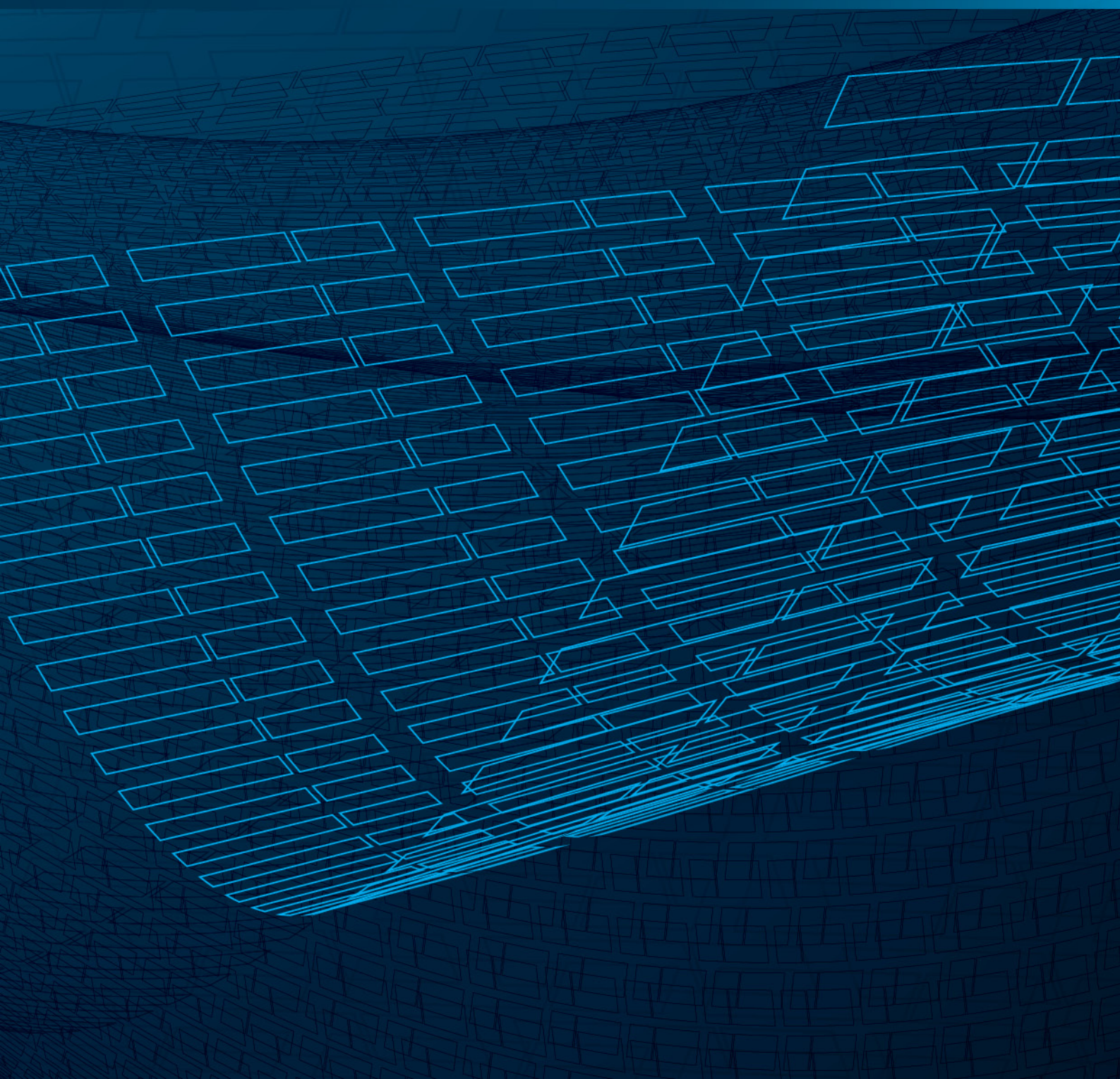


FORSIKRINGSELKABET DANICA

# ANNUAL REPORT 2011



Danica Pension





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This Annual Report 2011 is a translation of the original report in the Danish language (Årsrapport 2011). In case of discrepancy, the Danish version prevails.

## SELECTED FINANCIAL HIGHLIGHTS FOR THE DANICA GROUP

(DKK millions)	2011	2010	2009	2008	2007
<b>PREMIUMS INCLUDING INVESTMENT CONTRACTS</b>	27,277	24,148	20,431	21,879	18,940
<b>INCOME STATEMENT</b>					
Technical result, Life	-18	1,145	1,466	-59	1,032
Technical result of health and accident insurance	181	261	296	-787	-263
Return on investment allocated to equity, etc.	570	869	1,296	-279	875
Profit/loss before tax	733	2,275	3,058	-1,125	1,644
Tax	-183	-504	-737	305	-303
<b>Net profit for the year</b>	<b>550</b>	<b>1,771</b>	<b>2,321</b>	<b>-820</b>	<b>1,341</b>
<b>BALANCE SHEET</b>					
Total assets	303,160	288,061	264,085	242,851	246,475
Technical provisions, health and accident insurance	8,648	8,384	8,267	8,084	7,530
Provisions for insurance and investment contracts	267,844	255,459	237,409	218,139	222,514
Collective bonus potential	375	1,740	2,775	1,553	13,462
Total shareholders' equity	19,743	20,992	19,215	16,886	17,716
<b>KEY FIGURES AND RATIOS (%)</b>					
Return before tax on pension returns excl. return on market products	6.1	5.6	6.7	-0.9	1.2
Return before tax on pension returns on customer funds in Danica Pension	6.8	5.8	7.1	-1.2	1.1
Return on market products in Denmark	-2.5	12.9	24.0	-24.0	2.6
Expenses as per cent of premiums	4.6	5.0	6.0	6.0	7.1
Expenses as per cent of provisions	0.52	0.52	0.55	0.63	0.66
Expenses per policyholder (DKK)	1,337	1,342	1,360	1,466	1,564
Insurance risk result	0.04	0.09	0.08	0.14	0.14
Bonus rate - bonus-paying companies	0.2	1.1	1.7	0.9	8.3
Owners' capital ratio	12.5	14.8	13.5	11.9	12.7
Excess core capital ratio	6.7	8.7	8.7	6.9	7.9
Solvency ratio	225	276	283	242	263
Return on equity before tax	3.5	11.3	16.9	-6.5	9.6
Return on customer funds after deduction of expenses before tax	6.1	4.6	5.5	-1.3	0.0
<b>RATIOS FOR HEALTH AND ACCIDENT INSURANCE</b>					
Gross claims ratio	93	82	96	97	97
Gross expense ratio	12	13	14	15	16

Forsikringselskabet Danica's consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. Mandatory ratios pursuant to the Danish FSA's Executive Order on Financial Reports of Insurance Companies and Lateral Pension Funds are set out in note 1 to the financial statements.

## OVERVIEW OF EVENTS IN 2011

In 2011, the pension market felt the impact of the continued economic downturn, financial market turmoil and strong competition. Price competition continued, and 2011 was characterised by many tenders for Danica's own and other companies' customers. In several instances, competition reached such heights that expenses exceeded income, and Danica chose to withdraw from several tenders. Danica nonetheless maintained its position as one of Denmark's leading providers of life and pension products. In 2011, for the Danish business Danica's net addition of savings from other pension companies was DKK 1.1 billion.

Premiums in the Danish business improved by 11.3% to a total of DKK 18.8 billion. The market products Danica Balance and Danica Link in 2011 totalled DKK 11.7 billion, equalling an improvement of 20.1%. On the Danish market, market products amounted to 84% of life insurance premiums for Danica's new customers, and some 162,000 customers had opted for market products at the end of 2011. As expected, the premiums for conventional product lost ground, falling 4.3% to DKK 7.1 billion.

In the units outside Denmark, Danica experienced strong premium growth of 16.9% to DKK 8.5 billion. The premium growth was mainly related to growth in the Norwegian business, driven in part by the takeover of a major portfolio.

The Danish pension market was also affected by legislative changes in the form of the Danish labour market retirement reform and changed rules on tax deductibility. Danica considers it one of its prime objectives to always provide customers with simple, sustainable solutions, including when rules change. On the website, Danica therefore launched a simple advisory tool on the Danish early retirement reform.

For customers whose pension savings are made through their employers, Danica implemented Automatic Transfer, which means that all payments in excess of the new deductibility cap are automatically transferred to a life annuity.

It is important for customers to have security that Danica is able to meet its obligations towards customers at all times - also during short periods of major financial market volatility. Danica's capital base covers 225% of the solvency requirement, and Danica has made additional provisions of DKK 25,2 billion. Even though Solvency II has been postponed, Danica continues to base its calculation of solvency need on the yellow traffic light scenario, which covers more extensive risk scenarios than those included in the Danish FSA's red traffic light scenario. This ensures that Danica is able to meet its obligations at all times, even during periods of volatility.

## FINANCIAL REVIEW

### Financial results

Danica realised a profit before tax of DKK 733 million, against DKK 2,275 million in 2010. The net profit after tax amounted to DKK 550 million, against DKK 1,771 million in 2010. This was in line with the profit forecast as stated in the interim report for the first half of 2011. The Board of Directors proposes to the annual general meeting that an amount of DKK 550 million be distributed in 2012 as dividends in respect of 2011.

DANICA GROUP, PROFIT BEFORE TAX		
(DKK millions)	2011	2010
Technical result, Traditionel	1,120	1,126
Technical result, unit-linked business, Denmark	279	274
Health and accident result in Denmark (before investment return)	-11	67
Technical result, activities in units outside Denmark	12	65
Investment return	585	800
Transferred to shadow account	-1,158	584
Special allotments	-94	-641
Profit/loss before tax	733	2,275

The profit from insurance operations with respect to the conventional business was DKK 1,120 million, against DKK 1,126 million for 2010.

The technical basis for the risk allowance only allowed for the booking of risk allowance for one of the four interest rate groups. The risk allowance for the remaining three interest rate groups of DKK 1,085 million and a loss of DKK 33 million on one of the risk groups were transferred to the shadow account. Moreover, it was necessary to strengthen technical provisions by an amount of DKK 40 million, which was also transferred to the shadow account.

The technical result of unit-linked business in Denmark amounted to DKK 279 million, against DKK 274 million in 2010. The result was boosted by fund management commissions, whereas an increase in the amount of customer discounts had a negative effect on the performance.

The result of health and accident insurance before investment return was a loss of DKK 11 million, against a profit of DKK 67 million in 2010. Including investment return and excluding the profit/loss of Forenede Gruppeliv, the result was a profit of DKK 181 million. The claims ratio for the health and accident business was 93%, against 82% in 2010. A higher positive run-off on claims in 2010 than in 2011 and greater pressure on prices contributed to this development.

The technical result of the units outside Denmark activities amounted to DKK 12 million, against DKK 65 million in 2010. The result was composed of a decrease in the result of the Swedish business from DKK

45 million to DKK 21 million and a decrease in the result of the Norwegian business from DKK 49 million to DKK 44 million. The decrease in the Swedish business is to some extent explained by non-recurring income in 2010. The loss in Ireland of DKK 53 million was impacted by disposal costs. As a result of the unsatisfactory performance and in view of the continued low business volume in Ireland, Danica has initiated a process with a view to selling or winding up the Irish business within a time frame of 12-18 months.

The return on investment, comprising the investment returns on shareholders' equity and on the health and accident business, was down from DKK 800 million to DKK 585 million as a result of lower returns on equities and on credit investments.

The Danica Group's return on equity was 2.6% in 2011, against 8.8% in 2010. On a two-year average, the return on equity was 5.8%.

Special allotments, as described in the section on contribution under significant accounting policies, amounted to an expense of DKK 94 million, which will be allocated to the customers in March 2012. The lower result in combination with an increased solvency need reduced special allotments.

### Gross premiums

Gross premiums including health and accident insurance and payments received on investment contracts amounted to DKK 27.3 billion in 2011, which was an increase of DKK 3.2 billion or 13.0% relative to 2010.

PREMIUMS (INCLUDING INVESTMENT CONTRACTS)					
(DKK billions)	2011	2010	2009	2008	2007
Danica Balance	9.4	7.3	4.5	4.0	2.8
Danica Link	2.3	2.5	2.8	3.7	4.3
Danica Traditionel	7.1	7.5	8.7	10.8	10.2
Internal transfers	-1.3	-1.7	-0.7	-0.9	-1.4
Health and accident	1.3	1.3	1.3	1.3	1.2
Units outside Denmark	8.5	7.2	3.8	3.0	1.8
Total premiums	27.3	24.1	20.4	21.9	18.9

Premiums for the Danish market products, Danica Balance and Danica Link, rose by 20%, whereas gross premiums for Danica Traditionel dropped by 4%.

In the units outside Denmark, premiums accounted for 31% of total premiums, against 10% in 2007.

### Return on investment

In 2011, the Danica Group had a return on investment before tax on pension returns of DKK 9.3 billion or 3.4%. After tax on pension returns, the return was DKK 7.8 billion or 2.8%.

The return on investment of assets allocated to shareholders' equity in Danica Pension, excluding insurance subsidiaries, amounted to DKK 273 million or 1.6% in 2011, against 3.1% in 2010.

Danica Balance and Danica Link saw a total negative return of DKK 1.1 billion or 2.5%.

The return on investment of customer funds in Danica Traditionel was DKK 12.4 billion or 6.8% before tax on pension returns. The return was negatively affected by lower equity prices and widening credit spreads in 2011. Follow the allocation of DKK 8.8 billion to life insurance provisions, the return was 2.1%.

### Collective bonus potential

The collective bonus potential for the interest rate groups fell to DKK 0.2 billion and for the cost and risk groups amounted to DKK 0.2 billion. For two of the interest rate groups, DKK 1.8 billion of the bonus potential of paid-up policies was used to absorb losses, and a surrender charge was consequently introduced. For the three interest rate groups with the highest guaranteed benefits, almost no bonus potentials remain to cover further negative investment returns.

#### COLLECTIVE BONUS POTENTIAL IN DANICA PENSION\*

(DKK billions)	New business 2011	Total 2011	Total 2010
Return on customer funds (life)	0.1	11.2	10.1
Change in the value of insurance obligations	0.0	-8.7	-3.3
	0.1	2.5	6.8
Tax on pension returns	0.0	-1.6	-1.2
Interest added for the period	-1.4	-4.3	-5.2
Cost and risk results	0.0	0.3	0.3
Risk allowance of provisions	-0.2	-1.2	-1.1
Transferred to shadow account	0.2	1.1	-0.6
Used bonus potential of paid-up policies	0.8	1.8	-
Added from equity	-	0.0	-
Change in collective bonus potential	-0.5	-1.4	-1.0

\* Comprises customer funds with bonus entitlement only.

The decline relative to the end of 2010 in collective bonus potential should be seen in the context of an investment return after change in additional provisions of 2.1% and an average interest rate on policyholders' savings of 3.0% before tax on pension returns. Due to the lack of collective bonus potential, DKK 1.8 billion of the bonus potential of paid-up policies was used at year end 2011, and a further DKK 40 million of shareholders' equity was used to absorb interest rate groups' losses.

As from 1 January 2011, the collective bonus potential was distributed on groups pursuant to the executive order on the contribution principle as described in Significant accounting policies. The change since 1 January is shown in the table below.

INTEREST RATE AND RISK GROUPS AT 31.12.2011					
(%)	Policyholders' savings before tax on pension returns	Return on investment before tax on pension returns	Collective bonus potential (DKK billions)	Bonus rate at	
				31.12	01.01
Interest rate group 1 (new customers)	3.0	0.1	-	0.0	1.0
Interest rate group 2 (low guarantee)	3.0	-0.4	-	0.0	1.0
Interest rate group 3 (medium guarantee)	3.25	13.8	0.1	1.0	1.0
Interest rate group 4 (high guarantee)	3.25	11.0	0.1	0.1	1.0
Risk Groups	-	-	0,2	-	-

At 1 January 2012, the interest rate on policyholders' savings in all groups was reduced to 1.8% before tax on pension returns.

### Charge on customer funds

The total charge on customer funds in the conventional business not only comprises the risk allowance but also the recognition of cost and risk results. Overall, the cost and risk results in 2011 reduced the charge on customers by DKK 62 million.

CHARGE ON CUSTOMER FUNDS IN DANICA TRADITIONEL *			
(DKK millions)	New business 2011	Total 2011	Total 2010
Risk allowance (share of provisions)	250	1,185	1,126
Subordinated debt	4	15	20
Administrative expenses related to investment	333	630	444
Charge for the period, interest rate groups	587	1,830	1,590
In % of provisions	1.18	1.04	0.91
Risk allowance (share of risk result)	-	39	0
Risk result	-	-36	-127
Cost result	-	-26	6
Total charge for the period, excl. shadow account	587	1,807	1,469
In % of provisions, excluding shadow account	1.18	1.03	0.84
Transferred from shadow account	-250	-1,158	584
Total charge, including shadow account	337	649	2,053
In % of provisions, including shadow account	0.68	0.37	1.18

\* Comprises customer funds with bonus entitlement only

In 2011, the total charge on customers excluding the shadow account was a negative DKK 1,807 million, or 1.03% of provisions. During the period 2007-2011 the charge averaged 0.79% excluding the shadow account. Furthermore, it was necessary in 2011 to make a DKK 1,756 million draw on the bonus potential of paid-up policies, and DKK 40 million was contributed

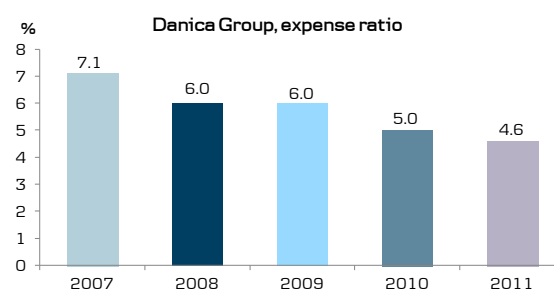
from shareholders' equity to customer funds for the interest rate groups, which is included in the line transferred from shadow account.

### Claims and benefits

Claims and benefits amounted to DKK 16.6 billion in 2011 against DKK 16.7 billion in 2010. Surrenders amounted to DKK 9.8 billion in 2011 against DKK 8.5 billion in 2010.

### Expenses

In life insurance, operating expenses relating to insurance amounted to DKK 1,203 million in 2011, against DKK 1,143 million in 2010 as a result of increased expenses in the business outside Denmark and declining expenses in the Danish business. The higher premiums contributed to an improvement of the expense ratio from 5.0% to 4.6%.



The expense ratio for Danica's Danish activities improved from 5.5% in 2010 to 4.7% in 2011. Expenses amounted to 0.40% of average provisions, against 0.42% in 2010.

EXPENSE RATIO	2011	2010
Danica Group	4.6	5.0
Danica's Danish activities	4.7	5.5

The average number of full-time employees was 845 in 2011, against 898 in 2010, and at the end of the year Danica had 837 employees in Denmark and abroad. The reduced number of employees should be seen in the context of continuing digitalisation measures and self service tools and the fact that 42 insurance brokers and customer advisors were transferred to Topdanmark at the beginning of the year.

The Danica Group paid DKK 670 million to Danske Bank for investment management, IT operations and development, internal auditing, HR administration, logistics and marketing. In addition, Danica paid DKK 146 million to the Danske Bank Group for its sale of life insurance policies (see note 31).

At year end 2011, DKK 36 million had been capitalised by the Danske Bank Group in respect of systems development for the Danica Group. This amount will be charged to the Danica Group's income statement over the coming three years.

### Corporation tax

Corporation tax amounted to DKK 183 million.

### **Balance sheet**

The Group's total assets rose from DKK 288 billion at the end of 2010 to DKK 303 billion at the end of 2011.

Investment assets, including investment assets related to unit-linked contracts, rose from DKK 281 billion at year end 2010 to DKK 295 billion at year end 2011.

Provisions for insurance and investment contracts totalled DKK 268 billion, against DKK 255 billion at the end of 2010.

Life insurance provisions amounted to DKK 182 billion, against DKK 179 billion in 2010, breaking down into guaranteed benefits, bonus potential of future premiums and bonus potential of paid-up policies.

In the fourth quarter of 2011, the European debt crisis meant a generally low level of interest rates, a drop in Danish interest rates relative to the German interest rates and significantly widened credit spreads within the eurozone. As a result, Danish bond interest rates, which historically have been higher than German interest rates, fell to a lower level than the German interest rates. In December 2011, the extraordinary market conditions in the fourth quarter prompted the Danish FSA to allow an adjustment of the discount curve used to calculate life insurance obligations. Danica is now, for one component in the discount curve, allowed to calculate the spread between Danish and German government bonds as a 12-month moving average. Danica used the principles of the new discount curve in its calculation of life insurance provisions. The adjusted discount curve reduced technical provisions by DKK 2.8 billion at year end 2011 while increasing the solvency need by DKK 0.8 billion. If the Danish/German government bond spread remains close to zero or becomes negative over the next year, this will result in a negative profit contribution in 2012 because the moving average for the spread will approach zero.

The collective bonus potential at the end of 2011 amounted to DKK 0.4 billion. Additional provisions for compliance with Danica's guarantees amounted to DKK 25.2 billion.

Provisions for unit-linked contracts rose from DKK 66 billion at the end of 2010 to DKK 77 billion at the end of 2011.

At the end of 2011, shareholders' equity stood at DKK 19.7 billion, against DKK 21.0 billion at year end 2010. The decline was due to the distribution of dividends of DKK 1,8 billion.

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

Note 37 discloses the effect for Danica on shareholders' equity and on collective bonus potential and the bonus potential of paid-up policies of isolated changes in interest rates and other relevant financial risks as well as changes in the mortality and disability rates. The note also discloses risks and the manage-

ment thereof.

A 10% decline in the mortality rate, corresponding to an increase in life expectancy of about one year, would reduce the collective bonus potential by DKK 0.2 billion.

The pension industry is required by the Danish FSA to adopt the Traffic light stress test, which stress tests the companies' capital base. Danica is financially well positioned for this risk scenario, which includes a 12% drop in equity prices and a change in interest rates of 0.7 percentage point. A 12 percentage point drop in equity prices would at year-end 2011 reduce the bonus potential of paid-up policies by DKK 0.8 billion, the collective bonus potential by DKK 0.1 billion and equity by DKK 0.3 billion. A 70 basis point interest rate increase would reduce the bonus potential of paid-up policies by DKK 1.0 billion, the collective bonus potential by DKK 0.2 billion and equity by DKK 0.5 billion.

Throughout 2011, Danica was in the green light scenario.

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

As a precursor to the coming Solvency II rules, the Danish FSA in 2007 introduced a requirement for insurance companies to calculate their solvency need. The solvency need is a risk-based capital requirement, calculated according to the company's own risk assessment, to complement the solvency requirement. All Danish insurance companies are thus required to have a capital base corresponding at least to the higher of the solvency requirement and the solvency need. All companies in the Danica Group complied with this in 2011.

Danica has developed a model for calculating solvency need. In the model, stress tests are performed of relevant risk factors, including equity prices, property values, interest rates and life expectancy. The solvency need is calculated as the overall capital requirement after stress testing adjusted for collective bonus potential and bonus potential of paid-up policies used. The stress tests are based on the Danish FSA's yellow traffic light scenario, which includes a 30% drop in equity prices, a 12% drop in property values and a 1.0 percentage point change in interest rates. Applying the yellow traffic light scenario, as Danica has opted to do, constitutes a stricter approach than the red risk scenario that forms part of the Danish FSA's traffic lights. Furthermore, the Danish FSA's stress test regarding life expectancy and disability rates is used, while the capital requirement with respect to other risks is based on an estimate. Finally, the model includes a country spread risk corresponding to the difference between the current value of the moving 12-month average and a spread of 0 bp.



SOLVENCY, DANICA (DKK millions)	GROUP		PARENT	
	2011	2010	2011	2010
Capital base	19,095	22,082	10,202	14,169
Solvency requirement	8,503	7,987	76	79
Solvency need	9,444	7,726	1,082	176
Required capital base	9,444	7,987	1,082	176

The solvency need amounted to DKK 9.4 billion at end-2011, against a solvency requirement of DKK 8.5 billion. In the following financial strength, the solvency need at year end 2011 is incorporated, as this exceeds the solvency requirement.

In October 2006, Danica raised EUR 400 million in subordinated debt. The loan, which was listed on the Irish Stock Exchange, was repaid in October 2011 as expected.

The Danica Group's capital base amounted to DKK 19.1 billion. The Danica Group's total financial strength, i.e. its capital base and collective bonus potential less the required capital base, amounted to DKK 10.0 billion at year end 2011.

DANICA GROUP, FINANCIAL STRENGTH (DKK millions)	2011	2010
Shareholders' equity	19,743	20,992
Subordinated debt	-	2,966
Intangible assets etc.	-98	-105
Proposed dividends	-550	-1,771
Capital base	19,095	22,082
Required capital base	-9,444	-7,987
Excess capital base	9,651	14,095
Collective bonus potential	375	1,740
Financial strength	10,026	15,835

The financial strength reflects the extra security provided for customers' funds. To this should be added a bonus potential of paid-up policies of DKK 4.0 billion, part of which can be used to offset losses.

In November 2011, Standard & Poor's maintained its rating of Danica Pension of A (negative outlook). Following the repayment of the subordinated loan, Danica has decided not to maintain a rating.

#### Events after the balance sheet date

No events have occurred between 31 December 2011 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 2012

In 2012, Danica expects to maintain its position as one of the leading providers of life and pension insurance products in Denmark.

The profit for 2012 will mainly depend on developments in the financial markets, which influence the booking of a risk allowance and the potential booking of income from the shadow account. The amount drawn on the bonus potential of paid-up policies in 2011 must be reestablished for each individual interest rate group before a risk allowance for 2012 can be booked, however.

If Danica is to book the full risk allowance in 2012, it will require investment returns of 4-5% for the interest rate group for new business and the medium guarantee interest rate group, 5-6% for the high guarantee interest rate group and 8-9% for the low guarantee interest rate group. Accordingly, it is unlikely that all interest rate groups will be able to book the full risk allowance in 2012.

Under current rules and if the interest rate spread between Danish and German government bonds remains close to zero or becomes negative over the next year, this will result in a negative profit contribution in 2012, and this is incorporated in the above return requirement for the booking of risk allowance. This is a consequence of the moving average government bond spread approaching zero.

#### Returns and market performance

In 2011, the first and second halves were marked by fundamentally different developments. During the first half, there was a general belief that the worst consequences of the financial crisis were over and that the growth experienced in 2010 would continue at a moderate, yet reasonable level. The second half saw however a negative development as a result of the growing economic slowdown in the USA and a catastrophic development in the European debt crisis, the existence of the Euro being under threat and interest rates reaching new highs in the most deeply indebted economies.

After increasing in the first half, interest rates in the core economies, including Denmark, dropped in the second half, reaching historical lows. Meanwhile, equities and credit bonds experienced a very negative market reaction, credit spreads once again widening and equity prices falling after the positive period of 2010 and the first half of 2011.

Overall, the USA performed far better than Europe, Japan and Emerging Markets. The European debt crisis also meant that EUR was weakened against USD, from 132.8 to 129.4, as well as against CHF, which became a favourite refuge currency.

As a result of the debt crisis, the Danish long-term 10-year government bond interest rate fell from 3.0% at the beginning of 2011 to 1.7% at the end of the year, whereas the 2-year interest rates fell from 1.0% to 0.2%. The 10-year Danish government bond yielded 15.5% in 2011.

The interest rate spread between Danish long-maturity mortgage bonds and Danish government

bonds at the end of 2011 was at the level of 1.2%, which was an increase of 0.5%.

Credit bond yields were adversely affected by increasing risk premiums and positively affected by the drop in interest rates during the year, and Danica's portfolio of credit bonds with investment grade credit quality consequently yielded returns of 1.5%. On bonds with lower credit quality, the yield was 3.0%.

Property investments in 2011 yielded a return of 6.2%, against 2.6% in 2010. The return for 2011 was favourably affected by a revaluation of the shopping centres to reflect a positive trend in contractual rent.

Listed equities yielded a negative return of 8.8%, while alternative investments, mainly consisting of unlisted equities, yielded a positive return of 11.3%.

A large part of the foreign exchange exposure was hedged.

Danica actively hedged interest rate and equity risk, particularly in the second half of 2011, when the debt crisis resulted in renewed major market volatility. During extended periods in the second half, a large part of Danica's equity risk was hedged by means of futures and options. Swaps, swaptions, bond futures and bond options were also regularly used to limit Danica's interest rate sensitivity in a market characterised by major day-to-day fluctuations.

Danica Balance customers under the medium equity risk profile and with 30 years to retirement age in 2011 had a negative return of 6.9% before tax on pension returns. Danica Balance customers in 2011 had an overall negative return before tax on pension returns of DKK 0.5 billion or 2.1%. Over a three-year period, the average return for all customers was 10.2% p.a. before tax on pension returns.

Risk	DANICA BALANCE, RETURN BEFORE TAX (%)			
	30 years to pensioning		5 years to pensioning	
	Return	Equity share	Return	Equity share
Aggressive	-8.3	100	-2.8	59
High	-8.3	100	-1.4	48
Medium	-6.9	90	0.0	38
Low	-5.0	75	1.4	27
Conservative	-1.5	49	2.8	16

Average return, Danica Balance was a negative 2.1% and over three years a positive 10.2%.

The majority of the Danica Link customers have opted for Danica Valg with medium risk, and they saw a negative return before tax on pension returns of 1.3% in 2011. The return before tax on pension returns for Danica Valg customers who have opted for high risk was a negative 3.4% and for customers with a 100% equity share a negative 7.6%. The

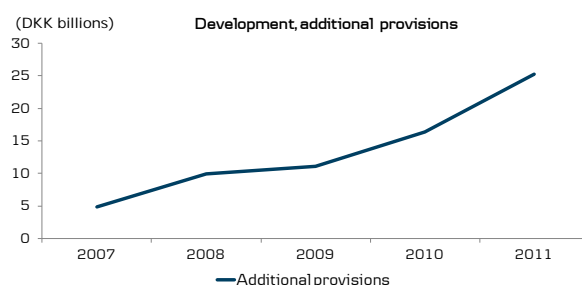
overall return for Danica Link customers before tax on pension returns was a negative DKK 0.6 billion or an average of a negative 2.8%. Over a three-year period, the average return for all customers was 11.4% p.a. before tax on pension returns.

DANICA VALG PORTFOLIO, RETURN BEFORE TAX (%)		
	2011	2010
Danica Valg Guarantee	0.9	10.7
Danica Valg 100% Bonds	5.6	6.1
Danica Valg Low Risk	1.9	9.5
Danica Valg Medium Risk	-1.3	14.1
Danica Valg High Risk	-3.4	17.4
Danica Valg 100% Equities	-7.6	20.8

Average return, Danica Link was a negative 2.8% and over three years a positive 11.4%.

The overall return on Danica Balance and Danica Link in 2011 was a negative DKK 1.1 billion before tax on pension returns, equal to a negative 2.5%. Over a three-year period, the return was 10.9% p.a.

The total return on customer funds in Danica Traditional before tax on pension returns was 6.8%. The total return after an increase of technical provisions was 2.1%. Over five years, the average return after changes in technical provisions was 2.8%.



DANICA PENSION, CUSTOMER FUNDS HOLDINGS AND RETURNS				
(DKK billions)	2011		2010	
	Value	Return %	Value	Return %
Property investments	19.6	6.2	18.5	2.6
Listed equities	6.9	-8.8	15.3	17.3
Alternative investments	5.3	11.3	3.9	17.6
Credit investments	23.4	2.5	31.1	9.4
Global bonds	6.1	2.8	5.7	0.8
Nominal bonds	81.0	7.2	75.6	4.6
Index-linked bonds	18.3	14.4	23.6	7.3
Short-term bonds and cash and cash equivalents	25.0	1.9	17.0	4.0
Total bonds, etc.	130.4	8.2	121.9	5.3
Other financial assets	3.4	-	-2.6	-
Total	189.0	6.8	188.1	5.8
Return after change in additional provisions		2.1		4.5

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

FROM INVESTMENT RETURN TO INTEREST RATE ON POLICYHOLDERS' SAVINGS			
	New business	Total	Total
(%)	2011	2011	2010
Return on customer funds before investment costs	0.9	7.2	6.1
Investment costs	-0.7	-0.4	-0.3
Return on customer funds after investment costs	0.2	6.8	5.8
Change in the value of insurance obligations	0.6	-4.7	-1.3
Investment return including change in insurance obligations	0.8	2.1	4.5
Tax on pension returns	-0.1	-0.1	-0.7
Risk premium for the year	-0.5	-0.7	-0.6
Risk premium transferred to shadow account	0.5	0.6	-0.3
Risk and cost results	-	-	0.1
Transfer from collective bonus potential	1.0	0.8	0.6
Transfer from bonus potential of paid-up policies	1.6	1.0	0.0
Other adjustments	-0.7	-1.0	-0.8
Interest rate on policyholders' savings after tax on pension returns	2.6	2.7	2.8
The share of investment assets for which investment costs are included is	100%	100%	100%

The investment allocation of assets attributed to shareholders' equity at year end 2011 was 9.8% in real property and 90.2% in relatively short-term bonds. In addition, shareholders' equity is exposed to equities through investments attributable to the health and accident business and to negative investment returns in interest rate groups 2 to 4. The return on assets attributed to shareholders' equity and health and accident business was 3.3%.

The three interest rate groups with the highest guarantees had total equity and credit exposures at 31 December 2011 of DKK 3.5 billion and DKK 15.5 billion respectively.

Danica's exposure to government bond issues by Italy, Spain and Ireland at the end of 2011 was DKK 5,5 billion, DKK 1.5 billion and DKK 0.3 billion, respectively. Of this, the exposure for which further negative investment returns could impact results totalled DKK 3.7 billion. Danica had no exposure to government bond issues by Greece or Portugal.

## NEW EU SOLVENCY RULES - SOLVENCY II

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

Solvency II was previously set to take effect at 1 January 2013. However, in the autumn of 2011 the European Insurance and Occupational Pensions Authority (EIOPA) announced that this is no longer realistic. Instead, EIOPA expects the new rules to take effect at 1 January 2014. The postponement is due to the many remaining unresolved issues that are holding up the legislative process.

Despite the lingering uncertainty as to the effective date of Solvency II, Danica in 2011 continued preparing for the transition to Solvency II so that Danica is ready when the rules do take effect.

It is not yet possible to predict what Danica's capital requirement will be under Solvency II as the EU Commission has yet to determine the final assumptions to be used when calculating the coming capital requirements. However, Danica does not expect the company's excess core capital to change significantly under the new rules in the form that they are expected to be implemented.

## ORGANISATION, MANAGEMENT AND PARTNERSHIPS

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

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

Until December 2011, the Audit Committee of Danske Bank A/S acted as group audit committee for the companies in the Danske Bank Group, including Danica, that are required under the Danish Executive Order on Audit Committees to establish audit committees. In 2011, the Audit Committee held six meetings. For further information, see Danske Bank's annual report.

At the meeting on 6 December 2011, Danica's Board of Directors resolved to establish an audit committee for Danica. The Board has appointed Kim Andersen, state authorised public accountant, as the qualified member and chairman of the Committee. The Audit Committee reviews accounting, auditing and security issues. These are issues that the Board of Directors, the Audit Committee itself, the group chief auditor or the external auditors believe deserve attention before they are brought before the Board of Directors.

The Audit Committee held two meetings concerning the 2011 financial year. The qualification requirement is deemed to be met as Kim Andersen holds qualifications as a state-authorized public accountant and during his career has served in internal audit and controller functions.

The Executive Board is in charge of the day-to-day management of the company and consists of Per Klitgård, CEO, appointed at 1 October 2011, and Jesper Winkelmann. Acting CEO until 1 October 2011, Jørgen Klejnstrup, chose to resign as at 31 October 2011.

The directorships of the members of the Board of Directors and the Executive Board are listed on page 62.

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

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

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

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

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

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

In Danica, managers and employees make demands of each other and match expectations. Accordingly, Danica has set up a framework for the desired leadership and employee behaviour. This ensures a common culture and common standards for what makes us good leaders and employees.

Danica regularly tests its advisors in order to give customers assurance that the professional knowledge of advisors is up to date. Also, development plans are set up for the employees individually in collaboration with their immediate superiors.

## CORPORATE SOCIAL RESPONSIBILITY

### Corporate Responsibility

During periods when financial turmoil and instability continue to impact the global economy, Corporate Responsibility remains central to the Group's long-term strategy to make a contribution to society in general.

Danica complies with Danske Bank's Corporate Responsibility policy. Along with the Annual Report 2011, the Danske Bank Group has published Corporate Responsibility 2011 on the Group's corporate social responsibility. All relevant CR data for the Group are available in the CR Fact Book 2011, which is published along with the CR report.

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

The Group's CR reporting complies with the Global Reporting Initiative (GRI) guidelines on sustainability reporting. On [www.danskebank.com/responsibility](http://www.danskebank.com/responsibility) a GRI index is available which corresponds to the ten universal principles of the Global Compact.

### Environmental considerations

In 2011, Danica continued implementing measures to reduce paper consumption. Danica continued the digitalisation so that customers can choose to receive most of Danica's letters electronically. At the end of 2011, Danica had 157,000 customers receiving electronic mail, and the consumption of paper was reduced by 20% compared with 2010.

The company regularly monitors heating, electricity, water consumption and mileage on the company's vehicles. Also, all of Danica's vehicles have been replaced by environmentally friendly cars. Danica is included in Danske Bank's CO<sub>2</sub> accounts. The complete report is available at Danske Bank's website.

POWER, HEAT AND WATER CONSUMPTION TRENDS						
			2011	2010	Index 11/10	
Total power consumption	con-	<i>MWh</i>	1,205	1,224	98	
Total heat consumption		<i>MWh</i>	2,578	2,673	96	
Total water consumption	con-	<i>m<sup>3</sup></i>	4,496	4,700	96	
Mileage		<i>km'000</i>	1,869	2,252	83	
Paper		<i>tonnes</i>	90	112	80	

Power, heat and water consumption includes regional offices. The consumption covers the period October 2010 to September 2011.

The heat consumption was down by 4% relative to 2011. For shopping centres managed by Steen & Strøm an environmental and CSR programme has been set out. It covers environmental targets in terms of energy consumption, including CO<sub>2</sub> emissions, waste, etc. Danica's centres have obtained Key2Green certification.

### Socially responsible investment principles

In 2008, Danica implemented a socially responsible investment (SRI) policy in order to ensure that Danica does not invest customers' money in companies that do not comply with international human rights, environmental and employee rights, weapons and anti-corruption guidelines. Danica also adopted the UN Principles for Responsible Investment (PRI). This decision reflected the Group's ambition to comply with international standards in Danica's environmental, social and ethical guidelines. In 2011, few companies were excluded from Danica's investment universe based on the Group's socially responsible investment guidelines, while others had made improvements so that they could be included again. The list of companies not eligible for investment can be seen at [www.danica-pension.dk](http://www.danica-pension.dk).

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

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# Income statement - Danica Group

Note	DKKm	2011	2010
	LIFE INSURANCE		
3	Gross premiums	19,169	16,936
	Reinsurance premiums ceded	-39	-43
	<b>Total premiums, net of reinsurance</b>	<b>19,130</b>	<b>16,893</b>
	Income from associates	45	20
4	Income from investment properties	921	911
5	Interest income and dividends, etc.	8,117	7,676
6	Market value adjustments of investments	1,081	9,738
	Interest expenses	-273	-268
	Administrative expenses related to investment activities	-574	-435
	<b>Total investment return</b>	<b>9,317</b>	<b>17,642</b>
	Tax on pension returns	-1,538	-1,920
	<b>Return on investment after tax on pension returns</b>	<b>7,779</b>	<b>15,722</b>
7	Claims and benefits paid	-16,663	-16,715
	Reinsurers' share received	114	109
	Change in outstanding claims provision	-61	-132
	Change in outstanding claims provision, reinsurers' share	0	-9
	<b>Total claims and benefits, net of reinsurance</b>	<b>-16,610</b>	<b>-16,747</b>
	Change in life insurance provisions	-3,998	-999
	Change in reinsurers' share	180	56
	<b>Total change in life insurance provisions, net of reinsurance</b>	<b>-3,818</b>	<b>-943</b>
	Change in collective bonus potential	1,403	1,035
	<b>Total bonus</b>	<b>1,403</b>	<b>1,035</b>
	Change in provisions for unit-linked contracts	-5,764	-12,570
	Change in reinsurers' share	0	1
	<b>Total change in provisions for unit-linked contracts, net of reinsurance</b>	<b>-5,764</b>	<b>-12,569</b>
	Acquisition costs	-330	-295
	Administrative expenses	-873	-848
	Reinsurance commissions and profit sharing	11	17
8	<b>Total operating expenses relating to insurance, net of reinsurance</b>	<b>-1,192</b>	<b>-1,126</b>
	Transferred investment return	-946	-1,120
	<b>TECHNICAL RESULT OF LIFE INSURANCE</b>	<b>-18</b>	<b>1,145</b>

# Income statement - Danica Group

Note	DKKm	2011	2010
	Brought forward	-18	1,145
	<b>HEALTH AND ACCIDENT INSURANCE</b>		
	Gross premiums	1,378	1,434
	Reinsurance premiums ceded	-82	-98
	Change in unearned premiums provision	49	23
	Change in unearned premiums provision, reinsurers' share	0	1
	<b>Premiums, net of reinsurance</b>	<b>1,345</b>	<b>1,360</b>
	Technical interest	-26	23
	Claims paid, gross	-1,249	-1,212
	Reinsurers' share received	40	1
	Change in outstanding claims provision	6	89
	Change in outstanding claims provision, reinsurers' share	26	60
	<b>Claims, net of reinsurance</b>	<b>-1,177</b>	<b>-1,062</b>
	Bonus and premium discounts	-90	-88
	Acquisition costs	-57	-61
	Administrative expenses	-105	-122
	Reinsurance commissions and profit sharing	7	13
	<b>Total operating expenses relating to insurance, net of reinsurance</b>	<b>-155</b>	<b>-170</b>
	Return on investment	284	198
9	<b>TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE</b>	<b>181</b>	<b>261</b>
	Return on investment allocated to equity	345	648
10	Other income	233	249
	Other expenses	-8	-28
11	<b>PROFIT BEFORE TAX</b>	<b>733</b>	<b>2,275</b>
12	Tax	-183	-504
	<b>NET PROFIT FOR THE YEAR</b>	<b>550</b>	<b>1,771</b>
	Net profit for the year	550	1,771
	Other comprehensive income:		
	Translation of units outside Denmark	2	23
	Hedges of units outside Denmark	-2	-23
	Tax relating to other comprehensive income	1	6
	<b>Total other comprehensive income</b>	<b>1</b>	<b>6</b>
	<b>NET COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>551</b>	<b>1,777</b>



# Balance sheet - Danica Group

## Assets

Note	DKKm	2011	2010
13	<b>INTANGIBLE ASSETS</b>	98	105
14	Operating equipment	0	0
15	Domicile properties	60	60
	<b>TOTAL TANGIBLE ASSETS</b>	60	60
16	Investment properties	20,898	20,290
17	Holdings in associates	956	1,027
	Loans to associates	112	172
	<b>Total investments in associates</b>	1,068	1,199
18	Holdings	17,355	17,465
	Unit trust certificates	21,803	31,649
19	Bonds	144,824	141,641
	Other loans	63	67
	Deposits with credit institutions	7,525	818
20	Derivatives	5,723	1,334
21	<b>Total financial investment assets</b>	197,293	192,974
	<b>TOTAL INVESTMENT ASSETS</b>	219,259	214,463
22	<b>UNIT-LINKED INVESTMENT ASSETS</b>	75,797	66,261
	Unearned premiums provision, reinsurers' share	4	4
	Life insurance provisions, reinsurers' share	1,987	1,807
	Outstanding claims provision, reinsurers' share	218	230
	Provisions for unit-linked contracts, reinsurers' share	-	1
23	<b>Total technical provisions, reinsurers' share</b>	2,209	2,042
	Amounts due from policyholders	443	316
	Amounts due from insurance companies	1,043	1,048
	Other debtors	703	369
	<b>TOTAL DEBTORS</b>	4,398	3,775
	Current tax assets	15	73
	Cash and cash equivalents	714	444
	Other	1	2
	<b>TOTAL OTHER ASSETS</b>	730	519
	Accrued interest and rent	2,398	2,449
	Other prepayments and accrued income	420	429
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	2,818	2,878
	<b>TOTAL ASSETS</b>	303,160	288,061

# Balance sheet - Danica Group

## Liabilities and equity

Note	DKKm	2011	2010
<b>LIABILITIES</b>			
	Unearned premiums provision	920	939
	Guaranteed benefits	173,100	157,150
	Bonus potential of future premiums	4,579	10,437
	Bonus potential of paid-up policies	3,966	10,965
	<b>Total life insurance provisions</b>	<b>181,645</b>	<b>178,552</b>
24	Outstanding claims provision	8,139	7,816
	Collective bonus potential	375	1,740
	Provisions for bonuses and premium discounts	108	102
25	Provisions for unit-linked contracts	76,657	66,310
26	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>267,844</b>	<b>255,459</b>
12	Deferred tax	1,368	1,173
27	Other provisions	15	-
	Amounts owed, direct insurance	262	186
	Amounts owed to reinsurers	13	10
	Amounts owed to credit institutions	6,978	812
	Amounts owed to group undertakings	2	166
	Current tax liabilities	0	25
28	Other creditors	6,650	6,007
	Other accruals and deferred income	285	190
29	Subordinated debt	-	3,041
	<b>TOTAL CREDITORS</b>	<b>283,417</b>	<b>267,069</b>
<b>SHAREHOLDERS' EQUITY</b>			
	Share capital	1,000	1,000
	Revaluation reserve	1	1
	Other reserves	14,443	14,471
	Retained earnings	3,749	3,749
	Proposed dividend	550	1,771
	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>19,743</b>	<b>20,992</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>303,160</b>	<b>288,061</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 2010	1,000	1	-2	14,473	3,749	1,771	20,992
Correction of errors in 2010 **	-	-	-	-29	-	-	-29
Adjusted shareholders' equity at 1 January 2011	1,000	1	-2	14,444	3,749	1,771	20,963
Profit for the year	-	-	-	465	85	-	550
Other comprehensive income:							
Translation of units outside Denmark	-	-	2	-	-	-	2
Hedges of units outside Denmark	-	-	-2	-	-	-	-2
Tax on other comprehensive income	-	-	-	1	-	-	1
Total other comprehensive income	-	-	0	1	-	-	1
Comprehensive income for the year	-	-	0	466	85	-	551
Dividend paid	-	-	-	-	-	-1,771	-1,771
Proposed dividend ***	-	-	-	-465	-85	550	0
Shareholders' equity at 31 December 2011	1,000	1	-2	14,445	3,749	550	19,743
Shareholders' equity at 31 December 2009	1,000	1	-2	12,804	5,412	-	19,215
Profit for the year	-	-	-	1,663	108	-	1,771
Other comprehensive income:							
Translation of units outside Denmark	-	-	23	-	-	-	23
Hedges of units outside Denmark	-	-	-23	-	-	-	-23
Tax on other comprehensive income	-	-	-	6	-	-	6
Total other comprehensive income	-	-	0	6	-	-	6
Comprehensive income for the year	-	-	0	1,669	108	-	1,777
Proposed dividend ***	-	-	-	-	-1,771	1,771	0
Shareholders' equity at 31 December 2010	1,000	1	-2	14,473	3,749	1,771	20,992

\* Recognised in the balance sheet under other reserves.

\*\* The implementation of the new contribution rules at the beginning of 2011 and immaterial errors relating to 2010 necessitated minor corrections of opening balances relative to the 2010 year-end closing. The corrections of opening balances relative to the 2010 year-end closing. The corrections in the opening balance sheet were off against the collective bonus potential and other creditors.

\*\*\* The dividend amounts to DKK 550 per share (2010: DKK 1,771).

Danica Pension has an obligation to allocate part of the excess equity to certain policyholders of Statsanstalten for Livsforsikring (now part of Danica Pension) if the percentage by which the equity exceeds the required capital base is higher than the percentage that had been maintained by Statsanstalten for Livsforsikring prior to the privatisation of this company in 1990. Otherwise, it is the intention not to distribute dividends from Danica Pension for a period of at least 25 years from 1990. Paid-up capital and interest accrued thereon may, however, be distributed.

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

## Statement of capital - Danica Group

DKKm	2011	2010
Solvency requirement and capital base		
Shareholders' equity	19,743	20,992
Core capital	19,743	20,992
- Proposed dividend	-550	-1,771
- Intangible assets	-98	-105
Reduced core capital	19,095	19,116
Supplementary capital	-	3,041
- Limitations to supplementary capital	-	-75
Reduced supplementary capital	-	2,966
Capital base	19,095	22,082
Solvency requirement for life insurance	8,132	7,613
Solvency requirement for health and accident insurance	371	374
Total solvency requirement	8,503	7,987
Excess capital base	10,592	14,095

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

## Cash flow statement - Danica Group

DKKm	2011	2010
<b>Cash flow from operations</b>		
Profit before tax	733	2,275
Adjustment for non-cash operating items:		
Non-cash items relating to premiums and benefits	7,810	13,165
Non-cash items relating to reinsurance	-203	-140
Non-cash items relating to investment return	-2,426	-10,573
Non-cash items relating to tax on pension returns	500	1,932
Non-cash items relating to expenses	-734	82
Net investment, customer funds	-3,805	-7,112
Payments received and made, investment contracts	3,624	3,013
Taxes paid	77	-757
<b>Cash flow from operations</b>	<b>5,576</b>	<b>1,885</b>
<b>Cash flow from investing activities</b>		
Acquisition of holdings	-869	-200
Sale of holdings	1,617	-
Acquisition of bonds	-19,596	-13,059
Sale of bonds	18,830	10,471
Sale of derivatives	4	1
<b>Cash flow from investing activities</b>	<b>-14</b>	<b>-2,787</b>
<b>Cash flow from financing activities</b>		
Redemption of subordinated debt	-2,980	-
Dividends	-1,771	-
Debt to credit institutions	6,166	142
<b>Cash flow from financing activities</b>	<b>1,415</b>	<b>142</b>
Cash and cash equivalents, beginning of year	1,262	2,022
Change in cash and cash equivalents	6,977	-760
Cash and cash equivalents, end of year	8,239	1,262
Cash and cash equivalents, end of year		
Deposits with credit institutions	7,525	818
Cash in hand and demand deposits	714	444
<b>Total</b>	<b>8,239</b>	<b>1,262</b>

# Notes – Danica Group

Note

## 1 Financial highlights

(DKK millions)	2011	2010	2009	2008	2007
<b>INCOME STATEMENT</b>					
<b>Life insurance</b>					
Premiums	19,169	16,936	15,729	17,904	15,876
Return on investment after tax on pension returns	7,779	15,722	19,671	-9,104	3,144
Claims and benefits	-16,663	-16,715	-15,125	-14,707	-15,826
Change in life insurance provisions and outstanding claims provisions	-4,059	-1,131	-431	-6,515	5,590
Change in collective bonus potential	1,403	1,035	-1,297	11,911	811
Change in provisions for unit-linked contracts	-5,764	-12,570	-14,216	783	-6,318
Total operating expenses relating to insurance	-1,203	-1,143	-1,138	-1,221	-1,263
Result of reinsurance	266	131	33	244	-110
Transferred return on investment	-946	-1,120	-1,760	646	-872
Technical result, Life	-18	1,145	1,466	-59	1,032
<b>Health and accident insurance</b>					
Gross premium income	1,427	1,457	1,459	1,462	1,313
Gross claims	-1,243	-1,123	-1,326	-1,316	-1,173
Total operating expenses relating to insurance	-162	-183	-199	-204	-195
Profit/loss on business ceded	-9	-23	8	-14	-14
Return on investment less technical interest	284	198	309	-505	-100
Technical result of health and accident insurance	181	261	296	-787	-263
Return on investment allocated to equity, etc.	570	869	1,296	-279	875
Profit/loss before tax	733	2,275	3,058	-1,125	1,644
Tax	-183	-504	-737	305	-303
Net profit/loss for the year	550	1,771	2,321	-820	1,341
<b>BALANCE SHEET</b>					
Total assets	303,160	288,061	264,085	242,851	246,475
Insurance assets, health and accident insurance	216	227	184	127	112
Technical provisions, health and accident insurance	8,648	8,384	8,267	8,084	7,530
Provisions for insurance and investment contracts	267,844	255,459	237,409	218,139	222,514
Collective bonus potential	375	1,740	2,775	1,553	13,462
Total shareholders' equity	19,743	20,992	19,215	16,886	17,716
<b>KEY FIGURES AND RATIOS (%)</b>					
Return before tax on pension returns	6.1	5.6	6.7	-0.9	1.2
Return before tax on pension returns on customer funds in Danica Pension	6.8	5.8	7.1	-1.2	1.1
Return after tax on pension returns	5.3	5.0	5.8	-0.7	1.2
Expenses as per cent of premiums	4.6	5.0	6.0	6.0	7.1
Expenses as per cent of provisions	0.5	0.5	0.6	0.6	0.7
Expenses per policyholder (DKK)	1,337	1,342	1,360	1,466	1,564
Cost result	-0.11	-0.08	-0.10	-0.14	-0.15
Insurance risk result	0.04	0.09	0.08	0.14	0.14
Bonus rate - bonus-paying companies	0.2	1.1	1.7	0.9	8.3
Owners' capital ratio	12.5	14.8	13.5	11.9	12.7
Excess core capital ratio	6.7	8.7	8.7	6.9	7.9
Solvency ratio	225	276	283	242	263
Return on equity before tax	3.5	11.3	16.9	-6.5	9.6
Return on equity after tax	2.6	8.8	12.9	-4.7	7.8
Return on customer funds after deduction of expenses before tax	6.1	4.6	5.5	-1.3	0.0
Return on subordinated debt before tax	1.7	1.4	2.2	5.7	5.0
<b>RATIOS FOR HEALTH AND ACCIDENT INSURANCE</b>					
Gross claims ratio	93	82	96	97	97
Gross expense ratio	12	13	14	15	16
Combined ratio, net of reinsurance	106	97	110	114	114
Operating ratio	108	95	101	123	113
Relative run-off	1.0	2.2	0.9	1.2	0.4
Run-off, net of reinsurance (DKK millions)	70	155	61	73	27

# Notes – Danica Group

Note

## 2 SIGNIFICANT ACCOUNTING POLICIES

### GENERAL

The Danica Group prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB), as adopted by the EU and with relevant interpretations, issued by the International Financial Reporting Interpretation Committee (IFRIC). Furthermore, the consolidated financial statements comply with the Danish FSA's executive order on application of international financial reporting standards for companies subject to the Danish Financial Business Act.

The accounting policies are consistent with those applied in the annual report for 2010.

### Change in accounting estimates

Effective as from 2011, the Danish FSA introduced a benchmark for the mortality assumptions used in calculating life insurance provisions. In relation to this, Danica changed its accounting estimate concerning the projection of mortality. Seen in isolation, the change caused an increase in life insurance provisions of DKK 1,327 million at year end 2011.

Danica also changed its estimate of its expected future frequency of surrenders and conversions into paid-up policies. Seen in isolation, the change caused a decrease in life insurance provisions of DKK 1,354 million at year end 2011.

In December 2011, the extraordinary market conditions prompted the Danish FSA to allow an adjustment of a component of the discount rate curve used to calculate life insurance obligations. For this component, Danica is now allowed to use a 12-month moving average as the spread between Danish and German government bonds. This means that daily market changes are reflected in the spread but the daily fluctuations are reduced. The adjusted discount rates reduced life insurance provisions by a total of DKK 2,798 million at year end 2011 while increasing the solvency need by DKK 810 million.

In 2011, Danica started to use discounted cash flow as the basis for calculating the fair value of investment property rather than the return method. Both methods comply with appendix 7 to the Executive Order on the presentation of financial reports by insurance companies and lateral pension funds. The use of discounted cash flows provides a more accurate calculation of the risk associated with vacancies and expected cash flows. Seen in isolation unchanged return requirements are applied. Overall, the new method reduced the value of properties by net DKK 30 million.

### Accounting estimates and judgments

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

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

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

### Measurement of liabilities under insurance contracts

The calculation of liabilities under insurance contracts is based on a number of actuarial computations that rely on a number of estimates, including mortality and disability estimates.

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

The calculation of life insurance provisions is based on an assumed increase in life expectancy over today's observed lifetime of 1.8 year for a sixty five-year-old man and 1.3 year for a sixty five-year-old woman. A sixty five-year-old man is thus expected to live for almost 21 more years and a sixty five-year-old woman for almost 23 more years. At the current level of interest rates, these assumptions result in additional provisions of DKK 10,422 million over the assumptions at the time when the policies were written.

The obligations also depend on the discount rate curve, which is determined on the basis of a zero-coupon rate curve estimated on the basis of euro swap market rates to which is added the spread between Danish and German government bonds calculated as a 12-month moving average for one of the components. To this is added a mortgage interest rate spread, cf. the agreement between the Ministry of Business and Growth Denmark and the Danish Insurance Association on financial stability in the pension area.

See the sensitivity analysis in note 37 to the financial statements.

### Fair value measurement of financial instruments

Critical estimates are not required to measure the fair value of financial instruments based on prices quoted in an active market or based 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, such as unlisted shares, certain listed shares and certain bonds for which there is no active market. See Financial investment assets below and note 35 Financial instruments for a more detailed description.

### Fair value measurement of real property

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

### Consolidation

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

### Group undertakings

The financial statements consolidate Forsikringsselskabet Danica and group undertakings in which the Group has control over financial and operating decisions. Control is said to exist if Forsikringsselskabet Danica, directly or indirectly, holds more than half of

# Notes – Danica Group

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the voting rights in an undertaking or otherwise has power to control management and operating decisions, provided that most of the return on the undertaking accrues to the Group and that the Group assumes most of the risk.

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

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

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

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

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

## Holdings in Associates

Associates are businesses, other than group undertakings, in which the Group has holdings and significant but not controlling influence. The Group generally classifies businesses 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 business with the addition of goodwill on consolidation are recognised in the item Holdings in associates and the proportionate share of the net profit or loss of the individual business is recognised in Income from associates. The proportionate share is calculated on the basis of data from financial statements with balance sheet dates no earlier than three months before the Group's balance sheet date and calculated in accordance with Forsikringselskabet Danica's significant accounting policies.

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

## Jointly controlled assets

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

## Jointly controlled operations

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

## Intragroup transactions

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

## Translation of transactions in foreign currency

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

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

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

When a unit outside Denmark 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 in the income statement.

## 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



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consist of unit-linked contracts under which the investment risk lies with the policyholder.

## Contribution

In accordance with the Executive Order on the Contribution Principle, the Danish FSA has been notified of Danica Pension's profit policy. The Danish FSA issued a new executive order on the contribution principle, which entered into force at 1 January 2011. The main consequence of this is that the portfolio of Danica Traditional insurances at 1 January 2011 was divided into four interest rate groups, four cost groups and three risk groups. Danica's collective bonus potential was distributed among the individual groups, a separate risk allowance was determined for each group and Danica Traditional's bonus regulations were adjusted to accommodate these new groups. The portfolio was placed in each of the four interest rate groups according to the size of their guaranteed benefits.

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

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

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

## INCOME STATEMENT

### Life insurance premiums

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

### Return on investment

Income from associated undertakings comprises the company's share of the associated undertakings' 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 deposits and amounts due.

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

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

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 is calculated on the basis of the part of the investment return for the financial year allocated to policyholders. The rate of tax on pension returns is 15%.

### Claims and benefits

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

### Change in life insurance provisions

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

### Change in collective bonus potential

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

### Change in provisions for unit-linked contracts

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

### Operating expenses relating to insurance activities

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

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

The Group's contributions to defined contribution plans for the employees are recognised in the income statement as they are earned by the employees.

Variable remuneration are expensed as they are earned. Part of the variable remuneration may be paid in the form of equity-settled options (stopped in 2008) and conditional shares in Danske Bank. Share options may not be exercised until three years after the grant date and are conditional on the employee not having resigned from the Group. Rights to conditional shares vest up to five years after the grant date provided that the employee, with the exception of retirement, has not resigned from the Group. In addition to this requirement, the vesting of rights earned from 2010 is conditional on certain targets.

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

#### **Transferred return on investment**

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

#### **Health and accident insurance**

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

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

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

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

#### **Other income**

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

#### **Other expenses**

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

#### **Tax**

Calculated current 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 the Group 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 acquisition of undertakings and is calculated as the difference between the cost of the undertakings acquired and the fair value of the acquired net assets including contingent liabilities at the date of acquisition. Goodwill on acquisitions made before 2002 is written off against shareholders' equity in the year of acquisition.

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

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

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

#### **Other intangible assets**

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

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

#### **Domicile property**

Domicile property is real property occupied by the Group for administration etc. The section 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 at fair value.

Investment property under construction is measured at cost until the date when the fair value can be measured reliably, typically at

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the date of completion. If indications of impairment exist, the property is tested for impairment and written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The fair value of investment property is assessed by the Group's valuers on the basis of a systematic assessment of the present value of the expected cash flows from the property. The present value is calculated based on discounting by a required rate of return determined for each property individually. The rate of return of a property is determined on the basis of its location, type, possible uses, leasehold improvements 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 fair value basis, the fair value measurement is based on mid-market prices.

#### Financial investment assets

At initial recognition, financial investment assets are classified as financial assets at fair value through profit or loss, as these assets are managed on a fair value basis, among other things due to their relation to pension obligations. Exceptions from this are derivatives, which by definition are classified as held for trading, and Deposits with credit institutions, which are classified as debtors. See note 35 Financial instruments.

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

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

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

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

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

#### Debtors

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

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

#### LIABILITIES AND EQUITY

##### Unearned premiums provisions

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

##### Life insurance provisions

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

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

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

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

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

The bonus potential of paid-up policies includes obligations to pay bonuses in relation to premiums already due less claims and benefits paid, etc.

# Notes – Danica Group

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The bonus potential of paid-up policies is calculated as the value of the policyholders' savings less the guaranteed benefits, the bonus potential of future premiums and the present value of future administrative results. The bonus potential of each insurance policy cannot be negative.

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

#### Outstanding claims provisions

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

#### Collective bonus potential

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

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

#### Provisions for bonus and premium discounts

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

#### Provisions for unit-linked contracts

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

#### Deferred tax

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

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

#### Other provisions

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

#### Creditors

Derivatives are measured at fair value. Derivatives with negative fair values are recognised under Other creditors. Other creditors are

measured at amortised cost, which usually corresponds to the nominal value.

#### 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 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 presented by insurance companies and lateral pension funds.

##### Revaluation reserve

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

##### Proposed dividends

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

##### Cash flow statement

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

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

##### Key ratios

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

##### Standards and interpretations not yet in force

The International Accounting Standards Board (IASB) has issued a number of amendments to international accounting standards, and the International Financial Reporting Interpretations Committee (IFRIC) has issued an interpretation, that have not yet come into force. The paragraphs below list the amendments that are likely to affect the Group's financial reporting.

In October 2010, the IASB reissued IFRS 9, Financial Instruments. The aim of the overall reissuance project is, once the amendments to IFRS 9 are completed, to let the standard replace IAS 39 in its entirety. IFRS 9 now provides principles for classification and de

# Notes – Danica Group

Note

recognition of financial instruments. Principles for impairment and hedge accounting are expected to follow in 2012 or 2013.

The transitional rules of the amended IFRS 9 prescribe implementation of the standard by 2015. The EU has decided to postpone adoption of the amended IFRS 9 until the details of the entire standard are known.

Under IFRS 9, financial assets are classified on the basis of the business model adopted for managing the assets and on the basis of their contractual cash flow characteristics, including any embedded derivatives (unlike IAS 39, IFRS 9 no longer requires bifurcation). Assets held with the objective of collecting contractual cash flows that are solely payment of principal and interest are measured at amortised cost. Other assets are measured at fair value through profit or loss. Equities may be measured at fair value through other comprehensive income, however, and, satisfying certain requirements, a business may opt for fair value adjustment of its loans, advances, etc.

The principles applicable to financial liabilities are largely unchanged relative to IAS 39. Generally, financial liabilities should still be measured at amortised cost with bifurcation of embedded derivatives not closely related to a host contract. Financial liabilities measured at fair value comprise derivatives, the trading portfolio and liabilities designated at fair value through profit or loss. However, the portion of the value adjustment of financial liabilities designated at fair value relating to the inherent credit risk of such liabilities should be recognised under other comprehensive income unless this leads to an accounting mismatch.

IFRS 9 incorporates the existing derecognition principles of IAS 39.

The Group does not expect the amended IFRS 9 to materially affect the measurement of its financial instruments. Meaningful classification of financial instruments is not possible without information about the future parts of IFRS 9 to clarify the overall accounting effects of the standard.

The IASB ended its project on consolidation in May 2011 by issuing a number of new financial reporting standards (IFRS 10, IFRS 11 and IFRS 12) and amended accounting standards (IAS 27 and IAS 28). The IASB has established a uniform definition of control to be used for determining whether an entity should be consolidated. The classification of joint arrangements has been changed and pro rata consolidation will be used only for arrangements classified as joint operations. The IASB has moreover introduced enhanced disclosure requirements for consolidated and unconsolidated entities, joint arrangements and associated undertakings. The standards, which have not yet been adopted by the EU, must be implemented by 2013 at the latest. The Danica Group does not expect the new requirements to change its consolidation of undertakings, and the Group expects to continue to consolidate joint arrangement on a pro rata basis.

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. The standard introduces a new definition of fair value and provides guidance on how to measure fair value along with disclosure requirements about fair value. IFRS 13 applies when another standard requires fair value measurement or disclosures about fair value. The standard, which has not yet been adopted by the EU, must be implemented at 1 January 2013 at the latest. The Group does not expect IFRS 13 to significantly affect its financial results.

In December 2011, the IASB clarified its IAS 32 requirements for offsetting financial instruments. The clarification is expected to increase the offsetting of positive and negative market values of derivatives. The IASB also enhanced its IFRS 7 disclosures to

include both gross and net amounts when offsetting financial instruments and rights of set-off in the event of counterparty defaults. The amendments, which have not yet been adopted by the EU, must be implemented in 2014 and 2013 respectively.

# Notes - Danica Group

Note	DKKm	2011	2010
3	GROSS PREMIUMS, incl. payments received under investment contracts		
	Direct insurance:		
	Regular premiums	13,785	13,105
	Single premiums	12,114	9,609
	Total direct insurance	25,899	22,714
	Total gross premiums	25,899	22,714
	In the above gross premiums, premiums paid on investment contracts which are not included in the income statement constitute:		
	Regular premiums	909	648
	Single premiums	5,821	5,130
	Total premiums paid	6,730	5,778
	Total gross premiums included in the income statement	19,169	16,936
	Premiums, direct insurance, broken down by insurance arrangement:		
	Insurance taken out in connection with employment	18,889	15,761
	Insurance taken out individually	5,331	5,273
	Group life insurance	1,679	1,680
	Total	25,899	22,714
	Number of insured, direct insurance [1,000]:		
	Insurance taken out in connection with employment	361	344
	Insurance taken out individually	453	458
	Group life insurance	689	672
	Premiums, direct insurance, broken down by bonus arrangement:		
	With profits insurance	7,148	7,472
	Without profits insurance	195	185
	Unit-linked insurance	18,556	15,057
	Total	25,899	22,714
	Premiums, direct insurance, broken down by policyholders' residence:		
	Denmark	17,130	15,104
	Other EU countries	6,649	6,146
	Other countries	2,120	1,464
	Total	25,899	22,714
4	INCOME FROM INVESTMENT PROPERTIES		
	Rent	1,330	1,309
	Operating expenses	-409	-398
	Total	921	911
	Operating expenses on unoccupied premises was DKK 79 million in 2011 (DKK 53 million in 2010).		
	Investment property leases are accounted for as operating leases. Some of the leases are non-terminable by the lessee for a number of years.		
	Rent from non-cancellable leases for the year amounted to	1,292	1,326
	Breakdown of minimum lease payments on non-terminable leases by lease term:		
	Within 1 year	850	817
	1 - 5 years	1,071	930
	After 5 years	369	413
	Total	2,290	2,160
5	INTEREST INCOME AND DIVIDENDS		
	Interest income	5,808	6,155
	Dividends	1,916	1,076
	Indexation	393	445
	Total	8,117	7,676

## Notes - Danica Group

Note	DKKm	2011	2010
6	MARKET VALUE ADJUSTMENTS		
	Holdings	-217	3,265
	Unit trust certificates	-4,919	8,098
	Bonds	4,933	1,288
	Other loans	58	55
	Deposits with credit institutions	199	148
	Cash in hand and demand deposits	-1	-1
	Other	743	-2,696
	Market value adjustments of financial assets and liabilities at fair value through profit or loss	796	10,157
	Investment properties	285	-419
	Total market value adjustments	1,081	9,738
7	CLAIMS AND BENEFITS PAID		
	Direct insurance:		
	Insurance amounts on death	-842	-817
	Insurance amounts on disablement	-268	-270
	Insurance amounts on expiry	-1,369	-1,488
	Retirement benefits and annuities	-7,035	-7,103
	Surrender values	-6,148	-6,050
	Cash payments of bonuses	-999	-984
	Total direct insurance	-16,661	-16,712
	Expenses to minimise disablement	-2	-3
	Total claims and benefits paid	-16,663	-16,715

# Notes - Danica Group

Note	DKKm	2011	2010
8	OPERATING EXPENSES RELATING TO INSURANCE		
	Commission on direct insurance	-282	-228
	Operating lease payments on premises, cars, etc. amount to	-52	-50
	The Group holds 22 cars under finance leases. 10 of these leases will expire in 2012 and the rest within three years. In 2011, expenses relating to leased cars amounted to DKK 1.3 million (2010: DKK 1.0 million). On expiry of the lease after three years, the user has an option to buy the car at market value. The value of leased cars at 31 December 2011 was DKK 3.9 million (2010: DKK 3.6 million).		
	IT development costs amount to	-203	-193
	Including capitalised in Danica Group, see note 13 to the financial statements	-	1
	Fees to the audit firms appointed by the general meeting:		
	Fees to KPMG:		
	Statutory audit of financial statements	-1.9	-1.7
	Other assurance engagements	-	-0.1
	Tax advisory services	-0.1	-0.2
	Other services	-0.2	-0.1
	<b>Total</b>	<b>-2.2</b>	<b>-2.1</b>
	Fees to PricewaterhouseCoopers Danmark:		
	Statutory audit of financial statements	-0.9	-0.8
	Other assurance engagements	-	-0.1
	Other services	-	-0.1
	<b>Total</b>	<b>-0.9</b>	<b>-1.0</b>
	Average number of full-time-equivalent employees during the year	845	898
	Number of full-time-equivalent employees, end of year	837	888
	Staff costs:		
	Salaries	-474	-462
	Share-based payment	-2	-
	Pensions	-81	-87
	Social security and tax	-67	-32
	Other	-56	-51
	<b>Total staff costs earned</b>	<b>-680</b>	<b>-632</b>
	<b>Total staff costs paid</b>	<b>-668</b>	<b>-626</b>
	For a more detailed description of the Group's remuneration policy and remuneration paid, see "Remuneration Report 2011", available at the website: <a href="http://www.danicapension.dk">www.danicapension.dk</a> . The remuneration report 2011 is not covered by the statutory audit.		
	All the Group's pension plans are defined contribution plans under which the Group makes contributions to insurance companies, principally Danica. Such payments are expensed as incurred.		
	Pension plans		
	Contributions to external defined contribution plans	-13	-16
	Contributions to internal defined contribution plans	-68	-71
	<b>Total</b>	<b>-81</b>	<b>-87</b>



# Notes - Danica Group

Note DKKm	2011	2010
8 (cont'd)		
Board of Directors' remuneration (DKK'000)		
Peter Straarup	-247	-240
Tonny Thierry Andersen	-173	-120
Kim Andersen (from 21.11.2011)	-29	-
Lars Andreasen (from 14.03.2011)	-113	-
Thomas Falck	-143	-120
Gitte Jensen	-143	-120
Erik Sevaldsen	-143	-120
Georg Schubiger (from 14.03.2011)	-113	-
Per Sogaard	-143	-120
Sven Lystbæk (until 14.03.2011)	-45	-180
Jakob Brogaard (until 14.03.2011)	-30	-120
<b>Total remuneration *</b>	<b>-1,322</b>	<b>-1,140</b>
Including fees for board committee membership	-16	-

\* In addition, Ib Kaznelson, a board member of Danica Pension, receives remuneration in the amount of DKK 143 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, Peter Straarup, Tonny Thierry Andersen, Georg Schubiger and Kim Andersen in 2011 received total remuneration from such companies of DKK 12.4 million, DKK 7.7 million and DKK 0.1 million, respectively.

#### Remuneration of other material risk takers

Since 1 January 2011, the Group has complied with the new statutory requirements to identify a number of employees (other than the members of the Executive Board) who have material influence on the Group's risk profile. The remuneration of these employees has been aligned with the statutory rules on variable remuneration.

For 2011, four persons outside the Executive Board were designated as material risk takers and combined they received remuneration of DKK 7.5 million, with fixed remuneration amounting to DKK 6.9 million and variable remuneration amounting to DKK 0.6 million. As material risk takers were not identified for 2010, comparative figures for 2010 are not stated.

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

# Notes - Danica Group

Note	DKKm	2011	2010
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8  
(cont'd)

## Remuneration of the Executive Board 2011

	Per Klitgård *	Jørgen ** Klejstrup	Jesper Winkelmann	
Contractual remuneration	-1.0	-3.0	-2.9	-6.9
Pensions	-0.1	-0.4	-0.6	-1.1
Variable cash remuneration	-0.3	-	-0.4	-0.7
Variable share-based payment	-2.7	-	-0.3	-3.0
<b>Total</b>	<b>-4.1</b>	<b>-3.4</b>	<b>-4.2</b>	<b>-11.7</b>
<b>Total payment</b>				<b>-8.1</b>

\* Per Klitgård joined the Executive Board at 1 October 2011.

\*\* Jørgen Klejstrup resigned at 31 October 2011.

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 2010

	Henrik * Ramlau-Hansen	Jørgen Klejstrup	Jesper Winkelmann	
Contractual remuneration	-4.2	-3.5	-3.0	-10.7
Pensions	-0.7	-0.4	-0.5	-1.6
<b>Total</b>	<b>-4.9</b>	<b>-3.9</b>	<b>-3.5</b>	<b>-12.3</b>
<b>Total payment</b>				<b>-12.0</b>

\* Henrik Ramlau-Hansen resigned at 31 December 2010.

The remuneration of the Executive Board was affected by the replacements of Executive Board members, and therefore is not comparable to previous years.

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

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

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

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

### Share-based payment

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

For 2009 and 2010, the Group's general incentive plans were suspended. In 2011, Danica's annual general meeting passed a resolution to reinstate a share-based incentive plan for the Group's Executive Board members and selected managers and specialists.

Issued options carry a right to buy Danske Bank shares exercisable from three to seven years after they are granted provided that the employee, with the exception of retirement, has not resigned from the Group. The exercise price of the options is computed as the average price of Danske Bank shares for 20 stock exchange days after the release of the bank's annual report plus 10%. Rights to Danske Bank shares under the conditional share programme vest after up to five years provided that the employee, with the exception of retirement, has not resigned from the Group. In addition to this requirement, rights to shares earned in 2011 vest only if the Group as a whole and the employee's department meet certain performance targets within the next three years.

The fair value of the share options at the grant date is calculated according to a dividend-adjusted Black & Scholes formula.

Calculation of the fair value at the end of 2011 is based on the following assumptions: Share price: 73 (2010: 143). Dividend payout ratio: 2.5% (2010: 1.5%). Rate of interest: 0.83-0.93% (2010: 1.2-1.8%), equal to the swap rate. Volatility: 50% (2010: 35%). Average time of exercise: 0.25-1.75 years (2010: 0.25-2.25 years). The volatility estimate is based on historical volatility.

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

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

Danica has hedged the share price risk.

# Notes - Danica Group

Note DKKm

8  
(cont'd)

## Share-based payment 2011

Share options - changes during the year	Number			Exercise price (DKK)	Fair value (FV)	
	Executive Board	Other employees	Total		Issue date	End of year
Granted in 2004-2008, beginning of year	257,496	20,510	278,006	166.20	5.4	0.1
Forfeited	-27,778	-	-27,778	-	-	-
Other changes	-158,862	26,043	-132,819	-	-	-
Granted in 2004-2008, end of year	70,856	46,553	117,409	178.83	3.0	0.1

## Executive Board members' holdings, end of year

Year of grant	2005-2008		2009		2010		2011	
	Number	FV	Number	FV	Number	FV	Number	FV
Per Klitgård	-	-	-	-	-	-	-	-
Jørgen Klejnstrup	-	-	-	-	-	-	-	-
Jesper Winkelmann	70,856	0.0	-	-	-	-	-	-

No share options were granted or exercised in 2011.

Conditional shares - changes during the year	Number			Fair value (FV)	
	Executive Board	Other employees	Total	Issue date	End of year
Granted in 2008, beginning of year	5,960	9,848	15,808	2.9	1.2
Exercised	-3,711	-9,848	-13,559	-	-
Other changes	-2,249	-	-2,249	-	-
Granted in 2008, end of year	0	0	0	0.0	0.0

The average price at the vesting date for rights to conditional shares was 125.7.

## Share-based payment 2010

Share options - changes during the year	Number			Exercise price (DKK)	Fair value (FV)	
	Executive Board	Other employees	Total		Issue date	End of year
Granted in 2004-2007, beginning of year	209,296	-	209,296	204.47	3.9	1.8
Granted in 2004-2007, end of year	209,296	-	209,296	204.47	3.9	1.8
Granted in 2008, beginning of year	48,200	-	48,200	197.74	1.5	0.3
Granted in 2008, end of year	48,200	-	48,200	197.74	1.5	0.3

## Executive Board members' holdings, end of year

Year of grant	2004-2007		2008		2009		2010	
	Number	FV	Number	FV	Number	FV	Number	FV
Henrik Ramlau-Hansen	123,388	0.5	18,190	0.3	-	-	-	-
Jørgen Klejnstrup	6,200	0.0	16,370	0.2	-	-	-	-
Jesper Winkelmann	79,708	0.2	13,640	0.2	-	-	-	-

No share options were exercised in 2010.

# Notes - Danica Group

Note	DKKm	2011	2010
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8  
(cont'd)

Conditional shares - changes during the year	Number			Fair value (FV)	
	Executive Board	Other employees	Total	Issue date	End of year
Granted in 2007, beginning of year	3,411	5,060	8,471	2.3	1.2
Exercised	-3,411	-5,060	-8,471	-	-
Granted in 2007, end of year	0	0	0	0.0	0.0
Granted in 2008, beginning of year	5,960	10,130	16,090	2.9	2.3
Forfeited	-	-282	-282	-0.1	0.0
Granted in 2008, end of year	5,960	9,848	15,808	2.8	2.3

Executive Board members' holdings, end of year

Year of grant	2008		2009		2010	
	Number	FV	Number	FV	Number	FV
Henrik Ramlau-Hansen	2,249	0.3	-	-	-	-
Jørgen Klejnstrup	2,024	0.3	-	-	-	-
Jesper Winkelmann	1,687	0.2	-	-	-	-

In 2010, a total of 8,471 conditional shares were exercised at an average price of 127.05.

## 9 TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE

Total run-off regarding prior years:		
Gross	95	161
Net of reinsurance	70	155

Calculation of technical interest and return on investment:

Technical interest amount	195	255
Outstanding claims provision, discounted amount	-202	-210
Discounted risk increasing with age	-19	-22
Technical interest, net of reinsurance, less discounted amount	-26	23
Return on investment transferred to health and accident insurance	602	472
Market value adjustments of outstanding claims provision	-123	-19
Total return on investment incl. market value adjustments	479	453
Transferred to technical interest	-195	-255
Return on investment	284	198

	Health and accident insurance	Health care insurance	Total
Gross premiums	1,123	255	1,378
Gross premium income	1,172	255	1,427
Gross claims	-1,096	-147	-1,243
Gross operating expenses	-134	-28	-162
Result of business ceded	-9	-	-9
Technical interest, net of reinsurance	-30	4	-26
Technical result	97	84	181
Number of claims	2,926	28,883	31,809
Average amount of claims	0.9	0.0	0.0

Gross premiums, direct insurance, broken down by policyholders' residence:

Denmark	1,309	1,362
Other EU countries	26	29
Other countries	92	66
Total	1,427	1,457

# Notes - Danica Group

Note	DKKm	2011	2010
10	OTHER INCOME		
	Commission from fund managers etc.	221	213
	Commission from ancillary activities	12	36
	<b>Total</b>	<b>233</b>	<b>249</b>
11	PROFIT BEFORE TAX		
	Danica Pension's technical basis for risk allowance is to be allocated in accordance with the Executive Order on the Contribution Principle.		
	In accordance with the Executive Order on the Contribution Principle and the Guidelines on Market Discipline, the Danish FSA has been notified of Danica Pension's consolidation policy for 2011. The company's profit for the year consists of the return on assets allocated to shareholders' equity, including the results of unit-linked business, Denmark and the three subsidiaries outside Denmark, the result of Forenede Gruppeliv, the health and accident result and a risk allowance of the technical provisions of the four interest rate groups and a share of the four interest rate groups' risk results.		
	To the extent that the Executive Order on the Contribution Principle does not permit the company to recognise full risk allowance, the amount may be booked over the coming years if justified by the technical basis for risk allowance.		
	For this purpose, a shadow account is set up. The shadow account accrues interest at the rate that applies to bonds allocated to shareholders' equity.		
	The calculation of technical basis for risk allowance only comprises policies under contribution, and individual items therefore cannot be reconciled to the Group's income statement.		
	Technical basis for risk allowance:		
	Technical result, life insurance	-86	1,086
	Transferred return on investment, excl. tax on group undertakings	-	515
	Tax on pension returns	1,656	1,187
	Change in collective bonus potential	-1,403	-1,035
	Special allotments	94	641
	Bonus potential of paid-up policies used	-1,756	-
	Addition of bonus	-171	350
	<b>Total technical basis for risk allowance</b>	<b>-1,666</b>	<b>2,744</b>
	Return on investment allocated to shareholders' equity and health and accident insurance	-	-436
	<b>Total technical basis for risk allowance relating to life insurance customers</b>	<b>-1,666</b>	<b>2,308</b>
	In accordance with the contribution principle, no risk allowance for 2011 was booked for three of the four interest rate groups.		
	Specification of risk allowance:		
	Percentage of insurance provisions	1,185	1,126
	20% of the technical basis for risk allowance in risk groups	39	-
	<b>Total risk allowance</b>	<b>1,224</b>	<b>1,126</b>
	The percentage of insurance provisions was 0.5% in the New business group; 0.55% in Low; 0.70% in Medium and 0.85% in High.		
	Development in shadow account:		
	Shadow account, beginning of year	-	573
	Added interest	-	11
	Used/set aside	1,158	-584
	<b>Shadow account, end of year</b>	<b>1,158</b>	<b>0</b>
	The amount transferred to the shadow account includes DKK 40 million contributed to technical provisions from shareholders' equity as a result of the shortfall of bonus potential of paid-up policies.		

# Notes - Danica Group

Note	DKKm	2011	2010
12	TAX		
	Tax for the year can be broken down as follows:		
	Tax on the profit for the year	-183	-504
	Tax on changes in shareholders' equity	10	-
	Tax on other comprehensive income:		
	Hedges of units outside Denmark	1	6
	<b>Total</b>	<b>-172</b>	<b>-498</b>
	Tax on the profit for the year is calculated as follows:		
	Current tax	-15	-481
	Adjustment of prior-year current tax	27	-7
	Adjustment of prior-year deferred tax	-23	-19
	Other changes in deferred tax	-172	3
	<b>Total</b>	<b>-183</b>	<b>-504</b>
	Effective tax rate:		
	Danish tax rate	25.0	25.0
	Adjustment of prior-year tax charge	-0.6	1.1
	Non-taxable income and non-deductible expenses	0.5	-3.9
	<b>Effective tax rate</b>	<b>24.9</b>	<b>22.2</b>
	Deferred tax:		
	Deferred tax is recognised as follows in the balance sheet:		
	Deferred tax (liability)	1,368	1,173
	<b>Deferred tax, net</b>	<b>1,368</b>	<b>1,173</b>
	Deferred tax broken down on main items:		
	Tangible assets	-2	1
	Investment properties	1,317	1,177
	Tax loss carry-forward	-	-4
	Other	53	-1
	<b>Total</b>	<b>1,368</b>	<b>1,173</b>
	Other than the deferred tax provided for, the Group has no contingent tax liability relating to shares in group undertakings.		
13	INTANGIBLE ASSETS		
	Cost, beginning of year	131	125
	Exchange rate adjustment	0	5
	Additions during the year	3	1
	Transferred to other items during the year	-36	-
	<b>Cost, end of year</b>	<b>98</b>	<b>131</b>
	Impairment and amortisation charges, beginning of year	-26	-15
	Write-downs during the year	-3	-
	Amortisation during the year	-8	-11
	Reversals during the year of prior-year write-downs and reversal of total depreciation and write-downs on assets sold or retired during the year	37	-
	<b>Impairment and amortisation charges, end of year</b>	<b>-</b>	<b>-26</b>
	<b>Carrying amount, end of year</b>	<b>98</b>	<b>105</b>
	Intangible assets mainly consist of goodwill on acquisition of Norwegian activities in 2004.		
	Impairment charges for the year relate to IT assets written off in 2011.		
	Impairment and amortisation charges for the year are recognised as administrative expenses in the income statement.		

# Notes - Danica Group

Note	DKKm	2011	2010
14	OPERATING EQUIPMENT		
	Cost, beginning of year	12	25
	Disposals during the year	-2	-6
	Transferred to other items during the year	-	-7
	Cost, end of year	10	12
	Impairment and depreciation charges, beginning of year	-12	-21
	Exchange rate adjustment	-	-1
	Depreciation charges during the year	0	-2
	Reversals during the year of prior-year impairment charges and reversal of total depreciation and impairment charges on assets sold or retired during the year	2	12
	Impairment and depreciation charges, end of year	-10	-12
	Carrying amount, end of year	0	0
15	DOMICILE PROPERTY		
	Cost, beginning of year	48	48
	Cost, end of year	48	48
	Depreciation charges, beginning of year	-2	-2
	Depreciation charges for the year	-1	0
	Depreciation charges, end of year	-3	-2
	Revalued amount, beginning of year	14	14
	Revaluation for the year	1	0
	Revalued amount, end of year	15	14
	Carrying amount, end of year	60	60
	Of revaluations for the year, DKK 0 million was recognised in other comprehensive income and transferred to the revaluation reserve in equity, and DKK 0 million was transferred to the collective bonus potential.		
16	INVESTMENT PROPERTIES		
	Fair value, beginning of year	20,290	19,552
	Property improvement expenditure	490	1,172
	Disposals during the year	-160	-10
	Fair value adjustments	278	-424
	Fair value, end of year	20,898	20,290
	The weighted average of the rates of return on which the fair value of the individual properties is based for:		
	Shopping centres	6.0%	6.0%
	Commercial properties	6.2%	6.3%
	Residential properties	5.0%	4.9%
	Real property consolidated on a pro rata basis is included with the following amounts in:		
	Investment properties	2,127	2,067
	Total assets	2,332	2,114
	Other creditors	71	69
	Total investment return	199	6

# Notes - Danica Group

Note	DKKm	2011	2010			
17	HOLDINGS IN ASSOCIATES					
	Cost, beginning of year	673	673			
	Disposals	-102	-			
	Cost, end of year	571	673			
	Revaluations and impairment charges, beginning of year	354	363			
	Share of profit	28	20			
	Dividends	-43	-29			
	Reversal of revaluations and impairment charges	46	-			
	Revaluations and impairment charges, end of year	385	354			
	Carrying amount, end of year	956	1,027			
	Holdings in associates consist of:					
		Owner-ship percentage	Total assets	Liabilities	Income	Result
	Name and domicile	Activity				
	Hovedbanegårdens Komplementarselskab ApS, Copenhagen	Investment company	50%	0	0	0
	EjendomsSelskabet af Januar 2002 A/S, Copenhagen	Property company	50%	716	191	30
	DNP Ejendomme Komplementarselskab ApS, Copenhagen	Investment company	50%	0	0	0
	DNP Ejendomme P/S, Copenhagen	Property company	50%	1,151	20	89
	Dantop Ejendomme ApS, Copenhagen	Property company	50%	238	6	8
	DAN-SEB I A/S, Copenhagen	Property company	50%	74	51	2
	The information disclosed is extracted from the companies' most recent annual reports.					
18	HOLDINGS					
	Listed holdings				13,037	14,212
	Unlisted holdings				4,318	3,253
	Total				17,355	17,465
19	BONDS					
	Listed bonds				144,824	141,641
	Total				144,824	141,641



# Notes - Danica Group

Note	DKKm		2011	2010	
20	DERIVATIVES				
	The group uses derivatives, including forward contracts and swaps, to manage its exposure to currency, interest rate and equity market risk. Derivatives are also used to hedge guaranteed benefits and other interest-bearing liabilities. For more details, see the section "Sensitivity ratios" in note 37 to the financial statements. Derivatives are recognised and measured at fair value in the financial statements.				
	Collateral agreements have been entered into in respect of some of the derivatives. In connection with these, the Group has received collateral in the form of liquid bonds in an amount corresponding to a fair value of DKK 3,956 million in 2011 and DKK 864 million in 2010.				
		Notional amount	Positive fair value	Notional amount	Negative fair value
2011					
Currency contracts	36,946	56	21,643	253	
Interest rate contracts:					
Interest rate contracts	57,564	1,860	19,116	203	
Options	85,902	3,611	153,256	2,861	
Equity contracts:					
Equity contracts	1	11	5	148	
Options	10	185	1	41	
Total derivatives	180,423	5,723	194,021	3,506	
2010					
Currency contracts	4,679	32	38,846	320	
Interest rate contracts	39,484	1,302	60,003	2,551	
Equity contracts	0	0	0	0	
Total derivatives	44,163	1,334	98,849	2,871	
21	FINANCIAL INVESTMENT ASSETS				
	Comprises the following investments in companies in the Danske Bank Group:				
Holdings			181	216	
Bonds			23,864	26,987	
Deposits with credit institutions			4,151	384	
Cash in hand and demand deposits			841	729	
Other			1,110	18	
22	UNIT-LINKED INVESTMENT ASSETS				
	Consists of unit trusts in which the underlying assets break down as follows:				
		With guarantee	Without guarantee		
Holdings		22,815	23,987	46,802	42,575
Bonds		12,116	15,417	27,533	22,628
Deposits with credit institutions		1,357	105	1,462	1,058
Total		36,288	39,509	75,797	66,261
	Unit-linked investments break down as follows:				
Insurance contracts				51,191	43,869
Investment contracts				24,606	22,392
Total				75,797	66,261
23	PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS, REINSURERS' SHARE				
Beginning of year			2,042	1,948	
Premiums received			121	141	
Claims and benefits paid			-154	-110	
Added interest on policyholders' savings			41	40	
Fair value adjustment			210	94	
Foreign currency translation			-37	-15	
Change in outstanding claims provision			26	51	
Other changes			-40	-107	
End of year			2,209	2,042	

# Notes - Danica Group

Note	DKKm	2011	2010
24	OUTSTANDING CLAIMS PROVISION		
	Gross life insurance	519	473
	Gross health and accident insurance	7,620	7,343
	Total outstanding claims provision	8,139	7,816
25	PROVISIONS FOR UNIT-LINKED CONTRACTS		
	Provisions for unit-linked contracts break down as follows:		
	Insurance contracts	52,116	43,913
	Investment contracts	24,541	22,397
	Total provisions for unit-linked contracts	76,657	66,310
	Provisions for unit-linked contracts without guarantee	64,942	56,406
	Provisions for unit-linked contracts with investment guarantee	11,715	9,904
	Total provisions for unit-linked contracts	76,657	66,310
	Total provisions for guaranteed unit-linked contracts include:		
	Guaranteed benefits	7,270	4,735
	Guaranteed paid-up policies	9,134	6,894
26	PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS		
	Beginning of year	255,459	237,409
	Payments received	19,169	16,936
	Claims and benefits paid	-16,663	-16,715
	Added interest on policyholders' savings	1,491	11,206
	Fair value adjustment	8,631	3,107
	Currency translation	47	2,163
	Change in outstanding claims provisions	55	43
	Change in collective bonus potential	-1,403	-1,035
	Other changes	1,058	2,345
	End of year	267,844	255,459
	On allocation of the technical basis for risk allowance for conventional life insurance, the bonus potential of paid-up policies was reduced by	-1,756	-
	For a more detailed description of methods calculation methods used for provisions, see note 2, Significant accounting policies. For an explanation of the development in collective bonus potential, see the section in the management's report on p. 4.		
27	OTHER PROVISIONS		
	Beginning of year	-	-
	New and increased liabilities	15	-
	End of year	15	-
	Other provisions comprise contractual obligations whose amount is subject to negotiation and therefore uncertain, but whose settlement will probably require an outflow of economic benefits for the Group.		
28	OTHER CREDITORS		
	Other creditors comprise:		
	Derivatives with negative fair values	3,506	2,871
	Tax on pension returns	1,746	2,041
	Staff commitments	86	95

# Notes - Danica Group

Note	DKKm	2011	2010
29	<b>SUBORDINATED DEBT</b> Subordinated debt consists of loans which, in the event of the company's voluntary or compulsory winding up, will not be repaid until after the claims of ordinary creditors have been met. Subordinated debt is included in the capital base, etc. in accordance with sections 126, 132 and 136 of the Danish Financial Business Act.		
	Currency Borrower		
	EUR Danica Pension	-	2,982
	Subordinated debt	-	2,982
	Discount	-	-3
	Hedging of interest rate risk at fair value	-	62
	Total, corresponding to fair value	-	3,041
	The capital base includes	-	2,966
	The loan was raised on 6 October 2006, and was quoted on the Irish Stock Exchange. The loan was redeemed in October 2011. Interest for 2011 amounted to DKK 44 million.		
30	<b>ASSETS DEPOSITED AS COLLATERAL AND CONTINGENT LIABILITIES</b> At the end of the year, the Group had deposited assets as collateral for policyholders' savings at a total carrying amount of	278,858	269,882
	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	1,738	1,593
	Breakdown of minimum lease payments on operating leases on premises by lease term		
	Within 1 year	53	53
	1 - 5 years	210	211
	After 5 years	448	502
	Total	711	766
	Minimum lease payments regarding cars amount to	2	1
	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	693	363
	The Group has undertaken to participate in investment in unlisted shares with an amount of	4,921	3,699
	The Group is voluntarily registered for VAT on certain properties. The group's VAT adjustment liability amounts to	671	655
	In certain cases, Danica Pension is liable to pay compensation to policyholders who have transferred their pension plan to Danica Pension. The total amount of compensation cannot exceed	9	45
	As a participant in partnerships, the Group is liable for a total debt of	100	93
	Amount of this included in the Group's balance sheet	71	69
	The Danish group companies are registered jointly for financial services employer tax and for VAT for which they are jointly and severally liable.		
	Danica Pension is jointly and severally liable with the other participants for the insurance obligations concerning all the policies administered by Forenede Gruppeliv A/S.		
	Owing to its size and business volume, the Group is continually a party to various lawsuits and disputes. The Group does not expect the outcomes of lawsuits and disputes to have any material effect on its financial position.		

# Notes - Danica Group

Note	DKKm	2011	2010		
31	<b>RELATED PARTIES</b>				
	Danske Bank A/S, domiciled in Copenhagen, wholly owns the share capital of Forsikringsselskabet Danica and consequently exercises control over the Danica Group.				
	Danske Bank A/S is the ultimate parent company of the Danica Group.				
	Transactions with management cover remuneration only. The amounts are disclosed in note 8.				
	Transactions with related parties are settled on arm's-length basis or on a cost-recovery basis. The group's IT operations and development, internal audit, HR administration, logistics, marketing and the like are handled by Danske Bank. Danske Bank also handles portfolio management and securities trading.				
	The Danica Group entered into the following significant transactions and balances with other companies in the Danske Bank Group. For more information, see note 21 to the financial statements.				
	IT development	-158	-168		
	IT operations	-127	-126		
	Other administration	-45	-44		
	Commission for insurance sales and portfolio management	-146	-141		
	Ordinary portfolio management fee	-164	-102		
	Performance fee for portfolio management	-103	-139		
	Total net custody fees and brokerage for trades in holdings and the like	-74	-41		
	Interest income	1,207	1,604		
	Interest expenses	-89	-81		
	Rent from premises	14	12		
	Amounts due from group undertakings	-	162		
	Owed to credit institutions	704	715		
	Furthermore, the Danica Group manages the employer pension plans of Danske Bank and its related parties.				
	Loans to associates comprise subordinated loans granted on equal terms as other investors.				
	The Group's transactions with the jointly controlled operations in Forenede Gruppeliv consists in the writing of premiums. Premiums written amount to	1,255	1,254		
32	<b>BALANCE SHEET ITEMS BROKEN DOWN BY EXPECTED DUE DATE</b>				
		2011		2010	
		< 1 year	> 1 year	< 1 year	> 1 year
	<b>Assets</b>				
	Intangible assets	-	98	8	97
	Tangible assets	-	60	-	60
	Investment assets	25,406	193,853	10,044	204,419
	Unit-linked investments	-	75,797	-	66,261
	Debtors	4,398	-	3,775	-
	Other assets	730	-	519	-
	Prepayments and accrued income	2,818	-	2,878	-
	<b>Total assets</b>	<b>33,352</b>	<b>269,808</b>	<b>17,224</b>	<b>270,837</b>
	<b>Liabilities</b>				
	Provisions for insurance and investment contracts	22,081	245,763	23,648	231,811
	Other liabilities	13,141	2,432	4,845	6,765
	<b>Total liabilities</b>	<b>35,222</b>	<b>248,195</b>	<b>28,493</b>	<b>238,576</b>

# Notes - Danica Group

Note DKKm

## 33 SPECIFICATION OF ASSETS AND RETURNS 2011

	Beginning of year	End of year	Investment, net	% return p.a. before tax on pension returns & corp.tax
Land and buildings:				
Land and buildings, owned directly	20,290	20,898	323	6.2
Property companies	970	956	-42	3.0
<b>Total land and buildings</b>	<b>21,260</b>	<b>21,854</b>	<b>281</b>	<b>6.2</b>
Other holdings:				
Listed Danish holdings	1,596	16	-1,577	-18.7
Unlisted Danish holdings	693	513	-217	6.0
Listed foreign holdings	14,557	14,961	1,974	-9.0
Unlisted foreign holdings	2,800	4,388	1,286	10.0
<b>Total other holdings</b>	<b>19,646</b>	<b>19,878</b>	<b>1,466</b>	<b>-5.7</b>
Bonds:				
Government bonds (Zone A) *	39,409	49,517	10,092	
Mortgage bonds *	75,877	72,294	-4,663	
Foreign exchange hedging	-8	24	-27	
Government bonds (Zone A) and mortgage bonds including foreign exchange hedging	115,278	121,835	5,402	4.7
Index-linked bonds	23,610	18,333	-7,434	14.4
Credit bonds, investment grade	12,515	9,051	-3,352	1.1
Credit bonds, non-investment grade and emerging market bonds	18,807	13,936	-4,673	3.4
Other bonds	651	803	80	12.0
<b>Total bonds</b>	<b>170,861</b>	<b>163,958</b>	<b>-9,977</b>	<b>5.5</b>
Other financial investment assets	818	7,525	6,318	1.1
Derivative financial instruments to hedge net changes of assets and liabilities	-1,165	2,427	-603	-

\* Rate of return before foreign exchange hedge for Government bonds (Zone A) was 4.2% and for Mortgage bonds was 4.8%.  
A specification of the company's holdings is available on Danica's website [www.danicapension.dk](http://www.danicapension.dk).

## 34 PERCENTAGE ALLOCATION OF SHARE PORTFOLIOS ON INDUSTRIES AND REGIONS 2011

	Denmark	Rest of Europe	North America	South America	Japan	Rest of Asia/Pacific	Other countries	Total
Energy	0.0	2.2	4.1	0.1	0.1	0.2	0.3	7.0
Materials	0.3	1.6	1.6	0.0	0.4	0.1	0.5	4.5
Industrials	2.0	2.1	3.1	0.1	0.8	0.3	0.1	8.5
Consumer discretionary	0.3	1.4	3.9	0.0	0.9	0.3	0.3	7.1
Consumer staples	0.5	2.8	3.3	0.0	0.3	0.1	0.3	7.3
Health care	3.1	2.2	4.1	0.0	0.3	0.0	0.1	9.8
Financials	8.1	10.6	10.3	0.0	0.7	0.8	0.9	31.4
Information technology	0.0	0.6	1.0	0.0	0.1	0.1	0.0	1.8
Telecommunications	0.2	1.2	1.6	0.0	0.4	0.2	0.3	3.9
Utilities	0.1	0.3	6.4	0.0	0.7	0.3	0.0	7.8
Non allocated	10.4	0.1	-	0.0	0.0	0.0	0.4	10.9
<b>Total</b>	<b>25.0</b>	<b>25.1</b>	<b>39.4</b>	<b>0.2</b>	<b>4.7</b>	<b>2.4</b>	<b>3.2</b>	<b>100.0</b>

# Notes - Danica Group

Note DKKm

## 35 FINANCIAL INSTRUMENTS

Financial instruments, classification and valuation method

	Fair value			Amortised cost *		
	Held for trading	Designated	Fair value hedge	Debtors	Liabilities	Total
<b>2011</b>						
Financial investment assets	5,723	184,045	-	7,525	-	197,293
Unit-linked investments	-	75,797	-	-	-	75,797
Debtors	-	-	-	703	-	703
Cash and cash equivalents	-	-	-	714	-	714
<b>Total financial assets</b>	<b>5,723</b>	<b>259,842</b>	<b>-</b>	<b>8,942</b>	<b>-</b>	<b>274,507</b>
Provisions for unit-linked contracts	-	24,541	-	-	-	24,541
Due to credit institutions	-	-	-	-	6,978	6,978
Derivatives	3,506	-	-	-	-	3,506
Other liabilities	-	-	-	-	1,314	1,314
<b>Total financial liabilities</b>	<b>3,506</b>	<b>24,541</b>	<b>0</b>	<b>-</b>	<b>8,292</b>	<b>36,339</b>
<b>2010</b>						
Financial investment assets	1,334	190,822	-	818	-	192,974
Unit-linked investments	-	66,261	-	-	-	66,261
Debtors	-	-	-	369	-	369
Cash and cash equivalents	-	-	-	444	-	444
<b>Total financial assets</b>	<b>1,334</b>	<b>257,083</b>	<b>-</b>	<b>1,631</b>	<b>-</b>	<b>260,048</b>
Provisions for unit-linked contracts	-	22,397	-	-	-	22,397
Due to credit institutions	-	-	-	-	812	812
Derivatives	2,871	-	-	-	-	2,871
Subordinated debt	-	-	62	-	2,979	3,041
Other liabilities	-	-	-	-	980	980
<b>Total financial liabilities</b>	<b>2,871</b>	<b>22,397</b>	<b>62</b>	<b>-</b>	<b>4,771</b>	<b>30,101</b>

\* The fair value of subordinated debt amounted to DKK 0 million in 2011 and DKK 2,883 million in 2010. For other items measured at amortised cost, fair value equals amortised cost.

### Recognition as income:

Interest income from debtors at amortised cost was recognised as income at DKK 165 million in 2011 and DKK 92 million in 2010. Interest expense from creditors at amortised cost was recognised as expenses at DKK 228 million in 2011 and DKK 153 million in 2010. The remainder of return on investment, included in the income statement items interest income and dividends, etc., interest expenses and market value adjustments, relate to financial instruments at fair value.

Exchange rate adjustment of debtors and liabilities measured at amortised cost are recognised in the income statement under market value adjustments of investments as an expense of DKK 2 million in 2011 and as income of DKK 5 million in 2010.

# Notes - Danica Group

Note DKKm

35  
(cont'd)

## Financial instruments at fair value

The fair value is the amount for which a financial asset could be exchanged between knowledgeable, willing parties. If an active market exists, the market price is applied. If an active market does not exist, which is the case for a number of financial assets and liabilities, a discounted cash flow or generally accepted estimation and valuation techniques based on market conditions at the balance sheet date are used to calculate an estimated value.

2011	Quoted prices	Observable input	Non-observable input	Total
Financial investment assets	178,233	6,635	4,900	189,768
Unit-linked investments	75,797	-	-	75,797
<b>Total financial assets</b>	<b>254,030</b>	<b>6,635</b>	<b>4,900</b>	<b>265,565</b>
Derivatives	817	2,689	-	3,506
Provisions for unit-linked contracts	24,541	-	-	24,541
<b>Total financial liabilities</b>	<b>25,358</b>	<b>2,689</b>	<b>-</b>	<b>28,047</b>
<b>2010</b>				
Financial investment assets	183,324	4,108	4,724	192,156
Unit-linked investments	66,261	-	-	66,261
<b>Total financial assets</b>	<b>249,585</b>	<b>4,108</b>	<b>4,724</b>	<b>258,417</b>
Derivatives	2,547	324	-	2,871
Provisions for unit-linked contracts	22,397	-	-	22,397
<b>Total financial liabilities</b>	<b>24,944</b>	<b>324</b>	<b>-</b>	<b>25,268</b>

At 31 December 2011, financial instruments measured on the basis of non-observable input comprised unlisted shares DKK 4,728 million and illiquid bonds DKK 172 million.

Valuation based on non-observable input	2011	2010
Fair value, beginning of year	4,724	4,157
Fair value through profit or loss	409	566
Purchase	1,790	1,366
Sale	-729	-720
Transferred to quoted prices and observable input	-1,294	-645
<b>Fair value, end of period</b>	<b>4,900</b>	<b>4,724</b>

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

In 2011, unrealised market value adjustments were recognised at DKK 16 million (2010: DKK 184 million) on financial instruments valued based on non-observable input.

Assuming a widening of the credit spread by 50 bps, the fair value would be reduced by DKK 3 million. A narrowing of the credit spread by 50 bps would cause the fair value to be increased by DKK 3 million.

# Notes - Danica Group

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Note DKKm

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## 36 REPO- AND REVERSE TRANSACTIONS

In repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet, and the amounts received are recognised as deposits. The corresponding liability is carried as amounts owed to credit institutions. Repo transaction securities are treated as assets provided as collateral for liabilities. At the end of 2011, the fair value of such securities totalled DKK 6,616 million (2010: DKK 0 million). The corresponding liability totalled DKK 6,275 million (2010: DKK 0 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

In reverse transactions, which involve buying securities to be resold at a later date, the Danica Group is entitled to sell the securities or deposit them as collateral for other loans. The securities are not recognised on the balance sheet, and amounts paid are carried as deposits with credit institutions. At the end of 2011, the fair value of reverse transaction securities was DKK 295 million (2010: DKK 0 million), of which securities sold or deposited as collateral totalled DKK 0 million (2010: DKK 0 million).

Collateral agreements have been entered into regarding repo and reverse transactions. In connection with these, the Group has received collateral in the form of liquid bonds at a fair value at the end of 2011 of DKK 236 million (2010: DKK 0 million).

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# Notes – Danica Group

Note

## 37 RISK MANAGEMENT AND SENSITIVITY RATIOS

### RISK MANAGEMENT

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

The Group is exposed to a number of different risks.

Finansielle risici	Forsikringsmæssige risici	Operationelle risici	Forretningsmæssige risici
Marked	Levetid	IT	Omdømme
Likviditet	Dodelighed	Juridisk	Strategi
Modparter	Invaliditet	Administrative	
Koncentration	Koncentration	Bedrageri	

#### Financial risk

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

The Group has three sources of financial risk:

- Investments relating to conventional products
- Investments relating to market products
- 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 x.

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.

On 1 January 2011, the Danish FSA's amended executive order on the contribution principle took effect. The main consequence of this is that the portfolio of Danica Traditionel at 1 January 2011 was divided into four interest rate groups.

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

The division into interest rate groups meant an increase in the risk exposure of shareholders' equity. The Group therefore prepared new investment and hedging strategies for each interest rate group, thus limiting the increase in the risk exposure of shareholders' equity. At the

end of 2011, little bonus potentials were available to cover losses for all interest rate groups apart from New business, and, accordingly, negative investment returns are expected to impact results.

Insurance obligations are calculated by discounting the expected cash flows using a discount rate curve defined by the Danish FSA, mainly based on euro swap market rates, the spread between Danish and German government bonds (that for one component is calculated as a 12-months moving average), the spread between Danish swap interest rates and euro swap interest rates as well as a Danish mortgage interest rate spread.

In order to ensure that the return on customer funds matches the guaranteed benefits on policies with bonus entitlement, the Group monitors market risk on an ongoing basis. Internal stress tests are performed to ensure that the Group is able to withstand material losses on its equity market and credit exposure as a result of major interest rate fluctuations. The part of interest rate risk not covered by the bond portfolio is partially hedged using derivatives.

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

The credit spread risk on bond holdings is limited as 71% of the portfolio at the end of 2011 consists of government and mortgage bonds with high credit quality (AA - AAA) with the international credit rating agencies or in unrated bonds with a similar high credit quality. Just 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.

The exposure to government bonds issued by Italy, Spain and Ireland at the end of 2011 was DKK 5.5 billion, DKK 1.5 billion and DKK 0.3 billion, respectively. At the end of 2011, the Group has no exposure to government bonds issued by Greece or Portugal.

Foreign exchange risks are insignificant as they are limited by means of derivatives.

Liquidity risks are limited by placing a major portion of investments in liquid listed bonds and foreign listed equities. Liquidity risk is limited as it is possible to adapt payments upon surrenders and internal transfers to the situation in the financial markets.

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

#### Investments relating to market products

Policyholders assume the risk on investment assets under market products, Danica Link and Danica Balance, with the exception of contracts with investment guarantees. At the end of 2011, 15% of policyholders had investment guarantees in the guaranteed period. The guarantees do not apply until the policyholder retires and is paid for by an annual fee.

# Notes – Danica Group

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## Note

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Danica Pension manages the risk on financial guarantees in Danica Link with financial derivatives and by adjusting the investment allocation during the last five years before retirement. It manages the risk on guarantees in Danica Balance by adjusting the investment allocation for the individual policies during the last ten years before retirement. The investment allocation is adjusted on the basis of the guarantee amount, the investment horizon, etc. Because of these hedging and risk management strategies, Danica Pension considers the investment risk on guarantees in market products to be minor.

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

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

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

### **Insurance risks**

Insurance risks are linked to trends in mortality, disability, critical illness and other variables. For example, an increase in life expectancy 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. Life expectancy is the most significant life insurance risk.

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

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

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

### **Operational risks**

Operational risks relate 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 taken is segregation of duties.

A few customers have brought an action against Danica Pension, claiming that the expense loading should not be included in the calculation of the bonus on paid-up policies, current policies and

premium-paying policies. This has been industry practice for a number of years, and in Danica Pension's opinion is in accordance with the existing terms for the policies in question. On 11 November 2011, the Supreme Court of Denmark delivered its judgment in the case, ruling in favour of Danica Pension.

### **Business risks**

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

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

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

## **SENSITIVITY INFORMATION**

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

A 10% decline in the mortality rate, corresponding to an increase in life expectancy of about one year, would increase liabilities by DKK 0.3 billion, and shareholders' equity would be reduced by DKK 1.5 billion.

Of the two interest rate scenarios, an interest rate increase would be the worse for the Group. A scenario with an increase in interest rates of 0.7 of a percentage point concurrent with the rest of the financial sensitivity ratios defined in the Danish FSA's red traffic light scenario would reduce the collective bonus potential by DKK 0.2 billion, increase the bonus potential of paid-up policies by DKK 0.7 billion and reduce shareholders' equity by DKK 3.0 billion.

The risk exposure was limited during the year as the proportion of equities and credit bonds was reduced.

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

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

# Notes – Danica Group

Note

## SENSITIVITY RATIOS 31.12.2011

(DKKbn)	Minimum effect on capital base	Maximum effect on collective bonus potential	Maximum effect on bonus potential of paid-up policies before change in drawn bonus potential of paid-up policies	Maximum effect of drawn bonus potential of paid-up policies
Interest rate increase of 0.7 of a percentage point	-0.5	-0.2	4.1	-1.0
Interest rate fall of 0.7 of a percentage point	0.1	0.9	-3.8	1.3
Share price fall of 12%	-0.3	-0.1	0.0	-0.8
Fall in property prices of 8%	-0.8	-0.2	0.0	-0.5
Foreign exchange risk (VaR 99.0)	-0.1	-0.1	0.0	-0.1
Loss on counterparties of 8%	-1.2	-0.2	0.0	-0.6
Widening of credit spread of 1.0%	-0.4	-0.1	0.0	-0.3
Decrease in mortality rate of 10%	-1.5	-0.2	-0.1	-0.1
Increase in mortality rate of 10%	0.0	1.6	0.1	0.0
Increase in disability rate of 10%	0.0	-0.1	0.0	0.0

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## Income statement - Forsikringselskabet Danica

Note	DKKm	2011	2010
	Gross premiums	368	378
2	Premiums, net of reinsurance	368	378
3	Technical interest	2	7
	Claims paid, gross	-340	-343
	Change in outstanding claims provision	82	52
4	Claims, net of reinsurance	-258	-291
	Bonuses and premium discounts	1	2
	Acquisition costs	-20	-19
	Administrative expenses	-21	-30
5	Total operating expenses relating to insurance, net of reinsurance	-41	-49
14	<b>TECHNICAL RESULT</b>	72	47
	Income from group undertakings	465	1,663
	Interest income and dividends, etc.	47	93
6	Market value adjustments of investments	12	28
	Administrative expenses related to investment activities	0	-8
	Total return on investment	524	1,776
	Return on technical provisions	-21	-24
	<b>RETURN ON INVESTMENT LESS TECHNICAL INTEREST</b>	503	1,752
7	Other income	12	36
8	Other expenses	-9	-28
	<b>PROFIT BEFORE TAX</b>	578	1,807
9	Tax	-28	-36
	<b>NET PROFIT FOR THE YEAR</b>	550	1,771
	Net profit for the year	550	1,771
	Other comprehensive income:		
	Translation of units outside Denmark	2	23
	Foreign unit hedges	-2	-23
	Tax relating to other comprehensive income	1	6
	Total other comprehensive income	1	6
	<b>NET COMPREHENSIVE INCOME FOR THE YEAR</b>	551	1,777

# Balance sheet - Forsikringssselskabet Danica

## Assets

Note	DKKm	2011	2010
	Holdings in group undertakings	19,346	18,909
	Total investments in group undertakings and associates	19,346	18,909
	Bonds	928	2,640
10	Total other financial investment assets	928	2,640
	<b>TOTAL INVESTMENT ASSETS</b>	<b>20,274</b>	<b>21,549</b>
	Amounts due from policyholders	6	16
	<b>TOTAL DEBTORS</b>	<b>6</b>	<b>16</b>
	Deferred tax assets	1	1
	<b>TOTAL OTHER ASSETS</b>	<b>1</b>	<b>1</b>
	Accrued interest and rent	10	35
	Other prepayments and accrued income	-	4
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	<b>10</b>	<b>39</b>
	<b>TOTAL ASSETS</b>	<b>20,291</b>	<b>21,605</b>

# Balance sheet - Forsikringssselskabet Danica

## Liabilities and equity

Note	DKKm	2011	2010
	Share capital	1,000	1,000
	Other reserves	14,444	14,472
	Retained earnings	3,749	3,749
	Proposed dividend	550	1,771
11	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>19,743</b>	<b>20,992</b>
	Unearned premiums provision	9	10
	Outstanding claims provision	478	541
	Provisions for bonuses and premium discounts	4	5
	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>491</b>	<b>556</b>
	Amounts owed, direct insurance	11	22
	Amounts owed to group undertakings	6	11
	Current tax liabilities	28	5
	Other creditors	9	16
	<b>TOTAL CREDITORS</b>	<b>54</b>	<b>54</b>
	<b>ACCRUALS AND DEFERRED INCOME</b>	<b>3</b>	<b>3</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>20,291</b>	<b>21,605</b>

## Statement of capital - Forsikringssselskabet Danica

DKKm

Changes in shareholders' equity	Share capital	Foreign currency translation reserve *	Other reserves	Retained earnings	Proposed dividend	Total
Shareholders' equity at 31 December 2010	1,000	-2	14,472	3,751	1,771	20,992
Correction of errors in 2010	-	-	-29	-	-	-29
Adjusted shareholders' equity at 1 January 2011	1,000	-2	14,443	3,751	1,771	20,963
Profit for the year	-	-	465	85	-	550
Other comprehensive income:						
Translation of foreign units	-	2	-	-	-	2
Foreign unit hedges	-	-2	-	-	-	-2
Tax on other comprehensive income	-	-	1	-	-	1
Total other comprehensive income	-	0	1	-	-	1
Comprehensive income for the year	-	0	466	85	-	551
Dividends paid	-	-	-	-	-1,771	-1,771
Proposed dividend	-	-	-465	-85	550	0
Shareholders' equity at 31 December 2011	1,000	-2	14,444	3,751	550	19,743
Shareholders' equity at 31 December 2009	1,000	-2	12,803	5,414	-	19,215
Profit for the year	-	-	1,663	108	-	1,771
Other comprehensive income:						
Translation of foreign units	-	23	-	-	-	23
Foreign unit hedges	-	-23	-	-	-	-23
Tax on other comprehensive income	-	-	6	-	-	6
Total other comprehensive income	-	0	6	-	-	6
Comprehensive income for the year	-	0	1,669	108	-	1,777
Proposed dividend	-	-	-	-1,771	1,771	0
Shareholders' equity at 31 December 2010	1,000	-2	14,472	3,751	1,771	20,992

\* Recognised in the balance sheet under retained earnings.



## Statement of capital - Forsikringssselskabet Danica

DKKm	2011	2010
Solvency requirement and capital base		
Shareholders' equity	19,743	20,992
Proportionate share of capital base of insurance subsidiaries	18,784	21,766
- Value of proportionate share	-19,346	-18,909
Core capital	19,181	23,849
- Proposed dividend	-550	-1,771
- Tax assets	-1	-1
- Proportionate share of capital requirement of insurance subsidiary	-8,428	-7,908
Reduced core capital	10,202	14,169
Capital base	10,202	14,169
Solvency requirement	76	79
Total solvency requirement	76	79
Excess capital base	10,126	14,090

# Notes – Forsikringselskabet Danica

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Note

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## 1 ACCOUNTING POLICIES

The financial statements of the Parent Company, Forsikringselskabet Danica, are prepared in accordance with the provisions of the Danish Financial Business Act, including the Danish FSA's Executive Order No. 16 of 11 January 2011 on financial reports presented by insurance companies and lateral pension funds.

These rules are identical to the Group's measurement under IFRS. See the description of significant accounting policies in note 2 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 charged to the item Income from group undertakings.

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

### Key ratios

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

# Notes - Forsikringssselskabet Danica

Note	DKKm	2011	2010
2	<b>GROSS PREMIUM INCOME</b>		
	Premiums, direct insurance, broken down by policyholders' residence:		
	Denmark	362	372
	Other EU countries	5	5
	Other countries	1	1
	<b>Total</b>	<b>368</b>	<b>378</b>
3	<b>TECHNICAL INTEREST</b>		
	Calculation of technical interest and return on investment:		
	Technical interest rate	2.73%	3.65%
	Technical interest amount	14	21
	Outstanding claims provision, discounted amount	-12	-14
	<b>Technical interest, net of reinsurance less discounted amount</b>	<b>2</b>	<b>7</b>
	<b>Total return on investment</b>	<b>524</b>	<b>1,776</b>
	Market value adjustment of outstanding claims provision	-7	-3
	<b>Total return on investment, including market value adjustments</b>	<b>517</b>	<b>1,773</b>
	Of which transferred to technical interest	-14	-21
	<b>Return on investment less technical interest</b>	<b>503</b>	<b>1,752</b>
4	<b>CLAIMS</b>		
	Total run-off regarding prior years:		
	Gross claims	34	50
	Net of reinsurance	34	50
	Run-off, net of reinsurance, relates to health and accident insurance policies.		
5	<b>OPERATING EXPENSES RELATING TO INSURANCE</b>		
	The company has employed an Executive Board, an actuary and a company secretary. No remuneration has been paid to these or to the Board of Directors.		
6	<b>MARKET VALUE ADJUSTMENTS OF INVESTMENTS</b>		
	Bonds	12	28
	<b>Total market value adjustments of investments</b>	<b>12</b>	<b>28</b>
7	<b>OTHER INCOME</b>		
	Commission income from ancillary activities	12	36
	<b>Total</b>	<b>12</b>	<b>36</b>
8	<b>OTHER EXPENSES</b>		
	Expenses in relation to ancillary activities	-2	-20
	General management expenses	-7	-8
	<b>Total</b>	<b>-9</b>	<b>-28</b>

# Notes - Forsikringselskabet Danica

Note	DKKm	2011	2010
9	TAX		
	Tax for the year can be broken down as follows:		
	Tax on the profit for the year	-28	-36
	Tax on other comprehensive income		
	Foreign unit hedges	1	6
	<b>Total</b>	<b>-27</b>	<b>-30</b>
	Tax on the profit for the year is calculated as follows:		
	Current tax	-28	-42
	Other changes in deferred tax	0	6
	<b>Total</b>	<b>-28</b>	<b>-36</b>
	Effective tax rate		
	Danish tax rate	25.0	25.0
	Non-taxable income and non-deductible expenses	-20.1	-23.0
	<b>Effective tax rate</b>	<b>4.9</b>	<b>2.0</b>
	Deferred tax:		
	Deferred tax is recognised as follows in the balance sheet:		
	Deferred tax (asset)	-1	-1
	<b>Deferred tax, net</b>	<b>-1</b>	<b>-1</b>
	Deferred tax broken down on main items		
	Tangible assets	-1	-1
	<b>Total</b>	<b>-1</b>	<b>-1</b>
10	OTHER FINANCIAL INVESTMENT ASSETS		
	Includes investments in undertakings in the Danske Bank Group as follows:		
	Bonds	150	606
11	SHAREHOLDERS' EQUITY		
	Number of shares of DKK 1,000	1,000,000	1,000,000
12	CONTINGENT LIABILITIES		
	At the end of the year, assets were provided as security for policyholders' savings at a total carrying amount of	564	645
	Breakdown of minimum lease payments on operating leases on premises by lease term		
	Within 1 year	53	53
	1 - 5 years	210	211
	After 5 years	448	502
	<b>Total</b>	<b>711</b>	<b>766</b>
	The company is registered jointly with group undertakings for financial services employer tax and VAT, for which it is jointly and severally liable.		
13	RELATED PARTIES		
	Danske Bank, domiciled in Copenhagen, Denmark, wholly owns the share capital of Forsikringselskabet Danica and thus exercises control.		
	The company's IT operations and development, internal audit, HR administration, purchases, marketing and the like are handled by Danske Bank. These services are settled on an arm's-length or a cost reimbursement basis.		
	Forsikringselskabet Danica is managed by Danica Pension, which settles expenses with the companies it manages on an arm's-length or a cost reimbursement basis. Accordingly, Forsikringselskabet Danica refunded an amount of DKK 41 million to Danica Pension in 2011.		
	Danske Bank Group also handles portfolio management and securities trading.		

# Notes - Forsikringselskabet Danica

Note DKKm

## 14 SPECIFICATION OF CLASSES OF INSURANCE

	Health and accident insurance	Health care insurance	Total
Gross premiums	113	255	368
Gross premium income	113	255	368
Gross claims	-111	-147	-258
Gross operating expenses	-13	-28	-41
Technical interest, net of reinsurance	-2	4	2
Technical result	-12	84	72
Number of claims	1,023	28,883	29,906
Average amount of claims	0.1	0.0	0.0
Claims frequency	0.7%	6.0%	5.8%

## 15 RISK EXPOSURE AND SENSITIVITY RATIOS 2011

DKKm	Effect on shareholders' equity
Interest rate increase of 0.7 of a percentage point	-507
Interest rate decline of 0.7 of a percentage point	116
12% fall in equity prices	-254
8% fall in property prices	-776
Foreign exchange risk (VaR 99.0%)	-55
8% loss on counterparties	-1,212
1.0% increase in credit spread	-394

See the description of risk management in note 37 to the consolidated financial statements.

## 16 FINANCIAL HIGHLIGHTS

	2011	2010	2009	2008	2007
<b>INCOME STATEMENT</b>					
Gross premiums	368	378	355	287	231
Technical interest	2	7	12	1	9
Gross claims	-258	-291	-323	-295	-220
Bonuses and premium discounts	1	2	-	1	-
Total operating expenses relating to insurance	-41	-49	-54	-50	-45
Technical result	72	47	-10	-56	-25
Total profit on investment activities after transfer of technical interest	503	1,752	2,355	-748	1,356
Other income and expenses etc.	3	8	3	3	16
Profit before tax	578	1,807	2,348	-801	1,347
Tax	-28	-36	-27	-19	-5
Net profit for the year	550	1,771	2,321	-820	1,342
Run-off result	34	50	50	13	0
<b>BALANCE SHEET</b>					
Total assets	20,291	21,605	19,873	17,575	18,383
Holdings in group undertakings	19,346	18,909	17,241	14,994	15,871
Other investment assets	928	2,640	2,567	2,475	2,255
Total shareholders' equity	19,743	20,992	19,215	16,886	17,716
Total technical provisions	491	556	592	649	653
<b>RATIOS (%)</b>					
Gross claims ratio	70.1	76.6	90.8	102.3	95.0
Gross expense ratio	11.0	13.0	15.1	17.3	19.5
Combined ratio	81.1	89.6	105.9	119.5	114.6
Operating ratio	80.7	87.9	102.5	119.0	110.4
Relative run-off result (%)	6.3	8.7	7.9	2.1	0.0
Equity ratio	2.6	8.8	12.9	-4.7	7.9
Solvency ratio	1.35	180	198	201	297

Key figures and ratios are set out in the Danish FSA's executive order on financial reports.

## Group overview

	Own- ership	Currency	Net profit for the year	Share capital	Share- holders' equity	Staff	Directorships <sup>2)</sup>	
	%		millions	millions	millions	Number <sup>1)</sup>	PKLI	JW
<b>NON-LIFE INSURANCE</b>								
Forsikringselskabet Danica, Skadeforsikringsaktieselskab af 1999, Copenhagen		DKK	550	1,000	19,743		D	D
<b>LIFE INSURANCE</b>								
Danica Pension, Livsforsikringsaktieselskab, Copenhagen	100	DKK	465	1,100	19,461	680	D	D
Danica Pension Försäkringsaktiebolag, Stockholm	100	SEK	17	100	64	62	B	
Danica Pensjonsforsikring AS, Trondheim	100	NOK	42	106	240	81	B	
Danica Life Ltd, Ireland	100	EUR	-6	5	38	8	B	
<b>PROPERTY INVESTMENT</b>								
Danica Ejendomsselskab ApS, Copenhagen	100	DKK	1,246	2,628	21,167	-		
<b>PROPERTY INVESTMENT COMPANIES (pro rata consolidation)</b>								
Samejet SlotsArkaderne, Copenhagen	90	DKK	89	-	1,068	-		
Samejet Nymøllevej, Copenhagen	75	DKK	86	-	607	-		
Samejet Gyngemose Parkvej 64-72	50	DKK	4	-	142	-		
Frederiksberg Centret I/S, Copenhagen	67	DKK	61	-	1,003	4		
Hovedbanegårdens Forretningscenter K/S, Copenhagen <sup>3)</sup>	50	DKK	25	-	227	-		

<sup>1)</sup> Comprises employees in group companies at 31 December 2011.

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

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

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

## Group overview

### Companies

Forsikringselskabet  
Danica A/S

Danica Pension A/S

Danica Pension  
Försäkringsaktiebolag

Danica Pensjons-  
Forsikring AS

Danica Life Ltd

Danica  
Ejendomsselskab ApS

### Activities

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

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

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

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

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

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

Market products and risk products in Ireland (in the process of being divested or wound up).

Property company investing primarily in commercial property and shopping centres.

## 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

#### **Peter Straarup** (Chairman)

Chairman of the Executive Board of Danske Bank A/S

Born on 19.07.1951

Directorships:

Atlantsammenslutningen

Bikubens Pensionsfond

Dagmar Marshalls Fond

Danmark-Amerika Fondet

Danske Bank A/S's pensionsfond for medlemmer af direktionen, deres enker og efterladte børn

Danske Banks Fond (Chairman)

Den Trilaterale Kommission

Værdiansættelsesrådet

European Association for Banking History

Finanssektorens Arbejdsgiverforening

Grænsefonden

ICC Danmark, Det Internationale Handelskammer,

Den danske nationale komité

International Monetary Conference

Institut International d'Etudes Bancaires (Chairman)

Kong Olav V's Fond

#### **Tonny Thierry Andersen** (Deputy Chairman)

Member of the Executive Board of Danske Bank A/S

Born on 30.09.1964

Director of:

Det Private Beredskab til Afvikling af Nødlidende

Banker, Sparekasser og Andelskasser (Deputy Chairman)

Danish Bankers Association (Deputy Chairman)

Kreditforeningen Danmarks Pensionsafviklingsskase (Chairman)

Multidata Holding A/S

Multidata A/S

Realkredit Danmark A/S (Chairman)

#### **Kim Andersen**

Born on 30.04.1955

Member of the Executive Board of:

Audio Consult ApS

KA Invest af 2. maj 2003 ApS

Director of:

Realkredit Danmark A/S

#### **Lars Andreassen**

Executive Vice President of Danske Bank A/S

Born on 23.11.1964

#### **Thomas Falck**

Senior Pension Specialist, Danica Pension

Born on 09.06.1952

#### **Gitte Jensen**

Chairman of Staff Association, Danica Pension

Born on 14.04.1949

#### **Georg Schubiger**

Member of the Executive Board of Danske Bank A/S

Born on 05.06.1968

Director of:

Danske Bank International S.A.

E. Schubiger Cie AG

Hotel des Balances AG

Immobilien Allmend AG

Northern Bank Limited

Sampo Pankki Oyj

#### **Erik Sevaldsen**

Executive Vice President of Danske Bank A/S

Born on 01.04.1948

Director of:

Danske Leasing A/S

Danske Markets Inc.

ZAO Danske Bank (Russia)

Member of The Financial Business Council

#### **Per Søgaard**

Senior Advisor, Danica Pension

Born on 07.02.1969

Director of:

Witt & Søn A/S

OT-Europlay A/S

### Executive Board

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

#### **Per Klitgård**

Chief Executive Officer

Born on 11.12.1958

Director of:

The Danish Insurance Association

#### **Jesper Winkelmann**

Member of the Executive Board

Born on 14.02.1958



# Statement and reports

## Statement by the Management

The Board of Directors and the Executive Board (the management) have today considered and approved the annual report of Forsikringsselskabet Danica for the financial year 2011.

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 2011 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 2011. 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, 9 February 2012

## Executive Board

Per Klitgård

Jesper Winkelmann

## Board of directors

Peter Straarup  
Chairman

Tonny Thierry Andersen  
Deputy Chairman

Kim Andersen

Lars Andreasen

Thomas Falck

Gitte Jensen

Georg Schubiger

Erik Sevaldsen

Per Søgaaard

## INTERNAL AUDITS' REPORT

We have audited the consolidated financial statements, pp. 11-48, and the Parent Company financial statements of Forsikringsselskabet Danica, Skadesforsikringsaktieselskab af 1999, pp. 49-58, for the financial year 2011. The consolidated financial statements and the Parent Company's financial statements comprise the income statement, statement of comprehensive income, balance sheet, statement of capital and notes for the Group as well as for the Parent Company and the consolidated cash flow statement. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Danish Financial Business Act.

### **Basis of opinion**

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

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

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

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

Our audit did not result in any qualification.

### **Opinion**

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2011 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the financial year 2011 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the Parent Company's financial statements.

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

Copenhagen, 09 February 2012

Jens Peter Thomassen

Group Chief Auditor

## INDEPENDENT AUDITORS' REPORT

### To the shareholders of Forsikringsselskabet Danica, Skadesforsikringsaktieselskab

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

We have audited the consolidated financial statements, pp. 11-48, and the Parent Company financial statements of Forsikringsselskabet Danica, Skadesforsikringsaktieselskab af 1999, pp. 49-58, for the financial year 2011. The consolidated financial statements and the Parent Company's financial statements comprise the income statement, statement of comprehensive income, balance sheet, statement of capital and notes for the Group as well as for the Parent Company and the consolidated cash flow statement. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Danish Financial Business Act.

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

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

#### Auditors' responsibility

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

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

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

Our audit did not result in any qualification.

#### Opinion

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2011 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the financial year 2011 in accordance with the International Financial Reporting Standards as adopted by the EU in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the Parent Company's financial statements.

#### Statement on the management's report

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

Copenhagen, 9 February 2012  
KPMG  
Statsautoriseret Revisionspartnerselskab

Copenhagen, 9 February 2012  
PricewaterhouseCoopers Danmark  
Statsautoriseret Revisionsaktieselskab

Lars Rhod Søndergaard  
State Authorised Public  
Accountant

Gerda Retbøll-Bauer  
State Authorised Public  
Accountant

Ole Fabricius  
State Authorised Public  
Accountant

Christian F. Jakobsen  
State Authorised Public  
Accountant

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## Address

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CVR 25020634

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