



Annual Report 2012

Extract

PensionDanmark A/S

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Summary

Slight increase in active members despite the economic climate

At the end of 2012, PensionDanmark had a total of 633,000 members – a rise of 16,000 compared with the end of 2011.

Despite the still subdued economic trends, the number of active members grew by 3,000 to just over 354,000. The increase is due partly to more active contributing cleaners and electricians.



The number of those with regular retirement and disability pension disbursements rose by 4,900 to 37,800 – of which just over 27,200 received retirement pensions at the end of 2012, compared with 22,100 at the end of 2011.

Premiums up by 2% to DKK 10.7 billion

Total contributions in 2012 were at DKK 10.7 billion, which was an increase of 1.8% compared with 2011.

A total of DKK 9.9 billion was received in 2012 in regular pension contributions – a rise of 3.3% on the previous year, while transfers from other pension funds in connection with job changes totalled DKK 0.8 billion in 2012 (DKK 0.9 billion in 2011).

Yield of DKK 12 billion in 2012

Although the defining characteristics of 2012 were low global growth and the sovereign debt crisis in Southern Europe, it was a favourable year for pension savings, and PensionDanmark's investments in bonds, equities and alternatives all produced good positive returns.

For the year as a whole, PensionDanmark's members received a return on their savings of between

9% and 11%, depending on their age. The yield was highest for members aged under 41, whereas it was slightly lower for older members whose savings include a higher proportion of bonds and fewer equities and alternatives. The total investment yield was at DKK 12 billion – the highest in PensionDanmark's history and the fourth successive year with an investment yield of more than DKK 10 billion.

Interest accrual close to 50% after tax for 2008 to 2012

Member deposits are continually regulated to include the yield on their savings. In 2012, a typical member thus received a return on their savings of 8.4% after tax. Over a five-year period from 2008 to 2012, members have received an aggregate 48.8% return on their savings for a lifelong pension after tax.

Increase of 21% in disbursements

In 2012, PensionDanmark made disbursements totalling DKK 3.9 billion to its members. These included disbursements of retirement and disability pensions and the like of DKK 2.1 billion, which was 11% higher than in 2011 – primarily as a result of increased disbursement on retirement pensions, of which there was a rise of 21%.

In 2012, 9,000 of PensionDanmark's members received retirement pensions compared with 8,500 in 2011. Of these, just over 3,700 members received their entire savings as a one-off payment, while 5,300 members receive a monthly disbursement from PensionDanmark for the rest of their lives.

The average annual retirement pension for recently retired pensioners was DKK 25,700 in 2012 compared with DKK 23,400 in 2011.

Administration costs remain low

Annual administration costs per member for 2012 totalled DKK 396, which was unchanged on 2011. This included all the administration costs incurred on members by the pension scheme.

Following a tendering process, PensionDanmark has selected FDC as its future supplier of insurance administration systems. Work on the new in-

insurance administration platform will be completed in 2014, and members can expect improved but still low-cost service.

Calculated using the official definitions of key figures, the administration costs in 2012 were at DKK 400 per member (DKK 324 per member exclusive of one-off costs related to the change of insurance administration platform) compared with DKK 352 per member in 2011. The ratio of costs to contributions was at 2.6% (2.1% exclusive of one-off costs relating to the change of the insurance administration platform).

Balance approaching DKK 140 billion

Member deposits at the end of 2012 were at DKK 139 billion – an increase of 14% compared with end-2011.

A combination of increased contributions and high returns has driven significant growth in member deposits. At the end of 2012, average savings for a typical contributing member were DKK 297,000. Members who have been full-time employed since 1993 had deposits of close to DKK 600,000.

Extremely well consolidated: excess solvency at DKK 2.2 billion

In recent years, PensionDanmark has systematically implemented a range of initiatives to monitor and limit the company's risks. PensionDanmark is therefore extremely well prepared for the forthcoming Solvency II rules.

PensionDanmark's total individual solvency requirement at 31 December 2012 has been calculated at DKK 1.9 billion. With a basis capital of DKK 4.1 billion, PensionDanmark is therefore extremely well consolidated with an excess of DKK 2.2 billion – corresponding to 118%.

International recognition for PensionDanmark

At the IPE European Pension Funds Awards in November, PensionDanmark was named *"Best European Pension Fund 2012"* – partly in the light of the company's investments in offshore wind turbines, secured bank loans and lending in cooperation with Eksport Kredit Fonden (EKF). PensionDanmark was also named *"Pension Fund of the Year"* in Denmark and *"Best Industry-wide Pension Fund"*.



PensionDanmark's real estate investments also received specific recognition in 2012.

In connection with the IP Real Estate Awards 2012 in May, PensionDanmark won the award for *"Best Direct Investment Strategy"* against the backdrop of its direct investments in Danish housing projects and business properties. And in the spring, the EU Commission awarded the construction of FN Byen (UN City) in the North Harbour of Copenhagen the *"Green Building Award"*, which is awarded to particularly energy-conserving and innovative building projects. PensionDanmark purchased FN Byen in 2011 in collaboration with ATP and By & Havn.

Investment policy adjusted to reflect record-low interest rates and uncertain economic climate

The record-low interest rates and uncertain economic outlook have prompted the Board to review the investment policy.

For members under 41, it has been decided to increase the point of departure for the proportion of equities from 33% to 40%, as equities are considered to have a better long-term potential return than Danish government bonds and mortgage bonds, for example. Younger members will thus generally have almost 60% of their savings invested in equities and high-yield bonds.

For 65-year-olds, the investments in ordinary bonds have been reduced by just over 10 percentage points in favour of other assets with a higher potential return. At the same time, the reduced proportion of bonds means that returns for older members are better protected should interest rates normalise (rise) at some point.

As in previous years, the investment strategy has focused strongly on safeguarding against increasing inflation, which risks undermining the purchasing power of future pensions. Just over 60% of the youngest members' savings are therefore invested in real assets (equities, index-linked bonds, property and infrastructure), which provide good protection against increasing inflation.

To date, all risk assets have been reduced at the same rate when a member turns 40. With the new structure, as a rule, all members up to the age of 65 have a fixed 16% share of assets in stable alternatives allocated equally between property and infrastructure. As the investments in stable alternatives are expanded over the coming years, the objective is for the share of assets in the stable alternatives to comprise just over 20% of the assets for all members up to 65 years.

Investment policy blazes new trail

The new point of departure for investments was supported throughout 2012 by a range of specific direct investments.

In October 2012, PensionDanmark purchased half of three US wind turbine parks from the German energy Group E.ON for almost DKK 1 billion. Previously, just over DKK 700 million was invested in the Nysted Offshore Wind Turbine Park and a commitment was made to invest over DKK 3.8 billion in the Anholt Offshore Wind Turbine Park, both owned and operated in partnership with DONG Energy.

In December 2012, PensionDanmark and two other pension companies signed a cooperation agreement with the Danish company Haldor Topsøe. The three pension companies have together established an investment fund to be managed by Maj Invest. The fund will invest in energy and fertilizer plants, with Haldor Topsøe as a co-investor and the technology supplier. The total investment commitment to the fund totals DKK 1 billion, of which PensionDanmark has undertaken to invest DKK 360 million.

During the autumn, PensionDanmark initiated the establishment of a new investment fund, Copenhagen Infrastructure Partners (CIP), to which it has committed DKK 6 billion. In the years to come,

the new fund is to cover approximately half of PensionDanmark's infrastructure investment programme. The fund will have a broad focus covering various types of energy-related assets including power transmission, water supplies and biomass-fuelled power production.

In June 2012, PensionDanmark signed an agreement with J.P. Morgan on the investment of DKK 4.5 billion in bank loans for infrastructure projects such as schools, motorways, hospitals and power transmission. The first transaction was completed at the end of June when PensionDanmark signed an agreement with the Bank of Ireland on the acquisition of a DKK 1.5 billion portfolio comprising lending to fund schools, hospitals, road building and halls of residence in the UK. All projects are established as public-private partnerships (PPP) or agreements of a corresponding length with credit-worthy counterparties.

Finally, under the collaboration with EKF, PensionDanmark contributed DKK 260 million in financing for a Danish export order. This related to the export of 72 Vestas wind turbines for the Northwind offshore wind turbine project in Belgium, to which Bladt Industries is also supplying equipment and services.

Considerable increase in real estate investments

At the end of the year, the investments in Danish real estate totalled DKK 8.6 billion – compared with DKK 7.6 billion at the end of 2011.

During 2012, a number of new real estate investments were made.

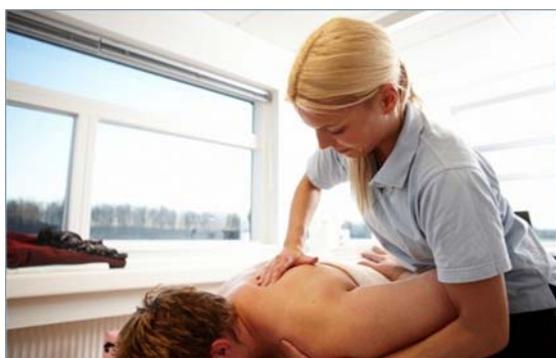
Together with PFA Pension and ATP Ejendomme, in September, PensionDanmark invested DKK 390 million in "The Portland Silos", which are part of the development of Copenhagen's North Harbour. The silos are being converted into modern offices.

In November, PensionDanmark entered into an agreement with Nordea Liv & Pension and the Medical Doctors' Pension Fund (Lægernes Pensionskasse) concerning the construction of Nordea Bank Danmark's new domicile in Ørestad, Copenhagen. The investment has a total value of DKK 1.3 billion.

Finally, for DKK 420 million, PensionDanmark acquired three business properties in the historical industrial area on Carl Jacobsens Vej in Valby in Copenhagen. The properties are leased out to the Danish Competition and Consumer Authority, The Danish Building and Property Agency and The Danish Maritime Authority.

Prophylactics and prompt investigation top priority

The majority of the collective bargaining agreement segments of the PensionDanmark pension scheme have chosen to allow members to be covered by interdisciplinary treatment options in the PensionDanmark Health Scheme. Thus almost 192,000 members were covered by the product at the end of 2012. In 2012, 148,000 treatments were carried out on just over 17,000 members. The schemes tangibly benefit the members. A survey from the University of Southern Denmark revealed that access to interdisciplinary treatments as a part of the PensionDanmark Health Scheme reduces the risk of absenteeism by up to 15%.



During 2012, a range of major collective bargaining agreement segments – including construction and transport – decided that the product Hurtig Diagnose (Fast Diagnosis) should be included in the pension package in their collective bargaining segments. Consequently, at the end of 2012, 147,700 members were covered by Fast Diagnosis, up from 10,700 members at the end of 2011. In 2012, a total of 488 treatment programmes were completed with an average examination time of 25 days. On 1 January 2013, the number of members covered by Fast Diagnosis grew by just over 60,000 as members in the private cleaning and restaurant sectors, and plumbers and electricians,

for example, were also encompassed by the product.

Almost 2,300 members received disbursements from PensionDanmark in 2012 in connection with a critical illness, which was unchanged on 2011. In 2012, just over 1,000 members were awarded supplementary disability pensions by PensionDanmark in connection with the award of a state disability pension. This was considerably lower than in 2011, and was in line with the general award of state disability pensions.

Continued focus on digitalisation

Efforts to ensure a high level of accessibility, short processing times and to move communication from letters and telephone calls to electronic platforms continued in 2012. This is occurring in step with the development of the new insurance administration platform to be launched in 2014.

In the spring of 2012, PensionDanmark re-launched the members' own pages at pension.dk/-dinpension. Consequently, even more members are logging in directly and using self-service features to enter and access their own information. In 2012, an average of 13,200 unique member log-ins were recorded a month on the members' password protected pages.

The greater level of simple and targeted self-service on the website also means that, despite the generally increasing level of activity, the number of telephone calls from members and companies has been successfully maintained at approximately 12,500 per month for the third consecutive year.

In extension of this, in 2012, PensionDanmark reduced the number of letters sent out to members and companies by 8% and 41%, respectively, compared with 2011.

In December, PensionDanmark was the first Danish pension company to launch an app that not only enables members to track their pension, but also to book healthcare appointments directly by mobile phone.

Key figures

Million DKK	2012	2011	2010	2009	2008
Premiums	10,653	10,465	10,369	10,309	10,215
Insurance payments	-3,961	-3,207	-2,486	-2,533	-2,119
Investment yield	12,029	10,484	10,175	10,454	-8,661
Total insurance operating expenses	-274	-234	-233	-222	-204
Insurance technical result	151	256	139	-1,526	-184
Annual profit/loss	450	562	386	-1,168	-628
Total provisions for investment and insurance contracts	132,790	116,591	101,160	85,204	67,590
Total equity	4,147	3,696	3,173	2,787	3,955
Total assets	138,830	121,854	105,925	88,343	71,946
The company's projected solvency requirements	648	637	635	624	1,311
Capital base	4,147	3,696	3,173	2,787	5,327
Number of members at the end of the year	633,556	617,784	595,104	577,501	564,350

Key ratios

	2012	2011	2010	2009	2008
Return ratios, unit-linked contracts					
Return before pension yield tax, %					
- Annuities, under age 41 ¹	10.9	8.2	12.9	14.2	-11.5
- Annuities, age 50 ¹	10.2	9.6	11.9	14.2	-11.5
- Annuities, age 60 ¹	9.4	11.0	11.0	14.2	-11.5
- Annuities, age 70 ¹	9.0	11.7	10.5	14.2	-11.5
Return ratios, average interest rate products					
Return before pension yield tax, % ²	7.9	13.3	8.7	10.5	-11.5
- Equity, %	9.2	9.9	9.7	14.2	-11.5
Return after pension yield tax, % ²	6.7	11.5	7.5	8.9	-9.8
Omkostnings- og resultatnøgletal					
Expense percentage of premiums	2.6	2.2	2.2	2.1	2.0
- Expense pct. of premiums, excl. new insurance administration system etc.	2.1	-	-	-	-
Expense percentage of provisions	0.22	0.22	0.25	0.29	0.32
- Expense pct. of provisions, excl. new insurance administration system etc.	0.18	-	-	-	-
Expenses in DKK per insured	400	352	362	354	336
- Expenses in DKK per insured, excl. new insurance administration system etc.	324	-	-	-	-
Expense result, %	-0.02	0.01	0.01	0.00	0.02
Insurance risk income, %	-0.01	0.00	0.01	0.02	0.03
Consolidation ratios					
Bonus ratio, %	7.9	8.7	4.1	2.0	0.2
Ratio of customers' funds to provisions, %	0.0	0.0	0.0	0.0	3.0
Equity ratio, %	93.7	78.9	63.0	51.4	8.6
Excess solvency ratio, %	79.0	65.3	50.4	39.9	8.7
Solvency adequacy, %	640	581	500	447	406
Business ratios					
Return on equity before tax, %	12.2	17.2	13.8	-33.0	-16.7
Return on equity after tax, %	11.5	16.4	12.9	-34.6	-14.7
Return on client funds after expenses and before tax, %	4.5	12.1	6.6	14.6	-5.4
Return on special bonus provisions Type B before tax	-	-	-	3.6	-0.4

¹ The return figure relates to savings for lifelong old-age pension, which earned average interest rates until 2009. Since then, these savings have earned interest at the market rate.

² The return figure relates to the company's equity and life insurance provisions with associated guaranteed benefits since 2009, accounting for 7.6 % (2011: 8.6 %) of the balance.

Supplementary ratios	2012	2011	2010	2009	2008
Return attribution after tax, annuity, % ¹	8.4	8.2	10.1	12.4 ²	2.5

¹ Represents the return added for a typical member.

² 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 %.

The income statement, statement of comprehensive income

Million DKK	2012	2011
Gross premiums	10,653	10,465
Total premiums, net of reinsurance	10,653	10,465
Income from group undertakings	10,309	10,003
Income from associated undertakings	12	98
Interest income and dividends etc.	1,196	965
Value adjustments	636	-519
Interest payments	-50	-2
Administrative expenses related to investment activities	-73	-61
Total investment return	12,029	10,484
Pension yield tax	-1,812	-1,530
Investment return after pension yield tax	10,217	8,955
Benefits paid	-3,948	-3,193
Change in claims provisions	-13	-15
Total insurance payments, net of reinsurance	-3,961	-3,207
Change in life insurance provisions	142	98
Total change in life insurance provisions, net of reinsurance	142	98
Annual accrued bonus	-30	-31
Change in bonus provision for group life scheme	-270	-94
Change in collective bonus potential	59	-201
Total bonus	-241	-326
Change in provisions for unit-linked contracts	-16,087	-15,188
Administrative expenses	-274	-234
Total insurance operational expenses, net of reinsurance	-274	-234
Allocated investment income	-299	-306
INSURANCE TECHNICAL RESULT	151	256
Return of investment income allocated to equity	326	335
Other income	33	31
Other expenses	-33	-30
PROFIT/LOSS BEFORE TAX	477	591
Pension yield tax on equity	-27	-29
PROFIT/LOSS FOR THE YEAR	450	562
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	450	562

Balance sheet , assets

Million DKK	2012	2011
ASSETS		
Plant and equipment	0	1
TOTAL TANGIBLE ASSETS	0	1
Holdings in group undertakings	11.344	10.946
Loans to group undertakings	69	63
Holdings in associated undertakings	55	46
Loans to associated undertakings	16	14
Investments in group and associated undertakings	11.485	11.068
Holdings	323	226
Unit trusts	243	218
Other loans	36	1
Total financial investment assets	602	445
TOTAL INVESTMENT ASSETS	12.086	11.513
INVESTMENT ASSETS LINKED TO UNIT-LINKED CONTRACTS	125.293	109.209
Receivables from policyholders	717	698
Total receivables from direct insurance contracts	717	698
Accounts receivable at associated undertakings	9	7
Other receivables	31	19
TOTAL DEBTORS	757	724
Cash at bank and in hand	355	166
TOTAL OTHER ASSETS	355	166
Other prepayments	339	242
TOTAL ACCRUALS AND DEFERRED INCOME	339	242
TOTAL ASSETS	138.830	121.854

Balance sheet, liabilities

Million DKK	2012	2011
LIABILITIES		
Share capital	8	8
Retained earnings	4,139	3,689
TOTAL EQUITY	4.147	3.696
Guaranteed benefits	5,273	5,304
Bonus potential of paid-up policies	2	83
Total life insurance provisions	5.275	5.387
Provisions for claims outstanding	245	232
Bonus provision for group life schemes	1,031	761
Collective bonus potential	350	409
Provisions for unit-linked contracts	125,888	109,802
TOTAL PROVISIONS FOR INVESTMENT AND INSURANCE CONTRACTS	132.790	116.591
Deferred tax liabilities	58	29
TOTAL PROVISIONS	58	29
Debt to credit institutions	7	-
Current tax liabilities	1,746	1,494
Other debts	83	44
TOTAL DEBT	1.836	1.538
TOTAL LIABILITIES	138.830	121.854

