

# *Annual Report 2017*

Danica Pension



# Contents

<b>MANAGEMENT REPORT</b>	
SELECTED FINANCIAL HIGHLIGHTS	2
DANICA STRATEGY	3
FINANCIAL REVIEW	4
ORGANISATION, MANAGEMENT AND PARTNERSHIPS	7
CORPORATE RESPONSIBILITY	9
<b>FINANCIAL STATEMENTS</b>	
Consolidated financial statements	10
Parent company financial statements	54
Group overview	74
MANAGEMENT AND DIRECTORSHIPS	76
STATEMENT AND REPORT	
Statement by the Management	77
Independent auditors' reports	78

This Annual Report 2017 is a translation of the original report in the Danish language (Årsrapport 2017). In case of discrepancy, the Danish version prevails

## SELECTED FINANCIAL HIGHLIGHTS FOR THE DANICA PENSION GROUP

(DKK millions)	2017	2016	2015 <sup>1)</sup>	2014 <sup>2)</sup>	2013 <sup>2)</sup>
<b>PREMIUMS INCLUDING INVESTMENT CONTRACTS</b>	39,357	33,465	29,254	26,502	26,484
<b>INCOME STATEMENT</b>					
Technical result, Life	1,225	1,436	1,349	2,088	894
Technical result of health and accident insurance	-150	-100	-32	-141	-88
Return on investment allocated to equity, etc.	350	625	557	663	613
Profit before tax	1,425	1,961	1,874	2,610	1,419
Tax	-200	-376	-480	-608	-119
Profit for the year	1,225	1,585	1,394	2,002	1,300
<b>BALANCE SHEET</b>					
Total assets	427,521	404,820	367,944	358,237	327,350
Technical provisions, health and accident insurance	9,928	9,858	9,516	9,292	8,568
Provisions for insurance and investment contracts	363,462	340,467	320,662	315,480	293,133
Total shareholders' equity	17,947	18,267	19,289	20,031	18,537
<b>KEY FIGURES AND RATIOS (%)</b>					
Return related to unit-linked products in Denmark	8.1	5.5	4.8	9.4	8.6
Risk on return related to unit-linked products	4.25	4.25	-	-	-
Net return before tax on pension returns on Danica Traditionel <sup>3)</sup>	3.2	4.8	5.1	7.2	2.2
Expenses as per cent of provisions	0.34	0.36	0.37	0.42	0.44
Expenses per policyholder (DKK)	1,231	1,221	1,255	1,180	1,177
Return on equity after tax	6.6	8.4	7.0	10.4	7.1
Solvency coverage ratio	228	249	199	213	220
<b>RATIOS FOR HEALTH AND ACCIDENT INSURANCE</b>					
Gross claims ratio	115	105	111	130	117
Gross expense ratio	9	9	12	10	11

<sup>1)</sup> Balance sheet at 1 January 2016

<sup>2)</sup> The financial statements are presented in accordance with the executive order on financial reports of 27 July 2015. Key figures and ratios for 2013-2014 have not been restated to reflect the new executive order on financial reports of 27 July 2015. For details, see the significant accounting policies note. The key figures and ratios include change in accumulated value adjustment

<sup>3)</sup> The key figures and ratios include change in accumulated value adjustment

Danica Pension's consolidated financial statements are presented in accordance with IFRS.

In the period 2013-2014, the consolidated financial statements were presented in accordance with the Danish FSA's Executive Order on Financial Reports for Insurance Companies and Multi-employer Occupational Pension Funds. The change does not affect the financial highlights.

For the full list of financial ratios pursuant to the Danish FSA's Executive Order on Financial Reports for Insurance Companies and Multi-employer Occupational Pension Funds, see page 11.

### Comments on selected financial highlights for the Group

Premiums including investment contracts comprise all regular and single premiums in the life business and health and accident insurance premiums.

### Ratios:

Return before tax on pension returns including return related to unit-linked products comprises all the Group's companies and products and is calculated in accordance with the Danish FSA's definitions of return ratios. See significant accounting policies.

Net return before tax on pension returns on Danica Traditionel also includes changes in accumulated value adjustments, see note 26.

## DANICA STRATEGY

### Introduction to Danica Pension's strategy

Danica Pension's strategy is based on our vision of being the best among our peers at providing financial security for customers, and thus being the most trusted pension provider.

In 2017, Danica Pension enhanced the focus on proactively working to ensure that both personal and business customers have pension and insurance solutions that are suited to their current life situation. Danica Pension contacts customers whenever they encounter life changes that may affect their pension scheme or insurance covers.

By giving clear recommendations of how to achieve the best possible cover, we enable customers to concentrate on their business, work and life in general instead of worrying about whether their pension and insurance provide the right covers.

### One step ahead

With our "One step ahead" strategy, Danica Pension aims to give our customers a sense of security by providing clear recommendations and answers - before they are aware of needing it.

When our customers experience life changes that affect their pension or insurance, we give them clear recommendations of any adjustments they should make to their Danica Pension scheme. We also encourage customers to take a Pension Check. We proactively contact customers when they move or have a change in salary, for example.

In 2017, Danica Pension contacted more than 170,000 customers with specific information about their pension scheme. In 2018, our goal is to have contacted 300,000 customers with relevant information.

The number of customers who have taken a Pension Check with Danica Pension and gained an overview of their pension has increased significantly. As a result, far more customers now follow Danica Pension's pension and insurance recommendations.

### Continued close collaboration with Danske Bank

In 2017, Danica Pension made it a priority to present pension customers with the advantages of being a customer of both Danica Pension and Danske Bank. The past year has seen a massive increase in the number of Danske Bank customers choosing Danica Pension as their pension provider. When our customers are exclusively customers of the Danske Bank Group, we are able to deliver even more financial security while also strengthening our relationship with customers.

The collaboration also had a positive effect on Danica's financial results, as gross premiums written through Danske Bank increased 47% relative to the previous year.

In 2017, the investment units of Danske Bank Asset Management and Danica Pension were merged to a single investment unit. The merger has resulted in economies of scale and access to more investment opportunities than previously.

Danica Pension and Danske Bank will step up the collaboration another notch in 2018 to achieve an even better overall customer experience.

### Strong returns

Danica Pension once again delivered strong returns for our customers in 2017. These were mainly achieved through attractive returns on alternative investments and property investments.

In 2015, Danica Pension changed investment strategy and set up a new investment team. With the new investment strategy, alternative investments, including investments directly in companies, properties, etc., have been stepped up.

Danica Balance Mix customers saw returns for 2017 of between 5.2% and 12.3%, depending on their risk profile.

### Acquisition of SEB Pension

Towards the end of 2017, Danske Bank announced Danica Pension's acquisition of SEB Pension in Denmark. Through economies of scale, the acquisition will make Danica Pension more competitive and strengthen our innovation capacity, giving us an even better foundation for developing new and relevant pension and insurance solutions for our customers.

With the acquisition of SEB Pension in Denmark, Danica Pension will be welcoming 200,000 new pension customers and increase investment assets under management by approx. DKK 100 billion.

The acquisition has been referred to the relevant authorities for approval, and final approval is expected some time during the first half of 2018.

### Danica has entered into a partnership with ATP

In November 2017, ATP and Danica entered into a partnership on the part of Danica's property portfolio that concerns 16 of the largest shopping centres in Denmark. ATP will take over half of Danica's portfolio of shopping centres, which has a total value of DKK 13.7 billion. The partnership will increase the probability of the centres continuing to meet the expectations of shoppers, and thus of being a good investment for Danica's customers. The sale will also enable Danica to achieve greater diversity in its property investments. The investment is finalised in early 2018.

Property investments are among Danica's alternative investments and contribute to generating stable returns.

### Norway and Sweden

Danica Pension has subsidiaries in Sweden and Norway. Here, contributions have grown considerably in

recent years. This trend continued in 2017, as premiums were up 38.8% in Sweden and 7.8% in Norway. In 2018 and the years ahead, Danica Pension will focus on both top and bottom line growth in Norway and Sweden.

#### New way of making pension savings

In 2018, Danica Pension is launching a new way of saving up, applying the “save more tomorrow” principle. This means that customers enter into a voluntary agreement with Danica Pension, for example to give up one percentage of their future pay to be contributed to their pension. Research and experience from countries such as Germany and the USA indicate that it is easier to relinquish a future spending opportunity than an existing one.

#### Improved cover for loss of earning capacity

As from 2018, Danica Pension has decided to provide even better cover in the event of a customer losing his or her earning capacity for an extended period of time. The recommendation is that the customer should be able to maintain his/her current standard of living and be financially secure in the event of long-term illness.

## FINANCIAL REVIEW

#### Profit for the year

In 2017, the Danica Pension Group realised a profit before tax of DKK 1,425 million, against DKK 1,961 million in 2016. The net profit after tax amounted to DKK 1,225 million, against DKK 1,585 million in 2016.

DANICA PENSION GROUP, PROFIT BEFORE TAX			
(DKK millions)	2017	2016	
Technical result, Danica Traditionel	898	1,043	
Technical result, unit-linked products	531	523	
Health and accident result (before investment return)	-123	-153	
Result of insurance business	1,306	1,413	
Investment return	264	609	
Transferred from shadow account	44	279	
Cost and risk group outlays	41	0	
Special allotments	-230	-340	
Profit before tax	1,425	1,961	

The contents of the table are explained at the end of the significant accounting policies note.

The result of insurance business was in line with the guidance in the annual report for 2016 and the interim report for the first six months of 2017. Profit before tax was impacted by a lower investment return and transfer from the shadow account. The Board of Directors proposes to the annual general meeting that an amount of DKK 1,225 million, corresponding to the parent company's profit after tax, be distributed in 2018 as dividends in respect of 2017.

The technical result of the conventional business amounted to DKK 898 million, against DKK 1,043 million for 2016. The declining income in the conventional business was expected and was due to the

fact that new business is primarily written in unit-linked products as well as to the general run-off profile of the portfolio. In 2017, Danica was able to book the full risk allowance for the four interest rate groups. Danica was also able to book DKK 44 million from the shadow account in the risk groups as well as DKK 41 million in outlays from the cost and risk groups relating to 2016, after which there is no shadow account.

The technical result of unit-linked products was DKK 531 million. The result was favourably influenced by increased business volume.

The result of health and accident insurance before investment return was a loss of DKK 123 million, against a loss of DKK 153 million in 2016. The claims ratio for the health and accident business was 115%, against 105% in 2016.

The return on investment relating to the risk exposure of shareholders' equity fell from DKK 609 million to DKK 264 million. The decrease was mainly affected by extraordinary income in 2016 of DKK 96 million from the adjustment of the discount curve for the health and accident business and DKK 175 million from the transfer of a policy portfolio to a new group outside contribution.

Special allotments amounted to an expense of DKK 230 million, against DKK 340 million in 2016. See the section on contribution in the significant accounting policies note. This amount will be deposited in the accounts for policyholders of the former Statsanstalten for Livsforsikring in March 2018.

#### Gross premiums

Gross premiums continued to rise in 2017 to DKK 39.4 billion, an 18% increase over 2016.

Premiums for the Danish unit-linked products Danica Balance, Danica Link and Danica Select regulated for internal product switches were up 16%, whereas gross premiums for Danica Traditionel were down 19%, mainly as a result of the addition of a single large pension scheme in 2016.

PREMIUMS (INCLUDING INVESTMENT CONTRACTS)					
(DKK billions)	2017	2016	2015	2014	2013
Danica Balance	19.9	16.2	18.6	13.5	12.2
Danica Link	0.4	1.3	1.7	1.8	1.9
Danica Select	0.7	0.6	0.6	0.5	0.7
Danica Traditionel	3.4	4.2	3.6	4.3	5.0
Internal product switches	-1.0	-1.1	-6.0	-1.8	-2.3
Health and accident	0.9	0.9	0.8	0.8	0.8
Units outside Denmark	15.1	11.4	10.0	7.4	8.2
Total premiums	39.4	33.5	29.3	26.5	26.5

Premiums for the units outside Denmark rose 32% in aggregate and accounted for 38% of total premi-

ums. The increase was mainly attributed to the Swedish business, which wrote significant single premiums in 2017.

#### Investment return

The overall investment return in Danica Traditionel was 2.5% before tax on pension returns. After a change of additional provision it was 3.2% before tax on pension returns.

Danica Balance, Danica Link and Danica Select produced a total return of DKK 10.3 billion or 8.1% before tax on pension returns.

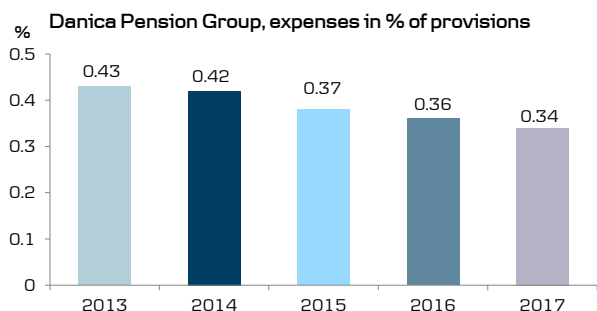
#### Claims and benefits

Claims and benefits amounted to DKK 21.3 billion in 2017 against DKK 21.0 billion in 2016. Surrenders including investment contracts amounted to DKK 17.6 billion in 2017 against DKK 17.4 billion in 2016.

#### Expenses

In life insurance, operating expenses relating to insurance amounted to DKK 1,192 million in 2017, against DKK 1,145 million in 2016.

Expenses amounted to 0.34% of average provisions, against 0.36% in 2016.



The average number of full-time employees was 649 in 2017, against 716 employees in 2016, and at the end of the year Danica had 619 employees in Denmark and abroad. The reduction happened in the Danish business and was due to the continuing digitalisation, self-service and simplification initiatives.

The Danica Pension Group paid DKK 1.001 million to Danske Bank for investment management, IT operations and development, internal auditing, HR administration, logistics and marketing. In addition, Danica paid DKK 170 million to Danske Bank Group for its sale of life insurance policies (see note 31).

#### Tax

The tax charge amounted to DKK 200 million, positively affected by a DKK 103 million adjustment of tax charges for previous years.

#### Other comprehensive income

In 2017, Danica Pension acquired hedging instruments to hedge future cash flows in relation to the conclusion of a business acquisition contract. Market value adjustments of these hedging instruments in 2017 reduced other comprehensive income by DKK 22 million.

#### Balance sheet

The Group's total assets rose from DKK 405 billion at the end of 2016 to DKK 428 billion at the end of 2017. The increase in total assets was attributable to the continued growth of the business.

Investment assets, including investment assets under unit-linked contracts, rose from DKK 397 billion to DKK 418 billion at year end 2017 due to increased business volume and a positive investment return.

Investment assets after set-off of amounts owed to credit institutions and derivatives rose from DKK 362 billion in 2016 to DKK 383 billion in 2017.

Provisions for insurance and investment contracts totalled DKK 363 billion, against DKK 340 billion at the end of 2016. The increase was attributable to growth in unit-linked products.

Life insurance provisions for average-rate products were down DKK 7 billion to DKK 142 billion, which was in line with expectations.

Life insurance provisions for unit-linked products rose from DKK 175 billion at the beginning of 2017 to DKK 205 billion at the end of 2017.

At the end of 2017, shareholders' equity stood at DKK 17.9 billion, against DKK 18.3 billion at the end of 2016. This development should be seen in the context of a dividend distribution of DKK 1.5 billion for 2016.

#### Profit margin

For 2017, the accounting estimates relating to the profit margin on unit-linked products and Danica Traditionel business subject to contribution were changed. See Significant accounting policies, page 19.

As a result of this change, the profit margin was reduced by DKK 0.8 billion and life insurance provisions were increased by a corresponding amount. The change reduced total capital and the solvency capital requirement (SCR), leading to a 6 percentage point increase in the solvency ratio and a DKK 0.1 billion decrease in excess solvency.

#### Risk exposure and sensitivity ratios

Note 36 discloses the effect on shareholders' equity of isolated changes in interest rates and other relevant financial risks as well as changes in mortality and disability rates. The note also discloses risks and the management of such risks.

A 10% decline in the mortality rate, corresponding to an increase in longevity of about one year, would increase the liability by DKK 2.1 billion, of which shareholders' equity covers DKK 0.2 billion.

#### Solvency statement and capital requirement

The solvency coverage ratio at 31 December 2017 was 228%, against 249% at 31 December 2016 in

the Danica Pension Group and was affected by increased risk-taking in 2017. Danica maintained strong excess solvency at 31 December 2017.

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

DANICA PENSION GROUP,		
SOLVENCY	31.12.2017	31.12.2016
(DKK millions)		
Total capital	24,888	24,799
Solvency capital requirement (SCR)	10,935	9,971
Excess capital base	13,953	14,828

In spring 2017, Danica published a new solvency and financial condition report as a supplement to the annual report. The report, which is part of the new Solvency II requirements, gives a detailed account of the Company's solvency and financial condition.

#### Events after the balance sheet date

No events have occurred between 31 December 2017 and the date of the signing of the financial statements that, in the opinion of the management, will materially affect Danica's financial position.

#### Outlook for 2018

As of 1 January 2018, EIOPA introduced a new method of calculating the ultimate forward rate (UFR), which forms part of the discount curve used to calculate life insurance provisions. Formal approval by the European Commission is expected in the first quarter of 2018. Consequently, the UFR in effect for 2018 is 4.05% against previously 4.20%.

EIOPA is furthermore expected to update the method of calculating volatility adjustment (VA), which is a fixed component in the calculation of the liquid part of the discount curve, at the end of Q1 2018. This is expected to cause the Danish VA to increase by approximately 20 bps. The change will not have any significant impact on life insurance provisions.

The Danish FSA has decided that, as from 2018, expected future longevity improvements are to be based on observed improvements over the past 20 years, rather than over the past 30 years. The reason for this change is that, in the opinion of the FSA, recent years' updates of the benchmark indicate that the longevity benchmark does not adequately reflect the actual development.

All other things being equal, a change in the benchmark at the current level of interest rates will increase Danica's provisions for guaranteed benefits by DKK 0.9 billion and reduce shareholders' equity by approximately DKK 90 million. The solvency capital requirement will increase by DKK 0.8 billion and excess solvency be reduced accordingly. Danica is

implementing the updated longevity benchmark as from 2018.

In 2018, with the acquisition of SEB Pension, Danica expects to strengthen its position as a leading provider of life and pension insurance products in Denmark. Net income from insurance business will also be affected by Danica Pension's acquisition of SEB Pension, which is expected to be finally approved by the relevant authorities during the first half of 2018.

The result for 2018 of Danica's insurance business is expected to be on a par with 2017. It will, however, be affected by the acquisition of SEB Pension.

The result for 2018 will also depend on financial market developments.

#### The financial markets

In the financial markets, 2017 will be remembered for the historically unusual situation of strong global growth combined with very low inflation. The MSCI World (all countries) share index produced a return of 19.8%, and the regional returns were 21.9% in the USA, 10.8% in Europe, 20.1% in Japan and 44.8% in China.

The US and European fixed income markets were relatively flat for most of 2017, but towards the end of the year yields were up in both regions. In China, the People's Bank of China tightened its monetary policy following the National People's Congress, leading to a significant increase in Chinese interest rates. Danish government bonds yielded 1.0%, while European high-yield credit bonds yielded 6.9%.

The Federal Reserve hiked rates twice in 2017 and the ECB announced a reduction of its bond buyback programme. After the National People's Congress, the People's Bank of China also began withdrawing liquidity from the market. The Bank of Japan was the only major central bank to retain a lenient monetary policy.

Politics were also a factor in the 2017 market developments. The presidential election in France was in focus, but as the markets had learned their lesson from Brexit and Trump in 2016, the market impact of political events was short-lived.

#### Investment return

Danica Balance, Danica Link and Danica Select generated an aggregate return of DKK 10.3 billion in 2017, equivalent to 8.1% before tax on pension returns.

Danica Balance produced an overall return of 8.3% before tax on pension returns. Danica Balance Mix customers saw returns for 2017 of between 5.2% and 12.3%, depending on their risk profile. Customers with medium and high risk profiles generally saw the largest returns.

Danica Balance Mix medium risk profile with 15 years to retirement yielded a return of 8.4%.

BALANCE MIX, 2017 RETURN BEFORE TAX			
(%)			
Risk	30 years to retirement	15 years to retirement	5 years to retirement
High risk profile	12.3	10.8	8.3
Medium risk profile	11.4	8.4	6.6
Low risk profile	10.1	6.4	5.2

For customers with Danica Link, the return for 2017 was DKK 760 million, equal to 6.6% on average. The average annual return over the past three years has been 16.9%.

The return on investment of customer funds in Danica Traditionel in 2017 was DKK 3.8 billion, or 2.5%, before tax on pension returns. After recognition of DKK 38.9 billion from higher life insurance provisions, the return before tax on pension returns was 3.2%.

DISTRIBUTION BY INTEREST RATE GROUP AT 31/12/2017		
(%)	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	1.6
Interest rate group 2 (low guarantee)	1.8	2.8
Interest rate group 3 (medium guarantee)	1.8	2.8
Interest rate group 4 (high guarantee)	1.8	2.7

Listed equities produced an overall return of 5.8%, while bonds (including credit investments) produced a return of 3.0%. Unlisted investments contributed favourably to returns with a 3.4% return on alternative investments and a 4.2% return on property investments. Property valuations are based on market-based return requirements of 4.1% on average for office and residential properties and 5.5% for shopping centres. The return requirements were stable relative to 2016.

CONVENTIONAL CUSTOMER FUNDS, PORTFOLIO AND RETURN					
(DKK billions)	2017		2016		
	Value	Return %	Value	Return %	
Real property	19.0	4.2	20.8	6.1	
Listed equities	8.3	5.8	8.1	0.2	
Alternative investments	11.4	3.4	14.4	8.3	
Credit investments	17.3	0.7	14.6	7.4	
Global bonds	36.6	1.4	0.0	0.0	
Nominal bonds	53.0	4.1	74.6	5.7	
Index-linked bonds	17.5	3.5	15.9	3.1	
Short-term bonds and cash and cash equivalents	-7.9	-2.8	6.6	0.1	
Total bonds, etc.	99.2	3.0	97.1	5.2	
Other financial assets	0.0	0.0	5.6	0.0	
Total	155.2	2.5	160.6	6.5	
Investment return after change in the value of additional provisions		3.2		4.8	

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

FROM INVESTMENT RETURN TO INTEREST RATE ON POLICY-HOLDERS' SAVINGS			
(%)	New business 2017	Total 2017	Total 2016
Return on customer funds before investment costs	2.3	3.2	7.4
Investment costs	-0.7	-0.7	-0.9
Return on customer funds after investment costs	1.6	2.5	6.5
Value of additional provisions	-0.1	0.7	-1.7
Investment return after change in additional provisions	1.5	3.2	4.8
Tax on pension returns	-0.2	-0.3	-0.9
Risk premium for the year	-0.6	-0.8	-0.8
Risk premium transferred to shadow account	0.0	-0.1	-0.2
Risk and cost results	0.0	0.0	0.0
Transfer from collective bonus potential	0.8	0.3	-0.5
Other adjustments	0.0	-0.8	-0.9
Average interest rate on policyholders' savings after tax on pension returns	1.5	1.5	1.5
The share of investment assets for which investment costs are included is	100	100	100

The investment allocation of assets attributed to shareholders' equity at year end 2017 was 16.6% in property and 83.4% in relatively short-term bonds. Shareholders' equity is furthermore exposed to equities and credit bonds through the health and accident business' investments and through hedging of risks related to the business acquisition. The aggregate return on funds on which the risk is borne by shareholders' equity was 1.6%.

## ORGANISATION, MANAGEMENT AND PARTNERSHIPS

Danica is a wholly-owned subsidiary of Danske Bank A/S and handles the Danske Bank Group's activities within pension savings and life insurance for companies, organisations and private individuals.

### Board of Directors, Audit Committee and Executive Board

Danica's Board of Directors consists of ten directors, of whom six are elected by the general meeting, three are elected by the employees and one member appointed by the Minister of Finance. Board members elected by the general meeting are up for election every year and board members elected by the employees are elected for a period of four years, as prescribed by Danish law. The Board of Directors is in charge of the overall management of the Company and held five meetings in 2017.

At the annual general meeting held on 14 March 2017, Thomas F. Borgen did not seek re-election.



Tonny Thierry Andersen was appointed as chairman of the Board of Directors. Jacob Aarup-Andersen was elected as a new member of the Board of Directors and was appointed as deputy chairman of the Board.

The Board of Directors has set up an audit committee to prepare the work of the Board of Directors on financial reporting and audit matters, including related risk matters, which either the Board of Directors, the committee itself, the external auditors or the head of Internal Audit intend to review further. The committee works on the basis of clearly defined terms of reference. The committee has no independent decision-making powers, but reports to the Board of Directors as a whole. In 2017, the audit committee held five meetings and reported regularly to the Board of Directors.

The Executive Board is in charge of the day-to-day management of the Company and is made up of Per Klitgård, CEO, Lars Ellehave-Andersen, Claus Harder and Anders Svennesen.

The directorships of the members of the Board of Directors and the Executive Board are listed on page 76. For additional information on the organisation, see page 74.

#### Diversity policy

Diversity in the competences represented on the Board of Directors' is essential to the Board's performance. The Board of Directors has adopted a diversity policy that sets out a framework to ensure the Board's diversity. The policy defines what competences the Board should possess, and the adequacy of the Board's competences is evaluated on a regular basis. According to the diversity policy, the Board of Directors must ensure that the Company continually focuses on maintaining a balanced gender representation among Danica's managers.

Danica Pension sees diversity as a resource with respect to individual employees as well as to the organisation as a whole.

Focus on gender composition is ensured through Danica's internal and external recruitment processes and other measures.

Danica's diversity policy is based on the diversity policy of the Danske Bank Group in general, and Danica's target figure for the proportion of women in management positions is thus based on the Danske Bank Group's targets.

In line with 2016, 36% of Danica's managers are women, and they were distributed as follows in terms of management levels at 31 December 2017:

#### GENDER COMPOSITION OF MANAGEMENT

Management level	Total Women	Proportion of women	Group target 2020	Proportion of men
Board members	7	14%	38%	86%
Senior management/business management	27	22%	25%	78%
Other managers	35	51%	40%	49%

\* Employee representatives not included

The status for 2017 is that the target has been reached for other managers. This means that our work on objectively based recruiting and promotion processes has been successful, and Danica Pension will carry on these efforts in 2018.

On the senior management level, the target was not reached, so in 2018 we will give particular attention to diversity in connection with recruitments at this level. In particular, we will focus on encouraging female candidates to apply. We will also focus on the ongoing development of talents with senior management potential.

#### Remuneration policy and incentive schemes

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

The Danica Group's remuneration reflects our goals of having of a well-regulated governance process and of creating value for Danica's shareholders and customers both in the short and the long term.

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

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

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

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

Competent leadership and high employee satisfaction are key to the performance of the business. Danica Pension gives focused attention to management development and requires all managers to motivate, inspire and develop their employees.

Skills development is another key factor in Danica Pension's value creation, and advisers and other customer-oriented functions in particular undergo structured training programmes to ensure a solid skills base. Individual employees' skills development is arranged and takes place when deemed necessary and is agreed between manager and employee.

## CORPORATE RESPONSIBILITY

### Corporate Responsibility policy

Corporate responsibility (CR) is a key element of Danica's strategy. Danica wants our customers and other stakeholders to be absolutely confident that in operating our business we factor in environmental, social, ethical and governance considerations. Danica believes that responsible business conduct is a prerequisite for a company's long-term value creation.

Danica is included in Danske Bank's Corporate Responsibility work. Along with its Annual Report 2017, the Danske Bank Group has published a Corporate Responsibility Report 2017 detailing the Group's corporate responsibility. The Corporate Responsibility Report is supplemented by the Corporate Responsibility Fact Book 2017, and together they provide comprehensive reporting on the principal CR-related areas of the Group's business.

The Group is dedicated to integrating Corporate Responsibility in the core business and to this end has launched a number of activities based on the two strategic themes of 'financial confidence' and 'accessible finance'.

The UN Global Compact is the world's largest voluntary corporate responsibility network and is based on ten universal principles in the areas of human rights, labour rights, environment and anti-corruption. Since 2007, as a Global Compact participant the Group has been committed to describing in annual progress reports what concrete measures it has taken to comply with the ten principles. The Group fulfils its reporting obligation to the Danish FSA by referring to the annual progress report to the UN, Communication on Progress. The progress report is available at [www.unglobalcompact.org](http://www.unglobalcompact.org). The Group's contribution to the UN Global Compact is described in more detail in Corporate Responsibility Report 2017.

### Socially responsible investment principles

Danica has implemented a Group Responsibility policy in order to ensure that Danica does not invest customers' money in companies that fail to observe international guidelines on human rights, environmental and employee rights, weapons and anti-corruption. Danica also adopted the UN Principles for

Responsible Investment (PRI). This reflects the Group's ambition to comply with international standards in Danica's environmental, social and ethical guidelines.

In 2017, a total of 27 companies were excluded from Danica's investment universe based on the Group's socially responsible investment guidelines. The list of companies not eligible for investment can be seen at [danicapension.dk](http://danicapension.dk).

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

### Environmental considerations

In 2017, Danica continued implementing measures to reduce paper consumption. Danica continued the digitalisation process so that customers can choose to receive most of Danica's letters electronically. At the end of 2017, almost all Danica's Danish customers received electronic mail.

Paper consumption was reduced by 20% in 2017, a development that was connected to the increased digitalisation.

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

Energy consumption was reduced by 2% compared with 2016 due to lower heating and electricity consumption.

For shopping centres, an environmental and CSR programme has been established, setting environmental targets in terms of energy consumption, including CO2 emissions, waste, etc. Danica's centres have obtained Key2Green certification.

ELECTRICITY, HEAT AND WATER CONSUMPTION TRENDS					
		2017	2016	2015	Index 17/16
Total electricity consumption	<i>MWh</i>	3,296	3,352	3,693	98
Total water consumption	<i>m3</i>	4,651	5,406	4,605	86
Mileage	<i>Km'000</i>	852	1,071	1,115	80
Paper	<i>tonnes</i>	33	40	62	83

Electricity, heat and water consumption includes head office and regional offices in Denmark. The consumption covers the period [October 2016 to September 2017].

# Financial statements - contents

FINANCIAL HIGHLIGHTS	11
INCOME STATEMENT	12
COMPREHENSIVE INCOME	13
BALANCE SHEET	14
STATEMENT OF CAPITAL	16
CASH FLOW STATEMENT	18
NOTES	
1 Significant accounting policies	19
2 Business segments	30
3 Gross premiums, incl. payments received under investment contracts	31
4 Income from investment property	32
5 Interest income and dividends	32
6 Value adjustments	32
8 Claims and benefits paid	32
9 Operating expenses relating to insurance	33
10 Technical result of health and accident insurance	37
11 Other income	37
12 Profit before tax	38
13 Tax	39
14 Intangible assets	39
15 Domicile property	40
16 Investment property	40
17 Holdings in associates and joint ventures	41
18 Holdings	41
19 Bonds	41
20 Derivatives	42
21 Other financial investment assets	42
22 Investment assets related to unit-linked products	43
23 Total technical provisions, reinsurers' share	43
24 Collective bonus potential - is included as follows in life insurance provisions, average-rate products	43
25 Life insurance provisions, unit-linked products	43
26 Total provisions for insurance and investment contracts	44
27 Due to credit institutions	44
28 Other creditors	44
29 Subordinated debt	44
30 Assets deposited as collateral and contingent liabilities	45
31 Related parties	46
32 Balance sheet items broken down by expected due date	46
33 Specification of assets and returns	47
34 Percentage allocation of share portfolio on industries and regions	47
35 Financial instruments	48
36 Risk management and sensitivity ratios	51

# Financial highlights - Danica Pension Group

DKKm	2017	2016	2015 *	2014	2013
<b>INCOME STATEMENT</b>					
Life insurance					
Premiums	24,692	23,362	20,188	19,429	18,943
Claims and benefits	-21,309	-21,000	-24,691	-23,989	-22,413
Return on investment	19,776	21,196	10,235	35,446	10,333
Total operating expenses relating to insurance	-1,193	-1,145	-1,145	-1,079	-1,072
Profit/loss on business ceded	-26	-8	-110	283	-51
Technical result, Life	1,225	1,436	1,349	2,088	894
Health and accident insurance					
Gross premium income	990	1,060	961	982	981
Gross claims	-1,110	-1,092	-1,008	-1,215	-1,099
Total operating expenses relating to insurance	-86	-95	-109	-95	-99
Profit/loss on business ceded	-9	29	-7	-7	-8
Return on investment less technical interest	211	112	250	331	180
Technical result of health and accident insurance	-150	-100	-32	-141	-88
Net profit/loss for the year	1,225	1,585	1,394	2,002	1,300
Other comprehensive income	-33	-7	-9	-18	-29
<b>BALANCE SHEET</b>					
Total assets	427,521	404,820	367,944	358,237	327,350
Insurance assets, health and accident insurance	79	91	93	127	172
Technical provisions, health and accident insurance	9,928	9,858	9,516	9,292	8,568
Total shareholders' equity	17,947	18,267	19,289	20,031	18,537
Total provisions for insurance and investment contracts	363,462	340,467	320,662	315,480	293,133
<b>RATIOS (%)</b>					
Rate of return related to average rate products	2.5	6.5	1.0	14.0	-0.2
Rate of return related to unit-linked products	7.8	5.9	5.6	9.5	10.0
Risk on return related to unit-linked products	4.25	4.25	-	-	-
Expenses as per cent of provisions	0.3	0.4	0.4	0.4	0.4
Expenses per policyholder (DKK)	1,231	1,221	1,255	1,180	1,177
Return on equity after tax	6.6	8.4	7.0	10.4	7.1
Solvency coverage ratio**	228	249	201	214	220
<b>RATIOS FOR HEALTH AND ACCIDENT INSURANCE</b>					
Gross claims ratio	115	105	111	130	117
Gross expense ratio	9	9	12	10	11
Combined ratio	125	112	124	141	128
Operating ratio	144	127	133	156	129
Relative run-off (%)	0.2	0.1	0.0	-2.3	0.0
Run-off, net of reinsurance (DKK millions)	19	11	0	-174	1
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, a description can be found in Significant accounting policies.					
* Balance sheet items have been corrected at 1 Jan. 2016.					
** The financial ratio Solvency coverage ratio is exempt from the auditing requirement pursuant to Exedutive Order No. 937 of 27 July 2016 on financial reports for insurance companies and multi-employer occupational pension funds, and accordingly has not been audited.					

## Income statement & Other comprehensive income - Danica Pension Group

Note	DKKm	2017	2016
3	Gross premiums	24,692	23,362
	Reinsurance premiums ceded	-30	-38
	<b>Total premiums, net of reinsurance</b>	<b>24,662</b>	<b>23,324</b>
	Income from associates	447	228
4	Income from investment property	839	929
5	Interest income and dividends, etc.	10,197	9,585
6	Value adjustments	13,658	14,559
7	Interest expenses	-3,773	-2,944
	Administrative expenses related to investment activities	-1,592	-1,161
	<b>Total return on investment</b>	<b>19,776</b>	<b>21,196</b>
	Tax on pension returns	-2,004	-2,289
8	Claims and benefits paid	-21,309	-21,000
	Reinsurers' share received	11	10
	<b>Total claims and benefits, net of reinsurance</b>	<b>-21,298</b>	<b>-20,990</b>
	Change in life insurance provisions	-18,213	-17,568
	Change in reinsurers' share	-17	4
	<b>Total change in life insurance provisions, net of reinsurance</b>	<b>-18,230</b>	<b>-17,564</b>
	Change in profit margin	-36	-395
	Acquisition costs	-376	-340
	Administrative expenses	-831	-818
	Reimbursement of costs from group undertakings	14	13
	Reinsurance commissions and profit sharing	10	16
9	<b>Total operating expenses relating to insurance, net of reinsurance</b>	<b>-1,183</b>	<b>-1,129</b>
	Transferred investment return	-462	-717
	<b>TECHNICAL RESULT OF LIFE INSURANCE</b>	<b>1,225</b>	<b>1,436</b>

# Income statement & Other comprehensive income - Danica Pension Group

Note	DKKm	2017	2016
	(cont'd)		
	<b>HEALTH AND ACCIDENT INSURANCE</b>		
	Gross premiums	1,039	1,042
	Reinsurance premiums ceded	-65	-79
	Change in unearned premiums provision	-49	18
	Change in profit margin and risk margin	-1	41
	Change in unearned premiums provision, reinsurers' share	-6	1
	<b>Premiums, net of reinsurance</b>	<b>918</b>	<b>1,023</b>
	Technical interest	-125	-88
	Claims paid, gross	-1,222	-1,170
	Reinsurers' share received	57	109
	Change in outstanding claims provision	112	78
	Change in risk margin	17	-40
	Change in outstanding claims provision, reinsurers' share	1	-5
	<b>Claims, net of reinsurance</b>	<b>-1,035</b>	<b>-1,028</b>
	Bonus and premium discounts	-37	-27
	Acquisition costs	-26	-30
	Administrative expenses	-60	-65
	Reinsurance commissions and profit sharing	4	3
	<b>Total operating expenses relating to insurance, net of reinsurance</b>	<b>-82</b>	<b>-92</b>
	Return on investment	211	112
10	<b>TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE</b>	<b>-150</b>	<b>-100</b>
	Return on investment allocated to equity	164	308
11	Other income	186	317
12	<b>PROFIT BEFORE TAX</b>	<b>1,425</b>	<b>1,961</b>
13	Tax	-200	-376
	<b>NET PROFIT FOR THE YEAR</b>	<b>1,225</b>	<b>1,585</b>
	Net profit for the year	1,225	1,585
	Other comprehensive income (items that will be reclassified in a subsequent sale):		
	Translation of units outside Denmark	-48	15
	Hedges of units outside Denmark	41	-28
	Hedge of acquisition	-22	-
13	Tax relating to other comprehensive income	-4	6
	<b>Total other comprehensive income</b>	<b>-33</b>	<b>-7</b>
	<b>NET COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,192</b>	<b>1,578</b>

# Balance sheet - Danica Pension Group

## Assets

Note	DKKm	2017	2016
14	<b>INTANGIBLE ASSETS</b>	168	181
15	Domicile property	42	43
	<b>TOTAL TANGIBLE ASSETS</b>	42	43
16	Investment property	20,304	22,631
17	Holdings in associates and joint ventures	3,512	2,988
	Loans to associates and joint ventures	305	172
	<b>Total investments in associates</b>	3,817	3,160
18	Holdings	15,831	20,696
	Unit trust certificates	7,242	4,256
19	Bonds	134,207	139,186
	Other loans	2,133	3,762
	Deposits with credit institutions	7,614	2,061
20	Derivatives	15,214	19,259
21	<b>Total other financial investment assets</b>	182,241	189,220
	<b>TOTAL INVESTMENT ASSETS</b>	206,362	215,011
22	<b>INVESTMENT ASSETS RELATED TO UNIT-LINKED PRODUCTS</b>	211,868	181,661
	Unearned premiums provision, reinsurers' share	1	7
	Life insurance provisions, reinsurers' share	40	58
	Outstanding claims provision, reinsurers' share	79	84
23	<b>Total technical provisions, reinsurers' share</b>	120	149
	Amounts due from policyholders	910	873
	Amounts due from insurance companies	63	180
	Amounts due from group undertakings	1,327	1,200
	Other debtors	1,055	811
	<b>TOTAL DEBTORS</b>	3,475	3,213
	Current tax assets	166	119
	Cash and cash equivalents	2,294	1,384
	<b>TOTAL OTHER ASSETS</b>	2,460	1,503
	Accrued interest and rent	2,683	2,760
	Other prepayments and accrued income	463	448
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	3,146	3,208
	<b>TOTAL ASSETS</b>	427,521	404,820

# Balance sheet - Danica Pension Group

## Liabilities and equity

Note	DKKm	2017	2016
<b>LIABILITIES</b>			
	Unearned premiums provision	668	648
24	Life insurance provisions, average rate products	142,085	148,985
25	Life insurance provisions, unit-linked products	205,004	175,171
	<b>Total life insurance provisions</b>	<b>347,089</b>	<b>324,156</b>
	Profit margin on life insurance and investment contracts	6,446	6,454
	Outstanding claims provision	8,880	8,818
	Risk margin on non-life insurance contracts	312	332
	Provisions for bonus and premium discounts	67	59
26	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>363,462</b>	<b>340,467</b>
13	Deferred tax	1,666	1,666
	<b>TOTAL PROVISIONS FOR LIABILITIES</b>	<b>1,666</b>	<b>1,666</b>
	Amounts owed, direct insurance	358	425
	Amounts owed to reinsurers	30	26
27	Amounts owed to credit institutions	18,033	15,570
	Amounts owed to group undertakings	135	73
	Current tax liabilities	22	22
28	Other creditors	20,141	22,839
	Accruals and deferred income	1,925	1,600
29	Subordinated debt	3,802	3,865
	<b>TOTAL CREDITORS</b>	<b>409,574</b>	<b>386,553</b>
<b>SHAREHOLDERS' EQUITY</b>			
	Share capital	1,100	1,100
	Contingency fund	1,499	1,499
	Retained earnings	14,123	14,156
	Proposed dividend	1,225	1,512
	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>17,947</b>	<b>18,267</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>427,521</b>	<b>404,820</b>



# Statement of capital - Danica Pension Group

DKK m

Changes in shareholders' equity	Share capital	Revaluation reserve	Foreign currency translation reserve *	Contingency fund	Retained earnings	Proposed dividend	Total
Shareholders' equity at 31 December 2016	1,100	0	-42	1,499	14,198	1,512	18,267
Profit for the year	-	-	-	-	1,225	-	1,225
Other comprehensive income:							
Translation of units outside Denmark	-	-	-48	-	-	-	-48
Hedges of units outside Denmark	-	-	41	-	-	-	41
Hedge of acquisition	-	-	-	-	-22	-	-22
Tax on other comprehensive income	-	-	-8	-	4	-	-4
Total other comprehensive income	-	-	-15	-	-18	-	-33
Comprehensive income for the year	-	-	-15	-	1,207	-	1,192
Dividend paid	-	-	-	-	-	-1,512	-1,512
Proposed dividend **	-	-	-	-	-1,225	1,225	0
Shareholders' equity at 31 December 2017	1,100	0	-57	1,499	14,180	1,225	17,947
Shareholders' equity at 31 December 2015	1,100	0	-35	1,499	14,352	2,600	19,516
Change at 1 January 2016					-227		-227
Adjusted shareholders' equity at 1 January 2016	1,100	0	-35	1,499	14,125	2,600	19,289
Profit for the year	-	-	-	-	1,585	-	1,585
Other comprehensive income:							
Translation of units outside Denmark	-	-	15	-	-	-	15
Hedges of units outside Denmark	-	-	-28	-	-	-	-28
Tax on other comprehensive income	-	-	6	-	-	-	6
Total other comprehensive income	-	-	-7	-	-	-	-7
Comprehensive income for the year	-	-	-7	-	1,585	-	1,578
Dividend paid	-	-	-	-	-	-2,600	-2,600
Proposed dividend **	-	-	-	-	-1,512	1,512	0
Shareholders' equity at 31 December 2016	1,100	0	-42	1,499	14,198	1,512	18,267

\* Recognised in the balance sheet under other reserves.

\*\* The dividend amounts to DKK 111.36 per share (2016: DKK 137.45). The line shows the effect on shareholders' equity at year end.

Danica Pension has an obligation to allocate part of the excess equity to certain policyholders of the former Statsanstalten for Livsforsikring (now a part of Danica Pension) if the percentage by which the equity exceeds the calculated capital 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 added to shareholders' equity or distributed as dividend but it does not comprise shareholders' equity paid in after the privatisation. Special allotments 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 11,000,000 shares of a nominal value of DKK 100 each. All shares carry the same rights; there is thus only one class of shares.

## Statement of capital - Danica Pension Group

DKKm	2017	2016
Capital base		
Shareholders' equity	17,947	18,267
Valuation differences between financial statements and Solvency II		
Provisions for insurance and investment contracts	4,240	4,651
Deferred tax	292	-291
- Proposed dividend	-1,225	-1,512
- Intangible assets	-168	-181
Tier 2 capital	3,802	3,865
- Limitations to tier 2 capital		
Capital base	24,888	24,799

## Cash flow statement - Danica Pension Group

DKKm	2017	2016
<b>Cash flow from operations</b>		
Profit before tax	1,425	1,961
Adjustment for non-cash operating items		
Non-cash items relating to premiums and benefits	16,339	14,970
Non-cash items relating to reinsurance	26	-9
Non-cash items relating to investment return	-15,835	-17,209
Non-cash items relating to tax on pension returns	186	-1,057
Non-cash items relating to expenses	-440	2,259
Net investment, customer funds	-3,412	-10,010
Payments received and made, investment contracts	6,970	2,573
Tax paid	-313	325
<b>Cash flow from operations</b>	<b>4,946</b>	<b>-6,197</b>
<b>Cash flow from investing activities</b>		
Sale of investment property	428	-
Dividend property company	218	-
Acquisition of bonds	-8,496	-11,332
Sale of bonds	8,485	13,540
Sale of derivatives	-70	-1,229
Portfolio transfers	2	1,234
<b>Cash flow from investing activities</b>	<b>567</b>	<b>2,213</b>
<b>Cash flow from financing activities</b>		
Dividend	-1,512	-2,600
Debt to credit institutions	2,462	7,558
<b>Cash flow from financing activities</b>	<b>950</b>	<b>4,958</b>
Cash and cash equivalents at 1 January	3,445	2,471
Change in cash and cash equivalents	6,463	974
<b>Cash and cash equivalents, end of year</b>	<b>9,908</b>	<b>3,445</b>
Cash and cash equivalents, end of year		
Deposits with credit institutions	7,614	2,061
Cash in hand and demand deposits	2,294	1,384
<b>Total</b>	<b>9,908</b>	<b>3,445</b>

# Notes – Danica Pension Group

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Note

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## 1 SIGNIFICANT ACCOUNTING POLICIES – DANICA PENSION

### GENERAL

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

The accounting policies are consistent with those applied in the annual report for 2016.

### 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.

The accounting estimates made in calculating the profit margin on Danica's portfolio of unit-linked products have been changed to the effect that future premiums are not included in the calculation of profit margin, in accordance with the Solvency II rules. Moreover, for contracts subject to contribution the accounting estimate used in assessing the part reflecting earnings in the profit margin has been changed from 0.0% to 0.1%. In the determination of capital for average rate products, the profit margin is limited to a five-year strategic planning period.

As a result of this change, the profit margin was reduced by DKK 0.8 billion and life insurance provisions were increased by a corresponding amount. The change thus has no impact on shareholders' equity or profit for 2017.

### 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 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 1.8 year for a sixty five-year-old man and 1.9 year 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 probabilities used for surrenders and conversions into paid-up policies are dependent on duration, as a declining relationship has been observed between intensities and number of years since a policy was taken out. The intensities used are identical for interest rate groups 1 and 2 and for interest rate 3 and 4, respectively, whereas separate intensities are used for unit-linked portfolios.

The probabilities of surrenders and conversions into paid-up policies are estimated based on observations made in the years 2012-2016.

The disability probability is the same for all portfolios. The probabilities used are age- and gender-dependent. The determination of disability probabilities includes probability of reactivation.

In respect of the life insurance business, the method used to calculate risk margin involves applying a safety margin to intensities.

For mortality, the risk margin consists of a margin on longevity improvements. The risk margin is calculated by applying a 15-year horizon for estimating longevity improvements against the 30-year horizon from the Danish FSA's longevity benchmark.

For intensities of surrender and conversion into paid-up policies, the risk margin applied constitutes a 10% increase in all intensities for unit-linked and interest rate group 1 and a 10% decrease in all intensities for interest rate groups 2, 3 and 4. The intensities will be reassessed on an ongoing basis as experience is gained.

# Notes – Danica Pension Group

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Note

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For disability, a 10% risk margin is also applied, which is calculated on both the disability probability and the reactivation probability.

The liabilities also depend on the discount yield, which is fixed on the basis of a zero-coupon yield curve. The zero-coupon yield curve is estimated on the basis of the euro swap market. The curve is adjusted by a currency and a credit risk deduction as well as a volatility adjustment. For maturities of more than 20 years, the rate is extrapolated based on the forward rate in year 20 and with a constant forward rate at the 60-year mark of 4.2% (Ultimate Forward Rate). Danica uses a yield curve calculated according to principles and based on data resulting in a curve as close as possible to the EIOPA yield curve.

#### **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 equities, certain listed equities 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 for insurance companies and multi-employer occupational pension funds.

#### **Consolidation**

Together with the undertakings consolidated in the Danica Pension Group, Danica Pension is included in the consolidated financial statements of Danske Bank A/S, Copenhagen.

#### **Group undertakings**

The financial statements consolidate Danica Pension and group undertakings in which the Group has control over financial and operating decisions. Control is said to exist if Danica Pension 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 74 of the 2017 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.

#### **Investments in associates and joint ventures**

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 Danica Pension, directly or indirectly, holds 20-50% of the voting rights.

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

#### **Jointly controlled assets and operations**

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

# Notes – Danica Pension Group

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Note

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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 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 Danica Traditional covers conventional life insurance and pension schemes with guaranteed benefits and Forenede Gruppeliv, while the Unit-linked product segment covers pension schemes with market returns. 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 Danica Pension. 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.

The Group uses hedging instruments to hedge fluctuations in future cash flows (hedge accounting in accordance with IAS 39). Changes in the fair value of hedging instruments used to hedge cash flow fluctuations are recognised in other comprehensive income.

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.

In 2017, Danica Pension acquired hedging instruments to hedge a business acquisition contract entered into.

# Notes – Danica Pension Group

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Note

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## **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 products 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 two risk groups.

If the collective 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, 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 need 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, but it does not comprise shareholders' equity paid in after the privatisation. Special allotments to those policyholders are recognised as an expense in the income statement item Change in life insurance 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 associates.

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. Tax on pension returns is charged at a rate of 15.3%.

### **Claims and benefits**

Claims and benefits, net of reinsurance, comprises the claims and benefits paid on insurance contracts for the year, 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 Danica 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.

# Notes – Danica Pension Group

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Note

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## **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 on acquisition costs and administrative expenses and on life insurance and health and accident insurance is made applying activity-based allocation models.

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) and change in risk margin. 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.

For the health and accident business, the profit margin is determined independently of the life insurance business and on the basis of the contract periods of the health and accident business. For the health and accident business, there is no expectation of future earnings in the contract periods, and the profit margin is therefore nil. If the contracts are deemed to become loss-making within the guaranteed contract periods, provision is made for such losses.

## **Other income**

Other income comprises fund management commissions.

## **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 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 associates 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,



# Notes – Danica Pension Group

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Note

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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. 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 35 *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 a 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.

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

# Notes – Danica Pension Group

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Note

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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.

The item Derivatives comprises derivatives with positive fair values, while derivatives with negative fair values are recognised in the item 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 and outstanding claims provisions.

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. They are made in respect of the portion of premiums paid for risk periods commencing before the end of the financial year and must equal the amount of gross premiums received and receivable that relate to the part of the risk period falling after the balance sheet date.

### **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, which is 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.

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 products 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.

# Notes – Danica Pension Group

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Note

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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 future profit, over and above payment for the risk exposure of shareholders' equity on the contracts, which is expected to be recognised in the income statement as insurance cover and any other benefits under the contract are provided.

For contracts subject to contribution, profit margin is calculated on the basis of the notified risk allowance for the interest rate groups. This risk allowance consists of a part reflecting earnings and a part reflecting the risk exposure of shareholders' equity. The latter is determined on the basis of the Company's own assessment of the risk exposure of shareholders' equity. The profit margin is calculated solely on the basis of the part reflecting earnings and has been calculated at 0.1%.

#### **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.

#### **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 for insurance companies and multi-employer occupational 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.

# Notes – Danica Pension Group

Note

## 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 for insurance companies and multi-employer occupational pension funds. The exact formulas for the calculation of the ratios are set out in the executive order. The return ratios are calculated using a composite weighting procedure.

The five-year summary on page 11 presents the following ratios:

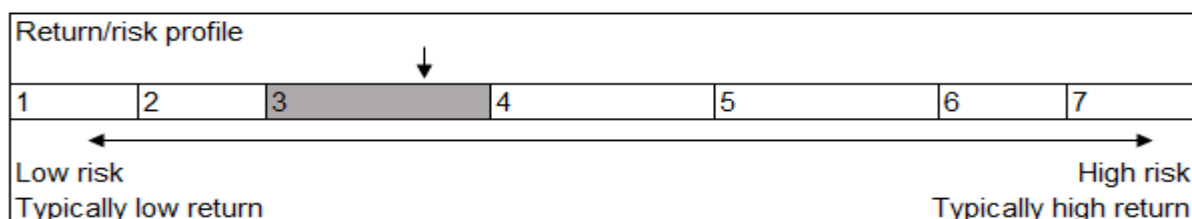
1. Rate of return related to average rate products
2. Rate of return related to unit-linked products
3. Risk on return related to unit-linked products
4. Expenses as per cent of provisions
5. Expenses per policyholder
6. Return on equity after tax
7. Solvency coverage ratio

Below, the basis of calculation is described for each of the ratios:

1. The investment return in relation to average rate products relative to average life insurance provisions and the profit margin on average rate products.
2. The investment return in relation to unit-linked products relative to average life insurance provisions and the profit margin on unit-linked products. Amounts in respect of unit-linked products where policyholders pick their own assets are not included.
3. The ratio is calculated as the standard deviation (SD) of the monthly return related to unit-linked products over the past 36 months using the following scale of 1 to 7:

Risk category	%	
	SD ≥	SD <
1.000	0.00	0.50
2.000	0.50	2.00
3.250	2.00	3.00
3.500	3.00	4.00
3.750	4.00	5.00
4.250	5.00	6.70
4.500	6.70	8.34
4.750	8.34	10.00
5.250	10.00	11.67
5.500	11.67	13.33
5.750	13.33	15.00
6.000	15.00	25.00
7.000	25.00	

The standard deviation is converted into a risk category using the following scale:



4. Acquisition costs and administrative expenses for the life insurance business relative to average retrospective provisions (see below).
5. Acquisition costs and administrative expenses for the life insurance business relative to the average number of policyholders pursuant to the note on premiums. For group life insurance, the number of policyholders only has a weighting of 10%.
6. Profit after tax relative to average shareholders' equity.

# Notes – Danica Pension Group

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7. Solvency coverage ratio is calculated as the ratio between total capital available under the current rules and the solvency capital requirement (SCR) in force at the end of the financial year, stated as a percentage.

#### Ratios for health and accident insurance:

1. **Gross claims ratio:** The ratio of claims to premium income in non-life insurance. In calculating premium income, bonus and premium discounts are deducted, and the changes for the period in profit margin and risk margin are added.
2. **Gross expense ratio:** The ratio of operating expenses relating to insurance to premium income in non-life insurance. In calculating premium income, bonus and premium discounts are deducted, and the changes for the period in profit margin and risk margin are added. Operating expenses relating to insurance are calculated as the sum of the income statement items Acquisition costs and Administrative expenses.
3. **Combined ratio:** The sum of the claims ratio and the expense percentage.
4. **Operating ratio:** Calculated as the combined ratio, but on the basis of claims ratio, expense percentage and net reinsurance ratio, where the allocated investment return, equalling the recognised amount of technical interest in the income statement, is added to premium income in the denominator.
5. **Relative run-off:** Run-off relative to the provisions at the beginning of the year to which it relates.

#### Retrospective provisions

Premiums received less benefits paid, expenses paid, risk adjustment and plus accrued interest, etc. on the individual insurance, in principle equalling the policyholders' custody account balances.

#### Additional provisions

The item additional provisions covers extra provisions made for the fact that the interest rate level is lower than the technical rates of interest used to determine benefits, as well as extra provisions for mortality, etc. The item corresponds to the term 'accumulated value adjustments' in the executive order on financial reports.

#### Management report

Set out in the management report, page 4 is the table Danica Group, profit before tax. An explanation of the items in the table follows below:

**Technical result, Danica Traditionel.** The item comprises the risk premium from the conventional business (average rate environment) in Denmark. The item furthermore comprises portfolio commission for asset management services related to the conventional environment.

**Technical result, unit-linked products.** The item comprises the result from insurance operations of unit-linked products sold in Denmark, Sweden and Norway. The item furthermore comprises portfolio commission for asset management services related to the unit-linked environment.

**Health and accident result (before investment return).** The item comprises the technical result before investment return on the products: loss of earning capacity, health insurance, critical illness and similar products sold in Denmark, Sweden and Norway.

**Result of insurance business.** The item constitutes the sum of the three above items and reflects a technical result not affected by the investment return.

**Investment return.** The item comprises the investment return on assets allocated to shareholders' equity and to health and accident insurance.

**Transferred from shadow account.** The item comprises a risk premium from 2015 previously receivable, which has now been booked in full.

**Cost and risk group outlays.** The item comprises repaid outlays from the cost and risk groups from 2016.

**Special allotments.** See the accounting policies section on contribution.

#### 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 Group's financial reporting for 2018 or 2019. The sections below explain the standards and interpretations that are likely to affect the Group's future financial reporting.

#### IFRS 9, Financial Instruments

An option to defer application of IFRS 9 to 2021 has been made available, although IFRS 9 may be implemented at 1 January 2018. The Group has decided to implement IFRS 9 at 1 January 2018. The implementation of IFRS 9 will not have any significant impact on either profit or shareholders' equity, but will require additional disclosures in the notes to the financial statements.

# Notes – Danica Pension Group

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Note

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

The IASB has issued IFRS 15, Revenue from Contracts with Customers, which replaces IAS 18 and other IFRSs on revenue recognition. IFRS 15 will be implemented at 1 January 2018. IFRS 15 applies only where other IFRSs do not apply, e.g. it does not apply to insurance contracts. Under IFRS 15, revenue is recognised when the performance obligations inherent in the contract are satisfied. The implementation of IFRS 15 will not have any significant impact on either profit or shareholders' equity.

## *IFRS 16, Leases*

The IASB has issued IFRS 16, Leases, which will be effective from 1 January 2019. The Danica Group has a limited number of leased assets. The changes are therefore mainly expected to be in the balance sheet, in which leased assets are to be recognised as an asset and a liability. In some cases, rental contracts will fall under IFRS 16. The implementation of IFRS 16 will not have any significant impact on either profit or shareholders' equity.

## *IFRS 17 Insurance Contracts*

IFRS 17, which has not yet been adopted by the EU, is to be implemented at 1 January 2021. IFRS 17 will replace the existing IFRS 4. Danica expects this standard to have a significant impact on the Group's future financial reporting, as the standard sets out new principles for calculating insurance provisions and for the presentation in the income statement and balance sheet. Danica Pension has therefore initiated an analysis to map the effect on Danica's financial statements.

# Notes - Danica Pension 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 in life.

BUSINESS SEGMENTS 2017	Traditional	Unit-linked contracts	Health and accident insurance	Total	Reclassification	Group
Gross premiums	3,489	35,100	1,039	39,628	-271	39,357
Gross premiums from external sales	3,489	35,100	1,039	39,628	-271	39,357
- Gross premiums on investment contracts	-	-13,626	-	-13,626	-	-13,626
Gross premiums in the income statement	3,489	21,474	1,039	26,002	-271	25,731
Return on investment allocated to technical result	3,135	13,674	-	16,809	587	17,396
Claims and benefits paid	-11,472	-10,109	-1,222	-22,803	271	-22,532
Change in provisions for insurance and investment contracts	6,360	-24,465	42	-18,063	-141	-18,204
Total operating expenses relating to insurance	-398	-801	-86	-1,285	7	-1,278
Result of reinsurance	-18	-8	-10	-36	-	-36
Other income, net	81	766	5	852	-667	185
Technical result	1,177	531	-232	1,476	-214	1,262
Change in shadow account	85	-	-	85	-85	0
Special allotments	-230	-	-	-230	230	0
Return on investment, shareholders' equity	10	-3	-	7	156	163
Return on investment, health and accident	-	-	87	87	-87	0
Profit before tax	1,042	528	-145	1,425	0	1,425
Other segment information:						
Interest income	7,364	386	162	7,912		
Interest expenses	-3,677	-74	-22	-3,773		
Income from associated undertakings at book value	447	-	-	447		

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

## BUSINESS SEGMENTS 2016

Gross premiums	4,209	28,433	1,042	33,684	-220	33,464
Gross premiums from external sales	4,209	28,433	1,042	33,684	-220	33,464
- Gross premiums on investment contracts	-	-9,061	-	-9,061	-	-9,061
Gross premiums in the income statement	4,209	19,372	1,042	24,623	-220	24,403
Return on investment allocated to technical result	8,666	9,215	-	17,881	334	18,215
Claims and benefits paid	-11,774	-9,446	-1,170	-22,390	220	-22,170
Changes in provisions for insurance and investment contracts	757	-18,658	71	-17,830	-61	-17,891
Total operating expenses relating to insurance	-403	-750	-95	-1,248	7	-1,241
Result of reinsurance	-4	-4	28	20	-	20
Other income, net	-	793	-	793	-476	317
Technical result	1,451	522	-124	1,849	-196	1,653
Change in shadow account	279	-	-	279	-279	0
Special allotments	-340	-	-	-340	340	0
Return on investment, shareholders' equity	151	-	-	151	157	308
Return on investment, health and accident	-	-	24	24	-24	0
Profit before tax	1,541	522	-100	1,963	-2	1,961
Other segment information:						
Interest income	7,389	181	11	7,581		
Interest expenses	-2,926	-15	-3	-2,944		
Income from associated undertakings at book value	229	-	-	229		

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

# Notes - Danica Pension Group

Note	DKKm		2017	2016
2	(cont'd)			
		<b>GEOGRAPHICAL SEGMENTS</b>		
		Premium income from external customers is 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
			2017	2016
		2017	2016	2017
		2016	2017	2016
		Denmark	24,277	22,110
		Sweden	12,722	9,168
		Norway	2,358	2,187
		<b>Total</b>	<b>39,357</b>	<b>33,465</b>
			23,940	25,758
			-	-
			84	84
			24,024	25,842
3		<b>GROSS PREMIUMS, incl. payments received under investment contracts</b>		
		Direct insurance:		
		Regular premiums	14,620	13,856
		Single premiums	23,698	18,567
		<b>Total direct insurance</b>	<b>38,318</b>	<b>32,423</b>
		<b>Total gross premiums</b>	<b>38,318</b>	<b>32,423</b>
		In the above gross premiums, premiums paid on investment contracts which are not included in the income statement constitute:		
		Regular premiums	1,445	1,253
		Single premiums	12,181	7,808
		<b>Total premiums</b>	<b>13,626</b>	<b>9,061</b>
		<b>Total gross premiums included in the income statement</b>	<b>24,692</b>	<b>23,362</b>
		Premiums, direct insurance, broken down by insurance arrangement:		
		Insurance taken out in connection with employment	30,336	26,417
		Insurance taken out individually	6,432	4,575
		Group life insurance	1,550	1,431
		<b>Total</b>	<b>38,318</b>	<b>32,423</b>
		Number of insured, direct insurance (1,000):		
		Insurance taken out in connection with employment	528	504
		Insurance taken out individually	404	402
		Group life insurance	458	433
		Premiums, direct insurance, broken down by bonus arrangement:		
		With profits insurance	3,489	4,210
		Without profits insurance	199	196
		Unit-linked insurance	34,630	28,017
		<b>Total</b>	<b>38,318</b>	<b>32,423</b>
		Premiums, direct insurance, broken down by policyholders' residence:		
		Denmark	23,061	20,893
		Other EU countries	15,163	9,380
		Other countries	94	2,150
		<b>Total</b>	<b>38,318</b>	<b>32,423</b>



## Notes - Danica Pension Group

Note	DKKm	2017	2016
4	INCOME FROM INVESTMENT PROPERTY		
	Rent	1,274	1,397
	Operating expenses	-299	-468
	Operating expenses, property not let	-136	-
	<b>Total</b>	<b>839</b>	<b>929</b>
	Investment property leases are accounted for as operating leases. Some of the leases are non-terminable by the lessee for a number of years.		
	Rent from non-terminable leases for the year amounted to	2,649	3,402
	Breakdown of minimum lease payments on non-terminable leases by lease term:		
	Within 1 year	932	1,082
	1 - 5 years	1,321	1,571
	After 5 years	396	749
	<b>Total</b>	<b>2,649</b>	<b>3,402</b>
5	INTEREST INCOME AND DIVIDENDS		
	Interest income from assets at fair value	7,856	7,552
	Interest income from assets at amortised cost	56	30
	Dividends	2,122	1,951
	Indexation	163	52
	<b>Total</b>	<b>10,197</b>	<b>9,585</b>
6	VALUE ADJUSTMENTS		
	Domicile property	-7	-
	Investment property	237	708
	Holdings	7,321	5,416
	Unit trust certificates	4,895	3,760
	Bonds	-868	4,703
	Other loans	170	-166
	Deposits with credit institutions	-61	152
	Derivatives	2,398	-85
	Other	-427	71
	<b>Total value adjustments</b>	<b>13,658</b>	<b>14,559</b>
7	INTEREST EXPENSES		
	Interest expenses on assets at fair value	-3,570	-2,751
	Interest expenses on assets at amortised cost	-203	-193
	<b>Total</b>	<b>-3,773</b>	<b>-2,944</b>
8	CLAIMS AND BENEFITS PAID		
	Direct insurance:		
	Insurance amounts on death	-834	-600
	Insurance amounts on disablement	-231	-229
	Insurance amounts on expiry	-1,026	-1,069
	Retirement benefits and annuities	-7,055	-7,047
	Surrender values	-11,147	-11,155
	Cash payments of bonuses	-1,015	-899
	<b>Total direct insurance</b>	<b>-21,308</b>	<b>-20,999</b>
	Expenses to minimise disablement	-1	-1
	<b>Total claims and benefits paid</b>	<b>-21,309</b>	<b>-21,000</b>

# Notes - Danica Pension Group

Note	DKKm	2017	2016
9	OPERATING EXPENSES RELATING TO INSURANCE		
	Commission on direct insurance	-334	-289
	Fees to the audit firm appointed by the general meeting:		
	Fees to Deloitte:		
	Statutory audit of financial statements	-1.3	-1.2
	Other assurance engagements	-0.7	-0.9
	Tax advisory services	-	-0.1
	Other services	-3.1	-0.1
	<b>Total</b>	<b>-5.1</b>	<b>-2.3</b>
	Fees for non-audit services provided to the Group by Deloitte Statsautoriseret Revisionspartnerselskab comprise a review of interim accounts of subsidiaries in connection with interim dividend distribution, various statutory reports and actuarial, tax and accounting due diligence in connection with the acquisition of SEB		
	Average number of full-time-equivalent employees during the year	649	716
	Number of full-time-equivalent employees, end of year	619	675
	Staff costs:		
	Salaries	-427	-496
	Share-based payment	-3	-9
	Pensions	-76	-74
	Other social security and tax	-74	-73
	Other	-37	-50
	<b>Total staff costs earned</b>	<b>-617</b>	<b>-702</b>
	For a more detailed description of the Group's remuneration policy and remuneration paid, see "Remuneration Report 2017", available at the website: <a href="http://www.danicapension.dk">www.danicapension.dk</a> . The remuneration report 2017 is not covered by the statutory audit.		
	All the Group's pension plans are defined contribution plans, under which the Group makes contributions to insurance companies, principally Danica. Such payments are expensed as incurred.		
	Pension plans		
	Contributions to external defined contribution plans	-12	-5
	Contributions to internal defined contribution plans	-64	-69
	<b>Total</b>	<b>-76</b>	<b>-74</b>
	Board of Directors' remuneration (DKK'000)		
	Kim Andersen	-340	-340
	Thomas Falck	-150	-150
	Charlott Due Pihl	-150	-150
	Henrik Nielsen (from 8.3.2016)	-150	-150
	Ib Katznelson	-150	-150
	<b>Total remuneration</b>	<b>-940</b>	<b>-940</b>
	Including fees for board committee membership	-190	-190

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

For their positions as members of the boards of directors or executive boards of other companies in the Danske Bank Group in 2017, Thomas F. Borgen earned DKK 17.4 million (2016 DKK 18.0 million), Tonny Thierry Andersen earned DKK 10.1 million (2016 DKK 10.8 million), Jacob Aarup-Andersen earned DKK 8.6 million, Henrik Ramlau-Hansen earned (2016 DKK 2.4 million) and Kim Andersen earned DKK 0.3 million (2016 DKK 0.3 million) in total remuneration from such companies.

Board of Directors' remuneration will be paid only to directors in the Danske Bank Group elected by the employees.

Remuneration of other material risk takers

For 2017, 31 persons outside the Executive Board were designated as material risk takers and combined they received remuneration of DKK 32.2 million (2016 DKK 35.5 million to 33 material risk takers), with fixed remuneration amounting to DKK 29.4 million (2016 DKK 33.0 million) and variable remuneration amounting to DKK 2.8 million (2016 DKK 2.5 million).

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

The Remuneration Report is expected to be finalised at the end of February 2018. The Remuneration Report will be published in March 2018 and will include additional information on the remuneration of material risk takers. The Remuneration Report is available at [www.danicapension.dk/organisation/aflonning](http://www.danicapension.dk/organisation/aflonning).

# Notes - Danica Pension Group

Note	DKKm	2017	2016
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9  
(cont'd)

## Remuneration of the Executive Board 2017

	Contractual remuneration	Pensions	Variable cash remuneration	Variable share-based payment	
Per Klitgård	-4.7	-0.4	-0.5	-0.5	-6.1
Claus Harder	-3.9	-0.6	-	-	-4.5
Anders Svennesen	-3.5	-0.7	-0.6	-0.6	-5.4
Lars Ellehave-Andersen	-3.4	-0.6	-0.4	-0.4	-4.8
<b>Total</b>	<b>-15.5</b>	<b>-2.3</b>	<b>-1.5</b>	<b>-1.5</b>	<b>-20.8</b>
<b>Total payment</b>					<b>-25.5</b>

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

## Remuneration of the Executive Board 2016

	Contractual remuneration	Pensions	Variable cash remuneration	Variable share-based payment	
Per Klitgård	-4.5	-0.4	-0.8	-0.8	-6.5
Claus Harder*	-3.3	-0.5	-	-	-3.8
Jesper Winkelmann	-8.7	-0.5	-0.5	-0.4	-10.1
Jacob Aarup-Andersen	-1.1	-	-	-	-1.1
Anders Svennesen*	-3.0	-0.6	-0.7	-0.6	-4.9
Lars Ellehave-Andersen	-1.4	-0.3	-0.2	-0.2	-2.1
<b>Total</b>	<b>-22.0</b>	<b>-2.3</b>	<b>-2.2</b>	<b>-2.0</b>	<b>-28.5</b>
<b>Total payment</b>					<b>-18.8</b>

\* Claus Harder is included in the Executive Board as of 1 March 2016 and Lars Ellehave-Andersen as of 1 August 2016  
Per Klitgård may resign his position at six months' notice.

Danica Pension may terminate Per Klitgård's service contract at twelve months' notice. He is not entitled to separate severance payment.

Jesper Winkelmann resigned from Danica on 31 August 2016

Claus Harder may resign his position at three months' notice.

Danica Pension may terminate Claus Harder's service contract at eight months' notice. He is not entitled to separate severance payment.

Jacob Aarup-Andersen resigned from Danica on 31 March 2016 to take up a position as CFO with Danske Bank.

Anders Svennesen may resign his position at three months' notice.

Danica Pension may terminate Anders Svennesen's service contract at eight months' notice. He is not entitled to separate severance payment.

Lars Ellehave-Andersen may resign his position at three months' notice.

Danica Pension may terminate Lars Ellehave-Andersen's service contract at eight months' notice. He is not entitled to separate severance payment.

## Share-based payment

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

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

Rights to Danske Bank shares under the conditional share programme vest after up to five years provided that the employee, with the exception of retirement, has not resigned from the Group. In addition to this requirement, rights to shares earned in 2012-2018 vest only if the Group as a whole and the employee's department meet certain performance targets within the next four years.

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

The intrinsic value is expensed in the year in which the rights to conditional shares vest, while the time value is accrued over the remaining service period, which is the vesting period up to four years.

Danica has hedged the share price risk.

The exact number of shares granted for 2017 will be determined at the end of February 2018.

# Notes - Danica Pension Group

Note DKKm

9  
(cont'd)

## Share-based payment

Conditional shares	Number			Own contribution price (DKK)	Fair value (FV)	
	Executive Board	Other employees	Total		Issue date	End of year
<b>Granted in 2012</b>						
1 Jan. 2016	3,626	0	3,626	0,0-0,9	0.3	0.7
Vested 2016	-2,641	-	-2,641	0.9	-	-
Forfeited 2016	-	-	0	-	-	-
31 Dec. 2016	985	0	985	0.0	0.1	0.2
Vested 2017	-985	-	-985	0.0	-	-
Forfeited 2017	-	-	0	-	-	-
Other changes 2017	-	-	0	-	-	-
31 Dec. 2017	0	0	0	-	0.0	0.0
<b>Granted in 2013</b>						
1 Jan. 2016	4,047	9,296	13,343	0,0-1,1	1.4	2.5
Vested 2016	-4,683	-8,828	-13,511	-	-	-
Forfeited 2016	-	-	0	-	-	-
Other changes 2016	3,574	1,109	4,683	-	-	-
31 Dec. 2016	2,938	1,577	4,515	0,0-1,1	0.6	1.0
Vested 2017	-2,938	-1,109	-4,047	-	-	-
Forfeited 2017	-	-468	-468	-	-	-
31 Dec. 2017	0	0	0	0,0-1,1	0.0	0.0
<b>Granted in 2014</b>						
1 Jan. 2016	2,051	7,138	9,189	0,0-1,4	1.3	1.7
Forfeited 2016	-	-1,453	-1,453	-	-	-
Other changes 2016	2,625	843	3,468	-	-	-
31 Dec. 2016	4,676	6,528	11,204	-	1.3	1.7
Vested 2017	-	-2,239	-2,239	-	-	-
Forfeited 2017	-	-	0	-	-	-
31 Dec. 2017	4,676	4,289	8,965	0,0-1,4	1.2	2.2
<b>Granted in 2015</b>						
Granted 2016	2,888	3,483	6,371	0,0-1,7	1.2	1.3
Vested 2016	-	-	0	1.7	-	-
Forfeited 2016	-	-552	-552	-	-	-
Other changes 2016	1,301	704	2,005	-	-	-
31 Dec. 2016	4,189	3,635	7,824	0,0-1,7	1.3	1.7
31 Dec. 2017	4,189	3,635	7,824	0,0-1,7	1.3	1.9
<b>Granted in 2016</b>						
Granted 2016	5,576	10,461	16,037	0	2.9	3.4
Vested 2016	-5,509	-5,258	-10,767	0.0	-	-
Forfeited 2016	-	-1,418	-1,418	-	-	-
Other changes 2016	7,272	411	7,683	-	-	-
31 Dec. 2016	7,339	4,196	11,535	0.0	2.1	2.5
Other changes 2017	-	272	272	-	-	-
31 Dec. 2017	7,339	4,468	11,807	0.0	2.2	2.9
<b>Granted in 2017</b>						
Granted 2017	7,874	10,565	18,439	0.0	7.6	7.7
Vested 2017	-3,338	-3,036	-6,374	-	-	-
Forfeited 2017	-	-650	-650	-	-	-
31 Dec. 2017	4,536	6,879	11,415	0.0	4.7	4.8

# Notes - Danica Pension Group

Note DKKm

9  
(cont'd)

Executive Board members' holdings and fair value thereof, end of 2017

Year of grant	2014-2017	
	Number	FV
Per Klitgård	6,070	1.5
Claus Harder	11,057	2.7
Lars Ellehave-Andersen	536	0.1
Anders Svennesen	3,077	0.7

Average market price at the vesting date for conditional shares in 2017 was 241.5

Executive Board members' holdings and fair value thereof, end of 2015

Year of grant	2012-2016	
	Number	FV
Per Klitgård	8,002	1.7
Claus Harder	10,678	2.3
Anders Svennesen	1,447	0.3

Average market price at the vesting date for conditional shares in 2016 was 190.3

# Notes - Danica Pension Group

Note	DKKm	2017	2016
10	TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE		
	Total run-off regarding prior years:		
	Gross	-5	-5
	Net of reinsurance	19	-1
	Calculation of technical interest and return on investment:		
	Technical interest amount	89	88
	Outstanding claims provision, discounted amount	-208	-169
	Discounted risk increasing with age	-6	-7
	Technical interest, net of reinsurance, less discounted amount	-125	-88
	Return on investment transferred to health and accident insurance	298	410
	Value adjustment of outstanding claims provision	2	-210
	Total return on investment, including value adjustments	300	200
	Transferred to technical interest	-89	-88
	Return on investment	211	112
	Number of claims	1,326	1,206
	Average amount of claims	0.8	0.0
	Claims frequency	0.6%	0.5%
	Gross premiums, direct insurance, broken down by policyholders' residence:		
	Denmark	875	970
	Other EU countries	111	127
	Other countries	3	4
	Total	989	1,101

## 11 OTHER INCOME

Other income comprises of commission from fund managers

# Notes - Danica Pension Group

Note	DKK m	2017	2016
12	PROFIT BEFORE TAX		
	Danica Pension's technical basis for risk allowance is to be allocated in accordance with the Executive Order on the Contribution Principle.		
	In accordance with the Executive Order on the Contribution Principle and the Guidelines on Market Discipline, the Danish FSA has been notified of Danica Pension's profit policy for 2017. The company's profit for the year consists of the return on assets allocated to shareholders' equity plus the results of unit-linked business, Denmark and the two subsidiaries outside Denmark, the result of Forenede Gruppeliv, the health and accident result and a risk allowance of the technical provisions of the four interest rate groups and a share of the risk groups' risk results og and the cost groups' cost results. Effective from 2016, any risk allowance not booked can no longer be transferred to the shadow account. The shadow account balance at 31.12.2015 can be recognised in the period 2016-2020. If not recognised, 20% of the balance is lost per year. The shadow account accrues interest at the return applying to the bonds allocated to shareholders' equity. The shadow account was fully recognised at the end of 2017.		
	The calculation of technical basis for risk allowance only comprises policies under contribution, and individual items therefore cannot be reconciled to the Group's income statement.		
	Technical basis for risk allowance:		
	Technical result, life insurance	920	1,163
	Change in collective bonus potential	-155	762
	Special allotments	210	311
	Addition of bonus	617	464
	<b>Total technical basis</b>	<b>1,592</b>	<b>2,700</b>
	Total technical basis relating to life insurance customers	1,592	2,700
	In accordance with the contribution principle, full risk allowance for 2017 was booked in all four interest rate groups.		
	Specification of risk allowance:		
	Percentage of insurance provisions	1,044	1,116
	40% of the technical basis for risk allowance in risk groups	-	26
	40% of the technical basis for risk allowance in cost groups	-	16
	<b>Total risk allowance</b>	<b>1,044</b>	<b>1,158</b>
	The percentage of insurance provisions was 0.60% in the New business group; 0.70% in Low; 0.80% in Medium and 0.90% in High.		
	Development in shadow account:		
	Shadow account, beginning of year	44	313
	Correction at 1 January	-	32
	Added interest	0	1
	Written off	-	-11
	Reduced as a result of conversions	-	-12
	Used	-44	-279
	<b>Shadow account, end of year</b>	<b>0</b>	<b>44</b>
	Shadow account distributed on contribution groups:		
	Interest rate group 1	-	-
	Risk groups, total	-	44
	<b>Total</b>	<b>-</b>	<b>44</b>

## Notes - Danica Pension Group

Note	DKKm	2017	2016
13	TAX		
	Tax for the year can be broken down as follows:		
	Tax on the profit for the year	-200	-376
	Tax on other comprehensive income:		
	Hedges of units outside Denmark	-8	6
	Hedge af SEB	4	-
	<b>Total</b>	<b>-204</b>	<b>-370</b>
	Tax on the profit for the year is calculated as follows:		
	Current tax	-303	-481
	Adjustment of prior-year current tax	103	12
	Adjustment of prior-year deferred tax	-	31
	Other changes in deferred tax	-	62
	<b>Total</b>	<b>-200</b>	<b>-376</b>
	Effective tax rate:		
	Danish tax rate	22.0	22.0
	Adjustment of prior-year tax charge	-6.8	-2.3
	Non-taxable income and non-deductible expenses	-	-0.1
	<b>Effective tax rate</b>	<b>15.2</b>	<b>19.6</b>
	Deferred tax:		
	Deferred tax is recognised as follows in the balance sheet:		
	Deferred tax liabilities	1,666	1,666
	<b>Deferred tax, net</b>	<b>1,666</b>	<b>1,666</b>
	Deferred tax broken down on main items:		
	Intangible assets	-2	-2
	Tangible assets	-7	-7
	Investment property	1,674	1,674
	Negative tax on pension returns brought forward	3	3
	Other	-2	-2
	<b>Total</b>	<b>1,666</b>	<b>1,666</b>
	Other than the deferred tax provided for, the Group has no contingent tax liability relating to shares in group undertakings.		
14	INTANGIBLE ASSETS		
	Cost, beginning of year	181	172
	Exchange rate adjustment	-14	9
	<b>Cost, end of year</b>	<b>167</b>	<b>181</b>
	<b>Carrying amount, end of year</b>	<b>167</b>	<b>181</b>
	Intangible assets consist of goodwill on acquisition of Norwegian activities in 2007.		
	For more details, see note 1.		



## Notes - Danica Pension Group

Note	DKKm	2017	2016
15	DOMICILE PROPERTY		
	Cost, beginning of year	48	48
	Cost, end of year	48	48
	Depreciation charges, beginning of year	-4	-4
	Depreciation charges, end of year	-4	-4
	Revalued amount, beginning of year	-1	-1
	Impairment charges for the year	-1	0
	Revalued amount, end of year	-2	-1
	Carrying amount, end of year	42	43
	The year-end carrying amount is recognised as follows in the consolidated balance sheet:		
	Domicile property	42	43
	Of impairment charges for the year, DKK 0 million was recognised in other comprehensive income and transferred to the revaluation reserve in equity, and DKK 0 million was transferred to the collective bonus potential.		
	The weighted average of rates of return on which fair values of individual properties were based amounts to	7.5%	7.5%
16	INVESTMENT PROPERTY		
	Fair value, beginning of year	26,835	27,606
	Additions during the year, including improvements	4,145	2,049
	Disposals during the year	-5,121	-3,475
	Fair value adjustments	245	585
	Other changes	-	70
	Fair value, end of year	26,104	26,835
	The year-end value is recognised as follows in the consolidated balance sheet:		
	Investment property	20,304	22,631
	Investment assets related to unit-linked products	5,800	4,204
	The weighted average of the rates of return on which the fair value of the individual properties is based for:		
	Shopping centres	5.5%	5.8%
	Commercial properties	4.6%	5.3%
	Residential properties	3.6%	4.0%
	Valuations of investment property are based on cash flow estimates and on the required rate of return calculated for each property that reflects the price at which the property can be exchanged between knowledgeable, willing parties under current market conditions. The required rate of return ranged between 2.5-10.0% (2016: 3.0-10.0%) and averaged 4.8% (2016: 5.2%). An increase in the required rate of return of 1.0 percentage point would reduce fair value at end-2017 by DKK 4,302 million.		
	All investment properties fall under level 3 in the fair value hierarchy. For a description of the levels, see note 35. In 2016, all investment properties fell under level 2.		

## Notes - Danica Pension Group

Note	DKKm	2017	2016				
17	HOLDINGS IN ASSOCIATES AND JOINT VENTURES						
	Cost, beginning of year	2,222	1,079				
	Additions	603	1,143				
	Disposals	-57	-				
	Cost, end of year	2,768	2,222				
	Revaluations and impairment charges, beginning of year	1,265	61				
	Share of profit	386	1,401				
	Dividends	-51	-197				
	Currency translation	-7	-				
	Revaluations and impairment charges, end of year	1,593	1,265				
	Carrying amount, end of year	4,361	3,487				
	The year-end carrying amount is recognised as follows in the consolidated balance sheet:						
	Holdings in associates and joint ventures	3,512	2,988				
	Investment assets related to unit-linked products	849	499				
	Holdings in associates and joint ventures consist of:						
		Owner-ship percentage	Total assets	Liabilities	Income	Result	
	Hovedbanegårdens Komplementarselskab ApS, Copenhagen	Property company	50%	0	0	0	0
	Aquaporin, Kongens Lyngby	Investment company	25%	224	21	8	35
	Maritime Fund I K/S, Hellerup	Investment company	32%	22	0	0	-3
	K/S ERDA II, Århus	Property company	96%	3	3	0	0
	Komplementarselskabet ERDA II ApS, Århus	Property company	96%	0	0	0	0
	DNP Ejendomme P/S, Copenhagen	Property company	50%	0	0	0	0
	DNP Ejendomme Komplementarselskab ApS, Copenhagen	Property company	50%	1,127	65	73	106
	Samejet Nymøllevej, Copenhagen	Property company	75%	626	10	31	32
	Frederiksberg Centret I/S, Copenhagen	Property company	67%	1,990	6	98	275
	Hovedbanegårdens Forretningscenter K/S	Property company	50%	1	0	1	1
	DAN-SEB I A/S, Copenhagen	Property company	50%	76	48	3	1
	Udviklingsselskabet CØ ApS, Copenhagen	Property company	50%	0	0	0	0
	Komplementarselskabet CØ ApS, Copenhagen	Property company	50%	469	452	10	5
	Gro Fund I K/S, Copenhagen	Investment company	100%	714	1	0	-17
	ERDA I P/S, Århus	Property company	50%	113	113	0	0
	ERDA I Komplementarselskab ApS, Århus	Property company	50%	0	0	0	0
	G.S.V. Holding A/S, Hedehusene	Investment company	23%	1,566	1,051	863	41
	Capital Four - Strategic Lending Fund K/S, Copenhagen	Investment company	33%	1,163	102	0	52
	The information disclosed is extracted from the companies' most recent annual reports.						
	The Group has no associates of material importance.						
	Hovedbanegårdens Forretningscenter's financial year ends 30 September. All others follow the calendar year.						
18	HOLDINGS						
	Listed holdings			8,151			11,372
	Unlisted holdings			7,680			9,324
	Total			15,831			20,696
19	BONDS						
	Listed bonds			134,207			139,186
	Total			134,207			139,186

# Notes - Danica Pension Group

Note	DKKm		2017	2016	
20	DERIVATIVES				
	The Group uses derivatives, including forwards and swaps, to manage exposure to foreign exchange, interest rate and equity market risks. Derivatives are also used to hedge guaranteed benefit obligations and other interest-bearing liabilities. For a detailed description of risk management, see note 36. Derivatives are recognised and measured at fair value.				
	The Group's subordinated debt carries fixed rates and is recognised at amortised cost. According to the underlying accounting regulation, the fair value of the hedged interest rate risk on fixed-rate loans is not recognised in profit or loss, whereas changes in the fair value of the hedging derivatives are recognised through profit or loss. The Group uses fair value hedge accounting if the interest rate risk on fixed-rate financial liabilities is hedged by derivatives. See note 35.				
	For some derivatives, the Group has concluded collateral agreements and has received collateral in the form of liquid bonds corresponding to a fair value of DKK 2,225 million in 2017 and DKK 3,132 million in 2016.				
		Notional amount	Positive fair value	Notional amount	Negative fair value
2017					
Currency contracts					
Currency contracts	74,602	905	101,433	252	
Options	22,335	201	20,288	50	
Interest rate contracts:					
Interest rate contracts	696,884	11,348	754,880	13,191	
Options	133,050	3,013	174,379	3,145	
Equity contracts:					
Equity contracts	1,033	682	1,020	408	
Options	7	0	3	0	
Total derivatives	927,911	16,149	1,052,003	17,046	
2016					
Currency contracts					
Currency contracts	132,333	977	67,448	1,346	
Options	-	-	-	-	
Interest rate contracts					
Interest rate contracts	431,175	17,932	463,429	15,677	
Options	113,663	722	190,692	2,276	
Equity contracts					
Equity contracts	4	2	2,008	38	
Options	3	389	1	89	
Total derivatives	677,178	20,022	723,578	19,426	
	The positive fair value at year end is recognised as follows in the consolidated balance sheet:				
	Derivatives		15,214	19,259	
	Investment assets related to unit-linked products		935	763	
21	OTHER FINANCIAL INVESTMENT ASSETS				
	Comprises the following investments in companies in the Danske Bank Group:				
	Holdings		474	363	
	Bonds		32,574	34,068	
	Deposits with credit institutions		2,688	3,657	
	Cash in hand and demand deposits		2,262	1,367	
	Other		5,439	8,281	

# Notes - Danica Pension Group

Note	DKKm		2017	2016
22	INVESTMENT ASSETS RELATED TO UNIT-LINKED PRODUCTS			
	Consists of unit trusts in which the underlying assets break down as follows:			
		With guarantee	Without guarantee	
	Investment property	0	5,800	4,204
	Holdings	7,506	130,730	118,110
	Bonds	1,063	62,182	56,715
	Deposits with credit institutions	50	3,601	1,868
	Derivatives	29	907	764
	<b>Total</b>	<b>8,648</b>	<b>203,220</b>	<b>181,661</b>
	Investment assets related to unit-linked products break down as follows:			
	Insurance contracts		145,700	125,035
	Investment contracts		66,168	56,626
	<b>Total</b>		<b>211,868</b>	<b>181,661</b>
23	TOTAL TECHNICAL PROVISIONS, REINSURERS' SHARE			
	Beginning of year		149	145
	Premiums received		103	117
	Claims and benefits paid		-75	-119
	Change in outstanding claims provision		6	5
	Other changes		-63	1
	<b>End of year</b>		<b>120</b>	<b>149</b>
24	COLLECTIVE BONUS POTENTIAL - is included as follows in Life insurance provisions, average-rate products			
	Distribution on contribution groups:			
	Interest rate group 1		1,715	1,977
	Interest rate group 2		804	740
	Interest rate group 3		901	907
	Interest rate group 4		2,240	2,418
	Risk groups, total		470	310
	Cost groups, total		67	-
	<b>Total</b>		<b>6,197</b>	<b>6,352</b>
	Bonus rate (%):			
	Interest rate group 1		4.7	5.4
	Interest rate group 2		5.9	5.1
	Interest rate group 3		9.5	9.4
	Interest rate group 4		6.9	6.6
25	LIFE INSURANCE PROVISIONS, UNIT-LINKED PRODUCTS			
	Provisions for unit-linked contracts break down as follows:			
	Insurance contracts		144,692	126,490
	Investment contracts		60,312	48,681
	<b>Total life insurance provisions, unit-linked products</b>		<b>205,004</b>	<b>175,171</b>
	Provisions for unit-linked contracts without guarantee		177,801	82,156
	Provisions for unit-linked contracts with investment guarantee		27,203	93,015
	<b>Total life insurance provisions, unit-linked products</b>		<b>205,004</b>	<b>175,171</b>

# Notes - Danica Pension Group

Note	DKKm	2017	2016
26	TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS		
	Beginning of 2016	340,467	320,512
	Change beginning of 2016, see accounting policies	-	150
	Premiums	38,318	32,422
	Claims and benefits paid	-27,964	-27,487
	Added interest on policyholders' savings	15,094	11,268
	Fair value adjustment	58	1,078
	Currency translation	-2,356	-1,334
	Change in outstanding claims provisions	-112	-78
	Change in collective bonus potential	-158	588
	Change in profit margin	36	395
	Other changes	79	2,953
	End of year	363,462	340,467

For a more detailed description of calculation methods used for provisions, see note 1, Significant accounting policies.

27	DUE TO CREDIT INSTITUTIONS		
	Repo transactions	18,028	15,542
	Other amounts due	5	28

28	OTHER CREDITORS		
	Other creditors comprise:		
	Derivatives with negative fair values	17,046	19,426
	Tax on pension returns	1,966	2,154
	Staff commitments	73	85

29 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 debt 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	2045	100	3,723	3,717
	Subordinated debt							3,723	3,717
	Discount							-27	-31
	Hedging of interest rate risk at fair value							106	179
	Total, corresponding to fair value							3,802	3,865
	Included in the capital base							3,802	3,865
	Establishment and redemption costs							-	-

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 119 million for 2017 (122 million for 2016).

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

# Notes - Danica Pension Group

Note	DKKm	2017	2016
30	ASSETS DEPOSITED AS COLLATERAL AND CONTINGENT LIABILITIES		
	The following assets have been deposited as collateral for policyholders' savings:		
	Domicile property	44	42
	Investment property	21,938	23,924
	Holdings in associates and joint ventures	1,146	782
	Holdings	15,515	16,165
	Unit trust certificates	16,756	14,459
	Bonds	106,208	116,868
	Other loans	2,133	3,762
	Deposits with credit institutions	8,130	0
	Net other	-2,166	-910
	Investment assets related to unit-linked products	192,934	164,321
	Accrued interest	2,637	2,737
	<b>Total</b>	<b>365,275</b>	<b>342,150</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	7,341	5,207
	Minimum lease payments regarding cars amounts to	6	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	2,492	1,600
	The Group has undertaken to participate in alternative investments with an amount of	11,505	9,553
	The Group is voluntarily registered for VAT on certain properties. The Group's VAT adjustment liability amounts to	743	881
	As a participant in partnerships, the Group is liable for a total debt of	10	10
	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.		
	In one case concerning benefits on a customer's loss of earning capacity cover, Danica Pension appealed the decision to the Supreme Court, as the outcome of the case is considered to be an issue of general public importance. The Group does not expect the outcomes of lawsuits and disputes to have any material effect on its financial position.		

# Notes - Danica Pension Group

Note	DKKm	2017	2016
31	RELATED PARTIES		
	Danske Bank A/S, whose registered office is in Copenhagen, Denmark, holds 100% of the share capital in Forsikrin the parent company of Danica Pension, and consequently exercises control over the Danica Pension Group. Danske Bank A/S is the ultimate parent company of the Danica Pension Group.		
	Transactions with related parties are settled on an arm's-length basis. The Group's IT operations and development, internal audit, HR administration, logistics, marketing and the like are handled by Danske Bank. Danske Bank also handles portfolio management and securities trading.		
	The Danica Pension Group entered into the following significant transactions and balances with other companies in the Danske Bank Group. For more information, see note 20		
	IT operations and development	-197	-204
	Other administration	-105	-63
	Commission for insurance sales and portfolio management	-170	-155
	Ordinary portfolio management fee	-631	-383
	Performance fee for portfolio management	-9	-136
	Total net custody fees and brokerage for trades in holdings and the like	-59	-57
	Interest income	674	730
	Interest expenses	-13	-12
	Rent from premises	12	12
	Amounts owed to credit institutions	2	4,897
	Derivatives with negative fair values	14,756	6,545
	Furthermore, the Danica Group manages the labour market pension schemes of the Danske Bank Group and its related parties.		
	Danica Pension granted a loan to its parent company, Forsikringselskabet Danica	1,200	1,200
	Loans to associates comprise subordinated loans granted on equal terms as other investors.		
32	BALANCE SHEET ITEMS BROKEN DOWN BY EXPECTED DUE DATE		
		2017	2016
		< 1 year	> 1 year
		< 1 year	> 1 year
	Assets		
	Intangible assets	-	168
	Tangible assets	-	42
	Investment assets	7,084	199,278
	Investment assets related to unit-linked products	102	211,766
	Debtors	3,475	-
	Other assets	2,460	-
	Prepayments and accrued income	3,146	-
	Total assets	16,267	411,254
	Liabilities		
	Provisions for insurance and investment contracts	33,018	330,444
	Other liabilities	40,644	5,468
	Total liabilities	73,662	335,912
		13,738	391,082
		27,368	313,099
		40,555	5,531
		67,923	318,630

# Notes - Danica Pension Group

Note DKKm

## 33 SPECIFICATION OF ASSETS AND RETURNS 2017

	Carrying amount		Net investment	% return p.a. before tax on pension returns & corp.tax
	Beginning of year	End of year		
Land and buildings:				
Land and buildings, owned directly	20,537	18,767	-2,021	4.6
Property companies	553	576	-33	10.4
<b>Total land and buildings</b>	<b>21,090</b>	<b>19,343</b>	<b>-2,054</b>	<b>4.6</b>
Other holdings:				
Listed Danish holdings	471	505	0	11.5
Unlisted Danish holdings	1,375	1,578	298	3.4
Listed foreign holdings	8,662	8,877	438	8.4
Unlisted foreign holdings	8,821	7,181	-1,238	3.4
<b>Total other holdings</b>	<b>19,329</b>	<b>18,141</b>	<b>-502</b>	<b>4.1</b>
Bonds:				
Government bonds (Zone A)	37,827	35,646	2,281	-3.1
Mortgage bonds	76,876	72,222	-1,517	5.1
Foreign exchange hedging	-228	428	-1,524	
Government bonds (Zone A) and mortgage bonds including foreign exchange hedging	114,475	108,296	-760	2.4
Index-linked bonds	17,322	18,179	1,718	4.4
Credit bonds, investment grade	4,908	4,572	-169	2.5
Credit bonds, non-investment grade and emerging market bonds	10,690	12,084	3,005	1.7
Other bonds	3,993	2,375	-872	-1.8
<b>Total bonds</b>	<b>151,388</b>	<b>145,506</b>	<b>2,922</b>	<b>2.5</b>
Other financial investment assets	1,884	7,396	-5,823	
Derivative financial instruments to hedge net changes of assets and liabilities	546	-1,833	-230	

A specification of the company's holdings is available on Danica's website [www.danicapension.dk](http://www.danicapension.dk).

## 34 PERCENTAGE ALLOCATION OF SHARE PORTFOLIO ON INDUSTRIES AND REGIONS 2016

	Denmark	Rest of Europe	North America	South America	Japan	Rest of Asia/Pacific	Other countries	Total
Energy	0.0	0.6	2.0	0.1	0.0	0.0	0.1	2.8
Materials	0.5	0.6	0.7	0.2	0.1	0.6	0.8	3.5
Industrials	7.6	1.3	2.2	0.0	0.8	0.1	1.0	13.0
Consumer discretionary	1.4	1.2	2.7	0.1	0.6	0.7	0.9	7.6
Consumer staples	1.6	1.1	1.7	0.1	0.2	0.0	0.3	5.0
Health care	3.9	1.0	2.7	0.0	0.2	0.0	0.1	7.9
Financials	6.9	16.5	12.7	0.1	0.5	5.8	5.3	47.8
Information technology	0.5	0.7	4.6	0.0	0.3	0.5	0.2	6.8
Telecommunications	0.5	0.3	0.5	0.0	0.2	0.2	0.1	1.8
Utilities	0.9	0.3	0.5	0.0	1.4	0.3	0.4	3.8
Non allocated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>23.8</b>	<b>23.6</b>	<b>30.3</b>	<b>0.6</b>	<b>4.3</b>	<b>8.2</b>	<b>9.2</b>	<b>100.0</b>



# Notes - Danica Pension Group

Note DKKm

## 35 FINANCIAL INSTRUMENTS

Financial instruments, classification and valuation method

	Fair value			Amortised cost *		
	Held for trading	Designated	Fair value hedge	Debtors	Liabilities	Total
<b>2017</b>						
Holdings		15,831				15,831
Unit trust certificates		7,242				7,242
Bonds		134,207				134,207
Other loans		2,133				2,133
Deposits with credit institutions				7,614		7,614
Derivatives	15,214					15,214
Investment assets related to unit-linked products		208,217		3,651		211,868
Debtors				1,055		1,055
Cash and cash equivalents				2,294		2,294
<b>Total financial assets</b>	<b>15,214</b>	<b>367,630</b>		<b>14,614</b>		<b>397,458</b>
Provisions for unit-linked products, investment contracts		60,312				60,312
Due to credit institutions					18,033	18,033
Derivatives	17,046					17,046
Subordinated debt			106		3,696	3,802
<b>Total financial liabilities</b>	<b>17,046</b>	<b>60,312</b>	<b>106</b>		<b>21,729</b>	<b>99,193</b>
<b>2016</b>						
Holdings		20,696				20,696
Unit trust certificates		4,256				4,256
Bonds		139,186				139,186
Other loans		3,762				3,762
Deposits with credit institutions				2,061		2,061
Derivatives	19,259					19,259
Investment assets related to unit-linked products		179,226		2,435		181,661
Debtors				811		811
Cash and cash equivalents				1,384		1,384
<b>Total financial assets</b>	<b>19,259</b>	<b>347,126</b>		<b>6,691</b>		<b>373,076</b>
Provisions for unit-linked products, investment contracts		56,626				56,626
Due to credit institutions					15,570	15,570
Derivatives	19,426					19,426
Subordinated debt			179		3,686	3,865
<b>Total financial liabilities</b>	<b>19,426</b>	<b>56,626</b>	<b>179</b>		<b>19,256</b>	<b>95,487</b>

### Recognition as income:

Interest income from debtors measured at amortised cost is recognised in the amount of DKK 56 million in 2017 and DKK 30 million in 2016.

Interest expenses on liabilities measured at amortised cost totalled DKK 203 million in 2017 and DKK 193 million in 2016.

Exchange rate adjustment of debtors and liabilities measured at amortised cost were recognised under value adjustments at DKK 57 million in 2017 and at DKK 13 million in 2016.

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 Pension Group

Note DKKm

35  
(cont'd)

## Financial instruments at fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Level 1: Quoted prices

Fair value measurement is based on quoted prices generated in transactions in active markets.

Where an active market exists for listed equity investments, bonds, derivative financial instruments, etc., the instrument is generally measured at the closing price at the balance sheet date.

### Level 2: Observable input

In the absence of a listed closing price, another publicly available price presumed to be the closest thereto, in the form of indicative prices from banks/brokers, is used. Assets in this category include hedge funds, CDOs and credit bonds. In the case of listed securities for which the closing price does not represent fair value, valuation techniques or other observable data are used to determine fair value. Where no active market exists for a financial instrument, valuation techniques with input based on observable market data are used. Depending on the nature of the asset or liability, these may be calculations based on underlying parameters such as yields, exchange rates and volatility or with reference to transaction prices for similar instruments.

### Level 3: Non-observable input

In some cases, the valuation cannot be based on observable market data alone. Where this is the case, valuation models are used which may include estimates of future events as well as of the nature of the current market situation. This level includes unlisted equities and investment property as presented in note 16.

The measurement of unlisted investments 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 31 December 2017, Danica had financial assets as set out below in the amount of DKK 382,844 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>2017</b>				
Holdings	8,151	-	7,680	15,831
Unit trust certificates	7,000	242	-	7,242
Bonds	123,381	10,813	13	134,207
Other loans	-	-	2,133	2,133
Derivatives	631	14,580	3	15,214
Investment assets related to unit-linked products	194,296	1,010	12,911	208,217
<b>Total financial assets</b>	<b>333,459</b>	<b>26,645</b>	<b>22,740</b>	<b>382,844</b>
Derivatives	464	16,538	44	17,046
Subordinated debt	-	106	-	106
Provisions for unit-linked contracts	60,312	-	-	60,312
<b>Total financial liabilities</b>	<b>60,776</b>	<b>16,644</b>	<b>44</b>	<b>77,464</b>
<b>2016</b>				
Holdings	11,372	-	9,324	20,696
Unit trust certificates	4,012	232	12	4,256
Bonds	130,286	8,765	134	139,185
Other loans	-	-	3,762	3,762
Derivatives	803	18,453	3	19,259
Investment assets related to unit-linked products	168,235	160	10,831	179,226
<b>Total financial assets</b>	<b>314,708</b>	<b>27,610</b>	<b>24,066</b>	<b>366,384</b>
Derivatives	1,436	17,953	37	19,426
Ansvarlig lånekapital	-	179	-	179
Provisions for unit-linked contracts	56,626	-	-	56,626
<b>Total financial liabilities</b>	<b>58,062</b>	<b>18,132</b>	<b>37</b>	<b>76,231</b>

At 31 December 2017, financial instruments measured on the basis of non-observable input comprised unlisted shares DKK 18,563 million and illiquid bonds DKK 4.172 million.

## Notes - Danica Pension Group

Note	DKKm	2017	2016
35			
(cont'd)			
Valuation based on non-observable input			
Fair value, beginning of year		24,029	19,310
Fair value through profit or loss		1,334	2,235
Purchase		5,222	29,791
Sale		-7,889	-27,307
Fair value, end of year		22,696	24,029

In 2017, unrealised value adjustments were recognised at DKK -308 million (2016: DKK 473 million) on financial instruments valued based on non-observable input.

Assuming a widening of the credit spread by 50 bps for bonds and other loans, the fair value would be reduced by DKK 80 million. A narrowing of the credit spread by 50 bps would cause the fair value to be increased by DKK 83 million.

# Notes – Danica Pension Group

Note

## 36 RISK MANAGEMENT AND SENSITIVITY INFORMATION

### 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	Regulatory
Concentration	Concentration	Fraud	
	Health and accident		
	Critical illness		
	Surrender		
	Expenses		

#### **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 75.

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 investment 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 government and credit spreads.

# Notes – Danica Pension Group

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Note

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The credit spread risk on bond holdings is limited as 79% of the portfolio at the end of 2017 consists of government and mortgage bonds with high credit quality (AA – AAA) with the international credit rating agencies or in unrated bonds with a similar high credit quality. Just 6% of the portfolio is invested in non-investment grade bonds.

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

Currency risk is insignificant as it is hedged by means of currency hedging instruments.

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

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

### ***Investments relating to 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 the end of 2017, 16% of policyholders had investment guarantees in the guarantee 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 investment risk on guarantees under unit-linked products to be very minor.

Investment guarantees are not available under 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. In 2016, a new group - Egen Gruppe (Own Group) - was set up, to which a life insurance portfolio of DKK 5 billion has been transferred. This group is also falls under the risk exposure of shareholders' equity.

The Board of Directors has set separate investment strategies for assets allocated to shareholders' equity and investments relating to health and accident insurance and Egen Gruppe. 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 limited by means of risk diversification of the insurance portfolio 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 limits operational risks 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 Pension 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.

Of the two interest rate scenarios, an interest rate increase is most severe for the Group. A separate 1.0 percentage point increase in interest rates would reduce shareholders' equity by DKK 0.2 billion.

SENSITIVITY INFORMATION  
31.12.2017

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

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# Financial statements - contents

FINANCIAL HIGHLIGHTS	55
INCOME STATEMENT	56
COMPREHENSIVE INCOME	56
BALANCE SHEET	57
STATEMENT OF CAPITAL	59
NOTES	
1 Significant accounting policies	61
2 Gross premiums, incl. payments received under investment contracts	62
3 Value adjustments	62
4 Claims and benefits paid	62
5 Change in life insurance provisions - average rate	63
6 Change in life insurance provisions - unit-linked	65
7 Operating expenses relating to insurance	66
8 Technical result of health and accident insurance	67
9 Other income	67
10 Profit before tax	68
11 Tax	69
12 Investment property	69
13 Other financial investment assets	69
14 Investment assets related to unit-linked products	70
15 Shareholders' equity	70
16 Other creditors	70
17 Assets deposited as collateral and contingent liabilities	70
18 Related parties	71
19 Specification of assets and return	72
20 Specification of returns for unit-linked products	73
21 Percentage allocation of share portfolios on industries and regions 2017	73

# Financial highlights - Danica Pension

(DKK millions)	2017	2016	2015 *	2014	2013
<b>INCOME STATEMENT</b>					
Premiums	21,815	20,591	17,982	17,517	16,838
Claims and benefits	-20,578	-20,273	-24,072	-23,326	-21,852
Return on investment	14,307	16,801	6,505	31,477	5,886
Total operating expenses relating to insurance	-736	-730	-739	-710	-701
Profit/loss on business ceded	-18	-4	-92	285	-43
Technical result, Life	775	1,152	983	1,803	707
Gross premium income	887	986	848	868	847
Gross claims	-1,026	-1,144	-925	-1,116	-994
Total operating expenses relating to insurance	-67	-76	-86	-76	-82
Profit/loss on business ceded	4	52	-7	-3	-6
Return on investment less technical interest	207	108	257	321	176
Technical result of health and accident insurance	-155	-193	-36	-146	-107
Net profit/loss for the year	1,225	1,527	1,393	2,002	1,301
Total other comprehensive income	-33	-8	-9	-18	-29
<b>BALANCE SHEET</b>					
Total assets	358,217	346,273	316,539	315,846	289,188
Insurance assets, health and accident insurance	-	7	5	51	93
Technical provisions, health and accident insurance	9,370	9,302	9,070	8,873	8,176
Total provisions for insurance and investment contracts	295,155	282,839	270,530	274,101	255,906
Total shareholders' equity	17,947	18,267	19,363	20,031	18,537
<b>KEY FIGURES AND RATIOS (%)</b>					
Rate of return related to average rate products	2.5	6.5	1.0	14.0	-0.2
Rate of return related to unit-linked products	8.1	5.5	4.8	9.4	8.6
Risk on return related to unit-linked products	4.25	4.25	-	-	-
Expenses as per cent of provisions	0.3	0.3	0.3	0.3	0.3
Expenses per policyholder (DKK)	1,261	1,230	1,222	1,139	1,086
Return on equity after tax	6.8	7.9	7.0	10.4	7.1
Solvency coverage ratio (Solvency I)**	247	262	250	215	221
<b>RATIOS FOR HEALTH AND ACCIDENT INSURANCE</b>					
Gross claims ratio	120	121	116	136	123
Gross expense ratio	8	8	11	9	10
Combined ratio	128	123	128	145	134
Operating ratio	150	136	140	164	135
Relative run-off	0.1	0.0	0.0	-2.3	0.0
Run-off, net of reinsurance (DKK millions)	12	0	0	-175	0
<b>RATE OF INTEREST ON POLICYHOLDERS' SAVINGS (%)</b>					
Rate of interest on policyholders' savings before tax on pension returns***	1.8	1.8	1.8	1.8	1.8
Rate of interest on policyholders' savings after tax on pension returns***	1.5	1.5	1.5	1.5	1.5

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, a description can be found in Significant accounting policies.

\* Balance sheet items have been corrected at 1 Jan. 2016.

\*\* The financial ratio Solvency coverage ratio is exempt from the auditing requirement pursuant to Exedutive Order No. 937 of 27 July 2016 on financial reports for insurance companies and multi-employer occupational pension funds, and accordingly has not been audited.

\*\*\* Information on the interest rate on policyholders' savings comprises the new business group



## Income statement & Other comprehensive income - Danica Pension

Note	(DKK millions)	2017	2016
2	Gross premiums	21,815	20,591
	Reinsurance premiums ceded	-2	-7
	<b>Total premiums, net of reinsurance</b>	<b>21,813</b>	<b>20,584</b>
	Income from group undertakings	1,387	1,790
	Income from associated undertakings	183	68
	Income from investment property	-9	1
	Interest income and dividends, etc.	7,692	7,364
3	Value adjustments	9,639	11,240
	Interest expenses	-3,759	-2,928
	Administrative expenses related to investment activities	-826	-734
	<b>Total return on investment</b>	<b>14,307</b>	<b>16,801</b>
	Tax on pension returns	-2,004	-2,289
4	Claims and benefits paid	-20,578	-20,273
	Reinsurers' share received	4	-
	<b>Total claims and benefits, net of reinsurance</b>	<b>-20,574</b>	<b>-20,273</b>
5,6	Change in life insurance provisions	-11,802	-11,642
	Change in reinsurers' share	-20	3
	<b>Total change in life insurance provisions, net of reinsurance</b>	<b>-11,822</b>	<b>-11,639</b>
	Change in profit margin	221	-617
	Acquisition costs	-113	-101
	Administrative expenses	-637	-642
	Reimbursement of costs from group undertakings	14	13
7	<b>Total operating expenses relating to insurance, net of reinsurance</b>	<b>-736</b>	<b>-730</b>
	Transferred investment return	-430	-685
	<b>TECHNICAL RESULT</b>	<b>775</b>	<b>1,152</b>
8	<b>TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE</b>	<b>-155</b>	<b>-193</b>
	Return on investment allocated to equity	140	283
9	Other income	641	615
10	<b>PROFIT BEFORE TAX</b>	<b>1,401</b>	<b>1,857</b>
11	Tax	-176	-330
	<b>NET PROFIT FOR THE YEAR</b>	<b>1,225</b>	<b>1,527</b>
	Net profit for the year	1,225	1,527
	Other comprehensive income:		
	Translation of units outside Denmark	-48	14
	Hedges of units outside Denmark	41	-28
	Hedge of acquisition	-22	-
	Tax relating to other comprehensive income	-4	6
	<b>Total other comprehensive income</b>	<b>-33</b>	<b>-8</b>
	<b>NET COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,192</b>	<b>1,519</b>

# Balance sheet - Danica Pension

## Assets

Note	(DKK millions)	2017	2016
	<b>INTANGIBLE ASSETS</b>	168	181
12	Investment property	209	374
	Holdings in group undertakings	22,633	24,521
	Loans to group undertakings	76	78
	Holdings in associated undertakings	1,146	782
	<b>Total investments in group and associated undertakings</b>	<b>23,855</b>	<b>25,381</b>
	Holdings	15,515	16,872
	Unit trust certificates	18,048	15,744
	Bonds	122,793	130,631
	Other loans	2,133	3,761
	Deposits with credit institutions	7,611	1,902
	Other	15,213	19,259
13	<b>Total other financial investment assets</b>	<b>181,313</b>	<b>188,169</b>
	<b>TOTAL INVESTMENT ASSETS</b>	<b>205,377</b>	<b>213,924</b>
14	<b>INVESTMENT ASSETS RELATED TO UNIT-LINKED PRODUCTS</b>	<b>144,418</b>	<b>124,887</b>
	Unearned premiums provision, reinsurers' share	-	6
	Life insurance provisions, reinsurers' share	-	18
	Outstanding claims provision, reinsurers' share	-	1
	<b>Total technical provisions, reinsurers' share</b>	<b>-</b>	<b>25</b>
	Amounts due from policyholders	841	838
	Amounts due from insurance companies	60	177
	Amounts due from group undertakings	1,836	1,400
	Other debtors	614	623
	<b>TOTAL DEBTORS</b>	<b>3,351</b>	<b>3,063</b>
	Current tax assets	154	94
	Cash and cash equivalents	1,657	963
	<b>TOTAL OTHER ASSETS</b>	<b>1,811</b>	<b>1,057</b>
	Accrued interest and rent	2,679	2,755
	Other prepayments and accrued income	413	406
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	<b>3,092</b>	<b>3,161</b>
	<b>TOTAL ASSETS</b>	<b>358,217</b>	<b>346,273</b>

# Balance sheet - Danica Pension

## Liabilities

Note	[DKK millions]	2017	2016
	Share capital	1,100	1,100
	Contingency fund	1,499	1,499
	Retained earnings	14,123	14,156
	Proposed dividend	1,225	1,512
15	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>17,947</b>	<b>18,267</b>
	<b>SUBORDINATED DEBT</b>	<b>3,802</b>	<b>3,865</b>
	Unearned premiums provision	353	350
5	Life insurance provisions, average rate products	141,869	148,766
6	Life insurance provisions, unit-linked products	138,770	119,404
	Total life insurance provisions	280,639	268,170
	Profit margin on life insurance and investment contracts	5,146	5,367
	Outstanding claims provision	8,681	8,618
	Risk margin on non-life insurance contracts	269	275
	Provisions for bonus and premium discounts	67	59
	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>295,155</b>	<b>282,839</b>
11	Deferred tax	1,663	1,663
	<b>TOTAL PROVISIONS FOR LIABILITIES</b>	<b>1,663</b>	<b>1,663</b>
	Amounts owed, direct insurance	320	396
	Amounts owed to reinsurers	-	2
	Amounts owed to credit institutions	18,030	15,570
	Amounts owed to group undertakings	175	192
16	Other creditors	19,218	21,892
	<b>TOTAL CREDITORS</b>	<b>37,743</b>	<b>38,052</b>
	<b>ACCRUALS AND DEFERRED INCOME</b>	<b>1,907</b>	<b>1,587</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>358,217</b>	<b>346,273</b>

# Statement of capital - Danica Pension

(DKK millions)

## Changes in shareholders' equity

	Share capital	Revaluation reserve*	Contingency fund	Retained earnings	Proposed dividend	Total
Shareholders' equity at 31 December 2016	1,100	-43	1,499	14,199	1,512	18,267
Profit for the year			-	1,225	-	1,225
Other comprehensive income:						
Translation of units outside Denmark	-	-48	-	-	-	-48
Hedges of units outside Denmark	-	41	-	-	-	41
Hedge of acquisition	-	-	-	-22	-	-22
Tax on other comprehensive income	-	-8	-	4	-	-4
Total other comprehensive income	-	-15	-	-18	-	-33
Comprehensive income for the year	-	-15	-	1,207	-	1,192
Dividend paid	-	-	-	-	-1,512	-1,512
Proposed dividend **	-	-	-	-1,225	1,225	0
Shareholders' equity at 31 December 2017	1,100	-58	1,499	14,181	1,225	17,947
Shareholders' equity at 31 December 2015	1,100	-35	1,499	14,352	2,600	19,516
Changed accounting policies at 1 January 2016	-	-	-	-153	-	-153
Adjusted shareholders' equity at January 1, 2016	1,100	-35	1,499	14,199	2,600	19,363
Profit for the year			-	1,512		1,512
Other comprehensive income:						
Translation of units outside Denmark	-	14	-	-	-	14
Hedges of units outside Denmark	-	-28	-	-	-	-28
Tax on other comprehensive income	-	6	-	-	-	6
Total other comprehensive income	-	-8	-	-	-	-8
Comprehensive income for the year	-	-8	-	1,512	-	1,504
Dividend paid	-	-	-	-	-2,600	-2,600
Proposed dividend **	-	-	-	-1,512	1,512	0
Shareholders' equity at 31 December 2016	1,100	-43	1,499	14,199	1,512	18,267

\* Recognised in the balance sheet under retained earnings.

\*\* The dividend amounts to DKK 111.36 per share (2016: DKK 137.45). The line shows the effect on shareholders' equity at year end.

Danica Pension has an obligation to allocate part of the excess equity to certain policyholders of the former Statsanstalten for Livsforsikring (now a part of Danica Pension) if the percentage by which the equity exceeds the calculated capital 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 added to shareholders' equity or distributed as dividend, but it does not comprise shareholders' equity paid in after the privatisation. Special allotments to those policyholders are recognised as an expense in the income statement item "Change in life insurance provisions".

## Statement of capital - Danica Pension

(DKK millions)	2017	2017
Capital base		
Shareholders' equity	17,947	18,267
Valuation differences between financial statements and Solvency II		
Provisions for insurance and investment contracts	3,694	3,688
Deferred tax	-292	-292
Holdings in group undertakings	1,130	964
- Proposed dividend	-1,225	-1,512
- Intangible assets	-168	-181
Supplementary capital	3,802	3,865
Capital base	24,888	24,799

# Notes – Danica Pension

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Note

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## 1 SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Parent Company, Danica Pension, 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 and Amending Executive Order No. 688 of 1 June 2016, in force from 1 July 2016.

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.

### **Holdings in group undertakings**

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.

### **Key ratios**

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

For sensitivity information see note 36 in the financial statement of the Group.

## Notes - Danica Pension

Note	[DKK millions]	2017	2016
2	GROSS PREMIUMS, incl. payments received under investment contracts		
	Direct insurance:		
	Regular premiums	11,421	10,990
	Single premiums	11,955	10,222
	Total direct insurance	23,376	21,212
	Total gross premiums	23,376	21,212
	In the above gross premiums, premiums paid on investment contracts which are not included in the income statement constitute:		
	Regular premiums	55	21
	Single premiums	1,506	600
	Total premiums	1,561	621
	Total gross premiums included in the income statement	21,815	20,591
	Premiums, direct insurance, broken down by insurance arrangement:		
	Insurance taken out in connection with employment	18,079	17,230
	Insurance taken out individually	3,748	2,551
	Group life insurance	1,549	1,431
	Total	23,376	21,212
	Number of insured, direct insurance (1,000):		
	Insurance taken out in connection with employment	223	228
	Insurance taken out individually	317	318
	Group life insurance	458	433
	Premiums, direct insurance, broken down by bonus arrangement:		
	With profit insurance	3,489	4,210
	Unit-linked insurance	19,887	17,002
	Total	23,376	21,212
	Premiums, direct insurance, broken down by policyholders' residence:		
	Denmark	23,061	20,893
	Other EU countries	221	222
	Other countries	94	97
	Total	23,376	21,212
3	VALUE ADJUSTMENTS		
	Investment property	26	75
	Holdings	2,033	2,972
	Unit trust certificates	6,221	5,322
	Bonds	-970	2,742
	Other loans	170	-166
	Deposits with credit institutions	-62	152
	Other	2,221	143
	Total value adjustments	9,639	11,240
4	CLAIMS AND BENEFITS PAID		
	Direct insurance:		
	Insurance amounts on death	-802	-570
	Insurance amounts on disablement	-190	-184
	Insurance amounts on expiry	-1,023	-1,066
	Retirement benefits and annuities	-6,882	-6,883
	Surrender values	-10,665	-10,670
	Cash payments of bonuses	-1,015	-899
	Total direct insurance	-20,577	-20,272
	Expenses to minimise disablement	-1	-1
	Total claims and benefits paid	-20,578	-20,273

## Notes - Danica Pension

Note [DKK millions]	2017	2016
5 CHANGE IN LIFE INSURANCE PROVISIONS - AVERAGE RATE		
Provisions, beginning of year	148,766	150,219
Profit margin, beginning of year	0	0
Total technical provisions, beginning of year	148,766	150,219
Collective bonus potential, beginning of year	-6,352	-5,452
Accumulated value adjustment, beginning of year	-38,924	-34,846
Retrospective provisions, beginning of year	103,490	109,921
Changes during the year:		
Gross premiums	3,489	4,210
Interest added	2,134	1,800
Claims and benefits	-11,200	-11,554
Expense supplement after addition of expense bonus	-498	-352
Risk gain after addition of risk bonus	-14	-24
Special allotments	230	340
Total changes	-5,859	-5,580
Other changes:		
Transfer of provisions	-62	-912
Change in quota share, Forenede Gruppeliv	79	-22
Other	33	83
Total other changes	50	-851
Retrospective provisions, end of year	97,681	103,490
Accumulated value adjustment, end of year	38,982	38,924
Collective bonus potential, end of year	6,196	6,352
Total technical provisions, end of year	142,859	148,766
Profit margin, end of year	-990	0
Life insurance provisions, end of year	141,869	148,766
Change in gross life insurance provisions according to the income statement consists of:		
Change in retrospective provisions	-5,859	-5,580
Change recognised directly in the balance sheet	50	1,434
Change in accumulated value adjustment	58	4,078
Change in gross life insurance provisions	-5,751	-68
Return on customer funds after deduction of expenses before tax, %	-0.1	-0.2



# Notes - Danica Pension

Note [DKK millions]					2017	2016
5 (cont'd)	Life insurance provisions break down as follows by sub-portfolio					
2017	Interest rate group 1	Interest rate group 2	Interest rate group 3	Interest rate group 4	Non-allocated	
Guaranteed benefits	37,518	15,862	13,168	57,954	9,822	134,324
Riskmargin	151	113	115	632	118	1,129
Individual bonus potential	219	-	-	-	-	219
Collective bonus potential	1,715	804	901	2,240	537	6,197
<b>Total life insurance provisions</b>	<b>39,603</b>	<b>16,779</b>	<b>14,184</b>	<b>60,826</b>	<b>10,477</b>	<b>141,869</b>
Rate of return	1.6	2.8	2.7	2.7		
Bonus rate	4.7	5.9	9.5	6.9		
2016	Interest rate group 1	Interest rate group 2	Interest rate group 3	Interest rate group 4	Non-allocated	
Guaranteed benefits	37,810	16,764	13,200	62,454	10,097	140,325
Riskmargin	154	114	127	662	133	1,190
Individual bonus potential	668	149	62	20	-	899
Collective bonus potential	1,976	740	907	2,419	310	6,352
<b>Total life insurance provisions</b>	<b>40,608</b>	<b>17,767</b>	<b>14,296</b>	<b>65,555</b>	<b>10,540</b>	<b>148,766</b>
Rate of return	5.5	7.3	7.7	6.9		
Bonus rate	5.4	5.1	9.4	6.6		
Cost groups, total						
Collective bonus potential					67	-
Expense supplement after addition of expense bonus					464	297
Operating expenses relating to insurance					-366	-361
Cost result					98	-63
Cost result, %					0.11	-0.06
Risk groups, total						
Collective bonus potential					470	310
Risk gain after addition of risk bonus					219	143
Risk gain after addition of risk bonus, %					0.10	0.07

## Notes - Danica Pension

Note	[DKK millions]	2017	2016
6	CHANGE IN LIFE INSURANCE PROVISIONS - UNIT-LINKED		
	Life insurance provisions, beginning of year	119,404	106,588
	Profit margin, beginning of year	5,367	4,749
	Total technical provisions, beginning of year	124,771	111,337
	Accumulated value adjustment, beginning of year	-290	-230
	Retrospective provisions, beginning of year	124,481	111,107
	Changes during the year:		
	Gross premiums	18,326	16,381
	Interest added	8,777	5,202
	Claims and benefits	-9,377	-8,719
	Expense supplement	-104	-152
	Other	-99	-39
	Total changes	17,523	12,673
	Other changes:		
	Payments received under investment contracts	1,561	621
	Payments made under investment contracts	-1,019	-945
	Transfer of provisions	64	1,025
	Other	25	-
	Total other changes	631	701
	Retrospective provisions, end of year	142,635	124,481
	Accumulated value adjustment, end of year	291	290
	Total technical provisions, end of year	142,926	124,771
	Profit margin, end of year	4,156	5,367
	Life insurance provisions, end of year	138,770	119,404
	Change in provisions for unit-linked contracts breaks down as follows:		
	Change in retrospective provisions	17,523	12,673
	Change in accumulated value adjustment	1	60
	Change in provisions for unit-linked contracts	17,524	12,733
	Provisions for unit-linked contracts break downs as follows:		
	Insurance contracts	131,481	114,585
	Investment contracts	7,289	4,819
	Provisions for unit-linked contracts, end of year	138,770	119,404
	Provisions for unit-linked contracts break downs as follows:		
	Provisions for unit-linked contracts without guarantee	111,612	92,977
	Provisions for unit-linked contracts with guarantee	27,158	26,427
	Provisions for unit-linked contracts, end of year	138,770	119,404
	Return on customer funds after deduction of expenses before tax, %	0.3	0.2

## Notes - Danica Pension

Note	[DKK millions]	2017	2016
7	OPERATING EXPENSES RELATING TO INSURANCE		
	Commission on direct insurance	-165	-132
	Fees to Deloitte:		
	Statutory audit of financial statements	-0.8	-0.8
	Other assurance engagements	-	-0.2
	Tax advisory services	-	-0.1
	Other services	-3.1	-0.1
	<b>Total</b>	<b>-3.9</b>	<b>-1.2</b>
	Fees for non-audit services provided to the Group by Deloitte Statsautoriseret Revisionspartnerselskab comprise a review of interim accounts of subsidiaries in connection with interim dividend distribution, various statutory reports and actuarial, tax and accounting due diligence in connection with the acquisition of SEB		
	Average number of full-time-equivalent employees during the year	492	568
	Number of full-time-equivalent employees, end of year	467	521
	Staff costs:		
	Salaries	-327	-404
	Share-based payment	-3	-2
	Pensions	-57	-63
	Other social security and tax	-45	-51
	Other	-25	-40
	<b>Total staff costs earned</b>	<b>-457</b>	<b>-560</b>

For a more detailed description of the company's remuneration policy and remuneration paid, see "Remuneration Report 2017", available at the website: [www.danicapension.dk](http://www.danicapension.dk). The remuneration report 2017 is not covered by the statutory audit.

For information on the Board of Directors' and Executive Board's remuneration, see Danica Pension's financial statements.

All the company's pension plans are defined contribution plans under which the company makes contributions to insurance companies, principally Danica. Such payments are expensed as incurred.

### Remuneration of other material risk takers

For 2017, 24 persons outside the Executive Board were designated as material risk takers and combined they received remuneration of DKK 40.6 million (2016 DKK 27.5 million to 23 material risk takers), with fixed remuneration amounting to DKK 35.2 million (2016 DKK 26.0 million) and variable remuneration amounting to DKK 5.4 million (2016 DKK 1.5 million).

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

# Notes - Danica Pension

Note	[DKK millions]	2017	2016
8	TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE		
	Gross premiums	901	897
	Reinsurance premium ceded	-4	-13
	Change in unearned premiums provision	-14	89
	Change in unearned premiums provision, reinsurers' share	-6	1
	Premiums, net of reinsurance	877	974
	Technical interest	-129	-92
	Claims paid, gross	-1,168	-1,091
	Reinsurers' share received	15	63
	Change in outstanding claims provision	142	-
	Change in risk margin	6	-53
	Change in outstanding claims provision, reinsurers' share	-1	1
	Claims, net of reinsurance	-1,006	-1,080
	Bonus and premium discounts	-37	-27
	Acquisition costs	-19	-23
	Administrative expenses	-48	-53
	Total operating expenses relating to insurance, net of reinsurance	-67	-76
	Return on investment	207	108
	TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE	-155	-193
	Total run-off regarding prior years:		
	Gross	0	0
	Net of reinsurance	12	0
	Calculation of technical interest and return on investment:		
	Return on investment transferred to health and accident insurance	290	402
	Technical interest rate	0.93%	0.93%
	Technical interest amount	85	84
	Outstanding claims provision, discounted amount	-208	-169
	Discounted risk increasing with age	-6	-7
	Technical interest, net of reinsurance, less discounted amount	-129	-92
	Return on investment allocated to health and accident insurance	290	402
	Value adjustment of outstanding claims provision	2	-210
	Total return on investment, including value adjustments	292	192
	Transferred to technical interest	-85	-84
	Return on investment	207	108
	Number of claims	1,262	1,128
	Average amount of claims	0.8	0.9
	Claims frequency	0.6%	0.6%
	Gross premiums, direct insurance, broken down by policyholders' residence:		
	Denmark	876	970
	Other EU countries	8	12
	Other countries	3	4
	Total	887	986
9	OTHER INCOME		
	Commissions from fund managers etc.	641	615

# Notes - Danica Pension

Note [DKK millions]	2017	2016
10 PROFIT BEFORE TAX		
Danica Pension's technical basis for risk allowance is to be allocated in accordance with the Executive Order on the Contribution Principle.		
In accordance with the Executive Order on the Contribution Principle and the Guidelines on Market Discipline, the Danish FSA has been notified of Danica Pension's consolidation policy for 2017. The company's profit for the year consists of the return on assets allocated to shareholders' equity, including the results of unit-linked business, Denmark and the two subsidiaries outside Denmark, the result of Forenede Gruppeliv, the health and accident result and a risk allowance of the technical provisions of the four interest rate groups and a share of the risk groups' risk results.		
Effective from 2016, any risk allowance not booked can no longer be transferred to the shadow account. The shadow account balance at 31.12.2015 can be recognised in the period 2016-2020. If not recognised, 20% of the balance is lost per year. The shadow account accrues interest at the return applying to the bonds allocated to shareholders' equity. The shadow account was fully recognised at the end of 2017.		
The calculation of technical basis for risk allowance only comprises policies under contribution, and individual items therefore cannot be reconciled to the Group's income statement.		
Technical basis for risk allowance		
Technical result, life insurance	920	1,163
Change in collective bonus potential	-155	762
Special allotments	210	311
Addition of bonus	617	464
<b>Total technical basis</b>	<b>1,592</b>	<b>2,700</b>
<b>Total technical basis relating to life insurance customers</b>	<b>1,592</b>	<b>2,700</b>
In accordance with the contribution principle, full risk allowance for 2017 was booked in all four interest rate groups.		
Specification of risk allowance:		
Percentage of insurance provisions	1,044	1,116
40% of the technical basis for risk allowance in risk groups	-	26
40% of the technical basis for risk allowance in cost groups	-	16
<b>Total risk allowance</b>	<b>1,044</b>	<b>1,158</b>
The percentage of insurance provisions was 0.60% in the New business group; 0.70% in Low; 0.80% in Medium and 0.90% in High.		
Development in shadow account:		
Shadow account, beginning of year	44	313
Correction at 1 January	-	32
Added interest	0	1
Written off	-	-11
Reduced as a result of conversions	-	-12
Used/set aside	-44	-279
<b>Shadow account, end of year</b>	<b>0</b>	<b>44</b>
Shadow account distributed on contribution groups:		
Risk groups, total	-	44
<b>Total</b>	<b>-</b>	<b>44</b>

# Notes - Danica Pension

Note [DKK millions]	2017	2016
<b>11 TAX</b>		
Tax for the year can be broken down as follows:		
Tax on the profit for the year	-176	-330
Tax on other comprehensive income:		
Hedges of SEB	4	-
Hedges of units outside Denmark	-8	6
<b>Total</b>	<b>-180</b>	<b>-324</b>
Tax on the profit for the year is calculated as follows:		
Current tax	-279	-438
Adjustment of prior-year current tax	103	12
Adjustment of prior-year deferred tax	-	31
Other changes in deferred tax	-	65
<b>Total</b>	<b>-176</b>	<b>-330</b>
Effective tax rate:		
Danish tax rate	22.0	22.0
Adjustment of prior-year tax charge	-6.8	-2.3
Non-taxable income and non-deductible expenses	-3.8	-2.8
<b>Effective tax rate</b>	<b>11.4</b>	<b>16.9</b>
Deferred tax broken down on main items:		
Intangible assets	-2	-2
Tangible assets	-10	-10
Investment property	1,674	1,674
Negative tax on pension returns brought forward	3	3
Other	-2	-2
<b>Total</b>	<b>1,663</b>	<b>1,663</b>
Other than the deferred tax provided for, the Group has no contingent tax liability relating to holdings in group undertakings.		
<b>12 INVESTMENT PROPERTY</b>		
Fair value, beginning of year	374	305
Acquisitions and improvements during the year	0	2
Disposals during the year	-130	-3
Other changes	20	70
<b>Fair value, end of year</b>	<b>264</b>	<b>374</b>
Investment property	209	374
Investment assets related to unit-linked products	55	-
The weighted average of the rates of return on which the fair value of the individual properties is based for:		
Commercial properties	4.3%	4.3%
Residential properties	2.5%	2.5%
<b>13 OTHER FINANCIAL INVESTMENT ASSETS</b>		
Comprises the following investments in undertakings in the Danske Bank Group:		
Holdings	103	91
Bonds	24,447	26,326
Deposits with credit institutions	4,314	849
Cash in hand and demand deposits	1,657	962
Other	3,400	7,032

# Notes - Danica Pension

Note [DKK millions]		2017	2016
14	INVESTMENT ASSETS RELATED TO UNIT-LINKED PRODUCTS Consists of unit trusts in which the underlying assets break down as follows:		
		With guarantee	Without guarantee
	Investment property	0	5,800
	Holdings	7,495	72,614
	Bonds	1,039	55,325
	Pantesikrede udlån	0	0
	Deposits with credit institutions	50	1,159
	Derivatives	29	907
	Total	8,613	135,805
		5,800	80,109
		56,364	50,638
		0	-
		1,209	361
		936	764
		144,418	124,887
15	SHAREHOLDERS' EQUITY Number of shares of DKK 100	11,000,000	11,000,000
16	OTHER CREDITORS Other creditors comprise:		
	Derivatives with negative fair values	17,046	19,426
	Tax on pension returns	1,966	2,154
	Staff commitments	61	74
17	ASSETS DEPOSITED AS COLLATERAL AND CONTINGENT LIABILITIES The following assets have been deposited as collateral for policyholders' savings:		
	Holdings in group undertakings	23,128	24,748
	Holdings	15,515	16,165
	Unit trust certificates	16,756	14,459
	Bonds	106,208	116,868
	Other loans	2,133	3,762
	Deposits with credit institutions	8,130	0
	Net other	-2,166	-910
	Investment assets related to unit-linked products	139,745	120,292
	Accrued interest	2,637	2,737
	Total	312,086	298,121
	Mortgages have been issued as collateral for the technical liabilities in a total amount of	75	75
	As collateral for derivative transactions, the company has delivered bonds equal to a total fair value of	7,341	5,207
	The company has undertaken to participate in alternative investments with an amount of	11,505	9,553
	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 company is registered jointly with group undertakings for financial services employer tax and VAT, for which they are jointly and severally liable.		
	The company 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, Danica Pension is continually a party to various lawsuits. In one case concerning benefits on a customer's loss of earning capacity cover, Danica Pension appealed the decision to the Supreme Court, as the outcome of the case is considered to be an issue of general public importance. The Company does not expect the outcomes of lawsuits and disputes to have any material effect on its financial position.		

# Notes - Danica Pension

Note [DKK millions]	2017	2016
<b>18 RELATED PARTIES</b>		
Forsikringselskabet Danica, whose registered office is in Copenhagen, Denmark, holds 100% of the share capital of Danica Pension and thus exercises control. Danske Bank A/S, whose registered office is in Copenhagen, is the ultimate parent company.		
Transactions with related parties are settled on an arm's-length basis. Danica Pension's IT operations and development, internal audit, HR administration, logistics, marketing and the like are handled by Danske Bank. Danske Bank also handles portfolio management and securities trading.		
Danica Pension entered into the following significant transactions and balances with other companies in the Danske Bank Group. For more information, see note 13.		
IT operations and development	-155	-169
Other administration	-76	-47
Commission for insurance sales and portfolio management corresponding to 1.9% of the gross premiums sold through Danske Bank Group (2.5% in 2015)	-130	-116
Ordinary portfolio management fee corresponding to 0.20% of the assets under management (0.12% in 2016)	-627	-381
Performance fee for portfolio management	-9	-136
Total net custody fees and brokerage for trades in holdings and the like	-59	-57
Interest income	545	594
Interest expenses	-24	-13
Amounts owed to credit institutions	2	4,897
Derivatives with negative fair values	14,756	6,545
The insurance companies in the Danica group are managed by Danica Pension, which settles expenses with the companies managed on an arm's-length basis.		
Danica Pension granted a loan to its parent company, Forsikringselskabet Danica	1,200	1,200
Furthermore, the Danica Group manages the labour market pension schemes of the Danske Bank Group and its related parties.		



# Notes - Danica Pension

Note [DKK millions]

## 19 SPECIFICATION OF ASSETS AND RETURN 2017

AVERAGE RATE PRODUCTS	Carrying amount		% return p.a. before tax
	Beg. of year	End of year	
Land and buildings	24,340	22,157	5.5
Listed holdings	9,102	9,345	5.4
Unlisted holdings	10,196	8,759	6.2
Total holdings	19,298	18,104	4.1
Government bonds and mortgage bonds	113,617	107,413	2.4
Index-linked bonds	17,322	18,179	4.4
Credit bonds and emerging market bonds	19,588	19,028	0.7
Total bonds and loans	150,527	144,620	2.5
Holdings in group undertakings	555	651	28.8
Other investment assets	1,804	7,471	-
Derivative financial instruments to hedge net changes of assets and liabilities	546	-1,833	-

A specification of the company's holdings is available on Danica's Danish website, [www.danicapension.dk](http://www.danicapension.dk).

UNIT-LINKED PRODUCTS	Carrying amount		% return p.a. before tax
	Beg. of year	End of year	
Land and buildings	5,618	7,161	3.8
Listed holdings	41,253	66,519	11.7
Unlisted holdings	10,783	12,834	10.7
Total holdings	52,036	79,353	11.6
Government bonds and mortgage bonds	48,961	37,446	0.6
Index-linked bonds	2,512	3,148	2.4
Credit bonds and emerging market bonds	7,853	12,207	0.2
Loans etc.	0	0	-
Total bonds and loans	59,326	52,801	0.6
Holdings in group undertakings	0	0	-
Other investment assets	7,906	4,706	-
Derivative financial instruments to hedge net changes of assets and liabilities	-	398	-

# Notes - Danica Pension

Note [DKK millions]

## 20 SPECIFICATION OF RETURNS FOR UNIT-LINKED PRODUCTS

Danica Balance	Years to retirement	% of average provisions	Return (%)	Risk
<b>High Risk:</b>				
Mix high risk profile	30 years	0.24	12.34	4.75
Mix high risk profile	15 years	0.51	10.75	4.25
Mix high risk profile	5 years	0.15	8.3	4.25
Mix high risk profile	-5 years	0.00	6.63	3.75
Danica Balance	Non-lifecycle*	5.67	11.06	N/A
<b>Medium Risk</b>				
Mix medium risk profile	30 years	0.76	11.46	4.75
Mix medium risk profile	15 years	1.8	8.4	4.25
Mix medium risk profile	5 years	0.55	6.64	3.75
Mix medium risk profile	-5 years	0.02	5.48	3.50
Danica Balance	Non-lifecycle*	6.69	7.78	N/A
<b>Low Risk</b>				
Mix low risk profile	30 years	0.13	10.14	4.50
Mix low risk profile	15 years	0.3	6.48	3.75
Mix low risk profile	5 years	0.13	5.17	3.50
Mix low risk profile	-5 years	0.01	4.29	3.25
Danica Balance	Non-lifecycle*	2.97	5.13	N/A

\* Launched on 18 January 2016

## 21 PERCENTAGE ALLOCATION OF SHARE PORTFOLIOS ON INDUSTRIES AND REGIONS 2017

	Denmark	Rest of Europe	North America	South America	Japan	Rest of Asia/Pacific	Other countries	Total
Energy	0.0	0.6	2.0	0.1	0.0	0.0	0.1	2.8
Materials	0.5	0.6	0.7	0.2	0.1	0.6	0.8	3.5
Industrials	7.6	1.3	2.2	0.0	0.8	0.1	1.0	13.0
Consumer discretionary	1.4	1.2	2.7	0.1	0.6	0.7	0.9	7.6
Consumer staples	1.6	1.1	1.7	0.1	0.2	0.0	0.3	5.0
Health care	3.9	1.0	2.7	0.0	0.2	0.0	0.1	7.9
Financials	6.9	16.4	12.8	0.1	0.5	5.8	5.3	47.8
Information technology	0.5	0.7	4.6	0.0	0.3	0.5	0.2	6.8
Telecommunications	0.5	0.3	0.5	0.0	0.2	0.2	0.1	1.8
Utilities	0.9	0.3	0.5	0.0	1.4	0.3	0.4	3.8
Non allocated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>23.8</b>	<b>23.5</b>	<b>30.4</b>	<b>0.6</b>	<b>4.3</b>	<b>8.2</b>	<b>9.2</b>	<b>100.0</b>

## Group overview

	Own- ership	Currency	Profit for the year	Share capital	Share- holders' equity	Staff	Directorships <sup>2)</sup>			
	%		millions	millions	millions	Number <sup>1)</sup>	PKLI	LEA	CH	AS
<b>LIFE INSURANCE</b>										
Danica Pension, Livsforsikringsaktieselskab, Copenhagen	100	DKK	1,225	1,100	17,947	468	D	D	D	D
Danica Pension Försäkringsaktiebolag, Stockholm	100	SEK	72	100	397	61	B			
Danica Pensjonsforsikring AS, Trondheim	100	NOK	94	106	463	91	B			
<b>PROPERTY INVESTMENT</b>										
Danica Ejendomsselskab ApS, Copenhagen	100	DKK	1,178	2,794	27,011	-	B		B	B
Nygade 1-3 ApS, Copenhagen	100	DKK	-9	0	436	-	B		B	B
Ejendomsselskabet Project Nord P/S	100	DKK	7	1	746	-	B		B	
Komplementarselskabet Project Nord A/S	100	DKK	0	0	0	-	B		B	
Ejendomsselskabet Project Sunflower P/S	100	DKK	0	1	0	-			B	
Komplementarselskabet Project Sunflower ApS	100	DKK	0	0	0	-			B	
SD Karreen Holding ApS	100	DKK	0	18	485	-	B		B	B
SD Karré 1 ApS	100	DKK	75	16	615	-	B		B	B
SD Karré 2 ApS	100	DKK	4	2	99	-	B		B	B
Ejendomsselskabet af 10. februar 2016	100	DKK	0	0	0	-				
Danske Shoppingcentre P/S	100	DKK	395	100	12,230	-				
Komplementarselskabet Danske Shoppingcentre ApS	100	DKK	0	0	0	-				
Danske Shoppingcentre FC P/S	100	DKK	184	50	1,324	-				
Komplementarselskabet Danske Shoppingcentre FC ApS	100	DKK	0	0	0	-				

<sup>1)</sup> Comprises employees in group companies at 31 December 2017.

<sup>2)</sup> Directorships of Per Klitgård (PKLI), Lars Ellehave-Andersen (LEA), Claus Harder (CH) and Anders Svennesen (AS).

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

## Group overview

### Companies

Forsikrings-  
selskabet  
Danica A/S

Danica Pension  
A/S

Danica Pension  
Försäkringsaktiebo-  
lag

Danica Pensjons-  
Forsikring AS

Danica  
Ejendomsselskab  
ApS

### Activities

Parent company. Its principal activity is non-life insurance, comprising the health care and critical illness products Health Insurance, Critical Illness and Sundhedsfremmer (health promoter).

Sale of the unit-linked products Danica Balance, Danica Link and Danica Select in which the return on policyholders' savings equals the market return. Life insurance and loss of earning capacity cover may be attached to the policies. Danica Balance is a lifecycle product combining the advantages of collective investment with individual adjustment options. The customers select an investment profile. Guarantee option. Under Danica Link, customers may choose their own investments among 50-55 funds.

In Danica Select, customers may select their own investments among 15,000 equities and securities on 17 European and US stock exchanges.

Sale of conventional life insurance and pension product (Danica Traditionel) and health and accident insurance, including loss of earning capacity cover. Danica Traditionel comprises policies with guaranteed benefits and bonus entitlement based on collective investments, managed by Danica Pension. The rate of interest on savings is determined by Danica Pension.

Guaranteed life annuities without bonus entitlement. No new policies have been written since 1982.

Primarily sale of company pension schemes. The principal product is the custody account savings product without guaranteed returns, which allows customers to choose their own fund manager. As the only provider in Sweden, the Company is authorised to write all types of collective schemes. The Company also sells ordinary unit-linked products and health and accident insurance.

Sale of mainly personal unit-linked schemes and health and accident insurance in Norway.

Property company investing primarily in commercial property and shopping centres.

Organisation:

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

## Management and directorships

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

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

## Board of Directors

### Tonny Thierry Andersen

Member of the Executive Board of Danske Bank A/S  
Born on 30.09.1964  
Director of:  
Danske Bank International S.A., Chairman  
Danske Bank Oyj (Sampo Pankki Oyj), Chairman  
ICC Danmark  
FR I af 16. september 2015 A/S  
Danske Invest Management A/S, Chairman  
MobilePay A/S  
MobilePay Denmark A/S

### Jacob Aarup-Andersen

CFO, Danske Bank A/S  
Born on 06.12.1977  
Member of the Executive Boards of:  
Circus Road Capital ApS  
Monterey River Capital ApS  
Director of:  
Kreditforeningen Danmarks Pensionsafviklingsskase, Chairman of the Boards of Directors  
Realkredit Danmark A/S  
Danske Hypotek AB, Chairman of the Board of Directors  
Danske Mortgage Bank Plc, Chairman of the Board of Directors

### Kim Andersen

Director  
Born on 30.04.1955  
Member of the Executive Boards of:  
Audio Consult ApS  
KA Invest af 2. maj 2003 ApS  
Director of:  
Realkredit Danmark A/S (and Chairman of the Audit Committee)

In addition, Kim Andersen is Chairman of the Danica Group's audit committee (state authorised public accountant with deposited licence).

### Thomas Falck

Senior Pension Specialist, Danica Pension  
Born on 09.06.1952

### Thomas Mitchell

Head of Personal Banking DK, Danske Bank A/S  
Born on 01.12.1962

### Charlott Due Pihl

Chairman of Staff Association, Danica Pension  
Born on 27.03.1968

### Ib Katznelson

Retired Head of administration, Danish Ministry for Industry, Business and Financial Affairs  
Born on 30.10.1941  
(appointed by the Minister of Finance)

### Jeanette Fangel Løgstrup

Senior Vice President of Danske Bank A/S  
Born on 04.12.1966  
Director of:  
JP/Politikens Hus A/S  
Danske Bank Oyj (Sampo Pankki Oyj)  
MobilePay A/S  
MobilePay Denmark A/S

### Christoffer Møllenbach

Head of Treasury, Danske Bank A/S  
Born on 03.11.1972  
Director of:  
Danske Corporation, Inc.  
Danske Hypotek AB  
VP Securities A/S  
Danske Mortgage Bank Plc

### Henrik Nielsen

Chief consultant  
Born on 12.01.1967

## Executive Board

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

### Per Klitgård

Chief Executive Officer  
Born on 11.12.1958  
Member of the Executive Board of:  
Gruts Allé ApS  
Director of:  
The Danish Insurance Association  
Fonden F&P Formidling  
Forsikringsakademiet A/S  
Søhusvej A/S

### Lars Ellehave-Andersen

Member of the Executive Board  
Born on 28.07.1967

### Claus Harder

Member of the Executive Board  
Born on 03.06.1975

### Anders Hjelmsø Svennesen

Member of the Executive Board  
Born on 14.06.1974

# Statement and report

## Statement by the Management

The Board of Directors and the Executive Board (the management) have today considered and approved the annual report of Danica Pension for the financial year 2017.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 2017. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

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

Copenhagen, 2 February 2018

## Executive Board

Per Klitgård

Lars Ellehave-Andersen

Claus Harder

Anders Hjelmsø Svennesen

## Board of Directors

Tonny Thierry Andersen  
Chairman

Jacob Aarup-Andersen  
Deputy Chairman

Kim Andersen

Thomas Falck

Thomas Mitchell

Charlott Due Pihl

Jeanette Fangel Løgstrup

Ib Katznelson

Christoffer Møllenbach

Henrik Nielsen

## Independent auditor's report

### To the shareholders of Danica Pension, Livsforsikringsaktieselskab

#### Opinion

We have audited the consolidated financial statements and the parent financial statements of Danica Pension, Livsforsikringsaktieselskab, for the financial year 1 January to 31 December 2017, pages 10-83, which comprise the income statement, statement of comprehensive income, balance sheet, statement of capital and notes, including the summary of significant accounting policies, for the Group as well as for the Parent, and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies, and the parent financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2017, and of its financial performance and cash flows for the financial year 1 January to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies.

Also, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2017, and of its financial performance for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of Danica Pension, Livsforsikringsaktieselskab for the first time on 10 March 2015 for the financial year 2015. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 3 years up to and including the financial year 2017.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Measurement of unlisted investments</b>	
<b>Key audit matters</b>	<p>Unlisted investments amount to DKK 25,575 million at 31 December 2017 (DKK 26,955 million at 31 December 2016).</p> <p>Unlisted investments are composed of investments in private equity funds, infrastructure funds, unlisted equities and corporate bonds. The measurement of unlisted investments is affected by management estimates, and changes in assumptions and the methodology applied may also have a material impact on the measurement of unlisted investments.</p> <p>The most material judgements are:</p> <ul style="list-style-type: none"> <li>• Determination of market value in illiquid markets</li> <li>• Definition of required rate of return</li> <li>• Assessment of future cash flows.</li> </ul> <p>Management has provided further information about unlisted investments in note 35 to the consolidated financial statements.</p>
<b>How the matters were addressed in our audit</b>	<p>Based on our risk assessment, we have examined the valuation of unlisted investments and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.</p> <p>Our examination included the following elements:</p> <ul style="list-style-type: none"> <li>• Testing key controls over the valuation of unlisted investments, including the assumptions-setting processes, and the operating effectiveness of such controls.</li> <li>• Challenging the methodology applied by using our industry knowledge and experience, focusing on changes etc since last year.</li> <li>• Assessing key assumptions underlying future cash flows and required rates of return defined.</li> </ul>



Measurement of investment property	
Key audit matters	<p>Investment property amounts to DKK 26,104 million (DKK 26,835 million in 2016).</p> <p>The determination of the measurement of investment property is based on the location of each property, future events, cash flows and required rates of return. Changes in assumptions and the methodology applied may have a material impact on the measurement of investment property and profit or loss.</p> <p>The most material judgements are:</p> <ul style="list-style-type: none"> <li>• Assessment of future cash flows</li> <li>• Definition of required rate of return.</li> </ul> <p>Management has provided further information about investment property in note 15 to the consolidated financial statements.</p>
How the matters were addressed in our audit	<p>Based on our risk assessment, we have examined the valuation of investment property prepared by Management and evaluated the methodology applied and the assumptions made.</p> <p>Our examination included the following elements:</p> <ul style="list-style-type: none"> <li>• Testing key controls over the valuation of investment property, including the assumptions-setting processes, set-up for approval and changes in estimates by Management, as well as the operating effectiveness of such controls.</li> <li>• Challenging the methodology applied by using our industry knowledge and experience, focusing on changes since last year</li> <li>• Assessing key differences in the assumptions from industry standards.</li> <li>• Assessing key assumptions and input underlying the valuation of investment property, including an assessment of future cash flows and individual required rates of return used for valuation, against historical data and market practice.</li> </ul>

<b>Measurement of liabilities under insurance contracts</b>	
<b>Key audit matters</b>	<p>Liabilities under insurance contracts amount to DKK 363,462 million at 31 December 2017 (DKK 340.786 million at 31 December 2016).</p> <p>Measurement of liabilities under insurance contracts are considered a key audit matter as the determination of assumptions for the measurement of life insurance contract liabilities involves complex judgements about future events.</p> <p>Changes in assumptions and the methodology applied may have a material impact on the measurement of liabilities under insurance contracts.</p> <p>The most significant judgements are:</p> <ul style="list-style-type: none"> <li>• Determining disability rates, mortality rates and surrender probabilities.</li> <li>• Assumptions related to regulatory and reporting requirements, including risk and interest.</li> </ul> <p>Management has provided further information about liabilities under insurance contracts in notes 24, 25 and 26 to the consolidated financial statements.</p>
<b>How the matters were addressed in our audit</b>	<p>Based on our risk assessment, we have examined the valuation of liabilities under insurance contracts and evaluated the methodology applied and the assumptions made.</p> <p>Our examination included the following elements, where we also made use of our internationally qualified actuaries:</p> <ul style="list-style-type: none"> <li>• Testing key controls over the actuarial models, data collection and analysis and the assumptions-setting processes.</li> <li>• Evaluating the disability and mortality rates and surrender probabilities used in the calculation against historical data and market practice.</li> <li>• Assessing the key changes in the assumptions against regulatory and reporting requirements and industry standards.</li> <li>•</li> </ul> <p>Analysing developments, particularly within risk, interest and cost results by using our industry knowledge and experience.</p>

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

Management is responsible for the Management's report.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the Management's report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the Management's report and, in doing so, consider whether the Management's report is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's report provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's report is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management's report.

#### **Solvency ratio**

Management is responsible for the Solvency ratio evident from statement of financial highlights and key figures on page 11 of the annual report.

As disclosed in the statement of financial highlights and key figures, the solvency ratio is exempt from the requirement to be audited. Consequently, our opinion on the consolidated financial statements and the

parent financial statements does not cover the solvency ratio, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to consider whether the solvency ratio is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on this, we conclude that the solvency ratio is materially misstated, we are required to report on this. We have nothing to report in this respect.

#### **Management's responsibilities for the consolidated financial statements and the parent financial statements**

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial companies, as well as for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in the preparation of the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 2 February 2018

**Deloitte**

Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56

Jens Ringbæk  
State-Authorised  
Public Accountant  
MNE no 27735

Jacques Peronard  
State-Authorised  
Public Accountant  
MNE no 16613

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## Address

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Company Registration No.

CVR 24256146

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