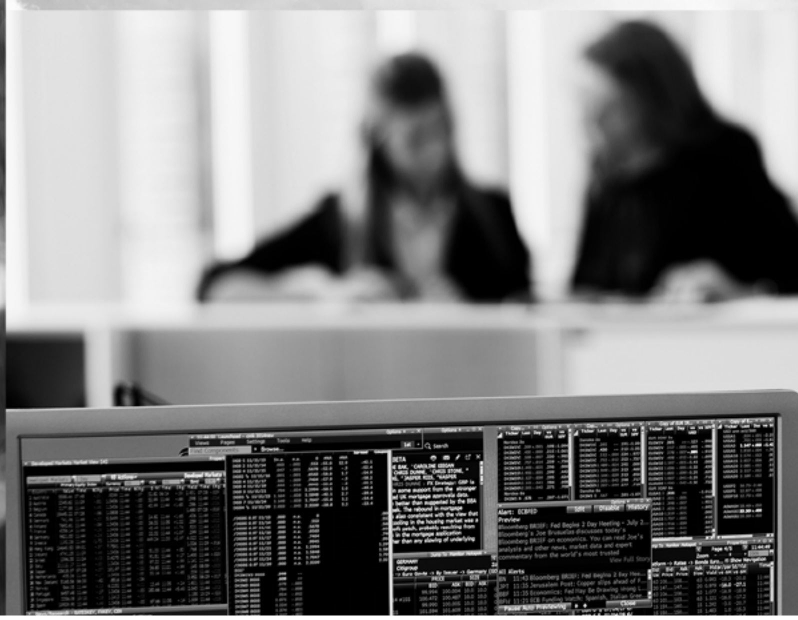
Risk and Financial Condition Report 2023



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A. Summary

ATP´s Risk and Financial Condition Report
This report is prepared in accordance with the Danish Executive Order on the reporting and publication of information for ATP. The requirements for ATP's report reflect, while taking into account ATP's special circumstances, the requirements for the Solvency and Financial Condition Report prepared by pension companies subject to the pan-European Solvency II rules. The unique circumstances include the fact that ATP has no equity and is not subject to solvency capital requirements. For this reason, the ATP report will differ from the other pension companies' reports in several respects.

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 as a pension and investment company. The report thus covers the activities related to the management of ATP Lifelong Pension (Livslang Pension) but not ATP's administration on behalf of external parties

Activities and results
ATP has been part of the basic security of the Danish people's retirement experience since its establishment in 1964 together with the state pension, which has had a significant impact on how we design ATP Livslang Pension (Lifelong Pension) and manage our investments. ATP's business model is therefore designed to deliver basic security through lifelong pensions, with an aim to ensure the real value of the pension over time. ATP's role was recently highlighted in the Danish Parliament's consideration of the ATP Act in May 2021, when a broad majority in the Danish Parliament confirmed ATP's unique position in the Danish pension system as part of the so-called Pillar 1 – basic security – and allowed ATP to optimise ATP's business model for the benefit of our 5.6 million members. Most recently, in November 2023, the Danish Parliament, also with a very broad majority, passed the Danish Act on Collective Payment ('Lov om samlet betaling') which simplifies employers' payments to ATP and the managed schemes. The Act also gave the Danish Financial Supervisory Authority the opportunity to issue a new executive order on accounting for ATP which ensures the preparation of financial statements in accordance with international accounting standards and the business model decided on by the Supervisory Board. The new executive order on accounting was issued by the Danish Financial Supervisory Authority on 12 December 2023.

The result for ATP Livslang Pension was DKK 6.9bn in 2023, which is composed of the hedging result and the investment result. The hedging result was DKK 2.3bn while the investment result amounted to DKK 4.6bn. In the investment portfolio, the largest positive contributions to the return came from holdings of government and mortgage bonds and listed international equities, while the largest negative contributions came from investments in inflation-linked instruments and real estate. In 2023, ATP's members made contributions of DKK 12.6 bn. The contributions are recognised in the balance sheet and recognised as income under insurance services as pensions are paid out and expenses are incurred in accordance with the latest international accounting standard IFRS 17. ATP paid out DKK 18.4bn in pension benefits in 2023. ATP's administration expenses were DKK 214 million in 2023, corresponding to DKK 38 per member.

ATP's Supervisory Board specifies the annual bonus in the form of a percentage increase of the already accrued pension. The general guidelines for the distribution of bonuses are laid down in ATP's bonus policy, which has been adopted by ATP's Supervisory Board. Based on these guidelines, ATP's Supervisory Board decided in 2023 to distribute a bonus to members above the state retirement age (payment bonus) of 3 per cent, with effect from 1 January 2024.

At the end of 2023, ATP's total pension liabilities amounted to DKK 569.0bn and the unallocated funds, consisting of the bonus potential (BP) and the Long-term Supplementary Provision (LSP), amounted to DKK 143.2bn. The bonus capacity, calculated as the bonus potential in relation to the guaranteed provisions without spread and including provisions for life annuities with market exposure, was 17.1 per cent.

System of Governance
The Danish ATP Act lays out the objectives and framework for the management of ATP, including that ATP should be governed by a Board of Representatives, a Supervisory

Board and a CEO (Chief Executive Officer) The Supervisory Board determines the general objectives and strategies for the management of ATP and lays down associated principles via written policies and guidelines. The CEO governs the Executive Board 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. It is ATP's assessment that the management system reflects the nature, scope and complexity of the risks associated with ATP's activities.

Fact box A.1 Adjustment of the business model

Since 2019, ATP has been working on changing its business model. The changes consist of two parts: Life annuity with market exposure was introduced in 2022 and a new hedging strategy was introduced in 2023. The life annuity with market exposure means that as of 1 January 2022, 20 per cent of the contribution for members with more than 15 years to go before reaching retirement age will go to market-exposed life annuities and be invested in a special market return portfolio. By investing this part of the portfolio, known as the market contribution, with a higher risk profile, it is expected that higher returns will be generated over time, thus resulting in higher pensions. The changes to the hedging strategy which began to be implemented in 2023 are based on ATP's existing interest hedging with the addition of a long-term market risk for hedging in the form of riskier assets in order to have better opportunities to ensure the real value of lifelong pensions over time.

As a consequence of the illiquidity of ATP's liabilities, as of 2023 ATP will calculate the value of the pension liabilities taking into account the illiquidity of the liabilities. Therefore, ATP adds an illiquidity range to the discount curve for the purpose of measuring the value of the guaranteed pensions. ATP will allocate the funds released in this way to a special buffer called Long-term Supplementary Provision (LSP), while also establishing a Supplementary Hedging Portfolio with long-term risk taking as part of the overall hedging. Over time, the returns from the supplementary hedging portfolio are expected to be able to be transferred to the bonus potential and thus contribute to ensuring the real value of lifelong pensions. ATP must also measure a supplementary risk adjustment to the pension liabilities, due to the new international accounting standards. This supplement is an expression of the funds that ATP needs to reserve to assume non-financial risks. Thus, there are two new items under pension provisions: Long-term supplementary provision and risk adjustment. In addition, as of 2023, an adjustment has been made to how the discount curve is specified for the long term. This adjustment means that for liabilities with a maturity of more than 30 years, a forward rate of 3 per cent is used to calculate the risk-free discount curve. Also see the description in fact box B.1.

Risk profile

ATP's risk profile is aligned with the purpose of securing the guaranteed lifelong payments, covering any unforeseen life expectancy increases for the pensions and other unforeseen expenses and enabling an increase in the real value of the pensions. This means that safe investments are prioritised in order to provide the promised lifelong guarantees, while also weighing the opportunities to generate reasonable returns against the risk of losing ATP's reserves. The overarching principle is that the total risk must be balanced in relation to ATP's reserves, bonus potential and Long-Term Supplementary Provision. The risk profile for ATP is generally expressed based on a measure of the total risk with an ATP-developed risk model supplemented by several risk calculations 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. The overall assessment is that ATP's exposure to risk and its financial situation is appropriate.

Fact box A.2 New accounting regulation

ATP follows the International Financial Reporting Standards (IFRS), and as of 1 January 2023 ATP has implemented a new standard (IFRS 17). Among other things, IFRS17 introduces a number of mandatory accounting items that result in a significant change to how the income statement is presented. The result from insurance service is always 0. The contributions increase the provisions and are only recognised in the income statement when the insurance is used, i.e. as pensions are paid out and expenses are incurred. Previously, the bonus potential was treated as a form of equity which the result of the year was transferred to. With IFRS 17, the bonus potential will be part of the pension provisions and therefore the bonus potential will accrue interest matching the returns which are not allocated to the pension liabilities. The interest on the bonus potential means that the income statement for ATP will always add up to 0. Changes to provisions due to life expectancy updates or allocation of bonuses will impact future payments, and will therefore not appear in the income statement, but will instead be items between the bonus potential and pension liabilities. Read more about the implementation of IFRS 17 in the ATP Group's Annual Report 2023.

B. Activities and results

Figure B.1 ATP's tasks

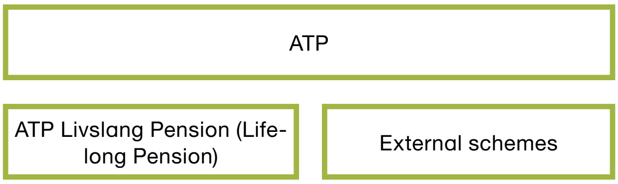


Figure B.2 The ATP Group's vision and strategic goals

The ATP Group's vision

We work to ensure that we have a community that gives the individual the freedom to live a secure and worthy life.

The ATP Group's strategic objectives

- Societal contribution: We strive to make a strong contribution to society and help future-proof the welfare state
- Digitalisation: We aim to be one of Denmark's leading technology and digitalisation companies
- Sustainability: We are committed to promoting a greener society with room for all talents

B.1. ACTIVITIES

ATP was set up in 1964 as an independent institution regulated by acts of parliament. ATP conducts activities related to the pension scheme ATP Livslang Pension (Lifelong Pension) and manages several external schemes for the state, municipalities, social partners and organisations.

ATP's role in the Danish pension system is to deliver basic financial security through guaranteed, lifelong pensions to ATP members as a supplement to the state pension. The pension is paid throughout the members' retirement period and supplemented with a death cover for the member's spouse/common-law partner and children under 21 years of age. The scheme helps to ensure basic security through a minimum pension in Denmark alongside the state pension, and is also part of the foundation on which other pensions are built. ATP Livslang Pension (Lifelong Pension) is Denmark's largest supplementary pension scheme.

ATP Livslang Pension (Lifelong Pension) is a mandatory scheme for all employees and the vast majority of transfer income recipients. Moreover, several groups – including disability pensioners – may make voluntary contributions to ATP. ATP has over 5.6 million members, 1.1 million of whom are pensioners receiving a lifelong pension from ATP. In recent years, payments from ATP have exceeded contributions.

In 2021, the Danish Parliament adopted some amendments to the ATP Act with a broad majority, allowing for the implementation of changes to ATP's business model. From the beginning of 2022, this led to an adjustment concerning future contribution payments called life annuity with market exposure, and a changed hedging strategy was introduced in 2023.

In addition to ATP Livslang Pension (Lifelong Pension), ATP performs administrative services for several external schemes on behalf of labour market organisations, municipalities and the Danish state. The services include collection of contributions, payment of benefits and membership and client administration for a number of labour market, social security and welfare schemes. ATP performs these tasks on a cost recovery basis – i.e. without profit to ATP and without any expense risk. ATP pays out 2/3 of the Danish welfare spending.

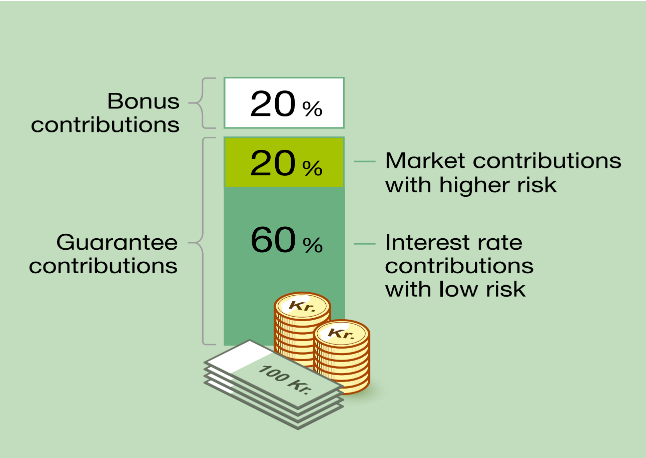
This report only describes ATP in its capacity as a pension provider and, therefore, activities related to the management of ATP Livslang Pension (Lifelong Pension). The report consequently does not cover ATP's administration on behalf of external schemes.

Supervision of ATP

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

ATP is also subject to supervision by the Danish Financial Supervisory Authority, which especially focuses on financial, governance and pension-related matters. The Danish

Figure B.3 Business model for individuals with more than 15 years to go before qualifying for state pension.



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 Ministry of Employment and the Danish Financial Supervisory Authority.

ATP's strategy

The Supervisory Board annually determines the strategy for the ATP Group, as well as the focus areas to be prioritised in the following years. The strategy is set collectively for the whole ATP Group to ensure a sustainable ATP with coherence across the Group.

The strategy for 2024 is built around the three Group strategic goals shown in figure B.2, and is based on the ATP Group's overall vision. Underpinning each strategic goal are initiatives to help ensure the strategy is achieved. The strategy and the results obtained will be reviewed at mid-year and at the end of the year.

The Supervisory Board has specified a profit expectation for ATP Livslang Pension (Lifelong Pension) of 11 per cent of the bonus potential in 2023. For 2024, the profit expectation is also specified at 11 per cent of the bonus potential.

ATP Livslang Pension (Lifelong Pension)

ATP Livslang Pension (Lifelong Pension) Pension contributions paid to ATP are divided into guarantee contributions and bonus contributions, which in 2023 represented 80 per cent and 20 per cent, respectively, of the contribution payments (after social security contributions and payment for cover in the event of death). The guarantee contribution is used to accrue pension entitlements. The remaining 20 per cent are funds that are invested to increase members' pensions with bonuses and protect against unforeseen expenses. The guarantee contribution is guaranteed for the expected lifetime. From 2022, the guarantee contribution is split into two parts for members who have more than 15 years to go before reaching retirement age. 75 per cent of the guarantee contribution (corresponding to 60 per cent of the total deposit) is invested with low risk (the interest contribution) and 25 per cent (the market contribution, corresponding to 20 per cent of the total deposit) is invested with a higher risk to get a higher return. When a member has 15 years to go before reaching retirement age, ATP gradually reverts to investing 80 per cent of the member's contributions at low risk and the remaining 20 per cent to generate returns to increase pensions.

ATP's investments reflect the design of the pension product and are divided into Hedging and Investing, respectively.

Hedging includes three portfolios: Interest Hedging Portfolio, Supplementary Hedging Portfolio and Annuity with market exposure. The objective of the hedging portfolio is to safeguard ATP's ability to deliver on the guarantees issued at all times. The portfolio consists of bonds and interest rate swaps to hedge the interest rate risk on the guaranteed pensions. Hedging is used to ensure that the market value of the hedging portfolio after tax fluctuates in line with the guaranteed pension benefits when interest rates change. In the second half of 2023, the supplementary hedging portfolio was established as part of the overall hedging strategy. This adds long-term market risk to the hedging in the form of riskier assets in order to strengthen the ability to increase the real value of pensions over time. Contributions to life annuity with market exposure are invested in the market return portfolio.

By investing part of the contributions with a higher risk profile, it is expected that higher returns and thus higher pensions will be generated over time.

The funds pertaining to the bonus potential are invested in the investment portfolio in such a way that an appropriate balance is maintained between having the opportunity to add bonuses to the pensions and limiting the risk of the bonus potential being lost due to negative returns. This weighing of expected returns against the risk of loss is a core part of ATP's business model and risk management.

Result for ATP as a pension and investment company
The results of ATP as a pension and investment company are linked to the management of ATP Livslang Pension (Lifelong Pension). They are reported under the three accounting areas Insurance Service, Hedging and Investment.

The result of Insurance Service comprises insurance income, pensions paid out, investment activity expenses, hedging and administration, change in risk adjustment and other changes.

The result of Hedging includes the result of interest rate hedging, the result of supplementary hedging and the result of life annuity with market exposure.

The Investment result includes the return on the investment portfolio after tax and investment expenses.

The result for ATP Livslang Pension, which is the sum of the results of the three reporting areas Insurance Service, Hedging and Investment, amounted to DKK 6.9bn in 2023. The result is transferred to ATP's bonus potential, which totalled DKK 104.0bn at year-end.

ATP's Supervisory Board decides each year on whether to assign a bonus in the form of a percentage increase in the pensions already accrued. The general guidelines for the distribution of bonuses are laid down in ATP's bonus policy, which has been adopted by ATP's Supervisory Board. Based on these guidelines, ATP's Supervisory Board decided in 2023 to distribute a bonus to members above the state retirement age (payment bonus) of 3 per cent with effect from 1 January 2024.

The update of life expectancy figures in 2023 resulted in an increase in the bonus potential of DKK 1.9bn. The transfer reflects an adjustment of life expectancy projections as a result of the development in actual life expectancy in the past year.

Changes to provisions due to life expectancy updates or allocation of bonuses will impact future payments, and will therefore not appear in the income statement, but will instead be items between the bonus potential and the pension liabilities.

B.2. RESULT OF INSURANCE SERVICE

The result of insurance service is calculated as the difference between insurance income and expenses for insurance service. Insurance income consists of the expected run-off of pension benefits and expenses that were included in the pension provisions at the beginning of the reporting period. The relatively small run-off of the risk adjustment related to the uncertainty associated with non-financial risks is also recognised in insurance income. Contribution incomes are not recognised in the income statement, but they increase the size of the provisions on the statement of financial position. Insurance service expenses are the actual payments, costs and change in risk adjustment during the period. The difference between the expected and actual payments, referred to as 'other changes', is also included in insurance service expenses, and results in the insurance service result being measured as 0. Pension payments totalled DKK 18.4bn in 2023 and continue to rise as the number of members receiving pension payments increases. The expenses amounted to DKK 0.9bn, which is a decrease compared to 2022. At year end 2023, 1,050,000 pensioners received ATP Livslang Pension (Lifelong Pension), and approximately 35 per cent of Danish old-age pensioners have no pension income other than ATP and the state pension. Contribution payments were DKK 12.6bn in 2023, which is slightly higher than in 2022. Pension contributions are broken down into a guaranteed contribution and a bonus contribution, which in 2023 amounted to 80 per cent and 20 per cent of contributions paid, respectively (after social security contributions and payment for death cover). CF. Figure B3 concerning the ATP business model. From 2022, 20 per cent of the contribution for members with more than 15 years to retirement age will be allocated to life annuity with market exposure.

In connection with the interim financial statements, ATP adjusted its long-term life expectancy forecast. This resulted in an increase of DKK 1.9bn in the bonus potential. Since 2018, ATP has made provisions of DKK 5.2bn for longer life expectancy. The value of the pension obligations was DKK 569.0bn at the end of 2023. The value of the unallocated funds was DKK 143.2bn, of which long-term supplementary provisions totalled DKK 39.2bn and the bonus potential totalled DKK 104.0bn. At the end of 2023, the bonus capacity was 17.1 per cent, which is a slight decrease compared to the bonus capacity of 17.2 per cent at the end of 2022.

Table B.1 Result of Insurance Service

DKK million	2023	2022
Insurance income	19,498	19,227
Paid out pensions	(18,408)	(17,957)
Investment and hedging expenses	(703)	(822)
Administration activity expenses	(214)	(215)
Change to risk adjustment	(53)	(49)
Other changes	(120)	(184)
Result of insurance service	**0**	**0**

B.3. INVESTMENT AND HEDGING ACTIVITY RESULTS

The total hedging and investment activity results were DKK 6.9 bn in 2023, compared to DKK 50.2bn in 2022 as shown in Table B.2.

Table B.2 Investment and hedging activity results

DKK million	2023	2022
Hedging activity results	2,298	4,930
Investment activity results	4,640	(55,104)
Investment and hedging activity results	**6,938**	**(50,175)**

Hedging activity results

Hedging activity results are shown in table B.3.

Table B.3 Hedging activity results

DKK million	2023	2022
Change due to interest and maturity reduction	(33,348)	212,298
Return in interest hedging portfolio	42,066	(244,827)
Tax on pension savings returns	(6,421)	37,459
Result from interest hedging	**2,298**	**4,930**
Return on supplementary hedging portfolio	736	-
Interest on Long-term Supplementary Provision [1]	(625)	-
Tax on pension savings returns	(110)	-
Result of supplementary hedging	**0**	**-**
Return on market return portfolio	249	(87)
Interest on life annuity with market exposure[2]	(206)	73
Tax on pension savings returns	(43)	13
Result of life annuity with market exposure	**0**	**0**
Hedging activity results	**2,298**	**4,930**

[1] Long-term supplementary provision (LSP)
[2] Life annuity with market exposure

Hedging includes interest rate hedging, supplementary hedging and life annuity with market exposure. Interest hedging is organised so that the market value of the interest hedging portfolio after tax is expected to fluctuate at the same rate and to the same extent as the guaranteed pensions when interest rates change. The interest hedging portfolio consists of bonds and interest rate swaps to hedge the interest rate risk on the guaranteed benefits calculated without spread when interest rates change. Interest rate swaps in the hedging portfolio do not tie down liquidity to the same extent that bonds do, and funds not tied up in the hedging portfolio can be allocated to loans for investing in the investment portfolio.

The value of the guaranteed pensions increased by DKK 33.3bn in 2023 as a result of interest rate changes and maturity shortening. Correspondingly, the interest hedging portfolio generated positive returns (after tax) of DKK 35.7bn. The value of the interest hedging portfolio thus increased as the value of the pension guarantees fell and the interest hedging worked as intended. The total result of interest rate hedging was DKK 2.3bn.

In the second half of 2023, investments were made in the supplementary hedging portfolio for the first time. In accordance with the changed hedging strategy, long-term market risk was added to the hedge in the form of riskier assets. Over time, the returns from the supplementary hedging portfolio are expected to form the basis for transfers to the bonus potential and thus contribute to ensuring the real value of lifelong pensions. In 2023, the supplementary hedging portfolio generated a return of DKK 0.7bn as a result of the general market development. The return on the supplementary hedging portfolio after tax is deposited in the long-term supplementary provision (LSP).

Contributions to life annuity with market exposure are invested in the market return portfolio. By investing part of the contributions with a higher risk profile, it is expected that higher returns and thus higher pensions will be generated over time. In 2023, the portfolio generated a return of DKK 0.2bn. At the end of the year, the provision for annuity with market exposure totalled DKK 3.2 bn.

Investment activity results

In 2023, the investment portfolio generated a pre-tax return of DKK 5.7 billion, corresponding to a return of 5.5 per cent relative to the bonus potential. The result from Investment is shown in table B.4 and the composition of the return on investment is shown in figure B.4.

Table B.4 Result of Investment

DKK million	2023	2022
Investment return	5,718	(64,511)
Tax on pension savings returns and corporate income tax	(1,078)	9,406
Investment activity results	**4,640**	**(55,104)**

In 2023, the financial markets were characterised by interest rate changes, rising equity prices and high inflation. In the US bond market, yields on bonds with relatively short maturities fell while yields on bonds with longer maturities rose. In the leading European bond markets, yields on both short and long-dated bonds fell. Over the year as a whole, the largest positive contributions to the return came from holdings of government and mortgage bonds and listed international equities, while the largest negative contributions came from investments in inflation-linked instruments and real estate.

Market risks necessary to generate returns are managed in the investment portfolio based on a risk budget and risk diversification framework. The investment portfolio follows a risk-based investment approach, the focus of which is on risk rather than on the amount of DKK invested. As a general rule, the investment portfolio consists of funds from the bonus potential. Funds not tied up in the interest hedging portfolio as a result of the use of financial derivatives are available for investment in the investment portfolio on market terms. In practice, this means that the investment portfolio can operate with more funds than the bonus potential. The market value of the investment portfolio at the end of 2023 was DKK 250.5bn.

According to the 'Executive Order on Reporting and Publication of Information for ATP', ATP must disclose any investments in securitisation[1]. ATP has no direct investments in securitisation, but has small indirect positions through ATP's fund investments. Further details on ATP's loan portfolio are provided in section D.2. As ATP's investments are generally currency hedged into Danish kroner and euro, currency fluctuations have only a limited effect on returns. ATP's liquidity management is detailed in Fact box B.2.

B.4. RESULTS OF OTHER ACTIVITIES

ATP is not engaged in other activities in its capacity of being a pension and investment company.

B.5. OTHER INFORMATION

In the autumn of 2023, the valuation process for illiquid investments was adjusted as a follow-up to the order received from the Danish Financial Supervisory Authority in July 2023 regarding ongoing valuation. The adjustment of the valuation process includes lower limits for when to initiate an assessment of the need for extraordinary valuations of the illiquid assets, and the process leading to extraordinary adjustments has also been adjusted. The extraordinary value adjustments are based on the development in the relevant liquidity indices, depending on the risk profile, which is assessed to reflect the underlying illiquid investments.

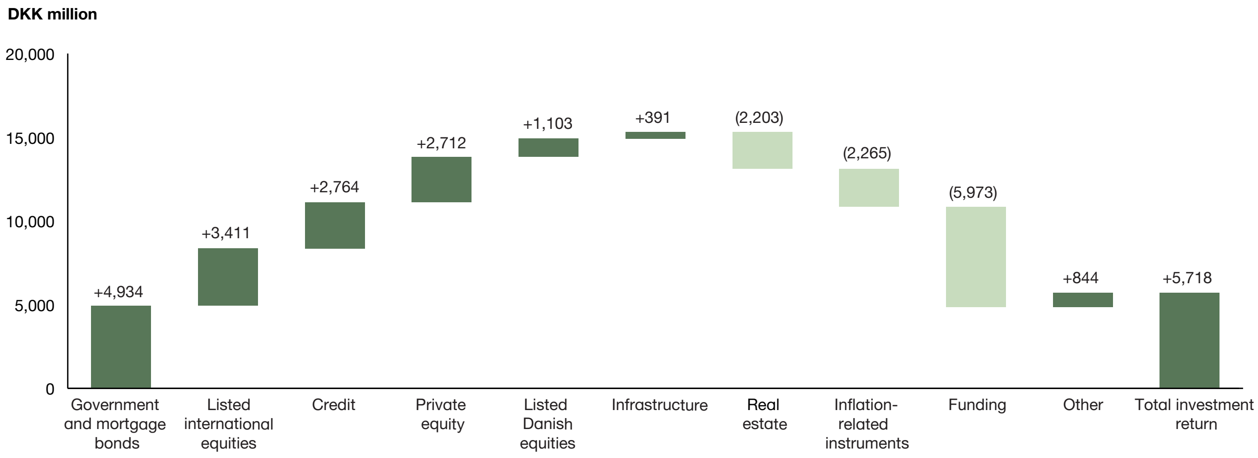
Fact box B.1 ATP's interest rate curve for valuing the guaranteed benefits

The discounting factors used to measure the value of the guaranteed benefits are calculated based on an underlying yield curve. From and including 2023, ATP's yield curve is adjusted by taking into account the illiquidity of the liabilities, and by an adjustment of how the yield curve is specified in the long term. The adjustment of the yield curve results partly in liabilities with a maturity beyond 30 years using a forward interest rate of 3 per cent to calculate the risk-free yield curve, and partly in the risk-free yield curve being supplemented with an illiquidity range that reflects the illiquidity of the liabilities. Overall, the adjusted yield curve resulted in the carrying amount of the guaranteed benefits as at 1 January 2023 being reduced by DKK 35.2bn, of which DKK 3.0bn affected the bonus potential while DKK 37.3bn was included in the long-term supplementary provision and DKK 1.0bn was included as a risk adjustment for non-financial risks.

2. Securitisation is to be understood as a transaction or scheme where the credit risk of exposure or pool of exposures is divided into tranches which are characterised by:

1. The payments under the transaction or schemes depend on the performance of the exposure or pool of exposures.
2. The ranking of tranches determines the distribution of losses over the life of the transaction or scheme.
3. The transaction or scheme does not create exposures with all the characteristics listed in Article 147(8) of Regulation (EU) No 575/2013.

Chart B.4 Composition of investment return for 2023



Fact box B.2 ATP liquidity management

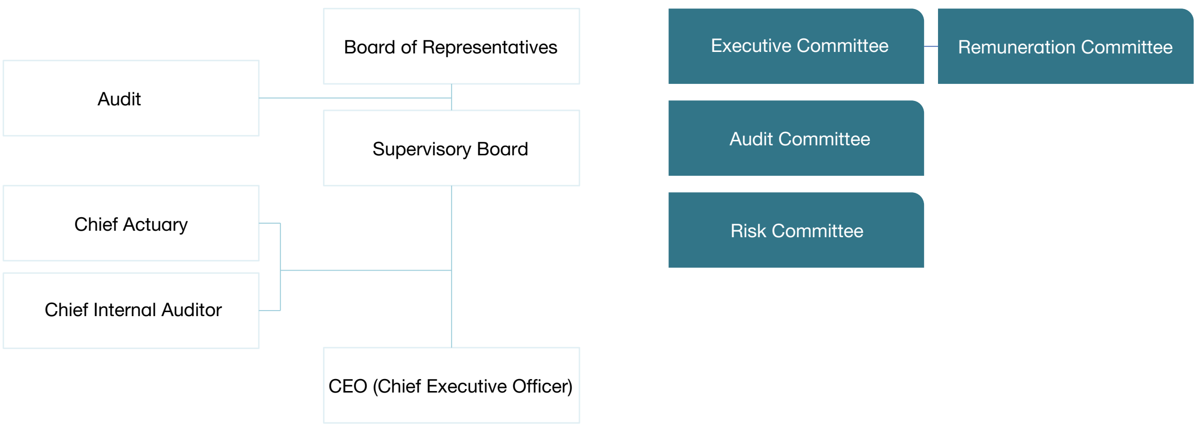
ATP's liquidity management is organised according to ATP's business model. It reflects that about half of the interest rate risk linked to ATP's guaranteed benefits is hedged by swaps that do not entail a liquidity risk. There is, therefore, excess liquidity available for the investment portfolio. However, this excess liquidity is not fully used by the investment portfolio. The remaining excess liquidity is primarily invested in short-term bonds with low interest rate risk. The return on these investments is included in the hedging portfolio, etc. The investments are made while taking into account that ATP must always have sufficient liquidity to meet future payment obligations. The development of ATP's liquidity depends primarily on the following factors:

- ATP pays pensions and receives contributions from members.
- ATP incurs expense and pays taxes.
- ATP trades current investment assets and receives the associated cash flows.
- ATP and its counterparties provide ongoing collateral for changes in the value of, for example, interest rate swap contracts.

In 2023, ATP implemented a new liquidity model that illustrates liquidity needs in stressed markets and expected liquidity generation over various time horizons.

C. System of Governance

Figure C.1 Board of Representatives and Supervisory Board



C.1. SYSTEM OF GOVERNANCE GENERAL INFORMATION

Board of Representatives and Supervisory Board
ATP is managed by a Board of Representatives, a Supervisory Board and a Chief Executive Officer (CEO). ATP's corporate governance framework is set out in the Danish ATP Act. The organisation of ATP's senior management is illustrated in Figure C.1.

The constitution of ATP's Board of Representatives and Supervisory Board reflects the Danish labour market agreement model. The Board of Representatives comprises 15 employer representatives, 15 employee representatives and a Chairman appointed by the Board of Representatives. The Chairman may not be affiliated with any salaried employee or employers' organisation. 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.

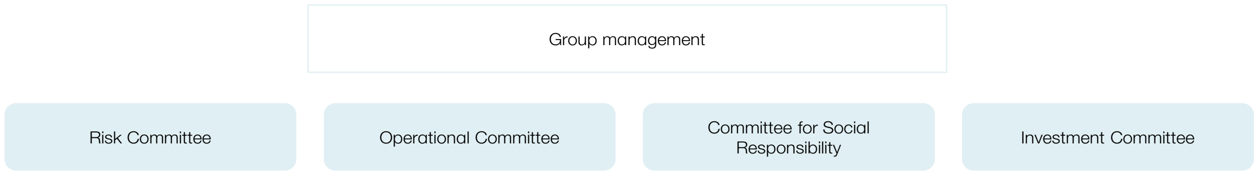
The members of the Board of Representatives and the Supervisory Board, apart from the Chairman, cf. above, are appointed by the Minister for Employment on the recommendation of labour and management of the social partners. They are appointed for a three-year term with the possibility of reappointment. There is no age limit requirement to be appointed. 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 approving the ATP contributions, ATP's annual report and pay policy and determining the remuneration for members of the Board of Representatives and the Supervisory Board. The Board of Representatives also appoints ATP's Chairman of the Supervisory Board 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 additionally manages a number of tasks particularly relevant to ATP in its role as a pension

Figure C.2 ATP's management and associated committee



and investment company. In this connection, the Supervisory Board determines ATP's desired risk profile, including the frameworks for ATP's investments, and also identifies, quantifies and assesses the main risks ATP faces. The Supervisory Board also approves the basis for pensions and provisions, which includes the basis for calculating and valuing ATP's pensions.

The duties of the Board of Representatives and the Supervisory Board are governed by procedures, and ATP's Supervisory Board has appointed four Supervisory Board committees: 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. As a general rule, the Executive Committee holds seven ordinary meetings per year.

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

The Supervisory Board has decided to let the Executive Committee perform the duties of ATP's Remuneration Committee. These duties are integrated into 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 presentations to the Supervisory Board and Board of representatives for decisions on remuneration, including pay policy and guidelines for incentive programmes. In addition, the Remuneration Committee, under delegation from the Supervisory Board, determines the remuneration of the Group Management, excluding the CEO (Chief Executive Officer).

The Audit Committee comprises four members: the Chairman of the Supervisory Board, two other members of the Executive Committee and a member of the Supervisory Board with accounting or audit experience, who will also serve as Chairman of the Committee. As a general rule, the Audit Committee convenes ordinarily 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 additional 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 contributes to ensuring the best possible basis for the Supervisory Board's risk and solvency assessment of ATP (ORSA). As part of this work, the Committee discusses risk identification, risk appetite, quantification, governance and organisation, and risk and solvency assessment prior to Supervisory Board meetings. As a general rule, the Risk Committee convenes 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 insurance-related technical tasks. The Supervisory Board has set out the Chief Actuary's tasks in a function description. The Supervisory Board has also decided that 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 set out by the Supervisory Board.

Figure C.3 The Group management team

Chief Executive Officer

Martin Præstegaard

Responsible for the day-to-day management of ATP in accordance with the guidelines issued by the Supervisory Board and other duties incumbent on the CEO under law. Also responsible for Group Management, Group Secretariat, Group Communications and CEO Office.

Chief Financial Officer

Pernille Vastrup (as of 1 April 2023)

Responsible for Corporate Functions, including HR, Group Legal & Data Protection, Group Finance & Governance, Group Procurement and Business Support and Business Partner in Pensions & Investments.

Chief Investment Officer

Mikkel Svenstrup

Responsible for the overall portfolio management and for ensuring that investments are made in accordance with the strategy and board-approved guidelines, including responsibility in investments.

Executive Vice President, Pension Risk Management and Compliance Chief Risk Officer

Kim Kehlet Johansen (until 31 December 2023)

Responsible for management of pension-related, investment-relatec and operational risks, including information security and compliance. Also product manager for ATP Livslang Pension (Lifelong Pension) and responsible for the Labour Market Insurance Claims Review.

Executive Vice President of Pension & Business Insurance

Anne Kristine Axelsson

Responsible for member administration related to ATP Livslang Pension (Lifelong Pension), including payments and collection of contributions as well as administration of AES and a number of other schemes for external parties, including Seniorpension as of 1 June 2023.

Executive Vice President of Udbetaling Danmark

Kristine Stenhuus

Responsible for ATP's administration of Udbetaling Danmark, and for Seniorpension until 1 June 2023.

Executive Vice President of Digital Solutions. Chief Information and Technology Officer

Haktan Bulut

Responsible for technology, data and digitalisation across ATP.

The CEO is assisted in the day-to-day management by the other members of ATP's Group management. Figure C.3 shows the members of Group Management and describes their respective areas of responsibility. The CEO delegates areas of responsibility to the other members of Group Management in accordance with special instructions from the CEO.

Through strategic choices and concrete management decisions with the Group Management, the CEO ensures that ATP is run and developed in all essential areas according to appropriate administrative, budgetary and accounting procedures and in accordance with effective forms of corporate governance. The members of Group Management shall ensure on an ongoing basis that the necessary financial and human resources are available to fulfil the duties in their respective areas.

In addition to the Group Management, the CEO has set up management bodies in ATP, as specified in Figure C.2. The CEO participates in the management bodies, thus ensuring efficient and transparent decision-making processes.

- **The Risk Committee** is the decision-making body for material strategic and principal-based risk management issues. The Committee is also responsible for ensuring the managerial handling of major and thematic risk management, governance and compliance. In addition, the Committee is responsible for monitoring ATP's most material risks associated with ATP's Pension and Investment activities.

- **The Committee for Responsibility** is the decision-making body for, and coordinator of, ATP's social responsibility in connection with investments including stewardship, climate and coordination of coordination of voting on international equities.
- **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** is a decision-making forum that discusses and decides on strategic matters in Pensions & Investments concerning operational aspects. This includes ATP's tax policy, P&I's technical platform, essential operational risks and relevant development tasks in P&I.

Forums have also been established in several specific areas where decision-making powers are more focused on concrete matters related to the current operation of ATP.

ATP uses management reporting to provide close, consistent follow-up of management decisions and established frameworks. Reporting to Group Management is aligned with the established forums and covers the main areas of activity. Reporting to the Supervisory Board follows an annual schedule, which determines when the Supervisory Board addresses the matters. The Supervisory Board also receives monthly reports on ATP's risks and financial position.

ATP's accounting practices ensure that financial reports are prepared in accordance with applicable rules and supported by comprehensive procedures for accounting, time registration, internal transactions, financial reporting, etc.

Key persons in ATP

Key persons in ATP, in addition to the CEO, include those responsible for the statutory key functions, i.e. the risk management function, compliance function, internal audit function and actuarial function, as well as members of Group Management who are part of the actual management of ATP in its capacity as a pension and investment company. At year-end 2023, ATP had a total of nine key persons, as the Chief Risk Officer is both a member of Group Management and has been appointed as the officer responsible for the statutory risk management function. ATP determined that no additional key functions were needed in 2023.

The Chief Executive Officer has appointed the key persons responsible for the Risk Management and Compliance functions. In contrast, the Supervisory Board has appointed the key persons responsible for the internal audit and the actuarial functions, as these are handled by the Internal Chief Auditor and the Chief Actuary, who already reports to the Supervisory Board.

Job descriptions have been developed for each of the key functions, which assign, distinguish and coordinate the tasks and responsibilities of the key functions. The job descriptions thus help to ensure effective cooperation. The risk manager reports annually to the CEO on ATP's risk management. The report is shared with the Supervisory Board, while those responsible for the other key functions submit the annual report directly to the Supervisory Board. The key function managers are all authorised and required to communicate and report directly to the Supervisory Board as they consider necessary. Combined with the requirement that the Supervisory Board can only dismiss key function holders, this helps to ensure the independence of key function holders. Figure C.4 shows the key persons who are responsible at year-end 2023 for the four key functions and the associated areas of responsibility. The four key functions are detailed in sections C.3 to C.6.

Changes to the system of governance in 2023

Pernille Vastrup joined as CFO on 1 April 2023. She took over the role from Martin Præstegaard. Kim Kehlet Johansen stepped down from his position as CRO as of 31 December 2023. As of 1 January 2024, Jacob Lester took over the role of CRO and was at the same time appointed as the key person responsible for the risk management function in ATP. Jacob Lester also joined the Group Management Team. As per the end of 2023, the Group Management team consists of 7 people, 6 of whom are considered key persons for ATP. The composition of the Group Management at the end of 2023 is shown in Figure C.3.

Tanja Ulevik Vestergaard joined ATP as the key person responsible for the compliance function as of 11 May 2023. She replaced Director, Compliance Officer Carsten Storr-

Figure C.4 Responsible for the four statutory key functions

Risk management function Responsible key person: Kim Kehlet Johansen, Chief Risk Officer Responsibility: Monitoring and ensuring that ATP's risk profile is in accordance with the Supervisory Board's desired risk profile and that the risk management system functions safely and appropriately.	**Compliancefunktion** Responsible key person: Tanja Ulevik Vestergaard, Head of Operational Risk Management and Compliance (as of 11 May 2023). Responsibility: Assessing and verifying whether ATP has effective methods for detecting and minimising risk of non-compliance with applicable legislation, market standards and internal rules.
Intern auditfunktion Responsible key person: Per Graabæk Ventzel, Chief Auditor Responsibility: Conducting audits in accordance with the established audit plan and assessing the internal control system.	**Actuarial function** Responsible key person: Camilla Fredsgaard Larsen, Chief Actuary Responsibility: Determining pension provisions and ensuring that the underlying assumptions and methods are appropriate.

Hansen, who temporarily served as the key person for the compliance function from 1 November 2022 to 11 May 2023.

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 on remuneration and disclosure requirements, including limits for the awarding and payment of variable remuneration, 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, effective risk management, including ensuring a long-term commonality of interests for the individual employees and ATP's members, and supporting ATP's ability to manage its liabilities. Remuneration and fees are defined 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 guarantee ATP's ongoing ability to attract and retain the best-qualified managers and employees.

Where ATP utilises variable remuneration, it is used as an active tool that supports business development by focusing on performance management and encourages value-creating behaviour, including sound, effective risk management that does not encourage excessive risk-taking, including with regard to sustainability risks.

Meanwhile, variable remuneration must encourage sustained and extraordinary results within the framework of the applicable remuneration rules. Members of the Board of Representatives, the Supervisory Board and, if relevant, 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 Group Management, the Chief Actuary and Chief Auditor and other key function holders are remunerated with a fixed salary and certain benefits as well as, if relevant, one-off payments. A pension contribution is paid as part of the fixed remuneration. Other forms of variable remuneration are not included. The remuneration for 2023 for the Board of Representatives and Supervisory Board is shown in table C.1, while remuneration for members of the Group Management is shown in table C.2. A comparison with the level in the previous reporting period appears in ATP's annual report.

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, at a minimum, based on the following three components:

- ATP's Investment and Hedging activity results
- The results in the individual portfolio manager's department in the form of, for example, returns, investment processes, etc. or combinations of these

- The individual's own performance in the form of, for example, the individual's contribution to returns, investment processes, teamwork, etc. or combinations of these.

When determining and calculating variable remuneration, considerations should be made about whether the relevant employee has participated in promoting non-excessive risk-taking in terms of sustainability risks by integrating sustainability risks in ATP's investment decisions in accordance with applicable legislation and the ATP Group's Policy for Responsible Investments. This means that employees comply with and contribute to supporting the processes determined at any time in the investment process.

ATP's CEO and Chief Investment Officer jointly determine which portfolio managers are covered by the incentive programme, the minimum investment results that ATP must achieve before bonuses begin to be accrued, and the weighting of the individual programme components.

It is stated in ATP's pay policy that for significant risk takers, the variable part of the salary package may not exceed 100 per cent of the base salary (50 per cent for the CEO), including pension contributions, per year, and they are paid out over three years (at least four years for the CEO). In certain cases, variable remuneration elements can be withheld, or a demand can be made that they be repaid. In other incentive programmes, a ceiling must be specified for the individual variable remuneration packages in individual years. In 2023, a total of 32 portfolio managers received variable remuneration elements accrued in the calendar year in the form of the above incentive schemes. Other employees can be assigned a lump sum award for exceptional performance, which may not, exceed the equivalent of 4 months' pay including pension contributions.

As of 1 July 2023, severance pay is regulated in the ATP Act, and it is now explicitly stated that compensation exceeding the recipient's total remuneration in the last two financial years, including pension contributions, must be disclosed and justified. Among other things, rules have also been added regarding payment, withholding and, if relevant, repayment. These new rules will be reflected in the remuneration policy to be presented to the Board of Representatives in February 2024.

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. The amendment to the ATP Act on 1 July 2023 clarified the Danish Financial Supervisory Authority's practice for approval and the possibility of conditional decisions in special circumstances. 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 pertaining to their position
- have an adequate 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.

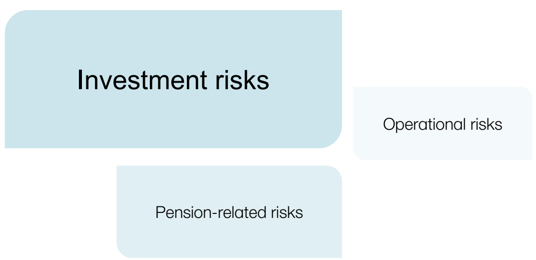
When submitting the information to the Danish Financial Supervisory Authority for the designated key persons, ATP submits a declaration with a reasoned statement confirming that the persons are fit and proper to hold the positions in question. It is assessed whether the key person has sufficient experience, skills, knowledge and expertise. Emphasis is placed on the person having the relevant education and training in relation to the nature, scope and complexity of the risks associated with ATP and with regard to the statutory requirements for the education and training of the person in question. Emphasis is also placed on the person 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 skills 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, in several cases supplemented with continuing education and training in both Denmark and abroad. This 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 companies, including in the pension, insurance, mortgage and banking sectors.

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

In ATP, the risk management system is interpreted broadly. 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 help to provide awareness of risks that need to be managed. Controls can thus be regarded as risk reducing measures.

Figure C.5 Significant risks in ATP



The Supervisory Board has established a policy for internal control to ensure a satisfactory internal control system and regulate the general principles for the design of the internal control system in ATP, including organisation of the internal control system in three levels (the three lines of defence). The 2nd line of defence is organised independently from the business and helps ensure a strong internal control environment by conducting checks and investigations within the business.

The general management team, consisting of the Supervisory Board and the Group Management, constitutes a significant part of the risk management system through its determination of the desired risk profile, risk management strategy and delegation to other parts of the Administration (the business), and by determining the level of associated reporting that is required. A corresponding delegation with related reporting is carried out in the individual business areas. Figure C.6 illustrates the overall relationships.

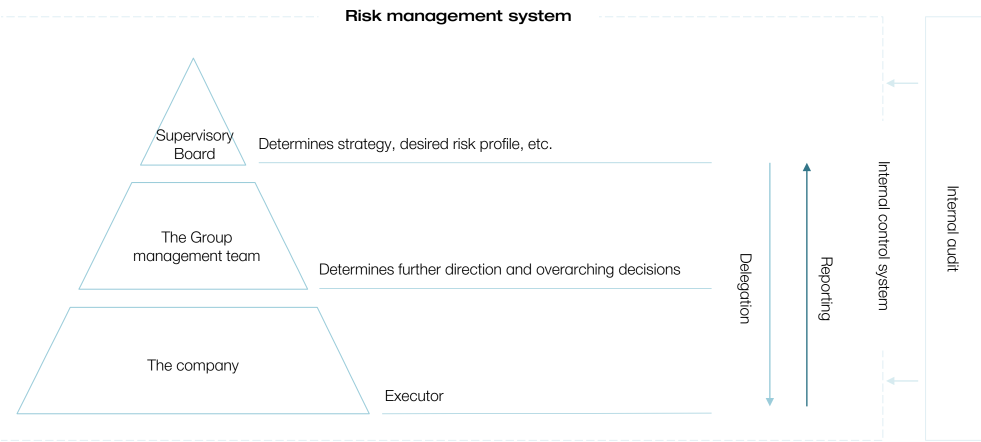
The Supervisory Board has set the preferred risk profile for ATP and the framework for risks through the Risk Policy for ATP and related guidelines. The policy provides the overarching direction, framework and guidelines for ATP to follow in managing risk. At the same time, the related authority and duties of the CEO are defined through the Supervisory Board's guidelines to the CEO of ATP. The Chief Risk Officer is responsible for the risk management function, which monitors and ensures that the risk management system is sound and that there is adequate compliance with the Supervisory Board's guidelines concerning risks. The Chief Risk Officer is responsible for ensuring that identifying, measuring, monitoring, managing and reporting ATP's investment, pension and operational risks is performed responsibly and appropriately. Several units share the responsibilities of the Risk Management function in the Pensions & Investments Business together with the cross-functional Operational Risk Management, Compliance and Security unit (information security). The function is represented in several meeting forums, including monitoring the risk management system and risk profile, identifying and assessing emerging risks and ensuring accurate, detailed reporting.

The preferred risk profile for ATP set by the Supervisory Board reflects the ATP's priorities of high pension security and the investment of pension funds to secure the guaranteed lifetime payment and the real value of the lifelong pensions. To this end, the Supervisory Board has established a risk framework to protect ATP's bonus potential and financial flexibility.

ATP's total risk includes three risk categories: investment, pension and operational risks. They are all considered significant, and the Supervisory Board has set out detailed guidelines for them as part of the determination of the desired risk profile:

- **Investment risks**
  Investment risks consist primarily of market risks and associated counterparty, concentration and liquidity risks. Market risks necessary to generate returns are primarily taken in the investment portfolio, the market return portfolio and the supplementary hedging portfolio, and are managed based on a given risk budget and risk diversification framework. 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

Figure C.6 Risk management system



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 is available on ATP's website www.atp.dk.

- **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 expectancy, as the measure determination of the value of the guaranteed benefits is closely linked to the members' life expectancy. Increased life expectancy means that ATP must make larger provisions to cover the guaranteed benefits, as pension payments must be made for longer periods. ATP has elected not to hedge its life expectancy risk, and must therefore cover any losses in case of increased life expectancies. ATP follows life expectancy statistics closely, based on an in-house developed life expectancy model.

- **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 resulting from ATP's cooperation 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 regulations, lack of compliance with current legislation, market standards or internal rules or cyber security breaches and security breaches. Assessment of risks related to the processing of personal data should also include consequences from the registered person's perspective. ATP recognises that operational risks cannot be avoided entirely, but aims to limit the risks by balancing consequence and probability against the costs 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 statutory risk management function, which monitors and ensures that the risk management system is sound, adequate, and in compliance with the Supervisory Board's guidelines on risk. 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 expectancy of ATP's members. In addition, the Supervisory Board receives an annual report on operational risks and an annual report on information security.

The CEO receives reports on ATP's risks daily on an internal portal, monthly via the Investment and Risk Report and on an ongoing basis as appropriate. The CEO receives a report on ATP's risks at Risk Committee meetings, which are held approximately seven times per year. The CEO

Fact box C.1 Investment consequential risks

Counterparty risks
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.

Concentration risks
Risks stemming from an overreliance on a particular type of exposure, such as specific asset classes, investment markets or individual investments.

Liquidity risks
Liquidity risks are risks associated with potential incomplete honouring of claims for payment or furnishing of collateral.

and the Group Management also receives quarterly reporting about ATP Group's operational risks. Furthermore, the CEO receives a bimonthly briefing on responsibility and stewardship in connection with investments from the Committee for Responsibility and a monthly report on information security. Finally, the CEO receives an annual report on ATP's risk management, which is also sent to the ATP Supervisory Board.

Managers and employees of ATP's Pensions and Investments (pensions and investments area of ATP excluding subsidiaries) have access to overarching and detailed information on ATP's risks and financial position via the internal portal, which is updated and checked daily. The information is revised and adjusted on an ongoing basis to ensure that it covers all relevant conditions over time.

Risks that manifest particularly in the long term
ATP is exposed to risks that manifest particularly in the long term in relation to the maturity of ATP's guaranteed benefits. These risks are particularly associated with the preconditions used when measuring the value of guaranteed benefits. The preconditions about life expectancy and discount curve play a central role in this regard.

If the assumed lifetimes used to measure the guaranteed benefits are shorter than the life expectancy of ATP's members, ATP will experience losses over time due to members having to be paid pensions for longer. ATP closely monitors life expectancy trends to ensure that the assumed life expectancies reflect members' life expectancies. In this way, ATP reduces the risk of a large discrepancy between the assumed life expectancy used to measure the guaranteed benefits and members' life expectancy.

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

Figure C.7 ORSA-wheel

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 which calculates a total risk consumption based on the risks associated with ATP's business model. The statement is supplemented with other relevant risk calculations and analyses that are intended to provide a nuanced and detailed insight into the specific risks that ATP is exposed to. ATP's solvency is assessed by comparing the calculated risks with ATP's reserves (bonus potential), as described in Section D. The ORSA is based on the Supervisory Board's ORSA wheel, see Figure C.7, which contains the components considered central to an assessment of ATP's risk and solvency position.

The ORSA wheel is centred 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 following three components, 'Risk identification', 'Risk appetite' and 'Risk measurement', concern identifying the most significant risks, establishing the desired overall risk profile and risk calculation principles. These aspects 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 calculations and analyses. They identify the ways in which various stresses affect ATP's solvency, both in the short and longer term, as well as the risks associated with measuring the value of guaranteed benefits and their impact on ATP's solvency. 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 was established to support the Supervisory Board's ORSA wheel, and thus the task of performing an overall risk and solvency assessment. The Risk Committee supports the Supervisory Board's ORSA wheel, which could usefully be addressed in more detail. In this context, the Committee prepares risk policy, investment frameworks, information security policy and reports regarding ATP's risk management, its own risk and solvency assessment (ORSA), information security and operational risks, respectively, for consideration by the Supervisory Board.

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, in which a special focus area 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 assess 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 practice and risk 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 general rule, 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 and follow-up of 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 risk of non-compliance. 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 attends 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 who reports to the Supervisory Board. The Supervisory Board is solely responsible for the Chief Auditor's recruitment, dismissal and terms of employment, as well as for 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 may not participate in activities other than auditing in the ATP Group. Restrictions cannot be imposed on the Internal Audit function in relation to 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 regarded as relevant, and is authorised to request all information that Internal Audit function deems necessary to conduct its audit. This ensures that the internal Audit is carried out independently of the business and Group Management.

The Chief Auditor has been made responsible for the Internal Audit function, within the framework of the policy for internal audit in the ATP Group and the management executive order for ATP. The work carried out by Internal Audit is in accordance with the audit executive order for ATP, and Internal Audit's responsibilities are in accordance with the job description for Internal Audit. The distribution of labour between Internal Audit and external audit is determined in the audit agreement between the Chief Auditor and external audit in accordance with the Executive Order on Auditing ('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 shall provide the financial statements with an auditor's report. As part of the auditing methodology, a quality assurance system that includes principles for conduct, relations and performance of audit tasks has been prepared and implemented to ensure independence and objectivity.

The Internal Audit function may neither be responsible for nor carry out internal controls. The Chief Auditor and the Internal Audit staff may not participate in tasks which could 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 statutory actuarial function in ATP. The Chief Actuary is employed by and reports to the Supervisory Board.

The actuarial function is responsible for the measurement of pension provisions and for ensuring that the underlying assumptions and methods are appropriate. This includes 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 fall under the remit of the Chief Actuary. The Chief Actuary is entitled to demand all information that the Chief Actuary deems necessary to conduct its work, including the Supervisory Board's protocols. The actuarial function, including all employees in this function, are authorised to access all information that the function deems necessary to conduct its tasks.

The actuarial function reports at least once a year to ATP's Supervisory Board on whether the measurement of pension provisions is reliable and adequate. Organisationally, the actuarial function falls under the domain of the CRO. However, the person responsible for the actuarial function is obliged to contact the Supervisory Board directly to express concerns in cases where they find this necessary.

Activities of the actuarial function, including contribution to the risk management system

Interest rate hedging of pension liabilities and ATP's proprietary life expectancy model, SAINT, are essential parts of ATP's risk management system. The actuarial function contributes to the effective implementation of the risk management system by calculating expected cash flows and key interest rate hedging ratios. The actuarial function is also responsible for the annual update of ATP's proprietary life expectancy model.

The actuarial function works closely with the risk management function on pension risks through the established Pension Forum, including with regard to the annual update of the lifecycle model.

The actuarial function also contributes to the risk management function's reporting concerning pension risks.

Coordination of the calculation of pension provisions
The actuarial function calculates the value of the pension provisions on a daily basis, and assesses the sufficiency of the provisions and their consistency with the provisioning framework on an ongoing basis. This includes assessing the appropriateness of the lifecycle model, methodologies, models and assumptions.

The actuarial function also decomposes changes in provisions daily and explains any significant changes in data, methods or assumptions.

The actuarial function reports potentially significant risks and other major issues relating to the pension provisions to the Supervisory Board as soon as the person responsible for the actuarial function deems it necessary.

C.7. OUTSOURCING

The legal basis for outsourcing in ATP reflects – with concrete adaptations – the corresponding rules applicable to insurance companies and thus also to EU rules in this area. Among other things, the rules must ensure that ATP continues to be responsible for outsourced tasks, and that the Danish Financial Supervisory 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 as well as the most important principles for such outsourcing. According to the Supervisory Board policy, outsourcing can be used when this is expected to create value for ATP. Outsourcing can be used, for example, if access to flexible resource pools, core skills or specialist skills, efficiency enhancement, efficiency improvement 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. This assessment includes ascertaining that the supplier has the necessary ability and capacity to carry out the task satisfactorily, including any permits required under applicable statutory provisions.

When outsourcing critical or important activities, ATP also ascertains 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 tasks in its own corporate governance. There are requirements for, among other things, adequate contingency plans on the part of the supplier and regular testing of backup functions.

When outsourcing to a subsidiary, a satisfactory solution for the outsourced tasks is ensured, for example, through ATP's influence on the management and control of the subsidiary.

Agreements with a supplier are concluded in writing and set out the rights and liabilities of ATP and the supplier. The Supervisory Board's policy imposes several specific requirements on the content of agreements for the outsourcing of critical or essential activities, as well as particular requirements for the outsourcing of discretionary portfolio management and the outsourcing of IT.

Guidelines for approving cloud solutions in the ATP Group have been developed to ensure satisfactory assessment of, for example, GDPR and other legal risks, as well as security and business risks when adopting cloud solutions. Reports are regularly submitted to the Supervisory Board about this, including in relation to developments regarding third-country transfers of personal data.

The status on the outsourced activities, including whether the outsourced tasks are performed satisfactorily, is reported to the Supervisory Board at least once a year, and thereafter as needed. The Supervisory Board reviews the outsourcing policy once a year.

ATP has established business procedures that ensure follow-up on the benefits provided by outsource suppliers. There are agreed specific service levels for each benefit, monthly reports are received from suppliers, and regular meetings are held with suppliers. Moreover, audit declarations are received, and agreements are reached on access for carrying out self-assessment of suppliers.

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 investment frameworks for direct or indirect investments 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).

- Provision of cloud infrastructure for processing and storing financial data (outsourced to Microsoft Azure)

- Delivery of private cloud infrastructure to operate SAP solutions (outsourced to SAP RISE)

C.8. 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 management system is developed in accordance with the ATP Act and the Danish Financial Supervisory Authority's Decree on the Management and Governance of ATP, as well as the Decree on Pay Policy and Remuneration in ATP and the Decree on Outsourcing for Group 2 Insurance Companies, ATP and Lønmodtagernes Dyrtidsfond. In addition, ATP follows the recommendations of the Committee on Corporate Governance, with relevant adjustments taking into account ATP's specific circumstances.

ATP's Board of Representatives, Supervisory Board, CEO and key persons have defined responsibilities, tasks and powers. These are documented in rules of procedure, terms of reference, policies, guidelines and CEO instructions, which are reviewed at least once a year, and in job descriptions.

D. Risk profile

ATP has no equity capital and is not subject to a solvency capital requirement. ATP's risk profile is therefore generally expressed based on a calculation of the total risk with a risk model developed by ATP which calculates the total risk consumption based on the risks associated with ATP's business model and supplemented with a number of risk statements 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 solvency is assessed by comparing the total risk with the bonus potential, which is the ultimate loss-absorbing buffer. A large number of risk calculations and analyses show that ATP is able to cover its risks. The overall assessment is that ATP's exposure to risk and its financial situation are appropriate. ATP's risk profile is described as follows: first based on ATP's overall risks and then based on each of the underlying risk categories.

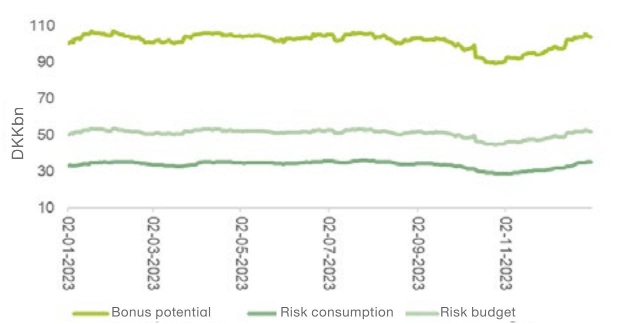
Adaptation of ATP's business model

Since 2019, ATP has been working on changing its business model. The changes consist of two parts: Life annuity with market exposure was introduced in 2022 and a new hedging strategy was introduced in 2023. The life annuity with market exposure means that as of 1 January 2022, 20 per cent of the contribution for members with more than 15 years to go before reaching retirement age will go to market-exposed life annuities and be invested in a special market return portfolio. The changed hedging strategy is based on ATP's existing interest rate hedging, with the addition of long-term market risk to the hedging in the form of riskier assets.

As a consequence of the illiquidity of ATP's liabilities, as of 2023 ATP will calculate the value of the pension liabilities taking into account the illiquidity of the liabilities. Therefore, ATP adds an illiquidity range to the discount curve for the purpose of measuring the value of the guaranteed pensions. ATP will allocate the funds released in this way to a special buffer called Long-term Supplementary Provision (LSP), while also establishing a Supplementary Hedging Portfolio with long-term risk taking as part of the overall hedging. ATP must also measure a supplementary risk adjustment to the pension liabilities, due to the new international accounting standards. This supplement is an expression of the funds that ATP needs to reserve to assume non-financial risks.

Adding market risk to the hedging portfolio via the Supplementary Hedging Portfolio means introducing a new risk that must ultimately be covered by BP in the event that the LSP's risk capacity is exhausted due to market changes. This risk is referred to as transfer risk and is recognised under risk consumption. Consequently the risk must be included in the total risk budget. This also applies if ATP is preparing to restore the bonus potential. Finally, a new in-house developed long-term risk measure called 'Underhedging Risk' (UHR) is being introduced. The measure focuses on the hedging portfolio's ability to meet the obligations as per the payment dates. UHR is an expression of an expected shortfall relative to the guaranteed benefits, and is able to summarise the health of amended hedging and the long-term ability to honour the guarantees in a single measure.

Figure D.1 ATP's total risks in 2023



ATP's overall risks

ATP calculates a daily risk consumption, which is ATP's quantitative measure of total risk on the bonus potential, which is the ultimate loss-absorbing buffer. The risk consumption is measured by an ATP-developed risk model that calculates a total risk consumption based on the risks that are associated with ATP's business model.

The risk measure for risk consumption corresponds to Expected Shortfall (ES) with a confidence level of 99 per cent and a time horizon of 3 months. 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 financial freedom of action, the Supervisory Board has determined a risk budget,
which is an upper limit for the total risk consumption
that is permitted. The risk budget reflects the Supervisory Board's overall risk tolerance and is specified at 50 per cent of the bonus potential. Hence, the risk budget changes dynamically in line
with changes in the bonus potential.

The developments in risk consumption, risk budget and bonus potential in 2023 are shown in figure D.1. The bonus potential has been relatively stable throughout the year, resulting in a similar risk consumption in 2023. The bonus potential increased from DKK 99.6bn at the end of 2022 to DKK 104.0bn at the end of 2023, but also covers the fact that bonus payments and longevity updates have reduced the bonus potential by approximately DKK 4bn. The utilisation of the risk budget was at the same level as at the start of the year.

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

D.1. PENSION-RELATED RISKS

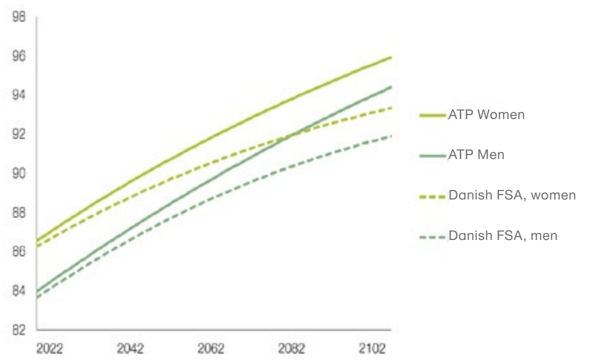
Market risks are the risk category representing the second-highest risk in the calculation of ATP's overall risks (risk consumption). As per the end of 2023, the pension risks were calculated to be DKK 8.8bn.

ATP disburses a monthly pension for as long as its retired members are alive. Accordingly, increases in life expectancy are ATP's greatest pension-related risk.

When life expectancy increases more than predicted, the bonus potential is reduced since ATP has to reserve a greater amount to cover the pension liabilities as pensions have to be paid out for longer. ATP has elected not to hedge its life expectancy risk, and must therefore cover losses in case of increased life expectancy. ATP follows life expectancy statistics based on an in-house developed life expectancy model.

Since 2018, ATP has allocated DKK 5.2bn to increased life expectancies. These provisions have reduced ATP's bonus potential, but unlike, for example, investment losses, they have not reduced the total asset value of the members. On the contrary, additional provisions as a result of longer life expectancy reflect that ATP's members are expected to live longer, and the provisions will therefore benefit ATP's members.

Figure D.2 Projected life expectancies



Other Danish pension companies apply a model based on life expectancy assumptions developed by the Danish Financial Supervisory Authority for the use of those insured via the life insurance and pension companies. Chart D.2 shows the life expectancies of 67-year-old men and women based on ATP's and the Danish Financial Supervisory Authority's model for life expectancy assumptions, respectively, the latter adapted to the observed life expectancy in ATP. It can be seen that ATP's life expectancy model projects greater increases in life expectancy than those envisaged by the Danish Financial Supervisory Authority's model.

The Danish Financial Supervisory Authority's life expectancy projections are a benchmark for current observed life expectancy, based on information from a number of Danish life insurance companies and broad-spectrum pension funds with a total of 3.6 million customers as well as a benchmark for life expectancy improvements based on population data from all of Denmark. ATP's model is based partly on information concerning its 5.6 million members and partly on information concerning approximately 350 million inhabitants in 18 OECD countries. This means that different data are used when modelling life expectancy assumptions, just as the models themselves differ.

The model developed in ATP is based on the assumption that the development of life expectancy 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 caught up with over time. Data from the past 50 years show that the countries have generally undergone the same development in terms of longevity, although it differs between countries when and how quickly the improvements take place. ATP includes international data in order to provide a stable prognosis for future life expectancy improvements.

Figure D.3 Market risks measured by ES (after tax)

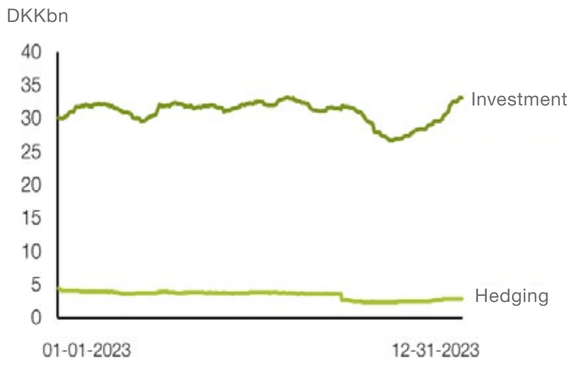
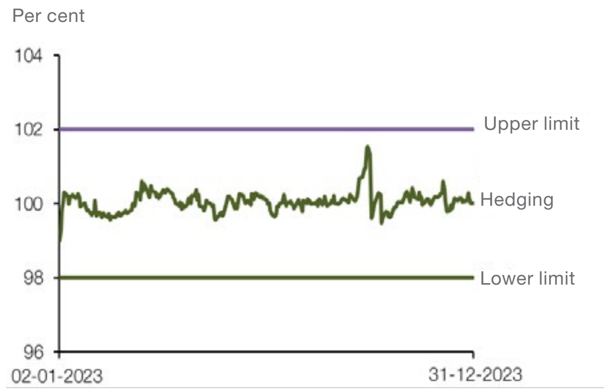


Figure D.4 Hedging ratio



D.2. MARKET RISKS

Market risks reflect risks associated with investments in the financial markets and the interest rate risk on pension liabilities. Market risks are managed based on structured risk models with close risk monitoring and detailed risk frameworks. Market risks are the risk category that contributes the highest risk in the calculation measure of ATP's overall risks (risk consumption). As per the end of 2023, the market risks were calculated to be DKK 34.0bn after tax.

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 statement of financial position, but the bonus potential will be virtually unaffected as changes in the interest hedging portfolio and the value of the guaranteed benefits will largely offset each other. Market risks related to interest hedging activities are therefore limited, which is also illustrated in Chart D.3, which shows market risks calculated using Expected Shortfall (ES) after tax. The hedging ratio[3], which indicates the ability of the hedging portfolio to hedge the interest rate sensitivity of the guaranteed benefits, was 100.0 per cent at year end 2023. As shown in Figure D.4, the hedging ratio was close to 100 per cent for most of the year. The tariff for the coming year, i.e. the pension entitlement obtained for the ATP contribution, is set at the beginning of October each year and is hedged immediately afterwards, which resulted in a fluctuation in the hedging ratio. The interest rate sensitivity of the guaranteed benefits almost exclusively consists 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 the end of 2023, the market value of bonds in the interest hedging portfolio totalled almost DKK 300bn . Danish and German government bonds constitute a large proportion of this portfolio, and ATP therefore 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 section D.3 for more information about ATP's counterparty risks.

Market risks associated with the supplementary hedging portfolio and the market return portfolio

The long-term market risk added via the Supplementary Hedging Portfolio (SHP) in Hedging has its own dedicated loss-absorbing buffer in the form of the Long-term Supplementary Provision (LSP). As long as the LSP is large enough to cover the market risk in the Supplementary Hedging Portfolio, this added risk will not affect the risk consumption. In the event of major losses in the Supplementary Hedging Portfolio, LSH may at some point affect the bonus potential, as the bonus potential will have to transfer funds to the LSP. This risk is referred to as transfer risk and is recognised in the risk consumption.

The contribution that goes to annuity with market exposure is invested in the market return portfolio in Hedging. By investing this contribution with a higher risk, a higher return and thus a higher pension is expected over time. The risk in the market return portfolio is adjusted to the provisions for annuity with market exposure.

3 The hedging ratio is measured as the after-tax duration of the interest rate hedge portfolio in relation to the duration of the guaranteed benefits calculated without spread.

Market risks associated with the investment portfolio
ATP's market risks in relation to the bonus potential are mainly market risks related to the investment portfolio. The long-term objective of the investment portfolio is to generate a return that will allow, in part, for the building of reserves for, e.g., financing increased life expectancy so that ATP secures pensions for a whole lifetime, and to increase the guaranteed pensions, thereby striving to preserve the real value of the lifelong pensions.

In order to have a robust investment portfolio with a high rate of expected return, the investment portfolio is managed with a strategy of risk diversification. ATP splits the risk of each individual investment into four risk factors which can be combined in appropriate ways to achieve a portfolio with the desired risk profile. The four fundamental risk factors are: Equity factor, Interest rate factor, Inflation factor and Other factors. The risk associated with each investment is allocated to the four factors based on the types of risk to which the investment is exposed.

Table D.1 Market risk on factors at the end of 2023

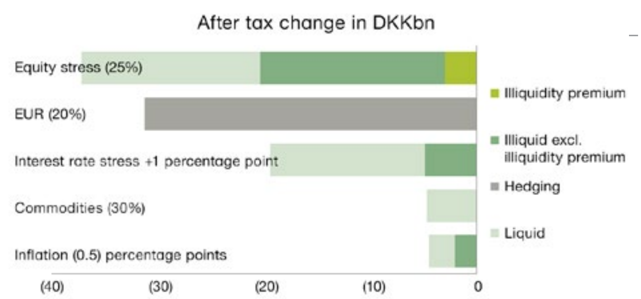
	Expected Shortfall in DKKm	Risk distribution in per cent
Equity factor	32,381	50
Interest rate factor	18,567	29
Inflation factor	8,237	13
Other factors	5,148	8

Expected Shortfall in the investment portfolio for each of the four risk factors and the risk distribution calculated as each factor's share of the sum of the risk for the four factors at the end of 2023 is shown in Table D.1 for ATP's investment portfolio[4]. In order to ensure an appropriate risk diversification, ATP's Supervisory Board has specified guidelines and lower and upper limits for the individual factors' share of the risk in the liquid and illiquid part of the investment portfolio, respectively.

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, stated as the immediate effect of allowing the stress to occur in one day without any risk adjustment.

4 The investment portfolio, the market return portfolio and the supplementary hedging portfolio have different factor allocations via their individual allocation to the underlying portfolios.

Figure D.5 Market stress on bonus potential



The figure shows that ATP's investment portfolio has the highest risk exposure among the individual stresses of the equity factor across ATP's investments with a decrease of 25 per cent, resulting in a loss after tax of DKK 37bn. The equity stress reflects both the loss on the equity portfolio and on the other investments, including credit investments, real estate and infrastructure which have exposure to equities in ATP's risk modelling. According to the individual stresses, the loss in isolation would be DKK 19bn after tax at an interest rate stress of 1 percentage point. The chart also shows that if the Danish fixed rate policy is abandoned and the rate of the euro falls by 20 per cent, ATP may incur a loss of DKK 31bn 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 currency's peg to the euro. Exchange rate risk towards the euro are considered to be a significant risk for ATP, but this is accepted due to ATP assessing it is unlikely that the Danish kroner peg to the euro will be abandoned. This stress is therefore regarded as an extremely rare event. The other market stresses in Chart D.5 lead to significantly lower losses.

D.3. COUNTERPARTY RISKS

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

Table D.2 Counterparty exposures linked to ATP's ten largest counterparties(DKK million).

		Counterparty exposure			
	Rating	Bilateral OTC Derivatives	ETD and cleared OTC derivatives	Bank deposits	Total exposure
Counterparty 1	A+	2,549	778	1,758	5,085
Counterparty 1	AA-	3,959	-	-	3,959
Counterparty 2	A+	-	1,163	2,046	3,209
Counterparty 3	A+	1,469	625	387	2,482
Counterparty 4	A-	1,972	-	412	2,384
Counterparty 5	A+	122	-	1,981	2,103
Counterparty 6	A+	1,726	336	-	2,062
Counterparty 7	A+	2,048	-	-	2,048
Counterparty 8	AA-	1,809	´-	-	1,809
Counterparty 9	A+	1,586	135	-	1,721
Counterparty 10	AA-	-	-	1,060	1,060

agreement. In order to reduce counterparty risk, both ATP and its counterparties require that collateral be 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. Similarly, ATP may experience a loss as a result of the bankruptcy of one of the CCPs used in connection with centrally cleared derivatives. In both cases, the size of such a loss will depend on the risk exposure and market movements during the period.

Table D.2 indicates the calculated counterparty exposure on ATP's 10 largest counterparties. The rating denotes the lowest rating of the counterparty by the rating agencies Moody's and Standard & Poor's on the legal entity linked to the exposure concerned. Where there are multiple legal entities within the same group, the lowest rating recorded is used. If the legal entity does not have a rating, the lowest observed rating of the guarantor is used. As shown in Table D.2, ATP's largest exposure to a counterparty is DKK 4.0bn. An exposure of this size could potentially result in a significant loss, but will only affect ATP's solvency to a limited extent. In the event of breach of contract or bankruptcy, it will, in most cases, be possible to obtain partial repayment from the estate assets. The exposure calculation does not take into account this recovery rate, nor the probability of default of each counterparty. Counterparty risks only contribute marginally to the overall risks (risk consumption). In ATP's proprietary risk model, counterparty risks were calculated to be DKK 0.4bn after tax as per the end of 2023.

D.4. LIQUIDITY RISKS

Liquidity risks are risks associated with potential non-payment of payment demands or collateral. In 2023, ATP developed and implemented a new liquidity risk management model that provides a granular estimate of the cash flows that ATP will encounter in stressed markets. The model also provides an accurate picture of the liquidity generation in cash from asset sales and the liquidity generation from bonds, if these are used as collateral or if bonds are 'exchanged' for liquidity using the repo market, where bonds are lent in exchange for liquidity. The model takes into account differences in the liquidity value of assets, i.e. how fast and how much liquidity can be raised 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 (e.g. benefit payments) and an extraordinary draw on liquidity resulting from unfavourable conditions (e.g. market stress). The liquidity requirements have been estimated based on the fact that a number of very unfavourable market conditions are at play simultaneously, which is why the liquidity requirements have been estimated very conservatively.

The model must ensure that ATP is able to fulfil its contractual obligations at all times, either by providing liquidity or collateral. This is done by ensuring that liquidity provision and liquidity needs both in the short term (10 days) and longer term (66 days) are appropriate in relation to each other.

Table D.3 shows ATP's total liquidity provision and cash needs over 10 business days, and ATP's total liquidity provision and needs for the horizon of 66 business days. This reflects the fact that liquidity management has a particular focus on being able to provide liquidity in cash quickly enough in the short term, while the focus over longer periods is more on ensuring sufficient liquidity to withstand sustained market stress.

Table D.3 Liquidity risks at the end of 2023 (DKK bn)

	10 days	66 days
Total liquidity generation	64	247
Total liquidity requirement	7	78

D.5. OPERATIONAL RISKS

The operational risks associated with the management of ATP Livslang Pension (Lifelong Pension) cover all potential financial, reputational or compliance-related impacts associated with, in particular, trading activities, risk measurements, contributions and payments to ATP's members, and the operation of systems and information security. The operational risks generally manifest as financial losses and are included in the measure of Risk Consumption in the ATP-developed model. As per the end of 2023, operational risks were calculated to be DKK 1.9bn according to ATP's model, and therefore contribute only to a limited extent to the overall risk (risk consumption).

The Supervisory Board has specified detailed principles for the management of operational risks to ensure that the impact of such operational risks are limited in terms of financial, reputational and compliance-related impacts. The management of operational risks in ATP is principally based on two methods. One method is risk assessments, to identify, measure and determine the Supervisory Board's desired risk profile and to act within the scope of the Administration's risk tolerance. The second method is the systematic collection of operational incidents.

Operational risks are identified on an ongoing basis by the Administration and then measured according to the ATP Group's risk scales for probability and impact, respectively. Operational risks are measured against the risk appetite and tolerance thresholds established by the Administration. If the risk exceeds the risk appetite, this difference must be managed either by accepting and updating the risk appetite level or by planning actions that bring the risk within the risk appetite levels. Risk management is undertaken using a risk-based approach, whereby operational risks are mitigated taking into consideration impact and probability on the one hand and the expense of mitigating the risk on the other hand.

ATP has identified the activities related to the management of ATP Livslang Pension (Lifelong Pension) where the occurrence of an operational event is estimated to have the greatest impact. For 2023, these relate to:

- Implementing ATP's business model
- Measurement of life expectancies, provisions and guaranteed benefits
- Models, in-house developed programs and risks associated with investments
- Communication with members as well as payment of benefits and collection of contributions.
- Information security and cyber security
- IT operations, including dependence on external suppliers
- GDPR

Operational incidents and near misses are included in the identification of operational risks, and are consequently considered as a component of the overall risk landscape. Operational incidents are logged and recorded systematically. Operational incidents resulting in losses/gains or which could have resulted in losses/gains are recorded and categorised according to subject matter and significance based on the financial, reputational or compliance (including GDPR from the perspective of data subjects) impacts. The purpose of the registration is to provide an overall view of the incidents affecting ATP as a result of operational failures, address gaps in the control environment, and learn from incidents that have occurred to proactively improve risk management.

The Supervisory Board receives an annual operational risk report, and the CEO also receives a quarterly operational risk report. Significant operational events are reported separately to the ATP Supervisory Board at the first Supervisory Board meeting after the event has been recorded.

ATP considers that the management of the Group's operational risks is satisfactory.

Information security and cyber security in ATP

The risk concerns the possible compromise of confidentiality, integrity and availability of information as well as the general maturity and compliance with ATP's Information Security Policy. Due to a continued high level of threats, in 2023 ATP again increased its vigilance and focused on information and cyber security.

D.6. OTHER SIGNIFICANT RISKS

ATP has no other significant risks

D.7. 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 lifelong pensions, which are continuously regulated to secure the members' purchasing power over time.

ATP invests a large part of its total funds in assets that have a high degree of security in relation to future benefit payments. This portfolio is called the interest hedging portfolio. The interest hedging portfolio ensures that ATP can deliver the nominal, guaranteed pensions to its members. The interest hedging is managed in such a way that the market value of the interest hedging portfolio after tax is expected to fluctuate at the same rate and to the same extent as the value of the guaranteed benefits when interest rates change.

The interest rate sensitivity of the guaranteed benefits comprises sensitivity linked to Danish and German government bond yields as well as swap rates in Danish kroner and euro. The ATP Supervisory Board has established a framework to ensure that the interest rate hedging portfolio hedges the guaranteed benefits' interest rate sensitivity both in aggregate and by yield curve and maturity segment.

In order to increase the odds of ensuring the real value of the nominal guaranteed pensions, ATP invests the bonus potential in a portfolio with a higher risk profile – the investment portfolio – so that the risk profile of the total pension product remains low. The funds belonging to the bonus potential are invested so that an appropriate balance is maintained between having the opportunity to add bonuses to the pensions and limiting the risk of the bonus potential being lost due to negative returns. This weighing of expected returns against the risk of loss is a core part of ATP's business model. The Supervisory Board has established a framework for risk diversification and risk limits.

The investment portfolio is 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 is allocated to the four factors based on the types of risk to which the investment is exposed. Figure D.7 shows the relationship between the four basic factors and a number of selected traditional assets.

The desired risk exposure to the four factors is implemented through trading within the investment universe approved by ATP's Supervisory Board. This provides flexibility in achieving the desired risk exposure, as the investment universe includes a range of liquid and illiquid assets.

ATP's Supervisory Board has set a framework based on Expected Shortfall for the exposure to the four fundamental factors. In addition to these frameworks, frameworks have also been established that ensure the diversification of risks among issuers and regions. There are also specific frameworks for using derivative financial instruments and illiquid assets.

ATP's overall investments are therefore organised according to the nature of the liabilities and with a framework to ensure that the investment strategy is and remains appropriate and resilient to fluctuations in the financial markets.

The prudent person principle also means investing only in assets and instruments whose risks are identified, measured, managed, monitored, controlled and reported. In line with this, ATP's Supervisory Board has determined the types of assets and instruments in which ATP may invest, and investments are only made when the operational and risk management basis is sound.

ATP has investment and subsequent asset management processes to comply with this. This ensures, among other things, that ATP can manage the assets and instruments included in the ongoing measurement and monitoring of risks and the ongoing and periodic reporting to the Supervisory Board and management in general.

The bulk of ATP's trading is in traditional liquid assets where the associated risks are familiar and well analysed. Therefore, when trading in these assets and instruments, ATP can employ a highly automated process regarding the associated risks, i.e. in identification, measurement, monitoring, management and reporting.

Trading in illiquid assets, such as private equity, infrastructure and real estate, is subject to a specific assessment of each asset and its inherent risks.

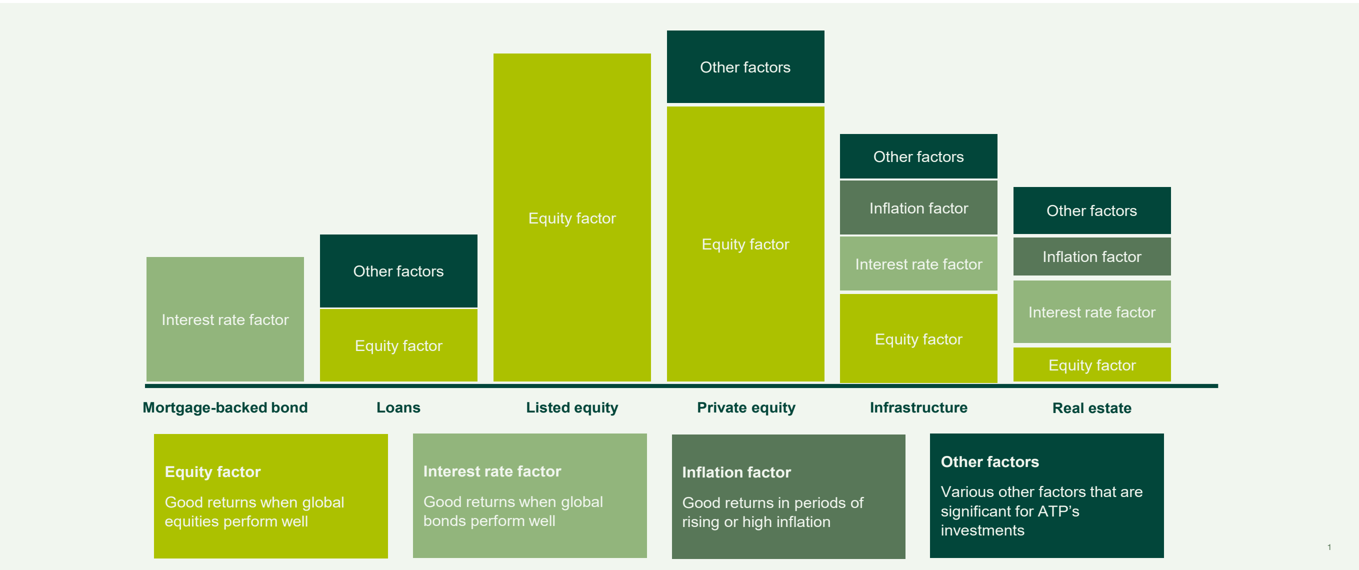
This is essential as illiquid assets are often characterised by extensive contractual documentation and complex investment structures that require review and assessment prior to investment. The necessity for a thorough assessment is further accentuated by the typically long investment horizon of illiquid assets, stemming from the fact that it may be difficult to dispose of the illiquid assets again – especially if this needs to be achieved in a short period of time.

The evaluation of illiquid assets includes a thorough due diligence process designed, among other things, to identify the assets' inherent risks, manage them and, where possible, mitigate them. Fact box D.1 describes the typical risks associated with illiquid assets.

The market risks associated with illiquid assets are measured daily, as with ATP's other assets, equity and liabilities. The illiquid assets are thus included in the Supervisory Board's framework based on the measured market risk. Moreover, the Supervisory Board has developed a framework for illiquid assets based on market value and risk.

When investing in a new illiquid asset, a specific assessment is conducted of how the asset in question should be represented in ATP's risk models while taking into consideration established principles so that the inherent risks can be quantified in the best possible way. Risks associated with illiquid assets are generally quantified at a higher level than those related to liquid assets, although illiquid assets usually perform at a more stable level. This takes into account the fact that illiquid assets may be more challenging to dispose of and may therefore decrease in value to a greater extent in highly volatile market conditions.

Figure D.7 Relationship between selected traditional assets and the four risk factors



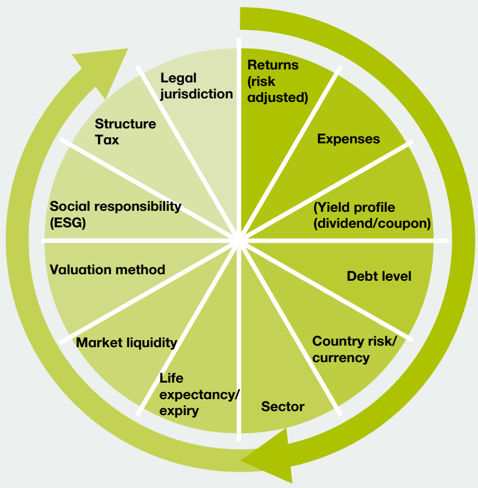
Fact box D.1 Specific risks of illiquid assets

Legal and regulatory risks
The illiquid assets typically involve extensive contractual documentation, a complex investment structure and investment partners from multiple countries. This added complexity means that there is a risk that situations or events could occur that are not governed by the contracts or that changes in legislation, including tax legislation, could occur that alter the preconditions pertaining to the investment.

Valuation risks
Since illiquid assets are not traded in liquid and transparent markets, it is not straightforward to derive a value for the asset in the market. Instead, the value of the assets is determined based on separate financial models and parameters relating to the specific investments. The valuation is therefore subject to risks since the market value of the assets cannot generally be verified before a sale takes place.

Illiquidity risks
Investing in illiquid assets incurs illiquidity risks as they are generally not convertible to liquid assets within a short time frame. Moreover, in certain circumstances, illiquid investments require sound liquidity management. Certain illiquid assets include investment commitments where the amount invested is to be paid on an ongoing basis as the need arises. ATP has developed a liquidity model to ensure that ATP has sufficient liquidity to meet its liquidity needs. The illiquid status of investments creates a particular risk in relation to ATP's portfolio composition. If ATP finds itself in a situation where the investment risk needs to be notably reduced, it could leave ATP with essentially only illiquid assets. Therefore, when investing in a new illiquid asset, it is essential to ensure that the overall illiquid assets remain appropriately diversified. To this end, ATP has a Supervisory Board-established framework for illiquid investments and allocation to types of illiquid assets in addition to a special monitoring of financial, geographical, structural and duration-related portfolio parameters for illiquid assets as illustrated in Figure D.8.

Chart D.8



Asset management risks
Some of ATP investments in illiquid assets are made through subsidiaries and funds. A risk associated with fund investments relates to the limited transparency to detailed information about the underlying portfolio. Therefore, ensuring a sufficient commonality of interest between the asset manager and ATP is essential. The asset manager is responsible for selecting the right investments and managing them. The challenge is that in some instances, the asset manager may have other interests than ATP does, such as holding investments longer than necessary to accrue fees for a more extended period of time. ATP has a limit for investments in funds. Concentrations of exposure towards business partners (asset managers) entail several operational risks, including dependence on key persons and the ability to deal operationally with a non-performing investment manager, including errors in data delivery or other performance areas. ATP strives to minimise these risks but accepts a concentration towards selected asset managers to the extent that benefits can be obtained by entering into strategic cooperation with such asset managers. ATP has increased its direct investments in illiquid assets over the past few years to manage individual investments and their risks better. However, indirect investments continue to be made.

Asset-specific risks
As with all assets, illiquid assets are exposed to several specific risks that are critical to the asset's performance. Before investing, ATP identifies and assesses these risks and performs a series of specific sensitivity analyses to determine the impact of particular risk situations on the value of the illiquid asset. ATP also assesses the illiquid assets against ATP's guidelines on responsibility and stewardship. The importance of the assessment is compounded by the long investment horizon of the illiquid assets, which may be difficult to dispose of in a short period of time if a mismatch between the investment and ATP's return requirements or guidelines subsequently arises.