

# Topdanmark's Annual Report 2006

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13 March 2007 Announcement No. 04/2007

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The Board of Directors of Topdanmark has today adopted the Annual Report for 2006.

Key features:

- Post-tax profit for 2006 increased 45.9% to DKK 1,692m (pre-tax: DKK 2,223m).
- Post-tax profit per share increased 53.0% to DKK 88.3.
- The profit represented a 39.4% post-tax return on shareholders' equity (pre-tax: 51.8%).
- Premium income increased 4.7% in non-life insurance and 23.7% in life insurance.
- The expense ratio declined 0.2 of a percentage point to 14.6%.
- The combined ratio declined 4.9 percentage points (2.8 percentage points excluding the storm in 2005) to 86.0%.
- Topdanmark expects post-tax profit to be DKK 1,200 - 1,300m in 2007 and the combined ratio just over 88%.
- Topdanmark expects the share buy-back programme to be DKK 1,700m for 2007 including DKK 450m transferred from 2006 giving a total "yield" for the year of 10.1%.
- It is recommended that this Annual Report is read together with [www.topdanmark.com](http://www.topdanmark.com) which provides detailed and supplementary information.
- On [www.topdanmark.com](http://www.topdanmark.com) → [Presentations](#) a webcast is available in which Topdanmark's CEO, Poul Almlund, presents the financial highlights and comments on the forecast.

- Based on the Annual Report and the webcast, a conference call will be held today at 15:30 (CET) when Poul Almlund, CEO, and Christian Sagild, Group Managing Director, will be available for questions. The call will be conducted in English.

In order to access the conference call, please phone

UK dial in number: +44 (0) 20 7162 0025

US dial in number: +1 334 323 6201

5 - 10 minutes before the conference asking the operator to connect you to the Topdanmark conference call.

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# Topdanmark's Annual Report 2006

## Contents

### Management's review

- 1 2006 key features
- 3 Financial highlights
- 4 Focus on 2006 and prospects for 2007
  - 4 Another good year for Topdanmark
  - 4 Non-life insurance
  - 7 Life insurance
  - 9 Investment activities
- 11 Movements in shareholders' equity
- 12 Prospects
  - 14 Share buy-back
- 15 Value creation in Topdanmark
  - 15 Objectives, goals and strategy
  - 16 Topdanmark's value creation model
  - 16 Cash flow
  - 18 Discount rate
    - 18 Risk factors
  - 28 Capital structure
  - 29 Corporate Governance
  - 32 Salary structure
  - 33 Investor Relations
- 34 Annual General Meeting
- 34 Financial calendar
- 35 Stock exchange announcements and trading reports
- 36 Board of Directors and Board of Management
- 37 Five-year summary - Group

### Annual accounts

- 38 Profit and loss account
- 40 Assets
- 41 Shareholders' equity and liabilities
- 42 Cash flow statement
- 43 Capital
- 47 Notes to the accounts
  - 48 Segment information
  - 50 Other
  - 77 Accounting policies
- 87 Disclaimer

### Management's statement and auditors' reports

- 88 Management's statement
  - Auditors' reports
    - 89 Internal auditors
    - 90 Independent auditors

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# Topdanmark's Annual Report 2006

## Financial highlights

(DKKm)	2002	2003	2004	2005	2006	Q4 2005	Q4 2006
<b>Premiums earned:</b>							
Non-life insurance	6,465	7,116	7,894	8,413	8,805	2,144	2,205
Life insurance	1,660	2,024	2,285	2,549	3,154	742	859
	8,125	9,140	10,179	10,962	11,959	2,886	3,064
<b>Results:</b>							
Non-life insurance	117	742	866	1,309	2,047	413	573
Life insurance	83	149	156	107	118	23	48
Parent company etc.	55	221	53	(12)	58	5	72
Pre-tax profit	255	1,112	1,075	1,404	2,223	441	693
Tax	(71)	(111)	(299)	(244)	(531)	(91)	(168)
<b>Profit parent company</b>	184	1,001	776	1,160	1,692	350	525
Change in deferred tax on security funds	0	0	0	28	0	0	0
<b>Profit Group</b>	184	1,001	776	1,188	1,692	350	525
Shareholders' equity of parent company at 1 January	3,640	3,321	3,304	3,367	3,973	3,663	4,213
Profit	184	1,001	776	1,160	1,692	350	525
Share buy-back	(615)	(742)	(803)	(676)	(1,430)	(80)	(415)
Share-based payments	0	20	80	103	136	25	41
Other movements in shareholders' equity	112	12	10	19	(5)	15	2
<b>Shareholders' equity of parent company at 31 December</b>	3,321	3,612	3,367	3,973	4,366	3,973	4,366
Deferred tax on security funds	0	0	(417)	(389)	(389)	(389)	(389)
<b>Shareholders' equity of Group at 31 December</b>	3,321	3,612	2,950	3,584	3,977	3,584	3,977
Total assets, parent company	4,084	4,347	4,503	4,948	5,048	4,948	5,048
Total assets, Group	27,029	29,535	34,560	41,098	43,640	41,098	43,640
<b>Financial ratios (parent company)</b>							
Post-tax profit as a % of shareholders' equity	5.3	28.1	23.1	31.7	39.4	9.2	12.2
Post-tax profit per share (DKK)	6.8	40.2	36.7	59.1	90.9	18.3	29.1
Post-tax profit per share, diluted (DKK)	6.8	40.2	35.8	57.7	88.3	17.8	28.3
Net asset value per share (DKK)	127	154	166	207	244	207	244
Share buy-back per share (DKK)	22.8	29.8	37.1	33.6	74.6	4.1	22.4
Listed share price at 31 December (DKK)	203	318	435	547	934	547	934
Average number of shares ('000)	26,975	24,891	21,144	19,631	18,612	19,157	18,002
Average number of shares, diluted ('000)	26,975	24,891	21,681	20,116	19,171	19,673	18,522
Number of shares, at 31 December ('000)	26,140	23,460	20,297	19,189	17,896	19,189	17,896
<b>Non-life insurance (%)</b>							
Gross loss ratio	75.9	70.0	74.7	83.8	67.4	69.2	69.3
Net reinsurance ratio	2.7	5.0	2.1	(7.7)	4.0	3.0	2.3
Claims trend	78.6	75.0	76.8	76.1	71.4	72.2	71.6
Gross expense ratio	20.2	19.8	15.6	14.8	14.6	15.1	15.0
Combined ratio	98.8	94.8	92.4	90.9	86.0	87.3	86.6
Operating ratio	98.0	93.5	91.4	90.0	84.8	86.5	85.5

# Topdanmark's Annual Report 2006

## Another good year for Topdanmark

Topdanmark's post-tax result increased 45.9% from DKK 1,160m in 2005 to DKK 1,692m in 2006, reflecting the best result in the Company's history.

Post-tax profit per share increased 53.0% from DKK 57.7 to DKK 88.3. The profit of DKK 1,692m represented a 51.8% pre-tax return on average shareholders' equity and a 39.4% post-tax return.

Pre-tax profit increased DKK 819m or 58.3% to DKK 2,223m. When compared to 2005, this year's pre-tax profit reflected improvements in the technical non-life result (DKK 506m) and greater investment return (DKK 314m).

In the Q1 - Q3 2006 interim report the post-tax profit forecast for the full year was DKK 1,450 - 1,550m. However, the profit of DKK 1,692m was DKK 200m higher than forecasted due to greater than assumed investment income and a better than expected claims trend. The forecast assumed an annual 7% return on equity given the level on 17 November 2006 and a combined ratio of around 87%. However, the return on equity was somewhat higher than the assumed rate of 7% and the combined ratio declined to 86.0%.

### **Q4 better than expected**

The Q4 2006 result increased 49.8% to DKK 525m from DKK 350m in Q4 2005. Profit per share increased 59.0% to DKK 28.3.

The Q4 profit was about DKK 200m higher than expected at the time of the publishing of the Q1 - Q3 2006 interim report due to greater than assumed investment return and the assumed DKK 60m storm claims not arising, which also helped the combined ratio to decline from the assumed 90.6% to 86.6%.

## Non-life insurance

### **Non-life insurance market**

Key features of the Danish non-life insurance market in 2006:

- Generally favourable claims trends
- Unsatisfactory claims trend in illness / accident policies sold together with life insurance
- Increased competition
- Introduction of micro-rating

- Increased customer mobility
- Estimated 3.0 - 3.5% growth in premiums earned
- Declining combined ratios

The claims trend was favourable in most areas in 2006. Denmark did not suffer from any significant storm claims and the number of large-scale claims was lower than in a normal year. However, the level of other weather-related claims such as those arising from cloudbursts and lightning was considerably higher than the previous year.

Illness / accident policies is a typical entry product into the corporate pension market. In recent years the disability insurance market in particular has been affected by strong competition which has contributed to increasing the loss ratios. Furthermore a general need to strengthen provisions resulted in an unsatisfactory claims trend level in this area for most companies in 2006.

Competition was intensified in 2006 not only on price but also on staff, distribution and customer service. While competition has been particularly severe in the industrial and large-scale agricultural markets for a number of years, price competition was further intensified in the personal market this year. After a number of years with a generally favourable claims trend several companies introduced lower prices for, for example, motor insurance in 2006.

A number of companies introduced micro-rating in 2006 - a more exact pricing based on further segmentation criteria to ensure that the price to a larger extent reflects the underlying insurance risk. Micro-rating was first introduced for contents insurance policies but a number of companies have also increased their segmentation criteria for motor insurance by, for example, including the number of kilometres driven as a factor in their pricing. As a result of the introduction of micro-rating, customers with a low risk of damage will pay lower premiums while those with a high risk of damage will see an increase in their insurance premiums.

A new act on shorter cancellation notice periods took effect on 1 September 2005. As a result personal insurance customers can change to another insurance company with a month's notice while previously customers could only change to another insurance

## Topdanmark's Annual Report 2006

company at expiry or in the event of a notification of a claim. Due to the increased competition, the introduction of micro-rating with more differentiated prices and the shorter cancellation notice period customer mobility increased in 2006.

To allow for claims inflation and wage increases, prices in the Danish insurance market are based on automatic indexation. Personal, commercial and agricultural insurance prices increased 3.1% due to indexation. For workers' compensation insurance policies the social index was 12.2%. Due to the gradually increasing competition throughout the year the general growth in premiums for the entire Danish insurance market is estimated to have been around 3.0 - 3.5% in 2006.

On the basis of the first three quarters of 2006 the combined ratio of the Danish market is estimated to have declined from around 94% to a level of around 90% due to the generally favourable claims trend.

### **56.4% improvement in results**

The pre-tax result from non-life insurance improved DKK 738m or 56.4% to DKK 2,047m in 2006, as shown in the following table:

#### **Improvement in result - Non-life insurance**

(DKKm)

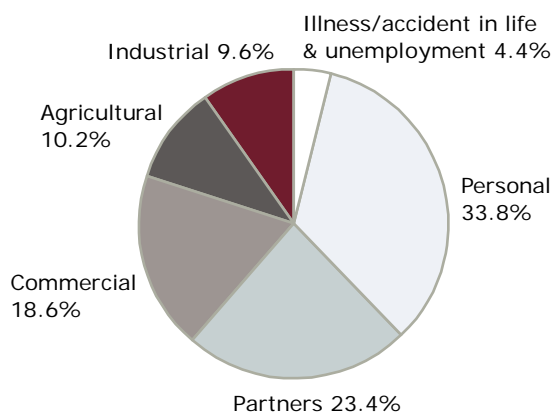
Combined ratio	465
Technical interest	41
Investment return	209
Other items	23
<b>Total improvement in result</b>	<b>738</b>

Premiums earned increased 4.7% to DKK 8,805m of which about 1.5 percentage points was due to organic growth whilst the remainder was due to indexation indicating that in 2006 Topdanmark once again gained market share.

It is Topdanmark's wish to grow in areas with a low combined ratio and low claims volatility (many small claims) i.e. primarily the personal customer market and small and medium-sized businesses. It is therefore gratifying that premium growth in 2006 was mainly in these two areas (6.5% and 8.2% respectively). As Topdanmark does not want to compromise on profitability neither on product nor on customer level, it has pursued a restrictive acceptance

policy in, for example, the areas of large industrial businesses and industrial farms. As a result premiums earned declined 4.6% and 0.6% respectively in these two areas.

### **Apportionment of premiums earned in non-life**



Due to the increase in competition in the Danish market, premium growth gradually declined throughout 2006 with a 2.9% decline in Q4 2006 from Q4 2005. To meet this trend Topdanmark decided in Q4 to leverage its position as the most efficient large Danish insurance company to offer its customers even more competitive prices.

The prices of motor and workers' compensation insurance, the two most significant products in the markets of personal customers and businesses respectively, were reduced by an average of 10% for motor and 5% for workers' compensation with the intention of improving existing customer loyalty and satisfaction while at the same time increasing competitiveness for potential new customers. Overall these two decreases and to a smaller extent previous decreases in contents insurance prices will reduce Topdanmark's premium income by about DKK 300m per annum when the effect is fully reflected.

The loss ratio declined from 83.8% to 67.4%. In 2005 the storm on 8 January generated gross claims of DKK 997m corresponding to 11.9 percentage points. Additionally there were other weather-related claims – such as cloudburst and lightning claims - of DKK 74m. The loss ratio was only to a lesser extent affected by storm claims in 2006 while other weather-

## Topdanmark's Annual Report 2006

related claims totalled DKK 104m of which cloudburst claims accounted for DKK 68m.

In general 2006 benefited from a favourable claims trend in almost every line except for illness / accident insurance, which, among other things, is sold as part of corporate pension schemes. These policies recorded a loss of DKK 78m corresponding to a combined ratio of 122.6%. Measures have been taken which are expected to improve this 2007 combined ratio to around 95%.

Due to the limited number of large-scale claims and the absence of storms Topdanmark's reimbursement from the reinsurers was smaller than in 2005 when the storm claims generated reimbursement corresponding to 7.7% of premiums earned whilst in 2006 reinsurance expenses corresponded to 4.0% of premiums earned.

The claims trend, representing claims paid to customers and the reinsurance result as a percentage of premiums earned, declined from 76.1% to 71.4%.

The expense ratio was reduced from 14.8% to 14.6%.

Overall expenses on claims, reinsurance, sales and administration as a percentage of premiums earned (combined ratio) declined from 90.9% in 2005 to 86.0% in 2006.

The combined ratio benefited 0.4 percentage points from DKK 34m of overall gains on the claims provisions. On the one hand provisions were strengthened in workers' compensation due to both the Court decision on disability rehabilitation and new legislation following the welfare reform which raised the pensionable age from 65 to 67 years thus requiring strengthened provisions. On the other hand there were gains on the claims provisions in motor liability, building and contents insurance.

### Financial highlights - Non-life insurance

(DKKm)	Q4 2005	Q4 2006	2005	2006
Premiums earned	2,144	2,205	8,413	8,805
Technical interest	20	30	85	126
Claims incurred	(1,484)	(1,528)	(7,052)	(5,937)
Net reinsurance	(65)	(52)	656	(352)
Expenses	(324)	(330)	(1,249)	(1,283)
Technical result	291	325	853	1,359
Other items	(11)	4	(11)	12
Investment return	133	244	467	676
<b>Profit on non-life insurance</b>	<b>413</b>	<b>573</b>	<b>1,309</b>	<b>2,047</b>
Gross loss ratio (%)	69.2	69.3	83.8	67.4
Net reinsurance ratio (%)	3.0	2.3	(7.7)	4.0
Claims trend (%)	72.2	71.6	76.1	71.4
Gross expense ratio (%)	15.1	15.0	14.8	14.6
Combined ratio (%)	87.3	86.6	90.9	86.0
Operating ratio (%)	86.5	85.5	90.0	84.8

# Topdanmark's Annual Report 2006

## Life insurance

### *Life insurance and pension fund market*

Key features of the Danish life insurance and pension fund market in 2006:

- Estimated premium growth of 8 – 10%
- Increased customer mobility
- Focus more on market interest rate products instead of average rate products
- Increase in long-term interest rates caused capital losses and the release of provisions for guaranteed benefits

As most major businesses have already established corporate pension schemes, competition concentrated on moving existing customers. In 2006 the estimated growth in pension savings in Denmark was 8 - 10%.

The cost of changing to another pension fund company has been significantly reduced and at the same time movement in the labour market has increased. Therefore customers more readily change to another pension fund and move their savings to the new company resulting in high single premiums in the pension fund companies.

As a result of recent years' relatively high returns in the financial markets combined with low interest rates, customers have increasingly wished to invest in products based on market returns. As market return products like unit-linked products etc. accounted for an estimated 30 - 40% of new sales in 2006, the focus has to some extent changed away from the average interest rate products in spite of their

advantage of granting customers relatively stable returns in both good and not so good years.

Most Danish life insurance and pension fund companies have purchased instruments to hedge primarily their 4.5% guaranteed benefits against a decline in interest rates. As interest rates increased in 2006, all other things being equal, the companies incurred substantial losses on the value of their interest rate hedging instruments. However, these losses were significantly offset by the release of provisions in those companies with the 4.5% guaranteed benefits.

### *High return and significant growth in life insurance*

Customers are split primarily into two companies, Liv I and Liv V. Policies written since 1 July 1994 with guaranteed pension benefits of 2.5% and 1.5% have been placed in Liv I which is also the company for new customers. Schemes written before 1 July 1994 with guaranteed pension benefits of 4.5% have been placed in Liv V with the interest rate risk being hedged by interest rate options.

Profit in life insurance comprises the sum of the profits generated in Liv I and Liv V net of any financing costs in Topdanmark Liv Holding A/S. These profits were calculated in accordance with the reported policy on the calculation of profit allocation for the life insurance companies, see [www.topdanmark.com](http://www.topdanmark.com) → [Business base](#) → [Life insurance](#) → [Policy for the calculation of profit](#).

## Result of life insurance

(DKK m)	Q4 2005	Q4 2006	2005	2006
Investment return	13	20	61	65
Risk allowance	19	21	75	83
Profit in Topdanmark Link	(2)	6	7	10
Financing charges	(1)	(2)	(6)	(8)
Calculation of profit on life insurance before calculated compensation etc.	29	45	137	150
Calculated compensation etc.	(6)	3	(30)	(32)
<b>Profit on life insurance</b>	<b>23</b>	<b>48</b>	<b>107</b>	<b>118</b>

## Topdanmark's Annual Report 2006

Profit on life insurance was DKK 118m in 2006:

- The investment return on shareholders' equity increased DKK 4m to a total of DKK 65m.
- The 2006 profit allowed a full risk premium of DKK 83m to be included in income.
- The result of Topdanmark Link was a profit of DKK 10m (2005: DKK 7m).
- Financing costs of DKK 8m arose from net borrowings in Topdanmark Liv Holding.
- "Calculated compensation etc". includes both tax compensation of DKK 25m paid to the policyholders and interest rate compensation of DKK 7m paid to companies outside of the life insurance group.

The investment return before pension return tax on Liv I's funds owned by customers was 10.5% in 2006.

In Liv V the 4.3% investment return before pension return tax on funds owned by customers was in part attributable to the increase in interest rates causing losses on, for example, the hedging against the risk of declining interest rates on guaranteed benefits. However, at the same time the increase in interest rates released provisions for guaranteed benefits, which were not included in the investment return. As the release was greater than the hedging loss, a net benefit arose.

To meet the further liabilities arising from the increase in life expectancy, provisions were strengthened in 2006 by transferring DKK 15m from the collective potential bonus reserve in Liv I and DKK 360m in Liv V.

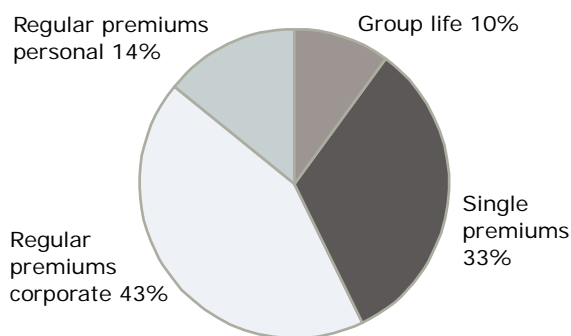
At the end of 2006 the collective potential bonus reserve in Liv I was DKK 1,318m representing a bonus ratio of 12.2% (2005: 11.2%).

At the end of 2006 the collective potential bonus reserve in Liv V was DKK 832m representing a bonus ratio of 10.4% (2005: 10.7%).

### Premium growth exceeded market

Gross premiums increased 23.7% to DKK 3,154m, significantly exceeding the expected market growth. Growth was evident in all segments reflecting the improved competitive position of Topdanmark's life insurance business.

### Apportionment of premiums in life



The life insurance business focuses on growth in regular premiums which are paid year on year, typically corporate pension schemes where a company regularly pays the premiums for its employees. In its Q1 - Q3 2006 interim report Topdanmark expected growth in regular premiums to be between 10% and 15% in 2006. Actual results showed an increase of 13.8% to DKK 2,122m (2005: 1,865m) - a rate significantly higher than the market growth.

In spite of growth in single premiums being high in 2005 Topdanmark's life insurance business experienced growth in these premiums in 2006 as well with an increase of 51.0% to DKK 1,032m from DKK 683m in 2005.

In unit-linked pension savings premiums increased 151.9% from DKK 103m in 2005 to DKK 259m in 2006. Regular premiums increased DKK 56m and single premiums DKK 100m corresponding to a growth of 109.4% and 193.6% respectively.

There was also growth in investment contracts where payments are not included in premium income but taken directly to the balance sheet. Investment contracts with regular payments increased 139.0% from DKK 17m in 2005 to DKK 41m in 2006 while single payments increased 73.0% from DKK 25m in 2005 to DKK 43m in 2006.



# Topdanmark's Annual Report 2006

## Sources of gross premiums

(DKKm)	Q4 2005	Q4 2006	2005	2006
Individual schemes	207	199	454	442
Corporate schemes	301	337	1,077	1,247
Group life	28	39	283	326
Unit-linked schemes	21	37	51	107
<b>Regular premiums</b>	<b>557</b>	<b>612</b>	<b>1,865</b>	<b>2,122</b>
Individual schemes	33	36	155	152
Corporate schemes	122	168	476	728
Unit-linked schemes	30	43	52	152
<b>Single premiums</b>	<b>185</b>	<b>247</b>	<b>683</b>	<b>1,032</b>
Indirect business	0	0	1	0
<b>Gross premiums</b>	<b>742</b>	<b>859</b>	<b>2,549</b>	<b>3,154</b>

### Higher rates of interest on policyholders' savings in 2007

In 2006 the rates of interest on policyholders' savings were 5% in Liv I and 4.5% in Liv V.

Given the favourable return on investments in 2006 and the relatively comfortable bonus ratio Liv I decided to raise the rate of interest on policyholders' savings for 2007 to 5.5% for all of its customers. Being higher than the 4.5% rate offered by most other large life insurance and pension fund companies for 2007 it will help to improve competitiveness in 2007.

In Liv V the rate for 2007 has been maintained at an unchanged level of 4.5%.

The rates of interest on policyholders' savings for 2007 may be subject to change later in the year if the development in the financial markets is different from expectations.

### Investment activities *Topdanmark Group excluding life insurance group*

Profit on investment activities in the Topdanmark Group excluding the Topdanmark Livsforsikring Group (life insurance group) was DKK 1,246m in 2006

including revaluation of provisions and income from associated companies but before the transfer to the technical result (2005: DKK 811m).

The return was higher than expected in 2006 due to both favourable market conditions and a substantial increase in the performance of several significant classes of assets. Accordingly Topdanmark benefited from the favourable equity and credit markets in 2006 while it prevented the adverse impact from the interest rate and foreign exchange markets by taking short positions.

The overall return on investment assets was 7.7% including revaluation of provisions and expenses. The return on the key classes of assets is disclosed in the table below:

Danish equities	30.7%
Foreign equities	28.9%
Bonds etc.	2.8%
Bonds including revaluation of provisions for claims and benefits	5.2%

# Topdanmark's Annual Report 2006

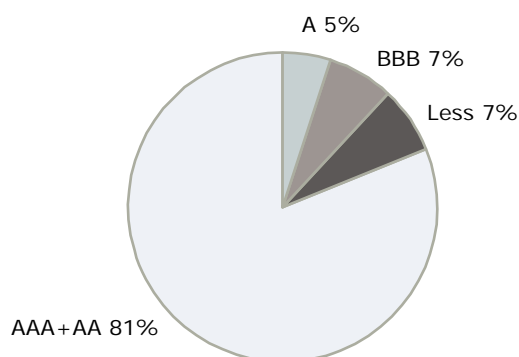
## Investment assets at 31 December 2006

(DKKm)	Group excl. life insurance	Life insurance
Interest bearing investment assets	12,327	15,980
Equities	1,312	4,666
Index-linked bonds	0	1,409
Investment properties	289	2,337
Associated companies	36	452
Other	0	688
<b>Total investment assets</b>	<b>13,964</b>	<b>25,532</b>

The market value of interest bearing investment assets owned by the Group excluding life insurance was DKK 12,327m at 31 December 2006, equivalent to 88.3% of total investment assets. The Group's investments have no significant concentration of credit exposure except in Danish mortgage bonds which are considered to be particularly safe assets according to the Danish Financial Business Act.

### Group excl. life insurance group

Bond portfolio analysed by rating



Calculated as a change in market values in the event of a 1 percentage point change in interest rates, the limit of the interest rate exposure has been fixed at DKK 100m after taxation and including the interest rate exposure of discounted provisions. At 31 December 2006 the actual interest rate exposure was DKK 87m.

Tranched credit products with a rating lower than AA or with no rating (a total of DKK 635m) are included in the bond portfolio but are also calculated by the value-at-risk method. The limit of losses, which with a 99% probability will not be exceeded, has been fixed at an

annual DKK 150m after taxation. At the end of the year this risk was DKK 92m after taxation.

The limit of foreign exchange exposure has been fixed at an annual DKK 60m after taxation, calculated by the value-at-risk method as the size of the loss which, with a 97.5% probability, will not be exceeded. At the end of 2006 this annual risk was DKK 1.2m after taxation.

At 31 December 2006 associated companies accounted for DKK 36m of the total equity investment of DKK 1,348m. The equity exposure was DKK 1,474m excluding associated companies but including the impact of derivatives. Just under 40% of this was in listed Danish equities.

### Topdanmark Livsforsikring Group

Profit on investment business in the Topdanmark Livsforsikring Group was DKK 1,421m in 2006 (2005: DKK 2,214m).

The return on Danish and foreign equities was positive, affected by the general increase in equity prices. The return on bonds was highly satisfactory particularly given the unfavourable interest rate market conditions.

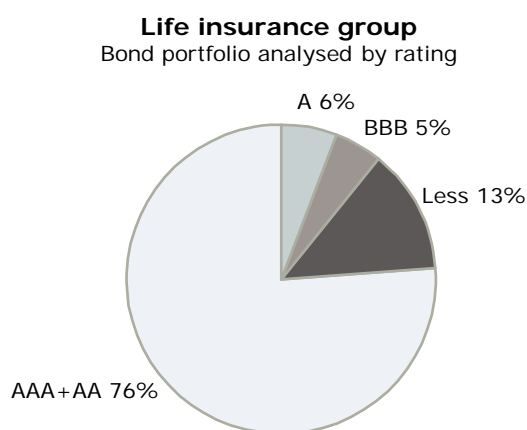
From Q4 2004 Topdanmark separated its investment policy for life insurance provisions (funds owned by life insurance customers) from those funds owned by shareholders (the shareholders' equity of the life insurance group).

Specifically, the entire return on equities, equity-related investments and instruments earmarked to hedge the interest rate risk on guaranteed benefits, has been allocated to the benefit of the customers

## Topdanmark's Annual Report 2006

before allocating the remaining return proportionally between the customers, provisions for illness / accident insurance and shareholders, see [www.topdanmark.com](http://www.topdanmark.com) → [Shares](#) → [Normalised returns](#) → [Life insurance](#).

At 31 December 2006 the market value of the life insurance group's investment assets was DKK 25,532m of which DKK 7,934m was in Danish fixed-rate bonds, DKK 5,583m in foreign bonds and DKK 1,409m in index-linked bonds. The life insurance group's property investments had a value of DKK 2,973m including owner-occupied properties (DKK 636m), most of which have been vested in Topdanmark Ejendom.



The investment in shares totalled DKK 4,666m, comprising DKK 2,004m in Danish listed equities, DKK 30m in unlisted Danish equities, DKK 2,243m in foreign listed equities and DKK 389m in unlisted foreign equities. The exposure in foreign equities was adjusted by means of derivatives and consequently the exposure in foreign equities including derivatives was DKK 3,538m.

As stated above, the return on the equity exposure is solely payable to life customers. Life customers' equity exposure in Liv I reflects the equity proportion of 31% of the portfolio, while the life customers' equity exposure in Liv V reflects 14% of the portfolio.

Liv V has invested in interest rate options to hedge the guaranteed benefits. The value of interest options solely payable to life customers is highly sensitive to movements in interest rates as, other things being equal, if there is a 1 percentage point parallel shift

downwards in the interest rate curve their value would increase about DKK 648m after pension return tax. If the curve makes a 1 percentage point parallel shift upwards, the value of the interest options will decline about DKK 396m after pension return tax. If interest rates decline 1 percentage point, the liability on the guaranteed benefits increases about DKK 697m and drops correspondingly about DKK 451m in the event of a 1 percentage point increase in interest rates.

The return on customers' savings before pension return tax was 10.5% in Liv I and 4.3% in Liv V while the return on funds owned by shareholders - before the allowance for risk - was 5.4% in Liv I and 6.8% in Liv V.

### **Topdanmark Kapitalforvaltning (Asset Management)**

Topdanmark Kapitalforvaltning manages the Group's financial assets and liabilities. The result of the company is dependent on the investment performance. Due to the good return in 2006 the pre-tax profit increased from DKK 31m in 2005 to DKK 100m in 2006.

### **Financing**

The goal of Topdanmark's capital structure is to ensure that shareholders' equity is exactly sufficient to support its current operations. Equity in excess of this amount is distributed to shareholders by way of regular share buy-backs throughout the year. The share buy-back is financed with temporary loans while at the same time the corresponding earnings are accumulated in the subsidiaries. Following the annual payment of dividends from subsidiaries the amount of loan capital outstanding is returned to the optimum long-term level.

For details on the liquidity base, see ["Liquidity risk"](#).

### **Movements in shareholders' equity**

At 31 December shareholders' equity of the parent company increased DKK 393m to DKK 4,366m mostly representing the net of DKK 1,692m profit for the year less the net share buy-back of DKK 1,396m.

## Prospects

### ***Expected trend in non-life insurance market***

It is expected that in 2007 the non-life insurance market in general will be characterised by:

- Continued strong competition
- Increased use of micro-rating
- New solvency rules
- Improved claims trend in disability insurance
- Premium growth of 2 - 3%
- Increasing combined ratios

The five largest Danish non-life insurance companies are all listed on the stock exchange or owned by a listed group. Together they represent about 70% of the Danish market. Competition gradually intensified during 2006 and it is expected that the increased competition on price, staff, distribution and customer service will continue in 2007.

Several companies are expected to increase the use of micro-rating to achieve a more finely meshed price structure which more precisely reflects the underlying insurance risks. As a result some groups of customers will see an increase in their insurance prices while others will see a decline. Customer mobility will continue to be relatively high due to the severe competition combined with an increased use of micro-rating.

The new EU solvency rules - Solvency II - are expected to take effect in 2011 and a proposal for a framework directive is expected to be available in the summer of 2007. The most recent test calculation QIS 2 in the summer of 2006 showed significant diversity among the companies' ability to meet their solvency requirements. QIS 2 indicated that a number of small companies in particular need to increase their capital cover. It is expected that Solvency II will have the effect of regulating the behaviour of those companies which do not yet meet the future solvency requirements.

Several companies have introduced premium increases for a number of illness / accident insurance products, including disability, which is expected to help improve their claims trends.

Each year premiums and insurance cover are increased in the personal, agricultural and industrial

markets on the basis of an index allowing for claims inflation and wage increases. This index is expected to be 2.9% in 2007. In the workers' compensation market price adjustments are based on the social index which is 8.5% in 2007. Due to competition in personal, agricultural and primarily industrial lines, premium growth is expected to be somewhat lower than the indexation increase, resulting in overall premium growth being estimated at only 2 - 3% in 2007.

The trend in the combined ratios is dependent on a number of factors including storm and large-scale claims. In 2006 the claims trends benefited from there being no major storms and only relatively few large-scale claims. It should not be assumed that this will continue into 2007. Furthermore, intensified price competition will also put pressure on the claims trends. Most of the expenses included in the expense ratio are payroll costs which are expected to increase by a total of 4 - 4.5%. Given an estimated premium growth of only 2 - 3% the insurance companies' expense ratios will be under pressure. Overall therefore it is expected that the 2007 combined ratio in the Danish market will increase from the 2006 level of around 90%.

### ***Expected trend in life insurance and pension fund market***

It is expected that in 2007 the life insurance and pension fund market in general will be characterised by:

- Continued strong competition
- Continued significant need for pension saving
- Increase in sales of market interest rate products
- EU Court decision on tax exemptions

It is expected that competition will continue to be fierce in 2007, focussing on moving existing schemes.

The increase in life expectancy and the realisation of the need to establish personal pension saving schemes and take out private schemes to ensure future welfare have increased the interest for pension saving. Premium growth is expected to continue at 8 - 10% in 2007.

Recent years' relatively high returns in the financial markets have increased the interest for market

## Topdanmark's Annual Report 2006

interest rate products. As these products are also less capital intensive for the life insurance and pension fund companies, it is expected that 30 - 40% of new business will be written in these products in 2007 while most of the overall pension funds will continue to be invested in the average interest rate environment.

On 30 January 2007 the Court issued its decision in an action brought against Denmark by the EU over tax exemptions for pension premiums paid to foreign companies. The Court ruled against Denmark. It is expected that in order to avoid the preferential treatment of foreign companies which might otherwise be the result of the EU Court Decision, the Danish government will change the law to ensure that the tax exemptions for pension premiums and current taxation of the returns on the savings will continue.

### **Topdanmark's prospects for 2007**

#### **Non-life insurance**

It is expected that the investment in improved competitiveness will have an adverse 2.8 percentage point effect on premium growth in 2007. Therefore in the Q1 - Q3 2006 interim report it was announced that the growth in premiums would decline to about 2% in 2007.

Since then competition in industrial lines, particularly within workers' compensation, has been stronger than assumed and consequently the loss of customers was also higher than assumed. Overall premium growth is expected to be around 1% in 2007. Topdanmark continues to believe that 2007 will be a transitional year and expects premium growth of around 5% in 2008.

It is expected that the claims trend in 2007 will be affected by the following factors:

- Price decreases in motor, workers' compensation and contents insurance will reduce Topdanmark's premium income by an amount corresponding to a 2.4 percentage point negative effect on the combined ratio.
- The claims trend was exceptionally favourable in almost all areas in 2006 which is not expected to continue in 2007 where a more normal claims trend is assumed corresponding to a negative effect of around 1.6 percentage points.

- The combined ratio benefited from DKK 34m gains on the claims provisions in 2006. It is assumed that there will be neither gains on nor strengthening of the claims provisions in 2007 which will have an 0.4 percentage point adverse effect on the combined ratio.
- The combined ratio in workers' compensation insurance was 103.8% in 2006. It is assumed to be around 95% in this area in 2007 corresponding to a 1.0 percentage point improvement in Topdanmark's overall combined ratio.
- In illness / accident insurance in the life insurance business the combined ratio was 122.6% in 2006 which is expected to decline to around 95% in 2007 corresponding to a 1.2 percentage point effect on Topdanmark's overall combined ratio.

Overall, Topdanmark expects a claims trend of just under 74% in 2007.

The expense ratio declined from 14.8% in 2005 to 14.6% in 2006 and is expected to remain flat in 2007 in spite of modest premium growth of around 1%.

The combined ratio is expected to be just over 88%.

The return on investments is expected to be significantly lower in 2007 as similar gains on equities are not expected.

Accordingly, the pre-tax result of non-life insurance is expected to be a profit of around DKK 1,540 - 1,620m.

#### **Life insurance**

The 23.7% growth in premiums in 2006 (13.8% in regular premiums and 51.0% in single premiums) was significantly higher than the market growth of 8 - 10%.

It is assumed that the growth in regular premiums will be in line with the expected market growth of 8 - 10% in 2007. Given the very strong growth in premiums in 2006 no growth is assumed in single premiums in 2007.

Pre-tax profit on life insurance is expected to be DKK 120 - 140m.

# Topdanmark's Annual Report 2006

## Parent company

The parent company's average net financing requirements will be DKK 600 - 700m in 2007. Its expenses are expected to remain practically unchanged. The overall result in the parent company including subsidiaries outside of the insurance group is expected to be a loss of DKK 10 - 30m.

## Taxation

Given a corporation tax rate of 28% the tax charge is expected to be DKK 430 - 450m. If the rate is changed from 28% to 22%, the expected post-tax result will improve about DKK 95m.

## Profit

Overall Topdanmark expects a post-tax profit of DKK 1,200 - 1,300m in 2007. Given the level of equity prices on 9 March 2007 this forecast is based on assumptions including a return on interest-bearing investments of 4.99% p.a. (risk-free forward interest rate plus an allowance for risk of 0.75 percentage points) and a 7.0% p.a. return on equity investments in the rest of the year. Furthermore, the assumptions include a normalised level of annual storm expenses of DKK 120m on own account for the remainder of 2007.

## Profit forecast for 2007

(DKKm)	2005	2006	2007
Non-life insurance	1,309	2,047	1,540 - 1,620
Life insurance	107	118	120 - 140
Parent company etc.	(12)	58	(30) - (10)
Pre-tax profit	1,404	2,223	1,630 - 1,750
Taxation	(244)	(531)	(430) - (450)
Profit for the year (parent company)	1,160	1,692	1,200 - 1,300

## Share buy-back

In the 2005 Annual Report it was announced that the share buy-back programme for 2006 was expected to be around DKK 1,200m. Since then the programme for 2006 was upgraded by an amount corresponding to the upgrading of the 2006 profit forecast.

### Expected and actual share buy-back for 2006

(DKKm)

Announcement	Expected
Annual Report 2005	1,200
Q1 2006 interim report	1,350
H1 2006 interim report	1,350
Announcement No. 15/2006	1,550
Q1-3 2006 interim report	1,650
	<b>Actual</b>
Annual Report 2006	1,396

Consequently the actual share buy-back in 2006 was about DKK 250m lower than the share buy-back potential announced in the Q1 - Q3 2006 interim report. Additionally the 2006 profit was about DKK 200m higher than assumed in the Q1 - Q3 2006 interim report, which increases the 2006 share buy-

back programme correspondingly to DKK 1,850m. Therefore a total of about DKK 450m of the 2006 share buy-back has been carried over to the 2007 buy-back.

Assuming a post-tax result of DKK 1,200 - 1,300m for 2007, Topdanmark expects a share buy-back programme of around DKK 1,700m, including buying shares to cover any granting of warrants and including the brought forward balance of about DKK 450m from 2006.

Including the DKK 450m, the buy-back for 2007 represents a "yield" of 10.1% calculated on the basis of the number of outstanding shares and the share price at the beginning of 2007.

To date in 2007 Topdanmark has already acquired own shares of DKK 346m for subsequent cancellation this year leaving a buy-back of about DKK 1,350 for the remainder of 2007.

## Topdanmark's Annual Report 2006

Since 1998 when Topdanmark started buying back own shares, it has made decisions to cancel DKK 5.5bn of shares representing 54.3% of the outstanding shares in 1998, with an average price of DKK 255 per cancelled share.

Topdanmark does not buy back own shares in those periods where the company would be considered an insider and during the three weeks immediately preceding interim and annual reports. Furthermore it does not buy back own shares during the period of eight banking days after the announcement of a quarterly report as this is the period in which the executives may exercise their share options or warrants.

Below is a list of the periods when the share buy-back is and is not allowable.

### Share buy-back allowable

26 March 2007	-	30 April 2007
6 June 2007	-	6 August 2007
10 September 2007	-	5 November 2007
10 December 2007	-	18 February 2008

### Share buy-back not allowable

20 February 2007	-	23 March 2007
1 May 2007	-	4 June 2007
7 August 2007	-	7 September 2007
6 November 2007	-	7 December 2007

## Value creation in Topdanmark

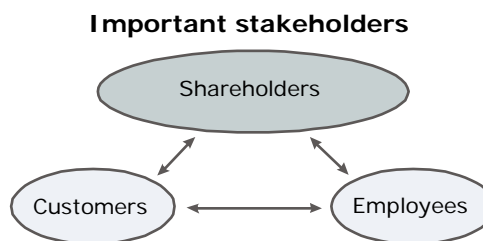
In this section of the Annual Report we will focus on how Topdanmark wishes to generate long-term added value.

This section includes:

- Objectives, goals and strategies
- Topdanmark's value creation model

Topdanmark's starting point is that satisfied customers and qualified employees are all key to ensuring that satisfied shareholders will achieve a long-term, competitive stable return. Consequently those satisfied customers who are willing to pay their insurance premiums year on year (those who form the core of Topdanmark's business) require competent and motivated employees to serve them.

Thus it can be shown that Topdanmark has three main stakeholders: shareholders, customers and employees forming an unbreakable and interdependent trinity.



### Objectives, goals and strategy

Satisfied customers are at the heart of Topdanmark. To increase the focus on customers it was decided to integrate customer service into Topdanmark's goals and strategy in 2006 by adding:

Goals:

- To attract and keep profitable customers due to a high level of customer service

Strategy:

- To develop and improve the level of customer service offered

Therefore Topdanmark's objectives, goals and strategy are now as follows:

### It is Topdanmark's objectives:

- To carry out nation-wide, Danish non-life, life and pension fund business
- To be attractive to customers by being an independent and pre-eminent insurance group
- To ensure that our shareholders achieve a long-term, competitive, stable return

### It is Topdanmark's goals:

- To improve our position in the Danish insurance market
- To ensure that our expense ratio is lower than the general market level
- To ensure that our growth in non-life and life insurance as well as pension fund business is higher than that of the market
- To attract and keep profitable customers due to a high level of customer service

# Topdanmark's Annual Report 2006

- To ensure that Topdanmark's shares reflect insurance risk rather than investment risk
- To ensure that Topdanmark's shares are both attractive and liquid
- To be able to attract and keep qualified employees

## It is Topdanmark's strategy:

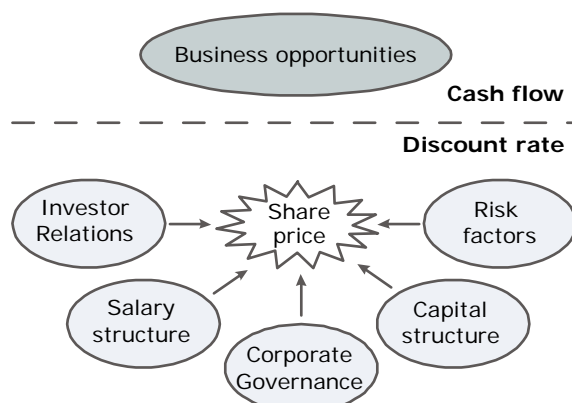
- To achieve primarily organic growth, supplemented by close co-operation with alliance partners and opportune acquisitions
- To develop and improve the level of customer service offered
- To optimise our shareholders' return / risk profile by ensuring that shareholders' equity continues to reflect both the volume of business and a corresponding investment policy
- To be a dynamic organisation encouraging personal and career development
- To align the goals of Management and employees with those of our shareholders

## Operational goals:

- Profit margin in non-life insurance:
  - 12% in the next two or three years corresponding to a combined ratio of just over 89% given the current level of interest rates
  - 10% in the longer term corresponding to a combined ratio of just over 91% given the current level of interest rates
- 5% annual growth in non-life gross premiums
- 10% annual growth in regular premiums in life insurance
- Continuously declining expense ratios in both non-life and life insurance

## Topdanmark's value creation model

The control of Topdanmark's value creating activities is based on the model below:



Topdanmark's value creating activities are intended to increase cash flow while at the same time reduce the net present value discount rate used by the equity market, see "[Risk factors](#)".

## Cash flow

Topdanmark's value drivers, forming part of its value chain, are important tools that are used in both the short and long-term management of the business. The value drivers expand upon those factors that are vital to creating value. Topdanmark's executives and specialists use them to prioritise, manage and communicate the initiatives undertaken.



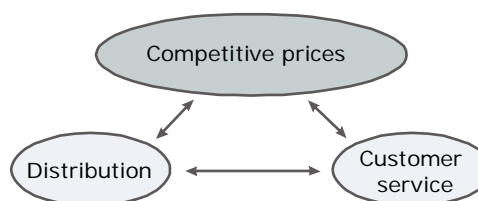
## Initiatives

Topdanmark regularly instigates specific initiatives intended to impact the value drivers which, in creating value, will benefit Topdanmark's share price. Goals are set for the value drivers and progress against these is regularly evaluated by performance measurement.

To manage major initiatives Topdanmark has established a project centre which, via a project committee, is responsible for the optimum utilisation of allocated resources. A model has been set up for these projects.

To manage our day-to-day initiatives we use a database to show all current initiatives and how they influence each value driver. For all major initiatives we set out success criteria which are regularly reported to Topdanmark's Board of Management.

## Premium growth



By combining competitive prices, strong distribution efficiency and good customer service Topdanmark is



## Topdanmark's Annual Report 2006

aiming for the goal of annual growth of 5% in non-life insurance.

### **Competitive prices**

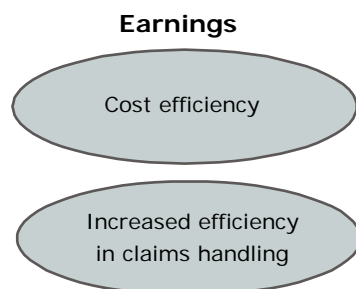
On the basis of a low expense ratio Topdanmark aims to offer insurance policies at competitive prices. As our prices are based on standardised rates, the distributors may only deviate from these in specific cases. The rates are risk based and an increasing number of rating criteria are being included to achieve a more finely meshed price structure reflecting, as far as possible, the underlying insurance risk (micro-rating). In 2006 Topdanmark introduced micro-rating for contents insurance policies and increased the use of it within workers' compensation and motor insurance.

### **Distribution efficiency**

Topdanmark has a multi-distribution strategy in which its own sales channels - certified insurance sales representatives, sales centres, telephone sales etc. - are supplemented by sales through its distribution partners such as banks, car dealers and insurance brokers. Detailed information on Topdanmark's distribution efficiency is available on [www.topdanmark.com](http://www.topdanmark.com) → [Business base](#) → [Distribution channels](#)

### **Customer service**

It is Topdanmark's ambition that its customers feel "well-helped": in order to do this we aim to empathise with our customers by putting ourselves in their position in every aspect of our communication. By monitoring our customers' opinion of their contact with Topdanmark through telephone, e-mails and letters as well as personal contact with our certified insurance sales representatives and claims handlers, we continue to work on improving our customer service.



Topdanmark wishes to create quality for its shareholders, customers and employees through cheaper and better administration and improved customer service. More efficient administration and claims handling allow more competitive insurance prices to be offered.

### **Cost efficiency**

By gradually making administration more efficient it is Topdanmark's goal that the increase in the administrative expenses will be lower than the growth in premiums thereby continually reducing the expense ratio. Increased automation of the administrative systems and increased self-transacting are two of the ways to reach this goal.

### **Increased efficiency in claims handling**

Topdanmark has implemented a number of initiatives to make claims handling more efficient. One of those was to improve purchasing power through Scalepoint, a purchasing portal shared by a number of large Nordic insurance companies, providing cheaper prices than Topdanmark would be able to achieve on its own.

Furthermore, at the beginning of 2007 Topdanmark started using the first delivery of a completely new and more efficient claims handling system providing a higher quality of the claims handling, collection of more data, increased automation, improved opportunities for self-transacting and a more rapid response rate. Over future years the system will gradually be used for all of Topdanmark's claims handling.

### **Financial and non-financial value drivers**

At Group level Topdanmark works on both the financial and the non-financial drivers. The financial value drivers reflect quantitative factors which impact the cash flow directly, while the non-financial value drivers reflect qualitative, typically more long-term issues, which impact the cash flow indirectly via the financial value drivers.

#### **Financial value drivers**

##### **Non-life**

- Premium growth
- Risk / return ratio on investments
- Claims trend
- Expense ratio

# Topdanmark's Annual Report 2006

## Life

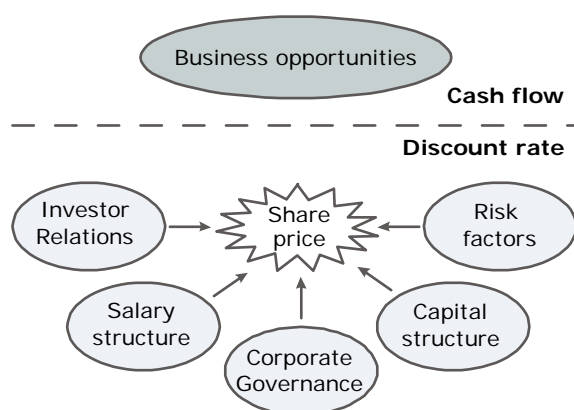
Growth in portfolio  
Risk / return ratio on investments  
Expense ratio

## Non-financial value drivers

Customer satisfaction  
Employee satisfaction  
Risk management

## Discount rate

Topdanmark's value creation model



To help increase the value of its future cash flow Topdanmark continually works towards reducing the risk premium which in turn reduces the net present value discount rate used by the equity market. This is achieved by, among other things, focusing on:

- Risk factors
- Capital structure
- Corporate Governance
- Salary structure
- Investor Relations

The following sections deal with Topdanmark's policy and measures on each element impacting the discount rate.

### Risk factors

Topdanmark's risk profile should be viewed together with its level of capital and volume of business. It is Topdanmark's goal to always optimise its shareholders' risk / return profile by the continued alignment of shareholders' equity, including substitutes such as reinsurance, derivatives and various forms of loan capital.

Topdanmark's policy is to hedge against risks arising from the Company's activities or to limit such risks to a level that allows the Company to maintain normal operations and implement its planned measures even in the case of highly unfavourable developments.

Risk management is one of the Group's non-financial value drivers empowering the business sectors to take risk management into account in a structured manner and to subsequently report upon their initiatives undertaken and the assessments made.

In order to ensure strict control of the overall risk, the exposures are calculated as often as deemed necessary, i.e. daily, monthly or in a few cases more rarely according to the nature of the exposure.

The Board of Directors determines the overall risk policies and limits. Overall management is co-ordinated by the risk management units responsible for insurance risks and market risks respectively who both report to the Board of Management. Credit and operational risks are managed by the relevant responsible business sectors reporting to the Board of Management.

The internal auditors report to the Board of Directors on, among other things, the observance of the risk policies and limits set within them.

### Review

Topdanmark's risk management relates to the following main areas:

- Insurance risk
- Market risk
- Credit risk
- Operational risk

### Insurance risk

Insurance risks include the acceptance and follow-up policies, claims handling, provisioning risk and reinsurance risk.

### Acceptance policy

Topdanmark's acceptance policy is based on a desire to make a profit on both products and customers. In order to manage its acceptance policy on the basis of pricing, Topdanmark varies the pricing of its products depending on the relevant risk criteria and the costs of administering those products.

## Topdanmark's Annual Report 2006

Topdanmark's pricing has been aligned with the individual markets and types of customers. In the personal, commercial and agricultural markets prices are mostly based on standardised rates while major commercial, agricultural and industrial customers are offered rather more individualised charges.

### **Follow-up policy**

In order that both products and customers are profitable, Topdanmark systematically acts upon changes in its customer portfolios.

The historical profitability of major industrial, commercial and agricultural customers with individual insurance schemes is monitored by customer assessment systems.

General insurance rates are re-calculated at least every third year and, for example, in motor and workers' compensation they are reviewed annually. These lines of business generate more than 50% of Topdanmark's premium income within non-life insurance.

Provisions are generally calculated on a monthly basis across all lines of business and with the claims trend being assessed monthly, followed up by price changes, if necessary. For example, with effect from 1 January 2007, the price of the illness / accident policies in life insurance was increased due to the adverse change in the level of compensation paid.

Topdanmark continues to improve its administration systems to achieve more finely meshed data capture which in turn enables it to identify the claims trends at an earlier point in time and compile information on the constituent parts of the various types of claims. An example of this is the new claims system which has been implemented on a rolling basis from 2007.

### **Claims handling**

In order to ensure uniform claims handling Topdanmark has grouped the handling of all motor and liability claims as well as other personal, commercial and agricultural claims into one operational unit.

Claims handling within Topdanmark is intended to make the customers feel "well-helped" while at the same time ensure efficient management and control of the claims incurred.

Topdanmark has in recent years focused on making its claims handling processes more efficient in terms of:

- Promptness
- Better replacement purchasing power
- Quality

### **Promptness**

It is important to promptly obtain an overall impression of the size of a claim, implement any damage controlling actions and / or commence the claims handling process. Prompt attention not only reduces the compensation paid but also provides a better experience for the customer.

Following the receipt of a notification, it is the claims department's goal to operate rapidly in order that the value of the claim does not increase. Notification over the telephone is attended to immediately, internet notification within 24 hours and written notification within three business days from the receipt. The time it takes to handle a claim is continuously monitored.

### **Better replacement purchasing power**

The claims department's purchasing power in terms of replacement products and services provides financial advantages for customers and shareholders alike.

Topdanmark has established a number of working agreements to ensure the highest possible discount, quality and security when delivering products and services. The agreements have been made with, for example, tradesmen, garages, Scalepoint, Skadeservice Danmark (damage services) and Medicinsk Test Center (medical testing centre).

Thus we have tried to minimise the largest areas of claims inflation risk, including:

- Personal injury through the agreement with Medicinsk Test Center and purchase of "Scan Crash" software for accident simulation
- Current building boom through agreements with tradesmen
- Motor claims through agreements with garages and glass firms

### **Quality**

Topdanmark has developed routines for all major claims processes to ensure that they are handled in a

## Topdanmark's Annual Report 2006

uniform and controlled manner. These routines are supplemented by rules appropriate to the level of professional and financial expertise of each of the relevant employees.

The overall professionalism is controlled by an annual quality assessment of a random sample of claims. For example, it is investigated whether the cover, reason for the claim and provisioning are correct, the recourse possibilities have been tested and that the excess, VAT etc. have all been charged. Assessments have shown continuous improvement.

Customers' satisfaction with letters, telephone and internet contact is monitored quarterly. These assessments have shown that 91% of the telephone customers found the claims handling had been as or better than expected in 2006.

### **Provisioning risk**

#### **Provisions for unearned premiums**

The risk on provisions for unearned premiums is only relevant within change of ownership insurance where typically the policy covers a period of ten years and the full ten-year payment is made up front.

Topdanmark's level of provisions for change of ownership policies is based on statistical analyses of the pattern of claims notifications compared to the remaining period of the policies.

As the first of these policies was written by Topdanmark just under eight years ago, we have no historical evidence of the number of claims notified from year eight to ten. However, most claims on change of ownership policies appear to be notified within the first few years.

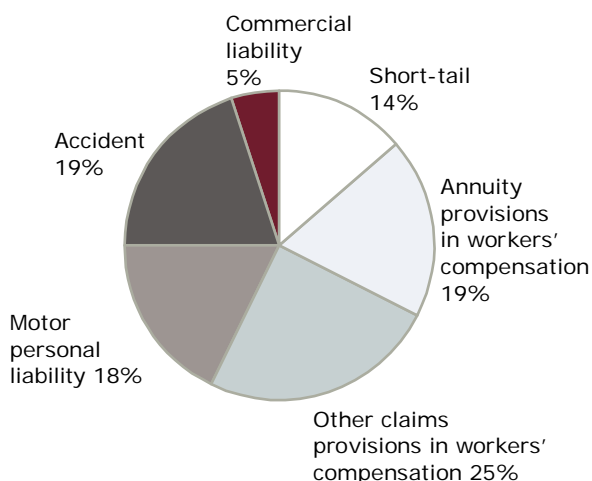
#### **Provisions for outstanding claims**

Traditionally, the insurance classes are divided into **short-tail** i.e. those lines where the period from notification until settlement is typically less than one year and **long-tail** lines i.e. those lines where the period from notification until settlement is longer.

Examples of short-tail lines are material damage on building and contents, and comprehensive motor insurance. Long-tail lines relate to personal injury and liability: workers' compensation, commercial liability, accident and motor liability insurance.

Historically, the calculated provisions for outstanding claims have been fully sufficient in short-tail lines, while in several periods provisions have been strengthened significantly in one or more of the long-tail lines.

The chart below shows the distribution of Topdanmark's total provisions for outstanding claims.



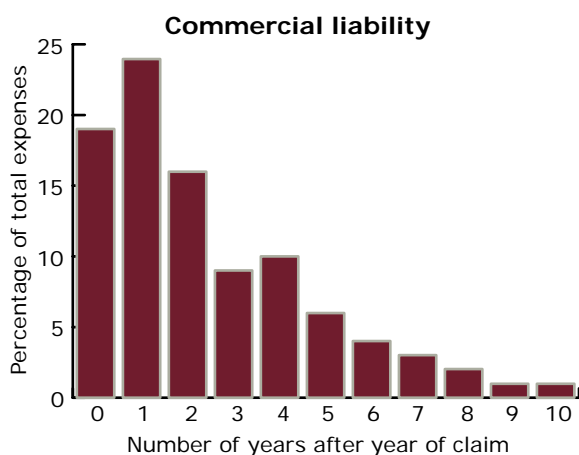
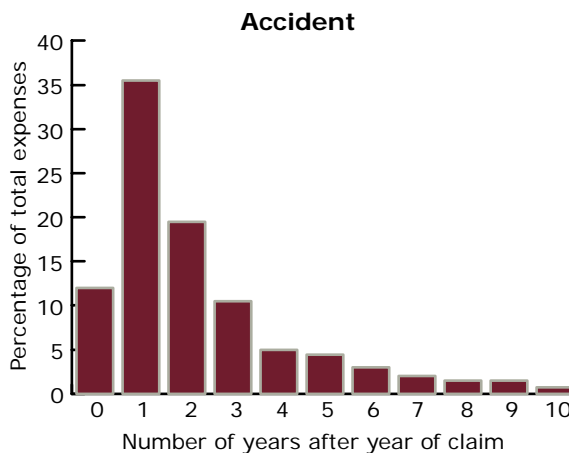
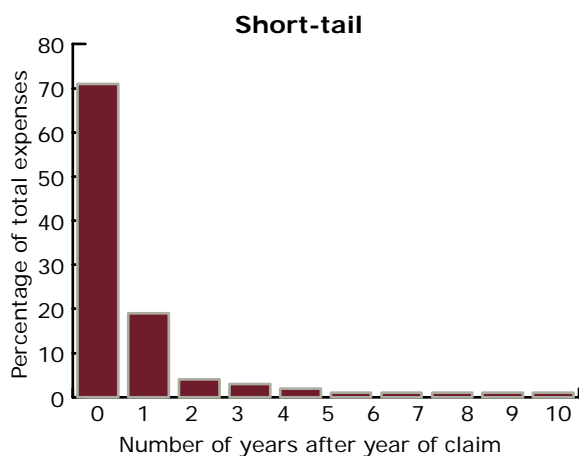
The much higher provision risk in long-tail than in short-tail lines is due to the longer period of claims settlement. It is not unusual that claims in long-tail lines are settled 3 - 5 years after notification and in rare cases up to 10 - 15 years.

Over such a long period of settlement the levels of compensation could be significantly affected by changes in legislation, case-law or the practice in the award of damages adopted by the Danish National Board of Industrial Injuries who awards compensation for injury and disability in all cases of serious industrial injuries.

Damages awarded by the Danish National Board of Industrial Injuries also have some effect on the levels of compensation for accident and personal injury within motor, liability and commercial liability insurance.

# Topdanmark's Annual Report 2006

The charts below show the typical claims payment profile.



The provisioning risk represents mostly ordinary calculation of uncertainty and social inflation.

Definition of social inflation in:

Workers' compensation insurance

- An increase in the level of compensation, for example, due to court decisions or changes in the practice in the award of damages adopted by the Danish National Board of Industrial Injuries

and other lines

- An increase in the level of compensation due to the annual increase in compensation per policy being higher than the level of general indexation or due to a change in judicial practice / legislation

## Topdanmark's Annual Report 2006

All long-tail lines have been impacted by social inflation in recent years, particularly workers' compensation insurance where a number of decisions by the Danish Supreme Court has raised the levels of compensation both retrospectively and going forwards.

In accident insurance the social inflation has been reflected in, among other things, an increasing number of injured persons being awarded disability compensation.

In recent years Topdanmark has concentrated intensively on including the expected social inflation in the provisions for outstanding claims.

The sufficiency of the provisions is tested in key lines by calculating the provisions using alternative models as well, and then comparing the compensation with information from external sources, primarily statistical material from the National Board of Industrial Injuries and the Danish Road Sector /Road Directorate.

The actuarial team is in constant dialogue with the claims department on any changes in the practices flowing from new legislation, case law or compensation awards as well as the impact of such changes on the routines used to calculate individual provisions.

### **Reinsurance**

#### **Storm**

The reinsurance contracts for storm cover claims up to DKK 5.1bn of which the retention is DKK 100m (DKK 72m after tax). However, Topdanmark will have to pay a reinstatement premium proportional to the amount of the reinsurance programme that has been utilised.

In the event of another storm within the same year the reinsurance contracts will cover further storm claims up to DKK 5.1bn with a retention of DKK 100m.

In the event of a third or fourth storm in the same year there is cover up to DKK 770m with a retention of DKK 20m. The cover of the third and fourth storm is dependent on there not being two individual storms each exceeding DKK 4.0bn.

#### **Fire**

Topdanmark has a proportional reinsurance programme for fire with a maximum retention of DKK

25m per claim on any one business (DKK 18m after tax).

#### **Terror**

Until the end of 2001 reinsurance cover included terror. Since 11 September 2001 reinsurance companies have changed their emphasis to focus their attention on the cover of terrorist attacks. Generally, losses resulting from acts of terror are covered by reinsurance contracts with certain restrictions as to the size of cover and the number of terror attacks covered.

#### **Cumulative risk**

Cumulative risk comprises known and unknown cumulative risk.

Known cumulative risk is where it has been recognised prior to the event that several policyholders could suffer from the same event. An example of known cumulative risk is where Topdanmark insures several shops in the same shopping centre. In the event of a fire it is foreseeable that several policyholders could suffer together.

Unknown cumulative risk is where several policyholders could suffer from the same individual event without the common risk being recognised prior to the event occurring. An example of this is the fireworks disaster in Seest in 2004 when many personal, commercial and industrial customers, quite unexpectedly, were hit by the same event.

Topdanmark's retention on known cumulative risk is DKK 15m for the first claim and DKK 5m for the second in personal lines, while it is DKK 25m in commercial and industrial lines. The retention on unknown cumulative risk is a maximum of DKK 50m.

#### **Industrial accident and disease**

Industrial accident insurance is a compulsory policy paid by employers by taking out workers' compensation policies with Danish insurance companies. In workers' compensation the reinsurance companies cover up to DKK 1.0bn of all claims with a retention of DKK 30m (DKK 22m after tax).

Insurance against industrial disease cannot be taken out with insurance companies but only with the public institution AES, a self-funding institution financed by compulsory payments from employers.

# Topdanmark's Annual Report 2006

## **Flood and storm-damaged forests**

Danish insurance companies do not cover damage arising from flood or the cost of replanting of forests following storms.

Such claims are covered by the Danish Flood Fund, a self-sustaining, public fund financed by an annual fee of DKK 20 per fire policy charged onto the customers by the insurance companies. In 2006 the Danish Flood Fund covered one event.

## **War, earthquake and nuclear perils**

Danish insurance companies do not cover claims directly or indirectly relating to the following:

- War, warlike acts, neutrality violence, civil war, rebellion or civil commotion
- Earthquake or other natural disasters
- Release of nuclear energy or radioactive power unless the damage is due to nuclear reactions for specific industrial, medical or scientific purposes

## **Market risk**

Market risk represents the risk of losses due to changes in the market value of the Group's assets, liabilities and off-balance items as a result of changes in market conditions. Market risk includes interest rate, equity, property, currency, inflation and liquidity risk.

The limits for these financial risks are fixed by Topdanmark's Board of Directors. In practice, Topdanmark Kapitalforvaltning handles the investment, finance and risk alignment processes. It is controlled on a day-to-day basis to ensure that the limits are observed. The result of this is reported to the Board of Directors.

## **Interest rate risk**

Topdanmark's provisions for outstanding claims are recorded net of discount using the current zero coupon rate structure. The resulting interest rate exposure is alleviated by investing in interest-bearing assets in order to reduce the overall interest rate exposure of the assets and liabilities to the desired level. The Group's debt either carries floating interest rates where the rate is adjusted every three months or it has a maturity of less than one year.

The interest rate exposure is calculated as the value of the change in the event of a one percentage point

parallel shift in the interest rate curve without taking convexity into account.

## **Equity risk**

Topdanmark is exposed to equity risk from direct investments as well as those investments made via derivatives. The equity risk is calculated as the loss arising if there was a 10% decline in all equities.

## **Property risk**

Topdanmark is exposed to property risk where some properties are rented out for business or private residence. The property risk is calculated as the loss arising if there was a 10% decline in the value of all properties.

## **Currency risk**

Topdanmark's currency risk relates in practice only to investments and is alleviated by derivatives. The risk is calculated by the value-at-risk method as the size of the loss which, with a 97.5% probability, will not be exceeded.

## **Inflation risk**

Future inflation is implicitly included in a number of the models Topdanmark uses to calculate its provisions. An expected higher future inflation rate would generally be included in the provisions with a certain time delay while at the same time the result would be impacted by higher future indexation of premiums. Therefore a change in the expected future inflation rate would only have a marginal impact on the profit for the year. However, as a cautious estimate, provisions for outstanding claims, excluding workers' compensation and illness / accident claims, would have to be increased by about DKK 35m if the expected future annual increase in the inflation rate rose by 1%.

Workers' compensation and illness / accident insurance differ from the general principles regarding the inclusion of an allowance for inflation. The provisions in workers' compensation insurance are directly linked to the expected future indexation of wages and salaries and those in illness / accident insurance are directly linked to the net price index.

In order to reduce the risk of inflation within illness / accident and workers' compensation insurance Topdanmark has written inflation swap contracts hedging the expected cash flows if the trend in real

## Topdanmark's Annual Report 2006

earnings remains stable. Consequently, changes in the expected future inflation rate will only marginally affect the result from these lines of business.

### **Liquidity risk**

The liabilities of the Group's insurance companies are primarily insurance provisions on which the payment obligation is met by means of the cash flow generated from operations.

Besides the technical provisions, Topdanmark's loan capital includes mostly short-term money market loans, with a typical maturity of a maximum of one month. Outstanding debt is reduced after receiving dividends from the subsidiaries. Any further loan repayments are made by raising similar new loans. To secure a sufficiently liquid base in situations where this source of financing might decline, Topdanmark has purchased an irrevocable right to raise two loans on normal terms. One of these can be up to DKK 500m with expiry no later than 2007 and another of up to DKK 500m with expiry no later than in 2009. It is intended to replace the first right of borrowing with a new one of DKK 250m in 2007.

Topdanmark Forsikring has raised a subordinated loan of DKK 250m expiring in 2013, however the loan may be terminated in 2010.

All of the Group's insurance companies may raise money market loans as part of the day-to-day liquidity management. Typically the maturity of such loans is less than a month. Both the subordinated loan raised by Topdanmark Forsikring and any outstanding money market loans will be repaid from the cash flow generated from operations.

Furthermore, the Group has a significant liquidity base of high-quality liquid bonds.

### **Risk of investments in the life insurance group**

The goal and risk profile for those customers who have invested in the life insurance companies' policies is fundamentally different from the goal and profile for Topdanmark's investment in the shareholders' equity of the life insurance company. Although the two parties principally jointly own the funds of the life insurance group, Topdanmark has taken a number of structural measures to ensure an appropriate distribution of risk and return.

### **Potential bonus reserves**

First and foremost a proportion of the customers' accumulated return has been provided for the collective potential bonus reserve. This acts as a buffer against fluctuations in the net value of assets and liabilities, implying that most of the risk is taken by the customers.

If the adverse fluctuations exceed the collective potential bonus reserve, shareholders' equity would be affected. However, the impact would be limited, as the individual potential bonus reserves, i.e. the difference between the savings of each policy and the guaranteed benefit calculated at market value, would act as a buffer against even significant losses.

At the beginning of Q4 2004 Topdanmark separated its investment policy for funds owned by customers, (the life insurance provisions) from that of the funds owned by shareholders (the shareholders' equity of the life insurance group and provisions for illness / accident insurance).

Specifically, the return on equities, equity-related investments and instruments earmarked to hedge the interest rate risk on guaranteed benefits, has been transferred to the life customers, before allocating the remaining return.

Accordingly, the shareholders' equity is affected only by losses on equities etc. if they reach such a size that the collective potential bonus reserve has been fully utilised.

### **Hedging / guaranteed benefits**

The Group has guaranteed that policyholders will receive a pension benefit on a technical basis with interest rates of 1.5%, 2.5% or 4.5%, dependent on the date of issue of the policy. These benefit guarantees are linked to the risk of a downturn in the financial markets.

Topdanmark already changed its bonus rules in 1998 with the effect that any bonus added to the individual policy would be included to cover the overall pension benefits until expiry. Previously the bonus was used to revalue the guarantees while any bonus added from 1998 is used to hedge the guaranteed benefits.

In January 2004 all the 4.5% policies were transferred to a newly established company, the investment policy



## Topdanmark's Annual Report 2006

of which has been amended to ensure that the company can meet the benefits guaranteed. The proportion of equities is low and most of the interest rate risk in liabilities has been hedged.

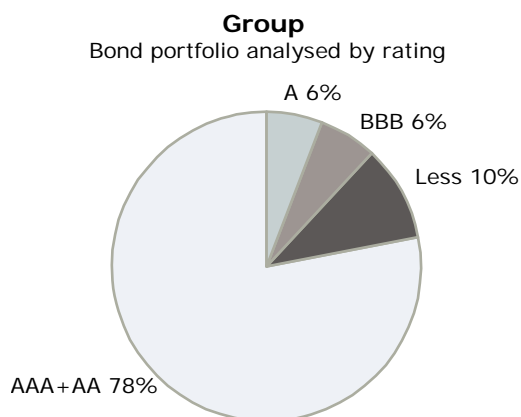
### Credit risk

Credit risk is the risk of losses caused by one or more counter-parties' breach of their payment obligations.

Topdanmark is exposed to credit risk in both its insurance and investment business. Within insurance the reinsurance companies' ability to pay is the most important risk factor. Topdanmark minimises this risk by primarily buying reinsurance cover from reinsurance companies with a minimum rating of A-. Accordingly 96% of its storm cover has been placed with such reinsurance companies.

Topdanmark's investment risk is the inability of bond, loan or financial contract counter-parties to meet their obligations. To limit the risk on bond and loan debtors most of the investments are made in bonds of high credit rating and the remaining portfolio is well diversified both geographically and with regard to the type of debtor - and therefore the exposure to the concentration of risks is insignificant. To limit the counter-party risk of financial contracts the choice of counter-parties is restrictive and security is required when the value of the financial contracts exceeds the predetermined limits. The size of the limits depends on the counter-party's credit rating and the term of the contract.

Tranched credit products with a rating lower than AA or with no rating are included in the bond portfolio but supplementary calculated by the value-at-risk method. The risk is alleviated by financial instruments.



### Operational risk

Operational risk is the risk of incurring a loss due to insufficient or faulty internal procedures or human or systematic errors. Operational risk includes the risk of breakdowns of the IT systems.

### IT exposure

Topdanmark's business critical systems can be inaccessible for 24 hours without causing significant business problems.

In order to reduce the probability of system breakdowns and limit the duration of them, Topdanmark has invested in, for example, emergency power plants with a diesel generator, disk mirroring, alarms in the machine rooms and automatic fire fighting equipment.

The IT equipment is placed in two machine rooms 300 metres apart. Many physical components are in duplicate and new programmes are only implemented after extensive testing.

An external company with special expertise in this area regularly tests the possibility of attacking Topdanmark's systems from outside the organisation.

It is Topdanmark's goal that the accessibility of its main systems is no lower than 99.5%. For many years it has typically been just over 99.9% for the central applications.

Topdanmark has prepared a detailed IT emergency plan which has been considered and accepted by the Board of Directors. It includes how to re-establish the entire IT environments if the systems break down.

### Solvency

All of Topdanmark's non-life and life insurance companies are in the DFSA's green classification implying they are able to withstand devastating market conditions including a 30% decline in equity prices simultaneous with a one percentage point deterioration in interest rates and a 12% decline in property prices.

To supplement these financial stress tests the life insurance business has included further ratios to clarify a company's exposure to certain adverse changes in the insurance risks: for example, the effect

## Topdanmark's Annual Report 2006

on shareholders' equity of changes in the mortality and disability rates of the customers.

These calculations show that Liv I and Liv V are able to withstand material adverse changes in all insurance risks.

The capital base of the parent company Topdanmark A/S meets the present solvency requirements by a factor of eight.

### **Solvency II**

New EU solvency rules for insurance companies are expected to take effect from 2011 and a proposal for a framework directive is expected to be available in the summer of 2007. It is expected that the rules will be based on market values and actual risks.

Topdanmark has followed the process of formulating the rules and, at an invitation from the EU Commission to the insurance companies, participated in the test calculations for non-life insurance.

The most recent test calculation QIS 2 in the summer of 2006 gave Topdanmark the valuable indication that it would have had a significant amount of surplus capital in excess of solvency requirements at the end of 2005.

Risk control is given much more importance in Solvency II than in the current solvency rules. This applies to all types of risks. The QIS 2 test calculations reflected Topdanmark's strategic choice of low market and credit risks as these risks had an only limited effect on the solvency requirements.

The solvency requirements reflect primarily provisioning risks and secondarily premium risks. Both types of risks are limited by Topdanmark's reinsurance programme. Moreover, Topdanmark's policy of prompt payment of compensation is significant in reducing the solvency requirements. The full effect of Topdanmark's risk control was not reflected in QIS 2 as Topdanmark did not use its internal models in the test calculation.

### **Solvency requirements on the basis of QIS 2**

(DKKm)

Premium risks	1,362
Provisioning risks	2,283
Disaster risks	157
Diversification effect	(608)
<b>Non-life underwriting risks</b>	<b>3,194</b>
Market risks	990
Credit risks	63
Life and pensions	862
Operational risks	325
Diversification effect	(1,383)
<b>Expected profit in non-life insurance</b>	<b>(1,131)</b>
<b>Estimated solvency requirement using QIS 2 standard model</b>	<b>2,920</b>
Solvency requirement using internal model on provisioning risks	< 2,200
Level of capital base	3,800

The solvency requirement was calculated using estimated values in the QIS 2 standard model. In QIS 2 the market value margin added to the provisions for outstanding claims was calculated using a fractile model. Subsequently under the auspices of the EU it was decided to change the market value margin to a cost of capital calculation over the maturity of the provisions and consequently the calculation of the capital base was based on a cost of capital principle.

As Topdanmark did not participate in QIS 2 for life insurance and pension fund business, the Solvency I requirements were used for these businesses. After inserting these requirements in the QIS 2 model the diversification effect will exceed 50%, which will be vital to Topdanmark's overall solvency requirements and consequently its strategy to carry out both non-life, life and pension fund business.

Topdanmark uses internal models for risk calculation and risk hedging, including the reinsurance programme. It is expected that due to the use of internal models, the solvency requirements for the premium and provisioning risks will be significantly lower than the levels calculated in the QIS 2 model.

The Solvency II rules for 2011 will be different from the QIS 2 with respect to both principles and calibration. However, it is expected that the solvency requirements of the final rules will not increase from the QIS 2 level. Topdanmark will participate in the next test calculation QIS 3 in the spring and summer of 2007.

## Topdanmark's Annual Report 2006

The overall indication is that Topdanmark's current level of capital is sufficient for the introduction of Solvency II.

### Risk scenarios

The Group's risk factors are illustrated in the table below. This table is an illustration of the impact of various assumptions on the most significant risk factors. The given assumptions do not reflect Topdanmark's expected risks, but are shown only as examples.

In the column "Overall effect on Group results" and the two following columns it is assumed that the bonus reserves and the individual potential bonus reserves in the life insurance group could offset

adverse fluctuations at the levels described as the overall collective potential bonus reserve was DKK 2,150m and the individual potential bonus reserves were DKK 2,944 at 31 December 2006.

If all the events of the table occurred at the same time, the customers' share of the losses arising in the life insurance group would be covered by the collective potential bonus reserve. If the losses were higher, to a significant extent, they would be covered by the potential bonus reserve on the individual policies. Thus, the overall effect for Topdanmark would be a loss of DKK 465.7m representing 10.6% of the parent company's shareholders' equity.

### Risk factors in the event of realisation of different risk scenarios - after taxation and pension return tax

	Risk scenario	Life insurance group (DKKm)	Remaining Topdanmark Group (DKKm)	Overall effect on Group results (DKKm)	Change in parent company's shareholders' equity (%)	Change in net asset value per share (DKK)
<b>31 December 2005</b>						
Interest-bearing assets	a	(143.1)	(264.7)	(281.8)	(7.1)	(14.1)
Provisions for claims and benefits	a	26.8	235.0	239.3	6.0	11.9
Index-linked bonds	b	(77.4)	0.0	(9.8)	(0.2)	(0.5)
Foreign exchange	c	(11.2)	0.1	(4.1)	(0.1)	(0.2)
Equities	d	(372.3)	(142.5)	(146.9)	(3.7)	(7.3)
Properties	e	(282.0)	(23.0)	(53.3)	(1.3)	(2.7)
Expenses	f	(1.9)	(9.6)	(10.1)	(0.3)	(0.5)
Gross claims incurred	g		(45.8)	(45.8)	(1.2)	(2.3)
Reinsurers' share	g		3.5	3.5	0.1	0.2
Storm disasters on own account	h		(79.2)	(79.2)	(2.0)	(3.9)
<b>31 December 2006</b>						
Interest-bearing assets	a	(294.9)	(334.7)	(376.4)	(8.6)	(19.6)
Provisions for claims and benefits	a	35.2	248.4	254.2	5.8	13.3
Index-linked bonds	b	(69.7)	0.0	(9.1)	(0.2)	(0.5)
Foreign exchange	c	(6.1)	(1.2)	(2.7)	(0.1)	(0.1)
Equities	d	(437.1)	(147.4)	(152.1)	(3.5)	(7.9)
Properties	e	(290.3)	(24.4)	(55.0)	(1.3)	(2.9)
Expenses	f	(2.0)	(9.6)	(10.6)	(0.2)	(0.6)
Gross claims incurred	g		(45.2)	(45.2)	(1.0)	(2.4)
Reinsurers' share	g		3.2	3.2	0.1	0.2
Storm disasters on own account	h		(72.0)	(72.0)	(1.6)	(3.8)

a: One percentage point increase in effective interest rate

b: 5% decline in market price

c: Annual loss on foreign exchange, with a 2.5% probability or less

d: 10% loss on equity portfolios

e: 10% decline in market value of properties

f: 1% increase in expenditure

g: 1% increase in claims

h: Storms generating claims on own account of up to DKK 100m (2005: DKK 110m)

## Topdanmark's Annual Report 2006

The scenarios above show a "here and now" effect of the events stated.

In a one year term particularly a change in interest rates will cause a compensating change in current return meaning that the net effect in a one year term will be much smaller than the immediate effect.

It is illustrated below:

A one percentage point parallel shift upwards in the zero-coupon rate structure would have the following overall immediate effect on the results for the investment assets and existing provisions of the Topdanmark Group excluding life insurance:

DKKm	Post-tax
Revaluation of investment assets	(376)
Revaluation of claims provisions	254
Non-recurring effect of increase in interest rates	(122)

However, the higher interest rates would also result in a better return on Topdanmark's interest-bearing assets and a lower loss ratio.

Assuming a one percentage point increase in interest rates from one day to the next and unchanged inflation, the first year's effect of the increase in interest rates is illustrated below:

DKKm	Post-tax
Excess return on interest-bearing assets	23
1.1 percentage point decline in loss ratio	70
One year's effect of increase in interest rates	93
Non-recurring effect of increase in interest rates	(122)
Total effect on results	(29)

### **Capital structure**

Topdanmark believes it is normal to manage shareholders' funds only up to the amount which is deemed necessary to support its primary business.

At the same time it believes that the vast majority of its shareholders would improve their tax position if

they owned securities directly instead of investing indirectly through Topdanmark's shareholders' equity.

Taking these matters into account Topdanmark has adopted a policy of paying out to shareholders any amounts in excess of the conservatively estimated level of shareholders' equity considered necessary to support the underlying business.

Topdanmark considers shareholders' equity to be just one of several instruments which can be used to protect against risk. The objective of shareholders' equity exceeding the statutory minimum is to protect the business against situations when major disasters could threaten future operations. However, such protection is often available by other means, for example reinsurance or derivatives.

Overall, it is Topdanmark's opinion that shareholders' equity or substitutes thereof like subordinated loan capital, guarantees or other general hedging instruments are appropriate to protect against fluctuations in the result on ordinary operations, while the cost of shareholders' equity is prohibitive when used to cover the risk arising from rare one-off events. Therefore this type of risk should be transferred to other risk bearers by using reinsurance or derivatives.

Normally, Topdanmark's operations would generate a fairly stable cash flow. Therefore, Topdanmark usually operates with relatively limited cover in terms of shareholders' equity. To supplement this it has raised subordinated loan capital and bought significant reinsurance cover of disaster risks, i.e. both major isolated events and combinations of isolated events that would threaten Topdanmark's ability to continue operating at its chosen level of shareholders' equity. Additionally, Topdanmark has invested in derivatives reducing the danger of sharp falls in equity markets and also in instruments protecting the life insurance company against any adverse consequences of marked reductions in interest rates, see "[Risk factors](#)".

Detailed information on, among other subjects, Topdanmark's capital structure model and model for calculation of share buy-back potential is available on [www.topdanmark.com](http://www.topdanmark.com) → [Value Creation](#) → [Value creation through share price model](#) → [Capital Structure](#).

## Topdanmark's Annual Report 2006

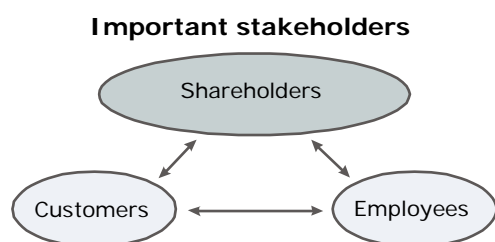
Topdanmark's Board of Directors has an authorisation granted in the Articles of Association to increase the Company's share capital, to raise convertible loans and / or issue warrants. The issues may be with or without pre-emptive rights for the Company's shareholders. The total authorisation is restricted to 2.5m shares of which 875,000 shares have already been issued. The current authorisation expires on 28 April 2008.

Furthermore, the Board of Directors is authorised to issue up to 1m employee shares. To date 260,000 shares have been issued from this authorisation, which also expires on 28 April 2008.

Finally, for the period until the Annual General Meeting in 2007 the Board of Directors is authorised to acquire own shares for up to 10% of the share capital for the purpose of ownership or security. The shares can be acquired at a minimum market price of DKK 10.5 per share and a maximum price of plus 10%. It is a standing authorisation which, subject to the approval of the general meeting, is renewed each year at the Company's Annual General Meeting.

### Corporate Governance

Topdanmark's practical approach to Corporate Governance means that it is not sufficient for the Board of Directors and Board of Management to just observe a set of academic rules. Good Corporate Governance envelops the concept of supporting the trinity between shareholders, customers and employees.

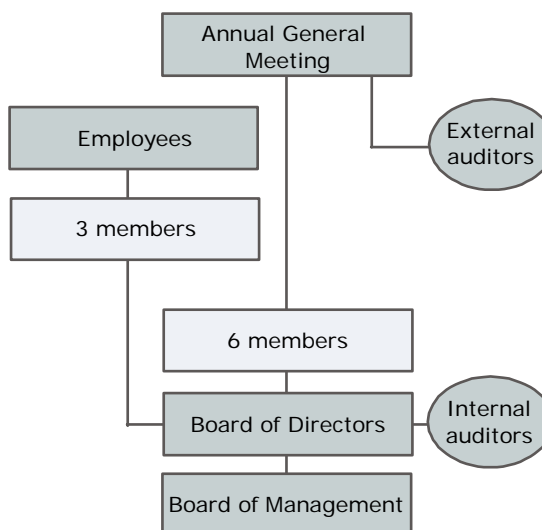


This is done by, among other things, incorporating and maintaining a responsible company culture with good management throughout the organisation. Topdanmark has a decentralised organisational structure based on framework control. In the day-to-day activities homogenous behaviour is supported by a set of management and customer-oriented values,

see [www.topdanmark.com](http://www.topdanmark.com) → [Value Creation](#) → [Value creation through share price model](#) → [Attitudes](#).

The Board of Directors has been focusing on Corporate Governance for a number of years and has regularly aligned the Company's Articles of Association etc. with the principles of good Corporate Governance.

### Topdanmark's decision structure



### General meeting

The general meeting is Topdanmark's supreme decision-making vehicle. About four weeks before the Annual General Meeting all shareholders registered by name are invited by letter to attend the meeting.

They are all entitled to attend and vote at general meetings. Shareholders who are not able to attend general meetings can vote by proxy on each item of the agenda, however their proxy is only valid for one general meeting.

Shareholders can, by e-mail or postal letter, send questions to be answered at general meetings.

Topdanmark has only one class of shares and each share entitles the holder to one vote.

The AGM is transmitted live via a webcast.

The Company is at present investigating the possibility of having the AGM partly electronic.

# Topdanmark's Annual Report 2006

## **Board of Directors**

The Board of Directors, which is elected by the general meeting and the Topdanmark Group's employees, is the Company's top threshold of management formulating the Company's objectives, goals and strategies and making decisions on matters that are of significant importance or unusual in nature to the Company.

The Board of Directors supervises the Company ensuring that it is managed in a proper way in accordance with legislation and the Articles of Association. It does not participate in day-to-day management of the Company.

The Board holds at least six ordinary Board meetings a year plus an annual Board seminar dealing with strategic issues and other forward-looking topics.

Topdanmark's Board of Directors comprises nine members, six of them elected by shareholders in general meeting and three by Topdanmark's employees in accordance with the Danish Companies Act.

In accordance with this act the number of Board members elected by employees should be equivalent to not less than half the number of those elected by shareholders in general meeting. The rights, duties and responsibility of the Board members elected by employees are the same as those of the Board members elected by shareholders in general meeting.

Shareholders who are not associated with the Company by their employment or who are not employed by a competing company are eligible for election to the Board of Directors by shareholders in general meeting.

Topdanmark has no fixed general selection criteria. It believes that by imposing very specific requirements on the Board of Directors it may prevent the election of an obviously qualified Board candidate who does not fully meet the requirements. Instead an individual decision will be made on each Board candidate based upon an overall consideration of their qualifications, the Company's present needs and the composition of the rest of the Board of Directors.

The age limit for Board members is 70 and the term of office for members elected by shareholders in general

meeting is one year, while in accordance with legislation, it is four years for members elected by employees.

Board members are elected individually, and no Board member may be appointed by any individual shareholder. Except from the Chairman of the Board, who is former CEO of Topdanmark, all Board members elected by shareholders in general meeting meet the definition of independence set out by the Nørby Committee.

## **The Nørby Committee's recommendations on good Corporate Governance**

At the end of 2001 the Nørby Committee published its first report on Corporate Governance in Denmark. Since then the Board of Directors has had a precise response to each item of the Nørby Committee's recommendations and Topdanmark has met all significant recommendations included in that report.

This was followed by new recommendations for good Corporate Governance in Denmark in 2005 by the Copenhagen Stock Exchange Committee on Corporate Governance. The recommendations follow the "comply-or-explain" principle which has been decided at EU level.

Topdanmark's Board of Directors has a precise response to these new recommendations as well.

The Board of Directors believes that Topdanmark meets all the recommendations of the Nørby Committee's report which are important and relevant to a company like Topdanmark.

Topdanmark does not fully meet the following recommendations:

- The Annual Report to disclose information on each Board member's holding of shares etc. in the company and any changes in these holdings.
- The Annual Report to disclose the amounts of total remuneration of the individual members of the Board of Directors and the Board of Management as well as other benefits.

*Topdanmark publishes information on the shares and the basic and performance-related pay at a*

## Topdanmark's Annual Report 2006

*Group level for both the entire Board of Directors and the entire Board of Management.*

*Topdanmark believes that the market will receive no further relevant information by publishing this information at an individual level.*

*Of course Topdanmark observes the relevant rules on reporting the details of the trading and other transactions in the Company's shares by insiders. Therefore any changes in the shareholdings etc. in Topdanmark held by the Board of Directors and Board of Management are regularly reported at an individual level.*

*Topdanmark believes that there is no need for additional information in the Annual Report on the shareholdings.*

- The Annual Report to disclose information on the individual pension schemes of the Board of Directors and the Board of Management.

*The Board of Directors has no pension scheme. Individual pension schemes have been agreed with each member of the Board of Management. The company's liabilities for the agreed pension schemes have been fully provided for. In this light Topdanmark does not believe that the market will receive further relevant information by publishing information on each executive's pension scheme at an individual level.*

- Board members who are the managing director of an active company to hold a maximum of three ordinary directorships or one chairmanship and one ordinary directorship besides the directorship in Topdanmark.

*Topdanmark has set no fixed limits on the number of other tasks a Board member can hold. Topdanmark believes that it is up to each individual Board member how many other tasks they can handle and that the amount of work of a managerial task varies much from company to company.*

*The Board of Directors regularly considers, particularly when nominating candidates for the annual election of members to the Board of Directors, whether each candidate has been and*

*will continue to be able to reserve the necessary time and concentration to hold the directorship in Topdanmark.*

- The Board of Directors to lay down the framework for the auditor's provision of non-audit services each year.

*Topdanmark's need for non-audit advice varies from year to year, but is generally for taxation advice. The percentage share has been between 14% and 33% in the years 2003 - 2006. The Board of Directors believes that the company is given the best advice from its auditor elected at the AGM who knows Topdanmark well. The Board of Directors believes there is no reason to worry about the auditor's independence just because the share of non-audit services is extraordinarily high in a specific year.*

*The Board of Directors is following developments closely. Regularly and particularly when nominating a candidate for the external auditor election at the AGM, it evaluates, in the light of, for example, the amount of non-audit services, whether the auditor continues to possess the necessary independence.*

*The Board of Directors will continuously monitor the use of non-audit services provided by external auditor considering the need for determining an actual framework for this use.*

Detailed information on Topdanmark's initiatives on good Corporate Governance, including a review of its response to each item of the "Revised Recommendations for Corporate Governance in Denmark 2005" by the Copenhagen Stock Exchange Committee on Corporate Governance, is available on [www.topdanmark.com](http://www.topdanmark.com) → [Value Creation](#) → [Value creation through share price model](#) → [Corporate Governance](#). This information is regularly updated. Topdanmark believes that such updated information published on its website is more valuable to the market than a review included in the Annual Report of its adherence to each recommendation.

# Topdanmark's Annual Report 2006

## **Salary structure**

Topdanmark's salary policy is intended to optimise long-term value creation at a Group level.

Topdanmark publishes information on the basic and performance-related pay at a Group level for the entire Board of Directors and the entire Board of Management. Topdanmark believes that the market will receive no further relevant information by publishing this information at an individual level.

The remuneration package of the Board of Management and a number of the heads of business sectors and administrative departments is based upon a fixed basic salary which can be supplemented by the right to purchase warrants. Individual pension schemes have been agreed with each member of the Board of Management and the Company's liabilities for these schemes are fully hedged. The remuneration package does not include the payment of individual bonuses.

The share price reflects expected value creation potential at Group level. This is one of the reasons why Topdanmark believes that the right to purchase warrants rather than the receipt of individual bonuses encourages the executives to be more holistic in their approach to value creation.

The right to buy warrants is based on an assessment of each executive's contribution to value creation in the year concerned.

Besides the revolving scheme for the Board of Management and a number of the heads of the business sectors and administrative departments, the Board of Management grants a number of warrants, free of charge, to employees who have made a special effort or otherwise contributed extraordinarily to value creation in the Company in that year.

## **Employee shares**

In order to ensure that all employees focus on value creating activities, Topdanmark has occasionally issued employee shares. As for the warrants, the basic principle underlying the issue of employee shares is that employees' opportunity for increased earnings as well as their risk should be proportionate to their influence in building shareholder value. Employee shares are not issued in accordance with an on-going published plan for allocation but the issue is specifically decided and prepared by the Board of Directors each time.

In 2006 Topdanmark sold 40,000 employee shares in a combination of free shares and shares at an advantageous price.

The cost of the sale of employee shares was DKK 13m in 2006, which was recognised in Q4. This cost has been calculated at fair value according to the IFRS 2 on share-based payments. At the end of 2006 employee shares represented 3.2% of shareholders' equity.

## **Warrants**

Topdanmark has already granted 130,000 warrants for 2007 to its Board of Management and a number of executives. The strike price of DKK 1,033 was fixed at 110% of the market price of Topdanmark's shares on 29 December 2006 (average of all trades). The warrants were paid for by the individuals concerned.

Besides the revolving scheme above a further 20,000 warrants have been granted for 2007 to a number of other executives who have made a special effort or otherwise contributed extraordinarily to value creation in the Company. These were granted free of charge.



# Topdanmark's Annual Report 2006

## Breakdown of share options / warrants granted since 2002

Year	Board of Directors	Board of Management	Executives	Total
2002	18,219	84,281	242,500	345,000
2003	21,448	84,263	244,289	350,000
2004	0	74,954	200,046	275,000
2005	0	69,922	180,078	250,000
2006	0	54,150	145,850	200,000
Market value of those warrants granted in 2006 (DKKm)	0	3	9	12
2007	0	31,572	118,428	150,000
Market value of those warrants granted in 2007 (DKKm)	0	4	17	21

The warrants granted for 2007 may not be exercised any earlier than subsequent to the publication of the 2009 annual results in 2010 and no later than subsequent to the publication of the 2011 annual results in 2012. In the intervening period the warrants can be exercised until three banking days after Topdanmark's publication of annual, half-yearly and quarterly reports.

The value of the warrants for 2007 has been calculated to be DKK 21m when allocated representing about 31% of the entire remuneration package of those who received them.

The value was calculated using the Black and Scholes model assuming a share price of DKK 938.84, an interest rate corresponding to the zero coupon rate based on the swap curve on 29 December 2006, future annual volatility of 20%, corporation tax rate of 28% and a pattern of exercise similar to Topdanmark's previous granting of share options / warrants, see IFRS 2 on share-based payments.

At the end of 2006 the exposure of the warrants held by the Board of Management represented 0.8% of shareholders' equity.

Detailed information is available on Topdanmark's warrant scheme on [www.topdanmark.com](http://www.topdanmark.com) → [Value creation](#) → [Value creation through share price model](#) → [Salary Structure](#)

## Investor Relations

Topdanmark gives a high priority to Investor Relations (IR) in order to ensure that as far as possible:

- Value creating activities are reflected in a fair price for Topdanmark's shares
- The liquidity of Topdanmark's shares is gradually increased in order that they are not traded at a discount due to a lack of liquidity
- A high level of knowledge of and confidence in Topdanmark's shares is secured in the event of corporate acquisitions
- A low volatility in the price of the share is secured through uniform and consistent information, which helps to reduce the cost of capital

Topdanmark endeavours to be active and outreaching to investors in Denmark and abroad through the use of information channels such as:

- Investor meetings
- Telephone meetings
- Conference calls
- Web casts

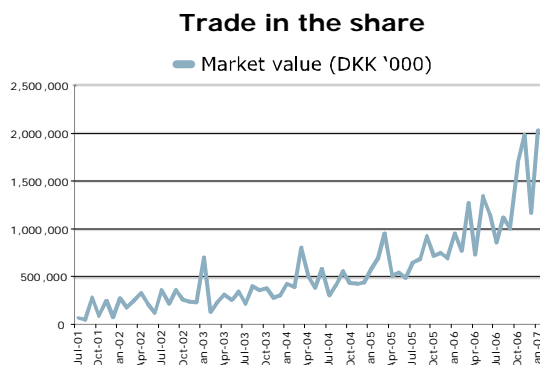
For example, during the past year Topdanmark held close on 200 investor meetings.

Since 2000 the free float in Topdanmark's shares has increased from 60% to 100%.

Since mid-2001 (from which point in time comparable data has been available) the monthly share trading

## Topdanmark's Annual Report 2006

has increased from about DKK 50m to around DKK 1,725m.



As the Danish institutional investors have increased the foreign share in their equity portfolios for a number of years, Topdanmark has endeavoured to increase its share of foreign shareholders. Since 1997 the share of foreign shareholders has increased from 2% to 38% on 9 March 2007.

Further information is available on

[www.topdanmark.com](http://www.topdanmark.com) → [Value creation](#) → [Value creation through share price model](#) → [Investor Relations](#).

## Annual General Meeting

The Annual General Meeting will be held on Thursday 26 April 2007, 15:00 (CET) at:

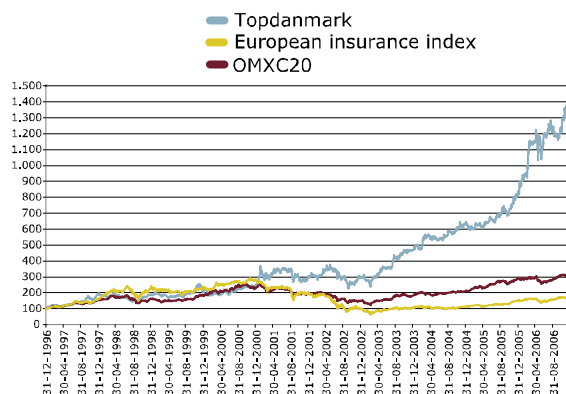
Comwell Kolding  
Skovbrynet 1  
DK-6000 Kolding

The Board of Directors will recommend to the Annual General Meeting a reduction in share capital by cancellation of the number of shares bought back for subsequent cancellation since the most recent reduction in share capital confirmed at the Extraordinary General Meeting on 21 November 2006.

## Financial calendar

Annual General Meeting:	26 Apr 2007
Q1 2007 Interim Report:	22 May 2007
Capital Market Day:	19 Jun 2007
H1 2007 Interim Report:	28 Aug 2007
Q1 - Q3 2007 Interim Report:	27 Nov 2007

## Index-linked share price movement (Basis: 31 Dec 1996=100)



# Topdanmark's Annual Report 2006

## List of stock exchange announcements and trading reports

### **Stock exchange announcements**

Topdanmark submits announcements to the Copenhagen Stock Exchange with information on material and relevant events in the Group which can affect the price of Topdanmark's shares. The announcements are also sent to the press, share analysts, investors and other interested parties.

The announcements are available on [www.topdanmark.com](http://www.topdanmark.com) → [Announcements](#)

### **2007**

01 Mar	03/2007	Cancellation of shares and Topdanmark reduces its holding of own shares
01 Feb	02/2007	Topdanmark increases its holding of own shares
02 Jan	01/2007	Issue of warrants

### **2006**

15 Dec	20/2006	Cancellation of shares and Topdanmark reduces its holding of own shares
27 Nov	19/2006	Result of sale of employee shares
21 Nov	18/2006	Extraordinary General Meeting of Topdanmark on 21 November 2006
21 Nov	17/2006	Topdanmark's Interim Report for Q1 - Q3 2006
06 Nov	16/2006	Sale of 40,000 employee shares
06 Nov	15/2006	Topdanmark is upgrading its profit forecast and share buy-back programme for 2006 and investing in improving its competitiveness
01 Nov	14/2006	Notice convening Extraordinary General Meeting of Topdanmark
12 Oct	13/2006	Holding of own shares
03 Oct	12/2006	Issue of employee shares
22 Aug	11/2006	Extraordinary General Meeting of Topdanmark on 22 August 2006
22 Aug	10/2006	Topdanmark's 2006 Half Year Report
10 Aug	09/2006	Cancellation of shares and Topdanmark reduces its holding of own shares
09 Aug	08/2006	Notice convening Extraordinary General Meeting of Topdanmark
29 Jun	07/2006	Holding of own shares
13 Jun	06/2006	Holding of own shares
23 May	05/2006	Topdanmark's Interim Report for January - March 2006
25 Apr	04/2006	Annual General Meeting of Topdanmark on 25 April 2006
07 Apr	03/2006	Notice convening Annual General Meeting of Topdanmark and current state of share buy-back
14 Mar	02/2006	Topdanmark's Annual Report 2005
02 Jan	01/2006	Issue of warrants

### **Trading reports**

#### **2007**

03 Jan	01/2007	Trading in Topdanmark shares by insiders
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#### **2006**

05 Dec	02/2006	Trading in Topdanmark shares by insiders
28 Mar	01/2006	Trading in Topdanmark shares by insiders

# Topdanmark's Annual Report 2006

## Board of Directors and Board of Management

### Board of Directors

#### Michael Pram Rasmussen, Chairman

Managing Director\*, D.O.B. 1955, joined Topdanmark's Board of Directors in 2006

Member of the Boards of Directors of:

- A.P. Møller - Mærsk A/S (Chairman)
- Coloplast A/S (Chairman)
- William Demant Holding A/S
- Oticon A/S

#### Anders Knutsen, Deputy Chairman

Managing Director\*, D.O.B. 1947, joined Topdanmark's Board of Directors in 1999

Member of the Boards of Directors of:

- Danisco A/S (Chairman)
- Copenhagen Business School (Chairman)
- Fritz Hansen A/S (Deputy Chairman)
- Augustinus Fabrikker A/S

#### Jørgen Ajslev

Managing Director\*, D.O.B. 1943, joined Topdanmark's Board of Directors in 1994

Member of the Boards of Directors of:

- Fritz Schur Teknik A/S (Chairman)
- Stenqvist Holding AB
- Acquisition Holding A/S
- Meyn Food Processing Technology B.V.
- DSV Miljø A/S
- Jørgen Schmidt Holding Birkerød A/S
- Aalborg Industries A/S
- Hans Buch A/S
- Johs. Thornam A/S
- Spæncom A/S

#### Ole Døssing Christensen

Certified insurance sales rep.\*\*, D.O.B. 1952, joined Topdanmark's Board of Directors in 1999

#### Luise Hanssing

Senior clerk\*\*, D.O.B. 1971, joined Topdanmark's Board of Directors in 2000

#### Jens Maaløe

Managing Director\*, D.O.B. 1947, joined Topdanmark's Board of Directors in 1999

Member of the Boards of Directors of:

- NKT A/S
- Ingeniørhøjskolen i Århus

#### Peter Pryning

Market Manager \*\*, D.O.B. 1946, joined Topdanmark's Board of Directors in 2003

#### Annette Sadolin

Managing Director\*, D.O.B. 1947, joined Topdanmark's Board of Directors in 2004

Member of the Boards of Directors of:

- Lindab International AB
- Skodsborg Kurhotel & Spa A/S

#### Knud J. Vest

Fur farmer\*, D.O.B. 1946, joined Topdanmark's Board of Directors in 1994

Member of the Boards of Directors of:

- Danish Agro (Deputy Chairman)
- EFBA (Deputy Chairman)
- Dansk Pelsdyravlforening/Danske Pelsauktioner
- Danske Andelsselskaber

Member of:

- Agricultural Council of Denmark

### Board of Management

**Poul Almlund**, D.O.B. 1947, joined Topdanmark in 1979

CEO of Topdanmark A/S

Member of the Boards of Directors of:

- Forsikring & Pension
- Bornholms Brandforsikring A/S

**Kim Bruhn-Petersen**, D.O.B. 1956, joined Topdanmark in 1989

Group Managing Director of Topdanmark A/S

Member of the Board of Directors of:

- Forsikringsakademiet A/S

**Christian Sagild**, D.O.B. 1959, joined Topdanmark in 1996

Group Managing Director of Topdanmark A/S

Member of the Board of Directors of:

- Finanssektorens Arbejdsgiverforening

\*Elected by shareholders in general meeting

\*\*Elected by employees

In accordance with Article 80 of the Danish Financial Business Act, the Board of Management's responsibilities are shown in the Annual Report for Topdanmark Forsikring A/S

# Topdanmark's Annual Report 2006

## Five-year summary

(DKKm)	2002	2003	2004	2005	2006
<b>NON-LIFE INSURANCE</b>					
Gross premiums earned*	6,494	7,150	7,957	8,477	8,860
Technical interest	46	105	90	85	126
Gross claims incurred	(4,901)	(4,980)	(5,884)	(7,034)	(5,912)
Bonuses and rebates	(29)	(34)	(63)	(64)	(55)
Operating expenses	(1,308)	(1,406)	(1,188)	(1,216)	(1,230)
Result from reinsurance	(175)	(363)	(172)	656	(352)
Change in the equalisation provisions	95	(55)	-	-	-
<b>TECHNICAL PROFIT ON NON-LIFE INSURANCE</b>	<b>222</b>	<b>417</b>	<b>740</b>	<b>904</b>	<b>1,437</b>
<b>LIFE INSURANCE</b>					
Gross premiums written	1,660	2,024	2,285	2,549	3,154
Allocated investment return	463	1,050	1,384	2,149	1,416
Claims and benefits	(897)	(836)	(978)	(1,291)	(1,648)
Change in life insurance provisions	(1,249)	(1,339)	(1,971)	(2,183)	(1,926)
Bonus	407	(381)	(286)	(800)	(391)
Change in provisions for unit-linked contracts	(119)	(215)	(120)	(79)	(250)
Operating expenses	(192)	(238)	(219)	(243)	(257)
Result from reinsurance	(5)	(1)	3	(4)	1
<b>TECHNICAL PROFIT ON LIFE INSURANCE</b>	<b>68</b>	<b>64</b>	<b>98</b>	<b>98</b>	<b>99</b>
<b>Profit on investment activities after transfer to technical results</b>	<b>102</b>	<b>742</b>	<b>289</b>	<b>493</b>	<b>717</b>
Other income	4	7	7	7	7
Other expenses (incl. goodwill)	(104)	(109)	(34)	(46)	(37)
<b>PRE-TAX PROFIT</b>	<b>292</b>	<b>1,121</b>	<b>1,100</b>	<b>1,456</b>	<b>2,223</b>
Taxation	(108)	(120)	(324)	(268)	(531)
<b>PROFIT FOR THE YEAR</b>	<b>184</b>	<b>1,001</b>	<b>776</b>	<b>1,188</b>	<b>1,692</b>
Total provisions for insurance and investment contracts	21,426	24,003	28,264	32,929	36,242
Total insurance assets	677	488	661	886	706
Total shareholders' equity	3,321	3,612	2,950	3,584	3,977
Total assets	27,029	29,535	34,560	41,098	43,640
Return on shareholders' equity (%)	5.3	28.1	26.4	36.5	43.6
Solvency ratio	50.6	57.7	33.8	58.1	71.1
Gross loss ratio (%)	75.9	70.0	74.7	83.8	67.4
Net reinsurance ratio (%)	2.7	5.0	2.1	(7.7)	4.0
Claims trend (%)	78.6	75.0	76.8	76.1	71.4
Gross expense ratio (%)	20.2	19.8	15.6	14.8	14.6
Combined ratio %	98.8	94.8	92.4	90.9	86.0
Operating ratio (%)	98.0	93.5	91.4	90.0	84.8
Strengthening of/gains on provisions on own account	(155)	(206)	(132)	(47)	34
Relative strengthening of provisions (%)	(3.1)	(3.7)	(2.0)	(0.6)	0.4

\* Before deducting bonuses and rebates

# Topdanmark's Annual Report 2006

## Profit and loss account

(DKKm)	Note	Group	
		2005	2006
<b>NON-LIFE INSURANCE</b>			
Gross premiums written	1	8,664	8,863
Reinsurance ceded		(793)	(727)
Change in the provisions for unearned premiums, gross	1	(187)	(3)
Change in reinsurers' share of the provisions for unearned premiums		(7)	(9)
<b>Premiums earned on own account</b>		<b>7,677</b>	<b>8,124</b>
<b>Technical interest on own account</b>	2	85	126
Gross claims paid		(6,071)	(5,277)
Reinsurance cover received		1,163	475
Change in the provisions for claims, gross		(963)	(635)
Change in reinsurers' share of the provisions for claims		215	(176)
<b>Claims incurred on own account</b>	3	<b>(5,656)</b>	<b>(5,613)</b>
<b>Bonuses and rebates</b>		<b>(64)</b>	<b>(55)</b>
Acquisition costs		(749)	(739)
Administrative expenses		(467)	(491)
Reinsurance commission and share of profits		78	85
<b>Total operating expenses on own account</b>		<b>(1,138)</b>	<b>(1,145)</b>
<b>TECHNICAL PROFIT ON NON-LIFE INSURANCE</b>	4	<b>904</b>	<b>1,437</b>
<b>LIFE INSURANCE</b>			
Gross premiums written	5	2,549	3,154
Reinsurance ceded		(7)	(9)
<b>Premiums on own account</b>		<b>2,542</b>	<b>3,145</b>
<b>Allocated investment return on own account</b>		<b>2,149</b>	<b>1,416</b>
Claims and benefits paid	6	(1,287)	(1,636)
Reinsurance cover received		1	8
Change in the provisions for claims and benefits		(4)	(12)
<b>Claims and benefits paid on own account</b>		<b>(1,290)</b>	<b>(1,640)</b>
Change in life insurance provisions	7	(2,183)	(1,926)
Change in reinsurers' share		1	(1)
<b>Change in the life insurance provisions on own account</b>		<b>(2,182)</b>	<b>(1,927)</b>
<b>Bonus</b>		<b>(800)</b>	<b>(391)</b>
<b>Change in provisions for unit-linked contracts</b>		<b>(79)</b>	<b>(250)</b>
Acquisition costs		(117)	(128)
Administrative expenses		(126)	(129)
Reinsurance commission and share of profits		1	3
<b>Total operating expenses on own account</b>		<b>(242)</b>	<b>(254)</b>
<b>TECHNICAL PROFIT ON LIFE INSURANCE</b>		<b>98</b>	<b>99</b>

## Topdanmark's Annual Report 2006

### Profit and loss account

(DKKm)	Note	Parent company		Group	
		2005	2006	2005	2006
Technical profit on non-life insurance				904	1,437
Technical profit on life insurance				98	99
<b>NON-TECHNICAL ACTIVITIES</b>					
Income from affiliated companies	8	1,458	2,277	0	0
Income from associated companies		0	0	47	77
Income from investment properties	9	0	0	143	149
Interest income and dividends etc.		6	4	1,500	1,482
Revaluations	10	(8)	(9)	1,837	1,206
Interest charges		(21)	(16)	(176)	(103)
Expenses on investment business		(2)	(2)	(41)	(41)
<b>Total investment return</b>		<b>1,433</b>	<b>2,254</b>	<b>3,310</b>	<b>2,770</b>
Technical interest transferred to non-life insurance business		0	0	(327)	(448)
Pension return tax	11	0	0	(341)	(189)
Investment return transferred to life insurance business		0	0	(2,149)	(1,416)
Other income		0	0	7	7
Other expenses	12	(29)	(31)	(46)	(37)
<b>PRE-TAX PROFIT</b>		<b>1,404</b>	<b>2,223</b>	<b>1,456</b>	<b>2,223</b>
Taxation	13	(244)	(531)	(268)	(531)
<b>PROFIT FOR THE YEAR</b>		<b>1,160</b>	<b>1,692</b>	<b>1,188</b>	<b>1,692</b>
Profit per share		59.1	90.9	60.5	90.9
Profit per share, diluted		57.7	88.3	59.1	88.3

The result of the parent company has been transferred to reserves at net asset value

# Topdanmark's Annual Report 2006

## Assets

(DKKm)	Note	Parent company		Group	
		2005	2006	2005	2006
Goodwill		0	0	441	441
Other intangible assets		0	0	108	138
<b>TOTAL INTANGIBLE ASSETS</b>	17	0	0	549	579
Machinery and equipment		7	6	99	128
Owner-occupied properties		0	0	656	636
Buildings under construction		0	0	88	50
<b>TOTAL TANGIBLE ASSETS</b>	18	7	6	843	814
Investment properties	19	0	0	2,493	2,626
Shares in affiliated companies	20	4,837	4,980	0	0
Shares in associated companies	21	0	0	299	374
Loans to associated companies	22	0	0	150	114
Total investment in affiliated and associated companies		4,837	4,980	449	488
Shares		0	0	5,262	5,978
Unit trusts		0	0	13	0
Bonds		4	3	24,841	26,203
Loans guaranteed by mortgages		0	0	76	35
Other loans		0	0	5	4
Deposits with credit institutions		0	0	2,407	3,141
Cash at bank and in hand		9	4	185	217
Derivatives		0	0	1,132	804
Total other financial investment assets		13	7	33,921	36,382
Deposits with ceding undertakings		0	0	1	0
<b>TOTAL INVESTMENT ASSETS</b>		4,850	4,987	36,864	39,496
<b>INVESTMENT ASSETS LINKED TO UNIT-LINKED CONTRACTS</b>	23			606	761
Reinsurers' share of provisions for unearned premiums	24			98	88
Reinsurers' share of life insurance provisions				28	26
Reinsurers' share of the provisions for claims	25			760	592
Total reinsurers' share of provisions				886	706
Amounts due from policyholders		0	0	343	298
Amounts due from insurance companies		0	0	170	168
Amounts due from affiliated companies		70	40	0	0
Amounts due from associated companies		0	0	1	3
Other debtors	26	0	12	123	110
<b>TOTAL DEBTORS</b>		70	52	1,523	1,285
Current tax assets		17	0	18	0
Deferred tax assets	27	4	3	78	66
Other		0	0	90	94
<b>TOTAL OTHER ASSETS</b>		21	3	186	160
Accrued interest and rent		0	0	427	453
Other prepayments and accrued income		0	0	100	92
<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>		0	0	527	545
<b>TOTAL ASSETS</b>		4,948	5,048	41,098	43,640



## Topdanmark's Annual Report 2006

### Shareholders' equity and liabilities

(DKK m)	Note	Parent company		Group	
		2005	2006	2005	2006
Share capital		208	196	208	196
Revaluation reserve		1,580	1,762	10	11
Security fund		0	0	1,063	1,063
Other reserves		0	0	4	3
<b>Total reserves</b>		<b>1,580</b>	<b>1,762</b>	<b>1,077</b>	<b>1,077</b>
Profit carried forward		2,185	2,408	2,299	2,704
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>3,973</b>	<b>4,366</b>	<b>3,584</b>	<b>3,977</b>
<b>SUBORDINATED LOAN CAPITAL</b>	29	0	0	249	249
Provisions for unearned premiums	30			2,577	2,583
Guaranteed pension benefits				11,537	11,115
Bonus potential on future premiums				5,033	6,242
Bonus potential on paid-up benefits				1,805	2,944
<b>Total life insurance provisions</b>	31			<b>18,375</b>	<b>20,301</b>
Provisions for claims and benefits	32			9,538	10,209
Collective potential bonus reserve	33			1,757	2,150
Provisions for bonuses and rebates				70	66
Provisions for unit-linked contracts	34			612	933
<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>				<b>32,929</b>	<b>36,242</b>
Pensions and similar commitments	35	0	0	61	57
Deferred tax liabilities	27	0	0	114	91
Deferred tax on security funds	36	0	0	389	389
<b>TOTAL LIABILITIES PROVIDED</b>		<b>0</b>	<b>0</b>	<b>564</b>	<b>537</b>
<b>DEPOSITS RECEIVED FROM REINSURERS</b>		<b>0</b>	<b>0</b>	<b>30</b>	<b>30</b>
Creditors arising out of direct insurance operations		0	0	2	3
Creditors arising out of reinsurance operations		0	0	39	25
Convertible debt securities		0	0	399	0
Amounts due to credit institutions		516	95	2,258	1,576
Amounts due to affiliated companies		443	550	0	0
Amounts due to associated companies		0	0	5	5
Current tax liabilities		0	25	0	25
Other creditors	37	5	2	760	764
Derivatives		11	10	116	94
<b>TOTAL CREDITORS</b>		<b>975</b>	<b>682</b>	<b>3,579</b>	<b>2,492</b>
<b>ACCRUALS AND DEFERRED INCOME</b>		<b>0</b>	<b>0</b>	<b>163</b>	<b>113</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>4,948</b>	<b>5,048</b>	<b>41,098</b>	<b>43,640</b>

# Topdanmark's Annual Report 2006

## Cash flow statement - Group

(DKKm)	2005	2006
<b>Cash flow from operations</b>		
Gross premiums written	8,649	8,800
Claims paid	(6,049)	(5,253)
Reinsurance	527	(181)
Expenses paid	(1,146)	(1,149)
Cash flow from non-life insurance	1,981	2,217
Gross premiums written	2,638	3,159
Claims and benefits	(1,287)	(1,637)
Reinsurance	8	5
Expenses paid	(236)	(256)
Cash flow from life insurance	1,123	1,271
Total cash flow from insurance business	3,104	3,488
Payments made and received on investment contracts	34	71
Dividends from associated companies	3	3
Interest income and dividends etc.	1,605	1,636
Interest charges	(208)	(210)
Pension return tax	(317)	(166)
Corporation tax	(100)	(507)
Other income and expenses	(24)	(30)
<b>Total cash flow from operations</b>	<b>4,097</b>	<b>4,285</b>
<b>Investments</b>		
Shares in associated companies	(100)	0
Properties	(333)	14
Machinery, equipment and intangible assets	(75)	(102)
Shares	(313)	214
Unit trusts	89	62
Bonds	(3,876)	(1,736)
Loans guaranteed by mortgages	93	42
Other loans	102	1
Derivatives	(516)	398
Investment assets linked to unit-linked contracts	(112)	(155)
Balances with associated companies	(27)	34
<b>Total investments</b>	<b>(5,068)</b>	<b>(1,228)</b>
<b>Financing</b>		
Shares bought back	(676)	(1,430)
Exercise of share options / warrants	69	109
Sale of employee shares	11	14
Subordinated loan capital	249	0
Convertible debt securities	0	(302)
Amounts due to credit institutions	528	(682)
<b>Total financing</b>	<b>181</b>	<b>(2,291)</b>
Change in liquid funds	(790)	766
Liquid funds at 1 January	3,382	2,592
Liquid funds at 31 December	2,592	3,358
Liquid funds comprise:		
Cash in hand and at banks	185	217
Deposits with credit institutions	2,407	3,141
	2,592	3,358

The majority of the Group's companies are subject to the relevant legislation on insurance business. Consequently, there are certain restrictions on lending and placement of money.

# Topdanmark's Annual Report 2006

## Capital • Group

(DKK m)

### Movements in shareholders' equity

	Share capital	Revaluation reserve	Security fund	Other	Profit carried forward	Total
<b>2005</b>						
Shareholders' equity at 1 January	219	10	1,035	3	1,683	2,950
Exchange rate adjustment of foreign business				1		1
Revaluation of owner-occupied properties		10				10
Transferred to collective potential bonus reserve		(8)				(8)
Taxation		(1)				(1)
Net income taken to shareholders' equity	0	1	0	1	0	2
Profit for the year		2	28		1,158	1,188
Total income	0	3	28	1	1,158	1,190
Dividends received from associated companies		(3)			3	0
Cancellation of own shares	(12)				12	0
Share buy-back					(676)	(676)
Issue of employee shares	1				24	25
Issue of warrants					12	12
Exercise of share options / warrants					69	69
Transferred to collective potential bonus reserve					9	9
Pension return tax					(2)	(2)
Other movements in shareholders' equity					13	13
Taxation					(6)	(6)
<b>Shareholders' equity at 31 December 2005</b>	<b>208</b>	<b>10</b>	<b>1,063</b>	<b>4</b>	<b>2,299</b>	<b>3,584</b>
<b>2006</b>						
Shareholders' equity at 1 January	208	10	1,063	4	2,299	3,584
Exchange rate adjustment of foreign business				(1)		(1)
Revaluation of owner-occupied properties		8				8
Transferred to collective potential bonus reserve		(6)				(6)
Taxation		(1)				(1)
Net income taken to shareholders' equity	0	1	0	(1)	0	0
Profit for the year		3	0		1,689	1,692
Total income	0	4	0	(1)	1,689	1,692
Dividends received from associated companies		(3)			3	0
Cancellation of own shares	(12)				12	0
Share buy-back					(1,430)	(1,430)
Sale of employee shares					27	27
Issue of warrants					12	12
Exercise of share options / warrants					97	97
Transferred to collective potential bonus reserve					4	4
Pension return tax					(6)	(6)
Other movements in shareholders' equity					4	4
Taxation					(7)	(7)
<b>Shareholders' equity at 31 December 2006</b>	<b>196</b>	<b>11</b>	<b>1,063</b>	<b>3</b>	<b>2,704</b>	<b>3,977</b>

## Topdanmark's Annual Report 2006

### Capital • Group

(DKKm)	2005	2006
<b>Solvency</b>		
Shareholders' equity according to Danish rules *	3,973	4,366
Tax asset	(7)	(5)
<b>Core capital</b>	3,966	4,361
Statutory deductions for insurance companies	(2,602)	(2,788)
<b>Capital base</b>	1,364	1,573
Weighted assets	2,349	2,213
Core capital as a percentage of weighted assets	168,9	197,0
Solvency ratio	58,1	71,1
Solvency requirement (%)	8,0	8,0

\* Before provisioning for deferred tax on security funds

### Profit per share

Profit for the year	1,188	1,692
Average number of shares ('000)	19,631	18,612
Diluting impact of options ('000)	485	559
Average number of shares, diluted ('000)	20,116	19,171
Profit per share, DKK	60,5	90,9
Profit per share, diluted DKK	59,1	88,3

### Number of shares

Reconciliation of the number of shares ('000)		
Shares issued at 1 January	21,925	20,758
Own shares at 1 January	(1,629)	(1,569)
Number of shares at 1 January	20,296	19,189
Shares bought back	(1,359)	(1,618)
Employee shares issued	60	0
Shares sold	192	324
Shares issued at 31 December	20,758	19,559
Own shares at 31 December	(1,569)	(1,663)
Number of shares at 31 December	19,189	17,896

### Own shares

	Number of shares '000	Nominal value DKKm	Percentage of share of share capital	Bought /sold DKKm
Held at 1 January 2005	1,629	16	7,4	-
Bought back in 2005	1,359	14	6,5	611
Sold	(192)	(2)	0,9	(87)
Cancelled	(1,227)	(12)	-	-
Held at 31 December 2005	1,569	16	7,6	-
Bought back in 2006	1,618	16	8,3	1,291
Sold	(324)	(3)	1,7	(260)
Cancelled	(1,200)	(12)	-	-
Held at 31 December 2006	1,663	17	8,5	-

Number of shares held to cover the granting of warrants: 726,000 (2005: 919,000)

# Topdanmark's Annual Report 2006

## Capital • Parent company

(DKKm)

### Movement in shareholders' equity

	Share capital	Revaluation reserve	Profit carried forward	Total
<b>2005</b>				
Shareholders' equity at 1 January	219	1,044	2,104	3,367
Profit for the year		1,160		1,160
Dividends received from subsidiaries		(580)	580	0
Other movements in capital of subsidiaries		(37)		(37)
Taxation		(7)		(7)
Cancellation of own shares	(12)		12	0
Share buy-back			(676)	(676)
Issue of employee shares	1		24	25
Issue of warrants			12	12
Exercise of share options / warrants			129	129
<b>Shareholders' equity at 31 December 2005</b>	<b>208</b>	<b>1,580</b>	<b>2,185</b>	<b>3,973</b>

### 2006

Shareholders' equity at 1 January	208	1,580	2,185	3,973
Profit for the year		1,692		1,692
Dividends received from subsidiaries		(1,322)	1,322	0
Other movements in capital of subsidiaries		(177)		(177)
Taxation		(11)	3	(8)
Cancellation of own shares	(12)		12	0
Share buy-back			(1,430)	(1,430)
Sale of employee shares			27	27
Issue of warrants			12	12
Exercise of share options / warrants			274	274
Other movements in shareholders' equity			3	3
<b>Shareholders' equity at 31 December 2006</b>	<b>196</b>	<b>1,762</b>	<b>2,408</b>	<b>4,366</b>

### Share capital

	2005	2006
DKK		
Share capital at 1 January	219,253,690	207,586,070
Reduction in capital	(12,267,620)	(11,998,910)
Employee shares	600,000	0
<b>Share capital at 31 December</b>	<b>207,586,070</b>	<b>195,587,160</b>

Each of Topdanmark's 19,558,716 shares has a nominal value of DKK 10.

No share enjoys any special rights. The shares are freely tradeable. Each share has one vote.

The following shareholders have notified Topdanmark that they own more than 5% of the share capital:

ATP, DMP, SP  
 ATP-huset  
 Kongens Vænge 8  
 3400 Hillerød  
 Holding 8.43%

# Topdanmark's Annual Report 2006

## Capital • Parent company

DKKm	2005	2006
<b>Solvency:</b>		
Shareholders' equity	3,973	4,366
Tax asset	(4)	(3)
<b>Core capital</b>	<b>3,969</b>	<b>4,363</b>
Statutory deductions for insurance companies	(2,602)	(2,788)
<b>Capital base</b>	<b>1,367</b>	<b>1,575</b>
Weighted assets	2,387	2,256
Core capital as a percentage of weighted assets	166.3	193.3
Solvency ratio	57.3	69.8
Solvency requirement (%)	8.0	8.0

### Profit per share

Profit for the year	1,160	1,692
Average number of shares ('000)	19,631	18,612
Diluting impact of options ('000)	485	559
Average number of shares, diluted ('000)	20,116	19,171
Profit per share, DKK	59.1	90.9
Profit per share, diluted DKK	57.7	88.3

### Own shares

	Number of shares '000	Nominal value DKKm	Percentage of share capital	Bought /sold DKKm
<b>Parent company</b>				
Held at 1 January 2005	1,263	13	5.8	-
Bought in 2005	1,380	14	6.6	619
Sold	(162)	(2)	0.8	(74)
Cancelled	(1,227)	(12)	-	-
Held at 31 December 2005	1,254	13	6.0	-
Bought in 2006	1,801	18	9.2	1,439
Sold	(401)	(4)	2.1	(317)
Cancelled	(1,200)	(12)	-	-
Held at 31 December 2006	1,454	15	7.4	-
<b>Subsidiaries</b>				
Held at 1 January 2005	366	4	1.5	-
Sold	(50)	(1)	0.2	(22)
Held at 31 December 2005	316	3	1.5	-
Sold	(107)	(1)	0.5	(58)
Held at 31 December 2006	209	2	1.1	-

# Topdanmark's Annual Report 2006

## Notes

### Segment information

<b>Non-life insurance</b>	Note
Gross premiums earned	1
Technical interest on own account	2
Claims incurred on own account	3
Technical result	4
<b>Life insurance</b>	
Gross premiums written	5
Claims and benefits paid	6
Change in the life insurance provisions	7
Income from affiliated companies	8
Income from investment properties	9
Revaluations	10
Pension return tax	11
Other expenses	12
Taxation	13
Expenses	14
Staff costs	15
Emoluments paid to the auditors	16
<b>Assets</b>	
Intangible assets	17
Tangible assets	18
Investment properties	19
Shares in affiliated companies	20
Shares in associated companies	21
Loans to associated companies	22
Investment assets related to unit-linked contracts	23
Reinsurers' share of provisions for unearned premiums	24
Reinsurers' share of provisions for claims	25
Other debtors	26
Deferred tax	27
Financial assets	28
<b>Liabilities</b>	
Subordinated loan capital	29
Provisions for unearned premiums	30
Life insurance provisions	31
Provisions for claims	32
Collective potential bonus reserve	33
Provisions for unit-linked contracts	34
Pensions and similar commitments	35
Deferred tax on security funds	36
Other creditors	37
Financial liabilities	38
<b>Other</b>	
Settlement of assets and liabilities	39
Analysis of assets and their return - life insurance	40
Shares analysed by industry and region - life insurance	41
Profit on life insurance	42
Exposure information	43
Credit risk	44
Liquidity risk	45
Comparatives 2002 og 2003	46
Related parties	47
Provision of security	48
Contingent liabilities	49
Companies	50

### Accounting policies

# Topdanmark's Annual Report 2006

## Segment information

### Profit and loss account

(DKKm)	Non-life Insurance	Life Insurance	Parent etc.	Eliminated	Group
<b>2005</b>					
<b>Non-life insurance</b>					
Gross premiums earned	8,413				8,413
Technical interest*	85				85
Claims incurred	(7,052)			18	(7,034)
Result from reinsurance	656				656
Expenses	(1,249)			33	(1,216)
Technical profit on non-life insurance	853			51	904
<b>Life insurance</b>					
Gross premiums written		2,549			2,549
Allocated investment return		2,154		(5)	2,149
Benefits and change in provisions		(4,353)			(4,353)
Result from reinsurance		(4)			(4)
Expenses		(248)		5	(243)
Technical profit on life insurance		98		0	98
Total investment return	794	2,555	17	(56)	3,310
Pension return tax		(341)			(341)
Transferred to technical result	(327)	(2,154)	0	5	(2,476)
<b>Investment return</b>	467	60	17	(51)	493
Other items	(11)	1	(29)		(39)
<b>Pre-tax profit</b>	1,309	159	(12)	0	1,456
Taxation	0	(52)	(216)		(268)
<b>Profit for the year</b>	1,309	107	(228)	0	1,188
<b>2006</b>					
<b>Non-life insurance</b>					
Gross premiums written	8,805				8,805
Technical interest*	126				126
Claims incurred	(5,937)			24	(5,913)
Result from reinsurance	(352)				(352)
Expenses	(1,283)			54	(1,229)
Technical profit on non-life insurance	1,359			78	1,437
<b>Life insurance</b>					
Gross premiums written		3,154			3,154
Allocated investment return		1,424		(8)	1,416
Benefits and change in provisions		(4,215)			(4,215)
Result from reinsurance		1			1
Expenses		(265)		8	(257)
Technical profit on life insurance		99		0	99
Total investment return	1,124	1,610	122	(86)	2,770
Pension return tax		(189)			(189)
Transferred to technical result	(448)	(1,424)	0	8	(1,864)
<b>Investment return</b>	676	(3)	122	(78)	717
Other items	12	22	(64)		(30)
<b>Pre-tax profit</b>	2,047	118	58	0	2,223
Taxation	0	0	(531)		(531)
<b>Profit for the year</b>	2,047	118	(473)	0	1,692

\* After discounting DKK 322m (2005: DKK 242m)



# Topdanmark's Annual Report 2006

## Segment information

### Balance sheet

(DKK m)	Non-life Insurance	Life Insurance	Parent etc.	Group
<b>2005</b>				
Intangible assets	549	0	0	549
Tangible assets	138	697	8	843
Investment properties	163	2,222	108	2,493
Shares in associated companies	35	264	0	299
Loans to associated companies	0	150	0	150
Other financial investment assets	12,852	21,024	45	33,921
Deposits with ceding undertakings	1	0	0	1
Investment assets linked to unit-linked contracts	0	606	0	606
Reinsurers' share of provisions	858	28	0	886
Other assets	811	505	34	1,350
<b>Total assets</b>	<b>15,407</b>	<b>25,496</b>	<b>195</b>	<b>41,098</b>
Subordinated loan capital	249	0	0	249
Total provisions for insurance and investment contracts	12,122	20,807	0	32,929
Other liabilities	1,593	2,198	545	4,336
<b>Total liabilities</b>	<b>13,964</b>	<b>23,005</b>	<b>545</b>	<b>37,514</b>
Purchase of tangible and intangible assets	187	40	2	229
Results from associated companies	2	45	0	47
Impairment and amortisation	68	1	1	70
<b>2006</b>				
Intangible assets	579	0	0	579
Tangible assets	167	640	7	814
Investment properties	182	2,337	107	2,626
Shares in associated companies	36	338	0	374
Loans to associated companies	0	114	0	114
Other financial investment assets	13,596	22,743	43	36,382
Investment assets linked to unit-linked contracts	0	761	0	761
Reinsurers' share of provisions	680	26	0	706
Other assets	794	449	41	1,284
<b>Total assets</b>	<b>16,034</b>	<b>27,408</b>	<b>198</b>	<b>43,640</b>
Subordinated loan capital	249	0	0	249
Total provisions for insurance and investment contracts	12,783	23,459	0	36,242
Other liabilities	1,890	1,136	146	3,172
<b>Total liabilities</b>	<b>14,922</b>	<b>24,595</b>	<b>146</b>	<b>39,663</b>
Purchase of tangible and intangible assets	124	17	2	143
Results from associated companies	3	74	0	77
Impairment and amortisation	53	2	1	56

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)	2005	2006
<b>Note 1. Gross premiums earned - non-life insurance</b>		
Gross premiums written	8,664	8,863
Change in the gross provisions for unearned premiums	(187)	(3)
<b>Gross premiums earned</b>	<b>8,477</b>	<b>8,860</b>
Gross premiums earned, direct business, by location of the risk:		
Denmark	8,472	8,856
Other EU-countries	3	3
Other countries	2	1
	8,477	8,860

### Note 2. Technical interest on own account - non-life insurance

Calculated interest	327	448
Discounting of technical provisions and reinsurers' share	(242)	(322)
<b>Technical interest on own account</b>	<b>85</b>	<b>126</b>

### Note 3. Claims incurred on own account - non-life insurance

Strengthening of / gains on claims provisions:		
Gross business	(105)	36
Reinsurance ceded	58	(2)
Strengthening of / gains on claims provisions on own account	(47)	34
Claims incurred include revaluation of inflation swaps hedging the inflation risk in workers' compensation and illness / accident insurance (expense)		
	26	24

### Note 4. Technical result - non-life

	2005	2006	2005	2006	2005	2006
	Illness / accident		Workers' compensation		Motor third-party liability	
Gross premiums written	973	1,007	1,023	1,176	1,152	1,163
Gross premiums earned	962	1,007	1,024	1,129	1,122	1,169
Gross claims incurred	(790)	(807)	(1,139)	(1,058)	(834)	(818)
Bonuses and rebates	(34)	(12)	(1)	(1)	(3)	(3)
Gross operating expenses	(148)	(149)	(68)	(80)	(100)	(101)
Net reinsurance	(7)	(19)	(15)	(25)	(2)	(1)
Technical interest on own account	9	14	13	18	10	16
Technical profit / (loss)	(8)	34	(186)	(17)	193	262
Gross loss ratio (%)	85.3	81.4	111.6	94.1	74.7	70.4
Combined ratio (%)	102.5	99.0	119.9	103.8	84.1	79.5
Strengthening of / gains on claims provisions on own account						
	(29)	(14)	(161)	(112)	104	108
Claims provisions on own account	1,623	1,823	3,804	4,181	1,766	1,894
Number of claims incurred ('000)	20	19	19	18	24	25
Average value of claim (DKK '000)	40	41	53	52	39	37
Annual frequency of claim	22	21	273	276	39	41

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)

<b>Note 4. Technical result - continued</b>	2005	2006	2005	2006	2005	2006
	Motor own damage		Marine, aviation and transport		Fire and contents Personal	
Gross premiums written	1,573	1,596	125	56	1,517	1,532
Gross premiums earned	1,535	1,592	127	59	1,485	1,525
Gross claims incurred	(812)	(836)	(136)	(20)	(1,138)	(974)
Bonuses and rebates	(4)	(4)	0	0	(4)	(4)
Gross operating expenses	(214)	(217)	(13)	(6)	(279)	(280)
Net reinsurance	8	(7)	38	(4)	173	(50)
Technical interest on own account	15	22	0	1	16	23
Technical profit / (loss)	528	550	16	30	253	240
Gross loss ratio (%)	53.2	52.8	107.1	33.9	77.0	64.3
Combined ratio (%)	67.0	67.5	87.4	50.8	84.7	86.8
Strengthening of / gains on claims provisions on own account	(7)	(18)	12	6	18	7
Claims provisions on own account	78	96	50	38	391	430
Number of claims incurred ('000)	108	111	1	1	138	114
Average value of claim (DKK '000)	7	7	114	19	8	9
Annual frequency of claim	221	221	123	112	187	155
	Fire and contents Commercial		Change of ownership insurance		Third-party liability	
Gross premiums written	1,565	1,584	100	90	343	323
Gross premiums earned	1,569	1,597	26	129	343	329
Gross claims incurred	(1,632)	(838)	(98)	(99)	(231)	(226)
Bonuses and rebates	(12)	(12)	0	0	(2)	(2)
Gross operating expenses	(280)	(288)	(18)	(16)	(50)	(47)
Net reinsurance	462	(238)	0	0	1	(7)
Technical interest on own account	13	17	3	6	3	5
Technical profit / (loss)	120	238	(87)	20	64	52
Gross loss ratio (%)	105.1	53.1	376.9	76.7	68.0	69.4
Combined ratio (%)	93.9	87.1	446.2	89.9	82.7	86.5
Strengthening of / gains on claims provisions on own account	33	43	(13)	(3)	(3)	7
Claims provisions on own account	410	406	81	101	455	482
Number of claims incurred ('000)	51	31	3	3	9	9
Average value of claim (DKK '000)	33	29	27	28	24	26
Annual frequency of claim	256	156	81	74	97	96
	Other direct insurance		Indirect insurance		Total	
Gross premiums written	293	336	0	0	8,664	8,863
Gross premiums earned	284	324	0	0	8,477	8,860
Gross claims incurred	(208)	(238)	(16)	2	(7,034)	(5,912)
Bonuses and rebates	(4)	(17)	0	0	(64)	(55)
Gross operating expenses	(46)	(46)	0	0	(1,216)	(1,230)
Net reinsurance	(2)	(1)	0	0	656	(352)
Technical interest on own account	3	4	0	0	85	126
Technical profit / (loss)	27	26	(16)	2	904	1,437
Gross loss ratio (%)	75.3	78.7	-	-	83.8	67.4
Combined ratio (%)	91.8	94.8	-	-	90.9	86.0
Strengthening of / gains on claims provisions on own account	3	10	(4)	0	(47)	34
Claims provisions on own account	50	89	6	1	8,714	9,542
Number of claims incurred ('000)	97	102	-	-	470	434
Average value of claim (DKK '000)	2	2	-	-	15	14
Annual frequency of claim	204	205	-	-	129	118

The annual frequency of claim has been calculated as a per thousand value.

The loss ratio and the combined ratio have been calculated before elimination of internal rent.

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)	2005	2006
<b>Note 5. Gross premiums written - life insurance</b>		
Individual policies	461	450
Policies which are part of a tenure	1,121	1,346
Group life	283	326
<b>Regular premiums</b>	<b>1,865</b>	<b>2,122</b>
Individual policies	156	158
Policies which are part of a tenure	527	874
<b>Single premiums</b>	<b>683</b>	<b>1,032</b>
Direct business	2,548	3,154
Indirect business	1	0
<b>Gross premiums</b>	<b>2,549</b>	<b>3,154</b>
Gross premiums written, direct business, by the policyholders' location:		
Denmark	2,528	3,122
Other EU-countries	6	24
Other countries	14	8
	2,548	3,154
Premiums related to unit-linked contracts not eligible for bonus are DKK 259m (2005: DKK 103m)		
All other gross premiums relate to bonus eligible insurance contracts		
Number of policyholders at the end of the year ('000):		
Individual policies	68	67
Policies which are part of a tenure	61	70
Group life	185	178
<b>Note 6. Claims and benefits paid - life insurance</b>		
Claims payable on death	88	100
Claims payable on maturity	168	232
Pension and annuity payments	498	449
Surrenders	314	667
Bonuses paid in cash	202	188
Direct business	1,270	1,636
Indirect business	17	0
<b>Claims and benefits paid</b>	<b>1,287</b>	<b>1,636</b>
<b>Note 7. Change in the life insurance provisions</b>		
Guaranteed benefits	2,417	(422)
Bonus potential on future premiums	(289)	1,209
Bonus potential on paid-up benefits	55	1,139
<b>Change in the life insurance provisions</b>	<b>2,183</b>	<b>1,926</b>
<b>Note 8. Income from affiliated companies - Parent company</b>		
Share of result before taxation:		
Topdanmark Forsikring A/S	1,350	2,007
Adjustment	67	158
Topdanmark Invest A/S	7	6
Topdanmark Kapitalforvaltning A/S	31	100
TD.0151 ApS	26	76
Adjustment	(23)	(75)
Other	-	5
<b>Income from affiliated companies</b>	<b>1,458</b>	<b>2,277</b>

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)

### Note 8. Income from affiliated companies - Parent company - continued

The same accounting policies are applied by the subsidiaries as by the parent company. Properties owned by the life insurance companies and used by the Group have been reclassified from investment properties to owner-occupied properties, and shares in Topdanmark A/S and liabilities on management share options based on shares in Topdanmark A/S have been reclassified to equity instruments which are not recognised in the balance sheet.

The results and shareholders' equity of the affiliated companies disclosed in their most recent Annual Reports are in the note on related parties.

<b>Note 9. Income from investment properties</b>	2005	2006
Rental income	166	184
Operating expenses from properties rented out	(11)	(17)
Operating expenses from properties not rented out	(3)	(5)
Gross profit	152	162
Administrative expenses	(9)	(13)
<b>Income from investment properties</b>	<b>143</b>	<b>149</b>

### Note 10. Revaluations

#### Group:

#### Trading portfolio:

Shares	1,304	896
Unit trusts	(7)	15
Bonds	780	(374)
Loans guaranteed by mortgages	(1)	1
Other loans	(1)	0
Derivatives	(200)	92
Convertible debt instruments	(53)	97
Total trading portfolio:	1,822	727
Designated at fair value:		
Cash at bank and in hand	2	0
Deposits with credit institutions	(4)	0
Amounts due to credit institutions	(1)	0
Investment assets related to unit-linked contracts:		
Shares	24	34
Unit trusts	57	34
Bonds	1	0
Total designated at fair value	79	68
Revaluations of financial assets and liabilities at fair value through profit and loss	1,901	795
Of which revaluation of inflation swaps transferred to claims incurred	26	24
Investment properties	45	76
Owner-occupied properties	3	7
Provision for unearned premiums	0	5
Provision for claims and benefits	(138)	306
Reinsurers' share	0	(9)
Other	0	2
<b>Revaluations</b>	<b>1,837</b>	<b>1,206</b>

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)	2005	2006
<b>Note 10. Revaluations - continued</b>		
<b>Parent company</b>		
Bonds	1	0
Deposits with credit institutions	0	(1)
Derivatives	(9)	(8)
<b>Revaluations</b>	<b>(8)</b>	<b>(9)</b>
<b>Note 11. Pension return tax</b>		
Current pension return tax for the year	345	200
Prior year adjustment	(2)	(5)
Pension return tax for the year	343	195
Pension return tax taken to shareholders' equity	(2)	(6)
<b>Pension return tax</b>	<b>341</b>	<b>189</b>
Exempt from tax (%)	4.9	4.2
<b>Note 12. Other expenses</b>		
Holding expenses	29	31
Impairment of goodwill	12	0
Other	5	6
<b>Other expenses</b>	<b>46</b>	<b>37</b>
<b>Note 13. Taxation</b>		
<b>Group:</b>		
Current tax	185	526
Change in deferred tax	115	(11)
Prior year adjustment	3	24
Change in deferred tax on security funds	(28)	0
Tax for the year	275	539
Tax taken to shareholders' equity	(7)	(8)
<b>Taxation</b>	<b>268</b>	<b>531</b>
Calculated tax on profit for the year 28%	408	622
Adjusted for the tax effect of:		
Returns on shares etc. not liable to tax	(137)	(117)
Non-deductible expenses / income not liable to tax	22	(5)
Change in rate of taxation	(22)	0
Prior year adjustment	(3)	31
	268	531
Effective rate of taxation	18.4	23.9
<b>Parent company</b>		
Current tax	(17)	(16)
Prior year adjustment	1	26
Deferred tax carried forward	(50)	0
Change in deferred tax	51	1
Tax on income in parent company	(15)	11
Tax in affiliated companies	266	528
Tax for the year	251	539
Tax taken to shareholders' equity	(7)	(8)
<b>Taxation</b>	<b>244</b>	<b>531</b>

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)	2005	2006
<b>Note 13. Taxation - continued</b>		
Pre-tax profit excl. income from affiliated companies	(54)	(54)
Calculated tax 28%	(15)	(15)
Adjusted for the tax effect of:		
Non-deductible expenses / income not liable to tax	(1)	0
Prior year adjustment	1	26
	(15)	11
Effective rate of taxation	27.1	(19.5)

### Note 14. Expenses

Expenses by their nature:		
Commission - non-life insurance	277	275
Commission - life insurance	86	84
Staff costs (excl. commission)	1,107	1,193
Other staff costs	130	129
Premises costs	169	158
IT operations and maintenance	97	105
Impairment and amortisation	70	56
Other expenses	95	73
Total expenses	2,031	2,073
These expenses have been disclosed in:		
Non-life insurance		
Acquisition costs	749	739
Administrative expenses	467	491
Claims paid (claims handling and assessment)	462	473
	1,678	1,703
Life insurance		
Acquisition costs	117	128
Administrative expenses	126	129
	243	257
Income from investment properties	23	35
Expenses on investment business	41	41
Other expenses	46	37
Total expenses	2,031	2,073

### Note 15. Staff costs

Salaries	995	1,052
Pensions	154	163
Social security costs	23	28
Payroll tax	109	113
	1,281	1,356
Average number of full-time employees	2,206	2,214

Emoluments paid to the Board of Directors and Board of Management are disclosed in the note on related parties.

The parent company has paid emoluments to the Representative Assembly of DKK 867,000 (2005: DKK 620,000).

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKK m)

### Note 15. Staff costs - continued

#### Share options/warrants

The Board of Management, Senior Management, and up to the end of 2003 the Board of Directors, participate in a share option/warrant scheme.

The programme is primarily based on payment by shares (equity instruments).

For those options paid for in cash, the liability has been recorded at fair value under the heading Creditors and revalued regularly with any changes in value being taken to the profit and loss account under financial items.

	2005	2006
Accounting liability	11	10
Net asset value	11	10
Revaluations	3	8

Number of options / warrants ('000)	Strike price	Board of Directors	Board of Management	Senior management	Resigned	Total
<b>2005</b>						
Outstanding at 1 January		23	253	969	34	1,279
Granted	478	0	70	180	0	250
Exercised		(4)	(84)	(229)	(17)	(334)
Outstanding at 31 December 2005		19	239	920	17	1,195
Average strike price at 31 December 2005		193	329	280	202	288
<b>2006</b>						
Outstanding at 1 January		19	239	920	17	1,195
Granted	608	0	65	135	0	200
Transferred		95	(42)	(231)	178	0
Exercised		(9)	(100)	(302)	(44)	(455)
Lost		(1)	0	0	0	(1)
Outstanding at 31 December 2006		104	162	522	151	939
Per granting:	Exercise period					
2001	- March 2007	160	2	8	6	16
2002	- March 2008	195	3	15	66	85
2003	- March 2009	203	6	15	83	113
2004	March 2007 - March 2009	349	39	42	134	275
2005	March 2008 - March 2010	478	37	39	122	250
2006	March 2009 - March 2011	608	17	43	111	200
Outstanding at 31 December 2006		104	162	522	151	939
Average price exercised opt./warr. 2005		167	195	191	155	192
Average price exercised opt./warr. 2006		190	195	192	187	203
Fair value of granting 2005			6	14		20
Fair value of granting 2006			3	9		12
Fair Value at 31 December 2005		7	56	255	5	323
Fair Value at 31 December 2006		53	86	285	76	500

The fair value has been calculated on a reasonable assumption of the probability distribution for the movement in the share price and the employees' and Directors' patterns of option exercise. The value has been calculated using the Black & Scholes model. The calculation has taken into account the inherent limitations on exercise on the incidence of, for example, dismissal, illness or retirement.

The expected future volatility has been calculated at 20% (2005: 15%) on the basis of previous years' volatility. The interest rate has been based on the zero-coupon rate structure.



# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKK m)

2005 2006

### Note 15. Staff costs - continued

#### Employee shares

The parent company has sold 40,000 employee shares at an advantageous price.  
The beneficial element of which has been calculated at DKK 13m according to IFRS2.

### Note 16. Emoluments paid to the auditors

#### Group

Emoluments paid to the auditors elected by the AGM

Deloitte:

Audit work	3,3	3,8
Other services	1,1	0,7
	4,4	4,5

KPMG C. Jespersen:

Audit work	0,5	-
Other services	0,5	-
	1,0	-

#### Parent company

Deloitte

Audit work	0,8	1,0
Other services	0,9	0,2
	1,7	1,2

KPMG C. Jespersen

Audit work	0,1	-
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The Group has an internal audit department which carries out most of the audit work.

### Note 17. Intangible assets

Group	Goodwill	IT software	Developm't projects under construction	Total
<b>2005</b>				
Cost at 1 January	453	43	70	566
Purchased	0	22	16	38
Cost at 31 December	453	65	86	604
Impairment and amortisation at 1 January	0	(34)	0	(34)
Amortisation for the year	0	(9)	0	(9)
Impairment for the year	(12)	0	0	(12)
Impairment and amortisation at 31 December	(12)	(43)	0	(55)
<b>Intangible assets 2005</b>	441	22	86	549
<b>2006</b>				
Cost / valuation at 1 January	453	65	86	604
Purchased	0	13	29	42
Cost / valuation at 31 December	453	78	115	646
Impairment and amortisation at 1 January	(12)	(43)	0	(55)
Amortisation for the year	0	(12)	0	(12)
Impairment and amortisation at 31 December	(12)	(55)	0	(67)
<b>Intangible assets 2006</b>	441	23	115	579

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKK m)

### Note 17. Intangible assets - continued

Goodwill is subjected to an impairment test at the end of the financial year.

The discounted value of future cash flows is compared with its carrying value.

The future cash flows are based on three years' budgeted technical result of non-life insurance.

The post-tax discount rate used is 9%.

Amortisation of intangible assets is primarily included in operating expenses.

### Note 18. Tangible assets

<b>Group</b>	<b>Machinery &amp; equipment</b>	<b>Owner-occupied properties</b>	<b>Properties under construction</b>	<b>Total</b>
<b>2005</b>				
Cost / revaluation at 1 January	341	662	53	1,056
Additions, including improvements	50	0	141	191
Disposals	(96)	(14)	(106)	(216)
Revaluations taken to shareholders' equity	0	10	0	10
Revaluations recorded in the profit and loss account	0	(2)	0	(2)
Cost / revaluation at 31 December	295	656	88	1,039
Amortisation and write-downs at 1 January	(231)	0	0	(231)
Amortisation for the year	(48)	(1)	0	(49)
Transferred on revaluation	0	1	0	1
Reversal of total amortisation and write-downs of assets sold or withdrawn from operations during the year	83	0	0	83
Amortisation and write-downs at 31 December	(196)	0	0	(196)
<b>Tangible assets 2005</b>	<b>99</b>	<b>656</b>	<b>88</b>	<b>843</b>
<b>2006</b>				
Cost / revaluation at 1 January	295	656	88	1,039
Additions, including improvements	86	1	14	101
Disposals	(24)	(7)	0	(31)
Transferred to investment properties	0	(20)	(52)	(72)
Revaluations taken to shareholders' equity	0	8	0	8
Revaluations recorded in the profit and loss account	0	(2)	0	(2)
Cost / revaluation at 31 December	357	636	50	1,043
Amortisation and write-downs at 1 January	(196)	0	0	(196)
Amortisation for the year	(43)	(1)	0	(44)
Transferred on revaluation	0	1	0	1
Reversal of total amortisation and write-downs of assets sold or withdrawn from operations during the year	10	0	0	10
Amortisation and write-downs at 31 December	(229)	0	0	(229)
<b>Tangible assets 2006</b>	<b>128</b>	<b>636</b>	<b>50</b>	<b>814</b>

# Topdanmark's Annual Report 2006

## Notes to the account

(DKKm)	2005	2006
<b>Note 18. Tangible assets - continued</b>		
The valuation of the owner-occupied properties has been based on a required average return of:	6.8%	6.9%
Cost of revalued owner-occupied properties	646	648
Machinery and equipment includes assets under finance leases of	9	22
<b>Parent company</b>		
<b>Machinery and equipment</b>		
Cost at 1 January	6	8
Additions, including improvements	2	2
Disposals	0	(3)
Cost at 31 December	8	7
Amortisation and write-downs at 1 January	0	(1)
Amortisation for the year	(1)	(1)
Reversal of total amortisation and write-downs of assets sold or withdrawn from operations during the year	0	1
Amortisation and write-downs at 31 December	(1)	(1)
<b>Tangible assets</b>	<b>7</b>	<b>6</b>
<b>Note 19. Investment properties</b>		
Fair value at 1 January	2,133	2,493
Additions - acquisitions	333	0
Additions - improvements	30	22
Transferred from owner-occupied properties	0	20
Transferred from properties under construction	0	52
Disposals	(34)	(24)
Revaluation to fair value	31	63
<b>Investment properties</b>	<b>2,493</b>	<b>2,626</b>
Non-residential	1,894	1,940
Residential and part residential	599	686
	2,493	2,626
The valuation of the properties has been based on a required average return of:		
Non-residential	6.3%	6.8%
Residential and part residential	5.2%	4.7%
<b>Note 20. Shares in affiliated companies - Parent company</b>		
Topdanmark Forsikring A/S	4,518	4,691
Adjustment	165	75
Topdanmark Kapitalforvaltning A/S	32	82
TD.0151 ApS	57	134
Adjustment	(110)	(125)
Topdanmark Invest A/S	121	122
Overseas Tankers 2 ApS	1	-
web-postkassen.dk ApS	-	1
	4,784	4,980
Of which companies with a negative net asset value	53	0
<b>Shares in affiliated companies</b>	<b>4,837</b>	<b>4,980</b>

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)

### Note 20. Shares in affiliated companies - Parent company - continued

The same accounting policies are applied by the subsidiaries as by the parent company. Properties owned by the life insurance companies and used by the Group have been re-classified from investment properties to owner-occupied properties, and shares in Topdanmark A/S and liabilities on management share options based on shares in Topdanmark A/S have been re-classified to equity instruments which are not recognised in the balance sheet.

The results and shareholders' equity of the affiliated companies disclosed in their most recent Annual Reports are shown in the note on connected parties.

Note 21. Shares in associated companies	2005	2006
Book value at 1 January	155	299
Additions	100	0
Share of profit	47	77
Share of movements in shareholders' equity	0	1
Dividends received	(3)	(3)
<b>Shares in associated companies</b>	<b>299</b>	<b>374</b>

	Percentage share	Share-holders' equity	Assets	Liabilities	Income	Result
<b>2005</b>						
Bornholms Brandforsikring A/S, Rønne Captives, Luxembourg	27	56	141	85	77	12
Ejendomsselskabet af Januar 2002 A/S, Copenhagen	10-50	63	241	178	167	1
Dantop Ejendomme ApS, Copenhagen	25	606	1,069	463	31	131
<b>Total</b>	50	225	307	82	6	25
<b>Total</b>		950	1,758	808	281	169
<b>2006</b>						
Bornholms Brandforsikring A/S, Rønne Captives, Luxembourg	27	65	142	77	82	10
Ejendomsselskabet af Januar 2002 A/S, Copenhagen	10-50	63	268	205	176	0
Dantop Ejendomme ApS, Copenhagen	25	802	1,195	393	30	196
<b>Total</b>	50	275	321	46	10	51
<b>Total</b>		1,205	1,926	721	298	257

Bornholms Brandforsikring A/S has been recognised on the basis of the most recent financial information at 30 September 2006.

The accounting information is according to the companies' most recent annual reports.

### Note 22. Loans to associated companies

Average effective interest rate	8.39%	8.05%
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# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKK m)	2005	2006
<b>Note 23. Investment assets related to unit-linked contracts</b>		
Shares	73	179
Unit trusts	505	575
Bonds	28	7
<b>Investment assets related to unit-linked contracts</b>	<b>606</b>	<b>761</b>

The return on the above assets and derivatives is allocated to customers

<b>Note 24. Reinsurers' share of provisions for unearned premiums</b>		
Reinsurers' share at 1 January	107	98
Reinsurance ceded	793	727
Reinsurance earned	(800)	(736)
Other changes	(2)	(1)
<b>Reinsurers' share of provisions for unearned premiums</b>	<b>98</b>	<b>88</b>

<b>Note 25. Reinsurers' share of provisions for claims</b>		
<b>Non-life insurance</b>		
Reinsurers' share at 1 January	527	760
Reimbursement of claims relating to previous years	(266)	(375)
Change in expected income relating to previous years	58	(2)
Reimbursement of claims relating to this year	(898)	(100)
Expected income relating to this year	1,321	301
Discounting effect (annual amortisation)	18	17
Revaluation	0	(9)
<b>Reinsurers' share at 31 December</b>	<b>760</b>	<b>592</b>

<b>Note 26. Other debtors</b>						
Other debtors include financial leasing debtors.						
	Gross in-	Interest	Present	Unearned	Book	
	vestment		value	interest	value	
				income		
<b>2005</b>						
0-1 year	6	0	6			
1-5 years	21	1	20			
	27	1	26	2	25	
<b>2006</b>						
0-1 years	2	0	2			
1-5 years	20	1	19			
	22	1	21	1	21	

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)

Note 27. Deferred tax	2004	2005	2006
<b>Group</b>			
Bonds etc.	3	(63)	(22)
Properties	(31)	(27)	(32)
Machinery and equipment	120	89	68
Liabilities provided	30	17	16
Provisions	(70)	(68)	(60)
Losses brought forward	6	2	0
Other	21	14	5
<b>Deferred tax</b>	79	(36)	(25)
Recognised as:			
Deferred tax assets	79	78	66
Deferred tax liabilities	0	(114)	(91)
<b>Deferred tax</b>	79	(36)	(25)
Changes relating to the year		(115)	11
<b>Parent company</b>			
Machinery and equipment	1	1	0
Other	4	3	3
Tax in affiliated companies	50	-	-
<b>Deferred tax</b>	55	4	3
Changes relating to the year		(51)	(1)

## Note 28. Financial assets

### Financial assets at fair value through profit and loss

Held for trading:		
Shares and unit trusts	5,275	5,978
Bonds	24,841	26,203
Loans guaranteed by mortgages and other loans	81	39
Derivatives	1,132	804
Accrued interest	425	451
	31,754	33,475
Designated at fair value:		
Deposits with credit institutions	2,407	3,141
Cash at bank and in hand	185	217
Investment assets linked to unit-linked contracts	606	761
	3,198	4,119

### Loans and receivables at amortised cost

Loans to associated companies	150	114
Amounts due from policyholders	343	298
Amounts due from insurance companies	170	168
Other debtors	123	110
Other incl. accrued interest	93	99
	879	789

<b>Total financial assets</b>	35,831	38,383
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The book value of loans and receivables at amortised cost approximately corresponds to fair value.

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)	2005	2006
<b>Note 29. Subordinated loan capital</b>		
In 2005 Topdanmark Forsikring issued a subordinated loan of DKK 250m.		
It is a bullet loan expiring on 27 June 2013 but if permitted by the DFSA, the debtor can give notice of termination as from 27 June 2010. The loan carries a floating interest rate determined as CIBOR + 100 bp, currently 4.8683% annually. As from 27 June 2010 the rate will increase to CIBOR + 250 bp.		
Share of loan included in capital base	215	218
Interest charges	4	10

### Note 30. Provisions for unearned premiums

Provisions for unearned premiums at 1 January	2,388	2,577
Gross premiums written	8,664	8,863
Premiums earned	(8,477)	(8,860)
Discounting	2	8
Revaluation	0	(5)
<b>Provisions for unearned premiums at 31 December</b>	<b>2,577</b>	<b>2,583</b>

### Note 31. Life insurance provisions

Life insurance provisions at 1 January	16,177	18,375
Accumulated revaluation at 1 January	(352)	(686)
Retrospective provisions at 1 January	15,825	17,689
Gross premiums written	2,445	2,894
Accrued interest	767	901
Claims and benefits	(1,176)	(1,576)
Expense loading inclusive of expense bonus	(173)	(187)
Risk gain after allocating policyholders' risk bonus	(22)	(52)
Other	23	(35)
Retrospective provisions at 31 December	17,689	19,634
Accumulated revaluation at 31 December	686	667
Life insurance provisions at 31 December	18,375	20,301
Guaranteed benefits	11,537	11,115
Bonus potential on future premiums	5,033	6,242
Bonus potential on paid-up benefits	1,805	2,944
<b>Life insurance provisions</b>	<b>18,375</b>	<b>20,301</b>

Portfolios analysed by capitalisation rates	Capitalisation rate	Guaranteed benefits	Bonus potential on future premiums	Bonus potential on paid-up benefits
<b>2005</b>				
Topdanmark Livsforsikring A/S	0%	37	0	0
	1%	43	0	2
	2%	(680)	4,154	1,048
	3%	2,595	666	679
	3.49%	65	15	1
		2,060	4,835	1,730
Topdanmark Livsforsikring V A/S	0%	19	0	0
	2%	139	6	10
	3%	9	2	2
	5/3/2 or above	8,408	190	63
		8,575	198	75
Group Life		98	0	0
U74-annuities		804	0	0
<b>Total 2005</b>		<b>11,537</b>	<b>5,033</b>	<b>1,805</b>

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)

### Note 31. Life insurance provisions - continued

2006	Capitalisation rate	Guaranteed benefits	Bonus potential on future premiums	paid-up benefits
Topdanmark Livsforsikring A/S	0%	63	0	0
	1%	48	0	0
	2%	(820)	5,240	1,872
	3%	2,571	708	924
	3.49%	22	1	1
		1,884	5,949	2,797
Topdanmark Livsforsikring V A/S	0%	34	0	0
	2%	186	7	14
	3%	9	3	2
	5/3/2 or above	8,193	283	131
		8,422	293	147
Group Life		104	0	0
U74-annuities		705	0	0
<b>Total 2006</b>		11,115	6,242	2,944

### Note 32. Provisions for claims

2005 2006

#### Non-life insurance

##### Gross

Provisions at 1 January	8,117	9,474
Claims paid relating to previous years	(2,809)	(2,799)
Change in expected claims payments relating to previous years	105	(37)
Claims paid relating to this year	(3,262)	(2,478)
Expected claims payments relating to this year	6,927	5,948
Discounting (annual amortisation)	258	332
Revaluation	138	(306)
Provisions at 31 December	9,474	10,134

##### On own account

Provisions at 1 January	7,590	8,714
Claims paid relating to previous years	(2,543)	(2,424)
Change in expected claims payments relating to previous years	47	(34)
Claims paid relating to this year	(2,364)	(2,378)
Expected claims payments relating to this year	5,606	5,647
Discounting (annual amortisation)	240	315
Revaluation	138	(298)
Non-life insurance on own account at 31 December	8,714	9,542
Life insurance	64	75
<b>Provisions for claims on own account</b>	<b>8,778</b>	<b>9,617</b>

Provisions for workers' compensation insurance on own account	3,804	4,181
Average period of settlement	8 years	8 years

The assumed real growth in the value of the payments is an annual 1.16% which on the basis of the forward inflation rates at 31 December has been translated to a weighted future wage and salary indexation of an annual 3.12%.

Illness / accident insurance on own account administered by the life insurance business	643	864
Average period of settlement	14 years	14 years



# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)

### Note 32. Provisions for claims - continued

#### Claims liabilities analysed by claims year

<b>Gross</b>	2006	2005	2004	2003	2002	2001	2000	Total
End of year	6,122	7,079	5,888	4,831	4,769	4,436	4,202	
1 year later		6,776	5,677	4,946	4,798	4,381	4,215	
2 years later			5,574	4,906	4,870	4,407	4,270	
3 years later				4,982	5,064	4,491	4,333	
4 years later					5,144	4,637	4,419	
5 years later						4,687	4,487	
6 years later							4,497	37,782
Less paid	(2,478)	(4,648)	(4,267)	(4,127)	(4,560)	(4,271)	(4,276)	(28,627)
Provisions before discounting	3,644	2,128	1,307	855	584	416	221	9,155
Discounting	(152)	(89)	(45)	(27)	(15)	(6)	(4)	(338)
	3,492	2,039	1,262	828	569	410	217	8,817
Provisions relating to previous years								1,317
Gross provisions at 31 December 2006								
- non-life insurance								10,134
<b>On own account</b>	2006	2005	2004	2003	2002	2001	2000	Total
End of year	5,813	5,733	5,316	4,508	4,326	3,957	3,646	
1 year later		5,455	5,057	4,611	4,362	3,901	3,621	
2 years later			4,936	4,561	4,426	3,943	3,700	
3 years later				4,634	4,587	4,025	3,772	
4 years later					4,659	4,176	3,864	
5 years later						4,227	3,938	
6 years later							3,947	33,671
Less paid	(2,378)	(3,556)	(3,726)	(3,817)	(4,104)	(3,819)	(3,729)	(25,129)
Provisions before discounting	3,435	1,899	1,210	817	555	408	218	8,542
Discounting	(145)	(74)	(41)	(24)	(13)	(6)	(4)	(307)
	3,290	1,825	1,169	793	542	402	214	8,235
Provisions relating to previous years								1,307
Provisions on own account at 31 December 2006								
- non-life insurance								9,542
Reconciliation:								
Provisions for claims								10,209
Less amount relating to life insurance								(75)
Less reinsurers' share of provisions								(592)
Provisions on own account at 31 December 2006								
- non-life insurance								9,542
Composition of expected payments on own account:								
Originally calculated claims payment	5,807	5,714	5,264	4,496	4,303	3,949	3,644	33,177
Loss / gain on settlement	-	(276)	(426)	(60)	224	137	216	(185)
Claims handling etc. at 1 January 2004	-	-	-	127	37	27	12	203
Discounting / revaluation workers' compensation insurance and illness / accident	6	17	98	71	95	114	75	476
	5,813	5,455	4,936	4,634	4,659	4,227	3,947	33,671

## Notes to the accounts

(DKKm)

### Note 32. Provisions for claims - continued

The table shows the historical development in the estimated final liability (the sum of claims payments and provisions) for each claims year from 2000 up to and including 2006. Most of the liabilities shown have been calculated without discounting which to a great extent eliminates changes in discounting rates and methods after the change to IFRS.

However, workers' compensation and illness / accident administered by the life insurance business are included at discounted values.

For the years 2004-2006 the claims handling expenses etc. have been included at their originally estimated values whereas for the claims years 2000-2003 they have been included on an on-going basis at the amounts provided in the opening balance sheet at 1 January 2004. The values in the table above are shown both gross and on own account.

<b>Note 33. Collective potential bonus reserve</b>	2005	2006
Book value at 1 January	958	1,757
Change taken to the profit and loss account	800	391
Change taken to shareholders' equity	-1	2
<b>Collective potential bonus reserve</b>	<b>1,757</b>	<b>2,150</b>

### Note 34. Provisions for unit-linked contracts

<b>2005</b>	Insurance contracts	Investment contracts	Total
Gross provisions at 1 January	366	133	499
Transferred	1	(1)	0
Accumulated revaluation at 1 January	2	0	2
Retrospective provisions at 1 January	369	132	501
Gross premiums / payments received	103	42	145
Return	53	29	82
Claims and benefits / payments made	(100)	(8)	(108)
Expense loading inclusive of expense bonus	(5)	(2)	(7)
Risk gain after addition of risk bonus	(1)	0	(1)
Retrospective provisions at 31 December	419	193	612
<b>Provisions for unit-linked contracts</b>	<b>419</b>	<b>193</b>	<b>612</b>
<b>2006</b>			
Gross provisions at 1 January	419	193	612
Retrospective provisions at 1 January	419	193	612
Gross premiums / payments received	259	84	343
Return	41	34	75
Claims and benefits / payments made	(72)	(13)	(85)
Expense loading inclusive of expense bonus	(8)	(3)	(11)
Risk gain after addition of risk bonus	(1)	0	(1)
Retrospective provisions at 31 December	638	295	933
<b>Provisions for unit-linked contracts</b>	<b>638</b>	<b>295</b>	<b>933</b>

Number of investment contract customers is 1,273 (2005: 1,162).

The contracts written do not have guarantees

### Note 35. Pensions and similar commitments

Retirement benefits	39	36
Anniversaries	16	16
Other pension commitments	6	5
<b>Pensions and similar commitments</b>	<b>61</b>	<b>57</b>

Other pension commitments cover former senior executives and their widows. The provision has been calculated on the basis of G82 and subsequently strengthened. The scheme comprises six individuals with an average age of 88.

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKK m)	2005	2006
<b>Note 36. Deferred tax on security funds</b>		
Book value at 1 January	417	389
Change in the corporation tax rate	(28)	0
<b>Deferred tax on security funds</b>	<b>389</b>	<b>389</b>

The security funds will be taxed in proportions of 10% for every 10 percentage point decline in technical provisions on own account from the level at 31 December 1994. A decline of 10% from the 1994 level is considered highly improbable as long as Topdanmark Forsikring, in which the transfers were made, continues its current operations. Therefore the security funds will only be taxed if the insurance portfolio is transferred or the company ceases to carry out insurance business.

Therefore deferred tax is not provided on security funds in the parent company.

### Note 37. Other creditors

The Group has entered into a financial lease agreement for its mainframe CPU. The agreement was renewed in 2006 and expires in 2010.

	Minimum lease payment	Interest	Present value	Book value
<b>2005</b>				
0-1 year	3	0	3	
1-5 years	7	0	7	
	10	0	10	10
<b>2006</b>				
0-1 year	9	0	9	
1-5 years	14	1	13	
	23	1	22	22

	2005	2006
<b>Note 38. Financial liabilities</b>		
<b>Financial liabilities measured at fair value through profit and loss</b>		
Held for trading:		
Convertible debt instruments	399	0
Derivatives	116	94
	515	94
Designated at fair value:		
Debts to credit institutions	2,258	1,576
<b>Financial liabilities measured at amortised cost</b>		
Subordinated loan capital	249	249
Deposits with ceding undertakings	30	30
Creditors arising out of direct insurance operations	2	3
Creditors arising out of reinsurance operations	39	25
Amounts due to associated companies	5	5
Other creditors	760	764
<b>Total financial liabilities</b>	<b>1,085</b>	<b>1,076</b>

Book value of financial liabilities at amortised cost approximately corresponds to fair value.

Debts to credit institutions due after more than 5 years	8	7
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# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm) 2005      2006

### Note 39. Settlement of assets and liabilities

Except for tangible and intangible assets, investment properties and investments in associated companies, most other assets are expected to be settled within a year with the proviso that the three-year tax-exemption for gains on equities is taken into account.

It is expected that the following significant liabilities will be settled 12 months or more after the balance sheet date.

Subordinated loan capital	249	249
Provisions for unearned premiums	195	155
Guaranteed pension benefits	10,663	10,186
Bonus potential on future premiums	4,753	5,749
Bonus potential on paid-up benefits	1,705	2,712
Provisions for claims and benefits	6,581	7,181
Collective potential bonus reserve	1,756	2,044
Provisions for unit-linked contracts	506	828
Deferred tax on security funds	389	389
<b>Total liabilities</b>	<b>26,797</b>	<b>29,493</b>

### Note 40. Analysis of assets and their return - life insurance

	Book value		Net investment	Return (%)*
	1 January	31 December		
Land and buildings	2,917	2,973	6	10.5
Limited property companies	413	452	(35)	19.5
<b>Total land and buildings</b>	<b>3,330</b>	<b>3,425</b>	<b>(29)</b>	<b>11.6</b>
Other affiliated companies	27	0	(27)	0.0
Listed Danish shares	1,968	2,074	(327)	28.1
Unlisted Danish shares	12	30	18	0.2
Listed foreign shares	1,836	2,243	184	18.3
Unlisted foreign shares	204	389	112	16.1
<b>Total other shares</b>	<b>4,020</b>	<b>4,736</b>	<b>(13)</b>	<b>21.9</b>
Government bonds (Zone A)	667	333	(306)	1.3
Mortgage bonds	6,007	7,600	1,741	1.9
Index-linked bonds in DKK	1,545	1,409	(128)	2.0
Credit bonds investment grade	5,328	3,522	(871)	10.0
Credit bonds non-investment grade and emerging market bonds	738	2,061	427	9.6
Other bonds	0	1	1	4.0
<b>Total bonds</b>	<b>14,285</b>	<b>14,926</b>	<b>864</b>	<b>4.1</b>
Other financial investment assets	1,590	2,421	713	3.0
Derivatives to hedge against the net change in assets and liabilities**	1,106	688	0	

\* Annual return as a percentage before pension return and corporation tax.

\*\* Liv V has invested in interest rate options - Euro-CMS-floors with a strike rate of 5% - to hedge the guaranteed benefits.

The return percentages on derivatives are calculated as the return on derivatives as a percentage of the size to the exposure of the underlying asset.

The exposure in foreign equities is adjusted by means of derivatives.

After including derivatives the exposure in foreign shares on 31 December 2006 was DKK 3,538m.

Shares in Topdanmark A/S represent DKK 70m (2005: DKK 62m).

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)

### Note 41. Shares analysed by industry and region(%) - life insurance

2006	Denmark	Other Europe	North America	Japan	Other Far East	Other countries	Total
Energy	0	2	1	0	0	0	3
Materials	2	2	0	0	0	0	4
Industrial	14	2	3	0	0	0	19
Consumer durables	1	3	1	0	0	0	5
Consumer goods	4	2	2	0	0	0	8
Health care	9	1	2	0	0	0	12
Financial	15	7	3	1	0	0	26
IT	1	1	2	0	1	0	5
Tele-communication	0	2	1	0	0	0	3
Supply	0	1	0	0	0	0	1
Not analysed	1	5	1	0	0	7	14
<b>Total</b>	<b>47</b>	<b>28</b>	<b>16</b>	<b>1</b>	<b>1</b>	<b>7</b>	<b>100</b>

Shares in Topdanmark A/S represent DKK 70m.

### Note 42. Profit on life insurance

The calculation of profit for those life insurance companies with portfolios of bonus-participating policies (Topdanmark Livsforsikring and Topdanmark Livsforsikring V) is regulated by the Danish Financial Business Act. The DFSA sets requirements on how the "insurance technical result" (before bonus contribution) should be allocated between the policyholders and the owners of the company.

The calculation of profit on life insurance excludes illness / accident insurance which is included in non-life insurance.

	2005			2006		
	Liv I	Liv V	Total	Liv I	Liv V	Total
Insurance technical result	1,059	646	1,705	1,074	145	1,219
Customers' share	990	572	1,562	999	62	1,061
Share of insurance technical result taken to shareholders' equity	69	74	143	75	83	158
This share represents:						
Investment return	31	30	61	26	39	65
Allowance for risk Liv I 0.4% and Liv V 0.55% of average retrospective provisions	31	44	75	39	44	83
Pre-tax profit Topdanmark Link	7		7	10		10
	69	74	143	75	83	158
Financing costs Liv Holding			(6)			(8)
Profit before calculated compensation etc.			137			150
Calculated compensation etc.			(30)			(32)
Profit on life insurance			107			118

Notes to the accounts

(DKKm)	2005	2006	
<b>Note 43. Exposure information</b>			
<b>Non-life insurance</b>			
Event	Effect on shareholders' equity		
0.7 percentage point increase in interest rates	(146)	(108)	
0.7 percentage point decline in interest rates	145	80	
12% decline in equity prices	(159)	(155)	
8% decline in property prices	(50)	(47)	
Exchange rate exposure of 99.5%	(17)	(13)	
Loss on counterparties of 8%	(383)	(381)	
<b>Life insurance</b>			
Event	Min. effect on capital base	Max. effect on collective potential bonus reserve	Max. effect on potential bonus reserve for benefits on paid-up policies before change in potential bonus reserve used for such benefits
<b>2005</b>			
0.7 percentage point increase in interest rates	(20)	(100)	594
0.7 percentage point decline in interest rates	20	58	(596)
12% decline in equity prices	(2)	(437)	0
8% decline in property prices	(34)	(193)	0
Exchange rate exposure of 99.5%	(1)	(3)	0
Loss on counterparties of 8%	(40)	(402)	0
10% decline in mortality intensity	(5)	(116)	0
10% increase in mortality intensity	4	99	0
10% increase in disability intensity	0	(29)	0
<b>2006</b>			
0.7 percentage point increase in interest rates	(29)	(130)	479
0.7 percentage point decline in interest rates	29	142	(753)
12% decline in equity prices	(1)	(517)	0
8% decline in property prices	(29)	(201)	0
Exchange rate exposure of 99.5%	0	(2)	0
Loss on counterparties of 8%	(35)	(370)	0
10% decline in mortality intensity	(4)	(71)	3
10% increase in mortality intensity	3	92	(3)
10% increase in disability intensity	0	(12)	9
The events have no effect on the potential bonus reserve used for benefits on paid-up policies.			

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)

### Note 44. Credit risk

<b>2005</b>	Group excl. Life	Life	Group
Financial assets measured at fair value:			
Bonds	10,558	14,283	24,841
Loans guaranteed by mortgages and other loans	77	4	81
Deposits with credit institutions	866	1,541	2,407
Cash at bank and in hand	70	115	185
Derivatives	9	1,123	1,132
Accrued interest	142	283	425
	11,722	17,349	29,071
Reinsurers' share			
Provisions for claims	760	0	760
Life insurance provisions	0	28	28
	760	28	788
Financial assets measured at amortised cost:			
Loans to associated companies	0	150	150
Amounts due from policyholders	262	81	343
Amounts due from insurance companies	169	1	170
Other debtors	94	29	123
Other incl. accrued interest	23	70	93
	548	331	879
<b>Maximum credit risk</b>	13,030	17,708	30,738
<b>2006</b>			
Financial assets measured at fair value:			
Bonds	11,273	14,930	26,203
Loans guaranteed by mortgages and other loans	35	4	39
Deposits with credit institutions	924	2,217	3,141
Cash at bank and in hand	73	144	217
Derivatives	23	781	804
Accrued interest	182	269	451
	12,510	18,345	30,855
Reinsurers' share			
Provisions for claims	592	0	592
Life insurance provisions	0	26	26
	592	26	618
Financial assets measured at amortised cost:			
Loans to associated companies	0	114	114
Amounts due from policyholders	207	91	298
Amounts due from insurance companies	167	1	168
Other debtors	105	5	110
Other incl. accrued interest	40	59	99
	519	270	789
<b>Maximum credit risk</b>	13,621	18,641	32,262

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKK m)

### Note 44. Credit risk - continued

Bond portfolio analysed by rating (%)

	Group excl. Life	Life	2005 Group	Group excl. Life	Life	2006 Group
AAA+AA	79	73	76	81	76	78
A	5	7	6	5	6	6
BBB	11	9	10	7	5	6
Less	5	11	8	7	13	10
	100	100	100	100	100	100

	2005	2006
The Group has received cash margin payment securing unrealised gains on derivatives	895	596
Amounts due from policyholders		
Non-life insurance	262	207
Life insurance	81	91
	343	298

Amounts due in non-life insurance are written down to nil after three months. Irrevocable amounts due in life insurance are offset against corresponding insurance provisions.

Allowance account (policyholders and insurance companies)

1 January	64	65
Changes	1	11
31 December	65	76

See "Credit risk" in the report.

### Note 45. Liquidity risk

Undiscounted expected cash flows for the Group's key liabilities:

	Book value	1 year	2-6 years	7-16 years	17-26 years	27-36 years	> 36 years
<b>2005</b>							
Provisions for claims	9,538	3,239	4,549	2,230	1,046	542	100
Life insurance provisions	18,375	(364)	(2,203)	2,483	9,888	12,895	5,757
<b>2006</b>							
Provisions for claims	10,209	3,386	5,289	2,202	1,206	651	139
Life insurance provisions	20,301	(469)	(2,779)	1,777	10,891	15,227	7,256

Future cash flows for life insurance will deviate from those expected due to observed insurance events, surrenders etc.

See "Liquidity risk" in the report.



# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)

### Note 46. Comparatives 2002 and 2003

The comparatives for 2002 and 2003 have not been restated to comply with IFRS in "Financial highlights" and "Five-year summary".

If the comparatives had been restated to comply with IFRS, the most significant changes would be:

- Anticipated expenses on the settlement of the provisions for claims to be provided.
- Provisions for claims to be disclosed at their net present value.
- Equalisation provisions except those on workers' compensation not to be defined as liabilities.
- Goodwill not to be amortised but tested for impairment.
- Provisions for anniversary bonuses and retirement benefits to be accumulated over the period of employment.
- Liabilities for management options settled by own shares not to be accounted for.
- Own share not to be separately disclosed in the balance sheets. All amounts relating to their purchases and sales to be shown as movements in shareholders' equity.
- Deferred tax to be disclosed at nominal value without taking into account the expected future date of settlement.
- Deferred tax on security funds will be recognised as a liability.

### Note 47. Related parties

2005 2006

Topdanmark A/S has no related parties who hold a controlling influence.

Related parties with substantial influence comprise the Board of Directors, the Board of Management and their families.

#### Board of Directors and Board of Management

Emoluments paid to the Board of Directors:

Short-term staff benefits	2,375,000	2,550,000
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Included in the above is DKK 150,000 (2005: DKK 175,000) which relates to the tasks of the Board of Directors in subsidiaries.

At 31 December 2006 the Board of Directors held 4,917 Topdanmark shares.

Emoluments paid to the Board of Management:

Short-term staff benefits	11	11
Other long-term staff benefits	2	0

Each member of the Board of Management has a car at his disposal.

Short-term staff benefits includes DKK 1.4m (2005: DKK 1.9m) paid to contribution-based pension schemes.

At 31 December 2006 the Board of Management held 1,193 Topdanmark shares.

The number of share options / warrants held by the Board of Management and the Board of Directors is disclosed in the note "Staff costs".

#### Associated companies:

Trading with associated companies

Premiums ceded	152	159
Commission received	(11)	(13)
Reimbursed claims	(99)	(89)
Dividends received	3	3

Trading takes place under normal market conditions.

Shares in associated companies are disclosed in the note "Shares in associated companies".

Balances are disclosed in the balance sheet.

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm) 2005    2006

### Note 47. Related parties - continued

#### Affiliated companies: (parent company)

Trading with affiliated companies:		
Investment charges	1	0
Other charges	22	22
Dividends received	580	1,322
Interest income	2	4
Interest charged	10	13

Investment and interest charges are settled under market conditions while other expenses are charged to cover costs incurred.

Balances are disclosed in the balance sheet

#### Most important affiliated companies:

2005	Activity	Profit for the year	Shareholders' equity
Topdanmark Forsikring A/S	Insurance	1,099	4,518
Topdanmark Invest A/S	Investment	4	121
Topdanmark Kapitalforvaltning A/S	Asset management	22	32
TD.0151 ApS	Investment	26	57
<b>2006</b>			
Topdanmark Forsikring A/S		1,511	4,691
Topdanmark Invest A/S		2	122
Topdanmark Kapitalforvaltning A/S		72	82
TD.0151 ApS		76	134

The companies are 100% owned and domiciled in Ballerup.

The accounting information is in accordance with the companies' most recent annual reports.

### Note 48. Provision of security

Assets at book value registered in favour of policyholders	34,569	38,339
Bonds provided as security for loans in accordance with standard repo-contracts for Danish mortgage and government bonds	748	819
Other provision of security	540	58

# Topdanmark's Annual Report 2006

## Notes to the accounts

(DKKm)	2005	2006
<b>Note 49. Contingent liabilities</b>		
Derivatives:		
Purchased forward contracts	21,790	20,117
Sold forward contracts	22,545	18,021
Guarantee liabilities	26	1
Adjustments to VAT liabilities	73	60
Other commitments	28	33
Capital commitments to private equity funds	257	218

The Group companies participate in technical insurance collaboration where they are jointly liable for the insurance liabilities.

Up to and including 2004 most of the companies of the Topdanmark Group were jointly taxed with the tax charge paid by Topdanmark A/S. The companies were jointly liable for the tax on the jointly taxed income for these years.

The companies are also jointly liable for A-tax and pay-roll tax etc. and VAT chargeable to the jointly registered companies.

### Pending cases

As described in the 2005 Annual Report, following a change in the Group's taxable income for 2001, the Danish tax authority (SKAT)'s interpretation of Section 13 of the Danish Corporation Tax Act is different from that which Topdanmark has used.

SKAT's interpretation is that groups comprising both life and non-life insurance business will be double taxed by taxing capital gains on equities and at the same time disallowing deductions for capital losses. This is contrary to the intention of how the Act was to be implemented and will result in distortion in the market place between those groups carrying out both non-life and life insurance and those carrying out only non-life insurance business or only life insurance and pension fund business.

Taking this into account Topdanmark's management, the Group's legal advisors and its external auditors elected by the AGM do not agree with SKAT's interpretation and therefore the tax resulting from this interpretation has not been provided for in these Annual Accounts. The assessment made by SKAT has been appealed against to the Danish National Tax Tribunal.

If contrary to expectation, the Court agrees with SKAT, the consequence will be a tax liability of DKK 220m for the years 2001 - 2004. As the Act was changed with effect from 2005 there will be no similar tax liability in 2005 or subsequently.

# Topdanmark's Annual Report 2006

## Notes to the accounts

### Note 50. Companies

Name	Registered office	Activity
<b>Topdanmark A/S</b>	Ballerup	Holding
<b>Non-life:</b>		
Topdanmark Forsikring A/S	Ballerup	Insurance
Danske Forsikring Skade I A/S	Ballerup	Insurance
Danske Forsikring Skade, Forsikringsaktieselskab	Ballerup	Insurance
Industriens Arbejdsskadeforsikring A/S	Ballerup	Insurance
Topdanmark EDB A/S	Ballerup	Internal IT services
Topdanmark Holding S.A.	Luxembourg	Holding
E. & G. Business Holding A/S	Ballerup	Holding
Risk & Insurance Services S.A.	Luxembourg	Administration
TDP.0007 A/S	Ballerup	Property
TDF.0005 ApS	Ballerup	Investment
TDF.0113 ApS	Ballerup	Investment
TDLII.0022 ApS	Ballerup	Investment
TDLII.0087 A/S	Ballerup	Investment
TDLII.0132 ApS	Ballerup	Investment
TDLII.0141 ApS	Ballerup	Investment
<b>Life:</b>		
Topdanmark Liv Holding A/S	Ballerup	Holding
Topdanmark Livsforsikring A/S	Ballerup	Insurance
Topdanmark Livsforsikring II A/S	Ballerup	Insurance
Topdanmark Livsforsikring III A/S	Ballerup	Insurance
Topdanmark Livsforsikring V A/S	Ballerup	Insurance
Nykredit Livsforsikring A/S	Ballerup	Insurance
Topdanmark Link Livsforsikring A/S	Ballerup	Insurance
TDLII.0018 ApS	Ballerup	Holding
Topdanmark Ejendom A/S	Ballerup	Property
TDE.100 ApS	Ballerup	Property
TDE.200 ApS	Ballerup	Property
TDE.300 ApS	Ballerup	Property
TDE.400 ApS	Ballerup	Property
TDE.500 A/S	Ballerup	Property
TDE.600 ApS	Ballerup	Property
<b>Other companies:</b>		
Topdanmark Kapitalforvaltning A/S	Ballerup	Asset management
web-postkassen.dk ApS	Ballerup	Consumer service
TD.0151 ApS	Ballerup	Investment
TDL.0134 ApS	Ballerup	Investment
TDL.0139 ApS	Ballerup	Investment
Topdanmark Invest A/S	Ballerup	Investment
Hotel Kongens Ege ApS	Ballerup	Property
Topdanmark Ejendomsadministration A/S	Ballerup	Property
Topdanmark (California) Inc.	USA	Dormant
TDB.200 A/S in liquidation	Ballerup	Dormant

All of the companies are 100% owned.

A number of companies which had discontinued operations were dissolved during the year

# Topdanmark's Annual Report 2006

## Accounting policies

Topdanmark's consolidated accounts have been prepared in accordance with IFRS as adopted by the EU.

The annual accounts for the parent company Topdanmark A/S have been prepared in accordance with the Danish Financial Business Act, including the executive order issued by the Danish Financial Supervisory Authority (DFSA) on financial reports for insurance companies and lateral pension funds (nationwide, occupational pension funds specific to Denmark).

Furthermore, the Annual Report has been prepared in compliance with the additional disclosure requirements of the Copenhagen Stock Exchange and the Danish Financial Business Act.

### ***Change in accounting policies***

Within the framework of IFRS 4 the DFSA has decided not to permit the recognition of surrender probabilities when calculating life insurance provisions at market value. As a result, the provisions must reflect the scenario that all policyholders who are able to surrender their policies will do so. Until the beginning of 2006 surrender probabilities had been included in the calculation of the expected future administrative profit which is included in the life insurance provisions. In the 2006 opening balance sheet DKK 85m was transferred from the collective potential bonus reserve to guaranteed benefits. This change had no impact on the result and shareholders' equity.

The classification of financial lease debtors has been changed. In the 2006 opening balance sheet DKK 25m was transferred from other loans to other debtors.

Furthermore accounting policies have been amended to comply with the changed standards and interpretations for financial years commencing 1 January 2006 or later. This has only required restatement of the disclosures in the accounting policies and notes to the accounts.

There have been no other changes in accounting policies from those adopted in the 2005 Annual Report.

The comparatives have been restated to comply with the changes in accounting policies.

### ***Change in accounting estimates***

As a consequence of the increase in life expectancy, the mortality assumptions included in the calculation of the life insurance provisions have been changed since the 2005 Annual Report.

In 2005 the calculation of the life insurance provisions was based on a reduced mortality rate corresponding to G82 with a shift of two years of age. The mortality rate used in 2006 has been based on an increase of up to five years for men and 6.75 years for women in the G82 life expectancy assumptions. G82 is the technical base developed by the industry in the 1980's.

As a result of the change the life insurance provisions were strengthened by DKK 375m in 2006 and the collective potential bonus reserve correspondingly reduced.

### ***Future executive orders, standards and interpretations***

The DFSA has updated the executive order on financial reports for insurance companies and lateral pension funds with effect from 2007. The updating will not result in any significant changes for the Group. Income from affiliated companies will be recognised in the parent company's accounts after taxation whereas in this Annual Report the share of the results is recognised gross and the relevant tax charge recognised under taxation.

With effect from 2007 the DFSA has also updated the executive order on international accounting standards for all those companies subject to the Danish Financial Business Act. Consequently the Group will implement IAS 34 on the presentation of interim reports. This implementation will not result in significant changes.

IASB has issued a number of standards, amendments and interpretations which have not yet taken effect. The following are relevant to Topdanmark:

## Topdanmark's Annual Report 2006

IFRS 7: Disclosures: Financial instruments. This standard was pre-implemented in 2005 and only relates to disclosure requirements.

The following standards, amendments and interpretations have not yet been implemented:

- *Amendment to IAS 1: Capital disclosures* comes into effect for financial years commencing 1 January 2007 or later. This amendment only relates to disclosure requirements.
- *IFRS 8: Business segments* comes into effect for financial years commencing 1 January 2009 or later. The standard has not yet been adopted for use in the EU and only relates to disclosure requirements.
- *IFRIC 8: Scope of IFRS 2* comes into effect for financial years commencing 1 May 2006 or later. The interpretation will not change Topdanmark's accounting policies.
- *IFRIC 10: Interim financial reporting and impairment* comes into effect for financial years commencing 1 November 2006 or later. The interpretation has not yet been adopted for use in the EU and is not expected to change Topdanmark's accounting policies.
- *IFRIC 11: Intra-group transactions and own shares* comes into effect for financial years commencing 1 March 2007 or later. The interpretation has not yet been adopted for use in the EU and will not change Topdanmark's accounting policies.

### **General**

#### **Consolidated accounts**

The consolidated accounts include the parent company Topdanmark and all of the companies that are controlled by the parent company. The parent company is considered to control the companies through direct or indirect ownership of more than 50% of the voting rights or when it can have or has an otherwise controlling influence.

The profit and loss account and balance sheet are presented in accordance with the DFSA's IFRS-compatible accounting order for insurance companies and lateral pension funds.

#### **Consolidation**

The consolidated accounts have been prepared by aggregating items within the accounts of the parent

company and the subsidiaries on a line-by-line basis. Generally, the same accounting policies are applied by the subsidiaries as by the parent company. However, properties owned by the life insurance companies and used by the Group have been re-classified from investment properties to owner-occupied properties, and shares in Topdanmark A/S and liabilities on management share options based on shares in Topdanmark A/S have been re-classified to equity instruments which are not recognised in the balance sheet. Intra-group income and expenses, shareholdings, balances and dividends as well as gains and losses on intra-group transactions have all been eliminated. Companies acquired during the year have been included in the consolidation from the date of assumption of control and sold companies until the date of relinquishment of control.

#### **Parent company**

Shares held in affiliated and associated companies are measured at their net asset value in the parent company's accounts. Therefore, the parent company's result and shareholders' equity are identical to those of the Group except for deferred tax on security funds which is not disclosed in the parent company's accounts. The parent company will adopt IFRS by 2009. As a result, shares in affiliated and associated companies will then be measured at cost or fair value.

#### **Recognition and measurement**

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Group and where the asset has a value that can be measured reliably. Liabilities are recognised in the balance sheet when the Group has a legal or constructive obligation due to a previous event, when it is probable that future economic benefits will flow from the Group and where the value of the liability can be measured reliably. The recognition and measurement take into consideration predictable losses and risks which have occurred prior to the presentation of the Annual Report and which provide evidence of conditions that existed at the balance sheet date. Income is recognised in the profit and loss account when earned. Similarly, all expenses are recognised which relate to the financial year, including amortisation and write-downs. Financial instruments are recorded at fair value at the date of settlement, usually corresponding to their cost. Any changes in the value between the trade and settlement dates are

## Topdanmark's Annual Report 2006

included in the balance sheet under the heading of derivatives.

### **Insurance and investment contracts - classification**

The Topdanmark Group writes contracts which transfer insurance risk, investment risk or both.

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensation if a specified uncertain future event adversely affects the policyholder. Insurance risk is always considered to be material in non-life insurance. In life insurance it is considered to be material when it covers the effect of disability (including the effect of premiums waived) and mortality (where the benefit exceeds the total savings of the policy).

An investment contract is one where the amount of insurance risk is not sufficient for it to be an insurance contract. However, if the investment contract entitles the policyholder to receive bonus, it is treated as an insurance contract. Payments received and made on investment contracts where the policyholder is not entitled to a bonus have been taken directly to the balance sheet.

### **Material estimates and judgements**

In the preparation of Topdanmark's accounts, estimates and judgements have been used which will affect the size of assets and liabilities and consequently the results in this and subsequent financial years. Most crucial are the actuarial estimates and methods used in the calculation of the provisions for outstanding claims. The last five financial years' strengthening of provisions has been disclosed in the five-year summary. Furthermore, the movement in the liabilities for claims over the last six claims years is shown in the notes to the accounts. For further details see "[Risk factors](#)" in the report.

### **Translation of foreign currencies**

Transactions in other currencies are translated at the exchange rates prevailing at the date of the transactions. Debtors, creditors and other monetary items are translated at the closing exchange rates on 31 December. Translation differences are disclosed in revaluations in the profit and loss account. Income and expenses of foreign companies are translated at average exchange rates for the year while balance

sheet items are translated at the closing exchange rates on 31 December. Any translation differences are included directly in the shareholders' equity's reserve for currency translation of foreign companies.

### **Expenses**

Expenses are recognised in the Group's profit and loss account and disclosed classified by function: Claims incurred (claims handling), acquisition and administrative expenses, investment return and other expenses. Expenses which do not directly relate to a function are basically allocated proportionally on the basis of the size of the directly related expenses.

### **Share-based payments**

#### ***Share option / warrant scheme***

The Board of Management and Senior Management participate in a share option / warrant scheme. The fair value on the date the option / warrant is granted less the subscription proceeds is included in staff costs. The fair value is calculated using the Black & Scholes model in accordance with IFRS 2 on share-based payments.

Options and warrants which are settled with own shares are considered to be equity instruments. The fair value at the date of granting is set off against shareholders' equity and any amount received on the exercise is also taken to shareholders' equity. No liability is disclosed in the balance sheet. Options involving a cash payment are considered to be instruments of debt. The fair value will be recognised as a liability and re-calculated until the exercise date with any changes in value being taken to the profit and loss account under financial items. As from 2004 the share option scheme has been based on warrants and therefore no liability has been disclosed in the balance sheet.

#### ***Employee shares***

At the date the share is granted the difference between its fair value and the subscription proceeds is included in staff costs in the profit and loss account, with the relevant credit shown as a movement in shareholders' equity. The fair value is calculated in accordance with IFRS 2 taking into account the specific conditions for the issue of employee shares.

### **Calculation of profit in life insurance**

The calculation of profit for those life insurance companies with portfolios of bonus-participating

## Topdanmark's Annual Report 2006

policies (Topdanmark Livsforsikring and Topdanmark Livsforsikring V) is regulated by the Danish Financial Business Act. The DFSA sets requirements on how the "insurance technical result before bonus contribution" should be allocated between the policyholders and the shareholders. The calculation of the result of life insurance is disclosed in a note.

### Segment information

A business segment is a component of a business that provides individual products or services that are subject to risks and returns different from those of the other business segments. Topdanmark's business segments are those of non-life and life insurance. Topdanmark carries out business only in Denmark and accordingly no further geographical segmental information is provided. The segment information is disclosed in accordance with the Group's accounting policies, except that the segment accounts include market-based intra-group rent which is eliminated in the Group accounts.

### Ratios

The financial ratios have been calculated in accordance with the definitions of ratios issued by the Danish Society of Investment Professionals, except for profit per share and diluted profit per share which have been calculated in accordance with IAS 33 Earnings per share. The ratios for non-life insurance have been calculated in accordance with the DFSA's accounting order. These calculations, which have been made before elimination of intra-group rent, are disclosed in segment information. Topdanmark has not calculated the consolidated ratios for life insurance as it does not believe that a true and fair view is achieved by presenting ratios based on a total of completely different portfolios. Recognising that the interests of the relevant portfolios are different, Topdanmark has established a portfolio-based structure of life insurance companies offering, among other services, different investment strategies to different groups of customers. Each company presents its ratios in their own annual reports where further details are available.

### Cash flow analysis

The cash flow analysis for the Group has been prepared in accordance with the direct method disclosing cash flow from operations, investments and financing as well as the changes in the Group's liquid funds between the beginning and the end of the

financial year. Topdanmark does not prepare a separate cash flow analysis for the parent company. Cash flows from the sale and purchase of companies have been disclosed separately under the heading of cash flows from investment activities. Investment activities also include amounts received and paid on the purchase and sale of investments, intangible and tangible assets. Cash flows from financing comprise changes in capital, including the purchase and sale of own shares. Furthermore it includes the raising of loans and repayments on interest-bearing debt. Liquid funds comprise cash in hand and at banks as well as deposits with credit institutions.

### Profit and loss account

#### Premiums earned

Gross premiums in non-life insurance comprise those premiums receivable during the year and an estimate of premiums on those insurance contracts written, either directly or indirectly, for which the period of risk has commenced before the end of the financial year. They do not include own risks. Premiums earned on own account comprise gross premiums for the year adjusted for changes in the provisions for unearned premiums and net of reinsurance. Effectively, this means the premiums are being recognised in line with the distribution of risk over the period of cover.

In life insurance, premiums on own account comprise those premiums, including single premiums, which are receivable within the year, net of reinsurance for all insurance contracts and bonus eligible investment contracts.

#### Technical interest on own account in non-life insurance

The technical result on non-life insurance includes a return on the technical provisions on own account. The interest on the provisions is calculated using the relevant interest rate corresponding to the expected date of settlement. The discount expense is offset against the interest income. The discount expense is equivalent to the regular revaluation of the present value of the provisions until the expected time of settlement. The interest on discounted provisions, primarily provisions for outstanding claims on own account, is calculated on the same basis as the discounting expense. Accordingly the interest and discounting expense on discounted provisions are exactly netted off each other. For non-discounted provisions, primarily provisions for unearned



## Topdanmark's Annual Report 2006

premiums on own account, the interest on the average value of the provision is calculated using the relevant interest rate corresponding to the weighted average date of settlement.

Generally, Topdanmark uses a structure of interest rates based on the rates of the Danish swap market and any changes in the European swap market corresponding to the rates calculated and published by the DFSA. For policies subject to pension return tax each interest rate used is reduced by the tax rate of 15%.

### **Allocated investment return on own account in life insurance**

The investment return is calculated as the overall investment return in the life insurance group net of the proportion of the investment return relating to illness and accident insurance and the proportion transferred to shareholders' equity in accordance with the definition of profit reported to the DFSA.

### **Claims incurred and benefits paid**

In non-life insurance, claims incurred on own account comprise claims paid during the year adjusted for changes in the provisions for outstanding claims and net of the reinsurers' share. However, the proportion of the change in provisions for outstanding claims relating to changes in discounting and revaluation is included in technical interest on own account and revaluations respectively. Accordingly, claims incurred comprise known and expected claims relating to the year as well as any adjustments to the provisions made in previous years. Furthermore they comprise direct and indirect expenses on claims handling. Topdanmark has entered into swaps hedging the provisions for workers' compensation and annuities in illness and accident insurance against changes in future wage and price indexation provided that the growth in the real value of the payments on claims remains stable. The revaluation of these swaps is included in claims incurred in order that changes in the expected inflation do not affect claims incurred.

In life insurance, claims and benefits paid on own account comprise payments relating to claims, surrenders and cash bonuses.

### **Bonuses and rebates**

Bonuses and rebates include those premium amounts that have been or will be paid back to policyholders,

on the basis that the amount of the repayment is calculated with reference to the claims trend of the financial year for each insurance contract or a portfolio of insurance contracts using criteria determined prior to the beginning of the financial year or when the insurance contracts were written.

### **Operating expenses**

Technical operating expenses which relate to the acquisition and renewal of the portfolios are included in acquisition costs. New business commission is generally recorded in the profit and loss account on the date the insurance takes effect. Administrative expenses comprise costs incurred in the administration of the portfolios which relate to the financial year and which have been accounted for on an accruals basis. Commission received from reinsurers has been accounted for on an accruals basis over the policies' period of cover.

### **Investment activities**

Income from associated companies comprises a share of the post-tax results of the associated companies calculated in accordance with the Group's accounting policies. Income from investment properties comprises the operating results excluding interest charges and revaluations that have been disclosed separately in the accounts. Interest, dividends etc. comprise all interest, dividends etc. earned in the financial year. Realised and unrealised gains and losses on investment assets etc. are included in revaluations. Gains are calculated excluding interest and dividends. Furthermore changes in the provisions for outstanding claims etc. due to changes in interest rates are included in revaluations, which also include exchange rate adjustments and realised gains and losses on owner-occupied properties. Administrative expenses on investment activities comprise the cost of asset management including transaction costs.

Furthermore, income from affiliated companies being the parent company's share of the results of the subsidiaries before taxation is included in the parent company's accounts.

### **Pension return tax**

Pension return tax arises from the return calculated by the profit and loss account, whether the tax is current or to be paid in subsequent periods. Pension return

## Topdanmark's Annual Report 2006

tax on shareholders' equity items is taken to shareholders' equity.

### Other income and expenses

Other income and expenses that do not relate to the administration of insurance portfolios or investment assets are included in other income and expenses.

### Taxation

The parent company Topdanmark has been taxed jointly with all its subsidiaries. Each company's respective share of the tax charge is disclosed in its accounts. Tax is recognised in the profit and loss account or shown in shareholders' equity. The tax charge for the year comprises the current tax for the year and any changes in deferred tax relating to that year. The current tax for the year is calculated using the tax rates and rules applicable on 31 December. Deferred tax on temporary differences between the accounting and tax value of assets and liabilities is charged in accordance with the liability method. Deferred tax on shares in subsidiaries and associated companies is not included where the Group controls the timing of the reversal of the temporary difference and where it is probable that the temporary difference will not be reversed within the foreseeable future. The calculation of deferred tax is based on the planned use of each asset and the settlement of each liability using the tax rates and rules expected to be in force when the deferred tax is expected to crystallise as current tax.

The parent company does not provide deferred tax on security funds as, according to the DFSA's accounting order, such provisions should only be made if it is probable that a situation creating a tax liability will arise within the foreseeable future. The security funds will be taxed in proportions of 10% for every 10 percentage point decline in technical provisions on own account from the level at 31 December 1994. A decline of 10% from the 1994 level is considered improbable as long as Topdanmark Forsikring, in which the transfers were made, continues its current operations. Therefore the security funds will only be taxed if the insurance portfolio is transferred or the company ceases to carry out insurance business. The value of tax losses carried forward is included in the calculation of deferred tax if there is a high probability that the losses could be utilised.

Furthermore taxation in the parent company's accounts includes shares of tax in subsidiaries.

### Assets

#### Intangible assets

Goodwill on the acquisition of companies prior to 2004 is included at the book value of 1 January 2004. Goodwill is subjected to an impairment test at the end of the financial year and written down to its recoverable amount, as required. Acquired software licences are included at cost and amortised on a straight-line basis over the expected useful life of a maximum of three years. Development projects are included at the amount of external costs incurred and written off over a maximum of five years. Intangible assets under construction are subjected to an impairment test at the end of the financial year and written down to their recoverable amount, as required.

#### Tangible assets

##### *Machinery and equipment*

Machinery and equipment is recorded at cost less depreciation on a straight-line basis. Depreciation is calculated on the basis of the cost of the asset, its expected useful life and its residual value. If there is an indication of impairment, the book value is written down to its recoverable amount.

Finance leases for machinery and equipment are those leases where the Company substantially bears all the risks and benefits of ownership: the relevant assets are shown in the balance sheet at the lower of their fair value and the present value of future lease payments. Once recognised as a finance lease, the assets are treated as any other type of machinery and equipment. Machinery and equipment comprises IT equipment, cars and other equipment as well as improvements of rental properties. Machinery and equipment is depreciated with an expected useful life of up to five years.

##### *Owner-occupied properties*

Owner-occupied properties are recorded at a revalued amount being the fair value on the date of revaluation less accumulated depreciation. The properties are assessed at the end of the financial year by the Company's own valuation experts. The buildings are depreciated on a straight-line basis over their expected life of 50 years, but land is not depreciated. The fair value of the revaluation of owner-occupied properties is assessed on the same basis as

## Topdanmark's Annual Report 2006

investment properties. Any revaluation surplus is taken to shareholders' equity unless the revaluation is a reversal of a previous write-down. Write-downs are included in the profit and loss account unless the write-down is a reversal of previous revaluation included in the shareholders' equity.

### **Properties under construction**

Properties under construction are recorded at cost, with this value written down to its recoverable amount, if required.

### **Investment properties**

Investment properties are recorded at fair value according to the guidelines of the DFSA. A value has been calculated for each property on the basis of an expected future return on its operations and a rate of return (required yield). This value is adjusted for any special conditions having a temporary effect on the earning capacity of the property as well as the level of maintenance required on each property. The yield has been fixed taking into account the relevant market conditions for each type of property, its position, use, tenure of lease etc. The properties are assessed at the end of the financial year by the Group's own valuation experts.

### **Shares in affiliated companies**

Shares held in affiliated companies are recorded at their net asset value.

### **Shares in associated companies**

Shares held in associated companies are recorded at their net asset value, in accordance with the Group's accounting policies. Associated companies are companies which are not subsidiaries although the Group has substantial influence through a significant shareholding and representation on the board of the company.

### **Other financial investment assets and investment assets linked to unit-linked contracts**

Other financial investment assets and investment assets related to unit-linked contracts are assessed at fair value through profit and loss.

Investment assets comprise a trading portfolio and investment assets linked to unit-linked contracts where measurement at fair value through profit and

loss matches the accounting treatment of the corresponding provisions for unit linked contracts.

Listed shares, bonds, derivatives etc. are assessed at the closing price on 31 December. If there is no closing price, another public price is used which is believed to be the most appropriate. Valuation methods or other publicly available information are used to value unlisted securities and those listed securities where the closing price does not reflect the fair value. Depending on the nature of the asset, the calculation is based on underlying parameters such as interest and foreign exchange rates, volatility or comparison with the market prices of corresponding instruments. True sale and repurchase transactions and true purchase and resale transactions (repo / reverse transactions) are treated as secured loans.

### **Reinsurers' share of provisions for unearned premiums**

Reinsurers' share of provisions for unearned premiums represents the proportion of reinsurance premiums paid which, net of commission received and based on the spread of risk during the period of cover, relate to the period after the end of the financial year.

### **Reinsurers' share of provisions for outstanding claims**

Reinsurers' share of provisions for outstanding claims has been calculated as the amounts expected to be received from reinsurance companies according to the reinsurance contracts concluded. Expected future payments are discounted using a structure of interest rates. The reinsurers' share is regularly assessed for impairment and written down to its recoverable amount, as required.

### **Debtors**

Debtors are measured at amortised cost. Amounts due from finance leases are included at the net investment in the lease contract. The debtors are regularly assessed for impairment and written down to their recoverable amount, as required. Such write-downs are generally made collectively on the basis of the debtor ageing analysis. When an individual debtor is considered irrevocable, the value of the write-down is transferred out of the account for collective allowances.

# Topdanmark's Annual Report 2006

## **Liabilities**

### **Shareholders' equity**

#### **Revaluation reserves**

Any revaluation of owner-occupied properties exceeding the book value on 1 January 2004 is transferred to the revaluation reserves net of pension return tax, corporation tax and bonus. The reserve will be dissolved if the revaluation is reversed or if the property is sold.

#### **Reserve for foreign currency translation**

This reserve comprises foreign currency translation of results and shareholders' equity in foreign companies. If the companies are sold or dissolved, the balance will be transferred to the profit and loss account.

#### **Security fund reserves**

The security funds are special funds under shareholders' equity. Prior to 1989 they were transferred to shareholders' equity for capital adequacy and were tax-deductible.

The security funds can only be used for strengthening the technical provisions or otherwise for the benefit of policyholders and only if permitted by the DFSA.

#### **Subordinated loan capital**

Subordinated loan capital is included at the value of the proceeds received when the loan was raised and subsequently measured at amortised cost.

### **Provisions for insurance and investment contracts**

#### **Provisions for unearned premiums**

The provisions for unearned premiums cover future payments of claims not yet incurred in the remaining period of risk as well as administration costs of the insurance contracts written. These provisions represent the proportion of premiums collected which, based on the spread of risk during the period of cover, relates to the period after the end of the financial year. However, the provisions for unearned premiums are calculated per line of business, as a minimum, at the present value of those amounts expected to be paid as a result of the future events covered by the insurance contracts written, as well as direct and indirect expenses on the administration of these contracts. The sufficiency of the provisions is regularly tested on the basis of the current expectations for future cash flow.

#### **Life insurance provisions**

Life insurance provisions are recorded at fair value. Accordingly, the liabilities are calculated on the basis of the market value independent of the original technical base. The fair value of the life insurance provisions is based on a realistic assessment of the expected future premiums to be received and benefit payments to be made and administrative expenses incurred on the contracts written. The future payments to be received and made have been based on the assumed incidents of death, disability and resumption of work. The risk of death and disability is dependent on the age, sex and health of the policyholder and is based on the company's experience. For all policies in Topdanmark Livsforsikring and Topdanmark Livsforsikring V the mortality rate used has been based on an increase of up to five years for men and 6.75 years for women as set out in the G82 life expectancy assumptions. For the portfolio of annuities in Topdanmark Livsforsikring II, a reduced rate of mortality has been assumed, corresponding to 55% of G82 for women and 85% for men. G82 is the technical base developed by the industry in the 1980's.

The disability risk has been fixed at 90% of G82 allowing for both disability and resumption of work. Provisions for claims incurred are calculated using an in-house statistical model that is based on the relationship between the possibility of resumption of work and the period passed since the occurrence of the claim. The provisions include amounts to cover the expected expenses on the future administration of the insurance contracts written. These expenses have been calculated using an annual indexation of 2%.

The present value of the expected future payment has been calculated using an interest rate structure based on the rates of the Danish swap market and any changes in the European swap market corresponding to the rates calculated and published by the DFSA. For policies subject to pension return tax each interest rate used is reduced by the tax rate of 15%.

The provisions include an allowance for risk corresponding to the percentage which would be demanded by an arms-length purchaser of the company's portfolio of life insurance policies to compensate for the risk of fluctuations in the expected payments. The overall allowance for risk is an estimate calculated as the interest rate used reduced by 5%.

## Topdanmark's Annual Report 2006

The liabilities are disclosed in the balance sheet as follows:

### **Guaranteed benefits**

The sum of the guaranteed benefits is calculated for each individual policy as the net present value of the agreed future premiums and benefits guaranteed under each policy plus an allowance for administration costs. Guaranteed benefits also include provisions for group life policies and provisions for claims incurred but not reported (IBNR).

### **Bonus potential on future premiums**

Bonus potential on future premiums is the amount for each policy by which the guaranteed paid-up benefits, being the net present value of the benefit guaranteed under each policy where it has been converted to a paid-up policy, exceeds the guaranteed benefits.

### **Bonus potential on paid-up benefits**

Where a policy's savings (retrospective provision) less the expected future expense result exceeds the guaranteed paid-up benefits, the amount is disclosed under the bonus potential on paid-up benefits.

### **Provisions for outstanding claims**

Provisions for outstanding claims cover future payments of claims incurred and their administration. Provisions for outstanding claims are assessed for each line of business either on a claim by claim basis (individual provisions) or by using statistical methods (collective as well as IBNR and IBNER provisions). Claims exceeding a fixed amount, dependent on the line of business, are assessed individually and provisions for smaller claims are assessed collectively. IBNR provisions cover expenses on post-notified large claims. IBNER provisions cover individually assessed claims which were insufficiently reported. The collective provisions are calculated using de Vylder's credibility model adjusted for each line of business. The IBNR and IBNER provisions are calculated using in-house developed models. Claims in the agricultural and commercial lines are assessed individually. In addition IBNR and IBNER provisions are included. In personal lines claims not exceeding DKK 100,000 are assessed collectively while larger claims and all claims on change of ownership policies are assessed individually. In addition IBNR and

IBNER provisions are included. All motor and accident claims are included in the collective provisions. But large claims and claims relating to a prior year are individually assessed within personal liability in motor insurance.

The provisions are calculated taking inflation into account. Future inflation is implicitly included in a number of the statistical models as the average of the actual inflation in the period of record used. Therefore, an expected higher future inflation rate would generally be included in the provisions with a certain time delay.

Provisions for outstanding claims in workers' compensation insurance comprise provisions for annuities and other provisions for outstanding claims. The assessment of the future annuities is based on the present annuities including the expected wage and salary indexation and a rate of mortality corresponding to G82 with monthly age write-downs (reserves are reduced every month due to the injured person having got one month older). The assessment of other provisions for outstanding claims relating to injuries, loss of provider and expenses is based on traditional actuarial triangulation models. However, due to the instability surrounding payments on disability claims for a number of years it is not possible to use the common triangulation models for this type of provisions. Therefore Topdanmark uses an in-house developed model which takes into account the stage each claim has reached. The benefits are included with an allowance for the expected wage and salary indexation.

Topdanmark has entered into swaps hedging the provisions for workers' compensation and annuities in illness and accident insurance against changes in future wage and price indexation provided that the growth in the real value of the payments on claims remains stable. The revaluation of these swaps is included in claims incurred in order that changes in the expected inflation do not affect claims incurred.

From time to time the record applied in the statistical models is not applicable for estimating future payments, for example payments regulated by the new Danish Act on civil liability which took effect on 1 July 2002. In such cases the effect is estimated and the models applied are adjusted to reflect this estimate. Correspondingly, the historical data for

## Topdanmark's Annual Report 2006

workers' compensation does not reflect the expected levels of expenses for the claims years 2004 and 2005 due to the new workers' compensation Act which took effect on 1 January 2004. So far these years have been assessed in line with the previous years plus the expected extra cost due to the new workers' compensation Act.

Furthermore the provisions for outstanding claims include the amounts that are expected to be included to cover direct and indirect expenses on settlement of the liabilities.

All provisions have been calculated at present value by discounting the expected future payments using a structure of interest rates. The proportion of the change in provisions for outstanding claims relating to changes in the interest rate structure is included in the profit and loss account under revaluations.

The sufficiency of the provisions are regularly tested on the basis of the current expectations for future cash flow.

Provisions for outstanding claims in life insurance comprise insurance benefits due but not yet paid.

### ***Provisions for bonuses and rebates***

Provisions for bonuses and rebates are the amounts payable to policyholders as the result of a favourable claims trend.

### ***Collective potential bonus reserve***

The collective potential bonus reserve is used to equalise the individual years' payments of bonus. Amounts will be provided for the collective potential bonus reserve in years where the investment and technical results exceed the bonus promised, while amounts will be transferred from the reserve in years where the result is not sufficient to finance the bonus promised. The collective potential bonus reserve can only be reduced by a transfer to another item under technical provisions or as a result of the "insurance technical losses before bonus contribution" relating to bonus eligible insurance contracts.

### ***Provisions for unit-linked contracts***

Provisions for unit-linked contracts are calculated at fair value in accordance with the value of the assets linked to the schemes.

## **Other liabilities**

### ***Provisions for pensions and similar liabilities***

Provisions for anniversary bonuses and retirement benefits are built up on an on-going basis over the period of employment. The liability is calculated taking into account the expected level of staff reduction based on the Company's experience. The liability is recorded at present value by discounting the expected future payments using a structure of interest rates.

### ***Deposits received from reinsurers***

Deposits received from reinsurers represent amounts deposited to cover reinsurers' liabilities to the Company.

### ***Creditors***

Amounts due to mortgage banks and derivatives are recorded at fair value. The fair value of amounts due to credit institutions usually corresponds to their nominal value while that of derivatives is based on the closing price on 31 December. If there is no closing price, another public price is used which is believed to be the most appropriate. Valuation methods or other publicly available information are used to value unlisted instruments and those listed instruments where the closing price does not reflect the fair value. Depending on the nature of the asset, the calculation is based on underlying parameters such as interest and foreign exchange rates, volatility or comparison with the market prices of corresponding instruments.

Other loans are assessed at their amortised cost.

## Topdanmark's Annual Report 2006

### Disclaimer

This Annual Report includes statements relating to the future. Such statements are uncertain and involve both general and specific risks.

Many factors may cause a significant deviation from the forecasts set out in the Annual Report. Such factors could be, for example, cyclical movements, changes in the financial markets, the financial effect of non-anticipated events like acts of terror or exceptional weather conditions, changes in Danish and EU rules, competitive factors in the insurance industry and the trend in reinsurance market. Also see "[Risk factors](#)".

The above description of risk factors is not exhaustive. Investors and others, who may base decisions relating to Topdanmark on statements relating to the future, should make their own careful considerations on these and other factors of uncertainty.

Topdanmark's statements relating to the future are solely based on information known at the time of the preparation of this Annual Report.

This publication is a translation. In case of any divergence, the original Danish text shall prevail.

# Topdanmark's Annual Report 2006

## Management's statement

We have today presented the Annual Report for 2006 for Topdanmark A/S.

The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards as approved by the EU, and the annual accounts for the parent company have been prepared in accordance with the Danish Financial Business Act. Furthermore, the Annual Report has been prepared in compliance with the additional Danish disclosure requirements on annual reports prepared by listed, financial services companies. We consider the chosen accounting policies to be appropriate such that the Annual Report gives a true and fair view of the Group's and the Parent company's assets, liabilities, financial position, result and the Group's cash flows.

The Annual Report is recommended to the Annual General Meeting for adoption.

Ballerup, 13 March 2007

### Board of Management

Poul Almlund

Kim Bruhn-Petersen

Christian Sagild

/Niels Olesen

### Board of Directors

Michael Pram Rasmussen  
(Chairman)

Anders Knutsen  
(Deputy Chairman)

Jørgen Ajslev

Ole Døssing Christensen

Luise Hanssing

Jens Maaløe

Peter Pryning

Annette Sadolin

Knud J. Vest



# Topdanmark's Annual Report 2006

## Auditors' Reports

### Internal auditors

We have audited the annual report of Topdanmark A/S for the financial year 1 January to 31 December 2006, which comprises the Management's review, the profit and loss account, the balance sheet, the movements in shareholders' equity, the accounting policies, the notes to the accounts and the Management's statement, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent's annual accounts have been prepared in accordance with the Danish Financial Business Act. In addition, the annual report has been prepared in accordance with additional Danish disclosure requirements for annual reports of listed financial services companies.

The management of the company is responsible for the annual report. Our responsibility is to express an opinion on this annual report based on our audit.

### Basis of opinion

We have conducted our audit on the basis of the executive order issued by the Danish Financial Supervisory Authority on the performance of an audit in financial services companies and financial services groups and in accordance with Danish Auditing Standards. During the audit, based on an evaluation of materiality and risk, we assessed procedures, the accounting policies applied and the estimates made, and verified the basis for the amounts and other information disclosed in the Annual Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

### Opinion

In our opinion, the annual report gives a true and fair view of the Group's assets, liabilities and financial position at 31 December 2006 and of its financial performance and its cash flows for the financial year 1 January to 31 December 2006 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed financial services companies.

In addition, in our opinion, the annual report gives a true and fair view of the Parent's financial position at 31 December 2006 and of its financial performance for the financial year 1 January to 31 December 2006 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial services companies.

Ballerup, 13 March 2007

Jørn Sønderup  
Audit Manager

Ulla Hansen  
Deputy Audit Manager

# Topdanmark's Annual Report 2006

## ***Independent auditors' report***

### **To the shareholders of Topdanmark A/S**

We have audited the annual report of Topdanmark A/S for the financial year 1 January to 31 December 2006, which comprises the Management's review, the profit and loss account, the balance sheet, the movements in shareholders' equity, the accounting policies, the notes to the accounts and the Management's statement, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent's annual accounts have been prepared in accordance with the Danish Financial Business Act. In addition, the annual report has been prepared in accordance with additional Danish disclosure requirements for annual reports of listed financial services companies.

### **Management's responsibility for the annual report**

Management is responsible for the preparation and fair presentation of an annual report in accordance with International Financial Reporting Standards as adopted by the EU in respect of the consolidated annual accounts, in accordance with the Danish Financial Business Act in respect of the Parent's annual accounts, and additional Danish disclosure requirements for listed financial companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an annual report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility and basis of opinion**

Our responsibility is to express an opinion on this annual report based on our audit. We conducted our audit in accordance with Danish and International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual report is free from material misstatement.

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

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

Our audit has not resulted in any qualification.

### **Opinion**

In our opinion, the annual report gives a true and fair view of the Group's assets, liabilities and financial position at 31 December 2006 and of its financial performance and its cash flows for the financial year 1 January to 31 December 2006 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed financial services companies.

In addition, in our opinion, the annual report gives a true and fair view of the Parent's financial position at 31 December 2006 and of its financial performance for the financial year 1 January to 31 December 2006 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial services companies.

Copenhagen, 13 March 2007

Deloitte

Statsautoriseret Revisionsaktieselskab

Anders O. Gjelstrup  
State Authorised  
Public Accountant

Leif Zilmer  
State Authorised  
Public Accountant