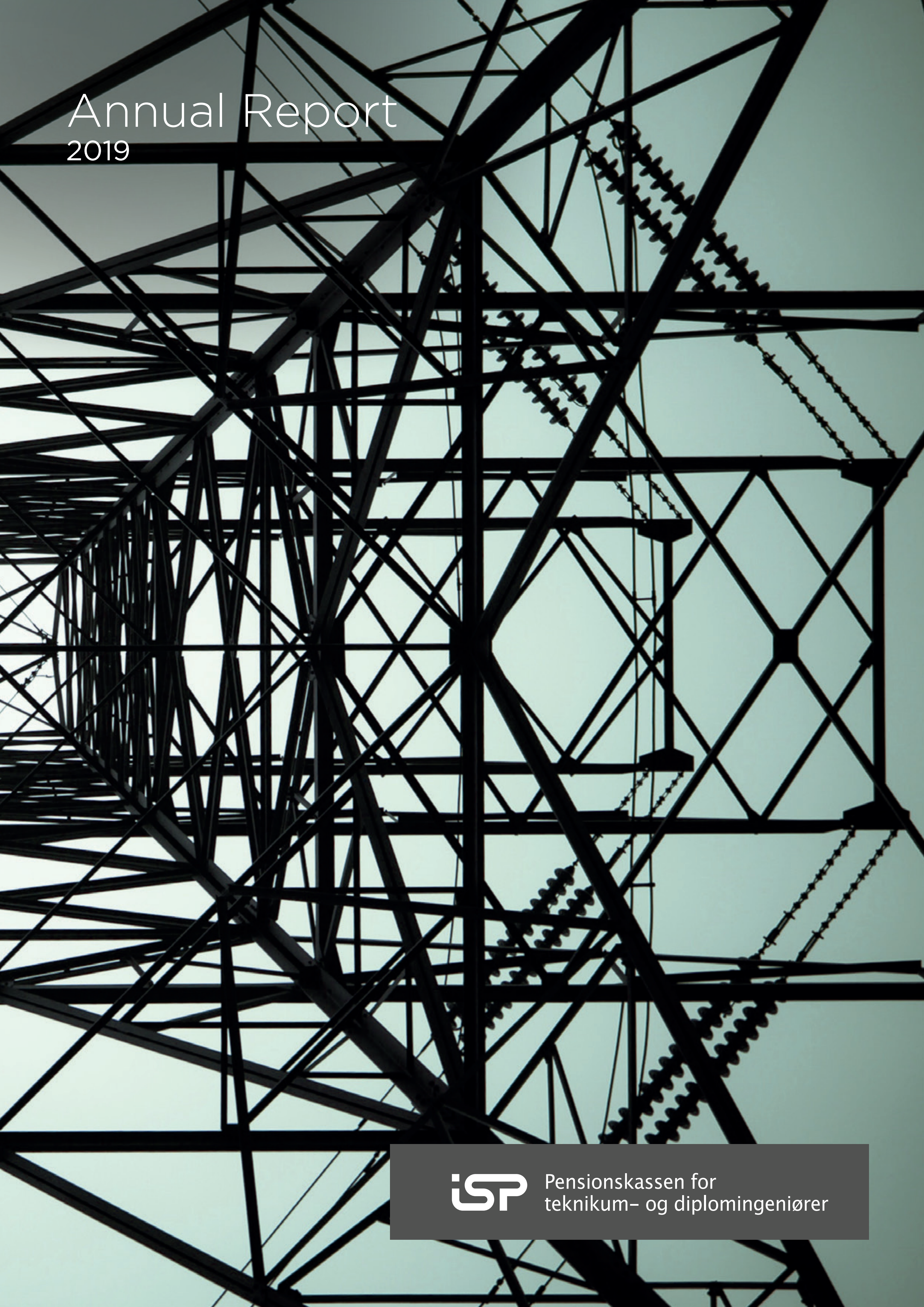
Annual Report
2019



Pensionskassen for
teknikum- og diplomingeniører

Contents

The English version of the Annual Report is a translation of the original document in Danish for information purposes only. In case of any discrepancies of legal disputes, the Danish original will prevail.

“Pension contributions were DKK 369 million in 2019, of which DKK 32 million constituted additional contributions from members.”

Offering even more pension value for money

2019 was an eventful year for ISP Pension. On 1 July 2019, ISP passed on the management of the pension fund to Sampension, which also manages the Architects' Pension Fund and the Pension Fund for Agricultural Academics and Veterinary Surgeons.

The new collaboration enables us to combine economies of scale and the possibility of gaining greater influence, while the management agreement ensures that our members get the best pension value for their money. The pension fund retains its full independence with direct influence through the Board of Directors and general meetings, and we also have obtained access to some of the lowest administrative expenses and investment expenses in the industry.

The overall return for 2019 was more than DKK 1.5 billion. Members with a unit-linked pension scheme with moderate risk saw a return of 10.6%, while members with a high-risk profile had a return of 15.8%.

Towards the end of 2019, we worked on modernising our unit-linked pension scheme, which we upgraded effective from the beginning of 2020. More specifically, this includes components such as improved insurance covers and new investment profiles. We also offered our members a new and more individual investment strategy, in which the risk is automatically adjusted according to the individual member's age. Our members can still choose between three investment profiles – low risk, moderate risk and high risk – and during 2020 we will offer Linkpension, allowing our members to invest themselves.

As part of the Sampension community, we can adjust insurance covers to individual needs, and each member has access to more thorough and individual advisory services, whether this is in person, online or by telephone. Our members consulted us for advisory services 2,633 times last year and gave us an average satisfaction rating score of 4.7 out of 5.

We also launched a new website in 2019. By logging on to their personal page, our members can get a snapshot of their savings, change their investment profiles or make additional pension contributions. This is actually quite easy, and if you are one of the few who have not logged on yet, I recommend you to try it out. Last year, we had more than 42,600 visits to our website and more than 21,800 member log-ins.

Pension contributions were DKK 369 million in 2019, of which DKK 32 million constituted additional contributions from members who either made extra contributions to their pension savings or pooled their pension savings with us, which is free of charge.

We are strongly committed to responsible investing, and in 2019 the Board of Directors expanded its policy to include an increased focus on climate and – not least – a strengthened engagement programme. This is expressed in three new initiatives launched in 2019, applying to all parties of the joint management company:

- The climate footprint of the equity portfolio must be reduced.
- We do not invest in companies generating 30% or more of their revenue from coal or tar sand operations.
- We will regularly evaluate the companies' ability and willingness to adapt to the low-emissions society of the future.

You can read more about this in our joint report on responsible investments (in Danish only), which is released together with this annual report.

Lars Bytoft

Lars Bytoft
Chairman of the Board of Directors

Management's review

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Five-year key figures and financial ratios

Five-year key figures DKKm	2019	2018	2017	2016	2015
Premiums	369	397	379	385	391
Benefits paid	-792	-832	-798	-762	-788
Investment return	1,520	-101	915	1,014	141
Total pension operating expenses	-10	-29	-15	-12	-11
Technical result	-246	29	-142	-8	94
Profit/loss for the year	-249	21	-126	8	89
Total pension provisions	16,349	15,283	15,850	15,379	14,917
Equity	625	873	853	979	971
Total assets	18,695	16,395	17,036	16,724	16,078

Five-year financial ratios	2019	2018	2017	2016	2015
Return ratios					
Rate of return related to average-rate products	9.1%	3.6%	1.6%	8.7%	0.4%
Rate of return related to unit-linked products	10.4%	-1.6%	7.3%	6.2%	1.1%
Risk on return related to unit-linked products	3.75	3.75	3.75	3.75	-
Expense ratios					
Expenses as a percentage of provisions	0.06%	0.19%	0.09%	0.08%	0.10%
Expenses per member (DKK)	722	2.064	1.035	864	828
Other return ratios					
Return on equity after tax	-33.2%	2.4%	-13.8%	0.8%	9.1%
Capital structure ratios					
Solvency coverage	172%	258%	239%	327%	232%

Reference is made to “Definitions of financial ratios” on page 54.

Members and pension schemes

The Pension Fund for Technicians and Bachelors of Engineering (ISP) is a multi-employer occupational pension fund established in 1958. The pension fund admits members with a BSc in engineering or similar. Both private-sector and public-sector salaried engineers can join ISP, and it is also possible to take out pension schemes for all employees in companies employing engineers or similar. After October 2018, newly employed engineers subject to IDA's collective agreements with public employers make pension contributions to the DIP pension fund, which merged with JØP on 15 November 2019 under the name of P+, Pensionskassen for Akademikere. ISP members employed in the public sector at 30 September 2018 can retain their ISP pension scheme if they change jobs within the public sector.

As of 1 July 2019, Sampension Administrationsselskab A/S (the joint management company) took over the management of ISP. The transition went smoothly, and ISP's management functions have been fully integrated with the joint management company, which also manages Sampension Livsforsikring A/S (Sampension Liv), the Architects' Pension Fund (AP) and the Pension Fund for Agricultural Academics and Veterinary Surgeons (PJD).

A pension scheme contains both savings and insurance components covering loss of earning capacity, death and certain critical illnesses. ISP provides the following savings products:

Pension schemes	Investments and allocation of returns
Unit-linked	**Actual returns are allocated to members each month**
Unit-linked pension scheme	Savings are distributed among three investment profiles of the members' own choice. As of 1 January 2020, the scheme was upgraded with a more individual investment strategy, in which savings are invested in generation pools according to the member's age.
Senior scheme	The scheme is a unit-linked product divided into a basic pension scheme with an interest rate-based benefit guarantee and a non-guaranteed supplementary pension scheme. The scheme is closed for new business.
Average rate	**Rate of investment return allocated to customers reflects the average return achieved over time**
Guarantee scheme	This group comprises pension schemes with guaranteed benefits. The scheme is closed for new business.

In connection with the transition to Sampension, ISP's own group life insurance covers were phased out, and since 1 July 2019, the pension fund's group life insurances have been managed by Forenede Gruppeliv.

Premiums and benefits

Premium income

Premiums fell by 7.0% to DKK 368.9 million in 2019 from DKK 396.7 million in 2018. Regular premiums fell by DKK 6.9 million, while single premiums and transfers decreased by DKK 21.0 million.

Premium income **DKKm**	**2019**	**2018**	**Change (%)**
Regular premiums	336.6	343.5	-2.0
Single premiums etc.	32.3	53.3	-39.3
Total premiums	**368.9**	**396.7**	**-7.0**

Premium income of

DKKm 369

The number of members at 31 December 2019 was 12,597, of which 4,036 members were in active employment and paying premiums and 4,969 members were pensioners. The remaining members have paid-up policies.

Benefit payments

Total pension benefits amounted to DKK 791.6 million in 2019 against DKK 832.4 million in 2018. The decline was primarily attributable to regular pension benefits from unit-linked pension schemes, which were reduced in 2019 as a result of adjusted longevity and a negative return in 2018.

Expenses

We expect that the transition to the joint management company will lead to significant expense level decline. The lower the expenses, the greater the proportion of contributions and returns will be allocated to savings. As the transition took place mid-2019, the full effect of the expense decline will not materialise until 2020.

Efficient investment management

Internal and external management efficiency is very important to the joint management company. Cost-benefit analysis is used to assess whether the various portfolios should be managed internally or externally.

Virtually all of our equity investments are outsourced to external asset managers, while most bonds and other fixed-income instruments are managed in-house. A number of investments in higher-risk credit bonds are made through external managers, and most alternative investments in, e.g., forestry, hedge funds and unlisted equities are managed by external managers.

Investment expenses

Investment expenses include expenses incurred by ISP, which are disclosed directly in the financial statements, and indirect expenses incurred when investing in external funds, investment associations, etc. Investment expenses calculated on member savings in unit-linked pension schemes with moderate risk were 0.38% in 2019.

Return ratios are calculated after deduction of direct and indirect investment expenses. The return after investment expenses is the all-important ratio to consider when assessing the performance of members' pension savings.

Administrative expences per policyholder

DKK 722

Administrative expenses per member of DKK 722

Pension administrative expenses amounted to DKK 9.5 million in 2019 against DKK 29.2 million in 2018.

Expenses per member fell from DKK 2,064 in 2018 to DKK 722 in 2019. Administrative expenses for 2018 were affected by a number of non-recurring expenses related to ISP's member system, which we do not apply following the transition to the joint management company. We expect expenses to further decline in future.

Expenses expressed as pension provisions fell to 0.06% in 2019 compared with 0.19% in 2018.

Total APR of 0.5% for unit-linked pension schemes with moderate risk

Our website, isp.dk, provides information to members on annual expenses expressed in Danish kroner and as a percentage (APR). APR includes an annual administration fee, which is deducted from members' savings, and investment expenses, see above. APR depends on members' savings. For a member with savings of DKK 1 million, the APR for 2019 was at 0.5% for the unit-linked scheme with moderate risk.

Investments and returns

The global economy and financial markets

Global economic uncertainty grew in 2019, particularly due to the trade war between the USA and China and Brexit complications. Despite the easing of monetary and fiscal policies in many countries, economic growth fell worldwide. The slowing growth was mainly reflected in many countries' industrial production. The effect could have spread to the service sector, but it has not yet showed any distinct signs of weakness. Developments have meant that consumer spending is underpinning economic growth in most countries, while investments have contributed negatively to growth due to developments in the industrial sector.

In 2019, financial markets were characterised by surging equity markets and low returns on bonds. Interest rates have plummeted virtually everywhere, which ties in well with the lenient monetary policies pursued. In 2019, the US Federal Reserve – after having gradually hiked its key policy rate since 2015 – announced a number of rate cuts, while the European Central Bank eased its monetary policy by cutting its key policy rate and stepping up its bond-buying programme using fresh funds. Equity markets all over the world surged. The US equity market was the best performer with an impressive 31% increase, closely followed by Danish equities at 29% and European equities at 26%, while the Asian, the UK and emerging markets trailed with increases of about 18%. Return rates are stated before translation into Danish kroner and reflect benchmark indices for the respective markets.

Investment return of DKK 1,520 million or 9.3%

The overall return across all investment environments in 2019 was a gain of DKK 1,520 million, relative to a negative return of DKK 101 million in 2018. The overall return across all investment environments was 9.3% before tax on pension returns in 2019.

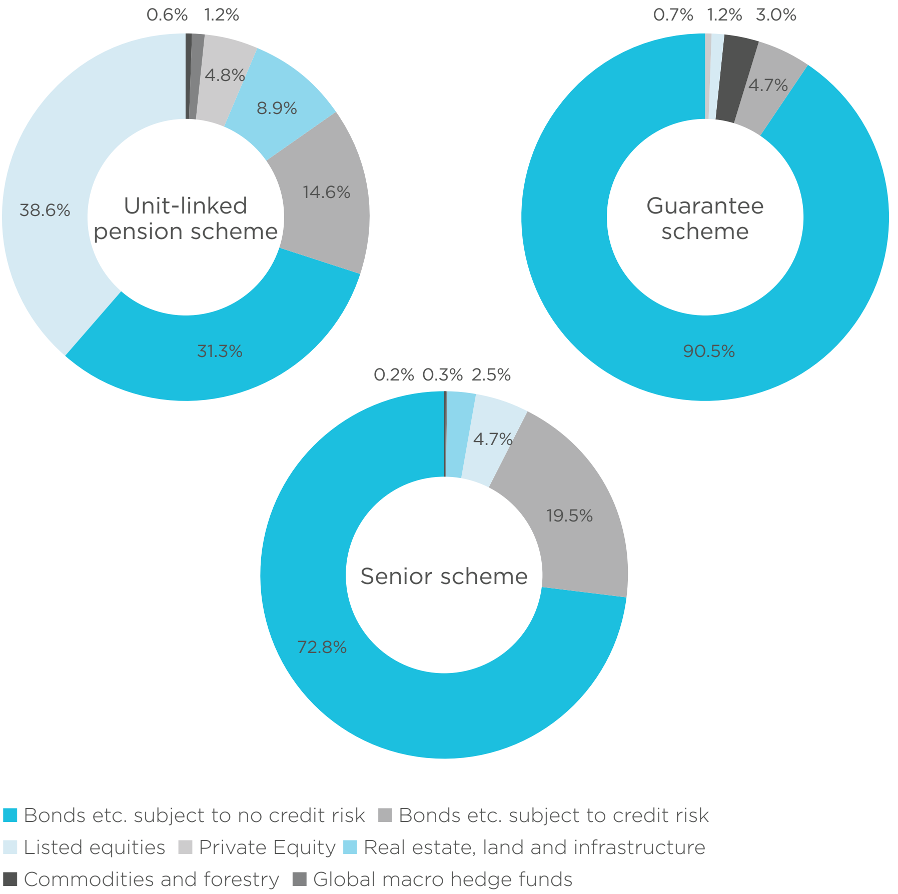
Investment return of

9.3 %

Investment returns by environment DKKm	2019	2018
Unit-linked scheme	1,215	-216
Guarantee scheme (average rate)	280	110
Senior scheme	29	14
Equity	-5	-8
Total return	**1,520**	**-101**

Breakdown of net investments

Almost 44% of the net investment assets in 2019 were placed in low credit risk bonds, while 30% were placed in listed equities. A breakdown of net investments in individual environments of 31 December 2019 is shown in the figures below.



Investment strategies in ISP's various investment environments

Our investment strategy aims to maximise the long-term return in a responsible manner and within the framework of the Board of Directors. The unit-linked and average-rate environments generally participate in the same investments, only at different weightings and volumes. The guarantee scheme and senior scheme have a relatively larger proportion of lower-risk assets than the unit-linked pension scheme.

Annual return in the various environments

In the unit-linked pension scheme, investments are adjusted according to the members' investment profiles, each with a specific composition of investments assets. Members have three investment profiles to choose from: low risk, moderate risk and high risk.

The unit-linked pension scheme generated positive returns on all risk profiles in 2019. As illustrated by the returns of the profiles shown in the table below, members with high-risk profiles, who have relatively large shares of equities, but also of alternative investments, had the highest returns. The majority of the members have chosen the moderate risk investment profile.

The corresponding returns in the two other environments, i.e. guarantee scheme and senior scheme are illustrated below.

Returns in the various ISP environments 2019	2019	2018
Unit-linked – Low risk	5.0%	1.0%
Unit-linked – Moderate risk	10.6%	-1.8%
Unit-linked – High risk	15.8%	-4.1%
Guarantee scheme (average rate)	8.4%	3.6%
Senior scheme	4.3%	2.1%

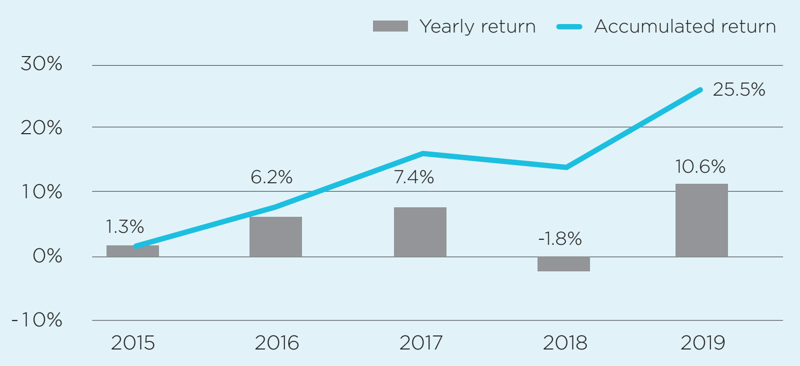
Five-year return of

25.5%

Five-year returns

Over the past five years, the total return for the unit-linked pension scheme with moderate risk is 25.5%.

Moderate risk - Accumulated returns 5 years



For a more detailed specification of holdings and returns in ISP, see notes 19 and 20 to the financial statements.

Corporate social responsibility

Our approach to corporate social responsibility is governed by our ambition to comply with and implement international United Nations conventions, including the ten principles of the UN Global Compact, the OECD Guidance for Responsible Business Conduct for Institutional Investors and the climate targets of the Paris Agreement.

The responsible investment policy applies to all four parties of the Sampension joint management company. The boards of directors have set up a cross-functional committee to screen and submit recommendations for responsible investments. The committee's objective is to consider and discuss the social, environmental and governance aspects of investment decisions made by the four pension providers with a view to agreeing on the principles that should apply to the pension companies' policy on responsible investment.

Increased focus on climate

We believe that being focused on climate and the environment, social issues and corporate governance contributes to a company's ability to create a return for its investors. In 2019, we adopted a new policy and guidelines for responsible investments, which includes an increased focus on climate. This is expressed in three initiatives in the equity portfolio:

1. We measured the carbon footprint of our equity portfolio for the first time at the end of 2018. The target for the equity portfolio's carbon footprint has now been specified: it must fall over time and must at all times be less than what the equity portfolio would have caused had the equity investments been made passively in the equity markets.

2. Unfortunately, the world will remain dependent on fossil fuels for a number of years to come, but it is possible to support the transition to the low-emissions society of the future, and going forward we will not invest in companies causing the largest environmental impact. More specifically, we will not invest in companies generating 30% or more of their revenue from coal or tar sand operations.

3. The transition to the future low-emissions society will affect the business models of all companies. Going forward, we will regularly evaluate the companies' ability and willingness to adapt to the future low-emissions society.

Active ownership

As an investor, ISP aims to exert its influence through an active ownership approach, and we work continually to promote responsible conduct by the companies we are invested in. In this context, we have decided to strengthen our engagement programme to supplement engagements on improvement by engaging in critical dialogues with companies which do not comply with international standards and conventions in the ESG area. This will probably lead to more exclusions from ISP's portfolio than has previously been seen.

Unlisted equities are subject to the same guidelines as listed equities and are assessed in terms of responsibility in the course of the same due diligence process. For investments in credit bonds managed in-house, ISP does not invest in bonds issued by companies placed on the exclusion list. For government bonds managed in-house, we regularly monitor and assess countries based on UN Guiding Principles on Business and Human Rights (UNGP). If severe human rights abuses occur in the country with no indications of material improvements being made, the country will be excluded from our investment universe. For bonds managed in external funds, we will mainly apply active ownership during the due diligence process prior to the investment commitment.

Our separate report “Ansvarlige investeringer 2019” (in Danish only) provides additional information on the responsible investment approach pursued by the joint management company. Reference is also made to the review of objectives and initiatives forming part of our general governance, investments and company operations discussed in the statutory report on corporate responsibility available (in Danish only) at isp.dk/aarsrapport.

Financial results, solvency capital requirement and total capital

Loss of DKK -249 million

ISP reported a loss of DKK 249 million for 2019 compared with a profit of DKK 21 million in 2018. The loss for the year is primarily related to the outlay from equity to cover the loss on the guarantee scheme and the provisions covering the interest rate guarantee in the senior scheme. The loss for the year also includes the positive risk result for the year. The performance for the year was below expectations.

The Board of Directors proposes that the loss for the year be covered by equity. After this, equity was DKK 625 million, compared with DKK 873 million at 31 December 2018.

Solvency requirements and total capital

Overall, the calculated solvency capital requirement is considered to be adequate relative to the pension fund’s risks. ISP calculates solvency requirements in accordance with the standard model specified in the Solvency II rules.

Solvency requirements and total capital **DKKm**	**31.12.2019**	**31.12.2019**
Total capital	625	871
Solvency capital requirement (SCR)	363	338
Minimum capital requirement (MCR)	163	152
Excess capital	262	533
Solvency coverage ratio relative to SCR	**172%**	**258%**
Solvency coverage ratio relative to MCR	382%	572%

The solvency coverage ratio – i.e. total capital relative to the solvency capital requirement – was 172% at 31 December 2019. The decline relative to 31 December 2018 was mainly due to the increase in provisions resulting from a fall in interest rates and in volatility adjustment (VA). In 2019, EIOPA implemented an adjusted method for calculating VA to the Danish discount curve. VA dropped by 25 basis points to 20 basis points at 31 December 2019. As appears from note 23 to the financial statements on risk management, ISP’s solvency coverage ratio is particularly exposed to VA changes.

For more information, see ‘Rapport om solvens og finansiel situation 2019’, which is available (in Danish only) at isp.dk/aarsrapport. This report also provides information on risk sensitivities in accordance with section 126 of the Danish Executive Order on Financial Reports.

Provisions for pension contracts

Pension provisions for the guarantee scheme are computed at market value based on assumptions of mortality and disability and probability of policy surrenders and conversions into paid-up policies. Market values are calculated using the Solvency II discount curve with VA. Furthermore, the Danish FSA's benchmark for expected future increases in longevity are also applied in the calculation of provisions.

Pension provisions for the guarantee scheme amounted to DKK 3,492 million at 31 December 2019, against DKK 3,149 million at 31 December 2018. The increase of DKK 343 million was particularly due to the fact that the accumulated market value adjustment of the pension provisions increased by DKK 266 million in 2019, especially resulting from a fall in interest rates and in VA. In 2019, an outlay of DKK 240 million was made from equity for the guarantee scheme, as the bonus potentials were not sufficient to cover the required increase in provisions, bringing the total amount of equity outlays to DKK 460 million.

Total provisions for unit-linked schemes increased by DKK 724 million to stand at DKK 12,857 million at 31 December 2019. The increase was driven in particular by the investment return for the year of DKK 1,244 million.

These include the provision for senior scheme of DKK 636 million. In 2019, it was necessary to increase the provisions for accumulated market value adjustment by DKK 27 million to DKK 30 million due to interest rate guarantees. This expense was laid out from equity.

Switch

ISP decided to pay a fine of DKK 175,000 for violation of the Executive Order on good business practice for financial undertakings in connection with 16 members switching to a unit-linked pension scheme in 2016, in which connection the Danish FSA assessed that ISP was not clear enough in its information about the switch to its members.

ISP duly noted the decision and decided to close the case, in spite of the fact that the Board of Directors does not agree with the decision of the Danish FSA. The size of the fine does not warrant the litigation costs. In 2020, we will exceptionally offer the 16 members to cancel their switch in 2016.

Outlook for 2020

ISP expects a small decline in premiums and a minor increase in members in 2020.

Expenses per member are expected to fall in 2020 as a result of being part of the joint management company for the full year.

Interest on policyholders' savings for the guarantee scheme was reduced to 1.0% for all interest rate groups at 1 January 2020.

For unit-linked schemes, realised returns are allocated to member accounts on a continual basis.

The return allocated to equity depends on financial market developments and ISP's risk results. Based on an unchanged level of interest rates, ISP expects a zero return allocated to equity in 2020.

Interest rate of

1.0%

Other matters

Uncertainty in recognition and measurement

In preparing the annual report, management makes a number of estimates and judgments of future events. Such estimates and judgments may influence the carrying amount of assets and liabilities. Management's estimates and judgments have the most material effect on pension provisions and on the calculation of fair values of non-marketable assets such as unlisted financial instruments. See the note on accounting policies for further details on estimates and judgments. The Audit Committee and the company's Board of Directors review the estimates and valuation methods applied in ISP's financial statements on an annual basis.

Events after the balance sheet date

No events have occurred in the period from the balance sheet date until the date of this document which may change the assessment of the Annual Report.

COVID-19 has had no significant impact on the pension fund up until the approval of the annual report. As the COVID-19 outbreak is new and ongoing, it is not yet possible to quantify any effect on the results of the pension fund's financial position for the financial year 2020.

About the pension fund

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Management structure

ISP is a multi-employer occupational pension fund owned by its members. The supreme authority of the pension fund is the general meeting.

Board of Directors

The Board of Directors consists of six members:

- Three board members are elected by and among the pension fund's members.
- One independent board member is elected by the members. The board member must have accounting and auditing expertise and must not be a member of the pension fund.
- One board member is appointed by the Danish Society of Engineers (IDA) and must be a member of the pension fund.
- One board member with special qualifications is appointed by the Board of Directors. The board member may be a member of the pension fund, but this is not a requirement.

The Board of Directors held seven meetings and one seminar in 2019.

An overview of other directorships held by the members of the Board of Directors and the Executive Board is provided on page 23.

Audit Committee

Pursuant to the provisions of the EU and of Danish legislation on audit committees in public-interest entities, the Board of Directors of ISP has established an Audit Committee.

Lisa Frost Sørensen, Vice President, a state-authorised public accountant, is chairman of the Audit Committee. By virtue of her professional career and educational background, Lisa Frost Sørensen meets the qualification requirements set out in the rules on audit committees. She also complies with the requirements of independence.

The Board of Directors has decided that the audit committee functions will be handled by the Board of Directors in unison. The Audit Committee held four meetings in 2019.

The framework for the Audit Committee's work is defined in a terms of reference. Its principal duties are:

- to monitor the financial reporting process;
- to monitor the efficiency of risk management systems, internal control systems and the
- internal audit function in relation to the financial reporting process;
- to monitor the statutory audit of the financial statements; and
- to monitor and verify the independence of the auditors.

A financial whistleblower hotline has been set up to give the employees of the joint management company a dedicated and independent channel for reporting any violation of financial regulations by the company. Reports to the whistleblower hotline are directed to Kromann Reumert, which manages our whistleblower hotline. Subsequently, Kromann Reumert informs the chairman of the Audit Committee and the person in charge of the compliance function. No reports were filed in 2019.

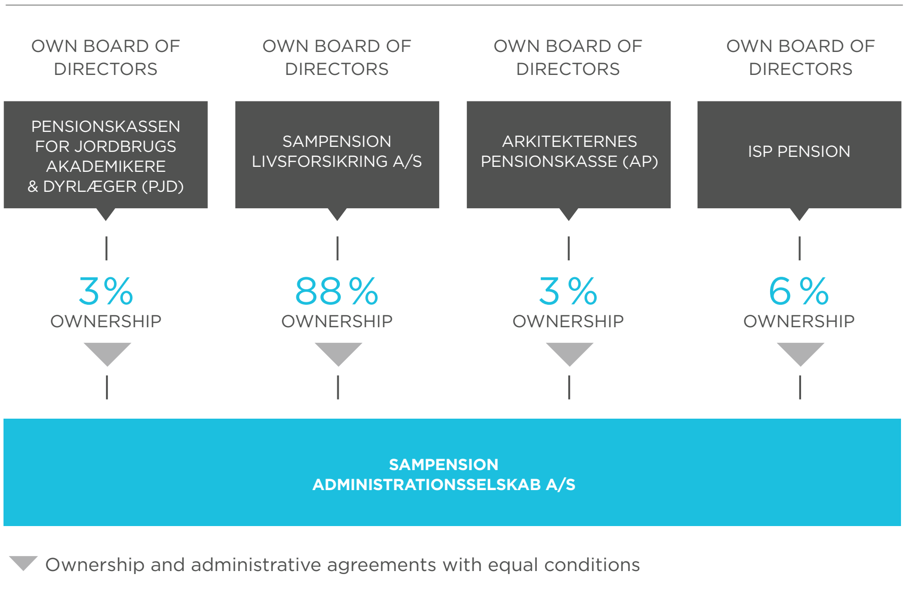
Committee for responsible investment

The responsible investment policy applies to all four parties of the joint management company. The boards of directors have set up a cross-functional committee to make proposals for ESG-related decisions. The committee is charged with considering the social, environmental and governance aspects of investment decisions made by the four pension providers with a view to agreeing on the principles to be included in the pension companies' policy on responsible investment.

Organisation and management

As of 1 July 2019, ISP is a member of the Sampension joint management company. In addition to ISP, the joint management company comprises the Sampension Livsforsikring Group, the Architects' Pension Fund and the Pension Fund for Agricultural Academics and Veterinary Surgeons. The group of owners of Sampension Administrationsselskab A/S comprises: Sampension Livsforsikring A/S (88%), the Pension Fund for Agricultural Academics and Veterinary Surgeons (3%), the Architects' Pension Fund (3%) and ISP (6%).

The joint management company



The Executive Board is in charge of the overall day-to-day management of Sampension. The organisation also consists of five executive divisions, which are in charge of day-to-day operations and development, and an executive secretariat. A detailed presentation of the organisation can be found at sampension.dk/organisation.

Risk management, compliance, actuary and internal audit functions contribute to ensuring efficient management of the joint management company. In addition, the Board of Directors has decided to appoint a chief internal auditor who is in charge of the internal audits of the pension funds in the joint management company. The heads of the respective departments have been designated as key persons performing controlled functions in respect of the work of the joint management company.

Remuneration

The boards of directors of the financial enterprises managed by Sampension have drawn up a remuneration policy that is compliant with the provisions of the EU and of Danish legislation. The purpose of the remuneration principles is to ensure that the management and the employees are remunerated in a manner that best supports the business and long-term strategic goals of the organisation.

The terms of remuneration reflect and support Sampension's consistent ability to recruit and retain a competent and responsible management that promotes healthy and efficient risk management and that does not motivate excessive risk-taking.

See note 5 to the financial statements or, for more information (in Danish only), go to isp.dk/bestyrelse.

Gender diversity in management

The Board of Directors has defined a target that the underrepresented gender should make up at least 33.3%, or two of six, board members, which is expected to be met in connection with the annual general meeting in 2024 at the latest. This distribution is consistent with the Danish Business Authority's guidelines on an equal gender composition of the board of directors. The Board of Directors consists of one woman and five men. The target has not been met, as it is a requirement to count all members and not only the shareholder-elected members. The target is subject to an annual review.

We have accounted for the gender composition at other management layers in the statutory report on corporate responsibility available (in Danish only) at isp.dk/aarsrapport.

Management and other directorships

Executive Board

Hasse Jørgensen, CEO

Chief actuary

Søren Andersen

Internal audit

Gert Stubkjær, Chief Internal Auditor

Member auditor

Just Benner Knudsen

Independent auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup
Denmark

Other directorships

Other directorships held by the members of the Board of Directors and the Executive Board are shown below.

Board of Directors

Lars Bytoft, Chairman, born 1973
Director of Bytoft Consulting ApS
Director of CAV Invest ApS
Deputy chairman of Velkommen A/S
Member of the board of directors of Sampension Administrationsselskab A/S

Lars Kehlet Nørskov, Deputy Chairman, born 1956
Member of the joint committee for responsible investment of Sampension Livsforsikring A/S, the Architects' Pension Fund, the Pension Fund for Agricultural Academics and Veterinary Surgeons and the Pension Fund for Technicians and Bachelors of Engineering
Member of the board of representatives of Lån & Spar Bank A/S

Søren Skibstrup Eriksen, born 1942
No directorships

Michael Herold, born 1967
Chairman of IDAs og Berg-Nielsens studie- og støttefond
Member of the board of directors of Hørup og Høruphav Vandværk a.m.b.a.
Member of the joint committee for responsible investment of Sampension Livsforsikring A/S, the Architects' Pension Fund, the Pension Fund for Agricultural Academics and Veterinary Surgeons and the Pension Fund for Technicians and Bachelors of Engineering

Lisa Frost Sørensen, born 1962
Vice President of Jutlander Bank A/S

Peter Kjær Østergaard, born 1969
CFO of PenSam
Member of the board of directors of Kapitalforeningen PenSam Invest
Executive Board

Hasse Jørgensen, CEO, born 1962
CEO of Sampension Livsforsikring A/S
CEO of Sampension Administrationsselskab A/S
CEO of the Architects' Pension Fund
CEO of the Pension Fund for Agricultural Academics and Veterinary Surgeons
Director of Komplementarselskabet Sorte Hest ApS
Chairman of the board of directors of Komplementarselskabet Alternative Investments ApS
Chairman of the board of directors of Sampension KP Danmark A/S
Chairman of the board of directors of Sampension KP International A/S
Member of the board of directors of Refshaleøen Holding A/S
(including one subsidiary)
Member of the board of directors of the Danish Insurance Association
Member of the board of directors of the Danish Finance Society

Financial statements

3

Pension Fund Financial Statement

Note	INCOME STATEMENT DKKt.	PENSION FUND 2019	 2018
2	Premiums	368,900	396,736
	Ceded premiums	33	-120
	Premiums	**368,933**	**396,616**
	Income from associates	6,188	50,661
3	Interest income, dividends etc.	274,714	327,099
4	Market value adjustments	1,282,295	-425,452
	Interest expenses	-2,272	-114
5	Investment management expenses	-41,143	-52,797
	Total investment return	**1,519,781**	**-100,603**
	Tax on pension returns	**-224,737**	**19,218**
6	Benefits paid	-791,622	-832,393
	Total insurance benefits	**-791,622**	**-832,393**
11, 12	**Total change in provisions**	**-1,111,716**	**567,359**
5	Administrative expenses	-9,515	-29,247
	Total net operating expenses	**-9,515**	**-29,247**
	Transferred return on investments	**3,184**	**8,062**
	TECHNICAL RESULT	**-245,691**	**29,013**
	Investment return on equity	**-5,008**	**-8,315**
	PROFIT BEFORE TAX	**-250,699**	**20,698**
	Tax on pension returns for equity	**1,824**	**253**
	PROFIT FOR THE YEAR	**-248,875**	**20,951**
	TOTAL OTHER COMPREHENSIVE INCOME	**0**	**0**
	NET PROFIT FOR THE YEAR	**-248,875**	**20,951**

Pension Fund Financial Statement (Continued)

Note	BALANCE SHEET DKKt.	PENSION FUND 2019	 2018
	ASSETS		
7	**INTANGIBLE ASSETS**	**0**	**2,208**
8	Investments in associates	0	33,762
	Total investments in associates	**0**	**33,762**
	Investments	166,241	270,385
	Units in mutual funds	70,669	17,840
	Bonds	4,350,155	3,518,062
	Loans secured by mortgage	0	1,851
9	Derivative financial instruments	279,024	156,712
	Deposits with credit institutions	188,085	0
	Total other financial investment assets	**5,054,174**	**3,964,850**
	TOTAL INVESTMENT ASSETS	**5,054,174**	**3,998,612**
10	**INVESTMENT ASSETS RELATED TO UNIT-LINKED PRODUCTS**	**13,334,060**	**12,125,491**
	Total receivables arising from direct insurance contracts	**4,995**	**18,267**
	Other receivables	**5,539**	**4,845**
	TOTAL RECEIVABLES	**10,534**	**23,113**
	Cash and cash equivalents	159,062	74,625
	Other	35,989	91,420
	TOTAL OTHER ASSETS	**195,051**	**166,045**
	Interest and rent receivables	63,428	34,870
	Other prepayments	37,799	44,563
	TOTAL PREPAYMENTS	**101,228**	**79,433**
	TOTAL ASSETS	**18,695,046**	**16,394,901**

Note	BALANCE SHEET DKKt.	PENSION FUND 2019	 2018
	EQUITY AND LIABILITIES		
	Retained earnings	**624,602**	**873,478**
	TOTAL EQUITY	**624,602**	**873,478**
11	**Provisions for average-rate products**	**3,492,002**	**3,148,675**
12	**Provisions for unit-linked products**	**12,857,426**	**12,133,892**
	TOTAL INSURANCE PROVISIONS, NET OF REINSURANCE	**16,349,429**	**15,282,567**
	Payables arising from direct insurance contracts	385	1,349
13	Payables to credit institutions	1,280,107	176,819
14	Other payables	436,616	60,689
	TOTAL DEBT	**1,717,108**	**238,856**
	TOTAL DEFERRED INCOME	**3,908**	**0**
	TOTAL EQUITY AND LIABILITIES	**18,695,046**	**16,394,901**

1 **ACCOUNTING POLICIES**
15 **CONTINGENT ASSETS AND LIABILITIES**
16 **CHARGES**
17 **REALISED RESULT FOR INTEREST GROUPS, COST AND RISK GROUPS**
18 **FINANCIAL INSTRUMENTS RECOGNISED AT FAIR VALUE**
19 **OVERVIEW OF ASSETS AND RETURNES**
20 **UNIT-LINKED PRODUCT, RETURN ETC. BY INVESTMENT PROFILES**
21 **SUPPLEMENTARY PRODUCT RATIOS**
22 **FIVE-YEAR FINANCIAL HIGHLIGHTS AND RATIOS, PENSION FUND**
23 **RISK MANAGEMENT**

Statement of changes in Equity

DKKt.	PENSION FUND 2019	 2018
Equity at 1 January	873,478	852,527
Profit for the year	-248,876	20,951
Equity at 31 December	**624,602**	**873,478**
Total capital		
Equity	624,602	873,478
Intangible assets	0	-2,208
Total	**624,602**	**871,270**

Notes to the financial statements

1 Accounting policies

GENERAL INFORMATION

The Annual Report of the pension fund has been prepared in accordance with the Danish Financial Business Act and the executive order issued by the Danish FSA on financial reports for insurance companies and multi-employer occupational pension funds (the Executive Order on Financial Reports).

Changes made to the presentation relative to the 2018 Annual Report

Due to the transition to the joint management company with Sampension effective from 1 July 2019, the following presentation changes to the accounting policies have been made in the annual report for 2019 relative to 2018:

- Effective from the second half of 2019, administrative expenses comprise an administrative fee in accordance with the management contract with Sampension Administrationsselskab A/S and direct expenses incurred. The administrative fee is divided into pension business and investment business.

  Up until the transition, the part of the pension fund's administrative expenses not readily attributable to either investment business or pension business was distributed based on an allocation key determined by the Board of Directors.

- On 1 January 2019, negative bonuses of DKK 285 million were changed from being included in accumulated market value adjustment to being offset against retrospective provisions.

The changes have no effect on the profit/loss for the period, total assets or equity.

The accounting policies and estimates are consistent with those applied last year.

Information on the placement of assets and liabilities within the fair value hierarchy

Effective from 2019, the Executive Order on Financial Reports introduced new note requirements for disclosure of the techniques and data applied in the measurement of assets and liabilities at fair value on the basis of the so-called fair value hierarchy.

The fair value hierarchy comprises the three levels below for assets and liabilities measured at fair value:

- level 1 – measurement based on quoted prices in an active market
- level 2 – measurement based on observable inputs
- level 3 – measurement based on unobservable inputs

Disclosure is particularly required for level 3 assets. Comparatives are not required in the first year of application of the new rules.

The placement of assets and liabilities within the three levels of the fair value hierarchy is disclosed in note 18.

Distribution of realised result (contribution principle)

The following rules on the calculation and distribution of results between equity and the members have been reported to the Danish FSA:

Return allocated to equity corresponds to the return on equity's own investment portfolio. The return remaining after repayment from the shadow account to equity will be allocated to member savings, including through provision for collective bonus potentials. Risk premium allocated to equity and coverage of outlay accounts are then transferred from the collective bonus potential.

The pension fund's schemes are divided into four interest rate groups, two risk groups and one joint cost group. The realised result is calculated and allocated for the contribution groups individually.

For guaranteed benefit average-rate contracts, a payment (risk premium) determined based on the solvency need of the individual interest rate group is allocated to equity. The rates are between 0.5% and 0.8% of the proportion of pension savings.

Within each interest rate group, any negative realised result is absorbed first by the group's collective bonus potential, then by the group's individual bonus potential and last by equity. Any loss on risk and cost groups not absorbed by the collective bonus potentials is covered by equity.

Losses covered by equity are transferred to so-called outlay accounts and may subsequently be allocated to equity when the collective bonus potential of the individual contribution group allows this. The total allocation of the realised result for the year and the size of the accumulated outlay and shadow accounts are disclosed in note 17.

There are two types of accounts holding equity receivables. Shadow accounts, which were accumulated before 1 January 2016 and must be settled before 31 December 2020 and outlay accounts accumulated after 1 January 2016.

Recognition and measurement

In the income statement, all income is recognised as earned, and all expenses are recognised as incurred. All gains and losses, value adjustments, amortisation, depreciation, impairment losses as well as reversals of amounts previously recognised in the income statement are recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the pension fund and the value of the asset can be reliably measured. Liabilities are recognised in the balance sheet when an outflow of economic benefits from the pension fund is probable and the value of the liability can be reliably measured.

Financial instruments and derivative financial instruments are recognised at the trading date.

The pension fund does not offset financial assets and financial liabilities with the same counterparty despite being allowed to do so, as the disposal of the asset and the settlement of the liability do not happen concurrently.

On initial recognition, assets and liabilities are measured at cost, which is equal to fair value. Subsequently, assets and liabilities are generally measured at fair value. Further details are provided under the individual items.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the annual report which confirm or invalidate affairs and conditions existing at the balance sheet date.

The measurement currency is Danish kroner. All other currencies are foreign currencies.

Accounting estimates

In preparing the financial statements, management makes a number of estimates and judgments of future circumstances which could influence the carrying amount of assets and liabilities.

The estimates and judgments are based on assumptions that management finds reasonable but which are inherently uncertain and unpredictable. The assumptions may be incomplete, and unforeseen future events or circumstances may arise.

The areas in which management's estimates and judgments have the most material effect on the pension fund are:

- pension provisions
- investment assets measured using alternative valuation methods, which are at level 3 in the fair value hierarchy.

The valuation of pension provisions is subject to particular uncertainty in respect of the recognised expected future life expectancy trend, determined as the Danish FSA's benchmark.

The pricing of level 3 investment assets is subject to greater uncertainty than level 1 and level 2 assets due to their non-marketability. In addition to the uncertainty related to fair value, as explained in the section on risk management (see note 23), there is a risk that large volumes of non-marketable assets cannot be sold over a short period of time at the same prices as smaller volumes can. In practice, however, the pension fund is not subject to any notable risk of having to sell non-marketable assets on unfavourable terms. The value of the most marketable assets at level 1 in the fair value hierarchy exceeds the annual payment obligations by a substantial margin.

The most significant level 3 investment assets are:

- unlisted equity investments, including private equity, real estate and forestry funds, and
- unlisted bonds, including credit bonds and structured bonds.

INCOME STATEMENT

Technical result

Premiums
Premiums comprise premiums due for the year and single premiums relating to the financial year. The item is net of labour market contribution and reinsurance premiums paid.

Investment return

Income from investments in associates

Income from investments in associates comprises return on investments in which the pension fund has an ownership interest of between 20% and 50% of the voting rights, and over which the pension fund thus has significant but not controlling influence.

Interest income and dividends, etc.

The item covers interest for the year from financial investment assets and cash and cash equivalents, indexation of index-linked bonds and dividends on equity investments, including equities and investment funds.

Market value adjustments

The item covers realised and unrealised net gains/losses on investment assets, including foreign exchange adjustments except for gains and losses relating to associates.

Foreign exchange adjustments comprise value adjustments related to exchange differences arising on translation of foreign currencies into Danish kroner.

Foreign currency assets and liabilities are translated into Danish kroner at the closing exchange rates at the balance sheet date. Transactions during the year are translated using the exchange rates at the date of transaction, and realised and unrealised foreign exchange gains and losses are recognised in the income statement.

Interest expenses

The item Interest expenses mainly covers interest expenses relating to investment activity for the financial year.

Investment management charges

The item comprises management fees, part of direct administrative expenses incurred, deposit fees, front-end fees and performance fees in relation to funds as well as securities trading costs.

Costs relating to funds etc. are recognised to the extent that information thereon has been received.

Tax on pension returns
The tax on pension returns computed for the financial year is recognised as an expense in the income statement. The tax charge comprises tax on the return allocated to individual member accounts as well as tax on the return allocated to the collective bonus potential and equity. Tax is calculated at 15.3% of the tax base, which is determined on the basis

of the investment return for the year with due consideration for any exempt values.

The share of the tax on pension returns allocated to equity is computed on the basis of the share of the realised result.

Benefits paid
Benefits paid comprise the pension benefits paid in the year.

Change in pension provisions
The item comprises the change in pension provisions, including the change in collective bonus potential.

Pension operating expenses
Pension operating expenses comprise an administrative fee in accordance with the management contract with Sampension Administrationsselskab A/S as well as directly incurred expenses and depreciation/amortisation. Administrative expenses are divided into pension business and investment business.

Transferred return on investment
The technical result stated is net of transferred investment returns, which constitute the investment return on equity.

Tax on pension returns allocated to equity
The item comprises the share of the total tax on pension returns allocated to equity.

OTHER COMPREHENSIVE INCOME

Other comprehensive income is set out separately below the income statement. Other comprehensive income comprises items recognised directly in equity through Other comprehensive income.

BALANCE SHEET

Intangible assets

Comprises IT programmes recognised at cost, including costs incurred for making the IT programmes ready for use. Cost is amortised on a straight-line basis over the estimated useful life, determined at 3-10 years for the member system, 4 years for the solvency model and 2 years for e-Boks.

Investment assets

Investments in associates
Enterprises in which the pension fund exercises significant but not controlling influence are recognised as associates. Enterprises in which the pension fund holds between 20% and 50% of the voting rights are generally classified as associates. However, the determining factor is whether the ownership interest provides real influence, as measured individually for each enterprise by the ability to influence activities, management structures, financial decisions and risk factors.

Investments in associates are measured at the proportionate share of the equity values in accordance with the most recent annual or interim reports of the enterprises.

Investments and units in mutual funds
Listed investments and units in mutual funds are measured at fair value at the balance sheet date, usually equal to the investments' quoted prices in an active market (closing price).

Unlisted investments are measured at an estimated fair value. At year end, this is normally based on fund managers' third-quarter reporting, adjusted for subsequent capital increases, capital reductions or dividends up to the reporting date. Furthermore, the value of individual investments is adjusted on a discretionary basis where the adjusted equity value is not deemed to reflect fair value.

Bonds
Listed bonds are measured at fair value at the balance sheet date, usually equal to the bonds' quoted prices in an active market (closing price). The valuation of bonds for which no quoted price in an active market exists is based on one of the following:

- quoted prices of similar bonds, adjusted for any differences,
- indicative prices from investment banks,
- a DCF model based on estimates of, e.g. discount curve, risk premiums, prepayments and the amount of default losses and dividends on underlying loans.

The fair value of drawn bonds is measured at present value.

Loans secured by mortgage
Loans secured by mortgage are measured at fair value at the balance sheet date. Value adjustments are made through profit or loss under Market value adjustments.

Derivative financial instruments
Derivative financial instruments are measured at fair value at the balance sheet date. For listed instruments, fair value is based on the closing price, whereas for OTC instruments it is determined according to generally accepted methods based on observable inputs.

Value adjustments are made through profit or loss under Market value adjustments.

Deposits with credit institutions
Deposits with credit institutions consist of fixed-term deposits and are measured at fair value.

Investment assets related to unit-linked products
Investment assets related to unit-linked products are measured according to the accounting policy described above for the company's investment assets and are specified in a note to this balance sheet item.

Receivables

Receivables are measured at nominal value less provision for bad debts. Provision for bad debts is made according to an individual assessment of each receivable.

Other assets

Cash and cash equivalents

Cash and cash equivalents consist of deposits with credit institutions. Cash and cash equivalents are measured at fair value.

Other

The item Other includes tax on pension returns receivable, among other things.

Prepayments

Prepayments comprise interest receivable and costs incurred relating to subsequent financial years. Prepayments are measured at amortised cost, which usually corresponds to nominal value.

Pension provisions

Pension provisions, average-rate products

The provisions are measured at market value according to the principles reported to the Danish FSA. The provisions are computed applying the risk-free yield curve including volatility adjustment published by EIOPA in accordance with the Solvency II Directive or a yield curve as close as possible thereto. The computation furthermore applies assumptions of mortality, disability, conversions into paid-up policies, surrender charges and an estimate of future increases in life expectancy defined based on the Danish FSA's benchmark model.

Guaranteed benefits

Guaranteed benefits comprise obligations to pay benefits. Guaranteed benefits are calculated as the present value of the benefits guaranteed by the scheme plus the present value of the expected future administration costs and less the present value of the agreed future contributions.

Individual bonus potential

Individual bonus potential comprises obligations to pay bonuses. Individual bonus potential is calculated as the value of members' savings less guaranteed benefits. Members' share of a decline in the value of the assets is recognised mainly by reducing the collective bonus potential, see below. If the collective bonus potential is insufficient to absorb such decline in the value of the assets, the individual bonus potential is reduced in accordance with the pension fund's reported profit allocation rules. The allocation of realised result is described above in the section Allocation of realised result.

Collective bonus potential

The collective bonus potential comprises the members' share of the realised results not yet allocated to the individual policy.

Profit margin

The profit margin is the net present value of expected future profit in the remaining periods of pension agreements entered into by the pension fund. The profit margin on the pension fund's pension agreements is nil, as all profit is allocated to the members.

Risk margin

A risk margin is added to pension provisions. The risk margin is the amount expected to be payable to another pension company to assume the risk of the cost of settling the portfolio of pension agreements deviating from the calculated net present value of expected future cash flows. The risk margin is calculated according to the Cost of Capital method.

Provisions for unit-linked products

Provisions for unit-linked products are calculated as the market value of the corresponding assets.

The senior scheme is a unit-linked product with a guarantee ensuring that the amount of benefits can never be less than the amount calculated based on a discount rate of 2%. A positive accumulated value adjustment on the senior scheme is made when the value of guaranteed benefits exceeds savings. Other calculation assumptions for the senior scheme than interest rate assumptions are not covered by guarantees.

Liabilities

Payables to members

The item is stated at nominal value.

Payables to credit institutions

Payables to credit institutions include debt relating to repo transactions. Repo transactions, i.e. securities sold with a simultaneous repurchase agreement, are recognised in the balance sheet as if the securities remained part of the portfolio. The consideration received is recognised as payables to credit institutions and measured at fair value.

Other debt

Other debt, comprising debt related to purchases of bonds as a result of trades with long value dates and derivative financial instruments, is measured at fair value. The item also includes payable tax on pension returns.

Deferred income

Deferred income comprises payments received relating to income in subsequent financial years. Deferred income is measured at amortised cost, which usually corresponds to nominal value.

FINANCIAL HIGHLIGHTS

The pension fund's financial highlights are prepared in accordance with the provisions of the Executive Order on financial reports for insurance companies and multi-employer occupational pension funds. For additional information, see Definitions of financial ratios on page 54.

Note	DKKt.	PENSION FUND 2019	2018
2	**Premiums**		
	Regular premiums	336,565	343,459
	Single premiums	32,334	53,276
	Total premiums	**368,900**	**396,736**
	Distribution of premiums		
	Contracts including bonus schemes	31,712	33,076
	Unit-linked products	337,187	363,660
	Total	**368,900**	**396,736**
	Premiums by policyholder's address		
	Denmark	366,483	392,037
	Other EU-countries	1,749	3,324
	Other countries	668	1,375
	Total	**368,900**	**396,736**
	Number of members with pension schemes set up as part of their employment	12,597	13,764
	Number of members with unit-linked contracts	10,351	11,282
	Number of group life contracts	0	4,889
3	**Interest income and dividends etc.**		
	Dividends from investments	67,323	121,893
	Dividens from units in mutual funds	1,309	31,602
	Interest from bonds	188,031	140,764
	Interest on loans secured by mortgage	0	3,200
	Other interest income	863	0
	Indexation	-22,302	0
	Interest swap instruments	39,489	29,640
	Total interest income, dividends, etc.	**274,714**	**327,099**
4	**Market value adjustments**		
	Investments	111,253	-127,828
	Units in mutual funds	1,163,666	-116,269
	Bonds	-6,337	-34,545
	Loans secured by mortgage	130	-2,894
	Derivative financial instruments	8,790	-149,454
	Cash and demand deposit	4,792	5,538
	Total value adjustments	**1,282,295**	**-425,452**

Note	DKKt.	PENSION FUND 2019	2018
5	**Administrative expenses**		

The ISP pension fund has signed a management agreement with Sampension Administrationsselskab A/S and forms part of this joint management company effective from 1 July 2019. All employees are employed with and paid by Sampension Administrationsselskab A/S. The pension fund's share of these payroll costs are settled through the management fee. Remuneration payable to the Board of Directors is paid directly by the pension fund. The CEO and control function staff are also employed with the pension fund. Until 1 July 2019, the pension fund was managed by AP Pension, and payroll costs etc. related to the pension fund for the first half of 2019 are directly incurred by ISP. Administrative expenses relating to pension and investment activities include the following staff costs:

	2019	2018
Staff salaries	-4.403	-4.277
Staff pensions	-525	-554
Other social security costs	-1	-2
Reimbursement	36	71
Payroll tax etc.	-601	-580
Total staff costs	**-5.495**	**-5.342**
Average number of full-time employees	2	2

Remuneration to the Executive Board, the Board of Directors and material risk takers
From 1 July 2019, remuneration to the Executive Board and employees whose activities have a material impact on the company's risk profile is distributed on the basis of ownership interests to the units that form a part of and are owners of the joint management company Sampension Administrationsselskab A/S. ISP has a 6% ownership interest in Sampension Administrationsselskab A/S. ISP's share of CEO Hasse Jørgensen's total remuneration of DKK 6,1 million in 2019 is DKK 0.18 million in the second half of 2019. CEO Karin Elbæk Nielsen (resigned 1 July 2019) earned a fixed remuneration, including pension of DKK 1,646 thousand and a stay-on bonus of DKK 425 thousand in 2019. Karin Elbæk Nielsen earned a fixed remuneration, including pension of DKK 1,646 thousand in 2018.

Board remuneration	2019	2018
Lars Bytoft, Chairman	-241	-243
Lars Kehlet Nørskov, Deputy Chairman	-120	-120
Søren Skibstrup Eriksen (joined 01.07.2019)	-50	-
Michael Herold	-100	-100
Finn Rosendal Larsen (resigned 30.06.2019)	-50	-100
Merete Lykke Rasmussen (resigned 06.10.2018)	-	-77
Jesper Schiøler (resigned 19.04.2018)	-	-47
Lisa Frost Sørensen (joined 19.04.2018)	-140	-98
Peter Kjær Østergaard (joined 01.12.2018)	-100	-8
	-801	-793
Number of people	6	6

	2019		2018	
	No. of people	Fixed salery including pension earned	No. of people	Fixed salery including pension earned
Fixed salary, including pension, of employees whose activities have a material impact on the company's risk profile *)				
Sampension (H2 2019)	9	-572	-	-
AP Pension (H1 2019)	15	-1,155	15	-2,403

*) Information about variable salaries, including information about the breakdown of variable salaries on granted, paid out and deferred amounts and on the breakdown on cash and subordinated debt has been left out, as it would otherwise reveal salary information pertaining to specific individuals.

No special incentive programmes have been set up for management, nor has variable remuneration been paid. No pension commitments other than regular pension contributions are included in the above-mentioned costs.

No sign-on bonuses or severance payments have been made to members of the Executive Board, Board of Directors or to employees whose activities have a material impact on the company's risk profile.

In accordance with the Danish executive order on remuneration policy and public disclosure of salaries in financial institutions and financial holding companies, the company has disclosed certain information regarding its remuneration policy etc. Such information is provided on the company's website isp.dk/bestyrelse.

Note 5 fortsættes næste side

Note 5 continued

Note	DKKt.	PENSION FUND 2019	2018
	Remuneration for auditors elected by the Annual General Meeting		
	PriceWaterhouseCoopers Statsautoriseret Revisionspartnerselskab		
	Statutory audit	-406	-
	Assurance engagements	-57	-
	Tax advice	-138	-
	Other services	0	-
		-601	**0**
	Deloitte Statsautoriseret Revisionspartnerselskab		
	Statutory audit	-60	-454
	Assurance engagements	-75	-93
	Tax advice	-	0
	Other services	-19	-10
		-154	**-557**

All amounts and rates are stated including VAT.

Fees for non-audit services provided to the Pension fund for Technicians and Bachelors of Engineering by PriceWater-houseCoopers Statsautoriseret Revisionspartnerselskab and Deloitte Statsautoriseret Revisionspartnerselskab in 2018 relate to statutory assurance engagements and other general accounting consulting services.

Note	DKKt.	2019	2018
6	**Benefits paid**		
	Death benefits	-1,136	-2,976
	Benefits on critical illness	-1,598	-4,850
	Benefits on expiry	-25,348	-26,045
	Retirement and annuity benefits	-684,199	-716,357
	Payment at surrender etc.	-78,263	-81,069
	Premium relating to group life schemes	-1,078	-1,095
	Total benefits paid	**-791,622**	**-832,393**
7	**Intangible assets**		
	IT programmes		
	Cost at 1 January	42,475	42,475
	Disposals during the year	-42,475	0
	Cost at 31 December	**0**	**42,475**
	Write-downs and depreciation at 1 January	-40,267	-32,829
	Depreciation for the year	-2,208	-7,437
	Reversal of previous depreciation	42,475	0
	Write-downs and depreciation at 31 December	**0**	**-40,267**
	Carrying value at 31 December	**0**	**2,208**

Note	DKKt.	PENSION FUND 2019	2018
8	**Investments in associates**		
	Carrying amount at 1 January	551,715	250,723
	Additions during the year	0	250,331
	Disposals during the year	-557,903	0
	Profit/loss for the year	6,188	50,661
	Total investments in associates	**0**	**551,715**
	Included in the item Investments in associates	0	33,762
	Included in the item Investment assets related to unit-linked contracts. See Note 10.	0	517,953

Name and registered office	2019 Ownership interest	2019 Profit/loss	2019 Equity	2018 Ownership interest	2018 Profit/loss	2018 Equity
Associates comprise:						
Hedgeforeningen HP, Copenhagen	-	-	-	23.6%	45,937	675,833
BI BIOMED.VEN.IV K/S, Copenhagen	-	-	-	37.0%	-915	40,712
ASHMORE em mq corp pr debt fd., Copenhagen	-	-	-	22.5%	7,732	579,607
Genesta Nordic RE Core Plus*, Copenhagen	-	-	-	44.0%	-	-

*) As Genesta Nordic RE Core Plus was established in June 2018, no approved financial statements are available.

9 Derivative financial instruments

2019	Positive fair value	Negative fair value
Interest rate hedging instruments etc.:		
Interest swaps	275,013	50,342
Swaptions	2,031	2,630
CDS's	66,542	0
Options on futures	167	5,051
Total interest rate hedging instruments	343,753	58,023
Currency-based derivative financial instruments	34,029	14,250
Total derivative financial instruments	**377,782**	**72,273**
Fair value included in the item Derivative financial instruments	**279,024**	
Fair value included in the item Investment assets related to unit-linked contracts, see note 10	**98,758**	
Fair value included in the item other debt see note 14		**72,273**
Net carrying value (asset)	**305,508**	

Note 9 continued on next page

Note 9 continued

Note	DKKt.	PENSION FUND 2019	2018
	Agreements have been concluded to post collateral for derivative financial instruments		
	The pension fund has received collateral in the form of liquid bonds and cash equal to a fair value of	399,677	149,000
	The pension fund has received collateral in the form of liquid bonds and cash equal to a fair value of	-39,156	-22,902
	Net collateral (asset)	360,521	126,098

In addition, equity futures used for effective portfolio management purposes had a total exposure of DKK 2 million in the market-rate environment and a total exposure of DKK 0 million in the average-rate environment. Bond futures used for hedging interest-rate risk on the bond portfolio had a total exposure of DKK -50,5 million in the market-rate environment and a total exposure of DKK -443,7 million in the average-rate environment. As gains/losses are settled on current basis, the fair value is nil.

2018	Positive fair value	Negative fair value
Interest rate hedging instruments etc.:		
Interest swaps	124,738	0
Total interest rate hedging instruments	124,738	0
Currency-based derivative financial instruments	0	53,920
Real estate return agreement, AP Ejendomme A/S	56,822	0
Total derivative financial instruments	**181,560**	**53,920**
Fair value included in the item Derivative financial instruments	**156,712**	
Fair value included in the item Investment assets related to unit-linked contracts, see note 10		**4,946**
Fair value included in the item other debt see note 14		**24,126**
Net carrying value (asset)	**127,640**	

Note	DKKt.	2019	2018
10	**Investment assets related to unit-linked contracts**		
	3 i 1 Livspension		
	Investments in associates	0	517,953
	Investments	1,666,283	2,824,476
	Units in mutual funds	5,379,069	3,942,266
	Bonds	5,189,225	4,622,842
	Loans secured by mortgage	0	4,525
	Deposits with credit institutions	1,000,725	218,374
	Derivative financial instruments see note 9	98,758	-4,946
	Total investment assets related to unit-linked contracts	**13,334,060**	**12,125,491**

Note	DKKt.	PENSION FUND 2019	2018
11	**Provisions for average-rate products**		
	Change in provisions is specified as follows		
	Provisions, beginning of year	3,148,675	3,178,188
	Collective bonus potential, beginning of year	-4,493	-6,036
	Risk margin covered by equity at beginning of year	-34,598	-87,421
	Accumulated value adjustment, beginning of year	-1,138,865	-1,070,222
	Retrospective provisions, beginning of year	1,970,719	2,014,509
	Corrections to opening amounts:		
	Negative bonus transferred to Accumulated value adjustment	-284,824	0
	Provision for group life transferred to Other debt	-33,265	0
	Retrospective provisions, beginning of year	**1,652,630**	**2,014,509**
	Total premiums	31,712	33,076
	Addition of interest after tax on pension returns	37,399	74,946
	Tax on pension returns	-4,592	0
	Insurance benefits	-149,546	-145,442
	Cost addition after addition of cost bonus	-1,604	-1,991
	Risk gain/loss after addition of risk bonus	8,571	-9,685
	Group life premiums	-372	5,351
	Other	18,923	-45
	Retrospective provisions, end of year	**1,593,121**	**1,970,719**
	Accumulated value adjustment, end of year	1,689,698	1,138,865
	Collective bonus potential, end of year	3,723	4,493
	Risk margin covered by collective bonus potential at end of year	16,437	0
	Risk margin covered by equity at end of year	189,025	34,598
	Pension provisions, end of year	**3,492,002**	**3,148,675**
	Pension provsions are specified as follows		
	Interest rate group A (average basic rate of interest 0.25 % - 1.25 %)		
	Guaranteed benefits	4,199	1,423
	Individual bonus potential	0	245
	Risk margin	356	6
	Total interest rate group A	**4,555**	**1,674**
	Interest rate group B (average basic rate of interest 1.25 % - 2.25 %)		
	Guaranteed benefits	532,590	416,527
	Risk margin	53,695	40,293
	Total interest rate group B	**586,285**	**456,819**
	Interest rate group C (average basic rate of interest 2.25 % - 3.25 %)		
	Guaranteed benefits	185,798	150,779
	Risk margin	12,027	9,233
	Total interest rate group C	**197,825**	**160,012**

Note 11 continued on next pagee

Note 11 continued

Note	DKKt.	PENSION FUND 2019	2018
	Interest rate group D (average basic rate of interest 3.25 % - 4.25 %)		
	Guaranteed benefits	2,550,380	2,410,979
	Individual bonus potential	0	3,468
	Collective bonus potential	0	771
	Risk margin	149,234	111,228
	Total interest rate group D	**2,699,614**	**2,526,446**
	Total interest rate groups	**3,488,280**	**3,144,952**
	Risk groups		
	Collective bonus potential	3,723	3,723
	Total risk groups	**3,723**	**3,723**
	Total provisions for average-rate products	**3,492,002**	**3,148,675**
	Total		
	Guaranteed benefits	3,272,968	2,979,708
	Individual bonus potential	0	3,713
	Collective bonus potential	3,723	4,494
	Risk margin	215,312	160,760
	Total provisions for average-rate products	**3,492,002**	**3,148,675**
12	**Provisions for unit-linked products**		
	Change in provisions is specified as follows		
	Provisions, beginning of year	12,133,892	12,671,737
	Accumulated value adjustment, beginning of year	-2,229	-2,042
	Retrospective provisions, beginning of year	**12,131,663**	**12,669,696**
	Total premiums	337,187	363,660
	Addition of interest after tax on pension returns	1,244,330	-166,628
	Tax on pension returns	-186,553	0
	Insurance benefits	-641,475	-686,950
	Cost addition after addition of cost bonus	-8,455	-11,338
	Risk gain after addition of risk bonus	-30,965	-9,192
	Members' group life premiums	-5,955	-5,351
	Payment for guarantee	-1,814	-1,313
	Extraordinary correction of premiums/services	0	-14,694
	Other	-10,203	-6,226
	Retrospective provisions, end of year	**12,827,759**	**12,131,663**
	Accumulated value adjustment, end of year	29,667	2,229
	Total provisions for unit-linked contracts	**12,857,426**	**12,133,892**
	Insurances taken out without minimum interest rate guarantee	12,221,809	11,487,305
	Insurances taken out with minimum interest rate guarantee (senior scheme)	635,617	646,587
	Change in provsions are specified as follows		
	Change in provisions for average-rate products	-343,328	29,513
	Change in provisions for unit-linked products	-723,534	537,845
	Premium paid through bonus for group life recognised directly on the balance sheet	-3,929	0
	Change in provisions due to group life transferred to Other debt	-33,265	0
	Other	-7,660	1
	Change in provisions, Income statement	**-1,111,716**	**567,359**

Profit margin on pension agreements is nil, as all profit is allocated to members.

Note	DKKt.	PENSION FUND 2019	2018
13	**Payables to credit institutions**		
	Repos	1,268,602	0
	Bank loans	11,505	176,819
	Payables to credit institutions	**1,280,107**	**176,819**
	From the bank loans and the mortgage loans (index- linked loans) the following fall due in the coming year	1,280,107	176,819
	After five years the outstanding balance will be:	0	0
14	**Other debt**		
	Derivative financial instruments, according to note 9	72,273	24,126
	Payables relating to bond purchase	134,510	0
	Debt relating to settlement of repos	0	0
	Sundry financial liabilities	274	0
	Provision for tax on pension returns payable and other	229,559	36,563
	Total other debt	**436,616**	**60,689**
15	**Contingent liabilities**		
	The Company has committed itself at a later date to invest in funds etc. amounting to	1,324,923	500,000
	Total contingent liabilities	**1,324,923**	**500,000**
16	**Charges**		
	Margin deposits relating to futures	24,915	0
	Bonds sold as part of repo debt	1,268,602	0
	Provisions for insurance, net of reinsurance amounting to	16,918,374	15,657,349
	The amount related to the following items:		
	Investments in associates	0	551,715
	Investments	550,561	2,967,403
	Units in mutual funds	6,967,459	3,960,106
	Bonds	9,400,354	8,023,630
	Other loans and advances	0	6,376
	Other	0	78,288
	Interest receivables	0	69,831
	Total assets earmarked as security for policyholders' savings	16,918,374	15,657,349
	Off which concerning unit-linked products	12,827,060	12,074,991

Note	DKKt.	PENSION FUND 2019	2018
17	**Realised result for interest rate, expense and risk groups**		
	Average-rate products		
	Total interest rate groups		
	Realised interest rate result pursuant to the Executive Order on the Contribution	**-242,026**	**25,345**
	Tax on pension returns	-40,273	-10,170
	Available for allocation after tax on pension returns	**-282,299**	**15,175**
	Bonus added	31,590	-6,818
	Transferred to collective bonus potential, interest rate groups	10,622	-377
	Investment return and risk premium allocated to equity	**-240,088**	**7,981**
	Expense groups		
	Expense contribution	2,072	2,261
	Actual administrative expenses	-1,825	-3,989
	Realised expense result pursuant to the Executive Order on the Contribution Principle	**247**	**-1,729**
	Bonus added	-469	-270
	Transferred to collective bonus potential, expense groups	0	1,920
	Expense result recognised in equity	**-222**	**-78**
	Expense result as a percentage of technical provisions	**-0,01%**	**0,00%**
	Total risk groups		
	Realised risk result pursuant to the Executive Order on the Contribution Principle	-25,126	-5,342
	Bonus added	16,556	15,025
	Risk result recognised in equity	**-8,571**	**9,683**
	Risk result as a percentage of technical provisions	**-0,28%**	**0,31%**
	Shadow accounts		
	Shadow accounts at 1 January	148,458	254,500
	Share of profit/loss for the year	0	-39,039
	Write-down as a result of transitional rule	-106,042	-67,003
	Shadow account at 31 December	**42,417**	**148,458**
	Outlay account		
	Outlay account at 1 January	219,572	175,677
	Outlays during the year	240,088	43,894
	Outlay account at 31 December	**459,660**	**219,572**

18 Financial instruments recognised at fair value

Investment assets and financial liabilities are recognised at fair value or amortised cost. See Note 1. Fair value is the price obtainable in a sale of an asset or payable on transfer of a liability in an arm's length transaction between independent parties at the time of measurement. Fair value is determined on the basis of the following hierarchy:

Level 1 – quoted market prices
Quoted prices are used where an active market exists for the individual assets. Generally, the price used is the closing price at the balance sheet date.

Level 2 – observable inputs
Where the closing price of listed securities does not reflect their fair value, fair value is determined using quoted prices of similar assets or liabilities or using other valuation methodology based on observable market inputs, e.g. inputs from banks etc. For derivative financial instruments, valuation techniques based on observable market inputs such as yield curves, exchange rates, etc. are used.

Level 3 – non-observable inputs
For a significant part of investments, their valuation cannot be based on observable market data alone. For such assets, valuation models are used which may include estimates of current market conditions and future developments thereof. The valuation methodologies applied are described in Note 1, Accounting policies.

DKKm.	Level 1	Level 2	Level 3
Financial assets			
Investments	490	0	1,342
Units in mutual funds	5,450	0	0
Bonds	6,017	3,198	325
Loans secured by mortgage	0	378	0
Deposits with credit institutions	846	0	0
Cash and cash equivalents	502	0	0
Total financial assets at 31 December 2019	**13,305**	**3,576**	**1,667**
Financial liabilities			
Repos	1,269	0	0
Payables to credit institutions	12	0	0
Derivative financial instruments	0	72	0
Payables relating to bond purchase and settlement of repos	135	0	0
Total financial liabilities at 31 December 2019	**1,415**	**72**	**0**
Total net assets at 31 December 2019	**11,890**	**3,503**	**1,667**
Of which concerning Average-rate products and Total capital	2,209	1,649	167
Of which concerning Unit-linked products	9,681	1,854	1,500
Total at 31 December 2019	**11,890**	**3,503**	**1,667**

Specification of valuation based on Level 3

DKKm.	Value at 1 January 2019	Value adjustments included in market value adjustment	Purchase/ sale/ settlement	Value at 31 dec. 2019
Investments	1,252	-8	98	1,342
Bonds	0	0	325	325
Total	**1,252**	**-8**	**423**	**1,667**

For further details on valuation techniques and inputs, see Note 1 Accounting Policies.

19 Overview of assets and returns

Assets and return DKKm.	Market value Beg. of year	 End of year	Return 2019 % p.a.
Average-rate product			
Land and buildings	**40**	**89**	**4.8%**
Listed investments	46	50	23.5%
Unlisted investments	150	8	11.6%
Total Investments	**196**	**58**	**23.6%**
Government- and mortgage bonds	2,870	3,456	8.5%
Index-linked bonds	18	137	0.9%
Credit bonds, investment grade and non-investment grade	104	66	7.8%
Loans etc.	2	0	-
Total bonds and loans etc.	**2,993**	**3,659**	**8.6%**
Other investment assets	**-175**	**148**	**-2.1%**
Derivative financial instruments to hedge the net change in assets and liabilities	**134**	**-629**	**-**
Total	**3,187**	**3,326**	**8.4%**
Market-rate product			
Land and buildings	**522**	**982**	**5.1%**
Listed investments	4,517	5,533	24.7%
Unlisted investments	1,047	373	11.7%
Total Investments	**5,564**	**5,906**	**23.9%**
Government- and mortgage bonds	4,609	4,041	0.9%
Index-linked bonds	47	211	0.9%
Credit bonds, investment grade and non-investment grade	1,274	827	8.5%
Loans etc.	5	0	-
Total bonds and loans etc.	**5,934**	**5,080**	**2.4%**
Other investment assets	**163**	**980**	**-0.1%**
Derivative financial instruments to hedge the net change in assets and liabilities	**-51**	**19**	**-**
Total	**12,130**	**12,967**	**10.3%**

The specifications have been prepared in accordance with the requirements in section 96 of the Danish Financial Supervisory Authority's executive order on financial reports of insurance companies and therefore cannot be reconciled with the figures in the financial statements. The annual return has been calculated as a time-weighted return.

20 Market-rate product, return etc. by investment profiles

Years to retirement	2019 % of average provisions	2019 Return % p.a.	2019 Risk	2018 % of average provisions	2018 Return % p.a.	2018 Risk
Market-rate product						
Investment profile with high risk						
Years to retirement						
Non-life cycle product	4.73%	15.8%	4.50	4.46%	-4.1%	4.25
Investment profile with moderate risk						
Years to retirement						
Non-life cycle product	88.04%	10.6%	3.75	88.04%	-1.8%	3.75
Investment profile with low risk						
Years to retirement						
Non-life cycle product	2.23%	5.0%	2.00	2.12%	1.0%	2.00
Senior Scheme						
Years to retirement						
Non-life cycle product	5.01%	4.3%	2.00	5.39%	2.1%	3.25

21 Supplementary product ratios

	2019 Return in % p.a.	2019 Bonus rate in % p.a.	2018 Return in % p.a.	2018 Bonus rate in % p.a.
Average-rate product				
Interest rate group A (average basic rate of interest 0.25 % - 1.25 %)	8.9%	0.0%	27.2%	15.5%
Interest rate group B (average basic rate of interest 1.25 % - 2.25 %)	8.1%	0.0%	3.7%	0.0%
Interest rate group C (average basic rate of interest 2.25 % - 3.25 %)	8.5%	0.0%	3.3%	0.0%
Interest rate group D (average basic rate of interest 3.25 % - 4.25 %)	9.5%	0.0%	3.5%	0.3%

Return on policyholder savings after expenses before tax	**2019 Total in % p.a.**	**2018 Total in % p.a.**
Total in % p.a.	9.0%	2.2%
Unit-linked product	10.3%	-2.8%

22 Five-year key figures

DKKm.	2019	2018	2017	2016	2015
Premiums	369	397	379	385	391
Benefits	-792	-832	-798	-762	-788
Total investment return	1,520	-101	915	1,014	141
Total net operating expenses	-10	-29	-15	-12	-11
Technical result	-246	29	-142	-8	94
Profit for the year	-249	21	-126	8	89
Total provisions for insurance contracts	16,349	15,283	15,850	15,379	14,917
Total equity	625	873	853	979	971
Total assets	18,695	16,395	17,036	16,724	16,078

Five-year financial ratios

	2019	2018	2017	2016	2015
Return ratios					
Rate of return related to average-rate products	9.1%	3.6%	1.6%	8.7%	0.4%
Rate of return related to market-rate products	10.4%	-1.6%	7.3%	6.2%	1.1%
Risk on return related to market-rate products	3.75	3.75	3.75	3.75	-
Expense ratios					
Expense ratio for provisions	0.06%	0.19%	0.09%	0.08%	0.10%
Expenses in DKK. per policyholder	722	2.064	1.035	864	828
Return ratios					
Return on equity after tax	-33.2%	2.4%	-13.8%	0.8%	9.1%

Reference is made to “Definitions of financial ratios” on page 54.

Key figures for periods before 1 January 2016 have not been restated to reflect the new executive order of 27 July 2015, as this is not possible in practice.

23 Risk management

The pension fund’s risks may be divided into two general categories: Risks that are within the company’s control and can generally be managed, measured and mitigated as required, such as investment risk, and risks that are beyond the company’s control and are largely framework conditions. External risks comprise regulatory risk, reputational risk and a number of other external and strategic risks. These risks are monitored by the Executive Board and certain parts of the organisation and are reflected in the company’s strategy.

The general objective of the management of investment assets and pension provisions is to maximise the return and provide the best insurance covers to members with due consideration for risk, including solvency position.

The Board of Directors has defined the appetite for the principal risks in policies and guidelines and thereby determined an overall level for assuming or hedging risk. Regular reporting is provided on compliance with the defined guidelines, and the Board of Directors reviews the risk profile and compliance with risk appetite as part of its assessment of the pension fund’s own risk and solvency.

The approach to managing the principal quantifiable risk factors is set out below.

Unit-linked products without guarantee
The majority of the pension fund’s members (78%) have unit-linked pension schemes without guarantees, in which they bear the financial risks themselves, primarily relating to investments.

Members’ savings are invested in three base funds: bonds, equities and alternative investments. This enables members to invest using different risk profiles: low risk, moderate risk and high risk. The Board of Directors has determined a framework for the types of investment allowed in the base funds and has also set up a market-risk framework for the base funds.

Effective from 2020, our unit-linked product without guarantee is changed to 3 i 1 Livspension, meaning that the current static risk profiles are changed to life cycle, in which the risk is adjusted according to the member's age. The objective is to maximise the return to the effect that the younger generations achieve a return that is close to that of the equity market, but with less risk through a certain diversification of risk and the older generations have a risk close to the return of the bond market but with a higher expected return through a certain diversification of risk. The Board of Directors has generally determined each generation pool's base fund allocation.

Guarantee scheme, senior scheme and equity
The guarantee scheme, which is a guaranteed average-rate product, and the senior scheme, which is a unit-linked product with return guarantee, are subject to particular risk. The risk is related to the correlation between investment assets and pension obligations, in that losses will occur if the assets are not sufficient to cover the provisions. As a result, the investment risk and the interest rate risk are balanced in relation to the size of the reserves.

The Board of Directors has determined the framework governing the overall investment policy and the financial risks. The overall risk is maintained at a relatively low level, partly by ensuring appropriate diversification of risk on overall asset classes, partly by establishing a framework for the overall Value-at-Risk (VaR). Based on a proprietary model, VaR is calculated as the smallest of the largest losses that would occur at a given, low probability over a specific time horizon.

The pension fund applies the Solvency II discount curve including volatility adjustment (VA) for the computation of pension provisions in the guarantee scheme and the senior scheme. The discount curve is based on market rates up until the 20-year mark, after which the curve converges towards an ultimate forward rate equal to long-term inflation and real growth forecasts. The VA is intended to mitigate exposure to market volatility and thereby curb procyclical behaviour.

Equity has its own investment portfolio, including the pension fund's strategic equity investments.

FINANCIAL RISK

Financial risk arises mainly from the guarantee scheme, the senior scheme and equity. ISP has defined a conservative risk profile in these portfolios. The most significant financial risks are described below.

ISP is exposed to significant risk in relation to VA changes, which cannot readily be hedged efficiently. Significant VA movements during 2019 resulted in fluctuations in equity, comprising the pension fund's total capital covering the solvency capital requirement.

Changes in risk margin, a part of the provisions, are also a risk factor for ISP. The risk margin is particularly exposed to discount curve changes, and this cannot readily be hedged efficiently, either.

Significant financial risks arise as a result of an intentional risk exposure. Credit spread risk is a major factor, focusing mainly on bonds with low credit risk, however. The risk relates to losses resulting from a widening of the credit spread or from default leading to losses on bonds, loans, etc.

Interest rate risk particularly arises as a result of the guaranteed obligations under the guarantee scheme and the senior scheme. ISP strives to hedge the interest rate-based changes in the discount curve to the greatest extent possible to ensure stability in equity in the short term. It does so mainly by way of derivative financial instruments such as interest rate swaps, swaptions and government bonds. The interest rate risk is mitigated by the high hedge ratio.

Exposures to listed equities, bonds subject to material credit risk and infrastructure have limited effect on the portfolio risk.

Currency risk is also a less significant risk factor as ISP hedges the risk when assets held in each currency represent more than 2% of the total investment assets. For currencies other than DKK and EUR, between 50% and 100% of the currency exposure is hedged, depending on the asset. Concentration risk and illiquidity risk are other risks of minor importance.

ISP also has counterparty risk exposure. This is the risk of suffering losses because a counterparty to a financial contract is unable to meet its obligations. Counterparty risk is managed through the provision of collateral and limits for net outstanding balances with the relevant financial institutions. Limits have also been defined for the amount of single investments and major concentration risk. For example, limits have

Note 23 continued

been defined for the overall exposure to a state, a regional authority, a company or a group of consolidated companies. The provision of collateral makes counterparty risk less significant.

Responsible investments
Investing responsibly is a prerequisite for being able to generate high long-term returns. Climate targets, fiscal transparency and active ownership are defining characteristics of responsible investments from the pension fund's point of view. With a view to ensuring that ISP invests responsibly, the Board of Directors has defined a number of requirements and conditions in policies and guidelines.

INSURANCE RISK

Insurance risk arises mainly from the guarantee scheme's guaranteed benefits and include the risk of increased obligations as a result of the risk of increased longevity, changes in disability rates, conversions into paid-up policies, surrenders and retirement age.

Particularly longevity is a significant risk factor for ISP. Longevity assumptions are calculated using the Danish FSA's model for longevity assumptions based partially on the company's own past experience and partially on the Danish FSA's benchmark for expected future longevity improvements.

All risk amounts are covered for own account. The risk sum is the difference between accumulated reserves and reserves to be provided to meet future payments in the event of disability or death.

OPERATIONAL RISK

The pension fund's operational risks comprise the risk of direct or indirect losses resulting from inappropriate or inadequate internal processes, human or system error or losses resulting from external events, including cyber risk.

In order to reduce operational risk, ISP has set up procedures to monitor and minimise risk in relation to the pension business and the investment business. In addition, insurance cover has been taken out for certain asset classes. ISP records operational incidents on an ongoing basis and follows up and reports to the Audit Committee and, in exceptional circumstances, directly to the chairmanship of the Board of Directors.

OUTSOURCING

ISP has outsourced tasks in significant areas of activity with a view to reducing costs, gaining access to investment management skills, etc. The Board of Directors has set out guidelines for outsourcing of significant areas of activity in order to ensure adequate management of the risks associated with outsourcing, including that outsourcing agreements and activities are handled in accordance with the Board of Directors' guidelines and applicable outsourcing legislation.

The guidelines ensure that the Board of Directors is involved in all decisions regarding outsourcing, that requirements as to supplier capabilities and capacity are met, that a number of issues and requirements of the supplier are considered when entering into contracts and that the Danish FSA is informed of the outsourcing agreement. This is ensured by risk identification and risk assessment in connection with the conclusion of new contracts as well as in connection with changes to or renewal of contracts. For the outsourced activities, procedures have been established to ensure regular monitoring of the supplier's performance in terms of time, quality and quantity in accordance with the relevant outsourcing agreement and applicable rules.

The ongoing monitoring of outsourced activities is controlled via business procedures that ensure reporting to relevant management bodies and to the Board of Directors on the supplier's performance of the task, for example in the form of regular operational reports, meetings, random checks, reports by auditors, etc.

SOLVENCY AND FINANCIAL CONDITION REPORT

The company's risk management processes are described in detail in its Solvency and Financial Condition Report (SFCR). The SFCR is available to the public and can be downloaded (in Danish only) at isp.dk/aarsrapport.

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the Annual Report of the Pension Fund for Technicians and Bachelors of Engineering for the financial year 1 January – 31 December 2019.

The Annual Report has been prepared in accordance with the Danish Financial Business Act.

In our opinion, the financial statements give a true and fair view of the pension fund's assets, liabilities and financial position at 31 December 2019 and of the results of the pension fund's operations for the financial year ended 31 December 2019.

In our opinion, the Management's review includes a fair review of developments in the pension fund's activities and financial position together with a description of the principal risks and uncertainties that the pension fund faces.

Hellerup, 18 March 2020

Executive Board

Hasse Jørgensen
Chief Executive Officer

/ Morten Lund Madsen
Chief Financial Officer

Board of Directors

Lars Bytoft
(Chairman)

Lars Kehlet Nørskov
(Deputy Chairman)

Søren Skibstrup Eriksen

Michael Herold

Lisa Frost Sørensen

Peter Kjær Østergaard

Internal auditor’s report

Opinion

In our opinion, the financial statements of the Pension Fund for Technicians and Bachelors of Engineering give a true and fair view of the pension fund’s assets, liabilities and financial position at 31 December 2019, and of the results of the pension fund’s operations for the financial year ended 31 December 2019 in accordance with the Danish Financial Business Act in respect of the financial statements of the pension fund.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

Basis of opinion

We have audited the financial statements of the Pension Fund for Technicians and Bachelors of Engineering for the financial year ended 31 December 2019. The financial statements are prepared in accordance with the Danish Financial Business Act.

We conducted our audit on the basis of the Executive Order of the Danish Financial Supervisory Authority on auditing financial enterprises etc. and in accordance with international standards on auditing with respect to the planning and performance of the audit procedures.

We planned and performed the audit so as to obtain reasonable assurance that the financial statements are free from material misstatement. We participated in the audit of all critical audit areas.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on the Management’s review

Management is responsible for the Management’s review.

Our opinion on the financial statements does not cover the Management’s review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management’s review and, in doing so, consider whether the Management’s review is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management’s review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management’s review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We have not identified any material misstatement of the Management’s review.

Hellerup, 18 March 2020

Gert Stubkjær
Chief Auditor

Independent Auditor’s Report

To the members of Pensionskassen for teknikum- og diplomingeniører

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Pension Fund at 31 December 2019 and of the results of the Pension Fund’s operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our Auditor’s Long-form Report to the Audit Committee and the Board of Directors.

What we have audited
The Financial Statements of Pensionskassen for teknikum- og diplomingeniører for the financial year 1 January - 31 December 2019 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies. Collectively referred to as the “Financial Statements”.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor’s responsibilities for the audit of the Financial Statements section of our Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the pension fund in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IEASBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment
We were first appointed auditors of Pensionskassen for teknikum- og diplomingeniører on 25 April 2019 for the financial year 2019.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2019. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
Measurement of insurance provisions The pension funds insurance provisions total DKK 16,349 million (2018: DKK 12,283 million), which constitutes 87 percent (2018: 93 percent) of the pension funds balance sheet total. The provisions primarily consist provisions for average-rate products and unit-linked products as well as profit margin. The statement is based on actuarial principles and involves material Management estimates associated with the actuarial assumptions concerning the timing and amounts of future payments to the policyholders. The actuarial assumptions comprise mainly yield curve used for discounting, life span, mortality, disability, probability of buy backs and paid-up policies as well as costs. We focused on measurement of insurance provisions as the statement of the provisions is complex and involves considerable Management estimate. We refer to the mention of "accounting estimates" in note 1, note 11 "Provisions for average-rate products" and note 12 "Provisions for unit-linked products", to the Financial Statements.	We examined, assessed and tested procedures and relevant internal controls established to ensure that insurance provisions are complete and correctly measured. During our audit, we had our own actuaries assess the actuarial models and assumptions applied by the pension fund as well as the calculations made. We assessed and challenged the most material actuarial assumptions such as yield curve used for discounting, life span, mortality, disability, probability of buy backs, probability of conversion to paid-up policies and costs based on our experience and knowledge of the sector with a view to assessing whether these assumptions are in accordance with regulatory and accounting requirements. This comprised an assessment of the continuity of the basis for the statement of the provisions.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Business Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Pension Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 18 March 2020

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-nr. 3377 1231

Per Rolf Larssen State Authorised Public Accountant mne24822	Claus Christensen State Authorised Public Accountant mne33687

Definitions of financial ratios

Danish FSA financial ratios
Financial ratios have been calculated in accordance with the Danish FSA's Executive Order on financial reports for insurance companies and multi-employer occupational pension funds.

Rate of return =
$$\frac{\text{Investment return on average rate and market-rate products x 100}}{\text{Pension provisions at beginning of year + weighted average contributions and benefits paid in respect of average-rate and market-rate products}}$$

The financial ratio is calculated on a money-weighted basis. The target return can be divided into two categories: a money-weighted and a time-weighted return:

The money-weighted return reflects the actual return – or the relative value appreciation – achieved for the portfolio during the reporting period including returns on net contributions for the period. In other words, the money-weighted return expresses the actual return for the period.

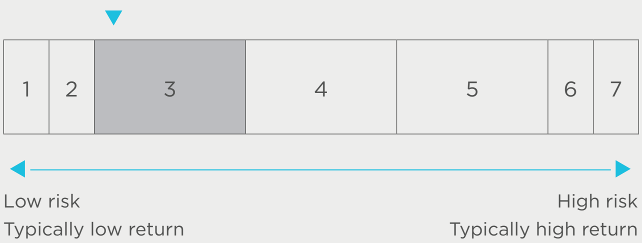
The time-weighted return reflects the return that would have been achieved if no payments had been made to or from the portfolio during the period. The time-weighted return expresses performance and can be used to measure against a benchmark or returns achieved by other investors within the same asset class.

Risk on return = Calculated as the standard deviation (SD) of the monthly return related to market-rate products over the past 36 months using the following scale of 1 to -7:

Risk class	% SD≥	SD<
1,00	0,00	0,50
2,00	0,50	2,00
3,25	2,00	3,00
3,50	3,00	4,00
3,75	4,00	5,00
4,25	5,00	6,70
4,50	6,70	8,34
4,75	8,34	10,00
5,25	10,00	11,67
5,50	11,67	13,33
5,75	13,33	15,00
6,00	15,00	25,00
7,00	25,00	

Note that the standard deviation is measured as an average across risk profiles and generation pools. The standard deviation is converted into a risk category using the following scale:

Return/Risk profile



Expenses as a percentage of provisions =
$$\frac{\text{Operating expenses relating to pension activities for the year x 100}}{\text{Pension provisions at beginning of year + weighted average contributions and benefits paid in respect of average-rate and market-rate products}}$$

Expenses per policyholder (DKK) =
$$\frac{\text{Operating expenses relating to pension activities for the year x 100}}{\text{Average number of policyholders + average number of policyholders with group life contracts * 0.1}}$$

Return on equity after tax =
$$\frac{\text{Profit after tax x 100}}{\text{Weighted average equity}}$$

Solvency coverage ratio =
$$\frac{\text{Solvency capital requirement x 100}}{\text{Total capital at year end}}$$

Supplementary financial ratios
The rates of return of each individual interest rate group are calculated using the above formula.

Bonus rate (%) =
$$\frac{\text{Individual and collective bonus potentials of the interest rate group at year end x 100}}{\text{Total custody accounts for interest rate group at year end}}$$

Return on customer funds after deduction of expenses and before tax, per product type =
$$\frac{\text{(Weighted average provisions + tax on pension returns) x 100}}{\text{Pension provisions at beginning of year + weighted average cashflows}}$$

The financial ratio expresses policyholders' total return less expenses and risk premium.

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