

Counterparty Default Risks

The default risk related to fixed income and equity investments is covered by spread-risk and equity-risk models in SCR calculations and hence they are not discussed in this context. Topdanmark is exposed to counterparty risk in both its insurance and investment activities.

The main sources of counterparty risk are deposits made to individual banks, derivative contracts with banks and current receivables from reinsurance companies with the addition of potential receivables that will arise in case of a 200-year event of disaster. Topdanmark's counterparty risk is assessed by the standard formula SCR, which was DKK 158 million on 31 December 2017.

Reinsurance

Within insurance activities the reinsurance companies' ability to pay is the most important risk factor. Topdanmark minimises this risk by primarily buying reinsurance cover from reinsurance companies with a minimum rating of A-

and by spreading reinsurance cover over many reinsurers. Accordingly, almost all of its storm cover has been placed with various reinsurance companies with rating A- or better.

For reinsurance counterparties, the Board approves security guidelines for how large a portion of a reinsurance contract can be placed per a separate reinsurer. This portion is dependent on the reinsurer's rating as well as on Topdanmark's own assessment of the reinsurer. Typically the largest risk concentrations may occur in case of catastrophe, including storms and cloudbursts, through one or more single major disaster events.

Financial Derivative Activities

To limit the counterparty risk of financial contracts, the choice of counterparties is restrictive, and collateral is required when the value of the financial contracts exceeds the predetermined limits. The size of the limits depends on the counterparty's credit rating and the terms of the contract.