



# KÅPAN PENSIONER

FOR GOVERNMENT EMPLOYEES



ANNUAL REPORT

# 2013

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## Presenting Kåpan Pensions

Kåpan pensioner försäkringsförening (Pensions for government employees, Kåpan) manages defined contribution pensions for government employees. Operations are linked to the government pension agreements PA-91 and PA 03 where the society manages a part of the occupational pension and functions as the default supplier for the part of the pension where there is a choice.

Kåpan Pensioner is a cooperative society where all the surplus from asset management is returned to its members. The society only offers one product, traditional pension insurance with a guaranteed growth in value at a low cost. The goal is to achieve good long-term returns and provide members with a good level of pension from the society.

## 2013 at a glance

- Assets under management increased by SEK 6,563m to SEK 60,256m.
- Paid-in premiums totalled SEK 4,007m. Pension payments amounted to SEK 1,818m.
- The total return on invested capital was positive and amounted to 8.4%.
- The Board decided to set the bonus rate at 12% for 2013.
- The funding ratio amounted to 114% at year-end. After the bonus decision, the funding ratio amounts to 102%.
- From January 2014 the bonus will be distributed monthly in arrears.
- The solvency ratio strengthened from 133% to 153%. This stronger level is attributable to the return on assets under management and a lower valuation of the society's pension obligations.
- Administrative expenses remained at a low level and amounted to 0.08% in relation to assets under management.



# Board of Directors' report

The Board of Directors and the President of Kåpan pensioner försäkringsförening, reg. no. 816400-4114, hereby submit their report for the financial year 2013.

## Operations

The key task of the society is to manage and pay out pension assets for employees covered by agreements concluded between the Swedish Agency for Government Employers and the government employees' main unions, or between other parties who have concluded pension agreements linked to such agreements. The basic activity is the provision of pensions through traditional pension insurance with a guaranteed return on paid-in premiums and a distribution of any surplus from asset management as bonus interest.

The forms of insurance offered by the society are the occupational pension insurances Kåpan Tjänste and Kåpan Extra as well as the complementary pension insurance Kåpan Plus. In addition there is the individual retirement pension where Kåpan is a selectable alternative as well as manager for employees who have not actively chosen a manager for their pension capital.

## Members

Kåpan Pensioner is a mutual society where all savings are returned to the members as pension payments. The total number of members is over 700,000.

## Insurance premiums

Kåpan manages the premiums paid in by employers on behalf of their employees according to the current collective agreement and the money that members themselves have chosen to invest in Kåpan Plus in order to increase their pension.

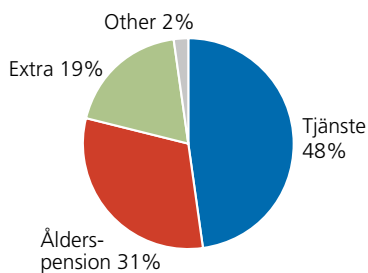
A total of SEK 4,007m was paid in premiums during the year, broken down as follows

Category	2013	2012	2011	2010	2009	2008	2007
Kåpan Tjänste	1,930	1,905	1,825	1,789	1,708	1,693	1,594
Kåpan Ålderspension	1,253	1,202	1,143	1,084	1,041	1,013	905
Kåpan Extra	733	732	640	667	554	805	64
Kåpan Plus	91	96	102	110	114	126	152
<b>Total</b>	<b>4,007</b>	<b>3,935</b>	<b>3,710</b>	<b>3,650</b>	<b>3,417</b>	<b>3,637</b>	<b>2,715</b>

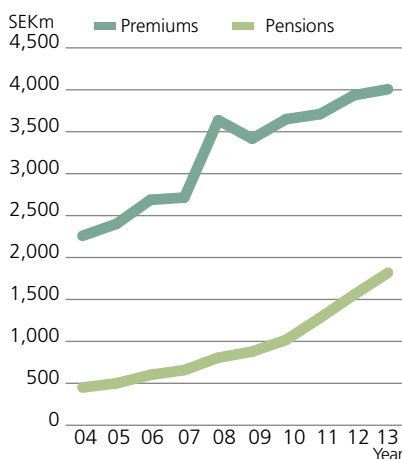
## Pension payments

A total of SEK 1,818m (1,556) was paid out during the year, of which SEK 369m (260) comprised bonus payments over and above the guaranteed interest on the capital. The normal payment period is five years from when the pension payments start at age 65. This applies to all categories except Kåpan Ålderspension which is paid for life.

Premium breakdown



Development of premiums and pension payments



## Guidelines for management of invested assets

The long-term guidelines set by the Board stipulate that the society's assets, including bonus funds, must be invested so that they provide a good return with a limited risk.

According to the investment policy, adopted by the Board in December 2013, the market value of assets should be within the following bands:

- Equities or equity-related asset class minimum 20% and maximum 35%.
- Fixed-income securities minimum 45% and maximum 65%.
- Alternative assets including property-related investments minimum 5% and maximum 20%.

The Board's decision means that investment management is to be conducted with the same long-term focus as in previous years. The policy provides a benchmark for the society's total outstanding interest rate risk i.e. an aggregate of the fixed-income assets' fixed interest period and the pension payment obligations including the guaranteed interest rate on members' savings until payment. The interest rate risk is measured as an interest rate risk coverage ratio and amounted to 32.1%. The benchmark for the interest rate risk coverage ratio is that it should not be less than 30% and is continuously adjusted to the solvency ratio and the need to hedge outstanding obligations, see Note 2 for a more in-depth analysis.

The outstanding currency risk according to the adopted policy may not exceed 10%. At year-end the outstanding currency risk was 7.2% of the value of assets. During the year nearly all assets, except those in growth countries, were hedged.

## Investment management

The market value of the society's investment assets, with the addition of the book values of other assets, amounted to SEK 60,256m (53,693) at year-end.

Return on the investment assets was positive and amounted to 8.4% (+10.5).

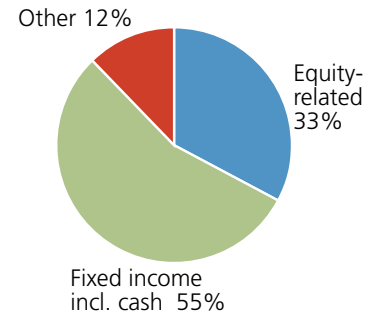
### Investment return

The total return on investment assets is broken down as follows:

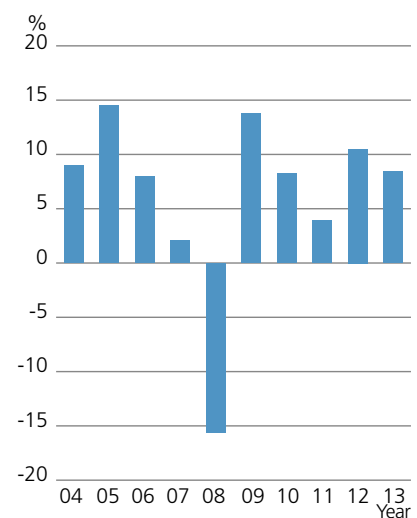
Portfolio	Market value SEKm	Share, %	Total return <sup>1)</sup> %, 2013
Fixed-income -related	33,160	31	1.7
Equity-related	18,702	55	22.8
Other investments	7,391	12	5.9
Other assets, cash	1,003	2	–
<b>Total assets</b>	<b>60,256</b>	<b>100</b>	<b>8.4</b>

<sup>1)</sup> When calculating the return a daily weighting is used to take into account the change in the capital base during the year.

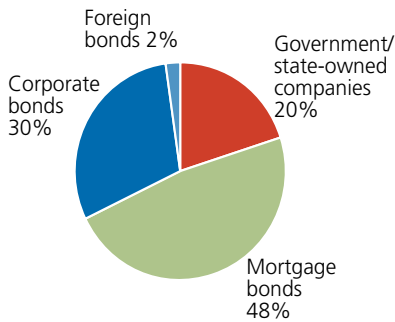
## Investment of the society's assets at year-end



## Total return



### Allocation fixed-income

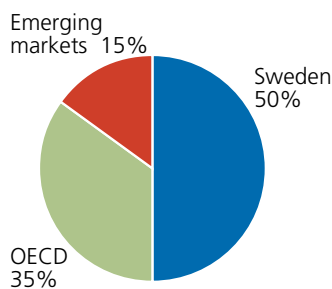


### Fixed-income-related assets

The fixed-income investments amounted to SEK 33,160m (30,686) at year-end. The investments consisted to 48% (46) of mortgage bonds and 20% (20) government bonds, including bonds and commercial paper issued by wholly state-owned companies. Investment in commercial paper and bonds from other issuers amounted to 30% (34). The remaining 2% of investments consisted of interest-bearing holdings in foreign currencies. At year-end the total fixed-income portfolio comprised solely nominal fixed-income securities with no real-interest bonds. The return on fixed-income securities amounted to 2.3% (8.5). The general interest level rose slightly during the year which, on an overall assessment of the value of the holding of government and mortgage bonds, had a negative impact on the return. The interest rate on government bonds remains at historically low levels which means that fixed-income investments are expected to provide a limited current return for the next few years.

In addition to investments in fixed-income securities, in order to reduce the outstanding interest rate risk in obligations made, the society signed contracts for various forms of interest rate hedges. In principle, these contracts mean that the fixed interest in the obligations is exchanged for floating interest with a reduced risk of fluctuations in value. Changes in market interest rates during the year meant that the value of insurance obligations fell by SEK 4,471m (+646). The effect of changes in rules and regulations for the discount rate resulted in an increase of SEK 1,364m (0). In total this meant that obligations decreased in value by SEK 3,107m (+646). Outstanding interest rate hedges comprised a total of SEK 2,525m (6,100). The change in value of interest rate hedges resulted in these falling by SEK 89m (-30). The total earnings impact and positive effect on solvency thus amounts to SEK 3,018m (-676). The total earnings impact of interest rate hedges corresponds to a negative effect on the total return of 0.2% (-0.2). The total return on fixed-income-related investments thus amounted to 1.7% (+8.3).

### Allocation equities



### Equity-related assets

Global stock markets showed strong development during the year. The world's overall share prices rose by a total of approximately 21.2% in local currencies. Development was stable throughout in most western countries but weak in growth countries. Equity-related assets at year-end amounted to SEK 18,702m (14,712) as well as a SEK 1,015m holding in equity futures. The overall return during the year amounted to 22.8% (+16.5).

From the outset the society has chosen to currency hedge most of its equity investments which meant that relative changes in the value of the Swedish krona during the year did not affect returns. Equity investments in growth countries were not hedged which meant that the return was affected by exchange rate fluctuations.

The holding of shares listed on Nasdaq OMX Stockholm had a positive return of 25.4% (+15.9). Management of shares listed on Nasdaq OMX Stockholm is carried out by the society itself. SIX 60 is used as the benchmark index.



## Other investments

Investments in other assets are mainly made in real assets and venture capital funds. Real assets are split into three areas: property, forest and land, and infrastructure. The infrastructure area involves investments in various types of funds which invest in property with a stable cash flow and a long-term investment horizon. Forest and land is mainly land with standing forest and agricultural investments owned by funds or companies. The property area is indirect investment in all types of land and buildings. Real assets showed positive value development during the year. Capital invested in real assets totals SEK 5,603m (5,027) and the return during the year amounted to 5.8% (+9.4).

Investments in various types of venture capital funds and financial instruments amounted to SEK 1,788m (2,151) and the return during the year was 6.29% (+4.05). Overall the return for other investments was positive at 5.9%.

## Risk and sensitivity analysis

Asset management is affected by external circumstances that give rise to various types of risks. These risks can be divided into market, credit and operational risks. In addition there is a further industry-specific risk, namely insurance risk. A more in-depth analysis of outstanding risks in operations is provided in Note 2.

The uncertainty that exists in the market means that losses on investment assets cannot be ruled out. For investment assets where market prices are not published, there are sources of uncertainty, see the sections Key assessments and Sources of uncertainty in Note 1, and Note 15.

## Actuarial report

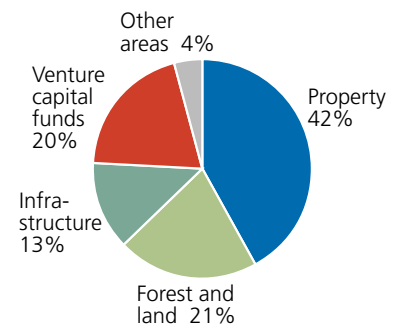
The actuarial report has been performed by Ulrika Taube, actuary. The report shows that the society's technical provisions amount to SEK 39,398m (40,477). The obligations the society has comprise to a dominant extent fixed guaranteed interest on paid-in premiums. These obligations have been valued in the technical provisions, supported by the Swedish Financial Supervisory Authority's general advice, on the basis, among other things, of current market interest rates for matching maturities.

## Costs

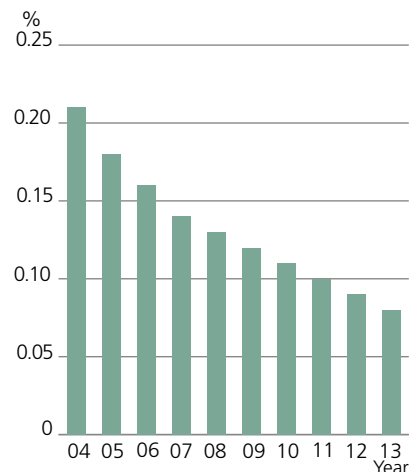
Costs in the insurance business amounted to SEK 44m (44). One measure of cost efficiency is the management expense ratio, i.e. the relationship between operating expenses and the average market value of the assets, which amounted to 0.08% (0.09).

Costs for 2013 were covered by a fixed charge of SEK 12 per policy and by making a deduction from the insurance capital of 0.08%. Ahead of 2014 the deduction from the insurance capital was reduced from 0.08% to 0.07%. The fixed charge per policy will remain unchanged. Overall, this deduction will correspond to the costs of operations and the aim is to continue to reduce this over time.

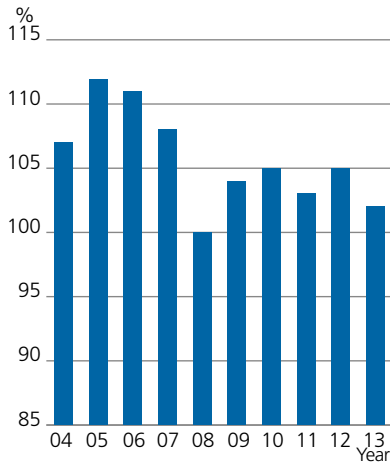
## Other assets



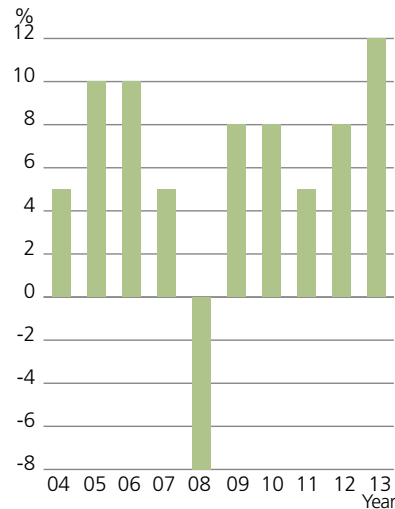
## Development management costs



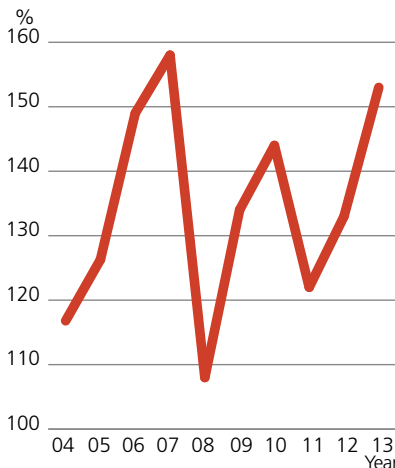
### Collective funding ratio



### Bonus rate



### Solvency ratio



### Collective funding

Collective funding is the market value of assets minus financial liabilities in relation to the sum of technical liabilities based on paid-in premiums and the guaranteed interest as well as previously allocated bonus funds.

The positive value development of assets during the year means that the funding ratio before decision on bonus rate at year-end amounted to 114%.

The Board has decided on a policy for collective funding and bonus in the society. The policy states that the collective funding ratio should be in the band 95 – 110% with a long-term target level of 100%.

### Decision to allocate bonus for 2013

The good funding level at year-end meant that the Board decided, following an actuarial report performed by an actuary, to allocate a bonus to members for the 2013 financial year of 12% before tax on returns and costs. The bonus is added to members' pension capital annually in arrears. The funding ratio at year-end after the bonus decided for 2013 amounts to 102%.

### Change to monthly bonus from 2014

The Council of Administration decided to revise the statutes of the society in March 2013. The changes mean that from 1 January 2014 the society pays bonus interest monthly instead of annually in arrears. Members' pension capital will therefore in future be recalculated continuously during the year with the bonus which the capital provides each month within the framework of the society's policy for collective funding and bonuses.

### Development of solvency

Solvency expresses how much of technical liabilities are covered by assets. The return during the year was positive. Outstanding obligations are valued at year-end on the basis of a discount rate curve which is based on market interest rates for the first ten years and then a gradual adjustment to a fixed macro interest rate of 4.2%. The rate which has been used has a higher level than the previous year which means that the value of outstanding obligations has fallen. Taken overall, the solvency ratio rose by 20 percentage points during the year from 133% to 153%. The return contributed a strengthening of 8 percentage points and changes in valuation of outstanding obligations provided a strengthening of 10 percentage points. Paid-in premiums during the year contributed 2 percentage points since the promised guaranteed interest rate is lower than the rate used when discounting the obligation.

### Contribution to the premium adjustment reserve

The pension agreement between the parties to the state pension agreement, PA 03, stipulates that the employer pays premiums for the Kåpan Tjänste insurance for all employees, but that the premium does not accrue to employees below age 23. According to the terms of its statutes, Kåpan Pensioner must place these funds in a premium adjustment reserve which comprises part of the society's equity. During the year a total of SEK 22m was contributed to this reserve.



### Reporting previous subordinated loan

In previous years the society has received a capital contribution in the form of a perpetual interest-free subordinated loan from the parties in the government agreement area of which the major part relates to taking over the pension society of the Social Insurance Agency. In total the issued subordinated loan amounts to SEK 386m. The issued subordinated loan may according to the statutes only be repaid following a decision by the Council of Administration and approval by the Swedish Financial Supervisory Authority. The Financial Supervisory Authority has in a statement dated 13 December 2013 informed us that it does not consider it possible under current legislation to permit repayment. The subordinated loan comprises part of the available risk capital in the society and is reported as previously under the heading Equity.

### Tax on returns

The society pays tax on returns on behalf of its members. The basis for tax assessment is the members' pension capital expressed as the market value of the society's assets after deduction for financial liabilities on 1 January in the assessment year. The return on these funds is calculated by a standardised method using an interest rate that is the same as the average government lending rate in the year prior to the assessment year. The standard income thus calculated is then taxed at 15%. For the society this meant that the tax on returns paid for the year 2013 amounted to SEK 122m (179).

### Management functions and audits

Kåpan Pensioner's highest decision-making body is the Council of Administration. The members of the Council of Administration are appointed by the parties within the government agreement area. Half of the members are appointed by the Swedish Agency for Government Employers and the other half by the trade unions. The total number of ordinary members amounts to 30 with an equal number of personal deputies. During the year the Council of Administration held one ordinary general meeting.

The society's operational activities are managed by a Board, which consists of six members with an equal number of personal deputies. The Board, like the Council of Administration, is composed on a parity basis. The Board appoints the society's President. The Board held seven meetings during the year, one in the form of a two-day seminar. Key questions, in addition to proposals to the general meeting, were the future long-term investment focus, developments in the regulatory area and management of risks in investment management. During the year the Board, among other things, updated and decided on the majority of the society's policies. The Board appointed a Remuneration Committee consisting of Board members where the salary and remuneration of the President is examined and decided. Other matters are examined by the entire Board. Remuneration to other senior executives in the society is decided by the President in accordance with the remuneration policy decided by the Board.

From 28 March 2012, Ulf Bengtsson, Director General of the Swedish Agency for Government Employers, has been Chairman of the Board and of the Remuneration Committee.



### Administration

In addition to the President, the society had 11 employees at year-end. The average number of employees during the year was 11 (10) with the key task of conducting investment management and risk control. The National Government Employee Pensions Board (SPV) in Sundsvall is engaged to administer the insurance operations. This assignment includes development and maintenance of the society's insurance administration system, checking premium payments, performing actuarial calculations, issuing pension statements, providing a smooth-running customer service unit and handling pension payments.

### Capital expenditure

Capital expenditure during the year amounted to SEK 1m (1). In previous years the society has updated and modernised most of the central systems in its operations. The insurance administration system is depreciated over 10 years, other investments over 3 – 5 years.

### Looking to the future

Kâpan Pensioner started its operations in 1992 and since 2003 has been the default alternative for individual retirement pension. The society's operations thus increase in scope all the time which places greater demands on the organisation but also provides economies of scale and opportunities to improve efficiency. With the present development, a balance between payments made and payments received will be reached around 2050 which means that the organisation must be continuously developed and adjusted.

The parties to the government agreement area have announced that they intend to begin negotiations on a new pension agreement. This means that the society's operations must be adapted to the focus of any new agreement.

During 2013, work continued on improving the efficiency of operations and preparing the organisation ahead of any changes caused by the large number of different proposals for new rules for the society's operations which may be introduced, as well as other regulatory changes.

The strategic direction for the society's operations remains unchanged and the aim is to reduce the already low costs still further. The society has started a deeper cooperation with the National Government Employee Pension Board (SPV) relating to a coordinated pension statement and a common customer service unit. The purpose of this cooperation is to provide members with better information about the government employees' occupational pension.

### Disposition of profit for the year

The profit for the year, SEK 7,961,646,012 (5,199,276,061) will be transferred to other reserves. The society's equity thus amounted to SEK 20,812,549,785 (13,198,183,975) at 31 December 2013.



## Five-year summary

Results, SEKm	2013	2012	2011	2010	2009
Premiums written	4,007	3,935	3,710	3,650	3,417
Investment income, net	4,491	4,904	1,668	3,161	4,283
Claims paid	-1,449	-1,296	-1,122	-941	-782
Bonus paid <sup>1)</sup>	-369	-260	-159	-77	-96
Balance on the technical account, life insurance business	8,084	5,378	-4,471	3,956	7,414
Profit/loss for the year	7,962	5,199	-4,647	3,782	7,236

<sup>1)</sup> Payments are recognised as a deduction under Equity.

Financial position, SEKm	2013	2012	2011	2010	2009
Total assets <sup>1)</sup>	60,256	53,693	46,627	42,703	37,247
Investment assets <sup>1)</sup>	58,580	51,978	45,169	41,451	36,225
Technical provisions	39,398	40,477	38,356	29,673	27,800
Funding capital	20,813	13,198	8,237	13,024	9,305
Capital base	20,803	13,186	8,222	13,005	9,292
Required solvency margin	1,576	1,619	1,534	1,187	1,112

<sup>1)</sup> Investment assets at fair value and other assets at book value.

Key ratios, %	2013	2012	2011	2010	2009
Management expense ratio <sup>1)</sup>	0.08	0.09	0.10	0.11	0.11
Total return	8.4	10.5	3.9	8.2	13.8
Bonus rate	12.0	8.0	5.0	8.0	8.0
Funding ratio	102	105	103	105	104
Solvency ratio	153	133	122	144	134

<sup>1)</sup> In relation to average assets.

### Total return by asset class

	Market value 31 Dec 2013		Market value 31 Dec 2012		Total return, % <sup>2)</sup> 2013
	SEKm	%	SEKm	%	
Equity-related	18,702	31.0%	14,712	27.4%	22.8
Fixed-income <sup>3)</sup>	33,160	55.1%	30,686	57.2%	1.7
Other investments	7,391	12.3%	7,178	13.4%	5.9
Other assets	1,003	1.6%	1,117	2.0%	–
<b>Total assets</b>	<b>60,256</b>	<b>100.0%</b>	<b>53,693</b>	<b>100.0%</b>	<b>8.4</b>

<sup>1)</sup> Defined in relation to the underlying asset class that generates the return.

<sup>2)</sup> Daily aggregate of investments in relation to changes in value, interest income and dividends.

<sup>3)</sup> Return on derivative instruments taken out to reduce interest rate risk in outstanding insurance obligations is included in the return for fixed-income investments.

## Income statement

SEKm	Note	2013	2012
<b>Technical account, life insurance business</b>			
Premiums written	3	4,007	3,935
Investment income	4	2,872	2,723
Unrealised gains on investment assets	5	2,230	2,211
Claims paid	6	-1,449	-1,296
Change in other technical provisions		1,079	-2,121
Operating expenses	7	-44	-44
Investment charges	8	-30	-30
Unrealised losses on investments	9	-581	0
<b>Balance on the technical account, life insurance business</b>		<b>8,084</b>	<b>5,378</b>
<b>Non-technical account</b>			
Balance on the technical account, life insurance business		8,084	5,378
Tax on profit for the year	10	-122	-179
<b>Profit for the year also comprehensive income</b>		<b>7,962</b>	<b>5,199</b>

## Statement of comprehensive income

SEKm	2013	2012
Profit for the year	7,962	5,199
Other comprehensive income	0	0
<b>Total comprehensive income</b>	<b>7,962</b>	<b>5,199</b>

## Balance sheet

SEKm	Note	31 Dec 2013	31 Dec 2012
<b>ASSETS</b>			
<b>Intangible assets</b>			
Other intangible assets	11	10	12
<b>Investment assets</b>			
Other financial investments			
Shares and participations	12	25,816	21,686
Bonds and other fixed-income securities	13	32,529	30,043
Derivatives	14	235	249
	15	<b>58,580</b>	<b>51,978</b>
<b>Receivables</b>			
Other receivables	16	33	52
<b>Other assets</b>			
Property, plant and equipment	17	2	2
Cash and bank balances		1,172	1,191
		<b>1,174</b>	<b>1,193</b>
<b>Prepayments and accrued income</b>			
Accrued interest		458	455
Other prepayments and accrued income		1	3
		<b>459</b>	<b>458</b>
<b>Total assets</b>		<b>60,256</b>	<b>53,693</b>
<b>EQUITY, PROVISIONS AND LIABILITIES</b>			
<b>Equity</b>			
Other reserves	18		
Other reserves		12,443	7,613
Perpetual subordinated loan		386	386
Premium adjustment reserve		22	0
Profit and comprehensive income for the year		7,962	5,199
		<b>20 813</b>	<b>13,198</b>
<b>Technical provisions</b>			
Life insurance provisions	19, 20	39,386	40,463
Provision for unsettled claims	21	12	14
		<b>39,398</b>	<b>40,477</b>
<b>Provisions for other risks and costs</b>			
Tax		6	11
<b>Liabilities</b>			
Other liabilities	22	37	5
		<b>37</b>	<b>5</b>
Accruals and deferred income		2	2
<b>Total equity, provisions and liabilities</b>		<b>60,256</b>	<b>53,693</b>
<b>Memorandum items</b>			
Pledged assets	23	0	0
Commitments	23	14,185	17,827

## Statement of changes in equity

### 2013

SEKm	Other reserves	Perpetual subordinated loan	Premium adjustment reserve	Comprehensive income for the year	Equity
Opening equity previous financial year	7,613	386	0	5,199	13,198
Disposition of earnings 2012	5,199			-5,199	0
Bonus paid during the financial year	-369				-369
Funds transferred according to statutes			22		22
Profit and comprehensive income for 2013				7,962	7,962
Closing equity for the financial year	12,443	386	22	7,962	20,813

### 2012

SEKm	Other reserves	Perpetual subordinated loan	Comprehensive income for the year	Equity
Opening equity previous financial year	12,520	364	-4,647	8,237
Disposition of earnings 2011	-4,647		4,647	0
Bonus paid during the financial year	-260			-260
Funds transferred according to statutes		22		22
Profit and comprehensive income for 2012			5,199	5,199
Closing equity for the financial year	7,613	386	5,199	13,198



## Cash flow statement

SEKm	1 Jan – 31 Dec 2013	1 Jan – 31 Dec 2012
<b>Operating activities</b> <sup>1)</sup>		
Profit before tax	8,084	5,378
Adjustment for non-cash items <sup>2)</sup>	-2,725	-86
Tax on returns paid	-122	-179
Bonus paid <sup>3)</sup>	-369	-260
Change in other operating receivables	19	-83
Change in other operating liabilities	27	-17
<b>Cash flow from operating activities</b>	<b>4,914</b>	<b>4,753</b>
<b>Investing activities</b>		
Investments in non-current assets	-2	-1
Sale of financial investment assets	22,125	31,408
Purchase of financial investment assets	-27,078	-36,006
<b>Cash flow from investing activities</b>	<b>-4,955</b>	<b>-4,599</b>
<b>Financing activities</b>		
Paid-in equalisation charges	22	22
<b>Cash flow from financing activities</b>	<b>22</b>	<b>22</b>
<b>Cash flow for the year</b>	<b>-19</b>	<b>176</b>

## Change in cash and cash equivalents

SEKm	2013	2012
Cash and cash equivalents at beginning of the year	1,191	1,015
Cash flow for the year	-19	176
<b>Cash and cash equivalents at the end of the year</b> <sup>4)</sup>	<b>1,172</b>	<b>1,191</b>

<sup>1)</sup> Of which	2013	2012
Interest received	1,235	1,333
Interest paid	137	180
Dividends received	408	460

<sup>2)</sup> Of which	2013	2012
Depreciation	3	4
Unrealised gains	-2,230	-2,313
Unrealised losses	581	102
Change in technical provisions	-1,079	2,121

<sup>3)</sup> Bonus paid is taken directly from Other reserves

<sup>4)</sup> Cash and cash equivalents consists of cash and bank balances.

# Notes

All amounts in the following notes are expressed in SEK million unless otherwise specified.

## NOTE 1 Accounting principles

### General information

The annual accounts relate to the year ended 31 December 2013 and pertain to Kåpan pensioner försäkringsförening (Kåpan Pensioner) which is an insurance society with its registered office in Stockholm. The address of the head office is Smålandsgatan 12, Stockholm. Kåpan Pensioner's registered number is 816400-4114. The annual accounts were approved for publication by the Board on 21 February 2014. The income statement and balance sheet will be presented for adoption at the annual general meeting on 26 March 2014.

The annual accounts are prepared in accordance with the Swedish Annual Accounts Act for Insurance Companies as well as the Swedish Financial Supervisory Authority's instructions and general advice on Annual Accounts in Insurance Companies FFFS 2008:26 with additions in FFFS 2009:12 and the Swedish Financial Reporting Board's recommendation RFR 2.

Kåpan Pensioner applies so-called legally limited IFRS. This means that all IFRS are applied provided this is possible within the framework of Swedish accounting law.

The Friendly Societies' Act (UFL) (1972:262) was repealed when the new Insurance Business Act (2010:2043) came into force on 1 April 2011. According to the Act on Introduction of the Insurance Business Act (2010:2044), insurance societies may continue to conduct their business according to UFL until the end of 2014. Some of the regulations repealed by the Swedish Financial Supervisory Authority still apply to friendly societies according to the interim rules. Kåpan Pensioner is not covered by the guidelines issued by the EIOPA ahead of Solvency 2 which apply to insurance companies.

In March 2013, the Government commissioned an enquiry to submit proposals relating to new business regulation for occupational pension institutions (the assignment includes the development of suitable solvency rules for occupational pensions institutions). The starting point for the assignment is that the new institutions (after UFL and current interim rules have ceased to apply) will meet the requirements in the current occupational pensions directive (IORP 1 which is currently being revised). If a new proposal for new business regulation of occupational institutions is introduced, this will mean that Kåpan Pensioner's business will be regulated through legislation on occupational pensions business instead of legislation on insurance business according to the Insurance Business Act. The commissioned enquiry will report to the Government no later than 30 April 2014.

### Prerequisites for preparation of the financial statements.

Kåpan Pensioner's functional currency is Swedish kronor and the financial statements are presented in Swedish kronor. Financial assets and liabilities are measured at fair value. Other assets and liabilities are measured at cost.

### Estimations and assessments in the financial statements

Preparing financial statements in accordance with legally limited IFRS requires the insurance company's management to make estimations and assessments as well as assumptions that affect application of the accounting principles and the carrying amounts of assets, liabilities, income and expenses. Assessments and assumptions are based on historical experience and a number of other factors that appear reasonable under the prevailing conditions. The result of these assessments and assumptions is then used to assess the carrying amounts of assets and liabilities that would otherwise be clear from other sources. Actual results can deviate from these assessments and estimations.

One source for estimations and uncertainties is the value of the obligations inherent in the insurance contracts taken out by the society. Another source of estimations and uncertainty is the valuation of financial assets for which there is no observable market price. Objective external valuations are used for these instruments or a value based on an assessment of anticipated future cash flows. When required these valuations are complemented with additional estimations depending on the uncertainty in the market situation.

Assessments and assumptions are reviewed on a regular basis. Changes in assessments are reported in the period in which the change is made if the change only affected that period, or in the period the change is made and future periods if the change affects both the current period and future periods.

### Foreign currency

Assets and liabilities in foreign currency are translated into Swedish kronor at the closing exchange rate.

Exchange rate differences are reported in the income statement net within the line Investment income or Investment charges. Forward contracts in foreign currency are mainly used to eliminate the exchange rate risk in foreign equities and participations.

### Recognition of insurance contracts

Insurance contracts are recognised and measured in the income statement and balance sheet in accordance with their economic reality. All contracts are recognised as insurance contracts. Classification is based on the society guaranteeing a specific interest on paid-in premiums and a number of other commitments which means that the society assumes a significant insurance risk in relation to the policyholder.

### Premiums written

Premiums written for the year consist of premiums received.

Premiums written for Kåpan Tjänste during the year relate to both paid-in premiums minus the net amount of so-called equalisation charges in accordance with the society's statutes. For Kåpan Plus, Kåpan Extra and Kåpan Ålderspension (retirement pension) premiums written correspond to the amounts paid in during the year.

### Life insurance provisions

All life insurance provisions relate to occupational pensions and are measured in accordance with the principles in the EU occupational pensions directive. This means that the company's obligations are measured according to the so-called prudent person rule. Life insurance provisions are calculated according to the Swedish Financial Supervisory Authority's instructions and general advice on choice of interest rate for calculating life insurance provisions (FFFS 2013:23). This means that provisions are market valued on the basis of current market interest rates for corresponding maturities as the obligations entered into. Life insurance provisions correspond to the estimated capital value of the society's obligations. The assumptions on future mortality, interest, operating expenses and tax are taken into account. All mortality assumptions are gender differentiated. Pensions in payment, however, are calculated on the basis of gender neutral assumptions. The operating expense assumption made is expected to correspond to future actual costs for administration.

### Provision for claims outstanding

Provisions comprise disability annuities for employees within the PA-91 agreement who at year-end 2012 were incapacitated reduced by any final payment premiums for them in 2013. The society's actuary calculates this provision. Change in provision for claims outstanding is shown in Note 21.

### Reporting return on capital

#### Investment income

This income pertains to return on investment assets in the form of dividends on shares and participations, interest income, exchange gains (net), reversed impairment losses and capital gains (net).

#### Investment charges

Charges for investment assets relate to investment management costs, interest expenses, exchange losses (net), depreciation and impairment as well as capital losses (net).

### Realised and unrealised changes in value

All investment assets are measured at fair value. The difference between the value and cost is an unrealised gain or loss which is recognised net per asset class. Such changes that are explained by exchange rate fluctuations are recognised as an exchange gain or loss.

A realised gain or loss is the difference between selling price and cost. For fixed-income securities the cost is amortised cost and for other investment assets the historical cost. In the event of the sale of investment assets the former unrealised changes in value are entered as an adjustment item under Unrealised gains on investment assets or Unrealised losses on investment assets respectively. Capital gains on assets other than investment assets are recognised as Other income.

### Tax on returns

Tax on returns is not a tax on the society's profit, it is paid by the society on behalf of policyholders. The value of the net assets managed on behalf of policyholders is charged with tax on returns which is calculated and paid each year. The cost is recognised as a tax expense.

### Intangible assets

Intangible assets acquired by Kåpan Pensioner are recognised at cost minus accumulated amortisation (see below) and any impairment. Intangible assets are amortised over three to five years from the date they are available for use. The insurance administration system is amortised over a 10-year period.

### Financial instruments

Financial instruments recognised in the balance sheet are equities and other equity instruments, fixed-income securities, debenture loans and other derivatives.

Acquisition and divestment of financial instruments is reported on the transaction date which is the day the society undertakes to acquire or sell the instrument.

Kåpan Pensioner's principle is to measure all investment assets at fair value through profit or loss (fair value option) partly because the society continuously evaluates its investment management operations on the basis of fair values, and partly because for fixed-income assets this reduces some of the accounting inconsistency and volatility that otherwise arises when technical provisions are continuously remeasured by discounting with current interest.

The following paragraphs summarise the methods and assumptions that are mainly used to determine the fair value of financial instruments in the accounts.

#### Financial instruments quoted in an active market.

For financial instruments quoted in an active market fair value is determined on the basis of the asset's listed purchase price on the balance sheet date. A financial instrument is regarded as quoted in an active market if listed prices are easily available on a stock exchange, at a stock-broker's, dealer, industry organisation, company that provides current price information or supervisory authority and such prices represent actual and regularly occurring market transactions on commercial terms. Any future transaction costs in the event of a sale are not taken into account. Most of the society's financial instruments have a fair value based on prices quoted in an active market.

#### Financial instruments not quoted in an active market.

If the market for a financial instrument is not active, an estimation of fair value is obtained by applying a model-based measurement technique as set out below:

For unlisted shares the external portfolio manager concerned produces a valuation based on available price information. Normally there is a time shift in the valuation of 1 – 3 months. This means that valuations at 31 December 2013 are typically based on a value statement from the managers produced during the period 30 September 2013 – 30 November 2013.

For some financial instruments information about fair value is obtained by an assessment of the value. The valuation is usually performed on the basis of an estimation of anticipated future cash flow. Kåpan Pensioner evaluates these measurements at regular intervals and tests their validity by assessing their reasonableness and using parameters and seeing that the parameters and forecasts used coincide with actual development. For some fixed-income investments a model-based cash flow valuation of the underlying corporate loan portfolio in the investment concerned has formed the basis of the valuation.

### Derivative instruments

Derivative instruments are taken up at fair value on the basis of the value received from a counterparty where fair value is calculated according to a valuation model that is established in the market for valuations of the type of derivative instrument concerned.

### Key assessments and sources of uncertainty

As shown in the above section, Financial instruments not quoted in an active market, measurement of fair value is based on valuation models. Such a valuation is based partly on observable market data and partly, when no such data is available, on assumptions on future conditions. Valuations not based on published price quotations are inherently uncertain.

The level of uncertainty varies and is greatest when assumptions about the future must be made that are not based on observable market conditions. For some of these assumptions minor adjustments can have a significant effect on the estimated value. When the time comes to sell the investments in the future the actual selling price reached may deviate from earlier estimations, which can have a significantly positive or negative impact on earnings.

As also shown in the section with regard to unlisted shares there is a time delay regarding valuation dates. In a market with falling prices this means that the estimated fair values are overestimated and vice versa.

### Financial liabilities

Borrowing and other financial liabilities, such as trade payables, are measured at amortised cost.

### Property, plant and equipment

Property, plant and equipment items are recognised as an asset in the balance sheet if it is probable that future economic benefits will accrue to the society and the cost of the asset can be calculated in a reliable manner.

Property, plant and equipment is recognised at cost with deduction for accumulated depreciation and any impairment with the addition of any revaluations. Depreciation is straight-line over the estimated useful life of the asset.

Personal computer equipment is expensed at acquisition. Art used for decorative purposes is measured at cost.

### Pensions

The society's employees have individual-based pension plans for occupational pension based on the pension agreement for bank and insurance employees. The pension is secured through an insurance contract. Charges for these are recognised as an operating expense in the income statement.

### Premium adjustment reserve

According to current pension agreements, the employer pays premiums to the society for occupational pension insurance for every employee. The size of the premium is regulated in the current pension agreement. The employer also pays a contribution for employees who are covered by a pension agreement but have not yet reached the age of 23 and therefore cannot be credited with premiums for the complementary retirement pension (Kåpan Tjänste). In accordance with the society's statutes, these non-allocated contributions are placed as an addition to the premium adjustment reserve. The premium adjustment reserve is part of the society's equity.

## NOTE 2 Disclosures about significant risks and uncertainties

Kåpan Pensioner's net profit depends both on the insurance business and the insurance risks that are managed and on investment management operations and financial risks. Risk and risk management are therefore a central part of the business. The note set out below contains a description of the risk management organisation as well as quantitative and qualitative disclosures of insurance risks and financial risks.

The purpose of the society's risk management organisation is to identify, measure and control the biggest risks to which the company is exposed. The key purpose is to ensure that the level of risk is acceptable in relation to the solvency which the society has at any time.

Financial risks, primarily market, credit and liquidity risks, can in principle be managed in two ways. Firstly, measures can be taken to reduce the effect of financial risks, within the framework of the risk management process. Secondly, capital can be allocated to a buffer to cover losses which the financial risks might generate.

The society's risk management organisation is built up as follows:

The main responsibility for the risks to which the society is exposed rests with the Board. The Board adopts the guidelines that must apply to risk management, risk reporting, internal control and monitoring, and ensures that there is a collective function for rule compliance. The Board has in special instruments within certain frameworks delegated responsibility for risk management to various other functions in the society, the President, the head of Asset Management and a Risk Manager. These instructions are regularly revised by the Board in order to ensure that they accurately reflect the operations. Insurance risks are analysed continuously by the society's actuary. Consultants are engaged when required.

Implementation and follow-up of control documents and routines in the organisation are an ongoing activity where control documents and routines are checked and revised regularly in order to ensure that they accurately reflect current market conditions as well as current terms and conditions in the society's insurance products.

Regular training activities and clear processes ensure that risk control functions throughout the organisation and that each employee understands his or her role and responsibilities. Compliance with this is checked by the Board through its decisions on recurrent annual independent reviews which are performed by the internal audit function.

### Risks in the insurance business

The society's obligations comprise defined contribution retirement pension insurance with a guaranteed return. The risk that exists relating to these insurance contracts is that the society cannot meet its commitments. In order to limit the risk of this occurring the assumptions that provide the basis for calculation of the guaranteed insurance amount are made with safety margins.

The insurance risk consists of several different components where the level of members' guaranteed return is by far the largest. Another risk is the longevity risk, which is affected by assumptions about length of life, and which relates to actual length of life being longer than the assumed length, which means that members become older than assumed which results in retirement pensions being paid for a longer period. A higher longevity risk means that technical provisions made by the society to cover future pension payments are not fully covered by provisions made. For the society, which has a payment period for most of its pensions capital of 5 years, when its members are aged 65-70, the longevity risk is relatively small compared with pensions paid for life. With the PA 03 pension agreement, Kåpan Pensioner acquired a steadily increasing proportion of life-long pensions in the form of the individual retirement pension. This means that over time the longevity risk in the society's operations will increase.

Mortality risk, morbidity risk and cancellation risk are three other types of risk which are assessed as marginal within the society. Mortality risk relates to death benefit, compensation paid in conjunction with a death. Morbidity risk means that disability among insured is higher than anticipated in assumptions made, or that recovery from a current disability takes longer than assumed.

Cancellation risk relates to the policyholder suspending premium payments, or repurchases or transfers the insurance to a third party. Provisions in the society are made in accordance with the rules designed to ensure that obligations can always be met. The Insurance risk includes both the risk that the insurance result in the next year will be unusually unfavourable (random risk, provision for unearned premium and residual risks) and that the settlement of claims outstanding will be more expensive than estimated (parameter error). Calculations of best estimates, random errors, parameter errors and cancellation risks are based on actual portfolio on the closing date. Most of these risks are within the framework of the society's present business for example the PA 03 pension agreement means that Kåpan's responsibility for final payment of remaining pensions due to factors such as illness will cease in time.

### 2013

Assumption	Change in assumption	Change in provision, SEKm
Life expectancy increase	20%	440
Cost inflation	20%	101
Discount rate	1% point	-5,759 <sup>*)</sup>

### 2012

Assumption	Change in assumption	Change in provision, SEKm
Life expectancy increase	20%	511
Cost inflation	20%	109
Discount rate	1% point	-5,382 <sup>*)</sup>

<sup>\*)</sup> In December 2013 the calculation method changed with the introduction of the Swedish Financial Supervisory Authority's instruction FFF2 2013:23, whereby a long-term fixed interest rate of 4.2% was introduced in the model. The long-term rate affects the sensitivity of the liability to changes in market interest rates.

### Management of interest rate risks in outstanding insurance obligations

The society's obligations consist to a dominant extent of fixed guaranteed interest on paid-in premiums. These commitments are valued in the technical provisions, supported by instructions and general advice from the Swedish Financial Supervisory Authority, on the basis of current market interest rates for corresponding maturities.

During the year the effect of changes in market interest rates meant that the value of obligations made fell (rose) in value by SEK 4,471m (+646). The effect of changes rules and regulations for the discount rate led to an increase of SEK 1,364m (0). Taken overall, this means that obligations fell (rose) in value by SEK 3,107m (+646). In order to reduce the outstanding interest rate risk in obligations made, agreements for various types of interest rate hedges were concluded. Under these agreements fixed interest in the obligations is exchanged for a floating rate with less risk of change in value. Outstanding interest rate hedge agreements totalled SEK 2,525m (6,100). The change in value for interest rate hedges decreased by SEK 89m (-30). The total earnings impact and positive (negative) effect on solvency thus amounted to SEK 3,018m (-676).

### Management of matching risk

Kåpan Pensioner's total outstanding interest rate risk (matching risk) is a weighting of fixed-income assets and the promised pension payments including the guaranteed rate on members' savings until they are paid. Matching risk is defined as the interest rate risk that can be calculated as the difference between the duration of all assets including interest rate derivatives and the duration of the pension liabilities. Outstanding matching risk is measured as interest rate risk cover. Interest rate risk cover in accordance with the Board's decision should not be less than 30% and be continuously adjusted to development of the solvency ratio and the need for interest rate risk hedging of issued commitments. Interest rate risk cover amounts to 32.1%. New rules and general advice on insurance companies' choice of interest rate for calculating technical provisions, FFFS 2013:23. For Kåpan Pensioner's operations the

## Outstanding maturities on fixed-income assets and liabilities

2013	max. 1 year	1-3 years	3-5 years	5-10 years	+10 years	no interest	Total nominal	Total market value
<b>Assets</b>								
Bonds and other fixed-income securities	1,465	5,540	23,302	6,440	125	0	36,872	32,529
Interest derivatives	235						235	235
<b>Liabilities</b>								
Life insurance provisions	-1,570	-3,452	-3,614	-9,353	-43,868	-12	-61,869	-39,398
Cumulative exposure	130	2,088	19,688	-2,913	-43,743	-12	-24,762	-6,634
<b>2012</b>								
2012	max. 1 year	1-3 years	3-5 years	5-10 years	+10 years	no interest	Total nominal	Total market value
<b>Assets</b>								
Bonds and other fixed-income securities	1,302	4,492	21,166	5,533	408	0	32,901	30,043
Interest derivatives	70						70	70
<b>Liabilities</b>								
Life insurance provisions	-1,444	-3,293	-3,482	-8,755	-42,474	-14	-59,462	-40,477
Cumulative exposure	-72	1,199	17,684	-3,222	-42,066	-14	-26,491	-10,364

instructions FFFS 2008:23 withdrawn several years ago still apply (see Note 1). Kåpan Pensioner has applied for and been granted dispensation (until 31 December 2014) to applying the new instructions and general advice in FFFS 2013:23. At the beginning of the year and up until 30 December 2013, the society therefore applied a discount rate curve calculated as an average of two interest rate curves. One of them is determined on the basis of current market rates on treasury bills or government bonds and the other is determined on the basis of current swap rates or market interest rates on pledged bonds, according to FFFS 2008:23. Kåpan Pensioner calculated the discount rate based on current market rates on treasury bills and government bonds as well as pledged bonds. The new instructions means that Kåpan Pensioner will instead base its calculation of market quotations for the interest rate swaps traded on active markets when Kåpan Pensioner calculates the discount rate curve to be used to calculate technical provisions and apply the calculation method prescribed in the instruction which also means that the long-term forward rate is considered to converge with a figure issued by the Swedish Financial Supervisory Authority. The effect of this change in instructions (change of model) is that the estimated value of technical provisions increased by SEK 1.3 billion.

Matching risk is also managed by the society regularly conducting ALM studies, an evaluation calculation to find an optimal mix of different asset classes which can match liabilities over time in order to ensure that assets are always sufficient to cover liabilities as they fall due for payment. During the year Kåpan Pensioner commissioned an investment bank in order, in cooperation with Kåpan Pensioner, to perform an ALM study. The purpose of the study was to identify the optimal composition of the society's asset classes and liability hedging strategy in order to achieve the best balance for the society's long-term obligations.

### Targets, principles and methods for managing financial risks

The society's business activities give rise to various types of financial risk such as market risks, credit risks and liquidity risks. In addition there are also operational risks, legal risks and strategic risks. In order to limit and control risk in the operations, the insurance society's Board has adopted an investment policy with guidelines and instructions for financial activities and for the risk control function.

### General objectives for risk management

The society's assets must be invested in the manner that best serves the interests of its members and an exaggerated risk concentration must be avoided through suitable diversification between and within different classes of assets. The assets shall, taking into account the society's insurance obligations and changes in future value and return, be invested so that the society's payment capacity is satisfactory and a sufficient

expected return is achieved within the framework of prudent asset management. In business that concerns occupational pension insurance, in accordance with the Insurance Business Act (1982:713) which is still applied by the society in accordance with the now applicable interim rules for benevolent societies, the assets which match technical provisions shall be measured and managed in a prudent manner. Rules on prudence are based on the IORP Directive (European Parliament and Council Directive 2003/41/EC on the activities and supervision of occupational pension institutions). The prudent person rule means that activities must be conducted in a manner which the individual beneficiary himself would apply if he or she had the requisite skills and knowledge.

### General principles for risk management

The taking of risks in the society must be reasonable in relation to obligations undertaken. This is complied with through limited risk taking within the requirements made on matching, diversification and risk taking. The taking of risks must also at all times be in reasonable proportion to the society's risk capital, long-term targets for returns expressed as the level of the guaranteed obligations and anticipated bonus rate.

### Risk management methods

A fall in value on the assets side can be limited with in principle three different methods. The first method is to spread the risks over different asset classes by building up a diversified investment portfolio, e.g. equities, fixed-income investments, properties, etc. Spreading risks with diversification is a basic rule within asset management. The second method involves selling assets at risk when the portfolio decreases in value in order to thus protect capital. But this method also means selling when the price is low and is not a good management strategy. The third method is to use capital-protected investments, such as bonds where at least the nominal amount is repaid on the maturity date regardless of market development. Another method for limiting the risk of losses is not to invest too much in the same company (or group). This too is a type of diversification. Operational risks, on the other hand, are limited through a regular review of routines and working methods and by the Board commissioning a regular independent review of operations and of both asset management and management of technical provisions.

### Management of interest rate risk

The risk that the market value of fixed-income instruments is changed in the event of fluctuations in general interest rates. The change in value and therefore the risk is linked to the fixed-interest period (duration) of each instrument and the entire portfolio at any time. Interest rate risk in investments in fixed-income instruments is measured on the basis of each day's fixed interest increasing the risk and increases with the



## Note 2 cont.

maturity of the obligations. Average fixed-interest period is an elasticity measurement relating to interest rate risk which shows the effect when all market interest rates change by the same amount (parallel shift). The fixed-interest period for a given instrument is calculated by weighing the time to each future cash flow, this is also known as the instrument's duration.

Assets decrease by SEK 1,366m (1,564) in the event of a 1% increase in interest rates. Liabilities increase by SEK 5,759m, as stated earlier. The total outstanding interest rate in the event of a 1 percentage point change in the discount rate amounts to SEK 4,393m (3,818).

### Management of share price risk

Share price risk is the risk that the market value of an equities investment falls due to changes in prices on the stock market. In order to reduce price risk in the equities portfolio a good diversification of holdings should be sought in relation to the size of the portfolio.

For equity-related instruments risk is measured by analysing how much the market value is affected by falling or rising share prices. In the section sensitivity analysis, below, an account is provided of outstanding share price risk. The total outstanding share price risk in the event of a price change of 10 percentage points amounts to SEK 2,112m (1,751).

### Management of property price risk

Property price risk is the risk that the market value of a property investment falls. Property price risk is measured as a reduction in the market value of property investments. The total outstanding property price risk in the event of a change in value of 10 percentage points amounted to SEK 371m (347).

### Management of currency risk

Current risk is the risk of a change in the value of assets and liabilities due to changes in exchange rates. Currency risk is measured as a percentage of foreign assets that are not currency hedged. For the society all obligations on the liabilities side are in Swedish kronor. This means that all values on the assets side that are in foreign currency and not hedged are a currency risk. Exposure to currency risk, in accordance with a Board decision, may not exceed 10% of the total value of assets.

Currency exposure amounts after currency hedging to 7.1% (7.1) of the value of the investment assets. Gross exposure, i.e. currency exposure without forward contracts, amounts to SEK 14,540m (12,916). The total outstanding currency risk is estimated in the event of a change in exchange rates of 10 percentage points to amount to SEK 431m (379).

Breakdown of currency exposure by currency:

	2013	2012
USD	10.0%	9.5%
EUR	1.0%	0.6%
GBP	-1.7%	-1.7%
AUD	-0.5%	-0.6%
JPY	-1.0%	-0.1%
CHF	-0.3%	-0.3%
Other	-0.4%	-0.3%
	7.1%	7.1%

### Management of credit risk

Credit risk is the risk of loss if a counterparty fails to meet payment obligations. Credit risk can, with some assumptions, be regarded as the difference in valuation of a security with credit risk, and valuation with a risk free bond with similar terms and the same duration. The difference (interest rate difference) is called a credit spread and is defined as the difference in interest between a risk-free bond issued by the government and what an issuer that can become bankrupt (such as a company) has to pay.

Credit risk is measured by calculating how the market value of assets with credit risk is changed, if the difference between the risk-free interest and interest on assets with credit risk changes by a certain percentage. The total outstanding credit risk calculated with an assumption of doubled listed credit spread amounts to SEK 1,384m (1,611).

Five largest exposures property companies			Five largest exposures not credit institutions		
	31 Dec 2013	31 Dec 2012		31 Dec 2013	31 Dec 2012
1.	2.53%	2.44%	1.	2.45%	2.06%
2.	0.50%	0.50%	2.	2.21%	1.73%
3.	0.45%	0.40%	3.	1.83%	1.63%
4.	0.09%	0.10%	4.	1.72%	1.62%
5.	0.00%	0.00%	5.	1.72%	1.45%
Ratio <sup>*)</sup>	3.57%	3.44%	Ratio <sup>*)</sup>	9.93%	8.49%

Five largest exposures credit institutions			Five largest exposures secured bonds		
	31 Dec 2013	31 Dec 2012		31 Dec 2013	31 Dec 2012
1.	10.97%	9.14%	1.	8.47%	6.62%
2.	10.17%	8.17%	2.	6.75%	5.93%
3.	8.39%	7.98%	3.	6.16%	5.88%
4.	8.21%	7.92%	4.	5.97%	5.37%
5.	3.29%	7.32%	5.	4.44%	3.56%
Ratio <sup>*)</sup>	41.03%	40.53%	Ratio <sup>*)</sup>	31.79%	27.36%

All percentages expressed as share of present value of technical provisions on the closing date and included in the society's regular reporting of debt cover to the Swedish Financial Supervisory Authority.

<sup>\*)</sup> Concentration ratio is calculated according to  $CR_m = \sum_{i=1}^m s_i$  where the total is calculated over the 5 largest holdings ( $m = 5$ ).

### Management of counterparty risk

The society invests its capital in many different asset classes. Counterparty risk is a measure of the probability that a counterparty cannot meet his payment commitments. The risk is managed by the value of an individual investment being limited in the Board's investment decision. These restrictions cover entire groups and all types of securities.

A group refers to two or more physical or legal entities that comprise a whole from a risk point of view since one of them, directly or indirectly, exercises ownership influence over one or more of the rest of the group, or that without having such a relationship have such an internal connection that one or all of the others may encounter payment difficulties if one of them suffers financial problems.

### Overview of current restrictions and outstanding risks

Current restrictions in investment policy for investment on the basis of assessed creditworthiness in the form of rating:

2013				
Creditworthiness	Of total assets	Maximum per counterparty	Of total assets	Largest counterparty exposure
Very high	50%	5.0% <sup>1)</sup>	35.9%	1.9%
High	25%	2.5% <sup>2)</sup>	9.4%	1.1%
Average	10%	1.0%	4.5%	0.8%
Low	5%	0.5%	4.8%	0.4% <sup>3)</sup>

2012				
Creditworthiness	Of total assets	Maximum per counterparty	Of total assets	Largest counterparty exposure
Very high	50%	5.0% <sup>1)</sup>	36.5%	2.2%
High	25%	2.5% <sup>2)</sup>	9.0%	1.3%
Average	10%	1.0%	5.1%	0.9%
Low	5%	0.5%	4.1%	0.4% <sup>3)</sup>

<sup>1)</sup> Swedish mortgage institution max 10%

<sup>2)</sup> State wholly owned company max 5%

<sup>3)</sup> Excluding an exemption decided by the Board, if it exists.

For bonds and other debt instruments issued or guaranteed by the Kingdom of Sweden the limit is 65% which also comprises the upper limit for the total proportion of fixed-income instruments according to the decided strategic allocation of different asset classes.



Note 2 cont.

### Management of cash flow risk

The society manages cash flow risk by ensuring, on each occasion, that the easily convertible assets cover pension commitments for at least three years ahead. The society has a considerably larger inflow of premiums than outflow of pension payments which means that the cash flow risk is limited. Cash flow risk measured as the ratio between the present value of three years' pension payments and the market value of fixed-income securities with an AAA rating amounts to 33.28% (34.74).

### Management of transaction risk (settlement risk)

Transaction risk is the risk that an arranging party cannot meet his commitments in conjunction with a transaction with a financial instrument and therefore cause one of the parties to sustain a loss. The risk is managed by trading in securities only being permitted with securities companies approved by the Swedish supervisory authority or a corresponding foreign authority, where a foreign securities company is involved. In securities trading, which is not subject to clearing through a clearing house approved by a Swedish supervisory authority or a foreign equivalent a counterparty may only comprise a securities company that is included in a banking group with very high short-term creditworthiness. The society's assets must be held in the custody of a securities institution approved by the Swedish supervisory authority or corresponding foreign authority when a foreign securities institution is involved.

### Assessment of the level of all risk in the operations

Market risk refers to the change in value of a financial asset when the price that decides the value of the asset changes. There are three types of market risks: currency risk, interest rate risk and other price risks. In financial operations the most important market risks are interest rate risks, currency risks and share price risks (price risk). Sensitivity to price changes varies for different asset classes. Equities are generally more sensitive than fixed-income investments.

For equities it is primarily price risk that is taken into account. For foreign equities there is also currency risk. The Board has adopted an investment policy that, among other things, limits share price risk. This means that the equities portfolio must be well diversified so that individual investments do not constitute too high a risk for the investment result as a whole. Risk diversification shall also be achieved by investments in different sectors and in different markets.

### Sensitivity analysis

2013	Effect on investment assets	Effect on life insurance provisions	Effect on equity
Price fall on shares, 10%	-2,112	–	-2,112
Fall in value property-related, 10%	-371	–	-371
Doubled credit spread	-1,384	0	-1,384
Exchange rate fall, 10%	-431	–	-431
Interest rate rise, 1%	-1,366	5 759	4,393

2012	Effect on investment assets	Effect on life insurance provisions	Effect on equity
Price fall on shares, 10%	-1,751	–	-1,751
Fall in value property-related, 10%	-347	–	-347
Doubled credit spread	-1,611	2,558	947
Exchange rate fall, 10%	-379	–	-379
Interest rate rise, 1%	-1,564	5,382	3,818

When calculating the effect on life insurance provisions above, tax and expenses are taken into account. The sensitivity analysis is based on the society's assets being measured at fair value through profit or loss.

### Management of operational risk

Operational risk refers to risk of loss due to processes that are not fit for purpose or unsuccessful, human error, faulty systems or external events. This also includes legal risk. This means that errors or inadequacies in administrative routines can lead to unexpected financial or confidence-related losses. These may be caused, for example, by a lack of internal control, inadequate systems or technical equipment. The risk of irregularities, internal or external, is included among operational risks. Operational risks are counteracted through internal control of operations. Maintenance of good internal control is a constantly ongoing process and includes requirements for fit-for-purpose routines and instructions as well as clearly defined divisions of responsibility and working duties for the society's employees. Maintenance of a good internal control also requires IT support with built-in reconciliations and controls, authorisation systems for premises and equipment, as well as internal information and reporting systems in order, among other things, to meet the requirements of the Board and management for information on risk exposure and current information about the society's assets and liabilities. Other aids include process-based risk analysis with risk indicators as well as analysis of incident and loss data. Information security is another aid for maintaining a good internal control as well as continuity planning and various forms of reserve solutions for electricity, telephony and similar. In purely general terms the largest proportion of events attributable to operational risks, regardless of their degree of seriousness, is about handling errors in manual operations in processes such as application of pricing models, dependence on key persons or deviations from internal instructions, data errors, changed conditions related to assumptions on which the models are based, or other errors which have in common that they combine data with the use of models. The use of pricing models, and the extent to which these models are reliable, is an area that has attracted considerable attention in recent years. Operational risks are in the first instance a process issue – good internal control and systems solutions are the key factors in management of operational risks.

Overall guidelines relating to operational risks have been adopted by the Board and include through the President a monthly (or where necessary more frequently) reporting relating to operational risks. Since only eleven (ten) employees are responsible for the society's management and investment management, the Board decided to engage external internal auditors, among other things for the independent examination of the society's activities prescribed by the Swedish Financial Supervisory Authority. It is always the Board that assigns internal audits, since it is management's internal governance and control which is examined. The Board decides annually on an internal audit plan for the current year.

Kåpan Pensioner has signed an agreement with National Government Employee Pensions Board (SPV) for administration of its insurance operations. This agreement is an outsourcing agreement which refers to an agreement in some form where the society and an external contractor agree that the contractor will carry out processes, services or other activities which the society would otherwise have performed itself. The outsourcing agreement is included together with internal control and risk management in the society's corporate governance system. The society's internal audit function has also been assigned by the Board to evaluate the services purchased from SPV.

**NOTE 3 Premiums written**

	2013	2012
Premiums written Kåpan Tjänste	1,930	1,905
Premiums written Kåpan Extra	733	732
Premiums written Kåpan Plus	91	96
Premiums written Kåpan retirement pension	1,253	1,202
	<b>4,007</b>	<b>3,935</b>

All premiums written relate to contracts signed in Sweden. All contracts carry bonus entitlement and Kåpan insurance contracts are collectively agreed individual insurance contracts.

**NOTE 4 Investment income**

	2013	2012
Dividends received	408	460
<b>Interest receivable</b>		
Bonds and other fixed-income securities including bank balances and similar	1,084	1,134
Derivatives	13	19
Exchange gains, net	7	0
<b>Capital gains, net</b>		
Shares	843	266
Bonds and other fixed-income securities	283	179
Derivatives	234	665
	<b>2,872</b>	<b>2,723</b>

All results are attributable to financial assets with changes in value recognised in profit or loss.

**NOTE 5 Unrealised gains on investment assets**

	2013	2012
Shares and participations	2,036	1,292
Bonds and other fixed-income securities	0	866
Derivatives	194	53
	<b>2,230</b>	<b>2,211</b>

**NOTE 6 Claims paid**

	2013	2012
Premiums written Kåpan Tjänste	-1,082	-982
Premiums written Kåpan Extra	-136	-111
Premiums written Kåpan Plus	-156	-144
Premiums written Kåpan retirement pension	-75	-59
	<b>-1,449<sup>1)</sup></b>	<b>-1,296</b>

<sup>1)</sup> In addition, SEK 369m (260) was paid in bonus in addition to the guaranteed rate.

**NOTE 7 Operating expenses**

	2013	2012
Administrative expenses	-70	-67
Cancelled costs attributable to asset management	26	23
	<b>-44</b>	<b>-44</b>
<b>Specification of total operating expenses</b>		
Staff costs	-25	-23
Premises	-2	-2
Depreciation	-2	-4
Other operating expenses	-15	-15
	<b>-44</b>	<b>-44</b>
<b>Fees to auditors<sup>1)</sup></b>		
KPMG		
Audit assignment	-1	-1
Other assignments	0	0
	<b>-1</b>	<b>-1</b>

<sup>1)</sup> Included in other operating expenses.

**Average number of employees**

	Women	Men	Total
	5 (4)	6 (6)	11 (10)

**Salaries and other remuneration (SEK 000s)**

	2013	2012
Council of Administration	130	145
Board and President	2,729	2,675
Other employees	10,543	9,302
of which variable compensation	437	580
Pensions and other social security contributions	10,866	9,676
of which pension costs	5,257	4,636
of which President's pension costs	1,313	1,195

Note 7 cont.

#### Fees were paid to the Board as follows (SEK)

##### Ordinary members

Ulf Bengtsson, chairman	118,000	(83,500)
Monica Dahlbom	54,000	(58,000)
Gunnar Holmgren	50,000	(54,000)
Lars Fresker, vice chairman	88,000	(88,000)
Edel Karlsson Håål	19,500	(58,000)
Lena Emanuelsson	23,000	(0)
Sven-Olof Hellman	19,500	(54,000)
Helen Thornberg	48,000	(34,000)

##### Variable remuneration

The Board has decided on an remuneration policy. According to the policy no variable remuneration is paid to senior executives who are the President, Vice President, investment manager, head of legal/compliance and risk manager. According to the policy other employees may receive a maximum variable remuneration of two monthly salaries based on a three-year evaluation period. Remuneration is paid as cash salary following a decision by the President who subsequently reports his decision to the Board.

The complete remuneration policy is available on the society's website.

##### Other remuneration

No variable performance-based remuneration is paid to the Board. The Board has no pension benefits or special severance pay. Fees to the Board are decided by the Council of Administration based on a proposal from the President.

A cash salary of SEK 2,097,775 (2,037,401) was paid to the President. The President has a company car benefit. The President is permanently

##### Personal deputies

Jonas Bergström	34,000	(36,000)
Nils Henrik Schager	11,500	(36,000)
Roger Vilhelmsson	26,500	(0)
Pia Enochsson	40,000	(36,000)
Eva Fagerberg	36,000	(32,000)
Mikael Andersson	42,000	(34,000)
Roger Pettersson	20,500	(0)

employed with a retirement age of 60. Pension will be paid from the age 60 – 65 of 70% of existing basic salary and a period of service of 20 years. Pension after the age of 65 will be paid according to the ITP Plan. The President is entitled to salary and benefits for 24 months after employment ceases due to termination on the part of the society. A mutual notice period of six months applies. However, compensation from another employment will be deducted from such benefits. Salary and other remuneration to the President is decided by the Board's Remuneration Committee. The Remuneration Committee consists of Ulf Bengtsson, chairman, Lars Fresker, Helen Thornberg and Mikael Andersson. Decisions made by the Remuneration Committee are subsequently reported to the Board.

Salary and remuneration to other employees are decided by the President.

The society's pension plans for occupational pensions are secured through insurance contracts.

#### NOTE 8 Investment charges

	2013	2012
Investment management charges	-4	-5
Operating expenses attributable to asset management	-26	-23
Interest expenses	0	0
Exchange losses, net	0	-2
Capital gains, net	0	0
	-30	-30

Costs are attributable to financial assets held for trading.

#### NOTE 10 Tax on returns

	2013	2012
Tax on returns	-122	-180
Adjustment of tax attributable to previous years	0	1
	-122	-179

The value of net assets under management is charged with tax on returns which is calculated and paid by the society each year on behalf of policyholders. The society does not pay income tax.

#### NOTE 9 Unrealised losses on investments

	2013	2012
Bonds and other fixed-income securities	-581	0
	-581	0

#### NOTE 11 Other intangible assets

Other intangible assets	2013	2012
Cost	66	66
Accumulated amortisation	-56	-54
	10	12

**NOTE 12 Shares and participations**

	2013		2012	
	Cost	Fair value	Cost	Fair value
Swedish equities	7,065	10,153	5,813	7,692
Foreign equities	15,100	15,663	14,258	13,994
<b>Total</b>	<b>22,165</b>	<b>25,816</b>	<b>20,071</b>	<b>21,686</b>

Classified as financial assets measured at fair value with change in value recognised in profit or loss.

**NOTE 13 Fixed-income securities**

	2013		2012	
	Cost	Fair value	Cost	Fair value
Swedish government	0	0	0	0
Swedish mortgage institutions	14,704	14,781	13,125	13,599
Other Swedish issuers	13,764	14,117	12,377	12,945
Foreign governments	0	0	0	0
Other foreign issuers	3,648	3,631	3,547	3,499
<b>Total</b>	<b>32,116</b>	<b>32,529</b>	<b>29,049</b>	<b>30,043</b>
of which subordinated				
Dated subordinated debenture	1,810	1,842	1,473	1,479

Classified as financial assets, measured at fair value with change in value over profit or loss.

A total of 2 (9) fixed-income investments corresponding to an estimated value of SEK 33m (184) were valued by a recognised international player.

During 2013 interest payments from these investments were received amounting to SEK 22m.

**NOTE 14 Derivatives**

31 Dec 2013	Nominal amount, SEKm	Book value positive	Book value negative	31 Dec 2012	Nominal amount, SEKm	Book value positive	Book value negative
<b>Currency derivatives</b>				<b>Currency derivatives</b>			
AUD	344	27		AUD	337	14	
CAD	348	7		CAD	309	6	
CHF	198	2		CHF	169		-2
EUR	2 302	12		EUR	1 398	24	
GBP	1 200	5		GBP	1 123	16	
JPY	284	21		JPY	516	31	
NOK	50	0		NOK	104		-1
USD	5 638	38		USD	6 383	57	
<b>Total</b>	<b>10 364</b>	<b>112</b>	<b>0</b>	<b>Total currency related</b>	<b>10 339</b>	<b>148</b>	<b>-3</b>
of which cleared	0			of which cleared	0		
<b>Equity-related, options</b>	<b>3 615</b>	<b>162</b>	<b>-25</b>	<b>Equity-related, options</b>	<b>2 487</b>	<b>40</b>	
<b>Total</b>	<b>3 615</b>	<b>162</b>	<b>-25</b>	<b>Total</b>	<b>2 487</b>	<b>40</b>	
of which cleared	1 015	0		of which cleared	1 386		
<b>Fixed-income-related</b>	<b>6 344</b>	<b>46</b>	<b>-60</b>	<b>Fixed-income-related</b>	<b>6 344</b>	<b>64</b>	
<b>Total</b>	<b>6 344</b>	<b>46</b>	<b>-60</b>	<b>Total</b>	<b>6 344</b>	<b>64</b>	
of which cleared	1 000	0		of which cleared	0		
<b>Total, positive and negative</b>		<b>320</b>	<b>-85</b>	<b>Total, positive and negative</b>		<b>252</b>	<b>-3</b>
<b>Total fair value, derivatives</b>		<b>235</b>		<b>Total fair value, derivatives</b>		<b>249</b>	

All derivative instruments are classified as held for trading with change in value recognised through profit or loss.

Derivative instruments are used in management of the society's investment assets and are an alternative to a direct purchase or sale

of securities or currency. The main principle for trading with derivatives is that trading must take place in order to make management more efficient or reduce price and currency risks.

**NOTE 15 Complementary information on financial instruments recognised at fair value****Investment assets divided among different types of financial instruments measured at fair value****2013**

Financial instrument	Level 1	Level 2	Level 3	Total
<b>Investment assets</b>				
Shares and participations	19,797	580	5,439	25,816
Bonds and other fixed-income securities	30,219	550	1,760	32,529
Derivatives – positive value	0	235	0	235
<b>Total</b>	<b>50,016</b>	<b>1,365</b>	<b>7,199</b>	<b>58,580</b>

**2012**

Financial instrument	Level 1	Level 2	Level 3	Total
<b>Investment assets</b>				
Shares and participations	15,742	527	5,417	21,686
Bonds and other fixed-income securities	27,821	665	1,557	30,043
Derivatives – positive value	0	249	0	249
<b>Total</b>	<b>43,563</b>	<b>1,441</b>	<b>6,974</b>	<b>51,978</b>

Classification of securities at fair value by applying a hierarchy for fair value that reflects the significance of the inputs used in the valuations. The hierarchy includes the following levels:

- Level 1** Quoted prices (unadjusted) on active markets for identical assets or liabilities.
- Level 2** Other inputs than quoted prices included in level 1, that are not directly observable but where the value is derived from prices in an active market.
- Level 3** Inputs for the asset or liability concerned based to a significant extent on not directly observable market inputs, i.e. there is no active market for identical investments, such as property values.

Investments in level 3 mainly consist of property-related shares and shareholder loans as well as other unlisted shareholdings. Property-related investments are found among shares and participations, property-related shareholder loans are found under bonds and other fixed-income securities.

Fair value is defined as the price at which a financial instrument can be sold to a counterparty who is independent from the society. The notional transaction on the basis of which the price is determined is based on the parties entering such a transaction voluntarily and not forcibly in conjunction for example with liquidation, and also on the basis on the counterparty being able to make a competent assessment of the value of the asset. Prices must also be regarded as applying for a period that concurs with the society's ability to trade and on the basis of the current investment policy.

For financial instruments quoted in an established market (level 1) fair value is determined on the basis of the asset's quoted purchase price on the balance sheet date. A financial instrument is regarded as quoted on a market if quoted prices are easily available on a stock exchange, with a dealer, stockbroker, industry organisation, company that provides current price information or a supervisory authority and these prices represent actual and regularly occurring market transactions on commercial terms. For recurrent and non-recurrent fair value measurements attributable to level 2 and level 3 in the hierarchy for fair value, the society applies the following measurement techniques with the starting points set out below. Securities can be designed in many different ways in order to meet specific purposes and can be designed with variations, such as choice of maturities and different exchange rates which means that the security per se is not quoted on an active market with buying and selling prices which are easily and regularly available in a public marketplace. This means that the security does not meet the requirements for classification in level 1 of the fair value hierarchy. On the other hand, a reasonable assessment of the fair value of the security can be deduced from observable quoted prices for similar instruments or on the basis of underlying quotations on the parameters required to identify a fair value for the security as a whole. If such circumstances are deemed to exist, and it is highly probable that the security can be sold for this price without delay it can be classified as level 2 in the fair value hierarchy, i.e. the security is an instrument which directly or through a valuation model is measured with the aid of observable information which in its turn was obtained from the market. Most of the society's securities are

measured according to level 1 or level 2 in the fair value hierarchy. The securities which do not meet the strict requirements for classification as level 1 or level 2, are thereby considered to belong to level 3. This means that they are securities whose values are based on inputs in the form of models or valuation methods in which there is one or several inputs which essentially affected the estimated value of the assets, and where these inputs consist of assumptions or estimates which are not observable on the market. Examples of this can be operating net for properties in an unlisted property fund. In these cases the market for the financial instrument is assessed as not well established and the society then obtains the fair value by together with an independent, established player in the capital market performing an objective valuation. Valuations are usually then made based on an estimate of expected future cash flow, where the starting point for the society's valuations is that the calculated value is made transparently and using a uniform measurement of securities or funds where there is a functioning market and daily prices based on external sources, and that the value is derived together with established external players with a good reputation who measure the asset on the basis of developed valuation methods and models for securities or funds which have no active market. The society works over time with consistent valuation methods and provides in its accounts clear documentation of valuations performed. For securities in level 3 the society usually uses price information from a third party without making any adjustment. Where applicable, the price is also adjusted on the basis of known transactions made in the investment by the society between the issue of the measurement value by a third party and the balance sheet date. Examples of market players are banks, issuers, stock and credit brokers and authorised property valuers. The aim for the valuation must always on each occasion be to try to obtain as accurate and fair value as possible.

Note 15 cont.

**Reconciliation of fair value and earnings impact from investments included in level 3****2013****Change in level 3 during the year**

<b>Investment assets</b>	<b>Shares and participations</b>	<b>Bonds and interest-bearing securities</b>	<b>Derivatives and options</b>	<b>Total</b>
Opening balance	5,417	1,557	0	6,974
Purchases for the period	747	787	0	1,534
Sales for the period	-874	-534	0	-1,408
Changes in securities and currencies during the period	435	-73	0	362
Changes in unrealised gains or losses due to changes in:				
Market value	-286	23	0	-263
Transfers from level 3 to level 1 or level 2	0	0	0	0
Transfers from level 1 or level 2 to level 3	0	0	0	0
<b>Closing balance</b>	<b>5,439</b>	<b>1,760</b>	<b>0</b>	<b>7,199</b>
Coupons and dividends during the period	105	158	0	263
Included in profit for the period				
– as part of carrying amount	254	108	0	362
– as part of other comprehensive income	0	0	0	0

**2012****Change in level 3 during the year**

<b>Investment assets</b>	<b>Shares and participations</b>	<b>Bonds and interest-bearing securities</b>	<b>Derivatives and options</b>	<b>Total</b>
Opening balance	5,689	1,650	0	7,339
Purchases for the period	427	116	0	543
Sales for the period	-508	-208	0	-716
Changes in securities and currencies during the period	31	-164	0	-133
Changes in unrealised gains or losses due to changes in:				
Market value	-222	163	0	-59
Transfers from level 3 to level 1 or level 2	0	0	0	0
Transfers from level 1 or level 2 to level 3	0	0	0	0
<b>Closing balance</b>	<b>5,417</b>	<b>1,557</b>	<b>0</b>	<b>6,974</b>
Coupons and dividends during the period	217	164	0	381
Included in profit for the period				
– as part of carrying amount	26	163	0	189
– as part of other comprehensive income	0	0	0	0

For instruments recognised in level 3 the estimates of fair value Kåpan Pensioner considers to be true and fair are used. Since the definition of level 3 is that an assessment of fair value is based on some form of model-based measurement, this means that the calculated fair value can change through the use of alternative measurement methods, for example other model assumptions or parameters.

A review of the classification of each individual investment according to the fair value hierarchy is performed at least once a year in conjunction with closing accounts. Changes in level are documented continuously during the year in connection with each instrument's valuation basis. The annual review includes motivation for a changed classification during the year, if this has taken place. Descriptions of the measurement processes are provided in the section "Financial instruments not quoted on an active market" in Note 2. At each year-end a total review is made of all holdings. No transfers have taken place between level 1 and 2 to/from level 3 during the year. No transfers were made between level 1 and 2.

**Assessment of outstanding risks for investments recognised in level 3****Outstanding risks, level 3**

<b>Investment assets</b>	<b>Share in level 3</b>		<b>Share in level 1 or 2</b>	
	<b>SEKm</b>	<b>Share</b>	<b>SEKm</b>	<b>Share</b>
Interest rate risk	72	1%	2,811	99%
Share price risk	554	7%	7,300	93%
Property risk	1,300	100%	0	0%
Credit risk	453	33%	931	67%
Currency risk	34	7%	397	93%
Correlation effect	-1,611	31%	-3,652	69%
<b>Total net risk</b>	<b>802</b>	<b>9%</b>	<b>7,787</b>	<b>91%</b>
Basis for stress test				
Fair value level 3	7,199	100%		

The starting point for the internal risk measurement analysis of different asset classes is the risk variables and parameters assigned by the Financial Supervisory Authority when the society reports to the authority according to the traffic light model. The model takes into account the inherent correlation in the different risks and weighs these together with the aid of a square root formula. The model is based on the different asset classes being given a number of different assumptions on price fluctuations, such as a 30% change in interest rates or a 40% fall in share prices. It can be argued that correlation parameters cannot be read from market data, but their purpose is to capture the change in market value that can be expected in the event of an imagined extreme scenario, and thereby capture any dependence. The correlation parameters are set by the supervisory authority.

Currency risk for instruments in level 3 is hedged using forward contracts which in the fair value hierarchy, due to their measurement through discounted cash flows, are classified as belonging to level 2. In order to provide a true and fair value of outstanding currency risk attributable to level 3, this is calculated taking into account the currency hedging effected through a currency hedging instrument which is classified as level 2. Currency hedging takes the form of forward contracts and basis swaps. It is the remaining (excess) currency risk attributable to level 3 which is recognised here and consists of the part of the market value for the level 3 assets which is not quoted in SEK, which had not been hedged on the balance sheet date.

Calculation of how much of total net risk is attributable to instruments classified as level 3 in the fair value hierarchy has been made with the simplified assumption that the correlation, within each risk category, between instruments in level 3 and instruments in levels 1 or 2, is equal to one.

The method and parameters are solely an approximation of the risk scenario based on empirical studies of the historical market development for groups of asset classes, over a larger group of insurance companies

cont. next page



## Note 15 cont.

and pension funds. This means that for the individual asset both a higher and a lower risk level may exist, as with other types of risks. Taken overall, however, this analysis method provides a satisfactory assessment of the outstanding level of risk for instruments in level 3 and their share of the total risk level. For assets in level 3 that are not stress tested with theoretical models most constitute so-called alternative investments, which is a generic term for financial investments which are regarded as uncorrelated with share and fixed-income markets such as where illiquid financial instruments can exist.

**Quantification of observable inputs in level 3**

For fair value measurements within level 3 where the society has engaged a third party to calculate value, the society does not produce quantifiable unobservable inputs, but uses price information from the

third party without adjustment. The reason for this includes the fact that the valuation models used by the third party in its internal valuation process are usually owner protected by a third party and therefore not communicated to the society, i.e. these are the banks' and valuation institutions proprietary models where the society does not have insight into the details of the underlying assumptions and valuation models that are applied in the measurement process. For investments in some companies under liquidation the third party makes an assessment that there is a possibility to recover an unspecified part of the investment but that the probability of this occurring cannot be quantified, and the third party does not provide amounts for future cash flows that might be expected in the recovery process. In such valuations the society has set the probability of this at zero per cent and thereby measured these investments at zero kronor.

**NOTE 16 Other receivables**

	2013	2012
Tax asset	2	2
Non-cash sale investment assets	31	50
	33	52

**NOTE 18 Equity**

Disclosures of changes in equity are provided in the Statement of changes in equity, page 14.

**NOTE 17 Property, plant and equipment**

	2013	2012
Cost	4	4
Accumulated depreciation	-2	-2
	2	2

**NOTE 19 Life insurance provisions**

	2013	2012
Kåpan Tjänste <sup>*)</sup>	25,637	26,259
Kåpan Extra	4,375	4,173
Kåpan Plus	2,025	2,118
Kåpan retirement pension	7,349	7,913
<b>Total</b>	<b>39,386</b>	<b>40,463</b>

<sup>\*)</sup> The former product area ITPK-P is included in Kåpan Tjänste.

**NOTE 20 Life insurance provisions**

	2013	2012
<b>Opening balance</b>	<b>40,463</b>	<b>38,339</b>
Paid-in premium for new business	187	114
Paid-in premium for contracts signed in previous periods	3,820	3,822
Paid from/transferred to Provision for claims outstanding or liabilities	-1,449	-1,297
Risk result	-5	8
Indexation with discount rate	978	926
Effect of changed discount rate	-3,107	646
Allocated bonus	8	6
Charges	-58	-60
Tax on returns	-112	-89
Portfolio taken over/transferred	0	0
Effect of (other) changed actuarial assumptions	515	-283
Other changes	-1,854	-1,669
<b>Closing balance</b>	<b>39,386</b>	<b>40,463</b>

**NOTE 21 Provision for claims outstanding**

	2013	2012
Opening balance, reported claims	14	16
Opening balance, claims not yet reported	0	1
<b>Opening balance</b>	<b>14</b>	<b>17</b>
Revaluation with discount rate	0	0
Tax on returns	0	0
Charges	0	0
Cost of claims incurred in current year	0	0
Paid from/transferred to insurance liabilities or other current liabilities	-3	-3
Change of anticipated cost of claims incurred in previous year (run-off result)		
Effect of changed discount rate	0	0
Effect of (other) changed actuarial assumptions	0	0
Change in claims not yet reported	0	0
Other changes	1	1
<b>Closing balance</b>	<b>12</b>	<b>14</b>
Closing balance, reported claims	12	14
Closing balance, claims not yet reported	0	0

**NOTE 22 Other liabilities**

	2013	2012
Unsettled purchase of investments	11	0
Other	26	5
	37	5

**NOTE 23 Pledged assets and commitments****Pledged assets**

Derivative transactions are made either via a recognised clearing institution or with counterparties with good creditworthiness under an ISDA agreement. The derivatives transactions carried out result in market exposure in the form of exchange rate, interest rate, share price and share index risks.

As collateral for negative market value in the above-named derivative contracts in accordance with ISDA agreements special agreements are linked to collateral for outstanding obligations, so-called CSA agreements, in the form of bank deposits corresponding to SEK 0m (0) (memorandum items).

**Commitments**

Nominal value of currency and interest rate derivatives is recognised in accordance with the Swedish Financial Supervisory Authority's regulations as commitments (memorandum items) per each closing date and amount at 31 December 2013 to SEK 12,743m (16,683), see also Note 14. The society normally has a matching receivable within the framework of this type of derivative contract.

In addition, the society has outstanding commitments to invest in unlisted equities and funds which amount to SEK 1,442m (1,144) in accordance with current agreements.

Total commitments thus amount to SEK 14,185m (17,827).

**NOTE 24 Anticipated recovery dates****2013**

SEKm	Max 1 year	Longer than 1 year	Total
<b>Assets</b>			
Other intangible assets	0	10	10
Shares and participations	0	25,816	25,816
Bonds and other fixed-income securities	364	32,165	32,529
Derivatives	235	0	235
Other receivables	33	0	33
Property, plant and equipment	0	2	2
Cash and bank balances	1,172	0	1,172
Accrued interest income	458	0	458
Other prepaid expenses and accrued income	1	0	1
	2,263	57,993	60,256
<b>Liabilities</b>			
Life insurance provisions	1,568	37,818	39,386
Provisions for claims outstanding	12	0	12
Provision for other risks and expenses	6	0	6
Other liabilities	37	0	37
Accrued expenses and deferred income	2	0	2
	1,625	37,818	39,443

**2012**

SEKm	Max 1 year	Longer than 1 year	Total
<b>Assets</b>			
Other intangible assets	0	12	12
Shares and participations	0	21,686	21,686
Bonds and other fixed-income securities	250	29,793	30,043
Derivatives	249	0	249
Other receivables	52	0	52
Property, plant and equipment	0	2	2
Cash and bank balance	1,191	0	1,191
Accrued interest income	455	0	455
Other prepaid expenses and accrued income	3	0	3
	2,200	51,493	53,693
<b>Liabilities</b>			
Life insurance provisions	1,444	39,019	40,463
Provisions for claims outstanding	14	0	14
Provision for other risks and expenses	11	0	12
Other liabilities	5	0	5
Accrued expenses and deferred income	2	0	2
	1,476	39,019	40,495

## NOTE 25 Category and fair value of financial assets and liabilities

2013

SEKm	Financial assets at fair value through profit or loss			Carrying amount, total	Cost
	Assets assessed as belonging to the category	Held for trading	Loans and receivables		
<b>Financial assets</b>					
Shares and participations	25,816	–	–	25,816	22,165
Bonds and other fixed-income securities	32,529	–	–	32,529	32,116
Derivatives	–	235	–	235	0
Other receivables	–	–	–	33	52
Cash and bank balances	–	–	1,172	1,172	1,172
Accrued interest income	458	–	–	458	458
Other prepaid expenses and accrued income	–	–	–	1	1
Non-financial assets	–	–	–	12	12
<b>Total</b>	<b>58,803</b>	<b>235</b>	<b>1,172</b>	<b>60,256</b>	<b>55,976</b>

SEKm	Financial liabilities at fair value through profit or loss			Carrying amount, total
	Liabilities assessed as belonging to to the category	Held for trading	Other financial liabilities	
<b>Financial liabilities</b>				
Provision for other risks and expenses	–	–	–	6
Other liabilities	–	–	37	37
Accrued expenses and deferred income	–	–	2	2
Technical provisions	–	–	–	39,398
<b>Total</b>	<b>–</b>	<b>–</b>	<b>39</b>	<b>39,443</b>

2012

SEKm	Financial assets at fair value through profit or loss			Carrying amount, total	Cost
	Assets assessed as belonging to the category	Held for trading	Loans and receivables		
<b>Financial assets</b>					
Shares and participations	21,686	–	–	21,686	20,071
Bonds and other fixed-income securities	30,043	–	–	30,043	29,049
Derivatives	–	249	–	249	0
Other receivables	–	–	–	52	52
Cash and bank balances	–	–	1,191	1,191	1,191
Accrued interest income	455	–	–	455	455
Other prepaid expenses and accrued income	–	–	–	3	3
Non-financial assets	–	–	–	14	14
<b>Total</b>	<b>52,184</b>	<b>249</b>	<b>1,191</b>	<b>53,693</b>	<b>50,835</b>

SEKm	Financial liabilities at fair value through profit or loss			Carrying amount, total
	Liabilities assessed as belonging to to the category	Held for trading	Other financial liabilities	
<b>Financial liabilities</b>				
Provision for other risks and expenses	–	–	–	11
Other liabilities	–	–	5	5
Accrued expenses and deferred income	–	–	2	2
Technical provisions	–	–	–	40,477
<b>Total</b>	<b>–</b>	<b>–</b>	<b>7</b>	<b>40,495</b>

**NOTE 26 Related-party disclosures**

Kåpan Pensioner is an insurance society where all the surplus is returned to its members. The main purpose of the society is to manage and pay pension assets for employees covered by an agreement concluded between the Swedish Agency for Government Employers and the government employees' main unions, or between other parties who have concluded pension agreements linked to such agreements.

The highest decision-making body is the Council of Administration. The members of the Council of Administration are appointed by the parties within the government agreement sphere. Operating activities are managed by a Board which appoints the President of the society.

Related parties are defined as members of the Board and management people within Kåpan Pensioner and members of their immediate families.

Remuneration to the Board and President is set out in Note 7. Otherwise there are no transactions with these people or persons related to them in addition to normal customer transactions that take place on market terms.

Stockholm, 21 February 2014

Ulf Bengtsson  
Chairman

Lars Fresker  
Vice Chairman

Helen Thornberg

Gunnar Holmgren

Lena Emanuelsson

Monica Dahlbom

Gunnar Balsvik  
President

Our audit report was submitted on 21 February 2014

Anders Malmeby  
Authorised Public Accountant

Eva Lindquist

Gunnar Larsson

# Audit report

To the Council of Administration of Kåpan pensioner försäkringsförening  
reg. no. 816400-4114

## Report on the annual accounts

We have audited the annual accounts for Kåpan pensioner försäkringsförening for the year 2013.

## Responsibilities of the Board of Directors and the President for the annual accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of the annual accounts in accordance with the Annual Accounts Act for Insurance Companies, and for such internal control as the Board of Directors and the President deem necessary to enable the preparation of annual accounts that are free from material misstatements, whether due to fraud or error.

## The responsibility of the auditors

Our responsibility is to express an opinion on the annual accounts based on our audit. We have conducted the audit in accordance with International Standards on Auditing and generally accepted accounting standards in Sweden. These standards require that we comply with professional ethical standards and plan and perform the audit to obtain reasonable assurance that the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence relating to amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the society's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the society's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of Kåpan Pensioner, as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act for Insurance Companies. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the Council of Administration adopt the income statement and balance sheet.

## Report on other legal and regulatory requirements

As a basis for our opinion concerning discharge from liability, we have in addition to our audit of the annual accounts, examined significant decisions, actions taken and circumstances of the society in order to determine whether any member of the Board of Directors or the President is liable to the society. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Swedish Insurance Companies Act, the Annual Accounts Act for Insurance Companies or the society's statutes.

We believe that the audit evidence we have obtained is adequate and appropriate to provide a basis for our opinion.

## Opinion

We recommend to the Council of Administration that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 21 February 2014

Anders Malmeby  
Authorised Public Accountant  
KPMG

Eva Lindquist

Gunnar Larsson

# Council of Administration, Board of Directors and Auditors

## Council of Administration

### Appointed by the Swedish Agency for Government Employers

#### Members

Maria Ågren, Swedish Environmental Protection Agency	
Elisabeth Bjar, National Defence Radio Centre	
Peter Brodd, Public Prosecutor	
Per-Olof Stålesjö, Swedish Armed Forces	
Kajsa Möller, Swedish Tax Agency	until 130320
Fernando Alvarez, The Migration Board	from 130321
Claes Vallin, The Swedish National Grid	
Per Bergdahl, The Swedish National Agency for Education	until 130320
Karin Coster, Swedish Council on Health Technology Assessment	from 130321
Anna Cedemar, National Archives	
Mats Englebretson, The Government Offices	until 130320
Tatjana Mineur, County Administrative Board of Södermanland	from 130321
Hans Wallin, Swedish Board of Agriculture	
Lotta Liljegren, The National Board of Forensic Medicine	
Ann Fust, Uppsala University	
Ingegerd Olofsson, Luleå University of Technology	
Håkan Pallin, National Veterinary Institute	until 130320
Torbjörn Lindström, Statistiska centralbyrån	from 130321
Karl Pfeifer, Swedish Agency for Government Employers	

### Appointed by trade unions

#### Members

Peter Lennartsson, OFR	
Annette Carnhede, OFR	until 130320
Britta Lejon, OFR	from 130321
Tom Johnson, OFR	
Håkan Sparr, OFR	
Bengt Sundberg, OFR	
Meeri Wasberg, OFR	until 130320
Linda Englund, OFR	from 130321
Anna Nitzelius, OFR	
Ulla Thörnqvist, SEKO	
Ingrid Lagerborg, SEKO	
Christer Henriksson, SEKO	
Erik Johannesson, SEKO	
Hans Monthan, SEKO	
Git Claesson Pipping, Saco-S	
Carolina Gomez Lagerlöf, Saco-S	
Hans Lindgren, Saco-S	

#### Personal Deputies

Mikael Odenberg, The Swedish National Grid	
Magnus Lundström, National Defence Radio Centre	
Margareta Sandberg, Swedish Prison and Probation Service	
Anette Ekström, Swedish Public Employment Service	
Lars-Åke Brattlund, Swedish Social Insurance Agency	
Christina Burlin, Swedish Maritime Administration	until 130320
Ulrika Worge Carlsson, Swedish Maritime Administration	from 130321
Lena Darås, Swedish National Agency for Higher Vocational Education	until 130320
Gun-Britt Spring Larsson, Swedish National Board for Youth Affairs	from 130321
Dan Jacobsson, National Museum of Science & Technology Foundation	
Tatjana Mineur, County Administrative Board of Södermanland	until 130320
Margareta Skoglund, Swedish Defence Recruitment Agency	from 130321
Kristin Lindgren, Swedish Environmental Protection Agency	
Douglas Boldt, Data Inspection Board	
Marie Högström, Stockholms University	
Ann-Charlotte Jensen, Södertörn University	
Torbjörn Lindström, Statistics Sweden	until 130320
Marie Lyxell Stålnacke, Lantmäteriet	from 130321
Matilda Nyström Arnek, Swedish Agency for Government Employers	

#### Personal Deputies

Lars Hedin, OFR	until 130320
Henriette Karling, OFR	from 130321
Siv Norlin, OFR	
Britta Unneby, OFR	
Fredrik Mandelin, OFR	
Björn Hartvigsson, OFR	
Mikael Krüger, OFR	
Mikael Boox, OFR	
Charlotte Olsson, SEKO	
Lennart Johansson, SEKO	
Gunnar Carlsson, SEKO	
Dennis Lövgren, SEKO	
Birger Bergvall, SEKO	
Robert Andersson, Saco-S	
Hans Norinder, Saco-S	
Peter Henriksson, Saco-S	

## Board of Directors

### Employer representatives

#### Members

Ulf Bengtsson, Swedish Agency for Government Employers, Chairman

Monica Dahlbom, Swedish Agency for Government Employers

Gunnar Holmgren, Offices of the Governor of the Royal Palaces

#### Personal Deputies

Jonas Bergström, Swedish Agency for Government Employers

Nils Henrik Schager, Swedish Agency for Government Employers until 130320

Roger Vilhelmsson, Swedish Agency for Government Employers from 130321

Pia Enochsson, Swedish National Agency for Higher Vocational Education

### Trade union representatives

#### Members

Lars Fresker, OFR, OFR, Deputy Chairman

Edel Karlsson Håål, Saco-S until 130320

Lena Emanuelsson from 130603

Sven-Olof Hellman, SEKO until 130320

Helen Thornberg, SEKO from 130321

#### Personal Deputies

Eva Fagerberg, OFR

Mikael Andersson, Saco-S

Helen Thornberg, SEKO until 130320

Roger Pettersson, SEKO from 130321

## Auditors

#### Auditors

Anders Malmeby, Authorised public accountant

Eva Lindquist, Saco-S

Gunnar Larsson, Swedish Consumer Agency

#### Deputy Auditors, Personal

Gunilla Wernelind, Authorised public accountant

Gunilla Hellström, OFR until 130320

Minna Engberg, OFR from 130321

Eva Liedström Adler, Swedish Enforcement Authority



# Definitions

## Bonus

Surplus funds that an insurance company has assigned or proposes to allocate to a policyholder.

## Bonus rate

The interest rate used to distribute the society's return to policyholders. This rate includes the guaranteed rate. The bonus rate is decided annually in arrears by the Council of Administration.

## Capital base

The difference between the company's assets (minus financial liabilities and untaxed reserves) and technical provisions.

## Collective funding ratio

Specifies the relation between the fair value of the society's assets and the society's total commitments in the form of insurance capital to members. In the annual report in some cases the term funding ratio is used as an abbreviated form of the relation described above.

## Currency hedging

Action taken to guarantee the value of a certain currency at a certain date.

## Derivative

A financial instrument the value of which is based on expectations of the future value of an underlying contract.

## Fair value

Is the amount at which an asset could be transferred or a liability settled, between qualified parties who are independent of each other and who have an interest in the transaction being carried out.

## Funding capital

The society's equity including surplus values in investment assets.

## Guaranteed rate

The interest rate used for annual indexation of paid-in premiums, in an insurance with a guaranteed rate. The rate is determined per payment received and applies until pension payments start.

## Insurance capital

Insurance capital consists of paid-in premiums, return/bonus and risk compensation minus charges, tax on returns and any payments from the insurance.

## Interest rate cover ratio

The obligations of the society comprise to a dominant extent fixed guaranteed interest on paid-in premiums. The outstanding interest rate risks in commitments made is balanced by a corresponding risk in outstanding fixed-income investments and interest rate derivatives. The society measures the total outstanding interest rate risk using the metric interest rate cover ratio which indicates how large a portion of interest rate on the liability side including interest rate derivatives is covered by fixed-income investments (see Note 2, page 18).

## Management expense ratio

Operating expenses in the insurance business in relation to average managed assets.

## Required solvency margin

A minimum requirement for the size of the capital base. The solvency margin is decided, to put it simply, as certain percentages of both technical provisions and the company's insurance risks.

## Return

The surplus created during a year when investment assets increase in value. In defined contribution traditional life insurance the surplus after the guaranteed return accrues to the insured in the form of bonus and therefore a higher pension.

## Solvency ratio

Market value of the society's assets as a percentage of the society's book insurance liability.

## Total return

The society's total asset management result, i.e. the sum of changes realised and unrealised changes in value of investments and direct yield received. The return calculation does not include changes in value of outstanding insurance obligations.



# KÅPAN PENSIONER

The Swedish Pension Insurance Society  
for Government Employees

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