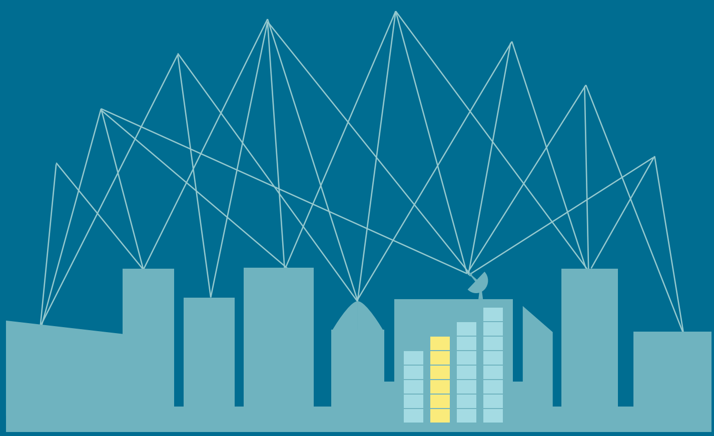
Gjensidige

Interim Report 2nd quarter 2018

Gjensidige Pensjonsforsikring



Gjensidige Pensjonsforsikring AS
First half-year and second quarter 2018

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 70.1 million (54.1)
- Operating income: NOK 174.8 million (150.0)
- Operating expenses: NOK 119.5 million (114.9)
- Operating margin: 31.7 per cent (23.4)

- Return on equity, annualised: 13.9 per cent (12.0)
- Solvency capital (SF): NOK 1,941.4 million (1,969.7)
- Solvency margin (SF): 142.8 per cent (129.0)

- Assets under management: NOK 30,244.2 million (26,249.4)

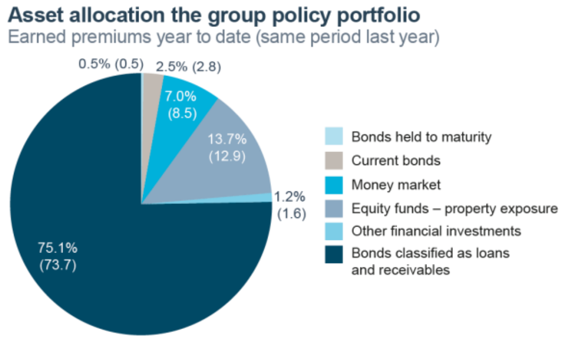
Second quarter

- Profit/(loss) before tax expense: NOK 38.2 million (23.0)
- Operating income: NOK 90.1 million (72.9)
- Operating expenses: NOK 59.7 million (58.5)
- Operating margin: 33.8 per cent (19.7)

NOK millions	Q2 2018	Q2 2017	1.1.-30.6.2018	1.1.-30.6.2017	1.1.-31.12.2017
Administration fees	35.6	33.7	70.5	66.4	134.6
Insurance income	16.4	8.6	31.6	24.3	36.3
Management income etc.	38.2	30.5	72.7	59.2	130.4
Operating expenses	(59.7)	(58.5)	(119.5)	(114.9)	(227.3)
Net operating income	**30.5**	**14.4**	**55.3**	**35.1**	**74.0**
Net financial income	7.8	8.7	14.7	19.0	29.6
Profit/(loss) before tax expense	**38.2**	**23.0**	**70.1**	**54.1**	**103.6**
Operating margin [1]	33.81%	19.71%	31.66%	23.41%	24.56%

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

Continued growth in operating revenues contributed to a significant growth in earnings and the best quarter ever.



Year-to-date development

Earnings performance
Increased revenues contributed to a significant growth in earnings. The profit before tax expense was NOK 70.1 million (54.1) which makes this quarter to the best ever for the pension segment.

Operating income
Total operating income amounted to NOK 174.8 million (150.0).

Administration fees were NOK 70.5 million (66.4) driven by a growing customer portfolio. Insurance income was NOK 31.6 million (24.3), also as a consequence of an increased number of customers in addition to strengthening of IBNR reserves last year. Management income increased to NOK 72.7 million (59.2) as a result of growth in assets under management.

Operating expenses
Operating expenses increased to NOK 119.5 million (114.9), mainly driven by increased sales commissions and IT-costs due to higher business volumes.

Net financial income
Net financial income, including returns both on the group policy portfolio and the corporate portfolio, amounted to NOK 14.7 million (19,0). The reduced income was due to higher returns related to real estate and high yield investments last year. The company's share of the profit relating to the paid-up policy portfolio was allocated in its entirety as a provision for longevity.

Paid-up policy portfolio
The recognised return on the paid-up policy portfolio was 3.26 per cent (1.90). The improvement was related to non-recurring effects due to changed classification of unrealized gains relating to property. The average annual interest guarantee was 3.3 per cent.

Assets under management
Assets under management has increased by NOK 1,545.2 million so far in 2018. Total pension assets under management amounted to NOK 30,244.2 million (26,249.4) including the group policy portfolio of NOK 6,339.5 million (5,726.7).

Development during the quarter

Earnings performance
The profit before tax expense was NOK 38.2 million (23.0) driven by growth in operating revenues.

Operating income
Total income increased to NOK 90.1 million (72.9).

Administration fees increased to NOK 35.6 million (33.7) as a consequence of a growing customer portfolio. Insurance income was NOK 16.4 million (8.6). Adjusted for a strengthening of provisions in the second quarter 2017, the increase was NOK 1.8 million. Management income ended at NOK 38.2 million (30.5) due to increased assets under management.

Operating expenses
Operating expenses were NOK 59.7 million (58.5).

Net financial income
Net financial income was NOK 7.8 million (8.7) caused by lower financial returns, especially related to property investments.

Solvency position
The solvency margin reported at the end of the period was 142.8 per cent, up from 139.0 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 Gjensidige'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.

Key risk and uncertainty factors

Gjensidige Pensjonsforsikring's (GPF) risks mainly include insurance, financial and operational risk. The risks are reported on a regular basis and assessed in accordance with the principles, strategies and risk thresholds defined by the board.

Insurance risk

Insurance risk can be divided as follows:

Risk of long life – lower mortality than expected
Disability risk – higher disability than expected
Mortality risk – higher mortality than expected

The company is exposed to mortality risk by dependents, longevity risk related to paid-up policies (with guaranteed payments for a given age or lifelong) and disability risk by occupational or individual policies. GPF has greatest exposure to disability risk, followed by exposure to longevity and mortality.

The Insurance risk is considered satisfactory and the uncertainty surrounding not reported cases (IBNR) are handled through claims reserves. By the end of 2018 it is expected that the longevity requirements set out in K2013 are close to be met.

The company has a reinsurance agreement with the parent company Gjensidige Forsikring ASA and external vendors, which provides a satisfactory coverage in case of major variations in incurred claims.

Financial risk

Financial risk is a collective term for several types of risks associated with financial assets. Financial risk can be divided into market risk, credit risk and liquidity risk. These risks are arising from GPF's investment activities. They are managed aggregated and handled through the asset management strategy drawn up for the company.

The group portfolio has guaranteed interest rates and thus represents a financial risk. The main risk components are interest rates, credit spread and property. In spite of generally low interest rates, it is expected that the company will succeed in fulfilling the interest rate guarantees the next few years.

The company portfolio is held in the form of bank deposits in Norwegian kroner and investments in money market funds.
The risk of losses on receivables is considered to be minor.

Operational risk

The company continuously assesses its own risk situation in accordance with approved procedures for internal control. As part of the annual planning and budgeting a risk assessment is drawn up where the main risks, both long- and short term are described together with necessary measures. This is adopted by the board and followed up. So far, the company has not been exposed to unwanted events that have had significant financial consequences. This development is expected to continue and the operational risk is considered to be moderate.

Oslo, 12 July 2018

The Board of Gjensidige Pensjonsforsikring AS

Mats C. Gottschalk	Kari Østerud	Hans Aasnæs	Ida Berild Guldberg
Chair			

Torstein Ingebretsen

CEO

Income statement

NOK thousands	Q2 2018	Q2 2017	1.1.-30.6.2018	1.1.-30.6.2017	1.1.-31.12.2017
Technical account					
Gross written premium	833,281	744,741	1,693,399	1,502,713	3,094,770
Ceded reinsurance premiums	(21,954)		(28,242)	(6,876)	(6,876)
Transfer of premium reserves from other insurance companies/pension funds	354,479	436,329	885,539	1,388,970	2,018,975
Total premiums for own account	**1,165,805**	**1,181,070**	**2,550,696**	**2,884,807**	**5,106,870**
Income from investments in associated companies	9,763		27,919		
Interest income and dividends etc. from financial assets	43,391	39,730	85,983	79,952	161,594
Unrealised gains and losses on investments	163	7,793	(1,985)	12,629	30,207
Realised gains and losses on investments	1,051	17,091	1,417	29,029	44,380
Total net income from investments in the group policy portfolio	**54,368**	**64,614**	**113,334**	**121,610**	**236,182**
Interest income and dividends etc. from financial assets			20,277	18,563	18,563
Unrealised gains and losses on investments	383,327	165,336	(445,260)	333,835	1,003,755
Realised gains and losses on investments	202,398	179,902	412,050	493,495	947,969
Total net income from investments in the investment portfolio	**585,726**	**345,238**	**(12,933)**	**845,893**	**1,970,287**
Other insurance related income	**38,153**	**30,483**	**72,657**	**59,230**	**130,359**
Gross claims paid	(138,907)	(115,402)	(269,398)	(228,133)	(464,111)
- Paid claims, reinsurers' share	8,678	13,854	8,678	13,854	36,089
Transfer of premium reserve and statutory reserves to other insurance companies/pension funds	(372,775)	(181,008)	(758,687)	(524,470)	(1,231,185)
Total claims	**(503,004)**	**(282,557)**	**(1,019,407)**	**(738,749)**	**(1,659,207)**
Change in premium reserve, gross	(123,369)	(124,708)	(285,297)	(278,675)	(552,432)
Change in premium reserves, reinsurers' share	20,358	(1,719)	25,074	3,438	(2,599)
Change in statutory reserves	(556)	(319)	(1,339)	(948)	(12,241)
Change in value adjustment fund	(134)	(6,070)	45,008	(12,443)	(27,836)
Change in premium fund, deposit fund and the pension surplus fund	(145)	(74)	872	187	
Total changes in reserves for the group policy portfolio	**(103,846)**	**(132,890)**	**(215,682)**	**(288,441)**	**(595,109)**
Change in premium reserve	(1,377,365)	(1,216,402)	(1,776,848)	(3,018,831)	(5,774,190)
Change in other provisions	253,453	106,653	550,355	321,894	917,803
Total changes in reserves for investment portfolio	**(1,123,912)**	**(1,109,749)**	**(1,226,493)**	**(2,696,937)**	**(4,856,388)**
Profit on investment result	(4,544)	(12,818)	(59,559)	(14,435)	(2,951)
Risk result allocated to insurance contracts	(11,449)	(2,253)	(13,446)	(4,530)	(41)
Total funds allocated to the insurance contracts	**(15,993)**	**(15,071)**	**(73,006)**	**(18,965)**	**(2,992)**
Management expenses	(4,590)	(5,627)	(9,008)	(11,337)	(22,937)
Sales expenses	(7,072)	(5,042)	(12,512)	(9,988)	(20,720)
Insurance-related administration expenses (incl. commissions for reinsurance received)	(47,990)	(47,827)	(97,960)	(93,542)	(183,622)
Total insurance-related operating expenses	**(59,652)**	**(58,496)**	**(119,479)**	**(114,867)**	**(227,279)**
Profit/(loss) of technical account	**37,644**	**22,642**	**69,688**	**53,581**	**102,723**
Net income from investments in the company portfolio					
Interest income and dividends etc. from financial assets	3,610	3,709	6,233	7,533	12,611
Unrealised gains and losses on investment	(354)	(933)	(889)	(1,708)	(2,503)
Realised gains and losses on investments	397	543	953	754	2,608
Total net income from investments in the company portfolio	**3,653**	**3,319**	**6,297**	**6,579**	**12,716**
Other expenses	(3,066)	(2,944)	(5,910)	(6,022)	(11,821)
Total management expenses and other expenses related to investments in the company portfolio	**(3,066)**	**(2,944)**	**(5,910)**	**(6,022)**	**(11,821)**
Profit/(loss) on non-technical account	**586**	**376**	**387**	**556**	**895**
Profit/(loss) before tax expense	**38,231**	**23,017**	**70,074**	**54,137**	**103,618**
Tax expense	(9,558)	(5,754)	(17,519)	(13,534)	(27,687)
Profit/(loss) before other comprehensive income	**28,673**	**17,263**	**52,556**	**40,603**	**75,931**
Remeasurement of the net defined benefit liability/asset					(925)
Tax on items that are not reclassified to profit or loss					231
Total items that are not reclassified subsequently to profit or loss					**(694)**
Total comprehensive income	**28,673**	**17,263**	**52,556**	**40,603**	**75,237**

Statement of financial position

NOK thousands	30.6.2018	30.6.2017	31.12.2017
Assets			
Other intangible assets	50,979	47,472	49,173
Total intangible assets	**50,979**	**47,472**	**49,173**
Financial assets measured at fair-value			
Shares and similar interests	32,687	8,235	5,458
Bonds and other securities with fixed income	802,887	743,798	746,444
Cash and cash equivalents	97,953	96,700	97,358
Total financial assets	**933,526**	**848,733**	**849,260**
Receivables related to direct operations	4,212	7,197	6,965
Other receivables	139,369	70,576	104,800
Total receivables	**143,581**	**77,773**	**111,765**
Cash and cash equivalents	140,831	98,681	175,727
Pension assets	1,609	2,438	1,609
Total other assets	**142,440**	**101,119**	**177,336**
Prepaid expenses and earned, not received income	13,551		
Total prepaid expenses and earned, not received income	**13,551**		
Total assets in the company portfolio	**1,284,078**	**1,075,096**	**1,187,534**
Equities and units in subsidiaries, associated companies and joint-controlled companies			
Equities and units in associated companies	871,650		
Financial assets at amortized cost			
Bonds held to maturity	29,663	29,635	30,536
Loans and receivables	4,761,646	4,219,819	4,536,001
Financial assets measured at fair-value			
Shares and similar interests		740,743	758,151
Bonds and other securities with fixed income	602,796	646,527	614,957
Receivables in collective portfolio	2,225	1,237	
Cash and cash equivalents	22,203	66,110	60,412
Total investments in the group policy portfolio	**6,290,183**	**5,704,073**	**6,000,056**
Reinsurers' share of insurance-related liabilities in general insurance, gross	**47,634**	**28,597**	**22,560**
Financial assets measured at fair value			
Shares and similar interests	20,889,066	18,254,494	20,034,279
Bonds and other securities with fixed income	2,945,665	2,218,037	2,531,180
Loans and receivables	45,033	37,803	52,445
Cash and cash equivalents	24,945	12,317	62,688
Total investments in the investment option portfolio	**23,904,709**	**20,522,652**	**22,680,592**
Total assets in the customer portfolio	**30,242,527**	**26,255,322**	**28,703,208**
Total assets	**31,526,605**	**27,330,418**	**29,890,742**

NOK thousands	30.6.2018	30.6.2017	31.12.2017
Equity and liabilities			
Paid in capital			
Share capital	39,000	39,000	39,000
Other paid-in capital	81,600	80,740	80,875
Total paid-in equity	**120,600**	**119,740**	**119,875**
Retained equity			
Other earned equity	608,923	533,687	532,992
Profit/(loss) before other comprenhensive income	52,556	40,603	75,931
Total earned equity	**661,479**	**574,289**	**608,923**
Total equity	**782,079**	**694,029**	**728,798**
Subordinated debt	299,628	299,513	299,571
Total subordinated debt capital etc.	**299,628**	**299,513**	**299,571**
Premium reserves	6,077,479	5,502,145	5,784,856
Additional statutory reserves	177,956	165,324	176,617
Market value adjustment reserves	9,722	39,338	54,730
Premium fund, deposit fund and the pension surplus fund	1,288	977	2,160
Unallocated surplus fond	73,034	18,965	
Total insurance obligations in life insurance - the group policy portfolio	**6,339,478**	**5,726,749**	**6,018,363**
Premium reserves	23,584,018	20,184,498	22,361,592
Premium fund, deposit fund and the pension surplus fund	320,692	338,154	319,000
Total insurance obligations in life insurance - the investment option portfolio	**23,904,709**	**20,522,652**	**22,680,593**
Pension liabilities etc.	1,877	1,455	1,877
Tax liabilities			
Period tax liabilities	17,899	4,835	15,796
Provisions for deferred taxes	20,464	10,200	20,464
Total provisions for liabilities	**40,239**	**16,490**	**38,136**
Liabilities related to direct insurance	93,821	33,071	89,264
Liabilities related to reinsurance	24,255	3,319	
Other liabilities	29,556	19,642	21,992
Total financial liabilities	**147,632**	**56,032**	**111,256**
Accrued expenses and deferred income	12,840	14,954	14,025
Total accrued expenses and deferred income	**12,840**	**14,954**	**14,025**
Total equity and liabilities	**31,526,605**	**27,330,418**	**29,890,742**

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 31.12.2016	**39,000**	**80,722**	**1,341**	**532,345**	**653,408**
1.1.-31.12.2017					
Comprehensive income					
Profit/(loss) before comprehensive income				75,931	75,931
Total components of other comprehensive income			(694)		(694)
Total comprehensive income			**(694)**	**75,931**	**75,237**
Transactions with owners of the company					
Equity-settled share-based payment transactions		153			153
Equity as at 31.12.2017	**39,000**	**80,875**	**647**	**608,276**	**728,798**
Adjustment due to amendment to IFRS 2		848			848
Equity as at 1.1.2018	**39,000**	**81,724**	**647**	**608,276**	**729,647**
1.1.-30.6.2018					
Comprehensive income					
Profit/(loss) before comprehensive income				52,556	52,556
Total comprehensive income				**52,556**	**52,556**
Transactions with owners of the company					
Equity-settled share-based payment transactions		(124)			(124)
Equity as at 30.6.2018	**39,000**	**81,724**	**647**	**660,832**	**782,079**
1.1.-30.6.2017					
Comprehensive income					
Profit/(loss) before comprehensive income				40,603	40,603
Total comprehensive income				**40,603**	**40,603**
Transactions with owners of the company					
Equity-settled share-based payment transactions		18			18
Equity as at 30.6.2017	**39,000**	**80,740**	**1,341**	**572,948**	**694,029**

Cash flows

NOK thousands	1.1.-30.6.2018	1.1.-30.6.2017	1.1.-31.12.2017
Cash flow from operating activities			
Premiums paid, net of reinsurance	2,589,787	2,840,344	5,090,891
Claims paid, net of reinsurance	(260,721)	(214,279)	(428,022)
Net receipts/payments of premium reserve transfers	(758,687)	(524,470)	(1,231,185)
Net receipts/payments from financial assets	(1,509,869)	(2,180,761)	(3,258,871)
Operating expenses paid, including commissions	(135,445)	(100,510)	(224,001)
Taxes paid	(20,083)	(23,363)	(14,664)
Net cash flow from operating activities	**(95,018)**	**(203,039)**	**(65,852)**
Cash flow from investing activities			
Net receipts/payments on sale/acquisition of owner-occupied property, plant and equipment	(9,382)	(5,657)	(14,728)
Net cash flow from investing activities	**(9,382)**	**(5,657)**	**(14,728)**
Cash flow from financing activities			
Net receipts/payments on subordinated debt	(5,853)	(5,967)	(11,707)
Net cash flow from financing activities	**(5,853)**	**(5,967)**	**(11,707)**
Net cash flow for the period	**(110,253)**	**(214,663)**	**(92,287)**
Cash and cash equivalents at the start of the period	396,185	488,472	488,472
Cash and cash equivalents at the end of the period	285,932	273,808	396,185
Net cash flow for the period	**(110,253)**	**(214,663)**	**(92,287)**
Specification of cash and cash equivalents			
Cash and deposits with credit institutions	285,932	273,808	396,185
Total cash and cash equivalents	**285,932**	**273,808**	**396,185**

Notes

1. Accounting policies

The financial statements as of the second quarter of 2018, concluded on 30 June 2018, 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 2017.

The financial statements as of the second quarter of 2018 have been prepared in accordance with 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 2017.

New standards adopted

IFRS 15 Recognition of revenue for customers (2014)
The standard did not have a significant effect on Gjensidige Pensjonsforsikring's financial statement.

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 2018. 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.

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.

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.

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 has decided to make use of this exception.

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 2017.

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 (year 2017) 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 recognised 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 specific 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 30.06.2018	Fair value as at 30.06.2018	Carrying amount as at 30.06.2017	Fair value as at 30.06.2017
Financial assets				
Financial assets at fair value through profit or loss, designated upon initial recognition				
Shares and similar interests	32,687	32,687	748,978	748,978
Bonds and other fixed income securities	1,405,683	1,405,683	1,390,326	1,390,326
Shares and similar interests in life insurance with investment options	20,889,066	20,889,066	18,254,494	18,254,494
Bonds and other fixed income securities in life insurance with investment options	2,945,665	2,945,665	2,218,037	2,218,037
Financial assets held to maturity				
Bonds held to maturity	29,663	30,500	29,635	31,856
Loans and receivables				
Bonds and other fixed income securities classified as loans and receivables	4,761,646	4,918,214	4,219,819	4,456,773
Receivables related to direct operations and reinsurance	51,469	51,469	46,237	46,237
Other receivables	139,369	139,369	70,576	70,576
Prepaid expenses and earned, not received income	13,551	13,551		
Cash and cash equivalents	285,932	285,932	273,808	273,808
Total financial assets	**30,554,733**	**30,712,138**	**27,251,911**	**27,491,086**
Financial liabilities				
Financial liabilities at amortised cost				
Subordinated debt	299,628	307,568	299,513	307,750
Other liabilities	29,556	29,556	19,641	19,641
Liabilities related to direct insurance	118,076	118,076	36,390	36,390
Accrued expenses and deferred income	12,840	12,840	14,954	14,954
Total financial liabilities	**460,100**	**468,040**	**370,498**	**378,735**
Gain/(loss) not recognised in profit or loss		**149,465**		**230,938**

Valuation hierarchy 2018

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 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 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	32,479	8	200	32,687
Bonds and other fixed income securities	1,405,677	7		1,405,683
Shares and similar interests in life insurance with investment options	20,873,150	15,916		20,889,066
Bonds and other fixed income securities in life insurance with investment options	2,930,306	15,359		2,945,665
Financial assets at amortised cost				
Bonds held to maturity		30,500		30,500
Bonds and other fixed income securities classified as loans and receivables		4,918,214		4,918,214
Financial liabilities at amortised cost				
Subordinated debt		307,568		307,568

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 Quoted prices in active markets	Level 2 Valuation techniques based on observable market data	Level 3 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	8,032	3	740,943	748,978
Bonds and other fixed income securities	1,390,114	211		1,390,326
Shares and similar interests in life insurance with investment options	18,243,953	10,541		18,254,494
Bonds and other fixed income securities in life insurance with investment options	2,202,803	15,234		2,218,037
Financial assets at amortised cost				
Bonds held to maturity		31,856		31,856
Bonds and other fixed income securities classified as loans and receivables		4,456,773		4,456,773
Financial liabilities at amortised cost				
Subordinated debt		307,750		307,750

Reconciliation of financial assets valued based on non-observable market data (level 3) 2018

NOK thousands	As at 1.1.2018	Net realised/ unrealised gains recognised in profit or loss	Purch-ases	Sales	Settle-ments	Transfers into/out of level 3	As at 30.06.2018	Amount of net realised/ unrealised gains recognised in profit or loss that are attributable to instruments held as at 30.06.2018
Shares and similar interests	758,351					(758,151)	200	
Total	**758,351**					**(758,151)**	**200**	

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

		Sensitivity
Shares and similar interests	Decrease in value 10%	20
Total		**20**

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 30.06.2017	Amount of net realised/ unrealised gains recognised in profit or loss that are attributable to instruments held as at 30.06.2017
Shares and similar interests	734,313	6,631					740,943	
Total	**734,313**	**6,631**					**740,943**	

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

		Sensitivity
Shares and similar interests	Decrease in value 10%	74,094
Total		**74,094**

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 825.4 million (778.1) in commercial real estate debt funds.

Declaration

Today, the Board and the CEO have considered and approved the half-yearly report for Gjensidige Pensjonsforsikring AS for the period 1 January to 30 June 2018.

We confirm to the best of our knowledge that the condensed set of financial statements for the period 1 January to 30 June 2018 has been prepared in accordance with current accounting standards and gives a true and fair view of the company assets, liabilities, financial position and result for the period viewed in their entirety. Furthermore that the interim management report includes a fair review of any significant events that arose during the six-month period and their effect on the half-yearly financial report, a description of the principal risks and uncertainties for the business in the following accounting period and related parties' significant transactions.

Oslo, 12 July 2018

The Board of Gjensidige Pensjonsforsikring AS

Mats C. Gottschalk	Kari Østerud	Hans Aasnæs	Ida Berild Guldberg
Chair			

Torstein Ingebretsen

CEO

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.

		Q2 2018	Q2 2017	1.1.-30.6.2018	1.1.-30.6.2017	1.1.-31.12.2017
Assets under management pension, at the end of the period	NOK millions			30,244.2	26,249.4	28,699.0
of which the group policy portfolio	NOK millions			6,339.5	5,726.7	6,018.4
Operating margin [1]	%	33.8	19.7	31.66	23.41	24.56
Recognised return on the paid-up policy portfolio [2]	%			3.26	1.90	3.75
Value-adjusted return on the paid-up policy portfolio [3]	%			2.08	2.24	4.47
Share of shared commercial customers [4]	%			69.0	69.4	69.3
Return on equity, annualised [5]	%			13.9	12.0	11.0
Solvency capital (SF) [6]	NOK millions			1,941.4	1,969.7	1,913.7
Solvency margin (SF) [7]	%			142.8	129.0	132.8
Minimum capital requirement [8]	NOK millions			587.0	525.1	562.9

[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 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.

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