

Corporate Governance in the ATP Group

ATP's activities are regulated by statute. ATP is thus an independent, statutory institution, the aim of which is to administer the ATP pension scheme. Alongside the administration of the ATP scheme, ATP has also been assigned by the Danish Parliament to administer the Supplementary Labour Market Pension Scheme for Disability Pensioners (SUPP).

On top of that, ATP administers a number of other statutory schemes associated with the Danish labour market on a cost-recovery basis. ATP also provides technical and administrative assistance, including to the public authority UDK – Public Benefits Administration on a cost-recovery basis. ATP sells administrative services on an arm's length basis (market terms) in Denmark through a wholly-owned subsidiary.

Corporate Governance

Appointment and composition of the ATP Board of Representatives and the Supervisory and Executive Boards

The Danish ATP Act (ATP-loven) sets objectives and establishes regulatory frameworks for the management of ATP, including for ATP's management. ATP is managed by a Board of Representatives, a Supervisory Board and a Chief Executive Officer (CEO), and the composition of the ATP Board of Representatives and Supervisory Board is prescribed by statute. The CEO is appointed by the Supervisory Board.

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 employee or employer's organisations.

The Supervisory Board is composed of members of the Board of Representatives and comprises six employer representatives, six employee representatives and the Chairman of the Board of Representatives. Pursuant to the Danish ATP Act, ATP has no deputy chairman, and ATP staff members are not eligible to serve on the Supervisory Board.

The members of the Board of Representatives and the Supervisory Board are appointed by the Minister for Employment upon the recommendation of the social partners. The Chairman and the other members of the Supervisory Board and the Board of Representatives are appointed for three-year terms, the aim being to achieve a balanced composition of men and women on the boards. The members are eligible for reappointment. No age limit applies.

An overview of the recommended employer and employee organisations and of the members of the Board of Representatives and the Supervisory Board can be seen in ATP's annual report and on ATP's website at www.atp.dk/en. The annual report also provides information on when individual Supervisory Board members were appointed to the Supervisory Board, when their current terms expire and on other directorships held by Supervisory Board members.

The composition of the Board of Representatives and the Supervisory and Executive Boards reflects the Danish model under which the social partners have a say in the political process. ATP is governed by the social partners in the form of employee and employer representatives, with equal representation, under an independent Chairman.

Duties of the Supervisory Board and the Board of Representatives

The Board of Representatives, convening ordinarily once a year, approves ATP's annual report, the pay policy for the Supervisory and Executive Boards, significant risk takers etc. at ATP and establishes the fees for the members of the Board of Representatives, the Supervisory Board and the Supervisory Board committees. The Board of Representatives also transacts matters of business presented to it by the Supervisory Board and elects the ATP Chairman and auditors.

In all other respects, the Supervisory Board has the overall responsibility for ATP. The Supervisory Board convenes six times a year. The work of the Supervisory Board and the Board of Representatives is subject – in addition to statutory provisions – to Rules of Procedure, which are reviewed annually to identify any required amendments.

Duties of the Supervisory Board

The Supervisory Board has the overall responsibility for ATP's operations. The Supervisory Board identifies, quantifies and assesses significant risks faced by ATP and determines ATP's desired risk profile, including the nature and size of risks ATP may undertake. The Supervisory Board establishes written policies for the management of all of ATP's significant activities and their associated risks and makes decisions on items, transactions or events of a material or unusual nature. Furthermore, the Supervisory Board provides written guidelines for the CEO.

The Supervisory Board sets overall objectives and strategies and follows up on these, based, for example, on business plans reviewed as part of the annual budget approval process.

The Supervisory Board approves ATP's pension and provision basis and establishes the framework for ATP's investments each year.

The Supervisory Board approves proposed amendments to the Danish ATP Act to serve as the basis for requesting the Danish Government and Parliament to implement these amendments. The Supervisory Board also approves principles for intercompany transactions and makes decisions on the possible outsourcing of significant activities.

From 1 July 2016, the Supervisory Board must also identify ATP's key employees, other than the CEO, and notify the Danish Financial Supervisory Authority accordingly. As key employees, the Supervisory Board has identified the members of ATP's Group Executive Board, who are part of the management, and the employees responsible for the risk management function, the compliance function, the internal audit function and the actuarial function.

Supervisory Board committees

The ATP Supervisory Board has established two standing Supervisory Board committees in the form of an Executive Committee and an Audit Committee as well as a subcommittee of the Audit Committee. The Executive Committee also performs the duties assigned to the Remuneration Committee.

The Executive Committee has three members: the Chairman of the Supervisory Board, who is also the Chairman of the Executive Committee, and two members of the Supervisory Board, appointed by the employer and employee representatives, respectively, on the Supervisory Board.

The Executive Committee prepares Supervisory Board decisions and has the power, in selected areas, to make decisions as authorised by the Supervisory Board – these decisions are subsequently approved by the Supervisory Board. The Executive Committee ordinarily convenes 10 times a year. The work of the Executive Committee is subject to Rules of Procedure, which are reviewed each year to identify any required amendments.

The main duties of the Remuneration Committee are to prepare Supervisory Board decisions on remuneration, including pay policy and other related decisions that may influence the company's risk management.

The Chairman and other members of the Audit Committee are appointed by the Supervisory Board from among its members. The Audit Committee currently comprises three members in the form of the Chairman of the Supervisory Board, who also serves as the Chairman of the Audit Committee, and the two other members of the Executive Committee.

The Audit Committee has been appointed to assist the Supervisory Board in fulfilling its oversight responsibilities for the financial reporting process, with particular focus on ensuring reliability, integrity and transparency in financial reports.

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 the company. Another Audit Committee duty is the submission of proposals for election of auditors. Finally, the Audit Committee may perform duties subject to specific decisions made by the ATP Supervisory Board.

The Audit Committee's Terms of Reference are determined by the Supervisory Board. The Audit Committee convenes ordinarily five times a year.

Effective from 2015, the Supervisory Board has appointed a technical advisory committee under the Audit Committee, called the ORSA Committee, consisting of the Chairman of the Supervisory Board and three members of the Supervisory Board with operational experience and expertise within relevant specialist fields. ATP's Chief Risk Officer and ATP's Chief General Counsel also participate. The ORSA Committee has no decision-making power, but may offer advice and guidance on the issues to be considered by the Audit Committee.

Duties of the Chief Executive Officer

The ATP CEO is responsible for day-to-day operations and for implementing resolutions made by the Board of Representatives, the Supervisory Board and the Supervisory Board committees.

The CEO must keep the Supervisory Board informed, on an ongoing basis, of developments in ATP and ATP's subsidiaries. In practice, this takes the form, for example, of periodical reporting to the Supervisory Board:

- The Supervisory Board receives a monthly investment and risk report, showing the status of returns and compliance with the investment limits set by the Supervisory Board. This also includes reporting on ATP's subsidiaries.
- Every three months, the Supervisory Board receives an administration report containing figures for the operations of the three-month period in question and a report on issues extending beyond day-to-day operations, with elements of a more fundamental nature, including the status of outsourcing of significant activities.
- Every six months, the Supervisory Board also receives follow-up reports on the budget and strategic focus targets, respectively.

The CEO and other senior executives may not, without the authorisation of the Supervisory Board, own, operate or participate in the management of a business other than ATP. Accordingly, they may not participate in the management or operation of a business other than ATP as supervisory board members, salaried employees or otherwise. For information on other directorships held by the Group Executive Board, approved by the Supervisory Board, please visit ATP's website at www.atp.dk/en under 'Annual and interim reports', 'ATP Group', 'Further information 2016'.

Risk management

ATP's Supervisory Board has adopted a risk policy which defines ATP's desired risk profile for the risk areas which are deemed to be significant. These are:

- Investment risks, including market risks, counterparty risks, concentration risks and liquidity risks.
- Pension-related risks, which almost exclusively consist of longevity risks.
- Operational risks (consisting of the risk of financial and reputational losses resulting from inexpedient or insufficient internal procedures, human errors, system errors or external events), including risks related to the use of information.

When laying down the risk policy, the Supervisory Board has taken into account the fact that ATP is a statutory financial institution charged with the task of managing compulsory pension funds, that ATP is subject to instructions in relation to investments under the Danish ATP Act and that ATP manages other statutory schemes and is responsible to a number of authorities.

The desired risk profile for ATP determined by the Supervisory Board is an expression of the fact that ATP prioritises high security in respect of pensions, high credibility and a good reputation. Endeavours are made to ensure that the

administration of other statutory schemes poses the least possible financial risk for ATP. Services are thus provided on a cost-recovery basis, and in the event of any errors in management, the schemes bear the financial liability, including for ATP's work to limit the scheme's losses and to rectify the error.

The desired risk profile and the desired risk levels appear from the risk policy adopted. In addition to this, ATP's Supervisory Board has adopted a number of policies/guidelines for specific areas, e.g. for outsourcing and confidentiality, gifts and conflicts of interest. The policies are revised at least once a year. Based on the most significant activities, the organisation, resources and market conditions, the Supervisory Board assesses ATP's risks at least once a year.

Audit and risk management in relation to financial reporting

The Danish ATP Act contains provisions on financial reporting and auditing. In addition, the Danish Financial Supervisory Authority has issued an executive order on financial reporting by ATP. ATP prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS).

The external auditor is appointed by the Board of Representatives, after the audit assignment has been the subject of an EU tender. The Supervisory Board approves an annual audit plan.

ATP's Audit Committee reviews and discusses ATP's annual report and interim report with a focus on significant circumstances relating to the financial reporting process and accounting practice. The Audit Committee is also provided with accounts of analyses performed by management, describing significant aspects of ATP's financial reporting and estimates made in the preparation of the annual report and interim reports, with particular focus on investment conditions, pension provisions, budgets and cost allocation.

ATP's risk management in connection with financial reporting is based on the internal control system and includes clearly defined organisational areas of responsibility, requirements for business processes, approval procedures and reporting requirements in connection with the financial reporting process.

The most significant elements in ATP's financial reporting are the calculation of pension provisions and the calculation of financial assets and financial liabilities. These items and their calculation are considered to be the key elements in the financial reporting process. Other major focus areas in the financial reporting process are compliance with accounting legislation, calculation of items subject to estimates, unusual transactions and completeness of information.

ATP has an internal auditor who cooperates with the external auditor and reports directly to the Supervisory Board. The external and internal auditors both participate in the consideration of ATP's annual reports in the Audit Committee and on the Supervisory Board. The external auditor meets with the Audit Committee once a year – without the presence of the CEO – with particular focus on checking whether ATP's financial reporting, internal control environment and risk management are effective and on assessing audit procedures and the auditor's independence and objectivity.

Transparency and openness

The Supervisory Board has established a policy for internal and external communications.

ATP publishes quarterly reports for the ATP Group. These reports are posted on ATP's website and are otherwise published via the media and in stock exchange announcements.

ATP publishes an annual report, describing all aspects of the Group's activities. The annual report includes a separate account of risk management. Annual and quarterly reports are published in English and Danish.

In addition to the annual reports, further information is made available to the public on ATP's website providing details, together with the information in the annual reports, on ATP's investments.

ATP has also produced further information in the form of a report on ATP's compliance with the Recommendations on Corporate Governance issued by the Committee on Corporate Governance, account of remuneration, as well as the Terms of Reference of the Audit Committee and the ORSA Committee and the Rules of Procedure of the Executive Committee. ATP also publishes a Responsibility Report, which deals with the Supervisory Board's Policy of Active Ownership and Policy of Social Responsibility in Investments, among other topics.

Interaction with ATP's stakeholders

ATP's stakeholders include, among others, members, employers, the social partners, the central administration and companies in which ATP is a shareholder.

The premise of ATP's communication with customers – citizens and companies alike – is that ATP works within the framework of a cost-effective administrator, which means that its communication activities underpin a simple and cost-effective administration. ATP constantly strives to make information available and expand quick and easy self-service options online. The ATP Group's administrative websites are the joint public portals www.borger.dk and www.virk.dk.

www.atp.dk is ATP's corporate website. This is where ATP as a company is presented to the surrounding world. www.pensionforalle.dk is ATP's impartial online pension guide, the aim of which is to communicate ATP's pension knowledge in a simple, easy-to-understand manner, for instance through articles, checklists and videos. A monthly newsletter with relevant and topical pension news is issued (in Danish) by pensionforalle.dk.

In its capacity as an investor, ATP, as a principal rule, attends the general meetings of all listed Danish companies in which ATP is a shareholder. ATP votes on all of its listed equities, based on a clear policy of active ownership. In addition, the Policy of Social Responsibility in Investments governs ATP's dialogue and interaction with companies. This also applies in relation to companies that are – or are suspected of being – in non-compliance with ATP's policies.

ATP is a statutory institution and, consequently, adaptations to the ATP scheme often entail amendments or adjustments to the Danish ATP Act. Over time, Danish lawmakers have ensured that the ATP scheme and its framework match developments in society; accordingly, Danish lawmakers have been closely involved in the ongoing development of ATP. This applies both to pensions and to the financial area. ATP engages in regular, constructive collaboration with the central administration in terms of legislative amendments.

Each month since 2003, the ATP Group has published the Faktum newsletter. In this newsletter, ATP communicates its knowledge of pension, investment and society, based on analysis, to help ensure that debates and decisions on pensions, provisions for pensioners and social issues are based on the best possible knowledge and documentation.