

# Annual Report 2017

**Nordea Liv & Pension, livsforsikringselskab A/S**

(Business registration no. 24260577)

**Registered address**

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# Management's Review

## Historical increase in contributions received

The total premium received in Nordea Liv & Pension, livsforsikring A/S (hereinafter referred to as Nordea Liv & Pension) reached a historically high level of DKKb 19 in 2017. It is an increase of 21% compared to 2016, which was also a year of extraordinarily high premium received. The increase was a result of regular premiums that increased by 10% and single premiums that increased by 34%.

Profit for the year in 2017 in Nordea Liv & Pension amounted to DKKm 527 after tax compared to DKKm 951 in 2016.

## Strategy 2018

Nordea Liv & Pension's strategy runs from 2016 to 2018. It is promoted by four themes:

- Customer relations – we take responsibility
- Digitalisation – we are relevante
- Simplification – we make it simple
- Employee – we think as a customer

The strategic themes will support Nordea Liv & Pension's aspiration that customers may regard us as a safe and trusted partner who can also provide a return on investment that is among the best in the market.

In 2017, the strategy led to a strong focus on customer relations – an area where Nordea Liv & Pension are increasingly providing proactive advice services, and where we have offered the product DinKapital to our corporate customers. In 2018, this product will be made available for private customers as well. Moreover, Nordea Liv & Pension has worked on improving the corporate customers' user experience. Also, further functionality has been added to the company's new core system and a vast number of processes have been automated – among other things by use of robots.

## 2017 – A REVIEW

### Attractive returns in a turbulent market

In 2017, Nordea Liv & Pension was able to achieve high returns in a year with sharp monthly market fluctuations. Particularly, VækstPension Aktiv – the

company's recommended, actively managed market rate product – achieved a very competitive return.

### Many new customers in place in Nordea Liv & Pension

In 2016 and 2017, several top tier companies chose Nordea Liv & Pension as their pension providing company. These new customers have had a strongly positive effect on premium income and especially single premiums in Nordea Liv & Pension.

### Customers see the benefits of Norliv

In 2017, the Foreningen for kunder i Nordea Liv & Pension had a new name; now it is called Norliv. The association is represented by two members on Nordea Liv & Pension's Board of Directors: namely, Peter Gæmelke and Kent Petersen.

In January 2017, Norliv purchased 25% of the shares in Nordea Liv & Pension, and in December 2017 it was announced that Norliv was about to purchase another 45% of the shares, thus achieving a shareholding of 70% - of course depending on the authorities' approval. Over the next few years Norliv will increase its shareholding to 100%.

In particular, the customers can see the benefits of receiving bonus payments in 2018 and expectedly also in the coming years.

During autumn 2017, all members of Norliv were invited to members' meetings about 'Mental Health', which is a precondition of a healthy work and senior life. Speakers at the meetings were: Chairman Peter Gæmelke from Norliv, CEO Steen Michael Erichsen from Nordea Liv & Pension, and medical doctor Peter Geisling.

The enrollment to these meetings was impressive and made it necessary to set up additional meetings.

At the beginning of 2018, an election to Norliv's Board of Representatives took place in the electoral districts of Jutland and Funen.

### Repurchase of shares

Norliv's purchase of additional shares in Nordea Liv & Pension, have caused a share repurchase programme, committing Nordea Liv & Pension to

repurchase the remaining shares from Nordea Life Holding AB over a 3-year period – of course depending on the authorities' approval.

### **Formation of NLP IT A/S**

NLP IT A/S was established on 30 November 2017 and Nordea Liv & Pension transferred the intangible asset comprising the core system N16 to NLP IT A/S. Prospectively, the company is responsible for the development and operation of the core system for Nordea Liv & Pension.

### **Almost all new customers choose DinKapital**

On 1 January 2017, Nordea Liv & Pension launched DinKapital to new customers. The product allows 5% of the contributions to be placed in DinKapital at a stable interest rate of 5% at present.

The product has proved to be quite popular and 94% of all new corporate pension customers choose to attach DinKapital to their pension schemes.

### **Direct, proactive advice services for customers**

Experience shows that as much as half of the Danish pension savers have a cover which does not reflect their present life situation. As a result, Nordea Liv & Pension has improved for example the insurance cover for reduced ability to work, thus reassuring the customers that the insurance cover will always reflect the actual salary scale and provide maximum security.

Nordea Liv & Pension has also started to provide direct, proactive advice services for its customers in order for the customers' pension covers to reach a level of cover which reflects the company's advice services. Ahead, it is the company's objective to contact the customers regularly when it is relevant in various stages of their lives. In particular, it is Nordea Liv & Pension's objective to maintain a direct contact to its customers on a yearly basis.

### **More than 100,000 customers already benefit from the new IT system**

Since 2014, Nordea Liv & Pension has been implementing functionality to support agreements and policies in the new IT core system and has started the conversion of existing customers with market rate products to the new system at the same time.

In total, Nordea Liv & Pension now have more than 100,000 customers in the new system.

### **Prevention of money laundering and terrorist financing**

Being a pension providing company, Nordea Liv & Pension is governed by the law on prevention of money laundering and terrorist financing, including the fourth anti-money laundering directive of the new Danish Act on Prevention of Money Laundering that entered into force on 26 June 2017.

It is essential to Nordea Liv & Pension to be considered a trusted and safe partner. As a part of the company's social responsibility, Nordea Liv & Pension works continuously to protect the company and its customers against financial crime.

In 2017, Nordea Liv & Pension has had special focus on risk assessing individual customers. The company's assessment is that the inherent risk to the products offered can be defined as low, but the company is working on an applicable and risk-based approach to support the continuous customer interactions, entry of new customers, currently ensure relevant monitoring of existing customers, and identify unusual activity to prevent money laundering and terrorist financing.

### **GDPR (General Data Protection Regulation)**

Throughout 2017, Nordea Liv & Pension has worked on implementing the General Data Protection Regulation, which enters into force on 26 May 2018, to ensure compliance with the regulation.

In this connection, the company has appointed a data protection officer (DPO) who will be responsible for notifying and advising the Management and the employees regarding their obligations related to the regulation and national rules about data protection, including cooperating with and maintaining the contact to the supervisory authority (the Danish Data Protection Agency/the Danish Financial Supervisory Authority).

### **Solvency II position**

On a regular basis Nordea Liv & Pension has reported and monitored the development of the Solvency II position as well as the risk linked to it. At 31 December 2017, the solvency cover ratio was a

satisfactory 179% in Nordea Liv & Pension. At the end of 2016, the solvency cover ratio was 164%. We are using a partial internal model to calculate the capital requirement. End of 2017 total capital requirement amounts to DKKm 7,584 hedged by the capital base, which amounts to DKKm 13,550. At the end of 2016, the capital requirement amounted to DKKm 8,143 and the capital base amounted to DKKm 13,377. The internal model relates to the longevity stress that amounts to +20% compared to the standard model with +25%.

## CORPORATE RESPONSIBILITY

### Responsible Investments (RI)

Along with the other Nordic life insurance companies in the Nordea group, Nordea Liv & Pension has co-signed the United Nations Principles for Responsible Investment (UNPRI). In addition to this, Nordea Liv & Pension adheres to the Nordea group's guidelines for responsible investments.

As part of the Nordea group's policy, Nordea Liv & Pension's investments are screened regularly in accordance with a series of international standards and conventions – for example:

- United Nations Global Compact
- OECD Guidelines for Multinational Enterprises
- The UN Guiding Principles on Business and Human Rights
- The Children's Rights and Business Principles
- OECD Principles of Corporate Governance
- ILO (International Labour Organization) conventions on labour standards
- Universal Declarations of Human Rights
- Rio Declarations on Environment and Development
- The UN Convention on Corruption
- The Convention on Cluster Munitions

If the screening points out any problems, we will raise as the engaging shareholders a dialogue with the companies that do not meet the international standards of corporate responsibility in order to urge them to change their conduct. Should we be unsuccessful in this matter, we sell our investments as the ultimate consequence if the companies persist in being non-responsive to our line of reasoning. We exclude companies that seriously breach the standards for social responsible

investment and are unwilling to change their conduct.

Regarding fossil fuels it has been decided to exclude companies when more than 30% of their sale is related to coal extraction. On Nordea Liv & Pension's website all excluded companies are listed. Find it here:

<https://www.nordealivogpension.dk/Images/89-123931/Aktie%20listen.pdf>

"Komitéen for god Selskabsledelse" (Eng.: "Committee for Corporate Governance"), under the Ministry of Economic and Business Affairs, has published its recommendations for shareholder engagement. The recommendations must contribute to create trust and transparency and must result in an annual report from institutional investors on matters related to shareholder engagement. In line with the recommendations, Nordea Liv & Pension has demonstrated intention to report the annual activities and publish this on Nordea Liv & Pension's website in 2018.

Nordea Liv & Pension is committed to invest in funds that are like-minded regarding responsibility and adhering to the UNPRI obligations.

Read more here:

[www.nordealivogpension.dk/1071632.html](http://www.nordealivogpension.dk/1071632.html)

Customers that are especially attentive to responsible investments may be interested in another two of Nordea's 'Star Funds' – they are 'Emerging Stars' and 'Global Stars'. In 2017, they were added to the options in LinkPension. Read more here:

<https://www.nordea.com/da/baeredvgtighed/sustainable-finance/ansvarlige-investeringer-nyheder/2017/updated-esg-scorecards-for-nordeas-stars-funds.html>

### Corporate Social Responsibility

Corporate Social Responsibility (CSR) has been described in the Sustainability Report – earlier named the Corporate Social Responsibility Report.

CSR is a part of the daily work in Nordea Liv & Pension. This is based in the policies of social responsibility, human rights and climate change impact that apply to the entire Nordea group.

Read more here:

<http://www.nordea.com/da/samfundsansvar/>

The sustainability report for 2017 will be ready in February 2018.

### Gender balance

In accordance to the Danish Financial Business Act § 79a regarding gender balance in the Board of Directors, the company has adopted the following target figure: in the company, the under-represented gender must constitute at least 40% of the board members elected by the general meeting. This target figure is expected to be met in 2018. The company has also adopted a policy regarding gender balance at other management levels. The company has a balanced gender representation and the policy helps maintain the gender balance in the future.

## REGULATIONS ETC.

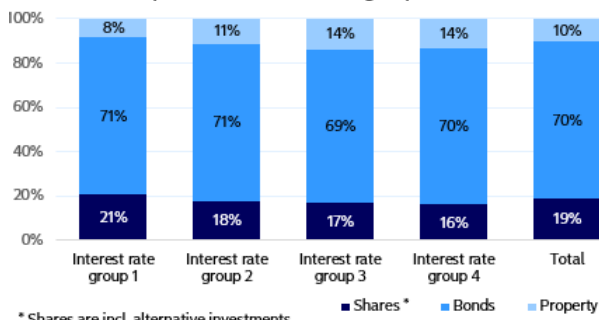
### Contribution in Nordea Liv & Pension

Pension med gennemsnitsrente (our traditional average rate product, hereinafter referred to as Average Rate Product) has been divided into four interest rate groups, three risk groups and two cost groups. The customers have been placed in groups based on common characteristics.

### Interest rate groups

During 2017, Nordea Liv & Pension closed interest rate group 0 and moved all these customers to interest rate group 1. The four interest rate groups in Nordea Liv & Pension reflect the customers' guaranteed benefits. Interest rate group 1 consists of customers with the lowest basis rate and interest rate group 4 consists of customers with the highest basis rate.

Investment composition in interest rate groups



In 2017, the interest on policyholders' savings in interest rate group 1 was 0.5% point higher compared to the allocated interest rate for groups 2-4. The determination of the interest rate on policyholders' savings depends on the level of collective bonus potential, composition of investments, and guarantees that have been attached to the individual interest rate group. A difference in interest rate groups depends on the development in the components stated above.

New customers are placed in interest rate group 1 where the bonus rate is 11.3% at the end of 2017. The total bonus rate for "Average Rate Product" is 11.4% for 2017.

Bonus rate in interest rate groups

Interest rate group	1	2	3	4	Total
Bonus rate	11.3%	11.5%	9.1%	13.0%	11.4%

If the investment result in the interest rate groups are negative, this will be deducted from the collective bonus potential and then individual bonus potential as well as profit margin. If a deficit still exists, the possibility of collecting the remaining sum will lapse and the sum will be covered by the equity.

### Risk groups

The three risk groups in Nordea Liv & Pension are divided into:

- Private pension schemes
- Corporate pension schemes
- Old age pensioners

Regarding private pension schemes and old age pensioners, a positive as well as a negative risk result will be allocated to Nordea Liv & Pension's equity. If there is a loss on corporate pension schemes, this will be covered equally between collective bonus potential and the equity, as a rule. However, this year Nordea Liv & Pension has chosen that the equity will carry a larger share of the result.

### Cost groups

Nordea Liv & Pension has divided the customers into two cost groups:

- Private pension schemes
- Corporate pension schemes

A positive as well as a negative cost result will be allocated to Nordea Liv & Pension's equity.

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

Nordea Liv & Pension has a dynamic bonus policy with a connection between the rate on interest on policyholders' savings and the return on investment from the financial markets. The rate of interest on policyholders' savings have been 3.0% before tax concerning the new business (interest rate group 1), and 2.5% in the other interest rate groups. In 2018, the rate of interest on policyholders' savings has been maintained at the same level. The rate of interest on policyholders' savings will be 3.0% before tax for HøjrentePension and for "Average rate Product" with low guarantees, and 2.5% for other customers with "Average Rate product" with high guarantees.

### **Legislation**

The tax on labour costs has increased to 14.1% in 2017 and will continue to increase every year until fully implemented at a rate of 15.3% in 2021.

### **New legislative initiatives**

The political decisions presented no significant change to the life insurance industry.

### **New amendments in the pensions field result in more complexity**

In 2017, the Government entered into an agreement on 'Work for Longer' with Dansk Folkeparti. Among other things, the agreement will address the issues raised by the so-called interplay effecting that some Danes close to their retirement age have very little incentive to increase their pension savings due to offsetting in public benefits.

The agreement was implemented by law in December 2017 and targets retirement saving for individuals with less than five years until retirement. Furthermore, the earliest possible time of disbursement of pension schemes is changed from five years before the public retirement age to three years before the public retirement age, and the

annuity pensions are now payable over a period of 30 years as a maximum instead of 25 years.

The Government's tax proposals from August will enhance the incentive to increase the pension savings by allowing a higher tax deduction on pension savings.

The suggested changes will take steps in the right direction in relation to reducing the issues raised by interactions in the pension system; however the changes will result in further complexity in the Danish pensions system which is already complex enough. Thus the need of clear recommendations and advice services is bigger.

### **Greater transparency in equity investments**

The Government and its supporting parties have entered into an agreement on vocational and entrepreneurial initiatives per 12 November 2017

As part of the agreement there is to be 'Greater transparency in pension providing companies' equity investments'. The contracting parties agree to seek greater transparency in the pension providing companies' equity investments. In general, Danish pension providing companies present their investments at the overall level.

This is why it is difficult for the pension savers to get some idea as to which specific investments have been chosen by the pension providing companies and to which degree the pension savers' assets will contribute to growth in Denmark.

It has been sought to conclude an agreement with the pension providing companies and ATP (the Danish Labour Market Supplementary Pension) about enhanced transparency regarding investments in companies, so it will be possible to present an extended list of annual, equity investments – broken down into Danish and foreign equity, by size and sectors.

This will help enhance the transparency in the pension providing companies' equity investments and make it even more possible for the individual pension customer to choose a company whose investment profile is the best match to the customer's preferences. It will also enhance the

pension providing companies' incentive to invest the pension assets in Danish growth companies.

During the industry discussions, it will be examined how the companies can further report on the 'green footprints' and the contribution to achieving the UN Global Goals.

## FINANCIAL REVIEW

### Main activities

Nordea Liv & Pension operates a life and pension business and other business that is compatible with the life and pension area.

As per closing date of the financial year Nordea Life Holding owns 75% of the shares and Norliv owns 25% of the shares in Nordea Liv & Pension. Nordea Liv & Pension partakes in joint taxation with other Danish companies in Nordea Bank AB.

In December 2017, an agreement was entered between Nordea Life Holding and Norliv about the purchase of an additional 45% of the shares in Nordea Liv & Pension, thereby making Norliv the majority shareholder by 70% of the equity capital. However, this fact is conditional on the authorities' approval.

At the same time, an agreement was entered regarding Nordea Liv & Pension's repurchase of the remaining 30% of the shares.

When Norliv purchased 25% of the shares on 1 January 2017, Nordea Liv & Pension withdrew from the joint registration with Nordea Bank AB regarding VAT and charges.

### Uncertainty of recognition and measurement

Uncertainty of recognition and measurement has been mentioned in Note 1, Accounting Policies, page 27.

### Significant changes in parameters for determination of technical provisions

#### Mortality analysis

Nordea Liv & Pension produces a mortality analysis every year in accordance with the benchmark model from the Danish Financial Supervisory Authority. This analysis has been carried out and resulted in a strengthening of the provisions by

DKKm 404 at the end of 2017. A change has been introduced in the basis of calculation of the expected, future longevity improvements. In this way, these calculations are now based on data from the previous 20 years, whereas it used to be the previous 30 years. This alone contributes to a strengthening of DKKm 549. The change is in accordance with the Danish Financial Supervisory Authority's initiative in the area in September 2017.

#### Surrender and paid-up policy parameters

The annual analysis of surrender and paid-up policy conduct has been carried out based on the number of surrenders and transfers to paid-up policies existing historically in the portfolio. This has resulted in a strengthening of provisions with approx. DKKm 80 at the end of 2017.

#### Profit margin

In 2017, the profit margin amounts to DKKm 8 for average rate products and DKKm 3,477 for market rate products. The rise in profit margin for market rate products is due to a growing portfolio combined with updated market value parameters.

#### Surcharge – risk margin

The surcharge has been determined based on a 'cost of capital' method. At the end of 2017, the risk margin amounts to DKKm 334 and is coverable at the policy level of individual bonus potential.

#### Update of disability provisioning model

In 2017, the annual analysis and update of the disability model's parameters have resulted in a DKKm 35 reduction of the disability provisions. This will be allotted to the collective bonus potential.

### Development of financial aspects

#### Net profit/loss for the year

The result of 2017 was a profit after tax amounting to DKKm 527, which is at the expected level. A revenue of DKKm 27 has been transferred from the shadow account and it has been balanced out in the interest rate groups. The result of 2016 amounted to DKKm 951. The main reason for this high figure in 2016 was a revenue of a total of DKKm 404 transferred from the shadow account.



### ***Profit commitment***

The Board of Directors proposes that out of the DKKm 527 profit of the year DKKm 400 is to be disbursed as shareholders' dividends and the remaining DKKm 127 is to be transferred to retained earnings.

### ***Premiums***

The gross written premium income for average rate products amounted to DKKb 3.4 in 2017, which is on a level with the gross written premiums in 2016.

The gross written premium income for market rate products amounted to DKKb 15.4, which corresponds to an increase of 27.7% in comparison to 2016 when they amounted to DKKb 12.1.

The total gross written premium income for 2017 amounted to DKKb 19, which corresponds to an increase of 21% in comparison to 2016.

The single premiums have increased by 10.2% and the Premiums rose by 34% in comparison to 2016.

### ***Insurance benefits***

Disbursed insurance benefits for 2017 amounted to DKKb 12.7 gross, which corresponds to an increase of DKKb 0.3 in comparison to 2016. The main reason for the increase is surrender.

### ***Operation expenses relating to insurance***

The expense ratio on premiums amounts to 3.2%. In 2016 the expense ratio amounted to 4.0%.

### ***Technical result of life insurance***

The technical result for 2017 amounted to DKKm 728 after transfer of DKKm 1,042 from collective bonus potential. In 2016 the technical result amounted to DKKm 1,203 after transfer of DKKm 782 to collective bonus potential.

### ***Health and Accident insurance***

The gross claim ratio has increased to 109% in 2017, whereas it was 108% in 2016. The run-off result amounts to DKKm -1, whereas it was DKKm 0 in 2016. At the beginning of the year, the expectation to the claims expense on already known injuries has been on level with what was realised.

The expense ratio amounts to 17% in 2017. In 2016, the expense ratio was at 18%.

## **INVESTMENT ACTIVITIES**

Nordea Liv & Pension's investment assets have been divided into portfolios linked to the traditional product, market rate products (including VækstPension and LinkPension), Health and Accident insurance, and shareholders' equity.

The total return on investment before Tax on Investment Return was DKKb 10.3 in 2017, which corresponds to a return of 6.2%.

### **Financial markets**

In 2017, the financial markets were noticeably calmer compared to the previous years, and the beginning of the year showed to be considerably calmer than expected. Faced with the prospect of Donald Trump elected new American President, many feared that the first six months of 2017 might go down in history as a period of sharp movements and falling share prices. Against expectations this did not happen. The share prices rose almost uninterrupted throughout the year's first months and the rises continued during most of the year. In this way, the World Index improved throughout 2017 with a total of 7.5%.

For the majority, the increases were a result of positive financial key figures indicating robust growth across of continents and sectors. At the same time, the companies' view to the future and their investment plans painted a good-looking picture and together with healthy accounts, it all supported the growth.

At the turn of the year 2016-2017, the central banks started changing the accommodative monetary policy of several years and a tightening took place in many countries. However, the pace of tightening has been and is still expected to be moderate. At the same time, the relatively high financial growth has only affected the inflation rate moderately. Throughout the year the long-term interest rates in Europe and the USA showed only minor fluctuations and finished the year at a level close to the beginning of the year.

All in all, 2017 was a year with a somewhat higher return on shares than on bonds, which was reflected in the return on various products.

### Traditional products

The investment assets' composition at the end of 2017 and their return are shown in the following charts.

Listed shares and unlisted shares represented 19.6% of the portfolio, which was a minor increase compared to 2016. The return as a whole for this class of investment assets was 5.7%.

The properties' share of the portfolio was 10.4%. The return on the property portfolio was 6.3%. The value of this portfolio is influenced by its composition and opportunity of property rental. The average property rental rate – calculation based on number of square metres – came to 91% at the end of the year, which level is equal to 2016.

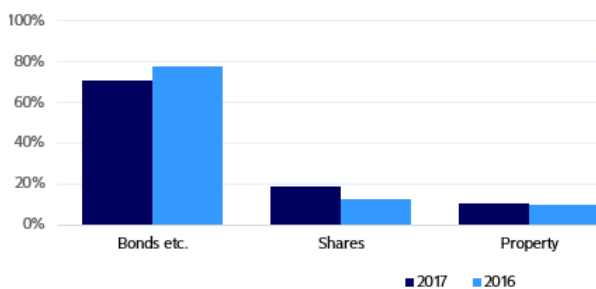
At 70%, bonds represented the majority of the investment assets. Thus, the return of 2.2% on the bond portfolio including interest rate derivatives was essential for the total return of "Average rate Product" coming to 3.7%.

Exchange rates had very little impact on the returns as the portfolios were partially hedged.

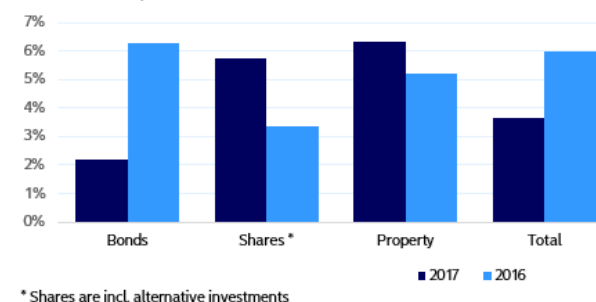
Based on expectations to the financial markets, Nordea Liv & Pension are constantly adjusting the portfolio and especially the allocation to risky assets to secure the customers' long-term return.

Traditional average products has been divided into four interest rate groups which have different asset composition, which mainly is a result of a differing need for hedging of the interest rate risk. The high interest rate groups have the greatest needs and thereby the greatest share of bonds and other interest rate sensitive assets.

Breakdown of investment assets p.a.



Rate of return p.a. for investment assets



Returns for Pension med gennemsnitsrente, 2017

Interest rate group	1	2	3	4
Returns	4.2%	2.9%	2.9%	3.2%

### Market rate products

The savings in market rate products accrues interest based on the return on the investment funds chosen by the individual customer. If the customer chooses one of the composed funds, the rate of return is based on the return on portfolios composed by Nordea Liv & Pension.

### VækstPension and Index

VækstPension is a life cycle product that is offered with three risk profiles (low, medium and high) as well as a profile with guarantee. They are all composed with a high percentage of shares and other risk assets, due to expected higher returns on these products. Customers with medium risk and more than 15 years until retirement achieved a return of 10.3%. In general, the highest returns in 2017 were achieved by customers with high risk.

The highest returns in 2017 were achieved by customers with the active managed life cycle product, Index, if the customers had many years until retirement and/or a high risk.

#### Returns for VækstPension, medium risk, 2017

Years until retirement	5 years	10 years	>15 years
VækstPension	8.5%	9.9%	10.3%
Index	6.4%	8.2%	8.6%

### LinkPension

Besides an individual choice of investment composition, the customers may choose between a total of ten composed investment funds differing in risk profiles and management forms that are composed by Nordea Liv & Pension. Contrary to the life cycle products, it is left to the customers themselves to carry out the requested changes in risk level in LinkPension. The individual investment funds in LinkPension's offer of funds have been described on the company's website:

<http://www.nordealivogpension.dk/privat/opsparing/investering/linkpension/fonde.html>

Both LinkPension Aktiv and LinkPension Index offer four risk profiles (low, medium, high and shares). In addition to this, LinkPension Aktiv offers two profiles with guarantee. The returns achieved in 2017 in the eight investment funds without guarantee are shown in the chart below, showing that LinkPension Aktiv achieved the highest return.

#### Returns for LinkPension Aktiv and LinkPension Index, 2017

Risk profile	Low	Medium	High	Aktiv
LinkPension Aktiv	6.4%	8.5%	10.3%	12.2%
LinkPension Index	4.2%	6.7%	9.3%	11.5%

### Investment Policy and its objective

The objective of Nordea Liv & Pension's investment policy is to secure the greatest possible return in the long term considering factors like risk, tax, legislation, etc. Also, it is a requirement that investments are ethical.

Risk spreading on various investment assets is of great importance to the total return and the risk in the long term. Risks are controlled thoroughly considering the pension liability and free reserves.

### Events after the balance sheet date

On 23 March the Danish FSA approved that Norliv could take over an additional 45% of the shares in Nordea Liv & Pension with the intention to take over the remaining 30% over the coming years. Due to the change in ownership there have been several

changes to the Board of Directors and the Management, e.g. Gitte Minet Aggerholm has become Director as of 1 May 2018. Besides that, there has been no events of significance that could have an impact on the company's financial position from the balance sheet date and until the signing of the annual report.

### Future

It is expected that the result after tax for 2018 will be at a lower level than in 2017. The premium income for 2017 has been especially high due to an intake of several big customers during the year. The costs for 2018 are expected to remain at the level of 2017; however, because of Norliv's purchase of additional shares in Nordea Liv & Pension from Nordea Life Holding AB, the company is expecting a number of non-recurrent expenditures in connection with the separation from Nordea.

### Monitoring

Nordea Liv & Pension is following the solvency and capital situation, the P/L risk, and the financial buffers on a weekly basis in a risk report that also contains stressed scenarios of the calculations. The report is sent to the Danish and Nordic managements.

### Significant risks and factors of uncertainty

Significant risks and factors of uncertainty have been described in Note 1 of the accounts, see the section 'Significant Accounting Estimates, Assumptions and Uncertainties'.

## **CORPORATE GOVERNANCE ETC.**

### **Board of Directors**

On 1 January 2017, Nils Magnus Bolmstrand left the Board of Directors. On the same date, Johan Bertil Ludvig Nysted joined the Board of Directors. On 1 March 2017, Hans Arnum joined the Board of Directors. On 12 June 2017 Per Lyngh Sørensen joined the Board of Directors. On 1 August 2017, Johan Bertil Ludvig Nystedt left the Board of Directors. On the same date, Gustaf Sebastian Björnson Unger joined the Board of Directors.

The Board of Directors' composition is shown on the page 14.

### **Management**

On 23 June 2017, Lene Østerberg left the Management. The Management then consists of CEO Steen Michael Erichsen and Gitte Minet Aggerholm who entered the Management 1 May 2018.

### **Role of Board of Directors**

The Board of Directors provides for a prudent organisation of the company and, in this connection, ensures that it is being handled in a reassuringly way.

To ensure this, the Board of Directors has issued a number of policies and guidelines as well as instructions for the Management regarding which arrangements may be initiated without the Board of Directors' approval.

### **Role of Management**

The Management is responsible for the day-to-day management of the company. The Management reports regularly to the Board of Directors about the daily implementation of the Board of Directors' policies and guidelines, and it ensures that the Board of Directors is notified about any noteworthy circumstances in the company which may have an impact on the Board of Directors' compliance monitoring of legislation, in-house policies and guidelines.

### **Appointed actuary**

Charlotte Markussen.

### **Audit committee**

#### *Establishment of the audit committee*

The Board of Directors in Nordea Liv & Pension has formed an audit committee in compliance with the Danish audit regulation §31.

In Nordea Liv & Pension the audit committee consists of two members from the Board of Directors. The committee meets the requirements determined regarding qualifications within accounting or auditing.

#### *Members of the committee*

The audit committee consists of Bent Tjørnemark (chairman) and Peter Thomsen. The Board of Directors has appointed Bent Tjørnemark, state-authorized public accountant, to be the independent member qualified in accounting and auditing. The appointment of members of the audit committee is renewed annually.

#### *Number of meetings in 2017*

Five meetings took place in 2017.

#### *Main features for the terms of reference*

The responsibilities of the audit committee have been determined in the terms of reference approved by the Board of Directors. The committee's primary role is to assist the Board of Directors in fulfilling its responsibilities to ensure an independent and objective monitoring of Nordea Liv & Pension's process of presentation of accounts and the statutory audit of the annual accounts.

In addition to this, the audit committee will monitor the efficiency of the in-house control systems and risk management systems, and, in this connection, monitor the internal audit's effectiveness as well as the external audit's impartiality and independence.

### **Other matters**

#### *Administration*

IT operation, parts of the portfolio management, property management, HR, and internal audit have been handled by the Nordea group. Nordea Liv & Pension handles the administration for the parent company, Nordea Life Holding AB.

#### *Remuneration Policy*

Nordea Liv & Pension has produced a remuneration policy. Link to the website:

[Organisation | Nordealivogpension.dk](https://www.nordealivogpension.dk)

## COMPANY INFORMATION AND DIRECTORSHIPS

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### Board of Directors\*

Anne Broeng, Chairman, Professional board member

Peter Gæmelke, Vice Chairman Self-employed farmer and professional board member

Gustaf Sebastian Björnson Unger, CEO at Nordea Life Holding AB

Lene Klejs Stuhr, HR Director

Karsten Sivebæk Knudsen, Professional board member

Mads Skovlund Pedersen, Deputy Head of Banking Nordea

Kent Petersen, Chairman of Finansforbundet

Chrilles-Zibrandt Svendsen, Professional board member

### Employee-elected\*\*:

Anne Marie Nielsen, Customer Adviser

Per Lyngh Sørensen, IT Developer

Tommy Østerberg, IT-expert Developer

Mogens Edvard Pedersen, Pension Advisor

### Management

Steen Michael Erichsen, CEO

Gitte Minet Aggerholm, Director

### Appointed actuary

Charlotte Markussen

### Audit

PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab

Business reg. no. 33771231

### Address

Nordea Liv & Pension, livsforsikringselskab A/S

Klausdalsbrovej 615

2750 Ballerup

Business reg. no. 24260577

Telephone 70 33 99 99

[www.nordealivogpension.dk](http://www.nordealivogpension.dk)

\* The current IFRS account has been approved by the current Board of Directors. The current Board was elected on an extraordinary general meeting 17 April 2018.

\*\*The employee election took place at the ordinary general meeting 25 April 2018.

## DIRECTORSHIPS

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The Board of Directors has approved the following directorships for persons employed by the Board of Directors:

### Management:

#### Steen Michael Erichsen

<u>Offices held</u>	<u>Company</u>
Board Member	Forsikring & Pension, industry association
Board Member	Nordea Ejendomsinvestering A/S
Chairman	Svend Aage Sørensen A/S
Proprietor	Leisure activity – forestry in Sweden

#### Gitte Minet Aggerholm

<u>Offices held</u>	<u>Company</u>
Chairman	NLP IT A/S
Chairman	Administrationsaktieselskabet Forenede Gruppeliv
Board Member	Nordea Pension Danmark, ejendomsselskab A/S
Board Member	Nordea Pension Danmark, ejendomsselskab II A/S
Board Member	Nordea Pension Danmark, Komplementar ApS
Board Member	Nordea Pension Danmark OPP P/S
Board Member	DNP Ejendomme P/S
Board Member	DNP Ejendomme Komplementarselskab ApS

### Appointed Actuary:

#### Charlotte Markussen

<u>Offices held</u>	<u>Company</u>
None	None

### Internal Audit:

#### Jesper Dan Jespersen

<u>Offices held</u>	<u>Company</u>
None	None

### Board of Directors' directorships in other business enterprises:

#### Anne Broeng, Chairman

<u>Offices held</u>	<u>Company</u>
Board Member and Chairman of the Audit committee	VKR Holding A/S
Board Member and Chairman of the Audit committee	Velux A/S
Vice-chairman	Bruhn Holding ApS
Board Member	Bikubenfonden

Board Member	Kollegiefonden Bikuben
Board Member and Chairman of the risk committee	Danske Commodities A/S
Board Member	F. Salling Invest A/S
Board Member	F. Salling Holding A/S
Board Member	Købmand Herman Sallings Fond
Board Member	Købmand Ferdinand Sallings Mindefond
Board Member and Chairman of the Audit committee	NNIT A/S
Board Member	Nasdaq OMX Nordic Oy
Board Member	Pension danmark Pensionsforsikringsaktieselskab
Board Member	Pension danmark Holding A/S
Board Member	ATP og Lønmodtagernes Garantifond
Board Member	Aquaporin A/S

### **Peter Gæmelke, vice-chairman**

<u>Offices held</u>	<u>Company</u>
Chairman	Løvenholm fonden
Chairman	Danske Spil A/S
Chairman	NGF Nature Energy Biogas A/S
Chairman	Norliv - Foreningen for kunder i Nordea Liv & Pension
Chairman	Museum Committee, Det Grønne Museum
Vice-chairman	Gl. Estrup Herregårdsmuseum
Board Member	DLR Kredit A/S
Board Member	Kirkbi A/S
Board Member	Askov Højskole

### **Gustaf Sebastian Björnson Unger**

<u>Offices held</u>	<u>Company</u>
CEO	Nordea Life Holding AB
Chairman	Nordea Livförsäkring Sverige AB (publ)
Chairman	Livförsikringsselskapet Nordea Liv Norge AS
Chairman	Nordea Life Assurance Finland Ltd.

### **Lene Klejs Stuhr**

<u>Offices held</u>	<u>Company</u>
Manager	Agilent Technologies Denmark ApS
Manager	Dako Denmark A/S
Board Member	AGILENT DGG POLSKA SPÓŁKA Z OGRANICZONA ODPOWIEDZIALNOSCIA

### **Karsten Sivebæk Knudsen**

<u>Offices held</u>	<u>Company</u>
Chairman	Vækst-Invest Nordjylland A/S
Board Member	Dampskibsselskabet Norden A/S
Board Member	K/S Vantaa, Finland

Vice-chairman	Nordsøenheden
Board Member	A/S Mototramp
Board Member	Obel-LFI Ejendomme A/S
Chairman	Polaris IV Invest Fonden
Board Member	Skovselskabet af 13. december 2017 A/S
Board Member	Aktieselskabet Dampskibsselskabet Orient's Fond

### **Kent Petersen**

<u>Offices held</u>	<u>Company</u>
Chairman	Finansforbundet
Vice-chairman	Norliv - Foreningen for kunder i Nordea Liv & Pension
Vice-chairman	Næstved Autocenter A/S
Board Member	Copenhagen Language Center
Board Member	Copenhagen FinTech
Member	Executive Committee, FTF

### **Mads Skovlund Pedersen**

<u>Offices held</u>	<u>Company</u>
Board Member	Danbolig A/S
Vice-chairman	Danish Employers' Association for the Financial Sector

### **Mogens Edvard Pedersen**

<u>Offices held</u>	<u>Company</u>
Board Member	Assurandør Kredsen

### **Members of the Board without other directorships:**

Anne Marie Nielsen  
Chrilles-Zibrandt Svendsen  
Per Lyngh Sørensen  
Tommy Østerberg



# Signing of the Financial Statements

Today the Board of Directors and CEO have considered and approved the Consolidated Financial Statements for Nordea Liv & Pension, Livsforsikringselskab A/S for the financial years ending 31 December 2016 and 31 December 2017.

The Consolidated Financial Statements have been presented in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

The Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2016 and 31 December 2017 and of the results of the Group's operations and cash flows for the financial years 1 January to 31 December 2016 and 1 January to 31 December 2017.

Copenhagen, 8 May 2018

## Management

*Steen Michael Erichsen*

*Gitte Minet Aggerholm*

## Board of Directors

*Anne Broeng*

Chairman

*Peter Gæmelke*

Vice Chairman

*Lene Klejs Stuhr*

*Gustaf Sebastian Björnson Unger*

*Kent Petersen*

*Karsten Sivebæk Knudsen*

*Mads Skovlund Pedersen*

*Chrilles-Zibrandt Svendsen*

*Tommy Østerberg*

*Anne Marie Nielsen*

*Per Lyngh Sørensen*

*Mogens Edvard Pedersen*

# The Independent Auditor's report

To the shareholders of Nordea Liv & Pension, livsforsikringselskab A/S

## Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2016 and 31 December 2017 and of the results of the Group's operations and cash flows for the financial years 1 January to 31 December 2016 and 1 January to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

## What we have audited

The Consolidated Financial Statements of Nordea Liv & Pension, livsforsikringselskab A/S for the financial years 1 January to 31 December 2016 and 1 January to 31 December 2017 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including summary of significant accounting policies for the Group. Collectively referred to as the "Financial Statements".

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

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

## Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2017. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<b><i>Measurement of investment properties</i></b>  The Group owns a number of investment properties, primarily through associates and subsidiaries. The value is DKK 14,887 million (2016: DKK 14,317 million) in total for average interest rate products and market interest rate products. The investment properties mainly consist of Danish residential and commercial property. The investment properties are measured at fair value based on the returns method calculating the value by a systematic assessment of individual properties based on capitalisation of the expected operating income from the properties and a required rate of return fixed individually for each property. The method contains assumptions which are non-observable by a third party and which involve significant accounting estimates regarding determination of expected operating income and required rate of return on the individual properties.  We have focused on the measurement of	 We examined, evaluated and tested the procedures and internal controls relating to the measurement of investment properties, including the valuation methods applied by Management.  We evaluated the development of the value and the composition of the investment property portfolio.  On a sample basis and based on the development of the total investment property portfolio, we <ul style="list-style-type: none"><li>evaluated the key assumptions (net income and rate of return) based on our knowledge of the individual property and market data</li><li>tested the correctness of the calculation</li><li>tested value adjustment entries</li><li>evaluated valuations performed by real estate brokers obtained by the Company.</li></ul> We challenged Management's estimates which form the basis of fair value calculations based on our knowledge of the

<p>investment properties because this involves significant accounting estimates.</p> <p>We refer to the section 'Accounting estimates' in Note 1, 'Investment properties' in Note 17, and 'Breakdown of investments and their returns for 2017" in note 38 and 39.</p>	<p>portfolio and market development.</p>
<p><i>Measurement of unlisted investments</i></p> <p>Other unlisted investments comprise investments in private equity funds, infrastructure funds, unlisted shares, etc and are included in the line items:</p> <ul style="list-style-type: none"> <li>- Equity investments in group enterprises</li> <li>- Equity investments in associates</li> <li>- Equity holdings</li> <li>- Unit trust certificates</li> <li>- Investment activities linked to market rate products</li> </ul> <p>Other unlisted investments amount to a total of DKK 19.5 billion (2016: DKK 18.4 billion) of the total investment assets. Other unlisted investments are measured at an estimated fair value based on valuation models and assumptions, including the Management's estimates, which are non-observable for a third party and affect the financial statements considerably.</p> <p>We focused on measuring the unlisted investments because the calculation is complex and involves the Management's estimates.</p> <p>We refer to the section 'Accounting estimates' in 'Other financial investment assets' in Note 1 and 'Financial assets and liabilities' in note 41.</p>	<p>We examined, evaluated and tested the procedures and internal controls relating to the measurement of other unlisted investments.</p> <p>We evaluated and tested the valuation methods applied by Management.</p> <p>For a sample of investments, we tested the consistency between the assumptions applied and the calculation of fair values.</p> <p>For a sample of investments, we tested the fair values applied to relevant reporting from external managers. Furthermore, we examined and tested relevant internal controls relating to existence, valuation, accuracy, etc in the internal process for verification of valuations. We challenged Management's estimates which form the basis of fair value calculations based on our knowledge of the portfolio and market development.</p>
<p><i>Measurement of provisions for insurance and investment contracts</i></p> <p>The Company has established provisions for insurance and investment contracts at a total of DKK 172,933 million (2016: DKK 159,357 million), which represents 78% (2016: 71%) of total liabilities. The provisions consist mainly of life insurance provisions for average interest rate and market interest rate products, provisions for claims due to health and accident insurance, and profit margin. The calculation is based on actuarial principles and involves significant accounting estimates related to the actuarial assumptions on the scope and timing of future payouts to the policyholders. The actuarial assumptions comprise primarily yield curve for discounting purposes, life expectancy, mortality, disability, surrender and paid-up policy</p>	<p>We examined, evaluated and tested the procedures and internal controls established to ensure the correct measurement of insurance and investment contracts.</p> <p>In connection with the audit, we used our own actuaries in the evaluation of the Company's actuarial models and assumptions, as well as the relevant calculations.</p> <p>We evaluated and challenged the most significant actuarial assumptions, such as: yield curve for discounting purposes, life expectancy, mortality, disability, surrender probability and costs in order to determine, based on our experience and knowledge of the industry, whether these are in accordance with regulatory and accounting requirements. This comprised an evaluation of the continuity in the basis of calculation of provisions.</p>

<p>probability, assumed retirement age and costs.</p> <p>We focused on the measurement of provisions for insurance and investment contracts because the calculation of provisions is complex and involves significant accounting estimates.</p> <p>We refer to 'Accounting estimates' in Note 1 and 'Provisions for insurance and investment contracts' in Notes 21 and 22.</p>	
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## Management's responsibilities for the Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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## Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 8 May 2018  
PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
CVR no 3377 1231

Erik Stener Jørgensen  
State Authorised Public Accountant  
mne9947

Per Rolf Larssen  
State Authorised Public Accountant  
mne24822

# Income statement

DKK million		2017	2016
Note			
3	Gross written premiums	18,874	15,580
	Ceded insurance premiums	-79	-80
	<b>Total premiums, net of reinsurance</b>	<b>18,796</b>	<b>15,501</b>
	Income from associates	501	259
4	Income from investment property	410	436
5	Interest income and dividends, etc.	4,643	5,059
6	Value adjustments	6,823	4,926
7	Interest expenses	-1,735	-1,457
	Administrative expenses of investment business	-312	-326
	<b>Total investment return</b>	<b>10,330</b>	<b>8,898</b>
	Tax on Investment Return	-1,310	-1,068
	<b>Return on investment after tax on investment returns</b>	<b>9,019</b>	<b>7,830</b>
8	Benefits disbursed	-12,700	-12,380
	Reinsurance cover received	35	25
	<b>Total insurance benefits, net of reinsurance</b>	<b>-12,665</b>	<b>-12,354</b>
	Change in life insurance provisions	-12,951	-6,310
	Change in reinsurers' share	-1	0
	<b>Total change in life insurance provisions, net of reinsurance</b>	<b>-12,952</b>	<b>-6,310</b>
	<b>Change in profit margin</b>	<b>-679</b>	<b>-2,798</b>
	<b>Change in surplus funds in surplus capital</b>	<b>-137</b>	<b>0</b>
9	Acquisition costs	-232	-220
	Administrative expenses	-418	-436
	Gross operating expenses relating to insurance	-650	-655
	Reimbursement of costs from group enterprises	44	35
	Net operating expenses relating to insurance	-606	-620
	Reinsurance commissions and profit sharing	0	1
10.11	<b>Total insurance operating expenses, net of reinsurance</b>	<b>-606</b>	<b>-619</b>
	Transferred investment return	10	-83
	<b>TECHNICAL RESULT</b>	<b>787</b>	<b>1,166</b>
12	<b>TECHNICAL RESULT OF HEALTH AND ACCIDENT INSURANCE</b>	<b>16</b>	<b>10</b>
	Investment return on equity	-59	18
13	Other income and expenses	7	6
	<b>PROFIT BEFORE TAX</b>	<b>751</b>	<b>1,200</b>
14	Tax	-224	-249
	<b>NET PROFIT FOR THE YEAR</b>	<b>527</b>	<b>951</b>

## Other comprehensive income

DKK million	2017	2016
Note		
Net profit/loss for the year	527	951
Total other comprehensive income	0	0
<b>Net Comprehensive income for the year</b>	<b>527</b>	<b>951</b>

# Balance sheet

DKK million		2017	2016	Opening balance 2016
Note				
	<b>ASSETS</b>			
	Intangible assets	352	251	163
15	<b>TOTAL INTANGIBLE ASSETS</b>	<b>352</b>	<b>251</b>	<b>163</b>
	Tangible assets	1	1	1
16	<b>TOTAL TANGIBLE ASSETS</b>	<b>1</b>	<b>1</b>	<b>1</b>
17	<b>Investment property</b>	<b>8,193</b>	<b>7,659</b>	<b>6,237</b>
18	Shares in associated companies	2,956	2,673	2,582
	Loans to associates	0	222	184
	<b>Total investment associated companies</b>	<b>2,956</b>	<b>2,895</b>	<b>2,766</b>
19	Shares	6,224	7,275	8,283
	Unit trust certificates	28,093	30,877	30,186
20	Bonds	69,228	83,344	82,414
21	Derivatives	23,728	24,670	26,270
	Other	749	617	0
22	<b>Total other financial investment assets</b>	<b>128,023</b>	<b>146,782</b>	<b>147,153</b>
38	<b>TOTAL INVESTMENT ASSETS</b>	<b>139,171</b>	<b>157,336</b>	<b>156,157</b>
23.39	<b>INVESTMENT ASSETS RELATED TO MARKET RATE PRODUCTS</b>	<b>77,225</b>	<b>60,405</b>	<b>53,021</b>
	Life insurance provisions, reinsurers' share	4	5	5
	<b>Total insurance contract provisions, reinsurers' share</b>	<b>4</b>	<b>5</b>	<b>5</b>
	Receivables from policyholders	557	337	434
	<b>Total amounts due related to direct insurance contracts</b>	<b>557</b>	<b>337</b>	<b>434</b>
	Receivables from insurance companies	446	475	865
	Receivables from group enterprises	9	5	10
	Current tax assets	110	67	62
	Other receivables	2,329	3,355	1,284
	<b>TOTAL RECEIVABLES</b>	<b>3,455</b>	<b>4,244</b>	<b>2,660</b>
	Cash and cash equivalents	4,326	4,132	5,266
	<b>TOTAL OTHER ASSETS</b>	<b>4,326</b>	<b>4,132</b>	<b>5,266</b>
	Interest receivable and accumulated rent	473	1,138	1,178
	Other prepayments and accrued income	302	359	333
	<b>TOTAL PREPAYMENTS AND ACCRUED INCOME</b>	<b>776</b>	<b>1,498</b>	<b>1,511</b>
24	<b>TOTAL ASSETS</b>	<b>225,305</b>	<b>227,866</b>	<b>218,779</b>



## Balance sheet

DKK million		2017	2016	Opening balance 2016
Note				
	<b>Liabilities</b>			
	Provisions for unearned premiums	17	18	50
25	Life insurance provisions - traditional product	93,375	95,599	96,536
26	Life insurance provisions - market rate products	74,783	59,631	52,422
	Profit margin on life insurance and investment contracts	3,485	2,807	0
	Provisions for claims	1,251	1,285	1,269
	Risk margin on non-life insurance contracts	16	11	0
	Provisions for bonuses and premium rebates	5	5	5
	<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>172,933</b>	<b>159,357</b>	<b>150,282</b>
	Payables, direct insurance operations	52	74	43
	Amounts owed to reinsurers	3	1	4
27	Payables to credit institutions	14,703	28,166	28,951
	Payables to group enterprises	21	19	16
	Current tax liabilities	81	0	38
	Unsettled purchase of investment assets	1,446	1,895	862
28	Other payables	26,601	29,030	28,896
	<b>Total liabilities other than provisions</b>	<b>42,906</b>	<b>59,186</b>	<b>58,808</b>
	<b>ACCRUALS AND DEFERRED INCOME</b>	<b>834</b>	<b>834</b>	<b>320</b>
14	Deferred tax liabilities	706	627	594
	<b>TOTAL PROVISIONS</b>	<b>706</b>	<b>627</b>	<b>594</b>
	Surplus funds	137	0	0
29,30	Other subordinate loan capital	3,233	3,233	2,300
	<b>TOTAL SUBORDINATE LOAN CAPITAL</b>	<b>3,369</b>	<b>3,233</b>	<b>2,300</b>
	<b>Total liabilities</b>	<b>220,749</b>	<b>223,237</b>	<b>212,304</b>
	Share capital	600	600	600
	Contingency fund	488	488	488
	Andre reserver	0	0	2
	Retained earnings	3,068	5,735	5,385
	Disbursed extraordinary dividends in the year	0	-2,794	0
	Proposed dividend for financial year	400	600	0
31	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>4,556</b>	<b>4,629</b>	<b>6,475</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>225,305</b>	<b>227,866</b>	<b>218,779</b>
	Notes not related to P/L and Balance sheet			
1	Accounting policies			
2	Segment reporting			
32	Capital base			
33	Charges and collateral securities			
34	Contingent assets			
35	Contingent liabilities and undertaking			
36	Transactions and contracts with related parties			
37	Commitments with or collateral securities for Management and Board of Directors			
38	Breakdown of investment assets and their returns for 2017 - average rate products			
39	Breakdown of investment assets and their returns for 2017 - market rate products			
40	Balance sheet movements broken down on payment periods			
41	Financial assets and liabilities			
42	Sensitivity information			
43	Risk information			
44	Calculation of realised result and principles used for its distribution			
45	Events after the balance sheet date			
46	Five-year summary of key figures and financial ratios			

## Statement of changes in equity

DKK million	Share Capital	Contingency funds	Other Provisions	Retained earnings	Proposed dividends	Total
Note						
Equity 1 January 2016	600	488	2	5,385	0	6,475
<i>Change in equity in 2016</i>						
Profit/(loss) for the year	0	0	0	351	600	951
Other comprehensive income	0	0	0	0	0	0
Comprehensive income for the year	0	0	0	351	600	951
Distributed dividend	0	0	0	-2,794	0	-2,794
Share-based payment	0	0	-2	0	0	-2
Total change in equity 2016	0	0	-2	-2,443	600	-1,845
<b>Equity 31 December 2016</b>	<b>600</b>	<b>488</b>	<b>0</b>	<b>2,941</b>	<b>600</b>	<b>4,629</b>
Equity 1 January 2017	600	488	0	2,941	600	4,629
<i>Change in equity in 2017</i>						
Profit/(loss) for the year	0	0	0	127	400	527
Other comprehensive income	0	0	0	0	0	0
Comprehensive income for the year	0	0	0	127	400	527
Distributed dividend	0	0	0	0	-600	-600
Share-based payment	0	0	0	0	0	0
Total change in equity 2017	0	0	0	127	-200	-73
<b>Equity 31 December 2017</b>	<b>600</b>	<b>488</b>	<b>0</b>	<b>3,068</b>	<b>400</b>	<b>4,556</b>

# Cash flow statement

DKK million

2017

2016

## Cash flow from operating activities

Premiums and benefits disbursed	5,806	3,696
Cashflow from expenses	-570	-661
Paid Tax	-1,483	-1,493
Other cash flow from operating activities	-1	-7
	<b>3,751</b>	<b>1,535</b>

## Cash flow from investing activities

Buy and sales of property investments	-567	-253
Other cash flow from investing activities incl. purchase and sale of financial instruments	-2,593	-828
	<b>-3,160</b>	<b>-1,081</b>

## Cash flow from financing activities

Distributed dividend	-600	-2,794
Debt to credit institutions and Subordinated loan capital	203	1,206
	<b>-397</b>	<b>-1,588</b>

## Total cash flow

	<b>194</b>	<b>-1,134</b>
Cash beginning of year	4,132	5,266
Cash end of year	4,326	4,132

Surplus funds, beginning of year	0	0
Payments to Surplus funds	135	0
Accrual of interests	2	0
<b>Surplus funds, end of year</b>	<b>137</b>	<b>0</b>

Surplus funds consists of payments from customers regarding the product DinKapital. Surplus funds is increased with payments from customers and ongoing accrual of interests, while the repayments are made as the benefits are disbursed.

Other subordinated loan capital, beginning of year	3,233	2,300
Acquired other subordinated loan capital	0	933
<b>Other subordinated loan capital, end of year</b>	<b>3,233</b>	<b>3,233</b>

At the end of 2017 Other subordinated loan capital consists of two secure loans at Nordea Bank AB and one at Norliv, respectively of DKKm 1.500, DKKm 800 and DKKm 933. The two loans at Nordea Bank of DKKm 1.500 and DKKm 800 is expected to be repaid as new capital is acquired through the issuing of corporate bonds. The loan at Norliv of DKKm 933 is acquired in 2016 and is not expected to be repaid any time soon.

Debt to credit institutions, beginning of year	607	272
Changes in Debt to credit institutions	177	336
<b>Debt to credit institutions, end of year</b>	<b>784</b>	<b>607</b>

# NOTES

## Note 1

### ACCOUNTING POLICIES

Nordea Liv & Pension is a pension company placed in Ballerup in Denmark selling life insurance, Health and Accident insurance and pension products. The consolidated financial statements have been presented in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) which have been adopted by the EU, with accompanying interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and parts of the Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds as specified in the Executive Order on International Accounting Standards for Companies comprised by the Danish Business Act.

The amounts disclosed in the income statement, balance sheet and notes are presented in whole numbers of DKKm. The amounts have been rounded separately and consequently the sum of the rounded amounts and totals may differ slightly.

#### Transition to IFRS

These are the first consolidated financial statements presented in accordance with IFRS as endorsed in the EU. Nordea Liv & Pension has not previously presented consolidated financial statements, and the separate financial statements of the parent company are presented in accordance with the Danish Business Act and the Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds. The effect of adoption of IFRS is disclosed in Note 1.

In the separate financial statements, the deferred tax liability on security funds, MDKK 58 as of 1 January 2016 is exempted from recognition as a deferred tax liability. Under IFRS, no such exemption exists, and the deferred tax liability has been adjusted accordingly. There are no other differences in accounting policies, and

consequently, the difference between equity as reported in the separate financial statements and as reported in these consolidated financial statements relates to deferred tax.

When preparing the consolidated financial statements, the group has applied standards and interpretations effective for accounting periods beginning on 1 January 2017.

#### Change of accounting estimates from 2016 to 2017

When updating the cost parameters to market value, Nordea Liv & Pension has introduced a change in the estimate method of the administration charge imposed on the individual type of policy. The change of estimate, including adjustment of parameters, implies a strengthening of provisions of DKKm 334.

Moreover, changes have been made to the basis of calculation of the expected future longevity improvements, for which the basis of calculation is based on data over the last 20 years, compared to 30 years previously. This step has implied a strengthening of provisions of DKKm 550.

No further changes of accounting estimates have been carried out.

#### Significant accounting estimates, assumptions and uncertainties

The accounting value of assets and liabilities are calculated based on assumptions which include the use of accounting estimates. The management has determined these estimates based on historic experience and assumptions found reasonable and realistic by the management.

Because of the estimates' nature, the assumptions used may prove to be incomplete, and unexpected future events or circumstances may arise.

The most significant estimates determined by Management when calculating the carrying amount of assets and liabilities as well as the significant estimation uncertainty associated with the preparation of the consolidated financial statements are listed here:

- Measurement of investment property
- Measurement of unlisted financial instruments and property funds
- Measurement of technical provisions/life insurance provisions

#### **Measurement of fair value of unlisted financial instruments and property funds**

Where there is no active market, the calculation of the unlisted financial instrument's fair value is subject to an accounting estimate. The valuation is based on models and, where possible, observable data. The estimates are linked in particular to the assumptions upon which the reporting received from the equity funds/asset managers are based. Often it also entails a time lag. To ensure reliability of the calculated estimates, Nordea Liv & Pension has set up in-house processes to support the prepared estimates. The time lags between reporting and accounting data must be allowed for by obtaining additional information regarding the price movement. Where this is impossible, further estimates of fair value have been carried out.

When measuring the fair value of derivatives, bid-offer spreads must be taken into account as the recognition takes place at mid prices. Credit valuation adjustments (CVA) in relation to the calculated values are also taken into account. The uncertainty is in particular linked to the determination of probability of non-compliance from Nordea Liv & Pension's counterparties. Nordea Liv & Pension only trades derivatives based on ISDA and CSA agreements to ensure a low counterparty risk due to frequent exchange of collateral. Besides exchange of collateral on a daily basis, Nordea Liv & Pension's derivative positions are valued by a business partner who is also performing the operational part of the collateral exchange.

#### **Measurement of technical provisions/life insurance provisions**

Determination of the accounting value of the technical provisions is linked to an estimate which is connected in particular to the maturity-dependent discount rate and assumptions on mortality, disability, lapse and surrender. The determination of the different assumptions is based on acknowledged actuarial principles.

#### **Measurement of investment property**

The determination of the investment property's fair value is subject to a significant estimate. Mainly, the estimate is linked to the calculation of the required rate of return. As a supplement to this, the group has obtained brokerage appraisal on selected properties.

#### **Consolidation**

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and it has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date when control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

#### **Group enterprises**

Payables and receivable amounts owed to group enterprises' include amounts due and amounts owed to companies that form part of the Nordea group, but are not a part of the Nordea Liv & Pension group. 'Amounts due' and 'amounts owed to group enterprises' are measured at fair value.

## Associates

Associates are all entities over which the group has significant influence.

The associates are measured at their net asset value according to the equity method.

## Foreign currency

Assets and liabilities denominated in foreign currency, including foreign currency hedging instruments, are converted into Danish Kroner after the balance sheet date's exchange rate. Revenues and costs in foreign currency are converted into the exchange rate at the date of transaction. Denmark's Nationalbank's published exchange rate is used at the conversion. All conversion gains and losses are recognised in the income statement in the item 'exchange rate adjustments'.

## Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

## INCOME STATEMENT

### In general

The allocation of non-direct attributable costs is carried out in relation to the cost attribution model as specified in-house. The model uses basis of allocation which are based mainly on registered and estimated time consumption as well as the size of gross written premiums, insurance benefits and life insurance provisions.

### Premiums

Premiums, net of reinsurance, comprise the year's gross written premiums due and capital contribution adjusted for ceded reinsurance premiums. The accrual of the premium revenue is adjusted over the unearned premiums provisions.

### Investment return

Income from associates includes a share of post-tax profit corresponding to the equity investments in subsidiaries and associates.

Income from investment property includes the property's operating results less a deduction of costs for the property management.

Interest income and dividends etc. comprise the financial year's interests on bonds, including indexation of index-linked bonds, other securities, loans and receivables, and interest rate payments on derivatives. Also included are received dividends from holdings except from dividends from group enterprises and associates.

Exchange rate adjustments include realised and unrealised gains and losses on investment assets, financial liabilities at a fair value, and foreign exchange rate adjustments of holdings in group enterprises and associates. The net sum is stated in the income statement.

Interest expenses include the financial year's interest rate payments on loans and derivatives.

Administrative costs in connection with investing activities comprise costs related to the management of investment assets.

### Tax on Investment Return

Pension return tax (PAL) is a tax imposed on the return of investments. PAL is recognised with the sum payable for the financial year and added changes in provision for deferred PAL. Any negative PAL is deductible from the following year's PAL. The item pension return tax comprises PAL for individual policyholders and for the group.

### Insurance benefits

'Insurance benefits, net of reinsurance' are a result from the year's disbursed benefits adjusted for the year's change in provisions for claims and after deduction of the reinsurance share.

### Change in life insurance provisions

'Change in life insurance provisions, net of reinsurance' comprises the year's change in life insurance provisions.

### Change in profit margin

The recognised change comprises change in profit margin linked to the life insurance provisions.

### **Insurance operating expenses**

'Operation expenses relating to insurance, net of reinsurance' comprise costs linked to acquisition and administration of the company's portfolio of insurance contracts. The accounting item is adjusted for commissions from reinsurers. The costs for acquisition of the portfolio is recognised at the policy origination.

### **Transferred investment return**

'Transferred investment return' constitute the return transferred to equity, achieved as investment return on the assets allocated to the equity.

Furthermore, a share of the result of investing activities corresponding to the return on its allocated assets will be transferred to the Health and Accident insurance.

### **Technical result of Health and Accident insurance**

The technical result of Health and Accident insurance is calculated according to the rules of non-life insurance. The investment return is however calculated according to the rules of life insurance. The technical result of Health and Accident insurance is included in a single item posted in the income statement and specified in a note.

### **Other income and expenses**

'Other income and expenses' comprise income and expenses that cannot be attributed directly to the administration costs, insurance activities or investing activities.

### **Tax**

'Tax', an accounting item, includes current tax calculated on determined tax basis for the financial year, adjustment of tax concerning earlier years, and change in deferred tax.

Group enterprises are governed by mandatory territorial joint taxation with all Danish subsidiaries and branch offices of the Nordea group. Current tax is calculated from the jointly taxed income and deductions are made from companies and branches offices with a positive income. To the extent that a Group entity makes use of a deficit of a jointly

taxed entity outside the Group, the Group entity must pay for the value of it, whereas Group entity with a tax loss will receive the value of its tax loss from a jointly taxed entity outside the Group.

The parent company is comprised by a withholding tax scheme. Charges, deductions and allowances related to tax payment are included in 'interest expenses' and 'interest income'.

### **Other comprehensive income**

The group has chosen to present the comprehensive income as a total calculation in continuation of the income statement. At present, the group has no items to recognize under other comprehensive income.

## **BALANCE SHEET**

### **In general**

The trade date is used as recognition date for all financial assets and liabilities (financial instruments).

## **ASSETS**

### **Intangible assets**

In-house developed software is recognised in the balance sheet at cost less accumulated depreciation and impairment losses. The cost of in-house development consists of project development costs. Depreciations are made on a straight-line basis over the expected useful life. The depreciation period is no longer than 15 years. Any loss at impairment will be assessed based on a depreciation test. Costs attributed to maintenance of intangible assets will be recognised in the year of payment.

### **Tangible assets**

The item comprises furniture, and other tangible assets to be measured at cost less accumulated depreciations. The depreciations are made on a straight-line basis over the expected useful life of no more than 5 years.

### **Investment property**

Investment property is measured at fair value calculated on the basis of the return method.

The fair value of the individual property is calculated at a systematic assessment based on a capitalisation of the property's expected rate of return with a required rate of return link to the individual property.

The properties are assessed periodically by external experts. Property under construction is measured at cost until the time when the fair value can be measured reliably, which is at the time of completion, typically. If indications of impairment exist, the property is tested for impairment immediately and written down its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

### **Financial assets**

Financial assets are upon initial recognition classified as:

- Financial assets which are measured at fair value with fair value adjustment recognised in the income statement or,
- Loans and receivables which are measured at amortised cost.

Financial assets at fair value with fair value adjustment recognised in the income statement are financial assets which are derivatives or investing activities which are included in this classification at the time of their first recognition, because the assets are managed and measured on a fair value basis, or because this eliminates or significantly reduces accounting inconsistency.

All financial assets recognised 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 income statement.

Investment in assets traded in an active market, including listed derivatives, are measured at the closing price at the balance sheet date or at another published price assumed to correspond best estimate. The fair value of bonds which have been redeemed but not yet repaid are measured at the redemption price of 100.

Repos (sell-buy back) are recognised and measured as secured loans. Bonds sold as part of repo transactions have been included as bonds in the balance sheet at fair value. For investment assets which have not been listed at the stock exchange or where no stock exchange exists to reflect the assets' fair value, the fair value is determined by way of generally acknowledged valuation techniques which include all available data. The market participants are assumed to take these data into consideration at a price determination as the use of relevant observable data will be maximised and the use of non-observable data will be minimised.

The outcome of applying pricing models for alternative investments is often expressed as estimates of a value that cannot be determined uniquely as no observations exist to which the value can be compared. The information from fund managers is included in the basis of pricing of alternative investments. On a quarterly basis, the company also carries out a random check of an independent price valuation by comparing private equity funds with relevant benchmarks. This process is a quarterly valuation carried out to ensure that the fund managers' own valuation is in line with the market. For this reason, risk factors are included as additional parameters.

Monthly or quarterly reports as well as audited financial statements for the funds are received regarding alternative investments where investments have been made via fund structures. As the underlying investments may be listed securities and derivatives, updates prices often exist.

Derivatives, which are not listed at a stock exchange, are measured at fair value by using the generally acknowledged pricing models.

Derivatives that are eligible hedges of market risks for investment assets or eligible to achieve a higher return will be included in the balance sheet as an investment asset according to type or liability in the item 'other creditors' if the fair



value is negative. Foreign exchange hedging instruments as well as derivatives that are eligible hedges of interest rate risk for life insurance liabilities are included in the balance sheet in the item 'other investment assets' and 'other creditors' if the fair value is negative. Derivatives are included in the item 'other' under 'financial investment assets'.

#### **Reinsurers' share of insurance contract provisions**

The item 'reinsurers' share' comprises the amounts that the group is owed or is expected to receive from reinsurance undertakings according to reinsurance contracts, including accrued reinsurance premiums. 'Reinsurers' share' comprises Health and Accident insurance as well as life insurance contracts.

#### **Receivables**

Debtors are measured at amortised cost and depreciations are made with an objective indication of impairment.

#### **Cash/Other assets**

The item 'cash'/'other assets' is recognised and measured in the balance sheet at fair value, which normally corresponds to face value.

#### **Prepayments and accrued income**

The item 'prepayments and accrued income' comprises revenue received no later than on the balance sheet date, but relating to the following year. They are measured at the amount paid and received respectively.

## **LIABILITIES**

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

The item 'unearned premiums provisions' comprises the share of the premiums paid for Health and Accident insurance relating to the following financial year. The item also includes provision for increasing age regarding Health and Accident insurances. The provision is made for insurances in force on the balance sheet date and covers estimated claims incurred and costs linked to the increasing risk resulting from the policyholders' increasing age that is not covered by a

corresponding increase in premiums during the life of the insurances.

#### **Profit margin on non-life insurance contracts**

Profit margin is the present value of future profit from the non-life insurance contracts. The profit margin is expected to be recognised in the income statement as the insurance covers and other benefits are disbursed under the contract.

#### **Risk margin on non-life insurance contracts**

Risk margin is a charge which an acquirer of the company would demand to assume the risk as the costs of liquidating the portfolio may deviate from the present value of the best estimate of the cash flows.

The risk margin has been calculated according to a cost-of-capital method.

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

Provisions for bonus and premium discounts regarding Health and Accident insurances comprise owed premium amounts relating to the financial year and repayable to the policyholders. The repayments are determined based on the claims experience of the financial year.

#### **Life insurance provisions**

Life insurance provisions for traditional product and market interest rate are computed at market value in accordance with the basis of calculation reported to the Danish Financial Supervisory Authority.

Life insurance provisions comprise guaranteed benefits, individual bonus potentials and collective bonus potentials.

#### ***Guaranteed benefits***

Guaranteed benefits comprise obligations to pay guaranteed benefits to policyholders. Guaranteed benefits are calculated on market terms as the present value of the benefits guaranteed on the insurance plus the present value of the expected future administrative expenses and less the present value of the agreed future premiums. The calculation of

guaranteed benefits includes recognition of surrender and paid-up policy options.

The guaranteed policy are computed at present value for each insurance based on a yield curve which has been produced according to principles that are in agreement with the risk-free yield curve with value adjustment published by EIOPA.

The calculation includes a risk margin. The risk margin has been calculated according to a cost-of-capital method.

When calculating the expected future expenses of administration, a follow-up of the cost parameters which are the basis of the calculation and these are adjusted if the review should give rise to it.

The risk parameters for death and disability are computed based on an analysis of the group's own portfolio of insurances for the last few years. The analysis includes an assessment of the group's risk result.

An analysis is carried out of the computed parameters for calculation of mortality in accordance with the benchmark model published on the website of the Danish Financial Supervisory Authority.

#### *Individual bonus potentials*

Individual bonus potential comprises obligations to provide bonus and is the part of the policyholders' bonus entitlement that is included in the present savings. The calculation is made as the difference between the value of the policyholders' savings and the value of guaranteed benefits. The bonus potential cannot be negative. If this is the case, it will be covered by the provisions.

#### *Collective bonus potential*

The collective bonus potential comprises the part of the policyholders' bonus entitlement not yet allocated to the individual insurances/deposits.

Collective bonus potential is composed by the insurance portfolio's share of realised results which is transferred collectively to bonus-entitled insurances. The collective bonus potential cannot be negative.

Collective bonus potential is divided into a number of contribution groups.

The bonus-entitled insurances' share of a negative realised result is mainly recognised by reducing the collective bonus potential in the relevant contribution group. If the collective bonus potential is not sufficient to detect any result, the individual bonus potential is reduced and then the profit margin to the extent that is possible taking into consideration the rules of the Executive Order on Contribution.

#### *Collective bonus potential regarding interest rate*

An allocation of collective bonus potential has been carried out regarding allocation of interest to the four interest rate groups established and reported to the Danish Financial Supervisory Authority in compliance with the current Executive Order on Contribution.

#### *Collective bonus potential regarding risk*

An allocation of collective bonus potential has been carried out regarding allocation of risk to the three risk groups established and reported to the Danish Financial Supervisory Authority in compliance with the current Executive Order on Contribution.

#### **Profit margin on life insurance and investment contracts**

The profit margin represents the present value of the group's future profit from life insurance contracts expected to be recognised in the income statement as insurance covers and any other benefits are provided under the contract.

#### **Outstanding claims provisions**

Outstanding claims provisions are amounts of insurance due but not yet paid, including bonus, together with long-tailed claims.

Outstanding claims provisions regarding Health and Accident insurance comprise amounts provided for cover of injuries occurred at the end of the year but not yet disbursed as benefit. Outstanding claims provisions regarding Health and Accident insurance are calculated based on details of the level of injury together with an

experience-based determined amount provided for cover of occurred but not yet reported injuries and together with administration costs in connection with the settlement of claims. Outstanding claims provision regarding Health and Accident insurance settled by regular disbursements are calculated at present value according to actuarial principles of discounting of the expected future disbursements. Discounting takes place based on the zero-coupon yield curve published by the Danish Financial Supervisory Authority.

### **Deferred tax liabilities**

Deferred tax is recognised for all temporary differences between accounting and taxation values of assets and liabilities, except from temporary differences which arise at initial recognition of an asset or a liability if the transaction has affected neither taxable income nor accounting profit. Deferred tax is measured at the tax rate applicable when the temporary difference is expected to be realised. The tax value of tax loss carryforwards is recognised to the extent that it is expected to be utilised.

Deferred tax assets, including the value of tax loss carryforwards, and tax on contingency funds, are included in the balance sheet either by a deduction in deferred tax or as net tax assets.

### **Other liabilities and accruals and deferred income**

The item 'Payables to credit institutions' solely comprises liabilities linked to the investment activity, which has been calculated at fair value.

The item 'other payables' in the balance sheet comprises derivatives, which are formed to hedge the interest rate risk on life insurance obligations, foreign exchange hedging instruments and is measured at fair value.

Liabilities not connected to the investment activity are measured at amortised cost. The item 'accruals and deferred income' comprises payments made at the latest on the balance sheet date and relating to the following years.

Collateral securities related to financial investments are measured at fair value.

### **Dividends**

The item 'proposed dividends' is recognised as a liability at the time of adopting the proposal at the general meeting (time of declaration). Dividends which are expected to be disbursed for the period will be shown as a separate item in the statement of changes in equity.

### **Subordinated debt and surplus capital**

'Subordinated debt' and 'surplus capital' are subordinated loan capital. In the event of the company's voluntary or compulsory winding-up, the subordinated debt and surplus capital will not be repaid until after the claims of its ordinary creditors have been met. The item is measured at amortised cost.

### **Shadow account**

The shadow account is an account outside of the balance sheet to which any non-recognised risk premium is transferred. Later, when the realised result makes it possible, the owed risk premium will be recognised from the shadow account if this is estimated to be financially prudent.

The last entry from the shadow account has been recognised in 2017.

### **Cash flow statement**

The cash flow statement shows inflows and outflows of cash and cash equivalents during the year for total operations. The statement has been presented in accordance with the indirect method, whereby payment received and made related to operating activities are presented within cash flows from operations.

Operating activities are the principal revenue generating activities, and cash flows are mainly derived from the operating profit for the year excluding non cash items.

Investing activities include purchases and disposals of non-current assets, like property and equipment, intangible and financial assets.

Financing activities are activities that result in changes in equity and subordinated liabilities.

## Future standards and interpretations

International Accounting Standards Board (IASB) og International Financial Reporting Interpretations Committee (IFRIC) have issued a number of amendments and interpretations which have not yet come into force. The standards are explained in the sections below:

### IFRS 9 financial instruments, classification and measurement

IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has three classification categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. It is measured at fair value through other comprehensive income if the business model is to collect and sell the assets, and the contractual cash flow characteristics are as described above.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value. For equity instruments outside the trading portfolio an entity has an irrevocable option on an instrument by instrument basis to recognise fair value changes in other comprehensive income.

The option to designate financial assets at fair value if this eliminates or significantly reduces an accounting mismatch is retained.

The standard is effective as of 1 January 2018. Insurers can elect to defer adoption of the standard until IFRS 17, Insurance contracts applies. Management expect to apply this option.

### IFRS 16 leases

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. IFRS 16 is effective as of 1 January 2019.

### IFRS 17 Insurance contracts

IFRS 17 replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the cover period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income.

An optional, simplified premium allocation approach is permitted for the liability for the remaining cover for short duration contracts, which are often established by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts established by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The standard is effective as of 1. January 2021. Management expects to adopt IFRS 17 when it becomes mandatory and has not yet completed the analysis of the impact on the group's current accounting policies.

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

# Notes

## DKK million

### 2 Segment reporting

Business segment are split by product types. The segment "Traditionel" contains traditional life insurance products, pension with guarantees and "Forenede Gruppeliv". The segment "Markedsrente" contains pensionproducts with marked returns. The "Other" segment contains SUL, Liv III, Polen and the equity. The equity is carrying the tax obligation for the enterprise.

Segment reporting 2017	Traditionel	Markedsrente	Other	Eliminations	Group
Gross written premiums*	3,775	16,572	100	-1,551	18,895
Total insurance benefits	-7,916	-6,094	-230	1,551	-12,689
Change in life insurance provisions	2,010	-15,971	103		-13,857
Operating expenses	-331	-275	-18		-624
Investment return	3,432	6,826	130		10,388
Tax on Investment Return	-375	-935	0		-1,310
Equity investment return	0	0	-57	-2	-59
Other income	0	7	0		7
Ordinary result before tax	594	130	28	-2	751
Tax	0	0	-224		-224
<b>Net profit for the year</b>	<b>594</b>	<b>130</b>	<b>-195</b>	<b>-2</b>	<b>527</b>

Segment reporting 2016	Traditionel	Markedsrente	Other	Eliminations	Group
Gross written premiums*	3,649	13,001	106	-1,149	15,607
Total insurance benefits	-8,065	-5,436	-242	1,149	-12,593
Change in life insurance provisions	940	-10,030	80		-9,011
Operating expenses	-365	-252	-22		-639
Investment return	5,464	3,344	106		8,914
Tax on Investment Return	-619	-445	0		-1,064
Equity investment return	0	0	-20		-20
Other income	0	6	0		6
Ordinary result before tax	1,004	187	9		1,200
Tax	0	0	-249		-249
<b>Net profit for the year</b>	<b>1,004</b>	<b>187</b>	<b>-240</b>	<b>0</b>	<b>951</b>

\*The difference between the Gross written premiums in the P/L and in the segment statement is reinsurance premiums

### 3 Gross written premiums

	2017	2016
Premiums, individual, exclusive of group life	289	304
Premiums, corporate schemes, exclusive of group life	8,234	7,317
Premiums, group life	791	827
Direct insurance, exclusive of single premiums	9,315	8,449
Single premiums, individual	198	219
Single premiums, corporate schemes	9,361	6,912
Direct insurance	18,874	15,580
Indirect insurance	0	0
<b>Gross written premiums included in the income statement</b>	<b>18,874</b>	<b>15,580</b>
<b>Premiums, direct insurance, broken down by insurance arrangement</b>		
Insurance taken out through employers	17,595	14,229
Insurance taken out by individuals	488	523
Group life insurance	791	827
	<b>18,874</b>	<b>15,580</b>

# Notes

DKK million	2017	2016
3 <i>continued</i>		
<b>Premiums, direct insurance, broken down by bonus arrangement</b>		
Insurance with bonus plans	3,883	3,941
Insurance without bonus plans	165	278
Investment risk is assumed by policyholder	14,826	11,361
	<b>18,874</b>	<b>15,580</b>
<b>Number of insured, direct insurance (1,000 units)</b>		
Insurance taken out through employers	303	267
Insurance taken out by individuals	217	231
Group life insurance	234	250
<b>Premiums, direct insurance, broken down by policyholders' residence</b>		
Denmark	18,670	15,312
Other EU countries	175	243
Other countries	29	25
	<b>18,874</b>	<b>15,580</b>
4 <b>Income from investment property</b>		
Rent	594	605
Direct costs	-185	-169
	<b>410</b>	<b>436</b>
Rental of investment properties is considered operational leasing. Some of the leases are non-cancellable for a number of years.		
<b>Maturity distribution of future minimum lease payments under non-cancellable operating leases</b>		
No later than one year	295	247
Later than one year and no later than five years	127	135
Later than five years	277	287
	<b>699</b>	<b>668</b>
5 <b>Interest income and dividends, etc.</b>		
Dividend of holdings	242	179
Dividend, private equity funds	1,081	1,182
Dividend, hedge funds	50	13
Dividend unit trust certificates	114	262
Dividend, other alternative investments	181	237
Interest on securities etc.	1,200	1,528
Financial instruments	1,613	1,451
Indexation of index-linked bonds	160	207
	<b>4,643</b>	<b>5,059</b>
Interest income concerns assets priced at fair value		
6 <b>Value adjustments</b>		
Investment property	132	91
Shares	2,970	570
Unit trust certificates	5,231	2,221
Listed bonds exclusive of index-linked bonds	-1,029	2,025
Index-linked bonds	-69	-86
Cash on hand and demand deposits	-2	-1
Other	-409	107
	<b>6,823</b>	<b>4,926</b>
7 <b>Interest expenses</b>		
Interest costs from assets at fair value	-1,631	-1,394
Interest costs from assets at amortised cost	-104	-63
	<b>-1,735</b>	<b>-1,457</b>

# Notes

DKK million		2017	2016
8	<b>Benefits disbursed</b>		
	Death benefits	-958	-875
	Benefits at critical illness	-173	-169
	Disability benefits	-82	-87
	Benefits at maturity	-283	-319
	Retirement and annuity benefits	-3,602	-3,634
	Surrender	-7,601	-7,290
	Payment of indirect taxes	0	-1
	Bonuses disbursed in cash	-1	-5
	<b>Total direct insurance contracts</b>	<b>-12,700</b>	<b>-12,380</b>
	Indirect insurance	0	0
		<b>-12,700</b>	<b>-12,380</b>
9	<b>Acquisition costs</b>		
	Commission on direct insurance	-81	-75
	Other purchase costs	-151	-145
		<b>-232</b>	<b>-220</b>
10	<b>Total insurance operating expenses, net of reinsurance</b>		
	<i>Breakdown of staff costs *):</i>		
	Salaries	-354	-365
	Pension contributions	-46	-47
	Other social security costs	-5	-4
	Fees calculated on basis of staff numbers or total salaries paid	-56	-54
	Other	-3	-9
		<b>-464</b>	<b>-479</b>
	*) Including payment of employers' contribution to Health and Accident insurance as well as staff costs relating to the group enterprises for which the company is providing administration services, see Note 36.		
	Average number of employees (full-time) for the year	472	491
	<b>Salary to the Executive Board (DKK million)</b>		
	Fixed salary	3.59	4.34
	Pension contributions	0.48	0.53
	Variable salary	1.51	1.98
		<b>5.59</b>	<b>6.84</b>
	<b>Board of Directors (DKK million)</b>		
	Chairman Johan Bertil Ludvig Nystedt, until 1 August 2017	3.52	
	Chairman Gustaf Sebastian Björnson Unger, from 1 August 2017	2.22	
	Bent Tjørnemark	0.20	
	Peter Gæmelke	0.10	
	Kent Petersen	0.10	
	Mads Skovlund	0.10	
	Hanna Sigrud Jacobsson	0.10	
	Michael Frisch	0.10	
	Hans Arnum, from 1 March 2017	0.10	
	Per Lyngh Sørensen, from 12 June 2017 (employee representative)	0.06	
	Peter Thomsen (employee representative)	0.10	
	Bettina Biel-Courtney (employee representative)	0.10	
	Anne Marie Nielsen (employee representative)	0.10	

\* The Board of Directors consists of 12 members at the end of 2017. During the year, 1 member resigned from the Board of Directors and 3 members joined the Board of Directors, of these there is 1 employee representative. Remunerations are disbursed to 7 members in the Board of Directors, of these there are 4 employee representatives. The other members receive no remuneration for their tasks as a board member in the company. However, 5 of the board members receive remuneration as a member of the Board of Directors or Board of Managers in another company within the Nordea group. No variable remuneration or pension contribution is paid in relation to the Board of Directors' remuneration. The breakdown comprises earned remuneration and fees in 2017.



# Notes

DKK million	2017	2016
10 <i>continued</i>		
<b>Risk-takers (DKK million)*</b>		
Fixed salary	37.57	52.35
Pension contributions of fixed salary	4.00	5.94
Variable salary	5.95	8.63
	<b>47.51</b>	<b>66.92</b>
*Number of risk-takers in company is 28 persons, end of 2017. It was 56 persons, end of 2016. Breakdown comprises earned remuneration.		
<i>Breakdown of salary pursuant to Executive Order to the Danish Financial Business Act, §77d, subsection 3.</i>		
<b>Executive Board (DKK million)*</b>		
Steen Michael Erichsen, Chief Executive Officer	3.69	3.69
Lene Østerberg, Chief Operating Officer	1.90	3.16
* Breakdown above comprises earned remuneration. Lene Østerberg until 23 June 2017.		
<b>Cash bonus scheme</b>		
Bonus allocated in 2017: Three employees in Nordea Liv & Pension are comprised by the EIP (Executive Incentive Programme). A provision of DKKm 3.2 is made in 2016 to be disbursed in a cash bonus scheme. The final sum is to be disbursed with 20% in April 2018 and 80% during a period of 5½ years.		
Bonus allocated in 2016: Three employees in Nordea Liv & Pension are comprised by EIP. A provision of DKKm 2.8 is made in 2016 to be disbursed in a cash bonus scheme. The final sum is to be disbursed with 20% in April 2017 and 80% during a period of 5½ years.		
Bonus allocated in 2015: Two employees in Nordea Liv & Pension are comprised by EIP. A provision of DKKm 3.3 is made in 2015 to be disbursed in a cash bonus scheme. The final sum is to be disbursed with 20% in April 2016 and 80% during a period of 5½ years.		
Bonus allocated in 2014: Two employees in Nordea Liv & Pension are comprised by EIP. A provision of DKKm 2.9 is made in 2014 to be disbursed in a cash bonus scheme. The final sum is to be disbursed with 20% in April 2015 and 80% during a period of 5½ years.		
Bonus allocated in 2013: Four employees in Nordea Liv & Pension are comprised by EIP. A provision of DKKm 3.7 is made in 2013 to be disbursed in a cash bonus scheme. The final sum is to be disbursed with 20% in April 2014 and 80% during a period of 5½ years.		
<i>Fees to auditors appointed by the Annual General meeting of shareholders - PricewaterhouseCoopers, business registration number 33771231</i>		
Fees for statutory audit of the financial statements	1.9	1.9
Fees for other assurance engagements*	0.1	0.1
Fee for other *	0.0	0.1
	<b>2.0</b>	<b>2.1</b>
* Other declarations related to collateral comprise signing the valuation report on other assets contributed different from cash and cash equivalents.		
11 <b>Leasing</b>		
Operating leases have been entered into for company cars and coffee machines.		
Leasing expenses during the year	4.1	4.2
-of which minimum lease payments	4.1	4.2
- of which contingent rents	0.0	0.0
Future minimum lease payments under non-cancellable operating leases amounted to and are distributed as follows:		
DKK million		
2018		2.9
2019		2.5
2020		1.4
2021		0.3
Later years		0.0
		<b>7.0</b>

# Notes

DKK million	2017	2016
12 <b>Technical result of Health and Accident insurance</b>		
Gross written premiums	98	105
Change in provisions for unearned premiums	1	1
<b>Total earned premiums, net of reinsurance</b>	<b>100</b>	<b>106</b>
Claims disbursed	-143	-145
Change in provisions for claims	40	29
Change in risk margin	-5	-11
<b>Total claims incurred, net of reinsurance</b>	<b>-108</b>	<b>-126</b>
<b>Bonus and premium rebates</b>	<b>0</b>	<b>0</b>
Acquisition costs	-7	-7
Administrative expenses	-10	-12
<b>Total insurance operating expenses, net of reinsurance</b>	<b>-17</b>	<b>-19</b>
Return on investment transferred to Health and Accident insurance	48	64
Change of discount rate	8	-15
Calculated interest yield transferred to "Technical interest"	-9	-6
<b>Total investment return</b>	<b>48</b>	<b>43</b>
<b>Return and value adjustments of insurance provisions</b>	<b>-6</b>	<b>6</b>
<b>Return on investment after return and value adjustment of insurance provisions</b>	<b>42</b>	<b>49</b>
<b>Technical result of Health and Accident insurance</b>	<b>16</b>	<b>10</b>
Number of claims	68	85
Average compensation for claims incurred, in DKK	0.6	0.6
Claims frequency (number of claims/number of policies)	0.5%	0.6%

Gross written premium income are only relating to policyholders with residence in Denmark.

	2017	2016	2015	2014	2013
<b>Health and Accident insurance, key figures</b>					
Gross premiums earned	98	105	111	122	137
Gross claims incurred	-143	-145	-145	-139	-143
Total insurance operating expenses	-17	-19	-20	-22	-19
Result of ceded business	0	0	0	0	0
Technical result	16	10	-2	2	47
Investment return after technical interest	48	43	6	32	-20
Run-off profit/(loss)	-13	0	-50	-70	11
Total technical provisions	1,290	1,320	1,324	1,380	1,312
<b>Health and Accident insurance, key ratios (in percentage)</b>					
Gross claims ratio	109	108	96	120	66
Gross expense ratio	17	18	18	18	9
Combined ratio	127	126	114	138	76
Operating ratio	139	134	125	115	70
Comparative run-off profit/(loss)	-1	0	-4	-7	1

# Notes

DKK million	2017	2016
<b>13 Other income and expenses</b>		
Commission relating to investment funds	7	6
	<b>7</b>	<b>6</b>
<b>14 Tax</b>		
Tax for previous years	-86	23
Tax for the year	-59	-239
Deferred tax related to previous year(s)	14	0
Change in deferred tax	-93	-33
	<b>-224</b>	<b>-249</b>
<i>Tax reconciliation</i>		
Profit before tax	751	1,200
Danish tax rate	22.0%	22.0%
Tax calculated	-165	-264
<i>To be adjusted for:</i>		
Non-deductible expenses	-1	0
Adjustment of deferred tax, beginning of year	16	0
Taxable income for jointly taxed subsidiaries	0	-8
Adjustment of prior-year tax	-73	23
Calculated tax expenses	-224	-249
Tax expenses included in income statement	-224	-249
Reconciliation	0	0
<b>Deferred tax liabilities</b>		
<i>Deferred tax relates to:</i>		
Investment property	579	570
Intangible assets	110	0
Provisions etc	-43	-2
Other	59	59
	<b>706</b>	<b>627</b>
Change in provision of deferred tax	79	33
Change in deferred tax	14	0
Change in deferred tax included in income statement (of opposite sign)	93	33
<b>15 Total intangible assets</b>		
<i>Acquisition cost</i>		
Balance at 1 January	301	211
Additions during the year	105	90
Disposals during the year	0	0
Balance at 31 December	406	301
<i>Impairment and depreciation</i>		
Balance at 1 January	-50	-48
Depreciation of the year	-4	-2
Depreciation on disposals during the year	0	0
Balance at 31 December	-55	-50
<b>Balance sheet value at 31 December</b>	<b>352</b>	<b>251</b>

# Notes

DKK million		2017	2016
16	<b>Total tangible assets</b>		
	Acquisition cost		
	Balance at 1 January	7	7
	Additions during the year	0	0
	Disposals during the year	0	0
	Balance at 31 December	7	7
	<i>Impairment and depreciation</i>		
	Balance at 1 January	-6	-6
	Depreciations of the year	0	0
	Depreciations on disposals during the year	0	0
	Balance at 31 December	-6	-6
	<b>Balance sheet value at 31 December</b>	<b>1</b>	<b>1</b>
17	<b>Investment property</b>		
	Fair value, beginning of year	10,470	10,170
	Additions during the year, including improvements	697	490
	Disposals during the year	-130	-237
	Value adjustment for the year	115	80
	Reversed value adjustment on disposed properties	-15	-33
	Fair value 31 December	<b>11,138</b>	<b>10,470</b>
	Of which included in "Investment assets related to market rate products"	-2,945	-2,811
	<b>Fair value 31 December</b>	<b>8,193</b>	<b>7,659</b>
	*Properties are evaluated by external valuers periodically. Furthermore, see Note 35 "Contingent liabilities and undertaking"		
	<i>Fair value broken down to property type:</i>		
	Business properties	2,121	2,114
	Office properties	6,571	6,504
	Retail properties	2,446	1,852
		<b>11,138</b>	<b>10,470</b>
	The weighted average of rates of return on which fair values of individual properties were based amounts to:		
	Business properties	7.5%	7.5%
	Office properties	5.9%	6.1%
	Retail properties	4.2%	3.8%
	<b>Total properties</b>	<b>6.1%</b>	<b>6.2%</b>
18	<b>Shares in associated companies</b>		Result
		<u>Equity</u>	<u>2017</u>
	DNP Ejendomme P/S		
	Ballerup, property company, owned 50%	1,062	106
	Ejendomsselskabet af 1. marts 2006 P/S,		
	Ballerup, property company, owned 25%	1,907	143
	Ejendomspartnerselskabet af 1/7 2003 P/S,		
	Ballerup, property company, owned 49%	3,632	610
	Samejet Lautruphøj 1-3 I/S		
	Ballerup, property company, owned 50%	96	0
	Dansk Ejendomsfond I A/S		
	Ballerup, property company, owned 56,04 %	1,798	228
	Aarhus klubben KS		
	Århus, property company, owned 20 %	29	-1
	OPP Kalvebod Brygge PS		
	Ballerup, property company, owned 50 %	718	-7
	GT Athena Hedge Fond		
	Hedge fond, owned 83,88%	1,135	111

# Notes

DKK million	2017	2016
19 <b>Shares</b>		
Listed shares	16,044	12,715
Unlisted shares	10,220	10,979
	<b>26,264</b>	<b>23,694</b>
Of which related to marked rate products	20,040	16,419
20 <b>Bonds</b>		
Listed bonds	67,774	85,805
Unlisted bonds	12,157	7,229
	<b>79,932</b>	<b>93,033</b>
Of which related to marked rate products	10,704	9,689

## 21 Derivatives

NLP uses derivatives to control the exposure to currency-, interest rate-, stock- and credit risk. Derivatives are priced at fair value in the financial statement. There has been made agreements on collaterals for part of the derivatives and in this context the group has received collateral in the form of cash bonds equivalent to the fair value of 275 million DKK i 2017 and 0 million DKK i 2016.

2017	Nominal value	Positive fair value	Nominal value	Negative fair value
Currency contracts	31,959	465	6,034	239
Interest rate contracts	511,635	23,660	628,474	16,620
Stock options	1	0	2	20
Credit contracts	4,851	147	1,842	104
	<b>548,446</b>	<b>24,272</b>	<b>636,353</b>	<b>16,982</b>
2016	Nominal value	Positive fair value	Nominal value	Negative fair value
Currency contracts	7,963	103	16,622	713
Interest rate contracts	404,221	24,721	501,306	18,098
Stock options	0	0	5	58
Credit contracts	0	0	7	0
	<b>412,184</b>	<b>24,824</b>	<b>517,940</b>	<b>18,869</b>

The positive fair value is included in the balance sheet as follows:

	2017	2016
Derivatives	23,728	24,670
Investment assets related to market rate products	544	154

## Offsetting of financial assets

	Derivatives	REPO- /Reverse	2017	Derivatives	REPO- /Reverse	2016
Financial assets	24,358	349	24,707	25,706	-	25,706
Financial assets, setoff	(17,167)	-	(17,167)	(21,364)	-	(21,364)
Financial assets, balancesheet	7,191	349	7,540	4,343	-	4,343
Amount, not setoff in the balancesheet:						
Liabilities with setoff	(7,043)	(347)	(7,390)	(6,322)	-	(6,322)
Net	148	3	150	(1,980)	-	(1,980)
Financial liabilities, setoff	-	-	-	-	-	-
Financial liabilities	17,167	13,894	31,061	21,364	27,565	48,929
Financial assets, setoff	(17,167)	-	(17,167)	(21,364)	-	(21,364)
Financial liabilities, balancesheet	-	13,894	13,894	-	27,565	27,565
Amount, not setoff in the balancesheet:						
Assets with setoff	(890)	(13,832)	(14,722)	(617)	(27,519)	(28,136)
Net	(890)	62	(828)	(617)	46	(571)

The figures in "Offsetting of financial assets" slightly differs from the fair values in the derivatives overview. In 2017 the difference consist of accrued interest. In 2016 the difference consist of accrued interest and unsettled derivatives.

# Notes

DKK million	2017	2016
<b>22 Other financial investment assets</b>		
Includes investments in companies in the Nordea Group as follows:		
Bonds	13,006	16,234
Derivatives	15,546	20,595
Cash and cash equivalents	2,488	2,024
Other	1	1
<b>23 Investment assets related to market rate products</b>		
Investment property	2,945	2,811
Shares in associated companies	1,155	1,002
Shares	20,040	16,419
Unit trust certificates	41,759	30,330
Bonds	10,704	9,689
Derivatives	544	154
Other	79	0
<b>Balance at 31 December</b>	<b>77,225</b>	<b>60,405</b>
<i>Breakdown on schemes with and without guarantee:</i>	<i>With</i>	<i>Without</i>
	<i>guarantee</i>	<i>guarantee</i>
Shares in associated companies	234	2,711
Unit trust certificates	92	1,063
Bonds	1,537	18,502
Forward bonds	3,183	38,577
Bonds	847	9,856
Other	50	573
<b>Saldo 31. december</b>	<b>5,943</b>	<b>71,282</b>
<b>24 Total assets</b>		
<i>Investments placed in group enterprises in Nordea Bank AB Group are comprises of:</i>		
Bonds	13,009	17,631
Cash and cash equivalents	1,549	1,570
According to the Executive Order no. 1359 of 30 November 2015 (Executive Order on Registration of Assets in Insurance Companies and Pension Funds) assets have been registered to satisfy the policyholders for the cover of technical provisions. Total provisions covered by registered assets amount to DKKb 166.2, which results in an excess of 4.5%.		
<b>Registered assets*</b>		
Investment properties	413	349
Equity investments in related group enterprises	6,965	7,231
Equity investments in associates	3,084	2,346
Equity investments	282	248
Unit trust certificates	41,643	41,713
Bonds	46,897	51,885
Investment assets related to market rate products	74,338	58,556
<b>Total cover of insurance provisions</b>	<b>173,624</b>	<b>162,328</b>

\*Value have been calculated according to §2 of the 'Executive Order on Registration of Assets in Insurance Companies and Pension Funds'.

## Notes

DKK million	2017	2016
25 <b>Life insurance provisions - traditional products</b>		
Life insurance provisions - traditional products beginning of year	95,599	96,536
Profit margin, beginning of year	8	8
Adjustment, beginning of year	0	15
Total technical provisions, beginning of year	95,607	96,559
Collective bonus potential, beginning of year	-9,211	-8,424
Provisions for claims, beginning of year	-426	-332
Accumulated value adjustment, beginning of year	-13,936	-12,944
Retrospective provisions, beginning of year	72,035	74,860
<b>Changes during the year *):</b>		
Gross premiums	3,853	3,728
Accrual of interest	1,945	1,646
Insurance benefits	-7,989	-8,110
Expense loading after addition of cost bonus	-464	-498
Profit on risk after addition of risk bonus	382	150
Change of additional reserves	-25	-30
Rating of negative bonus	372	423
Revaluation of benefits disbursed at migration	102	75
Other changes	-74	-51
Model development and update of parameters	-100	-193
Change in quote share etc. relating to share in Forenede Gruppeliv	24	34
Total changes**	-1,973	-2,825
Retrospective provisions, end of year	70,061	72,035
Accumulated value adjustment, end of year	14,840	13,936
Provisions for claims, end of year ultimo	314	426
Collective bonus potential, end of year	8,169	9,211
Total technical provisions, end of year	93,384	95,607
Profit margin, end of year	-8	-8
<b>Life insurance provisions - traditional products, end of year</b>	<b>93,375</b>	<b>95,599</b>
*) Changes during the year have been settled without eliminations for internal transfers of premiums and benefits.		
**) Changes in profit margin are comprised in total changes.		
<i>Breakdown of changes in gross life insurance provisions</i>		
Change in retrospective provisions	-1,973	-2,825
Change in accumulated value adjustment	904	992
Change in provisions for claims from beginning of balance to end of balance	-113	95
Change in collective bonus potential	-1,042	787
Change in gross life insurance provisions	-2,224	-951
Change in quote share etc. relating to share in Forenede Gruppeliv	24	34
Forenede Gruppeliv	1	1
Hedge	0	-5
<b>Total change recognised in income statement (of opposite sign)</b>	<b>-2,200</b>	<b>-922</b>

# Notes

DKK million

2017

2016

25 *continued*

## *Breakdown of changes in gross life insurance provisions*

Change in guaranteed benefits, from beginning of balance until end of balance	-602	-1,956
Change in risk margin, from beginning of balance until end of balance	52	-244
Change in individual bonus potential, from beginning of balance until end of balance	-519	366
Change in provisions for claims, from beginning of balance until end of balance	-113	95
Change in collective bonus potential, from beginning of balance until end of balance	-1,042	787
<b>Change in gross life insurance provisions</b>	<b>-2,224</b>	<b>-951</b>

## *Distribution of gross life insurance provisions for portfolio not comprised by the contribution on original basic interest rate*

	Guaranteed benefits	Individual bonus potential	Collective bonus potential	Gross life insurance provisions
<b>Beginning of 2017</b>				
FG	804	0	23	827
U74 m.v	650	0	0	650
G82 2,12 % - 4,54 %	1	0	0	1
	1,454	0	23	1,477
<b>End of 2017</b>				
FG	792	0	14	806
U74	575	0	0	575
G82 2,12 % - 4,54 %	0	0	0	0
	1,367	0	14	1,381

Calculation of the provisions is based on the fact that the contacts only include guaranteed annuity options. The surrender and paid-up policy probabilities are depending on the interest rate group and seniority of the policy and are situated in the spread between 1.1 - 14%.

## *Distribution of gross life insurance provisions onto contribution groups*

	Guaranteed benefits	Individual bonus potential	Collective bonus potential	Gross life insurance provisions
<b>Beginning of 2017</b>				
Interest rate group 0	6,475	351	416	7,243
Interest rate group 1	37,124	485	4,600	42,210
Interest rate group 2	8,729	28	818	9,575
Interest rate group 3	11,932	0	855	12,787
Interest rate group 4	19,808	0	1,747	21,556
Other	1,454	0	774	2,228
	85,523	865	9,211	95,599
<b>End of 2017</b>				
Interest rate group 1	44,671	341	4,317	49,329
Interest rate group 2	8,531	4	832	9,367
Interest rate group 3	11,087	0	741	11,828
Interest rate group 4	19,205	0	1,625	20,830
Other	1,367	0	654	2,021
	84,861	346	8,169	93,375



# Notes

DKK million	2017	2016
25 <i>continued</i>		
<b>Collective bonus potential</b>		
Cost groups	0	0
Risk groups	640	751
Other	14	23
	<b>654</b>	<b>774</b>
<b>Profit margin</b>		
Other	8	8
	<b>8</b>	<b>8</b>
<b>Risk margin</b>		
Interest rate group 1	111	85
Interest rate group 2	19	17
Interest rate group 3	31	25
Interest rate group 4	57	44
Other	16	10
	<b>233</b>	<b>181</b>
26 <b>Life insurance provisions - market rate products</b>		
Life insurance provisions, market rate products, beginning of year	59,631	51,601
Profit margin, beginning of year	2,798	820
Technical provisions, beginning of year	62,429	52,422
Effect from moving policies in the ALIS system, beginning of year	0	-22
Total technical provisions, beginning of year	62,429	52,399
Provisions for claims, beginning of year	-18	-18
Accumulated value adjustment, beginning of year	-40	-59
Retrospective provisions, beginning of year	62,371	52,322
<b>Changes in the year due to *):</b>		
Gross premiums including single premium	16,615	13,036
Accrual of interest	5,892	2,899
Insurance benefits	-6,100	-5,436
Change risk margin	12	17
Expense loading after adding of expense bonus	-460	-435
Other changes	-112	-33
Changes in the year due to **)	15,847	10,048
Retrospective provisions, end of year	78,218	62,371
Provisions for claims, end of year	12	18
Accumulated value adjustment, end of year	29	40
Total technical provisions, end of year	78,259	62,429
Profit margin, end of year	-3,477	-2,798
<b>Life insurance provisions - market rate products, end of year</b>	<b>74,783</b>	<b>59,631</b>

\*) Changes during the year have been settled without eliminations for internal transfers of premiums and benefits.

\*\*) Changes in profit margin are comprised in total changes.

# Notes

DKK million		2017	2016		
26	<i>continued</i>				
	<i>Changes of the year regarding provisions for unit-linked contracts - breakdown as follows:</i>				
	Change in retrospective provisions	15,847	10,048		
	Change in accumulated value adjustment	-11	-18		
	Change in provisions for claims	-6	0		
	<b>Total change recognised in income statement (of opposite sign)</b>	<b>15,830</b>	<b>10,030</b>		
	<i>Provisions for unit-linked contracts with and without guarantee</i>				
	Provisions for unit-linked contracts with guarantee for disbursement	5,699	5,513		
	Provisions for unit-linked contracts without guarantee	69,083	54,118		
		<b>74,783</b>	<b>59,631</b>		
	<i>Specification of unit-linked contracts taken out with guarantee:</i>				
		Bonus potential, future premiums	Bonus potential, paid-up policy benefits	Gross life insurance provisions	
		Guaranteed benefits			
	<b>Beginning of 2017</b>				
	0% - 1%	4,902	0	0	4,902
	1% - 2%	4	0	0	4
	> 2%	608	0	0	608
		5,513	0	0	5,513
	<b>End of 2017</b>				
	0% - 1%	5,002	0	0	5,002
	1% - 2%	4	0	0	4
	> 2%	693	0	0	693
		5,699	0	0	5,699
		<b>2017</b>	<b>2016</b>		
27	<b>Payables to credit institutions</b>				
	Debt related to financial repurchase agreements	13,918	27,559		
	Other debt to credit institutions	785	607		
		<b>14,703</b>	<b>28,166</b>		
28	<b>Other payables</b>				
	Derivatives with negative fair value	16,982	18,869		
	Other debt related to investments	7,445	8,890		
	Debt for tax on pensions	1,391	728		
	Deposit and prepaid rent	221	213		
	Debt relating to salaries	86	117		
	Other debt	843	214		
		<b>26,967</b>	<b>29,030</b>		
29	<b>Other Subordinate loan capital</b>				
	<i>Payments related to subordinate loan capital for the year:</i>				
	Interest expenses	-104	-63		
		<b>-104</b>	<b>-63</b>		
	Share of subordinate loan capital included in the capital base:	3,233	3,233		
	<i>Contributed sums exceeding 10% of the total subordinate loan capital:</i>				
		Due date	Interest rate %		
	Nominal DKKm 800 at variable rate	Indefinite	Cibor 12m + 2,18	800	800
	Nominal DKKm 1,500 at variable rate	Indefinite	Cibor 12m + 2,40	1,500	1,500
	Nominal DKKm 932.5 at variable rate	Indefinite	Cibor 3m + 5,25	933	933
				<b>3,233</b>	<b>3,233</b>

# Notes

DKK million	2017	2016															
29 <i>continued</i>																	
<p>The loans are exempt from repayment and can be repaid at the submission of a three-months notice from the borrower, if the borrower has the necessary capital base and the approval from the Danish Financial Supervisory Authority. Repayment cannot take place at the request from the lender and without the approval from the Danish Financial Supervisory Authority. The lender is entitled to defer the payment of interest if the capital base does not exceed the solvency margin, or if the capital base will be reduced below the level of the solvency margin in case of a payment of interests.</p> <p>The entire subordinate loan capital as per 31 December 2017 is included at the calculation of the capital base.</p>																	
30 <b>Debt payable after 5 years:</b>																	
Other subordinated loan capital	3,233	3,233															
31 <b>Total shareholders' equity</b>																	
<p><i>Share capital</i></p> <p>The share capital has been divided into share units of DKK 1,000 or multiples thereof, corresponding to 600,000 units.</p> <p>75% of the shares are owned by Nordea Life Holding AB, L4460, S-105 71 Stockholm, Sweden (SE663000-0195), and 25% of the shares are owned by Norliv, Klausdalsbrovej 615, 2750 Ballerup (Business reg. no. 36741422). All shares are ordinary shares and have the same rights.</p> <p>Proposed dividends per share is 666,67 DKK</p> <p><i>Contingency fund</i></p> <p>According to the articles the contingency funds only come into use for the benefit of the insured members. DKKm 266 out of DKKm 547 is untaxed.</p> <p><i>See the Statement of Changes in Equity, page 24.</i></p> <p><i>Development of shadow account:</i></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="width: 80%;">Balance at 1 January</td> <td style="text-align: right;">27</td> <td style="text-align: right;">447</td> </tr> <tr> <td>Added interest</td> <td style="text-align: right;">0</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Written off</td> <td style="text-align: right;">0</td> <td style="text-align: right;">-16</td> </tr> <tr> <td>Used/transferred</td> <td style="text-align: right;">-27</td> <td style="text-align: right;">-404</td> </tr> <tr style="border-top: 1px solid black;"> <td><b>Balance at 31 December</b></td> <td style="text-align: right;"><b>0</b></td> <td style="text-align: right;"><b>27</b></td> </tr> </tbody> </table>			Balance at 1 January	27	447	Added interest	0	0	Written off	0	-16	Used/transferred	-27	-404	<b>Balance at 31 December</b>	<b>0</b>	<b>27</b>
Balance at 1 January	27	447															
Added interest	0	0															
Written off	0	-16															
Used/transferred	-27	-404															
<b>Balance at 31 December</b>	<b>0</b>	<b>27</b>															
<p>For statement of the shadow account, see Note 44 'Calculation of realised Result and Principles used for Its Distribution'</p>																	
32 <b>Capital base</b>																	
Shareholders' equity	4,614	4,688															
Subordinated debt	3,369	3,233															
Proposed dividend	-400	-600															
Reconciliation reserve	5,970	6,307															
Intangible assets	-352	-251															
<b>Capital base, end of year</b>	<b>13,201</b>	<b>13,377</b>															

Above is shown the difference existing between the capital employed to cover the solvency capital requirement and the shareholders' equity according to the balance sheet (local gaap). The reconciliation reserves refer to the difference in the calculation of profits earned on future cash flows (revenue flows) with reference to the Solvency II balance named PVFP (Present Value of Future Premiums) and the balance sheet. The difference arises as provisions, in compliance with the balance sheet, are calculated based on a deterministic state model and in the Solvency II balance based on a stochastic model. The reconciliation reserves are included with a deduction of deferred taxes. The Solvency ratio can be seen in note 45. Capital management is subject to capital policy, in which sizes, such as the solvency ratio and solvency margin limits, are specified. The capital management process is closely linked to NLP's business plan/budget projections, covering a planning period of three years. Capital policy also shows what actions should be taken if the solvency ratio drops. The actions depend on the level of solvency and they must only be initiated when the solvency ratio falls below the determined solvency ratio. NLP's CRO is responsible for monitoring and reporting solvency and capital limits. NLP's CFO is responsible for the composition of the capital base.

# Notes

DKK million	2017	2016
<b>33 Charges and collateral securities</b>		
<i>Assets charged or otherwise provided as security:</i>		
<i>Investment properties</i>		
Issue and registration of owner's mortgages (face value) have been done in the company's investment properties in order to cover total mortgage debt of	888	888
Carrying amount of investment properties with mortgage debt amounts to	1,729	1,637
<i>Bonds</i>		
Bonds sold as part of repo transactions, recognised in the balance sheet	13,832	27,519
Bonds deposited on a pledge account in order to cover for liabilities related to wind-up of financial instruments	800	590
<i>Cash and cash equivalents</i>		
Credit balance on deposit accounts provided as collateral for liabilities related to wind-up of financial instruments	76	136

In repurchase transactions, non-cash assets are transferred as collateral. When the counterpart receiving the collateral has the right to sell or repledge the assets, the assets are reclassified on the balance sheet to the item Financial Instruments pledged as collateral.

Liabilities are disclosed in note 27

## 34 Contingent assets

In 2014 the Court of Justice of the European Union delivered a preliminary ruling according to which certain benefits for life insurance companies and pension funds resembling unit trusts may be exempted from VAT. In 2015 the Eastern High Court in Denmark made a final decision in the case. However, Danish life insurance companies and pension funds are still in an uncertain position. The company or its suppliers may be entitled to a potential claim for disbursement of incorrect VAT charged on the company's purchases. The company has issued a claim against the Government and has requested its suppliers to issue a claim regarding the termination of any limitation. It is expected that it will be possible to assess the probability and scope of possible claims during 2018 and possibly later.

## 35 Contingent liabilities and undertaking

The company is jointly and severally liable with the other participants in Forenede Gruppeliv A/S for the insurance obligations concerning all the policies administered by Forenede Gruppeliv A/S.

The company is jointly taxed with other Danish units in Nordea Danmark, filial af Nordea Bank AB, which is the management company in the Danish national joint taxation. As a result, the company bears unlimited and joint and several liability with the other units in the joint taxation on Danish taxes deducted at source on dividends, interests and royalties within the joint taxation sphere. Such owed taxes deducted at source within the joint taxation sphere amount to DKK 0 as per 31 December 2017.

The management company and companies taxed jointly, of which all holdings are owned directly or indirectly by the ultimate parent company at the end of the income year, see Law on Corporation Tax § 31 C, will be liable jointly and severally along with the company for the part of the income tax, tax on account, and back tax as well as surcharges and interests relating to the part of the income that is distributed to the company. Companies in which all holdings are owned directly or indirectly at the end of the income year by the company or companies that are liable jointly and severally, as cited above, will also be held liable jointly and severally along with the company. Owner's shares that are owned by the shareholder base mentioned in the Danish Capital Gains Act § 4, Subsection 2, will be included in the calculation of holdings according to Clauses 1 and 2. Has futile execution been attempted levied for tax amounts at the companies that are liable jointly and severally according to Clauses 1 and 2, the claim can be maintained towards other companies participating in the joint taxation; however, no more than the part of the claim corresponding to the share of the capital in the liable company owned directly or indirectly by the ultimate parent company. If a company withdraws from the joint taxation, the withdrawing company will only be liable from the point in time of the withdrawal for the part of the income tax and back tax as well as surcharges and interests relating to the part of the income that is distributed to the company, unless the same shareholder base, see the Danish Capital Gains Act § 4, Subsection 2, continues to hold directly or indirectly more than half of the voting rights after the company's withdrawal.

The company is voluntarily registered for VAT concerning selected land and building. An obligation to adjust VAT of not more than DKKm 187 (2016: DKKm 187) rests with the company.

# Notes

## DKK million

35 *continued*

Lease with set termination middle of 2018, the liability does not exceed DKKm 8 (2016: DKKm 24)

Liabilities relating to leasing do not exceed DKKm 5.

Development activities have been transferred on market terms to NLP IT A/S, a fully owned subsidiary.

Liabilities relating to insurance cases in progress do not exceed DKKm 10.

The company has committed itself to further investments in alternative investments with a sum not exceeding DKKb 10.1 (2016: DKKb 7.9).

36 **Transactions and contracts with related parties**

The company provides administration services for the parent company Nordea Life Holding AB (exercising control), whose registered office is in Stockholm, Sweden, and for NLP IT A/S.

Management charges are fixed according to cost recovery principles. In 2017 the company received reimbursement of management charges from associated companies at a total of DKKm 40 (2016: DKKm 34).

IT operations, internal audit and HR administration are handled by the group companies. In 2017 the company paid DKKm 114 (2016: DKKm 78) in remuneration to Nordea Danmark, filial af Nordea Bank AB (considerable control) for the handling of IT operations and acquisition of IT equipment, and DKKm 6,1 to NLP IT A/S for the use of N16. Settlement of the services are made according to cost recovery principles and added a mark-up. Also, the company has paid DKKm 27 (2016: DKKm 17) to its associated company Nordea Danmark, filial af Nordea Bank AB (considerable control) for the handling of internal audit and HR administration as well as payment of rent on external locations. Settlement of the services are made according to cost recovery principles.

Portfolio management, fund management and management of property are handled by group companies. The settlement is made on an arm's length basis. In 2017 the company paid DKKm 117 (2016: DKKm 125) in fee for the portfolio management of investment assets, as well as DKKm 71 (2016: DKKm 52) in performance fee to Nordea Investment Management Institutional Clients (considerable control). For fund management DKKm 26 (2016: DKKm 23) was paid in 2017. For management and portfolio management of investment property DKKm 1,9 (2016: DKKm 1.7) was paid in 2017 to the associated company Nordea Ejendomsinvest A/S (considerable control). In addition to this, the company paid DKKm 3 (2016: DKKm 3) in 2017 to the associated company Nordea Danmark, filial af Nordea Bank AB (considerable control) for the sales of life insurances and pension policies as well as portfolio management.

A considerable part of transactions with securities and financials instrument takes place through group companies. All transactions and costs associated to this are based on market terms.

	2017	2016
Liability transactions with related parties:		
Derivatives	11,226	26,147
Other debt related to investment	13,608	15,515
Mortgage debt	1,322	1,148
Other debt	5	17

Group companies and the company have entered into pension agreements, reinsurance contracts, loan agreements as well as agreements on payment of interest of regular balances on an arm's length basis.

The shareholder register can be seen in the Management's Review on page 7.

The management's remuneration (considerable control) can be seen in Note 10.

Balancesheet transactions with related parties are disclosed in note 22

37 **Commitments with or collateral securities for Management and Board of Directors**

The company has had no transactions with, has had no exposures with or collateral securities for the Management, the Board of Directors or companies where these aforementioned possess directly or indirectly a qualifying holding besides ordinary insurance agreements.

# Notes

DKK million

## 38 Breakdown of investment assets and their returns for 2017 - Traditional products

	Beginning of year	End of year	Return in percentage per year before tax
<b>1. Land and buildings</b>	<b>10,150</b>	<b>10,462</b>	<b>6.0%</b>
2.1 Listed equity investments*	202	278	-17.3%
2.2 Unlisted equity investments	10,391	10,732	3.6%
<b>2. Total equity investments</b>	<b>10,592</b>	<b>11,009</b>	<b>3.1%</b>
3.1 Government and mortgage bonds	45,910	42,520	2.3%
3.2 Index-linked bonds	4,189	4,175	5.4%
3.3 Credit and emerging markets bonds	31,155	26,952	4.4%
3.4 Loans etc.	0	504	2.1%
<b>3. Total bonds and loans</b>	<b>81,254</b>	<b>74,152</b>	<b>3.2%</b>
<b>4. Subsidiaries</b>	<b>0</b>	<b>0</b>	
<b>5. Other investment assets</b>	<b>-3,407</b>	<b>-572</b>	<b>0.0%</b>
<b>6. Derivative financial instruments to hedge net change in assets and liabilities</b>	<b>5,888</b>	<b>6,746</b>	

The breakdown has been established in accordance to the Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds § 96 and Appendix 11. It is not directly comparable to the amount stated on the balance sheet. Unit trust certificates and equity derivatives are grouped according to the nature of the relevant, underlying assets.

## 39 Breakdown of investment assets and their returns for 2017 - market rate products

	Beginning of year	End of year	Return in percentage per year before tax
<b>1. Land and buildings</b>	<b>4,167</b>	<b>4,425</b>	<b>5.5%</b>
2.1 Listed equity investments	12,924	18,726	10.3%
2.2 Unlisted equity investments	15,647	34,468	10.7%
<b>2. Total equity investments</b>	<b>28,571</b>	<b>53,194</b>	<b>10.4%</b>
3.1 Government and mortgage bonds	5,270	6,001	3.2%
3.2 Index-linked bonds	0	0	0.0%
3.3 Credit and emerging markets bonds	7,450	9,919	1.3%
3.4 Loans etc.	0	0	
<b>3. Total bonds and loans</b>	<b>12,720</b>	<b>15,920</b>	<b>2.0%</b>
<b>4. Subsidiaries</b>	<b>0</b>	<b>0</b>	
<b>5. Other investment assets</b>	<b>1,441</b>	<b>1,617</b>	<b>0.0%</b>
<b>6. Derivative financial instruments to hedge net change in assets and liabilities</b>	<b>-19</b>	<b>420</b>	

The breakdown has been established in accordance to the Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds § 96 and Appendix 11. It is not directly comparable to the amount stated on the balance sheet. Unit trust certificates and equity derivatives are grouped according to the nature of the relevant, underlying assets.

# Notes

DKK million

39 *continued*

## Return in per cent of risk - market rate products

Years until retirement	Percentage of average provisions	Return in percentage	Risk
30 years (at age 35 years)	1.38%	10.51%	4.50
15 years (at age 50)	4.24%	10.23%	4.50
5 years (at age 60)	1.96%	8.08%	4.25
5 years after (at age 70)	0.14%	5.63%	3.50
Non-life cycle	7.11%	8.45%	4.25

## 40 Balance sheet movements broken down on payment periods

	2017		2016	
	< 1 year	> 1 year	< 1 year	> 1 year
Assets:				
Intangible assets	4	349	3	248
Tangible assets	0.1	0.4	0.1	0.5
Investment assets	4,804	134,368	12,042	145,294
Investment assets related for market rate products	6,687	70,538	3,057	57,348
Receivables	3,374		4,244	
Other assets	4,326		4,132	
Prepayment and accruals	776		1,498	
<b>Total assets</b>	<b>19,969</b>	<b>205,255</b>	<b>24,975</b>	<b>202,891</b>
Liabilities:				
Accruals for insurance contracts	7,621	165,312	7,022	152,335
Other liabilities	28,644	49,023	40,442	23,437
<b>Total liabilities</b>	<b>36,265</b>	<b>214,336</b>	<b>47,465</b>	<b>175,772</b>

## 41 Financial assets and liabilities

	Fair value		Amortised cost		Total
	Trade	Designated	Receivables	Liabilities	
<b>2017</b>					
Shares		6,224			6,224
Unit trust certificates		28,093			28,093
Bonds		69,228			69,228
Derivatives	23,728				23,728
Other	749				749
Investment assets related for market rate products		77,225			77,225
Other receivables	2,358				2,358
Cash	4,326				4,326
<b>Total financial assets</b>	<b>31,161</b>	<b>180,770</b>	<b>0</b>	<b>0</b>	<b>211,931</b>
Payables to credit institutions	13,918				13,918
Derivatives	16,982				16,982
Subordinated loan capital				3,369	3,369
<b>Total financial liabilities</b>	<b>30,900</b>	<b>0</b>	<b>0</b>	<b>3,369</b>	<b>34,270</b>

# Notes

DKK million

41 continued

	Fair value		Amortised cost		Total
	Trade	Designated	Receivables	Liabilities	
<b>2016</b>					
Shares		7,275			7,275
Unit trust certificates		30,877			30,877
Bonds		83,344			83,344
Derivatives	24,670				24,670
Other	617				617
Investment assets related for market rate products		60,405			60,405
Other receivables	3,422				3,422
Cash	4,132				4,132
<b>Total financial assets</b>	<b>32,841</b>	<b>181,901</b>	<b>0</b>	<b>0</b>	<b>214,742</b>
Payables to credit institutions	27,560				27,560
Derivatives	18,869				18,869
Subordinated loan capital				3,233	3,233
<b>Total financial liabilities</b>	<b>46,429</b>	<b>0</b>	<b>0</b>	<b>3,233</b>	<b>49,661</b>

<b>2017</b>	Listed prices Level 1	Observable input level 2	Non Observable input level 3	Alt
Shares	280	0	5,945	6,224
Unit trust certificates	28,093	0	0	28,093
Bonds	20,419	42,893	5,916	69,228
Derivatives	0	23,728	0	23,728
Other	749	0	0	749
Investment assets related for market rate products	60,080	5,434	7,399	72,913
<b>Total financial assets</b>	<b>109,620</b>	<b>72,054</b>	<b>19,260</b>	<b>200,935</b>
Derivatives	-20	-16,962	0	-16,982
<b>Total financial liabilities</b>	<b>-20</b>	<b>-16,962</b>	<b>0</b>	<b>-16,982</b>

<b>2016</b>	Listed prices Level 1	Observable input level 2	Non Observable input level 3	Alt
Shares	257	0	7,017	7,275
Unit trust certificates	30,877	0	0	30,877
Bonds	42,350	37,174	3,820	83,344
Derivatives	0	24,670	0	24,670
Other	617			617
Investment assets related for market rate products	46,703	2,527	7,186	56,416
<b>Total financial assets</b>	<b>120,804</b>	<b>64,370</b>	<b>18,024</b>	<b>203,198</b>
Derivatives	-58	-18,811	0	-18,869
<b>Total financial liabilities</b>	<b>-58</b>	<b>-18,811</b>	<b>0</b>	<b>-18,869</b>

## Value adjustment based on Non Observable input\*

	2017	2016
Fair value beginning of year	18,024	25,435
Value adjustment over profit and loss in the item "Value adjustments"	-1,251	-382
Purchase	5,731	22,883
Sales	-3,244	-29,912
Fair value end of year	19,260	18,024



# Notes

## DKK million

41 *continued*

\*In 2017 unrealized value adjustments of DKK 83 million (2016: -438 million DKK) relating to financial instruments based on non observable inputs were recognized in the line item Value adjustments.

Classification has been carried out in consideration of the criteria stated below:

Quoted prices, Level 1: Publicly available prices (non-adjusted prices in an active market for identical assets or liabilities accessible by the company at the time of measuring).

Observable input, Level 2: Observable input for the asset or liability, either direct (i.e. as rates) or indirect (i.e. derived from rates), not included in Level 1.

Non-observable input, Level 3: Input for measuring the asset or liability, not based on observable market data (non-observable input).

Bonds in level 3 are alternative investments with bond-like characteristics.

Determination of level and possible transfers occurs for bonds on the basis of a list from Nordea Markets. For the remaining financial assets, level and possibly transfers are determined on the basis of current assessment, but at least once a quarter. The ongoing assessment is supported by "Back-testing" and "4 eyes principle", which looks at the ten largest market values and 10 randomly selected securities.

Greatest risk regarding measurement of financial assets relates to assets under Level 3 as there are no observable market data for this category. Hedging of this risk is described in Note 43 "Risk management" in the section Financial risks'.

## 42 Sensitivity information

Event	Effect on shareholders' equity (DKK Mio)
Mortality increased living with 1 year	-33.4
Disability 10 percent increase	-2.6
Interest rate increase of 0.7-1.0 percentage point	-14.3
Interest rate decrease of 0.7-1.0 percentage point	-13.8
Fall in share value of 12%	-14.8
Decline in property prices of 8%	-7.3
Foreign exchange rate (VaR 99%)	-0.3
Loss on counterparties of 8%	0.0

The note has been established in accordance with the regulations stated in Appendix 13 in the "Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds" and also "Guidelines for reporting template when submitting information about capital and risks in life insurance and non-life insurance companies, reinsurance undertakings, multi-employer occupational pension funds, and industrial injury insurance companies". The effect of the individual events on the equity has been based on an all-other-things-being-equal scenario.

# Notes

DKK million

## 43 Risk information

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### Risk management

Nordea Liv & Pension's risk management system has been implemented across the company and ensures that substantial risk and capital processes are effective, consistent and interconnected. The processes comprise all activities linked to identifying, measuring, monitoring, managing and reporting on the risks and their effects on the company's capital needs. The in-house control system is a part of the risk management system and consists of a number of processes, which will ensure that the necessary controls with the company's tasks are in place and are being maintained, that the controls are performed, that results are being reported, and that necessary decisions are being made based on these reports.

### Most substantial risks

In Nordea Liv & Pension the most important risks are categorised in the following main areas:

- Financial risks
- Insurance risks
- Operational risks
- Business risks

These categories can be divided into sub-categories.

The financial risks and insurance risks are monitored and managed continuously, whereas the operational risks and business risks are monitored at a lower frequency. Below, the most important risks will be discussed as well as their handling.

#### *Financial risks*

The financial risks comprise market risk, credit risk and liquidity risk that can be divided into a number of sub-categories. Market risk is divided into interest rates risk, equity prices risk, property values risk, credit spread risk, exchange rates risk and concentration risk. The most significant risk is the interest rates risk, which is reduced by a strategic interest rate hedge. When the market parameters are lower than the basis parameters of establishment of new business, the provisions will rise. The interest rates risk is hedged continuously by way of a combination of bonds and derivatives to protect the bonus potentials, and to minimize interest risk in general.

The equity prices risk arises due to investment in listed equity and alternative investments. In the work with composing the portfolios, managing the concentration risk has always been an important element. The actual composition of portfolios is therefore characterised by a very high degree of spread, which will contribute to reduce the risks.

Regarding investments in credit instruments, the Board of Directors has set the limits for the total exposure including credit derivatives and for the extent of the total commitments with each counterparty. These limits have been set in order to reduce the risk of loss for Nordea Liv & Pension if the counterparties would not be able to fulfil their obligations. In addition to this, collateral agreements have been entered into to ensure a daily exchange of collateral in case the derivatives' market value varies. The risks are monitored in the company's solvency model.

Investment is only carried out in alternative investment via fund structures and only in funds with an investment mandate to ensure a large number of underlying individual assets and a broad risk spreading in the funds. The broad risk spreading in the individual funds combined with a large spreading on a portfolio level across the trustees, the type of underlying investments, geography, years of investment, etc. - altogether this will ensure a considerable risk spreading in the portfolio of alternative investments.

# Notes

DKK million

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43 *continued*

An accounting estimate is connected to the determination of fair value for alternative investments in shares, forest, properties, etc., where there is no active market as the determination is based on models and to a possible extent also observable data. The estimates are especially linked to assumptions which are supporting reporting received from investment managers. To secure authenticity of entered estimates, Nordea Liv & Pension has ensured that independent audit statements are received from external private equity investment managers once a year as a minimum. Furthermore, Nordea Liv & Pension has established a process where Investment Operations organisation is carrying out an independent price validation of illiquid fund investments on a sample basis.

When measuring the derivatives' fair value, consideration is made for bid-offer spreads as the recognition takes at mid prices. Consideration is also made for credit valuation adjustment (CVA) in relation to the determined values. The uncertainty is especially connected to the determination of probability of non-compliance from Nordea Liv & Pension's counterparties. Nordea Liv & Pension only trade in derivatives based on ISDA and CSA agreements that ensure a low counterparty risk due to frequent exchange of collateral. In addition to exchange of daily collateral, Nordea Liv & Pension's derivative positions are valued by Nordea Liv & Pension's partner who is also performing the operational part of the collateral exchange.

The portfolio of property investments consists of properties predominantly situated in Denmark. In this way an exposure to Danish economy is achieved, including inflationary developments, which contributes to ensure the actual value of the savings measured in Danish Kroner.

The management of market risk is implemented in the company's Investment and ALM Policy. The Board of Directors has defined a series of authorisations to the Management, which has been described in the guidelines. The lines and limits, benchmarks, and strategic asset allocation have been determined in the policy and guidelines. The purpose of the ALM Policy is to manage the interaction between assets and liabilities and through this to reduce any loss connected to market risk taking into account the solvency and buffers, optimisation of return, and regulatory requirements.

Market risk reports are made regularly regarding the use of limits. The report is sent to the Danish Management as well as the Group Management. The financial risk reporting is reestimated on a regular basis in relation to actual risks, sensitivities, etc.

The management of liquidity risk is implemented in the company's Investment Policy. Liquidity risk is limited by placing a large proportion of investments in liquid listed bonds and shares, see note 41.

The credit risk on the bond portfolio is limited as 76 percent of the portfolio consists of high rated (AA - AAA) bonds at the international rating agencies.

## *Insurance risks*

The insurance risks comprise risk of longevity, mortality, disability, insurance options, costs, continuation, and disaster. The most important risks are longevity risk, disability risk, and insurance option risk. Nordea Liv & Pension use a partial internal model to calculate the longevity shock in the calculation of solvency requirement.

Nordea Liv & Pension follows changes in society on a continuous basis to ensure that the underwriting basis applying is adequate. The risk of systematic risks is reduced as provisions are made in accordance to the longevity benchmark stated by the Danish Financial Supervisory Authority.

# Notes

## DKK million

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### 43 *continued*

With regard to the disability risk, there is focus on active injury treatment, which results in reduced time away from the labour market for the injured.

Nordea Liv & Pension has a policy of acceptance. It is the overall objective of the company to create a sound and solid insurance business. In this connection an important element is an evaluation of its risk profile. The risk evaluation includes an assessment of product programmes and products, insurance terms, reinsurance large risks, etc. In addition to this a subjective evaluation of the individual customer's risks is also carried out when establishing new business. In general, the risk to be insured must be of ordinary nature in the relevant insurance area.

The company's policy for reinsurance agreements ensures that the company has an upper limit regarding risk per insurance event. In order to reduce the disaster risk a disaster cover is also included in Nordea Liv & Pension's reinsurance programme.

Determination of the carrying amount on insurance and pension technical provisions is related to an estimate that is linked especially to the maturity-dependent discount rate and assumptions related to mortality, surrender, paid-up policy, and disability. The determination of various assumptions are based on actuarial calculations and models of projection.

#### *Operational risks*

Operational risk is the risk of financial loss resulting from inexpedient or inadequate, in-house procedures, human or system errors, or resulting from external events including legal risks.

The division of responsibilities between the Board of Directors and the Management has been stated in the rules of procedure. The Board of Directors has produced written guidelines for the company's most significant areas of activity, stating the division of labour between the Board of Directors and the Management. The Management is responsible for the control environment and for ensuring compliance with the guidelines adopted by the Board of Directors when procedures and instructions are produced.

The Compliance Officer and the Operational Risk Manager support and assist the Management in ensuring an efficient control environment in relation to operational risk, including compliance risk. Once every year an identification of the company's most significant operational risk is carried out. Furthermore, an annual Internal Control Assessment is carried out, evaluating the compliance with guidelines.

The company's project model ensures that a Quality and Risk Analysis (QRA) is carried out before setting-up projects. The purpose is to identify and handle risks occurring during the project period and the resulting change/development of the project.

#### *Business risks*

Business risks, including the strategic risks, comprise risk related to the business uncertainty arising as a result of the market development, customer behaviour, technological progress, and the financial impact due to reputational conditions.

Among the business risks are also the other risks in relation to the company's business model. Nordea Liv & Pension is currently implementing a new IT core system. At the same time, as the new IT system is operational, the processes are being revised. Compared to the previous system, the processes will now be further standardised and automated.

# Notes

## DKK million

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### 43 *continued*

The customers will be migrated from the old IT systems to the new one and the peripheral systems are updated. There is focus on digitalisation and simplification. The central project risk in this connection are handled continuously during the project. When the new IT systems are put into operation, risks will arise in connection with the change process occurring as the new IT system is operational. Likewise the employees will have to adjust to other work processes and new standards.

### **Solvency II position**

Nordea Liv & Pension has reported and monitored the development in the Solvency II position throughout 2017 on a regular basis, as well as the risks connected to it.

The company's solvency cover is at 179%, which is well above the minimum limit of the company.

### **Monitoring**

In Nordea Liv & Pension the solvency and capital situation as well as the financial buffers are followed on a weekly basis in a risk report.

### 44 **Calculation of realised result and principles used for its distribution**

The year's realised result to be distributed in accordance to the Danish Financial Business Act amounted to DKKm -42 (2016: DKKm 2,105) and has been distributed with DKKm -549 (2016: DKKm 1,189) to the provisions and DKKm 508 (2016: DKKm 916) to the equity, of which DKKm 27 (2016: DKKm 419) is a revenue recognition of shadow account, which is another term for deferred mark-up relating to previous years.

In accordance with the Executive Order on the Contribution Principle and the Guidelines on Market Discipline, the company's profit policy has been notified to the Danish Financial Supervisory Authority. The profit of the year consists of the return on assets allocated to shareholders' equity, the Health and Accident insurance, the result of Liv III, the result of Forenede Gruppeliv, the result of market interest rate, shareholders fee concerning traditional business, a share of the risk result, and the cost results.

See also the description of realised result in the Management's Review, page 5 in the section Contribution in Nordea Liv & Pension and also in Accounting Policies on page 32 in Collective Bonus Potential.

### 45 **Events after the balance sheet date**

On 23 March the Danish FSA has approved the that Norliv can take over additional 45 % of the shares in Nordea Liv & Pension with the intention to take over the last 30 % over the coming years. Besides that, there has been no events of significance that could have an impact on the company's financial position from the balance sheet date and until the signing of the annual report.

# Notes

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## 46 Five-year summary of key figures and financial ratios

Key financial figures (DKK million)	2017	2016	2015*	2014*	2013*
<b>Income statement</b>					
Premiums including investment contracts	18,874	15,580	13,320	12,280	12,193
Investment return after tax on pension returns	9,019	7,830	2,286	17,838	3,463
Insurance benefits	-12,700	-12,380	-13,444	-16,177	-15,026
Change in life insurance provisions	-12,951	-6,310	-994	-12,174	689
Change in profit margin	-679	-2,798	-	-	-
Change in surplus funds	-137	-	-	-	-
Operating expenses	-606	-620	-625	-657	-661
Profit on ceded business	-44	-54	-38	5	19
Transferred investment return	10	-83	12	-122	9
<b>Technical result of life insurance</b>	<b>787</b>	<b>1,166</b>	<b>518</b>	<b>994</b>	<b>687</b>
Technical result of Health and Accident insurance	16	10	-2	2	47
Return on investment allocated to equity	-59	18	-9	13	24
Other income and expenses	7	6	-14	-6	8
<b>Profit before tax</b>	<b>751</b>	<b>1,200</b>	<b>493</b>	<b>1,004</b>	<b>764</b>
Tax	-224	-249	-73	-164	-136
<b>Profit for the year</b>	<b>527</b>	<b>951</b>	<b>420</b>	<b>839</b>	<b>629</b>
<b>Balance sheet</b>					
Total provisions for insurance and investment contracts	172,933	159,357	150,282	150,357	138,084
Collective bonus potential	8,169	9,211	8,151	8,540	3,659
Total equity	4,556	4,629	6,533	6,743	6,533
Total assets	225,305	227,866	218,312	213,360	168,955
<b>Key ratios in percent</b>					
Rate of return related to Traditional business (1)	3.7	5.9	0.0	15.8	0.3
Rate of return related to market rate products (2)	10.2	6.1	5.6	13.7	15.0
Risk category on return related to market rate products (3)**	4.25	4.50	4.25	-	-
Expense ratio on provisions (4)	0.36	0.40	0.42	0.46	0.48
Expenses per insured in DKK (5)	1,137	1,193	1,206	1,276	1,291
Return on equity after tax (6)	11.7	13.7	6.3	12.8	10.1
Return on surplus funds which receives return like equity (7)	3.4	-	-	-	-
Solvency ratio (8)***	179	164	-	-	-
Solvency ratio	-	-	163	184	178
<b>Additional key figures and financial ratios</b>					
Bonus rate****	12.2	14.0	11.6	11.9	4.3
Expense contributions after addition of expense bonus	924	932	984	972	870
Operating expenses relating to insurance for the year	606	620	625	657	661
Cost results	318	312	359	316	208
Cost results in percentage	0.20	0.21	0.24	0.24	0.15
Risk results	-382	-150	-269	-184	-305
Risk results in percentage	-0.24	-0.10	-0.18	-0.14	-0.22
Return on customer funds after expenses before tax	5.4	4.7	0.2	13.8	1.7

Key figures and additional key figures and financial ratios have been calculated in accordance to the Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds, Appendices 8 and 9.

\*Comparative figures for 2015 and earlier, have been calculated in local gaap since these are not possible to calculate for on Group level.

\*\*Comparative figures have not been calculated for 2014 and earlier since these are not possible to calculate according to the Executive Order on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds.

\*\*\*The financial ratio solvency cover ratio is exempt from the auditing requirement in accordance to the Executive Order no 937 of 27 July 2015 on Financial Reports for Insurance Companies and Multi-Employer Occupational Pension Funds. The figures has not been audited.

\*\*\*\*Comparative figures for 2013 have not been adjusted since it is practically impossible.