KLP
Group SFCR 2016
Solvency and Financial Condition Report

Kommunal Landspensjonskasse gjensidig forsikringsselskap – org.no 938 708 606

This report has been produced for the KLP Group. A similar report has been produced by KLP as a company.

Summary

Business
Kommunal Landspensjonskasse (KLP) is a mutual insurance company, and is the parent company of the KLP Group. The Company's principal product is public-sector occupational pension scheme. The Company is owned by its customers, which are Norwegian municipalities, county administrations, health enterprises and companies associated with the public sector. The Group includes subsidiaries active within banking, non-life insurance, asset management and property management.

Performance
The risk result for 2016 was NOK 809 million. The corresponding figure for 2015 was NOK 510 million.

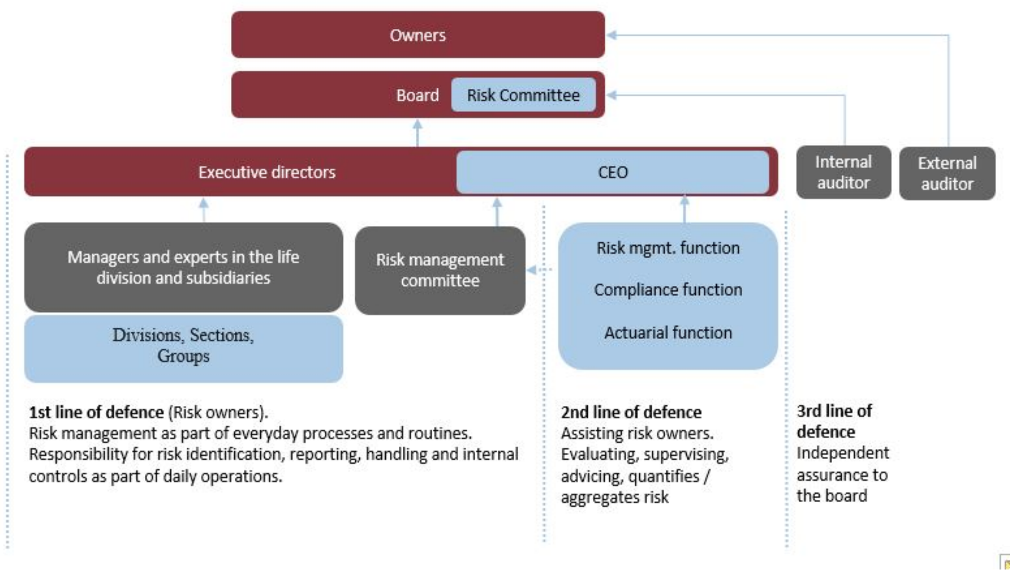
Total financial income amounted to NOK 26.3 billion in 2016 (NOK 16.9 billion in 2015), of which NOK 24.7 billion was income from the parent company's customer portfolio where all of the income falls to customers.

System of governance
The system of governance, as it is organised and implemented, is considered appropriate to KLP's business.

The Company's articles of association and applicable legislation provide the framework for proper corporate governance and a clear division of roles between the governing bodies and executive management. The Company's highest authority is the General Meeting. The Company also has a Corporate Assembly which elects the Board of Directors.

The risk management system within KLP is tailored to Solvency II and organised on the principle of the three lines of defence. In addition to the remuneration committee and the audit committee, the Board has also established a separate risk committee.

The organisation of the risk management system is shown in the figure.



The Board has adopted a policy for risk management and internal control and a series of other guidelines to provide for good risk management and compliance with laws and regulations. The policies cover subsidiaries where this makes sense. Requirements have also been laid down for the overall competence of the Board, in addition to the 'fit and proper' requirements which also apply to managers and key functions within the Company.

The development of the Company's risk and solvency situation is monitored through detailed reporting to the Board and senior management. This includes reporting from all three lines of defence.

Risk profile

The Group's principal risks are underwriting risk, market risk and credit risk.

Underwriting risk is dominated by longevity risk in the parent company, i.e. the risk that people entitled to pension payments from KLP will live longer than expected and so require larger payments. The risk that more people could suffer early disability is another material underwriting risk. The risk of customers moving away from KLP is not a risk to the Company's financial strength. Capital and capital requirements related to this are nevertheless included in the calculations of the Group's capital adequacy under Solvency II.

About two-thirds of customers' deposits are invested in interest-bearing securities. The rest are invested in equities and property. Market risk is dominated by equity and property risk, along with interest rate and credit risk. The Company has substantial buffers to enable this allocation. The risk profile changes dynamically in that a policy rule adjusts the proportion of risky investments to the buffer level.

The subsidiaries do not contribute much to the overall risk profile, apart from KLP Eiendom AS which manages the parent company's property investments.

Valuation

Assets and liabilities other than technical provisions are usually valued (roughly) equally in the Solvency II balance-sheet and the financial statements. One major difference is that bonds and lending reported in the accounts at amortised cost have a higher value in the Solvency II balance-sheet, which uses fair value. Other differences are due to differing treatment of intangible assets and deferred tax.

The life-related technical provisions in the Solvency II balance-sheet are calculated using different assumptions and methods than in the financial statements. The aim is to approach the fair value, and with low interest rates, the provisions will normally be greater than in the accounts.

Capital management

KLP applies a transitional measure to Solvency II which means that, in 2016, the technical provisions as calculated in the accounts can also be used to calculate capital adequacy. This results in solvency capital coverage of 289 per cent for the Group. Even without applying the transitional measure, the Group has solvency capital coverage of 198 per cent, which is also well over its own target of at least 150 per cent.

Tier 2 capital amounts to NOK 20.2 billion, made up of subordinated loans, the risk equalisation fund and supplementary capital. Supplementary capital makes up roughly half of this, and is a valuation of the Company's right to call in additional capital from its owners. Eligible Tier 2 capital is limited to half of the Solvency Capital Requirement. This totals NOK 6.5 billion. In the event of an increase in the Solvency Capital Requirement, the unused Tier 2 capital (NOK 13.7 billion) will reduce the negative effect on capital adequacy significantly.

A. Business and performance

A.1 Business

a) The name of the Company is Kommunal Landspensjonskasse gjensidig forsikringsselskap. The Company's address is: Dronning Eufemias gate 10, PB 400 Sentrum, 0103 Oslo, Norway

b) The Financial Supervisory Authority of Norway exercises financial supervision of the Company. The address of the Financial Supervisory Authority of Norway is: Revierstredet 3, 0151 Oslo, Norway

c) The Company's external auditor is PwC, Dronning Eufemias gate 8. The contact person is Erik Andersen (erik.andersen@pwc.com).

d) Customers with public-sector occupational pensions from KLP own the Company. These comprise Norwegian municipal and county authorities, the regional healthcare enterprises (RHF) with their subsidiary healthcare companies (HF), and other public-sector businesses.

e) Kommunal Landspensjonskasse (KLP) is the parent company for the KLP Group. KLP's wholly-owned subsidiaries are organized as limited companies. The following wholly-owned subsidiaries are part of the Group:
KLP Skadeforsikring AS
KLP Forsikringsservice AS and subsidiaries
KLP Bedriftspensjon AS and subsidiaries
KLP Kapitalforvaltning AS
KLP Eiendom AS and subsidiaries
KLP Bankholding AS, with its subsidiary:
KLP Banken AS and its subsidiaries:
KLP Kommunekreditt AS
KLP Boligkreditt AS

Investments in securities funds where the KLP Group has control over the investments, such that they trigger a consolidation requirement under IFRS, are also consolidated in. The minority interest is classified as a liability.

<u>Consolidation</u>
In the Solvency II balance-sheet, the Group's life and non-life insurance business through the parent company, Kommunal Landspensjonskasse gjensidig forsikringsselskap, and the subsidiaries KLP Skadeforsikring AS and KLP Bedriftspensjon AS are fully consolidated.

Other areas of activity are included in the consolidated balance-sheet as equity investments, and are measured by the equity method. That means that earnings from these activities are included in consolidated profit/loss and the value of the equity investment. Any dividends from these activities reduce the value of the shares. These shares are treated as strategic shares when calculating the Solvency Capital Requirement. Own funds from the banking and capital management subsidiaries are included in own funds for the Group. At the same time, the capital requirements from these activities are also included in the Group's capital requirements.

In the Group balance-sheet for accounting purposes, all of the companies are fully consolidated.

f) The Group's principal product is public-sector occupational pension scheme. The Group is also a provider of defined-contribution pensions, non-life insurance, banking services and savings products based on investment funds. The property company KLP Eiendom is the third-largest property management company in the Nordic region. With the exception of the property business, which has a lot of property abroad, KLP's operations are exclusively in Norway.

g) There is nothing to report regarding activities or events occurring in the reporting period which had a significant impact on the Group.

A.2 Underwriting performance

Underwriting performance is made up of the risk result from life insurance and underwriting performance (premium income minus claims and costs) in non-life insurance.

The Group's total underwriting result for 2016 income was NOK 809 million, against NOK 510 million in 2015. Underwriting performance is dominated by public-sector occupational pension scheme, which is a defined-benefit scheme. At least half of the risk result associated with defined-benefit pensions falls to customers. The risk results from risk pensions and the risk result from non-life insurance fall to the Group.

Underwriting performance from:	2016 NOK million	2015 NOK million
Risk pensions	1.7	-0.6
Non-life insurance res. for own account	15.0	12.8
Defined-benefit pensions	792.3	497.8
Total	809.0	510.0

In order to administer the pension schemes and the risk coverage for defined-benefit and risk pensions, the Group charges a separate cost element in the premiums. These elements are included in the results for the company, as discussed under A.5. The companies can also take profit margins on risk products linked to the pension schemes. These are also shown in the table in section A.5.

A.3 Investment performance

The Group's financial assets are managed in various portfolios. Financial assets matching the technical provisions for life insurance are managed in portfolios where most of the returns fall to customers. The customer portfolios are split into portfolios where the Company has guaranteed a return to its customers and a pure investment portfolio (for defined-contribution pensions) where the Group offers no return guarantee. The management of other financial assets is divided into various portfolios where the whole of the return falls to the company.

Customer portfolios, NOK billions	31/12/2016 Portfolio	2016 Financial income	2015 Financial income
Public sector occupational pensions	462.0	24.7	15.5
Private occupational pensions:			
Private-sector defined-benefit pensions	1.5	0.1	0.1
Defined-contribution pensions	1.7	0.1	0.02
Total	465.2	24.9	15.6

The costs of managing the customer portfolio were NOK 180 million. For all products, a premium element is charged to cover the company's costs of managing the capital. These elements are included in the results for the company.

For public-sector occupational pensions, the Company also collects an interest guarantee premium in payment for the interest guarantee. Private-sector defined-benefit pensions are split into active schemes where the Company collects an interest guarantee premium, and paid-up policies where the company can take up to 20 per cent of the return. These elements are discussed in section A.5.

Further details of investment performance are given in the SFCR reports for Kommunal Landspensjonskasse and KLP Bedriftspensjon AS.

A.3.1 Profit from investments falling to the Group

The Group's own securities portfolios totalled NOK 35 billion. Financial income from investments in these portfolios totalled NOK 1.4 billion in 2016 compared to NOK 1.3 billion in 2015. The costs of managing the portfolios were NOK 18 million. Returns on the portfolios and costs of managing them are included in total comprehensive income for the Group.

Further details can be found in the SFCR reports for the three insurance companies.

A.4 Performance of other activities

All significant income and expenses are included in the above.

A.5 Any other information

The above covers performance elements paid in through the annual premiums and included in the profit/loss for the year for Kommunal Landspensjonskasse and KLP Bedriftspensjon AS: the interest guarantee premium, profit margins and the administration result. The table below shows the amount of these elements for 2016 and 2015.

Performance elements	**31/12/2016** NOK million	**31/12/2015** NOK million
Interest guarantee premium and profit margins	697	833
Administration result	-82	236
Total	615	1,069

The decrease in the administration result is due to a write-down of capitalised IT systems and a lower capitalisation level than before.

B. System of governance

The description in this section covers KLP both as a company and as a group. The section is identical to the corresponding section in the KLP SFCR.

The system of governance, as it is organised and implemented, is considered appropriate to KLP's business.

B.1 General information on the system of governance

Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP) is owned by customers with public sector occupational pensions with the Company. The owners are municipalities, county administrations and health enterprises, and companies associated with the public sector. The Company is the parent company for the KLP Group

The Company's articles of association and applicable legislation provide the framework for proper corporate governance and a clear division of roles between the governing bodies and executive management. The Company has not issued any traded equity instruments, so KLP is not listed on the Oslo Børs (the Norwegian stock exchange) or any other marketplace. KLP now has a bond (subordinated debt) listed on the London Stock Exchange.

KLP has a broad ownership structure. Delegates to the General Meeting are appointed through election meetings in the relevant constituencies, to which all owners are invited. Voting rights are calculated on the basis of the individual member's share of the previous year's ordinary premium. At the General Meeting each individual delegate has one vote.

<u>The General Meeting</u>
The General Meeting is the Company's highest authority and comprises elected representatives of the Company's owners.

171 delegates from a total of 23 constituencies were elected to the General Meeting for 2016 and 2017. 18 of the constituencies comprise county administrations and municipalities in each county. The four regional health enterprises and their subsidiaries each form one constituency. The companies together form one constituency. In each constituency an election meeting is held to elect delegates to the General Meeting. The General Meeting approves the annual report and accounts for the Company and the Group, including the allocation of profits or provision for loss. The tasks of the General Meeting also include electing 24 of the 45 members of the Corporate Assembly and approving the remuneration of the Corporate Assembly.

<u>The Corporate Assembly</u>
The Corporate Assembly comprises 45 members, 24 of them elected by the General Meeting. A further 6 representatives are nominated by the staff organisations in the local government sector. 15 representatives are elected from and by the staff in the Group. In the main the Corporate Assembly has the same responsibilities as a corporate assembly under the provisions of the Norwegian Public Limited Liability Companies Act. The Corporate Assembly members elected by the General Meeting elect five members with deputies to the Board of Directors, while the full Corporate Assembly elects the Chair and Deputy Chair of the Board of Directors. The Corporate Assembly elects an election committee with four members and a deputy member.

<u>The Board of Directors of KLP (Group Board)</u>
The Board of Directors is a collective body responsible for the interests of the Company and its owners. The Board is required to monitor the Group's compliance with business regulations and licence requirements. The Board provides for appropriate organisation of the

business, determines plans and budgets, keeps abreast of the Company's financial position and obligations and ensures that the business, accounts and asset management are subject to satisfactory control. The Board is required to supervise the executive management and the Company's business generally. The Board of Directors comprises eight members who are elected for a term of two years in such a way that half are up for election each year. Five Board members with up to the same number of deputies are elected by the members of the Corporate Assembly who are elected by the General Meeting. Two members with deputies are elected by and from KLP's employees. One member and a deputy are nominated by the employee organisation or negotiating alliance with most members in the pension schemes. Two observers are also nominated from those organisations that are second and third in terms of the number of members. The Group Chief Executive Officer is not a member of the Board of Directors.

Group senior management
The KLP Group senior management comprises ten experienced individuals with a broad background from Norwegian business and public sector activities.

Group senior management is organised according to business areas, representing the Life Insurance, Banking, Non-Life Insurance, Capital Management and Property Departments. Group senior management also includes the divisional heads with responsibility for Economy and Finance, IT, Communications and Marketing, and HR and Internal Services.

The Board's sub-committees
The Board of Directors has three sub-committees, a remuneration committee, an audit committee and a risk committee. The committees do not make decisions on behalf of the Board, but present their assessments and recommendations to the Board.

Remuneration committee
The remuneration committee is a preparatory and advisory working committee for the Board's deliberations on remuneration questions. In 2011 the Financial Supervisory Authority of Norway gave permission for a joint remuneration committee in the KLP Group. On this basis the committee also serves those boards of directors in the KLP Group that are required by law to have allowances/remuneration committees. The Committee's responsibilities include ensuring the requirements laid down in law and in the regulations on remuneration schemes in financial institutions, investment firms and asset management companies are complied with in those companies in the KLP Group that are subject to these regulations.

Audit committee
The audit committee is a preparatory and advisory working committee for the Board. The Committee was set up in accordance with the requirements for an audit committee pursuant to the Norwegian Act on Insurance Activity. The committee helps to quality-assure the Board's work to do with financial reporting, audit and governance.

Risk committee
The committee acts as a risk committee for the Board of Directors of KLP and its Group-level responsibilities. The principal tasks of the risk committee are to assist the Board in monitoring and managing the Company's overall risk and assessing whether the Company's management and control systems are appropriate to the level of risk and the scope of the overall business of the Group. The committee also ensures that the Company has good systems for internal control and risk management (compliance), and that the second-line functions work properly. The committee also ensures that there is a satisfactory organisation with a clear organisation structure, and an appropriate division of responsibilities and tasks between executing and monitoring functions. The risk committee assists the Board in preparing Board actions in other matters to do with risk management.

The key functions
The Board ensures that the key functions have the necessary authority, resources and independence through guidelines adopted by the Board for each of the functions. These guidelines allow the managers of each function to report directly to the Board on matters affecting their areas of responsibility.

The key functions produce quarterly and annual reports which are discussed by the Board. The head of the risk management function (the CRO) and the head of Internal Audit attend all the meetings of the Board's risk and audit committees.

B.1.1 Significant changes in the system of governance made during the reporting period

The risk committee was set up on 1 January 2016. No significant changes were made to the system of governance in the reporting period.

B.1.2 Details of remuneration policy

Principles
The Board previously adopted remuneration principles for KLP and additional guidelines for KLP Kapitalforvaltning AS. The remuneration rules were last discussed and revised at the Board meeting on 8 December 2016.

According to Section 2 of the Norwegian Regulation on remuneration schemes in financial institutions, investment firms and asset management companies, the directors of companies covered by the Regulation must ensure that the company always has and applies guidelines and frameworks for a remuneration scheme covering the whole of the company and its subsidiaries.

The KLP Group aims to have competitive pay and employment conditions compared to similar companies, but without leading the way. The remuneration scheme should be designed to be cost-effective for the Group.

The Group's remuneration schemes should be open and performance-based, so as to be perceived as fair and predictable wherever possible. There should be a correlation between agreed performance requirements and the remuneration given.

Pension scheme
All employees of KLP are members of the KLP's pension scheme.
Until 1 May 2013, KLP also had a scheme for 'Pensions for salaries over 12 G'. This scheme has been modified:

- Persons employed by KLP after 30 April 2013 are not covered by the scheme.
- Persons employed before 30 April 2013 who have salaries below 12 G today will not be covered by the scheme even if they later receive salaries over 12 G.
- For persons with salaries over 12 G as of 30 April 2013, he following applies: "Persons with salaries over 12 x base amount (G) have additional cover to ensure that fixed pay in excess of 12 G is counted as fully pensionable. This scheme applies only to qualification time accrued directly in KLP. If the pension is calculated on part-time working as an employee of KLP, the pension base over 12 G will be reduced accordingly."

B.2 'Fit and proper' requirements

B.2.1 The Company's internal rules

The Company ensures that all persons who actually manage the business or occupy other central functions ('key functions') are eligible and suitable for the position/office. The Board of KLP has adopted a guideline on 'fit and proper' criteria which is revised annually. The guideline contains qualification requirements which are designed to provide for appropriate diversity of qualifications, knowledge and relevant experience, to ensure that the Company is managed and supervised in a professional manner.

Persons to be assessed have to submit a completed and signed form for use in the assessment, approved by the Financial Supervisory Authority of Norway. These persons are assessed when employed/elected, or in specific situations. An annual confirmation has to be given to the effect that no new circumstances have arisen since the last assessment/confirmation. This is especially important in relation to conduct.

B.2.2 'Fit and proper' requirements: skills, knowledge and expertise

Requirements for the Board as a whole

As part of the qualification requirement, the Board of KLP should have sufficient insight and understanding to be able to question the assessments of the administration, take a critical view of the answers and initiate the necessary action. The whole Board of KLP should at least have qualifications in these areas:

- The insurance and finance market
- Business models and strategy
- The business system, including an understanding of the risks the Company is exposed to and its ability to handle them.
- Financial and actuarial analysis.
- Regulatory frameworks and requirements.
- Understanding of social issues.
- Customer and product knowledge.

Requirements for managers and key functions

The managing director, operational managers and key functions must be qualified to handle their duties and areas of responsibility. Duties and areas of responsibility will be set out in the individual's job description. Suitability will be assessed by the line manager for the post.

B.2.3 Suitability requirement (conduct)

All persons in management, key functions and the Board must meet certain standards of suitability (conduct).

For persons listed above, KLP assesses the following aspects:

- Criminal record
- Sanctions against companies
- Administrative sanctions and charges
- Financial situation
- Tax matters
- Other matters

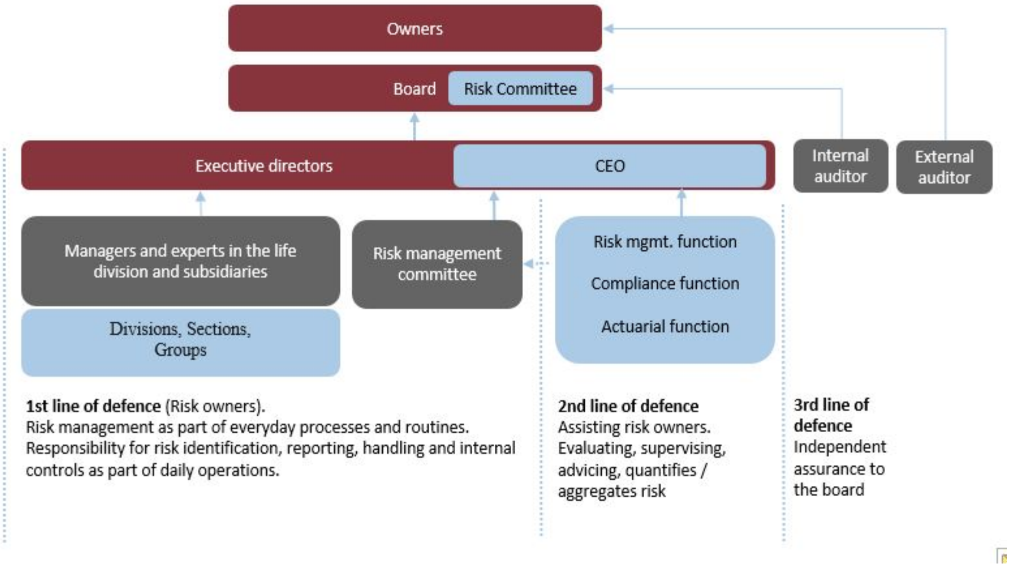
Persons to be assessed must present a copy of a police certificate no more than three months old. Information may also be obtained from the publicly accessible Register of Bankruptcies and the Register of Company Accounts.

If any of the criteria listed above is not met, an individual assessment will be made. A principle of proportionality will be applied, whereby consideration will be given to the nature and severity of the offence, whether there has been a final judgment, the number of offences, the person's subsequent behaviour and the time aspect.

B.3 Risk management system, including the own risk and solvency assessment

B.3.1 Organisation of the risk management system

The risk management system at KLP is organised on the principle of the three lines of defence. This is in line with the latest principles of risk management and adapted to the requirements of Solvency II. The organisation is illustrated in the figure.



<u>First line – Risk management and operation</u>
The Group CEO and all managers and employees in the operational units and subsidiaries make up the first line of defence. They bear the primary responsibility for good risk management through their responsibility for doing their jobs in line with authorisations, instructions and guidelines. Managers are also required to establish proper procedures and control measures within their areas.

<u>Second line – Monitoring and quality assurance</u>
The control functions that make up the second line are the risk management function, the actuarial function and the compliance function. For a more detailed description of the actuarial function and the compliance function, see sections B.6 and B.4.

The risk management function is headed by the Chief Risk Officer (CRO), who reports to the Group CEO. The head of the actuarial function reports to the CRO, as this function is organised as an integral part of the risk management function. The main responsibility of the function is to monitor the Group's overall risk, including the risk management system. The function calculates the Group's capital adequacy and produces quarterly reports which are discussed by the Board. The own risk and solvency assessment is a key task for the function.

To safeguard the independence of the functions, the Group CEO approves the remuneration of the heads of all three functions. For the same reason, they also have the right to report directly to the Board on matters concerning their areas of responsibility.

Third line – Independent verification
Independent verification is provided by the Group's own Internal Audit unit and its external auditors. Internal Audit is described in more detail in section B.5.

Risk management committee
The Group CEO has established a committee to act as his advisory body in matters concerning the Company's overall risk and solvency. The committee is made up of the Group CFO and the directors who play a key role in the Company's risk management. The committee addresses the general risk appetite, the overall risk strategy and risk exposure from all the major risk factors, including market risk, underwriting risk and operational risk. Each year, the committee discusses the principal assumptions used to calculate the Company's capital adequacy. The committee is administered by the CRO and assists the CRO in carrying out the 'own risk and solvency assessment'.

B.3.2 Implementation of the risk management system

The risk management system within KLP is implemented in the form of guidelines, processes, reports, mandates and instructions and job descriptions for the roles involved in the system.

Guidelines
The Company has drawn up a comprehensive set of guidelines, rules and instructions to provide for effective risk management through appropriate and thorough processes and procedures. The guidelines are reviewed annually and approved by the Board. The Group CEO also lays down the necessary rules to implement the guidelines.

The various guidelines have different areas of application. Some guidelines apply to the whole Group but are still adopted by the boards of the subsidiaries. Other guidelines apply wherever appropriate and provide a basis for the subsidiaries' own guidelines. Every subsidiary will also have its own guidelines to govern matters specific to the individual company's activities and the acts and regulations to which it is subject.

Processes/strategies
The overall risk in the Company is normally divided into three main parts: market risk, underwriting risk and operational risk, including strategic and reputational risk.

The most important processes for market risk are the investment strategy and the capital plan. The investment strategy is decided in the autumn for the next calendar year. It includes targets for the overall risk, a framework for allocation and the design of the Group's dynamic strategy for exposure to risky assets (policy rule). The capital plan is drawn up in the spring and sets the long-term direction for the Company's capitalisation.

A strategy for underwriting risk is adopted each year. However, this risk is by nature long-term and the strategy is broadly fixed over time. Operational, strategic and reputational risk are assessed as part of the annual process for risk management and internal control; see section B.4.

Reporting
Risk reporting in KLP takes place at many levels. At each Board meeting, the Group CEO includes the topic in his briefing and ensures that a separate briefing on risk management

and capital management is a fixed item on the agenda. The Board also receives a detailed monthly report on developments in the Group. The risk management committee monitors changes in the policy rule at each meeting.

The second-line functions produce quarterly reports from their areas, which are addressed by the Board. Each of the three functions also produces its own annual report: the ORSA, the annual report from the actuarial function and the annual compliance report.

B.3.3 Own risk and solvency assessment

The process for the 'own risk and solvency assessment' (ORSA) is laid down by the Board in a separate guideline. The guideline sets out the main principles for the process, with requirements for implementation, division of responsibilities, performance requirements and documentation. The process is carried out each year and is normally discussed at the Board's strategy meeting in June.

Assumptions
The ORSA process is largely based on the Company's other processes for managing risk and solvency. Apart from market and underwriting risk, risks in the process of governance are identified in the autumn. This process also quantifies the most important risks. Quantification is used to calculate the capital requirements for operational risk.

Implementation and approval
The risk management function is responsible for coordinating the implementation of the ORSA process and compiling the report. The process follows an established set of tasks, starting with introductory discussions in the risk management committee. These identify topics to be focused on in the year's process, often based on evaluations and feedback on the previous process.

The ORSA plan and suggested changes in related guidelines are discussed by the Board in March. Work on sensitivity tests, scenario analyses and specially selected topics goes on until the end of May, when the reports are completed. An integrated process is followed for KLP as a company and as a group, but separate reports are produced for each of these.

The Board reviews and approves the ORSA by looking first at a plan for the ORSA and then the actual reports. This cements the Board's ownership of the process. The Board's risk committee also conducts an extended review of the ORSA plan and the ORSA itself and makes its recommendations to the Board.

The Board determines its solvency requirements based on the assessments made in the ORSA process. KLP's solvency requirements are defined by the regulatory capital requirement as this is larger than that obtained by using the Company's own assumptions and methods.

B.4 Internal control system

B.4.1 KLP's internal control system

Governance (risk management and internal control) ensures that KLP can achieve its objectives by identifying and analysing relevant risks that could prevent it from attaining its goals, and by implementing effective measures to handle, control and report on the risks. The Board of KLP has adopted a policy for risk management and internal control in KLP The policy defines fundamental principles, processes, roles and responsibilities connected with governance. Relevant risks and internal control measures should be assessed in all decisions on significant changes to the business.

- The risk management system helps to ensure that KLP attains its goals by:
- Identifying, measuring, monitoring and reporting on all material risks that could prevent target attainment.
- Establishing appropriate risk strategies to manage risk-taking.
- Establishing contingency plans to handle the impact of any remaining risks.

Internal control is an element of the risk management system and helps to ensure that goals are attained by establishing and following up internal measures to control and handle the risks. The means of doing so include organisation, instructions, guidelines and measures.

The following principles govern KLP's corporate governance:

- Goals should be set for all key areas of activity
- Risks associated with target attainment should be systematically identified, assessed and documented
- Measures should be established to handle and control material risks
- Appropriate reporting procedures should be established for unwanted events

KLP's managers at all levels should always have a proper overview of the specified goals, risks, key controls and possible unwanted events in their area, so they can adequately handle risks associated with the business on an ongoing basis. The second-line functions also assist managers in providing for good governance, and make independent assessments of the managers' handling and control of risk. KLP has also established an Internal Audit unit to provide the Board with an independent assessment of whether the internal control system is working. The Board of KLP assesses the internal control system within the Company at least once a year.

B.4.2 The compliance function

The compliance function in KLP assists the Board and senior management in ensuring that the Company has implemented effective procedures for compliance with the applicable rules, including the framework for effective management and control.

The compliance function identifies, monitors and reports on the risk of non-compliance in KLP, oversees the material risks linked to non-compliance in the Group, and is an active 'sparring partner' to the Board, management and staff within the Group in relation to the operational handling of non-compliance risk.

The compliance function works preventively by providing advice and guidance, and also carries out control activities to ensure that the internal control within the business is effective. However, its activities are based around advice, dialogue, presence and training. The aim of these activities is to develop an organisation structure in which compliance with the framework is an intrinsic value.

The head of the compliance function reports to the Group CEO and briefs the management on his/her own initiative on matters that are or could be of significance to the business. Serious breaches of laws and regulations, or a significantly increased risk of non-compliance, must be reported without undue delay to the Group CEO and Chair of the Board.

To preserve the independence of the function, employees in the compliance function have no operational or decision-making roles in activities that the function is required to monitor. This does not prevent the function from assisting management in developing appropriate processes, procedures and methods to provide for effective follow-up of managers' control responsibilities.

B.5 Internal audit function

B.5.1 How internal audit works

Based on risk assessments etc., an audit plan is drawn up for areas to be reviewed (audited). The areas to be audited are operational and support processes, risk management systems, IT systems and IT security, products and regulatory requirements. The audit plan is approved by the Board.

The findings from the audit are reviewed with the operational and line managers for the area that has been audited, who take a view on the recommendations and set deadlines for implementing them. The audit reports are reviewed in the audit and risk committee before the conclusions and recommendations are presented to the Board. Progress in implementing the recommendations is presented to the Board in the annual report from Internal Audit. The annual report from Internal Audit provides an assessment of business and risk management and of the internal control in key areas.

In order to perform its function effectively, Internal Audit looks at internal operational reports, Board actions and reports, and communicates with senior management, the risk, compliance and actuarial functions and external auditors.

On its own initiative or at the request of the administration, Internal Audit conducts ad-hoc reviews or tasks within control-related problem areas.

B.5.2 How Internal Audit remains independent and objective in relation to the activities examined

Internal Audit reports to the Board and has to be professionally independent in its work in relation to the areas and persons being audited. The Board engages and dismisses the head of Internal Audit and defines that person's conditions.

Internal Audit has no operational or financial responsibility or decision-making authority within the different areas of activity. Internal Audit cannot therefore perform ongoing operational tasks, take decisions or carry out other activities that might compromise its independence or objectivity.

The head of Internal Audit has to demonstrate to the Board on an annual basis that the function is independent. In the guideline from the Board, the internal auditors are required to comply with the applicable laws, regulations and orders from the Financial Supervisory Authority of Norway and ethical rules and standards issued by the Institute of Internal Auditors.

Every five years, there is an external evaluation of KLP's Internal Audit function; the last of these was in 2013. The audit committee in KLP reviews this evaluation and communicates its findings to the Board.

B.6 Actuarial function

Kommunal Landspensjonskasse (KLP) has an actuarial function with responsibilities and tasks as described in the rules for Solvency II. The actuarial function is organised as an integral part of the risk management function, but in order to safeguard its independence, the head of the actuarial function is allowed to report to the Group CEO and the Board on all matters within its area of responsibility. The function is not assigned any responsibilities or tasks in relation to insurance customers under the Act on Insurance Activity.

The actuarial function can use professional resources from other units for specific tasks, but in these cases the head of the actuarial function must ensure that there are no conflicts of interest for the function or for the persons working for it.

The head of the actuarial function is a qualified actuary from the University of Oslo and a member of Den norske Aktuarforening (the Norwegian Society of Actuaries). This person is a member of the risk management committee at KLP and also has access to Board actions and attends Board meetings where actuarial and risk-related matters are discussed.

In accordance with the appendix to the Norwegian Regulation laying down supplementary rules to the Solvency II Regulation, the actuarial function produces a written report at least once a year for presentation to the Board of KLP. This report is intended to document all the tasks carried out by the actuarial function, and the results of these, and should clearly identify any deficiencies and make recommendations for rectifying these.

B.7 Outsourcing

The Company's outsourcing guidelines were last revised and discussed at the Board meeting on 2 November 2016. Most of the changes in this revision were structural and linguistic, to make the contents more accessible. Some changes were also made in response to feedback from the Board from its previous discussion of the guideline, along with individual changes concerning outsourcing of IT operations and one relating to personal protection.

The guideline is meant to ensure that outsourcing from KLP is handled in a proper manner and in accordance with the applicable rules. It gives guidance as to what should be regarded as outsourcing for KLP (the life insurance company), and the Company's responsibilities with regard to such outsourcing. The guideline also lays down requirements for assessing reliability, notification, outsourcing contracts and checks on the contractor's business.

The guidelines contain the following:

- Purpose
- Area of activity
- The Company's liability with outsourcing
- Details of what is regarded as outsourcing in a non-life company
- Overall principles for outsourcing
- Reporting requirement
- Requirements for agency agreement
- Check on the contractor's business
- Overview of outsourced activities
- Relationship to other regulations. Revision
- Document history

<u>Outsourcing of critical or important functions</u>

- Principal agreements on capital management and administrative services. Intra-group outsourcing
- Agreement covering management – including purchase/sale of real estate owned by KLP, other than external property funds. Intra-group outsourcing
- Agreement om application and infrastructure operation for business systems serving the Life division (and several subsidiaries), and KLP's customer solutions including klp.no, MinSide and Kundeside. External outsourcing.
- Agreement on application management and operation and infrastructure operation. External outsourcing.

- Agreement on the operation of external networks (WANs) and telephony. External outsourcing.

B.8 Any other information

The foregoing is considered to cover all the key details of the risk management system.

C. Risk profile

The risks to which the Group is exposed fall into three main groups:

- Market and counterparty risk
- Underwriting risk
- Operational, strategic and reputation risk

The dominant position of the parent company within the Group means that the Group's exposure to these risks is totally dominated by the parent company's activities.

C.1 Underwriting risk

Underwriting risk in the Group is dominated by the activities of the parent company within public-sector occupational pensions, where the longevity risk is greatest. Non-life underwriting risk comes in addition to life-related underwriting risk and there is assumed to be little correlation between the two. This is therefore helpful for risk-spreading within the Group. A description of the Group's underwriting risk is given below, based on the underwriting risk in Kommunal Landspensjonskasse (KLP). For underwriting risk in KLP Bedriftspensjon AS and KLP Skadeforsikring AS, refer to these companies' SFCR reports, section C.1.

The principal underwriting risks for KLP are longevity risk (people living longer) and disability. The primary risk management tool is to maintain a robust level of premiums and provisions to reduce the likelihood of a shortfall in cover for underwriting risk.

In practice, as tariff agreements specify what the insurance cover in public-sector pension schemes (OfTP) must include, the underwriting risk is contained within the limits described here. There is also a general requirement to equalise premiums so customers cannot be charged individually, except for the interest guarantee premium and capital management costs.

Underwriting risk and the development of the market for relevant insurance products (pension products) are reported each year in a separate report from section Actuarial/Product. Together with this report, the Board adopts an annual strategy for underwriting risk.

<u>Longevity risk</u>
Because old-age pensions after the age of 67 in OfTP schemes are age-adjusted in the same way as the national insurance-based old-age pension, the potential economic consequences of the trend towards greater longevity in the future will be limited. If longevity increases more than the projections used by Statistics Norway (SSB), this will cause a downward adjustment of accrued old-age pensions compared to what has been insured and financed for all year-groups that have not yet turned 61.

K2013 was based in the life companies' historical data up to 2009. KLP's own historical data for the period 2010-2015 confirms that the safety margins are satisfactory. If it becomes necessary to replace today's tariffs with new and higher tariffs, this will in turn entail upgrade plans which could also reduce equity because of the authorities' expected requirements for equity contributions to reserves in the future also. This is the real risk of losses to companies from greater longevity.

An abrupt fall in mortality 'overnight', as assumed by stress tests for solvency purposes, is much less of a real risk, but companies still need to maintain solvency to withstand this because such stress tests are essential to the capital requirements placed on companies under Solvency II.

Disability

Disability provision in OfTP was changed from 1 January 2015 as a result of the pension reform. National insurance now covers a much bigger part of the total disability payments than before. For new pension cases, disability benefits from OfTP paid together with disability pensions from national insurance are therefore much smaller than they were under the old scheme. From 1 January 2015, KLP also introduced new premium rates for disability which reflect our experience of disability risk in KLP's insured base up to 2013.

Lapse risk

Customers with public-sector occupational pensions from KLP can opt to move to another provider at each year-end. Customers then take with them all the assets assigned to them, but they also take all the liabilities associated with the customer relationship. Customers also take away their share of the equity contributed. On the other hand, retained earnings stay with KLP. The result of a customer moving is thus an improvement in the Company's solvency.

If a customer opts to close his/her public-sector scheme, or an employee of a customer leaves, no paid-up policies are issued. Accrued entitlements are transferred and the customer continues to pay the interest guarantee premium for these. This means that KLP does not face the same problems as private occupational pension schemes. Customers moving are only regarded as a strategic risk to the Company if large numbers are involved. Departures are not a risk to the Company's financial strength.

In calculating capital requirements within Solvency II, customer departures are categorised as an underwriting risk (lapse risk). The capital requirement associated with departure risk is significant as the standard method requires KLP's schemes to assume that 70 per cent of customers will move. The capital requirement arises from the fact that future margins factored into the Company's capital disappear. This means that the capital requirement for underwriting risk is much higher than that calculated for longevity risk and disability alone.

C.1.1 Measurement of underwriting risk

KLP's membership base comprises well over 1 million working people, pensioners and former members with pension entitlements, divided into six relatively homogenous risk groups. If we disregard departure risk at this point, the underwriting risk in all the risk groups is dominated by longevity and disability risk – both of which are characterised by small variations from year to year.

Disability and longevity risk are nevertheless monitored every quarter via reports of underlying risk items from KLP's membership system, while a full analysis including a calculation of risk results forms part of an annual process. The analysis entails statistical processing of relevant data on the membership base with a view to measuring the trend in mortality and disability, in order to arrive at a best estimate of how this trend may be expected to evolve in the coming years. The expected trend is quantified by deriving new rates of mortality and disability as a basis for 'best estimate' assumptions in Solvency II and possibly adjusted tariffs (before actuarial safety margin) for premium and reserve calculations.

C.1.2 Management of underwriting risk

Underwriting risk is mainly managed by maintaining a robust level of premiums and provisions. The Company also makes great use of the risk equalisation fund. Customer selection and re-insurance are used to a lesser degree.

Risk equalisation fund
Great use is made of the risk equalisation fund (RUF) to minimise the risk of losses related to underwriting risk affecting equity outside the RUF. The Company is allowed to allocate a maximum of half of the risk result to the risk equalisation fund, while the rest has to go to the customers' premium fund. The RUF can be used to cover any negative risk result.

In the process of upgrading reserves for greater longevity which was completed in 2014, there was in fact an official requirement for the risk surplus to be used to upgrade the reserves instead, which KLP also did. In 2013 KLP also used monies already allocated to the risk equalisation fund as a contribution to the upgrade for those contracts that had the largest outstanding need to upgrade the reserves. From 2015 onwards, the previous practice of maximum allocation to the RUF was resumed. This is a satisfactory level which it is desirable to maintain through future annual allocations. The risk equalisation fund now amounts to NOK 3.9 billion.

Customer selection
As KLP exists mainly to provide occupational pension solutions to municipal and county authorities and health enterprises, it is not considered appropriate to exclude any of these customer categories from offers from KLP on grounds of risk.

KLP can anyway decline to offer OfTP schemes to businesses that represent an unreasonably large risk. This applies mainly where historical data indicate a particularly high disability risk, but very few of our potential customers have such a prevalence of disability and it is very rare for anyone to be refused.

Re-insurance
Risk relief can be achieved through re-insurance. The extent of re-insurance cover is assessed in light of the Company's risk-bearing capacity and the nature of the products.

KLP has a disaster insurance agreement which covers up to NOK 300 million over and above KLP's excess of NOK 50 million, where the same event gives rise to claims in excess of NOK 50 million. The agreement covers KLP against substantial losses resulting from large-scale disasters, such as an air crash involving a large number of municipal employees insured with KLP. No disasters of this magnitude have ever happened within KLP's insured base, but such events are not inconceivable.

The reason why KLP has no re-insurance needs beyond this is down to the size of the Company – and hence its great risk-bearing capacity – and the characteristics of its product portfolio.

C.2 Market risk

Market and counterparty risk for the Group are completely dominated by the portfolios managed by Kommunal Landspensjonskasse. The dominant risk is from shares in the parent company's common portfolio. The proportion of equity is managed dynamically through a policy rule, and it will be the dominant risk as long as the customer buffers are sufficient to maintain an equity element in line with long-term targets.

We will therefore describe the Group's market risk in terms of the market risk for Kommunal Landspensjonskasse (KLP). For market risk in KLP Bedriftspensjon AS and KLP Skadeforsikring AS, refer to these companies' SFCR reports, section C.2.

Market risk in KLP arises in the management of the pension assets and equity in the Company. The aim of long-term management is to assemble a portfolio which gives the highest possible return in relation to our commitments, given the limits placed on our risk-taking.

Another goal is to preserve equity and achieve a stable return. Risk management is set up in such a way that the Company can maintain a certain level of risky assets over time.

To support these goals, the following principles form the basis of the capital management approach:

- Long-term investment horizon and wide-ranging portfolios
- High proportion of low-risk assets
- Continuous risk management and monitoring
- High degree of market exposure (index-tracking)
- Responsible management in line with guidelines for responsible investment

KLP’s market risk is made up of equity risk, property risk, credit risk, interest rate risk, concentration risk and currency risk.

Equities

The equity component of the common portfolio includes Norwegian exposure, global exposure and exposure in emerging markets. There are also some smaller investments in special funds, private equity and other equity investments. Management is mainly through mandates issued to KLP Kapitalforvaltning AS.

The corporate portfolio has investment limits relative to the total assets under management in the portfolio. The equity portfolio is made up of long-term and short-term investments and shares in subsidiaries and associates, based on Board resolutions.

Property

KLP’s property portfolio is managed by its subsidiary KLP Eiendom AS. The investments in property are mainly in Norway. We aim at long leases with solid counterparties. KLP’s fundamental management philosophy is to hold high-quality properties in central shopping streets.

The property exposure in the corporate portfolio is made up of KLP’s head office and low-risk leasehold sites.

Interest

The technical provisions are long-term, but it is not appropriate to have investments with the same duration. Such investments are hard to come by and, in regulatory terms, the duration is seen as short as KLP can charge an interest guarantee premium.

Interest rate risk is therefore not a significant contributor to KLP’s capital requirements, but persistent low interest rates are naturally a challenge to the Company’s ability to generate good returns for its customers.

The risk of the Company being unable to achieve a return greater than the guaranteed return is reduced in any given year by posting a substantial part of the interest-bearing investments to the accounts at amortised cost.

Other

The fundamental principles of capital management mentioned above, combined with management mandates and limits that restrict exposure to individual issuers, mean that KLP has only minimal exposure to concentration risk.

With few exceptions, KLP hedges its portfolios against currency fluctuations. The Company therefore has little currency risk.

There were no significant changes in market risk in 2016.

C.2.1 Measurement of market risk

The risk targets in place at any given time to safeguard equity and maintain risk capacity over time are regularly monitored and reported on at each Board meeting. The risk is measured both at the end of the year and on a rolling one-year horizon.

Annual limits are defined for asset allocation, interest rate risk, credit risk, currency risk, property risk, liquidity risk, counterparty and concentration risk.

It should be possible to record, measure and report all investments in relation to external and internal guidelines for risk monitoring and reporting in place at any given time. This means that the Company should not trade in instruments without having developed the expertise and systems to provide for proper follow-up.

C.2.2 Management of market risk

The composition of the risk in the customer portfolios is such that the risk of drawing on equity as a result of negative interest results is low. Annual investment limits are set for the different asset classes and the portfolio breakdown for each asset class is generally well diversified so non-systematic risk is very limited.

The risk in the portfolio is also handled dynamically though operational rules. This means that the risk in the customer portfolios is constantly adjusted to the risk-bearing capacity. During the year, the trend in profit/loss will send signals to the policy rule to adjust the level of risk exposure by buying and selling. The adjustments will normally be made in the equity market, as long as equities account for the bulk of the total risk in the common portfolio.

C.3 Credit risk

The Group's credit and counterparty risk are also dominated by the parent company's risk in these areas. The discussion of the Group's exposure to these risks is therefore based on the description of these areas for Kommunal Landspensjonskasse (KLP). For KLP Bedriftspensjon AS and KLP Skadeforsikring AS, refer to these companies' SFCR reports, section C.3. KLP Banken contributes some interest and credit risk from its activities, but the capital requirement for the Bank is included in the Group's solvency capital calculation.

Credit and counterparty risk are part of market risk, so they are included as 'other market risk' in the various risk assessments and analyses carried out.

C.3.1 Measurement and management of credit risk

Credit risk is classified at least once a year by country, rating and sector.

Assessments of bad debt provision/valuation and default are made in line with the relevant accounting principles.

Credit limits are also defined for all credit exposure before investments are made, and these are determined by a separate credit committee. Together with the requirement for diversity in the mandates, this ensures that portfolios without broad-based indices (e.g. the capital investment portfolio and Norwegian bond portfolios) have limited non-systemic risk.

The KLP Group's credit exposure to counterparties is measured against the approved limits set by the head of the credit committee. The limits are subject to annual review and followed up during the year at quarterly meetings.

The limits for Norwegian credit are primarily based on internal credit assessments. Lending to foreign borrowers is largely based on external ratings from recognised rating agencies.

C.4 Liquidity risk

The liquidity risk in the Group is considered to be very limited. The parent company's portfolios are largely made up of liquid investments. At the same time, the cash flows from these activities are large relative to the liquidity needs for day-to-day operations. The companies within the Group are responsible for their own liquidity management. For their liquidity risk, refer to the SFCR reports for the insurance companies, section C.4, and ICAAP reports for the companies in the Group (KLP Banken AS and KLP Kapitalforvaltning AS) which are subject to specific liquidity requirements.

C.4.1 Expected earnings from future premiums

The Group's expected profits from future premiums total NOK 10.4 billion.

C.5 Operational risk

KLP defines operational risk as

"The risk of loss as a result of inadequate or defective internal processes or systems, human error, or external circumstances."

The operational risks with the greatest bearing on capital needs are considered to be errors in implementing the policy rule and decisions based on errors in measuring and modelling risk. KLP does not believe it has any greater operational risk than is normal in comparable companies.

KLP's property investments are gathered together in its subsidiary KLP Eiendom AS, which both manages and develops property. This carries some non-traditional operational risk for a company in the insurance sector. The Company has its own ISO-certified processes to measure and manage its operational risk

The capital requirement for operational risk in the KLP Group is calculated from the individual operational risks for the companies covered by Solvency II (KLP, KLP Bedriftspensjon AS and KLP Skadeforsikring AS) as well as KLP Bankholding AS and KLP Kapitalforvaltning AS. The operational risk for the Group is dominated by the parent company. The capital requirement for operational risk is NOK 2.1 billion for the Group and NOK 2.0 billion for KLP.

The discussion of the Group's operational risk is therefore based on the description of the operational risk for Kommunal Landspensjonskasse (KLP). For other insurance companies in the Group, refer to the respective SFCR reports, section C.5. For the subsidiaries that are subject to a reporting requirement under other regulations (ICAAP reporting), the capital requirement from these companies is included in the Group-level calculation of the Solvency Capital Requirement.

C.5.1 Measurement and management of operational risk

KLP carries out an annual governance process (risk management and internal control) in which the heads of all departments identify operational risks within their areas of responsibility. The likelihood and impact of each risk are assessed, and it is decided whether the risks are acceptable or whether risk reducing measures must/should be taken. Measures identified earlier are followed up and are included in the assessments. The identified risks are grouped together for each division. Finally, a list is compiled for the Company. This list is included in the list for the Group. The compliance function facilitates the process and reports performance to senior management and the Board. Strategic risk and risk to reputation are assessed separately.

The internal control process is supplemented with a valuation of the principal operational risks. The Company's own assessment includes a calculation of the capital requirements for operational risk based on the valuation. This capital need has displayed a relatively stable progression and is significantly lower than that calculated for regulatory purposes using the standard formula.

C.6 Other material risks

All material risks are considered to be covered in the preceding sections.

C.7 Any other information

The foregoing is considered to cover all the key details of the Company's risk profile.

D. Valuation for Solvency purposes

D.1 Assets

Asset class, NOK billions	Solvency II	Accounts
Intangible assets	0.0	0.3
Assets after tax (deferred tax assets)	13.4	0.3
Property for own use	1.5	1.5
Property (other than for own use)	57.5	57.5
Investments in associates, including participations	2.6	2.6
Equities etc.	27.3	27.3
Bonds	220.0	210.1
Investment funds etc.	132.4	132.4
Derivatives	1.6	1.6
Deposits other than cash equivalents	1.6	1.6
Assets linked to contracts with investment options	1.7	1.7
Lending	53.4	52.9
Reinsurance share of gross technical provisions	0.1	0.1
Other assets*	12.6	12.6
Total	525.8	502.6

*Other assets are made up of: 'Cash and cash equivalents', 'Receivables from policy-holders', 'Receivables from reinsurers', 'Other receivables' and 'Miscellaneous other assets'.

D.1.1 Intangible assets

Valuation, Solvency II:
Intangible assets are valued at zero. Under Solvency II, intangible assets are valued at zero unless the asset can be sold separately and it can be shown to have a market value.

Valuation, accounts:
Intangible assets are valued for accounting purposes at cost and depreciated over their assumed service life. They are assessed at least once a year to determine whether the recoverable value is at least equal to the book value. If the recoverable amount is less than the book value, the asset is depreciated to the recoverable amount. Intangible assets are posted to the balance-sheet in the amount of NOK 0.3 billion.

D.1.2 Assets after tax (deferred tax assets)

Valuation, Solvency II:
Deferred tax as reported in the Solvency II balance-sheet is split into a deferred tax asset of NOK 13.4 billion and a deferred tax liability of NOK 15.7 billion.

This valuation is based on the accounting calculation but also factors in the effect of assets and liabilities with a different valuation under Solvency II to than in the accounts. These include technical provisions, financial liabilities and interest-bearing portfolios valued at amortised cost in the accounts. Because of the temporary deduction, the technical provisions at the end of 2016 are valued the same as in the accounts and do not give rise to any deferred tax. Financial liabilities are valued slightly higher in the Solvency II balance-sheet, which produces a deferred tax asset. Assets in interest-bearing portfolios valued at amortised cost in the accounts are valued higher in the Solvency II balance-sheet, and so give rise to a deferred tax liability.

Valuation, accounts:
Deferred tax assets are reported in the financial statements at NOK 0.3 billion. This represents nominal value minus any impairment of the holding which is not assumed to be usable and so has no value. The nominal value is calculated on the basis of differences between the accounting and taxation timing of changes in the value of assets and liabilities. To the extent that these differences will reverse at a later date, there will be deferred tax (accounting income taken before taxable income) or a deferred tax asset (taxable income taken before accounting income). Temporary differences are offset against each other where they are expected to reverse within the same time frame and the differences can be equalised through Group-level allocations. Net temporary differences which mean that the Company has brought forward taxable income or deferred taxable deductions are posted as deferred tax assets.

D.1.3 Property for own use

Valuation, Solvency II:
Property for own use is measured at fair value.

Fair value is calculated using an internal valuation model because there is not considered to be an active market with observable prices in the property markets that KLP invests in. In order to quality-assure the interval valuation model, a selection of the Group's property stock is regularly valued by external, independent and qualified valuers. In the event of significant deviation from our own assessment of fair value, the differences are analysed and the valuation model's parameters are adjusted if this proves necessary.

Valuation, accounts:
In the accounts, property for own use is measured at fair value by the revaluation method. This means that property for own use is depreciated on a regular basis, then revalued to fair value. The calculation of fair value matches the calculation defined for valuation under Solvency II.

D.1.4 Property (other than for own use)

Solvency II valuation equal to reported value:
The property investments are measured at fair value by the same method used to determine the fair value of property held for own use; see description under D.1.3.

D.1.5 Investments in associates, including participations

Valuation, Solvency II:
Investments in associates, including participations, are measured at fair value Fair value is estimated to equal net assets and liabilities in the subsidiary measured at fair value.

Valuation, accounts:
Investments in associates, including participations, are measured by the equity method. Where the subsidiary's accounts are prepared according to different principles than KLP's own accounting principles, the subsidiary's accounts are converted to KLP's principles before KLP's share of the profit/loss is entered in the accounts.

D.1.6 Equities etc.

Solvency II valuation equal to reported value:
Equities etc. are measured at fair value. Fair value should be a representative price based on what a corresponding asset would have been traded for on normal market terms and conditions.

A share is considered as listed in an active market if quoted prices are easily and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length. Liquid shares are generally valued on the basis of prices provided by an index provider. At the same time, prices are compared between different sources to pick up possible errors.

If the market for the share is not active, or the share is not listed on a stock market or similar, the Group uses valuation techniques to set fair value. These are based for example on information on recently completed transactions carried out on commercial terms, and reference to trading in similar instruments. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

D.1.7 Bonds

Valuation, Solvency II:
Investments in bonds are measured at fair value. Fair value should be a representative price based on what a corresponding asset would have been traded for on normal market terms and conditions. A financial instrument is considered as listed in an active market if quoted prices are easily and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length.

If the market for the security is not active, or the security is not listed on a stock market or similar, the Group uses valuation techniques to set fair value. These are based for example on information on recently completed transactions carried out on commercial terms, reference to trading in similar instruments and pricing using externally collected yield curves and yield spread curves. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

Valuation, accounts:
Investments in bonds are reported in the accounts partly at fair value and partly at amortised cost. For the portion measured at fair value, there is no difference from the valuation principles described for Solvency II.

Bonds where the intention is to receive a fixed rate of interest for the whole term to maturity are valued for accounting purposed at amortised cost. This amounts to NOK 139.5 billion out of a total of NOK 210.1 billion. The difference in valuation is NOK 9.9 billion.

Bonds are measured at amortised cost using the effective interest method. The internal rate of return is set through discounting contractual cash flows over the expected duration. The cash flows include setting-up charges and direct transaction costs as well as any residual value at the end of the expected duration. Amortised cost is the present value of these cash flows discounted by the internal rate of return.

D.1.8 Asset management companies etc.

Solvency II valuation equal to reported value:
Securities funds etc. are measured at fair value; see description under D.1.6.

Securities funds etc. also include investments in private equity funds. The fair value of these funds is based on reported market values, as quoted in the International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines). These guidelines are issued by the

European Private Equity and Venture Capital Association (EVCA) and based on the principle of approximate market valuation of the companies in the funds.

D.1.9 Derivatives

Solvency II valuation equal to reported value:
Derivatives are measured at fair value.

D.1.10 Deposits other than cash equivalents

Valuation, Solvency II:
Deposits other than cash equivalents are measured at fair value.

Valuation, accounts:
Deposits other than cash equivalents are measured at nominal intrinsic value.

D.1.11 Assets linked to contracts with investment options

Solvency II valuation equal to reported value:
Assets linked to contracts with investment options are made up of units in investment funds. These are measured at fair value; see description under D.1.8.

D.1.12 Lending

Valuation, Solvency II:
Lending is measured at fair value; see discussion of Solvency II valuation of bonds in section D.1.6.

Valuation, accounts:
Loans are reported in the accounts at amortised cost This produces a valuation NOK 0.5 billion lower than the fair value reported in the Solvency II balance-sheet.

Lending is measured at amortised cost using the effective interest method. The internal rate of return is set through discounting contractual cash flows over the expected duration. The cash flows include setting-up charges and direct transaction costs as well as any residual value at the end of the expected duration. Amortised cost is the present value of these cash flows discounted by the internal rate of return.

Loans are written down where there is objective proof of impairment. Loss assessment and loss write-down is carried out quarterly on individual loans.

Lending is also assessed by group. If there is objective proof of impairment in a group of loans, a write-down is carried out.

D.1.13 Reinsurance share of gross technical provisions

Valuation, Solvency II:
The reinsurance portion of gross technical provisions is measured at fair value. This means that the receivable is discounted, taking account of expected losses on claims against reinsurance companies.

Valuation, accounts:
Valuation for accounting purposes uses nominal value with a deduction for losses resulting from default.

D.1.14 Other assets

<u>Solvency II valuation equal to reported value:</u>
Other assets are measured at fair value.

D.2 Technical provisions

D.2.1 Value of technical provisions

The table below shows technical provisions under Solvency II and technical provisions in the financial statements for the Group, broken down by industry. Technical provisions under Solvency II are shown here both with and without the temporary deduction described in Article 308d of Directive 2009/138/EC. KLP and KLP Bedriftspensjon apply this deduction, so that the provisions under Solvency II for these companies, with the temporary deduction, were valued the same as in the financial statements at the end of 2016. Solvency II provisions in the table have been calculated with the volatility adjustment described in Article 77b of Directive 2009/138/EC.

Technical and underwriting provisions, NOK billions	Solvency II				Accounts
	With temp. deduction		Without temp. deduction		
	Best estimate	Risk margin	Best estimate	Risk margin	
Non-life insurance	**2.0**	**0.1**	**2.0**	**0.1**	**2.2**
Non-life insurance – excluding health insurance	1.0	0.1	1.0	0.1	1.1
Assistance	0.0	0.0	0.0	0.0	0.0
Insurance against fire and other material damage	0.6	0.0	0.6	0.0	0.7
Third-party liability	0.1	0.0	0.1	0.0	0.1
Third-party insurance for motor vehicles	0.1	0.0	0.1	0.0	0.1
Other motor insurance	0.1	0.0	0.1	0.0	0.2
Health insurance – same actuarial basis as non-life insurance	1.0	0.1	1.0	0.1	1.1
Loss of income	0.4	0.0	0.4	0.0	0.4
Occupat. injury	0.6	0.0	0.6	0.0	0.7
Life insurance – except index-linked insurance and insurance with investment options	**441.2**	**12.8**	**452.3**	**13.1**	**454.0**
Health insurance – same actuarial basis as life insurance	0.1	0.0	0.2	0.0	0.1
Health insurance	0.1	0.0	0.2	0.0	0.1
Life insurance – except health insurance, index-linked insurance and insurance with investment options	441.1	12.8	452.1	13.1	453.9
Insurance with profit-sharing	441.1	12.8	452.1	13.1	453.9
Life insurance – index-linked insurance and insurance with investment options	**1.7**	**0.0**	**1.7**	**0.0**	**1.7**
Index-linked insurance and insurance with investment options	1.7	0.0	1.7	0.0	1.7

D.2.2 Valuation principles for solvency and financial accounting purposes

Life insurance – Valuation, Solvency II:
Technical provisions for life insurance under Solvency II are made up of:

- Guaranteed benefits including future pension payments, transferred obligations and reserves at the end of the projection minus premiums paid. They also include the value of the premium fund on the calculation date.
- Discretionary benefits are mainly future allocations to the premium fund, but also include buffer provisions left at the end of the projection such as supplementary provisions, the securities adjustment fund and the risk equalisation fund.
- The risk margin represents the present value of future capital costs associated with the capital requirement that would be assumed by a reference enterprise on taking over the technical provisions. The Group estimates this by assuming that future

capital requirements will decrease in proportion to the best estimate (method 2 in the EIOPA's 'Guidelines on the valuation of technical provisions').

The basis for calculating the solvency capital is a balance based on market value, i.e. average present value based on risk-free interest simulated using market-consistent scenarios. In order to produce a best estimate of the liabilities, all future cash flows in all of the market-consistent scenarios are calculated. The cash flows included in the calculation are only cash flows associated with the current insurance contracts and ongoing commitments to policy-holders.

The market-consistent scenarios are designed in such a way that investments in the asset classes, or contingent liabilities against them, can be valued at close to market value by discounting at a risk-free rate of interest. The expected present values are then calculated. The expected return is then always equal to the risk-free interest in all asset classes. This means that the value at any given time of each krone invested in each asset class should be equal to the average future value discounted at the risk-free rate of interest.

The sum of guaranteed and discretionary benefits described above constitutes a best estimate. This calculation is based on updated calculation assumptions, independent of the basis for premium calculation. The calculation principles do not include any safety margins. All expected receipts and payments associated with the business are taken into account, but in such a way that future premiums linked to future earnings are not included in the cash flows. The provisions also include expected future surpluses to be allocated to customers, the value of the return guarantee, the earning element of the administration premium and the interest guarantee premium, and annual receipts of equity contributions. A (risk-free) market rate, in the form of specified interest rates, is used to discount the cash flows.

The valuation of liabilities for solvency purposes is therefore based on an extrapolation of explicit cash flows. The calculations use a combination of deterministic and stochastic techniques, where the underlying cash flows linked to underwriting risk and costs are calculated dynamically while other cash flows are calculated via stochastic simulations.

<u>Life insurance – Valuation, accounts:</u>
The valuation of liabilities in the form of actuarial provisions in the financial accounts is deterministic, in the sense that the calculations use the interest rate in effect at the date of accrual. The biometric assumptions used in premium calculations at any given time are also used; these include safety margins in relation to what is regarded as a best estimate of the trend in disability and longevity in the future.

<u>Non-life insurance – Valuation, Solvency II:</u>
Claims provision in the Solvency II balance-sheet represents the present value of future claims for losses incurred plus indirect claims handling costs. In practice, this is calculated by discounting the reported claims reserves.

The premium reserve in the Solvency II balance-sheet represents the present value of future claims for losses not yet incurred on current policies. In practice, this is calculated by discounting the amount 'unearned premiums * expected claims percentage'. The calculations are performed at the industry level.

As for life insurance, the risk margin is calculated by assuming that future capital requirements will decrease in proportion to the best estimate.

Non-life insurance – Valuation, accounts:
In calculating technical provisions, individual claim provisions are made for all claims reported but not settled. The provisions are continuously adjusted as claims are processed. All open claims should have a special assessment at least once a year.

Provision for claims incurred but not yet reported to the company is calculated using statistical models. The models take account of the historic reporting pattern in the different risk groups.

In non-life insurance, measurements and adjustments are also made to the total claims provisions (reported + not reported) so the total level of provision is measured against changes in risk elements such as claim frequency, major claim occurrence, population mix and population size. The claims provisions are valued in line with expectations and include provisions for future indirect claims handling costs. Claims provision is not discounted.

D.2.3 Uncertainty related to the value of technical provisions

Where complex cash-flow models are used, as in the ALM models for KLP and KLP Bedriftspensjon, to value liabilities and calculate own funds and capital requirements, the results will always be fraught with some uncertainty. The results are sensitive to the assumptions, choice of methods and processing of input prior to each calculation. Such assumptions are regularly assessed by the actuarial function and reviewed at least once a year in the companies' risk management committees to ensure that they still accurately reflect the companies and their strategies.

D.2.4 Matching adjustment

The Group does not apply the matching adjustment described in Article 77b of the Solvency II Directive (2009/138/EC).

D.2.5 Volatility adjustment

KLP and KLP Bedriftspensjon apply the volatility adjustment described in Article 77d of the Solvency II Directive.

The adjustment is currently a modest mark-up of 0.29 percentage points on the interest rate. The effect of removing this is therefore also modest, as can be seen from the table below. Technical provisions increase and have the effect of reducing own funds. The capital requirements also increase slightly.

Effect of not applying the volatility adjustment, NOK billion	
Technical provisions	0.2
Solvency Capital Requirement	0.4
Minimum required to meet the Solvency Capital Requirement for the Group	0.5
Own funds	-0.2
Eligible own funds, SCR	0.0
Eligible own funds, minimum required to meet the Solvency Capital Requirement for the Group	-0.1

D.2.6 Transitional measure with risk-free interest rates

The Group does not apply the transitional provisions on risk-free interest rates described in Article 308c of the Solvency II Directive.

D.2.7 Transitional measure for technical provisions

KLP and KLP Bedriftspensjon apply the temporary deduction provided for by the transitional measure for technical provisions described in Article 308d of the Solvency II Directive.

The table below shows the effect of not using the transitional measure. For 2016, the temporary deduction is equal to the whole of the difference in technical provisions between Solvency II and the accounts. The deduction will be reduced on a linear basis until 2032.

Higher provisions under Solvency II reduce capital. The change in own funds is less than the change in technical provisions because of the changed effect of loss-absorption capacity for deferred tax. The Solvency Capital Requirement increases slightly for the same reason. Even without the use of the transitional measure, the Group meets the capital requirements by a good margin.

Effect of not using the transitional measure, NOK billion	
Technical provisions	11.4
Solvency Capital Requirement	2.1
Minimum required to meet the Solvency Capital Requirement for the Group	0.0
Own funds	-8.6
Eligible own funds, SCR	-8.2
Eligible own funds, minimum required to meet the Solvency Capital Requirement for the Group	-9.3

D.2.8 Significant changes in assumptions

KLP has altered its interpretation of the difference between guaranteed and discretionary benefits from year-end 2015 to year-end 2016, by defining the premium fund on the calculation date as a guaranteed benefit. The accounting value of the premium fund is thus subtracted from the discretionary and added to the guaranteed benefits.

D.3 Other liabilities

The table below shows the breakdown of other liabilities.

Other liabilities, NOK billion	Solvency II	Accounts
Provisions other than technical provisions	0.4	0.4
Pension obligations	0.5	0.5
Liabilities with deferred tax	15.7	0.2
Derivatives	4.1	4.1
Financial liabilities other than liabilities to credit institutions	0.9	0.9
Liabilities related to direct insurance, including insurance brokers	0.7	0.7
Payment obligations (to suppliers, excl. insurance)	2.2	2.2
Hybrid Tier 1 and subordinated loan capital	8.3	7.9
Total	32.8	16.9

D.3.1 Provisions other than technical provisions

Solvency II valuation equal to reported value:
Provisions other than technical provisions are measured at fair value.

D.3.2 Pension obligations

Solvency II valuation equal to reported value:
KLP's employees have a defined-benefit pension entitlement. Most are covered through KLP's public sector occupational pensions by virtue of membership of the joint pension scheme for municipalities and enterprises ('Fellesordningen'). Other entitlements are also defined-benefit, but covered via operations.

The liability is posted to the Solvency II balance-sheet at the present value of the obligation on the reporting date, minus the fair value of the pension assets. The gross obligation is calculated using the straight-line method. The gross obligation is discounted to present value using the interest rates on Norwegian high-quality bonds.

The table below shows the pension obligations in NOK billions

Over/under-financing of the pension scheme	Joint scheme	Via operation	Total
Present value of the defined-benefit pension obligation	1.3	0.1	1.4
Fair value of the pension assets	0.9	0.0	0.9
Net pension obligation	0.4	0.1	0.5

The pension funds are based on the fair value of the following assets:

Composition of the pension assets	Proportion
Shares in property subsidiaries	12.5%
Shares and holdings	20.1%
Lending	11.6%
Fixed-income securities	55.7%
Total	100.0%

D.3.3 Deferred tax

Valuation, Solvency II:
See discussion in section D.1.2.

Valuation, accounts:
See discussion in section D.1.2.

D.3.4 Derivatives

Solvency II valuation equal to reported value:
Derivatives are measured at fair value.

D.3.5 Financial liabilities other than liabilities to credit institutions

Solvency II valuation equal to reported value:
These liabilities are measured at fair value.

D.3.6 Liabilities related to direct insurance, including insurance brokers

Solvency II valuation equal to reported value:
These liabilities are measured at fair value.

D.3.7 Payment obligations (to suppliers, excl. insurance)

Solvency II valuation equal to reported value:
These liabilities are measured at fair value.

D.3.8 Hybrid Tier 1 and subordinated loan capital

Valuation, Solvency II:
Under Solvency II, financial liabilities are measured at fair value when hybrid Tier 1 and subordinated loan capital is taken up. Later valuations do not take account of changes in the issuer's own creditworthiness after this point. In the Solvency II balance-sheet, the hybrid Tier 1 perpetual capital is valued using an interest curve which does not include any credit mark-up to the issuing company. Subordinated debt is valued in the Solvency II balance-sheet using an interest curve where the company's credit mark-up is kept unchanged from when the loan was taken out.

Valuation, accounts:
The hybrid Tier 1 perpetual capital is valued for accounting purposes at amortised cost, adjusted for changes in value resulting from currency and interest rate movements according the rules on fair value hedging.
Subordinated debt is measured at amortised cost. Subordinated debt in foreign currency has been translated to NOK using the exchange rate at the end of the reporting period. This means that the accounting value is NOK 0.4 billion less than the Solvency II valuation.

D.4 Alternative methods for valuation

Details of alternative valuation methods are given in sections D.1 and D.3.

D.5 Any other information

The foregoing is considered to cover all the key information on valuation.

E. Capital management

E.1 Own funds

The Group's own funds figure is dominated by own funds in the parent company. Smaller amounts come from KLP Skadeforsikring, KLP Bedriftspensjon and own funds calculated according to relevant sector-level rules for KLP Banken and KLP Kapitalforvaltning.

Purpose
KLP is a mutually-owned life insurance company whose main purpose is to manage the funds invested by its members in the Company either as owners (equity) or as customers (pensions) as well as possible within the Company's risk capacity. The subsidiaries KLP Skadeforsikring and KLP Bedriftspensjon are consolidated into the collective balance-sheet as described in section A.1.

The purpose of the Group's Tier 1 and 2 capital is to satisfy regulatory requirements under Solvency II by a good margin. The Group reports its capital adequacy ratio for the Solvency Capital Requirement every quarter.

Capital management
The Board has adopted a policy for capital management for KLP. The policy defines bands for capital adequacy. An annual capital plan is drawn up, in which the banding and targets for capital adequacy are defined for the plan period, which is normally three years. It also defines the measures that can or should be taken at different levels of capital adequacy. In the current period, KLP aims to have solvency capital coverage of at least 150 per cent.

KLP and KLP Bedriftspensjon apply the transitional measure for technical provisions, but the Group sets targets for capital adequacy without using this. For the same reason, capital adequacy is reported without using the transitional measure in notes to the Group's accounts. The Group's solvency capital coverage without using the transitional measure is 198 per cent, well above its own target, which is in turn well above the regulatory requirements.

KLP's articles of association allow it to call in capital from its owners. The Company also collects an annual capital contribution from its owners. For 2016 the equity contribution was 0.35 per cent of premium reserves.

Capital tiers
Tier 1
The Company's unrestricted Tier 1 regulatory capital is made up of equity contributed in KLP, share capital in KLP Skadeforsikring and KLP Bedriftspensjon, the share premium reserve in KLP Bedriftspensjon, and a reconciliation reserve for the Group. The reconciliation reserve ensures that the difference between assets and liabilities in the Solvency II balance-sheet is reflected in Tier 1 and 2 capital. The hybrid Tier 1 perpetual capital is also included in Tier 1 (restricted). To cover the Solvency Capital Requirement at Group level, participations in KLP Banken and KLP Kapitalforvaltning are deducted and replaced with these companies' own funds calculated according to relevant sector-level rules All Tier 1 capital is classified as own funds.

Tier 2
Tier 2 capital includes subordinated loans, the risk equalisation fund and provisions to the natural perils pool fund as own funds. It also includes unpaid equity contributions and unpaid deposits reported as supplementary capital under KLP's right to retrospective assessment. This supplementary capital is calculated as 2.5 per cent of KLP's total premium reserve at

any given time, with approval for this method granted until 31 December 2019. Approval from the Financial Supervisory Authority of Norway was granted on 22 December 2015.

Tier 3
Tier 3 includes any net deferred tax asset. At year-end 2015 and year-end 2016, this was zero for the Group.

Outstanding loans within KLP
Hybrid Tier 1 securities, JPY 15 billion
The interest on the loan is a fixed USD rate of 5.07 per cent p.a. The loan is perpetual, but KLP has the right to repay it by 28 April 2034. If KLP does not exercise its right to repay the loan in
2034, it will switch to variable interest. The credit margin will then increase by 1 percentage point to 6-month JPY LIBOR interest + a margin of 3.30 per cent p.a. The loan was issued on 22 April 2014.

Subordinated debt, JPY 9,500 million
The interest on the loan is fixed at 4.0 per cent p.a. The loan is perpetual, but KLP has the right to repay it after 20 years. After 30 October 2017, the interest will be the higher of a fixed 4.75 per cent p.a. and 6-month JPY interest + 2.05 per cent p.a. The loan was issued on 30 October 1997.

Subordinated debt, EUR 600 million
Interest on the loan is fixed at 4.25% p.a. The loan was issued on 10 June 2015 and is time-limited to mature in 2045. The loan can be repaid by KLP after 10 years, and on each interest payment date after this until the maturity date. The debt is listed on the London Stock Exchange.

E.1.1 Classification of own funds able to cover the Solvency Capital Requirement

Own funds at the end of 2016 and of 2015 were made up as follows:

The Company's own funds, NOK billion	31/12/2016	31/12/2015
Unrestricted capital	31.2	28.5
Hybrid Tier 1 perpetual capital	1.7	1.6
Deduction for participations in financial institutions	-2.0	-1.7
Own funds in financial institutions	2.0	1.6
Total own funds (Tier 1)	32.8	30.0
Total eligible own funds (Tier 1)	32.8	30.0
Subordinated debt	6.6	9.7
Risk equalisation fund	3.9	3.4
Natural perils pool fund	0.2	0.1
Supplementary capital	9.6	8.9
Total own funds (Tier 2)	20.2	22.1
Total eligible own funds (Tier 2)	6.5	6.4
Deferred tax assets	0	0
Total own funds (Tier 3)	0	0
Total eligible own funds (Tier 3)	0	0
Eligible own funds able to cover the Solvency Capital Requirement	39.3	36.4

Unrestricted capital is the difference between assets and liabilities in the Solvency II balance-sheet (NOK 35.2 billion) minus the risk equalisation fund and the natural perils pool fund.

Restricted capital cannot exceed 20% of the total of the items in Tier 1. The hybrid Tier 1 perpetual capital is well below this limit.

The sum of eligible capital in Tiers 2 and 3 may not exceed 50% of the Solvency Capital Requirement either. For the Group, this had a limiting effect at year-end 2016 and at year-end 2015. In the event of an increase in the Solvency Capital Requirement, the unused Tier 2 capital (NOK 13.7 billion) will reduce the negative effect on capital adequacy significantly.

The reduction in subordinated debt is due to the fact that a loan of EUR 300 million was repaid during the period without any new loan being taken out. The positive performance in the period helps to increase the unrestricted Tier 1 capital.

E.1.2 Classification of own funds able to cover the minimum required to meet the Solvency Capital Requirement for the Group

No Minimum Capital Requirement is calculated at the Group level as it is at the company level. Instead, a minimum amount is calculated to meet the Solvency Capital Requirement for the Group Own funds able to cover this requirement at the end of 2016 and of 2015 were made up as follows:

Own funds able to cover the minimum required to meet the Solvency Capital Requirement for the Group, NOK billion	31/12/2016	31/12/2015
Unrestricted capital	31.2	28.5
Hybrid Tier 1 perpetual capital	1.7	1.6
Deduction for participations in financial institutions	-2.0	-1.7
Total own funds in Tier 1.	30.8	28.4
Total eligible own funds in Tier 1.	30.8	28.4
Subordinated debt	6.6	9.7
Risk equalisation fund	3.9	3.4
Natural perils pool fund	0.2	0.1
Total own funds in Tier 2.	10.7	13.2
Total eligible own funds in Tier 2.	1.1	0.9
Eligible own funds able to cover the minimum required to meet the Solvency Capital Requirement for the Group	31.9	29.2

Restricted capital cannot exceed 20% of the total of the items in Tier 1. The hybrid Tier 1 perpetual capital is well below this limit. Eligible Tier 2 capital may not exceed 20% of the minimum required to meet the Solvency Capital Requirement for the Group either. For the Group, this had a limiting effect at year-end 2016 and at year-end 2015.

E.1.3 Differences between equity reported in the Company's accounts and the balance of assets and liabilities under Solvency II

The difference between equity in the accounts and the balance of assets and liabilities in the Solvency II balance-sheet at year-end 2016 and 2015 was as follows:

Reported equity and difference between assets and liabilities under Solvency II, NOK billion	31/12/2016	31/12/2015
Equity contributed	11.7	10.4
Accrued equity	16.1	13.2
Total owners' equity	27.8	23.7
Balance of assets and liabilities under Solvency II	35.2	32.0
Difference	7.4	8.3

The temporary deduction in technical provisions means that technical provisions within life insurance at year-end 2016 and at year-end 2015 were valued the same in the accounts and in the Solvency II balance-sheet. The difference between equity in the accounts and the balance of assets and liabilities under Solvency II comes mainly from added value in interest-bearing portfolios reported at amortised cost, and deferred tax. There are also smaller contributions from differing valuations of financial liabilities and technical provisions for non-life insurance and the fact that intangible assets are valued at zero in the Solvency II balance-sheet.

E.2 Solvency Capital Requirement and minimum amount for the Group's Solvency Capital Requirement

E.2.1 Solvency Capital Requirement

At year-end 2016, the capital requirements were as follows:

Minimum amount for the Group's Solvency Capital Requirement: NOK 5.5 billion
Solvency Capital Requirement: NOK 13.8 billion

The Group uses the standard formula without any company-specific parameters. The Solvency Capital Requirement at year-end 2016 and 2015 was broken down as follows:

Composition of the capital requirement, NOK billion	31/12/2016	31/12/2015
Market risk	4.0	5.0
Counterparty risk	0.2	0.2
Underwriting risk	11.2	10.5
Health-related underwriting risk	0.4	0.4
Non-life underwriting risk	0.3	0.3
Diversification	-3.0	-3.5
Operational risk	2.1	1.9
Loss-absorption capacity for deferred tax	-2.3	-2.8
Capital requirements for KLP Banken and KLP Kapitalforvaltning	0.8	0.7
Solvency Capital Requirement	13.8	12.9

The reduction in market risk over the period comes from an increase in buffers; specifically an increase in the securities adjustment fund which gives rise to an increased loss-absorption capacity for technical provisions.

E.2.2 Simplified processes

The Group uses the simplifications to the counterparty risk module described in Articles 111 and 112 of the Norwegian Regulation laying down supplementary rules to the Solvency II Regulation.

The simplification in Article 111 means that diversification effects within a module are not taken into account in calculating the risk-reducing effects of derivatives. The simplification in Article 112 means that the risk-adjusted value of a security is set to 75% across the board. Both simplifications are used to make the calculation work easier and produce insignificant increases in the capital requirement for counterparty risk.

E.2.3 Company-specific parameters

The Group does not use any company-specific parameters.

E.2.4 Minimum amount for the Group's Solvency Capital Requirement

The minimum amount required to meet the Solvency Capital Requirement for the Group is made up of the Minimum Capital Requirements for KLP, KLP Skadeforsikring and KLP Bedriftspensjon. At the end of 2016 and of 2015 this was made up as follows:

Composition of the minimum amount for the Group's Solvency Capital Requirement, NOK billions	31/12/2016	31/12/2015
Minimum Capital Requirement for KLP	5.1	4.0
Minimum Capital Requirement for KLP Skadeforsikring	0.3	0.3
Minimum Capital Requirement for KLP Bedriftspensjon	0.0	0.0
Minimum amount for the Group's Solvency Capital Requirement	5.5	4.3

The minimum amount for the Group's Solvency Capital Requirement is affected by the change described in section D.2.8 on the classification of the premium fund at the calculation date. If the same assumption had been used at the end of 2015, the amount would then have been slightly higher than at the end of 2016.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Group does not use the duration-based sub-module for equity risk.

E.4 Differences between the standard formula and any internal models used

The Group does not use internal models.

E.5 Non-compliance with the Solvency Capital Requirement

The Group satisfies both the Solvency Capital Requirement and the minimum amount for the Group's Solvency Capital Requirement.

E.6 Any other information

The foregoing is considered to cover all the key details of the Company’s capital requirements.

Approval

The report was approved by the Board of Directors of KLP on 10 May 2017.

Sverre Thornes, CEO

Templates

The following QRTs (quantitative reporting templates) are included below.

QRT code	QRT name
S.01.02.04	Basic information – general
S.02.01.01	Balance-sheet
S.05.01.01	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.22.01.04	Impact of long term guarantees and transitional measures
S.23.01.04	Own funds
S.25.01.04	Solvency Capital Requirement – for groups using the standard formula
S.32.01.04	Undertakings in the scope of the group

Annex I
S.01.02.04
Basic Information - General

		C0010
Participating undertaking name	R0010	Kommunal Landspensjonskasse
Group identification code	R0020	SC/938708606
Type of code of group	R0030	Specific code
Country of the group supervisor	R0050	NO
Sub-group information	R0060	No sub-group information
Language of reporting	R0070	Norwegian
Reporting submission date	R0080	2017-04-06
Reporting reference date	R0090	2016-12-31
Regular/Ad-hoc submission	R0100	Regular reporting
Currency used for reporting	R0110	NOK
Accounting standards	R0120	IFRS
Method of Calculation of the group SCR	R0130	Standard formula
Use of group specific parameters	R0140	Don't use group specific parameters
Ring-fenced funds	R0150	Not reporting activity by RFF
Method of group solvency calculation	R0160	Accounting consolidation-based method [method 1]
Matching adjustment	R0170	No use of matching adjustment
Volatility adjustment	R0180	Use of volatility adjustment
Transitional measure on the risk-free interest rate	R0190	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	R0200	Use of transitional measure on technical provisions
Initial submission or re-submission	R0210	Initial submission

S.02.01.01
Balance sheet

		Solvency II value	Statutory accounts value
Assets		**C0010**	**C0020**
Goodwill	**R0010**		.
Deferred acquisition costs	**R0020**		.
Intangible assets	**R0030**	.	280 290 104
Deferred tax assets	**R0040**	13 381 429 916	335 783 668
Pension benefit surplus	**R0050**	.	.
Property, plant & equipment held for own use	**R0060**	1 554 930 054	1 554 930 054
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	443 030 922 732	433 129 330 491
Property (other than for own use)	**R0080**	57 473 891 478	57 473 891 478
Holdings in related undertakings, including participations	**R0090**	2 575 176 172	2 575 177 745
Equities	**R0100**	27 345 608 871	27 345 608 583
Equities - listed	**R0110**	25 932 082 169	.
Equities - unlisted	**R0120**	1 413 526 702	.
Bonds	**R0130**	220 049 247 530	210 148 390 955
Government Bonds	**R0140**	66 772 818 280	.
Corporate Bonds	**R0150**	153 276 429 251	.
Structured notes	**R0160**	.	.
Collateralised securities	**R0170**	.	.
Collective Investments Undertakings	**R0180**	132 431 226 196	132 431 226 195
Derivatives	**R0190**	1 584 564 853	1 583 827 904
Deposits other than cash equivalents	**R0200**	1 571 207 632	1 571 207 632
Other investments	**R0210**	.	.
Assets held for index-linked and unit-linked contracts	**R0220**	1 671 360 707	1 671 360 707
Loans and mortgages	**R0230**	53 407 574 238	52 886 389 938
Loans on policies	**R0240**	.	.
Loans and mortgages to individuals	**R0250**	3 212 870 039	.
Other loans and mortgages	**R0260**	50 194 704 199	.
Reinsurance recoverables from:	**R0270**	117 025 732	119 202 880
Non-life and health similar to non-life	**R0280**	117 025 732	119 202 880
Non-life excluding health	**R0290**	117 025 732	.
Health similar to non-life	**R0300**	.	.
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	.	.
Health similar to life	**R0320**	.	.
Life excluding health and index-linked and unit-linked	**R0330**	.	.
Life index-linked and unit-linked	**R0340**	.	.
Deposits to cedants	**R0350**	.	.
Insurance and intermediaries receivables	**R0360**	678 376 623	678 376 623
Reinsurance receivables	**R0370**	10 528 181	10 528 181
Receivables (trade, not insurance)	**R0380**	394 973 092	394 973 092
Own shares (held directly)	**R0390**	.	.
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	.	.
Cash and cash equivalents	**R0410**	10 134 719 849	10 134 254 084
Any other assets, not elsewhere shown	**R0420**	1 418 419 795	1 418 419 795
Total assets	**R0500**	**525 800 260 919**	**502 613 839 617**

		Solvency II value	Statutory accounts value
Liabilities		**C0010**	**C0020**
Technical provisions – non-life	**R0510**	2 137 790 308	2 191 679 684
Technical provisions – non-life (excluding health)	**R0520**	1 054 946 069	1 064 525 841
Technical provisions calculated as a whole	**R0530**	0	
Best Estimate	**R0540**	993 188 475	
Risk margin	**R0550**	61 757 594	
Technical provisions - health (similar to non-life)	**R0560**	1 082 844 239	1 127 153 843
Technical provisions calculated as a whole	**R0570**	0	
Best Estimate	**R0580**	1 021 592 631	
Risk margin	**R0590**	61 251 608	
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	453 994 868 198	453 995 546 565
Technical provisions - health (similar to life)	**R0610**	146 350 940	53 021 084
Technical provisions calculated as a whole	**R0620**	0	
Best Estimate	**R0630**	140 652 426	
Risk margin	**R0640**	5 698 514	
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	453 848 517 258	453 942 525 481
Technical provisions calculated as a whole	**R0660**	0	
Best Estimate	**R0670**	441 088 998 109	
Risk margin	**R0680**	12 759 519 149	
Technical provisions – index-linked and unit-linked	**R0690**	1 673 717 787	1 673 717 787
Technical provisions calculated as a whole	**R0700**	0	
Best Estimate	**R0710**	1 661 445 960	
Risk margin	**R0720**	12 271 827	
Other technical provisions	**R0730**		.
Contingent liabilities	**R0740**	0	.
Provisions other than technical provisions	**R0750**	440 802 730	440 802 730
Pension benefit obligations	**R0760**	543 948 757	543 948 757
Deposits from reinsurers	**R0770**	.	.
Deferred tax liabilities	**R0780**	15 698 945 443	193 073 242
Derivatives	**R0790**	4 074 396 985	4 073 660 036
Debts owed to credit institutions	**R0800**	.	.
Financial liabilities other than debts owed to credit institutions	**R0810**	884 841 495	884 841 495
Insurance & intermediaries payables	**R0820**	661 889 302	661 889 302
Reinsurance payables	**R0830**	341 864	341 864
Payables (trade, not insurance)	**R0840**	2 168 803 599	2 168 803 599
Subordinated liabilities	**R0850**	8 254 692 441	7 870 465 070
Subordinated liabilities not in Basic Own Funds	**R0860**	.	.
Subordinated liabilities in Basic Own Funds	**R0870**	8 254 692 441	7 870 465 070
Any other liabilities, not elsewhere shown	**R0880**	44 101 665	44 101 665
Total liabilities	**R0900**	490 579 140 573	474 742 871 796
Excess of assets over liabilities	**R1000**	**35 221 120 346**	**27 870 967 821**

S.05.01.01
Premiums, claims and expenses by line of business

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**												Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0200**
Premiums written														
Gross - Direct Business	**R0110**		68 583 372	100 511 146	128 395 984	248 357 269		507 950 180	50 319 722			27 752 556		1 131 870 229
Gross - Proportional reinsurance accepted	**R0120**													
Gross - Non-proportional reinsurance accepted	**R0130**													
Reinsurers' share	**R0140**		0	1 837 500	1 367 859	0		44 244 993	0			0		47 450 352
Net	**R0200**	0	68 583 372	98 673 646	127 028 125	248 357 269	0	463 705 187	50 319 722	0	0	27 752 556	0	1 084 419 877
Premiums earned														
Gross - Direct Business	**R0210**		70 528 468	99 015 922	121 340 701	229 678 384		478 844 680	49 486 218			25 200 590		1 074 094 963
Gross - Proportional reinsurance accepted	**R0220**													
Gross - Non-proportional reinsurance accepted	**R0230**													
Reinsurers' share	**R0240**		245 972	2 144 615	1 822 736	0		53 101 520	50 339			12 336		57 377 518
Net	**R0300**	0	70 282 496	96 871 307	119 517 965	229 678 384	0	425 743 160	49 435 879	0	0	25 188 254	0	1 016 717 445
Claims incurred														
Gross - Direct Business	**R0310**		43 703 970	21 872 641	71 884 059	164 015 804		391 347 315	28 227 686			12 952 083		734 003 559
Gross - Proportional reinsurance accepted	**R0320**													
Gross - Non-proportional reinsurance accepted	**R0330**													
Reinsurers' share	**R0340**		0	-116 391	0	0		44 515 120	0			0		44 398 729
Net	**R0400**	0	43 703 970	21 989 031	71 884 059	164 015 804	0	346 832 195	28 227 686	0	0	12 952 083	0	689 604 830
Changes in other technical provisions														
Gross - Direct Business	**R0410**													
Gross - Proportional reinsurance accepted	**R0420**													
Gross - Non- proportional reinsurance accepted	**R0430**													
Reinsurers' share	**R0440**													
Net	**R0500**	0	0	0	0	0	0	0	0	0	0	0	0	0
Expenses incurred	**R0550**	0	15 351 979	21 552 863	26 412 312	49 994 249	0	104 230 444	10 771 698	0	0	5 485 429	0	233 798 974
Administrative expenses														
Gross - Direct Business	**R0610**		429 360	602 785	738 693	1 398 226		2 915 091	301 260			153 415		6 538 830
Gross - Proportional reinsurance accepted	**R0620**													
Gross - Non-proportional reinsurance accepted	**R0630**													
Reinsurers' share	**R0640**													
Net	**R0700**	0	429 360	602 785	738 693	1 398 226	0	2 915 091	301 260	0	0	153 415	0	6 538 830
Investment management expenses														
Gross - Direct Business	**R0710**		134 245	188 469	230 962	437 175		911 443	94 193			47 967		2 044 455
Gross - Proportional reinsurance accepted	**R0720**													
Gross - Non-proportional reinsurance accepted	**R0730**													
Reinsurers' share	**R0740**													
Net	**R0800**	0	134 245	188 469	230 962	437 175	0	911 443	94 193	0	0	47 967	0	2 044 455
Claims management expenses														
Gross - Direct Business	**R0810**		2 241 774	3 147 259	3 856 861	7 300 415		15 220 261	1 572 938			801 010		34 140 519
Gross - Proportional reinsurance accepted	**R0820**													
Gross - Non-proportional reinsurance accepted	**R0830**													
Reinsurers' share	**R0840**													
Net	**R0900**	0	2 241 774	3 147 259	3 856 861	7 300 415	0	15 220 261	1 572 938	0	0	801 010	0	34 140 519
Acquisition expenses														
Gross - Direct Business	**R0910**		4 504 242	6 323 570	7 749 323	14 668 219		30 581 018	3 160 396			1 609 415		68 596 183
Gross - Proportional reinsurance accepted	**R0920**													
Gross - Non-proportional reinsurance accepted	**R0930**													
Reinsurers' share	**R0940**													
Net	**R1000**	0	4 504 242	6 323 570	7 749 323	14 668 219	0	30 581 018	3 160 396	0	0	1 609 415	0	68 596 183
Overhead expenses														
Gross - Direct Business	**R1010**		8 042 357	11 290 780	13 836 473	26 190 213		54 602 632	5 642 911			2 873 622		122 478 988
Gross - Proportional reinsurance accepted	**R1020**													
Gross - Non-proportional reinsurance accepted	**R1030**													
Reinsurers' share	**R1040**													
Net	**R1100**	0	8 042 357	11 290 780	13 836 473	26 190 213	0	54 602 632	5 642 911	0	0	2 873 622	0	122 478 988
Other expenses	**R1200**													0
Total expenses	**R1300**													233 798 974

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life-reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**	173 964 026	36 937 806 385	453 930 635						37 565 701 046
Reinsurers' share	**R1420**	0	1 454 731							1 454 731
Net	**R1500**	173 964 026	36 936 351 654	453 930 635	0	0	0	0	0	37 564 246 315
Premiums earned										
Gross	**R1510**	163 782 090	33 688 223 061	274 247 579						34 126 252 731
Reinsurers' share	**R1520**	23 936	1 454 731							1 478 667
Net	**R1600**	163 758 154	33 686 768 330	274 247 579	0	0	0	0	0	34 124 774 064
Claims incurred										
Gross	**R1610**	185 804 375	56 410 794 157	498 227 415						57 094 825 947
Reinsurers' share	**R1620**	0								0
Net	**R1700**	185 804 375	56 410 794 157	498 227 415	0	0	0	0	0	57 094 825 947
Changes in other technical provisions										
Gross	**R1710**									
Reinsurers' share	**R1720**									
Net	**R1800**	0	0	0	0	0	0	0	0	0
Expenses incurred	**R1900**	31 934 615	1 160 307 458	41 812 178	0	0	0	0	0	1 234 054 251
Administrative expenses										
Gross	**R1910**	1 220 525	139 236 895	5 017 461						145 474 881
Reinsurers' share	**R1920**									
Net	**R2000**	1 220 525	139 236 895	5 017 461	0	0	0	0	0	145 474 881
Investment management expenses										
Gross	**R2010**	852 885	197 252 268	7 108 070						205 213 223
Reinsurers' share	**R2020**									
Net	**R2100**	852 885	197 252 268	7 108 070	0	0	0	0	0	205 213 223
Claims management expenses										
Gross	**R2110**	4 570 677	139 236 895	5 017 461						148 825 033
Reinsurers' share	**R2120**									
Net	**R2200**	4 570 677	139 236 895	5 017 461	0	0	0	0	0	148 825 033
Acquisition expenses										
Gross	**R2210**	8 717 156	127 633 820	4 599 340						140 950 316
Reinsurers' share	**R2220**									
Net	**R2300**	8 717 156	127 633 820	4 599 340	0	0	0	0	0	140 950 316
Overhead expenses										
Gross	**R2310**	16 573 373	556 947 580	20 069 846						593 590 798
Reinsurers' share	**R2320**									
Net	**R2400**	16 573 373	556 947 580	20 069 846	0	0	0	0	0	593 590 798
Other expenses	**R2500**									0
Total expenses	**R2600**									1 234 054 251
Total amount of surrenders	**R2700**									

S.05.02.01
Premiums, claims and expenses by country

Non-life obligations		Home Country	Country (by amount of gross premiums written) - non-life obligations	Total Top 5 and home country
	R0010		R0010-C0090	
		C0080	**C0090**	**C0140**
Premiums written				
Gross - Direct Business	**R0110**	1 131 870 229	R0110-C0090	1 131 870 229
Gross - Proportional reinsurance accepted	**R0120**		R0120-C0090	
Gross - Non-proportional reinsurance accepted	**R0130**		R0130-C0090	
Reinsurers' share	**R0140**	47 450 352	R0140-C0090	47 450 352
Net	**R0200**	1 084 419 877	R0200-C0090	1 084 419 877
Premiums earned				
Gross - Direct Business	**R0210**	1 074 094 963	R0210-C0090	1 074 094 963
Gross - Proportional reinsurance accepted	**R0220**		R0220-C0090	
Gross - Non-proportional reinsurance accepted	**R0230**		R0230-C0090	
Reinsurers' share	**R0240**	57 377 518	R0240-C0090	57 377 518
Net	**R0300**	1 016 717 445	R0300-C0090	1 016 717 445
Claims incurred				
Gross - Direct Business	**R0310**	734 003 559	R0310-C0090	734 003 559
Gross - Proportional reinsurance accepted	**R0320**		R0320-C0090	
Gross - Non-proportional reinsurance accepted	**R0330**		R0330-C0090	
Reinsurers' share	**R0340**	44 398 729	R0340-C0090	44 398 729
Net	**R0400**	689 604 830	R0400-C0090	689 604 830
Changes in other technical provisions				
Gross - Direct Business	**R0410**		R0410-C0090	
Gross - Proportional reinsurance accepted	**R0420**		R0420-C0090	
Gross - Non- proportional reinsurance accepted	**R0430**		R0430-C0090	
Reinsurers'share	**R0440**		R0440-C0090	
Net	**R0500**	0	R0500-C0090	0
Expenses incurred	**R0550**	233 798 974	R0550-C0090	233 798 974
Other expenses	**R1200**			0
Total expenses	**R1300**	233 798 974	R1300-C0090	233 798 974

Life obligations		Home Country	Country (by amount of gross premiums written) - life obligations	Total Top 5 and home country
	R1400		R1400-C0230	
		C0220	**C0230**	**C0280**
Premiums written				
Gross	**R1410**	37 565 701 046	R1410-C0230	37 565 701 046
Reinsurers' share	**R1420**	1 454 731	R1420-C0230	1 454 731
Net	**R1500**	37 564 246 315	R1500-C0230	37 564 246 315
Premiums earned				
Gross	**R1510**	34 126 252 731	R1510-C0230	34 126 252 731
Reinsurers' share	**R1520**	1 478 667	R1520-C0230	1 478 667
Net	**R1600**	34 124 774 064	R1600-C0230	34 124 774 064
Claims incurred				
Gross	**R1610**	57 094 825 947	R1610-C0230	57 094 825 947
Reinsurers' share	**R1620**	0	R1620-C0230	0
Net	**R1700**	57 094 825 947	R1700-C0230	57 094 825 947
Changes in other technical provisions				
Gross	**R1710**		R1710-C0230	
Reinsurers' share	**R1720**		R1720-C0230	
Net	**R1800**	0	R1800-C0230	0
Expenses incurred	**R1900**	1 234 054 251	R1900-C0230	1 234 054 251
Other expenses	**R2500**			0
Total expenses	**R2600**			1 234 054 251

Annex I
S.22.01.04
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of the LTG measures and transitionals (Step-by-step approach)								
			Without transitional on technical provisions	Impact of transitional on technical provisions	Without transitional on interest rate	Impact of transitional on interest rate	Without volatility adjustment and without other transitional measures	Impact of volatility adjustment set to zero	Without matching adjustment and without all the others	Impact of matching adjustment set to zero	Impact of all LTG measures and transitionals
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100
Technical provisions	**R0010**	457 806 376 292	469 143 262 128	11 336 885 835	469 143 262 128	0	469 368 766 884	225 504 757	469 368 766 884	0	11 562 390 592
Basic own funds	**R0020**	41 439 973 820	32 937 309 444	-8 502 664 376	32 937 309 444	0	32 770 477 833	-166 831 611	32 770 477 833	0	-8 669 495 988
Excess of assets over liabilities	**R0030**	35 221 120 346	26 718 455 970	-8 502 664 376	26 718 455 970	0	26 551 624 358	-166 831 611	26 551 624 358	0	-8 669 495 988
Restricted own funds due to ring-fencing and matching portfolio	**R0040**	0	0	0	0	0	0	0	0	0	0
Eligible own funds to meet Solvency Capital Requirement	**R0050**	39 259 388 315	31 131 169 661	-8 128 218 654	31 131 169 661	0	31 112 672 636	-18 497 025	31 112 672 636	0	-8 146 715 679
Tier 1	**R0060**	32 763 207 401	23 565 347 599	-9 197 859 802	23 565 347 599	0	23 342 905 451	-222 442 148	23 342 905 451	0	-9 420 301 950
Tier 2	**R0070**	6 496 180 914	7 565 693 931	1 069 513 017	7 565 693 931	0	7 767 625 118	201 931 188	7 767 625 118	0	1 271 444 204
Tier 3	**R0080**	0	128 131	128 131	128 131	0	2 142 067	2 013 936	2 142 067	0	2 142 067
Solvency Capital Requirement	**R0090**	13 760 272 941	15 900 153 184	2 139 880 243	15 900 153 184	0	16 317 441 796	417 288 613	16 317 441 796	0	2 557 168 855

Annex I
S.23.01.04
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010	248 000 000	248 000 000		.	
Non-available called but not paid in ordinary share capital at group level	R0020	.	.		.	
Share premium account related to ordinary share capital	R0030	473 250 000	473 250 000		.	
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	11 725 542 097	11 725 542 097		.	
Subordinated mutual member accounts	R0050	.		.	.	.
Non-available subordinated mutual member accounts at group level	R0060	.		.	.	.
Surplus funds	R0070	.	.			
Non-available surplus funds at group level	R0080	.	.			
Preference shares	R0090	.		.	.	.
Non-available preference shares at group level	R0100	.		.	.	.
Share premium account related to preference shares	R0110	.		.	.	.
Non-available share premium account related to preference shares at group level	R0120	.		.	.	.
Reconciliation reserve	R0130	18 707 765 813	18 707 765 813			
Subordinated liabilities	R0140	8 254 692 441		1 650 137 228	6 604 555 213	.
Non-available subordinated liabilities at group level	R0150	.		.	.	.
An amount equal to the value of net deferred tax assets	R0160	0				0
The amount equal to the value of net deferred tax assets not available at the group level	R0170	.				.
Other items approved by supervisory authority as basic own funds not specified above	R0180	4 066 561 901	.	.	4 066 561 901	.
Non available own funds related to other own funds items approved by supervisory authority	R0190	.	.	.	.	.
Minority interests (if not reported as part of a specific own fund item)	R0200	.	.	.	.	.
Non-available minority interests at group level	R0210	.	.	.	.	.
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	R0220-C0010				
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230	2 035 838 967	2 035 838 967	.	.	
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240	.	.	.	.	
Deductions for participations where there is non-availability of information (Article 229)	R0250	.	.	.	.	.
Deduction for participations included by using D&A when a combination of methods is used	R0260	.	.	.	.	.
Total of non-available own fund items	R0270	.	.	.	.	.
Total deductions	R0280	2 035 838 967	2 035 838 967	.	.	.

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total basic own funds after deductions	**R0290**	41 439 973 285	29 118 718 943	1 650 137 228	10 671 117 114	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	.			.	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**	9 560 339 675			9 560 339 675	
Unpaid and uncalled preference shares callable on demand	**R0320**	.			.	.
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**	.			.	.
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**	.			.	
Letters of credit and guarantees other than under Article 96(2) of the Directive **2009/138/EC**	**R0350**	.			.	.
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	.			.	
Supplementary members calls - other than under **first subparagraph** of Article 96(3) of the Directive **2009/138/EC**	**R0370**	.			.	.
Non available ancillary own funds at group level	**R0380**	.			.	.
Other ancillary own funds	**R0390**	.			.	.
Total ancillary own funds	**R0400**	9 560 339 675			9 560 339 675	.
Own funds of other financial sectors						
Credit Institutions, investment firms, financial insitutions, alternative investment fund manager, financial institutions	**R0410**	1 994 350 695	1 994 350 695	0	0	
Institutions for occupational retirement provision	**R0420**	.	.	.	.	.
Non regulated entities carrying out financial activities	**R0430**	.	.	.	.	
Total own funds of other financial sectors	**R0440**	1 994 350 695	1 994 350 695	0	0	
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	**R0450**	.	.	.	.	.
Own funds aggregated when using the D&A and combination of method net of IGT	**R0460**	.	.	.	.	.
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0520**	51 000 313 496	29 118 719 478	1 650 137 228	20 231 456 790	0,00
Total available own funds to meet the minimum consolidated group SCR	**R0530**	41 439 973 820	29 118 719 478	1 650 137 228	10 671 117 114	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0560**	37 265 037 620	29 118 719 478	1 650 137 228	6 496 180 914	0,00
Total-eligible own funds to meet the minimum consolidated group SCR	**R0570**	31 865 082 565	29 118 719 478	1 650 137 228	1 096 225 859	
Consolidated Group SCR	**R0590**	13 760 272 941				
Minimum consolidated Group SCR	**R0610**	5 481 129 297				
Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A)	**R0630**	2,87				

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**R0650**	5,81				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	**R0660**	39 259 388 315	31 113 070 174	1 650 137 228	6 496 180 914	0
SCR for entities included with D&A method	**R0670**	.				
Group SCR	**R0680**	13 760 272 941				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**R0690**	2,85				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	35 221 120 346	
Own shares (held directly and indirectly)	**R0710**	.	
Foreseeable dividends, distributions and charges	**R0720**	.	
Other basic own fund items	**R0730**	16 513 353 998	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	0	
Other non available own funds	**R0750**	.	
Reconciliation reserve	**R0760**	18 707 766 348	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	10 353 916 134	
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	0	
Total Expected profits included in future premiums (EPIFP)	**R0790**	10 353 916 134	

S.25.01.04
Solvency Capital Requirement - for groups on Standard Formula

Article 112	**Z0010**	No

		Net solvency capital requirement	Gross solvency capital requirement
		C0030	**C0040**
Market risk	**R0010**	4 012 323 871	57 461 922 532
Counterparty default risk	**R0020**	162 552 836	1 996 427 228
Life underwriting risk	**R0030**	11 231 058 812	63 601 393 789
Health underwriting risk	**R0040**	354 888 277	355 052 791
Non-life underwriting risk	**R0050**	293 978 140	293 978 140
Diversification	**R0060**	-3 031 142 117	-27 115 483 795
Intangible asset risk	**R0070**	.	.
Basic Solvency Capital Requirement	**R0100**	13 023 659 817	96 593 290 686

Calculation of Solvency Capital Requirement		**C0100**
Adjustment due to RFF/MAP nSCR aggregation	**R0120**	0
Operational risk	**R0130**	2 104 274 813
Loss-absorbing capacity of technical provisions	**R0140**	-83 386 112 076
Loss-absorbing capacity of deferred taxes	**R0150**	-2 319 091 595
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	.
Solvency Capital Requirement excluding capital add-on	**R0200**	12 992 361 828
Capital add-ons already set	**R0210**	.
Solvency capital requirement for undertakings under consolidated method	**R0220**	13 760 272 941
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	0
Total amount of Notional Solvency Capital Requirements for remaining part	**R0410**	.
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	**R0420**	0
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	**R0430**	0
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	0
Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	**R0450**	No adjustment
Net future discretionary benefits	**R0460**	133 778 719 079
Minimum consolidated group solvency capital requirement	**R0470**	5 481 129 297
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	**R0500**	767 911 113
Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	**R0510**	767 911 113
Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	**R0520**	.
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non-regulated entities carrying out financial activities	**R0530**	.
Capital requirement for non-controlled participation requirements	**R0540**	.
Capital requirement for residual undertakings	**R0550**	.
Overall SCR		
SCR for undertakings included via D and A	**R0560**	.
Solvency capital requirement	**R0570**	13 760 272 941

S.32.01.04
Undertakings in the scope of the group

							Ranking criteria (in the group currency)							
Identification code	Country	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	Total Balance Sheet (for EEA (re)insurance undertakings)	Total Balance Sheet (for other regulated undertakings)	Total Balance Sheet (non-regulated undertakings)	Written premiums net of reinsurance ceded under IFRS or local GAAP for insurance undertakings	Turn over defined as the gross revenue under IFRS or local GAAP for other types of undertakings or insurance holding companies	Underwriting performance	Investment performance	Total performance
C0020	C0010	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160
SC/970896856	NO	KLP Skadeforsikring AS	Non-life insurer	AKS	Non-mutual	Finanstilsynet	4 573 737 756	.	.	1 219 764 462	0	0	0	186 771 475
SC/938708606	NO	Kommunal Landspensjonskasse	Life insurer	GS	Mutual	Finanstilsynet	519 599 427 904	.	.	36 854 359 244	0	1 085 908 172	26 068 901 704	2 873 610 909
SC/990329389	NO	KLP Bedriftspensjon AS	Life insurer	AKS	Non-mutual	Finanstilsynet	3 736 555 585	.	.	574 542 486	0	5 971 931	191 901 386	-27 585 923
SC/993749532	NO	KLP Banken AS	Credit institutions, investment firms and financial institutions	AKS	Non-mutual	Finanstilsynet	.	34 388 445 508	.	.	271 897 624	.	0	67 986 925
SC/968437666	NO	KLP Kapitalforvaltning AS	Credit institutions, investment firms and financial institutions	AKS	Non-mutual	Finanstilsynet	.	384 561 082	.	.	299 295 636	0	0	27 735 790

				Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
Identification code	Country	Legal Name of the undertaking	Accounting standard	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	[YES/NO]	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0020	C0010	C0040	C0170	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
SC/970896856	NO	KLP Skadeforsikring AS	Local GAAP	100,0000%	100,0000%	100,0000%		Significant	100,0000%	Not included into scope of group supervision (art. 214 a)	2000-01-22	Method 1: Full consolidation
SC/938708606	NO	Kommunal Landspensjonskasse	Local GAAP	100,0000%	100,0000%	100,0000%		Dominant	100,0000%	Included into scope of group supervision	2000-01-22	Method 1: Full consolidation
SC/990329389	NO	KLP Bedriftspensjon AS	Local GAAP	100,0000%	100,0000%	100,0000%		Significant	100,0000%	Not included into scope of group supervision (art. 214 a)	2000-01-22	Method 1: Full consolidation
SC/993749532	NO	KLP Banken AS	Local GAAP	100,0000%	100,0000%	100,0000%		Significant	100,0000%	Not included into scope of group supervision (art. 214 a)	2000-01-22	Method 1: Sectoral rules
SC/968437666	NO	KLP Kapitalforvaltning AS	Local GAAP	100,0000%	100,0000%	100,0000%		Significant	100,0000%	Not included into scope of group supervision (art. 214 a)	2000-01-22	Method 1: Sectoral rules