KLP SFCR 2019

Solvency and Financial Condition Report 2019
(Rapport om Solvens og Finansiell stilling)

Sensitivitet: Begrenset

KLP
Solvency and Financial Condition Report 2019
Kommunal Landspensjonskasse gjensidig forsikringsselskap
Org. no. 938 708 606

Contents

Summary

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

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

The Company's asset management is divided into a customer portfolio (NOK 568.3 billion at 31.12.2019) comprising all pension funds, and a corporate portfolio (NOK 40 billion at 31.12.2019), which includes the Company's equity and other assets.

The financial income associated with the customer portfolio amounted to NOK 44 billion in 2019 (7 billion in 2018). This represented a value-adjusted return of 8.6 per cent for the year. Financial income in the corporate portfolio amounted to NOK 1.5 billion in 2019 (1.4 billion in 2018) corresponding to a return of 4.3 per cent.

For 2019, the risk result (arising from the fact that mortality and invalidity in the period differ from what is assumed in the premium tariff), was NOK 1,031 million within public sector occupational pensions. The corresponding figure for 2018 was NOK 960 million.

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 Company's Board of Directors.

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

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

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

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

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

A little over 60% 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 that the Company has.

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

The Solvency II regulations lay down requirements for the amount of solvency capital through the solvency capital requirement. KLP applies a transitional rule to the Solvency II regulations for technical provisions. Using this transitional rule, KLP had a solvency capital coverage of 316 per cent at 31.12.2019. Even without applying this transitional rule, KLP has solvency capital coverage of 275 per cent, which is also well over its own target of at least 150 per cent.

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

Development since the end of the year

The uncertainty surrounding the coronavirus is significant. KLP's contingency plans have been implemented and the company has adapted its operations to the situation. Priority is given to critical processes such as the payment of pensions and operations in asset management. Most employees work from home offices and make good use of digital tools. Access to our offices is limited to reduce the risk of infection. There have been very few cases of infection among employees.

The markets have responded to the situation and the measures taken by various authorities with a significant fall in equities, lower interest rates and higher credit premiums. However, in recent weeks the trend has been partially reversed.

KLP uses dynamic management of its risk and this has worked as intended. There has been a focus on liquidity management during the period given the increase in volatility in the stock market in general and the significant weakening of the Norwegian krone in particular. The capital solidity of the company has been very good throughout the period.

A. Business and performance

A.1 Business

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

b) The Financial Supervisory Authority of Norway exercises financial supervision of the Company. The address of the Financial Supervisory Authority of Norway is: Revierstredet 3, postboks 1187 Sentrum, N-0151 Oslo

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

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

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

Figure 1: Corporate structure

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

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

A.2 Underwriting performance

The results in this section correspond to the risk result in the technical accounts for KLP (Note 19 to the annual report for 2019), grouped according to the division used for the solvency capital calculation under the Solvency II rules. The risk result consists of premiums collected by the Company to cover underwriting risks minus actual costs of reserve provisions and payments for insured events. The result arises from the fact that mortality and disability in the period differ from what is assumed in the premium tariff.

The risk result consists of the net result for longevity (the insured persons get older than expected, the payments go on longer than assumed), death (the survivors live longer than expected, the payments go on longer than assumed) and disability (more people than expected become incapacitated, disability pension payments will be higher than assumed).

Table 1: Risk result in KLP at 31.12.2019. Figures in NOK millions

2019	County authority	Public health sector	Municipality and companies	The elected representa-tives	Exalted and closed arrangement	Nurses	Doctors	Total 2019
Longevity	3.4	83.7	358.9	-5.5	31.4	60.8	31.9	564.6
Death	3.8	-0.9	7.0	1.4	0.1	-7.0	-23.7	-19.4
Disability	56.0	129.9	249.5	4.1	-9.7	64.7	-8.2	486.3
Risk result	**63.3**	**212.6**	**615.3**	**0.0**	**21.8**	**118.5**	**0.0**	**1 31.5**

Table 2: Risk result in KLP at 31.12.2018. Figures in NOK millions

2018	County authority	Public health sector	Municipality and companies	The elected representa-tives	Exalted and closed arrangement	Nurses	Doctors	Total 2018
Longevity	5.7	55.5	245.2	-3.1	31.5	73.1	-5.7	402.2
Death	1.6	4.4	11.9	-1.1	1.9	-2.6	10.4	26.5
Disability	61.5	91.8	280.5	4.4	9.1	87.7	-3.9	531.1
Risk result	**68.8**	**151.7**	**537.6**	**0.1**	**42.5**	**158.2**	**0.8**	**959.7**

The total risk result for 2019 was NOK 1,031 million within public-sector occupational pension provision. The corresponding figure for 2018 was NOK 960 million. The risk result will traditionally show only small fluctuations from year to year, but some fluctuations will still have to be included. The K2013 mortality tables are still felt to allow good margins, and the result for 2019 shows that margins overall are still somewhat greater than expected.

The robust premium and provision levels that KLP has (based on the K2013 tables issued by the Financial Supervisory Authority of Norway), and the substantial assets in the risk equalisation fund, reduce the risk of losses on underwriting risk having to be covered by other equity than the risk equalisation fund. At the end of 2019 the risk equalisation fund stood at NOK 5.5 billion. For 2018, this amount was NOK 4.8 billion.

A.3 Investment performance

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

A.3.1 Investment performance for the customer portfolio

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

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

The common portfolio	2019	2018	Change
Income from subsidiaries and participations in the related companies	2 876	3 872	-996
Interest income and dividend etc. from financial assets	10 444	9 975	469
Changes in values on investments	28 591	-10 421	39 012
Realized profits and loss from investments	2 140	3 595	-1 455
Income from investments	**44 051**	**7 021**	**37 030**
Other income			
Non-technical accounting results	**44 051**	**7 021**	**37 030**

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

Portfolio with investment options	2019	2018	Change
Income from subsidiaries and participations in the related companies	16	19	-3
Interest income and dividend etc. from financial assets	44	46	-2
Change in value of investments	199	-55	254
Realized profits and loss from investments	22	4	18
Income from investments	**281**	**14**	**267**
Other income			
Non-technical accounting results	**281**	**14**	**267**

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

Any shortfall in returns has to be covered from the Company's equity or supplementary reserves. Supplementary reserves are retained surplus returns from previous years, allocated to individual customer contracts. The additional provisions 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.

The financial income associated with customer portfolios amounted to NOK 44 billion in 2019; in 2018 it totalled NOK 7 billion (see tables 3 and 4 above). This corresponded to a value-adjusted return of 8.5 per cent in 2019, against 1.5 per cent in 2018 in the common portfolio, and 9.9 per cent in 2019 and 0.6 per cent in 2018 in the investment options portfolio.

In 2019, the company achieved a customer result of NOK 10.3 billion, with all NOK 8 billion allocated to statutory reserve and 2.3 billion to the premium fund. In addition, the premium fund was allocated NOK 0.5 billion from the year's risk result. The securities adjustment fund increased by NOK 22 billion in 2019. In 2018, the Company generated a customer result of NOK 5.0 billion, of which NOK 2.8 billion was allocated to customers' additional provisions and NOK 2.2 billion to the premium fund. In addition, the premium fund was allocated NOK 0.5 billion from the risk result in 2018.

The cost of managing the customer funds was NOK 198 million in 2019; the figure for 2018 was NOK 194 million. The costs are covered by a special cost element in the pension premium and are included in the administration result that falls to the Company. The administration result is stated in section A.5 under table 8, Profit and loss elements in the corporate portfolio.

The table below shows the breakdown of the common portfolio into main asset classes and the returns per asset class. The total will differ slightly from the accounting figure because of differing accounting classifications. In the table, derivative items are also reported net, whereas they are posted gross to the accounts. By far the biggest contributors to financial income in 2019 were equities and alternative investments.

Table 5: The common portfolio. Figures in NOK millions

Assets in the common portfolio	Balance 31.12.2019	Return 31.12.2019	Balance 31.12.2018	Return 31.12.2018
Property	70 659	6.7 %	64 669	7.3 %
Loan	71 042	2.4 %	61 979	2.3 %
Equity and alternative investments	144 551	21.5 %	109 225	-3.6 %
Lang-term/HTM-bonds	165 181	3.6 %	148 606	3.7 %
Short-term bonds	87 803	7.9 %	94 864	-0.8 %
Liquidity/money market	29 031	1.9 %	31 037	1.1 %
Sum	**568 267**	**8.6 %**	**510 380**	**1.5 %**

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

A.3.2 Investment performance for the corporate portfolio

Financial income from investments in the corporate portfolio totalled NOK 1.5 billion in 2019, very similar to 2018 (NOK 1.5 billion). This gave a return on equity of 4.3 per cent in 2019, compared with 4.2 per cent in 2018. The costs of managing the corporate portfolio were NOK 15 million. Returns on the corporate portfolio and costs of managing this are included in total comprehensive income for the Company.

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

Investment results in the corporate portfolio	**2019**	**2018**	**Change**
Income from investments in subsidiaries and participations in the related companies	519	281	238
Interest income and dividend etc. from financial assets	725	734	-9
Net operating income from property	67	99	-32
Change in value of investments	-197	-3	-194
RealiZed profits and loss from investments	411	345	66
Income from investments	**1 525**	**1 456**	**69**

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

Table 7: The corporate portfolio. Figures in NOK millions

Assets in the corporate portfolio	**Balance 31.12.2019**	**Return 31.12.2019**	**Balance 31.12.2018**	**Return 31.12.2018**
Shares in subsidiaries	5 043	-	4 693	-
Property	4 033	11.2 %	2 951	29.2 %
long-term shareholdings and related companies	8	11.8 %	621	27.9 %
Sikring av ansvarlig e lån	5 884	0.6 %	5 899	1.7 %
Lang-term/HTM-bonds	12 698	3.4 %	12 286	3.6 %
Short-term bonds	3 396	5.7 %	2 646	-0.2 %
Liquidity/money market	8 995	2.2 %	8 101	1.2 %
Sum	**40 057**	**4.3 %**	**37 198**	**4.2 %**

A.4 Performance of other activities

All significant income and expenses are included in the above.

A.5 Other information

The sections above describe the underwriting performance (risk result) and the investment result. Positive underwriting and investment results in the customer portfolio accrue to customers. The corresponding negative result is charged to the Company's equity. The interest guarantee premium and the administration result are included in the Company's annual results along with the return in the corporate portfolio. KLP is a mutually owned company. These amounts are one reason why the growth in equity follows the growth in pension obligations. The table below shows the amount of the interest guarantee premium and the administration result for 2019 and 2018. The necessary growth in equity over and above this level is provided by calling in an annual capital contribution from the owners.

Table 8: Profit and loss elements in the corporate portfolio. Figures in NOK millions

Result elements	**31.12.2019**	**31.12.2018**
Interest guarantee premium	476	758
Administration result	247	137
Sum	**723**	**895**

The Company's total income before tax was NOK 2.6 billion in 2019, compared with NOK 2.4 billion in 2018.

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

B.1 General information on the system of governance

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

The Company's articles of association and applicable legislation provide the framework for proper corporate governance and a clear division of roles between the governing bodies and executive management.

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

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

173 delegates from a total of 23 constituencies were elected to the General Meeting for 2018 and 2019. The county administrations and municipalities in each county make up 18 of the constituencies. The four regional health enterprises and their subsidiaries each form one constituency. The companies together form one constituency. In each constituency an election meeting is held to elect delegates to the General Meeting. The General Meeting approves the annual report and accounts for the Company and the Group, including the allocation of profits or provision for losses. The tasks of the General Meeting also include electing 24 of the 45 members of the Corporate Assembly and approving the remuneration of the Corporate Assembly.

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

<u>The Board of Directors of KLP (Group Board)</u>
The Board of Directors is a collective body responsible for the interests of the Company and its owners. The Board is required to monitor the Group's compliance with business regulations and licence requirements. The Board provides for appropriate organisation of the business, determines policies, plans and budgets, keeps abreast of the Company's financial position and obligations and ensures that the business, accounts and asset management are subject to satisfactory control. The Board is required to supervise the executive management and the Company's business generally. The Board of Directors comprises eight members who are elected for a term of two years in such a way that half are up for election each year.

Five Board members with up to the same number of deputies are elected by the members of the Corporate Assembly who are elected by the General Meeting. Two members with deputies are elected by and from KLP's employees. One member and a deputy are nominated by the employee organisation or negotiating alliance with most members in the pension schemes. In addition two observers are nominated from those organisations that are second and third in regard to the number of members. The Group Chief Executive Officer is not a member of the Board of Directors.

Group CEO

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

Group senior management

The KLP Group senior management comprises ten experienced individuals with a broad background from Norwegian business and public sector activities. Group senior management is the top level of management in KLP and is responsible for the functional management of the company.

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

The Board's sub-committees

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

Remuneration committee

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

Audit committee

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

Risk committee

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

Risk management committee
The Group CEO has established a committee to act as his advisory body in matters concerning the Company's overall risk and solvency. The committee addresses the general risk appetite, the overall risk strategy and risk exposure from all the major risk factors, including market risk, underwriting risk and operational risk.

Key functions
The risk management, compliance and actuarial functions and Internal Audit are the key functions in KLP. The Board ensures that these have the necessary authority, resources and independence through guidelines adopted by the Board for each of the functions. These guidelines allow the managers of each function to report directly to the Board on matters affecting their areas of responsibility. The key functions produce quarterly and annual reports which are discussed by the Board.

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

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

B.1.3 Remuneration policy

Principles
The Board previously adopted remuneration principles for KLP and additional guidelines for KLP Kapitalforvaltning AS. The remuneration rules were last discussed and revised at the Board meeting of KLP on 5 December 2019.

In accordance with the Norwegian Financial Institutions Act and the Act on Securities Funds with associated regulations, the Board of KLP has determined and ensured that the Company always has and applies guidelines and frameworks for a remuneration scheme covering the whole of the Company including its subsidiaries.

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

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

Remuneration based on results
No individual or collective remuneration (bonus) is given to employees on the basis of KLP's results.

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

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

[1]National Insurance basic amount

- Persons employed before 30.04.2013 who have salaries below 12 G today will not be covered by the scheme even if they later receive salaries over 12 G.
- For persons who have a salary above 12 G at 30.04.2013, the following applies: "Persons with salaries over 12 G have additional cover to ensure that fixed pay in excess of 12 G is counted as fully pensionable. This scheme applies only to qualification time accrued directly in KLP. If the pension is calculated on part-time working as an employee of KLP, the pension base over 12 G will be reduced accordingly."

B.1.4 Transactions with related parties

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

B.2 'Fit and proper' requirements

B.2.1 The Company's 'fit and proper' requirements

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

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

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

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

B.2.2 The Company's process for 'fit and proper' assessment

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

All persons in Group management, key functions and the Board must meet certain standards of suitability (conduct). For persons listed above, KLP assesses the following aspects:

- Criminal record

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

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

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

B.3 Risk Management system

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

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

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

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

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

The main processes for monitoring, managing and measuring market risk are the overall risk management strategy, the asset management strategy and the capital plan. The asset management and risk management strategy is adopted in December for the next calendar year. It includes targets for the overall risk, a framework for allocation and the design of the Group's dynamic strategy for exposure to risky assets (policy rule). The capital plan is worked out after completion of the Own Risk and Solvency Assessment, and sets the long-term course for the company's capitalisation.

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

Reporting
Risk reporting in KLP takes place at many levels. At each Board meeting, the CEO includes current topics in his briefing. A separate briefing on risk management and asset management

is also a fixed item on the agenda. The Board also receives a detailed monthly report on developments in the Group.

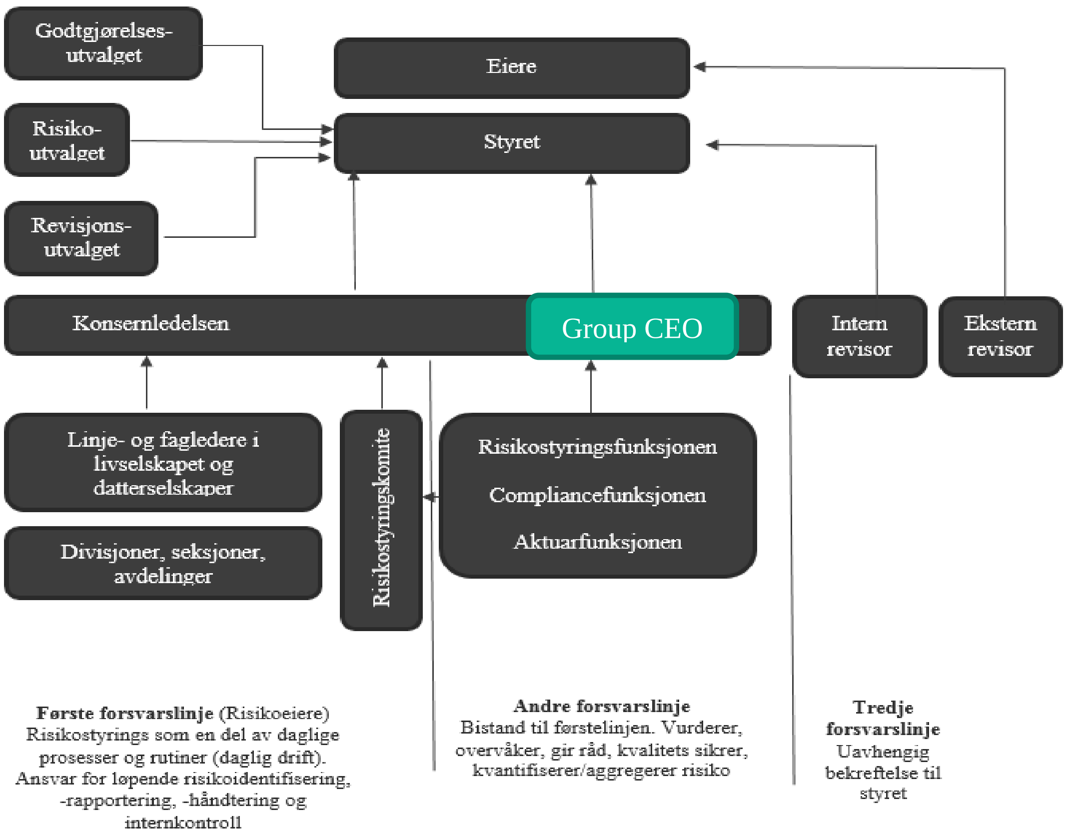
The second-line functions produce quarterly reports from their areas, which are addressed by the Board. The actuarial and compliance functions also produce their own annual reports. The risk management function organises the self-assessment of the company's risk and solvency and compiles the ORSA[2]report.

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

B.3.2 Organisation of the risk management system

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

Figure 2: The risk management system at KLP



<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>

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[2] Own Risk and Solvency Assessment

The control functions that make up the second line are the risk management function, the compliance function and the actuarial function. For a more detailed description of the compliance function and the actuarial function, see sections B.4 and B.6.

The risk management function is headed by the Chief Risk Officer (CRO), who reports to the Group CEO. The head of the actuarial function reports to the CRO, as this function is organised as an integral part of the risk management function. The main responsibility of the risk management function is to monitor the Group's overall risk, including the risk management system. The risk management function calculates the Group's capital adequacy and produces quarterly reports which are discussed by the Board. The Own Risk and Solvency Assessment is a key task for the risk management function; see section B.3.3..

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

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

Risk management committee
The Group CEO has established a committee to act as his advisory body in matters concerning the Company's overall risk and solvency. The committee includes the CFO and the directors responsible for the company's risk management, as well as the actuarial and compliance functions. The committee addresses the general risk appetite, the overall risk strategy and risk exposure from all the major risk factors, including market risk, underwriting risk and operational risk. Each year, the committee discusses the principal assumptions used to calculate the Company's capital adequacy. The committee is administered by the CRO and assists the CRO in carrying out the 'Own Risk and Solvency Assessment'.

B.3.3 Own Risk and Solvency Assessment

B.3.3.1 Process

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

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

B.3.3.2 Implementation and approval

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

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

The Board reviews and approves the ORSA by looking first at guidelines for the ORSA and then at the actual reports. This cements the Board's ownership of the process. The Board's risk committee also conducts an extended review of the ORSA plan and the ORSA reports for KLP (both Company and Group) and makes its recommendations to the Board.

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

B.3.3.3 Determination of own solvency needs

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

The solvency target is that solvency capital coverage for KLP should be more than 150 per cent without including transitional rules for technical provisions. The Board of Directors wants there to be a low probability of fluctuations, especially in the financial markets, so that there is little likelihood of recourse to extraordinary equity to strengthen the solvency position. The goal is therefore set considerably higher than the regulatory requirement of 100 per cent.

B.4 Internal control system

B.4.1 KLP's internal control system

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

Both risk management and internal control ensure 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 ensure that KLP can achieve its objectives in all significant areas of business through:

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

The Company's managers at all levels should always have a proper overview of the specified goals, risks, key controls and possible unwanted events in their area, so they can adequately handle risks associated with the business on an ongoing basis.

The second-line functions also assist all managers in providing for good governance, and make independent assessments of the managers' handling and control of risk. KLP has also established an Internal Audit unit to provide the Board with an independent assessment of whether the internal control system is working. The Board of KLP assesses the internal control within the company at least once a year.

B.4.2 Compliance function

The compliance function helps the Board and senior management to ensure that KLP has implemented effective procedures for compliance with the applicable rules, including the framework for effective management and control.

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

The compliance function works preventively by providing advice, guidance and ongoing quality control when operational changes are made to regulations, and carries out control activities to ensure that internal control in the Company is effective. Advice, dialogue, presence and training take a high priority. 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.

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

The Board has also provided a special guideline for handling the risk of non-compliance. The guideline defines roles and responsibilities to ensure compliance within KLP, and sets out the Board's risk tolerance and requirements for how to handle risks of non-compliance.

B.5 Internal Audit function

B.5.1 Exercise

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

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

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

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

B.5.2 Independence and objectivity

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

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

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

Every five years, there is an external evaluation of KLP's Internal Audit function; the last of these was in 2018. The audit committee in KLP reviews this evaluation and communicates its findings to the Board.

B.6 Actuarial function

The actuarial function at KLP has responsibilities and duties as described in the Solvency II rules. The actuarial function is organised as an integral part of the risk management function. In order to safeguard its independence, the head of the actuarial function is allowed to report to the Group CEO and the Board on all matters within its area of responsibility. The actuarial function also reports directly to the Group CEO every quarter. The report deals with the activities and assessments made by the actuarial function in the quarter and helps to demonstrate its independence.

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

- Coordination of calculations of technical provisions
- Ensuring that methods, models and assumptions used in the calculation of technical provisions are appropriate
- Assessment of whether the data used in the calculation of technical provisions is sufficient and of the necessary quality
- Comparison of best estimate with the Company's experience
- Informing the Board of KLP and Group senior management as to whether the calculation of insurance technical provisions is reliable and sufficient
- Testing of any simplified calculations of best estimates based on approximate values and individual assessments of notified claims cases
- Commenting on the Company's policy for taking out insurance
- Commenting on whether the Company's reinsurance schemes are sufficient

- Contributing to the effective implementation of the risk management system, particularly with regard to the risk modelling which forms the basis for calculating the Solvency Capital Requirement and self-assessment of the Company's capital needs

The actuarial function may use professional resources in other entities for specified tasks. In this case the manager of the actuarial function must ensure that there are no conflicts of interest for the function or the people doing work for the function. The head of the actuarial function in KLP and the Group is a member of the risk management committee at KLP and also has access to Board actions and the right to attend Board meetings where actuarial matters are discussed.

At least once per year, the actuarial function draws up a written report which is submitted to the Board of KLP. This report documents all the tasks carried out by the actuarial function, and the results of these, and clearly identifies any deficiencies and makes recommendations for rectifying these.

B.7 Outsourcing

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

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

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

B.8 Other information

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

C. Risk profile

C.1 Underwriting risk

The two biggest underwriting risks for KLP are longevity risk and disability, both characterised by slight variations in measurable risk from year to year. Longevity risk means that the customer lives longer than presumed, and disability risk means that more people than expected are becoming disabled, or that fewer than expected are returning to work.

Longevity and disability risk are monitored every quarter via reports of underlying risk items from KLP's membership system, while a full analysis including a calculation of risk results forms part of an annual process. The risk result is followed up carefully and provides the basis for assessing whether prices and provisions are sufficient. The analysis entails statistical processing of relevant data on the membership base with a view to measuring the trend in mortality and disability, in order to arrive at a best estimate of how this trend may be expected to evolve in the coming years. The expected development is quantified by deriving a new basis for calculation. This will be the basis for best estimate assumptions in Solvency II calculations and perhaps also for new premium and reserve calculations (before actuarial safety margin).

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

  The basis for calculation K2013[3] was derived from the life company's actual data up to and including 2009. KLP's own historical data for the period 2010-2015 confirms that the safety margins are satisfactory. If it becomes necessary to replace today's tariffs with new and higher tariffs, this will in turn entail upgrade plans which could also reduce equity because of the authorities' expected requirements for equity contributions to reserves in the future also. This equity contribution is the real loss risk in the Company from people living longer.

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

- Disability
  KLP introduced a new disability tariff from 01.01.2015, in line with a favourable trend in risk observed over several years. The disability tariff is based on observations of our own premium base.

  From 01.01.2020, new disability tariffs will be introduced in all risk groups based on observed trends in recent years. The change in national insurance and public-sector occupational pensions from 01.01.2015, which offered greater scope for people receiving disability pensions to combine work and pension, has affected the risk position.

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

The new disability tariffs use specific parameters for disability and re-entry into work in each risk group. In the past, all risk groups had a common disability tariff except for the Pension Scheme for Nurses and the Pension Scheme for Hospital Doctors.

The changes involve a strengthening of the tariff in the Joint Scheme for Closed Agreements and in the Pension Scheme for Hospital Doctors. In the other risk groups there are reliefs or marginal changes.

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

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

  In calculating capital requirements under the Solvency II rules, departures are categorised as an underwriting 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.

- Accrued pension rights
  If a customer opts to close his/her public-sector scheme, or an employee of a customer leaves, no paid-up policies are issued. Accrued entitlements are transferred within KLP and the customer continues to pay the interest guarantee premium for these. KLP is therefore not exposed to the same problems as private occupational pension schemes where the life company is responsible for achieving the annual guaranteed return without the right to collect a premium for the interest guarantee. If the guaranteed interest is higher than the return, life companies must then add extra capital, while KLP can continue to collect an annual premium for the interest guarantee.

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

KLP has no reinsurance contracts related to underwriting risk. The extent of reinsurance is regularly assessed in light of the Company's risk-bearing capacity and the nature of the products.

As KLP exists mainly to provide occupational pension solutions to municipal and county authorities and health enterprises, it is not considered appropriate to exclude any of these customer categories from offers from KLP on grounds of risk. KLP can anyway decline to offer public-sector occupational pension schemes to businesses that represent an unreasonably large risk. This applies mainly where historical data indicate a particularly high disability risk, but very few of our potential customers have such a prevalence of disability and it is very rare for anyone to be refused. Customer selection is therefore very little used to manage underwriting risk.

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

Underwriting risk and the development of the market for relevant pension products are reported each year in a separate report from the Actuarial, Legal and Product department. The Board of Directors sets an annual strategy for underwriting risk and reinsurance.

C.2 Market risk

Market risk is the risk that the value of investments will change. Typical factors are changes in share prices, property prices, interest rates and exchange rates.. Market risk in KLP arises in the management of the pension assets and equity in the Company. In its long-term asset management strategy, KLP seeks to put together a portfolio which, in relation to KLP's obligations, can give the highest possible competitive return subject to limits on risk-taking. The limitations on risk mean that the risk is adjusted to ensure that the Company is solvent at all times and that it maintains sufficient risk capacity over time. This means that the Company should have a capacity for risk that allows us to maintain a certain level of risky assets in the short and long term, even after a year of heavy losses in asset management. The risk capacity is also assessed in a long-term perspective, taking account of the impact of interest rates on risk capacity over time.

The risk capacity is regularly monitored and reported on at each Board meeting. The risk is measured both at the end of the year and on a rolling one-year horizon. Measurements are taken at intervals through the year.

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

- Long-term investment perspective
- Diversified portfolios
- Focus on efficient markets and cost-effective management
- Risk management adapted to the company's long-term financial risk within regulatory limits
- Active corporate social responsibility

KLP's market risk is made up of equity risk, property risk, interest rate risk, credit risk, concentration risk and currency risk. The gross potential loss for market risk under Solvency II as at 31.12.2019 was estimated at NOK 92.8 billion, allowing for the diversification effect between the various asset classes. The potential loss is dominated by equity and property risk. KLP's property portfolio is organised into limited companies, and the property portfolio is stressed according to changes in the regulations as part of the property module when calculating the potential loss. Net capital requirements (after using buffer capital etc.) related to market risk were NOK 4.2 billion at 31.12.2019.

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.

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

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

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

The risks in the customer portfolios are compared taking account of objectives such as remaining solvent and maintaining risk capacity over time. Annual investment limits are set for the different asset classes. The portfolio breakdown for each asset class is generally well diversified so non-systematic risk is very limited. The risk in the portfolio is also handled dynamically though operational rules. This means that the risk in the customer portfolios is constantly adjusted to the risk-bearing capacity. The adjustments will normally be made in the equity market, as long as equities account for the bulk of the total risk in the common portfolio.

The market risk in the corporate portfolio affects equity directly. For the corporate portfolio, KLP aims to take low market risk. The majority of the funds are invested in interest-bearing securities with an average duration of 4.5 years as of 2019. The corporate portfolio has a low correlation with the customer portfolios.

<u>Equities</u>
The listed equity component of the common portfolio includes Norwegian exposure and global exposure in developed and emerging markets. Investments in unlisted shares consist of 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 shares in subsidiaries and, to a lesser extent, associates, based on Board resolutions.

<u>Property</u>
KLP’s property portfolio is managed by its subsidiary KLP Eiendom AS. Investments in property are mainly in Norway, but portfolios have also been established in Sweden and Denmark, for example. 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 offices in Oslo and Bergen and low-risk leasehold sites.

<u>Interest</u>
The technical provisions are long-term, but it is not appropriate to have investments with the same duration. This is because investments with durations equal to the obligations are difficult to obtain, and because the duration in KLP is perceived to be short in regulatory terms as KLP can collect an annual interest guarantee premium.

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

The risk of the Company being unable to achieve a return greater than the guaranteed return is reduced in any given year by posting a substantial part of the interest-bearing investments to the accounts at amortised cost. The expected return for the hold-to-maturity portfolio in 2020 is around 3.5 per cent, and the average duration is 5-6 years.

Other

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

KLP hedges its global fixed income and property portfolios against currency fluctuations. The hedging rate for global equities in developed markets is around 60 per cent, while shares in emerging markets are not hedged. No significant changes are expected in 2020. The Company will therefore continue to have little exchange rate risk across all portfolios.

There were no significant changes in market risk in 2019, but the equity portion increased slightly.

C.3 Credit risk

Credit risk is a risk of losses where counterparties cannot met their debt obligations. The risk includes losses on loans and losses related to bank deposits, or non-fulfilment of contracts by counterparties in reinsurance contracts or financial derivatives. Losses in the securities portfolio that can be linked to these types of losses are categorised as market risk.

Credit risk is part of market risk, so it is included as ‘other market risk’ in the various risk assessments and analyses carried out. Credit risk is classified at least once a year by country, rating and sector. Assessments of bad debt provision/valuation and default are made in line with the relevant accounting principles.

Credit limits are set on all credit exposure before an investment is undertaken. These limits are set by a separate credit committee. The credit limits are reviewed annually and monitored quarterly. The limits for Norwegian credit are primarily based on internal credit assessments. Lending to foreign borrowers is largely based on external ratings from recognised rating agencies.

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

C.4 Liquidity risk

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

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

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

From each quarterly premium payment, KLP aims to set aside liquid assets that are greater than or equal to three months' liquidity requirement. In situations where there are insufficient liquid assets to cover the liquidity need, funds have to be released from other portfolios or obtained in some other way. The contingency plan will come into effect when an exceptional liquidity need has arisen and the liquidity has fallen below certain defined levels. Based on this, the liquidity risk is considered to be low.

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

C.5 Operational risk

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

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

The internal control process is supplemented with a valuation of the principal operational risks. The Company's own assessment includes a calculation of the capital requirements for operational risk based on the valuation. The Risk Management function helps to quantify the economic losses. The capital requirement for the operational risk is calculated by the standard formula based on a volume target for premiums and reserves.

The major identified operational risks in KLP are linked to the increasing scope of new general regulation, stable IT operation, data quality and increasing exposure to new IT security threats.

C.6 Other material risks

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

C.7 Other information

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

D. Valuation for solvency purposes

D.1 Assets

Total assets valued in the solvency balance amounted to NOK 629 billion at 31.12.2019[6]. This is an increase of NOK 64.2 billion since 31.12.2018. Total financial assets (accounting values) amounted to NOK 621 billion at 31.12.2019. This is an increase of NOK 63 billion since 31.12.2018.

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

Table 9: Assets. Figures in NOK billions

Asset classes	Solvency II 2019	Accounting 2019	Solvency II 2018	Accounting 2018
Intangible assets	0.0	0.4	0.0	0.2
Deferred tax assets*	0.5	0.0	0.8	0.0
Investment property	1.0	1.0	0.9	0.9
Holdings in related undertakings, including participations	63.5	63.5	55.8	55.8
Equities etc.	42.2	42.2	30.5	30.5
Bonds	250.4	243.0	240.5	235.2
securities' funds etc.	162.9	162.9	148.5	148.5
Derivatives	5.0	5.0	0.8	0.8
Deposits other than cash equivalents	1.5	1.5	1.6	1.6
Loans	85.7	85.2	77.3	77.0
Other assets**	16.8	16.8	8.2	8.2
Total	**629.6**	**621.5**	**564.9**	**558.7**

* With gross tax assets under Solvency II. Net tax assets are NOK 0 at 31.12.2019

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

D.1.1 Intangible assets

Valuation, Solvency II

Intangible assets are valued at zero. Under Solvency II, intangible assets are valued at zero unless the asset can be sold separately and the company can demonstrate that it has a market value.

Valuation, accounts

Intangible assets are valued for accounting purposes at cost and depreciated over their expected service life. If there are indications that the book value of an intangible asset is higher than the recoverable amount, an impairment test is carried out. If the recoverable amount is less than the book value, the asset is depreciated to the recoverable amount. Intangible assets are posted to the balance-sheet in the amount of NOK 0.4 billion.

[6] * With gross tax assets under Solvency II. Net tax assets were NOK 0 at 31.12.2019

D.1.2 Assets subject to tax

Valuation, Solvency II
Deferred tax is split into a deferred tax asset of NOK 0.5 billion and a deferred tax liability of NOK 1.3 billion under Solvency II in 2019. The calculations include the transitional scheme for technical provisions.

This valuation is based on the accounting calculation but also factors in the effect of assets and liabilities with a different valuation than in the accounts. These include technical provisions, financial liabilities and interest-bearing portfolios valued at amortised cost in the accounts. Technical provisions under Solvency II without temporary deductions are valued higher than the insurance provisions in the financial statements. However, because of the temporary deduction, only 1/16 of this difference is included in the provisions as they are recorded in the Solvency II balance at year-end 2018, so the contribution to deferred tax assets is also limited. Financial liabilities are valued slightly higher in the Solvency II balance, 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
Capitalised deferred tax assets or liabilities represent the nominal value minus any impairment of the holding which is not assumed to be usable and so has no value. The nominal value is calculated 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.

At 31.12.2019 KLP had net deferred taxes; see section D.3.4.

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 54 billion of the 65 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 commercial terms, reference to trading in similar instruments and pricing using externally collected yield curves and yield spread curves. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

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

Bonds where the intention is to receive a fixed rate of interest for the whole term to maturity are valued for accounting purposed at amortised cost. This amounts to NOK 185 billion out of a total of NOK 238 billion. The difference in valuation between amortised cost and fair value amounts to NOK 7.5 billion.

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

D.1.7 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 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

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

D.2 Technical provisions

Insurance liabilities are valued differently under Solvency II and in the financial statements. Under Solvency II, the insurance liabilities are referred to as technical provisions, while the financial statements refer to them as insurance provisions.

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

Under Solvency II, all assets and liabilities are valued at market value (also called fair value). The technical provisions in Solvency II are made up of a best estimate plus a risk margin. The best estimate consists of guaranteed benefits (the market value of the guaranteed commitments) and discretionary benefits (expected value of future profit-sharing). The value of the best estimate is calculated as the sum of future cash flows from all receipts and payments expected within the contract limit and the probability-weighted average of future cash flows. The cash flows are estimated for the next 40 years with an estimated residual value in year 40.

All expected receipts and payments associated with the business are taken into account, but in such a way that future premiums linked to future earnings are not included in the cash flows. The provisions include expected future surpluses to be allocated to customers, the value of the return guarantee, the earning element of the administration premium and the value of equity contributions. For discounting the cash flows, the risk-free market rate is used in the form of a yield curve with volatility adjustment given by EIOPA.

The assumptions in the best estimate are at the same level as assumptions in the price tariffs without any actuarial safety margin. To calculate the best estimate for longevity and mortality, the K2013 is used without any safety margin. The K2013 price tariff is based on common industry data and assessments from the Financial Supervisory Authority of Norway. To calculate the best estimates for invalidity and re-entry into work, the invalidity tariff is based on our own data without any safety margin. The tariff for long life and death based on best estimates was updated as of 01.01.2019 for men. Initial mortality is unchanged, but mortality rates were reduced according to the forecasts from Statistics Norway for life expectancy. Beyond this, no significant changes have been made to the assumptions used to calculate the technical provisions during 2019. The assumptions are assessed each year and updated as needed.

Because of uncertainty in the best estimate, a risk margin is added. This is intended to cover the costs of providing risk capital (eligible Tier 1 and 2 capital). The risk margin is calculated as the present value of the capital cost, by keeping the risk capital equal to the solvency capital requirement which arises from taking over the portfolio. The risk margin is based on insurance risk, counterparty risk and operational risk and accords with method 2 in the Solvency II rules.

KLP uses transitional rules to calculate technical provisions in accordance with Article 56 of the Solvency II Regulation. Technical provisions (Solvency II Directive, Article 308d). The effect is calculated as the difference between the technical provisions (sum of best estimate and risk margin) and the sum of the premium reserve, supplementary provisions, securities adjustment fund and premium fund and claims provisions. The effect is reduced on a linear basis at the beginning of each year from 100 per cent on 1 January 2016 to 0 per cent on 1

January 2032. There is also a floor defined for valuation which limits the effect of the transitional rule.

Figures for the technical provisions at 31.12.2019 and 31.12.2018 are given in the table below.

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

Solvency II	**2019**	**2018**
Guaranteed benefits	391.7	368.1
Discretionary benefits (future profits)	168.6	132.0
Best estimate	**560.3**	**500.1**
Risk margin	13.3	13.0
Technical provisions	**573.6**	**513.1**

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

Solvency II	**2019**	**2018**
Guaranteed benefits	387.6	364.7
Discretionary benefits (future profits)	166.8	130.8
Best estimate	**554.4**	**495.4**
Risk margin	13.2	12.9
Technical provisions	**567.6**	**508.3**

Technical provisions with transitional rules for KLP amount to NOK 567.6 billion, NOK 554.4 billion for the best estimate and NOK 13.2 billion for the risk margin. There was an increase in technical provisions NOK 59.3 billion through 2018.

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

Solvency II - Balance	**2019**	**2018**
Guaranteed benefits	391.7	368.1
Discretionary benefits (future profits)	168.6	132.0
Risk margin	13.3	13.0
Technical provisions	**573.6**	**513.1**
Deferred tax liabilities	1.3	1.6
Subordinated loans	8.1	8.0
Other liabilities	15.3	9.1
Total liabilities	**598.4**	**531.8**
Total assets	**629.6**	**564.2**
Excess of assets over liabilities	31.2	32.3

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

Solvency II - Balance	2019	2018
Guaranteed benefits	387.6	364.7
Discretionary benefits (future profits)	166.8	130.8
Risk margin	13.2	12.9
Technical provisions	**567.6**	**508.3**
Deferred tax liabilities	1.3	2.8
Subordinated loans	8.1	8.0
Other liabilities	15.3	9.1
Total liabilities	**592.4**	**528.3**
Total assets	**629.6**	**564.2**
Excess of assets over liabilities	37.2	35.9

In order to calculate the time value of future cash flows, economic scenarios are generated in an economic scenario generator (ESG). KLP uses the scenario generator from Moody's Analytics. The scenario generator is calibrated to the risk-free interest rates published by EIOPA. This yield curve is used both to discount the cash flows and as an initial yield curve for simulating future returns. The scenarios are generated to be risk neutral, so all asset classes are assigned a yield that assumes risk-free interest rates. This is in line with the Solvency II rules.

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. The level of uncertainty in the calculations of the insurance obligation is driven by uncertainty in the underlying assumptions. Such assumptions are 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. Plans for future management measures are adopted by the Board of Directors at the same time as the key assumptions used to calculate capital adequacy are examined.

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

D.2.3 Value of *insurance* provisions, basis, methods and assumptions

In the financial accounts, the provisions are made up of the premium reserve, additional provisions, the securities adjustment fund, other provisions to insurance funds and other technical provisions. The calculation of a premium reserve in the financial accounts is based on the present value of deposits and payments using the same assumptions as in the premium calculation basis. The present value is calculated with a discount rate equal to the guaranteed interest at the time of accrual throughout the term of the individual insurance contract.

The valuation of the technical provisions in the financial accounts is deterministic. The biometric assumptions in the premium calculation basis in use at any given time are also used. Biometric assumptions cover mortality, invalidity and re-entry into work. The assumptions include safety margins in relation to what is considered as a best estimate. For longevity/mortality, the K2013 tariff is used. For invalidity and re-entry into work, KLP's own price tariff is used.

For hospital doctors and nurses, price tariffs for longevity/mortality with reduced death rates are used. For invalidity, price tariffs with reduced invalidity rates are used. Over time, It has been observed that the members of these risk groups live longer and are less likely to be incapacitated than the members of the other joint schemes with KLP. The price tariffs are reported to the Financial Supervisory Authority of Norway.

D.2.4 Matching adjustment

KLP does not apply the matching adjustment described in Article 3(3) of the Solvency II Regulation. Yield curve (Article 77b of the Solvency II Directive).

D.2.5 Volatility adjustment

KLP applies the volatility adjustment described in Article 3(2) of the Solvency II Regulation. Yield curve (Article 77d of the Solvency II Directive). The volatility adjustment provides a mark-up in the risk-free market interest rate. This means that the obligations will be lower than they would have been without this adjustment. The effect depends on the amount of the markup. The adjustment as at 31.12.2019 represents an interest markup of 0.40 percentage points for the first ten years. The effect of this markup is 13 percentage points for solvency capital coverage without the use of transition rules for technical provisions. This is shown in table 14 below. Technical provisions, the solvency capital requirement and the eligible Tier 1 and 2 capital have been reduced slightly. These changes increase solvency capital coverage from 266 per cent to 275 per cent using volatility adjustment but without the use of transition rules for the technical accruals.

Figure 3: EIOPA's interest rates with and without volatility adjustment at 31.12.2019

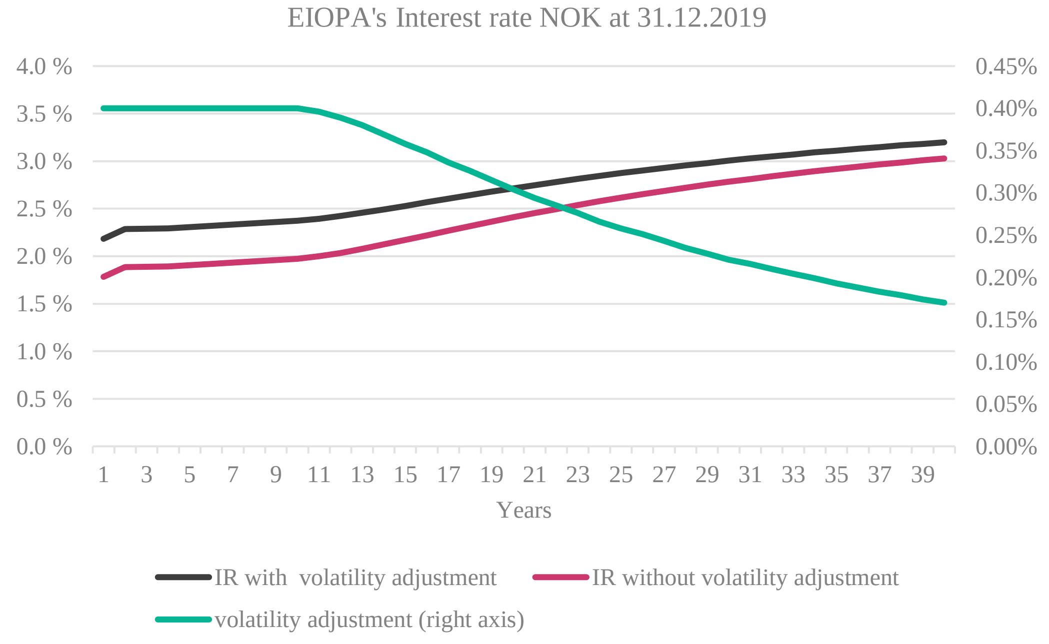

Figure 4: EIOPA's interest rates with and without volatility adjustment at 31.12.2018

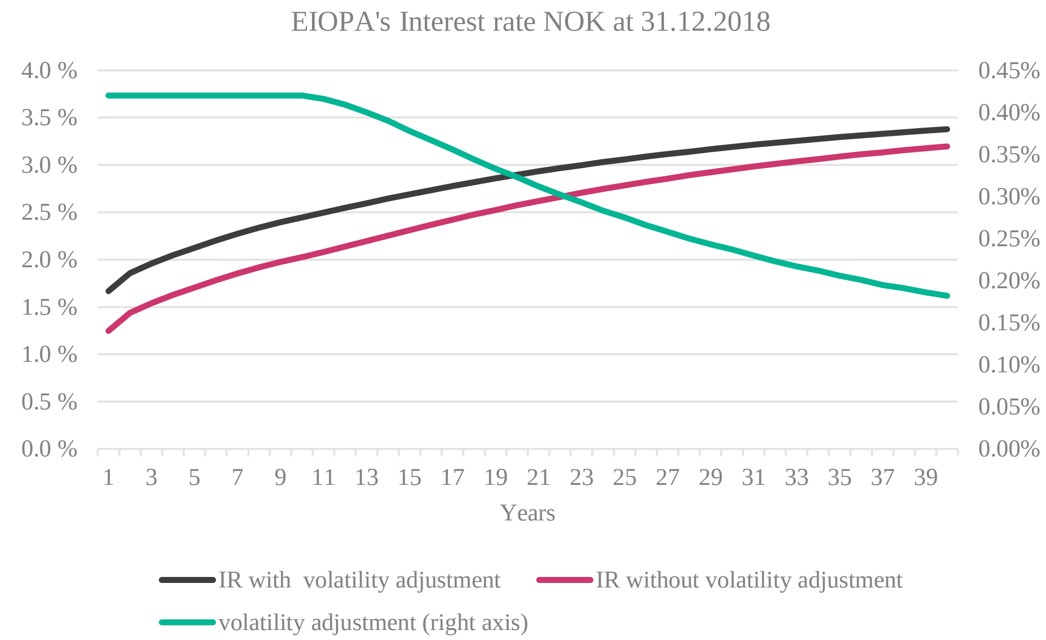

Table 14: Effect of applying the volatility adjustment, 31.12.2019. Figures in NOK billions

2019	With the volatility adjustment but without the use of transition rules for technical provisions	Without the volatility adjustment and without the use of transition rules for technical provisions	Difference	With the volatility adjustment and with the use of transition rules for technical provisions	Without the volatility adjustment but with the use of transition rules for technical provisions	Difference
Technical provisions	573.6	573.8	-0.21	567.6	567.8	-0.21
Solvency capital requirement	14.6	15.1	-0.54	14.6	15.1	-0.54
Minimum capital requirement	6.1	6.8	-0.75	6.1	6.8	-0.75
Total eligible own funds to meet the SCR	40.2	40.3	-0.06	46.2	46.3	-0.06
Total eligible own funds to meet the MCR	34.1	34.0	0.06	40.1	40.0	0.06
Ratio of Eligible own funds to SCR	**275 %**	**266 %**	**9 %**	**316 %**	**306 %**	**11 %**
Ratio of Eligible own funds to MCR	561 %	499 %	62 %	660 %	587 %	73 %

Table 15: Effect of applying the volatility adjustment, 31.12.2018. Figures in NOK billions

2018	With the volatility adjustment but without the use of transition rules for technical provisions	Without the volatility adjustment and without the use of transition rules for technical provisions	Difference	With the volatility adjustment and with the use of transition rules for technical provisions	Without the volatility adjustment but with the use of transition rules for technical provisions	Difference
Technical provisions	513.1	513.3	-0.25	508.3	508.5	-0.25
Solvency capital requirement	13.6	14.4	-0.75	12.4	13.2	-0.75
Minimum capital requirement	6.1	6.5	-0.34	5.6	5.9	-0.34
Total eligible own funds to meet the SCR	36.0	36.2	-0.19	39.0	39.2	-0.19
Total eligible own funds to meet the MCR	30.4	30.3	0.12	33.9	33.8	0.12
Ratio of Eligible own funds to SCR	**264 %**	**252 %**	**13 %**	**314 %**	**297 %**	**17 %**
Ratio of Eligible own funds to MCR	496 %	469 %	28 %	606 %	570 %	37 %

Difference in per cent (percentage points).

The transitional rule is described in section D. 2.7 Transitional rule for technical provisions.

D.2.6 Transitional provisions on risk-free interest rates

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

D.2.7 Transitional measure for technical provisions

KLP applies the temporary deduction provided for by the transitional measure for technical provisions described in Article 56 of the Solvency II Regulation. Technical provisions (Article 308d of the Solvency II Directive), in reports to the Financial Supervisory Authority of Norway. Note 32 Capital requirements in the accounts shows the calculations without the use of this temporary deduction. Both calculations are shown in table 16 below.

The technical provisions with transitional rules are valued at NOK 567.6 billion in the solvency balance for KLP at 31.12.2019. This is NOK 1.4 billion more than the liabilities of NOK 566.2 billion shown in the financial statements. Without transitional rules, the technical provisions in the solvency balance are valued at NOK 573.6 billion, NOK 7.4 billion higher than the liabilities in the financial statements.

The transitional provisions say that in 2019 we can deduct 13/16 of this difference in the Solvency II valuation. That means that the valuation of the best estimate under Solvency II including the transitional scheme is NOK 567.6 billion. The difference between the technical provisions with and without transitional arrangements is NOK 6 billion.

The deduction will be reduced on a linear basis until 2032. The difference for 2019 will be multiplied by 13/16, which means that there are 13 years left of the transition period. The transition period is 16 years from 2016 to 2032.

Table 16: Effect of using the transitional rule for technical provisions at 31.12.2019. Figures in NOK billions

2019	Using the transitional rule for technical provisions	Without using the transitional rule for technical provisions	Difference
Technical provisions	567.6	573.6	-6.0
Solvency capital requirement	14.6	14.6	0.0
Minimum capital requirement	6.1	6.1	0.0
Total eligible own funds to meet the SCR	46.2	40.2	6.0
Total eligible own funds to meet the MCR	40.1	34.1	6.0
Ratio of Eligible own funds to SCR	316 %	275 %	41 %
Ratio of Eligible own funds to MCR	660 %	561 %	99 %

Table 17: Effect of using the transitional rule for technical provisions at 31.12.2018. Figures in NOK billions

2018	Using the transitional rule for technical provisions	Without using the transitional rule for technical provisions	Difference
Technical provisions	508.3	513.1	-4.8
Solvency capital requirement	12.4	13.6	-1.2
Minimum capital requirement	5.6	6.1	-0.5
Total eligible own funds to meet the SCR	39.0	36.0	3.0
Total eligible own funds to meet the MCR	33.9	30.4	3.5
Ratio of Eligible own funds to SCR	314 %	264 %	49 %
Ratio of Eligible own funds to MCR	606 %	496 %	110 %

Difference in per cent (percentage points).

With the use of the transitional provision, the technical provisions are lower than without the use of it, with associated higher eligible capital. Even without the use of the transitional measure, KLP meets the capital requirements by a good margin.

D.2.8 Miscellaneous

D.2.8.1 Reinsurance

KLP currently only has collective products without any option to choose the amount of cover for the individual parties insured. Based on this limitation, and given the size of the company and hence its large risk-bearing capacity, the need for reinsurance in KLP is considered small. KLP does not currently use reinsurance.

D.2.8.2 Significant changes in assumptions

Changes have been made to the calculation basis for mortality for men in the best estimate from 01.01.2019 onwards. The initial mortality rate in the best estimate is unchanged, but mortality rates have been reduced. The changes are based on the forecasts from Statistics Norway for life expectancy. The change has been implemented in all risk groups.

D.3 Other liabilities

The table below shows the breakdown of other liabilities.

Table 18: Other liabilities Figures in NOK billions

Other liabilities	Solvency II 2019	Accounting 2019	Solvency II 2018	Accounting 2018
Perpetual subordinated loans	1.7	1.7	1.7	1.7
Other subordinated loans	6.4	6	6.3	6.0
Pension for own employee	0.5	0.5	0.6	0.6
Deferred tax liabilities*	1.3	1.5	3.7	0.5
Other liabilities	14.8	9.3	8.5	8.5
Total	**24.8**	**19**	**20.8**	**17.3**

* With gross tax assets under Solvency II

D.3.1 Hybrid Tier 1 perpetual capital

<u>Valuation, Solvency II</u>
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.

<u>Valuation, accounts</u>
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

<u>Valuation, Solvency II</u>
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.

<u>Valuation, accounts</u>
Subordinated debt is measured at amortised cost. Subordinated debt in foreign currency has been translated to NOK using the exchange rate at the end of the reporting period. This means that the reported book value is NOK 396 billion less than the Solvency II valuation.

KLP had one subordinated loan as of 31.12.2019.

D.3.3 Pensions for own employees

<u>Solvency II valuation equal to reported value</u>

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 present value of the gross liability is discounted at 2.3 per cent which is meant to reflect interest rates on Norwegian high-quality bonds.

Table 19: Net pension obligations - own employees, 2019. Figures in NOK billions

Net pension obligations, profit/loss 2019	Joint pension scheme	Other entitlements	Total
Present value of obligations	1.365	0.168	1.533
Fair value of the pension assets	1.025	0.000	1.025
Net pension obligations, own employees	**0.340**	**0.168**	**0.508**

Table 20: Net pension obligations - own employees, 2018. Figures in NOK billions

Net pension obligations, profit/loss 2018	Joint pension scheme	Other entitlements	Total
Present value of obligations	1.322	0.166	1.488
Fair value of the pension assets	0.923	0.000	0.923
Net pension obligations, own employees	**0.399**	**0.166**	**0.565**

Table 21: Allocation of pension funds for own employees

Allocation of pension assets	2019	2018
Shares in property subsidiaries	12.4 %	12.7 %
Equities and participations	25.9 %	21.4 %
Loans	12.5 %	12.1 %
Interest-bearing securities	49.2 %	53.8 %
Total	**100.0 %**	**100.0 %**

D.3.4 Deferred tax

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

Valuation, accounts
At 31.12.2019, KLP recognised net deferred tax of NOK 1.5 billion; see notes in section D.1.2.

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

KLP's valuation principles for assets that cannot be valued based on quoted prices are described in Note 6 Fair value hierarchy in the 2019 annual report.

D.5 Other information

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

E. Capital management

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

E.1 Tier 1 and 2 capital

The Tier 1 and 2 capital under Solvency II consists of own funds and supplementary capital. Own funds are the difference between the value of the assets and the liabilities in the Solvency II balance sheet and the hybrid Tier 1 perpetual capital. Subordinated debt is also included in own funds. From the end of 2019, the risk equalisation funds is no longer included in own funds. The risk equalisation fund is still used as a risk-reducing buffer in calculating the capital requirement.

The future right to call for equity, the call option which KLP has, is considered to be supplementary capital. Any net deferred tax assets may also be included in supplementary capital.

The following table shows the breakdown of the Tier 1 and 2 capital into own funds and supplementary capital, without the use of the transitional rule for the technical provisions.

Table 22: Breakdown of Tier 1 and 2 capital into own funds and supplementary capital. Figures in NOK millions Without transitional rules for technical provisions.

Available own funds	2019	2018
Excess of assets over liabilities - Solvency II balance	31 152	27 546
Perpetual subordinated loans	1 738	1 662
Total basic own funds, Tier 1	32 890	29 208
Other subordinated loans	6 408	6 380
Risk equalization fund	-	4 793
Total basic own funds, Tier 2	6 408	11 173
Future right to call for capital	11 535	10 827
deferred tax assets	-	-
Total ancillary own funds	11 535	10 827
Total available own funds	**50 833**	**51 208**

Table 23: Breakdown of Tier 1 and 2 capital into own funds and supplementary capital. Figures in NOK millions With transitional rules for technical provisions.

Available own funds	2019	2018
Excess of assets over liabilities - Solvency II balance	37 154	31 098
Perpetual subordinated loans	1 738	1 662
Total basic own funds, Tier 1	38 892	32 760
Other subordinated loans	6 408	6 380
Risk equalization fund	-	4 793
Total basic own funds, Tier 2	6 408	11 173
Future right to call for capital	11 535	10 827
deferred tax assets	-	-
Total ancillary own funds	11 535	10 827
Total available own funds	**56 835**	**54 760**

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.

The Board has adopted a policy for capital management. The purpose of this guideline is to ensure that KLP is sufficiently capitalized and meet the regulatory minimum requirements for capital set by the Financial Supervisory Authority. The Company has also set its own targets for solvency capital coverage which are well above the requirements of the FSA.

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

The Company applies the transitional measure for technical provisions, but sets targets for solvency capital coverage without using this. For the same reason, solvency capital coverage is reported without using the transitional measure in notes to the Company's accounts. As of 31.12.2019, the solvency capital ratio without using the transitional measures is 275 per cent. This was 265 per cent at 31.12.2018. Solvency capital coverage with the use of the transitional rule is 316 per cent at 31.12.2019; it was 314 per cent at 31.12.2018. This is well above our own target, which in turn is well above the regulatory requirements.

KLP's articles of association allow it to call in capital from its owners. The Company also collects an annual capital contribution from its owners. For 2019 the equity contribution was 0.30 per cent of the premium reserve.

The Tier 1 and 2 capital is classified in three capital groups based on the characteristics of each capital entry. Quality and availability are crucial for the classification. The main breakdown is based on whether

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

<u>Tier 1</u>
The Company's Tier 1 and 2 capital is the difference between assets and liabilities in the Solvency II balance-sheet minus the risk equalisation fund and deferred tax assets. The hybrid Tier 1 perpetual capital is also included in Tier 1 (restricted). Restricted capital cannot exceed 20 per cent of the total of the items in Tier 1. The hybrid Tier 1 perpetual capital is well below this limit. All Tier 1 capital is classed as own funds.

<u>Tier 2</u>
Tier 2 includes subordinated loans as 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 now granted until 31.12.2023. Renewed approval from the Financial Supervisory Authority of Norway was granted on 14.06.2019.

Tier 3
Tier 3 includes any net deferred tax asset, with some restrictions. At year-end 2018 and year-end 2019, this was zero.

E.1.1 Classification of Tier 1 and 2 capital

The sum of eligible capital in groups 2 and 3 may not exceed 50 per cent of the solvency capital requirement. For KLP, this had a limiting effect at year-end 2019 and at year-end 2018. In the event of an increase in the solvency capital requirement, the unused Tier 2 capital (NOK 17.9 billion at the end of 2019) will significantly reduce the negative effect the increase has on capital adequacy.

The hybrid Tier 1 perpetual capital (JPY 15 billion) with a Solvency II value of NOK 1.7 billion at 31.12.2019, has a fixed USD interest rate of 5.07 per cent per year. The loan is perpetual, but KLP has the right to repay it by 28.04.2034. If KLP does not exercise its right to repay in 2034, the loan will move onto floating interest. The credit margin will then increase by 1 percentage point to 6-month JPY LIBOR interest + a margin of 3.30 per cent per year. The loan was issued on 22.04.2014.

The subordinated loan (EUR 600 million) with a Solvency II value of NOK 6.4 billion at 31.12.2019, has a fixed interest rate of 4.25 per cent per year. The loan was issued on 10.06.2015 and is time-limited to mature in 2045. The loan can be repaid by KLP after 10 years, and on each interest payment date from then until the maturity date. The debt is listed on the London Stock Exchange.

The Solvency II rules lay down requirements for the composition of Tier 1 and 2 capital to cover the solvency capital requirement and the minimum capital requirement. This is known as eligible Tier 1 and 2 capital.

The tables below show the total Tier 1 and 2 capital per capital group split into own funds and supplementary capital. The proportion of these amounts that can be used as eligible capital for the solvency capital requirement and the minimum capital requirement is also shown in the table. The calculations of technical provisions are without transitional rules.

Table 24: Classification of Tier 1 and 2 capital. Figures in NOK millions

2019	Available own funds	Eligible own funds	
		SCR	MCR
Tier 1, unrestricted	31 152	31 152	31 152
Deductions for shares in subsidiaries	-	-	-
Tier 1, unrestricted after deduction	31 152	31 152	31 152
Perpetual subordinated loans	1 738	1 738	1 738
Total basic own funds, Tier 1	**32 890**	**32 890**	**32 890**
Other subordinated loans	6 408		
Total basic own funds, Tier 2	**6 408**		
Total basic own funds	**39 298**		
Future right to call for capital	11 535		
Total ancillary own funds, Tier 2	**11 535**		
Total own funds, Tier 2	**17 943**	**7 297**	**1 216**
Deferred tax assets			
Total	**50 833**	**40 187**	**34 106**

Table 25: Classification of Tier 1 and 2 capital. Figures in NOK millions

2018	Available own funds	Eligible own funds	
		SCR	MCR
Tier 1, unrestricted	27 546	27 546	27 546
Deductions for shares in subsidiaries		-	-
Tier 1, unrestricted after deduction	27 546	27 546	27 546
Perpetual subordinated loans	1 662	1 662	1 662
Total basic own funds, Tier 1	**29 208**	**29 208**	**29 208**
Other subordinated loans	6 380		
Risk equalization fund	4 793		
Total basic own funds, Tier 2	**11 173**		
Total basic own funds	**40 381**		
Future right to call for capital	10 827		
Total ancillary own funds, Tier 2	**10 827**		
Total own funds, Tier 2	**22 001**	**6 805**	**1 225**
Deferred tax assets			
Total	**51 208**	**36 013**	**30 433**

The solvency capital requirement (SCR) is intended to cover the risk of loss of the Company's Tier 1 and 2 capital, and is calculated so that the probability is 99.5 per cent that a total loss, underwriting loss and financial loss, over a period of twelve months will not exceed the estimated capital requirement.

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

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

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

Solvency capital requirement and Solvency ratio	2019		2018	
	SCR	MCR	SCR	MCR
Solvency capital requirement	14 595	6 079	13 610	6 125
Eligible own funds	40 187	34 106	36 013	30 433
Excess capital	25 593	28 027	22 403	24 308
Ratio of Eligible own funds to SCR	**275 %**	**561 %**	**265 %**	**497 %**

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

Solvency capital requirement and Solvency ratio	2018		2018	
	SCR	MCR	SCR	MCR
Solvency capital requirement	14 595	6 079	12 416	5 587
Eligible own funds	46 190	40 108	38 968	33 877
Excess capital	31 595	34 029	26 552	28 290
Ratio of Eligible own funds to SCR	**316 %**	**660 %**	**314 %**	**606 %**

The difference between equity in the accounts and the balance of assets and liabilities in the Solvency II balance-sheet at year-end 2019 and 2018 was as shown in the table below.

Table 28: Solvency capital without the use of the call option but with the use of transitional rules for technical provisions compared with Tier 1 and 2 capital in the financial accounts. Figures in NOK millions

2019	Solvency II	Accounting
Paid-up equity	16 540	16 540
Reconciliation reserve	14 612	-
Other retained earnings	-	15 238
Effect of using the transitional rules for technical provisions	6 002	-
Risk equalization fund	-	5 540
Sum Tier 1 - unrestricted	**37 154**	**37 318**
Perpetual subordinated loans/ Tier 1 - restricted	1 738	1 738
Subordinated loans / Tier 2	6 408	6 012
Total basic own funds	**45 300**	**45 068**

Table 29: Solvency capital without the use of the call option but with the use of transitional rules for technical provisions compared with Tier 1 and 2 capital in the financial accounts. Figures in NOK millions

2018	Solvency II	Accounting
Paid-up equity	14 554	14 554
Reconciliation reserve	11 798	-
Other retained earnings	-	14 488
Effect of using the transitional rules for technical provisions	4 776	-
Risk equalization fund	-	4 793
Sum Tier 1 - unrestricted	**31 128**	**33 835**
Risk equalization fund	4 793	
Perpetual subordinated loans/ Tier 1 - restricted	1 662	1 662
Subordinated loans / Tier 2	6 380	6 029
Total basic own funds	**43 963**	**41 526**

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

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

The value of technical provisions under Solvency II without the transitional rules is set at NOK 573.6 billion. The accounting value of the technical provisions is set at NOK 566.2 billion. This means that the Solvency II valuation is NOK 7.4 billion more than the accounting valuation. The transitional provisions say that in 2019 we can deduct 13/16 of this difference in the Solvency II valuation. That means that the valuation of the technical provisions under Solvency II including the transitional scheme is NOK 567.6 billion. The difference between the accounts and Solvency II is NOK 1.4 billion instead of NOK 7.4 billion. The effect on the Solvency capital is NOK 6 billion, as shown in Table 28 above.

The difference between the Tier 1 and 2 capital in the financial accounts and the difference between assets and liabilities under Solvency II (net assets in the table above) was NOK 0.3 billion at 31.12.2019 (NOK 2.4 billion at 31.12.2018).

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The solvency capital requirement is intended to cover the risk of loss of the Company's Tier 1 and 2 capital. The minimum capital requirement is intended cover the risk of loss of the Company's own funds.

E.2.1 Solvency Capital Requirement

At year-end 2019, the capital requirements were as follows (2018 in brackets):

Minimum Capital Requirement: NOK 6.1 (5.6) billion.
Solvency Capital Requirement: NOK 14.6 (12.4) billion.

The capital requirements above include transitional rules for technical provisions.

KLP uses the standard formula without any company-specific parameters. The Solvency Capital Requirement at year-end 2019 and 2018 was broken down as follows:

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

Composition of Solvency capital requirement	2019	2018
Marked risk	4.2	4.4
Counterparty default risk	0.1	0.1
Underwriting risk	11.1	11.2
Diversification	-2.6	-2.6
Operational risk	2.5	2.3
Loss-absorbing capacity of deferred tax	-0.8	-1.6
Solvency capital requirement	14.6	13.6

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

Composition of Solvency capital requirement	2019	2018
Marked risk	4.2	4.4
Counterparty default risk	0.1	0.1
Underwriting risk	11.1	11.2
Diversification	-2.6	-2.6
Operational risk	2.5	2.3
Loss-absorbing capacity of deferred tax	-0.8	-2.8
Solvency capital requirement	14.6	12.4

As in 2017, 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 departure 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 per cent 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 Input data for calculation of the Minimum Capital Requirement

At the end of 2018, the linear formula component for the Minimum Capital Requirement was calculated from the data shown in the table below:

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

Input data to linear formula component	31.12.2019	31.12.2018
Guaranteed benefits	391.7	368.1
Discretionary benefits (future profits)	168.6	132.0
Capital at risk	506.1	561.8
Linear formula component (Linear MCR)	**6.079**	**7.150**

The Minimum Capital Requirement is then calculated as follows:

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

Calculation of MCR	31.12.2019	31.12.2018
Linear MCR	**6.079**	**7.150**
Solvency Capital Requirement (SCR)	14.595	13.610
MCR cap	6.568	6.125
MCR floor	3.649	3.403
Minimum Capital Requirement (MCR)	**6.079**	**6.125**

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

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

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

Input data to linear formula component	31.12.2019	31.12.2018
Guaranteed benefits	391.7	364.7
Discretionary benefits (future profits)	168.6	130.8
Capital at risk	506.1	522.5
Linear formula component (Linear MCR)	**6.079**	**5.587**

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

Calculation of MCR	31.12.2019	31.12.2018
Linear MCR	6.079	5.587
Solvency Capital Requirement (SCR)	14.595	12.416
MCR cap	**6.568**	**5.587**
MCR floor	3.649	3.104
Minimum Capital Requirement (MCR)	**6.079**	**5.587**

We see here that the ceiling has placed restrictions on the minimum capital requirement in 2018.

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 the solvency capital requirement

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

E.6 Other information

The tables below shows the performance of a selection of the most relevant figures for KLP capital through the situation that has arisen as a result of coronavirus (COVID19).
The figures are in millions of NOK.

Available own funds with transitional rules for technical provisions						
	31.12.2019	**13.03.2020**	**16.03.2020 (simplified calculation)**	**20.03.2020 (simplified calculation)**	**27.03.2020**	**03.04.2020 (simplified calculation)**
Tier 1 - unrestricted	37 154	38 228	38 637	40 324	39 785	39 827
Tier 1 - restricted	1 738	1 738	1 738	1 738	1 738	1 738
Total basic own funds, Tier 2	6 408	6 408	6 408	6 408	6 408	6 408
Total ancillary own funds, Tier 2	11 535	11 535	11 535	11 535	11 535	11 535
Tier 3	0	0	0	0	0	0
Total available own funds	**56 835**	**57 909**	**58 319**	**60 006**	**59 467**	**59 509**

Eligible capital to cover the solvency capital requirement with transitional rules for technical provisions						
	31.12.2019	**13.03.2020**	**16.03.2020 (simplified calculation)**	**20.03.2020 (simplified calculation)**	**27.03.2020**	**03.04.2020 (simplified calculation)**
Tier 1 - unrestricted	37 154	38 228	38 637	40 324	39 785	39 827
Tier 1 - restricted	1 738	1 738	1 738	1 738	1 738	1 738
Tier 2	7 297	7 646	8 295	8 029	7 509	7 908
Tier 3	0	0	0	0	0	0
Total eligible own funds to meet the SCR	**46 190**	**47 611**	**48 671**	**50 091**	**49 033**	**49 473**

Eligible capital to cover the minimum capital requirement with transitional rules for technical provisions						
	31.12.2019	**13.03.2020**	**16.03.2020 (simplified calculation)**	**20.03.2020 (simplified calculation)**	**27.03.2020**	**03.04.2020 (simplified calculation)**
Tier 1 - unrestricted	37 154	38 228			39 785	
Tier 1 - restricted	1 738	1 738			1 738	
Tier 2	1 216	1 376			1 352	
Total eligible own funds to meet the MCR	**40 108**	**41 342**			**42 875**	

Available own funds without transitional rules for technical provisions						
	31.12.2019	13.03.2020	16.03.2020 (simplified calculation)	20.03.2020 (simplified calculation)	27.03.2020	03.04.2020 (simplified calculation)
Tier 1 - unrestricted	31 152	26 129	26 959	24 253	27 190	27 776
Tier 1 - restricted	1 738	1 738	1 738	1 738	1 738	1 738
Total basic own funds, Tier 2	6 408	6 408	6 408	6 408	6 408	6 408
Total ancillary own funds, Tier 2	11 535	11 535	11 535	11 535	11 535	11 535
Tier 3	0	0	0	0	0	0
Total available own funds	**50 833**	**45 811**	**46 641**	**43 934**	**46 871**	**47 458**

Eligible capital to cover the solvency capital requirement without transitional rules for technical provisions						
	31.12.2019	13.03.2020	16.03.2020 (simplified calculation)	20.03.2020 (simplified calculation)	27.03.2020	03.04.2020 (simplified calculation)
Tier 1 - unrestricted	31 152	26 129	26 959	24 253	27 190	27 776
Tier 1 - restricted	1 738	1 738	1 738	1 738	1 738	1 738
Tier 2	7 297	7 646	8 295	8 029	7 509	7 908
Tier 3	0	0	0	0	0	0
Total eligible own funds to meet the SCR	**40 187**	**35 513**	**36 993**	**34 020**	**36 437**	**37 422**

Eligible capital to cover the minimum capital requirement without transitional rules for technical provisions						
	31.12.2019	13.03.2020	16.03.2020 (simplified calculation)	20.03.2020 (simplified calculation)	27.03.2020	03.04.2020 (simplified calculation)
Tier 1 - unrestricted	31 152	26 129			27 190	
Tier 1 - restricted	1 738	1 738			1 738	
Tier 2	1 216	1 376			1 352	
Total eligible own funds to meet the MCR	**34 106**	**29 244**			**30 280**	

Solvenskapitalkrav (netto etter tapsabsorberende evne av forsikringstekniske avsetninger)						
	31.12.2019	13.03.2020	16.03.2020 (simplified calculation)	20.03.2020 (simplified calculation)	27.03.2020	03.04.2020 (simplified calculation)
Market risk	4 206	4 394	5 967	5 094	4 533	6 200
Counterparty default risk	105	110	88	82	107	89
Life underwriting risk	11 126	12 202	12 398	12 366	11 923	11 835
Diversification	-2 565	-2 708	-3 383	-3 013	-2 756	-3 427
Basic Solvency Capital Requirement	12 872	13 998	15 071	14 528	13 806	14 697
Operational risk	2 521	2 461	2 306	2 313	2 435	2 230
Loss-absorbing capacity of deferred taxes	-798	-1 168	-786	-783	-1 223	-1 112
Solvency capital requirement	**14 595**	**15 291**	**16 591**	**16 058**	**15 018**	**15 815**

Minimum capital requirement						
	31.12.2019	13.03.2020	16.03.2020 (simplified calculation)	20.03.2020 (simplified calculation)	27.03.2020	03.04.2020 (simplified calculation)
Minimum capital requirement	**6 079**	**6 881**			**6 758**	

Solvency capital ratio with transitional rules for technical provisions						
	31.12.2019	13.03.2020	16.03.2020 (simplified calculation)	20.03.2020 (simplified calculation)	27.03.2020	03.04.2020 (simplified calculation)
Ratio of Eligible own funds to SCR	**316 %**	**311 %**	**293 %**	**312 %**	**326 %**	**313 %**

Solvency capital ratio without transitional rules for technical provisions						
	31.12.2019	13.03.2020	16.03.2020 (simplified calculation)	20.03.2020 (simplified calculation)	27.03.2020	03.04.2020 (simplified calculation)
Ratio of Eligible own funds to SCR	**275 %**	**232 %**	**223 %**	**212 %**	**243 %**	**237 %**

Minimum capital ratio with transitional rules for technical provisions						
	31.12.2019	13.03.2020	16.03.2020 (simplified calculation)	20.03.2020 (simplified calculation)	27.03.2020	03.04.2020 (simplified calculation)
Ratio of Eligible own funds to MCR	**660 %**	**601 %**			**634 %**	

Minimum capital ratio without transitional rules for technical provisions						
	31.12.2019	13.03.2020	16.03.2020 (simplified calculation)	20.03.2020 (simplified calculation)	27.03.2020	03.04.2020 (simplified calculation)
Ratio of Eligible own funds to MCR	**561 %**	**425 %**			**448 %**	

Approval

The report was approved by the Board of Directors of KLP on 5 May 2020.

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Sverre Thornes, CEO

Templates

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

QRT code	QRT name
S.01.02.01	General information
S.02.01.01	Balance sheet
S.05.01.01	Premiums, claims and expenses by line of business
S.05.02.01	premiums, claims and expenses by country
S.12.01.01	The technical provisions relating to life insurance and health insurance pursued on a similar technical basis to that of life insurance
S.22.01.01	The impact of the long term guarantee and transitional measures
S.23.01.01	Own funds, including basic own funds and ancillary own funds
S.25.01.01	The Solvency Capital Requirement calculated using the standard formula
S.28.01.01	The Minimum Capital Requirement for only life or non-life insurance activity
S.28.02.01	The Minimum Capital Requirement for insurance undertakings engaged in both life and non-life insurance activity

S.01.02.01
Basic Information - General

		C0010
	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**	2020-04-16
Financial year end	**R0081**	2019-12-31
Reporting reference date	**R0090**	2019-12-31
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
Exemption of reporting ECAI information	**R0250**	Not exempted
Ad hoc XBRL technical field 1	**R0990**	
Ad hoc XBRL technical field 2	**R0991**	
Ad hoc XBRL technical field 3	**R0992**	

S020101
Balance sheet

		Solvency II value	Statutory accounts value
Assets		**C0010**	**C0020**
Goodwill	**R0010**		
Deferred acquisition costs	**R0020**		
Intangible assets	**R0030**	.	358 141 974
Deferred tax assets	**R0040**	518 280 803	0
Pension benefit surplus	**R0050**	.	.
Property, plant & equipment held for own use	**R0060**	42 095 802	42 095 802
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	526 487 221 909	518 827 679 086
Property (other than for own use)	**R0080**	954 948 988	954 948 988
Holdings in related undertakings, including participations	**R0090**	63 478 472 998	65 394 198 931
Equities	**R0100**	42 242 819 898	40 321 960 003
Equities - listed	**R0110**	38 031 880 936	.
Equities - unlisted	**R0120**	4 210 938 962	.
Bonds	**R0130**	250 439 634 449	243 009 463 598
Government Bonds	**R0140**	47 747 706 035	.
Corporate Bonds	**R0150**	202 691 928 414	.
Structured notes	**R0160**	.	.
Collateralised securities	**R0170**	.	.
Collective Investments Undertakings	**R0180**	162 877 372 763	162 871 835 266
Derivatives	**R0190**	4 951 935 528	4 733 235 014
Deposits other than cash equivalents	**R0200**	1 542 037 285	1 542 037 285
Other investments	**R0210**	.	.
Assets held for index-linked and unit-linked contracts	**R0220**	.	0
Loans and mortgages	**R0230**	85 707 319 805	85 461 874 355
Loans on policies	**R0240**	.	.
Loans and mortgages to individuals	**R0250**	3 409 168 001	.
Other loans and mortgages	**R0260**	82 298 151 804	.
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**	485 179 578	485 179 578
Reinsurance receivables	**R0370**	.	.
Receivables (trade, not insurance)	**R0380**	174 362 083	174 362 083
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**	15 244 377 791	15 271 027 972
Any other assets, not elsewhere shown	**R0420**	897 303 855	897 303 855
Total assets	**R0500**	**629 556 141 626**	**621 517 664 705**

Liabilities		Solvency II value	Statutory accounts value
		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	567 615 004 410	566 229 870 865
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	567 615 004 410	566 229 870 865
Technical provisions calculated as a whole	R0660	0	
Best Estimate	R0670	554 433 183 393	
Risk margin	R0680	13 181 821 017	
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	1 425 118 398	1 425 118 398
Pension benefit obligations	R0760	507 527 041	507 527 041
Deposits from reinsurers	R0770	.	.
Deferred tax liabilities	R0780	1 316 528 871	546 144 133
Derivatives	R0790	710 046 912	599 116 637
Debts owed to credit institutions	R0800	.	.
Financial liabilities other than debts owed to credit institutions	R0810	3 990 436 198	3 990 436 198
Insurance & intermediaries payables	R0820	983 354 232	983 354 232
Reinsurance payables	R0830	.	.
Payables (trade, not insurance)	R0840	1 958 173 640	1 958 173 640
Subordinated liabilities	R0850	8 146 530 391	7 750 407 180
Subordinated liabilities not in Basic Own Funds	R0860	.	.
Subordinated liabilities in Basic Own Funds	R0870	8 146 530 391	7 750 407 180
Any other liabilities, not elsewhere shown	R0880	5 749 475 257	209 547 456
Total liabilities	**R0900**	592 402 195 350	584 199 695 780
Excess of assets over liabilities	**R1000**	**37 153 946 276**	**37 317 968 925**

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**	40 235 303 329
Reinsurers' share	**R1420**	1 256 104
Net	**R1500**	40 234 047 225
Premiums earned		
Gross	**R1510**	40 224 043 892
Reinsurers' share	**R1520**	1 256 104
Net	**R1600**	40 222 787 788
Claims incurred		
Gross	**R1610**	78 495 292 773
Reinsurers' share	**R1620**	0
Net	**R1700**	78 495 292 773
Changes in other technical provisions		
Gross	**R1710**	0
Reinsurers' share	**R1720**	0
Net	**R1800**	0
Expenses incurred	**R1900**	1 143 904 211
Administrative expenses		
Gross	**R1910**	160 146 590
Reinsurers' share	**R1920**	0
Net	**R2000**	160 146 590
Investment management expenses		
Gross	**R2010**	217 341 800
Reinsurers' share	**R2020**	0
Net	**R2100**	217 341 800
Claims management expenses		
Gross	**R2110**	171 585 632
Reinsurers' share	**R2120**	0
Net	**R2200**	171 585 632
Acquisition expenses		
Gross	**R2210**	137 268 505
Reinsurers' share	**R2220**	0
Net	**R2300**	137 268 505
Overhead expenses		
Gross	**R2310**	457 561 684
Reinsurers' share	**R2320**	0
Net	**R2400**	457 561 684
Other expenses	**R2500**	
Total expenses	**R2600**	1 143 904 211
Total amount of surrenders	**R2700**	0

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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**	560 296 037 578	560 296 037 578
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**	560 296 037 578	560 296 037 578
Risk Margin	**R0100**	13 321 212 195	13 321 212 195
Amount of the transitional on Technical Provisions			
Technical Provisions calculated as a whole	**R0110**		
Best estimate	**R0120**	-5 862 854 184	-5 862 854 184
Risk margin	**R0130**	-139 391 178	-139 391 178
Technical provisions - total	**R0200**	567 615 004 410	567 615 004 410
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0210**	567 615 004 410	567 615 004 410
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**	430 497 410 773	430 497 410 773
Future discretionary benefits	**R0250**	168 607 756 544	168 607 756 544
Future expenses and other cash out-flows	**R0260**	14 839 127 480	14 839 127 480
Cash in-flows			
Future premiums	**R0270**	53 648 257 220	53 648 257 220
Other cash in-flows	**R0280**	0	0
Percentage of gross TP calculated using approximations	**R0290**		
Surrender value	**R0300**	560 296 037 578	560 296 037 578
Best estimate subject to transitional of the interest rate	**R0310**	.	.
Technical provisions without transitional on interest rate	**R0320**	.	.
Best estimate subject to volatility adjustment	**R0330**	560 296 037 578	560 296 037 578
Technical provisions without volatility adjustment and without others transitional measures	**R0340**	573 828 484 001	573 828 484 001
Best estimate subject to matching adjustment	**R0350**	0	0
Technical provisions without matching adjustment and without all the others	**R0360**	573 617 249 772	573 617 249 772

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**	567 615 004 410	573 617 249 772	6 002 245 362	573 617 249 772	0	573 828 484 001	211 234 229	573 828 484 001	0	6 213 479 591
Basic own funds	**R0020**	45 300 476 667	39 298 231 305	-6 002 245 362	39 298 231 305	0	39 090 340 900	-207 890 405	39 090 340 900	0	-6 210 135 767
Excess of assets over liabilities	**R0030**	37 153 946 276	31 151 700 913	-6 002 245 362	31 151 700 913	0	30 943 810 508	-207 890 405	30 943 810 508	0	-6 210 135 767
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**	46 189 514 310	40 187 268 948	-6 002 245 362	40 187 268 948	0	40 251 832 588	64 563 640	40 251 832 588	0	-5 937 681 722
Tier 1	**R0060**	38 892 215 365	32 889 970 002	-6 002 245 362	32 889 970 002	0	32 682 079 597	-207 890 405	32 682 079 597	0	-6 210 135 767
Tier 2	**R0070**	7 297 298 945	7 297 298 945	0	7 297 298 945	0	7 569 752 991	272 454 045	7 569 752 991	0	272 454 045
Tier 3	**R0080**	0	0	0	0	0	0	0	0	0	0
Solvency Capital Requirement	**R0090**	14 594 597 890	14 594 597 890	0	14 594 597 890	0	15 139 505 981	544 908 091	15 139 505 981	0	544 908 091
Eligible own funds to meet MCR	**R0100**	40 108 039 546	34 105 794 183	-6 002 245 362	34 105 794 183	0	34 047 425 136	-58 369 048	34 047 425 136	0	-6 060 614 410
Minimum Capital Requirement	**R0110**	6 079 120 905	6 079 120 905	0	6 079 120 905	0	6 826 727 692	747 606 787	6 826 727 692	0	747 606 787

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**	16 539 523 009	16 539 523 009		.	
Subordinated mutual member accounts	**R0050**	.		.	.	.
Surplus funds	**R0070**	.	.			
Preference shares	**R0090**	.		.	.	.
Share premium account related to preference shares	**R0110**	.		.	.	.
Reconciliation reserve	**R0130**	20 614 423 267	20 614 423 267			
Subordinated liabilities	**R0140**	8 146 530 391		1 738 269 089	6 408 261 302	.
An amount equal to the value of net deferred tax assets	**R0160**	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	.	.	.	.	.
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**					
Deductions						
Deductions for participations in financial and credit institutions	**R0230**	.	.	.	.	
Total basic own funds after deductions	**R0290**	45 300 476 667	37 153 946 276	1 738 269 089	6 408 261 302	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	.			.	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**	11 534 738 390			11 534 738 390	
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**	11 534 738 390			11 534 738 390	.
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	56 835 215 057	37 153 946 276	1 738 269 089	17 942 999 693	0,00
Total available own funds to meet the MCR	**R0510**	45 300 476 667	37 153 946 276	1 738 269 089	6 408 261 302	
Total eligible own funds to meet the SCR	**R0540**	46 189 514 310	37 153 946 276	1 738 269 089	7 297 298 945	0,00
Total eligible own funds to meet the MCR	**R0550**	40 108 039 546	37 153 946 276	1 738 269 089	1 215 824 181	
SCR	**R0580**	14 594 597 890				
MCR	**R0600**	6 079 120 905				
Ratio of Eligible own funds to SCR	**R0620**	3,16				
Ratio of Eligible own funds to MCR	**R0640**	6,60				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	37 153 946 276	
Own shares (held directly and indirectly)	**R0710**	.	
Foreseeable dividends, distributions and charges	**R0720**	.	
Other basic own fund items	**R0730**	16 539 523 009	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**	0	
Reconciliation reserve	**R0760**	20 614 423 267	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	13 210 793 914	
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**	0	
Total Expected profits included in future premiums (EPIFP)	**R0790**	13 210 793 914	

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**	4 205 762 662	92 769 220 118	0
Counterparty default risk	**R0020**	104 763 244	2 450 527 722	0
Life underwriting risk	**R0030**	11 125 541 769	63 131 349 307	0
Health underwriting risk	**R0040**	.	.	.
Non-life underwriting risk	**R0050**	.	.	.
Diversification	**R0060**	-2 564 553 885	-32 983 466 132	
Intangible asset risk	**R0070**	.	.	
Basic Solvency Capital Requirement	**R0100**	12 871 513 789	125 367 631 016	

Calculation of Solvency Capital Requirement		**C0100**
Adjustment due to RFF/MAP nSCR aggregation	**R0120**	0
Operational risk	**R0130**	2 521 332 169
Loss-absorbing capacity of technical provisions	**R0140**	-112 496 117 226
Loss-absorbing capacity of deferred taxes	**R0150**	-798 248 068
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	**R0160**	.
Solvency Capital Requirement excluding capital add-on	**R0200**	14 594 597 890
Capital add-on already set	**R0210**	.
Solvency capital requirement	**R0220**	14 594 597 890
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**	168 607 756 544

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
MCRL Result	**R0200**	6 079 120 905

		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**	391 688 281 033	
Obligations with profit participation - future discretionary benefits	**R0220**	168 607 756 544	
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**		506 082 638 683

Overall MCR calculation		**C0070**
Linear MCR	**R0300**	6 079 120 905
SCR	**R0310**	14 594 597 890
MCR cap	**R0320**	6 567 569 051
MCR floor	**R0330**	3 648 649 473
Combined MCR	**R0340**	6 079 120 905
Absolute floor of the MCR	**R0350**	37 932 400
Minimum Capital Requirement	**R0400**	6 079 120 905

S.28.02.01

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

		Non-life activities $MCR_{(L,NL)}$ Result	Life activities $MCR_{(L,L)}$ Result
		C0070	**C0080**
Linear formula component for life insurance and reinsurance obligations	**R0200**	.	6 079 120 905

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**	391 688 281 033	
Obligations with profit participation - future discretionary benefits	**R0220**	168 607 756 544	
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**		506 082 638 683

Overall MCR calculation		**C0130**
Linear MCR	**R0300**	6 079 120 905
SCR	**R0310**	14 594 597 890
MCR cap	**R0320**	6 567 569 051
MCR floor	**R0330**	3 648 649 473
Combined MCR	**R0340**	6 079 120 905
Absolute floor of the MCR	**R0350**	37 932 400
MCR	**R0400**	6 079 120 905

Notional non-life and life MCR calculation		**Non-life activities**	**Life activities**
		C0140	**C0150**
Notional linear MCR	**R0500**	0	6 079 120 905
Notional SCR excluding ~~with~~ add-on (annual or latest calculation)	**R0510**	0	14 594 597 890
Notional MCR cap	**R0520**	0	6 567 569 051
Notional MCR floor	**R0530**	0	3 648 649 473
Notional Combined MCR	**R0540**	0	6 079 120 905
Absolute floor of the notional MCR	**R0550**	.	37 932 400
Notional MCR	**R0560**	0	6 079 120 905

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