

# Year-end Report

January – December 2016



Folksam Group

2016

Folksam

# Strong finish

The Folksam Group came out of 2016 stable despite several challenges. The low interest rates continue to shape our existence. Uncertainty is being fuelled by Brexit, bank turbulence in Europe, the decline in world trade, the slowdown in China and the emergence of populist and nationalist policies around the world. And of course the US and its new administration.

Regulatory pressure is high as well, and by all indications will just keep getting higher. In October, the government announced a policy decision enabling us to establish occupational pension companies with their own regulation. Important issues remain to be resolved, such as capital requirements. However, considering the special conditions of the occupational pension industry, this is the best solution for our customers.

The financial activity tax proposal was received in November. This proposal entails a 15 per cent increase in salary costs and also impacts pension companies, especially mutual pension companies like the Folksam Group. If this proposal is adopted, our customers and pensioners will be the losers, because the increase in costs would directly impact them. This would be a great shame.

The total premium volume of the Folksam Group is growing according to plan. Our strong non-life insurance offering continues to drive demand, while premium inflows into the life insurance business remain more controlled. We reduced the guarantee and the guaranteed rate of our traditional life insurance to make room to continue pursuing an active investment strategy and thus excellent pensions for our customers. However, we raised the bonus interest rate in the autumn, and then raised it again as of February 2017. Now the bonus interest rate is five per cent.

The reason we can raise the bonus interest rate is that – in spite of negative interest – we generated a healthy return during the year. In total, the Folksam Group's return reached SEK 28 billion in 2016. This represents outstanding appreciation on customer assets.

We also surpassed SEK 400 billion in assets under management. If we include our unit-linked insurance assets as well, our customers' total assets amounted to nearly SEK 525 billion. That is more than ever. And this is a show of enormous confidence in us which we need to manage successfully. Every single day.

The Folksam Group continued investing in green bonds. So far we have invested nearly SEK 7 billion and also raised the



limit to SEK 12 billion. Another investment we made which suits us well was Volvo Cars. We were one of three institutional investors to put in SEK 1 billion, making Volvo Cars more Swedish in one fell swoop.

The Folksam Group continued its efforts to become more modern, consolidated and efficient in 2016. We have worked on getting costs under control and generating a return on ongoing IT investments. This has, to a certain extent, resulted in re-prioritisation in the development portfolio and a lower rate of growth.

2017 poses challenges and opportunities. We are well equipped for both. This mainly requires the small improvements and continuing to pinch pennies in our day-to-day activities to be a little more efficient and create security for customers. Because there is no doubt in our minds that our goal is to have the most satisfied customers in the industry.

**Jens Henriksson**  
President and CEO

The Folksam Group is owned by customers and comprises the two parent companies, Folksam Life and Folksam General, and their respective subsidiaries. The Folksam Group includes the parent companies and all subsidiaries, with the adjustments specified in the footnotes beneath each results table. In this interim overview, we present reports on the Folksam General Group, the Parent Company Folksam Life and KPA Pension.

# Significant events during the period

- Folksam Life changed its guarantee for defined-contribution insurance with equalised bonuses to ensure continuing stable performance in traditional life insurance savings.
- Folksam Life raised the bonus rate of its traditional life insurance from three to five per cent effective 1 November.
- The Folksam Group invested a total of SEK 4.2 billion in green bonds in the fourth quarter, with SEK 2.5 billion comprising a green bond issued by Kommuninvest.
- The Folksam Group was one of three institutional investors to invest SEK 1 billion in preference shares of Volvo Cars.
- Folksam Life acquired the Lysbomben 6 property at Kungsholmen, Stockholm for nearly SEK 550 million.
- Per December 31, Folksam wrote down the value of its holding in Cooperante, which owns 11.1 percent of Arenabolaget i Solna KB, to zero. The original investment was SEK 100 million.
- Daniel Barr was appointed new product director, Jesper Andersson the new CFO and Anna-Karin Laurell the new Head of the Private Business Division.

# Events after the end of the period

- The Folksam Group invested a total of SEK 1.5 billion in four green bond issues.
- Folksam Life raised the bonus rate of its traditional life insurance from four to five per cent effective 1 February.
- The Folksam Group continues to raise its exposure to infrastructure by investing SEK 1 billion in Infranode I.

# Summary: Key ratios

Folksam Group	2016	2015	2014
<b>Folksam Customer Index (FCI), %</b>	<b>79</b>	<b>78</b>	<b>79</b>
Premiums, SEK million <sup>1</sup>	47,023	50,469	47,501
of which Folksam General <sup>2</sup>	14,269	13,395	12,925
of which Folksam Life <sup>2</sup>	32,754	37,074	34,576
Assets under management, SEK million <sup>3,4</sup>	400,270	368,454	350,170
Unit-linked insurance assets, SEK million <sup>3,4,5</sup>	124,043	111,144	99,525
Number of full-time positions <sup>6</sup>	3,731	3,706	3,563

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

<sup>2</sup>) Refers to total sum of premiums per company with respective subsidiaries, including the non-consolidated insurance companies.

<sup>3</sup>) Refers to the end of the period.

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

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

<sup>6</sup>) Based on paid time during the period.

# Folksam Group fourth quarter

## Market developments

The insurance and pension saving industry is operating in a market that is undergoing major change. Economic uncertainty in the world is playing a part, notably low interest rates and the UK's exit from the EU. The Middle East, stagnation in China and the somewhat lower pace of growth in the US economy are all having an impact, as is the political situation in Russia and the new administration in the US. However, Sweden continues to exhibit both high growth and low unemployment.

Meanwhile, the low interest rates continue to be a cause of concern for both the industry and the authorities. New types of investments and product adjustments are two ways of dealing with the situation.

New and future regulations require considerable adjustments to activities in the insurance and pension savings industry. Solvency II (Insurance Business Act) has been in effect since the start of the year, while companies that pursue occupational pension activities can instead comply with transition rules. At the beginning of October, the government announced a policy decision with regard to future occupational pension regulation. Based on the ambition of reaching a solution that offers satisfactory protection for consumers, while enabling efficient management of occupational pensions, the decision means that there will be different regulations for occupational pension companies and insurance companies. However, there are still several key issues that require a decision, such as the level of capital requirements for occupational pension companies. A proposal regarding new occupational pension regulation will be submitted for comment in autumn 2017.

In November, the government received the committee report on "Tax on financial activities", which proposes a 15 per cent tax on the cumulative salary costs of banks and the rest of the financial services industry, including insurance and pensions savings companies. The purpose is to reduce the tax advantage this sector can be assumed to have due to the exemption of sales of financial services from value-added tax liability. The report proposes that the tax be imposed as of 1 January 2018.

Folksam has a stable position on the market. Premium figures from the Swedish Insurance Federation for the third quarter of 2016 indicate we remain the market leader in life insurance and the third largest in the non-life insurance market.

The scheduled slowdown within life insurance is discernible. It is now around 1.5 years since we implemented changes to the product. Meanwhile, a number of smaller market operators are increasing their market share. After the third quarter, Folksam had a market share of 15.4 per cent (premiums paid in for both old and new policies). At the same point last year, our market share was 17.7 per cent.

Folksam's market share within non-life insurance was 16.3 per cent after the third quarter, compared with 16.7 at the same point last year. The smaller companies are gaining market share in the non-life insurance, although the four largest companies retain roughly 80 per cent of the market.

Folksam is increasing its share of the household market and the highest growth can be seen in the areas of sickness and accident insurance and pet insurance.

## Folksam Group

The Folksam Group's total premium volume for the 2016 full year reached SEK 47,023 (50,469) million. Folksam Life and subsidiaries accounted for SEK 32,754 million (37,074) and Folksam General and subsidiaries for SEK 14,269 million (13,395).

The major development initiatives, such as improvements to IT systems and preparations for regulatory adjustments, are continuing in order to make the Folksam Group an even more modern and efficient company. But they are also pushing up costs, which we are monitoring closely. We will maintain an investment rate of SEK 1 billion per year and for that reason are prioritising among projects to ensure that we are sustaining this investment level and that the projects we have under way provide the intended benefits.

Folksam's index for customer satisfaction (FCI) amounted to 79 per cent (78) satisfied customers at the end of 2016. This can be compared with the 78 per cent target for the full year.

Total premium volume, SEK million



## Solvency II

The new Solvency II regulations entered into force on 1 January 2016. Folksam General and subsidiaries report according to Solvency II. Folksam Life and subsidiaries have pure Solvency II companies (KPA Livförsäkring), companies with mixed operations (Folksam Fondförsäkring and Folksam Life) and pure occupational pension companies (Folksam LO fondförsäkring and KPA Pensionsförsäkring) that follow the Solvency I regulations. The companies' capital requirements according to Solvency II are determined according to the standard formula. All companies meet the solvency and minimum requirements. Solvency ratio calculations for Folksam General (Group) and Folksam Life (parent company) are reported one quarter later in the full year overview.

## Assets under management and unit-linked insurance assets

The Folksam Group managed SEK 400,270 (368,454) million at 31 December 2016. Despite persistently low interest rates and the political uncertainty around the world, we managed to generate a healthy return in the fourth quarter. Our property and equity portfolios in particular performed strongly, but interest-bearing securities also generated a return.

In terms of asset categories in our asset portfolio, we are maintaining our investments in property, which resulted in properties increasing to 7 per cent of the value of the Folksam Group's assets under management. We are continuing to invest in green bonds within the scope of our specialist investments (formerly 'alternative investments'). During the period – and after the end of the period – the Folksam Group (including KPA Pension) invested in green bonds issued by the City of Örebro (SEK 250 million), Norrköping Municipality (SEK 400 million) and Region Skåne (SEK 650 million), as well as Kommuninvest (SEK 2.5 million). After these acquisitions, we had invested a total of approximately SEK 5.6 billion in green bonds. We invested an additional SEK 1.5 billion in green bonds after the end of the period. We are now one of the largest green bond investors in the Swedish market.

Folksam Life acquired the Lysbomben 6 property at Kungsholmen, Stockholm for nearly SEK 550 million. The property is leased to the Swedish National Archives under a 25-year lease.

In our property business, we also commenced preparations to renovate a housing development with 450 flats in Staffanstorp owned by KPA Pension. After carefully surveying the needs, a renovation plan was prepared for creating a green and sustainable living environment.

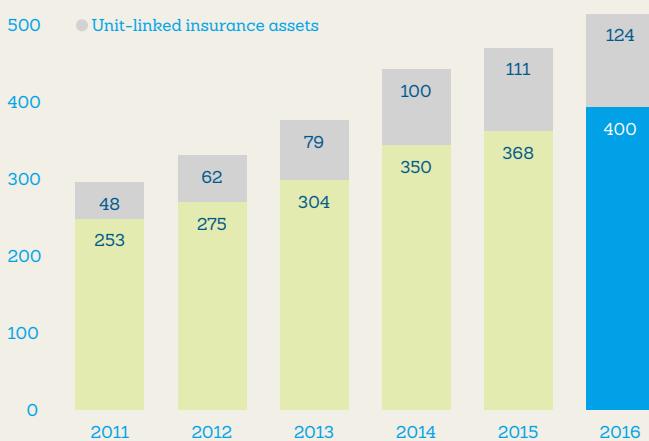
In December, the Folksam Group announced an SEK 1 billion investment in preference shares of Volvo Cars. The investment gives customers a solid risk-adjusted return and supports the expansion plans of Volvo Cars. The Folksam Group was one of three Swedish institutional investors in the issue, which had a total value of SEK 5 billion.

Per December 31, Folksam wrote down the value of its holding in Cooperante, which owns 11.1 percent of Arenabolaget i Solna KB, to zero. The original investment was SEK 100 million.

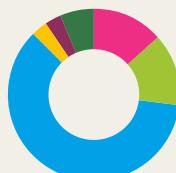
As of 31 December 2016, unit-linked insurance assets totalled SEK 124,043 million (111,144). Folksam's fund offering is guided by the following parameters: return, fees and sustainability. Emerging market fund Nordea Emerging Stars was therefore added during the quarter. The fund has demonstrated both a healthy history and sound sustainability efforts incorporated into the investment process.

Folksam added Blackstone Diversified Multi-Strategy Fund, a hedge fund, to its guided fund offering during the quarter. This makes Folksam the first unit-linked insurance company in Sweden to offer a fund from fund manager Blackstone.

The Folksam Group's assets under management and unit-linked insurance assets, SEK billion



The Folksam Group's assets under management, December 2016



Swedish equities	14 (14)%
International equities	19 (18)%
Swedish fixed-interest	55 (56)%
International fixed-interest	3 (3)%
Specialist investments	3 (3)%
Properties	7 (6)%

## Bonus interest

Bonus interest is the ultimate proof that we are owned by our customers, and helps to encourage our customers to like us. Given its strong financial position, Folksam General is issuing bonus interest to its customers for the fifth year running after having introduced the bonus interest programme in 2012. For Folksam General, the bonus interest amounts to SEK 271 (325) million and includes pet, home and vehicle insurance as well as personal risk. Around 2.3 million customers will be sharing the bonus interest. Folksam Life is a part of the bonus interest programme in risk insurance for the fourth consecutive year and includes group insurance policies. Folksam Life has not yet decided on its bonus interest.

# Folksam General (Group)

Folksam General (Group)	2016	2015	2014
Earned premiums, SEK million	12,997	12,225	11,630
Underwriting result, SEK million	-161	362	-59
Profit/loss before tax, SEK million	1,763	817	2,466
Expense ratio, %	100	96	100
of which claims expense, %	82	77	81
of which operating expense, %	18	19	19
Total return, %	6.3	2.2	8.6
	Dec 2016	Dec 2015	Dec 2014
Solvency ratio <sup>1)</sup> (Sep 2016)	1.9	-	-
Funding ratio, %	139	133	132
Solvency ratio <sup>1)</sup> , parent company (Oct 2016)	2.0	-	-
Funding ratio, parent company, %	157	149	153

<sup>1)</sup> The solvency ratio is own funds expressed as a percentage of the Solvency II capital requirement. The Solvency ratio is reported one quarter later.

Premiums earned for the period amounted to SEK 12,997 million (12,225) in the Folksam General Group, six per cent higher than in 2015. The increase was mainly due to a strong offering, a greater propensity to insure on the part of customers and premium hikes, as well as a continuing trend towards insurance policies with more ample provision. The highest growth continues to be in sickness and accident insurance. The rate of cancellations also remains stable.

The total cost ratio in the Group was 100 (96). This was four percentage points lower than in the preceding year. The deterioration in the claims expense ratio to 82 (77) per cent arose mainly through greater appropriations for sickness and accident annuities in the parent company owing to changes in interest rates and lower positive earnings from claim settlement in comparison to the previous year.

The operating expense ratio decreased to 18 (19) mainly driven by lower development and acquisition costs and higher premiums earned.

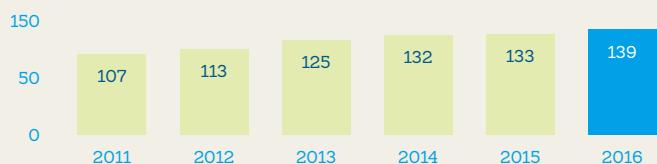
The Folksam General Group's underwriting result amounted to SEK -161 (362) million. This poorer performance for the underwriting result is mainly attributable to the loss experience along with a lower return on capital in the insurance business. This is partially counterbalanced by lower bonus expenses. Profit before taxes was SEK 1,763 (817) million. Return on capital improved considerably during the period compared with the first half of the year. All asset classes are making a positive contribution, but equities accounted for the greatest increase in returns. The total return amounted to 6.3 (2.2) per cent.

The solvency ratio, which we report one quarter later, is stable, amounting to 1.9 for the Group and 2.0 for the parent company. The funding ratio increased compared with the corresponding period last year, to 139 (133) per cent in the Group and 157 (149) per cent in the Parent Company. The increase in the funding ratio is attributable to the improved earnings.

## Events in non-life insurance (Oct-Dec 2016)

- At an extraordinary Board meeting, the Board of non-life insurance company Tre Kronor appointed Henrik Persson as the new CEO. His most recent position was with KPA Pension.

### Funding ratio %



# Folksam Life (Parent Company)

Folksam Life (Parent Company)	2016	2015	2014
Earned premiums, SEK million	9,839	13,479	13,438
Total return, %	8.4	3.7	12.0
	Dec 2016	Dec 2015	Dec 2014
Assets under management, SEK million	176,267	164,489	156,156
Solvency ratio, %	165	162	155
Solvency ratio for mixed companies <sup>1)</sup> (Sep 2016)	3.8	-	-
Collective funding ratio <sup>2)</sup> occupational pension business, %	121	119	-
Collective funding ratio <sup>2)</sup> other life insurance business, %	119	118	-

<sup>1)</sup> The solvency ratio for mixed companies is the sum of own funds expressed as a percentage of the Solvency II capital requirement for other life insurance and own funds expressed as percentage of the Solvency I capital requirement for occupational pension business. The Solvency ratio is reported one quarter later.

<sup>2)</sup> The collective funding ratio was calculated until 30 November 2015 divided into the business lines Life1 and Life2. Thereafter, all occupational pension business was combined and the business lines 'occupational pension business' and 'other life insurance business' were formed.

Premiums written for Folksam Life totalled SEK 9,839 (13,479) million. A continuing reduction mainly in one-off premium payments according to plan, following the changes we made in traditional life insurance in 2015, i.e. different bonus interest rates for new and old capital, to safeguard long-term secure returns for customers. The percentage of current contracts is on the rise, albeit for new policies.

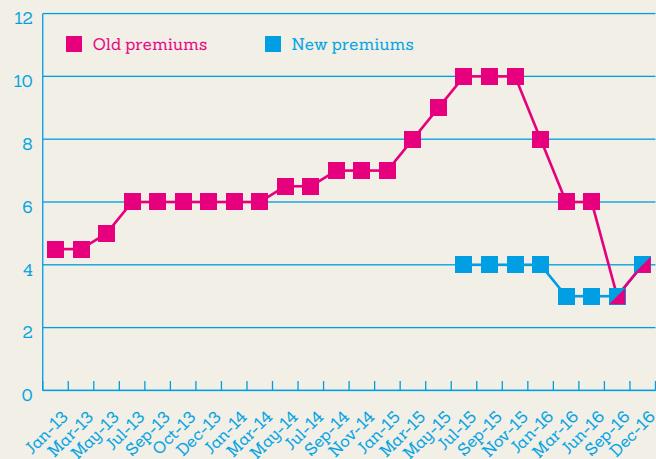
Traditional private pension savings decreased from SEK 7.1 billion to SEK 3.8 billion and individual occupational pension decreased from SEK 1.5 billion to SEK 1.0 billion. The latter is due in part to changes in terms and conditions, as well as adjustments for forthcoming regulations regarding sales through brokers. Collectively agreed occupational pensions grew to SEK 2.6 (2.5) billion. Operating expenses decreased overall as a result of lower acquisition costs, although the on-going development projects, such as regulatory adaptation and efficiency enhancements to IT systems and other processes are continuing to drive costs.

The total return for the period was 8.4 (3.7) per cent. All asset classes are making a positive contribution to returns; equities at 15.1 per cent, interest-bearing securities at 3.1 per cent and properties at 21.9 per cent. Over the past five years, 2012-2016, the annual average total return for Folksam Life has been 7.7 per cent.

The solvency ratio was 165 (162) per cent as of 31 December 2016. The solvency ratio mainly increases as a result of the solid return on capital. The solvency ratio for mixed companies, which we report one quarter later, is stable, totalling 3.8 for the parent company. The collective funding ratio for defined-contribution occupational pension insurance was 121 (119) per cent as of 31 December 2016, and 119 (118) per cent for other life insurance business.

The now single bonus interest rate was raised from three to four per cent in the quarter. It has been five per cent since 1 February 2017.

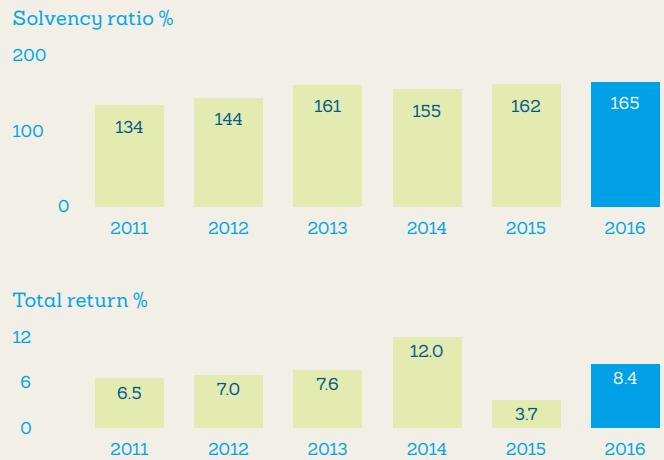
## Bonus interest rate



In 2015, Folksam Life divided bonus interest into 'old' and 'new' premiums. Depending on the portfolio, the breakpoint is 1 June 2015 (Liv2) or 1 July 2015 (Liv1). The diagram shows the breakpoint for Life1. All occupational pension business was combined effective 30 November 2015 and the business lines 'occupational pension business' and 'other life insurance business' were formed. The bonus interest has been the same for these lines of business since the division. Since 1 September 2016, however, Folksam Life once again has a single bonus interest rate for 'old' and 'new' premiums.

## Events in life insurance (Oct-Dec 2016)

- Folksam Life changed its guarantee for defined-contribution insurance with equalised bonuses to ensure continuing stable savings performance in traditional life insurance by creating greater scope for investment in assets which can provide better returns than fixed-interest investments over time. This change reduces the guaranteed rate from 1.5 per cent to 1 per cent effective 1 January 2017 and the guarantee is calculated on 80 per cent of new payments received, instead of 85 per cent as before. Collectively agreed policies under traditional management are only affected by the changed guaranteed rate as of 1 January 2017.
- Folksam Life raised the bonus rate of its traditional life insurance from three to four per cent effective 1 November. Folksam Life raised the bonus rate by an additional percentage point effective 1 February 2017. It is thus five per cent.



# KPA Pension

KPA Pensionsförsäkring AB	2016	2015	2014
Earned premiums, SEK million	12,138	11,726	10,172
Total return, %	6.6	3.3	13.3
Rate of return, %	6.7	3.7	13.4
Dec 2016	Dec 2015	Dec 2014	
Assets under management, SEK million	148,379	132,283	122,713
Solvency ratio, %	164	164	166

Premiums written for KPA Pension Insurance amounted to SEK 12,138 (11,726) million, an increase of approximately four per cent. The redemption business is back to more normal levels following its particularly strong performance in the past year. Premiums for selections made in 2015 were passed on to KPA Pension at the end of March 2016.

KPA Pension continues to grow in the check-box market and received nearly 100,000 new pension savers, mainly in the KAP-KL agreement area.

KPA Pensionsförsäkring's solvency ratio was 164 (164) per cent as of 31 December. The lower market interest rates and the change in late 2015 in the assumptions for temporary withdrawals have a negative impact on the solvency ratio, while the healthy return and positive cash flow are pulling in the other direction. KPA Pensionsförsäkring took action during the year to reduce the proportion of temporary withdrawals. This action was effective and temporary withdrawals are now on a better level than comparable companies.

The total return amounted to 6.6 (3.3) return for the period. The rate of return was 6.7 (3.7) per cent. All asset classes performed positively during the period. Capital outflows in traditional insurance declined during the year, from around SEK 1250 million to SEK 900 million. The company's total net cash flow continues to be strongly positive. The costs of efficiency enhancement and modernisation efforts are slightly lower, mainly for IT development and management following reprioritisation in the development portfolio. The management expense ratio for KPA Pension Insurance developed favorably in 2016.

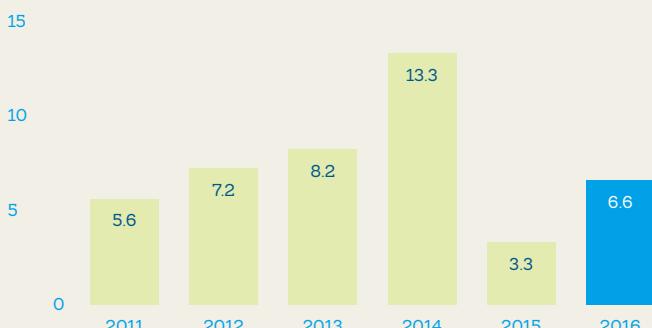
KPA Pensionstjänst is being wound up and the business was integrated into KPA Pensionsservice in 2016.

Over the past five years, 2012–2016, the annual average total return for KPA Pensionsförsäkring has been 7.7 per cent.

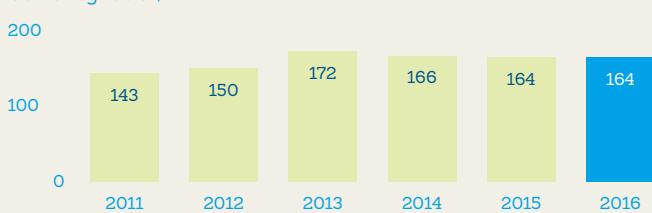
## Events at KPA Pension (Oct-Dec 2016)

- Britta Bureau took over as CEO of KPA Pension in December 2016
- The labour market parties in the municipal and county sector appointed KPA Pensionsförsäkring as insurance provider for family cover for all municipal sector employees covered by AKAP-KL, a defined-contribution collectively agreed occupational pension, as of January 2018.
- Inge Bäckström was appointed acting CEO of KPA Pensionsservice since former CEO Henrik Persson took the post of CEO of Group company Tre Kronor. Johan Sjöström was appointed acting CEO of KPA Livförsäkring when the former CEO Mia Liblik took over as CEO of Group company Folksam LO Pension.
- KPA Pensionsservice won several tenders for pension administration during the period, including the following municipalities: Sala, Heby and Vadstena. After the end of the period, KPA Pensionsservice won a tender in the municipality of Haninge.
- Max Matthiessen surveyed the performance of Swedish pension companies in terms of responsible investments for the fourth year in a row. Along with three other companies, KPA Pension received the highest rating in traditional management.

### Total return %



### Solvency ratio %



# This is the Folksam Group

With the Folksam Group, customers can insure themselves, their loved ones and their property and save for their pension. Our job is to provide security in every phase of life. Every time we meet a customer, we meet an owner. And we have many owners. We insure almost half of all Swedes and take care of the pensions of more than two million people. This means that the Folksam Group is currently one of Sweden's 30 largest companies.

## Four brands, two groups and ten insurance companies

The Folksam Group comprises the two parent companies Folksam ömsesidig sakförsäkring (Folksam Mutual General Insurance) and Folksam ömsesidig livförsäkring (Folksam Mutual Life Insurance) with subsidiaries. Two of the insurance business' subsidiaries in Folksam Life are part-owned. These brands 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.

## Our vision

Our vision is that our customers should feel secure in a sustainable world.

## Our business concept

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

## Our overriding objective

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



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



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