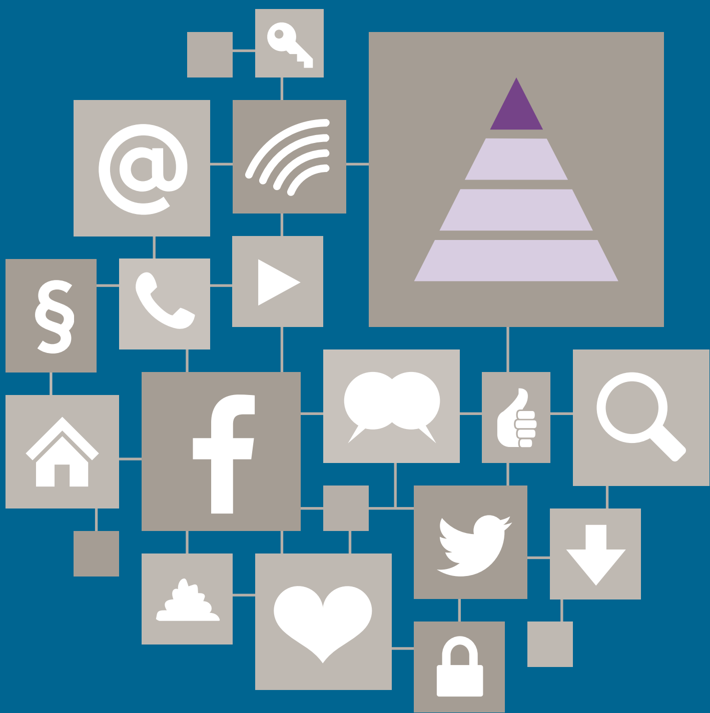
# Interim Report
# 4th quarter 2017
# and preliminary report

## Gjensidige Pensjonsforsikring



# Gjensidige Pensjonsforsikring AS
# Fourth quarter 2017

In the following, figures in brackets indicate the amount or percentage for the corresponding period last year.

## Year-to-date

- Profit/(loss) before tax expense: NOK 103.6 million (113.2)
- Operating income: NOK 301.3 million (279.5)
- Operating expenses: NOK 227.3 million (192.3)
- Operating margin: 24.6 per cent (31.2)

- Return on equity, annualised: 11.0 per cent (13.8)
- Solvency capital (SF): NOK 1,913.7 million (1,718.8)
- Solvency margin (SF): 132.8 per cent (134.0)

- Assets under management: NOK 28,699.0 million (23,237.3)

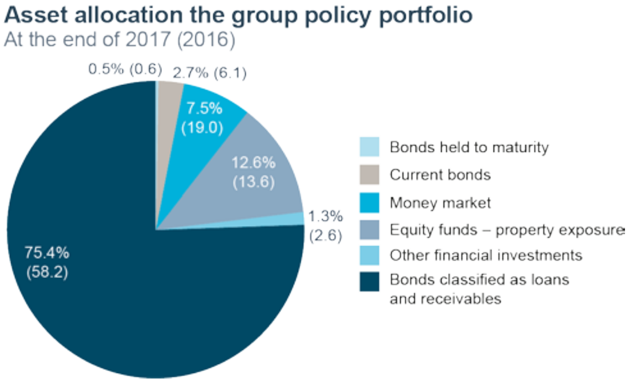
## Fourth quarter

- Profit/(loss) before tax expense: NOK 27.9 million (24.7)
- Operating income: NOK 76.6 million (85.3)
- Operating expenses: NOK 53.9 million (46.0)
- Operating margin: 29.7 per cent (46.0)

| NOK millions | Q4 2017 | Q4 2016 | 1.1.-31.12.2017 | 1.1.-31.12.2016 |
|---|---|---|---|---|
| Administration fees | 34.2 | 35.7 | 134.6 | 127.8 |
| Insurance income | 2.6 | 27.5 | 36.3 | 68.0 |
| Management income etc. | 39.7 | 22.1 | 130.4 | 83.6 |
| Operating expenses | (53.9) | (46.0) | (227.3) | (192.3) |
| **Net operating income** | **22.7** | **39.2** | **74.0** | **87.2** |
| Net financial income | 5.1 | (14.6) | 29.6 | 26.1 |
| **Profit/(loss) before tax expense** | **27.9** | **24.7** | **103.6** | **113.2** |
| Operating margin [1] | 29.7 % | 46.0 % | 24.6 % | 31.2 % |

[1] Operating margin = net operating income/total income

# A successful year dominated by strong portfolio growth and good underlying operational performance




## Year-to-date development

### Earnings performance
This year has been very successful for the pension business dominated by strong portfolio growth and good underlying operating development. Operating revenues increased due to a growing number of customers and growth in assets. However, strengthening of IBNR reserves and generally low interest rates hampered earnings growth which resulted in a profit before tax of NOK 103.6 million (113.2) .

### Operating income
Total income amounted to NOK 301.3 million (279.5).

Administration fees increased to NOK 134.6 million (127.8) following a growing customer portfolio. Insurance income declined to NOK 36.3 million (68.0) as a result of strengthened IBNR reserves. Management income increased to NOK 130.4 million (83.6), driven by increase in assets as well as changed classification of management costs of NOK 22.9 million previously reported as income reductions but now handled as operating expenses.

### Operating expenses
Operating expenses were NOK 227.3 million (192.3) after the change in classification of management cost as described above and increased business volume.

### Net financial income
Net financial income, including returns both on the group policy portfolio and the corporate portfolio increased to NOK 29.6 million (26.1) due to reclassifications of income last year following clarifications from Finanstilsynet. Apart from this, net financial income in 2017 has declined due to reduced interest income related to the company portfolio following the issue of a subordinated loan (Tier 2) of NOK 300 million in June last year, in addition to generally reduced yield on the group portfolio. The company's share of the profit related to the paid-up policy portfolio was allocated in its entirety as longevity provision.

### Paid-up policy portfolio
Recognised return on the paid-up policy portfolio was 3.8 per cent (4.1). The average annual interest guarantee is 3.3 per cent (3.5).

### Assets under management
As of December, assets under management increased by NOK 5,461.7 million. At the end of the period, pension assets under management amounted to NOK 28,699.0 million (23.237.3) including the group policy portfolio of NOK 6.018.4 million (5,409.6).

## Development during the quarter

### Earnings performance
The profit before tax expense increased to NOK 27.9 million (24.7), mainly due to growth in management income.

### Operating income
Total income increased to NOK 76.6 million (85.3).

Administration fees and insurance income were NOK 34.2 million (35.7) and NOK 2.6 million (27.5) respectively. The reduced insurance income was due to strengthening of IBNR reserves and reclassification last year of income previously reported as financial income following clarifications from Finanstilsynet. Management income increased to NOK 39.7 million (22.1) for the same reasons as described above.

### Operating expenses
Operating expenses were NOK 53.9 million (46.0) of which NOK 5.9 million was related to the above mentioned reclassification between management income this year.

### Net financial income
Net financial income was NOK 5.1 million (-14.5). Last year was influenced by the reclassification last year.

## Solvency position

The solvency margin reported at the end of the period was 132,8 per cent, down from 132.9 per cent in the last quarter.

## Events after the balance sheet date

No significant events have occurred after the end of the quarter.

## Outlook

Gjensidige Pensjonsforsikring AS shall support Gjensdige's sales to insurance customers in Norway. The company offers occupational pension and disability pension products to individuals. The defined contributions market remains competitive but highly active, creating ample business opportunities. The results achieved over the last few years substantiate the fact that the company is well positioned to further expand its business. The positive profit trend is expected to continue.

Oslo, 25 January 2018

The Board of Gjensidige Pensjonsforsikring AS

| | | | |
|---|---|---|---|
| Mats C. Gottschalk | Kari Østerud | Hans Aasnes | Ida Guldberg |
| Chair | | | |

Torstein Ingebretsen

CEO

# Income statement

| NOK thousands | Q4 2017 | Q4 2016 | 1.1.-31.12.2017 | 1.1.-31.12.2016 |
|---|---|---|---|---|
| **Technical account** | | | | |
| Gross written premium | 845,788 | 654,048 | 3,094,770 | 2,472,087 |
| Ceded reinsurance premiums | | | (6,876) | (5,457) |
| Transfer of premium reserves from other insurance companies/pension funds | 316,259 | 315,705 | 2,018,975 | 1,132,115 |
| **Total premiums for own account** | **1,162,047** | **969,752** | **5,106,870** | **3,598,745** |
| Interest income and dividends etc. from financial assets | 42,072 | 38,309 | 161,594 | 177,546 |
| Unrealised gains and losses on investments | 150 | 14,868 | 30,207 | 53,195 |
| Realised gains and losses on investments | 8,053 | (852) | 44,380 | 5,627 |
| **Total net income from investments in the group policy portfolio** | **50,275** | **52,325** | **236,182** | **236,367** |
| Interest income and dividends etc. from financial assets | | | 18,563 | 20,143 |
| Unrealised gains and losses on investments | 420,276 | 294,100 | 1,003,755 | 89,155 |
| Realised gains and losses on investments | 226,430 | 150,910 | 947,969 | 531,063 |
| **Total net income from investments in the investment portfolio** | **646,707** | **445,010** | **1,970,287** | **640,361** |
| **Other insurance related income** | **39,727** | **22,050** | **130,359** | **83,600** |
| Gross claims paid | (121,806) | (104,397) | (464,111) | (414,709) |
| - Paid claims, reinsurers' share | 3,094 | 17,873 | 36,089 | 12,622 |
| Transfer of premium reserve and statutory reserves to other insurance companies/pension funds | (323,597) | (228,252) | (1,231,185) | (691,089) |
| **Total claims** | **(442,308)** | **(314,776)** | **(1,659,207)** | **(1,093,177)** |
| Change in premium reserve, gross | (150,397) | (150,556) | (552,432) | (455,100) |
| Change in premium reserves, reinsurers' share | (4,318) | 9,473 | (2,599) | 10,837 |
| Change in statutory reserves | (11,155) | (19,955) | (12,241) | (20,383) |
| Change in value adjustment fund | (269) | (10,705) | (27,836) | (26,895) |
| Transfer of statutory reserves to other insurance companies/pension funds | (169) | (597) | | 2,455 |
| **Total changes in reserves for the group policy portfolio** | **(166,308)** | **(172,341)** | **(595,109)** | **(489,086)** |
| Change in premium reserve | (1,512,157) | (1,130,980) | (5,774,190) | (3,149,122) |
| Change in other provisions | 281,613 | 163,023 | 917,803 | 476,478 |
| **Total changes in reserves for investment portfolio** | **(1,230,543)** | **(967,957)** | **(4,856,388)** | **(2,672,644)** |
| Profit on investment result | 16,008 | 26,225 | (2,951) | (4,497) |
| Risk result allocated to insurance contracts | 6,454 | 8,687 | (41) | (1,883) |
| **Total funds allocated to the insurance contracts** | **22,462** | **34,912** | **(2,992)** | **(6,380)** |
| Management expenses | (5,885) | | (22,937) | |
| Sales expenses | (5,706) | (5,457) | (20,720) | (22,793) |
| Insurance-related administration expenses (incl. commissions for reinsurance received) | (42,269) | (40,826) | (183,622) | (168,282) |
| **Total insurance-related operating expenses** | **(53,860)** | **(46,283)** | **(227,279)** | **(191,075)** |
| **Profit/(loss) of technical account** | **28,198** | **22,694** | **102,723** | **106,713** |
| **Net income from investments in the company portfolio** | | | | |
| Interest income and dividends etc. from financial assets | (523) | 850 | 790 | 5,470 |
| Unrealised gains and losses on investment | (963) | 627 | (2,503) | 1,675 |
| Realised gains and losses on investments | 1,155 | 246 | 2,608 | 628 |
| **Total net income from investments in the company portfolio** | **(331)** | **1,723** | **895** | **7,774** |
| Other expenses | | 242 | | (1,258) |
| **Total management expenses and other expenses related to investments in the company portfolio** | | **242** | | **(1,258)** |
| **Profit/(loss) on non-technical account** | **(331)** | **1,965** | **895** | **6,516** |
| **Profit/(loss) before tax expense** | **27,867** | **24,659** | **103,618** | **113,228** |
| Tax expense | (8,749) | (6,578) | (27,687) | (28,721) |
| **Profit/(loss) before other comprehensive income** | **19,117** | **18,080** | **75,931** | **84,508** |
| Remeasurement of the net defined benefit liability/asset | (925) | 717 | (925) | 717 |
| Tax on items that are not reclassified to profit or loss | 231 | (179) | 231 | (179) |
| **Total items that are not reclassified subsequently to profit or loss** | **(694)** | **538** | **(694)** | **538** |
| **Total comprehensive income** | **18,424** | **18,618** | **75,237** | **85,045** |

# Statement of financial position

| NOK thousands | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **Assets** | | |
| Other intangible assets | 49,173 | 49,275 |
| **Total intangible assets** | **49,173** | **49,275** |
| *Financial assets measured at fair-value* | | |
| Shares and similar interests | 5,458 | 13,020 |
| Bonds and other securities with fixed income | 746,444 | 589,505 |
| Cash and cash equivalents | 97,358 | 95,992 |
| **Total financial assets** | **849,260** | **698,518** |
| Receivables related to direct operations | 6,965 | 5,163 |
| Other receivables | 104,800 | 64,834 |
| **Total receivables** | **111,765** | **69,997** |
| Cash and cash equivalents | 175,727 | 251,057 |
| Pension assets | 1,609 | 2,438 |
| **Total other assets** | **177,336** | **253,494** |
| **Total assets in the company portfolio** | **1,187,534** | **1,071,284** |
| *Financial assets at amortized cost* | | |
| Bonds held to maturity | 30,536 | 30,508 |
| Loans and receivables | 4,536,001 | 3,149,704 |
| *Financial assets measured at fair-value* | | |
| Shares and similar interests | 758,151 | 734,112 |
| Bonds and other securities with fixed income | 614,957 | 1,357,170 |
| Receivables in collective portfolio | | 161 |
| Cash and cash equivalents | 60,412 | 131,977 |
| **Total investments in the group policy portfolio** | **6,000,056** | **5,403,632** |
| **Reinsurers' share of insurance-related liabilities in general insurance, gross** | **22,560** | **25,159** |
| *Financial assets measured at fair value* | | |
| Shares and similar interests | 20,034,279 | 16,002,843 |
| Bonds and other securities with fixed income | 2,531,180 | 1,777,181 |
| Loans and receivables | 52,445 | 38,229 |
| Cash and cash equivalents | 62,688 | 9,445 |
| **Total investments in the investment option portfolio** | **22,680,592** | **17,827,698** |
| **Total assets in the customer portfolio** | **28,703,208** | **23,256,490** |
| **Total assets** | **29,890,742** | **24,327,774** |

| NOK thousands | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **Equity and liabilities** | | |
| *Paid in capital* | | |
| Share capital | 39,000 | 39,000 |
| Other paid-in capital | 80,875 | 80,722 |
| **Total paid-in equity** | **119,875** | **119,722** |
| *Retained equity* | | |
| Other earned equity | 532,992 | 449,178 |
| Profit/(loss) before other comprenhensive income | 75,931 | 84,508 |
| **Total earned equity** | **608,923** | **533,686** |
| **Total equity** | **728,798** | **653,408** |
| Subordinated debt | 299,571 | 299,457 |
| **Total subordinated debt capital etc.** | **299,571** | **299,457** |
| Premium reserves | 5,784,856 | 5,217,107 |
| Additional statutory reserves | 176,617 | 164,389 |
| Market value adjustment reserves | 54,730 | 26,895 |
| Premium fund, deposit fund and the pension surplus fund | 2,160 | 1,165 |
| **Total insurance obligations in life insurance - the group policy portfolio** | **6,018,363** | **5,409,556** |
| Premium reserves | 22,361,592 | 17,513,426 |
| Premium fund, deposit fund and the pension surplus fund | 319,000 | 314,272 |
| **Total insurance obligations in life insurance - the investment option portfolio** | **22,680,593** | **17,827,698** |
| Pension liabilities etc. | 1,877 | 1,455 |
| *Tax liabilities* | | |
| Period tax liabilities | 15,796 | 14,664 |
| Provisions for deferred taxes | 20,464 | 10,200 |
| **Total provisions for liabilities** | **38,136** | **26,319** |
| Liabilities related to direct insurance | 89,264 | 79,268 |
| Other liabilities | 21,992 | 15,957 |
| **Total financial liabilities** | **111,256** | **95,225** |
| Accrued expenses and deferred income | 14,025 | 16,111 |
| **Total accrued expenses and deferred income** | **14,025** | **16,111** |
| **Total equity and liabilities** | **29,890,742** | **24,327,774** |

# Statement of changes in equity

| NOK thousands | Share capital | Other paid-in capital | Remeasure-ment of the net defined benefit liab./asset | Other earned equity | Total equity |
|---|---|---|---|---|---|
| **Equity as at 31.12.2015** | **39,000** | **80,674** | **803** | **447,837** | **568,315** |
| **1.1.-31.12.2016** | | | | | |
| Profit/(loss) before comprehensive income | | | | 84,508 | 84,508 |
| **Components of other comprehensive income** | | | | | |
| **Items that are not reclassified subsequently to profit or loss** | | | | | |
| Remeasurement of the net defined benefit liability/asset | | | 717 | | 717 |
| Tax on items that are not reclassified to profit or loss | | | (179) | | (179) |
| **Total items that are not reclassified subsequently to profit or loss** | | | **538** | | **538** |
| Equity-settled share-based payment transactions | | 48 | | | 48 |
| **Equity as at 31.12.2016** | **39,000** | **80,722** | **1,341** | **532,345** | **653,408** |
| **1.1.-31.12.2017** | | | | | |
| Profit/(loss) before comprehensive income | | | | 75,931 | 75,931 |
| **Components of other comprehensive income** | | | | | |
| **Items that are not reclassified subsequently to profit or loss** | | | | | |
| Remeasurement of the net defined benefit liability/asset | | | (925) | | (925) |
| Tax on items that are not reclassified to profit or loss | | | 231 | | 231 |
| **Total items that are not reclassified subsequently to profit or loss** | | | **(694)** | | **(694)** |
| Equity-settled share-based payment transactions | | 153 | | | 153 |
| **Equity as at 31.12.2017** | **39,000** | **80,875** | **647** | **608,276** | **728,798** |

# Cash flows

| NOK thousands | 1.1.-31.12.2017 | 1.1.-31.12.2016 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Premiums paid, net of reinsurance | 5,090,891 | 3,639,107 |
| Claims paid, net of reinsurance | (428,022) | (402,087) |
| Net receipts/payments of premium reserve transfers | (1,231,185) | (645,158) |
| Net receipts/payments from financial assets | (3,258,871) | (2,540,604) |
| Operating expenses paid, including commissions | (224,001) | (197,819) |
| Taxes paid | (14,664) | (25,296) |
| **Net cash flow from operating activities** | **(65,852)** | **(171,857)** |
| **Cash flow from investing activities** | | |
| Net receipts/payments on sale/acquisition of owner-occupied property, plant and equipment | (14,728) | (9,509) |
| **Net cash flow from investing activities** | **(14,728)** | **(9,509)** |
| **Cash flow from financing activities** | | |
| Net receipts/payments on subordinated debt | (11,707) | 293,119 |
| **Net cash flow from financing activities** | **(11,707)** | **293,119** |
| **Net cash flow for the period** | **(92,287)** | **111,753** |
| Cash and cash equivalents at the start of the period | 488,472 | 376,719 |
| Cash and cash equivalents at the end of the period | 396,185 | 488,472 |
| **Net cash flow for the period** | **(92,287)** | **111,753** |
| **Specification of cash and cash equivalents** | | |
| Cash and deposits with credit institutions | 396,185 | 488,472 |
| **Total cash and cash equivalents** | **396,185** | **488,472** |

# Notes

## 1. Accounting policies

The financial statements as of the fourth quarter of 2017, concluded on 31 December 2017, comprise Gjensidige Pensjonsforsikring AS. With the exception of the changes described below, the accounting policies applied in the interim report is the same as those used in the annual report for 2016.

The financial statements as of the fourth quarter of 2017 have been preparedwith the Norwegian Accounting Act and Norwegian Financial Reporting Regulations for Insurance Companies (FOR 2015-12-12-1824). The interim report does not include all the information required in a complete annual report and should be read in conjunction with the annual report for 2016.

### New standards and interpretations not yet adopted

A number of new standards, changes to standards and interpretations have been issued for financial years beginning after 1 January 2017. They have not been applied when preparing these consolidated financial statements. Those that may be relevant to Gjensidige Pensjonsforsikring AS are mentioned below. Gjensidige Pensjonsforsikring AS does not plan early implementation of these standards.

**Amendments to IFRS 2 Classification and measurement of share-based payment transactions (2016)**
IFRS 2 has been amended regarding the classification and measurement of share-based payment transactions with a net settlement feature for withholding tax obligations. If the entity is obliged to withhold an amount for an employee's tax obligation associated with a share-based payment, and transfer that amount in cash to the tax authority on the employee's behalf, then the entity shall account for that obligation as an equity-settled share-based payment transaction. The amendments are effective from 1 January 2018. The tax obligation in the remuneration scheme will be reclassified from liability to equity as at 1 January 2018. From this date the tax obligation will be accounted for as an equity-settled share-based payment transaction instead of a cash-settled share-based payment transaction. Our preliminary assessment is that the amendment is not expected to have a significant effect on financial statements.

**IFRS 9 Financial instruments (2014)**
IFRS 9 introduces new requirements for the classification and measurement of financial assets, including a new expected loss model for the recognition of impairment losses, and changed requirements for hedge accounting.

IFRS 9 contains three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income, and fair value through profit or loss. Financial assets will be classified either at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss, depending on how they are managed and which contractual cash flow properties they have. IFRS 9 introduces a new requirement in connection with financial liabilities earmarked at fair value: where changes in fair value that can be attributed to the liabilities' credit risk are presented in other comprehensive income rather than over profit or loss. According to prevailing rules, impairment for credit losses shall only be recognised when objective evidence of impairment losses exists. Impairment provisions according to IFRS 9 shall be measured using an expected loss model, instead of an incurred loss model as in IAS 39. The impairment rules in IFRS 9 will be applicable to all financial assets measured at amortised cost or at fair value with the changes in fair value recognised in other comprehensive income. In addition, loan commitments, financial guarantee contracts and lease receivables are within the scope of the standard. The measurement of the provision for expected credit losses on financial assets depends on whether the credit risk has increased significantly since initial recognition. At initial recognition and if the credit risk has not increased significantly, the provision should equal 12-month expected credit losses. If the credit risk has increased significantly, the provision should equal lifetime expected credit losses. This dual approach replaces today's collective impairment model. For individual impairment there are no significant changes in the rules compared with the current rules. The work has started and is expected to continue during 2018. It is currently too early to estimate the expected impact to the group's financial statements. IFRS 9 is effective from 1 January 2018.

**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (2016)**
IFRS 9 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4 permit entities that predominantly undertake insurance activities the option to defer the effective date of IFRS 9 until 1 January 2021. The effect of such a deferral is that the entities concerned may continue to report under the existing standard, IAS 39 Financial Instruments. In addition, the insurance sector of a financial conglomerate is allowed to defer the application of IFRS 9 until 1 January 2021, where all of the following conditions are met:

- no financial instruments are transferred between the insurance sector and any other sector of the financial conglomerate other than financial instruments that are measured at fair value with changes in fair value recognised through the profit of loss account by both sectors involved in such transfers;
- the financial conglomerate states in the consolidated financial statements which insurance entities in the group are applying IAS 39;
- disclosures requested by IFRS 7 are provided separately for the insurance sector applying IAS 39 and for the rest of the group applying IFRS 9.
- Gjensidige Pensjonsforsikring will make use of this exception.

**IFRS 15 Revenue from contracts with customers (2014)**
IFRS 15 covers all contracts with customers, but insurance contracts, among others, are exempted. Insofar as such contracts cover the provision of several services or other services closely related to the insurance operations are carried out, this may have a bearing on how Gjensidige Pensjonsforsikring AS recognises revenues in its accounts. IFRS 15 is effective 1 January 2018. Our preliminary assessment is that services beyond what is covered by IFRS 4 about insurance contracts comprise an insignificant part of the income. Our preliminary assessment is that the standard is not expected to have a significant effect on financial statements.

**IFRS 16 Leases (2016)**
IFRS 16 requires all contracts that qualify under its definition as a lease to be reported on a lessee`s balance sheet as right of use assets and lease liabilities. Earlier classification of leases as either operating leases or finance leases are removed. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. A lessee shall recognise a right-of-use asset and a lease liability. The interest effect of discounting on the lease liability shall be presented separately from the depreciation charge for the right-of-use asset. The depreciation expense will be presented with the group's other depreciations, whereas the interest effect of discounting will be presented as a financial item. IFRS 16 is effective 1 January 2019. The standard is expected to have an effect on the group's financial statements, significantly increasing the group's recognised assets and liabilities and potentially affecting the presentation and timing of recognition of charges in the income statement.

**IFRS 17 Insurance Contracts (2017)**
IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. IFRS 17 is a complex standard that includes some fundamental differences to current accounting for liability measurement and profit recognition. Insurance contracts will be recognised at a risk-adjusted present value of the future cash flows plus an amount representing the unearned profit in the group of contracts (the contractual service margin). If a group of contracts is or become loss-making, the loss will be recognised immediately. Insurance revenue, insurance service expenses and insurance finance income or expenses will be presented separately. IFRS 17 is effective 1 January 2021. The standard is expected to have an effect on the group's financial statements, significantly changing the measurement and presentation of income and expenses.

Based on our preliminary assessments and on the basis of current operations, other amendments to standards and interpretation statements will not have a significant effect.

The preparation of interim accounts involves the application of assessments, estimates and assumptions that affect the use of accounting policies and the amounts recognised for assets and liabilities, revenues and expenses. The actual results may deviate from these estimates. The most material assessments involved in applying the accounting policies and the most important sources of uncertainty in the estimates are the same in connection with preparing the interim report as in the annual report for 2016.

Due to rounding-off differences, figures and percentages may not exactly add up to the exact total figures.

A complete or limited audit of the interim report has not been carried out.

# 2. Financial assets and liabilities

## Fair value

Financial assets and liabilities measured at fair value are carried at the amount each asset/liability can be settled to in an orderly transaction between market participants at the measurements date at the prevailing market conditions.

Different valuation techniques and methods are used to estimate fair value depending on the type of financial instruments and to which extent they are traded in active markets. Instruments are classified in their entirety in one of three valuation levels in a hierarchy on the basis of the lowest level of input that is significant to the fair value measurement in its entirety.

The different valuation levels and which financial assets/liabilities that are included in the respective levels are accounted for below.

**Quoted prices in active markets**

Quoted prices in active markets are considered the best estimate of an asset/liability's fair value. A financial asset/liability is considered valued based on quoted prices in active markets if fair value is estimated based on easily and regularly available prices and these prices represent actual and regularly occurring transactions at arm's length principle. Financial assets/liabilities valued based on quoted prices in active markets are classified as level one in the valuation hierarchy.

The following financial assets are classified as level one in the valuation hierarchy

- Listed shares
- Norwegian government/government backed bonds and other fixed income securities
- Exchange traded funds

**Valuation based on observable market data**

When quoted prices in active markets are not available, the fair value of financial assets/ liabilities is preferably estimated on the basis of valuation techniques based on observable market data.

A financial asset/liability is considered valued based on observable market data if fair value is estimated with reference to prices that are not quoted, but are observable either directly (as prices) or indirectly (derived from prices).

The following financial assets/liabilities are classified as level two in the valuation hierarchy

- Currency futures, equity options, forward rate agreements and currency swaps, in which fair value is derived from the value of underlying instruments. These derivatives are valued using common valuation techniques for derivatives (option pricing models etc.).
- Equity funds, bond funds, hedge funds and combination funds, in which fair value is estimated based on the fair value of the underlying investments of the funds.
- Bonds, certificates or index bonds that are unlisted, or that are listed but where transactions are not occurring regularly. The unlisted instruments in this category are valued based on observable yield curves and estimated credit spreads where applicable.
- Interest-bearing liabilities (banking activities) measured at fair value. These liabilities are valued based on observable credit spreads.
- Listed subordinated notes where transactions are not occurring regularly.

**Valuation based on non-observable market data**

When neither quoted prices in active markets nor observable market data is available, the fair value of financial assets/liabilities is estimated based on valuation techniques which are based on non-observable market data.

A financial asset/liability is considered valued based on non-observable market data if fair value is estimated without being based on quoted prices in active markets or observable market data. Financial assets/liabilities valued based on non-observable market data are classified as level three in the valuation hierarchy.

The major part of the investments classified in level three in the valuation hierarchy is unleveraged exposure to real estate through single purpose vechicles.

- Real estate funds are valued based on reported NAV values as reported by the fund administrators. Because of late reporting from the funds, the NAV values from the previous quarterly reporting are used in estimating fair value.

**The valuation process for financial assets classified as level three**

The valuation of the fund is based the guidelines given in the European standard EVS (European Valuation Standard) made by TEGoVA (The European Group of Valuers' Associations) together with well recognized valuation principles in the real estate market

In line with EVS, the valuation of each individual asset will be based on discounting future estimated cash flow. The future estimated cash flow is based on several specific real estate market conditions, such as market rent, market cost / capex levels and expected vacancy levels in the future. The discount rate is derived from the mean of comparable property transactions. This collection of transactions is meant to reflects an average yield on similar properties. We also perform a subjective risk adjustment, which is meant to reflect the deviation from the mean for the spesific property in particular. In addition, we add the net present value of the latest inflation estimates from Statistics Norway to derive a nominal discount rate.

## Sensitivity financial assets level three

The sensitivity analysis for financial assets that are valued on the basis of non-observable market data shows the effect on profits of realistic and plausible market outcomes. General market downturns or a worsening of the outlook can affect expectations of future cash flows or the applied multiples, which in turn will lead to a reduction in value. A fall in value of ten per cent is deemed to be a realistic and plausible market outcome for shares and similar interests, as well as bonds and other securities with a fixed return that are included in level three of the valuation hierarchy.

| NOK thousands | Carrying amount as at 31.12.2017 | Fair value as at 31.12.2017 | Carrying amount as at 31.12.2016 | Fair value as at 31.12.2016 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *Financial assets at fair value through profit or loss, designated upon initial recognition* | | | | |
| Shares and similar interests | 763,608 | 763,608 | 747,133 | 747,133 |
| Bonds and other fixed income securities | 1,361,401 | 1,361,401 | 1,946,675 | 1,946,675 |
| Shares and similar interests in life insurance with investment options | 20,034,279 | 20,034,279 | 16,002,843 | 16,002,843 |
| Bonds and other fixed income securities in life insurance with investment options | 2,531,180 | 2,531,180 | 1,777,181 | 1,777,181 |
| *Financial assets held to maturity* | | | | |
| Bonds held to maturity | 30,536 | 32,118 | 30,508 | 33,190 |
| *Loans and receivables* | | | | |
| Bonds and other fixed income securities classified as loans and receivables | 4,536,001 | 4,767,057 | 3,149,704 | 3,370,073 |
| Receivables related to direct operations and reinsurance | 59,409 | 59,409 | 43,553 | 43,553 |
| Other receivables | 104,800 | 104,800 | 64,834 | 64,834 |
| Cash and cash equivalents | 396,185 | 396,185 | 488,472 | 488,472 |
| **Total financial assets** | **29,817,400** | **30,050,038** | **24,250,902** | **24,473,953** |
| **Financial liabilities** | | | | |
| *Financial liabilities at amortised cost* | | | | |
| Subordinated debt | 299,571 | 307,809 | 299,457 | 299,457 |
| Other liabilities | 21,992 | 21,992 | 15,957 | 15,957 |
| Liabilities related to direct insurance | 89,264 | 89,264 | 79,268 | 79,268 |
| Accrued expenses and deferred income | 14,025 | 14,025 | 16,111 | 16,111 |
| **Total financial liabilities** | **424,852** | **433,090** | **410,793** | **410,793** |
| **Gain/(loss) not recognised in profit or loss** | | **224,400** | | **223,051** |

**Valuation hierarchy 2017**

The table shows a valuation hierarchy where financial assets/liabilities are divided into three levels based on the method of valuation.

| NOK thousands | Level 1<br>Quoted prices in active markets | Level 2<br>Valuation techniques based on observable market data | Level 3<br>Valuation techniques based on non-observable market data | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *Financial assets at fair value through profit or loss, designated upon initial recognition* | | | | |
| Shares and similar interests | 5,258 | | 758,351 | 763,608 |
| Bonds and other fixed income securities | 1,357,020 | 4,381 | | 1,361,401 |
| Shares and similar interests in life insurance with investment options | 20,021,129 | 13,150 | | 20,034,279 |
| Bonds and other fixed income securities in life insurance with investment options | 2,515,540 | 15,641 | | 2,531,180 |
| *Financial assets at amortised cost* | | | | |
| Bonds held to maturity | | 32,118 | | 32,118 |
| Bonds and other fixed income securities classified as loans and receivables | | 4,767,057 | | 4,767,057 |
| *Financial liabilities at amortised cost* | | | | |
| Subordinated debt | | 307,809 | | 307,809 |

**Valuation hierarchy 2016**

The table shows a valuation hierarchy where financial assets/liabilities are divided into three levels based on the method of valuation.

| NOK thousands | Level 1<br>Quoted prices in active markets | Level 2<br>Valuation techniques based on observable market data | Level 3<br>Valuation techniques based on non-observable market data | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| *Financial assets at fair value through profit or loss, designated upon initial recognition* | | | | |
| Shares and similar interests | 12,820 | | 734,313 | 747,133 |
| Bonds and other fixed income securities | 1,946,675 | | | 1,946,675 |
| Shares and similar interests in life insurance with investment options | 15,993,604 | 9,239 | | 16,002,843 |
| Bonds and other fixed income securities in life insurance with investment options | 1,764,308 | 12,873 | | 1,777,181 |
| *Financial assets at amortised cost* | | | | |
| Bonds held to maturity | | 33,190 | | 33,190 |
| Bonds and other fixed income securities classified as loans and receivables | | 3,370,073 | | 3,370,073 |
| *Financial liabilities at amortised cost* | | | | |
| Subordinated debt | | 299,457 | | 299,457 |

**Reconciliation of financial assets valued based on non-observable market data (level 3) 2017**

| NOK thousands | As at 1.1.2017 | Net realised/ unrealised gains recognised in profit or loss | Purch-ases | Sales | Settle-ments | Transfers into/out of level 3 | As at 31.12.2017 | Amount of net realised/ unrealised gains recognised in profit or loss that are attributable to instruments held as at 31.12.2017 |
|---|---|---|---|---|---|---|---|---|
| Shares and similar interests | 734,313 | 24,038 | | | | | 758,351 | |
| **Total** | **734,313** | **24,038** | | | | | **758,351** | |

**Sensitivity of financial assets valued based on non-observable market data (level 3) 2017**

| | | Sensitivity |
|---|---|---|
| Shares and similar interests | Decrease in value 10% | 75,835 |
| **Total** | | **75,835** |

**Reconciliation of financial assets valued based on non-observable market data (level 3) 2016**

| NOK thousands | As at 1.1.2016 | Net realised/ unrealised gains recognised in profit or loss | Purch-ases | Sales | Settle-ments | Transfers into/out of level 3 | As at 31.12.2016 | Amount of net realised/ unrealised gains recognised in profit or loss that are attributable to instruments held as at 31.12.2016 |
|---|---|---|---|---|---|---|---|---|
| Shares and similar interests | 200 | 200 | 733,913 | | | | 734,313 | |
| **Total** | **200** | **200** | **733,913** | | | | **734,313** | |

**Sensitivity of financial assets valued based on non-observable market data (level 3) 2016**

| | | Sensitivity |
|---|---|---|
| Shares and similar interests | Decrease in value 10% | 73,431 |
| **Total** | | **73,431** |

# 3. Related parties

There have not been any significant transactions with related parties other than ordinary current agreements conducted at arm's length distance.

# 4. Contingent liabilities

As part of its ongoing financial management the company has committed, but not paid up to NOK 778,1 million (28,1) in commercial real estate debt funds.

# Key figures

In addition to the financial statements according to IFRS, Gjensidige uses different alternative performance measures (APM) to present the business in a more relevant way for its different stakeholders. The alternative performance measures have been used consistent over time, and relevant definitions have been disclosed. Comparable figures are provided for all alternative performance measures.

| | | Q4 2017 | Q4 2016 | 1.1.-31.12.2017 | 1.1.-31.12.2016 |
|---|---|---|---|---|---|
| Assets under management pension, at the end of the period | NOK millions | | | 28,699.0 | 23,237.3 |
| of which the group policy portfolio | NOK millions | | | 6,018.4 | 5,409.6 |
| Operating margin [1] | % | 29.7 | 46.0 | 24.6 | 31.2 |
| Recognised return on the paid-up policy portfolio [2] | % | | | 3.8 | 4.1 |
| Value-adjusted return on the paid-up policy portfolio [3] | % | | | 4.5 | 4.9 |
| Share of shared commercial customers [4] | % | | | 69.3 | 70.0 |
| Return on equity, annualised [5] | % | | | 11.0 | 13.8 |
| Solvency capital (SF) [6] | NOK millions | | | 1,913.7 | 1,718.8 |
| Solvency margin (SF) [7] | % | | | 132.8 | 134.0 |
| Minimum capital requirement [8] | NOK millions | | | 562.9 | 485.2 |

[1] Operating margin = net operating income/total income

[2] Recognised return on the paid-up policy portfolio = realised return on the portfolio

[3] Value-adjusted return on the paid-up policy portfolio = total return on the portfolio

[4] Shared customers = customers having both pension and general insurance products with Gjensidige

[5] Return on equity, annualised = Shareholders' share of net profit for the period/average shareholders' equity for the period, annualised

[6] Solvency capital (SF) = Solvency capital /Capital requirement under the Solvency II standard formula

[7] Solvency margin (SF) = Solvency capital available under the Solvency II standard formula

[8] Minimum capital requirement under the Solvency II standard formula

Gjensidige

Gjensidige is a leading Nordic insurance group listed on the Oslo Stock Exchange. We have about 3,800 employees and offer insurance products in Norway, Denmark, Sweden and the Baltic states. In Norway, we also offer banking, pension and savings.

Gjensidige Pensjonsforsikring is a wholly owned subsidiary that mainly offers defined contribution pension plans and risk coverage. The Group's operating income was NOK 27 billion in 2017, while total assets were NOK 149 billion.

Gjensidige Pensjonsforsikring AS
Schweigaardsgate 14, 0185 Oslo
P.O.box 101, Sentrum, 0102 Oslo
Phone +47 915 03100