

# *Interim report – first half 2016*

Forsikringselskabet Danica,  
Skadeforsikringselskab af 1999



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This Interim Report - First half 2016 is a translation of the original report in the Danish language (Delårsrapport - 1. halvår 2016). In case of discrepancy, the Danish version prevails

## SELECTED FINANCIAL HIGHLIGHTS FOR THE DANICA GROUP

(DKK millions)	H1 2016	H1 2015 <sup>1)</sup>	Year 2015 <sup>2)</sup>
PREMIUMS INCLUDING INVESTMENT CONTRACTS	15,865	15,475	29,573
INCOME STATEMENT			
Technical result, Life	129	700	1,451
Technical result of health and accident insurance	-24	101	-69
Return on investment allocated to equity, etc.	726	339	573
Profit before tax	831	1,140	1,955
Tax	-177	-289	-499
Profit for the period	654	851	1,456
BALANCE SHEET			
Total assets	409,851	365,591	368,405
Provisions for insurance and investment contracts	328,529	323,417	321,028
Total shareholders' equity	16,133	19,107	19,344
KEY FIGURES AND RATIOS (%)			
Return related to average rate products	6.8	-0.3	1.0
Return related to unit-linked products	-1.9	5.5	5.6
Risk on return related to unit-linked products	4.25	-	-
Expenses as per cent of provisions	0.2	0.2	0.4
Expenses per policyholder (DKK)	613	603	1,266
Return on equity after tax	3.6	4.2	7.3
Solvency coverage ratio	208	232	231
RATIOS FOR HEALTH AND ACCIDENT INSURANCE			
Gross claims ratio	98	108	110
Gross expense ratio	8	10	10

1) Key figures and ratios for the first half of 2015 have not been restated to reflect the new executive order on financial reports of 27 July 2015.  
For details, see accounting policies.

2) Balance figures are per 1 January 2016

## FINANCIAL RESULTS

- Profit before tax of DKK 831 million for the Danica Group, against DKK 1,140 million in the first half of 2015.
- Premiums of DKK 15.9 billion in the first half of 2016, up by 2.5%.
- In the Danish business, the return on unit-linked products was a negative 1.2%, against 5.3% in the first half of 2015, and the return for Danica Traditionel after adjustment of additional provisions was 2.3%, compared with 3.0% in first half of 2015.

DANICA GROUP, PROFIT BEFORE TAX (DKK millions)	H1 2016	H1 2015
Technical result, Traditionel (Denmark)	629	654
Technical result, Unit-linked (Denmark)	226	234
Health and accident result before investment return (Denmark)	-67	-81
Technical result, business outside Denmark	72	86
<b>Total (generated by Danica)</b>	<b>861</b>	<b>891</b>
Investment return	100	292
Special allotments	-130	-43
<b>Profit before tax</b>	<b>831</b>	<b>1,140</b>

The technical result of the conventional business in Denmark was DKK 629 million, a decrease of 4% relative to the first half of 2015. As expected, the result was impacted by reduced provisions. The investment return on customer funds in Danica Traditionel allowed for the booking of risk allowance for all four interest rate groups. At 30 June 2016, the shadow account stood at DKK 346 million, in line with the balance at 1 January 2016.

The Danish unit-linked business reported a technical result of DKK 226 million, against DKK 234 million in H1 2015, which was due to lower income from investment assets.

The result of health and accident insurance in Denmark before investment return was a loss of DKK 67 million. The DKK 14 million improvement relative to the first half of 2015 was explained by a lower claims ratio.

The technical result of the non-Danish business fell from DKK 86 million in the first half of 2015 to DKK 72 million in the first half of 2016.

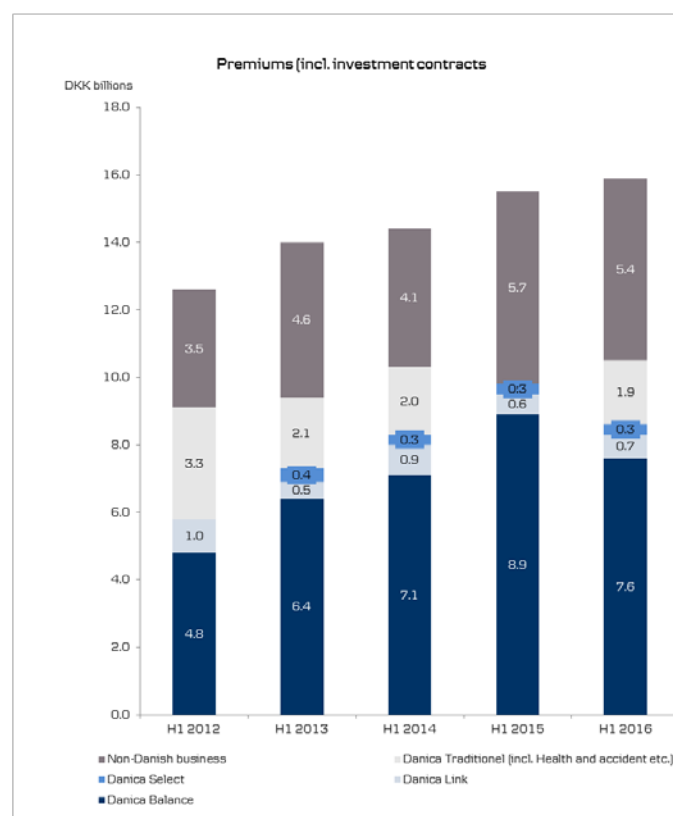
The investment return allocated to shareholders' equity was DKK 100 million, against DKK 292 million in the year-earlier period. The decrease was mainly attributable to a lower return on the health and accident business.

Special allotments were calculated at a negative DKK 130 million for the first half of 2016 against a negative DKK 43 million in the first half of 2015. The amount for full year 2016 will depend on de-

velopments in Danica's earnings and business volume. The increase relative to 2015 was attributable to dividend payments for 2015.

Profit for the period was DKK 831 million before tax and DKK 654 million after tax.

Premiums amounted to DKK 15.9 billion, against DKK 15.5 billion in the first half of 2015, corresponding to an increase of 2.5%.



Total premiums in the Danish business amounted to DKK 10.5 billion in the first half of 2016, compared with DKK 9.8 billion in the first half of 2015. Excluding internal product switches, premiums on unit-linked products in the Danish business amounted to DKK 8.0 billion.

Premiums in the non-Danish business decreased by 5.2%, from DKK 5.7 billion in the first half of 2015 to DKK 5.4 billion in the first half of 2016.

Premiums in the Swedish business amounted to DKK 4.3 billion, against DKK 4.7 billion in the first half of 2015. The reduction was expected and was attributable to a few individuals making large contributions in the first half of 2015.

Premiums in the Norwegian business amounted to DKK 1.1 billion, against DKK 0.9 billion in the first half of 2015. The main reason for this increase was the inflow of new business customers.

PREMIUMS (INCLUDING INVESTMENT CONTRACTS) (DKK billions)	H1 2016	H1 2015
Balance	7.6	8.9
Link	0.7	0.6
Select	0.3	0.3
Danica Traditionel	1.8	2.0
Health and accident (Denmark)	0.7	0.6
Internal product switches	-0.6	-2.6
Premiums (Denmark)	10.5	9.8
Premiums, non-Danish business	5.4	5.7
Total premiums	15.9	15.5

## DANICA STRATEGY

A focus area for Danica Pension is that we make a proactive effort to ensure that our customers – both personal and business customers – have the right pension solution. To achieve this, we continuously identify and follow up on our personal customers' needs and give clear recommendations that the customers can act on. It is our clear ambition to offer our customers the best products and the most simple and value-adding digital tools and to be available to guide our customers in whatever form they prefer.

Danica Pension creates a closer relationship with customers by offering them an overview and clear recommendations as to how to ensure that the employees get the best possible cover through their pension scheme. This way, we create a sense of security so that company management and employees can concentrate on the business rather than on their pension covers.

### Dedicated focus on continuous improvement of customer satisfaction

Customer satisfaction in Danica Pension has generally improved in recent years, according to surveys performed by Danish market research company Aalund. However, further improving customer satisfaction will remain a focus area over the coming years to ensure that Danica Pension becomes the pension company with the most satisfied customers.

### New Danica Pension savings options

In January, Danica Pension introduced an improved version of Danica Balance. With this improved Danica Balance, most of our customers will invest a part of their pension savings in a new investment fund, in which Danica Pension's team of investment experts ongoingly pick a strategically selected mix of defensive and proactive investments based on our financial market expectations.

If, for example, we expect proactive investments to produce particularly high returns, we will increase the proportion of these. We will also ensure a better mix of defensive investments to ensure that

they perform well in different economic climates. This will produce higher returns for customers with Danica Balance. Already in the first half, our new Danica Balance product demonstrated that it helps produce additional returns for our customers. All policyholders with Danica Balance will be transferred to the new Danica Balance product in 2016.

We have also introduced Danica Balance Flex-Opssparing, which is a savings product that is an alternative to a bank account or unit trust.

With Danica Balance FlexOpssparing, Danica Pension's customers can invest their available cash in Danica Balance, including in Danica Pension's portfolio of direct and other alternative investments. It is a flexible product in which customers can make withdrawals. Our customers can use the product as a current account or in connection with their planning of future pension payouts.

### Clear recommendation on pension payout based on behavioural studies

We live longer and longer and our health is better well into old age. Based on these facts, Danica has implemented a clear new payout recommendation for our customers to ensure that they can maintain an unchanged consumption throughout their life.

Our customers' benefits should provide a basic, life-long pension that covers their total expected consumption. Danica Pension recommends that this basic pension should correspond to between 55% and 80% of the policyholder's remuneration before retirement, depending on salary level.

On top of the basic pension, we recommend a flexible pension consisting of benefits that will be available for an agreed period of time, for example drawing on available cash or home equity, but potentially also capital pension or retirement savings payouts, to increase the financial means for travelling and other activities which fall outside the normal consumption.

These recommendations are based on the results of a comprehensive analysis by Danica Pension of the consumption of Danes in retirement. Its findings are surprising, in that they show that, contrary to previous beliefs, our consumption does not change over our lifetime. What does change is the composition of our consumption. The analysis reveals that the proportion of our consumption of medicine and property investments increases over time, countered by a relatively lower consumption of leisure activities, transport, etc.

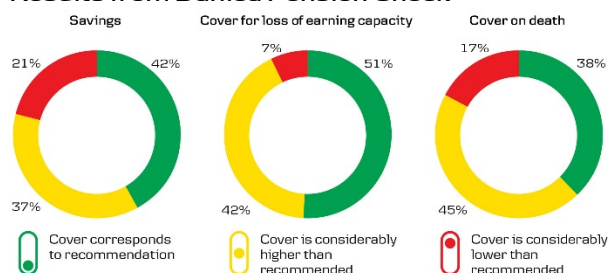
The analysis is based on consumer data from Statistics Denmark and was reviewed by an external professor of economics.

### New product gives Danica Pension customers improved cover on their loss of earnings capacity insurance

At 1 January, Danica Pension provided customers with improved cover on their loss of earnings capacity insurance. New legislation in the area means increased offsetting of loss of earning capacity benefits against public benefits. Consequently, Danica Pension customers were no longer adequately covered if they fell ill and had to go through a work capability assessment. With the improved loss of earning capacity cover, the Danica Pension policyholders' insurance benefits are increased in case of offsetting, so that they are able to maintain their standard of living. The improvement applies to all Danica Pension customers.

With our new loss of earning capacity cover, our customers have far better cover. Previously, Danica Pension Check indicated that 47% of our customers were not able to maintain their financial standard of living in case of long-term illness. After the adjustment, this figure has dropped to 7%. Over the course of 2016, we will contact these customers to ensure that they, too, get the right cover.

### Results from Danica Pension Check



The change to our loss of earning capacity cover had the immediate effect that a small portion of Danica Pension customers were excessively covered by their insurance. We therefore contacted some 30,000 customers to advise them that they would benefit from reducing their insurance cover and increasing their pension contribution instead. On average, the customers in question can save approximately DKK 100 per month on their insurance covers. For a 40-year-old, this could mean DKK 60,000 in additional pension savings at the time of retirement.

### Close collaboration with Danske Bank

Danica Pension has a close collaboration with Danske Bank to ensure attractive pension offers and comprehensive solutions for both personal and business customers. In the personal customer area, the closer collaboration has increased the total business volume by more than 25% since 2013.

Danica Pension focuses on providing comprehensive solutions for our business customers, with Danske Bank stepping in as an overall financial partner to the companies. Since 2014, Danica Pension and Business Banking under Danske Bank have intensified the collaboration, and this has led to increased activity. The number of corporate agreements has grown significantly by 85% relative to the year-earlier period.

### Strong returns compared with market trends

In the past couple of years, Danica Pension has been working on implementing an investment strategy to generate returns for our customers at the top end of the market. As part of the investment strategy, we have increased our direct investment activities, including more alternative investments, and enhanced our focus on the future asset allocation. Also, Danica Pension's investment team has been strengthened with the addition of several investment experts.

In the second half of 2015, we noted that the implemented measures produced solid returns for our customers. This development has continued in 2016, and the return on Danica Balance was satisfactory relative to the market trends.

### Norway and Sweden

Danica Pension also collaborates closely with Danske Bank in Norway and Sweden to ensure attractive pension offerings and comprehensive solutions for personal and business customers alike.

In Danica Pension, Norway, we have set out an offensive growth strategy to achieve a greater future market share of the Norwegian pension market. This has resulted in an 18% increase in contributions compared to last year, and total contributions amounted to DKK 1,101 million at 30 June.

In Sweden, we are also seeing a positive trend, despite a 10% drop in contributions. The decline in contributions should be seen in the context of a 47% increase in contributions in the first half of 2015 resulting from extraordinarily large contributions. Discounting these, total contributions in Sweden grew 9% relative to the year-earlier period.

With the increased focus on digital solutions, Danica Pension has set up an innovation team in Stockholm, Sweden. The team will develop future digital solutions for our customers. The aim is to strengthen Danica Pension's overall customer offering even further, as technology evolves.

## THE FINANCIAL MARKETS

Developments in the financial markets in the first half of 2016 can be divided into three phases: Until mid-February, interest rates, risk assets and oil prices fell on the back of fears of a further slowdown of global economic growth and uncertainty about the Chinese foreign exchange policy. Then followed a period of recovering share and oil prices, while US treasury and European government bond yields still traded at the levels recorded in February. Finally, the period ended with considerable equity market volatility and major interest rate drops, as the UK voted to exit the EU in the June referendum.

During the period, the Federal Reserve held off on the expected leading interest rate hikes, while the European Central Bank cut rates further and stepped up its bond-buying programme.

For the first half as a whole, the MSCI World All Countries index produced a negative return of 1.3% measured in Danish kroner. The low return on equities is mainly a reflection of the low economic growth, which means that companies have trouble producing earnings growth. The 10-year Danish government bond coupon fell by 85pb to 0.07%, thus producing a return of 8.1% in the first half of 2016. High-yield corporate bonds produced a positive return of close to 4%.

## INVESTMENT RETURN

Danica Balance, Danica Link and Danica Select generated an aggregate negative return of DKK 1.3 billion in the first half of 2016, equivalent to a negative 1.2% before tax on pension returns.

Danica Balance produced an overall negative return of 1.1%.

### BALANCE, RETURN BEFORE TAX

H1 2016			
(%)			
Risk	30 years to retirement	15 years to retirement	5 years to retirement
High risk profile	-2.1	1.1	1.6
Medium risk profile	-1.3	1.7	1.9
Low risk profile	-0.2	2.2	2.3

The return for Danica Link customers for H1 2016 was a negative DKK 0.3 billion, or on average a negative 1.3%. The average annual return over the past three years has been 4.1%.

DANICA LINK - VALG PORTFOLIOS BEFORE TAX		
(%)	H1 2016	H1 2015
Danica Valg Guarantee	2.7	3.0
Danica Valg 100% Bonds	5.0	-0.3
Danica Valg Low Risk	2.5	4.3
Danica Valg Medium Risk	-0.4	7.4
Danica Valg High Risk	-1.8	9.3
Danica Valg 100% Equities	-4.5	12.3

Average return, Danica Link 4.1% p.a. over three years

The return on investment of customer funds in Danica Traditionel in the first half of 2016 was DKK 10.8 billion or 6.8% before tax on pension returns. After recognition of DKK 7.3 billion from higher life insurance provisions, the return was 2.3%.

### DISTRIBUTION BY INTEREST RATE GROUP AT 30 JUNE 2015

(%)	Rate of interest on policyholders' savings before tax on pension returns (p.a.)	Investment return before tax on pension returns
Interest rate group 1 (new customers)	1.8	4.7
Interest rate group 2 (low guarantee)	1.8	7.5
Interest rate group 3 (medium guarantee)	1.8	9.0
Interest rate group 4 (high guarantee)	1.8	7.8

Listed equities produced an overall negative return of 3.8%, while bonds (including credit investments) produced a return of 4.5%. The return on properties was 1.4%, against 2.4% in the first half of 2015. Property valuations are based on market-based return requirements of 5.5% on average for office and residential properties and 5.7% for shopping centres. The return requirements were stable relative to 2015.

### DANICA TRADITIONEL, CUSTOMER FUNDS, PORTFOLIO AND RETURN

	H1 2016		H1 2015	
	Value	Return	Value	Return
(DKK billions)		%		%
Property investments	23.3	1.4	18.4	2.4
Listed equities	11.0	-3.8	8.6	9.5
Alternative investments	14.9	3.8	17.2	7.1
Credit investments	13.8	3.9	21.9	2.2
Global bonds	0	0	0	2.9
Nominal bonds	81.2	5.3	71.9	-2.5
Index-linked bonds	16.1	4.7	14.4	5.4
Short-term bonds and cash and cash equivalents	12.1	0.3	9.5	0.5
Total bonds, etc.	109.4	4.6	95.8	-0.4
Other financial assets	6.1	-	7.3	-
Total	166.3	6.8	169.2	-0.3
Return after change in additional provisions		2.3	-	3.0

## DEVELOPMENT IN COSTS

In life insurance, operating expenses relating to insurance continued to develop relatively favourably in the first half of 2016, amounting to DKK 565 million.

Expenses as per cent of provisions in the Group were unchanged at 0.2 for the first half of 2016.

EXPENSES AS PER CENT OF PROVISIONS		
	H1 2016	H1 2015
Danica Group	0.18	0.16
Danica (Denmark)	0.14	0.13

## DEVELOPMENT IN BALANCE SHEET ITEMS

### Balance sheet 30 June 2016

Total assets amounted to DKK 410 billion at 30 June 2016, of which total investment assets, including net unit-linked assets and offsetting of amounts owed to credit institutions, amounted to DKK 346 billion, equivalent to an increase of 1% relative to the first half of 2015.

Additional provisions to cover the low interest rate level totalled DKK 44.1 billion. Additional provisions rose DKK 7.3 billion in the first half of 2016.

Provisions for unit-linked products increased from DKK 154 billion at 30 June 2015 to DKK 164 billion at 30 June 2016 and should be seen in the context of the greater business volume.

## SOLVENCY STATEMENT AND CAPITAL REQUIREMENT

Solvency II became effective at 1 January 2016.

On transition to Solvency II, the principal change compared with the previous rules is the calculation of SCR (solvency capital requirement). In addition, a profit margin must be included in the calculation of capital base. By profit margin is meant a component of the value of an insurance or investment contract representing the present value of the company's future profit on the contract. The value is recognised in the income statement as the company provides insurance cover and any other benefits under the contract. The increase in the capital base is partially matched by an increased solvency capital requirement.

Danica Pension's IT systems have been adapted to the new rules, and in the first half Danica has filed an opening balance sheet and a solvency statement at 1 January 2016, the so-called Day 1 reporting, and reporting for Q1 to the Danish FSA.

The solvency ratio was 182% at 1 January 2016 and 208% at 30 June 2016.

Solvency II is based on a standard model to calculate risk exposure in the calculation of SCR but gives the possibility of using own full or partial internal models. Danica Pension only applies a partial internal model to determine longevity risk.

## RISKS AND UNCERTAINTY FACTORS

Note 7 to the consolidated financial statements contains a description of the Group's risk management and the most significant risks and uncertainty factors that may affect the Group and the Parent Company.

## MANAGEMENT

Jacob Aarup-Andersen resigned effective at 31 March 2016 for an appointment as CFO of Danske Bank. Claus Harder, formerly of Danske Bank, took up the position as CFO of Danica on 1 April 2016.

### Danske Bank Wealth segment

As part of the development in becoming a more customer-focused organisation, Danske Bank has established a new Wealth Management unit. The new unit serves the Group's entire customer base and encompasses expertise from Danica Pension, Danske Capital and Private Banking.

The purpose of Wealth Management is to enhance Danske Bank's ability to offer market-leading investment and pension products and services to customers and to increase its share of the growing and attractive wealth management market. Over the course of 2016, Danske Bank will continue the focus on developing its investment solutions and pension products in order to offer user-friendly solutions based on customer demand in different life situations.

The establishment of the new unit has no impact on Danica Pension's interim financial statements.

## EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred between 30 June 2016 and the date of the signing of the interim financial statements that, in the opinion of the management, will materially affect the company's financial position.

## OUTLOOK FOR 2016

Danica Pension expects the satisfactory development in technical results to continue. The 2016 performance will to some extent depend on financial market developments.

In the 2015 annual report, our outlook for 2016 was a profit in line with 2015. This remains our guidance, and Danica expects to be able to book the full risk allowance for all interest rate groups.



# Financial highlights - Danica Group

DKKm	First half 2016	First half 2015	Full year 2015*
<b>INCOME STATEMENT</b>			
Life insurance			
Premiums	9,401	10,003	19,169
Claims and benefits	-10,856	-10,712	-16,663
Return on investment	7,553	6,970	7,712
Total operating expenses relating to insurance	-573	-558	-1,203
Profit/loss on business ceded	-2	-97	266
Technical result, Life	129	700	1,451
Health and accident insurance			
Gross premium income	767	647	1,427
Gross claims	-662	-655	-1,243
Total operating expenses relating to insurance	-56	-60	-162
Profit/loss on business ceded	-16	-2	-9
Return on investment less technical interest	31	241	284
Technical result of health and accident insurance	-24	101	181
Net profit for the period	831	1,140	1,955
Other comprehensive income	4	3	-4
<b>BALANCE SHEET</b>			
Total assets	409,851	365,495	368,405
Insurance assets, health and accident insurance	84	96	93
Technical provisions, health and accident insurance	10,142	9,555	9,850
Total shareholders' equity	16,133	19,011	19,375
Total provisions for insurance and investment contracts	328,529	323,417	320,997
<b>KEY FIGURES AND RATIOS (%)</b>			
Rate of return related to average rate products	6.8	-0.3	1.0
Rate of return related to unit-linked products	-1.9	5.5	5.6
Risk on returns related to market rate products	4.25	-	-
Expenses as per cent of provisions	0.2	0.2	0.4
Expenses per policyholder (DKK)	613	603	1,266
Return on equity after tax	3.6	4.2	7.3
Solvency coverage ratio	208	232	231
<b>RATIOS FOR HEALTH AND ACCIDENT INSURANCE</b>			
Gross claims ratio	98	108	110
Gross expense ratio	8	10	10
Combined ratio	109	118	121
Operating ratio	118	124	128
Relative run-off (%)	0.0	0.0	-0.1
Run-off, net of reinsurance (DKK millions)	0	0	-5
The ratios are defined in accordance with the Danish FSA's Executive Order on financial reports for insurance companies and multi-employer occupational pension funds.			
* Balance sheet items have been restated at 1 January 2016 and is shown in the balance sheet on pages 11 and 12.			

## Income statement & Other comprehensive income - Danica Group

Note	DKKm	First half 2016	First half 2015
3	Gross premiums	9,401	10,003
	Reinsurance premiums ceded	-16	-14
	<b>Total premiums, net of reinsurance</b>	<b>9,385</b>	<b>9,989</b>
	Income from associates	15	81
	Income from investment property	470	423
	Interest income and dividends, etc.	4,689	4,416
	Value adjustments	5,915	3,523
	Interest expenses	-1,249	-503
	Administrative expenses related to investment activities	-793	-363
	<b>Total investment return</b>	<b>9,047</b>	<b>7,577</b>
	Tax on pension returns	-1,494	-607
	Claims and benefits paid	-10,856	-10,712
	Reinsurers' share received	6	4
	<b>Total claims and benefits, net of reinsurance</b>	<b>-10,850</b>	<b>-10,708</b>
	Change in life insurance provisions	-4,698	-4,600
	Change in reinsurers' share	0	-88
	<b>Total change in life insurance provisions, net of reinsurance</b>	<b>-4,698</b>	<b>-4,688</b>
	Change in profit margin	-216	-
	Acquisition costs	-166	-162
	Administrative expenses	-407	-396
	Reinsurance commissions and profit sharing	8	1
	<b>Total operating expenses relating to insurance, net of reinsurance</b>	<b>-565</b>	<b>-557</b>
	Transferred investment return	-480	-306
	<b>TECHNICAL RESULT OF LIFE INSURANCE</b>	<b>129</b>	<b>700</b>

# Income statement & Other comprehensive income - Danica Group

Note	DKKm	First half 2016	First half 2015
(cont'd)			
<b>HEALTH AND ACCIDENT INSURANCE</b>			
	Gross premiums	728	668
	Reinsurance premiums ceded	-34	-36
	Change in unearned premiums provision	39	-21
	Change in unearned premiums provision, reinsurers' share	-2	-1
	<b>Premiums, net of reinsurance</b>	<b>731</b>	<b>610</b>
	Technical interest	-54	-33
	Claims paid, gross	-768	-705
	Reinsurers' share received	69	66
	Change in outstanding claims provision	106	50
	Change in risk margin	-1	-
	Change in outstanding claims provision, reinsurers' share	-51	-32
	<b>Claims, net of reinsurance</b>	<b>-645</b>	<b>-621</b>
	Bonus and premium discounts	-33	-37
	Acquisition costs	-19	-19
	Administrative expenses	-37	-41
	Reinsurance commissions and profit sharing	2	1
	<b>Total operating expenses relating to insurance, net of reinsurance</b>	<b>-54</b>	<b>-59</b>
	<b>Return on investment</b>	<b>31</b>	<b>241</b>
	<b>TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE</b>	<b>-24</b>	<b>101</b>
	Return on investment allocated to equity	101	167
	Other income	628	177
	Other expenses	-3	-5
	<b>PROFIT BEFORE TAX</b>	<b>831</b>	<b>1,140</b>
	Tax	-177	-289
	<b>NET PROFIT FOR THE PERIOD</b>	<b>654</b>	<b>851</b>
	Net profit for the period	654	851
	Other comprehensive income (items that will be reclassified in a subsequent sale):		
	Translation of units outside Denmark	3	18
	Hedges of units outside Denmark	-2	-19
	Tax relating to other comprehensive income	3	4
	<b>Total other comprehensive income</b>	<b>4</b>	<b>3</b>
	<b>NET COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>658</b>	<b>854</b>

# Balance sheet - Danica Group

## Assets

Note	DKKm	30 June 2016	1 January 2016	30 June 2015
	<b>INTANGIBLE ASSETS</b>	81	79	86
	Domicile property	42	43	43
	<b>TOTAL TANGIBLE ASSETS</b>	42	43	43
	Investment property	27,036	27,606	24,708
	Holdings in associates	1,163	1,140	1,865
	Loans to associates	135	157	52
	Total investments in associates	1,298	1,297	1,917
	Holdings	23,035	26,508	25,030
	Unit trust certificates	2,258	11,087	18,274
	Bonds	134,381	117,903	112,176
	Other loans	3,580	2,835	2,267
	Deposits with credit institutions	10,673	840	3,973
	Derivatives	37,000	13,913	18,131
	Other	-	1	-
	Total other financial investment assets	210,927	173,087	179,851
	<b>TOTAL INVESTMENT ASSETS</b>	239,261	201,990	206,476
	<b>INVESTMENT ASSETS RELATED TO UNIT-LINKED PRODUCTS</b>	163,192	159,874	152,980
	Unearned premiums provision, reinsurers' share	4	7	4
	Life insurance provisions, reinsurers' share	53	38	56
	Outstanding claims provision, reinsurers' share	80	100	92
	Total technical provisions, reinsurers' share	137	145	152
	Amounts due from policyholders	755	731	711
	Amounts due from insurance companies	854	269	108
	Other debtors	954	951	806
	<b>TOTAL DEBTORS</b>	2,700	2,096	1,777
	Current tax assets	767	427	297
	Cash and cash equivalents	852	1,631	1,305
	<b>TOTAL OTHER ASSETS</b>	1,619	2,058	1,602
	Accrued interest and rent	2,511	1,832	2,103
	Other prepayments and accrued income	445	433	428
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	2,956	2,265	2,531
	<b>TOTAL ASSETS</b>	409,851	368,405	365,495

# Balance sheet - Danica Group

## Liabilities and equity

Note	DKKm	30 June 2016	1 January 2016	30 June 2015
<b>LIABILITIES</b>				
	Unearned premiums provision	675	696	743
	Life insurance provisions, average rate products	151,045	147,663	160,245
	Life insurance provisions, unit-linked products	158,212	154,860	153,617
	<b>Total life insurance provisions</b>	<b>309,257</b>	<b>302,523</b>	<b>313,862</b>
	Profit margin on life insurance and investment contracts	9,130	8,624	-
	Outstanding claims provision	9,098	8,763	8,730
	Risk margin on non-life insurance contracts	299	298	-
	Provisions for bonuses and premium discounts	70	93	82
	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>328,529</b>	<b>320,997</b>	<b>323,417</b>
	Deferred tax	1,731	1,731	1,470
	<b>TOTAL PROVISIONS FOR LIABILITIES</b>	<b>1,731</b>	<b>1,731</b>	<b>1,470</b>
	Amounts owed, direct insurance	458	386	576
	Amounts owed to reinsurers	9	35	9
	Amounts owed to credit institutions	23,958	8,012	7,469
	Current tax liabilities	59	44	20
	Other creditors	33,533	13,061	12,705
4	Other accruals and deferred income	1,481	1,033	818
	Subordinated debt	3,960	3,731	-
	<b>TOTAL CREDITORS</b>	<b>393,718</b>	<b>349,030</b>	<b>346,484</b>
<b>EQUITY</b>				
	Share capital	1,000	1,000	1,000
	Revaluation reserve	-	-	1
	Other reserves	12,655	12,159	14,421
	Retained earnings	2,478	2,316	3,589
	Proposed dividend	-	3,900	-
	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>16,133</b>	<b>19,375</b>	<b>19,011</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>409,851</b>	<b>368,405</b>	<b>365,495</b>

## Statement of capital - Danica Group

DKK m

Changes in shareholders' equity	Share capital	Revaluation reserve	Foreign currency translation reserve *	Other reserves	Retained earnings	Proposed dividend	Total
Shareholders' equity at 31 December 2015	1,000	0	-6	12,392	2,322	3,900	19,608
Correction of errors and new executive order	-	-	-	-227	-6	-	-233
Adjusted shareholders' equity at 1 January 2016	1,000	0	-6	12,165	2,316	3,900	19,375
Profit for the period	-	-	-	492	162	-	654
Other comprehensive income:							
Translation of units outside Denmark	-	-	3	-	-	-	3
Hedges of units outside Denmark	-	-	-2	-	-	-	-2
Tax on other comprehensive income	-	-	-	3	-	-	3
Total other comprehensive income	-	-	1	3	-	-	4
Comprehensive income for the period	-	-	1	495	162	-	658
Dividend paid	-	-	-	-	-	-3,900	-3,900
Shareholders' equity at 30 June 2016	1,000	0	-5	12,660	2,478	0	16,133
Shareholders' equity at 31 December 2014	1,000	1	-4	13,600	3,560	1,899	20,056
Profit for the period	-	-	-	822	29	-	851
Other comprehensive income:							
Translation of units outside Denmark	-	-	18	-	-	-	18
Hedges of units outside Denmark	-	-	-19	-	-	-	-19
Tax on other comprehensive income	-	-	-	4	-	-	4
Total other comprehensive income	-	-	-1	4	-	-	3
Comprehensive income for the period	-	-	-1	826	29	-	854
Dividend paid	-	-	-	-	-	-1,899	-1,899
Shareholders' equity at 30 June 2015	1,000	1	-5	14,426	3,589	0	19,011

\* Recognised in the balance sheet under other reserves.

Danica Pension has an obligation to allocate part of the excess equity to certain policyholders of Statsanstalten for Livsforsikring (now a 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 to those policyholders are recognised as an expense in the income statement item "Change in life insurance provisions".

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.

## Cash flow statement - Danica Group

DKKm	30 June 2016	31 December 2015
<b>Cash flow from operations</b>		
Profit before tax	831	1,955
Adjustment for non-cash operating items:		
Non-cash items relating to premiums and benefits	4,283	1,472
Non-cash items relating to reinsurance	28	139
Non-cash items relating to investment return	-7,611	-4,849
Non-cash items relating to tax on pension returns	211	-2,475
Non-cash items relating to expenses	536	321
Net investment, customer funds	-6,611	-6,517
Payments received and made, investment contracts	3,167	2,934
Tax paid	-	324
Cash flow from operations	-5,166	-6,696
<b>Cash flow from investing activities</b>		
Acquisition of investment property	-	-1,237
Acquisition of bonds	-3,847	-22,022
Sale of bonds	6,021	20,309
Purchase of derivatives	-2	
Sale of derivatives	2	2
Cash flow from investing activities	2,174	-2,948
<b>Cash flow from financing activities</b>		
Redemption of subordinated debt	-	3,730
Dividends	-3,900	-1,899
Debt to credit institutions	15,946	860
Cash flow from financing activities	12,046	2,691
Cash and cash equivalents at 1 January	2,471	9,424
Change in cash and cash equivalents	9,054	-6,953
Cash and cash equivalents, end of period	11,525	2,471
Cash and cash equivalents, end of period		
Deposits with credit institutions	10,673	840
Cash in hand and demand deposits	852	1,631
Total	11,525	2,471

# Notes – Danica Group

Note

## 1 SIGNIFICANT ACCOUNTING POLICIES – FORSIKRINGSELKABET DANICA

### GENERAL

The Danica Group presents its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), as adopted by the EU and with relevant interpretations, issued by the International Financial Reporting Interpretation Committee (IFRIC). Furthermore, the consolidated financial statements comply with the Danish FSA's disclosure requirements for annual reports of issuers of listed bonds.

At 30 June 2015, the consolidated financial statements were prepared in accordance with 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 transition to IFRS in the second half of 2015 was made because Danica Pension in the autumn of 2015 issued bonds that are listed on the Irish stock exchange. The Group's financial statements are included in the consolidated financial statements of the ultimate parent company, Danske Bank A/S, which are prepared in accordance with IFRS. The transition to IFRS did not change the recognition or measurement of individual income statement and balance sheet items.

On 27 July 2015, the Danish FSA issued a new Executive Order No. 937 on financial reports for insurance companies and multi-employer occupational pension funds, in force as from 2016. It is applicable to the parent company, Forsikringsselskabet Danica, but also affects the consolidated financial statements. The new executive order on financial reports for insurance companies caused a change to the calculation of technical provisions. The below opening balance sheet for 2016 was prepared in accordance with the new executive order, causing technical provisions in the Group to be increased by DKK 267 million and the Group's shareholders' equity to be reduced by DKK 208 million. Comparative figures for 2015 have not been restated, as this is not practically possible. The balance sheet shows the new opening balance sheet at 1 January 2016.

The table below indicates the key changes from the balance sheet at 31 December 2015 to the opening balance sheet at 1 January 2016, mainly as a result of the new executive order on financial reports..

Balance sheet (DKKm)	Balance sheet 31 December 2015	Change, new executive order	Correction of error re. tax on pension returns	Balance sheet 1 January 2016
Current tax assets	362	58	7	427
Total assets	368,340	58	7	368,405
Life insurance provisions	146,753	156,898	-109	NA
Outstanding claims provisions, Life	291	-291		NA
Collective bonus potential (part of life insurance provisions)	3,584	-3,584		NA
Provisions for unit-linked contracts	160,628	-160,628		NA
Profit margin	NA	7,605		7,605
Risk margin, non-life insurance contracts	0	298		298
Total provisions for insurance and investment contracts	320,839	267	-109	320,997
Other payables	12,921	-1	140	13,061
Shareholders' equity	19,608	-208	-25	19,375
Total liabilities and equity	368,340	58	7	368,405

The making up of the profit margin is described in the section hereon, on page 22.

### 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 to be most critical to the consolidated financial statements are:

- the 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.



# Notes – Danica Group

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Note

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## **Measurement of liabilities under insurance contracts**

Liabilities under insurance contracts are measured in accordance with the rules of the Danish executive order on financial reports presented by insurance companies.

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 1.7 years for a sixty five-year-old man and 1.8 years for a sixty five-year-old woman. A sixty five-year-old man is thus expected to live for approximately 22 more years and a sixty five-year-old woman for approximately 24 more years.

The liabilities also depend on the discount yield, which is fixed on the basis of an EIOPA yield curve (incl. VA supplement).

## **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 Danske Bank 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.

## **Consolidation**

Together with the undertakings consolidated in the Danica Group, Forsikringsselskabet Danica is 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 Forsikringsselskabet Danica is exposed to variable returns from its involvement with the undertaking and, directly or indirectly, holds more than half of the voting rights in the undertaking or otherwise has power to control management and operating decisions affecting the variable returns.

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.

For an overview of the companies in the Group, see page 64 of the 2015 annual report. The Group is not subject to any restrictions on its ability to access or use the assets or settle the liabilities of the Group.

## **Holdings in associates**

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

# Notes – Danica Group

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Note

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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 Forsikringssekskabet 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 and operations**

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.

The Group is involved in joint operations with other pension companies. These joint operations are administered 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.

With respect to jointly controlled assets and operations, a proportionate share (corresponding to pro rata consolidation) is recognised in the income statement and balance sheet in accordance with the relevant IFRS standards.

#### **Intragroup transactions**

Transactions between companies in the Danske Bank Group are settled on an arm's-length or a cost recovery basis and according to contractual agreement between the undertakings, unless the transactions are insignificant.

#### **Segment reporting**

In the financial statements, the Group is broken down into three business segments based on differences in products. The segment Traditional covers traditional life insurance and pension schemes with guaranteed benefits and Forenede Gruppeliv, while the Unit-linked contract segment covers market return pension schemes. The segment Health and accident covers non-life insurance, which in addition to health and accident insurance comprises the products Health insurance, Critical illness and Sundhedsfremmer (health promoter). In the segment reporting, profit before tax is calculated according to the accounting policies applied in the consolidated financial statements. The presentation of the main consolidated income statement items is changed in accordance with the segment reporting used internally by the Group's management to assess earnings and resource allocation. The changes are shown in the reclassification column.

Inter-segment transactions are settled on an arm's-length or a cost recovery basis. Expenses incurred centrally by support, administrative and back-office functions are charged to the business units according to consumption and activity at calculated unit prices or at market prices, if available.

The financial statements also present a geographical segmentation of premiums and assets, broken down into the countries in which the Group has operations, Denmark, Sweden and Norway.

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

The presentation currency of the consolidated financial statements is Danish kroner, which is the functional currency of Forsikringssekskabet Danica. The functional currency of each of the Group's units is the currency of the country in which the unit is domiciled, as most income and expenses are settled in the local currency.

Transactions in foreign currency are translated at the exchange rate of the unit's functional currency 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.

#### **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.

# Notes – Danica Group

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Note

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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 consist of 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.

If the bonus potential for the individual group is sufficient to allow booking of the risk allowance, an amount may be booked.

Within each interest rate group, any losses are absorbed collectively by that group's collective bonus potential, by individual bonus potentials and the profit margin, 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.

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 statutory solvency requirement is higher than the percentage that had been maintained by Statsanstalten for Livsforsikring prior to the privatisation of this company in 1990. This comprises any excess either consolidated in shareholders' equity or distributed as dividend. Special allotments to those policyholders are recognised as an expense in the income statement item "Change in life insurance provisions and outstanding claims provisions".

## **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 group undertakings and 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, and the like. The rate for tax on pension returns amounts to 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, excluding premiums and benefits regarding investment contracts.

The item includes both Traditional and Unit-linked products.

The change in collective bonus potential is part of the change in life insurance provisions and comprises the change for the year in collective bonus potential for insurance policies with bonus entitlement.

## **Change in profit margin**

Change in profit margin is the change for the year in the profit margin relating to life insurance.

## **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 conditional shares in Danske Bank A/S.

## **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 outstanding 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. Adjustment is also made for change in risk margin. Total gross claims are calculated net of reinsurance.

## **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 and deferred tax on the profit for the year before tax and 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.

## **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 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

# Notes – Danica Group

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Note

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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 on subsidiaries is tested for impairment based on earnings estimates for the budget period, followed by a terminal value. The budget period generally represents the first five years. If earnings are not expected to reach a normalised level within the first five years, the period of explicit earnings estimates is extended to ten years. Expected cash flows are discounted by 9% post-tax, equalling 12% before tax. Goodwill in associated undertakings is tested for impairment based, among other things, on the financial statements.

The calculation of the value in use of the cash-generating subsidiary is based on the cash flows included in the most recent budgets and forecasts for the coming five financial years, approved by the Board of Directors. For financial years after the budget periods (terminal period), cash flows are extrapolated in the latest budget period adjusted for expected growth rates.

The principal assumptions applied in impairment testing are 6% negative growth in terminal period and 0% inflation.

## **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 the Group 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**

The classification of financial assets and liabilities and disclosure of income recognition of interest and value adjustments, etc. are explained in note 6 *Financial instruments*.

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.

## **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.

# Notes – Danica Group

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Note

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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 products**

At initial recognition, investment assets related to unit-linked products 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 market price at the closing date 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 technical 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**

##### **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 as well as assumptions of conversions into paid-up policies and surrenders. 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 a risk margin. The risk margin has been determined using a margin on mortality intensity and intensity relating to conversions into paid-up policies and surrenders. The risk margin is the amount expected to be payable in the market to an acquirer of the policy in return for that party assuming the risk that the costs of meeting the payment obligations under the policy deviate from the present value of the best estimate of the cash flows made during the life of the policy.

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

Life insurance provisions are divided into guaranteed benefits including risk margin, individual bonus potentials and collective bonus potentials.

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.

Individual bonus potentials comprise obligations to pay bonuses over time. Individual bonus potential is calculated for the portfolio of insurance policies with bonus entitlement as the difference between the value of the policyholder's savings and the present value of guaranteed benefits under the policy. The profit margin is also deducted. The bonus potential cannot be negative.

The collective bonus potential is the part of the value of the policyholders' bonus entitlement not yet allocated to the individual policyholders' savings. If the individual bonus potential is nil, any profit margin not covered by the individual bonus potential will be absorbed by the collective bonus potential.

# Notes – Danica Group

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Note

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If the technical basis for risk allowance of an interest rate group after bonuses is negative, and if this loss is not absorbed by the group's collective bonus potential, individual bonus potentials and the profit margin relating to the group's insurance policies are used to absorb the loss. Any further losses are covered by shareholders' equity.

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

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 is calculated on the basis of the methods reported to the Danish FSA.

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.

#### **Profit margin on life insurance and investment contracts**

Profit margin is the present value of the future profit on contracts which is expected to be recognised in the income statement, concurrent with the provision of insurance cover and any other benefits under the contract are provided.

On 20 May 2016, the Danish FSA issued an interpretation on the calculation of profit margin for financial reporting purposes, according to which the profit margin on the conventional pension product is to be calculated in the financial statements on a policy basis rather than on the basis of interest rate groups. In the opinion of Danica and the industry, this approach does not provide a true and fair view of the practice applied in the conventional product. Discussions are under way between the industry and the FSA about the new interpretation, and pending the outcome of these discussions, in the interim report for H1, Danica has chosen to continue to calculate profit margin on an interest rate group basis rather than on a policy basis. The interpretation solely concerns the distribution and specification of technical provisions for accounting purposes and will not impact the profit for the period or the solvency statement.

#### **Outstanding claims provisions**

Outstanding claims provisions are an estimate of expected payments of benefits and benefits due but not yet paid in respect of the Group's health and accident insurances. The provisions are settled by way of regular benefits and the liability is calculated as the present value of expected future payments, including costs to settle claims obligations.

#### **Risk margin on non-life insurance contracts**

To non-life insurance contracts is added a risk margin, determined using a margin on intensities relating to reactivation and reopening of claims. The risk margin is the amount expected to be payable in the market to an acquirer of the policy in return for that party assuming the risk that the costs of meeting the payment obligations under the policy deviate from the present value of the best estimate of the cash flows made during the life of the policy.

#### **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.

#### **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.

#### **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.

#### **Subordinated debt**

Subordinated debt is subordinated loan capital in the form of issued bonds which, in the event of the company's voluntary or compulsory winding-up, will not be repaid until after the claims of its ordinary creditors have been met. Subordinated debt forms part of the Group's total capital.

Subordinated debt is measured at amortised cost plus the fair value of the hedged interest rate risk, see the section Hedge accounting.

# Notes – Danica Group

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Note

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## 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 should be shown separately according to IFRS, but 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.

### Cash flow statement

The Group prepares its cash flow statement according to the indirect method. The statement is based on profit for the year before tax and shows the consolidated cash flows from operating, investing and financing activities and the increase or decrease in cash and cash equivalents during the year.

Cash and cash equivalents consist of the items Cash and Deposits with credit institutions.

### Key ratios

The key ratios of the Group 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.

### Standards and interpretations not yet in force

The International Accounting Standards Board (IASB) has issued a number of amendments to international financial reporting standards which have not yet come into force. Similarly, the International Financial Reporting Interpretations Committee (IFRIC) has issued a number of interpretations which have not yet come into force. None of these are expected to materially affect the future financial reporting of the Group. The paragraphs below list the standards and interpretations that are likely to affect the Group's financial reporting.

#### *IFRS 9, Financial Instruments*

In July 2014, the IASB issued IFRS 9, which will replace the principles of IAS 39. IFRS 9 provides principles for classification of financial instruments, impairment concerning credit risk on financial assets recognised in the income statement at amortised cost and general hedge accounting provisions. IASB is still working on new provisions on hedge accounting for portfolio hedges.

Under IFRS 9, financial assets are classified on the basis of the business model within which they are held and their contractual characteristics, including any embedded derivatives (unlike IAS 39, IFRS 9 no longer requires bifurcation). Assets held with the objective of collecting contractual cash flows, and where the cash flows are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost. Assets held both with the objective of collecting contractual cash flows and of selling, and where the cash flows are payments of principal and interest, are measured at fair value through other comprehensive income. Other assets are measured at fair value through profit or loss. As under IAS 39, an entity may designate financial assets as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from recognising assets or liabilities on different bases (the fair value option). The group currently applies this fair value option under IAS 39.

The principles applicable to financial liabilities are largely unchanged from IAS 39.

IFRS 9, which has not yet been adopted by the EU, is to be implemented at 1 January 2018. IASB is currently considering how insurance companies are to handle the fact that IFRS 9 must be implemented before implementation of the amendment of IFRS 4, Insurance Contracts, currently being prepared by IASB. The Group is following the development of this issue, and will, once it has been resolved, consider whether to postpone implementation of IFRS 9 until the implementation of IFRS 4, as is expected to be one of the options available to insurance companies.

#### *IFRS 15, Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which will replace the principles of IAS 18 and other revenue recognition standards. Pursuant to IFRS 15, revenue must be recognised as the performance obligations are satisfied. The standard also includes additional disclosure requirements.

IFRS 15, which has not yet been adopted by the EU, is to be implemented at 1 January 2018. The Group is currently assessing the effects of the standard. It is not possible as yet to assess any accounting effect of the standard.



# Notes - Danica Group

Note DKKm

## 2 BUSINESS SEGMENTS

The group's business segments are based on differences in products. The segment Traditional covers conventional life insurance and pension plans offering guaranteed benefits and Forenede Gruppeliv, while the Unit-linked contract segment covers pension plans offering market returns. The Health and accident segment covers non-life insurance, which in addition to health and accident insurance comprises the products Sundhedssikring (health care), Kritisk Sygdom (critical illness) and Sundhedsfremmer (offer of health check).

BUSINESS SEGMENTS First half 2016	Traditional	Unit-linked contracts	Health and accident insurance	Total	Reclassification	Group
Gross premiums	1,834	13,432	728	15,994	-129	15,865
Gross premiums from external sales	1,834	13,432	728	15,994	-129	15,865
- Gross premiums on investment contracts	-	-5,736	-	-5,736	-	-5,736
Gross premiums in the income statement	1,834	7,696	728	10,258	-129	10,129
Return on investment allocated to technical result	8,939	-1,699	-	7,240	-190	7,050
Claims and benefits paid	-6,285	-4,700	-768	-11,753	129	-11,624
Change in provisions for insurance and investment contracts	-3,708	-1,076	111	-4,673	-130	-4,803
Total operating expenses relating to insurance	-193	-380	-56	-629	-	-629
Result of reinsurance	-2	0	-16	-18	-	-18
Other income, net	80	458	-2	536	89	625
Technical result	665	299	-3	961	-231	730
Special allotment	-130	-	-	-130	130	0
Return on investment, shareholders' equity	22	-	1	23	78	101
Return on investment, health and accident	-	-	-23	-23	23	0
Profit before tax	557	299	-25	831	0	831
Other segment information						
Interest income	3,086	87	61	3,234	-	
Interest expenses	-1,235	-12	-2	-1,249	-	
Income from associated undertakings at book value	15	-	-	15	-	

The Danica Group has no single customers generating 10% or more of the combined revenue.

## BUSINESS SEGMENTS First half 2015

Gross premiums	2,044	12,921	668	15,633	-158	15,475
Gross premiums from external sales	2,044	12,921	668	15,633	-158	15,475
- Gross premiums on investment contracts	-	-4,804	-	-4,804	-	-4,804
Gross premiums in the income statement	2,044	8,117	668	10,829	-158	10,671
Return on investment allocated to technical result	-179	6,610	-	6,431	386	6,817
Claims and benefits paid	-7,105	-3,765	-705	-11,575	158	-11,417
Changes in provisions for insurance and investment contracts	6,176	-10,733	-9	-4,566	-42	-4,608
Total operating expenses relating to insurance	-192	-346	-61	-599	-5	-604
Result of reinsurance	-91	-6	-1	-98	-	-98
Other income, net	32	438	-2	468	-257	211
Technical result	685	315	-110	890	82	972
Special allotment	-42	-	-	-42	42	0
Return on investment, shareholders' equity	82	-	0	82	85	167
Return on investment, health and accident	-	-	209	209	-209	0
Profit before tax	725	315	99	1,139	0	1,139
Other segment information						
Interest income	2,726	14	74	2,814	-	
Interest expenses	-496	-6	-1	-503	-	
Income from associated undertakings at book value	81	-	-	81	-	

The Danica Group has no single customers generating 10% or more of the combined revenue.

# Notes - Danica Group

Note	DKKm	First half 2016	First half 2015
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## GEOGRAPHICAL SEGMENTS

Premium income from external customers are allocated to the country in which the contract was sold.

Assets comprise only intangible assets, tangible assets, investment property and holdings in associated undertakings in accordance with IFRS and do not provide a useful description of the Group's assets for management purposes.

Goodwill is allocated to the country in which activities are performed, whereas other assets are allocated on the basis of their location.

	Premiums, external customers		Assets	
	First half 2016	First half 2015	First half 2016	First half 2015
Denmark	10,499	9,814	28,238	26,619
Sweden	4,264	4,725	-	-
Norway	1,101	936	84	84
<b>Total</b>	<b>15,864</b>	<b>15,475</b>	<b>28,322</b>	<b>26,703</b>

## 3 GROSS PREMIUMS, incl. payments received under investment contracts

Direct insurance:

Regular premiums

Single premiums

7,018

6,868

8,118

7,939

Total direct insurance

15,136

14,807

Total gross premiums

15,136

14,807

In the above gross premiums, premiums paid on investment contracts which are not included in the income statement constitute:

Regular premiums

Single premiums

1,179

647

4,556

4,157

Total premiums paid

5,735

4,804

Total gross premiums included in the income statement

9,401

10,003

# Notes - Danica Group

Note	DKKm	30 June 2016	31 December 2015
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## 4 SUBORDINATED DEBT

Subordinated debt is debt which, in the event of the company's voluntary or compulsory winding-up, will not be repaid until the claims of ordinary creditors have been met. Subordinated loan capital is included in the capital base etc. In accordance with sections 36-38 of the executive order on calculation of capital base for insurance companies and insurance holding companies and calculation of total capital for certain investment firms.

Currency	Borrower	Note	Nominal	Interest rate	Year of issue	Maturity	Re- demption price		
EUR	Danica Pension	a)	500	4.38	2015	29.9.45	100	3,720	3,731
Subordinated debt								3,720	3,731
Discount								-31	-33
Hedging of interest rate risk at fair value								271	33
Total, corresponding to fair value								3,960	3,731
Establishment and redemption costs								-	34
Included in the capital base								3,960	2,565

a) The loan was raised on 29 September 2015 and is listed on the Irish Stock Exchange. The loan can be repaid from September 2025.

The loan carries interest at a rate of 4.375% p.a. until 29 September 2025, at which point a step-up will occur. The interest expense amounted to DKK 82 million for the first half of 2016.

The subordinated debt is stated at amortised cost plus the fair value of the hedged interest rate risk.

# Notes - Danica Group

Note	DKKm	30 June 2016	31 December 2015
5	ASSETS DEPOSITED AS COLLATERAL AND CONTINGENT LIABILITIES		
	The following assets have been deposited as collateral for policyholders' savings:		
	Domicile property	42	42
	Investment property	26,235	25,868
	Holdings in associates	649	644
	Holdings	21,949	24,555
	Unit trust certificates	13,969	9,459
	Bonds	115,302	105,128
	Other loans	3,580	2,835
	Deposits with credit institutions	9,707	688
	Net other	5,918	3,792
	Unit-linked investment assets	151,096	150,057
	Accrued interest	2,475	1,813
	<b>Total</b>	<b>350,922</b>	<b>324,881</b>
	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	2,352	1,577
	The Group has rent commitments with a remaining lease of 10 years and annual gross rent of	45	45
	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	1,385	1,192
	The Group has undertaken to participate in alternative investments with an amount of	8,914	11,231
	The Group is voluntarily registered for VAT on certain properties. The Group's VAT adjustment liability amounts to	940	996
	As a participant in partnerships, the Group is liable for a total debt of	54	52
	Amount of this included in the Group's balance sheet	35	34
	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

## 6 FINANCIAL INSTRUMENTS

Financial instruments, classification and valuation method

	Fair value			Amortised cost		
	Held for trading	Designated	Fair value hedge	Debtors	Liabilities	Total
30 June 2016						
Holdings		23,035				23,035
Unit trust certificates		2,258				2,258
Bonds		134,381				134,381
Other loans		3,580				3,580
Deposits with credit institutions				10,673		10,673
Derivatives	37,000					37,000
Unit-linked investments		163,192				163,192
Debtors				954		954
Cash and cash equivalents				852		852
<b>Total financial assets</b>	<b>37,000</b>	<b>326,446</b>		<b>12,479</b>		<b>375,925</b>
Life insurance provisions, unit-linked products, investment contracts		48,168				48,168
Due to credit institutions					23,958	23,958
Derivatives	30,308					30,308
<b>Total financial liabilities</b>	<b>30,308</b>	<b>48,168</b>			<b>23,958</b>	<b>102,434</b>
31 December 2015						
Holdings		26,508				26,508
Unit trust certificates		11,087				11,087
Bonds		117,903				117,903
Other loans		2,835				2,835
Deposits with credit institutions				840		840
Derivatives	13,913					13,913
Unit-linked investments		159,874				159,874
Debtors				951		951
Cash and cash equivalents				1,631		1,631
<b>Total financial assets</b>	<b>13,913</b>	<b>318,207</b>		<b>3,422</b>		<b>335,542</b>
Life insurance provisions, unit-linked products, investment contracts		45,811				45,811
Due to credit institutions					8,012	8,012
Derivatives	10,014					10,014
Other liabilities			33		3,698	3,731
<b>Total financial liabilities</b>	<b>10,014</b>	<b>45,811</b>	<b>33</b>		<b>11,710</b>	<b>67,568</b>

### Recognition as income:

Interest income from debtors measured at amortised cost is recognised in the amount of DKK 5 million in H1 2016 and DKK 23 million in 2015.

Interest expenses on liabilities measured at amortised cost totalled DKK 10 million in H1 2016 and DKK 63 million in 2015.

Exchange rate adjustment of debtors and liabilities measured at amortised cost were recognised under value adjustments at DKK 130 million in H1 2016 and at DKK 211 million in 2015.

The remaining part of investment return included in the income statement items interest income and dividends, etc., interest expenses and value adjustments relates to financial instruments at fair value

# Notes - Danica Group

Note DKKm

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## Financial instruments at fair value

The fair value is the amount for which a financial asset can be exchanged between knowledgeable, willing parties. Fair value is measured on the basis of the following hierarchy:

Level 1: Quoted prices in an active market for identical instruments.

Level 2: Observable input based on quoted prices in an active market for similar assets or liabilities, or other valuation methods where the valuation is based substantially on observable input. This category includes, for example, financial investment assets such as unlisted bonds and investment properties.

Level 3: Non-observable input where the valuation is not based substantially on observable input. This category includes, for example, unlisted shares.

The measurement of unlisted is based on the industry, market position and earnings capacity of the company. Furthermore, the fair value is affected by macroeconomic and financial conditions.

At 30 June 2016, Danica had financial assets as set out below in the amount of DKK 363,446 million, of which 96% was attributable to insurance obligations to policyholders and 4% was attributable to shareholders' equity. Accordingly, changes in various valuation parameters would therefore have an insignificant impact on shareholders' equity, as the risk is assumed by policyholders.

	Quoted prices	Observable input	Non-observable input	Total
<b>30 June 2016</b>				
Holdings	11,753		11,282	23,035
Unit trust certificates	2,075		183	2,258
Bonds	128,943	5,106	332	134,381
Other loans			3,580	3,580
Derivatives	374	36,621	5	37,000
Unit-linked investments	156,196	67	6,929	163,192
<b>Total financial assets</b>	<b>299,341</b>	<b>41,794</b>	<b>22,311</b>	<b>363,446</b>
Derivatives	1,126	29,105	77	30,308
<b>Total financial liabilities</b>	<b>1,126</b>	<b>29,105</b>	<b>77</b>	<b>30,308</b>
<b>31 December 2015</b>				
Holdings	11,348	-	15,160	26,508
Unit trust certificates	10,108	-	980	11,088
Bonds	114,126	3,441	335	117,902
Other loans	-	-	2,835	2,835
Derivatives	431	13,482	-	13,913
Unit-linked investments	159,874	-	-	159,874
<b>Total financial assets</b>	<b>295,887</b>	<b>16,923</b>	<b>19,310</b>	<b>332,120</b>
Derivatives	342	9,385	287	10,014
<b>Total financial liabilities</b>	<b>342</b>	<b>9,385</b>	<b>287</b>	<b>10,014</b>

At 30 June 2016, financial instruments measured on the basis of non-observable input comprised unlisted shares DKK 17,819 million and illiquid bonds DKK 4,486 million.

	30 June 2016	31 December 2015
<b>Valuation based on non-observable input</b>		
Fair value, beginning of year	19,310	14,039
Value adjustment recognised through profit or loss in Value adjustments	695	2,554
Purchase	11,835	6,224
Sale	-9,529	-3,507
<b>Fair value, end of period</b>	<b>22,311</b>	<b>19,310</b>

Transfers to quoted prices and non-observable input were principally due to a large portfolio of bonds, the latest quoted prices of which are not deemed to reflect their year-end values.

In first half of 2016, unrealised value adjustments were recognised at DKK 38 million (2015: DKK 1,417 million) on financial instruments valued based on non-observable input.

# Notes – Danica Group

Note

## 7 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 release 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 unit-linked products with investment guarantees attached.
- 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 65 in the annual report for 2015.

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 return on investments of customer funds for the year for an individual interest rate group 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 individual bonus potential of paid-up policies of that 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 EIOPA as part of the Solvency II rules.

In order to ensure that the return on customer funds matches the guaranteed benefits on policies with bonus entitlement, the company monitors market risk on an ongoing basis. Internal stress tests are performed to ensure that the company 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 also invest in non-Danish interest rate instruments. The investments are sensitive to changes in interest rates. They comprise 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 company is exposed to basic risk from country and credit spreads.

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 hedged by means of derivatives.

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

# Notes – Danica Group

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Concentration risk is mitigated by investing with great portfolio diversification and by limiting the number of investments by 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 unit-linked products***

Policyholders assume the financial risk associated with investments under the unit-linked products, Danica Link, Danica Balance and Danica Select, with the exception of contracts with investment guarantees attached. At 30 June 2016, 18% of policyholders had investment guarantees in the guaranteed period. The guarantees do not apply until the policyholder retires and are 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 management strategy, Danica Pension considers the market risk on guarantees under unit-linked products to be minor.

Investment guarantees are not available for Danica Select.

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

Shareholders' equity is exposed to financial risk on assets in which shareholders' equity is invested 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.

### ***Life insurance risk***

Life insurance risks are 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.

Concentration risk relating to life insurance 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 mitigated by means of portfolio diversification and by reinsurance.

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

The various risk elements are subject to ongoing actuarial assessment for the purpose of calculating insurance obligations and making relevant 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 mitigates operational risk by establishing internal controls that are regularly updated and adjusted to the Group's current business volume. Another measure is segregation of duties.

### ***Business risk***

Business risk comprises strategic risks, reputational risks and other external risk 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.



# Notes – Danica Group

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Note

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## SENSITIVITY INFORMATION

The below table shows the effects of separate changes in interest rates (increases and decreases) and other relevant financial risks on shareholders' equity/capital base.

## SENSITIVITY INFORMATION 30/06/2016

(DKK billions)	Effect on share- holders' equity
Interest rate increase of 0.7-1.0 pct. point	-0.2
Interest rate decrease of 0.7-1.0 pct. point	0.1
Decline in equity prices of 12%	0.0
Decline in property prices of 8%	-0.3
Foreign exchange risk (VaR 99.0%)	0.0
Loss on counterparties of 8%	-0.2

# Income statement - Forsikringselskabet Danica

Note	DKKm	First half 2016	First half 2015
	Gross premiums	202	188
	Change in unearned premiums provision	-31	-30
	Premiums, net of reinsurance	171	158
	Technical interest	-1	-1
	Claims paid, gross	-188	-177
	Change in outstanding claims provision	14	20
	Claims, net of reinsurance	-174	-157
	Acquisition costs	-4	-4
	Administrative expenses	-4	-5
	Total operating expenses relating to insurance, net of reinsurance	-8	-9
	<b>TECHNICAL RESULT</b>	<b>-12</b>	<b>-9</b>
	Income from group undertakings	492	822
	Interest income and dividends, etc.	5	5
	Market value adjustments of investments	5	-6
	Interest expenses	-4	0
	Administrative expenses related to investment activities	-1	0
	Total return on investments	497	821
	Return on technical provisions	-5	2
	<b>RETURN ON INVESTMENTS LESS TECHNICAL INTEREST</b>	<b>492</b>	<b>823</b>
	Other income	158	65
	Other expenses	-37	-20
	<b>PROFIT BEFORE TAX</b>	<b>601</b>	<b>859</b>
	Tax	-24	-8
	<b>NET PROFIT FOR THE PERIOD</b>	<b>577</b>	<b>851</b>
	Net profit for the period	577	851
	Other comprehensive income:		
	Translation of units outside Denmark	3	18
	Hedging of units outside Denmark	-2	-19
	Tax relating to other comprehensive income	3	4
	Total other comprehensive income	4	3
	<b>NET COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>581</b>	<b>854</b>

# Balance sheet - Forsikringssselskabet Danica

## Assets

Note	DKKm	30 June 2016	1 January 2016	30 June 2015
	Holdings in group undertakings	17,166	19,270	18,859
	Total investments in group undertakings and associates	17,166	19,270	18,859
	Bonds	533	545	455
	Total other financial investments	533	545	455
	<b>TOTAL INVESTMENTS ASSETS</b>	<b>17,699</b>	<b>19,815</b>	<b>19,314</b>
	Amounts due from policyholders	3	-	4
	Amounts due from subsidiary undertakings	23	-	71
	Other debtors	26	7	6
	<b>TOTAL DEBTORS</b>	<b>52</b>	<b>7</b>	<b>81</b>
	Deferred tax assets	1	1	1
	<b>TOTAL OTHER ASSETS</b>	<b>1</b>	<b>1</b>	<b>1</b>
	Accrued interest and rent	4	5	4
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	<b>4</b>	<b>5</b>	<b>4</b>
	<b>TOTAL ASSETS</b>	<b>17,756</b>	<b>19,828</b>	<b>19,400</b>

# Balance sheet - Forsikringselskabet Danica

## Liabilities and equity

Note	DKKm	30 June 2016	1 January 2016	30 June 2015
	Share capital	1,000	1,000	1,000
	Other reserves	12,728	12,232	14,421
	Retained earnings	2,405	2,320	3,590
	Proposed dividend	-	3,900	-
	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>16,133</b>	<b>19,452</b>	<b>19,011</b>
	Unearned premiums provision	39	8	37
	Outstanding claims provision	302	310	319
	Risk margin on non-life insurance contracts	7	7	-
	Provisions for bonuses and premium discounts	4	4	4
	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>352</b>	<b>329</b>	<b>360</b>
	Amounts owed, direct insurance	12	12	11
	Amounts owed to group undertakings	1,200	4	-
	Current tax liabilities	42	18	8
	Other creditors	16	8	9
	<b>TOTAL CREDITORS</b>	<b>1,270</b>	<b>42</b>	<b>28</b>
	<b>ACCRUALS AND DEFERRED INCOME</b>	<b>1</b>	<b>5</b>	<b>1</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>17,756</b>	<b>19,828</b>	<b>19,400</b>

# Notes - Forsikringselskabet Danica

Note	DKKm	30 June 2016	31 December 2015
1	<b>SIGNIFICANT ACCOUNTING POLICIES</b>		
	The financial statements of the Parent Company, Forsikringselskabet Danica, are presented in accordance with the provisions of the Danish Financial Business Act, including the Danish FSA's Executive Order No. 937 of 27 July 2015 on financial reports for insurance companies and multi-employer occupational pension funds.		
	The accounting policies are identical to the Group's measurement under IFRS with such differences as naturally occur between consolidated and parent company financial statements. See the description of significant accounting policies in note 1 to the consolidated financial statements.		
	The accounting policies have been changed compared with the annual report for 2015, comparative figures have not been restated.		
	The new executive order on financial reports for insurance companies caused a change to the calculation of technical provisions.		
	The new opening balance sheet at 1 January 2016 was prepared in accordance with the new executive order, causing technical provisions to be increased.		
	<b>Holdings in group undertakings</b>		
	Holdings in group undertakings are measured in accordance with the equity method, and the profit/loss after tax in subsidiaries is recognised in the item Income from group undertakings.		
	Holdings in group undertakings comprise Danica Pension, which is a life insurance company and the parent company of a life insurance group.		
2	<b>ASSETS DEPOSITED AS SECURITY AND CONTINGENT LIABILITIES</b>		
	The following assets have been deposited as collateral for policyholders' savings:		
	Bonds	427	393
	Accrued interest	4	3
	<b>Total</b>	<b>432</b>	<b>396</b>
	The company has rent commitments with a remaining lease of 10 years and annual gross rent of	45	45
	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.		

## Statement by the Management

The Board of Directors and the Executive Board (the management) have today considered and approved the interim financial statements of Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999 for the six months ended 30 June 2016.

The consolidated interim financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the interim financial statements of the Parent Company are prepared in accordance with the Financial Business Act.

In our opinion, the interim 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 30 June 2016 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the period 1 January – 30 June 2016. 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.

We recommend the interim financial statements for adoption by the shareholders at the general meeting.

Copenhagen, 21 July 2016

### Executive Board

Per Klitgård

Claus Harder

Anders Hjelmsø Svennesen

Jesper Winkelmann

### Board of Directors

Thomas F. Borgen  
Chairman

Henrik Ramlau-Hansen  
Deputy Chairman

Kim Andersen

Tonny Thierry Andersen

Thomas Falck

Jeanette Fangel Løgstrup

Thomas Mitchell

Christoffer Møllenbach

Henrik Nielsen

Charlott Due Pihl

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## Address

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