



# Annual Report 2013

Forsikringselskabet  
Danica



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This Annual Report 2013 is a translation of the original report in the Danish language (Årsrapport 2013). In case of discrepancy, the Danish version prevails

## SELECTED FINANCIAL HIGHLIGHTS FOR THE DANICA GROUP

(DKK millions)	2013	2012	2011	2010	2009
<b>PREMIUMS INCLUDING INVESTMENT CONTRACTS</b>	26,808	24,650	27,277	24,148	20,431
<b>INCOME STATEMENT</b>					
Technical result, Life	772	1,719	-18	1,145	1,466
Technical result of health and accident insurance	-73	32	181	261	296
Return on investment allocated to equity, etc.	562	613	570	869	1,296
Profit/loss before tax	1,261	2,364	733	2,275	3,058
Tax	-82	-578	-183	-504	-737
Net profit/loss for the year	1,179	1,786	550	1,771	2,321
<b>BALANCE SHEET</b>					
Total assets	327,490	324,495	303,160	288,061	264,085
Technical provisions, health and accident insurance	8,956	9,106	8,648	8,384	8,267
Provisions for insurance and investment contracts	292,569	288,797	267,844	255,459	237,409
Collective bonus potential	1,125	851	375	1,740	2,775
Total shareholders' equity	19,402	18,986	19,743	20,992	19,215
<b>KEY FIGURES AND RATIOS (%)</b>					
Return before tax on pension returns incl. return on market products in Denmark	3.5	9.8	3.5	7.1	10.0
Return on market products in Denmark	8.6	11.5	-2.5	12.9	24.0
Net return before tax on pension returns on customer funds in Danica Pension <sup>1)</sup>	2.2	5.9	2.1	4.5	6.8
Expenses as per cent of premiums	4.2	4.8	4.6	5.0	6.0
Expenses as per cent of provisions	0.43	0.46	0.52	0.52	0.55
Expenses per policyholder (DKK)	1,151	1,200	1,337	1,342	1,360
Bonus rate - bonus-paying companies	0.8	0.6	0.2	1.1	1.7
Owners' capital ratio	14.4	12.7	12.5	14.8	13.5
Excess core capital ratio	7.9	6.3	6.7	8.7	8.7
Solvency ratio	230	207	225	276	283
Return on equity before tax	6.6	11.7	3.5	11.3	16.9
<b>RATIOS FOR HEALTH AND ACCIDENT INSURANCE</b>					
Gross claims ratio	109	107	93	82	96
Gross expense ratio	10	12	12	13	14

<sup>1)</sup> The key figures and ratios include a change in accumulated value adjustment.

Forsikrings-selskabet Danica's consolidated financial statements are presented in accordance with the Danish FSA's executive order on Financial Reports of Insurance Companies and Lateral Pension Funds.

In the period 2009-2011, the consolidated financial statements were presented in accordance with IFRS. The change does not affect the financial highlights.

For the full list of financial ratios pursuant to the Danish FSA's executive order on financial reports of insurance companies and lateral pension funds, see page 14.

## DANICA STRATEGY

Danica's strategy is based on our vision of being the pension company with the greatest customer confidence.

Based on this vision, we have identified a number of central target areas. First, systematically striving to enhance customer experience each time customers are in contact with us. Secondly, providing financial security, preparing our customers for the day when they are no longer working. We do so by continually developing our digital solutions, simplifying customer services and improving accessibility. Thirdly, providing our customers with a coherent health programme that focuses on illness prevention and better treatment and follow-up. And, fourthly, taking advantage of customer benefits, synergies and economies of scale with Danske Bank and Danica's subsidiaries in Norway and Sweden with the additional aim of becoming more efficient.

2013 was a year in which we achieved several breakthroughs with our strategy

### *Customer satisfaction lifted considerably*

In terms of the customer experience, we experienced a breakthrough on the targets we set. In Denmark, Danica achieved second position in Aalund's customer satisfaction survey, a significant improvement on our fourth position of a couple of years ago. The survey also named Danica best in

- "Information about products and services",
- "Options for decision makers on the website"
- "Advice on health care services"
- "Advice on senior solutions"

We take this as a sign that our initiatives, including the new digital solutions, are helping to boost customer satisfaction.

### *New digital solutions and greater accessibility generate a sense of security for our customers*

The development of Danica's digital solutions is aimed at giving our customers a better financial overview and ensuring that customers receive the correct recommendations based on the customer's life situation. As part of this endeavour we launched Danica Pension Check in 2013. On the basis of information about their insurance policies and pension schemes with Danica Pension and other companies, customers can use this tool to determine whether they have the appropriate savings and insurance cover by answering six simple questions. We then contact the customer if any changes should be made. In 2013, Danica Pension Check won the prestigious IPE (Investment Pensions Europe) award.

In 2013 we launched an online tool, Netpension Firma for corporate pension plan administrators. This tool gives a company's administrators and management a comprehensive overview of pensions at both corporate and employee level.

The development of digital tools also focuses on enhancing our accessibility to our customers. In that connection, Danica extended customer service opening hours to 8:30 am to 5:00 pm every day. Our accessibility to our customers was also enhanced with the launch of net meetings. The strategy of using online solutions enables us to meet our customers' demands, and we believe that this will improve the customer experience in the longer term.

Financial security is also achieved by offering the right products and staying at the cutting edge with the right solutions for our customers in step with new legislation. In 2013, we therefore introduced a new type of pension scheme called the retirement savings scheme (Aldersopsparing) to all customers. Retirement savings plans are particularly attractive to customers not paying top-bracket tax while making savings, as retirement savings plans are not offset against welfare benefits such as state pensions when they are paid out. In addition to this, retirement savings plans are an alternative to savings of unrestricted funds, as the return is only taxed at a rate of 15.3% as opposed to 27-42% on unrestricted funds. The Danish parliament gave customers the option of converting from capital pension plans to retirement savings plans at a special, low fee in 2013 and 2014. Accordingly, Danica developed an online solution making it easy for our customers to convert their capital pension plans.

### *Danica leads in health care*

Both personal and corporate customers are demanding greater focus on prevention. In response to this, Danica was the first pension company to launch a digital tool, Danica Health Check, through which customers can obtain advice on health care issues and individual recommendations on healthier living.

We also improved on our products. From 1 January 2014, our customers have been able to call us around the clock and receive guidance when they need to use their health care insurance. Furthermore, we now offer advice to our customers and their families on treatment in the public health care sector. Finally, Danica Sundhedssikring was improved with better treatment options and tax exemption for contributions to the part of the insurance that is work related. In addition, the disability cover was improved to provide better coverage for Danica customers in supported employment (flex job).

Danica's health care initiatives were well received by customers, and according to Aalund's Corporate Pension Barometer, Danica is now the leading health care adviser.

### *Enhancing solutions together with Danske Bank*

We have increased customer satisfaction through our collaboration with Danske Bank. Many customers request holistic advice that encompasses their day-to-day finances, pensions and insurance matters. In 2013, we have made a special effort to meet this need, for example by hiring new pension ad-

visers. In addition, Danica's customers are now fully covered by Danske Bank's customer programme. In 2013, Danske Bank's sales of pension products grew 30%, from DKK 2.7 billion in 2012 to DKK 3.5 billion in 2013.

#### *Switch to Danica Balance*

In autumn 2012 and spring 2013, some 50,000 customers in the medium and high guaranteed interest rate groups were offered the possibility of switching from their conventional product to Danica Balance. Compensation was paid to the customers for forfeiting their existing guarantees. 22% of the customers took the offer, and in connection with the campaign, in the first half of 2013 provisions of DKK 5.7 billion were transferred from Danica Traditionel to Danica Balance.

Danica took this initiative, as did several other pension companies, in order to back up an agreement with the Danish Ministry of Business and Growth effective from mid-June 2012, which was extended in December 2013. Under this agreement, pension companies are encouraged to facilitate the customers' move from guaranteed products to market rate products.

In connection with the offer to move from conventional plans to Danica Balance, the calculation of the compensation was brought into question. The Danish FSA took up the case but subsequently dropped it, thus accepting that the calculation model used was fair and in accordance with generally accepted practice. However, the consumer ombudsman is considering re-examining the case.

#### *One of Scandinavia's leading pension providers*

Our subsidiaries in Norway and Sweden are undergoing a positive development. Like the Danish activities, they focus on both customer satisfaction and profitability. In Sweden, Danica won a tender as one of just five companies to be allowed to offer pension plans to two million civil servants. In Norway, we saw major progress as a result of a combination of growth in the corporate market and new distributors. Premiums in Norway rose from approximately DKK 1.6 billion to about DKK 2.0 billion, an increase of 24%. The corresponding increase in Sweden was from DKK 4.9 billion to DKK 6.2 billion, or 28%.

In all, we now have approximately 300,000 customers in the two countries. In terms of premium payments, the Danica Group was the second largest pension provider in Scandinavia in 2012. Through our units in the two countries we provide comprehensive pension solutions for companies and their employees operating across Scandinavian borders. In addition, we achieve economies of scale in our administration and in our development activities.

In Norway and Sweden, we are achieving growth while at the same time improving our profitability. Profit before tax in Norway rose from DKK 93 million in 2012 to DKK 105 million in 2013. The corresponding profit in Sweden rose from DKK 13 mil-

lion in 2012 to DKK 49 million in 2013.

#### *Simplification and improved efficiency*

Danica remains focused on improving customer service through simplification and on making our business more efficient by optimising business procedures and processes. The aim is to offer our customers better, faster and simpler access to products and services, thus enhancing customer satisfaction and becoming more efficient. Accordingly, the number of full-time employees was reduced from 803 in 2012 to 769 in 2013 at group level, thereof from 660 to 627 in Denmark.

We are certain that the initiatives will in the longer term improve the customer experience and support our efforts to enhance customer satisfaction.

#### *Satisfactory result*

The result of the business activities was improved from DKK 1,452 million to DKK 1,509 million.

In 2013, Danica achieved a return on shareholders' equity of 6.1%, against 8.8% in 2012. Over a five-year period, a satisfactory return of 7.9% p.a. was achieved.

## FINANCIAL REVIEW

### Net profit/loss for the year

The Danica Group realised a profit before tax of DKK 1,261 million, against DKK 2,364 million in 2012. The net profit after tax amounted to DKK 1,179 million, against DKK 1,786 million in 2012. This was in line with the profit forecast as stated in the interim report for the first half of 2013. The Board of Directors proposes to the annual general meeting that an amount of DKK 500 million be distributed in 2014 as dividends in respect of 2013.

DANICA GROUP, PROFIT BEFORE TAX		
(DKK millions)	2013	2012
Technical result, Traditionel	1,138	1,232
Technical result, unit-linked business, Denmark	406	258
Health and accident result in Denmark (before investment return)	-177	-130
Technical result, activities in units outside Denmark	142	92
Investment return	348	522
Transferred to shadow account	-438	407
Special allotments	-158	-17
Profit before tax	1,261	2,364

The profit from insurance operations with respect to the conventional business was DKK 1,138 million, against DKK 1,232 million for 2012. Danica was able to book a risk allowance for three of the four interest rate groups, although for the high interest rate group the risk allowance could only be booked in part. The DKK 438 million deferred risk allowance was transferred to the shadow account, which amounted to DKK 1.2 billion at the end of 2013.

The technical result of unit-linked business in Denmark amounted to DKK 406 million, against DKK 258 million in 2012. The improvement was due to the increased volume.

The result of health and accident insurance in Denmark before investment return was a loss of DKK 177 million, against a loss of DKK 130 million in 2012. The claims ratio for the health and accident business was 109%, against 107% in 2012. This change was explained by a run-off on claims of DKK 5 million in 2013, against DKK 15 million in 2012. The result was furthermore affected by lower prices in the Danish corporate market.

The technical result of the activities of the units outside Denmark amounted to DKK 142 million, against DKK 92 million in 2012, due to progress in the result of the Norwegian business from DKK 67 million to DKK 87 million and in the result of the Swedish business from DKK 15 million to DKK 53 million. The Irish business was wound up in 2012 and was finally dissolved in 2013.

The return on investment, comprising the investment returns on shareholders' equity and the health and accident business, fell from DKK 522 million to DKK 348 million. The lower return was partially explained by a reduced return on alternative investments and credit investments.

Special allotments, as described in the significant accounting policies note section on contribution, amounted to an expense of DKK 158 million. The amount will be allocated to the customers in 2014 together with the DKK 17 million brought forward from 2012.

As illustrated in the below table, the result fluctuated from quarter to quarter. In particular, the second quarter performance was very negative, with DKK 0.6 billion transferred to the shadow account. This was a result of rising financial market uncertainty. The turmoil subsided over the summer, however, and a large part of the amount transferred to the shadow account in the second quarter was reversed in the second half.

DANICA GROUP, PROFIT BEFORE TAX				
(DKK millions)	Q4	Q3	Q2	Q1
Technical result, Traditionel	240	289	287	322
Technical result, unit-linked business, Denmark	125	111	87	83
Technical result, health and accident business, Denmark	-42	-46	-36	-53
Units outside Denmark	36	43	32	31
Total (Danica overall)	359	397	370	383
Investment return	169	110	-27	96
Change in shadow account	172	35	-613	-32
Special allotments	-45	-18	-32	-63
Total income from operating activities	655	524	-302	384
Tax	-112	-129	254	-95
Total income from operating activities after tax	543	395	-48	289

### Gross premiums

Gross premiums amounted to DKK 26.8 billion in 2013, which was an increase of DKK 2.1 billion or 8.8% relative to 2012.

PREMIUMS (INCLUDING INVESTMENT CONTRACTS)					
(DKK billions)	2013	2012	2011	2010	2009
Danica Balance	12.2	12.2	9.4	7.3	4.5
Danica Link	1.9	1.9	2.3	2.5	2.8
Danica Select	0.7	0.1	-	-	-
Danica Traditionel	5.0	6.0	7.1	7.5	8.7
Internal transfers*	-2.3	-3.3	-1.3	-1.7	-0.7
Health and accident	1.1	1.2	1.3	1.3	1.3
Units outside Denmark	8.2	6.6	8.5	7.2	3.8
Total premiums	26.8	24.7	27.3	24.1	20.4

\* In addition, in 2013 DKK 5.7 billion was transferred from Danica Traditionel to Danica Balance in connection with campaigns compensating customers for forfeiting the guarantee available under their Danica Traditionel plan.

Premiums for the Danish market products, Danica Balance, Danica Link and Danica Select, rose by 4%. To this should be added transfers from Danica Traditionel to Danica Balance. Including such transfers, premiums rose by 44%, whereas gross premiums for Danica Traditionel dropped by 17%.

Premiums in the units outside Denmark increased by 26% and accounted for 31% of total premiums, against 19% in 2009.

### Return on investment

The return on investment of customer funds in Denmark was 3.5% before tax on pension returns.

Danica Balance, Danica Link and Danica Select saw a total return of DKK 6.0 billion or 8.6% before tax on pension returns.

The return on investment of customer funds in Danica Traditionel was negative in the amount of DKK 0.4 billion or 0.2% before tax on pension returns. Following the reversal of an allocation of

DKK 3.7 billion from life insurance provisions, the return was 2.2%. The return was positively affected by higher equity prices in 2013.

### Collective bonus potential

The collective bonus potential amounted to a total of DKK 1.1 billion at year end 2013 for all contribution groups, up by DKK 0.3 billion relative to the beginning of the year. The draw on the bonus potential of paid-up policies, which was used to cover losses, increased by DKK 0.1 billion to DKK 0.3 billion. This draw relates to a single interest group only.

COLLECTIVE BONUS POTENTIAL *			
(DKK billions)	New business 2013	Total 2013	Total 2012
Return on customer funds (life)	1.0	-0.6	16.0
Change in the value of insurance obligations	0.3	4.8	-7.6
	1.3	4.2	8.4
Tax on pension returns	-0.1	0.5	-2.2
Interest added for the period	-0.7	-3.7	-2.8
Cost and risk results	0.0	0.1	0.3
Risk allowance of provisions	-0.2	-1.3	-1.3
Transferred to shadow account	0.0	0.4	-0.4
Used bonus potential of paid-up policies	0.0	0.1	-1.5
Change in collective bonus potential	0.3	0.3	0.5

\* Comprises customer funds with bonus entitlement only.

The increase relative to the end of 2012 in collective bonus potential should be seen in the context of an investment return after change in additional provisions of 2.2% and an interest rate on policyholders' savings of 1.8% before tax on pension returns.

Collective bonus potential, etc. at 31 December 2013 is shown in the table below.

INTEREST RATE AND RISK GROUPS AT 31.12.2013						
(%)	Rate of interest on policyholders' savings before tax on pension returns	Return on investment before tax on pension returns	Collective bonus potential (DKK billions)	Bonus rate at 2013 2012		
Interest rate group 1 (new customers)	1.8	2.2	0.4	0.9	0.3	
Interest rate group 2 (low guarantee)	1.8	-2.4	0.0	0.0	0.0	
Interest rate group 3 (medium guarantee)	1.8	-2.1	0.4	3.7	3.6	
Interest rate group 4 (high guarantee)	1.8	-0.8	0.0	0.0	0.0	
Risk Groups	-	-	0.2	-	-	
Expense groups	-	-	0.1	-	-	

At 1 January 2014, the interest rate on policyholders' savings in all groups was unchanged at 1.8% before tax on pension returns.

### Annual expenses expressed in Danish kroner (ÅOK)

The customers' total annual expenses in the conventional business not only comprise the risk allowance but also the recognition of cost and risk results. Overall, the cost and risk results in 2013 reduced the charge on customer funds by DKK 159 million.

ANNUAL DIRECT AND INDIRECT EXPENSES EXPRESSED IN PERCENT, CALCULATED ON TOTAL CUSTOMER FUNDS IN DANICA TRADITIONEL \*

(DKK millions)	Total 2013	Total 2012
Risk allowance (share of provisions)	1,158	1,224
Administrative expenses related to investment	669	630
Expenses for the period, interest rate groups	1,827	1,854
In % of provisions	1.16	1.05
Risk allowance (share of risk result)	103	113
Risk result	-116	-111
Cost result	-43	-55
Total costs for the period, excl. shadow account	1,771	1,801
In % of provisions, excluding shadow account	1.12	1.02
Transferred to/from shadow account	-438	407
Total expenses, including shadow account	1,333	2,208
In % of provisions, including shadow account	0.84	1.25

\* Comprises customer funds with bonus entitlement only.

In 2013, total customer expenses excluding change in the shadow account was DKK 1,771 million, or 1.12% of provisions. During the period 2009-2013 the expenses averaged 0.95% excluding the shadow account. Also, in 2013, DKK 78 million of the bonus potential of paid-up policies was used for the low guarantee interest rate group.

### Claims and benefits

Claims and benefits amounted to DKK 22.4 billion in 2013 against DKK 18.8 billion in 2012. Surrenders including investment contracts amounted to DKK 15.9 billion in 2013 against DKK 14.2 billion in 2012. The increase was mainly due to surrenders of market products in Denmark.

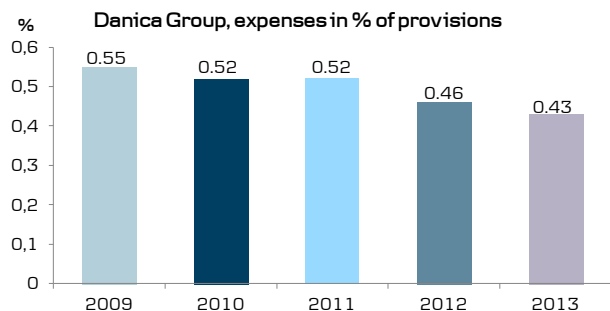
### Expenses

In life insurance, operating expenses relating to insurance amounted to DKK 1,073 million in 2013, against DKK 1,117 million in 2012 as a result of lower expenses in the Danish business. The expense ratio on premiums in the Danica Group fell from 4.8% to 4.2%, whereas for the Danish business it fell from 4.5% to 4.0%.



EXPENSES IN % OF PREMIUMS	2013	2012
Danica Group	4.2	4.8
Danica's Danish activities	4.0	4.5

Expenses amounted to 0.43% of average provisions, against 0.46% in 2012.



The average number of full-time employees was 785 in 2013, against 817 in 2012, and at the end of the year Danica had 769 employees in Denmark and abroad. The drop in employee numbers is related to the implementation of Lean processes, continuing digitalisation efforts and self service tools as well as manpower reductions in the staff functions.

The Danica Group paid DKK 449 million to Danske Bank for investment management, IT operations and development, internal auditing, HR administration, logistics and marketing. In addition, Danica paid DKK 142 million to the Danske Bank Group for its sale of life insurance policies (see note 21).

At year end 2013, DKK 53 million had been capitalised by the Danske Bank Group in respect of systems development for the Danica Group. This amount will be charged to the Danica Group's income statement over the coming three years.

#### **Tax**

The tax charge amounted to DKK 82 million, positively impacted by lower deferred tax as a result in the reduction of the Danish corporate tax rate. The rate will be reduced from 25.0% in 2013 to 24.5% in 2014 and from 2016 will be 22.0%. The calculation of deferred tax is based on a rate of 22.0%.

#### **Balance sheet**

The Group's total assets rose from DKK 324 billion at the end of 2012 to DKK 327 billion at the end of 2013.

Investment assets, including investment assets related to unit-linked contracts, rose from DKK 316 billion at year end 2012 to DKK 319 billion at year end 2013.

Provisions for insurance and investment contracts totalled DKK 293 billion, against DKK 289 billion at the end of 2012.

Life insurance provisions amounted to DKK 162 billion, a decline of DKK 20 billion relative to 31 December 2012. The decline related to transfers to

market products, for which provisions rose by DKK 24 billion.

Effective as of 12 June 2012, the Ministry of Business and Growth and the Danish Insurance Association signed an agreement that included an adjustment of the discount curve for long-term interest rates. The adjustment, which aligns the rules with the coming Solvency II rules, reduced Danica Pension's life insurance provisions calculated at year end 2013 by DKK 0.8 billion.

The agreement also included a cap on the rate of interest on policyholders' savings and restrictions on dividend payments. These limitations will be removed once the industry and the Danish Ministry of Business and Growth have agreed how best to incorporate the final technical assumptions of Solvency II in the yield curve, however not later than 1 January 2016.

In spring 2013, Danica offered customers with high guarantees the option of changing from Danica Traditionel to Danica Balance against appropriate compensation. In 2013, savings in the amount of DKK 5.7 billion were moved from Danica Traditionel to Danica Balance under this option.

The collective bonus potential at the end of 2013 amounted to DKK 1.1 billion. Additional provisions for compliance with Danica's guarantees amounted to DKK 27.6 billion.

Provisions for unit-linked contracts rose from DKK 96 billion at the end of 2012 to DKK 120 billion at the end of 2013.

At the end of 2013, shareholders' equity stood at DKK 19.4 billion, against DKK 19.0 billion at year end 2012.

#### **Risk exposure and sensitivity ratios**

Note 24 discloses the effect for Danica on shareholders' equity and on collective bonus potential and the bonus potential of paid-up policies of isolated changes in interest rates and other relevant financial risks as well as changes in the mortality and disability rates. The note also discloses risks and the management thereof.

A 10% decline in the mortality rate, corresponding to an increase in longevity of about one year, would increase the liability by DKK 1.8 billion of which shareholders' equity would cover DKK 1.4 billion.

The pension industry is required by the Danish FSA to adopt the Traffic light stress test of the companies' capital base. Danica Pension is financially well positioned for these stress tests, which include a 12% drop in equity prices and a change in interest rates of 0.7 percentage point. A 12% drop in equity prices would at year end 2013 reduce the collective bonus potential by DKK 0.6 billion and shareholders' equity by DKK 0.6 billion. A 0.7 percentage point interest rate increase would reduce the collective bonus potential by DKK 0.1

billion and shareholders' equity by DKK 0.2 billion at year end 2013.

Throughout 2013, Danica was in the green light scenario.

#### **Financial strength and solvency requirement**

As a precursor to the coming Solvency II rules, the Danish FSA in 2007 introduced a requirement for insurance companies to calculate their solvency need. The solvency need is a risk-based capital requirement, calculated according to the company's own risk assessment, to complement the solvency requirement. All Danish insurance companies are required to have a capital base corresponding at least to the higher of the solvency requirement and the solvency need. All companies in the Danica Group complied with this in 2013.

Danica has developed a model for calculating solvency need. In the model, stress tests are performed of relevant risk factors, including equity prices, property values, interest rates and longevity. The solvency need is calculated as the overall capital requirement after stress testing adjusted for collective bonus potential and bonus potential of paid-up policies used. The stress tests are based on the Danish FSA's yellow traffic light scenario, i.e. a 30% drop in equity prices, a 12% drop in property values and a 1.0 percentage point change in interest rates etc. Applying the yellow risk scenario, as Danica has opted to do, constitutes a stricter approach than the red risk scenario that forms part of the Danish FSA's traffic lights. Furthermore, the Danish FSA's stress test regarding longevity and disability rates is used, while the capital requirement with respect to other risks is based on an estimate.

DANICA GROUP, SOLVENCY		
(DKK millions)	2013	2012
Capital base	18,812	18,122
Solvency requirement	8,164	8,750
Solvency need	9,351	10,406
Required capital base	9,351	10,406

The solvency need amounted to DKK 9.4 billion at year end 2013 against DKK 10.4 billion in 2012.

The Danica Group's capital base amounted to DKK 18.8 billion at 31 December 2013. The Danica Group's total financial strength, i.e. its capital base and collective bonus potential less the required capital base, amounted to DKK 10.6 billion at year end 2013.

DANICA GROUP, FINANCIAL STRENGTH		
(DKK millions)	2013	2012
Shareholders' equity	19,402	18,986
Intangible assets etc.	-90	-114
Proposed dividends	-500	-750
Capital base	18,812	18,122
Required capital base	-9,351	-10,406
Excess capital base	9,461	7,716
Collective bonus potential	1,125	851
Financial strength	10,586	8,567

The financial strength reflects the extra security provided for customers' funds. To this should be added a bonus potential of paid-up policies of DKK 3.9 billion, part of which can be used to offset losses.

The Danish FSA has issued an executive order which sets out the principles guiding the calculation of solvency need effective from 1 January 2014.

Calculated according to the rules in effect as from 1 January 2014, the solvency need would be DKK 10.5 billion and the excess capital base DKK 7.9 billion.

#### **Events after the balance sheet date**

No events have occurred between 31 December 2013 and the date of the signing of the financial statements that, in the opinion of the management, will materially affect Danica's financial position.

#### **Outlook for 2014**

In 2014, Danica expects to maintain its position as one of the leading providers of life and pension insurance products in Denmark.

The profit for 2014 will mainly depend on the financial markets' performance, which influences the booking of a risk allowance and the potential booking of income from the shadow account.

If Danica is to book the full risk allowance in 2014, assuming an unchanged interest rate level, it will require investment returns of 3% for the new business interest rate group, 5% for the low interest rate group, 4% for medium and 3-4% for high.

#### **Returns and market performance**

2013 was marked by the Federal Reserve's continued quantitative easing and the Japanese central bank's commitment to pursuing an expansive monetary policy in order to lift inflation to 2% after several years' deflation. This expansive policy had a beneficial effect on higher-risk assets, with equities performing particularly strongly.

During the year, the positive sentiment briefly evaporated in May as the Fed announced that it would at some point have to phase out its bond purchases. This announcement sparked increased

uncertainty in the market, with government bond rates rising and equities and credit bonds falling.

The turmoil subsided over the summer, however, as the Fed backed down on its intentions to taper its quantitative easing. After this, interest rates stabilised at a somewhat higher level than at the beginning of the year while the equity markets, particularly in the US, continued to rise. The emerging market developments were more irregular, with countries such as Brazil and India seeing negative equity market trends due to declining growth prospects.

For the year as a whole, the MSCI World All Countries index produced a return of 17.5% measured in Danish kroner. The 10-year Danish government bond interest rate rose 60 bps to 1.96%, the 10-year government bond thus yielding a negative return in 2013 of 4.5%, whereas high-yield corporate bonds yielded around 7.0% and emerging market bonds yielded negative returns of between 7% and 12%.

Property investments in 2013 yielded a return of 4.9%, against 2.8% in 2012. The 2013 return was adversely affected by the continued high commercial property vacancy rates and positively affected by rising market prices of owner-occupied flats.

Listed equities yielded a return of 15.6%, while alternative investments, consisting of private equity, infrastructure funds, hedge funds, alternative credit and forestry and agriculture, yielded a return of 4.7%

Danica Balance customers under the medium equity risk profile and with 30 years to retirement age in 2013 had a return of 14.3% before tax on pension returns. Danica Balance customers in 2013 had an overall return before tax on pension returns of DKK 2.1 billion or 7.8%. Over a five-year period, the average return was 10.0% p.a. before tax on pension returns.

DANICA BALANCE, RETURN BEFORE TAX				
Risk	30 years to retirement		5 years to retirement	
	Return	Equities etc.	Return	Equities etc.
		(%)		(%)
Highest risk experience	16.0	100	9.3	59
High risk experience	16.0	100	7.6	48
Medium risk experience	14.3	90	5.9	38
Low risk experience	11.9	75	4.2	27
Lowest risk experience	7.6	49	2.6	16

Average return, Danica Balance was 7.8% and over five years 10.0% p.a.

The majority of the Danica Link customers have opted for Danica Valg with medium risk, and they saw a return before tax on pension returns of 10.2% in 2013. The return before tax on pension returns

for Danica Valg customers who have opted for high risk was 14.5% and for customers with a 100% equity share 19.3%. The overall return for Danica Link customers before tax on pension returns was DKK 2.3 billion or an average of 10.1%. Over a five-year period, the average return for all customers was 11.1% p.a. before tax on pension returns.

DANICA VALG PORTFOLIO, RETURN BEFORE TAX		
(%)	2013	2012
Danica Valg Guarantee	8.9	11.0
Danica Valg 100% Bonds	0.6	9.5
Danica Valg Low Risk	5.0	10.4
Danica Valg Medium Risk	10.2	12.5
Danica Valg High Risk	14.5	13.0
Danica Valg 100% Bonds Equities	19.3	15.4

Average return, Danica Link was 10.1% and over five years 11.1% p.a.

Danica Select customers in 2013 had a return of DKK 42.9 million or 14.2%.

The overall return on Danica Balance, Danica Link and Danica Select in 2013 was DKK 6.0 billion before tax on pension returns, equal to 8.6%. Over a five-year period, the return was 10.6% p.a.

The overall return on customer funds in Danica Traditionel before tax on pension returns was negative at 0.2%. The overall return after a decrease of technical provisions was 2.2%. Over five years, the average return after changes in technical provisions was 4.3%.

DANICA PENSION, CUSTOMER FUNDS				
HOLDINGS AND RETURNS	2013		2012	
	Value	Return	Value	Return
(DKK billions)		%		%
Property investments	20.1	4.9	19.7	2.8
Listed equities	9.7	15.6	9.9	19.2
Alternative investments	10.2	4.7	8.1	10.2
Credit investments	23.1	0.9	31.1	14.4
Global bonds	6.6	-1.7	6.6	8.6
Nominal bonds	68.1	0.9	72.8	6.9
Index-linked bonds	14.4	-4.5	16.7	7.3
Short-term bonds and cash and cash equivalents	15.5	0.6	21.6	1.7
Total bonds, etc.	104.6	-0.2	117.7	6.2
Other financial assets	1.2		8.6	-
Total	168.9	-0.2	195.1	9.2
Return after change in additional provisions		2.2		5.9

The below table illustrates the relationship between investment return and the interest rate on policyholders' savings.

FROM INVESTMENT RETURN TO INTEREST RATE ON POLICY-HOLDERS' SAVINGS

[%]	New business 2013	Total 2013	Total 2012
Return on customer funds before investment costs	3.0	0.3	9.6
Investment costs	-0.8	-0.5	-0.4
Return on customer funds after investment costs	2.2	-0.2	9.2
Change in the value of insurance obligations	0.6	2.4	-3.3
Investment return including change in insurance obligations	2.8	2.2	5.9
Tax on pension returns	-0.2	0.0	-1.3
Risk premium for the year	-0.5	-0.7	-0.7
Risk premium transferred to shadow account	0.0	0.1	-0.2
Risk and cost results	0.0	0.0	0.0
Transfer from collective bonus potential	-0.6	-0.1	-0.3
Transfer from bonus potential of paid-up policies	0.0	0.2	-0.9
Other adjustments	0.0	-0.2	-1.0
Average interest rate on policy-holders' savings after tax on pension returns	1.5	1.5	1.5
The share of investment assets for which investment costs are included is	100	100	100

The investment allocation of assets attributed to shareholders' equity at year end 2013 was 10.4% in real property and 89.6% in relatively short-term bonds. Shareholders' equity is furthermore exposed to equities and credit bonds through investments attributable to the health and accident business. The overall return on assets attributed to shareholders' equity and to the health and accident business was 1.9%.

## NEW SOLVENCY RULES

Danica is closely monitoring the work on the coming EU solvency rules, Solvency II which, among other things, are set to change the existing volume-based capital requirement to a capital requirement that more accurately reflects the risks involved in the operation.

The European Insurance and Occupational Pensions Authority (EIOPA) has announced that the application date is scheduled for 1 January 2016.

As mentioned in the above section on financial strength and solvency requirement, the Danish FSA has announced the introduction of new rules on reporting on and calculation of solvency need. In future, the calculation of solvency need will be based on the coming Solvency II rules.

## ORGANISATION, MANAGEMENT AND PARTNERSHIPS

Danica handles the Danske Bank Group's activities within pension savings and life insurance for companies, organisations and private individuals.

Danica's Board of Directors consists of five directors elected by the general meeting and three directors elected by the employees. The Board of Directors is in charge of the overall management of the company and holds some six meetings annually.

For additional information on the organisation, see page 56.

### *Diversity policy*

At the board meeting held on 29 April 2013, the Board of Directors adopted a diversity policy.

The diversity policy follows from new rules enacted by the Danish parliament on 14 December 2012 on the gender composition of the supreme governing body of all large companies in Denmark. According to the diversity policy, the Board of Directors must ensure that the company continually focuses on maintaining a balanced gender representation among Danica's managers.

The diversity policy adopted by the Danske Bank Group solely sets out targets for the proportion of women at each management level. However, Danica has an under-representation of men at team leader level. No targets have been set with regard to the proportion of men at team leader level, but Danica is closely monitoring the matter and aims to include male candidates in the group of applicants when filling future team leader openings.

Danica's gender distribution at 31 December 2013 is set out in the table below.

Management level	In total	Women	Share women	Group target (2015/2017)	Men	Share men
Board members	5	1	20%	12.5%/25%	4	80%
Directors	26	6	23%	22%/25%	20	77%
Office/department managers	25	9	36%	27%/29%	16	64%
Team leaders	23	19	83%	42%/42%	4	17%
In total	79	35	44%	37%/38%	45	56%

As the table indicates, Danica maintains a gender composition that meets the targets set in the diversity policy for 2015 as well as 2017, except with respect to the senior management level.

Danica's internal and external recruitment processes ensure that focus is maintained on gender composition.

### *Audit committee, Supervisory Board and Executive Management*

The Audit Committee examines accounting, auditing and risk management issues. These are issues that the Board of Directors, the Audit Committee

itself, the group chief auditor or the external auditors believe deserve attention before they are brought before the Board of Directors. In 2013, the Audit Committee held six meetings.

The Executive Board is in charge of the day-to-day management of the company and consists of Per Klitgård, CEO and Jesper Winkelmann.

The directorships of the members of the Board of Directors and the Executive Board are listed on page 57. The legal structure of the Group is shown on page 56.

#### **Remuneration policy and incentive plans**

Danica's remuneration policy is based on that of the Danske Bank Group and encompasses all employees in the Danica Group. The policy was adopted at the Danica Group's annual general meeting and is available on [www.danicapension.dk](http://www.danicapension.dk).

The Executive Board and senior managers are covered by the incentive plan offered by the Danske Bank Group. The plan consists of cash and conditional shares. Incentive payments reflect individual performance and also depend on financial results in the business area and other measures of value creation in a given financial year.

The remuneration structure is subject to a number of rules relating to remuneration of the Board of Directors, the Executive Board and other staff members whose activities have a material effect on the Group's risk profile (risk takers). Danica follows Danske Bank's guidelines in this area.

The size of performance-based compensation is capped, and payment of part of such remuneration is deferred until a later date. Employees may lose part or all of their deferred remuneration, depending on future results.

In compliance with international and Danish guidelines, employees in control functions do not receive performance-based remuneration.

Competent leadership and high employee satisfaction are key to the performance of the business. Danica Pension gives focused attention to management development, and this work is anchored in the Danske Bank Group's management platform.

Skills development is another key factor in Danica Pension's value creation, and advisors and other customer-oriented functions in particular undergo structured training programmes to ensure a solid skills base. Individual employees' skills development is arranged in connection with the annual employee performance review.

## **CORPORATE RESPONSIBILITY**

### **Corporate Responsibility**

Danica complies with Danske Bank's Corporate Responsibility policy. Along with the Annual Re-

port 2013, the Danske Bank Group has published Corporate Responsibility 2013 on the Group's corporate responsibility. All relevant Corporate Responsibility data for the Group are available in the Corporate Responsibility Fact Book 2013, which is published along with the Corporate Responsibility report.

The UN Global Compact is the world's largest voluntary network for corporate responsibility, which is based on ten universal principles in the areas of human rights, labour rights, environment and corruption. Since 2007, as a member the Global Compact the Group has been committed to describing in annual progress reports what concrete measures it has taken to comply with the ten principles. The Group fulfils its reporting obligation to the Danish FSA by referring to the annual progress report to the UN, Communication on Progress. The progress report is available on [www.unglobalcompact.org](http://www.unglobalcompact.org).

The Group's Corporate Responsibility reporting complies with the Global Reporting Initiative (GRI) guidelines on sustainability reporting.

On [www.danskebank.com/responsibility](http://www.danskebank.com/responsibility) a GRI index is available which corresponds to the ten universal principles of the Global Compact.

### **Environmental considerations**

In 2013, Danica continued implementing measures to reduce paper consumption. Danica continued the digitalisation so that customers can choose to receive most of Danica's letters electronically. At the end of 2013, Danica had 456,000 customers receiving electronic mail.

The company regularly monitors heating, electricity, water consumption and mileage on the company's vehicles. Also, all of Danica's vehicles have been replaced by environmentally friendly cars. Danica is included in Danske Bank's CO2 accounts. The complete report is available at Danske Bank's website.

#### **POWER, HEAT AND WATER CONSUMPTION TRENDS**

		2013	2012	2011	Index 13/12
Total power consumption	MWh	1,231	1,208	1,205	102
Total heat consumption	MWh	2,431	2,192	2,578	111
Total water consumption	m <sup>3</sup>	4,465	4,535	4,496	98
Mileage	Km'000	1,532	1,751	1,869	87
Paper	tonnes	71	94	90	75

Power, heat and water consumption includes head office and regional offices in Denmark. The consumption covers the period October 2012 to September 2013.

The heat consumption was up by 11% relative to 2012 as a result of a colder winter season in 2012/13 than the previous year.

For shopping centres managed by Steen & Strøm an environmental and CSR programme has been set out. It covers environmental targets in terms of energy consumption, including CO2 emissions, waste, etc. Danica's centres have obtained Key2Green certification.

### **Socially responsible investment principles**

In 2008, Danica implemented a socially responsible investment (SRI) policy in order to ensure that Danica does not invest customers' money in companies that do not comply with international human rights, environmental and employee rights, weapons and anti-corruption guidelines. Danica also adopted the UN Principles for Responsible Investment (PRI). This decision reflected the Group's ambition to comply with international standards in Danica's environmental, social and ethical guidelines. In 2013, a few companies were excluded from Danica's investment universe based on the Group's socially responsible investment guidelines, while others had made improvements so that they could be included again. The list of companies not eligible for investment can be seen at [danicapension.dk](http://danicapension.dk).

The requirements in respect of Danica's property portfolio include that Danica's suppliers should comply with the ethical rules of the Danish Construction Association.

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# Financial highlights - Danica Group

DKKm	2013	2012	2011	2010	2009
<b>INCOME STATEMENT</b>					
Life insurance					
Premiums	18,943	18,662	19,169	16,936	15,729
Return on investment after tax on pension returns	9,731	23,147	7,779	15,722	19,671
Claims and benefits	-22,412	-18,800	-16,663	-16,715	-15,125
Change in life insurance provisions and outstanding claims provisions	12,345	-3,184	-4,059	-1,131	-431
Change in collective bonus potential	-275	-477	1,403	1,035	-1,297
Change in provisions for unit-linked contracts	-15,970	-15,541	-5,764	-12,570	-14,216
Total operating expenses relating to insurance	-1,073	-1,117	-1,203	-1,143	-1,138
Profit/loss on business ceded	-52	168	266	131	33
Transferred return on investment	-465	-1,139	-946	-1,120	-1,760
Technical result, Life	772	1,719	-18	1,145	1,466
Health and accident insurance					
Gross premium income	1,307	1,306	1,427	1,457	1,459
Gross claims	-1,385	-1,311	-1,243	-1,123	-1,326
Total operating expenses relating to insurance	-123	-143	-162	-183	-199
Profit/loss on business ceded	-9	-8	-9	-23	8
Return on investment less technical interest	180	318	284	198	309
Technical result of health and accident insurance	-73	32	181	261	296
Return on investment allocated to equity, etc.	562	613	570	869	1,296
Profit/loss before tax	1,261	2,364	733	2,275	3,058
Tax	-82	-578	-183	-504	-737
Net profit/loss for the year	1,179	1,786	550	1,771	2,321
<b>BALANCE SHEET</b>					
Total assets	327,490	324,495	303,160	288,061	264,085
Insurance assets, health and accident insurance	172	198	216	227	184
Technical provisions, health and accident insurance	8,956	9,106	8,648	8,384	8,267
Total shareholders' equity	19,402	18,986	19,743	20,992	19,215
Provisions for insurance and investment contracts	292,569	288,797	267,844	255,459	237,409
Collective bonus potential	1,125	851	375	1,740	2,775
<b>KEY FIGURES AND RATIOS (%)</b>					
Return before tax on pension returns	0.0	8.6	6.1	5.6	6.7
Return before tax on pension returns on customer funds	-0.2	9.2	6.8	5.8	7.1
Expenses as per cent of premiums	4.2	4.8	4.6	5.0	6.0
Expenses as per cent of provisions	0.4	0.5	0.5	0.5	0.6
Expenses per policyholder (DKK)	1,151	1,200	1,337	1,342	1,360
Cost result	-0.07	-0.09	-0.11	-0.08	-0.10
Insurance risk result	0.06	0.06	0.04	0.09	0.08
Bonus rate	0.8	0.6	0.2	1.1	1.7
Owners' capital ratio	14.4	12.7	12.5	14.8	13.5
Excess core capital ratio	7.9	6.3	6.7	8.7	8.7
Solvency ratio	230	207	225	276	283
Return on equity before tax	6.6	11.7	3.5	11.3	16.9
Return on equity after tax	6.1	8.8	2.6	8.8	12.9
Return on customer funds after deduction of expenses before tax	-1.1	7.7	6.1	4.6	5.5
Return on subordinated debt before tax	-	-	1.7	1.4	2.2
<b>RATIOS FOR HEALTH AND ACCIDENT INSURANCE</b>					
Gross claims ratio	109	107	93	82	96
Gross expense ratio	10	12	12	13	14
Combined ratio	120	119	106	97	110
Operating ratio	120	124	108	95	101
Relative run-off	0.1	0.2	1.0	2.2	0.9
Run-off, net of reinsurance (DKK millions)	6	17	70	155	61

The ratios are defined in accordance with the Danish FSA's Executive Order on Financial Reports of Insurance Companies and Lateral Pension Funds.

\* From 2011, information on the interest rate on policyholders' savings comprises the new business group.



# Income statement - Danica Group

Note	DKKm	2013	2012
2	Gross premiums	18,943	18,662
	Reinsurance premiums ceded	-40	-44
	<b>Total premiums, net of reinsurance</b>	<b>18,903</b>	<b>18,618</b>
	Income from associates	58	9
	Income from investment properties	907	900
	Interest income and dividends, etc.	8,352	8,159
3	Market value adjustments of investments	1,905	18,215
	Interest expenses	-363	-370
	Administrative expenses related to investment activities	-524	-557
	<b>Total investment return</b>	<b>10,335</b>	<b>26,356</b>
	Tax on pension returns	-604	-3,209
	<b>Return on investment after tax on pension returns</b>	<b>9,731</b>	<b>23,147</b>
4	Claims and benefits paid	-22,412	-18,800
	Reinsurers' share received	113	110
	Change in outstanding claims provision	-1	169
	Change in outstanding claims provision, reinsurers' share	-3	5
	<b>Total claims and benefits, net of reinsurance</b>	<b>-22,303</b>	<b>-18,516</b>
5	Change in life insurance provisions	12,346	-3,353
	Change in reinsurers' share	-133	92
	<b>Total change in life insurance provisions, net of reinsurance</b>	<b>12,213</b>	<b>-3,261</b>
	Change in collective bonus potential	-275	-477
	<b>Total bonus</b>	<b>-275</b>	<b>-477</b>
6	Change in provisions for unit-linked contracts	-15,970	-15,541
	<b>Total change in provisions for unit-linked contracts, net of reinsurance</b>	<b>-15,970</b>	<b>-15,541</b>
	Acquisition costs	-335	-355
	Administrative expenses	-738	-762
	Reinsurance commissions and profit sharing	11	5
7	<b>Total operating expenses relating to insurance, net of reinsurance</b>	<b>-1,062</b>	<b>-1,112</b>
	Transferred investment return	-465	-1,139
	<b>TECHNICAL RESULT OF LIFE INSURANCE</b>	<b>772</b>	<b>1,719</b>
8	<b>TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE</b>	<b>-73</b>	<b>32</b>
	Return on investment allocated to equity	295	361
9	Other income	273	260
	Other expenses	-6	-8
10	<b>PROFIT BEFORE TAX</b>	<b>1,261</b>	<b>2,364</b>
11	Tax	-82	-578
	<b>NET PROFIT FOR THE YEAR</b>	<b>1,179</b>	<b>1,786</b>
	Net profit for the year	1,179	1,786
	Other comprehensive income:		
	Translation of units outside Denmark	-51	23
	Hedges of units outside Denmark	51	-22
	Tax relating to other comprehensive income	-13	6
	<b>Total other comprehensive income</b>	<b>-13</b>	<b>7</b>
	<b>NET COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,166</b>	<b>1,793</b>

# Balance sheet - Danica Group

## Assets

Note	DKKm	2013	2012
	<b>INTANGIBLE ASSETS</b>	90	114
12	Domicile properties	57	58
	<b>TOTAL TANGIBLE ASSETS</b>	57	58
13	Investment properties	21,660	20,794
	Holdings in associates	893	851
	Loans to associates	46	73
	Total investments in associates	939	924
	Holdings	20,738	17,285
	Unit trust certificates	22,690	23,373
	Bonds	119,503	140,674
	Other loans	674	481
	Deposits with credit institutions	9,409	8,407
	Other	4,054	8,122
14	Total other financial investment assets	177,068	198,342
	<b>TOTAL INVESTMENT ASSETS</b>	199,667	220,060
15	<b>UNIT-LINKED INVESTMENT ASSETS</b>	119,610	95,839
	Unearned premiums provision, reinsurers' share	5	5
	Life insurance provisions, reinsurers' share	1,944	2,080
	Outstanding claims provision, reinsurers' share	177	206
	Total technical provisions, reinsurers' share	2,126	2,291
	Amounts due from policyholders	545	424
	Amounts due from insurance companies	358	1,156
	Other debtors	1,226	499
	<b>TOTAL DEBTORS</b>	4,255	4,370
	Current tax assets	18	-
	Cash and cash equivalents	1,236	1,122
	Other	22	4
	<b>TOTAL OTHER ASSETS</b>	1,276	1,126
	Accrued interest and rent	2,103	2,494
	Other prepayments and accrued income	432	434
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	2,535	2,928
	<b>TOTAL ASSETS</b>	327,490	324,495

# Balance sheet - Danica Group

## Liabilities and equity

Note	DKKm	2013	2012
	Share capital	1,000	1,000
	Revaluation reserve	1	1
	Other reserves	14,342	13,677
	Retained earnings	3,559	3,558
	Proposed dividend	500	750
	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>19,402</b>	<b>18,986</b>
	Unearned premiums provision	873	960
	Guaranteed benefits	152,790	174,953
	Bonus potential of future premiums	5,670	5,252
	Bonus potential of paid-up policies	3,859	2,226
	Total life insurance provisions	162,319	182,431
16	Outstanding claims provision	8,313	8,369
	Collective bonus potential	1,125	851
	Provisions for bonuses and premium discounts	98	109
18	Provisions for unit-linked contracts	119,841	96,077
	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>292,569</b>	<b>288,797</b>
11	Deferred tax	1,544	1,462
	<b>TOTAL PROVISIONS FOR LIABILITIES</b>	<b>1,544</b>	<b>1,462</b>
	Amounts owed, direct insurance	188	407
	Amounts owed to reinsurers	28	22
	Amounts owed to credit institutions	8,682	7,415
	Amounts owed to group undertakings	3	2
	Current tax liabilities	30	228
19	Other creditors	4,648	6,749
	<b>TOTAL CREDITORS</b>	<b>13,579</b>	<b>14,823</b>
	<b>OTHER ACCRUALS AND DEFERRED INCOME</b>	<b>396</b>	<b>427</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>327,490</b>	<b>324,495</b>

## Statement of capital - Danica Group

DKKm

Changes in shareholders' equity	Share capital	Revaluation reserve	Foreign currency translation reserve *	Other reserves	Retained earnings	Proposed dividend	Total
Shareholders' equity at 31 December 2012	1,000	1	-1	13,678	3,558	750	18,986
Profit for the year	-	-	-	1,168	11	-	1,179
Other comprehensive income:							
Translation of units outside Denmark	-	-	-51	-	-	-	-51
Hedges of units outside Denmark	-	-	51	-	-	-	51
Tax on other comprehensive income	-	-	-	-13	-	-	-13
Total other comprehensive income	-	-	0	-13	-	-	-13
Comprehensive income for the year	-	-	0	1,155	11	-	1,166
Dividend paid	-	-	-	-	-	-750	-750
Proposed dividend **	-	-	-	-490	-10	500	0
Shareholders' equity at 31 December 2013	1,000	1	-1	14,343	3,559	500	19,402
Shareholders' equity at 31 December 2011	1,000	1	-2	14,445	3,749	550	19,743
Profit for the year	-	-	-	1,747	39	-	1,786
Other comprehensive income:							
Translation of units outside Denmark	-	-	23	-	-	-	23
Hedges of units outside Denmark	-	-	-22	-	-	-	-22
Tax on other comprehensive income	-	-	-	6	-	-	6
Total other comprehensive income	-	-	1	6	-	-	7
Comprehensive income for the year	-	-	1	1,753	39	-	1,793
Dividend paid	-	-	-	-1,770	-230	-550	-2,550
Proposed dividend **	-	-	-	-750	-	750	0
Shareholders' equity at 31 December 2012	1,000	1	-1	13,678	3,558	750	18,986

\* Recognised in the balance sheet under other reserves.

\*\* The dividend amounts to DKK 500 per share (2012: DKK 750). The line shows the effect on shareholders' equity at year end.

Danica Pension has an obligation to allocate part of the excess equity to certain policyholders of Statsanstalten for Livsforsikring (now part of Danica Pension) if the percentage by which the equity exceeds the required capital base is higher than the percentage that had been maintained by Statsanstalten for Livsforsikring prior to the privatisation of this company in 1990. In addition, it is the intention not to distribute dividends until 2015. Paid-up capital and interest thereon may, however, be distributed currently.

Moreover, Danica Pension's ability to distribute dividends is limited by the pension companies' agreement with the Ministry of Business and Growth Denmark to limit dividends to a minimum solvency ratio of 175% relative to the solvency requirement and the solvency need. This limitation will be removed once the industry and the Ministry of Business and Growth have agreed how best to incorporate the final technical assumptions of Solvency II in the yield curve, however not later than 1 January 2016.

The share capital is made up of 1,000,000 shares of a nominal value of DKK 1,000 each. All shares carry the same rights; there is thus only one class of shares.

## Statement of capital - Danica Group

DKKm	2013	2012
Solvency requirement and capital base		
Shareholders' equity	19,402	18,986
Core capital	19,402	18,986
- Proposed dividend	-500	-750
- Intangible assets	-90	-114
Reduced core capital	18,812	18,122
Capital base	18,812	18,122
Solvency requirement for life insurance	7,797	8,383
Solvency requirement for health and accident insurance	367	367
Total solvency requirement	8,164	8,750
Excess capital base	10,648	9,372

The capital base should at any time exceed the solvency requirement calculated in accordance with the Danish Financial Business Act.

# Notes – Danica Group

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Note

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## 1 SIGNIFICANT ACCOUNTING POLICIES – Forsikringselskabet Danica

### GENERAL

The consolidated financial statements and the Parent Company's financial statements are prepared in accordance with the the Danish Financial Business Act, including the Danish FSA's executive order No. 112 of 7 February 2013 on financial reports presented by insurance companies and lateral pension funds.

The accounting policies are consistent with those applied in the annual report for 2012.

### Change in accounting estimates

No changes in accounting estimates have been made.

The Danica Group has notified the Danish FSA that, as from 1 January 2013, the technical basis for risk allowance is calculated after tax on pension returns. This change increased the profit for 2013 by DKK 401 million.

### Accounting estimates and judgments

Management's estimates and judgments of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the consolidated financial statements. The estimates and judgments that are deemed critical to the consolidated financial statements are:

- measurement of liabilities under insurance contracts
- the fair value measurement of financial instruments
- the fair value measurement of real property

The estimates and judgments are based on premises that management finds reasonable but which are inherently uncertain and unpredictable. The premises may be incomplete and unexpected future events or situations may occur. Therefore, such estimates and judgments are difficult and will always entail uncertainty, even under stable macroeconomic conditions, when they involve mortality and disability rates. Other parties may arrive at other estimated values.

### Measurement of liabilities under insurance contracts

Calculations of liabilities under insurance contracts are based on a number of actuarial computations that rely on assumptions about a number of variables, including mortality and disability rates.

Insurance liabilities are calculated by discounting the expected future benefits to their present values. For life insurance, the expected future benefits are based on expected future mortality rates and expected frequency of surrenders and conversions into paid-up policies. For health and accident insurance, the insurance obligations are calculated on the basis of expected future recoveries and re-openings of old claims. Estimates of future mortality rates are based on the Danish FSA's benchmark, while other estimates are based on empirical data from the Group's own portfolio of insurance contracts. Estimates are updated regularly.

The calculation of life insurance provisions is based on an assumed increase in life expectancy over today's observed lifetime of 1.6 years for a sixty five-year-old man and 1.7 years for a sixty five-year-old woman. A sixty five-year-old man is thus expected to live for some 21 more years and a sixty five-year-old woman for almost 23 more years. At the current level of interest rates, these assumptions result in additional provisions of DKK 542 million over the assumptions at the time when the policies were written.

The liabilities also depend on the discount yield, which is fixed on the basis of a zero-coupon yield curve estimated on the basis of Euro swap market rates to which is added a country spread between Danish and German government bonds, calculated as a 12-month moving average. To this is added a mortgage yield spread, cf. the agreement between the Danish Ministry of Business and Growth and the Danish Insurance Association on financial stability in the pension area (Interest rate curve – agreement of 20.12.2013). For maturities of more than 20 years, the forward rate between 20 and 30 years is extrapolated, the forward rate at the 30-year mark being fixed at 4.2%.

See the sensitivity analysis in note 24 to the financial statements.

### Fair value measurement of financial instruments

Critical estimates are not used for measuring the fair value of financial instruments where the value is based on prices quoted in an active market or on generally accepted models employing observable market data.

Measurements of financial instruments that are only to a limited extent based on observable market data are subject to estimates. This includes unlisted shares, certain listed shares and certain bonds for which there is no active market. See Financial investment assets below for a more detailed description.

### Fair value measurement of real property

The fair value measurement of investment property is assessed by the Group's valuers on the basis of a systematic assessment of the present value of the expected cash flows from the property. The present value is calculated based on discounting by a required rate of return determined for each property individually, in accordance with appendix 7 to the executive order on the presentation of financial reports by insurance companies and lateral pension funds.

# Notes – Danica Group

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Note

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## **Consolidation**

Forsikringsselskabet Danica and group undertakings are included in the consolidated financial statements of Danske Bank A/S, Copenhagen.

## **Group undertakings**

The financial statements consolidate Forsikringsselskabet Danica and group undertakings in which the Group has control over financial and operating decisions. Control is said to exist if the Parent Company (Danica), directly or indirectly, holds more than half of the voting rights in an undertaking or otherwise has power to control management and operating decisions, provided that most of the return on the undertaking accrues to the Group and that the Group assumes most of the risk.

The consolidated financial statements are prepared by consolidating items of the same nature and eliminating intragroup transactions and balances.

Undertakings acquired are included in the financial statements at the time of acquisition.

The net assets of such undertakings (assets, including identifiable intangible assets, less liabilities and contingent liabilities) are measured in the financial statements at fair value at the date of acquisition according to the acquisition method.

If the cost of acquisition exceeds the fair value of the net assets acquired, the excess amount is recognised as goodwill. Goodwill is recognised in the functional currency of the undertaking acquired. If the fair value of the net assets exceeds the cost of acquisition (negative goodwill), the excess amount is recognised as income at the date of acquisition. The portion of the acquisition that is attributable to non-controlling interests does not include goodwill.

Divested undertakings are included in the financial statements until the transfer date.

## **Holdings in Associates**

Associates are businesses in which the Group has holdings and significant but not controlling influence. The Group generally classifies businesses as associates if Danica, directly or indirectly, holds 20-50% of the voting rights.

Holdings in associates are recognised at cost at the date of acquisition and are subsequently measured according to the equity method. The proportionate shares of the shareholders' equity of the business with the addition of goodwill on consolidation are recognised in the item Holdings in associates and the proportionate share of the net profit or loss of the individual business is recognised in Income from associates. The proportionate share is calculated on the basis of data from financial statements with balance sheet dates no earlier than three months before the Group's balance sheet date and calculated in accordance with Danica's significant accounting policies.

The proportionate share of the profit and loss on transactions between associates and Group undertakings is eliminated.

## **Jointly controlled assets**

Properties that are owned jointly with other undertakings outside the Group, and where each venturer has control over its share of the future economic benefits through its share of the property, are classified as jointly controlled assets. Jointly controlled assets are consolidated on a pro rata basis in the income statement and the balance sheet.

## **Jointly controlled operations**

The Group is involved in joint operations with other pension companies. These joint operations are administrated by Forenede Gruppeliv. Income, expenses, assets and insurance liabilities, etc. are distributed between and recognised by the venturers according to their individual quota, which is determined based on the premiums written by the individual venturer during the year.

## **Intragroup transactions**

The companies in the Danica Group are included in the Danske Bank Group, which comprises a number of independent legal entities. Intragroup transactions are settled on an arm's-length basis. Expenses incurred centrally are invoiced to the undertakings at calculated unit prices according to consumption and activity in accordance with the transfer pricing rules (cost recovery basis) or at market prices, if available.

## **Translation of transactions in foreign currency**

The presentation currency of the consolidated financial statements is Danish kroner.

Transactions in foreign currency are translated at the exchange rate at the transaction date. Gains and losses on exchange rate differences arising between the transaction date and the settlement date are recognised in the income statement.

Monetary assets and liabilities in foreign currency are translated at the exchange rates at the balance sheet date. Exchange rate adjustments of monetary assets and liabilities arising as a result of differences in the exchange rates at the transaction date and at the balance sheet date are recognised in the income statement.

## **Translation of units outside Denmark**

Assets and liabilities of units outside Denmark are translated into Danish kroner at the exchange rates at the balance sheet date. Income and expenses are translated at the exchange rates at the transaction date. Exchange rate gains and losses arising on translation of net investments in units outside Denmark are recognised in other comprehensive income. Net investments include the shareholders' equity and goodwill of the unit as well as holdings in the unit in the form of subordinated loan capital.

# Notes – Danica Group

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Note

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## Hedge accounting

The Group uses derivatives to hedge the interest rate risk on fixed-rate liabilities measured at amortised cost. Hedged risks that meet the criteria for fair value hedge accounting are treated accordingly. The interest rate risk on the hedged liabilities is measured at fair value as a value adjustment of the hedged items through profit or loss.

If the hedge accounting criteria cease to be met, the accumulated value adjustments of the hedged items are amortised and recognised in the income statement over the term to maturity.

Financial liabilities in foreign currency are used to hedge net investments in units outside Denmark. Exchange rate adjustments attributable to a hedge are recognised in other comprehensive income. If the hedge accounting criteria cease to be met, the exchange rate adjustments of the financial liabilities are recognised in the income statement from the date when the hedge is discontinued.

When a foreign unit is divested, the amounts previously recognised in other comprehensive income in relation to the hedge, including amounts recognised in connection with foreign currency translation of the unit outside Denmark, are recognised through profit or loss.

## Insurance contracts

Life insurance policies are classified as insurance or investment contracts. Insurance contracts are contracts that entail significant insurance risks or entitle policyholders to bonuses. Investment contracts are contracts that entail insignificant insurance risk, and are included in the balance sheet item: Unit-linked contracts, under which the investment risk lies with the policyholder.

## Contribution

In accordance with the Executive Order on the Contribution Principle, the Danish FSA has been notified of Danica Pension's profit policy. The portfolio of Danica Traditional insurances is divided into four interest rate groups, four cost groups and three risk groups.

The risk allowance can be booked only if it does not exceed the technical basis for risk allowance for the individual group and if the bonus potential of paid-up policies has not been used to absorb losses not covered by the collective bonus potential for the individual group. The technical basis for the risk allowance is essentially the annual investment return after tax on pension returns less the technical rate of interest used to calculate the guaranteed benefits payable to policyholders and the change in accumulated value adjustment of life insurance provisions. Consequently, the contribution principle entails fluctuating results. If the risk allowance cannot be booked, in whole or in part, the amount is transferred to a shadow account and may be booked at a later date if justified by the return on investment and provided no use of bonus potential of paid-up policies.

Within each interest rate group, any losses are absorbed collectively by that group's collective bonus potential and the bonus potential of paid-up policies before any shareholders' equity is required to cover such losses. Any losses on risk and cost groups not absorbed by the collective bonus potential of the individual groups are to be covered by shareholders' equity. Losses related to interest and risk groups that are covered by shareholders' equity are transferred to the shadow account and may be booked at a later date when the technical basis permits.

Danica Pension has an obligation to allocate part of the excess equity to certain policyholders of the former Statsanstalten for Livsforsikring (now part of Danica Pension) if the percentage by which the equity exceeds the required capital base is higher than the percentage that had been maintained by Statsanstalten for Livsforsikring prior to the privatisation of this company in 1990.

## INCOME STATEMENT

### Life insurance premiums

Regular and single premiums on insurance contracts are included in the income statement at the due dates. Reinsurance premiums paid are deducted from premiums received. Premiums on investment contracts are recognised directly in the balance sheet and disclosed in the notes.

### Return on investment

Income from associates comprises the company's share of the associates' profit after tax and realised gains and losses on sales during the year.

Income from investment properties comprises the profit from operating investment properties after deduction of property management expenses.

Interest income and dividends etc. comprises yield on bonds and other securities and interest on amounts due.

In addition, the item comprises dividends from holdings with the exception of dividends from associated undertakings.

Market value adjustments comprise realised and unrealised gains and losses and exchange rate adjustments on investment assets other than associates.

Interest expenses comprise interest on loans and other amounts due.

Administrative expenses related to investment activities comprise portfolio management fees to investment managers, direct trading costs, custody fees and own expenses related to the administration of and advisory services on investment assets.

### Tax on pension returns

Tax on pension returns consists of individual tax on pension returns, calculated on the interest accrued on policyholders' savings, and non-allocated tax on pension returns, calculated on amounts allocated to the collective bonus potential. The rate of tax on pension returns is 15.3%.



# Notes – Danica Group

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Note

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## **Claims and benefits**

Claims and benefits, net of reinsurance, comprises the claims and benefits paid on insurance contracts for the year, adjusted for the change for the year in outstanding claims provisions and net of the reinsurers' share. Claims and benefits on investment contracts are recognised directly in the balance sheet.

## **Change in life insurance provisions**

Change in life insurance provisions, net of reinsurance, comprises the change for the year in gross life insurance provisions less reinsurers' share.

## **Change in collective bonus potential**

The change in collective bonus potential comprises the change for the year in collective bonus potential for insurance policies with bonus entitlement.

## **Change in provisions for unit-linked contracts**

The change in provisions for unit-linked contracts comprises the change for the year in the unit-linked provisions other than premiums and benefits relating to investment contracts.

## **Operating expenses relating to insurance activities**

Acquisition costs cover accrued costs related to acquiring and reviewing the insurance portfolio. Administrative expenses cover other accrued expenses related to insurance operations.

The allocation of non-directly attributable expenses between acquisition costs and administrative expenses and between life insurance and health and accident insurance is based on an ABC allocation model. The model uses drivers based on activity registrations.

Performance-based remuneration is expensed as it is earned. Part of the performance-based remuneration for the year may be paid in the form of equity-settled options (suspended in 2008) and conditional shares in Danske Bank. Share options may be exercised within three to seven years after the grant date and are conditional on the employee's not having resigned. Rights to conditional shares vest up to five years after the grant date, provided that the employee, with the exception of retirement, has not resigned from the Group. In addition to this requirement, the vesting of rights earned from 2010 is conditional on certain targets.

The fair value of share-based payments at the grant date is expensed over the service period that unconditionally entitles the employee to the payment. The intrinsic value of the options is expensed in the year when the share-based payments are earned, whereas the time value is accrued over the remaining service period. Subsequent fair value adjustments are not carried in the income statement.

## **Transferred return on investment**

Transferred return on investment consists of the return on the assets allocated to shareholders' equity and the return on health and accident insurance.

## **Health and accident insurance**

Premiums, net of reinsurance, are included in the income statement as they fall due. Premiums, calculated net of discounts not related to claims and the like and insurance premiums ceded, are accrued.

Technical interest, which is a calculated return on average technical provisions, net of reinsurance, is transferred from return on investment. The amount is calculated on the basis of the maturity-dependent discount rate determined by the Danish FSA. The proportion of the increased premium and claims provisions attributable to discounting is transferred from premiums/claims and set off against technical interest. Market value adjustment is included in the item Return on investment.

Claims, net of reinsurance, comprise claims paid for the year, adjusted for changes in outstanding claims provisions, including gains and losses on prior-year provisions (run-off result). Furthermore, claims include expenses for assessment of claims, expenses for damage control and an estimate of the expected administrative and claims handling expenses on the insurance contracts written by the undertaking. Total gross claims are calculated net of reinsurance.

Transferred return on investment is calculated as a proportion of the total investment return, excluding hedges of interest rate risk, the return allocated to shareholders' equity and unit-linked investments. This proportion is calculated in accordance with the ratio of health and accident provisions to total technical provisions.

## **Other income**

Comprises income which cannot be directly attributed to insurance or investment activities.

## **Other expenses**

Comprises expenses which cannot be directly attributed to insurance or investment activities.

## **Tax**

Calculated current tax on the profit for the year and changes in deferred tax as well as adjustments of tax charges for previous years are recognised in the income statement. Income tax for the year is recognised in the income statement in accordance with the tax laws in force in the countries in which Danica operates. Tax on items recognised in other comprehensive income is also recognised in other comprehensive income.

# Notes – Danica Group

Note

## BALANCE SHEET

### ASSETS

#### Intangible assets

##### Goodwill

Goodwill arises on the acquisition of an undertaking and is calculated as the difference between the cost of the undertaking and the fair value of its net assets. Goodwill on acquisitions made before 2002 was written off against shareholders' equity in the year of acquisition.

Goodwill is allocated to business units constituting the smallest identifiable cash-generating units, corresponding to the internal reporting structure and the level at which management monitors its investment. Goodwill is not amortised; instead each business unit is tested for impairment at least once a year or more frequently if indications of impairment exist. Goodwill is written down to its recoverable amount in the income statement provided that the carrying amount of the net assets of the cash-generating unit exceeds the higher of the assets' fair value less costs to sell and their value in use, which equals the present value of the future cash flows expected to be derived from each unit.

Goodwill on associated undertakings is recognised in Holdings in associates. The unit tested for impairment is the total carrying amount (including goodwill) of holdings in the associate.

Goodwill in subsidiaries is tested for impairment based on the cash-generating unit's estimated future cash flows for the next ten years and a residual value. The expected cash flows are discounted at a rate of 9% after tax. Goodwill in associated undertakings is tested for impairment based, among other things, on their financial statements.

##### Other intangible assets

Software acquired is measured at cost, including costs incurred to make each software application ready for use. Software acquired is amortised over the expected useful life, which is usually three years, using the straight-line method.

Costs attributable to the maintenance of intangible assets are expensed in the year of maintenance.

##### Domicile property

Domicile property is real property occupied by Danica for administrative purposes etc. The section on investment property below explains the distinction between domicile and investment property. Domicile property is measured at fair value according to the same principles as the Group's investment property, see the section Investment property.

Positive fair value adjustments of domicile property are recognised in other comprehensive income, unless the increase counters a value reduction previously recognised in the income statement. Negative fair value adjustments are recognised in the income statement, unless the decrease counters a value increase previously recognised in other comprehensive income.

Domicile property is depreciated on a straight-line basis, based on the expected scrap value and an estimated useful life of fifty years.

##### Investment property

Investment property is real property, including real property let under operating leases, which the Group owns for the purpose of receiving rent and/or obtaining capital gains. Investment property is real property that Danica does not use for its own administrative purposes etc., as such property is classified as domicile property. Real property with both domicile and investment property elements is allocated proportionally to the two categories if the elements are separately sellable. If that is not the case, such real property is classified as investment property, unless the Group occupies at least 10% of the total floorage.

On acquisition, investment property is measured at cost, including transaction costs, and subsequently it is measured at fair value.

Investment property under construction is measured at cost until the date when the fair value can be measured reliably, typically at the date of completion. If indications of impairment exist, the property is tested for impairment and written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The fair value of investment property is measured on the basis of a systematic assessment based on the present value of the expected cash flows from the property. The present value is calculated based on discounting by a required rate of return determined for each property individually. The rate of return of a property is determined on the basis of its location, type, possible uses, layout and condition as well as of the terms of lease agreements, rent adjustment and the credit quality of the lessees.

##### Financial instruments – general

Purchases and sales of financial instruments are measured at fair value at the settlement date, which usually equals cost. Fair value adjustments of unsettled financial instruments are recognised from the trading date to the settlement date.

For portfolios of assets and liabilities with offsetting market risks, managed on fair value basis, the fair value measurement is based on mid-market prices.

# Notes – Danica Group

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Note

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## **Financial investment assets**

At initial recognition, financial investment assets are classified as financial assets at fair value through profit or loss, as these assets are managed on a fair value basis, among other things due to their relation to pension obligations. Exceptions from this are derivatives, which by definition are classified as held for trading, and deposits with credit institutions, which are classified as debtors.

The fair value is measured on the basis of quoted market prices of financial instruments traded in active markets. The fair value of such instruments is therefore based on the most recently observed market price at the balance sheet date.

If a financial instrument is quoted in a market that is not active, the measurement is based on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including transactions in similar financial instruments that are assumed to be motivated by normal business considerations. If no active market exists for standard and simple financial instruments such as interest rate and currency swaps and unlisted bonds, fair value is calculated on the basis of generally accepted valuation techniques and market-based parameters.

The fair value of more complex financial instruments, such as swaptions and other OTC products and unlisted share holdings, is measured on the basis of valuation models which are typically based on valuation techniques generally accepted within the industry. The results of the calculations made on the basis of valuation techniques are often estimates, because exact values cannot be determined from market observations. Consequently, additional parameters, such as liquidity and counterparty risk, are sometimes used to measure fair value.

Derivatives comprise derivatives with positive fair values, while derivatives with negative fair values are recognised under Other creditors.

## **Investment assets related to unit-linked contracts**

At initial recognition, unit-linked investments are classified as financial assets at fair value through profit or loss due to their relation to the associated liabilities.

If an active market exists, the official year-end market price is used. If market prices in an active market are not available, fair value is determined on the basis of generally accepted measurement techniques according to the principles described for financial investment assets.

## **Debtors**

The reinsurers' share of insurance provisions is shown divided into unearned premiums provisions, life insurance provisions, outstanding claims provisions and provisions for unit-linked contracts.

Debtors are measured at amortised cost, which normally corresponds to nominal value less a write-down to cover any losses.

## **LIABILITIES AND EQUITY**

### **Shareholders' equity**

#### **Foreign currency translation reserve**

The foreign currency translation reserve covers differences arising on the translation of the financial results of and net investments in entities outside Denmark from their functional currencies to Danish kroner. The reserve also includes exchange rate adjustments of financial liabilities used to hedge net investments in such units.

#### **Other reserves**

Accumulated results of subsidiaries are recognised under other reserves if the parent company is a non-life insurance company. The foreign currency translation reserve forms part of other reserves under the Executive Order issued by the Danish FSA on financial reports presented by insurance companies and lateral pension funds.

#### **Revaluation reserve**

The revaluation reserve comprises fair value adjustments of domicile property less accumulated depreciation. The portion of the revaluation attributable to insurance and investment contracts with bonus entitlement is transferred to collective bonus potential.

#### **Proposed dividends**

The Board of Directors' proposal for dividends for the year submitted to the general meeting is included as a separate reserve in shareholders' equity. The dividends are recognised as a liability after the general meeting has adopted the proposal.

#### **Unearned premiums provisions**

Unearned premiums provisions relate to health and accident insurance and are made in accordance with the portion of premiums written that relates to subsequent financial years.

#### **Life insurance provisions**

Life insurance provisions are computed for each insurance policy on the basis of a zero-coupon yield curve. The computation of life insurance provisions is based on assumptions of expected future mortality and disability rates. Estimates of future mortality rates are based on the Danish FSA's benchmark, while other estimates are based on historical data derived from the existing portfolio of insurance contracts, including an allowance for risk. The risk allowance has been determined using a margin on mortality intensity.

Special allotments for the financial year are recognised in life insurance provisions as they arise.

Life insurance provisions are divided into guaranteed benefits, bonus potential on future premiums and bonus potential on paid-up policy benefits.

# Notes – Danica Group

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## Note

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Guaranteed benefits comprise obligations to pay guaranteed benefits to policyholders. Guaranteed benefits are calculated as the present value of the current guaranteed benefits plus the present value of expected future administrative expenses less the present value of future premiums. The guaranteed benefits are calculated taking into account future conversion of the policies into paid-up policies and policyholders' surrenders based on empirical data for the Group.

The bonus potential of future premiums comprises obligations to pay a bonus over time in relation to premiums agreed but not yet due. For the portfolio of insurance policies with bonus entitlement, the bonus potential of future premiums is calculated as the difference between the value of the guaranteed paid-up policy benefits and the value of guaranteed benefits. Guaranteed paid-up policy benefits comprise obligations to pay benefits guaranteed under the insurance if the policy is converted into a paid-up policy. Guaranteed benefits under paid-up policies are calculated as the present value of the guaranteed benefits under paid-up policies plus the present value of expected future expenses for the administration of the policies.

The bonus potential of paid-up policies comprises obligations to pay bonuses in relation to premiums already due less claims and benefits paid, etc. The bonus potential of paid-up policies is calculated as the value of the policyholders' savings less the guaranteed benefits, the bonus potential of future premiums and the present value of future administrative results. The bonus potential of each insurance policy cannot be negative.

The bonus potential of paid-up policies can be used to absorb losses when the collective bonus potential has been used up. If bonus potential of paid-up policies is reduced to such an extent that the provision for each insurance policy is lower than the guaranteed surrender value, the guaranteed benefits for the policy are increased corresponding to the likelihood of surrenders.

### **Outstanding claims provisions**

The outstanding claims provisions are an estimate of expected payments of benefits and benefits due but not yet paid. As regards claims under health and accident insurance policies where benefits are paid successively, the liability is calculated as the present value of expected future payments, including costs to settle claims obligations.

### **Collective bonus potential**

Provisions for collective bonus potential comprise the policyholders' share of the technical basis for insurance policies with bonus entitlement, which has not yet been allocated to individual policyholders.

Transfers between assets allocated to customer funds and assets attributable to shareholders' equity are made at fair value. The difference between the fair value and carrying amount of transferred assets is recognised in the collective bonus potential, with set-off directly against shareholders' equity.

### **Provisions for bonus and premium discounts**

Provisions for bonus and premium discounts comprise amounts payable to the policyholders as a result of a favourable claims experience for this or previous years.

### **Provisions for unit-linked contracts**

Provisions for unit-linked contracts are measured at fair value on the basis of the share of each contract of the unit trusts in question and the guarantees entered into. For policies with guaranteed benefits, the value of the guaranteed benefits and paid-up benefits is calculated on the basis of the methods reported to the Danish FSA.

### **Deferred tax**

Deferred tax is calculated in accordance with the balance sheet liability method on all temporary differences between the tax base of the assets and liabilities and their carrying amounts. Deferred tax is recognised in the balance sheet under Deferred tax assets and Deferred tax liabilities on the basis of current tax rates.

Tax assets arising from unused tax losses and unused tax credits are recognised as deferred tax assets to the extent that it is probable that the unused tax losses and unused tax credits can be utilised.

### **Other provisions**

Other provisions comprise liabilities of uncertain size or timing, but whose settlement will probably require an outflow of resources embodying economic benefits from the Group. Other provisions are measured at the best estimate of the costs required to settle the liability at the balance sheet date. Discounting is made where this has a material effect.

### **Creditors**

Derivatives are measured at fair value. Derivatives with negative fair values are recognised under Other creditors. Other creditors are measured at amortised cost, which usually corresponds to the nominal value.

### **Key ratios**

The key ratios of the Group and the Parent Company are prepared in accordance with the provisions of the executive order on financial reports presented by insurance companies and lateral pension funds. The return ratios are calculated using a composite weighting procedure.

## Notes - Danica Group

Note	DKKm	2013	2012
2	GROSS PREMIUMS, incl. payments received under investment contracts		
	Direct insurance:		
	Regular premiums	13,893	14,033
	Single premiums	11,678	9,296
	Total direct insurance	25,571	23,329
	Total gross premiums	25,571	23,329
	In the above gross premiums, premiums paid on investment contracts which are not included in the income statement constitute:		
	Regular premiums	1,154	1,029
	Single premiums	5,474	3,638
	Total premiums paid	6,628	4,667
	Total gross premiums included in the income statement	18,943	18,662
	Premiums, direct insurance, broken down by insurance arrangement:		
	Insurance taken out in connection with employment	19,158	17,836
	Insurance taken out individually	4,827	3,870
	Group life insurance	1,586	1,623
	Total	25,571	23,329
	Number of insured, direct insurance (1,000):		
	Insurance taken out in connection with employment	447	436
	Insurance taken out individually	429	442
	Group life insurance	575	580
	Premiums, direct insurance, broken down by bonus arrangement:		
	With profits insurance	4,991	6,008
	Without profits insurance	211	213
	Unit-linked insurance	20,369	17,108
	Total	25,571	23,329
	Premiums, direct insurance, broken down by policyholders' residence:		
	Denmark	17,075	16,533
	Other EU countries	6,481	5,171
	Other countries	2,016	1,625
	Total	25,572	23,329
3	MARKET VALUE ADJUSTMENTS		
	Domicile properties	2	2
	Investment properties	125	-292
	Holdings	2,153	1,494
	Unit trust certificates	9,622	11,952
	Bonds	-3,945	3,984
	Other loans	-49	-25
	Deposits with credit institutions	152	241
	Cash in hand and demand deposits	0	0
	Other	-6,155	859
	Total market value adjustments	1,905	18,215
4	CLAIMS AND BENEFITS PAID		
	Direct insurance:		
	Insurance amounts on death	-711	-698
	Insurance amounts on disablement	-259	-259
	Insurance amounts on expiry	-2,364	-1,134
	Retirement benefits and annuities	-6,999	-7,048
	Surrender values	-11,045	-8,614
	Cash payments of bonuses	-1,032	-1,045
	Total direct insurance	-22,410	-18,798
	Expenses to minimise disablement	-2	-2
	Total claims and benefits paid	-22,412	-18,800

# Notes - Danica Group

Note	DKKm	2013	2012
5	CHANGE IN LIFE INSURANCE PROVISIONS, GROSS		
	Provisions, beginning of year	182,430	181,644
	Accumulated value adjustment, beginning of year	-32,515	-23,427
	Retrospective provisions, beginning of year	149,915	158,217
	Changes during the period:		
	Gross premiums	5,200	6,222
	Interest added	4,085	3,127
	Claims and benefits	-16,061	-13,963
	Expense supplement after addition of expense bonus	-459	-511
	Risk gain after addition of risk bonus	-9	-19
	Special allotments	157	17
	Other	-82	-608
	Total changes	-7,169	-5,735
	Other changes:		
	Payments made under investment contracts	0	-
	Transfer of provisions	-7,682	-2,984
	Change in quota share, Forenede Gruppeliv	-9	-88
	Other	-74	505
	Total other changes	-7,765	-2,567
	Retrospective provisions, end of year	134,981	149,915
	Accumulated value adjustment, end of year	27,338	32,515
	Life insurance provisions, end of year	162,319	182,430
	Change in gross life insurance provisions consists of:		
	Change in retrospective provisions	-7,169	-5,735
	Change in accumulated value adjustment	-5,177	9,088
	Change in gross life insurance provisions	-12,346	3,353
	Change in gross life insurance provisions consists of:		
	Change in guaranteed benefits	-14,397	4,421
	Change in bonus potential of future premiums	418	673
	Change in bonus potential of paid-up policies	1,633	-1,741
	Change in gross life insurance provisions	-12,346	3,353
	Increase in provisions because the bonus potential of future premiums and paid-up policies must be positive for each policy		
	Bonus potential of future premiums	148	449
	Bonus potential of paid-up policies	25,372	30,253
	Reduction of bonus potential of paid-up policies on allocation of technical basis for risk allowance*	-78	1,522
	Bonus potential of paid-up policies used on allocation of technical basis for risk allowance	312	234
	* In 2012 DKK 1,522 million of the reduction from 2011 was reversed.		
	Bonus potential of paid-up policies can generally be used to cover losses. However, on certain policies it can only be used partially due to a guaranteed surrender value.		
	Total bonus potential of paid-up policies, before reduction re. technical basis for risk allowance	4,170	2,460
	Total bonus potential of paid-up policies available to cover losses	3,990	2,248
	Guaranteed benefits are calculated taking into account conversions of policies into paid-up policies and surrenders. A surrender rate of 2% p.a. is used for policies under the old surrender rules, where benefits are not being paid. Also a probability rate of 4% p.a. of conversion into paid-up policy is used, based on experience from Danica Pension's portfolio.		
	The effect on guaranteed benefits amounts to	1,198	782

# Notes - Danica Group

Note	DKKm	2013	2012			
5						
(cont'd)						
Life insurance provisions break down as follows by sub-portfolio						
2013	Non-allocated	Interest rate group 1	Interest rate group 2	Interest rate group 3	Interest rate group 4	
Guaranteed benefits	5,490	36,373	20,058	14,006	76,863	152,790
Bonus potential of future premiums	-	4,672	589	158	251	5,670
Bonus potential of paid-up policies	-	3,364	307	108	80	3,859
Total life insurance provisions	5,490	44,409	20,954	14,272	77,194	162,319
2012	Non-allocated	Interest rate group 1	Interest rate group 2	Interest rate group 3	Interest rate group 4	
Guaranteed benefits	6,054	42,329	22,610	16,235	87,724	174,952
Bonus potential of future premiums	-	4,559	413	107	174	5,253
Bonus potential of paid-up policies	-	1,858	138	116	113	2,225
Total life insurance provisions	6,054	48,746	23,161	16,458	88,011	182,430
6	CHANGE IN PROVISIONS FOR UNIT-LINKED CONTRACTS					
Provisions, beginning of year						96,078
Accumulated value adjustment, beginning of year						-201
Retrospective provisions, beginning of year						95,877
Changes during the year:						
Gross premiums						13,725
Interest added						9,150
Claims and benefits						-6,345
Expense supplement						-432
Risk gain						-22
Other						-111
Total changes						15,965
Other changes:						
Payments received under investment contracts						6,628
Payments made under investment contracts						-4,450
Transfer of provisions						7,752
Other						-2,137
Total other changes						7,793
Retrospective provisions, end of year						119,635
Accumulated value adjustment, end of year						206
Provisions, end of year						119,841
Change in provisions for unit-linked contracts breaks down as follows:						
Change in retrospective provisions						15,965
Change in accumulated value adjustment						5
Change in provisions for unit-linked contracts						15,970
Provisions for unit-linked contracts break downs as follows:						
Insurance contracts						85,064
Investment contracts						34,777
Provisions for unit-linked contracts, end of year						119,841
						96,077

# Notes - Danica Group

Note	DKKm	2013	2012
7	OPERATING EXPENSES RELATING TO INSURANCE		
	Commission on direct insurance	-298	-267
	Fees to the audit firms appointed by the general meeting:		
	Fees to KPMG:		
	Statutory audit of financial statements	-1.3	-1.8
	Tax advisory services	-0.1	-0.1
	Other services	-0.2	-0.3
	<b>Total</b>	<b>-1.6</b>	<b>-2.2</b>
	Average number of full-time-equivalent employees during the year	785	817
	Number of full-time-equivalent employees, end of year	769	803
	Staff costs:		
	Salaries	-465	-478
	Share-based payment	-2	-2
	Pensions	-81	-91
	Social security and tax	-74	-73
	Other	-52	-52
	<b>Total staff costs earned</b>	<b>-674</b>	<b>-696</b>
	<b>Total staff costs paid</b>	<b>-675</b>	<b>-695</b>
	For a more detailed description of the Group's remuneration policy and remuneration paid, see "Remuneration Report 2013", available at the website: <a href="http://www.danicapension.dk">www.danicapension.dk</a> . The remuneration report 2013 is not covered by the statutory audit.		
	All the Group's pension plans are defined contribution plans under which the Group makes contributions to insurance companies, principally Danica. Such payments are expensed as incurred.		
	Pension plans		
	Contributions to external defined contribution plans	-12	-21
	Contributions to internal defined contribution plans	-69	-70
	<b>Total</b>	<b>-81</b>	<b>-91</b>



# Notes - Danica Group

Note	DKKm	2013	2012
7			
(cont'd)			
Board of Directors' remuneration (DKK'000)			
Tonny Thierry Andersen		-36	-190
Ejvind Kolding (from 11.03.2013 until 21.10.2013)		0	-
Henrik Ramlau-Hansen (from 11.03.2013)		0	-
Peter Rostrup-Nielsen (from 12.04.2012)		-29	-105
Kim Andersen		-340	-340
Lars Andreasen (until 11.03.2013)		-29	-150
Thomas Falck		-150	-150
Gitte Jensen (until 13.03.2012)		-	-30
Charlott Due Pihl (from 13.03.2012)		-150	-120
Erik Sevaldsen (until 11.03.2013)		-29	-150
Malene Stadil (from 11.03.2013)		0	-
Peter Straarup (until 11.03.2013)		-48	-250
Per Sogaard		-150	-150
Total remuneration *		-961	-1,635
Including fees for board committee membership		-190	-190

\* In addition, Ib Katznelson, a board member of Danica Pension, receives remuneration in the amount of DKK 150 thousand.

Danica's directors receive a fixed fee. In addition, directors receive a fixed fee for board committee membership.

For their positions as members of the boards of directors or executive boards of other companies in the Danske Bank Group in 2013, Ejvind Kolding received DKK 13.9 million (2012 DKK 11.8 million), Tonny Thierry Andersen received DKK 8.6 million (2012 DKK 8.4 million), Henrik Ramlau-Hansen received DKK 8.4 million (2012 DKK 8.4 million), Peter Straarup received DKK 0 million (2012 DKK 1.2 million) and Kim Andersen received DKK 0.3 million (2012 DKK 0.3 million) in total remuneration from such companies.

Effective from 1 April 2013, Board of Directors' remuneration will be paid only to directors in the Danske Bank Group elected by the employees.

#### Remuneration of other material risk takers

For 2013, four persons outside the Executive Board were designated as material risk takers and combined they received remuneration of DKK 8.0 million (2012 DKK 8.3 million to four material risk takers), with fixed remuneration amounting to DKK 7.6 million (2011 DKK 7.9 million) and variable remuneration amounting to DKK 0.4 million (2012 DKK 0.4 million).

The Group has no pension obligations towards other material risk takers, as their pensions are funded by means of defined contribution plans through a pension insurance company.

# Notes - Danica Group

Note	DKKm	2013	2012
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7  
(cont'd)

## Remuneration of the Executive Board 2013

	Per Klitgård	Jesper Winkelmann	Lars Andreassen*	
Contractual remuneration	-4.4	-3.1	-2.0	-9.5
Pensions	-0.4	-0.6	-0.4	-1.4
Variable cash remuneration	-0.5	-0.4	-	-0.9
Variable share-based payment	-0.2	-0.1	-	-0.3
<b>Total</b>	<b>-5.5</b>	<b>-4.2</b>	<b>-2.4</b>	<b>-12.1</b>
<b>Total payment</b>				<b>-12.0</b>

The service contracts comply with the statutory requirements that came into force at 1 January 2011 for agreements on variable remuneration in financial enterprises.

\* Lars Andreassen joined the Executive Board on 1 April 2013 and resigned at 30 November 2013 to take up a position with Danske Bank.

## Remuneration of the Executive Board 2012

	Per Klitgård	Jesper Winkelmann	
Contractual remuneration	-4.3	-3.0	-7.3
Pensions	-0.4	-0.6	-1.0
Variable cash remuneration	-1.5	-0.4	-1.9
Variable share-based payment	-0.5	-0.1	-0.6
<b>Total</b>	<b>-6.7</b>	<b>-4.1</b>	<b>-10.8</b>
<b>Total payment</b>			<b>-9.9</b>

Per Klitgård may resign his position at six months' notice.

Danica Pension may terminate Per Klitgård's service contract at twelve months' notice. If the termination takes place before 30 September 2016, he is entitled to a severance payment equivalent to 12 months' salary. After that date, Per Klitgård is not entitled to severance payment.

Jesper Winkelmann may resign his position at three months' notice.

Danica Pension may terminate Jesper Winkelmann's service contract at eight months' notice, in which case he will receive a severance payment equivalent to 24 months' salary. The severance payment is reduced from the year when the Executive Board member attains 23 years' pension seniority until it is the equivalent of 12 months' salary. Pension contributions paid before the age of 35 are not included in the calculation of pension seniority.

### Share-based payment

On entering into his service agreement, Per Klitgård received a one-off fee of DKK 2.5 million which was converted into 32,208 Danske Bank shares based on the average price at the grant date. A third of these are tied up until 1 October 2012 and the remaining two thirds are tied up until 1 October 2014.

Until 2008, the Group offered senior staff and selected other employees an incentive programme that consisted of share options and conditional shares. Incentive payments reflected individual performance and also depended on financial results in the business area and other measures of value creation in a given financial year. The options and shares were granted in the first quarter of the qualifying year.

Issued options carry a right to buy Danske Bank shares exercisable from three to seven years after they are granted provided that the employee, with the exception of retirement, has not resigned from the Group. The exercise price of the options is computed as the average price of Danske Bank shares for 20 stock exchange days after the release of the bank's annual report plus 10%.

The fair value of the share options at the grant date is calculated according to a dividend-adjusted Black & Scholes formula. Calculation of the fair value at the end of 2013 is based on the following assumptions: Share price: 124 (2012: 96). Dividend payout ratio: 2.5% (2012: 2.5%). Rate of interest: 0.2-0.3% (2012: 0.2-0.3%), equal to the swap rate. Volatility: 30% (2012: 35%). Average time of exercise: 0-1 years (2012: 0-1 years).

Effective from 2010, part of the variable remuneration of the Executive Board and selected senior staff and specialists was granted by way of conditional shares.

Rights to Danske Bank shares under the conditional share programme vest after up to five years provided that the employee, with the exception of retirement, has not resigned from the Group. In addition to this requirement, rights to shares earned in 2011, 2012 and 2013 vest only if the Group as a whole and the employee's department meet certain performance targets within the next five years.

The fair value of the conditional shares is calculated as the share price less the payment made by the employee.

The intrinsic value is expensed in the year in which the share options and rights to conditional shares are earned, while the time value is accrued over the remaining service period, which is the vesting period up to five years.

Danica has hedged the share price risk.

# Notes - Danica Group

Note DKKm

7  
(cont'd)

## Share-based payment

Share options	Number			Exercise price (DKK)	Fair value (FV)	
	Executive Board	Other employees	Total		Issue date	End of year
1 Jan. 2012	70,856	46,553	117,409	176,0-272,2	3.0	0.1
Forfeited 2012	-28,345	-	-28,345	-	-	-
31 Dec. 2012	42,511	46,553	89,064	183,0-272,2	2.0	0.0
Forfeited 2013	-17,938	-	-17,938	226.32	-	-
Other changes 2012	195	369	564	-	-	-
31 Dec. 2013	24,768	46,922	71,690	181,1-269,4	1.7	0.1

## Executive Board members' holdings, end of 2013

Year of grant	2007-2008	
	Number	FV
Per Klitgård	-	-
Jesper Winkelmann	24,768	0.0

No share options were granted or exercised in 2013

The number of share options and exercise price have been adjusted to reflect the share capital increase in 2012.

## Executive Board members' holdings, end of 2012

Year of grant	2006-2008	
	Number	FV
Per Klitgård	-	-
Jesper Winkelmann	42,511	0.0

Holding and exercise price have been changed as a result of the capital increase in April 2011.

No share options were granted or exercised in 2012.

# Notes - Danica Group

Note DKKm

7  
(cont'd)

## Share-based payment

Conditional shares	Number			Own contribution price (DKK)	Fair value (FV)	
	Executive Board	Other employees	Total		Issue date	End of year
<b>Granted in 2012</b>			0			
Granted 2012	4,263	12,293	16,556	0,0-0,9	1.5	1.6
Vested 2012	-	-893	-893	0,9	-	-
Forfeited 2012	-	-980	-980	-	-	-
Other changes 2012	-	-	0	-	-	-
<b>31 Dec. 2012</b>	<b>4,263</b>	<b>10,420</b>	<b>14,683</b>	<b>0,0-0,9</b>	<b>1,4</b>	<b>1,4</b>
Vested 2013	-657	-	-657	0,0	-	-
Forfeited 2013	-	-	0	-	-	-
Other changes 2013	20	76	96	-	-	-
<b>Ultimo 2013</b>	<b>3,626</b>	<b>10,496</b>	<b>14,122</b>	<b>0,0-0,9</b>	<b>1,3</b>	<b>1,7</b>
<b>Granted in 2013</b>						
Granted 2013	4,047	11,696	15,743	0,0-1,1	1,7	1,9
Vested 2013	-	-786	-786	1,1	-	-
Forfeited 2013	-	-	0	-	-	-
Other changes 2013	-	-	0	-	-	-
<b>31 Dec. 2013</b>	<b>4,047</b>	<b>10,910</b>	<b>14,957</b>	<b>0,0-1,1</b>	<b>1,6</b>	<b>1,8</b>

## Executive Board members' holdings and fair value thereof, end of 2013

Year of grant	2013	
	Number	FV
Per Klitgård	4,759	0,6
Jesper Winkelmann	2,914	0,4

Average market price at the vesting date for conditional shares in 2013 was 122.4

The number of conditional shares and employee payment price have been adjusted to reflect the capital increase in 2012.

## Executive Board members' holdings and fair value thereof, end of 2012

Year of grant	2012	
	Number	FV
Per Klitgård	2,472	0,2
Jesper Winkelmann	1,791	0,2

Average market price at the vesting date for conditional shares in 2012 was 98.3.

# Notes - Danica Group

Note	DKKm	2013	2012			
8	TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE					
	Gross premiums	1,237	1,321			
	Reinsurance premiums ceded	-64	-68			
	Change in unearned premiums provision	70	-15			
	Change in unearned premiums provision, reinsurers' share	0	1			
	Premiums, net of reinsurance	1,243	1,239			
	Technical interest	-2	-53			
	Claims paid, gross	-1,369	-1,355			
	Reinsurers' share received	64	76			
	Change in outstanding claims provision	-16	44			
	Change in outstanding claims provision, reinsurers' share	-15	-23			
	Claims, net of reinsurance	-1,336	-1,258			
	Bonus and premium discounts	-41	-77			
	Acquisition costs	-37	-57			
	Administrative expenses	-86	-86			
	Reinsurance commissions and profit sharing	6	6			
	Total operating expenses relating to insurance, net of reinsurance	-117	-137			
	Return on investment	180	318			
	TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE	-73	32			
	Total run-off regarding prior years:					
	Gross	7	20			
	Net of reinsurance	6	17			
	Calculation of technical interest and return on investment:					
	Technical interest amount	169	134			
	Outstanding claims provision, discounted amount	-160	-173			
	Discounted risk increasing with age	-11	-14			
	Technical interest, net of reinsurance, less discounted amount	-2	-53			
	Return on investment transferred to health and accident insurance	170	778			
	Market value adjustments of outstanding claims provision	179	-326			
	Total return on investment incl. market value adjustments	349	452			
	Transferred to technical interest	-169	-134			
	Return on investment	180	318			
		Health and accident insurance	Health care insurance	Total		
	Gross premiums	1,014	223	1,237		
	Gross premium income	1,082	225	1,307		
	Gross claims	-1,217	-168	-1,385		
	Gross operating expenses	-106	-17	-123		
	Result of business ceded	-9	0	-9		
	Technical interest, net of reinsurance	-2	0	-2		
	Technical result	-113	40	-73		
	Number of claims	2,483	30,059	32,542	32,542	32,377
	Average amount of claims	0.1	0.0	0.1	0.0	0.0
	Claims frequency	0.8%	6.0%	6.8%	5.6%	5.6%
	Gross premiums, direct insurance, broken down by policyholders' residence:					
	Denmark			832		833
	Other EU countries			22		19
	Other countries			127		116
	Total			981		968

# Notes - Danica Group

Note	DKKm	2013	2012
9	OTHER INCOME		
	Commission from fund managers etc.	267	252
	Commission from ancillary activities	6	8
	<b>Total</b>	<b>273</b>	<b>260</b>
10	PROFIT BEFORE TAX		
	Danica Pension's technical basis for risk allowance is to be allocated in accordance with the Executive Order on the Contribution Principle.		
	In accordance with the Executive Order on the Contribution Principle and the Guidelines on Market Discipline, the Danish FSA has been notified of Danica Pension's consolidation policy for 2013. The company's profit for the year consists of the return on assets allocated to shareholders' equity, including the results of unit-linked business, Denmark and the three subsidiaries outside Denmark, the result of Forenede Gruppeliv, the health and accident result and a risk allowance of the technical provisions of the four interest rate groups and a share of the risk groups' risk results.		
	To the extent that the Executive Order on the Contribution Principle does not permit the company to recognise full risk allowance, the amount may be booked over the coming years if justified by the technical basis for risk allowance.		
	For this purpose, a shadow account is set up. The shadow account accrues interest at the rate that applies to bonds allocated to shareholders' equity.		
	The calculation of technical basis for risk allowance only comprises policies under contribution, and individual items therefore cannot be reconciled to the Group's income statement.		
	Technical basis for risk allowance:		
	Technical result, life insurance	634	1,676
	Tax on pension returns	-	2,189
	Change in collective bonus potential	273	476
	Special allotments	158	17
	Bonus potential of paid-up policies used	-78	1,522
	Addition of bonus	1,655	-1,518
	<b>Total technical basis for risk allowance</b>	<b>2,642</b>	<b>4,362</b>
	<b>Total technical basis for risk allowance relating to life insurance customers</b>	<b>2,642</b>	<b>4,362</b>
	In accordance with the contribution principle, full risk allowance for 2013 was booked for two of the four interest rate groups and partial risk allowance was booked for one of the four interest rate groups.		
	Specification of risk allowance:		
	Percentage of insurance provisions	1,158	1,223
	40% of the technical basis for risk allowance in risk groups	103	113
	<b>Total risk allowance</b>	<b>1,261</b>	<b>1,336</b>
	The percentage of insurance provisions was 0.50% in the New business group; 0.55% in Low; 0.70% in Medium and 0.85% in High.		
	Development in shadow account:		
	Shadow account, beginning of year	763	1,158
	Added interest	2	12
	Used/set aside	439	-407
	<b>Shadow account, end of year</b>	<b>1,204</b>	<b>763</b>
	The amount transferred to the shadow account includes DKK 40 million contributed in 2011 to technical provisions from shareholders' equity as a result of the shortfall of bonus potential of paid-up policies.		
	Shadow account distributed on contribution groups:		
	Interest rate group 1	-	-
	Interest rate group 2	414	291
	Interest rate group 4	735	417
	Risk groups, total	55	55
	<b>Total</b>	<b>1,204</b>	<b>763</b>

# Notes - Danica Group

Note	DKKm	2013	2012
11	TAX		
	Tax for the year can be broken down as follows:		
	Tax on the profit for the year	-82	-578
	Tax on other comprehensive income:		
	Hedges of units outside Denmark	-12	6
	<b>Total</b>	<b>-94</b>	<b>-572</b>
	Tax on the profit for the year is calculated as follows:		
	Current tax	-3	-516
	Adjustment of prior-year current tax	4	-29
	Adjustment of prior-year deferred tax	-1	37
	Change in deferred tax due to reduced tax rate	210	-
	Other changes in deferred tax	-292	-70
	<b>Total</b>	<b>-82</b>	<b>-578</b>
	Effective tax rate:		
	Danish tax rate	25.0	25.0
	Adjustment of prior-year tax charge	-0.2	-0.2
	Effect of reduction of tax rate	-16.7	-
	Non-taxable income and non-deductible expenses	-1.6	-0.4
	<b>Effective tax rate</b>	<b>6.5</b>	<b>24.4</b>
	Deferred tax:		
	Deferred tax is recognised as follows in the balance sheet:		
	Deferred tax (liability)	1,544	1,462
	<b>Deferred tax, net</b>	<b>1,544</b>	<b>1,462</b>
	Deferred tax broken down on main items:		
	Intangible assets	-3	-2
	Tangible assets	-2	-3
	Investment properties	1,371	1,466
	Financial investment assets	1	-
	Negative tax on pension returns brought forward	179	1
	Other	-2	0
	<b>Total</b>	<b>1,544</b>	<b>1,462</b>
	Other than the deferred tax provided for, the Group has no contingent tax liability relating to shares in group undertakings.		
12	DOMICILE PROPERTY		
	Cost, beginning of year	48	48
	Cost, end of year	48	48
	Depreciation charges, beginning of year	-4	-3
	Depreciation charges for the year	0	-1
	Depreciation charges, end of year	-4	-4
	Revalued amount, beginning of year	14	15
	Impairment charges for the year	-1	-1
	Revalued amount, end of year	13	14
	Carrying amount, end of year	57	58
	Of revaluations for the year, DKK 0 million was recognised in other comprehensive income and transferred to the revaluation reserve in equity, and DKK 0 million was transferred to the collective bonus potential.		
	The weighted average of rates of return on which fair values of individual properties were based amounts to	6.5%	6.5%

# Notes - Danica Group

Note	DKKm	2013	2012		
13	INVESTMENT PROPERTIES				
	Fair value, beginning of year	21,816	20,898		
	Property improvement expenditure	1,023	1,286		
	Disposals during the year	-172	-81		
	Fair value adjustments	58	-287		
	Fair value, end of year	22,725	21,816		
	Amount hereof included in "Unit-linked investment assets"	-1,065	-1,022		
	Fair value, end of year	21,660	20,794		
	The weighted average of the rates of return on which the fair value of the individual properties is based for:				
	Shopping centres	5.8%	5.8%		
	Commercial properties	6.2%	6.1%		
	Residential properties	4.4%	5.0%		
	Real property consolidated on a pro rata basis is included with the following amounts in:				
	Investment properties	2,249	2,136		
	Total assets	2,313	2,325		
	Other creditors	69	58		
	Total investment return	103	73		
14	OTHER FINANCIAL INVESTMENT ASSETS				
	Comprises the following investments in companies in the Danske Bank Group:				
	Holdings	324	209		
	Bonds	21,388	26,540		
	Deposits with credit institutions	2,517	6,439		
	Cash in hand and demand deposits	984	1,216		
	Other	2,189	2,032		
15	UNIT-LINKED INVESTMENT ASSETS				
	Consists of unit trusts in which the underlying assets break down as follows:				
		With guarantee	Without guarantee		
	Investment property	82	983	1,065	1,022
	Holdings	6,005	69,349	75,354	59,330
	Bonds	16,861	25,049	41,910	34,090
	Deposits with credit institutions	1	1,280	1,281	1,397
	Total	22,949	96,661	119,610	95,839
16	OUTSTANDING CLAIMS PROVISION				
	Gross life insurance	328	331		
	Gross health and accident insurance	7,985	8,038		
	Total outstanding claims provision	8,313	8,369		
17	COLLECTIVE BONUS POTENTIAL				
	Distribution on contribution groups:				
	Interest rate group 1	403	135		
	Interest rate group 2	0	0		
	Interest rate group 3	419	463		
	Interest rate group 4	0	2		
	Risk groups, total	179	169		
	Cost groups, total	124	82		
	Total	1,125	851		
	Bonus rate (%):				
	Interest rate group 1	0.9	0.3		
	Interest rate group 2	0.0	0.0		
	Interest rate group 3	3.7	3.6		
	Interest rate group 4	0.0	0.0		



# Notes - Danica Group

Note	DKKm	2013	2012
18	PROVISIONS FOR UNIT-LINKED CONTRACTS		
	Provisions for unit-linked contracts without guarantee	96,771	80,480
	Provisions for unit-linked contracts with investment guarantee	23,070	15,597
	<b>Total provisions for unit-linked contracts</b>	<b>119,841</b>	<b>96,077</b>
	Total provisions for guaranteed unit-linked cont		
	Guaranteed benefits	17,004	11,478
	Guaranteed paid-up policies	19,447	13,401
19	OTHER CREDITORS		
	Other creditors comprise:		
	Derivatives with negative fair values	2,118	2,563
	Tax on pension returns	1,438	2,961
	Staff commitments	85	94
20	ASSETS DEPOSITED AS COLLATERAL AND CONTINGENT LIABILITIES		
	At the end of the year, the Group had deposited assets as collateral for policyholders' savings at a total carrying amount of	299,477	298,616
	Mortgages have been issued as collateral for the technical liabilities in a total amount of	75	75
	As collateral for derivative transactions, the Group has delivered bonds equal to a total fair value of	340	63
	The Group has rent commitments with a remaining lease of 12 years and annual gross rent of	56	56
	Minimum lease payments regarding cars amounts to	2	2
	The Group has undertaken contractual obligations to purchase, construct, convert or extend investment properties or to repair, maintain or improve these at an amount of	1,479	824
	The Group has undertaken to participate in alternative investments with an amount of	14,563	8,271
	The Group is voluntarily registered for VAT on certain properties. The Group's VAT adjustment liability amounts to	760	762
	In certain cases, Danica Pension is liable to pay compensation to policyholders who have transferred their pension plan to Danica Pension. The total amount of compensation cannot exceed	0	4
	As a participant in partnerships, the Group is liable for a total debt of	96	80
	Amount of this included in the Group's balance sheet	69	58
	The Group's companies are jointly taxed with all units in the Danske Bank Group and are jointly and severally liable for their Danish income tax, withholding tax etc.		
	The Danish group companies are registered jointly for financial services employer tax and for VAT for which they are jointly and severally liable.		
	Danica Pension is jointly and severally liable with the other participants for the insurance obligations concerning all the policies administered by Forenede Gruppeliv A/S.		
	Owing to its size and business volume, the Group is continually a party to various lawsuits and disputes. The Group does not expect the outcomes of lawsuits and disputes to have any material effect on its financial position.		

# Notes - Danica Group

Note	DKKm	2013	2012
21	RELATED PARTIES		
	Danske Bank A/S, domiciled in Copenhagen, wholly owns the share capital of Forsikringsselskabet Danica and consequently exercises control over the Danica Group.		
	Danske Bank A/S is the ultimate parent company of the Danica Group.		
	Transactions with related parties are settled on an arm's-length basis or on a cost-recovery basis. The Group's IT operations and development, internal audit, HR administration, logistics, marketing and the like are handled by Danske Bank. Danske Bank also handles portfolio management and securities trading.		
	The Danica Group entered into the following significant transactions and balances with other companies in the Danske Bank Group. For more information, see note 14 to the financial statements.		
	It operations and development	-208	-239
	Other administration	-36	-22
	Commission for insurance sales and portfolio management	-142	-133
	Ordinary portfolio management fee	-157	-154
	Performance fee for portfolio management	-4	-110
	Total net custody fees and brokerage for trades in holdings and the like	-44	-68
	Interest income	911	1,077
	Interest expenses	-19	-23
	Rent from premises	14	14
	Amounts owed to credit institutions	436	705
	Derivatives with negative fair values	8,558	6,790
	Furthermore, the Danica Group manages the employer pension plans of Danske Bank and its related parties.		
	Loans to associates comprise subordinated loans granted on equal terms as other investors.		

# Notes - Danica Group

Note DKKm

## 22 SPECIFICATION OF ASSETS AND RETURNS 2013

	Carrying amount		Investment, net	% return p.a. before tax on pension returns & corp.tax
	Beginning of year	End of year		
Land and buildings:				
Land and buildings, owned directly	20,794	21,660	783	4.8
Property companies	851	894	-15	6.9
<b>Total land and buildings</b>	<b>21,645</b>	<b>22,554</b>	<b>768</b>	<b>4.9</b>
Other holdings:				
Listed Danish holdings	20	11	-9	-6.7
Unlisted Danish holdings	472	394	-91	4.1
Listed foreign holdings	12,778	14,828	746	13.8
Unlisted foreign holdings	6,814	8,938	1,676	6.1
<b>Total other holdings</b>	<b>20,084</b>	<b>24,171</b>	<b>2,322</b>	<b>10.9</b>
Bonds:				
Government bonds (Zone A) *	37,893	29,627	-6,883	-
Mortgage bonds *	75,457	69,082	-5,141	-
Foreign exchange hedging	-128	-13	294	-
Government bonds (Zone A) and mortgage bonds including foreign exchange hedging	113,222	98,696	-11,730	0.4
Index-linked bonds	16,731	14,406	-1,293	-4.5
Credit bonds, investment grade	12,591	9,327	-3,097	2.7
Credit bonds, non-investment grade and emerging market bonds	18,223	16,100	-792	0.2
Other bonds	1,147	1,055	-56	0.8
<b>Total bonds</b>	<b>161,914</b>	<b>139,584</b>	<b>-16,968</b>	<b>0.0</b>
Other financial investment assets	9,602	10,691	1,089	0.5
Derivative financial instruments to hedge net changes of assets and liabilities	5,373	1,788	143	-

\* Rate of return before foreign exchange hedge for Government bonds (Zone A) was -0.5 and for Mortgage bonds was 1.1%.  
A specification of the company's holdings is available on Danica's website [www.danicapension.dk](http://www.danicapension.dk).

## 23 PERCENTAGE ALLOCATION OF SHARE PORTFOLIOS ON INDUSTRIES AND REGIONS 2013

	Denmark	Rest of Europe	North America	South America	Japan	Rest of Asia/Pacific	Other countries	Total
Energy	0.0	1.8	3.3	0.0	0.0	0.0	0.1	5.2
Materials	0.4	1.3	1.3	0.1	0.2	0.1	0.2	3.6
Industrials	1.6	1.6	3.2	0.1	1.3	0.3	0.1	8.2
Consumer discretionary	0.3	1.3	4.2	0.0	0.8	0.5	0.1	7.2
Consumer staples	0.4	2.7	2.6	0.0	0.5	0.2	0.2	6.6
Health care	1.3	2.5	2.7	0.0	0.2	0.0	0.1	6.8
Financials	13.2	20.0	13.3	0.2	0.9	0.9	3.4	51.9
Information technology	0.0	1.4	4.8	0.1	0.5	0.8	0.0	7.6
Telecommunications	0.1	0.9	0.5	0.0	0.2	0.1	0.0	1.8
Utilities	0.0	0.3	0.6	0.0	0.1	0.1	0.0	1.1
Non allocated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>17.3</b>	<b>33.8</b>	<b>36.5</b>	<b>0.5</b>	<b>4.7</b>	<b>3.0</b>	<b>4.2</b>	<b>100.0</b>

# Notes – Danica Group

Note

## 24 RISK MANAGEMENT AND SENSITIVITY RATIOS

### RISK MANAGEMENT

The Board of Directors defines the Group's risk management framework, while the daily management monitors the Group's risks and ensures compliance with the framework.

The Group is exposed to a number of different risks.

Financial risks	Insurance risks	Operational risks	Business risks
Market	Longevity	IT	Reputation
Liquidity	Mortality	Legal	Strategic
Counterparty	Disability	Administrative	
Concentration	Concentration	Fraud	

#### Financial risk

Financial risks comprise market risk, liquidity risk, counterparty risk and concentration risk. Market risk is the risk of losses due to changes in the fair value of the Group's assets and liabilities due to changing market conditions, such as changes in interest rates, equity prices, property values, exchange rates and credit spreads. Liquidity risk is the risk of losses as a result of a need to liquidate tied-up cash to pay liabilities within a short timeframe. Counterparty risk is the risk of losses because counterparties default on their obligations. Concentration risk is the risk of losses as a result of high exposure to a few asset classes, industries, issuers, etc.

The Group has three sources of financial risk:

- Investments relating to conventional products
- Investments relating to market products with investment guarantees.
- Direct investments of shareholders' equity

The amount of financial risk differs for the various products in the Group's product range. A list of the Group's companies and activities is shown on page 56.

The most significant financial risk of the Group is the market risk relating to Danica Pension's conventional life insurance products.

#### Investments relating to conventional products

The Group's conventional products are policies with guaranteed benefits and collective investments.

The market risk of conventional products consists of the relationship between investment assets and guaranteed benefits for each interest rate group.

If the investment return on customer funds for the year in the individual interest rate groups is inadequate to cover the return on customer funds and the required strengthening of life insurance obligations etc., the shortfall is covered first by the collective bonus potential and then by the bonus potential of paid-up policies of each interest rate group. If the bonus potentials are insufficient to absorb losses, the assets attributable to shareholders' equity are used.

Insurance obligations are calculated by discounting the expected cash flows using a discount yield curve defined by the Danish FSA. Effective as of 12 June 2012, the Ministry of Business and Growth and the Danish Insurance Association signed an agreement that included an adjustment of the discount curve for long-term interest rates which are now assumed to converge towards a fixed long-term level. The agree-

ment was to expire on 31 December 2013, but has been extended. A number of technical assumptions and requirements under Solvency II that affect the determination of, among other things, the yield curve are expected to be adopted during the course of 2014. These mainly relate to the determination of the Ultimate Forward Rate (the rate that the curve should converge to), credit and foreign exchange risk adjustment of the curve, volatility adjustment and the method used to compute the yield curve. The change, which aligns the rules with the coming Solvency II rules, reduced Danica Pension's life insurance provisions at year end 2013 by DKK 0.8 billion.

In order to ensure that the return on customer funds matches the guaranteed benefits on policies with bonus entitlement, the Group monitors market risk on an ongoing basis. Internal stress tests are performed to ensure that the Group is able to withstand material losses on its risk exposure as a result of major interest rate fluctuations. Interest rate risk is in part covered by the bond portfolio and in part hedged using derivatives.

Since the Danish bond market is not substantial enough and does not have the necessary duration to hedge the liabilities, Danica must invest in non-Danish interest rate instruments. The bond portfolio therefore comprises a wide range of interest rate-based assets: Danish and European government bonds; Danish mortgage bonds, Danish index-linked bonds and a well-diversified portfolio of global credit bonds. Consequently, the Group is exposed to basic risk in the form of country and credit spreads.

The credit spread risk on bond holdings is limited as 71% of the portfolio at the end of 2013 consists of government and mortgage bonds with high credit quality (AA - AAA) with the international credit rating agencies or in unrated bonds with a similar high credit quality. Just 11% of the portfolio is invested in non-investment grade bonds.

The counterparty risk is reduced by demanding security for derivatives and high credit ratings for reinsurance counterparties.

Foreign exchange risk is insignificant as it is limited by means of derivatives.

Liquidity risk is limited by placing a major portion of investments in liquid listed bonds and equities.

Concentration risk is limited by investing with great portfolio diversification and by limiting the number of investments in a single issuer. For mortgage bonds, the issuer is not considered critical to the concentration risk, as the individual borrower provides collateral for issued mortgage bonds.

#### Investments relating to market products

Policyholders assume the financial risk associated with investments under the market rate products, Danica Link, Danica Balance and Danica Select, with the exception of contracts with investment guarantees. At the end of 2013, 20% of policyholders had investment guarantees in the guaranteed period. The guarantees do not apply until the policyholder retires and is paid for by an annual fee.

Danica Pension manages the risk on financial guarantees in Danica Link with financial derivatives and by adjusting the investment allocation during the last five years before retirement. It manages the risk on guarantees in Danica Balance mainly by regularly adjusting the investment allocation for the individual policies during the last ten years before retirement. The investment allocation is adjusted to the guarantee amount, the investment horizon, etc. Because of this risk manage-

# Notes – Danica Group

## Note

ment strategy, Danica Pension considers the investment risk on guarantees in market products to be very minor. Investment guarantees are not available under Danica Select.

### **Direct investments of shareholders' equity**

Shareholders' equity is subject to financial risk on the investment of assets allocated to shareholders' equity and on investments relating to the health and accident business.

The Board of Directors has set separate investment strategies for assets allocated to shareholders' equity and investments relating to health and accident insurance. Assets allocated to shareholders' equity mainly comprise short-term bonds.

### **Insurance risk**

Insurance risk is linked to trends in mortality, disability, critical illness and other variables. For example, an increase in longevity lengthens the period during which benefits are payable under certain pension plans. Similarly, trends in mortality, sickness and recoveries affect life insurance and disability benefits. Longevity is the most significant life insurance risk.

In respect of insurance risk, concentration risk comprises the risk of losses as a result of high exposure to a few customer groups and high exposure to a few individuals. Concentration risk is limited by means of portfolio diversification and by reinsurance.

To limit losses on individual life insurance policies with high risk exposure, Danica Pension uses reinsurance to cover a small portion of the risks related to mortality and disability.

The various risk elements are subjected to ongoing actuarial assessment for the purpose of calculating insurance obligations and making any necessary business adjustments.

### **Operational risk**

Operational risk relates to the risk of losses resulting from IT system errors, legal disputes, inadequate or faulty procedures and fraud. The Group limits operational risk by establishing internal controls that are regularly updated and adjusted to the Group's current business volume. Another measure taken is segregation of duties.

### **Business risk**

Business risk comprises strategic risks, reputational risks and other risks relating to external factors.

The Group closely monitors the development on the markets where the Group operates in order to ensure the competitiveness of prices and customer service. The Group is committed to treating customers fairly and communicating openly and transparently.

The Group subjects its business units to systematic assessments to reduce the risk of financial losses due to damage to its reputation.

## SENSITIVITY INFORMATION

The below table discloses for the Group the effect on shareholders' equity and on collective bonus potential and the bonus potential of paid-up policies of isolated changes in interest rates (increases and decreases) and other relevant financial risks as well as changes in the mortality and disability rates.

A 10% decline in the mortality rate, corresponding to an increase in longevity of about one year, would increase the liability by DKK 1.8 billion, of which shareholders' equity would be reduced by DKK 1.4 billion.

Of the two interest rate scenarios, an interest rate fall would overall be the worse for the Group. In an isolated scenario with a 0.7 percentage point interest rate fall, the collective bonus potential would be increased by 0.8 billion and shareholders' equity by DKK 0.1 billion.

Except for credit spreads, the financial stress tests in the table below are defined in the Danish FSA's red traffic light scenario. A company is considered to be in the red light scenario if its capital is insufficient to cover the solvency requirement less 3% of life insurance provisions under the red light scenario. If a company is in the red light scenario, the Danish FSA will become involved in the financial management of the company.

The Group has been in the green light scenario since the FSA's traffic light scenarios were introduced in 2001.

## SENSITIVITY INFORMATION 31/12/2013

(DKKbn)	Minimum effect on capital base	Maximum effect on collective bonus potential	Maximum effect on bonus potential of paid-up policies before change in drawn bonus potential of paid-up policies	Maximum effect on drawn bonus potential of paid-up policies
Interest rate increase of 0.7-1.0 percentage point	-0.2	-0.1	3.1	-0.3
Interest rate fall of 0.7-1.0 percentage point	0.1	0.8	-2.7	0.1
Share price fall of 12%	-0.6	-0.6	-	-0.7
Fall in property prices of 8%	-0.8	-0.5	-	-0.2
Foreign exchange risk (VaR 99.0)	-0.2	-0.2	-	-0.1
Loss on counterparties of 8%	-1.0	-0.5	-	-0.4
Widening of credit spread of 1.0 percentage point	-0.3	-0.3	-	-0.2
Decrease in mortality rate of 10%	-1.4	-0.2	-0.1	-0.1
Increase in mortality rate of 10%	0.0	1.5	0.1	0.0
Increase in disability rate of 10%	0.0	0.0	0.0	0.0



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## Financial highlights - Forsikringselskabet Danica

DKKm	2013	2012	2011	2010	2009
<b>INCOME STATEMENT</b>					
Gross premiums	327	339	368	378	355
Technical interest	-	-2	2	7	12
Gross claims	-286	-278	-258	-291	-323
Bonuses and premium discounts	-1	1	1	2	-
Total operating expenses relating to insurance	-24	-26	-41	-49	-54
Technical result	16	34	72	47	-10
Total profit on investment activities after transfer of technical interest	1,167	1,765	503	1,752	2,355
Other income and expenses etc.	-	-	3	8	3
Profit before tax	1,183	1,799	578	1,807	2,348
Tax	-4	-13	-28	-36	-27
Net profit for the year	1,179	1,786	550	1,771	2,321
Run-off result	5	15	34	50	50
<b>BALANCE SHEET</b>					
Total assets	19,806	19,467	20,291	21,605	19,873
Holdings in group undertakings	19,270	18,865	19,346	18,909	17,241
Other investment assets	495	591	928	2,640	2,567
Total shareholders' equity	19,402	18,986	19,743	20,992	19,215
Total technical provisions	389	432	491	556	592
<b>RATIOS (%)</b>					
Gross claims ratio	87.9	81.8	70.1	76.6	90.8
Gross expense ratio	7.4	7.5	11.0	13.0	15.1
Combined ratio	95.3	89.3	81.1	89.6	105.9
Operating ratio	95.2	89.8	80.7	87.9	102.5
Relative run-off result (%)	1.2	3.1	6.3	8.7	7.9
Equity ratio	6.1	8.8	2.6	8.8	12.9
Solvency ratio	143	121	135	180	198
Key figures and ratios are set out in the Danish FSA's executive order on financial reports.					



## Income statement - Forsikringselskabet Danica

Note	DKKm	2013	2012
	Gross premiums	324	345
	Change in unearned premiums provision	3	-6
1	Premiums, net of reinsurance	327	339
2	Technical interest	0	-2
	Claims paid, gross	-331	-353
	Change in outstanding claims provision	45	75
3	Claims, net of reinsurance	-286	-278
	Bonuses and premium discounts	-1	1
	Acquisition costs	-9	-18
	Administrative expenses	-15	-8
4	Total operating expenses relating to insurance, net of reinsurance	-24	-26
13	<b>TECHNICAL RESULT</b>	16	34
	Income from group undertakings	1,168	1,747
	Interest income and dividends, etc.	15	26
5	Market value adjustments of investments	-13	8
	Interest expenses	0	-1
	Administrative expenses related to investment activities	-1	-2
	Total return on investment	1,169	1,778
	Return on technical provisions	-2	-13
	<b>RETURN ON INVESTMENT LESS TECHNICAL INTEREST</b>	1,167	1,765
6	Other income	6	8
7	Other expenses	-6	-8
	<b>PROFIT BEFORE TAX</b>	1,183	1,799
8	Tax	-4	-13
	<b>NET PROFIT FOR THE YEAR</b>	1,179	1,786
	Net profit for the year	1,179	1,786
	Other comprehensive income:		
	Translation of units outside Denmark	-51	23
	Hedging of units outside Denmark	51	-22
	Tax relating to other comprehensive income	-13	6
	Total other comprehensive income	-13	7
	<b>NET COMPREHENSIVE INCOME FOR THE YEAR</b>	1,166	1,793

# Balance sheet - Forsikringssselskabet Danica

## Assets

Note	DKKm	2013	2012
	Holdings in group undertakings	19,270	18,865
	Total investments in group undertakings and associates	19,270	18,865
	Bonds	495	591
9	Total other financial investment assets	495	591
	<b>TOTAL INVESTMENT ASSETS</b>	<b>19,765</b>	<b>19,456</b>
	Amounts due from policyholders	3	3
	Amounts due from group undertakings	31	-
	<b>TOTAL DEBTORS</b>	<b>34</b>	<b>3</b>
	Deferred tax assets	0	1
	Cash and cash equivalents	1	-
	<b>TOTAL OTHER ASSETS</b>	<b>1</b>	<b>1</b>
	Accrued interest and rent	6	7
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	<b>6</b>	<b>7</b>
	<b>TOTAL ASSETS</b>	<b>19,806</b>	<b>19,467</b>

# Balance sheet - Forsikringssselskabet Danica

## Liabilities and equity

Note	DKKm	2013	2012
	Share capital	1,000	1,000
	Other reserves	14,341	13,676
	Retained earnings	3,561	3,560
	Proposed dividend	500	750
10	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>19,402</b>	<b>18,986</b>
	Unearned premiums provision	8	10
	Outstanding claims provision	377	419
	Provisions for bonuses and premium discounts	4	3
	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>389</b>	<b>432</b>
	Amounts owed, direct insurance	10	14
	Amounts owed to group undertakings	-	22
	Current tax liabilities	0	1
	Other creditors	3	10
	<b>TOTAL CREDITORS</b>	<b>13</b>	<b>47</b>
	<b>ACCRUALS AND DEFERRED INCOME</b>	<b>2</b>	<b>2</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>19,806</b>	<b>19,467</b>

## Statement of capital - Forsikringselskabet Danica

DKKm

Changes in shareholders' equity	Share capital	Foreign currency translation reserve *	Other reserves	Retained earnings	Proposed dividend	Total
Shareholders' equity at 31 December 2012	1,000	-1	13,677	3,560	750	18,986
Profit for the year	-	-	1,168	11	-	1,179
Other comprehensive income:						
Translation of units outside Denmark	-	-51	-	-	-	-51
Hedging of units outside Denmark	-	51	-	-	-	51
Tax on other comprehensive income	-	-	-13	-	-	-13
Total other comprehensive income	-	0	-13	-	-	-13
Comprehensive income for the year	-	0	1,155	11	-	1,166
Dividends paid	-	-	-	-	-750	-750
Proposed dividend **	-	-	-490	-10	500	0
Shareholders' equity at 31 December 2013	1,000	-1	14,342	3,561	500	19,402
Shareholders' equity at 31 December 2011	1,000	-2	14,444	3,751	550	19,743
Profit for the year	-	-	1,747	39	-	1,786
Other comprehensive income:						
Translation of units outside Denmark	-	23	-	-	-	23
Hedging of units outside Denmark	-	-22	-	-	-	-22
Tax on other comprehensive income	-	-	6	-	-	6
Total other comprehensive income	-	1	6	-	-	7
Comprehensive income for the year	-	1	1,753	39	-	1,793
Dividends paid	-	-	-	-	-2,550	-2,550
Proposed dividend **	-	-	-2,520	-230	2,750	0
Shareholders' equity at 31 December 2012	1,000	-1	13,677	3,560	750	18,986

\* Recognised in the balance sheet under retained earnings.

\*\* The dividend amounts to DKK 500 per share (2012: DKK 750). The line shows the effect on shareholders' equity at year end.

## Statement of capital - Forsikringssselskabet Danica

DKKm	2013	2012
Solvency requirement and capital base		
Shareholders' equity	19,402	18,986
Proportionate share of capital base of insurance subsidiaries	18,652	18,000
- Value of proportionate shares	-19,270	-18,865
Core capital	18,784	18,121
- Proposed dividend	-500	-750
- Tax assets	0	-1
- Proportionate shares of capital requirement of insurance subsidiary	-8,093	-8,677
Reduced core capital	10,191	8,693
Capital base	10,191	8,693
Solvency requirement	71	72
Total solvency requirement	71	72
Excess capital base	10,120	8,621

# Notes - Forsikringselskabet Danica

Note	DKKm	2013	2012
1	<b>GROSS PREMIUM INCOME</b> Premiums, direct insurance, broken down by policyholders' residence:		
	Denmark	322	333
	Other EU countries	4	5
	Other countries	1	1
	<b>Total</b>	<b>327</b>	<b>339</b>
2	<b>TECHNICAL INTEREST</b> Calculation of technical interest and return on investment:		
	Technical interest rate	2.24%	1.80%
	Technical interest amount	9	8
	Outstanding claims provision, discounted amount	-9	-10
	<b>Technical interest, net of reinsurance less discounted amount</b>	<b>0</b>	<b>-2</b>
	<b>Total return on investment</b>	<b>1,169</b>	<b>1,778</b>
	Market value adjustment of outstanding claims provision	7	-5
	<b>Total return on investment, including market value adjustments</b>	<b>1,176</b>	<b>1,773</b>
	Of which transferred to technical interest	-9	-8
	<b>Return on investment less technical interest</b>	<b>1,167</b>	<b>1,765</b>
3	<b>CLAIMS</b> Total run-off regarding prior years:		
	Gross claims	5	15
	Net of reinsurance	5	15
	Run-off, net of reinsurance, relates to health and accident insurance policies.		
4	<b>OPERATING EXPENSES RELATING TO INSURANCE</b> The company and its subsidiary Danica Pension share the same Executive Board, actuary and company secretary. Their remuneration is paid by Danica Pension and is included in operating expenses, which are allocated to the Company by Danica Pension.		
5	<b>MARKET VALUE ADJUSTMENTS OF INVESTMENTS</b>		
	Bonds	-13	8
	<b>Total market value adjustments of investments</b>	<b>-13</b>	<b>8</b>
6	<b>OTHER INCOME</b> Commission income from ancillary activities	6	8
	<b>Total</b>	<b>6</b>	<b>8</b>
7	<b>OTHER EXPENSES</b> General management expenses	-6	-8
	<b>Total</b>	<b>-6</b>	<b>-8</b>

# Notes - Forsikringselskabet Danica

Note	DKKm	2013	2012
8	TAX		
	Tax for the year can be broken down as follows:		
	Tax on the profit for the year	-4	-13
	Tax on other comprehensive income		
	Hedging of units outside Denmark	-13	6
	<b>Total</b>	<b>-17</b>	<b>-7</b>
	Tax on the profit for the year is calculated as follows:		
	Current tax	-4	-13
	<b>Total</b>	<b>-4</b>	<b>-13</b>
	Effective tax rate		
	Danish tax rate	25.0	25.0
	Non-taxable income and non-deductible expenses	-24.7	-24.3
	<b>Effective tax rate</b>	<b>0.3</b>	<b>0.7</b>
	Deferred tax:		
	Deferred tax is recognised as follows in the balance sheet:		
	Deferred tax (asset)	0	-1
	<b>Deferred tax, net</b>	<b>0</b>	<b>-1</b>
	Deferred tax assets broken down on main items		
	Tangible assets	0	-1
	<b>Total</b>	<b>0</b>	<b>-1</b>
9	OTHER FINANCIAL INVESTMENT ASSETS		
	Includes investments in undertakings in the Danske Bank Group as follows:		
	Bonds	87	113
	Deposits with credit institutions	1	-
10	SHAREHOLDERS' EQUITY		
	Number of shares of DKK 1,000	1,000,000	1,000,000
11	CONTINGENT LIABILITIES		
	At the end of the year, assets were provided as security for policyholders' savings at a total carrying amount of	459	496
	The company has rent commitments with a remaining lease of 12 years and annual gross rent of	56	56
	The company is jointly taxed with all units in the Danske Bank Group and are jointly and severally liable for their Danish income tax, withholding tax etc.		
	The company is registered jointly with group undertakings for financial services employer tax and VAT, for which it is jointly and severally liable.		
12	RELATED PARTIES		
	Danske Bank, domiciled in Copenhagen, Denmark, wholly owns the share capital of Forsikringselskabet Danica and thus exercises control.		
	The company's IT operations and development, internal audit, HR administration, procurement, marketing and the like are handled by Danske Bank. These services are settled on an arm's-length or a cost reimbursement basis.		
	Forsikringselskabet Danica is managed by Danica Pension, which settles expenses with the companies it manages on an arm's-length or a cost reimbursement basis. Accordingly, Forsikringselskabet Danica refunded an amount of DKK 24 million to Danica Pension in 2013.		
	Danske Bank Group also handles portfolio management and securities trading.		

# Notes - Forsikringselskabet Danica

Note DKKm

## 13 SPECIFICATION OF CLASSES OF INSURANCE

	Health and accident insurance	Health care insurance	Total
Gross premiums	102	223	325
Gross premium income	102	225	327
Gross claims	-119	-168	-287
Gross operating expenses	-7	-17	-24
Technical interest, net of reinsurance	0	0	0
Technical result	-24	40	16
Number of claims	1,143	30,059	31,202
Average amount of claims	0.1	0.0	0.1
Claims frequency	1.0%	6.0%	5.8%

## 14 RISK EXPOSURE AND SENSITIVITY RATIOS 2013

DKKm	Effect on capital base
Interest rate increase of 0.7-1.0 of a percentage point	-152
Interest rate decline of 0.7-1.0 of a percentage point	72
12% fall in equity prices	-625
8% fall in property prices	-752
Foreign exchange risk (VaR 99.0%)	-162
8% loss on counterparties	-988
1.0% increase in credit spread	-322

See the description of risk management in note 24 to the consolidated financial statements.



## Group overview

	Own- ership	Currency	Net profit/loss for the year	Share capital	Share- holders' equity	Staff	Directorships <sup>2)</sup>	
	%		millions	millions	millions	Number <sup>1)</sup>	PKLI	JW
<b>NON-LIFE INSURANCE</b>								
Forsikringselskabet Danica, Skadeforsikringsaktieselskab af 1999, Copenhagen		DKK	1,179	1,000	19,402		D	D
<b>LIFE INSURANCE</b>								
Danica Pension, Livsforsikringsaktieselskab, Copenhagen	100	DKK	1,169	1,100	19,376	627	D	D
Danica Pension Försäkringsaktiebolag, Stockholm	100	SEK	55	100	134	55	B	
Danica Pensjonsforsikring AS, Trondheim	100	NOK	82	106	285	84	B	
<b>PROPERTY INVESTMENT</b>								
Danica Ejendomsselskab ApS, Copenhagen	100	DKK	998	2,628	21,700	-		
<b>PROPERTY INVESTMENT COMPANIES (pro rata consolidation)</b>								
Samejet SlotsArkaderne, Copenhagen	90	DKK	17	-	913			
Samejet Nymøllevej, Copenhagen	75	DKK	48	-	636			
Frederiksberg Centret I/S, Copenhagen	67	DKK	57	-	1,229	3		
Hovedbanegårdens Forretningscenter K/S, Copenhagen <sup>3)</sup>	50	DKK	26	-	244			

<sup>1)</sup> Comprises employees in group companies at 31 December 2013.

<sup>2)</sup> Directorships of Per Klitgård (PKLI), Jesper Winkelmann (JW).

B stands for board member and D stands for executive board member.

<sup>3)</sup> Financial year ends 30 September.

## Group overview

### Companies

Forsikringselskabet  
Danica A/S

Danica Pension A/S

Danica Pension  
Försäkringsaktieföretag

Danica Pensjons-  
Forsikring AS

Danica  
Ejendomsselskab  
ApS

### Activities

Parent company. Its principal activity is non-life insurance, comprising the health care and critical illness products Sundhedssikring, Kritisk Sygdom and Sundhedsfremmer.

Sale of the market products Danica Balance, Danica Link and Danica Select in which the return on policyholders' savings equals the market return. Life insurance and disability cover may be attached to the policies. Danica Balance is a lifecycle product combining the advantages of collective investment with individual adjustment options. The customers select an investment profile. Guarantee option. In Danica Link, customers may choose their own investment among 50-55 funds or they may choose an equity share and let Danica handle the investment. Guarantee option.

In Danica Select, customers may make their own investment among 15,000 different equities and securities distributed on 17 European and US stock exchanges.

Sale of conventional life insurance and pension product (Danica Traditionel) and health and accident insurance, including disability cover. Danica Traditionel comprises policies with guaranteed benefits and collective investments, which are managed by Danica Pension. The rate of interest on savings is determined by Danica Pension.

Conventional life insurance in the form of guaranteed life-long annuities without bonus entitlement. No new policies have been written since 1982.

Sale of market products and health and accident insurance in Sweden.

Sale of market products and health and accident insurance in Norway.

Property company investing primarily in commercial property and shopping centres.

#### Organisation:

Danica Pension's group overview is available at [www.danicapension.dk](http://www.danicapension.dk)

## Management and directorships

Under section 80(8) of the Danish Financial Business Act, financial institutions are required to publish information at least once a year about directorships, etc. held with the approval of the Board of Directors by persons employed by the Board according to statutory regulations (section 80(1) of the Act).

This page also lists directorships held by members of the Board of Directors outside the Forsikrings-selskabet Danica Group.

### Board of Directors

#### **Tonny Thierry Andersen**

Member of the Executive Board of Danske Bank A/S

Born on 30.09.1964

Director of:

Danske Bank Oyj (Chairman)

Danske Bank International S.A.  
(Chairman)

Realkredit Danmark A/S (Chairman)

Nets Holding A/S

Bankernes Kontant Service A/S

Olga og Esper Boels Fond

Ejendomsselskabet Boels Gård

The Danish Bankers Association (Chairman)

Det Private Beredskab til Afvikling af Nødlidende

Banker, Sparekasser og Andelskasser (Chairman)

YPO, Danmark (CFO)

Værdiansættelsesrådet

ICC Danmark

The Danish Economic Council

#### **Henrik Ramlau-Hansen**

Member of the Executive Board of Danske Bank A/S

Born on 02.10.1956

Director of:

Kreditforeningen Danmarks Pensionsafvklingskasse  
(Chairman)

Realkredit Danmark A/S

Bluegarden Holding A/S

Bluegarden A/S

LR Realkredit A/S

The Danish Financial Council

#### **Kim Andersen**

Born on 30.04.1955

Member of the Executive Boards of:

Audio Consult ApS

KA Invest af 2. maj 2003 ApS

Director of:

Realkredit Danmark A/S

In addition, Kim Andersen is a qualified member of the Danica Group's Audit Committee (state authorised public accountant with deposited practising certificate).

#### **Thomas Falck**

Senior Pension Specialist, Danica Pension

Born on 09.06.1952

#### **Charlott Due Pihl**

Chairman of Staff Association, Danica Pension

Born on 27.03.1968

#### **Peter Rostrup-Nielsen**

Executive Vice President of Danske Bank A/S

Born on 13.10.1966

#### **Malene Stadil**

Senior Vice President of Danske Bank A/S

Born on 26.10.1962

Director of:

Danske Markets Inc, Delaware USA

Danske Corporation, Delaware USA

Danske Bank Russia

DDB Invest AB, Sweden

#### **Per Søgaard**

Senior Advisor, Danica Pension

Born on 07.02.1969

Director of:

Witt & Søn A/S

OT-Europlay A/S

### Executive Board

Information on directorships, etc. in wholly-owned subsidiaries is provided in the group overview.

#### **Per Klitgård**

Chief Executive Officer

Born on 11.12.1958

Director of:

The Danish Insurance Association

#### **Jesper Winkelmann**

Member of the Executive Board

Born on 14.02.1958

# Statement and reports

## Statement by the Management

The Board of Directors and the Executive Board (the management) have today considered and approved the annual report of Forsikringssselskabet Danica for the financial year 2013.

The consolidated financial statements and the Parent Company's financial statements have been prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2013 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 2013. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

The management will submit the annual report to the general meeting for approval.

Copenhagen, 6 February 2014

### Executive Board

Per Klitgård

Jesper Winkelmann

### Board of Directors

Tonny Thierry Andersen

Henrik Ramlau-Hansen

Kim Andersen

Thomas Falck

Charlott Due Pihl

Peter Rostrup-Nielsen

Per Søgaaard

Malene Stadil

## INTERNAL AUDIT'S REPORT

We have audited the consolidated financial statements, pp. 14-43, and the Parent Company financial statements of Forsikringsselskabet Danica, Skadesforsikringsaktieselskab af 1999, pp. 46-54, for the financial year 2013. The consolidated financial statements and the Parent Company's financial statements comprise financial highlights, income statement, statement of comprehensive income, balance sheet, statement of capital and notes for the Group as well as for the Parent Company. The consolidated financial statements and the Parent Company financial statements have been prepared in accordance with the Danish Financial Business Act.

### **Basis of opinion**

We conducted our audit in accordance with the Danish Financial Supervisory Authority's Executive Order on Auditing Financial Undertakings etc. as well as Financial Groups and in accordance with International Standards on Auditing. This requires that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the Parent Company's financial statements are free of material misstatement.

We planned and conducted our audit such that we have assessed the business and internal control procedures, including the risk and capital management implemented by the management, aimed at the Group's and the Parent Company's reporting processes and major business risks.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the Parent Company's financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements and the Parent Company's financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements and Parent Company financial statements that give a true and fair view in order to design procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the Parent Company's financial statements.

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

Our audit did not result in any qualification.

### **Opinion**

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2013, and of the results of the Group's and the Parent Company's operations for the financial year 2013 in accordance with the Danish Financial Business Act.

Furthermore, we believe that the business and internal control procedures, including the risk and capital management implemented by the management, aimed at the Group's and the Parent Company's reporting processes and major business risks, operate effectively.

Copenhagen, 6 February 2014

Jens Peter Thomassen

Group Chief Auditor

## INDEPENDENT AUDITORS' REPORT

To the shareholders of Forsikringselskabet Danica, Skadesforsikringsaktieselskab

### **Independent auditors' report on the consolidated financial statements and the Parent Company's financial statements**

We have audited the consolidated financial statements, pp. 14-43, and the Parent Company financial statements of Forsikringselskabet Danica, Skadesforsikringsaktieselskab af 1999, pp. 46-54, for the financial year 2013. The consolidated financial statements and the Parent Company's financial statements comprise financial highlights, income statement, statement of comprehensive income, balance sheet, statement of capital and notes for the Group as well as for the Parent Company. The consolidated financial statements and the Parent Company's financial statements have been prepared in accordance with the Danish Financial Business Act.

### **Management's responsibility for the consolidated financial statements and the Parent Company's financial statements**

Management is responsible for preparing consolidated financial statements and Parent Company financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control that management determines is necessary to enable the preparation of consolidated financial statements and Parent Company financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on the consolidated financial statements and Parent Company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the Parent Company's financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the Parent Company's financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the Parent Company's financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the consolidated financial statements and the Parent Company's financial statements that give a true and fair view in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and the Parent Company's financial statements.

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

Our audit did not result in any qualification.

### **Opinion**

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2013, and of the results of the Group's and the Parent Company's operations for the financial year 2013 in accordance with the Danish Financial Business Act.

### **Statement on the management's report**

Pursuant to the Danish Financial Business Act, we have read the management's report. We have not performed any other procedures in addition to the audit of the consolidated financial statements and the Parent Company's financial statements. On this basis, it is our opinion that the information given in the management's report is consistent with the consolidated financial statements and the Parent Company's financial statements.

Copenhagen, 6 February 2014  
KPMG  
Statsautoriseret Revisionspartnerselskab

Lars Rhod Søndergaard  
State Authorised Public  
Accountant

Ole Karstensen  
State Authorised Public  
Accountant

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## Address

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Company Registration No.

CVR 25020634

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