Gjensidige

4th Quarter and Preliminary Full Year 2018 Report

Gjensidige Pensjonsforsikring

Gjensidige Pensjonsforsikring AS
Fourth 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 166.6 million (103.6)
- Operating income: NOK 367.5 million (301.3)
- Operating expenses: NOK 241.0 million (227.3)
- Operating margin: 34.4 per cent (24.6)

- Return on equity, annualised: 16,0 per cent (11,0)
- Solvency capital (SF): NOK 2.352,6 million (1.913,7)
- Solvency margin (SF): 143,0 per cent (132,8)
- Assets under management: NOK 30.688,2 million (28.699,0)

Fourth quarter

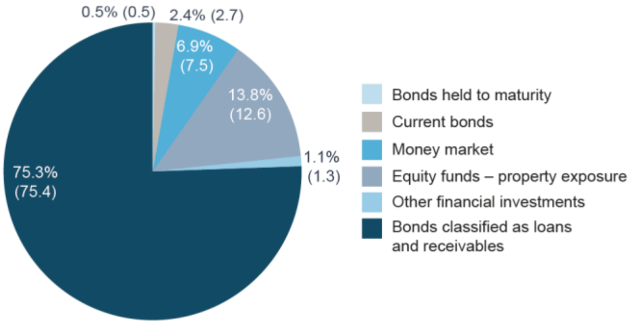
- Profit/(loss) before tax expense: NOK 56.3 million (27.9)
- Operating income: NOK 101.5 million (76.6)
- Operating expenses: NOK 59.7 million (53.9)
- Operating margin: 41.2 per cent (29.7)

NOK millions	Q4 2018	Q4 2017	1.1.-31.12.2018	1.1.-31.12.2017
Administration fees	37.2	34.2	144.4	134.6
Insurance income	24.0	2.6	72.6	36.3
Management income etc.	40.3	39.7	150.5	130.4
Operating expenses	(59.7)	(53.9)	(241.0)	(227.3)
Net operating income	**41.9**	**22.7**	**126.5**	**74.0**
Net financial income	14.5	5.1	40.2	29.6
Profit/(loss) before tax expense	**56.3**	**27.9**	**166.6**	**103.6**
Operating margin [1]	41.23%	29.68%	34.41%	24.56%

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

Another strong quarter and best ever full year result

Asset allocation the group policy portfolio
Earned premiums year to date (same period last year)



Year-to-date development

Earnings performance

Increased operating revenues continued to contribute to a significant growth in earnings. The profit before tax expense was NOK 166,6 million (103.6) which is the best yearly result ever for the pension business.

During the fourth quarter the provisioning for longevity relating to the paid-up policy portfolio was completed.

Operating income

Total operating income amounted to NOK 367.5 million (301.3).

Administration fees increased to NOK 144.4 million (134.6) driven by a growing customer portfolio. Insurance income was NOK 72.6 million (36.3). The main reasons for the improved income was a strengthening of IBNR reserves the same quarter last year and risk result relating to the paid-up policies, previously used for provisioning for longevity, this year. Management income increased to NOK 150.5 million (130.4) as a result of growth in assets under management.

Operating expenses

Operating expenses increased to NOK 241.0 million (227.3), driven by increased distribution costs due to higher business volume.

Net financial income

Net financial income, including returns on both the group policy portfolio and the corporate portfolio, amounted to NOK 40.2 million (29.6). The improvement was related to increased return on financial assets, particularly property, as well as a release of excess longevity results in the fourth quarter.

Paid-up policy portfolio

The recognised return on the paid-up policy portfolio was 5.61 per cent (3.75). The improvement was related to non-recurring effects due to the changed classification of unrealised gains relating to property investments. The average annual interest guarantee was 3.3 per cent.

Assets under management

Assets under management have increased by NOK 1,989.2 million since year end 2017, but was reduced during the third quarter by NOK 1,023.3 billion as a result of market turmoil. Total pension assets under management amounted to NOK 30,688.2 million (28,699.0) including the group policy portfolio of NOK 6,586.4 million (6,018.4)

Development during the quarter

Earnings performance

The profit before tax expense was NOK 56.3 (27.9). The increase was mainly due to non-recurring items.

Operating income

Total income increased to NOK 101.5 million (76.9).

Administration fees increased to NOK 37.2 million (34.2) as a result of a growing customer portfolio. Insurance income increased to NOK 24.0 million (2.6) for the same reasons as described above. Management income increased to NOK 40.3 million (39.7), reflecting an increase in assets under management.

Operating expenses

Operating expenses were NOK 59.7 million (53.9).

Net financial income

Net financial income increased to NOK 14.5 million (5.1) as a result of increased return on property investments and releasing of excess longevity reserves (NOK 6.8 million).

Solvency position

The solvency margin reported at the end of the period was 143.0 per cent, down from 146.3 per cent in the last quarter. The calculation is based on an assumed dividend payment and explains the reduced margin.

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.

Oslo, 23 January 2018

The Board of Gjensidige Pensjonsforsikring AS

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

Torstein Ingebretsen

CEO

Income statement

NOK millions	Q4 2018	Q4 2017	1.1.-31.12.2018	1.1.-31.12.2017
Technical account				
Gross written premium	917.9	845.8	3,441.3	3,094.8
Ceded reinsurance premiums	(14.6)		(57.0)	(6.9)
Transfer of premium reserves from other insurance companies/pension funds	309.7	316.3	1,599.4	2,019.0
Total premiums for own account	**1,213.1**	**1,162.0**	**4,983.8**	**5,106.9**
Income from investments in subsidiaries and associated companies	17.4		74.6	
Interest income and dividends etc. from financial assets	43.9	42.1	173.2	161.6
Unrealised gains and losses on investments	(7.5)	0.2	(6.9)	30.2
Realised gains and losses on investments	0.6	8.1	2.9	44.4
Total net income from investments in the group policy portfolio	**54.4**	**50.3**	**243.7**	**236.2**
Income from investments in subsidiaries and associated companies	41.0		41.0	
Interest income and dividends etc. from financial assets	0.5		20.8	18.6
Unrealised gains and losses on investments	(2,052.4)	420.3	(2,070.3)	1,003.8
Realised gains and losses on investments	200.4	226.4	809.8	948.0
Total net income from investments in the investment portfolio	**(1,810.4)**	**646.7**	**(1,198.6)**	**1,970.3**
Other insurance related income	**40.3**	**39.7**	**150.5**	**130.4**
Gross claims paid	(162.2)	(121.8)	(572.3)	(464.1)
- Paid claims, reinsurers' share	(3.2)	3.1	5.5	36.1
Transfer of premium reserve and statutory reserves to other insurance companies/pension funds	(242.6)	(323.6)	(1,266.8)	(1,231.2)
Total claims	**(408.1)**	**(442.3)**	**(1,833.5)**	**(1,659.2)**
Change in premium reserve, gross	(125.6)	(150.4)	(516.8)	(552.4)
Change in premium reserves, reinsurers' share	(7.8)	(4.3)	29.8	(2.6)
Change in statutory reserves	(63.4)	(11.2)	(64.8)	(12.2)
Change in value adjustment fund	6.5	(0.3)	49.0	(27.8)
Change in premium fund, deposit fund and the pension surplus fund	(0.2)	(0.2)	0.6	
Total changes in reserves for the group policy portfolio	**(190.4)**	**(166.3)**	**(502.2)**	**(595.1)**
Change in premium reserve	985.0	(1,512.2)	(2,325.6)	(5,774.2)
Change in other provisions	151.7	281.6	904.3	917.8
Total changes in reserves for investment portfolio	**1,136.6**	**(1,230.5)**	**(1,421.3)**	**(4,856.4)**
Profit on investment result	72.8	16.0	(5.6)	(3.0)
Risk result allocated to insurance contracts	1.7	6.5	(15.3)	
Total funds allocated to the insurance contracts	**74.5**	**22.5**	**(20.9)**	**(3.0)**
Management expenses	(4.9)	(5.9)	(18.7)	(22.9)
Sales expenses	(6.2)	(5.7)	(25.0)	(20.7)
Insurance-related administration expenses (incl. commissions for reinsurance received)	(48.6)	(42.3)	(197.3)	(183.6)
Total insurance-related operating expenses	**(59.7)**	**(53.9)**	**(241.0)**	**(227.3)**
Profit/(loss) of technical account	**50.3**	**28.2**	**160.5**	**102.7**
Net income from investments in the company portfolio				
Interest income and dividends etc. from financial assets	3.2	2.4	13.0	12.6
Unrealised gains and losses on investment	(1.8)	(1.0)	(3.9)	(2.5)
Realised gains and losses on investments	0.9	1.2	2.2	2.6
Total net income from investments in the company portfolio	**2.3**	**2.5**	**11.4**	**12.7**
Other income	**6.8**		**6.8**	
Other expenses	(3.1)	(2.9)	(12.1)	(11.8)
Total management expenses and other expenses related to investments in the company portfolio	**(3.1)**	**(2.9)**	**(12.1)**	**(11.8)**
Profit/(loss) on non-technical account	**6.0**	**(0.3)**	**6.2**	**0.9**
Profit/(loss) before tax expense	**56.3**	**27.9**	**166.6**	**103.6**
Tax expense	(13.7)	(8.7)	(41.3)	(27.7)
Profit/(loss) before other comprehensive income	**42.6**	**19.1**	**125.4**	**75.9**
Remeasurement of the net defined benefit liability/asset	(1.4)	(0.9)	(1.4)	(0.9)
Tax on items that are not reclassified to profit or loss	0.4	0.2	0.4	0.2
Total items that are not reclassified subsequently to profit or loss	**(1.1)**	**(0.7)**	**(1.1)**	**(0.7)**
Total comprehensive income	**41.6**	**18.4**	**124.3**	**75.2**

Statement of financial position

NOK millions	31.12.2018	31.12.2017
Assets		
Other intangible assets	58.1	49.2
Total intangible assets	**58.1**	**49.2**
Financial assets measured at fair-value		
Shares and similar interests	67.2	5.5
Bonds and other securities with fixed income	852.6	746.4
Cash and cash equivalents	98.6	97.4
Total financial assets	**1,018.4**	**849.3**
Receivables related to direct operations	3.5	7.0
Other receivables	161.1	104.8
Total receivables	**164.7**	**111.8**
Cash and cash equivalents	80.2	175.7
Pension assets	1.4	1.6
Total other assets	**81.7**	**177.3**
Total assets in the company portfolio	**1,322.9**	**1,187.5**
Equities and units in subsidiaries, associated companies and joint-controlled companies		
Shares and units in subsidiaries and associates	908.5	
Financial assets at amortized cost		
Bonds held to maturity	30.6	30.5
Loans and receivables	4,962.3	4,536.0
Financial assets measured at fair-value		
Shares and similar interests		758.2
Bonds and other securities with fixed income	612.5	615.0
Cash and cash equivalents	46.6	60.4
Total investments in the group policy portfolio	**6,560.4**	**6,000.1**
Reinsurers' share of insurance-related liabilities in general insurance, gross	**385.3**	**22.6**
Equities and units in subsidiaries, associated companies and joint-controlled companies		
Shares and units in subsidiaries and associates	815.7	
Financial assets measured at fair value		
Shares and similar interests	19,811.5	20,034.3
Bonds and other securities with fixed income	3,282.3	2,531.2
Loans and receivables	61.5	52.4
Cash and cash equivalents	130.8	62.7
Total investments in the investment option portfolio	**24,101.8**	**22,680.6**
Total assets in the customer portfolio	**31,047.5**	**28,703.2**
Total assets	**32,370.3**	**29,890.7**

NOK millions	31.12.2018	31.12.2017
Equity and liabilities		
Paid in capital		
Share capital	39.0	39.0
Other paid-in capital	81.8	80.9
Total paid-in equity	**120.8**	**119.9**
Retained equity		
Risk equalisation fund	15.3	
Other earned equity	618.0	608.9
Total earned equity	**633.2**	**608.9**
Total equity	**754.0**	**728.8**
Subordinated debt	299.7	299.6
Total subordinated debt capital etc.	**299.7**	**299.6**
Premium reserves	6,336.2	5,784.9
Additional statutory reserves	241.5	176.6
Market value adjustment reserves	5.7	54.7
Premium fund, deposit fund and the pension surplus fund	2.9	2.2
Total insurance obligations in life insurance - the group policy portfolio	**6,586.4**	**6,018.4**
Premium reserves	23,796.2	22,361.6
Premium fund, deposit fund and the pension surplus fund	305.6	319.0
Total insurance obligations in life insurance - the investment option portfolio	**24,101.8**	**22,680.6**
Pension liabilities etc.	2.5	1.9
Tax liabilities		
Period tax liabilities	12.5	15.8
Provisions for deferred taxes	48.8	20.5
Total provisions for liabilities	**63.8**	**38.1**
Liabilities related to direct insurance	79.4	89.3
Liabilities related to reinsurance	350.3	
Other liabilities	122.0	22.0
Total financial liabilities	**551.6**	**111.3**
Accrued expenses and deferred income	13.1	14.0
Total accrued expenses and deferred income	**13.1**	**14.0**
Total equity and liabilities	**32,370.3**	**29,890.7**

Statement of changes in equity

NOK millions	Share capital	Other paid in capital	Remeasure-ment of the net defined benefit liab./asset	Risk equalisation fund	Other earned equity	Total equity
Equity as at 31.12.2016	**39.0**	**80.7**	**1.3**		**532.3**	**653.4**
1.1.-31.12.2017						
Comprehensive income						
Profit/(loss) before comprehensive income					75.9	75.9
Total components of other comprehensive income			(0.7)			(0.7)
Total comprehensive income			**(0.7)**		**75.9**	**75.2**
Transactions with owners of the company						
Equity-settled share-based payment transactions		0.2				0.2
Equity as at 31.12.2017	**39.0**	**80.9**	**0.6**		**608.3**	**728.8**
Adjustment due to amendment to IFRS 2		0.8				0.8
Equity as at 1.1.2018	**39.0**	**81.7**	**0.6**		**608.3**	**729.6**
1.1.-31.12.2018						
Comprehensive income						
Profit/(loss) before comprehensive income					125.4	125.4
Total components of other comprehensive income			(1.1)			(1.1)
Total comprehensive income			**(1.1)**		**125.4**	**124.3**
Risk equalisation fund				15.3	(15.3)	
Transactions with owners of the company						
Paid dividend					(100.0)	(100.0)
Equity-settled share-based payment transactions		0.1				0.1
Equity as at 31.12.2018	**39.0**	**81.8**	**(0.4)**	**15.3**	**618.4**	**754.0**

Cash flows

NOK millions	1.1.-31.12.2018	1.1.-31.12.2017
Cash flow from operating activities		
Premiums paid, net of reinsurance	5,008.7	5,090.9
Claims paid, net of reinsurance	(371.2)	(428.0)
Net receipts/payments of premium reserve transfers	(1,266.8)	(1,231.2)
Net receipts/payments from financial assets	(3,085.0)	(3,258.9)
Operating expenses paid, including commissions	(269.1)	(224.0)
Taxes paid	(20.5)	(14.7)
Net cash flow from operating activities	**(3.9)**	**(65.9)**
Cash flow from investing activities		
Net receipts/payments on sale/acquisition of owner-occupied property, plant and equipment	(24.0)	(14.7)
Net cash flow from investing activities	**(24.0)**	**(14.7)**
Cash flow from financing activities		
Net receipts/payments on subordinated debt	(11.9)	(11.7)
Net cash flow from financing activities	**(11.9)**	**(11.7)**
Net cash flow for the period	**(39.9)**	**(92.3)**
Cash and cash equivalents at the start of the period	396.2	488.5
Cash and cash equivalents at the end of the period	356.3	396.2
Net cash flow for the period	**(39.9)**	**(92.3)**
Specification of cash and cash equivalents		
Cash and deposits with credit institutions	356.3	396.2
Total cash and cash equivalents	**356.3**	**396.2**

Notes

1. Accounting policies

The financial statements as of the fourth quarter of 2018, concluded on 31 December 2018, comprise Gjensidige Pensjonsforsikring AS and associated companies. 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 fourth 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)
Gjensidige Pensjonsforsikring implemented IFRS 15 at 1 January 2018. The standard establishes principles to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. A five-step model to determine how and when revenues are recognised, but it does not apply to recognition of income from insurance contracts, financial assets or leases, which make up substantially of the revenue streams, has been used. Other revenue streams, such as revenue from sale of goods, revenue from sale and dissemination of third party services and commission income constitute a negligible part of the revenue. For these revenues, the modified retrospective method of effects from first-time use is recognised on the day of implementation and without restating comparable figures. The new standard has not affected Gjensidige Pensjonsforsikring's financial position, earnings or cash flows.

Amendments to IFRS 2: Classifications and measurement of share-based payment transactions
Gjensidige Pensjonforsikring implemented amendments to IFRS 2 at 1 January 2018, and there was one implementation effect. The tax liability as at 31 December 2017 amounting to NOK 0.8 million was reclassified from liability to equity as at 1 January 2018.

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) in the insurance operation
IFRS 9 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1 January 2018. The standard 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 and interest rate instruments at fair value through 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 shall equal 12-month expected credit losses. If the credit risk has increased significantly, the provision shall 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)
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 2022. 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 2022, 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 is an insurance company and has therefore 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 financial statements, significantly increasing the recognised assets and liabilities and potentially affecting the presentation and timing of recognition of charges in the income statement.

A rough estimate of expected amount to be recognised as a lease liability and right-of-use asset at the time of implementation is approximately NOK 30 million. The amount is subject to great uncertainty.

To determine whether a contract contains a lease, it is considered whether the contract conveys the right to control the use of an identified asset. This is considered to be the case for rental contracts, leases for cars and some office machines, etc. However, the latter group is exempted for recognition due to low value. IT agreements are not considered to fall under IFRS 16 since these are based on the purchase of capacity that is not physically separated and thus not identifiable. The rental period will be calculated based on the duration of the agreement plus any option periods if these with reasonable certainty will be exercised. Joint expenses etc. will not be recognised in the lease liability for the rental contracts. The discount rate for the rental contracts will be based on observable borrowing rates in the bond market. . The interest rate will furthermore be adjusted to the duration of the lease liabilities. Gjensidige Pensjonsforsikring has chosen to recognise its lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application, as well as the recognition of related right-of-use assets to an amount corresponding to the lease liability

IFRS 17 Insurance Contracts (2017)
IFRS 17 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 2022. 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.

All amounts are shown in NOK millions unless otherwise indicated. 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 millions	Carrying amount as at 31.12.2018	Fair value as at 31.12.2018	Carrying amount as at 31.12.2017	Fair value as at 31.12.2017
Financial assets				
Financial assets at fair value through profit or loss, designated upon initial recognition				
Shares and similar interests	67.2	67.2	763.6	763.6
Bonds and other fixed income securities	1,465.1	1,465.1	1,361.4	1,361.4
Shares and similar interests in life insurance with investment options	19,811.5	19,811.5	20,034.3	20,034.3
Bonds and other fixed income securities in life insurance with investment options	3,282.3	3,282.3	2,531.2	2,531.2
Financial assets held to maturity				
Bonds held to maturity	30.6	30.7	30.5	32.1
Loans and receivables				
Bonds and other fixed income securities classified as loans and receivables	4,962.3	5,064.9	4,536.0	4,767.1
Receivables related to direct operations and reinsurance	65.0	65.0	59.4	59.4
Other receivables	161.1	161.1	104.8	104.8
Cash and cash equivalents	356.3	356.3	396.2	396.2
Total financial assets	**30,201.4**	**30,304.1**	**29,817.4**	**30,050.0**
Financial liabilities				
Financial liabilities at amortised cost				
Subordinated debt	299.7	301.2	299.6	307.8
Other liabilities	22.0	22.0	22.0	22.0
Liabilities related to direct insurance and reinsurance	429.6	429.6	89.3	89.3
Accrued expenses and deferred income	13.1	13.1	14.0	14.0
Total financial liabilities	**764.3**	**765.8**	**424.9**	**433.1**
Gain/(loss) not recognised in profit or loss		**101.2**		**224.4**

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 millions	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	67.0		0.2	67.2
Bonds and other fixed income securities	1,465.1			1,465.1
Shares and similar interests in life insurance with investment options	19,794.3	17.3		19,811.5
Bonds and other fixed income securities in life insurance with investment options	3,268.1	14.1		3,282.3
Financial assets at amortised cost				
Bonds held to maturity		30.7		30.7
Bonds and other fixed income securities classified as loans and receivables		5,064.9		5,064.9
Financial liabilities at amortised cost				
Subordinated debt		301.2		301.2

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	5.3		758.4	763.6
Bonds and other fixed income securities	1,357.0	4.4		1,361.4
Shares and similar interests in life insurance with investment options	20,021.1	13.2		20,034.3
Bonds and other fixed income securities in life insurance with investment options	2,515.5	15.6		2,531.2
Financial assets at amortised cost				
Bonds held to maturity		32.1		32.1
Bonds and other fixed income securities classified as loans and receivables		4,767.1		4,767.1
Financial liabilities at amortised cost				
Subordinated debt		307.8		307.8

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

NOK millions	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 31.12.2018	Amount of net realised/ unrealised gains recognised in profit or loss that are attributable to instruments held as at 31.12.2018
Shares and similar interests	758.4					(758.2)	0.2	
Total	**758.4**					**(758.2)**	**0.2**	

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

		Sensitivity

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	734.3	24.0					758.4	
Total	**734.3**	**24.0**					**758.4**	

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

		Sensitivity
Shares and similar interests	Decrease in value 10%	75.8
Total		**75.8**

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

Alternative performance measures

Gjensidige Pensjonsforsikring AS (GPF) provides alternative performance measures (APMs) in the financial reports, in addition to the financial figures prepared in accordance with the International Financial Reporting Standards (IFRS). The APMs are provided to enhance understanding of the results. The APMs should be viewed as complementary to, rather than a substitute for the IFRS figures. The APMs have been used consistent over time, and relevant definitions have been disclosed. Comparable figures are provided for all APMs.

Return on equity (ROE)
These measures provide relevant information for assessment of measures on profitability. ROE is one of the key financial targets.

Recognised and value-adjusted return on the paid-up policy portfolio
These measures provide relevant information for assessing the pension business' ability to fulfil its obligations on guaranteed returns.

Gross premiums written
This measure provides relevant information on expected future earned premiums for insurance business, as it comprises total revenue generated through sale of insurance products regardless of what portions have been earned.

Operating margin
Operating margin provide relevant information on profitability.

Total eligible own funds to meet the SCR, SCR margin, total eligible own funds to meet the minimum SCR, minimum SCR margin, total eligible own funds to meet the MCR, MCR margin
These measures provide relevant information on the entities' capital and solvency positions, illustrating the ability to meet obligations to policyholders and beneficiaries. The measures are calculated in accordance with regulatory requirements.

Assets under management
These measures provide relevant information on the size of the operating business.

Share of shared commercial customers
These measures provide relevant information on the overlap of customers between the general insurance and GPF. A high share of shared customers is assumed to be beneficial in terms of loyalty, retention and satisfaction of customers.

		Q4 2018	Q4 2017	1.1.-31.12.2018	1.1.-31.12.2017
Assets under management pension, at the end of the period	NOK millions			30,688.2	28,699.0
of which the group policy portfolio	NOK millions			6,586.4	6,018.4
Operating margin [1]	%	41.23	29.68	34.41	24.56
Recognised return on the paid-up policy portfolio [2]	%			5.61	3.75
Value-adjusted return on the paid-up policy portfolio [3]	%			4.30	4.47
Share of shared commercial customers [4]	%			70.0	69.3
Return on equity, annualised [5]	%			16.0	11.0
Solvency capital (SF) [6]	NOK millions			2,352.6	1,913.7
Solvency margin (SF) [7]	%			143.0	132.8
Minimum capital requirement [8]	NOK millions			591.3	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 26 billion in 2018, while total assets were NOK 157 billion.

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