

# Annual Report

Topdanmark A/S  
Reg.No. 78040017



2010

## Topdanmark in brief

- Nation-wide, Danish non-life, life and pension fund business.
- Denmark's second largest non-life insurance company. Almost half of all Danish farms, about every fourth person in Denmark and every sixth business is insured with Topdanmark.
- Denmark's sixth largest commercial life insurance and pension fund company.
- Focus is on value creation for shareholders, customers and employees on the basis that satisfied customers and well-qualified employees are key to ensuring satisfied shareholders.
- Aims to achieve profitable growth - in that order.
- Topdanmark has around 2,600 employees and is one of the financial services companies in Denmark with the highest employee satisfaction rating.
- The business model is based on efficiency, risk-based prices and a strong sales network.
- One of Europe's most efficient non-life insurance companies: low expense ratio and efficient claims handling allows for a combination of competitive prices to customers with a competitive return to shareholders.
- Relatively low volatility in earnings due to high exposure in the personal, agricultural and SME markets which have many but relatively low value claims, a pricing strategy based on the underlying risks (micro rating) and a significant reinsurance programme.
- Multi distribution strategy focusing on targeted sales for each customer segment through its own sales channels and distribution partners, including Danske Bank, with their independent brands.
- Strong business model and relatively limited financial risk substantially ensures a profit is made even in years with devastating financial markets.
- Channels money back to shareholders by share buy-backs; since the programme was initiated in 1998, has bought back 62% of outstanding shares, with the average annual buy-back yield being 9% since 2000.
- Articles of Association show no restrictions on ownership and voting rights or any other limitations to shares.

# Topdanmark's Annual Report 2010

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8 March 2011 Announcement No. 05/2011

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## 2010 Key features

### Q4 2010

- Post-tax profit of DKK 488m (Q4 2009: DKK 337m).
- Combined ratio improved to 89.2% this quarter (Q4 2009: 91.1%); excluding run-off profits it was 93.2% (Q4 2009: 94.3%).
- Premiums declined 0.9% in non-life insurance and 4.1% in life insurance.

### 2010

- Post-tax profit of DKK 1,168m (2009: DKK 1,446m).
- Actual result around DKK 200m higher than assumed in most recent profit forecast model of DKK 900-1,000m.
- Combined ratio increased to 93.3% (2009: 91.1%); excluding run-off profits it increased to 95.7% (2009: 93.6%). Weather-related claims were 3.0pp above a normal level.
- Premiums declined 1.3% in non-life insurance but increased 5.8% in life insurance.
- Topdanmark bought back own shares of DKK 833m. Buy-back programme was DKK 1bn; consequently DKK 167m transferred to the 2011 programme.

### Profit forecast model for 2011

- Assumed combined ratio for 2011 adjusted to around 91% from around 92%, excluding run-off profits / losses.
- Assumed premium growth in non-life insurance continues at 1-2%.
- Post-tax profit forecast model is DKK 1,100-1,200m being DKK 80 profit per share.
- The share buy-back programme is DKK 1,300m; an 11.8% yield.

On [www.topdanmark.com](http://www.topdanmark.com) → [Presentations](#) a webcast is available in which Topdanmark's CEO, Christian Sagild, presents the financial highlights and comments on the forecast.

A conference call will be held today at 15:30 (CET) when Christian Sagild, CEO, and Lars Thykier, CFO, will be available for questions based on the Annual Report and the webcast. The call will be conducted in English.

In order to participate in the conference call, please phone:

UK dial in number: +44 (0) 20 7162 0177

US dial in number: +1 334 323 6203

quoting reference 889198

10-15 minutes before the conference asking the operator to connect you to the Topdanmark conference call – or listen to the live [transmission](#) of the call.

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## Financial highlights

(DKKm)	2006	2007	2008	2009	2010	Q4 2009	Q4 2010
<b>Premiums earned:</b>							
Non-life insurance	8,805	8,883	8,952	8,665	8,548	2,171	2,153
Life insurance	3,154	3,556	3,980	3,208	3,395	866	831
	11,959	12,439	12,932	11,873	11,943	3,037	2,984
<b>Results:</b>							
Non-life insurance	2,047	1,580	91	1,592	1,092	323	377
Life insurance	118	50	(57)	292	384	118	190
Parent company etc.	58	27	(58)	(21)	31	16	38
Pre-tax profit	2,223	1,657	(24)	1,863	1,506	457	605
Tax	(531)	(386)	(165)	(417)	(338)	(120)	(117)
<b>Profit</b>	1,692	1,271	(189)	1,446	1,168	337	488
Shareholders' equity of parent company at 1 January	3,973	4,366	3,716	3,243	4,465	4,259	4,594
Profit	1,692	1,271	(189)	1,446	1,168	337	488
Share buy-back	(1,430)	(2,026)	(371)	(376)	(892)	(156)	(210)
Share-based payments	136	104	77	150	159	25	28
Other movements in shareholders' equity	(5)	1	10	2	1	0	0
<b>Shareholders' equity of parent company end of period</b>	4,366	3,716	3,243	4,465	4,900	4,465	4,900
Deferred tax on security funds	(389)	(348)	(348)	(348)	(348)	(348)	(348)
<b>Shareholders' equity of Group end of period</b>	3,977	3,368	2,895	4,117	4,553	4,117	4,553
Capital base, parent company*)	4,366	4,118	3,645	4,868	5,305	4,868	5,305
Total assets, parent company	5,048	4,826	4,819	5,467	5,712	5,467	5,712
Total assets, Group	43,640	44,645	52,035	56,554	57,542	56,554	57,542
Provisions for insurance and investment contracts:							
Non-life insurance	12,783	13,314	13,685	14,478	15,139	14,478	15,139
Life insurance	23,459	25,093	24,938	28,882	31,166	28,882	31,166
<b>Financial ratios (parent company)</b>							
Post-tax profit as a % of shareholders' equity	39.4	31.2	(5.6)	36.6	24.1	7.8	10.2
Post-tax profit per share (DKK)	90.9	75.0	(12.1)	92.2	77.2	21.8	33.5
Post-tax profit per share, diluted (DKK)	88.3	73.3	(12.1)	91.7	77.0	21.7	33.5
Net asset value per share (DKK)	244.0	232.3	207.1	288.1	338.6	288.1	338.6
Share buy-back per share (DKK)	74.6	116.8	23.4	23.8	58.8	10.0	14.4
Listed share price end of period	934	734	687	703	738	703	738
Average number of shares ('000)	18,612	16,948	15,640	15,688	15,131	15,481	14,561
Average number of shares, diluted ('000)	19,171	17,351	15,640	15,769	15,159	15,565	14,583
Number of shares end of period ('000)	17,896	15,995	15,663	15,496	14,472	15,496	14,472
<b>Ratios non-life insurance (%)</b>							
Gross loss ratio	67.4	65.9	64.6	73.1	75.5	71.4	68.0
Net reinsurance ratio	4.0	3.9	3.1	3.1	2.4	4.1	4.9
Claims trend	71.4	69.8	67.7	76.2	77.9	75.5	72.9
Gross expense ratio	14.6	14.5	14.7	14.9	15.4	15.6	16.3
Combined ratio	86.0	84.3	82.4	91.1	93.3	91.1	89.2
Operating ratio	84.8	82.7	80.4	90.1	92.7	90.6	88.9

\* ) Shareholders' equity and loan capital

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## Focus on 2010 and prospects for 2011

### Profit of DKK 1,168m in 2010

Topdanmark's post-tax result for 2010 was a profit of DKK 1,168m (2009: DKK 1,446m) representing a profit per share of DKK 77.2 (2009: DKK 92.2).

Pre-tax profit was DKK 1,506m (2009: DKK 1,863m). The technical result, investment return, result of life insurance and result of the parent company Topdanmark A/S were all better than assumed in the profit forecast model for 2010 set out in the Q1-Q3 report.

### Comparison between actual results and profit forecast model results

(DKKm)	Forecast for 2010 as in Q1-Q3 interim report			Actual result for 2010
Non-life insurance				
- Technical result	500	-	540	626
- Investment return after transfer to technical result etc.	390	-	430	465
Profit on non-life insurance	890	-	970	1,092
Life insurance	310	-	360	384
Parent company etc.	(10)	-	0	31
Pre-tax profit	1,190	-	1,330	1,506
Taxation	(290)	-	(330)	(338)
Profit for the year	900	-	1,000	1,168

The technical result declined to DKK 626m in 2010 (2009: DKK 869m) due to weather-related claims being DKK 347m higher than the 2009 level and lower interest rates, which, as compared to 2009, adversely affected the result by just under DKK 100m, thereby demonstrating an underlying improvement in the technical result.

The investment return declined to DKK 465m in 2010 (2009: DKK 723m).

Profit on life insurance increased to DKK 384m (2009: DKK 292m) mostly due to the investment return being sufficiently high to allow recognition as income of the entire shadow account balance of DKK 144m in Life I.

The result of the parent company Topdanmark A/S increased to a DKK 31m profit in 2010 (2009: DKK 21m loss) due to higher earnings in subsidiaries outside of the insurance group and recognition as income of net interest compensation of DKK 25m relating to tax cases.

### Trend in pre-tax result

(DKKm)	2009	2010
Non-life insurance		
- Technical result	869	626
- Investment return after transfer to technical result etc.	723	465
Profit on non-life insurance	1,592	1,092
Life insurance	292	384
Parent company etc.	(21)	31
Pre-tax profit	1,863	1,506

### **DKK 151m improvement in results in Q4 2010**

Post-tax profit improved to DKK 488m in Q4 2010 (Q4 2009: DKK 337m).

Pre-tax profit was DKK 605m (Q4 2009: DKK 457m).

The technical result increased to DKK 240m in Q4 2010 (Q4 2009: DKK 204m). Run-off profits were DKK 86m (Q4 2009: DKK 67m) with severe winter weather in Q4 2010 affecting the result by around DKK 30m, in line with weather-related claims in Q4 2009.

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The investment return improved to DKK 137m (Q4 2009: DKK 119m). In contrast to Q4 2009, both an allowance for risk and the shadow account could be fully included in income in Life I.

The result of the parent company etc. increased to DKK 38m (Q4 2009: DKK 16m) due to the net interest compensation of DKK 25m in Q4 2010 referred to above.

<b>Trend in pre-tax result (DKKm)</b>	<b>Q4 2009</b>	<b>Q4 2010</b>
Non-life insurance		
- Technical result	204	240
- Investment return after transfer to technical result etc.	119	137
Profit on non-life insurance	323	377
Life insurance	118	190
Parent company etc.	16	38
Pre-tax profit	457	605

### Non-life insurance

#### **Danish non-life insurance market**

Key features of the Danish non-life insurance market in 2010:

- Continued recession in the SME and industrial market
- Price increases in personal and SME markets
- Continued intense competition in the upper part of the industrial insurance market
- 1% growth in premiums
- Untypically large number of weather-related claims
- Continued increase in claims in workers' compensation insurance
- Slowdown in theft claims
- Slowdown in fire claims
- Stabilisation of motor insurance prices
- Decline in interest rates
- Increasing combined ratio

The recession continued into 2010 with an estimated 2-3pp adverse effect on premiums earned due to a decline in insurable values (fewer vans, reduced stock levels etc.) and fewer employees. It is estimated that the combined ratio was correspondingly adversely impacted by around 0.5pp.

Most of the insurance companies in the Danish market have given notice of price increases, taking effect in 2010 and 2011, particularly for house and contents

policies due to recent years' growth in theft, fire and weather-related claims. Towards the end of the year several companies also increased prices in the SME market. A number of companies have also given notice of price increases on accident, agricultural and health policies and for new business in change of ownership insurance.

The industrial insurance market is affected by intense competition, particularly from major international companies due to a number of foreign insurance companies endeavouring to improve their position in the Nordic industrial market. This increased competition is predominantly in workers' compensation insurance which is the largest individual product for industrial companies.

Automatic price indexation in the personal and SME market was 4.1% which is estimated to have an overall effect of 2.5-3.0% on all insurance products. The recession has caused an increase in the number of business liquidations and reduced insurance needs due to fewer employees (workers' compensation insurance policies), fewer vans, lower stock levels, (reduced values insured) and lower risk cover of consequential losses. In 2010 it also caused negative premium adjustments relating to 2009 (premium refunds), particularly in workers' compensation insurance due to fewer employees than assumed when the insurance premiums were paid. Furthermore price pressure in the industrial market increased. In spite of an initial effect of the implementation of price increases there was an overall modest increase in gross premiums earned of around 1%.

Denmark was extraordinarily hard hit by weather-related claims in 2010. Severe winter weather caused considerable snow loading claims in Q1. Q3 was affected by significant cloud burst claims and Q4 by road accident and frost claims when winter started early. However, there were no significant storm claims in the year. Overall gross weather-related claims are estimated to be around DKK 3bn. Net of reinsurance cover weather-related claims are estimated to be around DKK 2.5bn corresponding to a 5pp negative effect on the combined ratio, which is estimated to be 3pp higher than a normal level.

The claims trend in workers' compensation insurance was adversely impacted by two Danish Supreme Court decisions (one in 2009 on the presentation of evidence

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to the contrary and one in 2010 on part-time employees), the tax reform and the declining level of interest rates. In spite of this, competition intensified in the upper part of the industrial market in 2010.

Following a significant increase in 2006-2009, the level of theft claims declined slightly in 2010, both in number and the size of average claim. For example, the number of burglaries declined 8% from 2009 to 2010. Developments in 2010 reflected a slowdown in the level of theft claims in the personal market and a decline in both the agricultural and SME markets.

Correspondingly, following an increase in 2006-2009 the level of fire claims declined slightly in 2010. Developments in 2010 reflected a decline in the SME market and an increase in the personal market.

The loss ratio in motor insurance has been on the increase in recent years due to increased competition but during 2010 motor insurance prices stabilised. One of the reasons could be the severe winter weather in Q1 and Q4 which caused an 8% increase from 2009 to 2010 in the number of traffic accidents referred to the police.

The lower interest rates as compared with 2009 had an adverse effect on the combined ratio. As provisions for outstanding claims are discounted to present value, a declining interest rate will increase the loss ratio. For example the interest rate level for a Danish government bond with a nominal interest rate of 4%, expiry in 2015 and a duration of 4 years has declined 0.8pp which, depending on the composition of the portfolio, causes just over a 1pp increase in the combined ratio.

It is estimated that the combined ratio including run-off profits increased to around 98% in 2010 (2009: 94%). In particular a number of small and medium-sized insurance companies have seen increasing combined ratios and are now operating with combined ratios over 100.

### **Result of non-life insurance**

Topdanmark's premiums declined 1.3% in 2010 to DKK 8,548m, which was slightly lower than the assumed decline of 1.5% in the profit forecast model for 2010 set out in the Q1-Q3 2010 interim report.

The decline in premiums earned in 2010 was due to the recession and a negative adjustment of premiums for 2009. Topdanmark has a relatively large exposure in the SME segment including tradesmen and small contractors, who have been especially hard hit by the recession.

As reported in the interim reports for 2010, premium adjustments in workers' compensation, SME liability and property insurance relating to 2009 had a combined negative effect of 0.7pp on premiums earned in 2010. At the same time the claims trend for 2010 increased 0.4pp due to the higher premium adjustments.

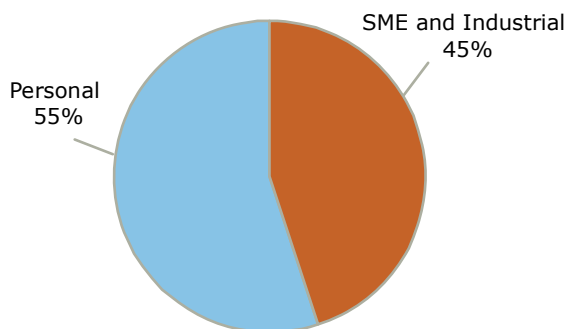
Competition intensified in the upper part of the industrial market in 2010 in particular from foreign insurance operators. Workers' compensation insurance policies, representing typically 20-30% of the expenses paid on insurance premiums by an average industrial business, is the key product enabling entry into the industrial market. Topdanmark gives priority to profitability over volume and its return requirements were obviously higher than those of a few other players in this market. Due to the recession (business liquidations etc.) and the increase in competition from major and international industrial businesses, Topdanmark has lost 36% of its workers' compensation business since 2007, however, much of this loss was on the industrial market where profitability is very limited. In 2010 premiums earned on workers' compensation declined DKK 150m giving a 1.8pp effect on premiums earned by the Group in 2010.

Topdanmark implemented price increases, which resulted in an impact of DKK 161m in 2010. It was one of the first companies to initiate price increases for SME customers during 2010, and this generated a somewhat higher than expected level of customer migration. Since then other companies have followed suit with similar price increases leading to improved competition in the SME market. The loss of personal customers has been limited. The net effect of the price increases on premiums earned was around 1.2pp, in line with the assumed level of around 1pp.



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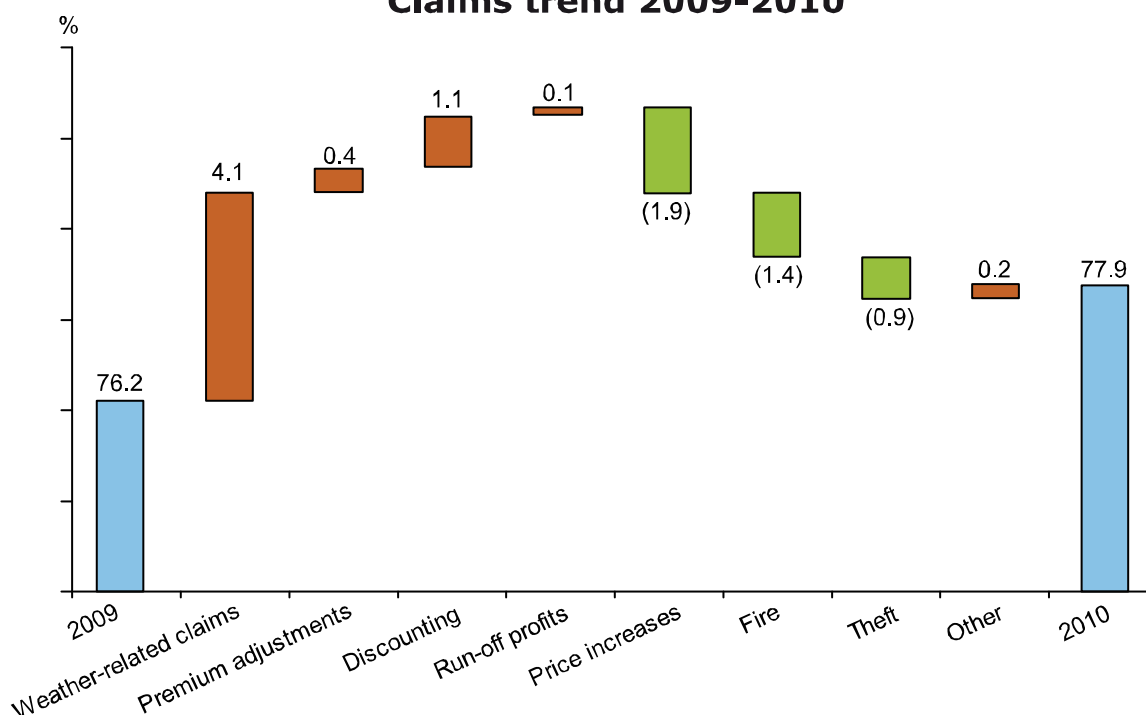
Sources of premiums earned in non-life – 2010



Distribution of price increases in 2010

(DKKm)	
Personal	69
SME	52
Illness / accident insurance	30
Unemployment insurance	10
<b>Total</b>	<b>161</b>

Claims trend 2009-2010



The claims trend increased to 77.9% in 2010 (2009: 76.2%) representing a deterioration of 1.7pp.

Winter claims were DKK 300m in Q1 and DKK 30m in Q4, i.e. DKK 330m in total. The cloudbursts in Q3 generated claims of just under DKK 200 (adjusted from DKK 228m in the Q1-Q3 2010 interim report), DKK 68m net of reinsurance.

Total weather-related claims, including winter and cloudburst claims, amounted to DKK 410m, 4.1pp higher than the previous year's level and DKK 260m higher than the assumed normal level of DKK 150m for 2010 included

in Topdanmark's profit forecast model for 2010. Accordingly, weather-related claims exceeding the assumed normal level had a 3.0pp effect on the claims trend.

The lower interest rates in 2010 increased the claims trend by 1.1pp.

Run-off profits net of reinsurance were DKK 204m in 2010 (2009: DKK 214m). As compared to 2009 run-off profits had a 0.1pp adverse effect on the claims trend in 2010.

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## Run-off profits / losses, net of reinsurance

(DKKm)	Q4		2009	2010
	2009	2010		
Illness / accident	15	11	91	75
Workers' compensation	9	(9)	19	(15)
Third party and comprehensive	24	52	115	57
Other	19	32	(11)	87
<b>Total run-off profits, net of reinsurance</b>	<b>67</b>	<b>86</b>	<b>214</b>	<b>204</b>
See Note 4 for further detail of lines of business				

The price increases of DKK 161m improved the claims trend by 1.9pp.

Fire claims declined to DKK 645m in 2010 (2009: DKK 764m) which improved the claims trend by 1.4pp. The Personal segment accounted for 12% of the decline and the SME and Industrial segment for 17%.

The decline in theft claims to DKK 460m in 2010 (2009: DKK 536m) improved the claims trend by 0.9pp reflecting a decline of 7% in the Personal segment and 26% in the SME and Industrial segment.

The expense ratio increased to 15.4% from 14.9% primarily due to the decline in premiums earned but also an increase in expenses on the Solvency II preparations.

Overall expenses on claims, reinsurance, sales and administration as a percentage of gross premiums earned (combined ratio) increased to 93.3% in 2010 (2009: 91.1%). Excluding run-off profits in Q4 2010 it was 94.3% in 2010. This was in line with the assumption in the Q1-Q3 report for 2010 of a combined ratio of 94-95% for the full year 2010, excluding run-off profits in Q4 2010.

Excluding run-off profits the combined ratio increased to 95.7% in 2010 from 93.6% in 2009. Accordingly, adjusted for weather-related claims exceeding the normal level by 3.0pp the underlying combined ratio was 92.7% excluding run-off profits.

## Financial highlights – Non-life insurance

(DKKm)	Q4		2009	2010
	2009	2010		
Gross premiums earned	2,171	2,153	8,665	8,548
Technical interest	12	8	102	58
Claims incurred	(1,550)	(1,464)	(6,337)	(6,456)
Expenses	(338)	(350)	(1,295)	(1,320)
Net reinsurance	(91)	(106)	(266)	(204)
Technical profit	204	240	869	626
Investment return after transfer to technical result	115	131	704	445
Other items	4	5	19	20
<b>Profit on non-life insurance</b>	<b>323</b>	<b>377</b>	<b>1,592</b>	<b>1,092</b>
Run-off profits, net of reinsurance	67	86	214	204
Gross loss ratio (%)	71.4	68.0	73.1	75.5
Net reinsurance ratio (%)	4.1	4.9	3.1	2.4
Claims trend (%)	75.5	72.9	76.2	77.9
Gross expense ratio (%)	15.6	16.3	14.9	15.4
Combined ratio (%)	91.1	89.2	91.1	93.3
Operating ratio (%)	90.6	88.9	90.1	92.7

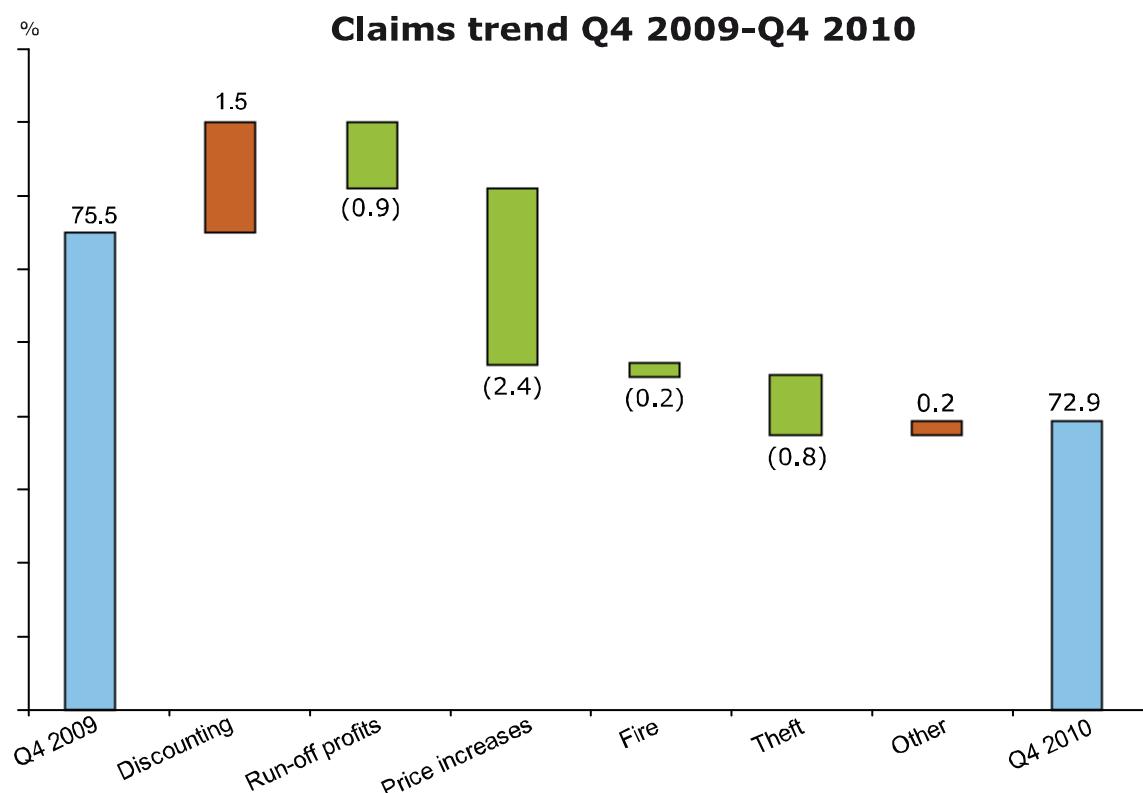
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## Developments in Q4

Premiums earned in Q4 2010 amounted to DKK 2,153m which was 0.9% lower than the same quarter the previous year.

The claims trend improved to 72.9% in Q4 2010 (Q4 2009: 75.5%) primarily due to the implementation of price increases, lower fire and theft claims and higher run-off

profits. Weather-related claims were around DKK 30m due to the severe winter weather in Q4 2010, which was in line with Q4 2009. As there were no storm claims that quarter, the DKK 30m was lower than the assumed normal Q4 level of DKK 50m for weather-related claims as assumed in the 2010 profit forecast model set out in the Q1-Q3 interim report.



The expense ratio increased to 16.3% (Q4 2009: 15.6%) affected by the decline in premiums earned, an increase in development expenses on a new IT system and a higher proportion of holiday pay being provided for in Q4.

Consequently the combined ratio improved to 89.2% (Q4 2009: 91.1%). Excluding run-off profits the combined ratio improved to 93.2% (Q4 2009: 94.3%).

## Segment reporting

Until 1 November 2010 Topdanmark's non-life business was divided into the segments of Personal, SME and Industrial. From 1 November 2010 the business areas of SME and Industrial were organisationally merged and therefore the segments are now shown as "Personal" and "SME and Industrial" in internal management reporting

and segment reporting. This segmentation takes accounting effect from this 2010 Annual Report, where the comparatives for 2009 have been restated.

### Personal

The Personal segment sells policies for individual households in Denmark.

Premiums earned increased 1.8% to DKK 4,720m in 2010 and in Q4 growth was 0.6%. Premium increases on house, contents and health policies increased premiums earned by just over 2pp.

The retention percentage, calculated as the number of people who were customers on both 31 December 2009 and 2010, was unchanged at 91%.

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Competition is strong, particularly in motor insurance, but declining. Premiums earned in this line of business declined around 2.0pp, and in spite of severe winter weather in Q1 and Q4, the claims trend only deteriorated 0.3pp from the previous year.

The technical result increased DKK 22m to DKK 470m in 2010.

The claims trend declined 0.5pp to 75.7%. The gross claims trend in fire / theft insurance improved 1.2pp from

last year. Run-off profits were DKK 173m in 2010 which had a 1.3 pp positive effect on the claims trend as compared to 2009. However, reinsurers' share improved 1.5pp particularly reflecting the cloudburst claims in August.

The expense ratio declined to 15.0% from 15.3%.

The combined ratio improved to 90.7% from 91.5%; excluding run-off profits it increased to 94.3% from 93.9%.

Personal (DKKm)	Q4		Q4	
	2009	2010	2009	2010
Gross premiums earned	1,192	1,199	4,638	4,720
Technical interest	8	5	53	30
Claims incurred	(871)	(822)	(3,478)	(3,585)
Expenses	(197)	(190)	(711)	(708)
Net reinsurance	(14)	(39)	(54)	12
Technical profit	118	152	448	470
Run-off profits, net of reinsurance	26	62	111	173
Gross loss ratio (%)	73.1	68.6	75.0	76.0
Net reinsurance ratio (%)	1.2	3.2	1.2	(0.3)
Claims trend (%)	74.3	71.8	76.2	75.7
Gross expense ratio (%)	16.5	15.9	15.3	15.0
Combined ratio %	90.8	87.7	91.5	90.7
Operating ratio (%)	90.2	87.3	90.5	90.1

### **SME and Industrial**

The SME and Industrial segment offers policies for Danish-based SME, agricultural and industrial businesses.

Premiums earned declined 4.9% to DKK 3,849m while the decline in premiums slowed to 2.8% in Q4. The difficult situation of small and medium-sized businesses impacted the SME segment significantly as Topdanmark has a relatively high market share in this segment, in particular with tradesmen and in the construction industry.

Premiums earned declined primarily due to the loss of business in workers' compensation insurance as, among other things, a consequence of the decline in the number of employees in the businesses. The loss of business in workers' compensation corresponded to a 3.6pp decline in premiums from 2009. Furthermore the recessionary effect continues to be felt in other areas by way of fewer

vehicles (particularly delivery vans), a reduction in production facilities and more business liquidations etc.

The price increases for small and medium-sized businesses resulted in a slightly larger than expected loss of customers.

The technical result declined DKK 262m to DKK 154m in 2010 mainly due to the severe winter in Q1 with its large number of snow loading claims particularly on farm buildings and cloudburst claims in Q3.

The claims trend increased 4.4pp to 80.8% impacted by winter claims of DKK 250m (6.5pp). However, the size of fire and theft claims declined (2.2pp and 1.3pp). Run-off profits were DKK 31m in 2010 (2009: DKK 103m) giving a 1.7pp effect on the claims trend.

## Topdanmark's Annual Report 2010

The expense ratio increased 1.4pp to 15.9% reflecting the decline in premiums earned and increased investments in a new sales and administration system TopBiz.

The combined ratio increased to 96.7% in 2010 (2009: 90.9%); excluding run-off profits it increased to 97.5% (2009: 93.5%).

SME and Industrial (DKK m)	Q4		Q4	
	2009	2010	2009	2010
Gross premiums earned	985	957	4,049	3,849
Technical interest	4	3	49	28
Claims incurred	(685)	(647)	(2,883)	(2,892)
Expenses	(142)	(160)	(587)	(613)
Net reinsurance	(77)	(67)	(212)	(217)
Technical profit	86	88	416	154
Run-off profits, net of reinsurance	41	23	103	31
Gross loss ratio (%)	69.5	67.5	71.2	75.1
Net reinsurance ratio (%)	7.9	7.0	5.2	5.6
Claims trend (%)	77.4	74.5	76.4	80.8
Gross expense ratio (%)	14.4	16.7	14.5	15.9
Combined ratio %	91.8	91.2	90.9	96.7
Operating ratio (%)	91.4	90.9	89.8	96.0

### Life insurance

#### **Danish life insurance and pension fund market**

In 2010 the Danish life and pension fund market was characterised by:

- Decline in overall payments into pension savings
- Loss participation schemes previously introduced by all companies were practically removed due to the improved situation in the financial markets

In recent years there has been a greater appreciation by the general public that they need to establish private savings for their old age and not only rely on public funds received as a pension. These needs are reflected in the collective agreements in the labour market where there has been a general increase in pension contributions obtained through collective agreements, which has in previous years created strong growth in pension savings in Denmark. However, this growth slowed significantly in 2009 in line with the after-effects of the financial crisis on people's financial status with the result that their desire to continue spending part of their disposable income on additional pension savings continued to fall into 2010. Their unwillingness increased due to a tax reform passed by the Danish Parliament limiting the deductibility of term life insurance premiums to a maximum of DKK 100,000, with effect from 2010. The tax reform's removal of this deductibility increased the interest for using the unlimited

deductibility for the last time in 2009, which is assumed to have brought forward to 2009 those pension contributions which would otherwise have been made in 2010.

In the spring of 2010 the Danish Government and Dansk Folkeparti (The Danish People's Party) agreed to introduce a 6% equalisation tax on payouts exceeding an annual amount of DKK 362,800, which further reduced the desire to make additional pension contributions particularly for those customers who are relatively close to retirement.

As most major businesses have already established corporate pension schemes, competition concentrates on moving existing customers. Labour market mobility is one of the drivers generating sales in the life insurance and pension fund sector as customers' savings are often moved to new pension suppliers when they are changing jobs. The relatively high rate of unemployment and the resulting lack of mobility in the labour market have therefore reduced premiums and deposits in the life insurance and pension fund sector.

Overall it is estimated that total payments into pension schemes reduced by around 5% in 2010.

# Topdanmark's Annual Report 2010

## Result of life insurance

Topdanmark's profit on life insurance was DKK 384m in 2010 (2009: DKK 292m).

Profit on life insurance activities comprises primarily the profits generated by Life I and Life V. These profits were

calculated in accordance with the stated policy on the calculation of profit for the life insurance companies, see Policy for the calculation of profit on

<http://www.topdanmark.com> → [Business](#) → [Life insurance](#).

## Result of life insurance

(DKKm)	Life I	Life V	2009 Group	Life I	Life V	2010 Group
Investment return	42	60	102	40	50	91
Risk allowance	73	52	125	79	51	130
Transferred to/from shadow account	(73)	113	40	144	0	144
Profit in Topdanmark Link			38			33
Profit in Nykredit Life insurance			0			3
Financing charges Life Holding			(8)			1
Other			(5)			(17)
<b>Profit on life insurance</b>			<b>292</b>			<b>384</b>
<b>Shadow account end of period</b>	<b>137</b>	<b>0</b>	<b>137</b>	<b>0</b>	<b>0</b>	<b>0</b>

Customers are divided primarily between the two companies, Life I and Life V, on the basis of when the policies are written: those written since 1 July 1994 with guaranteed pension benefits of 2.5% and 1.5% are placed in Life I which is also the company for new with-profits customers. Unit-linked schemes are written by Topdanmark Link. Schemes written before 1 July 1994 with guaranteed pension benefits of 4.5% have been placed in Life V.

The improvement in profit to DKK 384m in 2010 (2009: DKK 292m) was mostly due to – unlike 2009 – the "insurance technical result before bonus" in Life I being sufficient to include in income both the risk allowance for the year of DKK 79m and the shadow account, including interest, of DKK 144m. In Life V the "insurance technical result before bonus" was sufficient to include in income a risk allowance of DKK 51m.

In contrast, the trend in results was affected by a decline in the investment return on shareholders' equity to DKK 91m in 2010 (2009: DKK 102m). Furthermore the profit on Topdanmark Link declined to DKK 33m in 2010 (2009: DKK 38m) primarily due to a lower investment return on shareholders' equity in 2010.

The return on funds owned by customers, before pension return tax, was 7.1% in Life I and 10.5% in Life V. After pension return tax and the change in provisions to

strengthen the guarantees the net return was 6.0% in Life I and 6.6% in Life V.

The investment return on shareholders' equity was 4.9% in Life I and 6.3% in Life V in 2010. The investment return on shareholders' equity deviates from that on customers' funds due to shareholders' equity not being allocated any return on those equities and instruments used to hedge the guaranteed benefits.

## Trend in premiums

Due to an increase in single premiums gross premiums increased 5.8% to DKK 3,395m in 2010 (2009: DKK 3,208m) which was slightly higher than the growth of around 5% expected in the interim report for Q1-Q3 2010.

Regular premiums declined 4.9% to DKK 2,572m in 2010 (2009: DKK 2,705m) which was greater than the decline of 2-3% expected in the interim report for Q1-Q3 2010.

Single premiums increased 63.5% to DKK 822m in 2010 (2009: DKK 503m) due to, among other factors, most life insurance and pension fund companies having removed their loss participation schemes. This increased mobility in corporate pensions which in turn caused an increase in the transfer of pension savings between Topdanmark and other life insurance and pension fund companies.

## Topdanmark's Annual Report 2010

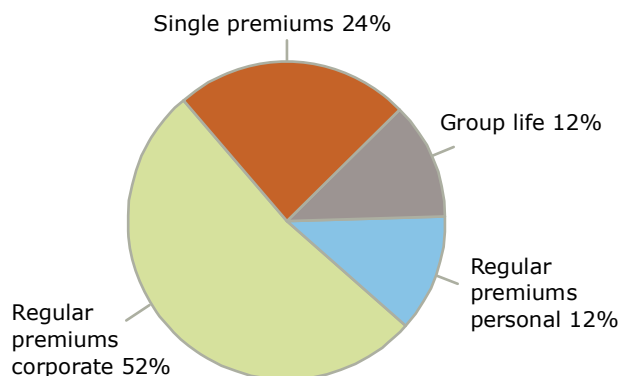
There was an overall increase of 55.8% in premiums in unit-linked pension schemes. Regular premiums increased 17.2% to DKK 506m in 2010 (2009: DKK 431m) and single premiums 175.9% to DKK 381m. The share of new business written by unit-linked savings increased to 61.8% in 2010 (2009: 32.5%).

Investment contracts with regular payments, where payments are taken directly to the balance sheet, declined 31.4% to DKK 53m in 2010 (2009: DKK 78m). Investment contracts with single payments declined 19.0% to DKK 69m in 2010 (2009: DKK 86m).

Consequently, overall payments into pension schemes in Topdanmark life insurance – including investment contracts – increased 4.3% to DKK 3,518m in 2010 (2009: DKK 3,372m).

In 2010 DKK 54m of premiums and DKK 6m of payments into investment contracts were due to transfers from other group companies (2009: DKK 14m and DKK 2m).

### Sources of premiums in life - 2010



### Sources of gross premiums

(DKKm)	Q4 2009	Q4 2010	2009	2010
Individual schemes	170	154	397	370
Corporate schemes	359	307	1,479	1,284
Group life	39	45	398	413
Unit-linked schemes	111	136	431	506
<b>Regular premiums</b>	<b>679</b>	<b>642</b>	<b>2,705</b>	<b>2,572</b>
Individual schemes	13	12	83	61
Corporate schemes	118	78	282	380
Unit-linked schemes	56	99	138	381
<b>Single premiums</b>	<b>187</b>	<b>189</b>	<b>503</b>	<b>822</b>
<b>Gross premiums</b>	<b>866</b>	<b>831</b>	<b>3,208</b>	<b>3,395</b>

### Developments in Q4 2010

Profit on life insurance increased to DKK 190m in Q4 2010 (Q4 2009: DKK 118m) due to the recognition as

income of the shadow account of DKK 144m in Life I. However, the investment return on shareholders' equity declined DKK 19m to DKK 6m.

### Result of life insurance

(DKKm)	Q4 2009			Q4 2010		
	Life I	Life V	Group	Life I	Life V	Group
Investment return	10	15	25	8	(2)	6
Risk allowance	19	14	33	20	13	32
Transferred to/from shadow account	(19)	77	58	144	0	144
Profit in Topdanmark Link			6			8
Profit in Nykredit Life insurance			0			0
Financing charges Life Holding			(1)			2
Other			(3)			(2)
<b>Profit on life insurance</b>			<b>118</b>			<b>190</b>

## Topdanmark's Annual Report 2010

Overall premiums declined 4.1% to DKK 831m in Q4 while regular premiums declined 5.5% to DKK 642m.

### **Rate of interest on policyholders' savings in 2011**

On 31 October 2008 the Danish Ministry of Economic and Business Affairs and the Danish Insurance Association agreed to ensure financial stability in the pension sector. It was a key element of the agreement that the bonus policy and the decision on bonus rates should ensure that generally companies do not accept liabilities other than those with guaranteed pension benefits.

The agreement on financial stability was extended at the end of 2010. However, the extension is not time-limited as the parties have decided that the agreement ensures an appropriate change to the new Solvency II rules in the pension sector. This has influenced the decision on fixing the rate of interest on policyholders' savings for 2011. On 1 May 2010 the rate of interest on policyholders' savings in Life I before pension return tax was raised from 2.65% to 3.25%, which will be maintained for the remainder of 2011. In Life V the rate before pension return tax has been raised from 3.5% to 4.35% for 2011. As in previous years these rates may be subject to change later in the year if the development in the financial markets is different from expectations.

### **Topdanmark benefitting from future requirement to publicise indirect costs**

In continuation of the sector's work to increase openness and transparency, life insurance and pension fund companies are required to publicise annual costs both in

Danish kroner and as a percentage with effect from 1 July 2011. These figures are also required to include indirect costs. It is believed that Topdanmark life insurance would benefit competitively, particularly in unit-linked life cycle products, as its indirect costs are among the absolute lowest in the market.

### **Investment activities**

#### ***Topdanmark Group excluding life insurance***

The investment return in the Topdanmark Group excluding life insurance was DKK 879m in 2010 including revaluation of provisions and income from associated companies but before the transfer to the technical result (2009: DKK 1,192m).

This was just under DKK 50m higher than the level assumed in the profit forecast for 2010 set out in the Q1-Q3 report for 2010 calculated using Topdanmark's standard forecast return assumptions (equities: 7% p.a., interest-bearing investment assets: three-month forward rate plus 2% p.a. of the net balance, having deducted discounted provisions), and related primarily to revaluations of subordinated CDO tranches and substantial equity returns in the latter months of the year.

It is Topdanmark's policy to accept a certain level of financial risk, given its strong liquid position and stable, high earnings from insurance operations. Topdanmark has invested in, among others, equities, properties and CDOs in order to improve the average investment return. The return in 2010 on the most significant classes of assets is disclosed in the following table on page 15:



## Topdanmark's Annual Report 2010

Investment return	Portfolio 31 Dec		Return Q4 2009		Return Q4 2010		Return 2009		Return 2010	
	2009 (DKKbn)	2010	(DKKm)	%	(DKKm)	%	(DKKm)	%	(DKKm)	%
Danish equities	0.3	0.4	(4)	(1.7)	27	7.6	74	25.9	72	22.4
Foreign equities	0.9	0.9	54	3.1	72	8.0	283	40.6	112	12.6
Government and mortgage bonds	10.5	12.3	70	0.6	28	0.2	449	4.7	232	2.0
Credit bonds	0.6	0.7	18	5.5	5	0.7	108	18.5	61	8.7
CDOs	0.9	0.7	29	3.1	60	8.8	(10)	(1.1)	148	22.6
Properties	1.3	1.3	16	1.2	16	1.3	75	6.0	68	5.3
Assets rel. to I/A	1.4	1.6	25	1.8	13	0.8	91	6.6	91	5.9
Money market etc.	3.7	0.8	16	0.6	24	1.3	192	4.0	86	3.5
Interest-bearing debt	(3.6)	(2.2)	(15)	(0.6)	(13)	(0.6)	(123)	(3.1)	(46)	(1.8)
	16.0	16.5	209	1.3	232	1.4	1,139	7.3	824	4.8
Asset management			27		24		53		55	
Total investment return			236		256		1,192		879	
<b>Transferred return technical provisions</b>										
Discounting			(83)		(69)		(364)		(304)	
Technical interest			(12)		(8)		(102)		(58)	

The exposure in foreign equities has been adjusted by the use of derivatives. The return percentages are calculated as the ratio between the return on financial instruments and the size of the exposure of the underlying asset. The return on government and mortgage bonds and assets related to I/A (illness/accident) includes revaluations of claims provisions.

At 31 December 2010 associated companies accounted for DKK 64m of the total equity investment of DKK 1,211m. The post-tax equity exposure was DKK 733m excluding associated companies but including the impact of derivatives.

The equity portfolios are well diversified with no large individual positions. The composition of the portfolios is based on OMXCCAP for Danish equities (representing around 35% of the portfolio at 31 December 2010) and MSCI World in the original currency for foreign equities.

The Group's investments have no significant concentration of credit risk except for AAA-rated Danish mortgage bonds which are considered to be particularly safe assets according to the Danish Financial Business Act.

Since 31 October 2008 Danish insurance companies and pension funds have calculated the value of provisions by using a discount rate representing the combined weighting of the swap rate and the option-adjusted Danish mortgage credit rate. The portfolio is dominated by high-quality mortgage bonds, which ensures a significant degree of consistency between the investment return and the discount rate.

The class of government and mortgage bonds comprises primarily Danish mortgage bonds and revaluation of technical provisions. In addition, there are a small number of government and covered bonds and derivatives. Covered bonds are AAA-rated mortgage bonds where the size of the loan may not exceed 70% of the value of the security. If the value of the security declines so much that the requirement is not fulfilled, the issuer will provide further security.

Credit bonds with a rating lower than BBB (DKK 340m) comprise senior secured bank loans and high yield bonds, part of which are convertible, and subordinated bank capital issued by EU banks (tier 1: DKK 47m). Credit bonds with a rating of BBB and A (DKK 336m) are ordinary and convertible corporate bonds, annuity policies and subordinated bank capital issued by EU banks (tier 1: DKK 25m, tier 2: DKK 21m). Credit bonds with a rating higher than A (DKK 23m) are corporate bonds.

The underlying assets of CDOs with a rating lower than AA (DKK 628m) are mostly leveraged loans (DKK 531m) while the remainder are primarily CDOs with investment grade investments as the underlying assets. The underlying assets in CDOs with ratings of AA and AAA (DKK 91m) comprise leveraged loans (DKK 87m) and investment grade bonds etc. (DKK 4m).

# Topdanmark's Annual Report 2010

## CDOs – Returns and portfolios

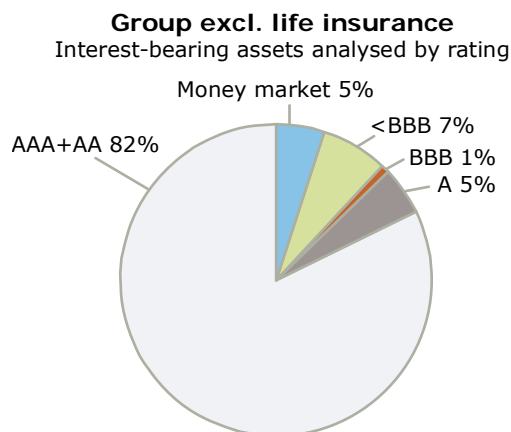
(DKKm)	Group excl. life insurance				Life insurance			
	Q4 09	Q4 10	2009	2010	Q4 09	Q4 10	2009	2010
<b>Return</b>								
AAA and AA	2	2	34	7	9	1	75	6
Lower than AA	27	58	(44)	141	44	91	(76)	301
<b>Total return</b>	<b>29</b>	<b>60</b>	<b>(10)</b>	<b>148</b>	<b>53</b>	<b>92</b>	<b>(1)</b>	<b>307</b>
Interest	17	10	49	66	26	13	83	113
Revaluations	12	50	(59)	82	27	79	(84)	194
<b>Total return</b>	<b>29</b>	<b>60</b>	<b>(10)</b>	<b>148</b>	<b>53</b>	<b>92</b>	<b>(1)</b>	<b>307</b>
<b>Book value 31 December</b>								
AAA and AA			338	91			668	85
Lower than AA			550	628			918	1,108
<b>Total book value</b>			<b>888</b>	<b>719</b>			<b>1,586</b>	<b>1,193</b>

The table shows the Group's CDO return at 31 December 2010 and the market value of the portfolios at the same date. The maturity of the CDO investments is dependent on any changes in the payments made by the underlying assets which in turn are dependent on changes in the general economy and, therefore, it is not possible to outline the distribution of maturity for the portfolio.

The property portfolio comprises mainly owner-occupied property (DKK 757m), rental property (DKK 351m), rental office property (DKK 68m) and property rented for hotel use (DKK 112m). The tenancies for the residential and hotel properties are subject to a short termination notice but re-letting is not considered to be a problem. The office property is rented under contracts with no option to terminate prior to 2015. Over 99% of the property portfolio is currently let. The properties are valued in accordance with the rules of the DFSA i.e. at market value taking into account the level of rent and the terms of the tenancy agreements.

The class of "Assets related to IA" (illness / accident) comprises the investments in Topdanmark Livsforsikring corresponding to the size of the illness / accident provisions. These investments are calculated as a share of Topdanmark Livsforsikring's overall investments, however, equities and equity instruments have, in advance, been allocated to the life insurance customers.

"Money market etc." comprises primarily money market deposits and intra-group balances while "Interest-bearing debt" comprises money market loans, negative intra-group balances, subordinated loans and issued hybrid capital.



### Model prices

A side effect of the financial crisis has been that certain of Topdanmark's investment assets are no longer valued at market prices. As it was not immediately possible to record these assets at market value, Topdanmark has chosen to use the mark-to-model method, from Q4 2008, on part of the CDO portfolio and other structured products as well as illiquid loans and credit bonds. In the model it is assumed that the default ratio of loans and credit bonds would be 10% p.a. up to and including Q3 2011, and thereafter the rate would gradually decline to a normal level of 3% p.a. Recovery rates are assumed to be 60% for senior debt, and 20% for subordinated debt in Q1 2011 moving to 30% thereafter. The discount rate used is 10% p.a.

The assets are only valued by means of the mark-to-model method if it is specifically considered that there continues to be no strong market pricing for the specific asset. In line with the improved market of credits since the beginning of H2 2009, a significant proportion of those

## Topdanmark's Annual Report 2010

investment assets previously recorded at model price at the end of 2008 have now again been recorded at a publicly available value. Since the end of 2008 it has not been necessary to value further assets by the mark-to-model method. During Q4 2010 the market pricing for CDO equities changed and it is now possible to record a significant proportion of those assets which at 30 September 2010 were valued at mark-to-model to a publicly available value.

At 31 December 2010 in the Group excluding life insurance, assets valued at mark-to-model were DKK 160m (2009: DKK 554m) much of which is expected to be recorded at a publicly available value by the end of 2011.

### **Financing**

Up to now the goal of Topdanmark's capital structure has been to ensure that its capital base (shareholders' equity and hybrid capital) is 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. As a result of this approach to capital structure Topdanmark is financing part of the investment in the insurance group with loans.

Against this background it is believed that the future regulation of the insurance sector will require a minimum level of solvency capital in insurance holding companies corresponding to the solvency requirements of the underlying group companies. Topdanmark has no intention of accumulating unnecessary capital in the group companies and, therefore, looking forward it is expected that broadly the capital base of the parent company will be sufficient to finance the investments in the group companies. Consequently, the parent company will not need net refinancing in excess of its capital base.

For details on the liquidity base see [Market risk](#) in this report.

### **Parent company etc.**

The parent company Topdanmark does not perform any independent activities. The result of the parent company includes the results of subsidiaries, excluding the insurance business (primarily Topdanmark Kapitalforvaltning, the asset management company), and financing costs. The result was a DKK 31m profit in 2010 (2009: DKK 21m loss) due to higher earnings in subsidiaries outside of the insurance group and the recognition as income of net interest compensation of DKK 25m relating to tax cases.

Topdanmark Kapitalforvaltning manages the Group's financial assets and liabilities and its result is dependent on the investment performance.

### **Taxation**

The tax charge was DKK 338m on a pre-tax profit of DKK 1,506m. The actual tax rate of 22.5% deviates from the official tax rate of 25% mainly due to a set-off of capital gains against non-capitalised losses on equities carried forward.

As described in, inter alia, the 2009 Annual Report, following a change in the Group's taxable income for 2001, the Danish tax authority's (SKAT) interpretation of Section 13 of the Danish Corporation Tax Act was different from that which Topdanmark had used. The case was heard by the Danish National Tax Tribunal and on 17 June 2010 the case was decided in favour of Topdanmark. SKAT accepted the decision.

# Topdanmark's Annual Report 2010

## Financial goals

Topdanmark's operational goals in non-life insurance:

### Premium growth

- To ensure that growth in gross premiums earned is 1pp higher than ordinary indexation, adjusted for any price changes

### Expense ratio

- To ensure that the expense ratio is lower than the general Danish market level

### Earnings

- To ensure a profit margin of 10% which, given the current level of interest rates, corresponds to a combined ratio of around 91% excluding run-off profits / losses

## Prospects for 2011 *Expected trend in Danish non-life insurance market*

It is expected that in 2011 the Danish non-life insurance market will be characterised by:

- Improved macroeconomic conditions
- Positive result of price increases
- 3% growth in premiums
- Reduced claims inflation
- Higher interest rates
- More disciplined market
- Increase in expenses on payroll tax and terror pool and in motor insurance
- Prospects of improved combined ratio

It is expected that GNP growth in the Danish economy will be around 2% in 2011. Therefore the negative effect of the recession on premiums earned is expected to decrease in 2011.

Most insurance companies in the Danish market have given notice of price increases taking effect in 2010 and 2011. These increases differ from company to company but are primarily on house, contents and SME policies. The estimated effect on gross premiums earned is around 1pp.

In the personal and SME markets, automatic price indexation, which allows for claims inflation, is 2.6%. Prices in the industrial market are expected to be under pressure in 2011 also due to competition from, among others, foreign insurance companies. Including the effect

of price increases, growth in premiums earned is estimated to be 3%.

In recent years claims inflation has been higher than automatic indexation due to, among other factors, an increase in theft and fire claims and significant increases in wages and the cost of materials. It is estimated that claims inflation will decline in 2011. For example, it is expected that the recession has enabled insurance companies to negotiate better conditions for wages and the cost of materials. Moreover the police have allocated more resources to fight so-called home crimes. It is therefore estimated that claims inflation will fall to a level below automatic indexation in 2011.

The forward interest rate curves for, for example, 3-month and 10-year rates are increasing. Non-life insurance companies will benefit from an increase in interest rates. Companies who prepare their accounts in accordance with Danish accounting rules discount their provisions for outstanding claims to present value, which implies that an increase in interest rates will reduce those companies' loss ratios. If there is a 1pp increase in interest rates, the loss ratio will decline 1.0-1.5pp.

More disciplined competition is expected in the Danish market. Following Gjensidige's purchase of Nykredit Forsikring and the subsequent stock market floatation in 2010, the six largest non-life insurance companies on the Danish market are listed on the stock exchange or owned by a listed company. These six companies represent a total market share of 75%. Furthermore it is expected that the increased capital requirements of Solvency II will increase the focus on profitability.

A number of external factors will have an adverse impact on the combined ratio of the insurance sector in 2011:

- An increase in payroll tax in 2011 from 9.13% to 10.5%
- An increase in expenses on terror pool
- An increase in motor claims due to changed rules for the vehicle registration fee on written-off cars
- An increase in reinsurance expenses on cloudburst cover for those insurance companies who have chosen such cover

Overall it is estimated that these factors will increase the combined ratio by around 0.5-1.0pp in 2011. Additionally there will be expenses on the Solvency II preparations.

## Topdanmark's Annual Report 2010

However, including the positive effects such as an assumed normal level of weather-related claims, fewer recession-related claims (fire and theft claims), the effect of already notified price increases and the relatively disciplined competitive environment, it is expected that overall the companies' combined ratios will improve from the level in 2010. Any increase in interest rates will further help this.

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

It is expected that in 2011 the Danish life insurance and pension fund market will be characterised by:

- Contribution order taking effect
- Termination of insurance brokers' opportunity to receive commission on small schemes
- Rules for publication of indirect costs
- Overall payments into pension savings back to 2009 level
- Continued major regulatory measures
- New capitalisation rate of 1%

On 6 April 2010 the DFSA issued a new contribution order taking effect on 1 January 2011. This new order clarifies the rules for bonus distribution among customers and sets increased requirements on the transparency of bonus distribution. As a result there will be shift from a high to a lower degree of solidarity between customers, with requirements for homogeneous groups to be created within each of interest rate, risk and cost categories. The order applies to all life insurance policies entitled to a bonus, with classical saving in with-profits schemes.

From 1 January 2011 all insurance policies have been split into interest rate, risk and cost groups of homogeneous characteristics. The spread of the interest rate groups must not exceed 1 pp. Accordingly, each policy will belong to one interest rate group, one or more risk groups and one cost group.

The old contribution order treated the elements of interest rates, risk and cost result as one single item in the "insurance technical result before bonus". The new contribution order requires that the "insurance technical result before bonus" be distributed on the basis of the Company's contribution groups and consequently transferred to the policies within those groups. In the event of losses in one of the groups, these losses must be transferred to a shadow account which can only be recognised as income when that group returns to being in profit.

However, it is uncertain how the implementation of the new contribution order will impact competition as in future it will not be allowed to set off losses / profits between the interest rate, risk and cost groups. Future losses on the risk and cost groups are to be transferred to a shadow account, which means that the shareholders' equity of the companies will finance these losses until the group returns to being in profit and the shadow account can be recognised as income.

In recent years, the continued increase in life expectancy and the awareness of the need to establish personal pension savings have increased the interest for pension saving to ensure an individual's future welfare. In spite of this it is expected that overall the life insurance and pension fund market will not see the same growth as in those years prior to 2009 due to the effect of the global financial crisis and the resulting increase in unemployment combined with the tax reform's limitations on the deductibility of term life premiums to DKK 100,000. Furthermore the 6% surtax on payouts exceeding DKK 362,800 reduced the desire to make additional pension payments particularly for those customers who are relatively close to retirement. At the same time most companies and trade organisations have already made pension scheme agreements. It is estimated that overall pension contributions will increase 3-5% in 2011. It is expected that the future rate of increase will follow wage increases rather than the rate of increase seen before 2009.

On 8 December 2010 the DFSA issued an order requiring companies to use an interest rate of a maximum of 1% in their technical base. As this new maximum capitalisation rate took effect from 1 January 2011, all new business will be written on a 1% basis.

### ***Topdanmark's profit forecast model for 2011***

Traditionally Topdanmark does not publish actual profit forecasts but the expected level of results if a number of assumptions of the return in the financial markets are met. As the return in the financial markets changes on a daily basis, Topdanmark's profit forecast model will already deviate from actual expectations by the time it is published. Therefore set out in [Risk scenarios](#) is additional information on how changes in the assumptions underlying the profit forecast model will affect the results.

As can be seen, the investment return forecast model is not based on a specific estimate of the expected

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investment return for the rest of the year but solely on a long-term standard assumption of the return.

### Non-life insurance

In the interim report for Q1-Q3 2010 Topdanmark expected premium growth of 1-2% and a combined ratio of around 92% in 2011.

The premium growth for 2011 was based on the following assumptions:

- Automatic price indexation in the personal and SME markets will be 2.6%. Around 70% of Topdanmark's gross premiums will be affected by this indexation, giving a net effect of just under 2%
- Topdanmark will implement price increases, besides automatic indexation, of DKK 99m corresponding to a 1.1pp growth in premiums. However as a consequence of these price increases, some customers are expected to leave, giving an assumed net improvement in premiums of 0.8pp
- During the year there will be a positive impact from those measures implemented to improve growth
- Topdanmark has sold the workers' compensation insurance portfolio of Nykredit Arbejdsskadeforsikring, to Gjensidige with effect from 1 January 2011, representing a 0.5pp adverse effect on premiums earned
- One large customer has given notice to terminate their relationship with the life insurance company which will also reduce the portfolio of illness / accident policies in non-life insurance, having a 0.5pp adverse effect on premiums
- Competition will continue to be intense in the upper part of the industrial market, particularly in workers' compensation
- The net adjustment of previous years' premiums will be around zero

Since the interim report for Q1-Q3 2010 was published and to date no events have occurred that would change the assumed growth of 1-2% in 2011.

The assumed combined ratio of around 92% in the Q1-Q3 interim report for 2010 was based on:

- Price increases of DKK 99m, besides automatic indexation, having a full effect on the combined ratio corresponding to an improvement of 1.1pp for 2011, excluding run-off profits
- More efficient claims handling and improved procurement power having an effect on the combined ratio of 0.5pp

- Increase in payroll tax, increase in expenses on the terror pool and increase in motor claims due to changed rules for the vehicle registration fee on written-off cars (0.5pp effect on the combined ratio)
- Weather-related expenses of DKK 170m
- No run-off profit / losses in 2011 in accordance with usual practice
- Increase in the expense ratio to close to 16% from 15.4% due to increases in payroll tax, the costs of the Solvency II project and selling expenses (0.4pp effect on the combined ratio)

DKK 100m of the assumed normal annual weather-related expenses of DKK 170m relates to storm claims while DKK 70m relates to lightning and cloudbursts. Typically the storm season is from November into February while cloudburst claims are primarily in June, July and August. In its future forecast models Topdanmark will assume the following distribution on each quarter of normal annual weather-related claims:

- Q1: DKK 50m
- Q2: DKK 25m
- Q3: DKK 45m
- Q4: DKK 50m

Since the 2010 interim report for Q1-Q3, the assumptions for the combined ratio for 2011 have changed:

- Increase in the yield curve (calculated on 25 February 2011) corresponding to a 0.8pp improvement of the combined ratio
- Improved claims trend in, among other lines, theft and fire corresponding to a 0.2pp improvement of the combined ratio

In this light the assumed combined ratio is being revised from around 92% to around 91%. Overall the pre-tax result of non-life insurance is assumed to be DKK 1,140-1,250m.

### Life insurance

For 2011 it is assumed that regular premiums will decline 0-5% because the life insurance company lost a major pension customer at the beginning of the year. At this time of the year it is not appropriate to assume a level of growth in single premiums.

As a result of the new contribution order, unallocated means (collective bonus potential) in Life I and Life V were allocated to the contribution groups (interest rate, risk and cost groups) with effect on 1 January 2011. In accordance with notification made to the DFSA, the

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contribution allocation, based on a calculation period of five years, was reasonable. As all the groups made either a profit or break-even following the allocation, shareholders' equity needed not finance any losses via shadow accounts in the opening balance sheet at 1 January 2011.

The calculation of the risk allowance has been changed to be calculated for each contribution group on the basis of the assumed risk in each group. The size of the risk allowance has been increased by 0.1pp because the split into contribution groups increases the risk of some of the profit not being recognised as income. As a consequence, the assumptions for 2011 include that DKK 25m of the potential profit cannot be recognised as income in the financial year.

It is important to note that any recognition as income of the risk allowance will not be finally considered until the finalisation of the 2011 Annual Report. The profit forecast model is highly sensitive to fluctuations in the investment return of Life I during the remainder of 2011.

Overall the result of life insurance is assumed to be DKK 280-310m.

### Parent company etc.

The profit forecast model for the parent company including subsidiaries outside of the insurance group is expected to show a profit of DKK 10-20m.

### Taxation

Given a corporation tax rate of 25%, the tax charge is expected to be DKK 330-380m.

### Total Group profit

Overall, the post-tax profit forecast model for 2011 is assumed to be DKK 1,100-1,200m representing a profit per share of DKK 80.

This profit forecast model is subject to an annual 7.0% return on equities and unchanged foreign exchange rates from the level on 25 February 2011. Furthermore it is assumed that the return on interest-bearing assets hedging the discounted provisions is just sufficient to cover discounting and revaluation of the provisions while the return on the remaining interest-bearing assets is assumed to be 3.73% (risk-free interest rate plus 2.0pp).

### Profit forecast 2011

(DKKm)	Forecast		
	2010	for 2011	
		25 February 2011	
Non-life insurance			
- Technical result	626	820	- 870
- Investment return after transfer to technical result etc.	465	320	- 380
Profit on non-life insurance	1,092	1,140	- 1,250
Life insurance	384	280	- 310
Parent company etc.	31	10	- 20
Pre-tax profit	1,506	1,430	- 1,580
Taxation	(338)	(330)	- (380)
Profit for the year	1,168	1,100	- 1,200

### Share buy-back

In the Q1-Q3 interim report for 2010 it was announced that the share buy-back for the year had been increased by DKK 100m to DKK 1,000m.

In 2010 the actual share buy-back totalled DKK 833m, DKK 167m lower than the programme previously announced, representing a buy-back yield of 8.0%.

In 2011 it is intended to buy back own shares of DKK 1,300m including the buy-back of DKK 167m transferred from 2010. The buy-back of DKK 1,300m assumes a profit in line with the profit forecast model of DKK 1,100-1,200m for 2011.

The share buy-back programme for 2011 represents a buy-back yield of 11.8% (calculated on the basis of the price of Topdanmark's shares on 25 February 2011).

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To date in 2011 Topdanmark has bought back own shares of DKK 336m which leaves a balance of DKK 964m of the 2011 programme.

Topdanmark's share capital amounts to 15,526,750 shares on 8 March 2011 of which 649,371 shares are held by Topdanmark to cover Management's share option scheme. Furthermore, at present Topdanmark holds 840,654 of own shares to be written down at the AGM on 12 April 2011. If before the AGM, contrary to expectation, no further shares to be written down are bought back, the number of voting shares will be 14,036,725 shares at 12 April.

Since 1998 when Topdanmark started buying back own shares, it has made decisions to cancel DKK 8.8bn of shares representing a 62.3% write-down of the share capital, with an average price of DKK 345 per share that has been written down.

From 2000 to 2010 the average buy-back yield has been around 9%.

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 the announcement of interim and annual reports. Furthermore, it does not buy back own shares during the period of five 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

16 Mar 2011	-	02 May 2011
01 Jun 2011	-	01 Aug 2011
31 Aug 2011	-	24 Oct 2011

### Share buy-back not allowable

15 Feb 2011	-	15 Mar 2011
03 May 2011	-	31 May 2011
02 Aug 2011	-	30 Aug 2011
25 Oct 2011	-	22 Nov 2011

## Risk management

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 events.

The maximum acceptable level of risk is a function of Topdanmark's risk capacity, which is dependent both on the current size of its capital base and on the size of the future profit. Up to now Topdanmark has been able to compensate for any changes in risk capacity by adjusting the size of the capital base or adjusting the level of risk. However, the level of capital required by Solvency II is expected to be high taking only limited account of future earnings. Going forward it is therefore expected that the size of the capital base will be a less useful tool to control the risk capacity as the capital base required by Solvency II will typically be greater than the level Topdanmark considers is necessary.

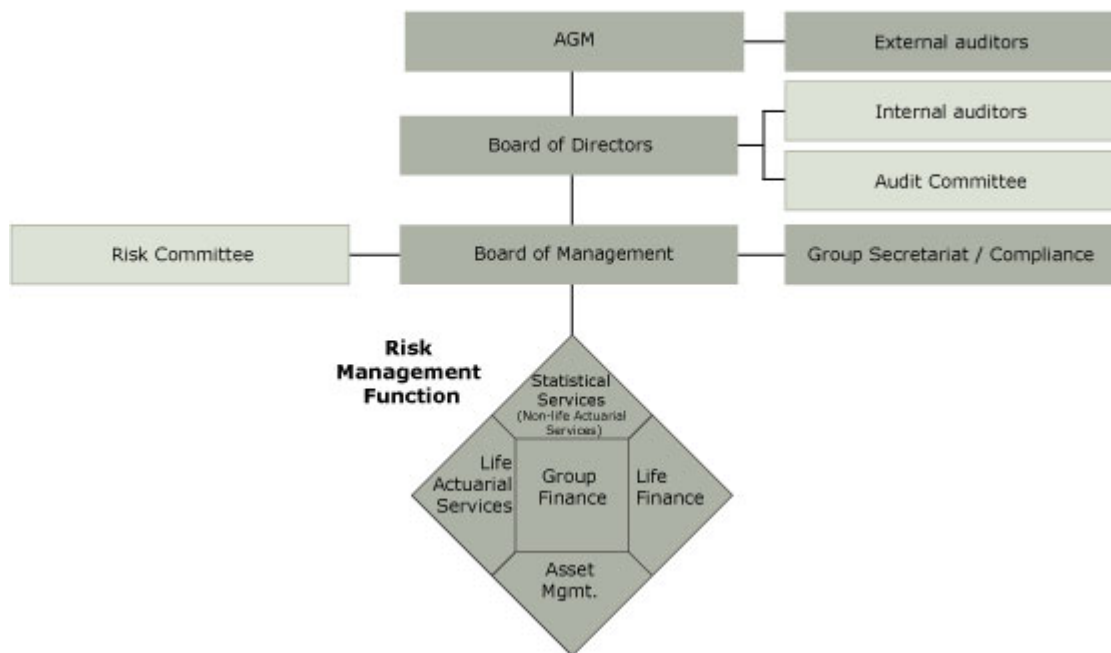
Topdanmark could choose to use the excess capital base to accept financial risk but this is not what is intended. On the contrary Topdanmark has introduced more restrictive limits on its financial positions in order to ensure that, with a very high probability, the Company would generate an overall profit even in the event of further breakdown in the financial markets as in 2008.

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 elements of the overall risk profile are brought together in the central risk management function which is responsible for ensuring that the data for and processes of risk calculations and profiling are of a high quality. The risk management function reports to the Risk Committee which is responsible for the SCR (solvency capital requirements) calculation, internal model, use test, risk limits, risk policies, standard calculation and ORSA (own risk and solvency assessment). The members of the Risk Committee are the CFO of the Group, a representative from the board of management of the life insurance company and the heads of the primary risk areas: Asset Management, Statistical Services, Life Actuarial Services, Group Finance, Life Finance and Reinsurance. The Risk Committee reports, recommends and proposes to the Board of Directors via the Group Board of Management.



**Risk Management and Control Organisation**



The Board of Directors determines the overall risk policies and limits. 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**

**Acceptance policy**

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

Topdanmark's pricing has been aligned with the individual markets and types of customers. In the personal and commercial markets prices are mostly based on standardised rates while major commercial 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 and commercial customers with individual insurance schemes is monitored using customer assessment systems.

General insurance rates are re-calculated at least every three years and, for example, in motor and workers' compensation they are reviewed annually.

Provisions are generally calculated on a monthly basis across all lines of business and with the claims trend being assessed monthly, followed up by any necessary price changes. For example, in both 2009 and 2010, the prices of the house and contents policies and in 2011 the change of ownership policies were adjusted to counteract the unsatisfactory trend in theft, fire and plumbing claims.

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 was first

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implemented in 2007 and which now manages all claims handling.

### **Claims handling**

In order to ensure uniform and efficient claims handling Topdanmark has grouped the handling of all types of claims into one operational unit.

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

Topdanmark is continuously focusing on making its claims handling processes more efficient under the following three main headings:

- 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.

Typically, the claims department operates with day-to-day management of claims notifications and other claims handling in order that the value of the claim does not increase. Simple notification is attended to immediately over the telephone. 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.

The responsibility for arranging service and purchase agreements has been channelled into one centralised purchasing function to ensure the highest possible discount, quality and security when delivering products and services. Service agreements have been made with, for example, Falck, Falck Health Care, Scalepoint, Bygma, tradesmen, garages and damage service companies.

#### ***Quality***

Topdanmark has developed routines for all major claims processes to ensure that they are handled in a uniform and controlled manner. These are supplemented by rules

governing the level of professional and financial competence expected of each of the claims employees.

The overall professionalism is controlled by regular 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.

#### ***Claims handling supported by a new claims system***

Topdanmark has implemented a new claims handling system intended to support, among other things, professional accuracy. From measurements taken of the system it can be seen that there has been a significant improvement in quality.

The claims organisation is implementing the Lean / Trim concept in several areas where it has already improved the time it takes to handle a claim, the quality of the claims handling and employee satisfaction.

Customers' satisfaction with telephone and internet contact is monitored daily to act immediately on unsatisfied customers.

#### ***Emergency plan***

Topdanmark has an emergency plan to ensure that prompt, correct and targeted action is taken on a major weather event such as storm, hurricane, cloudburst or flood. The emergency programme is on several levels which enables a proportional response depending on the size of the event. Topdanmark has appointed emergency helpers throughout the company whose claims handling knowledge is regularly kept up-to-date. Furthermore alert drills are held twice a year in order to prepare the employees and improve the emergency programme.

#### ***Provisioning risk***

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

The risk on provisions for unearned premiums is relevant particularly 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.

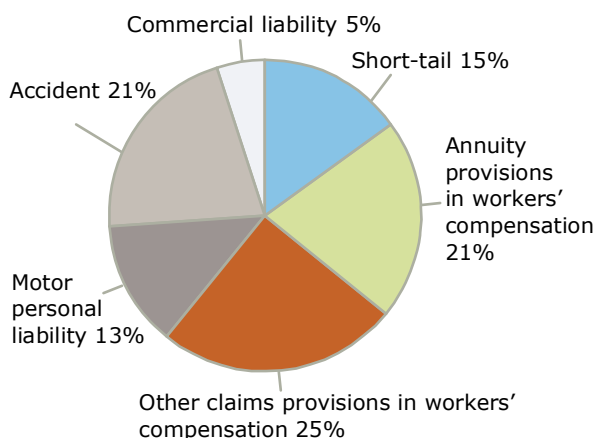
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## Provisions for outstanding claims

Traditionally, the insurance classes are divided into short-tail (i.e. those lines where the period from notification until settlement is short) and long-tail (those lines where the period from notification until settlement is long).

Examples of short-tail lines are building, personal property and comprehensive motor insurance. Long-tail lines relate to personal injury and liability: workers' compensation, commercial liability, accident and third party insurance.

The following chart 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 three to five years after notification and in rare cases up to 10 - 15 years.

During such a long period of settlement the levels of compensation could be significantly affected by changes in legislation, case-law or 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.

The practice adopted by the Danish National Board of Industrial Injuries also has some impact on the levels of compensation for accident and personal injury within motor, liability and commercial liability insurance.

The provisioning risk represents mostly the ordinary uncertainty of calculation and claims inflation, i.e. 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.

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 departments 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

Topdanmark has a restrictive acceptance policy in its choice of reinsurance companies. Primarily it uses insurance companies which, as a minimum, have a S&P rating of A-. If the reinsurance company does not have an S&P rating, the corresponding minimum rating from AM Best is used.

## Weather

The reinsurance contracts for storm cover claims up to DKK 5.1bn with a retention of DKK 100m. Events like snow loading, snow thawing and cloudburst are covered by the same contract as the storm cover. 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 807.5m with a retention of DKK 20m. Most of the cover of the third and fourth storm is dependent on it not having been hit previously by two individual storms each exceeding DKK 3.8bn.

Topdanmark has reinsurance cover of DKK 100m for accumulated annual cloudburst claims exceeding DKK 50m. For a claim to be accumulated, it must exceed DKK 10m.

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## **Fire**

Topdanmark has a proportional reinsurance programme for fire with a maximum retention of DKK 25m per claim on any one business.

## **Terror**

Until the end of 2001 reinsurance cover included terror. Since 11 September 2001 reinsurance companies have particularly focused 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.

A national guarantee scheme of DKK 15bn covering terror claims including an element of NBCR (nuclear, biological, chemical, radiological) was established on 31 March 2010. The Danish Terror Insurance Board decides whether an event is an NBCR event or not. The national guarantee scheme covers any market event or market retention in excess of DKK 5m. On 1 January 2011 the Danish non-life insurance companies established a terror pool to protect the market retention, with each company's share of the pool being based on its market share of the non-life insurance market.

The Workers' Compensation Act has been changed such that the cover of industrial injuries caused by any type of terror has now been taken over by the Government except that those injured persons whose job it is to hinder, prevent or avert acts of terror and those rescuers deployed in the aftermath of terror attacks are not covered. This also applies to individuals sent out to work in countries where there is a particular risk of terror.

## **Cumulative risk**

Cumulative risk comprises both known and unknown cumulative risks.

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.

In personal lines Topdanmark's retention on known cumulative risk is DKK 15m for the first claim and / or event, DKK 5m for the second and DKK 15m for any third or subsequent risk. The retention is a maximum of DKK 25m in SME and industrial lines and on unknown cumulative risk it 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 1bn of all claims with a retention of DKK 30m.

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

## **Floods and storm-damaged forests**

Danish insurance companies do not cover damage arising from floods, including those from lakes and streams, or the cost of replanting of forests following storms. These types of claim are covered by the Danish Flood Fund which is a self-sustaining, public fund financed by an annual fee of DKK 30 per fire policy charged on to the customers by the insurance companies.

## **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 (asset management)

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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 DFSA's current adjusted discounting rates. 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. When calculating the interest rate exposure the Group's debt is included on the same basis as the calculation of the assets.

The interest rate exposure is calculated as the value of the change in the event of a 1pp parallel shift in the interest rate curve ignoring convexity.

### 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 from investments in properties 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 inflation rate rose by an annual 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 workers' compensation and illness / accident insurance Topdanmark has written inflation swap contracts and bought index-linked bonds hedging a significant proportion of the expected cash flows if the trend in real earnings remains stable. Consequently, any changes in the expected future inflation rate will have a relatively limited effect on the result from these lines of business.

### Liquidity risk

In 2007 the parent company Topdanmark issued EUR 55m (nominal value) of hybrid capital (subordinated notes). This hybrid capital has no defined maturity and in terms of capital management it is considered to be equivalent to shareholders' equity. Topdanmark's other loan capital is primarily 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 the possibility of utilising 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 250m with expiry no later than in 2012 and another up to DKK 500m with expiry no later than in 2013.

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

In June 2010 Topdanmark Forsikring redeemed a subordinated loan of DKK 250m and issued a new subordinated loan of DKK 350m expiring in 2018, however, the loan may be terminated by Topdanmark Forsikring in 2015.

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

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market loans will be repaid from the cash 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 are saving in the life insurance companies is fundamentally different from the profile for Topdanmark's investment in the shareholders' equity of the life insurance group.

Consequently, from 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). This ensures an appropriate distribution of risk and return.

### ***Bonus potential***

A proportion of the customers' accumulated value comprises both collective and individual bonus potential. The collective bonus potential is an undistributed reserve acting as a buffer against fluctuations in the value of the customers' share of assets and liabilities. At 31 December 2010 the collective bonus potential was DKK 117m in Life I and DKK 437m in Life V. If the adverse fluctuations exceed the value of the collective bonus potential, the individual bonus potential would be affected. Looking at it simply, the individual bonus potential is calculated as the difference between the customer's savings and the market value of the accrued commitment earned by the customers at the time of the calculation. If the market value of the customers' share of the assets is lower than their savings, the individual bonus potential will be reduced. Thus the individual bonus potential also acts as a buffer against fluctuations in the value of the customers' share of assets and liabilities. A significant proportion of the individual bonus potential in Life I can be used before its shareholders' equity would be affected. In Life V the adverse fluctuations exceeding the value of the collective bonus potential will be partially covered by a reduction in the individual bonus potential. The remainder will be covered by shareholders' equity. As the total individual bonus potential was DKK 4,132m in Life I and DKK 128m in Life V at 31 December 2010, together they represent considerable protection of shareholders' equity.

On 6 April 2010 the DFSA issued a new contribution order taking effect on 1 January 2011. As a result of the

new order, from this date all insurance policies are to be split into interest rate, risk and cost groups of homogeneous characteristics. The interval between the interest rate groups must not exceed 1 pp. Accordingly, each policy will belong to one interest rate group, one / more risk groups and one cost group.

The old contribution order treated the elements of interest rates, risk and cost result as one single item in the "insurance technical result before bonus", which allowed for a set-off of losses of one group against profits of another. The new contribution order requires that the "insurance technical result before bonus" be distributed on basis of the Company's contribution groups and consequently transferred to those policies within those groups. In the event of losses in one of the groups, these losses must be transferred to a shadow account which can only be recognised as income when that group returns to being in profit. Therefore, from now on, shareholders will not be allowed to recognise an allowance for risk as income if there is a balance in the shadow account. Seen in isolation this implies a greater risk for the owners.

The order applies to all life insurance policies entitled to a bonus, with classical saving in with-profit schemes.

### ***Hedging / guaranteed benefits***

The Group has guaranteed that policyholders will receive a pension benefit of 1.0%, 1.5%, 2.5% or 4.5%, according to when the policy was written. 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 for an annual improvement of the guaranteed pension benefits.

In January 2004 all the 4.5% policies were transferred to a newly established company (Life V), the investment policy of which focuses on ensuring 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.

### ***Risk of increase in life expectancy***

Topdanmark's best estimate of the rate of mortality used for the calculation of the life insurance provisions is the Company's assessment of the existing actual rate of

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mortality and the future improvement in life expectancy. The mortality rate used is higher than set out in the G82 life expectancy assumptions previously used by up to five years for men and 6.6 years for women. Such an increase in life expectancy above the existing best estimate will increase the life insurance provisions and will be covered by the collective and individual bonus potential as described above. A significant change of a 20% reduction in the mortality rate assumptions as at 31 December 2010 would reduce the collective bonus potential about DKK 40m in Life I and about DKK 140m in Life V.

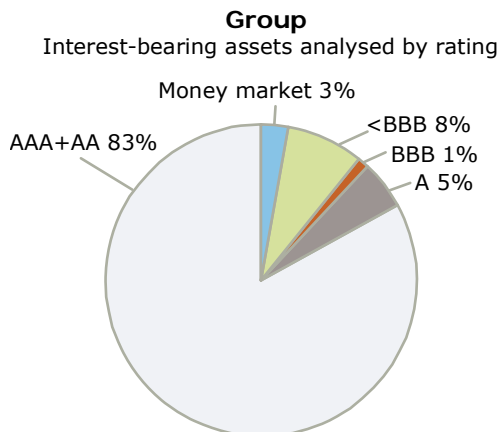
On 9 December 2010 the DFSA published a benchmark for assumptions for life expectancy which, as a general rule, are to be used by the life insurance and pension fund companies in their provisioning. Topdanmark has previously strengthened its assumptions for life expectancy and comfortably meets the requirements of the DFSA.

### **Credit risk**

Credit risk is the risk of losses caused by one or more counter-parties' full or partial 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 spreading and primarily buying reinsurance cover from reinsurance companies with a minimum rating of A-. Accordingly almost all 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.



### **CDOs**

CDO is a general term for a class of independent legal entities established to invest in a portfolio of interest-bearing assets and allocate the return in accordance with the investors' risk appetite.

The assets of the CDO are financed by investors in loan and equity tranches. The top tranche has an AAA-rating, the intermediary tranches have ratings typically decreasing to BB while the lower tranche (or tranches) are not rated. The rated tranches usually bear interest at LIBOR plus a margin. The bottom tranche, referred to as the equity or sub-tranche, receives the residual return after payment of the return promised to the higher ranking tranches.

The return on the assets is allocated periodically to the investors according to their position in the subordination order, the so-called "waterfall". The Articles of Association of the CDO provide a set of rules and tests on how far down in the subordination order the return will be allocated. If all the tests have been met, the return will be allocated to all the tranches.

If there are tests that have not been met, the return will be allocated only to those tranches specified in the Articles of Association. Normally the tests will include factors such as excess cover, rating quality, diversification and liquidity security.

The investors of the top tranche will incur losses only if these are of such a size that the lower tranches lose their value. Accordingly the risk of the investors of the top CDO tranche is much lower than that of the investors of the underlying portfolio. The risk profile is comparable to an investment in an underlying asset where cash security has been provided to cover any losses. This protection is

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relatively high: in a typical CDO with bank loans as the underlying asset (CLO) the AAA tranche will only suffer if the size of the overall losses, following the sale of securities, exceeds between a third and a quarter of the portfolio value.

It is the opposite for the investors in the sub-tranche who are the first to bear any losses that cannot be covered by earnings. Once the bottom tranche has been eliminated, any further losses will move upwards in the subordination order. However, the sub tranche is not without protection. The losses on the portfolio are not incurred immediately and normally the cash flows attributed to the sub-tranche will be high during the first years of the CDO's life. If the underlying assets perform adversely, the cash flow of the sub-tranche will stop for a shorter or longer period or stop completely but before then a good deal of the original investment will have returned by way of regular payments.

The risk is alleviated by financial instruments.

### **Operational risk**

Operational risk is a term for all those risks of financial losses a company is exposed to besides credit risk, market risk and liquidity risk. It includes the occurrence of unforeseen events with an adverse impact on the company, for example, errors in internal processes, human errors, system errors, breakdowns of IT systems and losses incurred due to external events.

Topdanmark is continuing to develop IT systems, routines and procedures. The responsible business units are also responsible for the risk management of this development. Risk assessments are carried out for all projects to establish the risks, possible consequences and measures to limit these risks. New IT systems are only implemented after extensive testing.

Topdanmark's IT security policy is reviewed once a year by the Board of Management and accepted by the Board of Directors.

The routines and procedures in all critical areas are regularly checked by the auditors in order to assess the risks and recommend measures to limit each individual risk.

### **IT exposure**

The strategy for Topdanmark's IT emergency plan has been accepted by the Board of Directors. This includes

plans for re-establishing the IT environment if the systems suffer breakdowns.

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

In order to reduce the probability of breakdowns of the IT systems and limit the duration of them, Topdanmark has invested in, for example, emergency power plants with a diesel generator, disk mirroring, alarms and automatic fire fighting equipment. Critical IT equipment is in duplicate and placed in two machine rooms 300 metres apart.

Periodically Topdanmark's critical IT systems are tested to see if they can be compromised from outside and whether the IT systems have vulnerabilities to be repaired. These tests are made by an external company with special expertise in this area. Topdanmark's IT security committee discusses and prioritizes the performance and results of the tests.

It is Topdanmark's goal that the accessibility of its main systems is no less than 99.5%, and for many years it has been better for the central applications.

### **Risk scenarios**

The Group's risk factors are illustrated in the table overleaf. 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 used for, among other things, updating Topdanmark's profit forecast model.

In the column "Overall effect on Group results" and the two following columns it is assumed that the bonus reserves and the individual bonus potential in the life insurance group could offset adverse fluctuations at the levels described as the overall collective bonus potential was DKK 554m (2009: DKK 184m) and the individual bonus potential DKK 4,260m at 31 December 2010.

If all the events of the table occurred at the same time, the losses would to a great extent be covered by the collective and individual bonus potential. The overall effect for Topdanmark would be a loss of DKK 592.0m (2009: DKK 525.4m) representing 12.1% (2009: 11.8%) of the parent company's shareholders' equity.



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

	Risk scenario	Life insurance group (DKKm)	Rest of 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 2009</b>						
Interest-bearing assets	a	(369.6)	(319.1)	(370.7)	(8.3)	(23.9)
Provisions for claims and benefits	a	74.8	276.5	288.2	6.5	18.6
Index-linked bonds	b	(61.8)	(11.9)	(20.0)	(0.4)	(1.3)
Foreign exchange	c	(14.0)	(6.9)	(8.9)	(0.2)	(0.6)
Equities	d	(311.6)	(84.5)	(85.6)	(1.9)	(5.5)
CDOs < AA	e	(78.4)	(41.2)	(52.1)	(1.2)	(3.4)
Properties	f	(362.2)	(97.3)	(141.3)	(3.2)	(9.1)
Expenses	g	(2.8)	(10.3)	(11.7)	(0.3)	(0.8)
Gross claims incurred	h		(51.4)	(51.4)	(1.2)	(3.3)
Reinsurers' share	h		3.1	3.1	0.1	0.2
Storm disasters, net of reinsurance	i		(75.0)	(75.0)	(1.7)	(4.8)
<b>31 December 2010</b>						
Interest-bearing assets	a	(461.5)	(368.7)	(448.1)	(9.1)	(31.0)
Provisions for claims and benefits	a	87.6	292.9	310.3	6.3	21.4
Index-linked bonds	b	(56.5)	(12.1)	(21.0)	(0.4)	(1.5)
Foreign exchange	c	(27.5)	(4.8)	(9.5)	(0.2)	(0.7)
Equities	d	(384.5)	(71.3)	(73.3)	(1.5)	(5.1)
CDOs < AA	e	(94.2)	(47.1)	(62.5)	(1.3)	(4.3)
Properties	f	(387.1)	(98.6)	(156.4)	(3.2)	(10.8)
Expenses	g	(2.5)	(10.6)	(11.9)	(0.2)	(0.8)
Gross claims incurred	h		(47.7)	(47.7)	(1.0)	(3.3)
Reinsurers' share	h		2.9	2.9	0.1	0.2
Storm disasters, net of reinsurance	i		(75.0)	(75.0)	(1.5)	(5.2)

- 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% loss on CDOs with ratings lower than AA  
f: 10% decline in market value of properties  
g: 1% increase in expenditure  
h: 1% increase in claims  
i: Storms generating claims, net of reinsurance, of up to DKK 100m

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

In a period one year hence, a change in interest rates would cause a compensating change in the current return, implying the net effect in a year's time would be much smaller than the immediate effect.

It is illustrated below:

A 1pp 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	(369)
Revaluation of claims provisions	293
Non-recurring effect of increase in interest rates	(76)

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 1pp 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 as follows:

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DKKm	Post-tax
Excess return on interest-bearing assets	30
1.2 percentage point decline in loss ratio	82
One year's effect of increase in interest rates	112
Non-recurring effect of increase in interest rates	(76)
<b>Total effect on results</b>	<b>36</b>

### Solvency

Besides the European solvency rules, Danish insurance companies are subject to a number of Danish rules. For 2010 they were all required to report three solvency calculations to the DFSA:

- Individual solvency requirement
- Current European solvency rules - Solvency I
- Traffic light rule

The current European solvency rules and the traffic light rule have been known and used for a number of years while individual solvency requirement is a calculation which was reported on for the first time after the publication of the 2007 accounts.

The traffic light rule is a Danish scenario calculation which demonstrates for example, to be in the green light, a company should have the capital resources to withstand a 12% decline in equity prices simultaneous with a 0.7% adverse change in interest rates and an 8% decline in property prices. The traffic light calculation was changed in October 2008 as the yellow light was suspended. At the end of 2010 all of Topdanmark's insurance companies were in the green light.

The new European solvency rules, Solvency II, are currently being prepared and are expected to take effect on 1 January 2013.

During 2010 the parent company and the Group have observed the current solvency requirements.

#### **Individual solvency requirement**

The individual solvency requirement comprises two key elements: a report in numbers to the DFSA on the solvency capital requirement including a calculation of the capital components for this requirement and written documentation of the companies' risk control methods used to identify and quantify risks, take out risk hedging and apply routines etc.

The DFSA's guidance on individual solvency requirement prescribes no specific methods to be used to calculate the risk or capital. Companies may choose their own calculation methods but are to address all significant risks.

Topdanmark views the individual solvency requirement as a temporary solution prior to the introduction of the expected principles of Solvency II. Therefore it has chosen to base its calculation of individual solvency requirement on the model for the EU's most recent Solvency II test calculation QIS5 which is expected to be similar to the future Solvency II standard. However, in a few respects Topdanmark has used other methods to make the individual risk calculation more accurate, such as:

- For non-life insurance risks Topdanmark uses an internal model with random simulation of the risks
- For the life insurance companies Topdanmark has followed the guidelines set by the DFSA to supplement the QIS5 model

#### **Solvency II**

The intention is that Solvency II will be based on market values and actual risk calculations but as Solvency II is common to all EU countries, it will not give a true and fair view of all risk elements in all companies. Therefore the companies have been given the opportunity to fully or partially develop their own Solvency II risk model. However, the DFSA must approve the model that is used for the Solvency II calculation of capital requirements. Topdanmark uses an in-house-developed model for the calculation of the non-life risk. The inclusion of non-life risks in Topdanmark's calculation of the individual solvency requirement has been based on this model. Topdanmark regularly considers whether the internal model should be expanded to include further risk elements.

In its H1 2010 and Q1-Q3 2010 interim reports Topdanmark said that it intended to accumulate solvency capital of DKK 4,500m by the end of 2012 (before allocating solvency capital for growth). The necessary solvency capital is assumed to comprise shareholders' equity (DKK 3,850m), hybrid capital (DKK 400m) and subordinated loan capital (DKK 250m), see [www.topdanmark.com](http://www.topdanmark.com) → [Corp. Gov.](#) → [Value creation](#) → [Capital model](#). It also said that if the capital requirement was higher than expected, the difference would be covered by issuing supplementary loan capital. In June 2010 Topdanmark redeemed a subordinated loan of DKK

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250m and issued a new subordinated loan of DKK 350m. The difference of DKK 100m is considered to be a safety margin on the expected capital requirement.

Following its participation in QIS5 Topdanmark continues to believe that solvency capital of DKK 4,500m (before allocation of solvency capital for growth) will be sufficient on the change to Solvency II, if its internal model is approved.

Topdanmark has previously estimated that the solvency capital requirement will increase by around DKK 1bn if its internal model to calculate the non-life insurance risk is not approved but instead it must use the standard model. On the basis of the QIS5 calculations Topdanmark believes that the capital requirement will only increase DKK 600-800m if the capital requirement is calculated using the standard model. Topdanmark continues to expect that its internal model will be approved but considers it right to increase the existing safety margin of DKK 100m in case expectations are not met. Therefore in order to ensure sufficient solvency capital in this situation, Topdanmark intends to issue additional supplementary loan capital by 2013.

It is expected that the Solvency II principles of the effect of risk management and risk control on the size of the solvency capital requirement will be similar to those of individual solvency requirement. These principles aim to promote good risk management and a high degree of risk control as the requirements on the size of the solvency capital increase in line with bad risk management and reduced risk control. Topdanmark's current spread of risk, risk management, risk control and risk measurement already provide a basis for a relatively low solvency under individual solvency requirements. Therefore Topdanmark feels well prepared to meet the expected requirement of Solvency II in 2013.

The EU rules on Solvency II have been divided into three levels. Level 1 is a directive which was adopted in 2009. The level 2 regulations to be adopted by the EU by the end of 2011 are available as exposure drafts to which a number of changes are expected. The final version of the level 3 regulations as guidelines is expected in the first half of 2012 implying that the complete rules will not be available until during the first half of that year.

Topdanmark is already in constant dialogue with the DFSA on Topdanmark's own model for calculation of the non-life risk for approval as a partial, internal model in the

Solvency II calculations of capital requirements. Topdanmark will continue this dialogue until the approval by 1 January 2013. The application for using Topdanmark's own model for calculation of the non-life risk will be submitted in the spring of 2012.

Topdanmark is preparing for Solvency II by having employees from Non-life Actuarial Services, Life Actuarial Services, Asset Management, financial and compliance departments and others working together on a project reporting to the CFO. The three most important issues of this project are to prepare the new external reporting requirements for the DFSA and for publication on Topdanmark's website, to adapt Topdanmark's own risk model for non-life risks and to adapt data processes and calculation methods in the life insurance business, which has its own complications of, among others, contribution rules and interest rate groups.

The framework of Solvency II is being outlined but there continue to be many specific issues which will need to be settled and parameters to be calibrated before the rules will be finally available. Topdanmark will continue to follow the process to adapt to the expected future rules. Topdanmark will, in good time, implement those measures that are necessary to meet the rules before they take effect in January 2013.

Topdanmark has included the expected numerical consequences of Solvency II in its capital model.

### Capital model

Generally Topdanmark believes that its capital base (shareholders' equity or substitutes thereof such as hybrid capital or subordinated loans) is suitable for protection against fluctuations in the result on ordinary operations. However, the price of this type of capital is so high that the capital base is unsuitable for covering the risk of rarely occurring isolated events, in which case 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. To protect against such rarely occurring isolated events Topdanmark has 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

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reducing the danger of sharp falls in equity markets and also in instruments protecting the life insurance group against any adverse consequences of marked reductions in interest rates, see "[Risk management](#)".

At the same time Topdanmark believes it is normal to manage shareholders' equity only up to the amount which is deemed necessary to support its primary business. It also believes that most of the Company's shareholders will obtain a tax advantage by owning securities directly instead of indirectly via shareholders' equity in Topdanmark.

Taking these matters into account Topdanmark wishes to pursue a policy of keeping its shareholders' equity at a relatively low level and pay out to shareholders any amounts in excess of the conservatively estimated shareholders' equity necessary to support the underlying business.

However, as Topdanmark is subject to public regulation, it must meet the capital requirements of Solvency II. Initially Solvency II was intended as a risk-based regulation but due to the financial crisis, amongst other factors, a number of additional buffers and requirements have been suggested which are not proportional to the actual risk. As a result of this Topdanmark has been particularly hit by the fact that the solvency requirement is adjusted for profitability only on a restricted basis and consequently the capital requirement on Topdanmark is not much lower than that on a similar company with significantly lower profitability and consequently higher risk.

The externally imposed caution following the financial crisis has forced Topdanmark to operate with a higher solvency capital than what is required by its risk base. Against this background Topdanmark needs to meet the regulatory requirements in the most cost efficient way through the composition of tier 1, tier 2 and tier 3 solvency capital. The immediate consequence of this is that much of the financing should be by way of tier 2 and tier 3 solvency capital but Topdanmark believes that the uncertainty of the refinancing of such supplementary capital requires some prudence.

In this light Topdanmark has decided on a capital model that has a relatively high proportion of shareholders' equity. Topdanmark expects that this model provides adequate solvency capital which will meet the requirements of Solvency II when it is implemented. At the same time the amount of equity within the solvency

capital will be sufficient to cover any further regulatory requirements solely by issuing further supplementary capital.

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) → [Corp. Gov.](#) → [Value Creation](#) → [Capital Model](#).

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 250,000 shares. The current authorisation expires on 15 April 2013.

Furthermore, the Board of Directors is authorised to issue up to 100,000 employee shares. This authorisation also expires on 15 April 2013.

Finally, for the period until the Annual General Meeting in 2015 the Board of Directors is authorised to acquire own shares up to 15% 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 current market value plus 10%. It is a standing authorisation which, subject to the approval of the general meeting, is renewed regularly.

At 31 December 2010 Topdanmark's share capital totalled DKK 170,869,530 divided into 17,086,953 shares of DKK 10 each, corresponding to 17,086,953 voting rights. Following the implementation of the reduction in share capital decided at the extraordinary general meeting on 23 November 2010, the share capital has now been reduced to DKK 155,267,500 divided into 15,526,750 shares of DKK 10 each, corresponding to 15,526,750 voting rights. As of 8 March 2011, Topdanmark's holds 1,490,025 of own shares representing 9.6% of the share capital, of which 649,371 shares are held by Topdanmark to cover Management's share option scheme.

### The process of accounts preparation

The Board of Directors and the Board of Management have the overall responsibility for the risk management and the organisation of controls of the Topdanmark Group in respect of the process of accounts preparation

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including the observance of relevant legislation and other regulations related to the accounts preparation.

### **Control environment**

The Board of Directors has adopted a working plan to ensure that at least once a year it considers the Group's:

- Organisation
- Plans and budgets
- Risk of fraud
- Existence of internal rulings and guidelines

The Board of Directors and the Board of Management have adopted a number of policies, manuals, procedures etc. for significant areas of the accounts preparation.

The Board of Management continuously monitors the observance of relevant legislation and other rules and provisions on the accounts preparation and regularly reports on this to the Board of Directors.

The Board of Directors of Topdanmark has set up an audit committee and the Board of Directors of Topdanmark Forsikring has set up a joint audit committee for those relevant companies of the Topdanmark Forsikring Group. The two audit committees have identical members.

The working plans adopted for the audit committees include:

- Monitoring of the process of accounts preparation including regular checks and assessment of annual and interim reports, schedules for closing of interim accounts, the organisation of and abilities within the accounting function as well as material accounting policies and accounting estimates
- Monitoring of the efficiency of internal risk management and control systems including the checking and assessment of systems for identification, prioritisation and prevention of financial and operational risks, procedures to prevent fraud including accounting manipulation, internal controls of the reliability of the accounts preparation and observance of relevant legislation

Furthermore, the Company has internal auditors who refer and report to the Board of Directors and, in accordance with an audit plan adopted by the Board of Directors, randomly select and audit certain routines and internal controls in significant and high risk areas which include the Annual Report and preparation of the accounts.

### **Risk assessment**

The Board of Directors' working plan ensures that at least once a year the Board of Directors, the audit committee and the Board of Management make a general assessment of the risks relating to the accounts preparation process. In this assessment the Board of Directors specifically considers the organisation of the Topdanmark Group in respect of:

- Risk measurement and risk management
- Accounting and budgetary organisation
- Internal controls
- Rules governing the authority to bind the company
- Division of duties or compensating procedures
- IT organisation and IT security
- Outsourcing

As part of the risk assessment the Board of Directors makes annual decisions on the risk of fraud and discusses:

- Potential incentives / motives for management to manipulate the accounts or undertake other types of fraud
- Management reporting in order to prevent / identify and respond to any accounting manipulation

Day-to-day risk management is performed at segment level and by the administrative departments on the basis of risk limits set by the Board of Management and approved by the Board of Directors.

Risk management is coordinated by a risk committee comprising those responsible of the primary risk areas. The risk committee reports to the Board of Management who reports to the Board of Directors.

### **Control activities**

The control activities are based on the risk assessment. They are intended to ensure that the policies, manuals, procedures etc. decided by the Boards of Directors and Management are observed and errors and faults are prevented / found and corrected in time.

The accounting department is responsible for the preparation of interim and annual reports. Key contributors are:

- Non-life and life actuarial services (technical provisions)
- Asset management (financial assets and liabilities)
- Finance functions (calculation and distribution of costs etc.)

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The Group's two finance functions, Life Finance and Group Finance, prepare internal account reporting, profit forecasts etc. and are responsible for controlling the accounts, including reconciliation of internal accounts and reporting of deviations from forecasts.

The Board of Management and Group Finance hold quarterly forecast meetings with each segment and business sector to review developments in their portfolios, the results of the past period and the forecast for the year.

The Management's Review is prepared by the Investor Relations department (IR) on the basis of information provided by a number of departments such as the accounting and finance functions, Asset Management and business segments.

Prior to each annual and quarterly report being published the report is discussed at a Board of Management / Audit meeting also attended by the IR and accounting departments.

### **Information and Communication**

The risk management and internal controls surrounding the preparation of the accounts are intended to present an annual report which meets International Financial Reporting Standards as adopted by the EU and the additional Danish disclosure requirements of Nasdaq OMX, Copenhagen and the Danish Financial Business Act on annual reports prepared by listed financial services companies.

As part of its regular work to keep up with changes in the rules for accounts presentation (primarily IFRS and the Danish Accounting Order) the accounting department plans and takes initiatives for its future annual reports regularly updating accounting policies and the presentation of the accounts and notes (by using, for example, detailed check lists).

### **Monitoring**

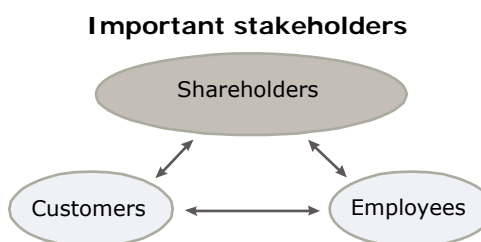
The Group's internal control and risk management systems are regularly updated and have been established in order to eliminate misstatement and omissions in the accounts. The internal control and risk management systems do not absolutely ensure that all material misstatement and omissions are found and corrected.

Internal and external auditors review the book keeping, the presentation of the accounts and the Annual Report in general by focusing particularly on the most significant risk elements.

The regular audit reviews made by internal auditors are documented in audit reports, management letters and an audit database to ensure that the recommendations given are regularly acted upon.

## Corporate Governance

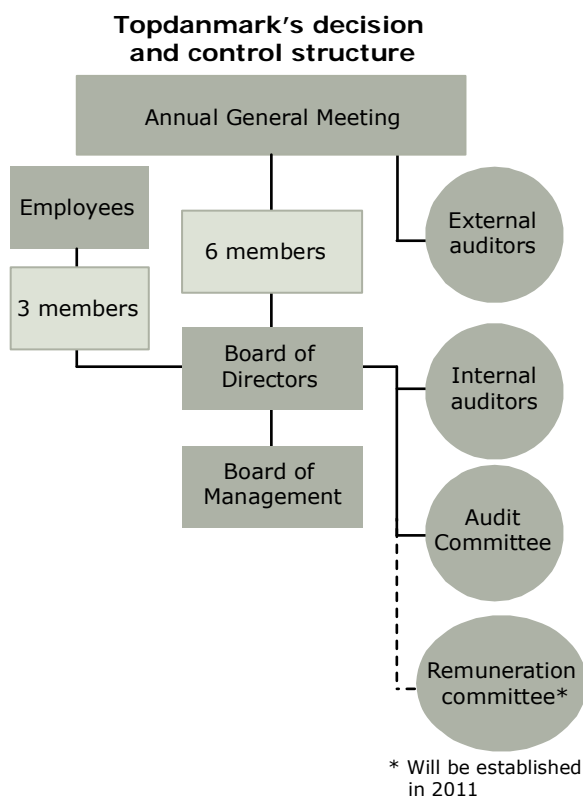
Topdanmark's practical approach to Corporate Governance means that it is not sufficient for the Board of Directors and Board of Management to just observe a set of academic rules. Corporate Governance envelops the concept of supporting the trinity between shareholders, customers and employees.



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) → [Corp. Gov.](#) → [Management principles.](#)

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 Corporate Governance.

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### General meetings

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. The Annual General Meeting is convened in accordance with the provisions of the Danish Companies Act with a notice of between three and five weeks.

All shareholders are entitled to attend and vote at general meetings. Shareholders who are not able to attend general meetings can vote by proxy or letter 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.

Decisions at general meetings are made by a simple majority of votes unless a special majority or representation is required by the Danish Companies Act or the Articles of Association. The Articles of Association

provide that decisions on the alteration of the Articles of Association are only valid if adopted by an affirmative vote of not less than two thirds of the votes cast as well as of the capital represented at the general meeting. The Articles of Association provide no restrictions on voting rights.

The AGM is transmitted live via a webcast.

### 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 six or seven 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 no fewer 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.

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.



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More than half of the Board members elected by the shareholders in general meeting meet the definition of independence set out by the Committee on Corporate Governance.

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. Topdanmark believes that in a company like Topdanmark, between them its Board members ought to possess skills within accounting, finance, financing, insurance operations, reinsurance, agriculture / industry, sales and marketing. With its current composition Topdanmark's Board of Directors possesses all these skills.

Topdanmark's current Board of Directors reflects diversity in many areas including professional background and education, sex and age. Its members have experience from both the financial, industrial and agricultural sectors, both nationally and internationally. The Board of Directors believes that this composition enables it to consider a given problem from many different angles which is confirmed by experience from the day-to-day Board work. Read more about each Board member's background and competence on [www.topdanmark.com](http://www.topdanmark.com) → [Corp. Org.](#) → [Organisation](#) → [Board of Directors](#) and under "[Board of Directors](#)" and [Board of Management](#)" in this Annual Report.

Two of the nine Board members are women, one of them elected by the general meeting and one by Topdanmark's employees. The proportion of female board members has been stable since 2004.

The Board of Directors evaluates its work and its co-operation with the Board of Management as required, without the participation of the Board of Management. Taking this evaluation into account, the Board of Directors assesses itself during the annual Board seminar. Self-assessment is included in the rules of procedure and the working plan of the Board of Directors. The Board of Directors also evaluates the co-operation between the Board of Management and itself at the annual Board seminar.

### **Audit committee**

According to Section 31 of the Danish Audit Act the Board of Directors of Topdanmark has set up an audit committee. According to Sections 6(1) and 2(4) of the executive order on audit committees in companies and groups that are subject to supervision by the Danish Financial Supervisory Authority, the Board of Directors of Topdanmark Forsikring has set up a joint audit committee for those relevant companies of the Topdanmark Forsikring Group. The two audit committees have identical members.

The Board of Directors has elected Michael Pram Rasmussen, Chairman of the Board, Anders Knutsen, Deputy Chairman of the Board and Annette Sadolin, Board member, to be members of the audit committee. The Board of Directors has elected Michael Pram Rasmussen to be chairman of the audit committee.

As CEO of Topdanmark until 2006 Michael Pram Rasmussen is not considered to be independent whereas both Anders Knutsen and Annette Sadolin meet all the criteria of independence set out in EU recommendation 2005/161/EC and the "Recommendations for Corporate Governance" of April 2010 by the Committee on Corporate Governance.

The Board of Directors believes that due to their many years' managerial positions in listed and financial services companies all three members possess the necessary accounting qualifications to perform the tasks required of the audit committee. As far as the two independent audit committee members are concerned the Board highlights the following for special mention:

- Anders Knutsen graduated with an MSc (Economics) and as chairman, deputy chairman and CEO of a number of Danish listed companies, including several OMXC20-companies, he has over many years worked with the preparation and presentation of accounts in accordance with the relevant rules for international and Danish accounting and auditing standards. From 2006 to mid-2008 Anders Knutsen was chairman of the audit committee of Sonaptic LTD - a small UK, VC-funded company which prepared its accounts in accordance with IFRS. He was also chairman of this company until it was sold in mid-2008
- Annette Sadolin graduated as a lawyer and she too has experience of the preparation and presentation of accounts from directorships in a number of Danish and foreign companies, many of which are listed. For



## Topdanmark's Annual Report 2010

example Annette Sadolin is member of the audit committee of the Swedish listed company, Ratos AB. This company presents its accounts in accordance with IFRS, with certain modifications. For many years, until she retired in 2003, Annette Sadolin was employed by General Electric Company Employers Reinsurance Corporation. From 1996 to 2003 she was member of the Board of Management of GE Frankona Rückversicherungs-Aktiengesellschaft and for many years she was chairman of the GE Group's UK company. During these years Annette Sadolin gained specific experience in the preparation of accounts in accordance with IFRS

In this light the Board of Directors firmly believes that both Anders Knutsen and Annette Sadolin possess the qualifications and experience which enable them to make an independent assessment of whether the Topdanmark Group's accounts, internal control, risk management and statutory audit have been prepared and performed in an appropriate way considering its size and complexity.

Therefore the Board of Directors considers both Anders Knutsen and Annette Sadolin to be independent members with appropriate accounting qualifications.

The audit committee holds at least four meetings a year. On [www.topdanmark.com](http://www.topdanmark.com) → [Corp.Gov.](#) → [Internal controls](#) → [Audit](#) → [Audit committee](#) → The rules of procedure for the audit committee of [Topdanmark A/S](#) and the joint audit committee for [Topdanmark Forsikring Group](#) are available.

### Remuneration Committee

In accordance with the new provisions of the Danish Financial Business Act, the Board of Directors will set up a remuneration committee at Topdanmark's annual general meeting in 2011.

### **The Committee on Corporate Governance's Recommendations for 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 made a precise response to each item of the Nørby Committee's recommendations and Topdanmark has met all significant recommendations included in that report.

On 8 April 2010 the Committee on Corporate Governance published new recommendations for Corporate Governance in Denmark. They are available to the public

on the Committee's website [www.corporategovernance.dk](http://www.corporategovernance.dk).

In accordance with Clause 131 of the executive order on financial reporting for insurance companies and lateral pension funds, Topdanmark is liable to outline in its annual report its approach to the recommendations. The outline should follow the "comply-or-explain" principle which has been decided at EU level and follows from Provision 4.3 of Rules for issuers of shares issued by Nasdaq OMX Copenhagen.

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

However, Topdanmark does not fully meet the following recommendations:

- The Committee recommends that the annual report contain the following information about the members of the supreme governing body:
  - "... The number of shares, options, warrants, etc. that the member holds in the company and its consolidated companies and any changes in such holdings during the financial year"

*On its website Topdanmark discloses information on holding of shares, options etc. at a group level, for the entire Board of Directors and the entire Board of Management etc., see Note 45.*

*Furthermore, in accordance with the rules of the Danish Securities Trading Act, Topdanmark regularly discloses information on transactions in Topdanmark's [shares](#), [options](#) etc. made by members of the Board of Directors and the Board of Management. The trading reports published on such transactions are saved and available on Topdanmark's website. The Board of Directors believes there is no further need of separate disclosure in the Annual Report of each Board member's holding of and trade in shares, options etc. The Board believes that the market will receive no new relevant information by disclosing this information at an individual level in the Annual Report.*

## Topdanmark's Annual Report 2010

- The Committee recommends that the following be taken into account in composing the audit committee:
  - "The chairman of the supreme governing body should not be chairman of the audit committee. ..."

*In spite of this recommendation Topdanmark's Board of Directors has re-elected its chairman Michael Pram Rasmussen to be chairman of the audit committee. The Board of Directors finds it natural and appropriate that the Chairman of the Board is responsible for the planning and formal moderation of the meetings of also the board committee in order to ensure, among other things, consistency with the Board work.*

*The three members of the audit committee receive the same background material prior to and at the board committee meetings and participate in the meetings on equal terms. The chairman's vote is not decisive and the members of the audit committee receive the same remuneration for performing the duties of the audit committee.*

*Topdanmark sees no reason why the Chairman of the Board should not be chairman of the audit committee and it requires, and has unsuccessfully called for, a reason for this provision to be included in "Recommendations on Corporate Governance, April 2010".*

- The Committee recommends that the supreme governing body establish a nomination committee with at least the following preparatory tasks:
  - Describe the qualifications required in the two governing bodies and for a given position, state the expected time commitment for a position and evaluate the balance of skills, knowledge and experience available in the two governing bodies.
  - Annually evaluate the structure, size, composition and performance of the governing bodies and make recommendations to the supreme governing body with regard to any changes.
  - Annually evaluate the skills, knowledge and experience of the individual members of the governing bodies and report such details to the supreme governing body.
  - Consider proposals submitted by relevant persons, including shareholders and members of

the governing bodies, for candidates for executive positions.

- Identify and recommend to the supreme governing body candidates for the governing bodies.

*Topdanmark has chosen to have a small and active Board of Directors. As one of the consequences of this decision Topdanmark has chosen not to set up an independent nomination committee but instead the entire Board of Directors performs those tasks which would be performed by a nomination committee in other companies. This is not contrary to the Recommendations on Corporate Governance which point out that the functions of a board committee may be performed by the entire Board of Directors.*

*Topdanmark believes that a wide use of board committees could contribute to diluting the Board work in spite of the Recommendations pointing out that the entire Board of Directors should not be deprived of responsibility and insight. The use of board committees removes insight and knowledge from the Board of Directors without depriving it of responsibility. An increased use of board committees could result in increased bureaucracy and much of the work of the Board and particularly its Chairman will be receiving reports from various committees instead of considering and addressing the Board relevant tasks and problems themselves.*

*The recommendation does not seem well-founded, particularly considering that the Recommendations say that the tasks of the nomination committee may be performed by the entire supreme governing body.*

*Topdanmark's Board of Directors regularly addresses the following recommendations, at least once a year when assessing itself and the co-operation between it and the Board of Management:*

- *The qualifications required to be a member of Topdanmark's governing bodies, to hold a given position, the estimated time commitment for a position and skills, knowledge and experience available in Topdanmark's governing bodies.*
- *The structure, size, composition and results of the governing bodies.*
- *The skills, knowledge and experience held by each member of the governing bodies.*
- *Any proposal for candidates for Topdanmark's governing bodies.*

## Topdanmark's Annual Report 2010

- The Committee recommends that the total remuneration granted to each member of the supreme governing body and the board of management by the company and other consolidated companies be disclosed in the (consolidated) financial statements and that the linkage with the remuneration policy be explained.

*In its Annual Report Topdanmark discloses information on the principles and size of the cash remuneration at a group level for both the Board of Directors and the Board of Management. This information is also available on the Company's website.*

*Information on the remuneration of each individual member of the Board of Management is confidential. Topdanmark believes that the market will receive no further relevant information by publishing this information at an individual level. According to the Danish Financial Business Act, from the 2011 Annual Report Topdanmark will have to disclose information on the remuneration of the Board of Directors and the Board of Management at an individual level. Topdanmark will of course observe the relevant disclosure requirements.*

Detailed information on Topdanmark's initiatives on Corporate Governance, including a review of its response to each item of the Committee on Corporate Governance's "Recommendations for Corporate Governance, April 2010" is available on [www.topdanmark.com](http://www.topdanmark.com) → [Corp. Gov.](#) → [Legislation, Articles of Association and regulations](#). This information is regularly updated.

### Remuneration structure

Topdanmark's salary policy is intended to optimise long-term value creation at a group level. The General Meeting has adopted general guidelines for performance-related pay in accordance with the relevant provisions of the Danish Companies Act.

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, depending on the executive's expected contribution to value creation in Topdanmark in the year of granting, has been supplemented by the right to purchase options. From 2011 the remuneration package of the Board of Management, a number of the heads of business sectors and administrative departments and "significant risk takers" will be based upon a fixed basic salary, 10% of which is paid as share options. 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 in Topdanmark Livsforsikring. Individual bonuses are not paid.

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

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 may grant a number of options, free of charge, to employees who are expected to make a special effort or otherwise contribute extraordinarily to value creation in the Company in the year of granting.

### Employee shares

In order to ensure that all employees focus on value creating activities, Topdanmark issued employee shares in 2010. The allocation was effected simultaneous with a reduction in the recipient's cash salary.

Employee shares are not issued in accordance with an on-going published plan for allocation but each issue is specifically decided upon and managed by the Board of Directors at the time.

In 2010 Topdanmark allocated 48,248 free employee shares and sold 35,550 employee shares at an advantageous price.

The cost of the issue of employee shares was DKK 46m in 2010 compensated by a corresponding reduction in salaries. The cost has been calculated at fair value according to the IFRS 2 on share-based payments.

# Topdanmark's Annual Report 2010

## Options

For 2011 Topdanmark has already granted 42,546 share options to its Board of Management and a number of executives. The strike price of DKK 808 was fixed at 110% of the market price of Topdanmark's shares on 30 December 2010 (average of all trades). The options were paid for by the individuals concerned.

Besides the revolving scheme above a further 20,225 share options have been granted for 2011, free of charge, to a number of other executives who are expected to make a special effort or otherwise contribute extraordinarily to value creation in the Company.

## Breakdown of share options / warrants granted since 2007

Year	Board of Management	Executives	Total
2007	36,571	113,429	150,000
Market value of those warrants granted (DKKm)	5	16	21
2008	39,224	110,776	150,000
Market value of those options granted (DKKm)	4	13	17
2009	36,676	113,324	150,000
Market value of those options granted (DKKm)	4	11	15
2010	37,300	112,700	150,000
Market value of those options granted (DKKm)	4	12	16
2011	13,222	49,549	62,771
Market value of those options granted (DKKm)	1	6	7

The options granted for 2011 may not be exercised any earlier than subsequent to the publication of the 2013 Annual Report in 2014 and no later than subsequent to the publication of the 2015 Annual Report in 2016. In the intervening period the options can only be exercised up to three banking days subsequent to Topdanmark's publication of annual and interim reports.

The market value of the options for 2011 has been calculated to be DKK 7m at the time of granting.

The value was calculated using the Black and Scholes model assuming a share price of DKK 734.73, an interest rate corresponding to the zero coupon rate based on the swap curve on 30 December 2010, future annual volatility of 22%, corporation tax rate of 25% and a pattern of exercise similar to Topdanmark's previous granting of share options, see IFRS 2 on share-based payments.

At the end of 2010 the exposure of the options held by the Board of Management represented 0.9% of shareholders' equity.

On [www.topdanmark.com](http://www.topdanmark.com) → [Corp. Gov.](#) → [Remuneration Structure](#) detailed information is available on Topdanmark's option scheme.

## Severance pay

In order to ensure full loyalty, focus and performance for Topdanmark during the period until a potential take-over is finalised, Topdanmark has agreed with the Board of Management and four other members of the executive team that under certain circumstances they will receive compensation in the form of an extended period of notice and an increased severance pay if they resign or are dismissed, or if their position is made redundant because Topdanmark is taken over by or merges with a company outside of the Group or if one or more owners take control of Topdanmark. The maximum amount of compensation will represent two years' salary.

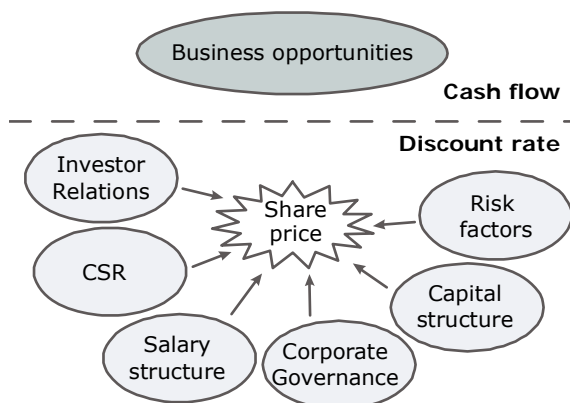
## CSR

In 2008 the Danish Parliament adopted an Act requiring Denmark's 1,100 largest companies to explain their CSR policy, activities and results. The following is Topdanmark's statutory explanation of its corporate social responsibility. On [www.topdanmark.com](http://www.topdanmark.com) Topdanmark will also publish a voluntary report with a further description of the Group's CSR activities.

# Topdanmark's Annual Report 2010

## Background

CSR is an element of Topdanmark's value creation model: it wishes to minimise non-life insurance risks which would otherwise have an adverse impact on its share price. Therefore, in 2010 it initiated a process intended to identify CSR-related risks and opportunities.



Topdanmark will create value by continuously  optimising those factors impacting the discount rate and future cash flow

## Topdanmark's responsibility policy

It is Topdanmark's intention to be responsible and create value for both the Group's primary stakeholders – shareholders, customers and employees – and society, by handling social and environmental challenges in accordance with internationally recognised principles for corporate social responsibility, including the principles of UN Global Compact.

## Goals

Topdanmark aims to behave responsibly and contribute to value creation in terms of its products and services.

This requires, among other things, that it:

- Operates an efficient and responsible insurance business
- Focuses on loss prevention
- Provides a workplace that attracts and keeps competent and well-qualified employees
- Includes social and environmental considerations in investment and procurement matters

## Global Compact

In 2010 Topdanmark decided to join UN Global Compact and started to investigate, among other activities, making socially responsible investments and formulating a procurement policy.

## Employees

Every second year Topdanmark conducts a job satisfaction survey among all its employees. The most recent was conducted in 2009 with a response rate of 96%. The result of the survey showed that job satisfaction in Topdanmark was above the average for the financial sector in Denmark.

Topdanmark offers all its employees an annual health check and in 2010 1,727 employees participated. To support its employees' health Topdanmark offers, for example:

- A canteen service based on the Danish National Nutrition Council's recommendations
- Employee health care insurance programme
- Access to a fitness centre

## Society

Rather than only focusing on financial cover after the occurrence of an injury or damage, Topdanmark also considers loss prevention. For Topdanmark prevention is vital in its work on responsibility. Therefore a loss prevention committee was set up in 2010 intended to organise and prioritise this work during 2011.

## Responsible investments

In 2010 Topdanmark started to work with a screening agency to include society and environmental considerations in Topdanmark's investment policy. The collaboration was organised in 2010, and in January 2011 the practical screening of Topdanmark's investments was initiated.

## Responsible procurement policy

As part of joining UN Global Compact, in 2010 Topdanmark formulated a procurement policy aiming to ensure that suppliers and alliance partners observe widely recognised, international conventions, including the UN Global Compact. Topdanmark's specific requirements and expectations will be implemented when renewing contracts with new and existing alliance partners.

## Environment

As Topdanmark is an insurance company, the environmental impact on its daily operations is relatively modest. However, it endeavours to reduce its environmental footprint. Topdanmark considers both the environmental consequences of daily operations and the indirect effect of purchasing and making investments.

# Topdanmark's Annual Report 2010

Therefore it:

- Focuses on resource consumption
- Imposes environmental requirements on suppliers and alliance partners

## Resource consumption

Since 2009 Topdanmark has reported its CO2 emission to the Carbon Disclosure Project. The project assigns points to the submitted responses and in 2009 Topdanmark scored 56 points which improved to 62 in 2010.

One of the specific initiatives which will reduce the CO2 emission in future years is an investment in lighting and ventilation at Topdanmark's head office expected to reduce its annual CO2 emission by 525 tons or just over 7%.

In 2010 Topdanmark reviewed all IT equipment in order to promote IT solutions to reduce both its energy consumption and CO2 emission.

## Investor relations

Topdanmark wishes to openly and sufficiently inform investors, analysts and other stakeholders on the Group's matters in accordance with regulatory requirements, Corporate Governance standards and recommendations from relevant organisations.

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 high in order that they are not traded at a discount due to a lack of liquidity
- High level of knowledge of and confidence in Topdanmark's shares is secured
- Low volatility in the price of Topdanmark's shares 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
- Investment and insurance conferences

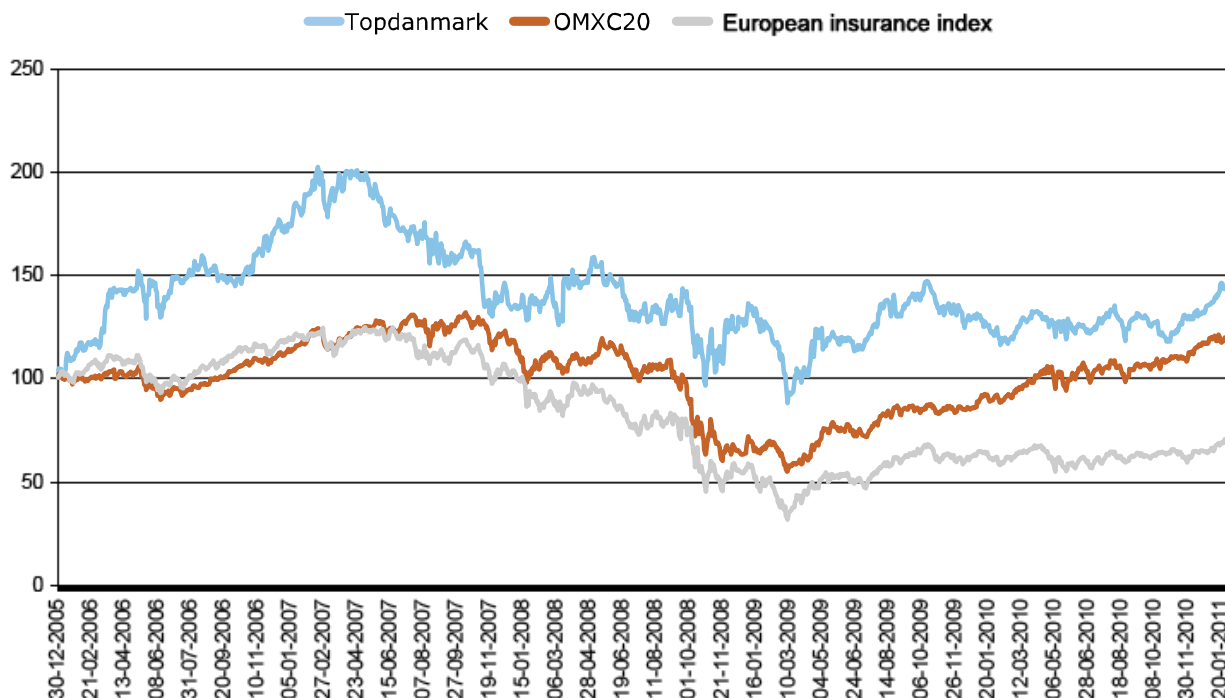
Daily share trading on all trading platforms was DKK 62m in 2010 (2009: DKK 44m). At Nasdaq OMX Copenhagen daily trading was DKK 55m in 2010 (2009: DKK 42m). New trading platforms such as Chi-X, BATS Europe, Turquoise and Burgundy represented 8% of the trading in Topdanmark's shares in 2010.

Breakdown of those brokers with the highest trading activity in Topdanmark's shares at Nasdaq OMX Copenhagen:

<b>Most active brokers at Nasdaq OMX Copenhagen in 2010</b>	<b>%</b>
Danske Bank	21
Credit Suisse	8
SEB Enskilda	7
Svenska Handelsbanken	6
Morgan Stanley	5
Deutsche Bank	5
Carnegie	5
Nordea	4
UBS	3
Citadel	3

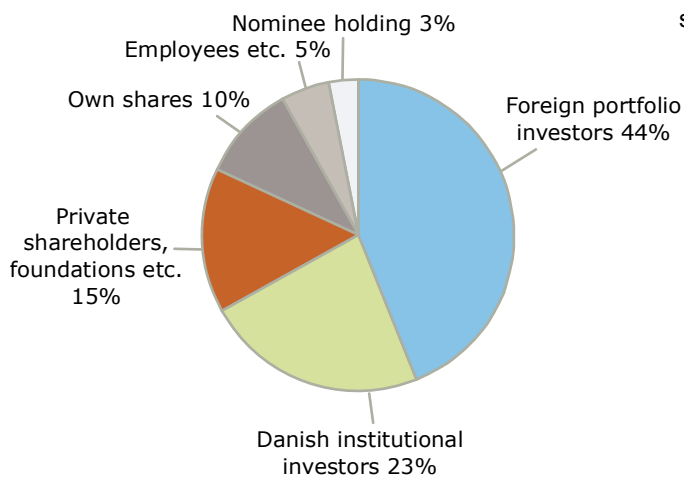
Topdanmark is followed by 19 analysts. Share analysts' recommendations of Topdanmark's shares are available on Topdanmark's investor site [www.topdanmark.com](http://www.topdanmark.com) → [Shares](#) → [Analyses](#).

**Index-linked share price movement (Basis: 31 Dec 2005 = 100)**



**Shareholder structure at 28 February 2011**

The following shareholders own more than 5% of the share capital:



Shareholder	Holding (%) 31 Dec 2010
If Barks Väg, Solna 10680 Stockholm Sverige	11.7
ATP, FMP, DP ATP-Huset Kongens Vænge 8 3400 Hillerød	6.3



# Topdanmark's Annual Report 2010

## Annual General Meeting

The AGM will be held on Tuesday 12 April 2011, 15:00 (CET) at:

Radisson Blu Scandinavia Hotel  
Amager Boulevard 70  
2300 Copenhagen S

All of Topdanmark's Board members elected by the AGM are up for election and re-election is proposed.

The Board of Directors proposes election of:

Anders Knutsen  
Jens Maaløe  
Michael Pram Rasmussen  
Annette Sadolin  
Søren Thorup Sørensen  
Knud J. Vest

The agenda for the AGM will be published in mid-March 2011.

## Financial calendar

AGM	12 Apr 2011
Q1 2011 Interim Report	24 May 2011
2011 Half-year Report	23 Aug 2011
Q1-Q3 2011 Interim Report	15 Nov 2011



# Topdanmark's Annual Report 2010

## List of company announcements and trading reports

### *Company announcements*

Topdanmark submits announcements to Nasdaq OMX, Copenhagen 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](#)

### **2011**

- 28 Feb 04/2011: Share capital and voting rights in Topdanmark
- 24 Feb 03/2011: Topdanmark's holding of own shares under 10%
- 24 Feb 02/2011: Write-down of share capital
- 03 Jan 01/2011: Issue of options

### **2010**

- 30 Dec 23/2010: Share capital and voting rights in Topdanmark
- 17 Dec 22/2010: Topdanmark increases its holding of own shares
- 08 Dec 21/2010: Topdanmark's Capital Markets Day 2010
- 07 Dec 20/2010: Topdanmark has been a victim of a URL hacking
- 01 Dec 19/2010: Exercise of warrants
- 29 Nov 18/2010: Result of sale of employee shares
- 23 Nov 17/2010: Extraordinary General Meeting of Topdanmark on 23 November 2010
- 23 Nov 16/2010: Topdanmark's Interim Report for Q1-Q3 2010
- 02 Nov 15/2010: Major shareholder information pursuant to Section 29 of the Danish Securities Trading Act
- 29 Oct 14/2010: Notice convening EGM of Topdanmark – Topdanmark has bought back own shares of DKK 732m
- 30 Sep 13/2010: Share capital and voting rights in Topdanmark
- 28 Sep 12/2010: Employee shares
- 02 Sep 11/2010: Exercise of warrants
- 25 Aug 10/2010: Topdanmark's 2010 Half Year Report
- 21 Jun 09/2010: Topdanmark increases its holding of own shares
- 17 Jun : Topdanmark Forsikring A/S issues subordinated notes
- 07 Jun : Topdanmark Forsikring A/S – Redemption of subordinated notes
- 31 May 08/2010: Exercise of warrants
- 27 May : Topdanmark Forsikring A/S – Redemption of subordinated notes
- 20 May 07/2010: Topdanmark's Interim Report for Q1 2010
- 20 Apr 06/2010: Annual General Meeting of Topdanmark on 20 April 2010
- 31 Mar 05/2010: Share capital and voting rights in Topdanmark
- 23 Mar 04/2010: Notice convening AGM of Topdanmark
- 17 Mar 03/2010: Exercise of warrants
- 09 Mar 02/2010: Topdanmark's Annual Report 2009
- 04 Jan 01/2010: Issue of options

### *Trading reports*

### **2011**

- 03 Jan 01/2011: Trading in Topdanmark's shares by insiders

### **2010**

- 21 Dec 06/2010: Trading in Topdanmark's shares by insiders
- 29 Nov 05/2010: Trading in Topdanmark's shares by insiders
- 15 Jun 04/2010: Trading in Topdanmark's shares by insiders
- 26 Mar 03/2010: Trading in Topdanmark's shares by insiders
- 17 Mar 02/2010: Trading in Topdanmark's shares by insiders
- 04 Jan 01/2010: Trading in Topdanmark's shares by insiders

# Topdanmark's Annual Report 2010

## Boards of Directors and Board of Management

### Board of Directors

#### Michael Pram Rasmussen, Chairman\*, \*\*\*

DOB: 14 January 1955  
Joined Topdanmark's Board of Directors: 2006  
Current position held: Chairman  
Previous positions held: 1979-1982: Nye Danske Lloyd  
1982-1984: Baltica Forsikring A/S  
1984-1986: Deputy General Manager, Baltica Forsikring A/S  
1986-1988: General Manager, Baltica Forsikring A/S  
1988-1995: Group Managing Director, Baltica Forsikring A/S  
1995-1996: Group Managing Director, Tryg-Baltica Forsikring A/S  
1996-2006: CEO of Topdanmark A/S and Topdanmark Forsikring A/S

Education: Law degree, University of Copenhagen  
Offices held: Member of the Boards of Directors of:

- A.P. Møller-Mærsk A/S (Chairman)  
– and one subsidiary
- Coloplast A/S (Chairman)
- Semler Holding A/S (Chairman)
- Louisiana Museum of Modern Art

Independence: As Michael Pram Rasmussen has been member of Topdanmark's Board of Management within the most recent five years, he does not meet the definition of independence set out by the Committee on Corporate Governance

#### Anders Knutsen, Deputy Chairman\*, \*\*\*

DOB: 4 May 1947  
Joined Topdanmark's Board of Directors: 1999  
Current position held: Chairman  
Previous positions held: 1977-1983: Factory Manager, Bang & Olufsen A/S  
1983-1986: Production Manager, Alcatel Danmark A/S  
1986-1991: Technical Manager, Bang & Olufsen A/S  
1991-2001: CEO, Bang & Olufsen Holding A/S

Education: MSc (Economics)  
Offices held: Member of the Boards of Directors of:

- Rossini Caviar A/S (Chairman)
- Copenhagen Business School (Chairman)
- Hersild & Heggov (Chairman)
- Fritz Hansen A/S
- Augustinus Fabrikker A/S
- kk-group A/S
- Pure Mobility A/S

Independence: Anders Knutsen meets the definition of independence set out by the Committee on Corporate Governance

#### Ole Døssing Christensen\*\*

DOB: 1952  
Joined Topdanmark's Board of Directors: 1999  
Current position held: Certified Insurance Sales Representative

## Topdanmark's Annual Report 2010

### Charlotte Hougaard\*\*

DOB: 1964  
Joined Topdanmark's Board of Directors: 2007  
Current position held: System developer

### Jens Maaløe\*

DOB: 10 January 1955  
Joined Topdanmark's Board of Directors: 2003  
Current position held: CEO of TERMA A/S  
Previous positions held: 1983-1990: Development / Sales Manager, NKT Elektronik A/S  
1991-1993: CEO, NKT Dedicom A/S  
1994-1995: Managing Director, DSC Communications A/S  
1995-1997: Regional Manager, TeleDanmark A/S  
1997-2002: CEO, NetTest Danmark as

Education: MSc (Engineering), DTU  
Licentiate (Tech.), thesis: radar technology and optical communication

Offices held: Member of the Boards of Directors of:

- DI's (The Confederation of Danish Industry) Research and Education Committee (Chairman)
- NKT A/S
- Ingeniørhøjskolen i Århus (Engineering College of Aarhus)
- Danmarks Eksportråd (Trade Council of Denmark)
- DI's Executive Committee and Governing Body
- FAD (Danish Defence and Aerospace Industry )
- PA (Federation of Employers in the Provincial Industry)

Independence: Jens Maaløe meets the definition of independence set out by the Committee on Corporate Governance

### Per Mathiesen\*\*

DOB: 1966  
Joined Topdanmark's Board of Directors: 2007  
Current position held: Case handler

### Annette Sadolin\*,\*\*\*

DOB: 14 January 1947  
Joined Topdanmark's Board of Directors: 2004  
Current position held: Since 2003 solely directorships  
Previous positions held: 1980-1986: Assistant to management and subsequently Divisional Manager, Baltica Re / Baltica-Nordisk Re  
1986-1989: Ass. General Manager, Baltica-Nordisk Re  
1989-1993: Deputy General Manager, Employers Reinsurance International, Copenhagen  
1993-1996: CEO, Employers Reinsurance International, Copenhagen  
1996-2003: Member of Board of Management, GE Frankona Rückversicherungs-Aktiengesellschaft, Munich

Education: Law degree, University of Copenhagen  
Special law programme, Columbia University, NY, USA  
GE training programmes incl. Six Sigma GB Certificate

## Topdanmark's Annual Report 2010

Offices held: Member of the Boards of Directors of:

- DSB
- DSV A/S
- Ratos AB
- Lindab International AB
- Skodsborg Kurhotel & Spa A/S

Independence: Annette Sadolin meets the definition of independence set out by the Committee on Corporate Governance

### **Søren Thorup Sørensen\***

DOB: 29 September 1965

Joined Topdanmark's Board of Directors: 2010

Current position held: CEO of KIRKBI A/S

Previous positions held: 1987-2006: KPMG Denmark and UK  
2006-2009: Group CFO og member of Group Executive Board, A.P. Møller-Mærsk A/S

Education: MSc (Business Administration and Auditing), Copenhagen Business School, Denmark  
State-authorized public accountant  
Advanced Management Programme, Harvard Business School, USA

Offices held: Member of the Boards of Directors of:  
TDC A/S  
10 subsidiaries of KIRKBI A/S, including LEGO A/S  
Koldingvej 2, Billund A/S  
KIRKBI AG  
Merlin Entertainments Ltd.

Independence: Søren Thorup Sørensen meets the definition of independence set out by the Committee on Corporate Governance

### **Knud J. Vest\***

DOB: 6 July 1946

Joined Topdanmark's Board of Directors: 1994

Current position held: Fur breeder, Farmer

Education: Farmer

Offices held: Member of the Boards of Directors of:

- EFBA (Chairman)
- Danish Agro
- Dansk Pelsdyravlerforening/Danske Pelsauktioner (Danish Fur Breeders Association / Danish Fur Auctions)

Member of:

- Landbrug og Fødevarers Virksomhedsbestyrelse (Company Board of Danish Agriculture and Food Council)
- Landbrug og Fødevarers Fællesbestyrelse (Common Board of Danish Agriculture and Food Council)

Independence: As Knud J. Vest has been member of the Board of Directors for more than 12 years, he does not meet the definition of independence set by the Committee on Corporate Governance

\* Elected by shareholders in general meeting

\*\* Elected by employees

\*\*\* Member of Topdanmark's Audit Committee

# Topdanmark's Annual Report 2010

## **Board of Management**

### **Christian Sagild**

CEO of Topdanmark A/S

DOB 1959, joined Topdanmark in 1996, joined Topdanmark's Board of Management on 1 January 2006

Managerial responsibilities:

- Life insurance
- HR
- IT
- Group Development
- Communications, IR, CSR
- Group Secretariat, Corporate Legal Matters

Member of the Boards of Directors of:

- The Danish Insurance Association
- Bornholms Brandforsikring A/S
- The Danish Employers' Association for the Financial Sector

### **Kim Bruhn-Petersen**

Group Managing Director of Topdanmark A/S

DOB. 1956, joined Topdanmark in 1989, joined Topdanmark's Board of Management on 1 January 2006

Managerial responsibilities:

- Personal
- SME and Industrial
- Marketing
- Claims Administration

Member of the Boards of Directors of:

- Forsikringsakademiet A/S
- Bornholms Brandforsikring A/S

### **Lars Thykier**

CFO of Topdanmark A/S

DOB. 1955, joined Topdanmark in 1986, joined Topdanmark's Board of Management on 1 June 2009

Managerial responsibilities:

- Asset Management
- Finance
- Accounts
- Statistical Services
- Reinsurance
- Tax
- Credits

Information on the Board of Management's responsibilities, as required by Article 80 of the Danish Financial Business Act, is shown in the Annual Report for Topdanmark Forsikring A/S

# Topdanmark's Annual Report 2010

## Five-year summary • Group

(DKKm)	2006	2007	2008	2009	2010
<b>NON-LIFE INSURANCE</b>					
Gross premiums earned*	8,860	8,955	9,029	8,707	8,622
Technical interest	126	181	222	102	58
Gross claims incurred	(5,912)	(5,840)	(5,770)	(6,324)	(6,444)
Bonuses and rebates	(55)	(72)	(77)	(42)	(74)
Total operating expenses	(1,230)	(1,278)	(1,308)	(1,272)	(1,298)
Net reinsurance	(352)	(345)	(272)	(266)	(204)
<b>TECHNICAL PROFIT ON NON-LIFE INSURANCE</b>	<b>1,437</b>	<b>1,601</b>	<b>1,824</b>	<b>905</b>	<b>660</b>
<b>LIFE INSURANCE</b>					
Gross premiums written	3,154	3,556	3,980	3,208	3,395
Allocated investment return, net of reinsurance	1,358	191	(2,143)	2,443	2,233
Claims and benefits	(1,648)	(1,908)	(2,038)	(1,423)	(2,875)
Change in the life insurance provisions	(1,926)	(1,418)	(1,223)	(2,829)	(900)
Bonus	(391)	421	1,766	(118)	(369)
Change in the provisions for unit-linked contracts	(250)	(529)	(61)	(851)	(968)
Operating expenses	(257)	(290)	(320)	(305)	(302)
Net reinsurance	1	(2)	(2)	(2)	0
<b>TECHNICAL PROFIT / (LOSS) ON LIFE INSURANCE</b>	<b>41</b>	<b>21</b>	<b>(41)</b>	<b>123</b>	<b>214</b>
<b>Profit / (loss) on investment activities after transfer to technical results</b>	<b>775</b>	<b>67</b>	<b>(1,765)</b>	<b>878</b>	<b>668</b>
Other income	7	7	6	5	11
Other expenses	(37)	(39)	(48)	(48)	(47)
<b>PRE-TAX PROFIT / (LOSS)</b>	<b>2,223</b>	<b>1,657</b>	<b>(24)</b>	<b>1,863</b>	<b>1,506</b>
Taxation	(531)	(386)	(165)	(417)	(338)
<b>PROFIT / (LOSS) FOR THE YEAR</b>	<b>1,692</b>	<b>1,271</b>	<b>(189)</b>	<b>1,446</b>	<b>1,168</b>
Run-off profits, net of reinsurance	34	324	506	214	204
Provisions for insurance and investment contracts:					
Non-life insurance	12,783	13,314	13,685	14,478	15,139
Life insurance	23,459	25,093	24,938	28,882	31,166
Total insurance assets	706	669	651	656	768
Total shareholders' equity	3,977	3,368	2,895	4,117	4,553
Total assets	43,640	44,645	52,035	56,554	57,542
Gross loss ratio (%)	67.4	65.9	64.6	73.1	75.5
Net reinsurance ratio (%)	4.0	3.9	3.1	3.1	2.4
Claims trend (%)	71.4	69.8	67.7	76.2	77.9
Gross expense ratio (%)	14.6	14.5	14.7	14.9	15.4
Combined ratio (%)	86.0	84.3	82.4	91.1	93.3
Operating ratio (%)	84.8	82.7	80.4	90.1	92.7
Relative run-off profits (%)	0.4	3.4	5.0	2.1	1.8
Return on shareholders' equity (%)	43.6	34.2	(6.3)	40.1	26.0
Solvency ratio (%)	71.1	58.0	32.7	71.0	75.1

\* Before deducting bonuses and rebates

# Topdanmark's Annual Report 2010

## Profit and loss account • Group

(DKKm)	Note	2009	2010
<b>NON-LIFE INSURANCE</b>			
Gross premiums written	1	8,671	8,661
Reinsurance ceded		(624)	(644)
Change in the provisions for unearned premiums, gross	1	36	(39)
Change in the reinsurers' share of the provisions for unearned premiums		(28)	(8)
<b>Premiums earned, net of reinsurance</b>		<b>8,055</b>	<b>7,971</b>
<b>Technical interest, net of reinsurance</b>	2	<b>102</b>	<b>58</b>
Gross claims paid		(6,250)	(6,351)
Reinsurance cover received		321	260
Change in the provisions for claims, gross		(74)	(93)
Change in the reinsurers' share of the provisions for claims		(5)	107
<b>Claims incurred, net of reinsurance</b>	3	<b>(6,008)</b>	<b>(6,077)</b>
<b>Bonuses and rebates</b>		<b>(42)</b>	<b>(74)</b>
Acquisition costs		(738)	(748)
Administrative expenses		(534)	(550)
Reinsurance commission and share of profits		70	80
<b>Total operating expenses, net of reinsurance</b>		<b>(1,202)</b>	<b>(1,218)</b>
<b>TECHNICAL PROFIT ON NON-LIFE INSURANCE</b>	4	<b>905</b>	<b>660</b>
<b>LIFE INSURANCE</b>			
Gross premiums written	5	3,208	3,395
Reinsurance ceded		(10)	(7)
<b>Premiums, net of reinsurance</b>		<b>3,198</b>	<b>3,388</b>
<b>Allocated investment return, net of reinsurance</b>		<b>2,443</b>	<b>2,233</b>
Claims and benefits paid	6	(1,428)	(2,866)
Reinsurance cover received		6	4
Change in the provisions for claims and benefits		5	(9)
<b>Claims and benefits paid, net of reinsurance</b>		<b>(1,417)</b>	<b>(2,871)</b>
Change in the life insurance provisions	7	(2,829)	(900)
Change in the reinsurers' share		1	3
<b>Change in the life insurance provisions, net of reinsurance</b>		<b>(2,828)</b>	<b>(897)</b>
<b>Bonus</b>		<b>(118)</b>	<b>(369)</b>
<b>Change in provisions for unit-linked contracts</b>		<b>(851)</b>	<b>(968)</b>
Acquisition costs		(125)	(120)
Administrative expenses		(180)	(181)
Reinsurance commission and share of profits		1	0
<b>Total operating expenses, net of reinsurance</b>		<b>(304)</b>	<b>(301)</b>
<b>TECHNICAL PROFIT ON LIFE INSURANCE</b>		<b>123</b>	<b>214</b>

# Topdanmark's Annual Report 2010

## Profit and loss account • Group

(DKKm)	Note	2009	2010
<b>NON-TECHNICAL ACTIVITIES</b>			
Technical profit on non-life insurance		905	660
Technical profit on life insurance		123	214
Income from associated companies		(11)	59
Income from investment properties	8	255	229
Interest income and dividends etc.		2,048	1,908
Revaluations	9	2,159	1,532
Interest charges		(224)	(81)
Expenses on investment business		(45)	(41)
<b>Total investment return</b>		<b>4,182</b>	<b>3,607</b>
Technical interest transferred to non-life insurance business		(466)	(362)
Pension return tax	10	(395)	(344)
Investment return transferred to life insurance business		(2,443)	(2,233)
Other income		5	11
Other expenses	11	(48)	(47)
<b>PRE-TAX PROFIT</b>		<b>1,863</b>	<b>1,506</b>
Taxation	12	(417)	(338)
<b>PROFIT FOR THE YEAR</b>		<b>1,446</b>	<b>1,168</b>
Profit per share, DKK	13	92.2	77.2
Profit per share, diluted DKK	13	91.7	77.0

## Statement of comprehensive income • Group

Profit for the year	1,446	1,168
Revaluation of owner-occupied properties	3	1
Taxation	(1)	(0)
Other comprehensive income	2	1
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,448</b>	<b>1,169</b>



# Topdanmark's Annual Report 2010

## Assets • Group

(DKKm)	Note	2009	2010
<b>INTANGIBLE ASSETS</b>	14	729	768
Machinery and equipment		178	148
Owner-occupied properties		739	757
<b>TOTAL TANGIBLE ASSETS</b>	15	917	905
Investment properties	16	4,086	4,046
Shares in associated companies	17	339	388
Loans to associated companies	18	460	762
Total investment in associated companies		799	1,151
Shares		5,445	6,309
Bonds		31,820	36,833
Loans guaranteed by mortgages		18	11
Other loans		2	2
Deposits with credit institutions		6,830	1,011
Derivatives		639	785
Total other financial investment assets		44,754	44,951
<b>TOTAL INVESTMENT ASSETS</b>		49,639	50,147
<b>INVESTMENT ASSETS RELATED TO UNIT-LINKED CONTRACTS</b>	19	2,486	3,264
Reinsurers' share of the provisions for unearned premiums	20	73	65
Reinsurers' share of the life insurance provisions		32	36
Reinsurers' share of the provisions for claims and benefits	21	551	667
Total reinsurers' share of provisions		656	768
Amounts due from policyholders		407	417
Amounts due from insurance companies		193	184
Amounts due from associated companies		9	18
Other debtors		100	101
<b>TOTAL DEBTORS</b>		1,365	1,487
Current tax assets		260	58
Deferred tax assets	22	40	19
Liquid funds		259	194
Other		227	49
<b>TOTAL OTHER ASSETS</b>		786	320
Accrued interest and rent		435	501
Other prepayments and accrued income		197	150
<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>		632	651
<b>TOTAL ASSETS</b>		56,554	57,542

# Topdanmark's Annual Report 2010

## Shareholders' equity and liabilities • Group

(DKK m)	Note	2009	2010
Share capital		169	171
Revaluation reserve		15	16
Security fund		1,104	1,104
Other reserves		16	20
Total reserves		1,120	1,124
Profit carried forward		2,813	3,241
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>4,117</b>	<b>4,553</b>
<b>SUBORDINATED LOAN CAPITAL</b>	23	<b>653</b>	<b>752</b>
Provisions for unearned premiums	24	2,601	2,646
Guaranteed pension benefits		13,797	16,601
Bonus potential on future premiums		7,298	5,831
Bonus potential on paid-up benefits		4,696	4,260
Total life insurance provisions	25	25,791	26,692
Provisions for claims and benefits	26	11,863	12,459
Collective bonus potential		184	554
Provisions for bonuses and rebates		100	128
Provisions for unit-linked contracts	27	2,821	3,826
<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>		<b>43,360</b>	<b>46,305</b>
Pensions and similar commitments	28	46	42
Deferred tax liabilities	22	249	94
Deferred tax on security funds		348	348
<b>TOTAL LIABILITIES PROVIDED</b>		<b>643</b>	<b>485</b>
<b>DEPOSITS RECEIVED FROM REINSURERS</b>		<b>68</b>	<b>90</b>
Creditors arising out of direct insurance operations		104	69
Creditors arising out of reinsurance operations		19	59
Bond loans		70	71
Amounts due to credit institutions		6,575	3,840
Amounts due to associated companies		0	11
Current tax liabilities		0	5
Derivatives		115	167
Other creditors		743	1,052
<b>TOTAL CREDITORS</b>		<b>7,626</b>	<b>5,274</b>
<b>ACCRUALS AND DEFERRED INCOME</b>		<b>87</b>	<b>85</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>56,554</b>	<b>57,542</b>

# Topdanmark's Annual Report 2010

## Cash flow statement • Group

(DKKm)	2009	2010
<b>Cash flow from operations</b>		
Gross premiums written	8,572	8,588
Claims paid	(6,262)	(6,227)
Expenses paid	(1,083)	(1,197)
Reinsurance ceded	(297)	(258)
Cash flow from non-life insurance	930	905
Gross premiums written	3,229	3,366
Claims and benefits	(1,413)	(2,891)
Expenses paid	(304)	(282)
Reinsurance ceded	23	19
Cash flow from life insurance	1,535	212
<b>Total cash flow from insurance business</b>	<b>2,465</b>	<b>1,117</b>
Payments made and received on investment contracts	132	37
Interest income and dividends etc.	2,395	2,065
Interest charges	(317)	(108)
Pension return tax	(121)	181
Corporation tax	(259)	(261)
Other income and expenses	(39)	(28)
<b>Total cash flow from operations</b>	<b>4,256</b>	<b>3,003</b>
<b>Investments</b>		
Shares in associated companies	2	10
Properties	26	20
Machinery, equipment and intangible assets	(217)	(160)
Shares	(344)	199
Bonds	(3,179)	(4,172)
Loans	3	7
Derivatives	288	(656)
Investment assets related to unit-linked contracts	(1,116)	(396)
Balances with associated companies	(184)	(300)
<b>Total investments</b>	<b>(4,721)</b>	<b>(5,448)</b>
<b>Financing</b>		
Shares bought back	(376)	(892)
Share-based payments	105	94
Employee bonds	26	(0)
Subordinated loan capital	0	98
Amounts due to credit institutions	(1,216)	(2,735)
<b>Total financing</b>	<b>(1,461)</b>	<b>(3,434)</b>
Change in cash and cash equivalents	(1,926)	(5,880)
Cash and cash equivalents at 1 January	9,001	7,089
Revaluation of cash and cash equivalents	14	(4)
<b>Cash and cash equivalents at 31 December</b>	<b>7,089</b>	<b>1,205</b>
Cash and cash equivalents comprise:		
Liquid funds	259	194
Deposits with credit institutions	6,830	1,011
	7,089	1,205

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 2010

## Movements in shareholders' equity • Group

(DKK m)

	Share capital	Revaluation reserve	Security fund	Other reserves	Profit carried forward	Total
<b>2009</b>						
Shareholders' equity prior year	167	13	1,104	13	1,598	2,895
Profit for the year				3	1,443	1,446
Other comprehensive income		2	0	0	0	2
Total comprehensive income for the year		2	0	3	1,443	1,448
Share buy-back					(376)	(376)
Sale of employee shares					26	26
Issue of share options					15	15
Exercise of share options / warrants	2				103	105
Pension return tax					1	1
Taxation					3	3
Other transactions	2				(228)	(226)
<b>Shareholders' equity at 31 December 2009</b>	<b>169</b>	<b>15</b>	<b>1,104</b>	<b>16</b>	<b>2,813</b>	<b>4,117</b>
<b>2010</b>						
Shareholders' equity prior year	169	15	1,104	16	2,812	4,117
Profit for the year				4	1,164	1,168
Other comprehensive income		1	0	0	0	1
Total comprehensive income for the year		1	0	4	1,164	1,169
Share buy-back					(892)	(892)
Sale of employee shares					46	46
Issue of share options					16	16
Exercise of share options / warrants	2				92	94
Taxation					3	3
Other transactions	2				(735)	(733)
<b>Shareholders' equity at 31 December 2010</b>	<b>171</b>	<b>16</b>	<b>1,104</b>	<b>20</b>	<b>3,241</b>	<b>4,553</b>

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

Segment information	
Gross premiums earned - non-life insurance	1
Technical interest, net of reinsurance - non-life insurance	2
Claims incurred, net of reinsurance - non-life insurance	3
Technical result - non-life insurance	4
Gross premiums written - life insurance	5
Claims and benefits paid - life insurance	6
Change in life insurance provisions	7
Income from investment properties	8
Revaluations	9
Pension return tax	10
Other expenses	11
Taxation	12
Profit per share	13
Intangible assets	14
Tangible assets	15
Investment properties	16
Shares in associated companies	17
Loans to associated companies	18
Investment assets related to unit-linked contracts	19
Reinsurers' share of provisions for unearned premiums	20
Reinsurers' share of provisions for claims	21
Deferred tax	22
Subordinated loan capital	23
Provisions for unearned premiums	24
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# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

### Segment information profit and loss account

(DKKm)	Per- sonal	SME and Indus- trial	Eli- min- ated	Non-life	Life	Parent etc.	Eli- min- ated	Group
<b>2009</b>								
<b>Non-life insurance</b>								
Gross premiums earned	4,638	4,049	(22)	8,665				8,665
Technical interest*	53	49	0	102				102
Claims incurred	(3,478)	(2,883)	24	(6,337)			13	(6,324)
Expenses	(711)	(587)	3	(1,295)			23	(1,272)
Net reinsurance	(54)	(212)	0	(266)				(266)
Technical profit on non-life insurance	448	416	5	869			36	905
<b>Life insurance</b>								
Gross premiums written					3,208			3,208
Allocated investment return					2,443			2,443
Benefits and change in provisions					(5,221)			(5,221)
Expenses					(310)		5	(305)
Net reinsurance					(2)			(2)
Technical profit on life insurance					118		5	123
Total investment return				1,170	2,978	22	12	4,182
Pension return tax					(395)			(395)
Transferred to technical result				(466)	(2,443)			(2,909)
<b>Investment return</b>				704	140	22	12	878
Other items				19	34	(43)	(53)	(43)
<b>Pre-tax profit / (loss)</b>				1,592	292	(21)	0	1,863
Taxation								(417)
<b>Profit for the year</b>								1,446
<b>2010</b>								
<b>Non-life insurance</b>								
Gross premiums earned	4,720	3,849	(21)	8,548				8,548
Technical interest*	30	28	(0)	58				58
Claims incurred	(3,585)	(2,892)	22	(6,456)			12	(6,444)
Expenses	(708)	(613)	2	(1,320)			22	(1,298)
Net reinsurance	12	(217)	0	(204)				(204)
Technical profit on non-life insurance	470	154	3	626			34	660
<b>Life insurance</b>								
Gross premiums written					3,395			3,395
Allocated investment return					2,233			2,233
Benefits and change in provisions					(5,113)			(5,113)
Expenses					(306)		5	(302)
Net reinsurance					0			0
Technical profit on life insurance					209		5	214
Total investment return				807	2,711	71	17	3,607
Pension return tax					(344)			(344)
Transferred to technical result				(362)	(2,233)			(2,595)
<b>Investment return</b>				445	134	71	17	668
Other items				20	41	(41)	(56)	(36)
<b>Pre-tax profit</b>				1,092	384	31	0	1,506
Taxation								(338)
<b>Profit for the year</b>								1,168
Impairment and amortisation:								
2009	62	53		115	1	0		116
2010	82	65		147	0	0		147

\* After discounting DKK 304m (2009: DKK 364m)

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

### Segment information balance sheet

(DKKm)	Non-life	Life	Parent etc.	Elimin- ated	Group
<b>2009</b>					
Intangible assets	729	0	0		729
Tangible assets	908	5	4		917
Investment properties	412	3,528	146		4,086
Loans to affiliated companies	300	0	0	(300)	0
Shares in associated companies	56	283	0		339
Loans to associated companies	0	460	0		460
Other financial investment assets	15,552	29,199	3		44,754
Investment assets related to unit-linked contracts	0	2,486	0		2,486
Reinsurers' share of provisions	624	32	0		656
Amounts due from affiliated companies	1,255	2	32	(1,289)	0
Other assets	958	881	288		2,127
<b>Total assets</b>	<b>20,794</b>	<b>36,876</b>	<b>473</b>	<b>(1,589)</b>	<b>56,554</b>
Subordinated loan capital	250	300	403	(300)	653
Total provisions for insurance and investment contracts	14,478	28,882	0		43,360
Amounts due to affiliated companies	4	953	332	(1,289)	0
Other liabilities	4,170	4,103	151		8,424
<b>Total liabilities</b>	<b>18,902</b>	<b>34,238</b>	<b>886</b>	<b>(1,589)</b>	<b>52,437</b>
Purchase of tangible and intangible assets	247	3	1		251
Results from associated companies	5	(16)	0		(11)
<b>2010</b>					
Intangible assets	768	0	0		768
Tangible assets	895	5	5		905
Investment properties	412	3,487	146		4,046
Loans to affiliated companies	300	0	0	(300)	0
Shares in associated companies	64	324	0		388
Loans to associated companies	0	762	0		762
Other financial investment assets	15,246	29,703	2		44,951
Investment assets related to unit-linked contracts	0	3,264	0		3,264
Reinsurers' share of provisions	732	36	0		768
Amounts due from affiliated companies	468	5	28	(502)	0
Other assets	949	674	67		1,690
<b>Total assets</b>	<b>19,835</b>	<b>38,262</b>	<b>247</b>	<b>(802)</b>	<b>57,542</b>
Subordinated loan capital	348	300	404	(300)	752
Total provisions for insurance and investment contracts	15,139	31,166	0		46,305
Amounts due to affiliated companies	8	338	155	(502)	0
Other liabilities	2,589	3,248	97		5,933
<b>Total liabilities</b>	<b>18,083</b>	<b>35,052</b>	<b>656</b>	<b>(802)</b>	<b>52,990</b>
Purchase of tangible and intangible assets	173	3	1		177
Results from associated companies	8	52	0		59

Technical provisions, net of reinsurance, of DKK 1,577m (2009: DKK 1,369m) relating to illness / accident insurance, administered by life insurance, are included in non-life insurance. As Topdanmark Livsforsikring has not allocated assets specifically to illness / accident insurance, assets supporting these liabilities are included in life insurance.

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)	2009	2010
<b>Note 1. Gross premiums earned - non-life</b>		
Gross premiums written	8,671	8,661
Change in gross provisions for unearned premiums	36	(39)
<b>Gross premiums earned</b>	<b>8,707</b>	<b>8,622</b>
Gross premiums earned, direct business, by location of the risk:		
Denmark	8,701	8,616
Other EU-countries	5	5
Other countries	1	1
	<b>8,707</b>	<b>8,622</b>

### Note 2. Technical interest, net of reinsurance - non-life insurance

Calculated interest	466	362
Discounting (annual amortisation) of technical provisions and reinsurers' share	(364)	(304)
<b>Technical interest, net of reinsurance</b>	<b>102</b>	<b>58</b>

### Note 3. Claims incurred, net of reinsurance - non-life insurance

Run-off profit:		
Gross business	231	258
Reinsurance ceded	(17)	(54)
Run-off profit, net of reinsurance	214	204

Run-off profit explained in the report.

Claims incurred include revaluation of inflation swaps hedging the inflation risk in workers' compensation and illness / accident insurance

	107	(44)
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### Note 4. Technical result - non-life

	2009	2010	2009	2010	2009	2010
	Illness and accident		Workers' compensation		Motor third-party liability	
Gross premiums written	1,164	1,176	891	748	880	850
Gross premiums earned	1,164	1,176	916	765	893	857
Gross claims incurred	(717)	(788)	(766)	(648)	(642)	(682)
Bonuses and rebates	(17)	(38)	(8)	(6)	(2)	(2)
Gross operating expenses	(130)	(136)	(125)	(118)	(117)	(118)
Net reinsurance	(8)	(13)	(5)	(10)	(3)	(1)
Technical interest, net of reinsurance	12	7	13	7	10	6
Technical profit / (loss)	304	207	25	(11)	139	59
Gross loss ratio (%)	62.8	69.4	84.6	85.6	72.2	80.0
Combined ratio (%)	75.0	82.7	99.1	102.7	85.9	94.1
Run-off profits / (losses)	91	75	19	(15)	116	74
Claims provisions, net of reinsurance	2,223	2,432	5,153	5,370	1,732	1,748
Number of claims incurred ('000)	20	21	12	11	24	27
Average value of claim (DKK '000)	41	41	65	60	32	28
Annual frequency of claims	21	22	198	181	40	47



# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKK m)

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

	2009	2010	2009	2010	2009	2010
	Motor own damage		Marine, aviation and transport		Fire and property Personal	
Gross premiums written	1,518	1,501	59	52	1,617	1,764
Gross premiums earned	1,515	1,502	57	52	1,606	1,715
Gross claims incurred	(870)	(961)	(13)	(21)	(1,513)	(1,465)
Bonuses and rebates	(3)	(4)	0	(0)	(3)	(3)
Gross operating expenses	(218)	(222)	(11)	(11)	(262)	(276)
Net reinsurance	(6)	(6)	(13)	(10)	(50)	36
Technical interest, net of reinsurance	17	10	1	0	21	13
Technical profit / (loss)	435	319	21	10	(201)	21
Gross loss ratio (%)	57.7	64.3	22.8	41.0	94.6	85.7
Combined ratio (%)	72.8	79.8	64.9	80.8	114.3	100.0
Run-off profits / (losses), net of reinsurance	(1)	(17)	10	7	(119)	30
Claims provisions, net of reinsurance	111	166	25	25	649	587
Number of claims incurred ('000)	102	93	1	1	117	116
Average value of claim (DKK '000)	9	10	27	30	12	13
Annual frequency of claims	207	194	103	112	164	166
	Fire and property SME		Change of ownership		Liability	
Gross premiums written	1,626	1,638	52	69	354	321
Gross premiums earned	1,641	1,642	73	64	359	321
Gross claims incurred	(1,144)	(1,188)	(83)	(84)	(226)	(259)
Bonuses and rebates	(9)	(8)	0	(0)	(2)	(1)
Gross operating expenses	(296)	(301)	(14)	(12)	(56)	(55)
Net reinsurance	(189)	(189)	0	0	1	(8)
Technical interest, net of reinsurance	15	9	4	1	3	2
Technical profit / (loss)	18	(35)	(20)	(31)	79	1
Gross loss ratio (%)	70.2	72.9	113.7	130.6	63.3	81.1
Combined ratio (%)	100.2	103.1	132.9	149.7	79.0	100.9
Run-off profits / (losses), net of reinsurance	44	36	1	(6)	14	(9)
Claims provisions, net of reinsurance	567	606	99	100	523	531
Number of claims incurred ('000)	32	30	3	3	7	7
Average value of claim (DKK '000)	38	42	29	24	32	36
Annual frequency of claims	174	167	51	57	87	86
			Other direct insurance		Total	
Gross premiums written			510	542	8,671	8,661
Gross premiums earned			483	528	8,707	8,622
Gross claims incurred			(350)	(348)	(6,324)	(6,444)
Bonuses and rebates			2	(10)	(42)	(74)
Gross operating expenses			(43)	(49)	(1,272)	(1,298)
Net reinsurance			7	(5)	(266)	(204)
Technical interest, net of reinsurance			6	3	102	58
Technical profit			105	119	905	660
Gross loss ratio (%)			73.3	68.0	73.1	75.5
Combined ratio (%)			81.4	78.8	91.1	93.3
Run-off profits, net of reinsurance			39	27	214	204
Claims provisions, net of reinsurance			144	133	11,226	11,697
Number of claims incurred ('000)			97	112	415	422
Average value of claim (DKK '000)			4	3	16	16
Annual frequency of claims			166	193	111	115

The annual frequency of claims 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 2010

## Notes to the accounts • Group

(DKKm)	2009	2010
<b>Note 5. Gross premiums written - life insurance</b>		
Individual policies	415	393
Policies which are part of a tenure	1,892	1,766
Group life	398	413
<b>Regular premiums</b>	<b>2,705</b>	<b>2,572</b>
Individual policies	87	98
Policies which are part of a tenure	416	724
<b>Single premiums</b>	<b>503</b>	<b>822</b>
<b>Gross premiums</b>	<b>3,208</b>	<b>3,395</b>
Gross premiums written, direct business, by the policyholders' location:		
Denmark	3,175	3,361
Other EU-countries	25	27
Other countries	8	7
	3,208	3,395
Proportion of gross premiums represented by premiums related to unit-linked contracts not eligible for bonus investment risk is taken by the policyholder.		
	570	887
All other gross premiums relate to bonus eligible insurance contracts.		
Number of policyholders at 31 December ('000):		
Individual policies	64	61
Policies which are part of a tenure	98	99
Group life	198	193
<b>Note 6. Claims and benefits paid - life insurance</b>		
Claims payable on death	130	124
Claims payable on maturity	288	245
Pension and annuity payments	512	538
Surrenders	325	1,753
Bonuses paid in cash	173	205
<b>Claims and benefits paid</b>	<b>1,428</b>	<b>2,866</b>
<b>Note 7. Change in life insurance provisions</b>		
Guaranteed benefits	302	2,804
Bonus potential on future premiums	874	(1,468)
Bonus potential on paid-up benefits	1,653	(436)
<b>Change in life insurance provisions</b>	<b>2,829</b>	<b>900</b>
<b>Note 8. Income from investment properties</b>		
Rental income	300	279
Operating expenses from properties rented out	(32)	(35)
Operating expenses from properties not rented out	(2)	(4)
Gross profit	266	241
Administrative expenses	(11)	(11)
<b>Income from investment properties</b>	<b>255</b>	<b>229</b>

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)	2009	2010
<b>Note 9. Revaluations</b>		
Held for trading:		
Shares	1,245	1,061
Unit trusts	0	3
Bonds	670	840
Derivatives	53	(622)
<b>Total held for trading</b>	<b>1,968</b>	<b>1,281</b>
Designated at fair value:		
Deposits with credit institutions	14	2
Investment assets related to unit-linked contracts:		
Shares	276	257
Unit trusts	148	113
Bonds	54	67
Derivatives	0	(54)
<b>Total designated at fair value</b>	<b>492</b>	<b>385</b>
Revaluations of financial assets and liabilities at fair value through profit and loss account	2,460	1,666
Of which revaluation of inflation swaps transferred to claims incurred	(107)	44
Investment properties	88	(3)
Provisions for unearned premiums	0	(2)
Provisions for claims and benefits	(279)	(231)
Reinsurers' share	10	2
Liquid funds	(13)	(6)
Other	0	62
<b>Revaluations</b>	<b>2,159</b>	<b>1,532</b>
<b>Note 10. Pension return tax</b>		
Percentage of return exempt from tax (%)	2.7	2.6
<b>Note 11. Other expenses</b>		
Holding expenses	31	32
Other	17	15
<b>Other expenses</b>	<b>48</b>	<b>47</b>
<b>Note 12. Taxation</b>		
Current tax	245	435
Change in deferred tax	120	(134)
Prior year adjustment	50	25
Tax in foreign companies	0	8
Tax for the year	415	335
Tax taken to shareholders' equity	2	3
<b>Taxation</b>	<b>417</b>	<b>338</b>
Calculated tax on profit for the year (25%)	466	376
Adjusted for the tax effect of:		
Returns on shares etc. not liable to tax	(69)	(44)
Non-deductible expenses / income not liable to tax	2	0
Prior year adjustment	18	5
	417	338
<b>Effective rate of taxation</b>	<b>22.4</b>	<b>22.5</b>

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)	2009	2010
<b>Note 13. Profit per share</b>		
Profit for the year	1,446	1,168
Average number of shares ('000)	15,688	15,131
Diluting impact of options ('000)	81	28
Average number of shares, diluted ('000)	15,769	15,159
Profit per share, DKK	92.2	77.2
Profit per share, diluted DKK	91.7	77.0

### Note 14. Intangible assets

	Goodwill	Completed IT developm't software	Developm't projects under con- struction	Total
<b>2009</b>				
Cost / valuation at 1 January	453	111	140	755
Purchased	0	4	0	165
Transferred	0	0	151	0
Cost / valuation at 31 December	453	115	291	920
Impairment and amortisation at 1 January	(12)	(84)	(49)	(145)
Amortisation for the year	0	(15)	(31)	(46)
Impairment and amortisation at 31 December	(12)	(99)	(80)	(191)
<b>Intangible assets 2009</b>	<b>441</b>	<b>16</b>	<b>211</b>	<b>729</b>
<b>2010</b>				
Cost / valuation at 1 January	453	115	290	920
Purchased	0	41	0	116
Transferred	0	0	21	0
Cost / valuation at 31 December	453	156	311	1,037
Impairment and amortisation at 1 January	(12)	(99)	(80)	(191)
Amortisation for the year	0	(18)	(60)	(78)
Impairment and amortisation at 31 December	(12)	(117)	(140)	(269)
<b>Intangible assets 2010</b>	<b>441</b>	<b>40</b>	<b>171</b>	<b>768</b>
Expected period of amortisation		3 years	5 years	

Completed development projects include the first phases of the Group's new claims system TopPro. Amortisation of intangible assets is primarily included in claims incurred and operating expenses.

Goodwill and development projects under construction are 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' expected technical result and a terminal value of the personal segment, to which goodwill and development projects under constructions relate. The pre-tax discount rate used is 12% (2009: 12%) corresponding to 9% (2009: 9%) post-tax.

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKK m)

### Note 15. Tangible assets

	Machinery & equip- ment	Owner- occupied properties	Total
<b>2009</b>			
Cost / revaluation at 1 January	521	737	1,258
Additions, including improvements	86	0	86
Disposals	(64)	0	(64)
Revaluations taken to shareholders' equity	0	3	3
Revaluations recorded in the profit and loss account	0	(1)	(1)
Cost / revaluation at 31 December	543	739	1,282
Impairment and amortisation at 1 January	(331)	0	(331)
Amortisation for the year	(69)	(1)	(70)
Transferred on revaluation	0	1	1
Reversal of total impairment and amortisation of assets sold or withdrawn from operations during the year	35	0	35
Impairment and amortisation at 31 December	(365)	0	(365)
<b>Tangible assets 2009</b>	<b>178</b>	<b>739</b>	<b>917</b>
<b>2010</b>			
Cost / revaluation at 1 January	542	739	1,282
Additions, including improvements	43	18	61
Disposals	(28)	0	(28)
Revaluations taken to shareholders' equity	0	1	1
Revaluations recorded in the profit and loss account	0	(1)	(1)
Cost / revaluation at 31 December	557	757	1,314
Impairment and amortisation at 1 January	(365)	0	(365)
Amortisation for the year	(68)	(1)	(69)
Transferred on revaluation	0	1	1
Reversal of total impairment and amortisation of assets sold or withdrawn from operations during the year	23	0	23
Impairment and amortisation at 31 December	(409)	0	(409)
<b>Tangible assets 2010</b>	<b>148</b>	<b>757</b>	<b>905</b>
Expected amortisation period	5 years	50 years	
		2009	2010
The valuation of the owner-occupied properties has been based on a required average return of:		5.7%	5.7%
Cost of revalued owner-occupied properties		618	635
Machinery and equipment includes assets under finance leases of		16	11

### Note 16. Investment properties

Fair value at 1 January	4,024	4,086
Additions - improvements	1	0
Disposals	(24)	(38)
Revaluation to fair value	85	(3)
<b>Investment properties</b>	<b>4,086</b>	<b>4,046</b>
Non-residential	3,162	3,160
Residential and part residential	924	886
	4,086	4,046
The valuation of the properties has been based on a required average return of:		
Non-residential	6.3%	6.1%
Residential and part residential	4.8%	4.6%

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)	<b>2009</b>	<b>2010</b>
<b>Note 17. Shares in associated companies</b>		
Book value at 1 January	352	339
Disposals	(2)	0
Share of profit / (loss)	(11)	59
Dividends received	0	(10)
<b>Shares in associated companies</b>	<b>339</b>	<b>388</b>

<b>2009</b>	Percentage share	Share- holders' equity	Assets	Liabi- lities	Income	Result
Bornholms Brandforsikring A/S, Rønne	27	72	174	102	92	5
Captives, Luxembourg	10-68	72	371	299	170	1
EjendomsSelskabet af Januar 2002 A/S, Copenhagen	25	498	812	314	30	(99)
Dantop Ejendomme ApS, Copenhagen	50	284	290	6	10	(10)
Det Tyske Ejendomsselskab P/S, Ballerup	50	32	805	773	-	27
<b>Total</b>		<b>958</b>	<b>2,452</b>	<b>1,494</b>	<b>302</b>	<b>(76)</b>

<b>2010</b>	Percentage share	Share- holders' equity	Assets	Liabi- lities	Income	Result
Bornholms Brandforsikring A/S, Rønne	27	90	188	98	96	17
Captives, Luxembourg	10-68	75	367	292	168	(1)
EjendomsSelskabet af Januar 2002 A/S, Copenhagen	25	531	845	315	30	32
Dantop Ejendomme ApS, Copenhagen	50	276	281	6	9	12
Det Tyske Ejendomsselskab P/S, Ballerup	50	107	1,484	1,377	-	75
<b>Total</b>		<b>1,079</b>	<b>3,166</b>	<b>2,087</b>	<b>304</b>	<b>136</b>

In spite of a shareholding of up to 68% the Group has a substantial but not a controlling influence.

Bornholms Brandforsikring A/S has been recognised on the basis of the most recent financial information at 30 September. The accounting information is according to the companies' most recent annual reports.

### Note 18. Loans to associated companies

Average effective interest rate	0.8%	0.3%
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### Note 19. Investment assets related to unit-linked contracts

Shares	1,226	1,649
Unit trusts	567	774
Bonds	693	838
Derivatives	0	4
<b>Investment assets related to unit-linked contracts</b>	<b>2,486</b>	<b>3,264</b>

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

### Note 20. Reinsurers' share of the provisions for unearned premiums

Reinsurers' share at 1 January	85	73
Reinsurance ceded	624	644
Reinsurance earned	(652)	(651)
Other changes	16	0
<b>Reinsurers' share of the provisions for unearned premiums at 31 December</b>	<b>73</b>	<b>65</b>

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)	2009	2010
<b>Note 21. Reinsurers' share of the provisions for claims</b>		
<b>Non-life insurance</b>		
Reinsurers' share at 1 January	534	551
Reimbursement of claims relating to previous years	(202)	(163)
Change in expected income relating to previous years	(17)	(54)
Reimbursement of claims relating to this year	(119)	(98)
Expected income relating to this year	333	421
Discounting effect (annual amortisation)	12	7
Revaluation	10	2
<b>Reinsurers' share of the provisions for claims at 31 December</b>	<b>551</b>	<b>667</b>

<b>Note 22. Deferred tax</b>	2008	2009	2010
Bonds etc.	(120)	(170)	(0)
Properties	(51)	(57)	(62)
Machinery and equipment	(7)	(38)	(35)
Liabilities provided	13	12	11
Provisions	(45)	(34)	0
Restriction on deductability	189	98	11
Restriction on deductible interest	43	0	0
Deferred pension return tax	(116)	(28)	0
Other	5	8	1
<b>Deferred tax</b>	<b>(89)</b>	<b>(209)</b>	<b>(75)</b>
Recognised as:			
Deferred tax assets	73	40	19
Deferred tax liabilities	(162)	(249)	(94)
Changes relating to the year		(120)	134
Non-capitalised balance of equity losses that can be carried forward		576	408

### Note 23. Subordinated loan capital

In 2007 Topdanmark A/S issued EUR 55m of hybrid core capital.

This bullet loan has no final maturity date but if permitted by the DFSA, the debtor can give notice of termination as from 15 September 2017 at par. The loan carries a floating interest rate determined as EURIBOR 3 months + 1.90%, currently 2.926% (2009: 2.614%), and as from 15 September 2017 EURIBOR 3 months + 2.90%.

Share of loan included in capital base	403	404
Interest charges	15	11

In 2010 Topdanmark Forsikring A/S issued a subordinated loan of DKK 350m. The costs of raising the loan were DKK 3m.

This bullet loan expires on 18 June 2018 but if permitted by the DFSA, the debtor can give notice of termination as from 18 June 2015. The loan carries an interest rate of 7.15% p.a. and in the period from and including 18 June 2015 up to but excluding 18 June 2018 the interest rate is CIBOR 3 months + 6.25%.

Share of loan included in capital base	241
Interest charges	13

In 2010 the Company redeemed a bullet loan of DKK 250m.

At 31 December 2009 the rate of interest was 2.548%, interest charged for the year was DKK 10m, and DKK 235m was included in the capital base.

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKK m)	2009	2010
<b>Note 24. Provisions for unearned premiums</b>		
Provisions for unearned premiums at 1 January	2,637	2,601
Gross premiums written	8,671	8,661
Premiums earned	(8,707)	(8,622)
Discounting	0	4
Revaluation	0	2
<b>Provisions for unearned premiums at 31 December</b>	<b>2,601</b>	<b>2,646</b>

<b>Note 25. Life insurance provisions</b>		
Life insurance provisions at 1 January	22,962	25,791
Accumulated revaluation at 1 January	732	(392)
Retrospective provisions at 1 January	23,694	25,399
Gross premiums written	2,638	2,508
Accrued interest	638	739
Claims and benefits	(1,353)	(2,623)
Expense loading inclusive of expense bonus	(199)	(204)
Risk gain after allocating policyholders' risk bonus	(77)	(58)
Other	58	60
Retrospective provisions at 31 December	25,399	25,821
Accumulated revaluation at 31 December	392	870
Life insurance provisions at 31 December	25,791	26,692
Guaranteed benefits	13,797	16,601
Bonus potential on future premiums	7,298	5,831
Bonus potential on paid-up benefits	4,696	4,260
<b>Life insurance provisions</b>	<b>25,791</b>	<b>26,692</b>

Reduction in bonus potential on paid-up benefits when allocating "the insurance technical result before bonus contribution" in Topdanmark Livsforsikring A/S	185	0
Increase in guaranteed benefits as life insurance provisions must not be lower than the guaranteed surrender value	77	72

The increases have been calculated excluding surrender probabilities.

Portfolios analysed by capitalisation rates	Capitalisation rate	Guaranteed benefits	Bonus potential on future premiums	Bonus potential on paid-up benefits
<b>2009</b>				
Topdanmark Livsforsikring A/S	0%	161	0	0
	1%	37	0	0
	2%	1,680	6,437	3,684
	3%	2,887	578	1,022
	3.49%	17	0	2
Bonus potential utilised on paid-up benefits	2%	0	0	(134)
Bonus potential utilised on paid-up benefits	3%	0	0	(51)
		4,782	7,015	4,523
Topdanmark Livsforsikring V A/S	0%	30	0	0
	2%	362	6	21
	3%	35	2	3
	5/3/2 or above	7,819	275	149
		8,246	283	173
Group Life		180	0	0
U74-life annuities		562	0	0
Other		27	0	0
<b>Total 2009</b>		<b>13,797</b>	<b>7,298</b>	<b>4,696</b>



# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)

### Note 25. Life insurance provisions - continued

Portfolios analysed by capitalisation rates	Capitalisation rate	Guaranteed benefits	Bonus potential on future premiums	Bonus potential on paid-up benefits
<b>2010</b>				
Topdanmark Livsforsikring A/S	0%	123	0	0
	1%	37	0	0
	2%	4,048	5,171	3,292
	3%	3,162	445	839
	3.49%	18	0	1
		7,388	5,616	4,132
Topdanmark Livsforsikring V A/S	0%	27	0	0
	1%	3	0	0
	2%	437	5	19
	3%	41	1	3
	5/3/2 or above	7,893	209	106
		8,400	215	128
Group Life		240	0	0
U74-life annuities		531	0	0
Other		43	0	0
<b>Total 2010</b>		16,601	5,831	4,260

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 less 5%.

### Note 26. Provisions for claims

	2009	2010
<b>Non-life insurance:</b>		
<b>Gross</b>		
Provisions at 1 January	10,940	11,777
Claims paid relating to previous years	(3,045)	(3,015)
Change in expected claims payments relating to previous years	(231)	(258)
Claims paid relating to this year	(3,205)	(3,336)
Expected claims payments relating to this year	6,556	6,702
Inflation swaps	107	(44)
Discounting (annual amortisation)	376	307
Revaluation	279	231
Provisions at 31 December	11,777	12,364
<b>Net of reinsurance</b>		
Provisions at 1 January	10,406	11,226
Claims paid relating to previous years	(2,843)	(2,852)
Change in expected claims payments relating to previous years	(214)	(204)
Claims paid relating to this year	(3,086)	(3,239)
Expected claims payments relating to this year	6,223	6,281
Inflation swaps	107	(44)
Discounting (annual amortisation)	364	300
Revaluation	269	229
Non-life insurance, net of reinsurance, at 31 December	11,226	11,697
Life insurance	86	95
<b>Provisions for claims, net of reinsurance</b>	11,312	11,792
Provisions for workers' compensation insurance, net of reinsurance	5,153	5,370
Average period of settlement	7 years	7 years
Illness / accident insurance, net of reinsurance, administered by the life insurance business	1,314	1,495
Average period of settlement	14 years	14 years

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKK m)

### Note 26. Provisions for claims - continued

#### Claims liabilities analysed by claims year

Gross	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	Total
End of year	6,814	6,730	6,559	6,400	6,122	7,079	5,888	4,831	4,769	4,436	
1 year later		6,526	6,753	6,426	5,934	6,776	5,677	4,946	4,798	4,381	
2 years later			6,769	6,473	5,778	6,612	5,574	4,906	4,870	4,407	
3 years later				6,492	5,682	6,538	5,611	4,982	5,064	4,491	
4 years later					5,718	6,465	5,652	4,987	5,144	4,637	
5 years later						6,499	5,638	4,994	5,154	4,687	
6 years later							5,656	4,933	5,149	4,664	
7 years later								4,986	5,153	4,686	
8 years later									5,170	4,686	
9 years later										4,715	59,344
Less paid incl. inflation swaps	3,336	4,644	4,995	5,187	4,857	5,849	5,077	4,636	4,909	4,486	47,976
Provisions before discounting at 31 December	3,478	1,882	1,774	1,305	861	650	578	350	261	229	11,368
Discounting	(80)	(46)	(27)	(15)	(8)	(6)	(4)	(1)	(1)	(0)	(187)
	3,397	1,836	1,747	1,291	853	644	575	349	261	229	11,181
Provisions relating to previous years at 31 December											1,183
Gross provisions at 31 December 2010 - non-life insurance											12,364

#### Net of reinsurance

End of year	6,385	6,389	6,227	6,073	5,813	5,733	5,316	4,508	4,326	3,957	
1 year later		6,191	6,429	6,096	5,651	5,455	5,057	4,611	4,362	3,901	
2 years later			6,467	6,148	5,505	5,321	4,936	4,561	4,426	3,943	
3 years later				6,168	5,407	5,252	4,949	4,634	4,587	4,025	
4 years later					5,451	5,192	4,983	4,638	4,659	4,176	
5 years later						5,226	4,962	4,643	4,662	4,227	
6 years later							4,981	4,584	4,655	4,205	
7 years later								4,635	4,657	4,225	
8 years later									4,687	4,223	
9 years later										4,252	54,444
Less paid incl. inflation swaps	3,239	4,444	4,750	4,886	4,610	4,609	4,458	4,289	4,430	4,028	43,743
Provisions before discounting at 31 December	3,146	1,746	1,717	1,282	841	617	523	347	257	224	10,701
Discounting	(74)	(43)	(25)	(14)	(7)	(5)	(3)	(1)	(1)	(0)	(173)
	3,072	1,704	1,692	1,268	834	613	520	346	257	223	10,528
Provisions relating to previous years at 31 December											1,169
Provisions, net of reinsurance, at 31 December 2010 - non-life insurance											11,697

#### Reconciliation:

Provisions for claims											12,459
Less amount relating to life insurance											(95)
Less reinsurers' share of provisions											(667)
Provisions, net of reinsurance, at 31 December 2010 - non-life insurance											11,697

#### Composition of expected payments, net of reinsurance:

Originally calculated claims payment	6,380	6,361	6,148	6,068	5,807	5,714	5,264	4,496	4,303	3,949	54,491
Loss / (gain) on settlement		(264)	98	(130)	(530)	(629)	(482)	(124)	203	115	(1,745)
Claims handling etc. at 1 January 2004								127	37	27	191
Discounting / revaluation workers' compensation insurance and illness / accident	5	94	221	230	174	142	200	136	144	160	1,507
	6,385	6,191	6,467	6,168	5,451	5,226	4,981	4,635	4,687	4,252	54,444

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKK m)

### Note 26. 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 2001. Significant proportions 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.

The claims handling expenses for the claims years 2001-2003 have been included on an on-going basis at the amounts provided in the opening balance sheet at 1 January 2004 on the change to IFRS.

### Note 27. Provisions for unit-linked contracts

	Insurance contracts	Investment contracts	Total
<b>2009</b>			
Gross provisions at 1 January	1,398	422	1,820
Retrospective provisions at 1 January	1,398	422	1,820
Gross premiums	570	163	733
Return	286	128	414
Claims and benefits	(70)	(13)	(83)
Expense loading inclusive of expense bonus	(26)	(7)	(33)
Risk gain after addition of risk bonus	(1)	0	(1)
Premiums waived transferred to life insurance provisions	(12)	0	(12)
Other	(17)	0	(17)
Retrospective provisions at 31 December	2,128	693	2,821
<b>Provisions for unit-linked contracts 2009</b>	<b>2,128</b>	<b>693</b>	<b>2,821</b>
<b>2010</b>			
Gross provisions at 1 January	2,128	693	2,821
Retrospective provisions at 1 January	2,128	693	2,821
Gross premiums	887	123	1,010
Return	279	107	385
Claims and benefits	(253)	(86)	(338)
Expense loading inclusive of expense bonus	(32)	(8)	(39)
Risk gain after addition of risk bonus	1	0	1
Premiums waived transferred to life insurance provisions	(14)	0	(14)
Retrospective provisions at 31 December	2,997	829	3,826
<b>Provisions for unit-linked contracts 2010</b>	<b>2,997</b>	<b>829</b>	<b>3,826</b>

The Group has 3,660 customers with investment contracts (2009: 3,136)

The contracts written do not have guarantees.

### Note 28. Pensions and similar commitments

	2009	2010
Retirement benefits	22	18
Anniversaries	21	21
Other pension commitments	3	3
<b>Pensions and similar commitments</b>	<b>46</b>	<b>42</b>

Other pension commitments cover former senior executives and their widows. The provision has been calculated on the basis of G82 and subsequently strengthened.

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)	2009	2010
<b>Note 29. Expenses</b>		
Expenses by their nature:		
Commission - non-life insurance	257	249
Commission - life insurance	66	61
Staff costs (excl. commission)	1,456	1,555
Other staff costs	119	111
Premises costs	176	173
IT operations and maintenance	130	132
Impairment and amortisation	116	147
Other expenses	107	112
<b>Total expenses</b>	<b>2,427</b>	<b>2,541</b>
These expenses have been disclosed in:		
Non-life insurance:		
Acquisition costs	738	748
Administrative expenses	534	550
Claims paid (claims handling and assessment)	712	803
	1,984	2,101
Life insurance:		
Acquisition costs	125	120
Administrative expenses	180	181
	305	302
Income from investment properties (administration and operation)	45	50
Expenses on investment business	45	41
Other expenses	48	47
<b>Total expenses</b>	<b>2,427</b>	<b>2,541</b>

### Note 30. Staff costs

Salaries	1,174	1,271
Pensions	205	210
Social security costs	38	36
Payroll tax	129	137
Share options	11	12
Employee shares and employee bonds	62	45
	1,619	1,710
Average number of full-time employees	2,523	2,472

### Board of Directors

Directors' fees for 2010 were DKK 4,275,000 (2009: DKK 3,781,000) of which DKK 225,000 (2009: 206,000) related to tasks in subsidiaries.

### Board of Management

Salaries and emoluments	11	11
Employee shares and employee bonds	1	1
Share options	4	4
	16	16

### Share options

Topdanmark's share option scheme is for its Board of Management and senior executives. The strike price has been fixed at 110% of the market price on 31 December the prior year. The options can be exercised 3 - 5 years subsequent to the granting.

The scheme is settled by shares (equity instruments).

The table below is categorised by the option holders' current standing.

# Topdanmark's Annual Report 2010

## Notes to the account • Group

(DKKm)

### Note 30. Staff costs - continued

Total number of options ('000)	Strike price	Board of Directors	Board of Management	Senior executives	Resigned	Total
<b>2009</b>						
Outstanding at 1 January		56	179	494	171	900
Granted	762	0	37	113	0	150
Transferred		0	(45)	(69)	114	0
Exercised		(38)	(38)	(114)	(92)	(282)
Lost		0	0	0	(1)	(1)
Outstanding at 31 December 2009		18	133	424	192	767
Average strike price at 31 December 2009		608	756	757	688	
<b>2010</b>						
Outstanding at 1 January		18	133	424	192	767
Granted	776	0	37	113	0	150
Transferred		0	0	(29)	29	0
Exercised		(18)	(15)	(79)	(69)	(180)
Outstanding at 31 December 2010		0	155	429	152	737
Average strike price at 31 December 2010			787	805	789	
Per granting:	Exercise period					
2006	- March 2011	608	0	31	55	140
2007	- March 2012	1,033	0	26	81	148
2008	March 2011 - March 2013	802	0	28	88	149
2009	March 2012 - March 2014	762	0	33	98	150
2010	March 2013 - March 2015	776	0	37	108	150
Outstanding at 31 December 2010		0	155	429	152	737
Average price exercised option 2009		370	478	376	309	396
Average price exercised option 2010		518	608	478	503	522
Fair value of granting 2009			4	11		15
Fair value of granting 2010			4	12		16
Fair value at 31 December 2009			2	11	20	70
Fair value at 31 December 2010			0	12	31	54

The fair value of the granting for the year has been calculated using the Black and Scholes model assuming a price of DKK 705.72 (2009: DKK 692.31) per share, an interest rate corresponding to the zero coupon rate based on the swap curve on 31 December the previous year, future volatility of 22% (2009: 22%) p.a., corporate tax rate of 25% (2009: 25%) and a pattern of exercise similar to Topdanmark's previous granting of share options. The volatility has been calculated on the basis of previous years' volatility, which continues to be Management's best estimate of future volatility.

#### Employee shares

In 2010 Topdanmark issued 83,798 (2009: 47,395) employee shares offset by a reduction in their respective cash salaries. The costs have been calculated to be DKK 46m (2009: DKK 26m) in accordance with IFRS 2.

#### Employee bonds

In 2009 Topdanmark issued employee bonds with a nominal value of DKK 29m offset by a reduction in their respective cash salaries. The market value, including state tax, was DKK 37m. No employee shares were issued in 2010.

#### Severance pay

Severance pay is described in Management's Review in "Remunerations structure".

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKK m)	2009	2010
<b>Note 31. Auditors' fee</b>		
Fee to the auditors elected by the annual general meeting		
Deloitte:		
Fee for statutory audit of the annual accounts	5	5
Fee for other assurance engagements	0	0
Fee for services, other than audit work	0	0
	5	5
The Group has an internal audit department which carries out most of the audit work.		

## Note 32. Financial assets

### Financial assets at fair value where the revaluation is taken to profit and loss account

Held for trading:		
Shares	5,445	6,309
Bonds	31,820	36,833
Loans guaranteed by mortgages and other loans	20	13
Derivatives	639	785
	37,924	43,939
Designated at fair value:		
Deposits with credit institutions	6,830	1,011
Investment assets related to unit-linked contracts	2,486	3,264
	9,316	4,276
Total financial assets at fair value where the revaluation is taken to profit and loss account	47,240	48,215

### Loans and receivables at amortised cost

Loans to associated companies	460	762
Amounts due from policyholders	407	417
Amounts due from insurance companies	193	184
Other debtors	100	101
Liquid funds	259	194
Other	236	67
	1,655	1,725
<b>Total financial assets</b>	<b>48,895</b>	<b>49,940</b>

The book value of loans and receivables at amortised cost approximately corresponds to fair value.

(DKK bn)

2009	Quoted prices	Inputs based on observable market data	Inputs not based on observable market data	Total
<b>Financial assets recorded at fair value</b>				
<b>Held for trading:</b>				
Non-life insurance:				
Shares	0.8	0.4	0.0	1.2
Government bonds	0.4			0.4
Mortgage bonds	8.0	2.1		10.1
CDOs	0.0	0.5	0.4	0.9
Credits*	0.4	0.1	0.1	0.6
Other		0.1		0.1
Bonds	8.8	2.8	0.5	12.1
Loans guaranteed by mortgages and other loans		0.0		0.0
Derivatives		0.0		0.0
Life insurance:				
Shares	3.4	0.9		4.3
Government bonds	0.2			0.2
Mortgage bonds	12.7	3.1		15.8
CDOs		0.7	0.9	1.6
Credits*	1.0	0.9	0.1	2.0
Other		0.1		0.1
Bonds	13.9	4.8	1.0	19.7
Derivatives		0.6		0.6

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKbn)

### Note 32. Financial assets - continued

2009	Quoted prices	Inputs based on observable market data	Inputs not based on observable market data	Total
<b>Financial assets recorded at fair value</b>				
<b>Designated at fair value:</b>				
Non-life insurance:				
Deposits with credit institutions		2.3		2.3
Life insurance:				
Deposits with credit institutions		4.5		4.5
Shares	1.2	0.0		1.2
Unit trusts	0.6			0.6
Bonds	0.5	0.1	0.1	0.7
Derivatives		0.0		0.0
Investment assets related to unit-linked contracts	2.3	0.1	0.1	2.5
<b>Total financial assets at fair value</b>	<b>29.2</b>	<b>16.4</b>	<b>1.6</b>	<b>47.2</b>
<b>2010</b>				
<b>Financial assets recorded at fair value</b>				
<b>Held for trading:</b>				
Non-life insurance:				
Shares	0.8	0.3		1.1
Government bonds	0.5			0.5
Mortgage bonds	9.6	2.2		11.9
CDOs		0.6	0.2	0.7
Credits*	0.3	0.2	0.0	0.5
Other		0.1		0.1
<b>Bonds</b>	<b>10.4</b>	<b>3.1</b>	<b>0.2</b>	<b>13.7</b>
Loans guaranteed by mortgages and other loans		0.0		0.0
Derivatives		0.0		0.0
Life insurance:				
Shares	4.2	1.0		5.2
Government bonds	0.5	0.0		0.5
Mortgage bonds	14.8	4.3		19.2
CDOs		0.9	0.3	1.2
Credits*	1.1	1.2	0.0	2.2
Other		0.1		0.1
<b>Bonds</b>	<b>16.4</b>	<b>6.5</b>	<b>0.3</b>	<b>23.2</b>
Derivatives		0.8		0.8
<b>Designated at fair value:</b>				
Non-life insurance:				
Deposits with credit institutions		0.4		0.4
Life insurance:				
Deposits with credit institutions		0.6		0.6
Shares	1.6	0.0	0.0	1.6
Unit trusts	0.8	0.0	0.0	0.8
Bonds	0.4	0.3	0.1	0.8
Derivatives	0.0	0.0	0.0	0.0
Investment assets related to unit-linked contracts	2.8	0.4	0.1	3.3
<b>Total financial assets at fair value</b>	<b>34.6</b>	<b>13.0</b>	<b>0.6</b>	<b>48.2</b>

\*) Assets valued in life insurance by reference to inputs not based on observable market data include an exposure of DKK 0.2bn hedged by a total return swap with non-life insurance.

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKK m)

### Note 32. Financial assets - continued

#### Measurement of fair value

The calculation at fair value is based on the listed prices of transactions in active markets. If there is an active market for listed bonds, the measuring is generally 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 listed securities where the closing price does not reflect the fair value.

If there is no active market for the financial instrument, as far as possible, valuations methods are used where the input is based on publicly available market information. Depending on the nature of the asset or liability, the calculation is based on underlying parameters such as interest and foreign exchange rates, volatility or comparison with the market prices of corresponding instruments.

In those cases where, in Topdanmark's opinion, it is not possible to base the valuation on publicly available market data, it has calculated a value based on assumptions which are generally the same for all loans and credit bonds whether they are owned directly or as an underlying asset in CDOs.

#### Assumptions:

Proportion of defaulted loans and credit bonds:	Recovery:		
Q1 2011 - Q3 2011	10% p.a.	Senior debt	60%
Q4 2011 - Q1 2012	5% p.a.	Subordinated debt, mezz	Q1 2011 20%
Thereafter	3% p.a.	Thereafter	30%

The discount rate is 10% irrespective of the currency.

The portfolio is screened for assets where the risk of a loss seems to be high as compared to the model values. These assets are recorded at a lower value at Topdanmark's estimate. In a few cases where the assumptions obviously result in too low a value, Topdanmark may also increase the value.

A sensitivity analysis of the valuation is illustrated by comparing the current valuation with a valuation based on repeating the original 2008 scenario, which gives recovery as described above in the standard assumptions and the following assumptions for default:

Q1 2011 - Q4 2013	10% p.a.
Q1 2014 - Q4 2014	5% p.a.
Thereafter	3% p.a.

Valuation based on this scenario will lead to a loss of about DKK 14m in the Group excluding life insurance (in 2009 the sensitivity analysis was based on another method and therefore not directly comparable).

(DKK bn)	2009	2010
Bonds measured by reference to inputs not based on observable market data		
Portfolio at 1 January	3.2	1.6
Gains and losses	(0.1)	0.3
Repayments and redemptions	(0.1)	(0.0)
Transfers to another category	(1.4)	(1.3)
Portfolio at 31 December	1.6	0.6
Gains and losses on bonds included in revaluations held at 31 December	(0.2)	0.0

Group companies have agreed to lend equities against security.

The accounting value of lent equities is DKK 2,014m (2009: DKK 1,749m).

The fair value of bonds received as security for the loan is DKK 3,097m (2009: DKK 1,959m).

### Note 33. Financial liabilities

#### Financial liabilities measured at fair value through profit and loss

Held for trading:

Derivatives	115	167
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Designated at fair value:

Amounts due to credit institutions	6,575	3,840
Total financial liabilities measured at fair value through profit and loss	6,690	4,007



# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)	2009	2010
<b>Note 33. Financial liabilities - continued</b>		
<b>Financial liabilities measured at amortised cost</b>		
Subordinated loan capital	653	752
Deposits with ceding undertakings	68	90
Creditors arising out of direct insurance operations	104	69
Creditors arising out of reinsurance operations	19	59
Bond loans	70	71
Amounts due to associated companies	0	11
Current tax liabilities	0	5
Other creditors	743	1,052
<b>Total financial liabilities measured at amortised cost</b>	<b>1,657</b>	<b>2,108</b>
<b>Total financial liabilities</b>	<b>8,347</b>	<b>6,115</b>
Book value of financial liabilities at amortised cost approximately corresponds to fair value, except for hybrid core capital (DKK 404m) with an assumed value significantly lower than nominal value.		
Financial liabilities payable after 5 years or more:		
Subordinated loan capital	403	404
Bond loans	26	0
Amounts due to credit institutions	6	6
<b>Financial liabilities recorded at fair value</b>		
	Observable inputs	
<b>Held for trading:</b>		
Derivatives:		
Group excl. life	31	78
Life insurance	84	89
<b>Total derivatives</b>	<b>115</b>	<b>167</b>
<b>Designated at fair value:</b>		
Amounts due to credit institutions:		
Group excl. life	2,970	1,413
Life insurance	3,605	2,427
<b>Total amounts due to credit institutions</b>	<b>6,575</b>	<b>3,840</b>
<b>Total financial liabilities recorded at fair value</b>	<b>6,690</b>	<b>4,007</b>

## Note 34. Settlement of assets and liabilities

Except for tangible and intangible assets, investment properties, investments in associated companies and CDOs most other assets are expected to be settled within a year.

See Management's Review on CDOs for details of the expected settlement of CDOs.

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

Subordinated loan capital	653	752
Provisions for unearned premiums	149	157
Guaranteed benefits	12,567	14,870
Bonus potential on future premiums	6,737	5,244
Bonus potential on paid-up benefits	4,334	3,830
Provisions for claims and benefits	8,435	9,334
Collective bonus potential	184	554
Provisions for unit-linked contracts	2,544	3,426
Deferred tax on security funds	348	348
	<b>35,951</b>	<b>38,516</b>

Notes to the accounts • Group

(DKKm)

**Note 35. Analysis of assets and their return - life insurance**

	Book value		Net investment	Return (%)*
	1 January	31 December		
Land and buildings, directly owned	3,528	3,487	(37)	5.7
Limited property companies	743	1,087	292	5.4
<b>Total land and buildings</b>	<b>4,271</b>	<b>4,574</b>	<b>255</b>	<b>5.6</b>
Listed Danish shares	1,357	1,554	(182)	25.4
Unlisted Danish shares	85	63	(35)	29.8
Listed foreign shares	2,351	2,938	207	9.7
Unlisted foreign shares	524	608	(73)	15.3
<b>Total other shares</b>	<b>4,317</b>	<b>5,162</b>	<b>(83)</b>	<b>14.9</b>
Government bonds (Zone A)	250	520	263	4.8
Mortgage bonds	14,346	17,819	3,276	4.9
Index-linked bonds	1,460	1,328	(187)	6.4
Credit bonds investment grade	1,841	1,290	(427)	6.7
Credit bonds non-investment grade and emerging market bonds	1,875	2,211	(104)	25.2
Other bonds	4	0	(4)	2.0
<b>Total bonds</b>	<b>19,776</b>	<b>23,168</b>	<b>2,817</b>	<b>6.5</b>
Other financial investment assets	4,622	727	(3,864)	0.6
Derivatives to hedge against the net change in assets and liabilities**	589	720	0	

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

\*\* Life 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 shares is adjusted by means of derivatives.

After including derivatives the exposure in foreign shares on 31 December 2010 was DKK 3,864m (2009: DKK 3,494m).

**Note 36. Shares analysed by industry and region(%) - life insurance**

2010	Denmark	Other Europe	North America	Japan	Other Far East	Other countries	Not analysed	Total
Energy	0	2	4	0	0	0	0	6
Materials	1	3	1	0	0	0	0	5
Industrial	8	3	3	1	0	0	0	15
Consumer durables	1	2	2	1	0	0	0	6
Consumer goods	4	2	3	0	0	0	0	9
Health care	7	2	2	0	0	0	0	12
Financial	8	4	3	1	0	0	0	16
IT	0	1	5	0	1	0	0	7
Tele-communication	1	2	1	0	0	0	0	3
Supply	0	1	0	0	0	0	0	1
Not analysed	1	3	0	0	0	5	12	20
<b>Total</b>	<b>31</b>	<b>24</b>	<b>24</b>	<b>3</b>	<b>1</b>	<b>5</b>	<b>12</b>	<b>100</b>

A list of the shares held by the companies can be ordered from the company.

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)

### Note 37. Profit on life insurance

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

A risk allowance and share of the expense result relating to acquisition are only transferred to the shareholders' equity to the extent to which the amounts can be covered by the "insurance technical result" net of the investment return.

The risk allowance represents 0.5% in Life I and 0.65% in Life V of the average retrospective provisions.

	2009			2010		
	Life I	Life V	Total	Life I	Life V	Total
Insurance technical result	1,682	391	2,073	1,181	441	1,622
Allocated to:						
Policyholders	1,485	166	1,651	737	339	1,077
Illness and accident	117		117	146		146
Shareholders' equity	80	225	305	298	101	399
Composition of result:						
Investment return	42	60	102	40	50	91
Risk allowance	79	52	131	85	51	136
Share of expense result	(6)	0	(6)	(6)	(0)	(6)
Transferred to / from shadow account	(73)	113	40	144	0	144
Pre-tax profil Topdanmark Link	38		38	33		33
Pre-tax profil Nykredit Livsforsikring	-		-	3		3
Share of insurance technical result taken to shareholders' equity	80	225	305	298	101	399
Financing costs Life Holding			(8)			1
Other			(5)			(17)
<b>Profit on life insurance</b>			<b>292</b>			<b>384</b>

	2009			2010		
	Life I	Life V	Total	Life I	Life V	Total
Shadow account at 1 January	60	104	164	137	0	137
Return	4	9	13	7	0	7
Transferred / used	73	(113)	(40)	(144)	0	(144)
Shadow account at 31 December	137	0	137	0	0	0

### Note 38. Exposure information

2009 2010

#### Non-life insurance

Event	Effect on shareholders' equity	
0.7-1.0 pp increase in interest rates	(53)	(86)
0.7-1.0 pp decline in interest rates	27	59
12% decline in equity prices	(133)	(140)
8% decline in property prices	(100)	(94)
Exchange rate exposure (VaR 99.0%)	(16)	(13)
Loss on counterparties of 8%	(217)	(197)

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKK m)

### Note 38. Exposure information - continued

#### Life insurance

2009 Event	Min. effect on capital base	Max. effect on collective bonus potential	Max. effect on bonus potential on benefits on paid-up policies before change in bonus poten- tial used for such benefits	Max. effect on bonus potential used for benefits on paid-up policies
0.7-1.0 pp increase in interest rates	(41)	(78)	1,018	(133)
0.7-1.0 pp decline in interest rates	40	112	(1,068)	111
12% decline in equity prices	(1)	(100)	0	(349)
8% decline in property prices	(39)	(82)	0	(158)
Exchange rate exposure (VaR 99.0%)	(1)	(1)	0	(6)
Loss on counterparties of 8%	(35)	(127)	0	(174)
10% decline in mortality intensity	(3)	(67)	(3)	(19)
10% increase in mortality intensity	3	61	3	17
10% increase in disability intensity	0	(13)	(8)	(3)

#### 2010

Event				
0.7-1.0 pp increase in interest rates	(58)	(183)	1,072	(25)
0.7-1.0 pp decline in interest rates	57	174	(1,143)	0
12% decline in equity prices	(0)	(232)	0	(304)
8% decline in property prices	(51)	(195)	0	(52)
Exchange rate exposure (VaR 99.0%)	(2)	(9)	0	0
Loss on counterparties of 8%	(43)	(232)	0	(52)
10% decline in mortality intensity	(4)	(92)	(7)	0
10% increase in mortality intensity	3	(83)	6	0
10% increase in disability intensity	0	(17)	(7)	0

### Note 39. Leasing

Finance lease for mainframe CPU:	Minimum lease payment	Interest	Present value	Book liabilities
<b>2009</b>				
0-1 years	6	0	6	
1-5 years	10	0	10	
	16	0	16	16

#### 2010

0-1 years	5	0	5	
1-5 years	7	0	7	
	12	0	12	11

Operational finance leases:

#### 2009

0-1 years	20	0	20
1-5 years	16	1	15
	36	1	35

#### 2010

0-1 years	55	0	54
1-5 years	34	1	33
	89	1	87

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)	2009	2010
<b>Note 40. Solvency</b>		
Shareholders' equity according to Danish rules *	4,465	4,900
Deferred tax assets	(1)	(1)
Hybrid core capital	403	404
Capital adequacy requirements for insurance companies – 50%	(1,535)	(1,549)
<b>Core capital</b>	<b>3,332</b>	<b>3,754</b>
Capital adequacy requirements for insurance companies – 50%	(1,535)	(1,549)
<b>Capital base</b>	<b>1,797</b>	<b>2,205</b>
Weighted items	2,531	2,935
Core capital as a percentage of weighted items	131.6	127.9
Solvency ratio	71.0	75.1
Solvency requirement (%)	8.0	8.0
* Before provisioning for deferred tax on security funds.		
Solvency has been calculated according to the rules for financial services holding companies.		
See "Solvency" in Management's Review.		

### Note 41. Number of shares

Reconciliation of the number of shares ('000)		
Shares issued at 1 January	16,686	16,907
Own shares at 1 January	(1,023)	(1,411)
Number of shares at 1 January	15,663	15,496
Shares bought back	(506)	(1,288)
Shares issued	221	180
Shares sold	118	84
Shares issued at 31 December	16,907	17,087
Own shares at 31 December	(1,411)	(2,615)
Number of shares at 31 December	15,496	14,472

### Note 42. Own shares

	Number of shares '000	Nominal value DKKm	Percentage of share capital	Bought /sold DKKm
Held at 1 January 2009	1,023	10	6.1	
Bought back in 2009	506	5	3.0	380
Sold	(118)	(1)	0.7	(39)
Held at 31 December 2009	1,411	14	8.3	
Bought back in 2010	1,288	13	7.5	891
Sold	(84)	(1)	0.5	(58)
Held at 31 December 2010	2,615	26	15.3	

Number of shares held to cover the granting of options: 587,000 (2009: 767,000)

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm)

### Note 43. Credit risk

<b>2009</b>	Group excl. Life	Life	Group
Financial assets measured at fair value:			
Bonds	12,043	19,777	31,820
Loans guaranteed by mortgages and other loans	18	2	20
Deposits with credit institutions	2,333	4,497	6,830
Derivatives	33	606	639
Accrued interest	189	246	435
	14,616	25,128	39,744
Reinsurers' share:			
Life insurance provisions	0	32	32
Provisions for claims	551	0	551
	551	32	583
Financial assets measured at amortised cost:			
Loans to associated companies	0	460	460
Amounts due from policyholders	238	169	407
Amounts due from insurance companies	192	1	193
Other debtors	76	24	100
Current tax assets	260	0	260
Liquid funds	85	174	259
Other	40	196	236
	891	1,024	1,915
<b>Maximum credit risk 2009</b>	16,058	26,184	42,242
<b>2010</b>			
Financial assets measured at fair value:			
Bonds	13,665	23,168	36,833
Loans guaranteed by mortgages and other loans	11	2	13
Deposits with credit institutions	397	614	1,011
Derivatives	28	757	785
Accrued interest	206	296	501
	14,307	24,836	39,143
Reinsurers' share:			
Life insurance provisions	0	36	36
Provisions for claims	581	87	667
	581	122	703
Financial assets measured at amortised cost:			
Loans to associated companies	0	762	762
Amounts due from policyholders	261	156	417
Amounts due from insurance companies	183	0	184
Other debtors	77	23	101
Current tax assets	58	0	58
Liquid funds	44	149	194
Other	62	5	67
	686	1,096	1,783
<b>Maximum credit risk 2010</b>	15,573	26,055	41,628
		2009	2010
The Group has received cash margin payments securing unrealised gains on derivatives		462	675
Allowance account (policyholders and insurance companies):			
1 January		67	69
Changes		2	5
31 December		69	74
See "Credit risk" in the report.			

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKK m)

### Note 44. 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>2009</b>							
Provisions for claims	11,863	3,785	5,702	2,727	1,019	533	71
Life insurance provisions	25,791	(174)	(2,088)	2,810	12,552	15,904	8,628
<b>2010</b>							
Provisions for claims	12,459	3,938	5,980	3,093	1,296	584	102
Life insurance provisions	26,692	250	(1,213)	3,757	12,412	14,531	7,708

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

See "Liquidity risk" in the report.

### Note 45. Related parties

2009 2010

The Group 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.

Emoluments paid to the Boards of Directors and Management are disclosed in the note on staff costs.

Number of shares in Topdanmark A/S held by the Board of Directors	5,131	6,251
Nominal value in DKK '000 of 4% Topdanmark bonds held by the Board of Directors expiring in 2012	50	50
Nominal value in DKK '000 of 4% Topdanmark bonds held by the Board of Directors expiring in 2013	103	103
Nominal value in DKK '000 of 2% Topdanmark bonds held by the Board of Directors expiring in 2014	101	101
Number of shares in Topdanmark A/S held by the Board of Management	28,260	37,691
Nominal value in DKK '000 of 4% Topdanmark bonds held by the Board of Management expiring in 2012	218	218
Nominal value in DKK '000 of 4% Topdanmark bonds held by the Board of Management expiring in 2013	455	455
Nominal value in DKK '000 of 2% Topdanmark bonds held by the Board of Management expiring in 2014	691	691

#### Associated companies:

Premiums ceded	151	145
Commission received	(2)	(6)
Reimbursed claims	(111)	(76)

Trading takes place under normal market conditions.

Shares are disclosed in the balance sheet and specified in the note on shares in associated companies.

Balances are disclosed in the balance sheet.

### Note 46. Provision of security

Assets at book value registered as security for technical provisions	51,621	55,084
Bonds provided as security for loans in accordance with standard repo-contracts for Danish mortgage and government bonds	6,006	3,065
Other provision of security	126	18

# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

(DKKm) 2009      2010

### Note 47. Contingent liabilities

Derivatives:		
Purchased forward contracts	23,303	19,860
Sold forward contracts	23,722	16,681
Adjustments to VAT liabilities	62	47
Other liabilities	14	10
Capital commitments made to loan funds and private equity funds	188	250

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

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

### Note 48. Other disclosures

The five-year summary in accordance with Section 91(a) of the Danish executive order on financial reports for insurance companies and lateral pension funds is the last page of Management's review.

### Note 49. Companies

Name	Registered office	Activity
<b>Topdanmark A/S</b>	Ballerup	Holding
<b>Non-life:</b>		
Topdanmark Forsikring A/S	Ballerup	Insurance
Danske Forsikring A/S	Ballerup	Insurance
TDP.0007 A/S	Ballerup	Property
Topdanmark EDB A/S	Ballerup	Internal IT services
Komplementarselskabet TDE.700 ApS	Ballerup	Investment
E. & G. Business Holding A/S	Ballerup	Holding
Topdanmark Holding S.A.	Luxembourg	Holding
Risk & Insurance Services S.A.	Luxembourg	Administration
TDLII.0087 A/S	Ballerup	Investment
TDF.0141 ApS	Ballerup	Investment
<b>Life:</b>		
Topdanmark Liv Holding A/S	Ballerup	Holding
Topdanmark Livsforsikring A/S	Ballerup	Insurance
Topdanmark Livsforsikring V A/S	Ballerup	Insurance
Topdanmark Link Livsforsikring A/S	Ballerup	Insurance
Topdanmark Livsforsikring II A/S	Ballerup	Insurance
Topdanmark Livsforsikring III A/S	Ballerup	Insurance
Nykredit Livsforsikring A/S	Ballerup	Insurance
TDLII.0018 ApS	Ballerup	Holding
Topdanmark Ejendom A/S	Ballerup	Property
TDE.200 ApS	Ballerup	Property
TDE.201 ApS	Ballerup	Property
TDE.700 P/S	Ballerup	Property
<b>Other companies:</b>		
Topdanmark Kapitalforvaltning A/S	Ballerup	Asset management
Topdanmark Invest A/S	Ballerup	Investment
Hotel Kongens Ege ApS	Ballerup	Property
Topdanmark Ejendomsadministration A/S	Ballerup	Property
TDLII.0132 ApS	Ballerup	Investment
TD.0151 ApS	Ballerup	Investment
TDL.0139 ApS	Ballerup	Investment
web-postkassen.dk ApS	Ballerup	Consumer service

All of the companies are 100% owned.

A number of property companies have merged during the financial year.



# Topdanmark's Annual Report 2010

## Notes to the accounts • Group

### Note 50. Accounting policies

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Topdanmark Group's 2010 Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and the additional Danish disclosure requirements of Nasdaq OMX, Copenhagen and the Danish Financial Business Act on annual reports prepared by listed financial services companies. The Annual Report also meets the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

In 2010 Topdanmark organisationally merged its SME and industrial business and consequently its business segments now comprise "Personal", "SME and Industrial" and "Life Insurance".

Topdanmark has pre-implemented amendment to IAS 1 Presentation of Annual Financial Statements; as such, the presentation of comprehensive income and movements in shareholders' equity have been restated.

All comparatives have been restated.

There have been no other changes in accounting policies from those adopted in the 2009 Annual Report.

#### ***New accounting regulation***

The IASB has issued a number of standards, amendments and interpretations which have not yet taken effect.

The DFSA has updated its Executive Order on financial reporting to take effect in 2011, giving the opportunity for full or partial implementation for 2010. In these accounts for 2010 the Topdanmark Group implemented Section 125.

Future changes to the rules are not expected to materially change Topdanmark's accounting policies.

#### ***Accounting estimates and judgements***

In the preparation of Topdanmark's accounts, estimates and judgements have been used which affect the size of assets and liabilities and consequently the results in this and subsequent financial years.

Estimates and judgements are most material to the following sections of the accounts:

- Provisions for outstanding claims
- Fair value of financial instruments

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

The provision risk is significant, in particular in lines with a long period of claims settlement such as workers' compensation, commercial liability, accident and motor liability insurance.

Over the period of settlement the levels of compensation could be significantly affected by any changes in legislation, case-law or the practice in the award of damages adopted by, for example, the Danish National Board of Industrial Injuries.

The five-year summary discloses the financial years' gains on / strengthening of provisions. The movement in the provisions for outstanding claims analysed by claims year is also shown in the notes to the accounts. For further details see Management's review.

#### **Fair value of financial instruments**

The measurement of financial assets can often be based on listed prices or publicly available market data but in certain cases it is necessary to use valuation models in which material inputs are based on estimates. This always applies to certain types of assets like unlisted equities while in other cases it could be due to temporary factors. In particular, when calculating the fair value of financial instruments, Topdanmark believes that parts of the markets of structured credit products (e.g. CDOs) could not be defined as being active, according to the definition in IAS 39, and therefore the valuation of these types of assets is based on valuation methods, models and estimates.

For further details see Management's review, Notes 32 on financial assets and 33 on financial liabilities.

#### ***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.

## Topdanmark's Annual Report 2010

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. The same accounting policies are applied by the subsidiaries as by the parent company.

Properties owned by the subsidiaries and used by the Group have been re-classified from investment properties to owner-occupied properties.

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 those companies sold during the year, until the date of relinquishment of control.

### 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 impairment.

The initial recognition of financial instruments is made at fair value on the date of settlement. Any changes in the value between the trade and settlement dates are included in the balance sheet under the heading of derivatives. Direct expenses on the acquisition or issue of financial instruments which are measured at fair value with any revaluation of the fair value taken to the profit and loss account are included in expenses on investment activities when incurred. However, financial instruments

which, subsequent to the initial recognition, have been measured at amortised cost are recognised at fair value adjusted for direct expenses on the acquisition or issue of the financial instrument.

True sale and repurchase transactions and true purchase and resale transactions (repo / reverse transactions) are recognised and measured as secured loans.

### 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 classified as an insurance contract. However, if the investment contract entitles the policyholder to receive a 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.

### Currencies

As the predominant rule, DKK is the Group companies' functional currency and the presentation currency of the Annual Report.

The initial recognition of transactions in currencies other than DKK is made at the exchange rates prevailing at the date of the transactions. Debtors, creditors and other monetary items which have not been settled on 31 December 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 which prepare their accounts in functional currencies other than DKK 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 in the shareholders' equity's reserve for currency translation of foreign companies.

## Topdanmark's Annual Report 2010

Exchange rate differences on the translation of foreign associated companies are taken to shareholders' equity.

### 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 allocated proportionally on the basis of the size of the direct expenses.

### Share-based payments

#### *Share options/warrants*

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 in the profit and loss account, with the relevant credit shown as a movement in shareholders' equity. The fair value is calculated using the Black & Scholes model and in accordance with IFRS 2 on share-based payments.

The options are settled with own shares and the proceeds are taken to shareholders' equity. The fair value calculated at the date of granting and any amount received on the exercise of the options are both taken to shareholders' equity.

#### *Employee shares*

The fair value, on the date the share is granted less the subscription proceeds received, is included as staff costs in the profit and loss account, with the relevant credit shown as a movement in shareholders' equity. The fair value is measured 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 policies (Topdanmark Livsforsikring and Topdanmark Livsforsikring V) is regulated by the Danish Financial Business Act, which sets requirements on how the "insurance technical result before bonus contribution" (pre-bonus result) should be allocated between the policyholders and the shareholders. The calculation of the result of life insurance is disclosed in a note.

### Segment information

Topdanmark Forsikring has divided its non-life insurance business into the following two business segments:

**Personal** includes policies for individual households sold by Topdanmark's own sales channels and its distribution partners.

**SME and Industrial** includes policies for commercial and industrial businesses, sold by Topdanmark's sales organisation and its distribution partners, as well as captive-based policies.

Management reporting at this segment level comprises only reporting on the technical result but no reporting on assets and liabilities.

Life insurance is considered to be a separate business segment.

The recognition and measurement of the information reported by each segment follow the same accounting policies as those applied by the Group.

Topdanmark carries out insurance business only in Denmark and therefore no specific geographical segmental information is provided.

### Ratios

The financial ratios have been calculated in accordance with the definitions of ratios issued by the Danish Society of Investment Professionals in 2010, except for profit per share and diluted profit per share which have been calculated in accordance with IAS 33 Earnings per share. These calculations, which have been made before elimination of intra-group rent, are disclosed in segment information. Topdanmark has not calculated consolidated ratios for life insurance, as it does not believe that a true and fair view would be achieved by presenting ratios based on an accumulation of completely different portfolios. Recognising that the interests of different 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 its own annual report 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. Investment activities also include amounts received and paid on the purchase and sale of investment, intangible and tangible assets. Cash flows from financing comprise changes in capital, including the purchase and sale of own shares.

## Topdanmark's Annual Report 2010

Furthermore it includes the raising of loans and repayments on interest-bearing debt. Cash and cash equivalents comprise liquid funds 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 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 net of reinsurance 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 net of reinsurance 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 net of reinsurance in non-life insurance**

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

The interest rate structure is published by the DFSA as the combined weighting of swap rates and option adjusted mortgage credit rates. It is published as the "adjusted interest rate curve" on the DFSA's website. For policies subject to pension return tax each interest rate used of the interest rate structure is reduced by the tax rate of 15%.

#### **Allocated investment return net of reinsurance 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 net of reinsurance comprise claims paid during the year adjusted for changes in the provisions for outstanding claims and net of the reinsurers' share. 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. However, the proportion of the change in provisions for outstanding claims relating to changes in discounting and revaluation is included in technical interest net of reinsurance and revaluations respectively. Topdanmark has entered into swaps partially 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 life insurance, claims and benefits paid net of reinsurance 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, either directly or indirectly, 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 other 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

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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 and changes in the provisions for outstanding claims net of reinsurance due to changes in the interest rate structure are included in revaluations, which also includes 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.

### Pension return tax

Pension return tax includes the return tax that arises from the return in life insurance included in the profit and loss account, whether the tax is current or to be paid in subsequent periods. Pension return 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 tax charge for the year comprises the current corporation tax for the year and any changes in deferred tax. The share of the tax charge that relates to the profit for the year is included in the profit and loss account and the share that relates to shareholders' equity items is taken to shareholders' equity. The current tax for the year is calculated using the tax rates and rules applicable on 31 December. Topdanmark A/S is jointly taxed with all the Danish companies of the Group. As the management company of the joint taxation Topdanmark A/S settles all corporation tax payments with the tax authorities.

The jointly taxed companies' joint tax contributions are settled by dividing the current Danish corporation tax between them in proportion to their taxable income. Furthermore those companies with tax losses receive joint tax contributions from those companies which have been able to use this loss to reduce their own tax gain.

## Assets

### Intangible assets

Goodwill relates to the acquisition of companies prior to 2004 and is included at the book value on the change to IFRS. Goodwill is not amortised but 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 measured at cost and amortised on a straight-line basis over the expected useful life of a maximum of three years. Development projects which are clearly defined and definable are measured at cost at the amount of external costs incurred and written off over the expected useful life of a maximum of five years. If there is an indication of impairment, the book value is written down to its recoverable amount.

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 measured at cost less depreciation on a straight-line basis and net of any impairment. Depreciation on a straight-line basis is calculated on the basis of the expected useful life and the residual value, which is annually revalued. 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 comprising IT equipment, cars and other equipment as well as improvements of rental properties are depreciated over their expected useful life of up to five years.

#### *Owner-occupied properties*

Owner-occupied properties are those properties used for the Group's own operations. The properties are measured at a revalued amount being the fair value on the date of revaluation less accumulated depreciation. The properties are assessed annually by the Group's own valuation experts. The buildings are depreciated on a straight-line basis over their expected life of 50 years, although land is not depreciated. The fair value of the revaluation of owner-occupied properties is assessed on the same basis as investment properties. Any revaluation surplus is taken

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to shareholders' equity unless the revaluation is a reversal of a previous impairment. Impairments are included in the profit and loss account unless the impairment is a reversal of previous revaluation included in the shareholders' equity.

### **Investment properties**

The initial recognition of investment properties is made at cost and subsequent recognitions are made at fair value. 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 annually by the Group's own valuation experts.

### **Associated companies**

Shares held in associated companies are measured 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.

### **Financial assets**

Financial assets are classified at the time of their initial recognition as:

- Financial assets which are measured at fair value with any value adjustment taken to the profit and loss account or
- Loans and receivables which are measured at amortised cost

Financial assets at fair value with any value adjustment taken to the profit and loss account are financial assets which either are included in a trading portfolio, are derivatives or at the time of their first recognition are included in this classification because the assets are managed and measured on a fair value basis or because this eliminates or significantly reduces accounting inconsistency.

All financial assets included in "other financial investments assets" and "investment assets related to unit-linked contracts" are measured at fair value with any value adjustment taken to the profit and loss account.

### **Measurement of fair value**

The calculation at fair value is based on the listed prices of transactions in active markets. If there is an active market for listed shares, bonds, derivatives etc., the measuring is generally 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 listed securities where the closing price does not reflect the fair value.

Valuation methods are based, as far as possible, on publicly available market data. If there is no active market for the financial instrument, depending on the nature of the asset or liability, the calculation is based on underlying parameters such as interest and foreign exchange rates, volatility or comparison with the market prices of corresponding instruments.

In certain cases the valuation cannot only be based on publicly available market data. In these cases the valuation models used could imply the use of estimates of both the future and the nature of the current market situation.

### **Debtors that are measured at amortised cost**

The initial recognition of debtors is made at fair value and subsequent recognitions are made 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 impairments are generally made collectively on the basis of the debtor ageing analysis. When an individual debtor is considered irrevocable, the value of the impairment is transferred out of the account for collective allowances.

### **Reinsurers' share**

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 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.

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## **Liabilities**

### **Shareholders' equity**

#### **Revaluation reserves**

Gains on the revaluation of owner-occupied properties are 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.

#### **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.

#### **Other reserves**

Other reserves comprise a reserve at net asset value relating to non-life insurance.

### **Subordinated loan capital**

The initial recognition of subordinated loan capital is made at fair value less transaction costs and subsequently measured at amortised cost.

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

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

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. 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. Therefore they are calculated per line of business at the present value of these amounts, as a minimum. The sufficiency of the provisions is regularly tested on the basis of the current expectations of future cash flow.

#### **Life insurance provisions**

Life insurance provisions are measured 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 the realistically expected future premiums to be received, 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 is higher by up to five years for men and 6.6 years for women than set out in the G82 life expectancy assumptions. However, 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 payments has been calculated using an interest rate structure. The interest rate structure is published by the DFSA as the combined weighting of swap rates and option adjusted mortgage credit rates. It is published as the "adjusted interest rate curve" on the DFSA's website. 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 less 5%.

The liabilities are disclosed in the balance sheet as follows:

#### **Guaranteed benefits**

The sum of the company's liabilities for each individual policy, calculated on the basis of the agreed premiums and benefits plus an allowance for administration costs, is measured at present value under guaranteed benefits. Guaranteed benefits also include provisions for group life policies and provisions for claims incurred but not reported (IBNR).

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

Where a policy has been converted to a paid-up policy, the benefit guaranteed under the paid-up policy is the net present value of the company's liabilities. The bonus potential on future premiums is the amount for each policy by which the guaranteed paid-up benefits exceeds the guaranteed benefits.

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

Where a policy's savings (retrospective provision) less the expected future expense result exceed the guaranteed paid-up benefits, the amount is measured under the bonus potential on paid-up benefits. The bonus potential on paid-up benefits can be used to cover the proportion of "insurance technical losses before bonus contribution" relating to bonus eligible insurance contracts that cannot be covered by the collective bonus potential.

### **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 incurred but not reported (IBNR) and incurred but not enough reported (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 have been reported but which have been inadequately provided for. 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. In agricultural and commercial lines claims are assessed individually. IBNR and IBNER provisions are also included in the total provision. 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. IBNR and IBNER provisions are also included in the total provision. All motor and accident claims are included in the collective provisions. Large claims and claims relating to previous years are individually assessed within personal liability in motor insurance.

Inflation is taken into account when calculating the value of the provisions. 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 specific 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 fixed as the forward inflation rates plus 1.16% p.a. and a rate of mortality corresponding to G82 with monthly age write-downs. Workers' compensation claims are often paid as the capitalised value of an annuity. The capitalisation rate at the time of capitalisation is to be calculated as a moving average of the most recent five years' interest rate on leading mortgage bonds less tax. The capitalisation rate is calculated as the forward swap rates plus 0.85% p.a. and less a deduction for tax corresponding to the base tax rate.

Due to the instability having surrounded payments on disability claims for a number of years, Topdanmark has used 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 partially 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.

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 measured at present value by discounting the expected future payments using the 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 is regularly tested on the basis of the current expectations of future cash flow.

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



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### **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 bonus potential**

The collective bonus potential is used to equalise the individual years' payments of bonus. Amounts will be provided for the collective bonus potential 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 bonus potential can only be reduced by a transfer to another item under technical provisions or as a result of "insurance technical losses before bonus contribution" relating to bonus eligible insurance contracts.

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

Provisions for unit-linked schemes are measured at fair value in accordance with the value of the assets linked to the schemes, see the fair value option in IAS 39 on elimination or significant reduction of accounting inconsistency.

### **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 measured at present value by discounting the expected future payments using the structure of interest rates.

#### **Corporation tax and deferred tax**

Current tax liabilities and tax receivable, including joint tax contributions, are included in the balance sheet as calculated tax on taxable income for the year adjusted for tax on previous years' taxable income and prepaid tax on account. Deferred tax on temporary differences between the accounting and tax value of assets and liabilities is charged in accordance with the balance sheet 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 expected to be in force when the deferred tax is expected to crystallise as current tax, based on the tax rates and rules in force on 31 December.

Deferred tax on security funds comprises deferred tax on untaxed amounts transferred to the security funds under shareholders' equity. The security funds will be taxed in the proportion of 10% for every 10pp decline in technical provisions net of reinsurance 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.

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

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

#### **Creditors**

Amounts due to credit institutions and derivatives are measured at fair value, see the fair value option in IAS 39 on elimination or significant reduction of accounting inconsistency. The fair value of amounts due to credit institutions usually corresponds to their nominal value. The fair value of derivatives is calculated on the same basis as financial assets.

Other loans, including employee bonds, are measured at their amortised cost.

#### **Other matters**

Generally all the amounts in the report are disclosed in whole numbers of DKKm. The amounts have been rounded and consequently the sum of the rounded amounts and totals may differ slightly.

## Topdanmark's Annual Report 2010

### Profit and loss account • Parent company

(DKK m)	Note	2009	2010
Income from affiliated companies	1	1,519	1,184
Interest income and dividends etc.		3	24
Revaluations	2	1	(1)
Interest charges		(43)	(19)
Expenses on investment business		(1)	(0)
<b>Total investment return</b>		<b>1,479</b>	<b>1,189</b>
Other expenses	3	(31)	(32)
<b>PRE-TAX PROFIT</b>		<b>1,448</b>	<b>1,157</b>
Taxation	4	(2)	11
<b>PROFIT FOR THE YEAR</b>		<b>1,446</b>	<b>1,168</b>
Proposed appropriation of profit for the year:			
Transfer to net revaluation reserve at net asset value		1,519	1,184
Transfer to profit carried forward		(73)	(16)
		<b>1,446</b>	<b>1,168</b>

# Topdanmark's Annual Report 2010

## Balance sheet • Parent company

(DKK m)	Note	2009	2010
<b>Assets</b>			
Machinery and equipment	5	4	4
<b>TOTAL TANGIBLE ASSETS</b>		4	4
Shares in affiliated companies	6	5,126	5,567
Total investment in affiliated companies		5,126	5,567
Bonds		2	2
Total other financial investment assets		2	2
<b>TOTAL INVESTMENT ASSETS</b>		5,128	5,568
Amounts due from affiliated companies		70	77
<b>TOTAL DEBTORS</b>		70	77
Current tax assets		260	58
Deferred tax assets	7	1	1
Liquid funds		4	3
<b>TOTAL OTHER ASSETS</b>		265	62
<b>TOTAL ASSETS</b>		5,467	5,712

## Shareholders' equity and liabilities

Share capital	8	169	171
Other reserves		1,411	1,845
Total reserves		1,411	1,845
Profit carried forward		2,885	2,884
<b>TOTAL SHAREHOLDERS' EQUITY</b>		4,465	4,900
<b>SUBORDINATED LOAN CAPITAL</b>	9	403	404
Bond loans		70	71
Amounts due to credit institutions		64	0
Amounts due to affiliated companies		462	327
Other creditors		3	10
<b>TOTAL CREDITORS</b>		599	407
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		5,467	5,712
Staff costs	10		
Solvency	11		
Own shares	12		
Related parties	13		
Other note disclosures	14		
Accounting policies	15		

## Topdanmark's Annual Report 2010

### Movements in shareholders' equity • Parent company

(DKK m)

	Share capital	Other reserves	Profit carried forward	Total
<b>2009</b>				
Shareholders' equity prior year	167	709	2,367	3,243
Profit / (loss) for the year		1,519	(73)	1,446
Dividends received from subsidiaries		(829)	829	0
Other movements in capital of subsidiaries		12	8	20
Share buy-back			(376)	(376)
Sale of employee shares			26	26
Issue of share options			15	15
Exercise of share options	2		89	91
<b>Shareholders' equity at 31 December 2009</b>	<b>169</b>	<b>1,411</b>	<b>2,885</b>	<b>4,465</b>
<b>2010</b>				
Shareholders' equity prior year	169	1,411	2,885	4,465
Profit / (loss) for the year		1,184	(16)	1,168
Dividends received from subsidiaries		(740)	740	0
Other movements in capital of subsidiaries		(9)	14	5
Share buy-back			(892)	(892)
Sale of employee shares			46	46
Issue of share options			16	16
Exercise of share options / warrants	2		92	94
<b>Shareholders' equity at 31 December 2010</b>	<b>171</b>	<b>1,845</b>	<b>2,884</b>	<b>4,900</b>

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## Notes to the accounts • Parent company

(DKKm)	2009	2010
<b>Note 1. Income from affiliated companies</b>		
Topdanmark Forsikring A/S	1,483	1,130
Adjustment	(1)	10
web-postkassen.dk ApS	(9)	(7)
Topdanmark Invest A/S	6	9
Topdanmark Kapitalforvaltning A/S	40	41
TD.0151 ApS	(7)	0
Adjustment	7	0
<b>Income from affiliated companies</b>	<b>1,519</b>	<b>1,184</b>
<b>Note 2. Revaluations</b>		
Derivatives	1	0
Subordinated loan capital	0	(1)
<b>Revaluations</b>	<b>1</b>	<b>(1)</b>
<b>Note 3. Other expenses</b>		
Holding expenses	31	32
<b>Other expenses</b>	<b>31</b>	<b>32</b>
<b>Note 4. Taxation</b>		
Current tax	(59)	(12)
Change in deferred tax	43	(0)
Prior year adjustment	18	1
<b>Taxation</b>	<b>2</b>	<b>(11)</b>
Pre-tax loss excl. income from affiliated companies	(71)	(27)
Calculated tax 25%	(18)	(7)
Adjusted for the tax effect of:		
Non-deductible expenses / income not liable to tax	0	(6)
Prior year adjustment	20	1
	2	(11)
Effective rate of taxation	(3.5)	40.8
<b>Note 5. Machinery and equipment</b>		
Cost at 1 January	6	5
Additions, including improvements	1	1
Disposals	(2)	(0)
Cost at 31 December	5	5
Impairment and amortisation at 1 January	(2)	(1)
Reversal of total impairment and amortisation of assets sold or withdrawn from operations during the year	1	0
Impairment and amortisation at 31 December	(1)	(1)
<b>Machinery and equipment</b>	<b>4</b>	<b>4</b>

# Topdanmark's Annual Report 2010

## Notes to the accounts • Parent company

(DKK m)	2009	2010
<b>Note 6. Shares in affiliated companies</b>		
Topdanmark Forsikring A/S	4,877	5,308
Topdanmark Kapitalforvaltning A/S	51	52
TD.0151 ApS (Investment)	31	31
Topdanmark Invest A/S (investment)	167	175
web-postkassen.dk ApS (consumer service)	(2)	0
	5,124	5,567
Of which companies with a negative net asset value	2	0
<b>Shares in affiliated companies</b>	<b>5,126</b>	<b>5,567</b>

The affiliated companies are domiciled in Ballerup.

	2008	2009	2010
<b>Note 7. Deferred tax assets</b>			
Reduction in allowable interest	43	0	0
Other	1	1	1
<b>Deferred tax assets</b>	<b>44</b>	<b>1</b>	<b>1</b>
Changes relating to the year		(43)	(0)

### Note 8. Share capital

DKK		
Share capital at 1 January	166,859,030	169,064,930
Increase in capital	2,205,900	1,804,600
<b>Share capital</b>	<b>169,064,930</b>	<b>170,869,530</b>

Each of Topdanmark's 17,086,953 (2009: 16,906,493) shares has a nominal value of DKK 10. No share enjoys any special rights. The shares are freely tradeable. Each share has one vote.

### Note 9. Subordinated loan capital

In 2007 Topdanmark A/S issued EUR 55m of hybrid core capital.

This bullet loan has no final maturity date but if permitted by the DFSA, the debtor can give notice of termination as from 15 September 2017 at par. The loan carries a floating interest rate determined as EURIBOR 3 months + 1.90%, currently 2.926% (2009: 2.614%), and as from 15 September 2017 increased to EURIBOR 3 months + 2.90%.

Share of loan included in capital base	403	404
Interest charges	15	11

### Note 10. Staff costs

#### Board of Management

Salaries and emoluments	11	11
Employee shares and employee bonds	1	1
Share options	4	4
	16	16

The disclosed emoluments paid to the Board of Management comprises the total emoluments paid to the registered Board of Management. Other companies of the Group pay part of the emoluments.

#### Board of Directors

Directors' fees for 2010 were DKK 4,275,000 (2009: DKK 3,781,000) of which DKK 225,000 (2009: 206,000) related to tasks in subsidiaries.

#### Share options

Topdanmark's share option scheme is for its Board of Management and senior executives. The strike price has been fixed at 110% of the market price on 31 December the prior year. The options can be exercised 3-5 years subsequent to the granting.

The scheme is settled by shares (equity instruments).

The Group's overall option scheme is disclosed in the Group note on staff costs.

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## Notes to the accounts • Parent company

(DKKm)	2009	2010
<b>Note 11. Solvency</b>		
Shareholders' equity	4,465	4,900
Deferred tax assets	(1)	(1)
Hybrid core capital	403	404
Capital adequacy requirements for insurance companies – 50%	(1,535)	(1,549)
<b>Core capital</b>	<b>3,332</b>	<b>3,754</b>
Capital adequacy requirements for insurance companies – 50%	(1,535)	(1,549)
<b>Capital base</b>	<b>1,797</b>	<b>2,205</b>
Weighted items	2,617	3,025
Core capital as a percentage of weighted items	127.3	124.1
Solvency ratio	68.7	72.9
Solvency requirement (%)	8.0	8.0

Solvency has been calculated according to the rules for financial services holding companies.

### Note 12. Own shares

	Number of shares '000	Nominal value DKKm	Percentage of share capital	Bought /sold DKKm
<b>Parent company</b>				
Held at 1 January 2009	961	10	5.8	
Bought	533	5	3.2	394
Sold	(83)	(1)	0.5	(19)
Held at 31 December 2009	1,411	14	8.3	
Bought	1,288	13	7.5	892
Sold	(84)	(1)	0.5	(58)
Held at 31 December 2010	2,615	26	15.3	

### Subsidiaries

Held at 1 January 2009	61	1	0.3	
Bought	35	0	0.2	18
Sold	(96)	(1)	(0.2)	(60)
Held at 31 December 2009	0	0	0.0	

### Note 13. Related parties

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.

Emoluments paid to the Boards of Directors and Management are disclosed in the Group note 10 Staff costs.

Number of shares in Topdanmark A/S held by the Board of Directors	5,131	6,251
Nominal value in DKK '000 of 4% Topdanmark bonds held by the Board of Directors expiring in 2012	50	50
Nominal value in DKK '000 of 4% Topdanmark bonds held by the Board of Directors expiring in 2013	103	103
Nominal value in DKK '000 of 2% Topdanmark bonds held by the Board of Directors expiring in 2014	101	101
Number of shares in Topdanmark A/S held by the Board of Management	28,260	37,691
Nominal value in DKK '000 of 4% Topdanmark bonds held by the Board of Management expiring in 2012	218	218
Nominal value in DKK '000 of 4% Topdanmark bonds held by the Board of Management expiring in 2013	455	455
Nominal value in DKK '000 of 2% Topdanmark bonds held by the Board of Management expiring in 2014	691	691

# Topdanmark's Annual Report 2010

## Notes to the accounts • Parent company

(DKK m) 2009 2010

### Note 13. Related parties - continued

#### Affiliated companies:

Expenses on investment business	1	0
Expenses charged	23	23
Dividends received	829	740
Capital injection	7	9
Interest charged	5	2

Expenses on investment business are settled at arm's length.

Other expenses are charged to cover costs incurred.

Average effective interest rate on balances is 0.55% (2009: 1.79%)

Shares are disclosed in the balance sheet and specified in the note on Shares in affiliated companies.

Balances are disclosed in the balance sheet.

### Note 14. Other disclosures

The five-year summary in accordance with Section 91(a) of the Danish executive order on financial reports for insurance companies and lateral pension funds is included in financial highlights on page 3.

Risk disclosures in accordance with Section 91(b) are included in Management's review for the Group in "Risk management".

### Note 15. Accounting policies

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).

The DFSA has updated its Executive Order on financial reporting to take effect in 2011, giving the opportunity for full or partial implementation for 2010. In these accounts for 2010 Topdanmark implemented Section 108.

There have been no other changes in accounting policies from those adopted in the 2009 Annual Report.

#### **Differences from the Group's accounting policies**

The company's accounting policies for recognition and measurement is in accordance with the Group's accounting policies with the following exceptions:

Shares held in affiliated companies are recognised and measured at their net asset value. If the net asset value exceeds the recoverable amount, the share is written down to this lower amount. The share of the post-tax results of affiliated companies is included in the profit and loss account under income from affiliated companies less any write-downs. The share of the movements in the shareholders' equity of affiliated companies is included directly in the shareholders' equity.

The net asset value of affiliated companies is calculated without providing for deferred tax on security funds unless it is probable that a situation creating such a tax liability will arise within the foreseeable future.

#### **Other matters**

Generally all the amounts in the report are disclosed in whole numbers of DKK m. The amounts have been rounded and consequently the sum of the rounded amounts and totals may differ slightly.



# Topdanmark's Annual Report 2010

## 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 and assumptions 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 management](#).

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 2010

## Management's statement

We have today presented the Annual Report for 1 January to 31 December 2010 for Topdanmark A/S.

The consolidated annual accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the annual accounts for the parent company have been prepared in accordance with the Danish Financial Business Act including the executive order on financial reports for insurance companies. Furthermore, the Annual Report has been prepared in compliance with the additional Danish disclosure requirements on annual reports prepared by listed financial services companies.

The management's review includes a fair view of the development in the Group's and Parent company's activities and financial matters as well as the most significant risks and factors of uncertainty which can impact the Group and parent company.

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 and financial position at 31 December 2010 as well as the result of the Group's and parent company's activities and the Group's cash flows for the financial year 1 January to 31 December 2010.

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

Ballerup, 8 March 2011

## Board of Management

Christian Sagild  
(CEO)

Kim Bruhn-Petersen

Lars Thykier

## Board of Directors

Michael Pram Rasmussen  
(Chairman)

Anders Knutsen  
(Deputy Chairman)

Ole Døssing Christensen

Charlotte Hougaard

Jens Maaløe

Per Mathiesen

Annette Sadolin

Søren Thorup Sørensen

Knud J. Vest

## Auditors' Reports

### *Internal auditors' report*

We have audited the consolidated accounts and the annual accounts for Topdanmark A/S for the financial year 1 January to 31 December 2010, which comprises the profit and loss account, the balance sheet, the movements in shareholders' equity and the notes to the accounts, including accounting policies, as well as Management's review for both the Group and the Parent and the consolidated statement of comprehensive income and cash flow for the Group. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent's annual accounts and Management's review have been prepared in accordance with the Danish Financial Business Act. In addition, the consolidated accounts and the annual accounts have been prepared in accordance with additional Danish disclosure requirements for 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 an audit in financial services companies etc. and financial services groups and in accordance with Danish and international auditing standards. Those standards require that we plan and perform the audit to obtain a high degree of assurance whether the consolidated accounts, the annual accounts and Management's review are free from material misstatement. We have participated in the audit of the material and risky areas.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts, the annual accounts and Management's review. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, the annual accounts and Management's review, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated accounts and the annual accounts and the preparation of a Management's review which gives a true and fair view 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 controls. An audit also includes evaluating the appropriateness of the accounting policies chosen by and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated accounts, the annual accounts and Management's review.

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

Our audit has not resulted in any qualification.

### *Opinion*

In our opinion, the consolidated accounts give a true and fair view of the Group's assets, liabilities and financial position at 31 December 2010 and of its financial performance and its cash flows for the financial year 1 January to 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial services companies.

In addition, in our opinion, the consolidated accounts give a true and fair view of the Parent's assets, liabilities and financial position at 31 December 2010 and of its financial performance for the financial year 1 January to 31 December 2010 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for listed financial services companies.

Furthermore, in our opinion, the Management's review gives a true and fair view in accordance with the Danish Financial Business Act.

Ballerup, 8 March 2011

Leif Zilmer  
Audit Manager

# Topdanmark's Annual Report 2010

## **Independent auditor's report**

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

We have audited the consolidated accounts and the annual accounts for Topdanmark A/S for the financial year 1 January to 31 December 2010, which comprises the profit and loss account, the balance sheet, the movements in shareholders' equity and the notes to the accounts, including accounting policies, as well as Management's review for both the Group and the Parent and the consolidated statement of comprehensive income and cash flow for the Group. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent's annual accounts and Management's review have been prepared in accordance with the Danish Financial Business Act. In addition, the consolidated accounts and the annual accounts have been prepared in accordance with additional Danish disclosure requirements for listed financial services companies.

### **Management's responsibility for the consolidated accounts, the annual accounts and the Management's review**

Management is responsible for the preparation and fair presentation of the consolidated accounts and the annual accounts in accordance with International Financial Reporting Standards as adopted by the EU in respect of the consolidated accounts, in accordance with the Danish Financial Business Act in respect of the Parent's accounts, and additional Danish disclosure requirements for listed financial services companies, and Management's review which gives a true and fair view in accordance with the Danish Financial Business Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and presentation of the consolidated accounts, the annual accounts and Management's review that are 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 the consolidated accounts, the annual accounts and Management's review based on our audit. We have conducted our audit in accordance with Danish and international auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a high degree of assurance whether the consolidated accounts, the annual accounts and Management's review are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts, the annual accounts and Management's review. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, the annual accounts and Management's review, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated accounts and the annual accounts and the preparation of Management's review which gives a true and fair view 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 controls. An audit also includes evaluating the appropriateness of the accounting policies chosen by and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated accounts, the annual accounts and Management's review.

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

Our audit has not resulted in any qualification.

### **Opinion**

In our opinion, the consolidated accounts give a true and fair view of the Group's assets, liabilities and financial position at 31 December 2010 and of its financial performance and its cash flows for the financial year 1 January to 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial services companies.

In addition, in our opinion, the consolidated accounts give a true and fair view of the Parent's assets, liabilities and financial position at 31 December 2010 and of its financial performance for the financial year 1 January to 31 December 2010 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for listed financial services companies.

Furthermore, in our opinion, the Management's review gives a true and fair view in accordance with the Danish Financial Business Act.

Copenhagen, 8 March 2011

Deloitte

Statsautoriseret Revisionsaktieselskab

Erik Holst Jørgensen  
State Authorised Public Accountant

Martin Faarborg  
State Authorised Public Accountant

Group structure

