



KLP SFCR 2024

Solvency and Financial Condition Report 2024
(Rapport om Solvens og Finansiell stilling)



KLP

Solvency and Financial Condition Report 2024

Kommunal Landspensjonskasse gjensidig forsikringsselskap

Org.no 938 708 606

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Summary

The Solvency II regulations apply to all countries in the EU and the EEA. Among other things, the rules are intended to provide increased protection for policy-holders. Solvency II lays down requirements for information disclosure, including through this report. The report should provide information on the Company's business and results, the system of risk management, and how internal control within the company operates. The report is also intended to provide information on the risks to the Company, the methods used for valuation of both assets and liabilities, and an overview of the company's solvency capital composition. The solvency capital is meant to cover the risk that the Company has assumed by means of statutory solvency capital requirements.

The main product offered by Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP) is public sector occupational pensions. The Company is owned by its customers, which are Norwegian municipalities, county administrations, health enterprises and companies associated with the public sector.

The Company's asset management is divided into a customer portfolio totalling NOK 807 billion at 31.12.2024 (NOK 737 billion at 31.12.2023) comprising all pension funds, and a corporate portfolio totalling NOK 57 billion at 31.12.2024 (NOK 50 billion at 31.12.2023), which includes the Company's equity and other assets.

The financial income associated with the customer portfolio amounted to NOK 65 billion in 2024 (43 billion in 2023). This represented a value-adjusted return of 9.0 per cent for the year. Financial income in the corporate portfolio amounted to NOK 2.0 billion in 2024 (1.3 billion in 2023) corresponding to a return of 4.8 per cent.

For 2024, the risk result (arising from the fact that mortality and disability in the period differ from what is assumed in the premium tariff), was NOK 0.8 billion within public-sector occupational pensions. The corresponding figure for 2023 was NOK 0.6 billion.

The system of governance, as it is organised and implemented, is considered appropriate to KLP's business. The Company's articles of association and applicable legislation provide the framework for proper corporate governance and a clear division of roles between the governing bodies and executive management. The Company's highest authority is the General Meeting. The Company also has a Corporate Assembly which elects the Company's Board of Directors.

The risk management system within KLP is tailored to Solvency II and organised on the principle of the three lines of defence. The Board of Directors of KLP has established a remuneration committee, an audit committee and a risk committee.

The Board has adopted a policy for risk management and internal control and a series of other guidelines to provide for good risk management and compliance with laws and regulations. Requirements have also been laid down for the overall competence of the Board, in addition to the 'fit and proper' requirements which also apply to managers and key functions within the Company.

The development of the Company's risk and solvency situation is monitored through detailed reporting to the Board and senior management. This includes reporting from all three lines of defence.

The Company's solvency risk is dominated by the mass exit component of underwriting risk, and general market risk.

Over 50% of customers' deposits are invested in interest-bearing securities. The rest are invested in equities and property. The Company has substantial buffers to enable this allocation. Market risk is dominated by equity and property risk, along with interest rate and credit risk. The risk profile changes dynamically in that a policy rule adjusts the proportion of risky investments to the buffer level that the Company has.

Under Solvency II, all assets and liabilities are valued at market value. There are two key differences in the valuation of assets and liabilities in Solvency II and in the financial accounts. One is the valuation of insurance obligations. The Solvency II accounts take account of real interest rates, whereas the financial statements use guaranteed interest in the valuation. The other main difference is that bonds and loans reported at amortised cost in the financial statements are shown at fair value in the Solvency II accounts. Other differences are due to differing treatment of intangible assets and deferred tax.

The Solvency II regulations lay down requirements for the amount of solvency capital through the solvency capital requirement. KLP applies a transitional rule to the Solvency II regulations for technical provisions. Using this transitional rule, KLP had capital adequacy of 361 per cent at 31.12.2024. The solvency capital coverage (capital adequacy) is the same without applying transitional rules. The solvency capital coverage is well above our own target of at least 150 per cent.

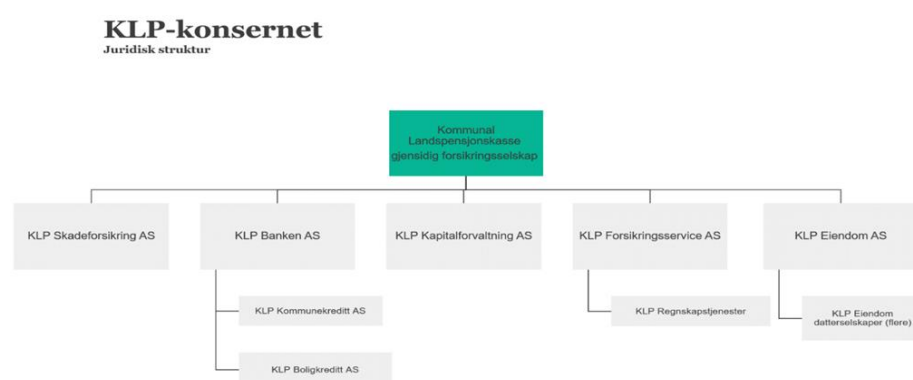
This report has been produced by KLP as a life company. A similar report has been produced for the KLP Group.

A. Business and performance

A.1 Business

- a) The name of the Company is Kommunal Landspensjonskasse gjensidig forsikringsselskap. The Company's address is: Dronning Eufemias gate 10, postboks 400 Sentrum, N-0103 Oslo
- b) The Financial Supervisory Authority of Norway exercises financial supervision of the Company. The address of the Financial Supervisory Authority of Norway is: Revierstredet 3, postboks 1187 Sentrum, N-0107 Oslo
- c) The Company's external auditor is EY, Stortorvet 7, 0155 Oslo
The principal auditor is Finn Espen Sellæg, finn.espen.selleg@no.ey.com
- d) Customers with public-sector occupational pensions from KLP own the Company. These comprise Norwegian municipal and county authorities, the regional healthcare enterprises (RHF) with their subsidiary healthcare companies (HF), and other public-sector businesses.
- e) Kommunal Landspensjonskasse (KLP) is the parent company for the KLP Group. KLP's wholly-owned subsidiaries are organised as limited companies. The following wholly-owned subsidiaries are part of the Group:
 - KLP Banken AS and its subsidiaries:
 - KLP Boligkreditt AS
 - KLP Kommunekreditt AS
 - KLP Eiendom AS
 - KLP Eiendom subsidiaries (several)
 - KLP Forsikringservice AS
 - KLP Regnskapsservice AS
 - KLP Kapitalforvaltning AS
 - KLP Skadeforsikring AS

Figure 1: Corporate structure



KLP

- f) KLP's principal product is public-sector occupational pension provision. The Group is also a major provider of non-life insurance, banking services and investment products. The property company KLP Eiendom is one of the largest property management companies in the Nordic region. With the exception of the property business, which has a lot of properties abroad, KLP's operations are exclusively in Norway.

- g) There is nothing to report regarding activities or events occurring in the reporting period which had a significant impact on the Group.

A.2 Underwriting result

The risk result in KLP for 2024 is NOK 790 million. The whole of the risk result is transferred to the customers' premium fund.

The risk result is an expression of how mortality and disability have developed in the insured population in relation to the assumptions used in the annual setting of premiums.

In 2024, disability rates were higher than expected and the risk result for disability now amounts to NOK -5 million.

For KLP's schemes as a whole, mortality has been higher than expected and the risk result for longevity is NOK 590 million. The risk result associated with survivors' cover is NOK 204 million.

A.3 Investment result

The Company's asset management is split into a customer portfolio which covers all the pension assets, and a corporate portfolio which covers the investment of the Company's remaining assets.

A.3.1 Investment result for the customer portfolio

The customer portfolio is divided into two portfolios, the common portfolio and the investment options portfolio. All returns from the management of these portfolios are credited to customers; nothing falls to KLP.

Table 1: Income from investments in the common portfolio. Figures in NOK millions.

Common portfolio	2024	2023	Change
Income from investments in subsidiaries, associates and joint ventures	5,426	241	5,185
Income from interest and dividends etc. on financial assets	17,264	14,507	2,757
Unrealised gains and losses on investments	36,593	32,140	4,453
Realised gains and losses on investments	5,983	4,388	1,595
Income from investments	65,265	42,500	22,765

Table 2: Income from investments in the investment options portfolio. Figures in NOK millions.

Investment options portfolio	2024	2023	Change
Income from investments in subsidiaries, associates and joint ventures	23	-1	24
Income from interest and dividends etc. on financial assets	43	39	4
Unrealised gains and losses on investments	185	172	13
Realised gains and losses on investments	54	3	51
Income from investments	304	212	92

In the common portfolio, the Company has undertaken to deliver a minimum annual return. In the investment options portfolio, KLP has to honour the investment guarantee after five years, while customers have to cover any shortfall in annual returns during this five-year

period. KLP collects a premium in return for committing to this guaranteed return (interest guarantee premium). The interest guarantee premium is intended to reflect the market value of the return guarantee, and the premium is fixed in advance for one year at a time. The value of the interest guarantee premium is given in table 8 in section A.5, Other information.

Any shortfall in returns has to be covered from the Company's equity or buffer fund. The buffer fund can be used to cover any deficits as well as the Company's return guarantee.

The financial income associated with customer portfolios amounted to NOK 65.3 billion in 2024; in 2023 it totalled NOK 42.5 billion (see tables 3 and 4 above). This corresponded to a value-adjusted return of 9.0 per cent in 2024, against 6.4 per cent in 2023 in the common portfolio, and 10.8 per cent in 2024 and 8.3 per cent in 2023 in the investment options portfolio.

In 2024, the investment result was NOK 50.8 billion. Of the customers' investment result, NOK 36.7 billion has been transferred to the customers' premium fund, and NOK 14 billion has been allocated to the customers' buffer fund. After several years of low interest rates where it has been necessary to build buffers, KLP now has financial strength commensurate with today's interest levels.

In 2024, KLP achieved an investment result to customers of NOK 50.8 billion.

The costs of managing customer assets were NOK 248 million in 2024. In 2023, the cost was NOK 231 million. The costs are covered by a special cost element in the pension premium and are included in the administration result that falls to the Company. The administration result is stated in section A.5 under table 8, Profit and loss elements in the corporate portfolio.

The table below shows the breakdown of the common portfolio into main asset classes and the returns per asset class. The total will differ slightly from the accounting figure because of differing accounting classifications. In the table, derivative items are also reported net, whereas they are posted gross to the accounts. The biggest contributor to financial income in 2024 was the exposure to equities.

Table 3: The common portfolio. Figures in NOK millions.

Assets in the common portfolio	Balance-sheet 31.12.2024	Return 31.12.2024	Balance-sheet 31.12.2023	Return 31.12.2023
Property	102,826	4.7%	96,261	-3.2%
Lending	87,558	4.7%	82,212	3.9%
Shares and alternative investments	280,268	19.2%	225,610	16.1%
Long-term/HTM bonds	211,535	3.6%	207,328	3.2%
Short-term bonds	86,967	4.1%	84,352	58 %
Liquidity/money markets	27,627	5.4%	29,582	4.7%
Total	796,782	9.0%	725,345	6.4%

For information, KLP did not post any investment costs or income against equity. Nor does KLP have any investments in securitisation.

A.3.2 Investment result for the corporate portfolio

Financial income from investments in the corporate portfolio totalled NOK 2.0 billion in 2024. This gave a return on equity of 4.8 per cent in 2024, compared with 3.0 per cent in 2023. The costs of managing the corporate portfolio were NOK 15 million. Returns on the corporate portfolio and costs of managing this are included in total comprehensive income for the Company.

Table 4: Income from investments in the corporate portfolio. Figures in NOK millions.

Investment result for the corporate portfolio	2024	2023	Change
Income from investments in subsidiaries, associates and joint ventures	745	226	519
Income from interest and dividends etc. on financial assets	1,090	940	150
Net operating income from property	54	-47	101
Unrealised gains and losses on investments	-12	508	-520
Realised gains and losses on investments	113	-345	458
Income from investments	1,989	1,282	707

The table below shows the breakdown of the portfolio into main asset classes and the returns on investments per asset class. The total will differ slightly from the accounting figure because of differing accounting classifications.

Table 5: The corporate portfolio. Figures in NOK millions.

Assets in the corporate portfolio	Balance-sheet 31.12.2024	Return 31.12.2024	Balance-sheet 31.12.2023	Assets in the corporate portfolio
Shares in subsidiaries	6,901		6,079	Shares in subsidiaries
Property	4,468	4.6%	4,476	Property
Long-term shareholdings and associated companies	7	4.0%	6	Long-term shareholdings and associated companies
Hedging of subordinated loans	3,884	5.8%	3,727	Hedging of subordinated loans
Long-term/HTM bonds	19,064	3.1%	18,055	Long-term/HTM bonds
Short-term bonds	3,748	2.3%	3,803	Short-term bonds
Liquidity/money markets	8,936	5.7%	7,668	Liquidity/money markets
Total	47,002	4.8%	43,814	Total

A.4 Profit/loss from other activities

All significant income and expenses are included in the above.

A.5 Other information

The sections above describe the underwriting performance (risk result) and the investment result. Positive underwriting and investment results in the customer portfolio accrue to customers. The corresponding negative result is charged to the Company's equity. The interest guarantee premium and the administration result are included in the Company's annual results along with the return in the corporate portfolio. KLP is a mutually owned company. These amounts are one reason why the growth in equity follows the growth in the pension obligations. The table below shows the amount of the interest guarantee premium and the administration result for 2024 and 2023. The necessary growth in equity over and above this level is provided by calling in an annual capital contribution from the owners.

Table 6: Profit and loss elements in the corporate portfolio. Figures in NOK millions.

Profit and loss elements	31.12.2024	31.12.2023
Interest guarantee premium	14	291
Administration result	77	144
Total	91	435

The Company's total income before tax was NOK 2.2 billion in 2024, compared with NOK - 0.02 billion in 2023.

B. System of governance

The description in this section covers KLP both as a company and as a group. The section is identical to the corresponding section in the KLP Group SFCR.

The system of governance, as it is organised and implemented, is considered appropriate to KLP's business, in relation to the nature, scope and complexity of the risks.

B.1 General information on the system of governance

B.1.1 Structure of KLP's administration, management and controlling bodies

The Company's articles of association and applicable legislation provide the framework for proper corporate governance and a clear division of roles between the governing bodies and executive management.

The General Meeting

KLP has a broad ownership structure. Members of the General Meeting are appointed through election meetings in the relevant constituencies, to which all owners are invited. Voting rights are calculated on the basis of the individual member's share of the previous year's ordinary premium. At the General Meeting each individual delegate has one vote.

The General Meeting is the Company's highest authority and comprises elected representatives of the Company's owners.

174 delegates from a total of 19 constituencies were elected to the General Meeting for 2024 and 2025. The county administrations and the municipalities in each county make up 14 of the constituencies. The four regional health enterprises and their subsidiaries each form one constituency. The companies together form one constituency. In each constituency an election meeting is held to elect delegates to the General Meeting. The General Meeting approves the annual report and accounts for the Company and the Group, including the allocation of profits or provision for losses. The tasks of the General Meeting also include electing 24 of the 45 members of the Corporate Assembly and approving the remuneration of the Corporate Assembly.

The Corporate Assembly

The Corporate Assembly comprises 45 members, 24 of them elected by the General Meeting. A further six representatives are appointed by the employee organisations in the local government sector. 15 representatives are elected by and from the employees in the Group. The Corporate Assembly has essentially the same responsibilities as a corporate assembly under the provisions of the Norwegian Public Limited Liability Companies Act. The Corporate Assembly elects the Board and its Chair. The Corporate Assembly members elected by the General Meeting elect five members with deputies to the Board of Directors, while the full Corporate Assembly elects the Chair and Deputy Chair of the Board of Directors. The Corporate Assembly elects an election committee with four members and a deputy member.

The Board of Directors of KLP (Group Board)

The Board of Directors is a collective body responsible for the interests of the Company and its owners. The Board is required to monitor the Group's compliance with business regulations and licence requirements. The Board provides for appropriate organisation of the business, determines policies, plans and budgets, keeps abreast of the Company's financial position and obligations and ensures that the business, accounts and asset management are

subject to satisfactory control. The Board is required to supervise the executive management and the Company's business generally. The Board of Directors comprises eight members who are elected for two years at a time. Five Board members with up to the same number of deputies are elected by the members of the Corporate Assembly who are elected by the General Meeting. Two members with deputies are elected by and from KLP's employees. One member and a deputy are nominated by the employee organisation or negotiating alliance with most members in the pension schemes. In addition two observers are nominated from those organisations that are second and third in regard to the number of members. The Group Chief Executive Officer is not a member of the Board of Directors.

Group CEO

The CEO is responsible for the day-to-day management of KLP's business and has to follow the guidelines and orders issued by the Board. The CEO reports to the Company's Board of Directors. The CEO's responsibilities and duties are set out in the instructions adopted by the Board.

Group senior management

Group senior management is made up of the managers of the various divisions within KLP, and consists of eight experienced persons, in addition to the CEO, with a broad background in Norwegian business and the public sector. Group senior management is the top level of management in KLP and is responsible for the functional management of the Company.

The Board's sub-committees

The Board of Directors has three sub-committees: a remuneration committee, an audit committee and a risk committee. The committees do not make decisions on behalf of the Board, but present their assessments and recommendations to the Board.

Remuneration committee

The remuneration committee is a preparatory and advisory working committee for the Board's deliberations on remuneration questions. In 2011 the Financial Supervisory Authority of Norway gave permission for a joint remuneration committee in the KLP Group. On this basis the committee also serves those boards of directors in the KLP Group that are required by law to have remuneration committees. The committee's responsibilities include ensuring the requirements laid down in law and in the regulations on remuneration schemes in financial institutions and asset management companies are complied with in those companies in the KLP Group that are subject to these regulations.

Audit committee

The audit committee is a preparatory and advisory working committee for the Board. The Committee was set up in accordance with the requirements for an audit committee pursuant to the Norwegian Act on Insurance Activity. The committee helps to quality-assure the Board's work to do with financial and sustainability reporting, audit and governance.

Risk committee

The Committee acts as a risk committee for the Board of KLP. The principal tasks of the risk committee are to assist the Board in monitoring and managing the Company's overall risk and assessing whether the Company's management and control systems are appropriate to the level of risk and the scope of the overall business of the Group. The committee also ensures that the Company has good systems for internal control and risk management, and that the second-line functions work properly. The committee also ensures that there is a satisfactory organisation with a clear organisation structure, and an appropriate division of responsibilities and tasks between executing and monitoring functions. The risk committee assists the Board in preparing Board actions in other matters to do with risk management.

Risk management committee

The Group CEO has established a committee to act as his advisory body in matters concerning the Company's overall risk and solvency. The committee addresses the general risk appetite, the overall risk strategy and risk exposure from all the major risk factors, including market risk, underwriting risk and operational risk.

Key functions

The risk management, compliance and actuarial functions and Internal Audit are the key functions in KLP. The Board ensures that these have the necessary authority, resources and independence through guidelines/instructions adopted by the Board for each of the functions. These guidelines/instructions allow the managers of each function to report directly to the Board on matters affecting their areas of responsibility. The various key functions produce quarterly and annual reports which are discussed by the Board.

B.1.2 Significant changes in the system of governance made during the reporting period

No significant changes were made to the system of governance in the reporting period.

B.1.3 Remuneration policy

Principles

The Board previously adopted remuneration principles for KLP and additional guidelines for KLP Kapitalforvaltning AS. The remuneration rules were last discussed and revised at the Board meeting of KLP on 06.12.2024.

In accordance with the Norwegian Financial Institutions Act and the Act on Securities Funds with associated regulations, the Board of KLP has determined and ensured that the Company always has and applies guidelines and frameworks for a remuneration scheme covering the whole of the Company including its subsidiaries.

The KLP Group aims to have competitive pay and employment conditions compared to similar companies, but without leading the way. The remuneration scheme should be designed to be cost-effective for the Group.

The Group's remuneration schemes should be open and performance-based, so as to be perceived as fair and predictable wherever possible. There should be a correlation between agreed performance requirements and the remuneration given.

A fixed base salary is the main element of the total remuneration, which also includes insurance and pension schemes and benefits in kind. The subsidiary KLP Kapitalforvaltning AS operates in markets where part of the salary is based on profits achieved and therefore offers salaries that are partly performance-based to employees who have direct responsibility for profits. In accordance with the regulations, payment of this remuneration is spread over several years and is partly linked to the growth in value in selected securities funds, because KLP as a mutual company does not have its own exchange-listed equity instruments. Performance-related pay has not been introduced elsewhere in the Group or in Group management.

Remuneration based on results

No individual or collective remuneration (bonus) is given to employees on the basis of KLP's results.

Pension scheme

All employees of KLP are members of KLP's pension scheme.

Until 01.05.2013, KLP also had a scheme for “Pensions for salaries over 12 G¹“. This scheme has been modified:

- Persons employed by KLP after 30.04.2013 are not covered by the scheme.
- Persons employed before 30.04.2013 who have salaries below 12 G today will not be covered by the scheme even if they later receive salaries over 12 G.
- For persons whose salary is above 12 G as of 30.04.2013, the following scheme applies: “Persons with salaries over 12 G have additional cover to ensure that fixed pay in excess of 12 G is counted as fully pensionable. This scheme applies only to qualification time accrued directly in KLP. If the pension is calculated on part-time working as an employee of KLP, the pension base over 12 G will be reduced accordingly.”

B.1.4 Transactions with related parties

KLP has transactions with other companies in the KLP Group, as well as members of the administration, management or control bodies. These are transactions that are part of the products and services offered by KLP or its subsidiaries to their customers. The transactions are entered into on market terms and include occupational pensions, non-life insurance, bank deposits, lending, asset management and fund saving.

B.2 ‘Fit and proper’ requirements

B.2.1 The Company’s ‘fit and proper’ requirements

The Company ensures that managers of the business and others in the business who hold central and key functions, including anti-money laundering, and managers and others directly involved in insurance distribution, are suitable and ‘fit and proper’ to handle their tasks and areas of responsibility as stated in each individual’s job description.

The Board of KLP has adopted a guideline on ‘fit and proper’ criteria which is revised annually. The guideline contains qualification requirements which are designed to provide for appropriate diversity of qualifications, knowledge and relevant experience, to ensure that the Company is managed and supervised in a professional manner.

The Board of KLP should have sufficient insight and understanding to be able to question the assessments of the administration, take a critical view of the answers and initiate the necessary action. The whole Board of KLP should at least have qualifications in these areas:

- The insurance and finance market
- Business model and strategy
- The business system, including an understanding of the risks the Company is exposed to and its ability to handle them
- Financial and actuarial analysis.
- Regulatory frameworks and requirements.
- Understanding of social issues.
- Customer and product knowledge.
- Sustainability expertise on topics that are vital to KLP’s business

B.2.2 The Company’s process for ‘fit and proper’ assessment

The assessment of suitability for Board members is made by the nomination committee, and for employees by the individual’s manager. Persons to be assessed have to submit a completed form for use in the assessment approved by the Financial Supervisory Authority of

¹ National Insurance basic amount

Norway. These persons are assessed when employed/elected, or in specific situations. An annual confirmation has to be given to the effect that no new circumstances have arisen since the last assessment/confirmation. This is especially important in relation to conduct.

All persons in Group management, key functions and the Board must meet certain standards of suitability (conduct). The 'fit and proper' criteria for the person responsible for anti-money laundering and persons directly engaged with and managers responsible for insurance distribution are also assessed. For persons listed above, KLP assesses the following aspects:

- Criminal record
- Penalties and sanctions
- Economic conditions
- Tax matters
- The time aspect

Persons to be assessed must present a copy of a police certificate no more than three months old. Information may also be obtained from the publicly accessible Register of Bankruptcies and the Register of Company Accounts. For employees who directly engaged with and managers responsible for insurance distribution, confirmation must also be obtained from the Brønnøysund Register Centre that they are not involved in bankruptcy proceedings, quarantine or debt negotiations.

If any of the criteria listed above is not met, an individual assessment will be made. A principle of proportionality will be applied, whereby consideration will be given to the nature and severity of the offence, whether there has been a final judgment, the number of offences, the person's subsequent behaviour and the time aspect. The assessment is in line with the guidelines in the current circular from the Financial Supervisory Authority of Norway on the assessment of 'fit and proper' requirements.

B.3 Risk management system

B.3.1 Risk management system. Strategies, processes, and reporting procedures

Requirements for the risk management system are established through KLP's guidelines for management and control. The system is implemented in the form of strategies, procedures, mandates, instructions and reporting routines.

Guidelines

The guidelines set requirements for risk management. Among other things, this provides overarching rules for managing the risk, depending on the risk appetite and purpose, and requirements for the overall risk management strategy and underlying risk strategies and frameworks. The guidelines are reviewed annually and approved by the Board.

Some guidelines apply to the whole Group, and are adopted by the Boards of the subsidiaries with any necessary company-specific adjustments. Other guidelines apply wherever appropriate and provide a basis for the subsidiaries' own guidelines. Every subsidiary will also have its own guidelines to govern matters specific to the company's business in the acts and regulations to which it is subject.

Strategies

The overall risk in the Company is normally divided into three main categories: investment risk, underwriting risk and operational risk (including strategic and reputational risk).

The overall risk management strategy sets parameters for managing the overall risk in line with the risk appetite and sets the strategy for managing overall risk. The strategy also

includes a separate buffer strategy. It also sets out an overall strategy the main categories of risk mentioned above, with guidelines that are implemented in the specific strategies and frameworks.

The capital, contingency and recovery plan describes the asset management process and also covers the contingency and recovery plan for capital coverage. The capital plan is drawn up in parallel with the Own Risk and Solvency Assessment (ORSA) process, and sets the long-term course for the Company's asset management.

The asset management strategy sets targets for the management of investment risk, including market risk, concentration risk and sustainability risk, as well as provides frameworks for allocation and guidance for the Company's dynamic strategy for exposure to risky assets. The liquidity strategy is included in the same document. Targets for investment risk are set in line with the general risk objectives set out in the overall risk management strategy.

The strategy for underwriting risk sets the targets and limits for managing underwriting risk, including biometric risk, cost risk, departure risk and disaster risk, in line with the general risk objectives set out in the overall risk management strategy.

The objectives and frameworks for operational risk, and requirements for effective risk management and internal control in the units and the Company as a whole, are set out in the overall risk management strategy. Operational risk is assessed on the basis of the annual process for risk management and internal control (see Chapter B.4.1), and is also monitored on an ongoing basis against control parameters in line with the risk appetite for the different categories of operational risk.

All of the strategies are presented to the Board each year.

Procedures and other guidelines.

KLP has several procedures and guidelines that originate from the risk strategies, etc. These are more operational in their guidelines.

Reporting

Risk reporting in KLP takes place at many levels. At each Board meeting, the CEO includes current topics in his briefing. A separate briefing on risk management and asset management is also a fixed item on the agenda. The Board also receives a detailed monthly report on developments in the Group.

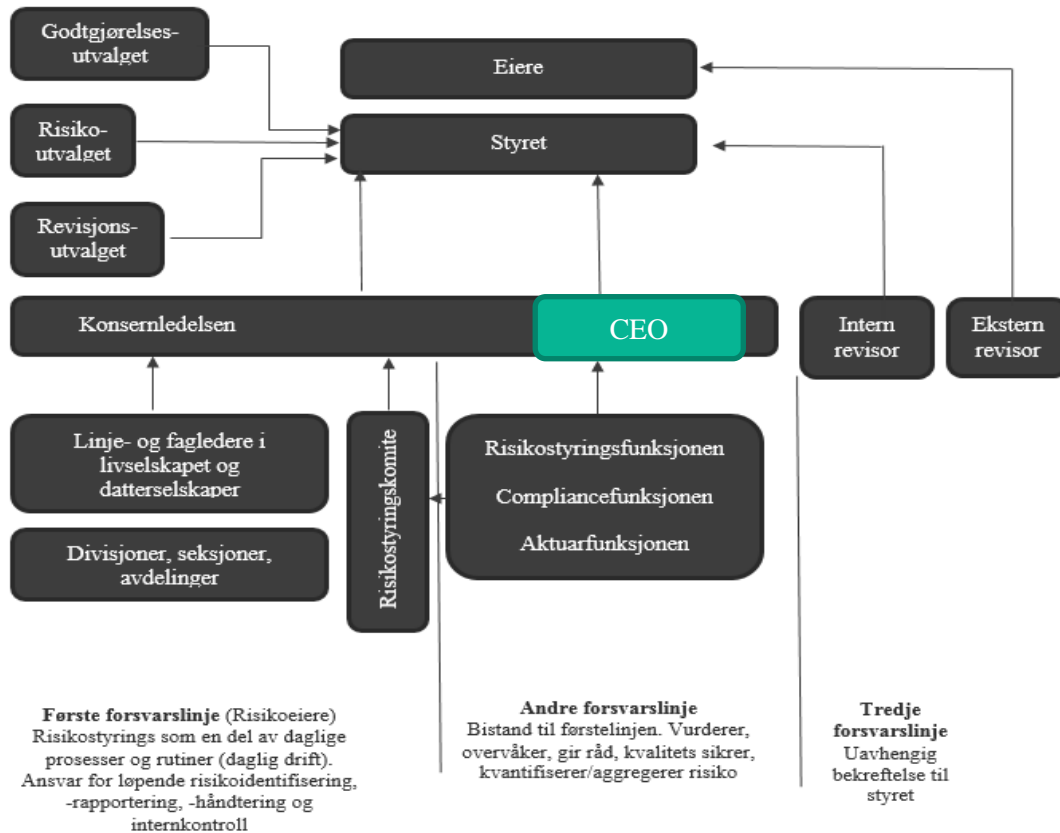
The second-line functions produce quarterly reports from their areas, which are discussed by the CEO and the Board. The actuarial function also produces an annual report.

The risk management committee monitors changes in the policy rule at each meeting.

B.3.2 Organisation of the risk management system

The risk management system at KLP is organised on the principle of the three lines of defence. This is in line with the latest principles of risk management and adapted to the requirements in the Solvency II rules. The organisation is illustrated in the figure below:

Figure 2: The risk management system at KLP



First line – Risk management and operation

All managers and employees in the operational units and subsidiaries make up the first line of defence. They bear the primary responsibility for good risk management through their responsibility for doing their jobs in line with strategies, authorisations, instructions and guidelines. Managers are also required to establish proper procedures and control measures within their areas.

Second line – Monitoring and quality assurance

The control functions that make up the second line are the risk management function, the compliance function and the actuarial function. For a more detailed description of the compliance function and the actuarial function, see sections B.4 and B.6.

The risk management function is headed by the Chief Risk Officer (CRO), who reports to the Group CEO. The main role of the risk management is to keep track of the overall risk situation in the Company at all times and provide for good risk management in all parts of the business. The risk management function bears the overall responsibility for monitoring the risk in the Group, and the risk management system. Production of the Own Risk and Solvency Assessment is coordinated by the risk management function; see section B.3.3.

The manager of the actuarial function is organised as an integral part of the risk management function. To guarantee the independence of the actuarial function in relation to the CRO, the actuarial function reports directly to the CEO each quarter, and presents the Annual Report to the CEO and the Board. The second-line functions have the right to report directly to the Board of Directors on matters concerning their areas of responsibility.

Third line – Independent verification

Independent verification is provided by the Group's own Internal Audit unit. The Internal Audit function is described in detail in section B.5.

Risk management committee

The Group CEO has established a committee to act as his advisory body in matters concerning the Company's overall risk and solvency. The committee, which is run by the CRO, includes the CFO and the directors responsible for the Company's risk management and actuarial functions.

The committee deals with matters relating to the Company's total risk appetite and risk exposure. This includes an assessment of investment risk, underwriting risk and operational risk, including sustainability risk and reputational risk. The committee assists the CRO in implementing the Company's Own Risk and Solvency Assessment, the ORSA process, and addresses the most important assumptions used in calculating the Company's capital adequacy each year.

B.3.3 Own Risk and Solvency Assessment

B.3.3.1 Process

The requirements for the Own Risk and Solvency Assessment (ORSA) process are laid down by the Board in a separate guideline. The guideline defines the main principles for the process, with requirements for implementation, division of responsibilities, performance and documentation requirements. The process is carried out throughout the year and finalised at the Board meeting in December.

The ORSA process is largely based on various decision-support data, internal notes and matters related to the Company's goals and risk profile. This includes annual strategies for different categories of risk, and matters related to the Company's risk profile. The assessment of the capital requirement for operational risk is based on risks identified in the annual review of risk management and internal control (governance). Other matters that the ORSA is naturally based on include the financial statements and reports from the second-line functions, as well as relevant audit reports from Internal Audit.

B.3.3.2 Implementation and approval

The risk management function coordinates the implementation of the ORSA process and compiles the report. The process follows an established set of tasks, starting with introductory discussions in the risk management committee. These identify factors to be focussed on in the year's process, often based on evaluations and feedback on the process from the previous year.

The plan for the ORSA is discussed by the Board in the spring. Work on sensitivity tests, scenario analyses and specially selected key areas will continue until the report is completed. An integrated process is followed for KLP as a company and as a group, and the report covers each of these.

The Board adopts a plan for the ORSA, discusses the results and approves the report. This cements the Board's ownership of the process. The Board's risk committee also conducts an extended review of the ORSA plan and the ORSA itself and makes its recommendations to the Board.

An extraordinary ORSA will be carried out in the event of significant changes to KLP's risk profile.

B.3.3.3 Determination of own capital needs

The Board determines its capital needs based on the assessments made in the ORSA process, including whether the solvency capital requirements are commensurate with KLP's operations.

Predictability is important to KLP's customer-owners, so there should be a low probability of having to call up extraordinary equity to strengthen the solvency position. The target is therefore set higher than the regulatory requirement of 100 per cent.

B.4 Internal control system

B.4.1 KLP's internal control system

Internal control is concerned with systematic follow-up of the business. The purpose of good internal control is to maintain effective processes and procedures to meet business objectives. An important aspect of the internal control system in KLP is to deal with any risks that could prevent the Company from achieving its goals in a cost-effective manner and in line with the current framework for the business.

Both risk management and internal control ensure that KLP can achieve its objectives by identifying and analysing relevant risks that could prevent it from attaining its goals, and by implementing effective measures to handle, control and report on the risks. The Board of Directors of KLP has established requirements for the risk management system, including internal control, in the Policy for management and control. The policies define overall principles, processes, roles and responsibilities connected with governance.

The risk management system helps ensure that KLP can achieve its objectives in all significant areas of business through:

- Identifying, assessing, monitoring, documenting and reporting on all material risks that could prevent target attainment.
- Establishing appropriate risk strategies to manage risk-taking
- Establishing measures to handle and control material risks
- Establishing contingency plans to handle the impact of any remaining risks
- Establishing appropriate reporting procedures for unwanted events

The Company's leaders, at all levels, should at all times have adequate records of set goals, risks, risk-mitigation measures and any adverse events within their area so that they can manage risks associated with their business on a satisfactory manner.

The second-line functions assist the front line in ensuring good risk management and internal control, and also make their own independent assessments. The internal audit function also provides the Board with an independent assessment of whether the internal control system is working.

The Company conducts an annual review of risk management and internal control which is presented to the Board. This assessment is also included as background to their ORSA.

B.4.2 The compliance function

The compliance function helps the Board and senior management to ensure that KLP has implemented effective procedures for compliance with the applicable rules, including the framework for effective management and control.

The compliance function identifies, monitors and reports risks of non-compliance within KLP. In particular, the compliance function monitors the material risks linked to non-compliance in the Group, and is an active 'sparring partner' to the Board, management and staff within KLP in relation to the operational handling of non-compliance risk.

The compliance function works preventively by providing advice, guidance and ongoing quality control when operational changes are made to regulations, and carries out control activities to ensure that internal control in the Company is effective. Advice, dialogue, presence and training take a high priority. The aim of these activities is to develop an organisation structure in which compliance with the framework is an intrinsic value.

The head of the compliance function reports to the Group CEO and briefs the management on his/her own initiative on matters that are or could be of significance to the business. Serious breaches of laws and regulations, or a significantly increased risk of non-compliance, must be reported without undue delay to the Group CEO.

To preserve the independence of the compliance function, the function has no operational or decision-making roles in activities that the function is required to monitor. This does not prevent the compliance function from assisting management in developing appropriate processes, procedures and methods to provide for effective follow-up of managers' control responsibilities. The Board has adopted a special instruction for the compliance function.

The Board has also established a special policy for compliance risk. The policy defines roles and responsibilities to ensure compliance within KLP, and sets out the Board's risk appetite and requirements for how to handle risks of non-compliance.

B.5 Internal Audit function

B.5.1 Exercise

Based on risk assessments etc., an audit plan is drawn up for areas to be audited. The areas to be audited are operational and support processes, risk management systems, IT systems and IT security, products and regulatory requirements. The audit plan is approved by the Board.

The findings from the audit are reviewed with the operational and line managers for the area that has been audited, who take a view on the recommendations and set deadlines for implementing them. The audit reports are reviewed in the audit and risk committee before the conclusions and recommendations are presented to the Board. Progress in implementing the recommendations is presented to the Board in the annual report from Internal Audit. The annual report from Internal Audit provides an assessment of business and risk management and of the internal control in key areas.

In order to perform its function effectively, Internal Audit looks at internal operational reports, Board actions and reports, and communicates with senior management, the risk, compliance and actuarial functions and external auditors.

On its own initiative or at the request of the administration, Internal Audit conducts ad-hoc reviews or tasks within control-related problem areas.

B.5.2 Independence and objectivity

Internal Audit reports to the Board and has to be professionally independent in its work in relation to the areas and persons being audited. The Board engages and dismisses the head of Internal Audit and defines that person's conditions.

Internal Audit has no operational or financial responsibility or decision-making authority within the different areas of activity. Internal Audit cannot therefore perform ongoing operational tasks, take decisions or carry out other activities that might compromise its independence or objectivity.

The head of Internal Audit has to demonstrate to the Board on an annual basis that the function is independent. In the guideline from the Board, the internal auditors are required to comply with the applicable laws, regulations and orders from the Financial Supervisory Authority of Norway and ethical rules and standards issued by the Institute of Internal Auditors.

Every five years, there is an external evaluation of KLP's Internal Audit function; the last of these was in 2023. The audit committee in KLP reviews this evaluation and communicates its findings to the Board.

B.6 Actuarial function

The actuarial function at KLP has responsibilities and duties as described in the Solvency II rules. The actuarial function is organised as an integral part of the risk management function. In order to safeguard its independence, the head of the actuarial function is allowed to report to the Group CEO and the Board on all matters within its area of responsibility. The actuarial function also reports directly to the Group CEO every quarter. The report outlines the activities and assessments made by the actuarial function in the quarter and helps to demonstrate its independence.

The role and responsibilities of the actuarial function are described in the instructions for the actuarial function, adopted by the Board of KLP. The actuarial function is an independent control function responsible for actuarial tasks. The actuarial function should ensure that technical provisions are calculated by a combination of:

- Ensuring that methods, models and assumptions used in the calculation of technical provisions are appropriate
- Assessing whether the data used in the calculation of technical provisions is sufficient and of the necessary quality
- Comparing best estimates with the Company's experience
- Informing the Board and senior management as to whether the calculation of technical provisions is reliable and sufficient
- Testing any simplified calculations of best estimates based on approximate values and individual assessments of notified claims cases
- Expressing a view on the Company's policy for underwriting risk
- Expressing a view as to whether the Company's reinsurance programme is sufficient
- Contributing to the effective implementation of the risk management system, particularly with regard to the risk modelling which forms the basis for calculating the Solvency Capital Requirement and self-assessment of the Company's capital needs

The actuarial function may use professional resources from other entities within KLP, and sometimes external resources, for specified tasks. In this case the manager of the actuarial function must ensure that there are no conflicts of interest for the function or the people doing work for the function.

The head of the actuarial function for KLP and the Group is a member of the risk management committee in KLP and may join the Company's senior management team to discuss matters pertaining to underwriting risk.

At least once per year, the actuarial function draws up a written report which is submitted to the Board of KLP. This report documents the tasks carried out by the actuarial function, and the results of these, and clearly identifies any deficiencies and makes recommendations for rectifying these.

B.7 Outsourcing

Outsourcing is used where KLP chooses to use contractors to perform work assignments which could also have been carried out by the Company itself. The Board of KLP has adopted an outsourcing policy. The Code of Conduct applies to both outsourcing contracts within the KLP Group and when the business is contracted out to external companies. More detailed guidelines have been adopted to supplement the policy.

The guidelines are meant to ensure that outsourcing from KLP is handled in a proper manner and in accordance with the applicable rules. The guidelines set out what should be regarded as outsourcing for KLP (the life insurance company), and the Company's responsibilities with regard to such outsourcing. The guidelines also lays down requirements for assessing reliability, notification, outsourcing contracts and checks on the contractor's business.

Even if work activities are outsourced, KLP will still be responsible for the business that has been contracted out. KLP must therefore be able to fulfil its obligations, and check the contractor's risk management and internal control systems, including compliance with laws and regulations for the outsourced business.

B.8 Other information

The foregoing is considered to cover all the key details of the risk management system.

C. Risk profile

C.1 Underwriting risk

The principal underwriting risks for KLP are longevity risk and disability. Longevity risk means that the customer lives longer than presumed, and disability risk means that more people than expected are becoming disabled, or that fewer than expected are returning to work.

Longevity and disability risk are monitored every quarter via reports of underlying risk items from KLP's membership system, while a full analysis including a calculation of risk results forms part of an annual process. The risk result is followed up carefully and provides the basis for assessing whether premiums and provisions are sufficient.

The analysis of underwriting risk entails statistical processing of relevant data on the membership base with a view to measuring the trend in mortality and disability, in order to arrive at a best estimate of how this trend may be expected to evolve in the coming years. The expected development is quantified by deriving a new basis for calculation. This will be the basis for best estimate assumptions in Solvency II calculations and perhaps also for new premium and reserve calculations..

- Longevity risk
In the Joint Scheme for Municipalities and Enterprises, the Joint Scheme for County Administrations, the Joint Scheme for State Health Enterprises, the Joint Scheme for Closed Agreements and the Pension Scheme for Publicly Elected Representatives, the premium reserve at 31 December 2024 has been determined from a strengthened calculation basis based on the K2013 tables with a higher mortality rate for men. The change in the assumption of a decline in mortality for men is based on Statistics Norway's forecasts from 2020.

The K2013 tariff is defined by the formulae and parameters explicitly provided by the Financial Supervisory Authority of Norway in 2013. This data has a basic margin in the initial mortality rate of 12 per cent.

For the Pension Scheme for Nurses and for the Pension Scheme for Hospital Doctors, a bigger margin is used in the initial mortality rate. Experience shows a significantly greater longevity among the persons insured in these schemes and the assumptions provide for tariffs with similar safety margins in all risk groups. A bigger decline in mortality is also used for men.

The overall calculation base used by KLP (K2024_KLP) is described in a separate product report to the Financial Supervisory Authority of Norway.

The marital status elements of the premium tariff are as specified in K2013.

The current mortality base has been found to have good margins and a robust level of premiums and provisions. There are substantial resources in the risk equalisation fund. This reduces the risk that deficits might have to be covered by equity.

An abrupt fall in mortality, as assumed by stress tests for solvency purposes, is much less of a real risk than longer lives in the future, but companies still need to maintain solvency to withstand this because such stress tests are essential to the capital requirements placed on companies under Solvency II.

- Disability risk

In recent years, KLP has seen more disability than before the pandemic. It has not yet chosen to change the disability tariffs in line with these findings. However, KLP will follow developments to see whether the tariffs need to be changed. In connection with changes in the tariffs in the Pension Scheme for Hospital Doctors, the rate of women re-entering the labour market has also been adjusted in line with observations from before the pandemic.

- Departure risk

Customers with public-sector occupational pensions from KLP can opt to move to another provider at each year-end. Customers then take with them all the assets assigned to them, but they also take all the technical provisions associated with the customer relationship. The customer is given his/her share of the share capital, but the retained earnings remain in the Company.

Customers moving are only regarded as a strategic risk to the Company if large numbers are involved. Disposals are not considered to be a risk to the Company's solvency.

In calculating capital requirements under the Solvency II rules, departures are categorised as an underwriting risk. The capital requirement associated with departure risk is significant as the standard method requires KLP's schemes to assume that 70 per cent of customers will move. The capital requirement arises from the fact that future margins factored into the Company's capital disappear. This means that the capital requirement for underwriting risk is much higher than that calculated for longevity risk and disability alone.

Underwriting risk is mainly managed by maintaining a robust level of premiums and provisions. This gives an expected low probability of a negative insurance result. Great use is made of the risk equalisation fund, which can cover any negative risk result, to minimise the risk of losses related to underwriting risk affecting other equity. The Company is allowed to allocate a maximum of half of any positive risk result to the risk equalisation fund, while the rest has to go to the customers' premium fund.

KLP has no reinsurance contracts related to underwriting risk. The extent of reinsurance is regularly assessed in light of the Company's risk-bearing capacity and the nature of the products.

As KLP exists mainly to provide occupational pension solutions to municipal and county authorities and health enterprises, it is not considered appropriate to exclude any of these customer categories from offers from KLP on grounds of risk. KLP can decline to offer public-sector occupational pension schemes to businesses that represent an unreasonably large risk. This applies mainly where historical data indicate a particularly high disability risk, but very few potential customers have such a prevalence of disability. It is rare for anyone to be refused. Customer selection is therefore little used to manage underwriting risk.

In practice, as it is specified what the insurance cover in public-sector occupational pension schemes must include, the underwriting risk is contained within these limits. There is also a general requirement to equalise premiums so customers cannot be charged individually, except for the interest guarantee premium and asset management costs.

Underwriting risk and the development of the market for relevant pension products are reported each year in a separate report from the Actuarial/Product department. The Board of Directors sets an annual strategy for underwriting risk and reinsurance.

C.2 Market risk

Market risk is the risk that the value of investments will change. Typical factors are changes in share prices, property prices, interest rates and exchange rates.. Market risk in KLP arises in the management of the pension assets and equity in the Company. In its long-term asset management strategy, KLP seeks to put together a portfolio which, in relation to KLP's obligations, can give the high and competitive returns subject to limits on risk-taking. The limitations on risk mean that the risk is adjusted to ensure that the Company is solvent at all times and that it maintains sufficient risk capacity over time. This means that the Company should have a capacity for risk that allows us to maintain a relatively stable level of risky assets in the short and long term, even after a year of heavy losses in asset management. The risk capacity is also assessed in a long-term perspective, taking account of the impact of interest rates on risk capacity over time.

The risk capacity is regularly monitored and reported on at each Board meeting. The risk is measured both at the end of the year and on a rolling one-year horizon. Our ability to maintain the existing allocation is also reported in a three-year perspective. Measurements are taken at intervals through the year.

To support these goals, the following principles form the basis of the asset management approach:

- Long-term investment perspective
- Diversified portfolios
- Focus on efficient markets and cost-effective management
- Risk management adapted to the Company's regulatory framework and financial obligations
- Sustainable investments

KLP's market risk is made up of equity risk, property risk, interest rate risk, credit risk, concentration risk and currency risk. The gross capital requirement for market risk under Solvency II as at 31.12.2024 was estimated at NOK 177 billion, allowing for the diversification effect between the various asset classes. KLP's property portfolio is organised into limited companies, and the property portfolio is stressed according to changes in the regulations as part of the property module when calculating the capital requirement. Net capital requirements (after using buffer capital etc.) related to market risk were NOK 5.5 billion at 31.12.2024.

It should be possible to record, measure and report all investments in relation to external and internal guidelines for risk monitoring and reporting in place at any given time. This means that the Company should not trade in instruments without having developed the expertise and systems to provide for proper follow-up.

KLP follows up the market risk by way of stress tests and sensitivity analyses etc. Market risk is also a key part of the self-assessment of risk and solvency in the annual ORSA process. KLP calculates its solvency capital coverage at least quarterly.

KLP have its financial assets invested in customer portfolios and a corporate portfolio. The customer portfolios are made up of customers with public-sector occupational pensions, and the portfolios are divided according to risk-bearing capability. The market risk affects income and profits differently for the different portfolios.

The risks in the customer portfolios are compared taking account of objectives such as remaining solvent and maintaining risk capacity over time. Annual investment limits are set for the different asset classes. The portfolio breakdown for each asset class is generally well

diversified so non-systematic risk is very limited. The risk in the portfolio is also handled dynamically through operational rules. This means that the risk in the customer portfolios is constantly adjusted to the risk-bearing capacity. The adjustments will normally be made in the equity market, as long as equities account for the bulk of the total risk in the common portfolio.

The market risk in the corporate portfolio affects equity directly. For the corporate portfolio, KLP aims to take moderate market risk. The average duration of funds invested in fixed income securities was less than 3 years at the end of 2024. The corporate portfolio has a low correlation with the customer portfolios.

Equities

The listed equity component of the common portfolio includes Norwegian exposure and global exposure in developed and emerging markets. Investments in unlisted shares consist of investments in special funds, private equity and other equity investments. Management is mainly through mandates issued to KLP Kapitalforvaltning AS.

The corporate portfolio has investment limits relative to the total assets under management in the portfolio. The equity portfolio consists mainly of shares in subsidiaries.

Property

KLP's portfolio of property is mainly managed by the subsidiary KLP Eiendom AS, along with some investments in global real estate funds. Investments by KLP Eiendom AS are mainly in Norway, but portfolios have also been established in Sweden and Denmark, for example. We aim at long leases with solid counterparties. KLP's fundamental management philosophy is to hold high-quality properties in central shopping streets.

The property exposure in the corporate portfolio is made up of KLP's offices in Oslo and Bergen and low-risk leasehold sites.

Interest

The technical provisions are long-term, but it is not appropriate to have investments with the same duration. This is because investments with durations equal to the obligations are difficult to obtain, and because the duration in KLP is perceived to be short in regulatory terms as KLP can collect an annual interest guarantee premium.

Interest rate risk is not a significant contributor to KLP's capital requirements, but persistent low interest rates could limit the Company's ability to generate good returns for its customers.

The risk of the Company being unable to achieve a return greater than the guaranteed return is reduced in any given year by posting a substantial part of the interest-bearing investments to the accounts at amortised cost. The expected return for the hold-to-maturity portfolio in 2024 is around 3.75 per cent, and the average duration is just under 5 years.

Other

The basic principles for asset management are set out above. This, combined with management mandates and limits that restrict exposure to individual issuers, means that KLP has only minimal exposure to concentration risk.

KLP hedges its global fixed income and property portfolios against currency fluctuations. The hedging rate for global equities in developed markets is around 50 per cent, while shares in emerging markets are not hedged. The Company will therefore continue to have little exchange rate risk across all portfolios.

At the end of 2024, market risk was slightly higher than at the end of 2023 due to a slightly higher proportion of equities.

C.3 Credit risk

Credit risk is a risk of losses where counterparties cannot meet their debt obligations. The risk includes losses on loans and losses related to bank deposits, or non-fulfilment of contracts by counterparties in reinsurance contracts or financial derivatives. Losses in the securities portfolio that can be linked to these types of losses are categorised as market risk.

Credit risk is part of market risk, so it is included as 'other market risk' in the various risk assessments and analyses carried out. Credit risk is classified at least once a year by country, rating and sector. Assessments of bad debt provision/valuation and default are made in line with the relevant accounting principles.

Credit limits are set on all credit exposure before an investment is undertaken. These limits are set by a separate credit committee. The credit limits are reviewed annually and monitored quarterly. The limits for Norwegian credit are primarily based on internal credit assessments. Lending to foreign borrowers is largely based on external ratings from recognised rating agencies.

In addition to the credit limits, special requirements for diversification are laid down up in the mandates to KLP Kapitalforvaltning AS. These ensure that portfolios without diverse indices have limited non-systemic risk.

C.4 Liquidity risk

Liquidity risk in KLP is the risk of KLP being unable to meet its day-to-day commitments as they mature without substantial added costs. The risk is primarily associated with the costs of releasing assets.

KLP has a liquidity portfolio which should be able to meet ongoing obligations relating to payment of pensions and to coverage of operating costs. Liquidity needs that may arise as a result of people moving also form part of the overall assessment of the size of the liquidity portfolio. In normal circumstances the portfolio should have sufficient funds to prevent the Company needing to release funds from other portfolios for expected payments. As a large part of KLP's funds are invested in highly liquid assets and KLP's liquidity requirements are normally covered by quarterly premium payments from customers, the liquidity risk is considered to be limited.

For KLP, the insurance commitment is long-term, and the cash flows are largely known long before they fall due. The liquidity risk is handled through the liquidity strategy, covering measurement, management, planning and measures to handle the liquidity risk.

From each quarterly premium payment, KLP aims to set aside liquid assets that are greater than or equal to three months' liquidity requirement. In situations where there are insufficient liquid assets to cover the liquidity need, funds have to be released from other portfolios or obtained in some other way. Various stress tests have been carried out to handle extraordinary liquidity needs. Based on this, the liquidity risk is considered to be low.

Liquidity planning is based on financial accounting values. The financial accounts do not include a margin from future premiums. The size of margin from future premiums is therefore not very relevant to liquidity risk and liquidity management.

C.5 Operational risk

Operational risk is defined as the risk of loss as a result of inadequate or defective internal processes or systems, human error, or external circumstances. This includes the risk of breaches of laws and regulations (compliance risk) and risks where adverse events could damage our reputation. Operational risk management involves detecting risk factors that can cause losses, and estimating the likelihood and impact of possible adverse events. The units within KLP are constantly assessing whether changes in external and/or internal conditions bring new risks or call for changes in risk assessment, including operational risks.

Along with ongoing assessments of operational risks, KLP conducts an annual survey of all risks. This is done at the same time as the review of risk management and internal control, and the managers of all the units identify material risks within their areas of responsibility. Operational risk, strategic risk and reputational risk are the main focus of the annual survey. The likelihood and impact of each risk are assessed, and it is decided whether the risks are acceptable. Where the risk assessment concludes that the risk is higher than is acceptable, measures will be established to reduce the likelihood or the impact of this risk. Previously implemented measures are followed up and included in the assessments. The identified risks are grouped together for each division. Finally, a list of the most significant risks for the Company is prepared.

During the annual review, the units quantify potential financial losses if the identified operational risks should eventuate. The self-assessment of the capital requirement for operational risk is based on these valuations. The capital requirement for the operational risk is calculated using the standard formula based on a volume target for premiums and reserves.

Among the most material operational risks identified in KLP are technical shortcomings and increasing exposure to new threats related to information security.

The risk management function facilitates the annual mapping and review of risk management and internal control.

C.6 Other material risks

The foregoing is considered to cover all material risks.

C.7 Other information

The foregoing is considered to cover all the key details of the Company's risk profile.

D. Valuation for solvency purposes

D.1 Assets

Total assets valued in the solvency balance-sheet amounted to NOK 854 billion at 31.12.2024*. This is an increase of NOK 76 billion since 31.12.2023. Total financial assets (accounting values) amounted to NOK 868 billion at 31.12.2024. This is an increase of NOK 80.4 billion since 31.12.2023.

Assets under Solvency II are recognised at fair value. The valuation principles are largely congruent with the principles for valuation at fair value under International Financial Reporting Standards (IFRS). The financial statements for KLP are drawn up in accordance with the Regulations on annual accounts for insurance companies. These rules broadly match IFRS, but bonds at amortised cost and bonds classified as loans and receivables are recognised at amortised cost. There are also differences in the valuation of intangible assets and deferred taxes.

Table 7: Assets. Figures in NOK billions.

Asset classes ***	Solvency II 2024	Accounts 2024	Solvency II 2023	Accounts 2023
Intangible assets		1.5		1.3
Deferred tax assets/assets after tax*	0.5	-	0.5	
Investment properties	1.3	1.3	1.3	1.3
Investments in associates, including participations	94.5	94.5	90	90
Equities etc.	109.6	109.6	74.2	74.2
Bonds *	300.8	308.5	288.3	295.3
Asset management companies etc.	229.4	229.4	201.4	201.4
Derivatives	1.2	1.2	10.6	10.6
Deposits other than cash equivalents	0.4	0.4	0.4	0.4
Lending	97.5	98.6	92.4	93.7
Other assets**	18.9	18.9	19	19
Total	854.2	863.9	778.1	787.2

* With gross tax assets under Solvency II. Net tax assets are NOK 0 at 31.12.2024

**Other assets are made up of: 'Cash and cash equivalents', 'Non-insurance-related receivables', 'Other assets', 'Receivables related to direct insurance, including insurance brokers', and 'Property, plant and equipment for own use'.

***There may be minor discrepancies between the lines in S.02.01, but the table above is intended to reflect reality.

**** Another reason for the difference is the separation of derivatives based on some assets in Solvency II. In the financial statements, these assets are treated differently and presented in aggregate.

D.1.1 Intangible assets

Valuation, Solvency II

Intangible assets are valued at zero. Under Solvency II, intangible assets are valued at zero unless the asset can be sold separately and the Company can demonstrate that it has a market value.

Valuation, accounts

Intangible assets are valued for accounting purposes at cost and depreciated over their expected service life. If there are indications that the book value of an intangible asset is higher than the recoverable amount, an impairment test is carried out. If the recoverable amount is less than the book value, the asset is depreciated to the recoverable amount. Intangible assets are posted to the balance-sheet in the amount of NOK 1.5 billion.

D.1.2 Assets subject to tax

Valuation, Solvency II

Deferred tax is split into a deferred tax asset of NOK 0.5 billion and a deferred tax liability of NOK 1.0 billion under Solvency II in 2024.

This valuation is based on the accounting calculation but also factors in the effect of assets and liabilities with a different valuation than in the accounts, where this difference could have a tax effect. This includes assets measured at amortised cost in the corporate portfolio as well as the valuation of financial liabilities (hybrid Tier 1 perpetual capital and subordinated debt). Financial liabilities are valued slightly higher in the Solvency II balance-sheet, which produces a deferred tax asset.

Valuation, accounts

Capitalised deferred tax assets or liabilities represent the nominal value minus any impairment of the holding which is not assumed to be usable and so has no value. The nominal value is calculated on the basis of differences between the accounting and taxation timing of changes in the value of assets and liabilities. To the extent that these differences will reverse at a later date, there will be deferred tax (accounting income taken before taxable income) or a deferred tax asset (taxable income taken before accounting income). Temporary differences are offset against each other where they are expected to reverse within the same time frame and the differences can be equalised through Group-level allocations. Net temporary differences which mean that the Company has brought forward taxable income or deferred taxable deductions are posted as deferred tax assets.

At 31.12.2024 KLP had net deferred taxes; see section D.3.4.

D.1.3 Property (other than for own use)

Solvency II valuation equal to reported value

Property investments are measured at fair value. Fair value is calculated using an internal valuation model because there is not considered to be an active market with observable prices in the property markets that KLP invests in. In order to quality-assure the interval valuation model, a selection of the Group's property stock is regularly valued by external, independent and qualified valuers. In the event of significant deviation from our own assessment of fair value, the differences are analysed and the valuation model's parameters are adjusted if this proves necessary.

D.1.4 Investments in associates, including participations

Valuation, Solvency II

Investments in associates, including participations, are measured at fair value. Fair value is estimated to equal net assets and liabilities in the subsidiary measured at fair value.

The Company's property investments are organised as companies whose purpose is to own investment property. These investments are listed under investments in associates, including participatory interests, and make up NOK 81.6 billion of the 94.5 billion in this balance-sheet item. The property investments are valued using an internal valuation model because there is not considered to be an active market with observable prices in the property markets that KLP invests in. In order to quality-assure the interval valuation model, a selection of the Group's property stock is regularly valued by external, independent and qualified valuers. In the event of significant deviation from our own assessment of fair value, the differences are analysed and the valuation model's parameters are adjusted if this proves necessary.

Valuation, accounts

Investments in associates, including participations, are measured by the equity method. Where the subsidiary's accounts are prepared according to different principles than KLP's own accounting principles, the subsidiary's accounts are converted to KLP's principles before KLP's share of the profit/loss is entered in the accounts. To value investment property in the property subsidiaries, the same principle is used as described for the Solvency II balance-sheet.

D.1.5 Equities etc.

Solvency II valuation equal to reported value

Equities etc. are measured at fair value. Fair value should be a representative price based on what a corresponding asset would have been traded for on normal market terms and conditions.

A share is considered as listed in an active market if quoted prices are easily and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length. Liquid shares are generally valued on the basis of prices provided by an index provider. At the same time, prices are compared between different sources to pick up possible errors.

If the market for the share is not active, or the share is not listed on a stock market or similar, the Group uses valuation techniques to set fair value. These are based for example on information on recently completed transactions carried out on commercial terms, and reference to trading in similar instruments. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

D.1.6 Bonds

Valuation, Solvency II

Investments in bonds are measured at fair value. Fair value should be a representative price based on what a corresponding asset would have been traded for on normal market terms and conditions. A financial instrument is considered as listed in an active market if quoted prices are easily and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length.

If the market for the security is not active, or the security is not listed on a stock market or similar, the Group uses valuation techniques to set fair value. These are based, for example, on information on recently completed transactions carried out on commercial terms, reference to trading in similar instruments and pricing using externally collected yield curves and yield spread curves. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

Valuation, accounts

Investments in bonds are reported in the accounts partly at fair value and partly at amortised cost. For the portion measured at fair value, there is no difference from the valuation principles described for Solvency II.

Bonds where the intention is to receive a fixed rate of interest for the whole term to maturity are valued for accounting purposes at amortised cost. This amounts to NOK 233 billion out of a total of NOK 312 billion. The difference in valuation between amortised cost and fair value amounts to NOK 11.4 billion. The remaining difference is due to the exclusion of the intrinsic derivatives in the Solvency II balance sheet (derivatives with a negative market value).

Bonds are measured at amortised cost using the effective interest method. The internal rate of return is set through discounting contractual cash flows over the expected duration. The cash flows include setting-up charges and direct transaction costs as well as any residual value at the end of the expected duration. Amortised cost is the present value of these cash flows discounted by the internal rate of return.

D.1.7 Asset management companies etc.

Solvency II valuation equal to reported value

Securities funds etc. are measured at fair value; see description under D.1.5.

Securities funds etc. also include investments in private equity funds. The fair value of these funds is based on reported market values, as quoted in the International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines). These guidelines are issued by the European Venture Capital Association (EVCA) and based on the principle of approximate market valuation of the companies in the funds.

D.1.8 Derivatives

Solvency II valuation equal to reported value

Derivatives are measured at fair value.

D.1.9 Deposits other than cash equivalents

Valuation, Solvency II

Deposits other than cash equivalents are measured at fair value.

Valuation, accounts

Deposits other than cash equivalents are measured at nominal intrinsic value.

D.1.10 Lending

Valuation, Solvency II

Lending is measured at fair value; see discussion of Solvency II valuation of bonds in section D.1.6.

Valuation, accounts

Loans are reported in the accounts at amortised cost. This produces a valuation NOK 1.1 billion higher than the fair value reported in the Solvency II balance-sheet.

Lending is measured at amortised cost using the effective interest method. The internal rate of return is set through discounting contractual cash flows over the expected duration. The cash flows include setting-up charges and direct transaction costs as well as any residual value at the end of the expected duration. Amortised cost is the present value of these cash flows discounted by the internal rate of return.

Loans are written down where there is objective proof of impairment. Loss assessment and loss write-down is carried out quarterly on individual loans.

Lending is also assessed by group. If there is objective proof of impairment in a group of loans, a write-down is carried out.

D.1.11 Other assets

Solvency II valuation equal to reported value

Other assets are measured at fair value.

D.2 Technical provisions

Insurance liabilities are valued differently under Solvency II and in the financial statements. Under Solvency II, the insurance liabilities are referred to as technical provisions, while the financial statements refer to them as underwriting provisions.

D.2.1 Value of technical provisions, basis, methods and assumptions

Under Solvency II, all assets and liabilities are valued at market value (also called fair value). The technical provisions under Solvency II are the sum of the best estimate plus a risk margin.

The best estimate consists of guaranteed payments and discretionary benefits. The value of the best estimate is equal to the probability-weighted average of all future cash flows from receipts and payments expected within the contract limit. Future premiums relating to future earnings are outside the contract limit and are not included in the calculations. The cash flows are estimated for the next 40 years with an estimated residual value in year 40. The cash flows are discounted with a risk-free market rate in the form of a yield curve with volatility adjustment provided by EIOPA.

The risk margin is calculated as the present value of the capital costs associated with providing eligible Tier 1 and 2 capital equal to the solvency capital requirement, which are needed to cover the insurance obligations in the lifetime of these insurance contracts. The risk margin is based on underwriting risk, counterparty risk and operational risk and accords with method 2 in the Solvency II rules.

The calculation basis for the guaranteed benefits under the best estimate uses the same assumptions as the price tariffs, but without a safety margin. In other words, the price tariffs include a safety margin on top of the calculation basis for the best estimate. The calculation basis for the best estimate is based on historical data. The assumptions behind the best estimate are reviewed each year and updated when needed.

KLP uses transitional rules to calculate technical provisions in accordance with Article 56 of the Solvency II Regulation. Technical provisions. The effect is calculated as the difference between the technical provisions (sum of best estimate and risk margin) and the sum of the premium reserve, buffer fund, premium fund and claims provisions. The effect is reduced on a linear basis at the beginning of each year from 100 per cent on 1 January 2016 to 0 per cent on 1 January 2032. There is also a floor defined for valuation which limits the effect of the transitional rule.

Figures for the technical provisions at 31.12.2024 and 31.12.2023 are given in the table below.

Table 10: Technical provisions without transitional rules. Figures in NOK billions.

Solvency II	2024	2023
Guaranteed benefits	475.4	454.1
Discretionary benefits (future bonus)	302.2	248.3
Best estimate	777.6	702.4
Risk margin	10.7	11.3
Technical provisions	788.3	713.7

Table 11: Technical provisions with transitional rules. Figures in NOK billions.

Solvency II	2024	2023
Guaranteed benefits	475.4	454.1
Discretionary benefits (future bonus)	302.2	248.3
Best estimate	777.6	702.4
Risk margin	10.7	11.3
Technical provisions	788.3	713.7

Technical provisions with transitional rules for KLP amount to NOK 788.3 billion, NOK 777.6 billion for the best estimate and NOK 10.7 billion for the risk margin.

Table 12: Solvency II balance without transitional rules for technical provisions. Figures in NOK billions.

Solvency II balance-sheet	2024	2023
Guaranteed benefits	475.4	454.1
Discretionary benefits (future bonus)	302.2	248.3
Risk margin	10.7	11.3
Technical provisions	788.3	713.7
Deferred tax liabilities	0.3	0.8
Subordinated debt/hybrid Tier 1	4.9	4.7
Other liabilities	8.3	14.3
Total liabilities	801.8	733.5
Total assets	850.0	778.1
Excess of assets over liabilities	48.2	44.6

Table 13: Solvency II balance with transitional rules for technical provisions. Figures in NOK billions.

Solvency II balance-sheet	2024	2023
Guaranteed benefits	475.4	454.1
Discretionary benefits (future bonus)	302.2	248.3
Risk margin	10.7	11.3
Technical provisions	788.3	713.7
Deferred tax liabilities	0.3	0.8
Subordinated debt/hybrid Tier 1 perpetual capital	4.9	4.7
Other liabilities	8.3	14.3
Total liabilities	801.8	733.5
Total assets	850.0	778.1
Excess of assets over liabilities	48.2	44.6

In order to calculate the time value of future cash flows, economic scenarios are generated in an economic scenario generator (ESG). KLP uses a scenario generator from Moody's Analytics. The scenario generator is calibrated to the risk-free interest rates published by EIOPA. This yield curve is used both to discount the cash flows and as an initial yield curve for simulating future returns. The scenarios are generated to be risk neutral, so all asset classes are assigned a yield that assumes risk-free interest rates. This is in line with the Solvency II rules.

D.2.2 Uncertainty related to the value of technical provisions

When using complex cash flow models, as in KLP's ALM model, there will always be some uncertainty in the results. The valuation of liabilities and the calculation of available capital and capital requirements in the model are sensitive to assumptions, choice of methods and processing of inputs prior to each calculation. The level of uncertainty in the calculations of the insurance obligation is driven by uncertainty in the underlying assumptions. Such assumptions are reviewed at least once a year in the Company's risk management committee to ensure that they accurately reflect the plans and strategies adopted by the Company. The plan for future management measures is approved by the Board of Directors at the same time as the key assumptions used to calculate capital adequacy, including the assumptions behind the technical provisions, are reviewed.

The interest rate curve given by EIOPA is based on some assumptions that are uncertain, including the extrapolation methodology, time taken to obtain long-term interest, long-term interest rates and volatility adjustment levels. As part of the ORSA process, sensitivity analyses are carried out for the value of solvency capital and the capital requirements for changed assumptions, which may be related to interest rates. One intention is to increase understanding of the sensitivity of the calculations.

D.2.3 Value of *underwriting* provisions, basis, methods and assumptions

In the financial accounts, the provisions are made up of the premium reserve, buffer fund, other provisions to insurance funds and other technical provisions.

The premium reserve in the financial statements is calculated as the present value of the future pension payments, taking account of biometric assumptions for mortality, disability and re-entry into work, discounted at the guaranteed interest rate at the date of accrual through the term of the individual insurance contract. The valuation is deterministic, and the biometric assumptions are given in the current price tariffs reported to the Financial Supervisory Authority of Norway at any given time. For longevity/mortality, the K2013 price tariff and KLP's own price tariff K2024_KLP are used. For disability and re-entry into work, KLP's own price tariffs are used for each risk group.

D.2.4 Matching adjustment

KLP does not apply the matching adjustment described in Article 3(3) of the Solvency II Regulation. Interest rate curve.

D.2.5 Volatility adjustment

KLP applies the volatility adjustment described in Article 3(2) of the Solvency II Regulation. Interest rate curve. The volatility adjustment provides a mark-up in the risk-free market interest rate. This means that the obligations will be lower than they would have been without this adjustment. The effect depends on the amount of the markup. The adjustment as at 31.12.2024 represents an interest markup of 0.46 percentage points for the first ten years. The effect of this markup is 8 percentage points for capital adequacy without the use of transitional rules for technical provisions. This is shown in table 14 below. Technical provisions are almost unchanged, while the solvency capital requirement and the eligible Tier 1 and 2 capital have increased slightly. These changes decrease capital adequacy from 361 per cent to 352 per cent without using volatility adjustment and without the use of transitional rules for the technical provisions.

Figure 3: EIOPA's interest rate curve with and without volatility adjustment at 31.12.2024

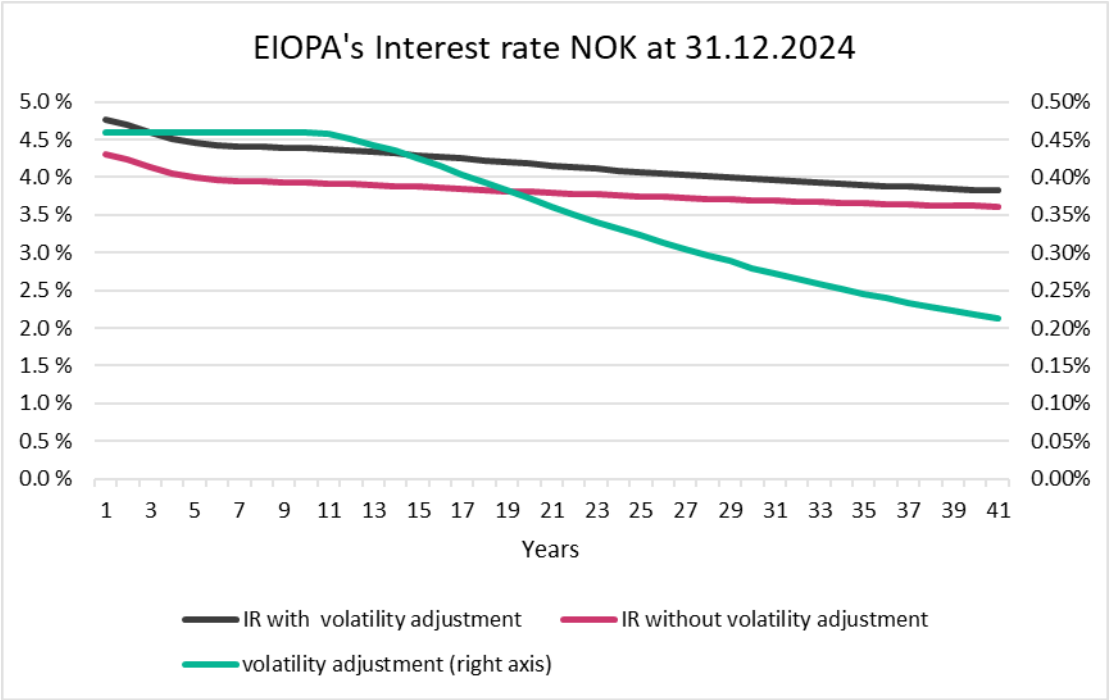


Figure 4: EIOPA's interest rate curve with and without volatility adjustment at 31.12.2023

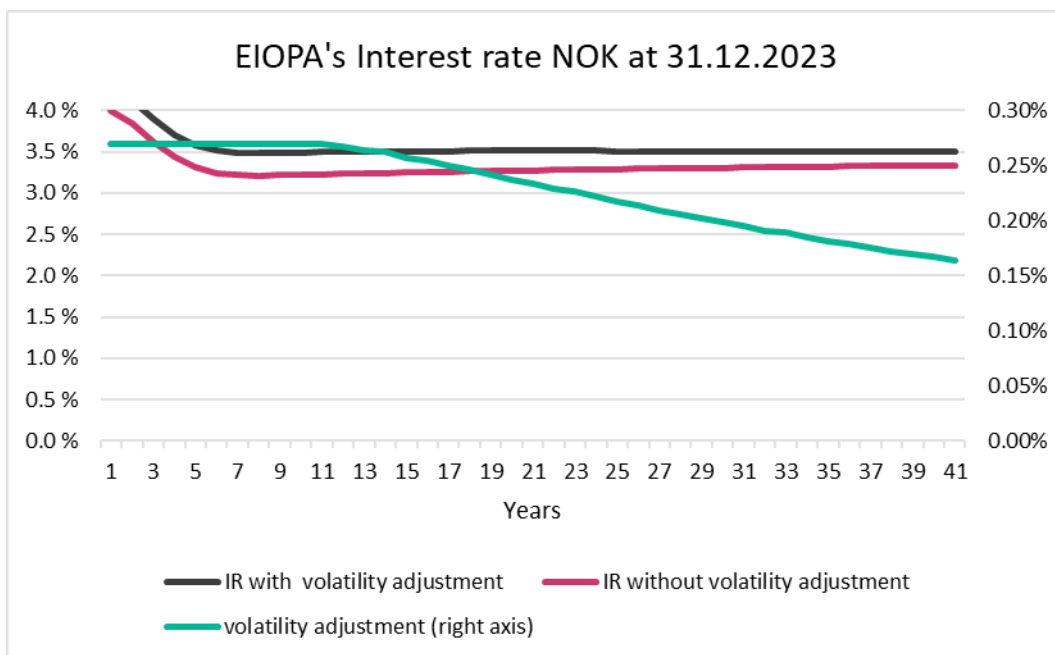


Table 14: Effect of applying the volatility adjustment, 31.12.2024. Amounts in NOK billions.

2024	With volatility adjustment, without the use of transitional rules	Without volatility adjustment, without the use of transitional rules	Difference	With volatility adjustment, with the use of transitional rules	Without volatility adjustment, with the use of transition rules	Difference
Technical provisions	788.3	788.1	0.2	788.3	788.1	0.2
Solvency Capital Requirement	14.7	15.2	-0.5	14.7	15.2	-0.5
Minimum Capital Requirement	3.7	3.8	-0.1	3.7	3.8	-0.1
	-	-		-	-	
Eligible Tier 1 and 2 capital to cover the SCR	53.0	53.5	-0.5	53.0	53.5	-0.5
Eligible Tier 1 and 2 capital to cover the MCR	46.4	46.6	-0.3	46.4	46.6	-0.3
Capital adequacy	361%	352%	8%	361%	352%	8%
Minimum capital requirement	1263%	1228%	35%	1263%	1228%	35%

Table 15: Effect of applying the volatility adjustment, 31.12.2023. Amounts in NOK billions.

2023	With volatility adjustment, without the use of transitional rules	Without volatility adjustment, without the use of transitional rules	Difference	With volatility adjustment, with the use of transitional rules	Without volatility adjustment, with the use of transition rules	Difference
Technical provisions	713.7	713.5	0.1	713.7	713.5	0.1
Solvency Capital Requirement	14.3	14.6	-0.3	14.3	14.6	-0.3
Minimum Capital Requirement	4.2	5.1	-0.9	4.2	5.1	-0.9
	-	-		-	-	
Eligible Tier 1 and 2 capital to cover the SCR	49.5	49.8	-0.3	49.5	49.8	-0.3
Eligible Tier 1 and 2 capital to cover the MCR	43.2	43.5	-0.3	43.2	43.5	-0.3
Capital adequacy	346%	341%	5%	346%	341%	5%
Minimum capital requirement	1030%	848%	182%	1030%	848%	182%

Difference in per cent (percentage points).

The transitional rule is described in section D. 2.7 Transitional rule for technical provisions.

D.2.6 Transitional provisions on risk-free interest rates

KLP does not apply the transitional provisions on risk-free interest rates. To measure the insurance obligations, the latest risk-free interest rate curves published by the Financial Supervisory Authority of Norway are used (Article 3(1) of the Solvency II Regulation).

D.2.7 Transitional rule for technical provisions

KLP applies the temporary deduction provided for by the transitional measure for technical provisions described in Article 56 of the Solvency II Regulation. Technical provisions. Note 32 'Capital requirements' to the annual accounts (Note 10 to the quarterly accounts) shows the calculations without the use of this temporary deduction. Both calculations are shown in table 16 below.

The transition period is 16 years from 2016 to 2032, with the deduction reduced on a linear basis over this period. For 2024, the deduction was reduced to 9/16.

At year-end 2024, the technical provisions for KLP were calculated without applying the transitional rule to be lower than the underwriting provisions, so the transitional rule for technical provisions does not provide for any deduction. The technical provisions were NOK 788 billion, compared to underwriting provisions of NOK 803 billion.

Table 16: Effect of using the transitional rule for technical provisions at 31.12.2024. Amounts in NOK billions.

2024	Using the transitional rule	Without using the transitional rule	Difference
Technical provisions	788.3	788.3	0.0
Solvency Capital Requirement	14.7	14.7	0.0
Minimum Capital Requirement	3.7	3.7	0.0
Eligible Tier 1 and 2 capital to cover the SCR	53.0	53.0	0.0
Eligible Tier 1 and 2 capital to cover the MCR	46.4	46.4	0.0
Capital adequacy	361%	361%	0%
Minimum capital requirement	1263%	1263%	0%

Table 17: Effect of using the transitional rule for technical provisions at 31.12.2023. Figures in NOK billions.

2023	Using the transitional rule	Without using the transitional rule	Difference
Technical provisions	713.7	713.7	0.0
Solvency Capital Requirement	14.3	14.3	0.0
Minimum Capital Requirement	4.2	4.2	0.0
Eligible Tier 1 and 2 capital to cover the SCR	49.5	49.5	0.0
Eligible Tier 1 and 2 capital to cover the MCR	43.2	43.2	0.0
Capital adequacy	346%	346%	0%
Minimum capital requirement	1030%	1030%	0%

*Difference in per cent (percentage points).

D.2.8 Miscellaneous

D.2.8.1 Reinsurance

KLP currently only has collective products without any option to choose the amount of cover for the individual parties insured. Based on this limitation, and given the size of the Company and hence its large risk-bearing capacity, the need for reinsurance in KLP is considered small. KLP does not currently use reinsurance.

D.2.8.2 Significant changes in assumptions

The calculation of the best estimate is based on updated historical data.

D.3 Other liabilities

The table below shows the breakdown of other liabilities.

Table 18: Other liabilities. Figures in NOK billions.

Other liabilities	Solvency II 2024	Accounts 2024	Solvency II 2023	Accounts 2023
Hybrid Tier 1 perpetual capital	3.5	3.5	1.4	1.4
Subordinated loans	1.4	1.4	3.3	3.4
Pensions for own employees	0.3	0.3	0.6	0.6
Deferred tax liability*	0.8	1.1	0.8	0.5
Other liabilities	11.6	7.3	13.7	11.7
Total	17.7	13.7	19.8	17.6

* With gross tax liabilities under Solvency II

D.3.1 Hybrid Tier 1 perpetual capital

Valuation, Solvency II

Under Solvency II, financial liabilities are measured at fair value when the loan is taken. Later valuations will not take account of changes in the Company's own creditworthiness after this point. In the Solvency II balance-sheet, the hybrid Tier 1 perpetual capital is valued using an interest curve which does not include any credit mark-up to the Company, which produces a conservative valuation of the loan.

Valuation, accounts

The hybrid Tier 1 perpetual capital is valued for accounting purposes at amortised cost, adjusted for changes in value resulting from currency and interest rate movements according to the rules on fair value hedging.

D.3.2 Subordinated loans

Valuation, Solvency II

Under Solvency II, financial liabilities are measured at fair value when the loan is taken. Later valuations will not take account of changes in the Company's own creditworthiness after this point. Subordinated debt is valued in the Solvency II balance-sheet using an interest curve where the Company's credit mark-up is kept unchanged from when the loan was taken out.

Valuation, accounts

Subordinated debt is measured at amortised cost. Subordinated debt in foreign currency has been translated to NOK using the exchange rate at the end of the reporting period. This means that the reported book value is around NOK 11 million more than the Solvency II valuation.

KLP had one subordinated loan as of 31.12.2024.

D.3.3 Pensions for own employees

Solvency II valuation equal to reported value

KLP's employees have a defined-benefit pension entitlement. Most are covered through KLP's public sector occupational pensions by virtue of membership of the joint pension scheme for municipalities and enterprises ('Fellesordningen'). Other entitlements are also defined-benefit, but covered via operations.

The liability is posted to the Solvency II balance-sheet at the present value of the obligation on the reporting date, minus the fair value of the pension assets. The gross obligation is calculated using the straight-line method. The present value of the gross liability is discounted at 3.9 per cent, which is meant to reflect interest rates on Norwegian high-quality bonds.

Table 19: Net pension obligations - own employees. Figures in NOK billions.

Over/under-financing of the pension scheme 2024	2024	2023
Present value of the obligations	2.088	2.159
Fair value of the pension assets	1.760	1.588
Net pension obligation, own employees	0.328	0.572

Table 20: Allocation of pension funds for own employees

Composition of the pension assets	2024	2023
Property	12.90%	13.3%
Lending	11.00%	11.3%
Equities	35.10%	31.6%
Long-term/HTM bonds	26.50%	28.6%
Short-term bonds	10.80%	11.5%
Liquidity/money markets	3.70%	3.6%
Total	100.00%	100.0%

D.3.4 Deferred tax

Valuation, Solvency II

See notes in section D.1.2.

Valuation, accounts

At 31.12.2024, KLP recognised net deferred tax of NOK 1.6 billion; see notes in section D.1.2.

D.3.5 Other liabilities

Solvency II valuation equal to reported value

These liabilities are measured at fair value both in the accounts and in the Solvency II balance-sheet.

D.4 Alternative methods for valuation

KLP's valuation principles for assets that cannot be valued based on quoted prices are described in Note 23 'Fair value of financial instruments' in the annual report for 2024.

D.5 Other information

The foregoing is considered to cover all the key information on valuation.

E. Asset management

KLP is a mutually-owned life insurance company whose main purpose is to manage the capital invested by its members in the Company either as owners (equity) or as retail customers (pension funds) as well as possible within the Company's risk capacity.

E.1 Tier 1 and 2 capital

The Tier 1 and 2 capital under Solvency II consists of own funds and supplementary capital. Own funds are the difference between the value of the assets and the liabilities in the Solvency II balance sheet and the hybrid Tier 1 perpetual capital. Subordinated debt is also included in own funds.

The future right to call for equity, the call option which KLP holds, is considered to be supplementary capital. Any net deferred tax assets may also be included in supplementary capital.

The following table shows the breakdown of the Tier 1 and 2 capital into own funds and supplementary capital, without the use of the transitional rule for the technical provisions.

Table 22: Breakdown of Tier 1 and 2 capital into own funds and supplementary capital. Figures in NOK billions. Without transitional rules for technical provisions.

Tier 1 and 2 capital	2024	2023
Tier 1 capital, unrestricted	44.2	40.9
Hybrid Tier 1 perpetual capital	1.4	1.4
Total own funds, Tier 1	45.6	42.4
Subordinated loans	3.5	3.3
Risk equalisation fund	4.0	3.7
Total own funds, Tier 2	7.5	7.0
Deferred tax assets	0.0	-
Total own funds, Tier 3	0.0	-
Call option	15.4	14.3
Total supplementary capital	15.4	14.3
Total	68.5	63.7

*Recorded as Tier 2 capital from 2022

Table 23: Breakdown of Tier 1 and 2 capital into own funds and supplementary capital. Figures in NOK billions. With transitional rules for technical provisions.

Tier 1 and 2 capital	2024	2023
Tier 1 capital, unrestricted	44.2	40.9
Hybrid Tier 1 perpetual capital	1.4	1.4
Total own funds, Tier 1	45.6	42.4
Subordinated loans	3.5	3.3
Risk equalisation fund	4.0	3.7
Total own funds, Tier 2	7.5	7.0
Deferred tax assets	0.0	-
Total own funds, Tier 3	0.0	-
Call option	15.4	14.3
Total supplementary capital	15.4	14.3
Total	68.5	63.7

*Recorded as Tier 2 capital from 2022

The purpose of the Company's Tier 1 and 2 capital is to satisfy regulatory requirements under Solvency II by a good margin. The Company reports its capital adequacy ratio for the Solvency Capital Requirement and the Minimum Capital Requirement every quarter.

The Board has adopted a policy for asset management. The purpose of this policy is to ensure that KLP is sufficiently capitalised and meet the regulatory minimum requirements for capital set by the Financial Supervisory Authority. The Company has also set its own targets for solvency capital coverage which are well above the requirements of the FSA.

The policy defines bands for solvency capital coverage. An annual capital plan is drawn up, in which the banding and targets for solvency capital coverage are defined for the plan period, which is normally three years. It also defines the measures that can or should be taken at different levels of capital adequacy. In the current period, KLP aims to have solvency capital coverage of at least 150 per cent.

The Company applies the transitional measure for technical provisions, but sets targets for solvency capital coverage without using this. For the same reason, capital adequacy is reported without using the transitional rule in notes to the Company's accounts. As of 31.12.2024, capital adequacy without using the transitional rule is 361 per cent. This was 346 per cent at 31.12.2023. Capital adequacy with the use of the transitional rule is 361 per cent at 31.12.2024; it was 346 per cent at 31.12.2023. This is well above our own target, which in turn is well above the regulatory requirements.

KLP's articles of association allow it to call in capital from its owners. The Company also collects an annual capital contribution from its owners. For 2024 the equity contribution was 0.25 per cent of the premium reserve.

The Tier 1 and 2 capital is classified in three capital groups based on the characteristics of each capital entry. Quality and availability are crucial for the classification. The main breakdown is based on whether

- The capital can be used for or paid in on demand to cover any loss at any time
- The capital can be used to cover losses and will not be refunded until all other claims have been covered, including claims arising out of insurance and reinsurance contracts.

Tier 1

The Company's Tier 1 and 2 capital is the difference between assets and liabilities in the Solvency II balance-sheet minus the risk equalisation fund and deferred tax assets. The hybrid Tier 1 perpetual capital is also included in Tier 1 (restricted). Restricted capital cannot exceed 20 per cent of the total of the items in Tier 1. The hybrid Tier 1 perpetual capital is well below this limit. All Tier 1 capital is classed as own funds.

Tier 2

Tier 2 includes subordinated loans and the risk equalisation fund as own funds. It also includes unpaid deposits reported as supplementary capital under the right to retrospective assessment. This supplementary capital is calculated as 2.5 per cent of KLP's total premium reserve at any given time, with approval for this method granted until 31.12.2027. Approval from the Financial Supervisory Authority of Norway was granted on 27.09.2023.

Tier 3

Tier 3 includes any net deferred tax asset, with some restrictions. At year-end 2024 and year-end 2023, this was zero.

E.1.1 Classification of Tier 1 and 2 capital

The sum of eligible capital in Tiers 2 and 3 may not exceed 50 per cent of the solvency capital requirement. For KLP, this had a limiting effect at year-end 2024 and at year-end 2023. In the event of an increase in the solvency capital requirement, the unused Tier 2

capital (NOK 15.6 billion at the end of 2024) will significantly reduce the negative effect the increase has on capital adequacy.

The hybrid Tier 1 perpetual capital (JPY 15 billion) with a Solvency II value of NOK 1.4 billion at 31.12.2024, has a fixed USD interest rate of 5.07 per cent per year. The loan is perpetual, but KLP has the right to repay it by 28.04.2034. If KLP does not exercise its right to repay in 2034, the loan will move onto floating interest. The credit margin will then increase by 1 percentage point to 6-month JPY LIBOR interest + a margin of 3.30 per cent per year. The loan was issued on 22.04.2014.

The subordinated loan (EUR 294 million), with a Solvency II value of NOK 3.5 billion at 31.12.2024, has a fixed interest rate of 4.25 per cent per year. The loan was issued on 10.06.2015 and is time-limited to mature in 2045. In 2020, the Company effected a buy-back of the loan to the tune of EUR 306 million of the nominal value. The loan can be repaid by KLP after 10 years, and on each interest payment date from then until the maturity date. The debt is listed on the London Stock Exchange.

The Solvency II rules lay down requirements for the composition of Tier 1 and 2 capital to cover the solvency capital requirement and the minimum capital requirement. This is known as eligible Tier 1 and 2 capital.

The tables below show the total Tier 1 and 2 capital per capital group split into own funds and supplementary capital. The proportion of these amounts that can be used as eligible capital for the solvency capital requirement and the minimum capital requirement is also shown in the table. The calculations of technical provisions are without transitional rules.

Table 24: Classification of Tier 1 and 2 capital at 31.12.2024 Figures in NOK billions.

2024	Tier 1 and 2 capital	Eligible Tier 1 and 2 capital	
		SCR	MCR
Tier 1, unrestricted	44.2	44.2	44.2
Deductions for shares in subsidiaries	-	-	-
Tier 1, unrestricted after deduction	44.2	44.2	44.2
Hybrid Tier 1 perpetual capital	1.4	1.4	1.4
Total own funds in Tier 1	45.6	45.6	45.6
Subordinated debt	3.5	3.5	0.7
Risk equalisation fund	4.0	4.0	-
Total own funds in Tier 2	7.5	7.3	0.7
Total own funds	53.1	53.0	46.4
Call option	15.4	-	-
Total supplementary capital in Tier 2	15.4	-	-
Total tier 2	22.9	7.3	0.7
Deferred tax assets	-	-	-
Total	68.5	53.0	46.4

Table 25: Classification of Tier 1 and 2 capital at 31.12.2023 Figures in NOK millions.

2023	Tier 1 and 2 capital	Eligible Tier 1 and 2 capital	
		SCR	MCR
Tier 1, unrestricted	40.9	40.9	40.9

Deductions for shares in subsidiaries	-	-	-
Tier 1, unrestricted after deduction	40.9	40.9	40.9
Hybrid Tier 1 perpetual capital	1.4	1.4	1.4
Total own funds in Tier 1	42.4	42.4	42.4
Subordinated debt	3.3	3.3	0.8
Risk equalisation fund	3.7	3.7	-
Total own funds in Tier 2	7.0	7.0	0.8
Total own funds	49.3	49.3	43.2
Call option	14.3	0.2	-
Total supplementary capital in Tier 2	14.3	0.2	-
Total tier 2	21.3	7.2	0.8
Deferred tax assets	-	-	-
Total	63.7	49.3	43.2

The solvency capital requirement (SCR) is intended to cover the risk of loss of the Company's Tier 1 and 2 capital, and is calculated so the probability that total losses (underwriting loss and financial loss) over a twelve-month period will not exceed the estimated capital requirement is 99.5 per cent.

The minimum capital requirement (MCR) is intended to cover the risk of loss of the Company's own funds and is calculated so the probability that total losses over a period of twelve months will not exceed the estimated capital requirement is 85 per cent. The minimum capital requirement must not be lower than 25 per cent or greater than 45 per cent of the Company's solvency capital requirement.

The solvency capital requirements and solvency capital coverage (capital adequacy) with and without the transitional rule for technical provisions are shown in the table below.

Table 26: Solvency capital requirements and solvency capital coverage without the use of transition rules for technical provisions. Amounts in NOK billions.

SCR and capital adequacy	2024		2023	
	SCR	MCR	SCR	MCR
Solvency Capital Requirement	14.7	3.7	14.3	4.2
Eligible own funds	53.0	46.4	49.5	43.2
Excess capital	38.3	42.7	35.2	39.0
Capital adequacy	361%	1263%	346%	1030%

Table 27: Solvency capital requirements and solvency capital coverage with the use of transition rules for technical provisions. Amounts in NOK billions.

SCR and capital adequacy	2024		2023	
	SCR	MCR	SCR	MCR
Solvency Capital Requirement	14.7	3.7	14.3	4.2
Eligible own funds	53.0	46.4	49.5	43.2
Excess capital	38.3	42.7	35.2	39.0
Capital adequacy	361%	1263%	346%	1030%

The difference between equity in the accounts and the excess of assets over liabilities in the Solvency II balance-sheet at year-end 2024 and 2023 was as shown in the table below.

Table 28: Solvency capital without the use of the call option but with the use of transitional rules for technical provisions compared with Tier 1 and 2 capital in the financial accounts at 31.12.2024. Figures in NOK billions.

2024	Solvency II	Accounts
Paid-up equity	25.3	25.3
Reconciliation reserve	18.9	
Other retained earnings		18.0
Effect of using the transitional rules for technical provisions	0.0	
Total own funds in Tier 1 - unrestricted/equity excl. risk equalisation fund	44.2	43.2
Hybrid Tier 1 perpetual capital	1.4	1.4
Subordinated loans	3.5	3.5
Risk equalisation fund	4.0	4.0
Total including restricted capital/own funds in Tier 2/subordinated debt/risk equalisation fund	53.1	52.2

Table 29: Solvency capital without the use of the call option but with the use of transitional rules for technical provisions compared with Tier 1 and 2 capital in the financial accounts at 31.12.2023. Figures in NOK billions

2023	Solvency II	Accounts
Paid-up equity	23.0	23.0
Reconciliation reserve	18.0	
Other retained earnings		17.2
Effect of using the transitional rules for technical provisions	0.0	
Total own funds in Tier 1 - unrestricted/equity excl. risk equalisation fund	40.9	40.2
Hybrid Tier 1 perpetual capital	1.4	1.4
Subordinated loans	3.3	3.4
Risk equalisation fund	3.7	3.7
Total including restricted capital/own funds in Tier 2/subordinated debt/risk equalisation fund	49.3	48.6

The difference between assets and liabilities under Solvency II includes transitional rules for technical provisions described in sections D.2.6 and D.2.7.

The main difference between Solvency II and the financial accounts is that the retained earnings which are recognised as equity in the financial statement are replaced by the reconciliation reserve in the Solvency II balance-sheet. Also, the reconciliation reserve includes retained earnings, but based on the valuation of assets and liabilities of the solvency balance sheet. The reconciliation reserve will also include the present value of future profits.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The solvency capital requirement is intended to cover the risk of loss of the Company's Tier 1 and 2 capital. The minimum capital requirement is intended cover the risk of loss of the Company's own funds.

E.2.1 Solvency Capital Requirement

At year-end 2024, the capital requirements were as follows (2023 in brackets):

Minimum capital requirement:	NOK 3.7 (4.2) billion
Solvency capital requirement:	NOK 14.7 (14.3) billion

The capital requirements above include transitional rules for technical provisions.

KLP uses the standard formula without any company-specific parameters. The Solvency Capital Requirement at year-end 2024 and 2023 was broken down as follows:

Table 30: Composition of the solvency capital requirement without transitional rules for technical provisions. Amounts in NOK billions.

Composition of the Solvency Capital Requirement	2024	2023
Market risk	5.6	5.2
Counterparty risk	0.1	0.1
Underwriting risk	10.0	10.1
Diversification	-3.1	-2.9
Operational risk	3.5	3.2
Loss-absorption capacity for deferred tax	-1.5	-1.3
Solvency Capital Requirement	14.7	14.3

Table 31: Composition of the Solvency Capital Requirement with transitional rules for technical provisions. Figures in NOK billions.

Composition of the Solvency Capital Requirement	2024	2023
Market risk	5.6	5.2
Counterparty risk	0.1	0.1
Underwriting risk	10.0	10.1
Diversification	-3.1	-2.9
Operational risk	3.5	3.2
Loss-absorption capacity for deferred tax	-1.5	-1.3
Solvency Capital Requirement	14.7	14.3

As mentioned in section C.1, the departure risk makes the capital requirement for underwriting risk too high relative to the other elements.

E.2.2 Simplified processes

KLP uses the simplifications to the counterparty risk module described in Articles 111 and 112 of the Norwegian Regulation laying down supplementary rules to the Solvency II Regulation.

The simplification in Article 111 means that diversification effects within a module are not taken into account in calculating the risk-reducing effects of derivatives. The simplification in Article 112 means that the risk-adjusted value of a security is set to 75 per cent across the board. Both simplifications are used to make the calculation work easier and produce insignificant increases in the capital requirement for counterparty risk.

E.2.3 Company-specific parameters

KLP does not use any company-specific parameters.

E.2.4 Input data for calculation of the Minimum Capital Requirement

At the end of 2024, the linear formula component for the Minimum Capital Requirement was calculated from the data shown in the table below. Data for 2023 are also provided.

*Table 32: Input data without transitional rules for technical provisions.
Figures in NOK billions.*

Input data for linear formula component	2024	2023
Guaranteed benefits	475.4	454.1
Discretionary benefits	302.2	248.3
Capital at risk	436.1	430.2
Linear formula component	2.2	4.2

The minimum capital requirement is then calculated as follows:

*Table 33: Minimum capital requirement without transitional rules for technical provisions.
Figures in NOK billions.*

Calculation of MCR	2024	2023
Linear formula component	2.2	4.2
Solvency Capital Requirement	14.7	14.3
Ceiling for Minimum Capital Requirement	6.6	6.4
Floor for Minimum Capital Requirement	3.7	3.6
Minimum Capital Requirement	3.7	4.2

The ceiling for the Minimum Capital Requirement is 45 per cent of the Solvency Capital Requirement. The floor for the minimum capital requirement is 25 per cent of the solvency capital requirement.

Corresponding calculations with transitional rules on technical provisions are given in the tables below.

*Table 34: Input data with transitional rules for technical provisions.
Figures in NOK billions.*

Input data for linear formula component	2024	2023
Guaranteed benefits	475.4	454.1
Discretionary benefits	302.2	248.3
Capital at risk	436.1	430.2
Linear formula component	2.2	4.2

*Table 35: Minimum capital requirement with transitional rules for technical provisions.
Figures in NOK billions.*

Calculation of MCR	2024	2023
Linear formula component	2.2	4.2
Solvency Capital Requirement	14.7	14.3
Ceiling for Minimum Capital Requirement	6.6	6.4
Floor for Minimum Capital Requirement	3.7	3.6
Minimum Capital Requirement	3.7	4.2

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

KLP does not use the duration-based sub-module for equity risk.

E.4 Differences between the standard formula and any internal models used

KLP does not use internal models.

E.5 Non-compliance with the minimum capital requirement and the solvency capital requirement

KLP satisfies both the minimum capital requirement and the solvency capital requirement.

E.6 Other information

All of the key information on valuation is considered to be covered above.

F. Approval

The report was approved by the Board of Directors of KLP on 21 March 2025.

Sverre Thornes, CEO

G. Templates

The following QRTs (quantitative reporting templates) are included below.

QRT code	QRT name
S.02.01.02	Financial position statement
S.05.01.02	Premiums, claims and costs by insurance sector
S.12.01.02	Insurance provisions – life insurance and health insurance handled as life insurance
S.22.01.21	Effect of transitional rules and other measures related to long-term guarantees
S.23.01.01	Tier 1 and 2 capital
S.25.01.21	Solvency capital requirements - for groups using the standard method
S.28.01.01	Minimum capital requirements – only life insurance activities or non-life insurance activities

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