

## PDN financial crisis plan

### Introduction

Article 145 of the Pensions Act and Article 29b of the Decree on the Financial Assessment Framework require pension funds to draw up a financial crisis plan. A financial crisis plan specifies the measures available to the pension fund's Board in the event of a crisis, their impact and the procedures to be followed to implement the measures. The objective of the crisis plan is to assist the Board in taking decisive action in a crisis that jeopardizes the realization of the pension fund's objectives. This crisis plan is part of the Actuarial and Technical Business Report (ABTN) of Stichting Pensioenfonds DSM Nederland (the pension fund).

### Relationship between the crisis plan and the recovery plan/feasibility test

The financial crisis plan prepares for a hypothetical crisis situation and lays down the options available to the pension fund in acting in such a situation. The crisis plan does not contain explicit specifications of the financial recovery policy: these are laid down in a recovery plan.

The crisis plan is part of the fund's strategic policy. The modelled strategic policy in the feasibility test and ALM studies is consistent with the measures specified in this financial crisis plan.

### Details of the crisis plan

The pension fund's objectives are of a stratified nature:

1. nominal certainty: Provide pension insurance and similar periodic benefits for employees and former employees of the employers affiliated with the pension fund;
2. indexation ambition: Maintain index-linked accrued pension entitlements of employees and/or pension rights of other beneficiaries.

The pension fund's definition of a crisis is in line with the fund's objectives and the extent to which those objectives can be realized:

**Emergency:** The policy funding level falls below the level at which the indexation ambition can be fulfilled or consistently fulfilled (about 142%). It is conceivable that the policy funding level falls below the required level and, ultimately, the minimum required level. The pension fund will then, in accordance with regular policy, formulate and implement a recovery plan.

**Crisis:** The funding level falls to a level such that recovery using the regular management instruments is infeasible and that curtailment of the pension entitlements and/or pension rights will be necessary. The pension fund uses the crisis plan in its decision-making on the implementation of additional measurements. A crisis is an issue when the funding level falls below the critical funding level.

The Financial Assessment Framework that entered into force on January 1, 2015, adopted the policy funding level as the measure for policy decision-making (indexation and reserves/funding shortfall, etc.). This crisis plan is in line with the Financial Assessment Framework. Following the introduction of the policy funding level calculation methodology, warning of an emergency is now given a little earlier as compared to the 'old' Financial Assessment Framework. This gives the Board more time to prepare the necessary policy. The emergence of a crisis follows from the developments in the current DNB funding level.

The point at which the current DNB funding level reaches the critical funding level gives the pension fund cause to implement intensified monitoring of the financial position and initiate crisis policy preparations.

### Critical funding level

The critical funding level is the lowest funding level from which the pension fund can restore the funding level to the statutory minimum required funding level (the following figures are based on 122%) within the specified 10-year recovery period without the need for additional measures (curtailment). Neither the critical nor the required funding levels are fixed percentages. The levels are dependent on the specific economic/financial circumstances and forecasts at any given time. The Board's crisis plan specifies a critical funding level of 98%.

The following table lists the expected movements in funding level from various notional funding levels. These are supplemented with an indicative percentage curtailment (without spread).

Funding level	Indicative expected funding level after 10 years (without curtailment)	Indicative percentage curtailment (without spread)
98%	122%	0%
90%	110%	9%
85%	101%	14%
80%	94%	19%

### Financial situations

The fund has identified the following financial situations that could cause a crisis:

1. low yield scenario: Falling interest rates have an upwards effect on pension obligations. As the fund does not hedge the full interest risk, this economic scenario results in falling funding levels;
2. long-term downward corrections on financial markets: Falling stock prices, unfavorable movements in exchange rates and/or increasing credit spreads have a negative impact on the funding level;
3. manifestation of credit risks: The manifestation of a material credit risk (default) has a negative impact on the funding level;
4. manifestation of an underwriting risk: A catastrophic incident at a branch of an employer affiliated with the pension fund can result in underwriting losses, which have a negative impact on the funding level.

The most important underlying risks to the financial situation are listed below.

### Most important underlying risks

- Interest-rate risk
- Equity risk
- Currency risk
- Credit risk
- Catastrophe risk

### Policy measures available in a crisis

An emergency occurs before a crisis. The Board makes full use of the regular policy measures (indexation policy and investment policy) during an emergency. Pursuant to the Administration Agreement and the prevailing legislation and regulations, the Board has the following additional policy measures available in the event of a crisis:

- a) Within the pension fund Board's own mandate
  - Curtailment of the pension entitlements and pension rights
- b) Outside the pension fund Board's own mandate
  - One-time payment by employer

### Use of measures (in chronological sequence)

One-time payment by employers: The pension fund is funded by CDC and, consequently, has concluded a fixed contribution agreement with the employers. This means that it is not possible to increase contributions to make up past deficits. However, the Board may request employers to make an additional one-time payment.

Pension curtailment: The pension fund may exercise the option of curtailing pension entitlements and pension rights. This is a discretionary power of the Board, although exercising this option is bound by statutory provisions and supplementary regulations of the supervisory authority.

The Board must notify DNB of its proposed measure before implementing curtailment. The stakeholders must also be notified of the curtailment at least one month prior to its implementation.

The Board has laid down in the Administration Agreement and pension regulations that a curtailment percentage required due to the inability to restore the funding level to the Regulatory Own Funds within the recovery period will be spread proportionally over the recovery period of the recovery plan, unless statutory provisions prescribe a shorter spread period. Curtailment due to the inability to meet the Regulatory Own Funds requirement in five successive years will be spread over a maximum of five years with a minimum annual curtailment of 1%.

### Financial effects of measures

One-time payment by employers: It is expected that the employer will, in view of the CDC funding, reject a request by the Board. Consequently, this measure is not considered to make an effective contribution to recovery.

Pension curtailment: A curtailment of 1% increases the current funding level by about 1%. When only some of the pension entitlements and pension rights are involved in a curtailment then the recovery effect will decrease correspondingly.

### Balanced weighing of interests

The Board has already determined for the purposes of the Administration Agreement and pension regulations that uniform curtailments of curtailment percentages of up to 10% for active members, pensioners and deferred members are in balance. The Board will examine whether there are reasons to depart from uniform curtailment with curtailment percentages of more than 10%. The Board will then always give consideration to whether a differentiated approach to the curtailment in excess of 10% will achieve an appropriate balance between these interests. The Board has determined in the Administration Agreement and pension regulations that a curtailment percentage implemented pursuant to the recovery plan will in principle be spread evenly over the full recovery period. Curtailment due to the inability to meet the Regulatory Own Funds requirement in five successive years will, within this context, in principle be spread over a maximum of five years.

### Communication

Amendments to the financial crisis plan will be communicated through the fund's website. The pension fund has drawn up a crisis communication plan for communications in crises. This plan details the communication policy in the event of a crisis. This plan also identifies the decision-making and advisory officers required in a crisis situation and includes their contact details. The most important communication moments and target groups are listed on the following page to clarify the procedure for the reader.

## Board decision: Proposal for curtailment

<b>Bodies/ persons to be notified</b>	<b>Message</b>	<b>Timing (chronological)</b>	<b>Action to be taken by</b>	<b>'Statutory' basis</b>
DNB	Give notification of the proposed decision to curtail pensions	On submission of recovery plan / annual recovery plan	Executive Board	DNB policy
Employer / Labor unions	Give notification of the proposed curtailment decision in accordance with the provisions of the Administration Agreement	Once the decision has been taken	Executive Board	Pensions Act: Article 25(1)(g)  Article 9 of Administration Agreement
Members, deferred members, former partners and pensioners	Written notification of proposed curtailment of pensions	Once the decision has been taken	Executive Board	Pension fund governance (AFM): A11
Accountability Council (AC)	Provision of an opportunity to give an opinion on the proposed curtailment	Once the decision has been taken	Executive Board	Pension fund governance (AFM): B8
Internal supervisory body (Supervisory Board)	Provision of an opportunity to give an opinion on procedures, processes and risks associated with pension curtailment	Once the decision has been taken	Executive Board	Pension fund governance (AFM): C3
All stakeholders	Include the proposed pension curtailment in the report from the Board	In the year after the year in which the proposed decision is taken	Executive Board	In accordance with the rules of the Dutch Accounting Standards Board

## Board decision to curtail pensions

<b>Bodies/ persons to be notified</b>	<b>Message</b>	<b>Timing (chronological)</b>	<b>Action to be taken by</b>	<b>‘Statutory’ basis</b>
Members, deferred members, former partners	Written notification of decision to curtail pensions, as specifically as possible within the context of a balanced weighing of interests (curtailment letter)	At least one month before implementation of curtailment	Executive Board	Pensions Act: Article 134(2) and (3)  Pension fund governance (AFM): A11
Pensioners	Written notification of decision to curtail pensions, as specifically as possible within the context of a balanced weighing of interests (curtailment letter)	At least three months before implementation of curtailment	Executive Board	Pension fund governance (AFM): A11
Employer/ Labor unions	Written notification of the curtailment decision	At least one month before implementation of curtailment	Executive Board	Pensions Act: Article 134(2) and (3)
DNB	Written notification of decision to curtail pensions, as specifically as possible within the context of a balanced weighing of interests (curtailment letter)	At least one month before implementation of curtailment	Executive Board	Pensions Act: Article 134(2)
Members, deferred members, former partners and pensioners	Give information on curtailment on request	Once a request has been made	DSM Pension Services	Pensions Act: Article 46(1)
Members, deferred members, former partners and pensioners	Give notification that curtailment has been implemented	In the UPS issued in the year after the curtailment decision	Executive Board	Pensions Act, articles 38, 40, 42 and 44 (inclusion in the UPS for the current year can be problematical, as the UPS is based on information on December 31 of the previous year)
Accountability Council (AC)	Provision of an opportunity to give an opinion on the implemented curtailment	Once the decision has been taken	Executive Board	Pension fund governance (AFM): B8
Internal supervisory body (Supervisory Board)	Provision of an opportunity to give an opinion on procedures, processes and risks associated with pension curtailment	Once the decision has been taken	Executive Board	Pension fund governance (AFM): C3
All stakeholders	In the report from the Board for the year in which the curtailment decision was taken	In the year after the year in which the curtailment decision was taken	Executive Board	In accordance with the rules of the Dutch Accounting Standards Board

The curtailment letter contains information on:

- the percentage of the curtailment to be implemented and the consequences;
- the weighing of the interests of the stakeholders: the AFM attaches importance to the provision of information about the weighing of the interests of the various groups of members that extends beyond a table of curtailment percentages for each group of members;
- the relationship between the recovery measures that have been and are to be implemented and the resultant consequences for the various groups of members;
- information as to whether the curtailment is expected to be sufficient to bring the funding level to the required level;
- information on the irrevocability of the curtailment that also makes clear that it is not possible to state whether the curtailment can be undone in the future.

The curtailment will also be communicated through the introductory letter, termination letter and pension benefit letter.

#### Decision-making process

Decisions are reached by the Board. The Executive Board is responsible for the coordination and is mandated to organize the necessary activities. When viewed from this perspective, the Executive Board initiates the communication process and monitors progress in the process.

The lead time for decision making on curtailment is a minimum of two months. This includes the month in which the stakeholders must be informed about the implementation of the curtailment. Timely advice and decision-making is assured by the minimum two-month lead time in combination with the information included in the crisis communication plan. The officers of importance have been identified and are accessible.

The Board is authorized to exercise its discretion in departing from the provisions of this crisis plan when the specific circumstances give cause to do so.

#### Assessment of the crisis plan

An annual assessment of the crisis plan to check that it is up to date is included in the periodic updating of the Actuarial and Technical Business Report.