

# Collateralized Mortgage Obligations Denmark A/S

## *Preliminary announcement of results for 2010*

Collateralized Mortgage Obligations Denmark A/S' pre-tax result for 2010 came to a loss of DKK 232,000 while the post-tax result stood at a loss of DKK 206,000.

<b>Financial highlights</b>					
(DKK '000)	2006	2007	2008	2009	2010
<b>Profit and loss account</b>					
Net interest income	637	812	842	382	169
Securities and foreign exchange result	57	15	7	8	17
Profit before expenses	694	827	849	390	186
Staff and administrative expenses	501	408	367	440	418
Profit before tax	193	419	482	- 50	- 232
Tax	54	105	120	- 7	- 26
Profit for the year	139	314	362	- 43	- 206
<b>Balance sheet at 31 December</b>					
Bonds	289,549	254,055	237,138	212,682	179,628
Total assets	309,280	273,330	255,980	230,657	196,774
Liabilities	289,670	254,162	237,237	212,774	179,703
Debt	293,338	257,465	240,267	215,485	181,921
Shareholders' funds	15,942	15,865	15,713	15,172	14,853
<b>Key Figures</b>					
Dividend	391	514	498	113	109
Equity Ratio	5.15%	5.80%	6.14%	6.58%	7.55%
Return on Equity before tax	1.21%	2.63%	3.05%	- 0.32%	- 1.55%
Return on Equity after tax	0.87%	1.97%	2.29%	- 0.28%	- 1.37%
Employees	0	0	0	0	0

## Activities

Collateralized Mortgage Obligations Denmark A/S began its activities in 1997 with the first purchase of mortgage bonds and the issue of collateralized mortgage obligations (CMOs), in the form of secured notes listed on the NASDAQ OMX Copenhagen A/S.

As of 31 December 2010 the company had launched the following issues of which only the sixth issue had an outstanding balance as of 31 December 2010:

1997:	First issue on 20 February:	DKK 1,700,000,000 nom.
	Second issue on 10 July:	DKK 1,400,000,000 nom.
	Third issue on 21 August:	DKK 3,250,000,000 nom.
1998:	Fourth issue on 29 January:	DKK 1,500,000,000 nom.
	Fifth issue on 23 April:	DKK 1,350,000,000 nom.
1999:	Sixth issue on 18 February:	DKK 1,500,000,000 nom.
2000:	Seventh issue on 17 February:	DKK 1,567,496,000 nom.

CMOs are bonds backed by a pool of mortgage bonds. The mortgage bonds' characteristics in terms of credit risk, interest rate risk, prepayment risk and maturity are reallocated to the various tranches to meet specific investor preferences. Collateral principal cash flows are redistributed to the notes issued in accordance with a predetermined principle of redemption, where all redemptions of the collateral are matched by redemptions of the notes. Similarly, collateral interest cash flows are redistributed to the notes issued in accordance with a predetermined principle, provided, however, that the average coupon of the notes is lower than that of the mortgage bonds, to enable the company to defray administrative expenses etc.

Each pool of mortgage bonds as well as the pertaining cash accounts and fixed deposits are pledged to the holders of notes issued on the back of the relevant portfolio.

The company cannot sell the mortgage collateral. Claims by noteholders are limited exclusively to the assets pledged.

The company's activities focus on the issuance of CMOs backed by mortgage bonds. In this context, the company is to ensure compliance with the predetermined principles of redistribution, as set out in the offering circulars prepared in connection with each issue of notes, and to invest surplus cash.

The outstanding volume of notes is reduced gradually as the mortgage bonds are drawn for redemption or when Structured Finance Servicer A/S exercises its option to purchase the collateral. This option is exercisable only when the portfolio of a group of mortgage bonds (the collateral group) constitutes less

than a predefined share of the portfolio originally acquired. At 31 December 2010 the individual collateral groups constituted the following shares of the portfolio originally acquired (the percentages which render the option exercisable are stated in parenthesis):

Collateral group 8, sixth issue            12.15% (10%)

The company has in connection with the issue of CMO's entered into a number of agreements. With the parent company, the company has entered into an agreement with The Law Debenture Trust Corporation p.l.c., which represents the noteholders. This agreement limits the company's activities and the distribution of dividend to the parent company.

Furthermore, the company has entered into an agreement with Structured Finance Servicer A/S, a wholly-owned subsidiary of Nordea Bank Danmark A/S, on the provision of all administrative services.

### **Corporate Social Responsibility**

Following the nature of the company's activities the company has chosen not to have written rules regarding corporate social responsibilities.

### **Risk**

The company has no material uncovered financial risks as the collected risks related to the company's investment activities are transferred to the bond investors. The risk related to the investment of the company's equity is estimated to be limited.

### **Reporting and audit**

The Supervisory Board and the managing director have the overall responsibility for the company's risk management and internal control over the reporting process. The Supervisory Board together with the managing director and Structured Finance Servicer A/S (as administrator) conduct a review of the company's risk monitoring and internal control systems in order to minimise the risk of material misstatement in the reporting process.

In addition, the Supervisory Board and the managing director carry out a specific and critical assessment of the auditor's independence and qualifications etc. before the recommendation to the Annual General Meeting on the choice of auditor.

The auditor agreement and the auditor's fee will be agreed between the company's Supervisory Board and the auditor. The Supervisory Board also adopts the general scope of the auditor's provision of non-audit services to ensure the auditor independence.

To monitor the future accounting and audit process and overall risk management the company has established an audit committee consisting of the entire Supervisory Board with the chairman of the Supervisory Board as special qualified member.

## **Future developments**

On 1 January 2011 a total of 10.40% of the mortgage collateral at 31 December 2010 was drawn for redemption and the company therefore redeemed a corresponding portion of the notes outstanding. Moreover, the company has been informed that on 1 April 2011 a total of 7.53% of the mortgage collateral will be drawn for redemption and the company will therefore redeem a corresponding portion of the notes.

The company's balance of mortgage bonds is after the published redemption due on the April payment date reduced to 10.07% of the original balance. It is therefore expected, that the company's balance of mortgage bonds will be reduced to below 10% of the original balance during 2011. In such case, Structured Finance Servicer A/S has a right to purchase the remaining outstanding balance of mortgage bonds at par, resulting in redemption of the outstanding CMO's.

It can be expected, that Structured Finance Servicer A/S will execute its right to purchase the outstanding balance of mortgage bonds if the average market price is above par. Should the average market price be below par, Structured Finance Servicer A/S is not expected to execute its right until such time where the average market price again is above par.

With the present interest level, Structured Finance Servicer A/S is expected to execute its right to purchase the outstanding balance of mortgage bonds in connection with the July 2011 interest payment date, resulting in redemption of the outstanding CMO's. Hereafter, the company will be without activity. As a result, the net interest income as well as the administrative expenses is expected to decline. The total result for 2011 is expected to be negative.

## **Annual General Meeting**

The Supervisory Board will propose to the Annual General Meeting that a dividend of DKK 18.17 per share of DKK 1,000 be paid for 2010.

The Annual General Meeting will be held on 14 April 2011 at Strandgade 3, Copenhagen.

The Supervisory Board has decided that no quarterly reports will be published after the first and third quarters of the financial year as such interim reports are not deemed to be of significance to the public owing to the nature of the company's activities.

The company expects to announce its half-year results on 30 August 2011.

Copenhagen, 30 March 2011

Supervisory Board

## Profit and loss account

(DKK '000)	Note	2009	2010
Interest receivable	2	11,876	10,040
Interest payable	3	11,494	9,871
<b>Net interest income</b>		382	169
Securities and foreign exchange result	4	8	17
Staff and administrative expenses	5	440	418
<b>Profit before tax</b>		- 50	- 232
Tax	6	- 7	- 26
<b>Profit for the year</b>		- 43	- 206

### Distribution of profit

Retained profits		- 156	- 315
Dividend		113	109
<b>Total distribution</b>		- 43	- 206

## Balance sheet

(DKK '000)	Note	2009	2010
<b>Assets</b>			
Balance due from credit institutions		15,176	14,844
Bonds	7	212,682	179,628
Other assets	8	2,787	2,290
Prepayments		12	12
<b>Total assets</b>		<b>230,657</b>	<b>196,774</b>

### Liabilities

Notes in issue	9	212,774	179,703
Other liabilities	10	2,711	2,218
Shareholders' funds:			
Share capital		6,000	6,000
Share premium account		6,000	6,000
Profit retained		3,059	2,744
Dividend proposed		113	109
<b>Total shareholders' funds</b>		<b>15,172</b>	<b>14,853</b>
<b>Total liabilities</b>		<b>230,657</b>	<b>196,774</b>

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## Shareholder's funds

(DKK '000)	2009	2010
Share capital at 1 January *	6,000	6,000
Share capital at 31 December	6,000	6,000
Share premium account at 1 January	6,000	6,000
Share premium account at 31 December	6,000	6,000
Retained profits at 1 January	3,713	3,172
Dividend paid	- 498	- 113
Retained profit for the year	- 156	- 315
Dividend proposed	113	109
Retained profits at 31 December	3,172	2,853
Total shareholders' funds at 31 December	15,172	14,853

\* The share capital constitutes of 6,000 shares at 1,000 kr. each.

## Cash flow statement

(DKK '000)	2009	2010
<b>Operating activities</b>		
Profit for the year before tax	- 50	- 232
Tax paid	- 120	7
Realised capital gains (net)	- 8	- 17
Prepayments and deferred income (net)	1	-
Accrued interest (net)	20	47
Redemption of issued notes	- 18,763	- 41,331
Redemption of acquired mortgage bonds	18,763	41,331
Other liabilities (excluding accrued interest)	16	- 24
Net cash flow from working capital	- 141	- 219
<b>Financing</b>		
Dividend paid	- 498	- 113
Net cash outflow from financing	- 498	- 113
Increase/decrease in cash and cash equivalents	- 639	- 332
Cash and cash equivalents at 1 January	15,815	15,176
<b>Cash and cash equivalents at 31 December</b>	<b>15,176</b>	<b>14,844</b>



# Notes

## Note 1 **Accounting policies**

### **General information**

Collateralized Mortgage Obligations Denmark A/S is as Saving Institution governed by the Danish Financial Business Act ("Lov om finansiel virksomhed"). Accordingly, the financial statements have been prepared in accordance with the Executive Order on the Presentation of Financial Reports by Credit Institutions and Specialised Credit Institutions ("Bekendtgørelse om finansielle rapporter for kreditinstitutter og fondsmæglerselskaber m.fl.").

The accounts have, furthermore, been prepared in conformity with the guidelines issued by the NASDAQ OMX Copenhagen A/S for the issuer of listed notes.

The financial statement has been prepared according to the same accounting policies applied last year.

### **Interest receivable and interest payable**

Interest receivable includes interests from balances due from credit institutions and interests from mortgage bonds. Both are accrued and recognised in the income statement in the period they relate to.

Interest payable includes interests to notes issued by the company (the notes are measured at amortised cost). Interest payable are accrued and recognised in the income statement in the period it relates to.

### **Derivatives**

Purchased and sold derivatives are recognised on the trade date.

### **Balance due from credit institutions**

Balance due from credit institutions is recognised and measured at amortised costs.

### **Bonds**

Listed mortgage bonds have been acquired to serve as collateral for the issued Collateralized Mortgage Obligations (CMOs). The bonds have been contractually linked to the issued CMOs and as a result, the bonds are expected to be held until maturity.

Consequently, the bonds are measured at amortised costs. Following this a constant yield is recognised in the income statement over the life of the bonds. Amortised costs are measured at costs at time of purchase reduced by actual redemptions and adjusted for accumulated amortisation of the difference between the cost price and nominal value (based on ordinary redemptions). The amortised costs calculation is based on expected redemptions. The changes are recognised in the income statement under "Securities and foreign exchange result".

### **Notes issued**

The bond debt, which consists of CMOs backed by the company's portfolio of mortgage bonds, is entered at costs at the time of issuance and is measured at amortised costs using the same principals as for Bonds.

**Taxation**

The estimated tax on the year's taxable income and changes in provisions for deferred tax is charged to the profit and loss account.

The company are taxed on a pooled basis with the subsidiaries under Collateralized Mortgage Obligation Denmark Fonden. Corporation tax is charged to the companies in proportion to their taxable income (full distribution).

The companies taxed on a pooled basis pay tax on account in accordance with the on-account tax scheme. Additions, deductions and compensations regarding the tax payments are included in other interest receivable or other interest payable.

The calculation of deferred tax is based on a balance-sheet oriented debt method, comprising all temporary differences between the accounting and taxation values of assets and liabilities. Deferred tax assets are included at the expected realisation value.

**Cash flow statement**

The company's cash flows for the year as well as cash and cash equivalents at 1 January and 31 December are disclosed after the balance sheet. Cash flows from operating activities are shown according to the indirect method and are computed on the basis of the profit for the year adjusted for illiquid items relating to operating activities as well as any increase or decrease in working capital. Working capital comprises current assets less items forming part of cash or cash equivalents.

Cash flows from financing activities comprise payments to and from shareholders.

Cash comprise balances due from credit institutions, which have *not* been pledged.

Note 2 **Interest receivable**

Interest on balance due from credit institutions	164	6
Interest on bonds	11,712	10,034
<b>Total interest receivable</b>	<b>11,876</b>	<b>10,040</b>

Note 3 **Interest payable**

Interest on notes in issue	11,494	9,868
Other	-	3
<b>Total interest payable</b>	<b>11,494</b>	<b>9,871</b>

Note 4 **Securities and foreign exchange result**

Realised capital gains on issued mortgage bonds (net)	810	1,783
Realised capital losses on CMOs (net)	802	1,766
<b>Total revaluation of bonds</b>	<b>8</b>	<b>17</b>

(DKK '000) 2009 2010

Note 5	<b>Staff and administrative expenses</b>		
	Salaries and emoluments to the Supervisory Board	48	50
	Other administrative expenses	392	368
	<b>Total staff and administrative expenses</b>	<b>440</b>	<b>418</b>

Other administrative expenses include DKK 103,000 (2009: DKK 88,000) in remuneration of firms appointed at the Annual General Meeting to undertake the statutory audit. DKK 91,000 (2009: DKK 88,000) relates to statutory audit and DKK 12,000 (2009: DKK 0) to tax issues.

Note 6	<b>Tax</b>		
	Estimated tax on the year's income	- 7	- 26
	Deferred tax	-	-
	<b>Total tax</b>	<b>- 7</b>	<b>- 26</b>

**Tax on profit for the year**

Tax on operating profit can be explained as follows:

25% calculation (2009: 25%) of operating profit before tax	- 13	- 58
Other deviations	- 6	- 32
<b>Total Tax</b>	<b>- 7</b>	<b>- 26</b>
<b>Tax percentage</b>	<b>14%</b>	<b>11%</b>

The company and all subsidiaries under Collateralized Mortgage Obligations Denmark Fonden are taxed on a pooled basis. Corporation tax is charged to the companies in proportion to their taxable income (full distribution).

Note 7	<b>Bonds</b>	Interest income	Book value	Interest income	Book value
	Acquired in connection with:				
	Sixth issue on 18 February 1999	11,712	212,682	10,034	179,628
	<b>Total bonds</b>	<b>11,712</b>	<b>212,682</b>	<b>10,034</b>	<b>179,628</b>

At 31 December 2010 the nominal value of the company's portfolio of mortgage bonds totalled DKK 182,319,000 (2009: DKK 223,650,000). The bonds serve as collateral for the company's obligations under the CMOs issued in connection with the bond purchases. At 31 December 2010 the market value of bonds totalled DKK 189,302,000 (31 December 2009: 228,757,000).

(DKK '000) 2009 2010

Note 8 **Other assets**

Tax receivable	7	26
Interest receivable	2,780	2,264
<b>Total other assets</b>	<b>2,787</b>	<b>2,290</b>

Note 9	<b>Notes in issue</b>	Interest expense	Book value	Interest expense	Book value
	Consist of the following:				
	Sixth issue on 18 February 1999	11,494	212,774	9,868	179,703
	<b>Total bonds in issue</b>	<b>11,494</b>	<b>212,774</b>	<b>9,868</b>	<b>179,703</b>

The CMOs outstanding mature as the underlying mortgage bonds are drawn for redemption. The maturity therefore depends on the prepayment rates for the mortgage bonds. The maturities below have been calculated assuming no prepayment activity after 1 April 2011. It has also been assumed that the company receives a proportionate share of overall redemptions. The below specification has been prepared in nominal values.

Maturing within 1 year	14,438	20,406
Maturing between 1 year and 5 years	32,028	33,175
Maturing after 5 years	177,184	128,738
<b>Total</b>	<b>223,650</b>	<b>182,319</b>

The issued bonds (CMO's) are listed at NASDAQ OMX Copenhagen A/S. At 31 December 2010 the market value of bonds totalled DKK 182,747,000 (2009: DKK 227,419,000).

The bonds are issued without any direct interest against Collateralized Mortgage Obligations Denmark A/S. The noteholders have only recourse to the security, which consists of the underlying collateral and the proceeds thereof.

Note 10 **Other liabilities**

Interest payable	2,538	2,069
Tax payable	-	-
Other	173	149
<b>Total other liabilities</b>	<b>2,711</b>	<b>2,218</b>

Note 11 **Closely related parties**

Parties closely related to the company include Collateralized Mortgage Obligations Denmark Fonden, Copenhagen and its subsidiaries as well as the Supervisory Board and Management Board of the company.

Apart from the emoluments to the Supervisory Board, no transactions with the Supervisory Board or the Management Board have been carried out during the year, and no major transactions have otherwise been effected with parties closely related to the company in 2010.

Note 12 **Financial risks**

The company has no material uncovered financial risks as the collected risks related to the company's investment activities are transferred to the bond investors. The risk related to the investment of the company's equity is estimated to be limited.

**Financial risks**

As regards the company's major financial assets and liabilities at 31 December 2010 the below contractual review apply:

DKK M

	0-1 year	1-5 years	> 5 years
Balances due from credit institutions etc.	14.8	-	-
Bonds, nominal value	20.4	33.2	128.7
Other assets	2.3	-	-
Bonds in issue, nominal value	- 20.4	- 33.2	- 128.7
Other liabilities	- 2.1	-	-
<b>Total</b>	<b>15.0</b>	<b>0</b>	<b>0</b>

\* assuming no prepayments.

The company has no currency positions in relation to existing or expected future financial assets or liabilities. Derivatives are not employed at present.

(DKK '000) 2006 2007 2008 2009 2010

Note 13 **Financial highlights**

**Profit and loss account**

Net interest income	637	812	842	382	169
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**Balance 31. december**

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**Key Figures**

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Return on Equity after tax	0.87%	1.97%	2.29%	- 0.28%	- 1.37%
Employees	0	0	0	0	0