



Annual Report 2010

Extract

PensionDanmark A/S

Langelinie Allé 41

DK-2100 Copenhagen O

Denmark

CVR nr. 16163279 – pension.dk/english – info@pension.dk

Summary

2010 showed very satisfactory results for PensionDanmark. Premiums amounted to DKK 10.4 billion and returns on investments were DKK 10.2 billion. This means that the typical member received an investment return of 10.1% after tax. In the five year period from 2006 to 2010, members have received, on average, an interest accrual of over 42%, after tax.

In autumn 2010, the balance sheet passed DKK 100 billion, which represents a 100% increase in five years. A number of major new investments have been made, including, not least, the pioneering investment in Nysted Offshore Windfarm, which makes PensionDanmark one of the leading institutional investors in renewable energy.

Administration expenses are still low; DKK 362 per member. PensionDanmark thus maintains its position as Denmark's most cost-efficient pension fund. Meanwhile, services to members and companies have been improved through new digital initiatives. Thus, the collaboration with the Danish National Board of Health on register-based identification of members with a critical illness began in the autumn, following years of preparation.

PensionDanmark has continued its preparations for the new solvency regulations which come into force at the end of 2012. The individual solvency requirement is DKK 1.5 billion. With an equity capital of DKK 3.2 billion, PensionDanmark is well consolidated.

Growth in premiums despite the drop in employment

Although the downturn in the Danish and international economies slowed, employment continued to decline well into 2010. The last months of the year showed some positive trends in several industries. At the end of the year there were 276,000 contributing members, a decline of 3,000 compared to one year earlier.

The total membership of PensionDanmark grew by almost 18,000 to 595,000, as a result of growth in the number of deferred members and pensioners with monthly payments for either disability or retirement pensions. At the end of 2010, almost 17,500 members received on-going retirement pension payments, and almost 10,000 members received supplementary disability pension payments from PensionDanmark. Premiums in 2010 was DKK 10.4 billion, which was DKK 0.1 billion higher than in 2009. On-going payments decreased by DKK 0.2 billion to DKK 9.2 billion due to the decline in employment, while members' transfer of pension savings from other pension schemes soared from DKK 0.8 billion to DKK 1.1 billion.

Growth in pension payments of 11%

Pension payments in 2010 were DKK 1.7 billion, which was 11% higher than in 2009. The growth was mainly due to an increase of 16% in

retirement pension payments, but also payments for supplementary disability pensions, certain critical illnesses and death grew.

Return of 9.8 to 12.9% - depending on age

In 2010 members received a return, before tax, of between 9.8% (members aged 70 and older) and 12.9% (members under 41) on their savings. The total investment return for PensionDanmark was DKK 10.2 billion.

Accrual of interest of 42.5% after tax for 2006 to 2010

In PensionDanmark the members receive the full return on their savings. A typical member received a return on their savings of 10.1%, after tax, in 2010. Over the five year period 2006 to 2010, the member received a return of 42.5%, after tax, on his/her savings for lifelong pension. That is among the highest in the industry.

Continued low administration expenses

PensionDanmark has maintained its position as Denmark's most cost-efficient pension fund. Administration expenses in 2010 totalled DKK 362 per member. Expenses measured in relation to payments were 2.2%. Expenses measured in relation to members' total savings amounted to 0.25%.

The balance topped DKK 100 billion

In autumn 2010, members' savings topped DKK 100 billion, and were, at end of the year, DKK 106 billion. An increase of 20% compared to the end of 2009.

The combination of larger pension contributions and the high investment return has resulted in a strong growth in members' deposits. A typical member, who began the year with a deposit of DKK 225,000 will have seen, over the year, a growth of almost DKK 60,000, due to pension contributions and the high accrual of interest.

More people covered by the health scheme and increased focus on prevention

During the collective agreement negotiations in 2010, a number of areas decided to supplement their pension schemes with PensionDanmark's Health Scheme. Once the new agreements are fully implemented, almost 150,000 members will be covered by PensionDanmark's Health Scheme.

Musculoskeletal system injuries account for more than 40% of disability pensions among PensionDanmark's members. Therefore, the fund has initiated cooperation with the Arthritis Society to prepare industry-specific exercises that can relieve and prevent discomfort and pain in the musculoskeletal system. In addition, PensionDanmark members awarded a disability pension due to a disorder in the musculoskeletal system receive one year free membership in the Arthritis Society, in addition to payments from PensionDanmark.

This collaboration is an extension of the cooperation with five other patient associations, which started in 2009, which means that members of PensionDanmark diagnosed with a critical illness will receive one year's free membership of the relevant patient association in addition to the payment of, typically, DKK 100,000. In 2010, 2,200 members received such a membership.

Success with digitalisation: Significant increase in log-ins on website

PensionDanmark is reaping the fruit of the years spent targeting efforts to promote the use of self-service solutions on pension.dk. In 2010, the website received an average of 60,000 visits per month, and almost 22,000 members logged each month to enter their own information on the website. The increased level of self-service has

also meant a decrease in the number of telephone calls and letters.

2010 constituted a breakthrough for the project on digitised identification of members with a critical illness diagnosis. In August, collaboration was established with the Danish National Board of Health, which ensures that all members of PensionDanmark diagnosed with a critical illness, which have not contacted PensionDanmark, will be contacted by the Danish National Board of Health and made aware of their insurance coverage. This is a project PensionDanmark has worked hard to realise since 2004.

The greater degree of digitalisation of customer services is an important step in our vision of becoming a form-free pension company, thus combining high quality customer service with low administration expenses.

First direct infrastructure investment: Nysted Offshore Windfarm

PensionDanmark and DONG Energy entered into an agreement in September 2010 in which PensionDanmark acquired half of Nysted Offshore Windfarm for app. DKK 700 million. The agreement, one of the first of its kind between a pension fund and an industrial partner, ensures PensionDanmark a return almost certainly above current bond yields.

Significant boost in property investments

Throughout 2010, PensionDanmark increased its property investment by DKK 2.1 billion to a total of DKK 7.3 billion.

Within commercial property, there was the acquisition of half of the properties housing Magasin in Aarhus, Odense and Lyngby, and the purchase of a property in Hellerup, which is leased to law firm Horten.

In addition, PensionDanmark's own constructions, Metropolen and Baunebo, were completed in 2010. Metropolen is a 9,000 m² office property located on Amager. Baunebo is a complex of 61 apartments for rent located in Lyngby. On 1 December 2010, the first sod was turned at the housing project Isbjerg, in which PensionDanmark will build 210 apartments on the waterfront in Aarhus.

First investments in Central Africa and commitments to new investments in small Danish firms

In 2010, PensionDanmark made its first investments in Central Africa. DKK 200 million has been invested in DUET Africa Funds, which has investments in countries such as Nigeria, Kenya, Botswana and Mauritius. The investments are targeted at the retail, telecommunications and financial sector.

In 2010, PensionDanmark invested an additional DKK 160 million in small and medium sized Danish industrial companies through the private equity funds Polaris III and Industri Udvikling III. Over the coming years, these two funds will invest DKK 2.7 billion and DKK 0.3 billion respectively. Primarily in small and medium sized Danish companies.

Consistent programme on responsible investment

In 2008, PensionDanmark signed up to the United Nations Principles for Responsible Investment (UN PRI). This means that PensionDanmark is committed to act as a responsible investor. In 2010, through an external partner, PensionDanmark engaged 507 companies in which PensionDanmark is a shareholder. This dialogue yielded 227 concrete improvements in corporate behaviour.

In 2010, PensionDanmark voted at AGM and equivalent of 1,512 companies. In 84 per cent of the cases, PensionDanmark voted with the Board's recommendations, while in 9 per cent of the cases, PensionDanmark voted against the recommendations.

PensionDanmark's initiatives in the area are therefore consistent with the Danish Commerce and Companies Agency's "Guidance on responsible investment" of September 2010.

Well prepared for Solvency II

The future common EU rules on requirements for pension funds capital base and risk management (Solvency II), will enter into force in 2013. This means that companies' actual risk must, in the future, more directly reflect the calculated solvency requirements.

For a number of years PensionDanmark has worked systematically to ensure that it meets the future requirements.

The individual solvency requirements are estimated at DKK 1.5 billion. With a capital base of DKK 3.2 billion, it is 2.2 times larger than the capital requirement, and PensionDanmark is thus well consolidated.

In preparation for the future solvency rules, in the autumn of 2010, the Danish and European companies participated in a testing of the rules (QIS5). Sample calculations, which will be the basis for continued efforts to implement the future rules, confirm that PensionDanmark's capital adequacy is extremely safe; even under these rules.

Close cooperation with social partners and companies.

In 2010, PensionDanmark held almost 1,200 meetings on the pension scheme with companies, unions and employer organisations. The meetings ensure a high level of information regarding the pension scheme for PensionDanmarks' stakeholders. This is supported by articles on the pension scheme in the organisations' media.

In the spring of 2010, collective agreements in the private sector maintained PensionDanmark as the pension provider in all areas, and led to a number of industries receiving shorter length of service/contribution requirements. In addition, the social partners decided to enhance their cooperation with PensionDanmark by agreeing insurance packages for apprentices; which PensionDanmark will administer. More collective agreement parties chose to include PensionDanmark Health Scheme in their pension schemes.

Key figures

Million DKK	2010	2009	2008	2007	2006
Premiums	10,369	10,309	10,215	9,479	8,375
Insurance payments	-2,486	-2,533	-2,119	-2,096	-1,767
Investment yield	10,175	10,454	-8,661	1,413	3,602
Total insurance operating expenses	-233	-222	-204	-192	-170
Insurance technical result	139	-1,526	-184	42	72
Annual profit/loss	386	-1,168	-628	149	323
Total provisions for investment and insurance contracts	101,160	85,204	67,590	66,092	57,654
Total equity	3,173	2,787	3,955	4,584	4,481
Total assets	105,925	88,343	71,946	70,763	62,211
The company's projected solvency requirements	635	624	1,311	1,163	1,802
Capital base	3,173	2,787	5,327	5,763	5,459
Number of members at end of the year	595,104	577,501	564,350	544,285	516,636

Key ratios

	2010	2009	2008	2007	2006
Return ratios, unit-linked contracts					
Return before pension yield tax, %					
- Annuities, under age 41 ¹	12.9	14.2	-11.5	2.6	6.8
- Annuities, age 50 ¹	11.9	14.2	-11.5	2.6	6.8
- Annuities, age 60 ¹	11.0	14.2	-11.5	2.6	6.8
- Annuities, age 70 ¹	9.8	14.2	-11.5	2.6	6.8
Return ratios, average interest rate products					
Return before pension yield tax, % ²	8.7	10.5	-11.5	2.6	6.8
Return after pension yield tax, % ²	7.5	8.9	-9.8	2.3	6.0
Expense and profit/loss ratios					
Expense percentage of premiums	2.2	2.1	2.0	2.0	2.0
Expense percentage of provisions	0.25	0.29	0.32	0.34	0.36
Expenses in DKK per insured	362	354	336	335	318
Expense result, %	0.01	0.00	0.02	-0.03	-0.02
Insurance risk income, %	0.01	0.02	0.03	0.12	0.12
Consolidation ratios					
Bonus ratio, %	4.1	2.0	0.2	6.2	10.2
Equity ratio, %	63.0	51.4	8.6	11.2	12.6
Excess solvency ratio, %	50.4	39.9	8.7	11.2	10.3
Solvency adequacy, %	500	447	406	496	303
Business ratios					
Return on equity before tax, %	13.8	-33.0	-16.7	3.6	8.2
Return on equity after tax, %	12.9	-34.6	-14.7	3.3	7.5
Return on client funds after expenses and before tax, %	6.6	14.6	-5.4	2.1	6.5

¹ Savings for lifelong pension.

² For 2009 and 2010 this only applies to the investment of the base capital and the life insurance provisions with guarantees. In 2010 these represented 9.2% (2009: 9.6%) of the total assets.

Supplementary key figures	2010	2009	2008	2007	2006
Return attribution after tax, annuity, % ¹	10.1	12.4	2.5	6.0	6.0

¹ Typical member's saving for lifelong pension. For 2009 members typically received 8.9% in interest after tax, and additional distribution of reserves on the individual's account, equivalent to 3.5% thus, the typical member received an accrual of 12.4%.

Income statement

DKK millions	2010	2009
Gross premiums	10,369	10,309
Total premiums, net of reinsurance	10,369	10,309
Income from group undertakings	9,360	9,681
Income from associated undertakings	98	-11
Income from investment properties	-41	-
Interest income and dividends etc.	230	120
Value adjustments	612	720
Interest payments	-4	-4
Administrative expenses related to investment activities	-78	-52
Total investment return	10,175	10,454
Pension yield tax	-1,496	-1,540
Investment return after pension yield tax	8,679	8,914
Benefits paid	-2,473	-2,558
Change in claims provisions	-12	25
Total insurance payments, net of reinsurance	-2,486	-2,533
Change in life insurance provisions	308	-4,348
Total change in life insurance provisions, net of reinsurance	308	-4,348
Annual accrued bonus	-32	-1,567
Change in bonus provision for group life scheme	131	32
Change in collective bonus potential	-101	-1
Changes in special bonus provision	-	1,372
Total bonus	-3	-164
Change in provisions for unit-linked contracts	-16,249	-13,126
Administrative expenses	-233	-222
Total insurance operational expenses, net of reinsurance	-233	-222
Allocated investment income	-246	-357
INSURANCE TECHNICAL RESULT	139	-1,526
Return of investment income allocated to equity	272	413
Other income	25	21
Other expenses	-25	-19
PROFIT/LOSS BEFORE TAX	411	-1,111
Pension yield tax on equity	-26	-57
PROFIT/LOSS FOR THE YEAR	386	-1,168

Balance sheet, assets

DKK millions	2010	2009
ASSETS		
Plant and equipment	1	1
TOTAL TANGIBLE ASSETS	1	1
Investment properties	-	110
Holdings in group undertakings	10,324	8,707
Loans to group undertakings	8	12
Holdings in associated undertakings	47	39
Loans to associated undertakings	16	3
Investments in group and associated undertakings	10,395	8,761
Holdings	311	227
Unit trusts	97	67
Total financial investment assets	408	295
TOTAL INVESTMENT ASSETS	10,803	9,166
INVESTMENT ASSETS LINKED TO UNIT-LINKED CONTRACTS	93,976	77,564
Receivables from policyholders	732	801
Total receivables from direct insurance contracts	732	801
Accounts receivable at associated undertakings	11	15
Other receivables	47	1
TOTAL DEBTORS	790	816
Cash at bank and in hand	140	576
TOTAL OTHER ASSETS	140	576
Other prepayments	215	221
TOTAL ACCRUALS AND DEFERRED INCOME	215	221
TOTAL ASSETS	105,925	88,343

Balance sheet, liabilities

DKK millions	2010	2009
LIABILITIES		
Share capital	47	47
Retained earnings	3,126	2,741
TOTAL EQUITY	3,173	2,787
Guaranteed benefits	5,247	5,364
Bonus potential of future premiums	-	-
Bonus potential of paid-up policies	207	366
Total life insurance provisions	5,454	5,730
Provisions for claims outstanding	217	205
Bonus provision for group life schemes	667	798
Collective bonus potential	208	107
Special bonus provision	-	-
Provisions for unit-linked contracts	94,614	78,364
TOTAL PROVISIONS FOR INVESTMENT AND INSURANCE CONTRACTS	101,160	85,204
Current tax liabilities	1,470	199
Other debts	121	154
TOTAL DEBT	1,591	352
TOTAL LIABILITIES	105,925	88,343