# KLP Group

**SFCR 2017**
**Solvency and Financial Condition Report**

# Contents

# Summary

The Solvency II regulations were introduced from 01.01.2016. The rules are the same in all countries in the EU and in the EEA area. Among other things, the rules are intended to provide increased protection for policyholders. Solvency II lays down requirements for information disclosure, including through this report. The report should provide information on the company's business and results, the system of risk management, and how internal control within the company operates. The report is also intended to provide information on the risks to the company, the methods used for valuation of both assets and liabilities, and an overview of the company's solvency capital composition. The solvency capital is meant to cover the risk that the company has assumed by means of statutory solvency capital requirements.

Kommunal Landspensjonskasse gjensidig forsikringsselskap (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 provision. 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. The figures in this report are based on KLP, KLP Bedriftspensjon AS og KLP Skadeforsikring AS, the companies in the KLP Group which required to report under Solvency II. The term 'Group' is also used for these companies.

Total financial income for the Group amounted to NOK 32.8 billion in 2017 (NOK 26.5 billion in 2016), of which NOK 31 billion was income from the parent company's customer portfolio where all of the income falls to customers.

For 2017, the risk result for KLP and KLP Bedriftspensjon AS totalled NOK 898 million. The corresponding figure for 2016 was NOK 794 million. The risk result arises from the fact that mortality and disability in the period differ from what was assumed in the premium tariff.

The system of governance, as it is organized 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 Company's 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 statutory remuneration committee and audit committee, the Board has also established a separate risk committee.

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.

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

Under Solvency II, all assets and liabilities are valued at market value. There are two key differences in the valuation of assets and liabilities under Solvency II and in the financial accounts. One is the valuation of insurance obligations. The Solvency II accounts take account of real interest rates, whereas the financial statements use guaranteed interest in the valuation. The other main difference is that bonds and loans reported at amortised cost in the financial statements are shown at fair value in the Solvency II accounts. Other differences are due to differing treatment of intangible assets and deferred tax.

The Solvency II regulations lay down requirements for solvency capital through the solvency capital requirement. KLP and KLP Bedriftspensjon AS apply a transitional rule for technical provisions for the Solvency II rules. Using this transition rule, the Group has a solvency capital coverage of 322 percent at 31.12.2017. Even without the use of this transitional rule, the Group has a solvency capital coverage of 224 percent, well above its own target of at least 150 percent solvency capital coverage.

The report has been prepared for the Group. A similar report has been prepared for KLP as the life company, KLP Bedriftspensjon AS and KLP Skadeforsikring AS.

# 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, postboks 400 Sentrum, N-0103 Oslo

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, postboks 1187 Sentrum, N-0151 Oslo

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

d) The 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 organised as limited companies. The following wholly owned subsidiaries included in the Group:

- KLP Bankholding AS, with its subsidiary:
    - KLP Banken AS and its subsidiaries:
        - KLP Boligkreditt AS
        - KLP Kommunekreditt AS
- KLP Bedriftspensjon AS
- KLP Eiendom AS
- KLP Forsikringsservice AS
- KLP Kapitalforvaltning AS
- KLP Skadeforsikring AS

*Figure 1: Corporate structure*

Mutual funds investments where the KLP Group has control over the investments such that there is a consolidation requirement under the rules in IFRS are consolidated in. The minority's participation is classified as a liability.

Consolidation
In the solvency balance, the Group's life and non-life business is fully consolidated through the parent company KLP and its subsidiaries KLP Skadeforsikring AS og KLP Bedriftspensjon AS are fully consolidated.

The other business areas are included as equity investments in the consolidated balance sheet, as these are valued by the equity method. This means that earnings from these activities are included in the group's profit and the value of equity investments. Any distributions from these activities reduce share value. These shares are treated as strategic shares in the calculation of solvency capital requirements. The capital from the banking and asset management companies are part of the Group's capital. The capital requirements from these activities are also included in the Group's capital requirement.

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 provision. The Group is also a major provider of non-life insurance, banking services and investment products. 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

The results in table 1 equate to the sum of the customer share and the insurer's share of the risk result for KLP and KLP Bedriftspensjon AS. The risk result consists of premiums collected by the Company to cover underwriting risks minus actual costs of reserve provisions and payments for insured events. The result arises from the fact that mortality and disability in the period differ from what is assumed in the premium tariff.

The result of technical accounting from non-life insurance for 2017 was NOK -74 million. The result was NOK 6.6 million for 2016. The change from 2016 to 2017 is mainly due to lower run-off gains and a slightly worse claims result for the current year.

The total risk result for KLP and KLP Bedriftspensjon AS for 2017 is NOK 898 million, against NOK 794 million in 2016. The risk result consists of the net result for longevity (the insured persons get older than expected, the payments go on longer than assumed), death (the survivors live longer than expected, the payments go on longer than assumed) and disability (more people than expected become incapacitated; disability pension payments will be higher than assumed). The risk result is dominated by public-sector occupational pension provision, which is a defined-benefit scheme. This is shown in table 1 below.

*Table 1: Risk result for KLP and KLP Bedriftspensjon AS. Figures in NOK millions.*

| Risk results from insurance | 2017 | 2016 |
|---|---|---|
| KLP | | |
| Defined benefit pension | 899 | 788 |
| KLP Bedriftspensjon AS | | |
| Defined benefit pension and paid-up policies | 3 | 4 |
| Risk pension | -4 | 2 |
| **Total** | **898** | **794** |

Any surplus from the risk result should be distributed annually between the individual contracts in each group in proportion to the risk premiums paid for the individual contract. Up to half of the year's total profit on the insurance result can be allocated to the risk equalisation fund. At least half of the underwriting result goes to the customers.

In order to manage the pension schemes, the Company collects a cost element in the premiums. This element is included in the Company's administration result, which is discussed 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.

*Table 2: Income from investments in public and private-sector occupational pensions in the Group. Figures in NOK thousands.*

| Portfolios | 2017 | 2016 |
|---|---|---|
| Public occupational pension | 32 157 | 24 994 |
| Private occupational pension | 342 | 192 |
| **Total** | **32 499** | **25 186** |

The costs of managing the customer portfolio were NOK 188 million at 31.12.2017. For all products, a premium element is charged to cover the Company's costs of managing the capital. These elements are part of the Company's administration result. 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 percent of the return. These elements are discussed in section A. 5 under Table 3, Profit and loss elements in the corporate portfolio.

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

### A.3.1 Profit from investments falling to the Group

The Group's own securities portfolios totalled NOK 38 billion at 31.12.2017. Financial income from investments in these portfolios totalled NOK 1.4 billion in 2017 compared to NOK 1.4 billion in 2016. The costs of managing the portfolios were NOK 20 million in 2017. Returns on the portfolios and costs of managing them are included in total comprehensive income for the Group.

Further details are given in the SFCR reports for KLP, KLP Bedriftspensjon AS and KLP Skadeforsikring AS

## A.4 Performance of other activities

All significant income and expenses are included in the above.

## A.5 Other information

The sections above describe the underwriting result (risk result) and the investment result for KLP and KLP Bedriftspensjon AS, as well as the underwriting result for own account for KLP Skadeforsikring AS. For KLP and KLP Bedriftspensjon AS, a positive risk result and a positive investment result in the customer portfolio will fall to the customers. The corresponding negative result is charged to the Company's equity. The interest guarantee premium and the administration result are included in the Company's annual results along with the return in the corporate portfolio. KLP is a mutually owned company. These amounts are one reason why the growth in equity follows the growth in pension obligations. The tables below show the amount of the interest guarantee award and the administration result for 2017 and 2016 in KLP and KLP Bedriftspensjon AS. The necessary growth in equity over and above this level is provided by calling in an annual capital contribution from the owners.

*Table 3: Profit and loss elements in the corporate portfolio for KLP. Figures in NOK millions.*

| Result elements | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Interest guarantee premium | 703 | 683 |
| Administration result | 140 | -49 |
| **Sum** | **843** | **634** |

In 2016, KLP wrote down the value of its IT systems by NOK 174 million. This cost is part of the administration result and is the main reason for the increase from 2016 to 2017.

*Table 4: Profit and loss elements in the corporate portfolio for KLP Bedriftspensjon AS. Figures in NOK million.*

| Result elements | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Interest guarantee premium | 2.2 | 4 |
| Profit margin risk result | 3.2 | 3.4 |
| Administration result | -38.8 | -32.5 |
| **Sum** | **-33.4** | **-25.1** |

# 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, in relation to the nature, scope and complexity of the risks.

## B.1 General information on the system of governance

### B.1.1 Structure of KLP's administration, management and controlling bodies

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 General Meeting
KLP has a broad ownership structure. Members of 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.

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. The county administrations and municipalities in each county make up 18 of the constituencies. 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 losses. 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.

The Corporate Assembly
The Corporate Assembly comprises 45 members, 24 of them elected by the General Meeting. A further six representatives are nominated by the staff organisations in the local government sector. 15 representatives are elected from and by the staff in the Group. The Corporate Assembly has essentially the same responsibilities as a corporate assembly under the provisions of the Norwegian Public Limited Liability Companies Act. The corporate assembly elects the Board and its Chair. 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.

The Board of Directors of KLP (Group Board)
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 policies, 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. In addition, two observers are nominated from those organisations that are second and third in regard to the number of members. The Group Chief Executive Officer is not a member of the Board of Directors.

Group CEO

The CEO is responsible for the day-to-day management of KLP's business and has to follow the guidelines and orders issued by the Board. The CEO reports to the Company's Board of Directors. The CEO's responsibilities and duties are set out in the instructions adopted by the Board.

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 the top level of management in KLP and is responsible for the functional management of the company.

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 Markets, 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 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 KLP. 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, 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.

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 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.

Key functions
The risk management, compliance and actuarial functions and Internal Audit are the key functions in KLP. The Board ensures that these 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.

### B.1.2 Significant changes in the system of governance made during the reporting period

No significant changes were made to the system of governance in the reporting period.

### B.1.3 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 2017.

In accordance with Section 2 of the Norwegian Regulation on remuneration schemes in financial institutions, investment firms and asset management companies, the Board of KLP has determined and ensured that the Company always has and applies guidelines and frameworks for a remuneration scheme covering the whole of the Company including 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 is 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.

Remuneration based on results
No individual or collective remuneration (bonus) is given to employees based on KLP's results. In KLP Kapitalforvaltning AS the portfolio managers and their managers have bonus agreements.

Pension scheme
All employees of KLP are members of KLP's pension scheme.
Until 01.05.2013, KLP also had a scheme for 'Pensions for salaries over 12 G[1]'. This scheme has been modified:

- Persons employed by KLP after 30.04.2013 are not covered by the scheme.

[1]National Insurance basic amount

- Persons employed before 30.04.2013 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 who have a salary above 12 G at 30.04.2013, the following applies: “Persons with salaries over 12 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.1.4 Transactions with related parties

KLP has transactions with other companies in the KLP Group, as well as members of the administration, management or control bodies. These transactions are part of the products and services offered by KLP or its subsidiaries to their customers. The transactions are entered into on market terms and include occupational pensions, private pension savings, non-life insurance, bank deposits, lending, asset management and fund saving.

## B.2 ‘Fit and proper’ requirements

### B.2.1 The Company’s ‘fit and proper’ requirements

The companies in the KLP Group ensure that managers and others in the business holding key functions and key functions are suitable and fit to safeguard their work activities and responsibilities as stated in the individual’s Job description.

The boards of the companies in the KLP Group have adopted, and revise annually a guideline for suitable and fitness. 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.

As part of the qualification requirement, the Board of the KLP Group 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.

### B.2.2 The Company’s process for ‘fit and proper’ assessment

The ‘fit and proper’ assessment is made by the individual’s manager. 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.

All persons in Group 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

### B.3.1 Risk Management system. Strategies, processes, and reporting procedures

The risk management system at KLP is implemented through policies, processes/strategies and reporting procedures. Mandates, instructions and job descriptions for the various roles are also included in the system.

<u>Guidelines</u>
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 specified for the Company's business in the acts and regulations to which it is subject.

<u>Processes/strategies</u>
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 monitoring, managing and measuring market risk are the asset management and risk management strategy and the capital plan. The asset management and risk management strategy is adopted in December 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 worked out after completion of the Own Risk and Solvency Assessment, and sets the long-term course 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.

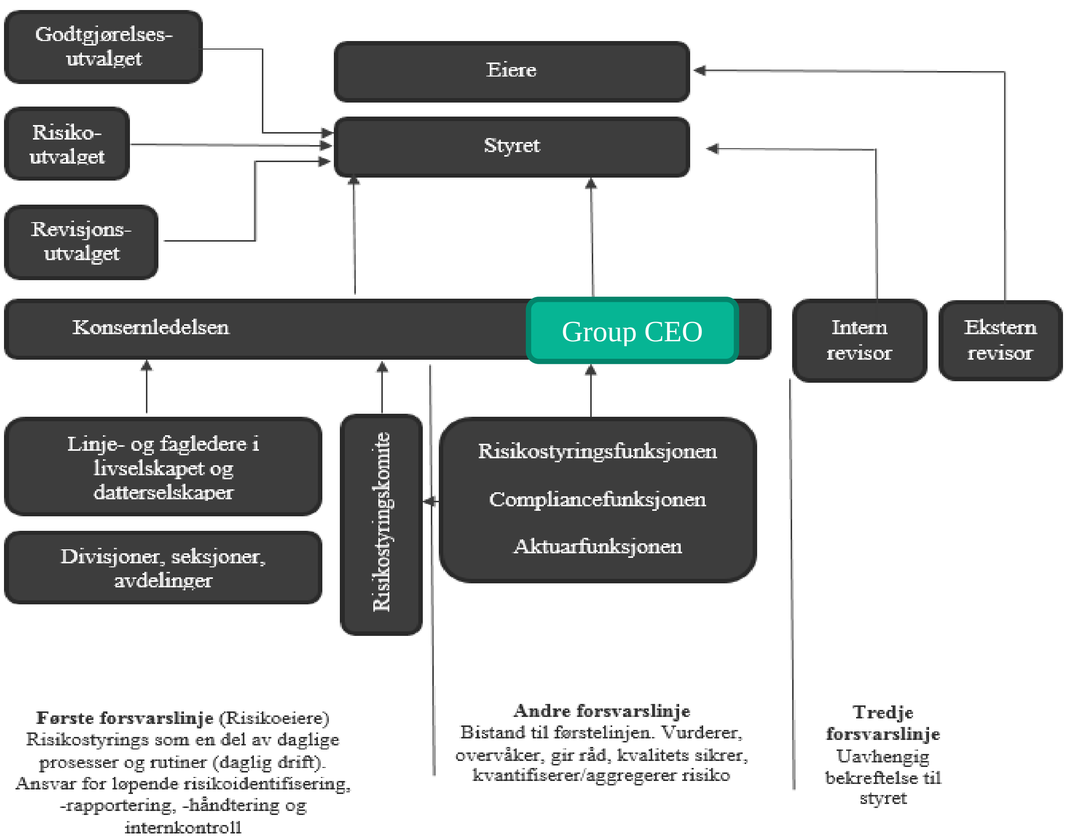
Reporting
Risk reporting in KLP takes place at many levels. At each Board meeting, the CEO includes relevant topics in his briefing. A separate briefing on risk management and asset management is also a fixed item on the agenda. The Board also receives a detailed monthly report on developments in the Group.
The second-line functions produce quarterly reports from their areas, which are addressed by the Board. The actuarial and compliance functions also produce their own annual reports. The risk management function organises the self-assessment of the company's risk and solvency and compiles the ORSA[2] report.

The risk management committee monitors changes in the policy rule at each meeting.

### B.3.2 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 in the Solvency II rules. The organisation is illustrated in the figure below:

*Figure 1: The risk management system at KLP*




First line – Risk management and operation
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.

[2] Own Risk and Solvency Assessment

Second line – Monitoring and quality assurance
The control functions that make up the second line are the risk management function, the compliance function and the actuarial function. For a more detailed description of the compliance function and the actuarial function, see sections B.5 and B.7.

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 risk management function is to monitor the Group's overall risk, including the risk management system. The risk management 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 risk management function; see section B.3.3.

To safeguard the independence of the actuarial function from the CRO, the Group CEO approves the remuneration of the heads of all three functions. For the same reason, the functions 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. The Internal Audit function is described in 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 includes the CFO and the directors responsible for the company's risk management, as well as the actuarial and compliance functions. 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.3.3 Own Risk and Solvency Assessment

#### B.3.3.1 Process

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 meeting in June.

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.

#### B.3.3.2 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 factors to be focused on in the year's process, often based on evaluations and feedback on the process from the previous year.

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 factors 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 guidelines for the ORSA and then at 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 reports for KLP (both Company and Group) and makes its recommendations to the Board.

An extraordinary ORSA has to be produced if there are changes that could affect the risk and/or capital substantially. Changes may be driven by internal decisions or external factors.

#### B.3.3.3 Determination of own solvency needs

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

The solvency target is that solvency capital coverage for the KLP Group should be more than 150 percent without including transitional rules for KLP and KLP Bedriftspensjon AS. The Board of Directors wants there to be a low likelihood of fluctuation, especially on the financial market, so that there is a low probability of having to call in extraordinary equity to strengthen the solvency position. The goal is therefore set considerably higher than the regulatory requirement of 100 percent.

## B.4 Internal control system

### B.4.1 KLP's internal control system

Internal control is concerned with systematic follow-up of the business. The purpose of good internal control is to maintain effective processes and procedures to meet business objectives. An important aspect of the internal control system is to deal with any risks that could prevent the company from achieving its goals in a cost-effective manner and in line with the current framework for the business.

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 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 ensure that KLP can achieve its objectives in all significant areas of business through:

- Identifying, measuring, monitoring, documenting and reporting of all material risks that could prevent target attainment.
- Establishing appropriate risk strategies to manage risk-taking
- Establishing measures to handle and control material risks
- Establishing contingency plans to handle the impact of any remaining risks.
- Establishing appropriate reporting procedures for unwanted events

The company’s leaders, at all levels, should at all times have adequate records of set goals, risks, key controls and any adverse events within their area so that they can manage risks associated with their business on a satisfactory manner. The second-line functions also assist all 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 within the company at least once a year.

### B.4.2 Compliance function

The compliance function helps the management to devise and implement an effective internal control system to address the risk of non-compliance with external and internal regulations. The compliance function helps the Board and senior management to ensure that KLP 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 risks of non-compliance within KLP. The compliance function oversees the material risks linked to non-compliance in the Group, and is an active ‘sparring partner’ to the Board, management and staff within KLP in relation to the operational handling of non-compliance risk.

The compliance function works preventively by providing advice and guidance, and 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 has 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 compliance function, the function has no operational or decision-making roles in activities that the function is required to monitor. This does not prevent the compliance function from assisting management in developing appropriate processes, procedures and methods to provide for effective follow-up of managers’ control responsibilities. The Board has adopted a special policy for the compliance function.

The compliance function in of KLP Skadeforsikring AS is described in the SFCR reports for KLP Skadeforsikring,AS. KLP Bedriftspensjon AS is covered by the compliance function for the KLP Group.

## B.5 Internal Audit function

### B.5.1 Exercise

Based on risk assessments etc., an audit plan is drawn up for areas to be 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 Independence and objectivity

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

The actuarial function at KLP has responsibilities and duties as described in the Solvency II regulations. 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 actuarial function also reports directly to the Group CEO every quarter from 2018 onwards. Under the Norwegian Act on Insurance Activity, the actuarial function is not allowed any responsibilities or tasks in relation to insurance customers.

The actuarial functions in the subsidiaries are described in the SFCR reports for KLP company pension and KLP damage insurance AS. The actuarial functions in KLP and the KLP Group are performed by the same person. KLP Bedriftspensjon AS and KLP Skadeforsikring AS have their own actuarial functions.

The role and responsibilities of the actuarial function are described in the policy for the actuarial function, adopted by the Board of KLP. The actuarial function should ensure that the following is done:

- Coordination of calculations of technical provisions
- Ensuring that methods, models and assumptions used in the calculation of technical provisions are appropriate

- Assessment of whether the data used in the calculation of technical provisions is sufficient and of the necessary quality
- Comparison of best estimate with the Company's experience
- Informing the Board of KLP and Group senior management as to whether the calculation of insurance technical provisions is reliable and sufficient
- Testing of any simplified calculations of best estimates based on approximate values and individual assessments of notified claims cases
- Commenting on the Company's policy for taking out insurance
- Commenting on whether the Company's reinsurance schemes are sufficient
- Contributing to the effective implementation of the risk management system, particularly with regard to the risk modelling which forms the basis for calculating the Solvency Capital Requirement and self-assessment of the Company's capital needs

The actuarial function may use professional resources in other entities for specified tasks. In this case, the manager of the actuarial function must ensure that there are no conflicts of interest for the function or the people doing work for the function. The head of the actuarial function in KLP and the Group 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.

At least once per year, the actuarial function will draw up a written report to be submitted 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

Outsourcing is used where KLP chooses to use contractors to perform work assignments which could also have been carried out by the Company itself. The Board of KLP has adopted an outsourcing policy. The Code of Conduct applies to both outsourcing contracts within the KLP Group and when the business is contracted out to external companies.

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.

Even if work activities are outsourced, KLP will still be responsible for the business that has been contracted out. KLP must therefore be able to fulfil its obligations, and check the contractor's risk management and internal control systems, including compliance with laws and regulations for the outsourced business.

## B.8 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 within the group is dominated by the parent company's public sector occupational pension business, where the two biggest underwriting risks are longevity risk and disability, both characterised by slight variations in measurable risk from year to year . Longevity risk means that the customer lives longer than presumed, and disability risk means that more people than expected are becoming disabled, or that fewer than expected are returning to work. 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. This chapter provides a description of the group's underwriting risk based on the underwriting risk in KLP. For underwriting risk in KLP Bedriftspensjon AS and KLP Skadeforsikring AS, refer to these companies' SFCR reports.

Longevity and disability risk are 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 risk result is followed up carefully and provides the basis for assessing whether prices and provisions are sufficient. 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 development is quantified by deriving a new basis for calculation. This will be the basis for best estimate assumptions in Solvency II calculations and perhaps also for new premium and reserve calculations (before actuarial safety margin).

- Longevity risk
  Because old-age pensions after the age of 67 in public-sector occupational pension 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.

  The basis for calculation K2013[3] was derived from the life company's actual data up to and including 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 equity contribution is the real loss risk in the Company from people living longer.

[3] The minimum basis for premium and provision calculations for collective pension insurance in Norway – adopted by the FSA of Norway in March 2013.

An abrupt fall in mortality ‘overnight’, as assumed by stress tests for solvency purposes, is much less of a real risk than longer lives in the future, 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
  The disability scheme in public sector occupational pension provision was changed from 01.01.2015 as a result of the pension reform. After this date, national insurance covers a much bigger part of the total disability payments than before. For new pension cases, disability benefits from public-sector occupational pension schemes paid together with disability pensions from national insurance are therefore much smaller than they were under the old scheme. From 01.01.2015, 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 technical provisions 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.

  Customers moving are only regarded as a strategic risk to the Company if large numbers are involved. Lapses are not considered to be a risk to the Comany’s solvency.

  In calculating capital requirements under the Solvency II rules, lapses are categorised as an underwriting risk. The capital requirement associated with lapse risk is significant as the standard method requires KLP’s schemes to assume that 70 percent 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.

- Accrued pension rights
  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 within KLP and the customer continues to pay the interest guarantee premium for these. KLP is therefore not exposed to the same problems as private occupational pension schemes where the life company is responsible for achieving the annual guaranteed return without the right to collect a premium for the interest guarantee. If the guaranteed interest is higher than the return, life companies must then add extra capital, while KLP can continue to collect an annual premium for the interest guarantee.

  For paid-up policies in KLP Bedriftspensjon AS, see SFCR reports for KLP Bedriftspensjon AS.

Underwriting risk is mainly managed by maintaining a robust level of premiums and provisions. This gives an expected low probability of a negative insurance result. Great use is made of the risk equalisation fund, which can cover any negative risk result, to minimise the risk of losses related to underwriting risk affecting other equity. The Company is allowed to allocate a maximum of half of any positive risk result to the risk equalisation fund, while the rest has to go to the customers’ premium fund.

KLP has a catastrophe insurance contract which can contribute to risk relief. 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 extent of re-insurance is assessed in light of the Company's risk-bearing capacity and the nature of the products.

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 public-sector occupational pension 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. Customer selection is therefore very little used to manage underwriting risk.

In practice, as it is specified what the insurance cover in public-sector occupational pension schemes must include[4], the underwriting risk is contained within these limits. There is also a general requirement to equalise premiums so customers cannot be charged individually[5], except for the interest guarantee premium and capital management costs.

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

## C.2 Market risk

Market and counterparty risks for the Group are dominated by KLP's portfolios. 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. This section will therefore describe the Group's market risk in terms of the market risk for KLP. For market risk in KLP Bedriftspensjon AS and KLP Skadeforsikring AS, refer to these companies' SFCR reports.

Market risk is the risk that the value of investments will change. Typical factors are changes in share prices, property prices, interest rates and exchange rates. Market risk in KLP arises in the management of the pension assets and equity in the Company. In its long-term asset management strategy, KLP seeks to put together a portfolio which, in relation to KLP's obligations, can give the highest possible (competitive) return subject to limits on risk-taking. The restrictions on risk mean that the Company has to safeguard its owners' equity and look for stable returns. KLP's objective is to have a capacity for risk that allows us to maintain a certain level of risky assets in the short and long term, even after a year of heavy losses in asset management. The risk capacity is also assessed in a long-term perspective, taking into consideration the impact of interest rates on risk capacity over time.

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. Measurements are taken at intervals through the year.

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

- Long-term investment horizon and wide-ranging portfolios

[4] Under tariff agreements
[5] Gender and age-neutral premium calculation

- High proportion of stable assets
- High level of market exposure
- Continuous risk management and monitoring (policy rule)
- Responsible and sustainable management

KLP's market risk is made up of equity risk, property risk, interest rate risk, credit risk, concentration risk and currency risk. Gross loss potential for market risk for KLP under Solvency II as at 31.12.2017 was estimated at NOK 67.4 billion, allowing for the diversification effect between the various asset classes. The potential loss is dominated by equity and property risk. Net capital requirements for KLP (after using buffer capital etc.) related to market risk were NOK 4.2 billion at 31.12.2017.

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.

KLP follows up the market risk by way of stress tests and sensitivity analyses etc. Market risk is also a key part of the self-assessment of risk and solvency in the annual ORSA process. KLP calculates its solvency capital coverage at least quarterly.

KLP has its financial assets invested in customer portfolios and a corporate portfolio. The customer portfolios are made up of customers with public-sector occupational pensions, and the portfolios are divided according to risk-bearing capability. The market risk affects income and profits differently for the different portfolios.

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. 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 through 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 or 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.

The market risk in the corporate portfolio affects equity directly. For the corporate portfolio, KLP aims to take low market risk. The majority of the funds are invested in interest-bearing securities with an average duration of 4.7 years as of 2017. The corporate portfolio has a low correlation with the customer portfolios.

Shares

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 corporate 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. This is because investments with durations equal to the obligations are difficult to obtain, and because the duration in KLP is perceived to be short in regulatory terms as KLP can collect an annual interest guarantee premium.

Interest rate risk is 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. The expected return for the hold-to-maturity portfolio in 2018 is 3.7 percent, and the average duration is six years.

Other
The basic principles for asset management are set out above. This, combined with management mandates and limits that restrict exposure to individual issuers, means that KLP has only minimal exposure to concentration risk.

With few exceptions, KLP hedges its portfolios against currency fluctuations. The Company therefore has little exchange rate risk. It was, however, agreed to reduce the amount of hedging for global equities in developed markets, and this was reduced to 70 percent in 2017. In 2018, the level of hedging for this part of the portfolio will be reduced further. The Company will, however, still have little exchange rate risk across all portfolios.

There were no significant changes in market risk in 2017.

## 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 KLP. For KLP Bedriftspensjon AS and KLP Skadeforsikring AS, refer to these companies' SFCR reports. KLP Banken AS 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 risk is a risk of losses where counterparties cannot meet their debt obligations. The risk includes losses on loans and losses related to bank deposits, or non-fulfilment of contracts by counterparties in reinsurance contracts or financial derivatives. Losses in the securities portfolio that can be linked to these types of losses are categorised as market risk.

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. 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 set on all credit exposure before an investment is undertaken. These limits are set by a separate credit committee. The credit limits are reviewed annually and monitored quarterly. 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.

In addition to the credit limits, special requirements for diversification are laid down up in the mandates to KLP Kapitalforvaltning AS. These ensure that portfolios without diverse indices[6] have limited non-systemic risk.

## 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 in the Group are responsible for their own liquidity management. This section describes the liquidity risk for KLP. For KLP Bedriftspensjon AS og KLP Skadeforsikring AS, refer to their SFCR reports, and for KLP Banken AS and KLP Kapitalforvaltning AS, refer to their ICAAP reports. All companies are subject to specific liquidity requirements.

KLP has a liquidity portfolio which should be able to meet ongoing obligations relating to payment of pensions and to coverage of operating costs. Liquidity needs that may arise as a result of people moving also form part of the overall assessment of the size of the liquidity portfolio. In normal circumstances the portfolio should have sufficient funds to prevent the Company needing to release funds from other portfolios for expected payments. As the majority of KLP's funds are invested in highly liquid assets and KLP's liquidity requirements are normally covered by quarterly premium payments from customers, the liquidity risk is considered to be limited.

For KLP, the insurance commitment is long-term, and the cash flows are largely known long before they fall due. The liquidity risk is handled through the liquidity strategy, covering measurement, management and contingency planning relating to liquidity risk.

KLP's goal is to hold sufficient liquidity to cover at least three months' liquidity needs. In situations where there are insufficient liquid assets to cover the liquidity need, funds have to be released from other portfolios or obtained in some other way. The contingency plan will come into effect when an exceptional liquidity need has arisen and the liquidity has fallen below certain defined levels. Based on this, the liquidity risk is considered low.

Liquidity planning is based on financial accounting values. The financial accounts do not include a margin from future premiums. The size of margin from future premiums is therefore not very relevant to liquidity risk and liquidity management.

## C.5 Operational risk

Operational risk is defined as the risk of financial loss or loss of reputation as a result of failure of internal processes, human error or system failure, or any other loss due to external events. Operational risk management involves detecting risk factors that can cause losses, and estimating the likelihood and impact of possible adverse events.

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

[6] Such as the capital investment portfolio and Norwegian bond portfolios

The capital requirement for operational risk for the KLP Group is calculated on the basis of the individual operational risks for the companies subject to Solvency II reporting and ICAAP reporting. The operational risk for the Group is dominated by the parent company. The capital requirement for operational risk amounts to NOK 2.3 billion for the Group, while the corresponding figure for KLP is NOK 2.2 billion. The discussion of the Group's operational risk in this section will therefore be based on the notes on KLP’s operational risk. For KLP Bedriftspensjon AS and KLP Skadeforsikring AS, refer to their SFCR reports, and for the subsidiaries subject to ICAAP reporting, refer to their ICAAP reports.

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. Where the risk assessment concludes that the risk is higher than is acceptable, measures will be established to reduce the likelihood or the impact of this risk. 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 produced for the Company, which is included in the Group’s list. The compliance function facilitates the process and reports performance to senior management and the Board. Strategic risk and risk to reputation are valued 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. The Risk Management function helps to quantify the economic losses. The capital requirement for the operational risk is calculated by the standard formula based on volume measures for premiums and reserves.

The operational risks with the greatest contribution to the capital requirement within KLP are related to stable IT operations, data quality, IT security, lack of expertise resulting from changes in markets and technology, and adaptation to substantially stricter data protection rules.

## C.6 Other material risks

It is considered that other significant risks in the Group are dominated by KLP and thus covered in KLP's SFCR report, section C.6.

## C.7 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

Total assets valued in the solvency balance amounted to NOK 569.5 billion at 31.12.2017[7]. This is an increase of NOK 43.7 billion since 31.12.2016. Total financial assets, (accounting values) amounted to NOK 541.9 billion at 31.12.2017. This is an increase of NOK 39.3 billion since 31.12.2016.

Assets under Solvency II are recognised at fair value: The valuation principles are largely congruent with the principles for valuation at fair value under International Financial Reporting Standards (IFRS). The financial statements for KLP are drawn up in accordance with the Regulations on annual accounts for insurance companies. These rules broadly match IFRS, but bonds at amortised cost and bonds classified as loans and receivables are recognised at amortised cost. There are also differences in the valuation of intangible assets and deferred taxes.

*Table 5: Assets. Figures in NOK billions.*

| Asset classes | Solvency II 2017 | Accounts 2017 | Solvency II 2016 | Accounts 2016 |
|---|---|---|---|---|
| Intangible assets | 0.0 | 0.3 | 0.0 | 0.3 |
| Deferred tax assets* | 17.0 | 0.0 | 13.4 | 0.3 |
| Property for own use | 1.6 | 1.6 | 1.5 | 1.5 |
| Property (other than for own use) | 61.0 | 61.0 | 57.5 | 57.5 |
| Holdings in related undertakings, including participations | 3.1 | 3.1 | 2.6 | 2.6 |
| Equities etc. | 31.1 | 31.1 | 27.3 | 27.3 |
| Bonds | 231.4 | 220.9 | 220.0 | 210.1 |
| securities' funds etc. | 151.4 | 151.4 | 132.4 | 132.4 |
| Derivatives | 1.1 | 1.1 | 1.6 | 1.6 |
| Deposits other than cash equivalents | 1.3 | 1.3 | 1.6 | 1.6 |
| Assets related to contracts with investment options | 2.7 | 2.7 | 1.7 | 1.7 |
| Loans | 57.7 | 57.2 | 53.4 | 52.9 |
| Reinsurance recoverables | 0.1 | 0.1 | 0.1 | 0.1 |
| Other assets** | 10.0 | 10.2 | 12.6 | 12.6 |
| **Total** | **569.5** | **541.9** | **525.8** | **502.6** |

* With gross tax assets under Solvency II.

**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 the company can demonstrate that it has a market value.

Valuation, accounts:
Intangible assets are valued for accounting purposes at cost and depreciated over their expected service life. If there are indications that the book value of an intangible asset is higher than the recoverable amount, an impairment test is carried out. If the recoverable

[7] * With gross tax assets under Solvency II. Net tax assets were NOK 0 at 31.12.2017

amount is less than the book value, the asset is depreciated to the recoverable amount. Intangible assets are posted to the balance sheet for NOK 0.3 billion.

### D.1.2 Assets subject to tax

Valuation, Solvency II:
Deferred tax is split into a deferred tax asset of NOK 17.0 billion and a deferred tax liability of NOK 20.9 billion under Solvency II in 2017 for the Group. The calculations include the transitional scheme for technical provisions.

This valuation is based on the accounting calculation but also factors in the effect of assets and liabilities with a different valuation than in the accounts. These include technical provisions, financial liabilities and interest-bearing portfolios valued at amortised cost in the accounts. Technical provisions under Solvency II without temporary deductions are valued higher than the technical provisions in the financial statements. However, because of the temporary deduction, only 1/16 of this difference is included in the provisions as they are recorded in the Solvency II balance at year-end 2017, so the contribution to deferred tax assets is also limited. 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. KLP Skadeforsikring AS does not use any temporary deduction in technical provisions.

Valuation, accounts
Capitalised deferred tax assets or liabilities represent the 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 based on 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.

At 31.12.2017, the Group had net deferred taxes of NOK 0.4 billion. See section D.3.3.

### D.1.3 Property for own use

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

Property investments are 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 internal valuation model, a selection of the Group's property stock is regularly valued by an external, independent and qualified party. 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, and 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 accounting 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 in section 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 accounting 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 purpose at amortised cost. This amounts to NOK 152.5 billion out of a total of NOK 220.9 billion. The difference in valuation is NOK 10.5 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 accounting 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 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 accounting 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 accounting 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.1.7.

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

Solvency II valuation equal to accounting value
Other assets are measured at fair value.

## D.2 Technical provisions

### D.2.1 Value of technical provisions

The technical provisions under Solvency II are valued at fair value (market value). The technical provisions in Solvency II are made up of a best estimate plus a risk margin. The best estimate consists of guaranteed payments and discretionary benefits. The risk margin corresponds to the costs associated with providing eligible capital equal to the solvency capital requirement, which are needed to cover the insurance and reinsurance obligations in the lifetime of these insurance contracts. The time value is factored into the calculations using the relevant risk-free rate curve.

Tables 6 and 7 below show the technical provisions under Solvency II and the technical provisions in the financial accounts for the Group broken down by industries for KLP and KLP Bedriftspensjon AS. Technical provisions under Solvency II are shown both with and without the use of transitional rules for the technical provisions which KLP and KLP Bedriftspensjon use. The Solvency II provisions are calculated with a volatility adjustment as set out in Article 77d of the Solvency II Directive. The volatility adjustment provides a mark-up in the risk-free market interest rate. This means that the obligations will be lower than they would have been without this adjustment. The effect depends on the amount of the mark-up. The adjustment as at 31.12.2017 represents an interest mark-up of 0.15 percentage points.

*Table 6: Technical provisions for KLP and KLP Bedriftspensjon As with volatility adjustment and with transitional rules for technical provisions under Solvency II. Figures in NOK billions.*

| Technical provisions 2017 with the transitional rules | Best estimate | Risk margin | Technical provisions Solvency II | Technical provisions Accounts |
|---|---|---|---|---|
| Public occupational pension | 477.0 | 12.9 | 489.8 | 489.2 |
| Guaranteed products | 1.6 | 0.1 | 1.7 | 1.6 |
| **life insurance - excluding index-linked and insurance with investment options** | 478.6 | 12.9 | **491.5** | **490.8** |
| **life insurance - index-linked and insurance with investment options** | 2.7 | 0.0 | **2.7** | **2.7** |

*Table 7: Technical provisions for KLP and KLP Bedriftspensjon AS with volatility adjustment but without transitional rules for technical provisions under Solvency II. Figures in NOK billions.*

| Technical provisions 2017 without the transitional rules | Best estimate | Risk margin | Technical provisions Solvency II | Technical provisions Accounts |
|---|---|---|---|---|
| Public occupational pension | 486.8 | 13.1 | 500.0 | 489.2 |
| Guaranteed products | 1.8 | 0.1 | 1.9 | 1.6 |
| **life insurance - excluding index-linked and insurance with investment options** | 488.7 | 13.2 | **501.9** | **490.8** |
| **life insurance - index-linked and insurance with investment options** | 2.8 | 0.0 | **2.8** | **2.7** |

With the use of the transitional rules, the technical provisions under Solvency II are lower than without the use of transitional rules.

KLP Skadeforsikring AS is not covered by the transitional rules and does not use any volatility adjustment in its calculations. The values of the technical provisions under Solvency II and the technical provisions in the financial accounts are shown in table 8 below.

*Table 8: Technical provisions for KLP Skadeforsikring AS. Figures in NOK billions.*

| Technical provisions 2017 | Best estimate | Risk margin | Technical provisions Solvency II | Technical provisions Accounts |
|---|---|---|---|---|
| Assistance | 0.009 | 0.002 | 0.011 | 0.023 |
| Fire and other damage to property insurance | 0.629 | 0.038 | 0.667 | 0.615 |
| General liability insurance | 0.086 | 0.009 | 0.095 | 0.102 |
| Motor vehicle liability insurance | 0.088 | 0.009 | 0.097 | 0.137 |
| Other motor insurance | 0.089 | 0.013 | 0.101 | 0.178 |
| Income protection insurance | 0.393 | 0.029 | 0.422 | 0.445 |
| Workers' compensation insurance | 0.627 | 0.037 | 0.663 | 0.694 |
| **Non-life insurance – excluding health insurance** | 1.921 | 0.136 | **2.057** | **2.191** |
| **Health insurance** | 0.055 | 0.002 | **0.056** | **0.055** |
| **Total non-life insurance** | 1.975 | 0.138 | **2.113** | **2.246** |

### D.2.2 Valuation principles for solvency and financial accounting purposes

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

- Guaranteed benefits
  Include 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 (future bonus)

Include 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.

- Risk margin
  Estimated by assuming that future solvency capital requirements will decrease in proportion to the best estimate. The risk margin is calculated by method 2 in the Solvency II rules.

In order to calculate the time value of future cash flows, economic scenarios are generated in an economic scenario generator (ESG). KLP uses the Barrie & Hibbert Scenario Generator from Moody's Analytics. The scenario generator is calibrated to the risk-free yield curve published by EIOPA[8]. This yield curve is used both to discount the cash flows and as a basis for future returns. The scenarios are generated to be risk neutral, so all asset classes in anticipation receive a yield that assumes a risk-free yield curve.

The guaranteed benefits are expressed at the present value of future pension payments, where the relevant discount rate is risk-free yield curve including volatility adjustment published by EIOPA. We also include pension obligations which are expected to move out of the Company during the period we are looking at and the remaining premium reserve at the end of the period. The value of the guaranteed benefits is further reduced by the present value of future interest guarantee premiums and equity contributions, and administration income minus overheads.

The discretionary benefits include cash flows to and from various buffers, such as the securities adjustment fund, supplementary reserves and the risk equalisation fund, and the premium fund. The cash flows depend on the return on the assets. The valuation of cash flows is done using the generated economic scenarios.

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. When discounting the cash flows, the risk-free yield curve described above is used.

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 deterministically while other cash flows linked to the discretionary payments are calculated via stochastic simulations.

Life insurance – Valuation, accounts:
In the financial accounts, the provisions are made up of the premium reserve, supplementary reserves, the securities adjustment fund, claims provisions, the risk equalisation fund[9] and other technical provisions.

The calculation of a premium reserve in the financial accounts is based on the present value of deposits and payments using the same assumptions as in the premium calculation basis including safety margins, compared to what is considered a best estimate of developments in

[8] EIOPA - European Insurance and Occupational Pension Authority
[9] Posted to Equity

e.g. disability and life expectancy in the future. The valuation of the technical provisions in the financial accounts is deterministic. The present value is calculated with a discount rate equal to the guaranteed interest at the time of accrual throughout the term of the individual insurance contract.

Non-life insurance – Valuation, Solvency II:
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 line of business 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 claims) 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 provisions are not discounted.

### D.2.3 Uncertainty related to the value of technical provisions

When using complex cash flow models, there will always be some uncertainty in the results. The results are sensitive to the assumptions, choice of methods and processing of input prior to each calculation. The level of uncertainty in the calculations of the insurance obligation is driven by uncertainty in the underlying assumptions. 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 company and its strategies.

The yield curve given by EIOPA is based on some assumptions that are uncertain, including the extrapolation methodology, time taken to obtain long-term interest, long-term interest rates and volatility adjustment levels. As part of the ORSA process, sensitivity analyses are carried out for the value of solvency capital and the capital requirements for changed assumptions, some of which may be related to interest rates. One intention is to increase understanding of the sensitivity of the calculations.

### D.2.4 Matching adjustment

The Group does not apply the matching adjustment described in Article 77b of the Solvency II Directive[10].

[10] 2009/138/EC

### D.2.5 Volatility adjustment

KLP and KLP Bedriftspensjon AS apply the volatility adjustment described in Article 77d of the Solvency II Directive. The volatility adjustment provides a mark-up in the risk-free market interest rate. This means that the obligations will be lower than they would have been without this adjustment. The effect depends on the amount of the mark-up. As at 31.12.2017, the adjustment is a modest mark-up of 0.15 percentage points on the interest rate. The effect of removing this is therefore also modest. The effect is shown for KLP as the Group's technical provisions are dominated by the parent company.

*Table 9: Effect of utilising volatility adjustment and transitional rules for technical provisions for KLP. Figures in NOK billions.*

| 2017 | With the volatility adjustment | Without the volatility adjustment | Difference |
|---|---|---|---|
| Technical provisions | 489.8 | 489.8 | 0.00 |
| Solvency capital requirement | 11.3 | 11.4 | -0.13 |
| Minimum capital requirement | 5.1 | 5.1 | -0.06 |
| | | | |
| Total eligible own funds to meet the SCR | 39.8 | 39.9 | -0.06 |
| Total eligible own funds to meet the MCR | 35.2 | 35.2 | -0.01 |
| | | | |
| Ratio of Eligible own funds to SCR | **352 %** | **349 %** | **4 %** |
| Ratio of Eligible own funds to MCR | 692 % | 684 % | 8 % |

Difference in percent (percentage points).

As we see from table 9 above, KLP has a solvency capital coverage of 349 percent at 31.12.2017 without the use of volatility adjustment but with the use of the transitional rules for the technical provisions. KLP has a solvency capital coverage of 352 percent at 31.12.2017 with the use of volatility adjustment and with the use of the transitional rules for the technical provisions. Use of the volatility adjustment gives a 4-percentage point increase in solvency capital coverage.

### D.2.6 Transitional provisions on 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

In reporting to the Financial Supervisory Authority of Norway, KLP and KLP Bedriftspensjon AS apply the temporary deduction provided for by the transitional measure for technical provisions described in Article 308d of the Solvency II Directive. Note 26 Capital requirements in the KLP Group's financial statements show the calculations without the use of this temporary deduction. The Solvency capital coverage is then 224 percent, as shown in table 10 below. When we include the transitional rule for the technical provisions, the solvency capital coverage is 322 percent.

*Table 10: Effect of applying the transition rule to the technical provisions for the group. Figures in NOK billions.*

| 2017 | With using the transitional rules | Without using the transitional rules | Difference |
|---|---|---|---|
| Technical provisions | 496.30 | 506.77 | -10.47 |
| Solvency capital requirement (SCR) | 12.43 | 14.93 | -2.49 |
| Minimum capital requirement (MCR) | 5.59 | 6.56 | -0.97 |
| | | | |
| Eligible own funds to meet the SCR | 40.07 | 33.45 | 6.62 |
| Eligible own funds to meet the MCR | 34.97 | 27.30 | 7.68 |
| | | | |
| Ratio of Eligible own funds to SCR | **322 %** | **224 %** | 98 % |
| Ratio of Eligible own funds to MCR | 625 % | 416 % | 209 % |

Difference in percent (percentage points).

With the use of the transitional provision, the technical provisions are lower than without the use of it. The eligible capital is increased at the same time if we use the transitional provision. Both of these changes tend towards higher solvency capital coverage with the use of the transitional provision than without the use of the transitional provision. Even without the use of the transitional rules for the technical provisions, the KLP Group meets the solvency capital requirement by a good margin.

### D.2.8 Significant changes in assumptions

The best estimate of mortality rates has been changed in the joint scheme for nurses and the joint scheme for hospital doctors as of 01.01.2018, in line with existing analyses by the Actuarial and Product department in the annual calculation for 2017. The nurses and hospital doctors in the joint scheme have been shown to live longer than we thought. The best estimate of mortality has therefore been reduced. The premium reserves in the financial accounts have been allocated according to K2013 with an elevated base for nurses and hospital doctors. The increase was made as part of the profit allocation at the year-end 31.12.2017 (increased provision to old age pensions). The price tariff was changed with effect from 01.01.2018. The calculation of the best estimate also uses K2013 with elevated base but does not include any safety margins in the calculations.

For the other schemes, the assumptions for calculating the best estimate of mortality have changed somewhat based on analyses carried out by the Actuarial and Product department. These calculations include a margin for socioeconomic differences. Lower-paid people die earlier than high-paid persons do.

## D.3 Other liabilities

The table below shows the breakdown of other liabilities.

*Table 11: Other liabilities. Figures in NOK billions.*

| Other liabilities | Solvency II 2017 | Accounts 2017 | Solvency II 2016 | Accounts 2016 |
|---|---|---|---|---|
| Provisions other than technical provisions | 0.5 | 0.5 | 0.4 | 0.4 |
| Pension benefit obligations | 0.6 | 0.6 | 0.5 | 0.5 |
| Deferred tax liabilities* | 20.9 | 0.4 | 15.7 | 0.2 |
| Derivatives | 3.4 | 3.4 | 4.1 | 4.1 |
| Financial liabilities other than debts owed to credit institutions | 0.7 | 0.7 | 0.9 | 0.9 |
| Insurance & intermediaries payables | 1.5 | 1.5 | 0.7 | 0.7 |
| Payables (trade, not insurance) | 0.8 | 0.8 | 2.2 | 2.2 |
| Subordinated liabilities | 7.8 | 7.5 | 8.3 | 7.9 |
| Other liabilities** | 0.049 | 0.000 | 0.044 | 0.044 |
| **Total** | **36.2** | **15.4** | **32.8** | **16.9** |

* With gross taxes under Solvency II

* * Reinsurance and other obligations not shown elsewhere

### D.3.1 Provisions other than technical provisions

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

### D.3.2 Pension obligations - own employees

Solvency II valuation equal to accounting 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 linear method. The present value of the gross liability is discounted at 2.4 percent which is meant to reflect interest rates on Norwegian high-quality bonds.

The table below shows the pension obligations in NOK billions

*Table 12: Net pension obligations - own employees, 2017. Figures in NOK billions.*

| Net pension obligations, own employees | Joint pension scheme | Other entitlements | Total |
|---|---|---|---|
| Present value of obligations | 1.874 | 0.242 | 2.116 |
| Fair value of the pension assets | 1.318 | 0.000 | 1.318 |
| **Net pension obligations, own employees** | **0.555** | **0.242** | **0.797** |

*Table 13: Net pension obligations - own employees, 2016. Figures in NOK billions.*

| Net pension obligations, own employees | Joint pension scheme | Other entitlements | Total |
|---|---|---|---|
| Present value of obligations | 1.651 | 0.217 | 1.868 |
| Fair value of the pension assets | 1.156 | 0.000 | 1.156 |
| **Net pension obligations, own employees** | **0.495** | **0.217** | **0.712** |

*Table 14: Allocation of pension funds for own employees.*

| Allocation of pension assets | 2017 | 2016 |
|---|---|---|
| Property | 12.3 % | 12.5 % |
| Equities and participations | 22.5 % | 20.1 % |
| Loans | 11.6 % | 11.6 % |
| Interest-bearing securities | 53.6 % | 55.7 % |
| **Total** | **100.0 %** | **100.0 %** |

### D.3.3 Deferred tax

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

Valuation, accounts:
At 31.12.2017, the Group recognised net deferred tax of NOK 0.4 billion; see notes in section D. 1.2.

### D.3.4 Derivatives

Solvency II valuation equal to accounting value

Derivatives are measured at fair value.

### D.3.5 Financial liabilities other than liabilities to credit institutions

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

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

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

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

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

### D.3.8 Hybrid Tier 1 perpetual capital

Valuation, Solvency II
Under Solvency II, financial liabilities are measured at fair value when the loan is taken. Later valuations will not take account of changes in the Company'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 Company, which produces a conservative valuation of the loan.

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.

### D.3.9 Subordinated loan capital

Valuation, Solvency II
Under Solvency II, financial liabilities are measured at fair value when the loan is taken. Later valuations will not take account of changes in the Company's own creditworthiness after this point. 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
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 reported book value is NOK 293 billion less than the Solvency II valuation.

KLP had two subordinated loans at the end of 2016. During 2017, one of the loans was repaid, so KLP has one subordinated loan as at 31.12.2017.

## D.4 Alternative methods for valuation

KLP's valuation principles for assets that cannot be valued based on quoted prices are described in Note 7 Fair value hierarchy in the 2017 annual report for the KLP Group.

## D.5 Other information

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

# E. Capital management

The main purpose of the KLP Group is to manage the capital invested by its members in the Company either as owners (equity) or as retail customers (pension funds) as well as possible within the Company's risk capacity.

## E.1 Own funds

The Group's own funds is dominated by own funds in the parent company. Smaller amounts come from KLP Skadeforsikring AS, KLP Bedriftspensjon AS and eligible capital calculated according to relevant sector-level rules for KLP Banken AS and KLP Kapitalforvaltning AS. The purpose of the Company's own funds is to satisfy regulatory requirements under Solvency II by a good margin. The Company reports its capital adequacy ratio for the Solvency Capital Requirement and the Minimum Capital Requirement every quarter.

The boards of KLP, KLP Bedriftspensjon AS and KLP Skadeforsikring AS have adopted a policy for capital management. The purpose of the guideline is to ensure that the respective companies are sufficiently capitalized and meet the regulatory minimum requirements for capital set by the financial authority. The companies have also set their own targets for solvency capital coverage which are well above the requirements of the FSA.

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 plan period, KLP, KLP Bedriftspensjon AS and KLP Skadeforsikring AS all have a goal of having a solvency capital coverage of over 150 percent. The companies meet the requirement by a good margin apart from KLP Bedriftspensjon AS. Here, depending on valuations and analyses, measures will be implemented to achieve the target.

KLP and KLP Bedriftspensjon AS apply the transitional measure for technical provisions, but the Group sets targets for solvency capital coverage without using this. For the same reason, solvency capital coverage is reported without using the transitional measure in notes to the companies' and the KLP Group's accounts. The Group's solvency capital coverage without using the transitional rules for technical provisions is 224 percent, well above its own target of 150 percent, which is in turn well above the official requirements. Solvency capital coverage using the transitional rule for technical accruals was 322 percent for the Group.

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 2017, the equity contribution was 0.35 percent of the premium reserve.

The own funds are classified into three tiers based on the characteristics of each capital entry. Quality and availability are crucial for the classification. The main breakdown is based on whether

- The capital can be used for or paid in on demand to cover any loss at any time
- In the case of winding-up, the capital can be used to cover losses and will not be refunded until all other claims have been covered, including claims arising out of insurance and reinsurance contracts.

<u>Tier 1</u>
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 AS, 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 own funds. 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 AS and KLP Kapitalforvaltning AS are deducted and replaced with these companies' eligible capital calculated according to relevant sector-level rules. All Tier 1 capital is classed as basic own funds.

Tier 2
Tier 2 capital includes subordinated loans, the risk equalisation fund and provisions to the natural perils pool fund as basic own funds. It also includes unpaid equity contributions and unpaid deposits reported as ancillary own funds under KLP's right to retrospective assessment. This supplementary capital is calculated as 2.5 percent of KLP's total premium reserve at any given time, with approval for this method granted until 31.12.2019. Approval from the Financial Supervisory Authority of Norway was granted on 22.12.2015.

Tier 3
Tier 3 includes any net deferred tax asset, with some restrictions. At year-end 2016 and year-end 2017, this was zero for the Group.

The hybrid Tier 1 perpetual capital (JPY 15 billion) with a Solvency II value of NOK 1.534 billion at 31.12.2017, has a fixed USD interest rate of 5.07 percent per year. The loan is perpetual, but KLP has the right to repay it by 28.04.2034. If KLP does not exercise its right to repay in 2034, the loan will move onto floating interest. The credit margin will then increase by 1 percentage point to 6-month JPY LIBOR interest + a margin of 3.30 percent per year. The loan was issued on 22.04.2014.

The subordinated loan (EUR 600 million) with a Solvency II value of NOK 6.27 billion at 31.12.2017, has a fixed interest rate of 4.25 percent per year. The loan was issued on 10.06.2015 and is time-limited to mature in 2045. The loan can be repaid by KLP after 10 years, and on each interest payment date from then until the maturity date. The debt is listed on the London Stock Exchange.

The reduction in subordinated loans from 31.12.2016 and up to 31.12.2017 is due to the fact that a subordinated loan (JPY 9.5 billion) was repaid during the period without any new loans being taken up.

The Solvency II rules lay down requirements for the composition of own funds to cover the solvency capital requirement and the minimum capital requirement. This is known as eligible capital.

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

The own funds to cover the Solvency Capital Requirement (SCR) at year-end 2017 and year-end 2016 was composed as shown in table 15. The calculations of the technical provisions are with transitional rules.

*Table 15: Classification of eligibale own funds for the Group. Figures in NOK billions*

| Eligible own funds to meet the SCR | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Tier 1, unrestricted | 32 498 | 30 967 |
| Perpetual subordinated loan | 1 534 | 1 650 |
| Deductions for participations in financial and credit institutions | -2 337 | -2 036 |
| Own funds in financial and credit institutions | 2 230 | 1 994 |
| **Total available Tier 1 own funds** | **33 926** | **32 576** |
| **Total eligible Tier 1 own funds** | **33 926** | **32 576** |
| Subordinated loan | 6 270 | 6 605 |
| Risk equalization fund | 4 156 | 3 907 |
| Natural catastrophe fund | 164 | 160 |
| Ancillary own funds | 10 144 | 9 560 |
| **Total available Tier 2 own funds** | **20 734** | **20 231** |
| **Total eligible Tier 2 own funds** | **6 216** | **6 867** |
| Deferred tax assets | - | - |
| **Total available Tier 3 own funds** | **-** | **-** |
| **Total eligible Tier 3 own funds** | **-** | **-** |
| **Total eligible own funds to meet the SCR** | **40 141** | **39 442** |

Unrestricted capital is the difference between assets and liabilities in the Solvency II balance-sheet (NOK 36.8 billion) minus the risk equalisation fund (NOK 4.2 billion) and the natural perils pool fund (NOK 0.2 billion). This totalled NOK 32.5 billion at 31.12.2017.

Restricted capital cannot exceed 20 percent 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 percent of the Solvency Capital Requirement either. For the Group, this had a limiting effect at year-end 2017 and at year-end 2016. In the event of an increase in the Solvency Capital Requirement, the unused Tier 2 capital will reduce the negative effect on capital adequacy significantly.

The reduction in subordinated loans from 31.12.2016 and up to 31.12.2017 is due to the fact that a subordinated loan (JPY 9.5 billion) was repaid during the period without any new loans being taken up. 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 Capital Requirement for the Group

The own funds to cover the Minimum Capital Requirement (MCR) at year-end 2017 and year-end 2016 was composed as shown in table 16 below. The calculations of the technical provisions are with transitional rules.

*Table 16: Classification of eligibale own funds for the Group. Figures in NOK billions.*

| Eligible own funds to meet the MCR | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Tier 1, unrestricted | 32 498 | 30 967 |
| Perpetual subordinated loan | 1 534 | 1 650 |
| Deductions for participations in financial and credit institutions | -2 337 | -2 036 |
| Own funds in financial and credit institutions | 2 230 | 1 994 |
| **Total available Tier 1 own funds** | **33 926** | **32 576** |
| **Total eligibleTier 1 own funds** | **33 926** | **32 576** |
| Subordinated loan | 6 270 | 6 605 |
| Risk equalization fund | 4 156 | 3 907 |
| Natural catastrophe fund | 164 | 160 |
| Ancillary own funds | 10 144 | 9 560 |
| **Total available Tier 2 own funds** | **20 734** | **20 231** |
| **Total eligible Tier 2 own funds** | **1 119** | **1 129** |
| Deferred tax assets | - | - |
| **Total available Tier 3 own funds** | **-** | **-** |
| **Total eligible Tier 3 own funds** | **-** | **-** |
| **Total eligible own funds to meet the MCR** | **35 045** | **33 705** |

Restrictions on Tier 1 capital are as described in section E. 1.1. The sum of eligible capital in Tiers 2 and 3 may not exceed 20 percent of the Minimum capital requirement either. For the Group, this had a limiting effect at year-end 2017 and at year-end 2016. In the event of an increase in the Minimum Capital Requirement, the unused Tier 2 capital will reduce the negative effect on capital adequacy significantly.

### 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 for the KLP Group at year-end 2017 and 2016 was as shown in Table 17 below:

*Table 17: Total equity in the accounts and difference between the assets and liabilities under Solvency II. Figures in NOK billions*

| KLP Group | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Paid-up equity | 13.1 | 11.7 |
| Retained earnings | 16.4 | 16.1 |
| Total equity, accounts | 29.6 | 27.8 |
| | | |
| Excess of assets over liabilities under Solvency II | | |
| a)without using the transitional rules for technical provisions | 28.9 | 26.5 |
| b)with using the transitional rules for technical provisions | 36.8 | 35.0 |
| | | |
| Difference a) Excess of assets over liabilities under Solvency II deducted by equity in the accounts | -0.7 | -1.4 |
| Difference b) Excess of assets over liabilities under Solvency II deducted by equity in the accounts | 7.3 | 7.2 |

The temporary deduction in technical provisions under Solvency II means that technical provisions were valued differently from the technical provisions in the accounts for the life insurance business. The difference between equity in the accounts and the balance of assets and liabilities under Solvency II in 2017 comes 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 Capital Requirement for the Group

### E.2.1 Solvency Capital Requirement

At year-end 2017, the capital requirements were as follows:

| | |
|---|---|
| Minimum Capital Requirement for the Group: | NOK 5.6 billion |
| Solvency Capital Requirement: | NOK 12.4 billion |

The capital requirements above include transitional rules for technical provisions.

The Group uses the standard formula without any undertaking-specific parameters. The Solvency Capital Requirement at year-end 2017 and 2016 was broken down as shown in table 18 below:

*Table 18: Composition of the solvency capital requirement with transitional rules for technical provisions. Figures in NOK billions*

| KLP Group | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Marked risk | 4.0 | 3.8 |
| Counterparty default risk | 0.2 | 0.2 |
| Life underwriting risk | 11.2 | 11.2 |
| Health underwriting risk | 0.4 | 0.4 |
| Non-life underwriting risk | 0.3 | 0.3 |
| Diversification | -3.1 | -3.0 |
| Operational risk | 2.5 | 2.3 |
| Loss-absorbing capacity of deferred tax | -3.9 | -2.3 |
| Capital requirement for KLP Banken AS and KLP Kapitalforvaltning AS | 0.8 | 0.8 |
| **Solvency capital requirement** | 12.4 | 13.7 |

The reduction in the solvency capital requirement is mainly due to increased loss absorption ability for deferred tax.

### 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 percent of the value of the assets held as collateral. Both simplifications are used to make the calculation work easier and produce insignificant increases in the capital requirement for counterparty risk.

### E.2.3 Undertaking-specific parameters

The Group does not use any undertaking-specific parameters.

### E.2.4 Minimum Capital Requirement for the Group

The amount of the group's minimum capital requirement is made up of the minimum capital requirements for KLP, KLP Skadeforsikring AS and KLP Bedriftspensjon AS. At the end of 2017 and of 2016, this was made up as shown in table 19 below:

*Table 19: Composition of minimum capital requirements with transitional rules for technical provisions. Figures in NOK billions.*

| **Minimum Capital Requirement (MCR)** | **31.12.2017** | **31.12.2016** |
|---|---|---|
| MCR for KLP | 5.1 | 5.1 |
| MCR for KLP Bedriftspensjon AS | 0.1 | 0.1 |
| MCR for KLP Skadeforsikring AS | 0.3 | 0.3 |
| **Minimum Capital Requirement (MCR) for the Group** | **5.6** | **5.6** |

## 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 required to meet the Solvency Capital Requirement for the Group

## E.6 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 13 April 2018.

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*Sverre Thornes, CEO*

# Templates

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

| QRT code | QRT name |
|---|---|
| S.01.02.04 | General information of Group |
| 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 | The impact of the long term guarantee and transitional measures |
| S.23.01.04 | Own funds, including basic own funds and ancillary own funds |
| S.25.01.04 | The Solvency Capital Requirement calculated using the standard formula |
| S.32.01.04 | The subsidiaries in the scope of the group |

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Organization no.: 938 708 606

**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** | 2018-03-20 |
| Financial year end | **R0081** | 2017-12-31 |
| Reporting reference date | **R0090** | 2017-12-31 |
| 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** | . | 269 134 061 |
| Deferred tax assets | **R0040** | 17 047 247 803 | -1 |
| Pension benefit surplus | **R0050** | . | . |
| Property, plant & equipment held for own use | **R0060** | 1 639 811 437 | 1 639 811 437 |
| Investments (other than assets held for index-linked and unit-linked contracts) | **R0070** | 480 373 117 098 | 469 882 137 466 |
| Property (other than for own use) | **R0080** | 61 032 709 362 | 61 032 709 362 |
| Holdings in related undertakings, including participations | **R0090** | 3 117 234 484 | 3 117 414 899 |
| Equities | **R0100** | 31 079 398 934 | 31 079 263 918 |
| Equities - listed | **R0110** | 29 451 892 780 | . |
| Equities - unlisted | **R0120** | 1 627 506 154 | . |
| Bonds | **R0130** | 231 379 495 210 | 220 889 060 666 |
| Government Bonds | **R0140** | 54 699 363 392 | . |
| Corporate Bonds | **R0150** | 176 680 131 819 | . |
| Structured notes | **R0160** | . | . |
| Collateralised securities | **R0170** | . | . |
| Collective Investments Undertakings | **R0180** | 151 397 614 397 | 151 397 457 540 |
| Derivatives | **R0190** | 1 095 090 067 | 1 094 656 437 |
| Deposits other than cash equivalents | **R0200** | 1 271 574 643 | 1 271 574 643 |
| Other investments | **R0210** | . | . |
| Assets held for index-linked and unit-linked contracts | **R0220** | 2 680 415 402 | 2 680 415 402 |
| Loans and mortgages | **R0230** | 57 724 091 677 | 57 191 880 566 |
| Loans on policies | **R0240** | 606 181 833 | . |
| Loans and mortgages to individuals | **R0250** | 3 263 447 642 | . |
| Other loans and mortgages | **R0260** | 53 854 462 202 | . |
| Reinsurance recoverables from: | **R0270** | 65 287 726 | 117 542 083 |
| Non-life and health similar to non-life | **R0280** | 65 287 726 | 117 542 083 |
| Non-life excluding health | **R0290** | 67 789 511 | . |
| Health similar to non-life | **R0300** | -2 501 784 | . |
| 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** | 685 591 456 | 885 898 202 |
| Reinsurance receivables | **R0370** | 6 822 204 | 6 822 204 |
| Receivables (trade, not insurance) | **R0380** | 303 950 403 | 303 950 403 |
| 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** | 8 241 655 131 | 8 241 091 972 |
| Any other assets, not elsewhere shown | **R0420** | 716 809 200 | 716 809 200 |
| **Total assets** | **R0500** | **569 484 799 537** | **541 935 492 995** |

| Liabilities | | Solvency II value | Statutory accounts value |
|---|---|---|---|
| | | C0010 | C0020 |
| Technical provisions – non-life | R0510 | 2 056 786 851 | 2 308 992 902 |
| Technical provisions – non-life (excluding health) | R0520 | 971 186 008 | 1 170 701 043 |
| Technical provisions calculated as a whole | R0530 | 0 | |
| Best Estimate | R0540 | 900 959 886 | |
| Risk margin | R0550 | 70 226 122 | |
| Technical provisions - health (similar to non-life) | R0560 | 1 085 600 843 | 1 138 291 859 |
| Technical provisions calculated as a whole | R0570 | 0 | |
| Best Estimate | R0580 | 1 019 678 622 | |
| Risk margin | R0590 | 65 922 221 | |
| Technical provisions - life (excluding index-linked and unit-linked) | R0600 | 491 551 251 237 | 490 857 889 311 |
| Technical provisions - health (similar to life) | R0610 | 156 053 433 | 54 899 144 |
| Technical provisions calculated as a whole | R0620 | 0 | |
| Best Estimate | R0630 | 149 506 661 | |
| Risk margin | R0640 | 6 546 771 | |
| Technical provisions – life (excluding health and index-linked and unit-linked) | R0650 | 491 395 197 805 | 490 802 990 167 |
| Technical provisions calculated as a whole | R0660 | 0 | |
| Best Estimate | R0670 | 478 461 828 911 | |
| Risk margin | R0680 | 12 933 368 894 | |
| Technical provisions – index-linked and unit-linked | R0690 | 2 690 112 812 | 2 683 785 028 |
| Technical provisions calculated as a whole | R0700 | 0 | |
| Best Estimate | R0710 | 2 673 124 449 | |
| Risk margin | R0720 | 16 988 363 | |
| Other technical provisions | R0730 | | . |
| Contingent liabilities | R0740 | 0 | . |
| Provisions other than technical provisions | R0750 | 459 972 136 | 459 972 136 |
| Pension benefit obligations | R0760 | 601 813 838 | 601 813 838 |
| Deposits from reinsurers | R0770 | . | . |
| Deferred tax liabilities | R0780 | 20 944 944 370 | 420 692 240 |
| Derivatives | R0790 | 3 395 925 818 | 3 395 492 187 |
| Debts owed to credit institutions | R0800 | . | . |
| Financial liabilities other than debts owed to credit institutions | R0810 | 678 699 011 | 678 699 011 |
| Insurance & intermediaries payables | R0820 | 1 474 891 013 | 1 474 891 013 |
| Reinsurance payables | R0830 | 479 007 | 479 007 |
| Payables (trade, not insurance) | R0840 | 814 646 533 | 814 646 533 |
| Subordinated liabilities | R0850 | 7 804 462 435 | 7 511 017 283 |
| Subordinated liabilities not in Basic Own Funds | R0860 | . | . |
| Subordinated liabilities in Basic Own Funds | R0870 | 7 804 462 435 | 7 511 017 283 |
| Any other liabilities, not elsewhere shown | R0880 | 48 640 540 | 0 |
| **Total liabilities** | R0900 | 532 522 625 599 | 511 208 370 488 |
| **Excess of assets over liabilities** | R1000 | **36 962 173 938** | **30 727 122 507** |

**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** | 0 | 75 183 610 | 105 947 450 | 141 412 792 | 284 417 306 | 0 | 532 881 872 | 50 153 410 | 0 | 0 | 36 473 131 | 0 | 1 226 469 570 |
| Gross - Proportional reinsurance accepted | **R0120** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R0130** | | | | | | | | | | | | | 0 |
| Reinsurers' share | **R0140** | 0 | 0 | 2 535 980 | 1 922 540 | 0 | 0 | 52 372 595 | 169 000 | 0 | 0 | 0 | 0 | 57 000 115 |
| Net | **R0200** | 0 | 75 183 610 | 103 411 470 | 139 490 252 | 284 417 306 | 0 | 480 509 277 | 49 984 410 | 0 | 0 | 36 473 131 | 0 | 1 169 469 455 |
| **Premiums earned** | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0210** | 0 | 75 234 640 | 106 027 314 | 136 465 776 | 270 067 749 | 0 | 525 348 586 | 50 424 479 | 0 | 0 | 32 709 361 | 0 | 1 196 277 906 |
| Gross - Proportional reinsurance accepted | **R0220** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R0230** | | | | | | | | | | | | | 0 |
| Reinsurers' share | **R0240** | 0 | 0 | 2 535 980 | 1 922 540 | 0 | 0 | 52 914 262 | 163 836 | 0 | 0 | 0 | 0 | 57 536 618 |
| Net | **R0300** | 0 | 75 234 640 | 103 491 334 | 134 543 236 | 270 067 749 | 0 | 472 434 324 | 50 260 643 | 0 | 0 | 32 709 361 | 0 | 1 138 741 288 |
| **Claims incurred** | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0310** | 0 | 64 204 923 | 51 757 438 | 77 853 807 | 240 686 997 | 0 | 413 855 668 | 31 991 734 | 0 | 0 | 19 078 402 | 0 | 899 428 969 |
| Gross - Proportional reinsurance accepted | **R0320** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R0330** | | | | | | | | | | | | | 0 |
| Reinsurers' share | **R0340** | 0 | 98 231 | 0 | 0 | 0 | 0 | 8 412 806 | 0 | 0 | 0 | 0 | 0 | 8 511 037 |
| Net | **R0400** | 0 | 64 106 692 | 51 757 438 | 77 853 807 | 240 686 997 | 0 | 405 442 862 | 31 991 734 | 0 | 0 | 19 078 402 | 0 | 890 917 933 |
| **Changes in other technical provisions** | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0410** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross - Proportional reinsurance accepted | **R0420** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross - Non- proportional reinsurance accepted | **R0430** | | | | | | | | | | | | | 0 |
| Reinsurers' share | **R0440** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R0500** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Expenses incurred** | **R0550** | 0 | 15 684 759 | 22 104 350 | 28 450 097 | 56 303 154 | 0 | 109 523 563 | 10 512 389 | 0 | 0 | 6 819 179 | 0 | 249 397 490 |
| **Administrative expenses** | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0610** | 0 | 461 567 | 650 481 | 837 222 | 1 656 874 | 0 | 3 223 030 | 309 356 | 0 | 0 | 200 673 | 0 | 7 339 203 |
| Gross - Proportional reinsurance accepted | **R0620** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R0630** | | | | | | | | | | | | | 0 |
| Reinsurers' share | **R0640** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R0700** | 0 | 461 567 | 650 481 | 837 222 | 1 656 874 | 0 | 3 223 030 | 309 356 | 0 | 0 | 200 673 | 0 | 7 339 203 |
| **Investment management expenses** | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0710** | 0 | 154 324 | 217 487 | 279 923 | 553 972 | 0 | 1 077 612 | 103 432 | 0 | 0 | 67 095 | 0 | 2 453 844 |
| Gross - Proportional reinsurance accepted | **R0720** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R0730** | | | | | | | | | | | | | 0 |
| Reinsurers' share | **R0740** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R0800** | 0 | 154 324 | 217 487 | 279 923 | 553 972 | 0 | 1 077 612 | 103 432 | 0 | 0 | 67 095 | 0 | 2 453 844 |
| **Claims management expenses** | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0810** | 0 | 2 490 934 | 3 510 445 | 4 518 229 | 8 941 640 | 0 | 17 393 701 | 1 669 498 | 0 | 0 | 1 082 970 | 0 | 39 607 418 |
| Gross - Proportional reinsurance accepted | **R0820** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R0830** | | | | | | | | | | | | | 0 |
| Reinsurers' share | **R0840** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R0900** | 0 | 2 490 934 | 3 510 445 | 4 518 229 | 8 941 640 | 0 | 17 393 701 | 1 669 498 | 0 | 0 | 1 082 970 | 0 | 39 607 418 |
| **Acquisition expenses** | | | | | | | | | | | | | | |
| Gross - Direct Business | **R0910** | 0 | 4 909 413 | 6 918 779 | 8 905 031 | 17 623 185 | 0 | 34 281 455 | 3 290 433 | 0 | 0 | 2 134 439 | 0 | 78 062 734 |
| Gross - Proportional reinsurance accepted | **R0920** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R0930** | | | | | | | | | | | | | 0 |
| Reinsurers' share | **R0940** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R1000** | 0 | 4 909 413 | 6 918 779 | 8 905 031 | 17 623 185 | 0 | 34 281 455 | 3 290 433 | 0 | 0 | 2 134 439 | 0 | 78 062 734 |
| **Overhead expenses** | | | | | | | | | | | | | | |
| Gross - Direct Business | **R1010** | 0 | 7 668 521 | 10 807 159 | 13 909 692 | 27 527 483 | 0 | 53 547 764 | 5 139 670 | 0 | 0 | 3 334 002 | 0 | 121 934 291 |
| Gross - Proportional reinsurance accepted | **R1020** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross - Non-proportional reinsurance accepted | **R1030** | | | | | | | | | | | | | 0 |
| Reinsurers' share | **R1040** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R1100** | 0 | 7 668 521 | 10 807 159 | 13 909 692 | 27 527 483 | 0 | 53 547 764 | 5 139 670 | 0 | 0 | 3 334 002 | 0 | 121 934 291 |
| **Other expenses** | **R1200** | | | | | | | | | | | | | 0 |
| **Total expenses** | **R1300** | | | | | | | | | | | | | 249 397 490 |

| | | 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** | 178 163 952 | 32 483 233 267 | 898 327 799 | 0 | 0 | 0 | 0 | 0 | 33 559 725 018 |
| Reinsurers' share | **R1420** | 0 | 3 429 828 | 0 | 0 | 0 | 0 | 0 | 0 | 3 429 828 |
| Net | **R1500** | 178 163 952 | 32 479 803 439 | 898 327 799 | 0 | 0 | 0 | 0 | 0 | 33 556 295 190 |
| **Premiums earned** | | | | | | | | | | |
| Gross | **R1510** | 181 495 532 | 32 185 077 323 | 356 633 081 | 0 | 0 | 0 | 0 | 0 | 32 723 205 936 |
| Reinsurers' share | **R1520** | 0 | 3 429 828 | 0 | 0 | 0 | 0 | 0 | 0 | 3 429 828 |
| Net | **R1600** | 181 495 532 | 32 181 647 495 | 356 633 081 | 0 | 0 | 0 | 0 | 0 | 32 719 776 108 |
| **Claims incurred** | | | | | | | | | | |
| Gross | **R1610** | 181 218 933 | 54 076 720 284 | 1 019 678 207 | 0 | 0 | 0 | 0 | 0 | 55 277 617 424 |
| Reinsurers' share | **R1620** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R1700** | 181 218 933 | 54 076 720 284 | 1 019 678 207 | 0 | 0 | 0 | 0 | 0 | 55 277 617 424 |
| **Changes in other technical provisions** | | | | | | | | | | |
| Gross | **R1710** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reinsurers' share | **R1720** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R1800** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Expenses incurred** | **R1900** | 32 822 291 | 1 018 842 518 | 55 927 292 | 0 | 0 | 0 | 0 | 0 | 1 107 592 100 |
| **Administrative expenses** | | | | | | | | | | |
| Gross | **R1910** | 1 165 627 | 122 261 102 | 6 711 275 | 0 | 0 | 0 | 0 | 0 | 130 138 004 |
| Reinsurers' share | **R1920** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R2000** | 1 165 627 | 122 261 102 | 6 711 275 | 0 | 0 | 0 | 0 | 0 | 130 138 004 |
| **Investment management expenses** | | | | | | | | | | |
| Gross | **R2010** | 742 308 | 203 768 504 | 11 185 458 | 0 | 0 | 0 | 0 | 0 | 215 696 270 |
| Reinsurers' share | **R2020** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R2100** | 742 308 | 203 768 504 | 11 185 458 | 0 | 0 | 0 | 0 | 0 | 215 696 270 |
| **Claims management expenses** | | | | | | | | | | |
| Gross | **R2110** | 5 193 153 | 152 826 378 | 8 389 094 | 0 | 0 | 0 | 0 | 0 | 166 408 624 |
| Reinsurers' share | **R2120** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R2200** | 5 193 153 | 152 826 378 | 8 389 094 | 0 | 0 | 0 | 0 | 0 | 166 408 624 |
| **Acquisition expenses** | | | | | | | | | | |
| Gross | **R2210** | 9 869 965 | 132 449 527 | 7 270 548 | 0 | 0 | 0 | 0 | 0 | 149 590 040 |
| Reinsurers' share | **R2220** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R2300** | 9 869 965 | 132 449 527 | 7 270 548 | 0 | 0 | 0 | 0 | 0 | 149 590 040 |
| **Overhead expenses** | | | | | | | | | | |
| Gross | **R2310** | 15 851 238 | 407 537 007 | 22 370 917 | 0 | 0 | 0 | 0 | 0 | 445 759 162 |
| Reinsurers' share | **R2320** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net | **R2400** | 15 851 238 | 407 537 007 | 22 370 917 | 0 | 0 | 0 | 0 | 0 | 445 759 162 |
| **Other expenses** | **R2500** | | | | | | | | | 0 |
| **Total expenses** | **R2600** | | | | | | | | | 1 107 592 100 |
| **Total amount of surrenders** | **R2700** | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |

**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 | 1 226 469 570 | R0110-C0090 | 1 226 469 570 |
| Gross - Proportional reinsurance accepted | R0120 | | R0120-C0090 | |
| Gross - Non-proportional reinsurance accepted | R0130 | | R0130-C0090 | |
| Reinsurers' share | R0140 | 57 000 115 | R0140-C0090 | 57 000 115 |
| Net | R0200 | 1 169 469 455 | R0200-C0090 | 1 169 469 455 |
| **Premiums earned** | | | | |
| Gross - Direct Business | R0210 | 1 196 277 906 | R0210-C0090 | 1 196 277 906 |
| Gross - Proportional reinsurance accepted | R0220 | | R0220-C0090 | |
| Gross - Non-proportional reinsurance accepted | R0230 | | R0230-C0090 | |
| Reinsurers' share | R0240 | 57 536 618 | R0240-C0090 | 57 536 618 |
| Net | R0300 | 1 138 741 288 | R0300-C0090 | 1 138 741 288 |
| **Claims incurred** | | | | |
| Gross - Direct Business | R0310 | 899 428 969 | R0310-C0090 | 899 428 969 |
| Gross - Proportional reinsurance accepted | R0320 | | R0320-C0090 | |
| Gross - Non-proportional reinsurance accepted | R0330 | | R0330-C0090 | |
| Reinsurers' share | R0340 | 8 511 037 | R0340-C0090 | 8 511 037 |
| Net | R0400 | 890 917 933 | R0400-C0090 | 890 917 933 |
| **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 | 249 397 490 | R0550-C0090 | 249 397 490 |
| **Other expenses** | R1200 | | | 0 |
| **Total expenses** | R1300 | 249 397 490 | R1300-C0090 | 249 397 490 |

| 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 | 33 559 725 018 | R1410-C0230 | 33 559 725 018 |
| Reinsurers' share | R1420 | 3 429 828 | R1420-C0230 | 3 429 828 |
| Net | R1500 | 33 556 295 190 | R1500-C0230 | 33 556 295 190 |
| **Premiums earned** | | | | |
| Gross | R1510 | 32 723 205 936 | R1510-C0230 | 32 723 205 936 |
| Reinsurers' share | R1520 | 3 429 828 | R1520-C0230 | 3 429 828 |
| Net | R1600 | 32 719 776 108 | R1600-C0230 | 32 719 776 108 |
| **Claims incurred** | | | | |
| Gross | R1610 | 55 277 617 424 | R1610-C0230 | 55 277 617 424 |
| Reinsurers' share | R1620 | 0 | R1620-C0230 | 0 |
| Net | R1700 | 55 277 617 424 | R1700-C0230 | 55 277 617 424 |
| **Changes in other technical provisions** | | | | |
| Gross | R1710 | | R1710-C0230 | |
| Reinsurers' share | R1720 | | R1720-C0230 | |
| Net | R1800 | 0 | R1800-C0230 | 0 |
| **Expenses incurred** | R1900 | 1 107 592 100 | R1900-C0230 | 1 107 592 100 |
| **Other expenses** | R2500 | | | 0 |
| **Total expenses** | R2600 | | | 1 107 592 100 |

`

**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** | 496 298 150 900 | 506 771 272 849 | 10 473 121 949 | 506 771 272 849 | 0 | 506 850 725 619 | 79 452 770 | 506 850 725 619 | 0 | 10 552 574 719 |
| **Basic own funds** | **R0020** | 42 429 655 715 | 34 487 630 481 | -7 942 025 233 | 34 487 630 481 | 0 | 34 426 142 780 | -61 487 701 | 34 426 142 780 | 0 | -8 003 512 934 |
| Excess of assets over liabilities | **R0030** | 36 962 173 938 | 29 020 148 705 | -7 942 025 233 | 29 020 148 705 | 0 | 28 958 661 004 | -61 487 701 | 28 958 661 004 | 0 | -8 003 512 934 |
| 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** | 39 848 586 678 | 33 172 109 802 | -6 676 476 876 | 33 172 109 802 | 0 | 33 183 999 301 | 11 889 499 | 33 183 999 301 | 0 | -6 664 587 377 |
| Tier 1 | **R0060** | 34 029 711 702 | 26 087 686 468 | -7 942 025 233 | 26 087 686 468 | 0 | 26 026 198 767 | -61 487 701 | 26 026 198 767 | 0 | -8 003 512 934 |
| Tier 2 | **R0070** | 5 818 874 976 | 7 084 423 334 | 1 265 548 358 | 7 084 423 334 | 0 | 7 157 800 534 | 73 377 200 | 7 157 800 534 | 0 | 1 338 925 557 |
| Tier 3 | **R0080** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Solvency Capital Requirement** | **R0090** | 12 405 414 648 | 14 937 236 779 | 2 531 822 131 | 14 937 236 779 | 0 | 15 092 679 146 | 155 442 366 | 15 092 679 146 | 0 | 2 687 264 497 |

**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** | 248 250 000 | 248 250 000 | | . | |
| Non-available called but not paid in ordinary share capital at group level | **R0020** | . | . | | . | |
| Share premium account related to ordinary share capital | **R0030** | 713 000 000 | 713 000 000 | | . | |
| Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings | **R0040** | 13 125 019 538 | 13 125 019 538 | | . | |
| 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** | 18 555 751 335 | 18 555 751 335 | | | |
| Subordinated liabilities | **R0140** | 7 804 462 435 | | 1 534 404 897 | 6 270 057 538 | . |
| 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** | 4 320 153 065 | . | . | 4 320 153 065 | . |
| 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** | | | | | |
| **Deductions** | | | | | | |
| Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities | **R0230** | 2 336 980 659 | 2 336 980 659 | . | . | . |
| 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** | 2 336 980 659 | 2 336 980 659 | . | . | . |

| | | Total | Tier 1 - unrestricted | Tier 1 - restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| **Total basic own funds after deductions** | **R0290** | 42 429 655 715 | 30 305 040 215 | 1 534 404 897 | 10 590 210 603 | 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** | 10 143 427 498 | | | 10 143 427 498 | |
| 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** | 10 143 427 498 | | | 10 143 427 498 | . |
| **Own funds of other financial sectors** | | | | | | |
| Credit Institutions, investment firms, financial insitutions, alternative investment fund manager, financial institutions | **R0410** | 2 190 266 590 | 2 190 266 590 | 0 | 0 | |
| Institutions for occupational retirement provision | **R0420** | . | . | . | . | . |
| Non regulated entities carrying out financial activities | **R0430** | . | . | . | . | |
| Total own funds of other financial sectors | **R0440** | 2 190 266 590 | 2 190 266 590 | 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** | 52 573 083 213 | 30 305 040 215 | 1 534 404 897 | 20 733 638 101 | 0,00 |
| Total available own funds to meet the minimum consolidated group SCR | **R0530** | 42 429 655 715 | 30 305 040 215 | 1 534 404 897 | 10 590 210 603 | |
| 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** | 37 658 320 088 | 30 305 040 215 | 1 534 404 897 | 5 818 874 976 | 0,00 |
| Total-eligible own funds to meet the minimum consolidated group SCR | **R0570** | 32 907 148 937 | 30 305 040 215 | 1 534 404 897 | 1 067 703 825 | |
| **Consolidated Group SCR** | **R0590** | 12 405 414 648 | | | | |
| **Minimum consolidated Group SCR** | **R0610** | 5 338 519 127 | | | | |
| **Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A )** | **R0630** | . | | | | |

| | | 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** | 6,16 | | | | |
| **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** | 39 848 586 678 | 32 495 306 805 | 1 534 404 897 | 5 818 874 976 | 0 |
| **SCR for entities included with D&A method** | **R0670** | . | | | | |
| **Group SCR** | **R0680** | 12 405 414 648 | | | | |
| **Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A** | **R0690** | 3,21 | | | | |

| | | C0060 | |
|---|---|---|---|
| **Reconciliation reserve** | | | |
| Excess of assets over liabilities | **R0700** | 36 962 173 938 | |
| Own shares (held directly and indirectly) | **R0710** | . | |
| Foreseeable dividends, distributions and charges | **R0720** | . | |
| Other basic own fund items | **R0730** | 18 406 422 603 | |
| 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** | 18 555 751 335 | |
| **Expected profits** | | | |
| Expected profits included in future premiums (EPIFP) - Life business | **R0770** | 12 543 772 205 | |
| Expected profits included in future premiums (EPIFP) - Non- life business | **R0780** | 6 157 194 | |
| **Total Expected profits included in future premiums (EPIFP)** | **R0790** | 12 549 929 399 | |

**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** | 3 994 279 123 | 67 389 625 155 |
| Counterparty default risk | **R0020** | 216 879 546 | 2 764 138 333 |
| Life underwriting risk | **R0030** | 11 181 370 940 | 56 246 421 966 |
| Health underwriting risk | **R0040** | 360 437 090 | 360 719 304 |
| Non-life underwriting risk | **R0050** | 315 989 473 | 315 989 473 |
| Diversification | **R0060** | -3 080 339 959 | -28 014 810 950 |
| Intangible asset risk | **R0070** | . | . |
| **Basic Solvency Capital Requirement** | **R0100** | 12 988 616 212 | 99 062 083 282 |

| **Calculation of Solvency Capital Requirement** | | **C0100** |
|---|---|---|
| Adjustment due to RFF/MAP nSCR aggregation | **R0120** | 0 |
| Operational risk | **R0130** | 2 270 144 389 |
| Loss-absorbing capacity of technical provisions | **R0140** | -85 818 948 740 |
| Loss-absorbing capacity of deferred taxes | **R0150** | -3 875 528 978 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | **R0160** | . |
| **Solvency Capital Requirement excluding capital add-on** | **R0200** | 11 637 749 953 |
| Capital add-ons already set | **R0210** | . |
| **Solvency capital requirement for undertakings under consolidated method** | **R0220** | 12 405 414 648 |
| **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** | 137 657 839 784 |
| Minimum consolidated group solvency capital requirement | **R0470** | 5 338 519 127 |
| **Information on other entities** | | |
| Capital requirement for other financial sectors (Non-insurance capital requirements) | **R0500** | 767 664 695 |
| 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** | 767 664 695 |
| 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** | 12 405 414 648 |

**S.32.01.04**
**Undertakings in the scope of the group**

| Identification code | Country | Legal Name of the undertaking | Type of undertaking | Legal form | Category (mutual/non mutual) | Supervisory Authority | Ranking criteria (in the group currency): 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 | 4 425 632 413 | . | . | 1 312 210 561 | 0 | 0 | 0 | 132 423 331 |
| SC/938708606 | NO | Kommunal Landspensjonskasse | Life insurer | GS | Mutual | Finanstilsynet | 562 292 184 219 | . | . | 32 416 619 850 | 0 | 495 034 126 | 32 235 078 631 | 1 465 067 714 |
| SC/990329389 | NO | KLP Bedriftspensjon AS | Life insurer | AKS | Non-mutual | Finanstilsynet | 5 078 389 041 | . | . | 996 934 234 | 0 | 1 123 987 | 343 571 355 | -25 249 387 |
| SC/993749532 | NO | KLP Banken AS | Credit institutions, investment firms and financial institutions | AKS | Non-mutual | Finanstilsynet | . | 34 985 897 000 | . | . | 306 472 815 | . | 0 | 77 151 669 |
| SC/968437666 | NO | KLP Kapitalforvaltning AS | Credit institutions, investment firms and financial institutions | AKS | Non-mutual | Finanstilsynet | . | 433 329 431 | . | . | 455 815 080 | 0 | 0 | 35 848 067 |

| Identification code | Country | Legal Name of the undertaking | Accounting standard | Criteria of influence: % capital share | % used for the establishment of consolidated accounts | % voting rights | Other criteria | Level of influence | Proportional share used for group solvency calculation | Inclusion in the scope of Group supervision: [YES/NO] | Date of decision if art. 214 is applied | Group solvency calculation: 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 |