**ALM. BRAND A/S**

# REPORT BY THE BOARD OF DIRECTORS IN CONNECTION WITH THE PROPOSED REDUCTION OF THE SHARE CAPITAL BY A NOMINAL AMOUNT OF DKK 1,214,500,000 BY WAY OF A REDUCTION OF THE NOMINAL VALUE PER SHARE

**Report pursuant to section 185 (cf. section 156(2)(ii)) of the Danish Companies Act**

The Board of Directors of Alm. Brand A/S has resolved to convene the shareholders for an extraordinary general meeting with a view to considering and adopting a proposal to reduce the share capital by a nominal amount of DKK 1,214,500,000 from DKK 1,388,000,000 to DKK 173,500,000 by way of a redomination of the shares from DKK 80 to DKK 10.

Pursuant to section 185 (cf. section 156(2)(ii)) of the Danish Companies Act, the Board of Directors hereby declares that, other than as described below, no events of significance to the company's position have occurred since the publication of the Annual Report 2009 as adopted by the Board of Directors at the Board meeting held on 25 February 2010 and approved by the shareholders in annual general meeting on 28 April 2010.

On 20 May 2010, the company presented its financial statements for Q1 2010, which showed a pre-tax loss of DKK 242 million for the three months ended 31 March 2010.

Non-life operations were adversely affected by significant weather-related claims in the order of DKK 350 million in the first quarter of 2010. Losses and writedowns on the portfolio of loans and advances continue to have a negative impact on the performance of Alm. Brand's banking operations. However, the bank's core earnings are improving.

During the last couple of years, Alm. Brand has been working towards lowering its cost level and adjusting prices and risk with a view to enhancing its operating performance. Over the next few years, the group will intensify these efforts. As a result, the group expects to generate a small but positive operating profit in 2011 and a significantly enhanced performance in 2012.

During the period of the past few years and until 31 March 2010, Alm. Brand Bank has recognised total writedowns on loans and advances of DKK 2.2 billion. Assessing the extent of the bank's writedowns on loans and advances in the years ahead is subject to considerable uncertainty. Additional writedowns until the end of 2012 are assessed to amount to DKK 1.2 billion.

The terms and conditions for Alm. Brand Bank obtaining a government guarantee until end-2013 in connection with the issuance of bonds were defined in June 2010. The bank subsequently issued bonds for a total amount of DKK 6 billion on 30 June 2010.

In that connection, Alm. Brand A/S has undertaken to contribute the necessary capital to Alm. Brand Bank in order to ensure that the bank complies with the solvency requirements in force from time to time. The commitment amounts to a total of at least DKK 1 billion and may total up to DKK 2 billion, depending on the financial position of Alm. Brand A/S.

Moreover, Alm. Brand A/S has received a commitment for a contribution of up to DKK 900 million by way of subordinated capital from Alm. Brand af 1792 fmba.

At present, no decision has been made as to whether such capital will be contributed as subordinated loan capital or as share capital in connection with a possible rights issue.

In order to prepare for a possible rights issue, the Board of Directors has resolved to propose that the nominal capital be reduced from DKK 1,388 million to DKK 173.5 million by way of a reduction of the nominal amount per share from DKK 80 to DKK 10.

Following the contribution of capital from Alm. Brand af 1792 fmba, the group is assessed to have sufficient capital for its future operations, also when considering the more stringent requirements imposed by the new capital adequacy rules – Solvency II and Basel III.

Copenhagen, 5 July 2010
**Board of Directors**

Jørgen H. Mikkelsen
Chairman

Boris Nørgaard Kjeldsen
Deputy Chairman

**Management Board**

Søren Boe Mortensen
Chief Executive