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Alm. Brand – 2015 financial figures restated to reflect Solvency II

A new executive order on financial reporting entered into force on 1 January 2016, implementing the Solvency II rules. Also, at the end of March 2016, the Danish FSA submitted a new executive order on financial reports containing various corrections and clarifications for consultation. Alm. Brand has implemented the new executive order on financial reporting and the changes based on the draft executive order submitted for consultation in March.

As a result, the figures reported for 2015 have been restated to reflect the new executive order on financial reporting. Comparative figures have been restated only for the Non-life Insurance segment. For Life and Pension, the changes are recognised as from 1 January 2016, while the Banking segment is not affected by the new executive order.

For both Non-life Insurance and Life and Pension, the executive order contains, among other things, an amendment to the measurement of technical provisions and introduces new concepts such as risk margin and profit margin.

Moreover, a new yield curve determined by EIOPA has been introduced. Both Alm. Brand Skadeforsikring and Alm. Brand Liv og Pension have obtained permission from the Danish FSA to apply volatility adjustment (VA premium), which is an add-on to the EIOPA yield curve. The add-on reduces liabilities and makes it easier to hedge yield curve fluctuations.

Non-life Insurance

Overall, the transition to the new executive order on financial reporting has reduced the pre-tax profit for 2015 by DKK 7 million. The overall impact is composed of an improvement of DKK 27 million of the technical result and a reduction of DKK 34 million of the investment result.

Technical provisions
For Non-life Insurance, the amended rules entail that technical provisions are now presented as:

- Outstanding claims provisions
- Premiums provisions
- Profit margin on non-life insurance contracts
- Risk margin on premium and claims provisions.

Premium provisions must still cover claims which have not yet been incurred but for which the company has assumed the risk. However, the part of a provision attributable to expected future earnings on premium provisions will be recognised in the item "Profit margin". A risk margin must also be calculated for premium provisions to cover the uncertainty related to claims incurred after the balance sheet date.

Moreover, the rules stipulating when a policy is to be recognised in premium provisions and the related balance sheet items have also been amended. In future, policies must be recognised as from the date an insurance contract is entered into. The previous rules stipulated that policies should be recognised as from the effective date of the policy. Moreover, all premium provisions must be discounted in future. Previously, discounting was only required for lines for which the impact was material.

The profit margin expresses the expected future earnings from insurance contracts entered into but not yet expired, i.e. the insurance contracts to be covered by premium provisions.

The risk margin expresses the risk allowance which a third party would demand in return for taking over the technical provisions including the associated risk. Separate risk margins must be calculated for premium provisions and claims provisions.

Overall, the amendments have increased the provisions in Non-life Insurance by DKK 87 million.

Premium income
Going forward, premium income will be affected by changes in premium provisions and changes in the profit margin and the risk margin on premium provisions. In future, premium income will consequently be affected by changes in the level of interest rates, which was not the case before.

Premium income for 2015 has been lifted by DKK 18 million due to the new accounting policies.

Claims
Going forward, claims expenses will also be affected by changes to the risk margin on claims.

Claims expenses are still affected by changes to claims provisions, but with the transition to the new and higher yield curve, it will also change claims expenses relative to last year.

Claims expenses for 2015 have been reduced by DKK 7 million due to the new accounting policies.

Technical interest
As a result of the transition to the new executive order on financial reporting, the concept of technical interest will no longer be used, as all provisions will now be discounted. Under the new accounting policies, the technical result for 2015 will be DKK 2 million higher.

Investment result
The return on technical provisions will increase because all provisions will now discounted going forward and because Non-life Insurance applies the EIOPA yield curve including VA premium. In return, technical interest will no longer be used. Overall, the return for 2015 has increased by DKK 47 million under the new accounting policies, which adversely affects the investment result by the same amount.

Conversely, value adjustments are more positive as a result of the new yield curve including VA premium, lifting the 2015 results by DKK 13 million.

Life and Pension
Life and Pension's comparative figures for 2015 will not be restated. All changes have been made to reflect the new rules as of 1 January 2016. Provisions have been reduced by DKK 6 million as a result of the transition to the new accounting policies.

Primary amendments to the measurement of technical provisions include that the calculation of provisions takes into account future surrender and paid-up policy activity. Moreover, the concept of profit margin has been introduced, which is an assessment of expected future earnings on the existing policy portfolio. These amendments serve to align the solvency and financial reporting principles.

As a result of the above initiatives, the company is no longer required to reserve capital for policies with high guarantees if such liabilities are reduced because policies are surrendered or converted into paid-up policies. Similarly, the company may not include buffers from policies which are reduced or lapse in connection with surrender or conversion into paid-up policies. Finally, the introduction of the profit margin, which is financed by individual or collective buffers, reflects a general wish to break down the expected future profit into profit accruing to customers (individual and collective buffers) and owners (profit margin), respectively.

It is important to note that the new financial reporting rules break away from the restrictions related to realised results, which means that, going forward, the company will have greater certainty with respect to its earnings. It also means that shadow accounts dating from before 1 January 2016 must be settled over a five-year period. The settlement of Alm. Brand Liv og Pension's shadow accounts of DKK 12 million is expected to take place over the next three years or so based on the risk allowance principle which the company has notified for 2016.

The method for calculating the bonus rate has also been changed. The bonus rate will now be calculated on the basis of both the individual and the collective bonus potential. As the individual bonus potential relies to a greater extent on interest rate developments, the bonus rate will be more volatile in future.

Annexes
Comparative figures for Non-life Insurance for 2015 broken down by quarter as well as opening balance sheets as at 1 January 2016 for Non-life Insurance, Life and Pension and for the group are enclosed with this statement.

Contact
Please direct any questions regarding this announcement to:
Martin Egenhardt, IR Manager, on tel. +45 35 47 79 22.