KLP

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.

The main product offered by Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP) is public sector occupational pensions. The Company is owned by its customers, which are Norwegian municipalities, county administrations, health enterprises and companies associated with the public sector.

The Company's asset management is divided into a customer portfolio (NOK 498 billion at 31.12.2017) comprising all pension funds, and a corporate portfolio (NOK 36.8 billion at 31.12.2017), which includes the Company's equity and other assets.

The financial income associated with the customer portfolio amounted to NOK 31 billion in 2017 (24.7 billion in 2016). This represented a value-adjusted return of 6.7 percent for the year. Financial income in the corporate portfolio amounted to NOK 1.3 billion in 2017 (1.4 billion in 2016) corresponding to a return of 4.0 percent.

For 2017, the risk result (arising from the fact that mortality and disability in the period differ from what is assumed in the premium tariff), was NOK 899 million within public sector occupational pensions. The corresponding figure for 2016 was NOK 788 million.

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 organized on the principle of the three lines of defence. In addition to the statutory remuneration committee and audit committee, the Board of KLP 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. 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, i.e. the risk that people entitled to pension payments from KLP will live longer than expected and so require larger payments than expected. 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 KLP'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.

Under Solvency II, all assets and liabilities are valued at market value. There are two key differences in the valuation of assets and liabilities in 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 amortized 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 the amount of solvency capital through the solvency capital requirement. KLP applies a transitional rule to the Solvency II regulations for technical provisions. Using this transitional rule, KLP had a solvency capital coverage of 352 percent at 31.12.2017. Even without applying this transitional rule, KLP has solvency capital coverage of 242 percent, which is also well over its own target of at least 150 percent.

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

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 organized as limited companies. The following wholly owned subsidiaries are part of 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

f) KLP's principal product is public-sector occupational pension provision. The Group is also a major provider of defined-contribution pensions, 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 properties 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 Company.

A.2 Underwriting performance

The results in this section correspond to the risk result in the technical accounts for KLP (Note 19 to the annual report for 2017), grouped according to the classification used for the solvency capital calculation under the Solvency II rules. 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 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).

Table 1: Risk result in KLP at 31.12.2017. Figures in NOK millions.

2017	County authority	Public health sector	Municipality and companies	The elected representa-tives	Exalted and closed arrangement	Nurses	Doctors	Total 2017
Longevity	15.5	81.6	449.3	-1.0	50.9	114.5	-16.6	694.2
Death	-4.5	-2.0	-40.2	-0.3	-5.8	-6.6	16.8	-42.7
Disability	16.4	64.5	129.5	2.0	-4.2	36.9	2.2	247.3
Risk result	**27.3**	**144.1**	**538.6**	**0.6**	**40.9**	**144.8**	**2.4**	**898.8**

Table 2: Risk result in KLP at 31.12.2016. Figures in NOK millions.

2016	County authority	Public health sector	Municipality and companies	The elected representa-tives	Exalted and closed arrangement	Nurses	Doctors	Total 2016
Longevity	40.8	73.1	376.3	0.8	7.8	100.7	-5.7	593.8
Death	-2.6	0.9	-1.2	-0.6	4.2	-0.6	9.7	9.8
Disability	24.5	37.8	65.2	0.7	5.2	40.0	11.2	184.7
Risk result	**62.7**	**111.9**	**440.3**	**0.9**	**17.2**	**140.1**	**15.2**	**788.3**

The total risk result for 2017 was NOK 899 million within public-sector occupational pension provision. The corresponding figure for 2016 was NOK 788 million. The risk result will traditionally show only small fluctuations from year to year, but some fluctuations will still have to be included. The K2013 mortality tables are still felt to allow good margins and the trend in 2017 shows that margins overall are still somewhat greater than expected. For nurses and hospital doctors, the mortality tariff has been increased from 01.01.2018.

The robust premium and provision levels that KLP has (based on the K2013 tables issued by the Financial Supervisory Authority), and the substantial assets in the risk equalization fund, reduce the risk of losses on underwriting risk having to be covered by other equity than the risk equalization fund. At the end of 2017 the risk equalization fund stood at NOK 4.2 billion. For 2016, this amount was NOK 3.9 billion.

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, as discussed in section A.5.

A.3 Investment performance

The Company's capital management is split into a customer portfolio which covers all the pension assets, and a corporate portfolio which covers the investment of the Company's remaining assets.

A.3.1 Investment performance for the customer portfolio

The customer portfolio is divided into two portfolios, the common portfolio and the investment options portfolio. All returns from the management of these portfolios are credited to customers; nothing falls to KLP.

Table 3: Income from investments in the common portfolio. Figures in NOK millions.

The common portfolio	2017	2016	Change
Income from subsidiaries and participations in the related companies	5 565	4 616	949
Interest income and dividend etc. from financial assets	10 871	8 432	2 439
Changes in values on investments	13 450	6 014	7 436
Realized profits and loss from investments	924	5 528	-4 604
Income from investments	**30 810**	**24 588**	**6 222**

Table 4: Income from investments in the investment options portfolio. Figures in NOK millions.

Portfolio with investment options	2017	2016	Change
Income from subsidiaries and participations in the related companies	27	23	4
Interest income and dividend etc. from financial assets	56	41	15
Change in value of investments	63	45	18
Realized profits and loss from investments	18	18	-
Income from investments	**164**	**127**	**37**

In the common portfolio, the Company has undertaken to deliver a minimum annual return. In the investment options portfolio, KLP has to honor the investment guarantee after five years, while customers have to cover any shortfall in annual returns during this five-year period. KLP collects a premium in return for committing to this guaranteed return (interest guarantee premium). The interest guarantee premium is intended to reflect the market value of the return guarantee, and the premium is fixed in advance for one year at a time. The value of the interest guarantee premium is given in table 8 in section A.5, Other information.

Any shortfall in returns has to be covered from the Company's equity or supplementary reserves. Supplementary reserves are retained surplus returns from previous years, allocated to individual customer contracts. The supplementary reserves can be used to cover the Company's return guarantee where the actual return is lower than the guaranteed return. Returns below zero have to be covered by the Company's equity in any case.

The financial income associated with customer portfolios amounted to NOK 31 billion in 2017; in 2016 it totaled NOK 24.6 billion (see tables 3 and 4 above). This corresponded to a value-adjusted return of 6.7 percent in 2017, against 5.8 percent in 2016 in the common portfolio, and 7.5 percent in 2017 and 6.2 percent in 2016 in the investment options portfolio.

In 2017, the company generated surplus returns of NOK 5.7 billion, of which NOK 1.1 billion was allocated to customers' supplementary reserves and NOK 4.6 billion to the premium fund. The securities adjustment fund increased by NOK 13.9 billion from 2016. In 2016, the company generated surplus returns of NOK 7.9 billion, of which NOK 4 billion was allocated to customers' supplementary reserves and NOK 3.8 billion to the premium fund.

The cost of managing the customer funds was NOK 187 million in 2017; the figure for 2016 was NOK 179 million. The costs are covered by a special cost element in the pension premium and are included in the administration result that falls to the Company. The

administration result is stated in section A.5 under table 8, Profit and loss elements in the corporate portfolio.

The table below shows the breakdown of the common portfolio into main asset classes and the returns per asset class. The total will differ slightly from the accounting figure because of differing accounting classifications. In the table, derivative items are also reported net, while they are posted gross to the accounts. The two largest contributors to financial income in 2017 were property and equities. The return on equities and alternative investments includes the effects of currency hedging and strategic positions.

Table 5: The common portfolio. Figures in NOK millions.

Assets in the common portfolio	Balance 31.12.2017	Return 31.12.2017	Balance 31.12.2016	Return 31.12.2016
Property	60 428	8,9 %	56 923	12,5 %
Loan	57 003	2,2 %	52 701	2,4 %
Equity and alternative investments	110 618	16,5 %	92 533	7,3 %
Lang-term/HTM-bonds	132 647	4,0 %	121 877	4,3 %
Short-term bonds	95 105	3,2 %	91 254	3,5 %
Liquidity/money market	34 317	1,5 %	38 644	1,7 %
Sum	**490 119**	**6,7 %**	**453 932**	**5,8 %**

For information, KLP did not post any investment costs income against equity. Nor does KLP have any investments in securitization.

A.3.2 Investment performance for the corporate portfolio

Financial income from investments in the corporate portfolio totaled NOK 1.3 billion in 2017 compared to NOK 1.4 billion in 2016. This gave a return on equity of 4.0 percent in 2017, compared with 4.7 percent in 2016. The costs of managing the corporate portfolio were NOK 13 million. Returns on the corporate portfolio and costs of managing this are included in total comprehensive income for the Company.

Table 6: Income from investments in the corporate portfolio. Figures in NOK millions.

Investment results in the corporate portfolio	2017	2016	Change
Income from investments in subsidiaries and participations in the related companies	364	529	-165
Interest income and dividend etc. from financial assets	690	605	85
Net operating income from property	41	181	-140
Change in value of investments	-192	901	-1 093
RealiZed profits and loss from investments	358	-862	1 220
Income from investments	**1 261**	**1 354**	**-93**

The table below shows the breakdown of the portfolio into main asset classes and the returns on investments per asset class. The total will differ slightly from the accounting figure because of differing accounting classifications.

Table 7: The corporate portfolio. Figures in NOK millions.

Assets in the corporate portfolio	Balance 31.12.2017	Return 31.12.2017	Balance 31.12.2016	Return 31.12.2016
Shares in subsidiaries	4 641	-	4 341	-
Property	2 824	7.6 %	2 732	15.3 %
long-term shareholdings and related companies	543	62.3 %	439	11.4 %
Sikring av ansvarlig e lån	5 881	9.8 %	7 008	-1.3 %
Lang-term/HTM-bonds	10 050	3.7 %	7 706	4.6 %
Short-term bonds	2 649	3.1 %	2 570	2.9 %
Liquidity/money market	6 621	1.7 %	6 623	2.3 %
Sum	**33 209**	**4.0 %**	**31 419**	**4.7 %**

Strategic shares in asset class ‘Long-term shareholdings and associated companies’ had a very high return. Dividends have also been paid out. This is the reason why the return rises

so sharply from the year-end 2016 to year-end 2017. As this item is very small, it has no significant effect on the total return.

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 performance (risk result) and the investment result. Positive underwriting and investment results in the customer portfolio accrue to 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 table below shows the amount of the interest guarantee premium and the administration result for 2017 and 2016. The necessary growth in equity above this level is provided by calling in an annual capital contribution from the owners.

Table 8: Profit and loss elements in the corporate portfolio. 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 charge is included in the administration result and is the main reason for the increase from 2016 to 2017.

The Company's total income before tax was NOK 2.0 billion in 2017, compared with NOK 2.1 billion in 2016.

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 Group SFCR.

The system of governance, as it is organized 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 organizations 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 organization 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 organization or negotiating alliance with most members in the pension schemes. In addition, two observers are nominated from those organizations 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 organized 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 organization with a clear organization 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.

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.
- 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.

[1]National Insurance basic amount

- 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 Company ensures that managers of the business and others in the business who hold central and key functions are suitable and ‘fit and proper’ to handle their tasks and areas of responsibility as stated in each individual’s job description.

The Board of KLP has adopted a guideline on ‘fit and proper’ criteria which is revised annually. The guideline contains qualification requirements which are designed to provide for appropriate diversity of qualifications, knowledge and relevant experience, to ensure that the Company is managed and supervised in a professional manner.

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

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

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.

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

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

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

The most important processes for 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 capitalization.

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.

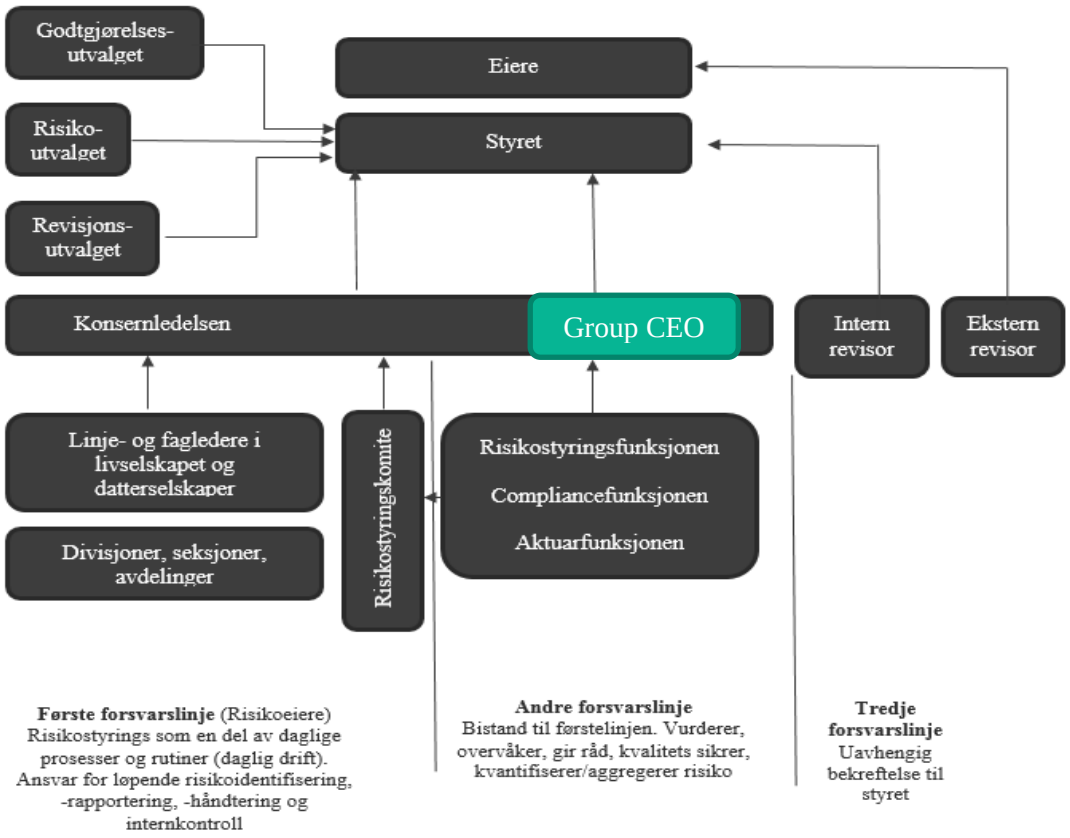
The second-line functions produce quarterly reports from their areas, which are addressed by the Board. The actuarial and compliance functions also produce their own annual reports. The risk management function organizes the self-assessment of the company's risk and solvency and compiles the ORSA[2]report.

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 organized 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 organization is illustrated in the figure below:

Figure 2: 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 authorizations, instructions and guidelines. Managers are also required to establish proper procedures and control measures within their areas.

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.

[2] Own Risk and Solvency Assessment

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 organized 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 KLP should be more than 150 percent without including transitional rules for technical provisions. The Board of Directors wants there to be a low probability of fluctuations, especially in the financial markets, so that there is little likelihood of recourse to 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 analyzing 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 managers at all levels should always have a proper overview of the specified goals, risks, key controls and possible unwanted events in their area, so they can adequately handle risks associated with the business on an ongoing basis. The second-line functions also assist 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 organization 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.

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 organized 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 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

C.1 Underwriting risk

The two biggest underwriting risks for KLP are longevity risk and disability, both characterized 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.

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.

  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.

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

- Lapse risk
  The customers with public-sector occupational pensions from KLP can opt to move to another provider at each year-end. The customers then take with them all the assets assigned to them, but they also take all the technical provisions associated with the customer relationship. The 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.

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 equalization fund, which can cover any negative risk result, to minimize 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 equalization 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

[4] Under tariff agreements

general requirement to equalize 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 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 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
- 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 during 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. KLP's property portfolio is organized into limited companies, and the property portfolio is stressed according to the regulations as part of the stock portfolio when calculating the potential loss. Net capital requirements (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.

[5] Gender and age-neutral premium calculation

KLP have 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 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 in Oslo 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 amortized 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

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 categorized as market risk.

Credit risk is part of market risk, so it is 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 recognized 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

Liquidity risk in KLP is the risk of KLP being unable to meet its day-to-day commitments as they mature without substantial added costs. The risk is primarily associated with the costs of releasing assets.

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.

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

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 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

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

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 562 billion at 31.12.2017[7]. This is an increase of NOK 43 billion since 31.12.2016. Total financial assets, (accounting values) amounted to NOK 535 billion at 31.12.2017. This is an increase of NOK 38 billion since 31.12.2016.

Assets under Solvency II are recognized 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 amortized cost and bonds classified as loans and receivables are recognized at amortized cost. There are also differences in the valuation of intangible assets and deferred taxes.

Table 9: Assets. Figures in NOK billions.

Asset classes	Solvency II 2017	Accounts 2017	Solvency II 2016	Accounts 2016
Intangible assets	0.0	0.2	0.0	0.3
Deferred tax assets*	16.9	0.0	13.2	0.3
Investment property	1.0	1.0	1.0	1.0
Holdings in related undertakings, including participations	66.2	66.1	61.8	61.8
Equities etc.	31.1	31.1	27.3	27.3
Bonds	228.5	226.7	217.6	218.6
securities' funds etc.	148.7	148.7	129.6	129.6
Derivatives	1.1	1.1	1.6	1.6
Deposits other than cash equivalents	1.3	0.7	1.6	1.6
Loans	57.7	57.2	52.9	52.9
Other assets**	9.9	1.9	12.4	1.7
Total	**562.4**	**534.8**	**519.5**	**496.7**

* With gross tax assets under Solvency II. Net tax assets are NOK 0 at 31.12.2017.

**Other assets are made up of 'Cash and cash equivalents', 'Non-insurance-related receivables', 'Other assets', 'Receivables related to direct insurance, including insurance brokers', and 'Property, plant and equipment for own use'.

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 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 0.2 billion.

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

D.1.2 Assets subject to tax

Valuation, Solvency II
Deferred tax is split into a deferred tax asset of NOK 16.9 billion and a deferred tax liability of NOK 20.6 billion under Solvency II in 2017. 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 amortized 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 amortized cost in the accounts are valued higher in the Solvency II balance sheet, and so give rise to a deferred tax liability.

Valuation, accounts
Capitalized deferred tax assets or liabilities represent the nominal value minus any impairment of the holding which is not assumed 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 equalized 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, KLP had net deferred taxes; see section D.3.4.

D.1.3 Property (other than for own use)

Solvency II valuation equal to accounting 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 external, independent and qualified parties. In the event of significant deviation from our own assessment of fair value, the differences are analyzed and the valuation model's parameters are adjusted if this proves necessary.

D.1.4 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.

The Company's property investments are organized as companies whose purpose is to own investment property. These investments are listed under investments in associates, including participatory interests, and make up NOK 60.7 billion of the 66.1 billion in this balance-sheet item.

The property investments are valued 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 external, independent and qualified parties. In the event of significant deviation from our own assessment of fair value, the differences are analyzed and the valuation model's parameters are adjusted if this proves necessary.

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. To value investment property in the property subsidiaries, the same principle is used as described for the Solvency II balance sheet.

D.1.5 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 based on 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.1.6 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 amortized 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 amortized cost. This amounts to NOK 149.8 billion out of a total of NOK 226.7 billion. The difference in valuation is NOK 10.3 billion.

Bonds are measured at amortized 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. Amortized cost is the present value of these cash flows discounted by the internal rate of return.

D.1.7 Asset management companies etc.

Solvency II valuation equal to accounting value
Securities funds etc. are measured at fair value; see description under D.1.5.

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.1.8 Derivatives

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

D.1.9 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.1.10 Lending

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

Valuation, accounts
Loans are reported in the accounts at amortized 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 amortized 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. Amortized 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.1.11 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, basis, methods and assumptions

The technical provisions under Solvency II are valued at fair value (market value). This should be equal to the value the insurance company would have to pay in the event of immediate transfer of the technical provisions to another insurance company. The best estimate of this equates to the probability-weighted average of future cash flows. There is also a risk margin which 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.

The base data used to calculate the technical provisions is derived from the membership system in KLP. To reduce calculation time and avoid utilizing excessive computing power, similar population data is grouped in so-called model points.

The technical provisions in Solvency II are made up of a best estimate plus a risk margin, as described above. The best estimate consists of guaranteed payments and discretionary benefits. In best estimates, safety margins are not included in the calculation assumptions that are used (in the financial accounts, these margins are included in the calculations, K2013 is used for old age pensions[8]). 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 include expected future surpluses to be allocated to customers, the value of the return guarantee, the earning element of the administration premium and the interest guarantee premium, and annual receipts of equity contributions. A (risk-free) market rate, in the form of specified interest rates, is used to discount the cash flows.

In the financial accounts, the provisions are made up of the premium reserve, supplementary reserves, the securities adjustment fund, claims provisions, the risk equalization 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. 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.

The valuation of the technical provisions in the financial accounts is deterministic. The biometric assumptions used in premium calculations at any given time are also used; these include safety margins in relation to what is regarded as a best estimate of the trend in mortality, disability and reactivation (disability which turns into ability to work).

Technical provisions under the Solvency II regulations are the sum of:

[8] Hospital doctors and nurses die later than KLP's remaining customer population and have an elevated base in relation to the rest.
[9] Posted to Equity

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

Figures for 31.12.2017 and 31.12.2016 are given in the table below.

Table 10: Technical provisions without transitional rules. Figures in NOK billions.

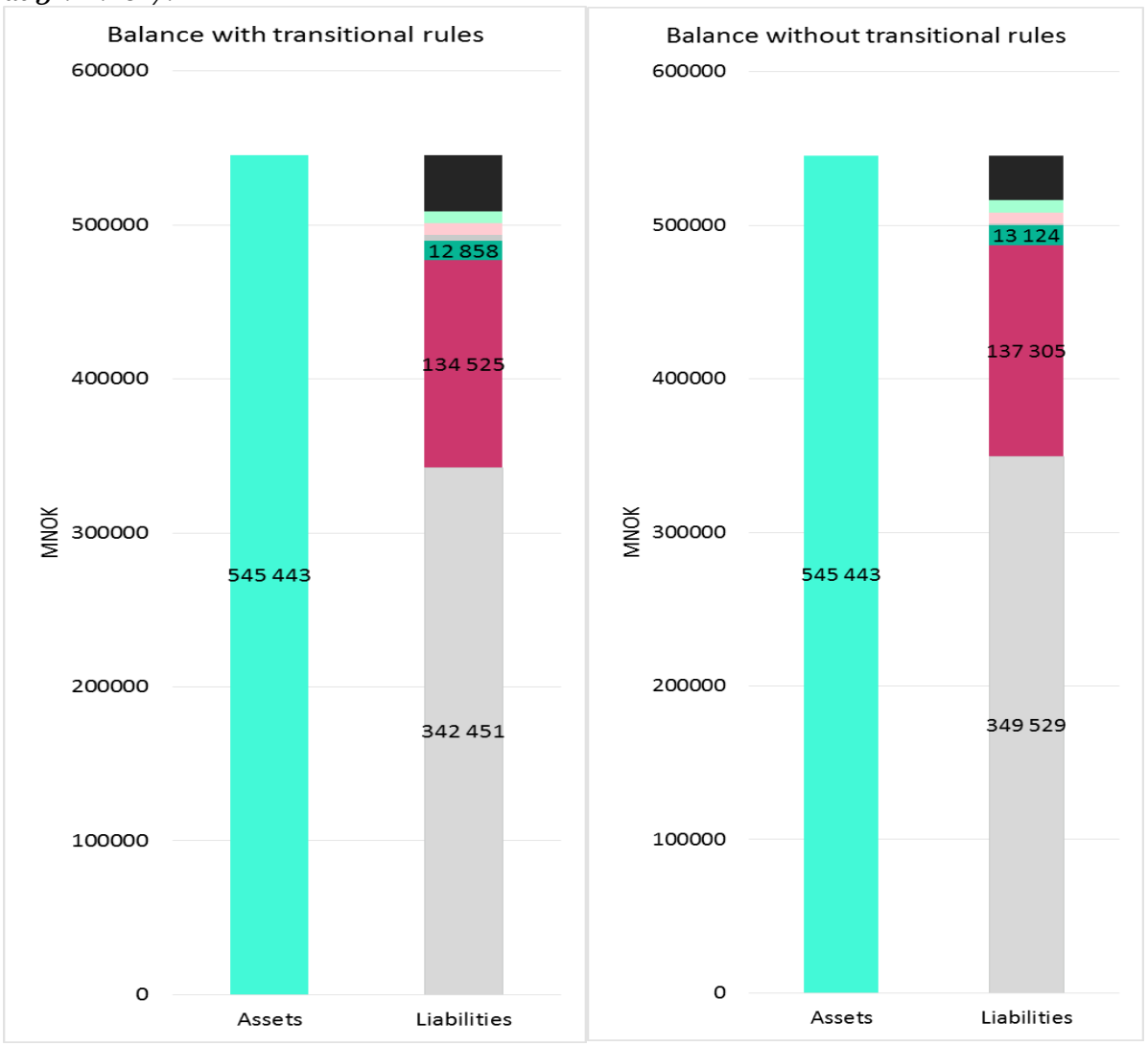
Solvency II	2017	2016
Guaranteed benefits	349.5	317.0
Discretionary benefits (future profits)	137.3	133.4
Best estimate	**486.8**	**450.4**
Risk margin	13.1	13.0
Technical provisions	**500.0**	**463.4**

Table 11: Technical provisions with transitional rules. Figures in NOK billions.

Solvency II	2017	2016
Guaranteed benefits	342.5	309.5
Discretionary benefits (future profits)	134.5	130.2
Best estimate	**477.0**	**439.8**
Risk margin	12.9	12.7
Technical provisions	**489.8**	**452.5**

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

Figure 3: Solvency balance with and without transitional rules for technical provisions at 31.12.2017.



The figures in the figure above are summarized in the tables below.

Table 12: Solvency II balance without transitional rules for technical provisions. Figures in NOK billions.

Solvency II - Balance	2017	2016
Guaranteed benefits	349.5	317.0
Discretionary benefits (future profits)	137.3	133.4
Risk margin	13.1	13.0
Technical provisions	**500.0**	**463.4**
Deferred tax liabilities	1.2	-
Subordinated loans	7.8	8.3
Other liabilities	7.3	8.6
Total liabilities	**516.2**	**480.3**
Total assets	**545.4**	**506.9**
Excess of assets over liabilities	29.2	26.7

Table 13: Solvency II balance with transitional rules for technical provisions. Figures in NOK billions.

Solvency II - Balance	2017	2016
Guaranteed benefits	342.5	309.5
Discretionary benefits (future profits)	134.5	130.2
Risk margin	12.9	12.7
Technical provisions	**489.8**	**452.5**
Deferred tax liabilities	3.7	2.1
Subordinated loans	7.8	8.3
Other liabilities	7.3	8.6
Total liabilities	**508.6**	**471.5**
Total assets	**545.4**	**506.4**
Excess of assets over liabilities	36.8	34.9

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 EIOPA10. 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 performance is 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 equalization 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 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.

D.2.2 Uncertainty related to the value of technical provisions

Where complex cash flow models are used, as in KLP's ALM[11] model, to value liabilities and calculate available capital and capital requirements, the results will always be fraught with some uncertainty. The results are sensitive to the assumptions, choice of methods and processing of input prior to each calculation. The level of uncertainty in the calculations of the insurance obligation is driven by uncertainty in the underlying assumptions. Such

[10] EIOPA - European Insurance and Occupational Pension Authority
[11] Asset and liability modelling

assumptions are regularly assessed by the actuarial function and reviewed at least once a year in the Company's risk management committee 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.2.3 Matching adjustment

KLP does not apply the matching adjustment described in Article 77b of the Solvency II Directive[12].

D.2.4 Volatility adjustment

KLP applies 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 markup. The adjustment as at 31.12.2017 represents an interest markup of 0.15 percentage points. The effect of this markup is 2 percentage points for solvency capital coverage without the use of transition rules for technical provisions. This is shown in table 14 below. The technical provisions, solvency capital are reduced minimally. These small changes increase solvency capital coverage from 240 percent to 242 percent using volatility adjustment but without the use of transition rules for the technical provisions.

Table 14: Effect of applying the volatility adjustment, 31.12.2017. Figures in NOK billions.

2017	With the volatility adjustment but without the use of transition rules for technical provisions	Without the volatility adjustment and without the use of transition rules for technical provisions	Difference	With the volatility adjustment and with the use of transition rules for technical provisions	Without the volatility adjustment but with the use of transition rules for technical provisions	Difference
Technical provisions	500.0	500.0	-0.06	489.8	489.8	0.00
Solvency capital requirement	13.8	14.0	-0.15	11.3	11.4	-0.13
Minimum capital requirement	6.2	6.3	-0.13	5.1	5.1	-0.06
Total eligible own funds to meet the SCR	33.5	33.5	-0.03	39.8	39.9	-0.06
Total eligible own funds to meet the MCR	27.8	27.8	0.02	35.2	35.2	-0.01
Ratio of Eligible own funds to SCR	**242 %**	**240 %**	**2 %**	**352 %**	**349 %**	**4 %**
Ratio of Eligible own funds to MCR	452 %	442 %	10 %	692 %	684 %	8 %

Table 15: Effect of applying the volatility adjustment, 31.12.2016. Figures in NOK billions.

2016	With the volatility adjustment but without the use of transition rules for technical provisions	Without the volatility adjustment and without the use of transition rules for technical provisions	Difference	With the volatility adjustment and with the use of transition rules for technical provisions	Without the volatility adjustment but with the use of transition rules for technical provisions	Difference
Technical provisions	463.4	463.6	-0.20	452.5	452.5	0.00
Solvency capital requirement	15.0	15.4	-0.40	12.9	13.3	-0.40
Minimum capital requirement	5.1	5.6	-0.52	5.1	5.6	-0.52
Total eligible own funds to meet the SCR	31.3	31.3	0.00	39.0	39.2	-0.20
Total eligible own funds to meet the MCR	24.9	24.8	0.09	33.6	33.7	-0.10
Ratio of Eligible own funds to SCR	**209 %**	**203 %**	**5 %**	**304 %**	**296 %**	**8 %**
Ratio of Eligible own funds to MCR	485 %	439 %	46 %	656 %	598 %	59 %

Difference in percent (percentage points).

[12] 2009/138/EC

The transitional rule is described in section D. 2.6 Transitional measure for technical provisions.

D.2.5 Transitional provisions on risk-free interest rates

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

D.2.6 Transitional measure for technical provisions

In reporting to the Financial Supervisory Authority of Norway, KLP applies the temporary deduction provided for by the transitional measure for technical provisions described in Article 308d of the Solvency II Directive. Note 32 Capital requirements in the accounts, shows the calculations without the use of this temporary deduction. Both calculations are shown in table 16 below.

The best estimate under Solvency II without the transitional rule for the technical provisions is set at NOK 500 billion. The accounting value of the technical provisions is set at NOK 489.2 billion. This means that the Solvency II valuation is NOK 10.8 billion more than the accounting valuation. The transitional rule says that in 2017 we can deduct 15/16 of this difference in the Solvency II valuation. That means that the valuation of the best estimate under Solvency II including the transitional scheme is NOK 489.8 billion. The difference between best estimates with and without transitional arrangement is then NOK 10.1 billion.

The deduction will be reduced on a linear basis until 2032. The difference for 2018 will be multiplied by 14/16, which means that there are 14 years left of the transition period. The transition period is 16 years from 2016 to 2032.

Table 16: Effect of using the transitional rule for technical provisions at 31.12.2017. Figures in NOK billions.

2017	Using the transitional rule for technical provisions	Without using the transitional rule for technical provisions	Difference
Technical provisions	489.2	500.0	-10.8
Solvency capital requirement	11.3	13.8	-2.5
Minimum capital requirement	5.1	6.2	-1.1
Total eligible own funds to meet the SCR	39.8	33.5	6.3
Total eligible own funds to meet the MCR	35.2	27.8	7.4
Ratio of Eligible own funds to SCR	352 %	242 %	110 %
Ratio of Eligible own funds to MCR	692 %	452 %	240 %

Table 17: Effect of using the transitional rule for technical provisions at 31.12.2016. Figures in NOK billions

2016	Using the transitional rule for technical provisions	Without using the transitional rule for technical provisions	Difference
Technical provisions	452.5	463.4	-10.9
Solvency capital requirement	12.9	15.0	-2.1
Minimum capital requirement	5.1	5.1	0.0
Total eligible own funds to meet the SCR	39.0	31.3	7.7
Total eligible own funds to meet the MCR	33.6	24.9	8.8
Ratio of Eligible own funds to SCR	304 %	209 %	95 %
Ratio of Eligible own funds to MCR	656 %	485 %	171 %

Difference in percent (percentage points).

With the use of the transitional rule, the technical provisions are lower than without the use of it. The eligible own funds are 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 rule. The change in eligible capital is less than the change in technical provisions because of the changed effect of loss-absorption capacity for deferred tax. Requirements for solvency capital are going down and we are seeing an increase in solvency capital coverage. Even without the use of the transitional measure, KLP meets the capital requirements by a good margin.

D.2.7 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 on the basis of 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.

D.3 Other liabilities

The table below shows the breakdown of other liabilities.

Table 18: Other liabilities. Figures in NOK billions.

Other liabilities	Solvency II 2017	Accounting 2017	Solvency II 2016	Accounting 2016
Perpetual subordinated loans	1.5	1.5	1.7	1.7
Other subordinated loans	6.3	6.0	6.6	6.2
Pension for own employee	0.5	0.5	0.5	0.5
Deferred tax liabilities*	20.6	0.2	15.4	-
Other liabilities	6.7	6.7	8.2	8.2
Total	**35.7**	**15.0**	**32.3**	**16.5**

* With gross taxes under Solvency II

D.3.1 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 amortized cost, adjusted for changes in value resulting from currency and interest rate movements according the rules on fair value hedging.

D.3.2 Subordinated debt

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 amortized 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.3.3 Pensions for 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.

Table 19: Net pension obligations - own employees, 2017. Figures in NOK billions.

Net pension obligations, profit/loss 2017	Joint pension scheme	Other entitlements	Total
Present value of obligations	1.227	0.157	1.384
Fair value of the pension assets	0.863	0.000	0.863
Net pension obligations, own employees	**0.364**	**0.157**	**0.520**

Table 20: Net pension obligations - own employees, 2016. Figures in NOK billions.

Net pension obligations, profit/loss 2016	Joint pension scheme	Other entitlements	Total
Present value of obligations	1.097	0.143	1.240
Fair value of the pension assets	0.766	0.000	0.766
Net pension obligations, own employees	**0.332**	**0.143**	**0.474**

Table 21: Allocation of pension funds for own employees.

Allocation of pension assets	2017	2016
Shares in property subsidiaries	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.3.4 Deferred tax

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

Valuation, accounts
At 31.12.2017, KLP recognized net deferred tax of NOK 0.2 billion; see notes in section D. 1.2.

D.3.5 Other liabilities

Solvency II valuation equal to accounting value
These liabilities are measured at fair value both in the accounts and in the Solvency II balance sheet.

D.4 Alternative methods for valuation

KLP's valuation principles for assets that cannot be valued based on quoted prices are described in Note 6 Fair value hierarchy in the 2017 annual report.

D.5 Other information

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

E. Capital management

KLP is a mutually-owned life insurance company whose main purpose 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 own funds under Solvency II consists of basic own funds and ancillary own funds. Own funds are the difference between the value of the assets and the obligations in the Solvency II balance sheet and the hybrid Tier 1 perpetual capital. Own funds also include subordinated loans and the risk equalization fund.

The future right to call for equity, the call option which KLP has, is considered to be ancillary own funds. Future provisionally unpaid equity contributions and unpaid deposits are therefore ancillary own funds. Any net deferred tax assets may also be included in basic own funds.

The following table shows the breakdown of own funds into basic own funds and ancillary own funds, without the use of the transitional rule for the technical provisions.

Table 22: Breakdown of own funds into basic own funds and ancillary own funds. Figures in NOK millions. Without transitional rules for technical provisions.

Available own funds	2017	2016
Excess of assets over liabilities - Solvency II balance	25 057	22 189
Perpetual subordinated loans	1 534	1 650
Total basic own funds, Tier 1	26 592	23 839
Other subordinated loans	6 270	6 605
Risk equalization fund	4 154	3 907
Total basic own funds, Tier 2	10 424	10 511
Future right to call for capital	10 144	9 516
deferred tax assets	-	589
Total ancillary own funds	10 144	10 106
Total available own funds	**47 160**	**44 456**

Table 23: Breakdown of own funds into basic own funds and ancillary own funds. Figures in NOK millions. With transitional rules for technical provisions.

Available own funds	2017	2016
Excess of assets over liabilities - Solvency II balance	32 651	30 964
Perpetual subordinated loans	1 534	1 650
Total basic own funds, Tier 1	34 185	32 614
Other subordinated loans	6 270	6 605
Risk equalization fund	4 154	3 907
Total basic own funds, Tier 2	10 424	10 511
Future right to call for capital	10 144	9 516
deferred tax assets	-	-
Total ancillary own funds	10 144	9 516
Total available own funds	**54 753**	**52 641**

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 Board has adopted a policy for capital management. The purpose of this guideline is to ensure that KLP is sufficiently capitalized and meet the regulatory minimum requirements for

capital set by the Financial Supervisory Authority. The Company has also set its own targets for solvency capital coverage which are well above the requirements of the FSA.

The policy defines bands for solvency capital coverage. An annual capital plan is drawn up, in which the banding and targets for solvency capital coverage 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 solvency capital coverage. In the current period, KLP aims to have solvency capital coverage of at least 150 percent.

The Company applies the transitional measure for technical provisions, but 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 Company's accounts. As of 31.12.2017, the solvency capital ratio without using the transitional measures is 242 percent. This was 209 percent at 31.12.2016. Solvency capital coverage with the use of the transitional rule is 352 percent per 31.12.2017; it was 304 percent at 31.12.2016. This is well above our own target, which in turn is well above the regulatory requirements.

KLP's articles of association allow it to call in capital from its owners. The Company also collects an annual capital contribution from its owners. For 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 own fund item. 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.

Tier 1
The Company's Tier 1 own funds are the difference between assets and liabilities in the Solvency II balance-sheet minus the risk equalization fund and deferred tax assets. The hybrid Tier 1 perpetual capital is also included in Tier 1 (restricted). Restricted capital cannot exceed 25 percent of the total of the items in Tier 1. The hybrid Tier 1 perpetual capital is well below this limit. All Tier 1 capital is classed as basic own funds.

Tier 2
Tier 2 includes subordinated loans and the risk equalization fund as basic own funds. It also includes unpaid equity contributions and unpaid deposits reported as ancillary own funds under the right to retrospective assessment. This ancillary own fund 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.

E.1.1 Classification of own funds

The sum of eligible capital in Tiers 2 and 3 may not exceed 50 percent of the solvency capital requirement. For KLP, 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 (NOK 13.6 billion in 2017) will significantly reduce the negative effect the increase has on capital adequacy.

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 own funds.

The tables below show the total own funds per capital group split into basic own funds and ancillary own funds. The proportion of these amounts that can be used as eligible capital for the solvency capital requirement and the minimum capital requirement is also shown in the table. The calculations of technical provisions are without transitional rules.

Table 24: Classification of eligible own funds. Figures in NOK millions.

2017	Available own funds	Eligible own funds	
		SCR	MCR
Tier 1, unrestricted	25 057	25 057	25 057
Deductions for shares in subsidiaries			
Tier 1, unrestricted after deduction	25 057	25 057	25 057
Perpetual subordinated loans	1 534	1 534	1 534
Total basic own funds, Tier 1	**26 592**	**26 592**	**26 592**
Other subordinated loans	6 270		
Risk equalization fund	4 154		
Total basic own funds, Tier 2	**10 424**		
Total basic own funds	**37 016**		
Future right to call for capital	10 144		
Total ancillary own funds, Tier 2	**10 144**		
Total own funds, Tier 2	**20 568**	**6 919**	**1 232**
Deferred tax assets	-		
Total	**47 160**	**33 511**	**27 824**

Table 25: Classification of eligible own funds. Figures in NOK millions.

2016	Available own funds	Eligible own funds	
		SCR	MCR
Tier 1, unrestricted	22 189	22 189	22 189
Deductions for shares in subsidiaries			
Tier 1, unrestricted after deduction	22 189	22 189	22 189
Perpetual subordinated loans	1 650	1 650	1 650
Total basic own funds, Tier 1	**23 839**	**23 839**	**23 839**
Other subordinated loans	6 605		
Risk equalization fund	3 907		
Total basic own funds, Tier 2	10 511		
Total basic own funds	34 350		
Future right to call for capital	9 516		
Total ancillary own funds, Tier 2	**9 516**		
Total own funds, Tier 2	**20 028**	**7 500**	**1 025**
Deferred tax assets	589		
Total	**44 456**	**31 338**	**24 864**

The solvency capital requirement (SCR) is intended to cover the risk of loss of the Company's own funds, and is calculated so that the probability is 99.5 percent that a total loss, underwriting loss and financial loss, over a period of twelve months will not exceed the estimated capital requirement.

The minimum capital requirement (MCR) is intended to cover the risk of loss of the Company's own funds and is calculated so the probability is 85 percent that total losses over a period of twelve months will not exceed the estimated capital requirement. The minimum capital requirement must not be lower than 25 percent or greater than 45 percent of the company's solvency capital requirement.

The solvency capital requirements and the solvency capital coverage are shown in the table below. The calculations of the technical provisions are without transitional rules.

Table 26: Solvency capital requirements and solvency capital coverage without the use of transition rules for technical provisions. Figures in NOK millions.

Solvency capital requirement and Solvency ratio	2017		2016	
	SCR	MCR	SCR	MCR
Solvency capital requirement	13 838	6 161	14 999	5 125
Eligible own funds	33 511	27 824	31 338	24 864
Excess capital	19 673	21 663	16 339	19 739
Ratio of Eligible own funds to SCR	**242 %**	**452 %**	**209 %**	**485 %**

Table 27: Solvency capital requirements and solvency capital coverage with the use of transition rules for technical provisions. Figures in NOK millions.

Solvency capital requirement and Solvency ratio	2017		2016	
	SCR	MCR	SCR	MCR
Solvency capital requirement	11 307	5 088	12 860	5 125
Eligible own funds	39 839	35 203	39 044	33 639
Excess capital	28 531	30 114	26 184	28 513
Ratio of Eligible own funds to SCR	**352 %**	**692 %**	**304 %**	**656 %**

The difference between equity in the accounts and the balance of assets and liabilities in the Solvency II balance sheet at year-end 2017 and 2016 was as shown in the table below:

Table 28: Solvency capital without the use of the call option but with the use of transitional rules for technical provisions compared with solvency capital in the financial accounts. Figures in NOK millions.

2017	Solvency II	Accounts
Paid-up equity	13 125	13 125
Reconciliation reserve	9 402	
Other retained earnings		13 347
Effect of using the transitional rules for technical provisions	10 124	
Perpetual subordinated loans	1 534	1 534
Risk equalization fund	4 154	4 154
Net assets	**38 339**	**32 161**
Subordinated loans	6 270	5 977
Solvency capital with using the transitional rules for technical provisions but without future rights to call for capital	**44 609**	**38 137**

Table 29: Solvency capital without the use of the call option but with the use of transitional rules for technical provisions compared with solvency capital in the financial accounts. Figures in NOK millions.

2016	Solvency II	Accounts
Paid-up equity	11 726	11 726
Reconciliation reserve	8 324	
Other retained earnings		12 153
Effect of using the transitional rules for technical provisions	10 914	
Perpetual subordinated loans	1 650	1 650
Risk equalization fund	3 907	3 907
Net assets	**36 520**	**29 436**
Subordinated loans	6 605	6 220
Solvency capital with using the transitional rules for technical provisions but without future rights to call for capital	**43 125**	**35 656**

The difference between assets and liabilities under Solvency II including transitional rules for technical provisions is described in section D. 2.6. The possibility of calling in equity in the future is not included in the solvency capital.

The main difference between Solvency II and the financial accounts is that the earned profits which are recognized as equity in the financial statement are replaced by the reconciliation reserve in the solvency balance. Also, the reconciliation reserve includes retained earnings, but based on the valuation of assets and liabilities of the solvency balance sheet. The reconciliation reserve will also include the present value of future profits.

The best estimate under Solvency II without the transitional provisions for the technical accruals is set at NOK 500 billion. The accounting value of the technical provisions is set at NOK 489.2 billion. This means that the Solvency II valuation is NOK 10.8 billion more than the accounting valuation. The transitional provisions say that in 2017 we can deduct 15/16 of this difference in the Solvency II valuation. That means that the valuation of the best estimate under Solvency II including the transitional scheme is NOK 489.8 billion. The difference between the accounts and Solvency II is NOK 675 million instead of NOK 10.8 billion. The

difference between the Solvency II valuation and the accounting valuation accounts for 1/16 of the entire temporary deduction. The effect on the Solvency capital is NOK 10.1 billion (NOK 10.799 minus 0.675 billion) as shown in Table 28 above.

The difference between the equity in the financial accounts and the difference between assets and liabilities under Solvency II (net assets in the table above) was NOK 6.2 billion at 31.12.2017 (7.1 billion at 31.12.2016).

The difference mainly comes from the value-added in interest-bearing portfolios recognized at amortized cost, as well as deferred taxes. There are also smaller contributions from differing valuations of financial liabilities 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

The solvency capital requirement is intended to cover the risk of loss of the Company's own funds. The minimum capital requirement is intended cover the risk of loss of the Company's own funds.

E.2.1 Solvency Capital Requirement

At year-end 2017, the capital requirements were as follows (2016 in brackets):

Minimum Capital Requirement:	NOK 5.1 (5.1) billion.
Solvency Capital Requirement:	NOK 11.3 (12.9) billion.

The capital requirements above include transitional rules for technical provisions.

KLP uses the standard formula without any undertaking-specific parameters. The Solvency Capital Requirement at year-end 2017 and 2016 was broken down as follows:

Table 30: Composition of the solvency capital requirement without transitional rules for technical provisions. Figures in NOK billions.

Composition of Solvency capital requirement	2017	2016
Marked risk	4.1	4.3
Counterparty default risk	0.1	0.1
Underwriting risk	11.1	11.2
Diversification	-2.6	-2.6
Operational risk	2.2	2.0
Loss-absorbing capacity of deferred tax	-1.2	-
Solvency capital requirement	13.8	15.0

Table 31: Composition of the solvency capital requirement with transitional rules for technical provisions. Figures in NOK billions.

Composition of Solvency capital requirement	2017	2016
Marked risk	4.1	4.3
Counterparty default risk	0.1	0.1
Underwriting risk	11.1	11.2
Diversification	-2.6	-2.6
Operational risk	2.2	2.0
Loss-absorbing capacity of deferred tax	-3.7	-2.1
Solvency capital requirement	11.3	12.9

As in 2016, the reduction in market risk over the period comes from an increase in buffers; specifically an increase in the securities adjustment fund which gives rise to an increased loss-absorption capacity for technical provisions.

The breakdown of the capital requirement across the different risks differs from what KLP itself considers correct. As mentioned in section C.1, the lapse risk makes the capital requirement for underwriting risk too high relative to the other elements.

E.2.2 Simplified processes

KLP 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

KLP does not use any undertaking-specific parameters.

E.2.4 Input data for the calculation of the Minimum Capital Requirement

At the end of 2017, the linear formula component for the Minimum Capital Requirement (MCR) was calculated from the data shown in the table below:

Table 32: Input data without transitional rules for technical provisions. Figures in NOK billions.

Input data to linear formula component	31.12.2017	31.12.2016
Guaranteed benefits	349.5	317.0
Discretionary benefits (future profits)	137.3	133.4
Capital at risk	526.3	474.6
Linear formula component (Linear MCR)	6.161	5.125

The Minimum Capital Requirement is then calculated as follows:

Table 33: Minimum capital requirement without transitional rules for technical provisions. Figures in NOK billions.

Calculation of MCR	31.12.2017	31.12.2016
Linear MCR	**6.161**	**5.125**
Solvency Capital Requirement (SCR)	13.838	14.999
MCR cap	6.227	6.750
MCR floor	3.460	3.750
Minimum Capital Requirement (MCR)	**6.161**	**5.125**

The ceiling for the minimum capital requirement is 45 percent of the solvency capital requirement. The floor for the minimum capital requirement is 25 percent of the solvency capital requirement.

Corresponding calculations with transitional rules on technical provisions are given in the tables below.

Table 34: Input data with transitional rules for technical provisions. Figures in NOK billions.

Input data to linear formula component	31.12.2017	31.12.2016
Guaranteed benefits	342.5	309.5
Discretionary benefits (future profits)	134.5	130.2
Capital at risk	526.3	474.6
Linear formula component (Linear MCR)	6.161	5.125

Table 35: Minimum capital requirement with transitional rules for technical provisions. Figures in NOK billions.

Calculation of MCR	31.12.2017	31.12.2016
Linear MCR	6.161	**5.125**
Solvency Capital Requirement (SCR)	11.307	12.860
MCR cap	**5.088**	5.787
MCR floor	2.827	3.215
Minimum Capital Requirement (MCR)	**5.088**	**5.125**

We see here that the ceiling has placed restrictions on the minimum capital requirement in 2017.

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

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

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

KLP does not use internal models.

E.5 Non-compliance with the minimum capital requirement or the solvency capital requirement

KLP satisfies both the minimum capital requirement and the solvency capital requirement.

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.

Sverre Thornes, CEO

Templates

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

QRT code	QRT name
S.01.02.01	General information
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.12.01.01	The technical provisions relating to life insurance and health insurance pursued on a similar technical basis to that of life insurance
S.22.01.01	The impact of the long term guarantee and transitional measures
S.23.01.01	Own funds, including basic own funds and ancillary own funds
S.25.01.01	The Solvency Capital Requirement calculated using the standard formula
S.28.01.01	The Minimum Capital Requirement for only life or non-life insurance activity
S.28.02.01	The Minimum Capital Requirement for insurance undertakings engaged in both life and non-life insurance activity

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Annex I
S.01.02.01
Basic Information - General

		C0010
Undertaking name	**R0010**	Kommunal Landspensjonskasse
Undertaking identification code	**R0020**	SC/938708606
Type of code of undertaking	**R0030**	Specific code
Type of undertaking	**R0040**	Life undertakings
Country of authorisation	**R0050**	NO
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**	Local GAAP
Method of Calculation of the SCR	**R0130**	Standard formula
Use of undertaking specific parameters	**R0140**	Don't use undertaking specific parameters
Ring-fenced funds	**R0150**	Not reporting activity by RFF
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**	.	226 358 441
Deferred tax assets	**R0040**	16 863 116 068	-1
Pension benefit surplus	**R0050**	.	.
Property, plant & equipment held for own use	**R0060**	46 726 088	46 726 088
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	477 846 237 312	467 507 967 930
Property (other than for own use)	**R0080**	1 002 738 976	1 002 738 976
Holdings in related undertakings, including participations	**R0090**	66 186 662 738	66 186 843 153
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**	228 533 631 745	218 195 907 451
Government Bonds	**R0140**	54 150 360 730	.
Corporate Bonds	**R0150**	174 383 271 015	.
Structured notes	**R0160**	.	.
Collateralised securities	**R0170**	.	.
Collective Investments Undertakings	**R0180**	148 677 140 208	148 676 983 351
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**	.	0
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**	.	.
Non-life and health similar to non-life	**R0280**	.	.
Non-life excluding health	**R0290**	.	.
Health similar to non-life	**R0300**	.	.
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	.	.
Health similar to life	**R0320**	.	.
Life excluding health and index-linked and unit-linked	**R0330**	.	.
Life index-linked and unit-linked	**R0340**	.	.
Deposits to cedants	**R0350**	.	.
Insurance and intermediaries receivables	**R0360**	672 680 898	672 680 898
Reinsurance receivables	**R0370**	.	.
Receivables (trade, not insurance)	**R0380**	313 095 683	313 095 683
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**	8 112 796 919	8 112 233 759
Any other assets, not elsewhere shown	**R0420**	713 439 574	713 439 574
Total assets	**R0500**	**562 292 184 219**	**534 784 382 937**

		Solvency II value	Statutory accounts value
Liabilities		**C0010**	**C0020**
Technical provisions – non-life	**R0510**	.	.
Technical provisions – non-life (excluding health)	**R0520**	.	.
Technical provisions calculated as a whole	**R0530**	.	
Best Estimate	**R0540**	.	
Risk margin	**R0550**	.	
Technical provisions - health (similar to non-life)	**R0560**	.	.
Technical provisions calculated as a whole	**R0570**	.	
Best Estimate	**R0580**	.	
Risk margin	**R0590**	.	
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	489 833 658 704	489 158 699 579
Technical provisions - health (similar to life)	**R0610**	.	.
Technical provisions calculated as a whole	**R0620**	.	
Best Estimate	**R0630**	.	
Risk margin	**R0640**	.	
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	489 833 658 704	489 158 699 579
Technical provisions calculated as a whole	**R0660**	0	
Best Estimate	**R0670**	476 975 809 092	
Risk margin	**R0680**	12 857 849 612	
Technical provisions – index-linked and unit-linked	**R0690**	.	.
Technical provisions calculated as a whole	**R0700**	.	
Best Estimate	**R0710**	.	
Risk margin	**R0720**	.	
Other technical provisions	**R0730**		.
Contingent liabilities	**R0740**	0	.
Provisions other than technical provisions	**R0750**	444 919 046	444 919 046
Pension benefit obligations	**R0760**	520 398 638	520 398 638
Deposits from reinsurers	**R0770**	.	.
Deferred tax liabilities	**R0780**	20 602 807 300	225 729 458
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**	1 436 943 118	1 436 943 118
Reinsurance payables	**R0830**	.	.
Payables (trade, not insurance)	**R0840**	786 041 028	786 041 028
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**	0	0
Total liabilities	**R0900**	525 503 855 097	504 157 939 349
Excess of assets over liabilities	**R1000**	**36 788 329 122**	**30 626 443 588**

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

		Line of Business for: **life insurance obligations**
		Insurance with profit participation
		C0220
Premiums written		
Gross	**R1410**	32 420 049 678
Reinsurers' share	**R1420**	3 429 828
Net	**R1500**	32 416 619 850
Premiums earned		
Gross	**R1510**	32 122 480 126
Reinsurers' share	**R1520**	3 429 828
Net	**R1600**	32 119 050 298
Claims incurred		
Gross	**R1610**	53 957 426 037
Reinsurers' share	**R1620**	0
Net	**R1700**	53 957 426 037
Changes in other technical provisions		
Gross	**R1710**	0
Reinsurers' share	**R1720**	0
Net	**R1800**	0
Expenses incurred	**R1900**	1 014 908 890
Administrative expenses		
Gross	**R1910**	121 789 067
Reinsurers' share	**R1920**	0
Net	**R2000**	121 789 067
Investment management expenses		
Gross	**R2010**	202 981 778
Reinsurers' share	**R2020**	0
Net	**R2100**	202 981 778
Claims management expenses		
Gross	**R2110**	152 236 334
Reinsurers' share	**R2120**	0
Net	**R2200**	152 236 334
Acquisition expenses		
Gross	**R2210**	131 938 156
Reinsurers' share	**R2220**	0
Net	**R2300**	131 938 156
Overhead expenses		
Gross	**R2310**	405 963 556
Reinsurers' share	**R2320**	0
Net	**R2400**	405 963 556
Other expenses	**R2500**	0
Total expenses	**R2600**	1 014 908 890
Total amount of surrenders	**R2700**	

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S.05.02.01

Premiums, claims and expenses by country

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**	32 420 049 678	R1410-C0230	32 420 049 678
Reinsurers' share	**R1420**	3 429 828	R1420-C0230	3 429 828
Net	**R1500**	32 416 619 850	R1500-C0230	32 416 619 850
Premiums earned				
Gross	**R1510**	32 122 480 126	R1510-C0230	32 122 480 126
Reinsurers' share	**R1520**	3 429 828	R1520-C0230	3 429 828
Net	**R1600**	32 119 050 298	R1600-C0230	32 119 050 298
Claims incurred				
Gross	**R1610**	53 957 426 037	R1610-C0230	53 957 426 037
Reinsurers' share	**R1620**		R1620-C0230	
Net	**R1700**	53 957 426 037	R1700-C0230	53 957 426 037
Changes in other technical provisions				
Gross	**R1710**		R1710-C0230	
Reinsurers' share	**R1720**		R1720-C0230	
Net	**R1800**	0	R1800-C0230	0
Expenses incurred	**R1900**	1 014 908 890	R1900-C0230	1 014 908 890
Other expenses	**R2500**			0
Total expenses	**R2600**			1 014 908 890

Annex I
S.12.01.01
Life and Health SLT Technical Provisions

		Insurance with profit participation	**Total (Life other than health insurance, incl. Unit-Linked)**
		C0020	**C0150**
Technical provisions calculated as a whole	**R0010**	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0020**	.	.
Technical provisions calculated as a sum of BE and RM			
Best Estimate			
Gross Best Estimate	**R0030**	486 834 436 667	486 834 436 667
Total recoverables from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	**R0040**	.	.
Recoverables from reinsurance (except SPV and Finite Re) before adjustment for expected losses	**R0050**	.	.
Recoverables from SPV before adjustment for expected losses	**R0060**	.	.
Recoverables from Finite Re before adjustment for expected losses	**R0070**	.	.
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**	.	.
Best estimate minus recoverables from reinsurance/SPV and Finite Re	**R0090**	486 834 436 667	486 834 436 667
Risk Margin	**R0100**	13 123 608 898	13 123 608 898
Amount of the transitional on Technical Provisions			
Technical Provisions calculated as a whole	**R0110**		
Best estimate	**R0120**	-9 858 627 575	-9 858 627 575
Risk margin	**R0130**	-265 759 287	-265 759 287
Technical provisions - total	**R0200**	489 833 658 704	489 833 658 704
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0210**	489 833 658 704	489 833 658 704
Best Estimate of products with a surrender option	**R0220**	.	.
Gross BE for Cash flow			
Cash out-flows			
Future guaranteed and discretionary benefits	**R0230**		
Future guaranteed benefits	**R0240**	373 341 343 427	
Future discretionary benefits	**R0250**	137 305 113 784	
Future expenses and other cash out-flows	**R0260**	14 269 929 208	14 269 929 208
Cash in-flows			
Future premiums	**R0270**	53 669 949 752	53 669 949 752
Other cash in-flows	**R0280**	0	0
Percentage of gross TP calculated using approximations	**R0290**		
Surrender value	**R0300**	486 834 436 667	486 834 436 667
Best estimate subject to transitional of the interest rate	**R0310**	0	0
Technical provisions without transitional on interest rate	**R0320**	499 958 045 565	499 958 045 565
Best estimate subject to volatility adjustment	**R0330**	486 834 436 667	486 834 436 667
Technical provisions without volatility adjustment and without others transitional measures	**R0340**	500 020 311 299	500 020 311 299
Best estimate subject to matching adjustment	**R0350**	0	0
Technical provisions without matching adjustment and without all the others	**R0360**	500 020 311 299	500 020 311 299

Annex I
S.22.01.01
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**	489 833 658 704	499 958 045 565	10 124 386 861	499 958 045 565	0	500 020 311 299	62 265 734	500 020 311 299	0	10 186 652 595
Basic own funds	**R0020**	44 592 791 556	36 999 501 410	-7 593 290 146	36 999 501 410	0	36 952 802 110	-46 699 300	36 952 802 110	0	-7 639 989 446
Excess of assets over liabilities	**R0030**	36 788 329 122	29 195 038 976	-7 593 290 146	29 195 038 976	0	29 148 339 676	-46 699 300	29 148 339 676	0	-7 639 989 446
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**	39 822 030 385	33 494 288 597	-6 327 741 788	33 494 288 597	0	33 520 966 496	26 677 900	33 520 966 496	0	-6 301 063 889
Tier 1	**R0060**	34 168 429 371	26 575 139 225	-7 593 290 146	26 575 139 225	0	26 528 439 925	-46 699 300	26 528 439 925	0	-7 639 989 446
Tier 2	**R0070**	5 653 601 014	6 919 149 371	1 265 548 358	6 919 149 371	0	6 992 526 571	73 377 200	6 992 526 571	0	1 338 925 557
Tier 3	**R0080**	0	0	0	0	0	0	0	0	0	0
Solvency Capital Requirement	**R0090**	11 307 202 028	13 838 298 743	2 531 096 715	13 838 298 743	0	13 985 053 142	146 754 399	13 985 053 142	0	2 677 851 115
Eligible own funds to meet MCR	**R0100**	35 186 077 554	27 807 363 892	-7 378 713 661	27 807 363 892	0	27 787 094 708	-20 269 184	27 787 094 708	0	-7 398 982 846
Minimum Capital Requirement	**R0110**	5 088 240 912	6 161 123 335	1 072 882 423	6 161 123 335	0	6 293 273 914	132 150 579	6 293 273 914	0	1 205 033 002

Annex I
S.23.01.01
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 as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	0	0		.	
Share premium account related to ordinary share capital	R0030	.	.		.	
Initial 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	.		.	.	.
Surplus funds	R0070	.	.			
Preference shares	R0090	.		.	.	.
Share premium account related to preference shares	R0110	.		.	.	.
Reconciliation reserve	R0130	19 509 004 937	19 509 004 937			
Subordinated liabilities	R0140	7 804 462 435		1 534 404 897	6 270 057 538	.
An amount equal to the value of net deferred tax assets	R0160	0				0,00
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	4 154 304 647	.	.	4 154 304 647	.
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 financial and credit institutions	R0230	.	.	.	.	.
Total basic own funds after deductions	R0290	44 592 791 556	32 634 024 475	1 534 404 897	10 424 362 185	0,00
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	.			.	.
Other ancillary own funds	R0390	.			.	.

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	R0400	10 143 427 498			10 143 427 498	.
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	54 736 219 054	32 634 024 475	1 534 404 897	20 567 789 683	0,00
Total available own funds to meet the MCR	R0510	44 592 791 556	32 634 024 475	1 534 404 897	10 424 362 185	
Total eligible own funds to meet the SCR	R0540	39 822 030 385	32 634 024 475	1 534 404 897	5 653 601 014	0,00
Total eligible own funds to meet the MCR	R0550	35 186 077 554	32 634 024 475	1 534 404 897	1 017 648 182	
SCR	R0580	11 307 202 028				
MCR	R0600	5 088 240 912				
Ratio of Eligible own funds to SCR	R0620	3,52				
Ratio of Eligible own funds to MCR	R0640	6,92				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	36 788 329 122	
Own shares (held directly and indirectly)	R0710	.	
Foreseeable dividends, distributions and charges	R0720	.	
Other basic own fund items	R0730	17 279 324 185	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0	
Reconciliation reserve	R0760	19 509 004 937	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770	12 544 193 230	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	0	
Total Expected profits included in future premiums (EPIFP)	R0790	12 544 193 230	

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Solvency Capital Requirement - for undertakings on Standard Formula

Article 112	**Z0010**	No

		Net solvency capital requirement	Gross solvency capital requirement	Allocation from adjustments due to RFF and Matching adjustments portfolios
		C0030	**C0040**	**C0050**
Market risk	**R0010**	4 149 932 286	67 418 397 486	0
Counterparty default risk	**R0020**	122 078 216	2 661 872 612	0
Life underwriting risk	**R0030**	11 135 716 980	56 191 575 623	0
Health underwriting risk	**R0040**	.	.	.
Non-life underwriting risk	**R0050**	.	.	.
Diversification	**R0060**	-2 551 589 188	-27 436 077 662	
Intangible asset risk	**R0070**	.	.	
Basic Solvency Capital Requirement	**R0100**	12 856 138 294	98 835 768 058	

Calculation of Solvency Capital Requirement		**C0100**
Adjustment due to RFF/MAP nSCR aggregation	**R0120**	0
Operational risk	**R0130**	2 190 754 965
Loss-absorbing capacity of technical provisions	**R0140**	-85 979 629 764
Loss-absorbing capacity of deferred taxes	**R0150**	-3 739 691 232
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	.
Solvency Capital Requirement excluding capital add-on	**R0200**	11 307 202 028
Capital add-on already set	**R0210**	.
Solvency capital requirement	**R0220**	11 307 202 028
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 Requirement for ring fenced funds	**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**	137 305 113 784

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR_L Result	**R0200**	6 161 123 335

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole provisions	Net (of reinsurance/SPV) total capital at risk
		C0050	**C0060**
Obligations with profit participation - guaranteed benefits	**R0210**	349 529 322 883	
Obligations with profit participation - future discretionary benefits	**R0220**	137 305 113 784	
Index-linked and unit-linked insurance obligations	**R0230**	0	
Other life (re)insurance and health (re)insurance obligations	**R0240**	0	
Total capital at risk for all life (re)insurance obligations	**R0250**		526 291 864 324

Overall MCR calculation

		C0070
Linear MCR	**R0300**	6 161 123 335
SCR	**R0310**	11 307 202 028
MCR cap	**R0320**	5 088 240 912
MCR floor	**R0330**	2 826 800 507
Combined MCR	**R0340**	5 088 240 912
Absolute floor of the MCR	**R0350**	35 238 060

Minimum Capital Requirement	**R0400**	5 088 240 912

S.28.02.01

Minimum Capital Requirement - Both life and non-life insurance activity

		Non-life activities $MCR_{(L,NL)}$ Result	Life activities $MCR_{(L,L)}$ Result
		C0070	**C0080**
Linear formula component for life insurance and reinsurance obligations	**R0200**	.	6 161 123 335

		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole provisions	Net (of reinsurance/SPV) total capital at risk
		C0110	**C0120**
Obligations with profit participation - guaranteed benefits	**R0210**	349 529 322 883	
Obligations with profit participation - future discretionary benefits	**R0220**	137 305 113 784	
Index-linked and unit-linked obligations	**R0230**	0	
Other life (re)insurance and health (re)insurance obligations	**R0240**	0	
Total capital at risk for all life (re)insurance obligations	**R0250**		526 291 864 324

Overall MCR calculation		**C0130**
Linear MCR	**R0300**	6 161 123 335
SCR	**R0310**	11 307 202 028
MCR cap	**R0320**	5 088 240 912
MCR floor	**R0330**	2 826 800 507
Combined MCR	**R0340**	5 088 240 912
Absolute floor of the MCR	**R0350**	35 238 060
MCR	**R0400**	5 088 240 912

Notional non-life and life MCR calculation		Non-life activities	Life activities
		C0140	**C0150**
Notional linear MCR	**R0500**	0	6 161 123 335
Notional SCR excluding ~~with~~ add-on (annual or latest calculation)	**R0510**	0	11 307 202 028
Notional MCR cap	**R0520**	0	5 088 240 912
Notional MCR floor	**R0530**	0	2 826 800 507
Notional Combined MCR	**R0540**	0	5 088 240 912
Absolute floor of the notional MCR	**R0550**	23 809 500	35 238 060
Notional MCR	**R0560**	23 809 500	5 088 240 912