

# Interim Report

January – June 2015



Folksam



Folksam

# Good continued growth and satisfied customers

Folksam is growing and our customers are happy with us. During the period, we have implemented several measures in order to continue to reinforce our financial strength and focus on our core business of pension investments and insurance for the many. One measure has been to implement changes in the traditional life insurance with the aim of ensuring a positive and stable long-term return for our pension savers. For our customers in the corporate market, we are developing a simplified and standardised product, in order to become even better and more secure.

Major development initiatives have been carried out, such as improvement of the IT systems and an increase in our digital presence for customer communication, with the intention of becoming an even more modern financial enterprise. We are preparing for Solvency II, our most important and most highly prioritised project. We have continued to modernise, streamline and consolidate.

The euro crisis and geopolitical uncertainty are contributing to market turbulence, and a challenge that we share with other industry stakeholders is to find a way to yield positive returns at a time of historically low interest rates. It is against this background that our infrastructure investment should be viewed; the business acquisition where we, together with Borealis Infrastructure and the First and Third AP Fund, bought Fortum's Swedish electricity grid. The transaction is now complete. It represents a very long-term investment. By investing in safe, environmental and sustainable solutions for electricity transmission, we can achieve a good return that will benefit our pension savers and insurance customers.

## Future prospects

We see continued growth within both life and non-life insurance activities. Folksam Life is expected to yield a lower return for the rest of the year, compared with the first two quarters. This is because we have implemented changes in the traditional life insurance and stopped selling the product Seniorkapital.

Folksam is owned by customers and comprises the two parent companies Folksam Non-life and Folksam Liv (hereinafter Folksam Life) with subsidiaries. Folksam includes the parent companies and all subsidiaries, with the adjustments specified in the footnotes beneath the table.

In this interim report, we will also be reporting on the Group Folksam Non-life, the parent company Folksam Life, and RPA Pension.



Our commitment to our customers propels our success. Even if the situation is favourable, there is always room for improvement. Our ambition is to attract more total customers and to have the most satisfied customers of the insurance and savings industry. We have established a high rate of change, and we invest and work in a goal-oriented and responsible manner to safeguard the trust that our customers have given us.

## Jens Henriksson

CEO and Group President

# Significant events during the period

## Second quarter

- Folksam and its subsidiaries have completed the acquisition of Fortum's Swedish electricity transmission business, now Ellevio, together with Borealis Infrastructure, the First AP Fund and the Third AP Fund, and Folksam's equity interest amounts to 17.5 per cent.
- Folksam has signed a new management agreement with Newsec and thus outsources the entire property management
- Folksam has implemented changes in the traditional life insurance to ensure that our customers will experience continued and prosperous long-term development in their retirement savings. Among other measures, Folksam applies various bonus interest rates for old and new capital. The bonus interest rate for new capital is 4 per cent. The bonus interest rate for old capital is 10 per cent.
- New sales of Seniorkapital, i.e. the combination of mortgage and insurance, were stopped as and from 15 June in order to focus the business on pension savings and insurance
- Folksam introduced the Sustainability Profile – the forum SWESIF's industry standard that makes it easier to compare and choose funds based on the fund's sustainability initiatives
- KPA Pension launched a new consultancy service to assist municipalities and county councils in developing a sustainable investment policy together with GES (Global Engagement Services)
- KPA Pension has won contracts to manage pension administration for Stockholm City and Region Östergötland, among others.

# Significant events after the end of the period

- The guarantee level in traditional life insurance changed from being calculated at 95 per cent of new premium payments to being calculated at 85 per cent as of 1 July; premiums paid before 1 July will not be affected

# Financial summary

Folksam	Jan-June 2015	Jan-June 2014	2014
Premiums, SEK millions <sup>1</sup>	34,716	28,260	47,501
of which Folksam Non-life <sup>2</sup>	6,731	6,330	12,925
of which Folksam Life <sup>2</sup>	27,985	21,930	34,576
Managed assets, SEK millions <sup>3, 4</sup>	372,371	329,918	350,170
Unit-linked insurance assets, SEK millions <sup>3, 5</sup>	111,085	90,827	99,525
Full-time employees <sup>6</sup>	3,719	3,532	3,563
Folksam Customer Index (FCD), %	78	78	79

<sup>1</sup> Premiums comprise premiums earned in non-life insurance, premiums written in life insurance, and receipts from unit-linked insurance investors, including the non-consolidated insurance companies.

<sup>2</sup> Relates to the summary total premiums per company with the respective subsidiaries, including the non-consolidated insurance companies.

<sup>3</sup> Relates to the end of the period.

<sup>4</sup> Assets according to the total return table less strategic holdings, which principally relate to the value of subsidiaries.

<sup>5</sup> Investment assets for which policyholders bear the risk.

<sup>6</sup> Based on the number of hours worked during the period.

# Folksam – first half-year

## Market development

Folksam is Sweden's largest insurance company in terms of premium volume. The life insurance market has enjoyed a good level of growth, and paid premiums (old and new insurance) amounted to a total of SEK 196,773 million for the last twelve months, according to Insurance Sweden, which represents a growth of over 17 per cent (as of 31 March 2015). Folksam Life retains its position as market leader, both in terms of subscription and in terms of the total premium volume. Folksam's market share amounts to 17.6 per cent (paid premiums, both old and new insurance, as at 31 March 2015).

On the property-casualty insurance market, the total premium income increased by 5 per cent during the last twelve-month period to a total of SEK 70,936 (67,580) million (Insurance Sweden, as at 31 March 2015). Folksam holds a strong position within non-life insurance and is the third largest actor in the property-casualty insurance market. Folksam's market share amounts to 16.4 per cent (as at 31 March 2015).

## Folksam

During the period, Folksam has enjoyed good growth within both non-life insurance and life insurance. The total premium volume for the period January to June increased by 23 per cent to SEK 34,716 (28,260) million. Of this total volume, Folksam Life and its subsidiaries account for SEK 27,985 (21,930) million and Folksam Non-life and its subsidiaries account for 6,731 (6,330).

The volume growth for Folksam Life primarily continued within endowment insurances but also within occupational pensions. KPA Pension and Folksam LO Pension account for about 35 per cent of the premium growth within life insurance activities. Non-life insurance activities are primarily showing growth within health insurance and accident insurance.

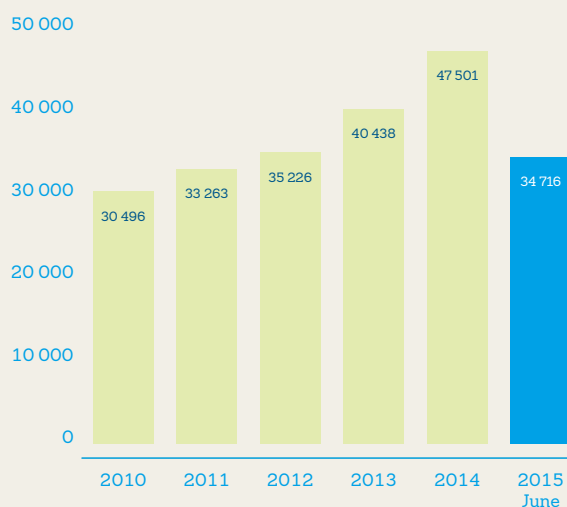
The development to becoming an increasingly modern financial enterprise has continued with a series of modernisation projects. Extensive preparatory work has also been underway with a view to the new European regulations, Solvency II, entering into force on 1 January 2016. The work has been conducted in projects with a large number of participants. In the spring, Folksam has participated in the preparatory reports to Finansinspektionen for Folksam Life and

Folksam Non-life. The parent companies have also adopted new internal regulations in the areas of corporate governance, insurance and asset management.

The work with streamlining claims management, and efforts to increase accessibility and customer service in digital channels in particular, impacted on costs during the first six months of the year.

Folksam's customer satisfaction index (FKI) registers 78 per cent (78) satisfied customers, which is one percentage point from the target for the full year 2015.

Total premium volume, SEK millions



## Managed assets and unit-linked insurance assets

A high level of return and a strong inflow of premiums resulted in Folksam's managed assets increasing during the first half-year. As at 30 June 2015, Folksam managed SEK 372,371 (329,918) million.

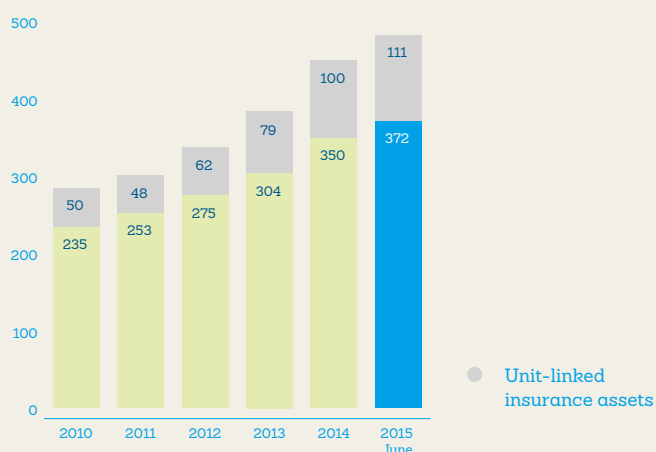
1 June saw the completion of the acquisition of Fortum's Swedish electricity transmission business, now Ellevio, which Folksam and its subsidiaries invested in together with Borealis Infrastructure, the First AP Fund and the Third AP Fund. This is a long-term and stable investment that suits Folksam very well and improves the spread of risk and the anticipated return on our asset portfolios. Folksam's equity interest amounts to 17.5 per cent.

Folksam has signed a new management agreement with Newsec and thus outsources all property management. By simultaneously building up a new asset management organisation for real estate operations, an increased strategic and financial focus has been created with a clear direction characterised by value creation for Folksam Fastigheter (Folksam Real Estate), as well as preconditions for optimal management.

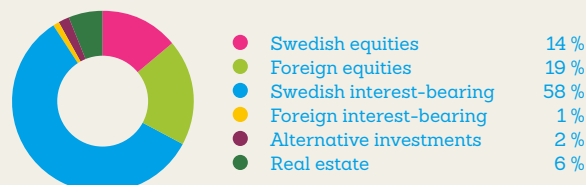
The unit-linked insurance assets have decreased in the second quarter. As at 30 June 2015, they amounted to SEK 111,085 million, compared with SEK 114,639 million at the end of the first quarter of 2015.

Folksam has introduced the Sustainability Profile, which is the forum SWESIF's industry standard for making it easier to compare and choose funds based on the fund's sustainability work. This is a complement to the United Nations-supported Principles for Responsible Investment, the PRI label, which is now used in Folksam's range of funds. Sustainability has long been a central issue for Folksam, and now the funds' sustainability initiatives are clearly becoming important for the customers as well.

Folksam's managed assets and unit-linked insurance assets, SEK billions



Folksam's managed assets, June 2015



# Folksam Non-life (Group)

Folksam Non-life (Group)*	Jan-June 2015	Jan-June 2014	2014
Premiums earned, SEK millions	6,155	5,751	11,630
Underwriting result, SEK millions	257	191	23
Profit before tax, SEK millions	978	1,278	2,548
Total expenses, %	98	101	99
of which claims expenses, %	80	83	81
of which operating expenses, %	18	18	18
Funding ratio, %	142	131	134
Funding ratio, %, Parent Company	155	151	153
Total return, %	2.2	3.6	8.6

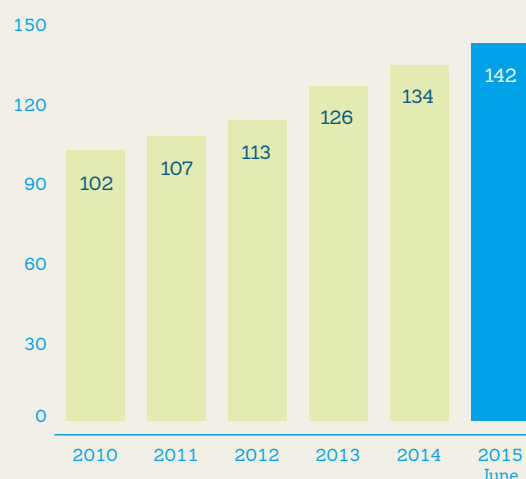
The premiums earned under Folksam Non-life amounted to SEK 6,155 (5,751) million, which is an increase of 7 per cent compared to the same period in 2014. A high level of demand within all forms of insurance, but primarily in health and accident insurance, along with an increase in more extensive insurance policies, i.e. policies that involve larger amounts and greater protection, has contributed to the positive growth. This growth, together with a high level of customer loyalty, has reinforced Folksam's position as number three on the liability insurance market.

The total cost ratio in the Group amounted to 98 (101) per cent, which is an increase of 3 percentage points compared with the same period of the previous year. The claims expense percentage fell due to lower provisions for personal injury and annuities, which in turn was the result of climbing market interest rates, primarily in the second quarter, in combination with a positive liquidation result for the period. The operating expense percentage remains unchanged this period, despite a continued high rate of development in the efforts to further streamline and modernise the group.

The result before taxes amounted to SEK 978 (1,278) million, a decrease of SEK 300 million, which is the result of a lower capital return than during the corresponding period in the previous year. The reduced capital return contributed to deteriorating the period's result and thereby counteracted the improved technical result of SEK 257 (191) million. The funding ratio has improved compared to the previous year and amounted to 142 per cent (131) within the group and 155 per cent (151) within the parent company.

The total return amounted to 2.2 per cent.

Funding ratio, %



\* The Folksam Non-life group includes the insurance companies Tre kronor and Folksam Skadeförsäkring. Förenade Liv and Saco SalusAnsvar are not consolidated.

# Folksam Life (Parent Company)

Folksam Life (Parent Company)	Jan–June 2015	Jan–June 2014	2014
Premium income, SEK millions	8,940	5,605	13,437
Solvency ratio, %	162	159	155
Managed assets, SEK millions	165,622	143,613	156,156
Bonus interest Life1, % <sup>1</sup>	8.3	6.2	6.5
Collective funding Life1, %	121	122	124
Bonus interest Life2, % <sup>1,2</sup>	8.5	6.2	6.5
Collective funding Life2, % <sup>2</sup>	126	122	126
Total return, %	3.7	5.3	12.0

<sup>1</sup> Folksam Life applies different bonus interest rates for old and new capital as of 31/05/2015 (Life 2) and 30/06/2015 (Life 1). The bonus interest rates listed in the table refer to the year's average for old capital.

<sup>2</sup> Cooperative occupational pension

The total premium income for Folksam Life was SEK 8,940 (5,605) million. This is 59 per cent higher than the same period in 2014. The continued and significant growth is due to the great interest in traditional life insurance with good terms for the insurance holders. In order to ensure a positive and stable long-term returns for our customers, Folksam has implemented some changes in the traditional life insurance.

- The bonus interest rate for the traditional life insurance was raised to 9 per cent before taxes and charges as of 1 April 2015.
- The deposit ceiling on traditionally managed endowment insurances was lowered on 4 May to SEK 100,000 per year and insurance holder.
- Folksam applies different bonus interest rates for old and new capital. The bonus interest rate for new capital is 4 per cent. The bonus interest rate for old capital is 10 per cent.

These changes to the traditional life insurance are expected to decelerate the growth of Folksam Life during the autumn.

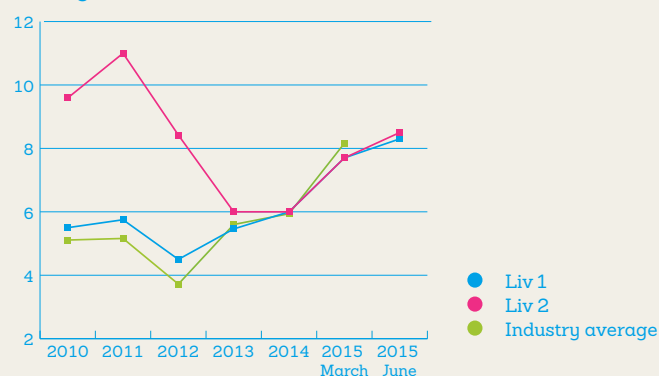
The altered deduction rights concerning private pension savings have led to an extensive information effort to reach the customers, which has been very successful. The majority of our customers have accepted our new offer of endowment insurances for continued pensions savings.

Folksam Life has continued working on a number of projects, such as the investment into individual occupational pensions, regulatory adaptation as well as streamlining IT systems and various processes.

The total return for the period was 3.7 (5.3) per cent, which has made a positive contribution to the result.

The highly positive cash flow within traditional insurances has increased the life insurance allocations during the period, however, higher interest rates have slowed down the rate of increase to some extent.

Average bonus interest, %



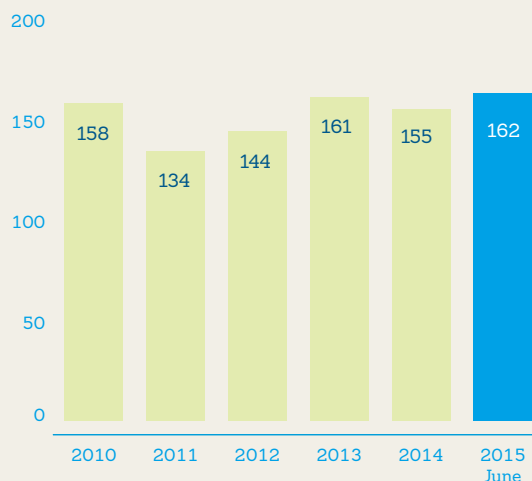
The solvency ratio was increased to 162 (159) per cent as per the last of June 2015.

The collective degree of consolidation for premium-based cooperative occupational pension (Life 2) amounted to 126 (122) per cent on the last of June, and to 121 (122) per cent for the other activities in Folksam Life.

#### Events after the end of the period:

- The guarantee level for traditional life insurance was altered from being calculated on 95 per cent of new premium payments to being calculated on 85 per cent as of 1 July; premiums paid before 1 July will not be affected.
- The premium ceiling of SEK 100,000 in the traditional life insurance was abandoned on 1 July, and a limit of SEK 2 million in deposited premiums per insurance holder and year was introduced instead.

Solvency ratio, %





# KPA Pension

KPA Pension*	Jan-June 2015	Jan-June 2014	2014
Premium income, SEK millions	10,255	8,856	10,172
Solvency ratio, %	176	170	166
Managed assets, SEK millions	134,604	116,748	122,713
Total return, %	4.0	6.0	13.3
Rate of return, %	4.1	6.2	13.4

The premium income for KPA Pension amounted to SEK 10,255 (8,856) million, which is an increase of 16 per cent. In the first six months of the year, KPA Pension received around 120,000 new pension savers, primarily within the agreement area KAP-KL. The premium income from redemption of pension benefits in insurances has increased.

The introduced transfer rights have entailed a negative net outflow over the period, primarily to the major banks, which has been charged to the indemnification payments. Streamlining and modernisation has been conducted speedily, for KPA Pension as well as for other companies within Folksam, and the costs of a number of strategic IT investments have encumbered the period.

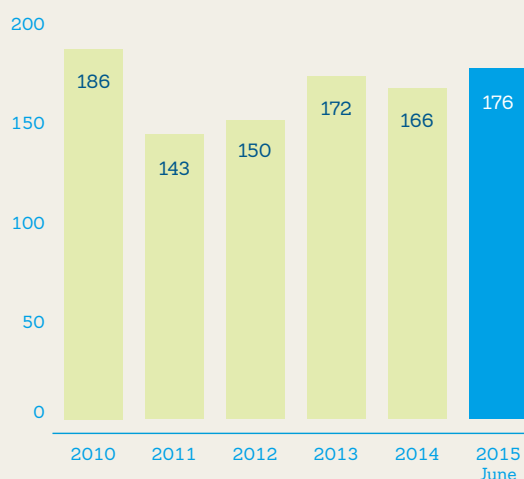
The total return from KPA Pension amounted to 4.0 (6.0) per cent for the period, and the solvency ratio was 176 (170) per cent on the last of June. The rate of return amounted to 4.1 (6.2) per cent.

KPA Pension's bids have been accepted in procurements of pension administration for the City of Stockholm and Region Östergötland, among others. KPA Pension has a rate of satisfied customers of 90 per cent, and 8 out of 10 customers within municipalities and county councils choose KPA Pension as their supplier of pension administration.

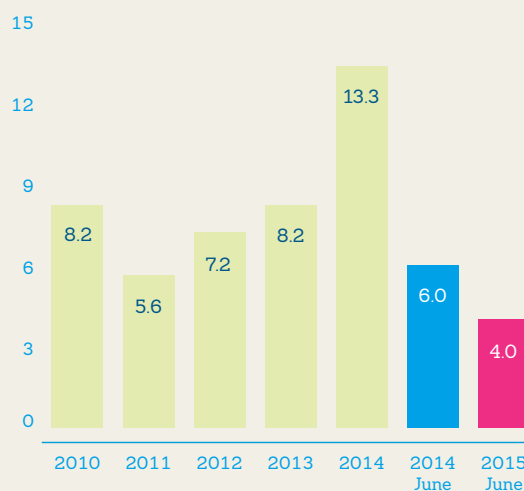
Furthermore, KPA Pension has launched a new consultancy service with counselling and analysis of financial services in order to help employers within municipalities and county councils to develop a sustainable investment policy. KPA Pension offers this service in collaboration with GES (Global Engagement Services), sustainability consultants and suppliers of screening services.

Erik Thedéen became the new CEO of KPA Pension on 13 April 2015.

Solvency ratio, %



Total return, %



\* These figures relate to KPA Pensionsförsäkring AB.

# This is Folksam

Every time we meet a customer, we meet an owner. And we have many owners. We insure nearly one out of two people in Sweden and take care of the pensions of more than two million people. This means that Folksam is currently one of Sweden's 30 largest companies.

With us, you can insure yourself, your loved ones and your property and save for your pension. Our job is provide you and your family security in every phase of life. The fact that we are owned by our customers provides credibility, long-range thinking and customer benefit, and entails responsibility.

## Four brands, two Groups and 11 insurance companies

Folksam comprises the two parent companies Folksam ömsesidig sakförsäkring (Folksam Non-life) and Folksam ömsesidig livförsäkring (Folksam Life) with subsidiaries. Two of the insurance business' subsidiaries in Folksam Life are part-owned. They are Folksam LO Pension, of which we own 51 per cent, and KPA Pension, of which Folksam owns 60 per cent. Folksam Non-life's subsidiary, Folksam Skadeförsäkring, is part-owned at 75 per cent. The subsidiary Förenade Liv is wholly owned.

## Our vision

Our customers should feel secure in a sustainable world.

## Our business concept


We are the customers' company that offers popular insurance policies and pension investments that provide security.

## Our overriding objective

We should have the most satisfied customers in the insurance and savings industry.



Find out more at [www.folksam.se](http://www.folksam.se)



Our customers should  
feel secure in a  
sustainable world

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