

The ATP Group – Annual Announcement of Financial Statements 2016

Results in DKK	DKK 9.3bn net results for the year before life expectancy update	DKK (9.9)bn life expectancy update (transferred from bonus potential to guarantees)	DKK (0.6)bn net results for the year
Return in per cent	15.0 per cent investment return (before tax and expenses) relative to bonus potential	4.4 per cent total value creation for members	8.8 per cent average annual return for the past 20 years 'N1'
Net assets and pension benefits	DKK 100bn bonus potential	DKK 759bn ATP member assets	DKK 23,600 full ATP Pension for a 65-year-old pensioner
Accumulated 2012-2016 – Results in DKK	DKK 51.5bn results before life expectancy update and bonus	DKK (24.8)bn life expectancy update and bonus	DKK 26.7bn results

Five-year summary for the ATP Group

DKKm	2016	2015	2014	2013	2012
Investment					
Investment return	15,340	16,548	6,097	15,121	12,558
Expenses	(823)	(837)	(720)	(668)	(598)
Tax on pension savings returns and income tax	(1,989)	(2,259)	(579)	(2,249)	(1,752)
Other items	0	0	0	(13)	(132)
Investment activity results	12,528	13,452	4,798	12,191	10,076
Hedging					
Change in guaranteed pensions due to discount rate and maturity reduction ¹	(47,816)	7,628	(111,601)	41,601	(37,018)
Return in hedging portfolio	56,371	(7,992)	132,221	(49,975)	45,417
Tax on pension savings returns	(8,625)	1,223	(20,230)	7,646	(6,949)
Results of hedging of pension liabilities¹	(70)	859	390	(728)	1,450
Change in guaranteed pensions due to yield curve break ²	(4,064)	(3,130)	(1,142)	411	-
Hedging activity results	(4,134)	(2,271)	(752)	(317)	1,450
Investment and hedging activity results	8,394	11,181	4,046	11,874	11,526
Pension					
Contributions	9,572	9,055	9,049	11,587	8,554
Pension benefits	(15,454)	(14,566)	(13,661)	(12,741)	(11,903)
Change in guaranteed pensions due to contributions and benefit payments	6,956	6,688	6,043	3,665	2,793
Administration expenses	(239)	(283)	(300)	(310)	(351)
Other items	8	155	10	10	22
Pension activity results before life expectancy update	843	1,049	1,141	2,211	(885)
Business processing, external parties					
Business processing income	1,545	1,251	1,450	1,531	793
Business processing expenses	(1,529)	(1,229)	(1,426)	(1,508)	(780)
Income tax	(1)	(1)	8	(3)	(3)
Business processing results, external parties	15	21	32	20	10
Results before bonus and life expectancy update	9,252	12,251	5,219	14,105	10,651
Life expectancy update	(9,901)	(3,723)	96	(2,465)	(557)
Bonus allowance for the year	-	(3,017)	(2,772)	(2,472)	-
Net results for the year	(649)	5,511	2,543	9,168	10,094
Guaranteed pensions	658,797	603,972	608,592	499,222	539,965
Bonus potential	100,454	101,242	95,831	93,344	84,167
Net assets	759,251	705,214	704,423	592,566	624,132

¹ Before effect of yield curve break

² 'Yield curve break' is the point on the yield curve where pension liabilities shift from being discounted at a fixed rate after 40 years to being discounted by a market rate up to 40 years, see the description on page 4.

Key expense figures

Administration expenses, DKK per member	48	57	62	65	68
Investment expenses, DKK per member	272	276	264	250	247

Bonus rate	15.2	16.8	15.8	18.7	15.6
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Return ratios

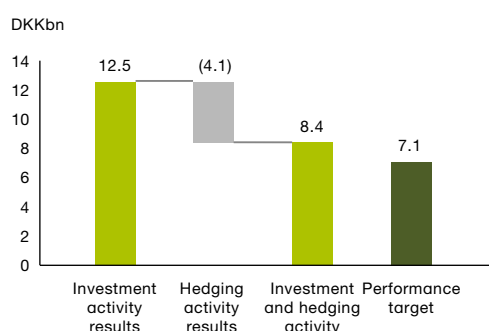
Investment return relative to bonus potential (before expenses and tax), per cent	15.0	17.2	6.5	18.0	16.8
Investment return relative to bonus potential (after expenses and tax), per cent	12.2	13.9	5.1	14.5	13.6

Value creation ratios for members, per cent

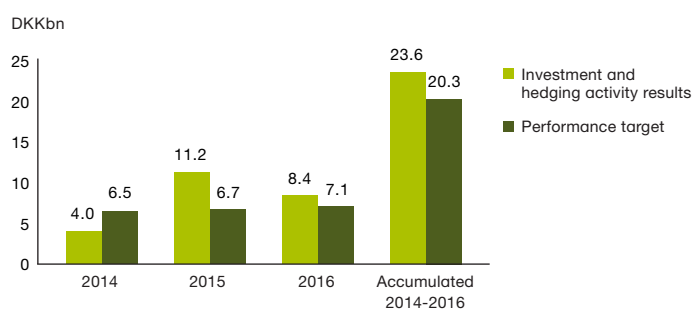
Value creation from guaranteed pension	3.7	3.8	3.9	3.9	4.0
Value creation from bonus potential	7.3	10.9	3.6	14.2	14.2
Total value creation	4.4	5.2	3.8	5.9	5.8

Management's review

Performance relative to performance target



Performance relative to performance target, past three years



HIGHLIGHTS OF THE YEAR

In 2016, the ATP Group achieved a profit of DKK 9.3bn before the life expectancy update, driven primarily by positive returns in private equity and credit investments.

In response to the increases in life expectancy in recent years, both in Denmark and internationally, ATP has adjusted its long-term forecast of life expectancy. The Supervisory Board has decided to set aside a further DKK 9.9bn for increases in life expectancy to enable ATP to ensure its members their lifelong pension. This is done by transferring the amount from ATP's bonus potential to the guaranteed pensions.

ATP subsequently posted a total loss of DKK 0.6bn for 2016.

At year-end 2016, ATP's free reserves – its bonus potential – totalled DKK 100.5bn, equivalent to a bonus rate of 15.2 per cent.

ATP has an indicative bonus policy, applied by the Supervisory Board when deciding on the bonus allowance for the year. At ATP, bonus represents an increase in ATP members' pension beyond that provided by the guaranteed pension. The final decision on whether to allow bonus in the current or subsequent years depends on a specific assessment. For 2016, the guaranteed pensions have been extended based on expectations of increasing life expectancy. The Super-

visory Board has decided not also to increase pensions in 2016.

At year-end 2016, the value of the guaranteed pensions totalled DKK 658.8bn, taking aggregate assets to DKK 759.3bn.

ATP has allocated DKK 10.6bn for tax on pension savings returns in 2016.

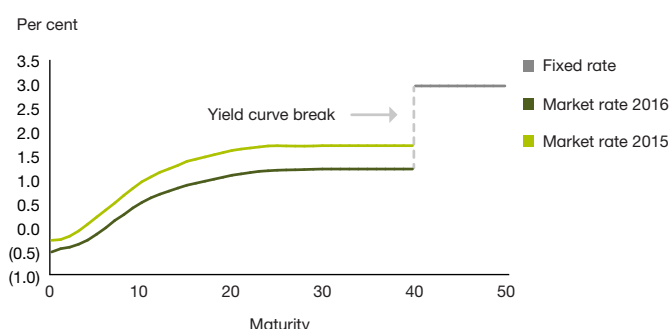
INVESTMENT AND HEDGING

ATP's overall objective is to provide the best possible pensions in the form of a lifelong pension, so that ATP, in combination with the state-funded pension system, provides the basic pension coverage for the Danish population. ATP has two value creation sources at its disposal: a hedging portfolio and an investment portfolio.

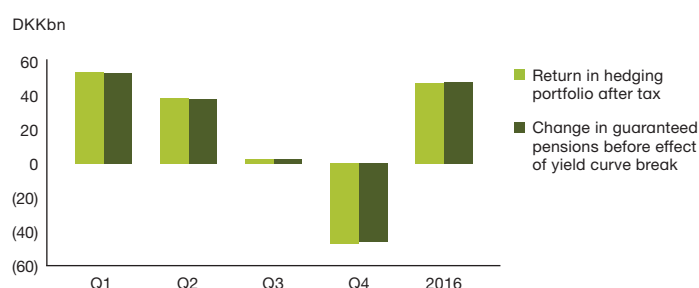
The principal objective of the hedging portfolio is to safeguard the guaranteed return and thus ensure ATP's ability, at all times, to deliver on the guarantees issued. Hedging is planned to ensure that the market value of the hedging portfolio after tax fluctuates in line with the guaranteed pensions when interest rates change. This objective was met once again in 2016.

The principal objective of the investment portfolio is to generate a return that will allow, in part, to build reserves for,

ATP yield curve at year-end



Hedging safeguards the guaranteed pensions



for example, financing increased life expectancy, and in part, raising the guaranteed pensions and thus aiming to preserve the long-term purchasing power of the benefits.

Based on the ambition of preserving the purchasing power of pensions as best as possible, the Supervisory Board has set a performance target for investment and hedging activities after tax and expenses, which is expected to be met in the long term. The performance target has been set at 7 per cent of the bonus potential at the beginning of the year, equivalent to DKK 7.1bn in 2016. With investment and hedging activity results of DKK 8.4bn, the performance target for 2016, seen separately, was more than achieved. Over the past three years, the performance target has also been met. Total investment and hedging activity results, a profit of DKK 8.4bn, are comprised of positive investment activity results of DKK 12.5bn and negative hedging activity results of DKK 4.1bn.

Hedging

Overall, hedging activity results were negative by DKK 4.1bn.

The value of the guaranteed pensions increased considerably due to the decline in interest rates throughout 2016. The hedging portfolio is designed to protect pensions against interest rate fluctuations, and the hedges once again served their purpose in 2016, as hedging activity results before the yield curve break amounted to DKK (0.1)bn.

For guarantees up to 40 years, hedging of the guaranteed pensions can be effected at a market rate equivalent to the

rate used for the valuation of the guaranteed pensions. This means that hedging can be effective. In 2013, ATP chose to reduce the interest rate sensitivity by 25 per cent, thereby increasing its investment flexibility, to enhance the possibility of generating a return for safeguarding the purchasing power of the guaranteed pensions. This also addressed the challenges facing ATP and other major investors due to tighter market liquidity and higher hedging expenses. For guarantees extending beyond 40 years, it was decided to use a fixed rate of 3 per cent for valuation.

When guarantees change during the year from extending beyond 40 years to being below 40 years, pensions will change from being valued at a fixed rate of 3 per cent to a market rate. When the market rate is lower than the fixed rate of 3 per cent, a loss will be sustained, while a market rate higher than 3 per cent will generate a gain. This is referred to by ATP as a 'yield curve break'.

In 2016, the market rate was below 3 per cent, resulting in a loss of DKK 4.1bn. Due to the loss, funds will be transferred from the bonus potential to the guaranteed pensions. Consequently, this does not affect ATP's aggregated assets.

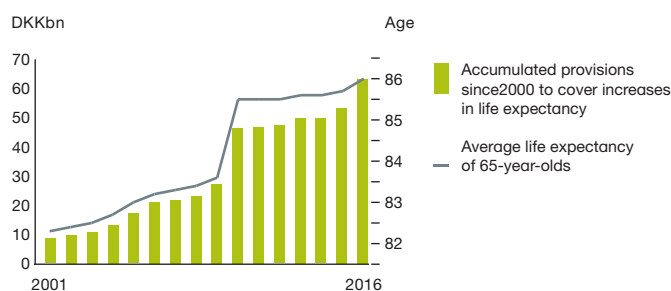
Investment

The bonus potential is managed as part of the investment portfolio. Investment activity results were DKK 12.5bn. Before expenses and tax, the return totalled DKK 15.3bn, equivalent to an investment return of 15.0 per cent relative to the bonus potential.

ATP contribution's development as per cent of average pay



Additional provisions due to increases in life expectancy



Funds not tied up in the hedging portfolio as a result of the use of financial instruments are available for investment in the investment portfolio on market terms. In practice, this means that the investment portfolio can operate with a higher statement of financial position than the bonus potential, but within the same risk budget. With the same risk, it is, for instance, possible to purchase a larger portfolio of bonds than, say, more risky equities, entailing that the total amount risked is not changed. A market rate is paid to hedging activities on the funds used by the investment portfolio.

The primary drivers of the investment activity results were good returns on equities and credit investments, DKK 7.8bn and DKK 3.8bn, respectively, but real estate, bonds, commodities and infrastructure also contributed positively to the return. The largest negative return of DKK 1.2bn, came from ATP's long-term hedging strategy against inflation increases, which is a long-term strategy with some of the hedges running for up to 20 years.

As ATP's investments are hedged against currency fluctuations in Danish kroner and euros, the significant global currency fluctuations in 2016 had no appreciable impact on the return.

PENSION

Pension activity results before the life expectancy update were a profit of DKK 0.8bn.

Benefit payments totalled DKK 15.5bn. At year-end 2016,

1,003,700 pensioners were receiving ATP Lifelong Pension, and for 50 per cent of Denmark's old-age pensioners, ATP is their only pension income besides the state-funded old-age pension. The full annual pension for 65-year-old pensioners who have paid contributions to ATP throughout their working lives was DKK 23,600 in 2016, equivalent to 32 per cent of the basic state-funded old-age pension.

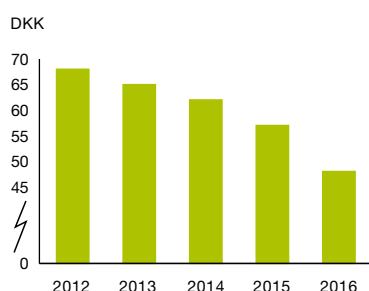
ATP's members obtain guaranteed lifelong pension rights by paying contributions. There is a clear link between the contributions paid and the pension rights accrued by the individual. Contribution payments for the year amounted to DKK 9.6bn.

The ATP contribution was adjusted in 2016. While the adjustment of the contribution rate has little effect on ATP pensions in the short term, continuous adjustment is essential for pensions in the long term. A lack of adjustment of the contribution will basically result in a reduction of the purchasing power of future pensioners, especially when increases in life expectancy are reflected in an extension of the guaranteed pensions.

Following the rapid increases in life expectancy in recent years, both in Denmark and internationally, ATP has adjusted its long-term forecast of life expectancy. The Supervisory Board has decided to transfer a further DKK 9.9bn for increases in life expectancy to enable ATP to ensure its members their lifelong pension.

ATP's expected future increases in members' life expectancy have risen by six months over the past five years.

Development in administration expenses per member



“Over the past four years, ATP’s administration expenses have been reduced by 30 per cent, driven primarily by declining depreciations.”

65-year-old members are currently expected to live to an average of 86 years. Over the past five years, ATP has therefore made provisions of DKK 16.6bn to cover increases in life expectancy.

VALUE CREATION

In 2016, the overall value creation for ATP’s members was 4.4 per cent. The weighted average expresses the value creation from guarantees and ATP’s profit during the year. Value creation from the guarantees promised to ATP’s members was 3.7 per cent. The value creation from ATP’s bonus potential, which will enable an increase in pensions in the long term, was 7.3 per cent. This ratio was driven primarily by the investment return, but was affected also by, for instance, hedging activity results and administration expenses.

EXPENSES

Low expenses for the benefit of members

Low expenses provide a significant contribution to higher pensions.

Administration expenses

ATP focuses on minimising administration expenses. In 2016, administration expenses for ATP were DKK 239m – equivalent to DKK 48 per member. The expenses were reduced by DKK 9 per member relative to the year before, equivalent to a reduction of 17 per cent. The administration expenses have been reduced by 30 per cent over the past

four years. This is primarily due to declining depreciations and ATP benefiting from effective IT support. With the reductions achieved, the administration expenses are not expected to fall further over the coming years.

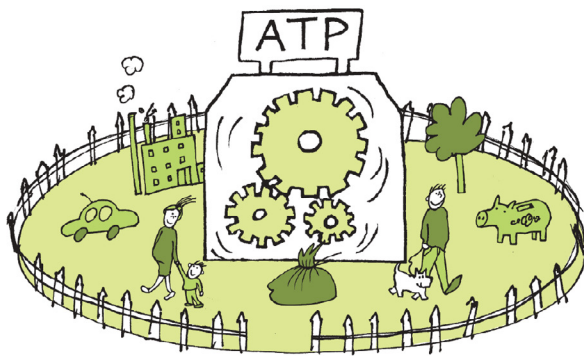
According to the latest international benchmarking of administration expenses in the pensions area (CEM Benchmarking), ATP administration expenses are one tenth of the average for peer statutory pension funds globally. The group of peers comprises pension funds of approximately the same size as ATP and includes 12 pension funds from Scandinavia, the Netherlands, Canada and the USA.

Investment expenses

ATP also focuses on keeping investment expenses low, while at the same time capturing any return which may be generated through an increase in expenses. General expectations of lower future returns on the financial markets have resulted in an increased focus on expenses in ATP. This, coupled with a strategic wish to increase the adaptability of the investment portfolio, means that more indirect investments are moved closer to ATP.

ATP’s overall direct and indirect investment expenses amounted to DKK 1.4bn, equivalent to 0.19 per cent of the average assets managed by ATP in 2016, or DKK 272 per member.

In 2016, investment expenses totalled DKK 1.4bn, which was on level with 2015. In 2015 and 2016, the focus was on illiquid investments, and these investments have increased in



volume. Another focus area was a higher degree of direct control of investments than in the past. This investment approach results in the improved management of individual investments and the investment risks, as well as tighter cost control, and the expenses are more clearly reflected in ATP.

ATP's performance target is based on the return after expenses as, apart from the return, the total level of expenses plays the most important role, and it is less important whether an expense appears from ATP's accounts or has been deducted from the investment return.

According to the most recent international benchmarking of expenses in the investment area (CEM Benchmarking), ATP's total investment expenses are among the very lowest compared with the global pension community, and 8 per cent lower than the average of comparable companies. The group of global peers comprises pension funds with approximately the same asset size as ATP and includes 17 pension funds from Sweden, the Netherlands, the UK, Asia, Canada and the USA.

BUSINESS PROCESSING, EXTERNAL PARTIES

The ATP Group performs business processing tasks on behalf of the social partners, the Danish government and local authorities. These tasks are performed by ATP on a cost-recovery basis – i.e. without profit to ATP and without any risk of expense. Operating expenses are managed on the basis

of efficiency and competitive operations objectives. In 2016, digitisation and automation once again ensured low operating expenses.

Business processing expenses, external parties, of DKK 1.5bn were incurred.

The Danish government continues to outsource tasks to ATP
On 1 July, ATP assumed authority and responsibility for the former Danish National Board of Industrial Injuries in the new institution Labour Market Insurance.

On 1 October 2016, under the auspices of Udbetaling Danmark – the Public Benefits Administration, ATP also assumed authority and responsibility for a number of tasks from the Danish Public Administration, including the wish to transfer operations to Jutland.

RISKS

ATP is committed to identifying and managing the most significant risks relating to ATP Lifelong Pension and the Group's other activities.

ATP disburses a monthly lifelong pension to its members. Accordingly, increasing life expectancy is the greatest pension risk facing ATP. ATP relies on a custom life expectancy model, based on comparable data from 18 OECD countries, for managing the longevity risk. In addition to factoring in

already observed increases in life expectancy, the model allows for expected future increases.

Investment risks are primarily market risks assumed by ATP in relation to investment and hedging activities. These market risks are closely aligned with the investment strategy, consisting of four main components: Hedging of the interest rate risk of pension liabilities, appropriate risk levels, risk diversification and hedging arrangements to protect against inflation increases.


ATP is not covered by the Solvency II Directive, but the Danish ATP Act (*ATP-loven*) includes elements of Solvency II. ATP uses a proprietary model for the measurement of risk across all risk areas in its overall risk management.

RESPONSIBILITY

ATP practises business-driven responsibility in investment decisions to achieve the optimum risk-adjusted return for the benefit of members. This is reflected in the Supervisory Board's Policies of Social Responsibility in Investments and Active Ownership. In 2016, ATP's Supervisory Board adopted a new Policy of Active Ownership, which complies with the recommendations of the Committee on Corporate Governance.

ATP supports the UN-backed Principles for Responsible Investment (PRI), which, in terms of procedure, underpin ATP's work on business-driven responsibility in investment. In 2013, ATP, along with other Danish pension funds, left the PRI organisation. In the subsequent years, ATP has been in constructive dialogue with the PRI Board, and in 2016, three years after leaving the PRI organisation, ATP decided to rejoin the organisation.

Further information on ATP's responsibility work is available in ATP's Responsibility Report 2016, which also constitutes ATP's Communication on Progress to the UN Global Compact, at www.atp.dk.



Jørgen Søndergaard
Chairman of the
Supervisory Board

CORPORATE GOVERNANCE

ATP's corporate governance framework is laid down in the Danish ATP Act. For further information on ATP's corporate governance, including ATP's compliance with the Recommendations on Corporate Governance and pay policy, see pages 109-114 of the ATP Group Annual Report 2016 and Further Information at www.atp.dk.

At year-end 2016, ATP's senior management was changed following the resignation of Carsten Stendevad as CEO. ATP's Supervisory Board has appointed Christian Hyldahl CEO, effective 1 January 2017. The Group Executive Board was also changed in 2016, with the appointment of Kasper Ahrndt Lorenzen as Chief Investment Officer (CIO) and Mads Smith Hansen as Chief Risk Officer (CRO).

OUTLOOK FOR 2017

ATP's investment strategy is to ensure that ATP generates the best possible returns, while, at all times, being able to meet the guarantees issued to members.

Based on an ambition of preserving the purchasing power of pensions as best as possible, the Supervisory Board has set a performance target for investment and hedging activities after tax and expenses. The performance target has been set at 7 per cent of the bonus potential at the beginning of the year, equivalent to DKK 7.0bn in 2017. This is an absolute return objective which is to be achieved in the long term, but which is not necessarily achieved each year. The objective is based on the principles underlying the target of safeguarding members' interests, aiming to preserve the purchasing power of pensions and providing an ambitious target. The objective has also been designed to be realistic given the size of the bonus potential and the risk budget, as well as the long-term risk-adjusted return expectations.



Christian Hyldahl
Chief Executive Officer

The ATP Group – Income statement

DKKm	FY 2016	FY 2015	Q4 2016	Q4 2015
Investment				
Income from associates	1,653	1,008	1,251	413
Income from investment properties	1,087	1,021	267	259
Consulting fee and fee income	734	184	163	83
Interest income and dividends etc.	5,099	6,286	929	1,041
Market value adjustments	9,266	10,129	788	4,121
Interest expenses	(2,499)	(2,080)	(584)	(460)
Investment activity expenses	(823)	(837)	(222)	(247)
Investment activity results before tax on pension savings returns	14,517	15,711	2,592	5,210
Tax on pension savings returns in respect of investment activities	(1,944)	(2,211)	(403)	(673)
Income tax in respect of investment activities	(45)	(48)	(10)	(21)
Investment activity results after tax on pension savings returns	12,528	13,452	2,179	4,516
Hedging				
Interest income and dividends etc.	17,431	17,716	4,399	4,332
Market value adjustments	39,249	(25,357)	(59,782)	(14,138)
Interest expenses	(309)	(351)	(141)	(34)
Tax on pension savings returns in respect of hedging activities	(8,625)	1,223	8,495	1,506
Change in guaranteed benefits due to change in discount rate	(45,551)	12,172	46,652	10,115
Change in guaranteed benefits due to maturity reduction	(6,329)	(7,674)	(1,665)	(2,131)
Hedging activity results	(4,134)	(2,271)	(2,042)	(350)
Pension				
Contributions	9,572	9,055	2,430	2,274
Fees	0	2	0	1
Benefit payouts	(15,454)	(14,566)	(3,905)	(3,683)
Change in guaranteed benefits due to contributions and pension benefits	6,956	6,688	1,823	1,702
Interest income related to pension activities	13	11	3	3
Interest expenses related to pension activities	(3)	(4)	(2)	(4)
Administration expenses, ATP	(239)	(283)	(55)	(72)
Tax on pension savings returns in respect of pension activities	(2)	(1)	(1)	0
Revenue recognition of Special Pension Savings not withdrawn	0	147	0	9
Results before change in life expectancy	843	1,049	293	230
Change in guaranteed benefits due to life expectancy update	(9,901)	(3,723)	0	0
Pension activity results	(9,058)	(2,674)	293	230
Business processing				
Business processing income, external parties	1,545	1,251	512	345
Business processing expenses, external parties	(1,529)	(1,229)	(522)	(362)
Income tax in respect of business processing	(1)	(1)	(1)	(1)
Business processing results	15	21	(11)	(18)
Results before bonus	(649)	8,528	419	4,378
Bonus allowance for the year	0	(3,017)	0	(3,017)
Net results for the year	(649)	5,511	419	1,361

The ATP Group – Statement of comprehensive income

	FY 2016	FY 2015	Q4 2016	Q4 2015
DKKm				
Net results for the year	(649)	5,511	419	1,361
Items that may not be reclassified to results:				
Revaluation of owner-occupied properties	1	9	6	5
Total	1	9	6	5
Other comprehensive income	1	9	6	5
Comprehensive income for the year	(648)	5,520	425	1,366
Minority interests' share of comprehensive income for the year	140	109	140	8
The ATP Group's share of comprehensive income for the year	(788)	5,411	285	1,358
Allocated comprehensive income	(648)	5,520	425	1,366

The ATP Group – Statement of financial position

DKKm	FY 2016	FY 2015
ASSETS		
Cash and demand deposits	6,798	5,491
Bonds	567,999	520,544
Equity investments	87,210	81,279
Mutual fund units	5,856	5,535
Financial derivatives	88,549	81,932
Loans	14,001	10,049
Investments in associates	14,962	13,018
Intangible assets	736	582
Investment properties	21,139	20,360
Owner-occupied properties	854	847
Operating equipment	19	23
Tax receivable on pension savings returns and income tax	1	0
Deferred tax on pension savings returns and income tax	1	8
Interest receivable and accrued rent	3,849	4,273
Contributions receivable	2,566	2,435
Receivables from credit institutions	56,185	35,428
Other receivables	2,739	2,144
Other prepayments	851	814
Total assets	874,315	784,762
EQUITY AND LIABILITIES		
Financial derivatives	67,621	57,782
Tax payable on pension savings returns and income tax payable	10,555	976
Deferred tax on pension savings returns and income tax	154	116
Payables to credit institutions	29,801	16,070
Other payables	6,526	3,965
Total payables	114,657	78,909
Guaranteed benefits	658,797	603,972
Bonus potential	100,454	101,242
Total pension provisions	759,251	705,214
Total minority interests	407	339
Total equity and liabilities	874,315	784,462