

Conference call speech

European Embedded Value
Danica Pension
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Investor Relations

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QUESTIONS ASKED BY

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European Embedded Value
Danica Pension

Thank you, operator. Welcome and thank you for taking the time to attend this presentation of Danica and Danica's introduction to European Embedded Value. At my side today is the CEO of Danica Henrik Ramlau-Hansen, and the CFO of Danica Janne Dyrlev. First, Henrik will introduce Danica and the EEV concept, and afterwards Janne will go into more details regarding the calculation of EEV. After the presentation, you will of course be able to ask questions as usual.

For now, I will hand over the microphone to Henrik Ramlau. Please go to Slide No. 2 and the word is your Henrik

Henrik Ramlau-Hansen - Danica Pension - CEO

Yes, good afternoon. My name is Henrik Ramlau-Hansen, I'm CEO of Danica Pension. This conference call is a supplement to the white paper we have issued about Danica Pension and how Danica enters into the accounts of Danske Bank Group. As you may know, Danica Pension is the largest life company in Denmark and we conduct mainly two types of businesses. We're selling traditional real profit business, as you may be familiar with, and also more recently we have been growing quite rapidly our unit-linked products. It is so that in 2007, roughly 40% of our premiums were unit-link business. But, as you also may be aware of, our unit-linked business still only generate a small proportion of the overall Danica profit. We feel that we're quite transparent about the way we report our traditional business in the accounts and therefore we would also like to more open and therefore we have also, we're now in the process of providing a Embedded Value figures for our unit-linked business. We feel that the existing IFRS reporting of the unit-linked business in the accounts do not fully reflect the underlying profit potential of the growing unit-linked business. As you may be aware of their high expenses to begin with, whereas the income part usually follows later on. So therefore we'll now take you through our unit-linked presentation, and I will start with an overview of the Danica Pension business and then Janne Dyrlev will continue on with a more detailed Embedded Value figures.

On Page 2, you can see the result that at the end of 2007, the total value of our unit-linked business based on European Embedded Value was 1.979, roughly Dkr 2 billion, but that includes an assumption of a net asset account of 349, so therefore the real additional value so to say is roughly DKK 1.6 billion.

Then turn to Page 4, which gives you just the brief introduction to the Danica Company. As I mentioned, we are one of the very large life companies. We have roughly one-third of the market share; and especially on the unit-linked side, we have been growing quite rapidly and we had roughly a market share of around 50% in the Danish market and we have more than half a million customers, and we also have subsidiaries in Norway and Sweden and we are gradually now starting in Ireland. So that was Page 4.

So please turn to Page 5, gives you some elements of the Danica position. You can see in the northwest corner strong market position that we are, as I mentioned, a leading unit-linked provider in Denmark. In the southwest corner, you can see that we had pretty or run our business with pretty tight cost control. You should also mention that we have gradually reduced the charges the customers are paying, and we'd also continue to do that in the future and that also is taking into account the customer charges that have been reduced on part of the 2007 Embedded Value calculation. Then perhaps one of the strengths we have in the southeast corner is that we're part of Danske Bank Group and therefore we have distribution in a number of ways. First, our products are available through the Danske Bank branches throughout Denmark and we have our own sales force, our own Group pension sales force and we also sell through independent insurance brokers and also through our foreign units.

Page 6 gives you a little bit more about how Danica Pension and our business compliment the business of the Danske Bank Group. It is so that in Denmark and in many other countries in Europe, savings and wealth accumulation takes place in pension schemes on mutual funds, and especially it's so that a large proportion of savings in Denmark take place in group pension schemes and therefore it's real important for Danske Bank to have Danica Pension as part of the Group because a lot of savings takes place through insurance schemes. We also closely integrated with a bank on the distribution side and on the IT side and you can see on the left part on Page 6 that our total income, the Danica Pension income contributes at roughly 5% to the Danske Bank bottom line. But it's also fair to say that in addition to the strict Danica Pension bottom line, there are also additional earnings in Danske Bank because we pay distribution fees to the bank and also we pay investment fees to, as an example, Danske Capital which may earn a little bit on that, and we also have common functions in Norway, Sweden, and Ireland.

Page 7 gives you this overview of how the market product, our unit-linked business has been growing. On the left part, you can see the gray lines shows that at the end of 2007 we had more than 7 billion in premium income, so that's roughly 40% of our business in terms of premiums in our unit-linked

business. But you can see from the red, the red line, the profit before tax, that's still, it's a really small part and the reason, so the say the traditional reason that we have to expense initial expenses sales costs and so on whereas the actual income part which is percentage, percentages of asset under management usually comes later over the life of the policies.

On the right side, you can see the volume of the Danica traditional, the traditional with profit business which has been, it is now gradually decreasing and will continue that also in the future years, but we have around 10/11 billion in premium income on Danica Traditional You can see for the years 2006 and 2007 that the profit model which is the risk allowance which is roughly 60 basis points, 60 basis point, is quite stable and we expect that also to continue in the future and then you have the blue, the dark blue part, which is the return on the underlying equity. But it's clearly our point that the market picture to the left there, the profit before tax, do not fully reflect the fact that we have a quite rapidly growing business; and that's the reason why we're now introducing Embedded Value, a European Embedded Value calculations for our unit-linked business and Janne Dyrlev will go through that in more details starting on Page 8.

Janne Dyrlev - Danica Pension - CFO

Thank you, Henrik. As Henrik and Martin said, I'll go a bit through more of the details on the Embedded Value. I will to start to touch briefly upon the principals and methodologies that we have applied when calculating the Embedded Value. We have chosen to use the principals and the methodologies that has been recommended by the CFO Forum, and this includes both some many assumptions to apply and also some presentation requirements. When you talk about the assumptions, we apply a market-consistent Embedded Value, and this means that the assumptions on interest rates, inflation rates, volatilities, and so forth are the actual prices that can be seen in the market and this means that thereby these sort of financial assumptions can easily be compared likewise between different entities reporting in Embedded Value. On the presentation, there are some requirements as to how you decompose the value drivers of Embedded Value and there are also some requirements on disclosing different sensitivities which you can find in our white paper.

Turning to Page 9, we have listed fairly simple what goes into the calculation of Embedded Value, and it is a principal quite simple because it is based of two components. The one is the shareholders' net assets, which is already in the IFRS accounts. In addition to that, we calculate the present value of the future profits and they consist of revenue, mainly fees and charges to the policy holders, and we deduct from that

the present value of expenses such as acquisition costs and administration costs. We deduct corporate taxation, cost for providing guarantees, and cost of capital, the cost of capital comprising both some frictional cost of capital and the non-market risks.

Page 10 then shows how the Embedded Value is, can be presented into five main components, and these are again the requirements by the CFO Forum. But I will sort of quickly turn to Page 11 because there we have the figures behind the different five components. What you can see in the Page 11 is that the total Embedded Value at the end of 2007 totalled, as Henrik said before, almost DKr 2 billion. When you compare that to the net, shareholders' net assets that you can allocate to this business, the difference is DKr 1.6 billion. This 1.6 billion predominately is attributable to what we call the certainty equivalent present value of future profits. This is more or less equal to the present value of revenue less expenses, and you can see that this part amounts for DKr 1.7 billion. So this is the added value of the existing business that Danica has today, which is not yet materialized into the IFRS account. I would like to say here that as we've also written in the white paper that this is not the same as this should be the value for the shareholders, one main difference is that this is only the present value of the business that is enforced that is the business that we have already taken in. If one were to acquire the full business of Danica, I would assume that one would also pay something for the ability to get into, to get on some further business, which is not taking into account into these calculations. Another point from the Page 11 is to see that the Embedded Value at the end of '07 has increased by some 430 million compared to end of 2006.

We will look a bit more into that on Page 12. On Page 12, you can again see the Embedded Value of the 2 billion at the end of '07 compared to the 1.5 billion end of 2006. In the development between the two years, there is a contribution from a more technical issue, namely that since the business grows, is growing, we also allocate some added capital to the business, and that applies for 58 million of the growth in Embedded Value. So the real growth of the business is 375 million. When you take this development in Embedded Value relatively to the Embedded Value end of '06, that corresponds to a return on 24% on Embedded Value.

Now I turn to Page 13 because we will now take a further look into this Embedded Value earnings and development in the Embedded Value. This table is split into three components on the columns, namely the shareholders' net assets which is the part of Embedded Value which is already, which already can be seen in the IFRS accounts. In addition to that, we have the value of business enforce, i.e., the present value of the future revenue and expense streams from the business that we have and that total the European Embedded Value. We have then different components when

you look at the development of the 1.5 billion end of '06 to the 1.979 billion end of '07. We have then different contributors to the development in Embedded Value that are listed in the different rows. And again, this is the way that you show the development where a different shade between what is the expected return on the business, where do we have differences, and what we expected on the business and the financials and so forth. But what you can see is that the growth is Embedded Value is most and foremost attributable to the contribution from new business because new business has contributed 325 million in growth in Embedded Value.

On the next page, we will look a bit more into the contribution from new business. As we saw in the previous slide, the net profit from new business was 325 million, and that can be composed into, that we have some initial costs in the year that we take in the new business, but that is more than compensate it for a substantial positive present value of the new business. When you look at Embedded Value, one applies different key metrics and one of them is the new business margin and that is calculating the net profit, i.e., the 325 million, and take that relatively to the present value of the future premiums of that new business, and these total 9.6 billion. So this gives a profit margin of 3.5%. Some entities tend to prefer the other key metric you can see on the figure which is the net profit from the new business relatively to what one called the annual premium equivalent. The annual premium equivalent totals the record equivalent in the year that you had the taken the new business in addition to a proportion of the singlet premiums, and that totalled 1.9 billion in 2007. This margin totals some 17%. Personally, I find the first key metric of the 3.5% being the most relevant one.

On Page 15, we have compared this key metric on the new business margin relatively to other countries. Benchmarking can be a bit difficult. I mean I started by saying that everyone using market consisting of Embedded Value applies assumptions on financial perimeters which can be seen in the market which should improve the ability to compare businesses and results between the businesses. But again, there are differences between the businesses and also the covered business in the Embedded Value calculation. Nevertheless, we have used some data gathering conducted by McKensey who has conducted some '05 figures on Embedded Value on this profitability; and compared to that, we find our '07 result as being quite satisfactory.

Martin Gottlob - Danske Bank - Head of Investor Relations

This concludes our presentation. I would like to thank you for your attention, and now it's time for all your good questions you may have gathered during this presentation. If you listen to the conference call via our website, you're also welcome

to ask questions by email. Please, operator, we are ready for the Q&A session.

Torsten Bech LD Market

Just a few questions: I looked through your white paper also. If you look at Page 30, you give us those sensitivity analysis or sensitivities to different factors. Just a clarification, why is there a sort of asymmetric sensitivity to the latter half in this model? The second question, you said you used the MCEV calculations, if you use the traditional EEV with subjective discount rates, what level of discount rates would you have in your traditional EE model to get at those same results as you do in your MCEV?

Janne Dyrlev - Danica Pension - CFO

On the net rate, we haven't really got any thorough investigations as to the synergy. That's sort of different factors which goes into this. Also, we actually have that the intrinsic value of the guarantees, there are some dependencies between the rates and the volatilities; therefore, we don't have any actually straightforward answer to this question.

Henrik Ramlau-Hansen - Danica Pension - CEO

Henrik Ramlau speaking. I have just averaged similar to that if you adjust by 100 basis point in the bond, this is not symmetric either, so it's the similar things going on. The second question, what was that?

Torsten Bech LD Market

That was more on the discount rates to use. I mean if you take the traditional EE versus the MCEV and sort of get a guesstimate of subjective discount rate you put into it and the model to get at the same level of value...

Henrik Ramlau-Hansen - Danica Pension - CEO

As you can see perhaps from the presentation in the Appendix, Page 17, can you find that in the presentation?

Torsten Bech LD Market

Yes

Henrik Ramlau-Hansen - Danica Pension - CEO

There you can see that regarding at the end of 2007, the risk free rate being used is around 5% roughly. If you would make an old fashioned Embedded Value using 7%/8%, then you should adjust accordingly.

Torsten Bech LD Market

Thank you.

Henrik Ramlau-Hansen - Danica Pension - CEO

Does that answer your question roughly?

Torsten Bech LD Market

Yeah, that's good. Could I add another question, maybe more to your traditional business? What would your collective bonus potential be at the moment? I saw at your Q1 presentation, you had 9.1 billion and gave some sensitivities. But taken the movements and spreads and so on into account for the last couple of months, do we have an estimate where would be at...

Henrik Ramlau-Hansen - Danica Pension - CEO

Just to be very brief, and of course we don't have exact figures, but you were right. At the end of first quarter, I think we had lost around 4 billion on the collective bonus potential, and we had I think a equity result of minus 11% roughly. Given the development on the equity markets, since then share prices have gone up 4%/5% so roughly speaking you could be 1 to 2 billion higher than it was at the end of first quarter. So roughly speaking the situation has improved

Torsten Bech LD Market

How about... Wouldn't there be any sort of sensitivity to your MCEV estimate and on your buffer rate bonus potential?

Henrik Ramlau-Hansen - Danica Pension - CEO

But the Embedded Value calculation is strictly related to our unit-linked business which is not part of the bonus reserve story so to say. The bonus reserves is part of the traditional business and this is only what we've been through now is only a calculation regarding our unit-linked business, the bonus reserve sort of say to belong the traditional business with a risk allowance and the presentation which is described in details in the white paper. So what we have been through is an elaboration of the second, of the large part of the white paper regarding our unit-linked business.

Torsten Bech LD Market

Super. Thanks for those clarifications.

Martin Gottlob - Danske Bank - Head of Investor Relations

I like to thank you for your interest in Danica and for your not that many questions. I am sure that if you have the time to dig into our white paper and you may have some additional questions going forward and you of course welcome to contact us. As usual, a transcript of this conference call will be published on our website within the next few days. Thank you and bye-bye.