

# *Annual Report 2018*

Forsikringselskabet Danica

**Danica Pension**

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This Annual Report 2018 is a translation of the original report in the Danish language (Årsrapport 2018). In case of discrepancy, the Danish version prevails.

## SELECTED FINANCIAL HIGHLIGHTS FOR THE DANICA GROUP

(DKK millions)	2018	2017	2016	2015 <sup>1)</sup>	2014 <sup>2)</sup>
<b>PREMIUMS INCLUDING INVESTMENT CONTRACTS<sup>4)</sup></b>	44,140	39,709	33,809	29,573	26,821
<b>INCOME STATEMENT</b>					
Technical result, Life	1,717	1,852	1,786	1,521	2,137
Technical result of health and accident insurance	-633	-193	-126	-69	-145
Return on investment allocated to shareholders' equity, etc.	132	202	505	465	560
Profit before tax	1,216	1,861	2,165	1,917	2,552
Tax	-212	-308	-433	-499	-608
Profit from discontinued operations	77	56	55	38	59
Profit for the year	1,081	1,609	1,787	1,456	2,003
<b>BALANCE SHEET</b>					
Total assets	565,566	427,035	404,180	368,405	358,636
Technical provisions, health and accident insurance	14,637	10,244	10,177	9,583	9,644
Provisions for insurance and investment contracts	399,522	363,778	340,786	320,997	315,833
Total shareholders' equity	18,897	17,122	17,249	19,997	20,056
<b>KEY FIGURES AND RATIOS (%)</b>					
Return related to unit-linked products in Denmark					
Danica Pension - Balance	-5.3	8.1	5.5	4.8	9.4
Danica Pensionsforsikring - Markedspension <sup>5)</sup>	-4.9	-	-	-	-
Risk on return related to unit-linked products	4.25	4.25	4.25	-	-
Net return before tax on pension returns on average-rate products <sup>3)</sup>					
Danica Pension - Traditionel	1.8	3.2	4.8	5.1	7.2
Danica Pensionsforsikring - Traditionel <sup>5)</sup>	-0.1	-	-	-	-
Expenses as per cent of provisions	0.42	0.34	0.36	0.38	0.42
Expenses per policyholder (DKK)	1,325	1,116	1,049	1,046	995
Return on equity after tax	6.0	9.0	9.9	7.3	10.3
Solvency capital requirement (Group)	193	227	246	199	213
Solvency capital requirement (Parent) <sup>6)</sup>	511	519	513	128	128
<b>RATIOS FOR HEALTH AND ACCIDENT INSURANCE</b>					
Gross claims ratio	117	113	105	110	121
Gross expense ratio	8	8	8	10	9

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

<sup>2)</sup> The 2016 financial statements are presented in accordance with the executive order on financial reports of 27 July 2015. Key figures and ratios for 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 ratios include change in accumulated value adjustment

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

<sup>4)</sup> Including discontinued operations

<sup>5)</sup> Rate of return is for full year 2018

<sup>6)</sup> At 31 December 2018, the Parent Company's solvency capital requirement (SCR) was DKK 4,296 million and its total capital was DKK 21,969 million.

Effective at 7 June 2018, Danica Pension acquired the companies Danica Pensionsforsikring A/S and Danica Administration A/S (previously SEB Pension Danmark). The acquired companies are consolidated in the financial statements of the Danica Group effective from this date, and the periods in the financial highlights are thus not directly comparable.

The financial statement figures for 2018 are also affected by accounting policy changes. See note 1. The changes did not have any material impact on the financial highlights. Comparative figures have not been restated, as this is not possible for practical purposes.

Forsikringssselskabet Danica's consolidated financial statements for 2018-2015 are presented in accordance with IFRS. The consolidated financial statements for 2014 are 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 12.

### 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 the significant accounting policies note.

## DANICA STRATEGY

### Introduction to Danica Pension's strategy

Danica Pension's strategy is based on our vision of making our customers feel financially secure.

Our aim is to be one step ahead when it comes to advising our customers on financial security, thus enhancing customer satisfaction.

A focus area for Danica Pension is to contribute to ensuring that our customers - both personal and business customers - have the right pension solutions.

Danica Pension contacts customers whenever we can see that changes in their lives may affect their pension scheme or insurance covers. Being secure in the knowledge that Danica Pension acts proactively with clear recommendations on how to achieve the best possible cover, our customers are able to concentrate on their business, work and life in general instead of worrying about whether they have the right pension and insurance covers.

### New Management in Danica Pension

On 1 October 2018, Ole Krogh Petersen took up the position of CEO of Danica Pension. Previously COO of Danica Pension, he joins Søren Lockwood, Deputy CEO and COO, and Jesper Høybye, CFO, to make up the Executive Board, which will be tasked with carrying on the strong development that Danica Pension has undergone in recent years.

### A larger, more focused Danica Pension

In 2018, Danica Pension successfully achieved two strategic milestones:

Danica Pension's acquisition of the companies Danica Pensionsforsikring A/S and Danica Administration A/S (formerly SEB Pensionsforsikring A/S and SEB Administration A/S) was completed on 7 June 2018 after being approved by the competition authorities, and from that date the two companies are subsidiaries of Danica Pension.

Danica Pension paid a total consideration of DKK 5.0 billion for the two companies. Of this amount, DKK 1.3 billion represents the value of the existing customer base (VIF asset), which is subject to a deferred tax liability of DKK 0.3 billion, while the consideration paid for goodwill is DKK 2.4 billion.

With the acquisition of SEB Pension Danmark, Danica Pension has welcomed more than 200,000 new pension customers.

Danica Pension's full focus will now be on leveraging benefits of scale and synergies to strengthen Danica Pension's competitive and innovative strength. The integration of the former SEB Pension Danmark is proceeding as planned according to the mantra of combining the best of both worlds for the benefit of the customers.

In addition to the approved acquisition of Danica Pensionsforsikring A/S and Danica Administration A/S (formerly SEB Pensionsforsikring A/S and SEB Administration A/S), towards the end of 2018 Danica subsidiary, Danica Pension Försäkringsaktiebolag, at a price of around SEK 2.6 billion, of which SEK 2.35 billion is a cash payment and the remainder is in the form of a debt instrument. Proceeds from the sale will be recognised in 2019.

With the prospective sale, Danica Pension's business will be more focused, and after the acquisition of SEB Pension we are in an even stronger position to develop the best pension solutions for our customers in Denmark and Norway, where our business models are more aligned. With our direct customer contact in these countries, Danica Pension is better able to deliver on our vision of making our customers feel financially secure. It has also been agreed that Danske Bank and Danica Pension Sweden will continue their business partnership on the distribution of pension products in Sweden.

Completion of the sale is subject to regulatory approval.

### "One step ahead" is to provide security for customers

The "One step ahead" strategy is central to Danica Pension's vision of providing security for our customers through advisory services.

This is achieved by giving our individual customers clear recommendations on adjustments they should make to their pension contributions and insurance covers when major life-changing events happen. We proactively contact customers when they move or have a change in salary, for example - often before they themselves are aware that they might benefit from taking a Pension Check. With "One step ahead", we guide our customers to make them more secure in the knowledge that they have the pension and insurance covers they require.

Since 2017, we have contacted 200,000 customers with proactive and relevant communications about their Danica Pension scheme. We also remain focused on optimising our ongoing communication of advice to our customers, and we continue to launch new advisory messages.

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

At the same time, we are very focused on proactively taking responsibility for preventing and treating conditions such as stress, which affects far too many Danes and which many corporate leaders would like to tackle, but are not equipped to. We assist by advising companies and private individuals about stress.

### **Focus on quality and transparency in health and accident insurance despite difficult market conditions**

Security for Danica's customers is about their pension as well as their health. Experience shows that about one in three women and one in five men need to use their loss of earning capacity insurance at some point during their working life.

Therefore, it is a key priority for Danica Pension to provide our customers with good healthcare options.

With this in mind, we decided to increase our prices at 1 January 2018 as one of several measures to address the imbalance between income and expenses in this area and improve the transparency and correlation between price and quality for our customers.

This notwithstanding, Danica Pension in 2018 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.

Along with prioritising a high quality level, we have also decided to focus more on prevention. For example, we launched a new concept, "Stress Help" with the aim of making it easier for managers and employees to prevent and handle stress.

### **Danica Pension aims to enhance customer satisfaction**

A key focus area for Danica Pension is to boost customer satisfaction. It is essential to us that our customers feel that we understand them and accommodate their needs.

The former SEB Pension has long had a high customer satisfaction score, and with its acquisition Danica Pension will be able to benefit from the experience that has produced such excellent historical results.

To boost Danica's customer satisfaction will require efforts across the board - from stronger focus on our dialogue with individual customers to an analysis of the general feedback we get from our customers, for example.

In the coming years, we will also develop and roll out "One step ahead" for our business customers and use our successful experience from the personal customer area to become more proactive and relevant to our business customers.

### **Challenging year for returns**

2018 was a challenging year in terms of investment returns across the entire pension industry, and Danica Pension was no exception.

Following the good, positive returns in 2016 and 2017, Danica's returns for 2018 were not satisfactory.

Customers with Danica Pension Balance saw returns of between a negative 9.8% and a positive 0.9% in 2018, depending on their risk profile, whereas customers with Danica Pensionsforsikring Markedspension saw returns of between a negative 9.4% and a positive 0.2%, depending on their risk profile.

It is important to keep in mind that pension investment is a long-term discipline, however. It is key for us to continually strive to construct the best, most robust portfolios in order to produce attractive long-term returns. Management of pension funds is all about long-term returns.

With this in mind, we are confident that we are on the right track, for example with our focus on alternative investments. Seen in isolation, alternative investments produced a positive return of 11.4% in 2018.

Ensuring the successful integration of the former SEB Pension will allow us to combine the strongest competencies from both companies, also in the investment area.

### **Sustainability is a key priority for Danica Pension**

Danica Pension strives to ensure responsibility and sustainability in the companies we invest in. This contributes to creating strong, stable returns for our customers and is beneficial to the companies in question and society in general. To support the long-term value creation and positive performance of the companies, we engage with their managements and use our voting right at general meetings.

In 2018, we imposed investment restrictions in relation to tar sand and thermal coal. We will not invest in companies if 30% or more of their earnings are generated from tar sand or thermal coal extraction or from energy production based on such fuel sources. Moreover, we want to support companies whose strategic ambition is to switch to more sustainable energy sources - and can demonstrate to us that they are able to achieve this goal.

Danica Pension has a clear sustainability strategy for our property portfolio, as well. As part of this strategy, we use green power from solar cells and monitor, among other things, the reduction of CO2 emissions per square metre in Danske Shoppingcentre, our portfolio of Danish shopping centres. In the period to 2020, we and our partners will invest more than DKK 100 million in energy efficiency enhancement of our 17 major Danish shopping centres. This will reduce energy consumption by 30-40% compared with 2015 and save more than 20GWh and some 10,000 tonnes of CO2.

In addition to our focus on sustainability, Danica Pension in 2018 also started letting 510 student dwellings in Copenhagen, which will be ready for occupation in 2019.

### Danica Pension has formed a partnership with ATP

In November 2017, ATP and Danica entered into a partnership on the part of Danica's property portfolio that concerns 17 of the largest shopping centres in Denmark. The partnership agreement was finalised at the beginning of 2018.

Under the agreement, ATP has taken over half of Danica's portfolio of shopping centres in Danske Shoppingcentre, at a total value of DKK 13.7 billion. The partnership will create opportunities for the centres to continue 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.

Property investments are part of Danica Pension's overall investment strategy and contribute to generating stable returns.

### Collaboration with Danske Bank for the benefit of customers

In 2018, it remained a priority for Danica Pension to make pension customers aware of the advantages of being a customer of both Danica Pension and Danske Bank. The past year saw an increase in the number of Danske Bank customers choosing Danica Pension as their pension provider.

When our customers are exclusively customers of Danske Bank Group, we are able to deliver even more financial security while also strengthening our relationship with customers. It means that advisers can include all aspects of the customer's finances in their advice (home, pension and cash funds) while also executing on Danica Pension's clear recommendations. Moreover, customers can often obtain more favourable terms under the bank's customer programme because their pension savings are included in their business volume.

The collaboration has a positive effect on Danica Pension's financial performance.

### Danica Norway

After a number of years of strong growth, Danica's Norwegian subsidiary settled at a stable level in 2018. In 2019 and the years ahead, Danica Pension will focus on both top and bottom line growth in Norway.

## FINANCIAL REVIEW

### Financial results

In 2018, the Danica Group realised a profit before tax of DKK 1,216 million, against DKK 1,861 million in 2017. Profit after tax and discontinued operations amounted to DKK 1,081 million, against DKK 1,609 million in 2017.

DANICA GROUP, PROFIT BEFORE TAX		
(DKK millions)	2018	2017
Technical result, Traditional products	1,235	1,279
Technical result, Unit-linked products	267	626
Result of insurance business	1,502	1,905
Change in shadow account	0	85
Special allotments	-60	-230
Investment return	-226	101
Profit before tax and discontinued operations	1,216	1,861

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

The profit includes the results of Danica Pensionsforsikring A/S and Danica Administration A/S (formerly SEB Pensionsforsikring A/S and SEB Administration A/S) as from the acquisition date, 7 June 2018.

Danica Sweden, which is considered a discontinued operation due to the recently signed sales agreement, is not included in profit before tax.

Comparative figures have been restated.

The result of insurance business for 2018 was below the level guided in the annual report for 2017 and the interim report for the first six months of 2018. The result of insurance business was impacted by an adverse development in health and accident insurance, which is an integral part of the technical results of Traditional products and Unit-linked products, as well as by increased costs in relation to the integration of the former SEB companies and in relation to a change in the accounting policy on longevity improvements. Furthermore, profit before tax was particularly impacted by a reduced investment return.

Profit after tax from discontinued operations amounted to DKK 77 million, comprising Danica Sweden's profit after tax.

As part of Danske Bank Group's overall capital management, it has been resolved that no ordinary dividends are to be distributed for 2018.

The technical result of the conventional business amounted to DKK 1,235 million, against DKK 1,279 million for 2017. The result was affected by the negative developments in health and accident insurance connected to conventional products as well as by the expected decline in income from the conventional business, which is explained by the fact that new business is principally written in unit-linked products and by the general run-off profile of the portfolio.

The Danish FSA's decision 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 reduced the result by DKK 97 million and the bonus potential by DKK 962 million.

The technical result of unit-linked products was DKK 267 million. The result was favourably affected by an

increased business volume and adversely affected by financial market conditions and the negative development in health and accident insurance connected to unit-linked products.

Health and accident insurance is considered an integral part of the insurance schemes, but is presented separately in the financial statements. The result of health and accident insurance was a loss of DKK 633 million, against a loss of DKK 193 million in 2017. The investment return allocated to health and accident insurance dropped from DKK 300 million in 2017 to DKK 110 million in 2018. The claims ratio for the health and accident business was 117%, against 113% in 2017. The development in health and accident insurance was affected by the increase in outstanding claims provisions due to an increased number of delayed claims and to claims being more long-tailed than expected.

The return on investment, which relates to the risk on assets in which shareholders' equity is invested, fell from DKK 164 million in 2017 to a negative DKK 11 million.

Special allotments amounted to an expense of DKK 60 million, against DKK 230 million in 2017. See the section on contribution in the significant accounting policies note. The amount is expected to be deposited in the accounts of former Statsanstalten for Livsforsikring customers in March 2019.

#### Gross premiums

In 2018, gross premiums amounted to DKK 44.1 billion, which is an increase relative to 2017 of DKK 4.4 billion including gross premiums from the former SEB companies amounting to DKK 5.5 billion.

#### PREMIUMS (INCLUDING INVESTMENT CONTRACTS)

(DKK billions)	2018	2017	2016	2015	2014
<b>Danica Pension</b>					
Danica Balance	18.5	19.9	16.2	18.6	13.5
Danica Link	0.2	0.4	1.3	1.7	1.8
Danica Select	0.5	0.7	0.6	0.6	0.5
Danica Traditionel	2.9	3.4	4.2	3.6	4.3
Internal product switches	-1.4	-1.0	-1.1	-6.0	-1.8
Health and accident	1.4	1.2	1.2	1.1	1.1
<b>Danica Pensionsforsikring</b>					
Markedspension & Link	3.4				
Traditional pension	1.3				
Tidspension	0.7				
Health and accident	0.1				
<b>Danica - outside Denmark</b>					
Norway	2.3	2.4	2.2	1.9	1.6
Sweden (expected to be sold in 2019)	14.2	12.7	9.2	8.1	5.8
<b>Total premiums</b>	<b>44.1</b>	<b>39.7</b>	<b>33.8</b>	<b>29.6</b>	<b>26.8</b>

Danica Pensionsforsikring premiums are included as from 7 June 2018.

Premiums for units outside Denmark rose 9% in aggregate and accounted for 37% of total premiums.

#### Return on investment

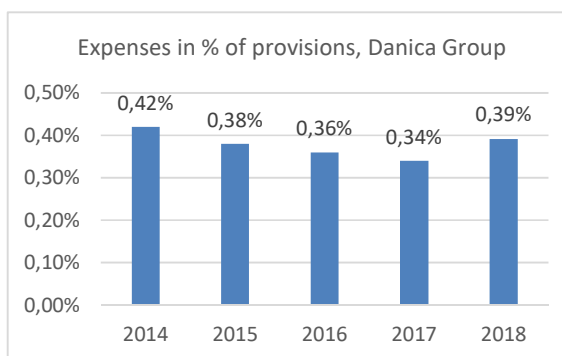
Total return on investment for life insurance was negative at DKK 8,217 million, and tax on pension returns amounted to an income of DKK 1,017 million. The return on investment was impacted by the negative financial market developments in 2018.

#### Claims and benefits

Claims and benefits amounted to DKK 27.1 billion in 2018 against DKK 21.2 billion in 2017. Surrenders including investment contracts amounted to DKK 17.2 billion in 2018 against DKK 12.5 billion in 2017.

#### Expenses

In life insurance, operating expenses relating to insurance amounted to DKK 1,389 million in 2018, against DKK 931 million in 2017.



Expenses amounted to 0.39% of average provisions, against 0.34% in 2017. The increase was mainly due to additional expenses related to the integration of the former SEB companies.

The average number of full-time employees was 792 in 2018, against 677 employees in 2017, and at the end of the year Danica had 868 employees in and outside Denmark. The increase related to the acquisition of Danica Pensionsforsikring and Danica Administration.

The Danica Group paid DKK 526 million to Danske Bank for investment management, IT operations and development, internal auditing, HR administration, logistics and marketing. In addition, Danica paid DKK 194 million to Danske Bank Group for its sale of life insurance policies (see note 31).

#### Tax

The tax charge amounted to DKK 212 million, positively affected by a DKK 67 million adjustment of tax charges for previous years.

#### Other comprehensive income

In 2018, Danica Pension acquired hedging instruments to hedge future cash flows in relation to the conclusion of the contract to acquire Danica Pensionsforsikring until the final takeover date. Market

value adjustments of these hedging instruments until final takeover adversely affected other comprehensive income before tax by DKK 41 million.

#### Balance sheet

The Group's total assets increased from DKK 427 billion at 31 December 2017 to DKK 566 billion at 31 December 2018. The increase in total assets was primarily attributable to the acquisition of Danica Pensionsforsikring and the continued growth of the business. The Group's balance sheet was more-over affected by assets and liabilities related to Danica Sweden being reclassified to assets and liabilities relating to discontinued operations.

Intangible assets recognised in the balance sheet amounted to DKK 3,758 million, the increase relative to 2017 being attributable to DKK 2,427 in goodwill on acquisition of Danica Pensionsforsikring and Danica Administration. At 31 December 2018, recognised goodwill was tested for impairment. The test did not result in any impairment write-down of the value of goodwill. In connection with the acquisition, an intangible asset representing customer relationships in the amount of DKK 1,254 million was also recognised at 31 December 2018, which amount will be amortised over a period reflecting the run-off of the customer relationships.

Investment assets, including investment assets related to unit-linked products, increased from DKK 419 billion at 31 December 2017 to DKK 488 billion at 31 December 2018 as a result of the addition of Danica Pensionsforsikring.

Investment assets after set-off of amounts owed to credit institutions and derivatives rose from DKK 384 billion in 2017 to DKK 417 billion in 2018.

Provisions for insurance and investment contracts totalled DKK 458 billion, against DKK 364 billion at 31 December 2017.

Life insurance provisions related to average-rate products rose DKK 39 billion to DKK 181 billion.

Life insurance provisions related to unit-linked products rose from DKK 205 billion at the beginning of 2018 to DKK 254 billion at the end of 2018.

The increases in provisions for insurance and investment contracts generally related to the addition of Danica Pensionsforsikring.

At 31 December 2018, shareholders' equity stood at DKK 18.9 billion, against DKK 17.1 billion at 31 December 2017.

To finance the acquisition of Danica Pensionsforsikring A/S and Danica Administration A/S, at 7 June Danske Bank increased Forsikrings-selskabet Danica's capital by DKK 2.3 billion by subscription of DKK 1 million shares at a price of 230,000. Forsikrings-selskabet Danica furthermore raised a senior loan of DKK 1.7 billion with a maturity of five years and increased Danica Pension's

capital at 7 June 2018 by DKK 4.0 billion by subscription of DKK 1 million shares at a price of 400,000. On 29 June, it was decided to increase Danica Pensionsforsikring's capital by DKK 0.5 billion by subscription of DKK 1 million shares at a price of 50,000.

#### Risk exposure and sensitivity ratios

Note 34 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 thereof.

#### Solvency statement and capital requirement

At 31 December 2018, the Danica Group's solvency coverage ratio was 193%, against 227% at 31 December 2017. The Danica Group still maintained strong excess solvency at 31 December 2018.

Solvency II applies 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 GROUP, SOLVENCY		
(DKK millions)	31/12/2018	31.12.2017
Total capital	25,819	23,770
Solvency capital requirement (SCR)	13,370	10,481
Excess capital base	12,449	13,289

The change in longevity improvements had the effect of increasing the solvency requirement by DKK 0.6 billion.

In spring 2018, 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 Danica's solvency and financial condition.

The Danica Group regularly reassesses its capital structure and funding in consultation with its parent company, Danske Bank, as part of continuous capital management and optimisation.

#### Events after the balance sheet date

No events have occurred between 31 December 2018 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 2019

EIOPA updated the method of calculating volatility adjustment (VA), which is a fixed component in the calculation of the liquid part of the discount curve. The update, which is effective at 1 January 2019, will mean a decrease of the Danish VA of approximately 12 bp. The changes are not expected to have a material impact on total life insurance provisions, but they will reduce the profit for 2019 by DKK 150



million and increase the solvency capital requirement (SCR) by approximately DKK 1.1 billion.

With the acquisition of Danica Pensionsforsikring, in 2019 Danica expect to further strengthen our position as a leading provider of life and pension insurance products in Denmark. Danica expects to merge the companies Danica Pensionsforsikring and Danica Administration with Danica Pension in 2019 with Danica Pension as the continuing company.

The result of Danica's insurance business is expected to improve in 2019, although it will be affected by the integration of Danica Pensionsforsikring and Danica Administration, which will be included in the financial statements for the full year 2019, and by the outcome of a completed sale of Danica Sweden and financial market developments.

### The financial markets

2018 will be remembered as a very turbulent year for the financial markets due to political unrest on the back of the trade war between mainly the USA and China while the Eurozone was particularly impacted by the critical Brexit negotiations and Italy's budget negotiations.

While 2018 was a year of continued solid global growth and limited inflation, the political uncertainty pushed the economic outlook in a negative direction. These developments had a severe impact on the financial markets in the latter part of the year, resulting in plunging equity markets. The MSCI World (all countries) share index produced a negative return of 8.2%, with negative regional returns of 4.4% in the USA, 11.3% in Europe and 10.4% in both Japan and Emerging Markets, measured in local currency. In the currency markets, the USD and JPY were both strengthened against the DKK, by 5% and 8% respectively.

The US and European interest rate markets were relatively stable throughout 2018, despite a general monetary policy tightening with the US Federal Reserve raising its lending rate four times to 2.5%. Also, the European Central Bank discontinued its bond buyback programme at the end of the year. European government bonds yielded 1.0%, while the yield on European high-yield credit bonds was negative at 3.8%. Danish mortgage bonds generated a positive yield of 1.5%.

### Return on investment

Unit-linked products generated an aggregate negative return of DKK 8.1 billion in 2018, equivalent to a negative 5.5% before tax on pension returns.

The table below shows the returns on the unit-linked products Balance Mix and Markedspension for 2018, broken down by risk profile and number of years to retirement:

2018 return before tax (%)			
Risk	30 years to retirement	15 years to retirement	5 years to retirement
<b>Danica Pension - Balance Mix</b>			
High risk profile	-9.8	-8.3	-5.6
Medium risk profile	-9.0	-5.8	-3.7
Low risk profile	-7.7	-3.6	-2.0
<b>Danica Pensionsforsikring - Markedspension</b>			
Highest risk profile	-9.4	-9.4	-6.9
Medium risk profile	-7.4	-5.8	-3.3
Lowest risk profile	-3.2	-1.5	-0.6

Returns were impacted by falling equity prices towards the end of 2018, resulting in negative rates of return. Unit-linked products with lower risk profiles were less affected by the equity price drops.

### DISTRIBUTION BY INTEREST RATE GROUP AT 31 DECEMBER 2018

(%)	Rate of interest on policyholders' savings before tax on pension returns (p.a.)	Investment return before tax on pension returns
<b>Danica Pension</b>		
Interest rate group 1 (new customers)	1.8	0.4
Interest rate group 2 (low guarantee)	1.8	2.1
Interest rate group 3 (medium guarantee)	1.8	2.4
Interest rate group 4 (high guarantee)	1.8	2.2
<b>Danica Pensionsforsikring</b>		
Interest rate group 1 (new customers)	3.25	-0.7
Interest rate group 2 (low guarantee)	6.0	-0.4
Interest rate group 3 (medium guarantee)	6.0	1.7
Interest rate group 4 (high guarantee)	6.0	1.2

The return on investment of customer funds in Danica Pension was 1.7% before tax on pension returns in 2018. Adjusted for changes in provisions, the return was 1.8% before tax on pension returns. The return on investment of customer funds in Danica Pensionsforsikring was 0.3% before tax on pension returns in 2018. Adjusted for changes in provisions, the return was a negative 0.1% before tax on pension returns.

The investment allocation of assets attributed to shareholders' equity at year end 2018 was 12.5% in property and 87.5% 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 business acquisitions. The aggregate return on funds on which the risk is borne by shareholders' equity was a negative 0.1%.

## ORGANISATION, MANAGEMENT AND PARTNERSHIPS

Danica is a wholly-owned subsidiary of Danske Bank A/S and handles 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 seven are elected by the general meeting and three are elected by the employees. 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 the applicable legislation. The Board of Directors is in charge of Danica's overall management and held six ordinary meetings in 2018.

The Board of Directors has set up an audit committee to prepare the work of the Board of Directors on financial reporting and auditing matters, including related risk matters, which either the Board of Directors, the committee itself, the external auditors or the head of Internal Audit intends 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 2018, the audit committee held six meetings and reported regularly to the Board of Directors.

The Executive Board, which is in charge of the day-to-day management of the company, is made up of Ole Krogh Petersen, CEO, Jesper Høybye and Søren Lockwood.

The directorships of the members of the Board of Directors and the Executive Board are listed on page 68. For additional information on the organisation, see page 67.

### 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 diversity and inclusion in Danica. 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 Danske Bank Group's overall diversity policy.

43% of Danica's managers are women, an increase relative to 2017, and they were distributed as follows in terms of management levels at 15 November 2018:

#### GENDER COMPOSITION OF MANAGEMENT

Management level	Total	Women	Pro- portion of women	Group target 2020	Pro- portion of men
Board members	6	1	17%	38%	83%
Senior management/business management	29	10	35%	25%	65%
Other managers	77	35	46%	40%	54%

\* Excluding employee representatives and representatives appointed by the Danish Minister of Finance

The status for 2018 is that the targets have been met for senior management and 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 2019 while still focusing on developing new talent. The target regarding board members was not met, due to the fact that there were no other changes to the Board than those resulting from organisational and management changes in Danske Bank Group. This will remain a priority for Danica.

### 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 the 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 amount 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.

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 carried out as deemed necessary and is agreed between manager and employee.

## CORPORATE RESPONSIBILITY

### CORPORATE RESPONSIBILITY AND SUSTAINABILITY

Corporate responsibility and sustainability are key elements of Danica's strategy. We want 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.

For Danica's statutory reporting on corporate responsibility, we refer to Danske Bank's Corporate Responsibility (CR) Report 2018. This report is supplemented by the Corporate Responsibility Fact Book 2018, and together they provide a comprehensive view of the principal corporate responsibility and sustainability aspects of the Group's activities. The CR report, which also serves as our Communication on Progress, as required by the UN Global Compact, is available at [danskebank.com/societal-impact](http://danskebank.com/societal-impact).

#### Socially responsible investment principles

Danica's responsible investment policy focuses on environmental, social and governance factors (ESG). In line with the UN-supported Principles for Responsible Investment (PRI), we actively leverage our influence to strengthen positive awareness of ESG factors in the companies we invest in and in the asset managers we use to manage our customers' money.

Our view of ESG factors is guided by industry best practice across sectors, international norms and voluntary measures, including:

- the UN Global Compact
- the OECD Guidelines for Multinational Enterprises
- the UN Guiding Principles on Business and Human Rights
- the ILO Declaration on Fundamental Principles of Right at Work

We do not invest in companies involved in controversial weapons. Moreover, we have decided to refrain from investing in companies generating 30% or

more of their revenue from coal or tar sand. A list of these companies is available at [www.danskebank.com](http://www.danskebank.com).

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

### Environmental considerations

In 2018, Danica continued implementing measures to reduce paper consumption. Danica continued the digitalisation process, and customers can now choose to receive most of Danica's letters electronically.

Paper purchases were reduced by 53% in 2018, a development that was connected to the increased digitalisation.

CO2, ENERGY, HEAT, TRANSPORT AND WATER CONSUMPTION TRENDS					
		2018	2017	2016	2015
Total energy consumption	MWh	3,598	3,296	3,352	3,693
Total water consumption	m <sup>3</sup>	3,711	4,651	5,406	4,605
Road transport	Km'000	702	852	1,071	1,115
Air transport	Km'000	552	575	576	315
Paper	Tonnes	16	33	40	62
CO2 consumption, total	Tonnes	456	526	611	718

Energy, heat and water consumption includes head office and regional offices in Denmark, but excludes vacated property.

Danica regularly monitors heating, electricity, water consumption and mileage on its vehicles. Danica is included in Danske Bank's CO2 accounts. The complete report is available at Danske Bank's website.

Due to the increasing number of employees, energy consumption was up 9% compared with 2017. Total CO2 emissions were reduced by 13% in the same period due to the lower transport and paper consumption and lower heat consumption due to warmer weather.

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## Financial highlights - Danica Group

DKKm	2018	2017	2016	2015 *	2014
<b>INCOME STATEMENT</b>					
Life insurance					
Premiums	23,435	23,716	22,274	19,385	18,754
Claims and benefits	-27,159	-21,192	-20,898	-24,605	-23,898
Return on investment	-8,115	16,625	17,868	7,697	32,705
Total operating expenses relating to insurance	-1,392	-937	-923	-946	-876
Profit/loss on business ceded	-	-19	-14	-104	285
Technical result, Life	1,717	1,852	1,786	1,521	2,137
Health and accident insurance					
Gross premium income	1,890	1,338	1,399	1,278	1,304
Gross claims	-2,105	-1,500	-1,444	-1,343	-1,519
Total operating expenses relating to insurance	-132	-94	-107	-128	-112
Profit/loss on business ceded	-44	1	29	-7	-8
Return on investment less technical interest	26	212	112	251	330
Technical result of health and accident insurance	-633	-193	-126	-69	-145
Profit after tax from discontinued operations	77	56	55	38	59
Net profit for the year	1,081	1,609	1,787	1,456	2,003
Other comprehensive income	-36	-26	-13	-4	-10
<b>BALANCE SHEET</b>					
Total assets	565,566	427,035	404,180	368,405	358,636
Insurance assets, health and accident insurance	301	69	91	93	127
Technical provisions, health and accident insurance	14,637	10,231	10,177	9,850	9,644
Total shareholders' equity	18,897	17,122	17,249	19,375	20,056
Total provisions for insurance and investment contracts	399,522	363,778	340,786	320,997	315,833
<b>RATIOS (%)</b>					
Rate of return related to average rate products	1.0	2.5	6.5	1.0	14.0
Rate of return related to unit-linked products	-5.5	7.9	5.1	4.6	9.6
Risk on return related to unit-linked products	4.25	4.25	4.3	-	-
Expenses as per cent of provisions	0.4	0.3	0.3	0.3	0.4
Expenses per policyholder (DKK)	1,325	1,116	1,049	1,046	995
Return on equity after tax	6.0	9.0	9.9	7.3	10.3
<b>RATIOS FOR HEALTH AND ACCIDENT INSURANCE</b>					
Gross claims ratio	117	113	105	110	121
Gross expense ratio	8	8	8	10	9
Combined ratio	127	121	111	121	130
Operating ratio	142	134	122	128	141
Relative run-off (%)	-0.3	0.2	0.1	-0.1	-2.2
Run-off, net of reinsurance (DKK millions)	-39	19	11	-5	-174
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.					

## Income statement & Other comprehensive income - Danica Group

Note	DKKm	2018	2017
3	Gross premiums	23,435	23,716
	Reinsurance premiums ceded	-30	-19
	Total premiums, net of reinsurance	23,405	23,697
	Income from associates	501	447
4	Income from investment property	402	839
5	Interest income and dividends, etc.	13,186	10,332
6	Value adjustments	-16,378	9,824
7	Interest expenses	-5,105	-3,769
	Administrative expenses related to investment activities	-721	-1,048
	Total return on investment	-8,115	16,625
	Tax on pension returns	1,017	-2,004
8	Claims and benefits paid	-27,159	-21,192
	Reinsurers' share received	11	9
	Total claims and benefits, net of reinsurance	-27,148	-21,183
	Change in life insurance provisions	13,967	-14,020
	Change in reinsurers' share	16	-15
	Total change in life insurance provisions, net of reinsurance	13,983	-14,035
	Change in profit margin	66	147
	Acquisition costs	-418	-220
	Administrative expenses	-974	-717
	Reinsurance commissions and profit sharing	3	6
9	Total operating expenses relating to insurance, net of reinsurance	-1,389	-931
	Transferred investment return	-102	-464
	<b>TECHNICAL RESULT OF LIFE INSURANCE</b>	<b>1,717</b>	<b>1,852</b>

# Income statement & Other comprehensive income - Danica Group

Note	DKKm	2018	2017
	(cont'd)		
	<b>HEALTH AND ACCIDENT INSURANCE</b>		
	Gross premiums	1,684	1,384
	Reinsurance premiums ceded	-63	-58
	Change in unearned premiums provision	206	-46
	Change in profit margin and risk margin	-3	-1
	Change in unearned premiums provision, reinsurers' share	-60	-6
	<b>Premiums, net of reinsurance</b>	<b>1,764</b>	<b>1,273</b>
	Technical interest	-181	-127
	Claims paid, gross	-1,886	-1,607
	Reinsurers' share received	122	56
	Change in outstanding claims provision	-219	107
	Change in risk margin	-6	15
	Change in outstanding claims provision, reinsurers' share	-45	8
	<b>Claims, net of reinsurance</b>	<b>-2,034</b>	<b>-1,421</b>
	Bonus and premium discounts	-78	-37
	Acquisition costs	-52	-31
	Administrative expenses	-80	-63
	Reinsurance commissions and profit sharing	2	1
	<b>Total operating expenses relating to insurance, net of reinsurance</b>	<b>-130</b>	<b>-93</b>
	Return on investment	26	212
10	<b>TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE</b>	<b>-633</b>	<b>-193</b>
	Return on investment allocated to equity	-11	164
11	Other income	153	42
	Other expenses	-10	-4
12	<b>PROFIT BEFORE TAX</b>	<b>1,216</b>	<b>1,861</b>
13	Tax	-212	-308
	<b>NET PROFIT FOR THE YEAR, BEFORE DISCONTINUED OPERATIONS</b>	<b>1,004</b>	<b>1,553</b>
14	Profit after tax from discontinued operations	77	56
	<b>NET PROFIT FOR THE YEAR</b>	<b>1,081</b>	<b>1,609</b>
	Net profit for the year	1,081	1,609
	Other comprehensive income (items that will be reclassified in a subsequent sale):		
	Translation of units outside Denmark	-19	-41
	Hedges of units outside Denmark	19	41
	Hedge of acquisition	-41	-22
13	Tax relating to other comprehensive income	5	-4
	<b>Total other comprehensive income</b>	<b>-36</b>	<b>-26</b>
	<b>NET COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,045</b>	<b>1,583</b>

# Balance sheet - Danica Group

## Assets

Note	DKKm	2018	2017
15	<b>INTANGIBLE ASSETS</b>	3,758	77
16	Domicile property	42	42
	<b>TOTAL TANGIBLE ASSETS</b>	42	42
17	Investment property	15,341	20,304
18	Holdings in associates and joint ventures	9,819	3,512
	Loans to associates and joint ventures	546	305
	Total investments in associates	10,365	3,817
19	Holdings	23,541	15,831
	Unit trust certificates	16,364	7,242
20	Bonds	163,284	135,063
	Other loans	1,625	2,132
	Deposits with credit institutions	1,345	7,615
21	Derivatives	38,788	15,214
22	Total other financial investment assets	244,947	183,097
	<b>TOTAL INVESTMENT ASSETS</b>	270,653	207,218
23	<b>INVESTMENT ASSETS RELATED TO UNIT-LINKED PRODUCTS</b>	217,496	211,868
	Unearned premiums provision, reinsurers' share	1	1
	Life insurance provisions, reinsurers' share	92	40
	Outstanding claims provision, reinsurers' share	300	79
24	Total technical provisions, reinsurers' share	393	120
	Amounts due from policyholders	595	911
	Amounts due from insurance companies	119	63
	Other debtors	3,093	1,124
	<b>TOTAL DEBTORS</b>	4,200	2,218
	Assets relating to discontinued operations	58,905	-
	Current tax assets	651	166
	Cash and cash equivalents	3,435	2,294
	Other	336	-
	<b>TOTAL OTHER ASSETS</b>	63,327	2,460
	Accrued interest and rent	5,599	2,689
	Other prepayments and accrued income	491	463
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	6,090	3,152
	<b>TOTAL ASSETS</b>	565,566	427,035



# Balance sheet - Danica Group

## Liabilities and equity

Note	DKKm	2018	2017
	<b>LIABILITIES</b>		
	Unearned premiums provision	791	679
	Life insurance provisions, average rate products	181,081	142,085
25	Life insurance provisions, unit-linked products	197,165	205,004
	<b>Total life insurance provisions</b>	<b>378,246</b>	<b>347,089</b>
	Profit margin on life insurance and investment contracts	6,639	6,446
	Outstanding claims provision	13,293	9,172
	Risk margin on non-life insurance contracts	438	321
	Provisions for bonus and premium discounts	115	71
26	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>399,522</b>	<b>363,778</b>
13	Deferred tax	1,649	1,666
	Other provisions	183	-
	<b>TOTAL PROVISIONS FOR LIABILITIES</b>	<b>1,832</b>	<b>1,666</b>
	Amounts owed, direct insurance	69	376
	Amounts owed to reinsurers	200	30
27	Amounts owed to credit institutions	17,365	18,033
	Amounts owed to group undertakings	1,700	1
	Current tax liabilities	89	147
28	Other creditors	61,162	20,151
	Liabilities relating to discontinued operations	58,462	-
	Accruals and deferred income	2,418	1,929
29	Subordinated debt	3,850	3,802
	<b>TOTAL CREDITORS</b>	<b>546,669</b>	<b>409,913</b>
	<b>SHAREHOLDERS' EQUITY</b>		
	Share capital	1,001	1,000
	Revaluation reserve	1	0
	Other reserves	12,881	12,194
	Retained earnings	5,014	2,319
	Proposed dividend	-	1,609
	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>18,897</b>	<b>17,122</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>565,566</b>	<b>427,035</b>

## Statement of capital - Danica Group

DKK m

Changes in shareholders' equity	Share capital	Revaluation reserve	Foreign currency translation reserve *	Other reserves	Retained earnings	Proposed dividend	Total
Shareholders' equity at 31 December 2017	1,000	0	-33	12,227	2,319	1,609	17,122
Effect of accounting policy changes 1 January 2018	-	-	-	38	-	-	38
Adjusted shareholders' equity at 1 January 2018	1,000	0	-33	12,265	2,319	1,609	17,160
Profit for the year	-	-	-	643	438	-	1,081
Other comprehensive income:							
Translation of units outside Denmark	-	-	-19	-	-	-	-19
Hedges of units outside Denmark	-	-	19	-	-	-	19
Hedge of acquisition	-	-	-	-41	-	-	-41
Tax on other comprehensive income	-	-	-9	14	-	-	5
Total other comprehensive income	-	-	-9	-27	-	-	-36
Comprehensive income for the year	-	-	-9	616	438	-	1,045
Adjustment, domicile property	-	1	-	-	-	-	1
Capital injection	1	-	-	-	2,299	-	2,300
Dividend paid	-	-	-	-	-	-1,609	-1,609
Shareholders' equity at 31 December 2018	1,001	1	-42	12,881	5,056	0	18,897
Shareholders' equity at 31 December 2015	1,000	0	-25	12,245	2,319	1,710	17,249
Profit for the year	-	-	-	1,225	384	-	1,609
Other comprehensive income:							
Translation of units outside Denmark	-	-	-41	-	-	-	-41
Hedges of units outside Denmark	-	-	41	-	-	-	41
Hedge of acquisition	-	-	-	-22	-	-	-22
Tax on other comprehensive income	-	-	-8	4	-	-	-4
Total other comprehensive income	-	-	-8	-18	-	-	-26
Comprehensive income for the year	-	-	-8	1,207	384	-	1,583
Dividend paid	-	-	-	-	-	-1,710	-1,710
Proposed dividend **	-	-	-	-1,225	-384	1,609	0
Shareholders' equity at 31 December 2016	1,000	0	-33	12,227	2,319	1,609	17,122

\* Recognised in the balance sheet under other reserves.

\*\* The dividend amounts to DKK 0 per share (2017: DKK 1,609). 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 Danic 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 1,001,000 shares of a nominal value of DKK 1,000 each. All shares carry the same rights; there is thus only one class of shares

# Statement of capital - Danica Group

DKKm	2018	2017
Capital base		
Shareholders' equity	18,897	17,122
Valuation differences between financial statements and Solvency II		
Provisions for insurance and investment contracts	6,553	4,824
Deferred tax	276	-292
- Proposed dividend	0	-1,609
- Intangible assets	-3,758	-77
- Tax assets	0	0
Tier 2 capital	3,850	3,802
- Limitations to tier 2 capital		
Capital base	25,818	23,770

Danica Pension Försäkringsaktiebolag is included in the capital base

## Cash flow statement - Danica Group

DKKm	2018	2017
<b>Cash flow from operations</b>		
Profit before tax	1,216	1,861
Adjustment for non-cash operating items		
Non-cash items relating to premiums and benefits	-19,525	16,380
Non-cash items relating to reinsurance	-63	26
Non-cash items relating to investment return	10,316	-15,835
Non-cash items relating to tax on pension returns	1,503	186
Non-cash items relating to expenses	3,388	-451
Net investment, customer funds	563	-3,424
Payments received and made, investment contracts	1,037	6,970
Tax paid	-848	-313
Cash flow from operations	-2,413	5,400
<b>Cash flow from investing activities</b>		
Sale of investment property	289	428
Acquisition of holdings	-5,000	
Dividend property company	-	218
Acquisition of bonds	-8,336	-914
Sale of bonds	8,932	647
Purchase of derivatives	-77	-70
Sale of derivatives	87	2
Cash flow from investing activities	-4,105	311
<b>Cash flow from financing activities</b>		
Raising of subordinated debt	2,300	-
Dividend	-1,609	-1,710
Debt to credit institutions	-667	2,462
Cash flow from financing activities	24	752
Cash and cash equivalents, beginning of year	9,908	3,445
Nettobil- og afgang af koncernselskaber	1,366	-
Change in cash and cash equivalents	-6,494	6,463
Cash and cash equivalents, end of year	4,780	9,908
Cash and cash equivalents, end of year		
Deposits with credit institutions	1,345	7,614
Cash in hand and demand deposits	3,435	2,294
Total	4,780	9,908

# Notes – Danica Group

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Note

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## 1 SIGNIFICANT ACCOUNTING POLICIES – FORSIKRINGSELKABET DANICA

### GENERAL

The Danica Group presents its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) 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.

### Changes in accounting policies

#### *IFRS 9, Financial Instruments*

The Group has decided to implement IFRS 9 at 1 January 2018. Implementation of the classification and measurement provisions of IFRS 9 has resulted in reclassification of financial assets of DKK 12,389 million and of liabilities of DKK 18,033 million from amortised cost to fair value because the business model concerning the management of the relevant assets and liabilities falls under "other business models" in IFRS 9. Overall, the reclassification caused only minor changes to recognised values, and shareholders' equity at 1 January 2018 is thus unaffected by the implementation of IFRS 9.

#### *Profit margin for unit-linked and average-rate products*

For unit-linked and average-rate products where life insurance and health and accident insurance is written together, these are measured collectively as from 1 January 2018. Accordingly, the profit margin on the customers' savings component is reduced by the part of any provision for losses on health and accident insurance that can be included in the profit margin before the reduction. Previously, these were recognised separately in profit or loss. Management assesses that this new accounting policy will result in a more fair presentation of future earnings, as contracts with customers on their savings component and health and accident insurance are entered into in a single agreement and should therefore not be recognised separately. The profit margin was reduced with effect for the equity 1 January 2018 by DKK 38 million as a result of the change in accounting policy.

The change has not had any material impact on the profit for the period.

Comparative figures for 2017 have not been restated, as this is not possible for practical purposes.

Other than as set out above, the accounting policies are consistent with those applied in the annual report for 2017.

### Acquisition of subsidiary

In December 2017, the Group entered into an agreement to acquire all shares of the Danish SEB Pensionsforsikring A/S (including the property companies SEB Ejendomme I A/S and SEB Ejendomme II A/S) and SEB Administration A/S (below the acquired companies are referred to as SEB Pension). Having received regulatory approval on 30 May 2018, the transaction was finalised on 7 June 2018. The financial statements of SEB Pension were consolidated in the consolidated financial statements of the Danske Bank Group effective from 7 June 2018. The companies were subsequently renamed Danica Pensionsforsikring A/S and Danica Administration A/S.

SEB Pensionsforsikring is a major player in the Danish pension and commercial market. The principal activity of SEB Administration is to provide management and mediation services to the companies of the SEB Pension group and other services.

Through the acquisition of SEB Pension, the Group will increase its presence in the Danish pension market, strengthen its innovation capacity and be able to offer its customers even better pension and insurance solutions.

The fair values of net assets acquired and recognised in the balance sheet of Danica Group at the acquisition date are shown in the table below. Due to the short time since the acquisition, it has not yet been possible to complete the initial accounting for the acquisition of SEB Pension. Hence, the amounts are provisional and may be adjusted in subsequent periods within one year, including the value of the acquired goodwill, to reflect information obtained about facts and circumstances that existed on 7 June 2018. This includes a potential reallocation of between goodwill and customer relations or to other identifiable intangible assets.

# Notes – Danica Group

Note

## Recognised amounts of identifiable assets acquired and liabilities assumed

(DKKm)	Danica Pen- sionsforsikring A/S	Danica Admin- istration A/S	Fair value at 7 June 2018
Assets under unit-linked products	51,190		51,190
Assets under insurance contracts	77,199		77,199
Customer relationships	1,332		1,332
Tax assets	36		36
Other assets	2,763	340	3,103
<b>Total assets</b>	<b>132,520</b>	<b>340</b>	<b>132,860</b>
Contributions under unit-linked products	49,961		49,961
Liabilities under insurance contracts	47,916		47,916
Unearned premiums provisions	367		367
Profit margin on insurance and investment contracts	1,414		1,414
Outstanding claims provisions	3,610		3,610
Risk margin on non-life insurance products	119		119
Tax liabilities	524	9	533
Other liabilities	26,107	260	26,367
<b>Total liabilities</b>	<b>130,018</b>	<b>269</b>	<b>130,287</b>
Total identifiable net assets	2,502	71	2,573
Goodwill	2,162	265	2,427
<b>Consideration paid in cash</b>	<b>4,664</b>	<b>336</b>	<b>5,000</b>

There were no material contingent liabilities at the acquisition date.

In the fourth quarter minor changes has been made to tax and tax on pension return.

The fair value of liabilities under insurance contracts is calculated according to principles equivalent to those applied by the Group in measuring other liabilities under insurance contracts and based on actuarial computations that rely on assumptions about a number of variables, including mortality and disability, and on the discount rate at 7 June 2018.

Customer relationships acquired in connection with the business combination are recognised as a separate identifiable intangible asset. The fair value of the customer relationships at the acquisition date represents the net present value of expected future earnings related to the existing customer base in SEB Pension and is calculated based on the estimated future profit margin in the acquired companies at the acquisition date. Customer relationships/contracts will be amortised over 10 years, which represents management's expectations of the period over which the majority of the future earnings on existing customer relationships/contracts will be earned. On objective evidence of impairment, the customer relationship is tested for impairment and, if impaired, written down to the estimated value of the future earnings.

Goodwill represents the value of the expected profit of SEB Pension which cannot be attributed reliably to individually identifiable assets, including the value of staff, know-how and innovation capacity as well as expected synergies, such as expense savings and ancillary business from the integration into the Danica Pension Group. Goodwill will be tested for impairment yearly based on earnings estimates for the coming five financial years, approved by the Board of Directors. For subsequent financial years, cash flows are extrapolated and adjusted for expected growth rates. A number of factors affect the net present value of such cash flows, including discount rates, changes in the economic outlook, customer behaviour, competition and actuarial assumptions.

Goodwill on SEB Pension has been 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. Expected cash flows are discounted by a post-tax rate of 9%, equalling 12% before tax, and the principal assumption applied in the cash flow terminal period is a growth rate of 0%. The amount in the terminal period equals 59% of the total amount according to "significant accounting policies" Intangible asset p 26.

The consolidation of SEB Pension has increased income (premiums) by DKK 5,595 million and net profit by DKK xx million. Assuming that the Group had acquired SEB Pension with effect from 1 January 2018, the estimated impact on in premiums and profit would have amounted to an increase of DKK 10.6 billion and DKK negative 20 million, respectively.

# Notes – Danica Group

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Note

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## **Sale of subsidiary**

In December 2018, the Group signed an agreement to sell the Swedish subsidiary Danica Pension Forsäkringsaktiebolag. The sale is subject to regulatory approval in Sweden. As a consequence of the sale, the financial statements of Danica Pension Forsäkringsaktiebolag are no longer consolidated line by line in the financial statements of the Group, in accordance with the rules on temporarily held operations/discontinued operations. In the income statement, profit after tax is recognised in the item Result from discontinued operations, while assets in the company are recognised under receivables in the item Assets from discontinued operations and similarly under debt in the item Amounts owed to undertakings held temporarily. The comparative figures for 2017 for the income statement have been restated accordingly. The company is measured at equity value, which is lower than expected fair value less costs to sell.

## **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, making such estimates and judgments is difficult and will always entail uncertainty, even under stable macroeconomic conditions, when they involve mortality and disability rates.

## **Change in accounting estimates**

Accounting estimates in relation to the determination of longevity are based on the Danish FSA's future mortality benchmark. In 2018, the Danish FSA changed the basis on which longevity is calculated from the past 30 years to the past 20 years. This has negatively affected the profit for 2018 by DKK 97 million and reduced the buffers by approximately DKK 962 million.

## **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 2.7 years for a sixty five-year-old man and 2.4 years for a sixty five-year-old woman. A sixty five-year-old man is thus expected to live for approximately 23 more years and a sixty five-year-old woman for approximately 25 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. Separate intensities are used for the individual interest rate groups and the unit-linked portfolio.

The probabilities of surrenders and conversions into paid-up policies are estimated based on observations made in the years 2013-2017.

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.

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 Group

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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 the measurement of unlisted shareholdings, certain listed shareholdings 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 Group, Forsikringselskabet Danica is included in the consolidated financial statements of Danske Bank A/S, Copenhagen.

The financial statements consolidate Forsikringselskabet Danica and group undertakings in which the Group has control over financial and operating decisions. Control is said to exist if Forsikringselskabet Danica is exposed to variable returns from its involvement with the undertaking and, directly or indirectly, holds more than half of the voting rights in the undertaking or otherwise has power to control management and operating decisions affecting the variable returns.

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

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

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

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

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

For an overview of the companies in the Group, see page 66 of the annual report for 2018. The Group is not subject to any restrictions on its ability to access or use the assets or settle the liabilities of the Group.

#### **Holdings in associates and joint ventures**

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

Holdings in associates are recognised at cost at the date of acquisition and are subsequently measured according to the equity method. The proportionate shares of the shareholders' equity of the entity 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 entity 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 Forsikringselskabet Danica's significant accounting policies.



# Notes – Danica Group

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## 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.

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 entities, unless the transactions are insignificant.

## Segment reporting

In the financial statements, the Group is broken down into two business segments based on differences in products. The Traditional segment covers conventional life insurance and pension schemes with guaranteed benefits and Forenede Gruppeliv, and the Unit-linked product segment covers pension schemes with market returns. 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). This was previously a separate segment, but now falls under either the Traditional or the Unit-linked product segments, as Health and accident insurance is considered a complementary product to the savings products under Traditional and Unit-linked products, and its cash flows are integrated in these segments.

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 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 Forsikringselskabet Danica. The functional currency of each of the Group's units is the currency of the country in which the unit is domiciled, as most income and expenses are settled in the local currency.

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

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

## Translation of units outside Denmark

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

## Hedge accounting

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

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.

# Notes – Danica Group

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

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

## **Insurance contracts**

Life insurance policies are classified as insurance or investment contracts. Insurance contracts are contracts that entail significant insurance risks or entitle policyholders to bonuses. Investment contracts are contracts that entail insignificant insurance risk, and consist of unit-linked 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 and Danica Pensionsforsikring's profit policy. In both companies, the portfolio of Danica Traditional insurances is divided into four interest rate groups. In Danica Pension, there are four cost groups and two risk groups, while in Danica Pensionsforsikring there are two cost groups and three 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.

# Notes – Danica Group

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Note

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## **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 the reinsurers' share, excluding premiums and benefits regarding investment contracts. The item includes both Traditional and Unit-linked products.

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

## **Change in profit margin**

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

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

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

The allocation of non-directly attributable expenses 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.

## **Taxation**

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.

# Notes – Danica Group

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Note

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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, equalling 12% before tax. Goodwill in associates 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 0% growth in terminal period and 0% inflation. Sensitivity calculations show that, all other things being equal, a future drop in earnings of more than 5% or an increase in SCR of 10% would result in impairment.

## **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.

# Notes – Danica Group

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## **Financial investment assets**

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

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

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

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

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.

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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.

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.

For unit-linked and average-rate products where life insurance and health and accident insurance are written together, these are measured collectively. Accordingly, the profit margin on the customers' savings component is reduced by the part of any provision for losses on health and accident insurance that can be included in the profit margin before the reduction.

#### **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.

# Notes – Danica Group

Note

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.

### 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 12 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.

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

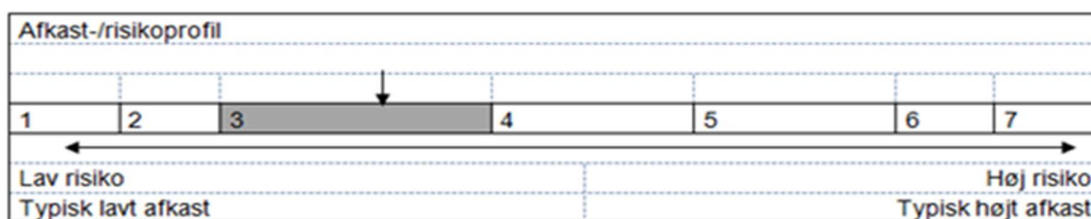
1. The investment return in relation to average rate products relative to average life insurance provisions and the profit margin on average rate products.
2. The investment return in relation to unit-linked products relative to average life insurance provisions and the profit margin on unit-linked products. 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	

# Notes – Danica Group

Note

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



- Acquisition costs and administrative expenses for the life insurance business relative to average retrospective provisions (see below).
- 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%.
- Profit after tax relative to average shareholders' equity.
- 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:

- 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.
- 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.
- Combined ratio:** The sum of the claims ratio and the expense percentage.
- 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.
- 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 5 is the table Danica Group, profit before tax. An explanation of the items in the table follows below:

**Technical result, Traditional.** 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 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.



# Notes – Danica Group

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Note

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

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

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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 2019. IFRS 15 applies only where other IFRS' 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, but will increase assets and liabilities with DKK 322 million.

### *IFRS 17 Insurance Contracts*

IFRS 17, which has not yet been adopted by the EU, is expected 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. In 2018, Danica Pension therefore made an analysis of the effects of the standard on Danica's financial statements. The classification and recognition of Danica's products was examined, and the products were divided into portfolios. Impact studies were made using the three measurement approaches BBA (Building Bloch approach), VFA (Variable Fee approach) and PAA (Premium Allocation approach), including a calculation of CSM (Contractual Service Margin). These impact studies indicate that after a transitional period profit before tax will not be materially affected.

# Notes - Danica Group

Note DKKm

## 2 BUSINESS SEGMENTS

The Group's business segmentation is based on differences in products. The Traditional contracts segment comprises conventional life insurance and pensions with guaranteed benefits, Forenede Gruppeliv as well as Health and accident insurance, Health insurance and Critical illness covers related to conventional policies.

The Unit-linked contracts segment comprises pension schemes with market returns as well as Health and accident insurance, Health insurance and Critical illness covers related to unit-linked policies.

BUSINESS SEGMENTS 2018	Traditional	Unit-linked contracts	Total	Reclassification	Group
Gross premiums	4,994	24,937	29,931		29,931
- Gross premiums from inter-segment sales		64	64	-64	0
Gross premiums from external sales	4,994	25,001	29,995	-64	29,931
- Gross premiums on investment contracts	-	-4,811	-4,811	-	-4,811
Gross premiums in the income statement	4,994	20,190	25,184	-64	25,120
Return on investment allocated to technical result	1,904	-10,370	-8,466	1,086	-7,380
Claims and benefits paid	-13,418	-15,691	-29,109	64	-29,045
Change in provisions for insurance and investment contracts	8,042	5,947	13,989	-61	13,928
Total operating expenses relating to insurance	-627	-822	-1,449	-32	-1,481
Result of reinsurance	-8	-35	-43	-	-43
Other income, net	348	1,048	1,396	-1,258	138
Technical result	1,235	267	1,502	-265	1,237
Special allotments	-60	-	-60	60	0
Return on investment, shareholders' equity	-73	2	-71	50	-21
Return on investment, health and accident	-69	-85	-154	154	0
Profit before tax from discontinued operations	-	75	75	-	75
Profit before tax, including discontinued operations	1,033	259	1,292	-1	1,291
Other segment information:					
Interest income	8,437	626	9,063		
Interest expenses	-4,947	-179	-5,126		
Income from associated undertakings at book value	501	-	501		
Impairment, depreciation and amortisation charges	-39	-39	-78		

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

## BUSINESS SEGMENTS 2017

Gross premiums	4,153	23,105	27,258	-271	26,987
Gross premiums from external sales	4,153	23,105	27,258	-271	26,987
- Gross premiums on investment contracts	-	-1,889	-1,889	-	-1,889
Gross premiums in the income statement	4,153	21,216	25,369	-271	25,098
Return on investment allocated to technical result	3,135	9,975	13,110	585	13,695
Claims and benefits paid	-12,243	-10,827	-23,070	271	-22,799
Changes in provisions for insurance and investment contracts	6,379	-20,068	-13,689	-141	-13,830
Total operating expenses relating to insurance	-443	-595	-1,038	7	-1,031
Result of reinsurance	-18	1	-17	-	-17
Other income, net	316	924	1,240	-667	573
Technical result	1,279	626	1,905	-216	1,689
Change in shadow account	85	-	85	-85	0
Special allotments	-230	-	-230	230	0
Return on investment, shareholders' equity	10	6	16	156	172
Return on investment, health and accident	41	44	85	-85	0
Profit before tax from discontinued operations	-	56	56	-	56
Profit before tax, including discontinued operations	1,185	676	1,917	0	1,917
Other segment information:					
Interest income	7,443	470	7,913		
Interest expenses	-3,688	-81	-3,769		
Income from associated undertakings at book value	447	-	447		

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

# Notes - Danica Group

Note	DKKm	2018	2017
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(cont'd)

## GEOGRAPHICAL SEGMENTS

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	
	2018	2017	2018	2017
Denmark	27,612	24,629	28,883	23,850
Norway	2,318	2,358	76	84
<b>Total</b>	<b>29,930</b>	<b>26,987</b>	<b>28,959</b>	<b>23,934</b>

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

Direct insurance:

Regular premiums	15,587	12,803
Single premiums	12,658	12,801

<b>Total direct insurance</b>	<b>28,245</b>	<b>25,604</b>
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<b>Total gross premiums</b>	<b>28,245</b>	<b>25,604</b>
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In the above gross premiums, premiums paid on investment contracts which are not included in the income statement constitute:

Regular premiums	1,687	207
Single premiums	3,123	1,681

<b>Total premiums</b>	<b>4,810</b>	<b>1,888</b>
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<b>Total gross premiums included in the income statement</b>	<b>23,435</b>	<b>23,716</b>
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Premiums, direct insurance, broken down by insurance arrangement:

Insurance taken out in connection with employment	22,409	19,729
Insurance taken out individually	3,925	4,325
Group life insurance	1,911	1,550

<b>Total</b>	<b>28,245</b>	<b>25,604</b>
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Number of insured, direct insurance (1,000):

Insurance taken out in connection with employment	490	417
Insurance taken out individually	509	384
Group life insurance	625	458

Premiums, direct insurance, broken down by bonus arrangement:

With profits insurance	4,159	3,489
Without profits insurance	916	199
Unit-linked insurance	23,170	21,916

<b>Total</b>	<b>28,245</b>	<b>25,604</b>
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Premiums, direct insurance, broken down by policyholders' residence:

Denmark	25,815	23,061
Other EU countries	172	2,449
Other countries	2,258	94

<b>Total</b>	<b>28,245</b>	<b>25,604</b>
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# Notes - Danica Group

Note	DKKm	2018	2017
4	INCOME FROM INVESTMENT PROPERTY		
	Rent	643	1,274
	Operating expenses	-241	-299
	Operating expenses, property not let	-	-136
	<b>Total</b>	<b>402</b>	<b>839</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.		
	Breakdown of minimum lease payments on non-terminable leases by lease term:		
	Within 1 year	578	932
	1 - 5 years	1,363	1,321
	After 5 years	1,176	396
	<b>Total</b>	<b>3,117</b>	<b>2,649</b>
5	INTEREST INCOME AND DIVIDENDS		
	Interest income from assets at fair value	9,073	7,856
	Interest income from assets at amortised cost	339	57
	Dividends	3,486	2,255
	Indexation	288	164
	<b>Total</b>	<b>13,186</b>	<b>10,332</b>
6	VALUE ADJUSTMENTS		
	Domicile property	-	-7
	Investment property	613	237
	Holdings	-5,028	7,321
	Unit trust certificates	-1,751	1,061
	Bonds	-944	-869
	Other loans	-192	170
	Deposits with credit institutions	53	-61
	Derivatives	-7,213	2,398
	Other	-1,916	-426
	<b>Total value adjustments</b>	<b>-16,378</b>	<b>9,824</b>
7	INTEREST EXPENSES		
	Interest expenses on assets at fair value	-4,895	-3,570
	Interest expenses on assets at amortised cost	-210	-199
	<b>Total</b>	<b>-5,105</b>	<b>-3,769</b>
8	CLAIMS AND BENEFITS PAID		
	Direct insurance:		
	Insurance amounts on death	-1,041	-834
	Insurance amounts on disablement	-323	-231
	Insurance amounts on expiry	-876	-1,026
	Retirement benefits and annuities	-7,944	-7,043
	Surrender values	-15,653	-11,042
	Cash payments of bonuses	-1,308	-1,015
	<b>Total direct insurance</b>	<b>-27,145</b>	<b>-21,191</b>
	Expenses to minimise disablement	-14	-1
	<b>Total claims and benefits paid</b>	<b>-27,159</b>	<b>-21,192</b>

# Notes - Danica Group

Note	DKKm	2018	2017
9	OPERATING EXPENSES RELATING TO INSURANCE		
	Commission on direct insurance	237	-221
	Fees to the audit firm appointed by the general meeting:		
	Fees to Deloitte:		
	Statutory audit of financial statements	-2.3	-2.1
	Other assurance engagements	-	-0.7
	Other services	-1.8	-3.1
	Total	-4.1	-5.9
	Fees for non-audit services provided to the Group by Deloitte Statsautoriseret Revisionspartnerselskab comprise of actuarial, tax and accounting due diligence in connection with the acquisition of SEB		
	Average number of full-time-equivalent employees during the year	792	677
	Number of full-time-equivalent employees, end of year	868	649
	Staff costs:		
	Salaries	-570	-429
	Share-based payment	-10	-9
	Pensions	-85	-70
	Other social security and tax	-87	-64
	Other	-62	-34
	Total staff costs earned	-814	-606
	For a more detailed description of the Group's remuneration policy and remuneration paid, see "Remuneration Report 2018", available at the website: <a href="http://www.danicapension.dk">www.danicapension.dk</a> from medio March 2018. The remuneration report 2018 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.		
	Board of Directors' remuneration (DKK'000)		
	Kim Andersen	-367	-340
	Kenneth Stricker-Nielsen (from 1.7.2018)	-75	-
	Charlott Due Pihl	-150	-150
	Thomas Falck (until 1.7.2018)	-75	-150
	Henrik Nielsen (from 8.3.2016)	-150	-150
	Total remuneration *	-817	-790
	Including fees for board committee membership	-190	-190

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

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

For their positions as members of the boards of directors or executive boards of other companies in the Danske Bank Group in 2018, Thomas F. Borgen earned DKK 11.9 million (2017 DKK 17.4 million), Tonny Thierry Andersen earned DKK 3.1 million (2017 DKK 10.1 million), Jacob Aarup-Andersen earned DKK 9.0 million (2017 DKK 8.6 million), (2017 8,6 mio. kr.), Christian Baltzer earned 3.1 mio. kr. and Kim Andersen earned 0.3 mio. kr. (2017 0.3 mio. kr.) in total remuneration from such companies

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

Remuneration of other material risk takers

For 2018, 33 persons outside the Executive Board were designated as material risk takers and combined they received remuneration of DKK 66.5 million (2017 DKK 45.7 million to 34 material risk takers), with fixed remuneration amounting to DKK 56.2 million (2017 DKK 39.3 million) and variable remuneration amounting to DKK 10.3 million (2017 DKK 6.1 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 2019. The Remuneration Report will be published in March 2019 and will include additional information on the remuneration of material risk takers. The Remuneration Report is available at [www.danicapension.dk/organisation/afloenning](http://www.danicapension.dk/organisation/afloenning).

# Notes - Danica Group

Note	DKKm	2018	2017
9			
(cont'd)			

## Remuneration of the Executive Board 2018

	Contractual remuneration	Pensions	Variable cash remuneration	Variable share-based payment	
Ole Krogh Petersen *	-3.4	-0.5	-0.2	-0.2	-4.3
Jesper Mølskov Høybye *	-1.5	-0.2	-0.1	-0.1	-1.9
Søren Lockwood *	-2.5	-0.4	-0.2	-0.2	-3.3
Claus Harder	-1.4	-0.2	-0.1	-0.1	-1.8
Per Klitgård	-4.0	-0.3	-0.3	-0.3	-4.9
Anders Svennesen	-0.5	-0.1	-	-	-0.6
Lars Ellehave-Andersen	-1.1	-0.2	-0.1	-0.1	-1.5
<b>Total</b>	<b>-14.4</b>	<b>-1.9</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-18.3</b>
<b>Total payment</b>					<b>-17.1</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 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>

\* Ole Krogh Petersen is included in the Executive Board as of 1 February 2018, Jesper Mølskov Høybye as of 1 May 2018 and Søren Lockwood as of 14 June 2018

Ole Krogh Petersen may resign his position at six months' notice.

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

Jesper Mølskov Høybye may resign his position at three months' notice.

Danica Pension may terminate Jesper Mølskov Høybye's service contract at seven months' notice. He is entitled 3 months separate severance payment.

Søren Lockwood may resign his position at three months' notice.

Danica Pension may terminate Søren Lockwood's service contract at sixteen months' notice. He is not entitled to separate severance payment.

Per Klitgård resigned from the Executive Board on 30 September 2018.

Claus Harder resigned from the Executive Board on 30 April 2018.

Anders Svennesen resigned from the Executive Board on 12 February 2018.

Lars Ellehave-Andersen resigned from the Executive Board on 30 April 2018.

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 2012-2017 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 2018 will be determined at the end of February 2019.

# Notes - Danica Group

Note DKKm

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(cont'd)

Share-based payment

Conditional shares

Conditional shares	Number			Own contribution price (DKK)	Fair value (FV)	
	Executive Board	Other employees	Total		Issue date	End of year
<b>Granted in 2013</b>						
<b>Granted in 2014</b>						
1 Jan. 2017	4,676	6,528	11,204	0,0-1,4	1.5	2.4
Vested 2017	-3,468	-5,685	-9,153	1.4		-
31 Dec. 2017	1,208	843	2,051	0,0-1,4	0.3	0.5
Vested 2018	-1,208	-843	-2,051			
31 Dec. 2018	0	0	0	0,0-1,4	0.0	0.0
<b>Granted in 2015</b>						
1 Jan. 2017	4,189	2,311	6,500		1.1	1.4
31 Dec. 2017	4,189	2,311	6,500	0,0-1,7	1.1	1.6
Vested 2018	-2,600	-1,607	-4,207			
Forfeited 2018	-	-	0		-	-
Other changes 2018	-1,589	1,589	0			
31 Dec. 2018	0	2,293	2,293	0,0-1,7	0.4	0.3
<b>Granted in 2016</b>						
1 Jan. 2017	7,739	3,541	11,280		2.0	2.3
Other changes 2017		272	272			
31 Dec. 2017	7,739	3,813	11,552		2.0	2.7
Vested 2018		-435	-435			
Other changes 2018	-7,739	7,339	-400			
31 Dec. 2018	0	10,717	10,717	0.0	2.0	1.4
<b>Granted in 2017</b>						
Granted 2017	7,874	22,961	30,835	0.0	7.3	7.4
Vested 2017	-3,338	-7,452	-10,790	0.0	-	-
Forfeited 2017		-650	-650			
31 Dec. 2017	4,536	14,859	19,395	0.0	4.6	4.7
Vested 2018	0	-307	-307			
Forfeited 2018	0	0	0		-	-
Other changes 2018	-4,294	4,294	0			
31 Dec. 2018	242	18,846	19,088	0.0	4.5	2.5
<b>Granted in 2018</b>						
Granted 2018	1,042	20,241	21,283	0.0	5.0	2.7
Vested 2018	-625	-8,279	-8,904			
Forfeited 2018	-	-231	-231			
31 Dec. 2018	417	11,731	12,148	0.0	2.8	1.6

## Notes - Danica Group

Note DKKm

9

(cont'd)

Executive Board members' holdings and fair value thereof, end of 2018

Year of grant	2014-2018	
	Number	FV
Ole Krogh Petersen	659	0.1

Average market price at the vesting date for conditional shares in 2018 was 150.0

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



# Notes - Danica Group

Note	DKKm	2018	2017			
10	TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE					
	Total run-off regarding prior years:					
	Gross	27	11			
	Net of reinsurance	29	21			
	Calculation of technical interest and return on investment:					
	Technical interest amount	120	92			
	Outstanding claims provision, discounted amount	-301	-213			
	Discounted risk increasing with age	-	-6			
	Technical interest, net of reinsurance, less discounted amount	-181	-127			
	Return on investment allocated to health and accident insurance	110	300			
	Value adjustment of outstanding claims provision	36	4			
	Total return on investment including value adjustments	146	304			
	Transferred to technical interest	-120	-92			
	Return on investment	26	212			
		Health and accident insurance	Health insurance	Total		
	Gross premiums	1,406	278	1,684		
	Gross premium income	-2,167	277	-1,890		
	Gross claims	-1,879	-232	-2,111		
	Gross operating expenses	-120	-12	-132		
	Result of business ceded	-44	-	-44		
	Technical interest, net of reinsurance	-180	-1	-181		
	Technical result	-645	12	-633		
	Number of claims	2,796	43,981	46,777	46,777	42,598
	Average amount of claims	1.2	0.0	1.2	0.0	0.0
	Claims frequency	0.9%	6.0%	6.9%	5.7%	5.7%
	Gross premiums, direct insurance, broken down by policyholders' residence:					
	Denmark				1,817	1,225
	Other EU countries				16	108
	Other countries				104	4
	Total				1,937	1,337

## Notes - Danica Group

Note	DKKm	2018	2017
11	OTHER INCOME		
	Commission from fund managers etc.	147	40
	Commission from ancillary activities	6	2
	Total	153	42

### 12 PROFIT BEFORE TAX

In accordance with the Executive Order on the Contribution Principle and the market discipline guidelines, the Danish FSA has been notified of Danica Pension's and Danica Pensionsforsikring's profit policy for 2018. Danica Pension's profit for the year comprises the investment return on assets in which shareholders' equity is invested plus the results of unit-linked business in Denmark, the subsidiary outside Denmark, the result of Forenede Gruppeliv, the health and accident result, the results of Danica Pensionsforsikring and Danica Administration plus a risk allowance based on technical provisions from the four interest rate groups and a proportion of the risk results of the risk groups and the cost results of cost groups.

Danica Pensionsforsikring's profit for the year comprises the investment return on assets in which shareholders' equity is invested plus the results of unit-linked business, the result of life annuities without bonus entitlement, the result of Forenede Gruppeliv, the health and accident result, plus a risk allowance based on technical provisions from the four interest rate groups and the risk results of the risk groups and the cost results of cost groups.

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 is fully recognised in both companies.

In accordance with the contribution principle, full risk allowance for 2018 was booked in all four interest rate groups and in both companies.

# Notes - Danica Group

Note	DKKm	2018	2017
13	TAX		
	Tax for the year can be broken down as follows:		
	Tax on the profit for the year	-212	-308
	Tax on other comprehensive income:		
	Hedges of units outside Denmark	-9	-8
	Hedge af SEB	14	4
	<b>Total</b>	<b>-207</b>	<b>-312</b>
	Tax on the profit for the year is calculated as follows:		
	Current tax	-371	-411
	Adjustment of prior-year current tax	-132	103
	Adjustment of prior-year deferred tax	199	-
	Other changes in deferred tax	92	-
	<b>Total</b>	<b>-212</b>	<b>-308</b>
	Effective tax rate:		
	Danish tax rate	22.0	22.0
	Adjustment of prior-year tax charge	-5.5	-5.5
	Non-taxable income and non-deductible expenses	0.9	-
	<b>Effective tax rate</b>	<b>17.4</b>	<b>16.5</b>
	Deferred tax:		
	Deferred tax is recognised as follows in the balance sheet:		
	Deferred tax liabilities	1,649	1,666
	<b>Deferred tax, net</b>	<b>1,649</b>	<b>1,666</b>
	Deferred tax broken down on main items:		
	Intangible assets	359	-2
	Tangible assets	-9	-10
	Investment property	1,283	1,674
	Financial investment assets	-6	3
	Negative tax on pension returns brought forward	0	3
	Other	22	-2
	<b>Total</b>	<b>1,649</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	PROFIT AFTER TAX FROM CONTINUING OPERATIONS		
	Life insurance		
	Premiums	804	977
	Claims and benefits	-115	-118
	Return on investment	-1,819	3,699
	Change in insurance provisions	1,310	-4,376
	Total operating expenses relating to insurance	-243	-255
	Profit/loss on business ceded	0	-8
	<b>Technical result, Life</b>	<b>-63</b>	<b>-81</b>
	Health and accident insurance		
	Gross premium income	8	8
	Gross claims	-9	9
	Total operating expenses relating to insurance	-6	-7
	Profit/loss on business ceded	1	-11
	Investeringsafkast efter forsikringsteknisk rente	0	0
	<b>Technical result of health and accident insurance</b>	<b>-6</b>	<b>-1</b>
	Return on investment allocated to equity	-13	-9
	Other income	156	147
	<b>Profit before tax</b>	<b>74</b>	<b>56</b>
	Tax	3	0
	<b>Net profit for the year</b>	<b>77</b>	<b>56</b>

# Notes - Danica Group

Note	DKKm	2018	2017
15	INTANGIBLE ASSETS		
	Cost, beginning of year	77	83
	Exchange rate adjustment	-1	-6
	Additions during the year	3,759	-
	Cost, end of year	3,835	77
	Amortisation during the year	-78	-
	Impairment and amortisation charges, end of year	-78	-
	Carrying amount, end of year	3,757	77
	Intangible assets consist of goodwill on acquisition of Norwegian activities in 2007 as well as goodwill and value of customers (VIF asset) regarding acquisition of the former SEB companies on 7. June 2018. The customer value will be depreciated linearly over a period of 10 years starting 1st June 2018.		
	For more details, see note 1.		
16	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	-2	-1
	Revaluation for the year	0	-
	Impairment charges for the year	-	-1
	Revalued amount, end of year	-2	-2
	Carrying amount, end of year	42	42
	The year-end carrying amount is recognised as follows in the consolidated balance sheet:		
	Domicile property	42	42
	Of impairment charges for the year, DKK 1 million was recognised in other comprehensive income and transferred to the revaluation reserve in equity, and DKK 1 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%
17	INVESTMENT PROPERTY		
	Fair value, beginning of year	26,104	26,835
	Additions during the year, including improvements	7,523	4,145
	Disposals during the year	-13,946	-5,121
	Fair value adjustments	1,187	245
	Fair value, end of year	20,868	26,104
	The year-end value is recognised as follows in the consolidated balance sheet:		
	Investment property	15,341	20,304
	Investment assets related to unit-linked products	5,527	5,800
	The weighted average of the rates of return on which the fair value of the individual properties is based, for:		
	Shopping centres	4.8%	5.5%
	Commercial properties	5.1%	4.6%
	Residential properties	4.1%	3.6%

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% (2017: 2.5-10.0%) and averaged 4.8% (2017: 4.8%). An increase in the required rate of return of 1.0 percentage point would reduce fair value at end-2018 by DKK 2,550 million.

All investment properties fall under level 3 in the fair value hierarchy. For a description of the levels, see note 33.

# Notes - Danica Group

Note	DKKm	2018	2017				
18	HOLDINGS IN ASSOCIATES AND JOINT VENTURES						
	Cost, beginning of year	2,768	2,222				
	Additions	14,467	603				
	Disposals	-7,342	-57				
	Currency translation	5	-				
	Cost, end of year	9,898	2,768				
	Revaluations and impairment charges, beginning of year	1,593	1,265				
	Share of profit	511	386				
	Dividends	-100	-51				
	Reversal of revaluations and impairment charges	-1,053	-				
	Currency translation	13	-7				
	Revaluations and impairment charges, end of year	964	1,593				
	Carrying amount, end of year	10,862	4,361				
	The year-end carrying amount is recognised as follows in the consolidated balance sheet:						
	Holdings in associates and joint ventures	9,819	3,512				
	Investment assets related to unit-linked products	1,043	849				
	Holdings in associates and joint ventures consist of:						
		Owner-ship percentage	Total assets	Liabilities	Income	Result	
	Name and domicile	Activity					
	Løvholm P/S, Copenhagen	Property company	75%	431	89	0	0
	Gro Fund II K/S, Copenhagen	Investment company	27%	0	0	0	0
	Aquaporin, Kongens Lyngby	Investment company	25%	227	45	2	-62
	Maritime Fund I K/S, Hellerup	Investment company	26%	1,959	1,065	46	-43
	K/S ERDA II, Århus	Property company	96%	112	112	0	0
	Komplementarselskabet ERDA II ApS, Århus	Property company	96%	0	0	0	0
	Danske Shoppingcentre P/S, Copenhagen	Property company	50%	14,276	386	665	686
	Danske Shoppingcentre FC P/S, Copenhagen	Property company	50%	1,347	17	65	72
	Komplementarselskabet Danske Shoppingcentre ApS, Copenhagen	Property company	50%	0	0	0	0
	Komplementarselskabet Danske Shoppingcentre FC ApS, Copenhagen	Property company	50%	0	0	0	0
	Samejet Nymøllevvej 59-91, Copenhagen	Property company	75%	646	12	31	42
	Udviklingselskabet CØ P/S, Copenhagen	Property company	50%	553	536	2	1
	Komplementarselskabet CØ ApS, Copenhagen	Property company	50%	0	0	0	0
	Gro Fund I K/S, Copenhagen	Investment company	100%	714	1	0	-17
	ERDA I P/S, Århus	Property company	100%	406	294	5	5
	ERDA I Komplementarselskab ApS, Århus	Property company	100%	0	0	0	0
	G.S.V. Holding A/S, Hedehusene	Investment company	23%	1,597	1,056	844	42
	Capital Four - Strategic Lending Fund K/S, Cope	Investment company	33%	1,241	132	57	49
	The information disclosed is extracted from the companies' most recent annual reports. The Group has no associates of material importance.						
19	HOLDINGS						
	Listed holdings			7,781		8,151	
	Unlisted holdings			15,760		7,680	
	Total			23,541		15,831	
20	BONDS						
	Listed bonds			157,700		135,063	
	Unlisted bonds			5,584		-	
	Total			163,284		135,063	

# Notes - Danica Group

Note	DKKm	2018	2017
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## 21 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 34. 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 33.

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 2,039 million in 2018 and DKK 2,225 million in 2017.

2018	Notional amount	Positive fair value	Notional amount	Negative fair value
Currency contracts:				
Currency contracts	80,294	946	219,647	2,356
Options	32,197	842	33,615	702
Interest rate contracts:				
Interest rate contracts	1,928,722	34,788	2,344,363	31,023
Options	630,883	19,104	1,452,172	18,527
Equity contracts:				
Equity contracts	4,451	149	15,331	1,038
Options	1	92	0	1
<b>Total derivatives</b>	<b>2,676,548</b>	<b>55,921</b>	<b>4,065,128</b>	<b>53,647</b>

## 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
<b>Total derivatives</b>	<b>927,911</b>	<b>16,149</b>	<b>1,052,003</b>	<b>17,046</b>

The positive fair value at year end is recognised as follows in the consolidated balance sheet:

Derivatives	38,788	15,214
Investment assets related to unit-linked products	17,133	935

## 22 OTHER FINANCIAL INVESTMENT ASSETS

Comprises the following investments in companies in the Danske Bank Group:

Holdings	351	454
Bonds	46,833	32,588
Deposits with credit institutions	2,564	2,688
Cash in hand and demand deposits	3,303	1,857
Other	5,271	5,439

# Notes - Danica Group

Note	DKKm		2018	2017
23	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	1,578	4,905	6,483
	Holdings	21,722	81,323	103,045
	Bonds	48,601	40,742	89,343
	Deposits with credit institutions	1	1,491	1,492
	Derivatives	13,435	3,698	17,133
	Total	85,337	132,159	217,496
	Investment assets related to unit-linked products break down as follows:			
	Insurance contracts			159,804
	Investment contracts			57,692
	Total			217,496
24	TOTAL TECHNICAL PROVISIONS, REINSURERS' SHARE			
	Beginning of year		120	149
	Addition regarding acquisition		386	-
	Disposal discontinued operations		-24	-
	Premiums received		93	103
	Claims and benefits paid		-134	-75
	Foreign currency translation		-1	-
	Change in outstanding claims provision		45	6
	Other changes		-92	-63
	End of year		393	120
25	LIFE INSURANCE PROVISIONS, UNIT-LINKED PRODUCTS			
	Provisions for unit-linked contracts break down as follows:			
	Insurance contracts		150,166	144,692
	Investment contracts		46,999	60,312
	Total life insurance provisions, unit-linked products		197,165	205,004
	Provisions for unit-linked contracts without guarantee		141,143	177,801
	Provisions for unit-linked contracts with investment guarantee		56,022	27,203
	Total life insurance provisions, unit-linked products		197,165	205,004
26	TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS			
	Beginning of year		363,778	340,786
	Addition regarding acquisition		103,387	-
	Disposal discontinued operations		-54,709	-
	Premiums		28,246	38,318
	Claims and benefits paid		-30,932	-27,964
	Added interest on policyholders' savings		-6,977	15,094
	Fair value adjustment		-325	56
	Currency translation		-149	-2,356
	Change in outstanding claims provisions		219	-118
	Change in collective bonus potential		-2,379	-158
	Change in profit margin		66	36
	Other changes		-703	84
	End of year		399,522	363,778
	For a more detailed description of calculation methods used for provisions, see note 1, Significant accounting policies.			
27	DUE TO CREDIT INSTITUTIONS			
	Repo transactions		15,358	18,028
	Other amounts due		2,007	5
	Total		17,365	18,033

# Notes - Danica Group

Note	DKKm	2018	2017							
28	OTHER CREDITORS									
	Other creditors comprise:									
	Derivatives with negative fair values	53,647	17,046							
	Tax on pension returns	465	1,966							
	Staff commitments	61	73							
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	29.9.45	100	3,850	3,723
	Subordinated debt								3,850	3,723
	Discount								-24	-27
	Hedging of interest rate risk at fair value								140	106
	Total, corresponding to fair value								3,966	3,802
	Included in the capital base								3,966	3,802
	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 2018 (119 million for 2017).									
	The subordinated debt is stated at amortised cost plus the fair value of the hedged interest rate risk.									
30	ASSETS DEPOSITED AS COLLATERAL AND CONTINGENT LIABILITIES									
	Assets have been deposited as collateral for policyholders' savings with a total of:	410,062	365,648							
	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	12,186	7,341							
	The Group has rent commitments with a remaining lease of 8 years and annual gross rent of	47	51							
	Minimum lease payments regarding cars amounts to	5	6							
	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	566	2,492							
	The Group has undertaken to participate in alternative investments with an amount of	22,218	11,505							
	The Group is voluntarily registered for VAT on certain properties. The Group's VAT adjustment liability amounts to	278	743							
	As a participant in partnerships, the Group is liable for a total debt of	12	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.									



# Notes - Danica Group

Note	DKKm	2018	2017
31	<b>RELATED PARTIES</b>		
	Danske Bank A/S, domiciled in Copenhagen, wholly owns the share capital of Forsikringselskabet Danica and consequently exercises control over the Danica Group. Danske Bank A/S is the ultimate parent company of the Danica Group.		
	Transactions with related parties are settled on an arm's-length basis. The Group's IT operations and development, internal audit, HR administration, logistics, marketing and the like are handled by Danske Bank. Danske Bank also handles portfolio management and securities trading.		
	The Danica Group entered into the following significant transactions and balances with other companies in the Danske Bank Group. For more information, see note 22		
	IT operations and development	-198	-186
	Other administration	-223	-105
	Commission for insurance sales and portfolio management	-194	-150
	Ordinary portfolio management fee	-17	-56
	Performance fee for portfolio management	-	-9
	Total net custody fees and brokerage for trades in holdings and the like	-88	-59
	Interest income	-548	674
	Interest expenses	-14	-13
	Rent from premises	4	12
	Amounts owed to credit institutions	168	2
	Derivatives with negative fair values	14,590	14,756
	Forsikringselskabet Danica received a loan from its owner, Danske Bank	1,700	-
	Furthermore, the Danica Group manages the labour market pension schemes of the Danske Bank Group and its related parties. Loans to associates comprise subordinated loans granted on equal terms as other investors.		

## 32 BALANCE SHEET ITEMS BROKEN DOWN BY EXPECTED DUE DATE

	2018		2017	
	< 1 year	> 1 year	< 1 year	> 1 year
<b>Assets</b>				
Intangible assets	-	3,758	-	77
Tangible assets	-	42	-	42
Investment assets	10,917	259,736	7,084	200,134
Investment assets related to unit-linked products	1,593	215,903	102	211,766
Debtors	4,200	-	2,218	-
Other assets	63,327	-	2,460	-
Prepayments and accrued income	6,090	-	3,152	-
<b>Total assets</b>	<b>86,127</b>	<b>479,439</b>	<b>15,016</b>	<b>412,019</b>
<b>Liabilities</b>				
Provisions for insurance and investment contracts	30,598	368,924	33,334	330,444
Other liabilities	95,958	51,189	40,667	5,468
<b>Total liabilities</b>	<b>126,556</b>	<b>420,113</b>	<b>74,001</b>	<b>335,912</b>

# Notes - Danica Group

Note DKKm

## 33 FINANCIAL INSTRUMENTS Financial instruments, classification and valuation method

2018	Fair value			Amortised cost*		
	Held for trading	Designated	Fair value hedge	Debtors	Liabilities	Total
Holdings		23,541				23,541
Unit trust certificates		16,364				16,364
Bonds		163,284				163,284
Other loans		1,625				1,625
Deposits with credit institutions		1,345				1,345
Derivatives	38,788					38,788
Investment assets related to unit-linked		217,496				217,496
Debtors				3,093		3,093
Cash and cash equivalents				3,435		3,435
<b>Total financial assets</b>	<b>38,788</b>	<b>423,655</b>		<b>6,528</b>		<b>468,971</b>
Provisions for unit-linked products, Due to credit institutions	17,365	46,999				46,999
Derivatives	53,647					53,647
Subordinated debt			140		3,662	3,802
<b>Total financial liabilities</b>	<b>71,012</b>	<b>46,999</b>	<b>140</b>		<b>3,662</b>	<b>121,813</b>
<b>2017</b>						
Holdings		15,831				15,831
Unit trust certificates		7,242				7,242
Bonds		135,063				135,063
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		208,218		3,651		211,869
Debtors				1,124		1,124
Cash and cash equivalents				2,294		2,294
<b>Total financial assets</b>	<b>15,214</b>	<b>368,487</b>		<b>14,683</b>		<b>398,384</b>
Provisions for unit-linked products, Due to credit institutions		60,312			18,033	60,312
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>

### Recognition as income:

Exchange rate adjustment of debtors and liabilities measured at amortised cost were recognised under value adjustments at DKK -13 million in 2018 and at DKK 57 million in 2017.

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

# Notes - Danica Group

Note DKKm

33  
(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 17.

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 2018, Danica had financial assets as set out below in the amount of DKK 462,443 million, of which 97% was attributable to insurance obligations to policyholders and 3% 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>2018</b>				
Holdings	7,955	1,822	13,764	23,541
Unit trust certificates	16,129	219	16	16,364
Bonds	142,455	20,153	676	163,284
Other loans	-	50	1,575	1,625
Derivatives	88	36,827	1,873	38,788
Investment assets related to unit-linked products	158,928	28,446	30,122	217,496
Cash and cash equivalents	1,345	-	-	1,345
<b>Total financial assets</b>	<b>326,900</b>	<b>87,517</b>	<b>48,026</b>	<b>462,443</b>
Due to credit institutions	17,365	-	-	17,365
Derivatives	118	51,291	2,238	53,647
Subordinated loan capital	-	140	-	140
Provisions for unit-linked contracts	46,999	-	-	46,999
<b>Total financial liabilities</b>	<b>64,482</b>	<b>51,431</b>	<b>2,238</b>	<b>118,151</b>
<b>2017</b>				
Holdings	8,151	-	7,680	15,831
Unit trust certificates	7,000	242	-	7,242
Bonds	124,125	10,925	13	135,063
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>334,203</b>	<b>26,757</b>	<b>22,740</b>	<b>383,700</b>
Derivatives	464	16,538	44	17,046
Subordinated loan capital	-	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>

At 31 December 2018, financial instruments measured on the basis of non-observable input comprised unlisted shares DKK 38,837 million and illiquid bonds DKK 5,584 million.

## Notes - Danica Group

Note DKKm	2018	2017
33 (cont'd)		
Valuation based on non-observable input		
Fair value, beginning of year	22,696	24,029
Value adjustment recognised through profit or loss in Value adjustments	1,775	1,334
Addition regarding acquisition	16,509	-
Purchase	11,104	5,222
Sale	-10,558	-7,889
Transferred from quoted prices and observable input	6,500	-
Fair value, end of year	48,026	22,696
In 2018, unrealised value adjustments were recognised at DKK 3,402 million (2017: DKK -308 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 110 million. A narrowing of the credit spread by 50 bps would cause the fair value to be increased by DKK 110 million.		

## 34 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.

<u>Financial risks:</u>	<u>Insurance risks:</u>	<u>Operational risks:</u>	<u>Business risks:</u>
Market	Longevity	Internal fraud	Reputation
Liquidity	Mortality	External fraud	Strategic
Counterparty	Disability	Employment situation	Regulatory
Concentration	Health and accident	Customers, products and business practices	Digitalisation
	Critical illness	Transactions and processes	
	Surrender	Physical assets	
	Expenses	Systems and data errors	
	Concentration	IT	
		Model risk	

#### **Financial risk**

Financial risks comprise market risk, liquidity risk, counterparty risk and concentration risk. Market risk involves the risk of losses because of 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 67.

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, Danica monitors market risk on an ongoing basis. Internal stress tests are performed to ensure that Danica 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, Danica is exposed to basic risk from government and credit spreads.

The credit spread risk on bond holdings is limited as 80% of the portfolio at the end of 2018 consists of government and mortgage bonds with high credit ratings (AA - AAA) with the international credit rating agencies or in unrated bonds issued by an issuer with a similar high credit quality. Just 9% 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 on investment assets under unit-linked products, with the exception of contracts with investment guarantees. At the end of 2018, 18% of policyholders had investment guarantees in the guarantee period. The guarantees do not apply until the policyholder retires and are paid for by way of an annual fee.

Danica hedges the risk on financial guarantees in unit-linked products with financial derivatives and by adjusting the investment allocation during the period leading up to retirement. The investment allocation is adjusted according to the guarantee amount, the investment horizon, etc.

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

Shareholders' equity is exposed to financial risk on assets in which the shareholders' equity is invested and on investments relating to the health and accident business and relating to the group Egen Gruppe, which 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.

## 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.

Overall, of the two interest rate scenarios, an interest rate decrease would be the worse for the Group. A separate 1.0 percentage point decrease in interest rates would reduce shareholders' equity by DKK 0.3 billion.

### SENSITIVITY INFORMATION 31.12.2018

DKK billions	Effect on shareholders' equity
0.7-1.0 percentage point increase in interest rates	0.1
0.7-1.0 percentage point decrease in interest rates	-0.3
12% decline in equity prices	-0.3
Decline in property prices of 8%	-0.2
Foreign exchange risk (VaR 99.0%)	0.0
8% loss on counterparties	-0.4

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## Financial highlights - Forsikringssselskabet Danica

DKKm	2018	2017 *	2016	2015 *	2014
<b>INCOME STATEMENT</b>					
Gross premiums	413	356	339	317	321
Technical interest	-2	-1	-1	-2	-4
Gross claims	-375	-382	-355	-336	-305
Bonuses and premium discounts	-	-	-	-	-
Total operating expenses relating to insurance	-18	-14	-13	-20	-17
Technical result	18	-41	-30	-41	-5
Total profit on investment activities after transfer of technical interest	633	1,224	1,510	1,396	2,010
Other income and expenses etc.	555	534	286	119	-3
Profit before tax	1,206	1,717	1,766	1,474	2,002
Tax	-124	-108	-56	-19	1
Net profit for the year	1,082	1,609	1,710	1,455	2,003
Run-off result	10	-	0	-5	0
<b>BALANCE SHEET</b>					
Total assets	22,193	18,923	18,856	19,828	20,457
Holdings in group undertakings	21,276	17,857	18,169	19,270	19,933
Other financial investment assets	807	856	590	545	515
Total shareholders' equity	18,897	17,122	17,249	19,452	20,056
Total technical provisions	274	316	319	329	353
<b>RATIOS (%)</b>					
Gross claims ratio	91.0	107.5	104.9	105.8	95.0
Gross expense ratio	4.3	4.1	3.8	6.2	5.3
Combined ratio	95.3	111.5	108.7	112.0	100.3
Operating ratio	95.6	112.0	109.0	112.4	101.5
Relative run-off result (%)	3.4	0.0	0.0	-1.5	0.0
Equity ratio	5.8	9.0	9.9	7.3	10.3

The ratios are defined in accordance with the Danish FSA's Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Schemes.  
 \* Balance sheet items have been corrected at 1 Jan. 2016

# Income statement & Other comprehensive income - Forsikringselskabet Danica

Note	DKKm	2018	2017
	Gross premiums	412	353
	Change in unearned premiums provision	1	3
2	Premiums, net of reinsurance	413	356
3	Technical interest	-2	-1
	Claims paid, gross	-419	-386
	Change in outstanding claims provision	46	6
	Change in risk margin	-2	-2
4	Claims, net of reinsurance	-375	-382
	Acquisition costs	-7	-6
	Administrative expenses	-11	-8
5	Total operating expenses relating to insurance, net of reinsurance	-18	-14
14	<b>TECHNICAL RESULT</b>	18	-41
	Income from group undertakings	643	1,225
	Interest income and dividends, etc.	14	13
6	Value adjustments	-12	-1
	Interest expenses	-11	-10
	Administrative expenses related to investment activities	-	-1
	Total return on investment	634	1,226
	Return on technical provisions	-1	-2
	<b>RETURN ON INVESTMENT LESS TECHNICAL INTEREST</b>	633	1,224
7	Other income	643	607
8	Other expenses	-88	-73
	<b>PROFIT BEFORE TAX</b>	1,206	1,717
9	Tax	-124	-108
	<b>NET PROFIT FOR THE YEAR</b>	1,082	1,609
	Net profit for the year	1,082	1,609
	Other comprehensive income:		
	Translation of units outside Denmark	-19	-41
	Hedges of units outside Denmark	19	41
	Hedge of acquisition	-41	-22
	Tax relating to other comprehensive income	5	-4
	Total other comprehensive income	-36	-26
	<b>NET COMPREHENSIVE INCOME FOR THE YEAR</b>	1,046	1,583

# Balance sheet - Forsikringssselskabet Danica

## Assets

Note	DKKm	2018	2017
	Holdings in group undertakings	21,276	17,857
	Total investments in group undertakings and associates	21,276	17,857
	Bonds	807	856
10	Total other financial investment assets	807	856
	<b>TOTAL INVESTMENT ASSETS</b>	<b>22,083</b>	<b>18,713</b>
	Amounts due from policyholders	2	-
	Amounts due from group undertakings	-	134
	Other debtors	71	69
	<b>TOTAL DEBTORS</b>	<b>73</b>	<b>203</b>
	Current tax assets	6	-
	Cash and cash equivalents	27	1
	<b>TOTAL OTHER ASSETS</b>	<b>33</b>	<b>1</b>
	Accrued interest and rent	4	6
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	<b>4</b>	<b>6</b>
	<b>TOTAL ASSETS</b>	<b>22,193</b>	<b>18,923</b>

# Balance sheet - Forsikringssselskabet Danica

## Liabilities and equity

Note	DKKm	2018	2017
	Share capital	1,001	1,000
	Other reserves	12,839	12,194
	Retained earnings	5,057	2,319
	Proposed dividend	-	1,609
11	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>18,897</b>	<b>17,122</b>
	Unearned premiums provision	10	11
	Outstanding claims provision	249	292
	Risk margin on non-life insurance contracts	11	9
	Provisions for bonuses and premium discounts	4	4
	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>274</b>	<b>316</b>
	Amounts owed, direct insurance	19	18
	Amounts owed to group undertakings	2,984	1,327
	Current tax liabilities	-	125
	Other creditors	14	11
	<b>TOTAL CREDITORS</b>	<b>3,017</b>	<b>1,481</b>
	<b>ACCRUALS AND DEFERRED INCOME</b>	<b>5</b>	<b>4</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>22,193</b>	<b>18,923</b>

## Statement of capital - Forsikringselskabet Danica

DKK m

Changes in shareholders' equity	Share capital	Foreign currency translation reserve *	Other reserves	Retained earnings	Proposed dividend	Total
Shareholders' equity at 31 December 2017	1,000	-33	12,227	2,319	1,609	17,122
Changes to accounting policies	-	-	38	-	-	38
Adjusted shareholders' equity at 1 January 2018	1,000	-33	12,265	2,319	1,609	17,160
Profit for the year	-	-	643	439	-	1,082
Other comprehensive income:						
Translation of units outside Denmark	-	-19	-	-	-	-19
Hedges of units outside Denmark	-	19	-	-	-	19
Hedge of acquisition	-	-	-41	-	-	-41
Tax on other comprehensive income	-	-9	14	-	-	5
Total other comprehensive income	-	-9	-27	-	-	-36
Comprehensive income for the year	-	-9	616	439	-	1,046
Anden tilgang, koncernbidrag	1	-	-	2,299	-	2,300
Dividend paid	-	-	-	-	-1,609	-1,609
Shareholders' equity at 31 December 2018	1,001	-42	12,881	5,057	0	18,897
Shareholders' equity at 31 December 2016	1,000	-25	12,245	2,319	1,710	17,249
Profit for the year	-	-	1,225	384	-	1,609
Other comprehensive income:						
Translation of units outside Denmark	-	-41	-	-	-	-41
Hedges of units outside Denmark	-	41	-	-	-	41
Hedge of acquisition	-	-	-22	-	-	-22
Tax on other comprehensive income	-	-8	4	-	-	-4
Total other comprehensive income	-	-8	-18	-	-	-26
Comprehensive income for the year	-	-8	1,207	384	-	1,583
Dividend paid	-	-	-	-	-1,710	-1,710
Proposed dividend **	-	-	-1,225	-384	1,609	0
Shareholders' equity at 31 December 2017	1,000	-33	12,227	2,319	1,609	17,122

\* Recognised in the balance sheet under other reserves.

\*\* The dividend amounts to DKK 0 per share (2017: DKK 1,609). The line shows the effect on shareholders' equity at year end.

## Statement of capital - Forsikringselskabet Danica

DKKm	2018	2017
Capital base		
Shareholders' equity	18,897	17,122
Valuation differences between financial statements and Solvency II		
Provisions for insurance and investment contracts	-	-2
Holdings in group undertakings	3,071	4,532
- Proposed dividend	-	-1,609
- Tax assets	0	
Capital base	21,968	20,043

# Notes – Forsikringselskabet Danica

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Note

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## 1 SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Parent Company, Forsikringselskabet Danica, are presented in accordance with the provisions of the Danish Financial Business Act, including the Danish FSA's Executive Order No. 937 of 27 July 2015 on financial reports for insurance companies and multi-employer occupational pension funds and Amending Executive Order No. 688 of 1 June 2016, in force from 1 July 2016.

Danica Pension has decided to implement the requirement from the modification of 3 December 2018 to the executive order on financial reports for insurance companies and multi-employer occupational pension funds around the ratio Solvency coverage no longer must appear in the five year summary of the main and key figures.

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.

Holdings in group undertakings comprise Danica Pension, which is a life insurance company and the parent company of a life insurance group.

# Notes - Forsikringselskabet Danica

Note	DKKm	2018	2017
2	<b>GROSS PREMIUM INCOME</b>		
	Premiums, direct insurance, broken down by policyholders' residence:		
	Denmark	407	351
	Other EU countries	5	4
	Other countries	1	1
	<b>Total</b>	<b>413</b>	<b>356</b>
3	<b>TECHNICAL INTEREST</b>		
	Calculation of technical interest and return on investment:		
	Technical interest rate	1.15%	1.10%
	Technical interest amount	3	4
	Outstanding claims provision, discounted amount	-5	-5
	<b>Technical interest, net of reinsurance less discounted amount</b>	<b>-2</b>	<b>-1</b>
	Total return on investment	634	1,226
	Value adjustment of outstanding claims provision	2	2
	<b>Total return on investment, including market value adjustments</b>	<b>636</b>	<b>1,228</b>
	Of which transferred to technical interest	-3	-4
	<b>Return on investment less technical interest</b>	<b>633</b>	<b>1,224</b>
4	<b>CLAIMS</b>		
	Total run-off regarding prior years:		
	Gross claims	10	-
	Net of reinsurance	10	-
	Run-off, net of reinsurance, relates to health and accident insurance policies.		
5	<b>OPERATING EXPENSES RELATING TO INSURANCE</b>		
	Average number of full-time-equivalent employees during the year	30	29
	Number of full-time-equivalent employees, end of year	30	29
	Staff costs:		
	Salaries	-46	-42
	Share-based payment	-5	-6
	Pensions	-7	-6
	Other social security and tax	-6	-6
	Other	-1	-1
	<b>Total staff costs earned</b>	<b>-65</b>	<b>-61</b>
	Fees to the audit firm appointed by the general meeting:		
	Fees to Deloitte:		
	Statutory audit of financial statements	-0.7	-0.8
	<b>Total</b>	<b>-0.7</b>	<b>-0.8</b>
	The company and its subsidiary Danica Pension share the same Executive Board, actuary and company secretary. Their remuneration is paid by Danica Pension and is included in operating expenses, which are allocated to the Company by Danica Pension.		
6	<b>VALUE ADJUSTMENTS</b>		
	Bonds	-12	-1
	<b>Total value adjustments</b>	<b>-12</b>	<b>-1</b>
7	<b>OTHER INCOME</b>		
	Commission income from ancillary activities	2	2
	Asset management	641	605
	<b>Total</b>	<b>643</b>	<b>607</b>



## Notes - Forsikringselskabet Danica

Note	DKKm	2018	2017
8	<b>OTHER EXPENSES</b>		
	Expenses in relation to ancillary activities	-10	-4
	General management expenses	-78	-69
	<b>Total</b>	<b>-88</b>	<b>-73</b>
9	<b>TAX</b>		
	Tax for the year can be broken down as follows:		
	Tax on the profit for the year	-124	-108
	Tax on other comprehensive income		
	Omregning af udenlandske enheder	-9	4
	Hedging of units outside Denmark	14	-8
	<b>Total</b>	<b>-119</b>	<b>-112</b>
	Tax on the profit for the year is calculated as follows:		
	Current tax	-124	-108
	<b>Total</b>	<b>-124</b>	<b>-108</b>
	Effective tax rate:		
	Danish tax rate	22.0	22.0
	Non-taxable income and non-deductible expenses	-11.7	-15.7
	<b>Effective tax rate</b>	<b>10.3</b>	<b>6.3</b>
10	<b>OTHER FINANCIAL INVESTMENT ASSETS</b>		
	Includes investments in undertakings in the Danske Bank Group as follows:		
	Bonds	253	201
11	<b>SHAREHOLDERS' EQUITY</b>		
	Number of shares of DKK 1,000	1,001,000	1,000,000
12	<b>CONTINGENT LIABILITIES</b>		
	The following assets have been deposited as collateral for policyholders' savings:		
	Bonds	330	370
	Accrued interest	-	3
	<b>Total</b>	<b>330</b>	<b>373</b>
	The company has rent commitments with a remaining lease of 9 years and annual gross rent of	47	51
	The company is jointly taxed with all units in the Danske Bank Group and are jointly and severally liable for their Danish income tax, withholding tax etc.		
	The company is registered jointly with group undertakings for financial services employer tax and VAT, for which it is jointly and severally liable.		

# Notes - Forsikringselskabet Danica

Note	DKKm	2018	2017
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## 13 RELATED PARTIES

Danske Bank, domiciled in Copenhagen, Denmark, wholly owns the share capital of Forsikringselskabet Danica and thus exercises control.

Transactions with related parties are settled on an arm's-length basis.

Forsikringselskabet Danica'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.

Forsikringselskabet Danica entered into the following significant transactions and balances with other companies in the Danske Bank Group. For more information, see note 10.

IT operations and development	-6	-6
Other administration	-16	-14
Ordinary portfolio management fee	641	573
Forsikringselskabet Danica is managed by Danica Pension, which settles expenses with the companies it manages on an arm's-length		
Accordingly, Forsikringselskabet Danica refunded to Danica Pension	18	14
Forsikringselskabet Danica received a loan from its subsidiary, Danica Pension	1,200	1,200
Forsikringselskabet Danica received a loan from its owner, Danske Bank	1,700	-

## 14 SPECIFICATION OF CLASSES OF INSURANCE

	Health and accident insurance	Health care insurance	Total
Gross premiums	134	278	412
Gross premium income	135	277	412
Gross claims	-143	-232	-375
Gross operating expenses	-6	-12	-18
Technical interest, net of reinsurance	0	-1	-1
Technical result	6	12	18
Number of claims	1,300	43,981	45,281
Average amount of claims	0.2	0.0	0.0
Claims frequency	1.3%	6.0%	5.9%

## Group overview

	Owner- ship	Cur- rency	Profit for the year	Share capital	Share- holders' equity	Employ- ees	Directorships <sup>1</sup>		
	%		millions	millions	millions	No. <sup>2</sup>	OPET	HYB	LOC
<b>NON-LIFE INSURANCE</b>									
Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999, Copenhagen		DKK	1,082	1,001.0	18,898	30	D	D	D
<b>LIFE INSURANCE</b>									
Danica Pension, Livsforsikringsak- tieselskab, Copenhagen	100	DKK	643	1,101.0	21,366	470	D	D	D
Danica Pensionsforsikring A/S, Copenhagen	100	DKK	-952	11.0	1,910	0	D	D	D
Danica Pension Försäkringsaktie- bolag, Stockholm	100	SEK	103	100.0	504	58			
Danica Pensjonsforsikring AS, Trondheim	100	NOK	49	106.0	512	90			
<b>MANAGEMENT BUSINESS</b>									
Danica Administration A/S	100	DKK	131	20.0	151	247			
<b>PROPERTY INVESTMENT</b>									
Danica Ejendomsselskab ApS, Co- penhagen	100	DKK	1,010	2,793.7	21,321	-		C	
Nygade 1-3 ApS, Copenhagen	100	DKK	-47	0.1	391	-		C	
Ejendomsselskabet Project Nord P/S	100	DKK	0	0.5	746	-		C	
Komplementarselskabet Project Nord A/S	100	DKK	0	0.1	0	-		C	
Ejendomsselskabet Project Sunflower P/S	100	DKK	0	0.5	0	-		C	
Komplementarselskabet Project Sunflower ApS	100	DKK	0	0.1	0	-		C	
SD Karreen Holding ApS	100	DKK	0	18.0	485	-		C	
SD Karré 1 ApS	100	DKK	70	16.0	686	-		C	
SD Karré 2 ApS	100	DKK	0	2.0	99	-		C	
Jægergårdsgade 101A ApS	100	DKK	0	0.1	0	-		C	
ERDA I P/S	100	DKK		50	112	-		C	
ERDA I Komplementarselskab ApS	100	DKK	0	50	0	-		C	
Lyngby C ApS	100	DKK	0	5.0	14	-			
Danica Ejendomme II A/S	100	DKK	149	25.0	1,045	-		C	
Bernstorffsgade Holding A/S	100	DKK	73	10.0	395	-		C	
Bernstorffsgade 50 P/S	100	DKK	0	10.0	0	-		C	
Hannemanns Allé P/S	100	DKK	0	10.0	0	-		C	

<sup>1</sup> Directorships of Ole Krogh Petersen (OPET), Jesper Mølskov Høybye (HYB) and Søren Lockwood (LOC) - C stands for chairman of the board of directors and D stands for executive board member

<sup>2</sup> Comprises average number of employees in group companies at 31 December 2018

## Group overview

### Companies

Forsikringsselskabet  
Danica A/S

Danica Pension A/S

Danica Pension  
Försäkringsaktiebolag

Danica Pensjons-  
Forsikring AS

Danica Administration  
A/S

Danica Pen-  
sionsforsikring A/S

Property companies

Property companies

### Activity

Sale of non-life insurance, comprising the health insurance and critical illness products Sundhedssikring, Kritisk Sygdom

Sale of the unit-linked products Danica Balance, Danica Link and Danica Select for which the return on policyholders' savings equals the market return. Life insurance and loss of earning capacity cover may be attached to the policies.

Sale of conventional life insurance and pension product (Danica Traditionel) and health and accident insurance, including loss of earning capacity cover.

Primarily sale of company pension schemes in addition to ordinary unit-linked products and health and accident insurance in Sweden.

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

Sale of administrative and mediation services to Danica Pensionsforsikring A/S and underlying companies

Sale of unit-linked products, for which the return on policyholders' savings equals the market return. Life insurance and loss of earning capacity cover may be attached to the policies.

Sale of conventional life insurance and pension product and health and accident insurance, including loss of earning capacity cover.

Property companies investing primarily in commercial property and shopping centres.

Danica 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

### Jacob Aarup-Andersen

Head of Wealth Management, Danske Bank A/S  
Born on 06.12.1977

Member of the Executive Boards of:  
Danske Bank A/S

Director of:  
Danske Invest Management A/S, Chairman  
Kreditforeningen Danmarks Pensionsafviklings-  
kasse, Chairman  
Danske Bank International S.A., Chairman  
Realkredit Danmark A/S, Vice Chairman

### Kim Andersen

Managing director (state-authorized public ac-  
countant with deposited license)  
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 Au-  
dit Committee)

In addition, Kim Andersen is Chairman of the Dan-  
ica Group's audit committee

### Christian Boris Baltzer

CFO, Danske Bank A/S  
Born on 18.04.1978

Director of:  
Realkredit Danmark A/S

### Per Klitgård Poulsen

Born on 11.12.1958

Member of the Executive Board of:

Gruts Allé ApS  
Director of:  
C WorldWide Group Holding A/S  
C WorldWide Holding A/S  
Søhusvej A/S  
GASA Group Holding A/S, Chairman  
GASA Group Denmark A/S, Chairman  
GASA Investment A/S, Chairman

### Thomas Mitchell

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

### Jeanette Løgstrup

Senior Vice President of Danske Bank A/S  
Born on 04.12.1966

Director of:  
JP/Politikens Hus A/S  
MobilePay A/S  
MobilePay Denmark A/S  
Dagmar Marshalls Fond

### Christoffer Møllenbach

Head of Treasury, Danske Bank A/S  
Born on 03.11.1972

Director of:  
VP Securities A/S  
Danske Corporation, Inc.

### Kenneth Stricker-Nielsen

Pension specialist and Vice Chairman of staff as-  
sociation  
Born on 10.02.1985

### Charlott Due Pihl

Chairman of staff association, Danica Pension  
Born on 27.03.1968

### 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.

### Ole Krogh Petersen

Chief Executive Officer  
Born on 31.01.1969

Director of:  
Forsikringsorganisationernes Fællessekretariat  
F.M.B.A.

### Jesper Mølskov Høybye

Member of the Executive Board  
Born on 27.05.1978

### Søren Lockwood

Member of the Executive Board  
Born on 23.10.1959

# 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 Forsikringsselskabet Danica for the financial year 2018.

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 2018 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year ended 31 December 2018. 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, 1 February 2019

### Executive Board

Ole Krogh Petersen  
Chief Executive Officer

Jesper Mølskov Høybye

Søren Lockwood

### Board of Directors

Jacob Aarup-Andersen  
Chairman

Kim Andersen  
Vice Chairman

Christian Boris Baltzer

Per Klitgård Poulsen

Thomas Mitchell

Jeanette Logstrup

Christoffer Møllenbach

Kenneth Stricker-Nielsen

Charlott Due Pihl

Henrik Nielsen

## Independent auditor's report

To the shareholder of Forsikrings-selskabet Danica Skadeforsikringsaktieselskab af 1999

### Opinion

We have audited the consolidated financial statements and the parent financial statements of Forsikrings-selskabet Danica Skadeforsikringsaktieselskab af 1999 for the financial year 1 January to 31 December 2018, pages 11-74, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including the summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. 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 2018 and of its financial performance and cash flows for the financial year 1 January to 31 December 2018 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 2018 and of its financial performance for the financial year 1 January to 31 December 2018 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 for 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 Forsikrings-selskabet Danica Skadeforsikringsaktieselskab af 1999 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 4 years up to and including the financial year 2018.

### 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 2018. 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.

Key audit matters	How the matters were addressed in our audit
<b>Acquisition of Danica Pensionsforsikring A/S (formerly SEB Pensionsforsikring)</b>	
On 7 June 2018, Danica Pension acquired SEB Pensionsforsikring for a total purchase price of DKK 5,0 billion.	Based on our risk assessment, we examined the assumptions and methodology applied by Management in determining the purchase price allocation.
Consistently with IFRS 3, Management has made a preliminary purchase price allocation, as part of which the assets and liabilities acquired have been valued at	

fair value and goodwill has been calculated at DKK 2,427 million and customer rights at DKK 1.332 million.

The most significant judgements are:

- Determining fair values of unlisted investments and properties, including assumptions underlying market values in illiquid markets.
- Determining fair values of pensions obligations, including determining disability rates, mortality rates, surrender probabilities and provisions for unearned premiums.
- Impairment testing at 31 December 2018 of the intangible assets identified.

Management has provided further information about the acquisition in note 1 to the consolidated financial statements.

Besides challenging the methodology applied by using our industry knowledge and experience, our examination included the following elements:

- Challenging the assumptions underlying the valuation of the unlisted investments.
- 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.
- Challenging, together with our own internationally qualified actuaries, the assumptions underlying the calculation of provisions for insurance and investment contracts, including disability rates, mortality rates, surrender probabilities, guarantees, recapitalisation, risk margin and provisions for onerous contracts.
- Testing management controls related to the preparation of impairment test and follow-up on developments in the customer portfolio acquired.
- Challenging the assumptions underlying the expected cash flows, growth assumptions and discount rate that have been incorporated in the impairment test by Management in connection with the year-end closing.

#### Measurement of unlisted investments

Unlisted investments amount to DKK 24,091 million at 31 December 2018 (DKK 25,575 million at 31 December 2017).

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.

The most significant judgements are:

- Determination of market value in illiquid markets
- Definition of required rate of return
- Assessment of future cash flows.

Management has provided further information about unlisted investments in note 33 to the consolidated financial statements.

Based on our risk assessment, we have examined the valuation of unlisted investments and evaluated the methodology applied and the assumptions made.

Our examination included the following elements:

- Testing key controls over the valuation of unlisted investments, including the assumptions-setting processes, and the operating effectiveness of such controls.
- Testing key controls for investments recognised based on prices obtained from external parties and follow-up thereon for the purpose of validating the prices used.
- Challenging the methodology applied by using our industry knowledge and experience, focusing on changes etc. since last year.
- Assessing key assumptions underlying future cash flows and required rates of return defined.



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### Measurement of investment property

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Investment property amounts to DKK 20,868 million at 31 December 2018 (DKK 26,104 million at 31 December 2017).

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.

The most significant judgements are:

- Assessment of future cash flows
- Definition of required rate of return.

Management has provided further information about investment property in note 17 to the consolidated financial statements.

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.

Our examination included the following elements:

- Testing key controls over the valuation of investment property, including the assumptions-setting processes, procedure for approval and changes in estimates by Management, as well as the operating effectiveness of such controls.
- Challenging the methodology applied by using our industry knowledge and experience, focusing on changes since last year.
- 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.

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### Measurement of liabilities under insurance contracts

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Liabilities under insurance contracts amount to DKK 399,522 million at 31 December 2018 (DKK 363,778 million at 31 December 2017).

Measurement of liabilities under insurance contracts is deemed a key audit matter as the determination of assumptions for the measurement of life insurance contract liabilities requires complex judgements about future events.

Changes in assumptions and the methodology applied may have a material impact on the measurement of liabilities under insurance contracts.

The most significant judgements are:

- Determining disability rates, mortality rates, surrender probabilities and provisions for unearned premiums
- Assumptions related to regulatory and reporting requirements, including risk and interest.

Management has provided further information about liabilities under insurance contracts in notes 25 and 26 to the consolidated financial statements.

Based on our risk assessment, we have examined the valuation of liabilities under insurance contracts and evaluated the methodology applied and the assumptions made.

Our examination included the following elements, where we also made use of our own internationally qualified actuaries:

- Testing of key controls over the actuarial models, data collection and analysis and the assumptions-setting processes.
- Evaluating the disability and mortality rates and surrender probabilities used in the calculation against historical data and market practice.
- Evaluating principles and assumptions applied to calculate provisions for unearned premiums.
- Assessing key changes in the assumptions against regulatory and reporting requirements and industry standards.
- Analysing developments, particularly within risk, interest and cost results by using our industry knowledge and experience.

## **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 or 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.

## **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, and for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Statements 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, disclosing, as applicable, matters related to going concern and 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 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 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 and 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 contents 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, 1 February 2019

**Deloitte**

Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56

Jens Ringbæk

Jacques Peronard

State-Authorised Public Accountant

State-Authorised Public Accountant

MNE no 27735

MNE no 16613

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## Address

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Company Registration No.

CVR 25020634

Contact: Ole Fabricius, Head of Finance