

Translation from Danish by Danske Bank of a statement on inspection dated 27 April 2015 from the Danish Financial Supervisory Authority (*Finanstilsynet*). In case of discrepancies, the Danish version prevails.

The Danish Financial Supervisory Authority  
27 April 2015

## **Statement on inspection of Danica Pension, Livsforsikringsaktieselskab**

### **1. Introduction**

In November 2014, the Danish Financial Supervisory Authority (FSA) conducted an inspection of Danica Pension, Livsforsikringsaktieselskab (“Danica Pension”).

The inspection was a functional inspection focusing on the calculation of the solvency need and the safeguarding of policyholder interests in compliance with the prudent person principle.

During its inspection, the FSA reviewed the company's documentation of the solvency need calculation, including identification and quantification of risks, choice of method, capital plan and capital contingency plan. Moreover, the FSA reviewed the company's investment strategy in relation to the prudent person principle and the company's statement on the prudent person principle.

### **2. Summary and risk assessment**

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

Danica Pension offers the average-rate product Danica Traditionel and the market-based products Danica Balance, Danica Link and Danica Select.

Danica Pension focuses on the market-based products and does not recommend Danica Traditionel to new customers. It is possible for customers to link a guarantee to a number of the company's market-based products. At the end of 2014, the life insurance provisions for Danica Traditionel amounted to DKK 165 billion, while the provisions for the market-based products amounted to DKK 97 billion.

The board of directors of Danica Pension has completed its work on the 2014 risk assessment. The solvency need forms an integral part of the company's risk management and investment strategy. In this context, Danica Pension has been ordered to calculate the solvency need for interest rate risks by using risk-free yield curves denominated in the same currency as the financial instruments and derivative financial instruments in question. Furthermore, the FSA has provided risk information to Danica Pension about the extent of sensitivity analyses in the company's capital plan.

Danica Pension uses the partial internal model for longevity of the Danish Society of Actuaries. A number of issues remain outstanding as regards the assumptions in relation to the use of the model under the coming Solvency II rules, including how the assumptions are monitored regularly.

Danica Pension has implemented a range of controls to ensure that the model for calculating the solvency need is correct and that the data are valid.

Danica Pension's calculations based on the FSA's prudent person scenario analyses show that Danica Balance products with a guarantee are more robust than products without a guarantee. For “Danica Balance without a guarantee” and “Danica Link Valg with and without a guarantee”, the investment strategy is less robust for the older customer groups.

Following Danica Pension's calculation of prudent person risk profiles for Danica Balance and Danica Link Valg, the FSA has provided risk information to the company as the FSA sees a risk that the company's investment strategy for the products does not reflect the risk profile presented to the customers. Danica Pension has been requested to elaborate on this issue.

The FSA has also ordered the board of directors to lay down a framework for Danica Link Valg and provided risk information to the company to the effect that the board of directors should take a position on the concentration risks of the product. As regards Danica Balance, the company has also been ordered to adjust its framework for certain bond investments where the framework has been too broad.

Danica Pension has increased its focus on alternative investments and aims at lifting the share of alternative investments in the coming years. This being the case, the FSA has provided risk information to the company to the effect that this requires ongoing attention from the board of directors and the executive board.

At the end of 2014, Danica Pension's applicable capital requirement was the solvency need, which amounted to about DKK 10.2 billion compared with a capital base of about DKK 17.8 billion, corresponding to a solvency coverage ratio of about 1.75.