

Interim Report 3rd quarter 2019

Gjensidige Pensjonsforsikring



Highlights

Third quarter 2019

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

Third quarter

- Profit/loss before tax expense: NOK 43,0 million (40,2)
- Operating income: NOK 104,4 million (91,1)
- Operating expenses: NOK 66,8 million (61,9)
- Operating margin: 36,0 per cent (32,1)

Year-to-date

- Profit/loss before tax expense: NOK 135,8 million (110,3)
- Operating income: NOK 301,6 million (265,9)
- Operating expenses: NOK 194,1 million (181,3)
- Operating margin: 35,7 per cent (31,8)
- Return on equity, annualised: 16.8 per cent (14.3)
- Solvency capital (SF): NOK 2,544.5 million (2,126.1)
- Solvency margin (SF): 136.7 per cent (146.3)
- Assets under management: NOK 35,372.1 million (31,711.5)

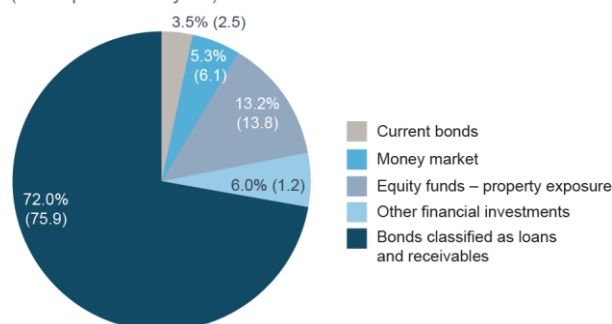
Profit performance

NOK millions	Q3 2019	Q3 2018	1.1.-30.9.2019	1.1.-30.9.2018	1.1.-31.12.2018
Administration fees	38.2	36.7	113.5	107.2	144.4
Insurance income	22.9	16.9	65.7	48.6	72.6
Management income etc.	43.2	37.5	122.4	110.2	150.5
Operating expenses	(66.8)	(61.9)	(194.1)	(181.3)	(241.0)
Net operating income	37.6	29.2	107.5	84.6	126.5
Net financial income	5.4	11.0	28.3	25.7	40.2
Profit/(loss) before tax expense	43.0	40.2	135.8	110.3	166.6
Operating margin ¹	36.02%	32.09%	35.65%	31.81%	34.41%

¹ Operating margin = net operating income/total income

Continued growth results in a steadily growing net operating income

Asset allocation in the group policy portfolio
(same period last year)



Year-to-date development

Earnings performance

The profit before tax expense was NOK 135.8 million (110.3). The increase was driven by higher operating and financial income.

Operating income

Total operating income amounted to NOK 301.6 million (265.9).

Administration fees increased to NOK 113.5 million (107.2) while insurance income increased to NOK 65.7 million (48.6), both driven by a growing customer portfolio. Management income increased to NOK 122.4 million (110.2), as a result of growth in assets under management.

Operating expenses

Operating expenses increased to NOK 194.1 million (181.3), driven by increased business volume.

Net financial income

Net financial income, including returns on both the group policy portfolio and the corporate portfolio, amounted to NOK 28.3 million (25.7). The increased return was related to gains on divestments of loans and receivables during the first quarter.

Paid-up policy portfolio

The year-to-date return on the paid-up policy portfolio was 2.8 per cent (4.5). The decline was related to non-recurring effects last year due to a change in the classification of unrealised gains relating to property investments. The average annual interest guarantee was 3.3 per cent.

Assets under management

Assets under management increased by NOK 4,683.9 million since year end 2018. Total pension assets under management amounted to NOK 35,372.1 million (31,711.5) including the group policy portfolio of NOK 7,082.5 million (6,474.3).

Development during the quarter

Earnings performance

The profit before tax expense was NOK 43.0 million (40.2). Growth in operating income was partly offset by reduced financial returns.

Operating income

Total income increased to NOK 104.4 million (91.1).

Administration fees increased to NOK 38.2 million (36.7), insurance income to NOK 22.9 million (16.9) and management income to NOK 43.2 million (37.5), all for the same reasons as described above.

Operating expenses

Operating expenses were NOK 66.8 million (61.9)

Net financial income

Net financial income was NOK 5.4 million (11.0) mainly due to lower returns on property investments than in the same period last year.

Solvency position

The solvency margin reported at the end of the period was 136.7 per cent, down from 136.8 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 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 develop its business.

Oslo, 22 October 2019

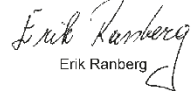
The Board of Gjensidige Pensjonsforsikring AS


Catharina Hellerud
Chair


Kari Østerud


Hans Aashæs


Ida Guldberg


Erik Rønberg


Torstein Ingebretsen
CEO

Income statement

NOK millions	Q3 2019	Q3 2018	1.1.-30.9.2019	1.1.-30.9.2018	1.1.-31.12.2018
Technical account					
Gross written premium	967.1	830.0	2,879.4	2,523.4	3,441.3
Ceded reinsurance premiums	(15.8)	(14.1)	(49.5)	(42.4)	(57.0)
Transfer of premium reserves from other insurance companies/pension funds	549.5	404.1	1,466.4	1,289.7	1,599.4
Total premiums for own account	1,500.8	1,220.0	4,296.4	3,770.7	4,983.8
Income from investments in associates	21.1	29.2	46.0	57.1	74.6
Interest income and dividends etc. from financial assets	40.7	43.3	122.0	129.3	173.2
Unrealised gains and losses on investments	3.5	2.6	19.7	0.6	(6.9)
Realised gains and losses on investments	1.2	0.9	16.3	2.3	2.9
Total net income from investments in the group policy portfolio	66.5	76.0	204.0	189.4	243.7
Income from investments in associates	18.9		41.3		41.0
Interest income and dividends etc. from financial assets			19.1	20.3	20.8
Unrealised gains and losses on investments	217.6	427.4	1,763.3	(17.9)	(2,070.3)
Realised gains and losses on investments	165.3	197.4	817.5	609.4	809.8
Total net income from investments in the investment portfolio	401.8	624.7	2,641.3	611.8	(1,198.6)
Other insurance related income	43.2	37.5	122.4	110.2	150.5
Gross claims paid	(175.7)	(140.6)	(478.8)	(410.0)	(572.3)
- Paid claims, reinsurers' share			19.2	8.7	5.5
Transfer of premium reserve and statutory reserves to other insurance companies/pension funds	(542.8)	(265.4)	(1,849.5)	(1,024.1)	(1,266.8)
Total claims	(718.5)	(406.1)	(2,309.1)	(1,425.5)	(1,833.5)
Change in premium reserve, gross	(114.4)	(105.9)	(418.0)	(391.2)	(516.8)
Change in premium reserves, reinsurers' share	15.0	12.5	44.9	37.6	29.8
Change in statutory reserves	(0.2)	(0.2)	(1.3)	(1.5)	(64.8)
Change in value adjustment fund	(2.9)	(2.5)	(16.5)	42.5	49.0
Change in premium fund, deposit fund and the pension surplus fund		(0.1)	1.6	0.8	0.6
Total changes in reserves for the group policy portfolio	(102.6)	(96.2)	(389.4)	(311.9)	(502.2)
Change in premium reserve	(1,268.1)	(1,533.7)	(5,469.7)	(3,310.6)	(2,325.6)
Change in other provisions	200.5	202.3	1,280.8	752.7	904.3
Total changes in reserves for investment portfolio	(1,067.6)	(1,331.4)	(4,188.9)	(2,557.9)	(1,421.3)
Profit on investment result	(13.0)	(18.8)	(26.7)	(78.3)	(5.6)
Risk result allocated to insurance contracts	(1.6)	(3.5)	(22.8)	(17.0)	(15.3)
Total funds allocated to the insurance contracts	(14.6)	(22.3)	(49.5)	(95.3)	(20.9)
Management expenses	(3.6)	(4.8)	(11.0)	(13.8)	(18.7)
Sales expenses	(5.5)	(6.3)	(16.2)	(18.8)	(25.0)
Insurance-related administration expenses (incl. commissions for reinsurance received)	(57.7)	(50.8)	(166.9)	(148.7)	(197.3)
Total insurance-related operating expenses	(66.8)	(61.9)	(194.1)	(181.3)	(241.0)
Profit/(loss) of technical account	42.4	40.5	133.1	110.2	160.5
Interest income and dividends etc. from financial assets	1.3	3.6	3.7	9.8	13.0
Unrealised gains and losses on investment	2.6	(1.2)	6.5	(2.1)	(3.9)
Realised gains and losses on investments	0.2	0.4	2.5	1.3	2.2
Total net income from investments in the company portfolio	4.1	2.8	12.6	9.1	11.4
Other income					6.8
Other expenses	(3.5)	(3.0)	(9.9)	(8.9)	(12.1)
Profit/(loss) on non-technical account	0.6	(0.3)	2.7	0.1	6.2
Profit/(loss) before tax expense	43.0	40.2	135.8	110.3	166.6
Tax expense	(10.7)	(10.1)	(33.9)	(27.6)	(41.3)
Profit/(loss) before other comprehensive income	32.2	30.2	101.8	82.7	125.4
Remeasurement of the net defined benefit liability/asset					(1.4)
Tax on items that are not reclassified to profit or loss					0.4
Total items that are not reclassified to profit or loss					(1.1)
Total comprehensive income	32.2	30.2	101.8	82.7	124.3

Statement of financial position

NOK millions	30.9.2019	30.9.2018	31.12.2018
Assets			
Other intangible assets	63.6	54.5	58.1
Total intangible assets	63.6	54.5	58.1
<i>Buildings and other real estate</i>			
Right-of-use property	25.6		
<i>Financial assets at amortised cost</i>			
Loans and receivables	234.3		
<i>Financial assets measured at fair-value</i>			
Shares and similar interests	18.6	53.7	67.2
Bonds and other securities with fixed income	718.1	843.4	852.6
Cash and cash equivalents		98.3	98.6
Total financial assets	996.5	995.4	1,018.4
Receivables related to direct operations	7.7	3.4	3.5
Other receivables	92.3	95.1	161.1
Total receivables	100.0	98.5	164.7
Cash and cash equivalents	176.4	84.1	80.2
Pension assets	1.4	1.6	1.4
Total other assets	177.8	85.8	81.7
Prepaid expenses and earned, not received income	7.9	6.8	
Total prepaid expenses and earned, not received income	7.9	6.8	
Total assets in the company portfolio	1,345.9	1,240.9	1,322.9
<i>Subsidiaries and associates</i>			
Shares in associates	936.9	895.9	908.5
<i>Financial assets measured at amortised cost</i>			
Bonds held to maturity		30.1	30.6
Loans and receivables	5,102.4	4,916.1	4,962.3
<i>Financial assets measured at fair-value</i>			
Bonds and other securities with fixed income	617.4	557.4	612.5
Receivables in the group policy portfolio	2.8	9.3	
Cash and cash equivalents	14.8	31.6	46.6
Total investments in the group policy portfolio	6,674.3	6,440.5	6,560.4
Reinsurers' share of insurance-related liabilities in general insurance, gross	430.8	60.1	385.3
<i>Subsidiaries and associates</i>			
Shares in associates	841.2		815.7
<i>Financial assets measured at fair value</i>			
Shares and similar interests	23,361.5	22,043.5	19,811.5
Bonds and other securities with fixed income	4,019.7	3,134.7	3,282.3
Receivables in the investment option portfolio	42.6	42.7	61.5
Cash and cash equivalents	24.5	16.3	130.8
Total investments in the investment option portfolio	28,289.5	25,237.2	24,101.8
Total assets in the customer portfolio	35,394.6	31,737.8	31,047.5
Total assets	36,740.5	32,978.8	32,370.3

NOK millions	30.9.2019	30.9.2018	31.12.2018
Equity and liabilities			
<i>Paid in capital</i>			
Share capital	39.0	39.0	39.0
Other paid-in capital	82.2	81.7	81.8
Total paid-in equity	121.2	120.7	120.8
<i>Retained equity</i>			
Risk equalisation fund	15.3		15.3
Other earned equity	719.8	691.6	618.0
Total earned equity	735.1	691.6	633.2
Total equity	856.2	812.3	754.0
Subordinated debt	299.8	299.7	299.7
Premium reserves	6,766.6	6,187.2	6,336.2
Additional statutory reserves	242.8	178.1	241.5
Market value adjustment reserves	22.3	12.2	5.7
Premium fund, deposit fund and the pension surplus fund	1.4	1.4	2.9
Unallocated surplus fund	49.5	95.3	
Total insurance obligations in life insurance - the group policy portfolio	7,082.5	6,474.3	6,586.4
Premium reserves	27,996.1	24,921.5	23,796.2
Premium fund, deposit fund and the pension surplus fund	293.4	315.8	305.6
Total insurance obligations in life insurance - the investment option portfolio	28,289.5	25,237.2	24,101.8
Pension liabilities etc.	2.5	1.9	2.5
<i>Tax liabilities</i>			
Period tax liabilities	30.7	28.0	12.5
Provisions for deferred taxes	48.8	20.5	48.8
Total provisions for liabilities	82.0	50.3	63.8
Liabilities related to direct insurance	34.4	33.0	79.4
Liabilities related to reinsurance	32.8	34.9	350.3
Other liabilities	46.3	24.6	122.0
Total liabilities	113.4	92.5	551.6
Accrued expenses and deferred income	17.0	12.5	13.1
Total accrued expenses and deferred income	17.0	12.5	13.1
Total equity and liabilities	36,740.5	32,978.8	32,370.3

Statement of changes in equity

NOK millions	Share capital	Other paid in capital	Remeasurement of the net defined benefit liab./asset	Risk equalisation fund	Other earned equity	Total equity
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
1.1.-30.9.2019						
Comprehensive income						
Profit/(loss) before comprehensive income					101.8	101.8
Total comprehensive income					101.8	101.8
Transactions with owners of the company						
Equity-settled share-based payment transactions		0.4				0.4
Equity as at 30.9.2019	39.0	82.2	(0.4)	15.3	720.2	856.2
1.1.-30.9.2018						
Comprehensive income						
Profit/(loss) before comprehensive income					82.7	82.7
Total comprehensive income					82.7	82.7
Transactions with owners of the company						
Equity-settled share-based payment transactions		(0.1)				(0.1)
Equity as at 30.9.2018	39.0	81.7	0.6		691.0	812.3

Statement of cash flows

NOK millions	1.1.-30.9.2019	1.1.-30.9.2018	1.1.-31.12.2018
Cash flow from operating activities			
Premiums paid, net of reinsurance	3,948.4	3,762.7	5,008.7
Claims paid, net of reinsurance	(469.6)	(262.4)	(371.2)
Net receipts/payments of premium reserve transfers	(1,849.5)	(1,024.1)	(1,266.8)
Net receipts/payments from financial assets	(1,442.4)	(2,403.4)	(3,085.0)
Operating expenses paid, including commissions	(180.0)	(193.0)	(269.1)
Taxes paid	(15.8)	(20.1)	(20.5)
Net cash flow from operating activities	(9.0)	(140.3)	(3.9)
Cash flow from investing activities			
Net receipts/payments on sale/acquisition of owner-occupied property, plant and equipment	(19.2)	(16.7)	(24.0)
Dividend between Group companies	(100.0)		
Net cash flow from investing activities	(119.2)	(16.7)	(24.0)
Cash flow from financing activities			
Net receipts/payments on subordinated debt	(9.9)	(8.9)	(11.9)
Repayment of lease liabilities	(1.9)		
Payment of interest related to lease liabilities	(0.6)		
Net cash flow from financing activities	(12.3)	(8.9)	(11.9)
Net cash flow	(140.5)	(165.9)	(39.9)
Cash and cash equivalents at the start of the period	356.3	396.2	396.2
Cash and cash equivalents at the end of the period	215.8	230.3	356.3
Net cash flow	(140.5)	(165.9)	(39.9)
Specification of cash and cash equivalents			
Cash and deposits with credit institutions	215.8	230.3	356.3
Total cash and cash equivalents	215.8	230.3	356.3

Notes

1. Accounting policies

The financial statements as of the third quarter of 2019, concluded on 30 September 2019, comprise Gjensidige Pensjonsforsikring AS (GPF) and associated companies. Except of the changes described below, the accounting policies applied in the interim report is the same as those used in the annual report for 2018.

The financial statements as of the third quarter of 2019 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 2018.

New standards adopted

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 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 other depreciations, whereas the interest effect of discounting will be presented as a financial item.

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 considered to be the case for rental contracts, and some office machines, etc. However, the main part of 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 is calculated based on the duration of the agreement plus any option periods if these with reasonable certainty will be exercised. Joint expenses etc. are recognised in the lease liability for the rental contracts.

The discount rate for the rental contracts is determined by looking at observable borrowing rates in the bond market. The interest rates are adapted to the actual lease contracts duration etc.

GPF has recognised 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.

GPF has only real estate for own use under this standard. The implementation effect 1 January 2019 was NOK 27.7 million, on both the asset and liability side of the financial statement. The implementation did not have an effect on equity.

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 2019. They have not been applied when preparing these consolidated financial statements. Those that

may be relevant to GPF are mentioned below. GPF 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 or 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

GPF is an entity that predominantly undertake insurance activities and has therefore decided to make use of this exception.

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 2018.

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 measurement 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 only financial assets classified as level three in the valuation hierarchy are share in Norsk Pensjon.

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 30.9.2019	Fair value as at 30.9.2019	Carrying amount as at 30.9.2018	Fair value as at 30.9.2018
Financial assets				
<i>Financial assets at fair value through profit or loss, designated upon initial recognition</i>				
Shares and similar interests	18.6	18.6	53.7	53.7
Bonds and other fixed income securities	1,335.5	1,335.5	1,400.8	1,400.8
Shares and similar interests in life insurance with investment options	23,361.5	23,361.5	22,043.5	22,043.5
Bonds and other fixed income securities in life insurance with investment options	4,019.7	4,019.7	3,134.7	3,134.7
<i>Financial assets held to maturity</i>				
Bonds held to maturity			30.1	30.6
<i>Loans and receivables</i>				
Bonds and other fixed income securities classified as loans and receivables	5,336.6	5,562.4	4,916.1	5,003.9
Receivables related to direct operations and reinsurance	53.1	53.1	55.4	55.4
Other receivables	92.3	92.3	95.1	95.1
Prepaid expenses and earned, not received income	7.9	7.9	6.8	6.8
Cash and cash equivalents	215.8	215.8	230.3	230.3
Total financial assets	34,440.9	34,666.8	31,966.6	32,054.9
Financial liabilities				
<i>Financial liabilities at amortised cost</i>				
Subordinated debt	299.8	303.5	299.7	307.6
Interest-bearing liabilities	25.9	25.9		
Other liabilities	20.4	20.4	24.6	24.6
Liabilities related to direct insurance and reinsurance	67.2	67.2	67.9	67.9
Accrued expenses and deferred income	17.0	17.0	12.5	12.5
Total financial liabilities	430.2	433.9	404.7	412.7
Gain/(loss) not recognised in profit or loss		222.1		80.4

Valuation hierarchy 2019

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				
<i>Financial assets at fair value through profit or loss, designated upon initial recognition</i>				
Shares and similar interests	18.4		0.2	18.6
Bonds and other fixed income securities		1,335.5		1,335.5
Shares and similar interests in life insurance with investment options	23,336.8	37.9		23,374.6
Bonds and other fixed income securities in life insurance with investment options	3,996.5	23.2		4,019.7
<i>Financial assets at amortised cost</i>				
Bonds held to maturity				
Bonds and other fixed income securities classified as loans and receivables		5,562.4		5,562.4
<i>Financial liabilities at amortised cost</i>				
Subordinated debt		303.5		303.5
Interest-bearing liabilities		25.9		25.9

Valuation hierarchy 2018

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

	Level 1	Level 2	Level 3	
	Quoted prices in active markets	Valuation techniques based on observable market data	Valuation techniques based on non- observable market data	Total
NOK thousands				
Financial assets				
<i>Financial assets at fair value through profit or loss, designated upon initial recognition</i>				
Shares and similar interests	53.5		0.2	53.7
Bonds and other fixed income securities	1,400.8			1,400.8
Shares and similar interests in life insurance with investment options	22,023.3	20.2		22,043.5
Bonds and other fixed income securities in life insurance with investment options	3,119.2	15.6		3,134.7
<i>Financial assets at amortised cost</i>				
Bonds held to maturity		30.6		30.6
Bonds and other fixed income securities classified as loans and receivables		5,003.9		5,003.9
<i>Financial liabilities at amortised cost</i>				
Subordinated debt		307.6		307.6

Reconciliation of financial assets valued based on non-observable market data (level 3) 2019

	As at 1.1.2019	Net realised/ unrealised gains recognised in profit or loss	Purch- ases	Sales	Settle- ments	Transfers into/out of level 3	As at 30.9.2019	Amount of net realised/ unrealised gains recognised in profit or loss that are attributable to instruments held as at 30.9.2019
NOK millions								
Shares and similar interests	0.2						0.2	
Total	0.2						0.2	

Sensitivity of financial assets valued based on non-observable market data (level 3) 2019

	Sensitivity
Shares and similar interests	Decrease in value 10%
Total	

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

	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 30.9.2018	Amount of net realised/ unrealised gains recognised in profit or loss that are attributable to instruments held as at 30.9.2018
NOK thousands								
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) 2018

	Sensitivity
Shares and similar interests	Decrease in value 10%
Total	

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 (230.0) in commercial real estate funds.

Alternative performance measures and key figures

		Q3 2019	Q3 2018	1.1.-30.9.2019	1.1.-30.9.2018	1.1.-31.12.2018
Assets under management pension, at the end of the period	NOK millions			35,372.1	31,711.5	30,688.2
of which the group policy portfolio	NOK millions			7,082.5	6,474.3	6,586.4
Operating margin ^{1,9}	%	36.02	32.09	35.65	31.81	34.41
Recognised return on the paid-up policy portfolio ²	%			2.81	4.53	5.61
Value-adjusted return on the paid-up policy portfolio ³	%			3.34	3.41	4.30
Share of shared commercial customers ⁴	%			68.0	67.8	70.0
Return on equity, annualised ^{5,9}	%			16.8	14.3	16.0
Solvency capital (SF) ⁶	NOK millions			2,544.5	2,126.1	2,352.6
Solvency margin (SF) ⁷	%			136.7	146.3	143.0
Minimum capital requirement ⁸	NOK millions			685.0	599.3	591.3

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

⁷ Solvency margin (SF) = Solvency capital available under the Solvency II

⁸ Minimum capital requirement under the Solvency II

⁹ Defined as alternative performance measure (APM). APMs are described on www.gjensidige.no/reporting in document named APMs Gjensidige Forsikring Group Q3 2019.

Gjensidige is a leading Nordic insurance group listed on the Oslo Stock Exchange. We have about 3,900 employees and offer insurance products in Norway, Denmark, Sweden and the Baltic states. In Norway, we also offer 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.