



Annual Report 2016 - Extract

Sustainability, innovative thinking and digital



Some events in 2016 gave rise to concern, while others inspired optimism. The political crisis disrupting the European collaboration – most clearly demonstrated by the UK Brexit vote – the election of a US president who openly opposes free trade, as the first president to do so since World War II, and the tragic situation in the Middle East cause concern about geopolitical stability and long-term economic growth.

On the other hand, the international community's strong support for the Paris agreement and the UN's new sustainable development goals, combined with the encouraging prospects of increased growth and prosperity in the wake of the fourth industrial revolution, gives rise to greater optimism.

For PensionDanmark, 2016 was characterised by positive economic growth in Denmark, which led to increasing employment in the companies whose employees have their pension plan with us. The number of members covered by employer-paid pension schemes is now back at the pre-crisis level of almost ten years ago. Total contributions reached an all-time high of DKK 12.8 billion. Combined with an excellent investment return of almost DKK 13 billion, this sent total member savings above DKK 200 billion, reflecting a steep increase in individual member savings. Today, 22,000 members have more than DKK 1 million

in their accounts. Five years ago, the corresponding number was 700. This is a very positive development insofar as member benefits during the average retirement period of 20 years or so are primarily determined by the amount of members' savings at their time of retirement.

The member group showing the strongest growth is our retirees. Our current membership counts 50,000 retirees, who will receive pension payouts every month for the rest of their lives.

Our most important responsibility is to ensure solid returns for our members on their savings. The very low level of interest rates has made this job all the more difficult over the past few years. In response to this challenge, we have stepped up investments in corporate debt, infrastructure and real estate. Thanks to this strategy, our members receive solid, stable returns that are less dependent on developments in the world economy and equity markets. This approach also shows how we can help solve tasks of national importance through our investments. PensionDanmark's investments in sustainable energy such as wind farms and biomass-fired power plants are instrumental in driving the switch to renewable energy supply.

isation



All of PensionDanmark's building projects - non-residential and residential - employ methods and materials eligible for the highest sustainability certification possible. This attracts good, reliable tenants, provides members with solid returns and contributes to solving the climate challenge. We have developed new public-private partnership models under which PensionDanmark supplies long-term funding that also underpins the growth potential of Danish businesses and pays our members solid returns. The investment funds established in cooperation with the Investment Fund for Developing Countries (IFU) and the partnerships formed to build and run hospitals and courthouses are all manifestations of this strategy to do good and do well.

Pension scheme insurance cover on death, critical illness, disability and so-called flex job employment gives our members a high degree of security. Over the past few years, this insurance package has been expanded through comprehensive efforts to prevent illness and attrition and through support for supplementary training from the competence development funds of the labour market parties. These initiatives have been designed to give members more years in the labour market, and above all more good years.

PensionDanmark is committed to offering good cus-

tomers service while keeping costs down. We address this dual challenge through extensive digitalisation of processes and communication. Our new IT platform has automated most processes, and an increasing number of processes were handled by robots in 2016. This frees up time for our competent staff to further improve our service offering to members and companies. Our phone response time is eight seconds, and e-mails are answered within six hours on average.

The Danish pension system has been rated best in the world on several occasions. The combination of tax-funded old age pension for everyone and savings-based labour market pensions for all wage-earners has created a robust and sustainable pension system. We must take good care of this system. Therefore, we welcome the news that the new Danish government intends to table a proposal for a solution to the drawbacks of the inexpedient old age pension rules applying to retirees with a labour market pension. The rules should ensure that it is worthwhile for everybody to pay into a pension scheme - irrespective of their pay level and when they plan to retire.

A handwritten signature in blue ink, appearing to read 'Torben Möger Pedersen'.

Torben Möger Pedersen
CEO, PensionDanmark



Summary

PensionDanmark on a growth trajectory

A higher level of activity and growing staff numbers in the companies making pension contributions to PensionDanmark translated into a fair increase in the number of contributing members in 2016. Total pension contributions grew by DKK 620 million or 3.1% relative to 2015. Premium income totalled DKK 12.8 billion in 2016, and PensionDanmark had 695,000 members at 31 December 2016.

At end-2016, the number of retirees in PensionDanmark was up by 3.4% year on year to a total of about 42,000. A typical newly retired member received an annual retirement pension of just under DKK 35,000 in 2016.

PensionDanmark's total assets exceeded DKK 200 billion in 2016, standing at DKK 221.5 billion at 31 December 2016, up 11% on 31 December 2015. Net investment assets amounted to DKK 197 billion.

Concerns about financial market robustness

For the financial markets, 2016 was characterised by growing concerns about the resilience of the global

economy, including the year's substantial fluctuations in share prices and interest rates.

However, 2016 as a whole proved quite a strong year with decent returns on both shares and bonds. PensionDanmark's real estate and infrastructure investments also yielded very satisfactory returns. Our overall return was about 7%.

During the year, we stepped up our real estate and infrastructure investments, which are composed to be less cyclically sensitive.

At year-end, the real estate portfolio amounted to DKK 14.0 billion, of which investments in Danish properties accounted for DKK 13.6 billion. A small portion of our real estate investments is funded by loans. Before loan financing, the real estate portfolio amounted to DKK 16.1 billion. We primarily invest in modern, prime location, non-residential property on long-term leases with reliable tenants. New buildings make up a substantial share of our real estate investments.

At year-end, PensionDanmark's direct and indirect infrastructure investments totalled DKK 20.4 billion, equivalent to just under 11% of our assets. Our target is for infrastructure investments to account for 10-12% of our assets.



Factoring in the 2016 investment return, PensionDanmark's members have received a return on their savings in excess of 80% over the past nine years.

In the years ahead, returns are expected to be lower and more volatile. In response to the steep decline in interest rates over the past few years, investors have fled bonds and sought refuge in other asset classes, which has put the return potential under pressure. Moreover, the early 2017 global economy appears to be quite fragile, exposed to significant political risks and uncertainties in Europe as well as the USA. Against this backdrop, PensionDanmark will continue to pursue a moderately conservative equity investment strategy in 2017.

Profit of DKK 219 million

The profit for the year came to DKK 219 million, which has been transferred to equity. At 31 December 2016, the total capital was DKK 3.7 billion, and with a solvency capital requirement of DKK 1.0 billion PensionDanmark boasts substantial excess capital cover.

In 2016, we continued to implement the Solvency II rules, including the four key functions: the Risk Management Function, the Actuarial Function, the Compliance Function and the Internal Audit Function.

Robots improve customer service and keep costs down

In 2016, we introduced robots to take over a number of manual casework tasks previously handled by advisers. This has freed up resources that to a large extent can be employed to improve the services offered to our members, thus reducing processing times. At the same time, the robots help keep costs down for the benefit of our members.

Customer satisfaction remains high, with 94% of the members and companies participating in our regular surveys indicating that they are either very satisfied or satisfied with the advice and services provided. This is also reflected in Loyalty Group's annual surveys of Danish pension providers, which rated PensionDan-

mark the best company in 2014 and 2015 and no. 2 in 2016.

Early action in focus

Early action is a crucial element of PensionDanmark's efforts to prevent minor symptoms from developing into chronic disorders. Accordingly, PensionDanmark has launched a number of initiatives and campaigns to increase awareness of our health and prevention scheme, including the introduction of a counselling bus in 2017.

The number of treatments continues to grow. A total of 252,000 preventive treatments were carried out in 2016. In addition, 3,100 Fast Track Diagnosis procedures were completed. As the name implies, the Fast Track Diagnosis programme sets out to reduce the amount of time our members spend in uncertainty.

PensionDanmark as a responsible investor

Our investments in new properties are confined to properties with sustainability certification. Through our contracts with turnkey contractors, we also make sure that all work is performed in accordance with the terms prescribed by Danish collective agreements. Moreover, we uphold certain occupational health and safety requirements and require a reasonable number of apprentices and trainees to be involved in each project.

Assuming the responsibilities of an owner and addressing any environmental, social and governance issues that may affect the value of our investments is a key element of being a responsible long-term investor. Accordingly, having an active ownership approach and maintaining an active dialogue with listed companies are important tools in mitigating risks and protecting the value of our investments.

On top of maintaining an active dialogue with companies, we vote at their general meetings.



Statement of income and comprehensive income

DKKm	2016	2015
Gross premiums	12,758	12,138
Total premiums net of reinsurance	12,758	12,138
Income from affiliated companies	1,564	4,352
Income from associated companies	817	909
Interest, dividends, etc.	6,321	6,692
Value adjustments	4,665	-4,540
Interest expenses	-16	-9
Administrative expenses related to investment activities	-374	-332
Total investment return	12,977	7,072
Tax on pension investment returns	-2,019	-1,208
Investment return after tax on pension investment returns	10,958	5,863
Benefits paid	-6,888	-5,892
Total insurance benefits net of reinsurance	-6,888	-5,892
Change in life insurance provisions	-16,391	-11,876
Total change in life insurance provisions net of reinsurance	-16,391	-11,876
Total insurance operating expenses net of reinsurance	-218	-51
Transferred return on investments	-215	-179
TECHNICAL RESULT	4	3
Investment return on equity	320	359
Other income	31	19
Other expenses	-31	-20
PROFIT/LOSS BEFORE TAX	323	361
Tax	-104	-180
PROFIT/LOSS FOR THE YEAR	219	182
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	219	182

Balance sheet

DKKm	2016	Previous accounting policies 31/12 2015	Adjustment as a result of policy change	New accounting policies 1/1 2016
ASSETS				
INTANGIBLE ASSETS	58	26	-	26
Equipment	1	2	-	2
TOTAL PROPERTY, PLANT AND EQUIPMENT	1	2	-	2
Investments in affiliated companies	1,398	718	-	718
Loans to affiliated companies	146	154	-	154
Investments in associated companies	403	412	-	412
Loans to associated companies	0	37	-	37
Total investments in affiliated and associated companies	1,948	1,322	-	1,322
Equity investments	2,188	1,584	-	1,584
Investment units	130	321	-	321
Bonds	7,950	8,890	-	8,890
Other loans	360	270	-	270
Derivative financial instruments	573	614	-	614
Other	12	41	-	41
Total other financial investment assets	11,212	11,719	-	11,719
TOTAL INVESTMENT ASSETS	13,160	13,041	-	13,041
TOTAL INVESTMENT ASSETS RELATED TO UNIT-LINKED CONTRACTS	205,602	184,376	-	184,376
Receivables from policy holders	865	869	-	869
Total receivables related to direct insurance contracts	865	869	-	869
Receivables from affiliated companies	13	9	-	9
Other receivables	514	157	-	157
TOTAL RECEIVABLES	1,392	1,035	-	1,035
Deferred tax assets	81	229	-	229
Cash	964	546	-	546
TOTAL OTHER ASSETS	1,045	775	-	775
Other prepayments	282	505	-	505
TOTAL PREPAYMENTS	282	505	-	505
TOTAL ASSETS	221,539	199,759	-	199,759

DKKm	2016	Previous accounting policies 31/12 2015	Adjust- ment as a result of policy change	New accounting policies 1/1 2016
EQUITY AND LIABILITIES				
Share capital	8	8		8
Retained earnings	3,726	3,776	-270	3,507
TOTAL EQUITY	3,733	3,784	-270	3,514
Group life bonus provision	3,072	3,032		3,032
Life insurance provisions, average interest rate products	5,010	4,851	270	5,121
Life insurance provisions, unit-linked contracts	184,897	168,434		168,434
Total life insurance provisions	192,979	176,318	270	176,588
TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS	192,979	176,318	270	176,588
Payables to credit institutions	12,250	13,453	-	13,453
Payables to affiliated companies	1,470	1,310	-	1,310
Current tax liabilities	1,827	1,502	-	1,502
Other payables	9,279	3,392	-	3,392
TOTAL LIABILITIES	24,827	19,657	-	19,657
TOTAL EQUITY AND LIABILITIES	221,539	199,759	-	199,759

DKKm	2016	2015	2014	2013	2012
Key figures					
Premiums	12,758	12,138	12,489	10,738	10,653
Benefits	-6,888	-5,892	-8,136	-4,674	-3,961
Investment return	12,977	7,072	16,094	9,075	12,029
Insurance operating expenses	-218	-51	-265	-264	-274
Technical result	4	3	-114	-870	151
Profit/loss for the year	219	182	150	-695	450
Provisions for insurance and investment contracts	192,979	176,318	164,442	146,961	132,790
Total equity	3,733	3,784	3,602	3,452	4,147
Total assets	221,539	199,759	170,951	152,137	138,830

DKKm	2016	2015	2014	2013	2012
Financial ratios					
Return ratios					
Rate of return related to unit-linked contracts	7.1				
Rate of return related to average rate products	5.3	-	-	-	-
Risk on return related to unit-linked contracts					
Risk on return related to unit-linked contracts	3.8	-	-	-	-
Expense and performance ratios					
Expenses as a percentage of provisions	0.12	0.03	0.17	0.19	0.22
Expenses in DKK per policy holder	289	71	378	378	400
Capitalisation ratios					
Return on equity after tax	5.8	4.9	4.3	-18.3	11.5
Solvency ratios ¹					
Solvency coverage	378	357	675	554	640

¹ The ratios for 2012-2014 have been computed based on the previous rules and are not comparable with later years. The ratio for 2015 has been computed at January 1, 2016 using the new rules.

The financial ratio 'solvency coverage' is exempt from the auditing requirement pursuant to Executive Order No. 937 of July 27, 2016 on financial reports of insurance companies and multi-employer occupational pension funds, and accordingly has not been audited.



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