



# ANNUAL REPORT 2015

EXTRACT

# Summary

## A year of growth for PensionDanmark

In 2015 companies, which have PensionDanmark as a pension scheme provider, experienced growth in employment. Despite moderate wage increases, premiums totalled EUR 1.4bn representing an increase of 6 pct. compared to 2014. Aggregate premium income amounted to EUR 1.6bn in 2015.

The number of retirement pensioners with annuities increased by 11 pct., totaling 40,700 members by the end of 2015. On average, a newly retired member received EUR 4,800, which is 10 pct. more than in 2014.

In total, members received EUR 375m in pension- and insurance benefits. By the end of 2015, PensionDanmark had 684,000 members and had an accumulated balance sheet of EUR 24bn. An increase of 7 pct. compared to the year before.

## Stable yield in unstable times

2014 was a record year with a financial result of EUR 2.2bn. However 2015 proved more turbulent especially in terms of the stock markets. Nonetheless, PensionDanmark obtained a satisfactory return of EUR 950m.

Investments in real estate and infrastructure that are less sensitive to economic fluctuations were further expanded during 2015.

The real estate portfolio was expanded with three buildings in Aalborg, Copenhagen and Odense, (leased by the IT company KMD), the Comwell Hotel in Roskilde and other business properties, as well as the construction of new apartments at Islands Brygge, a new cyber-crime centre for the Danish police in Glostrup, and two PPP-projects, - a court house in Svendborg and a maternity ward at Slagelse Hospital.

In addition, three large commercial properties were completed and turned over to the tenants: New headquarters for Semco Maritime in Esbjerg, Alfa Laval in Aalborg and NCC in Gladsaxe. All of the buildings were awarded either Gold or Platinum in the sustainability certification system, DGNB:

The infrastructure portfolio was expanded with an investment in the UK-based Angel Trains, which leases its 4.500 rolling stock to British train operating companies. In 2015, PensionDanmark also made its third investment in a British biomass plant through Copenhagen Infrastructure II, a fund which PensionDanmark has committed EUR 535m.

By the end of 2015, PensionDanmark had invested EUR 2.5bn in infrastructure and EUR 1.8bn in real estate, which equals 18 pct. of the aggregate portfolio of EUR 24bn. Real

estate generated an average yield of 8.7 pct., while infrastructure investments generated yield of 7.2 pct.

In 2015, PensionDanmark gained international recognition for its infrastructure investments by winning the infrastructure category at the annual IPE Awards and the IP Real Estate Global Award.

With the 2015 return, PensionDanmark has delivered a yield on their savings of between 67-79 pct. to its members, since the financial crisis in 2008.

The coming years are expected to generate lower returns than in 2015, due in parts to the low level of interest rates and to higher pricing of equity since the financial crisis. Much indicates greater fluctuations in investment returns than has been the case in recent years.

## An effective company without long customer waits

2015 was the first year of PensionDanmark's new insurance administration platform. Its successful implementation has improved customer service and counselling. Members and companies made approximately 131,000 calls in 2015 with an average wait time of merely 7 seconds. The response time for the chat function was 45 seconds, while emails were replied within 24 hours.

The new initiatives were well-received. For the second consecutive year, PensionDanmark has been awarded the company with the pension sector's most loyal and satisfied customers in Loyalty Group's annual survey, Business Index Pension, which covers Danish customers' loyalty to and satisfaction with their pension providers.

## Solving the adverse interaction problem

PensionDanmark agrees with the Danish Government that the adverse interaction challenges between the state and labor market pensions must be solved. The existing legislation, which results in a high combined marginal taxation of pension savings, specifically the savings accumulated in the years immediately before retirement, diminishes both the incentive for saving up and for late withdrawal from the labor market.

PensionDanmark will continuously adjust member pension savings and disbursement profiles, to limit the deduction of state pensions as much as possible.

## Settlement with the Danish Ministry of Taxation in landmark VAT-case

In 2014, the European Court of Justice ruled in favor of PensionDanmark that services previously provided by ATP Pension Service should be treated as VAT-exempt. After 23 years of judicial proceedings with the Danish Ministry of



Taxation, a settlement was reached, which grants PensionDanmark a EUR 32m VAT refund plus the addition of interests. The board of directors anticipates that the amount will benefit the members for years to come.

The new insurance administration platform and the VAT refund resulted in a reduction of the administration fee paid by members from EUR 45 in 2015 to EUR 40 in 2016.

### Result of the year was EUR 24.4m

The annual financial result is EUR 24.4m, which was transferred to equity. By year-end, the base capital constituted EUR 509.3m, and the individual capital requirement was estimated at EUR 13.4m, giving excess capital. In 2015, PensionDanmark prepared for the transition to the new international Solvency II rules – e.g. by appointing the individuals responsible for four key functions (risk management, compliance, actuary and internal audit). Overall, the new rules will only have a marginal effect on PensionDanmark's excess capital. As such, the company will remain thoroughly consolidated despite the new solvency rules.

### Expansion of PensionDanmark Health Care

PensionDanmark Health Care also expanded during the year. From January 2016, 38,000 public employees were added to PensionDanmark Health Care, covering a total of 330,000 members.

Both members and companies have welcomed the newest program in the field of health care; the establishment of a team of nurses and social workers, who focus on helping long-term ill members return to the workforce.

In 2015, the team completed 250 cases, in which members retained their active participation in the labor market. On 1 October 2015, an online health test was implemented, and in the fourth quarter of the year more than 5,000 visitors had carried out the test.

All of the 125 health centres around the country are experiencing a steady growth in the number of treatments. During the year, 192,000 preventive treatments were given – this numbers includes treatments carried out in the newly-opened health centre at the large metro construction site in Copenhagen.

In addition, 1,800 cases of Fast Track Diagnosis were carried out. The core of Fast Track Diagnosis – offering members a fast diagnosis – was further strengthened by a drop in wait time from 21 days to 19 days on average in 2015.

### Dialogue is our responsibility

PensionDanmark exercises its investor duties through targeted dialogue with companies, in which investments have been made. On PensionDanmark's behalf, the external partner, Hermes EOS, engaged in dialogue with 228 companies, with particular focus on employee rights, as well as environmental, societal and governance (ESG) factors. The dialogue has resulted in 105 tangible improvements in the companies' conduct (see PensionDanmark's Action For Change Report 2015).

PensionDanmark also exerts its influence by voting at the annual general meetings of companies. In 2015, PensionDanmark voted at 1,093 annual general meetings, of which 89 pct. of the voting was in accordance with the board's recommendations. Issues resulting in a vote against the board's recommendations concerned remuneration, capital structure and board member elections.

PensionDanmark continuously engages in dialogue with authorities and other stakeholders on attractive investment opportunities that may contribute to solving societal challenges at the same time. This includes investments in low-carbon technology and projects. By the end of 2015, PensionDanmark had acquired shares in installed capacity and plants still under construction with a total capacity of 2,500 MW in annual green energy. PensionDanmark's share of the sustainable energy assets equates to more than the energy consumed by PensionDanmark's members and their families annually.

PensionDanmark is also the property developer for several properties, leased to private companies and authorities. In 2015, PensionDanmark received sustainability certification for headquarter buildings in Denmark, such as Semco Maritime's headquarters in Esbjerg and Alpha Laval's domicile in Aalborg, with the properties being awarded Gold within the DGNB certification system. As the first building in Scandinavia, Gladsaxe Company House was awarded Platinum.

# Solvency Capital

PensionDanmark works systematically on the company's risks and has introduced a number of initiatives to monitor and limit them.

## Capital base and risk

DKKm	2015	2014
Financial risks after tax	1,406	1,135
Insurance risks	648	586
Effect of correlation	-351	-293
Operational risks	133	111
Of which, covered by provisions	-825	-701
<b>Individual solvency requirements</b>	<b>1,011</b>	<b>838</b>
Capital requirement	576	534
<b>Required regulatory capital</b>	<b>1,011</b>	<b>838</b>
Regulatory capital (equity) after financing of risk margin	3,587	3,413

## Transition to Solvency II and new executive order on preparation of financial statements

The international Solvency II rules took effect 1 January 2016 alongside a new executive order on the preparation of financial statements. In all, the new rules will entail chang-

es to solvency ratio and evaluation of insurance provisions. From 1 January 2016, best estimate for the insurance pro-visions used for accounting and solvency will be based on the risk free interest rate published by EIOPA. Pension-Danmark has decided to use the risk free interest rate from EIOPA without volatility adjustments. The effect of this decision is that insurance provisions will see an in-crease of EUR 24.9m compared to the calculations based on the basis of the Danish FSA's discount rate of 31 De-cember 2015.

Insurance provisions for products with guarantee constituted EUR 61.6m in total as of 31 December 2015. In terms of the difference of EUR 24.9m, EUR 17.3m will result in a reduction of equity capital to cover the costs of changing the risk free interest rate.

In addition to the change in risk free interest rate, the new executive order entails that equity capital has to cover a calculated risk margin of approx. EUR 24.1m.

The individual solvency requirement is estimated to be 1bn DKK. Under the new Solvency II rules, this gives an excess solvency of EUR 335.1m.



# Statement of income and comprehensive income

Million DKK	2015	2014
Gross premiums	12,138	12,489
<b>Total premiums net of reinsurance</b>	<b>12,138</b>	<b>12,489</b>
Income from group undertakings	4,352	14,021
Income from associated undertakings	1,352	844
Interest and dividends etc.	6,692	2,084
Value adjustments	-4,983	-756
Interest paid	-9	-2
Administrative expenses related to investment activities	-332	-97
<b>Total investment return</b>	<b>7,072</b>	<b>16,094</b>
<b>Pension yield tax</b>	<b>-1,208</b>	<b>-2,496</b>
<b>Investment return after pension yield tax</b>	<b>5,863</b>	<b>13,598</b>
Benefits paid	-5,892	-8,191
Change in claims provisions	-33	55
<b>Total insurance benefits net of reinsurance</b>	<b>-5,925</b>	<b>-8,136</b>
Change in life insurance provisions	367	-79
<b>Total change in life insurance provisions net of reinsurance</b>	<b>367</b>	<b>-79</b>
Bonus accrued for the year	-20	-16
Change in bonus provision for group life schemes	-415	-844
Change in collective bonus potential	45	-38
<b>Total bonus</b>	<b>-390</b>	<b>-898</b>
<b>Change in provisions for unit-linked contracts</b>	<b>-11,819</b>	<b>-16,560</b>
<b>Total insurance operating expenses net of reinsurance</b>	<b>-51</b>	<b>-265</b>
Allocated investment income	-179	-263
<b>INSURANCE TECHNICAL RESULT</b>	<b>3</b>	<b>-114</b>
Investment return on equity	359	307
Other income	37	39
Other expenses	-38	-38
<b>PROFIT/LOSS PRE-TAX</b>	<b>361</b>	<b>194</b>
Pension yield tax on equity	-180	-44
<b>PROFIT/LOSS FOR THE YEAR</b>	<b>182</b>	<b>150</b>
Other comprehensive income	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>182</b>	<b>150</b>

# Balance

Million DKK	2015	2014
<b>ASSETS</b>		
<b>INTANGIBLE ASSETS</b>	<b>26</b>	<b>-</b>
Equipment	2	0
<b>TOTAL TANGIBLE ASSETS</b>	<b>2</b>	<b>0</b>
Holdings in group undertakings	718	12,114
Loans to group undertakings	154	79
Holdings in associated undertakings	495	399
Loans to associated undertakings	37	39
<b>Total investments in group and associated undertakings</b>	<b>1,405</b>	<b>12,630</b>
Shares etc.	1,501	339
Fund units	321	197
Bonds	8,890	20
Other loans	270	165
Financial derivatives	614	0
Other	41	0
<b>Total other financial investment assets</b>	<b>11,636</b>	<b>721</b>
<b>TOTAL INVESTMENT ASSETS</b>	<b>13,041</b>	<b>13,351</b>
<b>INVESTMENT ASSETS ATTACHED TO UNIT-LINKED CONTRACTS</b>	<b>167,566</b>	<b>155,909</b>
Amounts receivable from policy holders	869	706
<b>Total receivables from direct insurance contracts</b>	<b>869</b>	<b>706</b>
<b>Amounts receivable from associated undertakings</b>	<b>9</b>	<b>7</b>
<b>Other receivables</b>	<b>157</b>	<b>228</b>
<b>TOTAL RECEIVABLES</b>	<b>1,035</b>	<b>940</b>
<b>Deferred tax assets</b>	<b>383</b>	<b>0</b>
<b>Cash at bank and in hand</b>	<b>546</b>	<b>353</b>
<b>TOTAL OTHER ASSETS</b>	<b>929</b>	<b>353</b>
Other accruals	505	397
<b>TOTAL ACCRUALS</b>	<b>505</b>	<b>397</b>
<b>TOTAL ASSETS</b>	<b>183,104</b>	<b>170,951</b>

Million DKK

2015

2014

**EQUITY AND LIABILITIES**

Share capital	8	8
Retained earnings	3,776	3,595
<b>TOTAL EQUITY</b>	<b>3,784</b>	<b>3,602</b>
Guaranteed benefits	4,598	4,944
Bonus potential on future premiums	-	-
Bonus potential on paid-up policies	1	1
<b>Total life insurance provisions</b>	<b>4,599</b>	<b>4,946</b>
<b>Claims provisions</b>	<b>221</b>	<b>189</b>
<b>Bonus provisions for group life schemes</b>	<b>2,811</b>	<b>2,396</b>
<b>Collective bonus potential</b>	<b>252</b>	<b>297</b>
<b>Provisions for unit-linked contracts</b>	<b>168,434</b>	<b>156,615</b>
<b>TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS</b>	<b>176,318</b>	<b>164,442</b>
<b>Deferred tax</b>	<b>154</b>	<b>189</b>
<b>TOTAL PROVISIONS</b>	<b>154</b>	<b>189</b>
Amounts payable to credit institutions	437	154
Amounts payable to group undertakings	48	21
Current tax liabilities	1,502	2,429
Other liabilities	859	113
<b>TOTAL LIABILITIES</b>	<b>2,847</b>	<b>2,717</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>183,104</b>	<b>170,951</b>

Registered assets  
 Contingent liabilities  
 Solvency requirement and base capital  
 Shadow accounts  
 Related parties  
 Derivative financial instruments  
 Group and associated undertakings  
 Risk management and sensitivity data  
 Assets, returns and breakdown of shareholdings  
 Board of directors  
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 Key figures  
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# Key Figures

Million DKK	2015	2014	2013	2012	2011
<b>Key figures</b>					
Premiums	12,138	12,489	10,738	10,653	10,465
Insurance benefits	-5,925	-8,136	-4,674	-3,961	-3,207
Investment return	7,072	16,094	9,075	12,029	10,484
Total insurance operating expenses	-51	-265	-264	-274	-234
Insurance technical result	3	-114	-870	151	256
Profit/loss for the year	182	150	-695	450	562
Total provisions for insurance and investment contracts	176,318	164,442	146,961	132,790	116,591
Total equity	3,784	3,602	3,452	4,147	3,696
Total assets	183,104	170,951	152,137	138,830	121,854
Estimated solvency requirement	576	534	624	648	637
Base capital	3,758	3,602	3,452	4,147	3,696
Members at end of the year	683,581	662,107	642,178	633,556	617,784



Million DKK	2015	2014	2013	2012	2011
<b>Key Ratios</b>					
<b>Return ratios, unit-linked contracts</b>					
Return before pension yield tax, %					
- Life Annuity under age 41	5.2	10.5	9.3	10.9	8.2
- Life Annuity, age 50	4.8	10.8	7.1	10.2	9.6
- Life Annuity, age 60	3.6	10.6	5.0	9.4	11.0
- Life Annuity, age 65	3.0	10.6	3.9	9.0	11.7
- Capital Pension and Terminable Annuity under age 41	5.2	10.5	9.3	10.9	8.1
- Capital Pension and Terminable Annuity, age 50	4.8	10.8	7.1	10.2	9.4
- Capital Pension and Terminable Annuity, age 60	3.6	10.6	5.0	9.4	10.8
- Capital Pension and Terminable Annuity, age 65	3.0	10.6	3.9	9.0	11.5
<b>Return ratios, average interest rate products</b>					
Return before pension yield tax, % 1	3.1	11.3	1.2	7.9	13.3
- Equity, %	2.8	8.7	4.7	9.2	9.9
<b>Expense and surplus ratios</b>					
Expenses as a percentage of premiums	0.4	2.1	2.5	2.6	2.2
Expenses as a percentage of provisions	0.03	0.17	0.19	0.22	0.22
Expenses in DKK per insured	71	378	378	400	352
Cost account surplus as a percentage of provisions, %	0.10	-0.02	-0.01	-0.02	0.01
Risk account surplus as a percentage of provisions, %	0.06	-0.01	-0.02	-0.01	0.00
<b>Capitalisation ratios</b>					
Ratio of collective bonus potential to provisions, %	7.0	7.8	6.3	7.9	8.7
Ratio of policy holders' funds to provisions, %	0.0	0.0	0.0	0.0	0.0
Equity ratio, %	105.5	94.1	83.3	93.7	78.9
Ratio of excess solvency to provisions, %	89.4	80.1	68.3	79.0	65.3
Solvency ratio, %	657	675	554	640	581
<b>Business ratios</b>					
Return on equity before tax, %	9.8	5.5	-17.8	12.2	17.2
Return on equity after tax, %	4.9	4.3	-18.3	11.5	16.4
Return on policy holders' funds after expenses but before tax, %	-2.5	9.5	-1.5	4.5	12.1

<sup>1</sup> Return relates to the company's equity and life insurance provisions with guaranteed benefits. In 2015 these amounted to 6.4 pct. (2014: 6.7 pct.) of total assets.



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