Risk and Financial Condition Report 2021

Contents

A. Summary

ATP´s Risk and Financial Condition Report
ATP issues this report in accordance with the Executive Order on reporting and disclosure of information by ATP 'Bekendtgørelse om indberetning og offentliggørelse af oplysninger for ATP'. The requirements for ATP's report reflect the requirements for the Report on Solvency and Financial Condition, which must be issued by pension providers subject to the pan-European Solvency II rules, but with due consideration for ATP's special circumstances. The special circumstances include the fact that ATP has no equity capital and is not subject to solvency capital requirements. ATP's report will consequently differ from other pension providers' reports.

This report is a supplement to the ATP Group's annual report and contains further information about ATP's activities and results, system of governance and risk profile in its capacity of pension provider. The report thus covers the activities related to the management of ATP Lifelong Pension 'ATP Livslang Pension', but not ATP's administration on behalf of external parties.

Activities and Results
In 2021, ATP generated a profit of DKK 39.1 bn before life expectancy update and bonus. The investment portfolio made a positive contribution to the profit, generating a return of DKK 41.4 bn before tax and cost. In particular, investments in listed and unlisted equities generated a large positive return of DKK 35.7 bn. Investments in inflation-related instruments also generated a large positive return of DKK 24.6 bn, more than offsetting the negative return on government and mortgage bonds of DKK 20.1 bn. In 2021, The Supervisory Board decided to allocate a bonus of 4 per cent to all the members. All members of ATP will thus have their ATP Pension increased by 4 per cent. The increase in pensions occured from 1. Januar 2022, but was already counted into the value of the guaranteed benefits from October 2021. The distribution of bonus resulted in a transfer from the bonus potential to the guaranteed benefits of DKK 30.4 bn.

In 2021, ATP has made an adjustment to its long-term forecasts for deveolpments in life expectancies, since the improvement in life expectancies in 2020 was less than expected. The adjustment resulted in a transfer of DKK 4.8 bn from guaranteed benefits to the bonus potential, equivalent to 0.6 per cent of the value of the guaranteed benefits. ATP generated a profit for the year of DKK 13.5 bn after life expectancy update and distribution of bonus. The profit is embedded in ATP's bonus potential, which amounted to DKK 159.5 bn at the end of 2021.

Fact box A.1 Business model adaptation
ATP and ATP's Board of Directors have identified and considered a number of proposals to improve ATP's business model with the aim of continuing to create the best possible real value hedged pensions for members, with due regard to ATP's role in providing basic financial security in the form of guaranteed lifelong pensions in addition to the national pension. In 2020, the Board of Directors approved two adjustments to ATP's business model - partly a changed hedging strategy, which relates to the saved funds, and partly an adjustment regarding future contribution payments, called Annuities with market exposure. On 18 May 2021, the Danish Parliament passed with a broad majority amendments to the ATP Act, which will enable the implementation of these adaptations. Annuities with market exposure was implemented as of 1 January 2022, while the change in the hedging strategy is expected to be implemented in early 2023. This report only deals with the risk and financial situation in 2021 and thus does not describe the implications of the change to ATP's business model in the coming years. These implications are described in the ATP Group's annual report for 2021.

System of Governance

The Danish ATP Act 'ATP-loven' lays down objectives and frameworks for ATP's governance, including that ATP must be managed by a Board of Representatives, a Supervisory Board and a Chief Executive Officer (CEO). The Supervisory Board decides the overall objectives and strategies for the management of ATP's material activities and lays down the accompanying principles through written policies and guidelines. The CEO handles the day-to-day management in accordance with instructions laid down by the Supervisory Board. The CEO is assisted in the day-to-day management by the other members of the Group Management body. ATP is of the opinion that the system of governance reflects the nature, scale and complexity of the risks associated with ATP's activities.

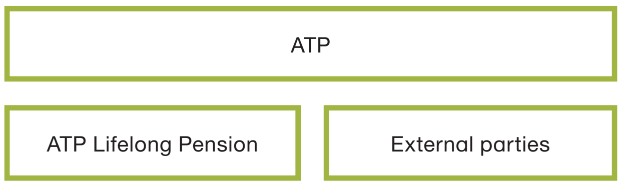
Risk Profile

The overall risk profile for ATP is stated using a proprietary risk model to calculate the aggregate risk, supplemented with other risk assessments and analyses. The purpose of these risk calculations is to provide a varied and detailed overview of the specific risks to which ATP is exposed. ATP's financial robustness is assessed by comparing the calculated risks with the bonus potential constituted by ATP's free reserves. As a general principle, the overall risks must be aligned with the bonus potential.

The overall assessment is that ATP's risk and financial condition is adequate.

B. Activitites and Results

Chart B.1 ATP´s activities



B.1.ACTIVITIES

ATP was set up in 1964 as an independent institution, established by statute. ATP manages activities linked to the ATP Lifelong Pension 'ATP Livslang Pension' scheme and performs administrative services on behalf of external parties.

ATP's role in the Danish pension system is to deliver basic financial security in the form of guaranteed, lifelong pensions to ATP members as a supplement to the state funded pension system. The pension is paid throughout the members retirement period and supplemented with a death cover for the member's spouse/cohabitant and children under 21 years of age. The scheme contributes to ensure a high minimum pension in Denmark and is also part of the foundation upon which other pensions rest. ATP Lifelong Pension is Denmark's largest supplementary pension scheme.

ATP Lifelong Pension is a mandatory scheme for all wage earners as well as the vast majority of transfer income recipients. Moreover, a number of groups – including disability pensioners – may choose to make voluntary contributions to ATP. ATP has over 5.4 million members, one million of whom are pensioners receiving lifelong pension from ATP. In recent years, payouts from ATP have exceeded contributions.

In addition to ATP Lifelong Pension, ATP performs administrative services on behalf of labour market organisations, local authorities and the Danish government. The services consist of collection of contributions, payment of benefits as well as membership and client administration for a number of labour market, social security and welfare schemes. These tasks are performed by ATP on a cost recovery basis – i.e. without profit to ATP. ATP is currently Denmark's largest disbursement institution, managing two thirds of the welfare benefits disbursed in Denmark. Payments in the order of DKK 300 bn were made in 2021.

This report only describes ATP in its capacity of pension provider and therefore activities related to the management of ATP Lifelong Pension. The report consequently does not cover ATP's administration on behalf of external parties.

Supervision of ATP

The Danish Ministry of Employment has the primary legislative authority in ATP's activity area. The Danish Ministry of Employment is also responsible for the supervision of ATP.

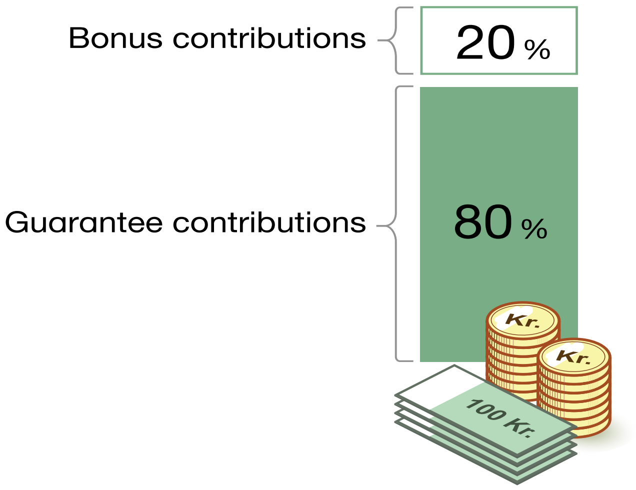
ATP is also subject to supervision by the Danish Financial Supervisory Authority, who especially focuses on financial, managerial and pension-related matters. The Danish Financial Supervisory Authority submits an annual report on the supervision of ATP to the Ministry of Employment. ATP is informed about the contents of this report.

The supervision is performed through close contact between ATP, the Danish Ministry of Employment and the Danish Financial Supervisory Authority.

ATP Lifelong Pension

Pension contributions paid to ATP are divided into guarantee contributions and bonus contributions, which constitute 80 per cent and 20 per cent, respectively, of the contribution payments (after labor market contributions and payment for cover in the event of death). The guarantee contributions are used for life-long, guaranteed pension benefits to ATP's members, while the bonus contributions are passed on to the bonus potential. The bonus potential, which constitutes ATP's free reserves, must cover ATP's risks and enable ATP's long-term bonus policy with the goal of preserving the purchasing power of the lifelong guaranteed benefits via bonus award.

Chart B.2 How ATP Lifelong Pension works



ATP's investments reflect the structure of the pension product and are basically divided into a hedging portfolio and an investment portfolio.

The objective of the hedging portfolio is to safeguard ATP's ability, at all times, to deliver on the guarantees issued. The hedging strategy is to ensure that the market value of the hedging portfolio after tax fluctuates in line with the guaranteed benefits when interest rates change.

The principal objective of the investment portfolio is to generate a return that will allow ATP both to build up reserves for unforeseen events such as increased life expectancies, and to raise the guaranteed benefits, thereby preserving the long-term purchasing power of the pensions.

Result for ATP in its capacity of pension provider
The result for ATP in its capacity of pension provider relates to the management of ATP Lifelong Pension and is embedded in the three areas: Pension, Hedging and Investment.

Pension activity results include changes in the value of the guaranteed benefits due to received contributions and pension benefits paid as well as expenses related to the administration of the pension scheme.

Hedging activity results comprise the return on the hedging portfolio after tax as well as changes in the value of the guaranteed benefits due to maturity reduction and change in interest rates.

Investment activity results include the return on the investment portfolio after tax and investment expenses.

In 2021, ATP generated a total profit of DKK 39.1 bn before allocation of bonus and life expectancy update. In October 2021 the Supervisory Board decided to allocate general bonus to all members. All ATP members will thus have their ATP pensions increased by 4 percent. The increase in pensions occured from 1 January 2022 but was already recognized in the value of the guaranteed pensions in October 2021. The allocation of bonus implied a transfer from the bonuspotential to the guaranteed benefits og DKK 30.4 bn.

In 2021, ATP made an adjustment to the long-term life expectancy forecast, because the increase in life expectancy in 2020 was lower than expected. This implied a transfer from the guaranteed benefits to the bonus potential of DKK 4.8 bn, corresponding to 0.6 per cent of the value of the guaranteed benefits.

In 2021, ATP generated a profit of DKK 13.5 bn after life expectancy updatenand allocation of bonus. The profit was embedded in ATP's bonus potential, which amounted to DKK 159.5 bn by the end of 2021.

B.2. PENSION ACTIVITY RESULTS

Pension activity results before life expectancy update were DKK 2.2 bn, as indicated in Table B.1. Total pension benefits amounted to DKK 17.3 bn in 2021. Year end 2021, 1,042,000 pensioners received ATP Lifelong Pension, and approximately 40 per cent of the Danish old-age pensioners have no other pension income other than ATP and the old age pension.

Total contributions amounted to DKK 11.5 bn in 2021, which is slightly higher compared to 2020. Contributions are

Table B.1 Pension activity results

DKKm	2021	2020
Contributions	11,497	10,744
Pension benefits	(17,260)	(17,180)
Change in guaranteed benefits due to contributions and pension benefits etc.	8,200	8,239
Administration expenses	(213)	(210)
Other items	7	6
Pension activity results before bonus and life expectancy update	**2,231**	**1,599**
Life expectancy update	4,796	1,130
Bonus allowance for the year	(30,391)	-
Pension activity result before bonus and life expectancy update	**(23,364)**	**2,729**
Guaranteed benefits	787,809	813,589
Bonus potential	159,537	146,221
Bonus rate	**20.3**	**18.0**

divided into a guarantee contribution and a bonus contribution. The guarantee contribution, amounting to 80 per cent, is used for the purchase of pension. The bonus contribution amounts to 20 per cent. The bonus contribution is transferred to the bonus potential which enables an increase in the life-long guarantees as well as coverage of longer life extectancies.

In 2021, administrative expenses for ATP were DKKm 213 , which is slightly higher than the previous year. Administrative costs amounted to 0.02 per cent compared to ATP's total asset value and this is very low in international comparison. In connection with the interim report for H1, ATP performed the annual update of its life expectancy. The update led to a reduction of the value of the guaranteed benefits of DKK 4.8 bn. Since 2010, ATP has added provisions to longer life expectancies for a total value of DKK 48 bn as life expectancies for a 65-year-old has increased by more than three years since in the same period.

At year-end 2021, the value of the guaranteed benefits was DKK 787.8 bn, and the bonus potential was DKK 159.5 bn, giving a bonus rate of 20.3 per cent. This is an increase of 20.3 percentage points relative to year-end 2020, when the bonus rate was 18.0 per cent.

B.3. HEDGING AND INVESTMENT ACTIVITY RESULTS

The total hedging and investment activity results were DKK 36.9 bn in 2021, against DKK 17.6 bn in 2020, as indicated in Table B.2. Based on the ambition to secure the long-term purchasing power of the pensions, the Supervisory Board has determined a long-term performance target for the hedging and investment activity results. In 2021, the target was DKK 14.6 bn and hence the target was more than met for that year. The target for the Hedging and Investment activity results for 2022 is set at DKK 14.9 bn.

Hedging activity results

ATP Lifelong Pension is a product based on guarantees and the objective of the hedging portfolio is to safeguard ATP's ability, at all times, to deliver on the guarantees issued. The hedging strategy is to ensure that the market value of the hedging portfolio after tax fluctuates in line with the guaranteed benefits when interest rates change.

The hedging portfolio consist of bonds and interest rate swaps that hedge the interest rate risk on the guaranteed benefits up to 40 years and of an internal lending to the investment portfolio, equal to the value of the guaranteed benefits beyond 40 years. As for the internal lending, the hedging portfolio recieves an interest rate of 3 per cent, equal to the interest rate used to discount the guaranteed benefits beyond 40 years. The portfolio of bonds in the hedging portfolio include a portfolio of green bonds. Green bonds are characterized by the issuer of the bonds using the loan to finance climate-friendly investments, for example increased energy efficiency, hydropower and wind turbines. End of 2021, the valua of the portfolio of green bonds in the hedging portfolio was DKK 41.1 bn. The total hedging activity results were DKK -4.5 bn in 2021 as stated in Table B.2. The value of the guaranteed benefits decreased in 2021 due to rising interest rates. The hedging portfolio is designed

Table B.2 Hedging and Investment activity results

DKKm	2021	2020
Hedging activity results	(4,466)	(7,018)
Investment activity results	41,378	24,637
Hedging and investment activity results	**36,912**	**17,619**

Table B.3 Hedging activity results

DKKm	2021	2020
Change in guaranteed benefits due to change in discount rate[1]	51,285	(55,831)
Change in guaranteed benefits due to maturity reduction	(2,653)	(976)
Change in guaranteed benefits[1]	**48,632**	**(56,807)**
Return in hedging portfolio	(56,187)	66,484
Tax on pension savings returns	8,597	(10,172)
Return in hedging portfolio after tax	**(47,590)**	**56,312**
Results of hedging of guaranteed benefits[1]	**1,042**	**(495)**
Change in guaranteed benefits due to yield curve break[2]	(5,508)	(6,523)
Hedging activity results	**(4,466)**	**(7,018)**

1 Before effect of yield curve break.
2 "Yield curve break" is the point on the yield curve at 40 years where the guaranteed benefits shift from being discounted by a fixed rate to being discounted by a market rate.

to protect the benefits against such interest rate fluctuations, and also in 2021 the hedging worked in line with the purpose.

Results of hedging of guaranteed benefits before the effect of yield curve break were DKK 1.0 bn. Guarantees up to 40 years are hedged on the basis of the market yield curve, which is used for valuation of the guaranteed benefits. Valuation of guarantees beyond 40 years is based on a fixed rate of 3 per cent, cf. fact box B.1.

Guaranteed benefits, which change during the year from being more than 40 years to being less than 40 years, also change from valuation based on a fixed rate of 3 per cent to a valutation based on a market rate. When market rates are below 3 per cent this implies a loss of bonus potential, while market rates above 3 per cent implies an increase in the bonus potential. ATP calls this effect "the yield curve break". In 2021, market rates were below 3 per cent generating a loss of DKK 5.5 bn due to the yield curve break. This implied that Hedging in total generated a loss of DKK 4.5 bn. The loss implies a reduction of the bonus potential, and an increase in the value of the guaranteed benefits. This has no impact on ATP's total asset value.

Table B.4 Investment activity results

DKKm	2021	2020
Investment return	49,620	29,901
Expenses[1]	(952)	(886)
Tax on pension savings returns and income tax	(7,291)	(4,378)
Investment activity results	**41,378**	**24,637**

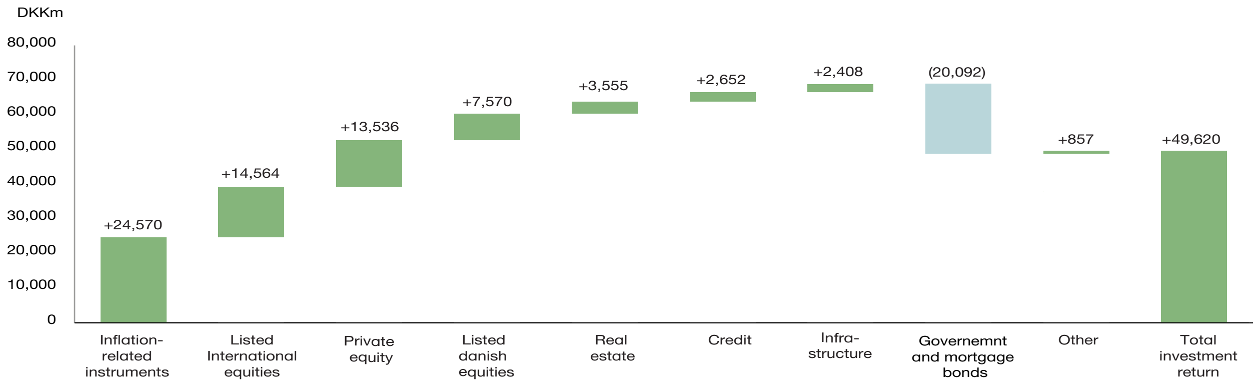
Expenses includes all direct investment costs in the ATP Group. Indirect investment costs in the form of investment costs and performance fees to external managers are deducted from Investment return. Read more about investment cost in the yearly report for the ATP Group for 2021.

Investment activity results
In 2021, investment activity generated a profit of DKK 49.6 bn before expenses and tax. After expenses and tax, investment activity generated a profit of DKK 41.4 bn as stated in Tabel B.4. The composition of the investment return is stated in Chart B.3.

In a well-diversified portfolio with a high degree of risk diversification, some investment types will outperfom others. In 2021, particularly the total portfolio of equities, consisting

Fact box B.1 ATP's yield curve for valuation of the guaranteed benefits
ATP's yield curve for valuation of guaranteed benefits comprises a market-based segment and a fixed-rate segment. A characteristic of the market-based segment is that it is hedgeable. The fixed-rate segment for valuation of liabilities 40 years or more into the future reflects a conservative projection of the long-term return. Guarantees between 0 and 40 years are measured on the basis of a market yield curve consisting of yields on Danish and German government bonds and interest rate swaps denominated in Danish kroner and euros. For the valuation of guarantees after 30 years, the level is kept at the level of 30-year market rates. The interest rate beyond 40 years has been fixed at 3 per cent. Consequently, there is a discontinuity in the yield curve around the 40-year mark, where the curve changes from a market rate to a fixed interest rate of 3 per cent.

Chart B.3 Composition of investment return in 2021



of listed danish and foreign equities and private equity contributed positively with a return DKK 35.7 bn. Investments in inflation-related instruments also contributed positively with a return of DKK 24.6 bn. that more than offset the negative return on government and mortgage bonds of DKK 20.1 bn.

Market risks, which are necessary in order to generate a return, are managed in the investment portfolio based on a risk budget and limits to ensure diversification. The investment portfolio pursues a risk-based investing approach, the focus of which is on risk rather than on the amount invested. Consequently, with the same risk, it is possible to purchase a larger portfolio of bonds than of equities, which are traditionally more risky. The investment portfolio generally consists of funds from the bonus potential. Funds not tied up in the hedging portfolio as a result of the use of derivatives (swaps) are, moreover, available for investment in the investment portfolio on market terms. In practice, this means that the investment portfolio can operate with a balance sheet higher than the bonus potential, but within the same risk budget. The market value of the investment portfolio was DKK 414.3 bn at year end-2021.

ATP has no direct investments in securitisations, but holds minor indirect positions through ATP's fund investments.

B.4. RESULTS OF OTHER ACTIVITIES

ATP is not engaged in other activities in its capacity of pension provider.

B.5. ANY OTHER INFORMATION

There are no other relevant information with respect to ATP's activities.

C. System of Governance

C.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

Board of Representatives and Supervisory Board
ATP is managed by a Board of Representatives, a Supervisory Board and a Chief Executive Officer (CEO). The organisation of ATP's senior management is illustrated in Chart C.1.

The composition of ATP's Board of Representatives and Supervisory Board reflects the so called Danish model under which the employees and employers have a say in the labour political process. The Board of Representatives comprises 15 employer representatives, 15 employee representatives and a Chairman as appointed by the Board of Representatives. The Chairman must not be affiliated with any employee or employer organisations. The Supervisory Board is composed of members of the Board of Representatives and comprises six employer representatives, six employee representatives and the Chairman of the Board of Representatives.

The members of the Board of Representatives and the Supervisory Board, appart from the Chairman, cf. above, are appointed by the Minister for Employment upon the recommendation of the labour market organisations. They are appointed for a three-year term with the possibility of reappointment. There is no age limit for appointment. Both the nominations and the appointment must take into account that the Board of Representatives and the Supervisory Board should have a balanced composition of men and women. Further information about the members of the Board of Representatives and the Supervisory Board is found in ATP's annual report and on ATP's website www.atp.dk.

The Board of Representatives ordinarily convenes once a year. The Board of Representatives' work includes approval of the ATP-contribution, ATP's annual report and pay policy as well as determination of the remuneration for the members of the Board of Representatives and the Supervisory Board. The Board of Representatives also appoints ATP's Chairman and auditor.

The Supervisory Board ordinarily convenes seven times a year and has the overall responsibility for ATP. The Supervisory Board decides the overall objectives and strategies for the management of ATP and lays down the accompanying principles through written policies and guidelines. The Supervisory Board performs a number of tasks of special relevance to ATP in its capacity of pension provider. In this connection, the Supervisory Board determines ATP's desired risk profile, including the framework for ATP's investments, and identifies, quantifies and assesses material risks faced by ATP. The Supervisory Board also approves the basis for calculation and valuation of ATP's pensions.

Chart C.1 Board of Representatives and Supervisory Board

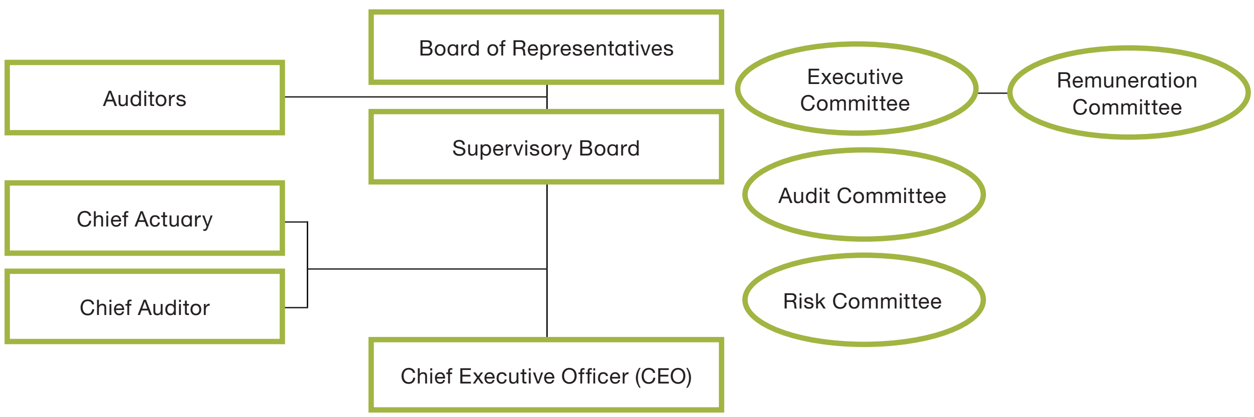
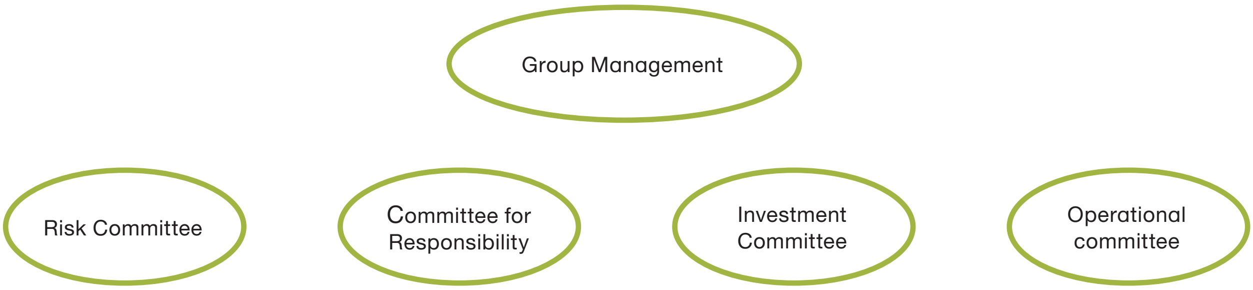


Chart C.2 ATP's management and related committees



The work of the Board of Representatives and the Supervisory Board is further specified in rules of procedure and ATP's Supervisory Board has set up four Supervisory Board committees in the form of an Executive Committee, a Remuneration Committee, an Audit Committee and a Risk Committee. The Executive Committee has three members: the Chairman of the Supervisory Board, who is also the Chairman of the Executive Committee and two members of the Supervisory Board, appointed by the employer and employee representatives, respectively, on the Supervisory Board. The Executive Committee normally meets seven times per year.

The Executive Committee prepares the Supervisory Board's decisions and has the power, in selected areas, to make decisions as authorised by the Supervisory Board.

The Supervisory Board has dedided to let the Executive Committee perform the duties as ATP's Remuneration Committee. The duties are integrated in the agendas of the Executive Committee on an ongoing basis and comply with the processes applicable for the Executive Committee. The primary duties of the Remuneration Committee are to prepare submissions to the Supervisory Boards later decisions on remuneration, including pay policy and guidelines for incentive programmes, as the remuneration commitee, after delegation from the Board of Directors, determines the salary of the Group Management, with the exception of the Director.

The Audit Committee comprises four members in the form of the Chairman of the Supervisory Board, two other members of the Executive Committee and a member of the Supervisory Board with audit experience, who also serves as Chairman of the Audit Committee. The Audit Committee normally meets four times a year. The Audit Committee ensures that ATP's financial reporting process, internal control system, internal audit and risk management systems are effective. The statutory auditing of annual reports and the auditor's independence are also checked, in particular with respect to the provision of other services to ATP.

The Risk Committee consists of four members of the Supervisory Board with operational experience and expertise in relevant specialist fields, including the chairman of the Supervisory Board, who is also the chairman of the risk committee. The committee ensures the best possible basis for the Supervisory Board's risk and solvency assessment of ATP (ORSA). As part of this, the committee discusses risk identification, risk profile, quantification, governance and organization as well as risk and solvency assessment before Supervisory Board meetings. The Risk Committee convenes a minimum of four times a year.

The Supervisory Board has appointed the CEO to handle the day-to-day management of ATP. The Supervisory Board has also appointed a Chief Actuary, who is responsible for technical tasks pertaining to insurance. The Supervisory Board has laid down the Chief Actuary's tasks in a function description. The Supervisory Board has also decided that

Chart C.3 Group Management

Chief Executive Officer

Bo Foged

Responsible for the day-to-day management of ATP in accordance with the instructions issued by the Supervisory Board and the other statutory tasks incumbent on the CEO.

Vice Chief Executive Officer, Chief Financial Officer and Chief Operating Officer in the Administration business

Martin Præstegaard

Responsible for Corporate Functions including legal, IT, HR, accounting and finance for ATP and Business Support in the Administration business.

Chief Investment Officer

Mikkel Svenstrup

Responsible for the investment management and for monitoring that investments are made in accordance with the strategy and guidelines laid down by the Supervisory Board, hereunder corporate social responsiblity.

Executive Vice President for Pension, Risk management and Compliance, Chief Risk Officer

Kim Kehlet Johansen

Responsible for risk management of pension, investment and operational risks, including information security and complinance. Also responsible for the pension product, ATP Livslang Pension and Arbejdsmarkedets Erhvervssygdomskontrol (AESK).

Executive Vice President for Pension and Social security

Anne Kristine Axelsson

Responsible for membership administration connected with ATP Livslang Pension, including payments and collection of contributions as well as administration of AES and several other schemes on behalf of external parties.

Executive Vice President for Udbetaling Danmark

Carsten Bodal

Responsible for ATP's administration of Udbetaling Danmark and Seniorpension.

ATP must have an internal audit function, which will perform audit tasks in ATP in collaboration with the external auditors. The Chief Auditor reports to the Supervisory Board.

Chief Executive Officer (CEO) and other senior executives
The CEO handles the day-to-day management in accordance with instructions laid down by the Supervisory Board. The CEO is assisted in the day-to-day management by the other members of ATP's Group Management body. Chart C.3 shows the members of the Group Management and describes their respective areas of responsibility. Areas of responsibilities are delegated by the CEO to the other members of the Group Management in accordance with special instructions.

In addition to the Group Management, the CEO has set up management bodies in ATP as stated in Chart C.2. The CEO participates in the management bodies, which shall ensure efficient and transparent decision-making processes.

Chart C.4 Officers responsible for the statutory key functions

Risk management function Key person responsible: *Kim Kehlet Johansen, Chief Risk Officer* Responsibility: Monitoring and ensuring that ATP's risk profile is in accordance with the Supervisory Board's desired riskpofile and the risk management system functions reassuringly and adequately.	**Compliance function** Key person responsible: *Morten Stein Salmark, Head of Operational Risk and Compliance* Responsibility: Monitoring and assessing whether ATP has efficient methods for identifying and reducing the risk of non-compliance with applicable legislation, market standards and internal sets of rules
Internal Audit function Key person responsible: *Christoffer Max Jensen, Internal Chief Auditor* Responsibility: Conducting audits in accordance with the established audit plan and assessing the internal control system	**Actuarial function** Key person responsible: *Camilla Fredsgaard Larsen, Chief Actuary* Responsibility: Calculation of pension provisions and ensuring that the underlying assumptions and methods are appropriate.

The Risk Committee is the decision-making body for fundamental risk management issues. The committee is also responsible for ensuring the managerial handling of major and thematic risk management and valuation issues. In addition, the committee is responsible for monitoring ATP's most material risks.

The Committee for Responsibility is the decision-making body for and coordinator of ATP's social responsibility in connection with investments including active ownership, climate and coordination of votings in connection with equitites.

The Investment Committee is the decision-making body ensuring managerial handling of major strategic investment topics and is responsible for briefing on ATP's investment conditions.

The Operational Committee discusses and make decisions on strategic issues in Pensions & Investment (P&I) regarding operational conditions. This includes ATP's tax policy, P&I's technical platform, essential operational risks and relevant development tasks in P&I.

Furthermore, supplementary forums have been set up in a number of more specific areas, the decision-making powers of which concern more tangible aspects of ATP's current operations.

Key persons in ATP

Key persons in ATP comprise the persons responsible for the statutory key functions, i.e. the risk management function, the compliance function, the internal audit function and the actuarial function, as well as the members of the Group Management. By the end of 2021, ATP had a total of nine key persons, as the CRO is both a member of the Group Management and has been appointed as the officer responsible for the statutory risk management function.

The Chief Executive Officer has appointed the key persons responsible for the Risk Management function and the Compliance function, while the Supervisory Board has appointed the key persons responsible for the internal audit function and the actuarial function, as these key functions are handled by the Internal Chief Auditor and the Chief Actuary, who already reports to the Supervisory Board. Dismissal of a person responsible for a key function is done by the Supervisory Board. Chart C.4 shows the persons responsible for the four key functions and the associated areas of responsibility. The four key functions are described in further detail in sections C.3 to C.6.

Changes to the system of governance in 2021

In February 2021, ATP's chairman was reappointed as chairman for a period of three years, and board member Jan W. Andersen took office as the new chairman of the audit committee in February 2021 as well.

With effect from 1 November 2021, Annemette Moesgaard resigned as Executive Vice President with responsibility for Group Communications and as a member of Group Mamangement. Marie Bender Foltmann is the new communications director in ATP, but she is not a member of the group management and thus not appointed as a key person. The group management thus now consists of six people.

ATP's Group Management as of year end-2021 is presented in Chart C.3.

ATP's Remuneration Policy

In accordance with the Executive Order on Remuneration for ATP and other organisations, ATP is subject to a number of rules for its remuneration policy, remuneration and disclosure requirements, including frameworks for the awarding and payment of variable remuneration, in essence in the same way as the rest of the financial services industry.

The Remuneration Policy is determined with due consideration for the promotion of sound and efficient risk management and with the object of securing a long-term commonality of interest for the individual employee and ATP's members and support ATP's ability to meet its obligations.

Remuneration and fees are fixed on the basis of the market level both nationally and internationally, taking into account the complexity of ATP's activities, relevant business experience and organisational responsibilities, among other factors. Furthermore, remuneration and fees are defined on the basis of ATP's specific needs, including the need to ensure ATP's ongoing ability to attract and retain the best qualified managers and employees.

When ATP use remuneration pay, it is used as an active tool that supports commercial development by focusing on target and performance-related management and promotes behaviour that creates value as well as sustainable and extraordinary results.

Members of the Board of Representatives, the Supervisory Board and, if relevant, the Supervisory Board committees, are paid a fixed annual fee, which reflects the number of board and committee meetings. They are not covered by any variable remuneration agreements, incentive schemes, pension agreements or severance pay agreements.

The CEO, the other members of the Group Management, the Chief Actuary and the Chief Auditor are paid a fixed remuneration and also receive certain employee benefits as well as any one-time remuneration. A pension contribution is paid as part of the fixed remuneration. Other forms of variable pay are not included.

Employees in ATP's Pension and Investment department, including portfolio managers, are covered by a remuneration package which – in addition to containing the above remuneration elements – may also include variable remuneration elements. Incentive schemes for portfolio managers are as a minimum based on the following three components:

- ATP's Investment- and Hedging activity results
- The performance in the individual portfolio manager's department in the form of, for example, returns, investment processes etc. or combinations thereof
- The individual employees own performance in the form of, for example, his or her contribution to returns, investment processes, teamwork etc. or combinations thereof.

ATP's CEO and Chief Investment Officer determine which portfolio managers are covered by inventive schemes, the minimum investment results, which ATP must achieve before bonus starts to be earned as well as the weighting of the three components.

For significant risk takers, the variable remuneration components cannot exceed 100 per cent of the basic remuneration, including pension contributions per year, and they are paid out over three years. In certain cases, variable remuneration elements can be withheld, or a demand can be made that they be repaid. In the other incentive programs, a ceiling must be set each year for the part of the salary that is variable.

In 2021, a total of 28 portfolio managers received variable remuneration elements earned in the calendar year in the form of the above incentive schemes.

Other employees can be awarded a lump sum for exceptional performance, but not exeeding the equivalent of 4 months salary including pension contributions.

C.2. FIT & PROPER

The fit & proper requirements in the Danish ATP Act apply to members of the Supervisory Board, the CEO and designated key persons. The persons in question must be subjected to a fit & proper assessment by the Danish Financial Supervisory Authority on commencement of their employment and in connection with any subsequent change in their duties.

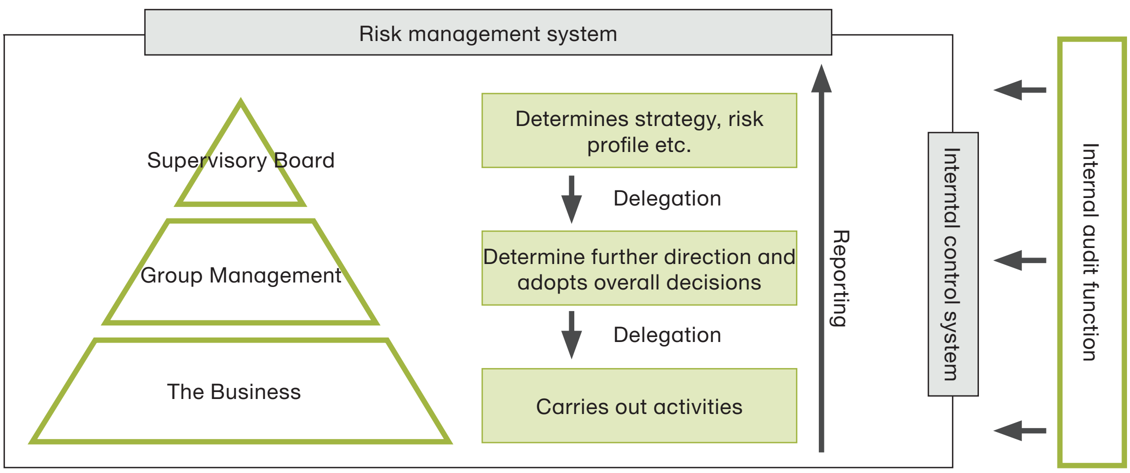
A person who is covered by the fit & proper requirements must at any given time:

- have sufficient experience to be able to perform the duties entailed by his or her position
- have a sufficiently good reputation, be honest and show integrity.

ATP's fit & proper policy covers the fit & proper requirements, identification of persons who are covered by the fit & proper requirements, the knowledge and experience requirements for the whole Supervisory Board, the procedure for obtaining the Financial Supervisory Authority's fit & proper assessment and, finally, the fitness-assessment for other employees.

When submitting the information to the Danish Financial Supervisory Authority for the designated key persons, ATP submits a declaration with a reasoned statement confirming that the persons are fit & proper to hold the positions in question. It is assessed whether the key person has sufficient experience, skills, knowledge and expertise. Emphasis is on the person having the relevant education and training in relation to the nature, scope and complexity of the risks associated with ATP, and in relation to the statutory requirements for the education and training of the person in question. In addition, emphasis is on the person

Chart C.5 Risk management system



having experience from previous relevant employment and to some degree management experience and training.

The Supervisory Board assesses on an ongoing basis whether its members collectively possess the necessary knowledge and experience of ATP's risks to ensure sound operations of ATP's activities. Based on the Supervisory Board's annual self-assessment, an evaluation is made of the need for relevant competence development for the Supervisory Board. The Supervisory Board is broadly composed in terms of the education and training of its members, who have completed either short, medium or long-cycle study programmes, for several of them supplemented with continuing education and training in both Denmark and abroad. The composition means that the members bring diverse and nuanced skills and qualifications to their work on the Supervisory Board. Many of the Supervisory Board's members have experience from large organisations and board work in general. The Supervisory Board members also have skills and management experience from financial business, in particular within pension, insurance, mortgage and banking.

C.3. RISK MANAGEMENT SYSTEM INCLUDING OWN RISK AND SOLVENCY ASSESSMENT

The risk management system comprises all strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report the risks to which ATP is exposed. The risk management system and the internal control system, as well as control environment and control activities, form the framework for the overall management of ATP. There is a close connection between the risk management system and the control system, as controls provide attention to the risks that are to be managed. Controls can thus be regarded as risk reducing measures. The Supervisory Board has established a policy for internal control, which is to ensure a satisfactory internal control system and regulate the general principles for the design of the internal control system in ATP, including the organization of the internal control system in three levels.The connection is illustrated in Chart C.5.

The Supervisory Board has the overall responsibility for the risk management in ATP and lays down the overall principles for this in a policy. The policy establishes the desired risk profile through guidelines and risk tolerance limits on which ATP's risk management must be based. The policy also identifies material risks, and principles are defined for how the risks must be stated.

The desired risk profile for ATP established by the Supervisory Board states that ATP prioritises high certainty in the pensions and that the funds are invested with the purpose of achieving good, stable returns, so that the purchasing power of the pensions can be preserved. To support this, the Supervisory Board has laid down a framework for the overall risk aimed at protecting ATP's bonus potential and ATP's financial robustness.

ATP's overall risk is associated with the three risk categories: investment, pension-related and operational risks. They are all regarded as material, and the Supervisory Board has laid down detailed instructions for them as part of the clarification of the desired risk profile:

- **Investment risks**
  Investment risks consist primarily of market risks and associated counterparty, concentration and liquidity risks. Market risk exposures with the purpose of generating a return, are managed in the investment portfolio based on a given risk budget and risk diversification limits. Market risks associated with the guaranteed benefits are managed in the hedging portfolio to ensure that the interest rate risk associated with the guaranteed benefits is hedged. The other investment risks follow as a consequence of the market risk exposures ATP has chosen. For this reason, consequential risks are accepted, but ATP seeks to limit them as much as possible. Consequential risks are described in further detail in fact box C.1.

  ATP works to integrate responsibility and ESG information into its investments. Further information about ATP's work to ensure social responsibility in the investments made is found in ATP's reports on responsibility, which are available on ATP's website www.atp.dk.

Fact box C.1 Consequential investment risks

Counterparty risks
Risks associated with potential breaches of agreements by financial counterparties – including counterparties for derivatives, which are especially used for interest rate hedging.

Concentration risks
Risks arising from a disproportionate dependence on a specific form of exposure, such as specific asset categories, investment markets or individual investments.

Liquidity risks
Risks associated with incomplete honouring of claims for payment or provision of security.

- **Pension-related risks**
  Pension-related risks follow directly from the structure of ATP's pension product, including the lifelong guarantees given. ATP has material risk exposure against life expectancies, as the determination of the value of the guaranteed benefits is closely linked to the members' life expectancies. Increased life expectancies mean that ATP must make larger provisions to cover the guaranteed benefits, as pension payouts must be made for longer periods. ATP has chosen not to hedge its life expectancy risk and must therefore itself cover any losses in the event of increased life expectancies.

- **Operational risks**
  Operational risks are associated with the risk of financial, reputational and compliance-related (incl. GDPR) impacts resulting from inexpedient or insufficient internal procedures, human errors, system errors, errors related to the use of models or from ATP's co-operation with external business partners and suppliers. The risks can also be due to external events, such as effects associated with the entry into force of new regulation, or lack of compliance with current legislation, market standards or internal rules or cyber security breaches and security breaches. Assesments of risks related to the processing of personal data also includes the consequence from the perspective of the registered person. ATP recognises that operational risks cannot be completely avoided, but wishes to limit the risks subject to consideration for a weighting of consequence and probability against the cost of limiting the risk. The Supervisory Board has decided that compliance risk must be avoided as far as possible.

The CRO is responsible for the risk management function, which monitors and ensures that the risk management system is sound and adequate and in compliance with the Supervisory Board's risk guidelines. In addition, the CRO submits proposals for ATP's risk policy as part of the Supervisory Board's determination of ATP's desired risk profile.

The Supervisory Board has at its disposal a number of reports which form the basis for the monitoring of the risk profile, among other supervisory activities. The Supervisory Board receives a monthly report on significant matters related to ATP's risks and financial condition. In the report, information is also provided about the utilisation of the limits laid down by the Supervisory Board. The Supervisory Board also receives an annual report on pension-related risks, including the life expectancies of ATP's members. In addition, the Supervisory Board receives an annual report on operational risks and an annual report on information security.

Chart C.6 ORSA wheel

The CEO receives a report on ATP's risks at Risk Committee meetings which are held approximately seven times per year. The CEO and the group management also receives quarterly reporting about ATP's operational risks. Furthermore, the CEO receives a bimonthly briefing on responsibility and active ownership in connection with investments from the Committee for Responsibility and a monthly report on information security.

Managers and employees in ATP's pension and investment business also have access to general and detailed information about ATP's risks and financial condition, which is updated and verified daily. The information is revised and adjusted on an ongoing basis to ensure that it covers all relevant conditions over time.

ATP's risk and solvency assesment
ATP's Supervisory Board performs an annual own risk and solvency assessment (ORSA).

ATP has no equity capital and is not subject to a solvency capital requirement. ATP's risk and solvency assessment is therefore based on a calculation of the overall risk using a proprietary risk model, supplemented with other risk assessments and analyses. The purpose of these risk calculations is to provide a varied and detailed overview of the specific risks to which ATP is exposed. ATP's financial robustness is assessed by comparing the calculated risks with the bonus potential constituted by ATP's free reserves.

The ORSA wheel is centered around the 'Organisation' component, which describes how ATP has organised and structured its risk management system. The 'Organisation' is laid down in function descriptions.

The 'Strategy' component contains the Supervisory Board's established strategy and the overall objectives for ATP. The next three components, 'Risk identification', 'Risk appetite' and 'Risk measurement', concern identification of the most significant risks, establishment of the desired overall risk profile and risk calculation principles. These parts are determined through the Supervisory Board's risk policy.

The 'Risk assessment' component concerns the assessment of ATP's short-term and long-term condition and is performed based on the preceding components. The risk assessment constitutes a significant part of the Supervisory Board's own risk and solvency assessment and is performed based on a number of risk assessments and analyses. They map how different stresses affect ATP's financial robustness, in both the short term and the long term, as well as the risks associated with the calculation of the value of the guaranteed benefits and the importance thereof to ATP's financial robustness. Under 'Risk assessment', the Supervisory Board also reviews whether the way in which ATP has organised its activities supports an efficient risk management system.

The Risk Committee set up by the Supervisory Board has special tasks in relation to the ORSA wheel. The Risk Committee supports the Supervisory Board's ORSA wheel and thus supports performing an overall own risk and solvency assessment for ATP. In this connection, the Risk Committee focuses on key issues in relation to the ORSA wheel which – due to complexity, scope etc. – may benefit from being subjected to further, more detailed processing. In this connection, the committee prepares the risk policy and investment limits, policy for information security and reporting on ATP's risk management, own risk and solvency situation (ORSA), information security and operational risks, respectively, before Supervisory Board approvement.

The ORSA report contains the overall conclusion on the ORSA work, i.e. the assessment of ATP's risk and solvency as well as an assessment of the way in which ATP has organised its activities.

The risk management function is responsible for providing the complete overview of ATP's risk and solvency, including the actual preparation of the ORSA report. The ORSA report is prepared in a dialogue with the Risk Committee, where one of the special focus areas is the design of the risk analyses on which the own risk and solvency assessment is based. The ORSA report is discussed and subsequently approved by the Supervisory Board.

C.4. INTERNAL CONTROL SYSTEM

The Supervisory Board has established a policy for internal control in ATP aimed at ensuring that sufficient systematic internal control is performed.

The CEO ensures a satisfactory performance of tasks and internal control system. This takes place through appropriate organisation with clearly defined areas of responsibility, tasks, powers, authority and reporting lines as well as the resources required.

The CEO and the management of the individual units asseses the internal control methods within their area of responsibility based on the information they receive through continuous reporting. On this basis, the management initiates the necessary corrective measures. The internal control is an integral part of management at all levels in ATP.

The internal control system is based on the fundamental principle that controls are performed by a person other than the person who performs the primary task (the four eyes principle). In cases in which it is not prudent for the control to be performed within the same unit, the control is performed in a unit other than the unit performing the task.

Areas with potential conflicts of interest with the controlling officer's other tasks are identified and monitored. As a starting point, functions are separated in such a way that faults and deviations that occur in one place in the organisation are ascertained and corrected elsewhere.

Business procedures describe the performance of and follow-up on the internal control and ensure compliance with internal and external requirements for the necessary documentation.

Where relevant, internal controls are established as IT-supported, automatic controls, which especially applies in customer-oriented processes and other high-risk areas.

Compliance function

The overall responsibility of the compliance function is to monitor and assess whether ATP has efficient methods for identifying and reducing the risk of non-compliance with applicable legislation, market standards and internal rules (compliance risk). The compliance function also presents proposals for ATP's compliance policy for use by the Supervisory Board in its preparation of the policy.

The person responsible for the compliance function reports to the CRO, but may contact the Supervisory Board directly and may express concerns as and when appropriate. The person responsible for the compliance function has monthly meetings with the CEO. The compliance function prepares an annual compliance plan and a follow-up report, which the key person responsible presents to the Audit Committee and the Supervisory Board.

C.5. INTERNAL AUDIT FUNCTION

ATP has established an Internal Audit function in accordance with applicable legislation. The Internal Audit function is headed by a Chief Auditor referring to the Supervisory Board. The Supervisory Board is solely responsible for hiring and dismissal of the Chief Auditor and for the terms of employment as well as the Internal Audit budget. Moreover, Internal Audit is solely subject to the instructions of the Supervisory Board, and the Chief Auditor and Internal Audit staff must not participate in other work than auditing in the ATP Group. Restrictions cannot be imposed on the Internal Audit function in relation to the work that is regarded as necessary to enable the Internal Audit function to meet its auditing responsibilities. The Internal Audit function has access to the Supervisory Board's protocols and other records which are regarded as relevant and is entitled to demand all the information that Internal Audit function finds necessary to conduct its audit. This ensures that the internal audit works independtly of the business and the Group Management.

The Chief Auditor has been made responsible for the Internal Audit function, and the internal audit work is performed within the framework of the internal audit policy as well as the Executive Order on Auditing 'Revisionsbekendtgørelsen' and the Executive Order on Management and Control of ATP 'Ledelsesbekendtgørelsen for ATP'. The distribution of responsibilities between the Internal Audit function and the external auditors is laid down in an audit plan in accordance with ”Revisionsbekendtgørelsen”. The Internal Audit function conducts audits of all material and risky areas.

In accordance with the Executive Order on Auditing 'Revisionsbekendtgørelsen', the Supervisory Board has decided that the Chief Auditor provides the financial statements with an auditor's report. As part of the auditing methodology, a quality assurance system, containing principles for conduct, relations and performance of audit tasks, has been prepared and implemented to ensure independence and objectivity.

The Internal Audit function must not be responsible for or conduct internal controls. The Chief Auditor and the Internal Audit staff must not participate in tasks which may place the Chief Auditor in a situation in which he or she provides opinions or information on matters or documents for which the Chief Auditor or Internal Audit staff have prepared the basis.

C.6. ACTUARIAL FUNCTION

The Supervisory Board has appointed the Chief Actuary responsible for the Actuarial function in ATP. The Chief Actuary is employed by and reports to the Supervisory Board.

The Actuarial function is responsible for the calculation of pension provisions and for ensuring that the underlying assumptions and methods are appropriate. This comprises ATP's proprietary life expectancy model. The Actuarial function also works closely with the risk management function on the management of pension-related risks. The Actuarial function explains all significant consequences of changes in data, methods or assumptions for the calculation of pension provisions.

The Actuarial function also performs tasks that belong under the Chief Actuary. The Chief Actuary is entitled to demand all information that the Chief Actuary finds necessary to conduct its work, including the Supervisory Board's protocols. The actuarial function is entitled to access all the information that the function finds necessary to conduct its tasks.

The Actuarial function reports at least once a year to ATP's Supervisory Board on whether the calculation of pension provisions is reliable and adequate. The Actuarial function belongs to the CRO organisationally, but the person responsible for the actuarial function is obliged to contact the Supervisory Board directly to express concerns in cases in which he or she finds this necessary.

C.7. OUTSOURCING

The legal basis for outsourcing in ATP was changed in 2020 to align the rules for ATP with the rules that apply to insurance companies and thus also with EU rules in this area. Among other things, the rules must ensure that ATP continues to be responisble for outsourced tasks and that the Danish Financial Authority can continue to carry out effective supervision. The Supervisory Board has thus replaced the previous guidelines with a new outsourcing policy in ATP.

The Supervisory Board approves the outsourcing of critical or important operational functions and activities and the most important principles for such outsourcing. Outsourcing is used when this is expected to create value for ATP. Outsourcing can be chosen, for example, if access to flexible resource pools, access to core- or special skills, efficiency or financial benefits can be achieved.

Prior to any outsourcing decision, an assessment is made of whether the supplier is able to perform the outsourced tasks satisfactorily and in accordance with ATP's requirements. The assessment includes verification that the supplier has the ability and capacity necessary to handle the task satisfactorily, including the permits required under applicable legislation.

When outsourcing critical or important activities, ATP also ensures that the supplier's risk management systems can ensure that the outsourcing does not lead to a significant deterioration in the quality of the management system or an unnecessary increase in the operational risk in ATP. In addition, ATP must take into account the outsourced taskes in its own corporate governance, like requirements of discretionary portfolio management and for outsourcing on the IT area.

In addition, guidelines have been prepared for approval of cloud solutions in ATP, which among other things must ensure an adequate assessment of legal, security and business risks when using cloud services.

The status on the outsourced activities, including whether the performance of the outsourced tasks remains reassuring, are reported at least once a year and thereafter as needed to the Supervisory Board. Once a year, the Supervisory Board reviews the policy for outsourcing.

ATP has outsourced the following critical or important activity areas to external suppliers:

- Delivery of IT capacity in the form of servers and other technical infrastructure components (outsourced to KMD A/S)
- Management of investement frameworks for direct or indirect investmets in real estate as well as administration and management of ATP's portfolio and performance of ATP's obligations as owner or landlord regarding ATP's domicile properties (outsourced to the subsidiary ATP Ejendomme A/S).
- Providing cloud infrastructure for processing and storing financial data (outsourced to Microsoft Azure)

C.8. ANY OTHER INFORMATION

ATP is of the opinion that the system of governance reflects the nature, scale and complexity of the risks associated with ATP's activities.

The system of governance is structured in accordance with the Danish ATP Act and the Danish Financial Supervisory Authority's Executive Order on Management and Control of ATP as well as the Executive Order on Remuneration Policy and Remuneration Disclosure Requirements for ATP and the Executive Order on outsourcing for group 2 insurance companies, ATP and "Lønmodtagernes Dyrtidsfond". Furthermore, ATP complies with the recommendations from the Committee on Corporate Governance with the relevant adjustments for ATP's special circumstances.

ATP's Board of Representatives, Supervisory Board, CEO and appointed key persons have specified areas of responsibility, tasks and powers. These are documented in procedures, terms of reference, policies, guidelines and CEO instructions, which are reviewed at least once a year, and function descriptions.

D. Risk Profile

D.1. TOTAL RISK

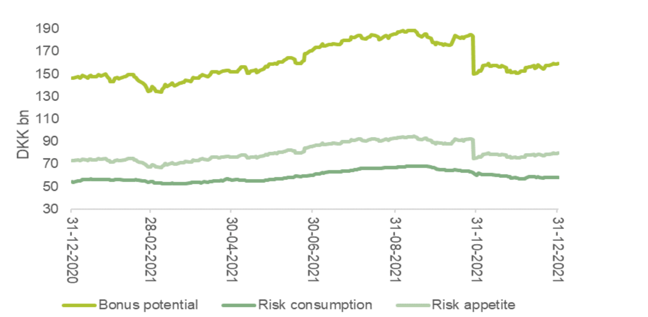
ATP has no equity capital and is not subject to a solvency capital requirement. ATP's overall risk profile is therefore based on a calculation of the aggregate risk using a proprietary risk model, supplemented with other risk assessments and analyses. The purpose of these risk calculations is to provide a varied and detailed overview of the specific risks to which ATP is exposed. ATP's financial robustness is assessed by comparing the calculated risks with the bonus potential constituted by ATP's free reserves and in addition, the ability to secure the purchasing power of the pensions is asseded. ATP can cover its risks according to a large number of risk assessments and analyses. The overall assessment is that ATP's risk and financial condition is adequate. ATP's risk profile is described in the following; first based on ATP's overall risks and then based on each of the underlying risk categories.

ATP's overall risks

The risk measure for risk consumption is expected shortfall (ES) with a confidence level of 99 per cent and a three month time horizon. Risk consumption is a here-and-now stress without risk adjustment and expresses the average of the 1 per cent biggest loss of bonus potential on a three month time horizon.

In order to protect ATP's bonus potential and economic independency, the Supervisory Board has determined a risk budget, which is an upper limit for the total risk consumption. The risk budget reflects the Supervisory Boards overall risk tolerance and is set at 50 per cent of the bonuspotential. Hence, the risk budget changes dynamically in line with changes in the bonus potential. The development in total risk consumption, risk budget and bonus potential in 2021 is shown in Chart D.1. The bonus potential increased significantly until the end of October, which resulted in an increase in risk consumption. In late October, the bonus potential fell sharply as a result of the decision to distribute general bonus of 4 per cent. This resulted in a transfer from the bonus potential to the guaranteed benefits of DKK 30.4 bn and in the period around end October, risk consumption was adapted to the new level of bonus potential. The bonus potential continued to increase for the remainder of the year and was approximately DKK 13 bn higher at the end of the year, compared to the beginning of the year. The utilization of the risk budget was at the same level as at the beginning of the year.

Chart D.1 ATP´s overall risk in 2021

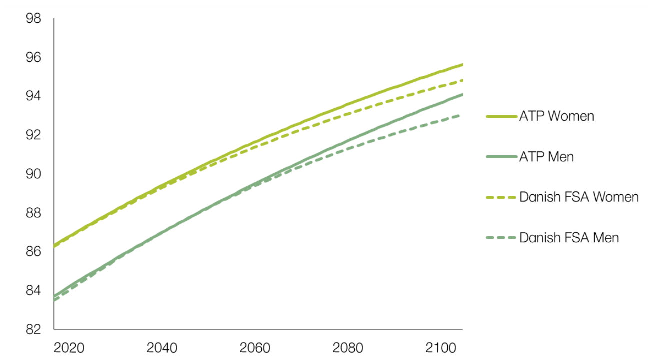


The following subsections describe ATP's risk profile in relation to the underlying risk categories.

D.2. PENSION-RELATED RISK

ATP pays out a monthly lifelong pension to its members. Accordingly, increasing life expectancies (longevity risk) is ATP's greatest pension-related risk. Unexpected increased life expectancies entail a loss in the bonus potential resulting from ATP having to make larger provisions to cover the guaranteed benefits, as pension benefits must be made for longer periods. ATP has chosen not to hedge its life expectancy risk and must therefore itself cover any losses in the event of increased life expectancies. ATP asseses life expectancies closely based on a proprietary life expec-

Chart D.2 Life expectancies



tancy model. Since 2010 ATP has provided DKK 48 bn to increased life expectancies. These provisions have reduced ATP's bonus potential, but in contrary to for instance investment loss it has not reduced the total asset value of the members. The additional provisions due to longer life expectancies express longer life expectancies for ATP's members. Consequently, the provisions are beneficial for the members.

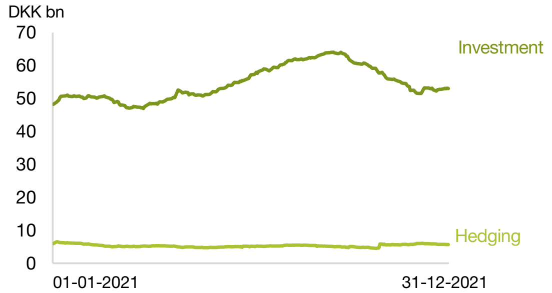
Other Danish pension funds apply a model based on life expectancy assumptions made by the Danish FSA for use by insured persons in life and pension companies. Chart D.2 shows the life expectancies of 65-year-old men and women based on ATP's and the Danish FSA's model for life expectancy assumptions, respectively, the latter adapted to the observed liftetimes in ATP. It can be seen that ATP's model expects greater improvements in longevity in the long term than FSA's model.

The FSA's life expectancy assumptions constitute a benchmark for the current observed lifetime, based on data from a number of Danish insurance companies and pension funds with 3.0 million members, and a benchmark for improvements in longevity, based on population figures for the total population in Denmark. ATP's model is partly based on data from ATP's 5.4 million members and on information concerning about 340 million inhabitants in 18 OECD countries. Thus, different data are used in modelling longevity assumptions and the models are also different.

The model developed in ATP is based on the assumption that the development of life expetancy in Denmark follows the same pattern as in the 18 selected OECD countries, and that the backlog that Denmark has in relation to the selected countries will be obtained over time. Data from the latest 100 years show that the countries have generally undergone the same development in longevity, although it differs from country to country when and how fast improvements take place. ATP incorporates international data to provide a stable forecast for future improvements in longevity.

Pension-related risk is the risk category, which contributes the second-highest risk in the calculation of ATP's overall risks (risik consumption). In ATP's life expectancy model,

Chart D.3 Market risks



pension-related risks have been stated at DKK 14.1 bn at end-2021.

D.3. MARKET RISK

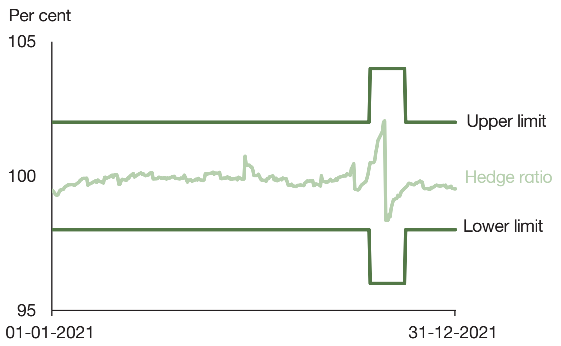
Market risk exposures with the purpose of generating a return are managed in the investment portfolio based on a given risk budget and risk diversification limits. Market risks associated with the guaranteed benefits are managed in the hedging portfolio to ensure that the interest rate risk associated with the guaranteed benefits is hedged to the greatest possible extent. ATP follows a well-defined strategy and works on the basis of a risk framework with detailed risk limits and close risk monitoring. Market risks are the risk category, which contributes the highest risk in the calculation of ATP's overall risks (risk consumption[1]). In ATP's proprietary model, market risks have been calculated at DKK 56.4 bn net of tax by the end of 2021.

Market risks related to the hedging portfolio and the guaranteed benefits

Market risks in the hedging portfolio and the guaranteed benefits consist mainly of interest rate risks. The hedging portfolio generally has the same interest rate sensitivity as the guaranteed benefits. A general interest rate change has a large impact on ATP's total asset value, while the bonus potential will be virtually unaffected, as changes in the hedging portfolio and the value of the guaranteed benefits will largely offset each other. Market risks related to hedging activities are therefore extremely limited, which is also shown by Chart D.3, which shows market risks calculated using Expected Shortfall.

1 The risk consumption also includes risks related to the break in ATP's yield curve.

Chart D.4 Hedging ratio



The hedging ratio[2], which indicates the ability of the hedging portfolio to hedge the interest rate sensitivity of the guaranteed benefits, was 99.5 per cent year end-2021. As shown in Chart D.4, the hedging rate was close to 100 per cent until October. To accomodate the increase in duration on the guaranteed benefits as a result of the bonus distrubution, the duration of the hedging portfolio was increased in the period up to the bonus distribution. Thus, the coverage rate increased before transferring funds from the bonus potential to the guaranteed benefits and then fell again as a result of the bonus distribution. The coverage rate was temporarily expanded from 98-102 per cent to 96-104 per cent from mid October to mid November to accomodate fluctuations as a result of the bonus distribution, cf. Chart D.4.

The interest rate sensitivity of the guaranteed benefits constitute almost exclusively of yields linked to Danish and German government bonds and interest rate swaps denominated in Danish kroner and euros. This means that, in order to reflect this interest rate sensitivity, the hedging portfolio must contain significant exposure to Danish and German government bonds and interest rate swaps denominated in Danish kroner and euros.

At year-end 2021, the market value of bonds in the hedging portfolio totalled DKK 424,1 bn. Danish and German government bonds constitutes a large proportion of this portfolio and therefore ATP has a significant exposure to the Danish and German government. Regarding interest rate swaps, ATP trades with several different financial counterparties, in order to ensure diversification. See chapter D.4 for more information about ATP's counterparty risks.

2 The hedging ratio is calculated as the difference between the duration of the guaranteed benefits and the hedging in relation to the duration of the guaranteed benefits.

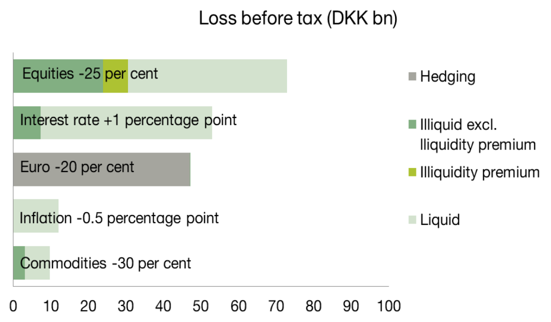
Market risk associated with the investment portfolio
ATP's market risks primarily consist of investment portfolio market risks. Market risks are undertaken in the investment portfolio to generate a return that will allow ATP to build up reserves to cover events such as increased life expectancies thereby ensuring life-long pensions and to increase the guaranteed benefits, thereby preserving the long-term purchasing power of the pensions.

The investment portfolio is managed with the purpose of obtaining a stable return which is as independent of economic cycles as possible. The composition of the investment portfolio is therefore based on a strategy of risk diversification on four fundamental factors: equity factor, interest rate factor, inflation factor and other factors. The risk associated with each investment can be attributed to the four different risk factors, depending on the types of risk to which the investment is exposed.

Table D.1 Market risk on factors by the end of 2021

Risk factor	Expected Shortfall in DKKm	Risk allocation, year-end in per cent	Long-term reference in per cent
Equity	53,094	47	35
Interest rate	36,482	32	35
Inflation	15,691	14	15
Other	8,091	7	15

Chart D.5 Individual Stresses by the end of 2021



ATP's risk management framework provides indicators for the distribution of risk on the four fundamental risk factors in the investment portfolio with a view to ensure appropriate risk diversification on the four factors. The risk allocation has been determined as each risk factor's share of the sum of risk for the four factors. ATP's Supervisory Board has set a long-term reference and upper and lower limits for each risk factor's share of the overall risk of the investment portfolio. The reference and the actual risk allocation end 2021 are shown in Table D.1 together with expected shortfall calculated for the four risk factors in ATP's investment portfolio. At year end-2021, the allocation in equity factor was above the reference, whereas the allocation in, especially, other factors was below the reference.

Individual stresses

ATP also highlights market risks associated with the investment portfolio and the hedging portfolio by making individual stresses for a number of market risk factors. The individual stresses are based on ATP's risk modelling. A selection of the individual stresses are shown in Chart D.5 which shows ATP's loss before tax as a result of the individual stresses.

The chart shows that ATP has the highest exposure in the individual stress against the equity factor where a stress of 25 per cent implies a loss of DKK 72.9 bn, equal to 61.7 after tax. The equity stress reflects both loss on equity and on other investments such as credit, property and infrastructure, that contain equity exposure in ATP's risk modelling. According to the individual stresses, ATP will in isolation incur a loss of 52.2 before tax in an interest rate stress of 1 percentage points. The chart also shows that if the fixed-rate policy is abandoned and the rate of the euro falls by 20 per cent, ATP may incur a loss of DKK 47.1 bn before tax as a result of a decrease in the value of ATP's euro-denominated assets. The exchange rate movement of 20 per cent corresponds to the decrease in the rate of Swiss franc (CHF) relative to euro (EUR). This occurred at the beginning of 2015 as a result of the Swiss Central Bank's removal of the fixed exchange rate against the euro. Exchange rate risk vis-a-vis euro is considered to be a significant risk for ATP. However, ATP considers it unlikely that the fixed exchange rate policy is abandoned and this stress is therefore considered to be a very rare event. The other market stresses in Chart D.5 lead to significantly lower losses.

Table D.2 Market values and associated collateral for OTC cleared derivatives end 2021

All counterparties	DKKbn
Market value of contracts	8,842
Market value of collateral	11,016
Net exposure	174

D.4. COUNTERPARTY RISK

Counterparty risks are risks associated with financial counterparties' potential breach of agreements entered into in connection with contracts on derivatives, repo reverse transactions and bank deposits.

The use of derivatives, especially for interest rate hedging, represents a particular risk for ATP. Changes in the value of these instruments will generate a liability or a receivable between ATP and its counterparties. ATP may therefore incur a loss if – for example because of a bankruptcy or liquidation – a counterparty is in breach of a concluded agreement. In order to reduce counterparty risk, both ATP and its counterparties require that collateral is provided for mutual receivables. Collateral is typically provided so that the market value of the collateral exceeds the market value of the related contract by a certain margin.

Counterparty risks only contribute marginally to the overall risks (Risk consumption). In ATP's proprietary risk model, counterparty risks have been calculated at DKK 0.7 bn as of year-end 2021 net of tax.

The total net exposure in relation to derivatives and repo-reverse transactions are shown in Table D.2 and is defined as the sum of net exposures for all counterparties with a positive net exposure. Net exposure per counterparty is measured as the difference between the market value and the value of the collateral. A positive net exposure is the same as under collateralisation and captures the loss that

Table D.3 Liquidity risks by the end of 2021

DKKbn	Short term: 5 days	Long term: 1 year
Total liquidity	551	750
Total liquidity requirements	212	630

ATP will realize if the contracts are terminated immediately after the breaches of contract.

In practise there is a risk that the contracts cannot be terminated immediately after a breach. In such case, there will be a period in which the market value of the contracts may increase without further collateralisation from the counterparty. Therefore, the loss may be bigger than the net exposure indicates. ATP is particularly exposed to this if the counterparty breach occurs in combination with a large drop in interest rates.

D.5. LIQUIDITY RISK

Liquidity risks are risks associated with any incomplete honouring of claims for payment or provision of collateral.

ATP has developed a model for liquidity risk management to ensure that ATP is, at any given time, able to meet its contractual obligations, either to obtain liquidity or to provide collateral. This must be done by ensuring that sufficient liquidity can be obtained to meet liquidity requirements in the short term (five banking days) and the long term (one year).

Table D.3 indicates the liquidity which ATP is able to obtain as well as ATP's liquidity needs within a given time frame. Liquidity can be obtained through sales of assets, but they can also be raised in the repo market. Differences in the liquidity of the assets are taken into account in the calculation. I.e. the liquidity that can be obtained relative to the market value of the assets. The liquidity need includes both the draw on liquidity following from the continuation of ATP's activities (for example, payment of pension benefits) and an extraordinary draw on liquidity resulting from unfavourable conditions (for example market stress).

The table shows that sufficient liquidity can be obtained to meet liquidity requirements in both time frames.

D.6. OPERATIONAL RISK

The operational risks associated with management of ATP Lifelong Pension are primarely related to trading activity, risk measurement, payments from and payouts to ATP's members as well as operation of systems and information security and GDPR. The operational risks only contributes to a modest extent to the total risk (Risk Consumption). In ATP's proprietary risk model, operational risks have been calculated at DKK 2.6 bn as of year-end 2021.

ATP has identified the pension and investment activities for which the occurrence of an operational incident is assessed to have the greatest consequences. In 2021, the identified operational incidents were related to errors in:

- Strategic work related to ATP's business model
- Measurement of life expectancies, provisions and guaranteed benefits
- Models, In-house developed programs and risk associated with investments
- Communication with members as well as payment of benefits and collection of contributions.
- Information security and cyber security.
- GDPR
- Frauds

ATP performs risk assessments with a fixed interval to identify the most important potential risks and to consider the need for further action to ensure that the risk is in line with the risk taking. The Supervisory board receives reporting on operational risks on an annual basis, semi-annually on information security and the CEO also receive reporting on a quarterly basis.

Operational incidents are registered and categorised systematically. Observed incidents and near misses are registred and categorised to monitor operational risks that have an impact on ATP. This is to ensure a follow-up on the processes which caused the incident or the near misses. The Supervisory Board is informed at the firstcoming Board meeting in case of significant incidents and the follow-up.

As everyone else, ATP has been affected by COVID-19. Contingency plans has been activated and the daily operation etc. has been handled without noticeable distrubances.

ATP finds that the management of operational risks is adequate.

D.7. OTHER MATERIAL RISK

ATP has no other material risks.

D.8. ANY OTHER INFORMATION

ATP must invest the assets in accordance with the 'prudent person principle', which means that ATP must invest the assets so that the members' interests are safeguarded in the best possible way. ATP complies with this principle by structuring its investment strategy and the accompanying risk management based on the pensions that the members have been promised. This means that the assets will be invested in a way that supports stable pensions, which are continuously regulated to secure the members' purchasing power over time.

ATP's investments are basically divided into a hedging portfolio and an investment portfolio, which reflect the design of the pension product and which are managed in accordance with principles and guidelines based on the portfolio objective. The objective of the hedging portfolio is to safeguard 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 is in line with the guaranteed benefits when interest rates change.

The objective of the investment portfolio is to generate a return that will allow ATP both to build up reserves for events such as increased life expectancies in order for ATP to ensure life-long guarantees and to build up reserves to be able to increase the guaranteed benefits to preserve the purchasing power. In order to achieve a high risk-adjusted return, which is as independent of economic cycles as possible and to protect pensions in relation to an increase in inflation, the Supervisory Board has laid down guidelines for risk diversification and risk tolerances.

ATP's overall investments are thus structured based on the nature of the liabilities and with limits aimed at ensuring that the investment strategy is and remains expedient and robust in relation to fluctuations in the financial markets. A key element in ATP's investment strategy is that the market risk of the investment portfolio is continuously adjusted to the size of the bonus potential, so that ATP's risks are within the risk budget at all times. During 2021, the market risk of the investment portfolio was adjusted continuously and ATP's risks have therefore remained within the risk budget throughout the period.

The 'prudent person principle' also entails that investments can only be made in assets and instruments with risks which can be identified, measured, managed, monitored and reported on. In accordance with this, the ATP Supervisory Board has defined the types of assets and instruments in which ATP may invest and require that investments may only be made when there is an adequate operational and risk management setup. This means that ATP can handle the assets and instruments, and that they are included in the ongoing calculation and monitoring of risks as well as in ongoing and interim reporting to the Supervisory Board and the management in general.