Translation by Danske Bank of a letter dated 29 November 2012 from the Danish Financial Supervisory Authority. In case of discrepancy the Danish version prevails.

Statement on inspection at Danica Pension, Livsforsikringsaktieselskab

1. Introduction

In August and September 2012, the Danish Financial Supervisory Authority conducted an inspection at Danica Pension, Livsforsikringsaktieselskab ("Danica Pension").

The inspection was an ordinary inspection to review all the company's major areas in terms of risk and focusing on the areas with the largest risk.

The inspection covered the following areas:

- The work of the board of directors and the executive board
- The investment area
- The insurance area, including actuarial matters
- The solvency need
- It

2. Summary and risk assessment

Through Forsikringsselskabet Danica, Skadesforsikringsaktieselskab, Danica Pension is wholly-owned by Danske Bank. Danica Pension has activities in Denmark, Sweden, Norway and Ireland through subsidiaries.

With more than 600,000 customers, Danica Pension is one of the largest pension companies in Denmark.

Danica Pension offers both conventional with-bonus products and market-based products. The majority of Danica Pension's current schemes are written as average-rate products with guarantees. However, the breakdown of premium income indicates that there is a trend towards market-based products.

Danica Pension's conventional product is characterised by a fairly high average technical rate of about 3.4%.

Danica Pension has decided to launch a re-selection campaign to reduce its portfolio of average-rate contracts to the benefit of its portfolio of market-based contracts. Customers offered to re-select must deselect the guarantee and will instead receive a portion of the accumulated additional provisions into their custody account at the time of the re-selection.

The Danish FSA has been informed that Danica Pension does not intend to give the customers a share of the collective bonus potential in connection with the re-selection. The Danish FSA would consider that merely reasonable in view of the current situation where the size of the collective bonus potential is modest.

Danica Pension uses mortality assumptions that differ from the Danish FSA's benchmark and leads to higher pension provisions.

In mid-2012, Danica Pension calculated its solvency need at DKK 9.1 billion. Danica Pension's actual solvency (capital base) was DKK 18.6 billion in mid-2012, resulting in a solvency ratio of 2.04. When calculating the solvency need, the company has decided on a level of security corresponding to the level that will apply under Solvency II. The company is considered to have adequate capital in relation to the Solvency II requirement.

As regards the solvency need, the Danish FSA gave Danica Pension risk information about the capital plan, informing Danica Pension that the board of directors should require more reporting on the effect of Solvency II on the total capital need and on the capital contingency plan where the board of directors should assess the effect of the individual initiatives and the possibility of implementing the initiatives.

The Danish FSA found that the anchoring in the board of directors of the work on the solvency need reflects that the solvency need is not used in the ongoing risk management.

As regards the investment area, the board of directors was ordered to lay down the conditions for allowing the executive board to operate outside the limits set out by the guidelines. Finally, the Danish FSA gave Danica Pension risk information about the need to make a decision about concentration risk on bonds and shares.

As regards the outsourcing agreement entered into with Danske Capital about portfolio management, the Danish FSA ordered Danica Pension to define the reporting requirements as part of the agreement.