

Market Risks and Investment Performance

In general, the long term value creation shall be based mainly on the acceptance of insurance risks. However, to supplement the group's profit from its insurance activities, Topdanmark accepts a certain level of financial market risks as well, given its strong liquidity position and stable, high earnings from insurance operations. Hence, in addition to fixed income instruments Topdanmark has invested, among other things, in equities, properties and CDOs in order to improve the average investment return.

However, market risks shall be limited to the extent that is considered appropriate, even if it is highly probable that the company gains the profit even in the very unfavourable financial market scenarios. In addition, large risk exposures or highly correlated risks shall be covered to prevent unnecessary losses and market risks originating from insurance operations. The investment portfolio shall be managed in a way that market risk taking shall not endanger the normal operations or implementation of planned actions in unfavourable market conditions.

To reach the above general goals, the Investment Policy sets the company's objectives, strategies, organization and reporting practices on investments. The investment strategy is more precisely determined in terms of market risk limits and specific requirements for certain types of positions and sub-portfolios (risk appetite). The investment strategy is

determined by the Board and revised at least once a year. Appropriate financial risk mitigation techniques are used.

When selecting the investment assets, a portfolio composition that matches the risk features of the corresponding liabilities is sought. The purpose of the policy is also to ensure that the company has implemented effectively the organization, systems and processes necessary to identify, measure, monitor, manage and report on investment risks to which it is exposed.

At the same time, the policy sets the framework for investment of customers' savings, schemes of right to bonus and link savings (customer funds) in Topdanmark Livsforsikring, so that the company can continue to offer attractive savings products to its clients with competitive returns in relation to the accepted investment risks.

In addition to Investment Policies, companies have a capital plan and a capital emergency plan if sudden changes occur in the asset or liability side.

When market risks are measured and managed, all exposures are included, regardless of whether they arise from active portfolio management on the investment side or from annuities which are considered as market risk.

Asset Allocations and Investment Performance - Topdanmark Group Excluding Life Insurance

As described earlier, in life insurance different contribution groups have their own investment strategies and their loss absorbing buffers and hence it is not relevant to assess allocations and returns of these assets in isolation to their respective contribution groups.

Hence, in the two below tables the assets' allocations and annual investment returns without assets covering life insurance liabilities are presented.

Investment Allocation, Topdanmark Group Excluding Life Insurance 31 December 2017 and 31 December 2016

Asset class	Topdanmark 31 Dec 2017		Topdanmark 31 Dec 2016	
	Market value, EURm	Weight	Market value, EURm	Weight
Fixed income total	2,218	78%	2,081	77%
Government and mortgage bonds	1,874	66%	1,672	62%
Credit bonds	6	0%	29	1%
Index linked bonds	38	1%	52	2%
CDOs	78	3%	75	3%
Money market securities and cash	223	8%	253	9%
Listed equity total	127	4%	122	5%

Danish equities	36	1%	40	1%
Equities outside Denmark	91	3%	82	3%
Alternative investments total	187	7%	177	7%
Real estate	145	5%	134	5%
Private equity	42	1%	43	2%
Assets related to I/A	327	11%	310	12%
Asset classes total	2,859	100%	2,690	100%

The exposure in equities outside Denmark and credit bonds has been adjusted by the use of derivatives. Private Equity also includes direct holdings in non-listed equities. The class of "Assets related to I/A" (illness/accident) comprises the investments in Topdanmark Livsforsikring, (the life insurance company) corresponding to the size of the illness/accident provisions.

The equity portfolios are well diversified and without major single positions, when associated companies are disregarded.

The main investment assets are government and mortgage bonds, which comprise primarily Danish government and mortgage bonds. The assets of this asset class are interest rate sensitive - to a significant extent equivalent to the interest rate sensitivity of the non-life insurance provisions. Consequently, the return on government and mortgage bonds should be assessed in connection with return and revaluation of non-life insurance provisions.

Credit bonds are composed of a well-diversified portfolio, primarily exposed to businesses in Europe and in the United States, predominantly in the investment grade segment.

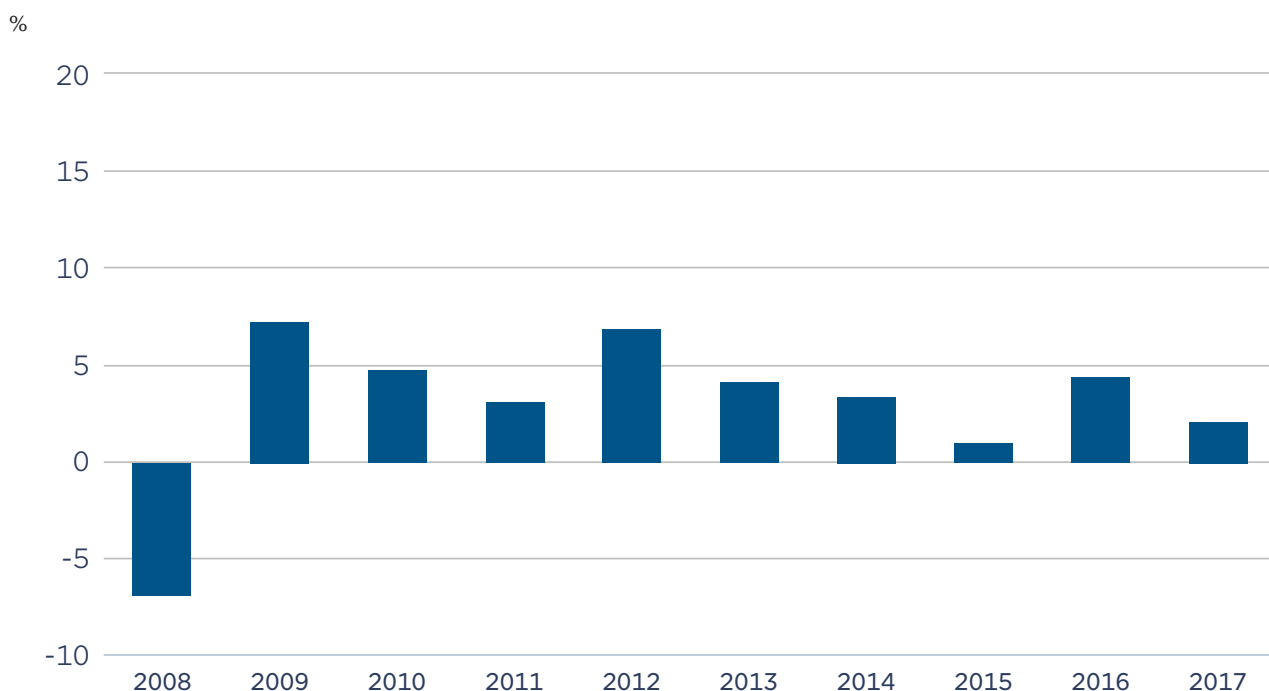
Index linked bonds comprise bonds – primarily Danish mortgage bonds – for which the coupon and principal are index-linked.

The CDO category primarily includes positions in CDO equity tranches. The underlying assets consist for the most part of senior secured bank loans, while the remaining part consists primarily of investment grade investments in corporate bonds. The real estate portfolio comprises mainly owner-occupied real estate.

Assets related to illness/accident insurance comprise the investments in Topdanmark Livsforsikring corresponding to the size of the illness/accident provisions.

The annual investment return for 2017 compared to earlier years is presented in the graph Annual Investment Returns at Fair Values, Topdanmark Group, Excluding Life, 2008-2017.

Annual Investment Returns at Fair Values Topdanmark Group Excluding Life, 2008-2017



The investment return in the Topdanmark Group excluding life insurance was DKK 539 million in 2017 (DKK 910 million).

Investment Allocation: Life Insurance

The asset allocation covering life insurance liabilities over all contribution groups is presented in the below table.

Investment Allocation Topdanmark Livsforsikring, 31 December 2017 and 31 December 2016

Asset class	Topdanmark 31 Dec 2017		Topdanmark 31 Dec 2016	
	Market value, EURm	Weight	Market value, EURm	Weight
Fixed income total	2,021	66%	2,040	65%
Government and mortgage bonds	1,614	52%	1,540	49%
Index linked bonds	129	4%	149	5%
Credit and emerging market bonds	278	9%	351	11%
Listed equity total	489	16%	592	19%
Listed shares	489	16%	592	19%
Alternative investments total	702	23%	543	17%
Land and buildings	498	16%	479	15%
Unlisted shares	152	5%	14	0%
Shares in associated companies	52	2%	50	2%
Other investments	-127	-4%	-49	-2%
Other investments assets	-107	-3%	-34	-1%
Derivates to hedge against the net change in assets and liabilities	-19	-1%	-15	-0%
Asset classes total	3,085	100%	3,125	100%

Assets total relates to the products with guarantees and profit sharing. The exposure in equities outside Denmark and credit bonds has been adjusted by the use of derivatives. Unlisted shares include Private Equity and Hedge funds. Other investments assets include money markets securities, cash and derivatives.

Market Risks of Balance Sheet

Interest Rate Risk

Interest rate risk exposure is net of assets, liabilities and derivative instruments whose carrying amount is dependent on the interest rate level. In regards to insurance liabilities Topdanmark is exposed to interest rate risk due to provisions for outstanding claims in non-life insurance and guaranteed benefits in life insurance.

Shifting the market yield curve upwards and downwards and/or changing its shape leads to changed market values of assets and derivatives and thus to unrealized losses / gains.

When assessing the value and sensitivity of insurance provisions Topdanmark uses the Solvency II discount curve that has its basis on market yield curve with volatility

adjustment (VA). The VA component of DKK yield curve comprises a corrective element based on the spreads of Danish mortgage bonds and European credit bonds. The VA component was 51bp at the end of 2016 and 30bp at end of 2017.

Generally, the interest rate risk is limited and controlled by investing in interest-bearing assets in order to reduce the overall interest rate exposure of the assets and liabilities to the desired level. Therefore the Danish Mortgage Bonds and Government bonds have a central role in the asset portfolios. To further decrease the interest rate sensitivity of balance sheet, swaps and standard swaptions have been used for hedging purposes.

Equity Risk

The Danish part of the equity portfolio is composed on the basis of OMXCCAP index. The rest of the equity holdings are

in the foreign equity portfolio that is based on MSCI World DC in its original currency. As a net result Topdanmark Group's equity holdings are well-diversified.

Breakdown of Listed Equity Investments by Geographical Regions Topdanmark Group, 31 December 2017 and 31 December 2016

Topdanmark	31 Dec 2017		31 Dec 2016	
	%	EURm	%	EURm
Denmark	20%	162	23%	176
Norway	1%	8	1%	8
Sweden	1%	8	1%	8
Finland	0%	0	0%	0
Western Europe	22%	177	19%	148
East Europe	0%	0	0%	0
North America	55%	438	55%	420
Latin America	0%	0	0%	0
Far East	0%	0	0%	0
Japan	0%	0	0%	0
Total		793		761

Real Estate Risk

The real estates are all located in Denmark, with the material part in the areas of Copenhagen and Århus. The holding on group level is diversified over office buildings and residential buildings.

regard to type of debtor and therefore the exposure to the concentration of risks is insignificant.

Investment policy stipulates that the portfolio must be well-diversified also in counterparties and that the portfolio must not be particularly exposed to individual counterparties. The main source of spread risk is the government and mortgage bonds. Due to high allocation of these investments in the portfolios, spread risk is the most material source of market risk SCR. SCR was DKK 1,372 million on 31 December 2017.

Spread Risk

Most of Topdanmark's interest-bearing assets comprise of AAA rated Danish mortgage bonds and debt issued or guaranteed by top-rated European states. The risk of losses is considered to be minor due to the high credit quality of the issuers and because investments have been made at spreads in balance with the company's desired risk ratio levels. The portfolio is well diversified both geographically and with

Concentration Risk

Topdanmark's fixed income investments by rating classes are presented in the table Interest-bearing Assets by Rating, Topdanmark, 2017 and 2016.

Interest-bearing Assets by Rating, Topdanmark 31 December 2017 and 31 December 2016

Interest-bearing assets by rating, %	2017	2016
AAA+AA	77.8	77.8
A	2.9	2.7
BBB	0.6	0.3
<BBB	11.6	12.6
Money market deposits	7.1	6.7

The company has no significant concentrations on the investment side, except for the category "Treasury and mortgage bonds" that consists primarily of Danish government and AAA-rated Danish mortgage bonds. In terms of SCR the concentration risk was DKK 145 million on 31 December 2017.

As earlier described, these assets have an interest rate sensitivity that significantly corresponds to the interest rate sensitivity of the technical provisions.

Currency Risk

In practice the only source of currency risk is investment assets, because insurance liabilities are in Danish Kroner. The currency risk is mitigated by derivatives and net exposures in different currencies are minor except in Euros.

Currency risk is assessed based on SCR. The value of base currency is shocked by 25 per cent against most of the currencies except 2.39 per cent against EUR where the largest exposure exists.

Currency Risk SCR was DKK 31 million on 31 December 2017.

Inflation Risk

Future inflation is implicitly included in a number of the models Topdanmark uses to calculate its provisions. The general principles regarding the inclusion of an allowance for inflation differs between Workers' compensation and illness/accident insurance. In the former the provisions are calculated on the basis of the expected future indexation of wages and salaries, and in latter on the basis of the expected net price index.

An expected higher future inflation rate would generally be included in the provisions with a certain time delay, while at the same time the result would be impacted by higher future indexation of premiums. In order to reduce the risk of inflation within workers' compensation and illness/accident insurance, Topdanmark uses index-linked bonds and derivatives to hedge a significant proportion of the expected cash flows sensitive to future inflation.

Market Risk Sensitivities

In the below table is a summary of selected market risks sensitivities. It can be seen from the table that the net effect of 1 percentage point parallel change in interest rates would be less than 10 per cent drop in equity or property prices.

Market Risk Sensitivities Topdanmark, 31 December 2017 and 31 December 2016

Risk scenarios		2017	2016
EURm After taxation and pension return tax			
Market risk			
Interest-bearing assets	1 bp increase	-62.4	-79.5
Provisions for claims and benefits etc.	in effective interest rate	68.8	90.3
Index-linked bonds	5% loss	-2.8	-4.9
Equities	10% loss	-10.6	-11.0
CDOs < AA	10% loss	-8.0	-7.2
Properties	10% loss	-17.7	-16.7
Annual currency loss with an up to 2.5% probability		-0.8	-2.8

Liquidity Risk

Topdanmark Group has a strong liquidity position. Firstly, as premiums are paid prior to the beginning of the risk period the liquidity risk related to customers' payments is very limited. Secondly, the combination of insurance businesses is of a character in which it is highly unlikely that liquidity shock could occur, because insurance liabilities are by their nature stable liabilities and in asset portfolios money market

investments are complemented by a large portfolio of liquid listed Danish government and mortgage bonds.

Experience from quite significant and sudden movements in long-term interest rates have confirmed that liquidity of these assets is not significantly affected by market shocks.

The maturity structure of technical provisions is presented in the next table.

Cash Flows for Provisions

Topdanmark, 31 December 2017 and 31 December 2016

EURm	Book value	1 year	2-6 years	7-16 years	17-26 years	27-36 years	>36 years
Provisions for claims							
2016	1,774	543	692	382	171	74	23
2017	1,748	542	701	390	160	76	11
Life insurance provisions guarantees and profitsharing							
2016	3,286	354	994	1,411	663	219	72
2017	3,232	347	938	1,424	689	219	61

In the table the discounted cash flows related to the insurance activities are shown in general level. In cash flows for life insurance provisions, repurchase and rewrite to paid-up policies are included in 2017. Comparative figures for 2016 have not been adjusted. Life insurance provisions for unit-linked products are covered by corresponding investment assets and therefore not stated in the table.

Because of the above reasons Topdanmark's liquidity risk is primarily related to the parent company Topdanmark A/S.

Topdanmark A/S finances its activities and dividend programme by receiving dividend from its subsidiaries.

Further financing requirements are covered by short term money market loans, typically with a maturity of one month or less.