*Translation from Danish by Danske Bank of a statement dated 8 July 2025 from the Danish Financial Supervisory Authority (*Finanstilsynet*). In case of discrepancies, the Danish version prevails.*

8 July 2025

Statement on functional inspection of Danica's ongoing valuation of alternative investments

In February 2025, the Danish Financial Supervisory Authority (the Danish FSA) conducted a functional inspection at Danica Pension, Livsforsikringsaktieselskab of its ongoing valuation of alternative investments.

The inspection covered the company's ongoing valuation of the asset classes private equity, infrastructure and illiquid credit investments. The inspection focused on the ongoing valuation and the valuation models used. Moreover, the inspection covered documentation and analyses of assumptions and sources of information used for the ongoing valuation, such as beta values, market indices and thresholds, as well as the company's control of fund managers' valuation. The inspection did not cover the specific valuation.

Summary and risk assessment

At the end of 2024, Danica had infrastructure investments of DKK 14.1 billion, illiquid credit investments of DKK 9.7 billion and private equity investments of DKK 20.3 billion, together equalling 7.5% of the company's total investment assets.

The Danish FSA noted that the company has established processes and methods in place for the ongoing valuation of the company's alternative investments. However, the inspection gave rise to the supervisory reactions described below.

Valuation – market monitoring

The Danish FSA noted that, for the purpose of assessing the need for value adjustments, the company used liquid composed market indices for private equity, infrastructure investments and credit investments. The company did not use any other liquid market indices as part of its monitoring of whether market movements had taken place in sub-markets or sectors to which some of the company's investments were exposed.

The Danish FSA also noted that the valuation process was initiated on a specific weekday rather than at the time when changes took place in the liquid markets and the thresholds were breached. The Danish FSA found that this does not sufficiently ensure a timely assessment of the valuation of the company's alternative investments and the potential need for a value adjustment.

The Danish FSA also found that the company must, to a greater extent, consider the fund manager's valuation so that it does not uncritically use it as a basis in situations in which the company itself has made an extraordinary value adjustment of an investment. If market developments have caused the company to adjust the valuation, the company must consider whether the fund manager's valuation sufficiently takes the market developments into account.

The Danish FSA has therefore ordered the company to use more detailed market indices as part of its monitoring. The company must also establish a process for extraordinary value adjustments to ensure a sufficiently frequent and accurate valuation and ensure that fund managers' valuations (net asset value (NAV)) are assessed in the event of significant changes to the risk landscape with a view to ensuring that the company measures the risks associated with the alternative investments.[1]

[1] Section 175 of the Danish Insurance Business Act (the prudent person principle)

Verification and validation of the model for ongoing valuation
The Danish FSA noted that the company carried out backtests of the valuation model by comparing the ongoing extraordinary value adjustments with the valuations that the company receives from the fund manager each quarter.

These were carried out at the portfolio level, and the Danish FSA found that Danica was also to include backtests at the asset level with a view to assessing whether there are parameters, model input or assumptions that must be adjusted and to assessing where the model is not a satisfactory fit and how the model can be improved.

Inadequate controls and validation of the model for the ongoing valuation entail a risk that the ongoing valuation of alternative investments is not made at fair value and that the measurement of the risk is not made on an adequate basis.

The company has been ordered to improve the processes so as to ensure sufficiently documented verification and validation of the model for the ongoing valuation, of the data basis applied and of the assumptions used in the model. The company has also been ordered to ensure that the model is adjusted if and when needed.[2]

Checks of external valuations
The Danish FSA noted that the company did not adequately check the fund managers' valuations by means of sample checks or the like, including checks of whether the data basis applied and assumptions used in the fund managers' valuation models are reliable and relevant.

The Danish FSA has ordered Danica to establish methods and processes that ensure sufficient ongoing checks of the fund managers' valuations.[3]

Asset-specific adjustments of quoted market prices
The Danish FSA noted that the company had proprietary valuation models for direct investments. The Danish FSA found that, in some cases, the company did not make the relevant adjustments in relation to the specific alternative assets.

The Danish FSA has ordered Danica to ensure that asset-specific value adjustments are made so as to ensure that the valuation of assets based on quoted market prices in active markets for similar assets is effected with adjustments to reflect differences and that the adjustments reflect asset-specific factors.[4]

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[2] Article 9(2), article 267(1) and (4) and article 263e of the Solvency II Regulation and section 175 of the Danish Insurance Business Act (the prudent person principle).
[3] Article 9(2) and article 267(1) of the Solvency II Regulation, section 175 of the Danish Act on Insurance Business and paragraph 13 of schedule 2 to the Danish Executive Order on Management.
[4] Article 10(3) and (a) of the Solvency II Regulation.