

Interim Report

January – September 2016



Folksam

2016

Folksam

We stand firm

This most recent period has brought both successes and reminded us of the challenges we face. The low interest rates continue to impact on the Folksam Group's existence. Add to that Brexit, the worries for certain banks in Europe, the decreasing world trade, stagnation in China, and the emergence of populist and nationalistic politicians around the world, and the overall global picture becomes negative.

But meanwhile, Sweden is heading in a different direction, with high growth and falling unemployment. Also developments for the Folksam Group are stable. Our non-life business is showing strong premium growth and premium inflows in the life business remain more controlled.

We are approaching a total of SEK 400 billion in assets under management, which is more than ever before. If we include our unit-linked insurance assets as well, our customers' total assets amount to SEK 500 billion. This is a show of confidence in us, and we need to manage these assets successfully.

It is a challenge to achieve a return on managed capital, but we have been successful in this as well during the past period. All asset classes are making a contribution, but it is primarily the equity portfolios and the interest-bearing securities that have performed stronger than earlier this year. We are now placing a considerable focus on investment in green bonds, which is entirely consistent with Folksam's vision that our customers should feel secure in a sustainable world. These investments offer a secure return and at the same time contribute towards building an environmentally-sound and low-carbon Sweden. This is to everyone's advantage. In just a few months, we have invested SEK 5 billion in green bonds and have thus become a dominating player on the market.

Our ongoing modernisation efforts within various parts of the business have continued during the period. We have seen much progress on the IT side with among other things a new, modern website and a number of cloud solutions.

On the regulation side, the heat is still on. Much points to the fact that even more is to come. At the beginning of October, the government also announced a policy decision on the issue of occupational pension regulation. Although many issues still remain to be resolved, we now have confirmation that we can establish occupational pension companies with their own regulation. This is consistent with what the Folksam Group has been working for, and we believe it is the best solution for our customers.

The Folksam Group is owned by customers and comprises the two parent companies Folksam Life and Folksam General, with subsidiaries. Folksam 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.



I have ever since I became CEO talked about modernisation, efficiency, and consolidation. Focus has so far been on modernisation. Now we are starting to consolidate yet another company, Förenade Liv, that will be incorporated into Folksam. And together with the falling interest rates, focus is shifting even more towards efficiency.

Step by step, we are continuing with our long-term efforts to manage future challenges, and to have the most satisfied customers in the industry.

Jens Henriksson
President and CEO

Significant events during the period

- Folksam is making organisational changes to create a stronger customer focus and improve efficiency. The changes, implemented as of the beginning of September 2016, will reduce Folksam's three business areas to two through a merger of the Partner and Collective Agreement business areas.
- Folksam Life is reverting to a single bonus interest rate for 'old' and 'new capital'. This means that the bonus rate for 'old capital' as of 1 September 2016 is 3.0 per cent, instead of the previous 6.0 per cent, in the traditional life insurance.
- The boards of Folksam Life and Folksam General appoint Ylva Wessén as the new Vice President and Deputy CEO of Folksam. She holds the position as of 1 September and succeeds Tomas Norderheim, who is retiring at the end of the year.
- As of 1 September, Folksam requires new insurance brokers wishing to act as an intermediary for Folksam's products to have a licence. Discussions regarding licences are also under way with existing brokers, including notice to brokers who do not have a licence. Folksam Life is also holding its first training session for its own employees and implementing its first certification process for its own advisors and employees.
- Folksam abolishes up-front fees to insurance brokers in its standard agreements, as a step towards compliance with impending regulations. The change is in effect as of 1 September 2016.
- The Folksam Group is continuing to acquire green bonds by investing SEK 250 million in a green bond issued by the City of Örebro.

Events after the end of the period

- The Folksam Group invests SEK 2.5 billion in a green bond issued by Kommuninvest. The bond will be used to finance some 60 investment projects in more than 40 Swedish municipalities and county councils.
- The Folksam Group also acquires a green bond for SEK 400 million issued by Norrköping Municipality, and a green bond worth SEK 650 million issued by Region Skåne.
- The Folksam Group is launching a partnership with the digital mailbox company Kivra, in order to give customers the opportunity to opt for digital mailings instead of paper copies to their home address. Digital mailings are both eco-friendly and protect against identity theft and fraud. The first digital mailing is expected to be issued in the first quarter of 2017.
- Daniel Barr is appointed Acting CFO at Folksam, as the current CFO Pia Marions has decided to leave the company.

Summary: Key ratios

| Folksam | Jan-Sep 2016 | Jan-Sep 2015 | 2015 | 2014 |
|--|--------------|--------------|-----------|-----------|
| Folksam Customer Index (FCI), % | 78 | 78 | 78 | 79 |
| Premiums, SEK million ¹ | 38,569 | 42,424 | 50,469 | 47,501 |
| of which General ² | 10,633 | 10,194 | 13,395 | 12,925 |
| of which Life ² | 27,937 | 32,229 | 37,074 | 34,576 |
| Assets under management, SEK million ^{3,4} | 394,686 | 364,930 | 368,454 | 350,170 |
| Unit-linked insurance assets, SEK million ^{3,4} | 119,207 | 105,180 | 111,144 | 99,525 |
| Number of full-time positions ⁶ | 3,858 | 3,727 | 3,706 | 3,563 |

¹ 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.

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

³ Refers to the end of the period.

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

⁵ Investment assets for which the policyholders bear the risk.

⁶ Based on the number of hours worked during the period.

Folksam, third 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 impending presidential election in the US. Meanwhile, Sweden is to some extent heading in a different direction, with high growth and falling unemployment.

New and future regulations require considerable adjustments to activities in the insurance 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.

Folksam has a stable position on the market. Premium figures from the Swedish Insurance Federation after the second quarter of the year indicate that we are the market leader in life insurance and the third largest operator in the non-life insurance market.

The scheduled slowdown within life insurance continues to be in evidence. It is now just over one year since we implemented changes to the product. After the second quarter, Folksam had a market share of 15.7 per cent (premiums paid in for both old and new policies). At the same point last year, our market share was 18 per cent. Skandia is also noticing a corresponding slowdown. The lower premium inflows to these two companies is impacting considerably on the total market, which is seeing a decline of approx. SEK 20 billion within life insurance compared with last year. Meanwhile, a number of smaller market operators are increasing market share.

Folksam's market share within non-life insurance is 16.4 per cent after the second quarter, compared with 16.5 at the same point last year. Of the major operators within non-life insurance, only the second largest, If, is increasing its market share, to 18.2 per cent. Länsförsäkringar's share remains unchanged at 29.9 per cent. Within non-life insurance too, the smaller companies are gaining market share, although the four largest companies within non-life insurance retain roughly 80 per cent of the market.

If we look more closely at various lines of insurance, we are increasing our share of the household market. Growth is strongest within sickness and accident insurance, as well as pet insurance.

Folksam group

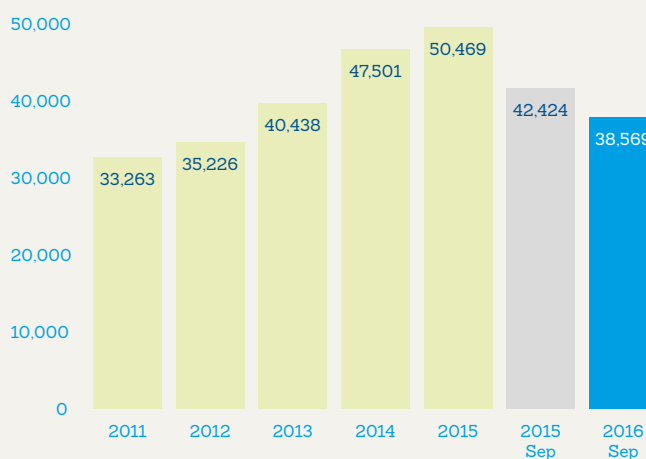
Folksam continues to develop according to plan in both life insurance and non-life insurance. During the January to September period, the total premium volume amounted to SEK 38,569 million (42,424). Folksam Life and subsidiaries accounted for SEK 27,937 million (32,229) and Folksam General and subsidiaries for SEK 10,633 million (10,194).

On 1 September 2016, the reorganisation approved by Folksam to bring about a closer focus on customers and improve efficiency, entered into force. Under the reorganisation, Folksam's three business areas will become two through a merger of Business areas Partner and Collective Agreement. Business area Private is being split into two parts: Market & Sales and Private Business.

The major development initiatives, such as improvements to IT systems and an increase in our digital presence for customer communication, are continuing in order to make Folksam 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.

As a result of Folksam's growth, the number of full-time employees at the Company has risen over the past few years, and now amounts to just over 3,700.

Total premium volume, SEK million



Folksam's index for customer satisfaction (FCI) amounted to 78 per cent (78) satisfied customers after the first nine months of the year, in line with the target of 78 per cent for the full year.

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 model. All companies meet the solvency and minimum requirements. Calculations of the solvency capital ratio for Folksam General (Group) and Folksam Life (parent company) are reported with a one quarter lag in this interim statement.

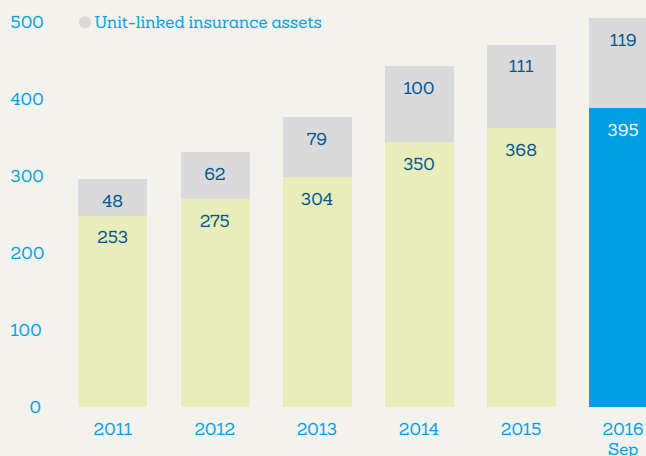
Assets under management and unit-linked insurance assets

On 30 September 2016, Folksam had assets of SEK 394,686 million (364,930) under management. Despite persistently low interest rates and the political uncertainty around the world, Folksam managed to generate a healthy return in the third quarter. It is primarily developments in our equities portfolios and interest-bearing securities that had a stable quarter, compared with previous quarters.

In terms of asset categories in our asset portfolio, we are maintaining our investments in property, while 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 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 2,500 million). After these acquisitions, we will have invested a total of approximately SEK 5 billion in green bonds.

As of 30 September 2016, unit-linked insurance assets totalled SEK 119,207 million (105,180).

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



Folksam's managed assets, september 2016



Folksam General (Group)

| Folksam Sak (Group) | Jan-Sep 2016 | Jan-Sep 2015 | 2015 | 2014 |
|--|-----------------|-----------------|----------|----------|
| Premiums earned, SEK million | 9,704 | 9,310 | 12,225 | 11,630 |
| Underwriting result, SEK million | -6 | 514 | 362 | -59 |
| Profit/loss before tax, SEK million | 1,593 | 1,061 | 817 | 2,466 |
| Expense ratio, % | 102 | 96 | 96 | 100 |
| of which claims expense, % | 84 | 80 | 77 | 81 |
| of which operating expense, % | 18 | 17 | 19 | 19 |
| Total return, % | 5.0 | 2.1 | 2.2 | 8.6 |
| | Sep 2016 | Sep 2015 | Dec 2015 | Dec 2014 |
| Solvency capital ratio ¹⁾ (jun 2016) | 1.9 | - | - | - |
| Funding ratio, % | 140 | 136 | 133 | 132 |
| Solvency capital ratio ¹⁾ , Parent Company (jun 2016) | 2.0 | - | - | - |
| Funding ratio, Parent Company, % | 157 | 151 | 149 | 153 |

¹⁾ The solvency capital ratio refers to capital base in relation to capital requirements under Solvency II regulations. The solvency capital ratio is reported with a one quarter lag.

Premiums earned for the period amounted to SEK 9,704 million (9,310) in the Folksam General Group, four per cent higher than in the corresponding period in 2015. The increase was mainly due to a strong offering and a greater propensity to insure on the part of customers, as well as a continuing trend towards insurance policies with more ample provision. The highest growth continues to be in the areas of sickness and accident insurance and pet insurance. The rate of cancellations also remains stable.

The total cost ratio in the Group was 102 (96). This was six percentage points lower than in the preceding year. The deterioration in the claims expense ratio to 84 per cent arose mainly through greater appropriations of the sickness and accident annuity reserve, owing to changes in interest rates. This was partly offset by greater positive earnings from claims settlement compared with the year-earlier period. The operating expense ratio increased to 18 per cent (17), mainly because a lower proportion of development costs have been capitalised in 2016, and personnel costs increased.

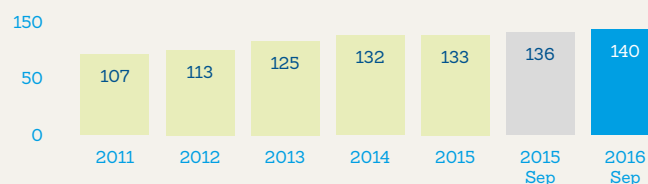
The Folksam General Group's underwriting result declined, to SEK -6 million (514). The deterioration is mainly attributable to the increased appropriation from the sickness and accident annuity reserve and increased operating costs. Profit before taxes was SEK 1,593 million (1,061). Return on capital improved considerably during the period compared with the first half of the year, mainly as a result of interest-bearing securities and equities. The total return amounted to 5.0 (2.1) per cent.

The solvency capital ratio, which we report with a one quarter lag, is stable and amounts 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 140 per cent (136) in the Group and 157 per cent (151) in the Parent Company. The increase in the funding ratio is attributable to improved earnings this year compared with last year.

Events in non-life insurance

- At an extraordinary Board meeting, the Board of non-life insurance company Tre Kronor appointed Henrik Persson as the new CEO. He will take up his position on 2 December and succeeds Jesper Andersson who has become Head of Folksam's Private business area. Prior to this, Henrik Persson was CEO of KPA Pensionservice and Acting CEO of KPA Pensionsförsäkring. He joined KPA Pension in September 2007 where he worked in various roles within business development and sales.

Funding ratio, %



Folksam Life (Parent Company)

| Folksam Liv (Parent Company) | Jan-Sep 2016 | Jan-Sep 2015 | 2015 | 2014 |
|--|--------------|--------------|----------|----------|
| Premiums written, SEK million | 7,467 | 11,052 | 13,479 | 13,438 |
| Total return, % | 5.8 | 2.0 | 3.7 | 12.0 |
| | Sep 2016 | Sep 2015 | Dec 2015 | Dec 2014 |
| Assets under management, SEK million | 172,671 | 162,856 | 164,489 | 156,156 |
| Solvency ratio, % | 158 | 157 | 162 | 155 |
| Solvency capital ratio for mixed companies ¹⁾ | 3.8 | - | - | - |
| Collective funding ratio ¹ , occupational pension business, % | 119 | - | 119 | - |
| Collective funding ratio ¹ , other life insurance business, % | 118 | - | 118 | - |

¹⁾ The solvency capital ratio for the mixed companies refers to the sum of the capital base in relation to capital requirements for other life insurance (in accordance with the Solvency II framework) and own funds to capital (pursuant to the Solvency I framework) for occupational pension. The solvency capital ratio is reported with a one quarter lag.

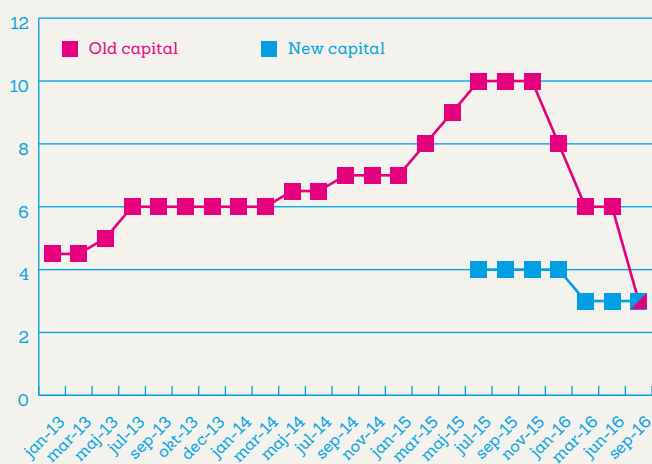
²⁾ The collective funding ratio was calculated until 30 November 2015 divided into the business lines Life1 and Life2. Thereafter, all occupational pension business was combined and the business lines 'occupational pension business' and 'other life insurance business' were formed.

Premiums written for Folksam Life totalled SEK 7,467 million (11,052), a reduction 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. Since 1 September, however, Folksam Life once again has a single bonus interest rate for 'old' and 'new' capital since bonus interest on 'old' capital was reduced from 6.0 to 3.0 per cent. Traditional private pension savings decreased from SEK 6.1 billion to SEK 2.8 billion and individual occupational pension decreased from SEK 1.3 billion to SEK 0.8 billion. The latter is due in part to changes in terms and conditions, as well as adjustments for forthcoming regulations regarding sales through brokers. Operating expenses decreased overall as a result of lower acquisition costs, although on-going development projects such as regulatory adaptation and efficiency enhancements to IT systems and other processes, are driving costs.

The solvency ratio was 158 per cent (157) as of 30 September 2016. Compared with 162 per cent at year-end, the solvency ratio has weakened as a consequence of lower market interest rates that increase appropriations. The solvency capital ratio for mixed companies, which we report with a one quarter lag, is stable and amounts to 3.8 for the parent company. The collective funding ratio for defined-contribution occupational pension insurance was 119 per cent as of 30 September, and 118 per cent for other life insurance business. The total return for the period was 5.8 per cent (2.0). All asset classes are making a positive contribution to returns: equities at 7.9 per cent (0.1) and interest-bearing securities at 4.3 per cent (1.4).

Over the past five years, 2011-2015, the annual average total return for Folksam Life has been 7.3 per cent.

Bonus interest

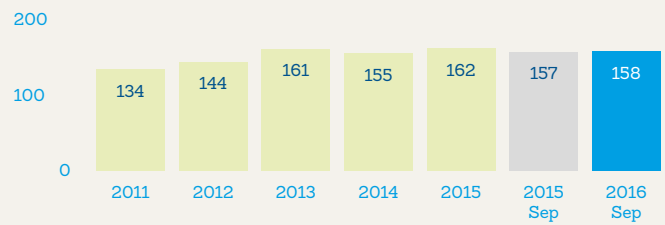


In 2015, Folksam Life divided bonus interest into 'old' and 'new' capital. Depending on the portfolio, the breakpoint is 1 June 2015 (Liv2) or 1 July 2015 (Liv1). The diagram shows the breakpoint for Life1. On 30 November 2015, all occupational pension business was combined and the business lines 'occupational 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, however, Folksam Life once again has a single bonus interest rate for 'old' and 'new' capital.

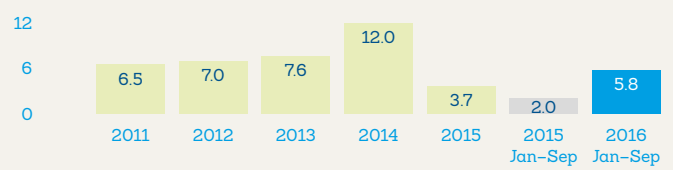
Events in life insurance

- Folksam Life is reverting to a single bonus rate of 3 per cent for 'old' and 'new' capital. This means that the bonus interest on 'old' capital since 1 September 2016 is 3.0 per cent instead of 6.0 per cent previously for traditional life insurance.
- From 1 September, all new brokers wishing to work with us have to hold an authorised license. Dialogue about licenses is also ongoing with existing brokers. During the period, Folksam Life also held initial training for its own employees and provided its first own certification.
- As a step towards compliance with forthcoming regulations, Folksam is abolishing up-front fees to insurance brokers in its standard agreements. This change applies from 1 September 2016. The next step will be to review the special agreements that are in place in order to also remove up-front provisions from those.

Solvency ratio, %



Total return, %



KPA Pension

| KPA Pensionsförsäkring AB | Jan-Sep 2016 | Jan-Sep 2015 | 2015 | 2014 |
|--------------------------------------|--------------|--------------|----------|----------|
| Premiums written, SEK million | 10,969 | 10,747 | 11,726 | 10,172 |
| Total return, % | 4.8 | 1.9 | 3.3 | 13.3 |
| Rate of return, % | 5.0 | 2.1 | 3.7 | 13.4 |
| | Sep 2016 | Sep 2015 | Dec 2015 | Dec 2014 |
| Assets under management, SEK million | 147,152 | 131,146 | 132,283 | 122,713 |
| Solvency ratio, % | 156 | 169 | 164 | 166 |

Folksam's collective agreement business continues to report controlled, stable growth, particularly via KPA Pension. Premiums written for KPA Pension Insurance amounted to SEK 10,969 million (10,747), an increase of just over two per cent. Redemption transactions are back at normal sales levels after last year's particularly good development. 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 156 per cent (169) as of 30 September. It is the lower markets rates and the change in the assumptions about temporary withdrawals introduced at the end of 2015 which, in particular, are increasing appropriations and contributing to a lower solvency ratio. KPA Pensionsförsäkring has during the year taken measures reduce the share of temporary withdrawals. These have had an effect and we see now that the temporary withdrawals are on a level that is on par with comparable companies.

The total return amounted to 4.8 per cent (1.9) for the period. The rate of return was 5.0 per cent (2.1). All asset classes performed positively during the period. Capital outflows declined during the first nine months of the year, from around SEK 1 billion to SEK 700 million. The company's total net cash flow remains strongly positive. Efficiency enhancement and modernisation efforts continue at KPA Pension, involving costs for a number of strategic IT investments, as with other companies in Folksam.

Over the past five years, 2011–2015, the annual average total return for KPA Pensionsförsäkring has been 7.5 per cent.

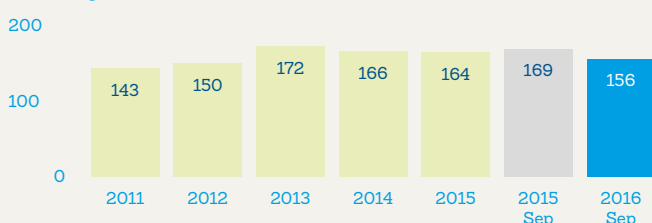
Events at KPA Pension

- KPA Pension is continuing its focus on investing in green bonds. Over the past quarter and after the end of the period, investments have been made in green bonds issued by Norrköping Municipality, City of Örebro, Region Skåne and Kommuninvest. The size of the latter was SEK 1 billion.
- KPA Pensionservice has again been engaged by the City of Gothenburg as supplier of pension administration services. The new agreement takes effect on 1 July 2017 and runs until mid-year 2021, with an extension option for a further two years.
- KPA Pensionservice also won a number of other pension administration contracts in the period, including from the municipalities of Fagersta, Avesta, Norberg and Skinnskatteberg and the municipalities of Bollnäs and Nordanstig have agreed an option to redeem accrued pension entitlement.

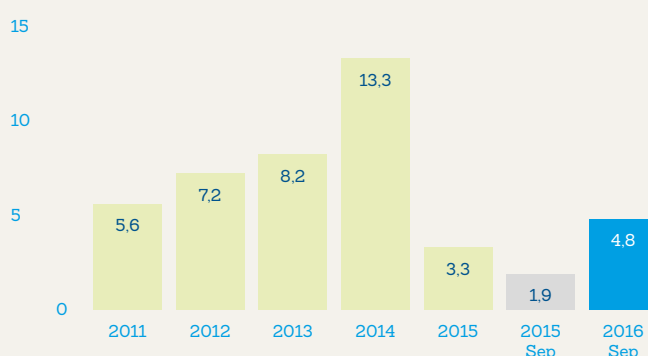
Events after the end of the period

- The social partners in the municipal and county council sector appoints KPA Pensionsförsäkring to insurer for family protection for all municipal employees covered by the defined collectively agreed occupational pension AKAP-KL.

Solvency ratio, %



Total return, %



This is Folksam

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 Folksam is currently one of Sweden's 30 largest companies.

With us, customers can insure themselves, their loved ones and their property and save for their pension. Our job is provide 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 ten insurance companies

Folksam comprises the two parent companies Folksam ömsesidig sakförsäkring (Folksam General) 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



Our customers
should feel secure
in a sustainable
world

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