KLP

SFCR 2016

Solvency and Financial Condition Report

Kommunal Landspensjonskasse gjensidig forsikringsselskap – org.no 938 708 606

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

Summary

<u>Business</u>
Kommunal Landspensjonskasse (KLP) is a mutual insurance company. The Company's principal product is public-sector occupational pension scheme. The Company is owned by its customers, which are Norwegian municipalities, county administrations, health enterprises and companies associated with the public sector.

<u>Performance</u>
The risk result for 2016 was NOK 788 million within public-sector occupational pension scheme. The corresponding figure for 2015 was NOK 499 million.

The Company's capital management is split into a customer portfolio (NOK 462 billion) which covers all the pension assets, and a corporate portfolio (NOK 32 billion) which covers the investment of the Company's remaining assets.

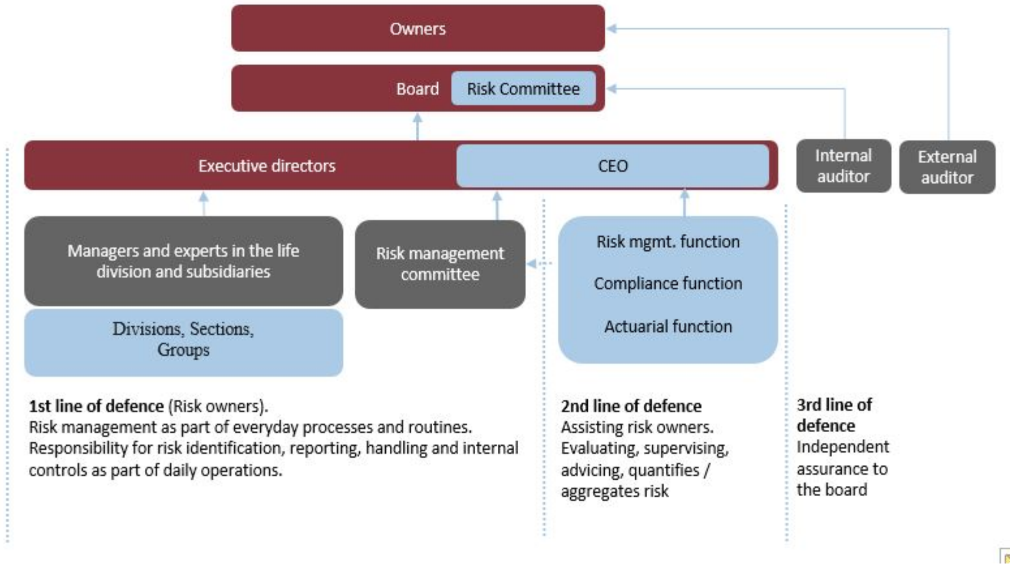
Financial income from the customer portfolios totalled NOK 24.7 billion in 2016 (NOK 15.5 billion in 2015). This represented a return of 5.8 per cent for the year. Financial income from investments in the corporate portfolio totalled NOK 1.4 billion in 2016 (NOK 1.2 billion in 2015), a return of 4.7 per cent.

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

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

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

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



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

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

Risk profile
The Company'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. The risk that more people could suffer early disability is another material underwriting risk. The risk of customers moving away from KLP is not a risk to the Company's financial strength. Capital and capital requirements related to this are nevertheless included in the calculations of KLP's capital adequacy under Solvency II.

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

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

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

Capital management
KLP applies a transitional measure to Solvency II which means that, in 2016, the technical provisions as calculated in the accounts can also be used to calculate capital adequacy. This results in solvency capital coverage of 304 per cent. Even without applying the transitional measure, KLP has solvency capital coverage of 209 per cent, which is also well over its own target of at least 150 per cent.

KLP's Tier 2 capital amounts to NOK 20.1 billion, made up of subordinated loans, the risk equalisation fund and supplementary capital. Supplementary capital makes up roughly half of this, and is a valuation of the Company's right to call in additional capital from its owners. Eligible Tier 2 capital is limited to half of the Solvency Capital Requirement. This totals NOK 6.4 billion. In the event of an increase in the Solvency Capital Requirement, the unused Tier 2 capital (NOK 13.7 billion) will reduce the negative effect on capital adequacy significantly.

A. Business and performance

A.1 Business

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

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

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

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

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

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

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

A.2 Underwriting performance

The ordinary risk result for 2016 was NOK 788 million within public-sector occupational pension scheme. The corresponding figure for 2015 was NOK 499 million. The risk result does not generally fluctuate much from year to year. However, some fluctuations have to be expected. The fact that the risk result was so much higher than last year is mainly the result of assumptions as to mortality. The K2013 mortality tables are still felt to allow good margins, and the trend in 2016 shows that margins overall are still somewhat greater than expected.

Viewed in conjunction with a robust level of premiums and provisions – which KLP has after the introduction of K2013 – KLP also has significant resources in the risk equalisation fund (RUF), which reduces the risk of any loss from underwriting risk having to be covered by equity other than the RUF.

In order to administer the pension schemes and the risk coverage, the Company charges a cost element in the premiums. This element is included in the Company's administration result, which is discussed under A.5.

A.3 Investment performance

The Company's capital management is split into a customer portfolio (NOK 462 billion) which covers all the pension assets, and a corporate portfolio (NOK 32 billion) 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 main categories: The common portfolio (NOK 460 billion) and the investment portfolio (NOK 2 billion). All returns from the management of these portfolios are credited to customers; nothing falls to the Company.

In the common portfolio, the Company has undertaken to deliver a minimum annual return. In the investment portfolio, KLP has to honour the investment guarantee after five years, while customers have to cover any deficit in annual return during the 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 shown in the table under A.5 below.

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. These 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 from the Company's equity in any case.

Financial income from the customer portfolios totalled NOK 24.7 billion in 2016, against NOK 15.5 billion in 2015. This represented a total return of 5.8% against 4.0% in 2015 in the common portfolio; the equivalent figures for the investment portfolio were 6.2% and 4.0%. In 2016 the Company generated surplus returns (after provisions to the securities adjustment fund) of NOK 7.9 billion, of which NOK 4.0 billion and NOK 3.9 billion were allocated to customers' supplementary reserves and the premium fund respectively. The provision to the securities adjustment fund was NOK 6.9 billion.

The costs of managing customer assets were NOK 179 million. The costs were 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 reported under A.5 below.

A.3.1.1 Returns from asset classes

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 accounts, partly because derivative items are shown net in the table while they are reported gross in the accounts. The two largest contributors to financial income in 2016 were property and equities. The return on equities and alternative investments includes the effects of currency hedging and strategic positions.

ASSETS	31/12/2016 NOK billion	Shareholdings	Return 2016	Return 2015
Property	56.9	12.5%	12.5%	11.0%
Lending	52.7	11.6%	2.4%	2.7%
Equities and alternative investments	91.3	20.1%	9.8%	4.6%
Long-term/HTM bonds	121.9	26.8%	4.3%	4.5%
Short-term bonds	90.9	20.0%	3.5%	2.0%
Liquidity/money markets	40.2	8.9%	1.7%	0.9%
TOTAL	453.9	100%	5.8%	4.0%

A.3.2 Investment performance for the corporate portfolio

Financial income from investments in the corporate portfolio totalled NOK 1.4 billion in 2016 compared to NOK 1.2 billion in 2015. This gave a return on equity of 4.7 per cent in 2016, compared with 4.8 per cent in 2015. 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.

The table below shows the breakdown of the portfolio into main asset classes and the returns on market investments per asset class.

ASSETS	31/12/2016 NOK billion	Allocation	Return 2016	Return 2015
Shares in subsidiaries	4.3	13.8%		
Property	2.7	8.7%	15.3%	13.7%
Long-term shareholdings and associated companies.	0.4	1.4%	11.4%	41.9%
Hedging subordinated loans	7.0	22.3%	-1.3%	11.8%
Long-term/HTM bonds	7.7	24.5%	4.6%	5.0%
Short-term bonds	2.6	8.2%	2.9%	1.3%
Liquidity/money markets	6.6	21.1%	2.3%	0.8%
Total	**31.4**	**100%**		

A.4 Performance of other activities

All significant income and expenses are included in the above.

A.5 Any other information

The above covers performance elements paid in through the annual premiums and included in the Company's profit/loss for the year: the interest guarantee premium and the administration result. KLP is a pure mutually-owned company and these performance elements help to ensure that the growth in equity tracks the growth in pension obligations. The table below shows the amount of these elements for 2016 and 2015. The necessary growth in equity over and above this level is provided by calling in an annual capital contribution from the owners.

Performance elements	**31/12/2016** NOK million	**31/12/2015** NOK million
Interest guarantee premium	690	826
Administration result	-49	263
Total	641	1089

The Company's total profit/loss before tax including provision to the risk equalisation fund was NOK 2.1 billion in 2016, against NOK 4.9 billion in 2015. The big difference is mainly attributable to exceptionally large provisions to the risk equalisation fund in 2015.

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 organised and implemented, is considered appropriate to KLP's business.

B.1 General information on the system of governance

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

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

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

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

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

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

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

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

Group senior management

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

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

The Board's sub-committees

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

Remuneration committee

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

Audit committee

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

Risk committee

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

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

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

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

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

B.1.2 Details of remuneration policy

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

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

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

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

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

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

B.2 'Fit and proper' requirements

B.2.1 The Company's internal rules

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

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

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

<u>Requirements for the Board as a whole</u>
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.

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

B.2.3 Suitability requirement (conduct)

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

For persons listed above, KLP assesses the following aspects:

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

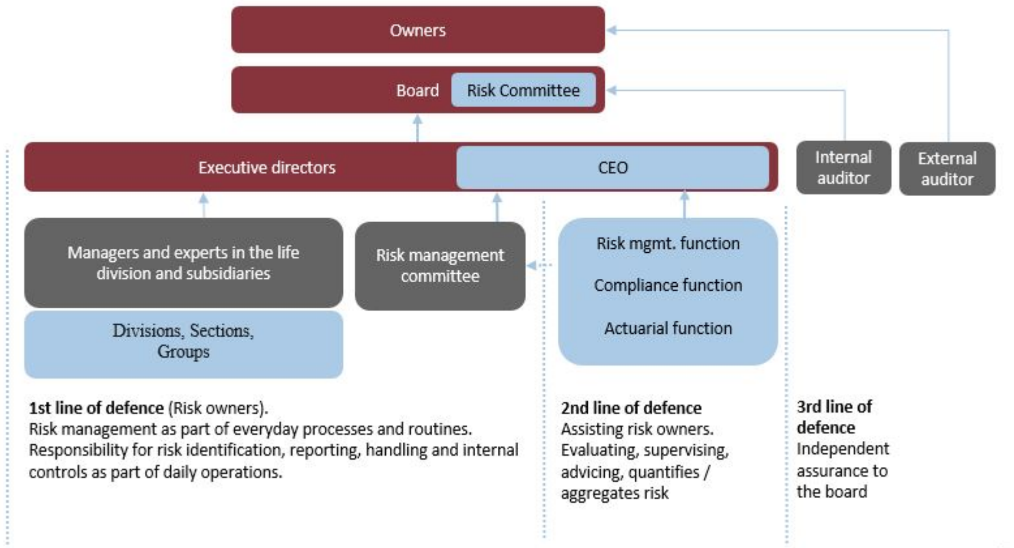
Persons to be assessed must present a copy of a police certificate no more than three months old. Information may also be obtained from the publicly accessible Register of Bankruptcies and the Register of Company Accounts.

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

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

B.3.1 Organisation of the risk management system

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



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

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

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

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

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

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

B.3.2 Implementation of the risk management system

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

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

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

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

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

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

Reporting
Risk reporting in KLP takes place at many levels. At each Board meeting, the Group CEO includes the topic in his briefing and ensures that a separate briefing on risk management and capital management is a fixed item on the agenda. The Board also receives a detailed monthly report on developments in the Group. The risk management committee monitors changes in the policy rule at each meeting.

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

B.3.3 Own risk and solvency assessment

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

<u>Assumptions</u>
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.

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

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

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

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

B.4 Internal control system

B.4.1 KLP's internal control system

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

- The risk management system helps to ensure that KLP attains its goals by:
- Identifying, measuring, monitoring and reporting on all material risks that could prevent target attainment.

- Establishing appropriate risk strategies to manage risk-taking.
- Establishing contingency plans to handle the impact of any remaining risks.

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

The following principles govern KLP's corporate governance:
- Goals should be set for all key areas of activity
- Risks associated with target attainment should be systematically identified, assessed and documented
- Measures should be established to handle and control material risks
- Appropriate reporting procedures should be established for unwanted events

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

B.4.2 The compliance function

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

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

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

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

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

B.5 Internal audit function

B.5.1 How internal audit works

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

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

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

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

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

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

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

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

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

B.6 Actuarial function

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

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

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

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

B.7 Outsourcing

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

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

The guidelines contain the following:

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

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

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

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

B.8 Any other information

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

C. Risk profile

C.1 Underwriting risk

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

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

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

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

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

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

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

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

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

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

C.1.1 Measurement of underwriting risk

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

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

C.1.2 Management of underwriting risk

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

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

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

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

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

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

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

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

C.2 Market risk

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

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

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

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

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

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

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

Property

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

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

Interest

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

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

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

Other

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

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

There were no significant changes in market risk in 2016.

C.2.1 Measurement of market risk

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

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

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

C.2.2 Management of market risk

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

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

C.3 Credit risk

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

C.3.1 Measurement and management of credit risk

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

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

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

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

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

C.4 Liquidity risk

The need for liquidity in KLP to cover regular commitments is mainly related to pension payments and coverage of ongoing operating costs. There is also a need for liquidity in connection with currency and derivative trading. KLP's liquidity needs are normally covered by quarterly contributions from customers.

KLP has a liquidity portfolio which should be able to handle regular payments. In normal circumstances this should have sufficient funds to prevent the Company needing to release funds from other portfolios for expected payments. As the bulk of KLP's resources are invested in very liquid assets, the liquidity risk is judged to be limited.

C.4.1 Measurement and management of liquidity risk

KLP has a separate liquidity strategy covering measurement, management and contingency planning relating to liquidity risk.

Liquidity risk here means 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. Liquidity needs that may arise as a result of people moving will also form part of the overall assessment.

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.

C.4.2 Expected earnings from future premiums

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

C.5 Operational risk

KLP defines operational risk as

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

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

C.5.1 Measurement and management of operational risk

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

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

C.6 Other material risks

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

C.7 Any other information

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

D. Valuation for Solvency purposes

D.1 Assets

Asset class (figures in NOK billions)	Solvency II	Accounts
Intangible assets	0.0	0.3
Assets after tax (deferred tax assets)	13.2	0.3
Property (other than for own use)	1.0	1.0
Investments in associates, including participations	61.8	61.8
Equities etc.	27.3	27.3
Bonds	217.6	207.9
Investment funds etc.	129.6	129.6
Derivatives	1.6	1.6
Deposits other than cash equivalents	1.6	1.6
Lending	53.4	52.9
Other assets*	12.4	12.4
Total	519.6	496.7

*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 assumed service life. They are assessed at least once a year to determine whether the recoverable value is at least equal to the book value. If the recoverable amount is less than the book value, the asset is depreciated to the recoverable amount. Intangible assets are posted to the balance-sheet in the amount of NOK 0.3 billion.

D.1.2 Assets after tax (deferred tax assets)

Valuation, Solvency II:
Deferred tax as reported in the Solvency II balance-sheet is split into a deferred tax asset of NOK 13.2 billion and a deferred tax liability of NOK 15.4 billion.

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

Valuation, accounts:
Deferred tax assets are reported in the financial statements at NOK 0.3 billion. This represents nominal value minus any impairment of the holding which is not assumed to be usable and so has no value. The nominal value is calculated on the basis of differences

between the accounting and taxation timing of changes in the value of assets and liabilities. To the extent that these differences will reverse at a later date, there will be deferred tax (accounting income taken before taxable income) or a deferred tax asset (taxable income taken before accounting income). Temporary differences are offset against each other where they are expected to reverse within the same time frame and the differences can be equalised through Group-level allocations. Net temporary differences which mean that the Company has brought forward taxable income or deferred taxable deductions are posted as deferred tax assets.

D.1.3 Property (other than for own use)

Solvency II valuation equal to reported 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 interval valuation model, a selection of the Group's property stock is regularly valued by external, independent and qualified valuers. In the event of significant deviation from our own assessment of fair value, the differences are analysed and the valuation model's parameters are adjusted if this proves necessary.

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 organised as companies whose purpose is to own investment property. These investments are listed under investments in associates, including participatory interests, and make up NOK 57.1 billion of the 61.8 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 interval valuation model, a selection of the Group's property stock is regularly valued by external, independent and qualified valuers. In the event of significant deviation from our own assessment of fair value, the differences are analysed and the valuation model's parameters are adjusted if this proves necessary.

Valuation, accounts:
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 reported value:
Equities etc. are measured at fair value. Fair value should be a representative price based on what a corresponding asset would have been traded for on normal market terms and conditions.

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

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

D.1.6 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 business terms and conditions, reference to trading in similar instruments and pricing using externally collected yield curves and yield spread curves. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

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

Bonds where the intention is to receive a fixed rate of interest for the whole term to maturity are valued for accounting purposed at amortised cost. This amounts to NOK 137.2 billion out of a total of NOK 207.9 billion. The difference in valuation is NOK 9.7 billion.

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

D.1.7 Asset management companies etc.

Solvency II valuation equal to reported 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 Private Equity and 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 reported 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 amortised cost This produces a valuation NOK 0.5 billion lower than the fair value reported in the Solvency II balance-sheet.

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

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

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

D.1.11 Other assets

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

D.2 Technical provisions

D.2.1 Value of technical provisions, basis, methods and assumptions

KLP is a provider of public-sector occupational pensions to municipalities and health enterprises. The table below shows technical provisions under Solvency II and technical provisions in the financial statements. Technical provisions under Solvency II are shown here both with and without the temporary deduction described in Article 308d of Directive 2009/138/EC. At the end of 2016, the provisions with this deducted were valued the same as in the financial statements. Solvency II provisions in the table have been calculated with the volatility adjustment described in Article 77b of Directive 2009/138/EC.

Technical and underwriting provisions, NOK billions	Solvency II		Accounts
	With temp. deduction	Without temp. deduction	
Life insurance – insurance with profit-sharing	**452.4**	**463.4**	**452.4**
Guaranteed benefits	309.5	317.0	
Discretionary benefits	130.2	133.4	
Risk margin	12.7	13.0	

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

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

Technical provisions are made up of:

- **Guaranteed benefits** including future pension payments, transferred obligations and reserves at the end of the projection minus premiums paid. They also include the value of the premium fund on the calculation date.
- **Discretionary benefits** are mainly future allocations to the premium fund, but also include buffer provisions left at the end of the projection such as supplementary provisions, the securities adjustment fund and the risk equalisation fund.
- The **risk margin** represents the present value of future capital costs associated with the capital requirement that would be assumed by a reference enterprise on taking over the technical provisions. The Group estimates this by assuming that future capital requirements will decrease in proportion to the best estimate (method 2 in the EIOPA's 'Guidelines on the valuation of technical provisions').

D.2.2 Uncertainty related to the value of technical provisions

Where complex cash flow models are used, as in KLP's ALM 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. Such 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.

D.2.3 Differences between valuation principles for solvency and financial accounting purposes

Valuation, Solvency II:
The technical provisions in Solvency II are made up of a 'best estimate' and a 'risk margin', as described in section D.2.1. The 'best estimate' is based on updated calculation principles, independent of the basis for premium calculation. The calculation principles do not include

any safety margins. All expected receipts and payments associated with the business are taken into account, but in such a way that future premiums linked to future earnings are not included in the cash flows. The provisions also include expected future surpluses to be allocated to customers, the value of the return guarantee, the earning element of the administration premium and the interest guarantee premium, and annual receipts of equity contributions. A (risk-free) market rate, in the form of specified interest rates, is used to discount the cash flows.

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

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

D.2.4 Matching adjustment

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

D.2.5 Volatility adjustment

KLP applies the volatility adjustment described in Article 77d of the Solvency II Directive.

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

Effect of not applying the volatility adjustment, NOK billion	
Technical provisions	0.2
Solvency Capital Requirement	0.4
Minimum Capital Requirement	0.5
Own funds	-0.1
Eligible own funds, SCR	0.0
Eligible own funds, MCR	0.1

D.2.6 Transitional measure with 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.2.7 Transitional measure for technical provisions

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

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

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

Effect of not using the transitional measure, NOK billion	
Technical provisions	11.0
Solvency Capital Requirement	2.1
Minimum Capital Requirement	0.0
Own funds	-8.3
Eligible own funds, SCR	-7.8
Eligible own funds, MCR	-8.9

D.2.8 Significant changes in assumptions

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

D.3 Other liabilities

The table below shows the breakdown of other liabilities.

Other liabilities, NOK billion	Solvency II	Accounts
Hybrid Tier 1 perpetual capital	1.7	1.7
Subordinated debt	6.6	6.2
Pensions for own employees	0.5	0.5
Deferred tax	15.4	0.0
Other liabilities	8.2	8.2
Total	32.4	16.6

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 amortised 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 amortised cost. Subordinated debt in foreign currency has been translated to NOK using the exchange rate at the end of the reporting period. This means that the accounting value is NOK 0.4 billion less than the Solvency II valuation.

D.3.3 Pensions for own employees

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

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

The table below shows the pension obligations in NOK billions

Over/under-financing of the pension scheme	Joint scheme	Via operation	Total
Present value of the defined-benefit pension obligation	1.1	0.1	1.2
Fair value of the pension assets	0.8	0.0	0.8
Net pension obligation	0.3	0.1	0.5

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

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

D.3.4 Deferred tax:

Valuation, Solvency II:
See discussion in section D.1.4.

Valuation, accounts:
Deferred tax is netted off against deferred tax liabilities. The net amount is the deferred tax liability; see discussion in section D.1.4.

D.3.5 Other liabilities

Solvency II valuation equal to reported 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

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

D.5 Any other information

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

E. Capital management

E.1 Own funds

Purpose
KLP is a mutually-owned life insurance company whose main purpose is to manage the funds invested by its members in the Company either as owners (equity) or as customers (pensions) as well as possible within the Company's risk capacity.

The purpose of the Company's Tier 1 and 2 capital 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.

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

The Company applies the transitional measure for technical provisions, but sets targets for capital adequacy without using this. For the same reason, capital adequacy is reported without using the transitional measure in notes to the Company's accounts. Solvency capital coverage without using the transitional measure is 209 per cent, well above its own target, which is in turn well above the regulatory requirements.

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

Capital tiers
Tier 1
The Company's unrestricted Tier 1 regulatory capital is made up of equity contributions plus a reconciliation reserve. The reconciliation reserve ensures that the difference between assets and liabilities in the Solvency II balance-sheet is reflected in Tier 1 and 2 capital. The hybrid Tier 1 perpetual capital is also included in Tier 1 (restricted). All Tier 1 capital is classified as own funds.

Tier 2
Tier 2 includes subordinated loans and the risk equalisation fund as basic own funds. It also includes unpaid equity contributions and unpaid deposits reported as supplementary capital under the right to retrospective assessment. This supplementary capital is calculated as 2.5 per cent of KLP's total premium reserve at any given time, with approval for this method granted until 31 December 2019. Approval from the Financial Supervisory Authority of Norway was granted on 22 December 2015.

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

Outstanding loans
Hybrid Tier 1 securities, JPY 15 billion
The interest on the loan is a fixed USD rate of 5.07 per cent p.a. The loan is perpetual, but KLP has the right to repay it by 28 April 2034. If KLP does not exercise its right to repay the loan in

2034, it will switch to variable interest. The credit margin will then increase by 1 percentage point to 6-month JPY LIBOR interest + a margin of 3.30 per cent p.a. The loan was issued on 22 April 2014.

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

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

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

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

The Company's own funds, NOK billion	31/12/2016	31/12/2015
Unrestricted capital	31.1	28.1
Hybrid Tier 1 perpetual capital	1.7	1.6
Total own funds (Tier 1)	32.7	29.7
Total eligible own funds (Tier 1)	32.7	29.7
Subordinated debt	6.6	9.7
Risk equalisation fund	3.9	3.4
Supplementary capital	9.6	8.9
Total own funds (Tier 2)	20.1	22.0
Total eligible own funds (Tier 2)	6.4	6.1
Deferred tax assets	0	0
Total own funds (Tier 3)	0	0
Total eligible own funds (Tier 3)	0	0
Eligible own funds able to cover the Solvency Capital Requirement	39.1	35.8

Unrestricted capital is the difference between assets and liabilities in the Solvency II balance-sheet (NOK 35.0 billion) minus the risk equalisation fund.

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

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

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

E.1.2 Classification of own funds able to cover the Minimum Capital Requirement

Own funds able to cover the Minimum Capital Requirement at the end of 2016 and of 2015 were made up as follows:

Own funds able to cover the Minimum Capital Requirement, NOK billion	31/12/2016	31/12/2015
Unrestricted capital	31.1	28.1
Hybrid Tier 1 perpetual capital	1.7	1.6
Total own funds in Tier 1.	32.7	29.7
Total eligible own funds in Tier 1.	32.7	29.7
Subordinated debt	6.6	9.7
Risk equalisation fund	3.9	3.4
Total own funds in Tier 2.	10.5	13.1
Total eligible own funds in Tier 2.	1.0	0.8
Eligible own funds able to cover the Minimum Capital Requirement	33.7	30.5

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

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

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

Reported equity and difference between assets and liabilities under Solvency II, NOK billion	31/12/2016	31/12/2015
Equity contributed	11.7	10.4
Risk equalisation fund	3.9	3.4
Other retained earnings	12.2	9.4
Total owners' equity	27.8	23.2
Balance of assets and liabilities under Solvency II	35.0	31.5
Difference	7.2	8.3

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

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement

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

Minimum Capital Requirement: NOK 5.1 billion.
Solvency Capital Requirement: NOK 12.9 billion.

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

Composition of the capital requirement, NOK billion	31/12/2016	31/12/2015
Market risk	4.3	5.4
Counterparty risk	0.1	0.1
Underwriting risk	11.2	10.4
Diversification	-2.6	-3.0
Operational risk	2.0	1.9
Loss-absorption capacity for deferred tax	-2.1	-2.6
Solvency Capital Requirement	12.9	12.1

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% across the board. Both simplifications are used to make the calculation work easier and produce insignificant increases in the capital requirement for counterparty risk.

E.2.3 Company-specific parameters

KLP does not use any company-specific parameters.

E.2.4 Minimum Capital Requirement

At the end of 2016, the linear formula component for the Minimum Capital Requirement was calculated from the following input data:

Input data for the linear formula component, NOK billion	31/12/2016	31/12/2015
Guaranteed benefits	317.0	281.6
Discretionary benefits	133.4	130.5
Capital at risk	474.6	500.5
Linear formula component	5.1	4.0

The Minimum Capital Requirement is then calculated as follows:

Calculation of the Minimum Capital Requirement, NOK billion	31/12/2016	31/12/2015
Linear formula component	5.1	4.0
Solvency Capital Requirement	12.9	12.1
Ceiling for Minimum Capital Requirement	5.8	5.4
Floor for Minimum Capital Requirement	3.2	3.0
Combined Minimum Capital Requirement	5.1	4.0
Minimum Capital Requirement	5.1	4.0

The amount of the Minimum Capital Requirement is affected by the change described in section D.2.8 on the classification of the premium fund at the calculation date. If the same assumption had been used at the end of 2015, the Minimum Capital Requirement would have been NOK 5.3 billion, slightly more than at the end of 2016.

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

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 and non-compliance with the Solvency Capital Requirement

KLP satisfies both the Minimum Capital Requirement and the Solvency Capital Requirement.

E.6 Any other information

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

Approval

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

Sverre Thornes, CEO

Templates

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

QRT code	QRT name
S.01.02.01	Basic information – general
S.02.01.01	Balance-sheet
S.05.01.01	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.12.01.01	Life and Health SLT technical provisions
S.22.01.01	Impact of long-term guarantees and transitional measures
S.23.01.01	Own funds
S.25.01.01	Solvency Capital Requirement – for undertakings using the standard formula
S.28.01.01	Minimum Capital Requirement – Only life or non-life insurance or reinsurance activity
S.28.02.01	Minimum Capital Requirement – Both life and non-life insurance activity

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**	2017-03-29
Reporting reference date	**R0090**	2016-12-31
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**	.	252 777 802
Deferred tax assets	**R0040**	13 238 609 786	335 783 668
Pension benefit surplus	**R0050**	.	.
Property, plant & equipment held for own use	**R0060**	45 870 858	45 870 858
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	440 561 566 886	430 797 011 994
Property (other than for own use)	**R0080**	1 002 734 021	1 002 734 021
Holdings in related undertakings, including participations	**R0090**	61 830 101 770	61 830 103 343
Equities	**R0100**	27 345 608 871	27 345 608 583
Equities - listed	**R0110**	25 932 082 169	.
Equities - unlisted	**R0120**	1 413 526 702	.
Bonds	**R0130**	217 631 815 457	207 867 996 229
Government Bonds	**R0140**	66 283 949 087	.
Corporate Bonds	**R0150**	151 347 866 369	.
Structured notes	**R0160**	.	.
Collateralised securities	**R0170**	.	.
Collective Investments Undertakings	**R0180**	129 595 534 283	129 595 534 282
Derivatives	**R0190**	1 584 564 853	1 583 827 904
Deposits other than cash equivalents	**R0200**	1 571 207 632	1 571 207 632
Other investments	**R0210**	.	.
Assets held for index-linked and unit-linked contracts	**R0220**	.	0
Loans and mortgages	**R0230**	53 407 574 238	52 886 389 938
Loans on policies	**R0240**	.	.
Loans and mortgages to individuals	**R0250**	3 212 870 039	.
Other loans and mortgages	**R0260**	50 194 704 199	.
Reinsurance recoverables from:	**R0270**	.	.
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**	486 408 348	486 408 348
Reinsurance receivables	**R0370**	.	.
Receivables (trade, not insurance)	**R0380**	415 143 384	415 143 384
Own shares (held directly)	**R0390**	.	.
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	.	.
Cash and cash equivalents	**R0410**	10 029 497 556	10 029 031 790
Any other assets, not elsewhere shown	**R0420**	1 414 756 848	1 414 756 848
Total assets	**R0500**	**519 599 427 904**	**496 663 174 629**

		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**	452 375 290 134	452 375 262 583
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**	452 375 290 134	452 375 262 583
Technical provisions calculated as a whole	**R0660**	0	
Best Estimate	**R0670**	439 682 654 693	
Risk margin	**R0680**	12 692 635 441	
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**	427 036 869	427 036 869
Pension benefit obligations	**R0760**	474 320 012	474 320 012
Deposits from reinsurers	**R0770**	.	.
Deferred tax liabilities	**R0780**	15 377 635 819	0
Derivatives	**R0790**	4 074 396 985	4 073 660 036
Debts owed to credit institutions	**R0800**	.	.
Financial liabilities other than debts owed to credit institutions	**R0810**	884 841 495	884 841 495
Insurance & intermediaries payables	**R0820**	622 800 571	622 800 571
Reinsurance payables	**R0830**	.	.
Payables (trade, not insurance)	**R0840**	2 149 314 448	2 149 314 448
Subordinated liabilities	**R0850**	8 254 692 441	7 870 465 070
Subordinated liabilities not in Basic Own Funds	**R0860**	.	.
Subordinated liabilities in Basic Own Funds	**R0870**	8 254 692 441	7 870 465 070
Any other liabilities, not elsewhere shown	**R0880**	0	0
Total liabilities	**R0900**	484 640 328 775	468 877 701 085
Excess of assets over liabilities	**R1000**	**34 959 099 129**	**27 785 473 544**

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**	36 855 813 975
Reinsurers' share	**R1420**	1 454 731
Net	**R1500**	36 854 359 244
Premiums earned		
Gross	**R1510**	33 606 311 705
Reinsurers' share	**R1520**	1 454 731
Net	**R1600**	33 604 856 974
Claims incurred		
Gross	**R1610**	56 275 716 675
Reinsurers' share	**R1620**	
Net	**R1700**	56 275 716 675
Changes in other technical provisions		
Gross	**R1710**	
Reinsurers' share	**R1720**	
Net	**R1800**	0
Expenses incurred	**R1900**	1 152 755 023
Administrative expenses		
Gross	**R1910**	138 330 603
Reinsurers' share	**R1920**	
Net	**R2000**	138 330 603
Investment management expenses		
Gross	**R2010**	195 968 354
Reinsurers' share	**R2020**	
Net	**R2100**	195 968 354
Claims management expenses		
Gross	**R2110**	138 330 603
Reinsurers' share	**R2120**	
Net	**R2200**	138 330 603
Acquisition expenses		
Gross	**R2210**	126 803 053
Reinsurers' share	**R2220**	
Net	**R2300**	126 803 053
Overhead expenses		
Gross	**R2310**	553 322 411
Reinsurers' share	**R2320**	
Net	**R2400**	553 322 411
Other expenses	**R2500**	0
Total expenses	**R2600**	1 152 755 023
Total amount of surrenders	**R2700**	

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**	36 855 813 975	R1410-C0230	36 855 813 975
Reinsurers' share	**R1420**	1 454 731	R1420-C0230	1 454 731
Net	**R1500**	36 854 359 244	R1500-C0230	36 854 359 244
Premiums earned				
Gross	**R1510**	33 606 311 705	R1510-C0230	33 606 311 705
Reinsurers' share	**R1520**	1 454 731	R1520-C0230	1 454 731
Net	**R1600**	33 604 856 974	R1600-C0230	33 604 856 974
Claims incurred				
Gross	**R1610**	56 275 716 675	R1610-C0230	56 275 716 675
Reinsurers' share	**R1620**		R1620-C0230	
Net	**R1700**	56 275 716 675	R1700-C0230	56 275 716 675
Changes in other technical provisions				
Gross	**R1710**		R1710-C0230	
Reinsurers' share	**R1720**		R1720-C0230	
Net	**R1800**	0	R1800-C0230	0
Expenses incurred	**R1900**	1 152 755 023	R1900-C0230	1 152 755 023
Other expenses	**R2500**			0
Total expenses	**R2600**			1 152 755 023

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**	450 375 773 739	450 375 773 739
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**	450 375 773 739	450 375 773 739
Risk Margin	**R0100**	13 001 321 400	13 001 321 400
Amount of the transitional on Technical Provisions			
Technical Provisions calculated as a whole	**R0110**		
Best estimate	**R0120**	-10 693 119 046	-10 693 119 046
Risk margin	**R0130**	-308 685 959	-308 685 959
Technical provisions - total	**R0200**	452 375 290 134	452 375 290 134
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0210**	452 375 290 134	452 375 290 134
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**	353 362 026 040	
Future discretionary benefits	**R0250**	133 380 599 854	
Future expenses and other cash out-flows	**R0260**	14 018 064 823	14 018 064 823
Cash in-flows			
Future premiums	**R0270**	67 575 916 977	67 575 916 977
Other cash in-flows	**R0280**	0	0
Percentage of gross TP calculated using approximations	**R0290**		
Surrender value	**R0300**	450 375 773 739	450 375 773 739
Best estimate subject to transitional of the interest rate	**R0310**	0	0
Technical provisions without transitional on interest rate	**R0320**	463 377 095 139	463 377 095 139
Best estimate subject to volatility adjustment	**R0330**	450 375 773 739	450 375 773 739
Technical provisions without volatility adjustment and without others transitional measures	**R0340**	463 575 669 463	463 575 669 463
Best estimate subject to matching adjustment	**R0350**	0	0
Technical provisions without matching adjustment and without all the others	**R0360**	463 575 669 463	463 575 669 463

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	452 375 290 134	463 377 095 139	11 001 805 005	463 377 095 139	0	463 575 669 463	198 574 324	463 575 669 463	0	11 200 379 329
Basic own funds	R0020	43 213 791 570	34 962 437 816	-8 251 353 754	34 962 437 816	0	34 813 507 073	-148 930 743	34 813 507 073	0	-8 400 284 497
Excess of assets over liabilities	R0030	34 959 099 129	26 707 745 375	-8 251 353 754	26 707 745 375	0	26 558 814 632	-148 930 743	26 558 814 632	0	-8 400 284 497
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	39 132 452 455	31 339 186 500	-7 793 265 955	31 339 186 500	0	31 342 543 363	3 356 864	31 342 543 363	0	-7 789 909 091
Tier 1	R0060	32 702 433 623	23 839 654 652	-8 862 778 972	23 839 654 652	0	23 641 080 328	-198 574 324	23 641 080 328	0	-9 061 353 296
Tier 2	R0070	6 430 018 831	7 499 531 848	1 069 513 017	7 499 531 848	0	7 701 463 036	201 931 188	7 701 463 036	0	1 271 444 204
Tier 3	R0080	0	0	0	0	0	0	0	0	0	0
Solvency Capital Requirement	R0090	12 860 037 663	14 999 063 696	2 139 026 033	14 999 063 696	0	15 402 926 072	403 862 375	15 402 926 072	0	2 542 888 409
Eligible own funds to meet MCR	R0100	33 727 491 456	24 864 712 484	-8 862 778 972	24 864 712 484	0	24 770 038 123	-94 674 362	24 770 038 123	0	-8 957 453 333
Minimum Capital Requirement	R0110	5 125 289 164	5 125 289 164	0	5 125 289 164	0	5 644 788 976	519 499 812	5 644 788 976	0	519 499 812

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**	.	.		.	
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	**R0040**	11 725 542 097	11 725 542 097		.	
Subordinated mutual member accounts	**R0050**	.		.	.	.
Surplus funds	**R0070**	.	.			
Preference shares	**R0090**	.		.	.	.
Share premium account related to preference shares	**R0110**	.		.	.	.
Reconciliation reserve	**R0130**	19 326 754 299	19 326 754 299			
Subordinated liabilities	**R0140**	8 254 692 441		1 650 137 228	6 604 555 213	.
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**	3 906 802 733	.	.	3 906 802 733	.
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**	R0220-C0010				
Deductions						
Deductions for participations in financial and credit institutions	**R0230**	.	.	.	.	
Total basic own funds after deductions	**R0290**	43 213 791 570	31 052 296 396	1 650 137 228	10 511 357 946	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**	9 560 339 675			9 560 339 675	
Unpaid and uncalled preference shares callable on demand	**R0320**	.			.	.
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**	.			.	.
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**	.			.	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**	.			.	.
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	.			.	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**	.			.	.
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**	9 560 339 675			9 560 339 675	.
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	52 774 131 245	31 052 296 396	1 650 137 228	20 071 697 622	0,00
Total available own funds to meet the MCR	**R0510**	43 213 791 570	31 052 296 396	1 650 137 228	10 511 357 946	
Total eligible own funds to meet the SCR	**R0540**	39 132 452 455	31 052 296 396	1 650 137 228	6 430 018 831	0,00
Total eligible own funds to meet the MCR	**R0550**	33 727 491 456	31 052 296 396	1 650 137 228	1 025 057 833	
SCR	**R0580**	12 860 037 663				
MCR	**R0600**	5 125 289 164				
Ratio of Eligible own funds to SCR	**R0620**	3,04				
Ratio of Eligible own funds to MCR	**R0640**	6,58				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	34 959 099 129	
Own shares (held directly and indirectly)	**R0710**	.	
Foreseeable dividends, distributions and charges	**R0720**	.	
Other basic own fund items	**R0730**	15 632 344 830	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	0	
Reconciliation reserve	**R0760**	19 326 754 299	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	10 353 916 134	
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	0	
Total Expected profits included in future premiums (EPIFP)	**R0790**	10 353 916 134	

S.25.01.01
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**	4 296 588 984	56 740 338 364	0
Counterparty default risk	**R0020**	87 518 792	1 916 389 757	0
Life underwriting risk	**R0030**	11 185 152 817	63 521 090 828	0
Health underwriting risk	**R0040**	.	.	.
Non-life underwriting risk	**R0050**	.	.	.
Diversification	**R0060**	-2 596 887 879	-26 389 481 944	
Intangible asset risk	**R0070**	.	.	
Basic Solvency Capital Requirement	**R0100**	12 972 372 714	95 788 337 005	

Calculation of Solvency Capital Requirement		**C0100**
Adjustment due to RFF/MAP nSCR aggregation	**R0120**	0
Operational risk	**R0130**	2 026 690 982
Loss-absorbing capacity of technical provisions	**R0140**	-82 815 964 291
Loss-absorbing capacity of deferred taxes	**R0150**	-2 139 026 033
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	.
Solvency Capital Requirement excluding capital add-on	**R0200**	12 860 037 663
Capital add-on already set	**R0210**	.
Solvency capital requirement	**R0220**	12 860 037 663
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**	133 380 599 854

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**	5 125 289 164

		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**	316 995 173 886	
Obligations with profit participation - future discretionary benefits	**R0220**	133 380 599 854	
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**		474 655 604 179

Overall MCR calculation		**C0070**
Linear MCR	**R0300**	5 125 289 164
SCR	**R0310**	12 860 037 663
MCR cap	**R0320**	5 787 016 948
MCR floor	**R0330**	3 215 009 416
Combined MCR	**R0340**	5 125 289 164
Absolute floor of the MCR	**R0350**	33 427 650

Minimum Capital Requirement	**R0400**	5 125 289 164

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**	.	5 125 289 164

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**	316 995 173 886	
Obligations with profit participation - future discretionary benefits	**R0220**	133 380 599 854	
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**		474 655 604 179

Overall MCR calculation		**C0130**
Linear MCR	**R0300**	5 125 289 164
SCR	**R0310**	12 860 037 663
MCR cap	**R0320**	5 787 016 948
MCR floor	**R0330**	3 215 009 416
Combined MCR	**R0340**	5 125 289 164
Absolute floor of the MCR	**R0350**	33 427 650
MCR	**R0400**	5 125 289 164

Notional non-life and life MCR calculation		**Non-life activities**	**Life activities**
		C0140	**C0150**
Notional linear MCR	**R0500**	0	5 125 289 164
Notional SCR excluding ~~with~~ add-on (annual or latest calculation)	**R0510**	0	12 860 037 663
Notional MCR cap	**R0520**	0	5 787 016 948
Notional MCR floor	**R0530**	0	3 215 009 416
Notional Combined MCR	**R0540**	0	5 125 289 164
Absolute floor of the notional MCR	**R0550**	22 586 250	33 427 650
Notional MCR	**R0560**	22 586 250	5 125 289 164