

White paper

Consolidation policy and business activities

at Danica Pension

Unaudited



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| Contents | Page |
|--|------|
| 1. Introduction | 2 |
| 2. Danske Bank's contribution from the Danica group | 3 |
| 3. Danica group overview | 7 |
| 4. Danica Pension – balance sheet | 8 |
| 5. Assets allocated to pension obligations | 9 |
| 6. When may the risk allowance be booked? | 11 |
| 7. Exclusion of the risk allowance – the shadow account | 14 |
| 8. Sensitivity analysis | 15 |
| 9. The Danica group in the statutory accounts of Danske Bank | 17 |
| 10. Danica's business profile | 18 |
| 11. Frequently asked questions | 21 |
| 12. Contact persons | 23 |

1. Introduction

The purpose of this white paper is to inform investors, analysts and other stakeholders of Danica Pension's activities and consolidation policy.

Before moving on to a detailed description we must clarify a couple of points:

First, the rules for calculating the profits and total assets of a life insurance company are highly complex. The purpose of this memorandum is not to give a comprehensive description of every aspect of the Danica group's financial accounts. Our purpose is to give an overview of the main factors that affect the accounts and not least to describe their relation to the annual accounts of Danske Bank.

Second, when reading this memorandum, it is important to realise which parts of the Danica group these issues concern. Section 3 gives an overview of the group and describes the parts of the Danica group that the subsequent analysis refers to.

In section two, we explain how the results of the Danica group affect the accounts of the Danske Bank Group. We proceed to give a brief description of the structure of the Danica group and selected parts of its balance sheet. On the basis of Danica's balance sheet, we describe the relation of the return on investments, value adjustment of provisions and the company's contribution to Danske Bank. The relationship between the Danica group and the company Danica Pension is shown in figure 1 in section 3. Next, we present a sensitivity analysis showing the relationship between the size of the return on investments and Danske Bank's possibility of booking the life insurance risk allowance in its profit and loss account. Finally, we present the Danica group as a business, focusing on gross premiums, distribution channels and so on.

2. Danske Bank's contribution from the Danica group

All Danish life insurers and pension funds must file a copy of their profit consolidation policy with the Danish Financial Supervisory Authority.

Until 2002, Danica's consolidation policy provided that earnings consisted of a after tax return on equity from the life companies equal to the rate of interest on policyholders' savings plus three percentage points. To this amount was added a variable amount to reflect Danica's cost, health and accident insurance results. The results for the individual years did not depend directly on the return on investments.

In October 2001, the Danish Financial Supervisory Authority presented a **new interpretation of the executive order on consolidation policy**, which describes how earnings must be distributed between customers and owners. The new interpretation meets requirements for a clearer distinction between the interests of customers and owners. Accordingly, Danica prepared a new consolidation policy which accords with the new interpretation. The policy took effect at the beginning of 2002. It makes Danica's contribution to the earnings of the Danske Bank Group more volatile since it depends more on movements in the financial markets.

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

Table 1: Danica's contribution to Danske Bank

| Item | Dkr m | H1 2003 | 2002 | |
|------|--|------------|--------------|---|
| | Core insurance income | | | |
| 1 | 0,5 % of life insurance provisions | 365 | 709 | } Included in Danske Bank's core earnings |
| 2 | 30 % of risk, cost and health and accident result | 83 | 141 | |
| 3 | Total risk allowance | 448 | 850 | |
| 4 | Risk-free return on shareholders' equity | 151 | 410 | |
| 5 | Result of unit-linked business | 30 | 42 | |
| 6 | FD (health care insurance etc) | 11 | 16 | |
| 7 | Total core insurance income | 640 | 1,319 | |
| 8 | Funding, net | -89 | -201 | |
| 9 | Total core insurance earnings | 551 | 1,118 | |
| | Earnings from investment portfolios | | | |
| 10 | Investment return on shareholders' equity | 292 | 451 | } Included in Danske Bank's earnings from investment portfolios |
| 4 | - Risk-free return on shareholders' equity | 151 | 410 | |
| 11 | Investment return on shareholders' equity, ex. risk-free ret. | 141 | 41 | |
| 12 | Reversal of risk allowance | 0 | -850 | |
| 13 | Total earnings from Danica (pre-tax) | 141 | -809 | |
| 9 | Total core insurance earnings | 551 | 1,118 | } Total contribution to Danske Bank's profit before tax |
| 13 | Total earnings from Danica (pre-tax) | 141 | -809 | |
| 8 | Funding, net | 89 | 201 | |
| 14 | Profit from Danica (pre-tax) | 781 | 510 | |

1. 0.5 % of life insurance provisions

Technically, the amount is calculated as 0.5% of the average life insurance provisions and the collective bonus potential.

2. 30 % of the risk, cost and health and accident result

Cost result: Customers pay a contribution to cover administrative costs. The cost result is the total cost contribution from the customers less the costs actually incurred. The result is divided between shareholders' equity (30%) and the customers (70%). Efficient operations therefore benefit both shareholders' equity (and thus Danske Bank) and customers. The cost contribution is a competitive parameter.

Health and accident result and the risk result: A large number of Danica's life insurance and pension agreements include insurance cover on death and disablement. A portion of the premiums paid by the customers is set aside to pay for this cover. The amount set aside is a competitive parameter. The result is divided between shareholders' equity (30%) and the customers (70%). In practice, the result of health and accident activities is calculated in the same way as the result of non-life activities. The health and accident result is specified in the notes to Danica Pension's annual report (note 7, page 33 – in Danish only).

3. Total risk allowance

The sum of items 1 and 2 is termed the risk allowance. Generally, Danske Bank may book the risk allowance to its profit and loss account only if the realised result leaves room to do so. Section 6 explains when it is possible to book the risk allowance and when the booking must be postponed. Irrespective of whether Danske Bank may book the risk allowance or not, a corresponding amount will always be included in core earnings. If the risk allowance cannot be booked, a corresponding amount will also be deducted from earnings from investment portfolios, as was the case in 2002. This method is based on the same principles as apply to the Bank's business area accounts. Earnings from investment portfolios are earnings that are affected by market risk, and all other earnings are included in core earnings.

4. Risk-free return on shareholders' equity

Danica Pension's assets are divided into two separate portfolios. One is allocated to shareholders' equity, and the other to the customers. The risk-free return on the assets allocated to shareholders' equity is included in core earnings.

5. Result of unit-linked business

The unit-linked activities in Denmark and Norway are managed by the company Danica Pension I, outside the consolidation policy (see figure 1 in section 3). Danske Bank may include the operating profit of that company in its profit and loss account.

6. FD (health care, etc.)

This item is the result of the activities carried out by "Forsikringselskabet Danica". The company sells critical illness policies and health care schemes to business customers. These activities are treated as non-life activities and the Bank may include the entire result in its accounts.

7. Total core income

This item consists of those elements of the Danica group's accounts that are included in Danske Bank's core income.

8. Funding, net

Danske Bank's business area accounts are based on the principle that capital is allocated to the individual business areas in relation to their activities. For the other business areas, the required capital is fixed at 6.5% of risk-weighted assets. For Danica, the allocated capital is defined as the solvency margin, which requires the following funding transactions:

Table 2: Funding, net

| Item | Dkr m | H1 2003 | 2002 |
|------|--|------------|-------------|
| | Funding, net | | |
| | - Interest on Danica's shareholders' equity | 151 | 375 |
| | + Interest on weighted capital (solvency margin) | 86 | 222 |
| | - Weighting of supplementary capital (solvency margin) | 25 | 47 |
| 8 | Total funding, net | -89 | -201 |

It is important to note that this item is not included in Danica's group accounts, but only in Danske Bank's business area accounts.

9. Total core insurance earnings

This item constitutes the core earnings from the Danica group that are included in Danske Bank's business area accounts.

10. Return on investments allocated to shareholders' equity

This item consists of the gross return on the assets allocated to shareholders' equity.

11. Return on investments allocated to shareholders' equity, excluding funding

The gross return on the assets allocated to shareholders' equity less the risk-free return. The risk-free return is included in the core earnings.

12. Reversal of risk allowance

As mentioned above, an amount corresponding to the risk allowance is always included in core earnings. If the criteria for booking the risk allowance to the profit and loss account are not met, an amount corresponding to the risk allowance is set off against earnings from investment portfolios. The factors that decide whether or not the risk allowance may be included depend very much on the general trends on the financial markets. Consequently, this part of the result is exposed to market risk and that is the reason for employing this consolidation method.

13 Total earnings from investment portfolios

The sum of the net return on assets allocated to shareholders' equity and any adjustment for the postponement of the risk allowance or the inclusion of allowances previously postponed represents the total contribution from Danica to Danske Bank's earnings from investment portfolios.

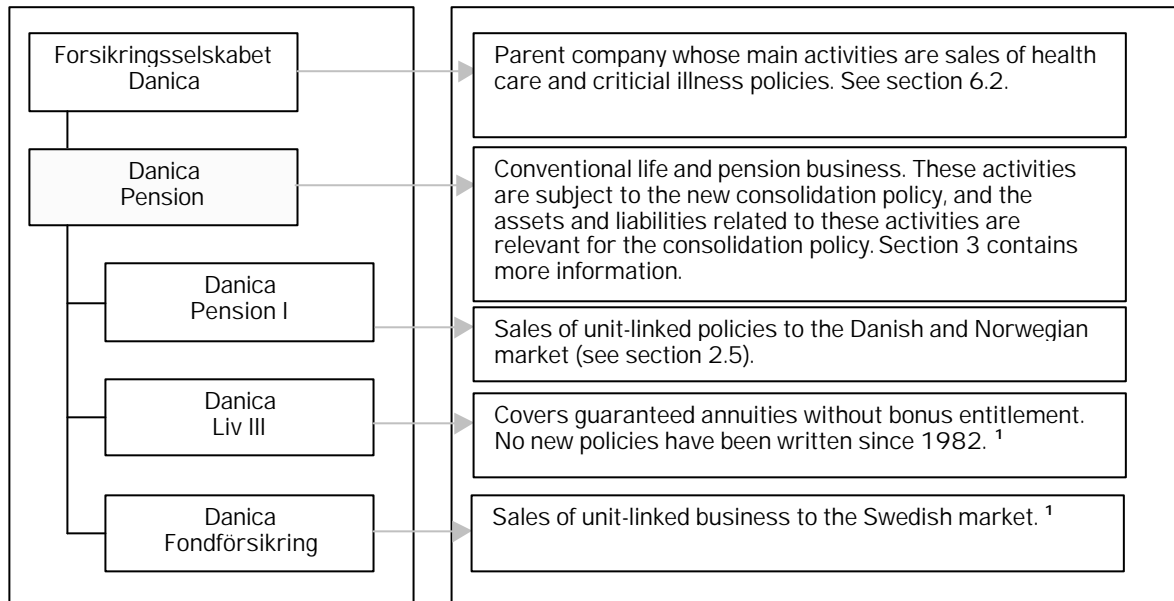
14 Profit from Danica (pre-tax)

The total contribution from Danica to Danske Bank's official accounts is the sum of the amounts included in core earnings in the business area accounts and the amounts included in earnings from the investment portfolio adjusted for the funding transactions.

3. Danica group overview

According to Danica’s new consolidation policy, its contribution to Danske Bank is linked closely to the composition of the assets and liabilities underlying its life and pension activities. Before we proceed to explain this relationship, we will describe the corporate structure of the group.

Figure 1: The Danica group



¹ The profits of these companies is included in the return on Danica Pension's investments.

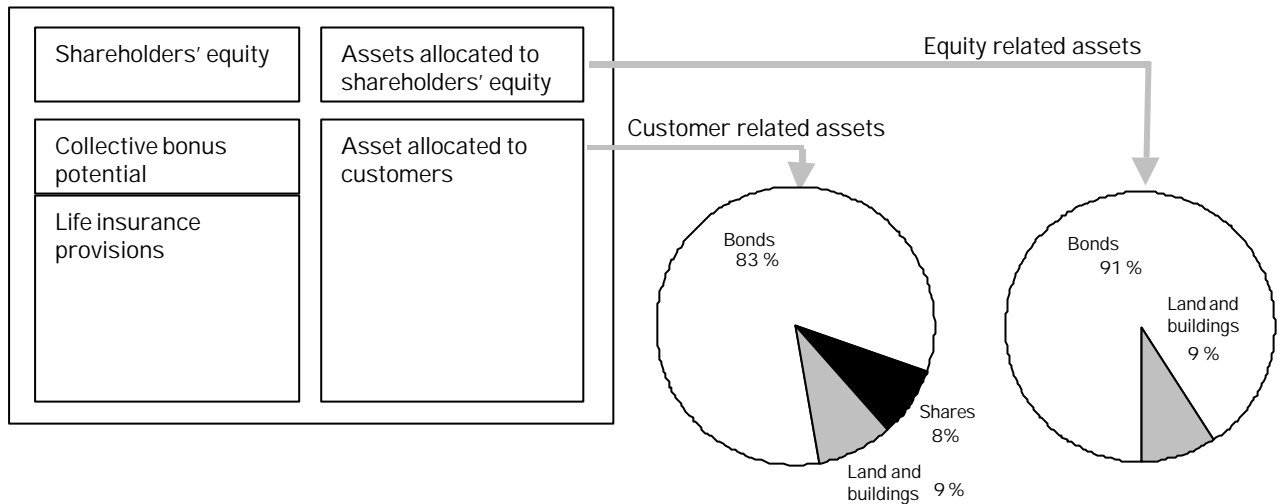
It is the activities of Danica Pension that are relevant to the consolidation policy. Section 4 describes the balance sheet, which breaks down into one portion that relates to shareholders' equity and one that relates to the customers. The portion relating to shareholders' equity is described in section 4, while the customers' portion is described in section 5.

4. Danica Pension – balance sheet

The assets on Danica Pension’s balance sheet consist of bonds, shares and land and buildings. The assets are divided into two separate portfolios: one is allocated to shareholders’ equity and the other to the company’s obligations towards its customers.

Figure 2: Danica Pension’s balance sheet

Asset distribution at 30 June 2003



Assets allocated to shareholders’ equity are invested mainly in bonds and land and buildings, as shown above. These assets provide a fairly stable return. The risk-free portion of the return is included in core earnings (see section 2.4). The portion of the return exceeding the risk-free return is included in earnings from investment portfolios (see section 2.11). This method applies the principles generally used in Danske Bank’s business area accounts.

Table 3: Return H1 2003 - shareholders' equity

Portion of the assets related to the shareholders' equity of Danica Pension, excluding shares in Danica Pension I.

| Dkr m | Balance sheet June 30, 2002 | Return H1 2003 | % |
|--------------------|--------------------------------|-------------------|------------|
| Land and buildings | 1,090 | 40 | 3.8 |
| Bonds | 10,555 | 252 | 2.3 |
| Total | 11,645 | 292 | 2.7 |

The portfolio consists mainly of short-dated bonds. At the end of June 2003, the total interest-rate risk amounted to about DKr150m.

Assets allocated to cover pension obligations are invested to match to the expected cash-flow of the obligations. Section 5 deals with the relation between assets and liabilities and the related returns and the value adjustments of the returns.

5. Assets allocated to pension obligations

The liabilities consist of the market value of Danica’s life insurance obligations (the life insurance provisions) and the collective bonus potential. The life insurance provisions are calculated at market value by discounting the expected future cash flow according to the official calculation rate.

Table 4: Calculation rate

| % | Balance sheet June 2003 | End 2002 |
|--|----------------------------|-------------|
| Danish gov. bond yield (duration 10 years), incl. swap premium | 4.41 | 4.72 |
| Less tax on pension returns (15%) | -0.66 | -0.71 |
| Discount rate | 3.75 | 4.01 |
| Less initial margin (5%) | -0.19 | -0.20 |
| Calculation rate | 3.56 | 3.81 |

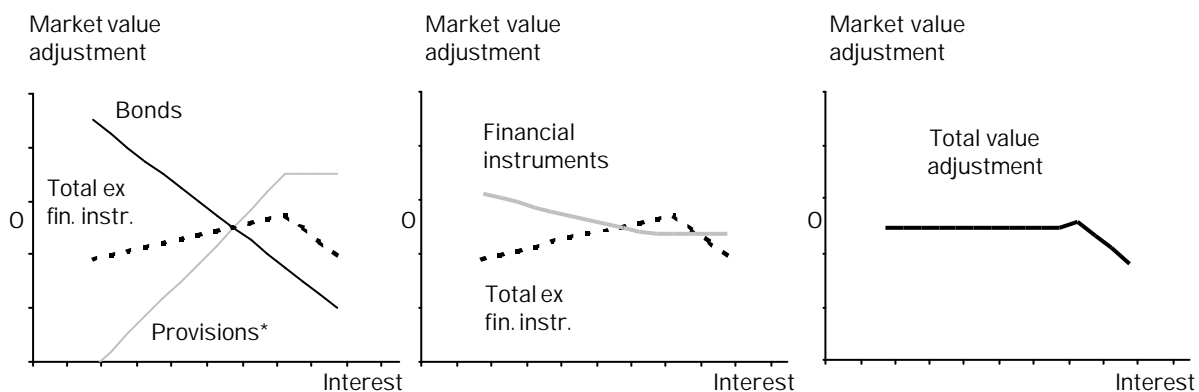
* A guide to the calculation rate is available on the Web side of the Danish Financial Supervisory Authority (in Danish only): <http://130.228.210.132/finansstilsynet/lov/vej/2001/00FN110.htm>.

* Danish Financial Supervisory Authority publish the daily calculation rate on: <http://www.finanstilsynet.dk/sw180.asp>

The market value or the net present value of future obligations will rise if the level of interest rates and hence the calculation rate fall.

The objective in investing assets is to maximise the return on investments while taking into account the need to match any value adjustments on the liabilities side as a result of changes in interest rates.

Figure 3: Market value adjustment of assets and liabilities



This figure is included for illustrative purpose only.

*The market value adjustment is seen from Danica Pension’s point of view. Increasing interest rates reduce the market value of the provisions and correspond to a “positive” value adjustment for Danica Pension.

The value of the bond holding rises when interest rates fall. At the same time, the value of provisions rises. The value adjustment of provisions exceeds the adjustment of the bond holdings because of the higher interest-rate sensitivity of the provisions. Overall, this results in a negative value adjustment for Danica Pension. Consequently, Danica has bought financial instruments in order to cover the gap between the two positions. Figure 3 shows the relationships among assets, liabilities and financial instruments.

The financial instruments ensure the booking of the risk allowance when the bond yield is falling.

In addition to the value adjustment of the bond holding and the proceeds of financial instruments, the return on investments includes the return on the portfolio of shares, land and buildings and other assets. Table 5 highlights the returns on assets.

Table 5: Return and value adjustment in H1 2003 - customer funds

Portion of the balance sheet that relates to Danica Pension's customer funds

| Dkr m | Balance sheet June 30, 2002 | Return/ value adjustment H1 2003 | % |
|------------------------|--------------------------------|--|------------|
| Assets | | | |
| Shares | 11,641 | 160 | 3.6 |
| Land and buildings | 13,758 | 494 | 3.5 |
| Bonds | 127,664 | 6,544 | 5.5 |
| Other financial assets | 1,697 | -71 | - |
| Total | 154,760 | 7,127 | 4.8 |

The return on investments and changes in liabilities determine whether or not the risk allowance may be booked to the profit and loss account (and if so how large it may be) or must be postponed. Section 6 describes the factors upon which this decision is based.

6. When may the risk allowance be booked?

The risk allowance may not exceed the realised result. In other words, the realised result must be positive for Danske Bank to book part or all of the risk allowance to the profit and loss account. Table 6 shows the calculation of the realised result.

Table 6: Realised result, H1 2003

| Item | Dkr m | H1 2003 | 2002 |
|------|--|--------------|--------------|
| 1 | Return on investments | 7,124 | 4,554 |
| 2 | - Average technical interest rate of 3,3% p.a. | 2,540 | 4,651 |
| 3 | - Return on health and accident result | 145 | 97 |
| 4 | + Cost and risk result | 4 | 205 |
| 5 | - Value adjustment of provisions | 2,650 | 898 |
| 6 | Realised result | 1,793 | -887 |

1 Return on investments

The total gross return on investments of assets allocated to customers.

2 Technical interest rate

Contracts with customers are based on a technical interest rate. The technical rate has fallen sharply in recent years 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 7 shows the distribution of provisions according to the various technical rates at the end of 2002 and the end of 2000.

Table 7: Liability distribution over the technical interest rates

| Life insurance provisions Dkr m | End 2002 | End 2002 in % | End 2000 in % |
|--|----------------|------------------|------------------|
| Technical interest rate | | | |
| 0% | 1,417 | 1% | 1% |
| 1,5% | 13,100 | 10% | 4% |
| 2,5% | 31,788 | 24% | 22% |
| 4,5% | 84,900 | 65% | 72% |
| 8% til 20% | 289 | 0% | 0% |
| Provisions with guarantee | 131,494 | 100% | 100% |
| Without guarantee | 9,313 | | |
| Total life insurance provisions | 140,807 | | |

As the table shows, the technical interest rates have generally become lower.

The calculation of the realised result entails the deduction of interest based on the technical rate. For the first half of 2003, this corresponds to about 1.65% of provisions.

3 – 4 Health, accident, cost and risk result before bonus addition and reinsurance result

Part of the total return on investments is attributable to the health and accident result. In addition, the cost and risk result before bonus addition is included in the realised result. The calculation and relations of these results are fairly technical, and as they are not crucial to the Bank's possibility of booking the risk allowance to the profit and loss account, we have omitted detailed explanations.

5 Value adjustment of provisions

As described, the market value of provisions depends on the calculation rate, which has fallen in step with the general fall in interest rates. At the end of 2002, the calculation rate stood at 3.81%, and at the end of the first half of 2003, it had fallen to 3.56%. This fall results in a value adjustment of Dkr2,650m.

6 Realised result

Whether the realised result is positive or negative determines whether or not the Bank can book the risk allowance to its profit and loss account. If the result is positive, the Bank can book part or all of it to the profit and loss account. If the result is negative, the risk allowance must be postponed.

Four factors combine to determine how large a risk allowance may be booked:

- risk allowance for the current period (defined in table 1. 3)
- the realised result (see the table above)
- the shadow account (see below)
- the size of the future bonus potential

The amount of the risk allowance that may be booked is subject to certain restrictions, this issue is described in section 9.

Table 8 shows the results and risk allowances for 2002 and the first half of 2003. The result for the first half-year is provisional since the risk allowance is booked on an annual basis.

Table 8: Result for Danske Bank from customer activities at Danica Pension

| Dkr m | H1 2003 |
|---|--------------|
| Realised result | 1,793 |
| - Tax on pension returns (PAL) | 918 |
| - Bonus | 737 |
| + Return on investments allocated to shareholders equity | 322 |
| + Return on reinsurance and other ordinary items | 62 |
| + Health and accident result | 69 |
| Result before adjustment of collective bonus potential | 591 |
| +/- change in collective bonus potential | 179 |
| Result for Danske Bank before tax from Danica Pension | 770 |
| + FD (health care insurance etc) | 11 |
| Result for Danske Bank before tax from Danica Group | 781 |

Tax on pension return is deducted from the realised result. The difference between the technical interest rate and the interest rate on the savings accounts is likewise deducted (bonus). Return from reinsurance and the health and accident result is added. The change in the collective bonus potential is based on the actual investment return and the bonus policy. Changes in the bonus potential has a one to one effect on Danske Bank's return (with opposite sign). This adds up to Danske Bank's result from Danica Pension before tax. Further adding the result from FD (health care insurance etc) gives the total result from Danica to Danske Bank before tax.

The result from Danica (pre-tax) equals the result that appears in the Danica group's external accounts. It also equals the result distributed between core earnings and earnings from investment portfolios in table 1, section 2, after adjustment for the fixed-income transactions made in relation to the business area accounts.

7. Exclusion of the risk allowance – the shadow account

Any risk allowance that cannot be booked for the current year may be booked at a later time when the realised result permits. The balance of postponed risk allowances is carried forward in a shadow account and earns interest at the risk-free rate of interest. Since Danica's adoption of a new consolidation policy, the shadow account has shown the following movements.

| | DKr m |
|---|-------|
| + One-off adjustment on adoption of the new policy | 898 |
| + Exclusion of a risk allowance in 2002 | 850 |
| + Interest of added for 2002 and the first half of 2003 | 42 |
| = Total balance of on the shadow account, calculated at 2003 values | 1,790 |

This means that Danske Bank may book DKr1,790m to the profit and loss account at a future date when conditions (return on investment, etc.) permit. The Bank cannot lose this claim. Section 8 describes the sensitivity in relation to the return on investments and the possibility of booking the risk allowance to the profit and loss account.

8. Sensitivity analysis

If the return on investments exceeds the technical interest rate, the Bank may (other things being equal) book part or all of the risk allowance to the profit and loss account as shown in the table below.

Table 9: Sensitivity analysis of the relationship between return on investment and risk allowance

| Scenario (as % of provisions) | A | B | C | D |
|--|--------------|--------------|--------------|-------------|
| Return on investments | 3.0% | 4.5% | 6.0% | 7.5% |
| - Technical interest rate | 3.3% | 3.3% | 3.3% | 3.3% |
| - Cost and Risk result & return on health and accident | 0.2% | 0.2% | 0.2% | 0.2% |
| + Reinsurance result | 0.0% | 0.0% | 0.0% | 0.0% |
| Result before value adjustment | -0.5% | 1.0% | 2.5% | 4.0% |
| - Value adjustment of provisions | 0.0% | 0.0% | 0.0% | 0.0% |
| Realised result | -0.5% | 1.0% | 2.5% | 4.0% |
| Risk allowance may be booked to the P&L in whole or in part | No | Yes | Yes | Yes |
| - Tax on pension return (PAL) | 0.5% | 0.7% | 0.9% | 1.1% |
| - Bonus (diff between guaranteed benefit and interest on policyholders' savings) | 1.2% | 1.2% | 1.2% | 1.2% |
| Result after PAL and bonus | -2.2% | -0.9% | 0.4% | 1.7% |
| - Risk allowance of 0.5% of provisions* | | 0.5% | 0.5% | 0.50% |
| Reduction of bonus potential when full allowance is booked | | -1.4% | -0.1% | 1.2% |

* The portion of the risk allowance derived from the cost, risk and health and accident result is included in the deductions made higher up in the table and is therefore fully covered (if it is possible to book the risk allowance to the P&L).

The realised result can in principle be used to cover the risk allowance of the period and potential balance on the shadow account, since PAL and bonus are covered by the bonus potential. This opportunity should however be seen in conjunction with the development in the bonus potential. The assumption in the scenarios below are that the realised result covers PAL and bonus if possible.

A Since the return on investments is not large enough to cover the technical interest, the risk allowance cannot be booked. The bonus reserves are reduced by Dkr3.3bn (equivalent to 2.2% of the provisions of Dkr150bn) to cover obligations towards customers.

Bonus reserves stood at Dkr4.3bn on June 30, 2003. Danica's policy requires that the bonus reserves must be able to withstand a general fall in share prices of 25%.

B The return on investments is larger than the technical interest, and the realised result is positive. This means that the risk allowance may be booked in whole or in part. However, the realised result cannot cover expenses for the tax on pension returns and the mark-up from the technical interest rate to the rate on policyholders' savings. To cover these payments, an amount of Dkr1.4bn (equivalent to 0.9% of the provisions of Dkr150bn) will be deducted from the bonus reserves. For the risk allowance to be booked to the profit and loss account, additional use of the bonus reserves in a one-for-one ratio is required.

C The realised result covers all customer obligations and leaves 2.5% for additional profit allocation. This return also covers PAL, bonus and the risk allowance of the period with no major reduction in the collective bonus potential.

In both scenario B and C is possible to book the risk allowance from the period. In scenario B is booking of the risk allowance going to reduce the bonus potential with a further 0.5% of the provisions. It is also in both scenarios possible to book from the shadow account, this will however induce a (further) reduction of the bonus potential by a one to one ratio.

D In this scenario, the return covers both customer obligations and the full risk allowance. In addition, it is possible to book risk allowances totalling DKr 1.8bn (1.2% of the provisions) from earlier periods to the profit and loss account without using of the bonus potential.

9. The Danica group in the statutory accounts of Danske Bank

The Danica group is not consolidated into Danske Bank's accounts line by line. Danica is consolidated into the statutory accounts as follows:

- **In Danske Bank's balance sheet** under "holdings in subsidiary undertakings"
- **In Danske Bank's profit and loss account** under "income from associated and subsidiary undertakings" (total result excluding net funding, as described in table 1, 14)
- **In the solvency ratio**, Danica's solvency margin is deducted from the Bank's capital base before calculating the Bank's solvency ratio. Excess cover, which is the difference between Danica's shareholders' equity and the solvency margin, is included as a risk-weighted asset.

10. Danica's business profile

Products

The Danica Pension group offers insurance-based pension schemes, life insurance and health care products to employers and private individuals. These include both conventional policies based on the payment of interest on savings and unit-linked schemes in which the customers select the risk profile themselves. Danica's primary market is Denmark, which accounted for 94% of the Group's gross premiums in 2002. Some 5% of gross premiums came from its subsidiary in Sweden, and 1% came from the branch in Norway. Danica has been assigned an A+ rating in the category of "insurer financial strength" by Standard & Poor's.

Conventional life and pension premiums

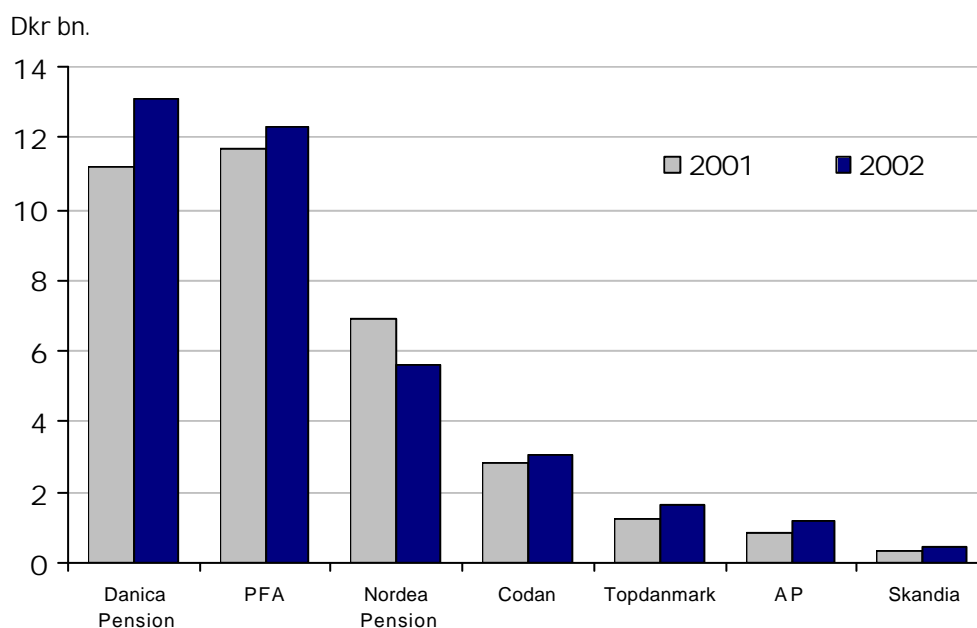
Danica's business volume has risen sharply in recent years, making it Denmark's leading pension provider on the basis of gross premiums.

Table 10: Gross premiums, including premiums from unit-linked policies

| Dkr m | H1 2003 | 2002 | 2001 | 2000 | 1999 |
|---|--------------|---------------|---------------|--------------|--------------|
| Regular premiums, corporate schemes | 3,391 | 5,596 | 4,724 | 3,983 | 3,448 |
| Regular premiums, private individuals | 940 | 2,862 | 2,970 | 2,384 | 2,560 |
| Single premiums | 2,521 | 3,739 | 2,754 | 1,006 | 1,234 |
| International | 245 | 824 | 690 | 895 | 192 |
| Total gross premiums life & pensions | 7,097 | 13,021 | 11,138 | 8,268 | 7,434 |
| Health care insurance | 74 | 87 | 70 | 63 | |
| Total gross premiums | 7,171 | 13,108 | 11,208 | 8,331 | 7,434 |

Danica's market share has risen in recent years, and the company now has a 30% share of the free market in the Danish market.

Figure 4: Gross premiums



Distribution

Danica uses several distribution channels. It has a large number of salespersons and advisers who address the corporate segment primarily. 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 private individuals take place through the Danske Bank's and BG Bank's extensive branch networks. Outside Denmark, the company works closely with Östgöta Enskilda Bank in Sweden and Fokus Bank in Norway.

Unit-linked policies

Danica's unit-linked insurance products – also known as Danica Link products – give customers the opportunity to influence 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.

Table 11: Gross premiums from Danish unit-linked policies - sales channels

| Dkr m | Danske Bank/BG Bank | Danica | H1 2003 total | 2002 total | 2001 total |
|--|---------------------|------------|---------------|--------------|------------|
| Regular premiums | 110 | 173 | 283 | 284 | 29 |
| Single premiums | 286 | 305 | 591 | 1,040 | 284 |
| Transferred from other companies in Danica | 30 | 60 | 90 | 526 | 221 |
| Total | 426 | 538 | 964 | 1,850 | 534 |

In 2002, the number of Danica Link customers rose from around 2,000 to 12,000. Growth was especially strong in the corporate segment, where the number of customers increased from around 1,000 to 8,000.

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 guarantee. Customers can choose from two payment guarantees. Payment Guarantee I guarantees customers benefits equal to at least 95% of their contributions, while Payment Guarantee II guarantees an average annual return of at least 1.25%.

In 2002, an increasing number of Danica Link customers chose policies without payment guarantees; at the end of the year, 51% of the contracts and 25% of insurance provisions did not carry guarantees.

Customers can also take out insurance cover against critical illness, disablement and death; these covers are requested mainly under corporate schemes.

The future

In its distribution, product offering and capital base, Danica is well-prepared to consolidate its position as the leading Danish life and pensions company. Danske Bank expects Danica to continue to contribute a satisfactory return to the Group.

11. Frequently asked questions

1. Why is the profit consolidation policy structured the way it is?

The Danish Financial Supervisory Authority required pension companies to change their profit consolidation policies. The change derived from a desire on the part of the authorities for a clearer separation between the companies' equity and their customers' savings.

2. What assets has Danica invested in?

At the end of June 2003, 83% of the assets were invested in bonds, 8% were invested in Danish and foreign equities, and 9% were invested in real property.

3. How much equity does Danica have, and how much capital do the authorities require?

At the end of 2002, Danica's equity stood at DKr11.9bn, and the minimum capital requirement/solvency margin is DKr6.6bn.

4. 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. Danica normally announce the rate of interest on policyholders' savings one year at a time. Danica reserve the right to make adjustment to this interest rate, should the economic situation on which the interest rate is based change significantly.

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

Contracts with customers are based on a technical interest rate. Since the investment return might exceed the technical interest rate, however, it is possible to add additional interest to the account during certain periods. The rate of interest on policyholders' savings is of course a competitive parameter. The other side of the issue is consideration for the company's reserves.

6. How does Danica fit into Danske Bank's accounts?

Danica's financial results are part of the results from subsidiary companies and are thus not consolidated in the Danske Bank Group's profit and loss account. Neither is Danica's balance sheet consolidated in the Group's balance sheet. This is in accordance with accounting regulations for the area.

Danica's core earnings are included in Danske Bank's core earnings, and if the risk allowance cannot be booked, it is deducted from earnings from investment portfolios.

Danica's solvency margin is deducted from the Danske Bank Group's capital base, and the difference between shareholders' equity and the solvency margin is included in risk-weighted assets.

7. What is the PAL tax?

The PAL tax is a 15% tax that life insurance companies, pension funds and others must pay on their investment returns.

8. Why does Danica buy financial instruments?

Danica's benefit guarantees for life insurance policyholders pose a risk if the general level of interest rates declines. This is because the calculation rate and thus the market value of life insurance obligations rise. Danica has therefore bought a portfolio of financial instruments that provide protection against a decline in interest rates.

9. Who owns Danica?

Danica is 100% owned by Danske Bank.

10. Does Danica sell non-life insurance?

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

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

11. Where can I find information about Danica Pension's financial accounts?

Danica publishes annual and half-year accounts. They are available at <http://www.danskebank.com/DanicaPensionInEnglish>.

12. Where can I find information about the Danske Bank Group?

Our Web site, www.danskebank.com, and the Investor Relations section in particular provide comprehensive information about the Group.

12. 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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