

Interim Report

January – June 2016



Folksam

2016

Folksam

Arming for the future

Folksam and its subsidiaries are continuing to report stable development. The non-life business is showing strong premium growth and premium inflows in the life business are remaining more controlled since we introduced changes on the traditional life insurance side. Our biggest challenge lies instead in achieving a return on assets under management. This is of course because of the negative interest rates and the turbulence on the stock markets. The situation became even more uncertain after the British voted to leave the European Union, in what has become known as Brexit. While it is difficult to foresee the long-term economic consequences, Folksam and its subsidiaries can, as a well-capitalised investor, withstand downturns in its investments. We should also remember that uncertainty and fluctuations in the markets can also create opportunities for long-term investors such as Folksam. Folksam General and Folksam Life reached during the year's second quarter a relatively good return of almost three percent.

Another result of the decline in returns on assets is that operating costs come under closer scrutiny, which, too, is the case at Folksam. For our part, the past period has been characterised by the three keywords that I have talked about many times before: Efficiency, modernisation and consolidation. To promote customer benefit and hone efficiency in the organisation, we are restructuring by merging Business areas Partner and Collective Agreement and splitting Business area Private into two parts: Market & Sales and Private Business. We have also decided to continue incorporating Förenade Liv into the Folksam organisation and hope to bring this work to the finish line at the turn of the year 2018/2019. Not only will all parties gain, we will also be streamlining the Group's corporate structure.

In this spirit of modernisation, we will continue to invest SEK 1 billion annually in development. To ensure the maximum benefits within this framework of development, we have focused on some investments. Every project must genuinely deliver benefit to our customers. One stand-out milestone among our development projects was the launch of our new folksam.se website in April.

Folksam is owned by customers and comprises the two parent companies Folksam Sak (hereinafter Folksam General) and Folksam Liv (hereinafter Folksam Life) 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.



In addition, the year's bonus statements were sent out from early April, and bonus payments were sent to the majority of customers in May. In all, just over two million customers share in our bonus programme of around SEK 550 million. That is the ultimate evidence that Folksam is a customer-owned and successful business.

Step by step, we are continuing our work to equip ourselves to meet challenges going forward, and to keep our customers satisfied. For that is our foremost task.

Jens Henriksson
President and CEO

Significant events during the period

- Folksam reorganises for a closer focus on the customer and to improve efficiency. The changes, to be implemented as of the beginning of September 2016, will reduce Folksam's three business areas to two through a merger of Business areas Partner and Collective Agreement.
- KPA AB's Board of Directors appoints Britta Burreau as KPA Pension's new CEO. She will take up her appointment by no later than 2 December 2016. Britta Burreau is to join KPA Pension from Nordea Liv & Pension, where she has been employed since 2004. In the meantime, Mia Liblik stays on as Acting CEO.
- In view of impending regulatory changes and the industry's increased focus on proper order, Folksam introduces a licence requirement to authorise insurance brokers to act as agents for Folksam's product offering. This means that all brokers wishing to work with us will have to be in possession of a duly authorised licence from Insuresec. The next stage will be for Folksam to review certification for its own advisors and employees who are in close contact with customers.
- Via its subsidiary KPA Pensionsförsäkring, Folksam enters into an agreement with GIC (Government of Singapore Investment Corporation) on the acquisition of the Råkenhusen 37 (Kungshuset) property in central Stockholm. The underlying value of the property is SEK 1,510 million. The total floor area of the building is just over 16,600 square metres.
- Via Folksam General, Folksam signs an agreement with Skanska on the acquisition of the new Långan 1 office building in the City of Malmö. The transaction is valued at SEK 580 million and the building comprises a floor area of around 10,000 square metres.
- KPA Pensionsförsäkring invests in two green bonds. The first is issued by Stockholm County Council. It has a term of five years, and KPA Pensionsförsäkring's share is SEK 195 million. The second green bond is issued by the City of Gothenburg and has a term of six years. KPA Pensionsförsäkring invests SEK 350 million in the issue.
- Folksam sells its 20 per cent stake in the independent fund selection expert Indecap Holding AB, to Sparbankerna.
- For the fifth consecutive year, KPA Pension is the most sustainable brand in both the pension industry and the entire finance industry, according to the major Sustainable Brand Index study of sustainable brands in Sweden.

Summary: Key ratios

Folksam	Jan-Jun 2016	Jan-Jun 2015	2015	2014
Folksam Customer Index (FCI), %	78	78	78	79
Premiums, SEK million ¹	30,722	34,716	50,469	47,501
of which, Folksam General ²	7,014	6,731	13,395	12,925
of which, Folksam Life ²	23,708	27,985	37,074	34,576
Assets under management, SEK million ^{3,4}	385,185	372,371	368,454	350,170
Fondförsäkringstillgångar, Mkr ^{3,5}	111,471	111,085	111,144	99,525
Number of full-time positions ⁶	3,748	3,719	3,706	3,563

¹ Premiums comprise premiums earned in non-life insurance, premiums written 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 At the end of the period.

⁴ Assets according to the total return table less 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, second 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 since the United Kingdom voted to leave the EU. At the same time, new regulations are making great demands of adjustments within organisations. Since the turn of the year, the industry has been operating under the Solvency II Directive (rules governing insurance business in the EU). However, companies conducting an occupational pension business can as of 2016 follow transitional rules rather than Solvency II rules, pending possible new regulations on occupational pension companies. A decision on this issue is drawing ever closer.

Folksam has a stable position on the market. Latest available premium figures from the Swedish Insurance Federation for 2015 indicate we remain the market leader in life insurance and the third largest in the non-life insurance market. According to the Swedish Insurance Federation, Folksam's market share in the non-life insurance market is unchanged compared with 2014, at 16.3 per cent. In life insurance, our market share decreased slightly in 2015 to 16.6 per cent for premiums paid in for both old and new policies.

Interest rates remain low and continue to challenge the ability of the industry to achieve an investment return. Against this background, types of investment other than securities are still attractive to players in the industry.

Folksam and its subsidiaries

Folksam continues to develop according to plan in both life insurance and non-life insurance. During the period January to June, the total premium volume amounted to SEK 30 722 million (34,716). Of the total volume, Folksam Life and subsidiaries accounted for SEK 23,708 million (27,985) and Folksam General and subsidiaries for SEK 7,014 million (6,731).

The changes we have made in the traditional life insurance, with different bonus rates for new and old capital, continue to deliver impact, in the form of declining one-time premiums and rising monthly instalment payments. As a result, we are ensuring that our customers will continue to experience long-term secure retirement savings.

Major development initiatives, such as improvements in our IT systems and expansion of our digital presence for customer communication, are continuing, with a view to making Folksam an even more modern and efficient enterprise. But they also driving costs, which we are currently keeping a careful watch on. 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 of 1 September 2016, the reorganisation approved by Folksam, to bring about a closer focus on customers and to improve efficiency, will enter 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 Boards of Folksam Life and Folksam General have approved a policy decision to continue the process of incorporating the operations of Förenade Liv into Folksam. The analysis conducted in spring 2016 indicates clearly that customers in all companies affected will benefit from the change, while Folksam is streamlining its corporate structure at the same time. The aim is that the process of winding up Förenade Liv will be completed at the turn of the year 2018/2019.

In April, we launched our new website, folksam.se. Customers are welcomed there by a new layout and simpler navigation. The new website is the outcome of a project to develop our sales, increase approval, improve service and simplify the claims-handling process.

The total return for the period January to June 2016 amounted to 2.6 per cent (3.7) for Folksam Life and 1.9 per cent (4.0) for KPA Pensionsförsäkring.

Over the past five years, 2011-2015, the total return for Folksam Life has amounted to 7.3 per cent and for KPA Pensionsförsäkring 7.5 per cent.

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

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

Total premium volume, SEK million



Solvency 2

The new Solvency 2 regulations entered into force as of 1 January, 2016. Folksam General and subsidiaries report according to Solvency 2. Folksam Life and subsidiaries have pure Solvency 2 companies (KPA Livförsäkring), companies with mixed operations (Folksam Fondförsäkring and Folksam Liv) and pure occupational pension companies (Folksam LO fondförsäkring and KPA Pensionsförsäkring) that follow the Solvency 1 regulations.

The companies' capital requirements according to Solvency 2 are determined according to the standard model. All companies meet the solvency and minimum requirements. Figures for the year's second quarter are estimated to be complete in August 2016 and will be reported in Folksam's formal interim reports.

Assets under management and unit-linked insurance assets

On 30 June 2016, Folksam had assets of SEK 385,185 million (372,371) under management. The level of returns remains depressed as a result of the low interest rates and, in particular, the turbulence in the equity markets in recent months. The United Kingdom's referendum vote to leave the EU ("Brexit") is adding to uncertainty in the markets, but may also be creating opportunities for long-term investors such as Folksam.

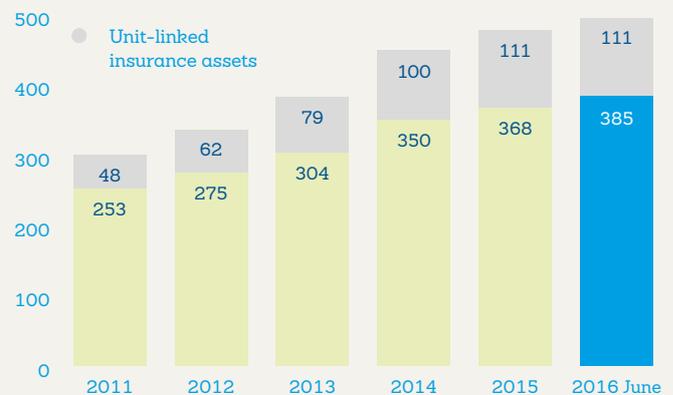
In terms of asset categories in our asset portfolio, we are maintaining our investments in property, but at the same time have updated our strategy for Folksam's specialist investments (formerly "alternative investments"). We have also made our first investments in green bonds, via KPA Pensionsförsäkring. The issuers of the bonds are Stockholm County Council and the City of Gothenburg.

During the period, Folksam made two major property acquisitions. Via our subsidiary KPA Pensionsförsäkring, we signed an agreement with GIC (the Government of Singapore Investment Corporation) on the acquisition of the Råkenhusen 37 (Kungshuset) property in central Stockholm. The underlying value of the property is SEK 1,510 million. The lettable area of the building is just over 16,600 square metres, of which 10,600 square metres is office space and 6,000 square metres is occupied by a restaurant, cinema and a number of parking spaces.

Via Folksam General, Folksam signed an agreement with Skanska on the acquisition of the new Långan 1 office building in the City of Malmö. The transaction is valued at SEK 580 million and the building comprises a floor area of around 10,000 square metres.

On 30 June 2016, unit-linked insurance assets were on the same level as in the same period in 2015, at SEK 111,471 million (111,085). Losses in value were offset by a positive inflow.

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



Folksam's managed assets, June 2016



Folksam General (Group)

Folksam General (Group)	Jan-Jun 2016	Jan-Jun 2015	2015	2014
Premiums earned, SEK million	6,407	6,155	12,225	11,630
Underwriting result, SEK million	-151	257	362	-59
Profit/loss before income tax, SEK million	663	978	817	2,466
Expense ratio, %	105	98	96	100
of which claims expense, %	86	80	77	81
of which operating expense, %	19	18	19	19
Funding ratio, %	133	142	133	132
Funding ratio, Parent Company, %	150	155	149	153
Total return, %	2.8	2.2	2.2	8.6

The increase in premiums on the non-life side is attributable mainly to a strong product offering and a greater propensity to insure on the part of customers; at the same time, the trend towards insurance policies with more ample provision continues. The highest growth is evident in the areas of sickness and accident insurance and pet insurance. The rate of cancellations also remains stable.

Premiums earned for the period amounted to SEK 6,407 million (6,155) in the Folksam General Group, four per cent higher than in the corresponding period in 2015. The total cost ratio in the Group was 104 (98). This was seven percentage points lower than in the preceding year. The deterioration in the total cost ratio arose mainly through major appropriations of the sickness and accident annuity reserve, owing to changes in interest rates and a somewhat higher number of major claims than in the preceding year. The operating expense ratio increased by one percentage point to 19, mainly because a lower proportion of development costs were capitalised in 2016.

The Folksam General Group's underwriting result declined, to SEK -151 million (257). The deterioration may be attributed above all to the increased appropriation from the sickness and accident annuity reserve. The appropriations are needed as the future capital return is expected to be lower. At the same time, profit before taxes was SEK 663 million (978). One reason for the fact that profit before taxes is higher than the underwriting result is that the value of the assets has risen as market expectations on future returns have fallen. This balances out, to a great extent, the appropriations of the sickness and accident annuity reserve.

The funding ratio weakened somewhat compared with the corresponding period last year, to 133 per cent (142) in the Group and 150 per cent (155) in the Parent Company. The funding ratio weakens as an effect of the growing business, as the premium growth outweighs the growth of the funding capital. The total return amounted to 2.8 (2.2) per cent.

Events in non-life insurance

- Folksam General sells its 20 per cent stake in the independent fund selection expert Indecap Holding AB, to Sparbankerna.
- Folksam General signs an agreement with Skanska on the acquisition of the new Långan 1 office building in the City of Malmö. The transaction is valued at SEK 580 million and the building comprises a floor area of around 10,000 square metres. This ultra-modern property was built to high environmental standards, including LEED Platinum certification.

Funding ratio, %



Folksam Life (Parent Company)

Folksam Life (Parent Company)	Jan-jun 2016	Jan-jun 2015	2015	2014
Premiums written, SEK million	5,184	8,940	13,479	13,438
Solvency ratio, %	155	162	162	155
Assets under management, SEK million	168,336	165,622	164,489	156,156
Collective funding ratio ¹ , occupational pension business, %	116	-	119	-
Collective funding ratio ¹ , other life insurance business, %	116	-	118	-
Total return, %	2.6	3.7	3.7	12.0

¹ 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. The values up to and including 2015 therefore pertain to old premiums.

Premiums written for Folksam Life totalled SEK 5,184 million (8,940), a reduction according to plan, following the changes we made in traditional life insurance in 2015 to safeguard long-term secure returns for customers. Traditional private pension savings declined by SEK 3.8 billion to SEK 2.6 billion during the January to June period. Operating expenses decreased overall as a result of lower acquisition costs even if the on-going development projects, such as regulatory adaptation and efficiency enhancements to IT systems and other processes are driving costs. The solvency ratio was 155 per cent (162) on 30 June 2016. The solvency ratio weakens as a consequence of lower market interest rates that increase the appropriations.

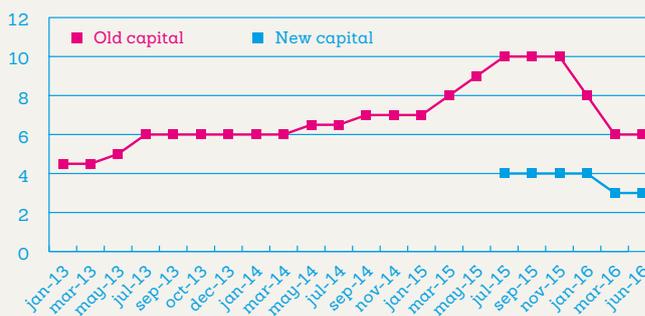
The collective funding ratio for defined-contribution occupational pension insurance was 116.4 per cent on 30 June, and 115.9 per cent for other life insurance business.

The total return for the period was 2.6 per cent (3.7). It is the equity assets in the asset portfolio that showed a slightly negative trend over the period, while interest bearing securities and not least properties contribute positively.

Events in life insurance

- Against the background of impending regulatory changes and the industry's increased focus on proper order, Folksam introduces a licence requirement to authorise insurance brokers to act as agents for Folksam's product offering. This means that all brokers wishing to work with us will have to be in possession of a duly authorised licence from Insuresec. As an initial step, Folksam introduces licensing requirements for external partners and the employees who are in contact with them. The next stage will be for Folksam to review certification for its own advisors and employees who work in close contact with customers. New brokers will have to present a valid licence from Insuresec as of 1 September 2016. The brokers with whom Folksam is already collaborating must present a valid licence before 31 December 2016.

Bonus interest



In 2015, Folksam Life divided up the bonus interest into "old capital" and "new capital". Depending on the portfolio, the breakpoint is 1 June 2015 (Life2) or 1 July 2015 (Life1). 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 rate has been the same for these lines of business since the division.

Solvency ratio, %



KPA Pension

KPA Pensionsförsäkring AB	Jan-jun 2016	Jan-Jun 2015	2015	2014
Premiums written, SEK million	10,578	10,255	11,726	10,172
Solvency ratio, %	154	176	164	166
Assets under management	143,671	134,604	132,283	122,713
Total return, %	1.9	4.0	3.3	13.3
Rate of return, %	2.1	4.1	3.7	13.4

Folksam's collective agreement business continues to report controlled, stable growth, not least via KPA Pension. Premiums written for KPA Pension Insurance amounted to SEK 10,578 million (10,255), an increase of just over three per cent. 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 RAP-KL agreement area.

KPA Pension's solvency ratio was 154 per cent (176) as of 30 June. Total return amounted to 1.9 per cent (4.0) for the period. The rate of return was 2.1 per cent (4.1).

Capital outflows declined during the first half-year, from SEK 800 million to SEK 500 million. The company's total net cash flow continues to be strongly positive. Efficiency enhancement and modernisation efforts continue at KPA Pension involving costs for a number of strategic IT investments, just like for other companies in Folksam.

Events at KPA Pension

- KPA AB's Board of Directors appoints Britta Burreau as KPA Pension's new CEO. She joins KPA Pension from Nordea Liv & Pension, where she has been employed since 2004. Britta Burreau will take up her appointment as KPA Pension's new CEO by no later than 2 December 2016. In the meantime, Mia Liblik stays on as Acting CEO.
- During the period, KPA Pension secures a number of pension administration procurements, including on behalf of the Municipalities of Sundsvall and Timrå, plus companies that are renewing their agreements with KPA Pension. After the end of the period, the City of Gothenburg also announces that KPA Pension will again be engaged as supplier of pension administration services. The new agreement takes effect on 1 July 2017 and runs until mid-year 2021, with an option for extension for a further two years.
- KPA Pensionsförsäkring signs an agreement with GIC (the Government of Singapore Investment Corporation) on the acquisition of the Kåkenhusen 37 (Kungshuset) property in central Stockholm. The underlying value of the property is SEK 1,510 million. The total floor area of the building is just over 16,600 square metres.
- During the period, KPA Pensionsförsäkring invests in two green bonds. The issuers are Stockholm County Council

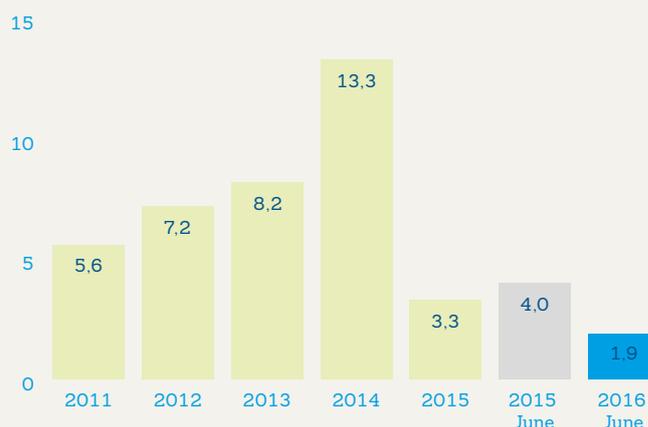
and the City of Gothenburg. The former has a term of five years, and KPA Pensionsförsäkring's share is SEK 195 million. Projects that may be eligible for funding include the New Karolinska Hospital, Södertälje Hospital and the Stockholm metro system. The latter bond has a term of six years, and KPA Pensionsförsäkring is investing SEK 350 million in the issue. The ambition is over time to increase the holding of green bonds as opportunities arise.

- For the fifth consecutive year, KPA Pension is the most sustainable brand in both the pension industry and the entire finance industry, according to the major Sustainable Brand Index study of sustainable brands in Sweden.

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
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in a sustainable
world

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