

White paper

Consolidation policy and business activities

at Danica Pension

Unaudited



February 2010

Danica Pension

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Management summary

The Danica group offers life insurance and pension products in Denmark, Sweden, Norway, and the Republic of Ireland. In Denmark, Danica offers conventional policies (*Danica Traditionel*), market return pension plans (unit-linked) and risk products, while the product portfolio in Sweden, Norway and Ireland covers market return pension plans and risk products. In 2009, the Danish activities accounted for 81% of total sales, and with a market share of approx. 30%, Danica is the largest pension company in Denmark. Over a five year period, the Danica group has seen a rise in gross premiums, including premiums on investment contracts, of 4.8% per annum. Premiums decreased from Dkr21.9bn in 2008 to Dkr20.4bn in 2009, however, on the back of subdued economic trends dragging down single premiums.

Earnings contributed by the Danica group to the Danske Bank group consist primarily of risk allowance, insurance results from unit-linked products and health and accident products, as well as the investment return on assets allocated to the shareholders. The financial statements presented by the Danske Bank group's business units include a financing result that consists of interest paid for shareholders' equity and interest received on allocated capital.

The risk allowance, which is a share of the technical provisions from the conventional business, can be booked as income only if it does not exceed the technical basis for risk allowance. The technical basis is calculated mainly as the investment return on customer funds less the technical rate of interest and value adjustments of provisions. As the bonus-potential of paid-up policies had been restored and the technical basis for risk allowance was positive, the Danske Bank group was able to book the risk allowance of Dkr1,087m in 2009.

Furthermore, an amount of Dkr573m was taken to income from the shadow account, where after the shadow account comprised a deferred risk allowance of Dkr573m, attributable only to 2008.

1. Introduction

The purpose of this White paper is to inform investors, analysts and other stakeholders of the Danica group's activities and profit policy.

This White paper is intended to give an overview of the main factors that affect the Danica group's financial statements and not least to describe their relation to the financial statements of the Danske Bank group. The rules on the presentation of the income statement and balance sheet of a life insurance company are fairly complex and sometimes very technical. This White paper is therefore not intended to give a comprehensive description of every aspect of the Danica group's financial statements.

It is important to understand which parts of the Danica group these issues concern. Section 2 gives an overview of the group and describes which parts of the Danica group the subsequent analysis refers to.

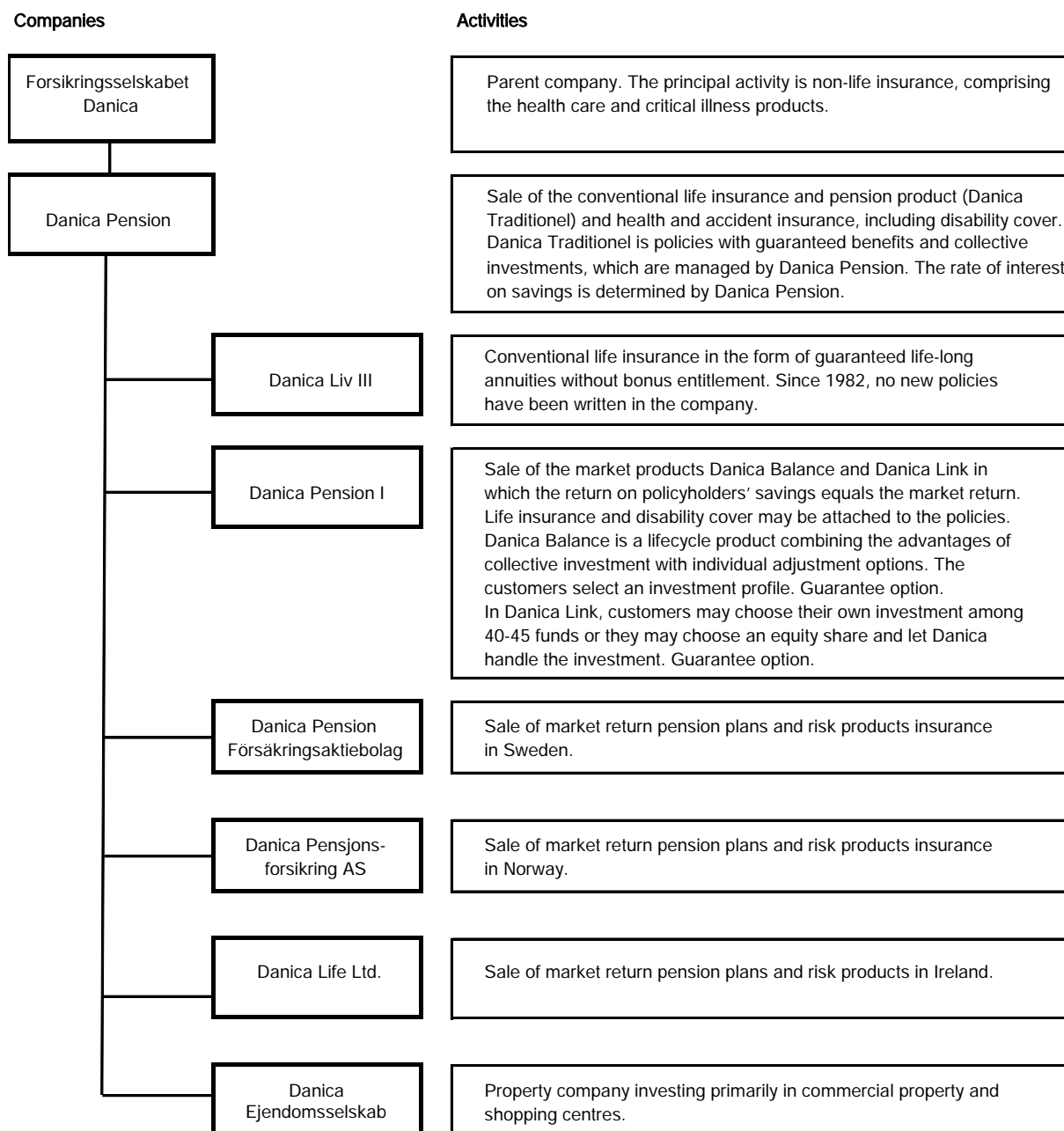
In section 3, we present a business profile of the Danica group, focusing on products, markets and distribution channels. In section 4, we describe the Danica group's contribution to Danske bank's earnings based on an explanation of how the results of the Danica group affect the financial statements of the Danske Bank group. In section 5, we review Danica Pension's earnings, including the relationship between the size of the investment return and when Danske Bank can book the life insurance risk allowance to its income statement.

This is followed in section 6 by a description of the financial and insurance guarantees employed by Danica. Finally, in section 7, we describe the value creation from the Danish unit-linked business, in addition to the conventional statutory financial statements, captured when calculating the Embedded Value.

2. Danica group overview

The corporate structure of the Danica group is described in Figure 1 below.

FIGURE 1: THE DANICA GROUP



Danica Pension I, Danica Pension Försäkringsaktiebolag, Danica Pensjonforsikring AS and Danica Life Ltd. are owned by Danica Pension, and their results are recognised directly in the results of the Danica group. The value of Danica Pension I, the Danish unit-linked business, is described in section 7.

Danica has applied to the Danish Financial Supervisory Authority for authorisation to merge Danica Pension, Danica Pension I and Danica Liv III. Danica Pension will be the continuing company. The merger is expected to be effective from January 1, 2010. The merger will be made with a view to enhancing administrative efficiency and is not expected to impact policyholders.

3. Danica's business profile

The Danica group offers life insurance and pension-based insurance plans. In addition to activities in its primary market, Denmark, the Danica group has activities in Sweden, Norway and the Republic of Ireland.

In 2009, the Danica group's gross premium amounted to DK20.4bn, of which the Danish activities accounted for 81%.

The Danica group has for the first time since 2004 experienced decreasing gross premiums including investment contracts of 7% from 2008 to 2009. The decrease is driven by a general downturn, which primarily cause low single premiums. The unit-linked products *Danica Balance* and *Danica Link* were introduced in 2005 and 2001, respectively. These products' share of total premiums in Denmark totalled 44% in 2009, and regular premiums from Danish unit-linked products increased by 12.6%. Gross premiums from the international business rose by 29% from 2008 to 2009 primarily driven by the Swedish business.

TABLE 1: PREMIUMS INCLUDING INVESTMENT CONTRACTS

(DKr bn)	2009	2008	2007	2006	2005
Danica Balance and Danica Link	7.3	7.7	7.1	6.0	3.2
Danica Traditionel	8.7	10.8	10.2	10.7	11.4
Internal transfers	-0.7	-0.9	-1.4	-1.6	-0.6
Health and accident etc.	1.3	1.3	1.2	1.1	1.1
International	3.8	3.0	1.8	2.0	1.8
Total premiums	20.4	21.9	18.9	18.2	16.9

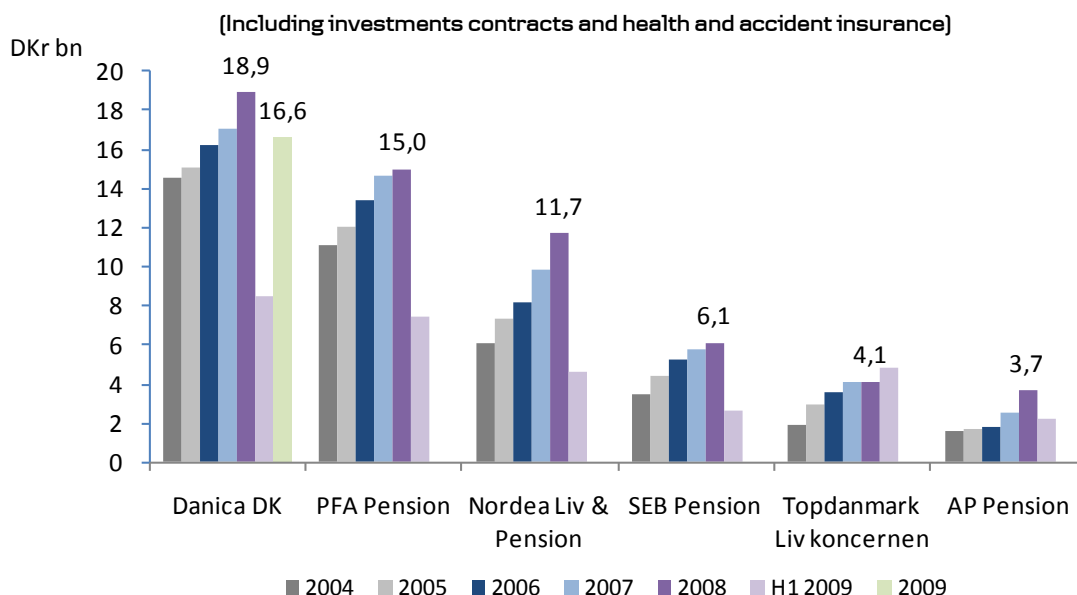
Danica has sustained a high degree of financial strength throughout the global financial turbulence and has an excess capital base of DKr14.3bn in addition to financial reserves from collective bonus potential of DKr2.8bn. Bonus potential of paid-up policies of DKr14.2bn may also partly be used to absorb losses. In February 2009, Standard & Poor's downgraded its rating of Danica from AA- to A+, and latest in December 2009, the rating was downgraded to A (negative outlook), which is in coherence with a downgrade of the rating of Danske Bank.

3.1 Activities in Denmark

In the Danish market, the Danica group offers insurance-based pension schemes, life insurance and health care products through occupational pension plans and personal pension plans. These include both conventional policies (*Danica Traditionel*) based on a guaranteed benefit in terms of a technical interest rate and unit-linked products for which customers choose their risk profile including the option of a benefit guarantee.

Danica is one of Denmark's largest pension companies in terms of gross premiums with a market share of approx. 30% (as of end June 2009) of the market in which the company competes. For unit-linked products, the market share is approx. 50%.

FIGURE 2: GROSS PREMIUMS IN DENMARK – GROUPS



Note: PFA and Nordea haven't disclosed premiums from health and accident insurance H1 2009. 2008 premiums are divided by 2.

Danica uses several distribution channels. Danica has a large number of sales employees and advisers who primarily address the corporate segment. They are associated with a number of regional offices around Denmark. In addition, Danica works with many insurance agents who also operate in the market for corporate schemes. Most sales of policies to individuals are handled through Danske Bank's extensive branch networks.

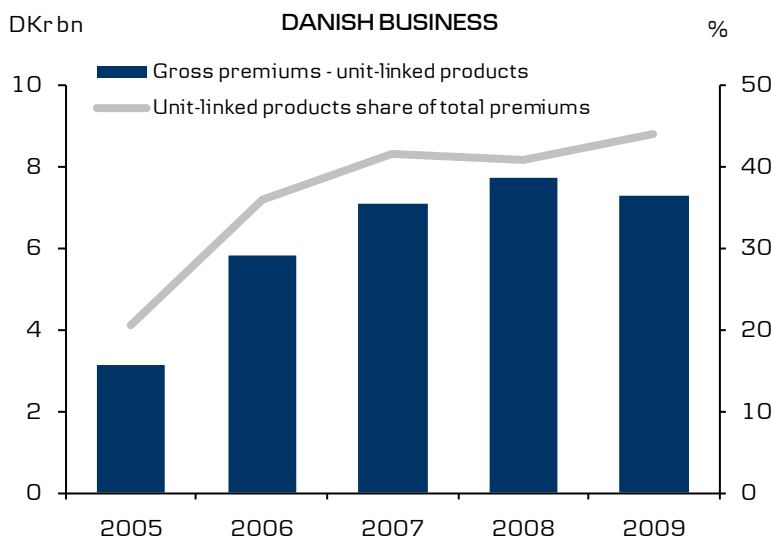
Danica Traditionel

Danica Traditionel customer funds are invested collectively. In return, *Danica Traditionel* offers a guaranteed benefit, calculated on the basis of technical interest rates of 4.5%, 2.5% or 1.5%, respectively. New business is written on the basis of 1.5% only and the rate of interest was 2.65% before tax on pension returns at the end of 2009. January 1, 2010 the rate of interest increased to 3.25% before tax on pension returns.

Danica Balance & Danica Link (unit-linked products)

Figure 3 below shows the development in gross premiums from unit-linked products in Denmark.

FIGURE 3: GROSS PREMIUMS – UNIT-LINKED PRODUCTS,



Danica's unit-linked products comprise *Danica Balance* and *Danica Link*. *Danica Balance* is a lifecycle product launched in 2005, which combines the advantages of collective investment with individual adjustment. The result is a simple product, allowing the customer to choose their preferred risk profile including the option of a larger equity share than normally available in conventional products. Danica constantly seeks to renew and innovate its product portfolio. In 2008, the range of investment profiles to choose from was broadened and an optional payment guarantee in the payout period was added.

Danica Link offers customers the opportunity to choose the way in which their pension savings are invested. This means that the returns accruing to the pension account are a direct reflection of the investments chosen. Customers can choose either to be active investors or to leave the investment decisions to Danica, based on the customer's chosen risk profile. In Denmark, *Danica Link* customers can invest their pension savings in securities and at the same time insure themselves against capital loss, as *Danica Link* is available both with and without a payment guarantee. The payment guarantee ensures customers benefits equal to at least 95% of their contributions.

At the end of 2009, approximately 133,000 of Danica's Danish customers had opted for unit-linked products, against some 119,000 at the beginning of the year.

Insurance cover

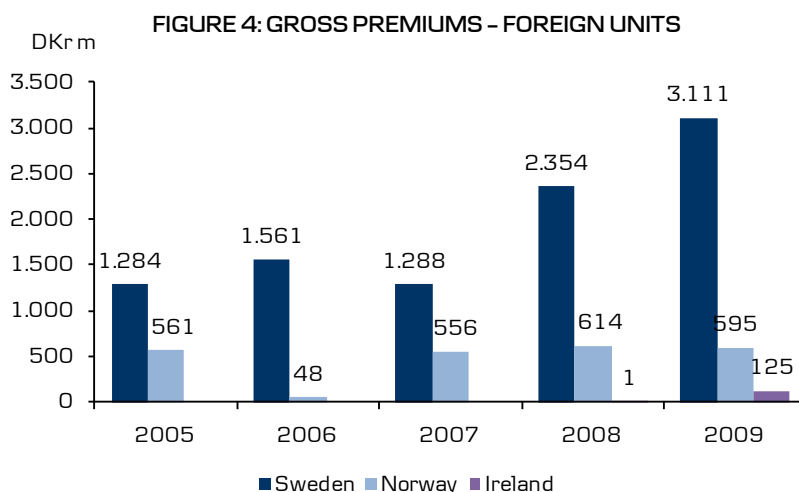
Customers are able to buy extra insurance cover against disability and death; these covers are mainly requested under corporate schemes. In addition, Danica offers cover against critical illness and healthcare insurance. In 2008, Danica Sundhedsfremmer (Danica Health Promoter) was introduced. Danica Sundhedsfremmer offers several tools to prevent health issues and is aimed at corporations and their employees.

Life annuity

Danica has adapted its product range to the new tax reform, which took effect in 2010. Annual payments in excess of DKr100,000 will automatically be contributed to a life annuity. In that way, the customer's contributions to Danica all remain tax deductible. As a standard solution, the life annuity is provided with savings protection and guaranteed payments to surviving relatives. Customers are not required to take any action as everything happens automatically. Customers can opt for a life annuity in connection with unit-linked products as well as Danica Traditionel.

3.2 International activities

Figure 4 below shows the development of gross premiums from international subsidiaries.



Gross premiums in foreign units increased by Dkr862m from 2008 to 2009, which was mainly attributable to the Swedish business.

Sweden

Danica set up its activities in Sweden in 1999 and offers pension products to the corporate market as well as to individuals. Danica sells both unit-linked products and health and accident products in Sweden.

In Sweden, Danica's gross premiums increased by 32% to Dkr3,111m in 2009. The success of the savings product Depåförsäkring, launched at the end of 2007, has created a prolonged increase in premiums. To some extent, the exchange rate set off the increase in premiums, as premiums increased by 43% in SEK.

Danica collaborates closely with Danske Bank Sweden and a number of the largest brokers in Sweden.

Norway

In the Norwegian market, Danica offers pension products to the corporate market as well as individuals. Danica sells both unit-linked products and risk products in Norway. The products are sold through Danica's own corporate sales force, brokers and in close collaboration with Fokus Bank. Furthermore, products are sold through several local banks.

Focus on the corporate market during 2008 and 2009 resulted in a net intake of 240 corporate customers in 2009.

Since 2007, the market for private saving has been negatively influenced by changed taxation rules, as tax deductibility has been limited.

In 2009, Danica's gross premiums amounted to Dkr595m against Dkr614m in 2008. In the private market for risk products, earnings are satisfactory, although the increased focus on the corporate market will reduce results for the next few years.

Republic of Ireland

Danica Pension established a life insurance company in the Republic of Ireland in 2007. Danica Life Ltd received a concession in 2008 and began sales in the second half of 2008.

Sales are conducted primarily through the National Irish Bank, which is part of the Danske Bank group, and to some extent through brokers.

With premiums of only Dkr1m in 2008, the sales began in earnest in 2009 with premiums of Dkr125m despite the challenging market conditions in Ireland.

4. Danske Bank's profit from the Danica group

The table below shows the earnings elements from Danica that are included in Danske Bank's financial statements.

Ref. (DKr m)	2009	2008
1 Risk allowance	1,087	1,088
2 Insurance result, unit-linked business	151	-22
3 Insurance result, health and accident	-97	-141
4 Investment return	1,384	-961
5 Financing result	-248	-609
6 Change to shadow account	573	-1,088
7 Special allotments	-40	-
8 Net income from insurance business	2,810	-1,733

Definitions of items in table 2:

1. Risk allowance

The risk allowance is calculated as a share of average life insurance provisions and the collective bonus potential, excluding Forenede Gruppeliv.

The risk allowance may be booked only if the technical basis for risk allowance permits and the bonus potential of paid-up policies is not used for loss absorption. See section 6.1 for a description of the technical basis for risk allowance. In 2009, the Danske Bank group booked the risk allowance of DKr1,087m and half of the shadow account, equalling DKr573m.

2. Insurance result, unit-linked business

The insurance result from the unit-linked business consists of the technical result of unit-linked activities (*Danica Link* and *Danica Balance*) in Denmark, Sweden, Norway and the Republic of Ireland.

3. Insurance result, health and accident

The insurance result from health and accident is the technical result of health and accident insurance and health care products, excluding the investment return, in Denmark, Sweden and Norway.

A large part of Danica's life insurance and pension agreements include disability cover. The customers pay for this cover, and the amount paid is a competitive parameter. The health and accident result is specified in the notes to the financial statements of the Danica group.

4. Investment return

The investment return comprises the return on assets allocated to shareholders' equity of all the companies in the Danica group affecting its profit as well as the portion of the investment return attributable to the health and accident business.

The return on customer funds in Danica Pension is distributed proportionally between life insurance and health and accident insurance based on the size of the technical provisions (investment community). However, the return on the derivative financial instruments used to hedge guaranteed benefits is not distributed to health and accident insurance. The return on assets allocated to

shareholders' equity corresponds proportionally to the return on customer funds as far as equities are concerned, while other investments of shareholders' equity are made independently.

5. Financing result

Danske Bank's business unit's financial statements are based on the principle that capital is allocated to the individual business units in relation to their activities. For Danica, the allocated capital is defined as the statutory capital charge deducted from the Danske Bank group's capital base regarding Danica. This largely corresponds to the solvency requirement for Danica less external subordinated loan capital and plus capital tied up in assets allocated to shareholders' equity.

For Danica, this results in the following funding transactions:

(DKr m)	2009	2008
Interest of Danica's shareholders' equity	-355	-851
Interest on allocated capital	107	242
Financing result	-248	-609

It is important to note that this item is not included in Danica's consolidated financial statements, but only in Danske Bank's business unit financial statements. As shareholders' equity exceeds the allocation of capital, overall net funding is negative.

6. Deferred risk allowance (Change in the shadow account balance)

The shadow account consists of risk allowances which could not be taken to income in previous accounting periods, see section 5.2. A change in the shadow account balance constitutes recognition in the income statement of the shadow account balance. The balance of the shadow account was DKr1,088m at the beginning of 2009 and DKr573m at the end of 2009.

7. Special allotments

Customers of the former Statsanstalten for Livsforsikring who have current policies with bonus entitlement receive a special allotment from Danica Pension, if Danica Pension's equity exceeds the adequate capital base by a certain amount (see Appendix B).

Special allotments to certain policyholders from the former Statsanstalten for Livsforsikring have negatively affected the result from the Danica group by DKr 40m before tax, which will be allocated to Danica's customers in 2011, at the earliest.

In 2010, the expenditure in relation to special allotments will depend on the technical and investment results and whether risk allowance can be booked from the shadow account. The expenditure for 2010 is expected to be approximately DKr0.5bn before tax. (Extracted from the section in appendix B).

8. Net income from insurance business

The net income is equal to the profit from the Danica group included in Danske Bank's net income from insurance business. The profit deviates from, but is consistent with, the disclosed profit of the Danica Pension group.

5. Earnings of Danica Pension

The company Danica Pension (see Figure 1) primarily contributes to Danske Bank's profit from the Danica group through its investment return on shareholders' equity and the risk allowance. For 2009, the contribution from the risk allowance was Dkr1,087m, while the investment return was Dkr1,384m. The risk allowance typically accounts for the main income from the Danica group and was booked at the end of 2009. The calculation of the risk allowance and its sensitivity to various risks are described in the following. This is followed by a description of the investment return on shareholders' equity.

5.1 Risk allowance 2009

Danica Pension's conventional products are regulated by the Executive Order on the Contribution Principle, which prescribes that earnings are to be distributed between customers and owners. Danica Pension prepares and notifies the authorities of the company's profit policy in accordance with these rules.

Danske Bank is permitted to book the risk allowance as income only to the extent that it does not exceed the technical basis for risk allowance. If part of the bonus potential of paid-up policies has been drawn, Danske Bank cannot book the risk allowance until the bonus potential of paid-up policies has been restored.

The technical basis for risk allowance is calculated mainly as the investment return on customer funds less the technical rate of interest (see 2. below) and the value adjustment of provisions. The calculation of the technical basis for risk allowance is illustrated in Table 5.

As shown in Table 4, Danske Bank was able to book the 2009 risk allowance of Dkr1,087m and also booked half of the shadow account, equalling Dkr573m.

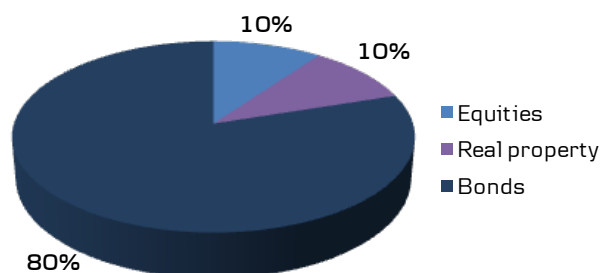
Item (DKr m)	2009	2008
1 Return on investment securities	12,462	-2,229
2 Average technical interest rate	-5,135	-5,131
3 Return on health and accident result	-527	245
4 Cost and risk result before bonuses	40	276
5 Profit/loss on reinsurance	35	265
6 Value adjustment of provisions	-1,211	-4,996
7 Technical basis for risk allowance	5,664	-11,570

Definitions of items in table 4:

1. Return on investment securities

The return on investment securities is the total gross investment return on assets allocated to customers. Customers' investment securities comprise bonds, equities and properties, as illustrated in Figure 5.

FIGURE 5: DISTRIBUTION OF INVESTMENT SECURITIES AT 31.12.2009
ALLOCATED TO DANICA PENSION CUSTOMERS



2. Average technical interest rate

Contracts with customers are based on a technical interest rate, on which the guaranteed benefits offered to customers are based. In the last 15 years, the technical interest rate has dropped sharply owing to the general fall in interest rates. Until 1994, the technical rate was 4.5%. From 1994 to 1999, the rate was 2.5%. At present, new policies are written with a maximum rate of 1.5%. Table 5 shows the distribution of provisions according to the various technical rates at the end of 2009, compared with the distribution at the end of 2008.

TABLE 5: LIFE INSURANCE PROVISIONS			
(DKr m)	End 2009	End 2009 (%)	End 2008 (%)
Technical interest rate in %			
0	1,108	1	1
1.5	59,557	38	35
2.5	25,415	16	17
4.5	70,385	45	47
16	151	0	0
Life insurance provisions	156,616	100	100
Without guarantee	15,827		
Total life insurance provisions	172,444		

As the table shows, the technical interest rates have decreased.

3. Return on health and accident result

The health and accident business consists of disability insurance, for which reserves have been provided. Part of the total investment return is therefore attributable to the health and accident result.

4. Cost and risk result before bonuses

The calculation of guaranteed benefits is based on assumptions of future investment returns, costs and insurance risks (death and disability). These assumptions are conservative, and the difference between assumed and actual investment returns, costs and insurance risks are distributed to customers over time in the form of bonuses.

The cost result before bonuses represents the difference between actual costs incurred and the costs assumed in the calculation of guaranteed benefits.

The risk result before bonuses represents the difference between actual risk cover and the risk premium assumed in the calculation of guaranteed benefits.

5. Profit of reinsurance

The profit of reinsurance is calculated as the reinsurance cover received less reinsurance premiums.

6. Value adjustment of provisions

Value adjustment of the provisions constitutes the part of life insurance provisions exceeding the value of policyholders' savings. Life insurance provisions are stated at present value by discounting expected future cash flows using the swap yield curve prescribed by the Danish FSA. As a consequence of the global financial crisis, the Danish Ministry of Economic and Business Affairs reached an agreement with the Danish Insurance Association to ensure financial stability in the industry. One of the main components of the agreement was the addition of a Danish mortgage bond spread to the discount curve for liabilities. The new discount curve will be used until the end of 2010. Historically, Danish life insurers have invested heavily in Danish mortgage bonds because of their low risk and long maturities. At the end of 2009, Danica was not affected by the temporary discount curve.

7. Technical basis for risk allowance

If the technical basis for risk allowance is positive, Danica Pension can book the risk allowance to its income statement to the extent that it does not exceed the technical basis for risk allowance. If the risk allowance cannot be booked, in whole or in part, it can be deferred and booked in a year when the technical basis for risk allowance so permits. If the technical basis for a given year is sufficient to book the risk allowance for that year, but the company chooses not to take the risk allowance for that year to its income statement, the risk allowance will be lost.

5.2 The shadow account

The portion of the risk allowance for the period exceeding the technical basis for risk allowance is transferred to the shadow account. From this account, recognition in the profit of Danske Bank may be made at a later date when the technical basis for risk allowance so permits. The shadow account accrues interest at the rate that applies to the bond portfolio allocated to shareholders' equity.

At the end of 2009, a deferred risk allowance of DKr573m was booked to the shadow account, hereof DKr58m in added interest. The deferred risk allowance is only attributable to 2008. An amount of DKr573m has been taken to income at the end of 2009.

5.3 Relationship between risk allowance, investment return and provisions

If the investment return exceeds the technical interest rate and the value adjustment of provisions, the company may (other things being equal) book all or part of the risk allowance to the income statement as shown in the example in table 6 below.

Scenario (in % of provisions)	A	B	C	D
Return on investment securities	3.0	4.5	6.0	6.0
Technical interest rate	-2.8	-2.8	-2.8	-2.8
Cost and risk results and return on H&A	-0.2	-0.2	-0.2	-0.2
Profit on reinsurance	0.0	0.0	0.0	0.0
Value adjustment of provisions	0.0	0.0	0.0	-3.0
Technical basis for risk allowance	0.0	1.5	3.0	0.0
Risk allowance may be recognised as income in whole or in part	No	Yes	Yes	No
Risk allowance of provisions	0.0	-0.6	-0.6	0.0
Tax on pension returns (PAL)	-0.5	-0.7	-0.9	-0.9
Bonuses (difference between technical interest rate and interest on policyholders' savings)	-1.0	-1.0	-1.0	-1.0
Change in collective bonus potential	-1.5	-0.8	0.5	-1.9

In principle, the technical basis for risk allowance can be used to book all or part of the risk allowance for the period and the potential shadow account balance, as tax on pension returns and bonuses are covered by the collective bonus potential. The option of using this practice does, however, depend on the size of the collective bonus potential and whether the bonus potential of paid-up policies has been used.

Scenario A

The investment return is just large enough to cover the technical interest and the return on health and accident. Consequently, the risk allowance cannot be booked. The collective bonus potential is reduced by 1.5% of the provisions to cover obligations toward customers.

Scenario B

The investment return is larger than the technical interest etc., there is no value adjustment of provisions and the technical basis for risk allowance is positive. This means that the risk allowance may be booked in whole or in part. However, the technical basis for risk allowance does not cover the tax on pension returns or the difference between the technical interest rate and the rate on policyholders' savings. To cover these payments, the collective bonus potential will be reduced by 0.2% of the provisions. For the full risk allowance to be booked as income, an additional 0.6% reduction of the collective bonus potential is required.

Scenario C

The technical basis for risk allowance covers all customer obligations and leaves 3.0% of the provisions for additional profit allocation. This return also covers the tax on pension returns, bonuses and the risk allowance to Danske Bank with no reduction of the collective bonus potential.

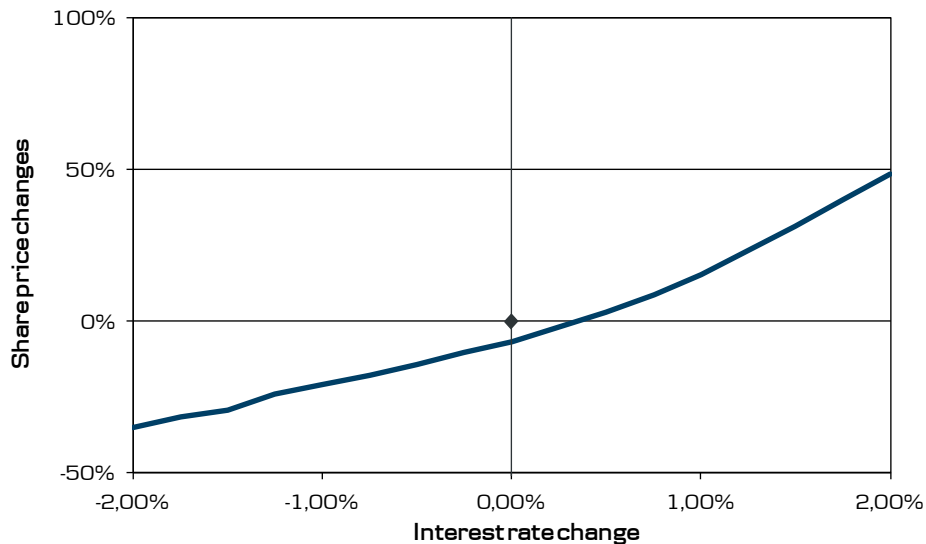
In scenarios B and C, it is possible to book the risk allowance for the year. In both scenarios it is also possible to book from the shadow account; this will, however, cause a (further) reduction of the collective bonus potential at a one-to-one ratio.

Scenario D

Scenario D is based on the same assumptions as C, but with a 3.0% value adjustment of provisions as a result of a reduction of interest rates. The technical basis for risk allowance is 0. Consequently, no risk allowance can be booked to the income statement.

The relationship between risk allowance and investment return is illustrated further in Figure 6. The figure shows the equity returns and interest rate changes necessary for Danica Pension to be able to book the full risk allowance for 2010. The full risk allowance can be booked at combinations of equity returns and interest rate changes that result in data points above the curve shown.

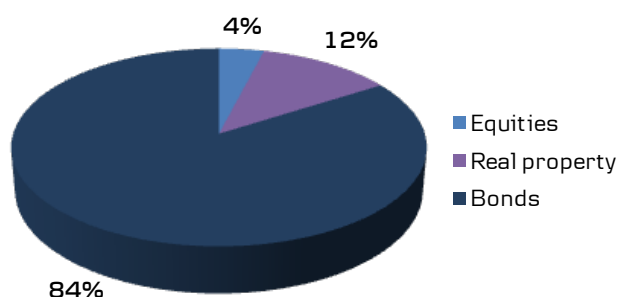
FIGURE 6: LIMIT OF FULL RISK ALLOWANCE ONE YEAR AHEAD (31.12.2009)



5.4 Investment return on shareholders’ equity

Assets allocated to shareholders’ equity in Danica Pension are primarily invested in short-term bonds, equities and properties, as shown in Figure 7. In addition, a minor portion of shareholders’ equity is invested in Danica Pension I, from which Danica’s unit-linked products are sold. The profit generated by Danica Pension I is described in section 7. Additionally, shareholders’ equity is exposed to assets from investments related to health and accident insurance.

FIGURE 7: DISTRIBUTION OF DANICA PENSION’S ASSETS ALLOCATED TO SHAREHOLDERS’ EQUITY



6. Importance of financial guarantees and insurance guarantees

The majority of customer funds relates to schemes to which financial or insurance guarantees are attached. To the extent that the customer funds are insufficient to cover the guarantees, a loss is posted on shareholders' equity, reducing Danske Bank's profit from the Danica group.

6.1 Insurance guarantees

Insurance risks are linked to trends in life expectancy and disability. For example, the increase in life expectancy affects the time during which benefits are payable under certain pension schemes, whereas the trends in mortality, sickness and recoveries affect the benefits under life insurance and disability insurance.

In order to reduce insurance risks, Danica takes on reinsurance to cover a minor part of the risk relating to deaths and disability. Disaster risk is also covered by reinsurance for the entire portfolio.

6.2 Financial guarantees in unit-linked products

Unit-linked products (*Danica Balance* and *Danica Link*) are individual schemes in which the results of interest rate and market value fluctuations directly affect the value of policyholders' savings. Financial guarantees can be attached to these products. These guarantees are hedged in the financial markets in order to reduce the risk of their impact on shareholders' equity.

6.3 Financial guarantees in Danica Traditional

Danica Traditional is a collective scheme in which the financial guarantees are expressed through the technical rate of interest (see 2. in section 5.1), which is used to calculate guaranteed benefits.

Shareholders' equity is not exposed directly if the technical rate of interest exceeds the investment return, since losses are first absorbed by two capital buffers owned by the policyholders: the collective bonus potential and the bonus potential of paid-up policies.

The collective bonus potential is an unallocated capital buffer owned by the policyholders but not yet allocated to individual policies. The bonus potential of paid-up policies is the sum of the differences between each policyholder's savings and the net present value of the policyholder's guaranteed benefits.

The change in collective bonus potential is calculated as follows:

(DKr m)	2009	2008
Technical basis for risk allowance	4,465	-11,570
- Risk allowance etc.	-1,654	-28
- Tax on pension returns	-1,932	358
- Interest and bonus on policyholder funds	3,252	-3,470
- Special allotments	-40	-
- Used bonus potential of paid-up policies	-2,800	2,800
Change in collective bonus potential	1,291	-11,910

If the technical basis for risk allowance (see Section 5.1) does not exceed the risk allowance, tax on pension returns, interest and bonus on policyholder's savings and other obligations, the shortfall is covered first by the collective bonus potential and subsequently by the bonus potential of paid-up policies. If the bonus potentials are insufficient to cover the shortfall, funds are allocated from shareholders' equity.

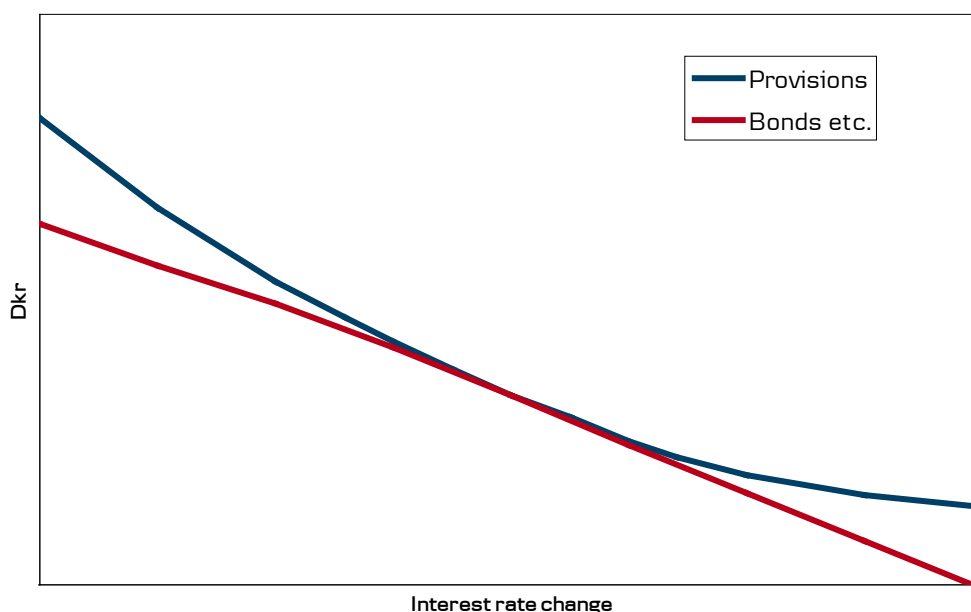
To match the return on customers' funds with the guaranteed benefits of with-profits policies, Danica monitors market risks on an ongoing basis. We conduct internal stress tests regularly to ensure that Danica can withstand a 20% loss on a weighted combination of its equity and credit exposure together with a significant change in interest rates.

Danica Pension's liabilities mainly comprise life insurance provisions, which are stated at market value by discounting the expected future cash flows.

The value of the bond portfolio increases when the level of interest rates drops. The market value of the life insurance provisions also increases, but due to the greater interest rate sensitivity of these provisions, the value adjustment of the provisions is greater than the corresponding value adjustment of the bond portfolio. Overall, this means that Danica Pension experiences a negative value adjustment when the level of interest rates falls. Therefore, Danica Pension has purchased derivative financial instruments.

The value of the bond portfolio is reduced by a greater amount than the value of life insurance provisions if interest rates rise, because provisions must equal, as a minimum, policyholders' savings. Figure 8 illustrates the relationship between assets and liabilities. Please note that the figure is for illustrative purposes only.

FIGURE 8: ILLUSTRATION OF MARKET VALUE ADJUSTMENT OF ASSETS AND LIABILITIES



Financial instruments are used to hedge the difference between the two curves.

In addition, funds are invested in assets with a view to maximising the return on investment, taking into account credit, currency, share price and liquidity risks.

7. Embedded Value in Danica Pension I, Denmark

7.1 Introduction

The income from unit-linked products is generated from the assets over the term of the agreements, whereas the costs are highest in the first year due to acquisition costs. In years with a sharp increase in business volume, the financial statements are negatively affected by major acquisition costs. Thus, the profit does not reflect the value creation during such years.

This led Danica Pension to implement an Embedded Value (EV) model as a way of measuring the value creation in Danica Pension I, Denmark. It is important to stress that the EV results must be seen not as the actual value to investors of the unit-linked product business but as a supplement to the existing accounting. Policies that the company expects to sell in the future are not part of the EV calculations and constitute an important difference between EV and the actual value of the business to investors. The term ‘new business’ used throughout this report only covers actual new business sold during the reporting period.

7.2 Results

For the 2007 and 2008 financial statements, Danica Pension used a European Embedded Value (EEV) model as a way of measuring the value creation from the market products Danica Link and Danica Balance. For 2009 and onwards, Danica Pension uses an Embedded Value (EV) approach, which is a more simple methodology, but with an overall approach and assumptions similar to the EEV calculations. As a consequence, the EV is DKr53m less than the EEV as of December 31, 2008.

TABLE 8: EMBEDDED VALUE

(DKrm)	EV 2009	EEV 2008
EEV as of December 31 2008		2,079
EV as of December 31 2008	2,026	
- hereof Shareholders' net assets	361	361

As of December 31, 2009, the EV of Danica Link and Danica Balance was DKr2,606m (see table 9 below). This is an increase of DKr580m compared with the EV as of December 31, 2008. The increase in the EV is attributable mainly to the value of new business and a high return on policyholders' savings in 2009.

TABLE 9: EMBEDDED VALUE

(DKrm)	EV 2009
Starting EV as of December 31 2008	2,026
Contribution from new business	261
Other changes	215
Change in Shareholders' net assets	104
Ending EV as of December 31 2009	2,606
- hereof Shareholders' net assets	465
<i>Return on EV (excl. change in shareholders' net assets)</i>	<i>23%</i>

The value of new business is described in section 7.3.

‘Other changes’ primarily consists of increased value caused by the difference between the actual investment return on policyholders' savings in 2009 and the expected return in 2009 as of December 31, 2008. To illustrate, the return for 2009 was expected to be 4.6%, but the actual return for Danica Balance customers with 30 years to retirement and a medium-risk profile was 28.2%. The return for Danica Link customers with a medium-risk profile was 27.0%.

Because of the high investment return on policyholders' savings during 2009, the value of future fund charges and commissions received from the fund managers investing policyholders' savings etc. are higher, which increases the EV by Dkr180m.

Shareholders' net assets are defined as 125% of statutory solvency requirements, which is in accordance with Danica Pension Management's view on the capital requirements of the business. The increase in Shareholders' net assets arises because of increased business volume, resulting in higher solvency requirements.

7.3 Value of new business

New business is defined as the value arising from the sale of new contracts during the reporting period at year end using end-of-year assumptions. New business includes all new policies and all additional single premiums and increases on existing policies.

Table 10 shows the net profit from new business. The acquisition costs are shown separately to illustrate the initial high costs of new business.

TABLE 10: NEW BUSINESS		
(DKrm)	EV 2009	EV 2008
Acquisition cost	-81	-126
Present value of new business	342	420
Net profit from new business	261	294

Table 11 shows the net profit from new business as a percentage of the present value of premiums from new business (PVNBP). In addition, the net profit from new business as a percentage of the annual premium equivalent (APE) is shown. The annual premium equivalent is defined as new annualized regular premiums plus 10% of single premiums.

TABLE 11: VALUE OF NEW BUSINESS		
(DKrm)	EV 2009	EV 2008
PV, new regular premiums	5,577	6,268
Single premiums	2,494	3,491
PV of new business premiums (PVNBP)	8,071	9,759
New business margin - % of PVNBP	3.2%	3.0%
New regular premiums	1,373	1,560
Single premiums	2,494	3,491
Annual Premium Equivalent (APE) ¹⁾	1,623	1,909
New business margin - % of APE	16.1%	15.4%

¹⁾ Weighting of single premiums: 10 %

7.4 Covered business

The covered business in Danica Pension's EV calculation comprises the unit-linked products sold in Denmark (Danica Balance and Danica Link), also referred to as Danica Pension I, Denmark, excluding health and accident insurance. Neither conventional life and pension business (Danica Traditionel) nor unit-linked products sold outside Denmark or the result of health and accident insurance is covered.

Many customers have a guarantee attached to their unit-linked product. In the statutory financial statements, a provision is included concerning expected future payments related to the guarantees.

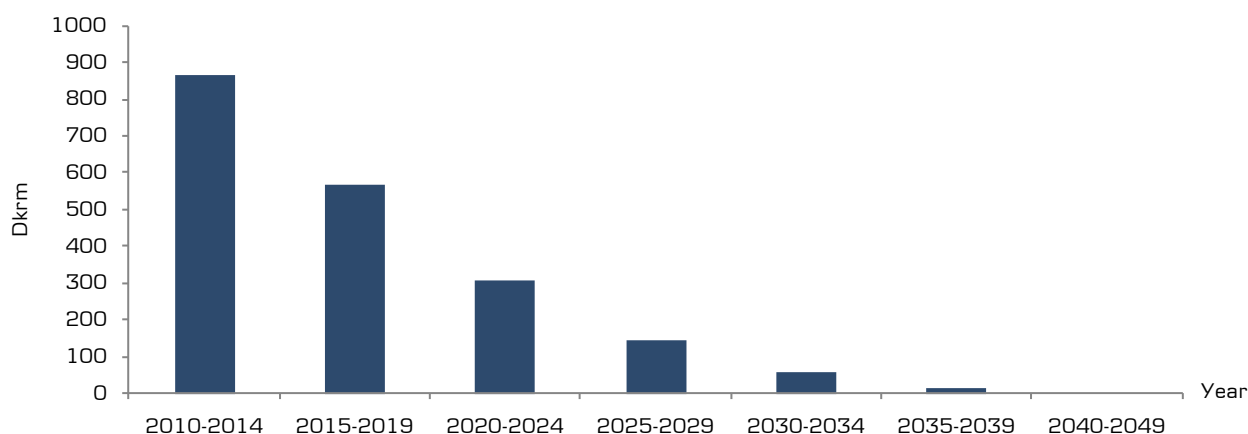
Therefore, the future income and expenses from guarantees is not included in the EV calculations.

In 2009, the gross premium of the covered business amounted to DKr7.3bn and the provisions increased to DKr34.1bn, of which Danica Link accounted for 59% and Danica Balance for 41%.

7.5 The EV model

Embedded Value is a measure used to estimate the shareholders' interests in the covered business and is determined by calculating the present value of expected future distributable earnings. The calculation of EV is performed using a model developed to reflect the expected future cash flows net of tax. The cash flows are projected over 40 years using the risk-free interest rate as growth rate for all assets and subsequently discounted using the risk-free discount rate. The chart below shows how the expected future results are spread over a 40-year period.

FIGURE 9: REALISATION OF EXPECTED FUTURE RESULTS



The risk-free rate used for calculating technical reserves under IFRS reporting has been temporarily adjusted by the spread between the mortgage rate and the current discount rate. Since this is a temporary solution, it has been decided that this adjusted rate is not appropriate for calculating EV.

TABLE 12: RISK-FREE INTEREST RATE

(forward rate)	Year 1	Year 2	Year 5	Year 10	Year 20	Year 40
As of December 31, 2008	4.64%	3.46%	4.62%	5.38%	4.06%	2.48%
As of December 31, 2009	1.63%	2.12%	4.26%	5.25%	4.95%	3.72%

Covered business can be broken down into income and expenses. Income consists primarily of the fees paid by policyholders and the commissions received by the company from the fund managers investing policyholders' savings. Expenses consist of acquisition costs and administrative expenses.

EV is calculated as the sum of shareholders' net assets and present value of future profits less Cost of Capital (CoC), where CoC covers Frictional Cost of Capital (FCOC) and Cost of Non-Market Risk (CNMR). FCOC is the cost of holding the required capital. In a market-consistent environment, these frictional costs represent investment management expenses and taxes on the investment income of the total available capital. The cost of non-market risk is an explicit deduction from the value reflecting shareholders' costs from non-diversified operational risks and variability in insurance business. CNMR is allowed for by deducting 1% of the required capital each year.

7.6 Sensitivity analysis

The table below lists sensitivities to changes in key assumptions.

TABLE 13: SENSITIVITY ANALYSIS

(DKrm)		Change in EV
Embedded Value, year-end 2009	2,606	
Increase in risk-discount rate	+ 100bps	-146
Decrease in administration costs	- 10%	111
Increase in lapse rates	+ 10%	-121
Decrease in revenues	-10%	-272

7.7 Glossary of terms

Annual premium equivalent (APE): Annual premium equivalent is defined as new annualised regular premiums plus 10% of single premiums.

Cost of Capital (CoC): Is the sum of frictional cost of capital (FCOC) and cost of non-market risk (CNMR)

Cost of Non-Market Risk (CNMR): The cost of non-market risk is an explicit deduction from the value of business in force reflecting shareholders' costs from non-diversified operational risks and variability in insurance business. CNMR is allowed for by deducting 1% of the required capital each year.

Covered business: Danica Pension's portfolio of unit-linked products in Denmark, excluding health and accident insurance. The products are sold under the names Danica Link and Danica Balance and are accounted for under Danica Pension I, Denmark.

Frictional Cost of Capital (FCOC): Economic cost of holding required capital. In a market-consistent environment, these frictional costs represent investment management expenses and taxes on the investment income of the total available capital.

New Business (Value of New Business = VNB): VNB is defined as the net present value of premiums sold in the current year. New Business includes all new policies, all additional single premiums on existing policies, all increases on private policies and all increases on corporate policies that exceed expected changes.

Present Value of Future Profits (PVFP): Net present value of best estimate distributable earnings from in-force business.

Required capital: Equals 125% of the solvency requirements.

Shareholders' net assets: Shareholders' net assets for the Danish business in Danica Pension I, excluding health and accident insurance. The shareholders' net assets equal the required capital for the covered business, which has been determined to be 125% of the solvency I requirements.

Appendix A. The Danica group in the statutory financial statements of Danske Bank

The Danica group is consolidated in Danske Bank's statutory financial statements according to the following principles:

- Danica's assets can be divided into assets related to insurance contracts (contracts subject to significant insurance risk or entitling the policyholder to a bonus), investment contracts (contracts subject to insignificant insurance risk) and assets allocated to shareholders' equity. At the end of 2009, 87% of Danica's assets consisted of insurance contracts, 6% of investment contracts and 7% of assets allocated to shareholders' equity.
- Assets relating to insurance contracts are consolidated under Assets under insurance contracts. These assets consist of financial assets, investment properties, domicile properties, other tangible assets, etc.
- Liabilities relating to insurance contracts are consolidated under Liabilities under insurance contracts. The liabilities consist of life insurance provisions, provisions for unit-linked contracts, collective bonus potential, other technical provisions and other liabilities.
- Payments received on insurance contracts are recognised under Net premiums. The return on the allocated assets is recognised under the respective income statement items. Changes in insurance obligations due to additional provisions for benefit guarantees and the accrual of the return for the year on assets relating to insurance contracts and the related tax on pension returns are recognised under Net trading income. Other changes in insurance obligations are recognised under Net insurance benefits.
- Investment contracts are recognised as financial instruments. The assets relating to unit-linked investment contracts are included under Assets under pooled schemes and unit-linked investment contracts. Deposits are included in the balance sheet under Deposits under pooled schemes and unit-linked investment contracts.
- Deposits/payments under investment contracts are recognised directly as a change to the liability in the balance sheet. The return on the assets and its accrual to policyholders' accounts are recognised under Net trading income.
- The assets allocated to shareholders' equity are consolidated on a line-by-line basis with the group's other assets. The allocated assets consist of Bonds, Investment properties and Equities.

In the financial highlights, Danica is presented in a single line under Net income from insurance business. In the Segment note, Danica is presented according to the above principles in the statutory format. The differences between the presentation of Danica in the group's income statement and the financial highlights are included as part of reclassification in the Segment note.

Appendix B. Facts from 2009

Surrender charge and interest on savings in the Traditional Business

In the end of 2008, the collective bonus potential was severely reduced due to the financial crisis and it was necessary to draw DKr2.8bn on the bonus potential of paid-up policies. As a consequence, Danica and several of our competitors imposed a temporary charge on transfer and surrender for policyholders with Danica Traditional. The aim of the surrender charge was to counteract speculation in withdrawing or moving pension plans.

2009 was characterised by high returns in the financial markets, for which reason the reserves in Danica have increased significantly and bonus potential of paid-up policies has been restored. On October 1, 2009, Danica cancelled the temporary surrender charge and increased the interest rate on savings. As a consequence, Danica experienced an increased number of transfers and surrenders of funds in November and December. Overall in 2009, the surrender value decreased from DKr3.7bn in 2008 to DKr3.6bn in 2009. Danica experienced a net inflow of reserves from other insurance companies of DKr350m.

If the collective bonus potential is fully drawn, the bonus potential of paid-up policies may be used to cover losses. It is no longer based on surrender values dependent on the temporary charge and as a consequence, a larger part of the bonus potential of paid of policies can be applied to cover losses. This did not affect shareholders' equity at the end of 2009.

Life insurance provisions for private pension plans in Danica Pension are now calculated based on the netting of guaranteed interest rates. Previously, this was only allowed for corporate pension plans. At the end of 2009, the consequence was hence a reduction of life insurance provisions of Dk506m. Equivalent, collective bonus potential/bonus potential of paid-up policies increased, and there was thus no effect on results or shareholders' equity.

Standard & Poor's

In February 2009, Standard & Poor's downgraded its rating of Danica from AA- to A+, and in December 2009, the rating was further downgraded to A (negative outlook), which is in accordance with the downgrading of Danske Bank's rating. Companies rated A have significant financial strength, but are somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.

Special allotments

Statsanstalten for Livsforsikring, which was privatised in 1990, is today part of Danica Pension. Under the terms of the privatisation, the legitimate bonus expectations of the customers of Statsanstalten for Livsforsikring also had to be honoured after the privatisation. A special allotment from Danica Pension is allocated to customers of the former Statsanstalten for Livsforsikring who have current policies with bonus entitlement, if Danica Pension's equity exceeds the adequate capital base by a certain amount.

In years when this excess capital exceeds the defined limit, special allotments for that year will be allocated to the customers in question. The special allotments are allotted once in the following year. If the special allotments constitute less than 0.1% of the life insurance provisions for the policies covered, the allotment will be deferred. Interest will be added to the deferred amount.

As special allotments will be allocated for 2009, the profit for the year has been reduced by DKr40m, which will be allotted in 2011, at the earliest. At year end 2009, approximately 135,000 customers had such policies in force. The obligation to allot an additional amount will apply as long as there are policies

from Statsanstalten for Livsforsikring still in force in Danica Pension. Amounts are only allotted for the years when this is warranted by the size of the excess capital.

In 2010, the expenditure in relation to special allotments will depend on the technical and investment results and whether risk allowance can be booked from the shadow account. The expenditure is expected to be approximately Dkr0.5bn before tax. In the longer term, the level of special allotments will depend on the developments in financial results and on the general development of Danica Pension's business. Assuming normal investment returns and no increase of the shadow account, special allotments for the first-coming 2-4 years after 2010 are expected to remain at a level of around Dkr0.5bn annually. Subsequently, the annual expenditure is expected to decline, in step with the development of the technical provisions for the customers in question.

Appendix C. Frequently asked questions

1. Which assets have Danica Pension invested in?

At the end of 2009, 80% of the assets were invested in bonds, 10% were invested in Danish and foreign equities and 10% were invested in real property.

2. What are Danica Pension's capital base and the individual solvency?

At the end of 2009, Danica's capital base stood at Dkr22.1bn. The requirement for Danica's capital base at the end of 2009 was met for all companies in the Danica group. In addition, Danica reports the individual solvency, a risk-based capital requirement, to the Danish Financial Supervisory Authority. Life insurance and pension companies are required to have a capital base that as minimum equal the larger amount of the solvency requirement and the individual solvency.

3. What is interest on policyholders' savings, and who determines the interest rate?

Interest on policyholders' savings is the return that is added to the individual policyholder's account for a given year. If the actual investment return is lower than the rate of interest on policyholders' savings, the difference is taken from the collective bonus potential.

From October 1, 2009, the rate of interest on policyholders' savings after tax on pension returns has been fixed at 2.25%, corresponding to 2.65% before tax on pension returns.

4. Why is there a difference between the interest on policyholders' savings and the average technical interest rate?

Contracts with policyholders are designed as a payment guarantee based on a guaranteed minimum average technical interest rate. Since the investment return might exceed the technical interest rate, it is possible to add additional interest to the savings during certain periods and this can lead to increased benefits. However, if the investment return falls below the technical interest rate, the interest on policyholders' savings can be set below the technical interest rate as long as the original payment guarantee is respected.

5. PAL tax - changes

In the spring of 2007, judgement was passed in a case brought by the European Commission against Denmark concerning the deductibility of pension contributions to foreign companies. Pursuant to the judgment, the tax liability on pension returns at a corporate level for schemes in life insurance companies and pension funds etc. cannot be maintained. In December 2008, the Danish parliament passed a new act transferring the tax liability on pension returns to individuals.

6. Who owns Danica?

Danica is 100% owned by Danske Bank.

7. Does Danica sell non-life insurance?

Danica has divested virtually all of its non-life insurance activities. Today, Danica sells health insurance as a supplement to conventional life and pension products only.

The Danske Bank group has an agreement with Topdanmark to sell that company's non-life insurance products through the group's sales channels.

8. Where can I find information about Danica Pension's financial statements?

Danica publishes annual and interim financial statements. These are available at www.danskebank.com/DanicaPensionInEnglish

9. Where can I find information about the Danske Bank group?

Our website, www.danskebank.com, and the Investor Relations section in particular, provide comprehensive information about the Danske Bank group.

Appendix D. Contact persons

Danske Bank's Investor Relations department is responsible for all IR matters for the group's subsidiaries. If you have any questions, please contact us. You can also find more information about the entire Danske Bank group at www.danskebank.com.



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