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Danica Pension, Livsforsikringsaktieselskab

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Danica Pension, Livsforsikringsaktieselskab

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Major Rating Factors

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
A/Negative/--

Strengths:

- Core status to the Danske Bank group.
- Strong competitive position.
- Strong capitalization.

Weaknesses:

- Earnings volatility driven by investment performance.
- Limited diversification outside the domestic market.

Rationale

The ratings on Denmark-based life insurer Danica Pension, Livsforsikringsaktieselskab (Danica) reflect its core status to the Danske Bank group (Danske Bank A/S; A/Negative/A-1). The following analysis is based on a review of Danica as a stand-alone insurer.

On a stand-alone basis, Danica benefits from a strong domestic competitive position generated from a broad product range, comprehensive distribution, and strong capitalization. These factors are partially offset by the earnings volatility driven by investment performance and limited diversification outside Danica's domestic market.

Danica plays a key role in Danske Bank's strategy to be a leading and well-diversified player in the financial services market in Denmark, and international expansion by Danica is expected to complement Danske Bank's strategy. Danica effectively operates as the life and pensions division of Danske Bank. About 15% of sales are through branches of Danske Bank, back-office functions are mostly integrated, and Danske Bank manages group capital to provide for Danica's planned growth. Danica's increased focus on cooperation with Danske Bank, given the higher returns typical of bancassurance distribution, has resulted in increased bancassurance sales in 2007 and 2008 and we expect bancassurance sales to continue to increase over the rating horizon. However, the bancassurance sales will likely remain lower over the short term than five years ago, when it represented 32% of sales.

Danica's strong competitive position is based on its well-diversified distribution model, good back-office systems, and innovative product design, which have helped the company to maintain its dominant position in the Danish life and pensions market. Unit-linked (UL) sales are a particular strength at Danica, which has captured a dominant share of the market through product design and efficient operations. Management has demonstrated a commitment to, and delivery on, its strategy over a number of years, and has gained the support and backing of Danske Bank to continue this growth in the future.

Capitalization is strong, based on solid, well-managed coverage of regulatory minimum solvency and a strong capital adequacy ratio according to Standard & Poor's risk-based model. Nevertheless, capitalization remains volatile due to the dependence on investment performance, a relationship highlighted by movements in the last two years. The targets chosen by management are appropriate to the level of risk maintained in the business and the implicit support of the parent (Danske Bank group), and quality of capital is high.

Danica's operating performance is a rating constraint given the relatively low return on equity compared with that for typical European insurers. Earnings comprise a share of technical provision, the investment return on shareholders' equity, and the accident and health result. The recent volatility in the investment market significantly affected investment performance and decreased earnings in 2008.

The lack of geographic diversification is a rating constraint, despite subsidiaries operating in Norway, Sweden, and Ireland. Premium originating outside Denmark account for a relatively low proportion, but we expect this to increase in the medium to long term as Danica develops these operations. Danske Bank is expected to lead future geographic expansion.

Outlook

The negative outlook on Danica reflects the negative outlook on its parent, Danske Bank A/S. The ratings and outlook on Danica would be affected by a change in the ratings or outlook on Danske Bank A/S or by the change in Danica's core status to the Danske Bank group.

Standard & Poor's expects Danica to maintain its domestic market share around 30% and continue to develop its overseas market presence. We expect an increased proportion of bancassurance sales over the rating horizon. Earnings are expected to improve in 2009 following improved investment performance, although the emergence of earnings could continue to be delayed by the transfer to shadow account in 2009. Additionally, capitalization is expected to remain strong. Standard & Poor's expects that Danske Bank will provide support if necessary.

Corporate Profile: Life And Pensions Operation Of Danske Bank Group

Danica is a wholly owned subsidiary of Forsikringsselskabet Danica (not rated), with the ultimate parent undertaking being Danske Bank A/S. Danica effectively operates as the life and pensions operation of the Danske Bank group. Standard & Poor's views Danica as core to the Danske Bank group.

Danica is the market leader in Denmark with developing insurance operations in Sweden and Norway. Through the 2007 creation of the subsidiary Danica Life Ireland (not rated), Danica has expanded outside its Scandinavian core market.

New business is increasingly market products (UL and "lifestyle" products), but traditional business, incorporating investment guarantees, dominates the in-force portfolio. Danica's assets under management totaled Danish krone (DKK) 240.4 billion on Dec. 31, 2008 (DKK244.3 billion on Dec. 31, 2007).

In 2007, Danica acquired the share capital of the Norwegian Danica Pensjonsforsikring and Danica Life from the parent company, Forsikringsselskabet Danica, which contributed to increased gross written premium (GWP) in 2008.

Competitive Position: Market Leader In Denmark; Overseas Activities Still Developing

Table 1

Danica Pension, Livsforsikringsaktieselskab/Business Statistics

	--Year ended Dec. 31--				
(Mil. DKK)	**2008***	**2007***	**2006***	**2005***	**2004¶**
Consolidated					
Total gross premiums written	19,005	16, 643	15, 776	14, 856	13, 757
Annual change (%)	14.2	5.5	6.2	8.0	(7.3)
Total net premiums written	18,888	16, 557	15, 685	14, 796	13, 659
Annual change (%)	14.1	5.6	6.0	8.3	(7.6)
Total assets under management	231, 163	237, 117	232, 478	223, 898	202, 991
Nonlinked (%)	87.7	87.3	90.6	93.6	94.6
Linked (%)	12.3	12.7	9.4	6.4	5.4
Non-life					
Gross premiums written	1,101	995	963	898	1, 108
Annual change (%)	10.7	3.3	7.2	(19.0)	19.5
Life					
Gross premiums written	17,904	15, 648	14, 813	13, 958	12, 649
Annual change (%)	14.4	5.6	6.1	10.3	(9.1)

*All figures from 2005 to 2008 relate to Danica Pension Group. ¶All figures for 2004 include Forsikringsselskabet Danica. DKK--Danish krone.

Danica's competitive position is strong overall and is supported by a wide product range and comprehensive distribution strategy. These strengths are partially offset, however, by Danica's relative lack of geographic diversification.

Danica is Denmark's largest life insurance company with total GWP, including payments received under investment contracts, of DKK21.6 billion in 2008 (up 18% on 2007). Danish business comprises 86% of GWP and this represents a Danish market share of 32% by premium written. Premium income has declined throughout 2009 (down by 12% in the first nine months of 2009 compared to the same period last year), mainly due to a decrease in single premium sales. However, premium income has declined for most of Danica's Danish peers due to the financial downturn, so Danica's market share is expected to remain around 30% in 2009.

Danica has successfully retained its dominant position in UL products, with a market share in excess of 50%. Despite an overall premium decrease in 2009, Danica's share of UL products has continued increasing in 2009, representing 55% of new Danish business by June 30, 2009. However, total premiums remain dominated (59%) by traditional products offering minimum guaranteed benefits.

There is a trend toward transparency surrounding life insurance in the Danish market. Danica has positioned itself well for any market changes given the company's continuing focus on improving customer service and product transparency. Danica switched from front-end-loaded to level commissions to brokers ahead of regulatory changes that came into force in 2007. Danica also successfully launched innovative market products in Denmark and retains the dominant market position in this sector.

Danica's distribution strategy is regarded as strong and diverse. Of Danish business, 75% is sourced directly through Danica's sales force and other direct marketing, with the remainder split between bancassurance (15%) and brokers (10%). The proportion of sales through bancassurance fell until 2007 (from 32% in 2004). However, Danica's increased focus on cooperation with Danske Bank has resulted in increased bancassurance sales in 2007 and 2008 and we expect bancassurance sales to continue to increase over the rating horizon.

Danica is also well positioned due to its flexible information technology (IT) systems, which have particularly assisted the growth in UL business.

Danica's overseas strategy is to offer UL and risk products to complement existing Danske Bank operations. Norwegian private market are made through Fokus Bank (part of the Danske Bank group) and other local banks, while sales to the corporate market are made through Danica's sales force, in collaboration with Focus Bank and brokers. Swedish distribution is through Danske Bank Sweden and brokers.

Danica's overseas premiums increased by 114% to DKK3.0 billion in 2008 (DKK1.4 billion in 2007). Premium income in Sweden grew by 83% in 2008, mainly due to strong sales of a new saving product, Depåförsäkring. Premium income in Norway grew by 10% in 2008, as sales were positively affected by Danica's focus on the corporate market in 2008 following tax changes in 2007, which caused private product sales to slow. In the third quarter of 2008, Danica started offering UL and risk products to the private market in Ireland through National Irish Bank (part of the Danske Bank group), which resulted in a premium income of DKK1 million in 2008. However, the overseas premium decreased to DKK1.1 billion in the first six months of 2009 (from DKK1.8 billion in the first six months of 2008) following a decline in the exchange rate between Swedish kronor against Danish krone and the continued fall in private sales in Norway. Danica's presence in overseas markets remains slight, with relatively low new business shares in Sweden and Norway and with over 84% of Danica's premiums (as at June 2009) still stemming from the Danish market. Nevertheless, with wide distribution reach and flexible IT systems, Danica is well placed to expand in these markets.

Prospective

We expect Danica's Danish market share to remain around 30% because the financial downturn has hit premium income at most Danish life insurers. Overseas organic diversification is expected to continue and to be led by Danske Bank. In addition, the proportion of premiums originating overseas is expected to continue to increase, with overseas sales returning to growth in the third quarter of 2009.

Due to agreements at the time of Danske Bank's acquisition of Sampo Bank PLC (AA-/Stable/A-1+) in 2007, Danica is prohibited from offering insurance products to Sampo Bank's Finnish customers within the rating horizon. Nevertheless, this could open up a new market and captive customer base for Danica to target in the future. We expect management focus to improve bancassurance distribution, and direct distribution to continue to improve in efficiency. Due to its already strong position in UL products, Danica appears well placed to benefit from the ongoing trend toward market transparency.

Management And Corporate Strategy: Strong Management; Increasing Integration Into Danske Bank Group

Management has demonstrated a commitment to, and delivery on, its strategy over a number of years, and has gained the support and backing of Danske Bank to continue this growth in the future.

Strategy

Danica's aim, to remain the leading provider of employee life and pension benefits in Denmark, is reasonable. This strategy is consistent with the parent's strategy to be a leading and well-diversified player in the financial services market in Denmark. Overseas expansion by Danica is expected to complement the Danske Bank's international development by Danske Bank.

Standard & Poor's regards as sound the steps taken by management to defend Danica's market position by improving its service and product offerings and strengthening its distribution capabilities.

Danica aims to improve its service by offering a proactive and targeted customer service and by continuing to develop new products. Standard & Poor's considers that ensuring high service satisfaction is a key factor for Danica to protect its existing book, particularly the UL products, from the increasing competition.

Management continues to explore ways to strengthen its distribution capabilities, with bancassurance distribution being a focus area. We therefore expect bancassurance sales to increase over the rating horizon.

In 2009, Danica has focused on actions to minimize any negative impact on its pension business caused by tax reforms in Denmark that come in effect in 2010.

Operational management

Operational management at Danica is strong, with a stable and experienced insurance team boosted by support from Danske Bank management. Danica shares many of its back-office functions with Danske Bank, and continues to integrate to maximize synergies and cross-selling opportunities.

Danica increasingly operates as the insurance division of Danske Bank, although the Danica group is legally separate from Danske Bank. Danica shares five members of its nine-person board of directors with its parent, illustrating the close ties and support enjoyed by the subsidiary.

Financial management

Financial management at Danica is good, and supports Standard & Poor's view of management. Danica published market-consistent embedded value for its Danish UL business, excluding accident and health insurance, for the first time in Danske Bank's annual report 2008.

The most significant risk for Danica is market risk, with Danica required to meet any shortfall in investment returns on traditional business. Policyholder risk is mitigated through the Danish state guaranteeing returns on old business in the event of Danica being unable to meet the liabilities and through Danica utilizing historically strong investment performance to build buffer capital. The recent financial turmoil resulted in a negative investment return on nonlinked assets of 1.2% in 2008, where the use of buffer capital (collective bonus potential and bonus potential of paid-up policies) reduced by 48% in 2008 and covered the shortfall.

Although the level of guarantees is high on the traditional life book (averaging 3.1% at year-end 2008), risk is well controlled by the use of hedging and an appropriately active investment strategy with suitable audit and control systems. Average guarantees are being reduced as new money attracts lower guarantees and the traditional portfolio ages. In addition, the increasing take-up of UL products means investment risk is increasingly being assumed by policyholders.

In addition to using its buffer capital, Danica introduced a temporary charge of 5% on transfer and surrender for its with-profit policyholders to minimize the impact of the financial turmoil. This was reduced to 2% in July 2009 and was removed altogether in October 2009. In addition, Danica de-risked its investment portfolio, mainly by reducing its equity exposure from 24% to 7% of nonlinked investment assets.

Enterprise Risk Management: Adequate Overall; Increased Focus On Coordination With Danske Bank

Danica's enterprise risk management (ERM) is viewed as adequate given the company's risk profile and risk management strategy. Danica's main risk is investment, particularly meeting the guaranteed benefits on traditional business. Comprehensive risk controls are employed for the investment portfolio, for each insurance company, and for each asset class. Stress tests are employed to regularly measure risk exposure and a constant proportion portfolio insurance investment strategy is in place.

Monitoring of mortality, morbidity, and longevity insurance risks appears adequate. Operational risks are well controlled, with significant coordination of processes with Danske Bank. Danica's ERM is not yet fully coordinated with Danske Bank, although this is improving and we expect it to continue to develop going forward. The risk management culture is adequate, but appears to be strengthening in line with the increased coordination with Danske Bank.

Regulatory solvency cover is higher than for peers, and the business profile and reinsurance program reduces extreme event risk.

Accounting: Accounts In Line With International Financial Reporting Standards, Published Embedded Value Results In 2008

Following the issuance of subordinated debt on the Irish Stock Exchange in 2006, Danica Pension's consolidated accounts are prepared in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS did not generate significant changes to Danica's reported figures.

Full credit is given in Standard & Poor's capital model for the collective bonus potential and limited credit for the bonus potential of paid-up policies as it relates to traditional business. The 2006 debt issue is treated as subordinated debt and does not get any equity credit in the model.

As previously disclosed, Danica announced a change to its consolidation policy from Jan. 1, 2006, to bring earnings rules into line with those of competitors. In 2007, the risk allowance was the sum of a maximum of 0.62% of technical provisions. This compares with an average return (excluding contributions from the shadow account) allocated to shareholders of 0.72% over 2003-2007. The effect of these changes is expected to reduce earnings over the rating horizon until the accident and health business can generate improved results.

With effect from Jan. 1, 2007, Danish corporate tax rates reduced to 25% from 28%, which had a positive effect on Danica. The European Court of Justice ruling in 2006 concerning the Danish tax allowance for premiums is not expected to affect Danica.

Danica published market-consistent embedded value for its Danish UL business, excluding accident and health insurance, for the first time in Danske Bank's annual report 2008.

In 2008, no risk allowance could be booked due to inadequate investment returns. Instead, it was transferred to the shadow account (DKK 1.1 billion), to be reversed in the future. This lead to an accounting pretax loss of DKK1.2 million in 2008.

Operating Performance: Historically Robust, But Declining Earnings In 2008

Table 2

Danica Pension, Livsforsikringsaktieselskab/Operating Statistics					
	--Year ended Dec. 31--				
(Mil. DKK)	**2008***	**2007***	**2006***	**2005***	**2004¶**
Consolidated					
Total gross expense ratio (%)	7.8	8.5	8.0	8.4	9.8
Administrative expense ratio (%)	4.9	5.2	5.1	5.5	6.6
Acquisition expense ratio (%)	2.9	3.3	2.9	2.9	3.3
Non-life					
Non-life operating result	(733)	(249)	(282)	(291)	(232)
Gross loss ratio (%)	86.8	89.3	99.8	153.4	116.1
Gross expense ratio (%)	22.7	23.3	20.5	19.8	21.3
Gross combined ratio (%)	109.5	112.7	120.3	172.6	137.4
Net loss ratio (%)	87.4	90.0	100.8	147.5	120.8
Administrative expense ratio (%)	8.7	9.3	12.8	12.2	12.9
Acquisition expense ratio (%)	15.4	15.2	8.3	7.3	9.5
Net expense ratio (%)	24.0	24.5	21.1	19.5	22.4
Net combined ratio (%)	111.4	114.5	121.9	167.0	143.3
Life					
Administrative expense ratio (%)	4.7	4.9	4.6	5.1	6.1
Acquisition expense ratio (%)	2.1	2.6	2.5	2.6	2.8
Total net life expenses/total life assets (bps)	51.7	48.7	45.3	49.1	57.7

*All figures from 2005 to 2008 relate to Danica Pension Group. ¶All figures for 2004 include Forsikringsselskabet Danica. DKK--Danish krone. Bps--basis points.

Standard & Poor's views Danica's recent operating performance as good, reflecting its strong premium growth and good and improving expense ratios. These positive factors are offset, however, by the earnings volatility arising from the investment return on shareholders' equity.

Historical

Danica's earnings comprise a share of technical provision, the investment return on shareholders' equity, and the accident and health result. In 2008, Danica reported an accounting pre-tax loss of DKK1.2 million (profit of DKK1.6 million in 2007).The financial market volatility had a negative impact on investment performance (loss of DKK11.0 billion) and life provisions (increase of DKK5.0 billion as a result of declining interest rates), largely offset by the transfer of DKK14.7 billion in buffer capital to income (DKK11.9 billion from the collective bonus potential and DKK2.8 billion from the bonus potential of paid-up policies). Nevertheless, DKK1.1 billion of risk allowance was transferred to the shadow account over the same period. The shadow account affects the timing of earnings but does not affect the level.

Expenses as a proportion of premiums continued decreasing in 2008 to 6.0% (6.7% in 2007), which was at the lower end compared with its peers.

In the first nine months of 2009 Danica reported a profit on its accident and disability risks of DKK307 million (losses were DKK733 million in 2008, DKK249 million in 2007). The 2008 result was mainly affected by poor investment results of negative DKK506 million. However, loss-making accident and disability business is an industrywide issue in Denmark, generated by poor claims experience and fierce competition.

Danica took further pricing and underwriting action in 2008 and the combined ratio for accident and health business improved to 104% as at Sept. 30, 2009 (112% in 2008 and 115% in 2007). It remains a challenge, however, for Danica to generate positive accident and health results over the rating horizon. Danica continues to offer these products as ancillary benefits to more-profitable pensions business, and withdrawal from this market may affect its competitive position.

Prospective

We expect Danica to report improved earnings in 2009, driven by improved investment income. In the first nine months of 2009, Danica reported a technical profit of DKK1.2 billion as the investment return on nonlinked assets increased to 5.8%

We anticipate Danica to incur slightly higher expenses in 2009 as IT systems need to be adapted to changes in the Danish tax rules in 2010.

By Sept. 30, 2009, Danica had restored DKK2.8 billion of the bonus potential of paid-up policies and therefore a risk allowance of DKK809 million could be booked, but postponed until the year-end 2009, when a decision on whether to book the risk allowance will be made. As at Sept. 30, 2009, the total risk allowance transferred to the shadow account was DKK1.95 billion including interest.

Investments: Reduced Investment Returns In 2008

Table 3

Danica Pension, Livsforsikringsaktieselskab/Investment Statistics

	--Year ended Dec. 31--				
(Mil. DKK)	**2008***	**2007***	**2006***	**2005***	**2004¶**
Net investment income	11,129	9,382	8,626	9,016	8,946
Direct yield on invested assets (%)	4.8	4.5	3.8	8.1	4.7
Total return (incl. unrealized and realized) (%)	(4.5)	1.4	3.4	22.1	9.6
Non-linked portfolio composition (%)					
Investment in affiliates	0.5	0.6	0.6	0.5	0.1
Loans to affiliates	0.1	0.0	0.0	0.0	0.1
Bonds and other fixed-interest securities	71	58.1	61.6	68.8	74.4
Equities and other variable-interest securities	14.3	29.7	27.6	19.6	15.3
Property	9.5	9	8.1	7.7	8.0
Cash and bank deposits	0.8	1.9	0.8	0.2	0.2
Other investments	3.8	0.6	1.3	3.2	1.9
Total nonlinked investments	87.7	87.3	90.7	93.6	94.6

Table 3

Danica Pension, Livsforsikringsaktieselskab/Investment Statistics (cont.)					
Assets held to cover linked liabilities	12.3	12.7	9.3	6.4	5.4

*All figures from 2005 to 2008 relate to Danica Pension Group. ¶All figures for 2004 include Forsikringsselskabet Danica. DKK--Danish krone.

Standard & Poor's regards Danica's investment strategy as good. Exposure to a fall in equities or change in interest rates is well managed. The monitoring and management of the asset-liability position is good, with the appropriate use of derivatives.

Danica manages its equity exposure so that the collective bonus potential must be sufficient to cover a 20% loss in weighted equity and credit exposure. In 2008, the financial market volatility resulted in a negative equity return on Danica's nonlinked assets of 40% (positive 5.7% in 2007) and subsequently the collective bonus potential declined to DKK1.6 billion at year-end 2008 (DKK13.5 billion at year-end 2007) to cover the shortfall. Danica de-risked its investment portfolio throughout 2008, mainly by reduced equity exposure (from 24% to 7% of nonlinked investment assets). Danica continues to manage its equity exposure in line with its risk-bearing capacity of the balance sheet, but because buffer capital reduced significantly during 2008, a more-cautious investment strategy is in place for 2009.

Bonds and derivatives are used to protect Danica's exposure to interest-rate changes.

At the end of September 2009, nonlinked investments were concentrated in bonds (80%) and equity investment (8%). The majority of bonds are of high quality, with strict criteria for purchasing bonds, although there is a high concentration in Danish mortgage securities. Index-linked bonds (15%) are held to target stable real returns, and overseas bonds (10%) target diversification.

Danica has no investments in subprime mortgages, credit default swaps, or collateralized loan obligations.

As at September 2009, the investment performance had improved significantly since year-end 2008: equity produced positive returns of 16.8% (negative 40.0% in 2008), and property and bonds return was 4.7% (3.0% in 2008), resulting in a total return on nonlinked invested assets of 5.8% (negative 1.2% in 2008).

The bulk of investments are managed by Danske Bank (80% at year-end 2008), with Danica undertaking limited investment management. The remainder, mostly specialist equity and bond sectors, is invested through externally mandated managers.

The average guarantee on the portfolio was 3.1% at Dec. 31, 2008, and we expect this to decrease as new money attracts lower guarantees and the existing portfolio matures.

Liquidity: Strong Liquidity; Danske Bank Support Expected If Required

Standard & Poor's regards Danica's stand-alone liquidity as strong. We anticipate Danica's negative cash flow in 2008 to return to positive in 2009 and remain positive over the rating horizon. The proportion of marketable assets is high.

Holdings of cash remain small (DKK1.6 billion or 0.7% of total assets in 2008), although investments in the traditional portfolio are concentrated in a diverse portfolio of bonds (81%). UL provisions (DKK28 billion at Dec. 31, 2008) decreased slightly in 2008, but are readily realizable.

We view liquidity as further enhanced by Danske Bank ownership. As long as Danica remains core to Danske Bank's operations, it is unlikely to face any liquidity issues that its parent cannot support.

Capitalization: Expected To Remain Strong; Strong Quality Of Capital

Capitalization is strong, based on solid, well-managed coverage of regulatory minimum solvency and a strong capital adequacy ratio according to Standard & Poor's risk-based model. Nevertheless, capitalization remains volatile due to the dependence on investment performance, a relationship highlighted by movements in the last two years. The targets chosen by management are appropriate to the level of risk maintained in the business and the implicit support of the parent. The quality of capital remains strong.

Historical

On a stand-alone basis, Danica's capitalization is regarded as strong, despite a decline in policyholders' bonus reserves in 2008 as the majority of the collective bonus potential (DKK11.9 billion) was transferred to income to cover investment losses. This demonstrates the strong relationship between capitalization and investment performance. Quality of capital remains strong, as it, apart from policyholder bonus reserves, comprises shareholder equity. Shareholder's equity declined slightly in 2008 (to DKK15 billion from DKK16 billion), due to lower retained profits.

Individual solvency requirements (ISR) were reported to the Danish Financial Service Authority (FSA) for the first time in December 2007. Standard & Poor's views positively the development of ISR and believes that it should improve risk management in Denmark.

During 2006, Danica issued €400 million of subordinated debt, with the proceeds used to repay internal financing and for future organic growth.

The existence and level of guarantees act as constraints on Danica's capitalization, while investment returns remain low. As new policies to traditional contracts are not attracting guarantee benefits based on interest rates greater than 1.5%, however, the average guarantee on the in-force book should continue to decrease over time. In addition, as sales of UL products increase and earnings become more diversified, the buffer against capital being hit by guarantees grows.

Reserves

Morbidity reserves were strengthened in 2003-2005. Other reserving bases appear appropriate given experience. Reinsurance is not used extensively, but appears reasonable given the business written. Mortality and morbidity catastrophe cover is in place in Denmark, however.

We believe Danica's exposure to longevity risk does appear manageable. An increase in life expectancy of one year would increase liabilities by DKK1.7 billion.

As part of the Danish government's financial stability measures in 2008, Danish mortgage bond spread was added to the discount rate used in discounting liabilities, which reduced Danica's reserves by DKK1.1 billion. There have been no announcements from the Danish FSA regarding whether the new discounting curve will be allowed beyond 2010.

Prospective

Standard & Poor's expects capital adequacy to remain strong on a risk-adjusted basis. Transfers to the collective bonus potential are anticipated to be made as investment market improves. By end of September 2009, the collective bonus potential had increased to DKK3.5 billion.

We believe that Danica's ISR assessment and participation in the Quantitative Impact Studies (QIS) 3 and 4 has had a positive effect on its risk management, ahead of the implementation of Solvency II.

Financial Flexibility: No Short-Term Capital Needs Expected; Capital Support From Danske Bank Group If Required

Table 4

Danica Pension, Livsforsikringsaktieselskab/Financial Statistics					
	--Year ended Dec. 31--				
(Mil. DKK)	2008*	2007*	2006*	2005*	2004¶
Consolidated					
Total invested assets	231,163	237, 117	232, 478	223, 898	207, 666
Annual change (%)	(2.5)	2.0	3.8	7.8	10.3
Total assets (before analyst adjustments)	231,163	237, 117	232, 478	223, 898	207, 666
Total equity	15,085	15, 982	14, 997	15, 811	14, 393
Total equity (incl. policyholder capital)	16,767	29, 538	28, 898	27, 115	22, 003
Total adjusted equity	16,767	29, 538	28, 898	27, 115	22, 003
Annual change (%)	(43.2)	2.2	6.6	23.2	6.5
Total capital	16,767	29, 538	28, 898	27, 115	22, 003
Reinsurance exposure ratio (%)	12.7	10.7	12.3	12.7	12.7
Debt/capital (excl. policyholder capital) (%)	19.7	17.1	16.9	0.7	2.2
(Debt + preferred stock)/capital (excl. policyholder capital) (%)	19.7	17.1	16.9	0.7	2.2
Investment leverage (incl. policyholder capital) (%)	328.2	509.6	509.1	369.1	312.2
Investment leverage (incl. all quasi capital) (%)	328.2	509.6	509.1	369.1	312.2
Liquid assets/technical reserves (%)	81.0	98.2	97.7	95.3	96
Non-life					
Technical reserves/net premiums written (%)	693.7	703.3	677.3	657.2	462.2
Net claims reserves/net claims incurred (%)	644.9	629.4	531.9	354.1	379.6
Net claims paid/net claims incurred (%)	74.7	77.8	68.3	42.6	55.5
Life					
Reinsurance utilization ratio (%)	0.3	0.2	0.3	0.3	0.3

*All figures from 2005 to 2008 relate to Danica Pension Group. All figures for 2004 include Forsikringsselskabet Danica. DKK--Danish krone.

Standard & Poor's regards financial flexibility as strong. As a core member of Danske Bank, Danica benefits from access to additional sources of funds from its parent.

The 2006 subordinated debt issue has restricted the availability to access additional funds via this route. Nevertheless, Standard & Poor's believes that Danica is unlikely to require capital to fund its organic growth plans over the short term or to replenish its capital buffer.

Ratings Detail (As Of December 23, 2009)*	
Operating Company Covered By This Report	
Danica Pension, Livsforsikringsaktieselskab	
Financial Strength Rating	
Local Currency	A/Negative/--
Counterparty Credit Rating	
Local Currency	A/Negative/--
Subordinated (1 Issue)	BBB+
Domicile	Denmark

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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