



Annual Report 2013

Extract

PensionDanmark A/S

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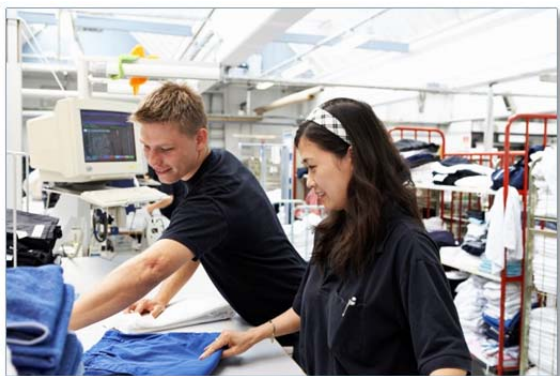
Denmark

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Summary

Slight increase in the number of members

At the end of 2013, PensionDanmark had 642,000 members – a rise of almost 9,000 compared with the end of 2012.



Of these, just over 352,000 were active members with contributions within the past 12 months. This was 2,000 persons fewer than at end of 2012, which was ascribable to a decrease of 6,000 persons in the number of contribution-free covered members (members who are no longer contributing members, but have been so within the past 12 months and still have their insurance coverage). At the same time, the number of active contributing members has grown by almost 4,000 persons as a consequence of increased employment in i.a. transport, warehouse work, commercial gardening, agriculture and forestry as well as the public sector.

17% more pensioners

In 2013, 8,600 of PensionDanmark's members began to receive retirement pension. Of these, 5,400 members will receive a monthly disbursement from PensionDanmark for the rest of their lives. At the end of 2013, a total of 32,300 received regular retirement pension disbursements from PensionDanmark – an increase of 17% on the end of 2012.

Sharp decline in new disability pensioners

In 2013, just over 600 members were awarded supplementary disability pensions by PensionDanmark in connection with being awarded disability pensions. This was 50% fewer than in 2011 and is probably a consequence of the implementation of the new disability pension and flexible job reform that took effect on 1 January

2013. At the end of 2013, 9,500 members received regular supplementary disability pension disbursements from PensionDanmark, a 5% decline compared with the previous year.

Contributions totalled DKK 10.7 billion

Members' contributions totalled DKK 10.7 billion in 2013, an increase of 0.8% on 2012. The increase is due to a minor rise in both regular premiums and incoming transfers.

In 2013, DKK 9.9 billion were paid in regular pension contributions – up 0.5% on 2012. The modest increase in regular premiums is partly attributable to the number of contributing members in H1 2013 being lower than the corresponding level for H1 2012.

Return: DKK 9.1 billion

The financial markets are emerging from the financial crisis, and there are signs of greater confidence in slightly stronger economic growth in the coming years.

This affected the financial markets throughout 2013; equity markets rose sharply, while most bond markets in both the USA and Europe, and particularly Emerging Markets, were dominated by rising yields, which led to price falls and negative returns.

PensionDanmark's members received a return on their savings of between 3.9% and 9.3%, depending on their age. The return was highest for younger members, while it was somewhat lower for older members, whose savings are composed of a relatively higher proportion of bonds and a lower proportion of equities. The total return totalled DKK 9.1 billion.

Return of DKK 52 billion over the past five years

Overall, PensionDanmark's investments have yielded a return of DKK 52 billion over the past five years. Of these, equity investments accounted for just over DKK 20 billion, while investments in nominal government and mortgage bonds have contributed DKK 16 billion. Corporate and Emerging Market bonds contributed DKK 7.5 billion. Other investments (property, infrastructure etc.) have contributed DKK 12 billion.

Interest accrual to members of 54% after tax over the past five years

The high investment return has given members a high return on their savings. In the period from 2009 to 2013, a typical member has obtained a total return attribution after tax of 54%. Members who have been employed throughout the entire period will have seen more than a doubling of their savings with PensionDanmark over the past five years.

Disbursements totalled DKK 4.7 billion

In 2013, PensionDanmark disbursed DKK 4.7 billion to members in connection with retirement pensions, insurance events and disenrollment.

The disbursements of retirement and disability pensions etc. totalled DKK 2.3 billion, which was 12% more than in 2012.

Insurance payments related to disability pensions, certain critical illnesses and, in the event of death, to the next of kin amounted to DKK 0.9 billion in 2013 – almost 2% more than in 2012.

Disbursements to new retired pensioners grew 14% to DKK 29,400.

The average annual retirement pension for new pensioners amounted to DKK 29,400 in 2013, up from DKK 25,700 in 2012. Thus, a typical retired member now receives disbursements from PensionDanmark equivalent to more than 40% of the basic state pension.



Decline in administration costs – set to continue in the years ahead

Calculated in accordance with the official definitions of key figures, administration costs

totalled DKK 378 per member in 2013 compared with DKK 400 per member in 2012.

PensionDanmark aims to be among the most cost-efficient companies in the industry, while offering members and companies a high standard of service. This is the reason why PensionDanmark embarked on establishing a new insurance administration platform in 2012. The project is proceeding according to plan and the platform will be launched in the autumn of 2014. It will provide members and companies with better service at lower administration costs.

Against this backdrop, annual administration costs per member have been reduced from DKK 396 in 2013 to DKK 372 in 2014.

AUM exceeded DKK 152 billion

The balance sheet total grew by DKK 13.3 billion to DKK 152.1 billion in 2013.

At the end of 2013, average savings of a typical contributing member totalled DKK 324,000. Members who have been employed full-time since 1993 had deposits of just over DKK 650,000.

Extremely well consolidated: excess solvency at DKK 2.3 billion

At the end of 2013, DKK 0.9 billion was transferred from equity to the members' accounts. Disregarding this transfer, the annual profit totals DKK 228 million.

At year-end, the equity totalled DKK 3.5 billion. PensionDanmark's aggregate individual solvency requirement was DKK 1.2 billion as at 31 December 2013. This translates into an excess solvency of DKK 2.3 billion, which means that PensionDanmark is extremely well-consolidated.

Return driven by equities

The annual return was, in particular, positively affected by investments in listed equities and unlisted equities (Private Equity), which yielded returns of 20.4% and 15.6%, respectively. Moreover, investments in property and wind turbines yielded decent returns of 7.0% and 9.1%, respectively, while the return on investments in Danish government and mortgage bonds (nominal bonds) were affected by the yield increases and price declines in bond markets, resulting in a negative return of 1.3%.

Excess return of almost 2 percentage points relative to benchmark

The annual return of 9.3% in the pool of members under 41 years of age is 1.7 percentage points above the benchmark set by the Board. The other pools have also seen an excess return of close to 2 percentage points.

The excess return for 2013 is chiefly due to the larger proportion of equities of the pools during the year and fewer ordinary bonds than benchmark. Furthermore, most asset classes have obtained an excess return relative to the general market trends.

Since 1993, investments linked to the members' savings for lifelong retirement pensions have yielded an average annual return of 7.8% before tax, which is considered satisfactory.

New portfolio structure and risk reduction profile

In recent years, the investment policy has been adjusted to the current low interest rate environment. Though long-dated bond yields rose in 2013, the interest rate level still provides reason to expect very moderate returns from Danish government and mortgage bonds. Therefore, a new portfolio structure has been underway since 2012, involving a significant reduction of the proportion of ordinary bonds for older members in particular in exchange for more investments in commercial property, infrastructure and direct loans.

DKK 9.5 billion invested in infrastructure and more to come.

At the end of 2013, PensionDanmark's direct and indirect investments in infrastructure totalled DKK 9.5 billion. PensionDanmark's target is for infrastructure investments to account for just over 10% of assets. Therefore, the aim is to invest a further DKK 8 billion in infrastructure over the next five years.

Since 2010, a portfolio of wind farms has been built up worth a total of DKK 5.4 billion at the end of 2013.

In November 2013, PensionDanmark invested DKK 1.3 billion in an ownership share in the NGT gas pipeline, carrying gas from the Dutch part of the North Sea to a processing terminal.

In 2013, an agreement was concluded through the Copenhagen Infrastructure I fund to acquire a 49% stake in six wind farms in the UK. Moreover, the fund and the Danish company Burmeister & Wain Scandinavian Contractor began the construction of a biomass power plant in the UK in late 2013. This investment totals DKK 1.2 billion

PensionDanmark wins award for property and infrastructure investments

In November 2013, PensionDanmark won the prize for being Europe's best investor in property and infrastructure at the annual IPE awards of the European pension industry. It is the second time in three years for PensionDanmark to win this award.



Property investments totalling DKK 12 billion

Direct property investments constitute another important focus area. At year-end, the property portfolio totalled DKK 12.2 billion, of which the investments in Danish properties accounted for DKK 11.5 billion. Just over 80% of the property portfolio is invested in commercial properties (offices and shops), while the remainder is invested in residential property. A significant share of the property investments covers new construction with PensionDanmark as the builder.

In June 2013, PensionDanmark acquired one of the last undeveloped sites at Islands Brygge in Copenhagen. Over the next five to six years, PensionDanmark will construct 500 new homes in this area.

In September 2013, PensionDanmark acquired Gladsaxe Company House from NCC Property Development, where NCC will – in addition to being the developer – also have its new head office. The building is expected to be ready in February 2015. PensionDanmark will take over the property in January 2015.

In December 2013, PensionDanmark signed a contract as builder of a new office property in Søborg near Copenhagen. The property will be constructed by MT Højgaard, which will also use the property as its new head office.

Also in December 2013, PensionDanmark and ATP Real Estate acquired the historical buildings of the Magasin department store at Kongens Nytorv in central Copenhagen. PensionDanmark holds 50%. Most of the property has more than 20 years left on a lease of the listed UK Debenhams group, which owns and runs Magasin.

PensionDanmark's buildings certified for energy efficiency

UN City in Copenhagen, of which PensionDanmark holds 45.75%, has been awarded a LEED® Platinum certification. The building has been certified due to its sustainability and energy efficiency – the result of a number of significant measures in connection with the construction, including a solar cell system on the roof, cooling via sea water and a highly insulated facade using super low energy glass.



UN City is one of PensionDanmark's several commercial properties with energy certification: The property in Gladsaxe that is the head office of the engineering business MOE was awarded silver in the Danish DGNB certification scheme for sustainable buildings in December last year. The same certification will be given to MT Højgaard's future office building in Søborg and to Gladsaxe Company House, which will be NCC's new head office.

Responsible owner and focused effort

Since 2008, PensionDanmark has worked to implement the UN-supported Principles for Responsible Investment. This means that PensionDanmark includes environmental and social conditions as well as active ownership in both investment decisions and the subsequent management of the joint ownership of the companies, in which investment is made.

In 2013, PensionDanmark has – through its partner F&C – been in dialogue with 277 companies in PensionDanmark's investment portfolio. For 85 of the companies, the dialogue centred on employee rights, while environmental standards etc. were the issue in 121 cases.

In 2013, the dialogue resulted in the registration of 124 specific improvements in companies' behaviour in terms of environmental and social conditions as well as corporate governance.

PensionDanmark takes an active view on the issues discussed at the general assemblies of the companies in which PensionDanmark has invested. PensionDanmark voted at general assemblies of 842 companies in 2013. In 79% of the cases, votes were cast to support the recommendations of the Board of Directors, while PensionDanmark voted against in 18% of the cases. Regarding the holding of Danish listed equities, PensionDanmark voted in line with the Board of Directors' recommendations in all cases in 2013.

Prophylactic measures and prompt investigations are key focal points

The majority of the collective bargaining agreement segments of the PensionDanmark pension scheme have chosen to allow members to be covered by the options in the PensionDanmark Health Scheme. Thus, 245,000 members were covered by the product at the end of 2013 versus 191,000 members at the end of 2012. Furthermore, from 1 September 2013 it has been possible for pensioners to be covered by the options under interdisciplinary treatment. At the end of 2013, just over 900 pensioners had chosen this option.

In 2013, 165,000 treatments were carried out on 20,500 members.

At the end of 2013, 234,000 members were covered by Fast Diagnosis, compared with 148,000 members one year earlier.

The higher number of covered members and the increased awareness of the options offered by Fast Diagnoses led to a significant increase in the number of medical investigation processes. In 2013, a total of 1,426 processes were completed compared with 683 in 2012. The time of investigation was typically 22 days in 2013. Conditions in knees, back and shoulders accounted for 55% of the investigation processes.

Also, as part of the general customer services, all members have access to a helpline for abuse and psychology problems as well as a guide to the healthcare sector.

2,300 members received disbursements from PensionDanmark due 2013 in connection with a critical illness, which was more or less unchanged on the previous years. In 2013, just over 600 members were awarded supplementary disability pensions by PensionDanmark in connection with the award of state disability pensions.

New insurance administration platform underpins continued focus on digitalisation and self-service solutions

PensionDanmark's vision is to become a "form-free" pension company, where the members can make all choices on the phone or through self-service on their own pages on pension.dk. In this connection, processes and self-service functions are updated on an ongoing basis so that unnecessary correspondence and submission of forms are avoided.

The focus on ensuring a high degree of accessibility, short handling times as well as the shift in communication from letters and phone calls to electronic platforms continued in 2013 and will be further reinforced when the new insurance

administration platform is launched in the autumn of 2014.

Consequently, even more members are logging in directly and using self-service features to enter and access their own information. In 2013, an average of 17,000 unique member log-ins were recorded per month on the members' password protected pages.

The higher degree of self-service on the webpage also means that the number of phone calls from members and companies – despite the general increase in activity – has declined by 8% from 2012 to 2013. On average, the number of monthly phone calls totalled 11,700 in 2013.

Focus on stakeholder relations

PensionDanmark is owned by labour and management and therefore gives high priority to close co-operation with trade unions, employers' associations and union representatives.

In 2013, PensionDanmark held almost 1,300 meetings with companies, trade unions and employers' organisations as well as their local branches. The meetings are intended to ensure timely and adequate information about the pension scheme for all PensionDanmark's stakeholders.

Financial results and breakdown

Since 1 June 2009, members have contributed 5% of monthly payments to regular lifelong retirement pension in return for an unguaranteed pension supplement to the disbursements, reserves permitting. In 2013, it was decided to discontinue the collection of contributions and the accrual of pension supplements. It was also decided to reverse the collected contributions to the members' savings. At the end of 2013, DKK 0.9 billion was transferred from equity to the members' accounts. The equity subsequently totals DKK 3.5 billion. The transfer is recorded as expenses in the annual results. Disregarding this transfer, the annual profit totals DKK 228 million.

By far the majority of PensionDanmark's pension schemes are subject to market rates, implying that the entire investment return is accrued to clients' accounts as return. A very small share of the balance sheet total accounts for savings with guaranteed benefits. The profit on these schemes is distributed between the equity and the collective bonus potential according to the stated profit policy.

Capital and solvency requirements

PensionDanmark works systematically with PensionDanmark's overall individual solvency requirements, which was 1.2 billion at 31 December 2013. The basis capital totals DKK 3.5 billion. Thus the excess solvency is DKK 2.3 billion.

Equity and risk

Million DKK	2013	2012
Financial risk	606	666
Insurance risk	441	496
Operational risk	112	717
Individual solvency requirement	1,159	1,879
Regulatory solvency requirement	624	648
Capital requirement (largest of the two requirements above)	1,159	1,879
Equity	3,452	4,147

In the calculation of the individual solvency requirement, operational risks have declined markedly during 2013. This is due to a change in the parameters of the calculation. From 31 December 2013, we will use the parameters applicable under the rules on uniform protection of policyholders that take effect on 1 January 2014s.

The income statement, statement of comprehensive income

Million DKK	2013	2012
Gross premiums	10,738	10,653
Total premiums net of reinsurance	10,738	10,653
Income from group undertakings	7,963	10,309
Income from associated	200	12
Interest income and dividends etc.	2,267	1,147
Value adjustments	-1,254	636
Interest paid	-2	-2
Administrative expenses related to investment activities	-100	-73
Total investment return	9,075	12,029
Pension yield tax	-1,398	-1,812
Investment return after pension yield tax	7,677	10,217
Benefits paid	-4,676	-3,948
Change in claims provisions	2	-13
Total insurance benefits net of reinsurance	-4,674	-3,961
Change in life insurance provisions	464	142
Total change in life insurance provisions net of reinsurance	464	142
Bonus accrued for the year	-40	-30
Change in bonus provision for group life scheme	-521	-270
Change in collective bonus potential	91	59
Total bonus	-470	-241
Change in provisions for unit-linked contracts	-14,167	-16,087
Administrative expenses	-264	-274
Total insurance operational expenses net of reinsurance	-264	-274
Allocated investment income	-174	-299
INSURANCE TECHNICAL RESULT	-870	151
Investment return on equity	192	326
Other income	36	33
Other expenses	-35	-33
PROFIT OR LOSS BEFORE TAX	-677	477
Pension yield tax on equity	-18	-27
PROFIT OR LOSS FOR THE YEAR	-695	450
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	-695	450

Balance sheet, assets

Million DKK	2013	2012
ASSETS		
Equipment	0	0
TOTAL TANGIBLE ASSETS	0	0
Holdings in group undertakings	10,173	11,344
Loans to group undertakings	109	69
Holdings in associates	151	88
Loans to associates	39	16
Investments in group and associates	10,472	11,517
Holdings	275	286
Unit trusts	185	243
Other	1	3
Other loans	202	36
Total other financial investment assets	663	569
TOTAL INVESTMENT ASSETS	11,135	12,086
INVESTMENT ASSETS ATTACHED TO UNIT-LINKED CONTRACTS	139,448	125,293
Receivables from policyholders	740	717
Total receivables from direct insurance contracts	740	717
Receivables from associates	7	9
Other receivables	84	31
TOTAL RECEIVABLES	831	757
Cash at bank and in hand	345	355
TOTAL OTHER ASSETS	345	355
Other prepayments	378	339
TOTAL ACCRUALS AND DEFERRED INCOME	378	339
TOTAL ASSETS	152,137	138,830

Balance sheet, equity and liabilities

Million DKK	2013	2012
EQUITY AND LIABILITIES		
Share capital	8	8
Profit or loss brought forward	3,444	4,139
TOTAL EQUITY	3,452	4,147
Guaranteed benefits	4,776	5,273
Bonus potential on future premiums	-	-
Bonus potential on paid-up policies	74	2
Total life insurance provisions	4,850	5,275
Claims provisions	243	245
Bonus provision for group life schemes	1,552	1,031
Collective bonus potential	259	350
Provisions for unit-linked contracts	140,056	125,888
TOTAL PROVISIONS FOR INSURANCE AND INVESTMENT CONTRACTS	146,961	132,790
Deferred tax	154	58
TOTAL PROVISIONS	154	58
Amounts owed to credit institutions	178	7
Amounts payable to group undertakings	4	-
Current tax liabilities	1,264	1,746
Other debts	126	83
TOTAL DEBT	1,571	1,836
TOTAL EQUITY AND LIABILITIES	152,137	138,830

Key figures

Million DKK	2013	2012	2011	2010	2009
Premiums	10,738	10,653	10,465	10,369	10,309
Insurance benefits	-4,674	-3,961	-3,207	-2,486	-2,533
Investment return	9,075	12,029	10,484	10,175	10,454
Total insurance operating expenses	-264	-274	-234	-233	-222
Insurance technical profit or loss	-870	151	256	139	-1,526
Profit or loss for the year	-695	450	562	386	-1,168
Total provisions for insurance and investment contracts	146,961	132,790	116,591	101,160	85,204
Total equity	3,452	4,147	3,696	3,173	2,787
Total assets	152,137	138,830	121,854	105,925	88,343
The company's projected solvency requirements	624	648	637	635	624
Equity	3,452	4,147	3,696	3,173	2,787
Number of members at the end of the year	642,178	633,556	617,784	595,104	577,501

Key ratios

	2013	2012	2011	2010	2009
Return ratios, unit-linked contracts					
Return before pension yield tax, %					
- Life Annuity under age 41 ¹	9.3	10.9	8.2	12.9	14,2
- Life Annuity, age 50 ¹	7.1	10.2	9.6	11.9	14,2
- Life Annuity, age 60 ¹	5.0	9.4	11.0	11.0	14,2
- Life Annuity, age 65 ¹	3.9	9.0	11.7	10.5	14,2
- Capital Pension and Terminable Annuity under age 41	9.3	10.9	8.1	12.4	17,0
- Capital Pension and Terminable Annuity , age 50	7.1	10.2	9.4	11.5	15,0
- Capital Pension and Terminable Annuity, age 60	5.0	9.4	10.8	10.5	12,6
- Capital Pension and Terminable Annuity, age 65	3.9	9.0	11.5	10.0	11,8
Return ratios, average interest rate products					
Return before pension yield tax, % ²	1.2	7.9	13.3	8.7	10,5
- Equity, %	4.7	9.2	9.9	9.7	14,2
Expense and profit/loss ratios					
Expense as a percentage of premiums	2.5	2.6	2.2	2.2	2,1
- Excl. change of insurance administration platform ³	2.3	2.1	-	-	-
Expense as a percentage of provisions	0.19	0.22	0.22	0.25	0,29
- Excl. change of insurance administration platform ³	0.18	0.18	-	-	-
Expenses in DKK per insured	378	400	352	362	354
- Excl. change of insurance administration platform ³	353	324	-	-	-
Profit or loss expenses, %	-0.01	-0.02	0.01	0.01	0,00
Profit or loss on Insurance risk, %	-0.02	-0.01	0.00	0.01	0,02
Consolidation ratios					
Ratio of collective bonus potential to provisions, %	6.3	7.9	8.7	4.1	2,0
Ratio of customers' funds to provisions, %	0.0	0.0	0.0	0.0	0,0
Equity ratio, %	83.3	93.7	78.9	63.0	51,4
Ratio of excess solvency to provisions, %	68.3	79.0	65.3	50.4	39,9
Solvency ratio, %	554	640	581	500	447
Business ratios					
Return on equity before tax, %	-17.8	12.2	17.2	13.8	-33,0
Return on equity after tax, %	-18.3	11.5	16.4	12.9	-34,6
Return on client funds after expenses and before tax, %	-1.5	4.5	12.1	6.6	14,6
Return on special bonus provisions, type B before tax	-	-	-	-	3,6

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 6,8% (2012: 8,0%) of the balance.

³ In 2012 the work on the new insurance administration platform was initiated. The investments in the new system have substantial implications for the companies Administrative costs during the development period. Hence, the key expense ratios has been supplemented with key ratios corrected for these on-off costs.

