Annual Report 2016

Forsikringsselskabet Danica

Danica Pension

Contents

This Annual Report 2016 is a translation of the original report in the Danish language (Årsrapport 2016). In case of discrepancy, the Danish version prevails

SELECTED FINANCIAL HIGHLIGHTS FOR THE DANICA GROUP

(DKK millions)	2016	2015[1]	2014[2]	2013[2]	2012[2]
PREMIUMS INCLUDING INVESTMENT CONTRACTS	33,809	29,573	26,821	26,808	24,650
INCOME STATEMENT					
Technical result, Life	1,727	1,451	2,088	921	1,710
Technical result of health and accident insurance	-126	-69	-145	-73	32
Return on investment allocated to equity, etc.	619	573	668	585	612
Profit before tax	2,220	1,955	2,611	1,433	2,354
Tax	-433	-499	-608	-122	-576
Profit for the year	1,787	1,456	2,003	1,311	1,778
BALANCE SHEET					
Total assets	404,180	368,405	358,636	327,749	324,495
Technical provisions, health and accident insurance	10,177	9,583	9,644	8,956	9,106
Provisions for insurance and investment contracts	340,786	320,997	315,833	293,522	289,899
Total shareholders' equity	17,249	19,375	20,056	18,563	18,015
KEY FIGURES AND RATIOS (%)					
Return before tax on pension returns including return related to unit-linked products	6.5	3.1	11.4	3.5	9.8
Return related to unit-linked products in Denmark	5.5	4.8	9.4	8.6	11.5
Risk on return related to unit linked products in Denmark	4.25	-	-	-	-
Net return before tax on pension returns on customer funds in Danica Pension[3]	4.8	5.1	7.2	2.2	5.9
Expenses as per cent of provisions	0.36	0.38	0.42	0.43	0.46
Expenses per policyholder (DKK)	1,221	1,266	1,162	1,151	1,200
Return on equity after tax	9.9	7.3	10.3	7.1	9.2
Solvency coverage ratio	246	199	213	219	195
RATIOS FOR HEALTH AND ACCIDENT INSURANCE					
Gross claims ratio	105	110	121	109	107
Gross expense ratio	8	10	9	10	12

[1] Balance sheet at 1 January 2016

[2] The financial statements are presented in accordance with the executive order on financial reports of 27 July 2015. Key figures and ratios for 2012-2014 have not been restated to reflect the new executive order on financial reports of 27 July 2015. For details, see accounting policies. The solvency coverage ratio was in 2016 affected by the change in profit margin. See accounting policies.

[3] The key figures and ratios include change in accumulated value adjustment

Forsikringsselskabet Danica's consolidated financial statements are presented in accordance with IFRS.
In the period 2012-2014, the consolidated financial statements were presented in accordance with the Danish FSA's Executive Order on Financial Reports for Insurance Companies and Multi-employer Occupational Pension Funds. The change does not affect the financial highlights.

For the full list of financial ratios pursuant to the Danish FSA's Executive Order on Financial Reports for Insurance Companies and Multi-employer Occupational Pension Funds, see page 12.

DANICA STRATEGY

Danica Pension's strategy reflects our ambition to become the most trusted pension provider. We pursue this ambition by providing financial security for our customers.

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

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

Dedicated focus on continuous improvement of customer satisfaction

Danica Pension focuses on lifting customer satisfaction in line with our goal of becoming the pension company that customers are the most satisfied with.

Danica Pension is now part of Wealth Management at Danske Bank

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

The purpose of establishing Wealth Management is to combine all Danske Bank's pension, investment and asset management expertise in order to be able to offer user-friendly solutions based on customer needs in different life situations. The focus is on offering market-leading investment and pension products and services to customers and to increase Danske Bank's share of the growing and attractive wealth management market.

Close collaboration with Danske Bank

After the establishment of Wealth Management, Danica Pension still has a close collaboration with other Danske Bank units to ensure attractive pension offers and comprehensive solutions for both personal and business customers. In the personal customer area, the closer collaboration has increased the total business volume by more than 35% since 2013.

For example, a joint service solution has been established for personal customers with complex finances. More than 1,000 customers are already using the solution. Danica Pension furthermore focuses on providing comprehensive solutions for our business customers, with Danske Bank stepping in as an overall financial partner to the companies. Since 2014, Danica Pension and Business Banking under Danske Bank have intensified the collaboration, and this has led to increased activity.

Strong returns compared with market trends

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

In the second half of 2015, we noted that the implemented measures produced solid returns for our customers. This development has continued in 2016, the return on Danica Balance Mix having been highly competitive. Overall, Danica's return on the Balance Mix product with 15 years to retirement was the second best in the market.

Demand boosted by additional new initiatives

In 2016, Danica launched several new initiatives that contributed to boosting demand.

Investment in Danica Pension's property portfolio

In 2016 it became possible for private investors to invest directly in Danica Pension's property portfolio. It is an innovative way of investing, and our customers showed great interest in the product, which is low to medium risk and can produce attractive returns relative to the liquid market. Activities such as this have become possible with the establishment of Wealth Management, enabling different areas of expertise to collaborate and create new possibilities for our customers.

Improved cover for loss of earning capacity

As one of the first insurance companies, Danica improved our loss of earning capacity cover to ensure that our customers can maintain their financial standard of living in case of illness.

Collaboration with Best Doctors

Many Danes are uncertain whether they have been given the right diagnosis. As the only provider in the Nordic region, Danica Pension has entered into a collaboration with Best Doctors, which collaborates with 53,000 leading medical experts all over the world. Our customers can get a second opinion of their diagnosis or course of treatment. Everything is handled confidentially and easily by e-mail or telephone and in Danish.

Simplification project

During 2016, Danica Pension has been engaged in simplifying products, corporate agreements, processes as well as the service we offer our customers.

These efforts have improved the quality and efficiency of our service. For example, we have made our corporate agreements more flexible, adjusted our covers and reduced the number of products to focus our product offering.

New Danica Pension savings options

In January 2016, Danica Pension introduced an improved version of Danica Balance. With the improved Danica Balance product, most of our customers will invest part of their pension savings in a new investment fund, Danica Balance Mix, in which Danica Pension's team of investment experts currently pick a strategically selected mix of defensive and proactive investments based on our financial market expectations.

If, for example, we expect proactive investments to produce particularly high returns, we increase the proportion of these. We also ensure a better mix of defensive investments to ensure that they perform well in different economic climates. The new version of our Danica Balance product has already proved its ability to produce additional returns for our customers. All policyholders with Danica Balance were transferred to the new Danica Balance product in 2016.

Norway and Sweden

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

At Danica Pension, Norway, we launched an offensive growth strategy to achieve a greater future market share of the Norwegian pension market. This resulted in a 17% increase in contributions compared to 2015, and total contributions amounted to DKK 2,188 million in 2016.

In Sweden, we are also seeing a positive trend with a 13% increase in contributions.

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

FINANCIAL REVIEW

Financial results

The Danica Group realised a profit before tax of DKK 2,220 million, against DKK 1,955 million in 2015. The net profit after tax amounted to DKK 1,787 million, against DKK 1,456 million in 2015.

The performance exceeded the profit forecast set out in the interim report for the first half of 2016. The Board of Directors proposes to the annual general meeting that an amount of DKK 1,710 million, corresponding to the parent company's profit after tax, be distributed in 2017 as dividends in respect of 2016.

DANICA GROUP, PROFIT BEFORE TAX (DKK millions)	2016	2015
Technical result, Traditionel	1,236	1,328
Technical result, unit-linked products	620	573
Health and accident result (before investment return)	-187	-182
Result of insurance business	1,670	1,719
Investment return	611	286
Transferred from shadow account	279	221
Special allotments	-340	-271
Profit before tax	2,220	1,955

The technical result of the conventional business amounted to DKK 1,236 million, against DKK 1,328 million for 2015. The declining income in the conventional business was as expected and was due to the fact that new business is mainly written in unit-linked products as well as to the general run-off profile of the portfolio. Danica was able to book the full risk allowance for the four interest rate groups. Danica was also able to book DKK 279 million from the shadow account for the interest rate groups. At the end of 2016, the shadow account thus stood at DKK 44 million, relating to the risk groups.

The technical result of unit linked products was DKK 620 million. The performance was favourably influenced by a volume increase.

The result of health and accident insurance before investment return was a loss of DKK 187 million, against a loss of DKK 182 million in 2015. The claims ratio for the health and accident business was 105%, against 110% in 2015.

The return on investment relating to the risk exposure of shareholders' equity rose from DKK 286 million to DKK 611 million. The increase was affected by extraordinary income of DKK 99 million from the adjustment of the discount curve for the health and accident business and DKK 175 million from the transfer of a new policy portfolio to a new group outside contribution. On the other hand, a lower investment return on the health and accident business had a negative effect.

Special allotments amounted to an expense of DKK 340 million against DKK 271 million in 2015, as described in the section on contribution in the significant accounting policies note. This amount will be deposited in the policyholders' accounts in March 2017.

Gross premiums

Gross premiums amounted to DKK 33.8 billion in 2016, up 14% on 2015.

Premiums for the Danish unit linked products Danica Balance, Danica Link and Danica Select after transfers were up 14%, whereas gross premiums for Danica Traditionel rose 17% as a result of the addition of a single large pension scheme.

PREMIUMS (INCLUDING INVESTMENT CONTRACTS)					
(DKK billions)	2016	2015	2014	2013	2012
Danica Balance	16.2	18.6	13.5	12.2	12.2
Danica Link	1.3	1.7	1.8	1.9	1.9
Danica Select	0.6	0.6	0.5	0.7	0.1
Danica Traditionel	4.2	3.6	4.3	5.0	6.0
Internal transfers	-1.1	-6.0	-1.8	-2.3	-3.3
Health and accident	1.2	1.1	1.1	1.1	1.2
Units outside Denmark	11.4	10.0	7.4	8.2	6.6
Total premiums	33.8	29.6	26.8	26.8	24.7

Premiums for the units outside Denmark rose 14% in aggregate and accounted for 34% of total premiums.

Investment return

The return on investment of customer funds in Denmark was 6.5% before tax on pension returns.

Danica Balance, Danica Link and Danica Select produced a total return of DKK 6.1 billion or 5.5% before tax on pension returns.

The return on investment of customer funds in Danica Traditionel was DKK 10.4 billion or 6.5% before tax on pension returns. The return was positively affected by a lower level of interest rates in 2016. After increased allocations of DKK 1.2 billion to life insurance provisions, the return was 4.8% after tax on pension returns.

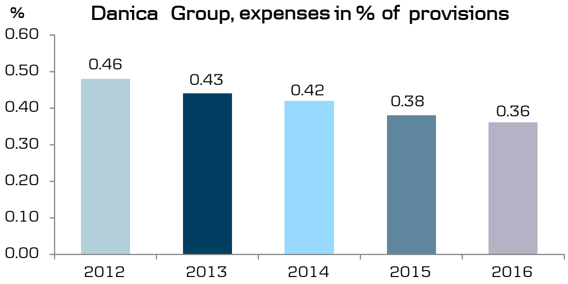
Claims and benefits

Claims and benefits amounted to DKK 21.0 billion in 2016 against DKK 24.7 billion in 2015. Surrenders including investment contracts amounted to DKK 17.4 billion in 2016 against DKK 19.7 billion in 2015. The decrease was mainly due to settlement of tax on capital pensions in 2015.

Expenses

In life insurance, operating expenses relating to insurance amounted to DKK 1,145 million in 2016, against DKK 1,176 million in 2015.

Expenses amounted to 0.36% of average provisions, against 0.38% in 2015.



The average number of full-time employees was 741 in 2016, against 759 in 2015, and at the end of the year Danica had 702 employees in Denmark and abroad. The reduction happened in the Danish business and was due to the continuing digitalisation and self-service initiatives.

The Danica Group paid DKK 546 million to Danske Bank for investment management, IT operations and development, internal auditing, HR administration, logistics and marketing. In addition, Danica paid DKK 155 million to Danske Bank Group for its sale of life insurance policies (see note 30).

Tax

The tax charge amounted to DKK 433 million, positively affected by the reduction of the Danish corporate tax rate from 23.5% in 2015 to 22.0 in 2016.

Balance sheet

The Group's total assets rose from DKK 368 billion at the end of 2015 to DKK 404 billion at the end of 2016. In addition to growing business volume and higher returns, the increase was mainly attributable to an increased use of derivatives.

Investment assets, including investment assets under unit linked contracts, rose from DKK 362 billion at year end 2015 to DKK 397 billion at year end 2016 due to a net addition, a positive investment return and the increased use of derivatives.

Investment assets after deduction of amounts owed to credit institutions and derivatives rose from DKK 347 billion in 2015 to DKK 366 billion in 2016.

Provisions for insurance and investment contracts totalled DKK 341 billion, against DKK 321 billion at the beginning of the year. The increase was attributable to unit linked products.

Life insurance provisions for average rate products were down DKK 2 billion to DKK 149 billion as a result of an expected net decrease in business volume.

Life insurance provisions for unit linked products rose from DKK 155 billion at the beginning of 2016 to DKK 175 billion at the end of 2016.

At the end of 2016, shareholders' equity stood at DKK 17.2 billion, against DKK 19.4 billion at the beginning of the year. This development should be seen in the context of a dividend distribution of DKK 3.9 billion for 2015.

Risk exposure and sensitivity ratios

Note 35 discloses the effect on shareholders' equity of isolated changes in interest rates and other relevant financial risks as well as changes in the mortality and disability rates. The note also discloses risks and the management thereof.

A 10% decline in the mortality rate, corresponding to an increase in longevity of about one year, would increase the liability by DKK 2.2 billion, of which shareholders' equity covers DKK 0.0 billion.

Solvency statement and capital requirement
Solvency II became effective at 1 January 2016.

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

Danica Pension's IT systems have been adapted to the new rules, and in 2016 Danica filed an opening balance sheet and a solvency statement at 1 January 2016, the so-called Day 1 reporting, and reporting for Q1-Q3 with the Danish FSA.

The solvency ratio was 199% at 1 January 2016 and 246% at 31 December 2016.

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

The solvency ratio was affected by Danica's decision in the fourth quarter to review the method of calculating profit margin, which meant that the interest rate groups' profit margin was calculated at nil at the end of 2016. This meant a reduction of total capital with a corresponding reduction of the SCR.

DANICA GROUP, SOLVENCY (DKK millions)	31.12.2016	1.1.2016
Total capital	23,679	23,594
Solvency capital requirement (SCR)	9,605	11,849
Excess capital	14,074	11,745

Events after the balance sheet date
No events have occurred between 31 December 2016 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 2017
In 2017, Danica expects to maintain its position as a leading provider of life and pension insurance products in Denmark. Net income from insurance business is expected to be around the 2016 level.

The 2017 performance will mainly depend on financial market developments.

At least 20% per year of the shadow account carried forward from previous years, at 31 December 2016 amounting to DK 44 million, must be recognised in the period 2017-2020, or the right to do so will be forfeited.

The financial markets
In the financial markets, 2016 will be remembered for Brexit and the election of Trump as president of the USA. Both events surprised the markets and both had a positive effect on risk assets. Among other things, the election of Trump increases the probability of higher nominal US growth in the coming years. As a result, long-term US interest rates rose significantly in November and December 2016 and the spread between long-term European and US rates widened considerably.

In 2016, the US Federal Reserve raised short-term interest rates only once, while the European Central Bank in December announced a reduction of its planned bond buyback programme for 2017.

For the year as a whole, the MSCI World All Countries index produced a return of 12% measured in Danish kroner. The 10-year Danish government bond coupon fell by 60bp to 0.3%, the 10-year government bond thus producing a return of 6% in 2016. High yield corporate bonds (Barclays European HY) produced a return of 9%.

Investment return
Danica Balance, Danica Link and Danica Select generated an aggregate return of DKK 6.1 billion in 2016, equivalent to 5.5% before tax on pension returns.

Danica Balance produced an overall return of 5.7% before tax on pension returns.

Danica Balance, medium risk profile and with 15 years to retirement produced a return of 7.5%, the second best return compared with our competitors.

BALANCE MIX, 2016 RETURN BEFORE TAX (%) Risk	30 years to retirement	15 years to retirement	5 years to retirement
High risk profile	6.3	8.6	7.3
Medium risk profile	6.6	7.5	6.3
Low risk profile	6.9	6.6	5.5

For customers with Danica Link, the return for 2016 was DKK 1.1 billion, equal to 5.0% on average. The average annual return over the past three years has been 5.1%.

DANICA VALG PORTFOLIOS, RETURN BEFORE TAX (%)	2016	2015
Danica Valg Guarantee	6.3	2.7
Danica Valg 100% Bonds	6.0	-1.1
Danica Valg Low Risk	5.3	3.6
Danica Valg Medium Risk	5.1	5.6
Danica Valg High Risk	6.1	6.9
Danica Valg 100% Equities	4.3	10.3
Average return, Danica Link 5.1% p.a. over three years		

The return on investment of customer funds in Danica Traditionel in 2016 was DKK 10.4 billion, or 6.5%, before tax on pension returns. After recognition of DKK 1.2 billion from higher life insurance provisions, the return was 4.8% before tax on pension returns.

DISTRIBUTION BY INTEREST RATE GROUP AT 30 DECEMBER 2016

(%)	Rate of interest on policyholders' savings before tax on pension returns (p.a.)	Investment return before tax on pension returns
Interest rate group 1 (new customers)	1.8	5.5
Interest rate group 2 (low guarantee)	1.8	7.3
Interest rate group 3 (medium guarantee)	1.8	7.7
Interest rate group 4 (high guarantee)	1.8	6.9

Listed equities produced an overall return of 0.2%, while bonds (including credit investments) produced a return of 4.4%. The return on properties was 6.1%, against 6.4% in 2015. Property valuations are based on market-based return requirements of 5.5% on average for office and residential properties and 5.7% for shopping centres. The return requirements were stable relative to 2015.

CONVENTIONAL CUSTOMER FUNDS, PORTFOLIO AND RETURN

	2016		2015	
(DKK billions)	Value	Return %	Value	Return %
Property investments	20.8	6.1	17.0	6.4
Listed equities	8.1	0.2	3.3	5.2
Alternative investments	14.4	8.3	19.0	11.0
Credit investments	14.6	7.4	13.8	-1.4
Global bonds	0	0	0	2.9
Nominal bonds	746	5.7	74.5	-0.4
Index-linked bonds	15.9	3.1	15.5	4.6
Short-term bonds and cash and cash equivalents	6.6	0.1	12.9	6.5
Total bonds, etc.	97.1	5.2	102.9	0.5
Other financial assets	5.6	0	4.5	1.0
Total	160.6	6.5	160.5	1.0
Return after change in additional provisions		4.8		5.1

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 2016	Total 2016	Total 2015
Return on customer funds before investment costs	6.3	7.4	1.9
Investment costs	-0.8	-0.9	-0.9
Return on customer funds after investment costs	5.5	6.5	1.0
Change in the value of insurance obligations	-1.9	-1.7	4.1
Investment return including change in insurance obligations	3.6	4.8	5.1
Tax on pension returns	-0.7	-0.9	0.2
Risk allowance for the year	-0.6	-0.8	-0.8
Risk allowance transferred from shadow account	0.0	-0.2	-0.1
Risk and cost results	0.0	0.0	0.0
Transfer from collective bonus potential	-0.9	-0.5	-1.1
Settlement of tax, conversion etc.	0.1	-0.9	-1.8
Average interest rate on policyholders' savings after tax on pension returns	1.5	1.5	1.5
The share of investment assets for which investment costs are included is	100	100	100

The investment allocation of assets attributed to shareholders' equity at year end 2016 was 18.6% in property and 81.4% in relatively short-term bonds. Shareholders' equity is furthermore exposed to equities and credit bonds through investments attributable to the health and accident business. The aggregate return on funds on which the risk is borne by shareholders' equity was 1.6%.

NEW FINANCIAL REPORTING REGULATIONS FROM 1 JANUARY 2016

The Danish FSA issued a new Executive Order on Financial Reports for Insurance Companies and Multi-employer Occupational Pension Funds, which entered into force at 1 January 2016. The objective of the new executive order is to harmonise the financial reporting principles with those governing the calculation of solvency requirement and total capital under the Solvency II rules.

The changes under the new executive order primaily relate to the item "Total provisions for insurance and investment contracts", with a derived effect on the related adjusting items in the income statement. The changes in accounting policies for 2016 had the overall effect of marginally increasing provisions by DKK 0.2 billion and reducing shareholders' equity by approximately DKK 0.2 billion.

The new executive order also included a major revision of financial ratios.

In conjunction with the issuance of the new Executive Order on Financial Reports, the Danish FSA also issued a new Executive Order on the Contribution Principle, which also entered into force at 1 January 2016. Under this executive order, companies can no longer defer recognition of risk the allowance in a shadow account. The risk allowance can be recognised only if it does not exceed the sum of individual and collective buffers. The remaining balance in the shadow account at 2015 can still be recognised over a five-year period, however. At 31 December 2016, Danica Pension's shadow account balance was DKK 335 million before recognition and write-off. At the end of 2016, DKK 279 million had been recognised and DKK 11 million written off, after which the shadow account stands at DKK 44 million.

Transition to Solvency II
The new EU solvency rules came into force at 1 January 2016. Danica Pension has worked for several years on implementing the new rules and the comprehensive regulation and reporting. Most significantly, the changes required extended reporting, the governance and risk management reporting requirements being particularly extensive compared with the previous Danish rules.

In accordance with the Solvency II rules, Danica focuses on reporting channels and the organisational structure in its internal control system. The control system consists of four independent functions: a Risk Management Function, a Compliance Function, an Internal Audit Function and an Actuarial function. Each of the four functions is governed by and refers to Danica's management. Danica's policies and procedures meet the requirements under Solvency II.

On transition to Solvency II, the principal change compared with the previous rules was the calculation of SCR (solvency capital requirement).

ORGANISATION, MANAGEMENT AND PARTNERSHIPS

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

Board of Directors, Audit Committee and Executive Board
Danica's Board of Directors consists of nine directors, of whom six are elected by the general meeting and three are elected by the employees. The Board of Directors is in charge of the overall management of the company and generally holds six meetings a year.

The Board of Directors has set up an audit committee to prepare the work of the Board of Directors on financial reporting and audit matters, including related risk matters, which either the Board of Directors, the committee itself, the external auditors or the head of Internal Audit intend to review further. The committee works on the basis of clearly defined terms of reference. The committee is not authorised to make independent decisions, but reports exclusively to the full Board of Directors. In 2016, the Audit Committee held six meetings.

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

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

Lars Ellehave-Andersen, who for a period was CEO of Danica's Norwegian business, took up the position as CCO on 1 August 2016, when Jesper Winkelmann retired.

The directorships of the members of the Board of Directors and the Executive Board are listed on page 65. For additional information on the organisation, see page 64.

Diversity policy
The Board of Directors adopted a diversity policy.

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

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

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

Danica's diversity policy is based on Danske Bank Group's overall diversity policy. Danica has defined targets for the proportion of women at each management level.

Danica's gender distribution at 31 December 2016 is set out in the table below. Women in managerial positions at 39% is unchanged from 2015. Further two additional female members are formally included in Danica's management from the new Wealth Management organisational structure.

Management level	Total	Women	% women	Group target 2020	Men	% men
Board of Directors*	6	1	16.7%	25%	5	83.3%
Senior management/Business management	24	5	20.8%	25%	19	79.2%
Managers of managers	7	4	57.1%	29%	3	42.9%
Other managers	36	19	52.7%	42%	17	47.3%

* Employee representatives not included

Remuneration policy and incentive schemes
Danica's remuneration policy fits in with that of Danske Bank Group and encompasses all employees in the Danica Group. The policy was adopted at the Danica Group's annual general meetings and is available on www.danicapension.dk.

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

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

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

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

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

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

CORPORATE RESPONSIBILITY

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

Danica complies with Danske Bank's Corporate Responsibility policy. Along with the Annual Report 2016, Danske Bank Group has published Corporate Responsibility 2016 on the Group's corporate responsibility. All relevant Corporate Responsibility data for the Group are available in the Corporate Responsibility Fact Book 2016, which is published along with the Corporate Responsibility report.

The UN Global Compact is the world's largest voluntary corporate responsibility network, 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 at www.unglobalcompact.org.

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

A GRI index is available at danskebank.com/responsibility, which corresponds to the ten universal principles of the Global Compact.

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 2016, one company was excluded from Danica's investment universe based on the Group's socially responsible investment guidelines, while two others had made improvements and could be included again.

The list of companies not eligible for investment can be seen at danicapension.dk.

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

Environmental considerations
In 2016, 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 2016, almost all Danica's Danish customers received electronic mail.

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

POWER, HEAT AND WATER CONSUMPTION TRENDS					
		2016	2015	2014	Index 16/15
Total energy consumption	*MWh*	3,352	3,693	1,293	91
Total water consumption	*m3*	5,406	4,605	4,987	116
Mileage	*Km'000*	1,071	1,115	1,117	96
Paper	*tonnes*	40	62	76	65

Power, heat and water consumption includes head office and regional offices in Denmark. The consumption covers the period October 2015 to September 2016.

Energy consumption was reduced by 9% relative to 2015, comprising lower heating and electricity consumption.

The drop in paper consumption was explained by Danica's increasing digitalisation.

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

Financial statements - contents

Financial highlights - Danica Group

DKKm	2016	2015 *	2014	2013	2012
INCOME STATEMENT					
Life insurance					
Premiums	23,362	20,188	19,429	18,943	18,662
Claims and benefits	-21,000	-24,691	-23,989	-22,412	-18,800
Return on investment	21,488	10,368	35,462	10,335	26,357
Total operating expenses relating to insurance	-1,145	-1,176	-1,079	-1,073	-1,117
Profit/loss on business ceded	-8	-110	284	-52	168
Technical result, Life	1,727	1,451	2,088	921	1,710
Health and accident insurance					
Gross premium income	1,399	1,278	1,304	1,307	1,306
Gross claims	-1,444	-1,343	-1,519	-1,385	-1,311
Total operating expenses relating to insurance	-107	-128	-112	-123	-143
Profit/loss on business ceded	29	-7	-8	-9	-8
Return on investment less technical interest	112	251	330	180	318
Technical result of health and accident insurance	-126	-69	-145	-73	32
Net profit for the year	1,787	1,456	2,003	1,311	1,778
Total other comprehensive income	-13	-4	-10	-13	7
BALANCE SHEET					
Total assets	404,180	368,405	358,636	327,749	324,495
Insurance assets, health and accident insurance	91	93	127	172	198
Technical provisions, health and accident insurance	10,177	9,850	9,644	8,956	9,106
Total shareholders' equity	17,249	19,375	20,056	18,563	18,015
Total provisions for insurance and investment contracts	340,786	320,997	315,833	293,522	289,899
KEY FIGURES AND RATIOS (%)					
Rate of return related to average rate products	6.5	1.0	14.0	-0.2	9.2
Rate of return related to unit-linked products	5.9	5.6	9.5	10.0	11.3
Risk on return related to unit-linked products	4.25				
Expenses as per cent of provisions	0.4	0.4	0.4	0.4	0.5
Expenses per policyholder (DKK)	1,221	1,266	1,162	1,151	1,200
Return on equity after tax	9.9	7.3	10.3	7.1	9.2
Solvency coverage ratio**	246	199	213	219	195
RATIOS FOR HEALTH AND ACCIDENT INSURANCE					
Gross claims ratio	105	110	121	109	107
Gross expense ratio	8	10	9	10	12
Combined ratio	111	121	130	120	119
Operating ratio	122	128	141	120	124
Relative run-off	0.1	-0.1	-2.2	0.1	0.2
Run-off, net of reinsurance (DKK millions)	11	-5	-174	6	17

The ratios are defined in accordance with the Danish FSA's Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupationa
* Balance sheet items have been corrected at 1 Jan. 2016 and are set out in the balance sheet on pages 15 and 16.
** The financial ratio Solvency coverage ratio is exempt from the auditing requirement pursuant to Exedutive Order No. 937 of 27 July 2016 on financial reports for insurance companies and multi-employer occupational pension funds, and accordingly has not been audited.

Income statement & Other comprehensive income - Danica Group

Note	DKKm	2016	2015
3	Gross premiums	23,362	20,188
	Reinsurance premiums ceded	-38	-33
	Total premiums, net of reinsurance	23,324	20,155
	Income from associates	228	116
4	Income from investment property	929	898
5	Interest income and dividends, etc.	9,586	7,804
6	Value adjustments	14,560	3,575
	Interest expenses	-2,944	-1,275
	Administrative expenses related to investment activities	-871	-750
	Total return on investment	21,488	10,368
	Tax on pension returns	-2,289	-617
7	Claims and benefits paid	-21,000	-24,691
	Reinsurers' share received	10	8
	Total claims and benefits, net of reinsurance	-20,990	-24,683
	Change in life insurance provisions	-17,568	-2,050
	Change in reinsurers' share	4	-89
	Total change in life insurance provisions, net of reinsurance	-17,564	-2,139
	Change in profit margin	-395	-
	Acquisition costs	-331	-331
	Administrative expenses	-814	-845
	Reinsurance commissions and profit sharing	16	4
8	Total operating expenses relating to insurance, net of reinsurance	-1,129	-1,172
	Transferred investment return	-718	-461
	TECHNICAL RESULT OF LIFE INSURANCE	1,727	1,451

Income statement & Other comprehensive income - Danica Group

Note	DKKm	2016	2015
	(cont'd)		
	HEALTH AND ACCIDENT INSURANCE		
	Gross premiums	1,387	1,266
	Reinsurance premiums ceded	-79	-75
	Change in unearned premiums provision	12	12
	Change in profit margin and risk margin	41	-
	Change in unearned premiums provision, reinsurers' share	1	1
	Premiums, net of reinsurance	1,362	1,204
	Technical interest	-89	-68
	Claims paid, gross	-1,543	-1,431
	Reinsurers' share received	109	106
	Change in outstanding claims provision	99	88
	Change in risk margin	-40	-
	Change in outstanding claims provision, reinsurers' share	-5	-41
	Claims, net of reinsurance	-1,380	-1,278
	Bonus and premium discounts	-27	-52
	Acquisition costs	-39	-39
	Administrative expenses	-68	-89
	Reinsurance commissions and profit sharing	3	2
	Total operating expenses relating to insurance, net of reinsurance	-104	-126
	Return on investment	112	251
9	**TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE**	-126	-69
	Return on investment allocated to equity	306	230
10	Other income	319	354
	Other expenses	-6	-11
11	**PROFIT BEFORE TAX**	2,220	1,955
12	Tax	-433	-499
	NET PROFIT FOR THE YEAR	1,787	1,456

Note		2016	2015
	Net profit for the year	1,787	1,456
	Other comprehensive income (items that will be reclassified in a subsequent sale):		
	Translation of units outside Denmark	9	-10
	Hedges of units outside Denmark	-28	8
12	Tax relating to other comprehensive income	6	-2
	Total other comprehensive income	-13	-4
	NET COMPREHENSIVE INCOME FOR THE YEAR	1,774	1,452

Balance sheet - Danica Group

Assets

Note	DKKm	2016	1 January 2016
13	INTANGIBLE ASSETS	83	79
14	Domicile property	43	43
	TOTAL TANGIBLE ASSETS	43	43
15	Investment property	22,631	27,606
16	Holdings in associates and joint ventures	2,988	1,140
	Loans to associates and joint ventures	172	157
	Total investments in associates	3,160	1,297
17	Holdings	20,696	26,508
	Unit trust certificates	4,256	11,087
18	Bonds	139,776	117,903
	Other loans	3,762	2,835
	Deposits with credit institutions	2,061	840
19	Derivatives	19,259	13,913
	Other	0	1
20	Total other financial investment assets	189,810	173,087
	TOTAL INVESTMENT ASSETS	215,601	201,990
21	INVESTMENT ASSETS RELATED TO UNIT-LINKED PRODUCTS	181,661	159,874
	Unearned premiums provision, reinsurers' share	7	7
	Life insurance provisions, reinsurers' share	58	38
	Outstanding claims provision, reinsurers' share	84	100
22	Total technical provisions, reinsurers' share	149	145
	Amounts due from policyholders	874	731
	Amounts due from insurance companies	180	269
	Amounts due from group undertakings	0	-
	Other debtors	873	951
	TOTAL DEBTORS	2,076	2,096
	Current tax assets	119	427
	Cash and cash equivalents	1,384	1,631
	TOTAL OTHER ASSETS	1,503	2,058
	Accrued interest and rent	2,765	1,832
	Other prepayments and accrued income	448	433
	TOTAL PREPAYMENTS AND ACCRUED INCOME	3,213	2,265
	TOTAL ASSETS	404,180	368,405

Balance sheet - Danica Group

Liabilities and equity

Note	DKKm	2016	1 January 2016
	LIABILITIES		
	Unearned premiums provision	661	696
23	Life insurance provisions, average rate products	148,985	150,519
24	Life insurance provisions, unit-linked products	175,171	154,860
	Total life insurance provisions	324,156	305,379
	Profit margin on life insurance and investment contracts	6,454	5,768
	Outstanding claims provision	9,113	8,794
	Risk margin on non-life insurance contracts	339	267
	Provisions for bonus and premium discounts	63	93
25	**TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS**	340,786	320,997
12	Deferred tax	1,666	1,731
	TOTAL PROVISIONS FOR LIABILITIES	1,666	1,731
	Amounts owed, direct insurance	439	386
	Amounts owed to reinsurers	26	35
26	Amounts owed to credit institutions	15,570	8,012
	Amounts owed to group undertakings	44	-
	Current tax liabilities	77	43
27	Other creditors	22,853	13,062
	Accruals and deferred income	1,605	1,033
28	Subordinated debt	3,865	3,731
	TOTAL CREDITORS	386,931	349,030
	SHAREHOLDERS' EQUITY		
	Share capital	1,000	1,000
	Other reserves	12,220	12,156
	Retained earnings	2,319	2,319
	Proposed dividend	1,710	3,900
	TOTAL SHAREHOLDERS' EQUITY	17,249	19,375
	TOTAL LIABILITIES AND EQUITY	404,180	368,405

Statement of capital - Danica Group

DKKm

Changes in shareholders' equity	Share capital	Revaluation reserve	Foreign currency translation reserve *	Other reserves	Retained earnings	Proposed dividend	Total
Shareholders' equity at 31 December 2015	1,000	0	-6	12,392	2,322	3,900	19,608
Change at 1 January 2016, see accounting policies				-153	-80		-233
Adjusted shareholders' equity at 1 January 2016	1,000	0	-6	12,239	2,242	3,900	19,375
Profit for the year	-	-	-	1,512	275	-	1,787
Other comprehensive income:							
Translation of units outside Denmark	-	-	9	-	-	-	9
Hedges of units outside Denmark	-	-	-28	-	-	-	-28
Tax on other comprehensive income	-	-	-	6	-	-	6
Total other comprehensive income	-	-	-19	6	-	-	-13
Comprehensive income for the year	-	-	-19	1,518	275	-	1,774
Dividend paid	-	-	-	-	-	-3,900	-3,900
Proposed dividend **	-	-	-	-1,512	-198	1,710	0
Shareholders' equity at 31 December 2016	1,000	0	-25	12,245	2,319	1,710	17,249
Shareholders' equity at 31 December 2014	1,000	1	-4	13,600	3,560	1,899	20,056
Profit for the year	-	-	-	1,394	62	-	1,456
Other comprehensive income:							
Translation of units outside Denmark	-	-	-10	-	-	-	-10
Hedges of units outside Denmark	-	-	8	-	-	-	8
Tax on other comprehensive income	-	-	-	-2	-	-	-2
Total other comprehensive income	-	-	-2	-2	-	-	-4
Comprehensive income for the year	-	-	-2	1,392	62	-	1,452
Adjustment, domicile property		-1	-	-	-	-	-1
Dividend paid	-	-	-	-	-	-1,899	-1,899
Proposed dividend **	-	-	-	-2,600	-1,300	3,900	0
Shareholders' equity at 31 December 2015	1,000	0	-6	12,392	2,322	3,900	19,608

* Recognised in the balance sheet under other reserves.

** The dividend amounts to DKK 1,710 per share (2015: DKK 3,900). The line shows the effect on shareholders' equity at year end.

Danica Pension has an obligation to allocate part of the excess equity to certain policyholders of the former Statsanstalten for Livsforsikring (now a part of Danica Pension) if the percentage by which the equity exceeds the calculated capital requirement is higher than the percentage that had been maintained by Statsanstalt for Livsforsikring prior to the privatisation of this company in 1990. This comprises any excess either added to shareholders' equity or distributed as dividend, but it does not comprise shareholders' equity paid in after the privatisation. Special allotments to those policyholders are recognised as an expense in the income statement item "Change in life insurance provisions".

The share capital is made up of 1,000,000 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	2016	1. January 2016
Capital base		
Shareholders' equity	17,249	19,375
Valuation differences between financial statements and Solvency II		
Provisions for insurance and investment contracts	4,649	4,680
Deferred tax	-291	-336
Other	-	123
- Proposed dividend	-1,710	-3,900
- Intangible assets	-83	-79
Tier 2 capital	3,865	3,731
- Limitations to tier 2 capital	-	
Capital base	23,679	23,594

Cash flow statement - Danica Group

DKKm	2016	2015
Cash flow from operations		
Profit before tax	2,220	1,955
Adjustment for non-cash operating items		
Non-cash items relating to premiums and benefits	16,105	1,472
Non-cash items relating to reinsurance	-9	139
Non-cash items relating to investment return	-17,209	-4,849
Non-cash items relating to tax on pension returns	-1,057	-2,475
Non-cash items relating to expenses	2,210	321
Net investment, customer funds	-10,010	-6,517
Payments received and made, investment contracts	2,573	2,934
Tax paid	325	324
Cash flow from operations	-4,852	-6,696
Cash flow from investing activities		
Acquisition of investment property	-	-1,237
Acquisition of bonds	-11,542	-22,022
Sale of bonds	13,705	20,309
Sale of derivatives	-1,229	2
Portfolio transfers	1,234	-
Cash flow from investing activities	2,168	-2,948
Cash flow from financing activities		
Raising of subordinated debt	-	3,730
Dividend	-3,900	-1,899
Debt to credit institutions	7,558	860
Cash flow from financing activities	3,658	2,691
Cash and cash equivalents, beginning of year	2,471	9,424
Change in cash and cash equivalents	974	-6,953
Cash and cash equivalents, end of year	3,445	2,471
Cash and cash equivalents, end of year		
Deposits with credit institutions	2,061	840
Cash in hand and demand deposits	1,384	1,631
Total	3,445	2,471

Notes – Danica Group

Note

1 **SIGNIFICANT ACCOUNTING POLICIES – FORSIKRINGSSELSKABET DANICA**

GENERAL

The Danica Group presents 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 disclosure requirements for annual reports of issuers of listed bonds.

On 27 July 2015, the Danish FSA issued a new Executive Order No. 937 on financial reports for insurance companies and multi-employer occupational pension funds, in force as from 2016, and Amending Executive Order No. 688 of 1 June 2016, in force from 1 July 2016. It is applicable to the parent company, Forsikringsselskabet Danica, but also affects the consolidated financial statements. The new executive order on financial reports for insurance companies caused a change to the calculation of technical provisions. The below opening balance sheet for 2016 was prepared in accordance with the new executive order, causing technical provisions in the Group to be increased by DKK 260 million and the Group's shareholders' equity to be reduced by DKK 208 million. Comparative figures for 2015 and previous years are not adjusted, as this is not practically possible. The balance sheet shows the new opening balance sheet at 1 January 2016.

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

Balance sheet (DKKm)	Balance sheet 31 December 2015	Change, new executive order	Correction of opening balance re. tax on pension returns	Balance sheet 1 January 2016
Current tax assets	362	58	7	427
Total assets	368,340	58	7	368,405
Life insurance provisions	146,753	158,089	-109	NA
Outstanding claims provisions, Life	291	-291		NA
Collective bonus potential (part of life insurance provisions)	3,584	-1,919		NA
Provisions for market rate products (unit-linked contracts)	160,628	-160,628		NA
Profit margin	NA	5,768		5,768
Risk margin, non-life insurance contracts	0	298		298
Total provisions for insurance and investment contracts	320,839	267	-109	320,997
Current tax liabilities	44	-1	-	43
Other payables	12,921	0	141	13,062
Shareholders' equity	19,608	-208	-25	19,375
Total liabilities and equity	368,340	58	7	368,405

Changes in accounting policies

Since publishing the interim report for the first half, Danica has revised its method of calculating profit margins for the conventional product to bring it more in line with the principles guiding the calculation of cost of capital under Solvency II. Management believes that this will provide a more true and fair view of future earnings from the conventional product.

Under the revised method, profit margin is calculated as follows:

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

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

The opening balance sheet has been prepared in accordance with the revised method and does not affect either profit or shareholders' equity for the year.

Notes – Danica Group

Note

Accounting estimates and judgments
Management's estimates and judgments of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the consolidated financial statements. The estimates and judgments that are deemed to be most critical to the consolidated financial statements are:
• the measurement of liabilities under insurance contracts
• the fair value measurement of financial instruments
• the fair value measurement of real property
The estimates and judgments are based on premises that management finds reasonable but which are inherently uncertain and unpredictable. The premises may be incomplete, and unexpected future events or situations may occur. Therefore, such estimates and judgments are difficult and will always entail uncertainty, even under stable macroeconomic conditions, when they involve mortality and disability rates. Other parties may arrive at other estimated values.

Measurement of liabilities under insurance contracts
Liabilities under insurance contracts are measured in accordance with the rules of the Danish executive order on financial reports presented by insurance companies.
Calculations of liabilities under insurance contracts are based on a number of actuarial computations that rely on assumptions about a number of variables, including mortality and disability rates.

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

The calculation of life insurance provisions is based on an assumed increase in life expectancy over today's observed lifetime of 1.7 year for a sixty five-year-old man and 1.8 year for a sixty five-year-old woman. A sixty five-year-old man is thus expected to live for approximately 22 more years and a sixty five-year-old woman for approximately 24 more years.

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

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

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

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

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

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

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

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

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

Note

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

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

For an overview of the companies in the Group, see page 65 of the 2016 annual report. The Group is not subject to any restrictions on its ability to access or use the assets or settle the liabilities of the Group

Investments in associates and joint ventures
Associates are businesses, other than group undertakings, in which the Group has holdings and significant but not controlling influence. The Group generally classifies businesses as associates if Forsikringsselskabet 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 Forsikringsselskabet Danica's significant accounting policies.

Joint ventures are also recognised at equity value.

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

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

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

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

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

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

Translation of transactions in foreign currency
The presentation currency of the consolidated financial statements is Danish kroner, which is the functional currency of Forsikringsselskabet 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.

Notes – Danica Group

Note

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

Insurance contracts
Life insurance policies are classified as insurance or investment contracts. Insurance contracts are contracts that entail significant insurance risks or entitle policyholders to bonuses. Investment contracts are contracts that entail insignificant insurance risk, and consist of market rate products under which the investment risk lies with the policyholder.

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

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

Within each interest rate group, any losses are absorbed collectively by that group's collective bonus potential, by individual bonus potentials and the profit margin, before any shareholders' equity is required to cover such losses. Any losses on risk and cost groups not absorbed by the collective bonus potential of the individual groups are to be covered by shareholders' equity.

Danica Pension has an obligation to allocate part of the excess equity to certain policyholders of the former Statsanstalten for Livsforsikring (now part of Danica Pension) if the percentage by which the equity exceeds the statutory solvency need is higher than the percentage that had been maintained by Statsanstalten for Livsforsikring prior to the privatisation of this company in 1990. This comprises any excess either consolidated in shareholders' equity or distributed as dividend but it does not comprise shareholders' equity paid in after the privatisation. Special allotments to those policyholders are recognised as an expense in the income statement item "Change in life insurance provisions".

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

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

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

Interest income and dividends etc. comprises yield on bonds and other securities and interest on amounts due. In addition, the item comprises dividends from holdings with the exception of dividends from group undertakings and associated undertakings.

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

Interest expenses comprise interest on loans and other amounts due.

Note

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

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

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

Change in life insurance provisions
Change in life insurance provisions, net of reinsurance, comprises the change for the year in gross life insurance provisions less reinsurers' share, excluding premiums and benefits regarding investment contracts.
The item includes both Traditionel and Unit-Linked products.

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

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

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

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

Performance-based remuneration is expensed as it is earned. Part of the performance-based remuneration for the year may be paid in the form of conditional shares in Danske Bank A/S.

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

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

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

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

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

Other income
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

Note

in force in the countries in which Danica operates. Tax on items recognised in other comprehensive income is also recognised in other comprehensive income.

BALANCE SHEET
ASSETS
Intangible assets
Goodwill
Goodwill arises on the acquisition of an undertaking and is calculated as the difference between the cost of the undertaking and the fair value of its net assets.

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

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

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

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

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

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

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

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

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

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

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

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

Financial instruments – general
The classification of financial assets and liabilities and disclosure of income recognition of interest and value adjustments, etc. are explained in note 34 *Financial instruments*.

Note

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

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

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

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

Investment assets related to unit-linked products
At initial recognition, investment assets related to market rate products are classified as financial assets at fair value through profit or loss due to their relation to the associated liabilities.

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

Debtors
The reinsurers' share of technical provisions is shown divided into unearned premiums provisions, life insurance provisions and outstanding claims provisions.

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

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

Life insurance provisions
Life insurance provisions are computed for each insurance policy on the basis of a zero-coupon yield curve. The computation of life insurance provisions is based on assumptions of expected future mortality and disability rates as well as assumptions of conversions into paid-up policies and surrenders. Estimates of future mortality rates are based on the Danish FSA's benchmark, while other estimates are based on historical data derived from the existing portfolio of insurance contracts, including a risk margin. The risk margin has been determined using a margin on mortality intensity and intensity relating to conversions into paid-up policies and surrenders. The risk margin is the amount expected to be payable in the market to an acquirer of the policy in return for that party assuming the risk that the costs of meeting the payment obligations under the policy deviate from the present value of the best estimate of the cash flows made during the life of the policy.

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

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

Guaranteed benefits comprise obligations to pay guaranteed benefits to policyholders. Guaranteed benefits are calculated as the present value of the current guaranteed benefits plus the present value of expected future administrative expenses less the present value of future premiums.

Note

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note

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

Shareholders' equity

Foreign currency translation reserve

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

Other reserves

Accumulated results of subsidiaries are recognised under other reserves if the parent company is a non-life insurance company. The foreign currency translation reserve should be shown separately according to IFRS, but forms part of other reserves under the Executive Order issued by the Danish FSA on financial reports for insurance companies and multi-employer occupational pension funds.

Revaluation reserve

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

Proposed dividends

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

Cash flow statement

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

Key ratios

The key ratios of the Group are prepared in accordance with the provisions of the executive order on financial reports for insurance companies and multi-employer occupational pension funds. The return ratios are calculated using a composite weighting procedure.

Standards and interpretations not yet in force

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

IFRS 9, Financial Instruments

IFRS 9, which has not yet been adopted by the EU, is to be implemented at 1 January 2018. IASB has considered how insurance companies are to handle the fact that IFRS 9 must be implemented before implementation of the amendment of IFRS 4, Insurance Contracts, which IASB is still in the process of preparing and which is expected to be issued in 2017. This process has been completed, and in September 2016 IASB issued a number of amendments to IFRS 4. The changes include an option that permits companies whose predominant activity is within insurance to defer implementation of IFRS 9 until 1 January 2021. Danica is considering whether to implement IFRS 9 on 1 January 2018 or whether to apply the option of deferring implementation.The implementation of IFRS 9 is not expected to have any material impact.

IFRS 15, Revenue from Contracts with Costumers

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

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

Notes - Danica Group

Note DKKm

2 BUSINESS SEGMENTS

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

BUSINESS SEGMENTS 2016	Average rate	Unit-linked contracts	Health and accident insurance	Total	Reclassi-fication	Group
Gross premiums	4,210	28,433	1,387	34,030	-220	33,810
Gross premiums from external sales	4,210	28,433	1,387	34,030	-220	33,810
- Gross premiums on investment contracts	-	-9,061	-	-9,061	-	-9,061
Gross premiums in the income statement	4,210	19,372	1,387	24,969	-220	24,749
Return on investment allocated to technical result	8,666	9,215	-	17,881	624	18,505
Claims and benefits paid	-11,774	-9,446	-1,543	-22,763	220	-22,543
Change in provisions for insurance and investment contracts	754	-18,658	85	-17,819	-59	-17,878
Total operating expenses relating to insurance	-403	-750	-107	-1,260	7	-1,253
Result of reinsurance	-4	-4	29	21	-	21
Other income, net	194	890	-5	1,079	-766	313
Technical result	1,643	619	-154	2,108	-194	1,914
Change in shadow account	279	-	-	279	-279	0
Special allotments	-340	-	-	-340	340	0
Return on investment, shareholders' equity	151	-	-	151	155	306
Return on investment, health and accident	-	-	23	23	-23	0
Profit before tax	1,733	619	-131	2,221	-1	2,220
Other segment information:						
Interest income	7,389	181	13	7,583		
Interest expenses	-2,926	-15	-4	-2,945		
Income from associated undertakings at book value	229	-	-	229		

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

BUSINESS SEGMENTS 2015	Average rate	Unit-linked contracts	Health and accident insurance	Total	Reclassi-fication	Group
Gross premiums	3,605	24,981	1,266	29,852	-279	29,573
Gross premiums from external sales	3,605	24,981	1,266	29,852	-279	29,573
- Gross premiums on investment contracts	-	-8,119	-	-8,119	-	-8,119
Gross premiums in the income statement	3,605	16,862	1,266	21,733	-279	21,454
Return on investment allocated to technical result	2,001	6,747		8,748	726	9,474
Claims and benefits paid	-15,998	-8,973	-1,430	-26,401	279	-26,122
Changes in provisions for insurance and investment contracts	12,194	-14,188	48	-1,946	-56	-2,002
Total operating expenses relating to insurance	-410	-743	-129	-1,282	-23	-1,305
Result of reinsurance	-92	-18	-7	-117	-	-117
Other income, net	102	886	-4	984	-641	343
Technical result	1,402	573	-256	1,719	6	1,725
Change in shadow account	222	-	-	222	-222	0
Special allotments	-271	-	-	-271	271	0
Return on investment, shareholders' equity	100	-	2	102	128	230
Return on investment, health and accident	-	-	182	182	-182	0
Profit before tax	1,453	573	-72	1,954	1	1,955
Other segment information:						
Interest income	5,506	27	147	5,680		
Interest expenses	-1,256	-16	-3	-1,275		
Income from associated undertakings at book value	116	-	-	116		

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

Notes - Danica Group

Note	DKKm	2016	2015

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(cont'd)

GEOGRAPHICAL SEGMENTS
Premium income from external customers are allocated to the country in which the contract was sold.
Assets comprise only intangible assets, tangible assets, investment property and holdings in associated undertakings in accordance with IFRS and do not provide a useful description of the Group's assets for management purposes.
Goodwill is allocated to the country in which activities are performed, whereas other assets are allocated on the basis of their location.

	Premiums, external customers		Assets	
	2016	2015	2016	2015
Denmark	22,454	19,298	25,661	28,876
Sweden	9,168	8,091	-	-
Norway	2,187	1,865	84	84
Total	33,809	29,254	25,745	28,960

3 GROSS PREMIUMS, incl. payments received under investment contracts

	2016	2015
Direct insurance:		
Regular premiums	13,856	13,567
Single premiums	18,567	14,740
Total direct insurance	32,423	28,307
Total gross premiums	32,423	28,307
In the above gross premiums, premiums paid on investment contracts which are not included in the income statement constitute:		
Regular premiums	1,253	1,242
Single premiums	7,808	6,877
Total premiums	9,061	8,119
Total gross premiums included in the income statement	23,362	20,188
Premiums, direct insurance, broken down by insurance arrangement:		
Insurance taken out in connection with employment	26,417	22,887
Insurance taken out individually	4,575	3,963
Group life insurance	1,431	1,457
Total	32,423	28,307
Number of insured, direct insurance (1,000):		
Insurance taken out in connection with employment	504	476
Insurance taken out individually	402	408
Group life insurance	433	461
Premiums, direct insurance, broken down by bonus arrangement:		
With profits insurance	4,210	3,605
Without profits insurance	196	198
Unit-linked insurance	28,017	24,504
Total	32,423	28,307
Premiums, direct insurance, broken down by policyholders' residence:		
Denmark	20,893	18,135
Other EU countries	9,380	8,291
Other countries	2,150	1,881
Total	32,423	28,307

Notes - Danica Group

Note	DKKm	2016	2015
4	INCOME FROM INVESTMENT PROPERTY		
	Rent	1,397	1,391
	Operating expenses	-468	-493
	Total	929	898
	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	3,402	3,236
	Breakdown of minimum lease payments on non-terminable leases by lease term:		
	Within 1 year	1,082	1,041
	1 - 5 years	1,571	1,405
	After 5 years	749	790
	Total	3,402	3,236
5	INTEREST INCOME AND DIVIDENDS		
	Interest income	7,583	5,680
	Dividends	1,951	2,046
	Indexation	52	78
	Total	9,586	7,804
6	VALUE ADJUSTMENTS		
	Investment property	708	524
	Holdings	3,177	3,037
	Unit trust certificates	9,071	7,765
	Bonds	2,916	-1,787
	Other loans	-166	-33
	Deposits with credit institutions	152	207
	Other	-1,298	-6,138
	Total value adjustments	14,560	3,575
7	CLAIMS AND BENEFITS PAID		
	Direct insurance:		
	Insurance amounts on death	-600	-630
	Insurance amounts on disablement	-229	-215
	Insurance amounts on expiry	-1,069	-1,336
	Retirement benefits and annuities	-7,047	-7,035
	Surrender values	-11,155	-14,632
	Cash payments of bonuses	-899	-842
	Total direct insurance	-20,999	-24,690
	Expenses to minimise disablement	-1	-1
	Total claims and benefits paid	-21,000	-24,691
	Some customers converted their capital pension plan to a retirement savings plan:		
	Tax on the customers' custody account included as surrenders amounted to	-	-4,980
	Tax on collective bonus potential regarding customers who converted	-	-101
	Tax on accumulated value adjustment regarding customers who converted	-	-386

Notes - Danica Group

Note	DKKm	2016	2015
8	OPERATING EXPENSES RELATING TO INSURANCE		
	Commission on direct insurance	-289	-307
	Fees to the audit firms appointed by the general meeting:		
	Fees to Deloitte:		
	Statutory audit of financial statements	-2.0	-1.9
	Other assurance engagements	-0.9	-1.3
	Tax advisory services	-0.1	-
	Other services	-0.1	-0.4
	Total	-3.1	-3.6
	Average number of full-time-equivalent employees during the year	741	759
	Number of full-time-equivalent employees, end of year	702	742
	Staff costs:		
	Salaries	-545	-499
	Share-based payment	-9	-4
	Pensions	-80	-104
	Other social security and tax	-78	-69
	Other	-51	-53
	Total staff costs earned	-763	-729

For a more detailed description of the Group's remuneration policy and remuneration paid, see "Remuneration Report 2016", available at the website: www.danicapension.dk. The remuneration report 2016 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.

	2016	2015
Pension plans		
Contributions to external defined contribution plans	-5	-26
Contributions to internal defined contribution plans	-75	-78
Total	-80	-104

	2016	2015
Board of Directors' remuneration (DKK'000)		
Kim Andersen	-340	-340
Thomas Falck	-150	-150
Charlott Due Pihl	-150	-150
Henrik Nielsen (from 8.3.2016)	-150	-
Per Søgaard (until 8.3.2016)	-	-150
Total remuneration *	-790	-790
Including fees for board committee membership	-190	-190

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

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

For their positions as members of the boards of directors or executive boards of other companies in the Danske Bank Group in 2016, Thomas F. Borgen earned DKK 18.0 million (2015 DKK 16.2 million), Tonny Thierry Andernsen earned DKK 10.8 million (2015 DKK 9.6 million), Henrik Ramlau-Hansen earned DKK 2.4 million (2015 DKK 9.4 million) and Kim Andersen earned DKK 0.3 million (2015 DKK 0.3 million) in total remuneration from such companies.

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

Remuneration of other material risk takers
For 2016, 35 persons outside the Executive Board were designated as material risk takers and combined they received remuneration of DKK 50.2 million (2015 DKK 39.8 million to 33 material risk takers), with fixed remuneration amounting to DKK 41.7 million (2015 DKK 34.1 million) and variable remuneration amounting to DKK 8.5 million (2015 DKK 5.7 million).

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

The Remuneration Report is expected to be finalised at the end of February 2017. The Remuneration Raport will be published no later than on 9 March 2017 and will include additional information on the remuneration of material risk takers. The Remuneration Report is available at www.danicapension.dk/organisation/aflønning.

Notes - Danica Group

Note	DKKm	2016	2015

8
(cont'd)

Remuneration of the Executive Board 2016

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

* Claus Harder is included in the Executive Board as of 1 March 2016 and Lars Ellehave-Andersen as of 1 August 2016
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 2015

	Contractual remuneration	Pensions	Variable cash remuneration	Variable share-based payment	
Per Klitgård	-4.3	-0.4	-0.4	-0.4	-5.5
Jesper Winkelmann	-3.0	-0.6	-0.2	-0.2	-4.0
Jacob Aarup-Andersen	-4.5	-	-	-	-4.5
Anders Svennesen*	-1.9	-0.4	-0.3	-0.3	-2.9
Total	-13.7	-1.4	-0.9	-0.9	-16.9
Total payment					-15.9

* Anders Svennesen is included in the Executive Board as of 1 May 2015

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

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

Jesper Winkelmann resigned from Danica on 31 August 2016

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

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

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

Anders Svennesen may resign his position at three months' notice.
Danica Pension may terminate Anders Svennesen's service contract at eight months' notice. He is not entitled to separate serverance payment.

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

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

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

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

Rights to Danske Bank shares under the conditional share programme vest after up to five years provided that the employee, with the exeception of retirement, has not resigned from the Group. In addition to this requirement, rights to shares earned in 2012-2016 vest only if the Group as a whole and the employee's department meet certain performance targets within the next four years.

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

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

Danica has hedged the share price risk.

The exact number of shares granted for 2016 will be determined at the end of February 2017.

Notes - Danica Group

Note DKKm

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(cont'd)

Share-based payment

Conditional shares	Number					
Conditional shares	Executive Board	Other employees	Total	Own contribution price (DKK)	Fair value (FV) Issue date	End of year
Granted in 2012						
1 Jan. 2015	3,626	8,435	12,061	0,0-0,9	1.1	2.0
Vested 2015		-8,435	-8,435		-	-
Forfeited 2015	-	-	0	-	-	-
31 Dec. 2015	3,626	0	3,626	0,0-0,9	0.3	0.7
Vested 2016	-	-8,435	-8,435	0.9	-	-
Forfeited 2016	-	-	0	-	-	-
Other changes 2016	-	-	0	-	-	-
31 Dec. 2016	3,626	-8,435	-4,809	0.0	0.1	0.2
Granted in 2013						
1 Jan. 2015	4,047	9,296	13,343	0,0-1,1	1.4	2.2
Forfeited 2015	-		0			
31 Dec. 2015	4,047	9,296	13,343	0,0-1,1	1.4	2.5
Vested 2016	-4,683	-8,828	-13,511			
Forfeited 2016	-	-	0		-	-
Other changes 2016	3,574	1,109	4,683			
31 Dec. 2016	2,938	1,577	4,515	0,0-1,1	0.6	1.0
Granted in 2014						
1 Jan. 2015	2,051	7,138	9,189	0,0-1,4	1.2	1.5
31 Dec. 2015	2,051	7,138	9,189		1.3	1.7
Vested 2016	-	-	0			
Forfeited 2016	-	-1,453	-1,453		-	-
Other changes 2016	2,625	843	3,468			
31 Dec. 2016	4,676	6,528	11,204	0,0-1,4	1.3	2.4
Granted in 2015						
Granted 2015	2,888	4,367	7,255	0,0-1,7	1.2	1.3
Vested 2015	-	-884	-884	1.7	-	-
31 Dec. 2015	2,888	3,483	6,371	0,0-1,7	1.1	1.2
Vested 2016	-	-	0			
Forfeited 2016	-	-552	-552		-	-
Other changes 2016	1,301	704	2,005			
31 Dec. 2016	4,189	3,635	7,824	0,0-1,7	1.3	1.7
Granted in 2016						
Granted 2016	5,576	10,461	16,037	0.0	2.9	3.4
Vested 2016	-5,509	-5,258	-10,767	0.0	-	-
Forfeited 2016	-	-1,418	-1,418			
Other changes 2016	7,272	411	7,683			
31 Dec. 2016	7,339	4,196	11,535	0.0	2.1	2.5

Notes - Danica Group

Note DKKm

8

(cont'd)

Executive Board members' holdings and fair value thereof, end of 2016

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

Average market price at the vesting date for conditional shares in 2016 was 182.19

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

Year of grant	2012-2015	
	Number	FV
Per Klitgård	7,556	1.4
Jesper Winkelmann	4,461	0.8
Jacob Aarup Andersen	595	0.1

Average market price at the vesting date for conditional shares in 2015 was 169.68

Notes - Danica Group

Note	DKKm				2016	2015
9	TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE					
	Total run-off regarding prior years:					
	Gross				-5	-
	Net of reinsurance				-1	-
	Calculation of technical interest and return on investment:					
	Technical interest amount				91	106
	Outstanding claims provision, discounted amount				-173	-166
	Discounted risk increasing with age				-7	-8
	Technical interest, net of reinsurance, less discounted amount				-89	-68
	Return on investment allocated to health and accident insurance				411	231
	Value adjustment of outstanding claims provision				-208	126
	Total return on investment including value adjustments				203	357
	Transferred to technical interest				-91	-106
	Return on investment				112	251
		Health and accident insurance	Health insurance	Total		
	Gross premiums	1,155	232	1,387		
	Gross premium income	1,207	233	1,440		
	Gross claims	-1,243	-241	-1,484		
	Gross operating expenses	-98	-9	-107		
	Result of business ceded	29		29		
	Technical interest, net of reinsurance	-90	1	-89		
	Technical result	-109	-17	-126		
	Number of claims				42,406	40,036
	Average amount of claims				0.0	0.0
	Claims frequency				5.7%	5.7%
	Gross premiums, direct insurance, broken down by policyholders' residence:					
	Denmark				1,304	1,145
	Other EU countries				132	17
	Other countries				4	108
	Total				1,440	1,270

Notes - Danica Group

Note	DKKm	2016	2015
10	OTHER INCOME		
	Commission from fund managers etc.	317	327
	Commission from ancillary activities	2	2
	Other	-	25
	Total	319	354

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 profit policy for 2016. The company's profit for the year consists of the return on assets allocated to shareholders' equity plus the results of unit-linked business, Denmark and the two subsidiaries outside Denmark, the result of Forenede Gruppeliv, the health and accident result and a risk allowance of the technical provisions of the four interest rate groups and a share of the risk groups' risk results og and the cost groups' cost results. Effective from 2016, any risk allowance not booked can no longer be transferred to the shadow account. The shadow account balance at 31.12.2015 can be recognised in the period 2016-2020. If not recognised, 20% of the balance is lost per year. The shadow account accrues interest at the return applying to the bonds allocated to shareholders' equity.

The 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.

	2016	2015
Technical basis for risk allowance:		
Technical result, life insurance	1,163	1,258
Change in collective bonus potential	762	1,620
Special allotments	311	271
Addition of bonus	464	378
Total technical basis	2,700	3,527
Total technical basis relating to life insurance customers	2,700	3,527

In accordance with the contribution principle, full risk allowance for 2016 was booked in all four interest rate groups.

	2016	2015
Specification of risk allowance:		
Percentage of insurance provisions	1,116	1,231
40% of the technical basis for risk allowance in risk groups	26	28
40% of the technical basis for risk allowance in cost groups	16	34
Total risk allowance	1,158	1,293

The percentage of insurance provisions was 0.60% in the New business group; 0.70% in Low; 0.80% in Medium and 0.90% in High.

	2016	2015
Development in shadow account:		
Shadow account, beginning of year	313	556
Correction at 1 January	32	-
Added interest	1	1
Written off	-11	-
Reduced as a result of conversions	-12	-22
Used	-279	-222
Shadow account, end of year	44	313
Shadow account distributed on contribution groups:		
Interest rate group 2	-	258
Risk groups, total	44	55
Total	44	313

Notes - Danica Group

Note	DKKm	2016	2015
12	TAX		
	Tax for the year can be broken down as follows:		
	Tax on the profit for the year	-433	-499
	Tax on other comprehensive income:		
	Hedges of units outside Denmark	6	-2
	Total	-427	-501
	Tax on the profit for the year is calculated as follows:		
	Current tax	-538	-210
	Adjustment of prior-year current tax	11	-25
	Adjustment of prior-year deferred tax	32	-3
	Change in deferred tax due to reduced tax rate	-	17
	Other changes in deferred tax	62	-278
	Total	-433	-499
	Effective tax rate:		
	Danish tax rate	22.0	23.5
	Adjustment of prior-year tax charge	-2.0	1.4
	Effect of reduction of tax rate	-	-0.9
	Non-taxable income and non-deductible expenses	-0.1	1.5
	Effective tax rate	19.9	25.5
	Deferred tax:		
	Deferred tax is recognised as follows in the balance sheet:		
	Deferred tax liabilities	1,666	1,731
	Deferred tax, net	1,666	1,731
	Deferred tax broken down on main items:		
	Intangible assets	-2	-3
	Tangible assets	-10	-10
	Investment property	1,674	1,637
	Financial investment assets	3	-1
	Negative tax on pension returns brought forward	3	110
	Other	-2	-2
	Total	1,666	1,731
	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	79	84
	Exchange rate adjustment	4	-5
	Cost, end of year	83	79
	Carrying amount, end of year	83	79
	Intangible assets consist of goodwill on acquisition of Norwegian activities in 2007.		
	For more details, see note 1.		

Notes - Danica Group

Note	DKKm	2016	2015
14	DOMICILE PROPERTY		
	Cost, beginning of year	48	48
	Cost, end of year	48	48
	Depreciation charges, beginning of year	-4	-4
	Depreciation charges for the year	-	0
	Depreciation charges, end of year	-4	-4
	Revalued amount, beginning of year	-1	8
	Impairment charges for the year	0	-9
	Revalued amount, end of year	-1	-1
	Carrying amount, end of year	43	43
	The year-end carrying amount is recognised as follows in the consolidated balance sheet:		
	Domicile property	43	43
	Of impairment charges for the year, DKK 0 million was recognised in other comprehensive income and transferred to the revaluation reserve in equity, and DKK 0 million was transferred to the collective bonus potential.		
	The weighted average of rates of return on which fair values of individual properties were based amounts to	7.5%	7.5%
15	INVESTMENT PROPERTY		
	Fair value, beginning of year	27,606	23,870
	Additions during the year, including improvements	2,049	3,380
	Disposals during the year	-3,475	-209
	Fair value adjustments	585	565
	Other changes	70	-
	Fair value, end of year	26,835	27,606
	The year-end fair value is recognised as follows in the consolidated balance sheet:		
	Investment property	22,631	27,606
	Investment assets related to unit-linked products	4,204	-
	The weighted average of the rates of return on which the fair value of the individual properties is based, for:		
	Shopping centres	5.8%	5.7%
	Commercial properties	5.3%	5.9%
	Residential properties	4.0%	4.0%
	Real property consolidated on a pro rata basis is included with the following amounts in:		
	Investment property	-	1,744
	Total assets	-	1,767
	Other creditors	-	33
	Total investment return	-	119

Valuations of investment property are based on cash flow estimates and on the required rate of return calculated for each propery that reflects the price at which the property can be exchanged between knowledgeable, willing parties under current market conditions. The required rate of return ranged between 3.0-10.0% (2015: 3.0-10.0%) and averaged 5.2% (2015: 5.5%). An increase in the required rate of return of 1.0 percentage point would reduce fair value at end-2016 by DKK 4,143 million.

All investment properties fall under level 2 in the fair value hierarchy. For a description of the levels, see note 34.

Notes - Danica Group

Note	DKKm	2016	2015
16	HOLDINGS IN ASSOCIATES AND JOINT VENTURES		
	Cost, beginning of year	1,079	575
	Additions	815	660
	Disposals	-	-156
	Cost, end of year	1,894	1,079
	Revaluations and impairment charges, beginning of year	61	402
	Share of profit	1,545	115
	Dividends	-197	-456
	Revaluations and impairment charges, end of year	1,409	61
	Carrying amount, end of year	3,303	1,140
	The year-end carrying amount is recognised as follows in the consolidated balance sheet:		
	Holdings in associates and joint ventures	2,988	1,140
	Investment assets related to unit-linked products	315	-

Holdings in associates and joint ventures consist of:

Name and domicile	Activity	Owner-ship percentage	Total assets	Liabilities	Income	Result
Hovedbanegårdens Komplementarselskab ApS, Copenhagen	Property company	50%	0	0	0	0
Aquaporin, Kongens Lyngby	Investment company	24%	179	4	0	-16
DNP Ejendomme P/S, Copenhagen	Property company	50%	1,136	70	74	108
DNP Ejendomme Komplementarselskab ApS, Copenhagen	Property company	50%	0	0	0	0
Samejet Nymøllevej, Copenhagen	Property company	75%	620	11	36	16
Frederiksberg Centret I/S, Copenhagen	Property company	67%	1,792	24	94	126
Hovedbanegårdens Forretningscenter K/S	Property company	50%	54	20	31	15
DAN-SEB I A/S, Copenhagen	Property company	50%	76	49	3	1
Udviklingsselskabet CØ ApS, Copenhagen	Property company	50%	45	33	11	5
Komplementarselskabet CØ ApS, Copenhagen	Property company	50%	0	0	0	0
Gro Fund I K/S, Copenhagen	Investment company	100%	488	1	34	18
ERDA I P/S, Århus	Property company	50%	113	113	0	0
ERDA I Komplementarselskab ApS, Århus	Property company	50%	0	0	0	0
G.S.V. Holding A/S, Hedehusene	Investment company	23%	1,077	672	476	31
Capital Four - Strategic Lending Fund K/S, Copenhagen	Investment company	33%	1,131	122	14	10

The information disclosed is extracted from the companies' most recent annual reports.
The Group has no associates of material importance.
Hovedbanegårdens Forretningscenter's financial year ends 30 September. All others follow the calendar year.

Note	DKKm	2016	2015
17	HOLDINGS		
	Listed holdings	11,372	10,609
	Unlisted holdings	9,324	15,899
	Total	20,696	26,508
18	BONDS		
	Listed bonds	139,776	115,068
	Unlisted bonds	-	2,835
	Total	139,776	117,903

Notes - Danica Group

Note	DKKm	2016	2015

19 DERIVATIVES

The Group uses derivatives, including forwards and swaps, to manage exposure to foreign exchange, interest rate and equity market risks. Derivatives are also used to hedge guaranteed benefit obligations and other interest-bearing liabilities. For a detailed description of risk management, see note 35.
Derivatives are recognised and measured at fair value.

The Group's subordinated debt carries fixed rates and is recognised at amortised cost. According to the underlying accounting regulation, the fair value of the hedged interest rate risk on fixed-rate loans is not recognised in profit or loss, whereas changes in the fair value of the hedging derivatives are recognised through profit or loss.
The Group uses fair value hedge accounting if the interest rate risk on fixed-rate financial liabilities is hedged by derivatives. See note 34.

For some derivatives, the Group has concluded collateral agreements and has received collateral in the form of liquid bonds corresponding to a fair value of DKK 3,132 million in 2016 and DKK 4,839 million in 2015.

2016	Notional amount	Positive fair value	Notional amount	Negative fair value
Currency contracts:				
Currency contracts	132,333	977	67,448	1,346
Options	-	-	-	-
Interest rate contracts:				
Interest rate contracts	431,175	17,932	463,429	15,677
Options	113,663	722	190,692	2,276
Equity contracts:				
Equity contracts	4	2	2,008	38
Options	3	389	1	89
Total derivatives	677,178	20,022	723,578	19,426

2015				
Currency contracts:				
Currency contracts	18,113	230	53,326	342
Options	0	0	0	0
Interest rate contracts				
Interest rate contracts	230,773	10,671	275,211	8,248
Options	106,957	2,810	98,840	1,145
Equity contracts				
Equity contracts	4	68	5,500	279
Options	3	134	0	0
Total derivatives	355,850	13,913	432,877	10,014

The positive fair value at year end is recognised as follows in the consolidated balance sheet:	2016	2015
Derivatives	19,259	13,913
Investment assets related to unit-linked products	763	-

20 OTHER FINANCIAL INVESTMENT ASSETS

Comprises the following investments in companies in the Danske Bank Group:	2016	2015
Holdings	363	311
Bonds	34,217	27,334
Deposits with credit institutions	3,657	2,890
Cash in hand and demand deposits	1,367	1,628
Other	87,281	6,290

Notes - Danica Group

Note	DKKm			2016	2015
21	INVESTMENT ASSETS RELATED TO UNIT-LINKED PRODUCTS				
	Consists of unit trusts in which the underlying assets break down as follows:				
		With guarantee	Without guarantee		
	Investment property	-	4,204	4,204	5,779
	Holdings	48,734	69,376	118,110	104,302
	Bonds	21,851	34,864	56,715	48,185
	Deposits with credit institutions	1,555	313	1,868	-
	Derivatives	26	738	764	1,608
	Total	72,166	109,495	181,661	159,874
	Investment assets related to unit-linked products break down as follows:				
	Insurance contracts			133,276	113,814
	Investment contracts			48,385	46,060
	Total			181,661	159,874
22	TOTAL TECHNIVAL PROVISIONS, REINSURERS' SHARE				
	Beginning of year			145	2,282
	Premiums received			117	108
	Claims and benefits paid			-119	-114
	Foreign currency translation			-	-5
	Change in outstanding claims provision			5	40
	Other changes			1	-2,166
	End of year			149	145
23	COLLECTIVE BONUS POTENTIAL - is included as follows in Life insurance provisions, average-rate products				
	Distribution on contribution groups:				
	Interest rate group 1			1,977	1,066
	Interest rate group 2			740	216
	Interest rate group 3			907	719
	Interest rate group 4			2,418	1,269
	Risk groups, total			310	266
	Cost groups, total			-	48
	Total			6,352	3,584
	Bonus rate (%):				
	Interest rate group 1			5.4	2.8
	Interest rate group 2			5.1	1.3
	Interest rate group 3			9.4	6.9
	Interest rate group 4			6.6	3.1
24	LIFE INSURANCE PROVISIONS, UNIT-LINKED PRODUCTS				
	Provisions for unit-linked contracts break down as follows:				
	Insurance contracts			126,490	114,816
	Investment contracts			48,681	45,812
	Total life insurance provisions, unit-linked products			175,171	160,628
	Provisions for unit-linked contracts without guarantee			82,156	134,541
	Provisions for unit-linked contracts with investment guarantee			93,015	26,087
	Total life insurance provisions, unit-linked products			175,171	160,628

Note	DKKm	2016	2015
25	TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS		
	Beginning of year	320,839	315,833
	Change beginning of 2016, see accounting policies	157	-
	Premiums	32,422	28,312
	Claims and benefits paid	-27,487	-29,878
	Added interest on policyholders' savings	11,268	9,289
	Fair value adjustment	1,076	-5,094
	Currency translation	-1,334	589
	Change in outstanding claims provisions	-99	-88
	Change in collective bonus potential	588	1,627
	Change in profit margin	395	
	Other changes	2,961	249
	End of year	340,786	320,839

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

Note		2016	2015
26	DUE TO CREDIT INSTITUTIONS		
	Repo transactions	15,542	7,482
	Other amounts due	28	530
27	OTHER CREDITORS		
	Other creditors comprise:		
	Derivatives with negative fair values	19,426	10,014
	Tax on pension returns	2,154	1,193
	Staff commitments	85	88

28 SUBORDINATED DEBT

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

Currency	Borrower	Note	Nominal	Interest rate	Year of issue	Maturity	Re-demption price	2016	2015
EUR	Danica Pension	a)	500	4.38	2015	29.9.45	100	3,717	3,731
Subordinated debt								3,717	3,731
Discount								-31	-33
Hedging of interest rate risk at fair value								179	33
Total, corresponding to fair value								3,865	3,731
Included in the capital base								3,865	100
Establishment and redemption costs								-	34

a) The loan was raised on 29 September 2015 and is listed on the Irish Stock Exchange. The loan can be repaid from September 2025.
The loan carries interest at a rate of 4.375% p.a. until 29 September 2025, at which point a step-up will occur.
The interest expense amounted to DKK 122 million for 2016.

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

Notes - Danica Group

Note	DKKm	2016	2015
29	ASSETS DEPOSITED AS COLLATERAL AND CONTINGENT LIABILITIES		
	The following assets have been deposited as collateral for policyholders' savings:		
	Domicile property	42	42
	Investment property	23,924	25,868
	Holdings in associates and joint ventures	782	644
	Holdings	16,165	24,555
	Unit trust certificates	14,459	9,459
	Bonds	117,231	105,128
	Other loans	3,762	2,835
	Deposits with credit institutions	0	688
	Net other	-910	3,792
	Investment assets related to unit-linked products	164,321	150,057
	Accrued interest	2,741	1,813
	Total	342,517	324,881
	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	5,207	1,577
	The Group has rent commitments with a remaining lease of 9 years and annual gross rent of	51	45
	Minimum lease payments regarding cars amounts to	2	2
	The Group has undertaken contractual obligations to purchase, construct, convert or extend investment properties or to repair, maintain or improve these at an amount of	1,600	1,192
	The Group has undertaken to participate in alternative investments with an amount of	9,553	11,231
	The Group is voluntarily registered for VAT on certain properties. The Group's VAT adjustment liability amounts to	881	996
	As a participant in partnerships, the Group is liable for a total debt of	-	52
	Amount of this included in the Group's balance sheet	-	34

The Group's companies are jointly taxed with all units in the Danske Bank Group and are jointly and severally liable for their Danish income tax, withholding tax etc.

The Danish group companies are registered jointly for financial services employer tax and for VAT for which they are jointly and severally liable.

Danica Pension is jointly and severally liable with the other participants for the insurance obligations concerning all the policies administered by Forenede Gruppeliv A/S.

Owing to its size and business volume, the Group is continually a party to various lawsuits and disputes. The Group does not expect the outcomes of lawsuits and disputes to have any material effect on its financial position.

Notes - Danica Group

Note	DKKm	2016	2015
30	RELATED PARTIES		

Danske Bank A/S, domiciled in Copenhagen, wholly owns the share capital of Forsikringsselskabet Danica and consequently exercises control over the Danica Group.
Danske Bank A/S is the ultimate parent company of the Danica Group.

Transactions with related parties are settled on an arm's-length basis.
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 managment 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 20

	2016	2015
IT operations and development	-211	-216
Other administration	-69	-82
Commission for insurance sales and portfolio management	-155	-138
Ordinary portfolio management fee	-130	-136
Performance fee for portfolio management	-79	-117
Total net custody fees and brokerage for trades in holdings and the like	-57	-37
Interest income	734	788
Interest expenses	-12	-15
Rent from premises	12	14
Amounts owed to credit institutions	4,897	531
Derivatives with negative fair values	6,545	11,848

Furthermore, the Danica Group manages the labour market pension schemes of the Danske Bank Group and its related parties.

Loans to associates comprise subordinated loans granted on equal terms as other investors.

31 BALANCE SHEET ITEMS BROKEN DOWN BY EXPECTED DUE DATE

	2016		2015	
	< 1 year	> 1 year	< 1 year	> 1 year
Assets				
Intangible assets	-	83	-	79
Tangible assets	-	43	-	43
Investment assets	5,813	209,788	9,604	192,386
Investment assets related to unit-linked producs	1	181,660	-	159,874
Debtors	2,076	-	2,096	-
Other assets	1,503	-	1,993	-
Prepayments and accrued income	3,213	-	2,265	-
Total assets	12,606	391,574	15,958	352,382
Liabilities				
Provisions for insurance and investment contracts	27,369	313,417	26,261	294,578
Other liabilities	40,614	5,531	22,431	5,462
Total liabilities	67,983	318,948	48,692	300,040

Note DKKm

32 SPECIFICATION OF ASSETS AND RETURNS 2016

	Carrying amount Beginning of year	End of year	Net investment	% return p.a. before tax on pension returns & corp.tax
Land and buildings:				
Land and buildings, owned directly	26,328	20,537	-1,780	6.2
Property companies	496	553	0	11.9
Total land and buildings	26,824	21,090	-1,780	6.3
Other holdings:				
Listed Danish holdings	1,040	471	-530	5.5
Unlisted Danish holdings	1,382	1,375	360	8.3
Listed foreign holdings	11,107	8,662	-538	9.5
Unlisted foreign holdings	14,824	8,821	1,963	8.3
Total other holdings	28,353	19,329	1,255	5.7
Bonds:				
Government bonds (Zone A) *	32,187	37,952	8,330	5.0
Mortgage bonds *	70,788	77,341	4,220	6.3
Foreign exchange hedging	-108	-228	900	
Government bonds (Zone A) and mortgage bonds including foreign exchange hedging	102,867	115,065	13,450	5.9
Index-linked bonds	9,932	17,322	459	3.1
Credit bonds, investment grade	6,241	4,908	-1,695	4.8
Credit bonds, non-investment grade and emerging market bonds	9,022	10,690	4,894	10.3
Other bonds	2,978	3,993	496	9.9
Total bonds	131,040	151,978	17,604	5.5
Other financial investment assets	1,626	1,884	-258	0.0
Derivative financial instruments to hedge net changes of assets and liabilities	3,705	546	-2,605	

A specification of the company's holdings is available on Danica's website www.danicapension.dk.

33 PERCENTAGE ALLOCATION OF SHARE PORTFOLIO ON INDUSTRIES AND REGIONS 2016

	Denmark	Rest of Europe	North America	South America	Japan	Rest of Asia/ Pacific	Other countries	Total
Energy	0.0	0.7	3.2	0.0	0.0	0.0	0.2	4.1
Materials	0.3	0.6	0.7	0.0	0.1	0.3	0.3	2.3
Industrials	6.8	1.4	2.2	0.0	0.8	0.0	0.9	12.1
Consumer discretionary	1.5	1.0	2.8	0.0	0.7	0.3	0.9	7.2
Consumer staples	1.1	1.1	2.1	0.0	0.2	0.1	0.0	4.6
Health care	3.9	1.3	2.7	0.0	0.2	0.0	0.1	8.2
Financials	7.0	17.8	14.7	0.0	0.6	2.1	7.6	49.8
Information technology	0.3	0.5	4.4	0.0	0.2	0.9	0.6	6.9
Telecommunications	0.1	0.4	0.4	0.0	0.2	0.4	0.0	1.5
Utilities	0.4	0.4	0.6	0.0	1.2	0.4	0.3	3.3
Non allocated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	21.4	25.2	33.8	0.0	4.2	4.5	10.9	100.0

Note DKKm

34 FINANCIAL INSTRUMENTS
Financial instruments, classification and valuation method

	Fair value			Amortised cost*		
2016	Held for trading	Designated	Fair value hedge	Debtors	Liabilities	Total
Holdings		20,696				20,696
Unit trust certificates		4,256				4,256
Bonds		139,776				139,776
Other loans		3,762				3,762
Deposits with credit institutions				2,061		2,061
Derivatives	19,259					19,259
Investment assets related to unit-linked		179,226		2,435		181,661
Debtors				873		873
Cash and cash equivalents				1,384		1,384
Total financial assets	19,259	347,716		6,753		373,728
Provisions for unit-linked products, investment		48,385				48,385
Due to credit institutions					15,570	15,570
Derivatives	19,426					19,426
Subordinated debt			179		3,686	3,865
Total financial liabilities	19,426	48,385	179		19,256	87,246
2015						
Holdings		26,508				26,508
Unit trust certificates		11,087				11,087
Bonds		117,903				117,903
Other loans		2,835				2,835
Deposits with credit institutions				840		840
Derivatives	13,913					13,913
Investment assets related to unit-linked		159,874				159,874
Debtors				952		952
Cash and cash equivalents				1,631		1,631
Total financial assets	13,913	318,207		3,423		335,543
Provisions for unit-linked products, investment		46,060				46,060
Due to credit institutions					8,012	8,012
Derivatives	10,014					10,014
Subordinated debt			33		3,698	3,731
Total financial liabilities	10,014	46,060	33		11,710	67,817

Recognition as income:
Interest income from debtors measured at amortised cost is recognised in the amount of DKK 201 million in 2016 and DKK 23 million in 2015.
Interest expenses on liabilities measured at amortised cost totalled DKK 155 million in 2016 and DKK 63 million in 2015.
Exchange rate adjustment of debtors and liabilities measured at amortised cost were recognised under value adjustments at DKK 13 million in 2016 and at DKK 211 million in 2015.

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

Note DKKm

34
(cont'd)

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

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

Level 2: Observable input based on quoted prices in an active market for similar assets or liabilities, or other valuation methods where the valuation is based substantially on observable input. This category includes, for example, financial investment assets such as unlisted bonds and investment properties, presented in note 15.

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

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

At 31 December 2016, Danica had financial assets as set out below in the amount of DKK 366,971 million, of which 95% was attributable to insurance obligations to policyholders and 5% was attributable to shareholders' equity. Accordingly, changes in various valuation parameters would therefore have an insignificant impact on shareholders' equity, as the risk is assumed by policyholders.

2016	Quoted prices	Observable input	Non-observable input	Total
Holdings	11,372	-	9,324	20,696
Unit trust certificates	4,012	232	12	4,256
Bonds	130,813	8,828	134	139,775
Other loans	-	-	3,762	3,762
Derivatives	803	18,453	3	19,259
Investment assets related to unit-linked products	168,235	160	10,831	179,226
Total financial assets	315,235	27,673	24,066	366,974
Derivatives	1,436	17,953	37	19,426
Total financial liabilities	1,436	17,953	37	19,426
2015				
Holdings	11,348	-	15,160	26,508
Unit trust certificates	10,108	-	980	11,088
Bonds	114,126	3,441	335	117,902
Other loans	-	-	2,835	2,835
Derivatives	431	13,482	-	13,913
Investment assets related to unit-linked products	159,874	-	-	159,874
Total financial assets	295,887	16,923	19,310	332,120
Derivatives	342	9,385	287	10,014
Total financial liabilities	342	9,385	287	10,014

At 31 December 2016, financial instruments measured on the basis of non-observable input comprised unlisted shares DKK 9,324 million and illiquid bonds DKK 134 million.

Valuation based on non-observable input	2016	2015
Fair value, beginning of year	19,310	14,039
Value adjustment recognised through profit or loss in Value adjustments	2,235	2,554
Purchase	29,791	6,224
Sale	-27,307	-3,507
Fair value, end of year	24,029	19,310

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

In 2016, unrealised value adjustments were recognised at DKK 473 million (2015: DKK 1,417 million) on financial instruments valued based on non-observable input.

Assuming a widening of the credit spread by 50 bps for bonds and other loans, the fair value would be reduced by DKK 85 million. A narrowing of the credit spread by 50 bps would cause the fair value to be increased by DKK 87 million.

Note

35 RISK MANAGEMENT AND SENSITIVITY RATIOS

RISK MANAGEMENT

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

The Group is exposed to a number of different risks.

Financial risks	Insurance risks	Operational risks	Business risks
Market	Longevity	IT	Reputation
Liquidity	Mortality	Legal	Strategic
Counterparty	Disability	Administrative	Regulatory
Concentration	Concentration	Fraud	
	Health and accident		
	Critical illness		

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

The Group has three sources of financial risk:
- Investments relating to conventional products
- Investments relating to unit-linked products with investment guarantees attached.
- Direct investments of shareholders' equity

The amount of financial risk differs for the various products in the Group's product range. A list of the Group's companies and activities is shown on page 63.

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

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

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

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

Insurance obligations are calculated by discounting the expected cash flows using a discount yield curve defined by EIOPA, which became effective under the Solvency II rules at 1 January 2016.

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

Since the Danish bond market is not substantial enough and does not have the necessary duration to hedge the liabilities, Danica must also invest in non-Danish interest rate instruments. The investments are sensitive to changes in interest rates. They comprise a wide range of interest rate-based assets: Danish and European government bonds; Danish mortgage bonds, Danish index-linked bonds and a well-diversified portfolio of global credit bonds. Consequently, the company is exposed to basic risk from government and credit spreads.

Note

The credit spread risk on bond holdings is limited as 79% of the portfolio at the end of 2016 consists of government and mortgage bonds with high credit quality (AA – AAA) with the international credit rating agencies or in unrated bonds with a similar high credit quality. Just 6% of the portfolio is invested in non-investment grade bonds.

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

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

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

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

Investments relating to unit-linked products
Policyholders assume the financial risk associated with investments under the unit-linked products, Danica Link, Danica Balance and Danica Select, with the exception of contracts with investment guarantees attached. At the end of 2016, 17% of policyholders had investment guarantees in the guarantee period. The guarantees do not apply until the policyholder retires and are paid for by an annual fee.

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

Investment guarantees are not available under Danica Select.

Direct investments of shareholders' equity
Shareholders' equity is exposed to financial risk on assets in which shareholders' equity is invested and on investments relating to the health and accident business. In 2016, a new group was set up to which a life insurance portfolio of DKK 5 billion has been transferred. This group is also falls under the risk exposure of shareholders' equity.

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

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

Concentration risk relating to life insurance risk, comprises the risk of losses as a result of high exposure to a few customer groups and high exposure to a few individuals. Concentration risk is mitigated by means of portfolio diversification and by reinsurance.

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

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

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

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

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

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

Notes – Danica Pension Group

Note

SENSITIVITY INFORMATION

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

Of the two interest rate scenarios, an interest rate increase is most severe for the Group. A separate 1.0 percentage point increase in interest rates would reduce shareholders' equity by DKK 0.3 billion.

SENSITIVITY INFORMATION
31.12.2016

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

Financial statements - contents

Financial highlights - Forsikringsselskabet Danica

DKKm	2016	2015 *	2014	2013	2012
INCOME STATEMENT					
Gross premiums	339	317	321	327	339
Technical interest	-1	-2	-4	-	-2
Gross claims	-355	-336	-305	-286	-278
Bonuses and premium discounts	-	-	-	-1	1
Total operating expenses relating to insurance	-13	-20	-17	-24	-26
Technical result	-30	-41	-5	16	34
Total profit on investment activities after transfer of technical interest	1,510	1,396	2,010	1,299	1,757
Other income and expenses etc.	286	119	-3	-	-
Profit before tax	1,766	1,474	2,002	1,315	1,791
Tax	-56	-19	1	-4	-13
Net profit for the year	1,710	1,455	2,003	1,311	1,778
Run-off result	-	-5	0	5	15
BALANCE SHEET					
Total assets	18,856	19,828	20,457	18,967	18,496
Holdings in group undertakings	18,169	19,270	19,933	18,431	17,894
Other financial investment assets	590	545	515	495	591
Total shareholders' equity	17,249	19,452	20,056	18,563	18,015
Total technical provisions	319	329	353	389	432
RATIOS (%)					
Gross claims ratio	104.9	105.8	95.0	87.9	81.8
Gross expense ratio	3.8	6.2	5.3	7.4	7.5
Combined ratio	108.7	112.0	100.3	95.3	89.3
Operating ratio	109.0	112.4	101.5	95.2	89.8
Relative run-off result (%)	0.0	-1.5	0.0	1.2	3.1
Equity ratio	9.9	7.3	10.3	7.1	9.2
Solvency coverage ratio**	513	128	128	131	108

The ratios are defined in accordance with the Danish FSA's Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupationa

* Balance sheet items have been corrected at 1 Jan. 2016 and are set out in the balance sheet on pages 55 and 56.

** Not audited

Income statement & Other comprehensive income - Forsikringsselskabet Danica

Note	DKKm	2016	2015
	Gross premiums	345	319
	Change in unearned premiums provision	-6	-2
2	Premiums, net of reinsurance	339	317
3	Technical interest	-1	-2
	Claims paid, gross	-373	-363
	Change in outstanding claims provision	18	27
4	Claims, net of reinsurance	-355	-336
	Acquisition costs	-9	-9
	Administrative expenses	-4	-11
5	Total operating expenses relating to insurance, net of reinsurance	-13	-20
14	TECHNICAL RESULT	-30	-41
	Income from group undertakings	1,512	1,394
	Interest income and dividends, etc.	10	10
6	Value adjustments	1	-9
	Interest expenses	-9	-
	Administrative expenses related to investment activities	-2	-1
	Total return on investment	1,512	1,394
	Return on technical provisions	-2	2
	RETURN ON INVESTMENT LESS TECHNICAL INTEREST	1,510	1,396
7	Other income	365	160
8	Other expenses	-79	-41
	PROFIT BEFORE TAX	1,766	1,474
9	Tax	-56	-19
	NET PROFIT FOR THE YEAR	1,710	1,455

Net profit for the year	1,710	1,455
Other comprehensive income:		
Translation of units outside Denmark	9	-10
Hedges of units outside Denmark	-28	8
Tax relating to other comprehensive income	6	-2
Total other comprehensive income	-13	-4
NET COMPREHENSIVE INCOME FOR THE YEAR	1,697	1,451

Balance sheet - Forsikringsselskabet Danica

Assets

Note	DKKm	2016	1 January 2016
	Holdings in group undertakings	18,169	19,270
	Total investments in group undertakings and associates	18,169	19,270
	Bonds	590	545
10	Total other financial investment assets	590	545
	TOTAL INVESTMENT ASSETS	18,759	19,815
	Amounts due from policyholders	1	-
	Amounts due from group undertakings	29	-
	Other debtors	62	7
	TOTAL DEBTORS	92	7
	Deferred tax assets	-	1
	TOTAL OTHER ASSETS	-	1
	Accrued interest and rent	5	5
	TOTAL PREPAYMENTS AND ACCRUED INCOME	5	5
	TOTAL ASSETS	18,856	19,828

Balance sheet - Forsikringsselskabet Danica

Liabilities and equity

Note	DKKm	2016	1 January 2016
	Share capital	1,000	1,000
	Other reserves	12,220	12,232
	Retained earnings	2,319	2,320
	Proposed dividend	1,710	3,900
11	**TOTAL SHAREHOLDERS' EQUITY**	17,249	19,452
	Unearned premiums provision	13	8
	Outstanding claims provision	295	310
	Risk margin on non-life insurance contracts	7	7
	Provisions for bonuses and premium discounts	4	4
	TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS	319	329
	Amounts owed, direct insurance	14	12
	Amounts owed to group undertakings	1,200	4
	Current tax liabilities	55	18
	Other creditors	14	8
	TOTAL CREDITORS	1,283	42
	ACCRUALS AND DEFERRED INCOME	5	5
	TOTAL LIABILITIES AND EQUITY	18,856	19,828

Statement of capital - Forsikringsselskabet Danica

DKKm

Changes in shareholders' equity	Share capital	Foreign currency translation reserve *	Other reserves	Retained earnings	Proposed dividend	Total
Shareholders' equity at 31 December 2015	1,000	-6	12,392	2,322	3,900	19,608
Changes to accounting policies	-	-	-153	-3	-	-156
Adjusted shareholders' equity at 1 January 2016	1,000	-6	12,239	2,319	3,900	19,452
Profit for the year		-	1,512	198	-	1,710
Other comprehensive income:						
Translation of units outside Denmark	-	9	-	-	-	9
Hedges of units outside Denmark	-	-28	-	-	-	-28
Tax on other comprehensive income	-	-	6	-	-	6
Total other comprehensive income	-	-19	6	-	-	-13
Comprehensive income for the year	-	-19	1,518	198	-	1,697
Dividend paid	-	-	-	-	-3,900	-3,900
Proposed dividend **	-	-	-1,512	-198	1,710	0
Shareholders' equity at 31 December 2016	1,000	-25	12,245	2,319	1,710	17,249
Shareholders' equity at 31 December 2014	1,000	-4	13,599	3,562	1,899	20,056
Profit for the year	-	-	1,394	61	-	1,455
Other comprehensive income:						
Translation of units outside Denmark	-	-10	-	-	-	-10
Hedges of units outside Denmark	-	8	-	-	-	8
Tax on other comprehensive income	-	-	-2	-	-	-2
Total other comprehensive income	-	-2	-2	-	-	-4
Comprehensive income for the year	-	-2	1,392	61	-	1,451
Dividend paid	-	-	-	-	-1,899	-1,899
Proposed dividend **	-	-	-2,600	-1,300	3,900	0
Shareholders' equity at 31 December 2015	1,000	-6	12,391	2,323	3,900	19,608

* Recognised in the balance sheet under other reserves.
** The dividend amounts to DKK 1,710 per share (2015: DKK 3,900). The line shows the effect on shareholders' equity at year end.

Statement of capital - Forsikringsselskabet Danica

DKKm	2016	1 January 2016
Capital base		
Shareholders' equity	17,249	19,452
Valuation differences between financial statements and Solvency II		
Provisions for insurance and investment contracts	-2	-2
Holdings in group undertakings	4,360	4,310
- Proposed dividend	-1,710	-3,900
-Tax assets	0	
Capital base	19,897	19,860

Notes – Forsikringsselskabet Danica

Note

1 **SIGNIFICANT ACCOUNTING POLICIES**

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

The accounting policies are identical to the Group's measurement under IFRS with such differences as naturally occur between consolidated and parent company financial statements. See the description of significant accounting policies in note 1 to the consolidated financial statements.

Holdings in group undertakings

Holdings in group undertakings are measured in accordance with the equity method, and the profit/loss after tax in subsidiaries is recognised in the item Income from group undertakings.

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

Notes - Forsikringsselskabet Danica

Note	DKKm	2016	2015
2	GROSS PREMIUM INCOME		
	Premiums, direct insurance, broken down by policyholders' residence:		
	Denmark	334	312
	Other EU countries	4	4
	Other countries	1	1
	Total	339	317
3	TECHNICAL INTEREST		
	Calculation of technical interest and return on investment:		
	Technical interest rate	1.10%	1.32%
	Technical interest amount	4	4
	Outstanding claims provision, discounted amount	-5	-6
	Technical interest, net of reinsurance less discounted amount	-1	-2
	Total return on investment	1,512	1,394
	Value adjustment of outstanding claims provision	2	6
	Total return on investment, including market value adjustments	1,514	1,400
	Of which transferred to technical interest	-4	-4
	Return on investment less technical interest	1,510	1,396
4	CLAIMS		
	Total run-off regarding prior years:		
	Gross claims	-	-5
	Net of reinsurance	-	-5
	Run-off, net of reinsurance, relates to health and accident insurance policies.		
5	OPERATING EXPENSES RELATING TO INSURANCE		
	Average number of full-time-equivalent employees during the year	25	26
	Number of full-time-equivalent employees, end of year	27	26
	Staff costs:		
	Salaries	-43	-28
	Share-based payment	-6	-2
	Pensions	-6	-5
	Other social security and tax	-5	-3
	Other	-1	-1
	Total staff costs earned	-61	-39
	Fees to the audit firm appointed by the general meeting:		
	Fees to Deloitte:		
	Statutory audit of financial statements	-0.8	-0.7
	Other assurance engagements	-	-0.1
	Total	-0.8	-0.8
	The company and its subsidiary Danica Pension share the same Executive Board, actuary and company secretary. Their remuneration is paid by Danica Pension and is included in operating expenses, which are allocated to the Company by Danica Pension.		
6	VALUE ADJUSTMENTS		
	Bonds	1	-9
	Total value adjustments	1	-9
7	OTHER INCOME		
	Commission income from ancillary activities	2	2
	Asset management	363	158
	Total	365	160

Notes - Forsikringsselskabet Danica

Note	DKKm	2016	2015
8	OTHER EXPENSES		
	Expenses in relation to ancillary activities	-72	-35
	General management expenses	-7	-6
	Total	-79	-41
9	TAX		
	Tax for the year can be broken down as follows:		
	Tax on the profit for the year	-56	-19
	Total	-56	-19
	Tax on the profit for the year is calculated as follows:		
	Current tax	-56	-19
	Total	-56	-19
	Effective tax rate:		
	Danish tax rate	22.0	23.5
	Non-taxable income and non-deductible expenses	-18.9	-22.2
	Effective tax rate	3.1	1.3
10	OTHER FINANCIAL INVESTMENT ASSETS		
	Includes investments in undertakings in the Danske Bank Group as follows:		
	Bonds	150	154
	Cash in hand and demand deposits	0	0
11	SHAREHOLDERS' EQUITY		
	Number of shares of DKK 1,000	1,000,000	1,000,000
12	CONTINGENT LIABILITIES		
	The following assets have been deposited as collateral for policyholders' savings:		
	Bonds	363	393
	Accrued interest	3	3
	Total	366	396
	The company has rent commitments with a remaining lease of 9 years and annual gross rent of	51	45

The company is jointly taxed with all units in the Danske Bank Group and are jointly and severally liable for their Danish income tax, withholding tax etc.

The company is registered jointly with group undertakings for financial services employer tax and VAT, for which it is jointly and severally liable.

13 RELATED PARTIES

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

The company's IT operations and development, internal audit, HR administration, procurement, marketing and the like are handled by Danske Bank. These services are settled on an arm's-length.

Forsikringsselskabet Danica is managed by Danica Pension, which settles expenses with the companies it manages on an arm's-length Accordingly, Forsikringsselskabet Danica refunded an amount of DKK 13 million to Danica Pension in 2016.

Danske Bank Group also handles portfolio management and securities trading.

Note DKKm

14 SPECIFICATION OF CLASSES OF INSURANCE

	Health and accident insurance	Health care insurance	Total
Gross premiums	113	232	345
Gross premium income	106	233	339
Gross claims	-114	-241	-355
Gross operating expenses	-4	-9	-13
Technical interest, net of reinsurance	-2	1	-1
Technical result	-13	-17	-30
Number of claims	1,090	40,110	41,200
Average amount of claims	0.1	0.0	0.1
Claims frequency	0.9%	6.0%	5.9%

Group overview

	Own-ership	Currency	Profit for the year	Share capital	Share-holders' equity	Staff	Directorships[2)]			
	%		millions	millions	millions	Number[1)]	PKLI	LEA	CH	AS
NON-LIFE INSURANCE										
Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999, Copenhagen		DKK	1,710	1,000	17,249	27	D	D	D	D
LIFE INSURANCE										
Danica Pension, Livsforsikringsaktie-selskab, Copenhagen	100	DKK	1,512	1,100	18,267	521	D	D	D	D
Danica Pension Försåkringsaktiebolag, Stockholm	100	SEK	71	100	325	64	B			
Danica Pensjonsforsikring AS, Trond-heim	100	NOK	96	106	369	90	B			
PROPERTY INVESTMENT										
Danica Ejendomsselskab ApS, Copen-hagen	100	DKK	1,623	2,794	27,533	-	B		B	B
Nygade 1-3 ApS, Copenhagen	100	DKK	167	0	445	-	B		B	B
Ejendomsselskabet Project Nord P/S	100	DKK	302	1	739	-	B		B	B
Komplementarselskabet Project Nord							B		B	B
ApS	100	DKK	0	0	0	-	B		B	
SD Karreen Holding ApS	100	DKK	0	18	485	-	B		B	B
SD Karré 1 ApS	100	DKK	34	16	540	-	B		B	B
SD Karré 2 ApS	100	DKK	13	2	95	-	B		B	B
Ejendomsselskabet af 10. februar 2016	100	DKK	0	0	0	-				

[1)] Comprises employees in group companies at 31 December 2016.

[2)] Directorships of Per Klitgård (PKLI), Lars Ellehave-Andersen (LEA), Claus Harder (CH) and Anders Svennesen (AS).

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

Group overview

Companies	Activities
Forsikrings-selskabet Danica A/S	Parent company. Its principal activity is non-life insurance, comprising Sundhedssikring (health insurance), Kritisk Sygdom (critical illness) and Sundhedsfremmer (health promoter).
Danica Pension A/S	Sale of the unit linked products Danica Balance, Danica Link and Danica Select in which the return on policyholders' savings equals the market return. Life insurance and 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. Under Danica Link, customers may choose their own investments among 50-55 funds. In Danica Select, customers may make their own investment among 15,000 different equities and securities distributed on 17 European and US stock exchanges. Sale of conventional life insurance and pension product (Danica Traditionel) and health and accident insurance, including disability cover. Danica Traditionel comprises policies with guaranteed benefits and collective investments, which are managed by Danica Pension. The rate of interest on savings is determined by Danica Pension. Guaranteed life-long annuities without bonus entitlement. No new policies have been written since 1982.
Danica Pension Försäkringsaktiebolag	Sale of unit linked products and health and accident insurance in Sweden.
Danica Pensjons-Forsikring AS	Sale of unit linked products and health and accident insurance in Norway.
Danica Ejendomsselskab ApS	Property company investing primarily in commercial property and shopping centres.

Organisation:

Danica Pension's group overview is available at www.danicapension.dk

Management and directorships

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

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

Board of Directors

Thomas F. Borgen
Chairman of the Executive Board of Danske Bank A/S
Born on 27.03.1964
Director of:
Kong Olav V's Fond

Tonny Thierry Andersen
Member of the Executive Board of Danske Bank A/S
Born on 30.09.1964
Director of:
Danske Bank International S.A., Chairman
Danske Bank Oyj (Sampo Pankki Oyj), Chairman
Det Private Beredskab til Afvikling af Nødlidende Banker, Sparekasser og Andelskasser, Chairman
FinansDanmark, Deputy Chairman
Realkredit Danmark A/S, Chairman
The Valuation Committee
ICC Danmark
FR I af 16. september 2015 A/S, Chairman
Danske Invest Management A/S, Chairman

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

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

Thomas Falck
Senior Pension Specialist, Danica Pension
Born on 09.06.1952

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

Charlott Due Pihl
Chairman of Staff Association, Danica Pension
Born on 27.03.1968

Jeanette Fangel Løgstrup
Senior Vice President of Danske Bank A/S
Born on 04.12.1962
Director of:
JP/Politikens Hus A/S
Danske Bank Oyj (Sampo Pankki Oyj)
Schantz A/S

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

Henrik Nielsen
Chief consultant
Born on 12.01.1967

Executive Board

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

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

Claus Harder
Member of the Executive Board
Born on 03.06.1975

Lars Ellehave-Andersen
Member of the Executive Board
Born on 28.07.1967

Anders Hjælmsø Svennesen
Member of the Executive Board
Born on 14.06.1974

Statement and report

Statement by the Management

The Board of Directors and the Executive Board (the management) have today considered and approved the annual report of Forsikringsselskabet Danica for the financial year 2016.

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 2016 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 2016. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

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

Copenhagen, 2 February 2017

Executive Board

Per Klitgård	Lars Ellehave-Andersen	Claus Harder	Anders Hjælmsø Svennesen

Board of Directors

Thomas F. Borgen Chairman	Tonny Thierry Andersen Deputy Chairman	Kim Andersen
Thomas Falck	Thomas Mitchell	Charlott Due Pihl
Jeanette Fangel Løgstrup	Christoffer Møllenbach	Henrik Nielsen

Independent auditor's report

To the shareholders of Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999

Opinion

We have audited the consolidated financial statements and the parent financial statements of Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999 for the financial year 1 January to 31 December 2016, which comprise the income statement, statement of comprehensive income, balance sheet, statement of capital and notes, including a summary of significant accounting policies, for the Group as well as for the Parent, and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds and the parent financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2016, and of the results of its operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent Company's financial position at 31 December 2016, and of the results of its operations for the financial year 1 January to 31 December 2016 in accordance with the Danish Financial Business Act.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January to 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Measurement of unlisted investments</th></tr>
<tr><td>Key audit matter</td><td>
Unlisted investments amount to DKK 26.9 billion at 31 December 2016 for the Group.
Unlisted investments are composed of investments in private equity funds, infrastructure funds, unlisted equities and corporate bonds. Unlisted investments are considered a key audit matter because the measurement of these is affected by management estimates, and changes in assumptions and the methodology applied may have a material impact on the measurement of the investments.
The most significant judgements are:

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

Management has provided further information about unlisted investments in note 34 to the consolidated financial statements.
</td></tr>
<tr><td>How the matter was addressed in our audit</td><td>
Based on our risk assessment, we have examined the valuation of unlisted investments prepared by Management and evaluated the methodology applied and the assumptions made.
Our examination included the following elements:

Testing key controls over the valuation of unlisted investments, including the assumptions-setting processes, and the operating effectiveness of such controls.
Challenging the methodology applied by using our industry knowledge and experience, focusing on changes etc since last year.
Assessing key assumptions underlying future cash flows and required rates of return defined.

</td></tr>
</table>

Measurement of investment property	
Key audit matter	Investment property amounts to DKK 26.8 billion at 31 December 2016 for the Group. The determination of the measurement of investment property is based on the location of each property, future events, cash flows and required rates of return. Investment property is regarded a key audit matter because changes in assumptions and the methodology applied may have a material impact on the measurement of these. The most significant judgements are: • Assessment of future cash flows • Definition of required rate of return. Management has provided further information about investment property in note 15 to the consolidated financial statements.
How the matter was addressed in our audit	Based on our risk assessment, we have examined the valuation of investment property prepared by Management and evaluated the methodology applied and the assumptions made. Our examination included the following elements: • Testing key controls over the valuation of investment property, including the assumptions-setting processes, set-up for approval and changes in estimates by Management, as well as the operating effectiveness of such controls. • Challenging the methodology applied by using our industry knowledge and experience, focusing on changes since last year • Assessing any key differences in the assumptions from industry standards. • Assessing the assumptions and input underlying the valuation of investment property, including an assessment of future cash flows and individual required rates of return used for valuation, against historical data and market practice.

<table>
<tr><th colspan="2">Measurement of liabilities under insurance contracts</th></tr>
<tr><td>Key audit matter</td><td>Liabilities under insurance contracts amount to DKK 340.8 billion at 31 December 2016 for the Group. Liabilities under insurance contracts are considered a key audit matter because the setting of assumptions for the measurement of these liabilities involves judgements about future events. Changes in assumptions and the methodology applied may have a material impact on the measurement of liabilities under insurance contracts.

The most significant judgements are:
• Calculation of profit margin
• Disability rates
• Mortality rates
• Surrender probabilities.

Management has provided further information about liabilities under insurance contracts in note 25 to the consolidated financial statements.</td></tr>
<tr><td>How the matter was addressed in our audit</td><td>Based on our risk assessment, we have examined the valuation of liabilities under insurance contracts prepared by Management and evaluated the methodology applied and the assumptions made.

Our examination where we made use of our own internationally qualified actuaries included the following elements:
• Testing key controls over the actuarial models, data collection and analysis and the assumptions-setting processes.
• Challenging the methodology applied based on our industry knowledge and experience, focusing on changes since last year.
• Assessing any key changes in the assumptions against regulatory and reporting requirements and industry standards.
• Evaluating the disability and mortality rates and surrender probabilities used in the calculation against historical data and market practice.
• Reconciling the retrospective provision to the insurance system and analysed developments, particularly within risk, interest and cost results.</td></tr>
</table>

Statement on the Management's report

Management is responsible for the Management's report.

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

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

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

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

Solvency ratio

Management is responsible for the key figure "Solvency ratio" evident from statement of financial highlights and key figures on page 12 of the annual report.

As disclosed in the statement of financial highlights and key figures, the solvency ratio is exempt from the requirement to be audited. Consequently, our opinion on the consolidated financial statements and the parent financial statements does not cover the solvency ratio, and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

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

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

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

Copenhagen, 2 February 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 96 35 56

Jens Ringbæk State-Authorised Public Accountant	Jacques Peronard State-Authorised Public Accountant

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CVR 25020634

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