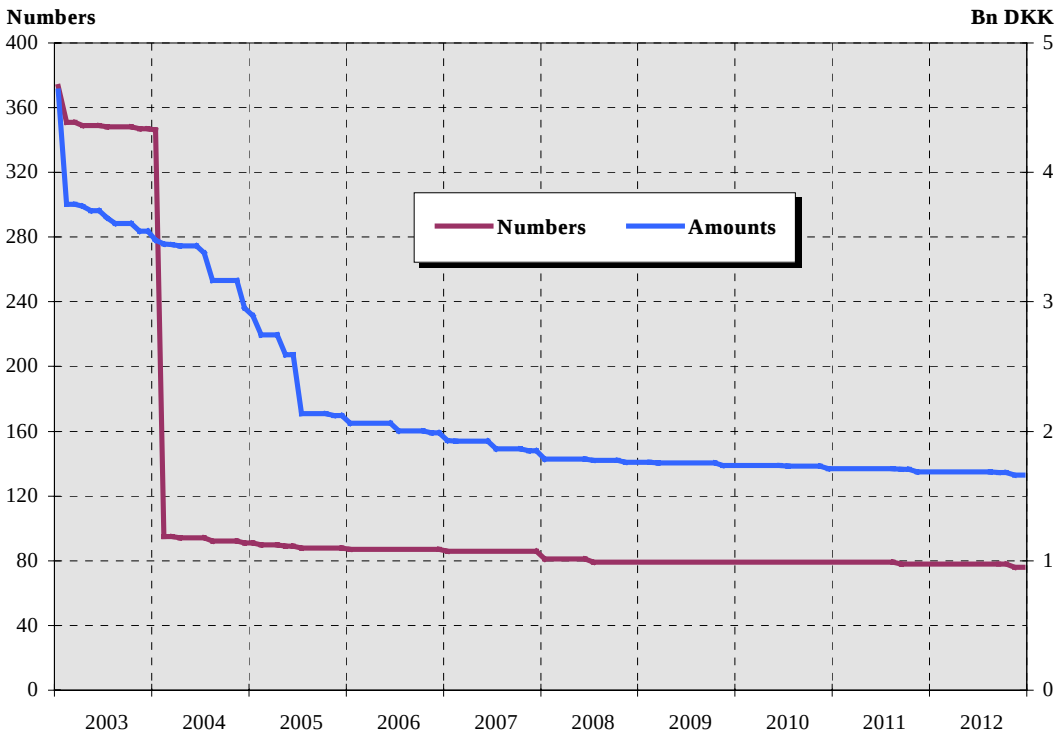
Chart 2. Phase Out Profile for Borrowings and Swaps 2003-2012



At the end of 2002 there were 24 issues and 39 swap agreements outstanding with a remaining debt of DKK 5.6 bn. The numbers will be halved at the beginning of 2005 while the remaining debt will be halved by end of 2004.

At the end of 2002 there were 373 loans with outstanding amounts totalling DKK 4.6 bn. The outstanding amount will be halved mid 2005 while the number of loans will especially be reduced at the beginning of 2004 when approx. 250 budget agreement loans granted to municipalities expire. At this time the total number of loans are reduced to just below 100 and it will hereafter only be reduced rather slowly in the rest of the projection period to 76 loans at year-end 2012.

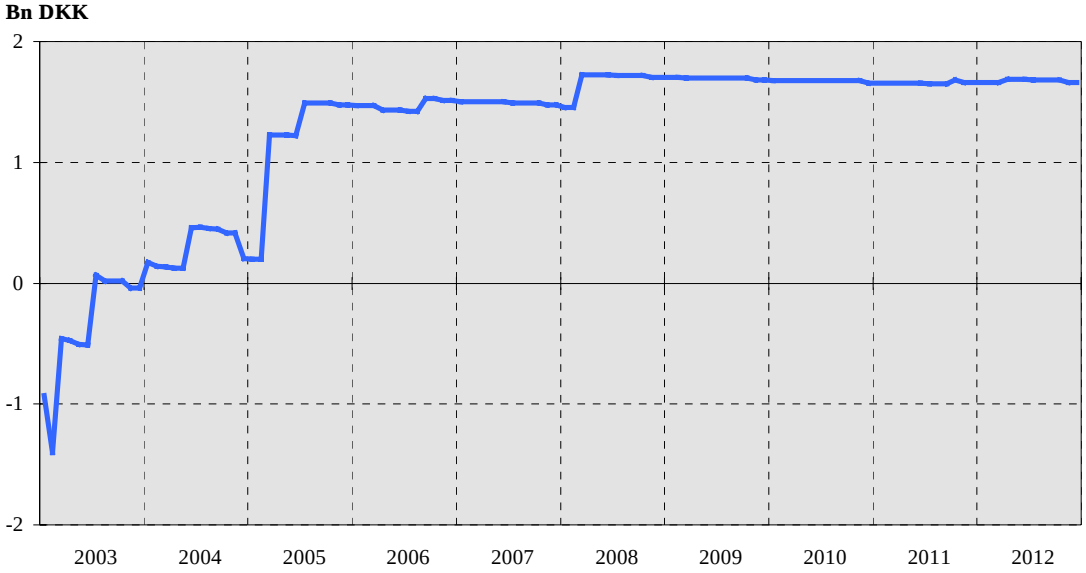
Charts 3. Phase Out Profile for Lendings 2003-2012

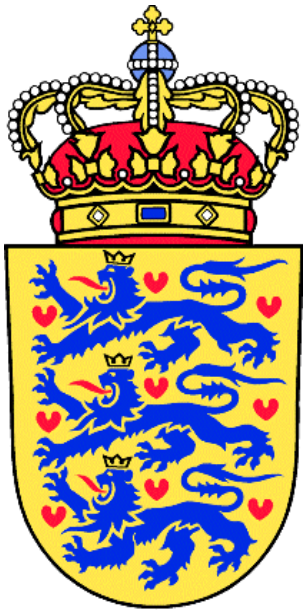


These loans with a very long maturity include first of all 51 budget agreement loans, granted to local counties with outstandings of approx. DKK 1.6 bn, for which the repayment time has not yet been set as this, in accordance with the agreements, is decided by the Minister of Interior when there is a surplus in the local government economy. In addition, there are 12 loans with guarantees from the Ministry of Education, granted to Vocational Schools etc., which will first expire in 2025-2030 plus 13 loans to the Fisheries Bank expiring in 2015-2017.

As a consequence of the above described movements in the loan and swap portfolios the expected development in combined net credit of these is shown in chart 4. At the end of 2002 there is a net debt of DKK 0.9 bn that will convert to a net credit by mid of 2003 and over a number of years the net credit will grow to DKK 1.7 bn which will include the above mentioned loans with a long maturity.

Chart 4. Expected net credits of lendings and borrowings





Statement of Accounting Policies

The Annual Report of The Mortgage Bank for 2002 is presented in pursuance of the provisions for Reporting Class A in the Danish Financial Statements Act. Furthermore, for the Management's Review it has been chosen to apply the rulings for Reporting Class B, cf. Section 77 in the Danish Financial Statements Act.

According to the Danish Financial Statements Act, Section 19(2), there is a mandatory format for the Balance Sheet. However, with reference to the Danish Financial Statements Act, Section 11(3), the Bank has chosen to depart from the mandatory format as the Balance Sheet becomes even more true and fair by using the format for balance sheets that is provided by the Danish Financial Supervisory Authority in the Consolidated Act of 23 October 2001 on financial statements etc. for money and credit institutions.

The Annual Report is presented under the same accounting policies as the previous year.

Recognition and measurement in general

All income, including value adjustments of financial assets and liabilities, is recognised in the Income Statement as earned. Furthermore, all expenses, including necessary provisions to cover future losses on loans, are recognised in the Income Statement.

Assets are recognised in the Balance Sheet when it is probable that future economic benefits will flow to the Bank and the value of the asset can be measured relieably. On initial recognition, assets and liabilities are measured at cost, however with exceptions for borrowings, cf. below. Subsequent to initial recognition, assets and liabilities are measured as described below for each item.

On recognition and measurement, foreseeable losses and risks, arising before the Annual Report is concluded and proving or disproving matters arising on or before the balance sheet date, are taken into consideration.

The Income Statement

Interest, fees, etc.

Ordinary interest earned and fees, guarantee charges, as well as interest paid, are recognised with the amounts that relates to the financial year.

Accruals of interest on loans and lendings at floating interest rates are calculated at the interest rate obtaining at year-end.

Market Value Gains and Losses
As well realised as unrealised gains and losses on the holding of listed bonds are recognised with the amounts that relates to the financial year.
As well realised as unrealised gains and losses on loans and lendings in foreign currencies and realised and unrealised indexation gains and losses on borrowings are recognised with the amounts that relates to the financial year.
As well realised as unrealised gains regarding Treasury bills are recognised in the Income Statement under 'Interest income'.

Administrative Expenses
The Bank's share of the total expenses for wages and salaries, rent, office facilities, etc. of the Financial Administration Agency is recognised in the Income Statement under 'Administrative expenses'.

The Balance Sheet
Loans Outstanding
The Bank's outstanding loans are measured at their nominal value. Outstandings in foreign exchange are recorded on the basis of the conversion rates obtaining at the balance sheet date, published by Danmarks Nationalbank at year-end.
Outstanding loans, converted into a currency different from the original at the close of the financial year, are entered in the actual currency.
Assessments have been made of the need for provisioning to counter probable future losses. Lendings covered by public guarantees are all considered to be without risk, whereas other lendings have been assessed individually.

Write-off of Loss on Issue of New Loans, etc.
Losses and gains on issues and similar costs on borrowings are recorded as net assets, converted at the settling price on the settlement day of the loan. The Danish Krone amount is written-off evenly over the life of the loan irrespective of its original amortisation. In the event of early repayment, wholly or partly, a corresponding exceptional write-off is entered in the accounts.

Holdings of listed Bonds
The Bank's holdings of listed bonds are measured at fair value at the balance sheet date. However, drawn bonds are shown at par.
Holdings of Treasury bills are recognised at their purchase price. The difference between purchase price and fair value on the balance sheet date is entered as 'Interest income" and capitalised as current interest outstanding.

Other Assets
The Callable Basic Fund from the Ministry of Finance is measured at nominal value.

Sundry debtors
Amounts held with the Bank's paying agents abroad for payment of coupon interest and bonds due, but not yet redeemed, on the Bank's foreign bond loans, are not included in the balance sheet. The amounts are made up at year-end and stated in the note under the item 'Sundry Debtors'. Possible remaining amounts will be returned to the Bank after expiry of the final collection date for coupons and bonds.

Borrowings and Swap Agreements
The Bank's borrowings are measured at their nominal values, however see the above mentioned about loss on issues, not yet written-off. Borrowings in foreign exchange are recorded on the basis of the conversion rates published by Danmarks Nationalbank at year-end.
Borrowings, converted into a currency different from the original at the close of the financial year, are entered in the actual currency.
In respect of swap agreements whereby one or several loans are converted, wholly or partly, into a different currency, amounts receivable and payable according to the agreement are recognised in the Balance Sheet under liabilities.

Income Statement 2002

(All amounts are in DKK 1,000)

Note		2001	2002	
	Interest income			
	Danmarks Nationalbank	19,701	8,436	
	Banking institutions etc.	60,715	51,998	
	Loans	304,645	227,127	
1	Treasury bills	14,621	16,510	
	Listed bonds	386,728	334,198	
		786,410		638,269
	Interest expenses, etc.			
	Debts	400,849	291,123	
2	Index adjustment of debts	20,868	14,052	
3	Write-off of loss / gain on bond issues, etc.	14,268	13,343	
		435,985		318,518
	Total net interest income	350,425		319,751
	Fee and commission income	5,413		4,811
	Total net interest, fee and commission income	355,838		324,562
	Value adjustments, etc.			
4	Loans	2,675	1,330	
5	Listed bonds	49,152	87,887	
2	Debts	180	840	
	Early repayment of loans	-	10	
		52,007		90,067
	Profit/loss before administrative expenses	407,845		414,629
	Administrative expenses	2,559		1,677
	Profit/loss for the year	405,286		412,952
6	**Dispersing of profit/loss**			
7	Allocated to Security Fund	52,007		90,067
8	Transferring to the Treasury	353,279		322,885
		405,286		412,952

Balance Sheet end 2002

(All amounts are in DKK 1,000)

Note		2001	2002	
	Assets			
	Liquid assets			
	Deposits with Danmarks Nationalbank	132,877	293,851	
	Deposits with Banking institutions	1,500,000	-	
		1,632,877		293,851
	Loans			
4	Loans	5,261,486	4,627,861	
3	Loss on bond issues etc., not yet written-off	44,010	30,667	
		5,305,496		4,658,528
	Bonds			
5	Listed bonds	7,145,257		5,984,850
	Other assets			
	Callable from Ministry of Finance.....	2,000,000		2,000,000
	Accruals			
	Accrued interests receivable	248,078	220,706	
9	Sundry debtors.....	10,529	299	
		258,607		221,005
	Total assets	16,342,237		13,158,234
	Liabilities			
	Debts			
8	Profit, transferable to the Treasury	353,279	322,885	
8	Reserves, transferable to the Treasury.....	2,000,000	300,000	
		2,353,279		622,885
2	Loans raised	8,129,958		5,556,970
	Accruals			
	Accrued interest payable.....	85,863	65,176	
10	Sundry creditors	6	5	
		85,869		65,181
6	**Equity**			
	Basic Fund	2,000,000	2,000,000	
11	Reserve Fund.....	1,425,591	2,475,591	
7	Security Fund	2,347,540	2,437,607	
		5,773,131		6,913,198
	Total liabilities.....	16,342,237		13,158,234

Notes to the Financial Statement

(All amounts are in DKK 1,000)

Note 1: Holding of Treasury Bills

Movements in 2002	Nominal value	Market value
Holdning 1 January 2002	-	-
Purchase	750,000	733,490
Redemptions	750,000	750,000
	-	-16,510
Value gains recognised as interest income		16,510
Holdning 31 December 2002	-	-

Note 2: Loans raised[1]

Movements in 2002	
Balance 1 January 2002	8,129,958
Instalments	2,586,200
	5,543,758
Adjustments by conversion of currencies to EUR	- 3
Value adjustment 31 December 2002	- 837
Value adjustment on instalments	5,713
Index adjustment 31 December 2002	8,339
Balance 31 December 2002	5,556,970

Breakdown by expected remaining life	
Up to 1 year (included)	2,248,713
From 1 to 5 years	2,974,955
More than 5 years	333,302
Total	5,556,970

Breakdown by curriencies

	End 2002				End 2001
	Amounts	Rate	DKK	Per cent	Per cent
USD	- 256	708.22	- 1,815	- 0.0	-0.0
EUR	103,259	742.43	766,628	13.8	9.4
DKK	4,792,157	100.00	4,792,157	86.2	90.6
Total			5,556,970	100.0	100.0

[1] Various information on individual loans are given in the Specification of Liabilities as of end-2002, following the Notes to the Financial Statement.

Note 3: Losses/gains on bond issues etc., not yet written-off

Balance 1 January 2002	44,010
Fees and other costs on issues	13,343
Balance 31 December 2002	30,667
Hereof:	
Losses on bond issues, not yet written-off	88,410
Gains on bond issues, not yet written-off	57,743

Note 4: Loan assets (both IOU loans and bond loans)

Movements in 2002

Balance 1 January 2002	5,261,486
Ordinary instalments and prepayments	651,834
	4,609,652
Adjustments by conversion of currencies to EUR	0
Value adjustment by instalments and prepayments	953
Value adjustment 31 December 2002	377
Interest added to loans	16,879
Balance 31 December 2002	4,627,861
Hereof:	
Including public responsibility	3,452,861
Excluding public responsibility	1,175,000

Breakdown by expected remaining life

Up to 1 year (included)	1,149,340
From 1 to 5 years	1,691,069
More than 5 years	1,787,452
Total	4,627,861

Breakdown by curriencies

	End 2002				End 2001
	Amounts	Rate	DKK	Per cent	Per cent
CHF	4,280	510.68	21,855	0.5	1.8
EUR	874	742.43	6,491	0.1	0.8
DKK	4,599,515	100.00	4,599,515	99.4	97.4
Total			4,627,861	100.0	100.0

Note 5: Holding of listed bonds

Movements in 2002	Nominal value	Market value
Holdning 1 January 2002	7,027,594	7,145,257
Sales	112,375	113,857
	6,915,219	7,031,400
Redemptions	1,134,437	1,134,437
	5,780,782	5,896,963
Value adjustment by sales and redemptions		- 11,087
Value adjustment 31 December 2002		98,974
Holdning 31 December 2002	5,780,782	5,984,850

Breakdown by expected remaining life

Up to 1 year (included)	1,596,885
From 1 to 5 years	3,857,974
More than 5 years	325,923
Total	5,780,782

Breakdown by bond types

	End 2002			End 2001
	Nominal value	Market value	Per cent	Per cent
Governmental bonds	1,983,837	2,132,949	36	40
Other, non-convertible bonds	3,623,175	3,670,402	61	53
Non-convertible bonds	5,607,012	5,803,351	97	93
Convertible bonds	173,770	181,499	3	7
Total	5,780,782	5,984,850	100	100

Note 6: Equity

According to Section 4(2) in the Act on the Liquidation of the Mortgage Bank and Financial Administration Agency of the Kingdom of Denmark, the year's profit after allocation to the reserves shall be transferred to the Treasury. Any positive value adjustment calculated on a net basis for bond portfolio, loans and lendings, is allocated to the Security Fund. Any negative net value adjustment is included in profit for the year. If the profit before allocation is negative, an equivalent amount is booked as income from the Security Fund. However, this amount may not exceed any negative value adjustment for the year.

Note 7: Security Fund

Balance 1 January 2002	2,347,540
Value adjustment for the year, allocated	90,067
Balance 31 December 2002	2,437,607

Note 8: Debt to the Treasury

Balance 1 January 2002	2,353,279
Transferred 30 December 2002	1,003,279
Carried back to the Reserve Fund	1,350,000
	-
Reserves, transferable to the Treasury according to the Finance Act 2003	300,000
Profit, transferable to the Treasury	322,885
Balance 31 December 2002	622,885

Note 9: Sundry debtors

	2001	2002
Residual reimbursement of administration expenses	231	268
Instalments due	10,106	30
Outstanding payment referring to swap-agreement	96	-
Other balances with Financial Administration Agency	96	-
Sundries	0	1
Total	10,529	299

According to information from the Mortgage Bank's paying agents abroad, the outstanding non-collected amount totals DKK 7.3 mn against DKK 6.8 mn at the end of 2001.

Note 10: Sundry creditors

	2001	2002
Payments in advance	3	-
Sundry creditors, etc.	3	5
Total	6	5

Note 11: Reserve Fund

Balance 1 January 2002	1,425,591
Reservation to the Treasury, carried back	1,350,000
Transferable to the Treasury according to the Finance Act 2003	300,000
Balance 31 December 2002	2,475,591

Specification of Liabilities

(All amounts are in 1,000)

Borrowing year	Repayment year(s)	Series	Interest rate	Nominal amount		Outstandings end 2002 Currency		DKK
1. Loans with swaps								
1993	2003	169	7.200	DEM	150,000	EUR	76,694	569,398
1993	2003	169 A	floating	USD	94,607	USD	94,607	670,028
1993	2003	169 A	7.200	DEM	-150,000	EUR	-76,694	-569,398
1993	2003	169 B	floating	DKK	579,130	DKK	579,130	579,130
1993	2003	169 B	floating	USD	-94,607	USD	-94,607	-670,028
1993	2003	172	6.870	DEM	150,000	EUR	76,694	569,398
1993	2003	172 A	7.640	DKK	577,500	DKK	577,500	577,500
1993	2003	172 A	6.870	DEM	-150,000	EUR	-76,694	-569,398
1993	1996-2005	173	floating	USD	100,000	USD	95,200	674,225
1993	2005	173 A	floating	USD	100,000	USD	100,000	708,220
1993	2005	173 A	floating	USD	-100,000	USD	-100,000	-708,220
1994	2004	199	4.500	JPY	5,000,000	JPY	5,000,000	298,430
1994	2004	199 A	floating	USD	48,544	USD	48,544	343,796
1994	2004	199 A	4.500	JPY	-5,000,000	JPY	-5,000,000	-298,430
1995	2003	511	0.000	BEF	2,000,000	EUR	49,579	368,087
1995	2003	511 A	floating	DKK	224,000	DKK	224,000	224,000
1995	2003	511 A	0.000	BEF	-2,000,000	EUR	-49,579	-368,087
1996	2003	512	7.000	DKK	400,000	DKK	400,000	400,000
1996	2003	513	0.000	BEF	3,000,000	EUR	74,368	552,131
1996	2003	513 A	floating	DKK	365,000	DKK	365,000	365,000
1996	2003	513 A	0.000	BEF	-3,000,000	EUR	-74,368	-552,131
1996	2008	514	3.150	JPY	5,000,000	JPY	5,000,000	298,430
1996	2008	514 A	floating	USD	47,348	USD	47,348	335,331
1996	2008	514 A	3.150	JPY	-5,000,000	JPY	-5,000,000	-298,430
1996	2008	514 B	floating	DKK	270,313	DKK	270,313	270,313
1996	2008	514 B	floating	USD	-47,348	USD	-47,348	-335,331
1996	2002	516	Step-up	DKK	400,000	DKK	-	-
1996	2006	517	3.620	JPY	2,000,000	JPY	2,000,000	119,372
1996	2006	517 A	floating	DEM	27,510	EUR	14,066	104,428
1996	2006	517 A	3.620	JPY	-2,000,000	JPY	-2,000,000	-119,372
1996	2011	518	floating	JPY	600,000	JPY	600,000	35,812
1996	2011	518 A	floating	DEM	8,190	EUR	4,187	31,089
1996	2011	518 A	floating	JPY	-600,000	JPY	-600,000	-35,812

Borrowing year	Repayment year(s)	Series	Interest rate	Nominal amount		Outstandings end 2002 Currency		DKK
1996	2002	523	4.000	DKK	1,500,000	DKK	-	-
1996	2002	523 A	4.000	DKK	-300,000	DKK	-	-
1996	2002	523 A	floating	DKK	271,321	DKK	-	-
1996	2002	523 B	4.000	DKK	-100,000	DKK	-	-
1996	2002	523 B	floating	DKK	90,374	DKK	-	-
1996	2002	523 C	4.000	DKK	-100,000	DKK	-	-
1996	2002	523 C	floating	DKK	90,430	DKK	-	-
1996	2002	523 D	4.000	DKK	-200,000	DKK	-	-
1996	2002	523 D	floating	DKK	181,324	DKK	-	-
1996	2002	523 E	4.000	DKK	-200,000	DKK	-	-
1996	2002	523 E	floating	DKK	182,800	DKK	-	-
1996	2002	523 F	4.000	DKK	-100,000	DKK	-	-
1996	2002	523 F	floating	DKK	91,740	DKK	-	-
1996	2002	523 G	4.000	DKK	-100,000	DKK	-	-
1996	2002	523 G	floating	DKK	91,840	DKK	-	-
1996	2002	523 H	4.000	DKK	-100,000	DKK	-	-
1996	2002	523 H	floating	DKK	91,650	DKK	-	-
1997	2002	523	4.000	DKK	550,000	DKK	-	-
1997	2002	523 I	4.000	DKK	-100,000	DKK	-	-
1997	2002	523 I	floating	DKK	94,800	DKK	-	-
1997	2002	523 J	4.000	DKK	-100,000	DKK	-	-
1997	2002	523 J	floating	DKK	94,800	DKK	-	-
1997	2002	523 K	4.000	DKK	-100,000	DKK	-	-
1997	2002	523 K	floating	DKK	93,400	DKK	-	-
1997	2002	523 M	4.000	DKK	-75,000	DKK	-	-
1997	2002	523 M	floating	DKK	70,988	DKK	-	-
1997	2002	523 N	4.000	DKK	-25,000	DKK	-	-
1997	2002	523 N	floating	DKK	23,780	DKK	-	-
1997	2002	523 O	4.000	DKK	-25,000	DKK	-	-
1997	2002	523 O	floating	DKK	23,775	DKK	-	-
1997	2002	523 P	4.000	DKK	-50,000	DKK	-	-
1997	2002	523 P	floating	DKK	47,750	DKK	-	-
1997	2002	523 Q	4.000	DKK	-25,000	DKK	-	-
1997	2002	523 Q	floating	DKK	23,913	DKK	-	-
1997	2005	524	4.000	DKK	1,175,000	DKK	1,150,000	1,150,000
1997	2005	524 A	4.000	DKK	-100,000	DKK	-100,000	-100,000
1997	2005	524 A	floating	DKK	87,600	DKK	87,600	87,600
1997	2005	524 B	4.000	DKK	-100,000	DKK	-100,000	-100,000
1997	2005	524 B	floating	DKK	89,140	DKK	89,140	89,140
1997	2005	524 C	4.000	DKK	-75,000	DKK	-75,000	-75,000
1997	2005	524 C	floating	DKK	65,587	DKK	65,587	65,587
1997	2005	524 D	4.000	DKK	-25,000	DKK	-25,000	-25,000
1997	2005	524 D	floating	DKK	21,862	DKK	21,862	21,862
1997	2005	524 E	4.000	DKK	-100,000	DKK	-100,000	-100,000
1997	2005	524 E	floating	DKK	87,050	DKK	87,050	87,050
1997	2005	524 F	4.000	DKK	-50,000	DKK	-50,000	-50,000
1997	2005	524 F	floating	DKK	44,675	DKK	44,675	44,675
1997	2005	524 G	4.000	DKK	-50,000	DKK	-50,000	-50,000
1997	2005	524 G	floating	DKK	44,650	DKK	44,650	44,650

Borrowing year	Repayment year(s)	Series	Interest rate	Nominal amount		Outstandings end 2002 Currency		DKK
1997	2005	524 H	4.000	DKK	-50,000	DKK	-50,000	-50,000
1997	2005	524 H	floating	DKK	44,625	DKK	44,625	44,625
1997	2005	524 J	4.000	DKK	-25,000	DKK	-25,000	-25,000
1997	2005	524 J	floating	DKK	22,500	DKK	22,500	22,500
1997	2005	524 K	4.000	DKK	-25,000	DKK	-25,000	-25,000
1997	2005	524 K	floating	DKK	22,500	DKK	22,500	22,500
1997	2005	524 L	4.000	DKK	-50,000	DKK	-50,000	-50,000
1997	2005	524 L	floating	DKK	45,050	DKK	45,050	45,050
1997	2005	524 M	4.000	DKK	-50,000	DKK	-50,000	-50,000
1997	2005	524 M	floating	DKK	45,500	DKK	45,500	45,500
1997	2005	524 N	4.000	DKK	-50,000	DKK	-50,000	-50,000
1997	2005	524 N	floating	DKK	45,500	DKK	45,500	45,500
1997	2005	524 O	4.000	DKK	-100,000	DKK	-100,000	-100,000
1997	2005	524 O	floating	DKK	91,100	DKK	91,100	91,100
1997	2005	524 P	4.000	DKK	-50,000	DKK	-50,000	-50,000
1997	2005	524 P	floating	DKK	45,575	DKK	45,575	45,575
1997	2005	524 Q	4.000	DKK	-150,000	DKK	-150,000	-150,000
1997	2005	524 Q	floating	DKK	135,075	DKK	135,075	135,075
1997	2005	524 R	4.000	DKK	-100,000	DKK	-100,000	-100,000
1997	2005	524 R	floating	DKK	89,950	DKK	89,950	89,950
1997	2012	526	3.650	JPY	500,000	JPY	500,000	29,843
1997	2012	526 A	floating	DEM	6,862	EUR	3,508	26,048
1997	2012	526 A	3.650	JPY	-500,000	JPY	-500,000	-29,843
								4,623,468

2. Loans in the European Investment Bank

1997	2002	527	floating	DKK	200,000	DKK	-	-
1997	2004	527 II	floating	DKK	200,000	DKK	200,000	200,000
1998	2005	527 III	floating	DKK	150,000	DKK	150,000	150,000
1998	2005	527 IV	floating	DKK	150,000	DKK	150,000	150,000
								500,000

3. Loans taken over from the Ship Credit Fund of Denmark [a)]

1993	1998-2007	184	2.500	DKK	266,711	DKK	158,355	158,355
1993	1998-2007	186	2.500	DKK	149,661	DKK	88,832	88,832
1993	1998-2006	191	4.000	DKK	42,929	DKK	19,260	19,260
1993	1998-2007	192	4.000	DKK	42,556	DKK	23,866	23,866
1993	1998-2007	193	2.500	DKK	42,481	DKK	25,156	25,156
1993	1998-2007	194	2.500	DKK	212,301	DKK	125,720	125,720
1994	1998-2008	195	2.500	DKK	99,230	DKK	64,376	64,376
1994	1994-2002	196	4.000	DKK	73,397	DKK	-	-
1995	1995-2005	504 A	2.500	DKK	24,830	DKK	7,177	7,177
1995	1996-2005	504 B	2.500	DKK	24,462	DKK	8,484	8,484
								521,226

Borrowing year	Repayment year(s)	Series	Interest rate	Nominal amount		Outstandings end 2002 Currency		DKK
4. Swaps with exchange of principals								
1993	2003	174 F	8.000	DKK	-307,200	DKK	-307,200	-307,200
1993	2003	174 F	5.480	DEM	80,000	EUR	40,903	303,679
1996	2006	515	floating	USD	-25,000	USD	-25,000	-177,055
1996	2006	515	6.820	DEM	36,800	EUR	18,816	139,692
1996	2004	520	floating	DKK	145,625	DKK	145,625	145,625
1996	2004	520	floating	USD	-25,000	USD	-25,000	-177,055
1997	2005	528 A	floating	DKK	174,490	DKK	174,490	174,490
1997	2005	528 A	floating	USD	-25,000	USD	-25,000	-177,055
1997	2005	528 B	floating	DKK	174,490	DKK	174,490	174,490
1997	2005	528 B	floating	USD	-25,000	USD	-25,000	-177,055
1997	2005	530	floating	DKK	139,644	DKK	139,644	139,644
1997	2005	530	floating	USD	-20,000	USD	-20,000	-141,644
1998	2004	531	floating	USD	-24,000	USD	-24,000	-169,973
1998	2004	531	5.190	FRF	142,860	EUR	21,779	161,693
								-87,724
5. Swaps without exchange of principals								
1993	1998-2007	184 A[b)]	0.000	DKK	-199,064	DKK	-158,355	-158,355
1993	1998-2007	184 A[b)]	0.000	DKK	199,064	DKK	158,355	158,355
1996	2003	512 A	floating	DKK	400,000	DKK	400,000	400,000
1996	2003	512 A	7.000	DKK	-400,000	DKK	-400,000	-400,000
1996	2002	516 A	floating	DKK	400,000	DKK	-	-
1996	2002	516 A	Step-up	DKK	-400,000	DKK	-	-
1997	2004	532	floating	DKK	-200,000	DKK	-200,000	-200,000
1997	2004	532	5.875	DKK	200,000	DKK	200,000	200,000
								-

1-5. Total debt and swaps balances, gross and net

Remaining debt on borrowings, gross	6,086,351
Liabilities on swaps, gross	7,260,491
Total liabilities, gross	13,346,842
Swapbalances in favour of the Bank, gross	7,789,872
Total liabilities, net	5,556,970

a) Outstandings at the end of 2002 are computed at index factor 131.726 for the Series 191 and 192 and at index factor 159.100 for the other Series. The Bank pays in advance fixed payments, which initially was computed as a maksimal index adjustment per annum of 1.5 per cent for the Series 191 and 192 and 3 per cent for the other Series. On serie 184 the fixed payments are establised by a seperat swap agreement, see note b).

b) The Bank receives in advance fixed payments on the condition to pay any positive differences between payments on serie 184 based at indexations of 3 per cent per annum and at actual indexations, see note a).